**International Monetary Fund**

# **Guatemala:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Guatemala and the IMF

**Press Release**:
IMF Executive Board Approves US$935 Million Stand-By Arrangement for Guatemala
April 23, 2009

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April 13, 2009

Guatemala City, April 13, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. Guatemala's economy has performed well in recent years. Sound macroeconomic policies and structural reforms have delivered high economic growth, a declining public debt-to-GDP ratio, and a stable external position, with international reserves rising to comfortable levels. Apart from a period of sharp increases in commodity prices, inflation has been low and stable. The global financial turmoil and the ensuing global recession, however, have tightened external financing conditions considerably, and our open economy has started to feel their impact. Against this backdrop, the Government of Guatemala is determined to continue implementing sustainable macroeconomic policies to safeguard macroeconomic and financial stability, while pursuing an agenda of reforms to achieve sustained high growth and poverty reduction over the medium term.

2. The attached Memorandum of Economic and Financial Policies (MEFP) presents the plans and policies of the authorities of Guatemala for 2009 and 2010. In support of this economic program, Guatemala requests a Stand-By Arrangement (SBA) from the International Monetary Fund totaling SDR 630.6 million (300 percent of quota), covering the period through October 21, 2010. Our intention is to treat the arrangement as precautionary. We expect that the SBA would support our commitment to continued sound macroeconomic policies, anchor investor confidence, and provide a larger liquidity cushion to face the downside risks in the global environment, if they were to materialize. The program summarizes the government's announced policies and thus benefits from strong ownership and political support.

3. We believe that the policies described in the attached MEFP are sufficient to meet the objectives of our program, and stand ready to take additional measures that may be needed for this purpose. In this respect, we will maintain a close and proactive policy dialogue with the Fund, in accordance with Fund policies on such consultations. We will continue our close dialogue with IMF staff on our economic policies after the expiration of the arrangement, for as long as there are any outstanding purchases in the upper credit tranches. During the program, we will continue to comply with all obligations of Article VIII of the IMF's Articles of Agreement.

4. Program implementation will be monitored through quarterly reviews, with the first review to be completed on or after September 15, 2009 and the second review on or after

December 15, 2009. The phasing of access, performance criteria, and structural benchmarks under the program are set out in Tables 1–3 of the MEFP.

5. We authorize the IMF to publish this Letter of Intent and its attachments, and the related staff report.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| Juan Alberto Fuentes Knight<br>Minister of Finance | Maria Antonieta del Cid Navas de Bonilla<br>President, Central Bank of Guatemala |

Attachments

## Guatemala—Memorandum of Economic and Financial Policies for 2009–2010

1. **Over the past several years, Guatemala has made progress in consolidating macroeconomic stability and in implementing important structural reforms**. Reflecting this progress and favorable external conditions, the economy has been expanding at rates above historical records, averaging 4¾ percent in 2005–08. This outcome was attained without a deterioration of the underlying external and fiscal positions.

2. **Volatile external conditions, however, are having a strong impact on the Guatemalan economy**. Up until mid-2008, higher commodity prices put upward pressure on inflation and the external current account deficit. We reacted timely, tightening monetary conditions, enhancing exchange rate flexibility, and strengthening the social safety net, while maintaining a prudent fiscal stance. The global economic and financial crisis, however, is now changing the scenario significantly, and our economy has started to feel its impact, through a deceleration of economic activity and tightening of domestic financial conditions.

3. **The Guatemalan economy is well prepared to face the adverse external outlook**. As the global slowdown is likely to be protracted and significant downside risks still remain, we are adjusting our policies to minimize the domestic effects of the external shock and to be better prepared in case downside risks materialize. At the same time, we remain committed to addressing the medium-term development challenges facing Guatemala, and we will implement necessary reforms to ensure sustainable medium-term growth, continued progress in reducing poverty, and protection of the neediest.

### I. Program Objectives and Strategy

4. **Our program aims at safeguarding macroeconomic and financial stability.** The deterioration in the global economic and financial environment will affect the Guatemalan economy through three main channels: a lower external demand for our exports combined with a decline in export prices, a decline in remittances, and a significant slowdown of private capital inflows. Despite the rapid decline in oil prices, which should provide important relief to the external current account, these three factors are likely to require real and financial adjustments. Our policies aim at minimizing the cost of economic adjustment while preserving financial stability and confidence in the policy framework. By implementing these policies, we aim at maintaining growth in a range between 1 and 2 percent in 2009 and 1.7–2.7 percent in 2010.

