



GUATEMALA

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

August 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Guatemala, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on May 23, 2024, with the officials of Guatemala on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 8, 2024.
- An **Informational Annex** prepared by the IMF staff.

The document listed below will be separately released.

Selected Issues

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.



IMF Executive Board Concludes 2024 Article IV Consultation with Guatemala

FOR IMMEDIATE RELEASE

Washington, DC – August 5, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guatemala and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

The 2024 Article IV Consultation for Guatemala met the established Executive Board criteria for lapse-of-time consideration: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have a significant regional or global impact in the near term; and (iii) the use of Fund resources is not under discussion or anticipated.

Recent Developments

Guatemala has continued to maintain its solid track record of macroeconomic policies, with economic growth moderating to an estimated 3.5 percent in 2023 (4.2 percent in 2022) and CPI inflation and inflationary pressures decelerating from a 9.9 percent peak year-on-year in February 2023 to 3.6 percent in June 2024, within the monetary policy target (4 percent +/- 1 percentage point). In the election year 2023, the central government's primary fiscal balance closed in surplus, and the overall deficit was at 1.3 percent of GDP, below the three percent deficit approved under the amended 2023 budget. The current account surplus widened to 3.1 percent of GDP in 2023, driven by large remittances and an improved trade balance, despite lower exports and imports.

Risks to the outlook remain but, in the baseline scenario (assuming higher capital spending is approved), the economy is projected to grow by 3.5 percent in 2024 and gradually attain 3.8 percent in the medium term. Inflation is expected to remain within the target, the budget to close with a primary fiscal surplus in 2024, but with an overall deficit of two percent from 2025 onwards. Guatemala needs important and urgent investments to close gaps in infrastructure, education, health, and social needs. With higher government spending in the near term, the current account surplus will be expected to narrow gradually over time, driven by large—although decelerating—remittance inflows and strong imports and international reserves to remain solid in the near term. However, improvements in the business climate, governance, and legal certainty will be essential to further attract foreign investments. The implementation of the government's pro-growth and anti-corruption reform agenda could boost potential growth well above the staff's baseline scenario.

Executive Board Assessment¹

The Guatemalan economy continues to show stability and soundness thanks to a legacy of prudent monetary and fiscal policies—with the inflation rate on target, ample international reserves, contained fiscal deficits, and a low public debt-to-GDP ratio. However, in line with the country's objectives, the administration needs to advance in the structural reform agenda to continue to support economic growth and increase it in the medium term. The implementation of urgent reforms in the areas of infrastructure, human capital investment, and governance cannot wait if it is to support the country's productive sectors and secure higher sustained and inclusive growth. Slowing exports and limited foreign investment underscore the urgency of reforms.

The country's outlook remains favorable, with risks skewed to the downside. Guatemala's dependence on remittances conditions the robustness of private consumption to the U.S. Hispanic labor market conditions, with greater impact on the most vulnerable population. This dependence makes Guatemala's monetary and exchange rate policies more complex and costly. Other risks to the economy would include a lack of progress on the economic agenda, with economic growth below potential and the possible resurgence of social unrest. Increased volatility in commodity prices and the scourge of natural disasters or major cyber-attacks are other risks on the horizon. Successful execution of the administration's structural reform agenda could lead to higher inclusive and sustainable growth potential.

With hefty investment needs, Guatemala will need to boost revenue while bolstering the quantity and quality of spending. Guatemala needs more tax collection to continue advancing on its path to development. Important progress has been made, but tax revenues are still among the lowest in the world, making it difficult to address the country's pressing needs (e.g., infrastructure, education, health, and malnutrition) without increasing the sovereign debt substantially. Continuity in tax administration, approval of legal protections for public officials in the fulfillment of their mandate, and improved communication with taxpayers, are some necessary measures to advance. However, a structural increase in tax collection will require of a comprehensive tax reform in the future as well as better spending. In this regard, higher spending and temporarily larger fiscal deficits should be accompanied by a medium-term multi-year agenda of strategic transformation projects (in infrastructure, education, health, and social programs) for the country, with a clear timeline for objectives, greater transparency, efficiency, and quality of spending. It is in this context, the country team supports temporary up-to three percent fiscal deficits, anchored in a two percent deficit over the medium-term. Guatemala's debt-to-GDP ratio is low and projected to be sustainable if the administration's expansionary fiscal

¹ The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

reform agenda were to be approved in Congress. With domestic financing costs on the rise, the mission recommended developing the domestic capital market—developing the secondary debt market and yield curve and communicating with investors.

Higher growth and absorption of capital flows into the country requires gradual strengthening of the monetary and exchange rate policy frameworks. Changes in the leading interest policy rate should continue to be data-driven. At the same time, it is important for Banguat to move forward with reforms that will strengthen the effectiveness of the policy rate and liquidity management by strengthening the monetary policy transmission mechanisms and the interbank market. Under a reform fiscal policy scenario, consistency in monetary, exchange rate, and fiscal policies will play a particularly important role. In addition, it is important to continue advancing in the development of FX and hedging, debt, and financial markets that allow the private sector to manage market risks, as well as to provide tools for climate risk management. The mission continued to advocate for a solvent Central Bank that capable of conducting monetary liquidity management, maintaining price stability, and confronting future challenges.

An inclusive and sound financial sector guided by prudential principles should further support Guatemala’s economic development efforts. The banking sector remains liquid and profitable and shows resilience to shocks, but close monitoring of the build-up of vulnerabilities is warranted. The approval of the credit regulations of the Superintendency of Banks, as well as the follow-up on their implementation and effectiveness, is a step forward in strengthening the sector. The approval of a new banking law (updating the 2002 Law on Banks and Financial Groups) is also urgently needed; it should be aligned with international standards of regulatory, supervisory, and crisis management practices, and provide supervisory authorities with the necessary tools to monitor risks and vulnerabilities that could affect Guatemala's financial system, as well as to be able to respond, if necessary. Improving communication with the markets through the publication of risk assessments and of bank balance sheets using international accounting standards should also feature high on the agenda.

Advancing in the implementation of the pro-growth reform agenda will require:

- *Passing sound legislation*, including a good competition law that includes investment aspects, an infrastructure and ports laws, the revision of the Public Private Partnerships (PPP) and Free Trade Zone laws, as well as the civil servants and procurement reforms are essential for the economy to take off. Also, to improve legal certainty consistent with international best practices, internal practices, and structures in the legislation process (e.g., the review of draft legal texts by specialized teams and the unification of criteria in the application of legislation in court) need to be addressed.

- Improving competitiveness via an active policy in favor of the formal labor market, greater digitalization and innovation, and a clear gender strategy. The implementation of the goals established in the 2024-27 financial inclusion strategy will help reduce social gaps.
- Strengthening governance with the publication of a national anti-corruption plan and medium-term strategy to combat impunity with a timetable for implementation and measurement indicators. The approval of legislation aligning Guatemala's anti-money laundering law with Financial Action Task Force (GAFI/FATF) standards cannot wait longer, given the evaluation based on effective compliance of the Law by 2027.

Staff recommends that the next Article IV consultation takes place on the standard 12-month cycle.

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators										
Population 2023 (millions)	17.6									48.3
Percentage of indigenous population (2018)	43.8									68.7
Population below the poverty line (Percent, 2023)	55.1									16.0
Rank in UNDP development index (2022; of 189)	136									5,933
II. Economic Indicators										
	2020	2021	2022	2023	Projections					
					2024	2025	2026	2027	2028	2029
(Annual percent change, unless otherwise indicated)										
Income and Prices										
Real GDP	-1.8	8.0	4.2	3.5	3.5	3.6	3.7	3.8	3.8	3.8
Consumer prices (average)	3.2	4.3	6.9	6.2	3.8	4.2	4.0	4.0	4.0	4.0
Consumer prices (end of period)	4.8	3.1	9.2	4.2	4.0	4.0	4.0	4.0	4.0	4.0
Monetary Sector										
M2	18.9	11.6	11.1	6.8	8.9	8.1	8.1	8.2	8.2	8.2
Credit to the private sector	6.4	12.7	15.8	14.9	12.0	10.0	8.5	8.0	8.0	8.0
Saving and Investment										
(In percent of GDP, unless otherwise indicated)										
Gross domestic investment	13.5	16.8	16.5	16.4	16.3	16.6	16.7	16.9	16.9	17.0
Private sector	12.4	14.6	15.1	14.7	14.9	14.9	15.0	15.1	15.1	15.2
Public sector	1.3	1.5	1.5	1.5	1.5	1.7	1.7	1.7	1.8	1.8
Gross national saving	18.5	19.0	17.8	19.6	19.1	18.9	18.6	18.4	17.8	17.5
Private sector	21.0	17.9	17.2	18.8	18.6	18.7	18.4	18.1	17.5	17.1
Public sector	-2.5	1.1	0.6	0.7	0.6	0.2	0.2	0.3	0.3	0.3
External saving	-5.0	-2.2	-1.3	-3.1	-2.8	-2.3	-1.9	-1.5	-0.9	-0.5
External Sector										
Current account balance	5.0	2.2	1.3	3.1	2.8	2.3	1.9	1.5	0.9	0.5
Trade balance (goods)	-8.1	-12.6	-14.9	-13.7	-14.1	-14.3	-14.4	-14.4	-14.7	-14.6
Exports	13.0	14.3	14.9	12.5	12.0	11.6	11.2	10.8	10.5	10.2
Imports	21.2	26.9	29.8	26.2	26.1	25.8	25.5	25.2	25.2	24.8
Trade balance (services)	-0.3	-1.4	-1.6	-1.3	-1.4	-1.5	-1.6	-1.6	-1.7	-1.7
Other (net)	13.5	16.2	17.8	18.2	18.3	18.0	17.8	17.6	17.2	16.8
of which: remittances	14.6	17.7	18.8	18.9	19.4	19.2	18.9	18.7	18.3	17.9
Financial and capital accounts balance (Net lending (+))	4.2	1.6	0.8	2.5	2.8	2.3	1.9	1.5	0.9	0.5
of which: FDI (net)	-1.0	-3.5	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1
Errors and omissions	0.0	-0.6	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (Increase (+))	4.1	3.2	0.0	0.9	1.2	1.1	1.1	1.0	1.0	0.9
Net International Reserves										
(Stock in months of next-year NFGS imports)	7.6	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	...
(Stock over short-term debt on residual maturity)	3.3	3.2	4.1	4.9	5.7	5.8	6.9	7.4	7.4	...
Public Finances (Central Government)										
Revenues	10.7	12.3	12.6	12.5	12.4	12.5	12.7	12.8	13.0	13.0
Expenditures	15.6	13.5	14.3	13.7	13.8	14.5	14.7	14.8	14.9	15.0
Current	12.6	11.1	11.8	11.2	11.2	11.6	11.8	11.8	11.9	11.9
Capital	3.0	2.4	2.5	2.5	2.6	2.9	3.0	3.0	3.1	3.1
Primary balance	-3.2	0.6	0.0	0.4	0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance	-4.9	-1.2	-1.7	-1.3	-1.4	-2.0	-2.0	-2.0	-2.0	-2.0
Financing of the central government balance	4.9	1.2	1.7	1.3	1.4	2.0	2.0	2.0	2.0	2.0
Net external financing	-0.3	0.8	0.0	1.3	0.9	0.9	0.8	0.7	0.6	0.5
Net domestic financing	2.5	0.4	1.7	-0.1	0.5	1.1	1.2	1.2	1.4	1.5
Central Government Debt										
External	31.5	30.6	29.0	27.2	26.8	27.0	27.2	27.2	27.3	27.4
Domestic ¹	13.5	12.8	11.8	11.9	12.0	12.1	12.1	12.0	11.7	11.4
	18.0	17.8	17.2	15.3	14.8	14.9	15.1	15.3	15.6	16.0
Memorandum Items:										
GDP (US\$ billions)	77.7	86.5	95.6	104.4	111.8	120.0	128.7	138.3	148.5	159.5
Volume of exports and services (annual percentage change)	-7.5	10.2	7.5	-2.5	2.5	3.3	3.5	3.4	3.2	3.3
Volume of imports and services (annual percentage change)	-5.8	19.5	4.8	5.9	6.0	5.8	5.4	5.3	5.9	4.7
Output gap (% of GDP)	-3.3	-0.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections, World Bank, World Health Organization, UNDP.

¹ Does not include recapitalization of obligations to the central bank.

Table 1. Guatemala: Selected Economic and Social Indicators, 2020–29

I. Social and Demographic Indicators										
Population 2023 (millions)	17.6				Gini index (2014)					48.3
Percentage of indigenous population (2018)	43.8				Life expectancy at birth (2021)					68.7
Population below the poverty line (Percent, 2023)	55.1				Adult illiteracy rate (2022)					16.0
Rank in UNDP development index (2022; of 189)	136				GDP per capita (US\$, 2023)					5,933
II. Economic Indicators										
	2020	2021	2022	2023	Projections					
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Income and Prices										
	(Annual percent change, unless otherwise indicated)									
Real GDP	-1.8	8.0	4.2	3.5	3.5	3.6	3.7	3.8	3.8	3.8
Consumer prices (average)	3.2	4.3	6.9	6.2	3.8	4.2	4.0	4.0	4.0	4.0
Consumer prices (end of period)	4.8	3.1	9.2	4.2	4.0	4.0	4.0	4.0	4.0	4.0
Monetary Sector										
M2	18.9	11.6	11.1	6.8	8.9	8.1	8.1	8.2	8.2	8.2
Credit to the private sector	6.4	12.7	15.8	14.9	12.0	10.0	8.5	8.0	8.0	8.0
Saving and Investment										
	(In percent of GDP, unless otherwise indicated)									
Gross domestic investment	13.5	16.8	16.5	16.4	16.3	16.6	16.7	16.9	16.9	17.0
Private sector	12.4	14.6	15.1	14.7	14.9	14.9	15.0	15.1	15.1	15.2
Public sector	1.3	1.5	1.5	1.5	1.5	1.7	1.7	1.7	1.8	1.8
Gross national saving	18.5	19.0	17.8	19.6	19.1	18.9	18.6	18.4	17.8	17.5
Private sector	21.0	17.9	17.2	18.8	18.6	18.7	18.4	18.1	17.5	17.1
Public sector	-2.5	1.1	0.6	0.7	0.6	0.2	0.2	0.3	0.3	0.3
External saving	-5.0	-2.2	-1.3	-3.1	-2.8	-2.3	-1.9	-1.5	-0.9	-0.5
External Sector										
Current account balance	5.0	2.2	1.3	3.1	2.8	2.3	1.9	1.5	0.9	0.5
Trade balance (goods)	-8.1	-12.6	-14.9	-13.7	-14.1	-14.3	-14.4	-14.4	-14.7	-14.6
Exports	13.0	14.3	14.9	12.5	12.0	11.6	11.2	10.8	10.5	10.2
Imports	21.2	26.9	29.8	26.2	26.1	25.8	25.5	25.2	25.2	24.8
Trade balance (services)	-0.3	-1.4	-1.6	-1.3	-1.4	-1.5	-1.6	-1.6	-1.7	-1.7
Other (net)	13.5	16.2	17.8	18.2	18.3	18.0	17.8	17.6	17.2	16.8
of which: remittances	14.6	17.7	18.8	18.9	19.4	19.2	18.9	18.7	18.3	17.9
Financial and capital accounts balance (Net lending (+))	4.2	1.6	0.8	2.5	2.8	2.3	1.9	1.5	0.9	0.5
of which: FDI (net)	-1.0	-3.5	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1
Errors and omissions	0.0	-0.6	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (Increase (+))	4.1	3.2	0.0	0.9	1.2	1.1	1.1	1.0	1.0	0.9
Net International Reserves										
(Stock in months of next-year NFGS imports)	7.6	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	...
(Stock over short-term debt on residual maturity)	3.3	3.2	4.1	4.9	5.7	5.8	6.9	7.4	7.4	...
Public Finances (Central Government)										
Revenues	10.7	12.3	12.6	12.5	12.4	12.5	12.7	12.8	13.0	13.0
Expenditures	15.6	13.5	14.3	13.7	13.8	14.5	14.7	14.8	14.9	15.0
Current	12.6	11.1	11.8	11.2	11.2	11.6	11.8	11.8	11.9	11.9
Capital	3.0	2.4	2.5	2.5	2.6	2.9	3.0	3.0	3.1	3.1
Primary balance	-3.2	0.6	0.0	0.4	0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance	-4.9	-1.2	-1.7	-1.3	-1.4	-2.0	-2.0	-2.0	-2.0	-2.0
Financing of the central government balance	4.9	1.2	1.7	1.3	1.4	2.0	2.0	2.0	2.0	2.0
Net external financing	-0.3	0.8	0.0	1.3	0.9	0.9	0.8	0.7	0.6	0.5
Net domestic financing	2.5	0.4	1.7	-0.1	0.5	1.1	1.2	1.2	1.4	1.5
Central Government Debt										
External	31.5	30.6	29.0	27.2	26.8	27.0	27.2	27.2	27.3	27.4
Domestic ¹	13.5	12.8	11.8	11.9	12.0	12.1	12.1	12.0	11.7	11.4
Domestic ¹	18.0	17.8	17.2	15.3	14.8	14.9	15.1	15.3	15.6	16.0
Memorandum Items:										
GDP (US\$ billions)	77.7	86.5	95.6	104.4	111.8	120.0	128.7	138.3	148.5	159.5
Volume of exports and services (annual percentage change)	-7.5	10.2	7.5	-2.5	2.5	3.3	3.5	3.4	3.2	3.3
Volume of imports and services (annual percentage change)	-5.8	19.5	4.8	5.9	6.0	5.8	5.4	5.3	5.9	4.7
Output gap (% of GDP)	-3.3	-0.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections, World Bank, World Health Organization, UNDP.

¹ Does not include recapitalization of obligations to the central bank.



GUATEMALA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

July 8, 2024

KEY ISSUES

Context. Guatemala's economy continues to grow at its potential given existing constraints, with inflation within the monetary policy's target. While political risks remain latent, Guatemala maintains its long-standing track record of macroeconomic stability and prudent policies anchored in a low-growth equilibrium. The country has accumulated large buffers, with large remittance inflows and low-deficit policies. Meanwhile, the country faces important challenges, but the fragmented political landscape in Congress, following the 2023 general election, gives limited space to pass a reform agenda to address its long-standing vulnerabilities—i.e., chronic infrastructure, human capital, and social gaps; low tax revenue and gaps in public spending efficiency and transparency; weak governance, corruption, and weak institutions. The window of opportunity to advance is narrowing. In April, S&P upgraded Guatemala's outlook to positive from stable, while maintaining its BB rating.

Outlook and Risks. Under the baseline scenario—assuming higher capital spending is approved—growth is projected at 3.6 percent in 2025 and gradually increase to 3.8 percent over the medium term. Inflation is expected to remain at the mid-point of the target. However, risks are tilted to the downside—with external factors (e.g., weaker U.S. growth or changes in migration policies reducing remittances, commodity price volatility, climate events, and cyber-attacks) and domestic factors (e.g., social unrest and political deadlock). On the upside, the implementation of the administration's pro-growth and anti-corruption reform agenda could boost potential growth well-above the staff's baseline scenario.

Main Policy Recommendations

Fiscal Policy. A temporary increase in the fiscal deficit (up to three percent of GDP) could be justified to address much-pressing infrastructure and human capital investment gaps already denting economic growth. While it will be challenging to materialize given the politics, temporary three percent deficits would be consistent with medium term debt sustainability. A sound investment program should be included in a medium-term budget, and its implementation be subjected to sound planning, close monitoring, and realistic targets. The budgetary process should be strengthened with realistic revenue targets and a contained wage bill. Higher expenses should be funded by higher tax collection and new debt issued as part of the medium-term debt management and

market development strategies to complete the yield curve, which is also key for the private sector's access to cheaper debt. A comprehensive tax reform will be required to correct existing investment gaps in the medium term.

Monetary and Exchange Rate Policy. Monetary policy needs to be data-driven, and monetary and foreign exchange (FX) policies be consistent with Banguat, the Central Bank (CB)'s inflation targeting (IT) framework mandate to minimize monetary policy costs, especially with an expansive fiscal policy and potentially larger financial inflows. Under the IT framework, FX interventions should be limited to addressing disorderly market conditions. The CB Law update should ensure Banguat's independence.

Financial Sector Policies. Close monitoring of banks' balance sheets is required while further progress is made in Congress to pass an updated banking law, especially if credit growth continues at double-digit rates and pockets of vulnerabilities in banks increase. Banks' accounting reform should be fast-tracked to ensure proper risk monitoring.

Other Policies. Development, publication, and implementation of a comprehensive medium-term anti-corruption strategy and of a governance and corruption diagnostic are critical for the administration's governance and anti-corruption reform commitments. Reforms fostering inclusion and sustainability (including reducing informality and gender gaps and helping lessen the effects of climate events) will also require an integral medium-term agenda with broad support in Congress. The adoption and implementation of a robust Anti-Money Laundering and Counter-terrorist Financing (AML/CFT) law is urgent, with the Financial Action Task Force of Latin America (GAFILAT) evaluation due in 2027.

Approved By
Patricia Alonso-Gamo
 (WHD) and **Stefania**
Fabrizio (SPR)

Discussions took place in Guatemala City during May 13-23, 2024. The team comprised Maria A. Oliva (head), Beata Jajko, Andrea Paloschi, and Ryotaro Sawada (all WHD). Gerardo Peraza (Regional Resident Representative), and Luis Carlos Ibanez Thomae (Resident Representative Office), Alfonso Guerra and Oscar Monterroso (both OED) participated in some of the discussions. The mission met with the President and Vice-president of the Central Bank, the Minister of Finance, the deputy ministers of Finance and now former deputy ministers of Communications, Infrastructure, and Housing (CIV), the head of the Congress Committee on Public Finance and Currency, the Controller and Procurator-General, civil society leaders, senior government officials, and other stakeholders. A press conference was held at the end of the mission on May 23, 2024. Alfredo Alvarado (WHD) provided valuable inputs to the report and excellent assistance. Heidi Canelas (WHD) provided excellent administrative support.

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CONTEXT

1. **President Arevalo’s landslide general election (June/August 2023) win opened a unique window of opportunity for reforms.** However, the challenging political landscape that followed the election, with Partido Semilla suspended, is posing governability challenges. If pragmatic alliances at Congress could be secured, the implementation of the administration’s economic program—social, infrastructure, and governance—could help close long-standing gaps hindering potential growth. The international community’s support, key to securing the transition, remains solid. The window of opportunity for reforms, however, is narrowing.
2. **While resilient against shocks, Guatemala is trapped in a low growth undesirable equilibrium, with remittance inflows dependence and widening structural gaps.** Guatemala’s growth averaged 3.5 percent in the past ten years, with inflation contained, sovereign debt at about 27 percent of GDP, and international reserves well above standard metrics. Large remittance inflows contribute to sizable current account (CA) surpluses and solid private consumption. At the same time, domestic tax revenue is protractedly low relative to the country’s hefty pressing needs—i.e., depreciated and near-to-full capacity infrastructure, major human capital investment weaknesses and chronic malnutrition. Insufficient legal certainty and security also constrain foreign direct investment inflows, regional integration, and trade benefits. Recent heavy rains have also exposed infrastructure weaknesses, with some roads collapsing and causing disruption.

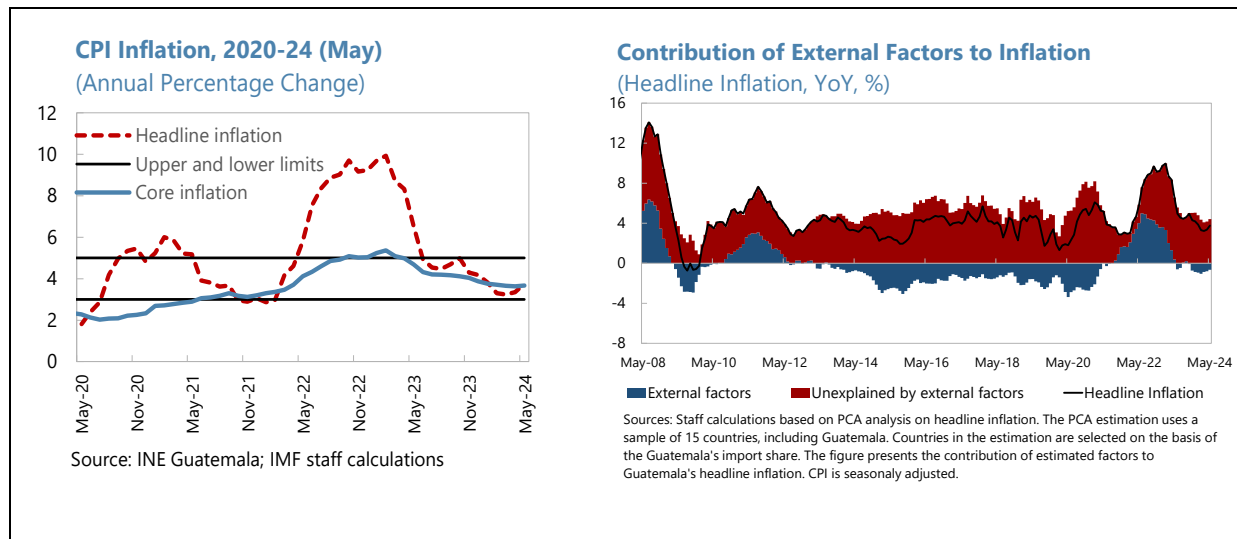
RECENT DEVELOPMENTS

3. **Economic growth in 2023 moderated to an estimated 3.5 percent (4.2 percent in 2022).** The economy started decelerating since 2023: Q3, with temporary disruptions in economic activity following the election (see Selected Issues Paper, Chapter 1). The robustness of private consumption—funded by remittances and double-digit bank credit growth—contrasts with weaker exports (also in volumes). To April 2024, economic activity was 3.5 percent y-o-y, with negative y-o-y growth in construction and mining, but still a strong 72 percent positive confidence index in May. Official unemployment rates remain low, but social indicators show persistent weaknesses.¹
4. **CPI inflation and inflationary pressures have decelerated.** Inflation plunged from a 9.9 percent peak y-o-y in February 2023 to 3.62 percent in June 2024 (core inflation dropped from 5.3 percent to 3.67 percent in May).² Imported inflation and second-round effects moderated since mid-2023, bringing inflation within the monetary policy target (4 percent +/- 1 percentage point).

¹ About 46 percent of children continue suffering from chronic malnutrition, the highest rate in Latin America, and about 30 percent of the population is exposed to food insecurity (United Nations, 2023).

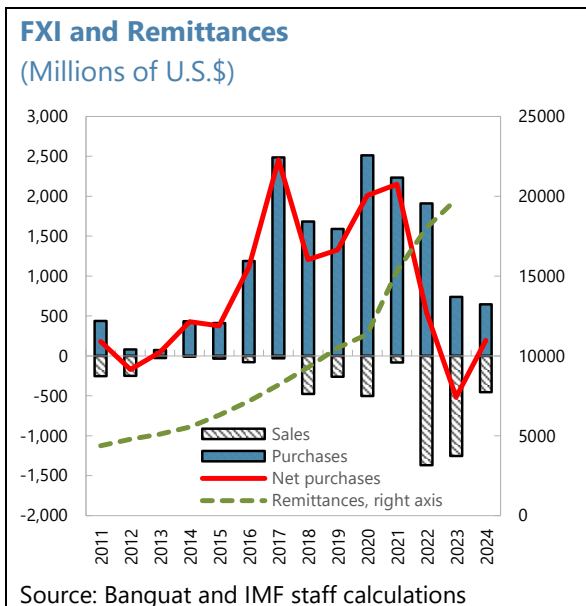
² Since January 2024 the authorities have been publishing the updated CPI basket with a December 2023 price reference period (Annex V).

Inflation expectations remain anchored, but strong domestic demand, a rebound in the cost of containers since late 2023, and food and oil prices are showing some inertia.³



5. Despite lower inflation, the authorities have kept the policy rate unchanged, with monetary policy stance turning neutral.

