



# GUATEMALA

September 2025

## 2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUATEMALA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Guatemala, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 5, 2025 consideration of the staff report that concluded the Article IV consultation with Guatemala.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 5, 2025, following discussions that ended on June 20, 2025 with the officials of Guatemala on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 31, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Guatemala.

The document listed below will be separately released.

Selected Issues

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2025 Article IV Consultation with Guatemala

FOR IMMEDIATE RELEASE

**Washington, DC – September 8, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Guatemala.<sup>1</sup> The authorities have consented to the publication of the Staff Report prepared for this consultation.<sup>2</sup>

Thanks to prudent macroeconomic management, Guatemala has maintained a resilient economy, achieved low inflation, ample policy buffers and, for the last few years, a positive current account; all these factors have contributed to increasingly favorable market access. However, reforms are needed to shift the country into a high investment/high growth equilibrium and to meaningfully reduce poverty.

The macroeconomic outlook remains strong, though there is elevated uncertainty related to changing trade and migration policies abroad. Economic growth is expected to hold at 3.8 percent in 2025, with the sizeable fiscal impulse offsetting the softening in private demand.

External headwinds are expected to keep growth around 3.5 percent in 2026–27, while in later years, growth could converge to 4 percent owing to infrastructure investments and ongoing reforms, including to improve governance and quality of public spending. Inflation is projected to gradually return to the monetary policy target (4 percent  $\pm$  1 percentage point). Fiscal deficits of about 3 percent of GDP are expected to persist in the medium term, leading to public debt reaching 30 percent of GDP by the end of the projection period.

The balance of risks is tilted to the downside. Domestically, the political opportunities for advancing necessary reforms remain constrained. Externally, trade policy uncertainty and risks to global growth can heavily impact investment decisions, while shifts in migration policy in destination countries pose risks to remittance-supported spending. Changes in the domestic labor market on account of declining net emigration could be an opportunity, but also pose challenges. Guatemala also remains vulnerable to severe weather events.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> Option 1: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the [www.imf.org/Guatemala](http://www.imf.org/Guatemala) page.

*Option 2:* Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent.

*Option 3:* Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have requested additional time to decide on the publication of the staff report. A final decision is expected not later than 28 days from the Board consideration date.

*Option 4 (opt-outs):* Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have not yet communicated their decision on the publication of the staff report.

### Executive Board Assessment<sup>3</sup>

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' prudent macroeconomic policies, which have delivered low inflation and robust policy buffers. They noted that Guatemala's economy remains resilient and generally well positioned to face external shocks and domestic challenges. Nonetheless, Directors stressed that maintaining growth momentum and achieving sustainable and inclusive growth in the medium term will require determined implementation of reforms including better-quality public spending and continued improvements in governance and the business climate.

Directors generally considered the 2025 expansionary fiscal stance appropriate given softening private demand. Over the medium term, reverting fiscal deficits to historical averages of around 2 percent of GDP would be warranted. In this regard, revenue and expenditure reforms will be essential for maintaining fiscal sustainability while accommodating higher infrastructure and social spending. In particular, Directors highlighted the need to strengthen revenue mobilization, improve the targeting of social programs and the efficiency of public spending, enhance budget planning and execution, and strengthen public financial management. Directors also encouraged increasing reliance on domestic funding, anchored in a credible medium-term debt management strategy.

Directors considered the current monetary policy stance and Banguat's response to large remittance inflows—guided by an intervention rule—to be broadly appropriate. They encouraged the authorities to continue strengthening monetary policy transmission. They emphasized the importance of improving policy coordination between Banguat and the Ministry of Finance, particularly to alleviate sizable sterilization costs, and supported continued efforts to enhance exchange rate flexibility in a well-communicated manner.

Directors acknowledged the resilience of the financial system and commended the authorities' efforts to strengthen banking regulation and supervision. They underscored the importance of further expanding risk-based supervision, further developing the macroprudential toolkit, and enhancing oversight of fintech and digital financial services. Directors encouraged the authorities to prioritize revising the 2002 Law on Banks and Financial Groups, completing the transition to International Financial Reporting Standards, advancing the draft Secondary Market Law, approving the e-money law, and implementing the financial inclusion strategy.

Directors emphasized the critical need to enhance governance and advance structural reforms to foster inclusive growth. They urged the authorities to prioritize the adoption of new laws, including an AML/CFT Law, a Beneficial Ownership Law, a Public Procurement Law, and a Law for the Protection of Whistleblowers. Directors commended the authorities for addressing corruption risks in municipal investment projects administered by Department Development Councils (CODEDEs) but stressed the need for stronger oversight and capacity-building for CODEDEs. They encouraged consolidating institutional gains through a medium-term anti-corruption strategy. Continued efforts to formalize the economy and improve the business climate will also be important.

It is expected that the next Article IV consultation with Guatemala will be held on the standard 12-month cycle.

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<sup>3</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: [www.IMF.org/external/np/sec/misc/qualifiers.htm](http://www.IMF.org/external/np/sec/misc/qualifiers.htm).

**Table. Guatemala: Selected Economic and Social Indicators**

<b>I. Social and Demographic Indicators</b>									
Population 2024 (millions)	17.9								
Percentage of indigenous population (2018)	43.7								
Population below the poverty line (Percent, 2023)	55.1								
Rank in UNDP development index (2022; of 189)	136								
<b>II. Economic Indicators</b>									
	2022	2023	2024	Projections					
				2025	2026	2027	2028	2029	2030
<b>Income and Prices</b>				(Annual percent change, unless otherwise indicated)					
Real GDP	4.2	3.5	3.7	3.8	3.6	3.6	3.7	3.8	3.9
Consumer prices (average)	6.9	6.2	2.9	2.2	3.9	4.0	4.0	4.0	4.0
Consumer prices (end of period)	9.2	4.2	1.7	3.2	4.0	4.0	4.0	4.0	4.0
GDP Deflator (index)	130.1	138.6	143.6	146.8	152.6	158.8	165.2	171.8	178.7
GDP Deflator (yoy change)	6.4	6.5	3.7	2.2	4.0	4.0	4.0	4.0	4.0
<b>Monetary Sector</b>									
M2	11.1	6.8	7.8	9.3	7.9	7.4	7.0	6.7	6.4
Credit to the private sector	15.8	14.9	12.3	11.0	10.5	9.7	8.9	8.3	8.1
<b>Saving and Investment</b>				(In percent of GDP, unless otherwise indicated)					
Gross domestic investment	16.6	16.5	16.7	16.5	16.8	16.9	16.9	17.1	17.3
Private sector	15.0	14.6	15.2	14.6	14.7	14.8	14.9	15.1	15.3
Public sector	1.6	1.9	1.5	2.0	2.1	2.1	2.0	2.0	2.0
Gross national saving	17.7	19.6	19.6	19.5	19.0	18.5	17.9	17.6	17.3
Private sector	17.1	18.4	18.1	19.4	19.0	18.6	18.0	17.7	17.5
Public sector	0.7	1.2	1.5	0.1	0.0	-0.1	-0.1	-0.1	-0.2
External saving	-1.2	-3.1	-2.9	-2.9	-2.2	-1.6	-1.0	-0.5	-0.1
<b>External Sector</b>									
Current account balance	1.2	3.1	2.9	2.9	2.2	1.6	1.0	0.5	0.1
Trade balance (goods)	-15.0	-13.8	-14.0	-14.2	-14.1	-13.8	-13.6	-13.3	-13.0
Exports	14.9	12.5	11.8	11.0	10.5	10.5	10.5	10.7	10.9
Imports	29.9	26.3	25.7	25.2	24.6	24.3	24.1	24.0	23.8
Trade balance (services)	-1.6	-1.3	-1.6	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5
Other (net)	17.7	18.1	18.5	18.8	18.0	17.1	16.2	15.3	14.5
of which: remittances	18.8	19.0	19.0	19.4	18.5	17.6	16.7	15.9	15.1
Financial and capital accounts balance (Net lending (+))	0.5	2.7	2.5	2.9	2.2	1.6	1.0	0.5	0.1
of which: FDI (net)	-0.8	-1.0	-0.9	-0.7	-0.7	-0.8	-0.9	-0.9	-1.0
Errors and omissions	-0.7	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (Increase (+))	0.0	0.9	2.6	2.7	0.5	0.4	0.3	0.3	0.2
<b>Net International Reserves</b>									
Stock in months of next-year NFGS imports	6.8	6.7	7.4	8.1	7.8	7.4	7.0	6.6	...
Stock over short-term debt on residual maturity	4.1	4.8	5.1	5.1	5.5	5.3	5.7	6.3	...
NIR as % of ARA metric	157.9	162.9	174.9	187.1	180.9	172.1	165.7	159.4	152.8
Gross international reserves (US\$ billions)	20.0	21.3	24.4	27.7	28.4	28.9	29.4	29.9	30.3
<b>Public Finances (Central Government)</b>									
Revenues	12.6	12.5	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Expenditures	14.3	13.7	13.4	15.0	15.1	15.3	15.2	15.2	15.2
Current	11.8	11.2	11.0	11.8	11.7	11.9	11.9	12.0	12.0
Capital	2.5	2.5	2.4	3.2	3.4	3.4	3.3	3.2	3.2
Primary balance	0.0	0.4	0.7	-0.9	-1.1	-1.2	-1.1	-1.0	-1.0
Overall balance	-1.7	-1.3	-1.0	-2.6	-2.8	-2.9	-2.8	-2.8	-2.8
Financing of the central government balance	1.7	1.3	1.0	2.6	2.8	2.9	2.8	2.8	2.8
Net external financing	0.0	1.3	1.0	1.4	1.3	1.4	0.9	1.0	1.2
Net domestic financing	1.7	-0.1	0.0	1.2	1.4	1.5	1.9	1.7	1.7
<b>Central Government Debt</b>	29.0	27.2	26.3	27.2	27.7	28.6	29.3	29.9	30.5
External	11.8	11.9	11.9	12.6	13.0	13.5	13.4	13.4	13.6
Domestic <sup>1</sup>	17.2	15.3	14.5	14.6	14.7	15.1	16.0	16.5	17.0
<b>Memorandum Items:</b>									
GDP (US\$ billions)	95.6	104.4	113.2	120.9	130.2	140.3	151.3	163.3	176.4
Volume of exports and services (annual percentage change)	7.5	-2.4	2.2	2.0	5.0	7.8	8.1	8.7	9.0
Volume of imports and services (annual percentage change)	4.9	5.4	9.0	5.4	6.0	6.2	6.3	6.4	6.5
Output gap (% of GDP)	0.1	0.1	0.2	0.4	0.4	0.3	0.1	0.0	0.0
Terms of trade (annual percentage change)	-6.5	6.1	2.8	-1.2	-1.1	-0.6	-0.7	-0.1	0.0

Source: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.

<sup>1</sup> Does not include recapitalization of obligations to the central bank.



# GUATEMALA

July 31, 2025

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

### KEY ISSUES

**Context.** Prudent macroeconomic management has supported a resilient economy, achieved low inflation, ample policy buffers and, for the last few years, a positive current account. Yet, more is needed to lift growth and reduce poverty. The political environment remains challenging as the standoff between the administration and the Attorney General has continued with no signs of easing, but a string of positive legislative surprises has raised near-term optimism. In a global environment marked by more restrictive trade and migration, policies will need to adapt to a new reality of changing trade patterns, lower remittances and lower net emigration.

**Outlook and Risks.** Under the baseline scenario, economic growth is expected to pick up to 3¾ percent in 2025, with the fiscal impulse expected to help cushion the effects of the softening global demand and high uncertainty. Beyond 2025, growth is projected to slightly exceed 3½ percent, while yields on the ongoing reforms could push actual and potential growth higher in the medium term. Inflation is projected to gradually return to the target. The fiscal deficit is expected to increase to 2½ of GDP in 2025, and then remain close to 3 percent of GDP in the medium term. The balance of risks is tilted to the downside. Externally, tariff developments and ensuing changes to global trade, along with shifts in migration policy in destination countries pose risks. Domestically, political and institutional challenges may delay progress in delivering on the reform agenda.

### Main Policy Recommendations

- **Fiscal Policy.** The authorities face the difficult task of undertaking a much-needed scale-up of infrastructure investment and social spending, while at the same time (i) fighting corruption, which is endemic in public procurement, and (ii) maintaining policy buffers, which are particularly needed in times of intensifying external headwinds. In the short term, it is appropriate to raise expenditure and the deficit, and also put in place measures that prevent waste of this increased spending. In the medium term, achieving sustained—and sustainable—higher infrastructure and social investment, while reverting fiscal deficits closer to historical averages (around 2 percent of GDP), requires improving expenditure efficiency through better Public Financial Management (PFM), revenue mobilization through tax administration and, eventually, tax reforms, better control of fiscal risks, and a broader mobilization of domestic financing.

- **Monetary and Exchange Rate Policy.** The monetary policy stance is broadly appropriate; the temporary pause in the loosening cycle is justified given uncertain inflationary implications of external factors. Enhanced monetary-fiscal coordination would benefit liquidity management and external rebalancing. Going forward, Banguat should finetune the monetary framework to better prepare it to deal with external shocks.
- **Financial Sector Policies.** Close monitoring of vulnerabilities and risks in the system would help preserve financial stability. The authorities should continue to implement reforms to improve regulatory and supervisory framework and reinforce institutional preparedness for possible shocks, while advancing financial inclusion and development of domestic financial market.
- **Other Policies.** Building on progress in recent years, the reform momentum needs to be stepped up to cement the authorities' anti-corruption's initiatives and advances in legislative measures. A stronger oversight of municipal investments through CODEDEs is also needed. Reducing informality would help mitigate the impact on the labor market of falling net emigration and promote private sector-led growth.

Approved By  
**Dora Iakova (WHD)**  
 and **Stefania Fabrizio**  
**(SPR)**

The discussions took place in Guatemala City during June 10-20, 2025. The team comprised Alexander Culiuc (head), Jean Frédéric Noah Ndela, Beata Jajko, Ryotaro Sawada, Gerardo Peraza (Resident Representative), and Gloria Elizabeth Alvarez Garcia (local economist). Oscar Monterroso (OED) participated in the discussions. Carolina Bloch (FAD), Marco Gross (MCM) and Andrea Paloschi (RES) contributed to the analysis. Alfredo Alvarado, Joe Ue, Giselle Ballon de Rivero and Heidi Canelas (all WHD) assisted in the preparation of the report. The mission met with the President and Vice-president of the Central Bank, the Minister of Finance, Deputy Ministers of Finance, Minister of Communications, Infrastructure, and Housing, senior government officials, and other stakeholders.

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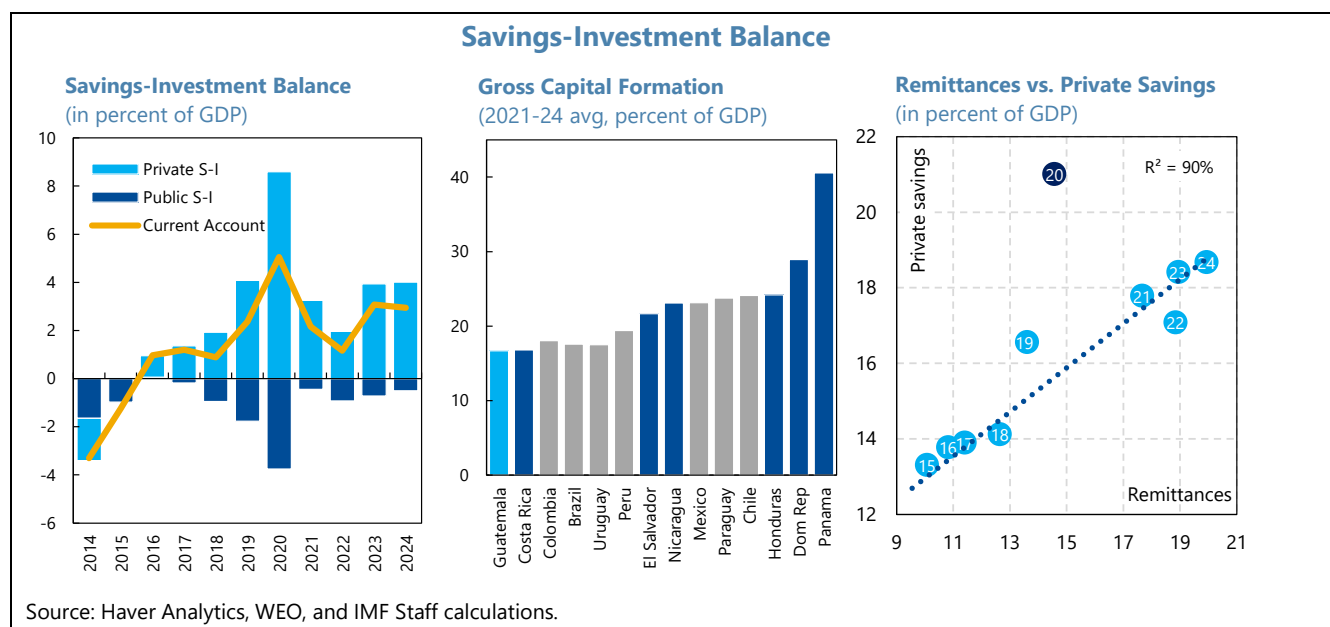
## Glossary

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
APP	Asset Purchase Program
ABP	Annual Borrowing Plan
ARA	Assessing Reserve Adequacy
BANGUAT	Central Bank of Guatemala
CAPTAC-RD	Regional Technical Assistance Center for Central America, Panama and the Dominican Republic
CA	Current Account
CAFTA-DR	Central America Free Trade Agreement
CNC	National Commission Against Corruption
CAPDR	Central America, Panama and the Dominican Republic
CODEDEs	Departmental Councils for Urban and Rural Development
DSA	Debt Sustainability Analysis
EBA	External Balance Assessment
ER	Exchange Rate
FDI	Foreign Direct Investment
FX	Foreign Exchange
IFRS	International Financial Reporting Standard
IGSS	Guatemalan Social Security Institute
IT	Inflation Targeting
MTDS	Medium-Term Debt Management Strategy
MoPF	Ministry of Public Finance
NIIP	Net International Investment Position
NPL	Nonperforming Loan
PIT	Personal Income Tax
PPP	Public-Private Partnerships
REER	Real Effective Exchange Rate
SAT	Superintendence of Tax Administration
SIB	Superintendence of Banks
SME	Small and Medium Enterprises
STEM	Science, Technology, Engineering and Mathematics
TA	Technical Assistance
VAT	Value-Added Tax

## CONTEXT

**1. Guatemala is in stable, but low-investment equilibrium.** Prudent macroeconomic management has supported a resilient economy, achieved low inflation, ample policy buffers and, for the last few years, a positive current account. Yet, this contrasts with middling growth, underwhelming social, public safety, educational and health outcomes, and high emigration. The drivers of high savings-investment balance capture well the elements of the current equilibrium:

- *Low private investment* is driven by scarcity of public inputs (infrastructure, security, educated and healthy labor force), political uncertainty, and an incumbent-friendly investment climate.
- *Low public investment* is driven by a revealed preference for a small-footprint state, which explains the low taxes and low public debt, but also the low social indicators. Spending inefficiencies (including on account of corruption) and other PFM issues further inhibit the conversion of public spending into productive public capital and services, a challenge that reinforces the preference for a small public sector.
- *Rising remittances* drive private savings up, though not sufficiently to prevent loss of competitiveness. While most remittances flow out of the BoP through imports, central bank's interventions (which continue adding to already high international reserves) help restrain real appreciation pressures, though insufficiently to eliminate headwinds for the tradable sector (Box 1). On the flip side, exchange rate stability contributes to low inflationary expectations.



**2. Unleashing private investment to escape this equilibrium requires an ambitious policy agenda.** Mobilizing excess domestic savings for public infrastructure and service provision, and improving efficiency of spending through better PFM would raise returns on private investment. Combined with reforms to improve the business environment—combat corruption, improve

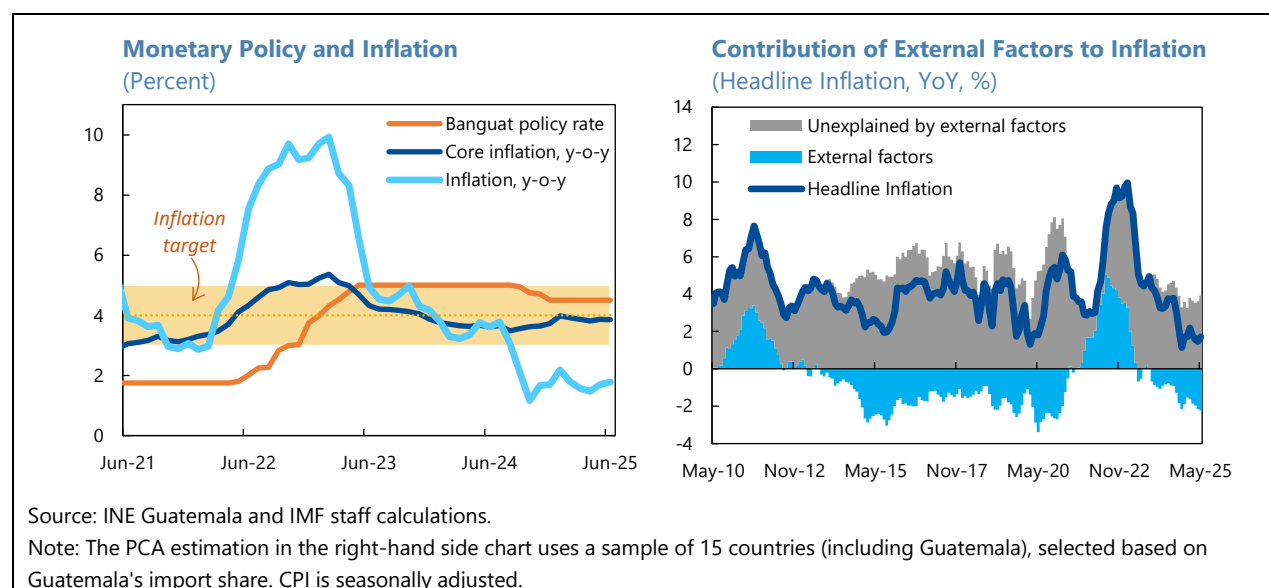
competition, eliminate jurisdictional risks—this would unlock foreign and domestic investment, diversifying the economy and, ultimately, helping secure sustainable and inclusive growth in the face of tariff-driven changes in global trade, and lower emigration and remittances.

**3. A recent string of successes has raised near-term optimism notwithstanding a challenging political environment.** The adoption of the Infrastructure and Competition laws, as well as an investment-friendly 2025 budget are critical steps towards a better equilibrium. Future successes hinge on the ability of the Arévalo administration to deliver reforms, despite the standoff with the Attorney General (who is under US and EU sanctions for obstructing the 2023 presidential elections and the January 2024 inauguration) and the fragmented Congress, where the ruling Semilla Movement Party remains suspended over allegations of irregular party registration.

## RECENT DEVELOPMENTS

**4. Economic growth in 2024 was stronger than anticipated.** Real GDP growth reached 3.7 percent, led by robust private consumption on the expenditure side and manufacturing and commerce on the production side. Informality (70 percent), poverty (55 percent in 2023), and social indicators remain lackluster. Preliminary data point to growth in 2025Q1 y-o-y at 3.9 percent.

**5. Headline inflation remains below Banguat's 4 percent  $\pm$  1 percent target.** Pressures from domestic food supply shocks have dissipated and fuel prices came down, pushing headline inflation to 1.8 percent in June, though core inflation remains close to 4 percent. Inflation expectations remain well-anchored at around 3.8 percent for end-2025 and 2026.



**6. Monetary policy easing is on hold.** Banguat's policy response to the 2022–23 inflation surge broadly mirrored that of the U.S. Fed, albeit with a lower peak policy rate of 5 percent and only two 25 bps cuts in late 2024. Banguat has extended the pause in its loosening cycle at the Monetary Board meeting in June. Banguat continues to actively manage quetzal and dollar liquidity.

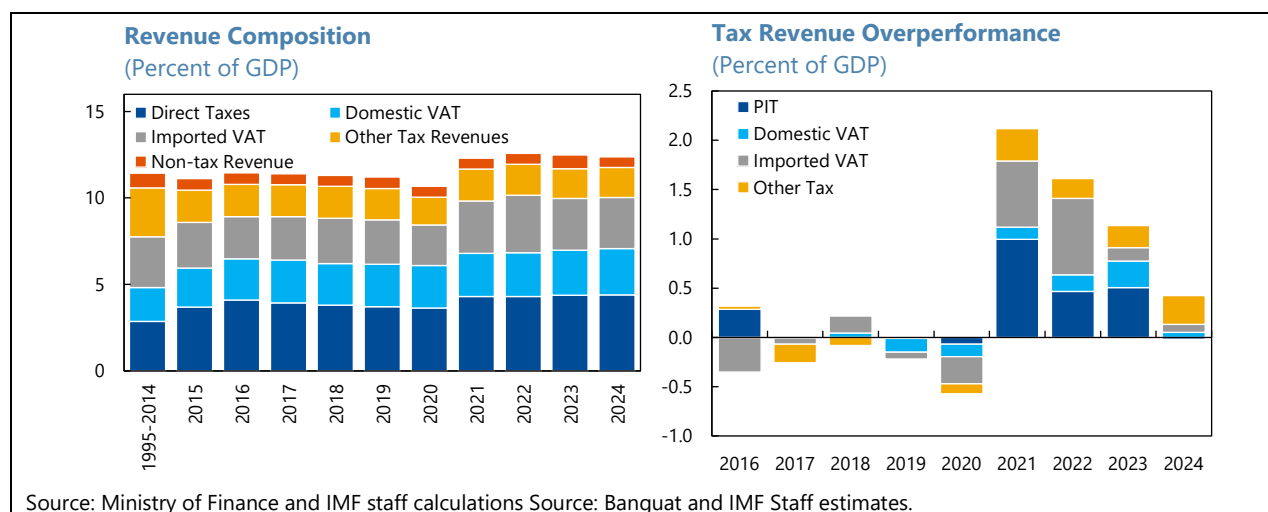
The net costs of these operations declined to 2.8 percent of GDP (3.3 percent of GDP in 2023), reflecting higher returns on international reserves.<sup>1</sup>

## 7. The budget deficit in 2024 ended up well below the budget plan.

The August passage of the 2024 supplementary budget, which envisaged a 2.7 percent of GDP deficit on account of higher infrastructure and social spending—in line with 2024 Article IV advice—was an early legislative win of the administration. However, the overall deficit ended up at 1 percent of GDP (1.3 percent in 2023). The late approval of the supplementary budget and conservative revenue projections contributed to this deviation, but the main culprit was low spending execution (92 percent), particularly in capex (79 percent); the suspension of projects early in the new administration—to scrutinize them for corruption—added to long-standing institutional weaknesses. Unexecuted transfers to CODEDEs—municipal councils tasked with managing local investments—were exceptionally rolled over into 2025.

Central Government Spending (Percent of GDP)				
	2023	2024		
		Budget (carryover from 2023)	Augmented Budget (August 2024)	Outturn
<b>Total expenditures</b>	<b>13.7</b>	<b>12.7</b>	<b>14.5</b>	<b>13.4</b>
Current	11.2	10.4	11.5	11.0
Social spending	5.5	5.2	5.9	5.7
Education	3.0	2.9	3.0	2.9
Health	1.2	1.1	1.5	1.4
Social Protection	1.3	1.2	1.4	1.4
Capital	2.5	2.3	3.0	2.4
Infrastructure	0.7	0.5	0.8	0.5
Social spending	0.4	0.3	0.4	0.2

Source: Ministry of Finance and IMF staff calculations



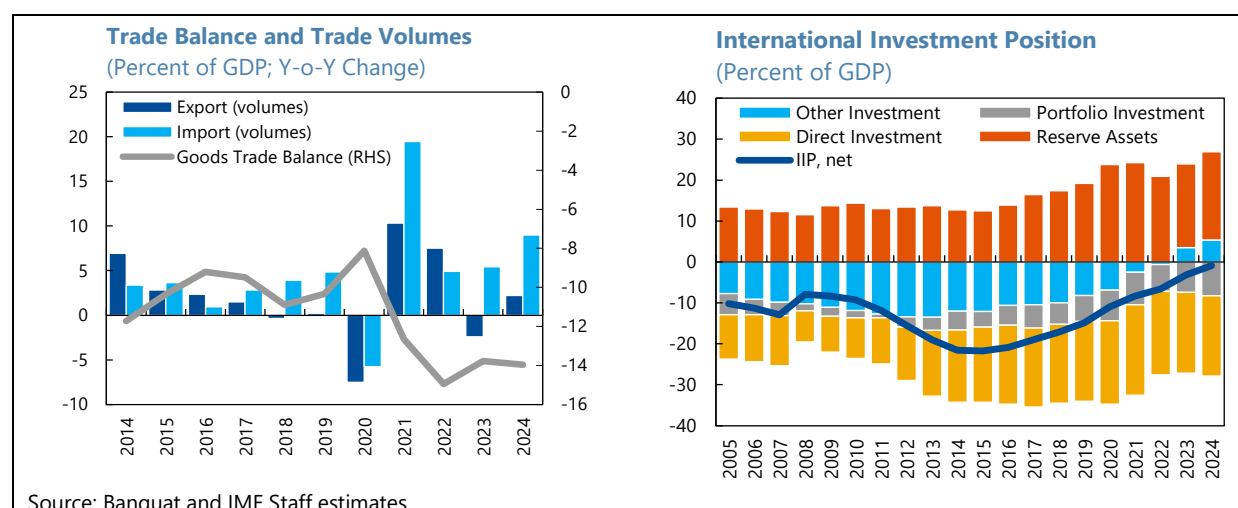
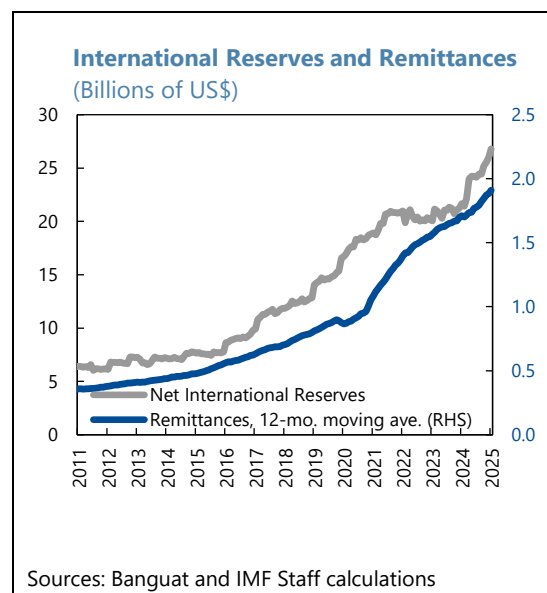
**8. The 2025 Budget envisages a significant deficit increase.** In line with 2024 Article IV advice, the original budget approved in November 2024 targeted an overall deficit of 3.2 percent of GDP, with focus on capex, education, healthcare, and conditional cash transfers. Inconsistencies between articles of the law and undetermined appropriations—including on carryover of CODEDE allocations from 2024 and for civil service pension—necessitated passage of a supplementary budget in February 2025, raising the deficit to 3.8 percent.

<sup>1</sup> The 2002 Banguat law mandates the government to offset the central bank's losses by issuing marketable government securities at prevailing market interest rates; compliance has been partial and inconsistent (see ¶31).

**9. At under 27 percent of GDP, Guatemala's public debt is the lowest among Western Hemisphere countries with market access.** Ample policy buffers and the reputation for prudent fiscal policy have enabled a US\$1.4bn Eurobond issuance in August 2024 amid strong investor interest, bringing domestic bond issuance a halt in 2024H2. Following S&P's May upgrade of the sovereign rating to BB+, two of the three credit agencies rate Guatemala one notch below investment grade, paving the way for a US\$1.5bn Eurobond issuance in July 2025.

