FOR AGENDA

SM/85/153

CONTAINS CONFIDENTIAL INFORMATION

May 28, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Guatemala - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Guatemala, which will be brought to the agenda for discussion on a date to be announced.

Mr. Cha (ext. 8501) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

GUATEMALA

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Article IV Consultation with Guatemala

Approved by S. T. Beza and Manuel Guitian

May 24, 1985

I. Introduction

The 1985 Article IV consultation discussions with Guatemala were conducted from February 28 to March 19, 1985.1/ The Guatemalan representatives included the Ministers of Finance, Economy, Agriculture, and Energy and Mines; the President of the Bank of Guatemala; the Vice Minister of Labor; the Acting Executive Secretary of Planning; and senior officials of public sector agencies and enterprises. The mission also met with the head of state, General Oscar Mejia Victores. The staff team consisted of Messrs. C. Cha (Head), C. de Rosa, J. Martelino (all WHD), Ms. A. Mullor-Sebastian (RES), Mr. R. Rennhack (EP-WHD), and Ms. M. Araya (Secretary-ADM). Mr. P. Perez (Executive Director for Guatemala) and Mr. G. Castellanos (Advisor) also participated in some of the policy discussions.

The last Article IV consultation discussions with Guatemala were held in March-April 1984 and were completed by the Executive Board on June 29, 1984 (EBM/84/102). A 16-month stand-by arrangement for an amount of SDR 114.75 million (106.3 percent of quota), which was approved by the Executive Board on August 31, 1983 (EBS/83/163), expired on December 31, 1984. Under that arrangement, Guatemala made four purchases totaling SDR 57.4 million; purchases under the stand-by arrangement were halted after May 31, 1984 because the mid-term review could not be completed. In addition, certain other performance criteria were not observed.

II. Recent Developments and Performance Under the Last Stand-by Arrangement

The economic and financial position of Guatemala began to deteriorate in 1979 as a result of an adverse shift in the terms of trade, the worldwide recession, an erosion in confidence associated with the unsettled political and economic conditions in the Central American

1/ Guatemala has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.

region, and the pursuit of expansionary fiscal and monetary policies. The growth of real GDP, which averaged 6 percent a year in the 1970s, slowed significantly in 1980-81 and output fell in 1982. The net international reserves of the Bank of Guatemala declined by nearly US$1 billion during 1980-82, including the accumulation of external payments arrears of around US$290 million.

In an effort to reverse the deterioration in Guatemala's external position, the authorities framed an adjustment program in 1983 which was supported by the stand-by arrangement referred to above. The main objective of the program was the achievement of approximate balance of payments equilibrium for 1984, including a reduction in external payment arrears of at least US$100 million. This objective was to be achieved through a strengthening of the overall fiscal position, a reduction in the growth of bank credit, and the normalization of relations with foreign creditors through the start of an orderly reduction of external payment arrears.

Performance under the program fell short of expectations. As mentioned above, purchases were interrupted after May 31, 1984 because the mandatory program review could not be completed; the purpose of that review was to reach understandings on a further liberalization of exchange restrictions. In view of the underlying weakness in the overall financial situation, particularly in the fiscal area, it was not possible to reach such understandings.1/ Substantial deviations were recorded at the terminal date of the arrangement for all quantitative performance indicators, with the exception of the limits on foreign commercial borrowing (Table 1).

Important slippages developed in the fiscal area because of a significant shortfall in government revenue. This outcome resulted in part from a weaker than projected level of domestic activity 2/ and export performance, but mainly from a reduction in both the coverage and rate (from 10 percent to 7 percent) of the value-added tax (VAT) soon after Board approval of the stand-by arrangement. The introduction of the VAT was the main feature of the fiscal program, and was expected to yield Q 369 million (nearly 4 percent of GDP) in 1984. Mainly as a result of these revisions, there was a shortfall in collections from the VAT of around Q 230 million (2 1/2 percent of GDP) last year.

Effective October 1, 1984, the authorities introduced revenue measures that involved a broadening of the base for both the VAT (to include several important food items and fertilizer) and the stamp tax (to encompass, inter alia, bank credit operations and professional services). However, these measures yielded only Q 12 million in 1984

1/ This matter was discussed in detail in SM/84/127.
2/ Nominal GDP grew by 4 percent in 1984, instead of 8 percent as projected in the program.

Table 1. Guatemala: Performance Under Stand-By Arrangement

	Dec. 31, 1983		Mar. 31, 1984		June 30, 1984		Sept. 30, 1984		Dec. 31, 1984	
	Program 1/	Actual	Program 1/	Actual	Program 1/	Actual	Program 1/	Actual	Program 1/	Actual
	(Outstanding in millions of quetzales)									
Net domestic assets of the monetary authority	724.1	705.6	719.1	712.6	714.1	679.9	708.1	626.2 2/	754.1	918.6
Net indebtedness of the non-financial public sector with the domestic banking system	1,485.0	1,399.0	1,515.0	1,491.8	1,545.0	1,538.8	1,585.0	1,553.0	1,655.0	1,712.3
Outstanding balance of payments arrears 3/	294.1	286.0	269.1	267.5	244.1	241.5	219.1	218.3 2/	194.1	490.0
	(Outstanding in millions of U.S. dollars)									
New foreign loans contracted by the public sector										
1-5 years maturity	150.0	6.0	150.0	26.0	150.0	36.0	150.0	56.0	150.0	86.0
1-10 years maturity	300.0	6.0	300.0	26.0	150.0	36.0	300.0	56.0	300.0	86.0

Sources: Bank of Guatemala; and EBS/83/163.

1/ Adjusted on the basis of actual payments arrears as of December 31, 1983.
2/ These figures understate the actual position of outstanding external payments arrears and the net domestic assets of the Bank of Guatemala since the issue of arrears bonds (bonos de estabilizacion) in respect of pending foreign exchange requests was temporarily suspended from early September to the second half of November 1984.
3/ As measured by the amount of outstanding arrear bonds and pending requests by the public sector for foreign exchange from the Bank of Guatemala.

and were not sufficient to arrest the deterioration in the fiscal situation.1/ Revenues declined last year both in nominal terms and as a ratio to GDP for the fourth consecutive year; last year's revenues were Q 684 million (7 1/4 percent of GDP) compared with a program target of Q 900 million (9 percent of the projected GDP) (Table 2). Despite larger current expenditures, total expenditures were lower than programmed, by 1 1/2 percent of GDP, because of a sharp cutback in capital outlays. Although the overall budget deficit was close to the program target of 3 percent of GDP, domestic financing from the banking system was almost twice the amount envisaged in the program as the cutback in capital expenditures reduced the volume of foreign financing available.

Net credit of the Bank of Guatemala to the public sector was well above the program projection at the end of 1984, but this excess was partly offset by lower than projected commercial bank credit to the public sector; commercial banks reduced their holdings of government bonds toward the end of 1984 when their liquidity was squeezed as a result of the resumption of the issue of arrear bonds by the Bank of Guatemala. The net domestic assets of the Bank of Guatemala exceeded the program limit by Q 165 million at the end of 1984, reflecting not only an increase in credit to the public sector but also operational losses incurred by the Bank because of larger than projected interest payments on its external debt.

