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June 9, 2020

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

We thank staff for the clear report and Mr. Villar and Mr. Tabora Muñoz for their informative Buff statement. We support the authorities' request of financial support under the Rapid Financing Instrument (RFI) of 100 percent of the country's quota (SDR 428.6 million), to finance part of Guatemala's urgent BOP needs. To complement the Fund's financing, the authorities have been proactive in seeking additional financing from other multilateral and regional institutions.

**The Guatemalan government swiftly implemented a National Emergency and Economic Recovery Plan with ample Congress support.** The plan comprises reinforcing the healthcare system capacity, mitigating the income shock on the most vulnerable, and providing temporary relief to large and small firms, all resulting in a fiscal effort of 4 percent of GDP. Unfortunately, available sources of financing would not be sufficient to support this effort, and the government is resorting to exceptional central bank financing equivalent to 1.9 percent of GDP to compensate for this shortfall. We concur with the staff's advice to avoid the need for further monetary financing by securing additional sources of financing in a timely manner, as partial lockdown measures will continue to have a large impact on consumption and business activity, as is the case in the rest of the world. Moreover, in the case of Guatemala, the economic impact of the crisis is likely to be amplified by the ongoing decline of remittances, given their large contribution to households' income estimated at 30 percent.

**We commend the authorities for the initiative to ensure proper governance arrangements to manage resources to address the pandemic, especially the introduction of the State of Calamity dashboard.** We agree with staff that the authorities should complement these efforts by publishing quarterly reports of related expenditures and signed procurement contracts in the website of the Ministry of Public Finance. In addition, the external audit report of RFI-financed spending should also be made public. On a different governance-related point, *could staff usefully explain the provision in the Monetary Board's resolution allowing for the use of generic provisions to cover specific provisions "in justified cases", which does not appear to be a standard international practice?*

**Guatemala has enjoyed a stable macroeconomic environment for a long time thanks to sound and consistent macroeconomic policies.** In fact, before the pandemic, GDP growth was picking up thanks to rising confidence. However, Guatemala’s “social deficit” appears large, reflected in chronic malnutrition and a precarious medical infrastructure, in particular, the low availability of hospitals and doctors, a major concern in the current circumstances. *Against this backdrop, we would appreciate staff’s elaboration on its assessment of Guatemala’s external position as “stronger than the level implied by medium-term fundamentals and desirable policies”, as this suggest that available policy space has not been fully used.* Looking ahead, the authorities are encouraged to decisively address social challenges, including through redoubling efforts to overcome long-standing problems with revenue mobilization, aiming at reducing the large VAT and corporate income tax gaps.

With these remarks, we wish the authorities success in their policy endeavors in these difficult circumstances.