July 2010
IMF Country Report No. 10/187

Guatemala: Third Review Under the Stand-By Arrangement—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guatemala.

In the context of the Third Review Under the Stand-By Arrangement, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 6, 2010, 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 June 2, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of June 11, 2010 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its June 16, 2010 discussion of the staff report that completed the review.

- A statement by the Executive Director for Guatemala.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Guatemala*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

GUATEMALA

Third Review Under the Stand-By Arrangement

Prepared by the Western Hemisphere Department
(In collaboration with other departments)

Approved by Miguel Savastano (WHD) and Dominique Desruelle (SPR)

June 2, 2010

Executive Summary

Economic outcomes. The Guatemalan economy is recovering faster than anticipated during the previous review of the program. There has been a pickup in domestic demand, international trade, and private capital flows. Inflation has risen owing to one-off increases in food prices and electricity tariffs, the balance of payments has strengthened, and the financial system remains resilient.

Policy implementation. Program implementation has been strong. All end-December 2009 and end-March 2010 quantitative performance criteria were met with wide margins, and annual inflation stayed within the inner consultation band set in the program. The 18-month Stand-By Arrangement is expected to remain precautionary.

Outlook and risks. With a more benign global outlook, real GDP growth is expected to exceed 2 percent in 2010, while inflation is projected to remain within the target band set by the Monetary Board. Risks to the near-term outlook have declined.

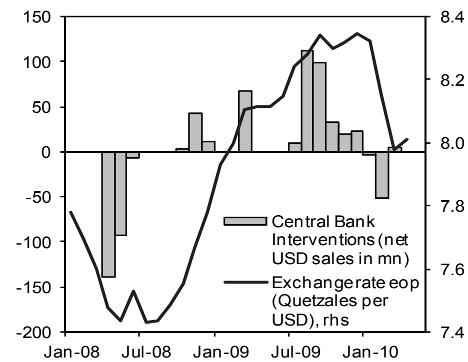
Policy stance. The scope for continued supportive macroeconomic policies is limited. Fiscal policy in 2010 is expected to start withdrawing the stimulus of past years, while monetary policy is envisaged to remain vigilant and tighten in case inflationary pressures emerge.

Contents Page

I. Background[1]

1. **The Guatemalan economy is recovering faster than anticipated during the previous program review** IMF Country Report No. 10/36. Notwithstanding the adverse effects of the global crisis, real GDP increased by 0.6 percent in 2009, above the regional average. In 2010, the economic recovery is gaining steam, with the monthly index of economic activity (IMAE) posting a rate of growth of 2.5 percent (y/y) as of February. Inflation rose to 3.8 percent (y/y) in April, from a low of -0.7 percent in October, owing to base effects and one-off increases in food prices and electricity (Figure 1).

The currency has strengthened



Source: Bank of Guatemala.

2. **Balance of payments flows are normalizing** (Figure 2). Exports and imports are recovering, and remittances and tourism flows have bottomed out. After posting a small surplus in the first half of 2009, the external current account balance switched back to deficit during the second half, and ended the year with a deficit of 0.6 percent of GDP. Private capital flows picked up strongly in the last quarter of the year and, as a result, the overall balance of payments, including large errors and omissions, posted a surplus of US$473 million (about US$300 million higher than envisaged during the second review). The exchange rate has been stable since end-March, following a 4.5 percent appreciation in the first quarter prompted by a rebalancing of banks' portfolios. As of mid-May, net international reserves stood at US$5.2 billion, about US$400 million higher than at end-2009.

3. **Fiscal performance has been strong**. The fiscal deficit in 2009 was 3.2 percent of GDP (compared to a program target of 3.4 percent), with both revenues and expenditures stronger than envisaged during the previous review. The increase in revenues in the fourth quarter of 2009 was broad-based and helped finance higher expenditures. The end-March target for the overall balance of the central government was met comfortably.

4. **The financial system remains resilient**. Banks remain well capitalized and liquid. As of March 2010, nonperforming loans stood at 2.7 percent of total loans, down from a peak of 3.2 percent in October, while bank profitability increased during 2009 (with returns on equity and on assets of 17.1 and 1.7 percent, respectively). Bank deposits are growing by about 9 percent y/y, but credit growth to the private sector remains sluggish (0.6 percent y/y in March), with credit demand restrained by a still negative output gap.

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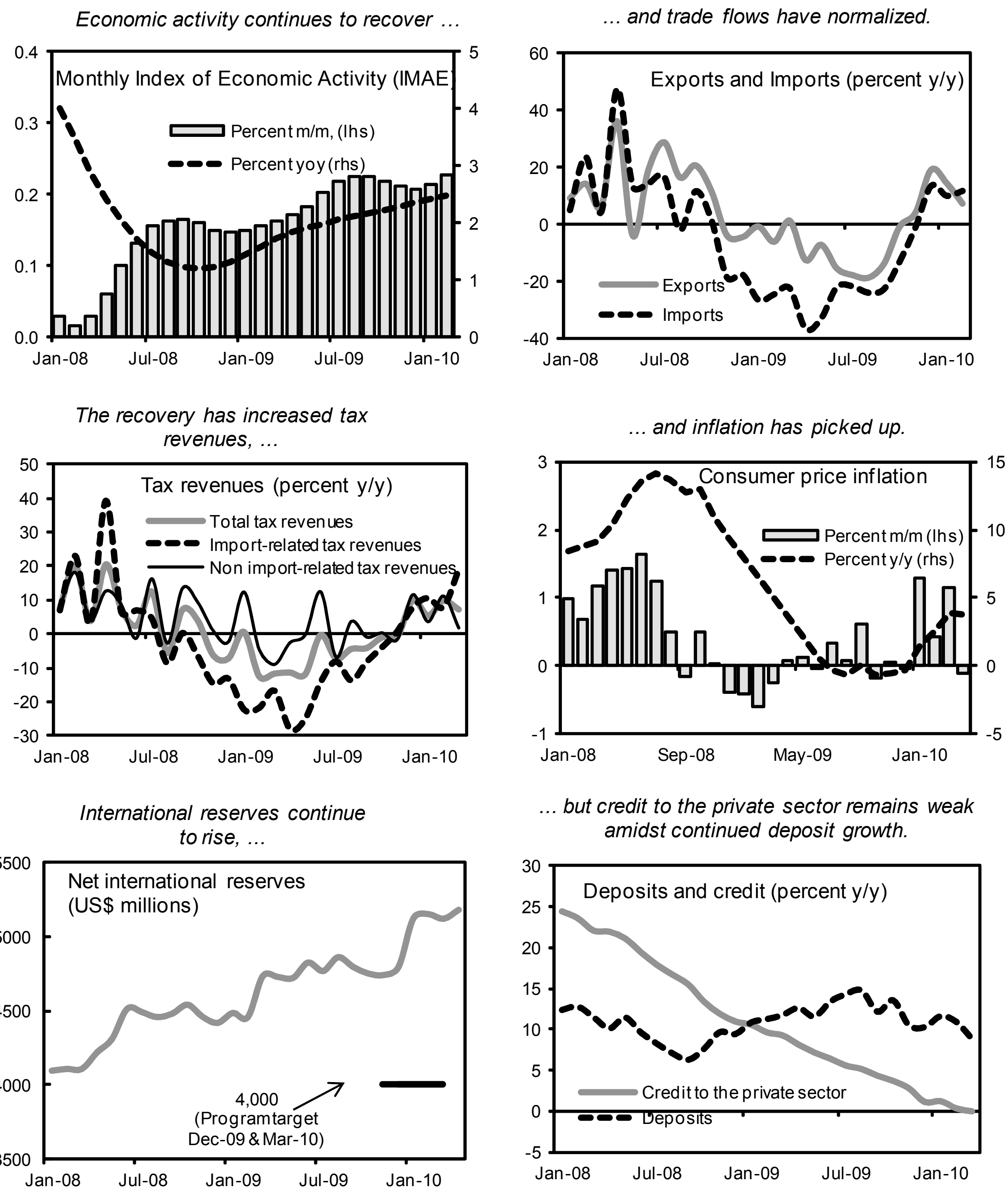
[1] Discussions were held in Guatemala City during April 27–May 6. The staff team comprised Mr. López-Mejía (Head), Ms. Martin, Mr. Morra (all WHD), and Mr. Henn (SPR), and was assisted by Mr. Delgado (regional resident representative). The mission met with Central Bank President de Bonilla, Minister of Finance Fuentes Knight, Superintendent of Banks Barquín, other senior officials, and representatives of the private sector. Mr. Gramajo (OED) joined some meetings.

