

## GUATEMALA

### 1. General trends

Guatemala's GDP grew by 4.2% in real terms in 2014, up from 3.7% in 2013, driven by higher domestic demand, mainly from private consumers, low inflation, a rise in real wages and higher levels of bank lending to the private sector. The upturn in foreign trade and increased investment in the country also contributed to this economic performance. Average annual inflation reached 3.4%, within the target range (3%-5%) set by the central bank in January 2013. The central government fiscal deficit stood at 1.9% of GDP, down from 2.1% in 2013. The balance-of-payments current account deficit was 2.4% of GDP, compared with 2.7% of GDP in 2013. In value terms, goods exports grew by 7.8% and goods imports by 4.3%. Total central government debt held almost steady at 24.7% of GDP.

In April 2015, economic activity, measured by the trend-cycle series of the monthly index of economic activity (IMAE), showed year-on-year growth of 3.9%, lower than that recorded in April 2014 (4.1%). The political situation, influenced by the corruption cases uncovered by the International Commission against Impunity in Guatemala (CICIG) and the general election, poses some risks to economic growth, which could stand at 4.0% at year-end. Year-on-year inflation continued to fall and stood at 2.6% in May 2015. The fiscal deficit is expected to remain at about 2.0% of GDP, a level consistent with a stable public debt-to-GDP ratio.

In the external sector, a further rise in exports —on the back of growing demand from large markets such as the United States— and an uptick in imports are forecast in 2015. The value of exports increased by 2.9% year-on-year to April 2015, while imports contracted by 4.9%. The central bank expects a further expansion in imports by the end of 2015 and a slight narrowing of the trade deficit for the year as a whole.

### 2. Economic policy

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

#### (a) Fiscal policy

Fiscal policy in 2014 was slightly contractionary and generally continued along the same stable path as the previous year. In 2014, total revenue climbed by 6.0% in nominal terms to reach the equivalent of 11.5% of GDP. Tax revenue rose by 6.0% in nominal terms (compared with 8.2% in 2013), despite administrative differences within the Office of the Superintendent of Tax Administration (SAT) and problems with the collection of customs taxes. Income tax proceeds jumped by 11.2% in nominal terms (compared with 20.6% in 2013). In 2014, the net tax burden stood at 10.8% of GDP, slipping slightly from 11% of GDP in 2013. Public expenditure was up by 4.4% in nominal terms, reflecting a 4.2% increase in current expenditure and a 5.0% rise in capital expenditure.

In late November 2014, Congress approved the general State budget for the 2015 fiscal year, which amounted to 70.600 billion quetzales (14.4% of GDP). The agreement reached in Congress provided for reforms to the royalty percentages in the Mining Act, a higher rate of tax on fixed and mobile telephone lines, amendments to the Criminal Code and changes to the Specific Cement Distribution Tax Act, with a view to increasing ordinary tax revenue to fund spending in 2015. Budgetary appropriations for communications, foreign affairs, agriculture, culture, social development and presidential secretariats were cut. Congress also authorized the issuance, negotiation and placement of 2.800 billion quetzales in treasury bonds for the fiscal year 2014 to cover obligations and transfers to public bodies.

Fiscal performance is expected to keep within the target ranges set by the budget in 2015, with a fiscal deficit of 2.0%. In April 2015, total central government revenue recorded a year-on-year increase of 2.7%, while spending rose by 14.6% over the same period. The fiscal deficit stood at 1.575 billion quetzales (0.3% of annual GDP) in April 2015, and tax revenues increased by 2.6% over the previous year.

Domestic public debt grew by 8.7% and represented 12.7% of GDP (as against 11.7% of GDP in 2013). External public debt shrank by 9.9% in 2014 and accounted for 11.7% of GDP, down from 13.0% of GDP in 2013. Total public debt is expected to stand at 26.0% of GDP at the end of 2015.

Difficulties in implementing fiscal reforms and collecting taxes persisted in 2014 and into early 2015, owing mainly to problems with the collection of customs taxes. In April 2015, the SAT corruption controversy led to the departure of the Superintendent, followed by the resignation of Vice President Roxana Baldetti in early May.