For the banking system as a whole, the net domestic assets increased by 25 percent during 1984,2/ compared with a projected increase of 13 percent in the program (Table 3). In an effort to restrain credit to the private sector in the second half of the year, the Bank of Guatemala required commercial banks to purchase stabilization bonds in an amount of Q 75 million and introduced a 60 percent deposit requirement for the opening of letters of credit. Even with these measures, credit to the private sector grew by 11 1/2 percent in 1984, compared with 7 percent envisaged in the program. Notwithstanding a higher growth in private sector financial savings and larger foreign borrowing by the banks than assumed in the program, there was a sizable decline in net international reserves because of the acceleration in overall credit expansion.

Compared with a small surplus envisaged in the program, the overall balance of payments registered a deficit of US$186 million in 1984, as both the current and capital accounts worsened (Table 4). The current account deficit amounted to nearly US$400 million (4 1/4 percent of GDP), compared with the program target of US$302 million (3 percent of GDP), mainly because of larger than expected imports and interest payments. Net capital inflows were substantially below program projections due largely to a shortfall in loan disbursements to the nonfinancial public sector and smaller inflows of private capital.

1/ These measures were estimated to yield around Q 70 million (0.7 percent of GDP) on an annual basis.

2/ In relation to the outstanding amount of liabilities to the private sector at the beginning of the period.

Table 2. Guatemala: Summary Operations of the Central Government

	1981	1982	1983 Prog.	1983 Actual	1984 Prog.	1984 Actual	1985 Proj.
	(In millions of quetzales)						
Revenue	742	731	749	704	900	684	745
Of which: Current	741	730	748	702	899	684	743
Tax	(659)	(633)	(648)	(551)1/	(812)	(540)1/	(600)
Nontax	(82)	(98)	(100)	(151)	(87)	(144)	(143)
Expenditure	1,380	1,142	1,094	1,034	1,203	980	1,068
Current	728	703	701	709	756	750	792
Capital	652	439	393	325	447	230	276
Current account (deficit -)	13	28	47	-7	143	-67	-49
Overall deficit = financing	-638	-411	-345	-330	-303	-296	-323
External financing	102	79	121	88	129	26	63
Domestic financing	536	332	224	242	174	270	260
Banking system	(453)	(321)	(240)	(166)	(166)	(299)	(260)
Other	(83)	(11)	(-16)	(76)	(8)	(-29)	(--)
	(As percent of GDP)						
Revenue	8.6	8.4	8.1	7.8	9.0	7.3	7.3
Tax	7.7	7.3	7.0	6.1	8.1	5.8	5.9
Nontax	0.9	1.1	1.1	1.7	0.9	1.5	1.4
Expenditure	16.0	13.1	11.8	11.5	12.0	10.4	10.4
Current	8.4	8.1	7.6	7.9	7.5	8.0	7.7
Capital	7.6	5.0	4.2	3.6	4.5	2.4	2.7
Current account (deficit -)	0.2	0.3	0.5	-0.1	1.4	-0.7	-0.5
Overall deficit = financing	-7.4	-4.7	-3.7	-3.7	-3.0	-3.1	-3.2
External financing	1.2	0.9	1.3	1.0	1.3	0.3	0.6
Domestic financing	6.2	3.8	2.4	2.7	1.7	2.8	2.6
	(In millions of quetzales)						
Memorandum item:							
Nominal GDP	8,608	8,728	9,264	9,035	10,034	9,397	10,250

Sources: Ministry of Finance; Bank of Guatemala; EBS/83/163; and Fund staff estimates.

1/ Advance corporate income tax collections amounting to Q 30 million are excluded from revenues in 1983 and included in 1984.

Table 3. Guatemala: Summary Operations of the Banking System

	1981	1982	1983 Prog. 1/	1983 Actual	1984 Prog. 1/	1984 Actual	1985 Proj.
			(In millions of quetzales)				
			I. Banking System				
Net foreign assets	23	-295	-295	-302	-284	-518	-768
Net domestic assets	2,246	2,946	3,054	3,079	3,357	3,678	4,223
Credit to public sector	946	1,244	1,484	1,399	1,655	1,715	1,975
Central Government	(965)	(1,286)	(1,526)	(1,452)	(1,692)	(1,751)	(2,031)
Rest of public sector	(-19)	(-42)	(-42)	(-53)	(-37)	(-36)	(-36)
Credit to private sector	1,435	1,537	1,686	1,740	1,804	1,936	2,168
Counterpart arrears	--	288	--	14	--	22	--
Other	-135	-123	-116	-74	-102	5	80
Medium- and long-term foreign liabilities	181	263	417	408	526	519	586
Liabilities to private sector	2,088	2,388	2,342	2,369	2,547	2,641	2,869
			II. Monetary Authority				
Net foreign assets	49	-267	-267	-236	-252	-422	-642
Net official reserves	49	21	27	50	-58	68	...
Payments arrears	--	-288 1/	-294	-286	-194	-490	...
Net domestic assets	387	702	722	705	755	919	1,184
Net credit to public sector	880	1,136	1,376	1,365	1,542	1,688	1,948
Net credit to banks	-134	-318	-89	-146	-136	-204	-197
Of which: stabilization bonds	(--)	(--)	(--)	(--)	(--)	(-51)	(--)
Medium- and long-term foreign liabilities	-165	-242	-386	-384	-489	-488	-549
Counterpart arrears	--	288	--	14	--	22	--
Other	-194	-162	-179	-144	-162	-99	-18
Currency issue	436	435	455	469	503	497	542
			(Annual percentage change)				
Banking system							
Net domestic assets 2/	35.5	33.5	4.5	5.6	12.9	25.3	20.6
Net credit to public sector	97.2	31.5	19.3	12.5	11.5	22.6	15.2
Credit to private sector	12.2	7.1	9.7	13.2	7.0	11.3	12.0
Liabilities to private sector	12.3	14.4	-1.9	-0.8	8.8	11.5	8.6

Sources: Bank of Guatemala; and Fund staff estimates.

1/ As presented in EBS/83/163 and revised to reflect a downward adjustment in the estimate of arrears as of December 31, 1983.

2/ Changes in relation to liabilities to the private sector outstanding at the beginning of the period.

Table 4. Guatemala: Summary Balance of Payments

	1981	1982	1983 Prog.	1983 Actual	1984 Prog.	1984 Actual	1985 Proj.
	(In millions of U.S. dollars)						
Current account	-573	-405	-297	-277	-302	-396	-382
Trade balance	-382	-218	-110	-43	-103	-146	-93
Exports, f.o.b.	(1,291)	(1,170)	(1,140)	(1,092)	(1,215)	(1,132)	(1,214)
Imports, c.i.f.	(-1,673)	(-1,388)	(-1,250)	(-1,135)	(-1,318)	(-1,279)	(-1,307)
Services and transfers	-191	-187	-187	-234	-199	-250	-289
Capital account	224	89	297	308	317	210	162
Private 1/	-1	-222	13	-15	65	29	-20
Nonfinancial public sector	109	108	124	124	137	21	69
Financial sector	116	203	160	199	115	160	113
Bank of Guatemala	(85)	(77)	(146)	(142)	(103)	(104)	(61)
Other banks 2/	(-4)	(8)	(10)	(41)	(10)	(36)	(37)
Other 3/	(35)	(122)	(4)	(16)	(2)	(20)	(15)
Overall balance (deficit -)	-349	-316	--	31	15	-186	-220 4/
Net official reserves (increase -)	349	28	-6	-29	85	-18	...
External payments arrears	--	288	6	-2	-100	204	...
	(In percent of GDP)						
Current account	-6.7	-4.6	-3.2	-3.1	-3.0	-4.2	-3.9
Of which: exports, f.o.b.	(15.0)	(13.4)	(12.3)	(12.1)	(12.1)	(12.1)	(12.5)
imports, c.i.f.	(-19.4)	(-15.9)	(-13.5)	(-12.6)	(-13.1)	(-13.7)	(-13.4)
Capital account	2.6	1.0	3.2	3.4	3.2	2.2	1.7
Private sector	(--)	(-2.5)	(0.1)	(-0.2)	(0.6)	(0.3)	(-0.2)
Nonfinancial public sector	(1.3)	(1.2)	(1.4)	(1.4)	(1.4)	(0.2)	(0.7)
Financial sector	(1.3)	(2.3)	(1.7)	(2.2)	(1.2)	(1.7)	(1.2)

Source: Bank of Guatemala; EBS/83/163; and Fund staff estimates.