Figure 1. Recent Economic Developments

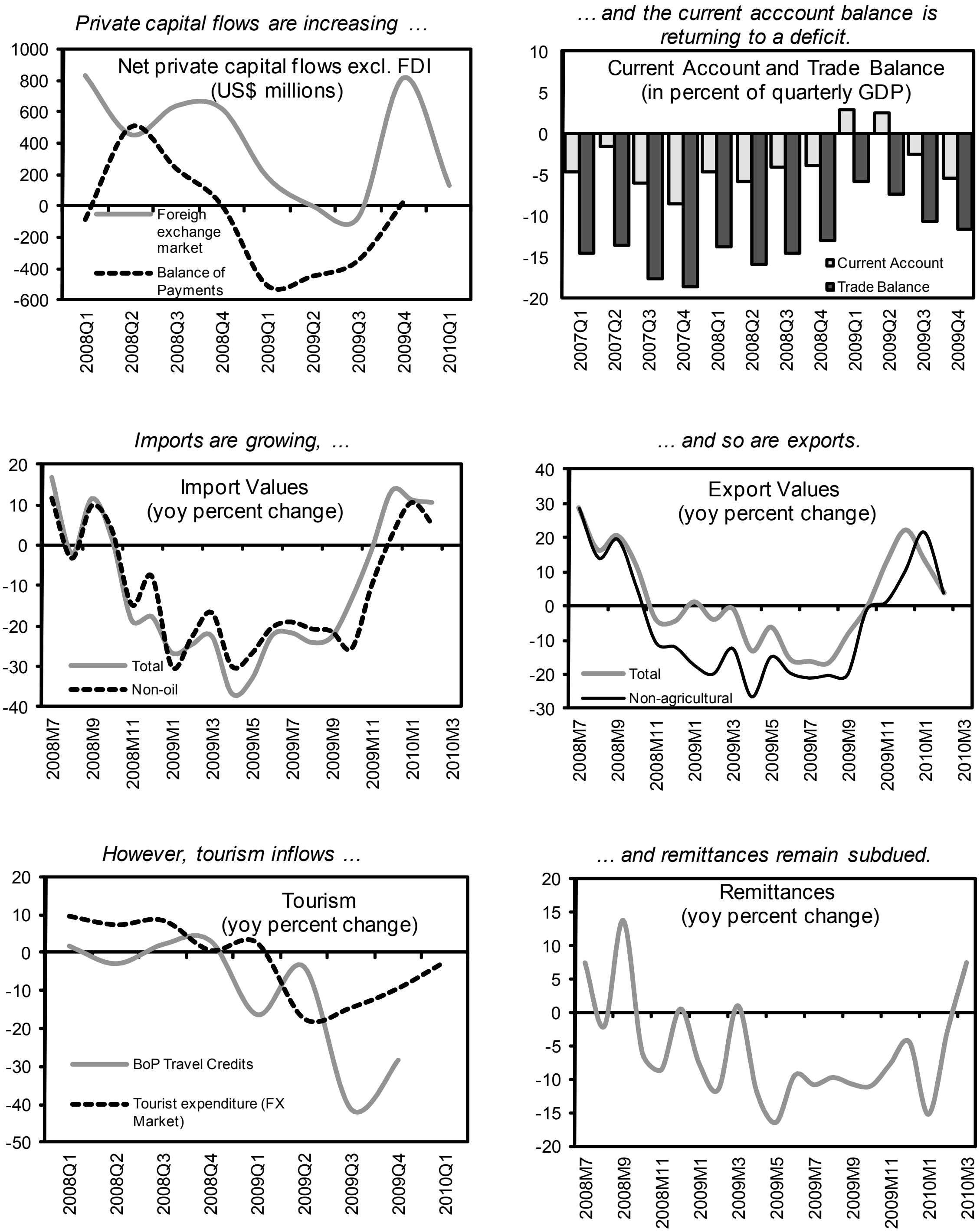
The economic recovery is firming up



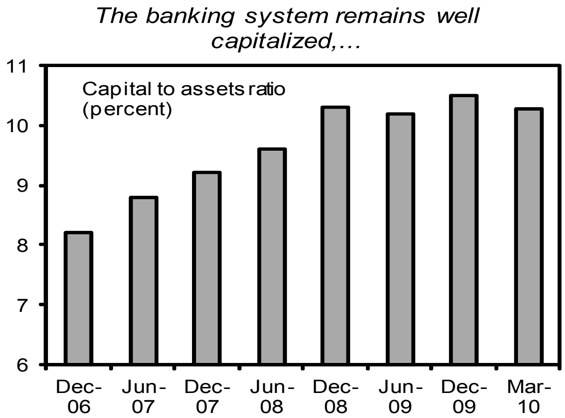
Source: Fund staff based on national authorities.

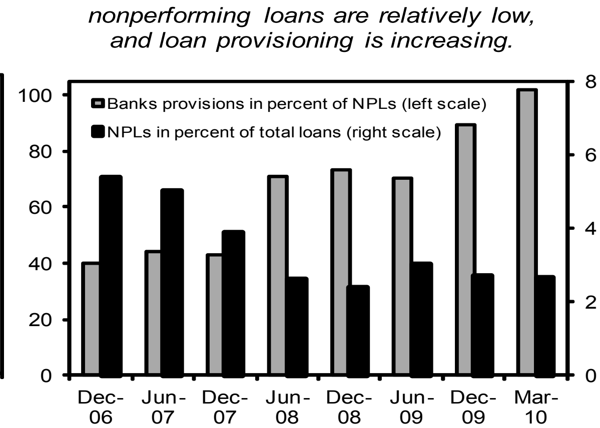
Figure 2. Guatemala: External Sector Developments

The balance of payments has strengthened.



Sources: Bank of Guatemala; and Fund staff estimates.





Sources: National authorities and Fund staff estimates.

5. **Program implementation remains strong**. All quantitative performance criteria for end-December 2009 and end-March 2010 were met. In addition, the annual rate of inflation remained within the inner consultation band, and government deposits at the central bank exceeded the indicative target. The two structural benchmarks for end-December (on banks' liquidity and foreign currency credit risk management) were also met.

6. **Congressional support for key economic legislation remains elusive**. Following a standstill of several months, Congress authorized the borrowing necessary to finance the government expenditure planned for 2010 only in May.[2] In April, the law on Private-Public-Partnerships submitted in 2008 was approved. Approval for the proposed amendments to the banking law, and for the rises in stamp and income tax rates submitted last November, however, have not been obtained.

II. Policy Discussions

A. Macroeconomic Outlook and Risks

The recovery is firming up

	2008	2009		2010		2011
		1/	est.	1/	rev. proj.	
	(Annual percentage change)					
Real GDP growth	3.3	0.4	0.6	1.3	2.1	2.8
Inflation (end of period)	9.4	0.8	-0.3	4.0	5.5	5.0
	(Percent of GDP)					
Central govt balance	-1.6	-3.4	-3.2	-3.1	-3.1	-2.5
Public sector debt	19.9	23.1	23.2	25.5	24.3	25.6
Current account balance	-4.5	-1.0	-0.6	-2.7	-3.2	-4.0
Capital account balance	3.1	0.8	-0.2	3.9	3.0	4.1
Net international reserves (US$ billion)	4.4	4.6	4.8	5.1	4.9	5.2

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff projections.
1/ Staff Report for the 2009 Article IV Consultation and Second Review under the SBA.

7. **The economic outlook has improved since the second program review**. In view of a stronger-than-anticipated recovery in the United States and Central America (Guatemala's main trading partners), the projection for 2010 real GDP growth was revised to 2.1 percent—from 1.3 percent envisaged at

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[2] Congress did not approve the 2010 draft budget submitted in September 2009. As a result, government spending in 2010 is being determined by the expenditure allocations of the 2009 budget and the new borrowing approved for 2010.

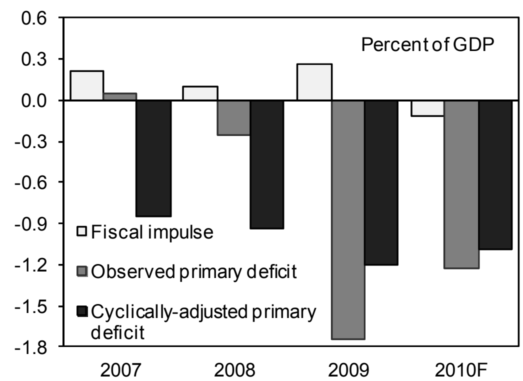
the previous review. Factoring in the one-off increases in food prices and electricity tariffs recorded in the first quarter, the projection for end-2010 inflation was also raised to about 5.5 percent, still within the target band set by the Monetary Board. The external current account deficit is expected to widen to 3.2 percent of GDP in 2010, largely driven by higher imports. Private capital inflows are projected at 1½ percent of GDP (up from -2.4 percent of GDP in 2009), owing to a recovery in net flows to banks (including for trade credit). Nonetheless, net private capital flows in 2010 are projected to be lower than in 2008.

8. **Risks to the outlook have declined**. External current account flows have started to normalize in line with the global recovery and private capital inflows have resumed, lowering risks to the balance of payments. Weaker global growth or sharply higher oil prices remain the main downside risks to the outlook. The authorities reiterated their intention to continue treating the SBA as precautionary.

B. Fiscal Policy

9. **The fiscal deficit in 2010 will decline somewhat**. Excluding new tax measures, the overall deficit of the central government is expected to reach 3.1 percent of GDP (down from 3.2 percent of GDP in 2009). The primary deficit would decline by 0.3 percent of GDP (to 1.5 percent of GDP) owing to automatic stabilizers (0.2 percent of GDP) and a small withdrawal of the fiscal stimulus (0.1 percent of GDP). Social spending, however, is projected to reach 5.5 percent of GDP (up from 5.3 percent in 2009), in line with the reallocation of current and capital expenditures recently approved by Congress. The projected deficit will result in a modest increase in the public debt-to-GDP-ratio by end-2010. Loans from multilateral organizations, borrowings in the domestic market and the drawdown of government deposits are expected to be sufficient to finance the deficit. The authorities and staff concurred that a larger reduction in the fiscal deficit would facilitate rebuilding fiscal space and maintaining sustainable debt dynamics. In this regard, the mission welcomed the authorities' intention to reduce the 2010 fiscal deficit below 3.1 of GDP if revenues were significantly higher than projected.

The fiscal impulse in 2010 is projected to be negative



Source: Fund staff estimates.