## **(b) Monetary policy**

In 2014 monetary policy was adjusted to reflect changing economic conditions, but was expansionary on the whole. The annual benchmark interest rate was held steady at 5.0% until March 2014, when the Monetary Board cut it to 4.75% as inflationary pressures continued to ease. The Monetary Board again reduced the base rate, to 4.5%, at its June session in view of the moderate pace of recovery in the global economy and in developed countries, lower international prices for some commodities, including oil, maize and wheat, and increased private consumption, remittances and bank lending. As inflation remained low, the Board brought the base rate down further still at its sessions in both November 2014 and February 2015. In 2015, monetary policy is expected to continue to pursue low, stable inflation.

Bank interest rates remained largely stable in 2014. In nominal terms, the average deposit rate stood at 5.49% (versus 5.46% in 2013) and the lending rate at 13.77% (compared with 13.60% in 2013). In real terms the lending and deposit rates were 10.4% and 2.1%, respectively, in 2014 (as against 8.9% and 1.1% in 2013). At the end of 2014, bank lending to the private sector was up 8.8% year-on-year, compared with 12.0% in 2013. The sectors accounting for the largest proportions of lending were consumer credit (30.0% of total credit), commerce (26.8%) and services (16.1%). In early 2015, bank lending has maintained its upward trend owing to growth in foreign-currency loans. Lending to the private sector was up by 11.6% year-on-year to March 2015 and could grow by between 10% and 13% for the year as a whole, according to central bank forecasts, as a result of the more expansionary monetary policy stance.

## **(c) Exchange-rate and other policies**

The nominal exchange rate against the dollar averaged 7.70 quetzales in 2014, representing a rise of 1.7% compared with the average for 2013. Overall, the exchange rate moved in line with seasonal factors, although it did rise between August and early October as a result of higher remittances, a substitution of local lending by external financing, more robust exports of certain products from the extractive industry and lower imports, owing mainly to the drop in the prices of fuels, some raw materials and intermediate products. During the first few months of 2015, the exchange rate remained relatively stable and by the end of April it averaged 7.73 quetzales to the dollar.

The central bank's international reserves stood at US\$ 7.333 billion at the end of December 2014 (up 0.8% year-on-year), sufficient to cover almost five months of imports. In May 2015, international reserves totalled US\$ 7.650 billion (5.5 months of imports).

### 3. The main variables

#### (a) The external sector

The current account deficit equated to 2.4% of GDP in 2014, down from 2.7% in 2013. The goods and services trade balance posted a deficit equivalent to 10.6% of GDP, which represented a decrease of 0.9 percentage points of GDP with respect to 2013. In value terms, goods exports grew by 7.8% in 2014 (a 24.1% rise in volume and a 12.9% fall in average prices). Particularly strong growth was seen in exports of lead, electricity (which is sold to other countries in Central America), nickel and bananas. Traditional exports expanded by 1.7% in value terms, while non-traditional exports grew by 10.1%. The main destination markets in 2014 were the United States (35.5% of exports), Central American countries (28.5%), the eurozone (6.8%) and Mexico (4.0%). Goods imports grew by 4.3% in value terms (compared with 3.1% in 2013), driven largely by rises in imports of building materials, fuels and lubricants, consumer goods, raw materials and intermediate products. Average prices of imports fell by 5.9% during the period, while volumes were up by 10.6%.

In April 2015, export values climbed by 2.9% over the year-earlier period, boosted by higher volumes (19.9%) as average prices continued to trend downward (falling by 14.3% year-on-year). Import volumes rose by 9.9% year-on-year, but this was not enough to offset the 13.7% fall year-on-year in prices and, as a result, the value of imports declined by 4.5%. This decline was concentrated in fuels and lubricants, raw materials and intermediate products (especially for the agricultural sector), capital goods for transport equipment, industry and telecommunications, and consumer durables. As a result, the trade balance in April 2015 showed a deficit of US\$ 1.889 billion, less than in the year-earlier period. By year-end 2015, the value of exports is expected to have risen by 4.0%-7.0% and the value of imports by 1.5%-4.5%.

