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**FOR
AGENDA**

EBS/88/202
Correction 2

CONFIDENTIAL

October 21, 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)
and Correction 1 (9/14/88):

Page 15, column 2, line 21: for "44" read "-44"

Page 39, para. No. 2, line 5: for "1988, the equivalent of"
read "1989, the equivalent of"

Corrected pages are attached.

Att: (2)

Table 6. Guatemala: Medium-Term External Outlook

	1986	1987	Projections						
			1988	1989	1990	1991	1992	1993	1994
(In millions of U.S. dollars)									
<u>Current account</u>	-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
<u>Capital account</u>	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	...	...	...	...	...
<u>Overall balance</u>	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

Guatemala: Stand-By Arrangement

Attached hereto is a letter, with annexed Memorandum on Economic Policy, dated August 17, 1988, from the Minister of Finance and the President of the Bank of Guatemala requesting a stand-by arrangement and setting forth: (a) the objectives and policies that the authorities of Guatemala intend to pursue for the period of this stand-by arrangement; and (b) understandings of Guatemala with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Guatemala will pursue for the period of this stand-by arrangement. To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from October 15, 1988 to February 28, 1990, Guatemala will have the right to make purchases from the Fund in an amount equivalent to SDR 54 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 23.16 million until January 31, 1989, the equivalent of SDR 35.50 million until April 30, 1989, the equivalent of SDR 35.50 million until July 31, 1989, the equivalent of SDR 41.67 million until October 31, 1989, the equivalent of SDR 47.84 million until January 31, 1990.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Guatemala's currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources only.

4. Guatemala will not make purchases under this stand-by arrangement, other than the initial purchase of SDR 23.16 million that it may request not later than within 15 days from the effective date of this arrangement, that would increase the Fund's holdings of Guatemala's currency in the credit tranches beyond 25 percent of quota

(a) during any period in which

(i) the quarterly target for net international reserves of the Bank of Guatemala described to in paragraph 7 and Table 1 of the Memorandum on Economic Policy annexed to the attached letter;

(ii) the limit on outstanding external payments arrears set forth in paragraph 7 and Table 2 of the Memorandum on Economic Policy annexed to the attached letter;

- (iii) the quarterly ceiling on net domestic financing of the nonfinancial public sector set forth in paragraph 16 and Table 3 of the Memorandum on Economic Policy annexed to the attached letter;
- (iv) the limit on the net domestic assets of the monetary authorities described to in paragraph 16 and Table 4 of the Memorandum on Economic Policy annexed to the attached letter;
- (v) the limits on the amount of new foreign loans with maturities of over 1 to 12 years contracted by or guaranteed the public sector and the outstanding amount of short-term (1 year or less) borrowing by the public sector described in paragraph 19 and Table 5 of the Memorandum on Economic Policy annexed to attached letter,

are not observed; or

(b) during any period after June 15, 1989, until the review contemplated in paragraph 5 of the attached letter has been completed and suitable performance criteria for the remaining period of the arrangement after June 15, 1989 have been established, or after such performance criteria have been established, while they are not being observed; or

(c) during the entire period of this stand-by arrangement if Guatemala:

- (i) imposes any new or intensifies existing restrictions on payments and transfers on current international transactions; or
- (ii) introduces multiple currency practices; or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) imposes or intensifies existing import restrictions for balance of payments reasons.

When Guatemala is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Guatemala and understandings have been reached regarding the circumstances in which such purchases can be resumed.