Guatemala

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that economic activity in Guatemala will contract by 2.5% in 2020, after expanding by 3.8% in 2019. The causes of this decline are the confinement and mobility restriction measures implemented to deal with the COVID-19 pandemic, the drop in external demand and the negative impact of hurricanes Eta and Iota.

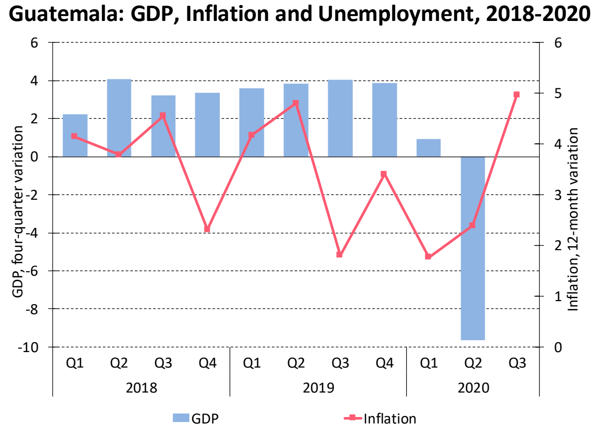
The country is expected to run a current account surplus of 4.4% of gross domestic product (GDP) (2.4% in 2019) in a context of moderate growth in family remittances and a decline in imports. The central government deficit will close the year at 5.3% of GDP (as compared with 2.2% in 2019), owing to the government's efforts to provide fiscal stimulus to businesses, the creation or expansion of social programmes for families and a large drop in tax revenue. Year-on-year inflation is expected to end the year at 4.8% (3.4% in 2019), owing to supply shocks that have driven up prices for food and non-alcoholic beverages. In August 2020, the number of contributors to the social security system was down by 5.2% year on year (as against 2.8% in 2019).

Among the main measures taken to deal with the pandemic were the promotion of physical distancing, restrictions on working hours in the manufacturing, commerce and tourism sectors, and limitations on mobility by land, air and sea. These measures have been gradually lifted.

In the first nine months of 2020, total central government revenues were 8.9% lower in real terms than in the same period of 2019, with very large declines in both tax revenues (-8.9% in real terms) and non-tax revenues (-8.3%). Among direct taxes, income tax receipts were 5.3% lower in real terms than in 2019. Among indirect taxes, value added tax receipts were 9.1% lower in real terms. Total central government expenditure rose by 12% year on year in real terms between January and September 2020, mainly because of higher current expenditure (14.4%), while capital expenditure increased by 2.3%. The increase in capital expenditure was due to the investments being made by the new government, while the expansion of current expenditure was due to the social programmes implemented following the decreeing of a state of public emergency, such as the Family Voucher Fund, the Employment Protection Fund and the Working Capital Credit Fund.

In September 2020, non-financial public sector debt was equivalent to 35% of GDP (30% at the end of 2019). External debt represented 13.6% of GDP, and domestic debt accounted for the remaining 21.4%. Debt servicing took up 19.6% of total central government revenue, 2.2 percentage points more than in 2019. In 2020, Guatemala took out seven loans totalling US$ 450 million (three of which have already been disbursed) with three international organizations: the World Bank, the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI). The International Monetary Fund (IMF) has already authorized a five-year budget support loan worth US$ 595 million, which is awaiting approval by the Guatemalan Congress. In addition,

Guatemala: GDP, Inflation and Unemployment, 2018-2020



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

government bonds have been placed on the international market. The main domestic source of financing has been the sale of treasury bonds issued by the Ministry of Public Finance, whose main creditor is the Bank of Guatemala. This relied on an exception to the law, the state of public emergency, which allows the Bank of Guatemala to finance the government.

Guatemala: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	3.2	3.8	-2.5
Per capita gross domestic product	1.2	1.9	-4.3
Consumer prices	2.3	3.4	5.0 [b]
Real average wage [c]	0.7	…	…
Money (M1)	8.1	11.6	18.5 [b]
Real effective exchange rate [d]	0.7	-1.2	-2.9 [b]
Terms of trade	-4.3	-1.2	5.1
	Annual average percentage		
Open urban unemployment rate	2.4	2.3	…
Central government			
Overall balance / GDP	-1.9	-2.3	…
Nominal deposit rate [e]	5.2	5.0	4.7 [b]
Nominal lending rate [f]	12.9	12.7	12.6 [b]
	Millions of dollars		
Exports of goods and services	13 351	13 582	6 400 [g]
Imports of goods and services	21 179	21 601	9 203 [g]
Current account balance	595	1 854	1 676 [g]
Capital and financial balance [h]	393	-56	173 [g]
Overall balance	988	1 798	1 849 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Average wage declared by workers covered by social security.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Weighted average of deposit rates.
f/ Weighted average of lending rates.
g/ Cumulative figures to the second quarter of 2020.
h/ Includes errors and omissions.

