INTERNATIONAL MONETARY FUND

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GUATEMALA

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUATEMALA

September 2014

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 2014 Article IV consultation with Guatemala, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 12, 2014, following discussions that ended on May 26, 2014, 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 August 26, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of September 12, 2014 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its September 12, 2014 consideration of the staff report that concluded the Article IV consultation with Guatemala.
- A **Statement by the Executive Director** for Guatemala.

The document listed below has been or will be separately released.

Selected Issues and Analytical Notes

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

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GUATEMALA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

August 26, 2014

KEY ISSUES

Context. Guatemala's economy has performed solidly since the 2008–09 crisis. Output has converged to potential, inflation is under control, and macroeconomic policies remain prudent. However, risks to the outlook are tilted downwards, while buffers are modest and space for counter-cyclical policies is thin. Long-term inclusive growth is constrained by low investment in physical and human capital, institutional weaknesses, and lack of security.

Near-term policies are broadly appropriate. With the output gap closed, the broadly neutral fiscal stance is adequate. The monetary stance is slightly expansionary, but inflation is at the bottom of the target range. The authorities should stand ready to tighten monetary policy if inflationary pressures re-emerge.

Fiscal sustainability should be enhanced over the medium term. Though the debt-to-GDP ratio remains moderate, the ability to implement counter-cyclical fiscal policies is limited, not least by Guatemala's high government debt-to-revenue ratio. Debt stabilization requires moderate tightening of the budgetary stance over the medium term. The emphasis should be on revenue mobilization, given the overall low level of spending. Consolidating gains from the 2012 tax reform, which has so far proved disappointing, will be critical.

Efforts to upgrade the monetary and exchange policy framework should continue. Anchoring low and stable inflation will require measures to bolster monetary policy transmission, including by expanding exchange rate flexibility. This should provide an additional shock absorber and reduce incentives for dollarization. It would also establish the inflation target as the undisputed primary objective of the central bank.

Further strengthening of the financial system is necessary. The 2014 FSAP update found that Guatemala has made significant progress in financial regulation and that the banking system appears to be generally sound. However, efforts are still needed to improve consolidated supervision and the regulation of off-shore banks. The time is also ripe for a phased move to Basel III standards.

Structural reforms are vital to achieving long-term inclusive growth. Paving the way towards high, inclusive growth will depend upon raising the low tax-to-GDP ratio to support priority public spending, thereby addressing critical social and developmental needs.

Approved By:
Charles Kramer (WHD) and Masato Miyazaki (SPR)

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OVERVIEW

1. **The Guatemalan economy continues its solid expansion.** After emerging from the global financial crisis, activity rebounded quickly, spurred by domestic demand and supported by rising world export prices and counter-cyclical policies. Growth has now eased back to potential and the output gap is closed. Macroeconomic policies have stayed a prudent course, helping to maintain relatively low inflation. The financial system appears robust and the country's current account deficit is stable and fully financed by FDI. The macro outlook is broadly positive.

2. **The main challenge is to unleash higher and more inclusive long-term growth, while enhancing resilience to shocks and preserving macroeconomic stability.** Potential growth is constrained by weak investment in physical and human capital, and by the elevated crime and insecurity; poverty is widespread. Increasing high-quality public spending to support equitable growth is critical, but it will require boosting public revenue and strengthening expenditure management to safeguard macroeconomic stability. A nimbler handling of shocks would be allowed by widening the scope for counter-cyclical budget and monetary policies—fiscal space is currently limited by the very low tax burden, monetary space by downwards-sticky inflation expectations and dollarization. Upgrading the regulatory and supervisory frameworks, while monitoring carefully the rapid growth of credit, particularly in foreign currency, are important to safeguard financial stability.

RECENT ECONOMIC DEVELOPMENTS

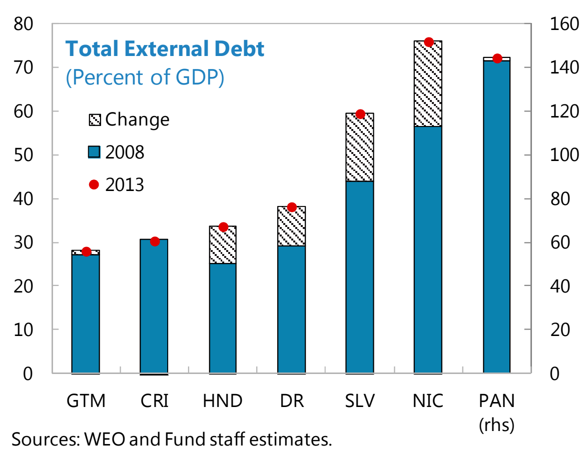
3. **Growth has returned to potential.** Rebounding from the global crisis and natural disasters in 2010, real GDP surged by 4¼ percent in 2011, helping close the output gap that opened during 2008–09. Economic expansion decelerated to 3 percent in 2012, but recovered to 3¾ percent in 2013 (around its estimated potential—Analytical Note I (AN I)), spurred by healthy private consumption, despite less favorable external conditions and the onset of the coffee roya disease. Accordingly, activity remains at capacity.

Potential GDP Growth and Output Gap: Main Results

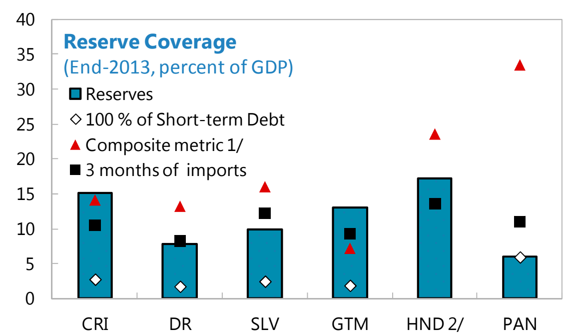
	Potential GDP growth rate			*Output gap*	
	1991-2013	**2013**	**2014**	**2013**	**2014**
Cycle extraction filters					
Hodrick-Prescott	3.54	3.37		-0.08	
Butterworth	3.52	3.40		0.03	
Christiano-Fitzgerald	3.43	3.63		0.43	
Baxter-King	3.49				
Production Function Approach	3.53	3.36		-0.06	
State-Space Model					
Deterministic Drift	3.56	3.56	3.56	-1.14	-1.20
Mean Reversion	3.74	3.71	3.71	-1.41	-1.61
Average	**3.54**	**3.50**	**3.64**	**-0.37**	**-1.41**

4. **Inflation picked up in 2013, but stayed within the target range, and has declined in early 2014.** In 2012 inflation fell sharply to 3½ percent from 6¼ percent in the previous year, as commodity prices stabilized and domestic demand pressures weakened. While prices accelerated in the first half of 2013, mostly owing to fast rising food prices, inflation abated in the second semester and closed the year at 4.4 percent, within the central bank (CB)'s target range of 4±1 percent. By June 2014, y-o-y inflation was reduced to 3 percent amid deceleration in both food prices and core inflation.

5. **The balance of payments was stable in 2013.** The current account deficit as a share of GDP was virtually unchanged at 2¾ percent of GDP. The trade balance turned out the same and a slight deterioration in the balance of services was offset by an improved income balance, amid continuing robust remittances. The deficit remained comfortably financed by steady FDI and public sector borrowing, with no significant impact from U.S. monetary policy normalization due to limited financial integration. Thus, net international reserves (NIR) reached US$6.4 billion at end-2013, with import cover constant at 3.9 months, providing a comfortable reserve cushion. External debt stays low compared to peers.



Sources: WEO and Fund staff estimates.



Sources: WEO and Fund staff estimates.
1/ Composite Metric (floating exchange rate) = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 10% × Other Liabilities
Composite Metric (fixed exchange rate) = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities
2/ 3 months of imports refers to the following year's imports of nonmaquila goods. The composite metric was calcualted based on Dabla-Norris, Kim, and Shirono (2011) Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis.

6. **Competitiveness is broadly adequate.** The Fund's multilaterally consistent estimates under the External Balance Assessment (EBA) methodology as well as CGER and WHD staff's own approach imply that Guatemala's REER is generally in line with medium term fundamentals (Box 1). The external deficit is mainly explained by Guatemala's relatively young and growing population and relatively low income level. An improvement in the external current account balance over the past decade, despite substantial appreciation of the CPI-based REER during that period, supports the assessment that the REER is close to equilibrium. However, some signs of competitiveness strains have emerged (see Box 1).

Box 1. Guatemala: External Stability Assessment

Guatemala's real effective exchange rate (REER) is generally in line with medium-term fundamentals. Staff used a variety of approaches to assess Guatemala's external balance and exchange rate, including changes in the CPI-based real effective exchange rate, regression-based methods to assess the current account balance, and stability conditions for net foreign assets.

Since 2003, the CPI-based REER has appreciated by about 30 percent but the current account balance has improved. The substantial real exchange rate appreciation was partially driven by Guatemala's inflation differential with its main trading partner (the U.S.). Relative productivity increases in Guatemala may have alleviated the impact of this appreciation on competitiveness, however, ULC-based REER indicators are not available. At the same time, the current account deficit improved from 4¾ percent of GDP in 2003 to 2½ percent of GDP in 2013, largely on account of a stronger trade balance.

The financing structure of the current account deficit, high reserves and low external liabilities mitigate external risks. Guatemala's net IIP position is relatively small at negative 20 percent of GDP in 2013 and FDI comprises about 40 percent of total liabilities. The stock of net international reserves stood at 4.1 months of imports at end-2013 and is well within the Fund's composite reserve adequacy metric. Thus, current reserve levels provide an adequate buffer against potential shocks. At this stage, staff projects little further reserve accumulation in line with the authorities' intention to emphasize greater exchange rate flexibility going forward. As a result, reserve ratios are expected to fall over time, approaching minimum levels considered appropriate, particularly when compared to imports. The move toward flexibility is appropriate but the authorities should remain vigilant to ensure continued reserve adequacy.

Guatemala: Implied Undervaluation ("-" = Undervaluation)

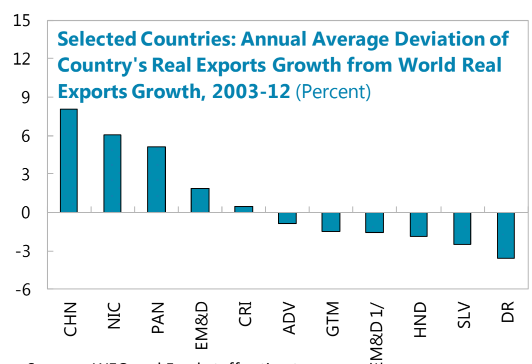
	Current Account Norm	Current Account Reference	REER deviation
CGER-like models			
Macroeconomic Balance	-2.9	-2.5	-2.1
External sustainability	-1.1	-2.5	7.4
EBA			
Macroeconomic Balance	-4.1	-1.7	-12.8
WHD staff model 1/	-3.2	-2.5	-3.7
Average			**-2.8**

Source: Fund staff estimates.
1/ For details see "Current Account Imbalances: Can Structural Policies Make a Difference?" by Anna Ivanova, https://www.imf.org/external/pubs/cat/longres.aspx?sk=25750.0

IMF's multilaterally consistent estimates suggest that Guatemala's REER is broadly in line with fundamentals both in the short term and relative to medium term benchmarks:

- ***The External Balance Assessment*** (EBA) estimates based on existing fundamentals and desirable policies point to a sustainable cyclically- adjusted current account deficit of 4 percent of GDP, which is 2¼ percentage points above the actual cyclically-adjusted deficit of 1¾ percent.
- ***CGER methodologies,*** which rely on medium-term fundamentals, point to either a moderate overvaluation of 7 percent (external sustainability approach) or a moderate undervaluation of 2 percent (macroeconomic balance approach). The

Selected Countries: Annual Average Deviation of Country's Real Exports Growth from World Real Exports Growth, 2003-12 (Percent)



Sources: WEO and Fund staff estimates.
1/ Excludes China and Asian Tigers (Hong-Kong, Singapore, Korea, Taiwan, Indonesia, Malasia, Philippines and Thailand.

Box 1. Guatemala: External Stability Assessment (Continued)

CGER methods based on the equilibrium real effective exchange rate and the PPP, however, would suggest a substantial overvaluation (between 25 and 40 percent), but are less reliable due to large forecast errors, thus, staff does not attribute much significance to those estimates.

- **The WHD staff model** is based on a current account regression that is similar to the CGER macrobalance approach, but includes an additional variable capturing the speed of aging, the youth dependency ratio instead of population growth, changes in oil price for oil producers instead of the oil balance, and a measure of trade openness. This approach suggests slight undervaluation of about 3¾ percent.

A simple average across the different reliable methodologies implies a slight undervaluation of 2¾ percent and, given model uncertainty and standard errors, the conclusion is that Guatemala's REER is broadly in line with fundamentals.

- **Nevertheless, there are some signs of competitiveness problems.** Between 2003 and 2012, Guatemala's share in global trade decreased by 25 percent. However, other emerging markets, excluding China and Asian Tigers, experienced a similar loss during this period. Survey-based competitiveness indicators[1] also highlight some challenges for Guatemala as its already low-ranking position deteriorated to the 86th position out of 148 countries in 2013-2014 from the 83rd in 2012-2013. The weak ranking reflects concerns about crime, corruption, excessive government bureaucracy, inadequate infrastructure and human capital. Its position in the Ease of Doing Business Index, though, improved substantially in 2013 to the 79th position out of 189 countries from the 93rd in the previous year.

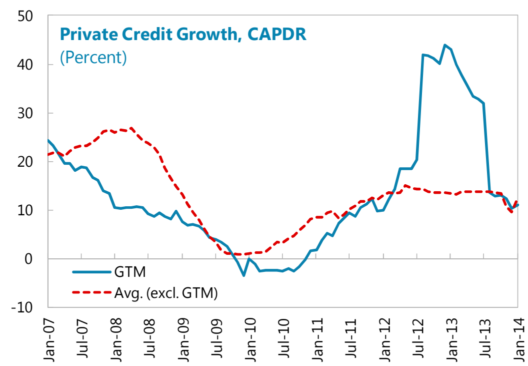
[1] The Global Competitiveness Report, World Economic Forum, 2013.

7. **The results of the 2012 tax reform have been disappointing.** The package broadened the base of the corporate and personal income taxes, eliminated several VAT exemptions, increased vehicle taxes, and streamlined customs duties. The measures aimed to raise revenues by 1–1½ percent of GDP over the course of 2013 and 2014. The reform faced many obstacles, including numerous claims before the Constitutional Court, reflecting the long-standing reluctance by influential sectors to accept a higher tax burden. So far these challenges have been largely unsuccessful, though associated uncertainties have weighed down on collections. Moreover, the tax administration has been plagued with implementation and governance problems. As a result, thus far, the reform has yielded only around ¼ percent of GDP in extra collections. Even these meager gains are outweighed by shortfalls not related to the reform, mainly on international trade taxes, owing to administrative shortcomings at the customs agency.

8. **Notwithstanding the revenue shortfall, the fiscal deficit declined in 2013 and remained well below planned levels, amid financing constraints.** Expenditures were constrained by delays in congressional approval of IFI loans owing to political wrangling within the fragmented legislature in which the government lacks a secure majority. With under-spending exceeding collection losses, the overall deficit (slightly above 2 percent of GDP) fell below the budget target (2½ percent of GDP). The narrower deficit implied a mildly contractionary fiscal stance and maintained public debt nearly constant and low as a share of GDP. However, public debt is high in relation to fiscal revenue when compared to regional peers.

9. **Monetary policy has been slightly relaxed and FX intervention has remained low.** The CB lifted the policy rate by 25 bps to 5.25 percent in April 2013 to stem incipient signs of inflationary pressures. Amid private sector concerns for growth, this increase was reversed in November 2013, and the rate was reduced by additional 50 bps to 4.5 percent in the first half of 2014, in the wake of declining inflation. The exchange rate (XR) has remained broadly stable, with minimal CB net cumulative FX purchases under its rules-based intervention framework (Figure 2)—in early 2014, the authorities increased the XR fluctuation margin for intervention from 0.65 to 0.7 percent of the five-day moving average of the XR.

10. **Credit has risen rapidly, slanted toward foreign currency loans, though it has recently slowed and FSIs remain solid.** Albeit credit to the private sector continued to expand fast last year (about 16 percent), its growth has decelerated substantially since end-2013 (to 12 percent), in part because of substitution of domestic bank loans with external borrowing by a large telecom company. Overall, private sector credit as a share of GDP has only recovered to levels marginally above those before the crisis, suggesting that its rise is largely a catch-up process. That said, the faster surge of FX loans—18 percent in 2013, compared to 9 percent for domestic currency loans—raises concerns about currency mismatches and credit risk of non-exporters. Banks have turned to greater reliance on wholesale external funding, but appear profitable, liquid, well-capitalized, and generally resilient to financial spillovers from advanced countries (AN II). Guatemala has joined GAFISUD, the Latin American regional arm of FATF.



Sources: National authorities and Fund staff estimates.

11. **Guatemala has made strides towards achieving the Millennium Development Goals (MDGs), but poverty and crime are widespread.** Modest-to-strong progress has been

Financial Soundness Indicators[1/]

(In percent)

	Guatemala	Costa Rica	El Salvador	Honduras	Dominican Republic	Panama	CAPDR 2/	LA6 3/
Regulatory Capital to Risk-Weighted Assets Ratio	**14.7**	16.8	17.1	14.7	15.7*	16*	16.1	15.3
Capital to Assets Ratio	**9.0**	14.8	13.9	9.3	9.9*	11.7*	11.9	10.2
Nonperforming Loans to Total Loans Ratio	**1.3**	1.7	2.9	3.3	3.2**	0.9*	2.4	2.5
Return on Assets	**1.6**	1.5	1.6	1.5	2.3**	1.8*	1.7	2.0
Return on Equity	**17.2**	10.3	11.6	15.9	23.2**	7.3*	13.7	19.0

Source: FSI tables, June 2013, IMF, http://fsi.imf.org/fsitables.aspx.
1/ As of December 2012 unless otherwise noted.
* As of June, 2012 ** As of July, 2012.
2/ Comprises Guatemala, El Salvador, Honduras, Panama, and the Dominican Republic.
3/ Comprises Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

recorded for 12 out of 16 MDGs: extreme poverty has declined somewhat, primary enrollment has risen (albeit from low levels), and maternal mortality has fallen. However, a third of the population is below the minimum dietary energy consumption, and chronic malnutrition of children younger than 5 years is pervasive at about 50 percent. At the same time, the level of informality remains very high, while security concerns are very serious.

MACROECONOMIC OUTLOOK AND RISKS

12. **The authorities agreed that the macroeconomic outlook remains benign.** Growth is expected to return to its trend rate of 3½ percent into the medium term, supported by ongoing buoyant domestic demand and private sector credit, while inflation converges toward the center of the CB's target range. The external current account deficit, largely financed by FDI, stays around 2½ percent of GDP until 2019, underpinned by robust export prices. This baseline scenario envisages a broadly neutral budget stance in 2014 and modest fiscal expansion through the 2015 election cycle, with measured consolidation thereafter. By 2019, the central government (CG) deficit is projected to stabilize at 2 percent of GDP with gross financing needs hovering around 3–3½ percent of GDP in the next five years—among the lowest in the region—and public debt rising slowly to around 27 percent of GDP.

The Outlook for Guatemala is Generally Positive, but Structural Weaknesses Will Constrain Growth
Guatemala: Baseline Scenario

					Projections					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					(Annual percent change)					
Real GDP	2.9	4.2	3.0	3.7	3.4	3.7	3.6	3.5	3.5	3.5
Consumer prices (end of period)	5.4	6.2	3.4	4.4	4.0	4.3	4.2	4.1	4.1	4.0
					(In percent of GDP, unless otherwise indicated)					
Central government balance	-3.3	-2.8	-2.4	-2.1	-2.1	-2.2	-2.1	-2.1	-2.0	-2.0
Central government primary balance	-1.8	-1.3	-0.9	-0.6	-0.5	-0.7	-0.6	-0.5	-0.4	-0.4
Public sector debt	24.4	23.9	24.6	24.8	25.2	25.6	26.0	26.3	26.6	26.9
Current account balance	-1.4	-3.4	-2.6	-2.7	-2.3	-2.5	-2.5	-2.5	-2.5	-2.5
Capital and financial account	4.4	6.5	4.5	4.7	2.9	2.5	2.5	2.5	2.5	2.5
External debt	27.4	27.5	28.1	29.5	27.9	26.2	24.7	23.4	22.2	21.0
Reserve adequacy 1/	150.3	139.0	139.6	137.1	126.5	120.4	114.4	108.4	103.0	96.8
Output gap 2/	-0.9	0.0	-0.3	0.0	-0.1	0.1	0.1	0.0	0.0	0.0
Fiscal impulse	-0.2	-0.8	0.1	-0.3	0.0	0.2	-0.1	0.0	-0.1	0.0

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).
2/ In percent of potential output.

