

GUATEMALA

1. General trends

GDP grew by 3.7% in 2013 in real terms, versus 3.0% in 2012, reflecting the robustness of domestic demand, mainly from private consumers, low inflation and higher levels of bank lending to the private sector. The upturn in foreign trade, particularly towards the end of 2013, and increased investment in the country also contributed to this economic performance. Average annual inflation reached 4.3% (4.4% year-on-year in December), within the target range (3%-5%) set by the central bank in January 2013. The central government fiscal deficit stood at 2.1% of GDP, down from 2.4% in 2012. The balance-of-payments current account deficit was 2.7% of GDP, compared with 2.6% in 2012. In value terms, goods exports grew by 0.5% and goods imports by 3.1%. Total central government debt held almost steady at 24.8% of GDP.

In April 2014, economic activity, measured by the trend-cycle series of the monthly index of economic activity (IMAE), showed year-on-year growth of 4.0%, higher than that recorded in April 2013 (3.7%). ECLAC forecasts annual economic growth of 3.5% for 2014, on the back of the anticipated growth in domestic demand, the level and stability of interest rates, international price trends, an expected rise in external demand, especially in commerce, and the impact of tax reforms. Year-on-year inflation to May 2014 stood at 3.2%, within the established target range. The fiscal deficit is expected to remain at 2.1% of GDP.

In 2014, exports are projected to rise thanks to growing demand from larger markets, including the United States and the eurozone, and a sustained rise in imports is also anticipated. In the year to April, exports were up by 3.8% in value and imports by 2.4%. The central bank expects the trade balance to deteriorate towards the end of 2014, owing to higher imports.

2. Economic policy

In 2014, as in most of 2013, macroeconomic policy has been centred on maintaining stability, with an emphasis on meeting the inflation target.

(a) Fiscal policy

Fiscal policy in 2013 was slightly contractionary and generally continued along the same stable path as the previous year. The central government deficit stood at 2.1% of GDP, down from 2.4% in 2012. In 2013, total revenue climbed 2.9% in real terms to reach the equivalent of 11.7% of GDP. Direct taxes rose by 14.4% in real terms (compared with 2% in 2012). Also in real terms, income tax proceeds jumped by 20.6%, well above their 2012 growth rate (1.4%), thanks to a tax reform. In 2013, the net tax burden stood at 11% of GDP, representing a slight improvement over 10.9% of GDP in 2012. Public expenditure increased by 1% in real terms, reflecting a 3.2% rise in current expenditure and a 6.4% fall in capital expenditure, as investment in construction and infrastructure contracted.

The new budget bill for 2014, presented to Congress at the end of 2013, was not passed and the previous year's budget was therefore maintained. In January 2014, Congress approved an extension of the budget for 1.5 billion quetzales in order to run health and education programmes. The fiscal accounts are expected to run a deficit again in 2014, of 2.1% of GDP, just above the 2% considered sustainable by the Ministry of Public Finances and the central bank. In April 2014, total central government revenue recorded a year-on-year increase of 4%, while spending rose by 3% over the same period. At that date, the fiscal surplus stood at 468.6 million quetzales (0.1% of GDP) and tax revenues totalled 16.993 billion quetzales (compared with 16.454 billion in 2013), representing an increase of 3.3% over the previous year.

Total central government public debt was equivalent to 24.7% of GDP in 2013 (compared with 24.3% of GDP in 2012), while domestic public debt expanded by 4.9% and stood at 11.7% of GDP. External public debt grew by 12.1% in 2013 and represented 13.1% of GDP, up from 12.5% in 2012. Public debt is expected to increase slightly in 2014. Congress authorized bond issues for 8.335 billion quetzales (US\$ 1.077 billion) to finance the projected budget deficit.

In 2013, the full implementation of tax reforms was hindered mainly by controversy in the Constitutional Court, objections from the private sector and problems with the customs administration. In June 2013, Congress adopted the Tax Regularization Act, which halved road taxes and granted an amnesty for the payment of tax arrears. October saw the adoption of the Act on Institution-building for Transparency and Quality in Public Expenditure, a package of changes including reforms intended to make better and more transparent use of national public resources and a component to manage the country's floating debt (about 1% of GDP), which places additional pressure on public finances. In December 2013 Congress passed reforms to the tax code, the Tax Modernization Act and the Act on Stamp Taxes and Special Legal Paper for Official Registries, with the aim of making the tax administration more efficient.

