GUATEMALA

1. General trends

Guatemala's GDP grew by 2.8% in real terms in 2017, below the 3.1% growth rate recorded in 2016. This slight deceleration was due to slower growth in domestic demand (2.8% compared to 3.4% in 2016), mainly because private consumption rose by only 3.6%, compared to 4.2% in 2016. Year-on-year inflation stood at 5.7% in December (compared with 4.2% at year-end 2016), above the central bank's target range of between 3% and 5%, as a result of a temporary supply-side shock (adverse weather conditions and a preference for exporting to neighbouring markets) at the end of the year which affected the food and non-alcoholic beverages sector, especially, vegetables, pulses, root crops and fruits.

The central government fiscal deficit was 1.3% of GDP, a slight increase on 2016 (1.1% of GDP), owing to a declining tax burden. The current account balance remained positive in 2017 (1.5% of GDP) on the back of favourable terms of trade and large remittance inflows. The open unemployment rate at the national level came in at 2.3%.

ECLAC projections are for economic activity to expand by 2.9% in 2018. Increased economic momentum is expected to come from improved domestic demand, higher public spending and a recovery in the external sector sustained by a more favourable international environment. This figure is within the Bank of Guatemala's range of growth expectations for the year (between 3.0% and 3.8%). The Bank of Guatemala expects 2018 to close with inflation inside its target range, at around 4.25%. The budget for fiscal year 2018 will be unchanged from 2017 (76.99 billion quetzals), as the legislature did not approve the draft budget presented for 2018. The fiscal deficit is expected to be 1.7% of GDP, subject to possible budget increases, budget implementation capacity and tax receipts. The current account balance is forecast to be in deficit by around 0.5% of GDP.

2. Economic policy

The focus of macroeconomic policy in 2017 was once again on maintaining economic stability, with emphasis on meeting the inflation target and moderating exchange-rate appreciation.

(a) Fiscal policy

Fiscal policy was slightly expansionary compared to 2016, with the primary surplus falling from 0.4% of GDP in 2016 to 0.1%. Actions by the Ministry of Public Finance were geared towards increasing tax collection and improving the transparency of the public finances.

Total public revenues contracted very slightly (-0.1%) in real terms to 10.8% of GDP (compared to 11.0% in 2016). Tax receipts rose by 0.3%, bringing them to the equivalent of 10.2% of GDP (compared to 10.4% in 2016); among the factors contributing to this small absolute rise were an increase in value added tax (VAT) receipts due to greater domestic consumption and in VAT associated with imports, with total receipts surpassing 2016 levels. Other contributing factors were the solidarity tax, import tariffs, taxes on consumption of oil and its derivatives, and tax stamps. Offsetting factors were a decline in income tax receipts (-5.4%) and in non-tax revenues (-9.1%, as against 7.4% in 2016).

Total expenditure rose by an annual 2.1% in real terms to 12.1% of GDP (the same as in 2016). Capital expenditures grew by 5.6% on the back of a substantial increase in investment (56.5%), albeit from a low base, as investment in 2016 had totalled only 1.28 billion quetzals (around US$ 169 million). This result was due mainly to stronger project execution by the Ministry of Communications, Infrastructure and Housing. However, the level of execution was less than had been originally budgeted for, with only 51.9% of the amount allocated for this type of expenditure being disbursed. Public debt interest payments declined by 0.8%, owing to a reduction in overall public debt and favourable restructuring of liabilities. Current spending increased by 1.4%.

At the beginning of 2017, public spending was expected to increase more strongly. However, budgetary regulations and their interpretation created rigidities in execution that significantly affected the work of some ministries. In addition, there were continued difficulties in tender processes and the awarding of contracts for goods, services and public works. Similarly, the Guatemalan Congress only approved one of four loans budgeted for, which affected both programme execution and the facilitation of disbursements by international financial institutions. Budgetary execution of public spending was slow in the first months of the year, although it sped up in December, so that 91.8% of the budget was executed.

Treasury bonds were issued in 2017 to finance the deficit. A portion of these, worth US$ 500 million (equivalent to 3.6779 billion quetzals), were issued in the international capital (Eurobond) markets, obtaining the lowest coupon rate in the country's history (4.375%), while the rest were placed in the domestic market (6.5863 billion quetzals, equivalent to US$ 898.5 million). The fiscal deficit was also financed through external borrowing, and while the amount involved was fairly small (US$ 105 million), it served to finance social and public investment programmes. However, net borrowing (disbursements minus amortization) was negative by 2.4982 billion quetzals (US$ 340.8 million) because of a reduction in public debt owed to multilateral financial institutions. Amortization payments on loans from a number of operations subject to relatively high interest rates were brought forward in 2017, thus reducing the financial cost of the debt; the advance payments totalled 538.8 million quetzals (US$ 73.5 million).