10. **There was agreement that a comprehensive tax reform remains the key medium-term challenge**. The authorities continue working with Congress to secure support for the draft law submitted last November which proposed rate increases in income and stamp taxes. If the proposal were approved, revenues would increase by about 0.3 percent of GDP on an annual basis.[3] While the approval of this tax package would be an important step, a comprehensive tax

[3] Revenues from the tax reform proposal would be lower than the estimates reported in the previous review due to the exclusion of the tax on mobile phone usage.

reform is still necessary to make sustained progress in fiscal consolidation and stabilize the public debt-to-GDP ratio, particularly given the higher level of current expenditures (largely reflecting higher social spending) that the government has undertaken since 2008. The authorities have prepared a draft law that contemplates reforms to the corporate and personal income tax regimes and a reduction in tax exemptions. Staff welcomed the authorities' intention to continue trying to secure political support for such initiative as well as their plan to seek prompt approval of a draft law to reduce tax evasion, strengthen tax administration, and modify the small taxpayers VAT scheme.

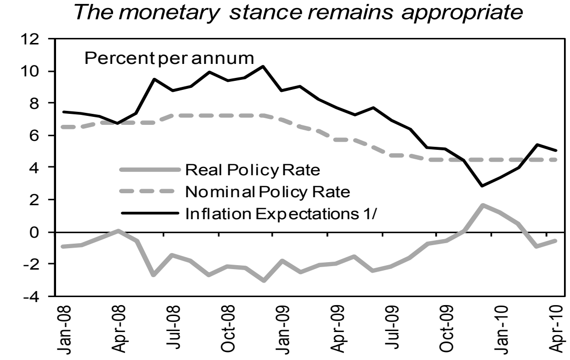
11. **Staff welcomed the authorities' continued efforts in improving public expenditure management**. Recent measures in this area include issuing norms to increase the transparency of public procurement and investment contracts, and restricting the role of trust funds in the execution of expenditure. Staff noted that there is scope to further improve expenditure control and transparency by taking full advantage of the Integrated Financial Management System (SIAF) and the National System of Public Investment (SNIP). The mission welcomed the authorities' intention to seek a full understanding of the size and sources of floating debt,[4] including domestic arrears. It strongly supported their request for Fund technical assistance to develop a methodology to measure that debt and the intention to supplement improvements in measurement with concrete actions to reduce the stock of such debt and keep its size under control.

12. **There has been progress in developing a framework for Private-Public Partnership (PPPs)**. A PPP law was recently approved by Congress and the authorities plan to request technical assistance on enabling regulations to help ensure a strong institutional framework. The mission and the authorities concurred that the Ministry of Finance has to remain the gatekeeper of public finances, and that this would require enhancing its technical capabilities to evaluate PPP projects and integrate them with the government investment strategy. There was also agreement on the need to record transparently actual and contingent fiscal costs associated with PPPs and taking them into account in the assessment of debt sustainability.

C. Monetary, Exchange Rate, and Financial Sector Policies

13. **There was agreement that monetary policy should remain vigilant**. The Monetary Board has kept the monetary policy rate at 4.5 percent since September 2009. Although inflation expectations have risen somewhat, the mission and the authorities concurred that the current monetary policy stance remains broadly appropriate considering that the recent increase in inflation was largely explained by one-off factors,

The monetary stance remains appropriate



Sources: Bank of Guatemala, and Fund staff calculations.
1/ Expectations for 12-month ahead inflation, derived from monthly Bank of Guatemala Inflation Expectations Survey (EEI).

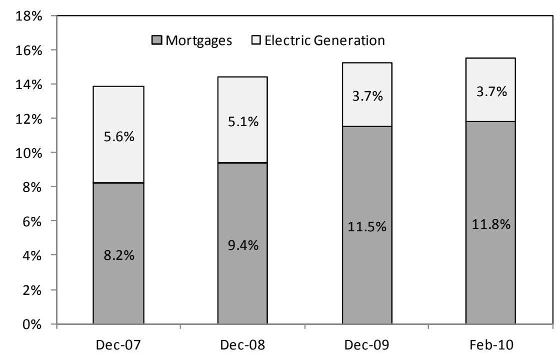
[4] Floating debt is estimated as the difference between accrued and paid public sector expenditures.

the output gap remains negative and bank credit to the private sector remains weak. The main risks to the inflation outlook stem from possible second round effects from higher oil and food prices and their impact on inflation expectations, but the authorities reiterated their commitment to tighten the monetary policy stance if those risks were to materialize. Staff welcomed the progress made to further strengthen the monetary transmission mechanism and the monetary operations framework, including the gradual move toward the adoption of an overnight interest rate as policy rate.

14. **The authorities and staff agreed on the importance of preserving exchange rate flexibility**. There was agreement that the flexible exchange rate regime had helped cushion the impact of the downturn in 2009, and was essential for strengthening the inflation-targeting monetary policy framework. In this regard, the rules-based foreign exchange intervention framework has continued to work well, allowing for timely interventions without precluding movements driven by fundamentals.

15. **There has been progress in advancing financial sector reforms, but key elements of the reform agenda are pending**. The full provisioning of nonperforming loans targeted for 2011 is being implemented ahead of schedule and new regulations on liquidity and foreign currency credit risk management (end-December structural benchmarks) became effective in April. The regulations will strengthen the financial system further by inducing banks to compute liquidity gaps at different maturities and reduce foreign-currency credit risks. The mission recommended extending the regulations on foreign currency credit risk management to mortgages and loans to electricity distributors, but the authorities did not think that was necessary. They noted that the value of collateral in those two activities was high and stable, and had doubts about the legal grounds of staff's recommendation. Staff stressed that seeking prompt congressional approval of the pending amendments to the banking law should remain a priority to further increase the resilience of the financial system. The mission also recommended enhancing crisis preparedness further, including by developing a systemic banking resolution plan.

Mortgages and loans to electricity generators represent a large share of total credit in foreign currency



Source: Superintendency of banks of Guatemala.

D. Program and Statistical Issues

16. **Staff recommends to maintain unchanged all performance criteria set at the previous review**. The mission agreed to lower the indicative target for government deposits at the central bank for end-June to take account of delays in the congressional approval of the borrowing plan for 2010. The indicative target on the inflation consultation band for September and December was moved upward to factor in the one-off increases in food prices and electricity recorded in the first quarter of 2010.

17. **The authorities are stepping up efforts to comply with the requirements of the Special Data Dissemination Standard (SDSS)**. With Fund technical assistance, an action plan has been developed which, if fully implemented, would allow Guatemala to subscribe to the SDSS by end-2010. Key components of this plan are the compilation and dissemination of labor statistics and consolidated general government operations. In addition, staff encouraged the authorities to further improve their balance of payments statistics, including through measures to reduce the persistently large (and positive) entries on the errors and omissions (E&O) line.

III. Staff Appraisal

18. **The recovery of the Guatemalan economy is firming up**. Economic activity is picking up, while the rise in inflation observed in recent months was the result of one-off factors. Exports and imports are recovering, private capital inflows are increasing, and the balance of payments position has strengthened. The financial system remains resilient, with adequate liquidity and capitalization levels.

19. **Performance under the precautionary SBA with the Fund has continued to be strong**. All quantitative performance criteria for end-December and end-March were met, and annual inflation remained within the inflation consultation band. The two structural benchmarks for end-December (on banks' liquidity and foreign currency credit risk management) were also met, and are being implemented.

20. **The near-term outlook has improved since the second program review and downside risks have declined further**. Stronger-than-anticipated growth in the United States and regional trading partners has prompted an upward revision of growth projections for Guatemala in 2010 and 2011. Easy financing conditions have strengthened capital flows and lowered the risk of balance of payment pressures. A slower recovery in the United States or a rise in oil prices are the main downside risks to the outlook.

21. **Fiscal policy in 2010 will start withdrawing the stimulus of past years**. The overall deficit of the central government is expected to decline to 3.1 percent of GDP, which will help contain the rise in public debt. The authorities plan to reduce the fiscal deficit further if revenues grow significantly faster than projected. This would facilitate rebuilding fiscal space and maintaining sustainable public debt dynamics.

22. **Securing political support to increase government revenues remains a key challenge**. Although the approval of the draft law submitted to Congress last November would be a positive step, a more comprehensive revenue-enhancing reform is needed to sustain social spending and increase investment, ensure fiscal consolidation and stabilize the public debt-to-GDP ratio. The approval of the draft law to combat tax evasion and strengthen tax administration would also be a positive step in that direction. The mission welcomes progress in improving expenditure management, including the authorities' intention to improve the measurement of floating debt and develop a plan to keep it under control. Recent efforts to establish a sound PPP framework are positive; it will be important to record the costs associated with PPPs transparently and take them into account when assessing public debt sustainability.

23. **Monetary policy should remain vigilant**. The current monetary policy stance remains broadly appropriate despite the recent rise in inflation. Monetary policy should be tightened if there are signs of second-round effects from higher food and oil prices or inflation expectations continue to rise. Staff welcomes the authorities' commitment to exchange rate flexibility, which is essential to absorb shocks and to strengthen the inflation-targeting framework.

24. **Continued implementation of the financial sector reform agenda is important**. The newly approved regulations on liquidity and foreign credit risk management will strengthen the financial system further by lowering risks of maturity and currency mismatches. Securing congressional approval of the amendments to the banking law remains a priority to further increase the resilience of the system. Enhancing crisis preparedness, including by developing a systemic banking resolution plan, is also important.

25. **Staff recommends completion of the third review under the SBA**.

