GUATEMALA

1. General trends

In 2016 Guatemala's GDP grew by 3.1% real terms, lower than the 4.1% recorded the previous year. This slowdown was the result of slacker external demand and a reduction in public spending, which was partly offset by higher private consumption driven by an upsurge in the flow of family remittances, the real increase in minimum wages and greater access to consumer credit. Year-on-year inflation stood at 4.2% in December compared to 3.1% at the end of 2015, within the central bank's target range of 3%-5%. The central government's fiscal deficit was 1.1% of GDP, smaller than that registered in 2015 (1.4% of GDP), mainly as a result of efforts to contain spending. After six years of recurring current account deficits, in 2016 a surplus was registered (1.3% of GDP) owing to a lower oil bill and the increase in remittance flows. According to information collected in the third round of the National Employment and Income Survey, the open unemployment rate dipped from 2.7% in November 2015 to 2.4% in November 2016.

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 were 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.

According to ECLAC projections, economic activity will expand by 3.4% in 2017, within the Bank of Guatemala's range of growth expectations for the year (between 3.0% and 3.8%), spurred by an upturn in domestic demand, more public spending and a rebound of the external sector. With regard to inflation, the Bank of Guatemala anticipates a rate close to the target range at end-2017, at around 4.5%. The fiscal deficit for this year is expected to rise slightly to 1.9% of GDP as a result of increased public expenditure. The current account deficit is forecast to rise to almost 1% of GDP. The unemployment rate is expected to hover at 3%.

2. Economic policy

In 2016, as in previous years, macroeconomic policy focused on maintaining economic stability, with an emphasis on meeting the inflation target set by the central bank in January 2013.

(a) Fiscal policy

Fiscal policy was geared towards containing spending, increasing tax collection and improving the transparency of the public finances. The primary balance showed a slight surplus equal to 0.4% of GDP (compared to 0.1% of GDP in 2015). The public finances started the fiscal year 2016 with a budget of 70.796 billion quetzals which, amounting to 13.6% of GDP, was the smallest budget in the last 20 years. In April 2016, the annual budget was increased by 250 million quetzals in order to reflect the proceeds of external grants and to apply the Law on Extinction of Domain, which is intended to combat organized crime and to administer assets obtained with illicit funds.

Total government revenues rose by 4.1% in real terms to amount to 11% of GDP. Similarly, tax revenues rose 4.2% and accounted for 10.4% of GDP (compared to 10.2% in 2015). Tax collection increased 15.9% in real terms prompted by efforts to strengthen the tax administration coupled with the recovery of unpaid taxes through legal action. Collection of value added tax (VAT) fell 0.4% in real terms as a result of the 6.3% drop in real terms of import duties collected.

Total expenditure rose by 0.8% in real terms to 12.1% of GDP (compared to 12.3% in 2015). Capital expenditure contracted by 0.9% in real terms, with a marked drop in investment (40.6%) because of the new government’s slow start to investment projects, while current expenditure was up by 1.2% in real terms.

To finance the deficit, domestic treasury bonds were issued and external borrowing from multilateral banks and bilateral loans were approved in 2016. Of note was the US$ 700 million issuance on the international market of a 10-year eurobond (worth 5.4079 billion quetzals) with a coupon rate of 4.50%.

In 2016, gross public debt declined slightly to 24.0% of GDP. Domestic public debt rose by 6.5% year-on-year (2.0% in real terms), to the equivalent of 12.6% of GDP, while external public debt stood at 11.4% of GDP.

Fiscal year 2017 started with a budget equivalent to 13.8% of GDP and the fiscal deficit is expected to stand at 1.9% of GDP by year-end (just below the 2% benchmark that central bank authorities deemed consistent with public debt stability). Preliminary figures from May showed a real 0.3% increase in total central government revenues, while total expenditures rose 5.1% thanks to real-term increases in both current and capital spending (2.6% and 21.8%, respectively). At that date, the domestic public debt balance stood at 69.531 billion quetzals, 5.9% higher than at the end of 2016, and the external debt balance was US$ 7.859 billion, a 1.9% drop compared to December 2016. For fiscal year 2017, a new issuance of 10.864 billion quetzals in treasury bonds was authorized and at 31 May, 45.8% of the authorized amount had been issued.

