GUATEMALA

1. General trends

The lockdown measures and movement restrictions implemented to tackle coronavirus disease (COVID-19) have had significant repercussions on Guatemala's economy. On Tuesday, 17 March 2020, pursuant to Government Decree No. 5-2020, the Government of Guatemala implemented physical distancing measures, limitations on working hours in the manufacturing, trade and tourism sectors, and restrictions of movement. This has led to a sharp decline in consumption and investment and a significant fall in production activities. The global nature of the crisis means that Guatemala's economy is not untouched by the contraction in external demand. Against this backdrop, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Guatemala's GDP will shrink by 4.1% in 2020.

At end-2020, the central government deficit is projected to widen to around 6.0% of GDP due to the marked decline in the tax take and increased spending on measures to address the health, economic and social crisis. The current account deficit is expected to be around 0.4% of GDP, mainly due to the steep fall in income from remittances, exports and tourism. Year-on-year inflation (from December to December) is projected at around 3.0%, close to the floor of the central bank's target range of 4.0% plus or minus 1 percentage point. This is because the pressure on prices from supply side problems will be offset by weaker demand and the fall in international fuel prices. The open unemployment rate, up 0.5 percentage points in 2019 from the 2.0% registered in 2018, will increase significantly in 2020, affecting young people and women most severely.

Alejandro Giammattei was elected president in the second round of voting on 11 August 2019. The new government took office on 14 January 2020 and implemented several counter-cyclical economic and social policies to tackle the current crisis.

In 2019, real GDP grew by 3.8%, compared with 3.2% in 2018. This faster growth was chiefly attributable to an increase in private consumption and in gross fixed investment, which rose by 4.3% (3.5% in 2018) and 7.2% (4.6% in 2018) respectively. Year-on-year inflation stood at 3.4% in December 2019, 1.1 percentage point higher than at end-2018 owing to a temporary spike in food prices in the last quarter.

The central government's fiscal deficit widened to 2.2% of GDP in 2019 from 1.9% in 2018 on the back of the implementation of more public programmes. The current account ran a surplus for the fourth straight year (2.4% of GDP) thanks to an increase in export values, a decrease in import values and higher remittance flows. The national open unemployment rate came in at 2.5%, compared to 2.0% in 2018. This may have been a result of the tightening of immigration policies in the United States.

2. Economic policy

Since mid-March 2020, economic policy has been focused on mitigating the negative economic impact of the health crisis. A number of countercyclical measures have been implemented, including the continuation of some cash transfer programmes and the creation of new ones, the delivery of food and medicines and the deferral of utility payments. Monetary and credit policy responses have also been undertaken to boost market liquidity. Consideration should also be given to extreme weather events, such as the heavy rains brought by tropical storm Amanda, that could have a negative effect on public finances.

(a) Fiscal policy

The central government deficit will widen considerably in 2020 as a result of lower revenues and higher expenditures. The Ministry of Public Finance estimates that the lockdown measures will cause total revenues to plunge by 9.4% in real terms relative to 2019, down to 10.3% of GDP. As a result of the range of programmes implemented to tackle the crisis, total expenditure is expected to increase by 18.0%: the greatest expansion would be seen in current expenditure (28.5%) and capital spending (29.2%).

It is expected that around one third of the deficit will be funded by external financing sources, with the rest funded by domestic sources. The external sources include seven loans from international organizations —the World Bank, the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI)— and the issuance of international bonds. The main domestic source was from the issue of treasury bonds by the Ministry of Public Finance.

In 2019, fiscal policy was notably more expansionary than in 2018, as reflected in a primary deficit of 0.7% of GDP in 2019, compared with 0.4% of GDP the previous year. The central government posted a deficit for the second year running, after three years of posting a primary surplus. This is often the case when government terms come to an end. Total public revenues grew by 2.9% in real terms to reach 11.3% of GDP, the same figure recorded in 2018. Tax revenues were up by 2.6%, accounting for 10.6% of GDP. This was influenced by higher receipts from value added tax (VAT) (4.0%) and from consumption taxes on oil and hydrocarbon products (5.6%). There was weaker growth in income tax and import duties, which edged up by 1.6% and 1.5%, respectively.

Total expenditure rose by 5.9% per year in real terms to 13.5% of GDP (compared to 13.2% of GDP in 2018). Capital expenditure was up by 9.4% year-on-year on the back of a substantial increase in investment (23.3%). The increase in expenditure reflected strong budget execution during the year.