1/ Includes errors and omissions.
2/ Includes short-term capital.
3/ Includes SDR allocations and contributions to nonmonetary international organizations.
4/ Potential financing gap.

The large overall balance of payments deficit in 1984 was financed by an accumulation of external payment arrears; arrears increased by more than US$200 million to US$490 million at the end of 1984, compared with a reduction of US$100 million envisaged in the program. In early September, faced with foreign exchange shortages, the Bank of Guatemala began to restrict the sale of foreign exchange and temporarily suspended the issue of arrear bonds,1/ and a large amount of unsatisfied requests for foreign exchange accumulated. The issue of arrear bonds was resumed only toward the end of the year, when a new exchange system was introduced. During the last two months of the year, the outstanding amount of arrear bonds increased by around US$250 million.

In November 1984 the authorities abandoned Guatemala's traditional fixed rate parity with the U.S. dollar and introduced a three-tier exchange rate system comprising an official market, a free market (banking market), and an "auction market" (Table 5).2/

Transactions in the official market, accounting for about two thirds of total transactions, continued to be settled at the rate of Q1 = US$1. The official market was funded mainly with official capital inflows and proceeds from most traditional exports (60 percent of total exports), and payments channeled through this market were limited to essential imports (e.g., fuels, medicine and fertilizer) accounting for about 45 percent of total imports; government transactons; and debt service payments, including those on registered private debt.

The banking market, which initially accounted for most of the remaining foreign exchange transactions, was to operate at an exchange rate determined by market forces; this market was originally funded with private capital inflows, receipts from services and transfers, and most nontraditional export proceeds, while eligible payments included imports not allocated to the official or "auction" markets; private capital; and service payments, with the exception of certain factor remittances.

The "auction market" was to be supplied from the foreign exchange resources of the Bank of Guatemala to pay for certain imports designated by the Bank. The rate in this market was to be determined either by bidding among eligible importers ("auction market with export proceeds")

1/ An arrear bond scheme was introduced in July 1983 to verify the extent of outstanding arrears; the Bank of Guatemala issued five-year arrear bonds (bonos de establizacion) in exchange for local currency deposits in respect of pending foreign exchange requests by the private sector. These bonds carry an interest rate of 6 percent, or in the event that they are accepted as payment by foreign creditors, 1 percent above the rate for five-year U.S. Treasury notes. No arrear bonds are issued in respect of delays on public sector requests for foreign exchange. The outstanding requests by the public sector amounted to US$22 million at the end of 1984.

2/ These measures were reported to the Executive Board in EBD/85/10.

Table 5. Guatemala: Structure of Foreign Exchange Markets 1/

Market	Demand	Supply
1. Official	Essential imports Medical products Fertilizer, pesticides Pharmaceuticals Fuels and lubricants Public sector imports Government services Debt service Public debt Registered private debt Dividends and profit remitances 4/ University study and medical treatment abroad	Exports Coffee to quota markets Sugar to quota markets Sugar to non-quota markets (80%) Bananas Cardamom Petroleum 2/ Cotton (50%)3/ Meat (50%)3/ Nontraditional to outside Central America (50%)3/ Net inflows from trade with Central America 5/ Capital inflows to public sector and registered private debt Receipts of government services
2. Banking	Imports from CACM 5/ Nonessential imports Tourism Other services and private capital	Exports to CACM 5/ Foreign investment Salaries and expenses of diplomats Repatriated capital Tourism Other services and private capital
3. Auction		
a. With export proceeds	Imports Inputs for agriculture Inputs used to produce nontraditional exports outside Central America Raw material for industry	Exports Coffee to nonquota markets Sugar to nonquota markets (20%) Cotton (50%)3/ Meat (50%)3/ Nontraditional to outside Central America (50%)3/
b. With borrowed resources	Certain imports specified in foreign loan contracts	Foreign loans to Bank of Guatemala for onlending to private sector

Source: Bank of Guatemala.

1/ According to regulations and resolutions in effect as of March 31, 1985.
2/ Only oil export revenues of the Government.
3/ The proportion of export proceeds that should be surrendered at the official market rate was lowered from 80 percent to 50 percent for meat and nontraditional exports to outside the Central American Common Market (CACM) and Honduras in February 1985; the same change was made for proceeds from cotton exports in March 1985.
4/ Up to 15 percent of dividends and profit remittances; the remainder is channeled to the banking market.
5/ Gross trade flows with the rest of the CACM and Honduras that are channeled through the Central American Clearing House (CACH) are valued at the banking rate, but Guatemala's net position vis-a-vis the CACH arising from such trade is registered in the Bank of Guatemala at the official rate.

or by the Bank of Guatemala, on the basis of the prevailing exchange rate in the banking market ("auction market with borrowed resources"). At the outset, only the "auction market with borrowed resources" was utilized;1/ this arrangement which covered less than 3 percent of total foreign exchange transactions, was funded with the proceeds of special foreign loans (valued at the banking market rate) to be used for imports of goods specified in the relevant loan contract.

Under the new exchange system, export surrender requirements were differentiated not only by type of product but also by destination. Exports of most traditional products (including some of those to non-quota markets) and 80 percent of nontraditional exports to the non-CACM countries were surrendered at the official rate, while all other exports (including those to the CACM and 20 percent of nontraditional exports to the non-CACM countries) were eligible for surrender at the banking market rate.