(b) Monetary and exchange-rate policies

Monetary policy during 2016 maintained an expansionary thrust, which is evidenced by a benchmark interest rate that has been holding steady at 3% since September 2015. The interest rate paid by banks on deposits remained at around 5.5% throughout the year (in nominal terms), the same level as in 2015. The lending rate dropped slightly, from 13.2% on average in 2015 to 13.1% in 2016. In 2016, there was a marked slowing of growth in bank credit to the private sector, with a year-on-year increase of 5.9% compared to 12.8% in 2015. Lending was focused primarily on consumption, accounting for 36.7% of the total, followed by trade (22.4%) and services (15.9%).

During the first half of 2017, Bank of Guatemala’s monetary board held the benchmark interest rate at 3%, unchanged from the close of the previous year. As of May 2017, bank lending to the private sector had risen 5.4% year-on-year, confirming that the slowdown observed in 2016 was ongoing.

At the end of December 2016, the nominal exchange rate was 7.53 quetzals to the dollar, representing an appreciation of 1.2% compared to the same month in 2015 (a real appreciation of 5.2%). The level of net international reserves continued to reflect the country’s sound external position: at the end of December, those reserves stood at US$ 9.160 billion (equal to nearly 6.4 months’ import cover), up 18.2% year-on-year.

As a result of exchange-rate fluctuations influenced by increasing remittance inflows, savings on the oil bill and cutbacks in public expenditure, the monetary board adopted resolution JM-123-2016 of December 2016 which increased the maximum number of additional auctions to buy or sell foreign exchange to five per day, effective 1 January 2017. Furthermore, in February 2017 the Bank of Guatemala made operational amendments to the exchange-market intervention rule (concerning the intervention schedule) and began temporary auctions of fixed-term dollar deposits with a view to stabilizing exchange rates.

As of 31 May 2017, the nominal exchange rate against the dollar (7.34 quetzals) had registered a nominal year-on-year appreciation of 3.5% (7.1% in real terms). At the end of May 2017, the level of net international reserves amounted to US$ 9.916 billion, up US$ 756 million from December 2016. This increase was primarily the result of the Bank of Guatemala’s participation in the exchange market, which generated foreign-exchange purchases of US$ 1.298 billion and the collection of US$ 247.7 million in fixed-term deposits by the end of June.

(c) Other policies

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 and in December the first joint customs office was inaugurated in El Corinto. In January 2017, during the fifteenth round of negotiations on the customs union, both countries approved both the format of the Central American Invoice and Single Declaration (FYDUCA), a document that records the purchase and legal possession of goods between the countries, and the list of exceptions to the free movement of goods.

In 2016, the Government of Guatemala, together with other Central American countries, launched talks on a free trade agreement with the Republic of Korea. While negotiations with regional bloc were finalized in November 2016, Guatemala pursued bilateral discussions with the Republic of Korea in early 2017 given the lack of agreement on market access and rules of origin. Both parties have pledged to intensify efforts to conclude the negotiations for an entry into force of the agreement in 2018.

3. The main variables

(a) The external sector

In 2016, for the second consecutive year, there was a drop in the value of exports and imports of goods (2.1% and 3.6%, respectively, year-on-year); primarily due to the fall in prices of the main traded products. In volume terms, exports dipped by 0.3%, while the average price fell by 1.3%. Traditional exports contracted by 4.5% in value (mainly because of the collapse in the international price of commodities like sugar), while non-traditional exports were down by 1.3%. Despite the decrease in most export categories, timber and articles of wood, fruit and preserves and shrimp, fish and lobster were some of the products which saw an increase. The main export markets in 2016 were the United States (33.1% of total exports), Central America (29.7%), the eurozone (8.0%) and Mexico (4.4%).

While the volume of imported goods increased by 4.9% year-on-year in 2016, the value dropped by 3.6% as a result of the 8.3% fall in the average price of the main imported products. In value terms, intermediate and capital goods related to the agricultural sector recorded the largest plunge (by 19.5% and 11.4%, respectively).

Foreign direct investment (FDI) amounted to US$ 1.181 billion in 2016, down by 3.3% compared to the previous year. Almost half of investment was allocated to commerce and to the electricity sector (26% and 22.1%, respectively), while the manufacturing industry received 19.3% and the telecommunications sector, 13.3%. The main countries of origin of FDI were the United States (34.2% of the total), Colombia (9.1%), Mexico (6.7%) and Spain (6.1%).