5. **Our strategy is based on the following key pillars**: (i) a moderate countercyclical fiscal policy to support domestic demand, financed largely through external resources to minimize crowding out the private sector; (ii) a monetary policy focused on reducing inflation and a flexible exchange rate to facilitate economic adjustment; and (iii) financial sector policies aimed at (a) strengthening bank regulation and supervision to increase the resilience of the banking system; and (b) enhancing the banking sector safety net and the effectiveness of bank resolution procedures. These macro-financial policies will be complemented with a

refocusing of public expenditures to expand the social safety net and undertake labor-intensive public works. Over the medium term, we remain committed to increasing economic integration at the regional and global levels as a way to ensure efficient resource allocation and encourage growth.

## II. Macrofinancial Policies

### A. Fiscal Policy

6. **Guatemala's strong fiscal position provides space for a countercyclical fiscal policy**. Prudent fiscal policy has been a key feature of Guatemalan economic policy, with the central government deficit averaging 1.8 percent of GDP in 2004–08. As a result, Guatemala boasts the lowest public debt level in the region, 21 percent of GDP. We seek to maintain the sustainability of fiscal policy over the medium term, protecting the room for maneuver of fiscal policy in the face of shocks.

7. **Accordingly, a moderate fiscal impulse in 2009–10 is envisaged to prevent an excessive decline of domestic demand**. Public expenditure will increase by 0.4 percent of GDP with respect to 2008, to 14.1 percent of GDP, to help offset the expected retrenchment of private consumption and investment. To maximize the impact on aggregate demand, the increase in public expenditure is focused on labor-intensive public works and social spending targeted to poor households (section II) with a large propensity to consume. Tax collections are expected to decrease in the short term, by about 0.8 percent of GDP with respect to 2008, due to a decline in imports (VAT on imports and customs duties account for about 40 percent of tax collections) and a decline in oil royalties related to lower oil prices and a secular reduction in production. As a result, the fiscal deficit of the central government could increase to 2.8 percent of GDP in 2009 and then decline to 2.6 percent of GDP in 2010. The deficit of the consolidated public sector, in turn, could reach 2.4 percent of GDP in 2009 and 2.2 percent in 2010. The envisaged gradual recovery of tax collections over the medium term and the maintenance of the expenditure to GDP ratio would yield sustainable debt dynamics, anchoring public debt at a safe level.

8. **The larger deficits in 2009–10 will be financed mainly by external sources, mostly multilateral institutions.** We have secured new loans for almost US$1 billion from the World Bank and the IDB, which would allow us to meet this objective. Our domestic financing strategy envisages net domestic debt placements of 1 percent of GDP in 2009 and of 0.6 percent of GDP in 2010, and a drawdown of deposits accumulated at the Central Bank of 0.1 percent of GDP in 2009 and 0.4 percent of GDP in 2010. We aim to conduct our financing policy with the objective of prefinancing spending, building liquidity cushions in the meantime. We will not incur external arrears at any time during the program period.

9. **In the event economic developments require an adjustment of fiscal policy, our priority will be to protect social spending**. The room for maneuver of our fiscal policy is not unlimited, and if downside risks materialize, we may need to adjust fiscal policy to maintain confidence. If tax collections come in lower than projected, we expect to finance up to 0.2 percent of GDP with additional external financing to avoid compressing expenditures

in 2009. In the context of program reviews, we will analyze the need for compensatory measures, granting priority to social protection and labor-intensive public works.

10. **Tax policy measures are being discussed to strengthen the revenue base, allowing for a sustainable expansion of government spending**. Despite an increase of about 3 percent of GDP over the last 10 years, the tax ratio remains among the lowest in the region. We have reduced downside risks to tax collections by establishing the Solidarity tax, which replaces the temporary IETAAP as a minimum tax on income of individuals and corporations. Congress is considering a reform to indirect taxation that includes a new tax on the registration of vehicles, a graduated increase in the tax rate on vehicles in circulation, and legislation to strengthen tax administration. This legislation has been presented to Congress and it is expected to yield 0.2 percent of GDP annually once approved.

