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**STATEMENT BY MR. OSCAR ERASMO VELASQUEZ, VICE-MINISTER OF ECONOMY OF
GUATEMALA, IN THE UNITED NATIONS CONFERENCE ON THE WORLD FINANCIAL AND
ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT**

(New York, 25 June, 2009)

Mr. President,

May my first words be to greet you and thank you for having convened and organized this meeting. It is a timely and altogether convenient initiative; since there is no doubt that the United Nations has an important role to play in the efforts of the community of nations to address the financial and economic crisis, especially to mitigate its effect on development.

We align ourselves fully with the statement of the distinguished delegate of Mexico, who spoke in the name of the Rio Group, to which we belong, but I would like to offer the peculiar vantage point of my own country, since the case of Guatemala is a good example of a Nation that is strongly impacted by this crisis in whose origin it had no responsibility whatsoever.

Thus, during many years, we have assumed our own responsibility in creating an appropriate environment for our development. Notable progress was achieved in the quality of macroeconomic management, appropriate measures were adopted to assure a healthy financial system, deliberate policies were implemented to improve our insertion in the global economy, decisive actions were taken to strengthen the Central American integration process, and we moved forward in fulfilling the commitments contained in our Peace Accords of 1996.

Of course, we also acknowledge our own weaknesses. In spite of significant improvements in the level of tax collections during the past decade, we continue to have one of the lowest tax to GDP ratios in Latin America. Our democratic institutions still reveal fragilities that we are trying to overcome. Furthermore, although significant improvement has been achieved to improve social indicators in a sustained manner, the challenges in this area continue to be substantial. In this vein, the recent progress achieved in economic growth still distributes its benefits in a highly uneven manner between different strata of the population.

At any rate, in balance important progress has been achieved in my country, but suddenly this favorable trend collided with a wall; a wall in whose erection we played no part whatsoever.

Indeed, the crisis we face today was figuratively born in this same city of New York, where banks took on high-risk mortgages under too permissive regulatory systems. As we all know, when the bubble finally burst, it did so resoundingly, and its effects were rapidly

transmitted to the real economy; first, of this country, but, in short order, to the rest of the world. Further, this short term phenomenon appeared in the context of large structural disequilibria which have been affecting the global economy for some time now.

In the case of Guatemala, the effects of the crisis were rapidly irradiated through almost all the components of our external accounts. Our exports of goods have contracted by 4.6% in the first four months of this year in relation to the same period of last year, and the figure for non-traditional exports fell by 12.8%. Our income from tourism – an important item in the Guatemalan economy – decreased by 4.3% in the same period. Family transfers, which in recent years have contributed over 10% to our GDP, fell by 9.7%. The flows of direct foreign investment dropped sharply, although official assistance fortunately has maintained its levels.

The impact of this dramatic contraction in the sources of foreign exchange was not long in coming: the levels of economic activity and employment have changed from positive numbers in previous years to a virtual stagnation, and a contraction when measured in per capita terms. The impact has been particularly hard on poor families, to the point that some health and education indicators which had reflected continuous improvement, year after year, now appear to be changing, in spite of the social expenditures programs to which I will allude presently.

At the same time, our capacity to apply a counter cyclical policy is limited by the fact that fiscal receipts have fallen by 9% in the past five months. Nevertheless, we are making enormous efforts to maintain the level of priority expenditures, and especially those aimed at the poorest strata of society. The external financing we already had in the pipeline has played an important compensatory role in this endeavor. We are confident that our Congress will approve the issuing of bonds and of external loans which will give us some margin of maneuver to apply a moderately ant cyclical policy.

In this regards, it must be said that we are not sitting idly by. Already in February of this year, the Government adopted the National Program of Emergency and Economic Recovery, whose objectives are to favor employment generation, mitigate the impact of the crisis on the most vulnerable groups and preserve macroeconomic stability and the health of the financial sector. The monetary authorities, for their part, have applied policies to mitigate the impact of credit restriction in international markets, to assure a flow of adequate credit to finance the private activities of our country, and to maintain adequate levels of liquidity in the banking system. On the other hand, and thanks to an adequate supervision, our financial institutions did not acquire toxic assets and their overall situation is generally sound.

Furthermore, we have promoted efforts to defend the neediest and most vulnerable strata of our societies, which happen to be those with the least capacity to defend themselves. In spite of the drastic reduction in tax receipts, efforts have been made during the year to give priority to social expenditures, especially in the areas of education and health, through the expansion in coverage and the provision of services of the programs of social protection, such as the conditioned monetary transfers (*Mi Familia Progresá*) the programs of Open Schools, *Balsas Solidarias* and *Comedores Solidarios*. At the same time, and in spite of the crisis, we are making great efforts to reform our tax system to achieve a better balance between the needs of non-inflationary financing of public expenditures and the natural resistance on the part of civil society and the private sector to increase the tax burden in times of economic stress. The Congress has before it an initiative to strengthen direct taxation and customs collections, with the main objective of strengthening and complementing legislation to combat evasion and tax fraud.

The central point that I wish to make is that we are responding to the financial and economic crisis within the limited scope at our disposal. In these circumstances, it is obvious that we need international cooperation to complement our domestic efforts. I must say that, although the funding is insufficient, we have found a favorable response to our proposals. The approval on the part of the World Bank of a budgetary support loan of US\$ 300 million to cover expenditures in 2009 and 2010 is awaited. In the same vein, our proposals to the IDB and CABI to receive additional financing for US\$ 350 million for expenditures in 2010 are taking shape. Further, the discipline shown in macroeconomic management facilitated the negotiation of a Stand-By agreement of a precautionary nature for US\$ 950 million with the International Monetary Fund, to be used in the event of balance of payments disequilibria caused by the international crisis.

Mr. President,

Going beyond the painful consequences of the crisis, there are two fundamental aspects that we would like to highlight. The first is that it would be tremendously unjust that this financial crisis, generated in the "North" of the planet, adversely affects the development of the countries of the "South", and especially the least developed ones. The second is that we must close ranks not only to address this crisis, but to avoid a repetition of same in the future, at least as a consequence of negligence on the part of our Governments, our regulatory entities, and our multilateral institutions. Among other aspects, the crisis illustrates how urgent the reform of the Bretton Woods Institutions, and their system of governance really is. It also illustrates how urgent it is to find a satisfactory outcome to the Doha Round of multilateral negotiations which have been going on for eight years.

In the same vein, the crisis suggests the convenience of a gradual substitution of the single international reserve currency towards a basket of currencies, or, better yet, an international accounting currency which could spring from the Special Drawing Rights, modified for such a purpose. And, within our own economies, a new opportunity has been opened to revisit in a more judicious manner the interaction between State and market in the process of development.

Finally, we applaud the rapid and constructive reaction of the 22 countries that met in London in April – and that will meet again in September – to respond in a coordinated manner to a crisis that is common to all. But it is obvious that those 22 countries cannot speak for all the members of the international community. We believe that the United Nations, with its medium and long-term vision on development, together with the international financial institutions, can make a very significant contribution to an agreed response to the crisis. We are confident that this universal Organization will coordinate its efforts with the Bretton Woods Institutions, and that it will also benefit itself from the enormous potential of regional and sub-regional cooperation, as illustrated, in our case, by the Inter-American Development Bank and the Central American Bank of Economic Integration.

Thank you, Mr. President.