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Guatemala: Article IV Consultation—Staff Report; Informational Annex; Public Information Notice 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 the Article IV consultation with Guatemala, the following documents have been released and are included in this package:

- The staff report for the Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 15, 2012, 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 April 12, 2012. 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.
- Informational Annex
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 30, 2012 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Guatemala.

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

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INTERNATIONAL MONETARY FUND

GUATEMALA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

April 12, 2012

KEY ISSUES

Context. The economy rebounded from the 2009 slowdown underpinned by buoyant exports, domestic demand, and supportive macroeconomic policies. These started to be tightened in 2011. A new government took office in January 2012, and has given priority to strengthening the fiscal framework. While congress has remained fragmented, coalition building has facilitated the passage of revenue-enhancing reforms.

Near-term outlook and risks. Growth and inflation are expected to moderate in 2012 in line with the global slowdown and relatively stable world commodity prices. A deterioration in global conditions could lead to a sharp fall in external trade and remittance flows, with knock-on effects on real activity. Capital flows also would be affected, but vulnerabilities seem limited.

Near-term policy mix. The gradual fiscal consolidation envisaged for 2012 is appropriate. Rapid improvements in public expenditure management are necessary. A neutral stance for monetary policy is appropriate as it is backed by a flexible exchange rate. If global conditions deteriorate, the policy response should comprise greater exchange rate flexibility, a moderate monetary easing, and automatic fiscal stabilizers.

Medium-term challenges. To address longstanding obstacles to economic performance it will be important to push forward with reforms conducive to boosting output growth, including adopting additional revenue measures to allow higher levels of spending in critical areas (e.g. social programs, infrastructure, and security). It is also important to continue strengthening the macroeconomic policy framework, and further upgrade financial sector regulation and supervision.

Approved By
Miguel Savastano (WHD) and Dhaneshwar Ghura (SPR)

Discussions took place in Guatemala City during March 5–15, 2012. The staff team comprised Mr. López-Mejía (Head), Ms. Medina-Cas and Mr. Swiston (both WHD), and Mr. Delgado (Regional Resident Representative). The mission met with Central Bank President Barquín, Minister of Finance Centeno and other members of the cabinet, Superintendent of Banks Mancilla, members of congress, other senior officials, and representatives of the private sector. Mr. Cosenza (OED) participated in the policy discussions.

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BACKGROUND

1. **Guatemala weathered the 2008–09 global crisis reasonably well.** The authorities adopted countercyclical policies to mitigate the decline in domestic demand, let the exchange rate buffer part of the shock, and strengthened financial sector regulations and supervision. These policies were supported by an 18-month precautionary Stand-By Arrangement (SBA) with the Fund that expired in October 2010.

2. **The SBA helped preserve macroeconomic and financial stability.** In the aftermath of the crisis, however, progress in overcoming long-standing weaknesses in the macro-policy and institutional frameworks was limited. Chronic public expenditure management problems persisted (resulting in the accumulation of domestic payments arrears), and political opposition in congress impeded progress on tax reforms and on the prudential and regulatory framework (IMF, Country Report No. 11/296).

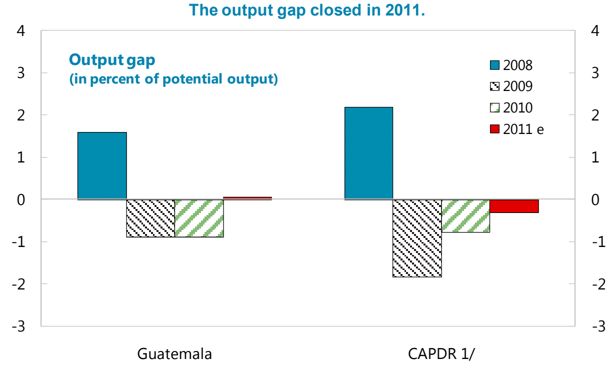
3. **The new government that took office in January 2012 has expressed a commitment to prudent macroeconomic policies.** President Otto Pérez, a retired general and runner-up in the 2007 elections, has placed revenue mobilization and expenditure efficiency and transparency as priorities of his government. He also has pledged to improve the security situation and reduce violent crime, which is partly linked to the country's growing importance as a regional hub for illegal drug trade. The newly-elected congress remains fragmented, but recent changes in party affiliation facilitated building coalitions; these allowed the approval of a revenue reform and an anti-tax evasion law during the first month of the new administration. Securing congressional support for reforms aimed at increasing the transparency and efficiency of public expenditure is the next priority of the government on the economic front.

RECENT ECONOMIC DEVELOPMENTS

4. **Macroeconomic developments since 2010 have been broadly favorable.**

- **Economic growth has firmed up, and inflation has returned to the target range.** Following the slowdown of 2009, the economy grew by 2.9 percent in 2010 despite disruptive heavy rains, and by 3.9 percent in 2011; buoyant exports and private consumption were the main drivers of the recovery and the output gap

The output gap closed in 2011.



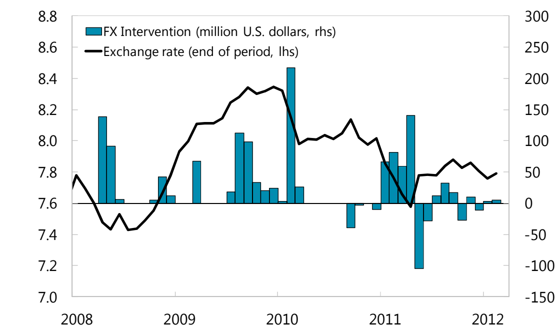
Sources: IMF, World Economic Outlook; and Fund staff estimates.
1/ CAPDR includes Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

closed by end-2011 (Figure 1). High world food and oil prices pushed headline inflation to 7.6 percent in August 2011 (from 5.4 at end-2010), but by early 2012 it had returned to the central bank's target range of 3.5–5.5 percent.

- **Balance of payments flows have normalized, following a sharp decline in trade and remittances in 2009.** The external current account widened from near balance in 2009 to a deficit of 3.1 percent of GDP in 2011, as oil imports made the total import bill outpace the growth in exports, and remittances were slow to recover. Private capital inflows, partly associated with banks' increased access to foreign credit lines, also normalized. As a result, the overall balance of payments posted a surplus of US$206 million in 2011, taking net international reserves to US$5.7 billion (5 percent above end-2010 levels), a comfortable level according to the standard reserve adequacy metrics.

5. Monetary policy was kept on hold from September 2009 to March 2011. The policy rate has been adjusted on three occasions since then (in March, July and September 2011) by a total of 100 basis points to limit second-round effects from rising commodity prices. The currency appreciated modestly from early 2010 to April 2011, and has remained broadly stable since then, with limited central bank intervention guided by a rules-based framework.[1]

The currency has been broadly stable since April 2011.



Source: Bank of Guatemala.

6. The fiscal deficit has narrowed. The deficit of the central government in 2011 was 2.8 percent of GDP, down from over 3 percent in 2009 and 2010, and public debt has remained broadly stable at 24 percent of GDP. Excluding reconstruction expenditures (associated with the natural disasters of 2010), the fiscal deficit in 2011 fell to 2.2 percent of GDP, implying a negative fiscal impulse. Tax revenues increased (partly owing to a tax amnesty), while recorded expenditures were kept in check. However, despite some improvements in budgetary control, little progress was made in adopting a strategy to avoid the recurrence of domestic arrears or in obtaining a reliable estimate of the stock of such arrears (IMF, Country Report 10/309).[2]

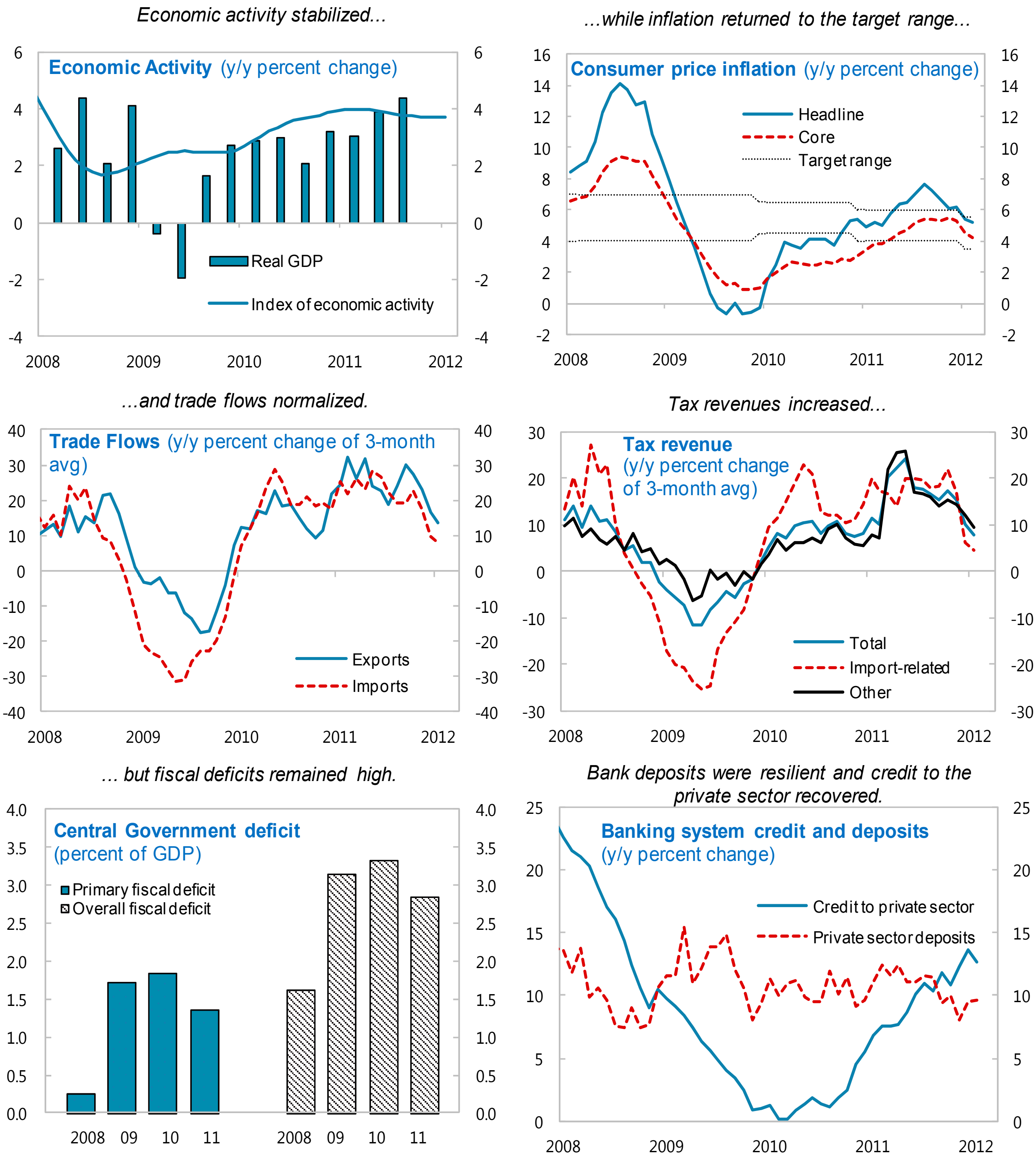
7. The financial sector has been stable (Figure 2)**.** Bank capitalization and liquidity indicators are sound, while non-performing loans fell to 1.7 percent of total loans (down from 2.7 percent in December 2009), and non-performing loans were fully provisioned. Bank deposits grew steadily as capital inflows recovered, credit to the private sector picked up, and the relative size of the offshore sector continued to decline.

[1] The rule allows the central bank to intervene in the foreign exchange market (by up to US$32 million per day) if the exchange rate deviates by more than 0.6 percent in either direction from its five-day moving average (the threshold that triggers central bank intervention was 0.5 percent from September 2009 until January 2011).

[2] The results of a recent international audit suggest that the stock of arrears incurred by a sample of line ministries could have been on the order of 1.5 percent of GDP as of April 2011. However, the work of the audit firm was constrained by limited collaboration from line ministries.

Figure 1. Guatemala: Recent Economic Developments

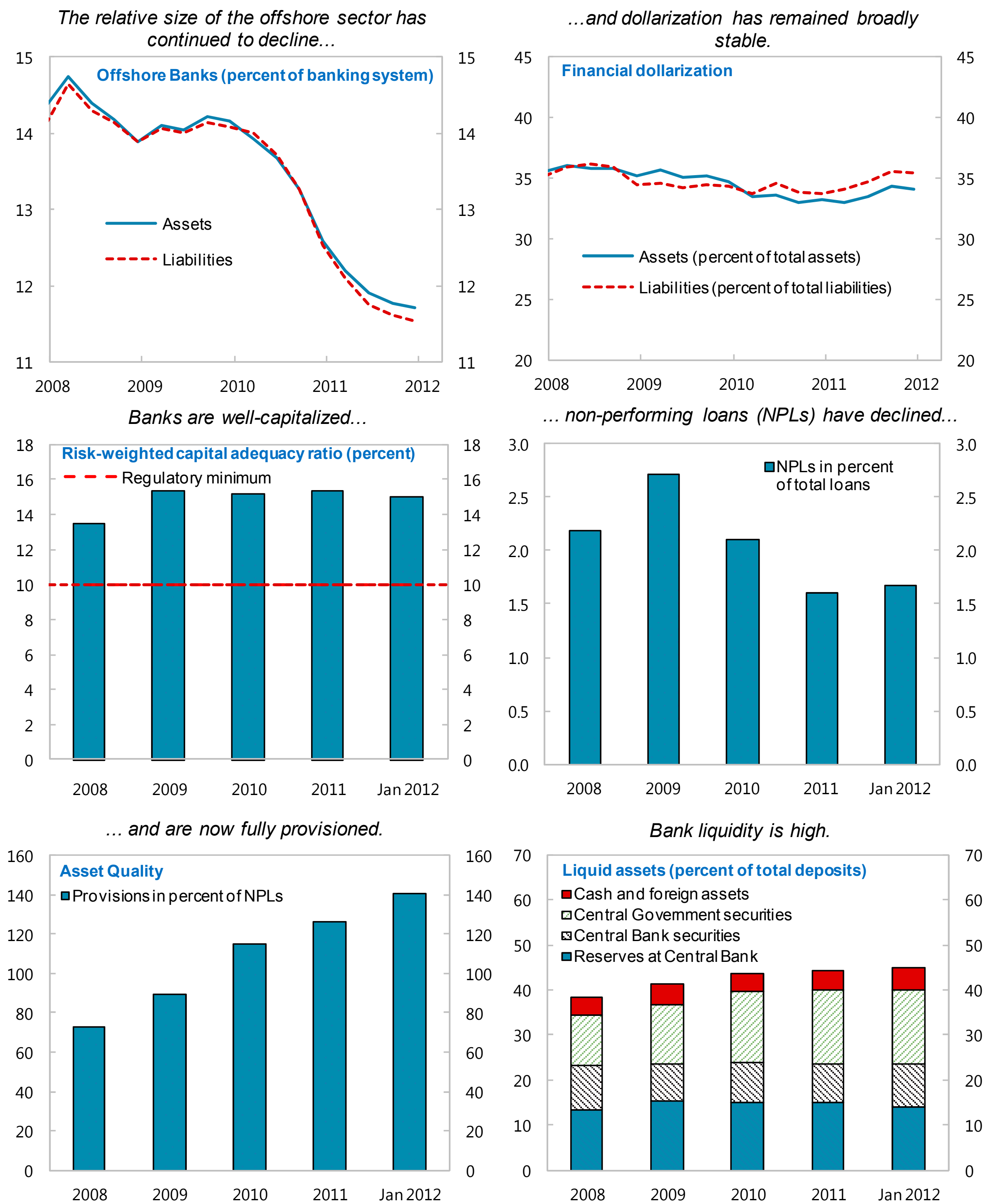
The Guatemalan economy has recovered from the 2009 shock.



