

Guatemala

ECLAC estimates Guatemala's GDP growth at 3.2% for 2017, close to the 2016 rate (3.1%). The main drivers of growth have been private consumption, stimulated by more active remittances, and gross fixed capital formation. In December, year-on-year inflation will stand at around 4.5%, within the 3%-5% target range established by the central bank. The fiscal deficit is expected to come in at around 1.5% of GDP (compared with 1.1% in 2016) and the balance-of-payments current account surplus should reach 1.4% of GDP, down slightly from 2016 (1.5%). The unemployment rate is estimated at around 3%.

In 2017, fiscal policy was characterized by the low level of budget execution on the part of the central government. In October, expenditure execution stood at 69.9%, the lowest percentage since 2010. Certain ministries posted a particularly low level of budget execution, notably the Ministry of Communications, Infrastructure and Housing (41.8%).

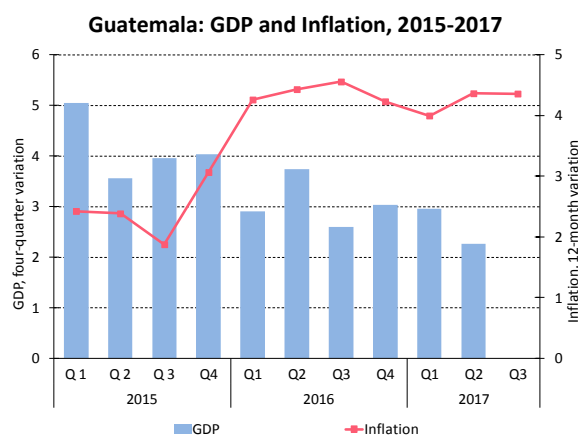
Total central government revenues showed almost no growth in the first nine months of the year (0.04% in real terms), a performance that was due above all to the decline in non-tax revenues (-10.1%), while tax revenues were up slightly (0.67%). Capital revenues, although they have little weight in the total, also declined sharply (-7.5%). Total spending, meanwhile, rose by 0.9%, reflecting an 8.6% climb increase in capital spending, which was partially offset by a 0.5% decline in current outlays. For the end of 2017, the tax burden is forecast at around 10.2% of GDP.

The reforms to the State Procurement Act have been in effect since the end of October 2016. They include provision for open contracts and electronic reverse auctions, with a view to enhancing the transparency of government purchases. This has slowed the execution of investment, particularly in cases such as the Ministry of Communications, Infrastructure and Housing.

External public debt increased by 3.1% in the first nine months of the year, and represented the equivalent of 11.1% of GDP. Domestic public debt grew by 9.0% over the figure for the year-earlier period, reaching the equivalent of 12.6% of GDP.

Monetary policy continued its accommodative stance in 2017. The lead interest rate remained unchanged during the first nine months of the year, at 3%. Nominal banking interest rates were also virtually unaltered over the same period (5.4% in the case of the rate paid on deposits, and 13.1% for the lending rate). Meanwhile, during those nine months bank credit to the private sector recorded an annual increase of 5.8%, similar to that for the previous year but significantly below the rate for 2015, when it stood at 12.8%. This was due mainly to the more sluggish pace of lending to the business sector and of dollar-denominated credit.

At the end of September 2017, the nominal exchange rate was 7.28 quetzals to the dollar, representing a year-on-year appreciation of 2.35%. The Bank of Guatemala, in view of the volatility of the nominal exchange rate during the first weeks of



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

the year, made some operational adjustments as of 24 February to the rules on participation in the exchange market (referring to the time schedule of participation) and began to accept term deposits in dollars (as of 27 February) through auctions for terms of 91, 182 and 273 days. As of 30 September 2017, the Bank of Guatemala's intervention in the exchange market had generated net purchases of foreign currency in the amount of US\$ 1.915 billion (in comparison with the US\$ 874.2 million for the same month of the previous year).

In October 2017, net international reserves amounted to US\$ 11.494 billion (equivalent to eight months of imports), up by US\$ 2.334 billion from the close of 2016.

In May 2016 the customs union between Guatemala and Honduras came into effect, allowing for the free transit of merchandise and people. During the first months of 2017, measures to speed its full application were officially announced. On the other hand, the Government of Guatemala decided to postpone until 2018 the wrap-up of negotiations on a free trade treaty with the Republic of Korea, in deference to the positions expressed by the various business sectors.

