INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/281

# GUATEMALA

## 2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX

August 2016

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 2016 Article IV consultation with Guatemala, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 31, 2016, 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 2, 2016.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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September 1, 2016

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**IMF Executive Board Concludes 2016 Article IV Consultation with Guatemala**

On August 22, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Guatemala, and considered and endorsed the staff appraisal without a meeting.[2]

The Guatemalan economy withstood the 2015 political crisis well. A solid policy track record together with favorable external conditions contributed to the resilience. The new administration, who took office in January, 2016, is undertaking important efforts to tackle corruption, one of the major challenges facing the country's economy and society at large. The main strands of these efforts include a broad-based reform of the tax and customs administration, more transparent public procurement, increased accountability of Congress, a more independent Judiciary, and stricter application of the rule of law.

Macroeconomic performance has been solid. The economy grew at 4.1 percent in 2015, slightly above potential, despite a slowdown in public consumption and investment during the crisis. Private consumption was lifted by lower oil prices and strong remittances. The latter also boosted the external position, creating a comfortable reserve cushion. With inflation well-anchored, monetary policy was eased to support growth. The financial system remained stable with no material loss of correspondent banking relationships. Fiscal revenues, however, fell well below expectations. The shortfall was offset by even larger spending cuts, resulting in a fiscal deficit below the budget target.

Progress on social objectives is lagging. Only one fourth of the Millennium Development Goals (MDGs) for 2015 were met, with none met for the rural and indigenous population. Moreover, there have been reversals in reducing extreme poverty and raising school enrollment.

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

The macroeconomic outlook remains benign. Growth is set to return to its trend rate of 3.8 percent in 2016 and gradually rise to 4 percent in the medium term, reflecting the positive impact of efforts to increase transparency and efficiency of public spending. Despite a pick-up in food price inflation, headline inflation has remained within the target range so far in 2016 and is expected to stay on course in the medium term. The external position is set to widen to 1.7 percent of GDP by 2021, driven by gradual reversal of the oil price decline and strong domestic demand. Fiscal deficit is projected to remain close to 1.5 percent of GDP in the medium term. Risks, however, are tilted towards the downside due to global uncertainties and domestic policy constraints.

**Executive Board Assessment**

The economy weathered the 2015 political crisis well. Despite the impact of revenue shortfalls on public expenditure, growth remained robust in 2015, supported by low oil prices and strong remittances. The exchange rate has been stable and inflation has remained within the central bank's target range. These trends are expected to continue in the medium term, with GDP growing at potential and inflation within the target range. The current account deficit is projected to increase only gradually. However, there are downside risks to growth from global uncertainties and domestic policy constraints.

A higher fiscal deficit could be justified on structural and social grounds. With the output gap closed, the current broadly neutral fiscal stance is reasonable. However, a fiscal relaxation to bring the overall deficit to around 2 percent of GDP may be justified to maintain capital and social spending and to implement the anti-corruption reform agenda. However, this should be a temporary increase in the deficit while efforts to raise the revenue-GDP ratio are put in place.

Monetary policy should be attuned to signs of an increase in inflation. Core inflation remains below the target range, inflation expectations well-anchored, and inflation is forecasted to remain within the target range. However, the central bank should stand ready to increase the policy rate promptly if inflationary pressures intensify.

Structural objectives should guide fiscal policy over the medium-term. A gradual increase in fiscal revenues to at least 15 percent of GDP would be essential to meet critical social, security and infrastructure needs and to support long-term growth. This will require both improvements in tax administration and a revamp of the tax policy framework, including through an increase in tax rates. Tax reform should be presented in the context of a more comprehensive reform strategy to help secure public support. Measures to improve fiscal transparency and efficiency on the expenditure side would help raise government credibility.

The central bank should transition to a full-fledged inflation targeting. Additional measures to strengthen the monetary transmission, including continuing efforts to increase exchange rate flexibility, discourage dollarization, cover past and current operational losses of the Central Bank in the short term and recapitalize the Central Bank in the longer term, and develop capital markets would help with that transition.

Guatemala's external position is moderately stronger than the level consistent with medium term fundamentals and desirable policy settings. A lower-than-desirable fiscal deficit accounts for most of the identified policy gap. Reducing crime and corruption, investing in education and infrastructure, strengthening legal protection, and deepening the financial system would help mitigate the competitiveness gap.

Efforts to fortify the financial system should continue. The financial system appears sound, though moderately high credit dollarization, fast growing foreign bank liabilities, and exposure to sovereign debt represent vulnerabilities. The system has not been materially affected by the loss of correspondent banking relationships. However, this should not slow efforts to strengthen risk-based Anti-Money Laundering/Combating the Financing of Terrorism supervision and bring the framework into line with the Financial Action Task Force standards, especially as it would complement efforts to combat crime and corruption. Continued implementation of the 2014 Financial Sector Assessment Program update and regional cluster surveillance report recommendations, including strengthening capital and liquidity buffers as well as enhancing consolidated supervision of financial conglomerates, will help strengthen financial system's resilience.

Structural reforms should support higher and more inclusive growth. Increasing the size and efficiency of social assistance programs as well as raising public expenditures on education, infrastructure, and security will be important to continue building human and physical capital. Improved childcare and support to indigenous women could help raise female labor force participation. Continued progress on regional and international integration, stronger competition policies, and measures to support financial deepening and inclusion, will also help stimulate long-term inclusive growth. Articulating an overarching long-term growth and social strategy would help garner public support for the reforms.

## Guatemala: Selected Economic and Social Indicators

| I. Social and Demographic Indicators | | | |
|---|---|---|---|
| Population 2014 (millions) | 16 | Gini index (2014) | 53 |
| Percentage of indigenous population (2011) | 40 | Life expectancy at birth (2013) | 72 |
| Population below the poverty line (Percent, 2014) | 59 | Adult illiteracy rate (2012) | 17 |
| Rank in UNDP development index (2011; of 187) | 131 | GDP per capita (US$, 2014) | 3,700 |

| II. Economic Indicators | | | | | | Proj. | |
|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Income and Prices** | (Annual percent change) | | | | | | |
| Real GDP | 3.0 | 3.7 | 4.2 | 4.1 | 3.8 | 3.7 | 3.8 |
| Consumer prices (end of period) | 3.4 | 4.4 | 2.9 | 3.1 | 4.0 | 4.0 | 4.0 |
| **Monetary Sector** | | | | | | | |
| M2 | 9.8 | 9.0 | 8.7 | 9.4 | 9.0 | 10.2 | 9.1 |
| Credit to the private sector | 17.7 | 12.0 | 8.8 | 12.8 | 10.5 | 11.5 | 10.7 |
| **Saving and Investment** | (In percent of GDP, unless otherwise indicated) | | | | | | |
| Gross domestic investment | 15.0 | 14.0 | 13.7 | 13.4 | 13.4 | 13.5 | 13.7 |
| Private sector | 13.1 | 12.2 | 12.0 | 12.1 | 12.1 | 12.1 | 12.1 |
| Public sector | 1.9 | 1.9 | 1.7 | 1.3 | 1.3 | 1.5 | 1.6 |
| Gross national saving | 12.4 | 11.5 | 11.6 | 13.1 | 12.8 | 12.8 | 12.7 |
| Private sector | 12.5 | 11.4 | 11.4 | 13.0 | 12.8 | 12.7 | 12.5 |
| Public sector | -0.1 | 0.1 | 0.2 | 0.1 | -0.1 | 0.0 | 0.1 |
| External saving | 2.6 | 2.5 | 2.1 | 0.3 | 0.6 | 0.8 | 1.0 |
| **External Sector** | | | | | | | |
| Current account balance | -2.6 | -2.5 | -2.1 | -0.3 | -0.6 | -0.8 | -1.0 |
| Trade balance (goods) | -11.4 | -11.5 | -10.3 | -8.7 | -8.7 | -9.1 | -9.3 |
| Exports | 20.0 | 18.9 | 18.7 | 17.0 | 16.7 | 17.0 | 16.8 |
| Imports | -31.4 | -30.4 | -29.0 | -25.7 | -25.4 | -26.1 | -26.1 |
| *Of which:* oil & lubricants | -6.3 | -5.8 | -5.4 | -3.1 | -2.6 | -2.9 | -3.0 |
| Other (net) | 8.8 | 9.0 | 8.2 | 8.4 | 8.0 | 8.3 | 8.3 |
| *Of which:* remittances | 9.8 | 9.7 | 9.7 | 10.1 | 10.2 | 10.4 | 10.4 |
| Capital and financial account | 4.5 | 4.9 | 3.1 | 1.7 | 1.2 | 0.8 | 1.0 |
| Public sector | 1.4 | 1.5 | -0.1 | 0.7 | 1.2 | 0.6 | 0.5 |
| Private sector | 3.1 | 3.4 | 3.1 | 1.0 | 0.1 | 0.2 | 0.5 |
| *Of which:* FDI | 2.4 | 2.3 | 2.2 | 1.7 | 1.8 | 1.9 | 2.0 |
| Errors and omissions | -0.9 | -1.1 | -0.8 | -0.6 | 0.0 | 0.0 | 0.0 |
| Overall balance | 1.0 | 1.3 | 0.1 | 0.7 | 0.6 | 0.0 | 0.0 |
| **Net International Reserves** | | | | | | | |
| (Stock in months of next-year NFGS imports) | 3.9 | 3.9 | 4.1 | 4.2 | 4.1 | 3.9 | 3.6 |
| (Stock over short-term debt on residual maturity) | 2.0 | 1.9 | 1.9 | 1.7 | 1.7 | 1.9 | 2.0 |
| **Public Finances** | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Central Government** | | | | | | | |
| Revenues | 11.6 | 11.6 | 11.5 | 10.8 | 10.6 | 11.0 | 11.0 |
| Expenditures | 14.0 | 13.8 | 13.4 | 12.3 | 12.2 | 12.6 | 12.7 |
| Current | 11.1 | 10.8 | 10.5 | 10.1 | 10.0 | 10.2 | 10.1 |
| Capital | 2.9 | 3.0 | 2.9 | 2.2 | 2.2 | 2.4 | 2.6 |
| Primary balance | -0.9 | -0.6 | -0.4 | 0.1 | -0.1 | -0.1 | -0.1 |
| Overall balance | -2.4 | -2.1 | -1.9 | -1.4 | -1.6 | -1.6 | -1.6 |
| | | | | | | | |
| Financing of the central government balance | 2.4 | 2.1 | 1.9 | 1.4 | 1.6 | 1.6 | 1.6 |
| Net external financing | 1.5 | 1.5 | 0.0 | 0.7 | 1.2 | 0.6 | 0.5 |
| Net domestic financing | 0.9 | 0.6 | 1.9 | 0.7 | 0.5 | 1.1 | 1.1 |
| | | | | | | | |
| **Rest of Nonfinancial Public Sector Balance** | 0.4 | 0.4 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Combined Nonfinancial Public Sector** | | | | | | | |
| Primary balance | -0.5 | -0.2 | 0.0 | 0.3 | 0.1 | 0.1 | 0.1 |
| Overall balance | -2.0 | -1.7 | -1.5 | -1.2 | -1.4 | -1.4 | -1.4 |
| | | | | | | | |
| **Central Government Debt** | 24.3 | 24.6 | 24.3 | 24.2 | 24.2 | 24.3 | 24.4 |
| External | 12.4 | 12.9 | 11.6 | 11.6 | 12.1 | 12.0 | 11.8 |
| Domestic 1/ | 11.9 | 11.7 | 12.6 | 12.6 | 12.0 | 12.3 | 12.5 |
| | | | | | | | |
| **Memorandum Items:** | | | | | | | |
| GDP (US$ billions) | 50.4 | 53.9 | 58.7 | 63.8 | 68.4 | 72.1 | 76.8 |
| Output gap (% of GDP) | -0.6 | -0.4 | 0.0 | 0.0 | 0.1 | 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.

# GUATEMALA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

August 2, 2016

## KEY ISSUES

**Context**. Despite a political crisis, linked to the arrest of the former President and other officials on corruption charges, Guatemala's economy has coped well. Growth and the external position have been boosted by low oil prices and strong remittances, while the fiscal deficit had declined. However, progress on social objectives is lagging. There are downside risks from global uncertainties and domestic policy constraints.

**Near-term policies are effectively balancing growth and inflation considerations.** However, the authorities should remain vigilant if inflation pressures intensify. Raising revenue is the main priority, but given the low public debt and fiscal deficit, a temporary fiscal relaxation could be justified to address pressing structural and social needs.

**The authorities are undertaking important efforts to tackle corruption.** The main strands of these efforts include a broad-based reform of the tax and customs administration, more transparent public procurement, increased accountability of Congress, a more independent judiciary, and stricter application of the rule of law.

**Fiscal policies should focus on supply side and social objectives.** Accommodating higher social, security and infrastructure spending will necessitate an increase in revenues from both improved tax administration and tax policy changes. Greater fiscal transparency and spending efficiency will be important to increase government credibility.

**Fortification and deepening of the financial system should continue.** The transition to a full-fledged inflation targeting should be completed and should support a reduction in financial dollarization. The authorities should further pursue efforts to improve their AML/CFT supervision, strengthen the bank resolution framework, fortify capital buffers, and enhance the consolidated supervision of financial conglomerates. Strengthening the legal and regulatory frameworks will help provide a climate for further financial deepening and inclusion.

**Structural reforms are vital to raise potential growth and lessen poverty and inequality.** Higher and more efficient public spending, greater regional and global integration, stronger competition policies, rural development and higher female labor force participation could help support higher inclusive growth.

Approved By
**N. Chalk (WHD) and P. Koeva Brooks (SPR)**

A. Ivanova (Head), V. Flamini, C. Janada, J. Puig, I. Teodoru (all WHD); and M. Garza, Regional Resident Representative. W. Garcia (OED) participated in the discussions.

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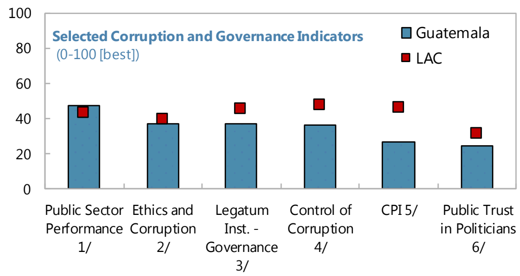
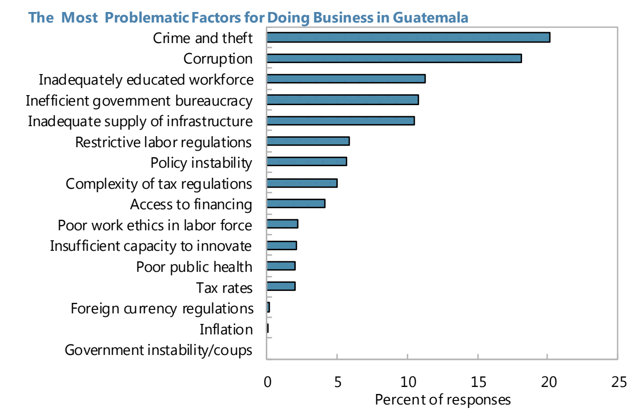
# RECENT DEVELOPMENTS

1. **The 2015 political crisis has brought an anti-corruption agenda to the fore.** Corruption is deeply-rooted in Guatemala. The global competitiveness report (2015–16) lists corruption as one of the most problematic factors for doing business in Guatemala. During 2015, the International Commission against Impunity in Guatemala (CICIG) helped unveil cases of tax graft, money laundering, and illegal funding, which led to the arrest of top officials in the Tax and Customs Authority (SAT) and the Social Security Institute, and to the indictment of former President Perez Molina and Vice President Baldetti. Amid broad national discontent, traditional political parties lost support in favor of President Morales, who took office in January 2016 on a platform of no-tolerance against corruption (Box 1).

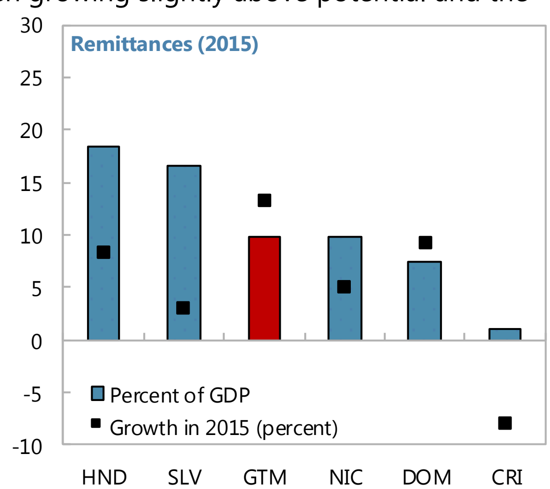



1/ World Economic Forum (WEF). Includes wastelfulness of government spending, burden of government regulation, efficiency of legal framework in settling disputes, efficiency of legal framework in challenging regulations and transparency of government policymaking.
2/ WEF. Includes diversion of public funds, public trust in politicians, and irregular payments and bribes.
3/ Measures countries performance in effective and accountable government, fair elections and political participation, and rule of law.
4/ Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.
5/ Corruption Perception Index (2015)
6/ WEF. In your country, how do you rate the ethical standards of politicians?




Source: World Economic Forum. From the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

2. **Growth remains robust.** The economy has been growing slightly above potential and the output gap is closed (Selected Issues and Analytical Notes (AN), Figure 1). Growth remained at 4.1 percent in 2015 despite the slowdown in public consumption and investment during the political crisis. Private consumption was lifted by lower oil prices and strong remittances**.** The latter grew faster in Guatemala than elsewhere in the region. At 3 percent of the labor force, unemployment rate remains low, but a large share of population, in particular, indigenous and rural, is employed in the informal sector. Female labor force participation (LFP) is low, in part, due to the low level of education among indigenous women (AN, Figure 7).



### Box 1. Key Elements of the Anti-Corruption Strategy

**A central priority in the fight against corruption is the tax administration (SAT).** Unveiled cases of tax graft in 2015 have sharply eroded the credibility of an already ailing SAT, weakened tax compliance, and led to collection losses. The new government has adopted emergency actions to regain control over customs and institute a new SAT law recently approved by Congress aimed at strengthening governance and removing bank secrecy constraints to tax enforcement starting in 2017. A strategic plan for tax and customs administration is being developed, with Fund assistance.

**In late 2015, Congress approved changes to strengthen the governance and transparency of government's procurement practices.** Key innovations are the creation of an e-outlet ("Guatecompras") to provide transparent information on procurement transactions and the introduction of reverse auctions to enhance competition among suppliers. The new bill on procurement forbids government contracts with state officials and sponsors of political parties. It also improves the technical capacity of government's awarding committees, and sets up penalties for collusion or noncompetitive practices in supplying the government. The authorities are also developing a strategy to increase fiscal transparency, with Fund assistance.

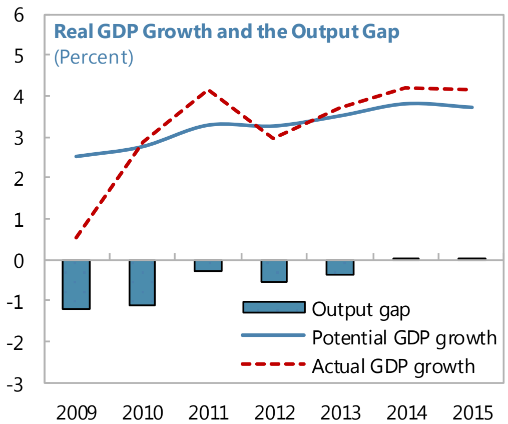
**The anti-corruption effort extends to Congress, the Judiciary, and political parties.** New organic laws were passed to improve the accountability of Congress and enhance the independence of the Judiciary in 2016. The bills reduce conflict of interest by discouraging deputies from switching political parties and constrain their hiring of excessive staff. The bills also reduce discretion in the removal of the general attorney; grant him/her with broader powers to designate prosecutors and strengthen criminal investigation. More recently, Congress passed bills to increase the transparency of funding of political parties, set guidelines to develop the judicial service, and enhance recruitment and promotion of civil servants in Congress based on merit. A civil service initiative for the Executive is also under way.

**The government plans to reform the Constitution to further strengthen the Judiciary.** Congress will soon consider reforms to broaden access to justice, strengthen the role and protection of judges, and reduce abuses of immunity granted to government officials. In the meantime, a stricter application of the rule of law has led to multiple legal proceedings against the illicit use of government funds, money laundering, and bribery, which have led to the recovery of past-due taxes and other assets.

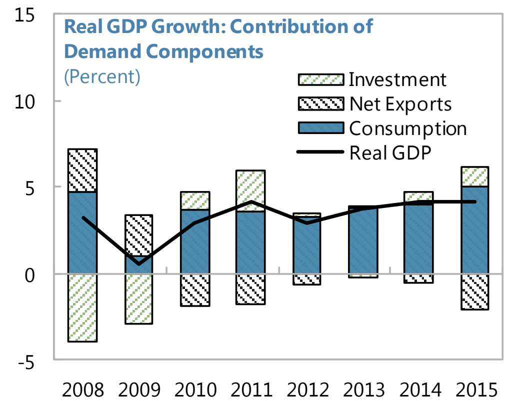
3. **Inflation rose in 2016 but remains close to the center of the target range.** Inflation was below the 4±1 percent target range during most of 2015 driven by lower transportation and utility tariffs (Figure 1). It returned to the target range in 2015, and exceeded the center of the range in early 2016, driven by higher food prices as well as dissipation of last year's declines in transportation and utility tariffs. High food inflation reflected both higher demand associated with strong remittances that eased constraints on the poor as well as weather-related supply shocks (Box 2). Core inflation slowed further in early 2016, likely due to the second-round effects from lower oil prices and appreciation of the real effective exchange rate (REER). Inflation expectations remained well-anchored and are now close to the center of the target range.

## Figure 1. Guatemala: Recent Developments, Real Sector and Inflation

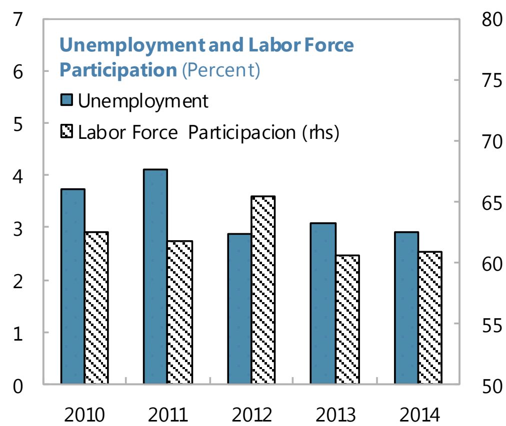
*The output gap is closed and growth is close to potential.*



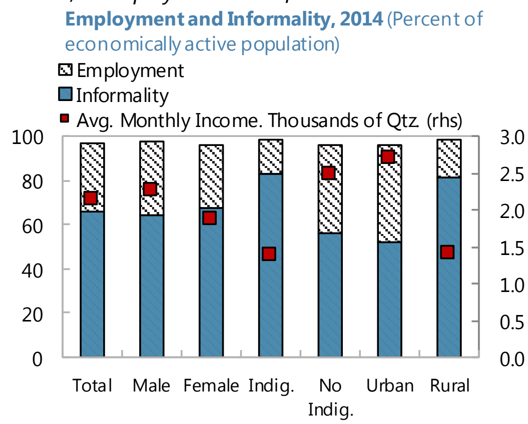

*Private consumption and investment drove growth in 2015.*



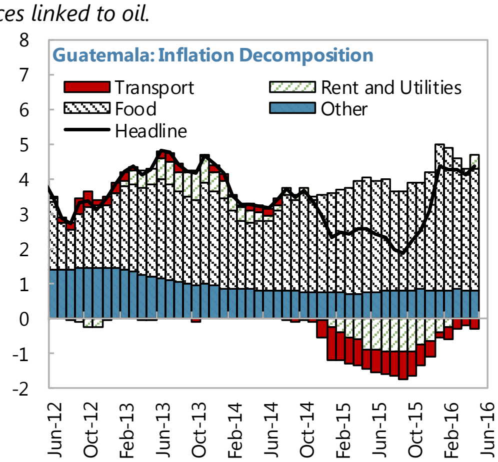

*Unemployment remains low …*



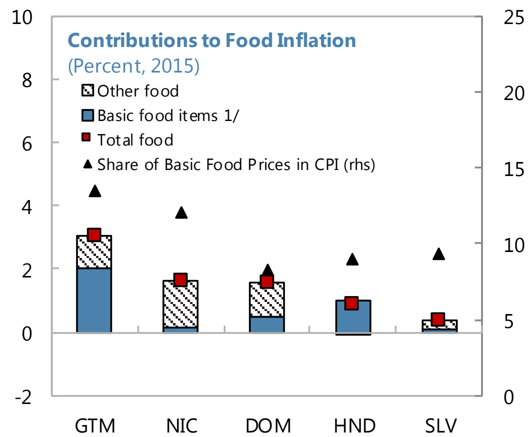

*… but a large share of population, in particular, indigenous and rural, is employed in the informal sector.*




*Inflation rose in 2016 driven by higher food inflation and dissipating impact of last year's declines in regulated prices linked to oil.*




*Basic food items have been driving the increase in food price inflation.*




1/ Bread, grains and vegetables.

Sources: Haver, National authorities and Fund staff estimates.

## Table 1. Guatemala: Potential Output Growth and Output Gap Estimates

| | Potential GDP growth rate | | | | Output Gap | | |
|---|---|---|---|---|---|---|---|
| | **2000-08** | **2009-14** | **2015** | **2016** | **2014** | **2015** | **2016** |
| *Production Function* | 3.45 | 3.38 | 3.81 | 3.76 | 0.11 | 0.10 | 0.04 |
| **Cycle Extraction Filters** | | | | | | | |
| *Hodrick-Prescott* | 3.49 | 3.36 | 3.77 | 3.73 | 0.14 | 0.17 | 0.15 |
| *Butterworth* | 3.48 | 3.31 | 3.84 | 3.76 | 0.18 | 0.15 | 0.09 |
| *Christiano-Fitzgerald* | 3.36 | 3.27 | 3.82 | 4.02 | 0.12 | 0.11 | -0.20 |
| *Baxter-King* | 3.74 | 3.35 | 3.77 | 3.73 | -0.04 | 0.00 | -0.03 |
| **Univariate Kalman Filters** | | | | | | | |
| *Deterministic Drift* | 3.36 | 3.36 | 3.36 | 3.59 | 0.63 | 1.25 | 1.46 |
| *Mean Reversion* | 3.70 | 3.68 | 3.68 | 3.68 | -0.55 | -0.26 | -0.13 |
| **Multivariate Kalman Filter** | | | | | | | |
| *With inflation and unemployment* | 3.55 | 3.20 | 3.72 | 3.70 | 0.03 | 0.11 | 0.12 |
| **Average of All Models** | **3.51** | **3.36** | **3.72** | **3.75** | **0.08** | **0.20** | **0.19** |

Source: Fund staff estimates.

## Box 2. Food Price Inflation

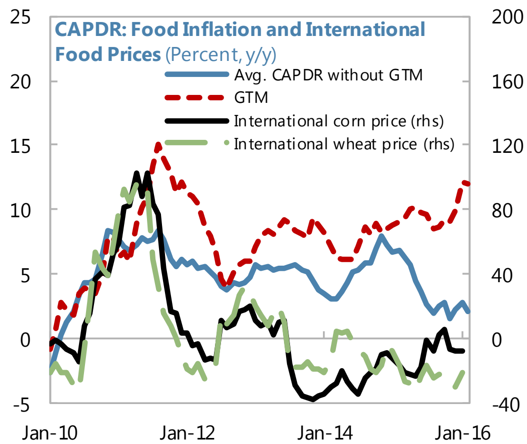
**Guatemala-specific factors are behind consistently high food price inflation (AN).** While rising global prices of wheat and corn —the main food imports of Guatemala— contributed to high food inflation in 2010-11, this has not been the case since 2013. Differences in food inflation across Central American countries suggest that country-specific factors have likely been at play.