Sources: Haver Analytics; and National Authorities.

Figure 2. Guatemala: Financial Sector Developments

The financial system remains stable.



Sources: Superintendency of Banks; Bank of Guatemala; Haver Analytics; and Fund staff calculations.

ECONOMIC OUTLOOK AND RISKS

8. The near-term economic outlook is generally positive. Economic growth is projected to moderate to 3.1 percent in 2012 and pick up gradually thereafter to medium-term potential (3.5 percent). Inflation is expected to decline to 5 percent in 2012, as pressures on world commodity prices moderate, and hover around the central bank's medium-term target of 4 percent starting in 2013. The external current account deficit is expected to widen gradually and stabilize around 3.7 percent of GDP by 2014; foreign direct investment and other private capital flows are expected to be more than sufficient to cover these deficits.

9. But the uncertain global outlook poses some risks.

- Risks to the growth outlook are somewhat tilted to the downside. Economic activity is vulnerable to lower-than-expected growth in the United States, Guatemala's largest trading partner. A weak U.S economy would lower proceeds from exports and remittances, and have knock-on effects on real activity and tax revenues. A spike in oil prices (caused by supply disruptions or other factors) is another risk that would put pressures on inflation and the external current account and weaken growth.

- *Risks to the balance of payments seem manageable*. Unsettled global financial markets could disrupt foreign credit lines and create liquidity pressures, but the overall impact of this shock is likely to be small owing to the relatively limited exposure to foreign banks and the tools that the central bank has to respond to such a shock, including reverse repos in foreign currency and the possibility of adjusting reserve requirements.

The outlook for Guatemala is generally positive, but is clouded by global uncertainty.

				Prel.	Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(Annual percent change)									
Real GDP	3.3	0.5	2.9	3.9	3.1	3.2	3.3	3.4	3.5	3.5
Consumer prices (end of period)	9.4	-0.3	5.4	6.2	5.0	4.5	4.2	4.0	4.0	4.0
	(In percent of GDP, unless otherwise indicated)									
Central government balance	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1	-1.9	-1.8	-1.7	-1.6
Public sector debt	20.1	22.9	24.1	24.1	24.8	25.2	25.4	25.6	25.6	25.6
Current account balance	-4.3	0.0	-1.5	-3.1	-3.5	-3.6	-3.7	-3.7	-3.7	-3.7
Capital and financial account	3.7	0.5	3.8	4.3	4.4	4.1	3.7	3.7	3.9	3.9
External debt	27.0	28.0	27.4	27.7	27.8	28.1	27.8	27.6	27.5	27.5
Reserve adequacy 1/	134.6	151.2	150.2	139.5	138.7	136.9	128.9	121.2	115.9	113.0

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.
1/ Stock in percent of weighted aggregate of M2, exports of goods and services, short-term external debt at a remaining maturity, and other external portfolio liabilities. For more details, see *Assessing Reserve Adequacy* (IMF Policy Paper 11/31).

POLICY DISCUSSIONS

The near-term priorities are maintaining prudent macroeconomic policies, improving public expenditure management, and being ready to respond in a timely manner to an adverse external shock. Over the medium term, the main challenges are adopting growth-enhancing reforms, strengthening the fiscal and monetary policy frameworks, and continuing financial sector reform. There has been some progress in these areas since the 2009 Article IV consultation, but more needs to be done (Box 1).

Box 1. Past Policy Recommendations

The previous Article IV consultation (IMF Country Report 10/36) highlighted the need to implement moderate countercyclical policies to mitigate the impact of the 2008-09 crisis and a comprehensive strategy to raise growth and reduce poverty. Directors recommended:

- **Implementing a prudent fiscal policy** to strike a balance between supporting domestic demand and keeping public debt in check. *The authorities implemented a broadly neutral fiscal stance in 2010-2011. The debt-to-GDP ratio rose modestly to 24.1 percent in 2011 (up from 22.9 percent in 2009).*

- **Anchoring low inflation,** through improvements in the monetary framework. Directors stressed the importance of a vigilant monetary policy, a flexible exchange rate, and a strong framework for monetary operations. *In 2011, monetary policy was tightened, the band for the exchange rate that triggers central bank intervention was widened, and the transition to a coherent framework for short-term liquidity management was completed.*

- **Increasing productivity and investment levels.** Directors viewed as critical the implementation of structural reforms aimed at enhancing the business environment and a revenue-enhancing reform to help raise public investment and social spending. *A revenue reform and an anti-tax evasion law were approved in early 2012.*

- **Advancing the banking reform agenda.** Directors recommended implementation of the amendments to the banking law and the regulations to improve liquidity and foreign-currency credit management. *Regulations on liquidity management, foreign-currency risks, information technology, risk management, and the insurance sector have been implemented.*

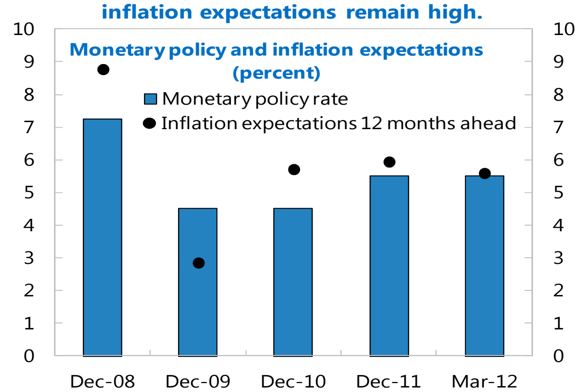
A. Near-term Policies

10. The government plans to continue with fiscal consolidation. The central government deficit is expected to decline to 2.4 percent of GDP (from 2.8 percent in 2011). This deficit would be consistent with a broadly neutral stance and result in a marginal increase in the public debt-to-GDP ratio. Tax revenues are projected to remain at about 11 percent of GDP (as the main impact of the revenue reforms approved in 2012 will accrue in 2013). Central government expenditure is projected to fall by more than ½ percent of GDP, largely as a result of the phasing out of reconstruction spending. Staff and the authorities agreed on the need to ensure an effective implementation of the recent revenue reforms. There was also agreement on the importance of improving management of current expenditure to help contain the deterioration in the composition of spending observed since 2006, thus avoiding further declines (increases) in capital (current) spending. The fiscal deficit is expected to be financed mostly from external sources, including through the planned issuance of a US$500 million Eurobond. If the global environment were to deteriorate, there was agreement that automatic stabilizers could be allowed to operate, but expenditures should be kept in check to help preserve public debt sustainability. Also, in that scenario the financing mix would have to be revisited, and probably rely more on domestic financing and borrowing from multilaterals.

11. The mission stressed the importance of improving public expenditure management. Staff urged the authorities to make rapid progress in producing a reliable estimate of the outstanding stock of domestic payments arrears and preparing a timetable for their elimination. The authorities noted that the Comptroller's Office had recently been empowered to calculate the outstanding stock of arrears, though the resources needed to carry out this task still need to be allocated. However, they stressed that this would be a protracted process because, apart from determining the stock of arrears, the legal and technical procedures to settle those arrears had to be developed. The authorities also underscored that the planned amendments to the organic budget law would be instrumental to improve public expenditure management and prevent the emergence of new arrears, as they envisage stricter sanctions, increased budget flexibility, improvements in cash management, and enhanced controls of trust funds. The mission stressed the importance of incorporating the recommendations from recent Fund technical assistance in the amendments (Box 2).

12. Monetary policy is expected to remain on hold. There was agreement that the recent decline in inflation and continued global uncertainty justified a pause in the tightening cycle. At the same time, however, it was agreed that the relatively high inflation expectations provided little scope to ease monetary policy under the baseline scenario. In the event of an adverse shock, a moderate easing of monetary policy could be warranted, provided external stability is not at risk and inflation expectations move to within the target range.

Monetary policy has been tightened, but inflation expectations remain high.



Source: Bank of Guatemala.

Box 2. Improving Public Expenditure Management

Some progress has been made in strengthening budgetary controls since 2010. The 2011 budget required that all contracts and purchase orders be accompanied by a "certificate of budget availability." In addition, the phasing out of contracts signed under the old procurement law and the smaller role of trust funds also are likely to reduce the risk of new domestic arrears.

Nevertheless, weaknesses remain. A recent Fund technical assistance mission found that budget rigidities hinder the allocation of resources to high-priority areas, limit the flexibility to respond to shocks, and could interrupt payments for multi-year projects. It also found that internal systems do not provide a reliable estimate of the outstanding stock of arrears and fail to ensure that expenditure is recorded when the obligation is incurred.

The planned amendments to the organic budget law provide a unique opportunity to improve public expenditure management. The technical assistance mission recommended including in these amendments provisions to prevent new domestic arrears. In particular:

- *Limiting the earmarking of projects by the legislature and developing a medium-term expenditure framework.*
- *Facilitating investment projects by simplifying bidding procedures and assigning certificates of budget availability for multi-year projects.*
- *Establishing a contingency fund and a special contracting regime for emergencies.*
- *Enhancing control of trust funds, establishing sanctions for non-compliance with budget norms, and strengthening the treasury single account system.*

Reducing the earmarking of revenue sources and improving cash planning would also be important. Streamlining the earmarking of revenue could require legal or constitutional changes. To ensure better recording of expenditure, it would be important to improve cash planning so that monthly ceilings on expenditure are set in accord with the pace of budget execution. It would also be key that internal auditors cross-check data entered into the system with information from suppliers.

13. The exchange rate seems broadly in line with fundamentals, but a greater degree of exchange rate flexibility is desirable. Staff's analysis does not suggest any large exchange rate misalignment. The authorities agreed with this assessment and argued that the rules-based framework for foreign exchange intervention had helped limit volatility without hindering equilibrium movements in the exchange rate. The mission welcomed the modest widening of the exchange rate threshold that triggers central bank intervention in early 2011 and proposed a further widening to facilitate future equilibrium changes in the exchange rate. The authorities agreed that increasing exchange rate flexibility would provide a buffer against shocks and strengthen the inflation targeting framework, but considered that global uncertainties were too high to introduce further changes to the framework at this juncture.

Different approaches suggest a mild overvaluation of the Quetzal.

Real Exchange Rate Assessment as of end-2011
(percent deviation from estimated equilibrium)
(+ = overvaluation)

Equilibrium real exchange rate approach	8
External stability approach	2
Macroeconomic balance approach	6

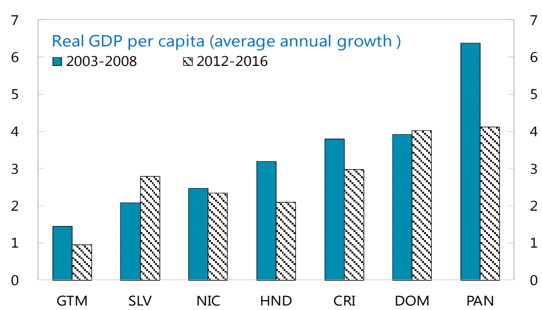
Source: Fund staff estimates.

B. Medium-term Challenges

Boosting growth

14. There was agreement that a higher rate of output growth was necessary to reduce poverty. Guatemala's growth performance has been modest and poverty remains high compared to regional peers (Figure 3). The mission stressed that growth in real GDP per capita would remain moderate in the absence of a comprehensive reform strategy and would probably be below the growth experienced during 2003-08 given that external demand is expected to remain sluggish.

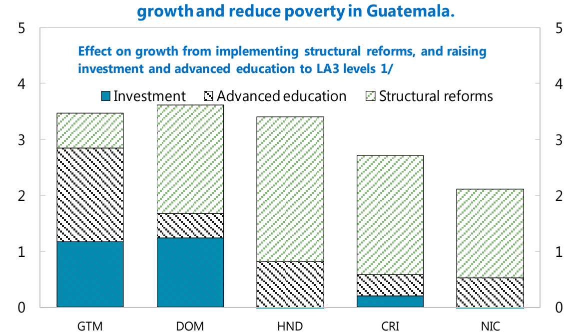
Without reforms, growth will continue to be modest.



Source: IMF, World Economic Outlook.

15. Raising potential growth would require reforms that boost investment and productivity. Staff discussed research that indicates that the long-run growth rate of Guatemala could increase by up to 2.5 percent by raising investment in physical and human capital to the levels observed in some Latin American countries (Chile, Mexico, and Peru).[3] The authorities and staff concurred that revenue mobilization should be at the center of any growth strategy in Guatemala to help cement macroeconomic stability while allowing the government to sustain significantly higher levels of social and infrastructure spending.

Increasing investment in physical and human capital is key to boost growth and reduce poverty in Guatemala.



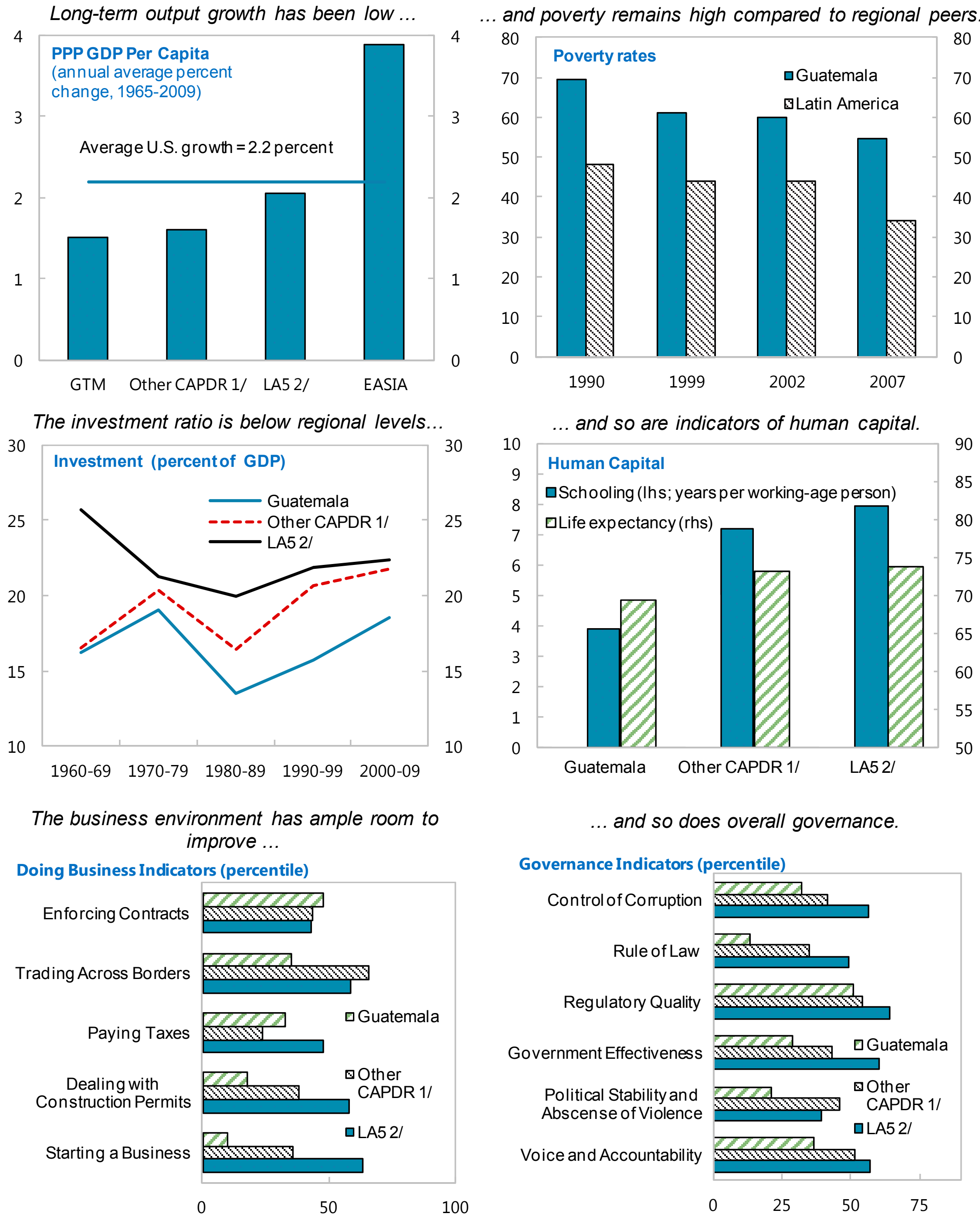
Source: Swiston and Barrot (2011), "The Role of Structural Reforms in Raising Growth in Central America" IMF Working Paper 11/248.
1/ LA3 includes Chile, Mexico, and Peru.