(b) Monetary and financial policies

In 2013 monetary policy was adjusted to reflect changing economic conditions. During the first quarter, the Monetary Board maintained the benchmark interest rate at 5.0%, but in April opted for a slightly contractionary policy and raised it to 5.25% in an effort to meet a new inflation target (3%-5%). However, in late October the rate was lowered back to 5.0% in view of the modest pace of the international economic recovery and the easing of certain inflationary pressures. No more changes were made until the first quarter of 2014 when, at its March meeting, the Monetary Board lowered the rate again to 4.75%, as inflationary pressures ceded further. At its subsequent meeting in May, the Board left the rate unchanged.

Bank interest rates edged up in 2013. In nominal terms, the average deposit rate increased to 5.46% (up from 5.31% in 2012) and the average lending rate rose to 13.60% (compared with 13.50% in 2012). In real terms, lending and deposit rates in 2013 were 8.9% and 1.1%, respectively (versus 9.3% and 1.5% in 2012). Bank lending to the private sector showed year-on-year growth of 12.0% at the close of 2013, compared with 17.7% in 2012. The largest credit segments were consumption (34.3% of total lending), commerce (18.2%) and services (10.5%). In the year to May 2014, bank credit continued to slow, showing a year-on-year growth rate of 11.5%. According to central bank forecasts, lending to the private sector could grow by between 12% and 14% in 2014, as a result of a more expansionary monetary policy stance.

(c) Exchange-rate and other policies

The nominal exchange rate against the dollar averaged 7.85 quetzales in 2013, representing a depreciation of 0.32% compared with the average for 2012. During the first few months of 2014, the exchange rate remained relatively stable and by the end of April it averaged 7.73 quetzales to the dollar. In 2013, an increase of US\$ 578.8 million brought the central bank's international reserves to US\$ 7.273 billion by late December (equivalent to five months of imports), giving a 8.6% increase over the previous year. In April 2014, international reserves totalled US\$ 7.215 billion, and were equivalent to 4.8 months of imports.

In November 2013, a trade agreement between the Government of Guatemala, other Central American countries and the European Union to boost competitiveness and foreign trade entered into force. In the wake of the customs controversy that flared up during the year, the National Customs Act was adopted in late October 2013 with a view to boosting customs competitiveness and oversight through basic customs legislation, including mechanisms and procedures to detect individual administrative violations and the respective penalties.

3. The main variables

(a) The external sector

The current account deficit equated to 2.7% of GDP in 2013, up from 2.6% in 2012. The goods and services trade balance posted a deficit equivalent to 11.6% of GDP, which represented an increase of 0.4% over the 2012 deficit. In value terms, goods exports grew by 0.5% in 2013. This performance was the result of fluctuating international prices for sugar, coffee and other commodities. Sugar, garments, fresh, dried and frozen fruits, bananas and coffee made up the largest share of total exports. The main export destinations were the United States (37.7% of exports), other Central American countries (27.7%) and the eurozone (6%). Goods imports increased by 3.1% in value, versus 2.3% in 2012. There was a 2.2% drop in average import prices during this period, while import volumes expanded by 5.4%. The terms of trade weakened by 3.3% in 2013.

To April 2014, the value of exports climbed by 3.8% in comparison with the year-earlier period, boosted by higher volumes (6.4%), since average prices continued to trend downward (falling by 2.4% year-on-year). During the same period, the value of imports showed a 2.4% increase, mainly due to a 7.1% expansion in volume year-on-year, while average prices dropped by 5.1%. In the case of imports, the increase was influenced by rises in fuels and lubricants and durable consumer goods. As a result, the trade balance in April 2014 showed a deficit of US\$ 2.266 billion, similar to the amount in the year-earlier period. By year-end 2014, the value of exports is expected to have risen by 4.6%-7.0% and the value of imports by 4.9%-7.3%.