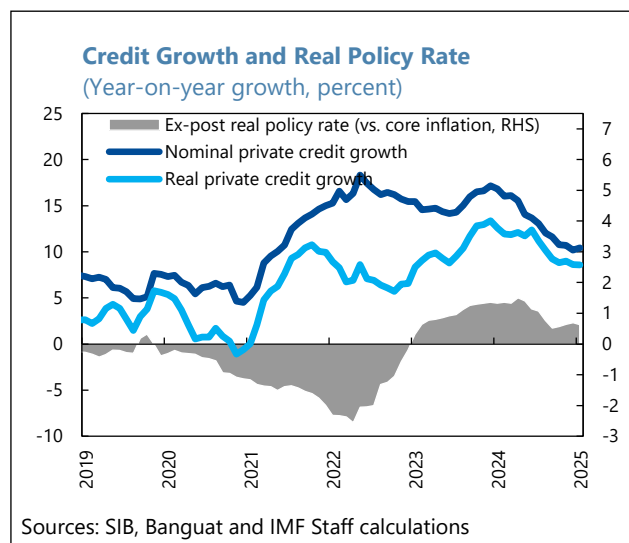
**10. The external balance remains in a surplus, partly reflecting Banguat's response to large remittances inflows.**

The current account (CA) surplus narrowed slightly to 2.9 percent of GDP on account of rising imports. Remittances stabilized at 19 percent of GDP, while gross international reserve stood at US\$24.4 billion at end-2024 (21.5 percent of GDP, 175 percent of the ARA metric). The 18 percent year-on-year increase in remittances in the first half of 2025—likely a one-off response by migrants to heightened risks of deportation from the US—prompted in turn a record US\$2.4 billion in net FX purchases by Banguat in the same period, which took reserves to \$27.2 billion at end-June. REER was virtually flat for the year. EBA's preferred CA model finds a positive CA gap, which would generally point to an undervalued currency. However, the Exchange Rate (ER) model produces the opposite result, assessing the currency as overvalued. The discrepancy captures the wedge between quantity (CA balance) and price (ER competitiveness) indicators created by large remittances and Banguat's ensuing response (Box 1). Overall, staff assesses the external position as stronger than the level implied by medium-term fundamentals and desirable policies (Annex I). However, as the main driver of the large savings-investment balance is low investment (¶1), rebalancing should be achieved by incentivizing private investment through improved public infrastructure and structural reforms.

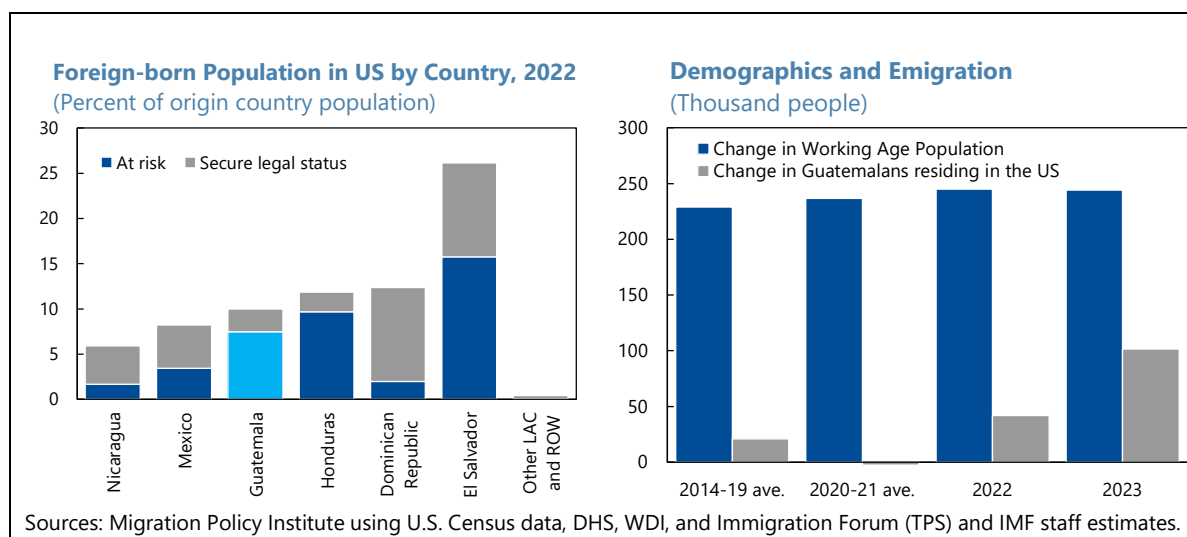


**11. Private credit growth, in double-digits since 2021, is decelerating.** Nominal credit growth is coming down, though real growth remains robust (text figure). Aggregate capital and liquidity ratios are above statutory minima, and profitability is strong (Table 5).<sup>2</sup> NPLs, concentrated in the consumer, micro-credit and mortgage segments, have increased slightly to 2.3 percent at end-April (1.8 percent end-2023). Provisioning dropped to 135 percent (from 189 percent at end-2023).<sup>3</sup>

**12. Guatemala is heavily exposed to changes in U.S. trade and migration policies.**



- US accounts for one-third of exports, but bilateral trade deficits with the US placed Guatemala in the 10 percent tariff bracket since the April 2 announcement. The Guatemalan Export Agency estimates about 0.4 percent of GDP in additional costs for shipment to the US. The response has been focused on negotiations to mitigate the tariffs' impacts, leveraging trade agreements (both Guatemala and the US are CAFTA-DR participants), seeking new markets and opportunities to take advantage of trade diversion and global supply chains reallocation (Box 2).



- Up to 900 thousand Guatemala nationals live in the US without documentation (text figure left chart). During the visit of US Secretary of State Rubio, it was agreed that deportations to Guatemala would increase to 120–140 thousand people per year (from an average of 72 thousand in 2020–24), including non-Guatemalans. The rise in deportees and fall in gross emigration—following tightened controls at the US southern border—could upend the delicate

<sup>2</sup> Capital ratios decreased slightly in 2024, mainly due to distribution of dividends and higher risk-weighted assets.

<sup>3</sup> The expected loss-based provisioning system is phased in until 2028, allowing banks to adjust reserves gradually.

equilibrium in the labor market, where emigration was an important escape valve (text figure right chart). However, the authorities view the reintegration of returning Guatemalans into the labor force as an opportunity, and have announced programs aimed at the returnees.

## OUTLOOK AND RISKS

**13. Near-term outlook is tainted by trade tensions and related uncertainty, but the overall macroeconomic picture remains strong.** Economic growth is expected to hold at 3¾ percent in 2025, with the sizeable fiscal impulse offsetting the weakening in private demand—on account of softer global activity and increased uncertainty—expected in 2025H2. External headwinds are projected to keep growth around 3½ in 2026–27, but growth could converge to 4 percent in outer years on account of ongoing reforms and infrastructure investments. Inflation is projected to gradually revert to target. Fiscal deficits of close to 3 percent are expected to persist into the medium term, taking public debt to 30 percent of GDP by the end of the projection period.

**14. The current account surplus is projected to close over the medium term on account of looser fiscal policy and diminishing remittances-financed private savings.** 2025 remittances are projected—subject to high uncertainty—to increase 9 percent in USD terms, reflecting a strong 2025H1. In the medium-term remittances are expected to rise in line with projected US inflation (i.e., zero real growth). FDI should pick up in response to improving infrastructure and business climate.

**15. The balance of risks is tilted to the downside (Annex II).** Domestically, the standoff between the executive and the judiciary continues and congress remains fragmented, putting in doubt the advancement of the large legislative agenda. Externally, trade policy uncertainty weighs heavily on investment decisions, while shifts in migration policy in destination countries pose risks to remittances-supported consumption growth. Further tightening in U.S. migration policy risks reducing remittances further, while falling net emigration could raise unemployment and/or informality. Lower global growth, and tighter financial global conditions are also distinct possibilities in the current high-uncertainty environment. Guatemala is also exposed to climate events.

### **Authorities' Views**

**16. The authorities broadly share staff's outlook, and they see risks as manageable.** Their assumptions differ, however, on the length of the shocks and their magnitude, as their baseline scenario assumes headwinds from tariffs to be transitory and remittances to be more resilient. As a result, authorities project growth to remain close to 4 percent through the medium term. The authorities are confident the risks are manageable. On the domestic front, important progress has been made over the past year—including the approval of the 2025 budget and the competition law—demonstrating the capacity for reform even in a complex political environment. Externally, Guatemala is relatively well-positioned to absorb additional trade shocks. And although changes in U.S. policy could impact remittance-driven consumption, lower net emigration also offers a window to boost domestic employment, particularly if accompanied by targeted efforts to expand formal job opportunities.

## POLICY DISCUSSIONS

**17. Propelling Guatemala into a higher investment equilibrium requires a concerted policy effort, combined with steadfast progress on governance.** The authorities face the difficult task of undertaking a much-needed scale-up of infrastructure investment and social spending, while at the same time (i) fighting corruption, and (ii) preserving policy buffers, which are critical in times of intensifying external headwinds. Maintaining priority spending at elevated levels in the medium term will require both improved expenditure efficiency and revenue measures. Improved monetary-fiscal coordination—and particularly a shift towards domestic financing of the budget—would help achieve multiple policy objectives: channel domestic savings into infrastructure investment (thus helping restore external balance), reduce Banguat's costs of liquidity management operations, reduce currency risks and support domestic financial market development. Monetary policy needs to stand ready to respond to external shocks. Strengthening of governance, economic institutions and policy frameworks would help contain residual risks and unleash private sector investment.

### A. Fiscal Policy

**18. The amended 2025 budget implies a significant fiscal expansion.** The budget's capex-biased expansion of spending responds to the large needs for public infrastructure and services and is in line with past Fund advice. However, if executed in full, the amended budget's deficit of 3.8 percent of GDP would imply a 2¾ percentage point fiscal impulse for the year. The large spending increase—revenues are expected to remain flat as share of GDP—would pose high risks of waste given limited institutional capacity and may also have inflationary effects. This year's doubling, to 1.3 percent of GDP, of transfers to CODEDEs, where central oversight is weaker and risk of capture is greater, requires particular attention. Staff welcomes the multi-institutional, multi-prong plans to strengthen transparency, accountability, and capacity of CODEDEs; to have an impact already *this* year, measures should be implemented swiftly (see ¶41).

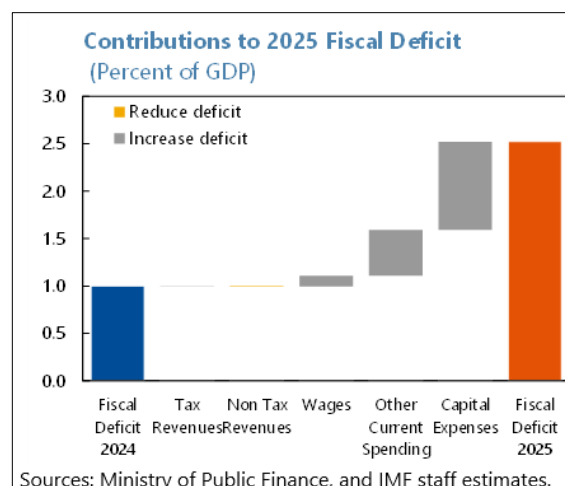
Central Government Spending (Percent of GDP)				
	2024	2025		
		Initial	Latest	
	Outturn	Budget	Budget	Proj.
<b>Total revenues</b>	<b>12.4</b>	<b>12.4</b>	<b>12.4</b>	<b>12.4</b>
<b>Total expenditures</b>	<b>13.4</b>	<b>15.5</b>	<b>16.2</b>	<b>15.0</b>
Current	11.0	12.3	12.3	11.8
Operating expenditures	9.4	10.6	10.6	10.1
Wages	4.0	4.2	4.2	4.1
Goods & services	1.8	2.6	2.3	2.1
Social security benefits	0.9	1.0	1.2	1.2
Interest	1.6	1.7	1.8	1.7
Transfers	2.7	2.7	2.8	2.7
Other	0.1	0.1	0.1	0.1
Capital	2.4	3.2	3.8	3.2
CODEDEs	0.4	0.5	1.3	-
Primary expenditures	11.8	13.8	14.4	13.3
<b>Primary balance</b>	<b>0.7</b>	<b>-1.4</b>	<b>-2.1</b>	<b>-0.9</b>
<b>Overall balance</b>	<b>-1.0</b>	<b>-3.1</b>	<b>-3.8</b>	<b>-2.6</b>

Source: Ministry of Finance and IMF staff calculations



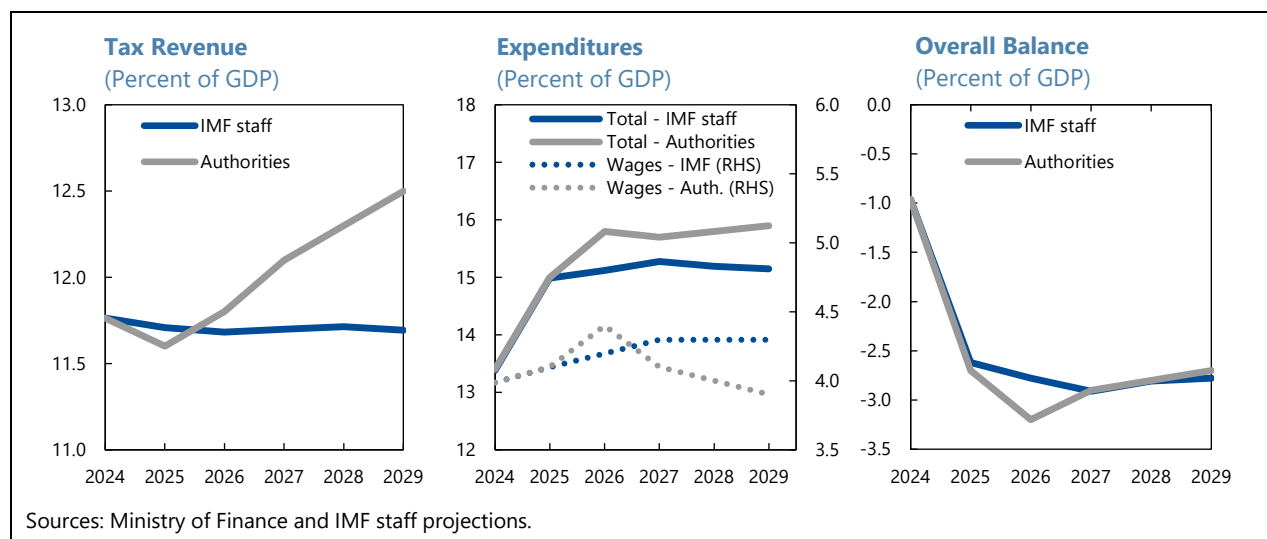
**19. Staff expects the 2025 outturn to undershoot the approved budget deficit.**

Execution bottlenecks—both long-standing and new ones, on account of stepped-up anti-corruption efforts—are forecasted to contain the deficit to around 2½ percent of GDP (see text table). The resulting fiscal stimulus is still sizeable at around 1½ percent of GDP and is appropriate, as private demand is projected to soften in the remainder of the year (¶13). Much of the spending increase is on account of higher capex (text figure), in line with past Fund advice.



**20. Authorities' medium-term fiscal plans envisage higher-than-historical deficits to persist.**

The authorities intend to accompany higher capital spending with some current spending increase, including on account of a 10 percent increase in the civil service in 2026 to staff new schools and hospitals. In their forecast, deficits are projected to hover just under 3 percent of GDP (above the historical average of 2 percent), predicated on (i) a 1p.p. of GDP improvement in tax revenue derived exclusively from tax administration measures, and (ii) an ½ p.p. of GDP wage bill erosion in the outer years. Staff projections don't embed these two assumptions, but assume spending execution rates to remain at historical levels, which translates into overall deficits that are close to Ministry of Finance's projections (text figure).



**21. In the medium term, reverting deficits to historical levels while maintaining adequate capex will require both revenue- and expenditure-side measures.** Given existing fiscal space, staff sees scope for somewhat higher deficits in the next two-three years. However, deficits should return to the 2 percent historical average in outer years, with the consolidation underpinned by upfront plans (if not immediate measures). Curbing infrastructure and social spending for that

purpose would be ill-advised; the focus should be on revenue mobilization and improved use of existing resources. The two are linked: political support for higher revenues will depend on the authorities' ability to demonstrate that spending is allocated in line with economic and social priorities and is then executed efficiently. Higher revenues would also improve debt sustainability indicators: while Guatemala's debt/GDP is low, its gross financing needs/revenue—a better indication of ability to service debt in a stress scenario—is in line with peers (text figure).

## 22. Authorities should follow-up on early revenue mobilization successes.

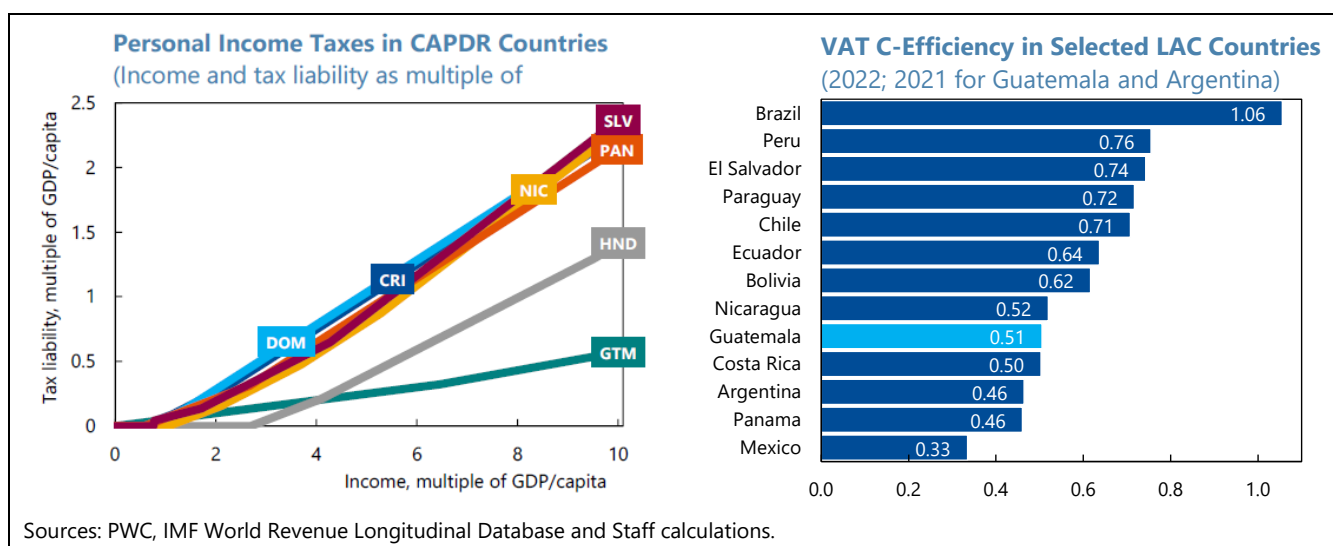
The tax service (*Superintendencia de Administración Tributaria, SAT*) has put in place a mandatory electronic invoice system for businesses to improve transparency and reduce fraud, cracked down on goods smuggling at the border, and increased audits on high-net-worth individuals and large corporations. Tax revenues have already increased from 10 to 11.8 percent between 2020 and 2024. However, achieving the authorities' 12.5 percent target will require additional steps, especially as cooling remittances could disproportionately weigh down on VAT on imports receipts:

- *Fighting tax evasion and fraud.* The implementation of SAT's new strategic plan, aligned with the recommendations of the 2024 TADAT, would strengthen enforcement against tax evasion and avoidance.<sup>4</sup> Digitalization and new analytical tools hold the promise of uncovering tax evasion and underreporting, as illustrated by "Caso B410".<sup>5</sup>
- *Legal protection of SAT's auditors.* Staff reiterates its recommendation to approve legislation that would legally protect SAT auditors from being unduly pursued with legal actions in the exercise of their mandate. This would shield them from personal legal (including criminal) charges that can impact their ability to carry out work.
- *Adopting tax reforms.* In the medium term, raising tax revenues further will require base broadening, higher PIT and VAT rates, reducing tax breaks and exemptions, and clarifying eligibility criteria in opting for the general or simplified regimes. Given 2023 electoral commitment not to raise rates nor introduce new taxes, early efforts could focus on reviewing and rationalizing tax expenditures. SAT estimates them at 3 percent of GDP, though a significant part is mandated by constitutional provisions and therefore difficult to alter.



<sup>4</sup> The authorities' data shows that noncompliance rates are at 70 percent for income tax and 25 percent for VAT.

<sup>5</sup> "Caso B410" is a tax investigation that has uncovered a large network of phantom contractors in public procurement projects, allegedly involving illicit financing and embezzlement. No cases have been brought to court.



### 23. Prioritization, coordination and evaluation of public spending needs improvement.<sup>6</sup>

Education, health, infrastructure and social protection are the administration's policy priorities, but allocations remain inadequate. One roadblock is weak alignment between priorities and the actual budget process, which largely remains driven by inertia and piecemeal decisions (e.g., wage agreements with sectoral unions). Planning instruments are poorly integrated into expenditure frameworks, while the multiannual budget does not indicate how changes in budget levels and allocation help achieve government objectives. There are also deficiencies in the identification, prioritization and execution of investment projects, as well as gaps in institutional coordination and limited use of performance indicators in expenditure evaluations (Box 3). Staff recommends:

- Strengthening capacity to conduct systematic spending reviews and evaluations of expenditure quality and efficiency to support budget formulation and medium-term budget planning.
- Integrating and mapping the *National Development Plan* into the budgetary process to better prioritize programs and projects and align resource allocation with strategic objectives.
- Strengthening the MTFB and the multiannual budget with technical analysis underpinning expenditure projections to reflect spending trends and expected behavior for different sectors and make expenditure paths more realistic and aligned with policy objectives.
- Implementing other recommendations of the PIMA/C-PIMA (2023) and Fiscal Transparency (2022) Evaluations (see 2024 Article IV Selected Issues Paper).
- Implementing International Public Sector Accounting Standards (IPSAS) and measures to enhance the digital public financial management ecosystem, facilitating better data quality, automation, and informed decision-making.

<sup>6</sup> See Annex VII, Public Financial Management and Budget Planning Workstream.

**24. Improved targeting and transparency could enhance the efficiency and impact of social programs.** Programs such as “*Bono Social*” remain subject to fragmented delivery, clerical errors and political interference, leaving out many intended recipients. Means-testing for eligibility, digitalization of payment systems, regular audits and civil society monitoring would facilitate funds reaching intended recipients. Improvements to these programs would also lower precautionary savings—thus contributing to external rebalancing—and cushion impact of stagnant remittances (which currently serve as an informal safety net, especially in rural areas) on poorer households.

**25. The authorities are considering a new public procurement law to alleviate bottlenecks in the execution of capital spending.** The current system suffers from low competition and transparency in biddings, heavy reliance on direct contracts, and weak oversight.<sup>7</sup> Staff supports authorities’ decision to require information on final beneficiary ownerships in public procurement<sup>8</sup>; additional reforms could include upgrading digitalization through platforms like “*Guatecompras 2.0*”, stronger enforcement of open bidding for all major contracts, mandatory publication of procurement data. Risk-based audits and reinforcing *Anti-corruption procurement unit*, while enhancing civil society monitoring (e.g., *Guatemala’s Observatorio de Contrataciones*, whistleblowers) would enhance accountability and deter fraud.

**26. A well-calibrated Medium-Term Debt Management Strategy and Annual Borrowing Plans would help with the macro-policy mix.** Guatemala’s low public debt and prudent management have helped secure ample access to Eurobond financing. However, over-reliance on external financing (i) risks inhibiting the development of a domestic capital market, (ii) complicates liquidity management for both Banguat and commercial banks, (iii) raises currency risks and (iv) is at odds with the availability of domestic savings (as captured by the positive CAB). Staff encourages the authorities to diversify their funding base, consolidate domestic issuances, and introduce shorter-maturity instruments to help develop the yield curve (see Annex VII, Debt Management workstream).<sup>9</sup> Publishing extended debt statistics, the MTDS and ABPs would help improving transparency and investor relations.

### **Authorities’ Views**

**27. The authorities will continue to raise capital expenditure and social spending to address the country’s needs** with improving quality and efficiency of spending entailing better budget formulation, targeting, execution, and control. They will keep strengthening the transparency and oversight of CODEDEs’ allocations and the capacity of municipalities to plan and execute them. In the medium-term, the authorities plan to expand civil services and goods and services as well as infrastructure investment. Key investment projects include modernization of the country’s largest port, railway system, and building a metro in Guatemala City. The existing fiscal space and accumulated deposits will help to finance the higher levels of spending. Projected overall deficits will stay at close to 3 percent of GDP with tax administration gains of 1 percent of GDP over the next

<sup>7</sup> The World Bank has an estimated about 30-40 percent of public funds lost to mismanagement or graft.

<sup>8</sup> In July 2025, the constitutional court provisionally suspended this government decision.

<sup>9</sup> The average interest rate of the debt portfolio is 6.3 percent and the average time to maturity is 10 years.

four years. SAT will continue strengthening compliance and auditing using digitalization and border enforcement. The recently published TADAT report will help to establish a strategic plan to improve tax mobilization. Over the medium term, the authorities plan to slightly increase share of Eurobond financing, as domestic borrowing remains relatively expensive.

## B. Monetary and Exchange Rate Policies

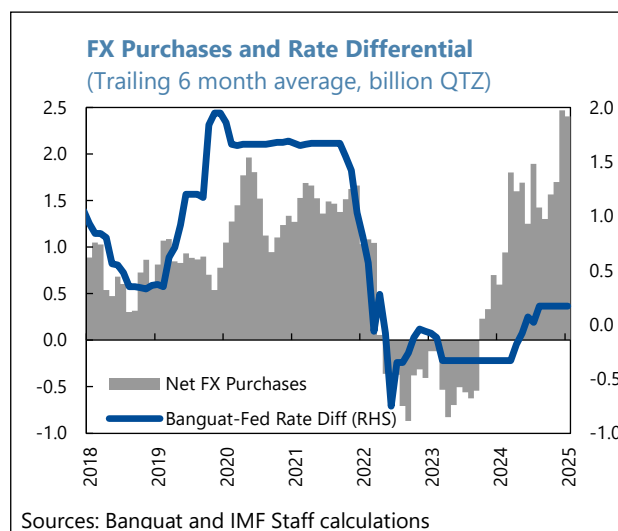
**28. The monetary policy stance is broadly appropriate.** While the policy rate (4.5 percent) is relatively high compared to the headline inflation (1.5 percent), the ex-ante real rate (1 percent, given 12-month expectations at 3.5 percent) is close to staff's estimate for the neutral rate (1-2 percent). Given uncertainty over consequences of US tariffs and ensuing changes in trade (e.g., the deflationary impact predicted by the standard trade model vs. inflationary effects of disrupted supply chains), there's scope to wait with subsequent policy decisions.

**29. Enhanced monetary-fiscal coordination would benefit liquidity management.** Banguat uses open market operations and reserve requirements to manage liquidity. An overly heavy reliance of the budget on external financing under a shallow money market complicates Banguat's liquidity management framework and raises associated losses (which are ultimately covered by the treasury). Moving forward, greater coordination with fiscal policy (e.g., via well communicated borrowing plans), could ease Banguat's liquidity management. Back-testing collateral pricing, clarifying operational process for liquidating collateral, and shifting to a constant-maturity issuance of term deposits would strengthen further Banguat's operational framework for liquidity.

**30. Improved monetary policy transmission is key to policy effectiveness.** Staff analysis suggests that the pass-through from policy rates to market rates has improved since about end-2022 (Box 4), due to higher banking sector competition and rising share of currency in circulation. Still, monetary transmission continues facing structural constraints, including from dollarization, informality, and a shallow interbank market. Deeper financial market development, including expanded local-currency debt markets, more liquid interbank market, and enhanced financial inclusion could further improve monetary policy effectiveness. Staff encourages the authorities to reduce reliance on reserve requirements for management of liquidity to a degree better aligned with inflation targeting. Monetary policy operations could also be supported by improving the legal framework and market infrastructure in Guatemala. Existing issues include the inability to issue central bank bills due to their treatment as fiscal debt under law (therefore Banguat instead uses non-tradable term deposits to absorb liquidity), and market infrastructure fragmentation primarily due to the lack of a single central securities depository (CSD), which creates inefficiencies across trading, clearing and settlement processes. Staff encourages Banguat's to pursue the establishment a prudential market regulator consolidating all government securities into a CSD.

**31. The monetary policy framework could be fine-tuned to face changing conditions.** So far, Guatemala has managed to combine low inflation, a stable exchange rate, and an open capital account through multiple shocks. The "leaning against the wind" rule-based FX interventions are useful in resisting appreciated pressures from remittances. However, Quetzal's stability has

drawbacks: it causes agents to discount FX risks, inhibits development of hedging mechanisms, creates confusion about Banguat's nominal anchor, and weighs on its balance sheet. Going forward, greater financial integration—e.g., should the country achieve investment grade—could strain the policy framework. The central bank already has to factor in financial account developments, as demonstrated by the accommodation of capital outflows when the interest rate differential turned negative in 2023–24 (text figure and Box 1). Again, better fiscal-monetary coordination—where



domestic public borrowing absorbs a greater part of excess liquidity—could help attenuate some trade-offs. Banguat and the bank regulator (*Superintendencia de Bancos, SIB*) could revisit the case for expanding the macro-prudential toolkit, which could reduce the competing demands currently de facto placed on the policy rate: controlling inflation, maintaining external balance, managing the credit cycle. In the near term, the authorities could also develop a strategy for expanding FX hedging. A plan for the recapitalization of Banguat and an assessment of its income model would help ensure additional room for future liquidity management needs.

### **Authorities' Views**

**32. The authorities agreed that the current monetary policy stance is appropriate and should continue to be guided by incoming data amid heightened uncertainty.** They noted that the transmission of policy rate changes to lending rates remains structurally weak, particularly among large banks. They observed that strong competition for credit during 2022–23 further limited increases in lending rates despite policy tightening. Nonetheless, they emphasized that credible monetary policy and well-anchored inflation expectations during that period were instrumental in reducing inflation from nearly 10 percent to just over 4 percent with only moderate policy rate increases. As of June 2025, the continued persistence of headline inflation below the lower bound of the target range may justify a moderate reduction in the policy rate. However, as emphasized, any adjustment will remain contingent on incoming data and a comprehensive assessment of the balance of risks.

**33. The authorities concurred on the importance of effective monetary-fiscal coordination to contain sterilization costs but stressed structural features complicating liquidity management.** They explained that significant structural liquidity requires ongoing sterilization operations distinct from conventional monetary policy instruments. Coordination with the Ministry of Finance is generally pursued by avoiding competition in the liquidity market, with the Central Bank conducting shorter-term operations and the Treasury operating at longer maturities, though this framework can be affected by market dynamics and budget execution. The authorities

highlighted that excess banking sector liquidity, seasonal factors, and banks' preference for Treasury securities constrain the effectiveness of monetary stabilization tools. They considered that addressing these challenges will require cleaning up the Central Bank's balance sheet, refining reserve requirements and liquidity management practices, and advancing structural reforms to deepen financial markets. They noted that many of these reforms will require legislative support.

**34. The authorities emphasized that exchange rate stability primarily reflects sound macroeconomic fundamentals rather than active targeting.** They underscored that Central Bank FX interventions are limited to smoothing excessive short-term volatility. Looking ahead, the authorities considered that further adaptation, including structural reforms, will be necessary to respond to potential disruptions in remittance flows or higher financial inflows.

