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GRAY/20/2355

June 9, 2020

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

We thank staff for the helpful report, and Mr. Villar and Mr. Tabora Muñoz for their insightful buff statement. **We support Guatemala’s request for emergency financing under the Rapid Financing Instrument (RFI) at 100 percent of quota.** Staff identify an “urgent” and “pronounced” balance of payments need which, if not addressed, could cause significant economic disruption. This financing – along with support from other IFIs which the Fund can help catalyze – should help strengthen the policy response to COVID-19 and the associated challenges. We broadly agree with both staff’s assessment and their policy advice.

**Like many countries in the region, the impacts of COVID-19 and the necessary health response look set to be significant for Guatemala.** Staff highlight that the economy was in a promising position prior to the arrival of COVID-19, with growth picking up in 2019, inflation remaining within the target range, and a track record of macroeconomic stability. The authorities also responded early to the threat of COVID-19 with a broad set of containment measures. Yet food insecurity, weak healthcare coverage in poor and rural areas, and the economic importance of remittances, tourism receipts and FDI all contribute to Guatemala having significant vulnerabilities too. The fiscal and monetary responses to health and economic challenges posed by the disease have both been substantial, and **we welcome staff’s confidence that the authorities will pursue appropriate policies** “to mitigate the impact of the pandemic, foster a prompt recovery, and address the urgent balance of payments needs.”

**At the same time, we share staff’s concerns about the erosion of tax revenues and the perceived need to resort to monetary financing.** Staff rightly stress the risks associated with further monetary financing; we note the authorities’ intent to “contain monetization of the fiscal deficit” and encourage them to explore alternative contingency financing options in the event of further deterioration in the near-term outlook. Sustainable revenue mobilization

efforts will be crucial over the medium term, and we agree that renewed focus in this area should be built into policy thinking as part of the recovery. A stronger and more stable revenue base would also help avoid further monetary financing of what had, pre-crisis, been a modest fiscal deficit. We also see merit in staff's call for a "transparent, targeted, and prudent" approach to the temporary easing of prudential regulations, and for careful monitoring of bank risk exposures. *Are staff confident the regulatory authorities have sufficient capacity to conduct such careful monitoring?*

**We reiterate the importance of being able to demonstrate that public spending – including IMF support – has been used effectively and efficiently in response to COVID-19**, as we have in relation to many other recent emergency financing requests. We therefore welcome the launch of the "State of Calamity Dashboard" and the commitment to publishing quarterly reports of COVID-19 related expenditures and all related signed procurement contracts, including the names of firms winning contracts and their beneficial owners. We also note the agreement to an independent ex-post audit of RFI-financed spending. *Given the audit commitment seems to be explicitly focused on RFI financing, but budget support is generally fungible, could staff comment on how spending will be apportioned to the RFI financing, and therefore what will be captured in the independent audit?*