16. The mission welcomed the government's competitiveness agenda for 2012–21. The agenda aims at enhancing Guatemala's human capital and infrastructure as well as governance and institutions. In the short term, the agenda is focused on measures to enhance the business environment including

[3] Swiston, A. and L.D. Barrot (2011), "The Role of Structural Reforms in Raising Growth in Central America", IMF Working Paper 11/248.

Figure 3. Guatemala: Long-term Growth and Poverty

Raising productivity and investment will be key to boost long term growth.



Sources: Penn World Tables; ECLAC; Barro and Lee educational attainment dataset; and World Bank, World Development Indicators, Doing Business Indicators, and Governance Indicators.
1/ Simple average of Costa Rica, Dominican Republic, El Salvador, Honduras, Nicaragua, and Panama.
2/ Simple average of Brazil, Chile, Colombia, Mexico, and Peru.

reducing procedures required to start a business and the costs of trading across borders. There was agreement on the need to strengthen the framework for public-private partnerships, including by ensuring that the Ministry of Finance has sufficient veto authority over risky projects.

Strengthening the fiscal framework

17. The mission commended the authorities for the revenue-enhancing reforms approved in early 2012. With the implementation of the planned enhancements to tax administration, staff estimates that the revenue reforms could yield close to 1 percent of GDP in additional revenues in 2013 and up to 1.5 percent of GDP in 2015 (Box 3). This would imply that tax revenues would rise to about 12.2 percent of GDP, similar to the level observed in 2007.

18. The authorities' plans to improve the transparency and efficiency of government spending also are welcome. The newly-created Ministry of Social Development will be in charge of coordinating social programs and making them more transparent (including by reducing the reliance on trust funds). The authorities also have submitted to congress initiatives to allow the tax superintendency to have access to banking information; reform the governance of trust funds; permit a more active debt management strategy; and a civil service reform. While most of these reforms will likely help increase fiscal transparency, the mission underscored that the most pressing reform in this area was finding a quick and satisfactory solution to the outstanding stock of domestic arrears.

19. The mission supported the authorities' target of reducing the fiscal deficit to 1.8 percent of GDP by 2015 but urged them to deepen their revenue mobilization strategy. Staff supported the authorities' plan to save part of the revenues from the recent reforms to help reduce the fiscal deficit to 1.8 percent of GDP by 2015, as it would help stabilize the public debt-to-GDP ratio. However, it encouraged them to step up efforts to streamline the earmarking of revenues, which reduces the flexibility of fiscal policy. The mission urged the authorities to aim at increasing the tax revenue ratio to at least 13.2 percent of GDP. It noted that such a level of revenue would help achieve the goals of the 1996 Peace Accords and allow increased spending in critical areas (e.g. social programs, infrastructure and security). To achieve this gain, the mission proposed reducing tax expenditures and raising VAT rates to bring them into line with regional peers (Figure 4). Despite initiatives to broaden tax exemptions, the authorities agreed that there may be scope to reduce some of these exemptions, but considered that raising VAT rates was not an option in the short term. In addition, the effective implementation of the existing anti-money laundering legal framework should assist the authorities in enhancing tax compliance and increase revenues.

Box 3. Revenue Mobilization Reforms

The recently-approved revenue reform and anti-tax evasion law are expected to increase revenues by 1.3 percent of GDP and 0.2 percent of GDP, respectively.

The revenue package comprises:

- *A reform to the corporate income tax* (expected yield of about 0.6 percent of GDP). It envisages: (i) an increase in the tax rate on gross income over Q30,000 from 5 to 7 percent (starting in 2013); (ii) a reduction in the tax rate on net income from 31 to 25 percent (starting in 2014); and (iii) introducing thin capitalization and transfer pricing rules and defining more precisely sources of income.

- *A reform to the personal income tax* (expected yield of about 0.2 percent of GDP). It reduced the amount of VAT payments that can be credited against income tax and introduced a 5 percent tax on dividends. It also lowered to 10 percent (from 31 percent) the top marginal rate for individuals and to 5 percent (from 15 percent) the lowest marginal rate.

- *Other measures.* The package also increased the annual tax rate for vehicles in circulation, reduced VAT exceptions for educational expenses, and modified the customs code.

The revenue package and the anti-tax evasion law could yield up to 1.5 percent of GDP of extra revenues.

(In percent of GDP)

Total Impact	**1.5**
Revenue package	**1.3**
Direct taxes	0.8
Corporate income tax	0.6
Personal income tax	0.2
Tax on vehicle registration	0.2
Administrative measures	0.3
Anti-tax evasion law	**0.2**

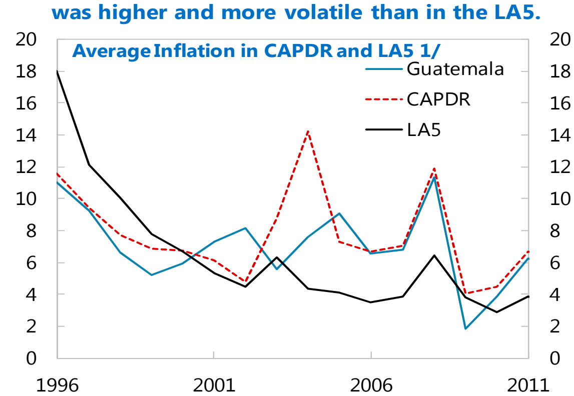
Sources: National authorities; and Fund staff estimates.

The anti-evasion law included tax policy and tax administration measures. The law changes the VAT scheme for small taxpayers (with an estimated yield of 0.2 percent of GDP).

Anchoring inflation

20. There was agreement that the monetary policy framework had to be strengthened further to anchor low inflation. The mission discussed the results of recent research showing that Guatemala's monetary policy framework compares well to the rest of Central America, but lags behind other Latin American countries that have undertaken significant monetary reforms

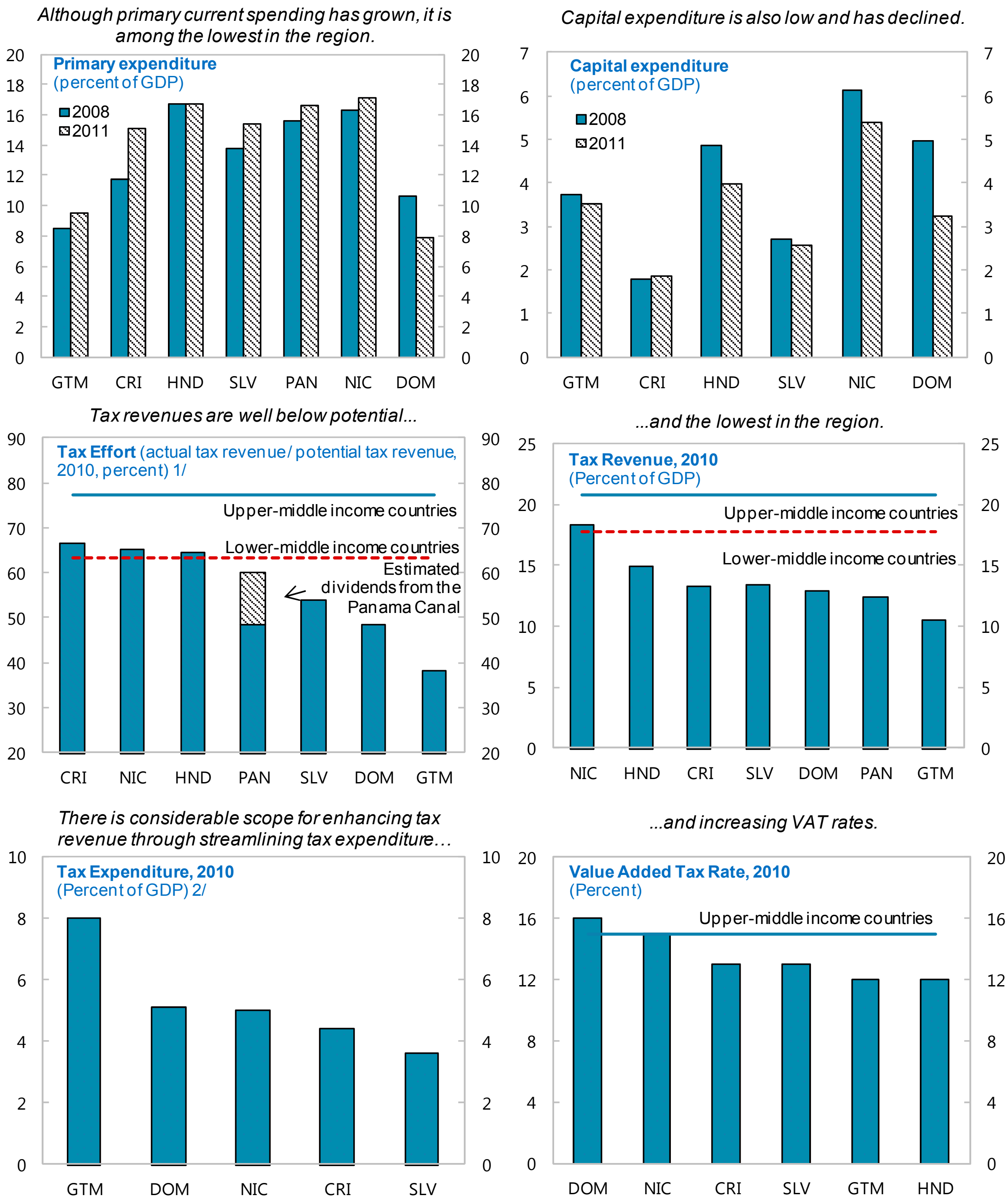
During the last decade Guatemala's inflation was higher and more volatile than in the LA5.



Source: IMF, World Economic Outlook.
1/ LA5 includes Brazil, Colombia, Chile, Mexico, and Peru. CAPDR includes Costa Rica, the Dominican Republic, El Salvador, Honduras, Nicaragua, and Panama but excludes Guatemala.

Figure 4. Guatemala: Long-standing Challenge of Raising Tax Revenues

Revenue-enhancing measures are needed to strengthen social policies, infrastructure, and security.



Sources: National authorities; and Fund staff calculations.
1/ The potential tax revenue is determined by the countries' economic, social, institutional and demographic characteristics (See Pessino C., and R. Fenochietto (2010), "Determining countries tax effort", Hacienda Publica Española / Revista de Economía Pública.
2/ Tax expenditures are public resources forgone due to tax exemptions, deductions, and other incentives.

(Figure 5).[4] The authorities indicated that their plans in this area contemplated:

- *Reinforcing the inflation target as the primary objective of monetary policy* by allowing greater exchange rate flexibility, thus helping the private sector internalize exchange rate risks and fostering de-dollarization.

- *Enhancing the effectiveness of monetary policy*, including by strengthening further monetary operations and developing public debt and private securities markets in line with Fund technical assistance recommendations. Further steps to strengthen liquidity management are expected to include improvements in liquidity forecasting and in the coordination between the central bank and the treasury, as well as developing the interbank market.

- *Strengthening the expectation channel of monetary policy*, including by refining further the models for inflation forecasting and explaining to the public how these models impact monetary policy decisions.

21. The mission noted that strengthening the independence of the central bank would also help enhance the monetary framework. The authorities stressed that the current composition of the Monetary Board (which is embedded in the constitution and includes representatives of the government and the private sector) had not constrained the effectiveness of monetary policy. At the same time, they noted their intention to enhance the operational autonomy of the central bank and consider options to strengthen its balance sheet (the losses experienced prior to 2003, which are equivalent to about 4.5 percent of GDP, have not been recognized, while the interest rate on recapitalization bonds is below market rates).

Increasing the Resilience of the Financial Sector

22. There was agreement on the importance of accelerating progress on the financial sector reform agenda. The authorities reaffirmed their intention to work with congress to ensure the approval of the amendments to the banking law put forward in 2009. These would help mitigate risks from the still sizable offshore

Congressional approval of the amendments to the banking law would strengthen financial system resilience.

Reduce risks from offshore operations and connected lending
- Establishment of more effective firewalls between onshore banks and their offshore affiliates.
- Introduction of a minimum of $12,500 for offshore deposits.
- Reasons for revoking banking licences for offshore banks to be brought in line with those for onshore banks, giving equality of treatment to all supervised banking entities.
- Introduction of limits on related lending.

Strengthen supervision and enforcement power of the superintendency of banks
- Annual rating requirement for all banks, financial institutions and offshore banks.
- Introduction of an overall limit for total loans to all shareholders to control credit concentration.
- Strengthen the supervisor's capacity to request regularization plans and issue cease and desist orders.
- Power to limit or prohibit dividend distribution for prudential reasons.
- Reform capital adequacy regulations, including deductions from consolidated capital of excess risk with shareholders, directors, and their respective related parties.

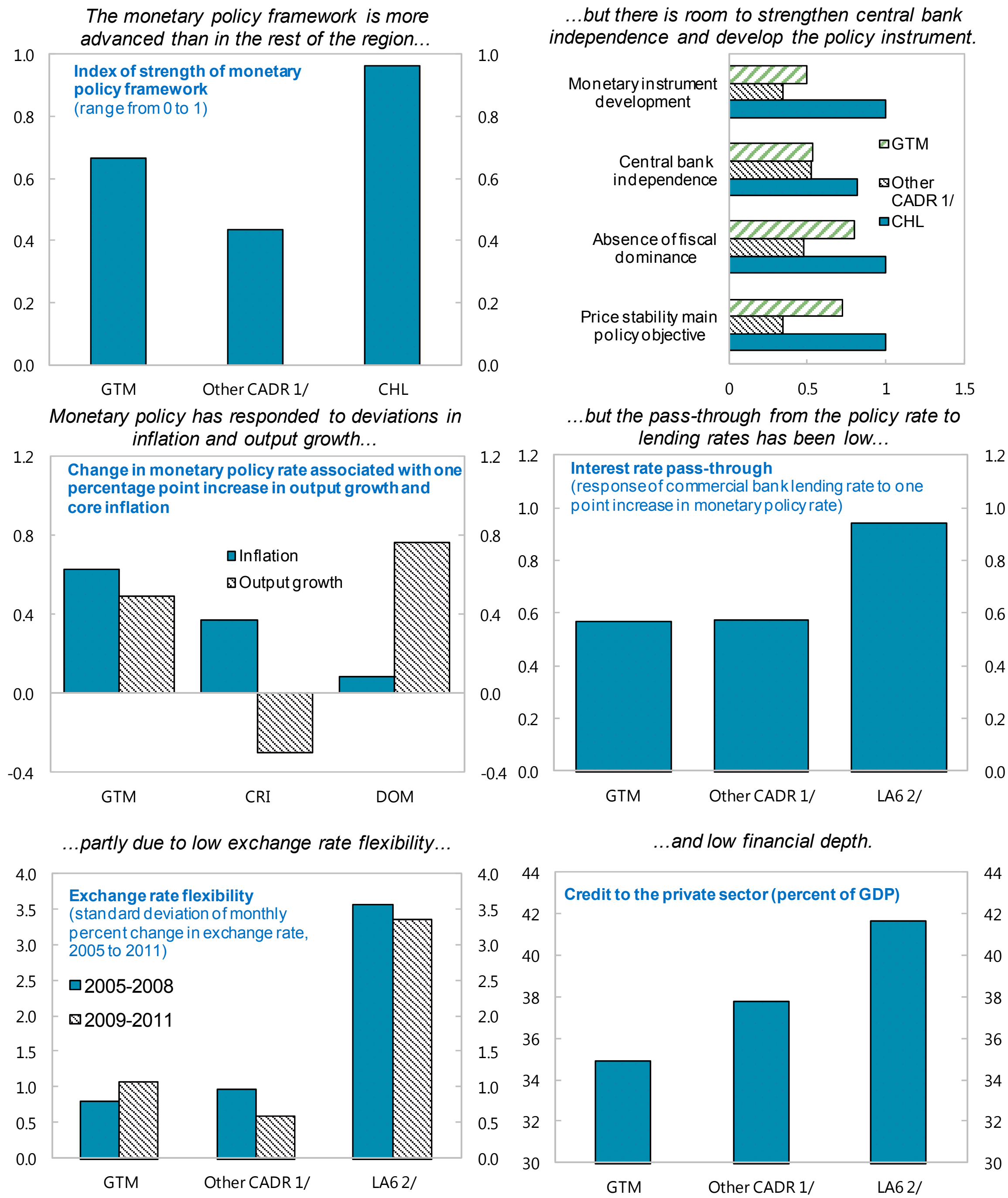
Enhance bank resolution procedures and the system's safety net
- Increased scope for the Central Bank to act as a lender of last resort.
- Increase in banks' contributions to the deposit insurance scheme (FOPA) and introduction of a risk-related variable contribution.
- Foreign banks allowed to participate in domestic banks' resolution.

