GUATEMALA

1. General trends

In 2018 Guatemala's GDP grew by 3.1% in real terms, up from the previous year's 2.8%. This acceleration was driven mainly by a 4.5% expansion in domestic demand, particularly in both private and government consumption, but also in domestic public investment (construction). Year-on-year inflation came in at 2.3% in December (down from 5.7% at the end of 2017), which was below the central bank's target range of 3%–5%. The fall in fuel prices towards the end of the year, together with the reversal of supply shocks affecting several products in the food and non-alcoholic beverages division, contributed to this outcome.

The central government's fiscal deficit widened to 1.8% of GDP, from 1.3% in 2017, because revenue came in below target after its nominal growth rate slowed. The balance-of-payments current account remained in surplus in 2018 (0.8% of GDP) thanks to the strong flow of remittances. The national open unemployment rate came in at 2.8%, compared to 2.3% in 2017.

Guatemala will hold general elections on 16 June 2019, with a second round to be held on 11 August if necessary. For the first time in the country's history, Guatemalans living abroad will be able to vote for their President. The new government is expected to take office on 14 January 2020.

Projections by ECLAC see economic activity expanding by 2.9% in 2019, driven by projected increases in consumer spending, both private and public, and in gross fixed capital formation, as well as an expected —albeit moderate— recovery of external demand. This projection is no longer within the Bank of Guatemala's range of growth expectations for the year (between 3.0% and 3.8%). Nonetheless, there is considerable uncertainty as to whether such growth can be achieved, for various reasons: a potential slowdown in economic growth in the United States, which will undermine remittances and exports; the prevailing legal uncertainty, which discourages inward foreign direct investment (FDI); and the pace of execution of public expenditure, particularly in the investment category. Inflation is expected to end 2019 within the target range around 4.0%. The fiscal deficit projected for 2019 is roughly 2.0% of GDP, in a budget of 87.715 billion quetzals —equivalent to US$ 11.392 billion (77.384 billion quetzals in 2018, or US$ 10.318 billion). The current account is expected to post a surplus of around 0.9% of GDP.

2. Economic policy

In 2018, macroeconomic policy again focused on maintaining economic stability, with an emphasis on meeting the inflation target and moderating exchange rate volatility. In 2019 thus far there have been no changes in macroeconomic policy management.

(a) Fiscal policy

Fiscal policy in 2018 was more expansionary than in the previous year, mainly through an increase in public investment. This resulted in a small primary deficit (0.3% of GDP), in contrast to the surpluses of the previous three years. The action of the Ministry of Public Finance focused on improving expenditure execution and enhancing the transparency of public finances.

Total public income grew slightly in real terms (0.2%) to reach a level equivalent to 10.6% of GDP (compared to 10.8% in 2017). Tax revenues, by contrast, flatlined in real terms overall, to remain at 10.3% of GDP. The factors underpinning the public income growth included increases in revenue from value added tax (VAT) (2.1%), vehicle circulation tax (2.8%), import duties (1.1%), and other taxes (4.7%), while income tax revenues shrank by 4.0%.

Total expenditure grew by 4.2% per year in real terms, to reach an amount equivalent to 12.3% of GDP (12.1% in 2017). Capital expenditure increased by 14.0%, with a major expansion of investment (79.0%), which represented 5.3% of total expenditure (3.1% in 2017). The investment went mainly to road maintenance and the procurement of operating inputs for public institutions such as the Ministries of Public Health and Social Assistance, the Interior, and Education, among others. The high growth rate of public investment also reflects its low level in 2017. In 2018 the rate of budget execution, at 96%, was the highest for five years, with the Ministry of Communications, Infrastructure and Housing contributing significantly to this indicator.

The 2018 fiscal deficit (10.376 billion quetzals, or US$ 1.384 billion) was financed mainly by contracting external debt in the amount of 454 million quetzals (US$ 60.5 million), as well as the net issuance of Treasury Bonds on the domestic market for 9.710 billion quetzals (US$ 1.295 billion). The remainder of the deficit (212 million quetzals, or US$ 28.3 million) was financed from other sources.

The total public debt grew from 23.8% of GDP in 2017 to 24.7% in 2018. The domestic portion grew by 13.3% year-on-year in nominal terms (compared to 10.8% in 2017) and represented 14.0% of GDP (13.1% in 2017), while the external public debt edged up by 0.5% in nominal terms but edged down as a proportion of GDP (10.4% compared with 10.8% in 2017).