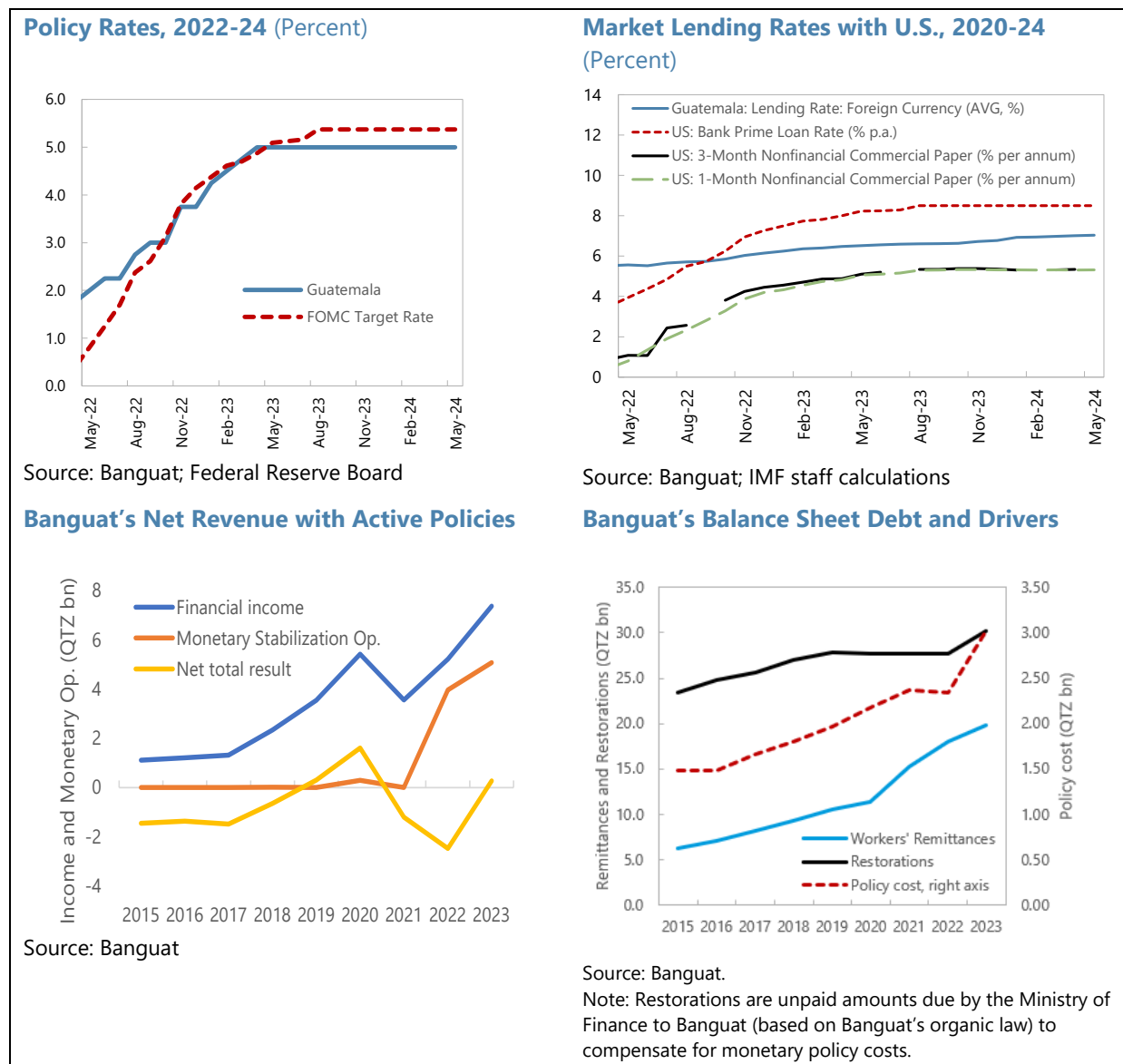
Since April 2023, the policy rate has remained unchanged and below the U.S. federal funds rate target range. However, market lending rates, partly due to competitive pressures, have shown little reaction to the 2022-23 policy rate changes, and credit continues to grow at two-digit rates. The market rate differential (with the U.S.) and political uncertainty triggered capital outflows in 2023 to repay expensive credit lines in US dollar, and some search of yield (Annex VII). Banguat continues to actively manage liquidity (both in quetzal and dollar), with liquidity injections in targeted episodes.⁴ Since 2022, Banguat's monetary stabilization operations have cost over 0.7 percent of GDP. Banguat's foreign exchange



³ The Canal de Suez attacks (since late 2023) reduced shipments and increased travel time. Also, climate events at Canal de Panama and capacity-related delays in Puerto Quetzal are impacting trade.

⁴ The liquidity window opened in November-December 2023, with the 7- and 14-days repo facilities being added to the one-day repo facility.

(FX) market participation significantly dwarfed in 2023, with end-2023 registering a net FX sale. Net FX purchases resumed in 2024, totaling about 0.6 percent of GDP between January and May 2024.⁵



6. In election year 2023, the central government's primary fiscal balance closed in surplus. The 2023 overall deficit was 1.3 percent of GDP, well-below the three percent deficit approved under the amended 2023 budget. In the first five months of the year, tax revenue collection is well-above the 2023 budget, and execution remains low. The administration suspended most investments overseen by key Ministries (e.g., Communications, Infrastructure, and Housing (MCIV), Ministry of Health and Social Welfare (MSPAS), and Education (MINEDUC)), pending audits of inherited contracts.

⁵ Since January 2024, the FX participation rule band was further widened to 0.95 percent, a step towards a more flexible exchange rate.

Budget and Execution, 2022-24 (Percent of GDP)						
	2022 2023			2024		Percentage Outturn / Execution relative to the 2024 operational budget (to May)
			2023 Budget ¹	With 2024 draft supplementary budget (pending approval)	Outturn / Execution in percent of GDP (to May)	
Central government						
Total revenues	12.6	12.5	10.4	12.0	5.2	50
Tax revenues	12.0	11.7	9.9	11.4	4.9	50
Direct taxes	4.3	4.4	3.5	4.2	1.9	56
Indirect taxes	7.7	7.3	6.4	7.2	3.0	46
Nontax revenues	0.6	0.8	0.6	0.6	0.2	44
Total expenditures	14.3	13.7	12.8	14.7	4.6	36
Current	11.8	11.2	10.4	11.7	4.0	38
Operating expenditures	10.1	9.6	9.1	9.9	3.4	37
Interest	1.7	1.6	1.3	1.8	0.6	44
Capital	2.5	2.5	2.3	3.0	0.6	28
Primary expenditures	12.6	12.1	11.4	12.9	4.1	
Primary balance	0.0	0.4	-1.0	-0.9		
Fiscal balance	-1.7	-1.3	-2.4	-2.7		

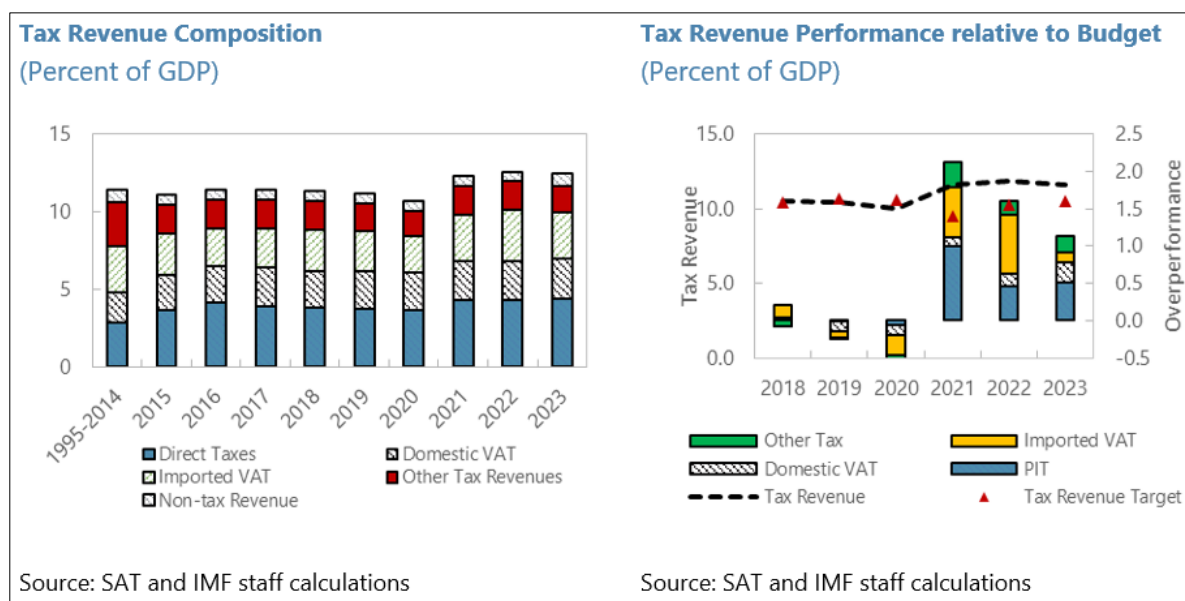
Source: Ministry of Finance; Bank of Guatemala; and Fund staff estimates and projections.
¹ Outturn and execution as of May is calculated based on 2024 initial operating budget (2023 budget plus some 2023 amendments). In December 2023, the Constitutional Court suspended the 2024 budget approved by Congress in November 2023 amid allegations of constitutional breaches. In 2024, the 2023 budget serves as the operating budget with Q687 million (0.1 percent of GDP) of additional spending due to budgetary amendments approved in mid-2023.
Note: See Table Appendix 2B for baseline projections.

- (i) *In 2023, the ongoing efforts to strengthen tax administration⁶ generated 11.7 percent of GDP in tax revenues, with the estimated tax collection gains at 0.6 percent of GDP.⁷ A higher personal*

⁶ Efforts include the modernization of process management and fiscal controls with the strengthening of the VAT online invoice system and the development of a new analytical tool to identify tax compliance. Progress on digitalization shortened custom clearance periods. In 2024, efforts are focused on improving tax management based on data governance and electronic tax filings, further strengthening custom enforcement with new equipment, and hiring additional staff working on tax simplification, automation, and transparency of customs processes.

⁷ Banguat's upward revision of the nominal GDP series (driven by the import GDP deflator) led to lower tax revenue (projected initially at 12 percent of GDP).

income tax and domestic VAT partially compensated the imports VAT price-led drop. Up to May-2024, 2024 tax collection was estimated at 4.9 percent of GDP, a 9 percent point higher than a year earlier (end-May 2023).



(ii) *Public spending in 2023 was higher than the historical average, with execution at 97 percent (96 percent in 2022). Social spending remained low, at 5.5 percent of GDP, and was largely explained by the wage bill in education. The capital budget increased in 2023, mostly because of one-off strategic maintenance-related infrastructure programs, natural disasters and COVID-related emergency spending, a 10 percent pension increase to state pensioners (the first one since 2018), election-related spending, and a higher debt service bill.⁸ Infrastructure spending in 2023 remained low, at 0.7 percent of GDP. By end-May 2024, spending execution was 36 percent of the 2024 initial operating budget, with capital spending execution at only 28 percent (explained largely by ongoing reviews and audits of the inherited investment projects in several Ministries).*

Social Spending (Percent of GDP)

	2023	2024	2024
		2023 Budget	With 2024 draft supplementary budget (pending approval)
Central government			
Total expenditures	13.7	12.8	14.7
Current	11.2	10.4	11.7
Social spending	5.5	5.2	5.8
Education	3.0	2.9	3.1
Health	1.2	1.1	1.3
Social Protection	1.3	1.2	1.4
Capital	2.5	2.3	3.0
Infrastructure	0.7	0.5	0.6
Social spending	0.4	0.3	0.4

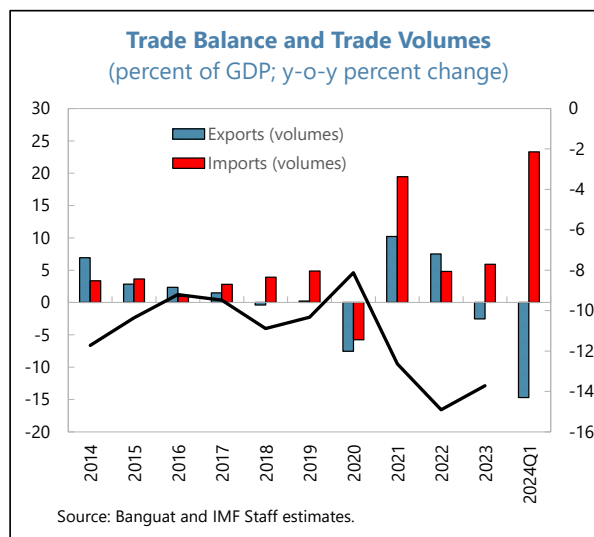
Source: Ministry of Finance and IMF staff calculations
Note: 2024 projections in Table 2B.

(iii) *Central government debt to GDP decreased to 27.2 percent in 2023 (29 percent of GDP in 2022). Sovereign risk is moderate and debt resilient to short-term shocks (Debt Sustainability Analysis, Annexes III and IV). Ongoing audits requested by the new administration are assessing inherited*

⁸ Teachers' salaries and benefits increased due to contract conversions and experience-based promotions to higher salary brackets, but the wage bill to GDP remained at 4.1 percent of GDP. Energy subsidies were phased out in June 2023, but new social-targeted measures are being reinstated from June to December 2024.

claims of potentially unbudgeted contractual obligations that, if confirmed, could add to the stock of central government liabilities (e.g., IGSS and Banguat).⁹

7. In late May 2024, the administration sent a 1.7 percent of GDP supplementary budget proposal to Congress (Figure Panel 3b). The 2023 election year budget, in effect in 2024, had to be reprogrammed to cover unbudgeted needs and new priorities. In addition, the administration sent to Congress a draft supplementary budget bill, to be funded by cash balances accumulated throughout the year (higher tax collection than envisaged in the 2023 budget) and end-2023 carry-over cash balances. Approval would be required before August 2024, but the bill faces opposition.¹⁰ By Ministry, the supplementary budget allocates 0.4 percent of GDP to transfers to municipalities and autonomous entities, and 0.4 percent of GDP to education, health, and social assistance—in line with the administration’s goals.¹¹ The draft also includes unbudgeted wages approved by the previous administration and debt service payments. If approved (baseline scenario), end-2024 would show a primary surplus of 0.2 percent of GDP and 1.4 percent of GDP overall deficit (2.7 percent of GDP budgeted). The administration will submit the 2025 draft budget proposal by early September 2nd for Congress approval before end-November 2024.



8. Guatemala’s 2023 external position is stronger than the level consistent with medium-term fundamentals and desirable policies. The undervaluation of the real effective exchange rate was larger than in 2022 (Annex I and X). The CA surplus widened to 3.1 percent of GDP in 2023, driven by large remittances and an improved trade balance, despite lower exports (also in volume)¹²

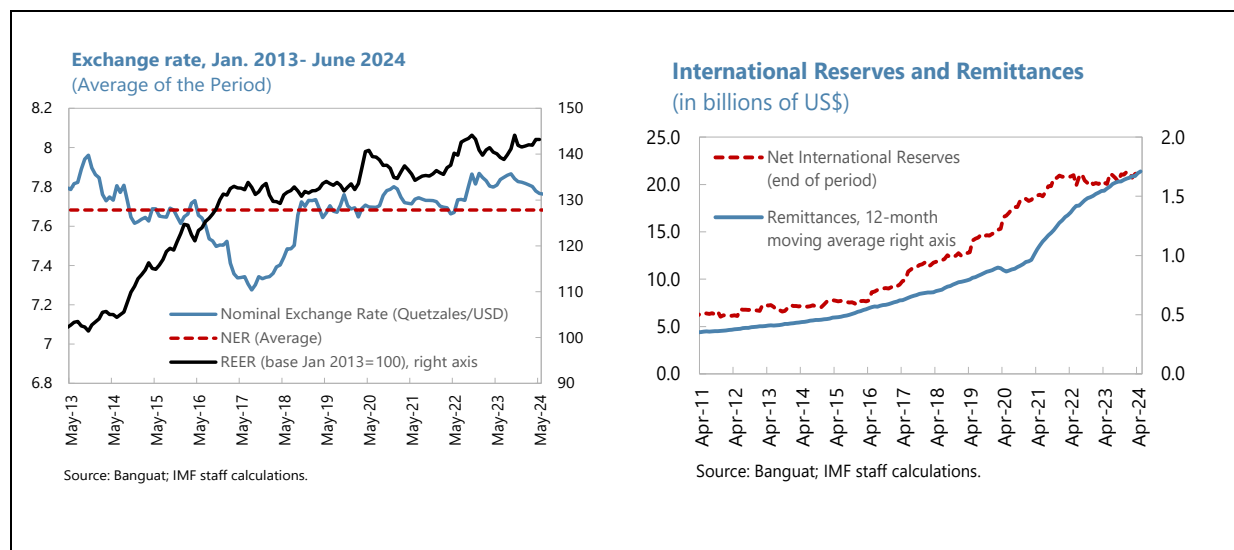
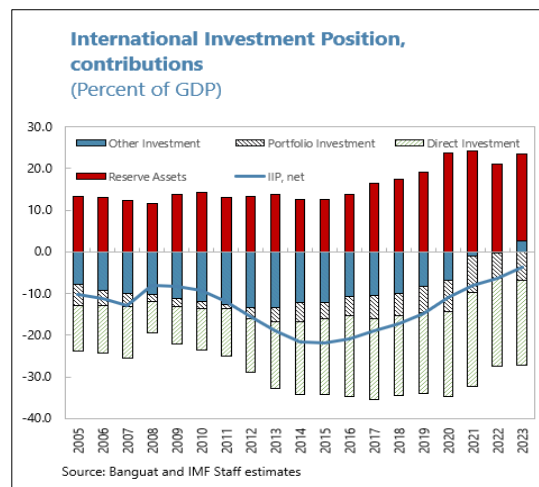
⁹ IGSS debt includes 0.2 percent of GDP MoF unpaid social contributions recognized in courts and a remaining estimated 8.3 percent of GDP remaining in dispute. Banguat’s government receivables associated with Banguat’s monetary policy operations were about 4 percent of GDP by end-2023.

¹⁰ The 2024 fiscal agenda is currently bound by the 2023 budget (with amendments). Low execution is one of the arguments used in Congress not to pass additional funding.

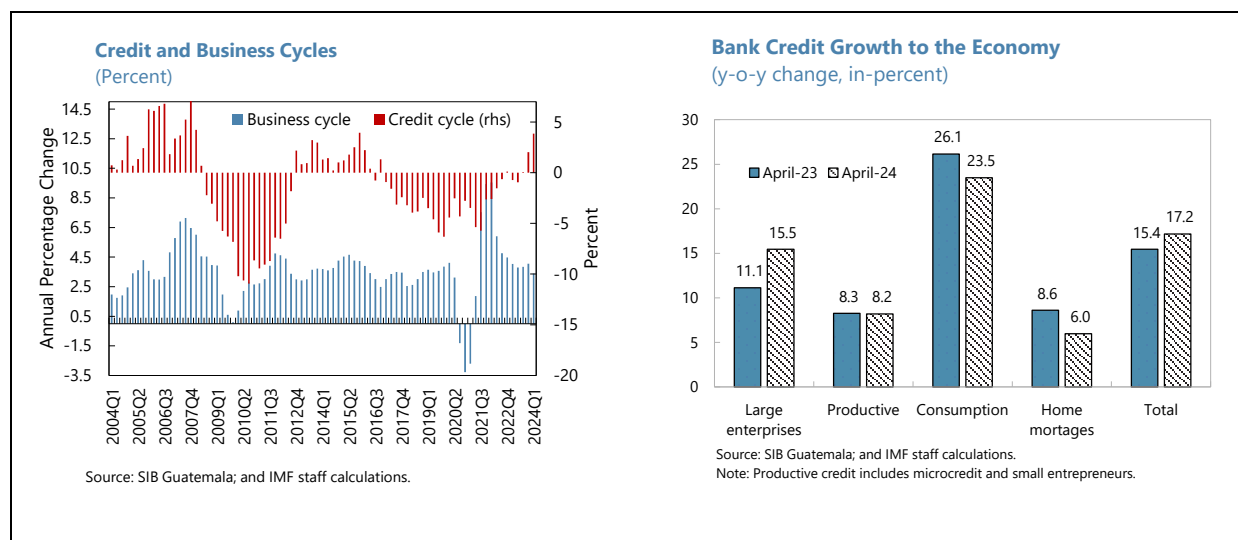
¹¹ The supplementary budget includes programs on infrastructure (e.g., the renovation of over 10,000 schools, strengthening the road network, water and sanitation infrastructure, and preliminary survey of the Urban Mass Transit System), social programs (e.g., a new students’ insurance program, a care program for cancer patients and for people in poverty), and transfers to municipalities and CODEDE (e.g., cash transfers to improve living conditions in rural areas).

¹² Lower export demand was driven by weaker demand from the U.S. (maquila), climate factors, competition from Brazil in the coffee industry and infrastructure bottlenecks. Also, the Solway Investment Group’s Guatemala Mining Subsidiaries were subjected to sanctions under the Global Magnitsky Act for 22 months. The sanctions were removed on January 18, 2024, and export permits for sanctioned companies are being processed.

and imports. A 4.1 percent of GDP increase in other investment net outflows helped absorb a large share of the CA surplus. In the first months of 2024, remittance inflows remained strong (9.3 percent growth y-o-y at end-May). However, goods exports dropped by 4.3 percent (y-o-y change) in the first four months, with volumes declining by about 12 percent¹³. In 2023, net international reserves were 164 percent of the ARA metric (end-of-the-year), with two Eurobonds (totaling U.S.\$1.5bn) issued in the second half of 2023. By end-June 2024, international reserves remained above U.S.\$21bn. The nominal exchange rate slightly appreciated in 2023 and in the first months of 2024. The real effective exchange rate appreciated only marginally (about 0.4 percent y-o-y) in 2023.



¹³ Palm oil, and metalliferous minerals suffered the largest drops.



9. Risks to financial stability remain low, with pockets of vulnerability emerging. The banking system appears well-positioned to weather a range of adverse shocks. Aggregate liquidity ratios are above minimum requirements and banks’ profitability ratios continue to be strong. However, banks have embarked on an expansive credit strategy to capture market share, with credit to the private sector growing at double digits (16 percent in May 2024); credit-to GDP gap (in domestic currency) has widened somewhat.¹⁴ Since 2023, most credit held in FX shifted to local currency reducing banks’ FX risk exposures. A large share of consumer credit and credit cards, growing at 23 percent and almost doubling by end-April 2024 (y-o-y), respectively, from a low base though, appear to be collateralized. However, the quality of the credit portfolio has been (slightly) deteriorating.¹⁵ In a precautionary appropriate move, the supervisory authorities strengthened the credit risk management regulation, in effect since January 2024, with the gradual roll out of measures such as Basel III provisioning using expected losses, dynamic provisioning, credit asset alignment, and differential treatment for restructured and refinanced instruments, applicable to banks. New credit card legislation is to enter into effect on September 1, 2024.¹⁶

¹⁴ In 2023, credit to GDP remained at 40 percent. Credit in domestic currency is driven by banks’ expectations around Guatemala’s potential growth and opportunities associated with the demographic dividend, a shift in banks’ business models, and financial deepening (digitalization, new preferred methods of payments, and greater diversity of financial products).

¹⁵ While still well-above the minimum requirements, the solvency ratio for the system dropped from 17.3 percent (end-2021) to 15.5 percent in April 2024. In local currency, NPLs on consumption were at 2.6 percent and 3.4 percent for small businesses at end-2023 and 3.3 percent and 3.6 percent, respectively, in April 2024. Provisioning dropped to 151 (April 2024) from 189 by end-2023 and 263 percent at end-2022. Liquidity ratios also show declines.

¹⁶ The credit card regulation, approved in February 2024, covers payment capacity, disclosure of information, supervision, and compliance with international security standards in credit card operations. This regulation applies to banks, companies specialized in financial services that are part of a financial group, and other entities that issue and manage credit cards and are under SIB supervision).

10. The new administration has an anti-corruption and pro-governance agenda.¹⁷ The National Commission Against Corruption (CNC), replacing former President Giammattei's Presidential Commission, was launched in late February 2024 with civil society and indigenous groups as participants. The CNC is shepherding the efforts against impunity with a multi-institutionally coordinated prevention-based strategy and a six-pillar strategy encompassing: (1) regulation (e.g., whistle blower legislation and the registration of last beneficiaries' ownership); (2) prevention; (3) detection and reporting (publication of a table with allegations of corruption and status); (4) institutional coordination (e.g., publication of protocols); (5) civic participation (campaigns and dialog); and (6) monitoring and evaluation (based on international indexes and indicators). The recently published CNC-led Code of Ethics for the Executive Branch is now under implementation.

11. The AML/CFT Law remains pending in Congress, with the next GAFILAT evaluation scheduled for early 2027. The IMF legal team, together with IADB and WB legal experts, shared technical advice with the authorities and are part of a working group to incorporate it into the existing draft Bill and in line with FATF standard. The administration is committed to submit the draft to Congress in the coming months.

12. Efforts to share and strengthen data quality are ongoing, but gaps remain (Annex IX). Banguat's newly published *Indicadores GT* is an important data sharing effort¹⁸. In 2024 the authorities initiated the compilation of environmental national accounts. The authorities also published a new consumer price index (CPI) with updated basket weights and the reference period December 2023 (Annex VI). Further revisions will be introduced in January 2025, including a 2024 average reference period.¹⁹ Banguat and the National Institute of Statistics (INE) signed the MoU in late 2023 with the timeline for the publication of quarterly labor markets data. The first quarterly report, covering October-December 2024, is expected to be published in early 2025. In addition, supported by CAPTAC-DR, the authorities continue enhancing their non-financial sector balance sheet statistics following best practice,²⁰ with historical flow reports published for years 2013-23.

OUTLOOK AND RISKS

13. The economy is projected to grow by 3.5 percent in 2024 and 3.6 percent in 2025, and gradually increase to 3.8 percent in the medium term under the baseline scenario. The administration's economic agenda is confronted with a complex political reality. Forming and

¹⁷ In 2023, Guatemala ranked low in the World Justice Project's global and the Transparency International's corruption perception indexes. Since 2021, the U.S. State Department imposed visa restrictions or sanctions on about 400 individuals, with former President Giammattei sanctioned in January 2024. The list of individuals accused of corruption, undermining democracy, or breaching the rule of law includes public officials, private sector agents, and their family members. The EU and Canada also extended targeted sanctions against some officials.

¹⁸ [INDICADORES GT \(banguat.gob.gt\)](https://indicadores.gob.gt/).

¹⁹ The authorities have yet to prepare and publish the weight effect study to assess the impact of weight changes on inflation.

²⁰ IMF Government Finance Statistics Manual (2014).

rebuilding coalitions requires extensive and lengthy negotiations, causing significant delays and uncertain outcomes. Amid political uncertainty, staff's baseline projections assume reforms will advance at a gradual pace and below-100 percent budget execution as per past track record. They are complemented with two other scenarios (i) a reform agenda scenario with growth reaching five percent in the medium term and (ii) a non-reform weak governability scenario with growth decelerating below potential over time.²¹ Under the baseline scenario, inflation is expected to remain within the target, the budget close with a primary fiscal surplus in 2024 but two percent overall deficits from 2025 onwards. With higher government spending in the near term, the CA surplus will be expected to decline gradually over time, driven by large—although decelerating—remittance inflows and strong imports. International reserves are expected to remain solid in the near term. Under the reform scenario, if approved by Congress, temporary three percent deficits, anchored at two percent of GDP in the medium term, would still be consistent with preserving debt sustainability.

14. Risks to the outlook remain high and tilted to the downside (Annex II). In the near term, a tighter U.S. monetary policy associated with a softening of the U.S. Hispanic labor market could adversely affect remittance inflows and exports. Commodity price volatility, the intensification of regional conflicts (via supply chain disruptions) and extreme climate events would increase food and energy prices, exacerbating food insecurity and inflationary pressures. Domestic risks include the re-emergence of social discontent fueled by a lack of reforms addressing chronic structural weaknesses and instability driven by the fight against corruption and cyberattacks. On the upside, the successful implementation of the authorities' pro-growth, anti-corruption reform agenda would boost growth and growth potential in the medium term above baseline projections. In the near term, approving an AML/CFT law and effectively implementing it could prevent corresponding banking relationships and credit from foreign financial institutions from being negatively impacted.

Authorities' Views

15. The authorities broadly agree with the near and medium-term outlook and the risk characterization. Significant uncertainty has an external dimension explained by regional geopolitical tensions with economic implications for the country and possibly energy and food prices. The domestic dimension of risks is related to the current political situation in the country, that has the potential to affect economic confidence. Regarding economic growth, the authorities believe that growing at 3.5 percent is positive, bearing in mind that the domestic economy has been resilient to many challenges in the past. However, they are clear that the country has to grow more in order to satisfy economic and social needs of population, particularly the vulnerable.

²¹ The reform scenario assumes a timely implementation of the administration's reform plans, including investment spending. The weak governability scenario assumes that spending increases are limited to ensure continuity in essential public services.

POLICY DISCUSSIONS

A. Fiscal Policy

16. Staff supports a temporary expansionary fiscal stance, anchored to the two-percent medium-term deficit implicit fiscal rule, to address much needed infrastructure, education, and social needs. Temporary up to three percent of GDP fiscal deficits, if they were to materialize, would still ensure medium-term debt sustainability. Staff argued higher temporary deficits should be cast in an MT growth strategy, with MT fiscal revenue and spending targets consistent with an MT debt strategy. Staff also stressed the importance of returning to the two percent of GDP medium-term fiscal anchor for the overall fiscal balance. If the government were able to pass its medium-term reform agenda in Congress, executing a higher budget should also include cost-efficiency gains, with revenues aligned to realistic projections, and well-targeted, results-oriented spending.