In 2019, the fiscal deficit amounted to 2.2% of GDP; 52.0% of the deficit was financed from external sources and the remainder from domestic sources. On the external front, the Government of Guatemala issued US$ 1.2 billion in Eurobonds in May 2019.

Total public debt rose from 26.3% of GDP in 2018 to 26.9% of GDP in 2019. Domestic public debt remained stable at 14.8% of GDP, while external public debt increased by 0.6 percentage points of GDP.

(b) Monetary policy and exchange-rate policy

Monetary policy has been expansionary in 2020. On March 19, the Bank of Guatemala’s monetary board lowered the monetary policy interest rate by 50 basis points to 2.25%. The rate was lowered again to 2.0% on 25 March in an effort to ease the slowdown in economic activity and minimize the potential rise in the cost of credit.

In addition, temporary discount windows, known as standing facilities, were opened in quetzals and United States dollars. The aim of this measure was to increase market liquidity and boost economic activity. These windows will be used to swap financial instruments at current value, to buy bonds held by the public and to buy back securities held by the financial system; the sale of futures contracts will not be allowed. A new method for calculating the legal reserve was also approved: some instruments, such as certificates of deposit, treasury bonds and mortgage certificates, may be counted in the reserve. The easing of the legal reserve would initially free up some 2.8 billion quetzales (about US$ 363 million) in the banking system.

In the fourth week of March 2020, the Bank of Guatemala auctioned United States dollars in excess of the amount established in the rules of the institutional foreign-exchange market in order to limit foreign exchange market volatility. As of May 27, the Bank of Guatemala had floated US$ 421.7 million in the market. On 24 July, the average nominal exchange rate was 7.69 quetzals to the dollar, a slight appreciation of 0.14% from end-2019.

The Bank of Guatemala's monetary board approved a set of specific measures to reduce the credit risks of financial system institutions and their negative impact on households and businesses. On 19 March 2020, authorities announced several temporary provisions that would remain in effect until 31 December. These provisions allow financial institutions to revise the interest rates and terms of loans that have already been granted, including those with arrears no greater than one month; delay or defer payments without the debtor losing its credit rating; allow 180 calendar days in arrears in payments before changing loan status from current to past due; and use contingency reserves to cover cases or loans related to COVID-19.

There was no change in monetary policy in 2019. The benchmark interest rate held steady at 2.75% 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 was unchanged at around 5.0% throughout 2019, slightly below the 2018 level (5.2%). In real terms, this rate stood at 1.6% in 2019 and 2.7% in 2018. Similarly, the nominal lending rate was down two tenths of a point, from 12.9% in 2018 to 12.7% in 2019; in real terms it fell from 10.36% to 9.0% year-on-year. In 2019, financial system lending to the private sector rose 8.6% in real terms compared with the 5.4% growth in real terms registered in 2018.

Guatemala's exchange rate continued to operate under a managed floating regime. The rate at the end of December 2019 was 7.7 quetzals per dollar, unchanged in nominal terms compared to a year earlier but with a real appreciation of 0.8% year-on-year. This is associated with a substantial increase in flows of family remittances (up 13.1% from 2018) and an improvement in the terms of trade (2.7% increase compared with 2018).

At end-December 2019, international reserves stood at US$ 14.789 billion (equivalent to 19.5% of GDP and almost nine months' imports), a nominal year-on-year rise of 15.9%.

(c) Other policies

The Agreement establishing an Association between the United Kingdom of Great Britain and Northern Ireland and Central America[1] was signed on 18 July 2019. It replicates the existing European Union-Central America Agreement signed in Tegucigalpa on 29 June 2012 in order to ensure the continuity of rights and obligations for the United Kingdom when it leaves the European Union.

[1] The signatory countries of Central America are Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

3. The main variables

(a) The external sector

Goods exports rose by 2.2% year-on-year in the first five months of 2020, driven by the growth in clothing (10.0%), cardamom (8.2%), coffee (8.1%), sugar (7.7%), and banana (7.6%), exports. Meanwhile, import values fell by 0.7% year-on-year, mainly due to low international fuel prices.