Source: Fund staff based on information received from Superintendency of Banks.

[4] Medina-Cas, S., A. Carrión-Menéndez, and F. Frantischek, 2011, "Improving Monetary Frameworks in Central America", IMF Working Paper/11/245.

Figure 5. Guatemala: Improving the Monetary Policy Framework

Guatemala's monetary policy framework is the strongest in the region, but further reforms would enhance its effectiveness.

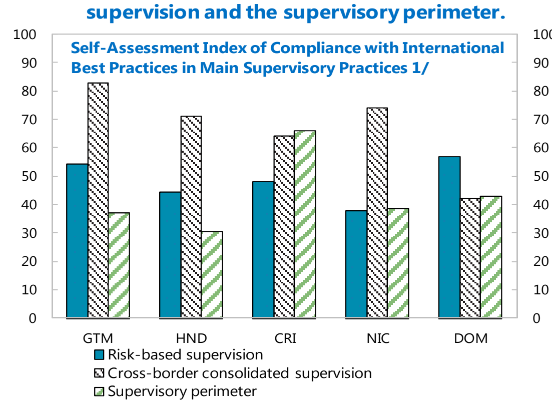


Sources: International Monetary Fund, International Financial Statistics; and IMF staff estimates based on Medina Cas, S., A. Carrion-Menendez, and F. Frantischek (2011), "Improving Monetary Policy Frameworks in Central America" IMF Working Paper 11/240, and Swiston, A. (2011), "Official Dollarization as a Monetary Regime: Its Effects on El Salvador" IMF Working Paper 11/129.
1/ Simple average of Costa Rica, Dominican Republic, Honduras, and Nicaragua.
2/ Simple average of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

operations and connected lending, improve resolution procedures, and strengthen the instruments and size of the banking sector's safety net. They also confirmed their plans to enhance crisis preparedness, including by preparing a systemic banking resolution plan and, with technical assistance from the Fund, refining the methodology of stress testing.

23. The authorities are also committed to strengthen further supervisory practices. The mission discussed recent research that stresses the importance of widening the supervisory perimeter and strengthening risk-based supervision.[5] The mission welcomed the authorities' plan to finalize and implement ongoing reforms to expand the supervisory perimeter to micro-finance institutions and credit cooperatives, and their commitment to continue training supervisory staff on the analysis of a wide range of financial risks and on risk-based supervisory techniques.

There is room to further improve risk-based supervision and the supervisory perimeter.



Source: Delgado and Meza (2011), IMF Working Paper 11/299.
1/Scale from 0 to 100, 100 = best international practices.

C. Other Issues

24. Statistics. Data provision is broadly adequate for surveillance. The authorities have made improvements in the quality of statistics, including the production of quarterly national accounts, and a revised methodology for estimating commercial credit flows and stocks in the balance of payments. However, detail on private external debt by creditor and by maturity structure is not available. Guatemala has yet to subscribe to the Special Data Dissemination Standard (SDDS), and progress has been slow in adopting the 2001 Government Finance Statistics Manual. The government has submitted to congress an initiative to strengthen the institute of statistics, which is expected to start compiling and disseminating labor data.

25. Exchange rate regime. Although Guatemala's exchange rate regime is, *de jure*, a floating rate, its *de facto* arrangement has recently been reclassified as "stabilized".[6] Guatemala has accepted the obligations of Article VIII, Sections 2, 3, and 4, and its exchange system is free of restrictions on the making of payments and transfers for current transactions.

[5] Delgado, F. and M. Meza (2011), "Developments in Financial Supervision and the Use of Macroprudential Measures in Central America", IMF Working Paper 11/299.

[6] Classification as a stabilized arrangement entails a spot market exchange rate that remains within a margin of 2 percent for six months or more. The classification does not imply a policy commitment on the part of the authorities.

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26. **Economic growth in Guatemala has firmed up since 2010 and its near-term outlook is generally positive.** Real GDP growth is likely to moderate somewhat in 2012 and pick up to 3.5 percent over the medium term. Inflation is projected to decline to 5 percent in 2012 and fall gradually thereafter to 4 percent. Global uncertainties are the main risk to the outlook. Economic growth is particularly vulnerable to slower-than-expected growth in the United States. Higher oil prices would also weaken growth and put pressures on inflation and the current account.

27. **Heightened global uncertainties call for prudent macroeconomic policies and increased preparations for timely policy responses.** The macroeconomic policy stance envisaged for 2012 and the flexible exchange rate are broadly appropriate for the baseline global scenario. However, if downward risks materialize, the low tax revenue ratio and inefficiencies in public expenditure management would constrain the fiscal response, while the scope to ease monetary policy would be limited by relatively high inflation expectations. Nevertheless, in such a scenario the response should comprise greater exchange rate flexibility, a moderate easing of monetary policy, and letting fiscal stabilizers operate.

28. **Improving public expenditure management is essential.** Making rapid progress in producing a reliable estimate of the stock of domestic payments arrears is key to increase fiscal transparency and should be accompanied by a plan to eliminate them. The planned amendments to the organic budget law provide a unique opportunity to help prevent the accumulation of new arrears and strengthen the fiscal framework. The creation of the Ministry of Social Development and the initiatives submitted to congress that aim at improving transparency and the composition of spending are welcome.

29. **For the medium term, Guatemala's main challenges are boosting economic growth and reducing poverty, and further upgrading the framework for macroeconomic policies and financial sector supervision.**

- *Raising growth and reducing the high levels of poverty*. Revenue mobilization should be at the center of the growth and poverty reduction strategy. Higher revenues would be key to cement macroeconomic stability, allow higher levels of government spending in critical areas (e.g. social programs, infrastructure, and security), and raise productivity. Implementation of the competitiveness agenda would also help increase potential growth.

- *Strengthening the fiscal framework*. The recent approval of revenue-enhancing reforms and the decision to use part of those resources to reduce the fiscal deficit is commendable. At the same time, it would be important to streamline the earmarking of revenues to give the government flexibility to reorient spending to priority areas. Further increases in the tax-to-GDP ratio, of at least 1 percent of GDP, would help achieve the goals of the 1996 Peace Accords, while allowing further increases and improvements in the provision of public goods.

- *Anchoring inflation*. It would be important to reinforce the inflation target as the primary objective of monetary policy, including by increasing exchange rate flexibility. Steps to enhance the effectiveness of monetary policy are also necessary.

- *Strengthening the resilience of the financial sector*. Securing congressional passage of the amendments to the banking law proposed in 2009 should be a priority. These amendments would help reduce risks from offshore operations and connected lending, improve resolution procedures, and strengthen the instruments and size of the banking sector safety net. Crisis preparedness should also be enhanced.

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

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2010 (millions)	14	Gini index (2006)	54
Percentage of indigenous population (2006)	38	Life expectancy at birth (2009)	71
Population below the poverty line (Percent, 2006)	51	Adult illiteracy rate (2009)	26
Rank in UNDP development index (2011; of 187)	131	GDP per capita (US$, 2011)	3,183

II. Economic Indicators

				Prel.	Projections	
	2008	2009	2010	2011	2012	2013
	(Annual percent change)					
Income and Prices						
Real GDP	3.3	0.5	2.9	3.9	3.1	3.2
Consumer prices (end of period)	9.4	-0.3	5.4	6.2	5.0	4.5
Monetary Sector						
M2	7.6	10.0	11.3	10.7	9.8	9.9
Credit to the private sector	11.0	1.1	5.7	14.1	11.2	9.9
	(In percent of GDP, unless otherwise indicated)					
Savings and Investment						
Gross domestic investment	16.4	13.1	13.9	13.6	14.4	14.9
Private sector	13.2	9.1	11.2	10.6	11.9	12.0
Public sector	3.2	3.9	2.7	3.0	2.5	2.9
Gross national saving	12.1	13.1	12.4	10.5	11.0	11.3
Private sector	9.7	11.9	12.5	10.0	10.5	10.1
Public sector	2.4	1.2	-0.1	0.5	0.5	1.2
External saving	4.3	0.0	1.5	3.1	3.5	3.6
External Sector						
Current account balance	-4.3	0.0	-1.5	-3.1	-3.5	-3.6
Trade balance (goods)	-14.2	-8.9	-10.3	-10.6	-10.7	-10.8
Exports	20.0	19.3	20.6	22.4	22.4	22.4
Imports	-34.3	-28.2	-31.0	-33.0	-33.1	-33.2
Of which: oil & lubricants	-6.8	-5.5	-5.7	-6.6	-6.9	-6.5
Other (net)	10.0	8.9	8.8	7.5	7.2	7.3
Of which: remittances	11.3	10.5	10.0	9.4	9.2	9.1
Capital and financial account	3.7	0.5	3.8	4.3	4.4	4.1
Public sector	0.3	2.1	1.5	0.1	1.3	1.0
Private sector	3.4	-1.6	2.4	4.2	3.1	3.1
Of which: FDI	1.9	1.5	1.9	2.1	2.2	2.2
Errors and omissions	1.4	0.7	-0.7	-0.7	0.0	0.0
Overall balance	0.9	1.3	1.6	0.4	0.9	0.6
Net International Reserves						
(Stock in months of next-year NFGS imports)	4.2	3.8	3.6	3.5	3.6	3.6
(Stock over short-term debt on residual maturity)	1.6	2.0	1.9	1.9	1.8	2.0
Public Finances						
Central Government						
Revenues	12.0	11.1	11.2	11.8	11.8	12.6
Expenditures	13.6	14.2	14.5	14.7	14.1	14.7
Current	9.9	10.7	11.0	11.0	11.0	11.1
Capital	3.7	3.5	3.6	3.7	3.1	3.6
Of which: reconstruction	n.a.	n.a.	0.2	0.6	0.0	0.0
Primary balance	-0.3	-1.7	-1.8	-1.3	-0.7	-0.5
Overall balance	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1
Overall balance (without reconstruction)	n.a.	n.a.	-3.1	-2.2	n.a.	n.a.
Financing of the central government balance	1.6	3.1	3.3	2.8	2.4	2.1
Net external financing	0.3	1.3	1.5	0.1	1.4	1.0
Net domestic financing	1.3	1.8	1.8	2.7	0.9	1.1
Of which: use of government deposits	0.8	0.4	-0.1	0.5	0.2	0.0
Rest of Nonfinancial Public Sector Balance	0.9	0.4	0.5	0.4	0.4	0.4
Combined Nonfinancial Public Sector						
Primary balance	0.6	-1.3	-1.3	-0.9	-0.3	-0.1
Overall balance	-0.7	-2.8	-2.8	-2.4	-2.0	-1.7
Nonfinancial Public Sector Debt	**20.1**	**22.9**	**24.1**	**24.1**	**24.8**	**25.2**
External	11.3	13.0	13.1	11.7	12.6	12.9
Domestic	8.9	9.9	11.0	12.3	12.2	12.3
Memorandum Items:						
GDP (US$ billions)	39.1	37.7	41.3	46.9	50.5	53.7

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

Table 2. Guatemala: Medium-term Framework

	2008	2009	2010	Prel. 2011	Projections 2012	2013	2014	2015	2016	2017
	(Contribution to real GDP growth, unless otherwise stated)									
Real GDP (annual percentage change)	3.3	0.5	2.9	3.9	3.1	3.2	3.3	3.4	3.5	3.5
Domestic demand	1.0	-1.6	5.0	4.3	3.8	3.6	3.6	3.8	3.9	3.8
External demand	2.3	2.2	-2.1	-0.5	-0.7	-0.4	-0.3	-0.4	-0.4	-0.3
Exports of goods and nonfactor services	0.0	-0.7	1.2	1.4	2.5	2.3	1.4	1.2	1.2	1.3
Imports of goods and nonfactor services	2.3	2.8	-3.3	-1.9	-3.2	-2.7	-1.7	-1.5	-1.6	-1.6
	(In percent of GDP)									
Savings and investment										
Gross domestic investment	16.4	13.1	13.9	13.6	14.4	14.9	15.5	16.0	17.3	17.8
Gross national saving	12.1	13.1	12.4	10.5	11.0	11.3	11.8	12.3	13.5	14.1
External saving	4.3	0.0	1.5	3.1	3.5	3.6	3.7	3.7	3.7	3.7
Balance of payments										
Current account balance	-4.3	0.0	-1.5	-3.1	-3.5	-3.6	-3.7	-3.7	-3.7	-3.7
Trade balance (goods)	-14.2	-8.9	-10.3	-10.6	-10.7	-10.8	-10.9	-10.9	-10.9	-10.9
Other (net)	10.0	8.9	8.8	7.5	7.2	7.3	7.2	7.2	7.2	7.2
Of which: Remittances	11.3	10.5	10.0	9.4	9.2	9.1	9.1	9.2	9.2	9.2
Capital and financial account	3.7	0.5	3.8	4.3	4.4	4.1	3.7	3.7	3.9	3.9
Public sector	0.3	2.1	1.5	0.1	1.3	1.0	0.4	0.3	0.3	0.3
Private sector	3.4	-1.6	2.4	4.2	3.1	3.1	3.3	3.4	3.6	3.6
Of which: FDI	1.9	1.5	1.9	2.1	2.2	2.2	2.3	2.3	2.4	2.4
Errors and omissions	1.4	0.7	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.9	1.3	1.6	0.4	0.9	0.6	0.0	0.0	0.2	0.2
Public finances 1/										
Central government										
Revenues	12.0	11.1	11.2	11.8	11.8	12.6	12.9	12.9	13.9	13.9
Of which: Tax revenues	11.3	10.3	10.4	11.0	11.0	11.9	12.2	12.2	13.2	13.2
Direct Taxes	3.3	3.2	3.1	3.5	3.5	4.2	4.4	4.3	4.3	4.3
Indirect Taxes	8.0	7.2	7.3	7.6	7.5	7.7	7.8	7.9	8.9	8.9
Expenditures	13.6	14.2	14.5	14.7	14.1	14.7	14.8	14.8	15.6	15.5
Current	9.9	10.7	11.0	11.0	11.0	11.1	11.2	11.3	11.1	11.1
Capital	3.7	3.5	3.6	3.7	3.1	3.6	3.6	3.5	4.5	4.4
Primary balance	-0.3	-1.7	-1.8	-1.3	-0.7	-0.5	-0.2	-0.1	0.0	0.1
Overall balance	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1	-1.9	-1.8	-1.7	-1.6
Financing of the central government balance	1.6	3.1	3.3	2.8	2.4	2.1	1.9	1.8	1.7	1.6
Net external financing	0.3	1.3	1.5	0.1	1.4	1.0	0.4	0.3	0.3	0.3
Net domestic financing	1.3	1.8	1.8	2.7	0.9	1.1	1.5	1.5	1.4	1.3
Nonfinancial public sector debt	20.1	22.9	24.1	24.1	24.8	25.2	25.4	25.6	25.6	25.6
External	11.3	13.0	13.1	11.7	12.6	12.9	12.5	12.1	11.7	11.3
Domestic	8.9	9.9	11.0	12.3	12.2	12.3	12.9	13.5	13.9	14.2
Memorandum items:										
GDP (billions of quetzales)	295.9	308.0	333.1	365.1	395.1	427.3	460.8	496.5	535.2	576.1
GDP deflator	9.4	3.5	5.1	5.5	4.9	4.8	4.4	4.2	4.1	4.0
CPI (eop)	9.4	-0.3	5.4	6.2	5.0	4.5	4.2	4.0	4.0	4.0
Net international reserves (millions of US$)	4,422	4,797	5,442	5,737	6,256	6,567	6,582	6,597	6,715	6,889

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

1/ Assumes that revenue reforms yielding at least 1 percent of GDP will be adopted by 2016, and that the resources will be used for capital expenditures.