**Strong remittances have been an important driver of the recent increase.** A few products have driven the pickup in food inflation—especially, vegetables and meat. These products tend to be added to the basic diet of poor households as incomes rise. The prices of some vegetable products rose strongly in late 2015 due to the weather-related shocks. However, demand factors, including strong remittances growth, have also likely played a role, not least because remittances constitute an important income source for mid- and low-income families in rural areas.

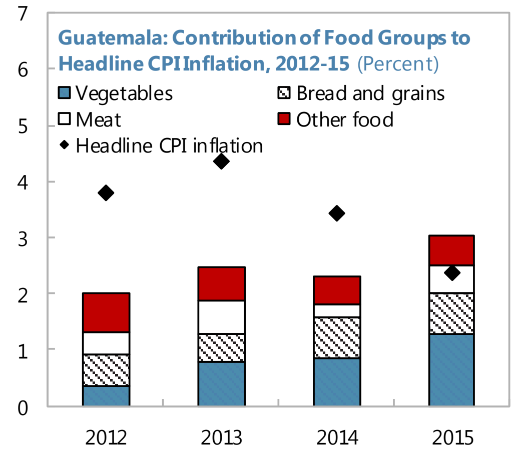
**Other structural factors may also be at fault.** Higher transportation and intermediation costs, compared to regional peers—possibly due to poor transport infrastructure, particularly in rural areas, or competition issues—could prevent rapid adjustment in the face of demand or supply shocks and contribute to persistently high food inflation. Non-tariff barriers, such as sanitary and phyto-sanitary measures, could also be limiting regional trade of food products.

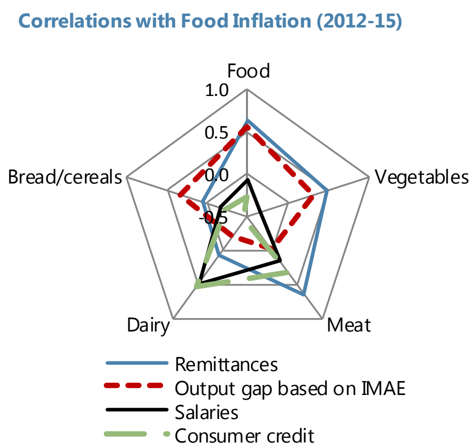
**Supply side policies could help.** Increased investments in transport infrastructure, stronger competition policies, including the adoption of the new Competition Law and the establishment of the competition agency, further advances in regional trade integration, and policies to support agricultural production, including through programs to improve access to irrigation, financing, and technical assistance, could help reduce pressures from food prices.

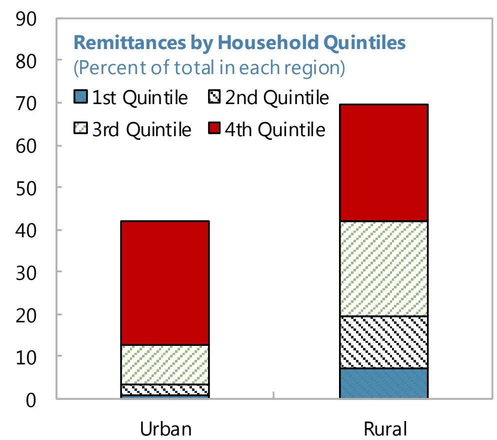
## Box 2. Food Price Inflation (Concluded)

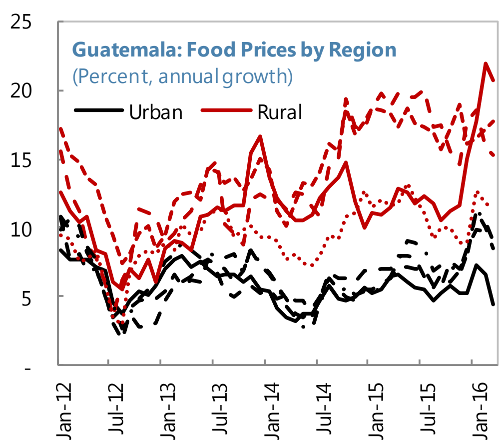


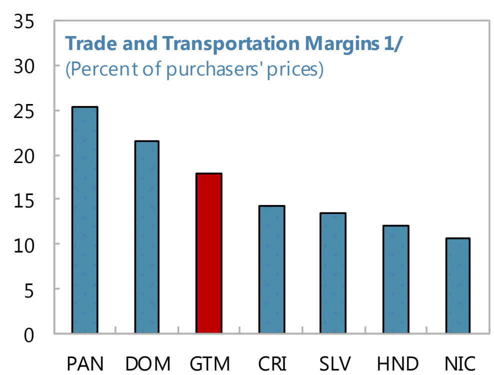

Sources: Haver and Fund staff calculations.



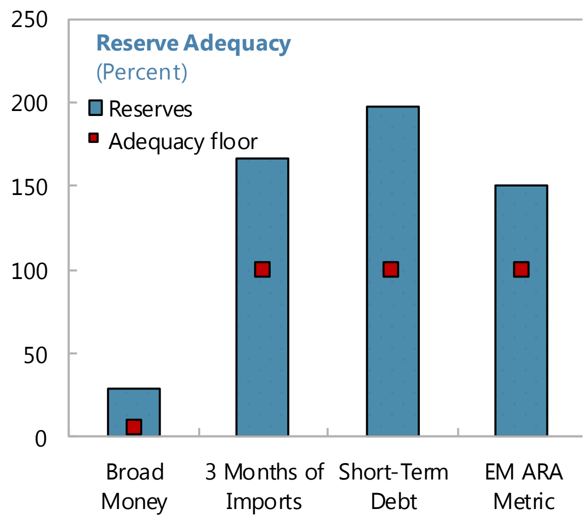



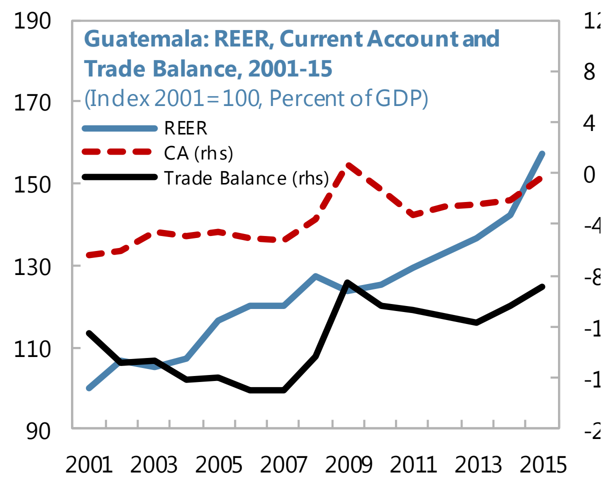




1/ Purchasers' prices minus producers' prices and VAT not deductible by the purchaser.

4. **The balance of payments strengthened significantly in 2015.** The current account deficit shrank by 1¾ percent of GDP while the REER appreciated by 10 percent on the back of low oil prices and robust remittances. Net international reserves (NIR) stood at US$7 billion or 4.2 months of imports at end-2015, above the alternative IMF reserve adequacy metrics. The net debtor international investment position (20 percent of GDP) is low, compared to peers (Annex I).

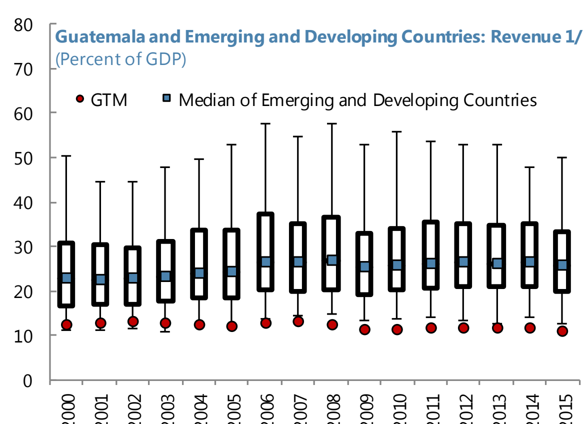
5. **The external position is moderately stronger than implied by fundamentals and desirable policy settings (Annex I).** Staff's preferred EBA-lite current account (CA) methodology suggests a CA gap of about 2 percent of GDP, implying a moderate (7 percent) REER undervaluation. Lower-than-desirable fiscal deficit accounts for most of the identified policy gap. Competitiveness weaknesses appear linked to crime and corruption, low fiscal spending on education and infrastructure, weak legal system, and relatively shallow financial system.



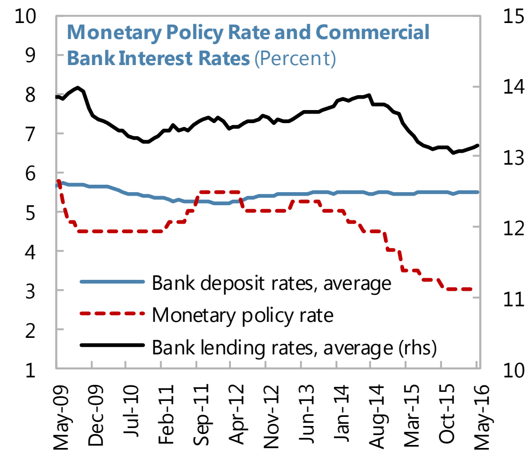

Sources: IMF, WEO.

6. **The fiscal deficit fell below the budget target of 2 percent of GDP in 2015 and public debt remains low.** Revenues underperformed budget goals by 1¼ percent of GDP in 2015, bringing the revenue ratio to its lowest level in more than a decade (10¾ percent of GDP). The shortfall, however, was offset by even larger cuts in spending, in part, a result of delays in multilateral loan disbursements (Figure 2). As a result, the fiscal deficit was ½ percent of GDP lower than the budget target. At 24 percent of GDP, public debt is among the lowest in the region though is moderately high in relation to revenues.




Sources: WEO and Fund staff calculations.
1/ Whiskers represent 5th and 95th percentile while the boxes show 25th and 75th percentile of the EM and developing countries distribution

7. **With inflation contained, monetary policy has been loosened to support growth.** The central bank cut the policy rate three times in 2015 by a cumulative 100 basis points (to 3 percent). The nominal exchange rate has remained broadly stable vis-à-vis the U.S. dollar. In 2016 the exchange rate fluctuation margin under the central bank's intervention rule was widened slightly—from 0.7 to 0.75 percent of the five-day moving average—as part of a gradual process to allow for more exchange rate flexibility.



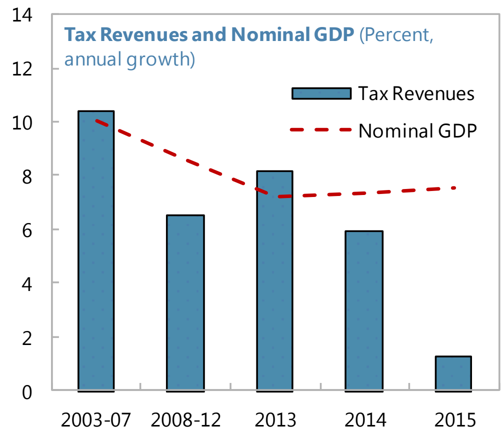

8. **The financial system appears sound, although vulnerabilities remain.** Banks meet Basel I capital requirements, have sufficient liquidity, and NPL ratios are low (Figure 3). However, capital levels are low by regional standards and insufficient to cover market and operational risks under Basel II. Credit expanded rapidly in 2015, mostly in foreign-currency. Credit growth has subsequently slowed as large electricity projects, financed by loans in foreign currency, have been completed and there are no indications of a buildup in credit risks (Table 3). Nonetheless, credit dollarization stood at a moderately high 36 percent of total loans at end-May2016 (up from 27 percent at end-2010). Reliance on foreign funding has continued rising with bank foreign liabilities currently at a decade high (15 percent of total bank assets) and among the highest in the region. Government bond holdings are relatively large (11 percent of bank assets) and about half of the bonds are in the available-for-sale portfolio used to manage liquidity. Private sector balance sheets appear healthy with limited accumulation of debt in the last decade, and foreign currency loans are concentrated in the corporate sector (AN).

**Table 2. CAPDR: Financial Soundness Indicators**

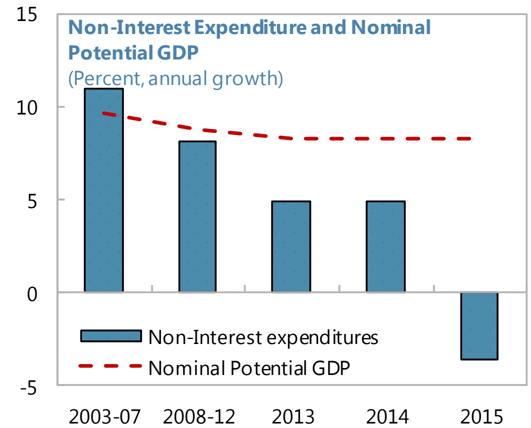
| | Costa Rica | Dominican Republic | El Salvador | Guatemala | Honduras | Panama | CAPDR | LA6 |
|---|---|---|---|---|---|---|---|---|
| Regulatory Capital to Risk-Weighted Assets | 16.4 | 17.2 | 17.1 | 14.1 | 14.3 | 14.9 | 15.7 | 15.0 |
| Capital to Assets | 9.7 | 9.5 | 13.8 | 6.9 | 10.7 | 10.2 | 10.1 | 9.9 |
| Non-performing Loans to Total Gross Loans | 1.7 | 1.7 | 2.3 | 1.3 | 3.5 | 2.1 | 2.1 | 2.7 |
| Return on Assets | 1.0 | 2.0 | 1.1 | 1.7 | 2.6 | 1.4 | 1.6 | 1.9 |
| Return on Equity | 7.1 | 17.9 | 7.8 | 18.6 | 26.8 | 14.3 | 15.4 | 17.9 |

## Figure 2. Guatemala: Recent Developments, Fiscal Sector

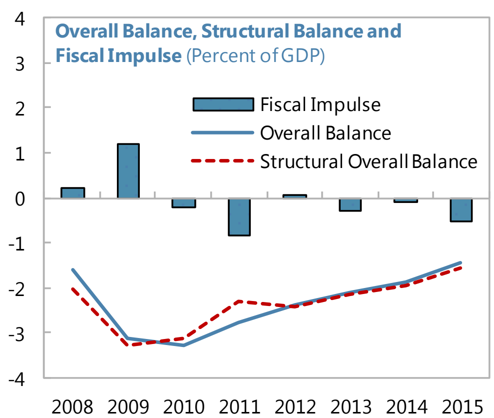
*The stagnation in revenue amidst the political crisis...*



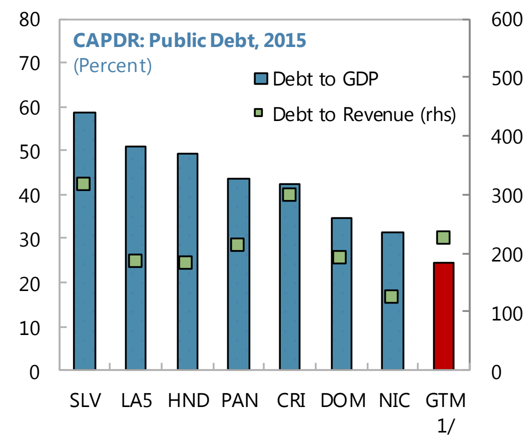

*.... was matched with even larger expenditure cuts driven, in part, by delays in multilateral loan disbursements,...*



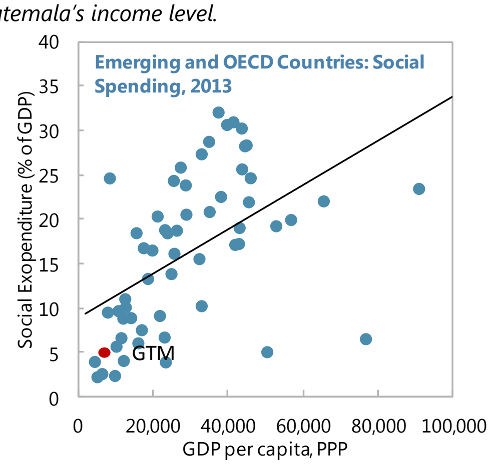

*... resulting in an improvement in the fiscal position .*



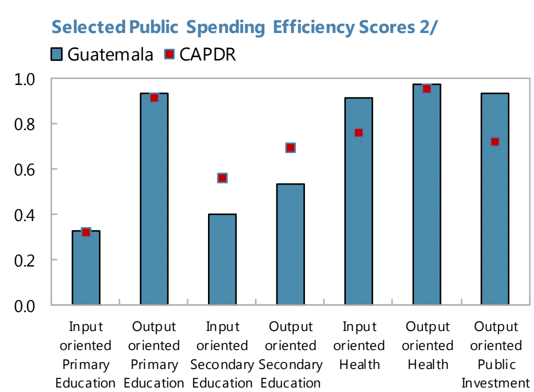

*Public debt is low when compared to GDP but is moderately high when compared to revenues.*




*Social spending is below the typical levels of countries with Guatemala's income level.*




*Spending inefficiencies are more pronounced in education.*




Sources: National authorities and Fund staff estimates.
1/ Guatemala data are for the central government.
2/ 1.0 means maximum efficiency.

**Table 3. Guatemala: Financial Sector Heat Map**

| Guatemala | 2013Q2 | 2013Q3 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 | 2014Q4 | 2015Q1 | 2015Q2 | 2015Q3 | Latest |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Overall Financial Sector Rating | H | M | M | M | M | M | M | M | M | M | M |
| **Credit cycle** | H | L | L | L | L | L | L | L | L | L | L |
| Change in credit / GDP ratio (pp, annual) | 6.3 | 1.7 | 0.9 | 0.9 | 1.0 | 0.2 | 0.3 | 0.7 | 1.0 | 1.6 | 1.6 |
| Growth of credit / GDP (%, annual) | 25.2 | 5.7 | 2.9 | 2.9 | 3.3 | 0.6 | 1.1 | 2.3 | 3.0 | 4.9 | 4.9 |
| Credit-to-GDP gap (st. dev) | 1.0 | 0.6 | 0.0 | -0.8 | -1.2 | -1.6 | -1.5 | -1.6 | -1.4 | -1.2 | -1.2 |
| **Balance Sheet Soundness** | M | M | M | M | M | M | M | M | M | M | M |
| **Balance Sheet Structural Risk** | M | M | M | M | M | M | M | M | M | M | M |
| *Deposit-to-loan ratio* | 134.2 | 129.1 | 129.9 | 131.9 | 131.2 | 129.8 | 128.9 | 129.4 | 129.6 | 125.6 | 124.1 |
| *FX liabilities % (of total liabilities)* | 28.2 | 29.0 | 30.3 | 30.4 | 30.4 | 30.9 | 31.1 | 30.8 | 30.8 | 31.1 | 30.8 |
| *FX loans % (of total loans)* | 35.2 | 36.6 | 36.3 | 36.1 | 37.1 | 37.2 | 38.1 | 39.0 | 39.4 | 39.9 | 39.5 |
| **Balance Sheet Buffers** | L | L | L | L | M | L | M | L | L | L | L |
| ***Leverage*** | M | M | M | M | M | L | M | L | L | M | M |
| Capital-to-assets ratio (%) | 7.0 | 6.8 | 6.9 | 7.0 | 6.9 | 7.1 | 6.9 | 7.0 | 7.0 | 7.0 | 6.9 |
| ***Profitability*** | L | L | L | L | L | L | L | L | L | L | L |
| ROA | 1.9 | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 | 1.9 | 1.9 | 1.8 | 1.7 | 1.7 |
| ROE | 20.5 | 21.5 | 21.4 | 21.0 | 20.4 | 19.3 | 20.6 | 20.7 | 19.9 | 19.2 | 18.6 |
| ***Asset quality*** | L | L | L | L | M | M | M | L | L | L | L |
| NPL ratio | 1.4 | 1.3 | 1.2 | 1.3 | 1.56 | 1.41 | 1.29 | 1.35 | 1.45 | 1.43 | 1.3 |
| NPL ratio change (%, annual) | -8.0 | -13.7 | -11.3 | -3.0 | 13.3 | 6.1 | 7.9 | 3.6 | -6.9 | 1.8 | 4.6 |

9. **Progress towards achieving the Millennium Development Goals (MDGs) has been slow.** Only one fourth of the MDGs targets for 2015 were met, with none met for the rural and indigenous population (Figure 3). Moreover, there have been reversals in reducing extreme poverty and raising school enrollment. Low fiscal revenues and the need for a comprehensive social strategy remain key hurdles to achieving the new sustainable development goals.

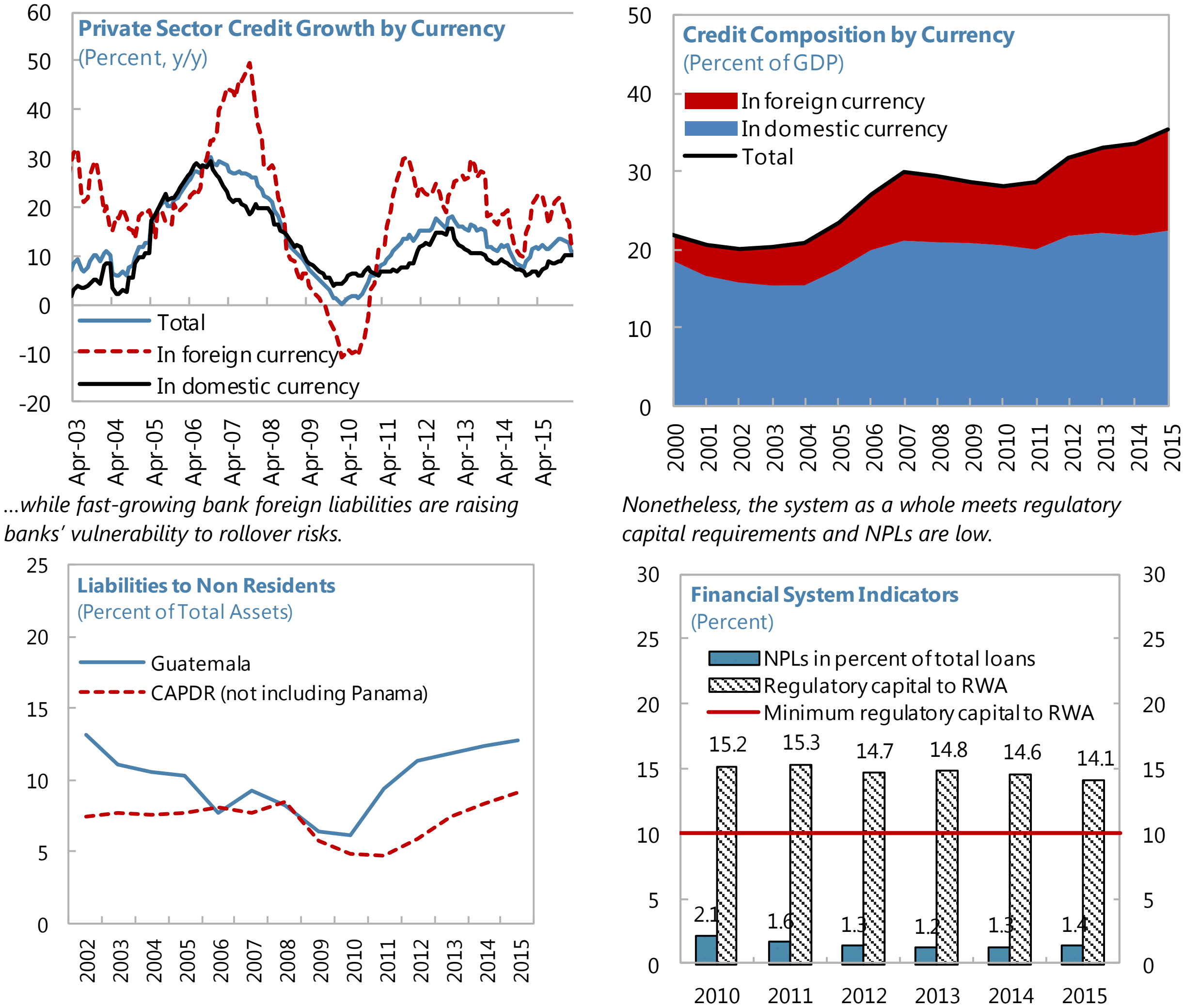
## Figure 3. Guatemala: Recent Developments, Financial Sector

*Credit growth, in particular, in FX has been robust though decelerated sharply more recently.*

*A moderately high degree of credit dollarization makes the banks vulnerable to credit risk,...*

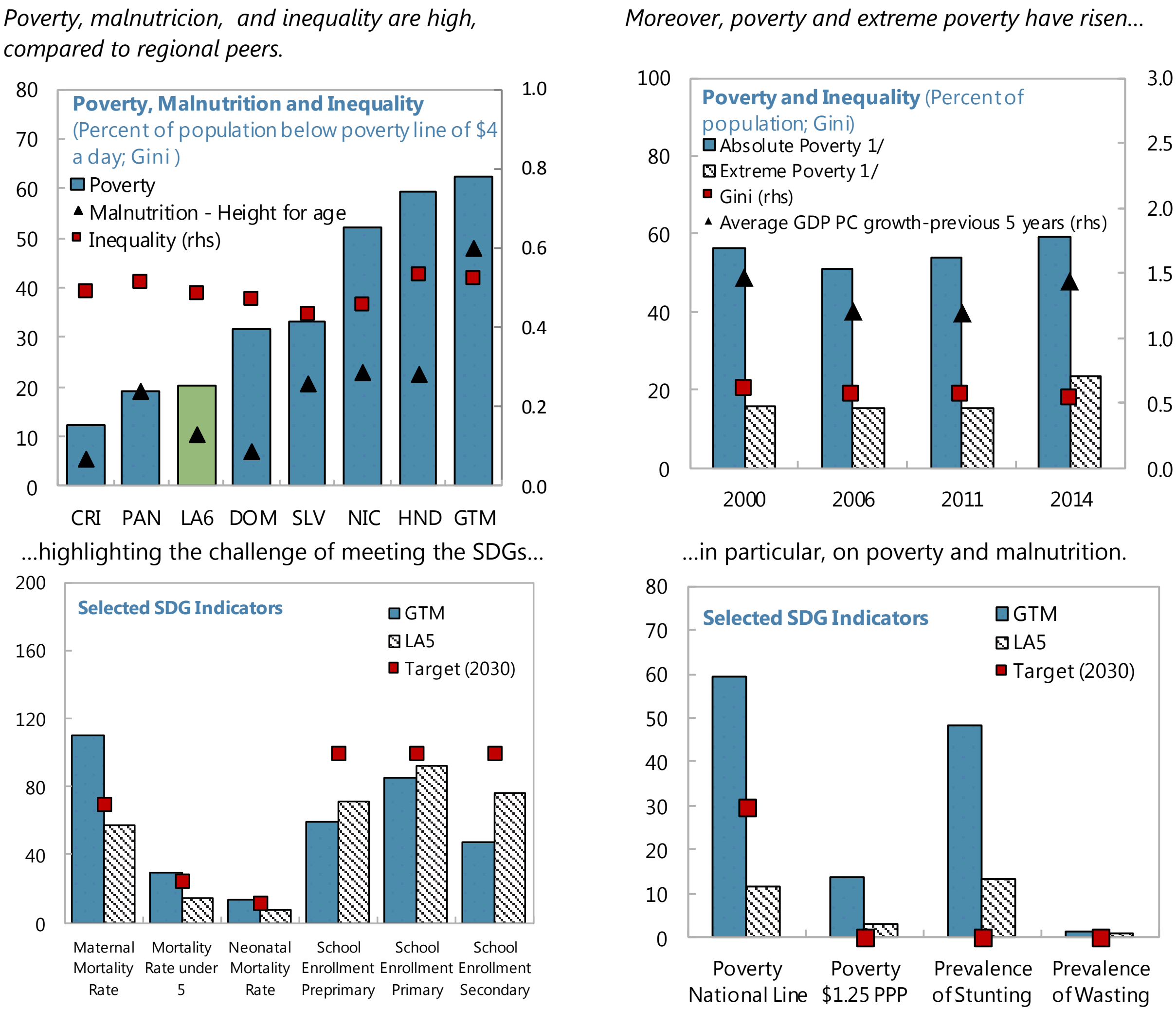
*...while fast-growing bank foreign liabilities are raising banks' vulnerability to rollover risks.*

*Nonetheless, the system as a whole meets regulatory capital requirements and NPLs are low.*




Sources: National authorities and Fund staff estimates.

