February 2010
IMF Country Report No. 10/36

Guatemala: 2009 Article IV Consultation and Second Review Under the Stand-By Arrangement, and Requests for Modification of Performance Criterion and Consultation Clause—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guatemala.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2009 Article IV consultation with Guatemala and Second Review Under the Stand-By Arrangement, and Requests for Modification of Performance Criterion and Consultation Clause, the following documents have been released and are included in this package:

- The staff report for the combined 2009 Article IV consultation and Second Review Under the Stand-By Arrangement, and Requests for Modification of Performance Criterion and Consultation Clause, prepared by a staff team of the IMF, following discussions that ended on November 12, 2009, 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 November 25, 2009. 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 December 10, 2009, updating information on recent economic developments.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 16, 2009, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- 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*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

GUATEMALA

Staff Report for the 2009 Article IV Consultation, Second Review Under the Stand-By Arrangement and Requests for Modification of Performance Criterion and Consultation Clause

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

Approved by Patricia Alonso-Gamo (WHD) and Dominique Desruelle (SPR)

November 24, 2009

Executive Summary

Economic outcomes. There are signs that the Guatemalan economy is starting to recover. Real GDP growth and inflation are picking up, imports have begun to grow and net private capital flows have stabilized. The exchange rate has depreciated by 6.6 percent in 2009. International reserves are higher than at end-2008. The financial system continues to hold up well.

Policy implementation. Program implementation remains strong. Moderately countercyclical policies have helped preserve stability and mitigate the growth slowdown. All end-September quantitative performance criteria were met and annual inflation stood within the inner consultation band set in the program. The 18-month Stand-By Arrangement is expected to remain precautionary.

Outlook and risks. Real GDP growth is likely to remain low and inflation subdued. Over the medium term, economic growth is expected to be weaker than prior to the global crisis and inflation to stabilize at trading partners' levels. Downside risks could materialize if the incipient U.S. recovery falters.

Program discussions. Macroeconomic policies will have limited scope to continue supporting demand in 2010; revenue-enhancing measures are needed to stabilize public debt ratios over the medium term. Staff proposes revising end-March and end-June fiscal deficit targets to provide room for front-loaded spending in 2010, lowering the inflation consultation bands given a benign inflation outlook, and changing the frequency of program reviews from quarterly to semi-annual as downside risks to the program have diminished.

Medium-term challenges. The Article IV consultation discussions focused on:

- ***Achieving higher growth***. Increasing investment levels and productivity is key. For this, it will be critical to create consensus on a comprehensive revenue reform to increase public investment and social spending, further enhance the business climate, and boost competitiveness.
- ***Anchoring low inflation***. It is important to continue improving communication with the market, maintain exchange rate flexibility, and further strengthen the interest rate channel of monetary policy transmission.
- ***Increasing the resilience of the financial system***. Implementing the amendments to the banking law and the regulations on liquidity and foreign-currency credit management will be critical.

Exchange Rate Arrangement. Guatemala has a floating exchange rate regime, has accepted the obligations of Article VIII, Sections 2, 3, and 4, and its exchange system is free of restrictions on the making of payments and transfers for current transactions.

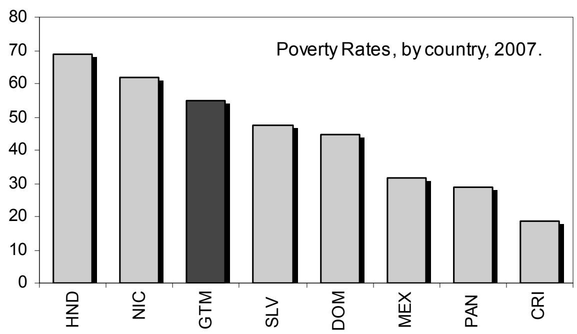
Contents Page

I. Background

1. **The 2009 Article IV consultation and Second Review under the Stand-By Arrangement (SBA) took place against the background of an incipient global recovery and continued macroeconomic stability in Guatemala**.[1] Although it has been negatively affected by the global crisis, the Guatemalan economy has maintained higher growth than other countries in the region. Still, output growth has slowed considerably (driven by declines in exports, remittances, tourism receipts, investment, and capital inflows), and inflationary pressures have eased. Yet, the latest data suggest that the recovery is gaining steam (Figure 1).

2. **The authorities' economic policies, supported by the 18-month SBA with the Fund, have helped preserve macroeconomic stability and mitigate the impact of the global crisis**. The authorities' strategy has focused on adopting moderately countercyclical fiscal and monetary policies, maintaining exchange rate flexibility, advancing reforms to further strengthen the financial sector, and refocusing public expenditures toward social spending and infrastructure—as set out in the National Program of Emergency and Economic Recovery (PNERE).

Poverty is high by regional standards



Source: ECLAC, Social Panorama 2008.

3. **The medium-term challenges for Guatemala, however, remain significant**. The macroeconomic policy framework should be strengthened further. The scope for countercyclical fiscal policies is limited by a low and volatile tax revenue-to-GDP ratio stemming from political opposition to higher taxes, frequent recourse to temporary taxes and tax exemptions, and budgetary rigidities. In staff's view, the speed of monetary policy actions could be constrained by the composition of the Monetary Board. However, Guatemala's strong record of low inflation and macroeconomic stability suggests that such constraint has not materialized so far.[2] Reforms to enhance governance, strengthen institutions, and increase and improve the provision of public goods have proceeded slowly. To attain higher growth and productivity while preserving macroeconomic stability, it will be necessary to make significant gains on all these fronts, including by reaching consensus on a revenue-enhancing reform in line with the goals of the 1996 Peace Accords. Regarding the financial sector, there is scope to further enhance crisis preparedness and resolution procedures, and to improve credit and currency risk management.

---

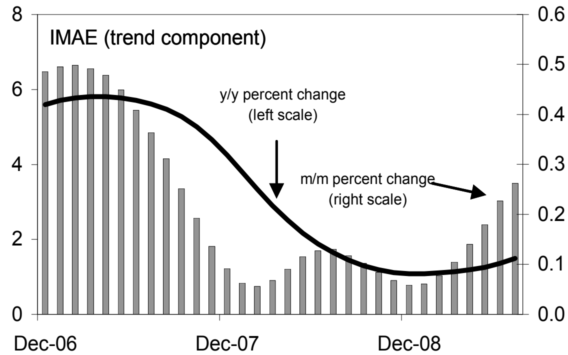
[1] Discussions were held in Guatemala City during November 3–12. The staff team comprised Mr. López-Mejía (Head), Ms. Martin, Mr. Morra (all WHD), Mr. Fenochietto (FAD), and Mr. Henn (SPR), and was assisted by Mr. Delgado (regional resident representative). The mission met with President Colom, Central Bank President de Bonilla, Minister of Finance Fuentes Knight, other members of the economic cabinet, members of Parliament, Superintendent of Banks Barquín, other senior officials, academics, and representatives of the private sector. Mr. Gramajo (OED) joined some meetings.

[2] The Monetary Board's composition is determined by the country's Constitution. However, the 2002 Organic Law of the Central Bank enhanced the financial and operational autonomy of the Central Bank. Moreover, since 1993 the constitution forbids central bank's credit (direct or indirect) to the public sector.

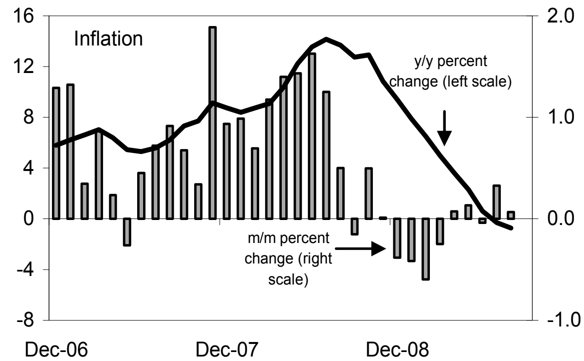
Figure 1. Guatemala: Recent Economic Developments

While economic growth has slowed, there is evidence of an incipient recovery.

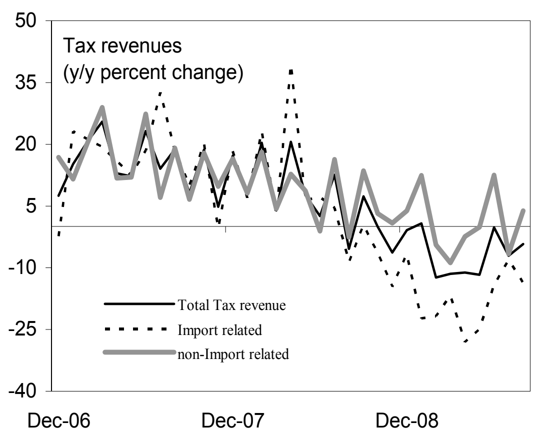
The economic slowdown seems to be reaching an end.



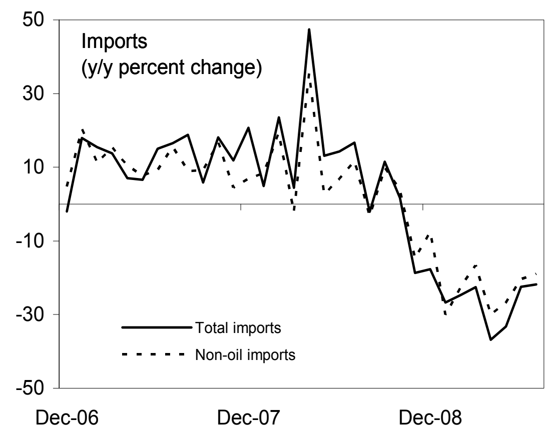
Inflation has bottomed out ...



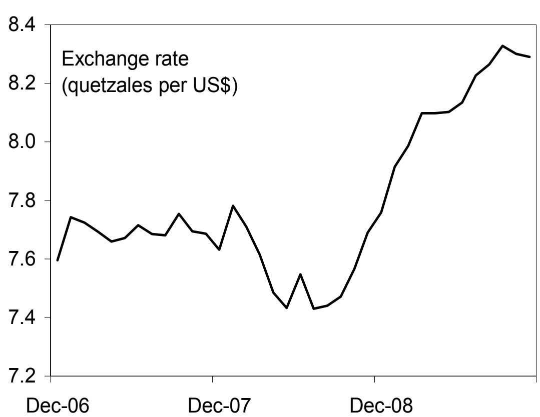
… as has the decline in tax revenues.



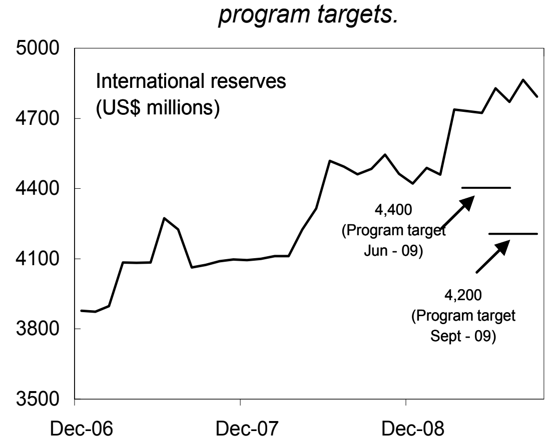
While the recovery of imports ...



… has contributed to a small depreciation,



… international reserves remain above program targets.



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

II. Recent Developments

4. **Economic activity is recovering while inflation remains low** (Figures 1 and 2). After stagnating during the first quarter of 2009, the monthly indicator of economic activity resumed growth (month-on-month seasonally-adjusted) in the second quarter. Consumer prices began to increase again in April, but monthly inflation remains low (0.2 percent, on average, during April–October). As of end-October, annual headline inflation was -0.6 percent.

5. **Balance of payments trends are improving**. The surplus in the external current account was smaller in the second quarter than during the first quarter, as exports and remittances stabilized and imports began to recover (month-on-month) (Figure 3). Net private capital flows remained negative as banks continued to repay external credit lines, but improved compared to the first quarter. While complete balance of payments data for the third quarter are not yet available, preliminary evidence from foreign exchange flows indicate that private capital outflows have slowed.

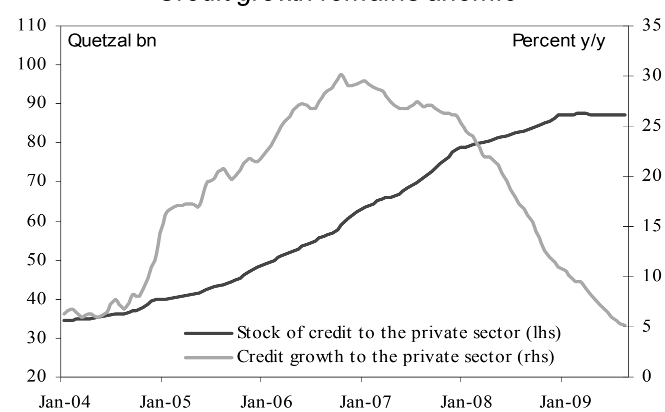
The external adjustment is beginning to reverse

	2008		2009	
	Q3	Q4	Q1	Q2
	(Millions of USD)			
Current Account Balance	-448	-380	205	94
Trade Balance (Goods)	-1,436	-1,268	-556	-678
Exports	2,098	1,703	1,859	1,872
Imports	-3,534	-2,971	-2,415	-2,549
Remittances	1,177	1,042	935	1,037
Other	-189	-153	-175	-265
Financial Account Balance	295	254	70	-44
Public	-52	46	295	98
Private	347	208	-225	-142
FDI	213	154	166	166
Other	134	54	-390	-307

Source: Bank of Guatemala.

6. **The financial system has remained resilient**. With bank deposits maintaining their growth momentum (12.2 percent y-o-y as of September) and credit stagnant, liquidity is ample. Capitalization levels remain high (13.5 percent of risk-weighted assets as of September 2009). As the economy has slowed, nonperforming loans have risen moderately and profitability has declined.

Credit growth remains anemic

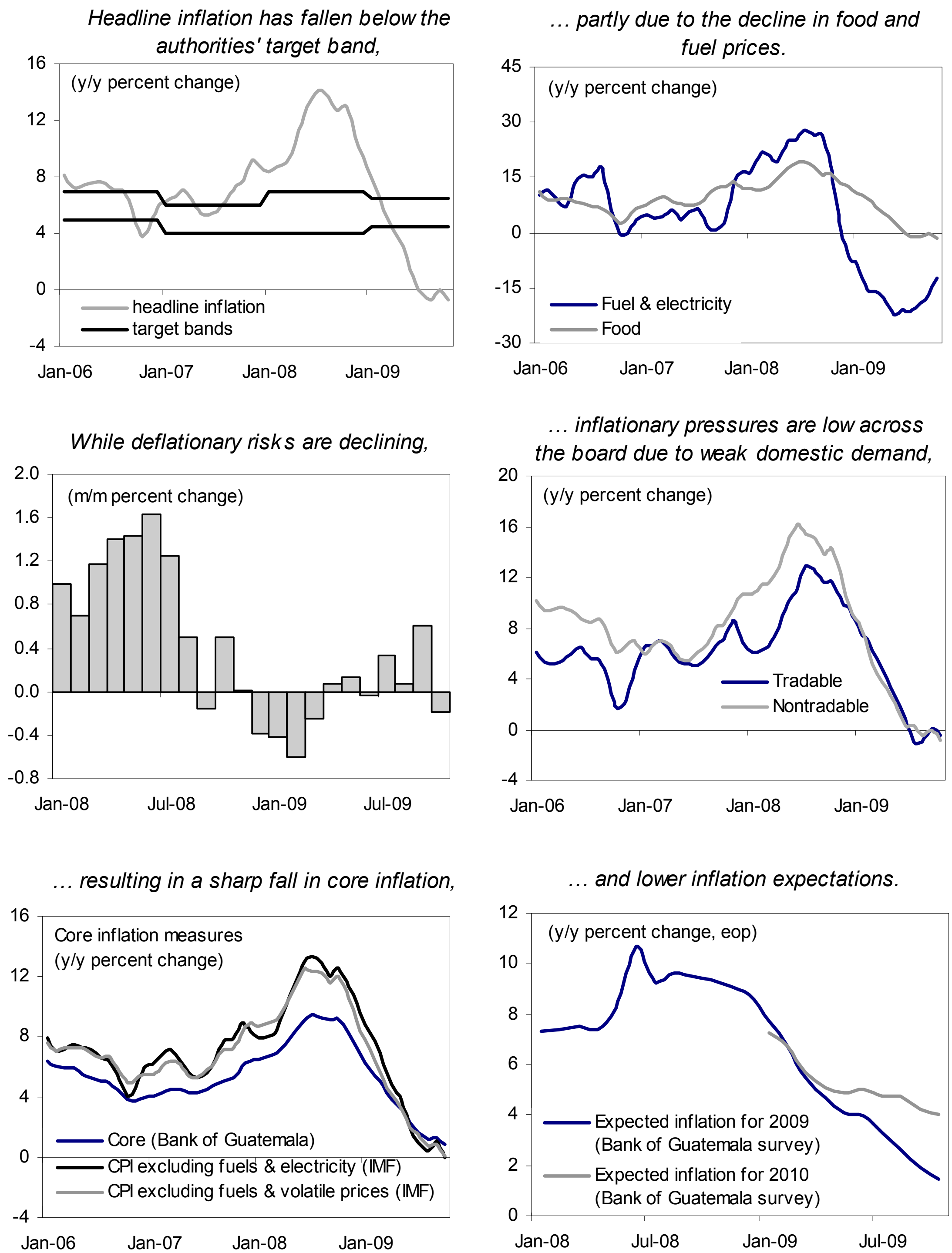


Source: Bank of Guatemala

7. **Exchange rate pressures have been short-lived**. Following a moderate depreciation during July–September, the quetzal has appreciated by 1 percent since early October. Still, the nominal exchange rate has depreciated 6.6 percent in 2009. In the third quarter, the central bank sold US$221 million in the interbank/foreign exchange market, half of it on a discretionary basis. In late September,

