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GRAY/20/2380

June 9, 2020

**Statement by Mr. Buisse, Mr. Rozan, and Ms. Albert on Guatemala
(Preliminary)
Executive Board Meeting 20/69
June 10, 2020**

We thank staff for their comprehensive report, as well as Mr. Villar and Mr. Tabora Munoz for their clear buff statement.

While the authorities have put in place strong buffers over the years thanks to their sound policy-mix management, the depth of the crisis warrant financial support from the Fund. Despite the resilience of the country, the household revenues remain heavily dependent on US remittances, which should decrease significantly, and with significant downside risks if the US economy slows down more than anticipated. We welcome the measures taken to deal with the crisis through the *National Emergency and Economic Recovery Plan*. We encourage the authorities to keep a strong focus on the protection of the vulnerable, as poverty and inequalities remains high, in particular (i) to protect the children, as stunting in children under 5 is one of the highest in the world, (ii) to cushion the impact of the crisis on the informal sector, which represents 70 percent of the employment and (iii) to support the health system, which is structurally fragile. *Could staff compare the resources dedicated to Guatemala to help workers in the informal sector compared to the other countries in the region?*

Against this background, we support the RFI in the amount of SDR 428.6 million, which will contribute to fill the financing gap and play a strong catalytic role. Despite the structural resilience of the economy, the combined domestic and external shocks created a 1.5 bn USD financing gap. The decrease in international reserves presented in the IMF scenario seems manageable, but we agree that multilateral financing should significantly help the country deal with the impact of the crisis. As the country has not made use of Fund resources since the late 80s, this represents an opportunity to deepen the policy engagement with the Fund going forward.

We encourage the authorities to use the significant fiscal room they currently have, thanks to their prudent fiscal stance, which resulted in a low level of debt (32.5 % of GDP forecasted this year). Regarding the recovery phase, we welcome the priority to rebuild financial buffers for disaster management and encourage the reduction of tax evasion

to mobilize revenues and ensure more progressivity in the tax system. As the country succeeded to place a social bond on health spending of 1200 million in April at favorable terms, we are wondering to which extent the country can continue to tap the international markets in the next few months, and use his fiscal resources to avoid central bank monetization in the future. *Could staff comment on this issue?*

On the monetary front, we share staff's recommendations and encourage the authorities to avoid monetary financing. Indeed, if this type of policy can provide a temporary relief in these exceptional times, their use, especially in a country with sound economic policies bring risks to the credibility of the central bank. We therefore welcome the mention in the Buff of the commitment of BANGUAT regarding sterilization. In addition, we note the temporarily relaxation of the credit risk regulations and encourage the close monitoring of the financial system and the improvement of the AML/CFT framework. We note that FX interventions have taken place and agree that it should be limited to disorderly market conditions, and we encourage gradual exchange rate flexibility.

Finally, we welcome the significant safeguards measures to ensure the transparency and transparent use of the emergency funding. The "State of Calamity Dashboard" for tracking and controlling the pandemic-related expenditure, the publication of quarterly reports, the ex-post independent audit of the RFI spending and the safeguard assessment of BANGUAT are very positive actions.