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June 7, 2021

**Statement by Ms. Senich and Mr. Gudicello on Guatemala
(Preliminary)
Executive Board Meeting
June 9, 2021**

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

The report rightly identifies weak governance as a key limitation to Guatemala’s long-term growth prospects and the prosperity of its people. We encourage the Fund to work closely with the authorities to reduce corruption, improve governance, strengthen compliance with international AML/CFT standards, and increase transparency in public financial management. These efforts are crucial to attracting much-needed foreign investment, enhancing public trust in government, promoting the efficient use of scarce public resources, and helping improve the rule of law and business climate. These reforms will be vital to lift potential growth and create jobs, build economic resilience, and improve Guatemala’s external position.

We agree that the authorities will need to enhance domestic sources of revenue. The authorities’ efforts to mobilize domestic resources have not been successful so far, leaving the government chronically under-financed relative to its needs. In addition, the Congress has consistently failed to approve and disburse critical multilateral development bank assistance. We are concerned that without adequate and sustainable funding sources, the authorities will lack the resources to invest in infrastructure, education, and health. Improved revenue mobilization would also enable Guatemala to build the fiscal space needed to respond to emergencies without resorting to the monetization of the fiscal deficit. *Could staff provide more detail on what advice they have given the authorities on effectively mobilizing domestic revenue and comment on how confident they are that the authorities will step up efforts to raise chronically low tax revenues, especially as the effects of the COVID-19 pandemic subside?*

We recognize the authorities' decisive response to the economic crisis posed by the COVID pandemic, including the dramatic scaling-up of social transfer programs.

However, we encourage them to work with staff on how to maintain social protection measures, particularly to assist the most vulnerable. We note there will be a gradual withdrawal of fiscal stimulus over the medium term. *Could staff provide more detail on the planned reduction in expenditures after 2021?* We welcome the authorities' planned measures to mitigate the impact of climate change and improve disaster resilience given the vulnerability of Guatemala to climate risks.

We encourage the authorities to exercise increased vigilance regarding potential debt vulnerabilities, including the macroeconomic impact of the monetization of the fiscal deficits. We note that the authorities secured significant amounts of financing from external sources. *Has staff discussed how the authorities intend to use the proposed SDR allocation?* We also share staff's concern of risks to the financial sector once the authorities withdraw support.