Figure 2. Guatemala: Inflation Developments

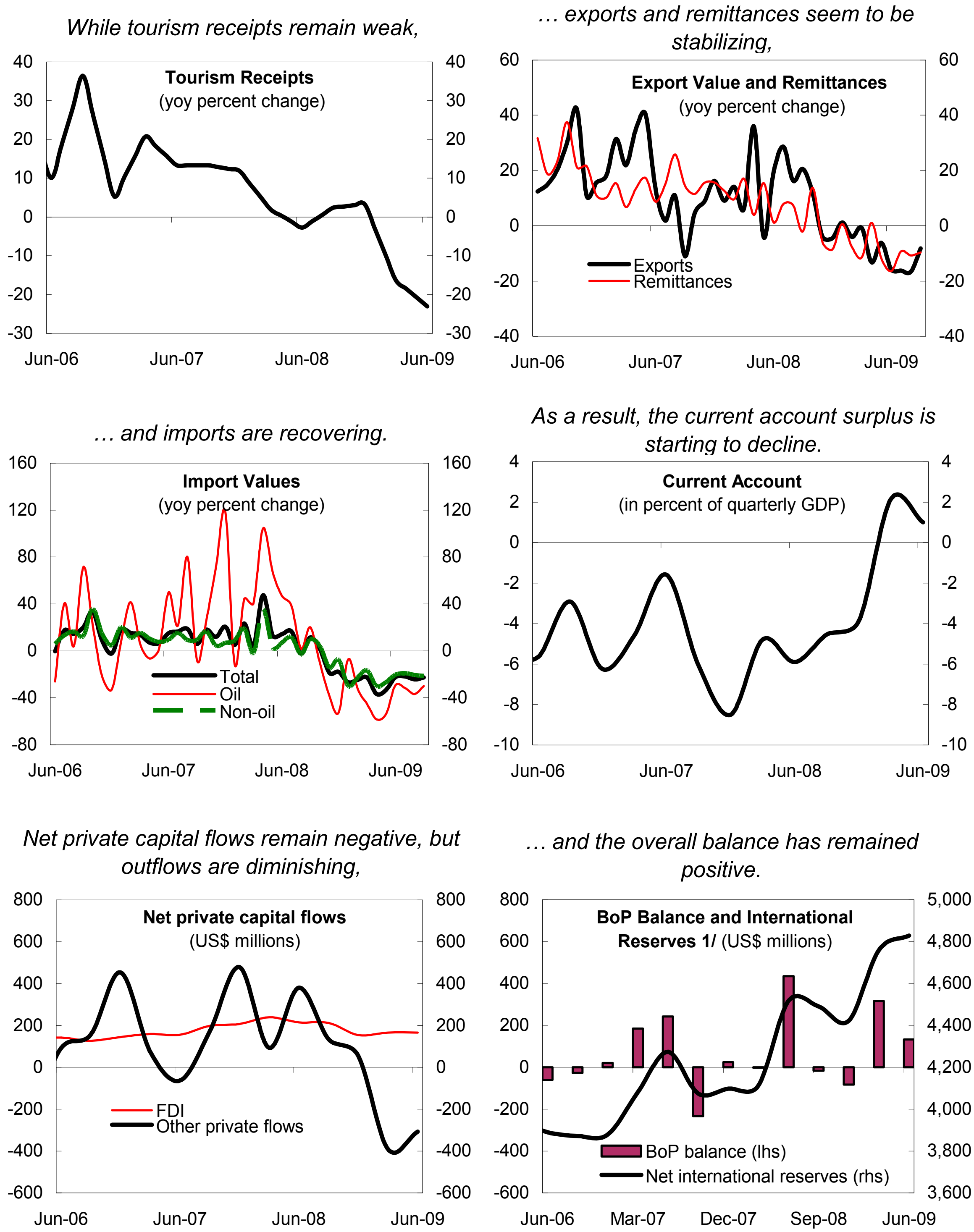
The decline in food and fuel prices and the economic slowdown reduced inflation pressures.



Sources: Bank of Guatemala; and Fund staff estimates.

Figure 3. Guatemala: External Sector Developments, 2006-2009

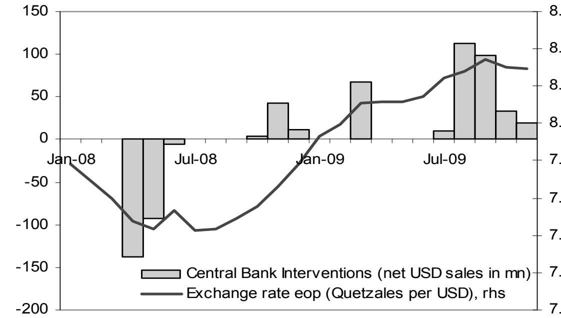
The contraction of the current and capital accounts is starting to unwind.



Sources: Bank of Guatemala; and Fund staff estimates.
1/ Including SDR allocation.

the authorities modified their foreign exchange intervention rule by allowing the central bank to intervene by up to US$32 million daily from US$24 million previously. There has been little intervention since late September. As of end-October, net international reserves were US$4.5 billion (excluding the SDR allocation) compared to US$4.4 billion at end-2008.

Central bank intervention has aimed at smoothing exchange rate volatility



Source: Bank of Guatemala

8. **The authorities have continued to implement moderate counter-cyclical policies to support domestic demand**. In September, the Monetary Board reduced the policy interest rate by 25 basis points to 4.50 percent (from 7.25 percent at end-2008), though the monetary easing has had limited impact on bank lending rates. The fiscal deficit reached 1.4 percent of GDP during January–September, owing to a decline of 7.6 percent (y-o-y) in tax revenues and a 13.2 percent (y-o-y) increase in spending. The authorities have placed all the domestic bonds planned for 2009, and Congress has recently approved a loan from the World Bank (for US$350 million, of which US$150 million will be disbursed in 2009).

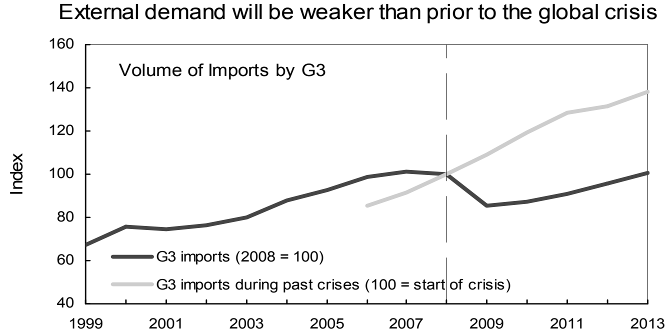
9. **Program implementation continues to be strong**. All end-September quantitative performance criteria were met, annual inflation stood within the inner consultation band, and government deposits at the central bank were above the indicative target.

III. Policy Discussions

A. Macroeconomic Outlook and Risks

10. **The near-term outlook is of a gradual recovery**. Real GDP growth is projected to be around 0.4 percent in 2009 and rise to 1.3 percent in 2010. With output below potential, inflation is expected to remain low, closing 2009 at around 0.8 percent and rising to 4 percent by end-2010 owing to base effects and higher oil prices. The external current account is projected to post a small deficit by end-2009 as the economy recovers.

External demand will be weaker than prior to the global crisis



Source: Fund staff estimates.

11. **Over the medium term, growth is expected to be lower than prior to the global crisis**. The United States (Guatemala's main trading partner) is unlikely to provide the stimulus to external demand of previous years; domestic macroeconomic policies will have limited scope to support domestic demand; and the effects of structural reforms will take time to stimulate domestic sources of growth. As a result, staff envisages that, over the medium term, real GDP will grow at about 3½ percent (compared to a medium-term growth assumption of 4 percent at program approval), with private investment gradually

returning to pre-crisis levels, and inflation stabilizing at around 4 percent. The external current account deficit is projected to fluctuate around 4–4½ percent of GDP.

12. **Risks to the economic outlook have moderated**. The stabilization of global and domestic financial conditions have reduced risks of large private capital outflows and a disorderly depreciation of the quetzal. However, Guatemala's close ties to the United States (through trade, the banking system and remittances) suggest that downside risks could materialize if the incipient U.S. recovery falters. In addition, lack of success in lowering the fiscal deficit and reining in public debt could have adverse effects on confidence and economic performance.

The recovery is expected to be slow

	2008	2009	2010	2011	2012	2013	2014
		proj.					
	(Annual percentage change)						
Real GDP growth	4.0	0.4	1.3	2.5	3.5	3.5	3.5
Inflation (end of period)	9.4	0.8	4.0	4.0	4.0	4.0	4.0
	(Percent of GDP)						
Central government balance (without revenue reform)	1.6	3.4	3.1	2.7	2.5	2.5	2.5
Public sector debt	20.4	23.1	25.5	27.2	28.0	28.9	29.6
Current account balance	-4.8	-1.0	-2.7	-3.4	-3.9	-4.2	-4.4
Capital account balance	4.1	0.8	3.7	3.7	4.0	4.6	4.5
Net international reserves (in US$ billion)	4.4	4.6	5.1	5.5	5.7	6.1	6.5

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

B. Program Discussions

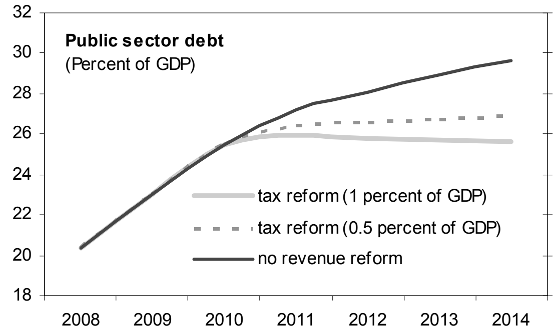
Fiscal Policy

13. **There was agreement that fiscal policy should continue striking a balance between supporting demand and preserving fiscal sustainability**. Staff supported the fiscal policy stance adopted by the authorities in 2009, which accommodated a revenue decline of 1.3 percent of GDP while raising spending in social programs and public works by 0.3 percent of GDP. The policies are projected to raise the fiscal deficit to 3.4 percent of GDP in 2009 (from 1.6 percent of GDP in 2008), delivering a stimulus of about 0.4 percent of GDP during the year. However, the authorities noted that delays in executing some expenditure could result in a somewhat lower fiscal deficit. The authorities and staff concurred that the scope for maintaining an expansionary fiscal policy stance in 2010 was limited by the low tax revenue ratio (10 percent of GDP) and the need to preserve fiscal sustainability. In line with this view, the draft 2010 budget (expected to be approved by Congress by end-November), envisages a gradual withdrawal of the fiscal stimulus by targeting a fiscal deficit of 3.1 percent of GDP. As part of their financing program, the authorities envisage placing a US$500 million bond in international markets in 2010.

14. **Staff welcomed the authorities' commitment to safeguarding medium-term fiscal sustainability**. The fiscal deficits projected for 2009 and 2010 are expected to raise the public debt-to-GDP ratio to 25½ percent by end 2010 (up from 20.4 percent in 2008). Staff

stressed that it will be important to stabilize the public debt-to-GDP ratio at around the level expected for end-2010. Moreover, staff argued that it would not be prudent to rely on tax buoyancy in the upcoming recovery to attain that goal. Staff projects that the tax revenue-to-GDP ratio will remain below pre-crisis levels owing to lower tax compliance during the downturn, subdued import levels, and the implementation of the law on free trade zones.[3] The mission underscored that stabilizing the debt-to-GDP ratio could require revenue measures for about 1 percent of GDP to reduce the fiscal deficit to 1.7 percent of GDP by 2011.[4] The authorities agreed that additional efforts were needed to reduce the fiscal deficit to pre-crisis levels and stabilize debt dynamics.

A revenue reform is needed to stabilize the public debt-to-GDP ratio



Source: Fund staff estimates.

15. **A draft law has been submitted to Congress increasing stamps and corporate income tax rates and creating a tax on mobile phone usage**. The changes could yield revenues for up to 1.0 percent of GDP and come into effect in 2010 to finance higher expenditures, mostly in education, health, security, and transfers to municipalities. The mission welcomed the effort to increase revenues, noting that the impact of the proposed changes to direct taxation will be felt mostly in the second half of 2010 and should not jeopardize the incipient economic recovery. Staff stressed the need to strengthen tax administration and recommended that any excess of tax revenues over the amounts projected be used to reduce the fiscal deficit below the target and not to increase spending.

16. **The authorities and staff agreed on the need to continue increasing fiscal transparency and improving efficiency and expenditure management**. The authorities noted that the amount of information available online has increased and procurement systems have been enhanced. In addition, with technical assistance from the World Bank and the InterAmerican Development Bank, progress has been made on the design, implementation, and monitoring of the conditional cash transfer program *Mi Familia Progresa*. However, weaknesses in budget controls have led to the accumulation of domestic arrears (of about 0.2 percent of GDP), though they are expected to be fully cleared before year end. The authorities restated their commitment to enhance mechanisms of expenditure management and control as well as transparency, including that of trust funds (used to execute expenditure). To this end, the authorities have established a register of infrastructure contracts and are committed to increase the amount of public information available and make allocations to trust funds dependent on disclosure of their spending records.

---

[3] However, the law on free trade zones has recently been challenged in the constitutional court.

[4] In IMF Country Report No. 09/305, staff had estimated that additional revenue, equivalent to ½ percent of GDP were necessary to stabilize the public debt-to GDP ratio. That estimate assumed the adoption of a reform to the system of indirect taxes, which was withdrawn from Congress in August 2009; the estimate also did not take into account the implementation of the law on free trade zones.

Monetary, Exchange Rate, and Financial Sector Policies

17. **Staff noted that the gradual easing of the monetary policy stance has been appropriate, including to help avoid disorderly exchange rate movements**. Even though the inflation outlook remains benign, and the consultation bands were lowered accordingly, upward risks stem from potential future increases in oil prices. In view of this, it was agreed that the central bank should remain vigilant and adjust the policy rate as needed to anchor inflation expectations around the official inflation target (5 percent by end-2010 and end-2011, plus/minus one percentage point).

18. **The authorities and staff agreed that exchange rate flexibility has helped cushion the impact of the crisis**. In particular, the depreciation helped mitigate the impact of the decline in remittances on demand and contributed to reverse a mild overvaluation of the quetzal (¶24). There was also agreement that the recent modification to the intervention rule had allowed more timely interventions and helped manage market expectations. At the same time, staff reiterated that exchange rate flexibility is key to strengthening the inflation-targeting monetary policy framework over the medium term.

Volatility has been lower than in other countries with flexible exchange rates

	2007	2008	2009
		(Standard deviation) 1/	
Guatemala	**0.5**	**1.7**	**3.3**
Brazil	6.4	20.4	13.8
Chile	3.8	18.7	13.7
Colombia	7.7	12.7	16.0
Mexico	3.2	12.2	4.1
Peru	1.7	6.4	4.6
Uruguay	4.5	11.8	4.3

Sources: Bank of Guatemala; and IMF International Financial Statistics.

1/ Standard deviation of monthly year-on-year percent changes of the bilateral exchange rate vis-à-vis the U.S. dollar.

19. **The authorities stressed their commitment to keep monitoring closely banking sector developments**. They agreed that the financial system had weathered the crisis well thus far, but banks remained exposed to credit and currency risks. The mission welcomed progress on revamping provisioning requirements to ensure full provisioning of nonperforming loans by 2011. Staff also encouraged the authorities to continue working with Congress to ensure prompt approval of the amendments to the banking law and to finalize the preparation of the regulations on banks' liquidity and foreign currency risk management (end-December structural benchmarks).

A significant proportion of credit in foreign-currency is directed to borrowers in nontradable sectors

FX credit as a percent of total credit, including the off-shore sector (as of June 2009)	
Consumption	28
Agriculture	50
Manufacturing	59
Construction	28
Commerce	46
Other sectors	56
Total	**43**

Source: Superintendency of Banks; and Fund staff estimates.

Program Modalities

20. **Program implementation has been strong**. A new set of quantitative performance criteria has been agreed through end-June 2010 (Attachment I), and the program is fully financed. The reporting requirements in the technical memorandum of understanding were revised to ensure greater clarity, including on reporting deadlines, in light of the new framework to reduce blackout periods. Based on the discussions for the second review, staff proposes:

- ***Revising upwards the performance criterion on the overall fiscal deficit for end-March 2010*** to provide room for front-loaded spending to support the incipient recovery.
- ***Adjusting downwards the inflation consultation band*** for December 2009 and March and June 2010 to take into account the benign inflation outlook.
- ***Switching to semiannual reviews while maintaining quarterly test dates and purchases*** in view of the lower downside risks to the program. Accordingly, staff proposes to have two additional reviews, based on end-March and end-June performance criteria (PCs), and to bring forward to February 15, 2010 the right to make the purchase that would become available if the end-December PCs are met.

Balance of payments risks have diminished.

		2009				2010			
	2008	Prog. 2/		Revised		Prog. 2/		Revised	
		Baseline	Alt. Sc. 1/	Baseline	Alt. Sc. 1/	Baseline	Alt. Sc. 1/	Baseline	Alt. Sc. 1/
	In US$ billion unless otherwise indicated								
Gross external financing requirements	**6.2**	**4.5**	**4.5**	**4.3**	**4.3**	**5.2**	**5.2**	**4.3**	**4.3**
(in percent of GDP)	*15.9*	*12.0*	*12.0*	*11.3*	*11.3*	*13.8*	*13.8*	*11.4*	*11.4*
Current account deficit	1.9	0.6	0.6	0.4	0.4	1.2	1.2	1.0	1.0
External debt amortizations	4.3	3.9	3.9	3.9	3.9	4.0	4.0	3.3	3.3
Public sector	0.3	0.2	0.2	0.3	0.3	0.3	0.3	-0.2	-0.2
Private sector	4.1	3.7	3.7	3.6	3.6	3.7	3.7	3.5	3.5
Financing sources	6.2	4.5	4.1	4.3	4.3	5.2	4.7	4.3	3.9
Public sector gross borrowing	0.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Private sector flows	5.6	3.7	3.3	3.2	3.2	4.4	3.9	3.9	3.5
FDI	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Rollover of short-term debt	4.7	3.1	2.6	2.5	2.5	3.7	3.2	3.2	2.8
Other capital flows (includes E&O)	0.6	0.3	0.3	0.5	0.5	0.2	0.2	0.2	0.2
Change in NIR (decrease = +)	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.6	-0.6
Financing gap	**0.0**	**0.0**	**0.5**	**0.0**	**0.0**	**0.0**	**0.5**	**0.0**	**0.4**
(in percent of GDP)	…	…	1.2	…	…	…	1.3	…	1.0
Rollover of private sector debt (in %)	141%	64%	35%	30%	30%	96%	65%	78%	50%

Sources: Authorities; and Fund staff estimates.
1/ The alternative scenario assumes lower rollover of private sector debts (excluding commercial credit).
2/ IMF Country Report No. 09/305.

C. Surveillance Discussions

21. **Guatemala faces several key medium-term policy challenges**. These include achieving higher and sustainable growth and reducing poverty, anchoring inflation at low levels, and further strengthening the resilience of the financial system. While progress has been made since the last Article IV consultation, significant challenges remain.