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2009 (millions)	14.3	Gini index (2006)	53.7
Percentage of indigenous population (2006)	38.4	Life expectancy at birth (2007)	70.1
Population below the poverty line (Percent, 2006)	51.0	Adult illiteracy rate (2007)	26.8
Rank in UNDP development index (2009)	122 of 182	GDP per capita (US$, 2008)	2,850

II. Economic Indicators

	2006	2007	2008	2009		2010		2011
				1/	est.	1/	rev. proj.	proj.
				(Annual percent change)				
Income and prices								
Real GDP	5.4	6.3	3.3	0.4	0.6	1.3	2.1	2.8
Consumer prices (end of period)	5.8	8.7	9.4	0.8	-0.3	4.0	5.5	5.0
Monetary sector								
M2	18.7	10.2	7.6	10.4	10.0	6.7	9.9	…
Credit to the private sector	28.8	26.0	11.0	2.7	1.1	5.6	6.4	…
				(In percent of GDP, unless otherwise indicated)				
Savings and investment								
Gross domestic investment	20.8	20.8	16.4	15.0	13.6	16.4	15.3	17.0
Private sector	17.7	17.2	12.7	11.8	10.4	13.8	12.7	13.8
Public sector	3.1	3.6	3.7	3.1	3.2	2.6	2.6	3.1
Gross national saving	15.8	15.6	11.8	14.0	13.0	13.7	12.1	13.0
Private sector	13.9	12.3	8.9	13.9	12.6	13.1	11.2	11.9
Public sector	1.9	3.3	3.0	0.1	0.4	0.6	0.9	1.1
External saving	5.0	5.2	4.5	1.0	0.6	2.7	3.2	4.0
External sector								
Current account balance	-5.0	-5.2	-4.5	-1.0	-0.6	-2.7	-3.2	-4.0
Trade balance (goods)	-16.1	-16.1	-14.2	-8.9	-8.9	-11.2	-10.5	-12.5
Exports	20.1	20.5	20.1	19.1	19.7	19.5	19.5	19.3
Imports	-36.2	-36.6	-34.3	-28.0	-28.5	-30.7	-30.0	-31.8
o/w Oil & lubricants	-5.8	-6.7	-6.8	-5.1	-5.5	-5.5	-6.6	-6.8
Other (net)	11.0	10.9	9.7	7.9	8.3	8.4	7.3	8.5
o/w Remittances	12.1	12.3	11.3	10.5	10.7	10.9	10.3	11.5
Capital and financial account	4.4	4.7	3.1	0.8	-0.2	3.7	3.0	4.1
Public sector	1.5	0.7	0.3	2.0	2.1	2.7	1.4	1.5
Private sector	2.9	4.1	2.8	-1.2	-2.4	1.0	1.6	2.6
o/w FDI	1.8	2.1	1.9	1.8	1.5	1.8	1.4	1.5
Errors and omissions	1.4	1.1	2.3	0.6	2.1	0.6	0.5	0.5
Overall balance	0.8	0.6	0.9	0.4	1.3	1.5	0.3	0.7
Net international reserves								
(Stock in months of next-year NFGS imports)	3.2	3.2	4.2	4.1	4.2	4.2	3.9	3.7
(Stock over short-term debt on residual maturity)	1.2	1.0	1.0	1.2	1.3	1.4	1.3	1.3
Public finances								
Central government								
Revenues	12.7	12.8	12.0	10.6	11.2	11.0	11.3	11.5
Expenditures	14.7	14.3	13.6	14.0	14.4	14.0	14.3	14.0
Current	9.4	9.5	9.2	9.9	10.2	10.7	10.8	10.9
Capital	5.3	4.8	4.5	4.1	4.1	3.4	3.5	3.1
Primary balance	-0.6	0.0	-0.3	-1.9	-1.7	-1.4	-1.5	-0.9
Overall balance	-1.9	-1.4	-1.6	-3.4	-3.2	-3.1	-3.1	-2.5
Financing of the central government balance	1.9	1.4	1.6	3.4	3.2	3.1	3.1	2.5
Net external financing	1.2	1.2	0.3	1.3	1.4	2.7	1.4	1.0
Net domestic financing	0.7	0.3	1.3	2.1	1.8	0.4	1.7	1.5
o/w Use of government deposits	-0.4	-0.7	0.8	0.7	0.4	0.2	0.3	0.0
Rest of nonfinancial public sector balance	0.7	1.1	0.9	0.4	0.4	0.5	0.5	0.5
Combined nonfinancial public sector								
Primary balance	0.1	1.2	0.6	-1.5	-1.3	-0.9	-1.0	-0.4
Overall balance	-1.2	-0.3	-0.7	-3.0	-2.8	-2.5	-2.5	-2.0
Nonfinancial public sector debt	**21.7**	**21.3**	**19.9**	**23.1**	**23.2**	**25.5**	**24.3**	**25.6**
External	12.9	12.1	11.0	13.2	13.1	15.9	13.5	14.0
Domestic	8.8	9.2	8.9	9.9	10.1	9.6	10.8	11.5
Memorandum items:								
GDP (US$ billions)	30.2	34.1	39.1	37.8	37.3	37.8	40.0	41.7

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.
1/ Staff Report for the 2009 Article IV Consultation and Second Review under the SBA.

Table 2. Guatemala: Summary Balance of Payments

	2008	2009		2010		2011	2012	2013	2014	2015
		1/	est.	1/	rev. proj.			Proj.		
					(In millions of U.S. dollars)					
Current account balance	**-1,773**	**-362**	**-217**	**-1,030**	**-1,272**	**-1,650**	**-1,847**	**-2,063**	**-2,297**	**-2,454**
Trade balance (goods)	-5,575	-3,358	-3,301	-4,220	-4,203	-5,204	-6,010	-6,573	-7,185	-7,667
Exports, f.o.b.	7,847	7,217	7,330	7,376	7,793	8,063	8,485	9,010	9,565	10,269
Imports, f.o.b.	-13,421	-10,575	-10,632	-11,596	-11,996	-13,266	-14,495	-15,583	-16,750	-17,936
of which: Oil & lubricants	-2,677	-1,923	-2,060	-2,093	-2,644	-2,831	-3,016	-3,205	-3,412	-3,601
Real services (net)	-276	-319	-370	-273	-449	-374	-347	-357	-359	-365
Rent (net)	-927	-1,101	-948	-1154	-1,178	-1,368	-1,511	-1,735	-1,931	-2,193
Current transfers (net)	5,004	4,415	4,402	4,617	4,557	5,296	6,021	6,601	7,178	7,771
of which: remittances	4,403	3,962	3,978	4,107	4,120	4,797	5,459	5,979	6,501	7,040
Capital and financial account	**1,222**	**304**	**-91**	**1,389**	**1,191**	**1,704**	**1,737**	**1,981**	**2,183**	**2,256**
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	1,222	304	-91	1,389	1,191	1,704	1,737	1,981	2,183	2,256
Central Bank 2/	-3	274	272	0	0	0	0	0	0	0
Public sector	121	493	521	1,024	559	618	269	440	240	240
Bonds (net)	-1	-7	-12	500	-59	90	0	200	0	0
Loans	122	499	534	524	618	528	269	240	240	240
Disbursements	369	753	724	785	884	797	535	495	495	495
Amortization	-253	-254	-260	-261	-266	-268	-266	-255	-255	-255
Private sector	1,104	-462	-885	365	632	1,086	1,468	1,541	1,943	2,016
FDI	737	678	543	676	565	627	705	800	902	1,024
Portfolio investment	-32	-5	20	43	6	13	14	16	18	20
Other investment	398	-1,136	-1,448	-353	61	446	749	725	1,023	973
Errors and omissions	**884**	**209**	**782**	**211**	**211**	**219**	**230**	**242**	**254**	**268**
Overall balance	**333**	**151**	**473**	**570**	**130**	**273**	**120**	**160**	**140**	**70**
					(In percent of GDP)					
Current account balance	**-4.5**	**-1.0**	**-0.6**	**-2.7**	**-3.2**	**-4.0**	**-4.2**	**-4.5**	**-4.7**	**-4.8**
Trade balance (goods)	-14.2	-8.9	-8.9	-11.2	-10.5	-12.5	-13.7	-14.2	-14.8	-15.0
Exports, f.o.b.	20.1	19.1	19.7	19.5	19.5	19.3	19.4	19.5	19.7	20.1
Imports, f.o.b.	-34.3	-28.0	-28.5	-30.7	-30.0	-31.8	-33.1	-33.8	-34.5	-35.1
of which: Oil & lubricants	-6.8	-5.1	-5.5	-5.5	-6.6	-6.8	-6.9	-6.9	-7.0	-7.0
Real services (net)	-0.7	-0.8	-1.0	-0.7	-1.1	-0.9	-0.8	-0.8	-0.7	-0.7
Rent (net)	-2.4	-2.9	-2.5	-3.1	-2.9	-3.3	-3.5	-3.8	-4.0	-4.3
Current transfers (net)	12.8	11.7	11.8	12.2	11.4	12.7	13.7	14.3	14.8	15.2
of which: remittances	11.3	10.5	10.7	10.9	10.3	11.5	12.5	13.0	13.4	13.8
Capital and financial account	**3.1**	**0.8**	**-0.2**	**3.7**	**3.0**	**4.1**	**4.0**	**4.3**	**4.5**	**4.4**
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	3.1	0.8	-0.2	3.7	3.0	4.1	4.0	4.3	4.5	4.4
Central Bank 2/	0.0	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector	0.3	1.3	1.4	2.7	1.4	1.5	0.6	1.0	0.5	0.5
Bonds (net)	0.0	0.0	0.0	1.3	-0.1	0.2	0.0	0.4	0.0	0.0
Loans	0.3	1.3	1.4	1.4	1.5	1.3	0.6	0.5	0.5	0.5
Disbursements	0.9	2.0	1.9	2.1	2.2	1.9	1.2	1.1	1.0	1.0
Amortization	-0.6	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5
Private sector	2.8	-1.2	-2.4	1.0	1.6	2.6	3.4	3.3	4.0	3.9
FDI	1.9	1.8	1.5	1.8	1.4	1.5	1.6	1.7	1.9	2.0
Portfolio investment	-0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	1.0	-3.0	-3.9	-0.9	0.2	1.1	1.7	1.6	2.1	1.9
Errors and omissions	**2.3**	**0.6**	**2.1**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Overall balance	**0.9**	**0.4**	**1.3**	**1.5**	**0.3**	**0.7**	**0.3**	**0.3**	**0.3**	**0.1**
Memorandum items:										
Value of exports, f.o.b. (percentage change)	12.4	-8.0	-6.6	2.2	6.3	3.5	5.2	6.2	6.2	7.4
Value of imports, f.o.b. (percentage change)	7.6	-21.2	-20.8	9.7	12.8	10.6	9.3	7.5	7.5	7.1
NIR in months of next-year NFGS imports	4.2	4.1	4.2	4.2	3.9	3.7	3.5	3.4	3.2	3.1
Stock of NIR (in millions of U.S. dollars) 2/	4,410	4,572	4,797	5,142	4,926	5,199	5,319	5,479	5,619	5,689
NIR over short-term debt on residual maturity	1.0	1.2	1.3	1.4	1.3	1.3	1.2	1.1	1.1	1.0
Nominal GDP (in billions of U.S. dollars)	39.1	37.8	37.3	37.8	40.0	41.7	43.8	46.2	48.5	51.1