As of 30 June 2020, income from remittances amounted to US$ 4.880 billion, a year-on-year change of -0.9%. In the two years prior, remittances had increased at an annual rate of 13.0%. For 2020, the Bank of Guatemala projects that exports will decline by 8.0% with respect to 2019, while imports will fall by 7.0%. Remittances are expected to maintain a downward trend, contracting by 9.0% year-on-year. In 2020, foreign direct investment (FDI) flows will be significantly lower than in 2019.

Following the previous year's contraction of 0.1%, the value of merchandise exports grew by 1.8% in 2019. External sales of cardamom were driven up 49.3% thanks to higher prices, while sales of sugar also rose by 9.7%. Exports of traditional products, comprising mainly agricultural products, increased by 9.8%, while non-traditional product exports edged down by 0.8%. Among these, the clothing industry registered a significant 4.6% decline after two consecutive years of growth (5.7% in 2017 and 8.4% in 2018). Service exports decreased by 2.8% in 2019 (3.0% in 2018). The main destination markets for Guatemala's exports in 2019 were the United States (which absorbed 32.2% of the total), the other Central American countries (30.1%), and Mexico (5.0%).

The total value of imports was US$ 19.881 billion in 2019, up 1.1% on 2018. Imports of consumer goods and capital goods increased by 3.4% and 5.9% respectively. The value of imports of oil and fuels slipped by 0.1% due to the fall in international prices.

The goods and services trade deficit stood at US$ 8.019 billion, down by three tenths of a point year-on-year at 10.4% of GDP. Family remittances posted 13.1% growth and represented 13.7% of GDP, driven by the upturn in the United States economy (2.3%) and the low unemployment rate among that country's Hispanic population (4.3%). The terms-of-trade index rose by 5.5% over 2018.

FDI flows totalled approximately US$ 998.2 million in 2019, up 0.4% from the previous year. More than half of all FDI inflows were destined for trade and the manufacturing sector (20.3% and 28.5%, respectively). The main countries of origin for FDI were the United States (21.4% of the total), Colombia (18.2%), Mexico (13.7%) and the Russian Federation (12.6%).

(b) Economic activity

The trend-cycle series of the monthly index of economic activity (IMAE) decreased at a rate of 7.3% year-on-year as of May 2020, considerably lower than the same month the previous year (4.4%). This performance reflects the initial effects of the measures taken in response to the COVID-19 pandemic. The activities that were hardest hit were trade, car repair, manufacturing, hotels and restaurants, the education sector, transportation, construction, leisure and sports activities, entertainment and personal services (such as laundries, hairdressers and beauty salons, among others). These activities will continue to be heavily affected throughout the year. Conversely, the activities that have performed best are those related to health, financial and insurance services, and information and communications.

The economic growth rate picked up from 3.2% in 2018 to 3.8% in 2019. On the expenditure side, this is explained by a 4.3% increase in private consumption, owing to the increase in family remittances and the expansion of consumer credit. Domestic investment was up by 7.2%, mainly on the back of the upswing in private residential construction (9.3%). On the supply side, the best performing sectors were construction (8.3%), real estate (4.5%), trade (3.6%) and manufacturing (3.1%).

(c) Prices, wages and employment

In June 2020 inflation was 2.4% year-on-year, which was 0.6 percentage points below the central bank's target range. The largest declines were seen in transport and communications (-4.1%), housing costs (-1.8%), recreation and culture (-0.3%) and footwear and apparel (-0.3%) and alcoholic beverages (-0.1%). The slump in economic activity will lead to a spike in the open unemployment rate.

Inflation stood at 3.4% in December 2019, an uptick from the 2.3% at end-2018. The surge in fuel prices at the beginning of the year pushed prices upward. In 2019, the year-on-year variation in the price of energy products was 1.4%. Higher prices of certain agricultural products —for example, tomatoes, onions, potatoes and maize— attributable to seasonal factors and crop damage also played a part in raising the consumer price index. At the same time, fast-rising aggregate demand also propelled inflation.

According to the most recent information from the National Employment and Income Survey (ENEI), in May 2019 the total open unemployment rate stood at 2.5% (compared with 2.0% in December 2018). Around 70.2% of Guatemalans worked in the informal sector, down from 70.8% in 2018. The overall participation rate among the economically active population was 59.3% (compared to 60.9% in 2018). The total number of participants in the Guatemalan Social Security Institute (IGSS) was 2,069,837, 3.0% more than in 2018.