## C. Financial Sector Policies

**35. Closely monitoring vulnerabilities and risks would further advance financial stability.** The *Superintendency of Banks* (SIB) has taken steps over the past years to strengthen banking supervision, including enhanced stress testing and stricter reporting requirements for systemic risks, and has advanced regulatory measures on credit cards, operational risks, electronic payments, and on inclusion—on voluntary basis—of savings and credit cooperatives in the Credit Risk Information System.<sup>10</sup> However, still fast-increasing consumer credit (18 percent in 2024), including credit card debts and NPLs require additional scrutiny, especially given risks of disruptions to remittances inflows. Staff advises continued improvements to risk-based monitoring and extending supervision to cover fintech and bank digitalization risks (see Annex VII). Increasing transparency in bank ownership structures and stronger cross-border cooperation with regional regulators (consolidated supervision and related parties' transactions) would mitigate risks, specifically, those related to money laundering and connected lending.

**36. Reforms of the supervisory and regulatory frameworks should continue.** The 2002 Law on Banks and Financial Groups needs revisions to align it with international standards of regulatory, supervisory, and crisis management practices. Timely implementation of accounting frameworks based on International Financial Reporting Standards (IFRS) would increase transparency and communication with market participants. The 2024 entering into force of the Credit Risk Management Regulation<sup>11</sup> is a welcome step in improving credit risk mitigation in banks. But given its gradual implementation, banks' oversight would need to be strengthened especially for banks with large exposures in corporate and consumer sectors. Enhancement in areas such as early warning systems, recovery planning (including the requirement and supervision of banks' capital planning), and inter-agency coordination would further strengthen institutional preparedness for difficult times, so would fostering stress-testing protocols and resolution mechanisms. Further

<sup>10</sup> Banking supervision in Guatemala is primarily the responsibility of the Superintendence of Banks (SIB), which oversees the stability, solvency, and proper functioning of the country's financial system. The SIB also enforces compliance with regulations such as capital adequacy requirements (Basel standards), liquidity ratios, and risk management protocols.

<sup>11</sup> The regulation includes a gradual roll out of measures such as Basel III provisioning using expected losses, dynamic provisioning, credit asset alignment and different treatment of restructured and refinanced instruments.



development of the macroprudential toolkit (e.g., borrower- and broad-based measures to mitigate risks related to high credit growth) could help curb a future build-up of systemic risks, as would the adoption of an institutional arrangement empowered to make macroprudential policy decisions with a clear mandate and objectives. Actions to further strengthen cybersecurity should continue.

**37. Fostering financial inclusion and markets development would support sustainable growth.** Approving the e-money law—a draft is currently in Congress—would enhance regulatory framework related to fintech and—along with continued implementation of other elements of the 2024–27 financial inclusion strategy—aid financial inclusion. The latter would also benefit from improving financial education and internet connectivity, and promoting public-private partnerships. In turn, greater financial inclusion would enhance banking competition, which would improve monetary policy transmission, remedy concerns about pricing of local government debt and contribute to the development of the secondary debt market. Improvements in public debt management could also support financial market development: securing a steady supply of domestic securities throughout the calendar year, selling securities at market prices (instead of suspending announced auctions) and beginning to replace stock of non-tradeable securities with tradable instruments (to support liquidity in secondary market). Advancing the draft Secondary Market Law would facilitate these efforts.

#### ***Authorities' Views***

**38. The authorities assess the financial system as sound, well capitalized, liquid and profitable.** They expect private credit growth to continue moderating and are closely monitoring credit quality. They consider the Credit Risk Management Regulation as effective in managing credit risks in banks. They also assess the severity of the adverse impact of tariffs as manageable, while the impact of decelerating remittances on the quality of banks' credit portfolio as limited. Continued advancements in digitalization of financial services, including the draft e-money law, help improve financial inclusion. The authorities acknowledge the importance of developing and approving the law on the Secondary Financial Market for improving access to financing and competition. Going forward, they see the possibility of replacing the 2002 Law on Banks and Financial Groups with a new law, if Congress support could be secured.

## **D. Governance and Structural Agenda**

**39. The administration has undertaken a number of measures in its fight against corruption.** In 2024, it launched the National Commission Against Corruption (CNC), tasked with the establishment of mechanisms for detecting and preventing corruption, promoting transparency in public management and collaborating with civil society and other stakeholders in the fight against corruption. The CNC has introduced probity offices in the Executive Branch, which are required to establish an integrity system, with a focus on accountability, institutional strengthening, and long-term efficiency. These actions signal progress toward rooting out corruption within the executive. Notably, Guatemala registered in 2024 its first-in-a-decade upgrade on Transparency International's corruption perceptions index (text figure), although still falling below regional

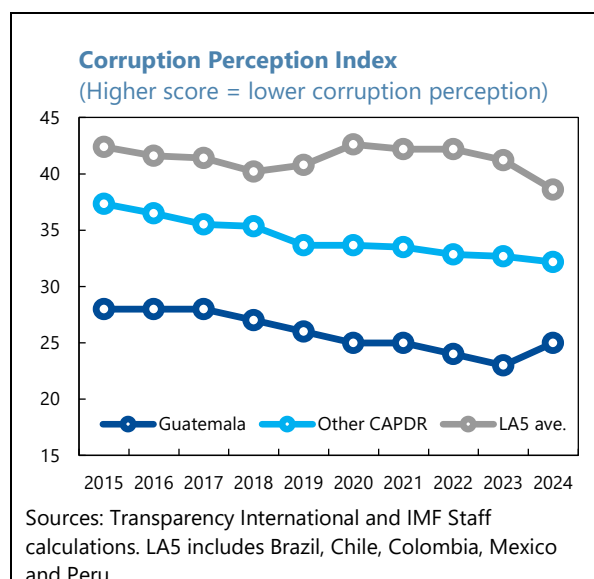


averages. Staff notes that entrenched interests and severe weakness in the rule of law, including a judiciary perceived as partially co-opted pose significant implementation and uncertainty risks.<sup>12</sup> The authorities are encouraged to stay the course, including by developing their medium-term anti-corruption strategy.

**40. Additional legislation focused on governance and financial integrity would help rebuild public trust, foster transparency and accountability.**

- *The Beneficial Ownership Law*, submitted to Congress for consideration in February 2025, envisages the creation of a Beneficial Ownership Registry at the SAT, with the aim of strengthening the overall entity transparency regime and ensuring that competent authorities obtain adequate, accurate and current beneficial ownership information. The information collected will be used exclusively by the SAT, the Special Verification Office, the General Registry of Government Acquisitions, and the General Directorate of Government Procurement. The passage of the law could also strengthen governance and the overall AML/CFT regime.
- *Law of Protection of Whistleblowers*, submitted to Congress in March 2025, establishes rules procedures and mechanisms to facilitate the administrative reporting of possible irregularities, as well as the appropriate mechanisms and measures to protect the person who, with reasonable grounds, denounces such acts. Protective measures included those related to working and contractual conditions, personal and judicial proceeding protection.
- *AML/CFT*. The adoption and implementation of a AML/CFT Law and accompanying regulations aligned with international standards is a pending and urgent task ahead of the fifth mutual evaluation round expected in 2027. A joint IMF/IADB/World Bank TA team helped identify and address remaining gaps on the legal front (see Annex VII, Financial Integrity Workstream). While the authorities remain committed to addressing deficiencies identified in the last mutual evaluation, the process has faced significant delays and challenges.

**41. A stronger oversight of municipal investments through CODEDEs is also needed.** At the subnational level, the authorities have taken actions to address pervasive corruption risks in municipal investment projects administered by CODEDEs, which have seen their allocations for local infrastructure and social programs double in 2025. Historically, these entities have faced challenges related to weak accountability, with funds frequently diverted through mismanagement or



<sup>12</sup> [Special Rapporteur on the Independence of Judges and Lawyers Visit to Guatemala](#), 12 to 23 May 2025 - Preliminary Observations, United Nations Human Rights Council.

patronage networks. The central government has introduced enhanced oversight mechanisms, including regular audits of CODEDE expenditures, is undertaking efforts to digitize financial procedures to reduce cash-based transactions, and is advancing the publication of details on the flow of public resources from the Ministry of Finance through CODEDEs to municipalities. These welcome efforts are constrained by limited administrative capacity and resistance from local stakeholders benefiting from existing arrangements. Staff recommends strengthening capacity-building, and a consistent enforcement of anti-corruption measures to ensure swift legal actions in embezzlement or fraud cases.

**42. The infrastructure agenda needs to be fast-tracked.** Revamping the poor infrastructure, especially roads, hold the promise of large social returns.<sup>13</sup> The priority road infrastructure law, passed in late-2024, created a special investment regime for key road projects (e.g., design, construction, maintenance, rehabilitation, and supervision of highway corridors and ring roads). The law also envisages the creation of the Directorate of Priority Road Projects as a decentralized body with financial, technical, and administrative independence, responsible for prequalification, bidding, and contracting of priority road projects. Given the size of the infrastructure gap, closing it quickly will require private participation. This will require passage of amendments to the PPP law, which are currently under discussion in Congress. Narrower-focused laws are prerequisites for redressing port and airport infrastructure (e.g., modernization of Puerto Quetzal).

**43. Continued formalization of the economy would support the integration of returning migrants and promote private-led growth.** Informality in Guatemala is one of the highest in Central America, with about 70 percent of workers employed in the informal sector. The main drivers of informality are barrier to entry, red tape, high transaction costs, weak enforcement of labor laws and regulation, and a lack of access to credit. Critics have argued that the larger-than-usual 2025 increase in the minimum wages—10 percent for all activities except maquilas (6 percent)—is another contributor, though at around US\$400 per month, Guatemala’s minimum wage remains among the lowest in Central America. The government has taken some steps to increase the formalization of small business (e.g., simplified tax regime for SMEs *Monotributo*, electronic invoicing, temporary forgiveness of penalties for late registration). The implementation of the Competition Law could in time help address barriers to entry. Greater formalization would help the reintegration of returning Guatemalans into high productive jobs and help attract FDI. The “Return Home” (*Retorno al Hogar*) plan includes actions to facilitate the reintegration of returning migrants, including housing and land subsidies, scholarships, apprenticeships and trainings (including on financial literacy) and labor certification to facilitate employability. Going forward, staff recommends integrating these programs into the budget process, and designing active labor market policies that recognize greater pressures on the labor market from reduction in emigration than from returning migrants. Staff noted progress in advancing participation of urban and rural women in the labor market by providing training and financial resources for entrepreneurship; the action plan for the Equal Participation in Employment and Entrepreneurship initiative for Guatemala was launched in December 2024.

<sup>13</sup> With public roads in a dire state, Guatemala has two *fully* private roads, which reportedly enjoy high profitability.

## Authorities' Views

**44. The authorities are committed to improving ethics, probity, transparency, and accountability in public administration.** These efforts have been recognized by key stakeholders and partners and are reflected in Guatemala's improvement in international assessments regarding integrity and the fight against corruption. At the center of these efforts, the National Anti-Corruption Commission (CNC) has been advancing in: (i) establishing 67 probity offices in the Executive Branch; (ii) fostering a culture of reporting possible offenses; (iii) developing prevention measures to ensure that patterns of corruption do not recur in public institutions; and (iv) providing tools and spaces for citizen participation and social auditing. The CNC is leading the preparation of the national anti-corruption strategy, expected in the second half of 2025. In parallel, the administration has issued guidelines to strengthen accountability and information on the execution of the budget allocated to the CODEDEs.

**45. The authorities have ambitious infrastructure and legislative agendas.** With the help of the renovation of Puerto Quetzal (with the help of the U.S. Corps of Engineers, authorities plan undertaking a number of large projects, starting with the renovation of the Port of Quetzal, soon followed by the construction of a metro in Guatemala City and the improvement of the rail network. Finally, the administration has embraced an ambitious legislative agenda, including the timely adoption of the AML/CFT law, which would support Guatemala's efforts toward achieving a favorable investment rating.

## E. Policy Response under Downside Scenario

**46. Given high global uncertainty, authorities should consider the policy response under a downside scenario.** Drawing on the RAM (Annex II), such a scenario could combine a global slowdown, tighter international financing conditions, and additional obstacles to migration and remittances. Besides lower growth and remittances, the economy would face pressure on the labor market from falling net emigration. Weaker commodity prices and reduced wage pressures would ease inflation, but tighter financial conditions and falling remittances could exert downward pressure on the exchange rate. The current account balance would remain in surplus, as import contraction (including on account of lower FDI) would partly offset reduced remittances and exports. The fiscal deficit would widen slightly, driven by lower VAT revenues on imports.

**47. Under such a downside scenario, the authorities should implement a coordinated yet pragmatic stabilization package.** The policy response should combine measures to cushion the impact on aggregate demand, while allowing price signals to guide reallocation of resources. On the monetary side, global disinflationary forces could offer the opportunity for some monetary policy easing. At the same time, Banguat should prioritize exchange rate flexibility to prevent further loss of competitiveness in the tradable sector. On the fiscal side, support of economic activity and of the most vulnerable could take the form of: (i) allowing automatic stabilizers to work, (ii) accelerating the execution of approved budget expenditures, particularly infrastructure projects (without compromising efforts to improve quality of this expenditure); and (iii) deploying targeted social transfers to protect vulnerable households (e.g., Bono Familia). A more adverse external

environment would further raise the urgency of structural and governance reforms recommended under the baseline, and particularly of those measures targeting informality in the labor market.

### **Authorities' Views**

**48. The authorities concur with the channels of impact and policy recommendations under the adverse scenario.** Given that Guatemala's growth is less synchronized with U.S. growth than in other countries in the region, they see a potential macroeconomic impact of a U.S. slow down as likely less severe than in staff's assessment.

## **STAFF APPRAISAL**

**49. Guatemala's economy remains resilient and is generally well positioned to face rising external shocks and persistent domestic challenges.** Prudent macroeconomic policies have underpinned this resilience, delivering low inflation, robust policy buffers, and a sustained current account surplus. Despite a challenging political environment, a series of unexpected legislative successes has boosted optimism about advancing reforms critical to fostering stronger and more inclusive growth in the face of heightened global uncertainty.

**50. The outlook is broadly encouraging, but sustaining growth momentum over the medium term will require determined policy implementation.** Raising private investment from current low levels will depend on the provision of complementary public inputs—including infrastructure, an educated and healthy workforce, and enhanced security—which in turn requires both more and higher-quality public spending. Staff welcomes efforts to enhance expenditure quality and efficiency through better budget formulation, targeting, execution, and control, alongside the swift implementation of the anti-corruption agenda.

**51. The 2025 expansionary fiscal stance is appropriate given projected softening in private demand.** The historically high transfers to Departmental Development Councils (CODEDEs) warrant close monitoring to mitigate risks of misallocation and inefficiency. Ongoing multi-institutional efforts to strengthen transparency, accountability, and oversight of CODEDE transfers, as well as to build municipal capacity, are welcome and should be sustained.

**52. Revenue and expenditure reforms are needed in the medium term to maintain fiscal sustainability while accommodating higher infrastructure and social spending.** Existing fiscal space allows higher spending to be financed with debt. However, over the medium term, fiscal deficits should converge to historical norms (around 2 percent of GDP) without jeopardizing investment priorities. Efforts to enhance revenue mobilization highlighted in the 2024 TADAT assessment should continue and be complemented in the medium term by comprehensive tax policy reforms. On the expenditure side, systematic expenditure reviews and alignment of budgets with the National Development Plan would help target resources more effectively. A new Public Procurement Law could ease constraints on capital spending execution. Improved targeting of social programs would further increase their impact. Reinforcing the Medium-Term Fiscal Framework and multiannual budgeting would help bolster market confidence in fiscal sustainability.

**53. A well-calibrated financing strategy can improve macroeconomic outcomes.** While Guatemala's strong credit profile enables access to external financing on favorable terms, greater reliance on domestic funding under a credible medium-term debt management strategy would help reduce real appreciation pressures, mitigate currency risks, deepen domestic financial markets, and lower the sterilization costs incurred by Banguat in maintaining price stability. Staff recommends consolidating domestic issuances, introducing shorter-maturity instruments to develop the yield curve, and regularly publishing the MTDS and annual borrowing plans.

**54. The current monetary policy stance is broadly appropriate; there is scope to further strengthen policy transmission.** In light of high global uncertainty, maintaining the current policy rate and awaiting clearer signals seems prudent. Continued efforts to strengthen monetary policy transmission, including further development of financial markets, greater competition in banking, and reduced reliance on reserve requirements, are warranted. These should be supported by improvements in the legal and operational framework for monetary policy.

**55. Banguat's response to large remittance inflows—guided by an intervention rule—has been broadly appropriate.** However, the response has involved trade-offs, notably a relatively stable exchange rate and sizable sterilization costs. Strengthened policy coordination between Banguat and the Ministry of Finance could help alleviate these costs (153).

**56. Maintaining financial stability requires continued close monitoring of the system.** The banking sector appears sound, with strong capital and liquidity buffers and robust profitability. Already strengthened regulation and supervision should be reinforced by expanding risk-based supervision and enhancing oversight of fintech and digital financial services. Priority reforms include revisions to the 2002 Law on Banks and Financial Groups, transitioning to International Financial Reporting Standards, advancing the draft Secondary Market Law, approving the e-money law, and implementing the financial inclusion strategy.

**57. Strengthening governance and advancing structural reforms remain critical to fostering inclusive growth and restoring public trust.** Legislative priorities include adopting a new AML/CFT law, a Beneficial Ownership Law, a new Public Procurement Law, and a Law for the Protection of Whistleblowers. Given the forthcoming GAFILAT mutual evaluation in 2027, delays in passing the AML/CFT law could complicate Guatemala's path to investment grade. Institutional gains, such as the establishment of the National Commission Against Corruption and rollout of probity offices across the executive branch, should be consolidated through a medium-term anti-corruption strategy. Amending the law on partnerships for development and adopting a new ports law would accelerate infrastructure investment, helping close persistent gaps and crowd in private investment. Finally, continued efforts to formalize the economy and improve the business environment will help prepare Guatemala for the economic impact of declining net emigration.

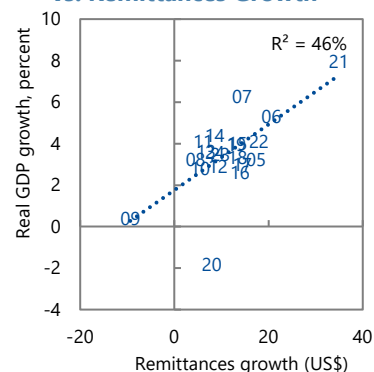
**58. It is recommended that the next Article IV Consultation take place on the standard 12-month cycle.**

### Box 1. Guatemala: External Balance Consequences of Remittances and the Policy Response

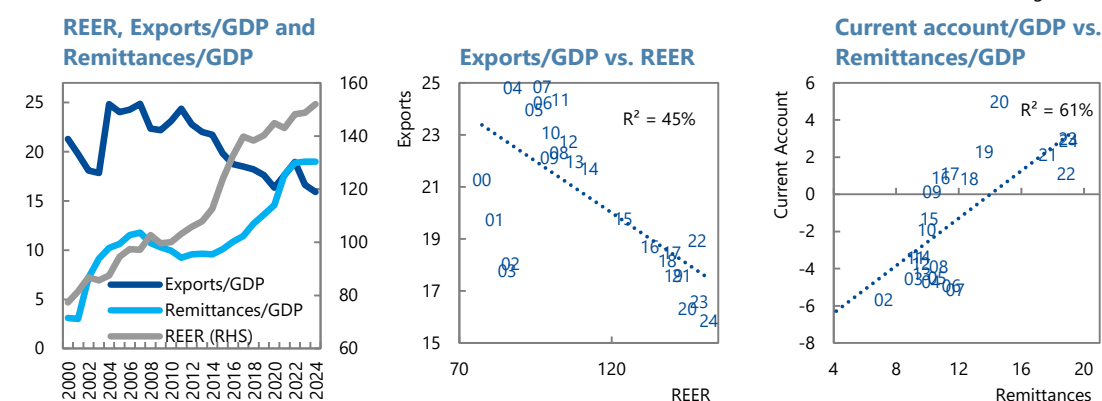
**Guatemala has experienced a rapid increase of remittances over the last two decades, supporting private consumption.** Over two decades, they rose to nearly 20 percent of GDP; with dollar amounts increasing fourfold in the last decade alone. This had positive benefits in terms of private consumption and GDP (Figure 1).

**Rising remittances had a profound impact on external balances as well.** The current account balance has swung into positive territory in 2016, but more telling is the change in the *composition* of current account flows, where the rise of remittances coincided with the fall of exports as share of GDP, as the gradual real appreciation eroded price competitiveness.

Box 1. Figure 1. Annual GDP vs. Remittances Growth



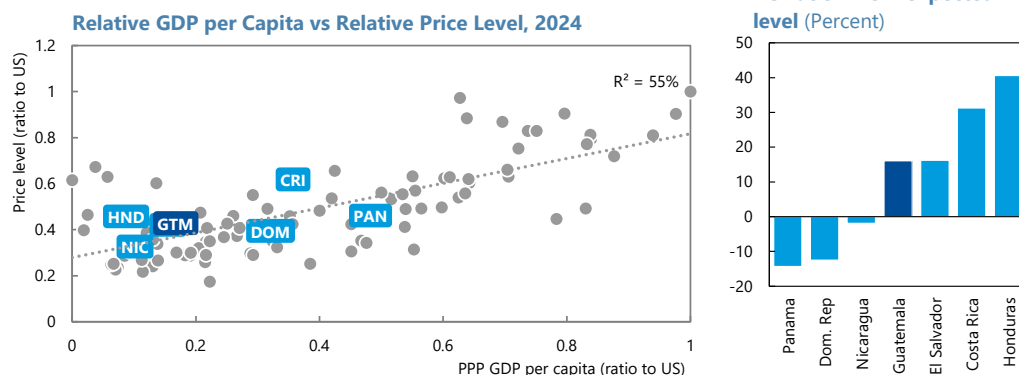
Box 1. Figure 2. Remittances and Key External Balance Variables



Source: Haver Analytics, WEO, and IMF Staff calculations.

**Tellingly, different EBA approaches offer conflicting diagnoses for Guatemala.** Given the large current account surpluses, the current account model assesses external balance to be stronger-than-fundamentals which, *ceteris paribus*, suggests an *undervalued* (i.e., overly competitive) exchange rate. At the same time, the REER models—both levels and index—suggest a sizeable *overvaluation*. This price-based assessment can be illustrated using a Balassa-Samuelson regression (Figure 3), which shows that Guatemala's price level (as captured by World Bank's PPP price factor) is considerably above of what its GDP/capita would suggest. Effectively, large remittances create a wedge between quantity- and price-based assessments of external balance, since remittances raise the external balance but do not reflect higher competitiveness.

Box 1. Figure 3. Balassa-Samuelson Regression and Deviation from Predicted Price Level



Source: World Bank WDI and IMF staff calculations.

### Box 1. Guatemala: External Balance Consequences of Remittances and the Policy Response (concluded)

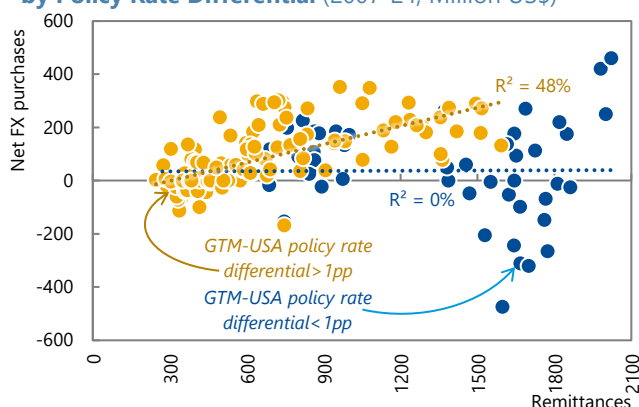
**The macro policy mix—and exchange rate policy in particular—is striking a reasonable compromise with respect to external balance.**

There is no intrinsic reason for remittances to *cause* current account surpluses: the median high-remittances country (remittances of over 10 percent of GDP) ran a current account deficit of 6.7 percent of GDP in 2022. In Guatemala's case, the two are largely linked by the Central Bank's FX participation mechanism. Outside of the recent periods of capital account (when the interest rate differential vis-à-vis the US was temporarily negative), it took the de facto form of a "leaning against remittances" intervention rule. While insufficient to fully neutralize

appreciation pressures, Banguat's exchange rate policy significantly dampened their effect. Effectively, the contradicting results from different EBA models suggest that the central bank is striking an appropriate balance. Had Banguat not intervened at all, the appreciation would lower savings and the current surplus, but the REER model-measured overvaluation would have been higher and exports fallen even further. And vice-versa, an attempt (likely unsuccessful given the magnitude of flows) to fully absorb FX from remittances would have better preserved export price competitiveness, but at the expense of unjustifiably high—for an emerging market—private savings and even larger monetary policy sterilization costs. Ultimately, Guatemala's large savings-investment balance stems from low investment, not high savings, and reducing this excess balance should be achieved through higher investment.

**The expected reduction in remittances could ease appreciation pressures, but that alone will not suffice restoring export competitiveness.** The dry-up of new migrant flows to the US and the returns of migrants could reduce remittances in the medium term. However, even if this reverts the real appreciation of the last two decades, Guatemala is unlikely to see a boost to competitiveness and economic growth without addressing infrastructure and other bottlenecks that currently inhibit private investment.

**Box 1. Figure 4. Monthly FX Purchases and Remittances by Policy Rate Differential (2007-24, Million US\$)**

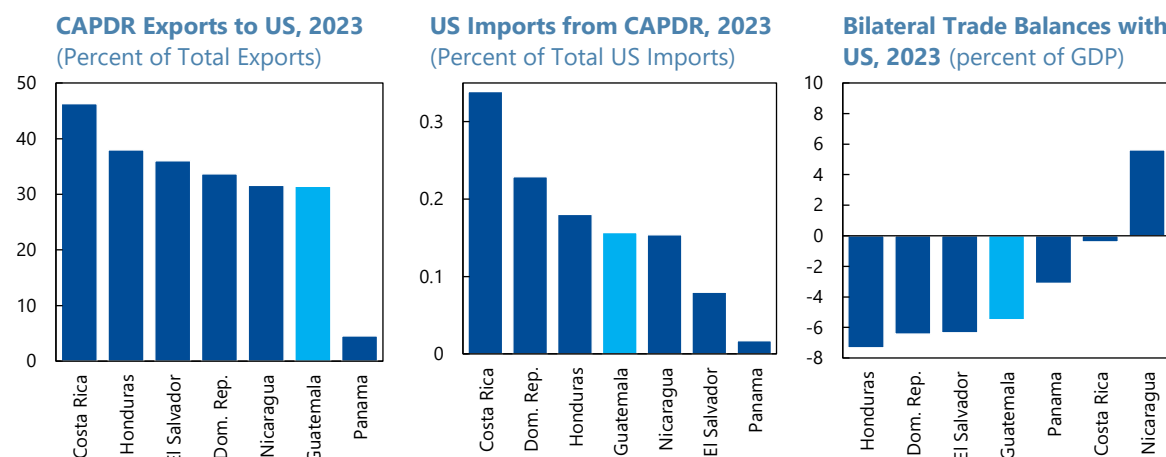




## Box 2. Guatemala: Potential Implications of Changing Trade Policy on Guatemala's Exports<sup>1</sup>

**US is the number one export market for Guatemala and most countries in the region.** Box Figure 1 shows that between a third and a half of exports of most countries in the CAPDR region are destined for the US. However, the countries in the region are themselves relatively minor trading partners from the point of view of the US, accounting together for around 1½ percent of all imports. The chart on the right further shows that most CAPDR countries run bilateral trade deficits vis-à-vis the US. As a result, *direct* trade policy responses from the US towards the region have been contained so far.

Box 2. Figure 1. Bilateral Trade between CAPDR and the US

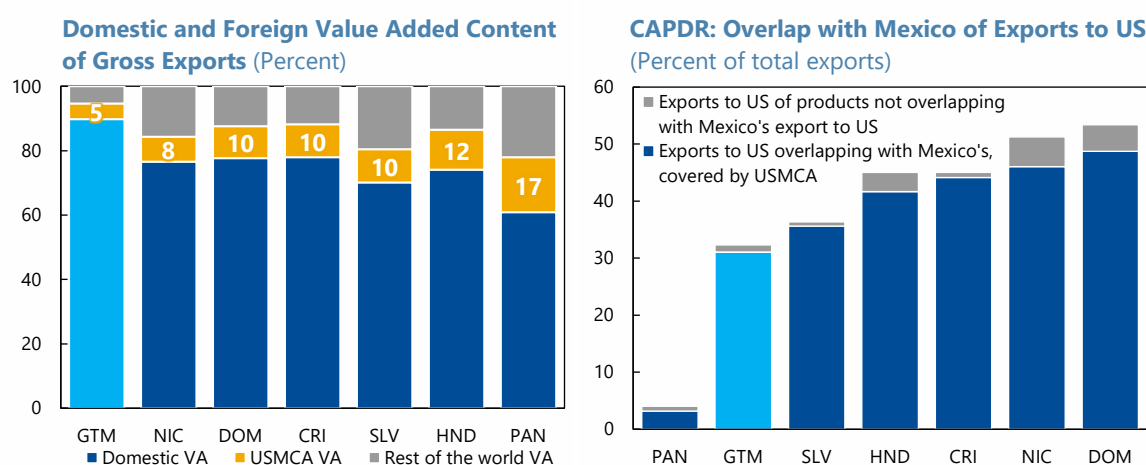


Source: IMF DOTS and staff calculations.

**Guatemala and other countries in the region can still be affected through *indirect* channels.**

Unprecedented uncertainty surrounding trade policy constrains ability to produce point estimates. However, Box Figure 2 provides an idea of the relative magnitudes of two indirect channels, both linked to the interplay of Guatemala trade with USMCA trade; other countries in the region included for comparison.

Box 2. Figure 2. Interplay Between CAPDR and USMCA Trade



Source: EORA, COMTRADE and IMF staff calculations. COMTRADE and DOTS (Box Figure 1) exports aggregates differ somewhat for methodological reasons.



## Box 2. Guatemala: Potential Implications of Changing Trade Policy on Guatemala's Exports (concluded)

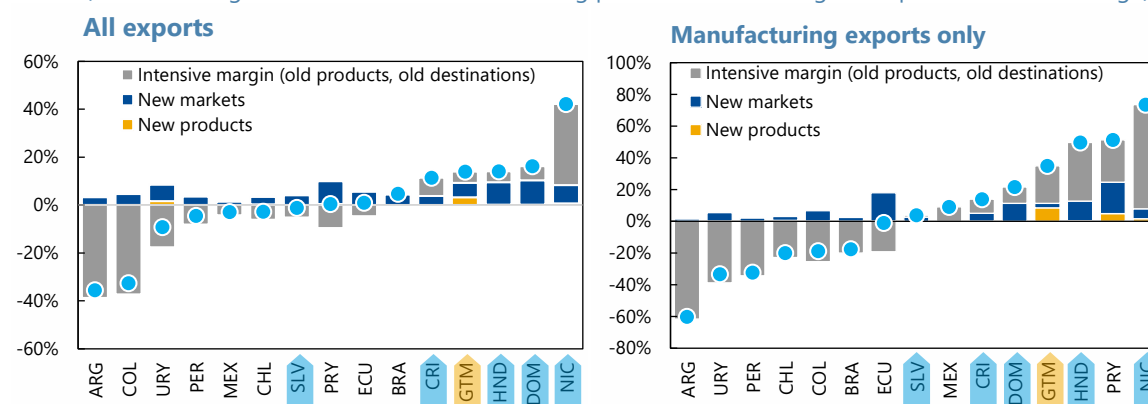
- **The complementarity channel** stems from the participation of Guatemala and other CAPDR countries in USMCA-based supply chains. Depending on how tariffs evolve, intra-USMCA trade could increase or decrease, and so would Guatemala's exports integrated into those supply chains. The degree of integration into USMCA can be inferred from the share of export value added attributed to USMCA
- countries (left chart in Box Figure 2), with around one-tenth of total CAPDR export value added coming from Canada, Mexico and the US. However, Guatemala is less integrated into cross-border supply chains than other countries in the region, which makes the country less susceptible to volatility via this channel.
- **The substitution channel** stems from the similarity of CAPDR's export basket with that of Mexico. As shown in the right chart of Box Figure 2, a significant share of products that CAPDR countries export to the U.S. are also exported by Mexico to the U.S. Virtually all of these products are also covered by the USMCA. As of now, this puts Guatemala and its regional peers at a disadvantage on the US market.<sup>2</sup>

**In the medium term, Guatemala should prepare for a policy-driven reshaping of global trade patterns.** For example, tariffs faced by textile producers elsewhere in the world could have spillovers on Guatemala and the region. This fluid environment will likely favor countries more experienced in diversifying their exports towards new markets. We can assess this based on the performance in the last decade. Box Figure 3 decomposes real (i.e., in constant USD) growth of LAC exports—total exports on the left and manufacturing exports on the right—into three margins (at the 4-digit Harmonized System level):

- *The intensive margin* – increasing exports of established products to established markets.
- *The products extensive margin* – exporting new products (to both existing and new markets).
- *The markets extensive margin* – exporting established products, but to new markets.