11. **In the short term, the tax authority, SAT, will continue implementing its medium-term plan to achieve a consistent decline of tax evasion rates**. Starting in 2009, SAT will complement its Annual Operations Plan with stronger and wider actions against tax evasion and smuggling. These additional efforts will help reduce the projected fall in tax collection, with an expected impact of 0.2 percent of GDP in 2009 and 2010. The main actions envisaged by SAT include: (i) stricter control of VAT tax exemptions (ExenIVA) and of workers' income tax withholdings (RetenISR); (ii) intensive crosscheck of VAT and income tax returns data; (iii) stricter control of VAT credit reimbursements to exporters; (iv) effective control of certain activities like sports clubs, cattle owners, transport, and exporters; (v) coordination and intensification of actions against smuggling through the Inter-institutional Commission for Smuggling and Customs Fraud Prevention and Fight (which includes the Army and police forces, and tax administration, health, and prosecution authorities); (vi) technological improvements for container transit control through the compulsory use of new state of the art GPS device (GPSAT); and (vii) control of vehicle circulation taxes.

12. **A number of measures to continue increasing the transparency of public spending have been introduced, in the context of the 2009 budget and as part of the overall policy program under the coordination of the Transparency Commission, headed by the Guatemalan Vice-President**.

- We have created the Vice-ministry for Fiscal Transparency and Evaluation at the Ministry of Finance. The vice-ministry will promote transparency by setting new policies and developing a map of corruption risks in the public sector.
- We are setting stricter conditions for the use of trust funds for expenditure management, and introducing reporting requirements by decentralized units and trust funds before budgetary transfers are approved.
- We have reduced the number of activities and entities exempted from the use of GUATECOMPRAS (online public procurement system), and have augmented the information required to be submitted to this system to increase transparency.

- We will improve the coordination between the Ministry of Finance, the Planning Secretary, and the Ministry of Communications, Infrastructure, and Housing in the preparation of the capital expenditure budget and its monitoring, aiming at expanding the coverage of the National Public Investment System to include all investment projects being executed with public resources.
- To better assess and conduct fiscal policy we will elaborate above-the-line consolidated general government accounts with technical assistance from the IMF.

B. Monetary and Exchange Rate Policies

13. **Monetary policy will focus on achieving a gradual reduction of inflation, toward a medium-term target of 4 percent, with a tolerance margin of +/- 1 percent.** We remain committed to strengthening the inflation-targeting regime, which we judge appropriate for Guatemala. The transmission of policy decisions to overall monetary conditions, and thus to aggregate demand, has been strengthening in recent times, especially as commercial bank rates have been more responsive to changes in the short-term policy rate. We have made important progress developing models to forecast inflation and plan to introduce further refinements, such as the effects on inflation of external commodity prices, exchange rate movements, and fiscal impulses.

14. **For 2009, the Monetary Board has targeted a decline of inflation to 5½ percent, with a tolerance margin of +/- 1 percent**. In light of the downside risks to inflation and economic activity, the Monetary Board has started an easing cycle reducing the policy interest rate; in the future, the rate will be managed as needed to meet the inflation target. If inflation were to deviate from its expected path beyond the established band in the program (+/- 2 percent), we would discuss with the IMF on the policy response.

15. **Efforts will continue to develop secondary markets for central bank and government paper**. More liquid and deeper secondary markets will improve price signals, help better guide policy decisions, and enhance the policy transmission mechanism. In this regard, we have started the dematerialization of debt instruments, the standardization of their maturities, a reduction in the number of weekly auctions, and an increase in the number of market participants allowed to bid in such auctions. Supported by technical assistance from the IMF and the U.S. Treasury, we are preparing further measures.

16. **Consistent with our monetary policy framework, we have allowed greater exchange rate flexibility to facilitate economic adjustment to shocks**. To this end, we have amended the foreign-exchange intervention rule to set symmetric and limited intervention. While fully committed to a rule-based approach, the central bank stands ready to prevent excessive and disruptive volatility in the foreign exchange market. To maintain an appropriate external liquidity cushion, the program sets a floor on net international reserves.

## C. Financial Sector Policies

17. **Our financial sector features very moderate exposure to the sources of the global financial crisis**. The participation of foreign banks is limited and our banks have not invested in high-risk instruments related to the U.S. mortgage market. Moreover, our financial system underwent a significant consolidation process in the aftermath of two bank failures in late 2006 and early 2007, with weaker institutions being absorbed by more solid ones. Thus, the banking system is better capitalized, liquidity remains adequate, and profitability has been maintained at healthy levels.