Box 1. Past Fund Policy Recommendations and Implementation

The previous Article IV consultation highlighted the need to increase Guatemala's resilience to adverse shocks and sustain high growth rates to reduce poverty. Directors recommended:

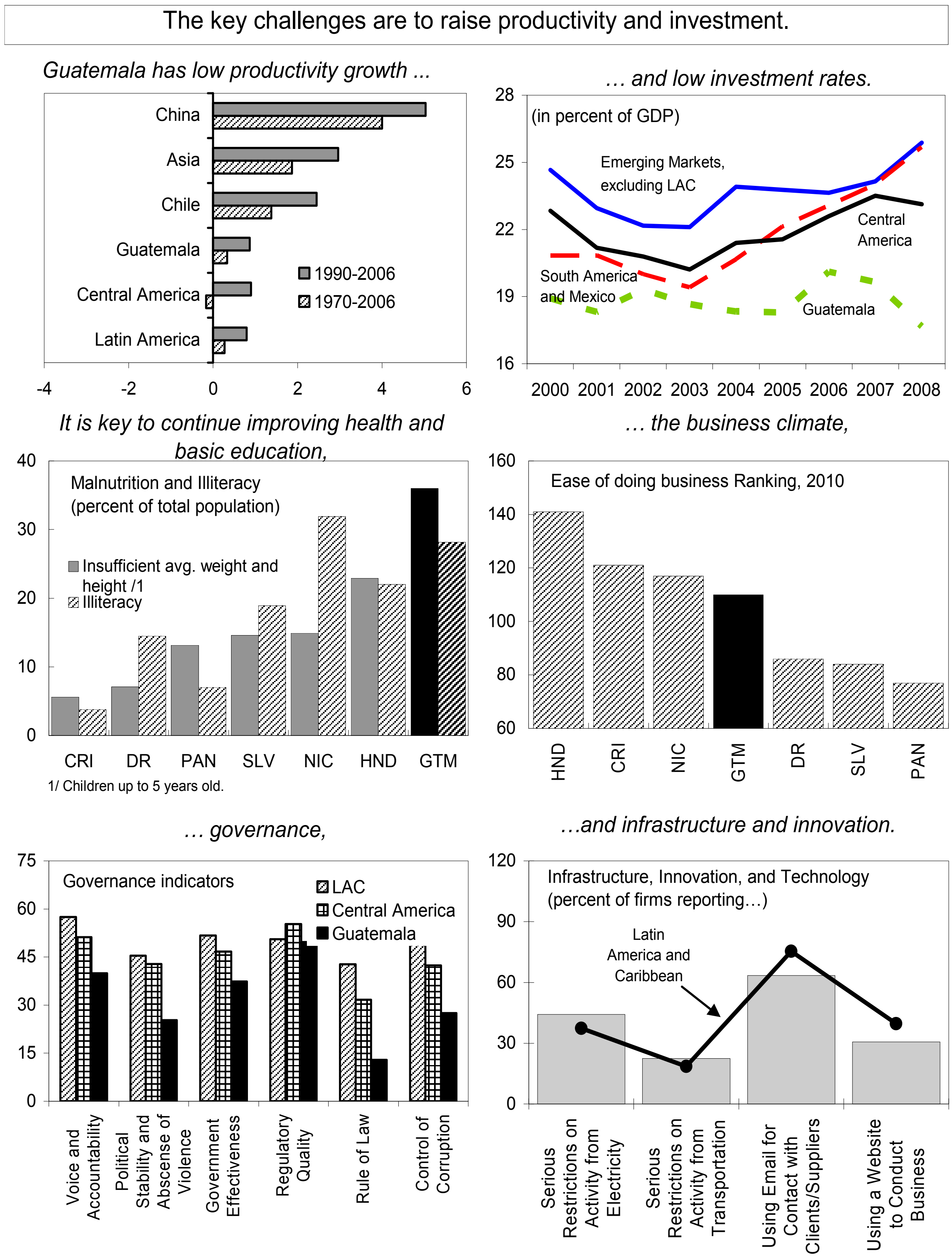
- **Raising tax revenues** to strengthen social policies, security, and infrastructure, while improving the transparency and efficiency of public spending. Considering the low level of public debt, Directors saw scope for letting automatic stabilizers play a role in an economic slowdown. *During 2009, the authorities have implemented a moderate countercyclical fiscal policy and stepped up social expenditures.*
- **Increasing monetary policy effectiveness** and strengthening the credibility of the inflation targeting framework by allowing greater exchange rate flexibility. Directors supported the authorities' efforts to strengthen the monetary policy transmission mechanism. *Progress has been made in this area (¶26), partly supported by Fund technical assistance.*
- **Further increasing the resilience of the financial system** by enhancing the bank resolution framework, better ring-fencing offshore banks, and eliminating legal constraints to effective banking supervision. Directors also advised to build larger capital cushions and increase loan-loss provisioning. *The authorities are addressing these issues, including in the draft amendments to the Banking Law (submitted to Congress in June 2009).*

Raising Growth and Reducing Poverty

22. **Achieving and sustaining higher growth is key to reduce poverty**. The authorities and staff agreed on the need to design a comprehensive strategy to boost the potential growth rate of the economy (currently estimated at around 3½ percent) to reduce the high incidence of poverty. In addition to maintaining macroeconomic stability, the strategy will require increasing investment levels, productivity, and competitiveness. To this end, it would be critical to speed up structural reforms to address long-standing weaknesses in education, health, public security, governance, and infrastructure (Figure 4).

23. **The implementation of a revenue-enhancing reform should be a key element of the growth and poverty-reduction strategy** (Figure 5). A low tax revenue-to-GDP ratio constrains the government's ability to sustain desirable levels of critical public expenditures (e.g., in social programs and infrastructure). The authorities and staff discussed possible measures to raise public revenues to boost social and investment spending over the medium term, in line with the goals of the 1996 Peace Accords. To that end, the mission presented a menu of options that could increase revenues by up to 3.2 percentage points of GDP and could be implemented gradually starting in 2011. The menu includes reforms to the corporate and personal income tax, a reduction in tax exemptions, changes to the small taxpayers VAT scheme and a 1 percentage point increase in VAT rates. The authorities noted that most of the measures in the menu were being considered in a comprehensive revenue reform agenda that could be put into effect in early 2012, when a new administration takes over. They also acknowledged that securing political support for a revenue reform will be challenging, and that it was difficult to commit to a precise timing for submitting it to Congress. The mission stressed the importance of strengthening tax administration in advance of the tax policy reform to enhance its effectiveness.

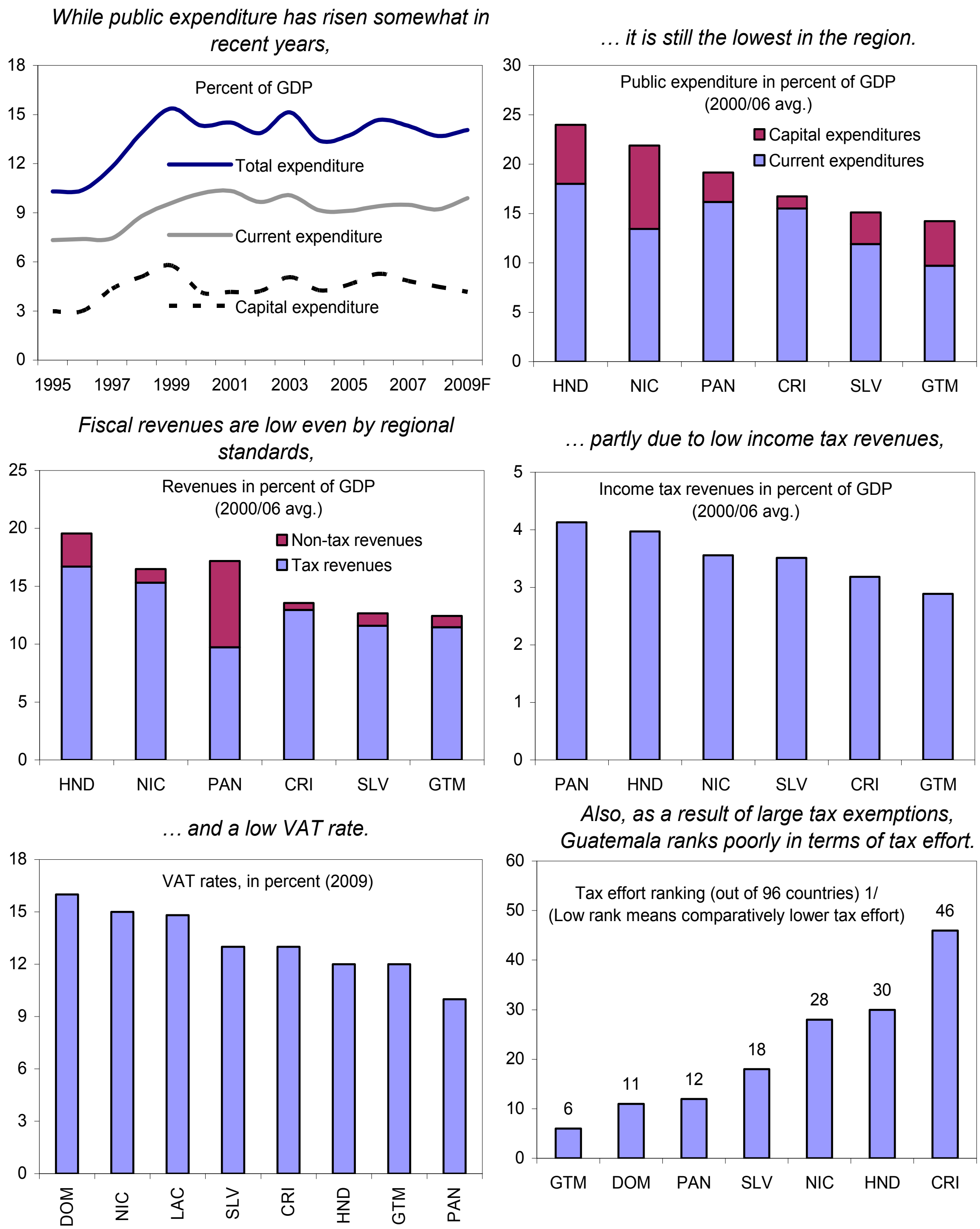
Figure 4. Guatemala: Raising Long-Term Growth and Reducing Poverty



Sources: World Bank; WEO database; and Fund staff estimates.

Figure 5. Guatemala: On the Importance of a Tax Reform

A medium-term revenue reform is needed to boost public investment and social programs.



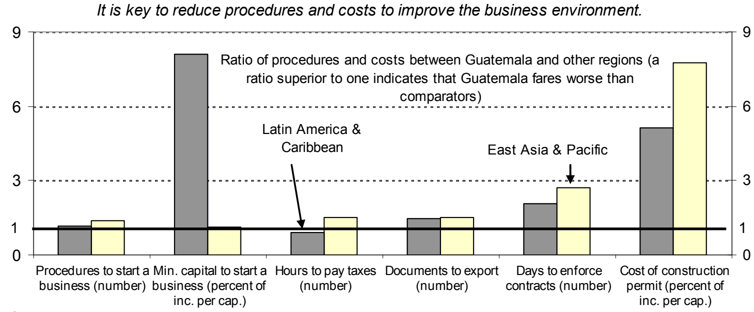
Sources: Ministry of Public Finance; ICEFI; and Fund staff estimates.
(1) Tax effort is the gap between a country's maximum tax revenue capacity (as determined by is economic, social, institutional and demographic characteristics) and its actual tax collection. See Fenochietto, R. and Pessino, C., (forthcoming), "Determining Countries' Tax Effort."

A comprehensive revenue reform would help boost social spending and public investment and stabilize debt dynamics

	Without revenue reform						With revenue reform					
	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	(In percent of GDP)											
Total revenues	10.6	11.0	11.4	11.7	11.7	11.7	10.6	11.0	12.4	13.3	14.3	14.9
o.w. Tax revenues	9.9	10.1	10.6	10.8	10.8	10.8	9.9	10.1	11.6	12.4	13.4	14.0
Total expenditure	14.0	14.0	14.1	14.1	14.1	14.1	14.0	14.0	14.1	15.0	16.0	16.6
Fiscal balance	-3.4	-3.1	-2.7	-2.5	-2.5	-2.5	-3.4	-3.1	-1.7	-1.7	-1.7	-1.7
Public sector debt	23.1	25.5	27.2	28.0	28.9	29.6	23.1	25.5	25.5	25.5	25.5	25.5

Source: Fund staff estimates.

It is key to reduce procedures and costs to improve the business environment.

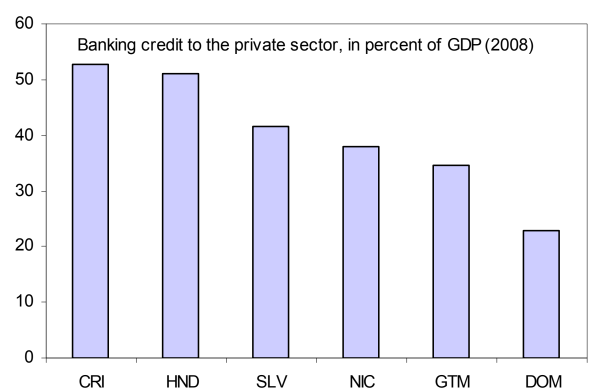


Source: Doing Business, 2010.

24. **Further improvements in competitiveness would also be important**. Notwithstanding the real depreciation observed in 2009, and the uncertainties surrounding empirical assessment of misalignment, there are indications that the quetzal may still be somewhat overvalued (Box 2). In this context, increasing exchange rate flexibility would be instrumental to safeguard external competitiveness. Competitiveness would also be enhanced by further deepening economic integration, reforming the corporate framework, and improving the business environment. In this regard, the mission suggested focusing on improving public security, simplifying the procedures required to start a business, reducing the costs of cross-border trading, and protecting property rights. Improving the framework for public-private partnerships would also contribute to boost investment in infrastructure.

Anchoring Low Inflation

Banking credit to the private sector is low by regional standards



Source: National sources and Fund staff estimates.

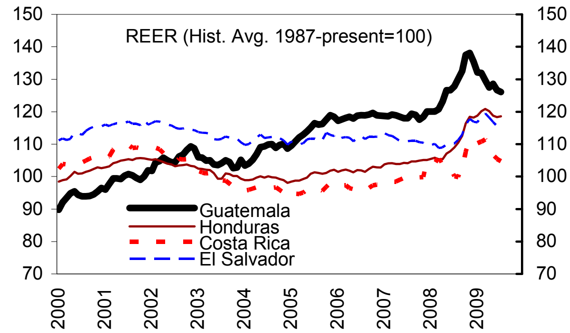
25. **The mission indicated that the cyclical reduction in inflation provides an opportunity to converge to the medium-term inflation target of 4 percent earlier than envisaged**. The authorities, however, preferred a more gradual process to reach the medium-term inflation target, stressing that the transmission channels of monetary policy are still weak and that there is uncertainty regarding commodity prices. The mission acknowledged that a significant degree of financial dollarization weakens the exchange rate and interest rate channels, while low financial intermediation constrains the credit channel.

Box 2. Guatemala: Exchange Rate Assessment

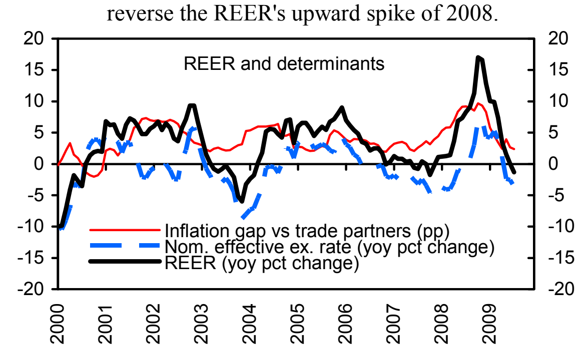
Guatemala's real effective exchange rate (REER) appreciated significantly during the last decade. Guatemala's REER is now well above historical values and has appreciated by more than in other countries in the region.

While fundamentals drove most of the appreciation, there were signs of a mild overvaluation at end-June 2009. Much of Guatemala's REER appreciation is explained by favorable population dynamics, terms of trade gains, and government consumption. In addition, a high pass-through of the 2008 global food and fuel price shock into domestic prices led to an upward spike in the REER, which is now reversing.

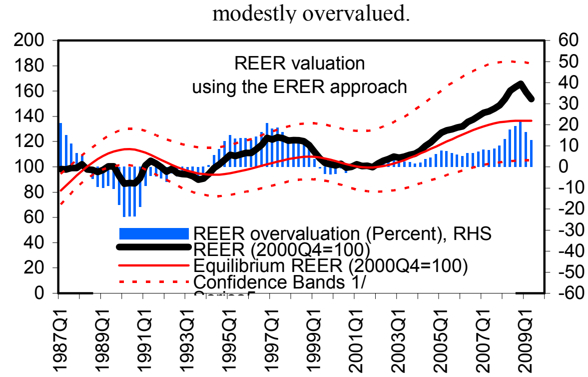
Guatemala's REER appreciated significantly in the last decade, but mostly driven by fundamentals.



The nominal exchange rate depreciation of 2009 helped reverse the REER's upward spike of 2008.



Thus, the REER has been returning towards equilibrium lately, though the ERER approach indicates that it remains modestly overvalued.



Sources: Guatemalan authorities, and Fund staff

Two approaches to assess the exchange rate suggest that it remains somewhat overvalued, while a third method indicates that the exchange rate is fairly valued:

- **The equilibrium exchange rate approach (ERER) suggests a moderate overvaluation**. Cointegration analysis gives evidence of a long run relationship between the REER and the terms of trade, openness, government consumption, and the net foreign asset position.[1] While the REER is within the confidence bands around its estimated equilibrium value, the ERER approach suggests an overvaluation of 13 percent as of mid-2009 (compared to about 20 percent at end-2008).

- **The external sustainability approach also indicates that the quetzal may be mildly overvalued**. Guatemala would need a current account deficit of 3.3 percent of GDP to stabilize its net foreign asset position (excluding foreign direct investment). With an underlying current account deficit of 4½ percent of GDP, the exchange rate depreciation needed to close the gap is about 6 percent.

- **The macroeconomic balance approach suggests that the quetzal is fairly valued**. Guatemala's underlying current account of -4½ percent of GDP falls within its current account norm of -4 to -5 percent of GDP (estimated using the three different parameter sets given in the CGER exercise).

---

[1] The model is similar to that of the 2008 Article IV consultation; except for the exclusion of a relative productivity term.

