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AGENDA**

EBS/88/202
Correction 1

CONFIDENTIAL

October 14, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Guatemala - Staff Report for the 1988 Article IV
Consultation and Request for Stand-By Arrangement

The following corrections have been made in EBS/88/202
(9/22/88):

Page 15, stub, lines 18 and 19: for "Rescheduling of principal payments
to commercial banks"
read "Rescheduling of principal payments"

column 3, lines 22 and 23: for "60, -17"
read "81, -40"

Corrected pages are attached.

Att: (1)

Table 6. Guatemala: Medium-Term External Outlook

	1986	1987	1988	1989	1990	Projections			
						1991	1992	1993	1994
(In millions of U.S. dollars)									
Current account	-76	-601	-503	-444	-458	-401	-320	-304	-276
Trade balance	84	-469	-366	-309	-319	-268	-196	-183	-160
Exports, f.o.b.	1,044	978	1,139	1,286	1,435	1,591	1,812	1,986	2,182
Imports, c.i.f.	-960	-1,447	-1,505	-1,595	-1,754	-1,859	-2,008	-2,169	-2,342
Services (net)	-211	-199	-199	-200	-210	-211	-211	-216	-221
Nonfactor	12	7	11	15	20	25	30	35	40
Factor	-223	-206	-210	-215	-230	-236	-241	-251	-261
Private transfers (net)	51	67	62	65	71	78	87	95	105
Capital account	87	557	462	504	476	423	365	349	321
Nonfinancial public sector 1/	30	34	71	89	68	69	80	90	90
Financial intermediaries	-249	-105	-47	-15	-75	-63	-70	-67	-110
Bank of Guatemala	-253	-124	-70	-12	-75	-74	-81	-88	-131
Other	4	19	23	-3	--	11	11	21	21
Private medium- and long-term	69	91	90	90	100	110	110	110	110
Other (including errors and omissions)	-12	308	175	117	120	75	50	50	50
Exceptional balance of payments support	249	229	173	223	263	232	195	166	181
Of which:									
Rescheduling of principal payments	202	116	93	42	75	74	81	88	131
Balance of payment support	47	91	80	160	160	150	114	78	50
Grants from bilateral sources	47	91	80	80	...	...	...	...	...
Loans from multilateral sources	--	--	--	80	...	...	...	...	...
Overall balance	11	44	-41	60	18	22	45	45	45
Net international reserves	-127	35	81	...	...	...	...	...	...
Arrears	116	9	-40	...	...	...	...	...	...
(In percent of GDP)									
Current account	-1.1	-8.4	-6.5	-5.2	-4.9	-3.9	-2.8	-2.4	-2.0
Trade balance	1.3	-6.6	-4.7	-3.6	-3.4	-2.6	-1.7	-1.5	-1.2
Stock of debt plus arrears outstanding	40.6	37.1	37.5	35.8	35.0	33.5	31.8	30.0	27.9
(As a percent of exports of goods and services)									
Debt service 2/	59.0	44.5	39.8	25.9	25.5	22.7	24.3	24.9	27.3
Interest payments 2/	18.3	16.4	13.3	12.7	12.5	11.7	11.8	12.4	12.9
(In months of merchandise imports)									
Gross official reserves	6.1	3.2	2.8	3.1	2.9	2.9	3.0	3.0	3.1

Sources: Data provided by the Guatemalan authorities; and Fund staff estimates.

1/ Including official transfers.

2/ Including arrears and obligations to the Fund.

Exports are projected to rise at an annual rate of about 12 percent to reach some US\$2.2 billion by 1994. Price assumptions for the major primary exports are consistent with the recent WEO commodity price forecasts; for coffee the projection is based on an increase from US\$1.10 per pound in 1987 to US\$1.52 per pound in 1994. Nontraditional exports are projected to grow at a annual rate of 24 percent in value terms and about 20 percent in volume terms. These projections are similar to those contained in the Government's five-year plan, which has made use of detailed studies of export potential in the agricultural and manufacturing sectors and take into account the fairly low base of 1987. Imports are expected to keep pace with nominal GDP growth during the projection period. To finance the external current account gap and allow a reduction in the Bank of Guatemala's net external liability position, exceptional financing needs would continue to exist throughout the projection period. These are expected to be met by a mix of rescheduling of principal of existing commercial loan and inflows of bilateral grants and multilateral loans, the latter mainly from the IBRD and IDB.

The base scenario presented above is fairly insensitive to changes in key assumptions. For example, if the price of coffee remained constant in nominal terms throughout the projection period instead of rising by about 3 1/2 percent annually in line with the WEO assumptions, by 1994 the debt service ratio would be higher by about 2 percentage points. To maintain the base scenario debt service ratio with lower coffee prices, the rate of growth of nontraditional exports, for instance, would have to increase from about 24 percent to about 27 percent on an annual basis. Changes in international interest rates would have little effect on the baseline projections because of the fairly small proportion of commercial debt in the total external indebtedness of Guatemala. If the LIBOR were 1 percentage point higher throughout the projection period, the debt service ratio by 1994 would be only about one tenth of a percentage point higher.

Guatemala is not expected to experience difficulties in making repurchases to the Fund in respect of its purchases under the prospective stand-by arrangement and compensatory financing facility. The gross foreign reserves of the Bank of Guatemala declined moderately in 1987 following a significant build-up during the coffee boom year of 1986, and would remain almost unchanged in 1988. Thereafter, the gross official international reserves would increase in line with the prospective overall balance of payments surpluses.

4. Performance criteria

Guatemala's progress toward the goals of its 1988-89 financial program will be monitored by performance criteria that have been incorporated into the proposed stand-by arrangement. The quantitative criteria, presented in Table 7 are: (1) quarterly target for the net international reserves of the Bank of Guatemala; (2) quarterly limit on