

## Guatemala

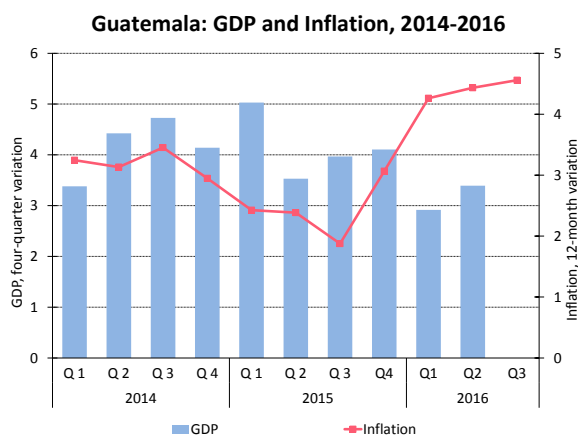
According to ECLAC estimates, Guatemala's GDP grew by 3.3% in 2016, down from 4.1% in 2015. This slowdown was due mainly to slacker external demand and a reduction in public spending, although these will be partly offset by higher private consumption. The central bank forecasts average year-on-year inflation to December at around 4.5%, within the target range of 3% - 5%. The fiscal deficit is expected to stand at around 1.3% of GDP and the balance-of-payments current account deficit at 0.3% of GDP. Unemployment will end the year at around 3%.

In January 2016, Jimmy Morales, the candidate of the Frente de Convergencia Nacional party (FCN-Nación), took office as President of the Republic with a mandate of four years. Among the priority issues for the administration are reforms to the tax administration, efforts to root out corruption with the support of the United Nations International Commission against Impunity in Guatemala (CICIG) —established by virtue of an agreement between the United Nations and the Government of Guatemala— and improvements to social development, especially in education and health.

Guatemala's fiscal policy stance was contractionary in 2016, owing to measures implemented by the Ministry of Public Finance to contain spending, increase tax collection and improve the transparency of the public finances. Total central government revenue rose by 3% in real terms in the first eight months of the year, compared with a 0.4% contraction in the year-earlier period, and total expenditure dropped by 8.5% as a result of a fall in both capital and current expenditure (down by 22.7% and 5.4%, respectively). The policy of containment had an impact on public investment, especially on execution of expenditure by the Ministry of Communications, Infrastructure and Housing. By the end of 2016, the tax burden is expected to be around 10.3% of GDP. External public debt rose by 6.8% year-on-year in the first nine months of the year, in part because of a US\$ 700 million issuance of eurobonds in May 2016, and reached a level equivalent to 11.7% of GDP. Domestic public debt was up by 4.6% year-on-year in the same period, equivalent to 12.3% of GDP.

Guatemala maintained its accommodative monetary policy stance in 2016, with the annual benchmark interest rate unchanged at 3%. Bank interest rates remained virtually unchanged, as well, in the first 10 months of 2016 (the deposit rate at 5.5% and the lending rate at 13.1%). Bank lending to the private sector showed a heavy slowdown in October (with growth of 4.3% year-on-year, compared with 13.2% in the prior-year period), especially in corporate and dollar-denominated loans.

The nominal exchange rate against the dollar stood at 7.49 quetzales at the end of October 2016, appreciating by 2% in nominal terms over the December 2015 figure (5.9% in real terms). In the first 10 months of the year the central bank intervened in the foreign-exchange market, with net purchases of US\$ 1.064 billion. Net international reserves increased by 16.9% from the end of 2015 to stand at US\$ 9.063 billion in October 2016, enough to cover 6.5 months of imports.



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

In the first nine months of the year, the value of exports fell by 4% (compared with a rise of 1.1% in the same period in 2015), owing to a drop in both the average price (-1%) and in volume (-3.7%). In the category of traditional exports, the falls were heaviest in coffee (-2.4%), bananas (-2.9%) and sugar (-10.5%); in non-traditional exports, clothing articles showed a fall of 3.2%. The value of goods imports was down by 5.2% (-2.9% in 2015), owing to a drop in international prices (-10.1%), and a reduction in the oil bill. The goods and services trade balance is expected to post a deficit equivalent to 8.9% of GDP (compared with 9.2% in 2015).