13. **However, near-term risks are prevalent on the downside, owing to global uncertainties and domestic policy constraints** (as detailed in the Risk Assessment Matrix):

Guatemala: Risk Assessment Matrix (RAM)[1]

	Up/down	Risk	Impact	Policy Response
Surges in global financial market volatility, triggered by geopolitical tensions or revised market expectations on UMP exit/emerging market fundamentals, which could lead to pressures in the exchange rate market, acceleration of inflation and capital outflows, and a substantial increase in government financing cost.	↓	H	M	The central bank should stand ready to increase the policy rate and step up liquidity absorption promptly if inflationary pressures emerge. Fiscal consolidation should continue to reduce external financing needs and XR flexibility should be enhanced.
Protracted period of slower growth in advanced and emerging economies:				Implement structural reforms to spur growth from domestic sources. Increase fiscal and monetary policy space for maneuver in case domestic stimulus is needed, including by raising revenues and monetary policy rates in case inflationary pressures emerge as well as by increasing exchange rate flexibility to make economy more resilient to external shocks.
Advanced economies: Lower-than-anticipated potential growth and persistently low inflation due to a failure to fully address legacies of the financial crisis, leading to secular stagnation.	↓	H	H	
Emerging markets: Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	↓	H	H	
Growth slowdown in China:				
Continued buildup and eventual unwinding of excess capacity, eventually resulting in a sharp growth slowdown and large financial and fiscal losses (medium-term)	↓	M	H	
Significant slowdown of growth in 2014. Growth may fall significantly below the authorities' target, with the slowdown caused by a variety of possible reasons and absent offsetting stimulus measures.	↓	L	H	
A sharp increase in geopolitical tensions surrounding Russa/Ukraine that creates significant disruptions in global financial, trade and commodity markets.	↓	M	H	Allow full pass-through, maintain strict wage policy, and strengthen social safety net. Tighten monetary policy if inflation expectations rise.
Heigtened geopolitical risks in the Middle East, leading to a sharp rise in oil prices, with negative spillovers to the global economy.	↓	H	H	
Sustained decline in commodity prices, triggered by deceleration of global demand and coming-on-stream of excess capacity (medium term).	↓	M	L	Use the exchange rate and international reserves as shock absorber.
Weaker public revenues. (Driven by tax reform reversal and/or introduction of tax incentives).	↓	H	M	Reach consensus with stakeholders on the need for tax revenue reforms. Spending cuts should safeguard social and investment programs.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

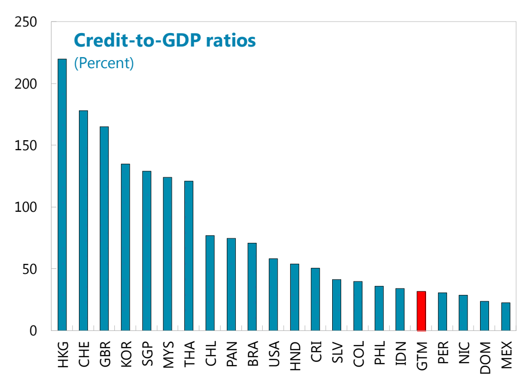
- ***External conditions.*** Risks related to the normalization of monetary policy in the U.S. are balanced. If U.S. growth accelerates faster than expected, the positive spillover effects—U.S. is the destination of 40 percent of Guatemalan exports and primary source of remittances—could spur growth in Guatemala and more than offset tighter global financial conditions in the short run, if exit is orderly (AN III). However, extreme bouts of volatility could inflict serious damage. Moreover, global risk realignment and intensified inflationary pressures from faster U.S. growth may push up interest rates in Guatemala more than anticipated, putting brakes on investment and growth. In addition, deeper-than-expected slowdowns in emerging markets, less favorable-than anticipated-developments in Europe, and disruptions in commodity markets due to geopolitical tensions could also hamper Guatemalan growth. The effects of global factors may be amplified by Guatemala's strong linkages with other economies in the region (AN II).

- ***Domestic risks.*** The continued lags in implementing the 2012 tax reform and the political impasse on the 2014 budget may endanger much needed government programs. On the other hand, if lower revenues were not to be met with spending cuts, the fiscal trajectory could be derailed, aggravating debt dynamics, and lowering Guatemala's resilience to shocks.

14. **Longer-term risks are also tilted downwards.** On the domestic front, insufficient revenue mobilization could persist, deterring investment in physical and human capital. In turn, this could significantly weigh on the country's growth and social prospects in the long run. A further deterioration of the security situation could also put a drag on economic expansion.

POLICY DISCUSSIONS

15. **Discussions focused on policies aimed at preserving macroeconomic stability and enhancing resilience to shocks, while supporting higher long-term inclusive growth.** In the near-term, with the output gap closed, the authorities' policy mix seems generally appropriate from an output stabilization perspective, but monetary policy, now mildly stimulatory, must stay vigilant of the possible emergence of inflationary and exchange rate pressures. At the same time, to build room to deal more effectively with shocks, it will be necessary to address persistent structural fiscal challenges, regarding both the insufficient revenue effort and inadequate expenditure management, to upgrade the monetary and XR framework, and to strengthen the financial system while setting the basis for its orderly deepening. Moreover, reducing poverty and stimulating long-term growth requires a boost to investment in physical and human capital to raise productivity, as well as institutional reform and improvements to the security situation.



Source: Fund staff estimates.

A. Near-term Policy Mix

16. **There was agreement that budget policies are adequate in the short run.** Owing to the inability of the politically divided Congress to pass a budget for 2014, the nominal expenditure and financing ceilings of the 2013 budget were carried over into 2014. Congress also increased the 2013 spending limit by ¼ percent of GDP for health and education. Consequently, it is now anticipated that the headline CG deficit will hold steady at just above 2 percent of GDP in 2014. These estimates are predicated on a modest improvement in revenue collections, execution of the 2014 budget based on a "continuing resolution" of the 2013 budget, and parliamentary approval of planned IFI disbursements. This implies a broadly neutral fiscal stance, which, with output staying at potential, was deemed appropriate by both authorities and staff.

17. **The authorities reiterated their resolve to implement fully the tax reform.** With elections in 2015, it was recognized that congressional approval for additional revenue measures is unlikely. Therefore, virtually the only prospect for increasing collections in the short term lies in settling the court challenges and addressing the implementation setbacks of the 2012 reform. The authorities concurred that this will require efforts to resolve ongoing administrative problems, notably in the customs agency.

18. **They also confirmed that any revenue and financing shortfalls will be offset by spending cuts.** Besides the problems with tax collections (¶s7, 16), another threat to spending implementation is approval of IFI loans. In this regard, the authorities noted that, in contrast to 2013, when external bonds worth US$700 were sold, in 2014 they have filled entirely with domestic issuances the total bond ceiling prescribed by the 2013 budget.[1] This still leaves a financing gap of around 1 percent of GDP to be covered by IFI loans or domestic bonds, both of which must be approved by Congress. The authorities are confident that parliamentary backing will be forthcoming, though marked delays could force some spending retrenchment. Officials stressed that Guatemala has a track record of maintaining fiscal balance through expenditure restrictions. Staff cautioned that, if shortfalls do materialize, the government should refrain from across-the-board cuts to already low public expenditure and safeguard priority social programs and investment. In addition, improvements to public financial management are needed to avoid domestic spending arrears. In this connection, staff recommended finalizing a reliable estimate of their outstanding stock, and establishing a strategy for their clearance.[2]

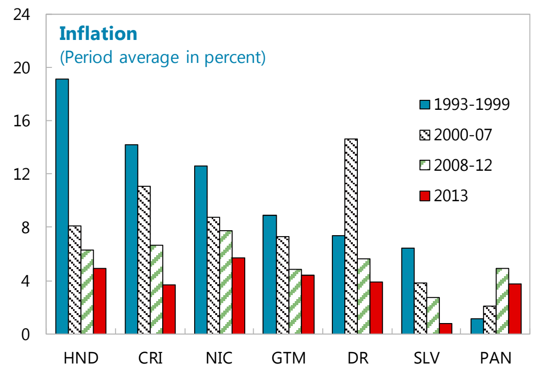
19. **The authorities attach great importance to formal adoption of the 2015 budget and staff anticipates little change in the deficit next year.** Officials acknowledged that operating on a "continuing resolution" basis constrains flexibility of budget execution and a proper 2015 budget would allow for better targeting of outlays on priority programs. At this early stage in the budget process, a fiscal deficit of about 2½ percent of GDP is envisioned for 2015, though, in light of likely persisting expenditure under-execution, staff believes it will end up being somewhat lower (below 2¼ percent of GDP). Staff argued that next year's budget should include

[1] All bonds have been issued domestically with 24 percent being denominated in U.S. dollars.

[2] The estimated stock is Q3.5 billion (¾ percent of GDP), though not certified by the Office of the Comptroller.

both the overdue and current refund to the CB to cover its operational losses. Officials concurred, but noted that the decision is up to Congress. The Central Bank has undertaken legal actions to require Congress to fulfill its obligations in that regard.

20. **Monetary policy is slightly accommodative, calling for heightened vigilance of inflation, though the authorities may contemplate further modest loosening**. Staff's analysis suggests that the monetary policy stance is somewhat expansionary, though still generally appropriate (AN V). On the one hand, the financial conditions index points to broadly stable conditions after credit growth moderated fast since the end of 2013. Moreover, headline inflation is at the bottom of the target range, core inflation is persistently low and on a declining trend, and inflation expectations have lately declined close to the mid-point of the target range. On the other hand, estimates of the neutral policy rate point to a mildly expansionary monetary stance after the cumulative 75 basis points cuts since the third quarter of 2013. In addition, bank credit continues to expand quickly and domestic demand will be further boosted by strong remittance flows. Thus, with the domestic output gap closed, food price increases starting to accelerate in the region, and increasing risks of an upturn in imported prices, staff recommended that the authorities should refrain from additional cuts to the policy rate. Indeed, the CB ought to stand ready to increase the policy rate promptly to better anchor expectations if signs of an inflation upswing emerge. The authorities affirmed readiness to tighten monetary policy if needed. Nonetheless, in their view, risks prevailed that inflation could turn out lower than currently projected through 2015, in which case there could be room for further rate cuts.



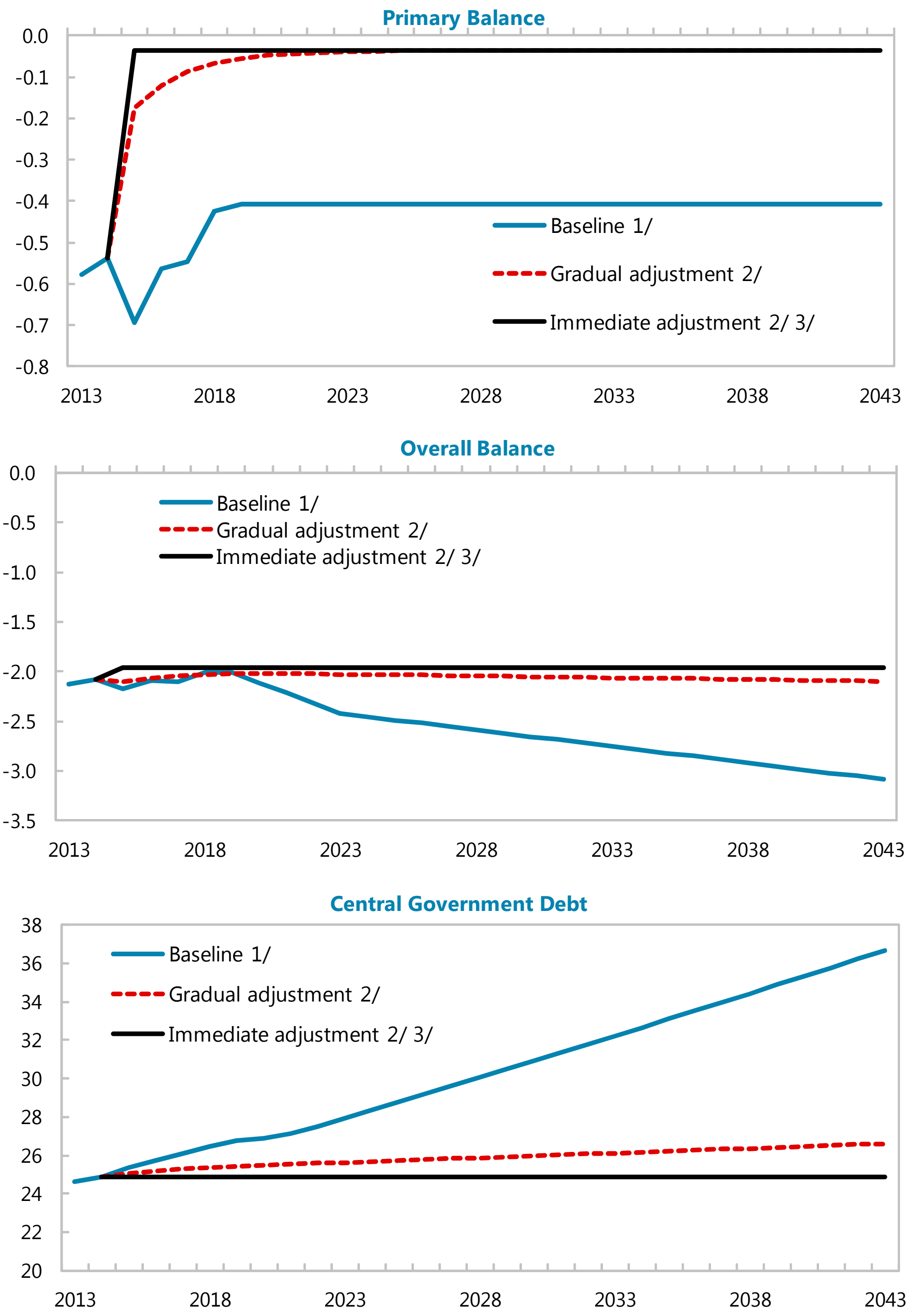
Sources: National authorities and Fund staff estimates.

B. Increasing Resilience to Shocks

Rebuilding fiscal space and enhancing fiscal sustainability

21. **The authorities recognized that continuing increases in public debt are a source of vulnerability, while stressing that risks are not immediate.** Staff projections show government debt as a share of GDP increasing into the medium term, though slowly, even at the current low level of interest rates. Moreover, public debt ratios could resume a faster ascent if the politically-induced funding problems that have constrained spending since 2013 are resolved. Staff noted that Guatemala cannot rely comfortably on debt financing for prolonged expansionary counter-cyclical policies. Funding risks could escalate rapidly, especially in light of the low government revenues and fairly high debt-to-revenue ratio compared to its peers. And shallow domestic financial markets (with a highly concentrated investor base and virtually non-existing secondary government debt market) as well as political rigidities that curtail access to multilateral lending provide thin coverage against spikes in global risk aversion.

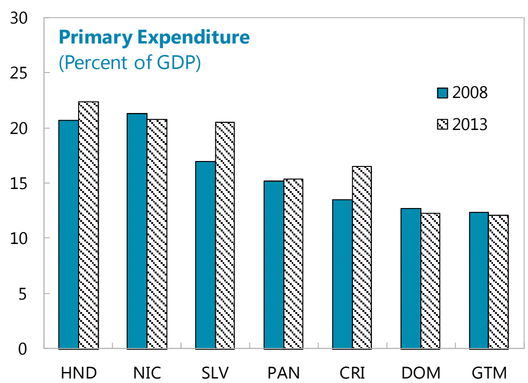
Guatemala: Long-Term Fiscal Sustainability
(Percent of GDP)



1/ This path is the baseline through 2019, with a constant primary balance thereafter.
2/ Adjustment begins in 2015. Assumes a long-run real interest rate greater than the potential growth rate for the whole period.
3/ Assumes that the full fiscal adjustment takes place in 2015 and has no impact on growth.

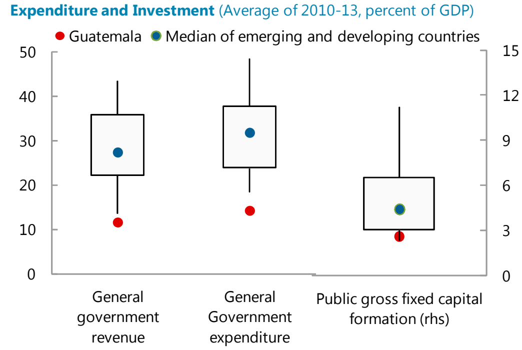
22. **Hence, it was agreed that fiscal sustainability should be gradually bolstered over the medium term**. Stabilizing the debt-to-GDP ratio at its current level—thereby unlocking the ability to implement expansionary counter-cyclical policies without exacerbating budget funding risks—would require a permanent improvement in the primary balance of about ½ percent of GDP (AN IV). If the actuarial deficit of the social security system were taken into account, the sustainability gap would be correspondingly larger. With no pressing cyclical need for cooling off measures, domination of downside risks to growth, and estimated fiscal multipliers of about 0.4 on average (with activity at potential, multipliers tend to be lower), staff advised a moderately paced adjustment beginning in 2015–16 with modest frontloading and spaced over several years, that would strike the right balance between reducing the sustainability gap and limiting the negative impact on growth. This conclusion is supported also by the positive impact from faster growth in the U.S. and minimal spillovers from fiscal policy tightening in trading partners (AN II). The authorities reiterated their intention to reflect medium-term consolidation requirements, already included in the 2013 medium-term budget, in the formulation of the 2015 budget.

23. **The authorities favored additional efforts to mobilize revenue beyond budget consolidation needs.** Guatemala needs not only to achieve long-term fiscal sustainability, but also to maintain macro stability while addressing pressing social needs and paving the way toward high, inclusive long-term growth. Meeting these objectives will depend upon raising the currently low level of government revenues to support priority public spending. In particular, staff counseled reducing tax expenditures (equivalent to about 8 percent of GDP), and realigning VAT rates (from 12 to 14 percent) with those prevailing in the region. Lowering the currently high degree of revenue earmarking (about 50 percent) will also be important to widen the fiscal adjustment toolbox. In this regard, staff cautioned that tax exemptions and other special treatments included in the draft competitiveness law currently under consideration by congress could threaten fiscal revenue. Weaknesses in tax administration accentuate this concern.

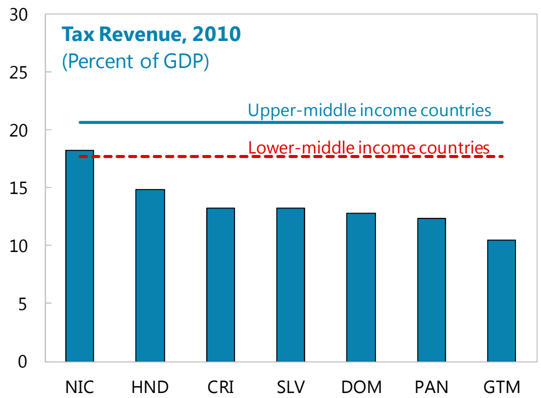


Sources: National authorities and Fund staff estimates.

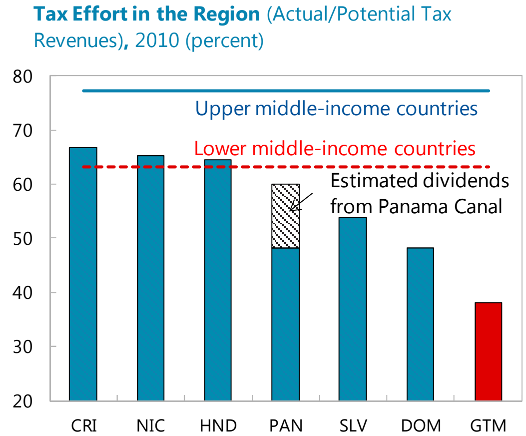
Guatemala and Emerging and Developing Countries: Public Revenue, Expenditure and Investment (Average of 2010-13, percent of GDP)



Sources: WEO and Fund staff estimates.
Whiskers represent the 5th to 95th percentile range.
The box represents the 25th to 75th percentile range.

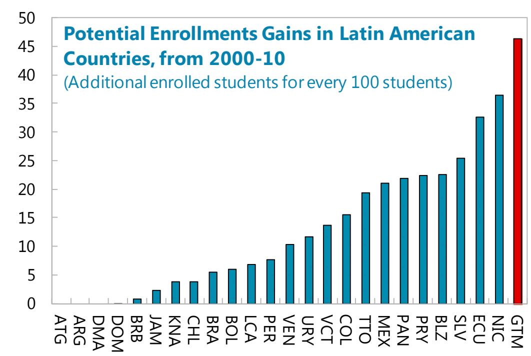


Sources: National authorities and Fund staff estimates.



Sources: National authorities and Fund staff estimates.

24. **There was also support for strengthening budgetary management and improving the efficiency of public expenditure.** Officials explained that the recently approved amendments to the Organic Budget Law can enhance transparency and efficiency of public spending and help reallocate resources toward high priority areas. In turn, this would strengthen the credibility of government policies and break the widespread culture of tax avoidance. The delays in approval of IFI loans in 2013 highlighted the need to streamline the approval of official financing, thus preventing the under-execution of IFI-supported spending and also providing room for a greater counter-cyclical cushion, if needed. Staff stressed that a key element of such a reform would be a requirement for Congress to approve all government financing—including external loans—as part of any overall budget package.



Source: Grigoli, F. (2014) "A Hybrid Approach to Estimating the Efficiency of Public Spending on Education in Emerging and Developing Economies". IMF Working Paper.

Strengthening the financial system and setting the basis for its orderly deepening

25. **The authorities concurred that monetary policy transmission should be reinforced to anchor further low and stable inflation**. The transmission channels of monetary policy remain feeble, while pass-through effects from commodity prices continue to influence inflation heavily. Staff identified a four-pronged approach for enhancing monetary policy transmission. First, it is desirable to continue raising gradually XR flexibility, credibly conveying to the public that the inflation target is the monetary authorities' primary objective. In this regard, consolidating the operational independence of the CB from government and private sector interests would be important. Second, efforts ought to be stepped up to de-dollarize credit, mainly by allowing the XR to fluctuate and thereby forcing agents to internalize FX risks and promote hedging. Additional prudential measures for dollar credit could also be adopted (¶26). Third, public debt and private securities markets need to be developed. To this end, it is also important to finalize the draft capital markets law in compliance with IOSCO best practices and

enact it. Finally, the framework for monetary operations—including with technical assistance from the Fund—should be further refined. The authorities broadly endorsed this advice, though emphasizing that the rule-based FX intervention allows for significant XR flexibility over time and CB intervention has been minimal. Staff observed that the regime introduced in 2005 has not been seriously tested so far and the risk exists that, if strong pressures for depreciation arose, serious loss of reserves might occur.

26. **Officials saw private credit growth as generally appropriate, but acknowledged the need for greater vigilance.** It was recognized that credit expansion has recently moderated, but that the slant of new loans toward foreign currency warrants caution, especially given the growing reliance on external credit lines. Moreover, while there is no immediate cause for concern, continuation over a long period of high rates of credit expansion could eventually undermine stability of the financial system. At the same time, it was noted that Guatemala's financial system is shallow and financial deepening will require moderate but sustained credit growth over that of nominal GDP. Staff advised that macro-prudential measures be considered, notably higher reserve requirements for dollar-denominated deposits, higher capital requirements for FX loans to non-exporters, and the prohibition of FX mortgage and consumer credit, particularly should evidence emerge of deterioration in the loan portfolio. Staff also recommended that extension of the loan register system to non-bank lenders would improve monitoring of household leverage.