The Bank of Guatemala lowered the monetary policy rate on three occasions between January and October 2020. The first time, on 19 March, it cut it from 2.75% to 2.25%. The second time, on 25 March, the rate decreased by a further 25 basis points. The central bank has held the monetary policy rate at 1.75% since 24 June 2020. In the third quarter, the real lending rate in the financial system was 8.1% (as against 9.4% in 2019), while the deposit rate was 0.5% (as against 1.9% in 2019). Some additional measures to increase liquidity have included the opening of standing facilities for bond purchases and securities repurchases and a new rule for computing legal reserve requirements and supplying a larger amount of dollars than established in the rules of the institutional foreign-exchange market. The decrease in real lending rates, the additional measures and the disincentive to save represented by low deposit rates helped to keep lending fairly buoyant. As of September 2020, lending by the banking system to the private sector was up by an average of 4.9% year on year in real terms (7.3% in the same period in 2019).

The average nominal exchange rate as of November 2020 was 7.8 quetzals to the dollar, representing a nominal depreciation of 1.4%. In real terms, the exchange-rate index appreciated by 4.2%. Net international reserves totalled US$ 18.2494 billion as of 30 November 2020, 24.96% more than in the same month of 2019, and represented 11 months of imports.

The total value of goods exports fell by 0.1% year on year in the first 10 months of 2020, while the value of imports fell by 11.1%. The value of coffee, sugar and banana exports contracted by 0.6%, 14.7% and 2.4%, respectively, while the value of cardamom exports increased by 57.1%. Imports of consumer goods fell by 8% during the first eight months of the year and those of capital goods by 7.2%. Net foreign direct investment (FDI) flows to Guatemala totalled US$ 504.5 million in the first half of 2020. Although this figure represents an increase of 4.8% over the amount received in the same period of 2019, that was due to temporary loans made by parent companies to their affiliates in Guatemala, and FDI flows are expected to be 10% lower by the end of 2020 than in 2019. The terms of trade for goods rose by 4.8% in 2020 compared to 2019.

Quarterly GDP declined by 4.4% year on year in the first half of 2020. The agriculture, forestry and fisheries sector performed positively (3.3%), as did financial activities (3.1%), real estate and business activities (3.1%) and services provided by the public administration and defence (1.8%). In contrast, the worst performance was in accommodation and food service activities, the transport and storage sector and construction, which experienced declines of 25.4%, 16.7% and 10.8%, respectively.

On the demand side, the only component to show growth was government consumption (0.3%), while investment contracted by 11.3%. According to seasonally adjusted figures from the monthly index of economic activity (IMAE), economic activity contracted by an average of 9.6% year on year in the second quarter of 2020, followed by a contraction of 2.6% in the third quarter. In October 2020, the IMAE rose by 1.1% (year-on-year change from 2019).

In November 2020, year-on-year inflation stood at 5.46%, almost five tenths of a percentage point above the upper limit of the central bank's target range (between 3.0% and 5.0%). The categories of goods and services that showed the largest price increases that month were food and non-alcoholic beverages (1.18%), housing (0.43%) and restaurants (0.34%). Supply-side factors outweighed demand-side factors in price formation. In the second half of the year, heavy rains affected the harvesting and distribution of agricultural products.

In 2020, the nominal minimum wage increased by 3.02% for non-agricultural activities (92.88 quetzals per day, equivalent to US$ 12.06 per day at the official exchange rate) and by 2.93% for the export and maquila sectors (84.88 quetzals per day, equivalent to US$ 11.03 per day) relative to 2019, but was kept unchanged for agricultural activities for the second year running (90.16 quetzals per day, equivalent to US$ 11.71 per day). In real terms, the minimum wage rose by 0.65% for non-agricultural activities and by 0.57% for the export and maquila sectors, but fell by 2.3% for agricultural activities. The monthly minimum wage in 2020 ranged from 2,581.76 to 2,825.10 quetzals, equivalent to between US$ 335.34 and US$ 366.95.

For 2021, ECLAC estimates that GDP will increase by 3.5%, owing to the gradual recovery of economic activity, an active fiscal policy and expansion in the country's main trading partner, the United States, with the consequent effects on family remittances, trade and investment. The fiscal deficit is projected at 4.8% of GDP, while the current account balance is expected to be positive, at 3.9% of GDP. Inflation should close the year at around 3.5%, within the central bank's target range, in a context of low demand pressure.