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Guatemalan Government Mired in Financial Problems

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The Guatemalan government is facing an unprecedented financial crisis. Because of Congress’ failure to approve the 2015 budget, the government does not have access to the loans needed to meet external-debt payments and has been forced to divert tax revenue that was meant to be used to fund government bureaus to meet the debt payments, explained Taxation Superintendent Dorval Carías during a press conference on Oct. 31.

The Superintendencia de Administracion Tributaria (SAT) said Guatemala’s external debt totals US$446.8 million. Carías stressed that defaulting on external-debt payments is not a viable option for the Guatemalan government because doing so would mean that the country would no longer be eligible to apply for foreign loans.

During the press conference, President Otto Pérez Molina blamed Congress for not approving the 2015 Budget and also lashed out at the SAT for failing to meet tax-collection targets.

Successive administrations have been dogged by a chronic failure to meet tax-collection targets. The SAT has a US$131.5 million shortfall, and the measures taken by the Pérez Molina administration to tackle the problem have been ineffective.

One of the SAT’s main problems is corruption in the customs offices, which has flourished since the 1970s. In October 2013, President Pérez Molina ordered the military to take over five of the country’s 12 customs offices in an effort to curb corruption (NotiCen, Nov. 21, 2013), but in the long term taxation revenue was not significantly boosted and the legality of the measure was disputed, even by the business sector, which is the most affected by smuggling.

Any hope that a solution to the crisis could be found vanished on Nov. 12, after opposition parties refused to approve the 2015 budget, even after the Partido Patriota (PP) agreed to reduce the amount requested from US$9.4 million to US$ 9.1 million. This is the second-consecutive year that Congress has refused to approve the budget.

Legislative paralysis, the norm throughout the current administration, has made it practically impossible for the government to advance its congressional agenda and has now brought the government to its knees as it faces an unprecedented revenue shortfall.

Government employees have not been paid

Pressure on the administration to resolve the crisis is mounting after the Corte Suprema de Justicia (CSJ) lodged an appeal against President Pérez Molina and Carías on Oct. 29 for failing to meet the executive’s constitutional obligations toward the judiciary by providing the necessary funds to meet its running costs. The judiciary is owed US$20.2 million needed to pay employees’ salaries.

President Pérez Molina has tried to minimize the potential impact of the appeal and has said that, if it is upheld by the Corte Constitucional (CC), Guatemala’s highest court, the worst-case scenario would be the establishment of a deadline for the Ministerio de Finanzas Públicas (MINFIN) to...
provide the judiciary with the resources it needs to meet its running costs, as stipulated by the Constitution.

But even though President Pérez Molina has tried to play down the magnitude of the crisis, its impact on the provision of basic public services is evident. The Instituto Nacional de Ciencias Forenses (INACIF) faces similar problems as the judiciary and only has 50% of the financial resources needed to pay its staff.

To make matters worse, the public health sector is in a state of disarray, with no resources to purchase medicine and basic hospital supplies and health workers refusing to treat patients until the arrears they are owed have been paid in full. The situation is so dire that public hospitals are only treating shooting victims and women going into labor.

**Government criticized for frivolous spending**

During a Cabinet meeting on Oct. 29, Vice President Roxana Baldetti echoed President Pérez Molina’s claims that issuing Treasury bonds is the only solution to the crisis and warned the opposition that failure to solve the government’s financial woes will have repercussions that will affect the financial stability of the new government.

However, it is clear that securing the necessary votes in Congress to issue the bonds will be no easy task. Whereas Baldetti has dismissed the possibility of cutting public spending and imposing austerity measures, opposition parties such as Unidad Nacional de la Esperanza (UNE) have been quick to draw attention to evidence of frivolous spending and the misuse of public funds to finance party activities.

An investigation led by UNE Deputy Orlando Blanco revealed that, during the past six months, government bureaus have spent US$986,000 on catering services and receptions for civil servants. Blanco also accused the Instituto Guatemalteco de Turismo (INGUAT) of spending US$670,000 on an opinion pollster that carried out surveys for PP candidate Alejandro Sinibaldi.

El Periódico, a national newspaper that has been highly critical of the administration, also published that, from Sept. 11 to Oct. 16, the Secretaría de Comunicación Social de la Presidencia (the government’s official PR bureau) has spent US$4 million on government propaganda.

The government’s financial woes highlight a number of serious failings such as a lack of foresight and adequate financial planning as well as an inability to stamp out corruption in the customs offices and implement a more efficient tax-collection system. With opposition parties in Congress seizing the crisis as an opportunity to lambast the administration for its ineffectiveness, the government will face an uphill struggle in coming weeks in securing the necessary votes to issue the Treasury bonds.

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