The minimum wage in effect was the same as that of 2018. In 2019 the minimum daily wage in both the agricultural and the non-agricultural sectors was unchanged at 90.16 quetzals (US$ 12), while the rate in the maquila sector was 82.46 quetzals (US$ 11). In real terms, the minimum monthly wage in all sectors and the maquila sector recorded a 3.6% drop compared to 2018.

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	4.2	3.0	3.7	4.4	4.1	2.7	3.0	3.2	3.8
Per capita gross domestic product	1.9	0.8	1.5	2.3	2.0	0.6	1.0	1.2	1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.0	4.9	4.7	1.6	2.6	2.4	3.1	2.4	2.3
Mining and quarrying	18.4	-19.3	3.5	46.6	4.2	-9.1	-29.3	-31.2	7.9
Manufacturing	3.0	3.3	3.5	3.4	3.7	3.0	2.9	3.2	3.1
Electricity, gas and water	5.6	6.4	5.2	6.5	0.6	3.8	5.4	2.3	-0.6
Construction	2.4	0.8	1.7	7.5	1.6	-0.3	3.0	5.1	8.3
Wholesale and retail commerce, restaurants and hotels	3.7	3.0	3.2	3.8	4.2	3.2	3.2	3.0	4.0
Transport, storage and communications	4.8	3.1	2.9	2.7	5.4	3.5	4.0	4.1	3.1
Financial institutions, insurance, real estate and business services	4.1	4.6	4.9	4.6	5.3	3.1	3.7	3.8	5.2
Community, social and personal services	4.4	4.4	4.8	4.1	3.7	2.4	2.7	3.2	2.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.7	3.4	3.9	4.4	4.7	3.2	3.1	3.8	4.2
Government consumption	4.1	5.8	5.6	3.6	0.9	-3.1	1.9	6.1	3.5
Private consumption	3.6	3.1	3.7	4.5	5.1	4.1	3.2	3.5	4.3
Gross capital formation	16.2	2.0	-1.0	-1.3	1.4	-4.2	4.5	5.6	10.1
Exports (goods and services)	3.0	1.8	6.7	6.9	2.8	2.4	1.5	-0.3	-0.2
Imports (goods and services)	7.0	2.8	4.3	3.4	3.6	0.9	2.9	3.9	5.6
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	17.2	16.9	15.8	15.1	14.8	13.9	13.6	13.9	14.5
National saving	13.9	13.2	11.6	11.8	13.6	14.8	14.7	14.6	…
External saving	3.4	3.7	4.2	3.3	1.3	-0.9	-1.1	-0.7	…
Balance of payments	**Millions of dollars**								
Current account balance	-1 580	-1 847	-2 239	-1 909	-774	637	804	595	1 854
Goods balance	-5 340	-6 428	-6 749	-6 782	-6 439	-6 077	-6 810	-7 996	-7 972
Exports, f.o.b.	8 969	8 580	8 663	9 375	9 085	8 973	9 651	9 644	9 978
Imports, f.o.b.	14 309	15 008	15 412	16 157	15 524	15 050	16 461	17 639	17 950
Services trade balance	-93	-77	34	74	81	222	290	167	-47
Income balance	-1 303	-1 025	-1 236	-1 517	-1 486	-1 425	-1 501	-1 520	-1 275
Net current transfers	5 156	5 683	5 712	6 316	7 071	7 917	8 824	9 943	11 148
Capital and financial balance d/	1 794	2 365	2 977	2 035	1 279	787	1 797	393	-56
Net foreign direct investment	1 140	1 226	1 449	1 388	1 048	965	934	791	817
Other capital movements	654	1 139	1 528	647	231	-178	863	-398	-873
Overall balance	214	518	738	126	505	1 424	2 600	988	1 798
Variation in reserve assets e/	-214	-518	-738	-126	-505	-1 424	-2 600	-988	-1 798
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	89.5	88.3	87.2	83.1	77.0	72.5	68.6	69.1	68.2
Terms of trade for goods (index: 2010=100)	99.1	93.7	91.8	92.3	97.2	105.0	99.5	95.2	94.0
Net resource transfer (millions of dollars)	490	1 340	1 741	518	-207	-639	296	-1 127	-1 331
Total gross external debt (millions of dollars)	15 533	17 452	19 825	21 577	22 235	23 333	24 982	24 454	25 074