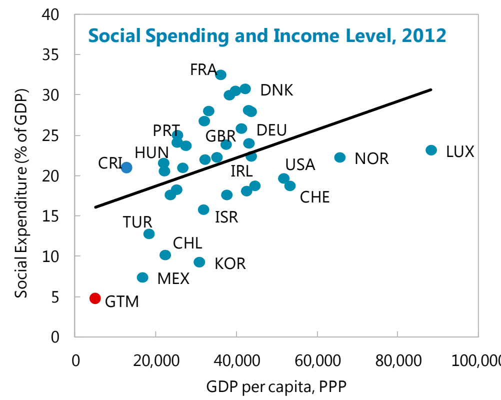
27. **There was agreement that efforts to buttress regulation and supervision of the financial system should progress further.** Consistent with the findings of the 2014 FSAP update, staff highlighted that significant reforms have been undertaken in response to the previous FSAP in 2006, but stressed that urgent efforts are still needed. In particular, the danger of overestimating capital levels always exists. This could be exacerbated by flaws in consolidated supervision–including lack of a definition of economic group for supervisory purposes–, insufficient supervision of financial entities that pose material risks to the conglomerate, and lax definitions of related parties and controlling interests. Moreover, the special nature of off-shore banks (operating in Guatemala but incorporated in other countries) still poses systemic risks. In light of comfortable core tier 1 capital levels in the banking sector, its high profitability, and excess systemic and individual liquidity levels, staff indicated that the time is appropriate to require higher capital and liquidity buffers to raise resilience to adverse shocks. In this regard, a phased move to Basel III standards appears the right course of action. Filling in data gaps and adopting robust methodologies for financial stability analysis should be a policy priority. Finally, further strengthening on the anti-money laundering (AML) framework would assist the authorities in their efforts to address financial crimes and corruption.

28. **The authorities also concurred that rising financial interconnectedness presents opportunities but also risks.** Financial systems in CAPDR are becoming increasingly integrated. Growing economic ties, economies of scale, and regulatory arbitrage provide incentives for the development of regional financial conglomerates. Guatemala is well involved in this process, with Guatemalan banks expanding operations in the region and foreign investors, particularly from Colombia, have taken a larger stake in Guatemalan banks. Ongoing financial integration may bring important benefits, but it increases contagion concerns in case of a banking crisis. Regional financial integration also poses challenges for consolidated and transnational supervision of

financial conglomerates with implications for risk management. To capitalize on the opportunities, officials are taking steps to implement regulation and supervision arrangements that minimize regulatory gaps, arbitrage, and cross-border contagion.

C. Poverty Reduction and Achieving Higher Long-Term Inclusive Growth

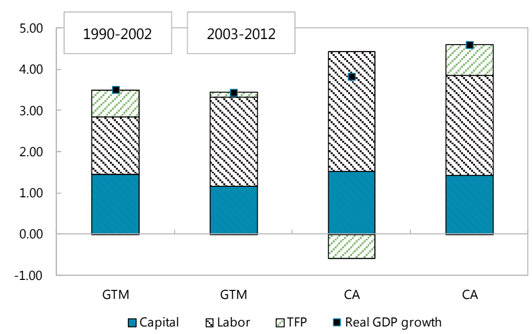
29. **The authorities are persuaded that enhanced social spending could stimulate potential growth.** Beyond the inherent benefit of reducing poverty and hunger, effective action by the public sector has the potential to improve social indicators and human capital, which impinge directly on productivity. This is critical to foster competitiveness and sustain growth, and to integrate fully the vulnerable groups into Guatemala's social fabric, which would also alleviate the severe security risks exacerbated by the high degree of inequality. Measures which could spur growth include: (i) better targeting of social spending, particularly with better monitoring of transfers to NGOs; (ii) strengthening infrastructure links to foster regional trade; and (iii) accelerating implementation of hydroelectric and mining projects (subject to alleviation of the possible adverse impact on rural and indigenous populations). Social initiatives already underway, susch as the Zero Hunger Plan, have proven effective and provide a benchmark for future programs.



Sources: OECD, Social Expenditure Database and Fund staff estimates.

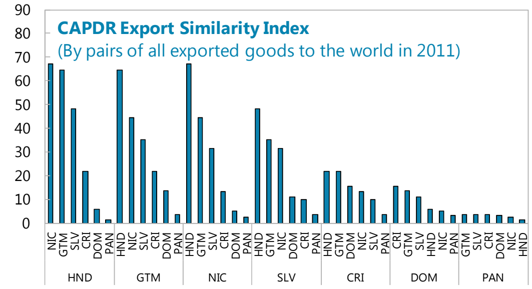
30. **The authorities see also scope for fostering greater productivity through structural reforms to improve the business climate and reduce violence.** They are trying to ease the growth of firms through their competitiveness agenda and several legislative initiatives, including one that aims to improve labor force flexibility and diminish informality, though this remains stalled in Congress. Staff underscored the importance of reducing anti-competitive practices and limiting the influence of vested interests. An expected increase in the police force would further buttress security. While staff agreed that the Public-Private Partnerships (PPP) framework should be used to catalyze high-quality investment and infrastructure, it cautioned that there is a need to strengthen controls to limit fiscal risks emanating from PPPs, in particular, by granting the Ministry of Finance more powers to monitor and manage contingent fiscal risks.

Central America: Contribution to Real GDP Growth
(Annual average, percent)



Sources: World Bank World Development Inidicators, WEO, and Fund staff estimates.

31. **There was agreement that continued progress on regional and international integration can spur growth.** It was emphasized that the region should complete the customs union, by harmonizing regulations and trade rules, and further integrate also services and factor markets. The authorities took note that Guatemala's real GDP growth may increase by up to 0.8–1.6 percentage points per year by improving logistics, increasing partner diversification, deepening integration into global production chains, and raising technological sophistication of exports to the levels of the five largest Latin American countries and the EU.[3] Competitiveness could be augmented by market enlargement (from 14 to over 40 million people) and pooling resources for infrastructure and trade. Economies of scale could boost investment, and lowering intraregional trade costs would improve resource allocation.



CAPDR Export Similarity Index
(By pairs of all exported goods to the world in 2011)

Sources: UN Comtrade database and staff calculations.
The export similarity index between two countries is computed according to the equation below, where $s(i, c_j)$ represents the share of good i in country c_j's exports. The calculations are based on the Harmonized System (HS) trade statistics at 6-digit level.

$$\mathrm{sim}(c_1, c_2) = 100 \cdot \sum_i s(i, c_1) \cdot s(i, c_2) \Big/ \sqrt{\sum_i s(i, c_1)^2} \cdot \sqrt{\sum_i s(i, c_2)^2}$$

[3] See S. Medina Cas, A. Swiston and L. Barrot, 2012, "Central America, Panama, and the Dominican Republic: Trade Integration and Economic Performance", IMF Working Paper 12/234.

STAFF APPRAISAL

32. **The Guatemalan economy is broadly sound and the macro outlook largely positive. Eme**rging from the 2008–09 global financial crisis, activity rebounded quickly. Growth has now eased back to potential, the output gap is closed, and inflation is contained. The financial system appears robust and the current account deficit is stable, supported by a steady trade balance and remittance flows, and largely financed by FDI. Growth is expected to remain generally in line with its trend rate, supported by buoyant domestic demand, while inflation converges toward the center of the target range. However, risks are tilted to the downside, owing both to global uncertainties and domestic policy constraints.

33. **Short-term fiscal policy is generally appropriate, but consolidation of the tax reform and adoption of a budget for 2015 are critical.** With the output gap essentially closed, the current broadly neutral budget stance is appropriate. However, efforts to address implementation setbacks to the 2012 tax reform are urgently needed, notably by strengthening taxpayer compliance, particularly in customs. Timely approval of multilateral loans this year will also be important to support effective spending execution. Congressional passage of the 2015 budget will facilitate targeting of outlays.

34. **Monetary policy is mildly expansionary and caution must be exercised for possible re-emergent inflationary pressures.** Headline inflation is currently close to the bottom of the target range, inflation expectations have lately declined close to the mid-point of the target range, and core inflation remains low. After recent cuts to the policy rate, the monetary stance is slightly supportive, though still generally appropriate. Considering that activity is at potential, pressures on food prices are on the rise in the region, and risks of higher import prices are growing, there is no room for additional cuts to the policy rate. Indeed, the authorities should stand ready to increase the rate promptly if signs of an inflation upswing emerge.

35. **Fiscal sustainability should be progressively strengthened over the medium term.** While low as a percentage of GDP, public debt is fairly high as a share of revenue and has been steadily increasing since the crisis, which may eventually generate vulnerabilities. Therefore, the debt-to-GDP ratio should be stabilized. This would require a permanent improvement in the primary balance of about ½ percent of GDP. With no pressing cyclical need for tightening and risks to growth weighed to the downside, a moderately paced and modestly frontloaded adjustment beginning in 2015 is recommended.

36. **Revenue mobilization and improvements to public expenditure management must support budgetary adjustment.** Raising revenues is needed not only for achieving long-term fiscal sustainability and maintaining macro stability, but also for stepping up spending on health, education, security, and infrastructure, thereby enhancing the growth potential of Guatemala. To lift collections, it is necessary to improve tax and customs administration, reduce tax expenditures, and align VAT rates with those prevailing in the region. The draft competitiveness law should be revised to allay concerns that tax exemptions and other special treatments in the current proposal could lead to significant revenue losses. Steps are also needed to reinforce budgetary management and improve the efficiency and flexibility of public expenditure, not least by reducing revenue earmarking and streamlining the approval of official external financing.

37. **Further deepening of monetary policy transmission should be pursued.** This strengthening will enhance the ability of the CB to respond in a timely and effective fashion to changes in the outlook for inflation and macro conditions more generally. To this end, it would be desirable to reinforce inflation as the primary objective of monetary policy, including through a gradual enhancement of XR flexibility that may also help de-dollarize the economy. Development of domestic securities markets would also be helpful, which requires finalizing the draft capital markets law in compliance with IOSCO best practices and enacting it. Additionally, this will facilitate further refinement of monetary operations.

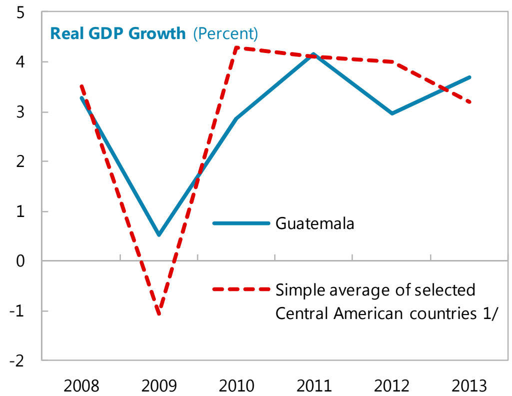
38. **Efforts to bolster regulation and supervision of the financial system must progress further, while monitoring carefully the strong credit growth.** The 2014 FSAP update identified the need to strengthen consolidated supervision and supervision of financial entities that pose material risks to conglomerates, as well as to tighten definitions of related parties, in order to mitigate risks of overestimating capital. Moreover, it would be advisable to step up the ring-fencing of on-shore banks with respect to the operations of off-shore banks. Solid core tier 1 capital in the banking system, its high profitability, and excess systemic and individual liquidity levels indicate that the time is ripe for a gradual introduction of Basel III standards. This would establish capital and liquidity buffers that raise resilience to adverse shocks. Regional financial integration highlights the necessity to implement regulatory and supervisory arrangements that minimize regulatory gaps, arbitrage, and cross-border contagion. Private credit continues to expand quickly, though its pace has moderated recently, with the slant of new loans toward foreign currency and consumer financing. A close watch must be kept for signs of worsening in credit quality. Especially if these materialize, macro-prudential measures, notably higher capital requirements for FX loans to non-exporters, ought to be considered.

39. **Enhanced social spending, structural reforms, and greater regional integration would pave the way toward high inclusive long-term growth.** Notwithstanding the progress made toward meeting the Millennium Development Goals targets, poverty remains widespread and security concerns are very serious. Higher social spending would not only help reduce poverty, but also build a skilled and productive labor force, thereby fostering competitiveness and sustaining growth. There is also scope to enhance productivity through structural reforms to improve the business climate, reduce anti-competitive practices, limit the influence of vested interests, and combat crime. Greater regional integration through the completion of the customs union, harmonization of trade rules, and further integration of services and factor markets would also boost Guatemala's growth potential.

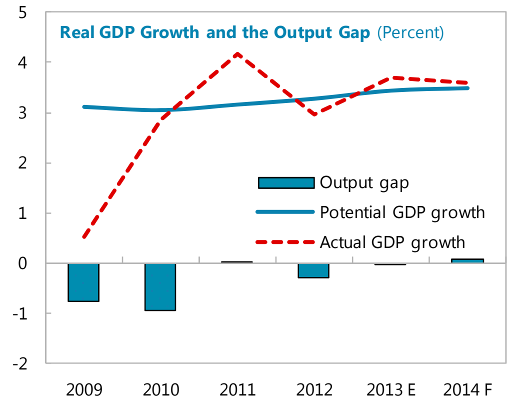
40. **It is recommended that the next Article IV consultation be held on the standard 12-month cycle.**

Figure 1. Guatemala: Recent Developments, Real Sector

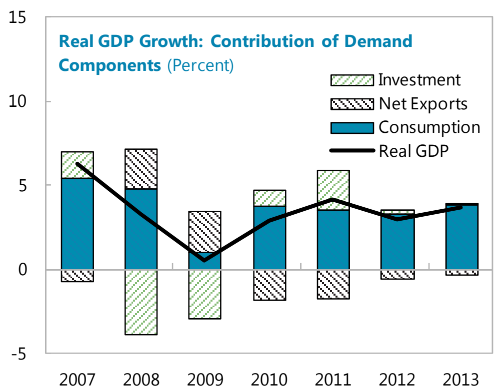
In contrast to other countries in the region, Guatemala saw an improvement in growth in 2013.



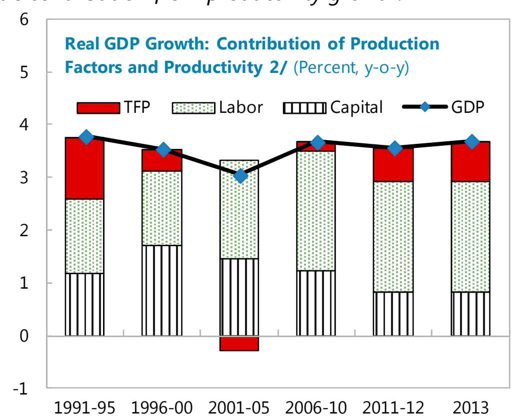
Growth has slightly exceeded potential and the output gap is essentially closed.



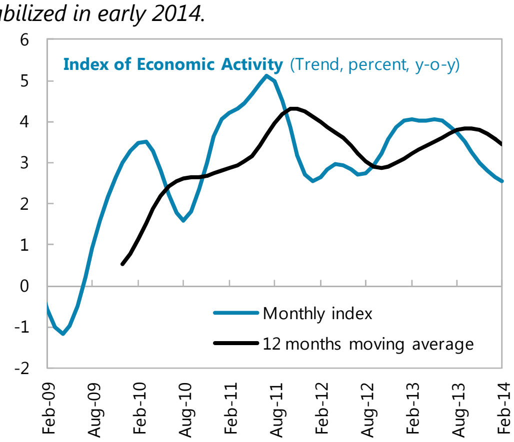
Growth has been largely driven by healthy private consumption...



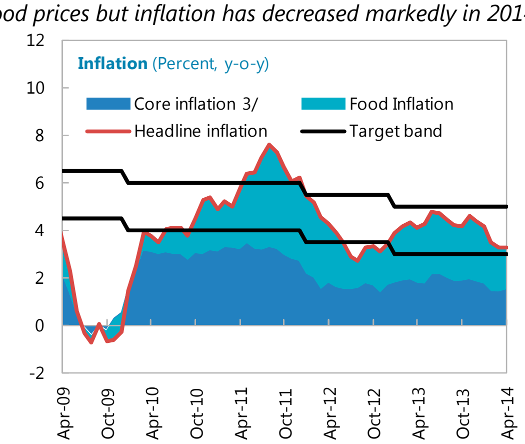
... and has mostly reflected labor factor accumulation with little contribution from productivity growth.



High-frequency indicators suggest that growth has stabilized in early 2014.



The hike in inflation in early 2013 was driven by fast rising food prices but inflation has decreased markedly in 2014.



Sources: National authorities and Fund staff estimates.

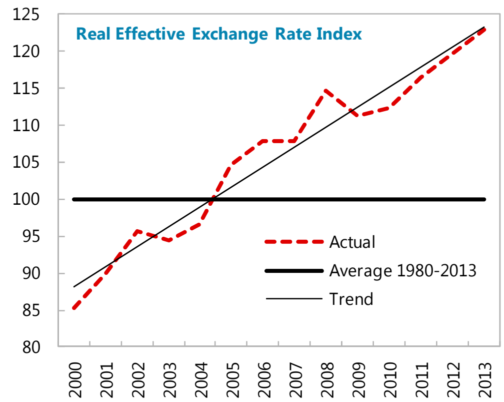
1/ Selected Central American countries include Costa Rica, Honduras, Nicaragua, El Salvador and the Dominican Republic.

2/ Estimates from growth accounting exercise using the production function approach.

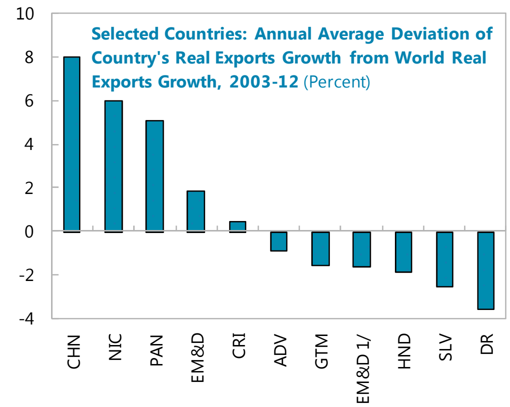
3/ Core inflation computed as headline excluding food.

Figure 2. Guatemala: Recent Developments, External Sector

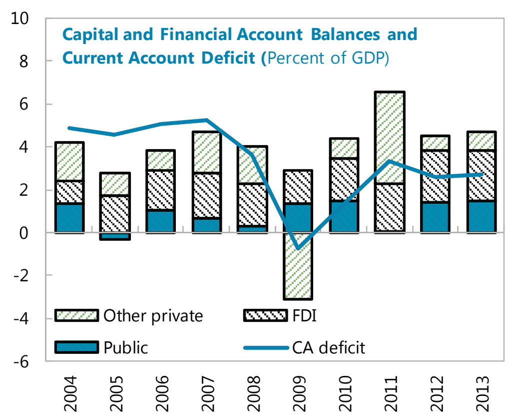
Despite a substantial real effective exchange rate appreciation over the past decade...



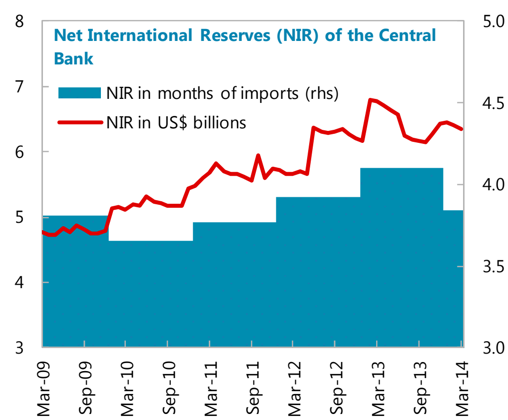
...and the loss of the market share, commensurate with that in other emerging markets, excluding China and the Asian Tigers,...



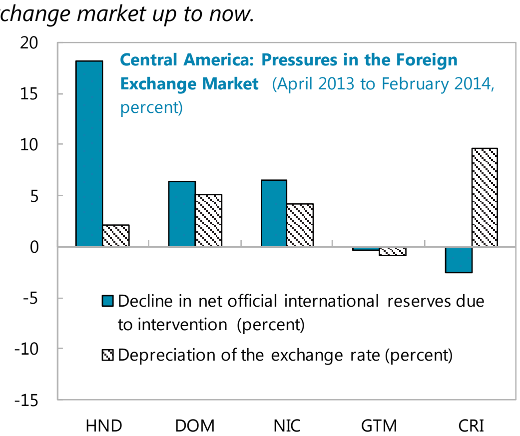
...the current account deficit has declined over the past decade and widened only modestly in 2013 remaining comfortably financed by FDI and public sector borrowing.



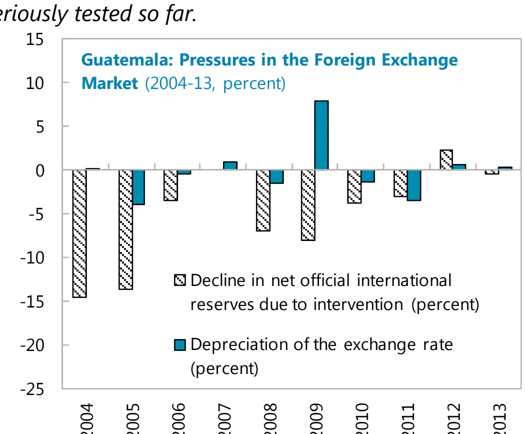
The international reserve position remains robust...



...with little impact from U.S. tapering on the foreign exchange market up to now.



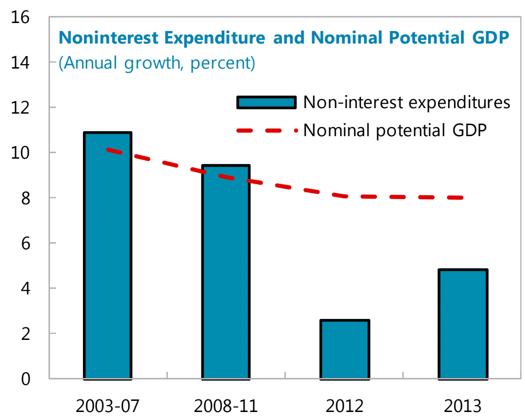
In fact, the FX regime introduced in 2005 has not been seriously tested so far.