**Figure 4. Guatemala: Social Indicators**




Sources: INE, WDI and Fund staff calculations.
1/ National poverty line.

# MACROECONOMIC OUTLOOK AND RISKS

10. **The macroeconomic outlook remains solid.** Growth is set to return to its trend rate of 3¾ percent in 2016 as weaker public expenditures and lingering effects of the REER appreciation offset the positive impact of lower oil prices and monetary stimulus from 2015 (AN) . Potential growth is expected to rise gradually to 4 percent in the medium term reflecting the positive impact of efforts to increase transparency and efficiency of public spending on investment climate and productivity. Inflation is projected to remain within the target range. The external current account deficit is set to widen to 1¾ percent of GDP by 2021, driven by gradual reversal of the oil price decline and strong domestic demand, while remaining more than fully financed by FDI. Reserves are expected to remain stable in light of the authorities' commitment to maintain exchange rate flexibility with reserves-to-import cover declining somewhat over time. Staff welcomed the move towards more flexibility and stressed the need to maintain reserve adequacy.

**Table 4. Guatemala: Medium-Term Outlook**

| | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| | | | (Annual percent change) | | | | | |
| Real GDP | 4.2 | 4.1 | 3.8 | 3.8 | 3.8 | 3.8 | 3.9 | 4.0 |
| Consumer prices (end of period) | 2.9 | 3.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| | | | (In percent of GDP, unless otherwise indicated) | | | | | |
| Central government balance | -1.9 | -1.4 | -1.6 | -1.6 | -1.6 | -1.6 | -1.6 | -1.6 |
| Central government primary balance | -0.4 | 0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Public sector debt | 24.3 | 24.2 | 24.1 | 24.3 | 24.3 | 24.3 | 24.2 | 24.2 |
| Current account balance | -2.1 | -0.3 | -0.5 | -0.7 | -1.0 | -1.2 | -1.4 | -1.7 |
| Capital and financial account | 3.1 | 1.7 | 1.1 | 0.7 | 1.0 | 1.2 | 1.4 | 1.7 |
| External debt | 30.0 | 29.7 | 27.9 | 25.8 | 23.7 | 21.7 | 20.0 | 18.3 |
| Reserve adequacy 1/ | 122.6 | 126.0 | 127.7 | 122.8 | 118.6 | 114.1 | 110.1 | 117.9 |
| Output gap 2/ | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Fiscal impulse | -0.1 | -0.5 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 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.

11. **The fiscal deficit is expected to remain at 1½ percent of GDP in 2016 and hover around this level in the medium term.** The 2016 budget envisions a deficit of 1½ percent of GDP—lower than the historical average of 2 percent of GDP. Staff expects the actual deficit outcome to be close to the budget. However, there is a possibility of a somewhat higher deficit in 2016 in the event of continued revenue shortfalls.

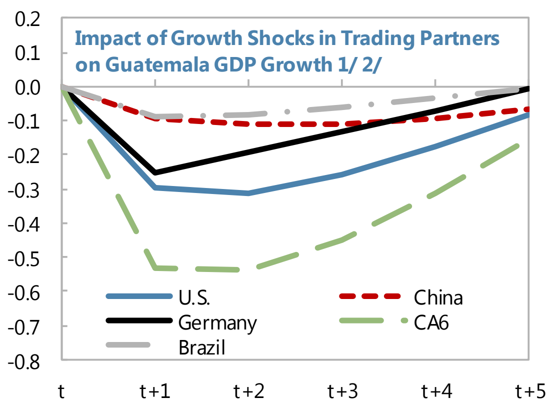
12. **Near-term risks are on the downside, owing to global uncertainties and domestic policy constraints** (Annex II):

- ***External risks.*** Deeper-than-expected slowdown in advanced and emerging markets, including due to increased protectionism, could reduce growth. Extreme bouts of financial volatility could inflict damage, with a substantial depreciation vis-à-vis the U.S. dollar increasing credit risks from un-hedged borrowers (Figure 5, AN). Conversely, continued REER appreciation in line with the U.S. dollar could negatively affect competitiveness. There are also downside risks from potential reductions in provision of financial services by global banks, including the withdrawal of correspondent banking services.

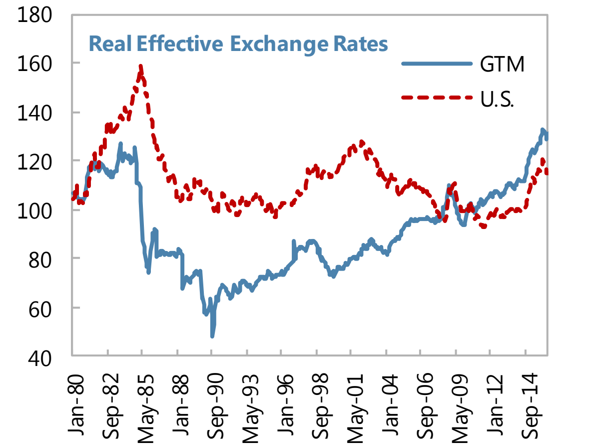
- ***Domestic risks.*** Failure to credibly address the crisis at the SAT could endanger efforts to increase revenue and jeopardize much needed social and investment spending. Anti-money laundering efforts that implicate staff or owners of domestic banks could lead to transitory financial pressures (although recent arrests of delinquent bank managers have not had broader effects on financial stability). A further deterioration in the security situation would jeopardize growth.

## Figure 5. Guatemala: Outlook and Risks

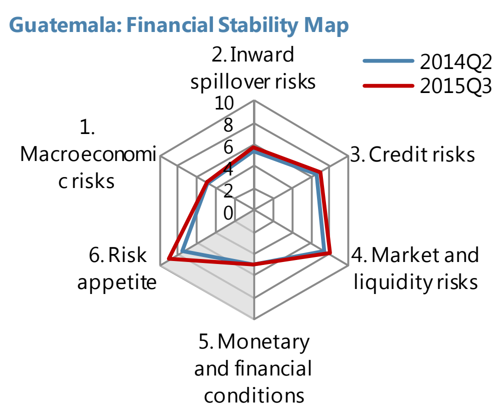
*Guatemala is more affected by growth shocks in the rest of CAPDR and the U.S. than in other large EM partners.*



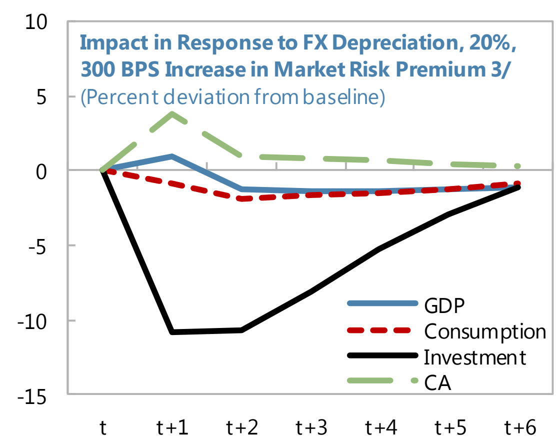

*Continued REER appreciation in line with the U.S. dollar could negatively affect competitiveness .*




*The moderately high share of loans in FX and rising foreign bank liabilities represent vulnerabilities.*




*In particular, bouts of market volatility that result in notable exchange rate depreciation could notably reduce growth through increase in NPLs and decreased risk appetite.*




Sources: Bloomberg and Fund staff estimates.
1/ An impulse response generated by a VAR model described in detail in "Guatemala: Selected Issues and Analytical Notes, 2014, Chapter: Cross-Border Linkages and Spillovers".
2/ An impact of 1 percentage point reduction in domestic demand growth in the U.S./ Germany/ Brazil/ China/ CA6 on Guatemala GDP growth. 3/ The impact generated by an IMF's Flexible System of Global Models (FSGM) - a system of multi-region globally consistent general equilibrium models.

# POLICY DISCUSSIONS

13. **There was a shared view that the policy agenda should focus on achieving higher long-term inclusive growth while preserving macroeconomic stability.** In the short term, the authorities have to balance prudent macro-economic management with the need to start addressing pressing structural and social needs. In the longer-term, strengthening fiscal and monetary policy

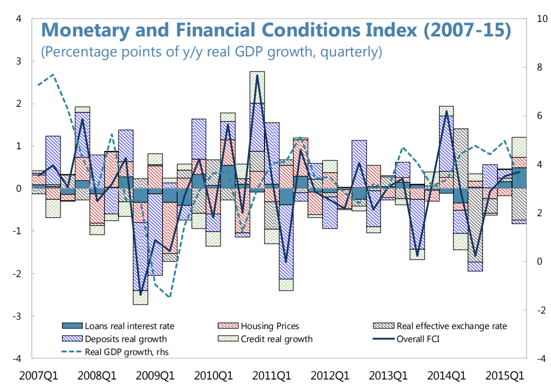
frameworks, fortifying the financial system, and broadening social opportunities will help facilitate higher and more inclusive growth.

## A. Near-Term Policy Mix

14. **Pressing structural and social needs could justify a temporarily higher deficit.** The primary balance is expected to remain near zero in 2016 with the output gap closed. Hence, from a cyclical perspective there is no need for fiscal support**.** While the first-best option is to quickly mobilize revenue to cover the originally planned budget spending in 2016, a temporary relaxation of the overall deficit (to its historical average of 2 percent of GDP) could be justified to prevent further cuts in social and capital spending in the event of revenue shortfalls. The acute problem of extreme poverty and malnutrition as well as the dire infrastructure and security needs could warrant maintaining a deficit at 2 percent of GDP, or even modestly higher, over the medium term to allow the time needed for revenue mobilization. This would not jeopardize fiscal sustainability (Annex III) and be consistent with current implementation capacity. The authorities agreed with staff view and the Minister of Finance saw room for a temporary deficit higher than 2 percent of GDP.

15. **Reform of tax and customs administration is a key priority, both to raise revenue and reduce corruption.** In this regard, measures to address governance, management and operational difficulties in line with IMF technical assistance recommendations are crucial. These include: (i) strengthening management and broadening the implementation of pro-integrity measures internally; (ii) strengthening customs by ensuring more effective control of goods, more accurate valuation of imports, and stricter control of special trade regimes; (iii) more effective control of large and medium-size taxpayers' compliance; (iv) taking measures to improve VAT administration, including the enforcement of issuance of VAT invoices; (v) increasing the effectivity of audits; and (vi) improving taxpayer services, including by broadening e-services. There is a need for a short- and medium-term reform strategy encompassing these measures, with clear priorities, and timetables. The authorities agreed on the main steps and have started implementing some of them but emphasized that these measures will take time to bear fruit.

16. **The monetary policy stance is broadly appropriate but the central bank should be ready to tighten if inflationary pressures intensify**. The financial conditions index (FCI) suggests that lower real lending rates, strong credit growth, and higher housing prices contributed to a small loosening of financial conditions in 2015 despite an appreciation of the REER (AN). The estimates of the neutral policy rate point to an accommodative monetary stance (although there is significant uncertainty surrounding these estimates). However, core inflation has been below the target range since 2013, and inflation expectations are firmly within the target range. Despite this, there are upside risks to inflation due to the possible food price pressures, which could have second-round effects, and the




**Monetary and Financial Conditions Index (2007-15)**
(Percentage points of y/y real GDP growth, quarterly)

Sources: National authorities and Fund staff estimates.

delayed effects of the past monetary easing (AN). As such, the central bank should be ready to raise the policy rate promptly if signs of inflationary pressures intensify. The central bank reiterated its commitment to its inflation goals and emphasized the hard-earned credibility of the monetary policy in Guatemala.

**Table 5. Guatemala: Neutral Interest Rate**

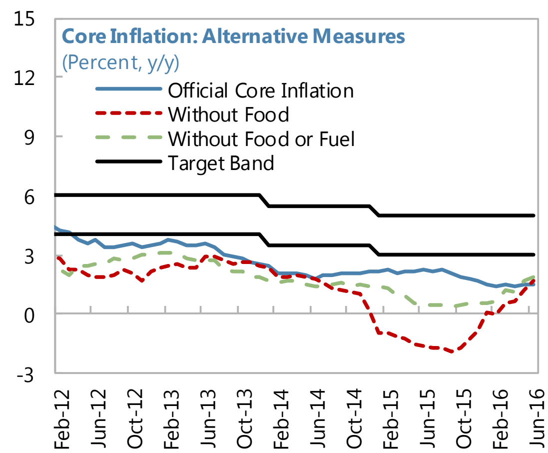
| | | | |
|---|---|---|---|
| | | Expected Inflation Dec-2016 | 4.00 |
| | | Actual Monetary Policy Rate | 3.00 |

| Method 1/ | Neutral Real Interest Rate (NRIR) | Neutral Nominal Interest Rate (NNIR) | Nominal Monetary Policy GAP (bps) 2/ |
|---|---|---|---|
| Uncovered Interest Parity | 1.6 | 5.6 | 260 |
| Forward Looking Monetary Model | 0.4 | 4.4 | 140 |
| Expected-Inflation Augmented Taylor Rule | 1.6 | 5.6 | 260 |
| General Equilibrium Model | 0.6 | 4.6 | 160 |
| Average | 1.0 | 5.0 | 222 |

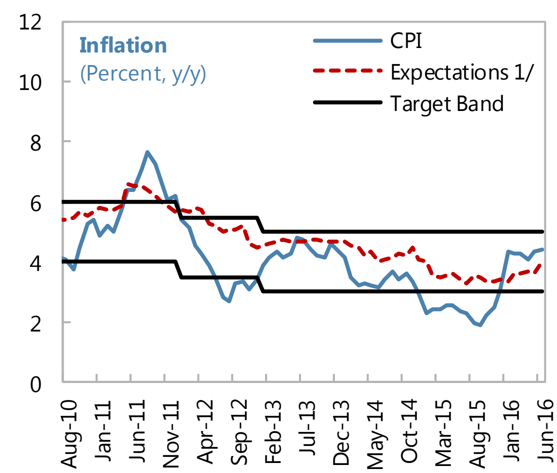
Sources: National authorities and Fund staff estimates.
1/ All units expressed as percent points unless otherwise stated.
2/ (bps): Basis points.

**Figure 6. Guatemala: Inflation Developments**

*Core inflation has remained below the target range...*




*...and inflation expectations are within the target range since 2012.*




Sources: Haver Analytics and Fund staff estimates.
1/ Proxy of 12-month ahead expectations based on Consensus Forecast monthly survey of end-year inflation expectations for current and next year (weighted average, with changing weights over the year).

17. **Sound financial sector policies have contributed to financial stability.** So far, Guatemala has not been materially affected by a loss of correspondent banking relationships (CBRs) but other risks related to financial integrity have increased supervisor's vigilance and contingency planning (Box 3). As a result, banks are facing increasing pressure to comply with AML/CFT regulations. Staff commended the authorities for the recently taken steps to strengthen control of customer identification, perform national risk assessments, increase the frequency of on-site inspections, and increase protection of supervisors. Staff also welcomed the ongoing initiatives to develop a

comprehensive macro-prudential program and strengthen the resolution framework through the introduction of an "open bank" intervention. Staff encouraged the authorities to continue implementing risk-based AML/CFT supervision, and bring the framework in line with the 2012 FATF standards.

## Box 3. Financial Integrity in Guatemala

**The loss of CBRs has been limited but the risks from money laundering activities are real.** So far, only four correspondent banks have canceled accounts with four small Guatemalan banks. The small scale of business in Guatemala, high operational and compliance costs, the risk of enforcement actions, and the change in the business model of foreign banks, are the likely reasons for the loss. Nonetheless, three of the affected local banks have foreign credit lines with other correspondent banks. Moreover, the overall value of the foreign credit lines has continued rising in 2015 and the amount drawn stands at $4.9 bn (22 percent of credit to the private sector). The number of correspondent banks has also increased. However, there are other risks. Several bank managers and small individual customers are under money laundering investigations though the banks involved have remained well-capitalized and liquid.

**The supervisor has stepped up vigilance and contingency planning.** Tougher AML/CFT laws aimed at strengthening controls on activities such as remittances transfers, leasing, and factoring are under consideration. The supervisor is improving enforcement of the policy of knowing the final beneficiaries of bank operations. Harsher penalties for non-compliance with the reporting of suspicious transactions are under way. Guatemala's Financial Intelligence Unit (IVE) has undertaken a national risk assessment and has increased the number of on-site inspections, which helped uncover several money laundering schemes and enhance customer due diligence. The authorities have also developed a proposal for an "open bank" intervention, which could facilitate the strengthening of ailing systemic institutions by temporarily placing them under public sector management.

**Banking System, External Credit Lines**

Millions of US$, Unless Otherwise Indicated

| | Dec-10 | Dec-11 | Dec-12 | Dec-13 | Dec-14 | Dec-15 |
|---|---|---|---|---|---|---|
| Contracted Amount | 2661 | 3324 | 3967 | 4921 | 5574 | 6300 |
| Amount Used | 1401 | 2252 | 2954 | 3611 | 4256 | 4852 |
| Guarantees, Letters of Credit | | | 100 | 125 | 192 | 248 |
| Margin Available | 1260 | 1072 | 913 | 1185 | 1127 | 1201 |
| Contracted Amount (annual percent change) | | 25 | 19 | 24 | 13 | 13 |
| Amount Used (annual percent change) | | 61 | 31 | 22 | 18 | 14 |
| Number of Correspondent Banks | | 33 | 38 | * | 35 | 39 |
| Interest Rate Paid on Credit Lines, Weighted Average | | 3 | 4 | 4 | 3 | 3 |

Source: Superintendecy of Banks of Guatemala.

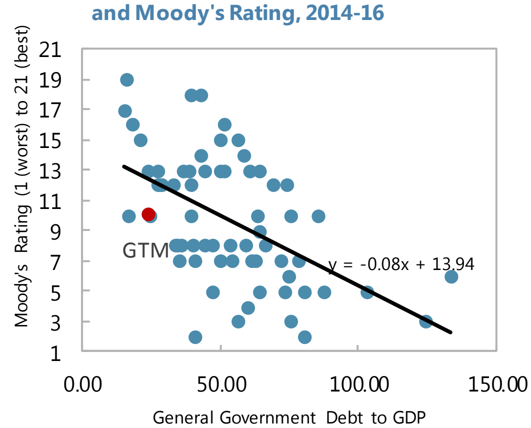
* The analysis done for 2013 did not include the determination of the number of correspodent banks.

## B. Medium and Long-Term Policy Challenges

### Reorienting Fiscal Policy while Protecting Sustainability

18. **Central government debt remains sustainable under a range of scenarios.** Staff analysis suggests that under the baseline scenario, central government debt would remain around 24 percent of GDP over the medium term (Annex III, AN). This debt ratio is below the level of other Central American countries and countries with similar credit ratings. A permanent fiscal relaxation of ½ percentage points of GDP would increase the debt only to 29 percent of GDP. The debt path is resilient to macro shocks.

**Emerging Countries: Gross Debt to GDP and Moody's Rating, 2014-16**




19. **Fiscal policy should be reoriented towards supply side and social objectives.** Raising fiscal revenues to at least 15 percent of GDP would be essential in the longer run to accommodate higher social and infrastructure spending and to support efforts to durably reduce crime and corruption.[1] For example, eradicating extreme poverty would cost the budget around 1 percent of GDP per year while lifting all of the poor out of poverty would cost upwards of 7 percent of GDP per year (AN). Achieving the SDG objective of halving poverty would require at least 5 percent of GDP in fiscal spending. A revenue level of around 15 percent of GDP is well within reach with Guatemala's tax capacity—the maximum level of tax revenue that a country can achieve given its current fundamentals—esimated at 20 percent of GDP.[2] The authorities concurred that revenues would have to rise to at least 15 to 17 percent of GDP for the government to be able to fulfill its basic public functions.

### Box 4. Poverty, Inequality, and Fiscal Redistribution

**Mobilizing revenue through PIT could prove less distortive and more equitable than through VAT.** Model simulations indicate (AN) that raising one percent of GDP in additional revenue through VAT would depress GDP by almost 2 percentage points over 5 years, compared to less than 1 percentage point decline with similar revenue effort through PIT. VAT is also regressive, thus, poverty and inequality increase more. The premise that the VAT is neutral for investment may not apply to Guatemala for two reasons:

- *Large informal economy, which escapes VAT taxation.* VAT penalizes consumption of goods produced in the formal sector, reduces demand for these goods and lowers their prices, thereby, reducing marginal returns to formal sector firms. VAT becomes distortive because the relative prices shift in favor of a less productive informal sector, which invests little.

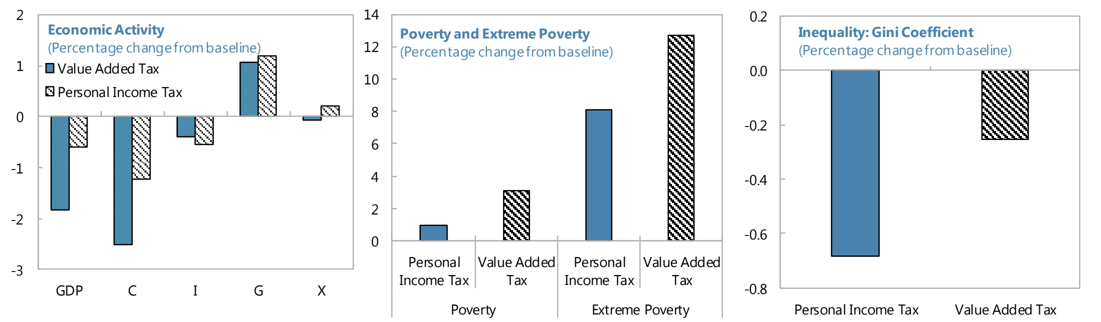
[1] Literature finds that the optimal size of the government, in particular, with respect to human development is at least 15 percent of GDP (AN).

[2] Based on the current actual revenue and an estimated tax effort of 0.5 following the methodology from Fenochietto and Pessino "Understanding Countries' Tax Effort," IMF WP/13/244.

## Box 4. Poverty, Inequality, and Fiscal Redistribution (Concluded)

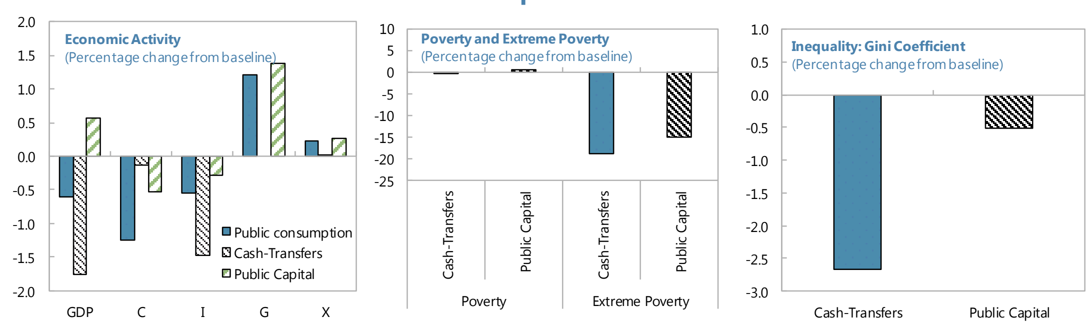
- *Low PIT versus medium VAT rates.* PIT rates of 5 and 7 percent are among the lowest in the world and raising them from this level would reduce GDP only slightly, compared to raising the VAT rate, which is 12 percent—just below the regional average.[1]

### Impact of Raising 1 Percent of GDP in Revenue Through Alternative Tax Instruments




**Both government transfers and public investment will need to rise to spur growth and reduce poverty and inequality.** Expanding existing cash transfer programs could help advance towards social goals but would be less conducive of growth than higher infrastructure spending. Proportionally expanding existing cash transfer programs with one percent of GDP revenue generated through PIT could reduce extreme poverty by 20 percent and inequality by 2½ percentage points. However, GDP would fall by about 1¾ percentage points since resources are shifted away from investment by the productive sector towards consumption by the poor. In contrast, investing additional resources in infrastructure would raise the stock of public capital and improve private sector productivity boosting GDP by about ½ percent. The impact on extreme poverty and inequality, however, is smaller than with cash transfers. Growth and social objectives are not necessarily incompatible as higher growth would improve living conditions and the productivity of the poor, thereby, contributing to faster economic growth.

### Impact of Raising 1 Percent of GDP in Revenue Through PIT and Utilizing it on Alternative Spending Options

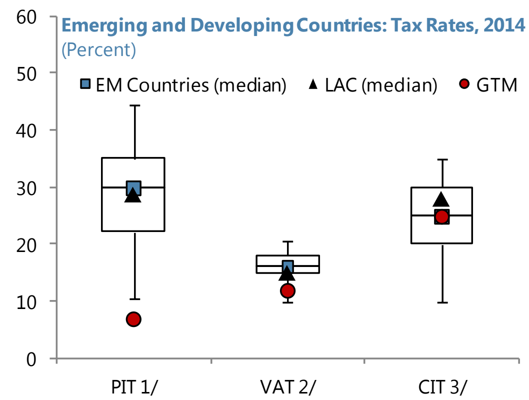



1/ An empirical study by Acosta-Ormaechea and Yoo (2012) also finds that in low income countries PIT does not significantly affect growth, likely due to the low level of PIT collection in such countries (1.5 percent of GDP on average). This result is relevant for Guatemala where PIT collection is only 0.4 percent of GDP.

20. **A multifaceted approach would be needed to achieve ambitious revenue targets:**

- **Further measures are needed to strengthen the SAT.** These should be focused on improving control and minimizing tax evasion, including (i) strengthening the SAT's legal framework; (ii) encouraging staff responsibility by strengthening the performance evaluation system and actively and consistently addressing integrity issues; and (iii) broadening and improving the quality of the SAT's digital services.

- **Tax policy measures are also needed.** Staff recommended a review of the tax system to help raise revenue by at least 3½ percent of GDP in the longer term with the 15 percent revenue target in mind. The authorities welcomed IMF technical assistance in this regard. Given the size of the revenue gap, it is clear that a variety of tax policy instruments will be needed. Main options include an increase in the number of brackets and top marginal rate of the PIT; a smaller increase in the VAT rate; a simplification of the corporate income tax; and higher energy taxes. Caution is warranted though in evaluating the macroeconomic and distributional consequences of the various tax options (Box 4).



Sources: OECD Database, IBFD, PWC, Fund staff calculations and others.
1/ Personal Income Tax, statutory top central (various sources).
2/ Value Added Tax, national statutory standard (various sources).
3/ Corporates Income Tax, statutory top central (various sources).

- **Tax reform should be set against a more comprehensive government reform strategy.** Given the fragmented political environment and recent multiple corruption scandals, the fiscal strategy should clearly articulate the government's broader macroeconomic and social objectives and use these to motivate the tax and spending reforms that will be needed to achieve those objectives. Doing so would help garner public support for reform.

- **The high level of revenue earmarking (currently 40 percent) should be reduced to strengthen the efficiency of the budget.** The authorities indicated that some of the earmarking is prescribed by the constitution and will be difficult to change.