**CAPDR countries have made good progress in penetrating new markets**, as indicated by the sizable contribution of blue bars in the left chart (Panama is excluded as its goods trade is dominated by re-exports, which clouds the analysis). Things look equally good when we focus on manufacturing goods only, despite the generally greater difficulty of penetrating new markets with differentiated goods. Both of these findings are encouraging for Guatemala, though taking advantage of these opportunities will require adequate infrastructure and other complementary inputs.

**Box 2. Figure 3. Decomposition of Real Export Growth Over a Decade**  
(Percent change in constant US Dollars. Starting point: 2011-13 average, End point: 2021-23 average)



Source: COMTRADE and IMF staff calculations.

<sup>1</sup> Prepared by Alfredo Alvarado (WHD).

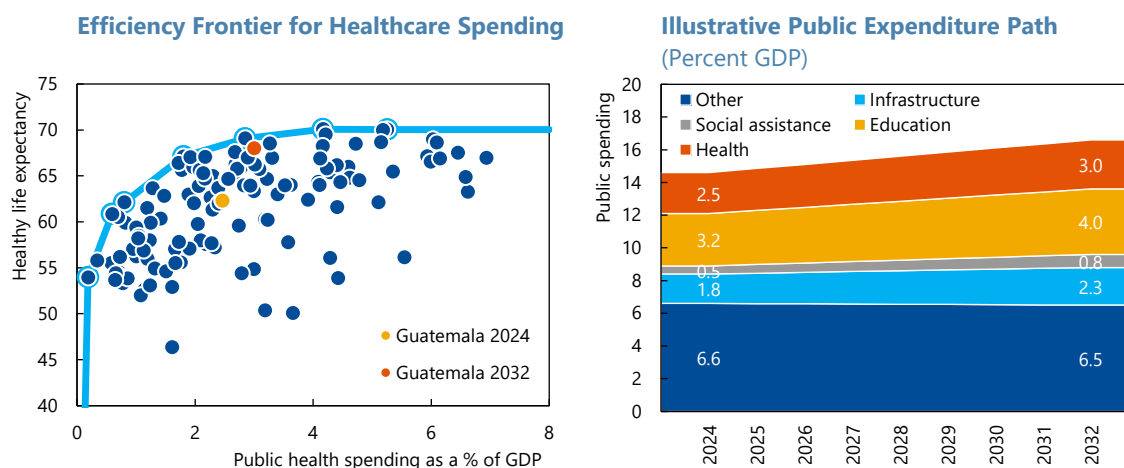
<sup>2</sup> The direction of potential trade diversion is subject to uncertainty, as the tariff landscape is rapidly evolving.

### Box 3. Guatemala: Spending Efficiency and the Path to Better Development Outcomes<sup>1</sup>

**Guatemala's public spending remains too low and unevenly distributed to meet its core development challenges.** Historically inadequate expenditure in social sectors has resulted in limited and uneven access to essential services. Despite being one of the youngest and fastest-growing populations in the region, access to essential services is limited and often inequitable. In rural areas, over half of the population lacks access to basic health services, and preventable maternal and child mortality remains high. Secondary school enrollment is below 50 percent—one of the lowest rates in Latin America—and large gaps persist between rural and urban students in both access and performance. Public infrastructure suffers from chronic underinvestment: road connectivity is weak outside major urban centers, and nearly one in five people lacks access to safe water and sanitation. Social protection coverage is minimal, reaching only around one in ten Guatemalans. These outcomes point not only to insufficient spending but also to inefficiencies in how public funds are allocated and delivered. Spending is often fragmented across programs, poorly targeted, and skewed toward administrative costs rather than frontline services, limiting its impact on poverty reduction and human capital development.

**These challenges reflect not only the limited fiscal envelope but also the need for more strategic spending.** As shown in Box Figure 1, Guatemala's healthy life expectancy in 2024 is broadly consistent with its low level of public health spending, suggesting that spending is not markedly inefficient in terms of outcomes achieved—but also highlighting the limitations of operating within such a constrained envelope. Even moderate increases in health investment could yield substantial gains if efficiency is preserved or improved (similar analysis for education, infrastructure and social assistance is presented in the Selected Issues Paper). The second panel of Box Figure 2 shows illustrative expenditure paths whereby gradually increasing spending by 2 percentage points of GDP between 2024 and 2032—while shifting composition toward priority sectors—could accelerate progress toward the frontiers in each sector. Country experiences reinforce the importance of not just increasing resources but also improving how they are used. For example, Peru improved maternal and child health outcomes by directing funds to underserved areas and linking financing to results; Vietnam raised learning outcomes by reallocating spending to teacher training and rural access; Ethiopia scaled up food security with targeted transfers at modest fiscal cost; and El Salvador restructured fragmented child-focused programs to improve delivery while maintaining budget discipline. These examples show that meaningful progress is possible with the right mix of reprioritization and institutional support.

**Box 3. Figure 1. Healthcare Efficiency Frontier and Possible Expenditure Path for 2024-2032**



Source: Authors' elaboration based on data provided by the Guatemalan authorities.

Note: Efficiency frontier excludes Advanced Economies, which are not relevant for comparative purposes.

### Box 3. Guatemala: Spending Efficiency and the Path to Better Development Outcomes (concluded)

**Moving closer to the frontier requires addressing institutional and structural inefficiencies.** Guatemala has taken important steps to improve public financial management, including reforms to the budget process, introduction of results-based budgeting, and efforts to strengthen the multiannual fiscal framework, yet challenges remain. The planning and budgeting process is still fragmented, with weak links between medium-term objectives and actual allocations. The multiannual budget often lacks realism, and significant changes in sectoral allocation during budget approval and execution reduce policy coherence. While performance budgeting frameworks exist, they tend to focus on outputs rather than outcomes, and strategic reviews of spending are limited. Policy priorities in the National Development Plan (K'atun 2032) and the Government General Policy (PGG 2024-28) are not consistently reflected in fiscal planning.

**Moreover, the lack of systematic evaluations and strategic reviews limits the government's ability to reallocate resources based on effectiveness.** Institutionalizing tools for spending evaluation—such as through a Value-for-Money function within the Ministry of Finance—could support regular assessments of expenditure quality and help identify reallocations from ineffective to higher-impact programs. Guatemala's Directorate for Fiscal Policy Analysis (DAFP) could play a leading role in this process, working across ministries to align spending with sectoral plans and development goals.

**Going forward, Guatemala will need to define clear and realistic spending priorities anchored in its development objectives, supported by credible multiannual expenditure paths and mechanisms to track progress.** Enhancing the use of the medium-term fiscal framework, improving indicator harmonization, and conducting strategic reviews of overlapping programs (e.g., in food security and nutrition) could further improve the quality and coordination of public spending. Without a consistent and strategic increase in priority spending—anchored in clear development objectives and guided by stronger institutional processes—it will be difficult to scale up essential public services and achieve the targets set out in national development plans and the SDGs. The analysis and simulations underpinning this box are developed in greater detail in the Selected Issues Paper.

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<sup>1</sup> Prepared by Carolina Bloch (FAD).

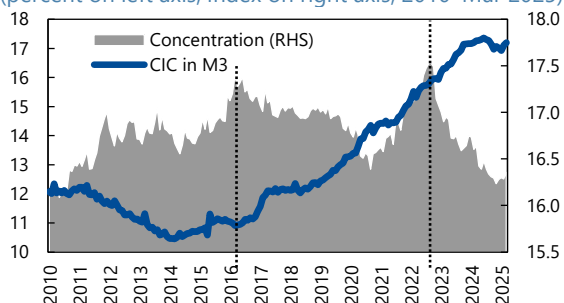
### Box 4. Guatemala: The Impact of Rising Cash Ratios and Banking System Competition on Policy Pass-Through to Bank Deposit Rates in Guatemala<sup>1</sup>

**Guatemala's cash ratios and banking system competition trended up over the past decade** (Box Figure 1.A). The currency-in-circulation-to-total money ratio (henceforth "cash ratio") rose from 10.5 percent in January 2014 to 17.2 percent by March 2025.<sup>2</sup> Banking system concentration—a metric that moves inversely with competition—peaked in 2016 and again in September 2022, before trending down toward March 2025, indicating a gradual rise in banking competition over the years.

**Box 4. Figure 1. Cash Ratios, Banking System Concentration, and Deposit and Policy Rates**

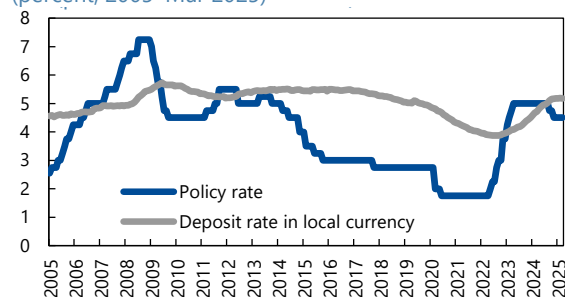
#### A. Cash Ratio and Banking System Concentration

(percent on left axis, index on right axis; 2010–Mar 2025)



#### B. Bank Deposit Rates and Policy Rate

(percent; 2005–Mar 2025)



Source: Banco de Guatemala and IMF staff calculations.

Note: The banking system concentration metric in panel B is a Herfindahl index. A lower value means less concentration (more competition).

#### Both trends are expected to strengthen the pass-through from monetary policy to bank deposit rates.

Greater banking competition (i.e., lower concentration) encourages banks to offer higher deposit rates to retain deposit, reducing deposit–policy rate spreads. A higher cash ratio exerts a similar effect: as cash use increases, banks face greater competition from cash, incentivizing them to better remunerate deposits to encourage depositors to not convert deposits to cash. Related, cash usage increases reserve demand, raising funding costs—via the potential for reserve needs—that are tied to the policy rate. In both cases, tighter deposit–policy rate spreads would result in stronger pass-through (Figure 1.B).

#### Econometric estimates confirm that cash ratios and banking system concentration influence the responsiveness of deposit rates to policy rate changes.

An otherwise conventional pass-through equation, relating deposit rates to policy rates and other factors, was augmented with policy rate interaction terms separately with the cash ratio and the banking system concentration metric. A linear and a nonlinear specification was considered, the latter constraining the marginal effect of policy rate changes involving the interaction effects to not be negative. A variance decomposition over the 2010–25 period shows that fluctuations in banking system concentration and cash ratios explained 73 and 18 percent, respectively, based on the linear model (Figure 2.D).<sup>3</sup> The nonlinear model estimated the contributions of the two factors at 21 and 70 percent, i.e., it rotates the importance more toward the cash ratios.

#### The rising cash ratio was quantitatively contributing more to the strengthening policy pass-through.

Over the June 2016 to March 2025 period, the rising cash ratio strengthened the policy pass-through by between 30 and 38 percentage points according to the two models (Box Figure 2.A–C). Falling banking system concentration added 4–17 percentage points. The pass-through strength thereby approached an estimated 34–55 percent in March 2025, from close to zero in January 2016.

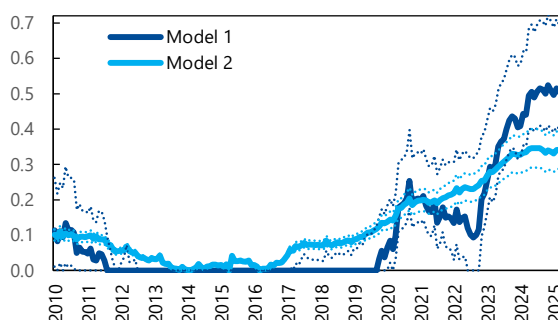
### Box 4. Guatemala: The Impact of Rising Cash Ratios and Banking System Competition on Policy Pass-Through to Bank Deposit Rates in Guatemala (concluded)

**Beyond the pass-through dependence on cash use and banking system competition, a directional asymmetry when policy rates move up vs. down was found.** Such an asymmetry can be due to banks' profit-maximization incentive to increase deposit rates only sluggishly when policy rates move up, while decreasing them more swiftly when policy rates fall. For Guatemala, the marginal pass-through was found to be about five times stronger when policy rates fell than when they rose. This further compounds the time-varying policy pass-through resulting from changing cash use and banking system competition.

**Box 4. Figure 2. Time-Varying Pass-Through from Policy Rates to Bank Deposit Rates**

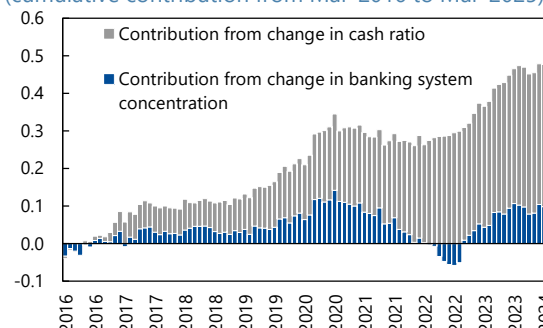
#### A. Pass-Through from Policy Rate to Deposit Rate

(estimated pass-through coefficient, dotted lines: 95th perc.)



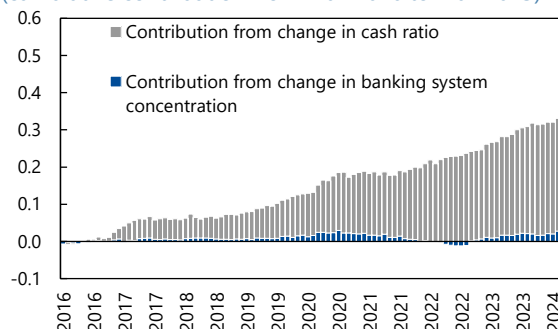
#### B. Cumulative Contribution to Change in Pass-Through of Policy Rate to Deposit Rate – Model 1

(cumulative contribution from Mar-2016 to Mar-2025)



#### C. Cumulative Contribution to Change in Pass-Through of Policy Rate to Deposit Rate – Model 2

(cumulative contribution from Mar-2016 to Mar-2025)



#### D. Selected Model Metrics

(units as indicated in the table)

		Model 1 (linear)	Model 2 (nonlinear)
Variance share	Bank concentration	73%	21%
	Cash ratio	18%	70%
	Covariance	9%	10%
Contribution to change in marginal effect of policy rate since Mar-2016	Bank concentration	17 pp	4 pp
	Cash ratio	38 pp	30 pp
Coefficients on interaction terms (p-value in parentheses)	Bank concentration	-0.25 (0.01)	-0.03 (0.01)
	Cash ratio	0.09 (0.00)	0.05 (0.00)
Other model metrics	Sample period	Jan 2010 - Mar 2025	
	Obs.	183	
	R-square	0.91	0.85

Source: Banco de Guatemala and IMF staff calculations.

Note: The estimates presented in this chart panel are based on a regression model that relate local currency deposit rates from Guatemala to policy rates, cash ratios, banking system concentration, and their interaction terms. The nonlinear model variant (Model 2) imposes a non-negativity constraint on the marginal effect of the policy rate, involving the interaction terms. The error bounds in the figure in Panel A comprise a 95th percent confidence interval estimated (simulated) from the two models.

<sup>1</sup> Prepared by Marco Gross (MCM).

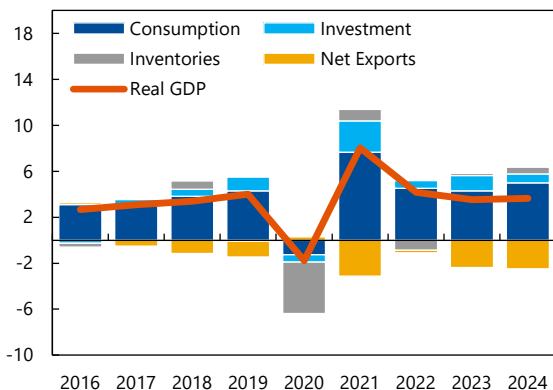
<sup>2</sup> The upward trend in the cash-in-total money ratio may be partly due by sustained inbound remittance flows to Guatemala and an alleged preference of the receivers for holding cash.

<sup>3</sup> The remaining 9 percent of the variance of the marginal effect is attributable to the covariance between the two factors, implying that changes in banking concentration and cash ratios often moved together in a way that partially offset or amplified the net volatility in the marginal effect. This interdependence implies that the two drivers should be analyzed jointly, not in isolation.

**Figure 1. Guatemala: Recent Economic Developments**

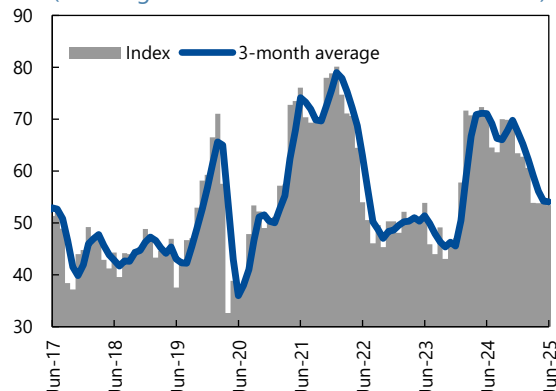
Consumption continued to lead real GDP growth in 2024, with exports declining.

**Contributions to Real GDP Growth**  
(Year-on-year percent change)



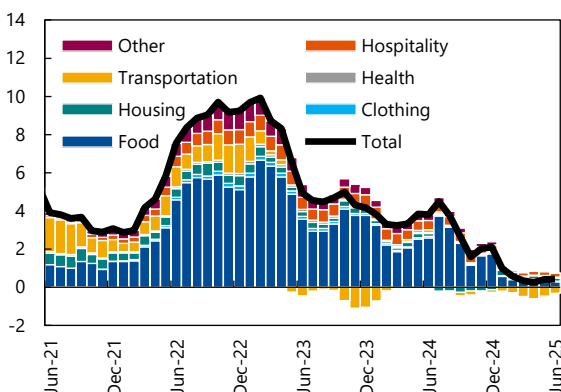
The new administration has momentum, with the confidence index above 50 since late 2023.

**Economic Activity Confidence Index**  
(100=Highest confidence in economic outlook)



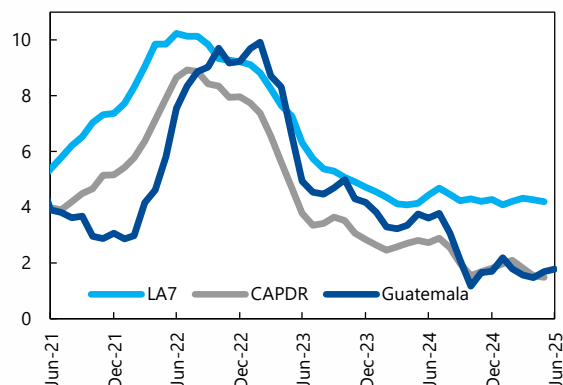
With food prices declining ...

**CPI Inflation by Major Components**  
(Percent change y-o-y and contributions)



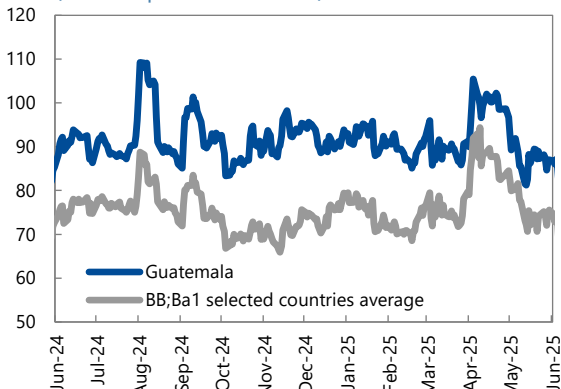
...inflation dropped (similar to peers) and is now below the mid-target.

**CAPDR Headline Inflation**  
(Year-over-year percent change)



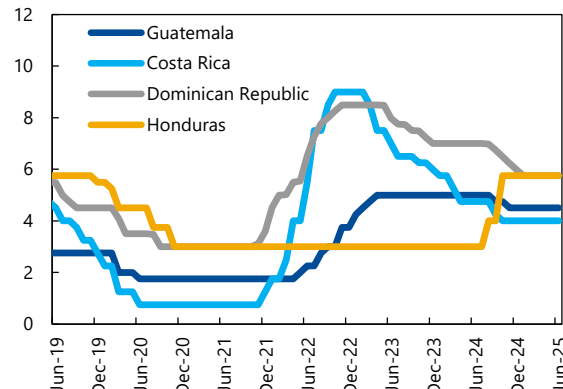
While social unrest and political uncertainty still show in spreads, the difference has significantly narrowed...

**Sovereign Bond Markets Spread**  
(Index; April 3, 2023=100)



And Banguat's policy rate remains unchanged since late 2024.

**Monetary Policy Interest Rate**  
(Percent)

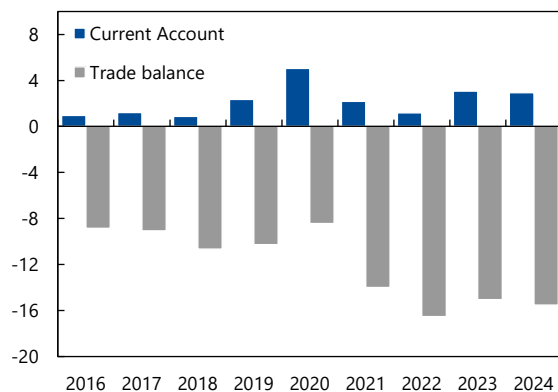


Note: Selected BB;Ba1 countries are Paraguay, Brazil, DR, Oman, Azerbaijan, and Morocco.

**Figure 2. Guatemala: External Developments**

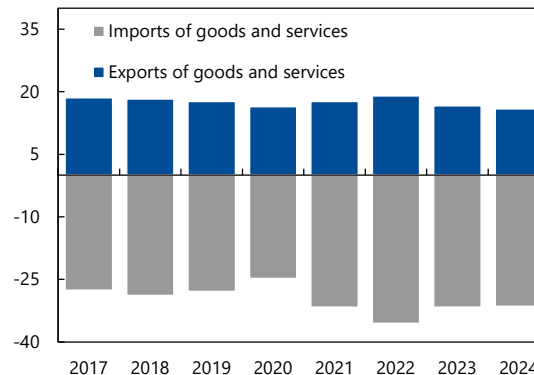
*The CA surplus has remained sizeable...*

### Current Account and Trade Balances (Percent of GDP)



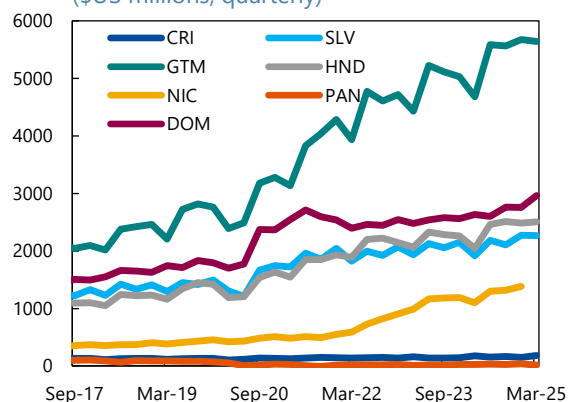
*...with exports declining (also in volume terms) ...*

### Exports and Imports (Percent of GDP)



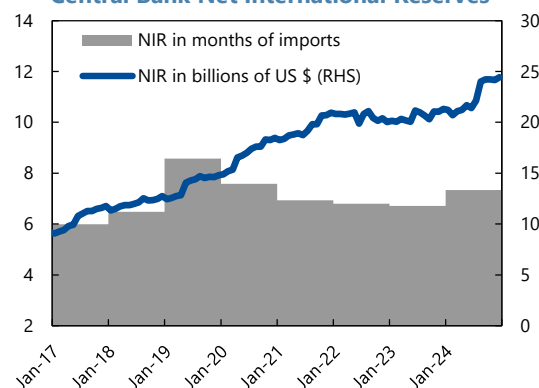
*.. and large remittance inflows.*

### Remittances (\$US millions, quarterly)



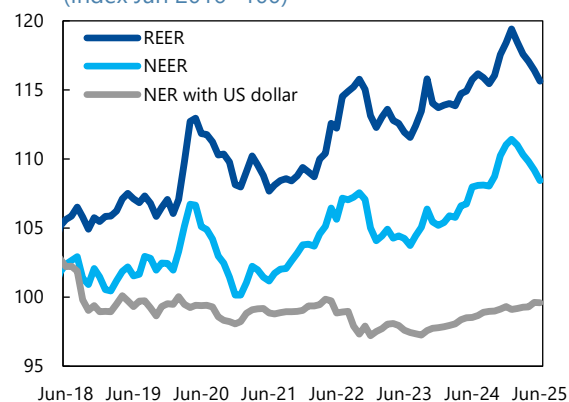
*International reserves kept rising ...*

### Central Bank Net International Reserves



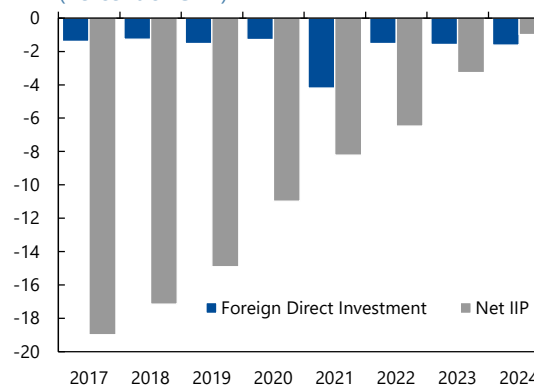
*The quetzal resumed its real appreciation.*

### Evolution of Guatemala's Exchange Rate (Index Jan 2016=100)



*FDI remains low despite the government's road shows to attract investors.*

### Net IIP and FDI (Percent of GDP)

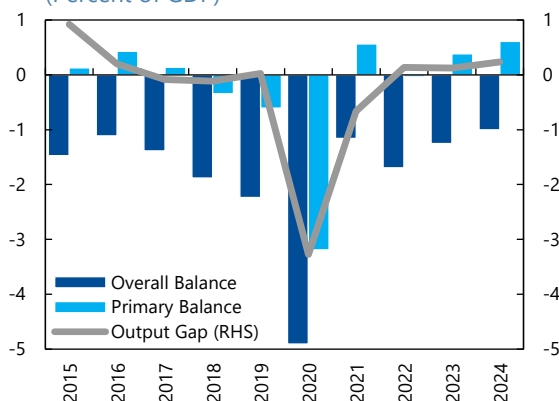


**Figure 3. Guatemala: Fiscal Sector Developments**

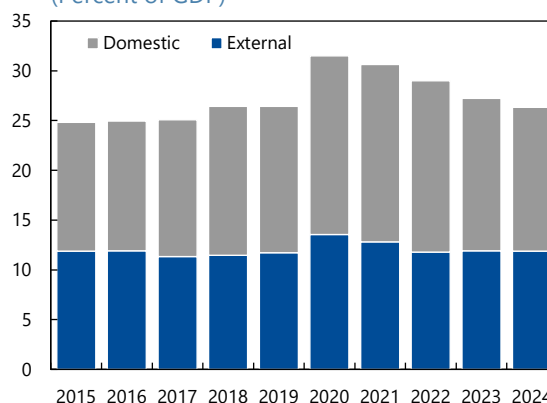
Overall and primary balance continue higher than the long-term average...

.... with debt levels declining from already low levels.

**Fiscal Balance**  
(Percent of GDP)



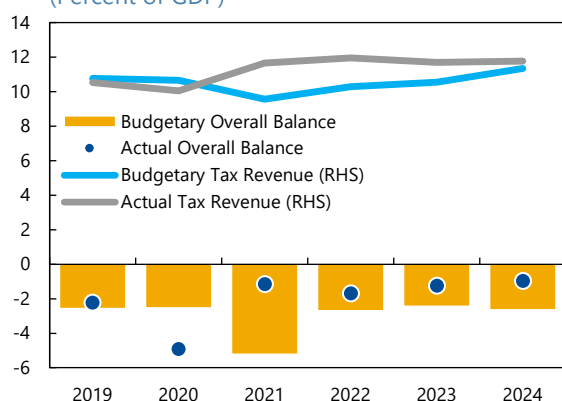
**Public Debt**  
(Percent of GDP)



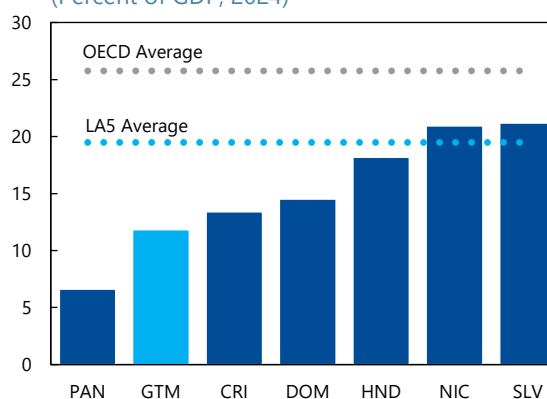
Higher-than-budgeted tax collection contribute to lower deficits

Tax revenue is low compared to income and regional peers.

**Budgetary and Actual Fiscal Balance**  
(Percent of GDP)



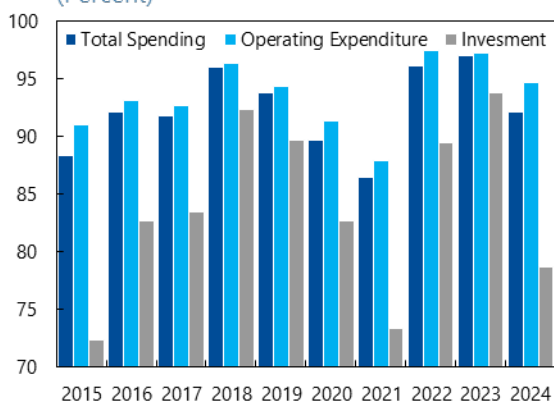
**General Government Revenue**  
(Percent of GDP, 2024)



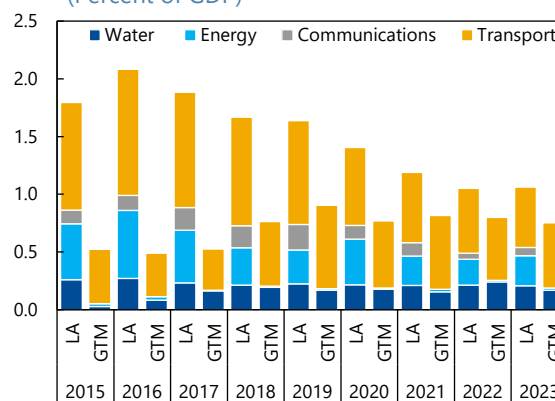
Spending execution in 2024 was lower than in recent years.

Infrastructure spending is below 1 percent with gaps in transport, communications, and energy sectors.