17. Tax revenue needs to continue increasing to enhance the fairness of the tax system and cover the economy's hefty needs; potential tax cuts would risk pro-growth efforts. Staff supports the administration's efforts to further increase tax collection and called against ongoing discussions at the legislative level to reduce tax collection, a measure that would put at risk confidence and fiscal sustainability in the medium term and could lead to higher risk premia.²² Under the baseline scenario, tax collection efforts target increasing fiscal revenue to 13 percent of GDP over time. A sustained increase in tax collection requires:

- (i) *Improving the accuracy of budgeted tax revenue projections and of tax collection efforts.* The tax administration's (SAT) internal regulation, approved by the SAT Board, should be aligned with the quantitative-adjusted criteria of the 2013 SAT Organic Law (Article 27). The accuracy of annual budget revenue projections would be improved by de-coupling the annual quantitative-based performance renewal review of SAT management from tax revenue performance.
- (ii) *Continuing ongoing efforts to improve tax collection and reduce tax evasion* through audits, digitalization, and the better targeting of economic activity areas with no (or low) tax collection and customs smuggling. Staff recommended the adoption of legislation to provide legal protection for SAT auditors (and public officials) in the exercise of their mandate.²³ Staff also supported tools within the current legal framework to identify fraud—for example, by accessing unusual financial transactions under certain legal safeguards and by measuring VAT underreporting gaps— designing a taxpayer awareness campaign linking efficient spending and increased tax revenue to build buy-in for reform and operationalizing the usage of tax

²² The elimination of the ISO (Solidarity) tax, draft Bill 6348, is the main tax cut initiative being discussed in Congress and opposed by the administration. Under Bill 6348, about 3,000 large companies would receive a tax cut of up to 1 percent of their gross revenues, increasing the public debt from 27.7 percent (2024 projection) to about 33 percent of GDP over the next five years. The tax cut would also reduce domestic resources for much needed pro-growth reforms the authorities are planning in key areas such as infrastructure, education, and closing social gaps.

²³ Lack of such protections expose officials to personal legal (also criminal) charges and can impact their ability to properly implement their mandate.

identification numbers as part of the ongoing financial inclusion efforts to receive services. The 2024 TADAT preliminary evaluation suggests improvements in transparency and support for voluntary compliance and areas for further improvement, such as controls and risk mitigation.

- (iii) *Adoption of a broad-based updated tax reform.*²⁴ In the medium term, further increasing fiscal revenue will require the adoption of a comprehensive tax reform that broadens the tax base, increases the personal income and VAT tax rates, reduces deductions and exemptions, clarifies the eligibility criteria in opting for the general or simplified regimes, and captures residents' passive foreign income, among others.

18. Higher spending should keep the wage bill contained (while improving the quality of services) and prioritize pro-growth capital investments. Staff encouraged defining clear medium-term spending targets for education and health that are linked to the promotion of efficiency and results (see Selected Issues Paper, Chapter 2). Staff also supports scaling up much-needed investments in infrastructure and targeted social programs with well-defined realistic action plans with milestones and sound quality controls on spending. Approving higher spending, however, is proving challenging. The passage of the 2024 supplemental budget (submitted in late May) in Congress, would be an important test of governability.

19. Regarding the structural agenda, staff pressed for:

- *A results-based, well-targeted, and sequenced MT public investment agenda with a clear roadmap with milestones.* The plans should reflect the country's absorptive capacity and be guided by a sound and transparent public financial management (PFM) framework with efficient spending at its core and an MT sustainable and inclusive growth model in mind. Ongoing technical assistance in public financial management (PFM) systems (with the IADB) and expenditure efficiency will help. The publication of multi-annual plans with near- and medium-term targets will be important to communicate the administration's priorities, enhance accountability, and allow for program adjustments if required.
- *Enact legislation to facilitate physical infrastructure investment* through sound infrastructure and port laws; amend existing laws such as the Public-Private Partnerships (PPP) law (streamlining approvals and processes and expanding coverage to include education and health) and the Free Zone law; and reform the public procurement and civil service' legislation.²⁵
- *Eliminate distorting practices in the budget process by removing:* (a) the ongoing Congress-required approval of individual projects and (b) the application of existing legislation requiring

²⁴ The 2016 TA report *Mejorando la Recaudación con Equidad y Eficiencia*, written by R. Fenochietto, V. Flamini, E. Morales, and C. Pérez Trejo, provides valid guidance for a future tax reform. The 2022 TA report *International Taxation Challenges and Options*, written by R. Schatan, C. Osorio Buitrón, A. Lara Yaffar, and J. Madariaga provides the international dimension to Guatemala's taxation reform agenda.

²⁵ The 2024 PIMA/C-PIMA identified limited competition in public contract bidding driven by restrictive requirements in the current legislation (e.g., rules related to eligibility). Lack of transparency and a degree of discretion are other aspects the administration is trying to address.

new individual projects to be part of the budget process approved by Congress only if previously vetted by Segeplan. The pre-vetting of all investment projects before Congress approval would strengthen the budget process and investment execution and support the government's governance efforts. Staff also asked to produce an ambitious, yet realistic, timeline to implement other key recommendation of the PIMA/C-PIMA (2023) and Fiscal Transparency (2022) Evaluations (Selected Issues Paper, Chapter 3).

20. Given the low debt ratios and moderate risks of debt distress, temporarily higher deficits can be partly funded by higher borrowing (Annexes III and IV). Staff argued that borrowing plans should be designed in the context of the MT debt management strategy. The strategy should be designed not only for financial considerations but also to help expand markets by further completing the sovereign yield curve, a tool of reference for the private sector, with a pre-announced annual debt issuance plan. The predictable issuance of sovereign debt instruments should also help broaden the investor base, increase demand for government securities, and reduce borrowing costs over time. A well-designed communication strategy on the government's spending and financing plans would encourage investor participation. The issuance of green bonds to finance climate mitigation, adaptation, and resilience investments would also send a strong signal to investors.

Authorities' Views

21. Efforts to boost tax revenue collection will continue; the country has large investment gaps that need to be urgently addressed. The authorities are committed to fight tax evasion by further enhancing tax administration. In this regard, the ongoing customs and the 2024 TADAT will prove very useful. The continuity of the management team and legal protections for tax inspectors in exercising their mandates will help the administration further advance in this objective. While recognizing passing a broad tax reform will be needed to address the country's needs fully, this administration is focused on improving the quality and efficiency of spending and will not propose a tax reform.

22. The authorities are committed to fiscal prudence while start addressing the country's massive investment needs. If Congress supports our budgets, this administration intends to address urgent investment gaps (infrastructure, human capital investments, and social including infant chronic malnutrition and poverty) with up to three percent temporary deficit deviations while containing the wage bill. The administration's fiscal policy goal is return to a two percent of GDP deficit in the medium term.

23. Since taking office, the administration has focused on enhancing institutions and the quality of spending, with the execution of sound projects expected to surge later in the year. The administration has reviewed over 1,400 investment projects inherited with potential illegalities, and it is renegotiating the terms of those projects that could be implemented. The government's efforts to revive the first PPP are bearing fruits, with work scheduled to start by end-July, after completing the last approval steps. In these efforts the administration is committed to transparency, and, with the support of the IMF technical assistance, it plans to publish internationally recognized

indicators showing how resources are being spent. The administration is also developing medium-term fiscal and debt management frameworks to ensure good planning and effectiveness in line with the recommendations advanced in the FTE, PIMA/C-PIMA. We have been requesting additional technical support to help us guide our reform efforts in areas such as fiscal risk analysis, PFM systems, efficiency of spending, pensions, and non-financial public sector statistics, among others. Also, the authorities plan to issue the first green bond (U.S.\$500 million) later in 2024 and update the debt management strategy as a communication tool.

B. Monetary and Exchange Rate Policies

24. The policy rate path should remain data-driven, with close coordination between monetary and fiscal policy stances. The policy rate serves as a signaling device through the expectations channel. Inflation expectations remained anchored in 2022-23, with the decline in inflation in 2023 driven by external factors and Banguat's active liquidity management. However, upside risks to inflation remain, and ex-post policy rate corrections to frontloaded policy rate adjustments could put Banguat's credibility at risk. Given the weight of imported inflation, prospects of an expansionary fiscal stance (if the reform agenda is implemented), and large remittance inflows, a consistent policy rate combined with appropriately priced domestic liquidity management would be particularly important.²⁶

25. Staff called for gradually strengthening the monetary and FX policy frameworks to further strengthen the effectiveness of monetary policy. To also prepare for higher potential inclusive and sustainable growth and the absorption of higher financial inflows, staff recommended:

- *Strengthening Banguat's governance and policy framework.* Amendments to the 2002 Central Bank Organic Law should explicitly recognize inflation as Banguat's primary objective and align Banguat's governance framework with its 2005-IT mandate. Also, it is important to ensure a strong Central Bank by enforcing the Central Bank Organic Law's Article 9, which covers the monetary policy net deficiencies resulting from monetary policy stabilization operations, prioritizing the restitution of new losses. A plan for the recapitalization of Banguat's stock of net deficiencies together with an assessment of Banguat's income model is required to ensure room for future liquidity management needs. Staff also encouraged the authorities to prepare Banguat's financial statements according to International Financial Reporting Standards (IFRS), aligning with the private banks' adoption of IFRS9 by 2026-27.
- *Improving monetary policy transmission and the interbank market.* Banguat Monetary Board's unanimous policy rate hikes in 2022/23 showed limited effectiveness, particularly through the credit channel. The lack of a well-developed interbank market forced Banguat to inject liquidity throughout the year and open liquidity facilities in late 2023 following the blockages. Consistent with previous advice, the recommended measures include modernizing the reserves requirement framework to strengthen banks' forecasting of reserve requirements and effective

²⁶ In addition, in light of the changes in the CPI index, staff emphasized the importance of preparing and publishing the weight effect study, which could also support monetary policy analysis.

liquidity management. The policy rate needs to be aligned with Banguat's main operations and the price of liquidity to ensure that the policy signal serves as a reference for interbank market operations. To this end, Banguat should remove the 50bps corridor around the policy rate target applied to liquidity market operations.

- *Preparing for larger investment flows and reducing monetary policy costs.* With large remittance inflows, Banguat faces large stabilization monetary policy costs by absorbing market risks. Pro-growth and productivity-enhancing structural reforms are, ultimately, the response to large remittances and potentially large financial inflows. To better absorb additional financial inflows consistent with a high-growth reform scenario, and reduce costs, staff recommended gradually transferring market risks to the private sector by gradually widening Banguat's FX intervention bands and letting the exchange rate become the shock absorber with interventions limited to addressing disorderly conditions.²⁷ In the near term, the authorities could develop a framework to guide the gradual development of FX and hedging markets through: (i) new regulations fostering the development of FX risk management and hedging tools to help the private sector manage exchange rate exposures, risks, and volatility and, (ii) a well-designed, forward-looking communication strategy with guidance on future monetary policy changes.

Authorities' Views

26. The authorities are committed to enhancing their IT-framework, strengthening Banguat, and working towards Banguat's readiness to handle potentially higher investment inflows in the future. Inflationary pressures may reemerge in the coming months, but the inflation rate is expected to stay within the target in 2024 and at the band's mid-point by 2025, in line with the 12- and 24-month inflation expectations surveys. Adjustments to the policy rate will be data-driven, based on an assessment of inflationary risks, and aimed to keep inflation on target. Also, the authorities will be vigilant to FED's policy actions, given their impact on Guatemala's economy. Guatemala has accumulated strong international reserves—a strong line of defense against external shocks. At the same time, the authorities are committed to further strengthening the monetary policy and FX framework to better cope with potentially large financial inflows.

C. Financial Sector Policies

27. In the near term, close monitoring of banks' balance sheets should continue while the banking sector' regulatory and accounting frameworks are strengthened. Measures include:

In the near term,

- *Enhancing the legal and regulatory framework:* The adoption of new Basel III-type regulations that tighten credit risk to better manage the risks of banks' aggressive consumer lending

²⁷ IPF frictions appear to be not salient: the bid-ask spread is relatively narrow (less than ten basis points), the uncovered interest parity deviations are relatively small, capital inflows are usually small in Guatemala, and net FX exposures in the banking sector are limited and subject to regulatory mismatch limits.

strategy is welcome. However, its two-year gradual implementation calls for strengthening banks' oversight, especially for banks with large exposures, including in the large corporate and consumer sectors. Congress approval of a revised draft of the 2002 Banking Law and Financial Groups is urgently needed; it should include (i) legal protections for supervisors acting within the scope of their mandate, (ii) a mandate to evaluate and respond to risks (credit, market, operational) and vulnerabilities that could affect the financial system; (iii) up-to-date tools to implement effective risk-based supervision, and (iv) a modern resolution and crisis management framework. Implementation of the cybersecurity and data protection laws, and Congress approval of the e-commerce law should not be delayed.

- *Expanding and enhancing communication tools:* To foster transparency, improve communication with market participants, and reduce borrowing costs, staff reiterated the call for spearheading the adoption of international accounting standards in the banks' disclosure of their financial statements and balance sheets, now scheduled for 2026-27, and the publication of the Financial Stability Report with analyses of the risks and resilience of the financial sector.
- *Assessing climate risk exposures:* Given Guatemala's exposure to climate risk events, the collection of carbon footprint data to quantify exposures should be part of the financial sector's risk assessments.

In the medium-term,

- *Improving the crisis management and safety-net framework for banking groups,* with alternative tools (e.g., bridge banks) and contingency funding plans.
- *Adopting an institutional arrangement empowered to make macroprudential policy decisions,* with a clear mandate, objectives, and transparency and accountability mandate. Further development of the macroprudential toolkit could help curb a future build-up of systemic risks.

28. The financial sector should further support Guatemala's development and sustainable inclusive growth goal. The authorities' 2024-27 financial inclusion strategy, designed in collaboration with the private sector, proposes to advance inclusion by expanding digitalization, improving financial literacy and enhancing users' protections, and expanding banking services access to small and medium-size businesses, youth, women, and rural areas. Consistent with these objectives, reforms proposed by the staff include: the development of the secondary debt market, completion of the yield curve, and also further digitalization of financial services. In addition, over time, the insurance sector needs to deepen significantly in both the life and non-life segments and to support the work on climate risk management.

Authorities' Views

29. The authorities consider Guatemala's financial sector is sound—well-capitalized, liquid, and profitable. Onside and off-side supervision is also appropriate, and the passing of new credit risk regulation is another step to reinforce practices. The adoption of a new Banking Law by

Congress would further help provide the necessary tools to the Superintendence of Banks (SIB) to better manage risks in the system. The authorities agree that the financial sector needs to further support Guatemala's development and the 2024-27 financial inclusion strategy is an important step in that direction.

D. Governance Agenda

30. The administration's initial steps during their first five months in office to strengthen governance and enhance transparency are encouraging, paving the way for a much-needed more comprehensive approach.

In coordination with the civil society, the CNC is conducting a detailed institutional diagnostic, with actions already being taken in MCIV, MSPAS, and Agriculture, Livestock, and Food (MAGA). The review of over 1,400 allegedly irregular public works contracts signed under the previous administration is underway, with some of the projects already reported to the Attorney General's office. The CNC is also coordinating efforts on an initiative to protect whistleblowers and legislation on the ultimate final beneficial ownership of assets (efforts led by MoF).²⁸ Legislation on civil service's appointments and procurement is expected for 2025.

31. An in-depth and comprehensive governance and anti-corruption approach is key to successfully guide effective anti-corruption efforts.

Staff stressed that the CNC should develop and transparently publish the administration's medium-term anti-corruption strategy, with a roadmap of deliverables and the timeline. The strategy should be comprehensive, multi-year, and multi-dimensional, and updated periodically in line with progress made. Beyond the 6 pillars already identified by the CNC, the anti-corruption strategy should encompass key anti-corruption measures such as strengthening the procurement framework (e.g., competitive and transparent tenders), publish beneficial ownership information of winners of public contracts and improve the asset declarations legal framework for senior officials and politically exposed persons. In addition, efforts should continue to strengthen the anti-corruption legislation, promote judicial integrity, increase accountability, and enhance the independence and effectiveness of anti-corruption institutions. The authorities are encouraged to continue to assess governance weaknesses and advance anti-corruption reform efforts in coordination with relevant agencies, including by leveraging potential technical assistance from IMF staff, including in the drafting of legislation, and conducting an in-depth governance and corruption diagnostic. Concrete progress in the implementation of reforms and regular assessments are integral to the actual mitigation of identified corruption risks.

32. The administration is committed to an updated AML/CFT Bill in line with the best FATF standard and submitting it for Congress approval.

Staff continued to provide technical assistance, including as part of a newly established working group to support progress on the revision of the draft AML/CFT law to ensure that the draft is finalized and submitted to Congress and approved in a timely manner, with the support of the Office of the President. At the authorities'

²⁸ [Informes Trimestrales - Comisión Nacional contra la Corrupción \(CNC\)](#)

request, staff will also assist in raising awareness of the revised AML/CFT Law once approved by Congress and in its implementation.

Authorities' Views

33. The administration has a zero-tolerance corruption policy and is committed to enhancing governance in Guatemalan institutions. The administration has published an Ethics Code for civil servants within the first 100 days of our government, and training is ongoing. The authorities have already enforced the code following the misuse of official resources and referred to the prosecutor several cases that require investigation. The administration has established a body that includes civil society, indigenous peoples, and the private sector on a parity basis as a mechanism for support, advice, strategy formulation, and accountability. This citizen participation body will contribute and validate proposals for institutional and legislative reform in the fight against corruption. The administration has already started to establish integrity units in each entity of the executive branch. These units will be responsible for the internal coordination of corruption prevention projects led by the executive branch and will also constitute secure channels for receiving complaints of probable cases of corruption. To enhance transparency, the "Corruption Files" dashboard has been developed and published to expose and show progress on the complaints filed for cases of corruption detected in the executive branch. To date, the administration has filed over 80 complaints with the Public Prosecutor's Office.

34. The administration has a six-pillar strategy defining the administration's actions in the coming four years. An internal diagnostic and external diagnostics with multi-sectoral tables of dialogue, done jointly with the civil society, will help the administration better identify gaps and take appropriate remedial actions. The authorities are committed to publishing a National anti-corruption strategy during their mandate and have civil society actively involved.

E. Supply Side Reform Agenda

35. The structural reform agenda should be designed under a non-remittance inflows scenario and address the long-standing weaknesses that significantly impair Guatemala's competitiveness. Staff is working with the administration to close the gaps that are holding the country back and to boost potential inclusive and sustainable growth. Staff argued that higher potential growth is the goal, and that attaining investment grade is just one step in that direction. Staff also argued that the reform agenda would require the adoption of sound landmark legislation—e.g., a competition law, an infrastructure law, a revision of the PPP law, a ports law, the securities market law, an expropriation law, and the insolvency law—that improves Guatemala's business climate and attract foreign investment. Enhancing practices, simplifying processes, and ensuring legal certainty are also key to improving Guatemala's business climate.

36. Capitalizing on Guatemala's demographic bonus will also require a national-led strategy. The administration is to invest in human capital, connectivity in the country, health, and closing social gaps (see Annex VIII on IADB investments with critical impact). Local administrations and municipalities are seen as key partners in reducing informality and promoting entrepreneurship

in the country as a whole, not just in the capital. Staff stressed that informality hinders businesses' access to cheap financing, limiting their capacity to growth. To attract foreign investment and achieve higher growth, staff encouraged stepping up production value-added and reaping economies of scale, strengthening Guatemala's labor market with better educated workforce, labor market flexibility (severance pay, regulations to control for seasonality, part-time work), and reducing gender gaps (childcare policies, see Selected Issues Paper, Chapter 5); encouraging access to new technologies and digitalization, and reducing regulatory uncertainty.

Authorities' Views

37. The authorities embrace a roadmap towards investment grade and higher growth. On June 4th, the President led a high-level delegation to New York to explain the administration's plans in this regard. The administration is committed to provide opportunities to Guatemalans to stay and work in Guatemala. Higher investments in education, health, and infrastructure target this goal.

STAFF APPRAISAL

38. The Guatemalan economy continues to show stability and soundness thanks to a legacy of prudent monetary and fiscal policies—with the inflation rate on target, ample international reserves, contained fiscal deficits, and a low public debt-to-GDP ratio. However, in line with the country's objectives, the administration needs to advance in the structural reform agenda to continue to support economic growth and increase it in the medium term. The implementation of urgent reforms in the areas of infrastructure, human capital investment, and governance cannot wait if it is to support the country's productive sectors and secure higher sustained and inclusive growth. Slowing exports and limited foreign investment underscore the urgency of reforms.

39. The country's outlook remains favorable, with risks skewed to the downside. Guatemala's dependence on remittances conditions the robustness of private consumption to the U.S. Hispanic labor market conditions, with greater impact on the most vulnerable population. This dependence makes Guatemala's monetary and exchange rate policies more complex and costly. Other risks to the economy would include a lack of progress on the economic agenda, with economic growth below potential and the possible resurgence of social unrest. Increased volatility in commodity prices and the scourge of natural disasters or major cyber-attacks are other risks on the horizon. Successful execution of the administration's structural reform agenda could lead to higher inclusive and sustainable growth potential.

40. With hefty investment needs, Guatemala will need to boost revenue while bolstering the quantity and quality of spending. Guatemala needs more tax collection to continue advancing on its path to development. Important progress has been made, but tax revenues are still among the lowest in the world, making it difficult to address the country's pressing needs (e.g., infrastructure, education, health, and malnutrition) without increasing the sovereign debt substantially. Continuity in tax administration, approval of legal protections for public officials in the fulfillment of their mandate, and improved communication with taxpayers, are some necessary measures to advance.

However, a structural increase in tax collection will require of a comprehensive tax reform in the future as well as better spending. In this regard, higher spending and temporarily larger fiscal deficits should be accompanied by a medium-term multi-year agenda of strategic transformation projects (in infrastructure, education, health, and social programs) for the country, with a clear timeline for objectives, greater transparency, efficiency, and quality of spending. It is in this context, the country team supports temporary up-to three percent fiscal deficits, anchored in a two percent deficit over the medium-term. Guatemala's debt-to-GDP ratio is low and projected to be sustainable if the administration's expansionary fiscal reform agenda were to be approved in Congress. With domestic financing costs on the rise, the mission recommended developing the domestic capital market—developing the secondary debt market and yield curve and communicating with investors.

41. Higher growth and absorption of capital flows into the country requires gradual strengthening of the monetary and exchange rate policy frameworks. Changes in the leading interest policy rate should continue to be data-driven. At the same time, it is important for Banguat to move forward with reforms that will strengthen the effectiveness of the policy rate and liquidity management by strengthening the monetary policy transmission mechanisms and the interbank market. Under a reform fiscal policy scenario, consistency in monetary, exchange rate, and fiscal policies will play a particularly important role. In addition, it is important to continue advancing in the development of FX and hedging, debt, and financial markets that allow the private sector to manage market risks, as well as to provide tools for climate risk management. The mission continued to advocate for a solvent Central Bank that capable of conducting monetary liquidity management, maintaining price stability, and confronting future challenges.

42. An inclusive and sound financial sector guided by prudential principles should further support Guatemala's economic development efforts. The banking sector remains liquid and profitable and shows resilience to shocks, but close monitoring of the build-up of vulnerabilities is warranted. The approval of the credit regulations of the Superintendency of Banks, as well as the follow-up on their implementation and effectiveness, is a step forward in strengthening the sector. The approval of a new banking law (updating the 2002 Law on Banks and Financial Groups) is also urgently needed; it should be aligned with international standards of regulatory, supervisory, and crisis management practices, and provide supervisory authorities with the necessary tools to monitor risks and vulnerabilities that could affect Guatemala's financial system, as well as to be able to respond, if necessary. Improving communication with the markets through the publication of risk assessments and of bank balance sheets using international accounting standards should also feature high on the agenda.

43. Advancing in the implementation of the pro-growth reform agenda will require:

- *Passing sound legislation*, including a good competition law that includes investment aspects, an infrastructure and ports laws, the revision of the Public Private Partnerships (PPP) and Free Trade Zone laws, as well as the civil servants and procurement reforms are essential for the economy to take off. Also, to improve legal certainty consistent with international best practices, internal practices, and structures in the legislation process (e.g., the review of draft legal texts by

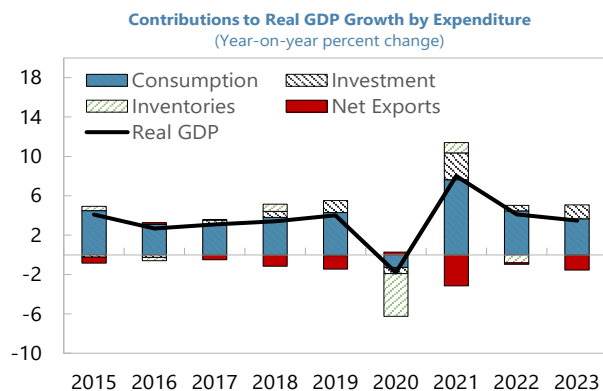
specialized teams and the unification of criteria in the application of legislation in court) need to be addressed.

- Improving competitiveness via an active policy in favor of the formal labor market, greater digitalization and innovation, and a clear gender strategy. The implementation of the goals established in the 2024-27 financial inclusion strategy will help reduce social gaps.
- Strengthening governance with the publication of a national anti-corruption plan and medium-term strategy to combat impunity with a timetable for implementation and measurement indicators. The approval of legislation aligning Guatemala's anti-money laundering law with Financial Action Task Force (GAFI/FATF) standards cannot wait longer, given the evaluation based on effective compliance of the Law by 2027.

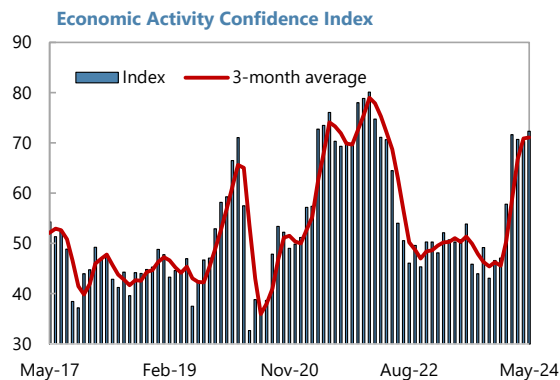
44. Staff recommends that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Guatemala: Recent Economic Developments

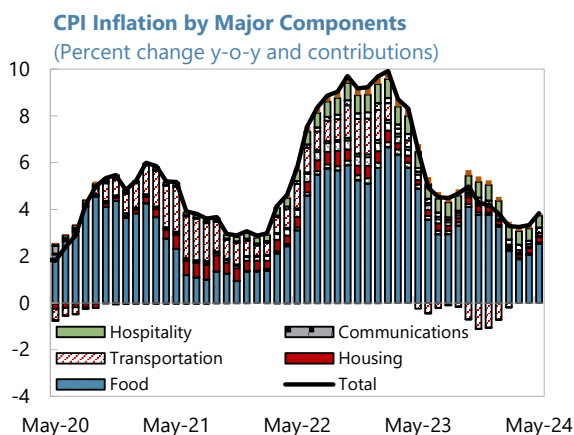
Consumption continued to lead real GDP growth in 2023, with exports declining.



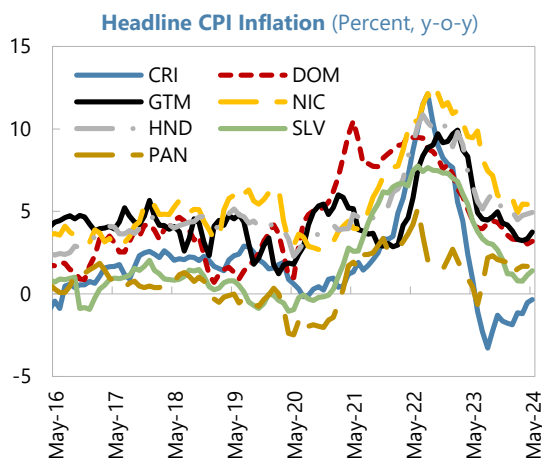
The new administration has momentum, with the confidence index surging since late 2023.



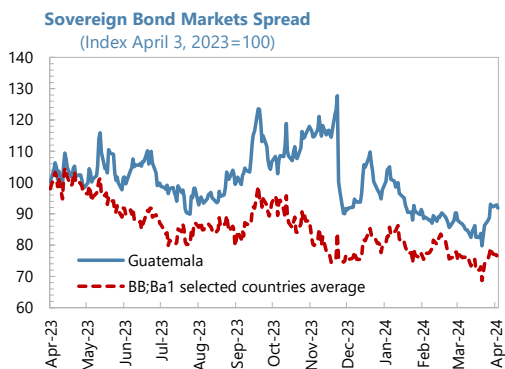
With food prices declining ...



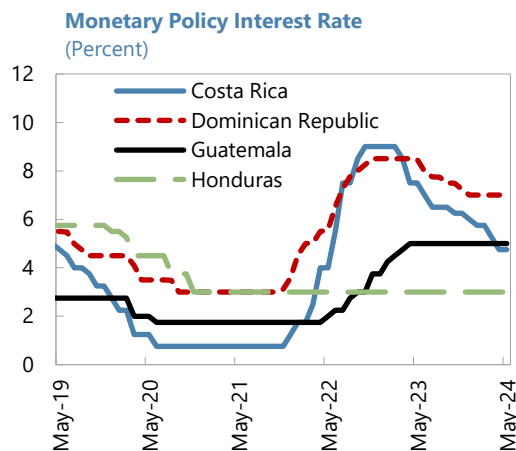
...inflation dropped (similar to peers) and is now back to the mid-target.



While social unrest and political uncertainty still show in spreads, the difference has significantly narrowed.



And Banguat's policy rate remains unchanged.