Remittances from family members working abroad expanded by 8.6% in 2014 to stand at US\$ 5.544 billion (9.4% of GDP), maintaining a steady growth rate amid evidence of an upturn in the United States labour market. Up until May 2015, inflows of family remittances burgeoned, growing by 8.8% over the same period in 2014. The central bank projects that remittances will grow by between 6.5% and 9.5% in 2015 as the outlook for the worker-destination markets continues to improve.

The balance-of-payments financial account stood at US\$ 1.797 billion in 2014 (down from US\$ 2.620 billion in 2013), equivalent to almost 3% of GDP. Foreign direct investment (FDI) rose by 7.8% in 2014 and amounted to US\$ 1.396 billion (2.4% of GDP). The energy sector received 24.3% of

investment; agriculture, oil, and mining and quarrying received 23.2%; commerce, 14.6%; the banking sector, 11.8%; and manufacturing, 13.1%. The main countries of origin were the United States (25.6% of investment, primarily in the energy sector), Canada (13.5%), Mexico (11.2%) and Colombia (9.8%, mainly targeting the banking sector). FDI is expected to expand by about 8% in 2015.

### **(b) Economic activity**

Real GDP growth stood at 4.2% in 2014, up from 3.7% in 2013, and represented an increase of 1.8% 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 the United States (Guatemala's leading trade partner), and higher levels of investment in the country.

In 2014, the mining and quarrying sector grew by 46.8%, as the extraction and export of lead and nickel were scaled up. The agricultural sector recorded 3.6% growth, despite the impact of the coffee rust fungus on crops. Better yields were obtained from other traditional export crops, including sugarcane and cardamom. The manufacturing sector expanded by 3.2% thanks to higher production of beverages and foodstuffs, paper products, chemicals, pharmaceuticals and textiles. Growth in commerce stood at 3.8%, owing mainly to stronger demand for intermediate products from agriculture and industry. The services sector continued to grow in 2014. The finance, insurance and business services sector expanded by 9.2%, on the back of rising demand for credit and other financial products; government services grew by 2.9%

ECLAC projects GDP growth of 4.0% in 2015. In April 2015, economic activity, measured by the IMAE trend-cycle series, showed year-on-year growth of 3.9% (lower than the April 2014 figure of 4.1%), driven by commerce, financial intermediation, insurance and related services, transport, storage and communications, manufacturing and private services.

### **(c) Prices, wages and employment**

The total inflation rate in 2014 was 3.4% as an annual average (versus 4.3% in 2013) and 2.9% year-on-year in December. During the first few months of 2015 the rate of inflation (total and core) declined and in May total year-on-year inflation stood at 2.6% (below the target range). This can be attributed primarily to the higher prices of food and non-alcoholic beverages, recreation and culture, and restaurants and hotels, which were partially offset by the lower prices for housing, water, electricity, gas and other fuels, and transport. An inflation rate of around 2.75% is forecast for the end of 2015.

According to data from the second round of the National Employment and Income Survey, the open unemployment rate was 2.9% in November 2014 (2.7% for men and 3.3% for women), down from 3.0% in 2013. The Guatemalan Social Security Institute reported membership of 1,237,262 workers in 2014, 1.2% more than the 2013 figure, with the increase spurred mainly by private services, transport, storage and communications, and agriculture.

The labour market outlook is again favourable for 2015. As of January 2015, under Agreement No. 470-2014, the new minimum wage applicable in the agricultural and non-agricultural sectors was set at 78.72 quetzales per day, which equates to a 5% increase (2.5% in real terms) over 2014. Maquila workers also received a 5% raise, bringing their daily wage to 72.36 quetzales in 2015.