Total public debt fell slightly as a share of GDP in 2017, from 24.1% in 2016 to 23.9%. Domestic public debt grew by 10.8% year on year in nominal values (6.5% in 2016), to represent 13.1% of GDP (12.6% in 2016), while external public debt grew by a modest 2.1% in nominal terms but fell as a proportion of GDP to 10.8% (as against 11.6% in 2016).

According to preliminary figures, total central government revenues grew by 3.5% in nominal terms to March, while total expenditures rose by 3.2% as a result of greater current spending (4.2%), with capital spending down by 2.7%. Also in March, outstanding domestic public debt stood at 75.006 billion quetzals (US$ 10.205 billion), a rise of 2.274 billion quetzals (US$ 309.4 million) on the figure of 31 December 2017, while outstanding external public debt was US$ 8.14 billion, down US$ 41.8 million on year-end 2017.

A new issue of treasury bonds totalling 13.749 billion quetzals was authorized for fiscal year 2018. Of this total, 10.846 billion quetzals was new issuance and 2.886 billion quetzals was reinvestment. As of 31 March, 18.4% of the authorized total had been sold.

(b) Monetary policy and exchange-rate policy

Monetary policy maintained its accommodative stance in 2017. The benchmark interest rate was left at 3.0% during the first 10 months of the year before being cut by 25 basis points in November. That decision was based on a comprehensive analysis of the external and domestic context in the Bank of

Guatemala inflation risks report, which concluded that both internal and external inflationary pressures were under control and that inflation expectations continued to be anchored, thus opening a temporary and limited window of opportunity for greater monetary easing.

The bank deposit interest rate remained at around 5.4% in nominal terms throughout the year (0.9% in real terms), slightly below the 2016 level (5.5%), whereas the lending interest rate remained unchanged in nominal terms (13%), albeit lower in real terms (8.3%). Bank lending to the private sector slowed once again, with year-on-year growth of 3.8% in 2017 compared with 5.9% in 2016.

The nominal exchange rate was 7.32 quetzals to the dollar at the end of December 2017, an appreciation of 2.2% in nominal terms and 4.8% in real terms over the same month in 2016. This was explained by an upward trend in foreign-exchange flows from family remittances, a drop in the value of imports, subdued growth in public spending (which has a large imported component) and a greater than expected rise in the value of exports, owing largely to an upward trend in their average price and, to a lesser extent, to a rise in volumes.

The level of net international monetary reserves continues to reflect the country’s solid external position. At the end of December, reserves totalled US$ 11.77 billion (15.4% of GDP), a year-on-year rise of 28.5% and the equivalent of more than eight months’ imports.

In view of the exchange-rate appreciation already mentioned, in 2017 the Monetary Board decided that: (i) the maximum number of additional currency buying or selling auctions would increase from four to five, worth US$ 8 million each; (ii) the intervention schedule would be modified with effect from February 2017 so that the mechanism could respond faster to the increase in volatility observed since mid-January; and (iii) beginning in August, the central bank would convene market participants to an auction to buy or sell United States dollars when all intervention criteria, whether for buying or selling, were met on the same day.

As of the first quarter of 2018, the exchange rate against the dollar (7.35 quetzals) showed a year-on-year appreciation of 0.8% in nominal terms (2.8% in real terms). Net international reserves stood at about US$ 11.8 billion at the end of April 2018, up by US$ 76.4 million on December 2017. This increase mainly reflects the Bank of Guatemala’s intervention in the foreign-exchange market in the form of purchases worth US$ 267.5 million via the international reserves accumulation mechanism provided for by the country’s current foreign-exchange policy. Guatemala aims to accumulate a total of US$ 500 million through this mechanism in 2018.

Bank lending to the private sector was up 4.4% year on year in nominal terms as of March 2018, driven by an increase in foreign currency loans (8.0%), as lending in quetzals grew by only 2.5%.

(c) Other policies

The customs union between Guatemala and Honduras came into force in 2017, with negotiations on full membership for El Salvador expected to be completed in June this year.

As regards trade facilitation, one development that will take place soon is that Central America will have a single declaration form for all trade procedures: the Single Central American Declaration (DUCA). Work is also being done on advance transmission of cargo transport documentation, one-stop implementation of outward migration controls and the establishment of an electronic system for issuing and sending certificates.