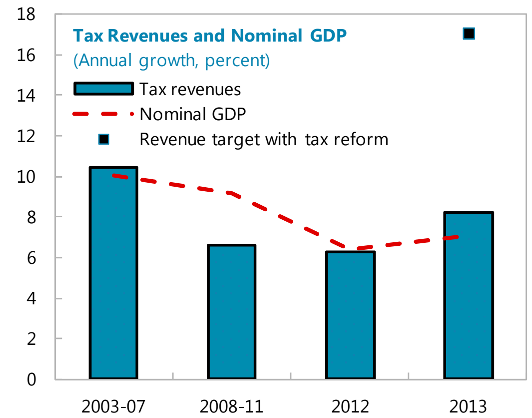
Sources: National authorities and Fund staff estimates.
1/Excludes China and Asian Tigers (Hong-Kong, Singapore, Korea, Taiwan, Indonesia, Malaysia, Philippines and Thailand).

Figure 3. Guatemala: Recent Developments, Fiscal Sector

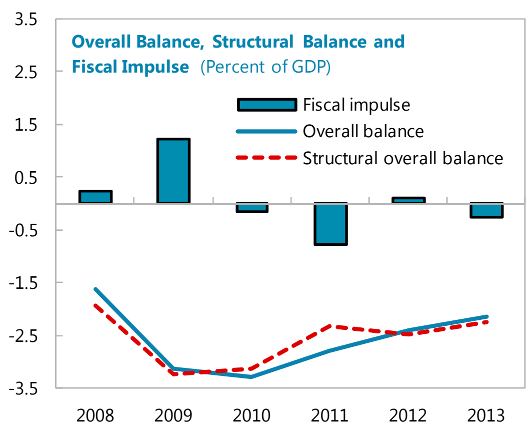
Public expenditure growth in 2013 remained contained...



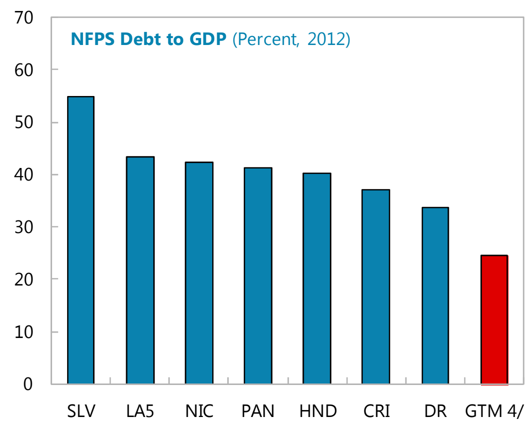
...while the 2012 tax reform failed to generate substantial revenue gains...



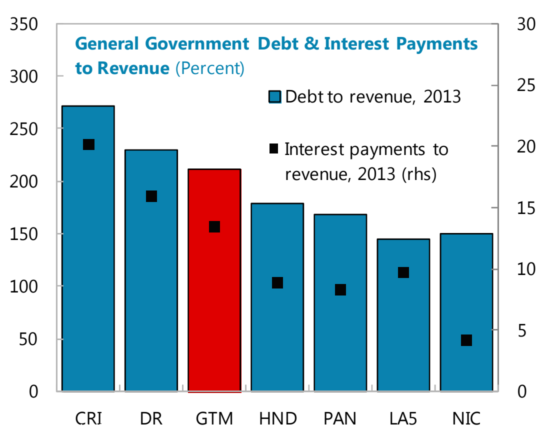
...resulting in a slight improvement in the fiscal balance.



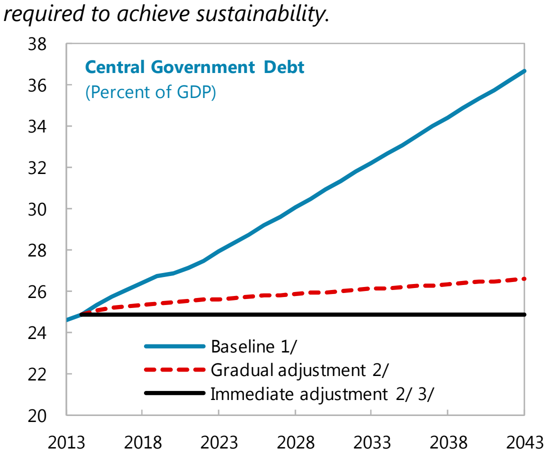
Public debt is low when measured in relation to GDP...



... but not compared to government revenues.



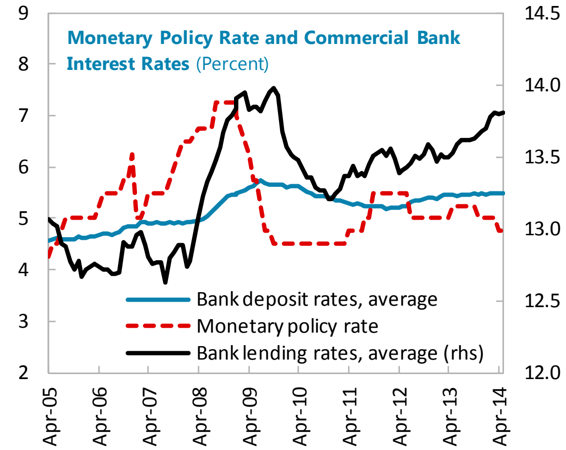
A moderate fiscal adjustment over the medium term is required to achieve sustainability.



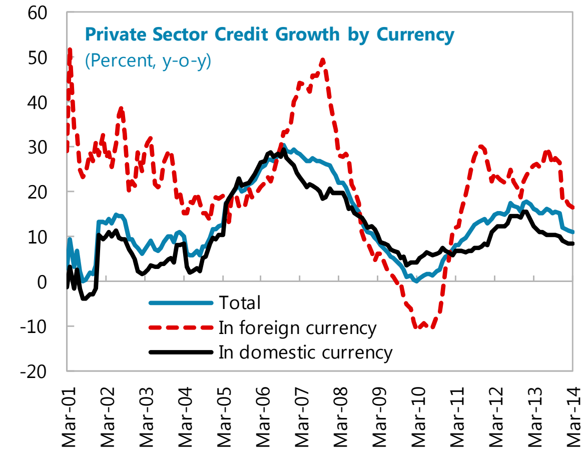
Sources: National authorities and Fund staff estimates.
1/ This path is the baseline through 2019, with a constant primary balance thereafter.
2/ Assumes a long-run real interest rate greater than the potential growth rate for the whole period.
3/ Assumes that the immediate fiscal adjustment has no impact on growth.
4/ Guatemala data is for the central government.

Figure 4. Guatemala: Recent Developments, Financial Sector

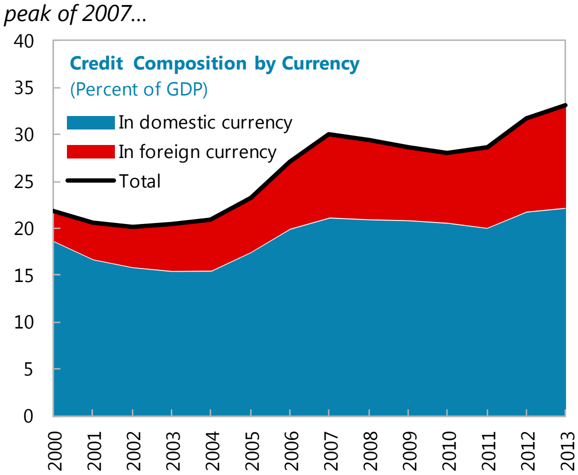
Despite some recent monetary policy easing, bank lending rates have risen very modestly.



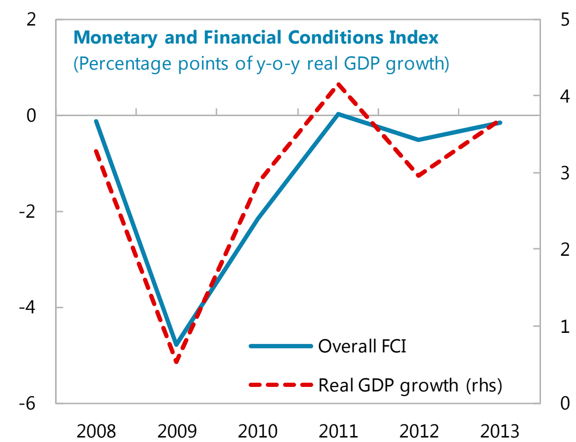
Credit has grown rapidly, slanted toward foreign currency loans, though growth slowed by end-2013.



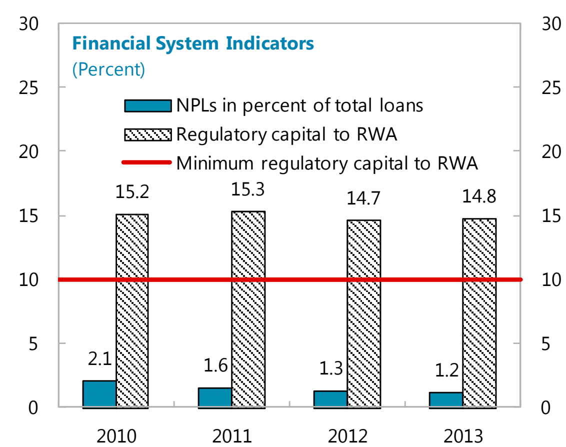
Total credit as a share of GDP only slightly exceeded its peak of 2007…



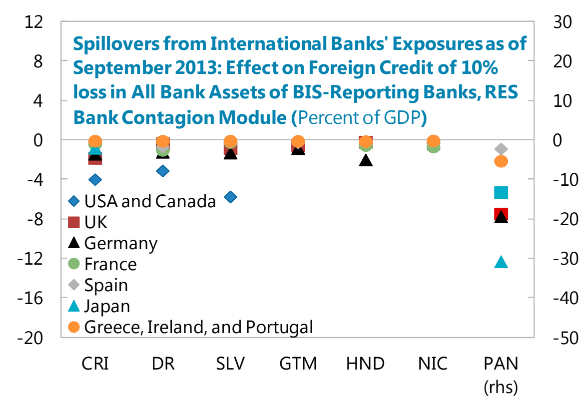
…and overall financial conditions remained broadly stable.



Banks meet minimum regulatory capital norms, non-performing loans are low….



..and the financial system is generally robust to spillovers from asset quality shocks in advanced countries.

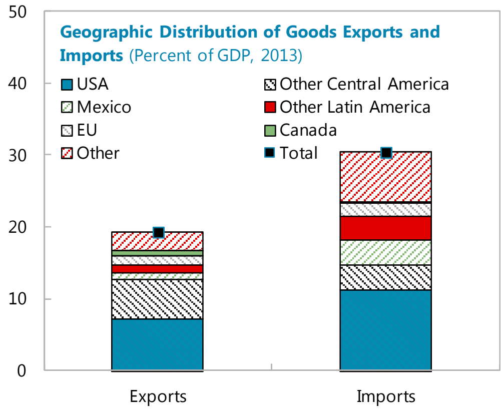


1/ In Panama, the loss of credit includes credit by banks in the off-shore center with minimal links to the domestic economy.

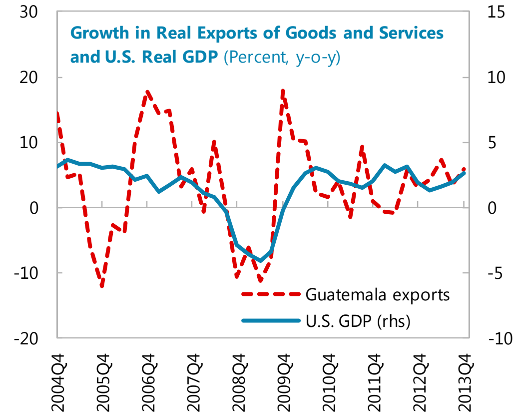
Sources: BIS, national authorities, and Fund staff estimates.

Figure 5. Guatemala: The Impact of U.S. Tapering

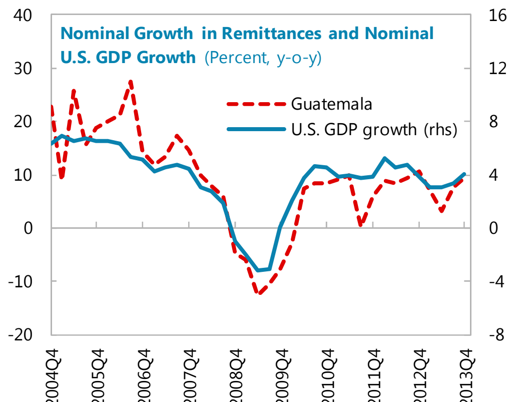
Guatemala has substantial trade ties with the U.S.



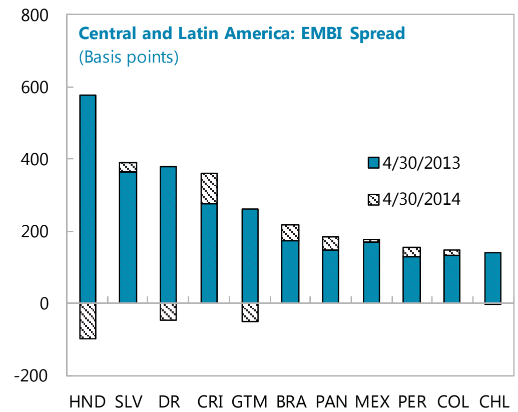
While its exports growth is statistically significantly correlated with U.S. GDP growth, the bivariate correlation is not very strong.



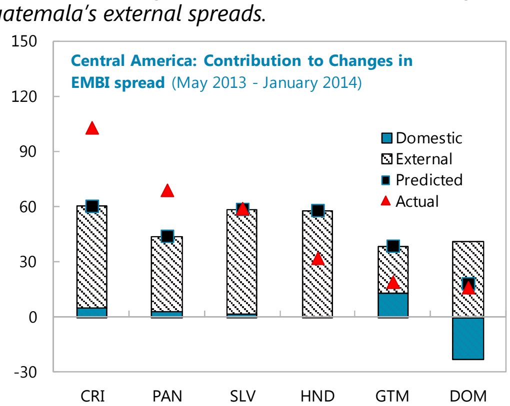
The correlation of growth in remittances, comprising 10 percent of GDP, with U.S. growth, however, is very pronounced.



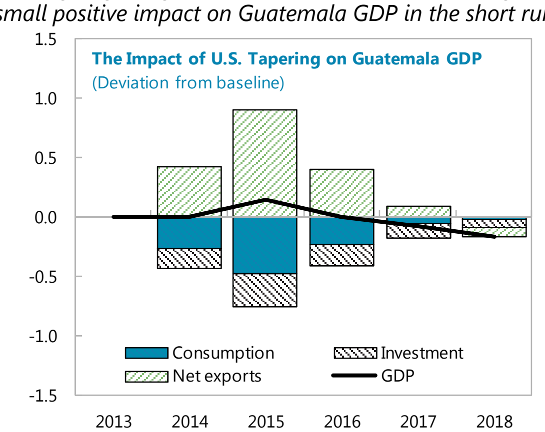
The market perception of risk in Guatemala has been relatively low and the mid-2013 risk premium increase has been reversed.



Empirical evidence suggests that relatively strong fundamentals mitigated the impact of U.S. tapering on Guatemala's external spreads.



The positive impact from faster U.S. growth is likely to outweigh tighter global financial conditions, resulting in small positive impact on Guatemala GDP in the short run.



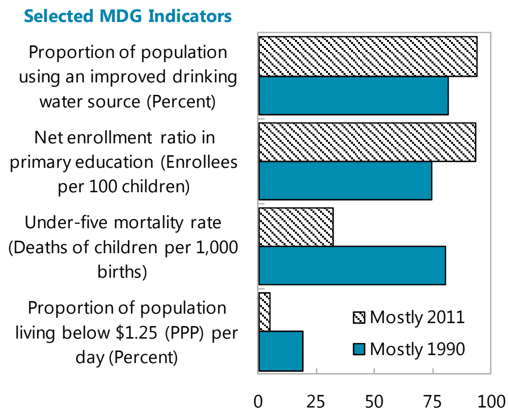
Sources: National authorities and Fund staff estimates.

1/ Based on panel regression of EMBI spreads on U.S. real interest rate, a measure of domestic fundamentals, and the interaction of U.S. real rate with domestic fundamentals.

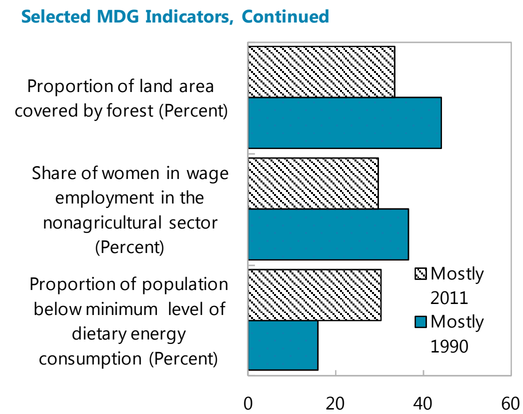
2/ The simulation entails positive U.S. real GDP growth surprise of about 1 percent relative to the baseline through 2015, triggering an earlier-than-expected tightening of Fed policy. Market interest rates rise due to an increase in risk premium outside the U.S. equal to one standard deviation in each Latin American country (for Guatemala = 100 basis points).

Figure 6. Guatemala: Social Development and Long Term Growth

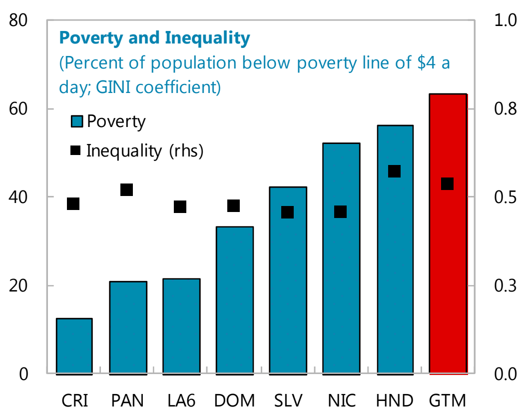
Progress has been made on some MDG goals…



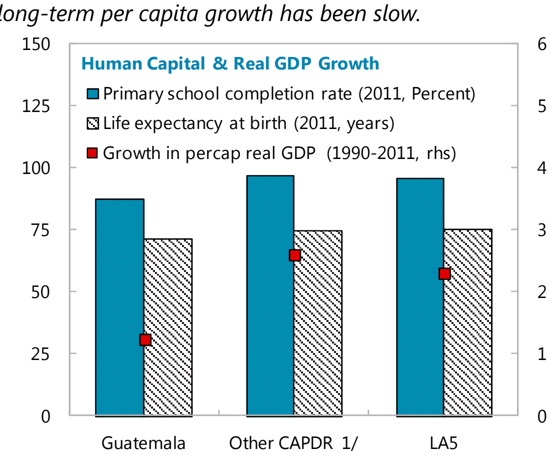
… while advances on others have stalled.



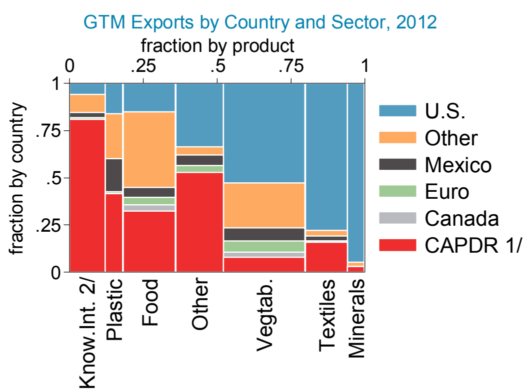
Poverty and inequality are high…



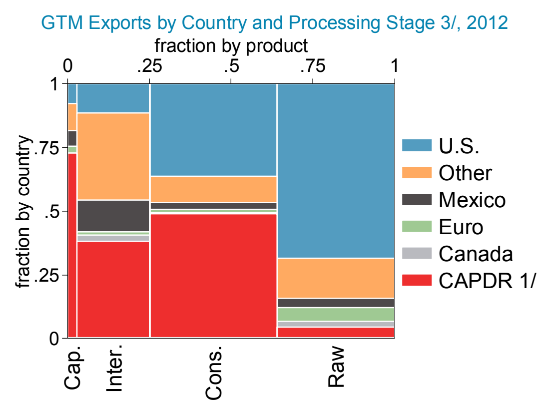
…and basic measures of human capital lag peers and long-term per capita growth has been slow.



Guatemala exports remain relatively unsophisticated, with a small share of knowledge-intensive products, and little partner diversification.



This, together with the small shares of capital goods and intermediate goods exports, suggests little involvement in global production chains.



Sources: WITS, UN Comtrade, national authorities and Fund staff estimates.
1/ Other CAPDR includes Costa Rica, Honduras, Nicaragua, El Salvador, Panama and the Dominican Republic.
2/ Knowledge Intensive products include transport, electrical equipment, machinery and chemicals.
3/ The stages of processing include capital goods, consumer goods, intermediate goods and raw materials.

