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June 7, 2021

**Statement by Mr. N'Sonde and Mr. Carvalho da Silveira on Guatemala
(Preliminary)
Executive Board Meeting
June 9, 2021**

We thank staff for the well-written report and Mr. Moreno and Mr. Cartagena Guardado for their helpful Buff statement.

Effective Covid-19 response and sound macroeconomic management have been instrumental in containing the effect of the global health crisis and supporting the recovery. The authorities' prompt actions and policy support have helped mitigate the impact of the pandemic and limited the economic contraction in 2020. We also positively note that the country's external position continued to be stronger than implied by medium-term fundamentals and desirable policies. However, the outlook remains subject to elevated risks, stemming from new virus strains and delayed vaccine rollout. Vulnerabilities to natural disasters add to the Guatemala's development challenges. In addition, we share staff's views that the current crisis has heightened some longstanding social and infrastructure gaps which could potentially weigh on the country's medium-term growth. We encourage the authorities to maintain supportive policies in the near-term and set the stage for fiscal space and much-needed structural reforms down the road to address the existing social and infrastructure needs, improve the business climate, strengthen resilience to climate change and promote long-term inclusive growth.

Increasing the efficiency of targeted support measures is necessary in the near-term to sustain the recovery and contain the deterioration of social indicators. We commend the authorities' fiscal response to enhance healthcare capacity and to support the most vulnerable businesses and households. Creating fiscal space to meet social and infrastructure needs while preserving debt sustainability will require strengthening revenue mobilization and

spending efficiency and transparency. Most notably, consideration should be given to streamlining tax exemptions; introducing VAT credit controls; monitoring large taxpayers; and reforming civil servant salaries. Efforts taken to strengthen public finance transparency and governance, including for Covid-19 related resources, are welcome and should be pursued.

The monetary policy stance remains broadly appropriate as inflation is under control but vigilance is needed to contain risks to financial stability. We take note of the FX measures taken by the Central Bank of Guatemala during a period of disorderly market conditions. However, the authorities should remain alert for potential repercussion of last year's monetization of the fiscal deficit and stand ready to take action if required. Regarding the financial sector, we welcome the assessment that Guatemala's banking system is well capitalized and resilient to face a wide range of shocks, banks remain broadly sound and non-performing loans (NPLs) are unchanged as regulatory forbearance are being phased out. Nonetheless, it will be essential to continue to monitor risks to banks' asset quality and regulatory capital metrics and consider additional measures as needed to safeguard financial stability. In the same vein and to improve financial integrity, the remaining FSAP recommendations should be steadfastly implemented, including those related to the adoption of the banking law and the revised AML/CFT law.

Structural reforms should focus on addressing impediments to business and job creation, building resilience to climate change, and tackling labor market informality. We are pleased to note that the authorities' Economic Recovery Plan already envisages various reforms to promote business, bolster labor market flexibility and reduce vulnerability to climate disasters. Given the macro-criticality of climate risks for Guatemala and its disproportionate effect on the most vulnerable, we concur that the climate strategy should be completed by other initiatives to enhance fiscal and infrastructure resilience as well as the implementation of emission reduction programs. In this connection, we appreciate the Ministry of Finance's intention to continue to revamp their risk retention instruments and explore new risk transfer tools going forward. *Can staff elaborate on technical assistance, if any, provided to Guatemala in rolling out its climate strategy?*

With these remarks, we wish the authorities every success in their endeavors.