3. The main variables

(a) The external sector

After two consecutive years of negative growth rates, in 2017 the value of goods exports rose by 5.1% and that of imports by 8.2%. The greater value of exports was the result of increases for iron and steel, cardamom, fresh, dried or frozen fruits, bananas, pulses and vegetables, and petroleum. The rise in the value of imports can be put down to increases for intermediate goods (especially oil and fuels) and capital goods (especially in transport), which recorded the strongest growth (11.2% and 10.8%, respectively).

Exports grew by 3.9% in volume terms, while their average price rose by 1.1%. Traditional exports were up 14.4% by value and non-traditional exports 2.2%. As regards imports, the volume of goods purchased abroad rose by 1.8% year on year in 2017 and their average price by 8.2%.

The main export markets in 2017 were the United States (33.9% of total exports), Central America (28.9%), the eurozone (8.0%) and Mexico (4.6%).

Foreign direct investment (FDI) totalled around US$ 1.1 billion in 2017, down by 3.2% on the previous year. Almost half of FDI went to the commerce and manufacturing sectors (22.6% and 21.9%, respectively), while the electricity sector received 16.5% and the banking and insurance sector 12.8%. The main countries of origin for FDI were the United States (18.2% of the total), Mexico (17.8%) Colombia (14.0%), and Peru (7.1%).

As in 2016, the current account balance was in surplus in 2017, although this was smaller because of a larger trade deficit (8.9% of GDP), partially offset by higher foreign currency income from family remittances. Remittances were up by 14.4% in 2017, totalling US$ 8.192 billion (10.7% of GDP).

The value of goods exports fell by 2.0% in the first four-month period of 2018 owing to a drop in volume (-7.7%) and a rise in the average price (5.6%). Sugar, bananas, pharmaceuticals and other products recorded lower sales volumes in overseas markets. For their part, imports grew in value terms by 2.0%, mainly because of a rise in the average price (10%), since volume was down (-7.2%). Currency inflows from family remittances were a cumulative US$ 2.789 billion by the end of April 2018, up by 8.0% on the same period in 2017.

(b) Economic activity

The economic growth rate fell from 3.1% in 2016 to 2.8% in 2017. This resulted, on the expenditure side, from slower growth in domestic demand (2.8% compared with 3.4% in 2016), which was mainly attributable to the slowdown in private consumption (from 4.2% in 2016 to 3.6% in 2017). Consumption growth was positive, albeit slower, thanks to stronger household incomes (boosted by larger flows of family remittances), a higher minimum wage in the formal sector and a positive if moderate contribution from bank consumer lending. Meanwhile, domestic investment fell by 1.6%, while exports and imports grew in real terms by 2.1% and 2.3%, respectively.

On the supply side, most economic activities recorded positive growth rates, the exception being the mining and quarrying sector (down 22.1%), which was affected by the continuing conflict in the San Rafael mining operation. Agriculture grew 2.9% owing mainly to a revival of sugar cane production in the 2017-2018 harvest and to higher output of coffee, bananas, vegetables, fruits and African palm in response to healthy domestic and external demand for these and favourable weather conditions. The manufacturing sector grew by 2.1% on the back of a positive performance by food, beverages and tobacco and by the textile and clothing industry. For their part, basic services performed positively (4.5%) thanks to growth in intermediate and final demand for electricity and to the favourable performance of exports to the Central American region. Other services grew by 3.2%.

The trend-cycle series of the monthly index of economic activity (IMAE) recorded a 3.0% year-on-year rise as of February, down on the same month the previous year (3.6%). This result was influenced by growth in wholesale and retail commerce, in manufacturing industries and in private services.

(c) Prices, wages and employment

Supply-side shocks affected the prices of food and beverages in late 2017, especially vegetables, greens and root crops, as well as fruits. These shocks resulted from the agricultural harvest cycle, adverse weather conditions, higher external demand and greater transport costs.

According to the most recent information collected by the National Employment and Income Survey (May-June 2017), the total open unemployment rate stood at 2.3% (compared with 2.4% in November-December 2016). However, according to the National Employment and Income Survey itself, an estimated 69.7% of Guatemalans work in the informal sector. The overall participation rate of the economically active population, at 61.0%, was practically unchanged from the previous year. The total number of participants in the Guatemalan Social Security Institute (IGSS) was 1,313,017, 1% more than in 2016. However, the number of participants in the construction sector fell by 11.5% year on year.