Table 3. Guatemala: Summary Balance of Payments

				Prel.	Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					(In millions of U.S. dollars)					
Current account balance	**-1,680**	**7**	**-626**	**-1,456**	**-1,749**	**-1,920**	**-2,105**	**-2,243**	**-2,397**	**-2,540**
Trade balance (goods)	-5,575	-3,348	-4,271	-4,964	-5,401	-5,814	-6,231	-6,612	-7,019	-7,451
Exports, f.o.b.	7,847	7,295	8,536	10,517	11,292	12,028	12,788	13,587	14,432	15,329
Imports, f.o.b.	-13,421	-10,643	-12,807	-15,482	-16,693	-17,842	-19,020	-20,199	-21,451	-22,780
Of which: oil & lubricants	-2,677	-2,060	-2,344	-3,119	-3,482	-3,487	-3,423	-3,396	-3,417	-3,478
Real services (net)	-276	-159	-90	-146	-225	-219	-242	-280	-315	-348
Income (net)	-938	-1,111	-1,211	-1,553	-1,623	-1,763	-1,905	-2,029	-2,174	-2,297
Current transfers (net)	5,108	4,626	4,946	5,207	5,500	5,877	6,273	6,678	7,111	7,556
Of which: remittances	4,403	3,951	4,147	4,396	4,647	4,911	5,206	5,545	5,908	6,281
Capital and financial account	1,465	206	1,587	2,005	2,220	2,220	2,105	2,243	2,497	2,689
Capital account	1	1	3	3	3	3	3	3	3	3
Financial account	1,464	205	1,584	2,002	2,218	2,218	2,103	2,240	2,495	2,687
Central Bank 1/	-3	273	-1	-2	0	0	0	0	0	0
Public sector	121	521	612	37	671	539	231	185	186	210
Bonds (net)	-1	-12	-6	-325	452	200	0	0	0	0
Loans	122	534	617	362	220	339	231	185	186	210
Disbursements	382	805	881	644	493	633	547	498	503	475
Amortization	-260	-272	-263	-252	-274	-294	-316	-313	-317	-265
Private sector	1,347	-590	973	1,967	1,546	1,679	1,871	2,055	2,309	2,477
FDI	737	574	782	967	1,116	1,184	1,327	1,396	1,536	1,629
Portfolio investment	63	-112	-7	-9	41	50	55	60	65	70
Other investment	546	-1,051	197	1,009	390	445	489	599	708	778
Errors and omissions	548	260	-283	-343	0	0	0	0	0	0
Overall balance	333	473	677	206	471	300	0	0	100	150
					(In percent of GDP)					
Current account balance	**-4.3**	**0.0**	**-1.5**	**-3.1**	**-3.5**	**-3.6**	**-3.7**	**-3.7**	**-3.7**	**-3.7**
Trade balance (goods)	-14.2	-8.9	-10.3	-10.6	-10.7	-10.8	-10.9	-10.9	-10.9	-10.9
Exports, f.o.b.	20.0	19.3	20.6	22.4	22.4	22.4	22.4	22.4	22.4	22.5
Imports, f.o.b.	-34.3	-28.2	-31.0	-33.0	-33.1	-33.2	-33.3	-33.4	-33.4	-33.4
Of which: oil & lubricants	-6.8	-5.5	-5.7	-6.6	-6.9	-6.5	-6.0	-5.6	-5.3	-5.1
Real services (net)	-0.7	-0.4	-0.2	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5
Income (net)	-2.4	-2.9	-2.9	-3.3	-3.2	-3.3	-3.3	-3.4	-3.4	-3.4
Current transfers (net)	13.1	12.3	12.0	11.1	10.9	10.9	11.0	11.0	11.1	11.1
Of which: remittances	11.3	10.5	10.0	9.4	9.2	9.1	9.1	9.2	9.2	9.2
Capital and financial account	**3.7**	**0.5**	**3.8**	**4.3**	**4.4**	**4.1**	**3.7**	**3.7**	**3.9**	**3.9**
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	3.7	0.5	3.8	4.3	4.4	4.1	3.7	3.7	3.9	3.9
Central Bank 1/	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector	0.3	1.4	1.5	0.1	1.3	1.0	0.4	0.3	0.3	0.3
Bonds (net)	0.0	0.0	0.0	-0.7	0.9	0.4	0.0	0.0	0.0	0.0
Loans	0.3	1.4	1.5	0.8	0.4	0.6	0.4	0.3	0.3	0.3
Disbursements	1.0	2.1	2.1	1.4	1.0	1.2	1.0	0.8	0.8	0.7
Amortization	-0.7	-0.7	-0.6	-0.5	-0.5	-0.5	-0.6	-0.5	-0.5	-0.4
Private sector	3.4	-1.6	2.4	4.2	3.1	3.1	3.3	3.4	3.6	3.6
FDI	1.9	1.5	1.9	2.1	2.2	2.2	2.3	2.3	2.4	2.4
Portfolio investment	0.2	-0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other investment	1.4	-2.8	0.5	2.2	0.8	0.8	0.9	1.0	1.1	1.1
Errors and omissions	**1.4**	**0.7**	**-0.7**	**-0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.9**	**1.3**	**1.6**	**0.4**	**0.9**	**0.6**	**0.0**	**0.0**	**0.2**	**0.2**
Memorandum items:										
Value of exports, f.o.b. (percentage change)	12.4	-7.0	17.0	23.2	7.4	6.5	6.3	6.2	6.2	6.2
Value of imports, f.o.b. (percentage change)	7.6	-20.7	20.3	20.9	7.8	6.9	6.6	6.2	6.2	6.2
Stock of NIR (in millions of U.S. dollars) 1/	4,422	4,797	5,442	5,737	6,256	6,567	6,582	6,597	6,715	6,889
NIR in months of next-year NFGS imports	4.2	3.8	3.6	3.5	3.6	3.6	3.4	3.2	3.1	3.1
NIR over short-term debt on residual maturity	1.6	2.0	1.9	1.9	1.8	2.0	1.8	1.7	1.7	1.7
Nominal GDP (in billions of U.S. dollars)	39.1	37.7	41.3	46.9	50.5	53.7	57.0	60.5	64.3	68.2

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.
1/ Includes 2009 SDR allocations of US$271 million.

Table 4A. Guatemala: Public Sector Balance

	2008	2009	2010	Prel. 2011	Projections 2012	Projections 2013
	(In millions of quetzales)					
Central Government						
Total revenues	**35,578**	**34,037**	**37,425**	**43,178**	**46,464**	**54,015**
Tax revenues	33,358	31,812	34,772	40,292	43,389	51,006
Nontax revenues	2,220	2,225	2,653	2,886	3,075	3,009
Total expenditures	**40,355**	**43,709**	**48,385**	**53,511**	**55,828**	**62,869**
Current	29,291	32,986	36,521	40,092	43,580	47,637
Wages	9,260	11,154	12,529	14,156	15,013	16,238
Goods & services	7,392	7,511	8,126	8,501	9,498	10,493
Social security benefits	2,347	2,776	2,979	3,147	3,556	3,846
Interest	4,026	4,374	4,940	5,476	6,455	6,880
Transfers	6,165	7,086	7,818	8,593	8,822	10,055
Other	102	84	130	220	236	125
Capital	11,064	10,723	11,864	13,419	12,247	15,232
Of which: reconstruction	n.a.	n.a.	641	2,293	0	0
Primary expenditures	36,329	39,335	43,446	48,035	49,373	55,989
Primary balance	**-751**	**-5,297**	**-6,021**	**-4,857**	**-2,909**	**-1,973**
Overall balance	**-4,777**	**-9,672**	**-10,960**	**-10,333**	**-9,364**	**-8,853**
Overall balance (without reconstruction)	**n.a.**	**n.a.**	**-10,320**	**-8,040**	**n.a.**	**n.a.**
Financing	**4,777**	**9,672**	**10,960**	**10,333**	**9,364**	**8,853**
Net external financing	850	4,117	5,110	378	5,635	4,290
Loans	850	4,117	5,110	2,923	1,720	2,698
Disbursements	2,763	6,273	7,161	5,030	3,863	5,038
Amortizations	1,913	2,155	2,051	2,106	2,143	2,340
Bonds	0	0	0	-2,545	3,915	1,592
Placements	0	0	0	0	3,915	3,980
Amortizations	0	0	0	2,530	0	2,388
Net domestic financing	3,928	5,554	5,851	9,955	3,394	4,563
Net issuance of bonds	2,019	4,388	6,171	8,305	2,939	4,550
Gross bond issuance	3,851	5,172	7,890	9,609	5,459	6,550
Amortizations	1,832	783	1,719	1,304	2,520	2,000
Other	-393	0	0	0	-336	0
Use of government deposits	2,302	1,166	-254	1,649	791	13
Rest of nonfinancial public sector balance	**2,654**	**1,200**	**1,700**	**1,461**	**1,580**	**1,709**
Consolidated nonfinancial public sector						
Primary balance	1,903	-4,097	-4,321	-3,397	-1,329	-264
Interest	4,026	4,374	4,940	5,476	6,455	6,880
Overall balance	**-2,123**	**-8,472**	**-9,260**	**-8,872**	**-7,784**	-7,144
Central bank balance	**609**	**-381**	**-690**	**-923**	**-1,488**	**-1,429**
Memorandum items:						
Nonfinancial public sector debt	59,548	70,579	80,271	87,852	97,987	107,609
External	33,338	39,981	43,502	42,778	49,974	55,045
Domestic	26,210	30,598	36,769	45,075	48,013	52,563
Central government gross borrowing requirement	8,522	12,611	14,730	16,273	14,028	15,582
Social spending	13,080	16,165	18,858	19,012	21,117	22,647
GDP	295,872	307,967	333,112	365,136	395,081	427,310

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

Table 4B. Guatemala: Public Sector Balance

				Prel.	Projections	
	2008	2009	2010	2011	2012	2013
	(In percent of GDP)					
Central Government						
Total revenues	**12.0**	**11.1**	**11.2**	**11.8**	**11.8**	**12.6**
Tax revenues	11.3	10.3	10.4	11.0	11.0	11.9
Nontax revenues	0.8	0.7	0.8	0.8	0.8	0.7
Total expenditures	**13.6**	**14.2**	**14.5**	**14.7**	**14.1**	**14.7**
Current	9.9	10.7	11.0	11.0	11.0	11.1
Wages	3.1	3.6	3.8	3.9	3.8	3.8
Goods & services	2.5	2.4	2.4	2.3	2.4	2.5
Social security benefits	0.8	0.9	0.9	0.9	0.9	0.9
Interest	1.4	1.4	1.5	1.5	1.6	1.6
Transfers	2.1	2.3	2.3	2.4	2.2	2.4
Other	0.0	0.0	0.0	0.1	0.1	0.0
Capital	3.7	3.5	3.6	3.7	3.1	3.6
Of which: reconstruction	n.a.	n.a.	0.2	0.6	0.0	0.0
Primary expenditures	12.3	12.8	13.0	13.2	12.5	13.1
Primary balance	**-0.3**	**-1.7**	**-1.8**	**-1.3**	**-0.7**	**-0.5**
Overall balance	**-1.6**	**-3.1**	**-3.3**	**-2.8**	**-2.4**	**-2.1**
Overall balance (without reconstruction)	**n.a.**	**n.a.**	**-3.1**	**-2.2**	**n.a.**	**n.a.**
Financing	**1.6**	**3.1**	**3.3**	**2.8**	**2.4**	**2.1**
Net external financing	0.3	1.3	1.5	0.1	1.4	1.0
Loans	0.3	1.3	1.5	0.8	0.4	0.6
Disbursements	0.9	2.0	2.1	1.4	1.0	1.2
Amortizations	0.6	0.7	0.6	0.6	0.5	0.5
Bonds	0.0	0.0	0.0	-0.7	1.0	0.4
Placements	0.0	0.0	0.0	0.0	1.0	0.9
Amortizations	0.0	0.0	0.0	0.7	0.0	0.6
Net domestic financing	1.3	1.8	1.8	2.7	0.9	1.1
Net issuance of bonds	0.7	1.4	1.9	2.3	0.7	1.1
Gross bond issuance	1.3	1.7	2.4	2.6	1.4	1.5
Amortizations	0.6	0.3	0.5	0.4	0.6	0.5
Other	-0.1	0.0	0.0	0.0	-0.1	0.0
Use of government deposits	0.8	0.4	-0.1	0.5	0.2	0.0
Rest of nonfinancial public sector balance	**0.9**	**0.4**	**0.5**	**0.4**	**0.4**	**0.4**
Consolidated nonfinancial public sector						
Primary balance	0.6	-1.3	-1.3	-0.9	-0.3	-0.1
Interest	1.4	1.4	1.5	1.5	1.6	1.6
Overall balance	**-0.7**	**-2.8**	**-2.8**	**-2.4**	**-2.0**	**-1.7**
Central bank balance	**0.2**	**-0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.3**
Memorandum items:						
Nonfinancial public sector debt	**20.1**	**22.9**	**24.1**	**24.1**	**24.8**	**25.2**
External	11.3	13.0	13.1	11.7	12.6	12.9
Domestic	8.9	9.9	11.0	12.3	12.2	12.3
Central government gross borrowing requirements	2.9	4.1	4.4	4.5	3.6	3.6
Social spending	4.4	5.2	5.7	5.2	5.3	5.3

