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IMF Announces Staff-Level Agreement with Guatemala on a Precautionary Stand-By Arrangement

Mr. Gabriel Lopetegui, the International Monetary Fund's (IMF) mission chief for Guatemala, made the following statement today in Guatemala City:

"During the past two weeks, an IMF staff mission visited Guatemala for discussions on possible IMF financial support for the government's economic program for 2009 and 2010. Agreement with the authorities has been reached at staff-level on a program that could be supported by a 18-month Stand-By Arrangement in the amount of SDR 630.6 million (about US$950 million). The Guatemalan authorities intend to treat the arrangement as precautionary. Guatemala has no immediate balance of payments need, and this program is part of a comprehensive preventive strategy to strengthen the country's liquidity cushion in the face of an uncertain global environment, thereby enhancing the confidence of investors and market participants. As part of this strategy, an additional US$1 billion of resources from other IFIs, including the World Bank and the IDB, have already been committed for 2009-2010.

"The agreement reached with the authorities is subject to approval by the IMF management and Executive Board, which could consider the request for a Stand-By Arrangement in the second half of April.

"Guatemala's long standing record of prudent economic policies has helped to consolidate macroeconomic stability, while progress has been made in implementing important structural reforms. However, as in the rest of the region, the global economic and financial crisis is having a negative impact on the Guatemalan economy, including through a deceleration of economic activity and tightening of domestic financial conditions.

"The Guatemalan economy is well positioned to face the adverse external outlook. As the global slowdown is likely to be protracted and significant downside risks still remain, the authorities have designed a program to preserve macroeconomic and financial stability, strengthen social policies, and continue working on improving medium-term growth.

"The authorities' short-term strategy is based on three pillars: a sustainable fiscal stimulus, with a fiscal deficit of the consolidated public sector that could reach 2.4 percent of GDP in 2009, a monetary policy focused on anchoring inflation at low levels combined with a flexible exchange rate system, and financial policies oriented to continue strengthening the banking sector.

"The authorities have moved quickly in implementing this strategy. Public spending is being refocused on social spending and labor-intensive infrastructure investment. Monetary policy has been supportive and additional liquidity provision has been made available to banks to confront credit risks. In the banking sector, provisioning requirements are set to increase gradually, to avoid undue procyclical effects while strengthening banks' capital buffers, and enhanced on-site supervision has been put in place.

"The mission wishes to express its gratitude to the authorities and technical staff of the Ministry of Finance, the Bank of Guatemala, and the Superintendency of Banks, for their warm reception and close collaboration."