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June 7, 2021

**Joint Statement by Ms. Levonian, Mr. Trabinski, Ms. Grant, Ms. Kashima, and Mr. Mochtar on Guatemala
(Preliminary)
Executive Board Meeting
June 9, 2021**

We thank staff for the concise report and Mr. Moreno and Mr. Cartagena Guardado for the helpful Buff statement.

The authorities swift and bold policies to contain the spread of COVID-19 have been largely successful and resulted in moderate levels of infections. This, along with prompt fiscal policy measures to support the economy and the most vulnerable, has contained the economic impact of the crisis with a strong recovery expected for 2021. Also, we commend the authorities for their prudent monetary policy to safeguard financial stability and the accumulation of foreign exchange reserves, which supports the resilience of the economy. **We broadly concur with staff's assessment and main recommendations that near-term policies should focus on minimizing the social and economic impact of the COVID-19 pandemic, while addressing poverty and climate change issues in the medium to long term.**

We note positively the adequate fiscal buffers that enabled the authorities to respond appropriately and in a timely manner to mitigate the impact of the pandemic. We agree with staff, that near-term fiscal support is essential to address the impact of the COVID-19 pandemic and avoid scarring. Over the medium term, we encourage the authorities to resume fiscal consolidation while rebuilding buffers. Reforms aimed at scaling up revenue mobilization including tax agency reforms, could be essential to support Guatemala's social and infrastructure expenditures. We concur with the list of reforms indicated by staff as a priority to enhance transparency and the effectiveness of tax authorities. Efforts to further strengthen public financial management (PFM) especially those indicators that are below the standards suggested by PEFA will help in achieving greater efficiency in spending and improving fiscal transparency.

The pandemic has however amplified social vulnerabilities. We note with concern that several social indicators including those related to unemployment and malnutrition have deteriorated and that the poor have been disproportionately affected by the pandemic. In this context, we support the authorities plans to redirect resources towards health, education, public investment in social spending, and the provision of public services. *Can staff indicate how the employment of women and youth has been affected?*

Continued monitoring of resilience in the banking sector is warranted to maintain financial stability. We take positive note of staff's assessment that the banking sector appears to have weathered the crisis well thus far with key financial indicators such as bank capitalization and NPLs being sound. The results of stress tests shown in Annex V are also reassuring. However, as the pandemic related support has somewhat masked the pandemic effects on bank assets, we share staff's view that the authorities should monitor closely the risks that may arise once such support is withdrawn. Moreover, the adoption of FSAP recommendations and approval of critical legislation to improve the AML/CFT framework will be necessary to strengthen financial stability.

Building resilience to natural disasters and climate change is essential. Guatemala has in the past been impacted by geophysical hazards and faces significant challenges from climatic events as evidenced by two major hurricanes hitting the country last November. We echo staff's suggestion that past efforts to lay the legal foundations for climate change mitigation and adaptation should be complemented by programs to effectively reduce emissions and a clear financial strategy to enhance fiscal and infrastructure resilience to natural disasters. *Can staff comment on whether, and to what extent, the costs of building resilience have been incorporated into the macro-fiscal framework and policy advice to the authorities?*

We share staff's assessment on the need to accelerate structural reforms aimed at boosting competitiveness. We welcome the authorities' *Economic Recovery Plan* that aims at improving the business environment and labor market flexibility. Promoting the use of e-commerce and digitalization will complement the actions taken to increase investment and growth opportunities. Likewise, reforms focused on training and education could boost overall labor productivity and foster inclusive growth. The authorities' efforts to reduce red-tape and corruption are welcome and we encourage them to continue to make progress in this area.