Preliminary figures for April 2019 show that total central government income declined by 2.7% in real terms, while total expenditure grew by 15.2% thanks to increases in current expenditure (10.7%) and especially capital expenditure, which was up by 41.1%. This result was influenced by the higher rate of budgetary execution since the start of the year, associated with the special transfer of funds to the Supreme Electoral Tribunal to administer the June 2019 electoral process, along with the expenses arising from the start of the school cycle and those corresponding to road infrastructure. At the end of the first quarter, the domestic public debt stock stood at 85.501 billion quetzals (US$ 11.104 billion), up by 3.055 billion quetzals (US$ 396.8 million), which was unchanged from the end of 2018. The balance of external public debt stood at US$ 8.129 billion, representing a reduction of US$ 95 million since end-2018.

For fiscal 2019, authorization has been given to issue 18.419 billion quetzals in Treasury Bonds, of which 14.208 billion quetzals will be new debt and 4.211 billion quetzals will be roll-over. As of 31 March, 25.1% of the planned amount had been placed.

Two loans with international organizations are also pending congressional approval for 2019. The first is with the Inter-American Development Bank (IDB), consisting of US$ 250 million for budget support and a further US$ 60 million to strengthen the Public Prosecutor's Office. Another loan of US$ 300 million with the Central American Bank for Economic Integration (CABEI), for justice sector modernization, is also in the pipeline.

(b) Monetary policy and exchange-rate policy

An accommodative monetary policy stance prevailed in 2018. The key interest rate was held at 2.8% throughout the year and has been unchanged since November 2017. This decision was based on the fact that both external and domestic inflationary pressures were contained, and inflation expectations remained anchored.

The nominal interest rate on bank deposits remained around 5.2% throughout 2018 (1.4% in real terms), slightly lower than the previous year's rates of 5.4% and 0.9%, respectively. The lending rate also remained broadly unchanged from 2017 in nominal terms, although higher in real terms (12.9% nominal and 8.8% real compared to 13.05% and 8.3%, respectively, in 2017). In 2018, bank lending to the private sector gathered pace, increasing by 5.6% year-on-year (compared to 4.5% in 2017). The sectors displaying the strongest credit growth were manufacturing (16.4%) and commerce (8.8%).

Guatemala's exchange rate continues to operate under a managed floating regime. The rate at the end of December 2018 was 7.7 quetzals per dollar, which represents a nominal depreciation of 3.3% compared to a year earlier (a real depreciation of 5.5%). This is associated with weaker flows of family remittances; an increase in the value of imports; the greater buoyancy of public expenditure, which has a high import component; and lower export values.

The level of Guatemala's net international monetary reserves continues to reflect the country's strong external position. In late December, these stood at US$ 12.756 billion (16.3% of GDP), representing a year-on-year increase of 8.4% and equivalent to nearly four months of imports.

In 2017 and in January 2018 the exchange rate appreciated steadily, which triggered the rule governing intervention in the institutional foreign-exchange market (which is symmetric and transparent), to moderate the volatility of the nominal exchange rate without affecting its trend. By contrast, as from February 2018 and more intensively from May onwards, there was upward pressure on the exchange rate, which led the Bank of Guatemala to intervene again in the institutional foreign-currency market to contain the depreciation.

In the first quarter of 2019, the exchange rate (7.70 quetzals per dollar) depreciated by 4.8% year-on-year in nominal terms (2.8% in real terms). In late April 2019, net international reserves stood at US$ 12.846 billion, US$ 90.3 million higher than in December 2018. The increase is mainly the result of net purchases of US$ 267.1 million, following activation of the foreign-exchange market intervention rule to control exchange-rate volatility. This was partially offset by net payments in respect of external public debt, net amortization of dollar-denominated time deposits issued by the Bank of Guatemala, and a lowering of legal reserve requirements in foreign currency in the financial system. In April 2019, bank credit to the private sector had grown in nominal terms by 7.5% year-on-year, driven by expansions in both domestic (8.1%) and foreign (6.4%) credit.

(c) Other policies

On 20 November 2018, El Salvador finalized the legal and administrative process for joining the Guatemala–Honduras customs union (which entered into force in June 2017). The next steps will consist of adapting existing infrastructure in areas such as software development and adjustments to the community information technology platform already being used by Guatemala and Honduras. Other issues still pending include definition of the schedules of products excluded from the free movement regime, the training given to personnel and the private sector, and the upgrading of integrated border posts, among other issues. From 14 to 18 January 2019, Guatemala hosted the first technical round of negotiations in the process of deep integration towards the free movement of goods and people. The technical round tables that met in this negotiating round were customs, domestic taxes, sanitary and phytosanitary measures, migration and security, among others.