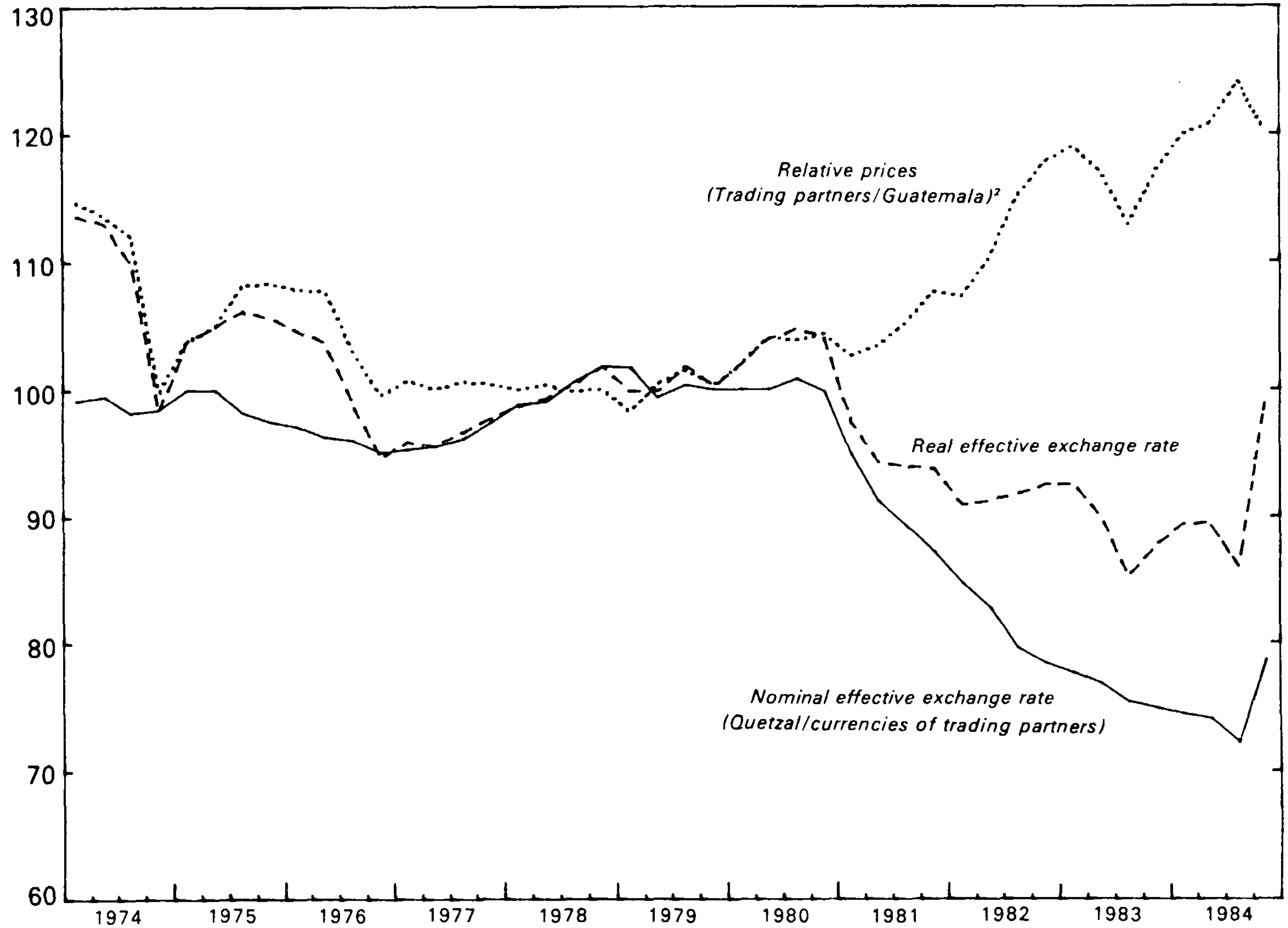
The exchange rate in the banking market was initially set at around Q 1.45 per U.S. dollar, which was similar to the rate prevailing in the unauthorized parallel market prior to the introduction of the new exchange system. Taking account of transactions in both the official and banking markets, the quetzal in real effective terms is estimated to have depreciated by around 15 percent in November-December 1984, thereby offsetting most of the loss of competitiveness experienced over the previous five years (Chart 1).

With the introduction of the new exchange system, the restrictions involving exchange quotas for imports, the deposit requirement and limits on the allocation of foreign exchange for tourist travel, and outward capital transfers were eliminated. However, the new system entails multiple currency practices arising from the three-tier exchange market and the mixing arrangements for surrender of export proceeds. Moreover, the existence of external payment arrears constitutes an additional restriction subject to the Fund's jurisdiction.

During the first few months of 1985, the exchange markets were disorderly and the quetzal came under severe pressure. By mid-March the exchange rate in the banking market had moved to around Q 1.65 per U.S. dollar, while the value of the quetzal in the unauthorized parallel market, which continued to handle a large amount of foreign exchange transactions, moved to Q 1.85 per U.S. dollar. The banking market did not function as had been expected, as the supply of foreign exchange in this market was limited because export surrender requirements were not strictly enforced, but more importantly because the exchange rate in that market was set by the commercial banks below market clearing levels.

1/ The "auction market with export proceeds" came into operation only in March 1985.

CHART 1
GUATEMALA
EFFECTIVE EXCHANGE RATE, 1974-84[1]
(1978 = 100)



Sources: IMF, *International Financial Statistics;* and Fund staff estimates.

[1]Weighted average of the exchange rates in the official and banking markets, in Guatemalan quetzales per unit of foreign currency. A rise (fall) in the index indicates a depreciation (appreciation) of the quetzal. The index is based on 1980 trade weights excluding oil.

[2]Relative prices were measured by consumer price indices.

In an effort to alleviate the scarcity of foreign exchange for certain imports in the banking market, the authorities introduced in early March a second auction market scheme ("auction market with export proceeds"), which supplemented the "auction market with borrowed resources" mentioned earlier. Under this scheme, the Bank of Guatemala purchases all export proceeds accruing to commercial banks at the banking market rate and auctions them to importers of priority products (e.g., raw materials for industry and certain inputs for agriculture and the production of non-CACM exports) as determined by the Bank. This new arrangement has come to account for an estimated 7 percent of total foreign exchange transactions, and has reduced the scope of the banking market by a corresponding amount. In the first auction, the accepted bids under the new arrangement fell in the range of Q 1.57 to Q 1.85 per U.S. dollar.

In early 1985 changes in export surrender requirements were introduced for certain products, particularly in the agro-export sector. The proportion of export earnings for meat and nontraditional products outside the CACM eligible for surrender in the banking market was raised from 20 percent to 50 percent in late February and a similar increase was granted to exports of cotton in March. Without a corresponding reduction in demand, these changes have aggravated the imbalance between purchases and sales in the official market.

III. Summary of Discussions

Despite the depreciation of the quetzal under the new exchange arrangements, the net international reserves of the Bank of Guatemala continued to decline in the early months of 1985, which is normally a peak season for exports. While this outcome may have reflected, in part, the transitional difficulties and speculative pressures associated with the implementation of a new exchange system, the authorities acknowledged that much of the problem stemmed from the underlying imbalances in the economy and the complexity of the new exchange arrangements. They also recognized that, in the absence of further corrective measures, the balance of payments deficit in 1985 could end up as large as that of 1984. In view of these prospects, the consultation discussions focused primarily on measures that might be expected to stabilize the economy without delay. In particular, the need for measures to assure fiscal and monetary restraint as well as exchange rate flexibility was emphasized. These same themes had been highlighted in the Summing Up of the 1984 Article IV consultation.

1. Fiscal policy

The authorities recognized that a significant fiscal adjustment had to be a major ingredient of their stabilization effort. The overall deficit of the Central Government was projected at Q 320 million

(3 1/4 percent of GDP) in 1985, or slightly higher than last year.1/ Revenues were expected to grow by about 9 percent, in line with the growth of nominal GDP, on the strength of the measures adopted in September 1984. Expenditures were projected to rise at a similar rate, including the effects of a recovery in investment outlays. Although the net foreign financing of the deficit was projected to be higher than in 1984, domestic bank financing requirements would be on the order of about 2 1/2 percent of GDP, thereby pointing to substantial pressures on the Bank of Guatemala's net international reserves; to avoid reserve losses and the crowding out of the private sector, bank credit to the Government would need to be limited to about 1/2 to 1 percent of GDP.

The authorities believed that the overall deficit for 1985 could be reduced by about 1 1/2 percent of GDP, mainly through new tax measures since they doubted that expenditures could be further compressed significantly. In this connection, the authorities stated their intention to introduce a set of tax measures which would include: the application of the banking market exchange rate to the calculation of import duties and the VAT; the introduction of selective consumption taxes; and increases in existing export taxes as well as the implementation of a new tax on cardamom exports.