21. **Improving fiscal transparency and efficiency would help increase government credibility.** The mission encouraged the authorities to implement the IMF's recent technical assistance advice on fiscal transparency. In particular, the efforts should focus on (i) improving fiscal accounting, consolidation, and reporting with adequate elaboration of fiscal risk assessments; (ii) protecting tax administration from political interference; (iii) improving control and audit of fiscal spending, including strengthening of units in charge of planning government purchases and internal auditing; and (iv) regulating and making government's direct purchases more transparent. The authorities pointed out that they are already implementing some of the recommendations, including measures aimed at improving transparency in the procurement of goods and services. Staff recommended supplementing transparency efforts with measures to raise spending efficiency—in particular, in education (Figure 2) – by continued strengthening of the implementation of program budgeting.

**Strengthening Monetary and Financial Frameworks**

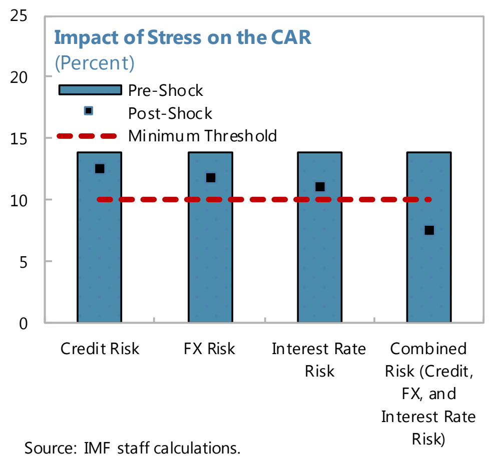
22. **There was an agreement on the need to continue strengthening the institutional framework for inflation targeting.** Recent improvements have been made in the monetary transmission to credit and repo interest rates. Efforts should now focus on (i) continuing raising exchange rate flexibility to credibly convey the primacy of the inflation objective to the public[3] (ii) reinforcing recent measures, if needed, to discourage credit dollarization, (iii) developing private debt and securities market, (iv) refining the framework for monetary operations, including management of short-term and structural liquidity, and (v) covering accumulated operational losses of the central bank that are eroding its capital base and impeding the conduct of the monetary policy while developing a more permanent solution to the legacy of past quasi-fiscal operations, including recapitalization of the Central Bank.[4]

23. **The financial system appears relatively resilient though continued vigilance is warranted.** The discussion focused on the sources of financial vulnerabilities, including moderately high degree of credit dollarization, a relatively large exposure to public debt, fast growing bank foreign liabilities and possible FX maturity mismatches. A top-down stress test by the staff suggests that the system could withstand sizable shocks (AN). Notwithstanding the overall long foreign currency position of the banking system, a large exchange rate depreciation may affect asset quality through un-hedged borrowers. It appears that the banking sector could withstand a historically sizeable 20 percent depreciation shock, but there could be unknown non-linear effects on credit quality. Banks balance sheets are robust to a 2 percent increase in interest rates or a severe growth shock of 4 percentage points. Nevertheless, a combined shock in a severe adverse macroeconomic scenario would push the aggregate capital ratio below the regulatory minimum, requiring recapitalization of the banks.[5] Rollover risks associated with foreign funding remain manageable but the fast growth in bank foreign liabilities is an area that warrants close monitoring. Moreover, maturity mismatches between FX assets and liabilities could represent risks though data constraints prevent accurate assessment of these risks. Domestic and international interbank contagion effects from credit and funding shocks appear limited with relatively small bilateral bank exposures (AN).

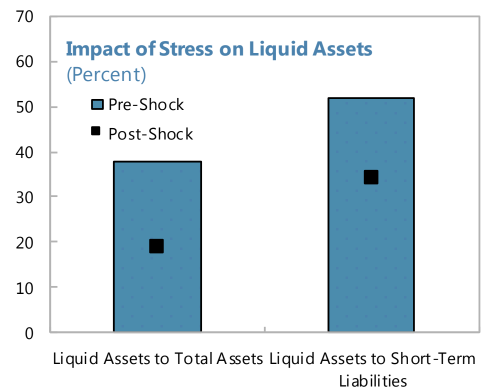
[3] Adhering to the current intervention rule designed to mitigate excessive FX volatility while not targeting a specific level of the exchange rate is also important to contain inflation and output volatility (AN).

[4] The Central Bank keeps debt on its balance sheet, which was a result of the quasi-fiscal operations performed in the 80's and 90's. Every week the Central Bank sterilizes the repayment of a large amount of securities reaching maturity, which hinders liquidity management. The organic law of the Central Bank dictates that the government covers annual losses. However, Congress failed to approve the government transfer for this purpose for the past few years.

[5] The combined shock scenario was generated by a general equilibrium model (AN). The initial shock comprised a 20 percent XR depreciation and an increase in credit risk from unhedged borrowers associated with a risk premium increase of 200 basis points. The assumptions on growth (a decline by 4 percentage points) and interest rates (an increase of 200 basis points) were then generated by the model.




Source: IMF staff calculations.
Note: Solvency stress test for FX risk assumes 20 percent depreciation; test for interest rate risk assumes a 2 percentage points nominal interest rate increase; test for combined risk adds impact on the CAR from credit, FX, and interest rate risks.



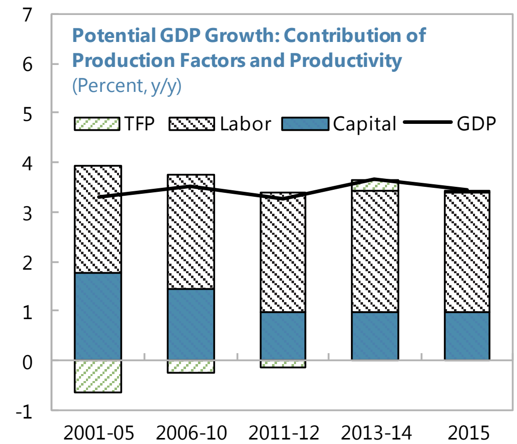

Source: IMF staff calculations.
Note: Liquidity stress test assumes a 10 and 5 percent per month withdrawal of domestic demand and time deposit respectively, and a 10 and 3 percent per month withdrawal of foreign demand and time deposit respectively.

24. **There was a joint view that the current period of stability should be used to fortify the financial system.** Efforts to differentiate risk weights based on currency denomination and to gradually eliminate exemptions from this requirement for mortgage loans and loans to the electricity sector may help reduce credit dollarization. However, staff noted that further macro-prudential measures should be prepared in case the degree of dollarization persists and credit quality deteriorates. Staff welcomed the authorities' plan to introduce higher capital requirements for market risk, which could help mitigate the risk from government debt exposure. The authorities expressed reservations against the introduction of differential reserve requirements for FX deposits, given concerns about deposit migration to offshore banking. Instead, they are considering the introduction of a liquidity coverage ratio differentiated by currency, which staff supported. Staff also pointed out the need to further strengthen capital buffers through a stricter definition of related parties to mitigate risks of overestimating capital and adopting capital ratios consistent with Basel III (including a capital surcharge for large systemic institutions). Such reforms are planned for the coming years.

25. **Progress on implementing the 2014 FSAP update recommendations is encouraging**. The authorities have taken steps to strengthen the regulatory and supervisory frameworks, set up dedicated committees on macro-prudential issues and crisis management, and develop a safety net and a resolution framework for financial cooperatives and microfinancial institutions. Further efforts are needed to improve consolidated supervision of financial conglomerates, to adjust the legal framework in line with international standards, appoint national lead supervisors, and create a regional council for financial stability (see the IMF Cluster Surveillance Report on Financial Integration in CAPDR). Stepping up the ring-fencing of on-shore banks with respect to the operations of off-shore banks will also be important.

## Achieving Higher Long-Term Inclusive Growth

26. **There is a need to better articulate a long-term strategy for raising growth and making it more inclusive.** Potential growth in Guatemala is among the lowest in the region, due to both low productivity and low human and physical capital while poverty and inequality are high (AN). Staff and the authorities agreed that actions will be needed on several fronts to spur growth and reduce social disparities, including




- Raising government spending on security, the judicial system, infrastructure, education, health, and social assistance, which, in turn, would require raising government revenues. It will be important to assess the trade-offs between growth and social objectives when evaluating alternative spending instruments (Box 4). Increased access to education, investment in infrastructure and information technology could also help raise LFP, including that of women (AN). Improving provision of childcare and expanding conditional cash transfers targeting education of indigenous girls could help narrow the gender gap in the labor market with time.

- Improving the efficiency and targeting of social assistance programs. The recent initiatives to reform a food support program, improve control of beneficiaries of social support, and strengthen coordination among various ministries providing social assistance are positive steps forward.

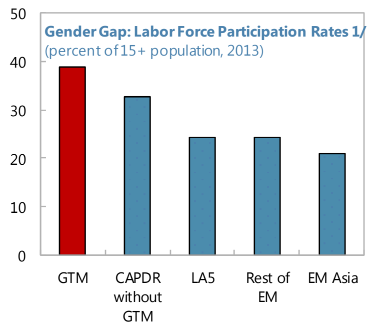
- Facilitating regional and international integration through (i) further improvements in infrastructure, including further development of regional highways, upgrading ports and airports; (ii) harmonizing information technology and customs transit procedures to reduce cost; (iii) making trade rules and taxes more consistent across the region; and (iv) integrating further the services and factors markets. Plans to implement a customs union with Honduras and El Salvador is an important milestone in this process.

- Strengthening competition policies, including through the adoption of the pending competition law.

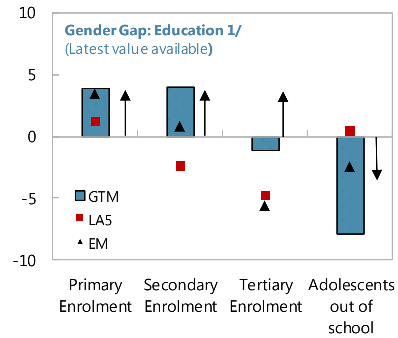
- Promoting rural development through programs to improve access to irrigation, financing, and technical assistance in the agricultural sector (Box 2).

**Figure 7. Gender Gap: Labor Force Participation and Education**

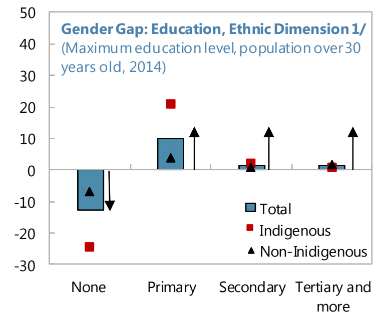
*Gender gap in labor force partipation is large,...*




*...in part, due to the gender gap in education,...*




*...in particular, among indigenous population.*



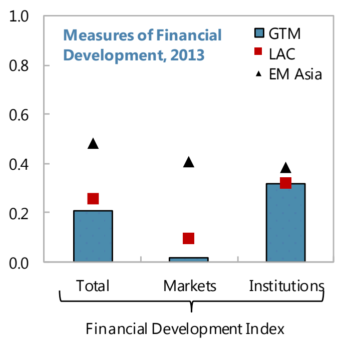

Sources: WDI, ENCOVI 2014 and Fund staff estimates.
1/ Gender gap refers to the difference between men and women for each indicator. An arrow indicates the direction of increase in less favorable outcomes for women.

27. **Efforts toward financial deepening will help support long-run growth.** Guatemala's financial development exceeds the level implied by its macroeconomic fundamentals (Figure 8) but there are no indications of a significant risk buildup (Table 3). However, financial development, in particular, market development is low by regional standards and has a long way to go to allow reaping maximum growth benefits. Market development could be helped by strengthening the legal and institutional foundations for market finance. This should include the adoption of the securities market law, continued progress on issuing securities in electronic rather than physical form (dematerialization), standardization of government securities as well as the adoption of the public debt law, which could facilitate concentration of government debt into a smaller number of large volume issues.[6] Strengthening property and ownership rights, improving the efficiency of the legal system, reducing corruption, and improving corporate governance will also facilitate financial deepening.

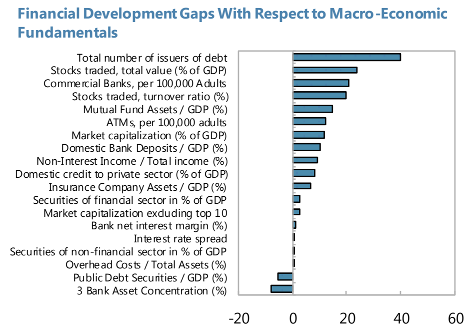
[6] About half of all securities accepted as collateral by the central bank are kept as physical securities and are not settled through a book–entry system. Dematerialization would require establishing an efficient central depository for all securities; putting a book–entry system in place; and providing investors with automatic cash flow payments on dematerialized securities.

### Figure 8. Guatemala: Financial Development[1]

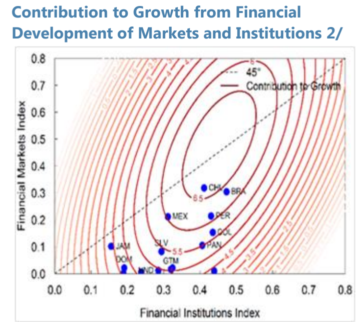
*Guatemala's financial development is low, compared to other EMs…*




*…though it exceeds the level predicted by macroeconomic fundamentals…*




*…still a long way to go to reap maximum growth benefits.*




Sources: FINDEX and Fund staff estimates.

1/ For more details, see Dyna Heng, Anna Ivanova, Rodrigo Mariscal, Uma Ramakrishnan, Joyce Cheng Wong, 2016. "Advancing Financial Development in Latin America and the Caribbean," IMF Working Paper 16/81, International Monetary Fund, Washington, DC

2/ The lines show the levels of contribution to growth from financial development projected from a three-dimensional surface to a two-dimensional plane; the dots show the financial institutions and markets combination for selected LAC countries.

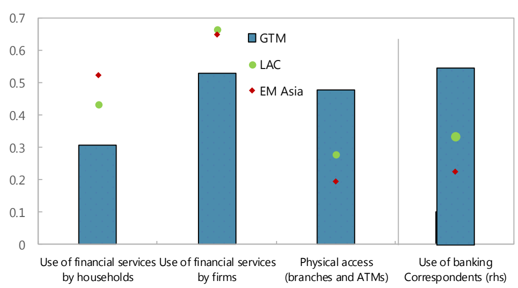
28. **Recent progress in financial inclusion is encouraging, but continued follow-through on the government initiatives is needed.** Guatemala lags other emerging markets on financial inclusion (Box 5). Strengthening the regulatory environment and reducing entry costs are key priorities (AN). Recent regulatory initiatives go in this direction, including the adoption of the microfinance law and the regulation of mobile financial services as well as ongoing efforts to develop a national financial inclusion strategy and promote financial education. Introduction of simplified bank accounts for low-income customers, currently under consideration, as well as other measures aimed at reducing entry costs would not only raise financial inclusion but also help stimulate growth and reduce inequality. In the longer run, once entry barriers are reduced, there is scope to examine financial institutions' lending practices and credit concentration limits, facilitate the development of credit bureaus and promote greater bank competition. These measures, aimed at lowering information costs and collateral requirements, could also boost growth.

## Box 5. Financial Inclusion, Growth, and Inequality

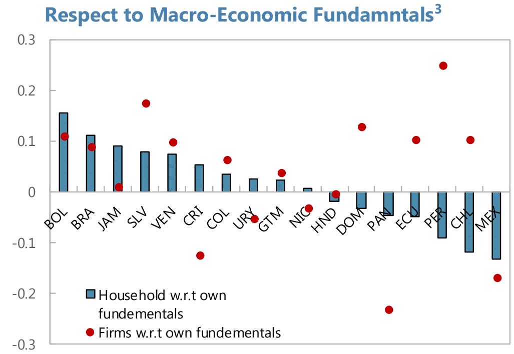
**Guatemala has a wide network of access points but financial services remain underutilized and regulation is lagging (AN).** With 37 branches and 36 ATMs per 100,000 adults, outpacing LAC averages of 24 branches and 25 ATMs, Guatemala is among the regional champions. A wide network of banking correspondents also facilitates access. However, the country does not score well on regulation This reflects the absence of a formal comprehensive financial inclusion strategy, under-developed credit reporting systems, weak regulation of electronic payments and others (AN). The use of financial services is also low. Only 41 percent of adults (47 percent in LAC) and 60 percent of SMEs (90 percent in LAC) have a bank account. Progress on inclusion is constrained by Guatemala's fundamentals: income level, education level, in particular, among women, shadow economy size, and the rule of law.

**Reducing entry costs could help lower inequality and raise growth.** Among LAC peers, Guatemalan companies face moderate collateral requirements and intermediation costs. In contrast, they have low access to credit. Model simulations suggest (AN) that the reduction in either entry, borrowing, or intermediation costs will generate an improvement in growth.[1] However, easing the borrowing and intermediation constraints could also increase inequality—with already moderate levels of collateral and borrowing costs, the benefits would accrue mostly to productive and wealthy entrepreneurs. In contrast, reduction in the entry costs, which would allow higher access for productive firms at the bottom of the distribution, will both raise growth and reduce inequality. Given high degree of inequality in Guatemala, efforts should focus on reducing the entry costs in the first place.

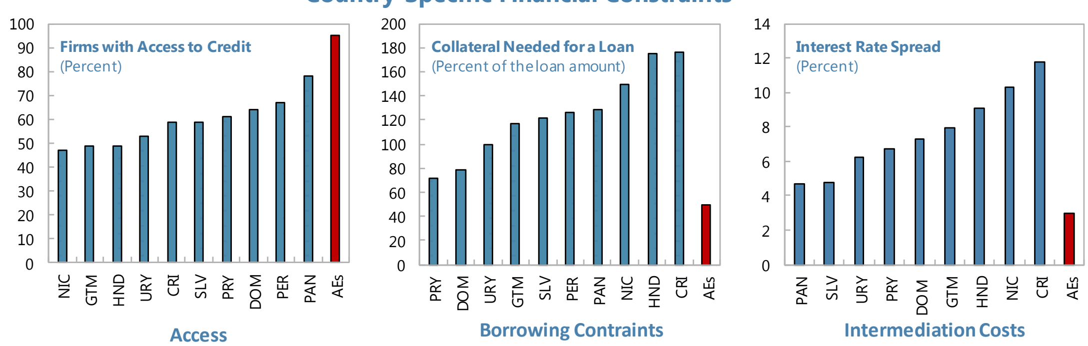
**Measures of Financial Inclusion**[2]




**LAC: Household and Firm Financial Inclusion Gaps with Respect to Macro-Economic Fundamntals**[3]




**Country-Specific Financial Constraints**[4]




[1] The model considers 3 types of financial market constraints. *Entry (participation) costs* reflect high documentation requirements by banks for opening, maintaining, and closing accounts and other barriers, including red tape and the need for informal guarantors as connections to access finance. *Borrowing constraints* are determined by collateral requirements. *Intermediation (monitoring) costs* result from information asymmetries and limited bank competition.

[2] Use of financial services by households/firms and physical access are indices from 0-1; using of banking correspondents is measures as a share of adults using banking correspondents for withdrawal.

[3] For more details, see Era Dabla-Norris, Yixi Deng, Anna Ivanova, Izabela Karpowicz, Filiz Unsal, Eva VanLeemput, and Joyce Wong, 2015. "Financial Inclusion: Zooming in on Latin America," IMF Working Paper 15/206, International Monetary Fund, Washington, DC.

[4] Firms with access to credit represents the percent of firms with a bank loan/line of credit.

# STAFF APPRAISAL

29. **The economy weathered the 2015 political crisis well.** Despite the impact of revenue shortfalls on public expenditure, growth remained robust in 2015, supported by low oil prices and strong remittances. The exchange rate has been stable and inflation has remained within the central bank's target range. These trends are expected to continue in the medium term, with GDP growing at potential and inflation within the target range. The current account deficit is projected to increase only gradually. However, there are downside risks to growth from global uncertainties and domestic policy constraints.

30. **A higher fiscal deficit could be justified on structural and social grounds.** With the output gap closed, the current broadly neutral fiscal stance is reasonable. However, a fiscal relaxation to bring the overall deficit to around 2 percent of GDP may be justified to maintain capital and social spending and to implement the anti-corruption reform agenda. However, this should be a temporary increase in the deficit while efforts to raise the revenue-GDP ratio are put in place.

31. **Monetary policy should be attuned to signs of an increase in inflation.** Core inflation remains below the target range, inflation expectations well-anchored, and inflation is forecasted to remain within the target range. However, the central bank should stand ready to increase the policy rate promptly if inflationary pressures intensify.

32. **Structural objectives should guide fiscal policy over the medium-term.** A gradual increase in fiscal revenues to at least 15 percent of GDP would be essential to meet critical social, security and infrastructure needs and to support long-term growth. This will require both improvements in tax administration and a revamp of the tax policy framework, including through an increase in tax rates. Tax reform should be presented in the context of a more comprehensive reform strategy to help secure public support. Measures to improve fiscal transparency and efficiency on the expenditure side would help raise government credibility.

33. **The central bank should transition to a full-fledged inflation targeting.** Additional measures to strengthen the monetary transmission, including continuing efforts to increase exchange rate flexibility, discourage dollarization, cover past and current operational losses of the Central Bank in the short term and recapitalize the Central Bank in the longer term, and develop capital markets would help with that transition.

34. **Guatemala's external position is moderately stronger than the level consistent with medium term fundamentals and desirable policy settings.** A lower-than-desirable fiscal deficit accounts for most of the identified policy gap. Reducing crime and corruption, investing in education and infrastructure, strengthening legal protection, and deepening the financial system would help mitigate the competitiveness gap.

35. **Efforts to fortify the financial system should continue.** The financial system appears sound, though moderately high credit dollarization, fast growing foreign bank liabilities, and exposure to sovereign debt represent vulnerabilities. The system has not been materially affected by

the loss of correspondent banking relationships. However, this should not slow efforts to strengthen risk-based AML/CFT supervision and bring the framework into line with the FATF standards, especially as it would complement efforts to combat crime and corruption. Continued implementation of the 2014 FSAP update and regional cluster surveillance report recommendations, including strengthening capital and liquidity buffers as well as enhancing consolidated supervision of financial conglomerates, will help strengthen financial system's resilience.

36. **Structural reforms should support higher and more inclusive growth.** Increasing the size and efficiency of social assistance programs as well as raising public expenditures on education, infrastructure, and security will be important to continue building human and physical capital. Improved childcare and support to indigenous women could help raise female labor force participation. Continued progress on regional and international integration, stronger competition policies, and measures to support financial deepening and inclusion, will also help stimulate long-term inclusive growth. Articulating an overarching long-term growth and social strategy would help garner public support for the reforms.

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

## Table 6. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

| | | | |
|---|---|---|---|
| Population 2014 (millions) | 16 | Gini index (2014) | 53 |
| Percentage of indigenous population (2011) | 40 | Life expectancy at birth (2013) | 72 |
| Population below the poverty line (Percent, 2014) | 59 | Adult illiteracy rate (2012) | 17 |
| Rank in UNDP development index (2011; of 187) | 131 | GDP per capita (US$, 2014) | 3,700 |

II. Economic Indicators

| | | | | | Proj. | | |
|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Income and Prices** | (Annual percent change) | | | | | | |
| Real GDP | 3.0 | 3.7 | 4.2 | 4.1 | 3.8 | 3.7 | 3.8 |
| Consumer prices (end of period) | 3.4 | 4.4 | 2.9 | 3.1 | 4.0 | 4.0 | 4.0 |
| **Monetary Sector** | | | | | | | |
| M2 | 9.8 | 9.0 | 8.7 | 9.4 | 9.1 | 10.1 | 9.1 |
| Credit to the private sector | 17.7 | 12.0 | 8.8 | 12.8 | 10.5 | 11.5 | 10.7 |
| | (In percent of GDP, unless otherwise indicated) | | | | | | |
| **Saving and Investment** | | | | | | | |
| Gross domestic investment | 15.0 | 14.0 | 13.7 | 13.4 | 13.4 | 13.6 | 13.7 |
| Private sector | 13.1 | 12.2 | 12.0 | 12.1 | 12.1 | 12.1 | 12.2 |
| Public sector | 1.9 | 1.9 | 1.7 | 1.3 | 1.3 | 1.5 | 1.6 |
| Gross national saving | 12.4 | 11.5 | 11.6 | 13.1 | 12.9 | 12.9 | 12.8 |
| Private sector | 12.5 | 11.4 | 11.4 | 13.0 | 13.0 | 12.8 | 12.6 |
| Public sector | -0.1 | 0.1 | 0.2 | 0.1 | -0.1 | 0.1 | 0.2 |
| External saving | 2.6 | 2.5 | 2.1 | 0.3 | 0.5 | 0.7 | 1.0 |
| **External Sector** | | | | | | | |
| Current account balance | -2.6 | -2.5 | -2.1 | -0.3 | -0.5 | -0.7 | -1.0 |
| Trade balance (goods) | -11.4 | -11.5 | -10.3 | -8.7 | -8.6 | -9.2 | -9.4 |
| Exports | 20.0 | 18.9 | 18.7 | 17.0 | 16.8 | 17.1 | 16.9 |
| Imports | -31.4 | -30.4 | -29.0 | -25.7 | -25.4 | -26.3 | -26.4 |
| *Of which:* oil & lubricants | -6.3 | -5.8 | -5.4 | -3.1 | -2.6 | -2.9 | -3.0 |
| Other (net) | 8.8 | 9.0 | 8.2 | 8.4 | 8.1 | 8.5 | 8.5 |
| *Of which:* remittances | 9.8 | 9.7 | 9.7 | 10.1 | 10.3 | 10.5 | 10.6 |
| Capital and financial account | 4.5 | 4.9 | 3.1 | 1.7 | 1.1 | 0.7 | 1.0 |
| Public sector | 1.4 | 1.5 | -0.1 | 0.7 | 1.2 | 0.6 | 0.5 |
| Private sector | 3.1 | 3.4 | 3.1 | 1.0 | 0.0 | 0.2 | 0.4 |
| *Of which:* FDI | 2.4 | 2.3 | 2.2 | 1.7 | 1.8 | 1.9 | 2.0 |
| Errors and omissions | -0.9 | -1.1 | -0.8 | -0.6 | 0.0 | 0.0 | 0.0 |
| Overall balance | 1.0 | 1.3 | 0.1 | 0.7 | 0.6 | 0.0 | 0.0 |
| **Net International Reserves** | | | | | | | |
| (Stock in months of next-year NFGS imports) | 3.9 | 3.9 | 4.1 | 4.2 | 4.1 | 3.8 | 3.6 |
| (Stock over short-term debt on residual maturity) | 2.0 | 1.9 | 1.9 | 1.7 | 1.7 | 1.9 | 2.0 |
| **Public Finances** | | | | | | | |
| **Central Government** | | | | | | | |
| Revenues | 11.6 | 11.6 | 11.5 | 10.8 | 10.6 | 11.0 | 11.1 |
| Expenditures | 14.0 | 13.8 | 13.4 | 12.3 | 12.2 | 12.6 | 12.7 |
| Current | 11.1 | 10.8 | 10.5 | 10.1 | 10.0 | 10.2 | 10.1 |
| Capital | 2.9 | 3.0 | 2.9 | 2.2 | 2.2 | 2.4 | 2.6 |
| Primary balance | -0.9 | -0.6 | -0.4 | 0.1 | -0.1 | -0.1 | -0.1 |
| Overall balance | -2.4 | -2.1 | -1.9 | -1.4 | -1.6 | -1.6 | -1.6 |
| Financing of the central government balance | 2.4 | 2.1 | 1.9 | 1.4 | 1.6 | 1.6 | 1.6 |
| Net external financing | 1.5 | 1.5 | 0.0 | 0.7 | 1.2 | 0.6 | 0.5 |
| Net domestic financing | 0.9 | 0.6 | 1.9 | 0.7 | 0.4 | 1.0 | 1.1 |
| **Rest of Nonfinancial Public Sector Balance** | 0.4 | 0.4 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Combined Nonfinancial Public Sector** | | | | | | | |
| Primary balance | -0.5 | -0.2 | 0.0 | 0.3 | 0.1 | 0.1 | 0.1 |
| Overall balance | -2.0 | -1.7 | -1.5 | -1.2 | -1.4 | -1.4 | -1.4 |
| **Central Government Debt** | 24.3 | 24.6 | 24.3 | 24.2 | 24.1 | 24.3 | 24.3 |
| External | 12.4 | 12.9 | 11.6 | 11.6 | 12.1 | 12.0 | 11.8 |
| Domestic 1/ | 11.9 | 11.7 | 12.6 | 12.6 | 12.0 | 12.3 | 12.5 |
| **Memorandum Items:** | | | | | | | |
| GDP (US$ billions) | 50.4 | 53.9 | 58.7 | 63.8 | 68.4 | 72.0 | 76.8 |
| Output gap (% of GDP) | -0.6 | -0.4 | 0.0 | 0.0 | 0.1 | 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 7. Guatemala: Medium-term Framework