3. The main variables

(a) The external sector

Following the previous year's expansion, the value of merchandise exports in 2018 decreased by 0.2%, while imports grew by 7.3%. Reduced external sales of sugar, coffee and natural rubber (*hule*), lead, precious and semi-precious metals and stones all contributed to the negative export performance. Both coffee and rubber prices fell in average terms; and foreign sales of precious and semi-precious stones and metals were hampered by the suspension of operations of the San Rafael mining company (as from mid-2017) and by the technical closure of operations of the company Montana Exploradora. Guatemala's overall export performance declined in 2018: both traditional and maquila exports shrank (by 5.8% and 0.5%, respectively). Non-traditional exports expanded but at a slower pace, (garment exports being a notable exception). Service exports decreased by 1.7% in 2018 (2.5% in 2017). The main destination markets for Guatemala's exports in 2018 were the United States (which absorbed 35.1% of the total), Central America (30.6%), the eurozone (8.0%) and Mexico (4.6%).

The growth in import value was driven by increases in the following items: fuels and lubricants (due to higher prices), raw materials and intermediate products, construction materials and consumer goods.

The terms of trade deteriorated, both for goods and services (0.3%) and for goods alone, where the fall was somewhat steeper (0.9%).

Inward FDI totalled around US$1.031 billion in 2018, 11.8% less than in the previous year. Almost half of this was absorbed by commerce and manufacturing (31.5% and 16.9%, respectively), while banks and insurance companies received 16.3%. Disinvestment of US$ 2.1 million in the mining and quarrying sector reflected the uncertainty prevailing in the industry following the suspension of operations of the San Rafael mining company. The main sources of FDI were the United States (23.8% of the total), Mexico (17.7%), Colombia (12.9%) and Luxembourg (7.5%).

As in 2017, the current account balance posted a surplus in 2018, albeit smaller because the trade deficit widened to10.1% of GDP, which was partially offset by higher foreign-exchange inflows in the form of family remittances. The latter grew by 13.4% in 2018 to US$ 9.288 billion (equivalent to 11.8% of GDP).

In the first quarter of 2019 goods exports were down by 1.3% in value terms, as the result of a 12.6% fall in volume and a 12.5% increase in average prices. Products such as sugar, edible fats and oils, natural rubber and coffee recorded lower foreign sales. Imports grew by 6.5% in value terms, mainly due to a 13.1% volume increase, while average import prices fell by 5.8%. In late April, foreign-exchange inflows from family remittances had reached a cumulative total of US$ 3.070 billion, 10.1% more than in the year-earlier period.

(b) Economic activity

In 2018 the pace of economic activity was more vigorous than in the previous year (growth of 3.1% compared to 2.8%). On the expenditure side, this is explained by a 4.2% increase in domestic demand, particularly private consumption, owing to the improvements in average wages and the level of employment; along with the increase in family remittances; and the expansion of bank consumer credit. Domestic investment was up by 5.1%, mainly as a result of the increase in public sector capital expenditure. Exports retreated by 3.4% in real terms, while imports grew by 3.8%.

On the supply side, most economic activities expanded, except for mining and quarrying (down by 38.2%) owing to the dispute in the San Rafael mining operation. Agriculture expanded by 2.5%, while manufacturing grew by 3.4%, on the back of strong performances in the food, beverages and tobacco sectors, and in textile and garment manufacturing. Basic services also grew by 5.1%, while other services expanded by 3.8%.

The cycle-trend series of the monthly index of economic activity (IMAE) reported a year-on-year growth rate of 3.1% in March 2019, compared to 2.8% a year earlier. This reflected growth in transport, storage and communications; manufacturing; wholesale and retail trade, and private services.

(c) Prices, wages and employment

In 2018, average inflation, at 3.8%, was down from the previous year's 4.4%, owing mainly to the fall in international fuel prices in the latter months of the year. Prices in the food and non-alcoholic beverages division rose over the course of the year, as a result of reduced tomato and onion harvests, stemming from seasonal factors and crop damage.

The most recent data compiled by the National Employment and Income Survey in June 2018 report a national open unemployment rate of 2.8% (compared to 2.3% in May–June 2017). Nonetheless, the same survey also estimates that 70.6% of Guatemalan workers are employed in the informal sector (compared to 69.7% in 2017). The overall participation rate among the economically active population was 60.2% (compared to 61.0% in 2017). The Guatemalan Social Security Institute (IGSS) had a total of 1,324,195 affiliates in 2018, up by 0.9% on the previous year's figure. The only sectors showing positive growth in this regard were commerce and other services (5.6% and 1.7%, respectively).

