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June 9, 2020

**Statement by Mr. Bhalla and Mr. Singh on Guatemala  
(Preliminary)  
Executive Board Meeting 20/69  
June 10, 2020**

1. We thank the staff for their reports well-prepared under tight timelines and Mr. Villar and Mr. Tabora Munoz for their helpful Buff statement. Before the onset of Covid-19, Guatemala's economy had exhibited significant resilience with strong macroeconomic parameters. In response to the developments arising from the pandemic, preventive policy response in the form of declaration of state of calamity early into the crisis and support measures, seem to have helped contain the spread of the pandemic. However, the limited health capacity remains a challenge in fighting the pandemic. Given the immediate external financing gap arising out of the pandemic, we support the authorities' request for financial support under the Rapid Financing Instrument (RFI).
2. The micro, small and medium-sized enterprises, and informal sector have been particularly hard hit by the lockdowns and disruption in economic activity across developing countries. Since SMEs and other informal enterprises are employment-intensive and have predominance across developing economies, including Guatemala, the adverse impact on livelihoods has been rather strong and safety nets are needed to safeguard these vulnerable population. Given that Guatemala has a relatively high share of informal employment among the Latin American peers, stronger policy support assumes importance. In the backdrop of low fiscal deficit and moderate and sustainable level of debt, we support the use of strong fiscal policy stimulus to support vulnerable businesses and population. We believe that a stronger banking system of Guatemala is well placed to support the measures targeted at the expansion of credit to the needy sectors of the economy which are facing liquidity constraints.
3. Low tax revenues in developing countries constraints their capacity to deploy countercyclical fiscal policies. Guatemala's tax-GDP ratio has hovered around 10 percent of GDP during the past few years, which seems to be relatively low compared to the

average of its peers in Latin America & Caribbean (about 13 percent). Once the pandemic is over, authorities should attempt to streamline tax reforms, including VAT, to augment tax revenues. Further, informal employment in Guatemala is much above the average for Latin America. The role of a simplified tax regime and other regulations to incentivize greater formality could be important.

4. Remittances constitute provides significant support to the balance of payments of Guatemala, constituting about 13-14 percent of GDP. The World Bank forecasts that remittance flows are expected to be significantly hit by the Covid-19-led crisis across all regions, with about 19 percent decline in inflows to Latin America and the Caribbean in 2020. Although external debt remains at a moderate level, sudden drying of remittances may cause severe dollar liquidity stress as remittances remained the single most import source of external financing (13.7 percent of GDP in 2019), exceeding those of exports (13 percent of GDP in 2019). Beyond the financing pressures, as remittances help families afford food, healthcare, and basic needs, the sudden decline may also lead to social distress. Effective social protection systems are crucial to safeguarding the poor and vulnerable during this health crisis in both the host countries of migrants and returning migrants in home countries.
5. We wish the authorities very best and success in their future endeavor in dealing with the pandemic and hope once the pandemic is over, the economy jumps to a higher growth trajectory.