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2010 (millions)	15	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)	3,234

II. Economic Indicators

					Est.	Proj.	
	2009	2010	2011	2012	2013	2014	2015
Income and Prices			(Annual percent change)				
Real GDP	0.5	2.9	4.2	3.0	3.7	3.4	3.7
Consumer prices (end of period)	-0.3	5.4	6.2	3.4	4.4	4.0	4.3
Monetary Sector							
M2	10.0	11.3	10.7	9.8	9.0	10.0	10.5
Credit to the private sector	1.1	5.7	14.1	17.7	12.0	13.0	14.0
			(In percent of GDP, unless otherwise indicated)				
Savings and Investment							
Gross domestic investment	13.1	13.9	15.2	15.0	14.2	14.3	14.5
Private sector	9.1	11.2	11.9	12.5	11.9	12.1	12.1
Public sector	3.9	2.7	2.9	2.3	2.4	2.2	2.4
Gross national saving	13.8	12.6	11.9	12.4	11.5	12.0	11.9
Private sector	12.6	12.7	11.3	12.0	10.8	11.4	11.3
Public sector	1.2	-0.1	0.5	0.3	0.7	0.6	0.6
External saving	-0.7	1.4	3.4	2.6	2.7	2.3	2.5
External Sector							
Current account balance	0.7	-1.4	-3.4	-2.6	-2.7	-2.3	-2.5
Trade balance (goods)	-8.9	-10.3	-10.4	-11.4	-11.5	-10.9	-10.9
Exports	19.3	20.6	22.1	20.0	18.9	19.2	18.9
Imports	-28.2	-31.0	-32.5	-31.4	-30.4	-30.0	-29.8
Of which: oil & lubricants	-5.5	-5.7	-6.5	-6.3	-5.9	-5.8	-5.5
Other (net)	9.6	9.0	7.1	8.8	8.7	8.5	8.4
Of which: remittances	10.5	10.0	9.2	9.8	9.8	9.5	9.4
Capital and financial account	0.5	4.4	6.5	4.5	4.7	2.9	2.5
Public sector	2.1	1.5	0.1	1.4	1.5	0.5	0.6
Private sector	-1.6	2.9	6.5	3.1	3.2	2.4	2.0
Of which: FDI	1.5	2.0	2.2	2.4	2.4	2.4	2.4
Errors and omissions	0.0	-0.8	-0.5	-0.9	-0.6	-0.6	0.0
Overall balance	1.3	2.2	2.7	1.0	1.3	0.0	0.0
Net International Reserves							
(Stock in months of next-year NFGS imports)	3.8	3.7	3.8	3.9	3.9	3.6	3.4
(Stock over short-term debt on residual maturity)	2.0	1.9	1.9	1.8	1.9	1.8	1.9
Public Finances							
Central Government							
Revenues	11.1	11.2	11.6	11.6	11.7	11.2	11.2
Expenditures	14.2	14.5	14.4	14.0	13.8	13.3	13.4
Current	10.7	11.0	11.2	11.1	10.8	10.5	10.4
Capital	3.5	3.6	3.2	2.9	3.0	2.8	3.0
Primary balance	-1.7	-1.8	-1.3	-0.9	-0.6	-0.5	-0.7
Overall balance	-3.1	-3.3	-2.8	-2.4	-2.1	-2.1	-2.2
Financing of the central government balance	3.1	3.3	2.8	2.4	2.1	2.1	2.2
Net external financing	1.3	1.5	0.1	1.5	1.5	0.5	0.6
Net domestic financing	1.8	1.8	2.7	0.9	0.6	1.4	1.6
Rest of Nonfinancial Public Sector Balance	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Combined Nonfinancial Public Sector							
Primary balance	-1.3	-1.3	-0.9	-0.5	-0.2	-0.1	-0.3
Overall balance	-2.8	-2.8	-2.4	-2.0	-1.7	-1.7	-1.8
Central Government Debt	22.9	24.1	23.7	24.3	24.6	24.9	25.3
External	13.0	13.1	11.5	12.4	12.9	12.9	12.7
Domestic 1/	9.9	11.0	12.1	11.9	11.7	11.9	12.7
Memorandum Items:							
GDP (US$ billions)	37.7	41.3	47.7	50.4	53.8	58.1	62.3
Output gap (% of GDP)	-0.7	-0.9	0.0	-0.3	0.0	-0.1	0.1

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.
1/ Does not include recapitalization obligations to the central bank.

Table 2. Guatemala: Medium-term Framework

	2009	2010	2011	2012	Est. 2013	2014	2015	Projections 2016	2017	2018	2019
	(Contribution to real GDP growth, unless otherwise stated)										
Real GDP (annual percentage change)	0.5	2.9	4.2	3.0	3.7	3.4	3.7	3.6	3.5	3.5	3.5
Domestic demand	-1.6	4.7	5.9	3.5	4.0	4.4	5.1	4.8	4.6	4.4	4.4
Public consumption	1.3	0.8	0.4	0.6	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Gross fixed investment	-2.3	-0.3	1.0	0.5	0.3	1.0	1.1	0.9	0.8	0.9	0.8
External demand	2.2	-1.8	-1.7	-0.6	-0.3	-1.0	-1.4	-1.2	-1.1	-0.9	-0.9
Exports of goods and nonfactor services	-0.7	1.6	0.8	0.5	1.3	0.6	1.1	1.2	1.2	1.2	1.2
Imports of goods and nonfactor services	2.8	-3.3	-2.5	-1.0	-1.6	-1.6	-2.5	-2.5	-2.3	-2.1	-2.1
	(In percent of GDP)										
Savings and investment											
Gross domestic investment	13.1	13.9	15.2	15.0	14.2	14.3	14.5	14.6	14.6	14.7	14.8
Gross national saving	13.8	12.6	11.9	12.4	11.5	12.0	11.9	12.0	12.1	12.2	12.3
External saving	-0.7	1.4	3.4	2.6	2.7	2.3	2.5	2.5	2.5	2.5	2.5
Balance of payments											
Current account balance	0.7	-1.4	-3.4	-2.6	-2.7	-2.3	-2.5	-2.5	-2.5	-2.5	-2.5
Trade balance (goods)	-8.9	-10.3	-10.4	-11.4	-11.5	-10.9	-10.9	-11.0	-11.0	-11.0	-11.1
Other (net)	9.6	9.0	7.1	8.8	8.7	8.5	8.4	8.4	8.5	8.5	8.6
Of which: Remittances	10.5	10.0	9.2	9.8	9.8	9.5	9.4	9.4	9.4	9.4	9.5
Capital and financial account	0.5	4.4	6.5	4.5	4.7	2.9	2.5	2.5	2.5	2.5	2.5
Public sector	2.1	1.5	0.1	1.4	1.5	0.5	0.6	0.6	0.6	0.7	0.8
Private sector	-1.6	2.9	6.5	3.1	3.2	2.4	2.0	1.9	1.8	1.8	1.7
Of which: FDI	1.5	2.0	2.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Errors and omissions	0.0	-0.8	-0.5	-0.9	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance	1.3	2.2	2.7	1.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Public finances											
Central government											
Revenues	11.1	11.2	11.6	11.6	11.7	11.2	11.2	11.2	11.2	11.2	11.2
Of which: Tax revenues	10.3	10.4	10.9	10.8	11.0	10.6	10.5	10.5	10.5	10.5	10.5
Direct Taxes	3.2	3.1	3.4	3.4	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Indirect Taxes	7.2	7.3	7.4	7.4	7.2	6.7	6.7	6.7	6.7	6.7	6.7
Expenditures	14.2	14.5	14.4	14.0	13.8	13.3	13.4	13.3	13.3	13.2	13.2
Current	10.7	11.0	11.2	11.1	10.8	10.5	10.4	10.3	10.3	10.3	10.3
Capital	3.5	3.6	3.2	2.9	3.0	2.8	3.0	3.0	3.0	2.9	2.9
Primary balance	-1.7	-1.8	-1.3	-0.9	-0.6	-0.5	-0.7	-0.6	-0.5	-0.4	-0.4
Overall balance	-3.1	-3.3	-2.8	-2.4	-2.1	-2.1	-2.2	-2.1	-2.1	-2.0	-2.0
Financing of the central government balance	3.1	3.3	2.8	2.4	2.1	2.1	2.2	2.1	2.1	2.0	2.0
Net external financing	1.3	1.5	0.1	1.5	1.5	0.5	0.6	0.6	0.6	0.7	0.8
Net domestic financing	1.8	1.8	2.7	0.9	0.6	1.4	1.6	1.5	1.5	1.3	1.2
Central Government Debt	22.9	24.1	23.7	24.3	24.6	24.9	25.3	25.7	26.1	26.4	26.8
External	13.0	13.1	11.5	12.4	12.9	12.9	12.7	12.2	12.1	12.1	12.2
Domestic 1/	9.9	11.0	12.1	11.9	11.7	11.9	12.7	13.5	14.0	14.3	14.5
Memorandum items:											
GDP (billions of quetzales)	308.0	333.1	371.0	394.7	422.7	458.6	498.0	539.9	584.2	630.4	679.9
GDP deflator	3.5	5.1	5.5	4.7	3.3	4.9	4.7	4.7	4.6	4.3	4.2
CPI (eop)	-0.3	5.4	6.2	3.4	4.4	4.0	4.3	4.2	4.1	4.1	4.0
Net international reserves (millions of US$)	4,797	5,442	5,737	6,197	6,433	6,427	6,427	6,427	6,427	6,428	6,428

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.
1/ Does not include recapitalization obligations to the central bank.

Table 3. Guatemala: Summary Balance of Payments

					Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(In millions of U.S. dollars)										
Current account balance	**273**	**-563**	**-1,599**	**-1,310**	**-1,465**	**-1,344**	**-1,577**	**-1,690**	**-1,759**	**-1,879**	**-1,988**
Trade balance (goods)	-3,348	-4,271	-4,963	-5,735	-6,165	-6,309	-6,800	-7,293	-7,766	-8,282	-8,823
Exports, f.o.b.	7,295	8,536	10,519	10,103	10,190	11,150	11,761	12,415	13,210	13,986	14,765
Imports, f.o.b.	-10,643	-12,807	-15,482	-15,838	-16,356	-17,460	-18,561	-19,707	-20,976	-22,268	-23,588
Of which: oil & lubricants	-2,060	-2,344	-3,119	-3,150	-3,147	-3,343	-3,422	-3,482	-3,588	-3,677	-3,761
Real services (net)	97	-27	-119	78	-59	-45	-95	-110	-122	-126	-129
Income (net)	-1,102	-1,211	-1,650	-1,298	-1,239	-1,351	-1,438	-1,479	-1,525	-1,613	-1,740
Current transfers (net)	4,626	4,946	5,134	5,645	5,998	6,361	6,757	7,191	7,655	8,142	8,704
Of which: remittances	3,951	4,147	4,396	4,916	5,246	5,534	5,871	6,246	6,649	7,074	7,573
Capital and financial account	206	1,822	3,114	2,262	2,517	1,688	1,577	1,690	1,759	1,880	1,988
Capital account	1	3	3	0	0	0	0	0	0	0	0
Financial account	205	1,820	3,112	2,262	2,517	1,688	1,577	1,690	1,759	1,880	1,988
Central Bank 1/	273	-1	-2	-2	-2	0	0	0	0	0	0
Public sector	521	612	37	721	799	319	353	398	452	539	637
Bonds (net)	-12	-6	-325	700	400	0	0	0	0	0	0
Loans	534	617	362	21	399	319	353	398	452	539	637
Disbursements	805	881	644	296	703	481	675	715	785	870	940
Amortization	-272	-263	-282	-275	-302	-161	-322	-317	-333	-331	-303
Private sector	-589	1,209	3,077	1,544	1,720	1,368	1,224	1,292	1,307	1,340	1,351
FDI	574	829	1,043	1,205	1,275	1,377	1,476	1,574	1,675	1,777	1,884
Portfolio investment	-112	-6	-67	22	32	600	50	54	59	63	68
Other investment	-1,051	386	2,100	316	412	-609	-302	-336	-427	-500	-601
Errors and omissions	-6	-346	-225	-454	-350	-350	0	0	0	0	0
Overall balance	473	913	1,291	499	702	-6	0	0	0	0	0
	(In percent of GDP)										
Current account balance	**0.7**	**-1.4**	**-3.4**	**-2.6**	**-2.7**	**-2.3**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**
Trade balance (goods)	-8.9	-10.3	-10.4	-11.4	-11.5	-10.9	-10.9	-11.0	-11.0	-11.0	-11.1
Exports, f.o.b.	19.3	20.6	22.1	20.0	18.9	19.2	18.9	18.7	18.7	18.7	18.6
Imports, f.o.b.	-28.2	-31.0	-32.5	-31.4	-30.4	-30.0	-29.8	-29.7	-29.7	-29.7	-29.7
Of which: oil & lubricants	-5.5	-5.7	-6.5	-6.3	-5.9	-5.8	-5.5	-5.2	-5.1	-4.9	-4.7
Real services (net)	0.3	-0.1	-0.2	0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Income (net)	-2.9	-2.9	-3.5	-2.6	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2	-2.2
Current transfers (net)	12.3	12.0	10.8	11.2	11.1	10.9	10.9	10.8	10.8	10.9	10.9
Of which: remittances	10.5	10.0	9.2	9.8	9.8	9.5	9.4	9.4	9.4	9.4	9.5
Capital and financial account	**0.5**	**4.4**	**6.5**	**4.5**	**4.7**	**2.9**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.5	4.4	6.5	4.5	4.7	2.9	2.5	2.5	2.5	2.5	2.5
Central Bank 1/	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector	1.4	1.5	0.1	1.4	1.5	0.5	0.6	0.6	0.6	0.7	0.8
Bonds (net)	0.0	0.0	-0.7	1.4	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.4	1.5	0.8	0.0	0.7	0.5	0.6	0.6	0.6	0.7	0.8
Disbursements	2.1	2.1	1.4	0.6	1.3	0.8	1.1	1.1	1.1	1.2	1.2
Amortization	-0.7	-0.6	-0.6	-0.5	-0.6	-0.3	-0.5	-0.5	-0.5	-0.4	-0.4
Private sector	-1.6	2.9	6.5	3.1	3.2	2.4	2.0	1.9	1.8	1.8	1.7
FDI	1.5	2.0	2.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Portfolio investment	-0.3	0.0	-0.1	0.0	0.1	1.0	0.1	0.1	0.1	0.1	0.1
Other investment	-2.8	0.9	4.4	0.6	0.8	-1.0	-0.5	-0.5	-0.6	-0.7	-0.8
Errors and omissions	**0.0**	**-0.8**	**-0.5**	**-0.9**	**-0.6**	**-0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**1.3**	**2.2**	**2.7**	**1.0**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Value of exports, f.o.b. (percentage change)	-7.0	17.0	23.2	-4.0	0.9	9.4	5.5	5.6	6.4	5.9	5.6
Value of imports, f.o.b. (percentage change)	-20.7	20.3	20.9	2.3	3.3	6.7	6.3	6.2	6.4	6.2	5.9
Stock of NIR (in millions of U.S. dollars) 1/	4,797	5,442	5,737	6,197	6,433	6,427	6,427	6,427	6,427	6,428	6,428
NIR in months of next-year NFGS imports	3.8	3.7	3.8	3.9	3.9	3.6	3.4	3.2	3.0	2.9	2.9
NIR over short-term debt on residual maturity	2.0	1.9	1.9	1.8	1.9	1.8	1.9	1.9	2.0	2.2	2.2
Nominal GDP (in billions of U.S. dollars)	37.7	41.3	47.7	50.4	53.8	58.1	62.3	66.4	70.7	75.0	79.5

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

	2009	2010	2011	2012	Est. 2013	2014	2015	Projections 2016	2017	2018	2019
					(In millions of quetzales)						
Central Government											
Total revenues	**34,037**	**37,425**	**43,178**	**45,874**	**49,259**	**51,517**	**55,879**	**60,630**	**65,612**	**70,789**	**76,314**
Tax revenues	31,812	34,772	40,292	42,820	46,336	48,512	52,483	56,840	61,510	66,363	71,540
Direct Taxes	9,715	10,330	12,710	13,454	16,053	17,618	18,912	20,506	22,189	23,943	25,822
Indirect Taxes	22,096	24,442	27,582	29,366	30,283	30,894	33,571	36,334	39,321	42,420	45,718
Nontax revenues	2,225	2,653	2,886	3,054	2,924	3,005	3,396	3,791	4,102	4,426	4,773
Total expenditures	**43,709**	**48,385**	**53,511**	**55,320**	**58,269**	**61,045**	**66,728**	**71,902**	**77,878**	**83,443**	**89,956**
Current	32,986	36,521	41,459	43,881	45,555	48,204	51,757	55,473	60,175	65,098	70,307
Wages	11,154	12,529	14,156	15,081	16,968	18,521	19,171	21,057	22,785	24,586	26,516
Goods & services	7,511	8,126	9,869	10,295	8,661	8,845	10,167	10,472	11,332	12,228	13,187
Social security benefits	2,776	2,979	3,147	3,306	3,581	3,864	4,195	4,549	4,922	5,311	5,728
Interest	4,374	4,940	5,476	6,022	6,569	7,065	7,400	8,223	9,068	9,973	10,878
Transfers	7,086	7,818	8,593	8,967	9,499	9,638	10,552	10,901	11,796	12,729	13,728
Other	84	130	220	209	277	271	271	271	271	271	271
Capital	10,723	11,864	12,052	11,439	12,714	12,841	14,971	16,429	17,702	18,345	19,649
Primary expenditures	39,335	43,446	48,035	49,297	51,700	53,980	59,328	63,679	68,810	73,470	79,078
Primary balance	**-5,297**	**-6,021**	**-4,857**	**-3,423**	**-2,441**	**-2,463**	**-3,449**	**-3,049**	**-3,198**	**-2,681**	**-2,765**
Overall balance	**-9,672**	**-10,960**	**-10,333**	**-9,446**	**-9,010**	**-9,528**	**-10,849**	**-11,272**	**-12,266**	**-12,655**	**-13,642**
Financing	**9,672**	**10,960**	**10,333**	**9,446**	**9,010**	**9,528**	**10,849**	**11,272**	**12,266**	**12,655**	**13,642**
Net external financing	4,117	5,110	378	5,743	6,364	2,522	2,821	3,237	3,739	4,535	5,448
Loans	4,117	5,110	2,923	262	3,261	2,522	2,821	3,237	3,739	4,535	5,448
Disbursements	6,273	7,161	5,030	2,329	5,520	3,795	5,398	5,813	6,490	7,315	8,039
Amortizations	2,155	2,051	2,106	2,066	2,259	1,273	2,577	2,575	2,750	2,780	2,590
Bonds	0	0	-2,545	5,481	3,104	0	0	0	0	0	0
Placements	0	0	0	5,481	5,478	0	0	0	0	0	0
Amortizations	0	0	2,545	0	2,259	0	0	0	0	0	0
Net domestic financing	5,554	5,851	9,955	3,703	2,645	6,586	8,028	8,034	8,526	8,120	8,194
Net issuance of bonds	4,388	6,171	8,305	2,019	2,369	6,417	8,240	8,262	8,714	8,253	8,328
Gross bond issuance	5,172	7,890	9,609	4,540	2,755	8,335	12,400	13,797	11,001	11,131	12,526
Amortizations	783	1,719	1,304	2,520	386	1,918	4,159	5,534	2,287	2,877	4,199
Other	0	0	322	-1	528	-1,186	0	0	0	0	0
Use of government deposits	1,166	-320	1,649	1,362	-252	169	-212	-228	-188	-134	-134
Rest of nonfinancial public sector balance 1/	**1,200**	**1,700**	**1,484**	**1,579**	**1,691**	**1,834**	**1,992**	**2,160**	**2,337**	**2,522**	**2,720**
Consolidated nonfinancial public sector											
Primary balance	-4,097	-4,321	-3,373	-1,845	-750	-629	-1,457	-889	-861	-160	-45
Interest	4,374	4,940	5,476	6,022	6,569	7,065	7,400	8,223	9,068	9,973	10,878
Overall balance	**-8,472**	**-9,260**	**-8,849**	**-7,867**	-7,319	-7,694	-8,858	-9,112	-9,929	-10,133	-10,923
Central bank balance	**-381**	**-690**	**-923**	**-1,488**	**-1,429**	**-1,164**	**-1,108**	**-1,200**	**-1,199**	**-1,199**	**-1,199**
Memorandum items:											
Central Government debt	70,579	80,271	87,852	96,033	104,083	114,091	126,213	138,893	152,567	166,706	181,909
External	39,981	43,502	42,778	48,894	54,679	59,367	63,165	65,815	70,685	76,481	83,269
Domestic 2/	30,598	36,769	45,075	47,139	49,404	54,724	63,048	73,077	81,882	90,225	98,640
Consolidated NFPS debt	63,973	72,390	78,370	86,222	93,391	103,152	114,131	125,604	138,024	150,861	164,673
Central government gross borrowing requirement	12,611	14,730	16,288	14,032	13,914	12,719	17,586	19,382	17,303	18,312	20,431
Social spending	16,165	18,857	19,012	19,012	21,381	22,915	24,880	26,976	29,191	31,498	33,970
GDP	307,967	333,093	371,012	394,723	422,670	458,621	497,953	539,913	584,239	630,414	679,886

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

1/ 2012 balance is a staff estimate.