**18. However, we have introduced preemptively a number of measures to reduce risks arising from the global downturn**:

- ***Continuous and enhanced on-site supervision*** has been put in place since June 2008, to identify risks earlier, facilitate discussions of developments and contingency plans with banks' Boards of Directors, and allow rapid enforcement of corrective actions.

- ***Temporary and limited measures to ensure adequate banking sector liquidity*** have been introduced by the central bank. Banks have been allowed to make limited use of liquid assets (other than deposits at the central bank) to meet reserve requirements until March 2009, thus allowing a relaxation of reserve requirements from 14 percent to about 13 percent. In addition, the central bank introduced reverse repos to provide liquidity in dollars, to address concerns about cuts in external credit lines. The overall assistance, in place until May 30, 2009 is limited to $290 million (about 15 percent of the stock of external credit lines). These facilities could be rolled over or expanded within prudent limits, if needed.

- ***Stronger capital cushions*** *are being built. Provisioning requirements* have been revamped, to ensure that by mid-2011 all nonperforming loans are fully provisioned. This gradual approach is justified by the need to avoid undue procyclicality in the requirements, while strengthening banks' capital adequacy. In addition, we have injected new capital to Banco de Crédito Hipotecario Nacional to restore its capital adequacy.

19. **Building on this progress, we will further strengthen the regulatory framework to ensure adequate risk-management and continue improving supervision**. We will introduce regulatory changes to ensure that banks strengthen liquidity management through the use of liquidity gap measurement and that credit risk arising from borrowers' foreign-currency exposures are properly internalized through higher provisions or capital requirements (the timing of these changes will be set at the time of the first program review). We will also aim to improve consolidated supervision of regional financial groups, including through closer coordination with foreign supervisors, and further develop our stress-testing methodologies.

20. **A key element of our strategy is to introduce changes to our banking legislation in order to strengthen regulation and supervision and enhance the current bank resolution framework**. To this end, we plan to submit amendments to the banking legislation

in the first half of 2009. Based on the lessons from our past experience and key recommendations from IMF technical assistance, the amendments to the law will aim to reduce connected lending, reduce risks from offshore operations, and strengthen enforcement powers of the Superintendency of Banks. Also, we will seek to improve the bank resolution framework to increase the strength, effectiveness, and flexibility of resolution tools, on the basis of strict and transparent principles. Envisaged reforms include the expansion of the central bank's lender-of-last-resort function and higher deposit insurance premia.

**21. We will continue making progress with the recovery of failed-bank assets and in implementing our anti-money laundering strategy**. Assets under recovery after the failure of Bancafe have been sufficient to cover all the liabilities assumed by private banks in its resolution, and the deposit insurance fund (FOPA) has started to recover part of its contribution to that resolution. While it is unlikely that remaining assets will be enough to cancel all debts with FOPA, we plan to accelerate asset disposal in the coming months. Anti-money laundering policy implementation has been strengthened with the enlargement of the Financial Intelligence Unit within the superintendency of banks, and more controls in a number of activities, including cash transactions, large remittances, and gaming. Soon, control procedures will be established for other activities, including real estate.

## III. Protecting the Poor and Encouraging Medium-Term Growth

22. **Our social protection policy aims at enhancing current programs to offset the effect of the crisis on the neediest**. We have a strong commitment to safeguard the individuals' access to economic opportunities ensuring the minimum requirements for human development. Thus, securing nutrition, health, and basic education are pillars of our strategy. Social expenditure is expected to reach 5 percent of GDP in 2009, up from 4.7 percent of GDP on average in 2005–2008. To attend to extreme poverty, the emphasis will be put on a new government program of conditional cash transfers, whose progress will be monitored closely to assess their impact. The program, *Mi familia progresa,* aims at securing that poor children attend school and visit health centers regularly. The program, initiated in 2008, covers 281,000 families. In 2009, the program will be expanded to reach 500,000 families and its budget is expected to reach about US$150 million. Other important social programs include *Bolsa solidaria*; *Escuelas abiertas*; and *Comedores Solidarios*, with a budget of around US$7 million in 2009.

**23. Sustained growth and significant poverty reduction require enhancing productivity and raising investment.** Long-term growth has been low and insufficient to reduce poverty, which declined only moderately in recent years and remains high at 51 percent.

