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GRAY/21/1530

June 7, 2021

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

We thank staff for the informative report, and Mr. Moreno and Mr. Cartagena Guardado for their helpful Buff statement. We broadly agree with the thrust of the staff appraisal, and would like to make the following points:

**1. We commend the Guatemalan authorities for their efforts in managing the COVID-19 health crisis and mitigating its impact.** We are comforted to note that the authorities' bold policy responses have played an important role in protecting the most vulnerable and supporting economic recovery in the key sectors. We particularly welcome the substantial impact of the Family Bonus Program that reached almost 80 percent of Guatemalan households. Also, we take positive note that the impact on Guatemala's economy was one of the lowest in Latin America in 2020, followed by a strong recovery in 2021. Going forward, we note that the slow vaccination process is one of the drivers of downside risk. Here, we call on the international community to make further efforts to ensure a more equitable global vaccine distribution.

**2. The fiscal policy should remain supportive over the short-term, with gradual withdrawal of stimulus as the recovery firms up.** Despite the authorities' unprecedented measures, the pandemic and the recent natural disasters have deepened the long-standing social challenges, such as high poverty and migration rates. In this context, we see merit in scaling up and prioritizing social and infrastructure spending in the near-term, as fiscal stimulus is gradually withdrawn. Further, we support staff's recommendation to use the available fiscal space to expand the coverage of cash transfer programs should social indicators worsen. Over the medium term, we concur that the authorities should create fiscal space to address sizable social and infrastructure needs through enhanced tax collections, spending efficiency and debt management. We also encourage the authorities to further

develop the domestic debt market to allow for more stable and cost-effective budgetary funding.

**3. We agree that monetary policy should remain accommodative over the near-term to support recovery, provided that inflation expectations remain well anchored.** Moreover, we encourage Bangwat to remain vigilant to avoid any unintended consequences from monetization of the 2020 fiscal deficit. On the financial sector front, we agree with staff that the SIB should closely monitor NPLs and any possible risks to financial stability and engage with banks to ensure early intervention. To this end, we welcome the authorities' intention to pass the banking law and the revised AML/CFT law.

**4. Finally, structural reforms are warranted to unlocking potential growth and building resilience.** In this connection, we welcome the authorities' Economic Recovery Plan aimed at fostering employment opportunities and improving the business environment and labor market flexibility. We also welcome the authorities' recent efforts to improve transparency and governance and encourage them to accelerate their anti-corruption efforts.

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