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

Table 5. Guatemala: Monetary Sector Survey

	2008	2009	2010	Prel. 2011	Projections 2012	2013
	(In millions of quetzales)					
Bank of Guatemala (BOG)						
Net international reserves 1/	**34,305**	**39,963**	**43,556**	**44,673**	**49,432**	**52,667**
(In millions of U.S. dollars) 1/	4,422	4,797	5,442	5,737	6,256	6,567
Net domestic assets	**-17,551**	**-21,793**	**-23,811**	**-24,365**	**-27,616**	**-28,858**
Net claims on nonfinancial public sector	-12,974	-9,320	-10,640	-9,655	-9,435	-10,054
Central government (CG)	-8,000	-5,209	-6,100	-4,748	-3,907	-3,894
Rest of nonfinancial public sector	-4,974	-4,111	-4,540	-4,907	-5,528	-6,160
Bank of Guatemala losses	14,399	14,780	15,470	16,445	17,933	19,362
Net credit to banks	-11,283	-14,516	-15,933	-18,051	-19,285	-21,014
Of which: legal reserves	-13,345	-16,577	-17,994	-20,111	-21,345	-23,074
Open market operations 2/	-10,848	-11,130	-12,640	-13,529	-15,710	-15,971
Other assets (net)	3,155	-1,607	-67	424	-1,120	-1,181
Currency in circulation	16,754	18,170	19,745	20,308	21,815	23,809
Banking sector						
Net foreign position	**-10,560**	**-6,971**	**-7,989**	**-13,568**	**-13,125**	**-14,049**
(in millions of U.S. Dollars)	-1,361	-837	-998	-1,743	-1,661	-1,752
Net claims on Bank of Guatemala	**20,897**	**23,597**	**26,782**	**29,497**	**32,575**	**34,524**
Legal reserves	13,345	16,577	17,994	20,111	21,345	23,074
BOG securities	9,606	9,074	10,842	11,438	13,282	13,503
Liabilities to BOG	-2,054	-2,054	-2,053	-2,053	-2,053	-2,053
Net domestic assets	**88,831**	**92,309**	**102,085**	**118,672**	**128,226**	**141,877**
Net credit to the NFPS	-559	1,527	6,222	9,096	10,152	12,005
Official capital and reserves	-2,752	-3,143	-3,604	-4,016	-4,376	-4,758
Credit to the private sector	87,209	88,189	93,250	106,392	118,287	130,021
Other items net	4,933	5,735	6,217	7,200	4,163	4,609
Medium and long-term foreign liabilities	**1,210**	**1,112**	**670**	**953**	**597**	**633**
Liabilities to private sector	**97,959**	**107,823**	**120,208**	**133,648**	**147,078**	**161,719**
Demand deposits	35,710	38,811	43,713	48,267	53,015	58,195
Time and savings deposits	51,739	57,637	64,090	72,652	80,190	88,441
Capital and reserves (private banks)	10,510	11,375	12,405	12,729	13,872	15,083
Monetary survey						
Net foreign assets	**23,746**	**32,992**	**35,566**	**31,105**	**36,306**	**38,618**
Of which: repayment of arrears						
(In millions of U.S. dollars)	3,061	3,961	4,444	3,995	4,595	4,815
Net domestic assets	**93,419**	**96,170**	**106,831**	**125,895**	**135,612**	**150,011**
Net claims on nonfinancial public sector	-13,533	-7,796	-4,433	-559	717	1,951
Bank of Guatemala losses	14,399	14,780	15,470	16,445	17,933	19,362
Credit to private sector	92,153	93,842	99,241	112,998	125,631	138,093
Other assets (net)	399	-4,657	-3,447	-3,005	-8,669	-9,395
Medium and long-term foreign liabilities	**1,210**	**1,112**	**670**	**953**	**597**	**633**
Liabilities to the private sector	**115,954**	**128,049**	**141,728**	**156,047**	**171,321**	**187,996**
Of which: Money	52,464	56,981	63,458	68,575	74,831	82,003
Of which: Quasi-money	63,490	71,069	78,270	87,472	96,490	105,992
Memorandum items:	(Percent change)					
Currency in circulation	-1.3	8.4	8.7	2.9	7.4	9.1
M2	7.6	10.0	11.3	10.7	9.8	9.9
Credit to private sector	11.0	1.1	5.7	14.1	11.2	9.9
	(In percent of GDP)					
Currency in circulation	5.7	5.9	5.9	5.6	5.5	5.6
M2	35.2	37.2	38.3	38.7	39.2	39.9
Net credit of the banking sector to the CG	-0.2	0.5	1.9	2.5	2.6	2.8
Credit to private sector	29.5	28.6	28.0	29.1	29.9	30.4
	(In percent of bank liabilities to the private sector)					
Banks' liquid assets	34.7	37.0	39.8	40.2	39.6	38.6
Demand deposits	36.5	36.0	36.4	36.1	36.0	36.0
Time and savings deposits	52.8	53.5	53.3	54.4	54.5	54.7
Capital and reserves (private banks)	10.7	10.5	10.3	9.5	9.4	9.3

Sources: Bank of Guatemala; and Fund staff estimates and projections.
1/ Excludes foreign currency liabilities of the central bank to financial institutions.
2/ Includes open market placements with the private sector (financial and nonfinancial).

Table 6. Guatemala: Financial Soundness Indicators

	2008	2009	2010	2011		2012
				Jun	Dec	Jan
On-shore banks						
Regulatory capital to risk-weighted assets	13.5	15.4	15.2	14.7	15.3	15.0
Nonperforming loans to total gross loans	2.2	2.7	2.1	1.9	1.6	1.7
Provisions to non-performing loans	73.2	89.3	115.3	131.9	126.2	140.9
Cash to total deposits	19.4	21.6	20.3	20.2	21.6	19.7
Return on assets	1.7	1.7	1.7	2.1	1.7	2.2
Return on equity	16.3	15.7	16.3	23.2	18.5	23.2
Foreign currency-denominated loans to total loans	33.6	31.0	30.2	31.2	34.0	33.6
Foreign currency-denominated liabilities to total liabilities	24.3	23.9	24.6	26.4	27.5	27.3
Off-shore banks						
Statutory capital to risk-weighted assets	14.7	18.1	18.5	17.2	16.3	...
Nonperforming loans to total gross loans	2.2	2.3	2.1	2.0	1.7	...
Provisions to non-performing loans	58.1	75.4	110.7	126.5	143.0	...
Return on assets	1.5	1.4	1.4	1.8	1.8	...
Return on equity	14.2	12.8	12.6	16.3	16.0	...
Total assets off-shore banks to total assets on-shore banks	16.1	16.5	14.3	13.3	12.7	...

Source: Superintendency of Banks.

Table 7. Guatemala: Indicators of External Vulnerability

	2008	2009	2010	Prel. 2011	Projections 2012	Projections 2013
External indicators						
Merchandise exports (12-month percentage change)	12.4	-7.0	17.0	23.2	7.4	6.5
Traditional merchandise exports (12-month percentage change)	18.5	3.8	17.2	24.9	-7.2	0.7
Nontraditional merchandise exports (12-month percentage change)	10.5	-10.6	16.9	22.6	13.0	8.4
Merchandise imports (12-month percentage change)	7.6	-20.7	20.3	20.9	7.8	6.9
Imports of oil and lubricants (12-month percentage change)	17.4	-23.0	13.8	33.1	11.7	0.1
Non-oil imports (12-month percentage change)	5.4	-20.1	21.9	18.2	6.9	8.7
Terms of trade (12-month percentage change)	-2.0	8.8	1.6	0.6	-0.7	0.6
Current account balance (in percent of GDP)	-4.3	0.0	-1.5	-3.1	-3.5	-3.6
Capital and financial account balance (in percent of GDP)	3.7	0.5	3.8	4.3	4.4	4.1
Net international reserves						
In millions of U.S. dollars	4,422	4,797	5,442	5,737	6,256	6,567
In percent of reserve adequacy metric 1/	134.6	151.2	150.2	139.5	138.7	136.9
In percent of M2	32.9	34.9	34.1	31.6	31.9	30.9
In percent of base money	114.0	115.0	115.4	110.5	114.5	112.3
In percent of short-term external debt on a remaining maturity basis	158.7	196.7	193.8	191.6	181.2	195.4
In months of next-year's imports of goods and nonfactor services	4.2	3.8	3.6	3.5	3.6	3.6
External indebtness indicators						
Total external debt (in percent of GDP)	27.0	28.0	27.4	27.7	27.8	28.1
External private sector debt (in percent of GDP)	15.7	15.1	14.4	16.0	15.2	15.2
External public sector debt (in percent of GDP)	11.3	13.0	13.1	11.7	12.6	12.9
Public sector external interest payments in percent of exports of goods and nonfactor services	3.1	3.4	3.2	3.1	2.9	3.2
Public sector external amortization payments in percent of exports of goods and services	2.9	3.8	3.0	6.5	2.6	5.3

Sources: Bank of Guatemala; and Fund staff estimates.

1/ Stock in percent of weighted aggregate of M2, exports of goods and services, short-term external debt at a remaining maturity, and other external portfolio liabilities. For more details, see *Assessing Reserve Adequacy* (IMF Policy Paper 11/31).

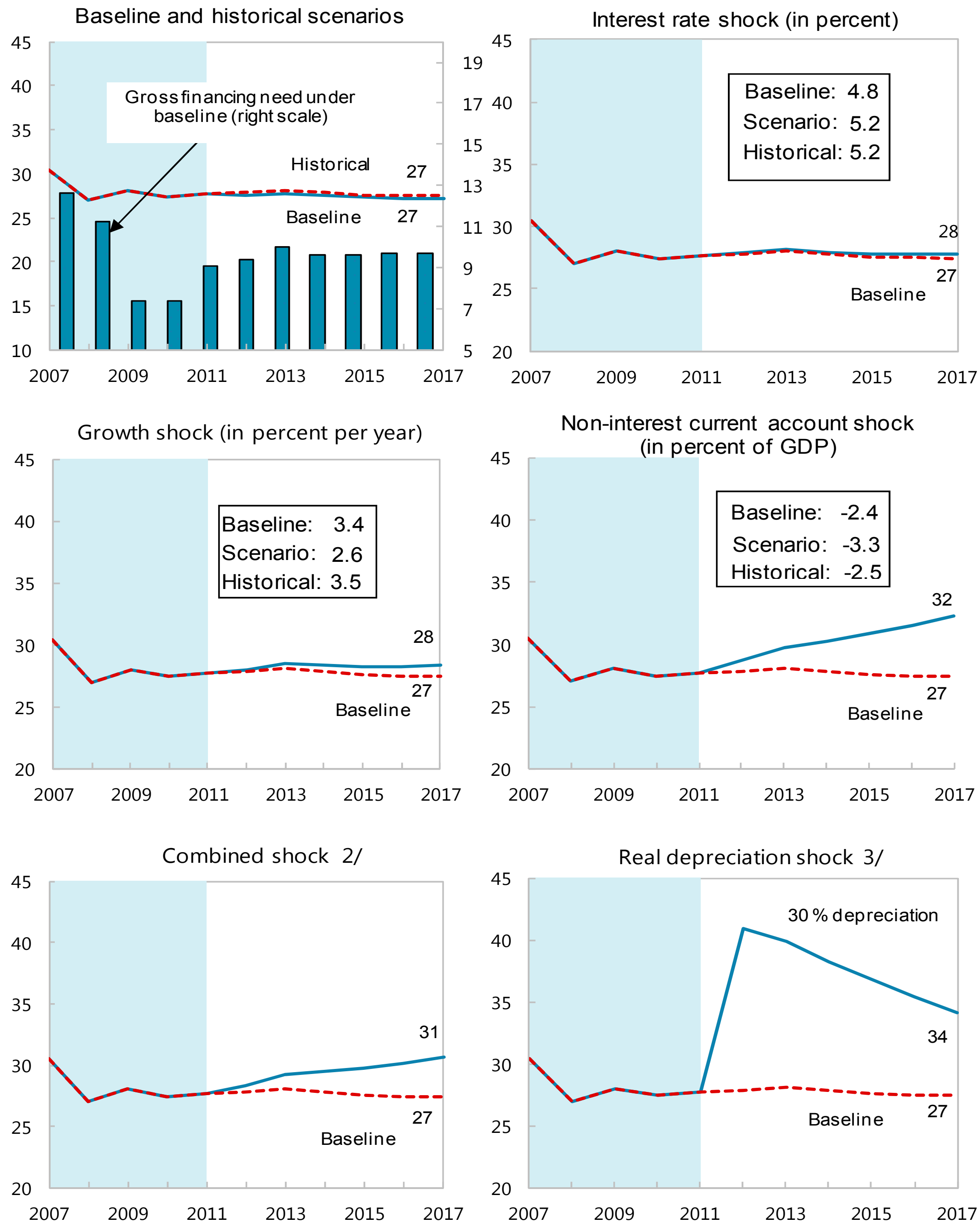
Table 8. Guatemala: External Debt Sustainability Framework, 2008-17

(In percent of GDP, unless otherwise indicated)

	Actual			Prel.	Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	**27.0**	**28.0**	**27.4**	**27.7**	**27.8**	**28.1**	**27.8**	**27.6**	**27.5**	**27.5**	**-2.4**
Change in external debt (a)	-3.5	1.0	-0.6	0.3	0.2	0.3	-0.3	-0.2	-0.1	0.0	
Identified external debt-creating flows (b = c + d + e)	-1.5	-0.6	-2.9	-2.2	0.5	0.5	0.5	0.5	0.4	0.4	
Current account deficit, excluding interest payments (c)	2.8	-1.4	0.3	2.0	2.3	2.4	2.5	2.4	2.4	2.4	
Deficit in balance of goods and services	14.9	9.3	10.5	10.9	11.1	11.2	11.3	11.4	11.4	11.4	
Exports	24.8	24.4	26.2	27.5	27.3	27.1	27.1	27.1	27.0	27.1	
Imports	39.8	33.7	36.7	38.3	38.5	38.4	38.4	38.4	38.4	38.5	
Net non-debt creating capital inflows (negative) (d)	-1.9	-1.6	-1.9	-2.1	-2.2	-2.2	-2.3	-2.3	-2.4	-2.4	
Automatic debt dynamics (e) 1/	-2.4	2.3	-1.3	-2.2	0.3	0.4	0.4	0.4	0.4	0.4	
Contribution from nominal interest rate	1.5	1.3	1.2	1.1	1.1	1.2	1.2	1.3	1.3	1.3	
Contribution from real GDP growth	-0.9	-0.1	-0.7	-0.9	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	
Contribution from price and exchange rate changes 2/	-3.0	1.2	-1.7	-2.3	…	…	…	…	…	…	
Residual, incl. change in gross foreign assets (f = a - b) 3/	-1.9	1.6	2.3	2.5	-0.3	-0.3	-0.8	-0.7	-0.5	-0.4	
External debt-to-exports ratio (in percent)	108.7	114.7	104.7	100.8	101.9	103.6	102.7	102.0	101.6	101.5	
Gross external financing need (in billions of US dollars) 4/	4.4	2.8	3.1	4.3	4.7	5.4	5.5	5.8	6.2	6.6	
in percent of GDP	11.3	7.4	7.4	9.1	9.4	10.0	9.6	9.6	9.7	9.7	
Scenario with key variables at their historical averages 5/					**27.5**	**27.8**	**27.5**	**27.3**	**27.2**	**27.1**	
Key Macroeconomic Assumptions Underlying Baseline											
Nominal GDP (US dollars)	39.1	37.7	41.3	46.9	50.5	53.7	57.0	60.5	64.3	68.2	
Real GDP growth (in percent)	3.3	0.5	2.9	3.9	3.1	3.2	3.3	3.4	3.5	3.5	
GDP deflator in US dollars (change in percent)	11.1	-4.1	6.5	9.2	4.3	3.1	2.9	2.7	2.6	2.5	
Nominal external interest rate (in percent)	5.6	4.8	4.6	4.5	4.4	4.6	4.6	4.8	5.0	5.2	
Growth of exports (US dollar terms, in percent)	11.5	-5.1	17.4	18.9	7.0	5.6	6.0	6.1	6.1	6.1	
Growth of imports (US dollar terms, in percent)	7.3	-18.3	19.3	18.4	7.9	6.1	6.4	6.2	6.2	6.2	
Current account balance, excluding interest payments	-2.8	1.4	-0.3	-2.0	-2.3	-2.4	-2.5	-2.4	-2.4	-2.4	
Net non-debt creating capital inflows	1.9	1.6	1.9	2.1	2.2	2.2	2.3	2.3	2.4	2.4	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Guatemala: External Debt Sustainability: Bound Tests 1/



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

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

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

3/ One-time real depreciation of 30 percent occurs in 2012.