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Employment	**Average annual rates**								
Open unemployment rate g/	4.1	2.9	3.1	2.9	2.6	2.7	2.5	2.4	2.6
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	6.2	3.4	4.4	2.9	3.1	4.2	5.7	2.3	3.4
Variation in nominal exchange rate (annual average)	-3.4	0.6	0.3	-1.6	-1.0	-0.7	-3.3	2.3	2.4
Variation in average real wage	0.4	4.0	-0.1	2.5	3.4	-2.0	-1.0	0.7	…
Nominal deposit rate h/	5.3	5.3	5.5	5.5	5.5	5.5	5.4	5.2	5.0
Nominal lending rate i/	13.4	13.5	13.6	13.8	13.2	13.1	13.1	12.9	12.7
Central government	**Percentages of GDP**								
Total revenue	11.8	11.8	11.8	11.6	11.1	11.5	11.4	11.3	11.2
Tax revenue	11.4	11.4	11.5	11.1	10.7	10.8	11.0	10.9	10.9
Total expenditure	14.7	14.2	14.0	13.6	12.6	12.6	12.7	13.2	13.5
Current expenditure	10.6	10.9	10.9	10.7	10.5	10.5	10.6	10.7	10.9
Interest	1.5	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.6
Capital expenditure	4.0	3.3	3.1	2.9	2.1	2.1	2.1	2.5	2.6
Primary balance	-1.3	-0.9	-0.6	-0.5	0.1	0.4	0.1	-0.3	-0.6
Overall balance	-2.8	-2.4	-2.2	-1.9	-1.5	-1.1	-1.4	-1.9	-2.3
Central government public debt	23.8	24.5	25.0	24.7	24.8	25.0	25.1	26.6	26.6
Domestic	12.1	11.9	11.6	12.7	12.6	12.7	13.1	13.6	14.7
External	11.5	12.4	13.3	11.6	12.2	12.3	12.0	13.0	11.9
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	34.5	36.5	37.6	39.2	40.6	40.5	38.6	38.7	37.1
To the public sector	13.4	7.5	8.1	8.9	8.6	7.9	7.5	8.9	9.4
To the private sector	24.1	32.2	33.1	33.5	35.3	35.7	35.2	35.1	34.3
Others	-2.9	-3.2	-3.7	-3.2	-3.3	-3.1	-4.1	-5.4	-6.6
Monetary base	10.2	10.6	10.3	10.5	10.9	11.8	12.6	12.9	13.4
Money (M1)	16.1	16.2	15.7	15.6	16.2	16.3	17.1	17.7	18.7
M2	34.0	35.2	35.6	35.9	37.4	38.1	39.8	41.5	43.1
Foreign-currency deposits	11.6	11.6	12.3	12.1	11.9	11.5	11.0	11.8	10.9

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/ Nationwide total.
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

	2018				2019				2020	
	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/	2.2	4.1	3.2	3.4	3.6	3.8	4.0	3.9	0.7	…
Gross international reserves (millions of dollars)	11 521	11 892	12 324	12 529	12 590	13 732	14 534	14 675	15 145	16 750
Real effective exchange rate (index: 2005=100) c/	69.1	69.3	68.7	69.2	68.6	68.0	68.0	68.3	67.8	65.4 d/
Consumer prices (12-month percentage variation)	4.1	3.8	4.6	2.3	4.2	4.8	1.8	3.4	1.8	2.4
Average nominal exchange rate (quetzales per dollar)	7.4	7.4	7.6	7.7	7.7	7.7	7.7	7.7	7.7	7.7 d/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	5.3	5.2	5.2	5.1	5.0	5.1	5.0	4.9	4.8	4.7 d/
Lending rate f/	13.0	13.0	12.9	12.8	12.8	12.7	12.8	12.7	12.7	12.6 d/
Interbank rate	3.8	3.6	2.8	3.0	3.0	3.8	3.6	2.6	2.5	1.9 d/
Monetary policy rates	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.6	2.0
International bond issues (millions of dollars)	-	-	-	-	-	1 200	-	-	-	1 200
Domestic credit (variation from same quarter of preceding year)	0.6	2.4	4.6	5.1	4.4	2.6	2.2	2.5	3.6	3.3

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/ Quarterly average, weighted by the value of goods exports and imports.
d/ Figures as of May.
e/ Weighted average of the system deposit rates in local currency.
f/ Weighted average of the system lending rates in local currency.

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