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Statement by Mr. Marino on Guatemala
Executive Board Meeting 92/153
December 18, 1992

After intensive consultations and negotiations during a good part of 1992, the Guatemalan authorities are satisfied to have reached an agreement on the economic program for the remainder of 1992 and 1993 supported by a 15-month stand-by arrangement. This stand-by will provide the framework by which Guatemala can normalize its relations with its foreign creditors and lays the foundation on which to deepen the stabilization and structural reform efforts initiated in early 1991. My Guatemalan authorities wish to express their appreciation to the staff for their well prepared report on the 1992 Article IV consultation and request for stand-by arrangement.

The adjustment effort in Guatemala was initiated in early 1991 against the background of severe macroeconomic imbalances, worsening social indicators and a slowdown in the rate of growth. In this context, Guatemala has been pursuing an economic modernization plan aimed at achieving a twofold objective. The first is to correct the macroeconomic imbalances, and the second is to foster a rapid resumption of economic growth. Substantial progress has been achieved on both grounds. The inflation rate has been reduced from about 60 percent in 1990 to around 10 percent in 1992, and real GDP is expected to grow by around 4.6 percent in 1992.

The Guatemalan authorities have demonstrated their commitment to the adjustment effort by the firm implementation of a wide range of stabilization and structural measures. This has been done in an unfavorable environment characterized by a severe drought, the collapse of the international price of several of its main exports, and the political constraints arising from an unsettled political situation. It is also important to note that Guatemala has the lowest level of grant aid in the Central American region.

A key element in the stabilization efforts has been the effectiveness by which the authorities have controlled the fiscal deficit. The combined public sector deficit (including Central Bank losses) has been reduced from 4.8 percent of GDP in 1990 to around 1.0 percent in 1992, and is expected to improve further in 1993. This result was achieved with the implementation of a bold and comprehensive tax policy package. In order to sustain the gains of the fiscal consolidation process, the Guatemalan authorities have enacted the necessary legislation which will give a permanent character to the new revenue sources. This is being complemented with a comprehensive overhaul of tax administration capabilities.

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Monetary policy has been geared to support macroeconomic discipline in the context of a process of financial liberalization and sustained capital inflows. Interest rates are freely determined by the market. The Central Bank can influence monetary conditions through auctions of CENIVACUS in the stock exchange. The Guatemalan authorities are making further progress at using indirect monetary instruments. To this end, beginning on December 1992 the Central Bank has been auctioning its Certificates of Deposits as well.

A primary concern of the Guatemalan authorities is to attain external viability. In this regard, when capital inflows taper off and return to more normal levels, the authorities expect that the current account imbalance will also be reduced to levels compatible with the expected capital inflows, the reserve targets and the external debt service obligations. The external sector policies will continue to be oriented to maintain an adequate level of external competitiveness and to sustain the liberalization measures in the external sector. The stability of the exchange rate will be underpinned by tight financial policies.

The diversification of the Guatemalan export base has diminished the economy's vulnerability to external shocks. By continuing to pursue prudent financial policies and by implementing the contemplated structural reforms, Guatemala expects to regain external viability over the medium term, as illustrated in the medium term scenario contained in the staff report.

The Guatemalan authorities are making an enormous effort to improve their creditworthiness. In this context, Guatemala has cleared its arrears with the World Bank and the IDB. The authorities have also restructured the regional Guatemalan debt and have refinanced their debt with Mexico and Venezuela. Guatemala has remained current with its payments to the Fund.

The stabilization measures are being implemented concurrently with an ambitious set of structural reforms in the financial sector, in the pricing process of petroleum products and electricity and in the process of trade liberalization. Poverty alleviation and the consolidation of the peace process are also important priorities in the Guatemalan public policy agenda. The government has established FONAPAZ in order to rebuild the war stricken areas and will establish the Social Investment Fund, which will be funded by multilateral creditors. Additionally, in order to attend the needs of the poorest segments of the population the combined expenditure on health and education will be increased by 1.2 percent of GDP in 1993.

To conclude, my Guatemalan authorities are confident that with the support of the Fund and the international community they will be able to continue their adjustment efforts while achieving sustainable growth rates and low inflation. The Guatemalan authorities have worked hard to establish a good track record and are committed to the stabilization and structural transformation of their economy. In this respect they are ready and willing to take any measures that will ensure the attainment of the objectives set forth in the program.