26. **Staff welcomed the authorities' efforts to enhance the monetary policy framework**. It reviewed the steps to develop the inflation-targeting framework that have been taken in recent years (e.g. monitoring inflation expectations, improving the models for inflation forecasting, and allowing greater exchange rate flexibility). There was agreement that communications with market participants have improved, thus contributing to strengthening the expectations channel by clarifying the goals of monetary policy. Staff noted that efforts to continue increasing exchange rate flexibility would encourage agents to better internalize risks, helping reduce dollarization and enhancing the channels of transmission of monetary policy. With Fund technical assistance, the authorities have strengthened the interest rate channel during the last year. In particular, the central bank has reduced its number of auctions, merged auction methods and began issuing only standard maturity instruments. However, the mission and the authorities agreed that the interest rate channel remains weak due to the excess liquidity in the system and a yield curve that imperfectly reflects the current and expected stance of monetary policy. To further enhance the interest rate channel, the authorities will continue:

- ***Developing public debt and private securities markets,*** by fostering primary and secondary markets through the acceptance of market-driven pricing, by encouraging trading of benchmarks to assist in developing a yield curve, and improving market infrastructure by adopting a comprehensive public debt law.

- ***Enhancing monetary operations,*** by implementing a transitional framework until conditions are adequate to adopt an overnight interest rate as the policy rate; improving liquidity forecasting; and reinforcing the front office and monetary operations department of the central bank.

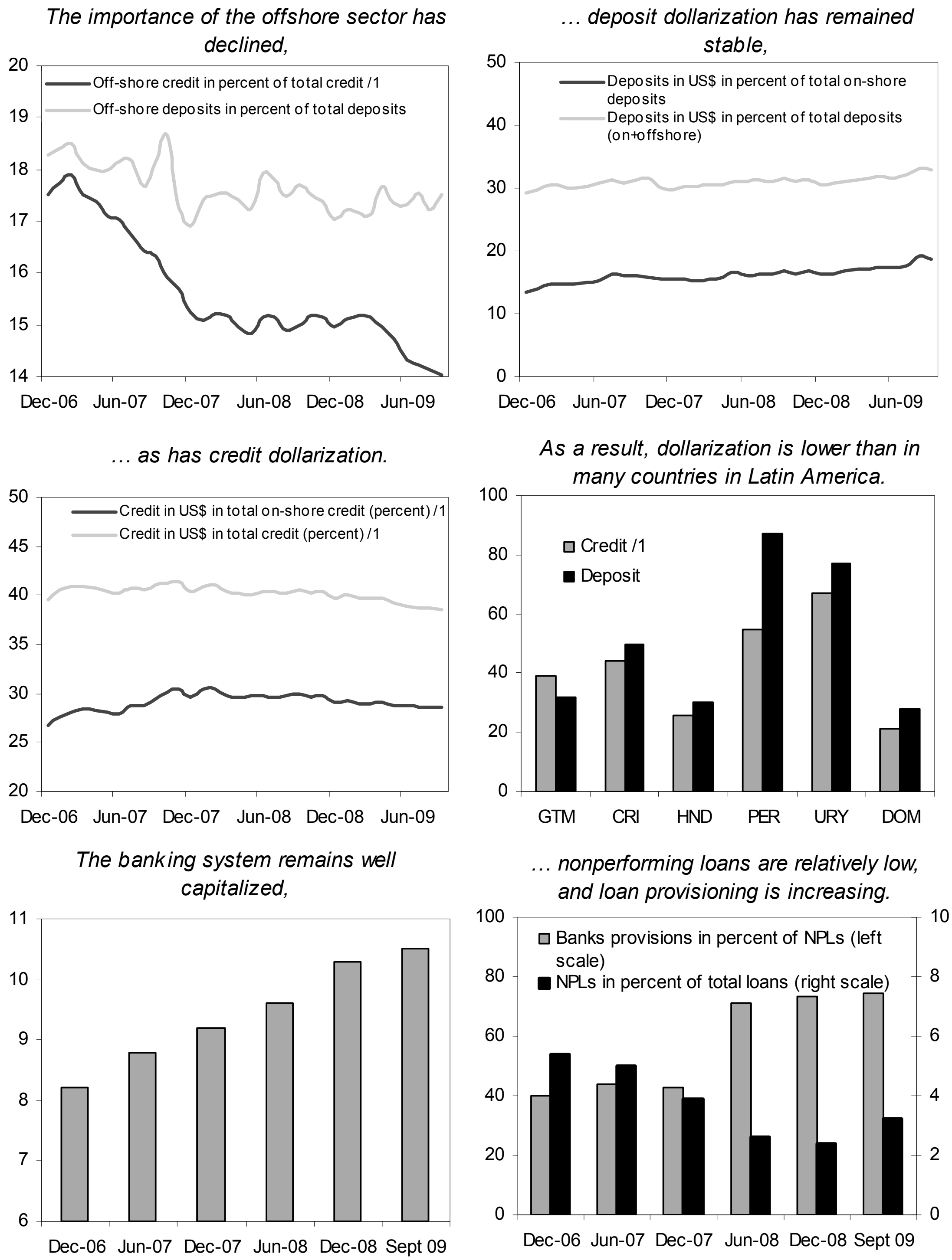
Further Strengthening the Financial Sector

27. **There was agreement that the financial sector has been strengthened since 2006** (Figure 6). The authorities stressed that supervision and regulation have improved, including with the shift to risk-based and on-site supervision; increased specialization of supervision agents; and the issuance of regulations defining more clearly the components of financial groups' capital, and applying credit concentration limits and liquidity requirements to offshore banks. Together with temporary measures to provide liquidity, those measures have increased the resilience of the banking sector. Banks' solvency also has been bolstered, including through the gradual increase of provisioning requirements to ensure full provisioning of NPLs by 2011 and the recapitalization of the state-owned mortgage bank by the government.

28. **Key elements of the financial sector reform agenda are yet to be implemented**. The strategy to strengthen further the financial sector depends on the approval and implementation of the amendments to the banking law (submitted to Congress in June 2009).

Figure 6. Guatemala: Financial Sector Developments

The banking sector has been strengthened in recent years.



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

1/ Follows the monetary definition used by the Bank of Guatemala.

This legislation will allow to reduce risks from offshore operations and connected lending, strengthen the instruments and size of the banking sector safety net, enhance the enforcement power of the Superintendency, and improve resolution procedures (IMF Country Report No. 09/305). It is also essential to finalize contingency plans to enhance crisis preparedness and the regulations on liquidity and foreign-currency credit management. The authorities are also working with Congress to help ensure prompt approval of the amendments to the law on insurance companies, which was submitted two years ago.

29. **The mission discussed with the authorities preliminary lessons from the global financial crisis and their relevance for financial sector supervision in Guatemala**. There was agreement on the need to further strengthen the regulatory framework, including by broadening the perimeter of regulation to credit cooperatives and, later on, to the still incipient securities market. The authorities noted that the amendments to the banking law are a first step to addressing the procyclicality of banking indicators, as the Superintendency can prevent banks with inadequate capital or liquidity positions to distribute dividends. They also stressed that continued progress had been made in strengthening cross-border and consolidated supervision of regional banking groups, including through efforts to harmonize legislation and periodical monitoring.

IV. Staff Appraisal

30. **There are signs that the Guatemalan economy is beginning to recover from the global crisis**. Despite the economic slowdown, domestic and external stability has been maintained. Output growth and inflation are gradually picking up, imports have begun to recover, net private capital flows have stabilized, and international reserves are higher than at end-2008. The financial system remains resilient.

31. **Strong policy implementation has helped preserve macroeconomic stability and mitigate the impact of the external shock on growth**. Investor confidence and financial stability have been maintained partly as a result of the supportive but prudent macroeconomic policy stance. Pushing ahead reforms to further strengthen the financial sector, and refocusing public expenditures toward social and infrastructure spending in a context of a Fund-supported program, also helped bolster confidence. Macroeconomic performance under the precautionary SBA has been very strong, with the authorities meeting all quantitative performance criteria for the second review.

32. **The near-term outlook is for a gradual recovery and downside risks have declined**. The stabilization of global and domestic financial conditions have reduced risks of sudden private capital outflows or a disorderly depreciation of the quetzal. However, Guatemala's close ties to the region and the United States (through trade, the banking system, and remittances) suggest that downside risks could materialize if the incipient U.S. recovery falters.

33. **Fiscal policy is striking an appropriate balance between supporting demand and safeguarding debt sustainability**. Looking ahead, however, the scope for maintaining a positive fiscal impulse will be very limited. A continued rise in public debt would put upward pressures on interest rates and hinder growth. Seeking consensus to increase revenues to stabilize the public debt-to-GDP ratio over the medium term is therefore critical.

34. **A comprehensive revenue reform is key to allow for the needed increase in public investment and social spending to boost growth, without compromising fiscal sustainability**. Increasing government revenues is instrumental to address long-standing weaknesses in education, health, security, and infrastructure through higher public investment and social spending. Productivity gains also would be necessary to sustain high growth, including through deepening economic integration, improving the corporate restructuring framework, and enhancing the business environment.

35. **The gradual lowering of interest rates and the flexible exchange rate has helped cushion the impact of the global crisis**. Monetary policy is expected to remain vigilant, adjusting the policy rate as needed, and continue improving communications with the market. This will be key to meet the challenge of anchoring inflation expectations around the inflation target. The authorities remain committed to maintaining a flexible exchange rate. To continue developing public and private securities markets and enhancing monetary operations will be essential to strengthen the interest rate channel of monetary transmission.

36. **Advancing the banking sector reform agenda is critical**. Supervision and regulation have improved and the banking sector has been resilient in the face of the global crisis, partly due to the prompt adoption of liquidity mechanisms, continued on-site supervision and tighter provisioning requirements. Congressional approval of the amendments to the banking law, and their effective implementation will be key to address risks from offshore operations and connected lending, strengthen the instruments and size of the banking sector safety net and improve resolution procedures. Implementing the regulations on liquidity and foreign credit management is crucial to induce banks to compute liquidity gaps at different maturities and reduce the risks associated with dollarization.

37. **Staff recommends completion of the second review under the SBA**. Performance under the program has been strong and the authorities remain committed to maintaining macroeconomic stability. As risks to the outlook have declined, staff proposes to modify the frequency of program reviews from quarterly to semiannual, while maintaining quarterly test dates and purchases. In light of the benign inflation outlook, staff also proposes lowering the inflation consultation bands. Staff also proposes revising upwards the performance criterion on the overall fiscal deficit for end-March 2010, to help avoid slowing down spending execution during the first semester.

38. **It is proposed that the next Article IV consultation be held in accordance with the July 15, 2002 decision on consultation cycles**.

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2006 (millions)	13.0	Gini index (2002)	55.1
Percentage of indigenous population (2006)	38.4	Life expectancy at birth (2005)	69.7
Percentage of population below the poverty line (2006	51.0	Adult illiteracy rate (2005)	28.2
Rank in UNDP development index (2008)	21 of 179	GDP per capita (US$, 2007)	2,550

II. Economic Indicators

	2006	2007	2008	2009		2010	
				Prog. 1/	rev. proj.	Prog. 1/	rev. proj.
			(Annual percent change)				
Income and prices							
Real GDP	5.4	6.3	4.0	0.4	0.4	1.3	1.3
Consumer prices (end of period)	5.8	8.7	9.4	1.5	0.8	3.8	4.0
Monetary sector							
M2	18.7	12.7	6.7	5.5	10.4	6.6	6.7
Credit to the private sector	37.5	24.7	11.0	4.3	2.7	4.8	5.6
			(In percent of GDP, unless otherwise indicated)				
Savings and investment							
Gross domestic investment	20.8	20.7	17.6	15.0	15.0	16.5	16.4
Private sector	17.7	17.1	14.1	11.4	11.8	13.0	13.8
Public sector	3.1	3.6	3.5	3.5	3.1	3.6	2.6
Gross national saving	15.8	15.5	12.8	13.3	14.0	13.3	13.7
Private sector	13.9	12.2	10.0	13.2	13.9	12.8	13.1
Public sector	1.9	3.3	2.8	0.1	0.1	0.5	0.6
External saving	5.0	5.2	4.8	1.7	1.0	3.3	2.7
External sector							
Current account balance	-5.0	-5.2	-4.8	-1.7	-1.0	-3.3	-2.7
Trade balance (goods)	-16.1	-16.1	-14.3	-9.7	-8.9	-12.0	-11.2
Exports	20.1	20.5	20.1	18.8	19.1	19.9	19.5
Imports	-36.2	-36.6	-34.4	-28.5	-28.0	-31.9	-30.6
o/w Oil & lubricants	-5.8	-6.7	-6.9	-5.1	-5.1	-5.5	-5.5
Other (net)	11.0	10.9	9.5	8.0	7.9	8.7	8.4
o/w Remittances	12.1	12.3	11.3	10.3	10.5	10.5	10.9
Capital and financial account	4.4	4.7	4.1	2.3	0.8	3.2	3.7
Public sector	1.5	0.7	0.3	2.1	2.0	1.5	2.7
Private sector	2.9	4.1	3.8	0.2	-1.2	1.7	1.0
o/w FDI	1.8	2.1	2.1	1.8	1.8	1.8	1.8
Errors and omissions	1.4	1.1	1.5	0.1	0.6	0.6	0.6
Overall balance	0.8	0.6	0.9	0.7	0.4	0.5	1.5
Net international reserves							
(Stock in months of next-year NFGS imports)	3.2	3.2	4.3	4.1	4.1	3.8	4.2
(Stock over short-term debt on residual maturity)	1.2	1.0	1.1	1.2	1.2	1.2	1.4
Public finances							
Central government							
Revenues	12.7	12.9	12.1	10.6	10.6	10.9	11.0
Expenditures	14.7	14.3	13.7	14.0	14.0	14.0	14.0
Current	9.4	9.5	9.2	9.9	9.9	10.6	10.7
Capital	5.3	4.8	4.5	4.2	4.1	3.4	3.4
Primary balance	-0.6	0.0	-0.3	-1.9	-1.9	-1.4	-1.4
Overall balance	-1.9	-1.4	-1.6	-3.4	-3.4	-3.0	-3.1
Financing of the central government balance	1.9	1.4	1.6	3.4	3.4	3.0	3.1
Net external financing	1.2	1.2	0.3	1.3	1.3	1.4	2.7
Net domestic financing	0.7	0.3	1.3	2.1	2.1	1.6	0.4
o/w Use of government deposits	-0.4	-0.7	0.8	0.7	0.7	0.3	0.2
Rest of nonfinancial public sector balance	0.7	1.1	0.9	0.4	0.4	0.5	0.5
Combined nonfinancial public sector							
Primary balance	0.1	1.2	0.6	-1.5	-1.5	-0.9	-0.9
Overall balance	-1.2	-0.3	-0.7	-3.0	-3.0	-2.6	-2.5
Nonfinancial public sector debt	**21.9**	**21.6**	**20.4**	**23.2**	**23.1**	**25.6**	**25.5**
External	13.1	12.3	11.5	13.3	13.2	14.9	15.9
Domestic	8.8	9.3	8.9	9.9	9.9	10.8	9.6
Memorandum items:							
GDP (US$ billions)	30.2	34.0	39.0	37.7	37.8	37.2	37.8

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

1/ IMF Country Report No. 09/305.

Table 2. Guatemala: Summary Balance of Payments

	2008	2009		2010		2011	2012	2013	2014
		Prog. 2/	rev. proj.	Prog. 2/	rev. proj.	Projections			
	(In millions of U.S. dollars)								
Current account balance	**-1,863**	**-624**	**-362**	**-1,209**	**-1,030**	**-1,327**	**-1,611**	**-1,838**	**-2,023**
Trade balance (goods)	-5,574	-3,646	-3,358	-4,463	-4,220	-4,989	-5,670	-6,381	-7,016
Exports, f.o.b.	7,848	7,091	7,217	7,407	7,376	7,913	8,596	9,356	10,186
Imports, f.o.b.	-13,422	-10,736	-10,575	-11,870	-11,596	-12,902	-14,265	-15,738	-17,202
of which: Oil & lubricants	-2,677	-1,934	-1,923	-2,054	-2,093	-2,355	-2,605	-2,917	-3,228
Real services (net)	-370	-348	-319	-253	-273	-235	-231	-225	-226
Rent (net)	-929	-979	-1,101	-902	-1,154	-1,340	-1,572	-1,774	-1,989
Current transfers (net)	5,010	4,349	4,415	4,409	4,617	5,237	5,862	6,543	7,207
of which: remittances	4,403	3,895	3,962	3,905	4,107	4,659	5,213	5,825	6,422
Capital and financial account	**1,596**	**852**	**304**	**1,188**	**1,389**	**1,428**	**1,640**	**2,023**	**2,071**
Capital account	0	0	0	0	0	0	0	0	0
Financial account	1,596	852	304	1,188	1,389	1,428	1,640	2,023	2,071
Central Bank 1/	-3	274	274	0	0	0	0	0	0
Public sector	115	508	493	564	1,024	382	219	370	170
Bonds (net)	-1	0	-7	0	500	175	0	200	0
Loans	116	508	499	564	524	207	219	170	170
Disbursements	369	753	753	828	785	475	485	425	425
Amortization	-253	-245	-254	-264	-261	-268	-266	-255	-255
Private sector	1,485	70	-462	625	365	1,046	1,421	1,653	1,901
FDI	822	661	678	688	676	697	759	836	937
Portfolio investment	39	-7	-5	24	43	46	51	57	63
Other investment	624	-584	-1,136	-87	-353	303	610	760	901
Errors and omissions	**599**	**43**	**209**	**211**	**211**	**216**	**229**	**243**	**257**
Overall balance	**333**	**271**	**151**	**190**	**570**	**317**	**258**	**428**	**305**
	(In percent of GDP)								
Current account balance	**-4.8**	**-1.7**	**-1.0**	**-3.3**	**-2.7**	**-3.4**	**-3.9**	**-4.2**	**-4.4**
Trade balance (goods)	-14.3	-9.7	-8.9	-12.0	-11.2	-12.9	-13.8	-14.7	-15.2
Exports, f.o.b.	20.1	18.8	19.1	19.9	19.5	20.4	20.9	21.5	22.1
Imports, f.o.b.	-34.4	-28.5	-28.0	-31.9	-30.6	-33.3	-34.7	-36.2	-37.3
of which: Oil & lubricants	-6.9	-5.1	-5.1	-5.5	-5.5	-6.1	-6.3	-6.7	-7.0
Real services (net)	-0.9	-0.9	-0.8	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5
Rent (net)	-2.4	-2.6	-2.9	-2.4	-3.0	-3.5	-3.8	-4.1	-4.3
Current transfers (net)	12.9	11.5	11.7	11.9	12.2	13.5	14.3	15.0	15.6
of which: remittances	11.3	10.3	10.5	10.5	10.9	12.0	12.7	13.4	13.9
Capital and financial account	**4.1**	**2.3**	**0.8**	**3.2**	**3.7**	**3.7**	**4.0**	**4.6**	**4.5**
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	4.1	2.3	0.8	3.2	3.7	3.7	4.0	4.6	4.5
Central Bank 1/	0.0	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Public sector	0.3	1.3	1.3	1.5	2.7	1.0	0.5	0.9	0.4
Bonds (net)	0.0	0.0	0.0	0.0	1.3	0.5	0.0	0.5	0.0
Loans	0.3	1.3	1.3	1.5	1.4	0.5	0.5	0.4	0.4
Disbursements	0.9	2.0	2.0	2.2	2.1	1.2	1.2	1.0	0.9
Amortization	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6
Private sector	3.8	0.2	-1.2	1.7	1.0	2.7	3.5	3.8	4.1
FDI	2.1	1.8	1.8	1.8	1.8	1.8	1.8	1.9	2.0
Portfolio investment	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other investment	1.6	-1.5	-3.0	-0.2	-0.9	0.8	1.5	1.7	2.0
Errors and omissions	**1.5**	**0.1**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**
Overall balance	**0.9**	**0.7**	**0.4**	**0.5**	**1.5**	**0.8**	**0.6**	**1.0**	**0.7**
Memorandum items:									
Value of exports, f.o.b. (percentage change)	12.4	-9.7	-8.0	4.5	2.2	7.3	8.6	8.8	8.9
Value of imports, f.o.b. (percentage change)	7.6	-20.0	-21.2	10.6	9.7	11.3	10.6	10.3	9.3
NIR in months of next-year NFGS imports	4.3	4.1	4.1	3.8	4.2	4.0	3.8	3.8	3.6
Stock of NIR (in millions of U.S. dollars) 1/	4,421	4,687	4,572	4,864	5,142	5,460	5,718	6,146	6,451
NIR over short-term debt on residual maturity	1.1	1.2	1.2	1.2	1.4	1.4	1.3	1.3	1.2
Nominal GDP (in billions of U.S. dollars)	39.0	37.7	37.8	37.2	37.8	38.8	41.1	43.5	46.1

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

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

2/ IMF Country Report No. 09/305.