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

Table 4B. Guatemala: Public Sector Balance

								Est.	Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(In percent of GDP)													
Central government														
Total revenues	**12.7**	**12.8**	**12.0**	**11.1**	**11.2**	**11.6**	**11.6**	**11.7**	**11.2**	**11.2**	**11.2**	**11.2**	**11.2**	**11.2**
Tax revenues	11.9	12.1	11.3	10.3	10.4	10.9	10.8	11.0	10.6	10.5	10.5	10.5	10.5	10.5
Direct taxes	3.3	3.3	3.3	3.2	3.1	3.4	3.4	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Indirect taxes	8.5	8.7	8.0	7.2	7.3	7.4	7.4	7.2	6.7	6.7	6.7	6.7	6.7	6.7
Nontax revenues	0.9	0.8	0.8	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total expenditures	**14.7**	**14.3**	**13.6**	**14.2**	**14.5**	**14.4**	**14.0**	**13.8**	**13.3**	**13.4**	**13.3**	**13.3**	**13.2**	**13.2**
Current	9.8	9.9	9.9	10.7	11.0	11.2	11.1	10.8	10.5	10.4	10.3	10.3	10.3	10.3
Wages	3.3	3.1	3.1	3.6	3.8	3.8	3.8	4.0	4.0	3.9	3.9	3.9	3.9	3.9
Goods & services	1.6	1.8	2.5	2.4	2.4	2.7	2.6	2.0	1.9	2.0	1.9	1.9	1.9	1.9
Social security benefits	0.8	0.8	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Interest	1.4	1.5	1.4	1.4	1.5	1.5	1.5	1.6	1.5	1.5	1.5	1.6	1.6	1.6
Transfers	2.6	2.7	2.1	2.3	2.3	2.3	2.3	2.2	2.1	2.1	2.0	2.0	2.0	2.0
Other	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Capital	4.9	4.4	3.7	3.5	3.6	3.2	2.9	3.0	2.8	3.0	3.0	3.0	2.9	2.9
Primary expenditures	13.3	12.8	12.3	12.8	13.0	12.9	12.5	12.2	11.8	11.9	11.8	11.8	11.7	11.6
Primary balance	**-0.6**	**0.0**	**-0.3**	**-1.7**	**-1.8**	**-1.3**	**-0.9**	**-0.6**	**-0.5**	**-0.7**	**-0.6**	**-0.5**	**-0.4**	**-0.4**
Overall balance	**-1.9**	**-1.4**	**-1.6**	**-3.1**	**-3.3**	**-2.8**	**-2.4**	**-2.1**	**-2.1**	**-2.2**	**-2.1**	**-2.1**	**-2.0**	**-2.0**
Financing	**1.9**	**1.4**	**1.6**	**3.1**	**3.3**	**2.8**	**2.4**	**2.1**	**2.1**	**2.2**	**2.1**	**2.1**	**2.0**	**2.0**
Net external financing	1.2	1.2	0.3	1.3	1.5	0.1	1.5	1.5	0.5	0.6	0.6	0.6	0.7	0.8
Loans	1.2	1.2	0.3	1.3	1.5	0.8	0.1	0.8	0.5	0.6	0.6	0.6	0.7	0.8
Disbursements	1.9	1.8	0.9	2.0	2.1	1.4	0.6	1.3	0.8	1.1	1.1	1.1	1.2	1.2
Amortizations	0.7	0.6	0.6	0.7	0.6	0.6	0.5	0.5	0.3	0.5	0.5	0.5	0.4	0.4
Bonds	0.0	0.0	0.0	0.0	0.0	-0.7	1.4	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Placements	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	0.7	0.3	1.3	1.8	1.8	2.7	0.9	0.6	1.4	1.6	1.5	1.5	1.3	1.2
Net issuance of bonds	1.6	1.2	0.7	1.4	1.9	2.2	0.5	0.6	1.4	1.7	1.5	1.5	1.3	1.2
Gross bond issuance	3.1	2.0	1.3	1.7	2.4	2.6	1.2	0.7	1.8	2.5	2.6	1.9	1.8	1.8
Amortizations	1.5	0.8	0.6	0.3	0.5	0.4	0.6	0.1	0.4	0.8	1.0	0.4	0.5	0.6
Other	-0.5	-0.2	-0.1	0.0	0.0	0.1	0.0	0.1	-0.3	0.0	0.0	0.0	0.0	0.0
Use of government deposits	-0.4	-0.7	0.8	0.4	-0.1	0.4	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Rest of nonfinancial public sector balance 1/	**0.7**	**1.1**	**0.9**	**0.4**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Consolidated nonfinancial public sector														
Primary balance	0.1	1.2	0.6	-1.3	-1.3	-0.9	-0.5	-0.2	-0.1	-0.3	-0.2	-0.1	0.0	0.0
Interest	1.4	1.5	1.4	1.4	1.5	1.5	1.5	1.6	1.5	1.5	1.5	1.6	1.6	1.6
Overall balance	**-1.2**	**-0.3**	**-0.7**	**-2.8**	**-2.8**	**-2.4**	**-2.0**	**-1.7**	**-1.7**	**-1.8**	**-1.7**	**-1.7**	**-1.6**	**-1.6**
Central bank balance	**-0.2**	**0.1**	**0.2**	**-0.1**	**-0.2**	**-0.2**	**-0.4**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**
Memorandum items:														
Central Government debt	**21.7**	**21.3**	**20.1**	**22.9**	**24.1**	**23.7**	**24.3**	**24.6**	**24.9**	**25.3**	**25.7**	**26.1**	**26.4**	**26.8**
External	12.9	12.1	11.3	13.0	13.1	11.5	12.4	12.9	12.9	12.7	12.2	12.1	12.1	12.2
Domestic 2/	8.8	9.2	8.9	9.9	11.0	12.1	11.9	11.7	11.9	12.7	13.5	14.0	14.3	14.5
Consolidated NFPS debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government gross borrowing requirements	4.1	2.9	2.9	4.1	4.4	4.4	3.6	3.3	2.8	3.5	3.6	3.0	2.9	3.0
Social spending	5.0	4.6	4.4	5.2	5.7	5.1	4.8	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Structural primary balance	-0.5	-0.4	-0.6	-1.8	-1.6	-0.8	-0.9	-0.7	-0.6	-0.8	-0.7	-0.7	-0.5	-0.5
Fiscal Impulse	0.4	-0.2	0.2	1.2	-0.2	-0.8	0.1	-0.3	0.0	0.2	-0.1	0.0	-0.1	0.0

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

1/ 2012 balance is a staff estimate.

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

Table 4C. Guatemala: Statement of the Central Government Operations and Financial Balance, GFSM 2001 Classification

					Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					(In millions of quetzales)						
Central government operations											
Revenue	**34,026**	**37,397**	**43,165**	**45,855**	**49,250**	**51,507**	**55,868**	**60,619**	**65,600**	**70,776**	**76,299**
Taxes	31,219	34,084	39,147	41,766	45,467	47,725	51,487	55,760	60,342	65,102	70,180
Other revenue	2,807	3,313	4,018	4,089	3,783	3,783	4,382	4,859	5,258	5,674	6,119
Expenditure	**43,698**	**48,358**	**53,498**	**55,301**	**58,260**	**61,036**	**66,718**	**71,891**	**77,865**	**83,430**	**89,942**
Expense	**39,928**	**44,111**	**49,390**	**52,918**	**54,500**	**57,238**	**62,290**	**67,031**	**72,629**	**78,004**	**84,131**
Compensation of employees	11,154	12,529	14,156	15,081	16,968	18,521	19,171	21,057	22,785	24,586	26,516
Use of goods and services	7,511	8,126	9,869	10,295	8,661	8,845	10,167	10,472	11,332	12,228	13,187
Interest	4,374	4,940	5,476	6,022	6,569	7,065	7,400	8,223	9,068	9,973	10,878
Other expense	16,889	18,517	19,890	21,519	22,302	22,807	25,551	27,279	29,444	31,217	33,550
Net acquisition of nonfinancial assets	**3,769**	**4,247**	**4,108**	**2,383**	**3,760**	**3,798**	**4,428**	**4,859**	**5,236**	**5,426**	**5,811**
Gross Operating Balance	**-5,902**	**-6,714**	**-6,225**	**-7,063**	**-5,249**	**-5,731**	**-6,421**	**-6,412**	**-7,029**	**-7,229**	**-7,831**
Net lending (+)/borrowing (–)	**-9,672**	**-10,960**	**-10,333**	**-9,446**	**-9,010**	**-9,528**	**-10,849**	**-11,272**	**-12,266**	**-12,655**	**-13,642**
Net acquisition of financial assets	**-1,166**	**320**	**-1,649**	**-1,026**	**252**	**-169**	**212**	**228**	**188**	**134**	**134**
Net incurrence of liabilities	**8,506**	**11,281**	**9,006**	**8,098**	**9,262**	**7,753**	**11,061**	**11,500**	**12,454**	**12,788**	**13,776**
Financial Balance 1/											
Net financial worth 2/	**-52,551**	**-61,314**	**-69,944**	**-76,268**	**-84,122**	**-93,854**	**-105,373**	**-117,429**	**-130,354**	**-143,730**	**-158,148**
Financial assets	**18,028**	**18,957**	**17,909**	**19,765**	**20,718**	**20,949**	**21,462**	**22,002**	**22,685**	**23,382**	**24,103**
Domestic	**18,028**	**18,957**	**17,909**	**19,765**	**20,718**	**20,949**	**21,462**	**22,002**	**22,685**	**23,382**	**24,103**
Currency and deposits	18,028	18,957	17,909	19,765	20,718	20,949	21,462	22,002	22,685	23,382	24,103
Foreign	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net incurrence of liabilities	**70,579**	**80,271**	**87,853**	**96,033**	**104,840**	**114,803**	**126,835**	**139,431**	**153,039**	**167,112**	**182,251**
Domestic 3/	**30,598**	**36,769**	**45,075**	**47,139**	**49,404**	**55,821**	**64,061**	**72,324**	**81,038**	**89,291**	**97,619**
Debt securities	30,598	36,769	45,075	47,139	49,404	55,821	64,061	72,324	81,038	89,291	97,619
Foreign	**39,981**	**43,502**	**42,778**	**48,894**	**55,436**	**58,982**	**62,774**	**67,107**	**72,001**	**77,821**	**84,631**
Debt securities	7,971	7,655	4,918	10,500	13,555	13,802	14,024	14,263	14,502	14,753	15,002
Loans	32,009	35,847	37,860	38,394	41,881	45,180	48,749	52,844	57,499	63,068	69,629
					(In percent of GDP)						
Central Government Operations											
Revenue	**11.0**	**11.2**	**11.6**	**11.6**	**11.7**	**11.2**	**11.2**	**11.2**	**11.2**	**11.2**	**11.2**
Taxes	10.1	10.2	10.6	10.6	10.8	10.4	10.3	10.3	10.3	10.3	10.3
Other revenue	0.9	1.0	1.1	1.0	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Expenditure	**14.2**	**14.5**	**14.4**	**14.0**	**13.8**	**13.3**	**13.4**	**13.3**	**13.3**	**13.2**	**13.2**
Expense	**13.0**	**13.2**	**13.3**	**13.4**	**12.9**	**12.5**	**12.5**	**12.4**	**12.4**	**12.4**	**12.4**
Compensation of employees	3.6	3.8	3.8	3.8	4.0	4.0	3.9	3.9	3.9	3.9	3.9
Use of goods and services	2.4	2.4	2.7	2.6	2.0	1.9	2.0	1.9	1.9	1.9	1.9
Interest	1.4	1.5	1.5	1.5	1.6	1.5	1.5	1.5	1.6	1.6	1.6
Other expense	5.5	5.6	5.4	5.5	5.3	5.0	5.1	5.1	5.0	5.0	4.9
Net acquisition of nonfinancial assets	**1.2**	**1.3**	**1.1**	**0.6**	**0.9**	**0.8**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Gross Operating Balance	**-1.9**	**-2.0**	**-1.7**	**-1.8**	**-1.2**	**-1.2**	**-1.3**	**-1.2**	**-1.2**	**-1.1**	**-1.2**
Net lending (+)/borrowing (–)	**-3.1**	**-3.3**	**-2.8**	**-2.4**	**-2.1**	**-2.1**	**-2.2**	**-2.1**	**-2.1**	**-2.0**	**-2.0**
Net acquisition of financial assets	**-0.4**	**0.1**	**-0.4**	**-0.3**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net incurrence of liabilities	**2.8**	**3.4**	**2.4**	**2.1**	**2.2**	**1.7**	**2.2**	**2.1**	**2.1**	**2.0**	**2.0**
Financial Balance 1/											
Net financial worth 2/	**-17.1**	**-18.4**	**-18.9**	**-19.3**	**-19.9**	**-20.5**	**-21.2**	**-21.7**	**-22.3**	**-22.8**	**-23.3**
Financial assets	**5.9**	**5.7**	**4.8**	**5.0**	**4.9**	**4.6**	**4.3**	**4.1**	**3.9**	**3.7**	**3.5**
Domestic	**5.9**	**5.7**	**4.8**	**5.0**	**4.9**	**4.6**	**4.3**	**4.1**	**3.9**	**3.7**	**3.5**
Currency and deposits	5.9	5.7	4.8	5.0	4.9	4.6	4.3	4.1	3.9	3.7	3.5
Foreign	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net incurrence of liabilities	**22.9**	**24.1**	**23.7**	**24.3**	**24.8**	**25.0**	**25.5**	**25.8**	**26.2**	**26.5**	**26.8**
Domestic 3/	**9.9**	**11.0**	**12.1**	**11.9**	**11.7**	**12.2**	**12.9**	**13.4**	**13.9**	**14.2**	**14.4**
Debt securities	9.9	11.0	12.1	11.9	11.7	12.2	12.9	13.4	13.9	14.2	14.4
Foreign	**13.0**	**13.1**	**11.5**	**12.4**	**13.1**	**12.9**	**12.6**	**12.4**	**12.3**	**12.3**	**12.4**
Debt securities	2.6	2.3	1.3	2.7	3.2	3.0	2.8	2.6	2.5	2.3	2.2
Loans	10.4	10.8	10.2	9.7	9.9	9.9	9.8	9.8	9.8	10.0	10.2

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

1/ Based on available stock elements.

2/ Changes in net financial worth do not equal net lending due to valuation adjustments and statistical discrepancies.

3/ Does not include recapitilization obligations to the central bank.

Table 5. Guatemala: Monetary Sector Survey

	2009	2010	2011	2012	Est. 2013	Projections 2014	2015
			(In millions of quetzales)				
Bank of Guatemala (BOG)							
Net international reserves 1/	**39,963**	**43,556**	**44,673**	**48,921**	**50,515**	**50,917**	**51,616**
(In millions of U.S. dollars) 1/	4,797	5,442	5,737	6,197	6,433	6,427	6,427
Net domestic assets	**-21,793**	**-23,811**	**-24,365**	**-27,761**	**-28,142**	**-27,179**	**-26,345**
Net claims on nonfinancial public sector	-9,323	-10,655	-9,655	-10,440	-10,565	-11,000	-11,657
Central government (CG)	-5,209	-6,100	-4,748	-3,828	-2,904	-2,735	-2,947
Rest of nonfinancial public sector	-4,114	-4,555	-4,907	-6,612	-7,661	-8,264	-8,710
Bank of Guatemala losses	14,780	15,470	16,445	17,766	19,201	20,365	21,473
Net credit to banks	-14,516	-15,933	-18,051	-21,425	-24,499	-26,604	-29,717
Of which: legal reserves	-16,577	-17,994	-20,111	-23,484	-26,558	-28,663	-31,776
Open market operations 2/	-11,130	-12,640	-13,529	-14,034	-16,785	-13,726	-9,981
Other assets (net)	-1,604	-52	424	372	4,505	3,787	3,537
Currency in circulation	18,170	19,745	20,308	21,161	22,373	23,738	25,271
Banking sector							
Net foreign position	**-6,971**	**-7,989**	**-13,568**	**-19,253**	**-22,472**	**-25,013**	**-30,638**
(in millions of U.S. Dollars)	-837	-998	-1,743	-2,439	-2,862	-3,157	-3,815
Net claims on Bank of Guatemala	**23,597**	**26,782**	**29,497**	**35,158**	**38,071**	**37,705**	**37,791**
Legal reserves	16,577	17,994	20,111	23,484	26,558	28,663	31,776
BOG securities	9,074	10,842	11,438	13,726	13,564	11,093	8,066
Liabilities to BOG	-2,054	-2,053	-2,053	-2,052	-2,052	-2,052	-2,052
Net domestic assets	**92,309**	**102,085**	**118,351**	**132,463**	**147,925**	**168,840**	**194,516**
Net credit to the NFPS	1,527	6,222	9,096	6,317	7,262	10,069	13,971
Official capital and reserves	-3,143	-3,604	-4,016	-4,159	-4,504	-5,058	-5,612
Credit to the private sector	88,189	93,250	106,392	125,176	140,159	158,379	180,552
Other items net	5,735	6,217	6,878	5,129	5,008	5,450	5,604
Medium and long-term foreign liabilities	**1,112**	**670**	**631**	**582**	**495**	**538**	**585**
Liabilities to private sector	**107,823**	**120,208**	**133,648**	**147,787**	**163,029**	**180,993**	**201,083**
Demand deposits	38,811	43,713	48,267	52,195	55,257	61,796	69,656
Time and savings deposits	57,637	64,090	72,652	81,680	91,316	100,719	110,925
Capital and reserves (private banks)	11,375	12,405	12,729	13,912	16,455	18,478	20,503
Monetary survey							
Net foreign assets	**32,992**	**35,566**	**31,105**	**29,669**	**28,043**	**25,904**	**20,978**
(In millions of U.S. dollars)	3,961	4,444	3,995	3,758	3,571	3,270	2,612
Net domestic assets	**96,170**	**106,831**	**125,573**	**140,169**	**161,073**	**181,999**	**207,876**
Net claims on nonfinancial public sector	-7,796	-4,433	-559	-4,123	-3,303	-931	2,314
Bank of Guatemala losses	14,780	15,470	16,445	17,766	19,201	20,365	21,473
Credit to private sector	93,842	99,241	112,998	132,236	147,446	166,613	189,938
Other assets (net)	-4,657	-3,447	-3,312	-5,710	-2,271	-4,047	-5,849
Medium and long-term foreign liabilities	**1,112**	**670**	**631**	**582**	**495**	**538**	**585**
Liabilities to the private sector	**128,049**	**141,728**	**156,047**	**169,256**	**188,621**	**207,365**	**228,269**
Of which: Money	56,981	63,458	68,575	73,356	77,630	85,534	94,927
Of which: Quasi-money	71,069	78,270	87,472	95,900	110,992	121,831	133,343
Memorandum items:				(Percent change)			
Currency in circulation	8.4	8.7	2.9	4.2	5.7	6.1	6.5
M2	10.0	11.3	10.7	9.8	9.0	10.2	10.5
Credit to private sector	1.1	5.7	14.1	17.7	12.0	13.0	14.0
				(In percent of GDP)			
Currency in circulation	5.9	5.9	5.5	5.4	5.3	5.2	5.1
M2	37.2	38.3	38.1	39.3	40.0	40.5	41.2
Net credit of the banking sector to the CG	0.5	1.9	2.5	1.6	1.7	2.2	2.8
Credit to private sector	28.6	28.0	28.7	31.7	33.2	34.4	36.1
			(In percent of bank liabilities to the private sector)				
Banks' liquid assets	37.0	39.8	40.2	40.2	40.0	37.6	35.9
Demand deposits	36.0	36.4	36.1	35.3	33.9	34.1	34.6
Time and savings deposits	53.5	53.3	54.4	55.3	56.0	55.6	55.2
Capital and reserves (private banks)	10.5	10.3	9.5	9.4	10.1	10.2	10.2

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

	2009	2010	2011	2012	2013
On-shore banks					
Reserves as a percentage of Deposits, in NC	14.7	14.6	14.6	14.5	14.5
Reserves as a percentage of Deposits, in FC	18.2	18.6	16.2	16.8	20.8
Short-term liquidity	21.6	20.3	21.6	21.6	21.9
Liquid asset to total asset ratio	28.2	28.4	29.0	27.5	28.1
Liquidity ratio	23.7	24.5	24.2	23.6	24.5
Regulatory capital to risk-weighted assets	15.4	15.2	15.3	14.7	14.8
Nonperforming loans to total gross loans	2.7	2.1	1.6	1.3	1.2
Provisions to non-performing loans	89.3	115.3	126.2	143.4	157.6
Cash to total deposits	21.6	20.3	21.6	21.6	21.9
Return on assets	1.7	1.7	1.7	1.6	1.5
Return on equity	15.7	16.3	18.5	17.2	16.0
Foreign currency-denominated loans to total loans	31.0	30.2	34.0	35.2	36.7
Foreign currency-denominated liabilities to total liabilities	23.9	24.6	27.5	28.6	30.3
Off-shore banks					
Statutory capital to risk-weighted assets	18.1	18.5	16.2	16.8	15.8
Nonperforming loans to total gross loans	2.3	2.1	1.7	1.2	0.8
Provisions to non-performing loans	75.4	110.7	143.0	172.4	229.4
Return on assets	1.4	1.4	1.8	1.8	1.4
Return on equity	12.8	12.6	16.0	15.6	12.8
Total assets off-shore banks to total assets on-shore banks	16.5	14.3	12.7	12.2	11.7

Source: Superintendency of Banks.

Table 7A. Guatemala Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

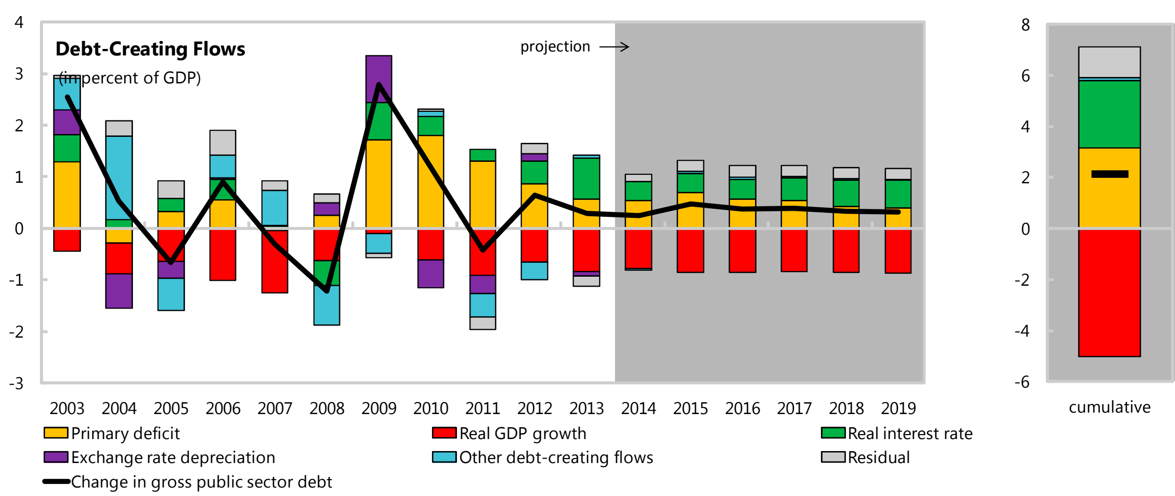
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	21.9	24.3	24.6	24.9	25.3	25.7	26.1	26.4	26.8
Public gross financing needs	3.6	3.6	3.3	2.8	3.6	4.0	3.3	3.2	3.3
Real GDP growth (in percent)	3.5	3.0	3.7	3.4	3.7	3.6	3.5	3.5	3.5
Inflation (GDP deflator, in percent)	5.8	4.7	3.3	4.9	4.7	4.7	4.6	4.3	4.2
Nominal GDP growth (in percent)	9.6	6.4	7.1	8.5	8.6	8.4	8.2	7.9	7.8
Effective interest rate (in percent) [4/]	7.3	6.9	6.8	6.8	6.5	6.5	6.5	6.5	6.5

As of April 11, 2014		
Sovereign Spreads		
EMBI (bp) 3/		223
CDS (bp)		N/A
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BB	BB+
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.6	0.65	0.30	0.3	0.5	0.4	0.4	0.3	0.3	2.1	
Identified debt-creating flows	0.5	0.45	0.51	0.3	0.5	0.4	0.4	0.3	0.3	2.2	
Primary deficit	0.8	0.9	0.6	0.5	0.7	0.6	0.5	0.4	0.4	3.2	-0.1
Primary (noninterest) revenue and grant	12.0	11.6	11.7	11.2	11.2	11.2	11.2	11.2	11.2	67.4	
Primary (noninterest) expenditure	12.8	12.5	12.2	11.8	11.9	11.8	11.8	11.7	11.6	70.5	
Automatic debt dynamics [5/]	-0.5	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-1.1	
Interest rate/growth differential [6/]	-0.4	-0.2	-0.1	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-2.4	
Of which: real interest rate	0.2	0.4	0.8	0.4	0.4	0.4	0.4	0.5	0.5	2.6	
Of which: real GDP growth	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.9	-5.0	
Exchange rate depreciation [7/]	0.0	0.1	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
Fiscal, Central Government, Total finan	0.1	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify) None	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.1	0.2	-0.2	0.1	0.2	0.2	0.2	0.2	0.2	1.2	



Source: Fund staff estimates.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBI.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

8/ For projections, this line includes exchange rate changes during the projection period.