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

1/ Staff Report for the 2009 Article IV Consultation and Second Review under the SBA.

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

Table 3A. Guatemala: Public Sector Balance

	2006	2007	2008	2009		2010		2011
				1/	est.	1/	rev. proj.	proj.
				(In millions of quetzales)				
Central Government								
Total revenues	**29,250**	**33,611**	**35,578**	**32,667**	**34,025**	**35,468**	**36,630**	**40,055**
Tax revenues	27,238	31,543	33,358	30,769	31,804	32,520	34,325	37,599
Nontax revenues	2,012	2,067	2,220	1,898	2,221	2,949	2,305	2,455
Total expenditures	**33,721**	**37,382**	**40,355**	**43,265**	**43,709**	**45,382**	**46,563**	**48,907**
Current	21,622	24,781	27,134	30,579	31,161	34,426	35,233	38,089
Wages	7,650	8,226	9,260	11,521	11,154	11,640	12,123	13,261
Goods & services	2,881	3,496	5,235	5,037	5,686	6,632	6,500	6,979
Social security benefits	1,829	2,005	2,347	2,939	2,776	3,782	3,357	3,400
Interest	3,182	3,892	4,026	4,734	4,374	5,272	5,060	5,760
Transfers	6,023	7,076	6,165	6,288	7,086	7,060	8,127	8,654
Other	57	86	102	59	84	41	66	35
Capital	12,100	12,602	13,221	12,686	12,548	10,956	11,330	10,818
Primary expenditures	30,539	33,491	36,329	38,531	39,335	40,110	41,503	43,147
Primary balance	**-1,289**	**120**	**-751**	**-5,863**	**-5,309**	**-4,642**	**-4,873**	**-3,092**
Overall balance	**-4,471**	**-3,772**	**-4,777**	**-10,598**	**-9,684**	**-9,913**	**-9,933**	**-8,852**
Financing	**4,471**	**3,772**	**4,777**	**10,598**	**9,684**	**9,913**	**9,933**	**8,852**
Net external financing	2,867	3,040	850	4,091	4,117	8,742	4,434	3,616
Loans	2,867	3,040	850	4,091	4,117	4,473	4,434	2,153
Disbursements	4,440	4,613	2,763	6,168	6,273	6,703	6,560	4,390
Amortizations	1,573	1,572	1,913	2,077	2,155	2,230	2,125	2,238
Bonds	0	0	0	0	0	4,269	0	1,463
Placements	0	0	0	0	0	4,269	0	4,181
Amortizations	0	0	0	0	0	0	0	2,718
Net domestic financing	1,604	731	3,928	6,507	5,566	1,171	5,499	5,236
Net issuance of bonds	3,763	3,119	2,019	4,389	4,388	400	4,500	5,171
Gross bond issuance	7,137	5,308	3,851	5,172	5,172	2,119	6,219	6,500
Amortizations	3,374	2,189	1,832	784	783	1,719	1,719	1,329
Other	-1,160	-594	-393	0	0	0	0	0
Use of government deposits	-999	-1,794	2,302	2,118	1,178	771	999	65
Rest of nonfinancial public sector balance	**1,615**	**2,975**	**2,654**	**1,200**	**1,200**	**1,700**	**1,700**	**1,745**
Consolidated nonfinancial public sector								
Primary balance	326	3,095	1,903	-4,663	-4,109	-2,942	-3,173	-1,348
Interest	3,182	3,892	4,026	4,734	4,374	5,272	5,060	5,760
Overall balance	**-2,856**	**-797**	**-2,123**	**-9,398**	**-8,484**	**-8,213**	**-8,233**	**-7,107**
Central bank balance	**-379**	**272**	**609**	**-374**	**-381**	**-198**	**-530**	**-248**
Memorandum items:								
Nonfinancial public sector debt	49,761	55,858	58,766	71,364	70,579	82,380	79,050	89,209
External	29,573	31,667	32,556	40,765	39,981	51,382	43,951	48,939
Domestic	20,189	24,191	26,210	30,598	30,598	30,998	35,098	40,269
Central government gross borrowing requirements	9,418	7,533	8,522	13,459	12,622	13,862	13,777	15,137
Social spending	11,555	12,022	13,080	14,976	16,165	16,180	18,004	19,193

Sources: Ministry of Finance; Bank of Guatemala; and Fund staff estimates and projections.
1/ Staff Report for the 2009 Article IV Consultation and Second Review under the SBA.

Table 3B. Guatemala: Public Sector Balance

	2006	2007	2008	2009		2010		2011
				1/	est.	1/	rev. proj.	proj.
	(In percent of GDP)							
Central Government								
Total revenues	**12.7**	**12.8**	**12.0**	**10.6**	**11.2**	**11.0**	**11.3**	**11.5**
Tax revenues	11.9	12.1	11.3	9.9	10.4	10.1	10.6	10.8
Nontax revenues	0.9	0.8	0.8	0.6	0.7	0.9	0.7	0.7
Total expenditures	**14.7**	**14.3**	**13.6**	**14.0**	**14.4**	**14.0**	**14.3**	**14.0**
Current	9.4	9.5	9.2	9.9	10.2	10.7	10.8	10.9
Wages	3.3	3.1	3.1	3.7	3.7	3.6	3.7	3.8
Goods & services	1.3	1.3	1.8	1.6	1.9	2.1	2.0	2.0
Social security benefits	0.8	0.8	0.8	0.9	0.9	1.2	1.0	1.0
Interest	1.4	1.5	1.4	1.5	1.4	1.6	1.6	1.7
Transfers	2.6	2.7	2.1	2.0	2.3	2.2	2.5	2.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	5.3	4.8	4.5	4.1	4.1	3.4	3.5	3.1
Primary expenditures	13.3	12.8	12.3	12.5	12.9	12.4	12.8	12.4
Primary balance	**-0.6**	**0.0**	**-0.3**	**-1.9**	**-1.7**	**-1.4**	**-1.5**	**-0.9**
Overall balance	**-1.9**	**-1.4**	**-1.6**	**-3.4**	**-3.2**	**-3.1**	**-3.1**	**-2.5**
Financing	**1.9**	**1.4**	**1.6**	**3.4**	**3.2**	**3.1**	**3.1**	**2.5**
Net external financing	1.2	1.2	0.3	1.3	1.4	2.7	1.4	1.0
Loans	1.2	1.2	0.3	1.3	1.4	1.4	1.4	0.6
Disbursements	1.9	1.8	0.9	2.0	2.1	2.1	2.0	1.3
Amortizations	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.6
Bonds	0.0	0.0	0.0	0.0	0.0	1.3	0.0	0.4
Placements	0.0	0.0	0.0	0.0	0.0	1.3	0.0	1.2
Amortizations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8
Net domestic financing	0.7	0.3	1.3	2.1	1.8	0.4	1.7	1.5
Net issuance of bonds	1.6	1.2	0.7	1.4	1.4	0.1	1.4	1.5
Gross bond issuance	3.1	2.0	1.3	1.7	1.7	0.7	1.9	1.9
Amortizations	1.5	0.8	0.6	0.3	0.3	0.5	0.5	0.4
Other	-0.5	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Use of government deposits	-0.4	-0.7	0.8	0.7	0.4	0.2	0.3	0.0
Rest of nonfinancial public sector balance	**0.7**	**1.1**	**0.9**	**0.4**	**0.4**	**0.5**	**0.5**	**0.5**
Consolidated nonfinancial public sector								
Primary balance	0.1	1.2	0.6	-1.5	-1.3	-0.9	-1.0	-0.4
Interest	1.4	1.5	1.4	1.5	1.4	1.6	1.6	1.7
Overall balance	**-1.2**	**-0.3**	**-0.7**	**-3.0**	**-2.8**	**-2.5**	**-2.5**	**-2.0**
Central bank balance	**-0.2**	**0.1**	**0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.2**	**-0.1**
Memorandum items:								
Nonfinancial public sector debt	21.7	21.3	19.9	23.1	23.2	25.5	24.3	25.6
External	12.9	12.1	11.0	13.2	13.1	15.9	13.5	14.0
Domestic	8.8	9.2	8.9	9.9	10.1	9.6	10.8	11.5
Central government gross borrowing requirements	4.1	2.9	2.9	4.4	4.1	4.3	4.2	4.3
Social spending	5.0	4.6	4.4	4.8	5.3	5.0	5.5	5.5

Sources: Ministry of Finance; Bank of Guatemala; and Fund staff estimates and projections.
1/ Staff Report for the 2009 Article IV Consultation and Second Review under the SBA.