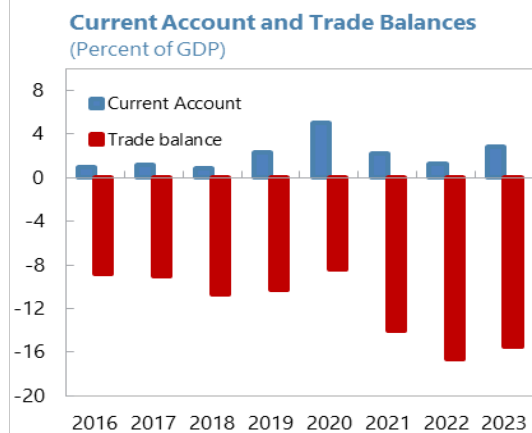


Note: Selected BB; Ba1 countries are Paraguay, Brazil, DR, Oman, Azerbaijan, and Morocco but Guatemala's MP rate has still not caught up with its peers.

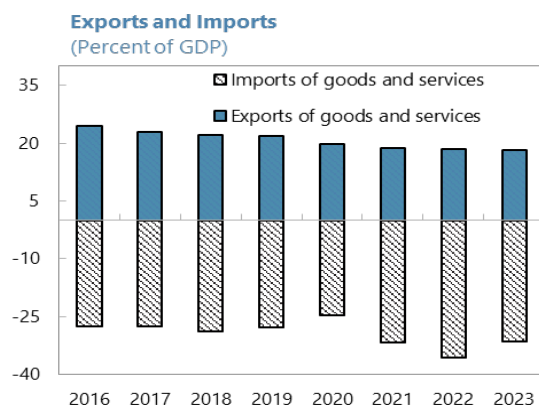
Source: National Authorities and IMF Staff Calculations.

Figure 2. Guatemala: External Developments

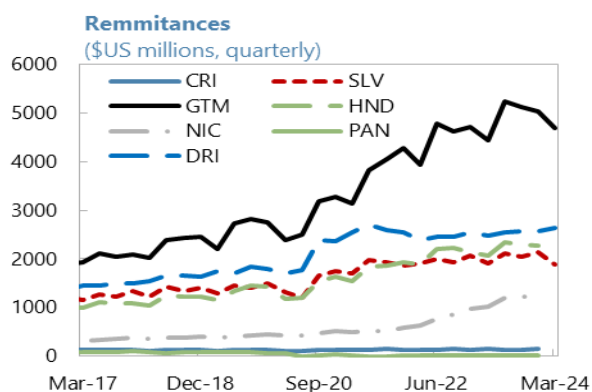
The CA surplus has been widening...



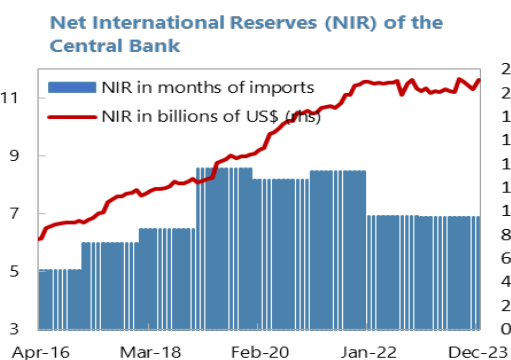
...with exports declining (also in volume) ...



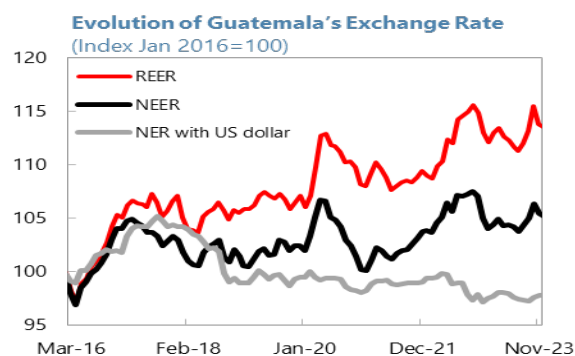
.. and large remittance inflows.



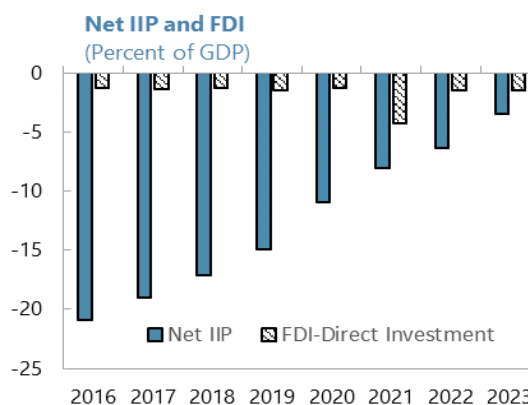
International reserves remain solid...



Large investment outflows compensated for large remittance inflows, reducing pressure to the exchange rate.



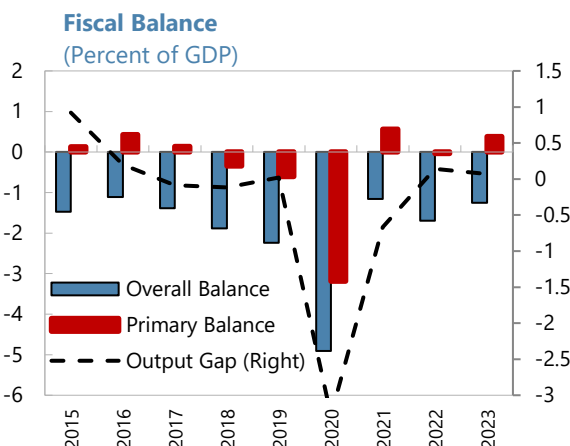
FDI remains low despite the government's road shows to attract investors.



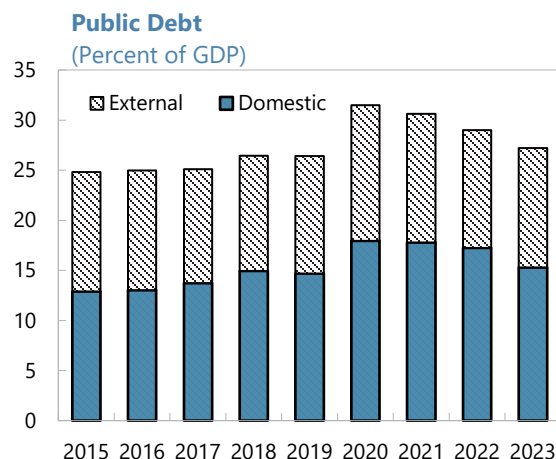
Source: National Authorities and IMF Staff Calculations

Figure 3A. Guatemala: Fiscal Sector Developments

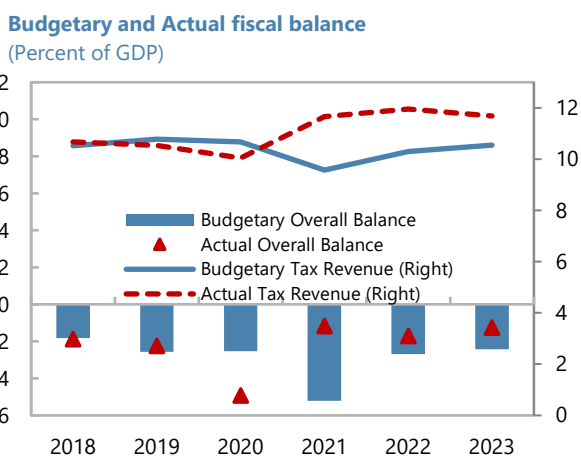
Overall/primary balance continue below the long-term norm...



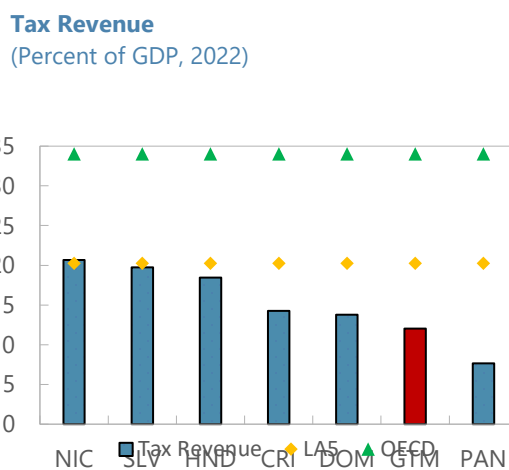
... with debt levels declining from low levels.



Higher-than-budgeted tax collection explains lower deficits.

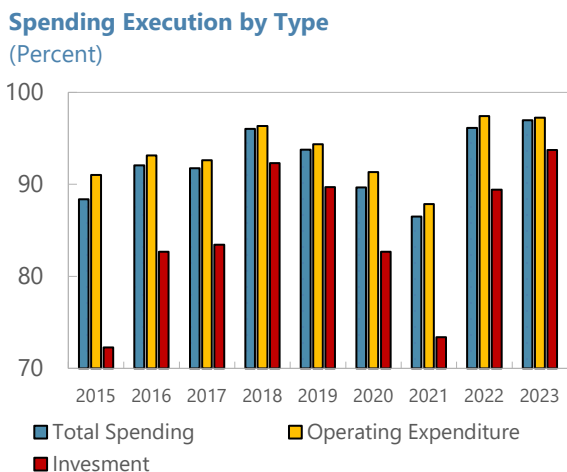


Tax revenue is low compared to income and regional peers.

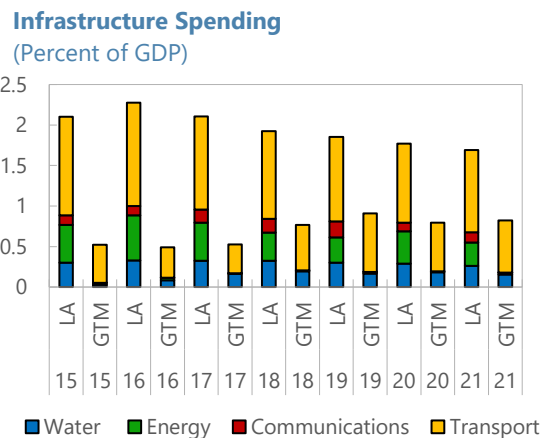


Sources: Minfin and IMF staff calculations

Spending execution in 2023 was higher than historical numbers.

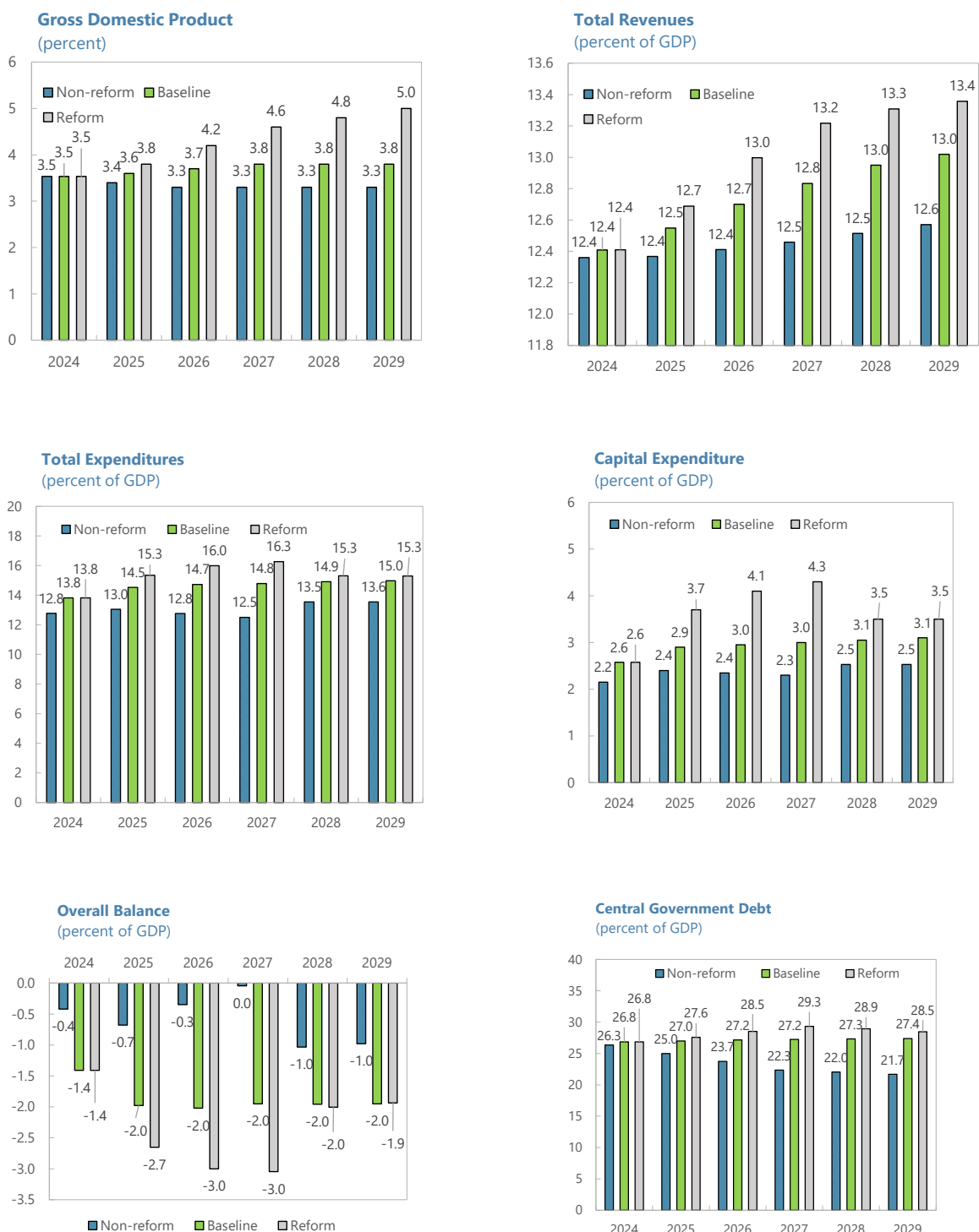


Infrastructure spending is below 1 percent with gaps in transport, communications, and energy sectors.



Sources: National Authorities, Infralatam, OECD, and IMF Staff Calculations.

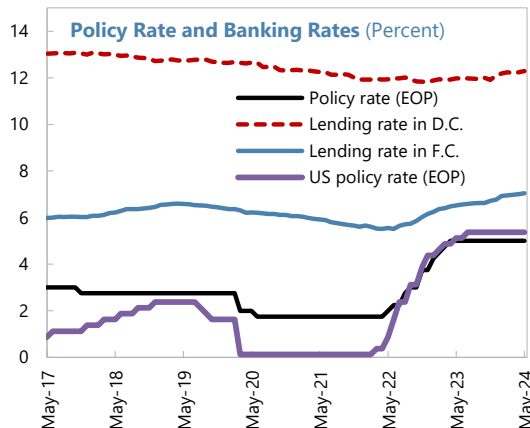
Figure 3B. Guatemala: Fiscal Sector Scenarios



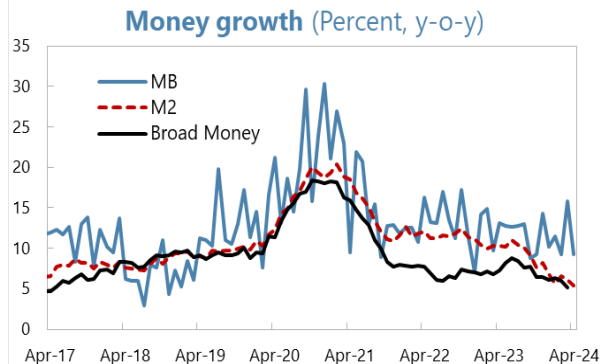
Sources: National Authorities, and IMF Staff Calculations.

Figure 4. Guatemala: Monetary Policy and Financial Sector Developments

Monetary policy transmission remains weak in domestic currency.

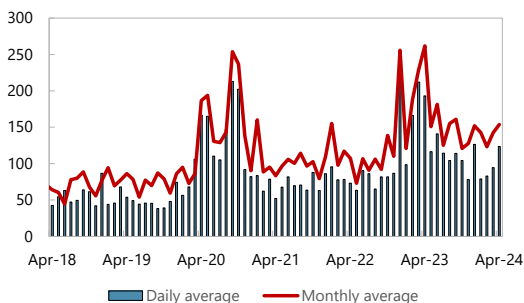


And liquidity in the system significantly decelerated in 2023...



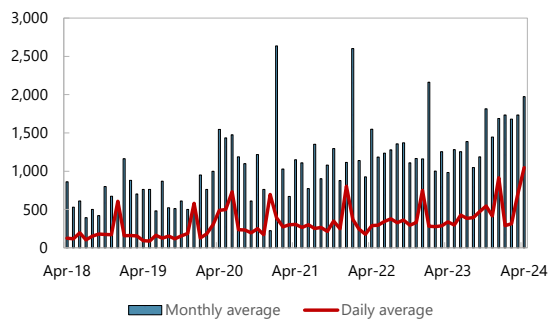
... in particular in U.S.\$, given the U.S.\$-quetzal market rate gaps, with reserve requirements declining

Foreign Currency Reserve Requirement (Millions of USD)

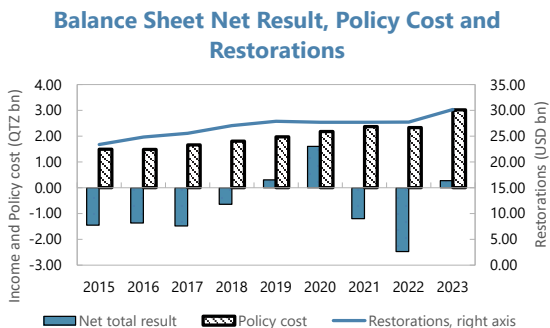


....but also in domestic currency.

Domestic Currency Reserve Requirement (Millions of QTZ)

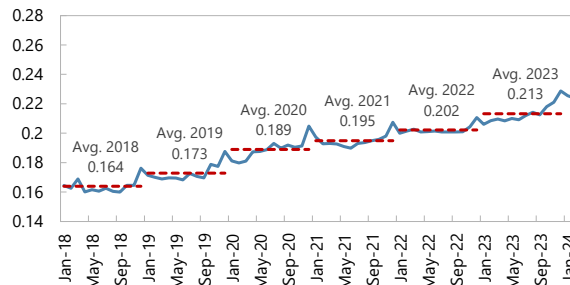


With large financial inflows, Central Bank Restorations have been increasing over the last years...



...at the same time that preference for liquid assets continues to rise.

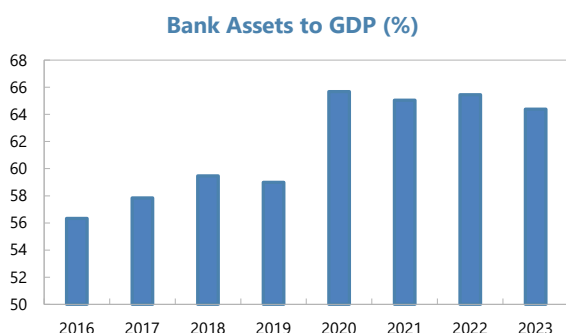
Liquidity Preference Coefficient



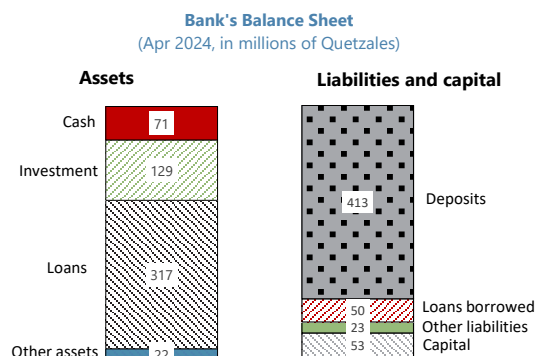
Source: National Authorities and IMF Staff Calculations.

Figure 5. Guatemala: Financial Sector Developments

The banking sector continues to grow...

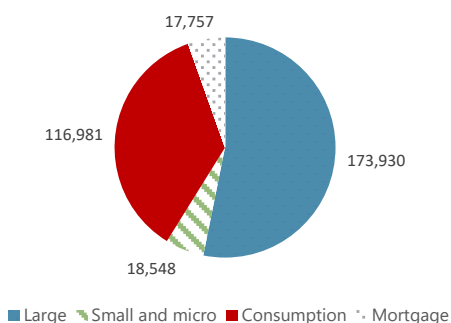


...with banks using a traditional banking model.



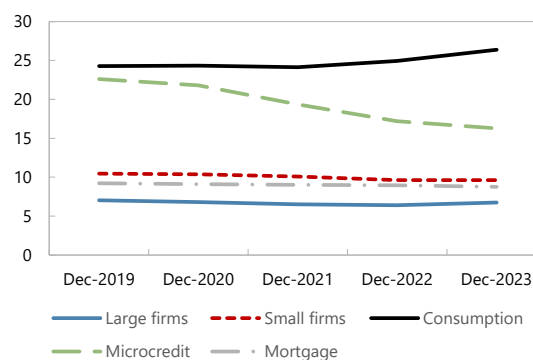
Bank credit to large corporates and consumption dominate...

Credit composition
(Apr 2024, in millions of Quetzales)

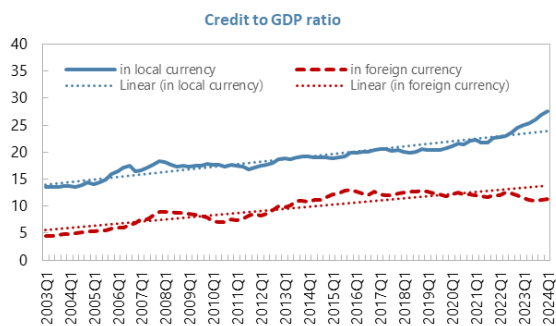


...with domestic lending rates barely changing with policy rate changes

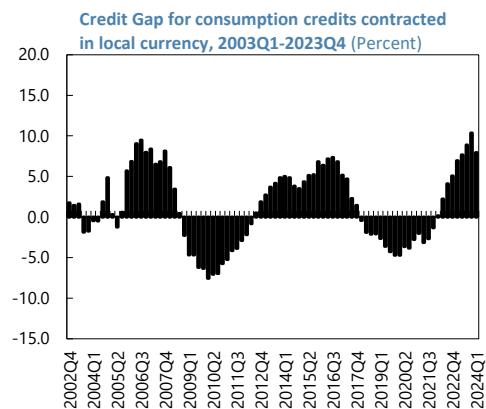
Market rates in Quetzales



The credit cycle is partly driven by a quetzalization of credit...



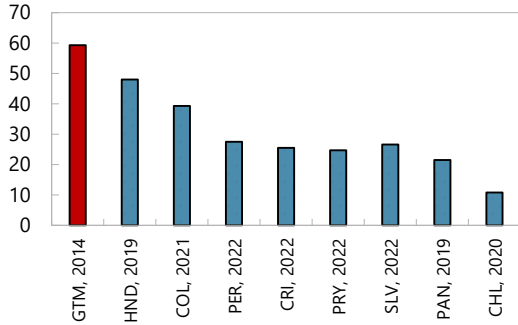
...with a positive credit gap for consumption credit in local currency.



Source: SIB Guatemala; Banguat; IMF staff calculations.

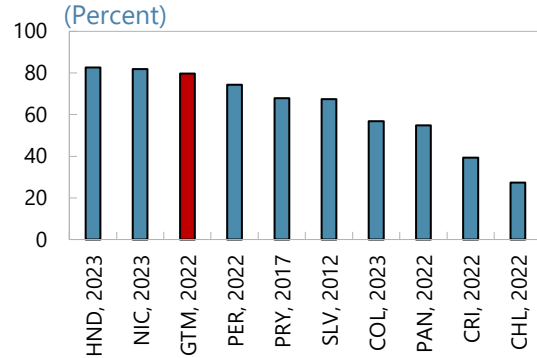
Figure 6. Guatemala: Social Indicators

Poverty Headcount Ratio at National Poverty Lines (Percent of Population)



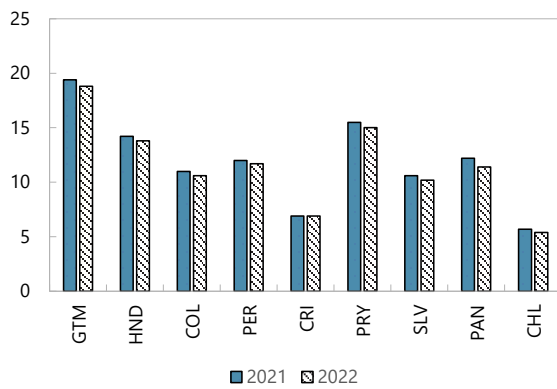
Lastest year available.

Proportion of Informal Employment in Total Employment (Percent)

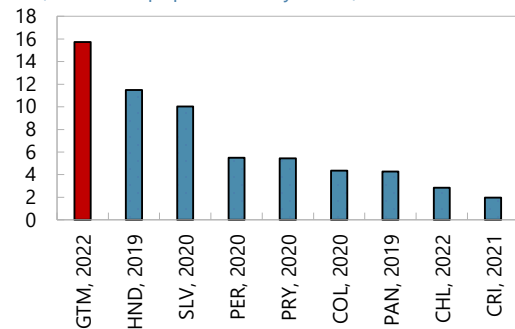


Note: Lastest available available.

Mortality Rate (Percent, Infant per 1000 Live Births)

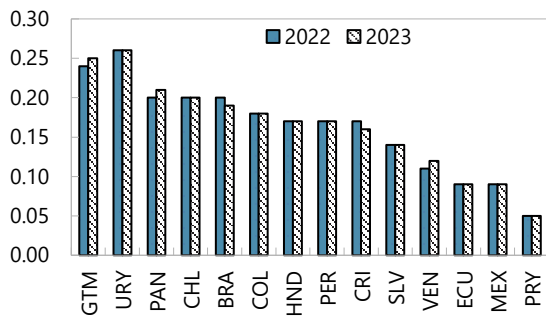


Adult Illiteracy Rate (Percent of population, 15 years +)

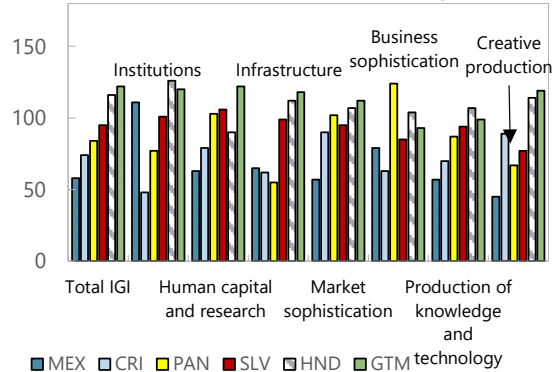


Note: Latest available data.

Residential Electricity Consumer Price (2021 US dollar per kilowatt-hour)



Global Innovation Index, 2023



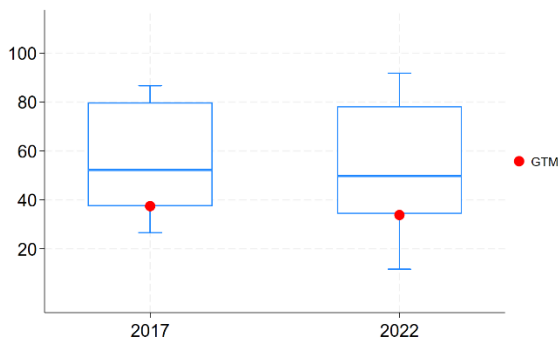
Source: World Development Indicators, ILOSTAT, UNESCO, and IMF Staff Calculations

Figure 7. Guatemala: Worldwide Governance Indicators

Reflects perceptions of whether citizens are able to participate in selecting their government, freedom of expression, freedom of association and media.

Voice and Accountability

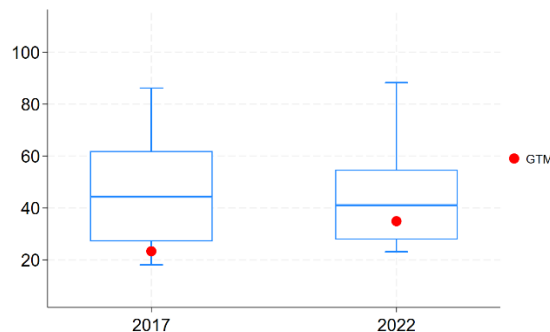
(Percentile rank)



Political Stability and Absence of Violence/Terrorism measures the likelihood of political instability and/or politically motivated violence, including terrorism.

Political Stability and Absence of Violence/Terrorism

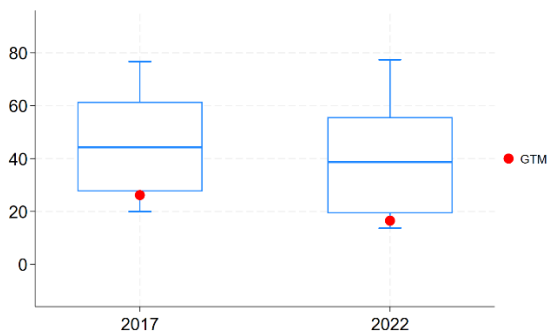
(Percentile rank)



Reflects perceptions of the quality of public services, and the degree of its independence from political pressures.