The minimum daily wage for workers in the agricultural and non-agricultural sectors was 86.90 quetzals in 2017, a 2.6% rise in real terms over 2016. The daily wage in the maquila sector also rose by 2.6%, to 79.48 quetzals. From January 2018, the minimum daily wage in the agricultural and non-agricultural sectors increased to 90.10 quetzals (up 0.4% in real terms compared with 2017), while in the maquila sector it rose to 82.46 quetzals (up 0.3%).

Inflation was 3.9% as of April 2018, within the margin of tolerance of the inflation target set by the Monetary Board (4.0% +/-1 percentage point). The gradual drop in inflation is explained by the reversal of the supply shock experienced in late 2017.

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	0.5	2.9	4.2	3.0	3.7	4.2	4.1	3.1	2.8
Per capita gross domestic product	-1.7	0.6	1.9	0.8	1.5	2.1	2.1	1.1	0.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.8	-0.2	5.0	4.9	4.7	3.2	3.2	3.1	2.9
Mining and quarrying	3.3	3.5	18.4	-19.3	3.5	46.7	8.5	-10.3	-22.1
Manufacturing	-0.9	3.3	3.0	3.3	3.5	3.2	3.5	3.6	2.1
Electricity, gas and water	0.7	5.1	5.6	6.4	5.2	5.0	4.5	5.3	5.4
Construction	-10.8	-11.5	2.4	0.8	1.7	4.4	3.4	1.8	2.7
Wholesale and retail commerce, restaurants and hotels	-1.5	3.6	3.7	3.0	3.2	3.8	5.6	3.7	3.5
Transport, storage and communications	2.5	2.9	4.8	3.1	2.9	3.0	3.3	2.8	4.3
Financial institutions, insurance, real estate and business services	2.9	3.4	4.1	4.6	4.9	4.6	6.0	4.5	3.3
Community, social and personal services	6.9	6.8	4.4	4.4	4.8	2.6	2.6	2.2	2.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.1	3.9	3.7	3.4	3.9	4.1	5.1	3.4	3.3
Government consumption	14.3	7.8	4.1	5.8	5.6	5.9	-0.1	-2.5	1.5
Private consumption	-0.3	3.4	3.6	3.1	3.7	3.9	5.8	4.2	3.6
Gross capital formation	-17.9	7.3	16.2	2.0	-1.0	5.2	9.1	3.2	-0.9
Exports (goods and services)	-2.7	6.1	3.0	1.8	6.7	7.9	4.0	1.7	2.1
Imports (goods and services)	-7.8	10.0	7.0	2.8	4.3	7.0	9.3	3.5	2.3
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	13.1	13.9	15.2	15.0	14.0	13.7	13.6	12.9	12.1
National saving	13.8	12.6	11.9	12.4	11.5	11.6	13.5	14.4	13.6
External saving	-0.7	1.4	3.4	2.6	2.5	2.1	0.2	-1.5	-1.5
Balance of payments	**Millions of dollars**								
Current account balance	273	-563	-1 599	-1 310	-1 351	-1 230	-96	1 023	1 134
Goods balance	-3 348	-4 271	-4 963	-5 735	-6 176	-6 064	-5 557	-5 186	-5 992
Exports, f.o.b.	7 295	8 536	10 519	10 103	10 183	10 992	10 824	10 581	11 118
Imports, f.o.b.	10 643	12 807	15 482	15 838	16 359	17 056	16 381	15 767	17 110
Services trade balance	-43	-140	-278	-104	-224	-203	-340	-242	-437
Income balance	-962	-1 098	-1 491	-1 115	-1 064	-1 408	-1 399	-1 507	-1 419
Net current transfers	4 626	4 946	5 134	5 645	6 113	6 445	7 199	7 959	8 981
Capital and financial balance d/	200	1 240	1 805	1 809	2 053	1 302	572	368	1 432
Net foreign direct investment	574	782	1 009	1 205	1 262	1 282	1 104	1 068	967
Other capital movements	-374	458	796	603	792	20	-532	-699	465
Overall balance	473	677	206	499	702	73	475	1 392	2 566
Variation in reserve assets e/	-473	-677	-206	-499	-702	-73	-475	-1 392	-2 566
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	94.4	93.5	89.5	88.3	87.2	83.3	77.9	73.5	69.9
Terms of trade for goods (index: 2010=100)	100.5	100.0	99.1	93.7	91.8	92.3	88.7	93.5	91.8
Net resource transfer (millions of dollars)	-762	142	313	693	989	-105	-827	-1 139	13
Total gross external debt (millions of dollars)	11 248	12 026	14 021	15 339	17 826	20 031	20 885	21 651	23 178