**Spending Execution by Type**  
(Percent)



**Infrastructure Spending**  
(Percent of GDP)



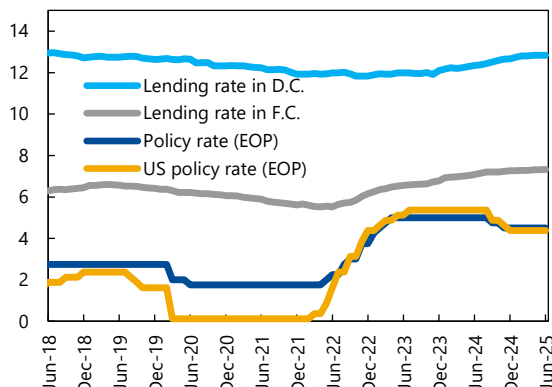
Sources: National Authorities, Infratam, OECD, and IMF Staff Calculations.



**Figure 4. Guatemala: Monetary Policy and Financial Sector Developments**

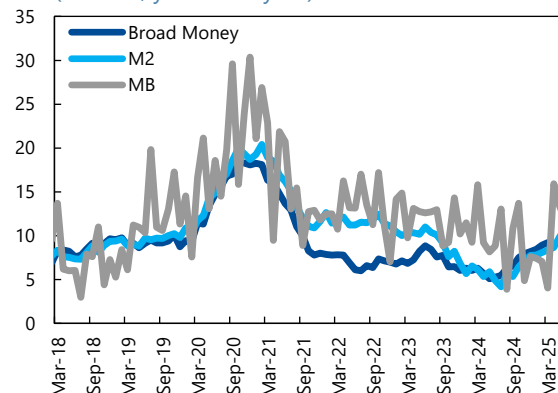
Monetary policy transmission remains weak in domestic currency...

#### Policy Rate and Banking Rates (Percent)



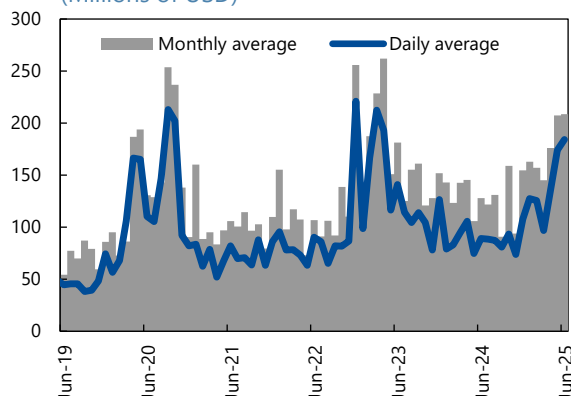
And liquidity in the system significantly decelerated since 2023 ...

#### Money Growth (Percent, year-over-year)



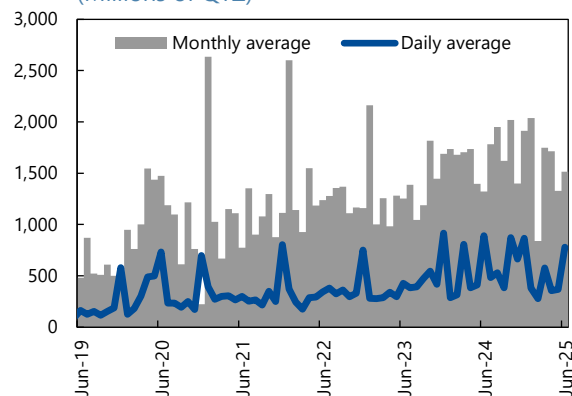
... in particular in U.S.\$, given the \$-quetzal market rate gaps, with reserve requirements declining

#### Foreign Currency Reserve Requirement (Millions of USD)



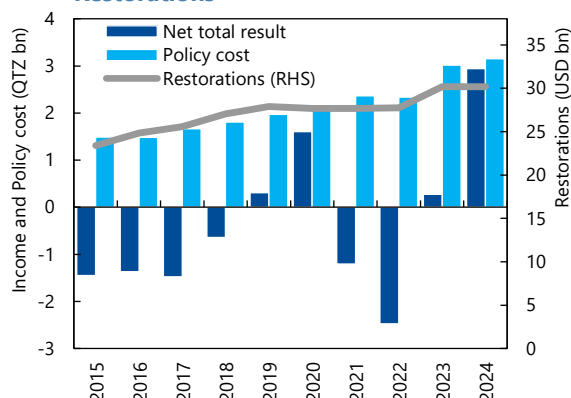
... but also in domestic currency.

#### Domestic Currency Reserve Requirement (Millions of QTZ)



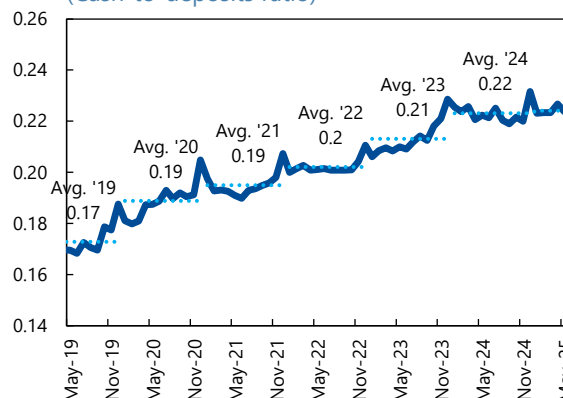
With large financial inflows, Central Bank Restorations have been increasing over the last years...

#### Balance Sheet Net Result, Policy Cost and Restorations



... at the same time that preference for liquid assets continues to rise.

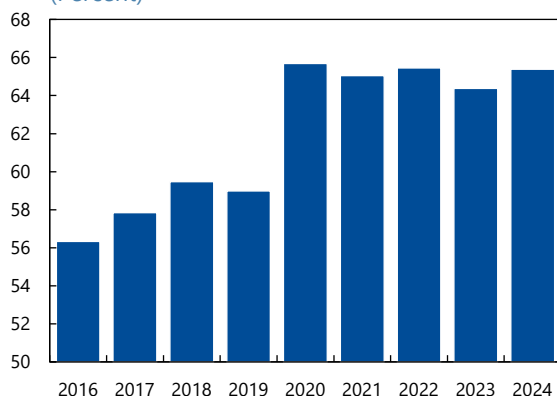
#### Liquidity Preference Coefficient (Cash-to-deposits ratio)



**Figure 5. Guatemala: Financial Sector Developments**

*The banking sector grew slightly in 2024...*

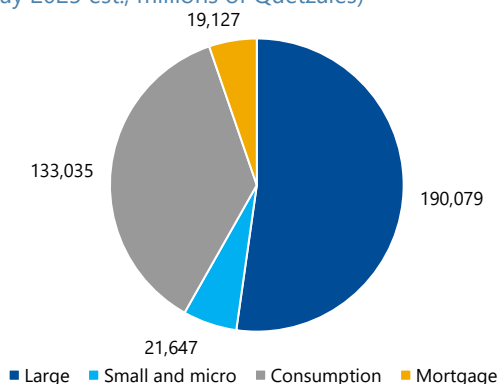
**Bank Assets to GDP**  
(Percent)



*Bank credit to large corporates and consumption dominate...*

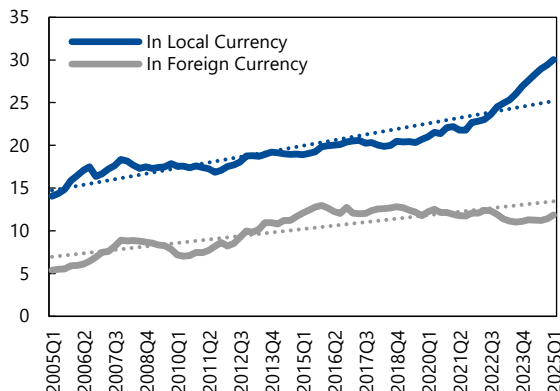
**Credit Composition**

(May 2025 est., millions of Quetzales)



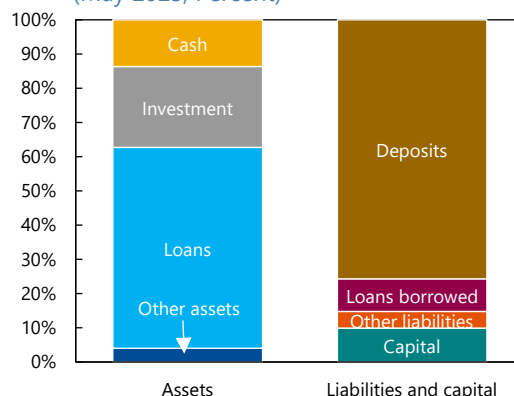
*The credit cycle is partly driven by a quetzalization of credit...*

**Credit to GDP Ratio**



*...with banks using a traditional banking model.*

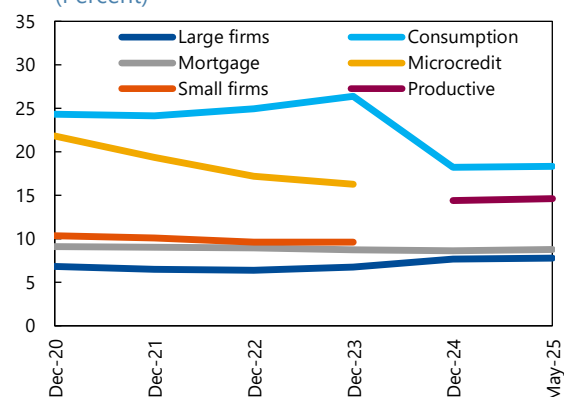
**Bank's Balance Sheet**  
(May 2025; Percent)



*...with domestic lending rates barely changing with policy rate changes*

**Market Rates in Quetzales**

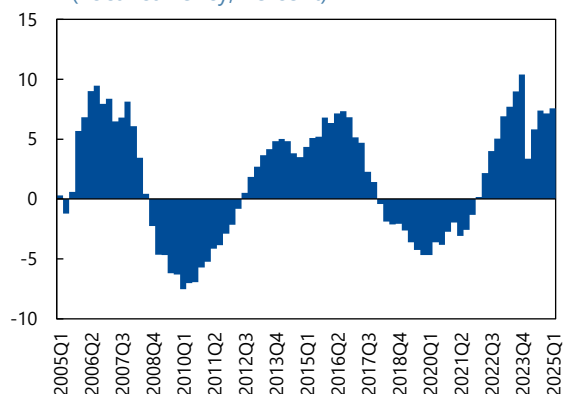
(Percent)



*...with a positive credit gap for consumption credit in local currency.*

**Credit Gap for Consumption**

(Local currency, Percent)

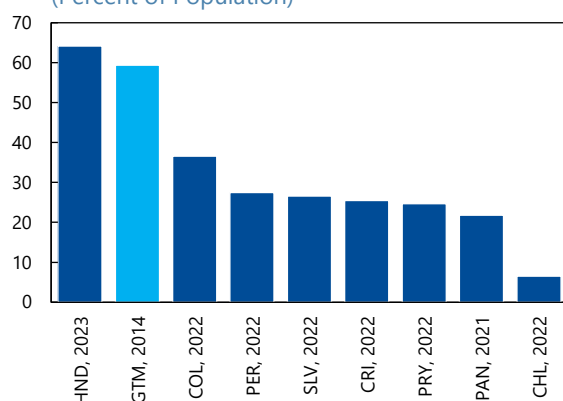


Source: SIB Guatemala; Banguat; IMF staff calculations. Reporting of banking credit statistics changed in 2024, with "productive" replacing "microcredit and small firms", and composition of consumption credit also revised.

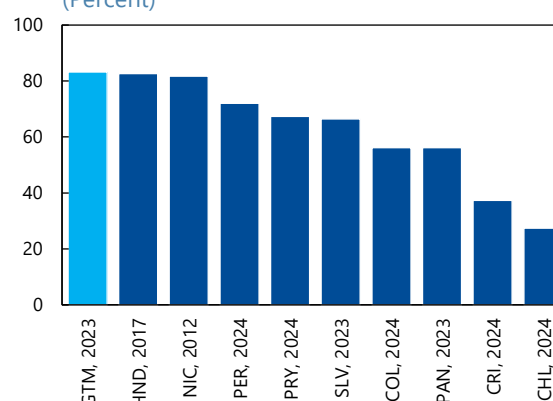
**Figure 6. Guatemala: Social and Business Environment Indicators**

*Guatemala's poverty, informality and social indicators are some of the lowest in the region and Latin America.*

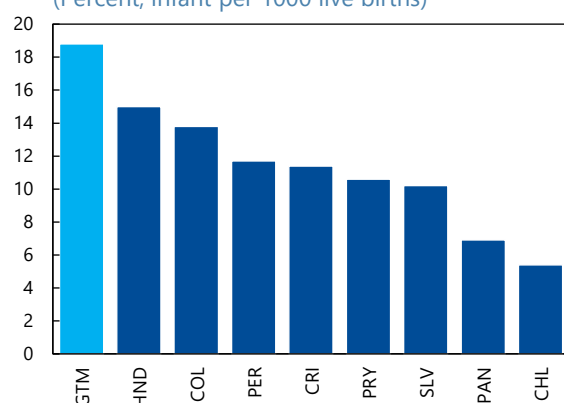
**Poverty Headcount Ratio at Nat. Pov. Lines**  
(Percent of Population)



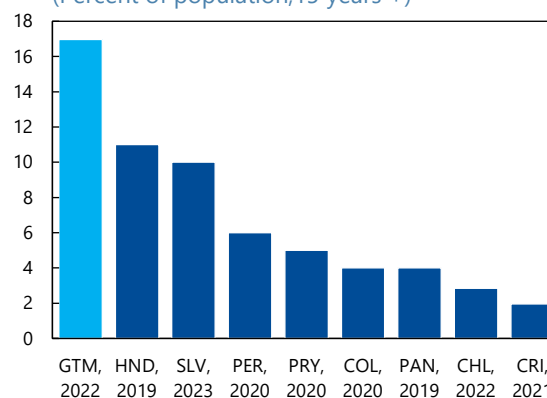
**Informal Employment in Total Employment**  
(Percent)



**Mortality Rate**  
(Percent, infant per 1000 live births)

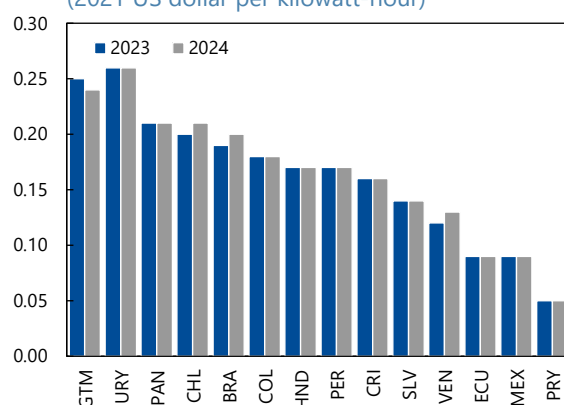


**Adult Illiteracy Rate**  
(Percent of population, 15 years +)



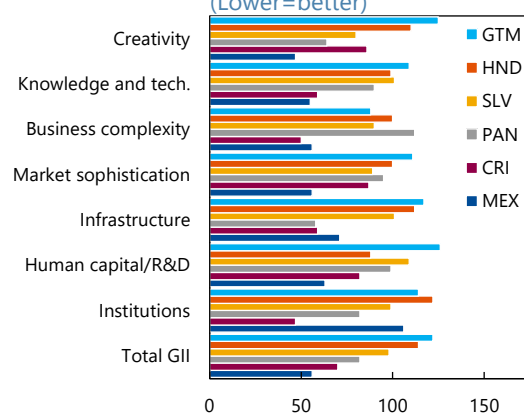
*Limited infrastructure investment drives up energy prices.*

**Residential Electricity Consumer Price**  
(2021 US dollar per kilowatt-hour)



*Guatemala lags regional peers in innovation performance.*

**Global Innovation Index (2024)**  
(Lower=better)



Source: World Development Indicators, ILOSTAT, UNESCO, and IMF Staff Calculations.

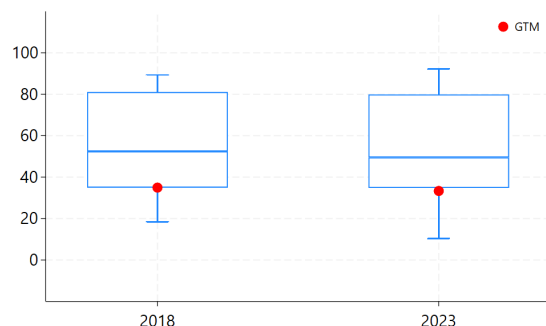
Note: Poverty headcount, informality rates, and adult illiteracy rate show latest year available.

**Figure 7. Guatemala: Worldwide Governance Indicators**

*Reflects perceptions of whether citizens are able to participate in selecting their government, freedom of expression, freedom of association and media.*

### Voice and Accountability

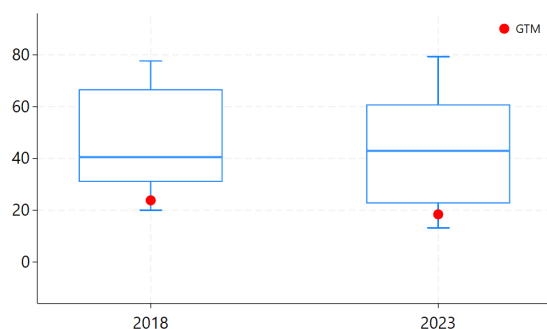
(Percentile rank)



*Reflects perceptions of the quality of public services, and the degree of its independence from political pressures.*

### Government Effectiveness

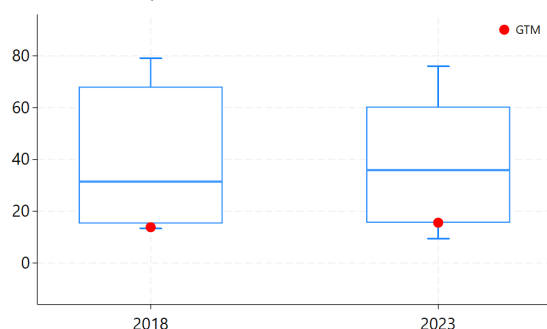
(Percentile rank)



*Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society.*

### Rule of Law

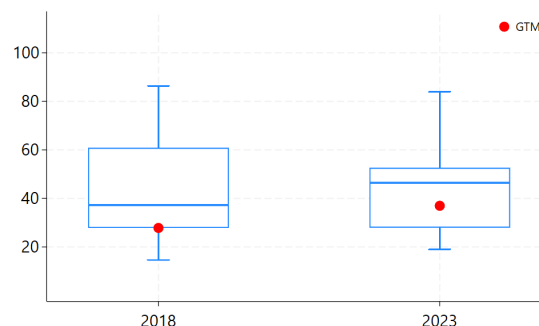
(Percentile rank)



*Political Stability and Absence of Violence/Terrorism measures the likelihood of political instability and/or politically motivated violence, including terrorism.*

### Political Stability and Absence of Violence/Terrorism

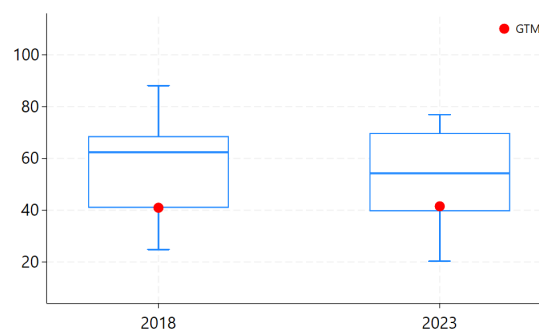
(Percentile rank)



*Reflects perceptions of the ability of the government to implement sound regulations for private sector development.*

### Regulatory Quality

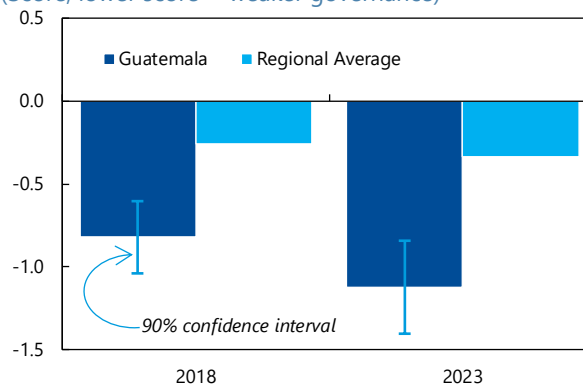
(Percentile rank)



*Reflects perceptions of the extent to which public power is exercised for private gain.*

### Control of Corruption

(Score, lower score = weaker governance)



Source: Kauffman, Kraay, and Mastruzzi (2011). The countries considered in the distribution are GTM, CRI, HND, SLV, NIC, CHL, PAN, PER, PRY, URY and COL. Confidence intervals were constructed using the standard error from Kauffman et al (2011) and a 95 percent confidence level.

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators									
Population 2024 (millions)	17.9								48.3
Percentage of indigenous population (2018)	43.7								68.7
Population below the poverty line (Percent, 2023)	55.1								17.0
Rank in UNDP development index (2022; of 189)	136								6,341
II. Economic Indicators									
	Projections								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Income and Prices</b> (Annual percent change, unless otherwise indicated)									
Real GDP	4.2	3.5	3.7	3.8	3.6	3.6	3.7	3.8	3.9
Consumer prices (average)	6.9	6.2	2.9	2.2	3.9	4.0	4.0	4.0	4.0
Consumer prices (end of period)	9.2	4.2	1.7	3.2	4.0	4.0	4.0	4.0	4.0
GDP Deflator (yoy change)	6.4	6.5	3.7	2.2	4.0	4.0	4.0	4.0	4.0
<b>Monetary Sector</b>									
M2	11.1	6.8	7.8	9.3	7.9	7.4	7.0	6.7	6.4
Credit to the private sector	15.8	14.9	12.3	11.0	10.5	9.7	8.9	8.3	8.1
<b>Saving and Investment</b> (In percent of GDP, unless otherwise indicated)									
Gross domestic investment	16.6	16.5	16.7	16.5	16.8	16.9	16.9	17.1	17.3
Private sector	15.0	14.6	15.2	14.6	14.7	14.8	14.9	15.1	15.3
Public sector	1.6	1.9	1.5	2.0	2.1	2.1	2.0	2.0	2.0
Gross national saving	17.7	19.6	19.6	19.5	19.0	18.5	17.9	17.6	17.3
Private sector	17.1	18.4	18.1	19.4	19.0	18.6	18.0	17.7	17.5
Public sector	0.7	1.2	1.5	0.1	0.0	-0.1	-0.1	-0.1	-0.2
External saving	-1.2	-3.1	-2.9	-2.9	-2.2	-1.6	-1.0	-0.5	-0.1
<b>External Sector</b>									
Current account balance	1.2	3.1	2.9	2.9	2.2	1.6	1.0	0.5	0.1
Trade balance (goods)	-15.0	-13.8	-14.0	-14.2	-14.1	-13.8	-13.6	-13.3	-13.0
Exports	14.9	12.5	11.8	11.0	10.5	10.5	10.5	10.7	10.9
Imports	29.9	26.3	25.7	25.2	24.6	24.3	24.1	24.0	23.8
Trade balance (services)	-1.6	-1.3	-1.6	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5
Other (net)	17.7	18.1	18.5	18.8	18.0	17.1	16.2	15.3	14.5
of which: remittances	18.8	19.0	19.0	19.4	18.5	17.6	16.7	15.9	15.1
Financial and capital accounts balance (Net lending (+))	0.5	2.7	2.5	2.9	2.2	1.6	1.0	0.5	0.1
of which: FDI (net)	-0.8	-1.0	-0.9	-0.7	-0.7	-0.8	-0.9	-0.9	-1.0
Errors and omissions	-0.7	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (Increase (+))	0.0	0.9	2.6	2.7	0.5	0.4	0.3	0.3	0.2
<b>Net International Reserves</b>									
Stock in months of next-year NFGS imports	6.8	6.7	7.4	8.1	7.8	7.4	7.0	6.6	...
Stock over short-term debt on residual maturity	4.1	4.8	5.1	5.1	5.5	5.3	5.7	6.3	...
NIR as % of ARA metric	157.9	162.9	174.9	187.1	180.9	172.1	165.7	159.4	152.8
Gross international reserves (US\$ billions)	20.0	21.3	24.4	27.7	28.4	28.9	29.4	29.9	30.3
<b>Public Finances (Central Government)</b>									
Revenues	12.6	12.5	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Expenditures	14.3	13.7	13.4	15.0	15.1	15.3	15.2	15.2	15.2
Current	11.8	11.2	11.0	11.8	11.7	11.9	11.9	12.0	12.0
Capital	2.5	2.5	2.4	3.2	3.4	3.4	3.3	3.2	3.2
Primary balance	0.0	0.4	0.7	-0.9	-1.1	-1.2	-1.1	-1.0	-1.0
Overall balance	-1.7	-1.3	-1.0	-2.6	-2.8	-2.9	-2.8	-2.8	-2.8
Financing of the central government balance	1.7	1.3	1.0	2.6	2.8	2.9	2.8	2.8	2.8
Net external financing	0.0	1.3	1.0	1.4	1.3	1.4	0.9	1.0	1.2
Net domestic financing	1.7	-0.1	0.0	1.2	1.4	1.5	1.9	1.7	1.7
<b>Central Government Debt</b>									
External	29.0	27.2	26.3	27.2	27.7	28.6	29.3	29.9	30.5
Domestic <sup>1</sup>	11.8	11.9	11.9	12.6	13.0	13.5	13.4	13.4	13.6
	17.2	15.3	14.5	14.6	14.7	15.1	16.0	16.5	17.0
<b>Memorandum Items:</b>									
GDP (US\$ billions)	95.6	104.4	113.2	120.9	130.2	140.3	151.3	163.3	176.4
Volume of exports and services (annual percentage change)	7.5	-2.4	2.2	2.0	5.0	7.8	8.1	8.7	9.0
Volume of imports and services (annual percentage change)	4.9	5.4	9.0	5.4	6.0	6.2	6.3	6.4	6.5
Output gap (% of GDP)	0.1	0.1	0.2	0.4	0.4	0.3	0.1	0.0	0.0
Terms of trade (annual percentage change)	-6.5	6.1	2.8	-1.2	-1.1	-0.6	-0.7	-0.1	0.0

Source: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.

<sup>1</sup> Does not include recapitalization of obligations to the central bank.

Table 2a. Guatemala: Public Sector Balance

	Projections								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
(In millions of quetzales)									
<b>Central Government</b>									
<b>Total revenues</b>	<b>93,164</b>	<b>102,016</b>	<b>109,051</b>	<b>115,615</b>	<b>124,305</b>	<b>134,240</b>	<b>144,834</b>	<b>156,335</b>	<b>168,619</b>
Tax revenues	88,579	95,548	103,315	109,481	117,649	127,013	136,983	147,799	159,331
Direct Taxes	31,824	35,699	38,582	41,111	44,295	47,761	51,520	55,630	60,119
Income Tax	25,655	28,390	30,594	32,617	35,127	37,858	40,819	44,055	47,589
Indirect Taxes	56,755	59,849	64,733	68,370	73,354	79,252	85,463	92,169	99,211
VAT	43,404	45,770	49,408	51,966	55,797	60,425	65,272	70,510	75,971
Nontax revenues	4,585	6,468	5,736	6,134	6,655	7,227	7,851	8,536	9,288
<b>Total expenditures</b>	<b>105,726</b>	<b>112,246</b>	<b>117,486</b>	<b>139,743</b>	<b>151,996</b>	<b>165,536</b>	<b>177,510</b>	<b>191,006</b>	<b>206,928</b>
Current	87,281	91,563	96,671	109,922	117,872	128,759	139,023	150,727	163,418
Wages	29,989	32,555	35,014	38,208	42,152	46,512	50,149	54,125	58,467
Goods & services	17,635	16,459	15,502	19,738	22,426	24,412	26,321	28,408	30,687
Social security benefits	5,778	6,821	7,476	10,903	9,735	10,817	11,663	12,587	13,597
Interest	12,272	13,347	14,147	15,552	16,751	18,127	20,348	22,691	25,112
Transfers	21,363	21,888	24,001	24,957	26,206	28,244	29,844	32,161	34,741
Other	243	494	531	563	601	648	698	754	814
Capital	18,445	20,683	20,815	29,821	34,123	36,777	38,487	40,279	43,510
Primary expenditures	93,454	98,900	103,339	124,191	135,244	147,409	157,162	168,315	181,816
<b>Primary balance</b>	<b>-290</b>	<b>3,116</b>	<b>5,713</b>	<b>-8,576</b>	<b>-10,940</b>	<b>-13,168</b>	<b>-12,328</b>	<b>-11,980</b>	<b>-13,197</b>
<b>Overall balance</b>	<b>-12,562</b>	<b>-10,231</b>	<b>-8,434</b>	<b>-24,128</b>	<b>-27,691</b>	<b>-31,295</b>	<b>-32,676</b>	<b>-34,671</b>	<b>-38,309</b>
<b>Financing</b>	<b>12,562</b>	<b>10,231</b>	<b>8,434</b>	<b>24,128</b>	<b>27,691</b>	<b>31,295</b>	<b>32,676</b>	<b>34,671</b>	<b>38,309</b>
Net external financing	110	10,701	8,604	13,072	13,441	15,067	10,085	12,669	15,713
Loans	1,724	-1,568	-2,239	-803	336	1,191	1,348	2,390	2,865
Bonds	-1,614	12,269	10,844	13,875	13,105	13,876	8,737	10,279	12,848
Net domestic financing	12,452	-470	-170	11,055	14,250	16,229	22,591	22,003	22,596
Net issuance of bonds	8,562	-2,486	1,914	8,993	11,313	16,229	22,591	22,003	22,596
Other	0	-54	0	0	0	0	0	0	0
Use of government deposits	3,884	2,070	-2,095	2,062	2,938	0	0	0	0
<b>Rest of nonfinancial public sector balance</b>	<b>5,706</b>	<b>4,526</b>	<b>8,970</b>	<b>6,523</b>	<b>7,025</b>	<b>7,572</b>	<b>8,164</b>	<b>8,811</b>	<b>9,518</b>
<b>Consolidated nonfinancial public sector</b>									
Primary balance	4,190	6,390	13,375	-2,053	-3,915	-5,597	-4,165	-3,169	-3,679
Interest	11,047	12,095	12,839	15,552	16,751	18,127	20,348	22,691	25,112
<b>Overall balance</b>	<b>-6,856</b>	<b>-5,705</b>	<b>536</b>	<b>-17,605</b>	<b>-20,666</b>	<b>-23,724</b>	<b>-24,512</b>	<b>-25,860</b>	<b>-28,791</b>
<b>Memorandum items:</b>									
Central Government debt	214,781	222,402	231,174	253,312	278,076	309,375	342,052	376,723	415,032
External	87,114	97,239	104,180	117,321	130,772	145,842	155,927	168,596	184,309
Domestic 1/	127,667	125,162	126,994	135,991	147,304	163,533	186,124	208,127	230,723
Consolidated NFPS debt	194,671	200,178	207,260	227,929	250,731	279,896	310,259	342,401	377,949
Central government gross borrowing requirem	21,265	16,394	18,027	33,481	42,545	44,465	43,474	50,342	52,345
GDP	741,053	817,413	878,263	931,907	1,003,627	1,081,667	1,166,264	1,258,728	1,359,694

Source: Ministry of Finance; Bank of Guatemala; and Fund staff estimates and projections.

1/ Does not include recapitalization obligations to the central bank.

