GUATEMALA – Country Assistance Strategy

On behalf of the Guatemalan authorities, we would like to thank the management and staff of World Bank Group for preparing this Country Assistance Strategy.

The Guatemalan Government was closely involved from the outset in the formulation of this CAS. At the request of the Bank Group, the Government not only gave its permission for the organization of a wide-ranging consultative process involving the representatives of civil society, but itself also participated actively in the process. That process has been helpful to the Government in ensuring that the Bank Group's program is consistent not only with the Peace Accords, signed two years ago now, but also with the Government's own medium-term development strategy. The CAS takes full account of the links between both these frameworks and supports them.

The Government's program is making significant progress in promoting growth with stability. Over the four years up to December 31, 1997, the growth rate averaged four percent, and it is estimated to be around five percent for the current year. Over the last three years up to December 1997, average inflation was in the single digits, giving one of the lowest rates in the Latin America region, and this positive outcome is projected to continue this year.

Sound macroeconomic management also improved macroeconomic balances in 1997. On the fiscal front, tax reform was combined with a shifting of public expenditure toward social and basic infrastructure needs. This policy was instrumental in raising the tax ratio to more than nine percent, its highest level in almost two decades, in increasing public investment by sixty percent in relation to 1996, in restructuring public domestic debt and moving it toward sustainable levels, and in reducing the Government’s fiscal deficit to approximately 0.8 percent of GDP in 1997. On the external balance front, international reserves recovered to roughly three months of inputs, while the external current account deficit remained low at close to three and a half percent of GDP.
results were consistent with tight monetary policy and a neutral real exchange policy. External debt ratios, for their part, remained at moderate and sustainable levels.

Accelerating growth is essential to the consolidation of peace in Guatemala. It is also essential to the reduction of poverty, which is most acute in the countryside, particularly among women and indigenous population groups, and is one of the most challenging issues on the Government’s social agenda.

Supported by a more efficient public sector, a better focused and coordinated social policy, and a comprehensive rural development strategy consistent with the Socioeconomic and Agrarian Issues Peace Accord, the Government is achieving sustainable progress in improving the incomes and living conditions of the poorest and most vulnerable sectors of society.

The Government of Guatemala is actively working towards full accomplishment of the ambitious peace commitments. In conjunction with the Comisión de Acompañamiento, an ad-hoc entity created to monitor implementation of the Peace Accords, it is proposing a national fiscal pact. This pact, to be consensus-based, will focus on a number of measures that are essential if fiscal targets are to be met in the medium term. Similar initiatives on land, justice, education and indigenous issues are being worked out with the Comisiones Paritarias, ad-hoc bodies created under the Peace Accords as vehicles for wider participation in national decision-making. Details of the impressive work record of these commissions will be presented to the international community at the next Consultative Group to be held in Brussels, during the last quarter of 1998. While these are not easy issues to confront, there is strong political will on the side of the Government to face those challenges.

The Government of Guatemala is in full agreement with the specific World Bank assistance program proposed in the CAS, which fits in well with the assistance that other multilateral and bilateral donors offered in January 1997, at the first Consultative Group Meeting. The Government is also pleased to note that this assistance program provides for support from the various parts of the World Bank Group, including in particular IFC, MIGA and FIAS. It thus constitutes a private sector development strategy which should prove an effective catalyst for economic growth, and which reflects very closely the Government’s own priorities.

In concluding, the Government wishes to express Guatemala’s agreement with the broad consultative and participatory nature of the CAS design and implementation process, and to say that it looks forwards to receiving continuing technical and financial support from a very collaborative working relationship with the World Bank Group.
The authorities welcome with enthusiasm the recent opening of the new IFC Resident Mission in Guatemala. It will provide invaluable additional support for the positive work already being done by the World Bank Resident Mission.