Table 9. Guatemala: Public Sector Debt Sustainability Framework, 2008-17 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Prel.	Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing primary balance 10/**
Baseline: Public sector debt 2/	20.1	22.9	24.1	24.1	**24.8**	**25.2**	**25.4**	**25.6**	**25.6**	**25.6**	**0.1**
o/w foreign-currency denominated	12.4	14.1	14.4	13.4	14.2	14.4	13.9	13.4	12.9	12.5	
Change in public sector debt (a)	-1.2	2.8	1.2	0.0	0.7	0.4	0.2	0.2	0.0	0.0	
Identified debt-creating flows (b=c+d+e)	-0.6	3.3	1.0	0.4	0.5	0.2	0.1	0.0	-0.1	-0.2	
Primary deficit (c)	0.3	1.7	1.8	1.3	0.7	0.5	0.2	0.1	0.0	-0.1	
Revenue and grants	12.0	11.1	11.2	11.8	11.8	12.6	12.9	12.9	13.9	13.9	
Primary (noninterest) expenditure	12.3	12.8	13.0	13.2	12.5	13.1	13.1	13.1	13.9	13.8	
Automatic debt dynamics (d) 3/	-0.9	1.5	-0.8	-1.0	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	
Contribution from interest rate/growth differential 4/	-1.1	0.6	-0.2	-0.6	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	
Of which contribution from real interest rate	-0.5	0.7	0.4	0.2	0.5	0.5	0.6	0.6	0.7	0.7	
Of which contribution from real GDP growth	-0.6	-0.1	-0.6	-0.9	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	
Contribution from exchange rate depreciation 5/	0.2	0.9	-0.5	-0.4	...	...	...	...	...	...	
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	
Privatization receipts (negative)	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	
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	
Residual, including asset changes (f =a-b) 6/	-0.6	-0.5	0.2	-0.4	0.2	0.2	0.2	0.2	0.2	0.2	
Public sector debt-to-revenue ratio 2/	167.4	207.4	214.5	203.5	210.9	199.2	197.1	197.6	184.2	184.1	
Gross financing need 7/	2.9	4.1	4.4	4.5	3.6	3.6	2.9	2.7	2.6	2.4	
in billions of U.S. dollars	1.1	1.5	1.8	2.1	1.8	2.0	1.6	1.6	1.7	1.6	
Scenario with key variables at their historical averages 8/					**24.8**	**25.1**	**25.5**	**25.8**	**26.1**	**26.4**	
Scenario with no policy change (constant primary balance) in 2012-2017					**24.8**	**25.4**	**26.1**	**26.9**	**27.6**	**28.4**	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline											
Real GDP growth (in percent)	3.3	0.5	2.9	3.9	3.1	3.2	3.3	3.4	3.5	3.5	
Average nominal interest rate on public debt (in percent) 9/	7.2	7.3	7.0	6.8	7.3	7.0	7.1	7.1	7.1	7.2	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-2.2	3.8	1.9	1.3	2.4	2.2	2.6	2.9	3.0	3.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-1.9	-6.8	4.1	2.7	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	9.4	3.5	5.1	5.5	4.9	4.8	4.4	4.2	4.1	4.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.9	4.6	5.1	4.8	-2.1	8.2	3.7	2.9	10.1	2.7	
Primary deficit	0.3	1.7	1.8	1.3	0.7	0.5	0.2	0.1	0.0	-0.1	

1/ Assumes that revenue reforms yielding at least 1 percent of GDP will be adopted by 2016, and that the resources will be used for capital expenditures.

2/ Gross nonfinancial public sector debt.

3/ 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).

4/ The real interest rate contribution is derived from the denominator in footnote 3/ as $r - \pi (1+g)$ and the real growth contribution as -g.

5/ The exchange rate contribution is derived from the numerator in footnote 3/ as $\alpha\varepsilon(1+r)$.

6/ For projections, this line includes exchange rate changes.

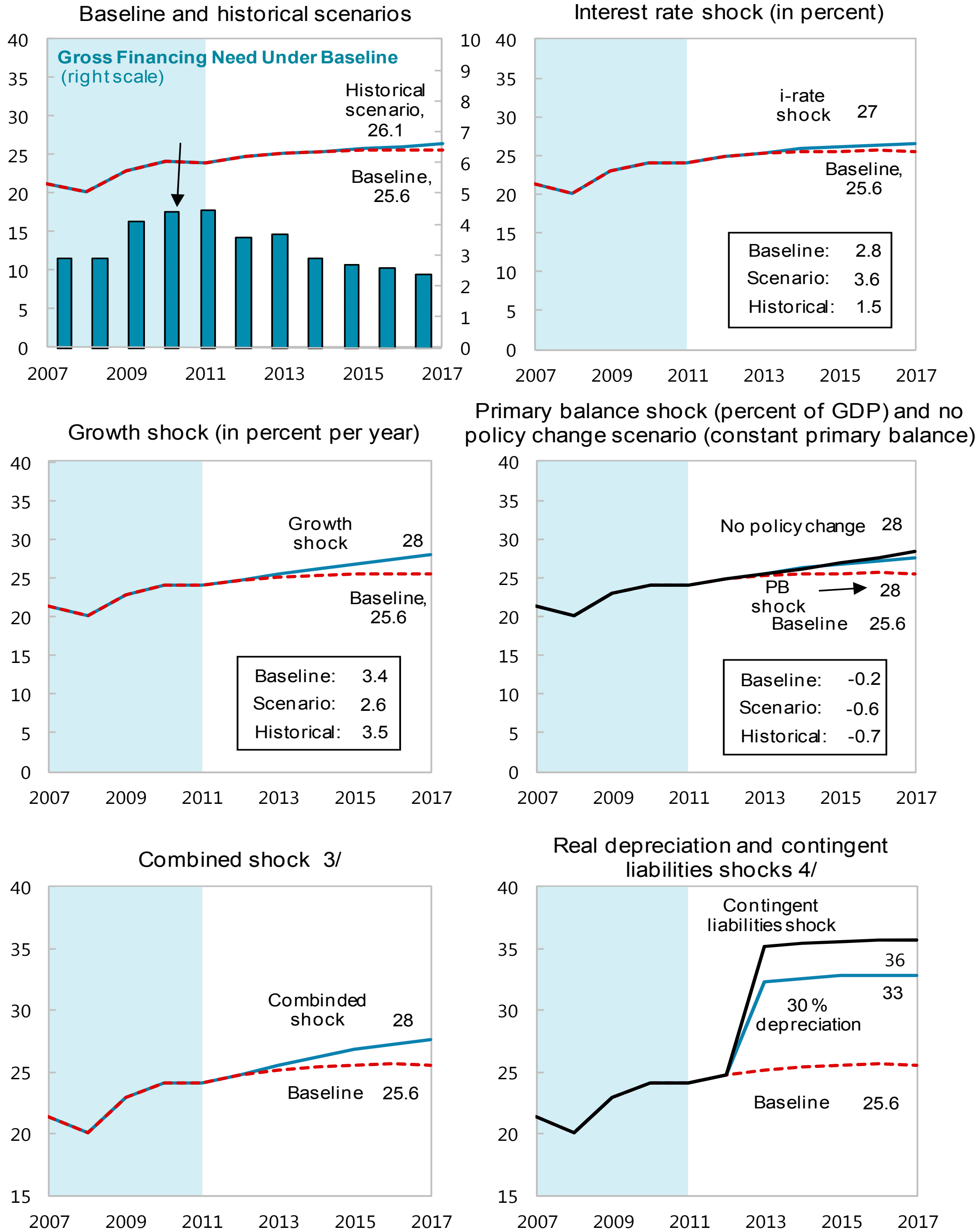
7/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

9/ Derived as nominal interest expenditure divided by previous period debt stock.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 7. Guatemala: Public Debt Sustainability: Bound Tests 1/ 2/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

GUATEMALA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 12, 2012

Prepared By The Western Hemisphere Department

CONTENTS

ANNEX 1. FUND RELATIONS

(As of February 29, 2012)

I. Membership Status: Joined: December 28, 1045, 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	173.51	86.36

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

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

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal					
Charges/Interest	0.03	0.04	0.04	0.04	0.04
Total	0.03	0.04	0.04	0.04	0.04

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 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.

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

VIII. Exchange Rate Arrangement. Since March 1994, Guatemala has had an arrangement based on an interbank foreign exchange market in which authorized financial institutions buy and sell foreign exchange at market-determined rates. Financial institutions authorized to operate in the foreign exchange market include commercial banks, finance companies, and exchange houses. While Guatemala has a de jure floating exchange rate arrangement, the de facto arrangement has recently been reclassified as "stabilized". As of April 4, 2012 the reference exchange rate was Q7.69 per U.S. dollar.

IX. 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.

X. Technical Assistance 2008–12

Department	**Date of Delivery**	**Purpose**
FAD, CAPTAC	February 2012	Control of budgetary execution
	2009, 2010, 2011, 2012	Revenue administration (multiple missions)
	2009, 2010, 2011, 2012	Customs administration (multiple missions)
	October-November 2011	Treasury single account
	April 2011	Debt management strategy
	March 2011	Revenue forecasting
	March 2011	Government cash flow and financial planning
	July 2010	Public expenditure management
	March 2010	Macro-fiscal framework
	November 2008	Modernization of revenue administration
MCM, CAPTAC	2011	Capital market development (multiple missions)
	October-November 2011	Monetary operations and liquidity administration
	September 2011	Risk-based bank supervision
	May 2011	Macroeconomic forecasting models
	May 2011	Developing a structural macroeconometric model
	March 2011	Application of international financial reporting standards in the banking system
	November-December 2010	Risk-based supervision for the insurance sector
	November-December 2010	Foreign exchange market function and intervention strategy

	April-May 2010	Developing secondary public debt markets and enhancing monetary operations
	April-May 2009	Enhancing monetary operations and developing private securities markets
	September-October 2008	Developing secondary public debt markets and enhancing monetary operations
	March-April 2008	Developing secondary markets for public debt
	February-March 2008	Bank regulation, resolution, and supervision
STA, CAPTAC	2010, 2011, 2012	Balance of payments and international investment position statistics (multiple missions)
	2011, 2012	Export and import price indexes (multiple missions)
	2011, 2012	National accounts statistics (multiple missions)
	2010, 2011	Public finance statistics (multiple missions)
	2010, 2011	Monetary and financial statistics (multiple missions)

XI. Article IV Consultation. The last Article IV consultation was concluded by the Executive Board on December 16, 2009.

XII. **Resident Representative.** Mr. Fernando Delgado is the Regional Resident Representative for Central America, Panama, and the Dominican Republic, and is based in Guatemala.

ANNEX 2. RELATIONS WITH THE WORLD BANK AND BANK-FUND COLLABORATION UNDER THE JOINT MANAGEMENT ACTION PLAN (JMAP)

1. The IMF's Guatemala team led by Mr. Alejandro López Mejía (Mission Chief) has met on various occasions with the World Bank's Guatemala team led by Mr. Oscar Calvo Gonzalez (Lead Economist and PREM Sector Leader) to discuss macroeconomic challenges, identify macro-critical structural reforms, and coordinate the two teams' work for the period March 2012–February 2013.

2. The teams agreed that Guatemala's main macroeconomic challenges are to safeguard fiscal sustainability, increase the effectiveness of monetary policy, and maintain financial sector stability.

3. The teams concurred that Guatemala's near-term outlook is generally positive, though there are risks stemming from global uncertainty and the limited scope to adopt countercyclical policies in case downside risks materialize.

4. Based on the shared assessment of macroeconomic challenges, the teams have identified the following structural reform areas as macro-critical:

- *Fiscal consolidation*. Guatemala's fiscal position deteriorated in recent years due to a decline in public revenues in the aftermath of the global crisis and an increase in current expenditures. The authorities' plan to save part of the proceeds of the recent revenue reforms and reduce the deficit to 1.8 percent of GDP by 2015 is a key step towards stabilizing the public debt-to-GDP ratio. Adopting additional revenue-enhancing measures, and improving the efficiency and composition of public expenditure, is important to achieve the goals of the 1996 Peace Accords and sustain increases in spending in critical areas (e.g. social programs, infrastructure, and security).

- *Monetary policy framework*. Strengthening further the monetary framework, including by allowing greater exchange rate flexibility, is key to improve the effectiveness of monetary policy,

- *Financial sector stability*. There has been progress in upgrading financial sector regulation and supervision, but further improvements are needed. In particular, the approval of the amendments to the banking law (submitted to congress in 2009) and the design of a plan to address systemic risks remain key to fully implement the recommendations of the 2006 FSAP and further increase the resilience of the banking sector. In addition, a clear regulatory framework for NGO microfinance institutions needs to be enacted, given their rising participation in the microfinance sector.

5. The teams agreed the following division of labor:

- *Fiscal consolidation*. The Fund will continue to provide policy recommendations on macro-fiscal issues, including the overall strategy of fiscal consolidation. The Fund has provided technical assistance on budgetary management, which is expected to help strengthen expenditure controls and prevent the accumulation of new domestic payment arrears. The Bank is finalizing a Public Expenditure Review and is providing technical assistance to develop a system of results-based management for the budget to help improve the quality and efficiency of public spending. The Fund and the Bank will collaborate in providing the authorities technical assistance on public debt management.

- *Monetary policy framework*. The Fund will continue to provide policy recommendations and technical assistance to improve the monetary framework, including regarding exchange rate flexibility and the development of securities markets.

- *Financial sector stability*. The Bank and the Fund will cooperate as necessary in assisting the country in implementing all FSAP recommendations. The Bank will take the lead on technical assistance related to better managing crisis situations following up on the crisis simulation exercise conducted in 2009, which raised issues with the coordination of the different authorities involved in managing a crisis. The Fund will take the lead on the implementation of risk-based supervision and group supervision.

6. The teams have the following requests for information from their counterparts:

- The Fund team requests to be kept informed of progress in the above macro-critical structural reform areas. Timing: when milestones are reached (and at least semi-annually).

- The Bank team requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects and progress in the above macro-critical structural reform areas.

7. The attached table lists the teams' separate and joint work programs during March 2012–February 2013.

World Bank and IMF Planned Activities in Macro-Critical Structural Reform Areas March 2012–February 2013

Title	Products	Provisional Timing of Missions	Expected Delivery Date
World Bank Work Program	Public Expenditure Review		March 2012
	TA on results-based management	March 2012	
	Seminar on industrial policy in the 21st century	May 2012	
	Customs Assessment (CATT)	June 2012	
	Financial Sector: TA on Institutional and Legal Framework for Crisis Management		July 2012
IMF Work Program	Staff visit	September 2012	
	Technical Assistance:	2012-2013	
	Tax revenue and customs administration		
	Strengthening medium-term expenditure framework		
	Enhancing public expenditure management and control of arrears		
	Developing securities market law		
	Support development of framework for public-private partnerships (regional seminar)		

World Bank and IMF Planned Activities in Macro-Critical Structural Reform Areas March 2012–February 2013 (Continued)

	Development of liquidity risk management models and stress testing methodology for the banking system Strengthen liquidity management and foreign exchange operations of the central bank Develop macroeconomic forecasting models of the central bank Strengthening national accounts, price, fiscal, and balance of payments statistics		
Joint Bank-Fund work program	Enhancing public debt management	2012-13	

8. The attached table summarizes the financial relations between Guatemala and the World Bank (in million U.S. dollars).

Project Name	Total loan	Undisbursed through FY11	Proj. disbursements in FY12
Second Rural and Main Roads	46.7	3.6	3.5
Maternal and Infant Health and Nutrition	49.0	10.5	10.5
Support for Rural Economic Development	30.0	26.6	6.2
Land Administration	62.3	52.9	14.0
Education Quality and Secondary Education	80.0	53.3	7.5
Emergency Support for Social Services	100.0	100.0	80.0

ANNEX 3. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of February, 2012)

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 previous 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 February, 2012, the IADB portfolio of approved sovereign-guaranteed investment and policy-based loans under execution amounted to US$852.2 million, with an undisbursed balance of US$570.6 million. The existing portfolio focuses on:
(i) environment and natural disasters;
(ii) health, education and social protection; and
(iii) improving productive infrastructure (especially, electrification, water, and sanitation in rural areas).