On the expenditure side, the authorities indicated their intention to continue a policy of expenditure restraint, as in previous years. Capital outlays and transfers were expected to be increased from the very low level of 1984 to finance certain projects already underway (including the completion of the Chixoy hydroelectric project), and thus their efforts would be focused on the control of current expenditures. They stated that the public sector wage freeze, which had been in effect since 1982, would be continued in 1985, while other current expenditures would be held to approximately the same level as in 1984.

The authorities explained that the weakening of the financial position of the rest of the public sector last year was due mainly to the problems encountered by the State Electricity Institute (INDE), the largest public enterprise. Recently INDE has been facing serious financial difficulties due to substantial cost overruns associated with the Chixoy hydroelectric project and damages to the project's main tunnel in late 1983. However, the authorities said that they expected an improvement in INDE's overall financial position, reflecting better management,2/ the prospective completion in late 1985 of repairs to Chixoy, and the settlement of its unpaid cost overruns.

1/ In Guatemala, central government operations generally account for about two thirds of public sector revenues and expenditures and for most of the deficit of the nonfinancial public sector, as the rest of the public sector depends heavily on government transfers to finance their operations.

2/ In an effort to cope with INDE's financial difficulties, the Government installed a special commission in early 1984 to be responsible for streamlining the investment program and the day-to-day management of its operations.

The total cost of the Chixoy project is estimated to exceed US$800 million, of which IBRD financing would amount to some US$120 million.1/ The cost overruns of Chixoy started to mount in 1981 and are estimated to have reached around US$100 million at the end of 1984, of which three fourths pertained to foreign currency obligations. Negotiations for financing the latter have recently been completed with the IBRD, the IDB, and the Italian Government. With these arrangements, the authorities expected that most of the unpaid cost overruns would be settled before the end of 1985 and would be completely paid off by 1986.

2. Monetary policy

Monetary policy was expansionary in the first two months of 1985, with the net domestic assets of the banking system increasing at an annual rate of about 22 percent, compared with a growth rate of around 10 percent in private sector financial savings. Although much of the pressures for credit expansion continued to originate from the central government deficit and the strong demand for credit by the private sector, the authorities noted with concern the expansionary effects of a sharp increase in interest payments abroad by the Bank of Guatemala and potentially large exchange losses by the Bank to cover imbalances in the official exchange market. In 1984 interest payments by the Bank of Guatemala on its external debt amounted to US$92 million, which resulted in substantial operational losses. For 1985, interest payments are projected to increase by more than one third to US$126 million, reflecting to a considerable extent higher interest payments on outstanding arrear bonds.

The authorities recognized the urgent need to reduce the pace of credit expansion in order to avoid further losses in net international reserves and inflationary pressures. Although this objective was expected to be achieved to a large extent through a reduction of the overall fiscal deficit, the authorities also were aware of the need to slow the rate of credit expansion to the private sector and to find offsets to the Bank of Guatemala's large operational losses. For these purposes, the authorities indicated that they planned to increase interest rate ceilings, initiate open market operations with government bonds, and raise legal reserve requirements (these remained unchanged since 1980). In addition, the authorities intended to freeze the Bank of Guatemala's outstanding balance of rediscounts with the rest of the banking system at last year's level.

The authorities agreed with the staff that interest rates should be allowed to play a key role in their adjustment efforts, particularly in view of the recent changes in exchange arrangements involving the authorization of capital transfers through the banking market. In this connection, the authorities pointed to the recent revision to the Organic Law of the Bank of Guatemala to allow the use of variable

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1/ At present, the lending operations of the IBRD to Guatemala are for projects, most of which are in the power sector (Attachment IV).

interest rates and their intention to raise the ceilings on deposits with, and loans by, the commercial banks. These ceilings, which have remained unchanged since 1982, are 9 percent for deposits and 12 percent for loans.

3. Price and wage policies

Inflation traditionally has been low in Guatemala. Following the second round of oil price increases in 1979-80, the rate of inflation, as measured by changes in average consumer prices, rose to around 11 percent in 1980-81, but it declined to 6 percent in 1983 and to 3 1/2 percent in 1984. The authorities attributed a part of the improvement in price performance from 1983 to 1984 to a good harvest of basic grains and an ample supply of imported goods; also, wage adjustments during the year appear to have been moderate. The authorities believed that the depreciation of the quetzal in the banking market by nearly 50 percent in mid-November 1984 had had only a moderate impact on domestic prices because the cost of imported items already reflected the higher exchange rate in the unauthorized parallel market.

As a general matter of policy, the authorities expressed the view that price movements should reflect market forces; at present, there are only 17 items, mainly foodstuffs, which are subject to price controls. They stated that it was their intention to continue to administer price controls flexibly and thus to minimize intervention in the market.

Notwithstanding the favorable price performance to date, the authorities were concerned that pressures for higher wages in both the public and private sectors had recently been intensifying. In early 1985 the decentralized public entities were allowed to adjust wages, provided that the resulting increase in costs could be absorbed by the entity in question. At the same time, minimum wages, which have not been adjusted since 1980, were being brought under review, mainly for the service sector. However, the authorities stated that they would continue to freeze wages and salaries of central government employees, a stance they hoped would set a standard for private sector wage settlements, which are determined essentially by collective bargaining arrangements. The authorities also felt that any adjustment to legal minimum wages would have only a small impact on labor costs as most wages in those sectors subject to the minimum wage are already above the statutory minimum level.

4. External sector policies and medium-term outlook

Although the authorities considered the exchange measures adopted in November 1984 an important move in the direction of strengthening Guatemala's external position, they expressed concern over the imbalances in the exchange markets and the pressures on the quetzal since that time.

The authorities agreed that the exchange system needed to be improved in order to enhance its effectiveness. Although they supported the view that the exchange markets should be reunified as soon as possible, they stressed the political sensitivity of this issue; therefore, it was their intention to seek a gradual reunification of the exchange system. Their immediate objective, as was discussed above, was to reduce the overall demand for foreign exchange through the implementation of more restrictive fiscal and monetary policies. These measures would be accompanied by a stricter enforcement of all export surrender requirements to improve the supply of foreign exchange and by the opening of exchange houses in order to promote competition in the banking market. At the same time, the authorities planned to transfer transactions from the official market to the banking market to reduce the existing imbalance in the official market, and thus to move gradually to a reunification of the exchange markets. During this transition, any remaining imbalance in the official market, in the view of the authorities, could be covered by a prospective sale of gold reserves or by purchases of foreign exchange from the banking market.

The authorities also indicated their intention to avoid a further accumulation of payment arrears in 1985. They recognized the importance of an early elimination of arrears (i.e., prior to the formal maturity date of the arrear bonds) to normalize Guatemala's financial relations with foreign creditors. The authorities indicated that they planned to redeem, on a net basis, arrear bonds in an amount of around US$40-50 million a year in 1985-86, when debt service payments are projected to be particularly high, and by around US$135 million a year in subsequent years until they are fully paid. The redemption would include both arrear bonds held domestically as well as those that had been accepted as payment by foreign creditors;1/ the latter amounted to US$136 million as of December 31, 1984.