Government Effectiveness

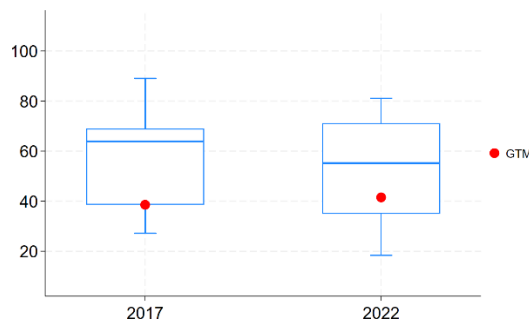
(Percentile rank)



Reflects perceptions of the ability of the government to implement sound regulations for private sector development.

Regulatory Quality

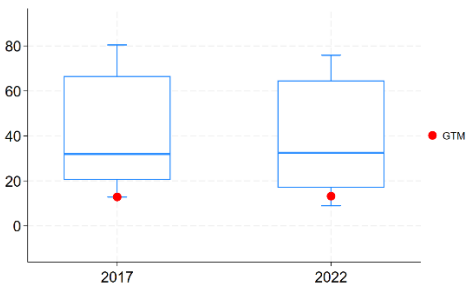
(Percentile rank)



Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society.

Rule of Law

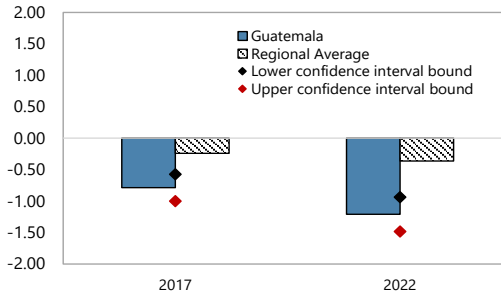
(Percentile rank)



Reflects perceptions of the extent to which public power is exercised for private gain.

Control of Corruption

(Score, lower score indicate weaker governance)



Source: Kauffman, Kraay, and Mastruzzi (2011). The countries considered in the distribution are GTM, CRI, HND, SLV, NIC, CHL, PAN, PER, PRY, URY and COL. Confidence intervals were constructed using the standard error from Kauffman et al. (2011) and a 95percent confidence level.

Table 1. Guatemala: Selected Economic and Social Indicators, 2020-2029

I. Social and Demographic Indicators			
Population 2023 (millions)	17.6	Gini index (2014)	48.3
Percentage of indigenous population (2018)	43.8	Life expectancy at birth (2021)	68.7
Population below the poverty line (Percent, 2023)	55.1	Adult illiteracy rate (2022)	16.0
Rank in UNDP development index (2022; of 189)	136	GDP per capita (US\$, 2023)	5,933

II. Economic Indicators				Projections						
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
(Annual percent change, unless otherwise indicated)										
Income and Prices										
Real GDP	-1.8	8.0	4.2	3.5	3.5	3.6	3.7	3.8	3.8	3.8
Consumer prices (average)	3.2	4.3	6.9	6.2	3.8	4.2	4.0	4.0	4.0	4.0
Consumer prices (end of period)	4.8	3.1	9.2	4.2	4.0	4.0	4.0	4.0	4.0	4.0
Monetary Sector										
M2	18.9	11.6	11.1	6.8	8.9	8.1	8.1	8.2	8.2	8.2
Credit to the private sector	6.4	12.7	15.8	14.9	12.0	10.0	8.5	8.0	8.0	8.0
(In percent of GDP, unless otherwise indicated)										
Saving and Investment										
Gross domestic investment	13.5	16.8	16.5	16.4	16.3	16.6	16.7	16.9	16.9	17.0
Private sector	12.4	14.6	15.1	14.7	14.9	14.9	15.0	15.1	15.1	15.2
Public sector	1.3	1.5	1.5	1.5	1.5	1.7	1.7	1.7	1.8	1.8
Gross national saving	18.5	19.0	17.8	19.6	19.1	18.9	18.6	18.4	17.8	17.5
Private sector	21.0	17.9	17.2	18.8	18.6	18.7	18.4	18.1	17.5	17.1
Public sector	-2.5	1.1	0.6	0.7	0.6	0.2	0.2	0.3	0.3	0.3
External saving	-5.0	-2.2	-1.3	-3.1	-2.8	-2.3	-1.9	-1.5	-0.9	-0.5
External Sector										
Current account balance	5.0	2.2	1.3	3.1	2.8	2.3	1.9	1.5	0.9	0.5
Trade balance (goods)	-8.1	-12.6	-14.9	-13.7	-14.1	-14.3	-14.4	-14.4	-14.7	-14.6
Exports	13.0	14.3	14.9	12.5	12.0	11.6	11.2	10.8	10.5	10.2
Imports	21.2	26.9	29.8	26.2	26.1	25.8	25.5	25.2	25.2	24.8
Trade balance (services)	-0.3	-1.4	-1.6	-1.3	-1.4	-1.5	-1.6	-1.6	-1.7	-1.7
Other (net)	13.5	16.2	17.8	18.2	18.3	18.0	17.8	17.6	17.2	16.8
of which: remittances	14.6	17.7	18.8	18.9	19.4	19.2	18.9	18.7	18.3	17.9
Financial and capital accounts balance (Net lending (+))	4.2	1.6	0.8	2.5	2.8	2.3	1.9	1.5	0.9	0.5
of which: FDI (net)	-1.0	-3.5	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1
Errors and omissions	0.0	-0.6	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (Increase (+))	4.1	3.2	0.0	0.9	1.2	1.1	1.1	1.0	1.0	0.9
Net International Reserves										
(Stock in months of next-year NFGS imports)	7.6	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	...
(Stock over short-term debt on residual maturity)	3.3	3.2	4.1	4.9	5.7	5.8	6.9	7.4	7.4	...
Public Finances (Central Government)										
Revenues	10.7	12.3	12.6	12.5	12.4	12.5	12.7	12.8	13.0	13.0
Expenditures	15.6	13.5	14.3	13.7	13.8	14.5	14.7	14.8	14.9	15.0
Current	12.6	11.1	11.8	11.2	11.2	11.6	11.8	11.8	11.9	11.9
Capital	3.0	2.4	2.5	2.5	2.6	2.9	3.0	3.0	3.1	3.1
Primary balance	-3.2	0.6	0.0	0.4	0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance	-4.9	-1.2	-1.7	-1.3	-1.4	-2.0	-2.0	-2.0	-2.0	-2.0
Financing of the central government balance	4.9	1.2	1.7	1.3	1.4	2.0	2.0	2.0	2.0	2.0
Net external financing	-0.3	0.8	0.0	1.3	0.9	0.9	0.8	0.7	0.6	0.5
Net domestic financing	2.5	0.4	1.7	-0.1	0.5	1.1	1.2	1.2	1.4	1.5
Central Government Debt										
External	13.5	12.8	11.8	11.9	12.0	12.1	12.1	12.0	11.7	11.4
Domestic ¹	18.0	17.8	17.2	15.3	14.8	14.9	15.1	15.3	15.6	16.0
Memorandum Items:										
GDP (US\$ billions)	77.7	86.5	95.6	104.4	111.8	120.0	128.7	138.3	148.5	159.5
Volume of exports and services (annual percentage change)	-7.5	10.2	7.5	-2.5	2.5	3.3	3.5	3.4	3.2	3.3
Volume of imports and services (annual percentage change)	-5.8	19.5	4.8	5.9	6.0	5.8	5.4	5.3	5.9	4.7
Output gap (% of GDP)	-3.3	-0.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections, World Bank, World Health Organization, UNDP.

¹ Does not include recapitalization of obligations to the central bank.

Table 2A. Guatemala: Public Sector Balance, 2020-2029
(In Millions of Quetzales)

	2020	2021	2022	2023	Projections					
					2024	2025	2026	2027	2028	2029
(In millions of quetzales)										
Central Government										
Total revenues	64,066	82,295	93,164	102,016	108,524	117,815	127,968	138,902	150,552	162,564
Tax revenues	60,279	78,019	88,579	95,548	103,177	111,606	121,052	131,203	141,993	153,370
Direct Taxes	21,833	28,716	31,824	35,699	38,791	42,207	45,901	49,955	54,354	59,131
Indirect Taxes	38,446	49,303	56,755	59,849	64,386	69,399	75,151	81,248	87,639	94,239
Nontax revenues	3,786	4,276	4,585	6,468	5,347	6,209	6,915	7,699	8,560	9,194
Total expenditures	93,529	90,066	105,726	112,246	120,856	136,380	148,341	160,025	173,300	186,924
Current	75,569	74,258	87,281	91,563	98,335	109,152	118,616	127,553	137,842	148,214
Wages	27,677	28,675	29,989	32,555	35,019	38,026	40,809	43,836	47,084	50,573
Goods & services	9,993	13,759	17,635	16,459	16,717	19,741	22,012	23,644	26,666	28,642
Social security benefits	5,202	5,363	5,778	6,821	7,696	8,262	8,867	9,525	10,231	10,989
Interest	10,331	11,546	12,272	13,347	14,508	15,656	16,901	18,296	19,223	20,809
Transfers	22,244	14,784	21,363	21,888	23,869	26,905	29,452	31,636	33,980	36,498
Other	121	133	243	494	526	562	576	616	659	704
Capital	17,960	15,807	18,445	20,683	22,521	27,228	29,725	32,471	35,458	38,710
Primary expenditures	83,198	78,520	93,454	98,900	106,348	120,724	131,440	141,729	154,078	166,115
Primary balance	-19,132	3,775	-290	3,116	2,176	-2,909	-3,473	-2,827	-3,525	-3,551
Overall balance	-29,463	-7,771	-12,562	-10,231	-12,333	-18,565	-20,374	-21,123	-22,748	-24,360
Financing	29,463	7,771	12,562	10,231	12,333	18,565	20,374	21,123	22,748	24,360
Net external financing	10,337	5,236	110	10,701	7,906	8,184	8,164	7,981	6,611	5,984
Loans	1,083	-2,496	1,724	-1,568	73	2,701	2,681	2,498	1,127	501
Bonds	9,255	7,732	-1,614	12,269	7,833	5,483	5,483	5,483	5,483	5,483
Net domestic financing	19,126	2,535	12,452	-470	4,427	10,381	12,209	13,142	16,137	18,376
Net issuance of bonds	20,388	11,316	8,562	-2,486	4,427	10,381	12,209	13,142	16,137	18,376
Other	0	0	0	-54	0	0	0	0	0	0
Use of government deposits	-3,146	-11,918	3,884	2,070	0	0	0	0	0	0
Rest of nonfinancial public sector balance	6,958	4,795	5,707	4,324	4,373	4,695	5,038	5,412	5,813	6,244
Consolidated nonfinancial public sector										
Primary balance	-13,361	7,361	4,192	6,188	6,549	1,786	1,566	2,584	2,288	2,692
Interest	9,144	10,336	11,047	12,095	14,508	15,656	16,901	18,296	19,223	20,809
Overall balance	-22,505	-2,976	-6,855	-5,907	-7,960	-13,871	-15,335	-15,711	-16,935	-18,117
Memorandum items:										
Central Government debt	188,988	204,732	214,951	222,491	234,817	253,372	273,737	294,852	317,593	341,948
External	81,244	85,726	87,284	97,329	105,228	113,402	121,557	129,529	136,131	142,108
Domestic 1/	107,744	119,006	127,667	125,162	129,589	139,970	152,180	165,323	181,462	199,840
Consolidated NFPS debt	172,848	186,435	194,674	200,121	210,897	227,693	246,179	265,250	285,798	307,797
Central government gross borrowing requirem	38,217	16,141	21,265	16,394	21,486	27,400	33,574	32,720	36,511	40,474
GDP	600,123	668,861	740,969	818,054	874,596	938,906	1,007,625	1,082,371	1,162,563	1,248,706

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

1/ Does not include recapitalization obligations to the central bank.

Table 2B. Guatemala: Public Sector Balance, 2020-2029
(In Percent of GDP)

	2020	2021	2022	2023	Projections					
					2024	2025	2026	2027	2028	2029
(In percent of GDP)										
Central government										
Total revenues	10.7	12.3	12.6	12.5	12.4	12.5	12.7	12.8	13.0	13.0
Tax revenues	10.0	11.7	12.0	11.7	11.8	11.9	12.0	12.1	12.2	12.3
Direct taxes	3.6	4.3	4.3	4.4	4.4	4.5	4.6	4.6	4.7	4.7
Indirect taxes	6.4	7.4	7.7	7.3	7.4	7.4	7.5	7.5	7.5	7.5
Nontax revenues	0.6	0.6	0.6	0.8	0.6	0.7	0.7	0.7	0.7	0.7
Total expenditures	15.6	13.5	14.3	13.7	13.8	14.5	14.7	14.8	14.9	15.0
Current	12.6	11.1	11.8	11.2	11.2	11.6	11.8	11.8	11.9	11.9
Wages	4.6	4.3	4.0	4.0	4.0	4.1	4.1	4.1	4.1	4.1
Goods & services	1.7	2.1	2.4	2.0	1.9	2.1	2.2	2.2	2.3	2.3
Social security benefits	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Interest	1.7	1.7	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Transfers	3.7	2.2	2.9	2.7	2.7	2.9	2.9	2.9	2.9	2.9
Other	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital	3.0	2.4	2.5	2.5	2.6	2.9	3.0	3.0	3.1	3.1
Primary expenditures	13.9	11.7	12.6	12.1	12.2	12.9	13.0	13.1	13.3	13.3
Primary balance	-3.2	0.6	0.0	0.4	0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance	-4.9	-1.2	-1.7	-1.3	-1.4	-2.0	-2.0	-2.0	-2.0	-2.0
Financing	4.9	1.2	1.7	1.3	1.4	2.0	2.0	2.0	2.0	2.0
Net external financing	1.7	0.8	0.0	1.3	0.9	0.9	0.8	0.7	0.6	0.5
Loans	0.2	-0.4	0.2	-0.2	0.0	0.3	0.3	0.2	0.1	0.0
Bonds	1.5	1.2	-0.2	1.5	0.9	0.6	0.5	0.5	0.5	0.4
Net domestic financing	3.2	0.4	1.7	-0.1	0.5	1.1	1.2	1.2	1.4	1.5
Net issuance of bonds	3.4	1.7	1.2	-0.3	0.5	1.1	1.2	1.2	1.4	1.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of government deposits	-0.5	-1.8	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Rest of nonfinancial public sector balance	1.2	0.7	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Consolidated nonfinancial public sector										
Primary balance	-2.2	1.1	0.6	0.8	0.7	0.2	0.2	0.2	0.2	0.2
Interest	1.5	1.5	1.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Overall balance	-3.8	-0.4	-0.9	-0.7	-0.9	-1.5	-1.5	-1.5	-1.5	-1.5
Memorandum items:										
Central Government debt	31.5	30.6	29.0	27.2	26.8	27.0	27.2	27.2	27.3	27.4
External	13.5	12.8	11.8	11.9	12.0	12.1	12.1	12.0	11.7	11.4
Domestic 1/	18.0	17.8	17.2	15.3	14.8	14.9	15.1	15.3	15.6	16.0

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

1/ Does not include recapitalization obligations to the central bank.

Table 3. Guatemala: Summary Balance of Payments, 2020-2029

	2020	2021	2022	2023	Projections					
					2024	2025	2026	2027	2028	2029
	(In millions of U.S. dollars)									
Current account balance	3,924	1,890	1,243	3,281	3,127	2,714	2,432	2,143	1,266	796
Trade balance (goods)	-6,314	-10,928	-14,258	-14,329	-15,724	-17,107	-18,504	-19,937	-21,836	-23,351
Exports, f.o.b.	10,127	12,361	14,266	13,035	13,402	13,880	14,388	14,953	15,576	16,235
Imports, f.o.b.	16,441	23,289	28,524	27,364	29,127	30,987	32,892	34,890	37,412	39,586
<i>Of which</i> : oil & lubricants	1,919	3,463	5,015	4,356	4,693	4,763	4,876	5,039	5,275	5,495
Net services	-236	-1,169	-1,554	-1,404	-1,618	-1,809	-2,000	-2,193	-2,457	-2,657
Net income	-1,404	-2,127	-1,931	-1,805	-2,301	-2,577	-2,722	-2,911	-3,138	-3,381
Net transfers	11,878	16,115	18,986	20,819	22,771	24,206	25,658	27,184	28,697	30,185
<i>Of which</i> : remittances	11,326	15,279	18,021	19,780	21,659	23,013	24,377	25,808	27,220	28,599
Capital account balance	1	2	0	0	0	0	0	0	0	0
Financial account balance	3,264	1,405	778	2,614	3,127	2,714	2,432	2,143	1,266	796
Foreign direct investment	-786	-2,986	-656	-888	-950	-1,140	-1,223	-1,452	-1,560	-1,835
Net acquisition of financial assets	222	641	731	658	705	756	811	872	936	1,006
Net incurrence of liabilities	1,007	3,626	1,387	1,546	1,655	1,896	2,035	2,324	2,496	2,840
Portfolio investment	-241	-1,628	-440	-1,696	-984	-676	-678	-676	-694	-716
Net acquisition of financial assets	1	97	102	-161	6	14	13	15	-3	-25
Net incurrence of liabilities	242	1,725	542	1,535	990	690	690	691	691	691
<i>Of which</i> : government bonds	1,042	727	-362	1,546	1,000	700	700	700	700	700
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	1,103	3,210	1,841	4,290	3,761	3,230	2,933	2,870	2,019	1,846
Change in reserve assets	3,189	2,809	33	908	1,300	1,300	1,400	1,400	1,500	1,500
Errors and omissions	-661	-488	-465	-668	0	0	0	0	0	0
	(In percent of GDP)									
Current account balance	5.0	2.2	1.3	3.1	2.8	2.3	1.9	1.5	0.9	0.5
Trade balance (goods)	-8.1	-12.6	-14.9	-13.7	-14.1	-14.3	-14.4	-14.4	-14.7	-14.6
Exports, f.o.b.	13.0	14.3	14.9	12.5	12.0	11.6	11.2	10.8	10.5	10.2
Imports, f.o.b.	21.2	26.9	29.8	26.2	26.1	25.8	25.5	25.2	25.2	24.8
<i>Of which</i> : oil & lubricants	2.5	4.0	5.2	4.2	4.2	4.0	3.8	3.6	3.6	3.4
Net services	-0.3	-1.4	-1.6	-1.3	-1.4	-1.5	-1.6	-1.6	-1.7	-1.7
Net income	-1.8	-2.5	-2.0	-1.7	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Net transfers	15.3	18.6	19.9	19.9	20.4	20.2	19.9	19.7	19.3	18.9
<i>Of which</i> : remittances	14.6	17.7	18.8	18.9	19.4	19.2	18.9	18.7	18.3	17.9
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	4.2	1.6	0.8	2.5	2.8	2.3	1.9	1.5	0.9	0.5
Foreign direct investment	-1.0	-3.5	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1
Net acquisition of financial assets	0.3	0.7	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Net incurrence of liabilities	1.3	4.2	1.5	1.5	1.5	1.6	1.6	1.7	1.7	1.8
Portfolio investment	-0.3	-1.9	-0.5	-1.6	-0.9	-0.6	-0.5	-0.5	-0.5	-0.4
Net acquisition of financial assets	0.0	0.1	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.3	2.0	0.6	1.5	0.9	0.6	0.5	0.5	0.5	0.4
<i>Of which</i> : government bonds	1.3	0.8	-0.4	1.5	0.9	0.6	0.5	0.5	0.5	0.4
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	1.4	3.7	1.9	4.1	3.4	2.7	2.3	2.1	1.4	1.2
Change in reserve assets	4.1	3.2	0.0	0.9	1.2	1.1	1.1	1.0	1.0	0.9
Errors and omissions	-0.9	-0.6	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Value of exports, f.o.b. (percentage change)	2.1	22.1	15.4	-8.6	2.8	3.6	3.7	3.9	4.2	4.2
Value of imports, f.o.b. (percentage change)	-8.1	41.7	22.5	-4.1	6.4	6.4	6.1	6.1	7.2	5.8
Remittances (percentage change)	7.9	34.9	17.9	9.8	9.5	6.3	5.9	5.9	5.5	5.1
Stock of NIR (in millions of U.S. dollars) 1/	17,285	19,614	18,724	19,908	21,208	22,508	23,908	25,308	26,808	28,308
NIR in months of next-year NFGS imports	7.6	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	N.A.
NIR in ARA metric under stabilized regime (percent)	162.3	169.0	158.1	164.1	168.2	171.2	174.3	175.5	176.1	180.1
NIR over short-term debt on residual maturity	3.3	3.2	4.1	4.9	5.7	5.8	6.9	7.4	7.4	452.2
Nominal GDP (in billions of U.S. dollars)	77.7	86.5	95.6	104.4	111.8	120.0	128.7	138.3	148.5	159.5

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

1/ Includes 2009 SDR allocations of US\$271 million and 2021 SDR allocations of US\$586 million.

Table 4. Guatemala: Monetary Sector Survey, 2020-2029

	2020	2021	2022	2023	Projections					
					2024	2025	2026	2027	2028	2029
Bank of Guatemala (BOG)										
(In millions of quetzales)										
Net international reserves 1/	134,838	151,514	147,335	155,755	165,938	176,155	187,119	198,077	209,817	221,556
(In millions of U.S. dollars) 1/	17,285	19,614	18,724	19,908	21,208	22,508	23,908	25,308	26,808	28,308
Net domestic assets	-78,595	-88,096	-75,964	-74,176	-78,721	-82,525	-86,636	-90,139	-93,882	-97,032
Net claims on nonfinancial public sector	-25,117	-33,867	-32,451	-28,114	-30,105	-31,959	-33,895	-36,002	-38,133	-40,388
Central government (CG)	-1,721	-13,499	-10,031	-6,917	-6,917	-6,917	-6,917	-6,917	-6,917	-6,917
Rest of nonfinancial public sector	-23,396	-20,367	-22,421	-21,197	-23,187	-25,042	-26,978	-29,084	-31,216	-33,471
Bank of Guatemala losses	24,182	25,687	28,549	28,700	28,700	28,700	28,700	28,700	28,700	28,700
Net credit to banks	-53,373	-59,243	-59,274	-62,643	-65,914	-69,027	-72,178	-75,447	-78,748	-82,072
Of which: legal reserves	-55,431	-61,301	-61,332	-64,701	-67,972	-71,086	-74,236	-77,505	-80,806	-84,130
Open market operations 2/	-28,619	-24,309	-21,169	-19,044	-17,608	-16,469	-15,585	-13,777	-12,144	-9,771
Other assets (net)	4,331	3,635	8,381	6,925	6,206	6,231	6,322	6,385	6,443	6,500
Currency in circulation	56,243	63,417	71,371	81,579	87,217	93,631	100,484	107,937	115,934	124,525
Banking sector										
Net foreign position	-31,666	-30,536	-33,490	-36,480	-37,351	-38,334	-39,250	-40,102	-41,118	-42,049
(in millions of U.S. Dollars)	-4,059	-3,953	-4,256	-4,663	-4,774	-4,898	-5,015	-5,124	-5,254	-5,373
Net claims on Bank of Guatemala	78,165	79,580	76,343	75,700	78,371	80,679	83,204	85,194	87,341	88,988
Legal reserves	55,431	61,301	61,332	64,701	67,972	71,086	74,236	77,505	80,806	84,130
BOG securities	24,786	20,330	17,062	13,050	12,450	11,644	11,020	9,741	8,586	6,909
Liabilities to BOG	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051
Net domestic assets	258,422	291,094	334,163	360,694	395,915	430,579	467,452	508,275	552,724	601,455
Net credit to the NFPS	33,456	38,084	43,571	32,102	32,989	36,942	41,756	46,923	53,571	61,255
Official capital and reserves	-8,130	-8,701	-10,315	-12,936	-14,029	-15,178	-16,299	-17,444	-18,714	-20,084
Credit to the private sector	225,715	254,439	294,739	338,632	379,268	417,195	452,656	488,869	527,978	570,216
Other items net	7,381	7,273	6,168	2,896	-2,312	-8,380	-10,662	-10,072	-10,110	-9,933
Medium and long-term foreign liabilities	1,890	2,141	2,193	2,171	2,321	2,491	2,674	2,872	3,085	3,313
Liabilities to private sector	303,032	337,998	374,823	397,743	434,615	470,432	508,733	550,495	595,862	645,080
Demand deposits	102,310	112,538	122,485	128,960	137,873	148,011	158,845	170,628	183,269	196,849
Time and savings deposits, and Securities	169,230	188,286	211,340	222,987	247,149	268,810	292,323	318,233	346,463	377,256
Capital and reserves (private banks)	28,487	32,208	35,936	41,022	44,489	48,131	51,686	55,319	59,346	63,689
Securities	3,006	4,966	5,061	4,774	5,104	5,479	5,880	6,316	6,784	7,287
Monetary survey										
Net foreign assets	103,173	120,978	113,845	119,275	128,588	137,821	147,870	157,975	168,698	179,508
(In millions of U.S. dollars)	13,226	15,661	14,468	15,246	16,435	17,610	18,893	20,184	21,555	22,936
Net domestic assets	289,994	318,397	374,171	408,819	445,212	481,688	520,272	562,685	609,087	659,962
Net claims on nonfinancial public sector	8,340	4,218	11,120	3,988	2,884	4,983	7,861	10,921	15,438	20,867
Bank of Guatemala losses	24,182	25,687	28,549	28,700	28,700	28,700	28,700	28,700	28,700	28,700
Credit to private sector	225,715	254,439	294,739	338,632	379,268	417,195	452,656	488,869	527,978	570,216
Other assets (net)	31,757	34,053	39,762	37,498	34,360	30,811	31,055	34,195	36,971	40,179
Medium and long-term foreign liabilities	1,890	2,141	2,193	2,171	2,321	2,491	2,674	2,872	3,085	3,313
Liabilities to the private sector	391,277	437,234	485,822	525,923	571,479	617,018	665,468	717,788	774,700	836,156
Of which: Money	158,553	175,955	193,856	210,539	225,091	241,642	259,328	278,565	299,204	321,374
Of which: Quasi-money	204,238	229,071	256,030	274,362	301,900	327,245	354,454	383,904	416,150	451,094
Memorandum items:										
(Percent change)										
Currency in circulation	27.8	12.8	12.5	14.3	6.9	7.4	7.3	7.4	7.4	7.4
M2	18.9	11.6	11.1	6.8	8.9	8.1	8.1	8.2	8.2	8.2
Net credit of the banking sector to the CG	41.3	13.8	14.4	-26.3	2.8	12.0	13.0	12.4	14.2	14.3
Credit to private sector	6.4	12.7	15.8	14.9	12.0	10.0	8.5	8.0	8.0	8.0
(In percent of GDP)										
Currency in circulation	9.4	9.5	9.6	10.0	10.0	10.0	10.0	10.0	10.0	10.0
M2	55.1	55.2	55.4	53.6	54.6	55.0	55.3	55.7	56.1	56.5
Net credit of the banking sector to the CG	5.6	5.7	5.9	3.9	3.8	3.9	4.1	4.3	4.6	4.9
Credit to private sector	37.6	38.0	39.8	41.4	43.4	44.4	44.9	45.2	45.4	45.7
(In percent of bank liabilities to the private sector)										
Banks' liquid assets	49.6	47.8	44.5	41.7	39.3	37.9	36.7	35.5	34.5	33.6
Demand deposits	33.8	33.3	32.7	32.4	31.7	31.5	31.2	31.0	30.8	30.5
Time and savings deposits	55.8	55.7	56.4	56.1	56.9	57.1	57.5	57.8	58.1	58.5
Capital and reserves (private banks)	9.4	9.5	9.6	10.3	10.2	10.2	10.2	10.0	10.0	9.9

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

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

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

Table 5. Guatemala: Financial Soundness Indicators, 2014-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
On-shore banks										
Reserves as a percentage of Deposits, in NC	14.6	14.5	14.8	15.0	14.9	14.9	14.9	14.7	14.8	14.9
Reserves as a percentage of Deposits, in FC	17.1	15.9	16.7	16.3	16.2	15.9	15.8	15.9	17.1	16.0
Short-term liquidity	20.7	18.9	20.5	21.2	20.6	19.0	21.2	20.8	19.8	19.0
Liquid asset to total asset ratio	28.8	26.9	27.7	28.4	29.6	29.3	32.7	31.4	29.3	27.3
Liquidity ratio	25.5	24.5	25.1	25.7	27.0	27.1	30.6	29.4	26.7	25.2
Regulatory capital to risk-weighted assets	14.6	14.1	13.8	14.7	14.8	15.5	16.1	17.3	16.5	16.8
Nonperforming loans to total gross loans	1.3	1.4	2.1	2.3	2.2	2.2	1.8	1.7	1.3	1.8
Provisions to non-performing loans	151.9	138.4	120.4	119.6	123.4	135.9	197.4	207.6	262.5	189.2
Cash to total deposits	20.7	18.9	20.5	21.2	20.6	19.0	21.2	20.8	19.8	19.0
Return on assets	1.5	1.5	1.6	1.7	1.6	1.7	1.5	1.9	2.3	2.2
Return on equity	16.6	16.3	16.9	17.8	16.7	17.9	16.1	19.9	24.3	21.9
Foreign currency-denominated loans to total loans	38.5	39.9	39.0	38.6	39.2	36.8	36.1	35.2	33.3	29.6
Foreign currency-denominated liabilities to total liabilities	31.1	30.8	29.8	29.1	29.5	27.7	26.4	26.4	26.7	25.2
Off-shore banks										
Statutory capital to risk-weighted assets	15.6	14.5	14.8	15.3	15.2	17.4	20.0	34.5	56.7	295.2
Nonperforming loans to total gross loans	0.9	1.2	1.2	1.7	2.1	2.2	2.1	2.4	4.5	0.0
Provisions to non-performing loans	178.4	148.8	138.3	114.9	116.8	135.9	149.4	171.7	137.3	0.0
Return on assets	1.5	1.2	1.5	1.6	1.4	1.7	1.2	1.7	2.1	1.2
Return on equity	13.8	12.0	14.9	15.3	16.9	17.9	12.1	13.4	8.8	1.3
Total assets off-shore banks to total assets on-shore banks	10.7	9.6	9.1	8.0	7.8	7.0	6.4	3.7	0.4	0.0

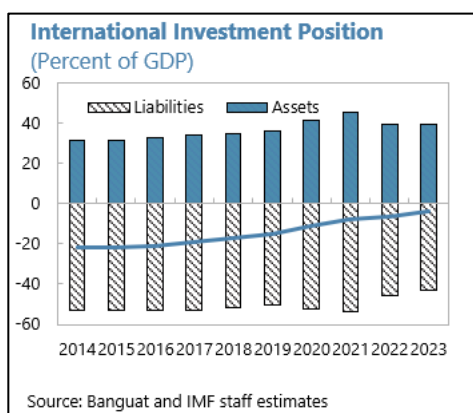
Source: Superintendency of Banks.

