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June 7, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on Guatemala
(Preliminary)
Executive Board Meeting
June 9, 2021**

We thank staff for their comprehensive report, as well as Mr. Moreno and Mr. Cartagena for their informative buff statement. We concur with the thrust of staff's appraisal.

We welcome the authorities' sound macroeconomic policies, and their response to the crisis, which have allowed for relatively limited health and economic impacts of the pandemic compared to peers. We positively note that the GDP should return to its pre-pandemic level this year. Improving the pace of vaccination will be key to reduce uncertainty weighing on the outlook, and international cooperation will be important to support adequate supply. More emphasis could have been put on inequalities on the report, and we remain in particular concerned by the risk of increasing inequalities between urban and rural areas. In this regard, a close monitoring of the risk of social unrest is necessary. We regret that staff's baseline scenario excludes the already approved RFI (594 M USD), and that the likelihood of a purchase was deemed low, as this support was designed to support the authorities' policies against the crisis and mitigate risks in this regard.

We welcome the authorities' commitment to ensure debt sustainability, but increasing social expenditures and domestic resource mobilization, including through a tax reform, will be paramount both in the short and medium term. We strongly welcome the stimulus of 2.3 percent of GDP, in particular the unprecedented deployment of cash transfers, to support the most vulnerable. We do consider that the country has some room to increase this support, as the level of public debt currently stands at 33 percent of GDP, among the lowest in the region. In particular, we strongly encourage more protection toward informal workers. *Have new measures to help the informal sector been adopted during the last year?* Moreover, while we welcome the development of digital payments, a large part of the population does not have a banking account and it will be important to ensure support reaches the poorest. On structural fiscal reforms, we agree with staff about the need to strengthen spending efficiency and enhance revenue mobilization, though we would have appreciated more emphasis on the need for a comprehensive tax reform, including a broadening of the tax base, and more redistributive measures. Nevertheless, we do welcome

the authorities' intention mentioned in the Buff to gradually broaden the tax base. Moreover, we encourage the authorities to improve the control of budget execution, including public procurement, and to focus on climate resilient infrastructures, for example in the transport sector.

We agree with staff about the need to maintain an accommodative monetary policy and encourage a careful monitoring of monetary financing. While the monetary financing provided a temporary relief last year, maintaining the credibility of the central bank is important and we see sterilization of the excess liquidity due to the monetization as an important measure, in particular to maintain inflation expectations well-anchored. We also note that FX measures taken by Banguat to improve reserve adequacy were appropriate given disorderly market conditions, and we encourage greater exchange rate flexibility in the future. On the financial front, we welcome the resilience of the financial system. We encourage close monitoring of the NPLs, and the development of the local currency bond market to reduce borrowing costs and appreciate the quantitative analysis provided in Box 2. Finally, we urge the passage of the new banking law and of the draft AML/CFT law to align with FATF standards.

Improvement of social protection and the climate resilient strategy are top priorities. Strong action is needed to address poverty and health challenges, as the poverty rate is close to 60 percent of the population, basic healthcare covers only 50 percent of the population, and only 25 percent have access to safe water and sanitation. We welcome the National plan PLANID, and note that large efforts will be needed. Moreover, developing a natural disasters strategy is important as climate risk are macro-critical. Both hurricanes Eta and Iota have affected the country last November. We welcome Box 4 on this topic, and in particular the attention given to the actions needed to comply with the Paris Agreement. Exploring new risk transfer instruments is also highly welcome. *The DSA does not seem to integrate the climate risk, could staff explain if they plan to integrate it?* Finally, measures to improve productivity and attract investment will also help increase the growth potential and contribute to have an external position that is more in line with the level consistent with medium term fundamentals and desirable policies.