Guatemala's outstanding external public debt trebled from US$0.7 billion (9 percent of GDP) in 1980 to US$2.3 billion (24 percent of GDP) in 1984, reflecting the balance of payments difficulties in the last several years and the Government's recourse to commercial borrowing with "balloon" repayment terms (Table 6). As a result, the debt service ratio is projected to rise from 22 percent in 1984 to 38 percent in 1985 and to 43 percent in 1986, before declining to 18 percent by 1990. Interest payments as a percent of exports of goods and services would peak at 16 1/2 percent in 1985, and are projected to decline thereafter, on the assumption that Guatemala's future debt requirements are satisfied largely from noncommercial sources.

In order to cope with the heavy debt service obligations in the coming years, the authorities recognized that Guatemala's external position needed to be strengthened significantly. On the assumption that long-term capital inflows will return to close to their historical

1/ Bonds held abroad by foreign creditors are redeemed according to a lottery system.

Table 6. Guatemala: Medium-Term Outlook

	1984	1985	1986	1987	1988	1989	1990
	(In millions of U.S. dollars)						
1. Balance of payments							
Current account	-396	-382	-234	-222	-234	-253	-273
Of which: exports, f.o.b.	1,132	1,214	1,413 1/	1,560	1,720	1,890	2,095
imports, c.i.f.	-1,279	-1,307	-1,355 1/	-1,490	-1,645	-1,830	-2,035
Capital account	210	162	284 2/	347	384	418	438
Overall balance (deficit -)	-186	-220	50	125	150	165	165
2. External public debt 3/							
Outstanding debt	2,259	2,283	2,405	2,496	2,598	2,713	3,022
Debt service, total 4/	273	504	663	550	527	517	401
Amortization	126	287	448	346	330	341	233
Interest	147	217	215	204	197	176	168
Of which: Arrears	(25)	(69)	(78)	(153)	(146)	(139)	(--)
Amortization	/--/	/37/	/50/	/134/	/134/	/135/	/--/
Interest	/25/	/32/	/28/	/19/	/12/	/4/	/--/
IMF	(12)	(58)	(54)	(20)	(22)	(13)	(10)
Repurchases	/--/	/47/	/47/	/15/	/19/	/11/	/9/
Charges	/12/	/11/	/7/	/5/	/3/	/2/	/1/
	(In percent of GDP)						
Current account	-4.2	-3.9	-2.2	-1.9	-1.8	-1.8	-1.8
Capital account	2.2	1.7	2.7	3.0	3.0	3.0	2.9
Overall balance	-2.0	-2.2	0.5	1.1	1.2	1.2	1.1
	(In percent of exports of goods and services)						
Debt service, total 4/	21.8	37.8	43.2	32.7	28.6	25.8	18.1
Amortization	(10.1)	(21.5)	(29.2)	(20.6)	(17.9)	(17.0)	(10.5)
Interest	(11.7)	(16.3)	(14.0)	(12.1)	(10.7)	(8.8)	(7.6)

Sources: Bank of Guatemala; and Fund staff estimates.

1/ Assumes additional exports arising from the full operation of the CELGUSA and lower oil imports due to the completion of the Chixoy hydroelectric project.
2/ Assumes that Guatemala will obtain some debt relief either through rescheduling or contracting of new loans to meet the "balloon" repayments falling due in 1986.
3/ Medium- and long-term external public debt; includes IMF and outstanding stock of external payments arrears.
4/ Includes repayment of arrears.

level of about 3 percent of GDP, an overall balance of payments surplus of about 1 percent of GDP to cover the liquidation of arrear bonds would require that the current account deficit be limited to no more than 2 percent of GDP. This would mean that domestic savings would need to rise relative to investment by some 2 percent of GDP and that exports would have to grow by nearly 12 percent a year over the next five years to sustain an import level consistent with a moderate economic recovery. Alternatively, imports would have to be highly compressed at the expense of economic growth if Guatemala were to avoid difficulties in meeting its debt service payments.

The authorities were aware of the financial difficulties facing Guatemala over the medium term, and agreed with the staff that both prudent financial policies and the aggressive pursuit of export promotion should be key features of their medium-term strategy. In the latter connection, they stated that they would continue their flexible stance on exchange rate policy to strengthen Guatemala's export performance, and that this policy would be complemented by a comprehensive reform of the CACM external tariff designed to reduce the level of effective protection, thereby enhancing the competitiveness of domestic industry in world markets. The tariff reform involves the transformation of the Uniform Tariff Nomenclature for Central America to the Brussels Tariff Nomenclature, the substitution of ad valorem for specific rates, and a reduction of effective tariff protection. The initial stage of the reform, which should be implemented before October 1, 1985, would lower the level of effective tariff protection from the present range of minus 30 to 320 percent to one of around 50 to 150 percent.1/ The authorities observed that this represented an important departure from their traditional trade policy of import substitution on a regional basis to a new approach favoring the promotion of exports to countries outside the CACM.

Finally, the authorities made reference to the favorable external impact over the medium term of the prospective coming-on-stream of CELGUSA (a large sawmill and pulp plant) and the Chixoy hydroelectric project. CELGUSA, which is a mixed enterprise with an investment of over US$220 million, started operations early this year and is expected to export around US$16 million of lumber products in 1985. Its annual export earnings are projected to increase to around US$40 million in 1986-87 when the plant would be operating at full capacity. The Chixoy project, with a generating capacity of 300 MW, should replace electricity generation of all existing thermal plants in the near future, resulting in foreign exchange savings of around US$60 million a year in fuel imports.

1/ The World Bank is presently providing technical assistance to Guatemala on the issue of tariff reform.

IV. Post Consultation Developments

Subsequent to the consultation discussions, the Guatemalan authorities introduced a set of corrective measures in the fiscal and monetary areas in early April. However, these measures were cancelled shortly thereafter as a result of widespread protests by the private sector.1/

In the fiscal field, the measures included a new tax package which, according to the authorities, would have yielded about Q 250 million (2 1/2 percent of GDP) on an annual basis, or Q 140 million in the remainder of 1985. The tax package consisted of increases in export taxes; the introduction of selective consumption duties; the application of the banking market exchange rate for the calculation of import duties, the value added tax, and selective consumption duties; and certain changes in the corporate income tax, stamp tax, and excise taxes.

In the monetary field, interest rate ceilings on bank loans and deposits were raised by 4 percentage points to 16 percent and 13 percent, respectively, and the legal reserve requirements were increased by 3 percentage points. At the same time, the rediscount rate of the Bank of Guatemala was raised by 4 percentage points, and it was announced that the Bank would engage in open market operations to tighten credit market conditions.

Exchange rates continued to adjust in April 1985. From the end of March to the end of April, the banking market rate moved from Q 1.89 to Q 2.80 per U.S. dollar; the average bid accepted in the auction market rose from Q 1.89 to Q 2.34 per U.S. dollar; and the exchange rate in the unauthorized parallel market was reported to have risen from around Q 2.17 to as high as Q 3.20 per U.S. dollar.

V. Staff Appraisal

In the past several years, Guatemala has been experiencing serious economic and financial difficulties. The external position has been weak, as reflected in large overall balance of payments deficits (including a substantial accumulation of payment arrears), and domestic output has fallen considerably. To a significant extent, these developments have been due to the effects of political turmoil in the Central American region and the recent world recession, but the lack of timely adjustments of Guatemala's fiscal, monetary, and exchange rate policies also has been an important factor.