Annex I. External Sector Assessment

Overall Assessment. The external position of Guatemala in 2023 was stronger than the level implied by fundamentals and desirable policies. The Current Account (CA) surplus increased to 3.1 percent of GDP in 2023, after a decline in 2021 and 2022. Remittances continued to grow (nearing 20 percent of GDP) and the trade deficit improved due to lower commodity prices. The Net International Investment Position (NIIP) remained low despite significant investment needs. The real effective exchange rate moderately appreciated, while net reserves continued to grow (U.S.\$21.3 billion at end-2023).

Potential Policy Responses. Long-standing structural gaps, including low infrastructure and social spending, significantly explain Guatemala’s CA gap. Increasing infrastructure spending, the quality of education and health, and reducing social gaps amidst a sustainable fiscal framework would bolster imports and help reduce the CA gap. A shift from a highly dependent remittances-led growth model towards a domestic-driven, sustainable, and inclusive growth model, with higher capital formation, imports, and foreign investment inflows, would help soften exchange rate pressures.

Foreign Assets and Liabilities: Position and Trajectory



Background. The deficit in the Net International Investment Position (NIIP) maintained its declining trend in 2023, with assets estimated to have increased by U.S.\$4.6 billion and liabilities to have increased by U.S.\$1.8 billion. The increase in assets in 2023 reinforces the past trend. Liabilities as a percent of GDP have remained largely stable due to limited public borrowing and weak capacity to attract foreign capital.

FDI annual liabilities have remained stable at 1.5 percent of GDP, in line with the average of the last ten years (excluding the sale of Tigo Guatemala’s operation in 2021, with the exceptional surge to about 4.2 percent of GDP). FDI remained the largest component of external liabilities in 2023, accounting for about 54 percent of the total. Other

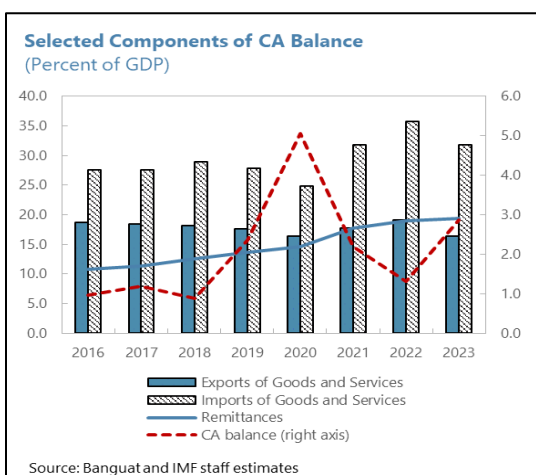
investments accounted for about one-fourth (28 percent of the total), and portfolio investment was for the rest. External debt comprised over half of external liabilities in 2023 or around a quarter of GDP.

Assessment. The current NIIP projected path does not imply risks to external sustainability but a CA adjustment to close the large CA gaps. Absent sustained trend changes in FDI, portfolio flows, or public sector external borrowing, the NIIP is projected to increase towards balance, unusual for a country with significant developmental needs.

2023 (percent GDP)	NIIP: -3.4	Gross Assets: 42.7	Debt Assets: n.a.	Gross Liab.: 46.1	Debt Liab.: n.a
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Current Account

Background. The CA balanced increased from 1.3 percent of GDP in 2022 to 3.1 percent of GDP in 2023, as continued remittances growth continued to more than offset the trade balance deficit, which improved



from -16.5 percent to about -15.1 owing to more favorable terms of trade. Remittances reached about 19 percent of GDP in 2023, a historically high level. The significant increase in remittances in recent years is now considered permanent, reflecting a relatively permanent migrant population working in the U.S. and sending remittances on a regular basis.¹ Imports of goods and services decreased to 31.6 percent of GDP, despite an increment in import volumes, because of lower international commodity prices. Exports of goods and services also experienced a significant decrease (to 16.6 percent of GDP) owing to lower international prices and lower exports volumes, mainly caused by a reduced demand from the U.S.

Remittances are expected to remain high in 2024, with growth gradually decelerating over time. Total imports and exports volumes are expected to increase in the medium term, in line with higher domestic growth and implementation of the authorities' structural reform agenda. The value effect of exports and imports is expected to be partially offset by lower trade deflators.

Assessment. The External Balance Assessment (EBA) methodology suggests that the external position in 2023 was stronger than the level consistent with fundamentals and desirable medium-term policies. Model estimates of the cyclically adjusted CA, the CA norm, and the CA gap; and identified policy gaps are presented in Table I.1.² This assessment compares to the assessment for 2023 with the following changes relative to that year.³

Annex I. Table 1. Guatemala: EBA estimates for 2022 and 2023

		2022 /1	2023 /2
<i>EBA CA methodology</i>		<i>Percent of GDP (except REER Gap)</i>	
CA-Actual	(A)	1.3	3.1
Cyclical contributions /3	(B1)	-0.5	-0.1
COVID-19 Adjustments	(B2)	-0.8	
Adjusted CA	(C = A - B)	2.7	3.1
CA Norm /3	(D)	-2.8	-2.6
Adjustments to the norm /4	(E)	-2.0	-2.0
Adjusted CA norm	(F = D - E)	-0.8	-0.6
CA gap	(G = C - F)	3.5	3.7
Contribution of identified policy gaps /3		1.3	1.6
<i>of which:</i>			
<i>Fiscal Balance</i>		1.0	1.6
Elasticity /3	(H)	0.26	0.26
REER Gap (percent) /5	(I = G / H)	-13.5	-14.2

Source: IMF staff estimates.

1/ Data featured in the previous Article IV consultation in 2023.

2/ Data as of May 2024.

3/ Estimates from the EBA CA model. The standard error of the CA norm is 0.6 percent of GDP.

4/ Adjustment to the norm upward reflects the negative impact of Guatemala's security conditions on investment which is not captured by the EBA CA model.

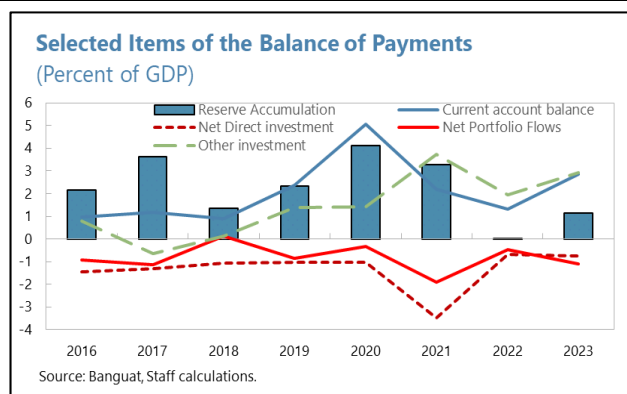
5/ "-" indicates undervaluation

Real Exchange Rate

Background. The Real Effective Exchange Rate (REER) appreciated by 0.4 percent in 2023. The REER has thus experienced a 48 percent appreciation since 2010 and a 20 percent appreciation since 2015. In contrast, the value of the quetzal relative to the U.S. \$ has been stable in recent years and appreciated by 0.6 percent from end-2022 to end-2023.

Assessment. The External Balance Assessment (EBA) CA methodology suggests that the REER is below the level implied by fundamentals by a larger value than in 2023. Under the assumption that the estimated CA gap will be closed by an adjustment in the trade balance, the EBA model implies a REER undervaluation of 14.2 percent.

Capital and Financial Accounts: Flows and Policy Measures

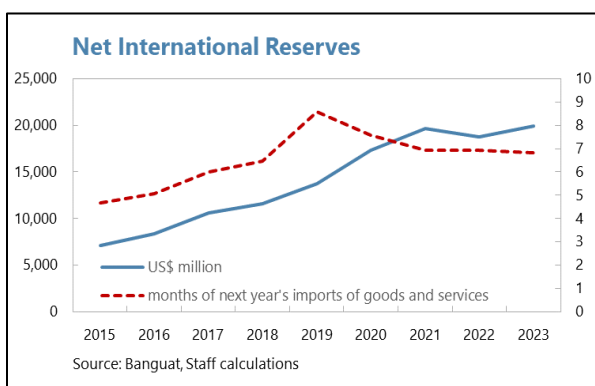


Background. At 1.5 percent of GDP, net FDI inflows remain below the 2011-15 average (2.4 percent of GDP). Net portfolio investment inflows were positive in 2023, reflecting the issuance of U.S.\$ 1.5 billion Eurobonds by the central government in Q2 and Q3, while outflows remained limited. Other investment outflows were large in 2023 (4.1 percent of GDP) due to loan amortizations and net asset acquisitions from non-financial corporations and households. These transactions were driven by positive interest rate differentials with the U.S.

and some election-related political uncertainty.

Assessment. There are no major macroeconomic risks from capital flows, especially given their relatively low level. The solid fiscal stance and low public debt level imply that the central government bond-related portfolio investment flows do not carry important risk.

FX Intervention and Reserves Level



Background. Net International Reserves (NIR, IMF definition) increased from U.S.\$18.7 billion end-2022 to U.S.\$19.9 billion end-2023. This constitutes a reversion to the increasing trend observed since the mid-2010s. The increment is largely explained by the significant increase in remittances from the United States and the improvement in the trade balance. The capital outflows observed from the private sector, and specifically the increase in deposits abroad held by non-financial corporations and households, have softened pressure on international reserves and the exchange rate.

The de facto exchange rate arrangement of Guatemala is Stabilized Arrangement (IMF Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)).

Assessment. End-2023 reserves are 164 percent of the IMF's metric for Assessing Reserve Adequacy (ARA metric) for countries with stabilized exchange rates like Guatemala. Reserves continue to be above other traditional metrics and cover almost seven months of next year's goods and services imports, about 35 percent of broad money, and 395 percent of short-term external debt. Despite a large accumulation of NIR, for the first time since 2012, FX intervention closed in net sales in 2023.

- (1) The authorities indicate that high remittance growth significantly reflects a higher number of migrants. There are reports of labor scarcity in Guatemalan rural areas, which are commonly the source of migrants.
- (2) No application of the Covid-related adjustors.
- (3) Relative to the 2022 EBA, in 2023 there is a slightly higher CA norm. The contribution of fiscal balance has increase from 1 to 1.6 percent, reflecting higher desirable public spending in the medium-term.
- (4) Nominal exchange rate (NER) and real effective exchange rate (REER) obtained from the IMF GDS database, which elaborates data from Haver and other sources.

Annex II. Risk Assessment Matrix¹

Source of Risks	Likelihood/ Impact	Policy Advice
Global		
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia’s war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High likelihood Medium impact	Gradually allow the exchange rate to become the shock absorber. Deploy targeted social transfers on vulnerable segments of the population. Monetary policy tightening could be needed if price pressures emerge.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High likelihood Medium impact	Deploy targeted social transfers on vulnerable segments of the population while accelerating the structural reform agenda.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	Medium Likelihood Medium impact	Fiscal policy should be used to accelerate the structural reform. Most infrastructure projects are import-dependent. Deploy targeted fiscal transfers towards the most vulnerable and targeted liquidity injections as needed.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	Medium Likelihood Medium impact	Provide liquidity to support the banking sector and adopt already developed contingency plans to manage the risks.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium Likelihood Medium impact	Enhance monitoring of exposures and mitigation measures. Prioritize investments for infrastructure resilience. Deploy targeted support to the areas affected.
Domestic		
Social discontent. Inability, including due to the complex political reality, of the administration to implement the reform agenda and address the long-standing social and infrastructure gap and worsening inequality cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	Medium Likelihood Low impact	Forming working coalitions to accelerate the structural investment agenda and social programs. Enhance spending efficiency and transparency to broaden the provision of public services. Advance in the implementation of measures to fight corruption and enhance quality of spending.
An abrupt drop in remittances driven by shifts in migration policy in the U.S.	Medium likelihood High impact	Accelerate the implementation of structural reforms and deploy targeted fiscal support to vulnerable groups, To mitigate the shock, liquidity injections may be required.

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

Annex III. Public Debt Sustainability Analysis

Debt continues to be on a decreasing path, and it is expected to remain sustainable at 27.4 percent of GDP. Sovereign risk is assessed as moderate, and debt is resilient to short-term shocks.

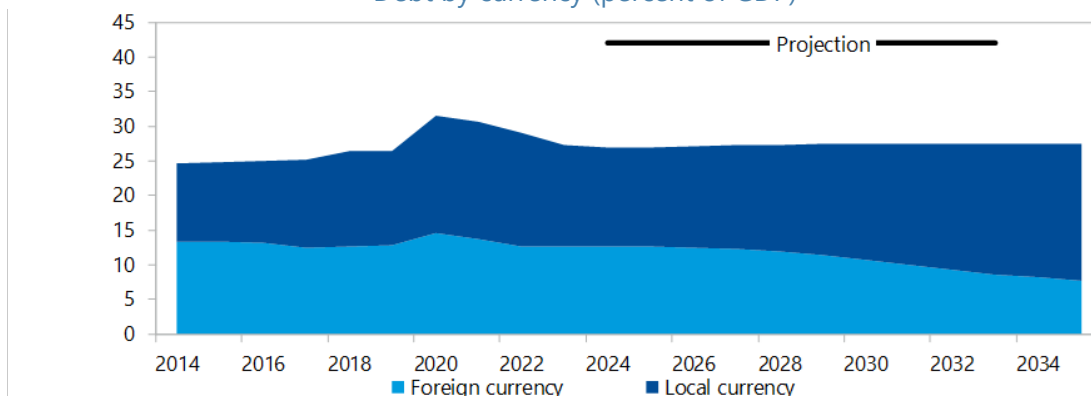
Annex III. Table 1. Guatemala: Sovereign Risk and Debt Sustainability Analysis			
Guatemala: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is Moderate, reflecting a relatively moderate level of vulnerability in the medium horizon. This assessment does not change in the reform scenario.
Near term 1/			
Medium term	Low	Moderate	Medium-term risks are assessed as moderate on the basis of a mechanical signal close to the threshold between low-moderate, moderate GFN financiability index, moderate risks according to the fanchart analysis, and resiliency of the debt dynamics in the stress test scenarios.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	Cont. Liabty. Nat. Diast.	...	
Long term			Not applicable
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not applicable
Debt stabilization in the baseline			No
DSA Summary Assessment			
<p>Under the baseline scenario, Guatemala's public debt is assessed to remain sustainable. Public debt is projected to remain broadly stable at around 27 percent, with 0.3 percent of primary deficit. Gross financing needs, estimated at about 3 percent in 2024, are expected to be stable over the medium term. Financing is expected from official external sources, domestic debt, and Eurobonds. In the reform scenario, Guatemala's public debt is assessed to remain sustainable. Public debt is projected to remain below 30 percent of GDP in the medium term. The main driver of expected debt dynamics is fiscal deficits above the medium-term target between 2025 and 2027 to sustain infrastructure and social spending investments while preserving fiscal prudence. Broader coverage beyond the central government would aid a more comprehensive assessment.</p>			
Source: Fund staff.			
<p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p>			
<p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p>			
<p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Annex III. Table 2. Guatemala: Debt Coverage and Disclosures

						Comments								
1. Debt coverage in the DSA: 1/														
			CG	GG	NFPS	CPS	Other							
1a. If central government, are non-central government entities insignificant?						Yes								
2. Subsectors included in the chosen coverage in (1) above:														
Subsectors captured in the baseline						Inclusion								
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes								
				2	Extra budgetary funds (EBFs)	No	EBFs don't have bond instruments, only domestic banks credit							
				3	Social security funds (SSFs)	No								
				4	State governments	No								
				5	Local governments	No								
				6	Public nonfinancial corporations	No								
				7	Central bank	No								
				8	Other public financial corporations	No								
3. Instrument coverage:						Currency & deposits		Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/			
4. Accounting principles:						Basis of recording		Valuation of debt stock						
						Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/				
5. Debt consolidation across sectors:						Consolidated	Non-consolidated							
Color code:						■ chosen coverage	■ Missing from recommended coverage	■ Not applicable						
Reporting on Intra-Government Debt Holdings														
		Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total			
CPS	NFPS	GG: expected	CG	1	Budget. central govt	0	1.5	0	1.8	0	0.3	0	3.6	
				2	Extra-budget. funds	0	0	0	0	0	0	0	0	0
				3	Social security funds	0	0	0	0	0	0	0	0	0
				4	State govt.	0	0	0	0	0	0	0	0	0
				5	Local govt.	0	0	0	0	0	0	0	0	0
				6	Nonfin pub. corp.	0	0	0	0	0	0	0	0	0
				7	Central bank	0	0	0	0	0	0	0	0	0
				8	Oth. pub. fin. corp	0	0	0	0	0	0	0	0	0
		Total	0	0	1.5	0	1.8	0	0.3	0	3.6			
<p>1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.</p> <p>2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.</p> <p>3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.</p> <p>4/ Includes accrual recording, commitment basis, due for payment, etc.</p> <p>5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).</p> <p>6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.</p> <p>7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.</p>														
<p>Commentary: The coverage in this SRDSA focuses on the central government due to data availability concerns for the broader public sector (historical availability and composition). The outstanding debt on Social Security recognized by law, not included in official MoF data, is included and represents 1.5 percent of GDP. Central Government debt with the Central Bank is estimated at 0.3 percent and it is not included in the analysis. The authorities continue efforts to improve data timeliness, quality and coverage with IMF TA. Authorities' preliminary data on the Non Financial Public Sector debt suggests an adjustment of about -2 percent of GDP without including debt with the Social Security and the Central Bank.</p>														

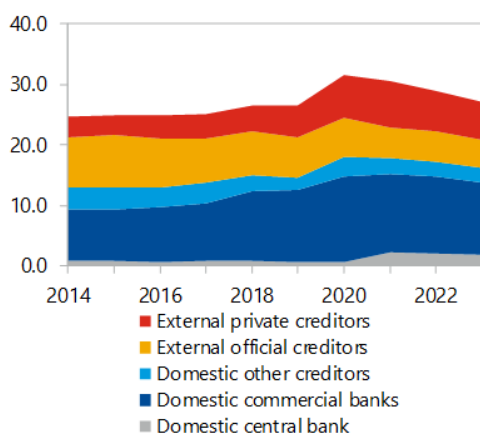
Annex III. Figure 1. Guatemala: Public Debt Structure Indicators

Debt by currency (percent of GDP)



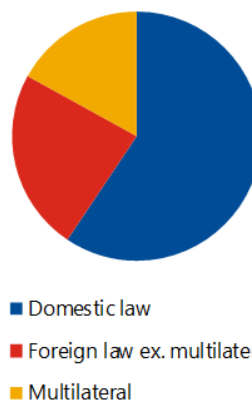
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



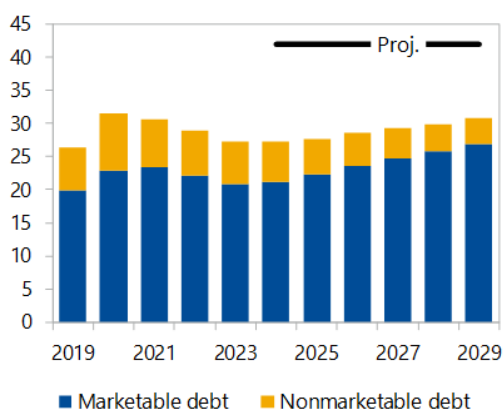
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



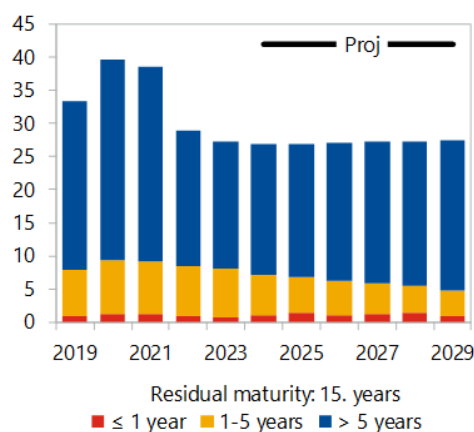
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



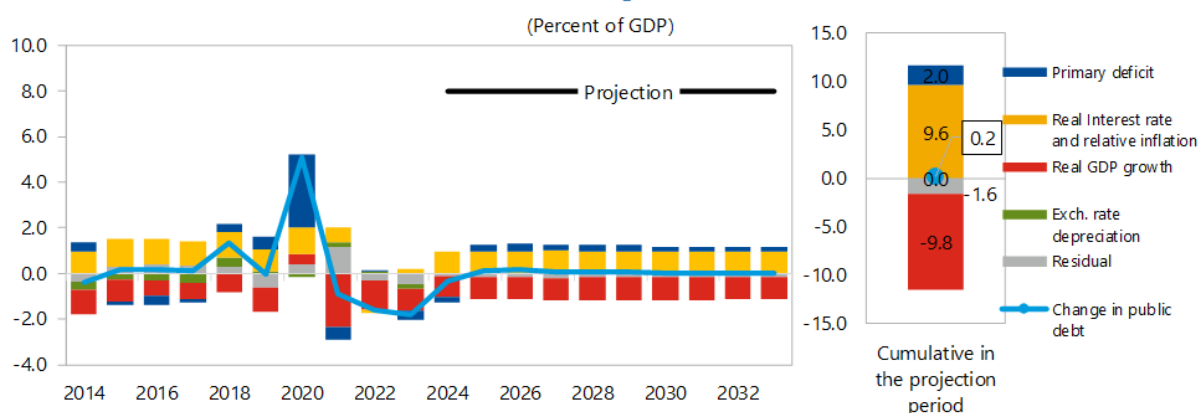
Note: The perimeter shown is central government.

Commentary: The authorities are expected to continue to benefit from multilateral funding, eurobonds, and domestic banks in the short term.

Annex III. Figure 2. Guatemala: Baseline Scenario
(Percent of GDP unless indicated otherwise)

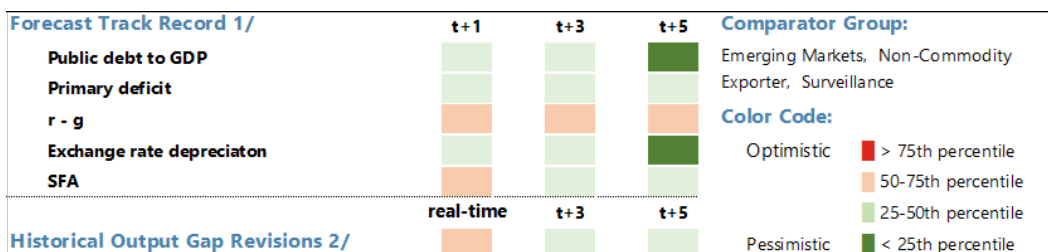
	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	27.2	26.9	27.0	27.2	27.2	27.3	27.4	27.4	27.4	27.4	27.4
Change in public debt	-1.8	-0.3	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Contribution of identified flows	-1.4	-0.2	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Primary deficit	-0.4	-0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Noninterest revenues	12.5	12.4	12.5	12.7	12.8	13.0	13.0	13.1	13.1	13.1	13.1
Noninterest expenditures	12.1	12.2	12.9	13.0	13.1	13.3	13.3	13.3	13.3	13.3	13.3
Automatic debt dynamics	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real interest rate and relative inflation	0.2	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real interest rate	-0.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Relative inflation	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Real growth rate	-1.0	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Real exchange rate	-0.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.5	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Gross financing needs	2.0	2.5	2.9	3.3	3.0	3.1	3.2	2.7	2.7	2.8	2.8
of which: debt service	2.4	2.7	2.6	3.0	2.8	2.8	3.0	2.5	2.5	2.6	2.6
Local currency	1.4	1.7	1.7	1.6	1.5	1.5	1.5	1.6	1.6	1.7	1.7
Foreign currency	1.0	1.0	1.0	1.4	1.3	1.3	1.4	1.0	0.9	0.9	0.8
Memo:											
Real GDP growth (percent)	3.5	3.5	3.6	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Inflation (GDP deflator; percent)	6.6	3.3	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Nominal GDP growth (percent)	10.4	6.9	7.4	7.3	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Effective interest rate (percent)	6.2	6.5	6.7	6.7	6.7	6.5	6.6	6.6	6.6	6.7	6.7

Contribution to Change in Public Debt



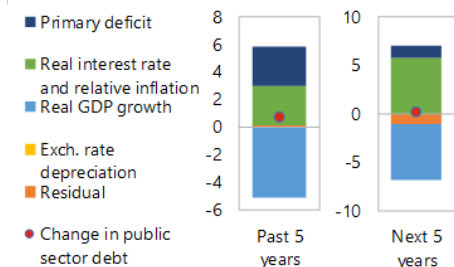
Commentary: In 2024, debt is expected to decline with a primary surplus. Under the baseline scenario, public debt is projected to remain broadly stable at around 27 percent with small primary deficits in the medium term.

Annex III. Figure 3. Guatemala: Realism of Baseline Assumptions



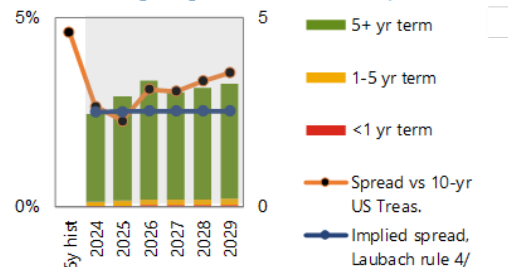
Public Debt Creating Flows

(Percent of GDP)



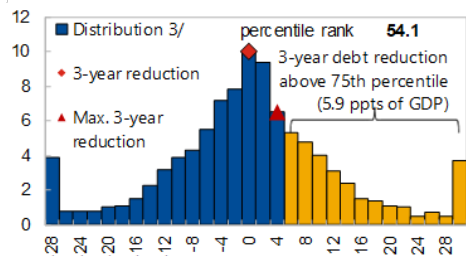
Bond Issuances

(Bars, debt issuances (RHS), %GDP); lines, avg marginal interest rates (LHS, percent)



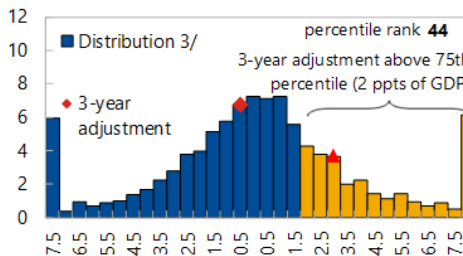
3-Year Debt Reduction

(Percent of GDP)



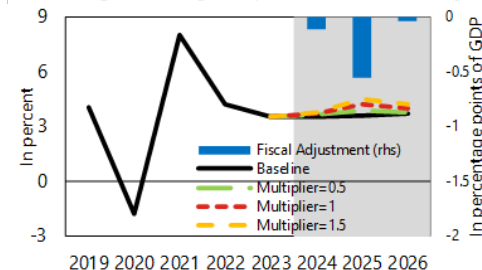
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)



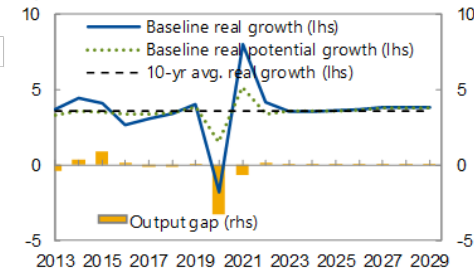
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



Realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases. The forecast track record is generally within bounds for optimism. Debt creating flows are compositionally similar between the last and next 5 years when considering that the inclusion of data from the onset of the pandemic biases primary deficit's contribution upwards in the former and the high inflation and normalization of monetary policy in the later. The risk premium is expected to remain relatively constant.

Source : IMF Staff.