Table 2b. Guatemala: Public Sector Balance

	Projections								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(In percent of GDP)								
Central government									
Total revenues	12.6	12.5	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Tax revenues	12.0	11.7	11.8	11.7	11.7	11.7	11.7	11.7	11.7
Direct taxes	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Income tax	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Indirect taxes	7.7	7.3	7.4	7.3	7.3	7.3	7.3	7.3	7.3
VAT	5.9	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Nontax revenues	0.6	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total expenditures	14.3	13.7	13.4	15.0	15.1	15.3	15.2	15.2	15.2
Current	11.8	11.2	11.0	11.8	11.7	11.9	11.9	12.0	12.0
Wages	4.0	4.0	4.0	4.1	4.2	4.3	4.3	4.3	4.3
Goods & services	2.4	2.0	1.8	2.1	2.2	2.3	2.3	2.3	2.3
Social security benefits	0.8	0.8	0.9	1.2	1.0	1.0	1.0	1.0	1.0
Interest	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.8
Transfers	2.9	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6
Other	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital	2.5	2.5	2.4	3.2	3.4	3.4	3.3	3.2	3.2
Primary expenditures	12.6	12.1	11.8	13.3	13.5	13.6	13.5	13.4	13.4
Primary balance	0.0	0.4	0.7	-0.9	-1.1	-1.2	-1.1	-1.0	-1.0
Overall balance	-1.7	-1.3	-1.0	-2.6	-2.8	-2.9	-2.8	-2.8	-2.8
Financing	1.7	1.3	1.0	2.6	2.8	2.9	2.8	2.8	2.8
Net external financing	0.0	1.3	1.0	1.4	1.3	1.4	0.9	1.0	1.2
Loans	0.2	-0.2	-0.3	-0.1	0.0	0.1	0.1	0.2	0.2
Bonds	-0.2	1.5	1.2	1.5	1.3	1.3	0.7	0.8	0.9
Net domestic financing	1.7	-0.1	0.0	1.2	1.4	1.5	1.9	1.7	1.7
Net issuance of bonds	1.2	-0.3	0.2	1.0	1.1	1.5	1.9	1.7	1.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of government deposits	0.5	0.3	-0.2	0.2	0.3	0.0	0.0	0.0	0.0
Rest of nonfinancial public sector balance	0.8	0.6	1.0	0.7	0.7	0.7	0.7	0.7	0.7
Consolidated nonfinancial public sector									
Primary balance	0.6	0.8	1.5	-0.2	-0.4	-0.5	-0.4	-0.3	-0.3
Interest	1.5	1.5	1.5	1.7	1.7	1.7	1.7	1.8	1.8
Overall balance	-0.9	-0.7	0.1	-1.9	-2.1	-2.2	-2.1	-2.1	-2.1
Memorandum items:									
Central Government debt	29.0	27.2	26.3	27.2	27.7	28.6	29.3	29.9	30.5
External	11.8	11.9	11.9	12.6	13.0	13.5	13.4	13.4	13.6
Domestic 1/	17.2	15.3	14.5	14.6	14.7	15.1	16.0	16.5	17.0

Source: Ministry of Finance; Bank of Guatemala; and Fund staff estimates and projections.

1/ Does not include recapitalization obligations to the central bank.



Table 3. Guatemala: Summary Balance of Payments

	2022	2023	2024	Projections					
				2025	2026	2027	2028	2029	2030
	(In millions of U.S. dollars)								
Current account balance	1,116	3,212	3,333	3,560	2,891	2,267	1,517	845	124
Trade balance (goods)	-14,304	-14,368	-15,802	-17,198	-18,374	-19,429	-20,588	-21,703	-22,874
Exports, f.o.b.	14,254	13,048	13,329	13,318	13,687	14,733	15,898	17,411	19,153
Imports, f.o.b.	28,558	27,415	29,132	30,517	32,062	34,163	36,486	39,114	42,027
Net services	-1,499	-1,347	-1,777	-2,012	-2,186	-2,294	-2,412	-2,500	-2,582
Net income	-2,074	-1,931	-1,591	-1,737	-1,847	-1,994	-2,177	-2,391	-2,630
Net transfers	18,993	20,858	22,503	24,508	25,298	25,985	26,694	27,439	28,210
Of which: remittances	18,021	19,780	21,481	23,416	24,122	24,718	25,327	25,964	26,617
Capital account balance	2	1	0	0	0	0	0	0	0
Financial account balance	476	2,831	2,783	3,560	2,891	2,267	1,517	845	124
Foreign direct investment	-720	-996	-1,003	-829	-893	-1,103	-1,341	-1,529	-1,722
Net acquisition of financial assets	730	654	825	881	949	1,023	1,103	1,190	1,286
Net incurrence of liabilities	1,450	1,650	1,828	1,711	1,842	2,126	2,443	2,719	3,007
Portfolio investment	-360	-1,397	-1,491	-1,699	-1,581	-1,657	-981	-1,173	-1,167
Net acquisition of financial assets	113	139	95	101	119	143	153	161	166
Net incurrence of liabilities	473	1,536	1,586	1,800	1,700	1,800	1,134	1,334	1,334
Of which: government bonds	-416	1,547	1,585	1,800	1,700	1,800	1,133	1,333	1,333
Financial derivatives	0	0	0	0	0	0	0	0	0
Other investment	1,523	4,316	2,347	2,788	4,665	4,527	3,339	3,046	2,584
Change in reserve assets	33	908	2,930	3,300	700	500	500	500	430
Errors and omissions	-642	-383	-549	0	0	0	0	0	0
	(In percent of GDP)								
Current account balance	1.2	3.1	2.9	2.9	2.2	1.6	1.0	0.5	0.1
Trade balance (goods)	-15.0	-13.8	-14.0	-14.2	-14.1	-13.8	-13.6	-13.3	-13.0
Exports, f.o.b.	14.9	12.5	11.8	11.0	10.5	10.5	10.5	10.7	10.9
Imports, f.o.b.	29.9	26.3	25.7	25.2	24.6	24.3	24.1	24.0	23.8
Net services	-1.6	-1.3	-1.6	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5
Net income	-2.2	-1.9	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5
Net transfers	19.9	20.0	19.9	20.3	19.4	18.5	17.6	16.8	16.0
Of which: remittances	18.8	19.0	19.0	19.4	18.5	17.6	16.7	15.9	15.1
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	0.5	2.7	2.5	2.9	2.2	1.6	1.0	0.5	0.1
Foreign direct investment	-0.8	-1.0	-0.9	-0.7	-0.7	-0.8	-0.9	-0.9	-1.0
Net acquisition of financial assets	0.8	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Net incurrence of liabilities	1.5	1.6	1.6	1.4	1.4	1.5	1.6	1.7	1.7
Portfolio investment	-0.4	-1.3	-1.3	-1.4	-1.2	-1.2	-0.6	-0.7	-0.7
Net acquisition of financial assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net incurrence of liabilities	0.5	1.5	1.4	1.5	1.3	1.3	0.7	0.8	0.8
Of which: government bonds	-0.4	1.5	1.4	1.5	1.3	1.3	0.7	0.8	0.8
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	1.6	4.1	2.1	2.3	3.6	3.2	2.2	1.9	1.5
Change in reserve assets	0.0	0.9	2.6	2.7	0.5	0.4	0.3	0.3	0.2
Errors and omissions	-0.7	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Value of exports, f.o.b. (percentage change)	15.3	-8.5	2.2	-0.1	2.8	7.6	7.9	9.5	10.0
Value of imports, f.o.b. (percentage change)	22.6	-4.0	6.3	4.8	5.1	6.6	6.8	7.2	7.4
Remittances (percentage change)	17.9	9.8	8.6	9.0	3.0	2.5	2.5	2.5	2.5
Stock of NIR (in millions of U.S. dollars) 1/	18,724	19,908	22,930	26,230	26,930	27,430	27,930	28,430	28,860
Stock of GIR (in millions of U.S. dollars)	20,011	21,311	24,413	27,713	28,413	28,913	29,413	29,913	30,343
NIR in months of next-year NFGS imports	6.8	6.7	7.4	8.1	7.8	7.4	7.0	6.6	6.7
NIR in ARA metric under stabilized regime (percent)	157.9	162.9	174.9	187.1	180.9	172.1	165.7	159.4	152.8
NIR over short-term debt on residual maturity	4.1	4.8	5.1	5.1	5.5	5.3	5.7	6.3	6.4
Nominal GDP (in billions of U.S. dollars)	95.6	104.4	113.2	120.9	130.2	140.3	151.3	163.3	176.4

Source: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.

1/ Includes 2009 SDR allocations of US\$271 million and 2021 SDR allocations of US\$586 million.

Table 4. Guatemala: Monetary Sector Survey

				Projections	
	2022	2023	2024	2025	2026
<b>Bank of Guatemala (BOG)</b>	(In millions of quetzales)				
<b>Net international reserves 1/</b>	<b>147,335</b>	<b>155,755</b>	<b>176,633</b>	<b>202,184</b>	<b>207,597</b>
(In millions of U.S. dollars) 1/	18,724	19,908	22,930	26,230	26,930
<b>Net domestic assets</b>	<b>-75,964</b>	<b>-74,176</b>	<b>-87,771</b>	<b>-104,985</b>	<b>-105,727</b>
Net claims on nonfinancial public sector	-32,451	-28,114	-33,287	-34,243	-34,479
Central government (CG)	-10,031	-6,917	-10,462	-8,400	-5,462
Rest of nonfinancial public sector	-22,421	-21,197	-22,826	-25,844	-29,017
Bank of Guatemala losses	28,549	28,700	26,161	26,161	26,161
Net credit to banks	-59,274	-62,643	-65,740	-68,066	-70,999
Of which: legal reserves	-61,332	-64,701	-67,798	-70,125	-73,057
Open market operations 2/	-21,169	-19,044	-26,706	-34,886	-32,557
Other assets (net)	8,381	6,925	11,800	6,049	6,147
<b>Currency in circulation</b>	<b>71,371</b>	<b>81,579</b>	<b>88,862</b>	<b>97,199</b>	<b>101,869</b>
<b>Banking sector</b>					
<b>Net foreign position</b>	<b>-33,490</b>	<b>-36,480</b>	<b>-40,647</b>	<b>-40,439</b>	<b>-43,059</b>
(in millions of U.S. Dollars)	-4,256	-4,663	-5,277	-5,234	-5,572
<b>Net claims on Bank of Guatemala</b>	<b>76,343</b>	<b>75,700</b>	<b>89,575</b>	<b>104,762</b>	<b>105,246</b>
Legal reserves	61,332	64,701	67,798	70,125	73,057
BOG securities	17,062	13,050	23,829	36,689	34,240
Liabilities to BOG	-2,051	-2,051	-2,051	-2,051	-2,051
<b>Net domestic assets</b>	<b>334,163</b>	<b>360,694</b>	<b>380,986</b>	<b>421,289</b>	<b>466,339</b>
Net credit to the NFPS	43,571	32,102	23,231	25,716	29,256
Official capital and reserves	-10,315	-12,936	-14,815	-16,206	-17,334
Credit to the private sector	294,739	338,632	380,322	422,157	466,484
Other items net	6,168	2,896	-7,752	-7,424	-3,638
<b>Medium and long-term foreign liabilities</b>	<b>2,193</b>	<b>2,171</b>	<b>2,061</b>	<b>2,187</b>	<b>2,356</b>
<b>Liabilities to private sector</b>	<b>374,823</b>	<b>397,743</b>	<b>427,854</b>	<b>469,263</b>	<b>511,441</b>
Demand deposits	122,485	128,960	133,523	166,593	179,414
Time and savings deposits, and Securities	211,340	222,987	245,257	247,019	270,051
Capital and reserves (private banks)	35,936	41,022	44,331	48,495	51,868
Securities	5,061	4,774	4,743	5,442	5,861
<b>Monetary survey</b>					
<b>Net foreign assets</b>	<b>113,845</b>	<b>119,275</b>	<b>135,986</b>	<b>148,314</b>	<b>151,153</b>
(In millions of U.S. dollars)	14,468	15,246	17,654	19,197	19,560
<b>Net domestic assets</b>	<b>374,171</b>	<b>408,819</b>	<b>429,568</b>	<b>470,261</b>	<b>516,280</b>
Net claims on nonfinancial public sector	11,120	3,988	-10,056	-8,528	-5,223
Bank of Guatemala losses	28,549	28,700	26,161	26,161	26,161
Credit to private sector	294,739	338,632	380,322	422,157	466,484
Other assets (net)	39,762	37,498	33,141	30,469	28,857
<b>Medium and long-term foreign liabilities</b>	<b>2,193</b>	<b>2,171</b>	<b>2,061</b>	<b>2,187</b>	<b>2,356</b>
<b>Liabilities to the private sector</b>	<b>485,822</b>	<b>525,923</b>	<b>563,493</b>	<b>616,387</b>	<b>665,078</b>
Of which: Money	193,856	210,539	222,385	263,792	281,284
Of which: Quasi-money	256,030	274,362	296,778	304,100	331,926
<b>Memorandum items:</b>	(Percent change)				
Currency in circulation	12.5	14.3	8.9	9.4	4.8
M2	11.1	6.8	7.8	9.3	7.9
Net credit of the banking sector to the CG	14.4	-26.3	-27.6	10.7	13.8
Credit to private sector	15.8	14.9	12.3	11.0	10.5
	(In percent of GDP)				
Currency in circulation	9.6	10.0	10.1	10.4	10.2
M2	55.4	53.6	53.8	55.4	55.5
Net credit of the banking sector to the CG	5.9	3.9	2.6	2.8	2.9
Credit to private sector	39.8	41.4	43.3	45.3	46.5
	(In percent of bank liabilities to the private sector)				
Banks' liquid assets	44.5	41.7	41.6	42.2	39.9
Demand deposits	32.7	32.4	31.2	35.5	35.1
Time and savings deposits	56.4	56.1	57.3	52.6	52.8
Capital and reserves (private banks)	9.6	10.3	10.4	10.3	10.1

Source: Bank of Guatemala; and Fund staff estimates and projections.

1/ Excludes foreign currency liabilities of the central bank to financial institutions.

2/ Includes open market placements with the private sector (financial and nonfinancial).

Table 5. Guatemala: Financial Soundness Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>On-shore banks</b>											
Reserves as a percentage of Deposits, in NC	14.6	14.5	14.8	15.0	14.9	14.9	14.9	14.7	14.8	14.9	14.8
Reserves as a percentage of Deposits, in FC	17.1	15.9	16.7	16.3	16.2	15.9	15.8	15.9	17.1	16.0	15.8
Short-term liquidity	20.7	18.9	20.5	21.2	20.6	19.0	21.2	20.8	19.8	19.0	18.4
Liquid asset to total asset ratio	28.8	26.9	27.7	28.4	29.6	29.3	32.7	31.4	29.3	27.3	26.5
Liquidity ratio	25.5	24.5	25.1	25.7	27.0	27.1	30.6	29.4	26.7	25.2	24.8
Regulatory capital to risk-weighted assets	14.6	14.1	13.8	14.7	14.8	15.5	16.1	17.3	16.5	16.8	15.7
Nonperforming loans to total gross loans	1.3	1.4	2.1	2.3	2.2	2.2	1.8	1.7	1.3	1.8	2.5
Provisions to non-performing loans	151.9	138.4	120.4	119.6	123.4	135.9	197.4	207.6	262.5	189.2	135.2
Cash to total deposits	20.7	18.9	20.5	21.2	20.6	19.0	21.2	20.8	19.8	19.0	18.4
Return on assets	1.5	1.5	1.6	1.7	1.6	1.7	1.5	1.9	2.3	2.2	1.9
Return on equity	16.6	16.3	16.9	17.8	16.7	17.9	16.1	19.9	24.3	21.9	19.2
Foreign currency-denominated loans to total loans	38.5	39.9	39.0	38.6	39.2	36.8	36.1	35.2	33.3	29.6	28.3
Foreign currency-denominated liabilities to total liabilities	31.1	30.8	29.8	29.1	29.5	27.7	26.4	26.4	26.7	25.2	24.7
<b>Off-shore banks 1/</b>											
Statutory capital to risk-weighted assets	15.6	14.5	14.8	15.3	15.2	17.4	20.0	34.5	56.7	295.2	-
Nonperforming loans to total gross loans	0.9	1.2	1.2	1.7	2.1	2.2	2.1	2.4	4.5	0.0	-
Provisions to non-performing loans	178.4	148.8	138.3	114.9	116.8	135.9	149.4	171.7	137.3	0.0	-
Return on assets	1.5	1.2	1.5	1.6	1.4	1.7	1.2	1.7	2.1	1.2	-
Return on equity	13.8	12.0	14.9	15.3	16.9	17.9	12.1	13.4	8.8	1.3	-
Total assets off-shore banks to total assets on-shore banks	10.7	9.6	9.1	8.0	7.8	7.0	6.4	3.7	0.4	0.0	-

1/ In October 2024 the last off-shore bank ceased its operations.

Source: Superintendency of Banks.

## Annex I. External Sector Assessment

**Overall Assessment.** The external position of Guatemala in 2024 was stronger than the level implied by fundamentals and desirable policies. The Current Account (CA) surplus marginally decreased to 2.9 percent in 2024 (3.1 percent in 2023). Remittance inflows continued to be strong (19 percent of GDP), while the trade balance slightly deteriorated as recovery in exports (also in volumes) was surpassed by fast growing imports. The Net International Investment Position (NIIP) is on the verge of turning positive despite significant investment needs. The real effective exchange rate moderately appreciated, while net reserves continued to increase (US\$22.9 billion at end-2024).

**Potential Policy Responses.** Guatemala's CA gap stems from low investment. Eliminating long-standing structural gaps, raising public infrastructure spending, the quality of education and health, amidst a sustainable fiscal framework, would spur private investment—including FDI—and associated imports, thus reducing the CA gap. Such a shift from a highly dependent remittances-led growth model towards a domestic-driven, sustainable, and inclusive growth model, with higher capital formation, imports, and foreign investment inflows, would help soften exchange rate pressures.

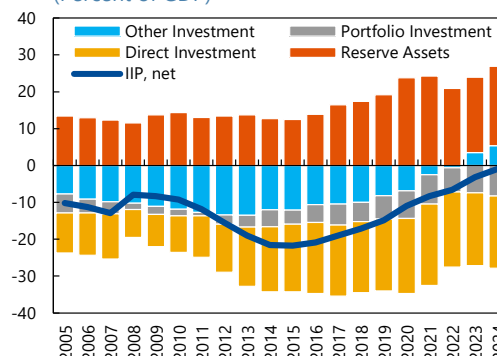
### Foreign Assets and Liabilities: Position and Trajectory

**Background.** The deficit in the Net International Investment Position (NIIP) maintained its declining trend in 2024, with assets and liabilities increasing by US\$6.4 billion and US\$4.1 billion, respectively. The increase in assets (which reached 43.9 percent of GDP in 2024) was broadly consistent with the recent years. Liabilities as a percent of GDP remained relatively stable (44.8 percent) due to weak capacity to attract foreign capital and limited public borrowing.

FDI annual liabilities (at 1.6 percent of GDP) were in line with the average of the last 10 years (excluding the sale of Tigo Guatemala's operation in 2021, with the exceptional surge to about 4.2 percent of GDP). FDI remained the largest component of external liabilities in 2024, accounting for over 53 percent of the total. Other investments accounted for 26 percent, with portfolio investment liabilities constituted the rest. External debt comprised more than half of external liabilities in 2024 or about a quarter of GDP.

**Assessment.** The current NIIP projected path does not imply risks to external sustainability. Absent sustained trend changes in FDI or public sector external borrowing, the NIIP is projected to increase towards balance, unusual for a country with significant investment needs.

**International Investment Position**  
(Percent of GDP)



2024 (percent GDP)	NIIP: -0.9	Gross Assets: 43.9	Debt Assets: n.a.	Gross Liab.: 44.8	Debt Liab.: n.a.
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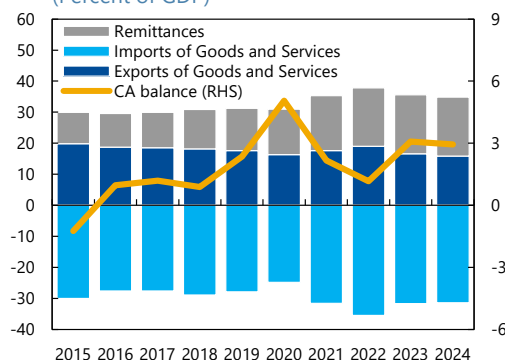
## Current Account

**Background.** The CA surplus decreased from 3.1 percent of GDP in 2023 to 2.9 percent in 2024. Remittance inflows (19 percent of GDP) more than offset the trade deficit (15.5 percent), which slightly increased since 2023 (15.1 percent) despite improving terms of trade. Exports of goods and services decreased from 16.6 to 15.9 percent of GDP, although exports volumes and prices increased. Imports of goods and services inched down to 31.4 percent of GDP, amid strong growth in volumes and lower international commodity prices.

Remittance inflows, after accelerating in the first months of 2025, are expected to decelerate later in the year and stabilize at lower levels in the medium term on account of more restrictive U.S. migration policies. Trade balance in goods is expected to deteriorate in the near term (external headwinds to exports, including on account of tariffs). Current account in the medium term is projected to converge to a balanced position. Staff's baseline does not assume trade diversification (upside risk).

**Assessment.** The External Balance Assessment (EBA) methodology suggests that the external position in 2024 was stronger than the level consistent with fundamentals and desirable medium-term policies. Model estimates of the cyclically adjusted CA, the CA norm, and the CA gap and identified policy gaps are presented in Table I.1. For comparison, the table also includes an assessment for 2023.<sup>1</sup>

**Selected Components of CA Balance**  
(Percent of GDP)



Sources: Banguat and IMF staff estimates.

**Annex I. Table 1. Guatemala: EBA estimates for 2023 and 2024**

		2023 1/	2024 2/
<i>EBA CA methodology</i>		<i>Percent of GDP (except REER Gap)</i>	
<b>CA-Actual</b>	(A)	<b>3.1</b>	<b>2.9</b>
Cyclical contributions 3/	(B)	-0.1	0.0
<b>Adjusted CA</b>	(C = A - B)	<b>3.2</b>	<b>2.9</b>
<b>CA Norm /3</b>	(D)	<b>-2.6</b>	<b>-2.1</b>
Adjustments to the norm 4/	(E)	-2.0	-2.0
<b>Adjusted CA norm</b>	(F = D - E)	<b>-0.6</b>	<b>-0.1</b>
<b>CA gap</b>	(G = C - F)	<b>3.8</b>	<b>3.0</b>
Contribution of identified policy gaps 3/		1.6	1.2
of which:			
Fiscal Balance		1.6	1.4
Elasticity 3/	(H)	0.26	0.26
<b>REER Gap (percent) 5/</b>	(I = G / H)	<b>-14.6</b>	<b>-11.5</b>

Source: IMF staff estimates.

1/ EBA analysis updated as of May 2024.

2/ EBA analysis updated as of April 2025.

3/ Estimates from the EBA CA model. The standard error of the CA norm is 0.6 percent of GDP.

4/ Adjustment to the norm upward reflects the negative impact of Guatemala's security conditions on investment which is not captured by the EBA CA model.

5/ "-" indicates undervaluation

## Real Exchange Rate

**Background.** The Real Effective Exchange Rate (REER) appreciated by 2.2 percent in 2024 (52 percent since 2010 and 4.9 percent since 2020). The value of the quetzal relative to the U.S. dollar has been relatively stable in recent years, with quetzal appreciating by 1.5 percent from end-2023 to end-2024.

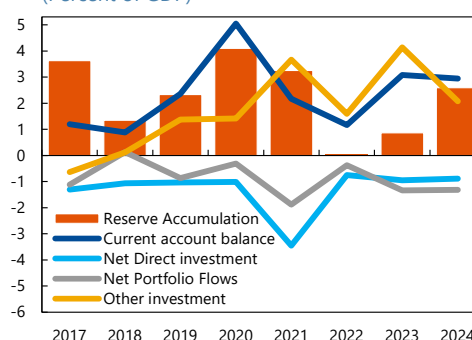
**Assessment.** The External Balance Assessment (EBA) CA methodology suggests that the REER remains below the level implied by fundamentals, albeit by less than in 2023. Under the assumption that the estimated CA gap will be closed by an adjustment in the trade balance, the EBA model implies a REER undervaluation of 11.5 percent (vs. 14.6 percent on 2023). On the other hand, the EBA REER Level and Index models indicate sizable REER overvaluation (31.7 and 13.8 percent, respectively, in 2024). Large remittances create a wedge between quantity- and price-based assessments of external balance, as they raise the external balance but these surpluses do not reflect improved price competitiveness.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** At 1.6 percent of GDP, net FDI inflows remain below the 2011-15 average (2.4 percent of GDP). Portfolio investment inflows surpassed outflows in 2024, reflecting inflows generated from the issuance of Eurobonds by the central government (US\$ 1.4 billions), while outflows have been limited. Compared to 2023, other Investment outflows have reduced (US\$2.3 billion vs. US\$3.1 billion in 2023).

**Assessment.** There are no major macroeconomic risks from capital flows, especially given their relatively low level. The solid fiscal stance, low public debt and sizable reserves should be sufficient to address risks associated with large flows into Eurobonds.

Selected Items of the Balance of Payments  
(Percent of GDP)

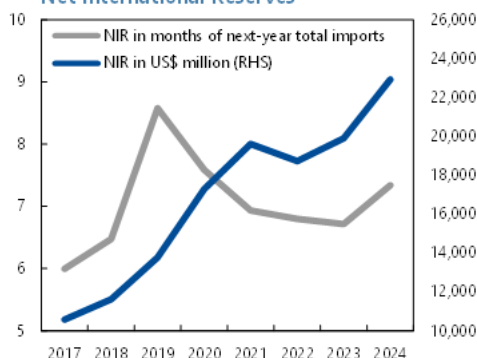


## FX Intervention and Reserves Level

**Background.** Net International Reserves (NIR, IMF definition) increased from US\$19.9 billion (163 percent of ARA metric) end-2023 to US\$22.9 billion (175 percent) end-2024 on the back of strong remittances and a US\$1.4 billion Eurobond issued in August 2024. The capital outflows observed from the private sector, and specifically the increase in deposits abroad held by non-financial corporations and households (Other Investment Net), have softened pressure on international reserves and the exchange rate. The de facto exchange rate arrangement of Guatemala is classified as crawl-like.<sup>2</sup>

**Assessment.** End-2024 reserves are 175 percent of the IMF's metric for Assessing Reserve Adequacy (ARA metric) for countries with crawl-like/stabilized exchange rates like Guatemala. Reserves continue being above other traditional metrics and cover more than 7 months of next year's goods and services imports, about 37 percent of broad money, and about 500 percent of short-term external debt on residual maturity. FX interventions in 2024 were tilted towards buying of foreign currency (net FX purchases in 2024 reached US\$1.9 billion).

Net International Reserves



<sup>1</sup> Relative to the 2023 EBA, in 2024 there is a higher (i.e., less negative) CA norm. The contribution of fiscal balance under identified policy gaps has decreased from 1.6 in 2023 to 1.5 percent.

<sup>2</sup> In 2025 Guatemala's de facto exchange rate arrangement was reclassified from stabilized to crawl-like.

## Annex II. Risk Assessment Matrix<sup>1</sup>

Source of Risks	Likelihood / Impact	Policy Advice
<b>Global</b>		
<b>Trade policy and investment shocks.</b> Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	<b>High Likelihood</b> <b>Medium impact</b>	Engage in negotiations to mitigate the impact of tariffs, leverage existing trade agreements, and explore new markets and opportunities arising from trade diversion and the reallocation of global supply chains.
<b>Sovereign debt distress.</b> Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	<b>High Likelihood</b> <b>Low impact</b>	Adjust fiscal policy in line with the economic cycle, increase revenue to sustainably finance structural expenditures, carefully calibrate borrowing plans, and strengthen policy coordination.
<b>Tighter financial conditions and systemic instability.</b> Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	<b>Medium Likelihood</b> <b>Medium impact</b>	Gradually adjust the policy rate, allow the exchange rate to serve as a shock absorber, and strengthen policy coordination.
<b>Regional conflicts.</b> Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	<b>Medium Likelihood</b> <b>Medium impact</b>	Gradually allow the exchange rate to serve as a shock absorber. Deploy targeted social transfers on vulnerable segments of the population.
<b>Commodity price volatility.</b> Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	<b>Medium Likelihood</b> <b>Medium impact</b>	Deploy targeted social transfers to vulnerable segments of the population while accelerating the structural reform agenda.
<b>Global growth acceleration.</b> Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	<b>Low Likelihood</b> <b>Medium impact</b>	Accelerate structural reforms to raise productivity.
<b>Deepening geoeconomic fragmentation.</b> Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to	<b>High Likelihood</b> <b>Medium impact</b>	Accelerate structural investments and expand social programs to promote inclusive growth. Advance key reforms aimed at raising productivity. Implement robust anti-corruption

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.



Source of Risks	Likelihood / Impact	Policy Advice
higher input costs, hinder green transition, and lower trade and potential growth.		measures to improve the business climate.
<b>Cyberthreats.</b> Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	<b>Medium Likelihood</b> <b>Medium impact</b>	Provide liquidity to support the banking sector and adopt already developed contingency plans to manage the risks.
<b>Climate change.</b> Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	<b>Medium Likelihood</b> <b>Medium impact</b>	Enhance monitoring of exposures and mitigation measures. Deploy targeted support to the areas affected.
<b>Domestic</b>		
<b>Social discontent.</b> Inability, including due to the complex political reality, of the administration to implement the reform agenda and address the long-standing social and infrastructure gap and worsening inequality cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	<b>Medium Likelihood</b> <b>Low impact</b>	Build effective working coalitions to accelerate structural investments and expand social programs. Improve spending efficiency and transparency. Advance the implementation of anti-corruption measures to ensure the integrity and effectiveness of public spending.
<b>An abrupt drop in remittances driven by shifts in migration policy in the U.S.</b>	<b>Medium likelihood</b> <b>High impact</b>	Accelerate the implementation of structural reforms. Deploy targeted fiscal support to vulnerable groups. Gradually allow the exchange rate to serve as a shock absorber on remittances.
<b>Fall in net emigration due to shifts in migration policy in the U.S.</b>	<b>Medium likelihood</b> <b>High impact</b>	Deploy targeted social transfers to vulnerable segments of the population. Gradually allow the exchange rate to serve as a shock absorber.