Table 4. Guatemala: Monetary Sector Survey

	2006	2007	2008	2009		2010		2011
				1/	est.	1/	rev. proj.	proj./4
				(In millions of quetzales)				
Bank of Guatemala (BOG)								
Net international reserves 2/	**29,462**	**31,275**	**34,305**	**38,180**	**39,963**	**44,739**	**40,592**	**44,127**
(In millions of U.S. dollars) 2/	3,879	4,098	4,422	4,572	4,797	5,142	4,927	5,200
Net domestic assets	**-14,803**	**-14,295**	**-17,551**	**-20,245**	**-21,793**	**-25,686**	**-20,878**	**-22,770**
Net claims on nonfinancial public sector	-12,490	-15,185	-13,074	-11,365	-9,320	-11,360	-8,598	-9,189
Central government (CG)	-7,551	-9,581	-8,100	-5,982	-5,209	-5,210	-4,210	-4,145
Rest of nonfinancial public sector	-4,939	-5,604	-4,974	-5,384	-4,111	-6,149	-4,388	-5,044
Bank of Guatemala losses	15,258	14,986	14,377	14,751	14,758	14,949	15,288	15,537
Net credit to banks	-9,919	-10,852	-11,283	-12,895	-14,516	-13,903	-17,506	-18,587
Of which: legal reserves	-11,985	-12,916	-13,345	-14,956	-16,577	-15,964	-19,568	-20,648
Open market operations 3/	-9,796	-6,172	-10,848	-8,959	-11,130	-11,597	-11,139	-10,254
Other assets (net)	2,144	2,929	3,277	-1,777	-1,585	-3,776	1,077	-276
Currency in circulation	**14,659**	**16,980**	**16,754**	**17,934**	**18,170**	**19,053**	**19,714**	**21,357**
Banking sector 2/								
Net foreign position	**-8,198**	**-11,235**	**-10,832**	**-7,070**	**-7,133**	**-8,140**	**-7,353**	**-9,751**
(in millions of U.S. Dollars)	-1,079	-1,472	-1,396	-847	-856	-936	-892	-1,149
Net claims on Bank of Guatemala	**18,223**	**15,411**	**20,897**	**20,558**	**23,597**	**24,146**	**27,027**	**27,104**
Legal reserves	11,985	12,916	13,345	14,956	16,577	15,964	19,568	20,648
BOG securities	8,296	4,551	9,606	7,656	9,074	10,236	9,513	8,509
Liabilities to BOG	-2,059	-2,057	-2,054	-2,054	-2,054	-2,054	-2,054	-2,054
Net domestic assets	**74,377**	**87,658**	**90,663**	**96,954**	**93,770**	**101,846**	**100,763**	**114,383**
Net credit to the NFPS	3,172	2,940	-559	2,826	1,527	2,276	3,522	6,421
Official capital and reserves	-1,152	-2,005	-2,752	-2,840	-3,143	-2,994	-3,338	-3,604
Credit to the private sector	62,357	78,567	87,209	89,590	88,189	94,576	93,800	103,929
Other items net	10,000	8,155	6,764	7,378	7,197	7,987	6,779	7,636
Medium and long-term foreign liabilities	**128**	**558**	**1,210**	**879**	**1,112**	**957**	**968**	**1,049**
Liabilities to private sector	**84,274**	**91,276**	**99,518**	**109,562**	**109,123**	**116,895**	**119,469**	**130,686**
Demand deposits	28,327	33,441	35,710	39,496	38,811	42,091	42,934	47,246
Time and savings deposits	44,940	46,449	51,737	57,612	57,636	61,655	63,372	69,216
Securities	3,175	2,220	1,561	1,624	1,300	1,730	1,083	1,183
Capital and reserves (private banks)	7,832	9,166	10,510	10,831	11,375	11,419	12,080	13,042
Monetary survey 3/								
Net foreign assets	**21,264**	**20,040**	**23,474**	**31,109**	**32,830**	**36,599**	**33,239**	**34,375**
(In millions of U.S. dollars)	2,799	2,626	3,026	3,726	3,941	4,207	4,034	4,051
Net domestic assets	**74,621**	**86,553**	**92,448**	**97,905**	**94,274**	**98,575**	**105,828**	**117,534**
Net claims on nonfinancial public sector	-9,318	-12,245	-13,633	-8,540	-7,793	-9,084	-5,076	-2,768
Bank of Guatemala losses	15,258	14,986	14,377	14,751	14,758	14,949	15,288	15,537
Credit to private sector	62,365	78,574	87,217	89,598	88,197	94,583	93,808	103,937
Other assets (net)	6,317	5,238	4,486	2,096	-888	-1,874	1,808	829
Medium and long-term foreign liabilities	**128**	**558**	**1,210**	**3,141**	**1,112**	**957**	**968**	**1,049**
Liabilities to the private sector	**95,758**	**106,036**	**114,712**	**125,873**	**125,992**	**134,217**	**138,100**	**150,861**
of which: Money	42,986	50,421	52,464	57,431	56,981	61,143	62,648	68,603
of which: Quasi-money	44,940	46,449	51,737	57,612	57,636	61,655	63,372	69,216
Memorandum items:								
				(Percent change)				
Currency in circulation	17.5	15.8	-1.3	7.0	8.4	6.2	8.5	8.3
M2	18.7	10.2	7.6	10.4	10.0	6.7	9.9	9.4
Credit to private sector	28.8	26.0	11.0	2.7	1.1	5.6	6.4	10.8
				(In percent of GDP)				
Currency in circulation	6.4	6.5	5.7	5.8	6.0	5.9	6.1	6.1
M2	39.6	37.9	35.2	37.2	37.6	38.0	38.7	39.5
Credit to private sector	29.0	31.7	31.2	30.6	30.8	30.9	30.5	31.5
				(In percent of bank liabilities to the private sector)				
Banks' liquid assets	38.6	32.4	34.2	33.3	36.6	34.1	37.6	36.2
Demand deposits	33.6	36.6	35.9	36.0	35.6	36.0	35.9	36.2
Time and savings deposits	53.3	50.9	52.0	52.6	52.8	52.7	53.0	53.0
Capital and reserves (private banks)	9.3	10.0	10.6	9.9	10.4	9.8	10.1	10.0

Sources: Bank of Guatemala; and Fund staff estimates.

1/ Staff Report for the 2009 Article IV Consultation and Second Review under the SBA.

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

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

4/ Fund staff estimates.

Table 5. Guatemala: Financial Soundness Indicators

	2006	2007	2008	2009	2010 March
On-shore banks					
Statutory capital to risk-weighted assets	12.8	12.3	13.5	15.4	15.1
Nonperforming loans net of provisions to capital	7.5	6.2	3.6	1.8	-0.3
Nonperforming loans to total gross loans	3.4	2.6	2.3	2.7	2.7
Cash to total deposits	21.2	20.8	19.4	21.6	20.6
Return on assets	1.2	1.5	1.7	1.6	1.9
Return on equity	15.0	16.8	16.3	15.7	18.9
Foreign currency-denominated loans to total loans	30.2	33.2	33.6	30.6	29.0
Foreign currency-denominated liabilities to total liabilities	21.6	25.1	24.3	23.9	24.0
Off-shore banks					
Statutory capital to risk-weighted assets	14.2	15	14.7	n.a.	n.a.
Nonperforming loans to total gross loans	2.9	2.9	2.2	2.3	2.0
Return on assets	2.0	2.2	1.5	1.4	1.4
Return on equity	18.8	19.4	14.2	12.8	13.3
Total assets off-shore banks to total assets on-shore banks	18.9	16.8	16.1	16.5	16.2

Sources: Superintendency of Banks; Bank of Guatemala; and Fund staff estimates.