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| | (Contribution to real GDP growth, unless otherwise stated) | | | | | | | | | |
| **Real GDP** (annual percentage change) | 3.0 | 3.7 | 4.2 | 4.1 | 3.8 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 |
| Domestic demand | 3.5 | 3.6 | 4.7 | 6.4 | 4.8 | 4.6 | 4.6 | 4.7 | 4.8 | 4.9 |
| *Of which:* Public consumption | 0.6 | 0.6 | 0.7 | 0.0 | 0.3 | 0.3 | 0.4 | 0.4 | 0.6 | 0.5 |
| *Of which:* Gross fixed investment | 0.5 | 0.2 | 0.6 | 0.8 | 1.8 | 0.9 | 0.9 | 1.0 | 0.9 | 1.0 |
| External demand | -0.6 | 0.1 | -0.5 | -2.3 | -1.0 | -0.9 | -0.8 | -0.9 | -0.9 | -0.9 |
| Exports of goods and nonfactor services | 0.5 | 1.7 | 2.1 | 1.1 | 1.4 | 1.3 | 1.3 | 1.2 | 1.2 | 1.3 |
| Imports of goods and nonfactor services | -1.0 | -1.6 | -2.6 | -3.4 | -2.4 | -2.2 | -2.1 | -2.1 | -2.2 | -2.2 |
| | (In percent of GDP) | | | | | | | | | |
| **Savings and investment** | | | | | | | | | | |
| Gross domestic investment | 15.0 | 14.0 | 13.7 | 13.4 | 13.4 | 13.6 | 13.7 | 13.9 | 13.9 | 14.0 |
| Gross national saving | 12.4 | 11.5 | 11.6 | 13.1 | 12.9 | 12.9 | 12.8 | 12.7 | 12.5 | 12.3 |
| External saving | 2.6 | 2.5 | 2.1 | 0.3 | 0.5 | 0.7 | 1.0 | 1.2 | 1.4 | 1.7 |
| **Balance of payments** | | | | | | | | | | |
| Current account balance | -2.6 | -2.5 | -2.1 | -0.3 | -0.5 | -0.7 | -1.0 | -1.2 | -1.4 | -1.7 |
| Trade balance (goods) | -11.4 | -11.5 | -10.3 | -8.7 | -8.6 | -9.2 | -9.4 | -9.5 | -9.5 | -9.7 |
| Other (net) | 8.8 | 9.0 | 8.2 | 8.4 | 8.1 | 8.5 | 8.5 | 8.3 | 8.1 | 8.0 |
| *Of which:* Remittances | 9.8 | 9.7 | 9.7 | 10.1 | 10.3 | 10.5 | 10.6 | 10.6 | 10.6 | 10.6 |
| Capital and financial account | 4.5 | 4.9 | 3.1 | 1.7 | 1.1 | 0.7 | 1.0 | 1.2 | 1.4 | 1.7 |
| Public sector | 1.4 | 1.5 | -0.1 | 0.7 | 1.2 | 0.6 | 0.5 | 0.7 | 0.7 | 0.6 |
| Private sector | 3.1 | 3.4 | 3.1 | 1.0 | 0.0 | 0.2 | 0.4 | 0.5 | 0.8 | 1.1 |
| *Of which:* FDI | 2.4 | 2.3 | 2.2 | 1.7 | 1.8 | 1.9 | 2.0 | 2.0 | 2.1 | 2.5 |
| Errors and omissions | -0.9 | -1.1 | -0.8 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 1.0 | 1.3 | 0.1 | 0.7 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Public finances** | | | | | | | | | | |
| Central government | | | | | | | | | | |
| Revenues | 11.6 | 11.6 | 11.5 | 10.8 | 10.6 | 11.0 | 11.1 | 11.2 | 11.2 | 11.2 |
| *Of which:* Tax revenues | 10.8 | 11.0 | 10.8 | 10.2 | 10.0 | 10.4 | 10.4 | 10.5 | 10.6 | 10.6 |
| Direct Taxes | 3.4 | 3.8 | 3.9 | 3.6 | 3.5 | 3.6 | 3.6 | 3.7 | 3.8 | 3.8 |
| Indirect Taxes | 7.4 | 7.2 | 6.9 | 6.6 | 6.5 | 6.8 | 6.8 | 6.8 | 6.8 | 6.8 |
| Expenditures | 14.0 | 13.8 | 13.4 | 12.3 | 12.2 | 12.6 | 12.7 | 12.8 | 12.8 | 12.8 |
| Current | 11.1 | 10.8 | 10.5 | 10.1 | 10.0 | 10.2 | 10.1 | 10.0 | 10.1 | 10.1 |
| Capital | 2.9 | 3.0 | 2.9 | 2.2 | 2.2 | 2.4 | 2.6 | 2.8 | 2.7 | 2.7 |
| Primary balance | -0.9 | -0.6 | -0.4 | 0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Overall balance | -2.4 | -2.1 | -1.9 | -1.4 | -1.6 | -1.6 | -1.6 | -1.6 | -1.6 | -1.6 |
| Financing of the central government balance | 2.4 | 2.1 | 1.9 | 1.4 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Net external financing | 1.5 | 1.5 | 0.0 | 0.7 | 1.2 | 0.6 | 0.5 | 0.7 | 0.7 | 0.6 |
| Net domestic financing | 0.9 | 0.6 | 1.9 | 0.7 | 0.4 | 1.0 | 1.1 | 0.9 | 0.9 | 1.0 |
| Central Government Debt | 24.3 | 24.6 | 24.3 | 24.2 | 24.1 | 24.3 | 24.3 | 24.3 | 24.2 | 24.2 |
| External | 12.4 | 12.9 | 11.6 | 11.6 | 12.1 | 12.0 | 11.8 | 11.8 | 11.7 | 11.6 |
| Domestic 1/ | 11.9 | 11.7 | 12.6 | 12.6 | 12.0 | 12.3 | 12.5 | 12.5 | 12.5 | 12.6 |
| **Memorandum items:** | | | | | | | | | | |
| GDP (billions of quetzales) | 394.7 | 423.1 | 454.1 | 488.3 | 529.9 | 567.9 | 612.3 | 661.5 | 714.6 | 772.7 |
| GDP deflator | 4.7 | 3.4 | 3.0 | 3.3 | 4.6 | 3.3 | 3.9 | 4.1 | 4.0 | 4.0 |
| CPI (eop) | 3.4 | 4.4 | 2.9 | 3.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Net international reserves (millions of US$) | 6,197 | 6,433 | 6,587 | 7,077 | 7,498 | 7,498 | 7,498 | 7,498 | 7,499 | 7,499 |

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

## Table 8. Guatemala: Summary Balance of Payments

| | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| | | | | | (In millions of U.S. dollars) | | | | | |
| **Current account balance** | **-1,310** | **-1,351** | **-1,230** | **-202** | **-332** | **-528** | **-733** | **-971** | **-1,252** | **-1,591** |
| Trade balance (goods) | -5,735 | -6,176 | -6,064 | -5,549 | -5,875 | -6,621 | -7,239 | -7,760 | -8,335 | -9,043 |
| Exports, f.o.b. | 10,103 | 10,183 | 10,992 | 10,831 | 11,525 | 12,351 | 13,001 | 13,808 | 14,656 | 15,383 |
| Imports, f.o.b. | -15,838 | -16,359 | -17,056 | -16,380 | -17,399 | -18,972 | -20,240 | -21,569 | -22,991 | -24,425 |
| *Of which*: oil & lubricants | -3,150 | -3,147 | -3,159 | -2,007 | -1,812 | -2,120 | -2,276 | -2,398 | -2,551 | -2,713 |
| Real services (net) | 78 | -81 | -58 | -115 | -165 | -183 | -165 | -195 | -292 | -298 |
| Income (net) | -1,298 | -1,207 | -1,553 | -1,618 | -1,917 | -2,090 | -2,286 | -2,476 | -2,713 | -3,021 |
| Current transfers (net) | 5,645 | 6,113 | 6,445 | 7,079 | 7,624 | 8,366 | 8,957 | 9,460 | 10,088 | 10,771 |
| *Of which:* remittances | 4,916 | 5,246 | 5,699 | 6,461 | 7,038 | 7,595 | 8,135 | 8,671 | 9,246 | 9,872 |
| **Capital and financial account** | 2,262 | 2,620 | 1,797 | 1,061 | 754 | 528 | 733 | 971 | 1,253 | 1,591 |
| Capital account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial account | 2,262 | 2,620 | 1,797 | 1,061 | 754 | 528 | 733 | 971 | 1,253 | 1,591 |
| Central Bank 1/ | -2 | -2 | -38 | -20 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector | 721 | 799 | 6 | 464 | 788 | 407 | 419 | 567 | 572 | 577 |
| Bonds (net) | 700 | 400 | 0 | 0 | 750 | 0 | 0 | 0 | 0 | 0 |
| Loans | 21 | 399 | 6 | 464 | 38 | 407 | 419 | 567 | 572 | 577 |
| Disbursements | 296 | 703 | 318 | 815 | 392 | 740 | 750 | 870 | 875 | 880 |
| Amortization | -275 | -288 | -302 | -340 | -354 | -333 | -331 | -303 | -303 | -303 |
| Private sector | 1,544 | 1,822 | 1,829 | 617 | -34 | 121 | 314 | 404 | 680 | 1,014 |
| FDI | 1,205 | 1,262 | 1,282 | 1,116 | 1,237 | 1,349 | 1,500 | 1,652 | 1,818 | 2,333 |
| Portfolio investment | 22 | 533 | 794 | -52 | -56 | -60 | -65 | -70 | -76 | -82 |
| Other investment | 316 | 28 | -248 | -447 | -1,215 | -1,168 | -1,121 | -1,178 | -1,061 | -1,237 |
| **Errors and omissions** | -454 | -567 | -495 | -384 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Overall balance** | 499 | 702 | 72 | 475 | 421 | 0 | 0 | 0 | 0 | 0 |
| | | | | | (In percent of GDP) | | | | | |
| **Current account balance** | **-2.6** | **-2.5** | **-2.1** | **-0.3** | **-0.5** | **-0.7** | **-1.0** | **-1.2** | **-1.4** | **-1.7** |
| Trade balance (goods) | -11.4 | -11.5 | -10.3 | -8.7 | -8.6 | -9.2 | -9.4 | -9.5 | -9.5 | -9.7 |
| Exports, f.o.b. | 20.0 | 18.9 | 18.7 | 17.0 | 16.8 | 17.1 | 16.9 | 16.8 | 16.8 | 16.5 |
| Imports, f.o.b. | -31.4 | -30.4 | -29.0 | -25.7 | -25.4 | -26.3 | -26.4 | -26.3 | -26.3 | -26.2 |
| *Of which:* oil & lubricants | -6.3 | -5.8 | -5.4 | -3.1 | -2.6 | -2.9 | -3.0 | -2.9 | -2.9 | -2.9 |
| Real services (net) | 0.2 | -0.1 | -0.1 | -0.2 | -0.2 | -0.3 | -0.2 | -0.2 | -0.3 | -0.3 |
| Income (net) | -2.6 | -2.2 | -2.6 | -2.5 | -2.8 | -2.9 | -3.0 | -3.0 | -3.1 | -3.2 |
| Current transfers (net) | 11.2 | 11.4 | 11.0 | 11.1 | 11.1 | 11.6 | 11.7 | 11.5 | 11.5 | 11.5 |
| *Of which:* remittances | 9.8 | 9.7 | 9.7 | 10.1 | 10.3 | 10.5 | 10.6 | 10.6 | 10.6 | 10.6 |
| **Capital and financial account** | **4.5** | **4.9** | **3.1** | **1.7** | **1.1** | **0.7** | **1.0** | **1.2** | **1.4** | **1.7** |
| Capital account | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account | 4.5 | 4.9 | 3.1 | 1.7 | 1.1 | 0.7 | 1.0 | 1.2 | 1.4 | 1.7 |
| Central Bank 1/ | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Public sector | 1.4 | 1.5 | 0.0 | 0.7 | 1.2 | 0.6 | 0.5 | 0.7 | 0.7 | 0.6 |
| Bonds (net) | 1.4 | 0.7 | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans | 0.0 | 0.7 | 0.0 | 0.7 | 0.1 | 0.6 | 0.5 | 0.7 | 0.7 | 0.6 |
| Disbursements | 0.6 | 1.3 | 0.5 | 1.3 | 0.6 | 1.0 | 1.0 | 1.1 | 1.0 | 0.9 |
| Amortization | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.4 | -0.4 | -0.3 | -0.3 |
| Private sector | 3.1 | 3.4 | 3.1 | 1.0 | 0.0 | 0.2 | 0.4 | 0.5 | 0.8 | 1.1 |
| FDI | 2.4 | 2.3 | 2.2 | 1.7 | 1.8 | 1.9 | 2.0 | 2.0 | 2.1 | 2.5 |
| Portfolio investment | 0.0 | 1.0 | 1.4 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Other investment | 0.6 | 0.1 | -0.4 | -0.7 | -1.8 | -1.6 | -1.5 | -1.4 | -1.2 | -1.3 |
| **Errors and omissions** | **-0.9** | **-1.1** | **-0.8** | **-0.6** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Overall balance** | **1.0** | **1.3** | **0.1** | **0.7** | **0.6** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Memorandum items:** | | | | | | | | | | |
| Value of exports, f.o.b. (percentage change) | -4.0 | 0.8 | 7.9 | -1.5 | 6.4 | 7.2 | 5.3 | 6.2 | 6.1 | 5.0 |
| Value of imports, f.o.b. (percentage change) | 2.3 | 3.3 | 4.3 | -4.0 | 6.2 | 9.0 | 6.7 | 6.6 | 6.6 | 6.2 |
| Stock of NIR (in millions of U.S. dollars) 1/ | 6,197 | 6,433 | 6,587 | 7,077 | 7,498 | 7,498 | 7,498 | 7,498 | 7,499 | 7,499 |
| NIR in months of next-year NFGS imports | 3.9 | 3.9 | 4.1 | 4.2 | 4.1 | 3.8 | 3.6 | 3.6 | 3.6 | 3.6 |
| NIR over short-term debt on residual maturity | 2.0 | 1.9 | 1.9 | 1.7 | 1.7 | 1.9 | 2.0 | 2.2 | 2.4 | 2.7 |
| Nominal GDP (in billions of U.S. dollars) | 50.4 | 53.9 | 58.7 | 63.8 | 68.4 | 72.0 | 76.8 | 82.0 | 87.5 | 93.3 |

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

## Table 9A. Guatemala: Public Sector Balance

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| | | | | | (In millions of quetzales) | | | | | |
| **Central Government** | | | | | | | | | | |
| **Total revenues** | **45,874** | **49,259** | **52,224** | **52,884** | **56,144** | **62,547** | **67,773** | **73,817** | **80,266** | **86,541** |
| Tax revenues | 42,820 | 46,336 | 49,097 | 49,731 | 52,731 | 58,997 | 63,946 | 69,683 | 75,799 | 81,711 |
| Direct Taxes | 13,454 | 16,053 | 17,768 | 17,556 | 18,548 | 20,445 | 22,042 | 24,476 | 27,157 | 29,361 |
| Indirect Taxes | 29,366 | 30,283 | 31,329 | 32,175 | 34,183 | 38,553 | 41,904 | 45,207 | 48,642 | 52,350 |
| Nontax revenues | 3,054 | 2,924 | 3,127 | 3,153 | 3,414 | 3,550 | 3,827 | 4,135 | 4,467 | 4,830 |
| **Total expenditures** | **55,320** | **58,269** | **60,819** | **59,891** | **64,623** | **71,634** | **77,568** | **84,394** | **91,689** | **98,891** |
| Current | 43,881 | 45,555 | 47,471 | 49,257 | 52,900 | 57,968 | 61,827 | 66,088 | 72,049 | 77,837 |
| Wages | 15,081 | 16,968 | 18,466 | 20,304 | 21,463 | 22,716 | 24,492 | 26,460 | 29,301 | 31,679 |
| Goods & services | 10,295 | 8,661 | 9,346 | 7,996 | 8,711 | 9,335 | 10,065 | 10,874 | 11,747 | 12,701 |
| Social security benefits | 3,306 | 3,581 | 3,774 | 3,898 | 4,457 | 5,071 | 5,467 | 5,907 | 6,381 | 6,900 |
| Interest | 6,022 | 6,569 | 6,583 | 7,617 | 7,755 | 8,460 | 9,119 | 9,830 | 10,559 | 11,359 |
| Transfers | 8,967 | 9,499 | 9,128 | 9,399 | 10,470 | 12,342 | 12,641 | 12,974 | 14,016 | 15,154 |
| Other | 209 | 277 | 174 | 44 | 44 | 44 | 44 | 44 | 44 | 44 |
| Capital | 11,439 | 12,714 | 13,347 | 10,634 | 11,723 | 13,666 | 15,740 | 18,306 | 19,641 | 21,054 |
| Primary expenditures | 49,297 | 51,700 | 54,235 | 52,274 | 56,868 | 63,174 | 68,449 | 74,565 | 81,130 | 87,532 |
| **Primary balance** | **-3,423** | **-2,441** | **-2,011** | **609** | **-724** | **-627** | **-676** | **-747** | **-864** | **-991** |
| **Overall balance** | **-9,446** | **-9,010** | **-8,594** | **-7,007** | **-8,479** | **-9,086** | **-9,795** | **-10,577** | **-11,423** | **-12,350** |
| **Financing** | **9,446** | **9,010** | **8,594** | **7,007** | **8,479** | **9,086** | **9,795** | **10,577** | **11,423** | **12,350** |
| Net external financing | 5,743 | 6,364 | 123 | 3,638 | 6,103 | 3,211 | 3,343 | 4,576 | 4,674 | 4,777 |
| Loans | 262 | 3,261 | 123 | 3,638 | 293 | 3,211 | 3,343 | 4,576 | 4,674 | 4,777 |
| Disbursements | 2,329 | 5,520 | 2,461 | 6,240 | 3,038 | 5,833 | 5,980 | 7,019 | 7,148 | 7,284 |
| Amortizations | 2,066 | 2,259 | 2,338 | 2,602 | 2,745 | 2,622 | 2,636 | 2,444 | 2,474 | 2,507 |
| Bonds | 5,481 | 3,104 | 0 | 0 | 5,810 | 0 | 0 | 0 | 0 | 0 |
| Placements | 5,481 | 5,478 | 0 | 0 | 5,810 | 0 | 0 | 0 | 0 | 0 |
| Amortizations | 0 | 2,374 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net domestic financing | 3,703 | 2,645 | 8,472 | 3,370 | 2,376 | 5,876 | 6,451 | 6,002 | 6,749 | 7,573 |
| Net issuance of bonds | 2,019 | 2,313 | 8,216 | 3,876 | 1,999 | 6,064 | 6,585 | 6,135 | 6,883 | 7,706 |
| Gross bond issuance | 4,540 | 2,693 | 11,135 | 8,036 | 7,534 | 8,350 | 9,464 | 10,334 | 11,162 | 10,661 |
| Amortizations | 2,520 | 380 | 2,919 | 4,159 | 5,534 | 2,287 | 2,879 | 4,199 | 4,278 | 2,954 |
| Other | 658 | 0 | 13 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Use of government deposits | 2,019 | 276 | 249 | -506 | 377 | -188 | -134 | -134 | -134 | -134 |
| **Rest of nonfinancial public sector balance 1** | **1,579** | **1,692** | **1,816** | **977** | **1,060** | **1,136** | **1,225** | **1,323** | **1,429** | **1,545** |
| **Consolidated nonfinancial public sector** | | | | | | | | | | |
| Primary balance | -1,845 | -748 | -195 | 1,586 | 336 | 509 | 549 | 576 | 565 | 554 |
| Interest | 6,022 | 6,569 | 6,583 | 7,617 | 7,755 | 8,460 | 9,119 | 9,830 | 10,559 | 11,359 |
| **Overall balance** | **-7,867** | -7,317 | -6,778 | -6,031 | -7,419 | -7,951 | -8,570 | -9,254 | -9,994 | -10,805 |
| **Central bank balance** | **-1,488** | **-1,429** | **-1,164** | **-1,108** | **-1,200** | **-1,199** | **-1,199** | **-1,199** | **-1,199** | **-1,199** |
| **Memorandum items:** | | | | | | | | | | |
| Central Government debt | 96,027 | 104,164 | 110,258 | 118,156 | 127,875 | 137,951 | 148,780 | 160,475 | 173,161 | 186,891 |
| External | 48,895 | 54,753 | 52,831 | 56,679 | 64,237 | 68,175 | 72,342 | 77,823 | 83,540 | 89,474 |
| Domestic 2/ | 47,132 | 49,412 | 57,428 | 61,477 | 63,639 | 69,776 | 76,438 | 82,652 | 89,621 | 97,417 |
| Consolidated NFPS debt | 86,216 | 93,467 | 98,595 | 105,569 | 114,177 | 123,232 | 132,866 | 143,236 | 154,492 | 166,660 |
| Central government gross borrowing requiren | 14,032 | 14,023 | 13,851 | 13,769 | 16,758 | 13,995 | 15,310 | 17,219 | 18,176 | 17,811 |
| Social spending | 20,185 | 21,381 | 23,013 | 23,474 | 25,996 | 27,859 | 30,036 | 32,450 | 35,057 | 37,903 |
| GDP | 394,723 | 423,098 | 454,053 | 488,333 | 529,945 | 567,909 | 612,288 | 661,505 | 714,649 | 772,668 |

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 9B. Guatemala: Public Sector Balance

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| | | | | | (In percent of GDP) | | | | | |
| **Central government** | | | | | | | | | | |
| **Total revenues** | **11.6** | **11.6** | **11.5** | **10.8** | **10.6** | **11.0** | **11.1** | **11.2** | **11.2** | **11.2** |
| Tax revenues | 10.8 | 11.0 | 10.8 | 10.2 | 10.0 | 10.4 | 10.4 | 10.5 | 10.6 | 10.6 |
| Direct taxes | 3.4 | 3.8 | 3.9 | 3.6 | 3.5 | 3.6 | 3.6 | 3.7 | 3.8 | 3.8 |
| Indirect taxes | 7.4 | 7.2 | 6.9 | 6.6 | 6.5 | 6.8 | 6.8 | 6.8 | 6.8 | 6.8 |
| Nontax revenues | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Total expenditures** | **14.0** | **13.8** | **13.4** | **12.3** | **12.2** | **12.6** | **12.7** | **12.8** | **12.8** | **12.8** |
| Current | 11.1 | 10.8 | 10.5 | 10.1 | 10.0 | 10.2 | 10.1 | 10.0 | 10.1 | 10.1 |
| Wages | 3.8 | 4.0 | 4.1 | 4.2 | 4.1 | 4.0 | 4.0 | 4.0 | 4.1 | 4.1 |
| Goods & services | 2.6 | 2.0 | 2.1 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Social security benefits | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Interest | 1.5 | 1.6 | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Transfers | 2.3 | 2.2 | 2.0 | 1.9 | 2.0 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 |
| Other | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital | 2.9 | 3.0 | 2.9 | 2.2 | 2.2 | 2.4 | 2.6 | 2.8 | 2.7 | 2.7 |
| Primary expenditures | 12.5 | 12.2 | 11.9 | 10.7 | 10.7 | 11.1 | 11.2 | 11.3 | 11.4 | 11.3 |
| **Primary balance** | **-0.9** | **-0.6** | **-0.4** | **0.1** | **-0.1** | **-0.1** | **-0.1** | **-0.1** | **-0.1** | **-0.1** |
| **Overall balance** | **-2.4** | **-2.1** | **-1.9** | **-1.4** | **-1.6** | **-1.6** | **-1.6** | **-1.6** | **-1.6** | **-1.6** |
| **Financing** | **2.4** | **2.1** | **1.9** | **1.4** | **1.6** | **1.6** | **1.6** | **1.6** | **1.6** | **1.6** |
| Net external financing | 1.5 | 1.5 | 0.0 | 0.7 | 1.2 | 0.6 | 0.5 | 0.7 | 0.7 | 0.6 |
| Loans | 0.1 | 0.8 | 0.0 | 0.7 | 0.1 | 0.6 | 0.5 | 0.7 | 0.7 | 0.6 |
| Disbursements | 0.6 | 1.3 | 0.5 | 1.3 | 0.6 | 1.0 | 1.0 | 1.1 | 1.0 | 0.9 |
| Amortizations | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| Bonds | 1.4 | 0.7 | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Placements | 1.4 | 1.3 | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortizations | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net domestic financing | 0.9 | 0.6 | 1.9 | 0.7 | 0.4 | 1.0 | 1.1 | 0.9 | 0.9 | 1.0 |
| Net issuance of bonds | 0.5 | 0.5 | 1.8 | 0.8 | 0.4 | 1.1 | 1.1 | 0.9 | 1.0 | 1.0 |
| Gross bond issuance | 1.2 | 0.6 | 2.5 | 1.6 | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 | 1.4 |
| Amortizations | 0.6 | 0.1 | 0.6 | 0.9 | 1.0 | 0.4 | 0.5 | 0.6 | 0.6 | 0.4 |
| Other | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Use of government deposits | 0.5 | 0.1 | 0.1 | -0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Rest of nonfinancial public sector balance 1/** | **0.4** | **0.4** | **0.4** | **0.2** | **0.2** | **0.2** | **0.2** | **0.2** | **0.2** | **0.2** |
| **Consolidated nonfinancial public sector** | | | | | | | | | | |
| Primary balance | -0.5 | -0.2 | 0.0 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest | 1.5 | 1.6 | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| **Overall balance** | **-2.0** | **-1.7** | **-1.5** | **-1.2** | **-1.4** | **-1.4** | **-1.4** | **-1.4** | **-1.4** | **-1.4** |
| **Central bank balance** | **-0.4** | **-0.3** | **-0.3** | **-0.2** | **-0.2** | **-0.2** | **-0.2** | **-0.2** | **-0.2** | **-0.2** |
| **Memorandum items:** | | | | | | | | | | |
| Central Government debt | **24.3** | **24.6** | **24.3** | **24.2** | **24.1** | **24.3** | **24.3** | **24.3** | **24.2** | **24.2** |
| External | 12.4 | 12.9 | 11.6 | 11.6 | 12.1 | 12.0 | 11.8 | 11.8 | 11.7 | 11.6 |
| Domestic 2/ | 11.9 | 11.7 | 12.6 | 12.6 | 12.0 | 12.3 | 12.5 | 12.5 | 12.5 | 12.6 |
| Consolidated NFPS debt | 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 | 3.6 | 3.3 | 3.1 | 2.8 | 3.2 | 2.5 | 2.5 | 2.6 | 2.5 | 2.3 |
| Social spending | 5.1 | 5.1 | 5.1 | 4.8 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Structural primary balance | -0.9 | -0.6 | -0.5 | 0.0 | -0.2 | -0.2 | -0.2 | -0.1 | -0.1 | -0.2 |
| Fiscal Impulse | 0.1 | -0.3 | -0.1 | -0.5 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 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 9C. Guatemala: Statement of the Central Government Operations and Financial Balance, GFSM 2001 Classification

| | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2020 |
| | | | | | (In millions of quetzales) | | | | | |
| **Central government operations** | | | | | | | | | | |
| **Revenue** | **45,855** | **49,250** | **52,217** | **52,858** | **56,016** | **62,518** | **67,742** | **73,784** | **80,230** | **86,502** |
| Taxes | 41,766 | 45,467 | 48,478 | 49,507 | 52,519 | 57,862 | 62,721 | 68,360 | 74,370 | 80,166 |
| Other revenue | 4,089 | 3,783 | 3,739 | 3,351 | 3,498 | 4,657 | 5,021 | 5,424 | 5,860 | 6,336 |
| **Expenditure** | **55,301** | **58,260** | **60,811** | **59,865** | **64,495** | **71,605** | **77,537** | **84,361** | **91,653** | **98,852** |
| **Expense** | **52,918** | **54,500** | **56,544** | **57,829** | **62,610** | **69,287** | **74,864** | **81,250** | **88,316** | **95,275** |
| Compensation of employees | 15,081 | 16,968 | 18,466 | 20,304 | 21,463 | 22,716 | 24,492 | 26,460 | 29,301 | 31,679 |
| Use of goods and services | 10,295 | 8,661 | 9,346 | 7,996 | 8,711 | 9,335 | 10,065 | 10,874 | 11,747 | 12,701 |
| Interest | 6,022 | 6,569 | 6,583 | 7,617 | 7,755 | 8,460 | 9,119 | 9,830 | 10,559 | 11,359 |
| Other expense | 21,519 | 22,302 | 22,149 | 21,913 | 24,681 | 28,775 | 31,189 | 34,087 | 36,709 | 39,536 |
| **Net acquisition of nonfinancial assets** | **2,383** | **3,760** | **4,267** | **2,036** | **1,886** | **2,318** | **2,672** | **3,111** | **3,337** | **3,577** |
| **Gross Operating Balance** | **-7,063** | **-5,249** | **-4,327** | **-4,971** | **-6,594** | **-6,768** | **-7,122** | **-7,466** | **-8,086** | **-8,773** |
| **Net lending (+)/borrowing (–)** | **-9,446** | **-9,010** | **-8,594** | **-7,007** | **-8,479** | **-9,086** | **-9,795** | **-10,577** | **-11,423** | **-12,350** |
| **Net acquisition of financial assets** | **-2,341** | **-276** | **-261** | **506** | **-377** | **188** | **134** | **134** | **134** | **134** |
| **Net incurrence of liabilities** | **8,099** | **8,677** | **8,339** | **7,514** | **8,102** | **9,274** | **9,928** | **10,711** | **11,557** | **12,484** |
| | | | | | | | | | | |
| **Financial Balance** 1/ | | | | | | | | | | |
| **Net financial worth** 2/ | **-75,381** | **-83,447** | **-87,469** | **-91,955** | **-101,929** | **-111,697** | **-122,280** | **-133,726** | **-146,153** | **-159,558** |
| **Financial assets** | **19,765** | **20,718** | **22,789** | **26,201** | **25,946** | **26,255** | **26,500** | **26,749** | **27,008** | **27,334** |
| **Domestic** | **19,765** | **20,718** | **22,789** | **26,201** | **25,946** | **26,255** | **26,500** | **26,749** | **27,008** | **27,334** |
| Currency and deposits | 19,765 | 20,718 | 22,789 | 26,201 | 25,946 | 26,255 | 26,500 | 26,749 | 27,008 | 27,334 |
| **Foreign** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net incurrence of liabilities** | **95,146** | **104,164** | **110,258** | **118,156** | **127,875** | **137,951** | **148,780** | **160,475** | **173,161** | **186,891** |
| **Domestic** 3/ | **47,132** | **49,412** | **57,428** | **61,477** | **63,639** | **69,776** | **76,438** | **82,652** | **89,621** | **97,418** |
| Debt securities | 47,132 | 49,412 | 57,428 | 61,477 | 63,639 | 69,776 | 76,438 | 82,652 | 89,621 | 97,418 |
| **Foreign** | **48,013** | **54,753** | **52,831** | **56,679** | **64,237** | **68,175** | **72,342** | **77,823** | **83,540** | **89,474** |
| Debt securities | 10,500 | 13,584 | 13,140 | 13,239 | 19,442 | 19,656 | 19,888 | 20,130 | 20,392 | 20,666 |
| Loans | 37,513 | 41,169 | 39,691 | 43,440 | 44,795 | 48,519 | 52,454 | 57,693 | 63,148 | 68,808 |
| | | | | | (In percent of GDP) | | | | | |
| **Central Government Operations** | | | | | | | | | | |
| **Revenue** | **11.6** | **11.6** | **11.5** | **10.8** | **10.6** | **11.0** | **11.1** | **11.2** | **11.2** | **11.2** |
| Taxes | 10.6 | 10.7 | 10.7 | 10.1 | 9.9 | 10.2 | 10.2 | 10.3 | 10.4 | 10.4 |
| Other revenue | 1.0 | 0.9 | 0.8 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| **Expenditure** | **14.0** | **13.8** | **13.4** | **12.3** | **12.2** | **12.6** | **12.7** | **12.8** | **12.8** | **12.8** |
| **Expense** | **13.4** | **12.9** | **12.5** | **11.8** | **11.8** | **12.2** | **12.2** | **12.3** | **12.4** | **12.3** |
| Compensation of employees | 3.8 | 4.0 | 4.1 | 4.2 | 4.1 | 4.0 | 4.0 | 4.0 | 4.1 | 4.1 |
| Use of goods and services | 2.6 | 2.0 | 2.1 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Interest | 1.5 | 1.6 | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Other expense | 5.5 | 5.3 | 4.9 | 4.5 | 4.7 | 5.1 | 5.1 | 5.2 | 5.1 | 5.1 |
| **Net acquisition of nonfinancial assets** | **0.6** | **0.9** | **0.9** | **0.4** | **0.4** | **0.4** | **0.4** | **0.5** | **0.5** | **0.5** |
| **Gross Operating Balance** | **-1.8** | **-1.2** | **-1.0** | **-1.0** | **-1.2** | **-1.2** | **-1.2** | **-1.1** | **-1.1** | **-1.1** |
| **Net lending (+)/borrowing (–)** | **-2.4** | **-2.1** | **-1.9** | **-1.4** | **-1.6** | **-1.6** | **-1.6** | **-1.6** | **-1.6** | **-1.6** |
| **Net acquisition of financial assets** | **-0.6** | **-0.1** | **-0.1** | **0.1** | **-0.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Net incurrence of liabilities** | **2.1** | **2.1** | **1.8** | **1.5** | **1.5** | **1.6** | **1.6** | **1.6** | **1.6** | **1.6** |
| | | | | | | | | | | |
| **Financial Balance** 1/ | | | | | | | | | | |
| **Net financial worth** 2/ | **-19.1** | **-19.7** | **-19.3** | **-18.8** | **-19.2** | **-19.7** | **-20.0** | **-20.2** | **-20.5** | **-20.7** |
| **Financial assets** | **5.0** | **4.9** | **5.0** | **5.4** | **4.9** | **4.6** | **4.3** | **4.0** | **3.8** | **3.5** |
| **Domestic** | **5.0** | **4.9** | **5.0** | **5.4** | **4.9** | **4.6** | **4.3** | **4.0** | **3.8** | **3.5** |
| Currency and deposits | 5.0 | 4.9 | 5.0 | 5.4 | 4.9 | 4.6 | 4.3 | 4.0 | 3.8 | 3.5 |
| **Foreign** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Net incurrence of liabilities** | **24.1** | **24.6** | **24.3** | **24.2** | **24.1** | **24.3** | **24.3** | **24.3** | **24.2** | **24.2** |
| **Domestic** 3/ | **11.9** | **11.7** | **12.6** | **12.6** | **12.0** | **12.3** | **12.5** | **12.5** | **12.5** | **12.6** |
| Debt securities | 11.9 | 11.7 | 12.6 | 12.6 | 12.0 | 12.3 | 12.5 | 12.5 | 12.5 | 12.6 |
| **Foreign** | **12.2** | **12.9** | **11.6** | **11.6** | **12.1** | **12.0** | **11.8** | **11.8** | **11.7** | **11.6** |
| Debt securities | 2.7 | 3.2 | 2.9 | 2.7 | 3.7 | 3.5 | 3.2 | 3.0 | 2.9 | 2.7 |
| Loans | 9.5 | 9.7 | 8.7 | 8.9 | 8.5 | 8.5 | 8.6 | 8.7 | 8.8 | 8.9 |

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 10. Guatemala: Monetary Sector Survey

| | 2012 | 2013 | 2014 | 2015 | Projections 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In millions of quetzales) | | | | | |
| **Bank of Guatemala (BOG)** | | | | | | | | | | |
| **Net international reserves 1/** | **48,921** | **50,515** | **50,031** | **54,155** | **58,778** | **59,430** | **60,131** | **60,861** | **61,656** | **62,489** |
| (In millions of U.S. dollars) 1/ | 6,197 | 6,433 | 6,587 | 7,077 | 7,498 | 7,498 | 7,498 | 7,498 | 7,499 | 7,499 |
| **Net domestic assets** | **-27,761** | **-28,142** | **-25,897** | **-27,007** | **-29,029** | **-27,140** | **-25,282** | **-23,380** | **-21,464** | **-19,470** |
| Net claims on nonfinancial public sector | -10,440 | -10,565 | -9,765 | -9,500 | -9,306 | -9,675 | -9,975 | -10,283 | -10,605 | -11,026 |
| Central government (CG) | -3,828 | -2,904 | -3,042 | -3,274 | -2,897 | -3,085 | -3,219 | -3,353 | -3,487 | -3,621 |
| Rest of nonfinancial public sector | -6,612 | -7,661 | -6,723 | -6,225 | -6,409 | -6,590 | -6,756 | -6,930 | -7,118 | -7,406 |
| Bank of Guatemala losses | 17,766 | 19,201 | 20,901 | 22,285 | 23,485 | 24,684 | 25,883 | 27,082 | 28,281 | 29,480 |
| Net credit to banks | -21,425 | -24,499 | -25,724 | -27,419 | -29,544 | -32,814 | -36,053 | -39,602 | -43,439 | -47,687 |
| *Of which: legal reserves* | -23,484 | -26,558 | -27,782 | -29,478 | -31,603 | -34,873 | -38,112 | -41,661 | -45,498 | -49,746 |
| Open market operations 2/ | -14,034 | -16,785 | -17,032 | -17,642 | -17,950 | -14,332 | -10,082 | -5,493 | -554 | 4,948 |
| Other assets (net) | 372 | 4,505 | 5,722 | 5,269 | 4,286 | 4,996 | 4,945 | 4,916 | 4,853 | 4,815 |
| **Currency in circulation** | 21,161 | 22,373 | 24,134 | 27,148 | 29,749 | 32,290 | 34,849 | 37,481 | 40,192 | 43,019 |
| **Banking sector** | | | | | | | | | | |
| **Net foreign position** | **-19,253** | **-22,472** | **-26,865** | **-32,991** | **-34,595** | **-37,351** | **-40,237** | **-43,308** | **-46,465** | **-49,488** |
| (in millions of U.S. Dollars) | -2,439 | -2,862 | -3,537 | -4,311 | -4,413 | -4,712 | -5,017 | -5,336 | -5,651 | -5,939 |
| **Net claims on Bank of Guatemala** | **35,158** | **38,071** | **39,838** | **42,519** | **44,907** | **45,081** | **44,685** | **44,308** | **43,920** | **43,462** |
| Legal reserves | 23,484 | 26,558 | 27,782 | 29,478 | 31,603 | 34,873 | 38,112 | 41,661 | 45,498 | 49,746 |
| BOG securities | 13,726 | 13,564 | 14,107 | 15,093 | 15,356 | 12,260 | 8,625 | 4,699 | 474 | -4,233 |
| Liabilities to BOG | -2,052 | -2,052 | -2,052 | -2,052 | -2,052 | -2,052 | -2,052 | -2,052 | -2,052 | -2,052 |
| **Net domestic assets** | **132,463** | **147,925** | **163,884** | **183,284** | **199,694** | **223,635** | **248,174** | **274,909** | **303,660** | **335,060** |
| Net credit to the NFPS | 6,317 | 7,262 | 10,154 | 8,943 | 9,820 | 12,731 | 15,913 | 18,864 | 22,181 | 25,842 |
| Official capital and reserves | -4,159 | -4,504 | -5,366 | -5,464 | -5,900 | -6,435 | -6,981 | -7,577 | -8,230 | -8,958 |
| Credit to the private sector | 125,176 | 140,159 | 152,455 | 172,036 | 190,100 | 211,961 | 234,635 | 259,802 | 287,403 | 318,302 |
| Other items net | 5,129 | 5,008 | 6,641 | 7,769 | 5,674 | 5,377 | 4,608 | 3,820 | 2,307 | -126 |
| **Medium and long-term foreign liabilities** | **582** | **495** | **456** | **454** | **493** | **529** | **570** | **616** | **665** | **719** |
| **Liabilities to private sector** | **147,787** | **163,029** | **176,401** | **192,357** | **209,513** | **230,837** | **252,052** | **275,293** | **300,450** | **328,314** |
| Demand deposits | 52,195 | 55,257 | 59,682 | 64,081 | 70,409 | 81,383 | 90,772 | 100,933 | 111,929 | 124,285 |
| Time and savings deposits | 81,680 | 91,316 | 99,753 | 109,679 | 119,025 | 127,551 | 137,519 | 148,573 | 160,509 | 173,540 |
| Capital and reserves (private banks) | 13,912 | 16,455 | 16,966 | 18,597 | 20,079 | 21,902 | 23,762 | 25,788 | 28,013 | 30,490 |
| **Monetary survey** | | | | | | | | | | |
| **Net foreign assets** | **29,669** | **28,043** | **23,166** | **21,164** | **24,184** | **22,080** | **19,894** | **17,553** | **15,191** | **13,001** |
| (In millions of U.S. dollars) | 3,758 | 3,571 | 3,050 | 2,766 | 3,085 | 2,786 | 2,481 | 2,163 | 1,847 | 1,560 |
| **Net domestic assets** | **140,169** | **161,073** | **180,749** | **201,345** | **218,166** | **243,647** | **269,034** | **296,631** | **326,197** | **358,336** |
| Net claims on nonfinancial public sector | -4,123 | -3,303 | 389 | -557 | 513 | 3,057 | 5,937 | 8,581 | 11,576 | 14,816 |
| Bank of Guatemala losses | 17,766 | 19,201 | 20,901 | 22,285 | 23,485 | 24,684 | 25,883 | 27,082 | 28,281 | 29,480 |
| Credit to private sector | 132,236 | 147,446 | 159,386 | 179,586 | 198,442 | 221,262 | 244,930 | 271,200 | 300,012 | 332,265 |
| Other assets (net) | -5,710 | -2,271 | 73 | 30 | -4,275 | -5,356 | -7,717 | -10,233 | -13,672 | -18,225 |
| **Medium and long-term foreign liabilities** | **582** | **495** | **456** | **454** | **493** | **529** | **570** | **616** | **665** | **719** |
| **Liabilities to the private sector** | **169,256** | **188,621** | **203,459** | **222,055** | **241,856** | **265,198** | **288,358** | **313,568** | **340,722** | **370,618** |
| *Of which:* Money | 73,356 | 77,630 | 83,816 | 91,229 | 100,158 | 113,673 | 125,621 | 138,413 | 152,121 | 167,304 |
| *Of which:* Quasi-money | 95,900 | 110,992 | 119,644 | 130,825 | 141,698 | 151,525 | 162,737 | 175,154 | 188,601 | 203,315 |
| **Memorandum items:** | | | | | (Percent change) | | | | | |
| Currency in circulation | 4.2 | 5.7 | 7.9 | 12.5 | 9.6 | 8.5 | 7.9 | 7.6 | 7.2 | 7.0 |
| M2 | 9.8 | 9.0 | 8.7 | 9.4 | 9.1 | 10.1 | 9.1 | 9.1 | 8.9 | 9.0 |
| Credit to private sector | 17.7 | 12.0 | 8.8 | 12.8 | 10.5 | 11.5 | 10.7 | 10.7 | 10.6 | 10.8 |
| | | | | | (In percent of GDP) | | | | | |
| Currency in circulation | 5.4 | 5.3 | 5.3 | 5.6 | 5.6 | 5.7 | 5.7 | 5.7 | 5.6 | 5.6 |
| M2 | 39.3 | 39.9 | 40.4 | 41.1 | 41.4 | 42.5 | 43.0 | 43.4 | 43.7 | 44.1 |
| Net credit of the banking sector to the CG | 1.6 | 1.7 | 2.2 | 1.8 | 1.9 | 2.2 | 2.6 | 2.9 | 3.1 | 3.3 |
| Credit to private sector | 31.7 | 33.1 | 33.6 | 35.2 | 35.9 | 37.3 | 38.3 | 39.3 | 40.2 | 41.2 |
| | | | | | (In percent of bank liabilities to the private sector) | | | | | |
| Banks' liquid assets | 40.2 | 40.0 | 40.7 | 39.7 | 38.1 | 36.0 | 34.1 | 32.2 | 30.5 | 29.0 |
| Demand deposits | 35.3 | 33.9 | 33.8 | 33.3 | 33.6 | 35.3 | 36.0 | 36.7 | 37.3 | 37.9 |
| Time and savings deposits | 55.3 | 56.0 | 56.5 | 57.0 | 56.8 | 55.3 | 54.6 | 54.0 | 53.4 | 52.9 |
| Capital and reserves (private banks) | 9.4 | 10.1 | 9.6 | 9.7 | 9.6 | 9.5 | 9.4 | 9.4 | 9.3 | 9.3 |

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

## Table 11. Guatemala: Financial Soundness Indicators

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **On-shore banks** | | | | | | | | | |
| Reserves as a percentage of Deposits, in NC | 15.5 | 13.4 | 14.7 | 14.6 | 14.6 | 14.5 | 14.5 | 14.6 | 14.5 |
| Reserves as a percentage of Deposits, in FC | 15.8 | 15.1 | 18.2 | 18.6 | 16.2 | 16.8 | 20.8 | 17.1 | 15.9 |
| Short-term liquidity | 20.3 | 19.4 | 21.6 | 20.3 | 21.6 | 21.6 | 21.9 | 20.7 | 18.9 |
| Liquid asset to total asset ratio | 15.3 | 24.4 | 28.2 | 28.4 | 29.0 | 27.5 | 28.1 | 28.8 | 26.9 |
| Liquidity ratio | 11.2 | 20.3 | 23.7 | 24.5 | 24.2 | 23.6 | 24.5 | 25.5 | 24.5 |
| Regulatory capital to risk-weighted assets | 13.8 | 13.5 | 15.4 | 15.2 | 15.3 | 14.7 | 14.8 | 14.6 | 14.1 |
| Nonperforming loans to total gross loans | 2.1 | 2.2 | 2.7 | 2.1 | 1.6 | 1.3 | 1.2 | 1.3 | 1.4 |
| Provisions to non-performing loans | 42.7 | 73.2 | 89.3 | 115.3 | 126.2 | 143.4 | 157.6 | 151.9 | 138.4 |
| Cash to total deposits | 20.3 | 19.4 | 21.6 | 20.3 | 21.6 | 21.6 | 21.9 | 20.7 | 18.9 |
| Return on assets | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 | 1.5 | 1.5 | 1.5 |
| Return on equity | 16.9 | 16.3 | 15.7 | 16.3 | 18.5 | 17.2 | 16.0 | 16.6 | 16.3 |
| Foreign currency-denominated loans to total loans | 33.2 | 33.6 | 31.0 | 30.2 | 34.0 | 35.2 | 36.7 | 38.5 | 39.9 |
| Foreign currency-denominated liabilities to total liabilities | 25.0 | 24.3 | 23.9 | 24.6 | 27.5 | 28.6 | 30.3 | 31.1 | 30.8 |
| **Off-shore banks** | | | | | | | | | |
| Statutory capital to risk-weighted assets | 15.0 | 14.7 | 18.1 | 18.5 | 16.2 | 16.8 | 15.8 | 15.6 | 14.5 |
| Nonperforming loans to total gross loans | 2.9 | 2.2 | 2.3 | 2.1 | 1.7 | 1.2 | 0.8 | 0.9 | 1.2 |
| Provisions to non-performing loans | 36.7 | 58.1 | 75.4 | 110.7 | 143.0 | 172.4 | 229.4 | 178.4 | 148.8 |
| Return on assets | 2.2 | 1.5 | 1.4 | 1.4 | 1.8 | 1.8 | 1.4 | 1.5 | 1.2 |
| Return on equity | 19.4 | 14.2 | 12.8 | 12.6 | 16.0 | 15.6 | 12.8 | 13.8 | 12.0 |
| Total assets off-shore banks to total assets on-shore banks | 16.8 | 16.1 | 16.5 | 14.3 | 12.7 | 12.2 | 11.7 | 10.7 | 9.6 |

Source: Superintendency of Banks.

## Table 12. Guatemala: Indicators of External Vulnerability

| | 2010 | 2011 | 2012 | 2013 | Est. 2014 | Projections 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **External indicators** | | | | | | | | | | | | |
| Merchandise exports (12-month percentage change) | 17.0 | 23.2 | -4.0 | 0.8 | 7.9 | -1.5 | 6.4 | 7.2 | 5.3 | 6.2 | 6.1 | 5.0 |
| Traditional merchandise exports (12-month percentage change) | 17.2 | 24.9 | -4.1 | -1.8 | 21.5 | -10.7 | 16.7 | 12.5 | 4.5 | 6.6 | 6.0 | 5.9 |
| Nontraditional merchandise exports (12-month percentage change) | 16.9 | 22.6 | -3.9 | 1.8 | 2.9 | 2.6 | 2.5 | 4.9 | 5.6 | 6.0 | 6.2 | 4.5 |
| Merchandise imports (12-month percentage change) | 20.3 | 20.9 | 2.3 | 3.3 | 4.3 | -4.0 | 6.2 | 9.0 | 6.7 | 6.6 | 6.6 | 6.2 |
| Imports of oil and lubricants (12-month percentage change) | 13.8 | 33.1 | 1.0 | -0.1 | 0.4 | -36.5 | -9.7 | 17.0 | 7.4 | 5.3 | 6.4 | 6.3 |
| Non-oil imports (12-month percentage change) | 21.9 | 18.2 | 2.6 | 4.1 | 5.2 | 3.4 | 8.4 | 8.1 | 6.6 | 6.7 | 6.6 | 6.2 |
| Terms of trade (12-month percentage change) | 1.4 | 4.0 | -3.4 | -3.2 | 4.7 | 12.6 | 6.0 | 0.2 | -0.5 | 0.6 | 0.8 | -0.1 |
| Current account balance (in percent of GDP) | -1.4 | -3.4 | -2.6 | -2.5 | -2.1 | -0.3 | -0.5 | -0.7 | -1.0 | -1.2 | -1.4 | -1.7 |
| Capital and financial account balance (in percent of GDP) | 3.8 | 4.3 | 4.5 | 4.9 | 3.1 | 1.7 | 1.1 | 0.7 | 1.0 | 1.2 | 1.4 | 1.7 |
| Net international reserves | | | | | | | | | | | | |
| In millions of U.S. dollars | 5,442 | 5,737 | 6,197 | 6,433 | 6,587 | 7,077 | 7,498 | 7,498 | 7,498 | 7,498 | 7,499 | 7,499 |
| In percent of reserve adequacy metric 1/ | 150.3 | 139.0 | 139.7 | 136.5 | 122.6 | 126.0 | 127.7 | 122.8 | 118.6 | 114.1 | 110.1 | 117.9 |
| In percent of M2 | 34.1 | 31.6 | 31.6 | 29.9 | 27.3 | 27.0 | 26.8 | 24.6 | 22.9 | 21.2 | 19.7 | 18.3 |
| In percent of base money | 115.4 | 110.5 | 109.6 | 103.2 | 96.4 | 95.6 | 95.8 | 88.5 | 82.4 | 76.9 | 72.0 | 67.4 |
| In percent of short-term external debt on a remaining maturity basis | 223.2 | 204.3 | 201.7 | 185.1 | 190.0 | 174.6 | 174.6 | 185.9 | 201.1 | 220.2 | 244.3 | 272.4 |
| In months of next-year's imports of goods and nonfactor services | 3.7 | 3.8 | 3.9 | 3.9 | 4.1 | 4.2 | 4.1 | 3.8 | 3.6 | 3.6 | 3.6 | 3.6 |
| **External indebtness indicators** | | | | | | | | | | | | |
| Total external debt (in percent of GDP) | 27.4 | 27.5 | 28.1 | 29.1 | 30.0 | 29.7 | 27.9 | 25.8 | 23.7 | 21.7 | 20.0 | 18.3 |
| External private sector debt (in percent of GDP) | 14.4 | 15.9 | 15.8 | 16.2 | 17.4 | 17.5 | 15.3 | 13.3 | 11.4 | 9.6 | 7.9 | 6.4 |
| External public sector debt (in percent of GDP) | 13.1 | 11.5 | 12.4 | 12.9 | 12.6 | 12.2 | 12.6 | 12.5 | 12.3 | 12.2 | 12.1 | 11.9 |
| Public sector external interest payments in percent of exports of goods and nonfactor services | 3.2 | 2.6 | 2.5 | 3.0 | 2.8 | 3.1 | 3.4 | 3.7 | 3.6 | 3.5 | 3.5 | 3.4 |
| Public sector external amortization payments in percent of exports of goods and services | 3.0 | 5.5 | 2.5 | 5.8 | 3.0 | 3.1 | 3.3 | 2.9 | 2.7 | 2.3 | 2.2 | 2.1 |

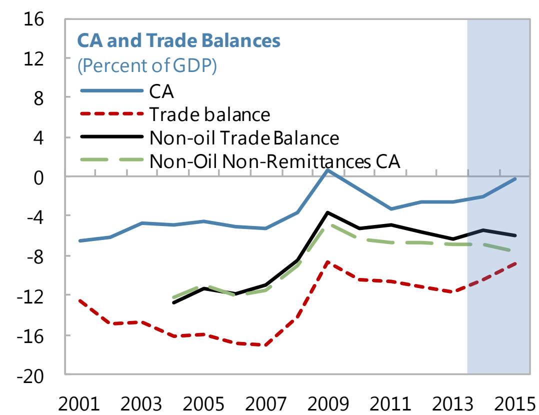
Sources: Bank of Guatemala and Fund staff estimates.