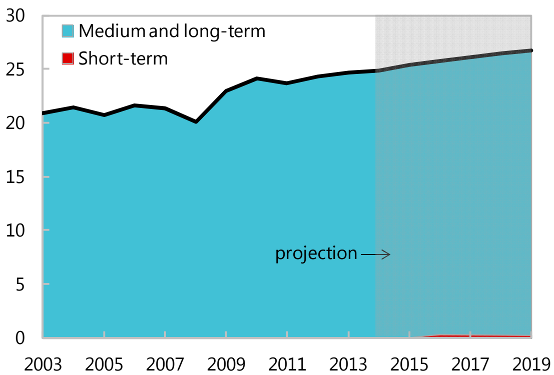
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 7B. Guatemala Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

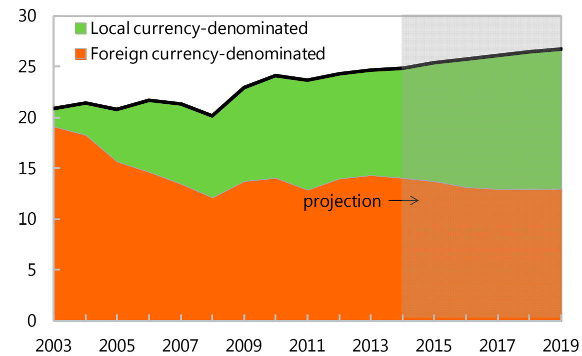
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

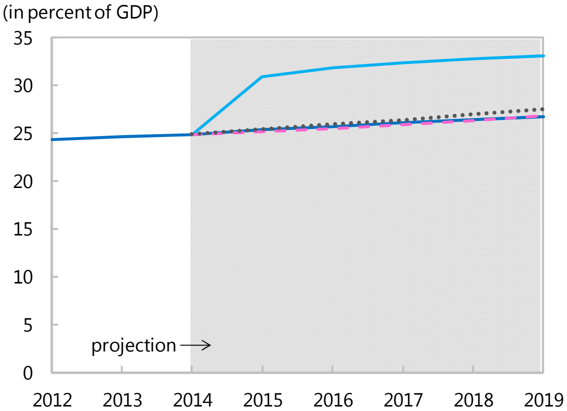


Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Constant Primary Balance

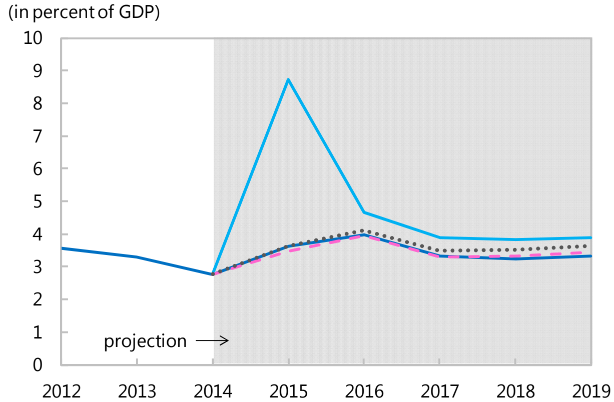
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.4	3.7	3.6	3.5	3.5	3.5
Inflation	4.9	4.7	4.7	4.6	4.3	4.2
Primary Balance	-0.5	-0.7	-0.6	-0.5	-0.4	-0.4
Effective interest rate	6.8	6.5	6.5	6.5	6.5	6.5
Constant Primary Balance Scenario						
Real GDP growth	3.4	3.7	3.6	3.5	3.5	3.5
Inflation	4.9	4.7	4.7	4.6	4.3	4.2
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	6.8	6.5	6.5	6.5	6.5	6.5

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.4	3.6	3.6	3.6	3.6	3.6
Inflation	4.9	4.7	4.7	4.6	4.3	4.2
Primary Balance	-0.5	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	6.8	6.5	6.5	6.4	6.4	6.4
Contingent Liability Shock						
Real GDP growth	3.4	2.2	2.1	3.5	3.5	3.5
Inflation	4.9	4.3	4.3	4.6	4.3	4.2
Primary Balance	-0.5	-5.4	-0.6	-0.5	-0.4	-0.4
Effective interest rate	6.8	7.9	6.9	6.9	6.9	6.9

Source: Fund staff estimates.

Table 8. Guatemala: External Debt Sustainability Framework, 2009–2019
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 6/
Baseline: External debt	28.0	27.4	27.5	28.1	29.5	**27.9**	**26.2**	**24.7**	**23.4**	**22.2**	**21.0**	**-2.6**
Change in external debt	1.0	-0.6	0.1	0.7	1.4	-1.7	-1.7	-1.5	-1.4	-1.2	-1.1	
Identified external debt-creating flows (4+8+9)	-1.3	-3.0	-2.1	-1.7	-1.5	-1.0	-0.9	-0.8	-0.8	-0.7	-0.7	
Current account deficit, excluding interest payments	-2.0	0.2	2.3	1.5	1.7	1.2	1.4	1.4	1.4	1.4	1.5	
Deficit in balance of goods and services	8.6	10.4	10.7	11.2	11.6	10.9	11.1	11.1	11.2	11.2	11.3	
Exports	24.9	26.1	26.8	25.0	23.7	23.5	23.1	22.9	22.8	22.8	22.7	
Imports	33.5	36.5	37.5	36.2	35.3	34.5	34.2	34.0	34.0	34.0	33.9	
Net non-debt creating capital inflows (negative)	-1.6	-1.9	-2.2	-2.5	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	
Automatic debt dynamics 1/	2.3	-1.3	-2.2	-0.8	-0.7	0.2	0.2	0.2	0.3	0.3	0.3	
Contribution from nominal interest rate	1.3	1.2	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.0	
Contribution from real GDP growth	-0.1	-0.7	-1.0	-0.8	-1.0	-0.9	-1.0	-0.9	-0.8	-0.8	-0.7	
Contribution from price and exchange rate changes 2/	1.2	-1.7	-2.3	-1.1	-0.8	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.4	2.4	2.2	2.4	2.9	-0.6	-0.8	-0.7	-0.6	-0.5	-0.5	
External debt-to-exports ratio (in percent)	112.5	104.9	102.4	112.6	124.6	118.6	113.2	108.1	102.2	97.3	92.8	
Gross external financing need (in billions of US dollars) 4/	3.4	3.8	5.3	5.3	5.9	5.7	6.0	6.0	5.9	5.8	5.7	
in percent of GDP	9.1	9.3	11.1	10.6	10.9	9.8	9.6	9.0	8.4	7.8	7.2	
Scenario with key variables at their historical averages 5/						**27.9**	**26.8**	**25.7**	**24.7**	**23.7**	**22.7**	**-2.9**
Key Macroeconomic Assumptions Underlying Baseline												
Nominal GDP (US dollars)	37.7	41.3	47.7	50.4	53.8	58.1	62.3	66.4	70.7	75.0	79.5	
Real GDP growth (in percent)	0.5	2.9	4.2	3.0	3.7	3.4	3.7	3.6	3.5	3.5	3.5	
GDP deflator in US dollars (change in percent)	-4.1	6.5	9.2	4.1	3.0	4.5	3.3	3.0	2.8	2.5	2.4	
Nominal external interest rate (in percent)	4.7	4.6	4.5	4.1	4.1	4.1	4.4	4.6	4.7	4.9	5.0	
Growth of exports (US dollar terms, in percent)	-5.9	14.9	18.4	-1.5	1.2	7.2	5.4	5.5	6.2	5.8	5.5	
Growth of imports (US dollar terms, in percent)	-18.8	19.4	18.3	2.1	4.0	5.5	6.4	6.1	6.3	6.0	5.8	
Current account balance, excluding interest payments	2.0	-0.2	-2.3	-1.5	-1.7	-1.2	-1.4	-1.4	-1.4	-1.4	-1.5	
Net non-debt creating capital inflows	1.6	1.9	2.2	2.5	2.4	2.4	2.4	2.4	2.4	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.

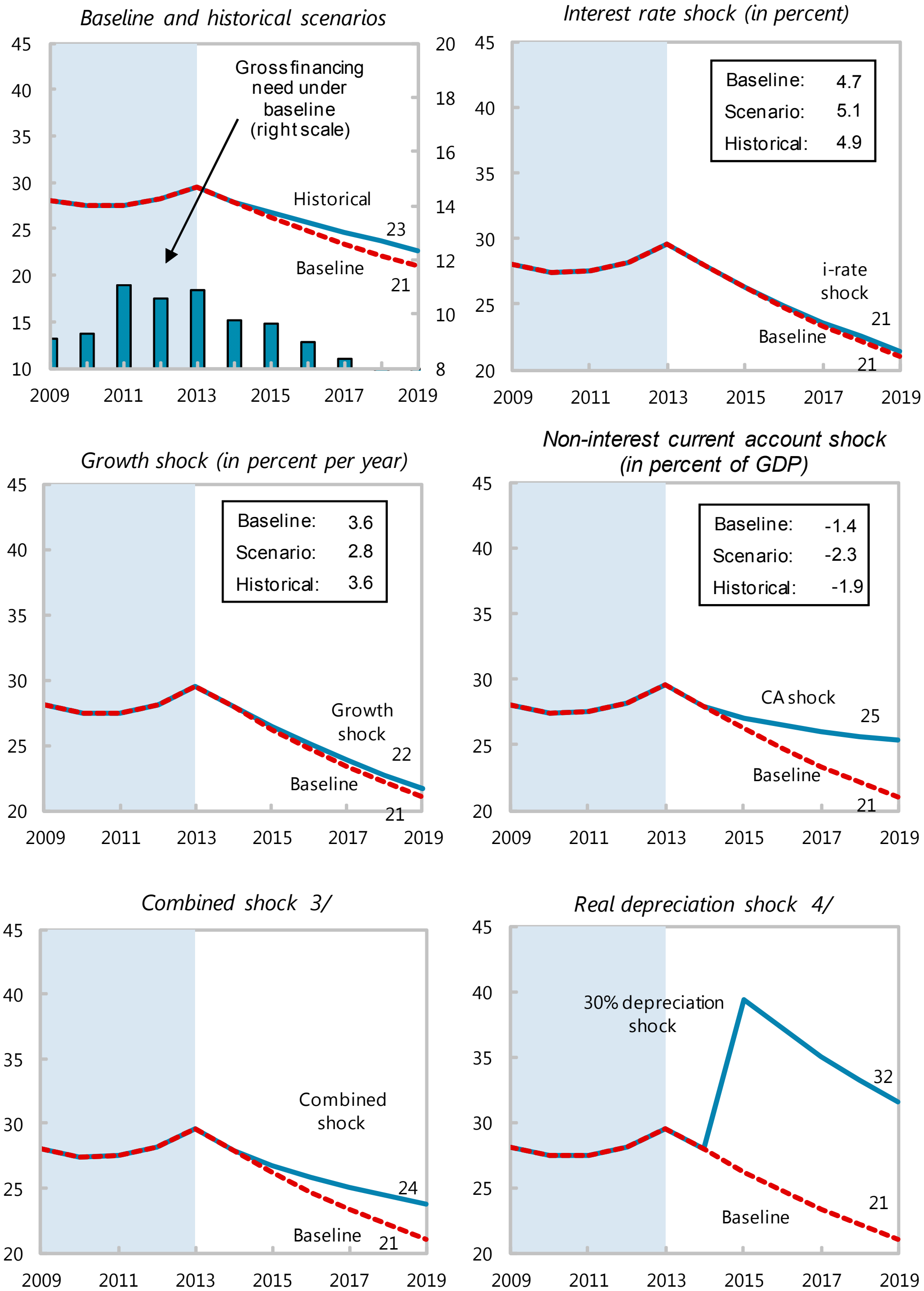
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 7. Guatemala: External Debt Sustainability: Bound Tests [1/, 2/]

(External 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 current account balance.

INTERNATIONAL MONETARY FUND

GUATEMALA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 26, 2014

Prepared By: The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of July 31, 2014)

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

General Resources Account:	**SDR Million**	**Percentage of Quota**
Quota	210.20	100.00
Fund holdings of currency	210.21	100.00
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**Percentage of Allocation**
Net cumulative allocation	200.91	100.00
Holdings	173.51	86.36

Outstanding Purchases and Loans: None

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

Projected Payments to Fund[4]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal					
Charges/Interest	0.01	0.02	0.02	0.02	0.02
Total	0.01	0.02	0.02	0.02	0.02

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

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.

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 classified as "floating". 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. As of July 24, 2014 the reference exchange rate was Q7.80 per U.S. dollar.

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. An FSAP Update is underway for 2014 and an IMF and a World Bank team visited Guatemala during March 18-April 1, 2014.

Article IV Consultation. The last Article IV consultation was concluded by the Executive Board on July 25, 2013.

Resident Representative. Mr. Mario Garza is the Regional Resident Representative for Costa Rica, Guatemala, and El Salvador, and is based in Guatemala.

Technical Assistance 2011–14

Department	Date of Delivery	Purpose
FAD, CAPTAC	2014	Treasury single account
	2011, 2012, 2013	Treasury single account (multiple missions)
	2014	Support tax control strategy with emphasis on mass control
		Establish taxpayers profiles and data to measure effectiveness of actions
	2010, 2011, 2012, 2013	Revenue administration (multiple missions)
	June 2014	Integrated control on VAT Credit; Tax and Customs Compliance Improvement Program; Information based Integrated Control Model
	2010, 2011, 2012, 2013	Customs administration (multiple missions)
	February 2012	Control of budgetary execution
	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
MCM, CAPTAC	2014	Enhancing monetary operations
		Extending and reviewing the Central Bank macroeconomic structural model
		Strengthening Central Bank macromodeling including for fiscal sustainability analysis
		Stress testing model for banking supervision as well as monetary stability purposes
	2014	Development of supervision credit risk models
	2014	Recommendations for market risk regulatory framework
	2011, 2012, 2013	Risk-based bank supervision (multiple missions)
	2011, 2012, 2013	Monetary operations, forecasting and liquidity administration (multiple missions)
	2011	Capital market development (multiple missions)
	March 2011	Application of international financial reporting standards in the banking system

Department	Date of Delivery	Purpose
	November-December 2010	Foreign exchange market function and intervention strategy
	November-December 2010	Risk-based supervision for the insurance sector
	April-May 2010	Developing secondary public debt markets and enhancing monetary operations
STA, CAPTAC	2012, 2013, 2014	Producer price index (multiple missions)
	2011, 2012, 2013, 2014	Export and import price indices (multiple missions)
	2011, 2012, 2013, 2014	National accounts statistics (multiple missions)
	2014	Regional National Accounts
	2011, 2012, 2013	Monthly Index of Economic Activity
	2011	Quarterly National Accounts
	2014	Coordinated FDI and Portfolio Surveys
	2014	Balance of Payments Statistics and IIP
	2013	Training: Balance of Payments Statistics
	2013	Balance of Payments Statistics
	2010, 2011, 2012, 2013	Balance of payments and international investment position statistics (multiple missions)
	2010, 2011	Public finance statistics (multiple missions)
	2010, 2011	Monetary and financial statistics (multiple missions)

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. Lorenzo Figliuoli (Mission Chief) has met on various occasions with the World Bank's Guatemala team led by Mr. Oscar Calvo-Gonzalez (Program Leader) to discuss macroeconomic challenges, identify macro-critical structural reforms, and coordinate the two teams' work for the period August 2014–July 2015.

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 and revenue strengthening*. Guatemala's fiscal position had deteriorated in 2009-10 due to a decline in public revenues in the aftermath of the global crisis and an increase in current expenditures. Significant fiscal adjustment occurred in 2011-12, though still insufficient to stop the rise in the ratio of public debt to GDP. The 2012 tax reform has yielded less additional revenue than anticipated due to implementation problems and legal challenges. Stabilizing public sector debt at current levels will require a fiscal adjustment of about ¾-1 percent of GDP over the medium term. However, beyond this goal, adopting additional revenue-enhancing measures and improving the efficiency and composition of public expenditure will be critical to achieving 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*. Guatemala is well placed to apply key Basel III components and is in compliance with most of the Basel I framework. However, important work remains, including the full implementation of risk-based supervision and consolidated supervision. Approval of the law for micro-finance institution, currently under consideration by Congress, and the securities market law would also add to the system's resilience.

5. The teams agreed the following division of labor:

- *Fiscal consolidation and revenue strengthening*. The Fund will continue to provide policy recommendations on macro-fiscal issues, including the overall strategy of fiscal consolidation. The Fund will continue to provide technical assistance on budgetary management, which is expected to help strengthen expenditure controls and prevent the accumulation of new domestic payment arrears. The Bank completed a Public Expenditure Review in 2013 along with a database on expenditures at the municipal level. In 2014 the Bank's Board approved a Development Policy Loan for $340 million which aims at: (i) strengthening tax administration and tax policy; (ii) enhancing the quality of public expenditure and; (iii) improving the coordination and management of social policy. This Development Policy Loan is currently being reviewed by the Guatemalan Congress and is expected to be approved in 2014.

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

- *Financial sector stability*. The Bank and the Fund will cooperate as necessary in assisting Guatemala to strengthen its financial system. A new FSAP is scheduled for the spring of 2014 and will be undertaken in collaboration by the Fund and the Bank.

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, including updates of the Fund's macroeconomic framework, and progress in the above macro-critical structural reform areas.

The attached table lists the teams' separate and joint work programs during August 2014–July 2015.

World Bank and IMF Planned Activities in Macro-Critical Structural Reform Areas August 2013–July 2014

Title	Products	Provisional Timing of Missions	Expected Delivery Date
World Bank Work Program	DPL Fiscal Space for Greater Opportunities	September 2013	December 2013
	Public Expenditure Review	August 2013	Presentation in August 2013
IMF Work Program including CAPTAC-DR	Staff visit	November 2013	
	Technical Assistance: Strengthening medium-term expenditure framework Enhancing public expenditure management and control of arrears Strengthening risk management and ex-post controls, particularly for tax and customs administration Regional customs harmonization Review of the legal and regulatory PPP framework Development of liquidity risk management models and stress testing methodology for the banking system Extending risk-based supervision methodology to insurance sector Harmonization of regional financial statistics Strengthening balance of payments statistics Enhancing monetary operations Extending and reviewing the Central Bank macroeconomic structural model Strengthening Central Bank macromodeling including for fiscal sustainability analysis	2013-2014	
Joint Bank-Fund work program	FSAP	March, 2013	

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

Project Name	Total loan	Undisbursed through FY13	Projected disbursements in FY14
Support for Rural Economic Development	30.0	3.2	3.2
Land Administration	62.3	28.7	18.0
Education Quality and Secondary Education	80.0	13.5	10.5
GT Enhancing MSME Productivity Project	32.0	30.5	6.0

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of July, 2014)

D. Recent Projects and Objectives

1. **On December 2012, the IADB approved its country strategy for Guatemala for 2012–2016.** It focuses on improving living conditions for the Guatemalan population, particularly those living in rural areas. The strategy's priority target areas are structured along two axes, the first institutional, covering the areas of (i) fiscal and municipal management, (ii) social protection, and (ii) peaceful coexistence and citizen security; and the second addressing rural development, including the areas of (iv) productive development, (v) health, and (vi) transportation. Work will also be done in the crosscutting areas of climate change adaptation and mitigation, natural disaster impact mitigation, indigenous peoples and gender; and regional integration will be promoted, particularly in the transportation and energy sectors.

2. **As of July 2014, the IADB portfolio of approved sovereign-guaranteed loans under execution amounted to US$530.1 million, with an undisbursed balance of US$323.8 million.**

3. **The existing sovereign guaranteed portfolio focuses on:** (i) education; (ii) water and sanitation; (iii) health; (iv) competitiveness; (v) modernization of the state; (vi) environment and natural disasters; (vii) energy and (viii) trade. In the private sector, the IADB has an approved loan of US$20 million to support SMEs development and competitiveness.

4. **The pipeline for 2014 includes two projects in the public sector for US$310 million:** one related to energy (electrification in rural areas) for US$60 million and a US$250 million Policy-Based Loan related to improving expenditure efficiency in the health and education sectors. On the private sector side, the IADB approved in the second semester of 2013 a US$150 million loan to increase the SME financing in Guatemala, which has already been disbursed.