Table 6. Guatemala: Indicators of External Vulnerability

					Proj.
	2006	2007	2008	2009	2010
External indicators					
Merchandise exports (12-month percentage change)	11.4	14.8	12.4	-6.6	6.3
Traditional merchandise exports (12-month percentage change)	5.0	25.2	18.5	7.5	0.9
Nontraditional merchandise exports (12-month percentage change)	13.3	12.0	10.5	-11.2	8.4
Merchandise imports (12-month percentage change)	13.3	14.0	7.6	-20.8	12.8
Imports of oil and lubricants (12-month percentage change)	18.6	29.1	17.4	-23.1	28.4
Non-oil imports (12-month percentage change)	12.4	11.1	5.4	-20.2	9.1
Terms of trade (12-month percentage change)	-2.7	-0.3	-1.4	4.2	-4.9
Current account balance (in percent of GDP)	-5.0	-5.2	-4.8	-0.6	-3.2
Capital and financial account balance (in percent of GDP)	4.4	4.7	4.1	-0.2	3.0
Net international reserves					
In millions of U.S. dollars	3,878	4,098	4,421	4,797	4,926
In percent of M2	36.4	33.3	33.2	34.9	32.3
In percent of base money	111.0	105.2	113.2	115.2	103.5
In percent of short-term external debt on a remaining maturity basis	117.6	102.1	105.3	131.3	132.1
In months of next-year's imports of goods and nonfactor services	3.2	3.2	4.3	4.2	3.9
External indebtness indicators					
Total external debt (in percent of GDP)	34.3	35.0	32.5	30.6	30.7
External private sector debt (in percent of GDP)	21.2	22.6	21.2	17.7	17.3
External public sector debt (in percent of GDP)	13.1	12.4	11.2	13.1	13.3
Public sector external interest payments in percent of exports of goods and nonfactor services	3.6	3.9	3.0	3.3	4.1
Public sector external amortization payments in percent of exports of goods and services	4.2	5.2	3.2	3.7	4.2

Sources: Bank of Guatemala; and Fund staff estimates.

Table 7. Guatemala: Proposed Purchase Schedule and Terms Under the Stand-By Arrangement

Date	Conditions for purchase	Purchase			
		Million SDR	Million US$ 1/	Percent of Quota	Percent of Total Access
April 22, 2009	Board approval of the SBA	420.40	623.77	200.00	66.67
September 22, 2009	First review, based on end-June 2009 performance criteria	42.04	62.38	20.00	6.67
December 15, 2009	Second review, based on end-September 2009 performance criteria	42.04	62.38	20.00	6.67
February 15, 2010	Observance of end-December 2009 performance criteria	42.04	62.38	20.00	6.67
June 15, 2010	Third review, based on end-March 2010 performance criteria	42.04	62.38	20.00	6.67
September 15, 2010	Fourth review, based on end-June 2010 performance criteria	42.04	62.38	20.00	6.67
Total		630.60	935.65	300.00	100.00

Source: Fund staff estimates.

1/ US$/SDR exchange rate of 0.673967 as of May 12, 2010.

Table 8. Guatemala: Indicators of Fund Credit 2009-2015 1/

		Projections					
	2009	2010	2011	2012	2013	2014	2015
Stocks from prospective drawings 2/							
Fund credit in millions SDR	0.0	630.6	630.6	630.6	478.2	162.9	0.0
In percent of quota	0.0	300.0	300.0	300.0	227.5	77.5	0.0
In percent of GDP	0.0	2.3	2.2	2.1	1.5	0.5	0.0
In percent of exports of goods and services	0.0	10.2	9.7	9.0	6.4	2.0	0.0
In percent of gross reserves	0.0	18.0	17.0	16.7	12.3	4.1	0.0
Flows from prospective drawings 3/ 4/							
Principal (Millions SDR)	0.0	0.0	0.0	0.0	152.4	315.3	162.9
Interest and charges (Millions SDR)	0.0	6.0	7.8	7.8	7.7	4.9	1.1
Total (Millions SDR)	0.0	6.0	7.8	7.8	160.1	320.2	164.1
In percent of quota	0.0	2.9	3.7	3.7	76.2	152.3	78.0
In percent of GDP	0.0	0.0	0.0	0.0	0.5	1.0	0.5
In percent of exports of goods and services	0.0	0.1	0.1	0.1	2.1	4.0	1.9
In percent of gross reserves	0.0	0.2	0.2	0.2	4.1	8.0	4.1

Sources: Bank of Guatemala; IMF Finance Department; and Fund staff estimates.
1/ Assumes a US$/SDR exchange rate of 0.673967 as of May 12, 2010.
2/ End of period.
3/ At a constant basic rate of charge in the GRA of 1.23 percent plus 0.01 basis points for burden sharing.
4/ Excluding commitment charges.

Guatemala City, May 28, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. Performance under the Stand-By Arrangement with the Fund approved in April 2009 continues to be satisfactory. All quantitative performance criteria for end-December 2009 and end-March 2010 have been met (Table 1). The targets on net international reserves and the overall balance of the central government were met by a wide margin. Government deposits at the central bank were above the indicative target for end-March. Consumer price inflation stood at 3.9 percent (year-over-year) as of end-March 2010, within the inner band agreed under the program. The two structural benchmarks for end-December (on bank's liquidity and foreign currency risk management) were met.

2. The outlook for the Guatemalan economy is improving. Economic activity in 2009 was affected by the global crisis but a gradual recovery is now under way. During 2009 real GDP grew by 0.6 percent, faster than in other countries in the region, as moderately countercyclical fiscal and monetary policies helped mitigate the effects of the economic downturn and protect the neediest segments of the population, while preserving macroeconomic and financial stability. For 2010 the monthly indicator of economic activity suggests a stronger pace of growth; exports, imports and tax revenues are increasing, and net private capital flows are picking up. We now expect that economic growth in 2010 would be between 1.7 percent and 2½ percent.

3. We remain committed to begin fiscal consolidation in 2010 in order to rebuild fiscal space and maintain sustainable public debt dynamics. We are maintaining the target for the fiscal deficit of the central government for end-2010 at 3.1 percent of GDP, which is consistent with a gradual withdrawal of the fiscal stimulus delivered in 2009. If fiscal revenue were significantly higher than projected, we are committed to reduce the deficit further. The deficit of the consolidated public sector is expected to reach 2.6 percent of GDP and will be financed with loans from multilateral organizations and the issuance of treasury bonds.

4. We remain firmly committed to maintaining medium-term fiscal sustainability. Additional efforts are needed to return the fiscal balance to pre-crisis levels, stabilize the public debt-to-GDP ratio, and ensure an adequate provision of public goods while gradually fulfilling the goals of the 1996 Peace Accords.

5. The Monetary Board has kept the policy interest rate unchanged at 4.5 percent since September 2009. Inflation in early 2010 has increased owing to base effects and one-off increases in food prices and electricity. These were associated to the draught and the increase in international oil prices, however, and we continue to foresee a benign inflation outlook. We

project consumer price inflation in 2010 to be around 5.5 percent, within the target band set by the Monetary Board, and in line with the quarterly consultation band set under the program. The monetary authorities will stand ready to adjust the policy rate as needed. More broadly, monetary policy will continue to be geared at complying with the official inflation target in the context of a flexible exchange rate regime. Intervention in the foreign exchange market will remain geared at smoothing out excessive volatility, while allowing for movements driven by fundamentals. We expect international reserves to remain at comfortable levels.

6. Our financial system has been resilient to the economic slowdown. We have continued strengthening the regulatory framework and, in April, started to implement new regulations on liquidity and foreign currency credit risk management (structural benchmarks under the program). In addition, the gradual approach to ensure the full provisioning of nonperforming loans by 2011 continues to be implemented as scheduled. We remain committed to work closely with Congress to seek approval for the amendments to the banking legislation, which are at the core of our strategy to further strengthen our regulatory and supervisory framework.

7. In light of this performance and our continued commitment to the program, we request completion of the third review under the Stand-By Arrangement. Our intention is to continue treating the arrangement as precautionary. The quarterly performance criteria, the inflation consultation clause, and the indicative targets under the program are set out in Table 1. The only changes from the criteria set during the previous review are (i) a lowering of the indicative target for Government deposits at the central bank for end-June (to take account of delays in Congressional approval of the borrowing plan for 2010) and (ii) an upward shift of the inflation consultation bands.

8. We believe that the policies set forth in this letter, which supplement our letter and Memorandum of Economic and Financial Policies (MEFP) of April 13, 2009, our letter of September 4, 2009, and our letter of November 20, 2009, are adequate to meet the objectives of our economic program. We stand ready to take additional measures that may be needed for this purpose and will maintain the usual close and proactive policy dialogue with the Fund.

Sincerely yours,

/s/

Juan Alberto Fuentes Knight
Minister of Finance

/s/

Maria Antonieta del Cid Navas de Bonilla
President, Central Bank of Guatemala

Attachment

Table 1. Guatemala: Quantitative Performance Criteria, Indicative Targets, and Inflation Consultation Clause

	2009		2010							
	End-Dec		End-Mar		End-Jun		End-Sept		End-Dec	
	1/	Est.	1/	Est.	1/	Proposed	1/	Proposed	1/	Proposed
Performance Criteria (for end-December 2009, end-March and end-June 2010; indicative targets otherwise).										
Overall balance of the central government, floor (millions of quetzales) 2/	-10,600	-9,684	-3,000	-1,215	-5,000	-5,000	-8,000	-8,000	-10,000	-10,000
Net international reserves, floor (millions of US$)	4,000	4,797	4,000	5,119	4,000	4,000	4,000	4,000	4,000	4,000
Accumulation of external arrears 3/	0	0	0	0	0	0	0	0	0	0
Indicative Targets										
Central government deposits at Banguat, floor (millions of quetzales)	4,900	5,209	4,900	5,365	6,300	5,000	4,400	4,400	3,800	3,800
Consultation clause on inflation 4/										
Outer band, upper limit	3.8	3.8	6.5	6.5	7.5	7.5	7.5	8.5	7.0	8.5
Inner band, upper limit	2.8	2.8	5.5	5.5	6.5	6.5	6.5	7.5	6.0	7.5
Inner band, lower limit	-1.2	-1.2	1.5	1.5	2.5	2.5	2.5	3.5	2.0	3.5
Outer band, lower limit	-2.2	-2.2	0.5	0.5	1.5	1.5	1.5	2.5	1.0	2.5

1/ Staff Report for the 2009 Article IV Consultation and Second Review under the SBA.
2/ Cumulative from end of preceding year.
3/ Continuous performance criterion.
4/ Deviations from the band's limits will trigger consultations with the Fund, as indicated in the TMU.