In the first eight months of the year, the value of exports rose by 6.5%. Traditional exports were up by 17.0%, while non-traditional ones increased by 2.8%. With respect to merchandise imports, the increase was 7.3%, due mainly to higher purchases abroad of intermediate and capital goods.

For 2017 the terms of trade are expected to improve by 2.3% (in comparison with 1.1% in the previous year). Family remittances rose by 16.1% in the first 10 months of the year, driven by a more dynamic performance of the labour market in the United States.

Foreign direct investment (FDI) flows, which come primarily from the United States and Mexico, reached US\$ 579.3 million in the first half of the year, compared with US\$ 566.4 million in the same period of 2016.

GDP growth moderated in the second quarter of 2017, recording a year-on-year growth rate of 2.3%, lower than the rates for both the first quarter (3.0%) and the same quarter of the previous year (3.7%).

In the first half of 2017, economic activity reflected positive growth in nearly all sectors, the exceptions being mining and government services, which recorded drops of 4.2% and 0.7% respectively. Among the most robust sectors were electricity, gas and water, on one hand, and commerce, restaurants and hotels (both of which recorded increases of 4.3%) as well as transportation (3.4%). On the demand side, the fastest growth was in private consumption, driven by the increase in remittances and, to a lesser extent, in credit.

Guatemala: main economic indicators, 2015-2017

	2015	2016	2017 ^a
	Annual growth rate		
Gross domestic product	4.1	3.1	3.2
Per capita gross domestic product	2.1	1.1	1.3
Consumer prices	3.1	4.2	4.2 ^b
Real average wage ^c	3.3	-2.0	...
Money (M1)	11.9	6.1	7.2 ^d
Real effective exchange rate ^e	-6.6	-5.7	-5.9 ^d
Terms of trade	-3.9	5.4	0.6
	Annual average percentage		
Open urban unemployment rate	3.2	3.4	4.0 ^f
Central government			
Overall balance / GDP	-1.4	-1.1	-1.9
Nominal deposit rate ^g	5.5	5.5	5.4 ^d
Nominal lending rate ^h	13.2	13.1	13.1 ^b
	Millions of dollars		
Exports of goods and services	13 647	13 365	13 954
Imports of goods and services	19 543	18 793	20 064
Current account balance	-96	1 023	1 254
Capital and financial balance ⁱ	572	368	853
Overall balance	475	1 392	2 107

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

a/ Estimates.

b/ Figures as of October.

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

d/ Figures as of September.

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

f/ The figure refers to the measurement of February and March.

g/ Weighted average of deposit rates.

h/ Weighted average of lending rates.

i/ Includes errors and omissions.

The year-on-year change in the consumer price index (CPI) was 4.2% in October, compared to 4.8% in the same month of 2016. The year-on-year underlying inflation rate was 2.9%. Domestic prices for food and non-alcoholic beverages were up by 9.4% year-on-year, and this was the item that had the greatest impact on inflation.

According to the first round of the National Employment and Income Survey (ENEI), the unemployment rate rose to 3.2% in March 2017 (compared to 3.1% in March 2016), with a higher rate for women (4.2%), than for men (2.6%). The overall participation rate of the economically active population stood at 61.0%, similar to the March 2016 figure (61.5%). A 6.1% hike in the daily minimum wage for farm and non-farm sectors came into effect in January 2017, bringing that benchmark wage to 86.90 quetzals. In the maquila sector, the minimum wage again rose by 6.1%, to 79.48 quetzals.

For 2018, ECLAC projects economic growth of 3.5%, reflecting the continued strength of domestic demand, especially private consumption, and rising public expenditure on infrastructure. However, this projection may have to be revised down, given the lack of consensus in the national Congress regarding the proposed budget for 2018, which called for an amount of 84,596 million quetzals: accordingly, the same budget allocated for 2017 (76,989 million quetzals) will be used. For this reason, the fiscal deficit should stand at between 1.6% and 1.8% of GDP. The current account balance is expected to come in at the equivalent of 1% of GDP. A slight reduction in inflation is anticipated, to around 4.0%, and the unemployment rate is projected at close to 3%.