IADB Loan Disbursements 2009-12

(In millions of U.S. dollars, Sovereign Guaranteed Loans)

2009	2010	2011	2012
331.2	384.2	195.7	134.7
-83.7	-82.6	-93.8	-89.4
247.5	301.6	101.9	45.3
-64.5	-77.2	-79.0	-71.6
-3.9	-3.6	-4.8	-6.3
426.6	**522.4**	**120.0**	**12.7**

IADB Portfolio in Guatemala as of June 2013

(In millions of U.S. dollars)

Sector	Approved	Undisbursed
Water and sanitation	99.8	66.0
Education	150.0	109.8
Energy	55.0	38.0
Social investment	16.6	1.0
Environment and natural disasters	74.4	44.8
Private firms and SME development	29.0	28.8
Reform/Modernization of the state	275.7	268.2
Health	85.0	66.5
Trade	20.0	13.7
Total	**805.5**	**636.8**

IDB Annual Net Flows with Sovereign Guarantee 2009-13

(In millions of U.S. dollars)

	2009	2010	2011	2012	2013
Disbursement	331.2	384.2	195.7	134.7	311.9
Repayments	-83.7	-82.6	-93.8	-89.4	-114.3
Net Loan Flow	**247.5**	**301.6**	**101.9**	**45.3**	**197.6**
Interest and charges	-64.5	-77.2	-79.0	-71.6	-78.9
Subscrip. and contributions	-3.9	-3.6	-4.8	-6.3	-2.0
Net cash flow	**179.1**	**220.8**	**18.1**	**-32.6**	**116.7**

IADB Soverign Guaranteed Loan Portfolio in Guatemala as of July 2014 (In millions of U.S. dollars)

Sector	**Current approved**	**Available**
Education	150.0	95.6
Water and sanitation	50.0	48.2
Health	85.0	46.4
Competitiveness	59.0	40.9
Modernization of the state	41.7	31.2
Environment	69.4	30.7
Energy	55.0	20.7
Trade	20.0	10.2
Total	**530.1**	**323.9**

STATISTICAL ISSUES

(As of April July 31, 2014)

Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but 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 and unemployment: 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. Unemployment is estimated only on an annual basis.	
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.	
Monetary and financial statistics: The quality, coverage, and periodicity of data for the Bank of Guatemala and commercial banks are 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.	
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 July 25, 2014)

	Date of latest observation	Date received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	Jun, 27. 2014	6/27/2014	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	Jun, 27. 2014	6/27/2014	M	M	M
Reserve/Base Money	Jun, 27. 2014	6/27/2014	W	W	W
Broad Money	Jun, 27. 2014	6/27/2014	W	W	W
Central Bank Balance Sheet	Jun, 27. 2014	6/27/2014	D	D	D
Consolidated Balance Sheet of the Banking System	Jun, 27. 2014	6/27/2014	M	M	M
Interest Rates 2/	Jun, 27. 2014	6/27/2014	W	W	W
Consumer Price Index	Jun, 27. 2014	7/24/2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/– Central Government	March. 2014	6/4/2014	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/	March. 2014	6/4/2014	M	M	M
External Current Account Balance	Q4/13	3/30/2014	Q	Q	Q
Exports and Imports of Goods and Services	Q4/13	3/30/2014	Q	Q	Q
GDP/GNP	Q4/13	6/4/2014	Q	Q	Q
Gross External Debt	Q4/13	3/30/2014	Q	Q	Q
International Investment Position	Q4/13	3/30/2014	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. Provision of this data is hampered by lack of capacity while ongoing efforts are made to strengthen it.

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).

PAST FUND STAFF RECOMMENDATIONS AND IMPLEMENTATION

2013 Article IV Staff Recommendation	Implementation
Fiscal Policy	
• Fully implement the 2012 fiscal reform. The package passed in 2012 broadened the base of the corporate and personal income taxes, eliminated several VAT exemptions, increased vehicle taxes, and streamlined customs duties. The measures aimed to raise revenues by 1-1½ percent of GDP over the course of 2013 and 2014	• The results of the 2012 tax reform have been disappointing. The package has faced many obstacles, including numerous claims before the Constitutional Court. The tax administration has been plagued with implementation and governance problems, most markedly in the customs agency. As a result, staff estimates that, thus far, the reform has yielded around ¼ percent of GDP in extra collections, well below initial expectations.
• Rebuild fiscal space and enhance fiscal sustainability.	• The fiscal deficit shrank in 2013, though as a result of delays in IFI disbursements. Achieving fiscal sustainability without cutting priority spending will require higher fiscal revenue into the medium term.
Monetary Policy and Financial Sector	
• The authorities should remain vigilant of lingering inflationary pressures. Staff supported the increase in the policy rate in 2013.	• Inflation has remained within the target range and inflation expectations have also fallen. The authorities have recently made small reductions to the policy rate.
• Staff cautioned on the high rate of credit growth, particularly in dollars, and advised the authorities to stand ready to take measures if the high growth persisted.	• The rate of credit growth tapered off at end-2013 and remained at lower levels.
• The authorities should continue to modernize financial regulations, with a special emphasis on risk-based and consolidated supervision.	• While no new financial regulations were enacted, the authorities continued technical work on risk-based supervision.
Exchange Rate Policy	
• Staff advised the authorities to enhance exchange rate flexibility, in order to encourage de-dollarization and reinforce the role of inflation as the primary objective of monetary policy.	• The authorities increased the fluctuation margin for interventions in the foreign exchange market from 0.65 to 0.7 percent of the five-day moving average of the exchange rate. The level of interventions has been minimal.

Statement by the IMF Staff Representative
September 12, 2014

1. **This statement provides additional information that has become available since the staff report was issued.** It does not alter the thrust of the staff appraisal.

2. **Headline economic indicators remain in line with the baseline projection in the staff report.** August inflation was 3.7 percent y-o-y, still within the lower half of the central bank target range, while the exchange rate has held at 7.7 Quetzales/USD. Fiscal revenues continue to lag targets and the authorities have revised their forecasts for 2014 tax revenue downward, closer to staff report projections.

3. **The Ministry of Finance has submitted the draft 2015 budget to Congress.** The proposal envisages somewhat higher revenue and expenditure than the baseline projection in the staff report. The projected deficit, however, is in line with staff report forecasts after taking into account expected spending execution constraints. Financing is somewhat tilted more toward external sources than in the staff's baseline.

4. **Drought conditions have worsened, but the macroeconomic impact is expected to be negligible.** The drought has mostly affected low-income farmers that produce for self-consumption. About ¼ million rural families have been hit, and the government is providing emergency assistance (some 0.1 percent of GDP) to alleviate the adverse social consequences. The authorities are confident that the situation has been managed adequately, but are seeking international food support, in case the drought lingers and its effects worsen. The authorities have not changed their growth and inflation projections for this year, though some limited upward pressures on food prices are possible.

INTERNATIONAL MONETARY FUND
COM
COMMUNICATIONS DEPARTMENT

Press Release No. 14/432
FOR IMMEDIATE RELEASE
September 18, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Guatemala

On September 12, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guatemala.[1]

Key developments since the 2013 Article IV Consultation have been positive. Growth has returned to potential at around 3.5 percent and the output gap is closed. Inflation picked up in 2013, but stayed within the target range and has declined in early 2014. The current account deficit was virtually unchanged in 2013 at a relatively low level. Remittances have remained robust, and the deficit is comfortably financed by stable Foreign Direct Investment (FDI) and public sector borrowing. Net international reserves are at comfortable levels, and external competiveness is broadly adequate.

The results of the 2012 tax reform, which aimed to raise revenues by 1-1.5 percent of GDP, have been disappointing, yielding only 0.25 percent of GDP in extra collections. These, in turn, were outweighed by shortfalls not related to the reform. Notwithstanding the overall revenue shortfall, the fiscal deficit declined in 2013, amid delays in congressional approval of International Financial Institutions loans.

Monetary policy has been slightly relaxed. Since November 2013, the policy rate has been cut 75 basis points to 4.5 percent in the wake of falling inflation. The exchange rate has remained stable, with minimal central bank intervention under its rules-based framework. Credit has risen rapidly, slanted toward foreign currency loans, though it has recently slowed and Financial Sector Indicators are solid. Banks have turned to greater reliance on wholesale external funding but appear profitable, liquid, and well-capitalized.

[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.

Guatemala has made strides toward achieving the Millennium Development Goals, but poverty and crime are widespread. Extreme poverty has declined somewhat, primary enrollment has risen, and maternal mortality has fallen. However, malnutrition of children younger than 5 years is pervasive at about 50 percent. At the same time, the informal economy is very large, while security concerns are very serious.

The macroeconomic outlook remains benign. Growth is expected to hold to its trend rate of 3.5 percent into the medium term and inflation to converge toward the center of the central bank's target range. The external current account deficit will stay stable and largely financed by FDI. The baseline scenario envisages a broadly neutral budget stance in 2014 and modest fiscal expansion through the 2015 election cycle, with measured consolidation thereafter.

However, downside risks are prevalent. In the near term, risks related to the normalization of monetary policy in the U.S. are balanced, with the prospect of higher interest rates likely more than offset by better export prospects as the U.S. economy expands. However, extreme bouts of volatility in financial markets could inflict serious damage. Deeper-than-expected slowdowns in emerging markets, less favorable-than anticipated-developments in Europe, and disruptions in commodity markets due to geopolitical tensions could also hamper Guatemalan growth. The continued lags in implementing the 2012 tax reform and the political impasse on the 2015 budget may endanger much needed government programs. On the other hand, if lower revenues are not met with spending cuts, fiscal consolidation could be derailed. For the longer term, insufficient government revenue mobilization could persist, deterring investment in physical and human capital. In turn, this could significantly weigh on the country's long-run growth and social prospects.

Executive Board Assessment[2]

Executive Directors commended Guatemala's sound macroeconomic policies and welcomed the broadly positive outlook. Directors noted, however, that poverty and social inequality remain high and that risks are tilted to the downside. They encouraged the authorities to accelerate efforts to improve social outcomes and foster higher, inclusive growth, while continuing to strengthen macroeconomic management and resilience. Increasing fiscal revenue will be particularly important.

With the output gap essentially closed, Directors viewed the current broadly neutral budget stance as appropriate. They stressed the need to safeguard critical social and investment spending in the event of financing shortfalls. In this context, implementation setbacks to the 2012 tax reform should be addressed through strengthened tax and customs compliance.

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[2] 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 summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors also called for congressional passage of a 2015 budget and the timely approval of multilateral loans. Improved budget execution and controls would help to stem the accumulation of domestic arrears.

Directors recommended that fiscal sustainability be progressively strengthened over the medium term in order to improve resilience and create space for increased priority spending. Achieving a modest permanent improvement in the primary balance would require both enhanced revenue mobilization and improvements to public expenditure management. Directors stressed the need for a significant effort to raise revenues from their currently low level in order to step up spending on health, education, security and infrastructure.

Directors viewed the monetary policy stance as broadly appropriate given low headline and core inflation. They welcomed the authorities' intention to remain vigilant and tighten monetary policy should inflationary pressures re-emerge. Directors advised strengthening the monetary transmission mechanism and policy framework by reinforcing the inflation target as the primary objective of monetary policy, including through a gradual enhancement of exchange rate flexibility. This could also weaken the incentive for dollarization and help safeguard foreign reserves. Directors encouraged efforts to develop domestic debt and securities markets.

Directors welcomed the significant regulatory and legislative reforms undertaken to strengthen banking supervision and promote overall financial stability in response to the previous FSAP. They encouraged the authorities to follow through on the recommendations of the 2014 FSAP update, highlighting the importance of a gradual introduction of Basel III standards, a further strengthening of consolidated supervision, improved regulation of off-shore banks, and a further enhancement of the Anti Money Laundering/Combating the Financing of Terrorism framework. Directors advised the authorities to consider the adoption of macroprudential measures to control risks associated with dollarization.

Directors called for deep structural reforms and greater regional and global integration to lift Guatemala's growth potential and enhance social inclusion. Measures should aim to strengthen competitiveness and improve the business climate, including security; strengthen governance; and enhance the quality of education, so as to help reduce poverty and develop a skilled and productive labor force.

Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2010 (millions)	15	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)	3,234

II. Economic Indicators

					Est.	Proj.	
	2009	2010	2011	2012	2013	2014	2015
Income and Prices	(Annual percent change)						
Real GDP	0.5	2.9	4.2	3.0	3.7	3.4	3.7
Consumer prices (end of period)	-0.3	5.4	6.2	3.4	4.4	4.0	4.3
Monetary Sector							
M2	10.0	11.3	10.7	9.8	9.0	10.0	10.5
Credit to the private sector	1.1	5.7	14.1	17.7	12.0	13.0	14.0
	(In percent of GDP, unless otherwise indicated)						
Savings and Investment							
Gross domestic investment	13.1	13.9	15.2	15.0	14.2	14.3	14.5
Private sector	9.1	11.2	11.9	12.5	11.9	12.1	12.1
Public sector	3.9	2.7	2.9	2.3	2.4	2.2	2.4
Gross national saving	13.8	12.6	11.9	12.4	11.5	12.0	11.9
Private sector	12.6	12.7	11.3	12.0	10.8	11.4	11.3
Public sector	1.2	-0.1	0.5	0.3	0.7	0.6	0.6
External saving	-0.7	1.4	3.4	2.6	2.7	2.3	2.5
External Sector							
Current account balance	0.7	-1.4	-3.4	-2.6	-2.7	-2.3	-2.5
Trade balance (goods)	-8.9	-10.3	-10.4	-11.4	-11.5	-10.9	-10.9
Exports	19.3	20.6	22.1	20.0	18.9	19.2	18.9
Imports	-28.2	-31.0	-32.5	-31.4	-30.4	-30.0	-29.8
Of which: oil & lubricants	-5.5	-5.7	-6.5	-6.3	-5.9	-5.8	-5.5
Other (net)	9.6	9.0	7.1	8.8	8.7	8.5	8.4
Of which: remittances	10.5	10.0	9.2	9.8	9.8	9.5	9.4
Capital and financial account	0.5	4.4	6.5	4.5	4.7	2.9	2.5
Public sector	2.1	1.5	0.1	1.4	1.5	0.5	0.6
Private sector	-1.6	2.9	6.5	3.1	3.2	2.4	2.0
Of which: FDI	1.5	2.0	2.2	2.4	2.4	2.4	2.4
Errors and omissions	0.0	-0.8	-0.5	-0.9	-0.6	-0.6	0.0
Overall balance	1.3	2.2	2.7	1.0	1.3	0.0	0.0
Net International Reserves							
(Stock in months of next-year NFGS imports)	3.8	3.7	3.8	3.9	3.9	3.6	3.4
(Stock over short-term debt on residual maturity)	2.0	1.9	1.9	1.8	1.9	1.8	1.9
Public Finances							
Central Government							
Revenues	11.1	11.2	11.6	11.6	11.7	11.2	11.2
Expenditures	14.2	14.5	14.4	14.0	13.8	13.3	13.4
Current	10.7	11.0	11.2	11.1	10.8	10.5	10.4
Capital	3.5	3.6	3.2	2.9	3.0	2.8	3.0
Primary balance	-1.7	-1.8	-1.3	-0.9	-0.6	-0.5	-0.7
Overall balance	-3.1	-3.3	-2.8	-2.4	-2.1	-2.1	-2.2
Financing of the central government balance	3.1	3.3	2.8	2.4	2.1	2.1	2.2
Net external financing	1.3	1.5	0.1	1.5	1.5	0.5	0.6
Net domestic financing	1.8	1.8	2.7	0.9	0.6	1.4	1.6
Rest of Nonfinancial Public Sector Balance	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Combined Nonfinancial Public Sector							
Primary balance	-1.3	-1.3	-0.9	-0.5	-0.2	-0.1	-0.3
Overall balance	-2.8	-2.8	-2.4	-2.0	-1.7	-1.7	-1.8
Central Government Debt	22.9	24.1	23.7	24.3	24.6	24.9	25.3
External	13.0	13.1	11.5	12.4	12.9	12.9	12.7
Domestic 1/	9.9	11.0	12.1	11.9	11.7	11.9	12.7
Memorandum Items:							
GDP (US$ billions)	37.7	41.3	47.7	50.4	53.8	58.1	62.3
Output gap (% of GDP)	-0.7	-0.9	0.0	-0.3	0.0	-0.1	0.1

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

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

Statement by Mr. Jose Alejandro Rojas, Executive Director for Guatemala and Mr. Carlos Acevedo Flores, Alternate Executive Director
September 12, 2014

On behalf of my Guatemalan authorities, I would like to thank the staff for the balanced report and constructive dialogue with the Fund during the 2014 Article IV consultation. While my authorities broadly agree with the thrust of the Report, we would like to emphasize the following issues:

1. **Economic growth**:

As the staff report rightly points out, Guatemala's economy has performed solidly after emerging from the global financial crisis, and the macro outlook is broadly positive. Real GDP expanded 3.7 percent in 2013, up from 3.0 percent in 2012. And according to my authorities it will continue to be strong in 2014, similar to that of the previous year, supported by the dynamism in agricultural, manufacturing, construction, mining and financial services; these estimates are confirmed by the current trend of the monthly index of economic activity (IMAE), which increased 5.6 percent in July, taking the 12-month trailing average around 4.0 percent. This growth dynamic is in line with the Fund estimates for Guatemala's growth potential.

Inflation remains under control in 2014. By August 2014, y-o-y inflation was reduced to 3.7 percent while core inflation remains close to 2.0 percent. While prices accelerated in the first half of 2013, mostly owing to fast rising food prices, inflationary pressures receded in the second semester and closed at 4.4 percent that year, and it has remained below the center part of the target range in 2014 (4 +/- 1 percentage point).

2. **Fiscal stance**

For many years, Guatemala has remained committed to a strong fiscal discipline, as evidenced in its consistently low fiscal deficits and public debt-to-GDP ratios, which are among the lowest in the region. In spite of the moderate results of the tax reform in 2012, the fiscal deficit in 2013 narrowed to 2.1 percent of GDP, from 2.4 percent in 2012, mainly due to a significant expenditure control. The fiscal deficit relative to GDP has averaged 2.1 percent in the last 20 years and it only exceeded the 3 percent mark during the worst years of the past global recession, albeit during that period Guatemala bested several natural disasters. Based on current trends, the authorities expect that the 2014 fiscal deficit will close at 2.1 percent of GDP. Consistent with those small fiscal deficits, public debt has been relatively stable as a share of GDP, at around 25 percent.

As already mentioned, in 2012 the government pursued an ambitious tax reform, which aimed at broadening the base of the corporate and personal income taxes, eliminating several VAT exemptions, increasing vehicle taxes, and streamlining customs duties. The outcome of the reform, although broadened the base of the corporate and personal income tax, was rather modest, yielding well below of what was originally planned; reflecting some claims before the Constitutional Court and hindrances associated to administrative shortcomings at the customs agency. The authorities have reiterated their commitment to enhance tax collections to continue strengthening fiscal sustainability over the medium term. To that end, the Superintendency of Tax Administration has been developing a strategy to ensure the full implementation of the reform coupled with administrative measures.

3. Monetary and exchange rate policies

Since the adoption of the inflation targeting regime by Banco de Guatemala in 2005, the monetary policy framework has served well the purposes of anchoring inflation expectations, providing the opportunity for the monetary authorities to establish in 2013 a medium-term inflation target of 4 percent (+/- 1 percentage point). Since 2012, inflation has remained within that target. My authorities do not share the value judgment of the staff regarding the decision to reduce the policy rate in November 2013, since there was not any concern regarding economic growth, but a significant decrease in inflationary pressures. Even though the staff considers that the monetary policy stance for 2014 is slightly expansionary, the authorities have stressed that the behavior on the monetary base is in line with the projections, economic agents expectations remain subdued, core inflation is below 2 percent on annual basis, and credit growth has significantly decelerated (9 percent as of August); however, the authorities have expressed their intention to remain vigilant to tighten monetary policy if inflationary pressures emerge.

The exchange rate is flexible and the central bank only intervenes to moderate volatility but not to change the trend. There is an explicit rule for intervention and it has become more flexible year after year. Central bank interventions have been minimal and the foreign exchange rate stability reflects mainly the prudent management of macroeconomic policies.

Overall, this policy framework has proven appropriate and has allowed Guatemala to comfortably handle the risks related to the normalization of monetary policy in the U.S. Therefore, my authorities do not share the staff´s view that this regime has not been seriously tested so far (paragraph 25) since the country faced by end 2006 and early 2007 a banking resolution process of one large bank and one small bank, coupled with foreign exchange pressures associated with the cutting of credit lines of international banks to the Guatemalan banking system in the face of the global financial crisis of 2008-2009 (that are not expected to occur again, at least in the short-run). Those facts were clear examples of the regime's effectiveness. The HAPA approved by the IMF´s Executive Board to Guatemala in 2009 was crucial to maintain stable market expectations, meaning that the rule is not the only mechanism to face foreign exchange pressures; therefore, a more comprehensive discussion of Guatemala´s exchange market with the staff would be desirable.

Moreover, the monetary authorities have broadly endorsed IMF advice to continue raising gradually exchange rate flexibility, to credibly convey to the public that the inflation target is their primary objective.

4. External sector

The current account deficit amounted to 2¾ percent of GDP in 2013. This deficit remained mostly financed by steady FDI and other private capital flows. Net international reserves (NIR) reached US$7.3 billion at end-2013, covering roughly 4.5 months of imports, and well within the IMF's composite reserve adequacy metrics. Thus far, there has not been any significant impact from U.S. monetary policy normalization. On the other hand, competitiveness seems broadly adequate, the external current account balance has improved and Guatemala's REER is generally in line with medium-term fundamentals according to the IMF's multilaterally consistent estimates.

5. Financial policies

The 2014 FSAP update found that Guatemala's banking system appears to be generally sound. More specifically, banks are profitable, liquid, well-capitalized, and generally resilient to financial spillovers from advanced countries. Credit to the private sector has moderated to only 9 percent at end August, from about 16 percent in 2012 and 12 percent by end-2013. Foreign exchange credit, which represents less than one third of total credit to the private sector, has continued growing; however, it has decelerated to 12.6 percent by end August from almost 30 percent in 2011. Moreover, as a share of GDP, total credit has only recovered to levels marginally above those before the global financial crisis, suggesting that its rise may be mostly a catch-up phenomenon.

My authorities would like to highlight that significant reforms have been undertaken to improve financial supervision and the regulatory framework since the previous FSAP in 2006. These reforms include actions to upgrade the regulatory framework and supervisory practices, towards a more risk based approach and risk management issues. Also, measures have been taken to strengthen the macroprudential monitoring and analysis, including the strengthening of capacity building, inter-agency coordination and improved financial stability analysis models. Furthermore, amendments to the Law of Banks and Financial Groups and the Central Bank Organic Law entered into force in April 2013, covering offshore operations, connected lending, supervisory enforcement powers and bank resolution procedures. Regarding the Anti-Money Laundering and Combating the Financing of Terrorism, it is worth to mention that Guatemala has also joined GAFISUD, the Latin American regional arm of FATF.

The authorities would also like to underscore that Guatemala's banking system has proven to be resilient to domestic and external shocks; the failure of two banks in 2006-2007 and the global financial crisis did not spread to the rest of the system and the current stress test prepared by the FSAP mission confirm that resiliency even to high levels of stress.

Management of those crises has also proven to be effective, given the strong coordination within the Central Bank and the Superintendency of Banks, which allowed a timely adoption of measures to mitigate potential impacts.

Overall, the authorities want to express their appreciation to the Fund for the thorough and detailed work that underlies the report prepared by the FSAP mission team, and for the very constructive dialogue that has taken place around the consultations for the Article IV. In addition, they want to express their willingness to give due consideration to the recommendations, where appropriate, that have risen from this dialogue and could further contribute to enhance the financial system, the macroeconomic stability and inclusive growth for Guatemala.