Statement by the IMF Staff Representative
June 16, 2010

1. This statement summarizes information that has become available since the issuance of the Staff Report. The new information does not alter the thrust of the staff appraisal.

2. **Economic activity continues to recover and inflation remains moderate**. The monthly index of economic activity (IMAE) increased by 0.3 percent in March (m/m seasonally-adjusted), taking the 12-month growth rate of the index to 2.5 percent. Also, in May, the consumer price index fell by 0.1 percent, bringing the 12-month inflation rate to 3.5 percent (3.8 percent in April). External trade flows and remittances continue to recover.

3. **Natural disasters hit Guatemala in late May, causing losses of human lives and damaging public infrastructure and agriculture**. On May 27, the eruption of a volcano near Guatemala City disrupted transportation and compromised air quality. On May 29–30, a powerful tropical storm hit the coast, causing at least 170 deaths and sending some 90 thousand people to shelters. In addition, 18 major bridges collapsed and considerable damage was inflicted to public roads, water systems, and agricultural crops. The government has requested assistance from the Economic Commission for Latin America and the Caribbean (ECLAC), the World Bank, and the Interamerican Development Bank to assess the economic impact of the storm. Although preliminary estimates are only expected by end-June, staff's sense, based on past similar episodes, is that this natural disaster will not derail the program or affect the economic outlook materially.

4. **Despite the tragedy, the authorities intend to adhere closely to the fiscal deficit for 2010 proposed in the letter of intent (3.1 percent of GDP for the central government)**. While the storm is not expected to have major effects on tax collections, spending on the affected areas will have to increase. To this effect, the government plans to reallocate and prioritize budgeted spending to the extent possible. The authorities will consider further revisions to the spending plan once the assessment of the damage becomes firmer; however, it is expected that public debt dynamics will remain broadly in line with the projections in the staff report.

Press Release No. 10/250
FOR IMMEDIATE RELEASE
June 17, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Concludes Third Review of Guatemala's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) on June 16 concluded the third review of Guatemala's economic performance under a program supported by an 18-month Stand-By Arrangement (SBA). The Guatemalan authorities intend to continue treating the arrangement as precautionary.

The arrangement, in the amount equivalent to SDR 630.6 million (about US$927.2 million) was approved on April 22, 2009 (see Press Release No. 09/142). With completion of the review, a total equivalent to SDR 588.6 million (about US$865.4 million) is available for drawing.

Following the Executive Board's discussion on Guatemala, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Guatemala's economic recovery is firming up. The authorities' strong policy response to the global crisis, supported by a Stand-By Arrangement with the Fund, has provided a solid foundation for the recovery. With a more benign global outlook, real GDP growth is expected to exceed 2 percent in 2010, which is significantly higher than envisaged in the previous review. Downside risks to the outlook have declined further and stem mainly from a slower recovery in the United States and a sharper rise in oil prices.

"Performance under the program has been strong. All end-December 2009 and end-March 2010 quantitative performance criteria were met comfortably, and inflation stayed within the inner consultation band agreed in the program. The 18-month Stand-By Arrangement with the Fund is expected to remain precautionary.

"Fiscal policy in 2010 has begun withdrawing the stimulus of previous years, helping contain the public debt-to-GDP ratio. While revisions to the 2010 spending plan may be necessary once the assessment of the damage caused by the tropical storm Agatha is completed, the authorities remain firmly committed to maintaining medium-term fiscal sustainability. They are also aware that implementing a comprehensive revenue-enhancing reform remains critical to sustain social spending, increase investment, and keep public debt low.

“The monetary policy stance remains appropriate. It is important to remain vigilant and ready to tighten if evidence suggests the emergence of inflationary pressures. Exchange rate flexibility remains essential to absorb shocks and enhance the inflation targeting framework.

“Continued progress has been made in advancing the financial sector reform agenda, including implementation of the regulations on liquidity and foreign-currency credit risk management. Additional efforts are still needed to increase the resilience of the financial system, including passage by Congress of the amendments to the banking law,” Mr. Portugal said.

Statement by Mr. Guzmán, Executive Director for Guatemala
and Mr. Gramajo-Marroquin, Senior Advisor
June 16, 2010

We would like to thank the Staff for a concise and helpful report. Our Authorities broadly agree with the Staff's assessment and recommendations. Performance under the Stand-By arrangement continues to be satisfactory; all end-December 2009 and end-March 2010 quantitative performance criteria were met. The targets for net international reserves and the overall deficit of the central government were met by a wide margin, government deposits at the central bank were above the indicative target for end-March, and annual inflation as of end-March 2010 remained within the inner consultation band. In addition, the two structural benchmarks for end-December 2009 (on banks' liquidity and foreign currency risk management) were met.

Recent Developments and Outlook. Economic activity in 2009 was hit by the global crisis, but a gradual recovery is now under way. Although during 2009 real GDP grew only 0.6 percent, this performance was better than in other countries in the region as moderate countercyclical fiscal and monetary policies helped mitigate the effects of the economic slowdown and protect the poorest segments of the population, while trying to preserve macroeconomic and financial stability. For 2010, short-term indicators suggest economic activity is picking up; imports, exports and tax revenues are rising, and net private capital flows are increasing. In that context, our Authorities expect that economic growth in 2010 would be within a range of 1.7 percent to 2.5 percent.

Notwithstanding, as some of you may be aware, after being affected by the Pacaya volcano on May 27 (nearly 60 miles around the volcano were covered with volcanic sand), Guatemala was hit by tropical storm Agatha two days after, causing not only important human losses, but also serious destruction of basic infrastructure. The Government, as well as a team of experts from ECLAC, IDB, IMF and the World Bank will be evaluating economic damages. However, given that Central Bank's baseline scenario is close to the upper limit of the mentioned range (2.5 percent), the Authorities estimate that in spite of Agatha's effects real GDP growth for 2010 would fall within the estimated range.

Fiscal Policy. Our Authorities remain committed to begin fiscal consolidation in 2010 in order to create fiscal space and maintaining sustainable public debt dynamics. They are keeping the target for the fiscal deficit of the central government for end-2010 in line with 3.1 percent of GDP, which is consistent with a gradual withdrawal of the fiscal stimulus delivered in 2009. The deficit of the consolidated public sector is expected to reach 2.6 percent of GDP and will be financed with loans from multilaterals and the issuance of treasury bonds. The ECLAC/IDB/IMF/World Bank report is expected to provide a clearer picture of economic prospects in general. In that sense, our fiscal authorities do not envisage significant impacts on tax revenues. Although spending in the affected areas will be increased, the government intends to cover this by reallocating budget expenses; therefore, total expenditure will rise only to the extent that those additional expenditures may not be covered by the reallocation. As staff has mentioned, our Authorities will consider further reviews to the spending plan once the assessment of damages is completed, and they share the staff's view that public debt dynamics will remain broadly consistent with current projections. Despite these new challenges, our fiscal authorities remain firmly committed to maintaining medium-term fiscal sustainability and will persist in seeking Congress support for revenue measures.

Monetary and Exchange Rate Policy. The Monetary Board has kept the policy interest rate unchanged at 4.5 percent since September 2009. Inflation in early 2010 increased mainly owing to one-off increases in food prices and electricity (associated to the draught and the increase in international oil prices); therefore, we do not see important underlying inflationary pressures. Our Authorities project annual inflation in 2010 to be around the upper limit of the target band set by the Monetary Board (between 4 - 6 percent), concordant with the quarterly consultation band set under the arrangement. Moreover, monetary policy will continue to be aimed at complying with the inflation target and the monetary authorities stand ready to adjust the policy rate as needed. In the context of a flexible exchange rate regime, intervention in the FX market will remain intended to smooth out excessive volatility, while permitting movements driven by fundamentals.

Financial Sector. The financial system has been resilient to the global crisis and remained well capitalized and liquid. The regulatory framework has been strengthened further. In April, Authorities started to implement new regulations on liquidity and foreign currency credit risk management (structural benchmarks under the program). Moreover, the gradual approach to ensure the full provisioning of nonperforming loans by 2011 has been implemented ahead of schedule. Our Authorities remain committed to work closely with Congress to obtain approval for the amendments to the banking legislation, which are a key priority of their strategy to further strengthen the regulatory and supervisory framework.

Structural Advances. In April, Congress approved the law on Private-Public Partnerships, which represents a consistent and comprehensive framework to improve the provision of public services and goods (particularly basic infrastructure), while allowing the use of fiscal resources for social spending.

Statistical Issues. Our Authorities share Staff's view related to further improving the balance of payments statistics, including the reduction of errors and omissions, which in 2009 represented 2.1 percent of GDP. In that context, the Central Bank has been working to increase survey response from enterprises involved in external transactions (including FDI). Those efforts, among others, would reduce the magnitude of errors and omissions to about 0.5 percent of GDP starting this year (Staff report, Table 2).

In light of the performance under the arrangement, our Authorities request completion of the third review under the Stand-By Arrangement. They continue treating the arrangement as precautionary and their commitment to the program remains strong.

Finally, our Authorities believe that the ongoing policies are adequate to meet the objectives of their economic program, which have been effectively supported by the Stand-By Arrangement with the Fund.