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

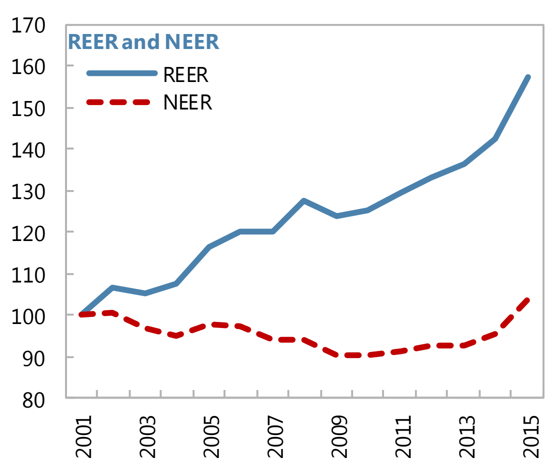
# Annex I. External Sector Assessment

*Staff's preferred EBA-lite current account (CA) methodology suggests a CA gap of about 2 percent of GDP, implying moderate undervaluation of the real effective exchange rate (REER) of 7 percent. Lower-than-desirable fiscal deficit accounts for most of the identified policy gap. Based on this, staff concludes that Guatemala's external position is moderately stronger than implied by fundamentals and desirable policy settings. However, while there are no indications of serious price competitiveness problems, there are signs of structural competitiveness weaknesses that need to be addressed. Reducing crime and corruption, investing in education and infrastructure, strengthening legal protection, and deepening the financial system would help improve competitiveness and facilitate economy's adjustment to large external shocks.*

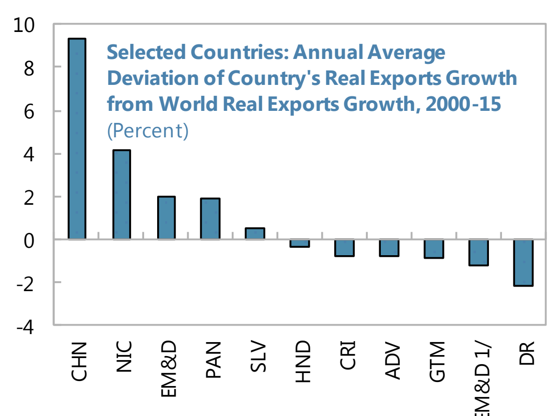
**Since 2000, the CPI-based REER has appreciated by 66 percent while the trade balance has improved.** The NEER remained relatively stable over the same period suggesting that the substantial real effective exchange rate appreciation was largely driven by the inflation differential with Guatemala's trading partners (in particular the US). The analysis based on the IMF FSGM model indicates that about ½ of the appreciation could be attributed to a significant inflow of remittances during this period. Relative productivity increases in Guatemala, however, have likely alleviated the impact of the appreciation on competitiveness as witnessed by the relatively small loss in the market share (Figure 3) and an improvement in trade balance during this period.




Sources: IMF, WEO.



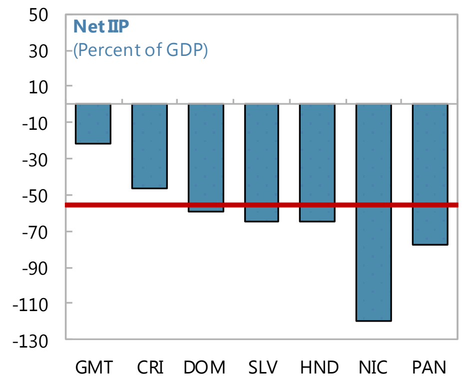

Sources: IMF, WEO.




1/ Excludes Hong Kong, Singapore, South Korea, Taiwan and China.

**The positive terms of trade shock and strong remittances contributed to a significant improvement in the CA position and a notable appreciation of the REER in 2015.** Between 2014 and 2015 the CA deficit shrank by 1.8 percentage points of GDP driven by strong remittances and low international oil prices while the REER appreciated by 10 percentage points resulting in a significant positive deviation from its long term trend with remittances' contribution estimated at ¼ of the total appreciation. At the same time, the non-oil trade balance and the non-oil and non-remittances CA deteriorated by 0.5 and 0.7 percent of GDP, respectively. Staff considers this abrupt movement in the current account as, at least in part, temporary with the economy not been able to fully adjust to a large external shock in a short period of time.

**The financing structure of the current account deficit, high reserves, and low external liabilities mitigate external risks.** At negative 22 percent of GDP in 2015, Guatemala's net IIP position is small by regional standards and FDI comprises about 45 percent of total liabilities. The stock of the net international reserves at 4.2 months of imports and 148 percent of the composite ARA EM metric at end-2015 is above the Fund's reserve adequacy metrics (Figure 3, the composite ARA EM metric recommended rangeis 100-150 percent). Going forward, staff projects little further reserve accumulation in line with the authorities' commitment to maintain exchange rate flexibility, which implies a reduction in the reserves-to-imports ratio over time. The move towards higher exchange rate flexibility is welcome but the authorities should remain vigilant to ensure continued reserve adequacy.




Sources: IMF, WEO.

**Implied Over/Undervaluation ("+" = Overvaluation)**

| | Cyclically Adjusted CA | Cyclically Adjusted CA (Removing temporary factors) | Cyclically Adjusted CA Norm | CA Gap (Removing temporary factors) | Contribution of Identified Policy Gaps | REER gap | 2014 Article IV REER Gap |
|---|---|---|---|---|---|---|---|
| **EBA-lite** | | | | | | | |
| Current Account | -0.6 | -2.0 | -3.7 | 1.8 | 0.8 | **-6.8** | |
| External Sustainability | -0.3 | -1.7 | -3.5 | 1.8 | | -7.2 | |
| IREER | | | | | 0.0 | 16.9 | |
| *Memo:* | | | | | | | |
| EBA Current Account | 0.1 | -1.3 | -2.9 | 1.6 | 1.3 | -6.1 | -12.8 |

Sources: Fund staff estimates

Notes: Guatemala's specific elasticities of -0.95 and 1.3 are assumed for exports and imports respectively, as in Tokarick, 2010. The actual CA for the purposes of the EBA-lite CA methodology has been adjusted to reflect the abrupt ToT shock and allow for the delayed response of the economy by taking the medium-term CA projection of -1.7 percent of GDP as a reference. The EBA and EBA-lite CA gaps with respect to the 2015 CA balance would be 3 and 3.2 percent of GDP respectively. The medium term CA norm in the EBA-lite ES model stabilizes NFA at the Central America's weighted average of -55.5 percent of GDP. Given high remittances and low negative IIP, and the estimation uncertainty affecting the IREER model, staff believes that the EBA-lite CA methodology better represents Guatemala's country-specific circumstances.

**Staff's prefered EBA-lite CA methodology suggests that Guatemala's external position is moderately stronger than the level consistent with medium term fundamentals and desirable policies but the divergence with the REER methodology warrants caution in interpretation.** This result, and other estimates under the EBA-lite and EBA approach, captures the one-off effect of the terms-of-trade and remittances shock in 2015, which has not yet fully worked itself out through the economy, by assuming that the final adjusted CA balance equals the forecasted medium-term deficit of 1.7 percent of GDP. This adjustment implies that the decline in oil prices and increase in remittances will be partially reversed while the permanent income windfall is reflected in higher imports.

- ***The EBA-lite CA*** methodology based on the CA regression points to a CA gap of 2 percent of GDP, implying a moderate undervaluation of the REER of 7 percent. A relatively young population, low income level, and high remittances would warrant a higher-than-observed current account defict in Guatemala, according to the model. The identified policy contribution to the CA gap is almost entirely due to the lower-than-desirable fiscal deficit.

- ***The EBA-lite External Sustainability (ES)*** methodology compares projected medium-term CA with the level that stabilizes the net foreign assets position, currently at negative 30 percent of GDP, at the regional weighted average of negative 55 percent percent of GDP. Similarly to the CA methodology, this approach suggests a CA gap of 2 percentage points of GDP implying a moderate undervaluation of 7 percent.

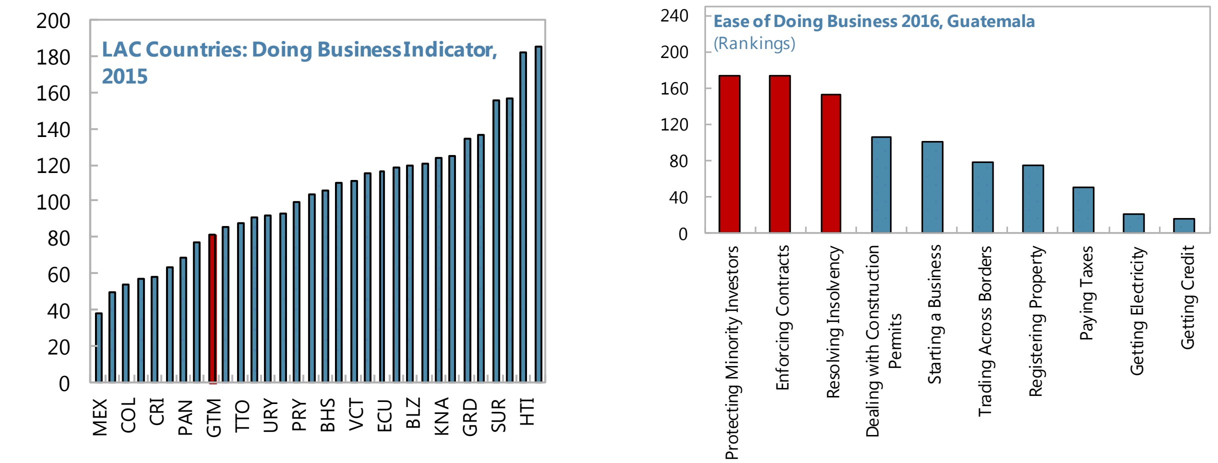
- ***The EBA-lite Real Effective Exchange Rate (REER) Index*** methodology based on the REER index regression leads to a very different result, compared to other methodologies, suggesting an overvaluation of 17 percent. In constrast to the CA methodology, no adjustment is made for the 2015 shock in this case. This is because a permanent positive term-of-trade shock, which boosts the real income and wealth, can be expected to leave the REER more appreciated, as opposed to its limited impact on the currecnt account as permanent real income and spending will move in tandem once economic agents have internalized the permanent income windfall.

- ***The EBA CA*** methodology leads to a reassuringly similar result as those obtained in the EBA-lite CA and ES methodologies, suggesting a moderate undervaluation of 6 percent.

Given low negative IIP and high remittances, as well as methodological limitations of the REER index model in countries undergoing large adjustments structural in nature or short data spans, staff believes that ***the EBA-lite CA methodology*** better reflects Guatemala's country-specific circumstances.

**While there are no indications of serious price competitiveness problems there are signs of structural competitiveness weaknesses that need to be addressed.** Between 2000 and 2015, Guatemala's share in global trade decreased by more than 10 percent, but other emerging markets, excluding China and Asian Tigers, experienced a similar loss during this period (Figure 3). On the other hand, survey-based competitiveness indicators highlight challenges for Guatemala. The country maintained its low-ranking position of 78$^{th}$ out of 140 countries in the 2015-16 World Economic Forum Global Competitiveness Report, although it improved substantially compared to the 86$^{th}$ position in 2013-14. The weak ranking reflects concerns about crime, corruption, excessive government bureaucracy, inadequate infrastructure and human capital. Guatemala's position in the 2016 Ease of Doing Business Index also remained unchanged from 2014 at 81$^{st}$ out of 189 countries, down from 79$^{th}$ in 2013. The most problematic areas include protecting minority investors, enforcing contracts, and resolving insolvency. Structural rigidities, which prevent economy's adjustment to a new external equilibrium in the face of large external shocks, may also be partly responsible for a stark divergence between the CA and the REER index EBA-lite results. In particular, shallow financial systems (Figure 8) could encourage precautionary savings while high crime, corruption, low human and physical capital and weak legal environment could prevent expansion of investment projects in the face of a permanent external shock.

**Guatemala: The Ease of Doing Business**




Sources: World Bank, Ease of Doing Business.

# Annex II. Risk Assessment Matrix[1]

| Source of Risks | Overall Level of Concern (Scale—high, medium, or low) | | |
|---|---|---|---|
| | Relative Likelihood[2] | Impact if Realized | Policy Responses |
| **1. Weaker-than-expected global growth.** | **Low/Medium/High**<br>• Significant China slowdown and its spillovers (Low in the short-term, Medium thereafter).<br>• Significant slowdown in other large EMs/frontier economies (Medium).<br>• Structurally weaker growth in key advanced (High) and emerging economies (Medium). | **Medium/High**<br>• Impact of weaker emerging markets growth in the short-or long-term would be moderate, as long as U.S. growth was relatively unaffected (Medium).<br>• Protracted period of weaker-than-expected growth in the U.S. would lower export demand and remittances, significantly weighing on activity and tax revenues (High). | • Ease monetary policy if weak demand drives inflation below target.<br>• Let automatic fiscal stabilizers operate and consider discretionary stimulus, including investment in infrastructure. |
| **2. Tighter and more volatile global financial conditions,** | **Medium/High**<br>• Sharp rise in risk premia with flight to safety (Medium)<br>• Reduced financial services by global/regional banks ("de-risking") (High). | **Medium/High**<br>• A decline in capital flows to emerging markets would reduce capital flows to Guatemala, putting depreciation pressure on the exchange rate, and lead to an increase in cost of government financing, as well as potentially an increase in cost of funding for the private sector (Medium).<br>• Could curtail cross-border payments, trade finance, and remittances, disrupt foreign credit lines and reduce banking sector liquidity (High). | • Strengthen bank capital buffers to cover macro-financial risks, and gradually move towards Basel III standards.<br>• Consider taking additional measures to discourage dollarization if dollarization persists and credit quality deteriorates.<br>• Provide emergency liquidity assistance as needed.<br>• Ease monetary policy if financial distress weakens demand and drives inflation below target.<br>• Strengthen risk-based AML/CFT supervision of the banking sector. |
| **3. Economic fallout from political fragmentation.** | **Medium/High**<br>• Rise in populism and nationalism in large economies (High).<br>• Protracted uncertainty associated with negotiating post-Brexit arrangements (Medium).<br>• Heightened risk of fragmentation/security dislocation in part of the Middle East, Africa, and Europe, leading to a sharp rise in migrant flows, with negative global spillovers (High). | **Low**<br>• If protectionism prevails it could slow down global trade flows, which in turn would depress global growth, including in a very open economy like Guatemala. | • Ease monetary policy if weak demand drives inflation below target.<br>• Let automatic fiscal stabilizers operate and consider discretionary stimulus, including investment in infrastructure. |
| **4. Persistently lower energy prices.** | **Low**<br>• Oil prices could be persistently lower, triggered by supply factors reversing more gradually than expected. | **Low**<br>• Persistently low oil prices would improve Guatemala's terms of trade and counterbalance inflationary pressures, potentially yielding a modest boost to growth prospects. | • Take advantage of favorable environment to advance fiscal reforms, including reforming energy taxes. |
| **5. Weaker public revenues (if crisis at SAT is not credibly addressed)** | **High**<br>• Insufficient revenue mobilization would deter investment in physical and human capital. | **High**<br>• This could significantly weigh on the country's growth and social prospects in the long run. | • Address governance, management and operational deficiencies at SAT.<br>• Allow fiscal deficit of up to 2 percent of GDP to avoid cuts in priority spending. |
| **6. Further deterioration of the social and security situation** | **Medium**<br>• Poverty and inequality may deteriorate further, and homicide and crime rates could rise further in a scenario of policy inaction on the social front. | **High**<br>• Investment, productivity and potential growth would be negatively affected. | • Prioritize spending on security, infrastructure, education, and social support.<br>• Further support efforts to address crime and corruption.<br>• Adopt policies to foster financial inclusion. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of the staff). The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline.
[2] In case the baseline does not materialize.

# Annex III. Public Debt Sustainability Analysis[1]

## Table. Guatemala Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

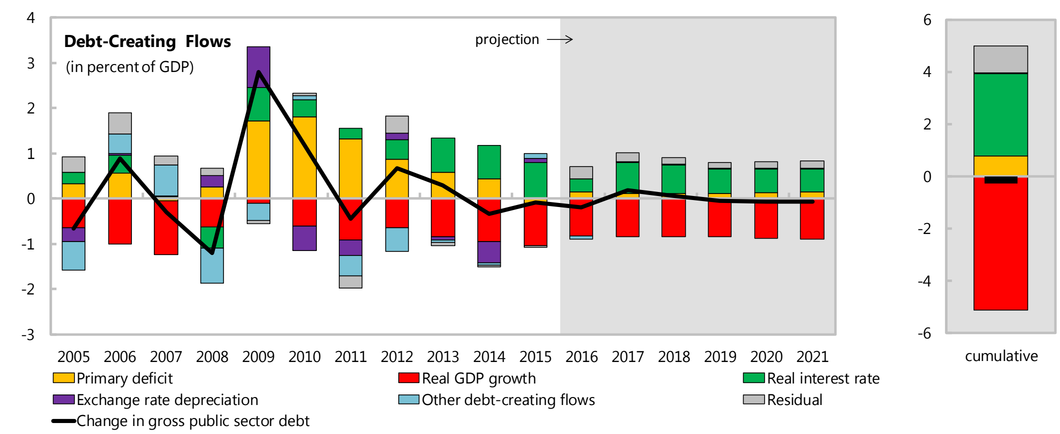
### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005-2013 [2/] | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Nominal gross public debt | 22.6 | 24.3 | 24.2 | 24.0 | 24.2 | 24.2 | 24.2 | 24.1 | 24.0 |
| Public gross financing needs | 3.7 | 3.1 | 2.8 | 3.2 | 2.5 | 2.5 | 2.6 | 2.5 | 2.3 |
| Real GDP growth (in percent) | 3.6 | 4.2 | 4.1 | 3.8 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 |
| Inflation (GDP deflator, in percent) | 5.5 | 3.0 | 3.3 | 5.1 | 3.5 | 3.7 | 4.0 | 4.1 | 4.1 |
| Nominal GDP growth (in percent) | 9.3 | 7.3 | 7.5 | 9.0 | 7.4 | 7.6 | 8.0 | 8.2 | 8.3 |
| Effective interest rate (in percent) [4/] | 7.2 | 6.3 | 6.9 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |

| As of April 19, 2014 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBI (bp) 3/ | | 236 |
| 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005-2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | cumulative | debt-stabilizing |
| Change in gross public sector debt | 0.4 | -0.3 | -0.1 | -0.2 | 0.2 | 0.1 | -0.1 | -0.1 | -0.1 | -0.1 | primary |
| Identified debt-creating flows | 0.2 | -0.3 | 0.0 | -0.2 | 0.2 | 0.1 | -0.1 | -0.1 | -0.1 | -0.1 | balance [9/] |
| Primary deficit | 0.8 | 0.4 | -0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.8 | -0.20 |
| Primary (noninterest) revenue and gra | 11.9 | 11.5 | 10.8 | 11.0 | 11.1 | 11.2 | 11.3 | 11.5 | 11.5 | 67.6 | |
| Primary (noninterest) expenditure | 12.7 | 11.9 | 10.7 | 11.1 | 11.2 | 11.3 | 11.4 | 11.6 | 11.6 | 68.3 | |
| Automatic debt dynamics [5/] | -0.4 | -0.7 | 0.0 | -0.3 | 0.0 | -0.1 | -0.2 | -0.2 | -0.2 | -0.9 | |
| Interest rate/growth differential [6/] | -0.4 | -0.2 | -0.1 | -0.5 | -0.2 | -0.2 | -0.3 | -0.4 | -0.4 | -2.0 | |
| Of which: real interest rate | 0.3 | 0.7 | 0.8 | 0.3 | 0.7 | 0.6 | 0.5 | 0.5 | 0.5 | 3.2 | |
| Of which: real GDP growth | -0.7 | -1.0 | -0.9 | -0.8 | -0.8 | -0.8 | -0.9 | -0.9 | -0.9 | -5.1 | |
| Exchange rate depreciation [7/] | 0.0 | -0.5 | 0.1 | ... | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | -0.2 | -0.1 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Fiscal, Central Government, Total fina | -0.2 | -0.1 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| (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 | 0.0 | 0.0 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 1.0 | |




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.

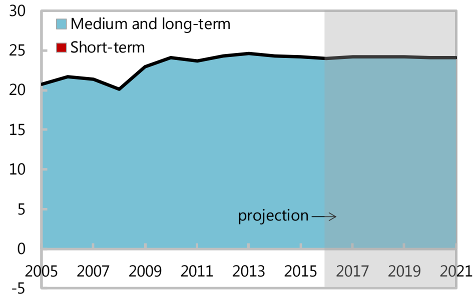
[1] Prepared by Carlos Janada.

## Figure 1. Guatemala Public DSA: Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

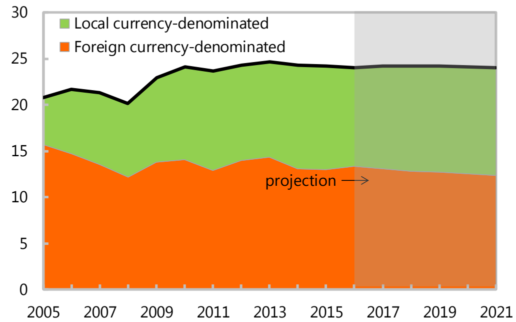
**By Maturity**

(in percent of GDP)




**By Currency**

(in percent of GDP)

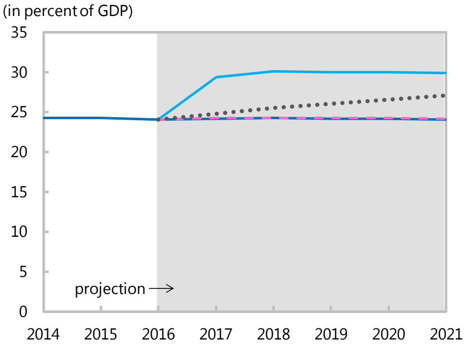



### Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Constant Primary Balance

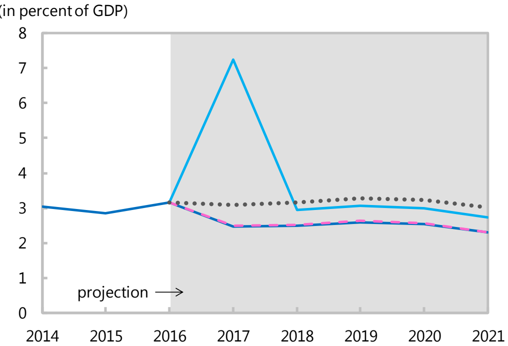
**Gross Nominal Public Debt**

(in percent of GDP)




**Public Gross Financing Needs**

(in percent of GDP)




### Underlying Assumptions

(in percent)

| Baseline Scenario | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.8 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 |
| Inflation | 5.1 | 3.5 | 3.7 | 4.0 | 4.1 | 4.1 |
| Primary Balance | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Effective interest rate | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 3.8 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 |
| Inflation | 5.1 | 3.5 | 3.7 | 4.0 | 4.1 | 4.1 |
| Primary Balance | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Effective interest rate | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |

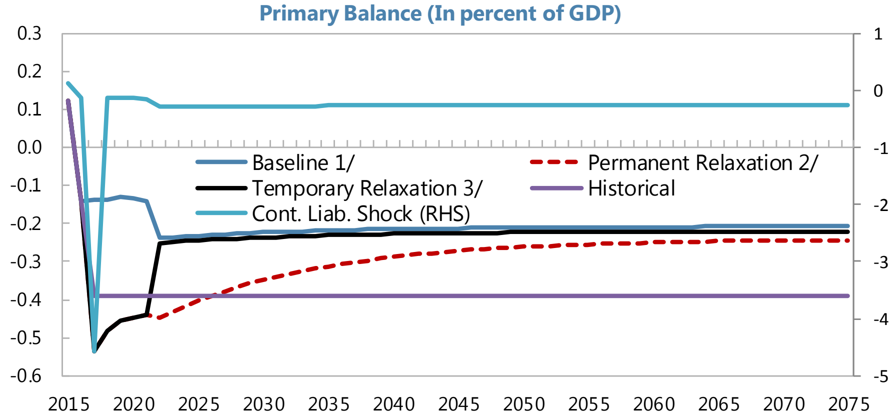
| Historical Scenario | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Inflation | 5.1 | 3.5 | 3.7 | 4.0 | 4.1 | 4.1 |
| Primary Balance | -0.1 | -0.7 | -0.7 | -0.7 | -0.7 | -0.7 |
| Effective interest rate | 6.6 | 6.6 | 6.5 | 6.5 | 6.4 | 6.4 |
| **Contingent Liability Shock** | | | | | | |
| Real GDP growth | 3.8 | 2.2 | 2.2 | 3.8 | 3.9 | 4.0 |
| Inflation | 5.1 | 3.1 | 3.3 | 4.0 | 4.1 | 4.1 |
| Primary Balance | -0.1 | -4.5 | -0.1 | -0.1 | -0.1 | -0.1 |
| Effective interest rate | 6.6 | 8.1 | 6.8 | 6.8 | 6.8 | 6.8 |

Source: Fund staff estimates.

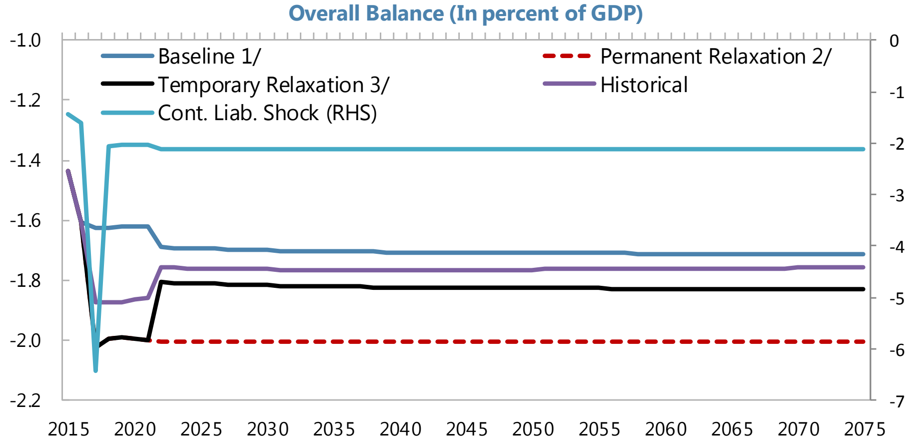
## Figure 2. Guatemala: Long Term Fiscal Sustainability

(In percent of GDP)

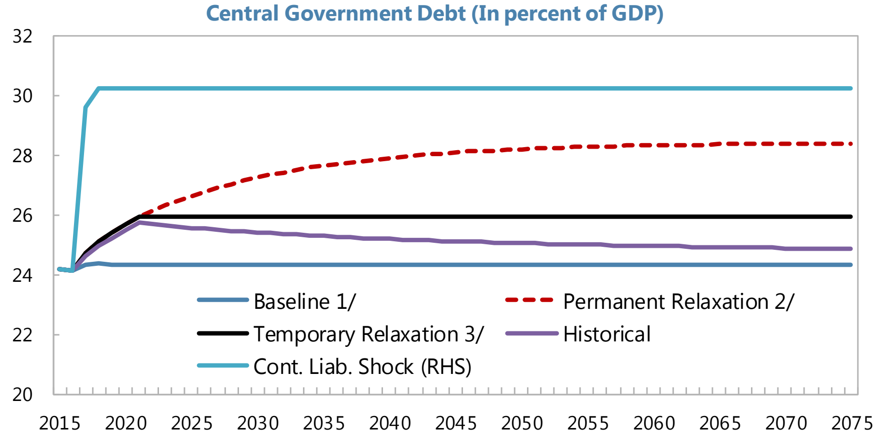
### Primary Balance (In percent of GDP)




### Overall Balance (In percent of GDP)




### Central Government Debt (In percent of GDP)




1/ This path is the baseline through 2021, with a small primary deficit, which stabilizes the debt ratio thereafter.

2/ Permanent relaxation begins in 2017. It has a primary deficit compatible with an overall deficit of 2 percent of GDP for the entire period.

3/ Temporary relaxation scenario runs a 2 percent of GDP overall deficit between 2017 and 2021, the deficit declines thereafter.