Table 3A. Guatemala: Public Sector Balance

	2006	2007	2008	2009		2010	
				Prog. 1/	rev. proj.	Prog. 1/	rev. proj.
				(In millions of quetzales)			
Central Government							
Total revenues	**29,250**	**33,611**	**35,578**	**32,966**	**32,667**	**35,357**	**35,468**
Tax revenues	27,238	31,543	33,358	30,599	30,769	32,512	32,520
Nontax revenues	2,012	2,067	2,220	2,367	1,898	2,845	2,949
Total expenditures	**33,721**	**37,382**	**40,355**	**43,537**	**43,265**	**45,215**	**45,382**
Current	21,622	24,781	27,134	30,641	30,579	34,356	34,426
Wages	7,650	8,226	9,260	11,476	11,521	11,943	11,640
Goods & services	2,881	3,496	5,235	5,197	5,037	7,321	6,632
Social security benefits	1,829	2,005	2,347	2,776	2,939	3,510	3,782
Interest	3,182	3,892	4,026	4,682	4,734	5,269	5,272
Transfers	6,023	7,076	6,165	6,451	6,288	6,163	7,060
Other	57	86	102	58	59	151	41
Capital	12,100	12,602	13,221	12,896	12,686	10,859	10,956
Primary expenditures	30,539	33,491	36,329	38,855	38,531	39,946	40,110
Primary balance	**-1,289**	**120**	**-751**	**-5,889**	**-5,863**	**-4,590**	**-4,642**
Overall balance	**-4,471**	**-3,772**	**-4,777**	**-10,571**	**-10,598**	**-9,859**	**-9,913**
Financing	**4,471**	**3,772**	**4,777**	**10,571**	**10,598**	**9,859**	**9,913**
Net external financing	2,867	3,040	850	3,944	4,091	4,564	8,742
Loans	2,867	3,040	850	3,944	4,091	4,564	4,473
Disbursements	4,440	4,613	2,763	6,110	6,168	6,776	6,703
Amortizations	1,573	1,572	1,913	2,166	2,077	2,212	2,230
Bonds	0	0	0	0	0	0	4,269
Placements	0	0	0	0	0	0	4,269
Amortizations	0	0	0	0	0	0	0
Net domestic financing	1,604	731	3,928	6,627	6,507	5,295	1,171
Net issuance of bonds	3,763	3,119	2,019	4,388	4,389	4,200	400
Gross bond issuance	7,137	5,308	3,851	5,172	5,172	5,919	2,119
Amortizations	3,374	2,189	1,832	784	784	1,719	1,719
Other	-1,160	-594	-393	0	0	0	0
Use of government deposits	-999	-1,794	2,302	2,239	2,118	1,095	771
Rest of nonfinancial public sector balance	**1,615**	**2,975**	**2,654**	**1,200**	**1,200**	**1,600**	**1,700**
Consolidated nonfinancial public sector							
Primary balance	326	3,095	1,903	-4,689	-4,663	-2,990	-2,942
Interest	3,182	3,892	4,026	4,682	4,734	5,269	5,272
Overall balance	**-2,856**	**-797**	**-2,123**	**-9,371**	**-9,398**	**-8,259**	**-8,213**
Central bank balance	**-379**	**272**	**609**	**-435**	**-374**	**-469**	**-198**
Memorandum items:							
Nonfinancial public sector debt	50,368	56,438	59,981	71,929	71,364	82,818	82,380
External	30,179	32,247	33,771	41,331	40,765	48,020	51,382
Domestic	20,189	24,191	26,210	30,598	30,598	34,798	30,998
Central government gross borrowing requirements	9,418	7,533	8,522	13,520	13,459	13,789	13,862
Social spending	11,555	12,022	12,936	14,976	14,976	16,180	16,180

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

1/ IMF Country Report No. 09/305.

Table 3B. Guatemala: Public Sector Balance

	2006	2007	2008	2009		2010	
				Prog. 1/	rev. proj.	Prog. 1/	rev. proj.
	(In percent of GDP)						
Central Government							
Total revenues	**12.7**	**12.9**	**12.1**	**10.6**	**10.6**	**10.9**	**11.0**
Tax revenues	11.9	12.1	11.3	9.9	9.9	10.1	10.1
Nontax revenues	0.9	0.8	0.8	0.8	0.6	0.9	0.9
Total expenditures	**14.7**	**14.3**	**13.7**	**14.0**	**14.0**	**14.0**	**14.0**
Current	9.4	9.5	9.2	9.9	9.9	10.6	10.7
Wages	3.3	3.2	3.1	3.7	3.7	3.7	3.6
Goods & services	1.3	1.3	1.8	1.7	1.6	2.3	2.1
Social security benefits	0.8	0.8	0.8	0.9	0.9	1.1	1.2
Interest	1.4	1.5	1.4	1.5	1.5	1.6	1.6
Transfers	2.6	2.7	2.1	2.1	2.0	1.9	2.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	5.3	4.8	4.5	4.2	4.1	3.4	3.4
Primary expenditures	13.3	12.8	12.3	12.5	12.5	12.4	12.4
Primary balance	**-0.6**	**0.0**	**-0.3**	**-1.9**	**-1.9**	**-1.4**	**-1.4**
Overall balance	**-1.9**	**-1.4**	**-1.6**	**-3.4**	**-3.4**	**-3.0**	**-3.1**
Financing	**1.9**	**1.4**	**1.6**	**3.4**	**3.4**	**3.0**	**3.1**
Net external financing	1.2	1.2	0.3	1.3	1.3	1.4	2.7
Loans	1.2	1.2	0.3	1.3	1.3	1.4	1.4
Disbursements	1.9	1.8	0.9	2.0	2.0	2.1	2.1
Amortizations	0.7	0.6	0.6	0.7	0.7	0.7	0.7
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	1.3
Placements	0.0	0.0	0.0	0.0	0.0	0.0	1.3
Amortizations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	0.7	0.3	1.3	2.1	2.1	1.6	0.4
Net issuance of bonds	1.6	1.2	0.7	1.4	1.4	1.3	0.1
Gross bond issuance	3.1	2.0	1.3	1.7	1.7	1.8	0.7
Amortizations	1.5	0.8	0.6	0.3	0.3	0.5	0.5
Other	-0.5	-0.2	-0.1	0.0	0.0	0.0	0.0
Use of government deposits	-0.4	-0.7	0.8	0.7	0.7	0.3	0.2
Rest of nonfinancial public sector balance	**0.7**	**1.1**	**0.9**	**0.4**	**0.4**	**0.5**	**0.5**
Consolidated nonfinancial public sector							
Primary balance	0.1	1.2	0.6	-1.5	-1.5	-0.9	-0.9
Interest	1.4	1.5	1.4	1.5	1.5	1.6	1.6
Overall balance	**-1.2**	**-0.3**	**-0.7**	**-3.0**	**-3.0**	**-2.6**	**-2.5**
Central bank balance	**-0.2**	**0.1**	**0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Memorandum items:							
Nonfinancial public sector debt	21.9	21.6	20.4	23.2	23.1	25.6	25.5
External	13.1	12.3	11.5	13.3	13.2	14.9	15.9
Domestic	8.8	9.3	8.9	9.9	9.9	10.8	9.6
Central government gross borrowing requirements	4.1	2.9	2.9	4.4	4.3	4.3	4.3
Social spending	5.0	4.6	4.4	4.8	4.8	5.0	5.0

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

1/ IMF Country Report No. 09/305.

Table 4. Guatemala: Monetary Sector Survey

	2006	2007	2008	2009		2010	
				Prog. 3/	rev. proj.	Prog. 3/	rev. proj.
	(In millions of quetzales)						
Bank of Guatemala (BOG)							
Net international reserves 1/	**29,459**	**31,271**	**34,301**	**39,837**	**38,180**	**43,050**	**44,739**
(In millions of U.S. dollars) 1/	3,878	4,098	4,421	4,687	4,572	4,864	5,142
Net domestic assets	**-14,799**	**-14,291**	**-17,547**	**-21,667**	**-20,245**	**-23,454**	**-25,686**
Net claims on nonfinancial public sector	-12,490	-15,185	-13,074	-11,228	-11,365	-10,552	-11,360
Central government (CG)	-7,551	-9,581	-8,100	-5,861	-5,982	-4,766	-5,210
Rest of nonfinancial public sector	-4,939	-5,604	-4,974	-5,367	-5,384	-5,786	-6,149
Bank of Guatemala losses	15,258	14,986	14,377	13,912	14,751	13,589	14,949
Net credit to banks	-9,919	-10,852	-11,283	-12,186	-12,895	-13,010	-13,903
Of which: legal reserves	-11,985	-12,916	-13,345	-14,248	-14,956	-15,072	-15,964
Open market operations 2/	-9,796	-6,172	-10,848	-9,481	-8,959	-9,032	-11,597
Other assets (net)	2,148	2,933	3,281	-2,683	-1,777	-4,448	-3,776
Currency in circulation	**14,659**	**16,980**	**16,754**	**18,170**	**17,934**	**19,596**	**19,053**
Banking sector 2/							
Net foreign position	**-8,199**	**-11,226**	**-10,811**	**-9,409**	**-7,070**	**-10,553**	**-8,140**
(in millions of U.S. Dollars)	-1,079	-1,471	-1,394	-1,107	-847	-1,192	-936
Net claims on Bank of Guatemala	**18,223**	**15,411**	**20,897**	**20,369**	**20,558**	**20,688**	**24,146**
Legal reserves	11,985	12,916	13,345	14,248	14,956	15,072	15,964
BOG securities	8,296	4,551	9,606	8,175	7,656	7,670	10,236
Liabilities to BOG	-2,059	-2,057	-2,054	-2,054	-2,054	-2,054	-2,054
Net domestic assets	**71,210**	**87,651**	**90,640**	**96,143**	**96,954**	**103,534**	**101,846**
Net credit to the NFPS	3,172	2,940	-559	2,132	2,826	4,652	2,276
Official capital and reserves	-1,152	-2,005	-2,752	-3,200	-2,840	-3,370	-2,994
Credit to the private sector	62,357	78,567	87,209	90,957	89,590	95,334	94,576
Other items net	6,834	8,148	6,742	6,254	7,378	6,919	7,987
Medium and long-term foreign liabilities	**128**	**557**	**1,207**	**1,079**	**879**	**1,224**	**957**
Liabilities to private sector	**81,107**	**91,278**	**99,518**	**106,024**	**109,562**	**112,446**	**116,895**
Demand deposits	28,327	33,441	35,710	36,877	39,496	39,202	42,091
Time and savings deposits	41,769	46,449	51,737	55,857	57,612	59,261	61,655
Securities	3,179	2,222	1,561	1,822	1,624	1,902	1,730
Capital and reserves (private banks)	7,832	9,166	10,510	11,468	10,831	12,080	11,419
Monetary survey 2/							
Net foreign assets	**21,260**	**20,045**	**23,490**	**30,428**	**31,109**	**32,497**	**36,599**
(In millions of U.S. dollars)	2,799	2,627	3,028	3,580	3,726	3,672	4,207
Net domestic assets	**71,454**	**86,548**	**92,429**	**97,148**	**97,905**	**103,166**	**98,575**
Net claims on nonfinancial public sector	-9,318	-12,245	-13,633	-9,096	-8,540	-5,900	-9,084
Bank of Guatemala losses	15,258	14,986	14,377	13,912	14,751	13,589	14,949
Credit to private sector	62,365	78,574	87,217	90,965	89,598	95,342	94,583
Other assets (net)	3,150	5,233	4,468	1,367	2,096	136	-1,874
Medium and long-term foreign liabilities	**128**	**557**	**1,207**	**3,382**	**3,141**	**3,621**	**957**
Liabilities to the private sector	**92,587**	**106,036**	**114,712**	**124,194**	**125,873**	**132,042**	**134,217**
of which: Money	42,986	50,421	52,464	55,048	57,431	58,798	61,143
of which: Quasi-money	41,769	46,449	51,737	57,679	57,612	61,164	61,655
Memorandum items:							
	(Percent change)						
Currency in circulation	17.5	15.8	-1.3	8.5	7.0	7.8	6.2
M2	18.7	12.7	6.7	5.5	10.4	6.6	6.7
Credit to private sector	37.5	24.7	11.0	4.3	2.7	4.8	5.6
	(In percent of GDP)						
Currency in circulation	6.4	6.5	5.7	5.9	5.8	6.1	5.9
M2	38.3	37.9	35.4	35.4	37.2	36.2	38.0
Credit to private sector	29.0	31.8	31.3	31.0	30.6	31.2	30.9
	(In percent of bank liabilities to the private sector)						
Bank liquidity assets	40.1	32.4	34.2	34.2	33.3	34.7	34.1
Demand deposits	34.9	36.6	35.9	34.8	36.0	34.9	36.0
Time and savings deposits	51.5	50.9	52.0	54.4	52.6	54.4	52.7
Capital and reserves (private banks)	9.7	10.0	10.6	10.8	9.9	10.7	9.8

Sources: Bank of Guatemala; and Fund staff estimates.

1/ Program definition which includes foreign currency liabilities of the central bank to financial institutions.
2/ Includes open market placements with the private sector (financial and nonfinancial).
3/ IMF Country Report No. 09/305.

Table 5. Guatemala: Financial Soundness Indicators

	2006	2007	2008	2009 Sept.
On-shore banks				
Statutory capital to risk-weighted assets /1	12.8	12.3	13.5	14.8
Nonperforming loans net of provisions to capital /1	7.5	6.2	3.6	5.5
Nonperforming loans to total gross loans	3.4	2.6	2.3	3.2
Cash to total deposits	21.2	20.8	19.7	20.6
Return on assets	1.2	1.5	1.7	2.0
Return on equity	15.0	16.8	16.3	19.2
Foreign currency-denominated loans to total loans	30.2	33.2	33.6	32.1
Foreign currency-denominated liabilities to total liabilities	21.6	25.1	24.3	24.1
Off-shore banks				
Statutory capital to risk-weighted assets	14.2	15.0	14.7	n.a.
Nonperforming loans to total gross loans	2.9	2.9	2.2	2.7
Return on assets	2.0	2.2	1.5	1.7
Return on equity	18.8	19.4	14.2	19.2
Total assets off-shore banks to total assets on-shore banks	18.9	16.8	16.1	16.6

Sources: Superintendency of Banks; Banguat; and Fund staff estimates.
1/ Data for 2009 refers to end-August.

Table 6. Guatemala: Indicators of External Vulnerability

	2006	2007	2008	2009	
				Prog. 1/	rev. proj.
External indicators					
Merchandise exports (12-month percentage change)	11.4	14.8	12.4	-9.7	-8.0
Traditional merchandise exports (12-month percentage change)	5.0	25.2	18.5	0.8	1.8
Nontraditional merchandise exports (12-month percentage change)	13.3	12.0	10.5	-13.0	-11.2
Merchandise imports (12-month percentage change)	13.3	14.0	7.6	-20.0	-21.2
Imports of oil and lubricants (12-month percentage change)	18.6	29.1	17.4	-27.8	-28.2
Nonoil imports (12-month percentage change)	12.4	11.1	5.4	-18.1	-19.5
Terms of trade (12-month percentage change)	-2.7	-0.3	-1.4	4.9	4.1
Current account balance (in percent of GDP)	-5.0	-5.2	-4.8	-1.7	-1.0
Capital and financial account balance (in percent of GDP)	4.4	4.7	4.1	2.3	0.8
Net international reserves					
In millions of U.S. dollars	3,878	4,098	4,421	4,687	4,572
In percent of M2	36.4	33.3	33.2	37.1	33.5
In percent of base money	111.0	105.2	113.2	121.4	120.9
In percent of short-term external debt on a remaining maturity basis	117.6	102.1	105.3	122.8	122.8
In months of next-year's imports of goods and nonfactor services	3.2	3.2	4.3	4.1	4.1
External indebtness indicators					
Total external debt (in percent of GDP)	34.3	35.0	32.5	33.6	31.8
External private sector debt (in percent of GDP)	21.2	22.6	21.2	20.4	18.9
External public sector debt (in percent of GDP)	13.1	12.4	11.2	13.3	13.2
Public sector external interest payments in percent of exports of goods and nonfactor services	3.6	3.9	3.0	3.3	3.3
Public sector external amortization payments in percent of exports of goods and services	4.2	5.2	3.2	3.4	3.5

Sources: Bank of Guatemala; and Fund staff estimates.

1/ IMF Country Report No. 09/305.