Remittances from family members working abroad expanded by 6.7% in 2013 to stand at US\$ 5.103 billion (9.5% of GDP), maintaining a steady growth rate amid evidence of an upturn in the United States labour market. To May 2014, inflows of family remittances burgeoned, growing by 7.8% over the same period of 2013. The central bank projects that remittances will grow by between 5.8% and 8.2% in 2014, given that the markets receiving workers are still recovering.

Foreign direct investment (FDI) rose by 5.2% in 2013 and amounted to US\$ 1.309 billion (2.4% of GDP). Agriculture, petroleum, and mining and quarrying received 37.3% of investment; commerce, 16.6%; the banking sector, 13.1%; and manufacturing, 11.9%. The main countries of origin were Canada

(20.6% of investment), the United States (16.2%), Colombia (12.8%, mainly targeting the banking sector) and the Russian Federation (14.3%, investing in particular in mining and quarrying). FDI is expected to expand by nearly 8% in 2014.

(b) Economic activity

Real GDP growth stood at 3.7% in 2013, up from 3% in 2012, and represented an increase of 1.2% in per capita GDP. This higher growth rate may be attributed to robust domestic demand, which continued to be driven by private consumption, the expansion of lending to the private sector, surging family remittances, buoyant international trade, particularly with Europe and the United States, and higher levels of investment in the country.

The agricultural sector recorded 4.7% growth in 2013, despite the impact of the coffee rust fungus on crops. A better harvest was obtained from other traditional export crops, including sugarcane and cardamom. The manufacturing sector showed 3.5% growth, thanks to greater production of beverages, paper products and chemicals, glass and cement. Growth in the commerce sector stood at 3.1%, owing mainly to stronger demand for intermediate products from agriculture and industry. The service sector continued to grow in 2013. The finance, insurance and business services sector expanded by 11.3%, on the back of rising demand for credit and other financial products; government services grew by 6.4%.

ECLAC projects GDP growth of 3.5% in 2014, chiefly on the basis of trends in export prices, interest rates and the performance of the domestic market. In April 2014, economic activity, measured by the IMAE trend-cycle series, showed year-on-year growth of 4.0%, above the April 2013 figure (3.7%), driven by the performance of manufacturing, financial intermediation, private services, and transport, storage and communications.

(c) Prices, wages and employment

The total inflation rate in 2013 was 4.3% as an annual average (versus 3.8% in 2012) and 4.4% year-on-year in December. During the first few months of 2014, the rate of inflation (total and core) declined and in May total year-on-year inflation stood at 3.2% (still within the target range). Foods have a significant impact on inflation in Guatemala, and the category of food and non-alcoholic beverages recorded a year-on-year variation of 6.2% in May, almost double the general average for inflation this year. An inflation rate of around 4.4% is forecast for late 2014, within the central bank's target range.

The open unemployment rate was 3.0% in October 2013 (3.1% for men and 2.9% for women), somewhat higher than the rate in 2012 (2.9%). The Guatemalan Social Security Institute reported membership of 1,222,300 workers in 2013, up 3.1% over 2012 levels, with the increase relating to the commerce, transport, storage and communications, and private services sectors.