## Annex III. Public And External Debt Sustainability Analysis

### PUBLIC DEBT SUSTAINABILITY

**Table 1. Guatemala: Sovereign Risk and Debt Sustainability Analysis**

#### Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	<b>Moderate</b>	The overall risk of sovereign stress is Moderate, reflecting a relatively moderate level of vulnerability in the medium horizon.
<b>Near term 1/</b>			Not applicable
<b>Medium term</b>	<b>Moderate</b>	<b>Moderate</b>	Medium-term risks are assessed as moderate on the basis of a mechanical signal close to the threshold between low-moderate, moderate GFN financiability index, moderate risks according to the fanchart analysis, and resiliency of the debt dynamics in the stress test scenarios.
Fanchart	<b>Moderate</b>	...	
GFN	<b>Moderate</b>	...	
Stress test	Cont. Liabty. Nat. Diast.	...	
<b>Long term</b>			Not applicable
<b>Sustainability assessment 2/</b>	Not required for surveillance countries	Not required for surveillance countries	Not applicable
<b>Debt stabilization in the baseline</b>			No

#### DSA Summary Assessment

Guatemala's public debt is assessed as moderate. Public debt is projected to climb above 30 percent of GDP, with 1.0 percent of primary deficit to manage infrastructure and social spending investments. Gross financing needs, estimated at about 3.6 percent in 2025, are expected to be stable at around 4 percent over the medium term. Financing is expected from official external sources, domestic debt, Eurobonds, and accumulated cash. Greater reliance on domestic financing under a sound medium term debt management strategy (MTDS) will help the macro-policy mix. Broader coverage beyond the central government would aid a more comprehensive assessment.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

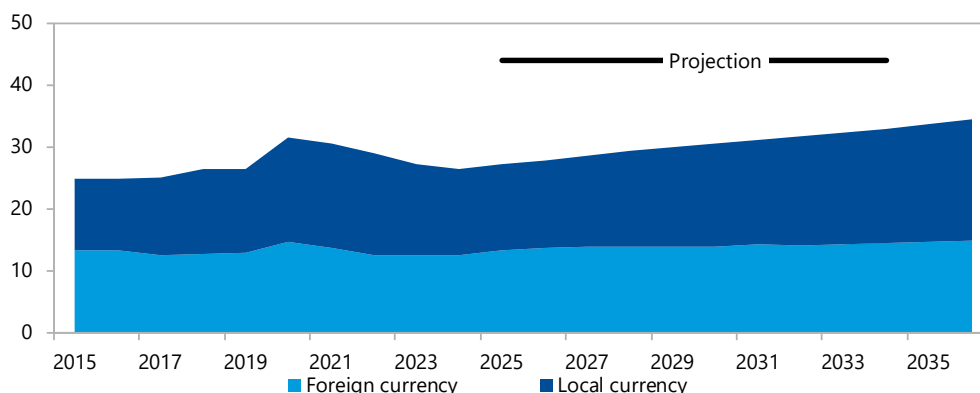
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

### Table 2. Guatemala: Debt Coverage and Disclosures

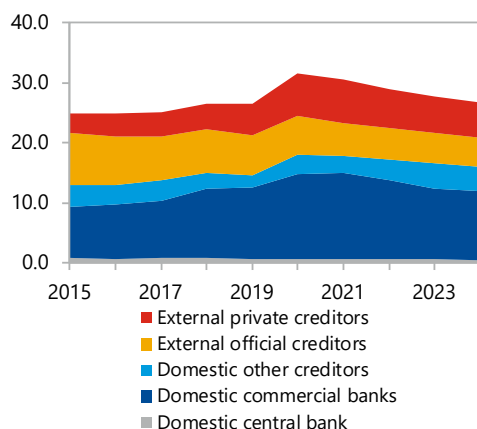
Debt Coverage and Disclosures										Comments				
1. Debt coverage in the DSA: 1/						CG	GG	NFPS	CPS	Other	EBFs don't have bond instruments, only domestic banks credit			
1a. If central government, are non-central government entities insignificant?						Yes								
2. Subsectors included in the chosen coverage in (1) above:														
Subsectors captured in the baseline						Inclusion								
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes								
				2	Extra budgetary funds (EBFs)	No								
				3	Social security funds (SSFs)	No								
				4	State governments	No								
				5	Local governments	No								
				6	Public nonfinancial corporations	No								
				7	Central bank	No								
				8	Other public financial corporations	No								
3. Instrument coverage:						Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/				
4. Accounting principles:						Basis of recording		Valuation of debt stock						
						Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/				
5. Debt consolidation across sectors:						Consolidated		Non-consolidated						
Color code: <span style="background-color: #92d050;"> </span> chosen coverage <span style="background-color: #f4cccc;"> </span> Missing from recommended coverage <span style="background-color: #cccccc;"> </span> Not applicable														
Reporting on Intra-Government Debt Holdings														
Issuer				Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total	
CPS	NFPS	GG: expected	CG	1	Budget. central govt		0	1.8	0	1.8	0	1.7	0	5.3
				2	Extra-budget. funds	0		0	0	0	0	0	0	0
				3	Social security funds	0	0		0	0	0	0	0	0
				4	State govt.	0	0	0		0	0	0	0	0
				5	Local govt.	0	0	0	0		0	0	0	0
				6	Nonfin pub. corp.	0	0	0	0	0		0	0	0
				7	Central bank	0	0	0	0	0	0		0	0
				8	Oth. pub. fin. corp	0	0	0	0	0	0	0		0
Total				0	0	1.8	0	1.8	0	1.7	0	5.3		
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector. 2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable. 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities. 4/ Includes accrual recording, commitment basis, due for payment, etc. 5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes). 6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity. 7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.														
Commentary: The coverage in this SRDSA focuses on the central government due to data availability concerns for the broader public sector (historical availability and composition). The MoF data does not include unpaid social contributions (6.2 percent of GDP) and Banguat's government receivables (3.4 percent of GDP) associated with Banguat's monetary policy operations. The authorities continue efforts to improve data timeliness, quality and coverage with IMF TA. Authorities' preliminary data on the Non Financial Public Sector debt suggests an adjustment of about -2 percent of GDP without including debt with the Social Security and the Central Bank.														

**Figure 1. Guatemala: Public Debt Structure Indicators**  
Debt by Currency (Percent of GDP)



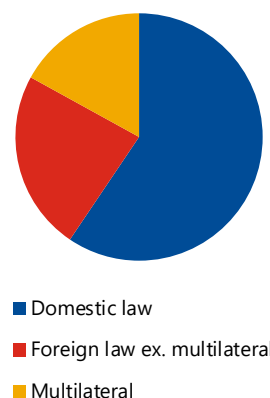
Note: The perimeter shown is central government.

**Public Debt by Holder (Percent of GDP)**



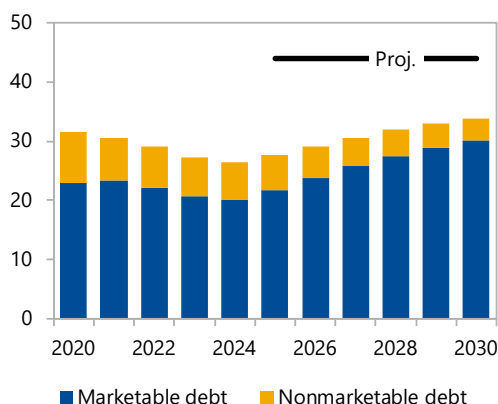
Note: The perimeter shown is general government.

**Public Debt by Governing Law, 2024 (percent)**



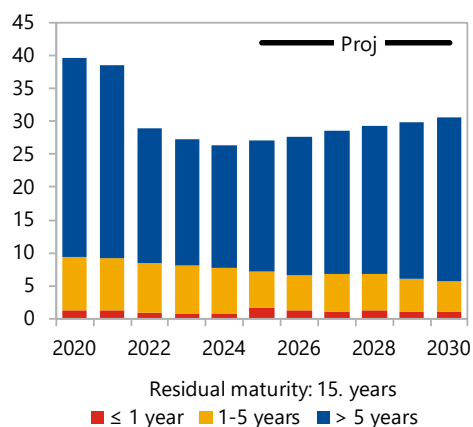
Note: The perimeter shown is central government.

**Debt by Instruments (Percent of GDP)**



Note: The perimeter shown is central government.

**Public Debt by Maturity (Percent of GDP)**



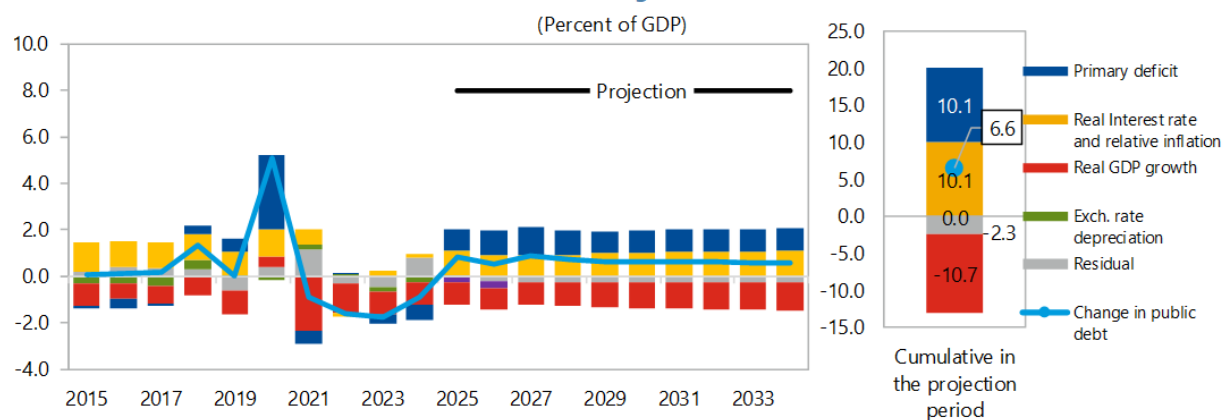
Note: The perimeter shown is central government.

Commentary: The authorities are expected to continue to benefit from multilateral funding, eurobonds, and domestic banks. In the medium-term, the authorities are expected to shift from eurobonds to local bonds gradually.

**Table 3. Guatemala: Baseline Scenario**  
(Percent of GDP unless indicated otherwise)

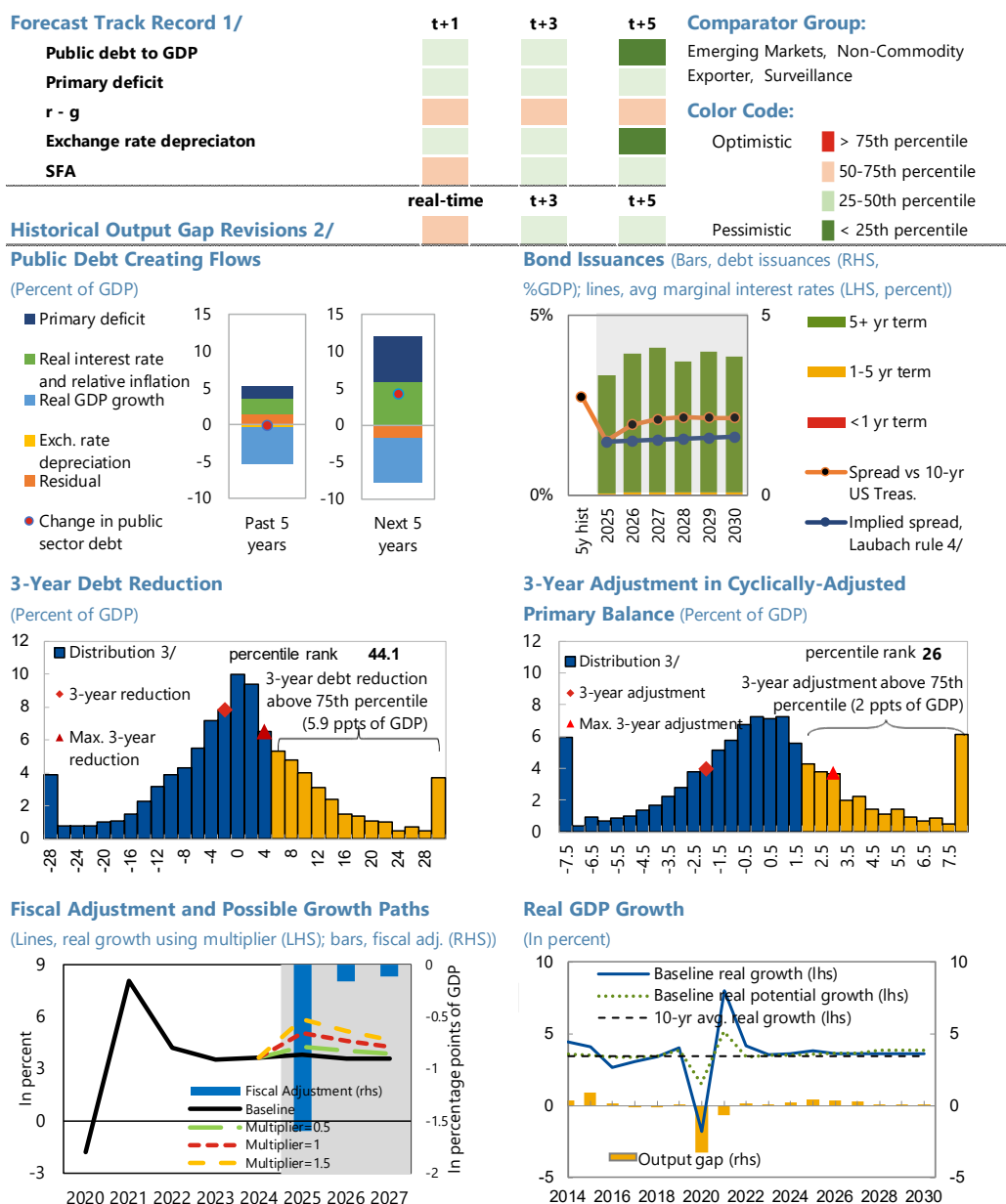
	Actual	Medium-term projection							Extended projection			
	2024	2025	2026	2027	2028	2029	2030		2031	2032	2033	2034
Public debt	26.3	27.2	27.7	28.6	29.3	29.9	30.5		31.1	31.7	32.3	32.9
Change in public debt	-0.9	0.8	0.5	0.9	0.7	0.6	0.6		0.6	0.6	0.6	0.6
Contribution of identified flows	-1.7	0.8	0.7	1.2	1.0	0.9	0.9		0.9	0.9	0.9	0.9
Primary deficit	-0.7	0.9	1.1	1.2	1.1	1.0	1.0		1.0	1.0	1.0	1.0
Noninterest revenues	12.4	12.4	12.4	12.4	12.4	12.4	12.4		12.4	12.4	12.4	12.4
Noninterest expenditures	11.8	13.3	13.5	13.6	13.5	13.4	13.4		13.4	13.4	13.4	13.4
Automatic debt dynamics	-1.0	0.1	-0.1	0.0	-0.1	-0.1	-0.1		-0.1	-0.1	-0.1	-0.1
Real interest rate and relative inflation	0.2	1.1	0.9	0.9	0.9	1.0	1.0		1.0	1.1	1.1	1.1
Real interest rate	0.0	1.1	0.7	0.6	0.7	0.7	0.7		0.8	0.8	0.8	0.8
Relative inflation	0.1	0.0	0.2	0.3	0.2	0.3	0.3		0.3	0.3	0.3	0.3
Real growth rate	-1.0	-1.0	-0.9	-1.0	-1.0	-1.1	-1.1		-1.1	-1.2	-1.2	-1.2
Real exchange rate	-0.3	...	...	...	...	...	...		...	...	...	...
Other identified flows	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Other transactions	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Contribution of residual	0.8	0.1	-0.2	-0.3	-0.2	-0.3	-0.3		-0.3	-0.3	-0.3	-0.3
Gross financing needs	1.4	3.6	4.2	4.1	3.7	4.0	3.9		3.9	4.2	3.9	3.7
of which: debt service	2.1	2.7	3.1	2.9	2.7	3.0	2.9		2.9	3.2	2.9	2.7
Local currency	1.7	1.6	1.5	1.4	1.1	1.7	1.8		1.9	1.7	1.8	1.8
Foreign currency	0.4	1.0	1.7	1.5	1.6	1.4	1.1		1.0	1.5	1.1	1.0
Memo:												
Real GDP growth (percent)	3.7	3.8	3.6	3.6	3.7	3.8	3.9		3.9	3.9	3.9	3.9
Inflation (GDP deflator; percent)	3.7	2.2	4.0	4.0	4.0	4.0	4.0		4.0	4.0	4.0	4.0
Nominal GDP growth (percent)	7.4	6.1	7.7	7.8	7.8	7.9	8.0		8.0	8.0	8.0	8.0
Effective interest rate (percent)	3.8	6.7	6.6	6.5	6.6	6.7	6.7		6.7	6.8	6.8	6.8

### Contribution to Change in Public Debt



Commentary: In the medium-term, public debt is projected to rise continuously with primary deficits.

Figure 2. Guatemala: Realism of Baseline Assumptions



Realism analysis does not point to major concerns. The forecast track record is generally within bounds for optimism. Debt creating flows show primary deficit and real interest rate nad relative inflation contribute to debt. The risk premium is expected to remain relatively constant.

Source : IMF Staff.

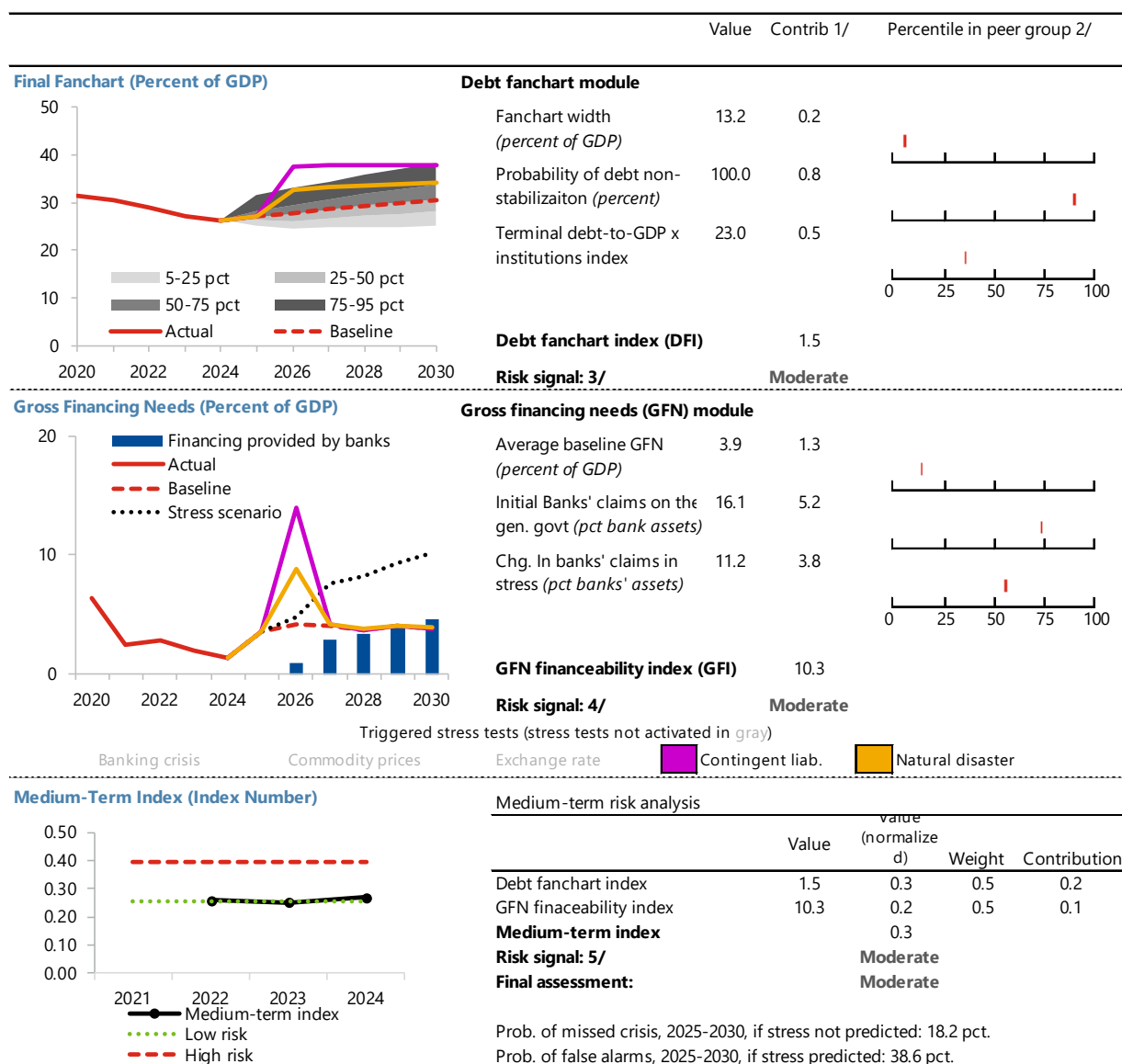
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 3. Guatemala: Medium-term Risk Analysis



Commentary: The medium-term risks are estimated to be moderate by the probabilistic analysis and the GFN financeability module, with a medium-term index below the low risk threshold. The Debt Fanchart Module is moderate partly due to relatively low uncertainty in debt projections. The GFN module indicates moderate risks due to low GFN in the baseline and relatively stable bank claims on government. The stress tests show that GFN and debt remain on relatively low levels. The contingent stress scenario shows a one-time increase in the stock of debt from 27 to 37 percent of GDP. However, debt levels in the stress scenarios remain below the median country.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

## EXTERNAL DEBT SUSTAINABILITY

1. Guatemala's external debt (sovereign and private) to GDP is low and resilient to standard DSA-shocks.

- *Under the baseline scenario*, external debt as a share of GDP is projected to continue its downward trend, declining below 21 percent in 2030. Between 2013 and 2024 external debt declined from 37.4 percent of GDP to 23.4 percent of GDP (the exceptional circumstances around the pandemic led to a temporal increase in the ratio in 2020). This trend has been mainly driven by a decline in private sector debt—between 2013 and 2024, the external private bank debt ratio to GDP dropped from 8.2 percent of GDP to 5.9 percent, and the nonbank private sector debt fell from 19.3 percent of GDP to 8.0 percent. During this period, the ratio to GDP of the official external debt declined from 14.3 percent to 12.2 percent.
- *The major downside risk* to Guatemala's external debt is a large depreciation shock (using the standard 30 percent depreciation built into the DSA assessment), which would hike the debt ratio to 33.6 percent of GDP in 2026 and fall afterward. A current account (excluding interest payments) shock would increase the external debt to GDP ratio to 24.6 percent of GDP by 2030, interrupting the external debt to GDP downward trend projected in the baseline scenario.



**Table 1. Guatemala: External Debt Sustainability Framework, 2020-2030**  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing non-interest current account 6/ -1.6	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030			
Baseline: External debt	32.1	29.9	25.4	23.7	23.4	22.4	22.2	22.1	21.5	21.0	20.7			
Change in external debt	0.3	-2.2	-4.5	-1.7	-0.4	-0.9	-0.2	-0.1	-0.6	-0.5	-0.4			
Identified external debt-creating flows (4+8+9)	-6.3	-8.9	-4.8	-6.2	-5.7	-4.5	-3.7	-3.1	-2.6	-2.2	-1.8			
Current account deficit, excluding interest payments	-6.1	-3.1	-2.1	-4.1	-4.0	-4.0	-3.3	-2.6	-2.0	-1.4	-0.9			
Deficit in balance of goods and services	8.4	14.0	16.5	15.1	15.5	15.9	15.8	15.5	15.2	14.8	14.4			
Exports	16.4	17.6	19.0	16.6	15.9	14.9	14.2	14.2	14.2	14.4	14.7			
Imports	24.8	31.6	35.5	31.7	31.4	30.8	30.0	29.7	29.4	29.2	29.1			
Net non-debt creating capital inflows (negative)	-1.0	-3.5	-0.8	-1.0	-0.9	-0.7	-0.7	-0.8	-0.9	-0.9	-1.0			
Automatic debt dynamics 1/	0.9	-2.3	-2.0	-1.1	-0.8	0.2	0.3	0.3	0.2	0.2	0.1			
Contribution from nominal interest rate	1.1	0.9	0.9	1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9			
Contribution from real GDP growth	0.6	-2.3	-1.1	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.8	-0.7			
Contribution from price and exchange rate changes 2/	-0.8	-0.9	-1.7	-1.3	-1.1	...	...	...	...	...	...			
Residual, incl. change in gross foreign assets (2-3) 3/	6.6	6.6	0.3	4.5	5.3	3.5	3.5	3.1	2.0	1.7	1.4			
External debt-to-exports ratio (in percent)	196.2	169.3	133.8	142.7	146.9	150.6	156.5	156.1	151.8	145.9	140.9			
Gross external financing need (in billions of US dollars) 4/	1.7	3.3	5.0	1.3	0.8			0.9	2.3	2.6	3.7	4.1	4.4	
in percent of GDP	2.2	3.8	5.3	1.3	0.7	10-Year	10-Year	0.7	1.8	1.9	2.4	2.5	2.5	
Scenario with key variables at their historical averages 5/								22.4	21.7	20.7	18.8	16.4	14.0	-1.8
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-1.8	8.0	4.2	3.5	3.7	3.5	2.4	3.8	3.6	3.6	3.7	3.8	3.9	
GDP deflator in US dollars (change in percent)	2.6	2.9	6.2	5.4	4.6	3.4	2.2	2.9	4.0	4.0	4.0	4.0	4.0	
Nominal external interest rate (in percent)	3.4	3.2	3.4	4.6	5.0	3.8	0.6	4.9	5.0	4.8	4.6	4.6	4.5	
Growth of exports (US dollar terms, in percent)	-6.5	19.9	19.0	-4.4	3.8	4.0	9.0	-0.1	2.8	7.6	7.9	9.5	10.0	
Growth of imports (US dollar terms, in percent)	-10.5	41.9	24.1	-2.6	7.6	7.2	15.4	4.5	5.0	6.6	6.8	7.3	7.6	
Current account balance, excluding interest payments	6.1	3.1	2.1	4.1	4.0	3.0	1.7	4.0	3.3	2.6	2.0	1.4	0.9	
Net non-debt creating capital inflows	1.0	3.5	0.8	1.0	0.9	1.4	0.8	0.7	0.7	0.8	0.9	0.9	1.0	

1/ Derived as  $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,  $e$  = nominal appreciation (increase in dollar value of domestic currency), and  $a$  = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as  $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock.  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

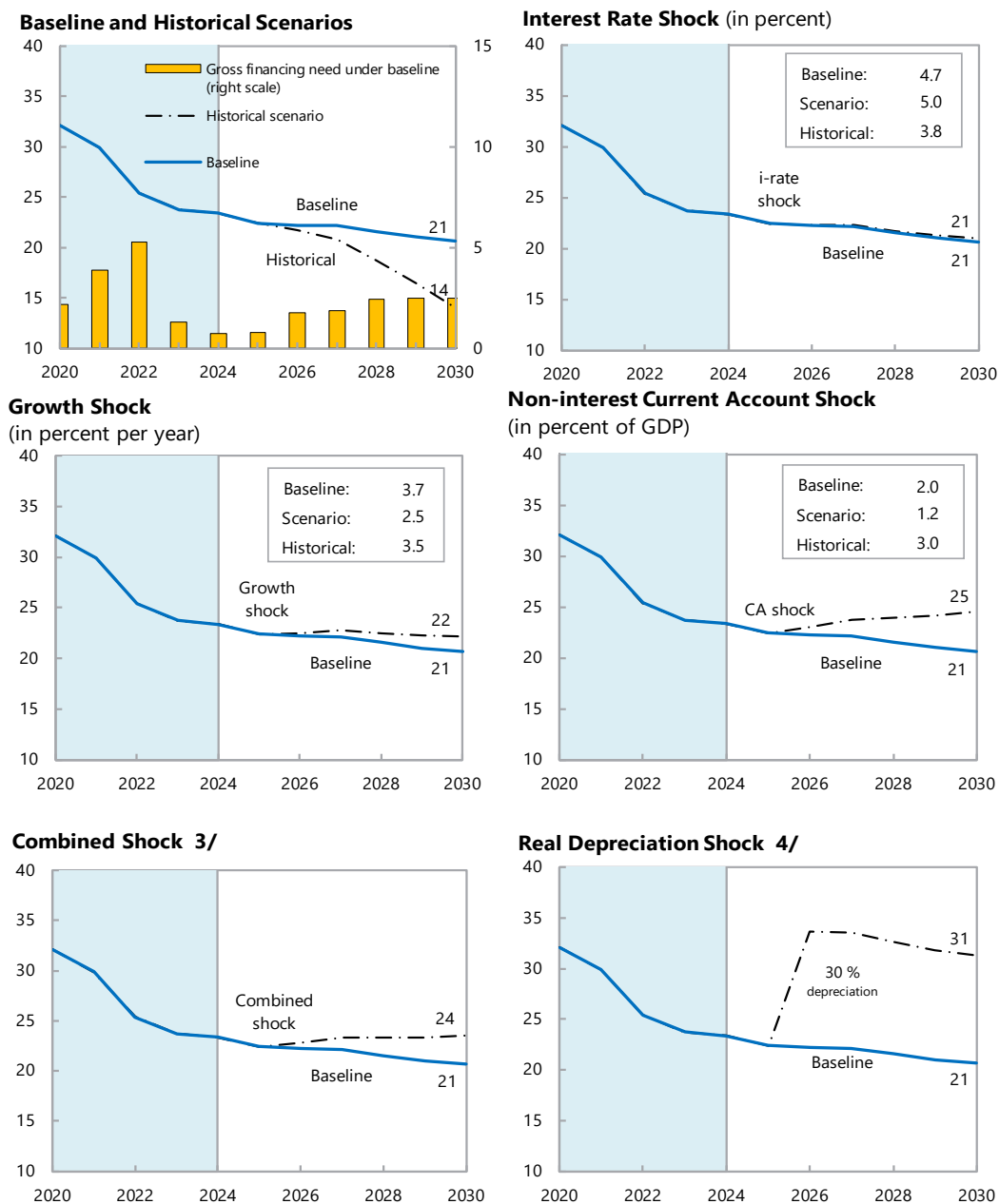
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

**Figure 1. Guatemala: External Debt Sustainability: Bound Tests <sup>1/ 2/</sup>**  
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2026.

2024 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
<b>Fiscal Policy</b>		
Improve tax collection by: (i) improving accuracy of budgeted revenue projections, (ii) strengthening anti-tax evasion measures, and (iii) advancing comprehensive tax reform in the medium term. Adopt legislation to legally protect SAT auditors (and public officials) in the exercise of their mandate.	The authorities enhanced revenue projections, auditing, and compliance checks. A mandatory electronic invoice system for businesses is in place to improve transparency. Digitalization and new analytical tools helped uncover cases of tax evasion and underreporting, e.g., "Caso B410".	The revenue projections in the 2024 supplementary budget became more accurate. Continued digitalization efforts were beneficial in uncovering cases of tax evasion and underreporting. Nonetheless, tax revenues stabilized at low levels as percent of GDP in 2024. No progress was made with legal protection of SAT auditors for actions related to their functions, although SAT current and former employees can benefit from SAT legal advisors when facing court charges. The authorities have published the TADAT TA report.
Define clear medium-term spending targets for education and health to promote efficiency and achievement of goals. Prioritize scaling up investments in infrastructure while expanding targeted social programs with well-defined realistic action plans with milestones and sound quality controls on spending. Wage bill should be contained.	The 2024 supplementary budget and 2025 budget prioritize scaling up investment and social spending, including on education and health.	While the 2024 supplementary and 2025 budgets allocate increased funding to infrastructure and social spending, execution has been slow, including delays in project approvals. Social programs like ' <i>Bono Social</i> ' and <i>school feeding initiatives</i> demonstrate progress in improving targeting mechanisms and delivering more effective social assistance.

2024 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
Develop and implement a time-bound and realistic action plan to operationalize outstanding recommendations of the PIMA/C-PIMA (2023) and Fiscal Transparency Evaluation (2022).	The authorities continue to strengthen the fiscal transparency, including publication of citizen-friendly explanations of budgets and the budgetary process, and further development of digital tools.	The authorities are currently finalizing an action plan to implement PIMA/C-PIMA recommendations, with priority given to reforms that strengthen public investment efficiency and fiscal transparency.
Develop and implement a time-bound and realistic action plan to operationalize outstanding recommendations of the PIMA/C-PIMA (2023) and Fiscal Transparency Evaluation (2022).	The authorities continue to strengthen the fiscal transparency, including publication of citizen-friendly explanations of budgets and the budgetary process, and further development of digital tools.	The authorities are currently finalizing an action plan to implement PIMA/C-PIMA recommendations, with priority given to reforms that strengthen public investment efficiency and fiscal transparency.
Enact legislation on infrastructure and port laws to facilitate physical infrastructure investment; amend existing laws such as the Public-Private Partnerships (PPP) law.	Congress has enacted Priority Infrastructure Law and Competition Law.	The authorities adopted the priority infrastructure law which currently focuses on roads and the competition laws. Implementation will be important.
Develop a borrowing plan aligned with the Medium-Term Debt Management Strategy (MTDS). Higher expenses should be funded by higher tax collection and new debt issued as part of the medium-term debt management and market development strategies to complete the yield curve.	A Fund TA on the medium-term debt management strategy supports authorities' efforts in sound debt management. The authorities' have requested Fund TA to assist in developing local bond market.	Fund TA on medium-term debt management strategy provided recommendations on actions needed to strengthen debt management and develop annual borrowing plan. A follow-up TA on the development of the secondary market is scheduled for later in 2025. The authorities acknowledge the importance of developing and approving the law on the Secondary Financial Market for improving access to financing and competition.