**24. In order to raise productivity and investment, a number of efforts are required**. Assessments of the business environment conclude that, to facilitate the development of private sector activity, there is a need to improve health and education so as to increase the productivity of the labor force, combat crime, and reduce the cost of energy. We are addressing these issues while continuing with our strategy to increase openness and reduce the cost of doing business. The main policies that are being undertaken include:

- Deepening Economic Integration, including progress in the implementation of a Central American Customs Unions, beginning with El Salvador, and advancing with the negotiation of an association agreement with the European Union. We expect that free trade agreements with Colombia and Panama will take effect in 2009. We also expect Congress to consider the ratification of Free Trade Agreements with Chile, already signed.

- Developing infrastructure. We are working with Congress to enact a law on public-private partnerships (Alianzas para el Desarrollo) to overcome capacity constraints in the public sector while ensuring sound management of fiscal contingencies.

- Improving access to finance. We have implemented the new law on movable collateral, with the opening of the public registry of loans with such guarantees.

- Combating crime. The fight against fraud, money laundering, and contraband will require a coordinated effort by various ministries, SAT, and the Superintendency of Banks.

- Improving the framework for creditors' rights and insolvency proceedings. Current mechanisms are long and inefficient and these weaknesses are widely acknowledged. Since addressing them involves complex legal issues, including constitutional provisions, we will set up a high-level commission with participation of private sector and legal experts to explore solutions. We expect to have the support of multilateral institutions in this endeavor.

## IV. Safeguards Assessment

25. **We recognize the importance of completing an updated safeguards assessment of the central bank of Guatemala before the first review of the Stand-By Arrangement**. To facilitate this, we have authorized the central bank's external auditors to provide IMF staff with all necessary information and to hold discussions directly with IMF staff. We also commit to receiving a safeguards mission and to providing that mission with all necessary information without delay.

## V. Program Monitoring

26. **Progress in the implementation of policies under this program will be monitored quarterly through quantitative performance criteria and indicative targets, an inflation consultation clause, and structural benchmarks**. The phasing of access under the arrangement and the review schedule are set out in Table 1. The quantitative performance criteria, indicative targets, and parameters of the inflation consultation clause are set out in Table 2. Structural benchmarks are presented in Table 3. Program conditionality is further specified in the accompanying TMU.

Table 1. Guatemala: Purchase Schedule and Terms Under the Stand-By Arrangement

| Date | Conditions for purchase | Purchase: Million SDR | Million US$ 1/ | Percent of Quota | Percent of Total Access |
|---|---|---|---|---|---|
| April 22, 2009 | Board approval of the SBA | 420.40 | 634.27 | 200.00 | 66.67 |
| September 15, 2009 | First review, based on end-June 2009 performance criteria | 42.04 | 63.43 | 20.00 | 6.67 |
| December 15, 2009 | Second review, based on end-September 2009 performance criteria | 42.04 | 63.43 | 20.00 | 6.67 |
| March 15, 2010 | Third review, based on end-December 2009 performance criteria | 42.04 | 63.43 | 20.00 | 6.67 |
| June 15, 2010 | Fourth review, based on end-March 2010 performance criteria | 42.04 | 63.43 | 20.00 | 6.67 |
| September 15, 2010 | Fifth review, based on end-June 2010 performance criteria | 42.04 | 63.43 | 20.00 | 6.67 |
| Total | | 630.60 | 951.40 | 300.00 | 100.00 |

Source: Fund staff estimates.

1/ US$/SDR exchange rate of 0.662813 as of March 26, 2009.

Table 2. Guatemala: Quantitative Performance Criteria, Indicative Targets, and Consultation Clause

| | 2009 | | | 2010 |
|---|---|---|---|---|
| | end-June | end-Sept | end-Dec | end-Dec |
| **Performance Criteria** (for end-June and end-Sept 2009; indicative targets otherwise) | | | | |
| Overall balance of the central government, floor (millions of Q) 1/ | -3,075 | -6,946 | -8,720 | -8,742 |
| Net International Reserves, floor (millions of US$) | 4,400 | 4,200 | 4,000 | 4,000 |
| Accumulation of external arrears 2/ | 0 | 0 | 0 | 0 |
| **Indicative Targets** | | | | |
| Central Government Deposits at Central Bank, floor (millions of Q) | 10,899 | 7,695 | 7,642 | 6,290 |
| **Consultation Clause on inflation 3/** | | | | |
| Outer band, upper limit 4/ | 7.5 | 7.5 | 8.5 | 8.0 |
| Inner band, upper limit 5/ | 6.5 | 6.5 | 7.5 | 7.0 |
| Inner band, lower limit 5/ | 2.5 | 2.5 | 3.5 | 3.0 |
| Outer band, lower limit 4/ | 1.5 | 1.5 | 2.5 | 2.0 |

1/ Cumulative from end of preceding year.