Table 1  
**GUATEMALA: MAIN ECONOMIC INDICATORS**

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	5.4	6.3	3.3	0.5	2.9	4.2	3.0	3.7	4.2
Per capita gross domestic product	2.8	3.7	0.8	-1.9	0.4	1.7	0.5	1.2	1.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.3	5.9	0.9	3.8	-0.2	5.0	4.9	4.7	3.6
Mining and quarrying	17.6	13.9	-4.3	3.3	3.5	18.4	-19.3	3.5	46.8
Manufacturing	3.8	3.0	2.0	-0.9	3.3	3.0	3.3	3.5	3.2
Electricity, gas and water	3.0	6.3	1.6	0.7	5.1	5.6	6.4	5.2	5.0
Construction	13.1	8.8	-0.5	-10.8	-11.5	2.4	0.8	1.7	4.5
Wholesale and retail commerce, restaurants and hotels	3.9	4.1	2.0	-2.3	3.7	3.8	3.0	3.2	3.8
Transport, storage and communications	18.6	22.8	14.6	2.5	2.9	4.8	3.1	2.9	3.0
Financial institutions, insurance, real estate and business services	6.0	5.5	4.8	3.4	3.1	3.7	5.8	5.7	5.1
Community, social and personal services	5.4	6.0	5.8	4.5	5.4	4.3	3.7	4.2	3.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.8	5.6	5.0	1.1	3.9	3.7	3.4	3.9	4.1
Government consumption	5.7	8.3	11.3	14.3	7.8	4.1	5.8	5.6	6.0
Private consumption	4.7	5.4	4.3	-0.3	3.4	3.6	3.1	3.7	3.9
Gross capital formation	11.0	7.8	-19.5	-17.9	7.3	16.2	2.0	-1.0	4.2
Exports (goods and services)	4.8	9.4	-0.2	-2.7	6.1	3.0	1.8	6.7	7.6
Imports (goods and services)	6.5	7.2	-5.7	-7.8	10.0	7.0	2.8	4.3	6.0
Investment and saving c/	<b>Percentajes of GDP</b>								
Gross capital formation	20.8	20.8	16.4	13.1	13.9	15.2	15.0	14.0	13.6
National saving	15.8	15.6	12.8	13.8	12.6	11.9	12.4	11.5	11.2
External saving	5.0	5.2	3.6	-0.7	1.4	3.4	2.6	2.5	2.4
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-1,524	-1,786	-1,414	273	-563	-1,599	-1,310	-1,351	-1,387
Goods balance	-4,852	-5,487	-5,575	-3,348	-4,271	-4,963	-5,735	-6,176	-6,059
Exports, f.o.b.	6,082	6,983	7,847	7,295	8,536	10,519	10,103	10,183	10,994
Imports, f.o.b.	10,934	12,470	13,421	10,643	12,806	15,482	15,838	16,359	17,052
Services trade balance	-260	-310	-10	97	-27	-119	78	-81	-136
Income balance	-680	-843	-938	-1,102	-1,211	-1,650	-1,298	-1,207	-1,638
Net current transfers	4,268	4,854	5,108	4,626	4,946	5,134	5,645	6,113	6,446
Capital and financial balance d/	1,776	2,002	1,747	200	1,240	1,805	1,808	2,053	1,459
Net foreign direct investment	552	720	737	574	782	1,009	1,205	1,262	1,365
Other capital movements	1,225	1,282	1,009	-374	458	796	603	792	94
Overall balance	252	216	333	473	677	206	499	702	73
Variation in reserve assets e/	-252	-216	-333	-473	-677	-206	-499	-702	-73
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	97.0	96.4	91.2	94.4	93.5	89.5	88.3	87.2	83.8
Terms of trade for goods (index: 2010=100)	96.9	95.1	92.6	100.5	100.0	99.1	93.7	91.8	92.3
Net resource transfer (millions of dollars)	1,096	1,159	809	-902	29	154	511	846	-179
Total gross external debt (millions of dollars)	9,844	10,909	11,163	11,248	12,026	14,021	15,339	17,307	19,025

