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June 9, 2020

**Statement by Mr. Tan and Mr. Chea 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 insightful Buff statement.

The COVID-19 pandemic has interrupted Guatemala's track record of macroeconomic stability due to the sharp decline in remittance inflows, and both external and domestic demands. While we welcome the authorities' action plans to contain the impact of the pandemic, the socio-economic costs of the crisis will be large, especially given Guatemala's high level of poverty and weak healthcare and social security systems. In light of the urgent balance of payment need and the high degree of uncertainty about the duration and severity of the pandemic, **we support the authorities' request for a Rapid Financing Instrument in the amount of SDR 428.6 million (100 percent of quota)**. We broadly concur with the staff appraisal and would like to offer the following points for emphasis.

While temporary and targeted fiscal support is needed to enhance the capacity of the healthcare system and support the most vulnerable, steadfast efforts to rebuild fiscal buffers is crucial once the crisis abates. We welcome the authorities' plans to step up efforts to contain the fiscal deficit by rationalizing non-priority spending and sustaining tax compliance. We also welcome the authorities' commitment to ensure fiscal transparency and accountability in the appropriate use of the emergency-related spending. That said, we share staff's reservation on central bank monetization of the fiscal deficit and note the authorities' intent to keep monetization temporary and limited. *Staff's comments are appreciated on the feasibility of alternative financing options that are available to contain further deficit monetization.* While the implementation of COVID-specific measures has added to prevailing enforcement challenges at the tax agency, we also agree that the redoubling of tax administration efforts is a top priority to mitigate the risks to Guatemala's financing strategy, as well as help to rebuild fiscal buffers to respond to potential shocks and promote fiscal sustainability in the long run.

Continued efforts are needed to safeguard external and financial stability. We take positive note of the inter-institutional coordination between the Central Bank and the Ministry of Public Finance in preserving macroeconomic stability and discipline on monetary and fiscal policies as stated in the Buff statement. This will help to safeguard the credibility of the Central Bank and the effectiveness of monetary policy. Given the challenging external conditions and heightened market volatility, continued efforts to secure price stability and safeguard international reserves will be equally vital to weather unexpected shocks. We also concur with staff for the authorities to remain vigilant in the temporary relaxation of credit risk regulations in the financial system and ensure that these measures are introduced in a transparent, targeted and prudent manner in line with regulatory best practices.

With these comments, we wish the authorities all the best in their future endeavors.