The labour market outlook is again favourable for 2014. A new minimum wage of 74.97 quetzales became applicable to the agricultural and non-agricultural sectors in January 2014, which represents an increase of 5% (1.3% in real terms) compared with 2013. In the maquila sector, the daily wage improved to 68.91 quetzales in 2014, which also equates to a rise of 5%.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	Annual growth rates b/								
Gross domestic product	3.3	5.4	6.3	3.3	0.5	2.9	4.2	3.0	3.7
Per capita gross domestic product	0.7	2.8	3.7	0.8	-1.9	0.4	1.7	0.5	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.3	5.4	6.3	-86.4	3.8	-0.2	5.0	4.9	4.7
Mining and quarrying	-3.2	17.6	13.9	-4.3	3.3	3.5	18.4	-19.3	3.5
Manufacturing	2.6	3.8	3.0	2.0	-0.9	3.3	3.0	3.3	3.5
Electricity, gas and water	2.7	3.0	6.3	1.6	0.7	5.1	5.6	6.4	5.2
Construction	4.5	13.1	8.8	-0.5	-10.8	-11.5	2.4	0.8	1.7
Wholesale and retail commerce, restaurants and hotels	3.2	3.9	4.1	2.0	-2.3	3.7	3.8	3.0	3.1
Transport, storage and communications	11.3	18.6	22.8	14.6	2.5	2.9	4.8	3.1	2.8
Financial institutions, insurance, real estate and business services	5.3	6.0	5.5	4.8	3.4	3.1	3.7	5.8	5.7
Community, social and personal services	2.3	5.4	6.0	5.8	4.5	5.4	4.3	3.7	4.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.0	4.8	5.6	5.0	1.1	3.9	3.7	3.4	4.0
Government consumption	1.7	5.7	8.3	11.3	14.3	7.8	4.1	5.8	4.9
Private consumption	4.3	4.7	5.4	4.3	-0.3	3.4	3.6	3.1	3.9
Gross capital formation	-1.3	11.0	7.8	-19.5	-17.9	7.3	16.2	2.0	-0.3
Exports (goods and services)	-2.1	4.8	9.4	-0.2	-2.7	6.1	3.0	1.8	5.8
Imports (goods and services)	-0.6	6.5	7.2	-5.7	-7.8	10.0	7.0	2.8	3.9
Investment and saving c/	Percentajes of GDP								
Gross capital formation	19.7	20.8	20.8	16.4	13.1	13.9	15.2	15.0	14.2
National saving	15.2	15.8	15.6	12.8	13.8	12.6	11.9	12.4	11.5
External saving	4.6	5.0	5.2	3.6	-0.7	1.4	3.4	2.6	2.7
Balance of payments	Millions of dollars								
Current account balance	-1,241	-1,524	-1,786	-1,414	273	-563	-1,599	-1,310	-1,465
Goods balance	-4,191	-4,852	-5,487	-5,575	-3,348	-4,271	-4,963	-5,735	-6,165
Exports, f.o.b.	5,460	6,082	6,983	7,847	7,295	8,536	10,519	10,103	10,190
Imports, f.o.b.	9,650	10,934	12,470	13,421	10,643	12,806	15,482	15,838	16,356
Services trade balance	-142	-260	-310	-10	97	-27	-119	78	-59
Income balance	-485	-680	-843	-938	-1,102	-1,211	-1,650	-1,298	-1,239
Net current transfers	3,577	4,268	4,854	5,108	4,626	4,946	5,134	5,645	5,998
Capital and financial balance d/	1,479	1,776	2,002	1,747	200	1,240	1,805	1,808	2,168
Net foreign direct investment	470	552	720	737	574	782	1,009	1,205	1,275
Other capital movements	1,009	1,225	1,282	1,009	-374	458	796	603	893
Overall balance	239	252	216	333	473	677	206	499	702
Variation in reserve assets e/	-239	-252	-216	-333	-473	-677	-206	-499	-702
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.0	97.1	96.6	91.8	94.7	94.3	90.2	88.8	87.0
Terms of trade for goods (index: 2005=100)	100.0	98.1	96.3	93.8	101.8	101.3	100.4	94.9	92.9
Net resource transfer (millions of dollars)	995	1,096	1,159	809	-902	29	154	511	928
Total gross external debt (millions of dollars)	8,832	9,844	10,909	11,163	11,248	12,026	14,021	15,339	17,493
Employment	Average annual rates								
Open unemployment rate g/	4.8	3.1	4.0	3.8