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Employment	**Average annual rates**								
Open unemployment rate g/	...	4.8	3.1	4.0	3.8	4.0	3.2	3.4	3.4
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	-0.3	5.4	6.2	3.4	4.4	2.9	3.1	4.2	5.7
Variation in nominal exchange rate (annual average)	7.4	-1.0	-3.4	0.6	0.3	-1.6	-1.0	-0.7	-3.3
Variation in average real wage	0.1	2.8	0.4	4.0	-0.1	2.5	3.4	-2.0	-1.0
Nominal deposit rate h/	5.6	5.5	5.3	5.3	5.5	5.5	5.5	5.5	5.4
Nominal lending rate i/	13.8	13.3	13.4	13.5	13.6	13.8	13.2	13.1	13.1
Central government	**Percentajes of GDP**								
Total revenue	11.1	11.2	11.6	11.6	11.6	11.5	10.8	11.0	10.8
Tax revenue	10.6	10.8	11.2	11.2	11.3	11.2	10.5	10.8	10.5
Total expenditure	14.2	14.5	14.4	14.0	13.8	13.4	12.3	12.1	12.1
Current expenditure	10.1	10.4	10.5	10.7	10.8	10.5	10.1	10.0	9.9
Interest	1.4	1.5	1.5	1.5	1.6	1.4	1.4	1.5	1.4
Capital expenditure	4.1	4.1	4.0	3.3	3.0	2.9	2.2	2.1	2.2
Primary balance	-1.7	-1.8	-1.3	-0.9	-0.6	-0.4	-0.1	0.4	0.1
Overall balance	-3.1	-3.3	-2.8	-2.4	-2.1	-1.9	-1.5	-1.1	-1.3
Central government public debt	22.8	24.0	23.7	24.3	24.6	24.3	24.2	24.0	23.8
Domestic	9.9	11.0	12.1	11.9	11.6	12.7	12.6	12.6	13.1
External	12.9	13.0	11.5	12.4	12.9	11.6	11.6	11.4	10.7
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	32.9	32.8	33.9	35.9	37.0	38.6	39.6	38.9	36.6
To the public sector	12.2	12.7	13.2	7.4	8.0	8.8	8.4	7.6	7.1
To the private sector	25.3	23.8	23.7	31.7	32.6	33.0	34.4	34.3	33.3
Others	-4.6	-3.8	-2.9	-3.1	-3.6	-3.2	-3.2	-3.0	-3.9
Monetary base	10.3	10.2	10.1	10.4	10.2	10.3	10.6	11.3	11.9
Money (M1)	16.2	16.4	15.8	16.0	15.4	15.4	15.8	15.6	16.2
M2	33.5	34.1	33.4	34.6	35.0	35.4	36.5	36.7	37.7
Foreign-currency deposits	12.7	12.5	11.4	11.4	12.1	11.9	11.6	11.1	10.4

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

	2016				2017				2018	
	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/	3.0	3.6	2.6	3.2	3.2	2.2	2.7	2.9	...	...
Gross international reserves (millions of dollars)	7 684	8 358	8 932	9 076	9 252	10 168	11 190	11 612	11 521	11 892
Real effective exchange rate (index: 2005=100) c/	74.6	75.0	72.9	71.4	70.4	70.1	69.6	69.7	70.0	69.8
Consumer prices (12-month percentage variation)	4.3	4.4	4.6	4.2	4.0	4.4	4.4	5.7	4.1	3.8
Average nominal exchange rate (quetzales per dollar)	7.7	7.7	7.6	7.5	7.4	7.3	7.3	7.3	7.4	7.4
Nominal interest rates (average annualized percentages)										
Deposit rate d/	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.3	5.2
Lending rate e/	13.1	13.1	13.1	13.1	13.1	13.1	13.1	13.0	13.0	13.0
Interbank rate	3.3	3.5	3.6	3.0	3.0	3.5	3.9	4.0	3.8	3.6
Monetary policy rates	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.8	2.8	2.8
International bond issues (millions of dollars)	-	700	-	-	500	830	-	-	-	-
Domestic credit (variation from same quarter of preceding year)	10.4	6.7	3.3	4.0	4.0	2.8	1.4	0.4	0.6	1.5 f/
Non-performing loans as a percentage of total credit	1.5	1.6	2.0	2.1	2.2	2.4	2.5	2.4	2.4	2.4

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