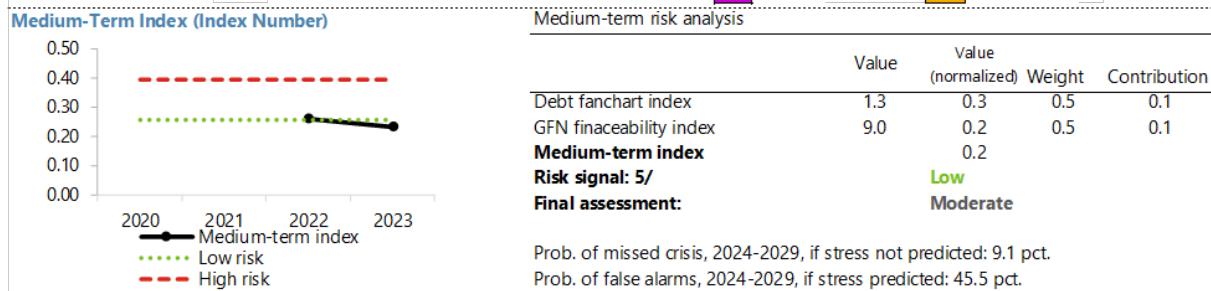
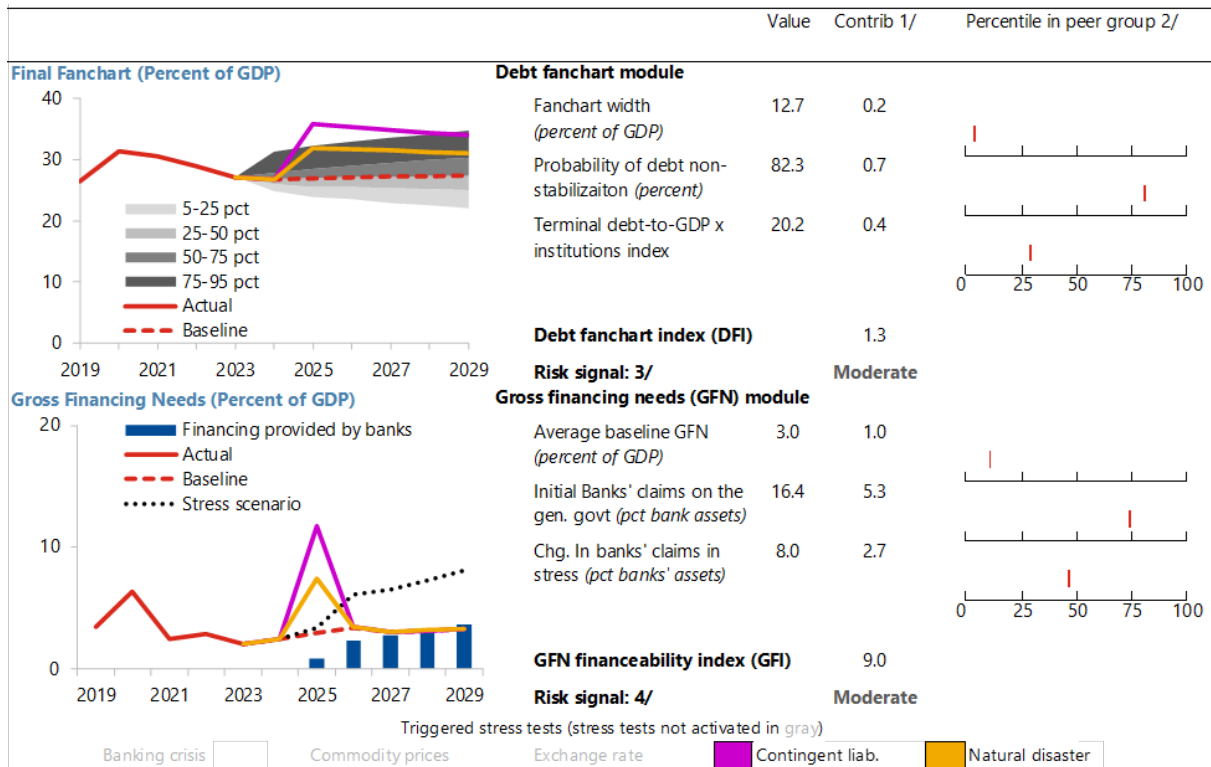
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 4. Guatemala: Medium-term Risk Analysis



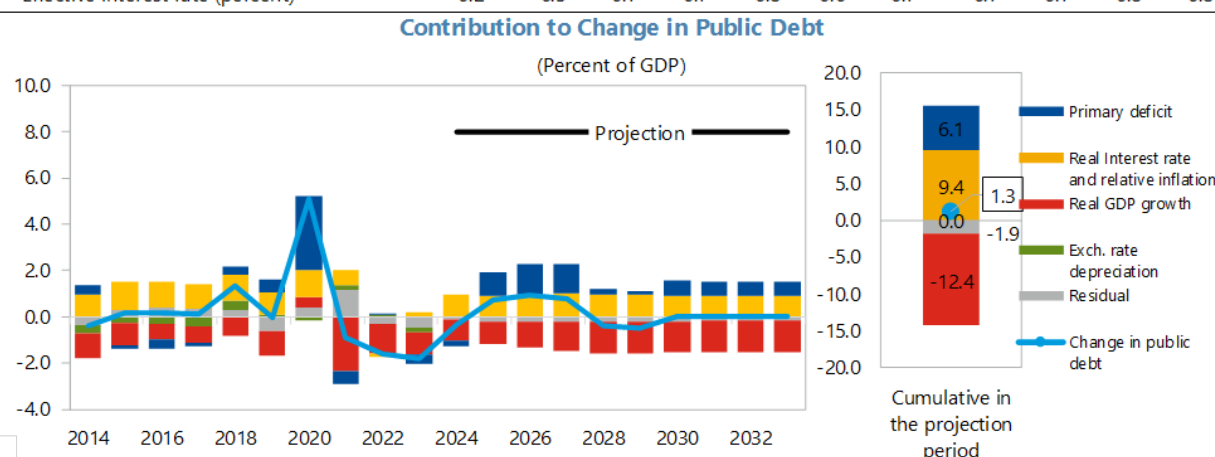
Commentary: The medium-term risks are estimated to be moderate by the probabilistic analysis and the GFN financeability module, with a medium-term index below the low risk threshold. The Debt Fanchart Module is moderate partly due to relatively low uncertainty in debt projections. The GFN module indicates moderate risks due to low GFN in the baseline and relatively stable bank claims on government. The stress tests show that GFN and debt remain on relatively low levels. The contingent stress scenario shows a one-time increase in the stock of debt from 27 to 36 percent of GDP, above recent historical levels and beyond the debt increase observed during the pandemic. However, debt levels in the stress scenarios remain below the median country.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
 2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
 3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
 4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
 5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Figure 5. Guatemala: Reform Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	27.2	26.8	27.6	28.5	29.3	29.0	28.5	28.5	28.5	28.5	28.5
Change in public debt	-1.8	-0.4	0.7	0.9	0.8	-0.4	-0.5	0.0	0.0	0.0	0.0
Contribution of identified flows	-1.4	-0.2	0.9	1.1	1.0	-0.2	-0.3	0.2	0.2	0.2	0.2
Primary deficit	-0.4	-0.2	1.0	1.3	1.3	0.2	0.2	0.6	0.6	0.6	0.6
Noninterest revenues	12.5	12.4	12.7	13.0	13.2	13.3	13.4	12.9	12.9	12.9	12.9
Noninterest expenditures	12.1	12.2	13.7	14.3	14.5	13.5	13.5	13.5	13.5	13.5	13.5
Automatic debt dynamics	-1.0	0.0	-0.1	-0.1	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Real interest rate and relative inflation	0.2	0.9	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Real interest rate	-0.1	0.8	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.8	0.8
Relative inflation	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-1.0	-0.9	-1.0	-1.1	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4
Real exchange rate	-0.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.5	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Gross financing needs	2.0	2.5	3.6	4.3	4.1	3.2	3.2	3.2	3.2	3.2	3.2
of which: debt service	2.4	2.7	2.6	3.0	2.8	2.9	3.0	2.6	2.6	2.6	2.6
Local currency	1.4	1.7	1.7	1.6	1.6	1.7	1.6	1.6	1.7	1.8	1.8
Foreign currency	1.0	1.0	0.9	1.4	1.2	1.3	1.4	0.9	0.9	0.9	0.8
Memo:											
Real GDP growth (percent)	3.5	3.5	3.8	4.2	4.6	4.8	5.0	5.0	5.0	5.0	5.0
Inflation (GDP deflator; percent)	6.6	3.3	3.8	3.7	3.8	3.8	3.9	3.9	3.9	3.9	3.9
Nominal GDP growth (percent)	10.4	6.9	7.7	8.1	8.5	8.8	9.1	9.1	9.1	9.1	9.1
Effective interest rate (percent)	6.2	6.5	6.7	6.7	6.8	6.6	6.7	6.7	6.7	6.8	6.8



Commentary: In 2024, debt is expected to decline with a primary surplus. Between 2025 and 2027, debt is expected to slightly increase to support the new authorities' spending agenda and in line with larger but prudent primary deficits. Debt is expected to stabilize in levels below 30 percent of GDP in the reform scenario.

Annex IV. External Debt Sustainability

Guatemala's external debt (sovereign and private) to GDP is low and resilient to standard DSA-shocks.

Under the baseline scenario, external debt as a share of GDP is projected to continue its downward trend, from 37.4 percent of GDP in 2013 to 23.4 percent of GDP in 2023; the exceptional circumstances around the pandemic led to a temporal increase in the ratio in 2020. This trend has been mainly driven by a decline in private bank debt—between 2013 and 2023, the external private bank debt ratio to GDP dropped from 8.2 percent of GDP to 5.8 percent of GDP, and the nonbank private sector debt fell from 19.3 percent of GDP to 8.7 percent of GDP. The official external debt ratio to GDP remained stable at 11-15 percent during this period.

The major downside risk to Guatemala's external debt is a large depreciation shock, which would hike the debt ratio to close to 30 percent of GDP in 2024 and fall afterward. A current account (excluding interest payments) shock would marginally increase the external debt to GDP ratio to values close to 23 percent of GDP by 2029, interrupting the external debt contraction projected in the baseline scenario.

Annex IV. Table 1. Guatemala: External Debt Sustainability Framework, 2019-2029

(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing non-interest current account 6/ -1.5
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029		
Baseline: External debt	31.7	32.1	29.9	25.4	23.4	21.4	20.5	19.5	18.8	18.1	17.5		
Change in external debt	-1.5	0.3	-2.2	-4.5	-2.0	-2.0	-1.0	-0.9	-0.7	-0.8	-0.6		
Identified external debt-creating flows (4+8+9)	-5.0	-6.3	-8.9	-4.8	-6.1	-4.4	-3.9	-3.5	-3.3	-2.6	-2.3		
Current account deficit, excluding interest payments	-3.6	-6.1	-3.1	-2.2	-4.2	-3.9	-3.3	-2.9	-2.5	-1.8	-1.4		
Deficit in balance of goods and services	10.3	8.4	14.0	16.5	15.1	15.5	15.8	16.0	16.0	16.4	16.6		
Exports	17.6	16.4	17.6	19.0	16.6	16.1	15.6	15.1	14.6	14.2	13.7		
Imports	27.9	24.8	31.6	35.5	31.6	31.6	31.4	31.1	30.6	30.5	30.4		
Net non-debt creating capital inflows (negative)	-1.0	-1.0	-3.5	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1		
Automatic debt dynamics 1/	-0.4	0.9	-2.3	-2.0	-1.1	0.3	0.3	0.3	0.3	0.3	0.2		
Contribution from nominal interest rate	1.3	1.1	0.9	0.9	1.1	1.1	1.0	1.0	1.0	0.9	0.9		
Contribution from real GDP growth	-1.3	0.6	-2.3	-1.1	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.6		
Contribution from price and exchange rate changes 2/	-0.4	-0.8	-0.9	-1.7	-1.3	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	3.5	6.6	6.7	0.4	4.2	2.5	2.9	2.6	2.6	1.8	1.8		
External debt-to-exports ratio (in percent)	180.1	196.2	169.3	133.9	141.2	133.5	131.2	129.3	129.0	127.6	127.3		
Gross external financing need (in billions of US dollars) 4	4.2	1.7	3.3	4.9	1.3	0.9	1.0	1.5	1.3	2.2	2.7		
in percent of GDP	5.5	2.2	3.8	5.1	1.2	10-Year	10-Year	0.8	0.8	1.1	1.0	1.5	1.7
Scenario with key variables at their historical averages 5/						21.4	20.6	19.4	18.1	16.2	14.2	-2.0	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Real GDP growth (in percent)	4.0	-1.8	8.0	4.2	3.5	3.6	2.4	3.5	3.6	3.7	3.8	3.8	
GDP deflator in US dollars (change in percent)	1.2	2.6	3.0	6.1	5.5	3.4	2.2	3.4	3.6	3.5	3.5	3.5	
Nominal external interest rate (in percent)	4.0	3.4	3.2	3.4	4.7	3.6	0.4	4.8	5.1	5.2	5.2	5.1	
Growth of exports (US dollar terms, in percent)	1.8	-6.5	19.9	18.9	-4.5	4.4	9.1	3.7	4.2	4.0	3.8	4.2	
Growth of imports (US dollar terms, in percent)	1.7	-10.5	41.9	24.1	-2.6	7.0	15.4	6.8	6.8	6.2	5.9	7.0	
Current account balance, excluding interest payments	3.6	6.1	3.1	2.2	4.2	2.4	2.3	3.9	3.3	2.9	2.5	1.8	
Net non-debt creating capital inflows	1.0	1.0	3.5	0.7	0.8	1.5	0.8	0.8	0.9	0.9	1.0	1.1	

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

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

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

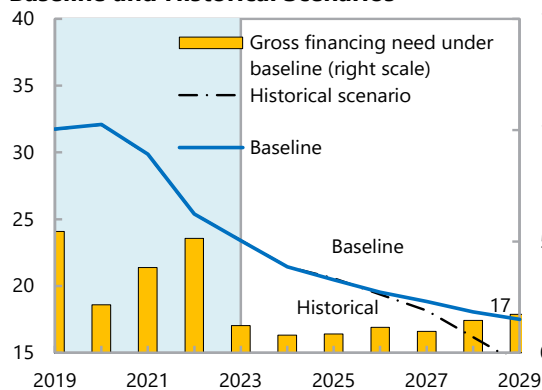
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

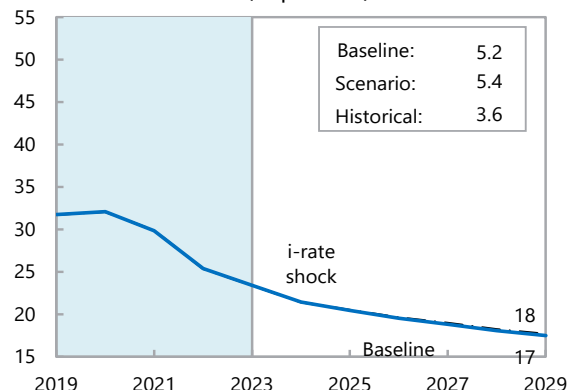
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV. Figure 1. Guatemala: External Debt Sustainability: Bound Tests ^{1/2/}
 (External debt in percent of GDP)

Baseline and Historical Scenarios

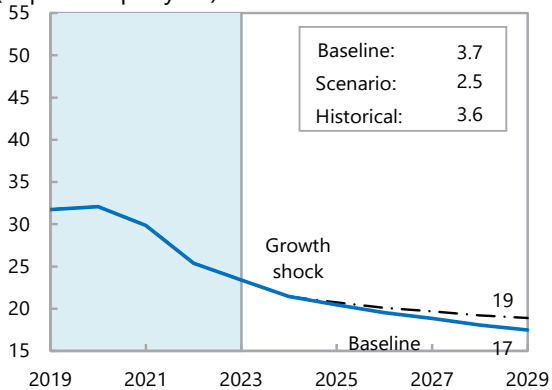


Interest Rate Shock (in percent)



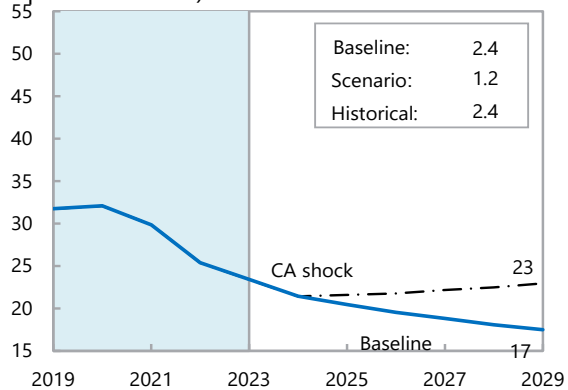
Growth Shock

(in percent per year)

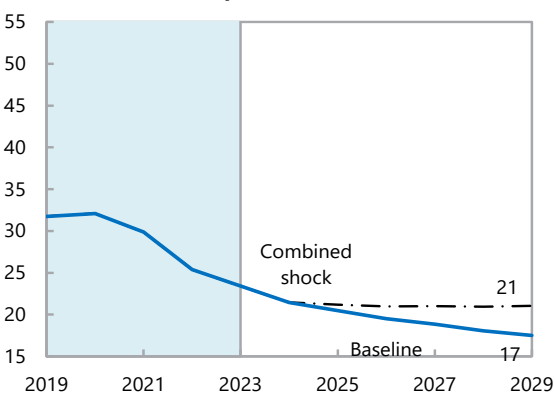


Non-interest Current Account Shock

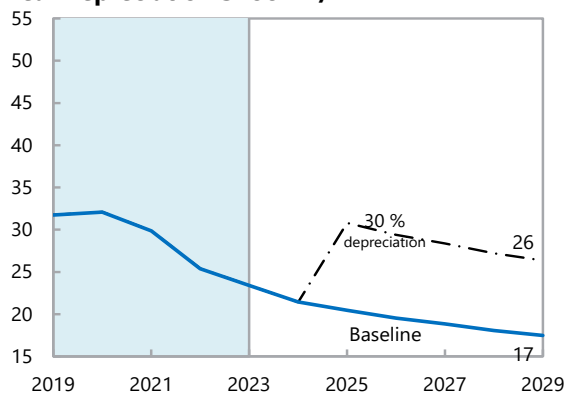
(in percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



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

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

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

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

4/ One-time real depreciation of 30 percent occurs in 2025.

Annex V. Table 1. Guatemala: Update on Implementation of Past Recommendations		
2023/24 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
Fiscal Policy		
Improve execution of social spending included in the 2023 budget, use the 2022 unspent cash balances to support the most vulnerable, reduce information gaps to better target support.	The authorities continued to provide social support to alleviate poverty and inflationary pressures by extending temporary and targeted subsidies and increasing social spending in 2022 and 2023.	The overall budget execution in 2023 increased to 97 percent (historical average of 93 percent). The authorities extended temporary and targeted support for the vulnerable affected by inflationary pressure until mid-2023.
Strengthen the social policy agenda, by enhancing targeting and reducing information gaps to enhance effectiveness.		The authorities have identified insufficiencies in malnutrition programs and data collection. They plan to expand social beneficiaries and improve the data registry.
Enhancing the infrastructure governance framework using PIMA/C-PIMA recommendations and further enhance the public finance management framework (PFM).		The authorities enhanced macroeconomic projections for fiscal policy in MT, fiscal risk analysis using the Fiscal Risks Toolkit and natural disaster risks. In addition, they made progress on compiling consolidated nonfinancial public sector statistics. The authorities are preparing a plan to incorporate PIMA/c-PIMA recommendations.
Further emphasis on policies that address long-standing social gaps.	In recent years, some programs have been expanded, such as the school meal program, which has increased daily per capita spending and coverage. The Ministry of Public Health's infrastructure has expanded in the last 3 years.	In education, the authorities plan to increase investment over the next 4 years to address low educational coverage and quality, focusing on the secondary education, facility expansion, and school material supply. In health, the authorities have been increasing investments toward universal, inclusive, and high-quality services, including strengthening healthcare centers and building specialized hospitals.

Annex V. Table 1. Guatemala: Update on Implementation of Past Recommendations (continued)

2023/24 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
Adoption of a comprehensive tax reform and addressing domestic VAT collection gaps among others.	Tax revenue is expected a gradual increase in the medium-term due to the measures that the SAT has been implementing in recent years.	No comprehensive tax reform has been implemented. The authorities focus on tax collection efforts (estimated tax gains in 2023 of 0.6 percent of GDP).
Medium-term fiscal framework to ensure alignment and consistency between the MT revenue, expenditure, and debt strategy. The publication and discussion at Congress should add accountability.	Work is underway to ensure better alignment. The administration is also developing medium-term fiscal and debt management frameworks to ensure good planning and effectiveness in line with the recommendations advanced in the FTE, PIMA/C-PIMA.	The authorities are working on 2025-2029 MTFF, which would incorporate projected increases in social and infrastructure spending.
Developing the borrowing strategy, completing the sovereign yield curve, consistency with the MT spending and revenue projections, plans to broaden the investor base, and the development of the secondary debt market.	The Debt Management Office (Crédito Público) is updating the medium-term debt management strategy.	No meaningful progress to date. In 2023, the authorities adopted an opportunistic approach to financing based on domestic and foreign market conditions.
Monetary Policy		
Forward-looking and data-dependent monetary policy should be carefully calibrated to ensure that inflation expectations remain firmly anchored while guarding against downside risks. enhancing the IT framework (institutional updates, modernization of the reserves requirement and OMOs framework, and strengthening the modeling capacity for monetary policy forecasting) to improve transmission and information available.	The Central Bank has continued to closely monitor the behavior of inflation, its forecasts, and inflationary expectations, as well as the evolution of other relevant macroeconomic variables, in order to adopt any measure to assure convergence of inflation to the goal in the relevant monetary horizon (24 months).	With a weak interbank market, Banguat continues to play a key (albeit expensive) role in the market. The authorities are assessing how to improve liquidity forecasting for banks using MCM last TA as background.

Annex V. Table 1. Guatemala: Update on Implementation of Past Recommendations (continued)

2023/24 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
Foreign Exchange Policy		
<p>Gradual flexibilization of the FX. The pace should go hand-in-hand with a number of technical reforms and the development of markets (hedging and FX), and medium-term reforms (e.g., IFRS-accounting)</p>	<p>Guatemala has a flexible exchange rate regime, which is consistent with the Inflation Target framework.</p> <p>In that context, the Central Bank's participation in the foreign exchange market has the purpose of moderating exchange rate volatility without affecting its trend. This participation is rule-based, which is symmetrical, transparent, and well known by all the market's participants. Additionally, the fluctuation margin has been widening over the last years.</p> <p>Given market conditions, the Central Bank has also implemented a reserve accumulation mechanism in recent years, which has played an important role in neutralizing the excess supply of foreign currency in the FX market, which comes from extraordinary remittances flows.</p>	<p>Little progress to date. Since January 2024, the FX participation rule band was further widened to 0.95 percent, a step towards a more flexible exchange rate.</p>
<p>Adopt a strategy to recapitalize Banguat.</p>	<p>The Central Bank is still making efforts to get the restitution of net deficiencies before the Ministry of Finance and Congress of the Republic.</p>	<p>Little progress to date.</p>

Annex V. Table 1. Guatemala: Update on Implementation of Past Recommendations (concluded)		
2023/24 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
The communication strategy for monetary policy decisions needs to be realigned with the institutional reforms at Banguat. The reform agenda needs to come with a communication strategy too.	The Central Bank's communication strategy continues to be guided by the objective of building up and maintaining the monetary authority's credibility.	Little progress to date.
Financial Sector		
Focus on the AML-CFT law to be aligned to best international practice and approved by congress as soon as possible.	The authorities are making progress on the revision of the draft AML/CFT law to ensure that the draft is finalized and submitted to Congress and approved in a timely manner.	The AML/CFT Law is stalled in Congress and updates are needed. The new administration is committed to update the AML/CFT law to international standards, re-drafting and getting it approved.
Structural Reforms		
Adopt measures to fasten the implementation of infrastructure projects. Adoption of a results-based framework linking initiatives to outcomes. Measures to reduce informality.		The authorities are preparing a plan to incorporate PIMA/C-PIMA and FTE recommendations.
Governance and corruption		
Adoption of a plan that is aligned to the recommendations of a future 2023 Governance diagnostic mission.		The National Commission Against Corruption (CNC), replacing former President Giammattei's Presidential Commission, was launched in late February 2024 with civil society and indigenous groups as participants. There was no Governance diagnostic mission in 2023.

Annex VI. Changes to the Consumer Price Index

1. In 2024 Guatemala switched to a new 2024 CPI index, with the reference period of December 2023 (replacing December 2010). Weights in the new index, which has been published since February 2024, were calculated based on the 2022-2023 National Household Income and Expenditure Survey (ENIGH), conducted by the National Institute of Statistics (INE) in Guatemala. The 2024 CPI index will be replaced in early 2025 with an updated one, with an average of 2024 as a reference period and weights adjusted using information collected throughout 2024.

2. The new CPI includes significant methodological changes and an updated composition of the basket of goods and services. The index expanded the number of product prices collected and frequency of collection. It covers 437 products for over 930 goods and services (compared to 441 goods and services in the 2010 CPI basket), grouped into 13 divisions (against 12 divisions in the 2010 CPI basket) for six levels.

Category	December 2010	December 2023
Food and nonalcoholic beverages	28.8	32.3
Alcoholic beverages and tobacco	0.3	2.0
Clothing and footwear	7.4	6.1
Housing, rent, water, electricity & gas	12.6	11.2
Household furnishings and equipment	5.4	6.1
Health	4.2	7.1
Transportation	10.4	9.9
Communication	5.2	5.7
Recreation and culture	5.6	2.8
Restaurants and hotels	9.2	2.3
Education	3.7	7.6
Insurance and Financial Services	-	0.4
Personal Care, Social Protection and Other Goods and Services	-	6.6
Miscellaneous & other goods and services	7.2	

Source: INE Guatemala; IMF Staff calculation.

3. The income and expenditure survey is expected to be updated in the near future. Given the period covered, the 2022-2023 survey captured consumer preferences which were impacted by the COVID-19 pandemic and have an impact on weights in the new consumption basket. For example, the weight of food in the consumption basket increased to 32.3 percent (compared to 28.8 percent), so did the Guatemala City representation in the CPI by regions. The new weight distribution and the expansion of the sample and quotes should reduce the monthly price volatility, in the past driven by a handful of food prices. Following the introduction of the 2024 CPI index, INE has been working on the weight effect study to judge the impact of changes of weights on inflation.

Annex VII. Guatemala's Balance Sheet Exposures

1. **The Balance Sheet Approach (BSA) depicts the borrowing and lending position of the different sectors of the economy.** Developed by the IMF, the tool summarizes intersectoral exposures. Positive values (green bubbles) denote net lending positions, while negative values (red bubbles) denote net borrowing positions. Values are expressed as a percentage of GDP, and the diameter of the nodes and the thickness of the arrows show the relative size of the imbalances and exposures, respectively.

2. **Compared with 2022, intersectoral exposures declined in 2023, mainly driven by lower indebtedness from non-financial corporations and government (Figure 2).** Households and the rest of the world remain the main net lenders of the economy (27.2 percent and 19.1 percent in 2023, respectively), with non-financial corporations and government being the net borrowers (27.2 percent and 16.9 percent of GDP, respectively). Intersectoral exposures have decreased in 2023 (Figure 1a and Figure 1b), mainly due to a reduction in foreign currency assets, which declined from 92 percent of GDP in 2022 to 87 percent of GDP in 2023, while domestic currency exposures increased from 120 percent of GDP in 2022 to 122 percent of GDP in 2023.