Table 7. Guatemala: Medium-Term Framework (without a revenue reform)

				Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
	(Contributions to real GDP growth, unless otherwise stated)								
Real GDP (annual percentage change)	**5.4**	**6.3**	**4.0**	**0.4**	**1.3**	**2.5**	**3.5**	**3.5**	**3.5**
Domestic demand	6.6	7.1	1.5	-1.3	3.1	4.9	5.9	6.1	6.2
External demand	-1.3	-0.7	2.2	2.0	-1.8	-2.3	-2.4	-2.5	-2.7
Exports of goods and nonfactor services	1.3	2.1	0.8	-1.5	0.7	0.9	1.0	1.0	1.0
Imports of goods and nonfactor services	-2.5	-2.8	1.4	3.5	-2.5	-3.2	-3.4	-3.6	-3.8
	(In percent of GDP)								
Savings and investment									
Gross domestic investment	20.8	20.7	17.6	15.0	16.4	17.7	18.6	19.5	20.3
Gross national saving	15.8	15.5	12.8	14.0	13.7	14.2	14.7	15.2	15.9
External saving	5.0	5.2	4.8	1.0	2.7	3.4	3.9	4.2	4.4
	(In percent of GDP)								
Balance of payments									
Current account balance	-5.0	-5.2	-4.8	-1.0	-2.7	-3.4	-3.9	-4.2	-4.4
Trade balance (goods)	-16.1	-16.1	-14.3	-8.9	-11.2	-12.9	-13.8	-14.7	-15.2
Other (net)	11.0	10.9	9.5	7.9	8.4	9.4	9.9	10.4	10.8
o/w Remittances	12.1	12.3	11.3	10.5	10.9	12.0	12.7	13.4	13.9
Capital and financial account	4.4	4.7	4.1	0.8	3.7	3.7	4.0	4.7	4.5
Public sector	1.5	0.7	0.3	2.0	2.7	1.0	0.5	0.9	0.4
Private sector	2.9	4.1	3.8	-1.2	1.0	2.7	3.5	3.8	4.1
o/w FDI	1.8	2.1	2.1	1.8	1.8	1.8	1.8	1.9	2.0
Errors and omissions	1.4	1.1	1.5	0.6	0.6	0.6	0.6	0.6	0.6
Overall balance	0.8	0.6	0.9	0.4	1.5	0.8	0.6	1.0	0.7
	(In percent of GDP)								
Public finances									
Central government									
Revenues	12.7	12.9	12.1	10.6	11.0	11.4	11.7	11.7	11.7
o/w Tax revenues	11.9	12.1	11.3	9.9	10.1	10.6	10.8	10.8	10.8
Expenditures	14.7	14.3	13.7	14.0	14.0	14.1	14.1	14.1	14.1
Primary balance	-0.6	0.0	-0.3	-1.9	-1.4	-1.1	-1.0	-0.9	-0.9
Overall balance	-1.9	-1.4	-1.6	-3.4	-3.1	-2.7	-2.5	-2.5	-2.5
Financing of the central government balance	1.9	1.4	1.6	3.4	3.1	2.7	2.5	2.5	2.5
Net external financing	1.2	1.2	0.3	1.3	2.7	1.0	0.5	0.9	0.4
Net domestic financing	0.7	0.3	1.3	2.1	0.4	1.7	1.9	1.6	2.1
o/w use of government deposits	-0.4	-0.7	0.8	0.7	0.2	-0.1	0.0	-0.2	0.0
Nonfinancial public sector debt	21.9	21.6	20.4	23.1	25.5	27.2	28.0	28.9	29.6
External	13.1	12.3	11.5	13.2	15.9	16.3	16.0	15.9	15.4
Domestic	8.8	9.3	8.9	9.9	9.6	10.9	12.1	13.0	14.2
Memorandum items:									
GDP (billions of quetzales)	229.8	261.1	294.7	309.4	323.1	339.8	365.4	392.9	422.5
GDP deflator	5.0	6.9	8.5	4.6	3.1	2.6	3.9	3.9	3.9
CPI (eop)	5.8	8.7	9.4	0.8	4.0	4.0	4.0	4.0	4.0
Net international reserves (millions of US$)	3,878	4,098	4,421	4,572	5,142	5,460	5,718	6,146	6,451

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

Table 8. Guatemala: Public Sector Debt Sustainability Framework, 2003-2014 (without a revenue reform)
(In percent of GDP, unless otherwise indicated)

	Actual								Projections						
	2003	2004	2005	2006	2007	2008			2009	2010	2011	2012	2013	2014	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	22.4	22.4	21.5	21.9	21.6	20.4			**23.1**	**25.5**	**27.2**	**28.0**	**28.9**	**29.6**	**-0.4**
o/w foreign-currency denominated	16.0	15.6	13.6	13.1	12.3	11.5			13.2	15.9	16.3	16.0	15.9	15.4	
Change in public sector debt (a)	2.3	0.0	-0.8	0.4	-0.3	-1.3			2.7	2.4	1.7	0.8	0.9	0.7	
Identified debt-creating flows (c+d+e) (b)	1.7	-1.4	-0.4	-0.1	-1.2	-0.7			2.2	1.9	1.2	0.4	0.4	0.3	
Primary deficit (c)	1.3	-0.3	0.3	0.6	0.0	0.3			1.9	1.4	1.1	1.0	0.9	0.9	
Revenue and grants	12.5	12.3	12.0	12.7	12.9	12.1			10.6	11.0	11.4	11.7	11.7	11.7	
Primary (noninterest) expenditure	13.8	12.0	12.3	13.3	12.8	12.3			12.5	12.4	12.6	12.6	12.6	12.6	
Automatic debt dynamics 2/ (d)	0.4	-1.1	-0.7	-0.7	-1.1	-1.0			0.3	0.4	0.1	-0.6	-0.6	-0.6	
Contribution from interest rate/growth differential 3/	0.0	-0.6	-0.5	-0.7	-1.1	-1.1			0.3	0.4	0.1	-0.6	-0.6	-0.6	
Of which contribution from real interest rate	0.4	0.1	0.2	0.4	0.1	-0.3			0.4	0.7	0.7	0.3	0.4	0.3	
Of which contribution from real GDP growth	-0.5	-0.6	-0.7	-1.0	-1.2	-0.8			-0.1	-0.3	-0.6	-0.9	-0.9	-0.9	
Contribution from exchange rate depreciation 4/	0.4	-0.6	-0.3	0.0	0.0	0.1			...	...	...	...	...	...	
Other identified debt-creating flows (e)	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (a-b) 5/	0.6	1.4	-0.4	0.5	0.9	-0.5			0.5	0.6	0.5	0.4	0.5	0.4	
Public sector debt-to-revenue ratio 1/	178.4	181.7	179.7	172.2	167.9	168.6			218.5	232.3	238.2	240.7	248.2	254.2	
Gross financing need 6/	3.9	2.8	3.2	4.1	2.9	2.9			4.3	4.3	4.6	3.6	3.9	3.3	
in billions of U.S. dollars	0.8	0.7	0.9	1.2	1.0	1.1			1.6	1.6	1.8	1.5	1.7	1.5	
Scenario with key variables at their historical averages 7/									**23.1**	**23.5**	**23.8**	**24.0**	**24.3**	**24.5**	**-0.4**
Scenario with no policy change (constant primary balance) in 2009-2014									**23.1**	**26.0**	**28.7**	**30.6**	**32.6**	**34.4**	**-0.3**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline							10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	2.5	3.2	3.3	5.4	6.3	4.0	3.7	1.3	0.4	1.3	2.5	3.5	3.5	3.5	
Average nominal interest rate on public debt (in percent) 8/	7.0	6.7	6.9	7.1	7.7	7.1	7.3	0.6	6.6	6.4	5.6	5.3	5.4	5.2	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.5	0.6	1.2	2.1	0.8	-1.3	1.1	1.4	2.0	3.3	3.1	1.5	1.5	1.3	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-2.9	3.8	1.8	-0.2	-0.1	-1.0	-1.1	4.6	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.5	6.1	5.6	5.0	6.9	8.5	6.2	1.3	4.6	3.1	2.6	3.9	3.9	3.9	
Growth of real primary spending (deflated by GDP deflator, in percent)	13.7	-10.1	5.5	13.7	2.6	0.0	3.7	8.1	1.4	1.0	3.7	4.1	3.1	3.4	
Primary deficit	1.3	-0.3	0.3	0.6	0.0	0.3	0.5	0.6	1.9	1.4	1.1	1.0	0.9	0.9	

1/ Central Government.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 9. Guatemala: External Debt Sustainability Framework, 2004-2014
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	**35.3**	**33.3**	**34.3**	**35.0**	**32.5**	**31.8**	**33.9**	**35.7**	**36.4**	**37.7**	**38.7**	**-2.1**
Change in external debt	1.0	-2.0	1.0	0.7	-2.6	-0.7	2.2	1.7	0.8	1.3	0.9	
Identified external debt-creating flows (4+8+9)	-0.4	-0.6	0.1	-1.0	-1.0	-1.0	0.5	0.8	0.9	1.1	1.1	
Current account deficit, excluding interest payments	3.4	3.1	3.4	3.6	3.3	-0.5	1.3	1.8	2.1	2.3	2.4	
Deficit in balance of goods and services	15.2	15.4	16.1	16.1	14.3	8.9	11.2	12.9	13.8	14.7	15.2	
Exports	21.3	20.1	20.1	20.5	20.1	19.1	19.5	20.4	20.9	21.5	22.1	
Imports	36.5	35.5	36.2	36.6	34.4	28.0	30.6	33.3	34.7	36.2	37.3	
Net non-debt creating capital inflows (negative)	-1.1	-1.7	-1.8	-2.1	-2.1	-1.8	-1.8	-1.8	-1.8	-1.9	-2.0	
Automatic debt dynamics 1/	-2.6	-2.0	-1.5	-2.4	-2.2	1.3	1.0	0.8	0.6	0.7	0.8	
Contribution from nominal interest rate	1.5	1.5	1.7	1.7	1.5	1.5	1.5	1.6	1.8	1.9	2.0	
Contribution from real GDP growth	-1.0	-1.0	-1.6	-1.9	-1.3	-0.1	-0.4	-0.8	-1.2	-1.2	-1.2	
Contribution from price and exchange rate changes 2/	-3.1	-2.5	-1.5	-2.2	-2.4	…	…	…	…	…	…	
Residual, including change in gross foreign assets (2-3) 3/	1.3	-1.4	0.9	1.7	-1.6	0.3	1.6	0.9	-0.1	0.2	-0.2	
External debt-to-exports ratio (in percent)	165.6	165.9	170.4	170.6	161.2	166.5	174.2	174.7	174.0	175.4	174.9	
Gross external financing need (in billions of U.S. dollars) 4/	4.0	4.4	4.4	5.3	6.0	4.7	4.2	4.9	5.7	6.1	6.9	
in percent of GDP	16.7	16.2	14.5	15.6	15.4	12.5	11.1	12.5	13.7	13.9	14.9	
Scenario with key variables at their historical averages 5/						**31.8**	**34.3**	**36.7**	**38.5**	**40.5**	**42.2**	**-2.8**
Key Macroeconomic Assumptions Underlying Baseline												
Nominal GDP (U.S. dollars)	24.0	27.2	30.2	34.0	39.0	37.8	37.9	39.2	41.6	44.0	46.6	
Real GDP growth (in percent)	3.2	3.3	5.4	6.3	4.0	0.4	1.3	2.5	3.5	3.5	3.5	
GDP deflator in U.S. dollars (change in percent)	10.1	7.6	4.8	6.8	7.4	-3.5	-1.1	1.0	2.3	2.3	2.4	
Nominal external interest rate (in percent)	4.8	4.8	5.5	5.5	4.8	4.4	4.6	5.0	5.4	5.6	5.7	
Growth of exports (U.S. dollar terms, in percent)	12.8	6.9	11.4	14.8	12.4	-8.0	2.2	7.3	8.6	8.8	8.9	
Growth of imports (U.S. dollar terms, in percent)	16.7	10.5	13.3	14.0	7.6	-21.2	9.7	11.3	10.6	10.3	9.3	
Current account balance, excluding interest payments	-3.4	-3.1	-3.4	-3.6	-3.3	0.5	-1.3	-1.8	-2.1	-2.3	-2.4	
Net non-debt creating capital inflows	1.1	1.7	1.8	2.1	2.1	1.8	1.8	1.8	1.8	1.9	2.0	

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

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) 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.

Table 10. 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	668.80	200.00	66.67
September 22, 2009	First review, based on end-June 2009 performance criteria	42.04	66.88	20.00	6.67
December 15, 2009	Second review, based on end-September 2009 performance criteria	42.04	66.88	20.00	6.67
February 15, 2010	Observance of end-December 2009 performance criteria	42.04	66.88	20.00	6.67
June 15, 2010	Third review, based on end-March 2010 performance criteria	42.04	66.88	20.00	6.67
September 15, 2010	Fourth review, based on end-June 2010 performance criteria	42.04	66.88	20.00	6.67
Total		630.60	1003.20	300.00	100.00

Source: Fund staff estimates.

1/ US$/SDR exchange rate of 0.628588 as of October 8, 2009.

Table 11. Guatemala: Indicators of Fund Credit 2006-2015 1/

				Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Stocks from prospective drawings 2/										
Fund credit in millions SDR	0.0	0.0	0.0	504.5	630.6	630.6	630.6	346.8	31.5	0.0
In percent of quota	0.0	0.0	0.0	240.0	300.0	300.0	300.0	165.0	15.0	0.0
In percent of GDP	0.0	0.0	0.0	2.1	2.7	2.6	2.5	1.3	0.1	0.0
In percent of exports of goods and services	0.0	0.0	0.0	9.5	11.4	10.6	9.7	4.9	0.4	0.0
In percent of gross reserves	0.0	0.0	0.0	16.8	18.7	17.6	16.8	8.6	0.7	0.0
Flows from prospective drawings 3/ 4/										
Principal (Millions SDR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	283.8	315.3	31.5
Interest and charges (Millions SDR)	0.0	0.0	0.0	2.5	7.2	8.3	8.3	7.3	3.5	0.3
Total (Millions SDR)	0.0	0.0	0.0	2.5	7.2	8.3	8.3	291.1	318.8	31.9
In percent of quota	0.0	0.0	0.0	1.2	3.4	4.0	4.0	138.5	151.7	15.2
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.1	0.1
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.1	0.1	0.1	4.1	4.1	0.4
In percent of gross reserves	0.0	0.0	0.0	0.1	0.2	0.2	0.2	7.2	7.5	0.7

Sources: Bank of Guatemala; IMF Finance Department; and Fund staff estimates.
1/ Assumes a US$/SDR exchange rate of 0.628588 as of October 8, 2009.
2/ End of period.
3/ At a constant basic rate of charge in the GRA of 1.26 percent plus 0.01 basis points for burden sharing.
4/ Excluding commitment charges.

Attachment I. Letter of Intent

Guatemala City, November 20, 2009

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

Dear Mr. Strauss-Kahn:

1. The Stand-By Arrangement agreed in April 2009 continues to be implemented successfully. All end-September quantitative performance criteria have been met (Table 1). The targets on 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-September. Consumer price inflation stood at zero percent (year-over-year) as of end-September 2009, within the inner band agreed under the program.

2. The Guatemalan economy has been affected by the global crisis, but has proved to be more resilient than neighboring countries. Moderately countercyclical fiscal and monetary policies have helped mitigate the effects of the economic slowdown and protect the neediest segments of the population, while preserving macroeconomic and financial stability. At present, Guatemala's economy is recovering. Exports, remittances, and net private capital flows are stabilizing, and imports are picking up. We remain confident that economic growth will be moderately positive in 2009 and rise to within a range of 1.3 to 2.1 percent in 2010.

3. The proposed fiscal stance for the remainder of 2009 and 2010 strikes an appropriate balance between supporting domestic demand and keeping public debt dynamics in check. We are maintaining the target for the fiscal deficit of the central government in 2009 at 3.4 percent of GDP and aim for a deficit of about 3.0 percent of GDP in 2010. The deficit of the consolidated public sector is expected to reach 3.0 percent of GDP in 2009 and about 2.6 percent of GDP in 2010. The deficits will be partly financed from external sources, mainly from multilaterals.

4. We remain firmly committed to maintaining medium-term fiscal sustainability. While tax revenues may pick up in line with the economic recovery, we are aware that an additional effort is needed to reduce the fiscal deficit to pre-crisis levels and stabilize debt dynamics. Thus, to ensure an adequate provision of public goods, we will seek support to increase public revenues to gradually fulfill the goals of the 1996 Peace Accords.

5. As inflation and inflation expectations declined, the Monetary Board reduced the policy interest rate by an additional 25 basis points in September (275 basis points since end-2008) to 4.50 percent. We foresee a benign inflation outlook in the near term and have revised our inflation projections to below 1 percent by end-2009 and 4 percent by end-2010. The revised quarterly consultation bands for CPI inflation under the program are consistent with these

projections. Monetary policy will continue to focus on meeting the 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 will continue strengthening the regulatory framework, including by finalizing new regulations on banks' liquidity management and foreign currency credit risk by end-December 2009, with their implementation beginning in the first quarter of 2010. We will maintain our close dialogue with Congress to seek approval of the amendments to the banking legislation in the first semester of 2010, which is at the core of our strategy to strengthen further the banking sector.

7. In light of this performance and our continued commitment to the program, we request completion of the second review under the Stand-By Arrangement. Our intention is to continue treating the arrangement as precautionary. To help avoid slowing down spending execution during the first semester of 2010, we request revising upwards the performance criterion on the overall fiscal deficit for end-March 2010. Given the inflation outlook, we also request lowering the inflation consultation bands for end-December 2009 and for end-March and end-June 2010. Moreover, since risks to the program have declined, we ask for program implementation to be monitored through semiannual reviews, while maintaining quarterly test dates and purchases. We also request bringing forward to February 15, 2010 the fourth purchase that becomes available subject to relevant conditions, including observance of end-December performance criteria. The quarterly performance criteria (including new performance criteria for June 2010), inflation consultation clause, and indicative targets under the program are set out in Table 1.