After six years of recurring current account deficits, in 2016 a surplus was registered owing to an improved trade balance and greater foreign-exchange inflows in the form of family remittances. Remittances were up by 13.9% in 2016, to US$ 7.160 billion (equivalent to 10.4% of GDP). This increase can be attributed in part to lower unemployment among Hispanics in the United States and to the fact that migrants are transferring their savings in view of the uncertainty generated by that country's immigration policy.

In the first four months of 2017 the value of exports rose by 10.3% year-on-year, spurred by an increase in volume (11.0%), while average prices fell 1.4%. During this time, the value of imports grew by 6.6%, driven by the upswing in the volume of goods purchased abroad (7.9%), even though their average prices edged down (1.0%). Bank of Guatemala estimates for year-end 2017 place the year-on-year variation in the cumulative value of exports between 4% and 7%, while imports will rise by between 3.5% and 6.5%. Inflows of foreign exchange in the form of family remittances amounted to US$ 3.329 billion by the end of May 2017, representing an increase of 14.9% compared to the same period of 2016.

(b) Economic activity

In the first half of 2016, GDP growth averaged 3.3% year-on-year; in the second half, however, it slowed to 2.8%. The increase in domestic demand with respect to 2015 (3.4%), while lower than the previous year, was driven by private consumption, which accounted for 3.6 percentage points of GDP growth. This consumption was spurred by higher household incomes (owed in particular to family remittances), real minimum wage increases and the increase in bank lending to the private sector. Gross capital formation slowed and accounted for 0.4 percentage points of overall economic growth. Public consumption and net exports, meanwhile, had a negative impact on GDP growth.

With the exception of mining and quarrying, there was positive growth in all economic sectors in 2016, even though the manufacturing industry and electricity and water supply were the only ones to register higher growth rates than in 2015. Performance was particularly strong in the sector of financial intermediation, insurance and related activities (which rose at a year-on-year rate of 8.1%) thanks to the rise in the effective commission and net interest earned by banks and financial institutions and the increase in insurance. The electricity and water supply sector grew by 5.3%, driven by greater demand for electrical energy. The manufacturing industries grew by 3.6%, led by the demand for food, beverages and tobacco, textiles and clothing, lumber, paper, chemicals and construction materials. The commercial sector expanded by 3.6% as the rise in private consumption in turn increased the volume of imports.

The trend-cycle series of the monthly index of economic activity (IMAE) showed a year-on-year rise of 3.6% for the first four months of 2017 (compared to 2.7% in April 2016). The sectors that contributed most to this growth were commerce, financial intermediation, insurance and related activities and private services.

(c) Prices, wages and employment

Year-on-year inflation rose to 4.2% in December (compared to 3.1% at the end of 2015), which is within the central bank's target range of between 3% and 5%. The year-on-year increase in consumer prices was explained primarily by a combination of higher prices for food and non-alcoholic beverages (vegetables in particular) and the rise in the average cost of energy products stemming from the upturn in global oil and oil derivative prices in the second half of the year.

According to information gathered in the first round of the National Employment and Incomes Survey, the total open unemployment rate slipped to 2.4% in November 2016 (compared to 2.7% in November 2015). The overall participation rate of the economically active population stood at 60.9%, slightly below the 61.1% observed in November 2015. According to the Guatemalan Institute of Social Security (IGSS), enrolled members in formal jobs numbered 1,300,001 in 2016, 2.6% more than in 2015. This increase occurred primarily in the sectors of transport, storage and communications (10.2%), commerce (4.2%), manufacturing and mining (4.1%), and agriculture (1.9%). However, the number of enrolled members in the construction sector fell by 11.5% year-on-year.

In 2016, the minimum daily wage for workers in the agricultural and non-agricultural sectors was 81.87 quetzals, representing a nominal increase of 4% (0.9% in real terms) over 2015. Over that same period, the daily wage in the maquila sector also rose by 3.5% (0.4% in real terms) to 74.89 quetzals. Pursuant to Decree No. 288-2016, a new minimum daily wage of 86.90 quetzals came into effect in January 2017 for the agricultural and non-agricultural sectors, representing a nominal increase of 6.1% (2% in real terms) over 2016. The daily wage in the maquila sector also rose by the same nominal and real percentages, to reach 79.48 quetzals. Both increases were above inflation rates.