Annex VII. Figure 1a. Guatemala: Balance Sheet Approach Matrix (2022)

Balance Sheet Approach Matrix Guatemala 2022 - Percent of GDP (736 Billions)																
	Government		Central Bank		Other Depository Corporations		Other Financial Corporations		Nonfinancial Corporations		Households		External		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Government	Source: CB		Source: CB		Source: ODCs		Source: OFCs		(GFS/MFS estimation)		(GFS/MFS estimation)		Source: IIP			
Total			6	6	13	6	1	0	...	...	-	-	10	1	30	12
In domestic currency			6	5	12	6	1	0	...	...	-	-	-	-	18	11
In foreign currency			0	0	2	0	0	0	-	-	-	-	10	1	12	1
Central Bank	Source: CB		Source: CB		Source: CB		Source: CB		Source: CB		Source: CB		Source: CB			
Total	6	6			10	1	1	0	0	-	10	-	1	22	28	29
In domestic currency	5	6			10	1	1	0	0	-	10	-	0	0	27	7
In foreign currency	0	0			0	-	0	-	-	-	-	-	1	22	1	22
Oth. Dep. Corporations	Source: ODCs		Source: CB		Source: ODCs		Source: ODCs		Source: ODCs		Source: ODCs		Source: ODCs			
Total	6	13	1	10	3	3	2	4	17	17	38	19	7	5	73	71
In domestic currency	6	12	1	10	3	3	1	3	13	9	33	18	0	0	56	55
In foreign currency	0	2	-	0	1	0	0	0	4	8	4	1	7	4	17	16
Oth. Fin Corporations	Source: OFCs		Source: CB		Source: ODCs		Source: OFCs		Source: OFCs		Source: OFCs		Source: OFCs			
Total	0	1	0	1	4	2	0	0	0	0	1	0	0	0	6	4
In domestic currency	0	1	0	1	3	1	0	0	0	0	1	0	0	0	5	3
In foreign currency	0	0	-	0	0	0	0	0	0	0	0	0	0	0	1	1
Nonfinancial Corporations	(GFS/MFS estimation)		Source: CB		Source: ODCs		Source: OFCs		(GFS/MFS estimation)		(No sectoral data)		Source: IIP			
Total	...	...	-	0	17	17	0	0	...	...	(No sectoral data)	(No sectoral data)	30	15	47	32
In domestic currency	...	...	-	0	9	13	0	0	...	...	(No sectoral data)	(No sectoral data)	-	-	9	13
In foreign currency	-	-	-	-	8	4	0	0	-	-	(No sectoral data)	(No sectoral data)	30	15	38	19
Households	(GFS/MFS estimation)		Source: CB		Source: ODCs		Source: OFCs		(No sectoral data)		(No sectoral data)		Source: IIP			
Total	-	-	-	10	19	38	0	1	(No sectoral data)	(No sectoral data)	(No sectoral data)	(No sectoral data)	...	...	20	49
In domestic currency	-	-	-	10	18	33	0	1	(No sectoral data)	(No sectoral data)	(No sectoral data)	(No sectoral data)	...	...	18	44
In foreign currency	-	-	-	-	1	4	0	0	(No sectoral data)	(No sectoral data)	(No sectoral data)	(No sectoral data)	...	...	1	5
External	Source: IIP		Source: CB		Source: ODCs		Source: OFCs		Source: IIP		Source: IIP		Source: IIP			
Total	1	10	22	1	5	7	0	0	15	30	...	...	...	...	42	48
In domestic currency	-	-	0	1	0	0	0	0	-	-	...	...	...	...	0	1
In foreign currency	1	10	22	1	4	7	0	0	15	30	...	...	...	...	42	48
Total	Source: IIP		Source: CB		Source: ODCs		Source: OFCs		Source: IIP		Source: IIP		Source: IIP			
Total	12	30	29	28	71	72	4	5	32	47	49	20	48	42	214	214
In domestic currency	11	18	7	27	55	56	3	4	13	9	44	18	1	0	120	120
In foreign currency	1	12	22	1	16	16	1	1	19	38	5	1	48	42	92	92

Source: IMF STA and Staff elaborations

Annex VII. Figure 1b. Guatemala: Balance Sheet Approach Matrix (2023)

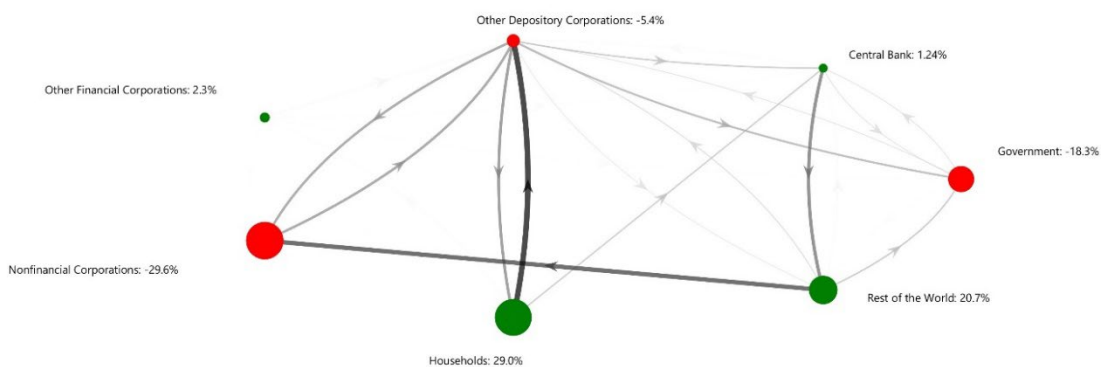
**Balance Sheet Approach Matrix
Guatemala
2023 - Percent of GDP (799 Billions)**

	Government		Central Bank		Other Depository Corporations		Other Financial Corporations		Nonfinancial Corporations		Households		External		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Government			Source: CB		Source: ODCs		Source: OFCs		(GFS/MFS estimation)		(GFS/MFS estimation)		Source: IIP			
Total			5	5	12	7	1	0	...	...	-	-	11	0	29	12
In domestic currency			5	5	10	7	1	0	...	...	-	-	-	-	16	12
In foreign currency			0	0	2	0	0	0	-	-	-	-	11	0	13	0
Central Bank	Source: CB				Source: CB		Source: CB		Source: CB		Source: CB		Source: CB			
Total	5	5			9	1	1	0	0	-	10	-	1	22	27	28
In domestic currency	5	5			9	1	1	0	0	-	10	-	0	0	26	7
In foreign currency	0	0			0	-	0	-	-	-	-	-	1	22	1	22
Oth. Dep. Corporations	Source: ODCs		Source: CB		Source: ODCs		Source: ODCs		Source: ODCs		Source: ODCs		Source: ODCs			
Total	7	12	1	9	4	3	1	4	16	16	37	21	6	4	72	71
In domestic currency	7	10	1	9	3	3	1	4	12	9	33	20	0	0	57	56
In foreign currency	0	2	-	0	1	0	0	0	4	7	4	1	6	4	15	15
Oth. Fin Corporations	Source: OFCs		Source: CB		Source: ODCs		Source: OFCs		Source: OFCs		Source: OFCs		Source: OFCs			
Total	0	1	0	1	4	1	0	0	0	0	1	0	0	0	6	4
In domestic currency	0	1	0	1	4	1	0	0	0	0	1	0	0	0	5	3
In foreign currency	0	0	-	0	0	0	0	0	0	0	0	0	0	0	1	1
Nonfinancial Corporations	(GFS/MFS estimation)		Source: CB		Source: ODCs		Source: OFCs				(No sectoral data)		Source: IIP			
Total	...	...	-	0	16	16	0	0					27	17	43	33
In domestic currency	...	...	-	0	9	12	0	0					-	-	9	12
In foreign currency	-	-	-	-	7	4	0	0					27	17	34	21
Households	(GFS/MFS estimation)		Source: CB		Source: ODCs		Source: OFCs		(No sectoral data)				Source: IIP			
Total	-	-	-	10	21	37	0	1					...	...	22	49
In domestic currency	-	-	-	10	20	33	0	1					...	...	20	44
In foreign currency	-	-	-	-	1	4	0	0					...	...	1	4
External	Source: IIP		Source: CB		Source: ODCs		Source: OFCs		Source: IIP		Source: IIP					
Total	0	11	22	1	4	6	0	0	17	27	...	...	...	...	43	45
In domestic currency	-	-	0	0	0	0	0	0	-	-	...	...	...	...	0	1
In foreign currency	0	11	22	1	4	6	0	0	17	27	...	...	...	42	45	
Total	12	29	28	27	71	72	4	6	33	43	49	22	45	43	209	209
In domestic currency	12	16	7	26	56	57	3	5	12	9	44	20	1	0	122	122
In foreign currency	0	13	22	1	15	15	1	1	21	34	4	1	45	42	87	87

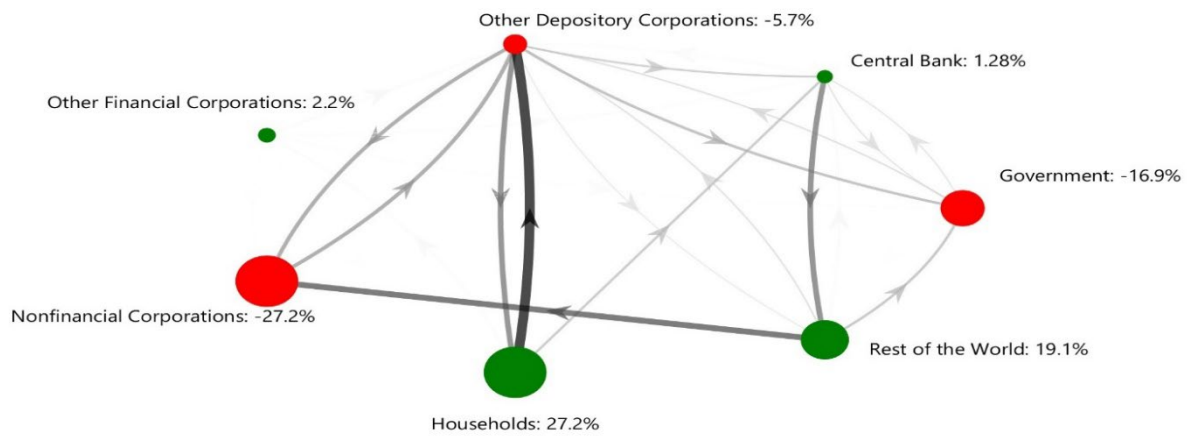
Source: IMF STA and Staff elaborations

Annex VII. Figure 2. Guatemala: Balance Sheet Approach Net Positions (Percent of GDP)

In 2022, non-financial corporations and government were the largest net borrower, with households and rest of the world being the largest lenders...



**Annex VII. Figure 2. Guatemala: Balance Sheet Approach Net Positions (concluded)
(Percent of GDP)**



Source: IMF STA and Staff elaborations

Note: red nodes represent net borrowers and green nodes net lenders. The diameter of nodes and thickness of arrows show the relative size of imbalances and exposures, respectively. Values expressed as percent of GDP.

Annex VIII. Interamerican Development Bank (IADB)—Financed Strategic Investments

1. **Despite its stable macroeconomy and sound public finances, Guatemala still has much to do to close the social and productive gaps.** The gaps are largely the consequence due to of the lack of more strategic investments in productive and social infrastructure. Addressing the strategic investment gaps is critical for any country to sustain economic growth and improve the quality of life for its population. In addition, robust and well-planned infrastructure enhances the country's competitiveness, helping to attracting more investment and creating jobs.
2. **Guatemala's investment figures from the most recent data highlight point to the existing gap with the Latin America and Caribbean (LAC) region.** In the decade from 2013 to 2023, public investment remained below low (2.5 percent in IMF PIMA evaluation), while private investment rose from 13.2 percent to 14.8 percent of GDP in the same period. These levels are 4 percentage points below the expected average for the LAC region. The lack of investment also translates into competitiveness gaps, as shown in the World Economic Forum's Competitiveness Report, where Guatemala ranked very low in the 2019 Global Competitiveness Index, falling two positions compared relative to the 2018 ranking.
3. **Social spending statistics in Guatemala also reveal a significant regional gap compared to the region.** According to ECLAC figures, in 2021, while the average social spending in Latin America and the Caribbean (LAC) was 13 percent of GDP in 2021, in Guatemala it was at it was 5.5 percent (IMF figure) in Guatemala. According to the official figures, social spending reached 7.6 percent of GDP in 2023, slightly higher than the level reached in 2022 (7.2 percent) and during the pandemic (7.0 percent). However, public spending is primarily allocated to current expenditures (82 percent of the total), such as that is, payroll and services, leaving a much smaller percentage for capital expenditure (18 percent of total public spending), where the state prioritizes social and productive investments.
4. **In recent years, the IADB Group has financed some of the strategic investments in Guatemala that the country needs to advance on in closing these social and productive gaps.** These projects are financed and executed with both the public and private sectors. Among the strategic investments currently financed by the IADB, three major areas stand out: road infrastructure, rural electrification, and water and sanitation infrastructure in the Motagua River basin.
5. **Strategic Investments in Roads.** Guatemala has 151 meters of road per square kilometer, of which only 67 meters are paved. Guatemala ranks third in the Central American region with the lowest rate of paved roads, surpassed only by Honduras, and Nicaragua (each with 30 meters)¹.

¹ Ministry of Communications, Infrastructure and Housing – General Directorate of Roads. Road Development Plan 2018.

6. To help close this road gap, the IADB is financing projects on the country's main logistics corridor and in rural areas. These include:

- (i) financing the widening of the CA-9 North corridor to two lanes in the "El Rancho—Teculután" branch (35 km) and the construction of a 4.3 km bypass in El Rancho. This project, valued at U.S.\$ 175 million, subject to legislative approval, will provide citizens with a 30 to 50 percent reduction in travel time, as well as a 35 percent reduction in average vehicle operating costs for trucks and freight, and a 15 percent reduction in cars' operating costs.
- (ii) modernizing the logistic corridor to Puerto Barrios - a project under design, that will extend the dual carriageway expansion of the CA-9 to Mayuelas (an additional 45 km). The expansion of this road is crucial for the country, both for the economy and for the population. as it is the main corridor for foreign trade, its expansion is of fundamental importance.
- (iii) implementing in rural areas the Road Infrastructure Development Program, which includes the construction of six projects: five road sections in the departments of Chimaltenango, San Marcos, Huehuetenango, and Baja Verapaz and the Chitomax Bridge in the latter department. This represents a total of 104 km of roads and an investment of U.S.\$ 150 million. When completed, the program is expected to reduce travel time by 45 percent, benefiting 200 thousand inhabitants of these four departments.

Strategic Investments in Rural Electrification

7. There is also a significant backlog in access to electricity, particularly in rural areas. In the case of Guatemala, the national coverage is 90 percent in Guatemala compared to 97 percent in the LAC region. However, within Guatemala, the differences in coverage between urban and rural areas are even more significant, 96 percent versus about 78 percent, respectively. To help close these gaps, the IADB designed the U.S.\$ 120 million Rural Electrification Program, which is awaiting legislative ratification. If approved, some 2,964 km of new distribution lines will be installed, benefitting 40,000 new rural households.

8. However, this level of investment is not sufficient to close the rural electrification gap. Therefore, in addition to increasing the number of distribution lines, a new operation is currently being designed to cover other forms of energy generation suitable for more remote rural areas, where traditional distribution lines are difficult to access, would also be considered.

Strategic Investments in Water and Sanitation Infrastructure in the Motagua River Basin

9. The Motagua River basin is the country's main basin, covering 14 departments, 96 municipalities, and more than 5 million inhabitants, including the metropolitan area of Guatemala City. Currently, it faces a serious pollution problem, mainly related to inadequate solid waste management and the wastewater discharge. The IADB-financed project is a first stage of

intervention in the search for solutions to this serious pollution problem, which affects not only Guatemala but also Honduras.

10. In the first stage, a first phase of the sanitation system will be built for the metropolitan area of Guatemala City. In addition, there will be three comprehensive solid waste management systems that will include the development of ecoparks, transfer stations, technical closure of landfills, strengthening of transportation, sanitary landfills, composting, and work with informal recyclers.

11. There is an opportunity for Guatemala to leverage on its low debt levels and the new government's agenda. The country's current low debt level, one of the lowest in LAC, provides sufficient room for a more ambitious investment policy, while preserving debt sustainability. There is room to further advancing with several programs financed by multilateral organizations, and to begin laying the groundwork for the development of key infrastructure in the country, which could put Guatemala in a favorable position to better exploit the strategic advantages of its geographic location, as well as the demographic dividend it is currently experiencing – about 30 percent of the working-age population is between 15 and 30 years old.

Annex IX. Data Issues

Annex IX. Table 1. Guatemala: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	A		
Granularity 3/	B		B	B	B		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	A	B	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Data quality and timeliness is broadly adequate for surveillance. However, some data and information shortcomings exist, including: labor market data, producer price index and BoP and the coverage of general government limited to the central government but with ongoing work to cover the nonfinancial public sector. In addition, the base year for the GDP is outdated (2013), but the authorities plan to rebase it in 2025.</p>							

Annex IX. Table 1. Guatemala: Data Adequacy Assessment for Surveillance (concluded)

Changes since the last Article IV consultation. New 2024 CPI index was published in 2024 (covering data since January 2024), with December- 2024 as the reference period (replacing December 2010). Weights in the new index were calculated based on the 2022-2023 National Household Income and Expenditure Survey (ENIGH). The CPI index will be updated in early 2025, with an average of 2024 as a reference period and updated weights. The authorities are yet to prepare and publish the weight effect study to judge the impact of changes of basket weights on inflation. The authorities have made progress with the GFSM data compilation to expand the coverage beyond the central government; they have so far published the historical flow reports (2013-2023) and continue working on the balance sheets. Banguat and the National Institute of Statistics (INE) signed the MoU in late 2023 with the timeline for the publication of timely labor markets data. The first quarterly report, covering data for October-December 2024, is expected to be published in early 2025.

Corrective actions and capacity development priorities. During the 2024 Article IV staff visit and mission, staff offered the possibility of a Fund's diagnostic mission to further strengthen the CPI methodology.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff do not use data different from official statistics.

Other data gaps. Further progress with the authorities' implementation of data enhancements and coverage, will be beneficial for staff analysis.

Annex IX. Table 2. Guatemala: Data Standards Initiatives

Guatemala participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its [National Summary Data Page](#) since November 2020.

Annex IX. Table 3. Guatemala: Common Indicators Required for Surveillance

As of July 8, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁵	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Guatemala ⁸	Expected Timeliness ^{6,7}	Guatemala ⁸
Exchange Rates	8-Jul-24	8-Jul-24	D	D	D	M	...	30D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	4-Jul-24	5-Jul-24	D	D	M	M	1M	30D
Reserve/Base Money	27-Jun-24	4-Jul-24	W	W	M	M	2M	30D
Broad Money	27-Jun-24	4-Jul-24	W	W	M	M	1Q	30D
Central Bank Balance Sheet	May-24	Jun-24	M	M	M	M	2M	30D
Consolidated Balance Sheet of the Banking System	May-24	Jun-24	M	M	M	M	1Q	30D
Interest Rates ²	4-Jul-24	5-Jul-24	W	W	M	M	...	10D
Consumer Price Index	Jun-24	8-Jul-24	M	M	M	M	2M	2W
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴					A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	May-24	Jun-24	M	M	Q	M	1Q	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	May-24	Jun-24	M	M	Q	...	2Q	...
External Current Account Balance	2023	Apr-24	Q	Q	Q	Q	1Q	100D
Exports and Imports of Goods and Services	May-24	10-Jun-24	M	M	M	M	12W	45D
GDP/GNP	2023	Apr-24	Q	Q	Q	Q	1Q	100D
Gross External Debt	2023	Apr-24	Q	Q	Q	...	2Q	...
International Investment Position	2023	Apr-24	A	A	A	Q	3Q	100D

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex X. Capacity Development

This annex presents the Capacity Development (CD) priorities of Guatemala under the technical assistance program provided by the IMF. Key priorities include mobilizing revenues, enhancing public financial management, strengthening monetary policy and central bank operations, financial supervision, financial integrity and data collection and compilation.

1. The main CD objectives focus on consolidating past achievements and making further progress on macro-critical reform areas. Key CD workstreams are:

- **Revenue administration.** This workstream centers on tax administration diagnostic assessment, strengthening compliance and enhancing tax revenue management.
- **Public Financial Management.** This workstream centers on strengthening the medium-term fiscal framework with a focus on increasing efficiency, transparency, accountability, prioritizing public spending while maintaining fiscal sustainability. It includes among others Public Investment Management Assessment (PIMA) with Climate module (C-PIMA), digital PFM modernization, and fiscal impact of the risks of the financial sector and risks of natural disasters.
- **Central Bank Operations and Monetary and Macprudential Policies.** This workstream centers on enhancing the inflation targeting framework through macroeconomic model development and liquidity forecasting.
- **Financial Supervision and Regulation.** This workstream centers on the tailored implementation of the Basel standards (capital buffers and liquidity buffers), supervisory and regulatory framework on use of Cloud services and cybersecurity.
- **Financial Integrity.** This workstream centers on strengthening the overall AML/CFT regime by developing and implementing a sound and effective risk-based approach to AML/CFT supervision. It also includes providing assistance and recommendations to further reform and strengthen the legal and regulatory framework in line with the Financial Action Task Force (FATF) international standard.
- **Governance Finance and Real Sector Statistics.** This workstream centers on compilation and consolidation of public sector balances.

Annex X. Table 1. Guatemala: IMF Capacity Development Missions (January 2021 – July 2024) as of June 13, 2024		
Workstream	Provider	Date
Revenue Administration and Customs		
Strengthening tax revenue management	CAPTAC-DR	July 2024
Tax Administration Diagnostic Assessment Tool (TADAT)	CAPTAC-DR	May-Jun 2024
Adapting the new customs clearance model to sea cargo operations	CAPTAC-DR	April-May 2024
Strengthen Compliance Risk Management	FAD	March 2024
Enhance Tax Revenue Management	FAD	November 2023
Dashboard on segmentation of operators based on risk analysis	CAPTAC-DR	September 2023
Expanding the current account of cargo for special regimes	CAPTAC-DR	August-September 2023
Strengthen Tax Revenue Management	FAD	Jun 2023; July-August 2023
Risk Analysis Data Assessment	CAPTAC-DR	Jun 2023
Strengthening Sectorial Post Clearance Audit	CAPTAC-DR	Jun 2023
Improving risk analysis IT system	FAD	April 2023
Customs single account of cargo for special procedures	FAD	April 2023
Customs Anti-fraud strategy – Post Clearance Audit	FAD	March 2023
Air cargo process improvement	FAD	March-April 2023
Strengthen Tax Compliance Obligations	CAPTAC-DR	February 2023
Sea cargo process modeling and digitalization of customs processes	CAPTAC-DR	November 2022
Enhance Tax Compliance Obligations	CAPTAC-DR	July 2022
Air Cargo process improvement	CAPTAC-DR/FAD	December 2021
Document systems entry point & participants guide	FAD	November 2021
Trade operators' registry for special procedures	CAPTAC-DR/FAD	October 2021
Customs Anti-fraud strategy	CAPTAC-DR/FAD	October 2021
Strengthen Tax Refund Procedures	FAD	September 2021
Customs Anti-fraud strategy	CAPTAC-DR/FAD	August 2021
Definition of a Customs Digitalization action plan (Various missions)	CAPTAC-DR/FAD	March-May 2021
Implementing a new model for controlling special procedures operations	CAPTAC-DR	March 2021

Annex X. Table 1. Guatemala: IMF Capacity Development Missions (January 2021 – July 2024) as of June 13, 2024 (continued)		
Post clearance audit program	CAPTAC-DR	February 2021
Public Financial Management		
Digital PFM modernization	FAD	July 2024
Budget-Improvement in sensitivity analysis for macro fiscal projections medium term	FAD	March 2024
Public Investment Management Assessment (PIMA) with Climate module (C-PIMA)	FAD	May-June 2023
Fiscal Impact of the risks of the financial sector and risks of natural disasters	FAD	March 2023
Budget - Macroeconomic forecasting	FAD	March 2023
Budget - Financial programming model	FAD	February-March 2023
Fiscal Transparency Evaluation (FTE) Update	FAD	September 2022
Hackathon event (various topic)	FAD	July 2022
Fiscal Sustainability Model	FAD	January 2022
Budget - Economic Forecasts	CAPTAC-DR	March 2021
Treasury	CAPTAC-DR	March 2021
Budget - Medium Term Fiscal Framework	CAPTAC-DR	February 2021
Financial Integrity		
Strengthening AML/CFT Risk-based Supervision/Legal and Regulatory Framework	LEG	June 2021 – February 2024
Monetary Policy and Central Bank Operations		
Macroeconomic Model Development	CAPTAC-DR	August-September 2023; November-December 2023; January 2024
Monetary Policy Implementation Framework Evaluation	CAPTAC-DR	August 2022
Monetary Policy Modeling, Forecasting & Communication	MCM	September 2021
Profitability and Capital Adequacy Assessment	MCM/CAPTAC-DR	August 2021
Financial Supervision and Regulation		
Basel Standards – Capital Buffers	CAPTAC-DR	February 2024
Basel Standards – Liquidity	CAPTAC-DR	November 2023
Supervisory and regulatory framework on use of Cloud services	CAPTAC-DR	April 2023

Annex X. Table 1. Guatemala: IMF Capacity Development Missions (January 2021–July 2024) as of June 13, 2024 (concluded)		
Cybersecurity	CAPTAC-DR	December 2022
Retail Credit Risk Diagnosis and Regulation	CAPTAC-DR	November 2022
Bank's recovery plan	MCM	July 2022
Training on e-money	MCM	December 2021
Real and Government Statistics		
PSFC Compilation and Consolidation	STA	November 2023
CPI – Update CPI basket and weights	STA	July 2023
GFS/PSDS: Compilation Public Sector Balance and Financial Liabilities	STA	Jun 2023
Government Finance Statistics and Public Sector Debt Statistics	STA	September 2022
Price Statistics	STA	June 2022
Government Finance Statistics and Public Sector Debt Statistics	STA	May 2022
Public Sector Debt Statistics	STA	October 2021
Government Finance Statistics and Public Sector Debt Statistics	STA	June 2021
National Accounts	CAPTAC-DR	March 2021
Government Finance Statistics and Public Sector Debt Statistics	CAPTAC-DR	February 2021
Data Governance	CAPTAC-DR	February 2021

Annex X. Table 2. Guatemala: IMF Capacity Development Planned Missions in FY 2025
(As of May 2024)

Workstream	Objective
Revenue Administration, Customs and Tax Policy	
Customs and Revenue	Strengthen risk management. Improvement of taxpayer services for voluntary compliance. Strengthen Revenue Management. Strengthened revenue administration management and governance arrangements. Improved customs administration functions.
Public Financial Management and Budget Planning	
Fiscal Risks Management	Strengthened identification, monitoring, and management of fiscal risks.
Coverage and Quality of Fiscal Reporting	Improved coverage and quality of fiscal reporting.
Assets and Liabilities Management	Improved asset and liability management.
Public Debt Management	Improved medium-term public debt management.
Monetary and Macprudential Policies and Central Bank Operations	
Monetary and Macprudential Policies and Inflation Targeting	Improve the analytical capacity and monetary policy decisions through enhanced modeling and forecasting tools.
Central Bank Monetary Policy Operations and Balance Sheet	Strengthen the implementation of monetary policy under the existing monetary regime.
Financial Supervision and Regulation	
Cybersecurity	Develop/strengthen cybersecurity regulations and supervisory frameworks
Regulation and supervision	Develop/strengthen banks' regulation and supervision frameworks
Financial Integrity	
AML/CFT Legal and Regulatory Framework	Provide assistance and recommendations to strengthen/reform legal and regulatory AML/CFT Framework in line with FATF standard.
Real and Government Statistics	
Real Sector – National Accounts (NAR)	Strengthen compilation and dissemination of NAS - Comprehensive updates and rebasing – NAR.
Strengthen compilation and dissemination of Government Finance Statistics (PSDS) - PSD	Compilation and dissemination. Reinforce legal framework. Improve periodicity, timeliness, and consistency.



GUATEMALA

July 8, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department

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FUND RELATIONS	2
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FUND RELATIONS

(As of June 30, 2024)

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

General Resources Account:	SDR Million	Percentage of Quota
Quota	428.6	100.00
Fund holding of currency	373.97	87.25
Reserve Tranche Position	54.69	12.76
SDR Department:	SDR Million	Percentage of Allocation
Net cumulative allocation	611.70	100.00
Holdings	529.22	86.52

Outstanding Purchases and Loans: None

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	04/22/2009	10/21/2010	630.60	0.00
Stand-by	06/18/2003	03/15/2004	84.00	0.00
Stand-by	04/01/2002	03/31/2003	84.00	0.00

Outright Loans:¹

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	06/10/2020	05/21/2021	428.60	0.00

¹ Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

Projected Payments to Fund²

(SDR Million; based on existing use of resources and present holdings of SDRs, as of June 30, 2024):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	1.67	3.31	3.32	3.32	3.32
Total	1.67	3.31	3.32	3.32	3.32

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

Exchange Rate Arrangement. Guatemala has a de jure floating exchange rate arrangement, and its de facto exchange rate arrangement is classified as “stabilized. Since March 1994, Guatemala has had an arrangement based on an interbank foreign exchange market in which authorized financial institutions buy and sell foreign exchange at market-determined rates. Financial institutions that are authorized to operate in the foreign exchange market include commercial banks, financial companies, and exchange houses. Guatemala has a de jure floating exchange rate arrangement, although the Bank of Guatemala (Banguat) may intervene to limit volatility in the nominal exchange rate without affecting its trend. Banguat intervenes through foreign exchange auctions based on a symmetric and public rule that limits daily volatility (the participation rule) as well as a rule to accumulate reserves (the reserves accumulation rule). Effective January 1st, 2022, the fluctuation margin (added to or subtracted from the five-day moving average of the exchange rate) that determines whether Banguat may intervene was kept at 0.90 percent and the maximum daily amount for interventions was increased to US\$ 100 million (previously US\$50 million). Since January 2024, the FX participation rule band was further widened to 0.95 percent. Banguat may also intervene outside the scope of this rule whenever the nominal exchange rate shows unusual volatility. In 2023 despite a large accumulation of NIR, for the first time since 2012, FX intervention closed in net sales. As of March 12, 2023, the reference exchange rate was Q7.807 per U.S. dollar. Guatemala has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the IMF’s Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for international current transactions.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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

Article IV Consultation. The last Article IV consultation was concluded by the Executive Board on May 15, 2023.

Resident Representative. Mr. Gerardo Peraza is the Regional Resident Representative for Central America, Panama, and the Dominican Republic, and is based in Guatemala.