



## Statement by an IMF Mission to Guatemala

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May 6, 2010

A staff team from the International Monetary Fund (IMF) visited Guatemala during April 27-May 6, 2010 to conduct the third review of the Stand-By Arrangement (SBA) approved in April 2009 (see [Press Release No. 09/142](#)).

The mission met with Minister of Finance Juan Alberto Fuentes Knight; Central Bank Governor María Antonieta de Bonilla; Superintendent of Banks Edgar Barquín; members of the Cabinet and Congress of the Republic, and representatives of the private sector.

At the end of the visit Mr. Alejandro Lopez-Mejía, the IMF mission chief for Guatemala, made the following statement:

"The recovery of the Guatemalan economy is under way. There is a gradual pick up in domestic demand, international trade, and private capital flows. International reserves are increasing, and the quetzal has remained stable since end-March, following an appreciation of 4.5 percent in the first quarter of the year. The financial system continues to hold up well, though credit to the private sector remains slow despite ample liquidity.

"The near-term outlook has improved since the previous review in December 2009, reflecting the improved global environment and also partly due to cautious macroeconomic policies that paved the way for a resuming higher growth. The projection for output growth in 2010 has been revised upwards. Inflation has picked up, mainly as a result of one-off increases in food and electricity prices, associated to the draught and the increase in international oil prices. Nonetheless, end-year inflation is projected to be around 5.5 percent, well within the central bank's target band. International reserves increased in 2009, and are expected to strengthen further in 2010.

"Performance under the precautionary SBA with the Fund remains strong. The authorities met by wide margins all quantitative performance criteria for end-December 2009 and end-March 2010, and annual inflation stayed within the inner consultation band set in the program. The two structural benchmarks for end-December (on banks'

liquidity and foreign currency risk management) were also met.

"While supportive macroeconomic policies helped mitigate the impact of the global crisis in Guatemala during 2009, the scope for continued fiscal and monetary stimulus in 2010 is limited. A fiscal deficit for the central government of, at most, 3.1 percent of GDP in 2010 is necessary to end the fiscal stimulus. In view of the ongoing recovery, we expect the authorities to allocate part of the potential additional tax revenues to reduce the deficit. A lower fiscal deficit will be conducive to rebuilding fiscal space, safeguarding the debt dynamics, and increasing the scope for undertaking supportive fiscal policies in the future. Monetary policy is expected to remain vigilant, and it is expected that stance will be tightened if the inflation forecast deviates from the target.

"Continued implementation of fiscal reforms is critical to strengthen the resilience of the economy. The mission reiterated the importance of undertaking a comprehensive revenue reform to reduce the fiscal deficit, while allowing for an increase in public investment and social spending. Continue strengthening tax administration and expenditure management is also essential to support fiscal consolidation. At the same time, prompt congressional approval of the amendments to the banking law should remain a priority

"The authorities reiterated their intention to continue treating the Stand-By Arrangement as precautionary. The mission expects that the IMF Executive Board will consider completion of the third review of the Stand-By Arrangement in mid-June 2010."

**IMF EXTERNAL RELATIONS DEPARTMENT**

Public Affairs

Media Relations

Phone: 202-623-7300

Phone: 202-623-7100

Fax: 202-623-6278

Fax: 202-623-6772