Year-on-year to May 2017, the inflation rate was 3.9% (less than the 4.4% a year earlier). This resulted primarily from the higher cost of food and non-alcoholic beverages, which showed a year-on-year increase of 7.6%, and increased spending on transport (3.0%) and recreation (2.9%). Higher transport costs were the consequence of the rise in the average price of oil and its derivatives as global prices rose, coupled with the gradual reduction in electricity subsidies granted by the National Electrification Institute (INDE).

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	Annual growth rates b/								
Gross domestic product	3.3	0.5	2.9	4.2	3.0	3.7	4.2	4.1	3.1
Per capita gross domestic product	1.0	-1.6	0.7	2.0	0.8	1.6	2.1	2.1	1.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.9	3.8	-0.2	5.0	4.9	4.7	3.2	3.2	3.1
Mining and quarrying	-4.3	3.3	3.5	18.4	-19.3	3.5	46.7	8.5	-10.6
Manufacturing	2.0	-0.9	3.3	3.0	3.3	3.5	3.2	3.5	3.6
Electricity, gas and water	1.6	0.7	5.1	5.6	6.4	5.2	5.0	4.5	5.3
Construction	-0.5	-10.8	-11.5	2.4	0.8	1.7	4.4	3.4	1.8
Wholesale and retail commerce, restaurants and hotels	2.6	-1.5	3.6	3.7	3.0	3.2	3.8	5.6	3.5
Transport, storage and communications	14.6	2.5	2.9	4.8	3.1	2.9	3.0	3.3	2.8
Financial institutions, insurance, real estate and business services	5.7	2.9	3.4	4.1	4.6	4.9	4.6	6.0	4.4
Community, social and personal services	5.2	6.9	6.8	4.4	4.4	4.8	2.6	2.6	2.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.0	1.1	3.9	3.7	3.4	3.9	4.1	5.1	3.5
Government consumption	11.3	14.3	7.8	4.1	5.8	5.6	5.9	-0.1	-2.4
Private consumption	4.3	-0.3	3.4	3.6	3.1	3.7	3.9	5.8	4.2
Gross capital formation	-19.5	-17.9	7.3	16.4	1.8	-1.0	5.2	9.1	2.8
Exports (goods and services)	-0.2	-2.7	6.1	3.0	1.8	6.7	8.0	3.9	1.7
Imports (goods and services)	-5.7	-7.8	10.0	7.0	8.0	-0.8	7.0	9.3	3.3
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	16.4	13.1	13.9	15.2	15.0	14.0	13.7	13.6	12.9
National saving	12.8	13.8	12.6	11.9	12.4	11.5	11.6	13.5	14.2
External saving	3.6	-0.7	1.4	3.4	2.6	2.5	2.1	0.2	-1.3
Balance of payments	**Millions of dollars**								
Current account balance	-1 414	273	-563	-1 599	-1 310	-1 351	-1 230	-96	909
Goods balance	-5 575	-3 348	-4 271	-4 963	-5 735	-6 176	-6 064	-5 557	-5 184
Exports, f.o.b.	7 846	7 295	8 536	10 519	10 103	10 183	10 992	10 824	10 580
Imports, f.o.b.	13 421	10 643	12 807	15 482	15 838	16 359	17 056	16 381	15 764
Services trade balance	75	-43	-140	-278	-104	-224	-203	-340	-303
Income balance	-840	-962	-1 098	-1 491	-1 115	-1 064	-1 408	-1 399	-1 569
Net current transfers	4 926	4 626	4 946	5 134	5 645	6 113	6 445	7 199	7 965
Capital and financial balance d/	1 747	200	1 240	1 805	1 809	2 053	1 302	572	482
Net foreign direct investment	738	574	782	1 009	1 205	1 262	1 282	1 104	1 070
Other capital movements	1 009	-374	458	796	603	792	20	-532	-587
Overall balance	333	473	677	206	499	702	73	475	1 392
Variation in reserve assets e/	-333	-473	-677	-206	-499	-702	-73	-475	-1 392
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	91.2	94.4	93.5	89.5	88.3	87.2	83.3	77.9	73.4
Terms of trade for goods (index: 2010=100)	92.6	100.5	100.0	99.1	93.7	91.8	92.3	89.3	92.3
Net resource transfer (millions of dollars)	906	-762	142	313	693	989	-105	-827	-1 086
Total gross external debt (millions of dollars)	11 163	11 248	12 026	14 021	15 339	17 307	19 530	20 385	20 955

