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June 7, 2021

**Statement by Mr. Bhalla and Mr. Singh on Guatemala
(Preliminary)
Executive Board Meeting
June 9, 2021**

1. We thank the staff for their well-prepared Reports and Mr. Moreno and Mr. Cartagena Guardado for their helpful Buff statement.
2. Guatemala is placed in a relatively sound macroeconomic footing vis-à-vis many EME peers with moderate fiscal and external gaps and a moderate level of inflation. Despite a relatively less severe macro-economic contraction vis-à-vis Latin American and EME peers, the informal sector has been particularly hard hit by the lockdowns and consequent disruption in economic activity. Given that Guatemala has a relatively high share of informal employment vis-à-vis the Latin American peers, and given the backdrop of low fiscal deficit and moderate and sustainable level of debt, we support the use of fiscal policy stimulus to support vulnerable businesses and population. We also emphasize the role of global cooperation health in facilitating greater flow from vaccine surplus to vaccine deficient countries to contain the economic effects of the pandemic.
3. Though moderate debt levels provide significant latitude to Guatemala in deploying countercyclical fiscal policies, lower tax revenues may constrain the scope of countercyclical fiscal policies going forward. Post-pandemic, authorities should attempt to streamline tax reforms, including VAT, to augment tax revenues. In the backdrop of higher informality in economic activity in Guatemala, the role of a simplified tax regime and other regulations to incentivize greater formality could help in augmenting revenues over the medium to long run.
4. Remittances constitute a significant part of the exchange earnings (13-14 percent of GDP) and have remained resilient during the pandemic. The actual trend in remittance inflows has belied the outlook by international agencies. Thus, despite forecasts by the international agencies of about one-fifth contraction in remittance flows to Latin America in 2020, Guatemala has defied the trend forecast. It would be interesting to understand

the key drivers of this steady trend in remittance inflows to Guatemala, which could not be anticipated when the initial shock of the pandemic hit developing countries.

5. We wish the authorities the very best and success in their future endeavor in dealing with the pandemic and hope that once the pandemic is over, the economy jumps to a higher growth trajectory.