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

We thank staff for the comprehensive report and Mr. Villar and Mr. Tabora Munoz for their informative Buff statement.

Prior to the pandemic, Guatemalan authorities have made remarkable progress in maintaining macroeconomic stability. Thanks to sound reforms and economic policies, growth performance had been firm, fiscal deficit and debt levels remained low, and the external position improved. The Covid-19 outbreak is expected to affect the economy hard by reversing its steady growth trend to a -2 percent in 2020 and widening fiscal and external account deficit, thus leading to significant financial and balance of payments needs. Against this background and since Guatemala complies with the requirements, we support the authorities' request for Fund's financial support under the Rapid Financing Instrument (RFI) equivalent to 100 percent of quota.

We welcome the authorities' National Emergency and Economic Recovery Plan to mitigate the socio-economic impact of the pandemic. The decisive measures implemented under this plan to address the urgent health sector needs, temporary support for the most vulnerable groups, and protect firms impacted by the crisis are appropriate. These measures, together with softening tax revenues, will increase the fiscal deficit. To contain the fiscal deficit, we agree on the need to sustain tax compliance further and streamline non-essential public spending. In this vein, the Congress' approval for partial monetarization of the fiscal deficit is warranted. Concerning the transparency and accountability of the use of resources related to Covid-19, we positively note the authorities' commitment to enhancing the procurement system as well as the launching of the State of Calamity dashboard.

In the context of the Covid-19 pandemic, pursuing an accommodative monetary policy stance while maintaining financial stability is of paramount importance. The decision to keep the monetary policy rate to its historic low level and additional measures to expand liquidity provision will help the authorities' efforts to support the economic activities. They

are also encouraged to follow through with their commitment to keeping fiscal deficit monetization temporary and limited to better anchor inflationary expectations and maintain inflation within the Central Bank's target. At the same time, it would be appropriate to closely monitor the developments in the financial sector to ensure stability, including in being vigilant to credit exposure and eased measures on credit risk regulation.

Staff's assessing that Guatemala has sustainable public debt and adequate capacity to repay the Fund is reassuring. Going forward, we are encouraged that the authorities are strongly committed, as highlighted in Mr. Villar and Mr. Tabora Munoz's Buff statement, to resume their fiscal consolidation from 2021 and implement key structural reforms to boost growth and fight poverty.

With these remarks, we wish the Guatemalan authorities all the success in combating the pandemic outbreak.