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	8.6	5.8	8.7	9.4	-0.3	5.4	6.2	3.4	4.4
Variation in nominal exchange rate (annual average)	-3.9	-0.5	0.9	-1.2	7.4	-1.0	-3.4	0.6	0.3
Variation in average real wage	-4.0	-1.1	-1.6	-2.6	0.1	2.8	0.4	4.0	-0.2
Nominal deposit rate h/	4.6	4.7	4.9	5.2	5.6	5.5	5.3	5.3	5.5
Nominal lending rate i/	13.0	12.8	12.8	13.4	13.8	13.3	13.4	13.5	13.6
Central government	Percentages of GDP								
Total revenue	12.0	12.7	12.8	12.0	11.1	11.2	11.6	11.6	11.7
Tax revenue	11.5	12.1	12.3	11.5	10.6	10.8	11.2	11.2	10.9
Total expenditure	13.7	14.7	14.3	13.6	14.2	14.5	14.4	14.0	13.8
Current expenditure	9.1	9.4	9.5	9.2	10.1	10.4	10.5	10.7	10.7
Interest	1.4	1.4	1.5	1.4	1.4	1.5	1.5	1.5	1.6
Capital expenditure	4.6	5.3	4.8	4.5	4.1	4.1	4.0	3.3	3.0
Primary balance	-0.3	-0.6	0.0	-0.3	-1.7	-1.8	-1.3	-0.9	-0.6
Overall balance	-1.7	-1.9	-1.4	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1
Central government public debt	20.7	21.6	21.4	19.9	22.8	24.0	23.7	24.3	24.7
Domestic	7.9	8.8	9.2	8.7	9.9	11.0	12.1	11.9	11.7
External	12.8	12.8	12.1	11.1	12.9	13.0	11.5	12.4	13.0
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	33.9	34.6	34.5	32.9	32.9	32.8	33.9	35.9	37.0
To the public sector	9.1	10.6	10.4	9.6	12.2	12.7	13.2	7.4	8.0
To the private sector	25.4	28.4	28.2	27.3	25.3	23.8	23.7	31.7	32.6
Others	-0.5	-4.4	-4.0	-4.0	-4.6	-3.8	-2.9	-3.1	-3.6
Monetary base	10.2	11.1	10.9	9.7	10.3	10.2	10.1	10.4	10.2
Money (M1)	16.2	17.4	17.2	16.1	16.2	16.4	15.8	16.0	15.4
M2	33.3	35.2	33.9	32.2	33.5	34.1	33.4	34.6	35.0
Foreign-currency deposits	12.2	11.2	11.1	11.0	12.7	12.5	11.4	11.4	12.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2001 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Urban total. New measurements have been used since 2011; the data are not comparable with the previous series.

h/ Weighted average of the system lending rates in local currency.

i/ Weighted average of the system lending rates in local currency.

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	3.5	2.8	2.4	3.2	3.0	4.7	4.0	3.1	3.4	...
Gross international reserves (millions of dollars)	6,151	6,370	6,766	6,736	7,069	7,182	6,686	6,963	7,146	7,195 d/
Real effective exchange rate (index: 2005=100) e/	91.3	90.4	90.1	88.6	88.6	88.1	88.7	88.8	87.7	86.8 d/
Consumer prices (12-month percentage variation)	5.0	3.9	3.0	3.4	4.1	4.4	4.5	4.4	3.6	3.2 d/
Average nominal exchange rate (quetzales per dollar)	7.77	7.79	7.89	7.88	7.84	7.80	7.89	7.91	7.78	7.74
Nominal interest rates (annualized percentages)										
Deposit rate f/	5.2	5.3	5.4	5.4	5.4	5.5	5.5	5.5	5.5	5.5 d/
Lending rate g/	13.5	13.4	13.5	13.5	13.5	13.6	13.6	13.7	13.8	13.8 d/
Interbank rate	5.3	5.4	5.0	...	4.8	5.1	5.2	4.9	5.0	4.6
Monetary policy rates	5.5	5.5	5.0	5.0	5.0	5.2	5.3	5.1	5.0	4.8
International bond issues (millions of dollars)	200	700	-	500	700	-	-	500	800	...
Domestic credit (variation from same quarter of preceding year)	15.0	11.6	7.9	10.9	8.7	11.0	16.9	13.6	12.8	12.7 d/
Non-performing loans as a percentage of total credit	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.3	1.3	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2001 prices.

c/ Figures as of April.

d/ Figures as of May.

e/ Quarterly average, weighted by the value of goods exports and imports.

f/ Weighted average of the system lending rates in local currency.

g/ Weighted average of the system lending rates in local currency.