8. We believe that the policies set forth in this letter, which supplements our letter and the attached Memorandum of Economic and Financial Policies (MEFP) of April 13, 2009, as well as our letter of September 4, 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/	/s/
Juan Alberto Fuentes Knight Minister of Finance	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-Sep		End-Dec		End-Mar		End-Jun		End-Sept		End-Dec	
	Prog. 4/	Actual	Prog. 4/	Proposed	Prog. 4/	Proposed	Prog. 4/	Proposed	Prog. 4/	Proposed	Prog. 4/	Proposed
Performance Criteria (for end-Sept and end-Dec 2009, and end-Mar and end-Jun 2010; indicative targets otherwise)												
Overall balance of the central government, floor (millions of quetzales)	-7,700	-5,410	-10,600	-10,600	-2,500	-3,000	-4,100	-5,000	-7,600	-8,000	-10,000	-10,000
Net international reserves, floor (millions of US$)	4,200	4,792	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Accumulation of external arrears 2/	0	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets												
Central government deposits at Banguat, floor (millions of quetzales)	5,000	7,897	4,900	4,900	6,000	4,900	4,500	6,300	3,500	4,400	3,800	3,800
Consultation clause on inflation 3/												
Outer band, upper limit	3.0	3.0	5.5	3.8	7.5	6.5	8.5	7.5	8.5	7.5	7.5	7.0
Inner band, upper limit	2.0	2.0	4.5	2.8	6.5	5.5	7.5	6.5	7.5	6.5	6.5	6.0
Inner band, lower limit	-2.0	-2.0	0.5	-1.2	2.5	1.5	3.5	2.5	3.5	2.5	2.5	2.0
Outer band, lower limit	-3.0	-3.0	-0.5	-2.2	1.5	0.5	2.5	1.5	2.5	1.5	1.5	1.0

1/ Cumulative from end of preceding year.
2/ Continuous performance criterion.
3/ Deviations from the band's limits will trigger consultations with the Fund as indicated in the TMU.
4/ IMF Country Report No. 09/305.

Attachment II. Technical Memorandum of Understanding

1. **This technical memorandum of understanding (TMU) updates and replaces the TMU included in the IMF Board document for the April 2009 Stand-By Arrangement (IMF Country Report No. 09/143)**. It describes the understandings reached between the authorities of Guatemala and IMF staff for the monitoring of performance during the requested 18-month Stand-By Arrangement. The TMU describes the quarterly quantitative performance criteria and corresponding adjusters, the indicative target, the consultation clause on inflation, and reporting requirements.

I. Quantitative Performance Criteria

A. Overall Balance of the Central Government

2. **The overall balance of the central government is measured on an accrual basis from above the line**. It is defined as the difference in total revenue and total expenditure as defined in Guatemala's Budget Law. The information on revenue and expenditure will be obtained from the public sector accounting system (SICOIN).

3. At the time of the reviews, the authorities and IMF staff will undertake a process of reconciliation of above-the-line and below-the-line (as defined below) measurements of the central government deficit, aiming to progressively reduce differences between them.

4. The below-the-line deficit is defined as net external financing of the central government (CG) plus net domestic financing of the central government. The net external financing of the central government is defined as (i) disbursements of external loans *plus;* (ii) proceeds from the issues of government bonds abroad *minus;* (iii) amortization payments *minus;* (iv) debt buy-backs or any other prepayments of debt. Net domestic financing is defined as (i) the net increase in the stock of domestic central government bonds *minus;* (ii) net changes in the stock of deposits of the National Treasury at the central bank and commercial banks *plus;* (iii) net changes in other liabilities of the central government; *and minus* (iv) net changes in other assets of the central government.

5. **Adjuster**. The floor on the overall balance of the CG for 2009 has been calculated assuming net external financing totaling US$637 million (Q5093 million at an exchange rate of Q8 per dollar). If net external financing exceeds that level, the floor will be adjusted downwards by up to US$100 million (Q800 million).

B. Net International Reserves (NIR) of the Central Bank

6. **For the purpose of the program, the stock of NIR of the Central Bank is defined as** the difference between the U.S. dollar value of gross liquid foreign assets, and short-term foreign liabilities as defined below.

7. **The definition of gross foreign assets and net foreign assets should be consistent with** the Data Template on International Reserves and Foreign Currency Liquidity and the fifth edition of the Balance of Payments Manual (BPM5).

- **Gross reserve assets** include monetary gold, holdings of SDRs, any reserve position in the Fund, and holdings of foreign exchange in convertible currencies. Excluded from gross reserve assets are capital participation in IFIs, any assets in nonconvertible currencies, holdings of precious metals other than monetary gold, encumbered reserve assets, reserve assets pledged as collateral for foreign loans, reserve assets pledged through forward contracts, and illiquid assets.

- **Short-term foreign liabilities** of the central bank are defined as the sum of (i) all foreign currency-denominated liabilities of the central bank with an original maturity of one year or less; (ii) liabilities to the Fund; (iii) any foreign currency liabilities of the central bank to residents, including financial institutions; and (iv) any short-term liability converted into a medium-term liability during the program period.

- As per these definitions, on March 23, 2009, gross foreign assets of the central bank stood at US$5046 million and NIR stood at US$4781 million.

C. Nonaccumulation of External Arrears

8. **Guatemala will maintain its stated policy of not incurring external payment arrears**. This performance criterion applies on a continuous basis. For the purposes of this performance criterion, an external debt payment arrear will be defined as a payment by the central government which has not been made within seven days after falling due under the contractual agreement, unless specified otherwise.

II. Indicative Target

9. **Central Government deposits at the Bank of Guatemala are defined as** all the account balances of the central government held at the Bank of Guatemala, currently under the summary account 22106001.[5]

III. Consultation Clause

10. **Reflecting the Bank of Guatemala's inflation targeting approach to monetary policy**, quarterly consultation bands of +/– 2 percentage points (inner band) and +/– 3 percentage points (outer band) are established around the projected 12-month rate of inflation in consumer prices (LOI Table 1). Inflation will be measured by the 12-month rate of change of the headline

---

[5] The authorities will inform IMF staff in case the account number of the central government at the Bank of Guatemala changed or other accounts had to be taken into consideration for the purpose of assessing compliance with the indicative targets established in the program.

consumer price index (IPC - *Indice de precios al consumidor*), as published by the National Statistics Institute (INE).

11. Should the 12-month rate of IPC inflation fall outside the inner band specified above, the authorities will discuss with Fund staff on the policy response. Should the 12-month rate of IPC inflation exceed the upper limit of the outer band specified above, the authorities will also consult with the IMF Executive Board prior to resuming their purchases.

IV. Reporting requirements

12. **The authorities will provide the necessary information to the Fund staff** to monitor the program in an adequate manner, in particular as it refers to the following specific daily, weekly, and monthly data with a delay not exceeding the indicated lag. The Bank of Guatemala and the Ministry of Finance will send the information by e-mail, or by fax if electronic delivery is impossible.

13. **In addition, timely information will be provided to the Fund on economic and financial measures taken by the government**, as well as changes in legislation including regulations approved by the Central Bank of Guatemala, the Ministry of Finance, the superintendency of banks, the SAT, and other key economic agencies.

14. **A daily electronic mail** will be sent with a lag of no more than 2 working days unless otherwise agreed, and will contain:

(i) The level of gross international reserves and net international reserves, including short-term foreign currency liabilities.

(ii) The stock of currency issued.

(iii) The deposits of the central government and the rest of the nonfinancial public sector in the Bank of Guatemala.

(iv) The exchange rate of the quetzal vis-à-vis the U.S. dollar.

(v) Amount of the central bank intervention in the FOREX market.

(vi) Principal accounts of the balance sheet of the central bank.

15. **The weekly information** will be sent with a lag of no more than one week, and will contain:

(i) Daily buying and selling exchange rates in the interbank foreign exchange markets.

(ii) Placements and amortization of certificates of open market operations by maturity, interest rate, and holder (nonfinancial private sector, financial sector, nonfinancial public sector).

(iii) Commercial banks' average deposit and loan interest rates in domestic and foreign currencies.

(iv) Foreign currency cash flow of the central bank.

(v) Daily liquidity information (excess and required reserves) in foreign and local currency, by bank (2 weeks lag)

16. **The monthly consumer price index** will be sent with a lag of no more than 2 weeks.

17. **The Bank of Guatemala will send the following monthly information** with a lag of no more than 4 weeks:

(i) Main monthly accounts of the commercial and development banks, including their offshore operations.

(ii) Monthly accounts of the central bank.

(iii) Analysis of inflationary developments

(iv) Updated inflation projections by the Bank of Guatemala.

(v) Main economic and financial laws, and related monetary board regulations.

18. **The Ministry of Finance will send the following monthly information** with a lag of no more than 4 weeks:

(i) The overall balance of the central government as defined in paragraph 2.

(ii) Total central government revenue measured on a cash basis, and divided between tax revenue and nontax revenue, transfers and grants on the form the authorities have been providing to IMF staff in the recent past. Tax revenue will be divided between direct taxes (income tax, oil royalties, ISO, other) and indirect taxes (domestic VAT, VAT on imports, excise taxes on oil, alcohol and beverages, stamp taxes, vehicle taxes, import taxes, other taxes) (finalized revenues will be sent with a lag of no more than 3 weeks).

(iii) Total government expenditure measured both on an accrual basis and a cash basis, and divided between current and capital expenditure. Current expenditure will be divided between expenditure in wages and salaries, goods and services, external and internal debt interest payments, and transfers. Capital expenditure will be divided between direct investment and capital transfers.

(iv) Total government social expenditure, defined as expenditure in education, science and culture; health care and social assistance; and housing, including information on key social programs such as Mi Familia Progresa.

(v) External financing of the central government, including disbursements and amortizations of external loans and bonded debt placed with nonresidents, as well as any variation of external arrears.

(vi) Domestic financing of the central government, including variation of the National Treasury deposits in the Bank of Guatemala and commercial banks, as well as bonded debt placed with residents and any variation of arrears with domestic debt holders.

INTERNATIONAL MONETARY FUND

GUATEMALA

Staff Report for the 2009 Article IV Consultation, Second Review Under the Stand-By Arrangement and Requests for Modification of Performance Criterion and Consultation Clause—Informational Annex

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

November 24, 2009

Contents Page

Appendix I. Guatemala—Fund Relations
(As of October 31, 2009)

I. **Membership Status:** Joined: December 28, 1945; Article VIII

II. **General Resources Account:**

	SDR Million	Percentage of Quota
Quota	210.20	100.00
Fund holdings of currency	210.21	100.00

III. **SDR Department:**

	SDR Million	Percentage of Allocation
Net cumulative allocation	200.91	100.00
Holdings	174.37	86.79

IV. **Outstanding Purchases and Loans**: None

V. **Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	04/22/09	10/21/10	630.60	0.00
Stand-By	06/18/03	03/15/04	84.00	0.00
Stand-By	04/01/02	03/31/03	84.00	0.00
Stand-By	12/18/92	03/17/94	54.00	0.00

VI. **Projected Obligations to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Charges/Interest	0.02	0.09	0.09	0.09	0.09
Total	**0.02**	**0.09**	**0.09**	**0.09**	**0.09**

VII. **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, which was 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 financial reporting transparency and the management of foreign exchange reserves. Recommendations were made to further strengthen the bank's governance and independence.

VIII. **Exchange Rate Arrangements**

Since March 1994, Guatemala has had an arrangement based on an interbank foreign exchange market in which authorized financial institutions buy and sell foreign exchange at market-determined rates. Financial institutions authorized to operate in the foreign exchange market include commercial banks, finance companies, and exchange houses. The exchange regime is classified as "Floating." As of November 18, 2009, the reference exchange rate was Q8.30 per U.S. dollar.

IX. **Last Article IV Consultation**

The last Article IV consultation was concluded by the Executive Board on May 19, 2008.

X. **FSAP Participation**

An FSAP was conducted on July 3–7, 2000 and on September 11–23, 2000, and the Financial System Stability Assessment was discussed by the Executive Board on May 14, 2001 at the time of the 2001 Article IV consultation. An FSAP update was undertaken during October 27–November 10, 2005.

XI. **Technical Assistance**

Technical assistance provided in recent years has covered tax policy administration, expenditure management, inflation targeting, financial sector regulation and supervision, and statistics. Since 2004, FAD has provided assistance on tax policy, expenditure management, and tax administration in various missions. STA has also assisted in completing General Data Dissemination System metadata for the financial and external sector, and in improving statistics on the balance of payments, the national accounts, and government financial statistics. In July 2009, a STA mission provided technical assistance on quarterly national accounts. MCM has provided assistance on inflation targeting, monitoring the banking system, and improving banking sector regulation and supervision. During March 2008–May 2009, three advisory missions assisted in designing an action plan for the development of secondary markets for private securities and improving the efficiency and effectiveness of monetary policy.

A regional Technical Assistance Center for Central America, Panama, and the Dominican Republic (CAPTAC-DR), started operations in June 2009. CAPTAC-DR, which is based in Guatemala City, will deliver capacity-building and training to seven countries in the region, supporting the implementation of the countries' development strategies in IMF areas of expertise. The center will also provide technical assistance (TA) at the regional and national level in support of ongoing economic and financial integration efforts in the region. TA is already being provided to Guatemala on revenue administration as well as on issues related to the planned customs union between Guatemala and El Salvador.

XII. **Resident Representative**

The Resident Representative office in Guatemala was opened in 2003. In August 2009, Mr. Fernando Delgado was appointed Regional Resident Representative for Central America, based in Guatemala.

Appendix II. Guatemala—Relations with the World Bank Group
(As of October 31, 2009)

The Bank's Country Partnership Strategy for Guatemala. The Bank's Country Partnership Strategy (CPS) for the period FY09–12 was developed in close collaboration with the government and wide consultation with country stakeholders. The CPS was discussed by the Bank's Executive Board in September 2008 and supports growth and poverty reduction strategies within the government's development program, Plan de la Esperanza. The CPS supports key elements of Guatemala's program, including a new conditional cash transfer program, policies to support natural disaster risk mitigation, fiscal reform, rural infrastructure development, and other poverty reduction efforts.

IBRD Flows and Total Debt Outstanding. IBRD disbursements to Guatemala have increased in recent years, rising from an annual average of about US$90 million during 2003–06 to an average of some US$160 million during 2007–09. Guatemala's total debt outstanding to the IBRD was US$967.1 million as of end-October 2009.

The current portfolio. As of October 31, 2009, the IBRD active portfolio consisted of 8 projects with a total commitment of US$752.8 million and net disbursements of US$71.4 million. These comprise six investment loans, one Catastrophic Development Policy Loan with Deferred Draw-down Option (CAT DPL-DDO), and one Development Policy Loan (DPL).

The Second Programmatic Fiscal and Institutional Development Policy Loan (DPL) for $350 million, approved by the Board of Directors on July 28, 2009, is part of a series developed within Guatemala's medium-term development plan and is designed to: (i) enhance macroeconomic stability, governance, and transparency; (ii) expand opportunities for vulnerable groups through improved targeting of social programs; and (iii) promote sustainable growth and productivity for better jobs.

IBRD Flows (US$ millions)

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009***
Disbursements	45.0	79.2	34.5	198.8	136.3	132.6	216.5
Amortizations	17.9	29.2	33.0	36.2	38.1	66.5	57.4
Net disbursements	27.1	50.0	1.4	162.6	98.2	66.1	159.0
Charges and fees	18.6	16.9	19.0	28.4	37.3	39.7	25.7
Net cash flows	8.5	33.1	-17.6	134.2	60.8	26.4	133.3
Debt outstanding	427.6	477.7	478.9	641.5	739.7	805.8	967.1

* Through October 31, 2009.

IBRD Operations by Sector, in US$ millions, as of October 31, 2009

	Disbursed	Undisbursed
Law and public administration	33.5	16.2
Health	10.8	38.2
DPL/DPL-DDO	0	85.0
Transportation	17.5	29.2
Rural development	0.8	29.2
Land management	1.6	60.6
Education	7.2	72.8
Total	**71.4**	**331.2**

Appendix III. Guatemala—Relations with the Inter-American Development Bank
(As of November 2009)

A. Recent Projects and Objectives

1. On June 30, 2009, the IADB approved its country strategy for Guatemala for 2008–2011. The country strategy was the product of dialogue with the current Guatemalan administration. It focuses on supporting the following government goals: (i) reducing chronic malnutrition; (ii) reducing the intergenerational transmission of poverty; (iii) upgrading and maintaining production infrastructure; and (iv) achieving the revenue collection targets established in the Peace Accords.

2. As of November 10, 2009, the IADB portfolio of approved sovereign-guaranteed investment and policy-based loans under execution amounted to US$1,440 million, with an undisbursed balance of US$875.5 million. The existing portfolio focuses on: (i) supporting the reform and modernization of the State (including a policy-based loan targeted to support the government's efforts in modernizing its fiscal system); (ii) strengthening the country's social programs (including a policy-based loan directed to support a conditional cash transfer program and a performance-driven loan to contribute to the implementation of the country's education policy); and (iii) improving productive infrastructure (especially in the rural areas and in the water and sanitation sector).

3. In the private sector, over the last two years, the IADB has approved one lending facility for the financial sector (US$45 million) and two credit line operations for trade financing (US$75 million).

4. The pipeline includes projects in the areas of health and nutrition and water and sanitation. In addition, the Bank continues to support nonfinancial activities, including assistance in the area of fiscal reform, health and nutrition, education, water and sanitation, and public sector strengthening.

B. IADB Loan Disbursements 2005–2009
(In millions of U.S. dollars)

	2005	*2006*	*2007*	*2008*	**2009***
Disbursements	33.0	130.3	213.7	139.0	377.8
Amortization	56.0	63.2	56.4	85.2	84.2
Net Disbursements	-23.0	67.1	157.3	53.8	293.6
Interest and Charges	45.8	55.0	59.1	71.6	66.9
Subscriptions and Contributions	0.7	2.6	3.5	3.9	
Net Cash Flows	-69.5	9.5	94.7	-21.7	226.7

Source: IDB Financial Department
* Projections

C. IADB Portfolio in Guatemala as of November 2009
(In millions of U.S. dollars)

Sector	***Approved***	**Undisbursed**
Rural development and agriculture	30.1	2.6
Trade	85.0	70.3
Urban development and housing	62.9	21.1
Education	150.0	120.0
Energy	122.5	57.6
Social investment	219.0	178.0
Sanitation	49.8	40.3
Environment and natural disasters	72.8	66.8
Private sector development	29.0	29.0
Reform and modernization of the State	458.5	308.1
Health	105.4	50.9
Transportation	140.0	1.0
Total	**1,525.1**	**945.8**

Note: Sovereign-guaranteed and nonsovereign-guaranteed programs, including regional programs.