In 2018 the minimum daily wage in both the agricultural and the non-agricultural sectors was 90.16 quetzals (US$ 12), while the rate in the maquila sector was 82.46 quetzals (US$ 11), with zero real growth in both cases. In the first five months of 2019 there have also been no increases in the minimum wage.

In April 2019 inflation was 4.75% year-on-year, which is within but close to the upper bound of the Monetary Board's target range of 4.0% plus or minus one percentage point. Inflation was driven mainly by price increases among vegetables, legumes and tubers, and also fruits, as a result of supply shocks and price rises in the transport division, following the increase in domestic fuel prices.

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	2.9	4.2	3.0	3.7	4.2	4.1	3.1	2.8	3.1
Per capita gross domestic product	0.6	1.9	0.8	1.5	2.1	2.1	1.1	0.9	1.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.2	5.0	4.9	4.7	3.2	3.2	3.1	2.9	2.5
Mining and quarrying	3.5	18.4	-19.3	3.5	46.7	8.5	-10.3	-22.1	-38.2
Manufacturing	3.3	3.0	3.3	3.5	3.2	3.5	3.6	2.1	3.4
Electricity, gas and water	5.1	5.6	6.4	5.2	5.0	4.5	5.3	5.4	6.4
Construction	-11.5	2.4	0.8	1.7	4.4	3.4	1.8	2.7	3.7
Wholesale and retail commerce, restaurants and hotels	3.6	3.7	3.0	3.2	3.8	5.6	3.7	3.5	4.3
Transport, storage and communications	2.9	4.8	3.1	2.9	3.0	3.3	2.8	4.3	4.7
Financial institutions, insurance, real estate and business services	3.4	4.1	4.6	4.9	4.6	6.0	4.5	3.3	3.6
Community, social and personal services	6.8	4.4	4.4	4.8	2.6	2.6	2.2	2.4	2.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.9	3.7	3.4	3.9	4.1	5.1	3.4	3.3	4.3
Government consumption	7.8	4.1	5.8	5.6	5.9	-0.1	-2.5	1.5	4.0
Private consumption	3.4	3.6	3.1	3.7	3.9	5.8	4.2	3.6	4.3
Gross capital formation	7.3	16.2	2.0	-1.0	5.2	9.1	3.2	-0.9	5.1
Exports (goods and services)	6.1	3.0	1.8	6.7	7.9	4.0	1.7	2.1	-3.4
Imports (goods and services)	10.0	7.0	2.8	4.3	7.0	9.3	3.5	2.3	3.8
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	13.9	15.2	15.0	14.0	13.7	13.6	12.9	12.1	12.1
National saving	12.6	11.9	12.4	11.5	11.6	13.5	14.4	13.6	12.9
External saving	1.4	3.4	2.6	2.5	2.1	0.2	-1.5	-1.6	-0.8
Balance of payments	**Millions of dollars**								
Current account balance	-563	-1 599	-1 310	-1 351	-1 230	-96	1 023	1 189	638
Goods balance	-4 271	-4 963	-5 735	-6 176	-6 064	-5 557	-5 186	-6 010	-7 287
Exports, f.o.b.	8 536	10 519	10 103	10 183	10 992	10 824	10 581	11 100	11 079
Imports, f.o.b.	12 807	15 482	15 838	16 359	17 056	16 381	15 767	17 110	18 366
Services trade balance	-140	-278	-104	-224	-203	-340	-242	-413	-675
Income balance	-1 098	-1 491	-1 115	-1 064	-1 408	-1 399	-1 507	-1 363	-1 311
Net current transfers	4 946	5 134	5 645	6 113	6 445	7 199	7 959	8 975	9 911
Capital and financial balance d/	1 240	1 805	1 809	2 053	1 302	572	368	1 377	319
Net foreign direct investment	782	1 009	1 205	1 262	1 282	1 104	1 068	1 001	821
Other capital movements	458	796	603	792	20	-532	-699	376	-502
Overall balance	677	206	499	702	73	475	1 392	2 566	957
Variation in reserve assets e/	-677	-206	-499	-702	-73	-475	-1 392	-2 566	-957
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	93.5	89.5	88.3	87.2	83.3	77.9	73.5	69.8	69.3
Terms of trade for goods (index: 2010=100) g/	100.0	99.1	93.7	91.8	92.3	97.2	105.0	99.5	95.2
Net resource transfer (millions of dollars)	142	313	693	989	-105	-827	-1 139	14	-992
Total gross external debt (millions of dollars)	12 026	14 021	15 339	17 826	20 031	20 885	21 651	23 153	22 574