2/ Continuous performance criterion.

3/ Deviations outside the inner and outer bands' limits for inflation will trigger consultations with the Fund, as set out in the TMU

4/ Band of +/- 3 percent around central inflation point.

5/ Band of +/- 2 percent around central inflation point.

Table 3. Guatemala: Structural Benchmarks

| | Test Date |
|---|---|
| Submission of amendments to Banking Law to Congress | end- June 2009 |
| Elaboration of draft regulations on bank's liquidity management | end- December 2009 |
| Elaboration of draft regulations on bank's foreign currency credit risk | end- December 2009 |

## Guatemala—Technical Memorandum of Understanding

1. **This technical memorandum of understanding (TMU) further describes the understandings** reached between the authorities of Guatemala and IMF staff for the monitoring of performance during the requested 18-month Stand-By Arrangement. The TMU describes the quarterly quantitative performance criteria and corresponding adjusters, the indicative target, the consultation clause on inflation, and reporting requirements.

### I. Quantitative Performance Criteria

#### A. Overall Balance of the Central Government

2. **The overall balance of the central government is measured on an accrual basis from above the line**. It is defined as the difference in total revenue and total expenditure as defined in Guatemala's Budget Law. The information on revenue and expenditure will be obtained from the public sector accounting system (SICOIN).

3. At the time of the reviews, the authorities and IMF staff will undertake a process of reconciliation of above-the-line and below-the-line (as defined below) measurements of the central government deficit, aiming to progressively reduce differences between them.

4. The below-the-line deficit is defined as net external financing of the central government plus net domestic financing of the central government. The net external financing of the central government is defined as (i) disbursements of external loans *plus;* (ii) proceeds from the issues of government bonds abroad *minus;* (iii) amortization payments *minus; and* (iv) debt buy-backs or any other prepayments of debt. Net domestic financing is defined as (i) the net increase in the stock of domestic central government bonds *minus* (ii) net changes in the stock of deposits of the National Treasury at the central bank and commercial banks *plus;* (iii) net changes in other liabilities of the central government, *minus; and* (iv) net changes in other assets of the central government.

5. **Adjuster**. The floor on the overall balance of the CG for 2009 has been calculated assuming net external financing totaling US$637 million (Q5093 million at an exchange rate of Q8 per dollar). If net external financing exceeds that level, the floor will be adjusted downwards by up to US$100 million (Q 800 million).

#### B. Net International Reserves (NIR) of the Central Bank

6. **For the purpose of the program, the stock of NIR of the Central Bank is defined as** the difference between the U.S. dollar value of gross liquid foreign assets, and short-term foreign liabilities as defined below.

7. **The definition of gross foreign assets and net foreign assets should be consistent with** the Data Template on International Reserves and Foreign Currency Liquidity and the fifth edition of the Balance of Payments Manual (BPM5).

- **Gross reserve assets** include monetary gold, holdings of SDRs, any reserve position in the Fund, and holdings of foreign exchange in convertible currencies. Excluded from gross reserve assets are capital participation in IFIs, any assets in nonconvertible currencies, holdings of precious metals other than monetary gold, encumbered reserve assets, reserve assets pledged as collateral for foreign loans, reserve assets pledged through forward contracts, and illiquid assets.

- **Short-term foreign liabilities** of the central bank are defined as the sum of (i) all foreign currency-denominated liabilities of the central bank with an original maturity of one year or less; (ii) liabilities to the Fund; (iii) any foreign currency liabilities of the central bank to residents, including financial institutions; and (iv) any short-term liability converted into a medium-term liability during the program period.

- As per these definitions, on March 23, 2009, gross foreign assets of the central bank stood at US$5046 million and NIR stood at US$4781 million.

### C. Non accumulation of External Arrears

8. **Guatemala will maintain its stated policy of not incurring external payment arrears**. This performance criterion applies on a continuous basis. For the purposes of this performance criterion, an external debt payment arrear will be defined as a payment by the central government, which has not been made within seven days after falling due under the contractual agreement, unless specified otherwise.