In an effort to strengthen the external position, the Guatemalan authorities introduced a stabilization program in mid-1983 which was supported by a stand-by arrangement from the Fund covering the period through the end of 1984. Performance under the program fell short of

1/ The Ministers of Economy and Finance, who participated in the Article IV consultation discussions, also were replaced.

expectations, reflecting to an important extent the reduction in the rate and in the coverage of the value-added tax (VAT), which was a key ingredient of the fiscal adjustment program. Late in 1984, the authorities implemented certain tax measures involving the widening of the bases of the VAT and the stamp tax, but these measures did not go far in correcting the financial imbalance. Faced with a continuing difficult external position, the authorities introduced in November 1984 a three-tier exchange system to allow more flexibility in exchange market operations. At the same time, the existing exchange restrictions on imports, tourist travel, and capital movements were eliminated.

The adoption of a more flexible exchange rate policy by Guatemala was a very important step, coming after a period of some 60 years in which the value of the quetzal had remained unchanged in relation to the U.S. dollar. However, the new exchange system is unduly complex and discriminatory as it gives rise to multiple currency practices not only on the basis of the nature of transactions but also by destination. Furthermore, there are large imbalances in both the official and the banking markets.

The staff believes that steps should be taken to ensure that the exchange rate system is reunified without great delay. This objective could be sought by eliminating the existing imbalance in the official market and reducing the scope of that market through the transfer of transactions to the banking market. At the same time, measures should be adopted to ensure that the exchange rate in the banking market is determined by market forces, and the current practice of discriminatory treatment of certain foreign exchange transactions should be terminated. The authorities should ensure that the exchange rate is sufficiently flexible to promote the growth of exports, and thus to be in a position to handle the heavy foreign debt obligations in the coming years. In this connection, the staff welcomes the recent initiatives in the area of tariff reform, as this should help to enhance the competitiveness of domestic industry in world markets.

To achieve satisfactory results, a flexible exchange rate policy needs to be backed by appropriate fiscal and monetary policies. In the fiscal field, efforts should be concentrated on improving the revenue performance of the Central Government. At the same time, the staff welcomes the intention of the authorities to pursue a policy of expenditure restraint, including in respect of wage increases in the public sector. However, in view of the low level of overall investment in the economy, the staff would caution the authorities on the risk that further cutbacks in capital expenditure would have adverse effects on economic growth.

The recent improvement in the financial position of the State Electricity Institute (INDE) is a welcome development, particularly the completion of negotiations for the settlement of unpaid cost overruns relating to the Chixoy hydroelectric project. The staff would note, however, that the large debt service payments pertaining to this project over the next few years will require that INDE continue to improve its revenue performance through an appropriate tariff policy.

Monetary and credit policy also would need to be managed so as to be consistent with the achievement of the external objective. In this regard, interest rates should be more flexible, and the staff, therefore, welcomes the recent removal of the legal barriers to the introduction of variable interest rates. This should be followed by actions to allow interest rates to reflect market conditions, either by removing the ceilings on deposit and lending rates or by raising such ceilings significantly. The staff welcomes the authorities' intention to restrain overall credit expansion in 1985 and notes that they planned to raise the legal reserve requirement and the rediscount rate; to freeze the net credit of the Bank of Guatemala to commercial banks at last year's level; and to engage in open market operations. Although these measures should help to contain the potential expansionary impact of the Bank of Guatemala's operational losses, the staff would note that reliance on such measures alone would run the risk of crowding out the private sector. Therefore, further adjustments to fiscal policy may be needed to offset the effect of these losses.

Guatemala's exchange system continues to involve restrictions on payments and transfers for current international transactions arising from external payment arrears and multiple currency practices involving discrimination among Fund members. The staff would urge the authorities to eliminate these restrictions and multiple currency practices promptly through the adoption of appropriate measures and, in any event, to give a high priority to the elimination of discrimination. In the absence of a clearly defined economic program that would facilitate the removal of restrictions, and in view of the Fund's policy on discrimination, the staff does not recommend approval of Guatemala's exchange practices.

It is proposed that the next Article IV consultation with Guatemala take place on the regular 12-month cycle.

GUATEMALA--Basic Data

Area and population	
Area	108,889 sq. kilometers
Population (mid-1984)	7.8 million
Annual rate of population increase (1975-84)	3.1 percent
Unemployment rate (1984)	11 percent
GNP (1984 est.)	SDR 8,963 million
GNP per capita (1984 est.)	SDR 1,146

	1981	1982	1983	Prel. 1984
Origin of GDP		(percent)		
Agriculture	25	25	25	25
Manufacturing	16	16	16	16
Construction	4	3	3	2
Transportation and communications	7	7	7	7
Commerce	27	26	26	26
Government	5	6	6	6
Other	16	17	17	18
Ratios to GDP				
Exports of goods and nonfactor services	17	15	13	13
Imports of goods and nonfactor services	24	19	15	15
Current account of the balance of payments	-7	-5	-3	-4
Central government revenues	9	8	8	7
Central government expenditures	16	13	12	10
Central government savings	--	--	--	-1
Central government overall deficit	-7	-5	-4	-3
External public and government-guaranteed debt (end of year) 1/	12	19	21	24
Gross national savings	10	10	8	6
Gross domestic investment	17	14	11	10
Money and quasi-money (end of year)	23	26	25	26
Annual changes in selected economic indicators				
Real GDP per capita	-2.0	-6.2	-5.2	-2.6
Real GDP	0.6	-3.5	-2.7	0.2
GDP at market prices	9.2	1.4	3.5	4.0
Domestic expenditure (at current prices)	13.3	-1.1	1.4	4.4
Gross domestic investment	(17.1)	(-13.4)	(-22.3)	(-3.5)
Consumption	(12.6)	(1.2)	(5.2)	(5.4)
GDP deflator	8.5	5.1	6.3	3.8
Consumer prices (annual averages)	11.4	5.0	6.4	3.6
Central government revenues	-0.8	-1.5	-3.7	-2.8
Central government expenditures	23.6	-17.3	-9.4	-5.2
Money and quasi-money	12.8	15.1	-1.4	11.6
Money	(4.1)	(1.4)	(5.1)	(7.5)
Quasi-money	(18.8)	(23.5)	(-4.7)	(13.8)
Net domestic bank assets 2/	35.5	20.0	5.9 3/	16.3 3/
Credit to public sector (net)	(25.1)	(14.3)	(6.5)	(13.3)
Credit to private sector	(8.4)	(4.9)	(8.5)	(8.3)
Merchandise exports (f.o.b., in U.S. dollars)	-15.0	-9.4	-6.7	3.7
Merchandise imports (c.i.f., in U.S. dollars)	4.7	-17.1	-18.2	12.6

	1981	1982	1983	Prel. 1984
Central government finances	(millions of quetzales)			
Revenues and grants	742.4	731.0	704.0	684.3
Expenditures and net lending	1,380.0	1,141.5	1,034.0	979.9
Current account surplus or deficit (-)	13.0	27.5	-6.5	-66.5
Overall surplus or deficit (-)	-637.6	-410.5	-330.0	-295.6
External financing (net)	102.1	79.2	87.6	25.7
Internal financing (net)	535.5	331.3	242.4	269.9
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	1,291.3	1,170.4	1,091.7	1,132.2
Merchandise imports (c.i.f.)	-1,673.5	-1,388.0	-1,135.0	-1,278.5
Investment income (net)	-85.4	-114.7	-137.9	-209.8
Other services and transfers (net)	-104.9	-72.3	-95.4	-40.1
Balance on current and transfer account	-572.5	-404.6	-276.6	-396.2
Official capital (net)	108.8	107.5	124.0	20.6
Financial system capital (net) 4/	115.7	202.9	199.1	160.1
Private capital (net) and errors and omissions	-0.8	-221.9	-15.4	29.0
Overall balance (deficit -)	-348.8	-316.1	31.1	-186.5
Change in net official reserves (increase-)	348.8	28.0	-29.0	-17.5
Arrears (reduction -)	--	288.1	-2.1	204.0

International reserve position	1981	1982	1983	1984
	(millions of SDRs)			
Central Bank (gross)	255.0	223.4	287.9	365.9
Central Bank (net)	42.3	-242.0 5/	-225.2 5/	-430.8 5/
Rest of banking system (net)	-22.1	-25.6	-62.9	-97.9

1/ Excludes short-term debt, but includes use of Fund credit and external payment arrears.