Appendix IV. Guatemala—Statistical Issues

Guatemala—Statistical Issues Appendix *As of November 2009*	
I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate for surveillance.	
National Accounts: quarterly national accounts data are not available, but the Bank of Guatemala expects to publish quarterly GDP statistics at end-2009. STA has provided technical assistance and is working closely with the Bank of Guatemala in the development of quarterly GDP estimates.	
Price statistics: a producer price index (PPI) is not compiled. The National Institute of Statistics is planning to develop a PPI in the medium term, subject to resource availability.	
Public sector data: fiscal statistics do not include social security agencies, local governments, and nonfinancial public enterprises, hindering the calculation of a consolidated public sector balance.	
Financial sector data: The sectorization of some instruments on the balance sheet of other depositary corporations is pending. In particular, for loans, there is no classification available between nonresidents and residents.	
II. Data Standards and Quality	
Guatemala became a participant in the General Data Dissemination System (GDDS) in 2004, and is interested in subscribing to the Special Data Dissemination Standard (SDDS). Several data categories are yet to meet the periodicity or timeliness requirements prescribed by SDDS. An SDDS assessment mission is scheduled in 2010 to address these issues.	A data ROSC was completed on October 28, 2004.

Guatemala: Table of Common Indicators Required for Surveillance

(As of November 18, 2009)

	Date of latest observation	*Date received*	*Frequency of Data*[7]	*Frequency of Reporting*[7]	*Frequency of Publication*[7]	**Memo Items:**	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	17/11/09	18/11/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	17/11/09	18/11/09	D	D	D		
Reserve\Base Money	5/11/09	12/11/09	W	W	W	O, LO, LO, LO	LNO, O, O, O, LNO
Broad Money	5/11/09	12/11/09	W	W	W		
Central Bank Balance Sheet	17/11/09	18/11/09	D	D	D		
Consolidated Balance Sheet of the Banking System							
Interest Rates[2]	5/11/09	12/11/09	W	W	W		
Consumer Price Index	31/10/09	09/11/09	M	M	M	O, LO, LO, LO	LO, LO, LO, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing[3] – General Government[4]			NA	NA	NA	LO, LNO, LO, LO	LO, O, LO, LO, LNO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	30/09/09	23/10/09	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	31/10/09	09/11/09	M	M	M		
External Current Account Balance	30/06/09	30/09/09	Q	Q	Q	LO, LO, LNO, LO	LNO, LNO, LO, LO, LNO
Exports and Imports of Goods and Services	30/06/09	30/09/09	Q	Q	Q		
GDP/GNP	31/12/08	31/03/09	A	A	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LNO, LNO
Gross External Debt	31/12/08	29/06/09	A	A	A		
International Investment Position[6]	31/12/08	29/06/09	A	A	A		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[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] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] Reflects the assessment provided in the data ROSC, (published on June 10, 2005 and based on the findings of the mission that took place during October 14–28, 2004) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification\sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

Statement by the IMF Staff Representative
December 16, 2009

1. This statement summarizes information that has become available since the issuance of the Staff Report (EBS/09/186). The new information does not alter the thrust of the staff appraisal.

2. **Economic activity continues to recover and inflation remains low**. In October, the monthly index of economic activity (IMAE) increased 0.2 percent (m/m seasonally adjusted). In November, monthly inflation was 0.05 percent and annual inflation was -0.6 percent. As a result, inflation could be close to zero at end-2009 (compared to 0.8 percent in EBS/09/186).

3. **The government failed to garner the majority in Congress to approve the draft 2010 budget by end-November and, thus, expenditure in 2010 will be guided by the 2009 budget**. According to the Guatemalan constitution, a budget can no longer be approved after end-November, in which case expenditure must be guided by the previous year's budget. The 2009 budget has an expenditure ceiling of Q47.5 billion, which is Q1.9 billion (0.6 percent of GDP) higher than the ceiling in the draft 2010 budget. If the 2009 budget's expenditure is fully executed in 2010, and given revenue projected at Q35.5 billion, the fiscal deficit would reach Q12.1 billion (3.7 percent of GDP), exceeding the Q10 billion deficit target (3.1 percent of GDP) agreed under the SBA.

4. **However, the authorities remain fully committed to the 2010 fiscal deficit agreed under the SBA**, which envisages a slightly negative fiscal impulse. A tighter fiscal policy stance could weaken demand and hinder the incipient economic recovery. Yet, the balance of risks is tilted toward a lower fiscal deficit than the program target, for three reasons:

- **Expenditure execution is likely to be contained**. The authorities have indicated that they will execute expenditure only up to the ceiling of the 2010 *draft* budget. There is no legal impediment to do so.
- **The amount of borrowing to be approved by Congress is uncertain**. The 2010 draft budget envisaged new borrowing for Q9 billion, about half of which was to be approved together with the budget bill. However, Congress now needs to approve a law to finance expenditure plans for 2010. If the borrowing authorization is lower than Q4.5 billion, the 2010 fiscal deficit could be below the program target. Moreover, potential delays in approving the needed borrowing could severely affect the execution of the public investment program in the first semester.
- **The usage of the revenue package currently being considered by Congress (see ¶15 in EBS/09/186) might be changed**. If Congress decided to channel part of the proceeds of the revenue package to finance the deficit rather than to increase spending levels, the deficit could be lower than envisaged under the program.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/07
FOR IMMEDIATE RELEASE
January 20, 2010

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

IMF Executive Board Concludes 2009 Article IV Consultation with Guatemala

On December 16, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guatemala.[1]

Background

The Guatemalan economy was negatively affected by the global crisis, but there are signs that the economy is beginning to recover. After growing 5.8 percent during 2006–07, on average, economic growth decelerated to 4.0 percent in 2008 and continued to slow down in 2009. The global crisis affected the Guatemalan economy through a decline in exports, remittances, tourism receipts, and net private capital inflows. Annual inflation fell to -0.6 percent in October, from 9.4 percent at end-2008, reflecting weak demand and the decline in commodity prices. Despite the external shock, domestic and external stability have been preserved and the authorities are treating an 18-month Stand-By Arrangement as precautionary.[2]

The authorities' economic policies in 2009 have aimed at safeguarding macroeconomic stability and mitigating the impact of the global crisis. The authorities' strategy has consisted

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

[2] The 18-month Stand-By Arrangement (SBA) with total access of SDR630.6 million (about US$986 million) was approved in April 2009.

in adopting moderately countercyclical policies, maintaining exchange rate flexibility, advancing reforms to further strengthen the financial sector, and refocusing public expenditures toward social and infrastructure spending (as set out in the National Program of Emergency and Economic Recovery).

Fiscal policy has struck a reasonable balance between supporting demand and preserving public debt sustainability. The fiscal deficit of the central government reached 1.4 percent of gross domestic product (GDP) in January–September of 2009 due to a decline in revenues of about 7.5 percent and an increase in spending (mainly social and infrastructure expenditure). The government's financing requirements were met through domestic bond issuance, use of government deposits at the central bank, and external loans from multilaterals. At end-2009, the central government deficit is expected to reach 3.4 percent of GDP, up from 1.6 percent of GDP in 2008.

Monetary conditions were eased gradually in 2009 to support the economic recovery and avoid disorderly adjustments in the exchange rate. As inflationary pressures eased, the central bank reduced its policy interest rate by 275 basis points to 4.50 percent (7.25 percent at end-2008). The nominal exchange rate has depreciated by 6½ percent since end-2008, contributing to cushion the impact of the global crisis. The central bank has intervened occasionally to smooth exchange rate volatility.

Despite the economic slowdown, the financial sector has remained sound. In the face of the global crisis, several measures were adopted to reduce the risks to the financial system, including continuous onsite supervision, temporary and enhanced liquidity provisioning mechanisms, and tighter provisioning requirements. While nonperforming loans have risen and profitability declined, liquidity and solvency ratios have remained adequate. As banks' deposits are growing and credit is stagnant, overall liquidity is ample, inducing banks to repay foreign credit lines.

Executive Board Assessment

Executive Directors commended the authorities for their strong performance under the Fund-supported program, which has helped preserve macroeconomic stability and mitigate the impact of the global crisis. Directors welcomed the prospect of a gradual recovery and the declining downside risks as global financial conditions stabilize. They noted nevertheless that Guatemala's near-term outlook is subject to the pace of recovery in the United States, calling for continued vigilance. Over the longer term, raising growth and reducing poverty while safeguarding fiscal sustainability require a comprehensive strategy, including measures to raise revenues and structural reforms aimed at enhancing the business environment.

Directors emphasized that fiscal policy should continue to strike a balance between supporting domestic demand and keeping public debt dynamics in check. They endorsed the authorities' deficit target of 3.1 percent of GDP for 2010 and called on them to continue working with Congress to ensure prompt approval of a law to finance the expenditure plans. To stabilize the public debt-to-GDP ratio and to address long-standing weaknesses in education, health, security, and infrastructure, it will be important to strengthen tax administration and implement a comprehensive package of revenue-enhancing measures.

Directors supported the gradual easing of monetary policy. They encouraged the authorities to remain vigilant in their conduct of monetary policy, standing ready to adjust the policy rate as needed, and to continue improving communications with the market in order to anchor better inflation expectations. Directors stressed the need to strengthen the interest rate channel of monetary transmission, by further developing public and private securities markets and enhancing monetary operations.

Directors welcomed the commitment to a flexible exchange rate, pointing to its crucial role in cushioning the impact of external shocks and strengthening the credibility of the inflation-targeting framework. They noted the staff's assessment that the real effective exchange rate may be somewhat overvalued, and supported the authorities' intention to limit intervention in the foreign exchange market to smoothing out excessive volatility, allowing exchange rate movements to be driven by fundamentals. Directors encouraged the authorities to press ahead with structural reforms aimed at improving external competitiveness.

Directors emphasized that advancing the banking sector reform agenda remains a high priority. Recent efforts to strengthen supervision and regulation of the financial sector have contributed to its resilience in the face of the global crisis. Congressional approval and decisive implementation of the proposed amendments to the banking law would help reduce risks from offshore operations and connected lending, enhance the enforcement power of supervisors, and improve bank resolution procedures. Directors welcomed plans to implement regulations on liquidity and foreign credit management in early 2010.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators					
Population 2006 (millions)	13.0				
Percentage of population below the poverty line (2006)	51.0				
Rank in UNDP development index (2008)	121 of 179				
GDP per capita (US$, 2007)	2,550				
II. Economic Indicators					
	2006	2007	2008	2009	2010
				projected	
	(Annual percent change)				
Income and prices					
Real GDP	5.4	6.3	4.0	0.4	1.3
Consumer prices (end of period)	5.8	8.7	9.4	0.8	4.0
Monetary sector					
M2	18.7	12.7	6.7	10.4	6.7
Credit to the private sector	37.5	24.7	11.0	2.7	5.6
	(In percent of GDP, unless otherwise indicated)				
Savings and investment					
Gross domestic investment	20.8	20.7	17.6	15.0	16.4
Gross national saving	15.8	15.5	12.8	14.0	13.7
External saving	5.0	5.2	4.8	1.0	2.7
External sector					
Current account balance	-5.0	-5.2	-4.8	-1.0	-2.7
Trade balance (goods)	-16.1	-16.1	-14.3	-8.9	-11.2
Exports	20.1	20.5	20.1	19.1	19.5
Imports	-36.2	-36.6	-34.4	-28.0	-30.6
o/w Oil & lubricants	-5.8	-6.7	-6.9	-5.1	-5.5
Other (net)	11.0	10.9	9.5	7.9	8.4
o/w Remittances	12.1	12.3	11.3	10.5	10.9
Capital and financial account	4.4	4.7	4.1	0.8	3.7
Errors and omissions	1.4	1.1	1.5	0.6	0.6
Overall balance	0.8	0.6	0.9	0.4	1.5
Net international reserves					
(Stock in months of next-year NFGS imports)	3.2	3.2	4.3	4.1	4.2
(Stock over short-term debt on residual maturity)	1.2	1.0	1.1	1.2	1.4
Public finances					
Central government					
Revenues	12.7	12.9	12.1	10.6	11.0
Expenditures	14.7	14.3	13.7	14.0	14.0
Current	9.4	9.5	9.2	9.9	10.7
Capital	5.3	4.8	4.5	4.1	3.4
Primary balance	-0.6	0.0	-0.3	-1.9	-1.4
Overall balance	-1.9	-1.4	-1.6	-3.4	-3.1
Financing of the central government balance	1.9	1.4	1.6	3.4	3.1
Net external financing	1.2	1.2	0.3	1.3	2.7
Net domestic financing	0.7	0.3	1.3	2.1	0.4
o/w Use of government deposits	-0.4	-0.7	0.8	0.7	0.2
Nonfinancial public sector debt	**21.9**	**21.6**	**20.4**	**23.1**	**25.5**
External	13.1	12.3	11.5	13.2	15.9
Domestic	8.8	9.3	8.9	9.9	9.6
Memorandum items:					
GDP (US$ billions)	30.2	34.0	39.0	37.8	37.8

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/478
FOR IMMEDIATE RELEASE
December 22, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Stand-By Arrangement with Guatemala

The Executive Board of the International Monetary Fund (IMF) on December 16th completed the second 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 of SDR 630.6 million (about US$986 million) was approved on April 22, 2009 (see Press Release No. 09/142). With completion of the review, a total of SDR 504.48 million (about US$789 million) is available for drawing.

The Executive Board also approved a modification of a performance criterion and the inflation consultation clause. In particular, the overall fiscal deficit for end-March 2010 was revised upwards to provide room for spending to support the incipient recovery and the inflation consultation band was adjusted downwards in view of the benign inflation outlook. As risks to the program have declined, program reviews will now take place on a semiannual basis instead of on a quarterly schedule, while maintaining quarterly performance criteria.

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

"The Guatemalan economy is beginning to recover from the global crisis and growth is expected to be higher than the regional average. The authorities' prudent policies have helped maintain macroeconomic stability and mitigate the effects of the economic slowdown. These include moderately counter-cyclical monetary and fiscal policies, exchange rate flexibility, reorientation of expenditures toward social and infrastructure spending, and strengthening of financial sector supervision and regulation. Continued steadfast implementation of this program will help preserve confidence and further increase the economy's resilience to potential shocks.

In the near term, fiscal policy is expected to continue to strike a balance between supporting domestic demand and safeguarding debt sustainability. Approval of a law to finance the government's expenditure plans for 2010 would help avoid delaying necessary outlays. Over the medium term, it will be critical to boost growth by addressing weaknesses in education, health, security, and infrastructure. Financing the needed increase in public investment and social spending requires a comprehensive revenue-enhancing reform.

The authorities have eased the monetary policy stance prudently, helping to avoid disorderly exchange rate movements. It is important to remain vigilant, adjusting the policy rate as needed. Further development of public and private securities markets and enhancement of monetary operations would help strengthen the interest rate channel of monetary policy transmission. The authorities remain committed to maintaining a flexible exchange rate.

Important progress has been made in strengthening financial sector supervision and regulation, but additional efforts are still needed to complete the reform agenda. Priorities include Congressional approval and implementation of the proposed amendments to the banking law, and enforcement of the regulations on liquidity and foreign credit management in early 2010," Mr. Portugal said.

Statement by Ramón Guzmán, Executive Director for Guatemala
and Johny Gramajo-Marroquín, Senior Advisor
December 16, 2009

We would like to thank the Staff for a helpful and well-written report. The Guatemalan Authorities broadly agree with the Staff's assessment and recommendations. Under the Stand-By Arrangement, all end-September quantitative performance criteria have been met. The targets on 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-September. Annual inflation stood at zero percent as of end-September, within the inner consultation band. Our Authorities reiterate that they continue treating the arrangement as precautionary and their commitment to the program remains strong.

Recent developments. The global crisis has had a negative impact on Guatemala, even though it experienced modest positive economic growth, in contrast to the performance of neighboring countries. There are signs that the Guatemalan economy has started to recover from the global crisis, reflected in recent exports trend, stabilization of remittances and net private capital flows, a pick up in imports, and adequate levels of liquidity and capitalization in the financial system; situation that reflects the economy's resilience to the global crisis. The fiscal and monetary policies stances have helped to mitigate the economic slowdown and protect the poorest segments of the population, while preserving macroeconomic and financial stability.

Near-term outlook. Our authorities remain confident that economic growth will be modestly positive in 2009 and rise to within a range of 1.3 to 2.1 percent in 2010. The external economic and financial conditions have stabilized, reducing the country's exposure to external shocks. However, due to Guatemala's close links with the United States, downside risks could materialize if the U.S. economic recovery is weaker than envisaged.

Fiscal policy. During 2009, the authorities were able to implement a mildly countercyclical fiscal policy. Expenditure on social programs and on investment in infrastructure increased and contributed to Guatemala's modest but positive economic growth in spite of the crisis. We are of the view that the current fiscal stance and the one proposed for 2010 strike an appropriate balance between providing a necessary stimulus to domestic demand and keeping public debt dynamics manageable, while protecting social spending. The central government deficit is expected to reach 3.4 percent of GDP by year-end, and about 3.0 percent of GDP in 2010. The consolidated public sector deficit is expected to reach 3.0 percent of GDP in 2009 and about 2.6 percent of GDP in 2010. Those deficits will be partially financed with external sources, mostly from multilateral institutions.

Notwithstanding the proposed budget for 2010 was not approved by Congress and recognizing that this situation poses a complex scenario for public finances (mainly due to uncertainty in the financing sources, including placement of a US$500 million bond in international markets, since the budget to be implemented is the current one for 2009), our authorities remain firmly committed to the program objectives (especially the fiscal deficit targets) and to maintain medium-term fiscal sustainability. While tax revenues may pick up in line with the economic recovery, the authorities are aware that an additional effort is needed to reduce the fiscal deficit to pre-crisis levels and stabilize debt dynamics. Thus, to safeguard expenditures in order to ensure an adequate provision of public goods, the fiscal authority has been seeking support for a gradual increase in public revenues.

Monetary policy. As inflation and inflation expectations declined, the Monetary Board has reduced the policy interest rate by 275 basis points to 4.50 percent. Our authorities foresee a benign inflation outlook in the near term and have revised their inflation projections to below 1 percent by end-2009 and 4 percent by end-2010. The revised quarterly consultation bands for CPI inflation under the Program are consistent with these projections. Monetary policy will continue to focus on meeting the inflation target in the context of a flexible exchange rate regime. Thus, intervention in the FX market will remain geared at smoothing out excessive volatility, while allowing for movements driven by fundamentals.

Financial sector. The Guatemalan financial system has been resilient to the external shock. The Authorities are committed to further strengthening the regulatory framework. In that regard, the monetary board approved regulations on banks' liquidity management and is discussing foreign currency credit risk regulations with a view to approve them in the next days. Their implementation will begin in the second quarter of 2010. In addition, the authorities will continue maintaining a close dialogue with Congress to seek approval of the submitted amendments to the current banking legislation aimed at further strengthening the banking sector.

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