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
<b>Employment</b>	<b>Average annual rates</b>								
Open unemployment rate g/	...	...	...	...	4.8	3.1	4.0	3.8	4.0
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	5.8	8.7	9.4	-0.3	5.4	6.2	3.4	4.4	2.9
Variation in nominal exchange rate (annual average)	-0.5	0.9	-1.2	7.4	-1.0	-3.4	0.6	0.3	-1.6
Variation in average real wage	-1.1	-1.6	-2.6	0.1	2.8	0.4	4.0	-0.1	2.5
Nominal deposit rate h/	4.7	4.9	5.2	5.6	5.5	5.3	5.3	5.5	5.5
Nominal lending rate i/	12.8	12.8	13.4	13.8	13.3	13.4	13.5	13.6	13.6
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue	12.7	12.8	12.0	11.1	11.2	11.6	11.6	11.6	11.5
Tax revenue	11.9	12.1	11.3	10.3	10.4	10.9	10.8	11.0	10.8
Total expenditure	14.7	14.3	13.6	14.2	14.5	14.4	14.0	13.8	13.4
Current expenditure	9.4	9.5	9.2	10.1	10.4	10.5	10.7	10.8	10.5
Interest	1.4	1.5	1.4	1.4	1.5	1.5	1.5	1.6	1.4
Capital expenditure	5.3	4.8	4.5	4.1	4.1	4.0	3.3	3.0	2.9
Primary balance	-0.6	0.0	-0.3	-1.7	-1.8	-1.3	-0.9	-0.6	-0.4
Overall balance	-1.9	-1.4	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1	-1.9
<b>Central government public debt</b>	21.6	21.4	19.9	22.8	24.0	23.7	24.3	24.6	24.4
Domestic	8.8	9.2	8.7	9.9	11.0	12.1	11.9	11.7	12.7
External	12.8	12.1	11.1	12.9	13.0	11.5	12.4	13.0	11.7
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	34.6	34.5	32.9	32.9	32.8	33.9	35.9	37.0	38.6
To the public sector	10.6	10.4	9.6	12.2	12.7	13.2	7.4	8.0	8.8
To the private sector	28.4	28.2	27.3	25.3	23.8	23.7	31.7	32.6	33.0
Others	-4.4	-4.0	-4.0	-4.6	-3.8	-2.9	-3.1	-3.6	-3.2
<b>Monetary base</b>	11.1	10.9	9.7	10.3	10.2	10.1	10.4	10.2	10.3
Money (M1)	17.4	17.2	16.1	16.2	16.4	15.8	16.0	15.4	15.4
M2	35.2	33.9	32.2	33.5	34.1	33.4	34.6	35.0	35.4
Foreign-currency deposits	11.2	11.1	11.0	12.7	12.5	11.4	11.4	12.1	11.9

**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**

	2013				2014				2015	
	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/	3.0	4.7	4.1	3.1	3.4	4.4	4.8	4.4	4.8	...
Gross international reserves (millions of dollars)	7,069	7,182	6,686	6,963	7,146	7,162	7,177	7,161	7,684	7,686 c/
Real effective exchange rate (index: 2005=100) d/	84.9	83.5	85.3	85.4	80.5	81.6	84.5	83.1	82.3	82.9 c/
Consumer prices (12-month percentage variation)	4.1	4.4	4.5	4.4	3.6	3.2	3.5	3.3	2.4	2.6 c/
Average nominal exchange rate (quetzales per dollar)	7.8	7.8	7.9	7.9	7.8	7.8	7.8	7.6	7.6	7.7
Nominal interest rates (average annualized percentages)										
Deposit rate e/	5.4	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.4 f/
Lending rate g/	13.5	13.6	13.6	13.7	13.8	13.8	13.8	13.7	13.5	13.3 c/
Interbank rate	4.8	5.1	5.2	4.9	5.0	4.5	4.4	4.2	3.8	3.6 f/
Monetary policy rates	5.0	5.2	5.3	5.1	5.0	4.8	4.5	4.3	3.8	3.5 c/
International bond issues (millions of dollars)	700	100	-	500	800	300	-	-	-	-
Domestic credit (variation from same quarter of preceding year)	8.7	11.0	16.9	13.6	12.8	13.5	11.1	10.8	12.0	11.5 f/
Non-performing loans as a percentage of total credit	1.4	1.4	1.3	1.3	1.3	1.5	1.5	1.3	1.3	1.4

**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 May.

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

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

f/ Figures as of April.

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