# Annex IV. External Debt Sustainability Analysis[1]

## Table. Guatemala: External Debt Sustainability Framework, 2011–2021

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Debt-stabilizing non-interest current account 6/ |
| **Baseline: External debt** | 27.5 | 28.1 | 29.1 | 30.0 | 29.7 | | | **27.9** | **25.8** | **23.7** | **21.7** | **20.0** | **18.3** | **-2.7** |
| Change in external debt | 0.1 | 0.7 | 1.0 | 0.9 | -0.3 | | | -1.9 | -2.0 | -2.1 | -2.0 | -1.7 | -1.7 | |
| Identified external debt-creating flows (4+8+9) | -2.4 | -1.3 | -1.6 | -2.5 | -3.8 | | | -2.4 | -2.1 | -1.9 | -1.7 | -1.4 | -1.5 | |
| Current account deficit, excluding interest payments | 2.3 | 1.5 | 1.4 | 1.0 | -0.8 | | | -0.8 | -0.6 | -0.3 | 0.0 | 0.3 | 0.7 | |
| Deficit in balance of goods and services | -64.3 | -61.2 | -59.0 | -57.5 | -51.5 | | | -50.8 | -51.7 | -51.5 | -51.6 | -50.9 | -50.6 | |
| Exports | 26.8 | 25.0 | 23.7 | 23.6 | 21.3 | | | 21.0 | 21.1 | 21.0 | 20.9 | 20.5 | 20.3 | |
| Imports | -37.5 | -36.2 | -35.3 | -34.0 | -30.2 | | | -29.8 | -30.6 | -30.6 | -30.6 | -30.4 | -30.3 | |
| Net non-debt creating capital inflows (negative) | -2.1 | -2.4 | -2.3 | -2.2 | -1.7 | | | -1.8 | -1.9 | -2.0 | -2.0 | -2.1 | -2.5 | |
| Automatic debt dynamics 1/ | -2.6 | -0.4 | -0.7 | -1.3 | -1.3 | | | 0.2 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | |
| Contribution from nominal interest rate | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | | | 1.3 | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 | |
| Contribution from real GDP growth | -1.0 | -0.8 | -1.0 | -1.1 | -1.1 | | | -1.0 | -1.0 | -0.9 | -0.8 | -0.8 | -0.8 | |
| Contribution from price and exchange rate changes 2/ | -2.6 | -0.7 | -0.8 | -1.3 | -1.2 | | | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 3/ | 2.4 | 2.0 | 2.6 | 3.4 | 3.5 | | | 0.5 | 0.1 | -0.2 | -0.3 | -0.3 | -0.2 | |
| External debt-to-exports ratio (in percent) | 102.4 | 112.6 | 123.0 | 127.5 | 139.3 | | | 132.7 | 122.3 | 113.1 | 103.9 | 97.5 | 90.2 | |
| **Gross external financing need (in billions of US dollars) 4/** | 4.4 | 4.4 | 4.8 | 4.7 | 4.3 | | | 4.6 | 4.6 | 4.5 | 4.4 | 4.3 | 4.3 | |
| in percent of GDP | 9.2 | 8.7 | 9.0 | 8.0 | 6.7 | 10-Year | 10-Year | 6.8 | 6.3 | 5.8 | 5.3 | 4.9 | 4.7 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | | | **27.9** | **26.6** | **25.2** | **23.9** | **22.5** | **21.2** | **-2.8** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | Historical Average | Standard Deviation | | | | | | | |
| Real GDP growth (in percent) | 4.2 | 3.0 | 3.7 | 4.2 | 4.1 | 3.8 | 1.6 | 3.8 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 | |
| GDP deflator in US dollars (change in percent) | 10.7 | 2.7 | 3.1 | 4.7 | 4.3 | 5.0 | 4.3 | 3.4 | 1.5 | 2.7 | 2.9 | 2.7 | 2.6 | |
| Nominal external interest rate (in percent) | 4.5 | 4.1 | 4.1 | 4.3 | 4.0 | 4.8 | 0.8 | 4.6 | 5.0 | 5.2 | 5.4 | 5.4 | 5.4 | |
| Growth of exports (US dollar terms, in percent) | 18.4 | -1.5 | 1.3 | 8.4 | -1.7 | 7.6 | 8.7 | 5.6 | 6.0 | 5.7 | 6.6 | 4.6 | 5.6 | |
| Growth of imports (US dollar terms, in percent) | 18.3 | 2.1 | 4.2 | 5.0 | -3.4 | 6.3 | 11.5 | 5.9 | 7.9 | 6.7 | 6.9 | 5.8 | 6.5 | |
| Current account balance, excluding interest payments | -2.3 | -1.5 | -1.4 | -1.0 | 0.8 | -1.3 | 1.8 | 0.8 | 0.6 | 0.3 | 0.0 | -0.3 | -0.7 | |
| Net non-debt creating capital inflows | 2.1 | 2.4 | 2.3 | 2.2 | 1.7 | 2.0 | 0.3 | 1.8 | 1.9 | 2.0 | 2.0 | 2.1 | 2.5 | |

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.

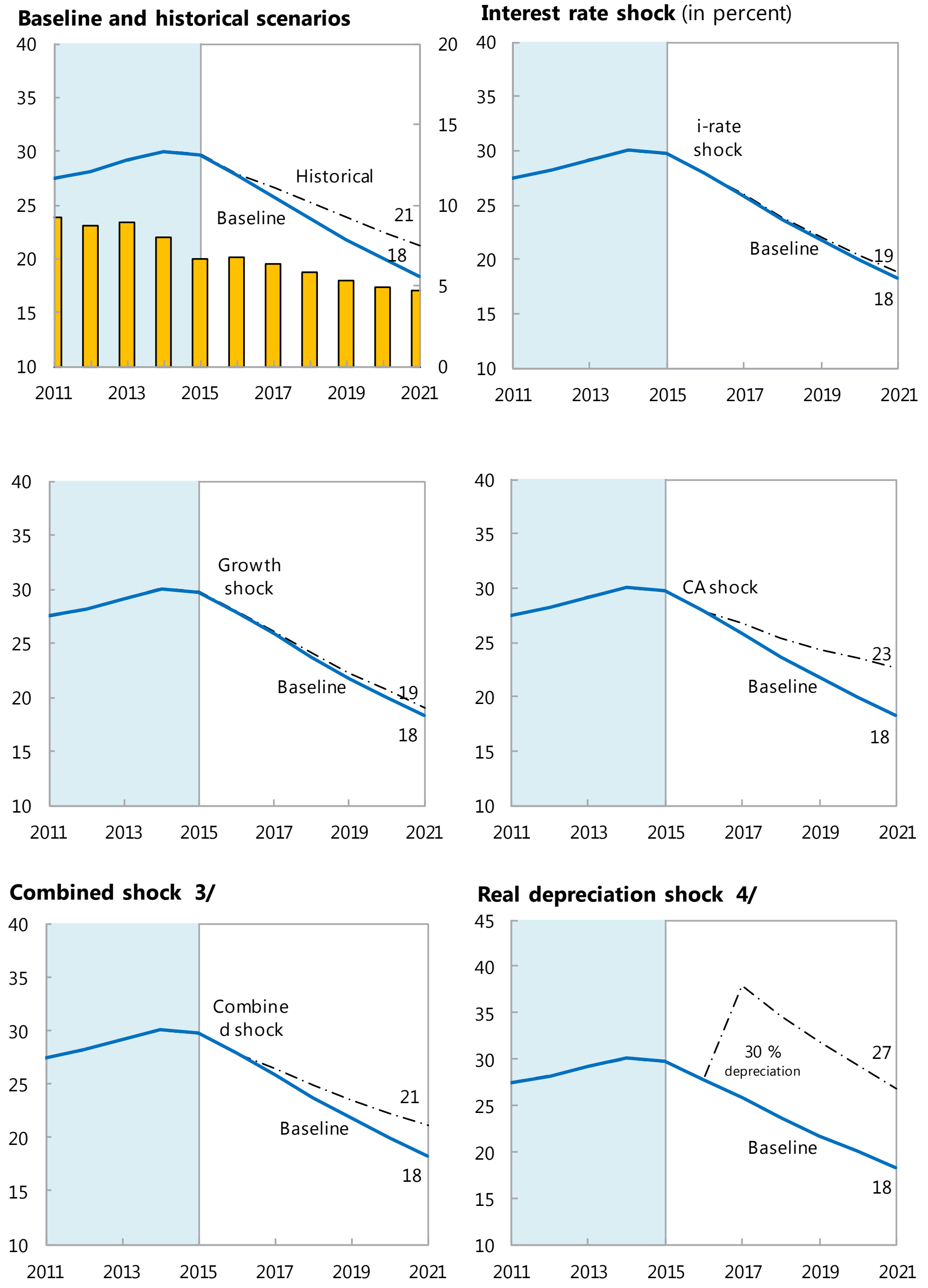
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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.

[1] Prepared by Valentina Flamini.

**Figure. 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.
4/ One-time real depreciation of 30 percent occurs in 2010.

INTERNATIONAL MONETARY FUND

# GUATEMALA

August 2, 2016

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By: The Western Hemisphere Department

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# FUND RELATIONS

(As of June 30, 2016)

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

| **General Resources Account:** | **SDR Million** | **Percentage of Quota** |
|---|---|---|
| Quota | 428.60 | 100.00 |
| Fund holdings of currency | 374.01 | 87.26 |
| Reserve Tranche Position | 54.60 | 12.74 |

| **SDR Department:** | **SDR Million** | **Percentage of Allocation** |
|---|---|---|
| Net cumulative allocation | 200.91 | 100.00 |
| Holdings | 120.97 | 60.21 |

**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**[1]

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

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Principal | | | | | |
| Charges/Interest | 0.02 | 0.05 | 0.05 | 0.05 | 0.05 |
| Total | 0.02 | 0.05 | 0.05 | 0.05 | 0.05 |

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

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

**Exchange Rate Arrangement.** 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. Guatemala has a *de jure* floating exchange rate arrangement, also *de facto* classified as "floating". However, the Bank of Guatemala (BOG) may intervene to limit volatility in the nominal exchange rate without affecting its trend. The BOG intervenes through foreign exchange auctions based on a transparent rule that limits daily volatility. Effective January 1, 2016, the fluctuation margin (added to or subtracted from the five-day moving average of the exchange rate) that determines whether the BOG may intervene was increased to 0.75% (previously 0.7%) as part of the BOG's commitment to increase exchange rate flexibility. The BOG may also intervene whenever the nominal exchange rate shows unusual volatility. 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 6, 2016 the reference exchange rate was Q7.63 per U.S. dollar.

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

**Article IV Consultation**. The last Article IV consultation was concluded by the Executive Board on September 12, 2014.

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

**Technical Assistance 2011–16**

| Department | Date of Delivery | Purpose |
|---|---|---|
| FAD<br>CAPTAC | 2016 | Improving Collection with Equity and Efficiency (tax policy mission) |
| | 2016 | Revenue administration mission (to define short- and medium term strategy to reform tax and customs administration). |
| | 2016 | Fiscal Transparency Evaluation |
| | 2015, 2014 | Support tax control strategy with emphasis on mass control |
| | 2014 | Establish taxpayers profiles and data to measure effectiveness of actions |
| | 2015, 2014, 2013, 2012, 2011 | Revenue administration (multiple missions) |
| | 2014 | Integrated control on VAT Credit; Tax and Customs Compliance Improvement Program; Information based Integrated Control Model |
| | 2013, 2012, 2011 | Treasury single account (multiple missions) |
| | 2013, 2012, 2011 | Customs administration (multiple missions) |
| | 2012 | Control of budgetary execution |
| | 2011 | Debt management strategy |
| | 2011 | Revenue forecasting |
| | 2011 | Government cash flow and financial planning |
| MCM,<br>CAPTAC | 2016 | Central Securities Depository for Government Securities |
| | 2016, 2015, 2014 | Strengthening the central bank's structural model with financial sector frictions |
| | | Developing a yield curve of public financial instruments |
| | | Improving the structural liquidity forecast |
| | | Developing a model to quantify the monetary policy transmission mechanism |

| Department | Date of Delivery | Purpose |
| --- | --- | --- |
| MCM, CAPTAC | 2015 | Debt Management |
| | 2014 | Enhancing monetary operations |
| | | Extending and reviewing the Central Bank macroeconomic structural model |
| | | Strengthening Central Bank macro-modeling 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 |
| | 2013, 2012, 2011 | Risk-based bank supervision (multiple missions) |
| | 2013, 2012, 2011 | Monetary operations, forecasting and liquidity administration (multiple missions) |
| | 2011 | Capital market development (multiple missions) |
| | 2011 | Application of international financial reporting standards in the banking system |
| | 2010 | Foreign exchange market function and intervention strategy |
| | 2010 | Risk-based supervision for the insurance sector |
| | 2010 | Developing secondary public debt markets and enhancing monetary operations |
| STA, CAPTAC | 2017, 2016, 2015, 2014, 2013, 2012, 2011 | National accounts statistics (multiple missions) |
| | 2016, 2015, 2014, 2013, 2012 | Producer price index (multiple missions) |
| | 2016, 2015, 2014, 2013, 2012, 2011 | Export and import price indices (multiple missions) |
| | 2016, 2015, 2014, 2013, 2012, 2011, 2010 | Balance of Payments Statistics and IIP |

| Department | Date of Delivery | Purpose |
|---|---|---|
| STA, CAPTAC | 2015 | Training and CD: Financial Accounts |
| | 2014 | Coordinated FDI and Portfolio Surveys |
| | 2014 | Regional National Accounts |
| | 2013, 2012, 2011 | Monthly Index of Economic Activity |
| | 2013 | Training: Balance of Payments Statistics |
| | 2013 | Balance of Payments Statistics |

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

1. **The IMF's Guatemala team led by Mrs. Ivanova met on various occasions with the World Bank's Guatemala team led by Mrs. Manuela Francisco (Program Leader)** to discuss macroeconomic challenges facing Guatemala, identify macro-critical structural reforms, and coordinate the two teams' work for the period July 2015–July 2017.

2. **The teams agreed that Guatemala's main macroeconomic challenges are to safeguard macroeconomic stability while addressing social and structural deficiencies.**

3. **The teams concurred that Guatemala's near-term outlook is generally positive, though there are risks stemming from global uncertainty and domestic policy constraints.**

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

- ***Fiscal Policy***. In the short, term, arresting revenue decline, increasing transparency and efficiency of fiscal spending are priorities. In the long run, raising the level of revenue and expenditure while prioritizing the latter, would be essential. While not an immediate concern, rising demographic pressures, if left unaddressed, would pose challenges for the budget in the longer term.

    - **Revenue mobilization.** Guatemala continues to have revenue-to-GDP ratio among the lowest in the world. The 2012 tax reform has yielded less additional revenue than anticipated due to the implementation problems and legal challenges. Revenues declined amid the 2015 political crisis and The World Bank and the IMF, together with the IADB and the U.S. Treasury have been working in close collaboration in assisting the new administration to arrest the revenue decline and develop a long-term strategy for strengthening tax and customs administration in the SAT. Going forward, implementing this strategy and revamping the tax policy framework are key priorities.

    - ***Government spending: level, efficiency, and transparency.*** Both teams believe that raising the level, improving the efficiency and composition of public spending as well as raising its transparency will be critical to achieving social and structural objectives that will help raise growth and make it more inclusive.

    - ***Pension reform.*** In the longer run, a parametric pension reform will be required to bring the pension system on a sustainable footing.

- ***Monetary policy framework.*** Strengthening further the monetary framework, including by improving the monetary transmission mechanism is key to improve the effectiveness of monetary policy,

- ***Financial sector issues.*** 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 continued implementation of the risk-based AML/CFT supervision, strengthening bank resolution framework, fortifying capital buffers, and enhancing consolidated supervision of financial conglomerates. Strengthening the legal and regulatory frameworks will also be important for further financial deepening and inclusion. In this regard, approval of the securities market law and dematerialization of the government bonds market will be important. Adoption of the national strategy for financial inclusion and measures to reduce entry costs will help stimulate financial inclusion, spur growth and reduce inequality. The 2016 Article IV IMF mission and the World Bank team, led by Patricia Brenner, held joint discussions on financial inclusion with the Guatemalan authorities.

5. ***The teams agreed on the following* division of labor:**

- ***Fiscal Policy.*** The IMF will continue providing advice on the overall strategy for fiscal policy. The IMF and the World Bank will continue coordinating recommendations on macro-fiscal issues and conducting the debt sustainability analysis.

  - **Revenue mobilization.** The IMF has fielded several tax administration missions during this period, including the mission aimed at assisting the new administration in developing a strategic plan of the SAT reform in May 2016. The IMF has also fielded a technical assistance mission on tax policy aimed at significantly raising revenue-to-GDP ratio in the long run in June, 2016. The Fund will continue providing technical assistance on the overarching strategy for tax administration and tax policy reforms. It will also provide support for implementing specific aspects of these reforms through its regional technical assistance center in Guatemala, CAPTAC-DR. The World Bank together with the other TA providers will continue providing advice, and on-the-ground support, on the implementation of these strategies, and is currently preparing a large lending operation to support the medium-term institutional development agenda in the tax administration.

  - ***Government spending: level, efficiency, and transparency.*** The IMF will take the lead on defining the overall spending envelope consistent with macroeconomic and social objectives. The World Bank will take the lead on providing recommendations on improving the composition and efficiency of public spending as well as financing of various programs. The Bank completed a Public Expenditure Review in 2013 along with a database on expenditures at the municipal level. The World Bank is preparing a Development Policy Loans, which is expected to be approved by the World Bank in the last quarter of 2016. The IMF has provided technical assistance on fiscal transparency in April, 2016 and follow up on this advice.

- ***Monetary policy framework.*** The IMF will continue providing policy recommendations and technical assistance to improve the monetary framework, including macro-prudential policy and strengthening of the monetary transmission mechanism.

- ***Financial sector stability.*** An FSAP follow that in 2014was undertaken in collaboration by the Fund and the Bank. It identified the main arrears of reforms need to strengthen the financial system. The World Bank and the IMF will continue cooperating as necessary in assisting Guatemala to follow up on the 2014 FSAP recommendations, bringing the financial framework in compliance with the 2012 FATF standards, and continue effectively implementing risk-based AML/CFT supervision.

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

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

- The Bank team requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects, 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 2016–July 2017.**

## World Bank and IMF Planned Activities in Macro-Critical Structural Reform Areas
## August 2016–July 2017

| Title | Products | Provisional Timing of Missions | Expected Delivery Date |
|---|---|---|---|
| World Bank Work Program | DPF Enhancing Governance and Policies to Address Malnutrition | September 2016 | November 2016 |
| | Systematic Country Diagnostic | July 2016 | August 2016 |
| IMF Work Program including CAPTAC-DR | Staff visit | November 2016 | |
| | 2017 Article IV consultation | April 2017 | June 2017 |
| | Technical Assistance: | | |
| | 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 | | |
| | Strengthening and improving treasury management | | April 2017 |
| | Strengthening fiscal risks management | | April 2017 |
| | 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 | | |
| Joint Bank-Fund work program | | | |

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

| Project Name | Total loan | Undisbursed through FY16 | Projected disbursements in FY16 |
|---|---|---|---|
| GT Enhancing MSME Productivity Project (closing on June 30, 2016) | 7 | 2.4 | 0 |

# RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of June 2016)

## A. 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 were 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. The strategy also identified crosscutting work areas of climate change adaptation and mitigation, natural disaster impact mitigation, indigenous peoples and gender; and regional integration. The IADB is currently working with the Government of Guatemala on the design of a new country strategy for 2016-2020. The IADB has also actively participated in the collaborative effort of multiple donors on providing the assistance to the new administration on the SAT reform. IADB has participated as well in the IMF technical assistance mission on fiscal transparency.

2. **As of June 2016, the IADB portfolio of approved sovereign-guaranteed loans under execution amounted to US$654.2 million, with an undisbursed balance of US$408.8 million.** The existing sovereign guaranteed portfolio focuses on: (i) education; (ii) energy; (iii) water and sanitation; (iv) health; (v) competitiveness and international trade; (vi) security and justice; (vii) infrastructure; (viii) environment; and (ix) municipal strengthening.

3. **The pipeline for 2016 includes three projects in the public sector for US$440 million** in the areas of fiscal management (US$30 million), modernization and administration of Justice (US$60 million), regional integration (US$100 million), and a Policy-Based-Loan related to improving the efficiency and effectiveness of tax collection and increasing transparency on the financial sector (US$250 million).

## Loan Transaction

(In millions of U.S. dollars)

| | 2012 | 2013 | 2014 | 2015 | 2016(p) |
|---|---|---|---|---|---|
| Disbursement | 134.7 | 311.9 | 80.5 | 296.8 | 62.5 |
| Repayments | 89.8 | 115.2 | 130.2 | 147.2 | 148.5 |
| **Net Lending** | **44.9** | **196.7** | **-49.7** | **149.6** | **-86** |
| Subscriptions and Contributions | 6.3 | 2.0 | 2.0 | 2.0 | 2.0 |
| Interest and Charges | 72.2 | 79.6 | 78.5 | 76.3 | 88.5 |
| **Net Cash Flow** | **-33.6** | **115.1** | **-130.2** | **71.4** | **-176.5** |

Source: Inter-American Development Bank.

Note: (p) projected as of June 2016.

## IADB Sovereign Guaranteed Loan Portfolio as of June 2016

(In millions of U.S. dollars)

| Sector | Approved | Undisbursed |
|---|---|---|
| Municipal Strengthening | 3.2 | 2.9 |
| Competitiveness and International Trade | 49.0 | 26.5 |
| Security and Justice | 30.0 | 20.8 |
| Environment | 52.0 | 6.2 |
| Water and Sanitation | 50.0 | 48.0 |
| Energy | 55.0 | 55.0 |
| Infrastructure | 30.0 | 13.7 |
| Health | 85.0 | 26.5 |
| Education | 300.0 | 209.3 |
| **Total** | **654.2** | **408.8** |

Source: Inter-American Development Bank.

# STATISTICAL ISSUES

(As of July 1, 2016)

| 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 (Banguat) began publishing quarterly national accounts statistics consistent with the SNA 1993, with 2001 as the base year. In addition, a new monthly index of economic activity (IMAE) consistent with the quarterly and annual accounts is disseminated on a regular basis since June, 2013. The Banguat has started the national accounts rebasing process that will be completed in 2017 and disseminated in December 2018, with 2013 as the new 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 biannual 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:** Monetary and financial statistics are reported on a regular monthly basis to STA using the standardized report forms (SRFs) for the central bank, other depository corporations, and other financial corporations (OFCs). OFCs comprise insurance companies, warehouses and exchange houses. Monetary data exclude credit card companies, securities dealers, other financial intermediaries, and other financial auxiliaries.<br>**Financial sector surveillance:** The authorities report on monthly basis all 12 core financial soundness indicators (FSIs) and 10 (out of 13) of the encouraged set for the deposit taking sector. The authorities are working for expanding the FSI coverage of the OFCs sector. |
| **External sector statistics: External sector statistics:** Guatemala has made significant progress on the prerequisites for data quality as well as on methodological soundness of concepts and definitions, scope, classification, and basis for recording. The legislation on the obligation of the private sector to provide information to the Bank of Guatemala for statistical purposes is still pending, which affects the response rate to balance of payments surveys and limits the availability of the required information. On dissemination of external sector statistics, Guatemala has successfully: (1) migrated to the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*); (2) disseminated the Reserves Data Template; (3) |

| disseminated comprehensive inward/outward data on the Coordinated Direct Investment Survey (CDIS), and; (4) provided total external debt statistics by sector on the World Bank's website | |
|---|---|
| **Data Standards and Quality** | |
| Guatemala participates in the enhanced General Data Dissemination System (e-GDDS) and meets nearly all of the recommended periodicity and timeliness recommendations of the e-GDDS. | A data ROSC was completed on October 28, 2004. |

## Table of Common Indicators Required for Surveillance

| | Date of latest observation | Date received | Frequency of Data 7/ | Frequency of Reporting 7/ | Frequency of Publication 7/ |
|---|---|---|---|---|---|
| Exchange Rates | May 2016 | 6/8/2016 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/ | May 2016 | 6/8/2016 | M | M | M |
| Reserve/ Base Money | May 2016 | 6/21/2016 | W | W | W |
| Broad Money | May 2016 | 6/21/2016 | W | W | W |
| Central Bank Balance Sheet | May 2016 | 6/21/2016 | D | D | D |
| Consolidated Balance Sheet of the Banking System | May 2016 | 6/21/2016 | M | M | M |
| Interest Rates 2/ | Jun, 27. 2014 | 7/3/2014 | W | W | W |
| Consumer Price Index | May 2016 | 6/7/2016 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing 3/- Central Government | December 2015 | 5/27/2016 | 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 | Q4/2015 | 4/12/2016 | Q | Q | Q |
| Exports and Imports of Goods and Services | Q4/2015 | 4/2/2016 | Q | Q | Q |
| GDP/GNP | Q4/2015 | 5/6/2016 | Q | Q | Q |
| Gross External Debt | Q4/2013 | 3/30/2014 | Q | Q | Q |
| International Investment Position | Q4/2015 | 4/1/2016 | 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, including the recently requested TA advice from the Fund on fiscal transparency, 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

| 2014 Article IV Staff Recommendations | Implementation |
|---|---|
| Fiscal Policy | |
| • Efforts to address implementation setbacks to the 2012 tax reform are urgently needed, notably by strengthening taxpayer compliance, particularly in customs. More generally, it is necessary to improve tax and customs administration. | • The reform of the SAT is a matter of first priority for the new administration. In this regard, several measures are being considered or in the process of implementation: (i) the adoption of the new SAT law; strengthening of pro-integrity measures, strengthening customs, control of large taxpayers', as well as improvements in VAT administration. |
| • The debt-to-GDP ratio should be stabilized. This would require a permanent improvement in the primary balance of about ½ percent of GDP. | • Central government primary balance improved by ½ percent of GDP in 2015 amid sharp expenditure cuts in the face of revenue shortfall during the political crisis. The primary deficit is expected to deteriorate only slightly in the medium term. Under the current policies, central government debt is sustainable. |
| • Reduce tax expenditures estimated at 8 percent of GDP, and align VAT rates with those prevailing in the region. | • After a methodological review in the calculation of tax expenditures, the estimate was reduced to 2.6 percent of GDP. The new authorities are undertaking a review of the tax system in consultation with the IMF technical assistance team. |
| Monetary Policy and Financial Sector | |
| • Further deepening of monetary policy transmission should be pursued, including through a gradual enhancement of XR flexibility that may also help de-dollarize credit. Development of domestic securities markets would also be helpful, which requires finalizing the draft capital markets law and enacting it. | • Improvements have been made in the monetary transmission to credit and repo interest rates. The authorities have also taken measures to reduce dollarization, namely, introduction of differential risk weights and gradual elimination of exemptions on mortgage loans and loans to the electricity sector. However, the capital |

| | |
|---|---|
| • 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. The time is ripe for a gradual introduction of Basel III standards. Regional financial integration highlights the necessity to implement regulatory and supervisory arrangements that minimize regulatory gaps, arbitrage, and cross-border contagion. | markets law has not been approved by the Congress yet.<br><br>• The authorities are planning to introduce corporate governance and market risk regulations and to move towards Basel III in 2017-2019. Progress is still slow on improving consolidated supervision of financial conglomerates, tightening the definitions of related parties, and stepping up the ring-fencing of on-shore banks with respect to the operations of off-shore banks. |
| Exchange Rate Policy | |
| • Staff recommended that 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. | • On January 1, 2016, the authorities increased the fluctuation margin for interventions in the foreign exchange market from 0.70 to 0.75 percent of the five-day moving average of the exchange rate. Interventions have been conducted according to the rule. |
| Structural Policies | |
| • 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. | • Little progress has been made on poverty reduction, in fact, some of the past progress has been reversed. While there was no substantial improvement in competitiveness indicators yet, the ongoing fight against corruption and efforts to improve fiscal transparency are steps in the right direction. Some progress has been made on regional integration, including implementation of the customs union with Honduras. However, tighter regional integration would require further harmonization of trade rules and taxes as well as further integration of services and factor markets. |