2/ In relation to the stock of liabilities to the private sector at the beginning of the period.

3/ Excludes the counterpart of payment arrears.

4/ Includes transactions with nonmonetary international agencies, allocations of SDRs, and valuation adjustment.

5/ Includes payment arrears.

Guatemala - Fund Relations
(As of March 31, 1985)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership Status

(a) Date of membership: December 1945
(b) Status: Article VIII

(A) Financial Relations

II. General Department

			Millions of SDRs	Percent of Quota
(a)	Quota: SDR 108 million			
(b)	Total Fund holdings of quetzales:		249.0	230.6
(c)	Fund credit: Total		141.0	130.6
	of which:	Cr. Tr.	(39.3)	(36.4)
		CFF	(66.9)	(62.0)
		EAR	(34.8)	(32.2)
(d)	Reserve tranche position		--	--
(e)	Current Operation Budget		--	--

		Limits	Outstanding 1/	Uncalled
(f)	Lending to the Fund:			
	GAB)	--	--	--
	SFF)	30.0	--	21.6 2/
	EAR)	--	--	--
	Total)	30.0	-- 1/	21.6 2/

III. Current Stand-by Arrangement and Special Facilities

(a) Current stand-by arrangement: None

(b) Previous stand-by arrangements:
- (i) Duration: August 31, 1983 to December 31, 1984
- (ii) Amount: SDR 114.75 million
- (iii) Utilization: SDR 57.375 million
- (iv) Undrawn balance: SDR 57.375 million

1/ SDR 8.4 million were used and were repaid in advance on February 8, 1982 (EBS/82/22).

2/ The unused balance is not being called upon at present as Guatemala's balance of payments and reserve position are not sufficiently strong.

(i)	Duration:	November 13, 1981 to November 12, 1982
(ii)	Amount:	SDR 19.10 million
(iii)	Utilization:	SDR 19.10 million
(iv)	Undrawn balance:	--

(c) Special facilities
Compensatory financing: SDR 76.5 million, approved by the Executive Board on November 13, 1981 and purchased on November 18, 1981.

IV. SDR Department

			Percent of allocation
(a)	Net cumulative allocation:	SDR 27.7	
(b)	Holdings:	0.04	0.2
(c)	Current Designation Plan:	--	--

V. Administered Accounts

(a)	Trust Fund Loans	
	(i) Disbursed	--
	(ii) Outstanding	--
(b)	SFF Subsidy Account	
	(i) Donations)	--
	(ii) Loans) to Fund	--
	(iii) Payments by Fund	--

VI. Overdue Obligations to the Fund

(a)	General Department:	Repurchases	--
		Charges	--
(b)	SDR Department:	Charges	--
(c)	Trust Fund:	(i) Repayments	--
		(ii) Interest	--

B. Nonfinancial Relations

VII. Exchange rate arrangement: Current arrangements provide for a 3-tier exchange rate system comprising an official, banking, and auction markets. The value of the quetzal in the official market is pegged to the U.S. dollar at the rate of Q 1 = US$1, while the banking market rate is determined by market forces of supply and demand; as of April 30, 1985, the banking market rate was around Q 2.80 per U.S. dollar. The buying rate in the auction market is the same as the banking market rate. The selling rate for the "auction market with borrowed resources" is also the same as the banking rate, but the selling rate for the "auction market with export proceeds" is determined by the range of acceptable bids during the actual auctions by the Bank of Guatemala; the average selling rate was Q 2.34 per U.S. dollar during the last auction in April 1985. The multiple currency practices arising from Guatemala's exchange arrangements and the exchange restriction arising from payments arrears have not been approved by the Fund.

VIII.	Last Article IV Consultation:	March-April 1984, completed by the Executive Board on June 29, 1984 (EBM/84/102).
IX.	Technical Assistance:	None.
X.	Resident Representative/ Advisor:	None.

Guatemala - Statistical Issues

1. Outstanding Satistical Issues

Government finance

The 1984 Government Finance Statistics Yearbook includes data for the consolidated central government through 1982 in the statistical and derivation tables. It also includes statistics on revenue and economic classification of expenditure and lending minus repayment for local governments through 1982. There is a need to include information on expenditure by function, financing and debt for local governments in order to improve the presentation for Guatemala in the GFS Yearbook.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Guatemala in the May 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Guatemala which, during the past year, have been provided on a timely basis, although information on national accounts and consumer prices are not current.

Status of IFS Data

		Latest Data in May 1985 IFS
Real Sector	- National Accounts	1982
	- Prices: Consumer	Q1 1983
	Wholesale	October 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	November 1984
	- Financing	November 1984
	- Debt	1982
Monetary Accounts	- Monetary Authorities	December 1984
	- Deposit Money Banks	December 1984
	- Other Financial Institutions	December 1984
	- Interest Rates	September 1984
External Sector	- Merchandise Trade: Value	October 1984
	Prices	October 1984
	- Balance of Payments	Q2 1984
	- International Reserves	March 1984
	- Exchange Rates	March 1984

Guatemala: Financial Relations with the World Bank

The IBRD is currently providing financing for a number of development projects in Guatemala. Total loan commitments as of March 31, 1985 amounted to US$390 million, of which one half pertained to the power sector, followed by telecommunications (18 percent), education (11 percent), transport (9 percent), and urban development and industry (each 5 percent).

IBRD financing for the power sector is directed mainly to the Chixoy hydroelectric project. Chixoy, which is estimated to cost more than US$800 million, is also being financed with credits from the IDB, Venezuelan Development Fund, Central American Bank for Economic Integration, and Italy. This project involves an electricity generating capacity of 300 MW and is to be completed toward the end of 1985. It is expected to replace virtually all of the electricity generation by existing thermal plants in Guatemala, thereby producing substantial savings in oil imports.

IBRD disbursements for development projects declined in 1984 because of the completion of a number of projects, but should increase markedly in 1985 owing mainly to disbursements for Chixoy.

(In millions of U.S. dollars)

A. IBRD/IDA/IFC Operations (as of March 31, 1985)

	Disbursed	Undisbursed
IBRD/IDA Loans		
Agriculture	4.0	--
Education	25.7	17.8
Power	147.7	45.8
Of which: Chixoy	(70.7)	(45.9)
Urban development	20.0	--
Transport	25.5	9.8
Telecommunications	42.2	29.6
Industry	0.1	19.9
Total	265.1	123.0
Of which: repaid	71.4	
outstanding	193.7	
IFC investments	181.1	--

B. IBRD/IDA Loan Disbursements

	1981	1982	1983	1984	Proj. 1985
Net disbursements	27.5	14.7	6.5	-0.8	46.3
Gross disbursements	34.6	22.8	20.4	7.9	56.0
Amortization	7.1	8.1	13.9	8.7	9.7

Source: IBRD.