2024 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
<b>Monetary Policy</b>		
Monetary policy decisions should remain data-driven, with close coordination between Banguat and fiscal authority. Priority reforms should focus on: (i) strengthening Banguat's governance and policy framework; and (ii) enhancing monetary policy transmission mechanisms by deepening interbank market liquidity and improving interest rate pass-through.	Headline inflation remained below Banguat's target band ( $4\% \pm 1\%$ ), yet the central bank has maintained its cautious stance by pausing monetary easing.	Banguat has maintained a broadly appropriate monetary policy stance, aligned with inflation trends. The authorities continued improving liquidity management and monetary channels, but no significant progress has been made on legislation on Banguat's governance.
<b>Foreign Exchange Policy</b>		
Prepare for larger investment flows and reduce monetary policy costs, transfer market risks to the private sector, and develop a framework to guide the gradual development of FX and hedging markets in the near term.	Banguat maintained its interventions in the FX market, while achieving a notable reduction in cost associated with monetary stabilization operations (2.8 percent of GDP in 2024). The FX participation band has been further expanded in 2025 to $\pm 1$ percent ( $\pm 0.95$ percent in 2024)	The de jure exchange rate arrangement is flexible, but the FX fluctuations remained relatively narrow, justifying classification of the exchange rate arrangement as crawl-like.
<b>Financial Sector</b>		
Strengthen banks' oversight, especially for banks with large exposures. Amend the 2002 Law on Banks and Financial Groups. Improve the crisis management and adopt an institutional arrangement empowered to make macroprudential policy decisions.	The authorities are continuing gradual implementation of the provisions of the 2023 Credit Risk Management Regulation to mitigate credit risk. They see the possibility of replacing the 2002 Law on Banks and Financial Groups with a new law, if Congress support could be secured.	The authorities continued to strengthen bank supervision and risk management. The draft amendments to the 2002 Law on Banks and Financial Groups remain in the Congress since 2016.

2024 Article IV Recommendations	Authorities' Actions	Staff's Appraisal of Authorities' Progress
<b>Structural Reforms</b>		
Adopt a competition law, an infrastructure law, a revision of the PPP law, a ports law, the securities market law, an expropriation law, and the insolvency law to improve business climate and attract foreign investment. Strengthening the labor market with better educated workforce and reducing gender gaps.	The Congress adopted the competition and the priority infrastructure laws, and the authorities continued working on other major legislations. Guatemala launched its Equal Opportunity Initiative in December 2024,	Congress adopted the competition and the priority infrastructure laws; the authorities continued working on other major legislations, including amendments to the PPP Law and are considering a new public procurement law.
<b>Governance and corruption</b>		
Develop and publish a medium-term anti-corruption strategy, with a roadmap of deliverables and the timeline.	The National Commission Against Corruption (CNC) has been working on a corruption prevention strategy, which should be finalized in 2025.	The authorities have made progress with the corruption prevention strategy, which should be adopted later in 2025.
Finalize the draft AML/CFT law and submit to Congress for approval in a timely manner.	The authorities remained committed to update the AML/CFT law to international standards, re-drafting and getting it approved. A draft of the Beneficial Ownership Law has been submitted to Congress in February 2025.	Progress has been made with the text of the AML/CFT Law on a technical level, but its submission and adoption by Congress are pending.

## Annex V. Interamerican Development Bank Financed Strategic Investments

### 1. **The Government's ambitious social agenda, outlined in the General Government Plan, seeks to extend public services and social programs to traditionally underserved populations.**

This aligns with the need to unlock infrastructure investments—both social and productive. During 2024, Congress approved some of the strategic IDB-financed investment projects:

- Roads – Widening the CA-9 North corridor to four lanes along the “El Rancho – Teculután” branch (35 kms) and the construction of a 4.3 km bypass in El Rancho.
- Energy – Rural electrification with 2,964 km of new distribution lines, benefitting 40,000 new rural households.

### 2. **To close the remaining gaps, the IDB has already designed and approved continuation projects in the road and energy sectors, as well as an ambitious intervention in the Motagua river.** These strategic investments need to be approved by Congress:

- Roads – Widening of additional 45 km in the CA-9 North corridor in the “Teculután – Mayuelas” branch, which aims to reduce costs for national exporters, mainly in the agricultural sector.
- Energy – Expanding the rural electrification investments already executing, which includes autonomous energy systems besides the traditional distribution lines for those communities located in geographically challenging areas. This project is expected to benefit more than 70,000 households which, added to the investments approved in 2024, will close the gap in access to electrification by 30 percent.
- Water and sanitation – The first-stage intervention to address the Motagua river basin pollution. During this stage, at least three comprehensive solid waste management systems and a metropolitan water treatment facility will be built creating job opportunities for informal recyclers and benefiting indirectly over 4 million inhabitants across 14 departments and 96 municipalities.

## Annex VI. Data Issues

**Figure 1. Guatemala: Data Adequacy Assessment for Surveillance**

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	A		
Granularity 3/	B		B	B	B		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	B	A	A	B	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF, 2024, <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p><b>Rationale for staff assessment.</b> The data provided to the Fund has some shortcomings but is broadly adequate for surveillance. Data quality and timeliness are broadly adequate for surveillance purposes. However, data availability remains limited in certain areas, such as the labor market, the Producer Price Index (PPI), and the Balance of Payments (BoP), where some shortcomings persist. Additionally, coverage of government finance statistics is currently confined to the central government, though efforts are underway to expand the perimeter to the nonfinancial public sector.</p>							
<p><b>Changes since the last Article IV consultation.</b> New CPI index was published in 2024 (covering data since January 2024), with December- 2024 as the reference period (replacing December 2010). Weights in the new index were calculated based on the 2022-2023 National Household Income and Expenditure Survey (ENIGH). The CPI index was again updated in early 2025, with an average of 2024 as a reference period. However, the authorities have not published the weight effect study to judge the impact of changes of basket weights on inflation. The authorities are considering requesting TA on the CPI diagnostics. The authorities have made progress with the GFSM data compilation to expand the coverage beyond the central government; they have so far published the historical flow reports (2013-2024) and continue working on the balance sheets. Banguat and the National Institute of Statistics (INE) signed the MoU in late 2023 with the timeline for the publication of timely labor market data. The first quarterly report, covering data for October-December 2024, is expected to be published in 2025. Banguat is piloting regional GDP calculations, with first results expected by late 2025. It is also working on updating the GDP to the 2025 SNA and BoP to BPM7, both expected to be finalized by 2029. In addition, work is progressing on environmental macroeconomic accounting which would aid assessment of climate risks in the financial sector (expected to be finalized in 2026).</p>							
<p><b>Corrective actions and capacity development priorities.</b> During the 2025 Article IV consultation, staff discussed data adequacy with the authorities. They have made some advances in the CPI and labor market data and continued working on other important data initiatives. The capacity of INE (the central statistical office) remains limited.</p>							
<p><b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Staff do not use data different from official statistics.</p>							
<p><b>Other data gaps.</b> Further progress in enhancing data coverage and dissemination will be beneficial for staff analysis.</p>							



**Figure 2. Guatemala: Data Standards Initiatives**

Guatemala participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its [National Summary Data Page](#) since November 2020.

**Figure 3. Guatemala: Table of Common Indicators Required for Surveillance**

As of July 15, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	Guatemala <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	Guatemala <sup>8</sup>
Exchange Rates	8-July-25	8-July-25	D	D	D	M	...	30D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	7-July-25	8-July-25	D	D	M	M	1M	30D
Reserve/Base Money	26-June-25	3-July-25	W	W	M	M	2M	30D
Broad Money	26-June-25	3-July-25	W	W	M	M	1Q	30D
Central Bank Balance Sheet	June-25	4-July-25	M	M	M	M	2M	30D
Consolidated Balance Sheet of the Banking System	May-25	26-June-25	M	M	M	M	1Q	30D
Interest Rates <sup>2</sup>	26-June-25	3-July-25	W	W	M	M	...	10D
Consumer Price Index	Jun-25	July-25	M	M	M	M	2M	2W
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> –General Government <sup>4</sup>	...	...	...	...	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> –Central Government	May-25	June-25	M	M	Q	M	1Q	1M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	May-25	June-25	M	M	Q	...	2Q	...
External Current Account Balance	2025Q1	July-25	Q	Q	Q	Q	1Q	100D
Exports and Imports of Goods and Services	Mar-25	30-Apr-25	M	M	M	M	12W	45D
GDP/GNP	2025Q1	Jul-25	Q	Q	Q	Q	1Q	100D
Gross External Debt	2024Q4	Apr-25	Q	Q	Q	...	2Q	...
International Investment Position	2025Q1	July-25	Q	Q	A	Q	3Q	100D

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

**Figure 3. Guatemala: Table of Common Indicators Required for Surveillance** (concluded)

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

## Annex VII. Capacity Development

*This annex presents the Capacity Development (CD) priorities of Guatemala under the technical assistance program provided by the IMF. Key priorities include mobilizing revenues, enhancing public financial management, strengthening monetary policy and central bank operations, enhancing financial supervision, financial integrity and the compilation government financial statistics.*

### 1. The main CD objectives focus on consolidating past achievements and making further progress on macro-critical reform areas. Key CD workstreams are:

- **Revenue administration.** This workstream centers on the implementation of analytical tools for tax data analysis, and electronic auditing geared towards strengthening compliance and enhancing tax revenue management. A TADAT follow-up is also envisaged for FY26.
- **Public Financial Management.** This workstream centers on strengthening the medium-term fiscal framework with a focus on increasing efficiency, transparency, accountability, public spending efficiency while maintaining fiscal sustainability. As part of the diagnosis and digitization strategy, it includes convergence to the International Public Sector Accounting Standards (IPSAS). These efforts will be accompanied with the development of the local currency bond market.
- **Central Bank Operations and Monetary and Macprudential Policies.** This workstream centers on enhancing the inflation targeting framework through strengthening the Forecasting and Policy Analysis System (FPAS) and developing of a communication strategy.
- **Financial Supervision and Regulation.** This workstream centers on the strengthening of credit risk supervision cybersecurity regulations and supervisory frameworks.
- **Financial Integrity.** This workstream centers on strengthening the overall AML/CFT regime by developing and implementing a sound and effective risk-based approach to AML/CFT supervision. It also includes providing assistance and recommendations to further reform and strengthen the legal and regulatory framework in line with the Financial Action Task Force (FATF) international standard.
- **Governance Finance and Real Sector Statistics.** This workstream centers on compilation and consolidation of public sector balances and consistency of NFPS flows and stocks.

<b>Table 1. Guatemala: IMF Capacity Development Missions (January 2022–May 2026) (As of May 2025)</b>		
<b>Workstream</b>	<b>Provider</b>	<b>Date</b>
<b>Revenue Administration and Customs</b>		
Revenue Administration – Governance	CAPTAC-DR	March 2025
Customs Administration – Risk management	CAPTAC-DR	November 2024
Risk Management - Compliance Improvement Plan (Strategy to fight against fraud)	CAPTAC-DR	October 2024
New Customs Clearance Model for Sea Cargo operations	CAPTAC-DR	August 2024 and March 2025
Strengthening tax revenue management	CAPTAC-DR	July 2024
Tax Administration Diagnostic Assessment Tool (TADAT)	CAPTAC-DR	May-Jun 2024
Adapting the new customs clearance model to sea cargo operations	CAPTAC-DR	April-May 2024
Strengthen Compliance Risk Management	FAD	March 2024
Enhance Tax Revenue Management	FAD	November 2023
Dashboard on segmentation of operators based on risk analysis	CAPTAC-DR	September 2023
Expanding the current account of cargo for special regimes	CAPTAC-DR	August-September 2023
Strengthen Tax Revenue Management	FAD	Jun 2023; July-August 2023
Risk Analysis Data Assessment	CAPTAC-DR	Jun 2023
Strengthening Sectorial Post Clearance Audit	CAPTAC-DR	Jun 2023
Improving risk analysis IT system	FAD	April 2023
Customs single account of cargo for special procedures	FAD	April 2023
Customs Anti-fraud strategy – Post Clearance Audit	FAD	March 2023
Air cargo process improvement	FAD	March-April 2023
Strengthen Tax Compliance Obligations	CAPTAC-DR	February 2023
Sea cargo process modeling and digitalization of customs processes	CAPTAC-DR	November 2022
Enhance Tax Compliance Obligations	CAPTAC-DR	July 2022
<b>Public Financial Management</b>		
Diagnostic Asset and liability management	FAD	March 2025
International Public Sector Accounting Standards (IPSAS) - Implementation diagnosis and digitization strategy	FAD	December 2024
Digital PFM modernization	FAD, CAPTAC-DR	July 2024, October 2024
Budget-Improvement in sensitivity analysis for macro fiscal projections medium term	FAD	March 2024
Public Investment Management Assessment (PIMA) with Climate module (C-PIMA)	FAD	May-June 2023
Fiscal Impact of the risks of the financial sector and risks of natural disasters	FAD	March 2023
Budget - Macroeconomic forecasting	FAD	March 2023
Budget - Financial programming model	FAD	February-March 2023
Fiscal Transparency Evaluation (FTE) Update	FAD	September 2022
Hackathon event (various topic)	FAD	July 2022
Fiscal Sustainability Model	FAD	January 2022

<b>Table 1. Guatemala: IMF Capacity Development Missions (January 2022–May 2026) (As of May 2025) (concluded)</b>		
<b>Debt Management</b>		
Medium-Term Debt Management Strategy (MTDS)	MCM	October 2024
<b>Financial Integrity</b>		
Strengthening AML/CFT Risk-based Supervision/Legal and Regulatory Framework	LEG	June 2021 – December 2024
<b>Monetary Policy and Central Bank Operations</b>		
Strengthening Forecasting and Policy Analysis System (FPAS)	CAPTAC-DR	March 2025
Exploring Central Bank Digital Currency (CBDC)—Legal Prerequisites, Macro-Financial Implications, and Design Options	MCM	January 2025
Monetary and Macroprudential Policies - Inflation Targeting	CAPTAC-DR	October 2024
Macroeconomic Model Development	CAPTAC-DR	August-September 2023; November-December 2023; January, September, and October 2024
Monetary Policy Implementation Framework Evaluation	CAPTAC-DR	August 2022
<b>Financial Supervision and Regulation</b>		
Credit Risk Supervision	CAPTAC-DR	January 2025
Basel Standards – Capital Buffers	CAPTAC-DR	February 2024
Basel Standards – Liquidity	CAPTAC-DR	November 2023
Supervisory and regulatory framework on use of Cloud services	CAPTAC-DR	April 2023
Cybersecurity	CAPTAC-DR	December 2022
Retail Credit Risk Diagnosis and Regulation	CAPTAC-DR	November 2022
Bank's recovery plan	MCM	July 2022
Training on e-money	MCM	December 2021
<b>Real and Government Statistics</b>		
CPI – Update CPI basket and weights	STA	September 2024
PSFC Compilation and Consolidation	STA	November 2023
CPI – Update CPI basket and weights	STA	July 2023
GFS/PSDS: Compilation Public Sector Balance and Financial Liabilities	STA	Jun 2023
Government Finance Statistics and Public Sector Debt Statistics	STA	September 2022, December 2024
Price Statistics	STA	June 2022
Government Finance Statistics and Public Sector Debt Statistics	STA	May 2022

**Table 2. Guatemala: IMF Capacity Development Planned Missions in FY 2026  
(As of May 2025)**

Workstream	Objective
<b>Revenue Administration, Customs and Tax Policy</b>	
Customs and Revenue	Strengthened revenue administration through the implementation of analytical tools for tax data, and electronic auditing. A follow-up TADAT. Improved customs administration functions including new customs clearance model for sea cargo operations, control of special regimes, and data management and analytics.
<b>Public Financial Management and Budget Planning</b>	
Fiscal Risks Management	Strengthened identification, monitoring, and management of fiscal risks.
Coverage and Quality of Fiscal Reporting	Support for the convergence of IPSAS.
Assets and Liabilities Management	Support for the definition of the digital Treasury model.
Public Debt Management	Development of the local currency bond market.
<b>Monetary and Macprudential Policies and Central Bank Operations</b>	
Monetary and Macprudential Policies and Inflation Targeting	FPAS institutional process follow up.
Central Bank Monetary Policy Operations and Balance Sheet	Communications strategy development.
<b>Financial Supervision and Regulation</b>	
Regulation and supervision	Follow-up on the Net Stable Funding Ratio (NSFR) implementation; and credit risk supervision.
<b>Financial Integrity</b>	
AML/CFT Legal and Regulatory Framework	Provide assistance and recommendations to strengthen/reform legal and regulatory AML/CFT Framework in line with FATF standard.
<b>Real and Government Statistics</b>	
Strengthen compilation and dissemination of Government Finance Statistics (GFS/PSDS).	NFPS consistency of flows and stocks.



# GUATEMALA

July 31, 2025

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department

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## FUND RELATIONS

(As of June 30, 2025)

**Membership Status:** Joined: December 28, 1945; Article VIII.

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>Percentage of Quota</b>
Quota	428.60	100.00
Fund holding of currency	373.97	87.25
Reserve Tranche Position	54.69	12.76
<b>SDR Department:</b>	<b>SDR Million</b>	<b>Percentage of Allocation</b>
Net cumulative allocation	611.70	100.00
Holdings	527.90	86.30

**Outstanding Purchases and Loans:** None

**Latest Financial Commitments:**

**Arrangements:**

<b>Type</b>	<b>Date of Arrangement</b>	<b>Expiration Date</b>	<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
Stand-by	04/22/2009	10/21/2010	630.60	0.00
Stand-by	06/18/2003	03/15/2004	84.00	0.00
Stand-by	04/01/2002	03/31/2003	84.00	0.00

**Outright Loans:<sup>1/</sup>**

<b>Type</b>	<b>Date of Commitment</b>	<b>Date Drawn/Expired</b>	<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
RFI	06/10/2020	05/21/2021	428.60	0.00

<sup>1/</sup> Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.



**Projected Payments to Fund<sup>1</sup>**

(SDR Million; based on existing use of resources and present holdings of SDRs, as of June 30, 2025):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	1.24	2.45	2.45	2.45	2.45
<b>Total</b>	<b>1.24</b>	<b>2.45</b>	<b>2.45</b>	<b>2.45</b>	<b>2.45</b>

**Safeguards Assessment:** Under the Fund's safeguards assessment policy, the Bank of Guatemala was subject to an assessment with respect to the Stand-By Arrangement approved on April 22, 2009 (IMF Country Report No: 09/143). The assessment, which was completed in September 2009, found that the Bank of Guatemala has strengthened safeguards in the areas of transparency of financial reporting and the management of foreign exchange reserves. Recommendations were made to further strengthen the bank's governance and independence.

**Exchange Rate Arrangement.**

- Guatemala has a de jure floating exchange rate arrangement, and its de facto exchange rate arrangement is classified as "crawl-like".
- The Bank of Guatemala (Banguat) may intervene to limit volatility in the nominal exchange rate without affecting its trend. Banguat intervenes through foreign exchange auctions based on a symmetric and public rule that limits daily volatility (the participation rule) as well as a rule to accumulate reserves (the reserves accumulation rule). The fluctuation margin (added to or subtracted from the five-day moving average of the exchange rate) that determines whether Banguat may intervene has been gradually increased in recent years, reaching 1 percent at the beginning of 2025 (up from 0.80 percent in 2020 and 0.95 percent in 2024). Banguat may also intervene outside the scope of this rule whenever the nominal exchange rate shows unusual volatility.
- Guatemala has accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for international current transactions.

**FSAP Participation.** An FSAP Update was carried out during March 18-April 1, 2014, and the Financial System Stability Assessment was discussed by the Executive Board on September 12, 2014, at the time of the 2014 Article IV consultation.

**Article IV Consultation.** The last Article IV consultation was concluded by the Executive Board on August 5, 2024.

**Resident Representative.** Mr. Gerardo Peraza is the Regional Resident Representative for Central America, Panama, and the Dominican Republic, and is based in Guatemala.

<sup>1</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

### **World Bank Group:**

- Country page: <https://www.worldbank.org/en/country/guatemala>
- Overview of Word Bank Group lending to Guatemala: <https://financesone.worldbank.org/countries/guatemala>
- IBRD-IDA project operations: [https://projects.worldbank.org/en/projects-operations/projects-summary?countrycode\\_exact=GT&title=Guatemala](https://projects.worldbank.org/en/projects-operations/projects-summary?countrycode_exact=GT&title=Guatemala)

### **Inter-American Development Bank:**

- Country page: <https://www.iadb.org/en/who-we-are/country-offices/guatemala>

**Statement by Xiana Mendez Bertolo, Executive Director for Guatemala and Oscar Monterroso,  
Senior Advisor to Executive Director  
September 5, 2025**

On behalf of our Guatemalan authorities, we would like to express our appreciation to Mr. Culiuc and his team for the open and constructive dialogue during the Article IV Consultation. We thank staff for their thorough, well-written, and comprehensive reports on Guatemala's economy, including the Staff Report and insightful Selected Issues papers. The Staff Report offers a balanced and objective assessment of the prevailing economic challenges. The authorities highly value staff's candid analysis and thoughtful policy recommendations and welcome constructive engagement throughout the consultation process. The authorities appreciate the technical assistance provided by the Fund, which has strengthened their capacity to design and implement their economic policy effectively.

**Recent Economic Developments, Outlook, And Risks**

Over the past two and a half decades, Guatemala has exhibited notable macroeconomic resilience, consistently weathering both external and domestic shocks. This performance reflects a strong commitment to disciplined monetary policy, a prudent fiscal framework, and the maintenance of substantial policy buffers. These sound policies have bolstered confidence, underpinned economic stability, and sustained growth. Against this backdrop, prudent macroeconomic management has led to low inflation and, in recent years, a surplus in the current account.

Economic growth in 2024 outperformed expectations, with real GDP expanding 3.7 percent, driven by strong private consumption and robust performance in manufacturing and commerce. Preliminary data indicate growth of 3.9 percent (y-o-y) in the first quarter of 2025. According to staff projections, under the baseline scenario, economic growth is expected to reach 3.8% in 2025, supported by a fiscal impulse that will help cushion global demand softening and uncertainty. Beyond 2025, growth is projected to slightly exceed 3.5 percent, with reforms and infrastructure investment boosting actual and potential growth in the medium term.

The authorities broadly concur with staff's outlook and consider the associated risks manageable. Their baseline scenario assumes that the impact of tariffs will be temporary and that remittances will remain resilient. Based on this, the central bank projects growth close to 4 percent over the medium term. Domestically, key reforms such as the approval of the 2025 budget and the competition law underscore the country's capacity to advance policy, even in a complex political environment. Externally, Guatemala is well-positioned to absorb additional trade shocks. While shifts in U.S. policy may affect remittance-driven consumption, the authorities see lower net emigration as an opportunity to foster domestic employment, particularly through targeted efforts to increase formal job opportunities.

At under 27 percent of GDP, Guatemala's public debt remains the lowest among Western Hemisphere countries with market access. This fiscal prudence and credibility enabled a US\$1.4 billion Eurobond issuance in August 2024, followed by a US\$1.5 billion Eurobond issuance in July

2025, both supported by strong investor interest. These issuances were facilitated in part by S&P's May 2025 upgrade of Guatemala's sovereign credit rating to BB+ (one notch below investment grade).

## **Monetary Policy**

The authorities broadly agree that monetary policy should remain data-dependent and forward-looking and that exchange rate policy should be consistent with the inflation-targeting framework, especially amid expansive fiscal policy and potentially higher financial inflows. Under this framework, foreign exchange interventions are limited to mitigating excessive market volatility.

The current monetary policy stance is appropriate. Last week, the Monetary Board decided to reduce the monetary policy interest rate by twenty-five basis points (to 4.25 percent), provided the forecasts of inflation were below the lower limit of the target and downward inflation expectations. The decision was made with a data-dependent and forward-looking approach. Headline inflation remains below Banguat's 4 percent +/- percent target. Pressures from domestic food supply shocks have dissipated, and fuel prices have come down, pushing headline inflation to 1.2 percent in July, though core inflation remains close to 4 percent. Given ongoing uncertainty and external risks, Banguat will proceed cautiously, closely monitor inflation, and clearly communicate its monetary policy stance until inflation nears the target. The authorities expect inflation to return to the lower limit of the target (4 percent +/- 1 percent) during the first quarter of 2026 and be close to the midpoint by the end of this year. As emphasized, any adjustment will be contingent on evolving data and a comprehensive assessment of the balance of risks. The central bank will also closely monitor US Federal Reserve policy developments given their spillover effects.

The authorities recognize that enhancing exchange rate flexibility would bolster the economy's ability to absorb external shocks and remain committed to a gradual, well-communicated transition. Recent temporary measures have effectively anchored expectations, but further development will be essential to preserve market confidence and develop a more competitive and transparent FX market.

Since the mid-2010s, Banguat has accumulated large buffers in the form of international reserves, which are assessed to be adequate in the current environment of protracted high global uncertainty. Net International Reserves (NIR, IMF definition) increased from US\$19.9 billion (163 percent of Assessing Reserve Adequacy (ARA metric)) at the end-2023 to US\$22.9 billion (175 percent of ARA metric) at the end-2024. As of August 2025, reserves remain above conventional adequacy benchmarks, covering over 9 months of imports and approximately 40 percent of broad money.

On the other hand, the authorities' 2024-2027 financial inclusion strategy (with the central bank's leadership), designed in collaboration with the private sector, proposes to advance inclusion by expanding digitalization, improving financial literacy, and enhancing consumer protection. The strategy also focuses on expanding banking services to small and medium-sized businesses, youth, women, and rural areas. The authorities agree that the financial sector needs to further support Guatemala's development, and the 2024-27 financial inclusion strategy is a crucial step in that direction.

## Fiscal Policy

The authorities remain fully committed to ensuring long-standing fiscal stability and debt sustainability, as well as maintaining their good debt servicing track record. Guatemala has made progress on customs, tax administration enforcement, and digitalization. In that context, authorities concur that more progress is needed on the revenue side, keeping on strengthening the capacity of tax administration and gradually broadening the base to gain fiscal space to foster growth and reduce poverty over the medium term. The tax authority (*Superintendencia de Administración Tributaria, SAT*) has put in place a mandatory electronic invoice system for businesses to improve transparency and reduce fraud, cracked down on goods smuggling at the border, and increased audits on high-net-worth individuals and large corporations. Tax revenues have already increased from 10 to 11.8 percent between 2020 and 2024. However, achieving the authorities' 12.5 percent target will require additional steps. They consider that broadening the tax base is the right strategy to increase the tax burden, at least in the medium term.

On the expenditure side, Guatemala faces the challenge of closing persistent social and infrastructure gaps with one of the lowest public spending levels among developing economies. In 2024, combined spending on education, health, and social assistance remained below 6 percent of GDP, and capital spending reached just 2.4 percent of GDP (levels below regional and income peers). In 2024, government expenditure stood at just 14.6 percent of GDP, while revenues reached around 12 percent of GDP. A historical underinvestment in social sectors has translated into uneven access to essential services and stagnant development outcomes.

Recognizing the persistent gaps in social outcomes, the new administration has demonstrated a strong will to improve spending quality and efficiency. The General Government Policy (PGG) 2024-2028 identifies as core objectives the expansion of coverage and quality in education and health, the reduction of chronic malnutrition, investments in rural infrastructure, and a more coherent approach to social protection. Authorities are also aware of bottlenecks related to spending planning, execution, and evaluation, and are seeking improvements, including better planning and prioritization of infrastructure projects and stronger execution capacity at the local level. The government has emphasized the importance of results-based execution and is implementing tools to monitor public spending and institutionalize accountability. A new Public Procurement law—currently under consideration—could alleviate bottlenecks in the execution of capital spending. Improved targeting in social programs would further increase their effectiveness. Strengthening the Medium-Term Fiscal Framework and multiannual budget planning underpinned by realistic, sector-informed projections will bolster confidence—including that of market participants—in fiscal sustainability. These efforts aim to lay the groundwork for a gradual and credible increase in core spending areas without undermining fiscal sustainability, starting with infrastructure, which has been largely prioritized in the 2025 budget, but extending to education, health, and social protection. The 2025 budget envisages a significant increase in the deficit. In line with 2024 Article IV advice, the original budget approved in December 2024 targeted an overall deficit of 3.2 percent of GDP. Inconsistencies between articles of the law and undetermined appropriations (including the carryover

of Departmental Development Councils (CODEDEs) allocations from 2024 and for civil service pension) necessitated the passage of a supplementary budget in February 2025, raising the deficit to 3.8 percent of GDP. Although the 2025 expansionary fiscal stance is appropriate, structural bottlenecks and recently strengthened anti-corruption controls are likely to limit the execution of capital spending, with the deficit projected at around 2½ percent of GDP, well below the revised budget of 3.8 percent. The historically high (1.3 percent of GDP) transfers to Departmental Development Councils (CODEDEs) require close oversight and monitoring amidst concerns of elevated risks of misallocation and inefficient use. The continued collaborative efforts among multiple institutions to enhance transparency, accountability, monitoring of CODEDEs transfers, and the capacity of municipalities are commendable and should be maintained.

## **Financial Sector**

The authorities consider the banking sector to be sound, and the overall financial system remains resilient. In 2024, bank credit to the private sector grew by 12.3 percent, financed by the growth in customer deposits, which represented 90 percent of the total bank's liabilities at the end-2024. Nominal credit growth is coming down, though real growth remains robust. According to the central bank, credit would grow by around 10 percent in 2025, supporting productive activity. Aggregate capital and liquidity ratios are above the statutory minimum, and profitability is strong. Non-performing Loans (NPLs), primarily concentrated in consumer, microcredit, and mortgage portfolios, remained stable at 2.5 percent as of end-June 2025, unchanged from end-2024. Meanwhile, aggregate provisioning coverage decreased to 125 percent, compared to 135 percent at end-2024, indicating a slight moderation in buffers against potential credit risks. However, under Guatemala's updated Credit-Risk Regulation JM-47-2022—in force since January 2024—coverage is higher (153 percent by mid-2025).

The Superintendency of Banks (*Superintendencia de Bancos, SIB*) has taken steps over the past years to strengthen banking supervision, including enhanced stress testing and stricter reporting requirements for systemic risks, and has advanced regulatory measures on credit cards, operational risks, electronic payments, and the inclusion (on a voluntary basis) of savings and credit cooperatives in the Credit Risks Information System. The SIB considers the Credit Risk Management Regulation as effective in managing credit risks in banks. Continued advancements in the digitalization of financial services, including the draft e-money law, could help improve financial inclusion. Adopting revisions to the 2002 Law on Banks and Financial Groups, completing the transition to International Financial Reporting Standards, approving the Secondary Market Law, and continuing implementation of other elements of the financial inclusion strategy will be crucial steps.

## **Governance And Structural Agenda**

The government introduced anti-corruption measures. In 2024, it launched the National Commission Against Corruption (CNC), tasked with the establishment of mechanisms for detecting and preventing corruption, promoting transparency in public management, and collaborating with civil society and other stakeholders in the fight against corruption. The CNC has introduced probity offices in the Executive Branch, which are needed to establish an integrity system, with a focus on

accountability, institutional strengthening, and long-term efficiency. These actions signal progress toward rooting out corruption within the executive. Notably, the country registered in 2024 its first-in-a-decade upgrade on Transparency International's corruption perceptions index.

Against this backdrop, additional legislation focused on governance and financial integrity would help rebuild public trust and foster transparency and accountability. The CNC is leading the preparation of the national anti-corruption strategy, expected in the second half of 2025. Key legislative priorities include the Beneficial Ownership Law, the Public Procurement Law, the Law for the Protection of Whistleblowers to ensure secure reporting channels and legal safeguards, and the adoption of a revised AML/CFT law aligned with international standards. This step is crucial for achieving a positive outcome in GAFILAT's 2027 evaluation.

## **FINAL REMARKS**

The Guatemalan economy continues to show stability and soundness thanks to a legacy of prudent monetary and fiscal policies—with inflation on target, ample international reserves, contained fiscal deficits, and a low public debt-to-GDP. In line with the country's objectives, the administration needs to advance in the structural reform agenda to continue to support economic growth and increase it in the medium term, benefiting from the IMF's technical assistance and policy advice.