May 2016 saw the entry into force of an agreement between Guatemala and Honduras establishing a customs union between the two countries, allowing the free movement of goods and people. At the end of November, the two governments announced measures to expedite the full application of the agreement early in 2017.

Family remittances expanded by 13.4% year-on-year in the first 10 months of 2016 (up from 11.4% in the year-earlier period), owing mainly to a strengthening labour market in the United States. Foreign direct investment (FDI) inflows came to US\$ 564 million in the first half of 2016 and will be up by 8.5% by year-end, according to central bank estimates, contrasting with a 12.1% downturn in 2015.

Economic growth in 2016 has been driven by the financial services sector (with expected annual growth of 9% for the year overall), commerce (4.1%), manufacturing (3.4%) and agriculture (3.2%). On the demand side, the highest growth rate occurred in private consumption, boosted by increased remittance inflows and, to a lesser extent, an expansion of consumer credit. In the first two quarters of 2016, GDP grew by 2.9% and 3.4%, respectively. The trend-cycle series of the monthly index of economic activity (IMAE) showed a year-on-year rise of 2.4% in September (compared with 4.2% in September 2015).

Year-on-year variation in the consumer price index (CPI) was 4.8% in October 2016, compared with 2.2% in the same month in 2015. Year-on-year core inflation stood at 1.8%. The strongest drivers of inflation were domestic prices for food and non-alcoholic beverages, up 9.2% year-on-year, and housing, up 5.2% year-on-year.

According to information collected in the first round of the National Employment and Income Survey (ENEI), the open unemployment rate rose to 3.1% in March 2016 (up from 2.4% in May 2015). The unemployment rate was higher (at 4.1%) for women than men (2.6%). The overall participation rate of the economically active population stood at 61.5%, higher than the 60.4% reported in May 2015. The Guatemalan Social Security Institute reported almost 1.3 million affiliated members in June 2016, representing a year-on-year increase of 2%, owing mainly to the creation of new formal jobs in the agriculture, commerce and services sectors. As of January 2016, the minimum wage was raised by 4%

#### Guatemala: main economic indicators, 2014-2016

	2014	2015	2016 <sup>a</sup>
<b>Annual growth rate</b>			
Gross domestic product	4.2	4.1	3.3
Per capita gross domestic product	2.1	2.1	1.3
Consumer prices	2.9	3.1	4.6 <sup>b</sup>
Real average wage <sup>c</sup>	2.5	3.3	...
Money (M1)	5.2	11.9	6.0 <sup>b</sup>
Real effective exchange rate <sup>e</sup>	-3.9	-7.1	-5.5 <sup>b</sup>
Terms of trade	0.6	4.4	1.1
<b>Annual average percentage</b>			
Open urban unemployment rate <sup>f</sup>	4.0	3.2	4.0 <sup>e</sup>
Central government			
Overall balance / GDP	-1.9	-1.4	-1.6
Nominal deposit rate <sup>h</sup>	5.5	5.5	5.5 <sup>g</sup>
Nominal lending rate <sup>i</sup>	13.8	13.2	13.1 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	13,822	13,647	13,195
Imports of goods and services	20,089	19,543	18,564
Current account balance	-1,230	-96	684
Capital and financial balance <sup>j</sup>	-2,292	-1,512	580
Overall balance	73	475	1,264

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

a/ Estimates.

b/ Figures as of September.

c/ Average wage declared by workers covered by social security.

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

e/ Figures as of March.

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

g/ Figures as of October.

h/ Weighted average of deposit rates.

i/ Weighted average of lending rates.

j/ Includes errors and omissions.

for workers in the agricultural and non-agricultural sectors, to 81.87 quetzales, and by 3.5% for workers in the maquila sector, to 74.89 quetzales.

ECLAC projects economic growth of 3.4% for 2017, as a result of the continued rise of domestic demand, reflected mainly in private consumption, and higher public expenditure on infrastructure and social programmes, as well as weaker external demand in a context of heightened uncertainty. According to estimates from the general State budget for 2017, the fiscal deficit will widen to 2.2% of GDP and the current account deficit will be equivalent to 1.1% of GDP. Inflation is expected to be above the mid-point of the target, at around 4.5%, and unemployment will stand at around 3%.