3. In the private sector, over the last four years, the IADB has approved five loans for the financial sector (US$100.3 million) and three credit line operations for trade financing (US$80 million).

4. The pipeline includes projects in the areas of public sector strengthening, social protection, violence prevention and rural development.

IADB Loan Disbursements 2008–2011

(In millions of U.S. dollars)

	2008	2009	2010	2011
Disbursements	139.0	331.2	384.2	195.7
Amortizations	-87.9	-81.0	-79.9	-91.2
Net Disbursements	51.1	250.2	304.3	104.5
Interest and Charges	-63.0	-63.6	-76.3	-87.1
Subscriptions and Contributions	-3.9	-3.9	-3.6	-4.8
Net Cash Flows	-15.8	182.7	224.3	12.6

Source: IDB Financial Department

IADB Portfolio in Guatemala as of February 2012

(In millions of U.S. dollars)

Sector	Approved	Undisbursed
Urban development and housing	62.3	2.3
Education	150.0	120.0
Energy	55.0	52.0
Social investment	59.0	50.5
Water and sanitation	99.8	71.0
Environment and natural disasters	282.6	152.1
Reform and modernization of the state	58.5	51.3
Health	85.0	71.4
Total	852.2	570.6

Note: Includes sovereign-guaranteed loans.

ANNEX 4. STATISTICAL ISSUES

(As of April 4, 2012)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is broadly adequate for surveillance.	
National Accounts: In 2010, the Bank of Guatemala began publishing quarterly national accounts statistics consistent with the *SNA 1993,* with 2001 as the base year.	
Consumer prices: In 2011, the consumer price index was re-based to December, 2010, and the index weights were updated to reflect changes in the consumption basket since the base 2000 index.	
Government finance statistics: Revenue, expenditure, and financing statistics for social security agencies, local governments, and nonfinancial public enterprises are not reported, hindering the calculation of a consolidated operations statement and balance sheet for the nonfinancial public sector. The coverage and periodicity of data on central government financing and debt is adequate, but the detail of this data could be expanded.	
Monetary and financial statistics: The quality, coverage, and periodicity of data for the Bank of Guatemala and commercial banks is sufficient. Data for the offshore sector and savings cooperatives is only available quarterly, and with a lag of five weeks.	
External sector statistics: The Bank of Guatemala publishes quarterly balance of payments data according to the fifth edition of the *Balance of Payments Manual.* In 2012, the Bank of Guatemala increased the periodicity of publication of international investment position data from annual to quarterly. Detail on private sector external debt by creditor and by maturity structure is not available.	
II. Data Standards and Quality	
Guatemala became a participant in the General Data Dissemination System in 2004. Several data categories are yet to meet the periodicity or timeliness requirements necessary for subscription to the Special Data Dissemination Standard.	A data ROSC was completed on October 28, 2004.

GUATEMALA: COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of April 4, 2012)

	Date of latest observation	Date received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	Apr. 3, 2012	4/4/12	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	Feb. 2012	3/30/12	M	M	M
Reserve/Base Money	Mar. 22, 2012	3/29/12	W	W	W
Broad Money	Mar. 22, 2012	3/29/12	W	W	W
Central Bank Balance Sheet	Apr. 3, 2012	4/4/12	D	D	D
Consolidated Balance Sheet of the Banking System	Feb. 2012	3/22/12	M	M	M
Interest Rates 2/	Mar. 22, 2012	3/29/12	W	W	W
Consumer Price Index	Feb. 2012	3/6/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/– Central Government	Feb. 2012	3/23/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 4/– General Government			N/A	N/A	N/A
Stocks of Central Government and Central Government-Guaranteed Debt 5/	Feb. 2012	3/23/12	M	M	M
External Current Account Balance	Q4/11	3/30/11	Q	Q	Q
Exports and Imports of Goods and Services	Q4/11	3/30/11	Q	Q	Q
GDP/GNP	Q4/11	4/4/12	Q	Q	Q
Gross External Debt	Q4/11	3/30/11	Q	Q	Q
International Investment Position	Q4/11	3/30/11	Q	Q	Q

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

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

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

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

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).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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

Public Information Notice (PIN) No. 12/47
FOR IMMEDIATE RELEASE
May 8, 2012

IMF Executive Board Concludes 2012 Article IV Consultation with Guatemala

On April 30, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guatemala.[1]

Background

Macroeconomic developments in Guatemala since 2010 have been broadly positive. Real Gross Domestic Product (GDP) grew by 2.8 percent in 2010 and 3.8 percent in 2011, underpinned by buoyant exports and domestic demand. High world oil and food prices pushed up inflation to 7.6 percent in mid-2011 (from 5.4 percent at end-2010), but by early 2012 it had fallen within the central bank's target range of 3.5–5.5 percent. While the external current account deficit widened in 2011, the surplus in the capital account was larger, partly due to banks' increased access to foreign credit lines. As a result, the overall balance of payments in 2011 recorded a surplus and net international reserves remained at comfortable levels.

Policies were tightened in 2011. The deficit of the central government declined to 2.8 percent of GDP, down from 3.3 percent in 2010, helping maintain public debt broadly stable at 24.2 percent of GDP. To limit second-round effects from higher commodity prices, the monetary policy rate was increased by 100 basis points to 5.5 percent. The currency

[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.

appreciated moderately in nominal terms from early 2010 to April 2011 and has been broadly stable since then, amid limited central bank intervention under the rules-based framework.

The financial sector has remained stable, with adequate levels of liquidity and capitalization. Private sector credit growth picked up and deposits in the banking system grew steadily. The relative size of the offshore sector continued to decline and financial dollarization has remained broadly stable. Full provisioning of non-performing loans was achieved in mid-2011.

The economic outlook is generally positive. Real GDP growth is expected to moderate to 3.1 percent in 2012 driven by the global slowdown, and increase to 3.5 percent in the medium term. Inflation is projected to decline to 5 percent in 2012 and fall gradually thereafter to 4 percent. International reserves are expected to remain at comfortable levels. However, the outlook is subject to downside risks related to the uncertain global environment, particularly regarding slower-than-expected growth in the United States and higher oil prices. Against this backdrop, the authorities are reducing the central government deficit in 2012 to 2.4 percent of GDP, maintaining a neutral bias for monetary policy, and preserving exchange rate flexibility.

Executive Board Assessment

Executive Directors welcomed Guatemala's economic recovery and the favorable outlook, considering that the policy stance for 2012 is broadly appropriate. Given the downside risks posed by the uncertain global environment, it will be important to maintain prudent macroeconomic policies and increase the readiness for timely policy responses.

Directors encouraged the authorities to improve public expenditure management. They stressed the urgency of producing a reliable estimate of the stock of domestic payments arrears and developing a plan to eliminate them. Directors indicated that the planned amendments to the organic budget law provide a key opportunity to strengthen the fiscal framework, and welcomed the submission to congress of draft laws aimed at improving the transparency of expenditures.

Directors welcomed the recent passage of revenue-enhancing reforms. They underscored the importance of further deepening revenue mobilization, including reducing tax exemptions, to help ensure medium-term fiscal sustainability and allow higher levels of government spending on social programs, infrastructure, and security. Directors called for efforts to streamline revenue earmarks to enhance fiscal flexibility and reorient expenditures to priority areas.

Directors encouraged the authorities to raise the effectiveness of monetary policy to anchor low inflation, including by taking further steps to increase exchange rate flexibility. In this context, they underscored the importance of greater operational autonomy for the central bank.

Directors noted that strengthening the financial sector remains a priority. Securing congressional approval of the amendments to the banking law, submitted in 2009, would help lower risks from offshore operations and connected lending, improve resolution procedures, and strengthen the instruments and size of the banking sector safety net.

Directors emphasized the need for further structural reforms to boost growth potential and reduce poverty. In addition to fiscal reforms to mobilize revenues and improve public expenditure management, Directors encouraged the authorities to implement the competitiveness agenda, including improving the business environment.

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.

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2010 (millions)	14	Gini index (2006)	54
wPercentage of indigenous population (2006)	38	Life expectancy at birth (2009)	71
Population below the poverty line (Percent, 2006)	51	Adult illiteracy rate (2009)	26
Rank in UNDP development index (2011; of 187)	131	GDP per capita (US$, 2010)	2,686

II. Economic Indicators

				Est.	Proj.
	2008	2009	2010	2011	2012
	(Annual percent change)				
Income and prices					
Real GDP	3.3	0.5	2.8	3.8	3.1
Consumer prices (end of period)	9.4	-0.3	5.4	6.2	5.0
Monetary sector					
M2	7.6	10.0	11.3	10.7	9.8
Credit to the private sector	11.0	1.1	5.7	14.1	11.2
	(In percent of GDP, unless otherwise indicated)				
Savings and investment					
Gross domestic investment	16.4	12.9	14.7	15.8	16.6
Gross national saving	12.1	12.9	13.1	12.9	13.3
External saving	4.3	0.0	1.5	2.8	3.3
External sector					
Current account balance	-4.3	0.0	-1.5	-2.8	-3.3
Trade balance (goods)	-14.2	-8.9	-10.4	-10.6	-10.8
Exports	20.0	19.4	20.7	22.4	22.4
Imports	-34.3	-28.2	-31.1	-33.0	-33.2
Of which: oil & lubricants	-6.8	-5.5	-5.7	-6.6	-6.9
Other (net)	10.0	8.9	8.8	7.7	7.5
Of which: remittances	11.3	10.5	10.1	9.4	9.2
Capital and financial account	3.7	0.5	3.9	4.4	4.2
Errors and omissions	1.4	0.7	-0.7	-1.1	0.0
Overall balance	0.9	1.3	1.6	0.4	0.9
Net international reserves					
(Stock in months of next-year NFGS imports)	4.2	3.8	3.6	3.5	3.6
(Stock over short-term debt on residual maturity)	1.6	2.0	2.0	1.8	1.7
Public finances					
Central government					
Revenues	12.0	11.1	11.3	11.8	11.8
Expenditures	13.6	14.2	14.6	14.7	14.1
Current	9.9	10.7	11.0	11.0	11.0
Capital	3.7	3.5	3.6	3.7	3.1
Primary balance	-0.3	-1.7	-1.8	-1.3	-0.7
Overall balance	-1.6	-3.1	-3.3	-2.8	-2.4
Financing of the central government balance	1.6	3.1	3.3	2.8	2.4
Net external financing	0.3	1.3	1.5	0.1	1.4
Net domestic financing	1.3	1.8	1.8	2.7	0.9
Of which: use of government deposits	0.8	0.4	-0.1	0.5	0.2
Nonfinancial public sector debt	**20.1**	**22.9**	**24.2**	**24.2**	**24.7**
External	11.3	13.0	13.1	11.9	12.6
Domestic	8.9	9.9	11.1	12.3	12.1
Memorandum items:					
GDP (US$ billions)	39.1	37.7	41.2	46.9	50.3

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

Statement by Mr. Pérez-Verdía, Executive Director for Guatemala and Mr. Cosenza Jiménez, Advisor to Executive Director April 30, 2012

We would like to thank staff for their illustrative and balanced report and for their constructive dialogue with our authorities. The authorities broadly concur with the staff's appraisal and we would like to emphasize the following points:

1. **Economic Growth.** As staff has rightly pointed out, growth outlook is relatively positive. Real GDP is expected to grow 2.9 - 3.3 percent in 2012 in line with global economic perspectives and pick up to 3.3 - 3.7 percent in 2013, reflecting the envisaged increase in both, internal and external demand. Business confidence has been increasing consistently since October 2011, situation that, if effectively translated into investment, could lead to a higher growth in 2012. In addition, the authorities are embarking on a Competitiveness Agenda 2012-2021 which will prioritize human capital, investment in infrastructure, improvements in governance and strengthening of institutions.

2. **Fiscal Policy**. Guatemala has been characterized by low levels of fiscal deficit (1.7 percent of GDP in average, before the global economic and financial crisis of 2008-2009). Given the impact on tax collection during the global crisis, the country adopted a countercyclical policy that led to an increase of the fiscal deficit to 3.1 percent in 2009 and 3.3 percent in 2010. The authorities were fully aware of the importance to return to fiscal discipline and initiated a process of fiscal consolidation by implementing policies aimed at reducing the central Government's deficit to 2.8 percent in 2011 and to further reduce it to 2.4 percent, 2.1 percent and 1.9 percent in 2012, 2013 and 2014, respectively, in order to maintain public debt at sustainable levels in the medium term. Public debt remained at 24 percent of GDP during 2010-2011 and my authorities expect it should remain stable in the following years. Tax revenues increased 15.8 percent in 2011 (y-o-y) and the tax burden increased from 10.5 percent of GDP in 2010 to 11.0 percent of GDP in 2011, while public expenditures increased 10.6 percent (y-o-y).

Furthermore, our authorities' commitment to fiscal discipline is evinced by the steps taken by the new administration that took office on January 14, 2012 immediately submitting to Congress a tax reform that was approved together with an anti-evasion law, both measures are expected to increase revenues by 1 percent of GDP in 2012 and by a total of 1.5 percent of GDP in 2013 and onwards. To strengthen the quality of expenditure, make it more transparent and to improve financial management, the authorities also submitted to Congress two separate initiatives. The first initiative includes reforms to four laws: a) the Organic Budget law; b) the Comptroller Office law; c) the Superintendency of Tax Administration law, and; d) the Statistics and Geographical System law. The second initiative includes reforms to four laws: a) the Procurement law; b) the Probity of Public Employees law; c) the Organic Executive Branch law, and; d) the Civil Service law, plus the enactment of three new laws: a) Illicit Enrichment law; b) Trust Funds law; and c) Planning and Evaluation of

Public Management law. The authorities will advocate for the prompt enactment of these initiatives to ensure the adequate use of public funds.

3. Monetary and Exchange Rate Policies. While inflation forecasts for 2012 indicate inflation will lie within the target range of 4.5 percent (+/- 1 percentage point) and medium term forecasts are consistent with the medium term target range of 4.0 percent (+/- 1 percentage points), recent increases in oil and food international prices are sources of inflationary pressure. Although the monetary policy stance has been neutral since October 2011 (considering the uncertain prospects of world economic growth), the Central Bank stands ready to adopt measures aimed at moderating inflation pressures, if needed. As already mentioned by the staff the exchange rate is determined by the market and although my authorities concur with the need to provide more flexibility, they have stressed the importance of moving gradually to that goal, as long as the external environment remains uncertain.

4. External Sector. The Current account deficit is expected to reach 3.5 percent of GDP and will be fully financed by FDI and other private capital flows. Our authorities concur with staff that risks to the balance of payments are manageable.

5. Financial Sector. Bank capitalization and liquidity are sound and non-performing loans have decreased to 1.7 percent.

Finally, I would like to highlight Box 1, page 8 of the Staff Report, that reflect the fact that the recommendations stemming from the previous Article IV Consultation Report have largely been implemented.

We close by reiterating our appreciation for the thorough and detailed work that underlies the report prepared by the IMF mission team. Our authorities appreciate the high quality dialogue that resulted from their visit to Guatemala and will give due consideration to their recommendations and observations.