## II. Indicative Target

9. **Central Government deposits at the Bank of Guatemala are defined as** all the account balances of the central government held at the Bank of Guatemala, currently under the summary account 22106001.[1]

## III. Consultation Clause

[1] The authorities will inform IMF staff in case the account number of the central government at the Bank of Guatemala changed or other accounts had to be taken into consideration for the purpose of assessing compliance with the indicative targets established in the program.

10. **Reflecting the Bank of Guatemala's inflation targeting approach to monetary policy**, quarterly consultation bands of +/– 2 percentage points (inner band) and +/– 3 percentage points (outer band) are established around the projected 12-month rate of inflation in consumer prices (MEFP Table 2). Inflation will be measured by the 12-month rate of change of the headline consumer price index (IPC - *Indice de precios al consumidor*), as published by the National Statistics Institute (INE).

11. Should the 12-month rate of IPC inflation fall outside the inner band specified above, the authorities will discuss with Fund staff on the policy response. Should the 12-month rate of IPC inflation exceed the upper limit of the outer band specified above, the authorities will also consult with the IMF Executive Board prior to resuming their purchases.

## IV. Reporting requirements

**12. The authorities will provide the necessary information to the Fund staff** to monitor the program in an adequate manner, in particular as it refers to the following specific daily, weekly, and monthly data with a delay not exceeding the indicated lag. The Bank of Guatemala and the Ministry of Finance will send the information by e-mail, or by fax if electronic delivery is impossible.

13. **In addition, timely information will be provided to the Fund on economic and financial measures taken by the government**, as well as changes in legislation including regulations approved by the Central Bank of Guatemala, the Ministry of Finance, the superintendency of banks, the SAT, and other key economic agencies.

14. **A daily electronic mail** will be sent with a lag of no more than 2 working days unless otherwise agreed, and will contain:

(i) The level of gross international reserves and net international reserves, including short-term foreign currency liabilities.

(ii) The stock of currency issued .

(iii) The deposits of the central government and the rest of the nonfinancial public sector in the Bank of Guatemala.

(iv) The exchange rate of the quetzal vis-à-vis the U.S. dollar.

(v) Amount of the central bank intervention in the FOREX market.

(vi) Principal accounts of the balance sheet of the central bank

15. **The weekly information** will be sent with a lag of no more than one week, and will contain:

(i) Daily buying and selling exchange rates in the interbank foreign exchange markets.

(ii) Placements and amortization of certificates of open market operations by maturity, interest rate and holder (nonfinancial private sector, financial sector, nonfinancial public sector).

(iii) Commercial banks' average deposit and loan interest rates in domestic and foreign currencies.

(iv) Foreign currency cash flow of the central bank.

(v) Daily liquidity information (excess and required reserves) in foreign and local currency, by bank (2 week lag)

16. **Monthly information** will be sent with a lag of no more than 4 weeks and will contain, unless otherwise specified:

(i) Main monthly accounts of the commercial and development banks, including their offshore operations.

(ii) Monthly accounts of the central bank.

(iii) Monthly consumer price index (2 week lag)

(iv) Analysis of inflationary developments

(v) Updated inflation projections by the Bank of Guatemala

(vi) Main economic and financial laws, and related monetary board regulations

17. **The Ministry of Finance will send every month by e-mail the following information:**

(i) Total central government revenue measured on a cash basis, and divided between tax revenue and nontax revenue, transfers and grants as on the form the authorities have been supplying IMF staff with in the recent past. Tax revenue will be divided between direct taxes (income tax, oil royalties, ISO, other) and indirect taxes (domestic VAT, VAT on imports, excise taxes on oil, alcohol and beverages, stamp taxes, vehicle taxes, import taxes, other taxes) (finalized revenues will be sent with a lag of no more than 3 weeks).

(ii) Total government expenditure measured both on an accrual basis and a cash basis, and divided between current and capital expenditure. Current expenditure will be divided between expenditure in wages and salaries, goods and services, external and internal debt interest payments, and transfers. Capital expenditure will be divided between direct investment and capital transfers.

(iii) Total government social expenditure, defined as expenditure in education, science and culture; health care and social assistance; and housing, including information on key social programs such as Mi Familia Progresa.

(iv) External financing of the central government, including disbursements and amortizations of external loans and bonded debt placed with nonresidents, as well as any variation of external arrears.

(v) Domestic financing of the central government, including variation of the National Treasury deposits in the Bank of Guatemala and commercial banks, as well as bonded debt placed with residents and any variation of arrears with domestic debt holders.