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Employment	**Average annual rates**								
Open unemployment rate g/	…	…	4.8	3.1	4.0	3.8	4.0	3.2	3.4
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	9.4	-0.3	5.4	6.2	3.4	4.4	2.9	3.1	4.2
Variation in nominal exchange rate									
(annual average)	-1.2	7.4	-1.0	-3.4	0.6	0.3	-1.6	-1.0	-0.7
Variation in average real wage	-2.6	0.1	2.8	0.4	4.0	-0.1	2.5	3.4	-2.0
Nominal deposit rate h/	5.2	5.6	5.5	5.3	5.3	5.5	5.5	5.5	5.5
Nominal lending rate i/	13.4	13.8	13.3	13.4	13.5	13.6	13.8	13.2	13.1
Central government	**Percentajes of GDP**								
Total revenue	12.0	11.1	11.2	11.6	11.6	11.6	11.5	10.8	11.0
Tax revenue	11.3	10.3	10.4	10.9	10.8	11.0	10.8	10.2	10.4
Total expenditure	13.6	14.2	14.5	14.4	14.0	13.8	13.4	12.3	12.1
Current expenditure	9.2	10.1	10.4	10.5	10.7	10.8	10.5	10.1	10.0
Interest	1.4	1.4	1.5	1.5	1.5	1.6	1.4	1.6	1.5
Capital expenditure	4.5	4.1	4.1	4.0	3.3	3.0	2.9	2.2	2.1
Primary balance	-0.3	-1.7	-1.8	-1.3	-0.9	-0.6	-0.4	0.1	0.4
Overall balance	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1	-1.9	-1.4	-1.1
Central government public debt	19.9	22.8	24.0	23.7	24.3	24.6	24.3	24.2	24.0
Domestic	8.7	9.9	11.0	12.1	11.9	11.6	12.7	12.6	12.6
External	11.1	12.9	13.0	11.5	12.4	12.9	11.6	11.6	11.4
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	32.9	32.9	32.8	33.9	35.9	37.0	38.6	39.6	38.9
To the public sector	9.6	12.2	12.7	13.2	7.4	8.0	8.8	8.4	7.6
To the private sector	27.3	25.3	23.8	23.7	31.7	32.6	33.0	34.4	34.3
Others	-4.0	-4.6	-3.8	-2.9	-3.1	-3.6	-3.2	-3.2	-3.0
Monetary base	9.7	10.3	10.2	10.1	10.4	10.2	10.3	10.6	11.3
Money (M1)	16.1	16.2	16.4	15.8	16.0	15.4	15.4	15.8	15.6
M2	32.2	33.5	34.1	33.4	34.6	35.0	35.4	36.5	36.6
Foreign-currency deposits	11.0	12.7	12.5	11.4	11.4	12.1	11.9	11.6	11.1

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

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2015				2016				2017	
	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/	5.0	3.6	4.0	4.0	2.9	3.7	2.6	3.0	3.0	…
Gross international reserves (millions of dollars)	7 684	7 696	7 564	7 579	7 684	8 358	8 932	9 076	9 252	9 854 c/
Real effective exchange rate (index: 2005=100) d/	78.9	79.0	77.3	76.2	74.6	75.0	72.9	71.3	70.3	69.9 c/
Consumer prices (12-month percentage variation)	2.4	2.4	1.9	3.1	4.3	4.4	4.6	4.2	4.0	3.9 c/
Average nominal exchange rate (quetzales per dollar)	7.6	7.7	7.7	7.6	7.7	7.7	7.6	7.5	7.4	7.3
Nominal interest rates (average annualized percentages)										
Deposit rate e/	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.4	5.4 f/
Lending rate g/	13.5	13.2	13.1	13.1	13.1	13.1	13.1	13.1	13.1	13.1 f/
Interbank rate	3.8	3.4	3.2	3.0	3.3	3.5	3.6	3.0	3.0	3.0 c/
Monetary policy rates	3.7	3.4	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
International bond issues (millions of dollars)	-	-	-	-	-	700	-	-	500	830 c/
Domestic credit (variation from same quarter of preceding year)	12.0	13.0	11.8	11.2	10.4	6.7	3.3	4.0	3.9	…
Non-performing loans as a percentage of total credit	1.3	1.4	1.4	1.4	1.5	1.6	2.0	2.1	2.2	2.4 c/

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 deposit rates in local currency.
f/ Figures as of April.
g/ Weighted average of the system lending rates in local currency.