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employment	**Average annual rates**								
Open unemployment rate h/	4.8	3.1	4.0	3.8	4.0	3.2	3.4	3.2	3.9
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	5.4	6.2	3.4	4.4	2.9	3.1	4.2	5.7	2.3
Variation in nominal exchange rate (annual average)	-1.0	-3.4	0.6	0.3	-1.6	-1.0	-0.7	-3.3	2.3
Variation in average real wage	2.8	0.4	4.0	-0.1	2.5	3.4	-2.0	-1.0	0.7
Nominal deposit rate i/	5.5	5.3	5.3	5.5	5.5	5.5	5.5	5.4	5.2
Nominal lending rate j/	13.3	13.4	13.5	13.6	13.8	13.2	13.1	13.1	12.9
Central government	**Percentages of GDP**								
Total revenue	11.2	11.6	11.6	11.6	11.5	10.8	11.0	10.8	10.6
Tax revenue	10.8	11.2	11.2	11.3	11.2	10.5	10.8	10.5	10.3
Total expenditure	14.5	14.4	14.0	13.8	13.4	12.3	12.1	12.1	12.3
Current expenditure	10.4	10.5	10.7	10.8	10.5	10.1	10.0	9.9	9.9
Interest	1.5	1.5	1.5	1.6	1.4	1.4	1.5	1.4	1.4
Capital expenditure	4.1	4.0	3.3	3.0	2.9	2.2	2.1	2.2	2.4
Primary balance	-1.8	-1.3	-0.9	-0.6	-0.4	-0.1	0.4	0.1	-0.3
Overall balance	-3.3	-2.8	-2.4	-2.1	-1.9	-1.5	-1.1	-1.3	-1.8
Central government public debt	24.0	23.7	24.3	24.6	24.3	24.2	24.0	23.8	24.7
Domestic	11.0	12.1	11.9	11.6	12.7	12.6	12.6	13.1	14.0
External	13.0	11.5	12.4	12.9	11.6	11.6	11.4	10.7	10.7
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	32.8	33.9	35.9	37.0	38.6	39.6	38.9	36.6	36.0
To the public sector	12.7	13.2	7.4	8.0	8.8	8.4	7.6	7.1	8.3
To the private sector	23.8	23.7	31.7	32.6	33.0	34.4	34.3	33.3	32.8
Others	-3.8	-2.9	-3.1	-3.6	-3.2	-3.2	-3.0	-3.9	-5.0
Monetary base	10.2	10.1	10.4	10.2	10.3	10.6	11.3	11.9	12.1
Money (M1)	16.4	15.8	16.0	15.4	15.4	15.8	15.6	16.2	16.5
M2	34.1	33.4	34.6	35.0	35.4	36.5	36.7	37.7	38.7
Foreign-currency deposits	12.5	11.4	11.4	12.1	11.9	11.6	11.1	10.4	11.0

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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
h/ Urban total. New measurements have been used since 2011; the data are not comparable with the previous series.
i/ Weighted average of the system deposit rates in local currency.
j/ Weighted average of the system lending rates in local currency.

Table 2

GUATEMALA: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	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/	3.2	2.2	2.7	2.9	1.8	3.6	3.6	3.5	...	...
Gross international reserves (millions of dollars)	9 252	10 168	11 190	11 612	11 521	11 892	12 324	12 529	12 590	13 458 c/
Real effective exchange rate (index: 2005=100) d/	70.4	70.0	69.4	69.5	69.6	69.3	68.8	69.3	68.6	68.1 c/
Consumer prices (12-month percentage variation)	4.0	4.4	4.4	5.7	4.1	3.8	4.6	2.3	4.2	4.5 c/
Average nominal exchange rate (quetzales per dollar)	7.4	7.3	7.3	7.3	7.4	7.4	7.6	7.7	7.7	7.7 c/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	5.4	5.4	5.4	5.3	5.3	5.2	5.2	5.1	5.0	5.1 c/
Lending rate f/	13.1	13.1	13.1	13.0	13.0	13.0	12.9	12.8	12.8	12.7 c/
Interbank rate	3.0	3.5	3.9	4.0	3.8	3.6	2.8	3.0	3.0	3.2 c/
Monetary policy rates	3.0	3.0	3.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8 c/
International bond issues (millions of dollars)	500	830	-	-	-	-	-	-	-	1 200
Domestic credit (variation from same quarter of preceding year)	4.0	2.8	1.4	0.4	0.6	2.4	4.6	5.1	4.3	2.9 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/ Weighted average of the system lending rates in local currency.

.