

GUATEMALA

1. General trends

In 2015, Guatemala's GDP grew by 4.1% in real terms (a figure similar to the 4.2% recorded the previous year), driven by the increase in domestic demand, and especially the surge in private consumption. Year-on-year to December, inflation was 3.1% (compared to 2.9% at the end of 2014), near the floor of the target range (3%-5%) set by the central bank in January 2013. The central government's fiscal deficit was 1.4% of GDP, lower than that recorded in 2014 (1.9% of GDP). The current account deficit in the balance of payments showed a significant drop, falling to 0.3% of GDP compared to 2.1% of GDP for the previous year. According to data from the first round of the National Employment and Incomes Survey, the open unemployment rate in May 2015 was 2.4%, compared to 2.9% in May 2014.

The macroeconomic variables remained stable over the course of the year, notwithstanding the political and institutional crisis, which involved cases of corruption exposed by the Attorney General's Office and the United Nations International Commission against Impunity in Guatemala (CICIG) and which culminated in the dismissal of the Superintendent of Tax Administration and the resignation of the Vice President of the Republic in early May, followed by the resignation of the President of the Republic at the beginning of September. In late October 2015, Jimmy Morales, the candidate of the *Frente de Convergencia Nacional* party (FCN-Nación), was elected President of the Republic, and took office in January 2016 with a mandate of four years. Among the priority issues for the administration are education, health and economic development—in particular, stimulating construction and investment—as well as efforts to root out corruption and revive the tax collection system.

According to ECLAC projections, economic activity will expand by 3.5% in 2016. This slower growth will reflect lower public spending, but will continue to be driven by domestic demand, and in particular by private consumption. This figure is within the Bank of Guatemala's range of growth expectations for the year (between 3.1% and 3.9%). On the inflation front, for 2016 the Bank of Guatemala anticipates a rate close to the target, at around 4%. The fiscal deficit for this year is expected to rise slightly to 1.6% of GDP, below the 2% that the central bank authorities consider to be consistent with the stability of the public debt-to-GDP ratio. The current account deficit is forecast to rise to almost 1% of GDP. Labour market conditions should remain favourable in 2016, with an unemployment rate of around 2.5%.

2. Economic policy

In 2015, as in previous years, macroeconomic policy focused on maintaining economic stability, with an emphasis on meeting the inflation target.

(a) Fiscal policy

The fiscal policy stance in 2015 was contractionary, with cutbacks in public spending by the central government. The overall fiscal deficit of the central government was 1.4% of GDP, lower than that recorded in 2014 (1.9% of GDP), while the primary balance showed a slight surplus equal to 0.1% of GDP. In real terms, total revenues dropped by 1.1%, to an amount equal to 10.8% of GDP. Tax receipts fell by 1.1% to the equivalent of 10.2% of GDP (compared to 10.8% in 2014). This drop was associated

primarily with problems in the collection of customs duties. With its fiscal room limited by further deterioration in tax collection, the government has been obliged to keep a tight rein on public spending. Public expenditure in fact declined by 3.8% in real terms, due to a sharp drop in capital spending (22.2%), despite a real increase of 1.3% in current expenditure. That increase reflected in large part a rise of 7.4% in payroll costs, which account for more than 41.2% of current outlays.

Total public debt remained stable at around 24.3% of GDP during 2015. The domestic public debt grew by 6.9% year-on-year (3.8% in real terms) and represented 12.6% of GDP, while the external public debt stood at a level equivalent to 11.7% of GDP, for an increase of 6.4% (3.4% in real terms) over 2014.

The public finances started the fiscal year 2016 with a budget of 70.796 billion quetzals which, at the equivalent of 13.5% of GDP, was the smallest budget in the last 20 years. In April 2016, the annual budget was increased by 250 million quetzals in order to reflect the proceeds of external grants and to apply the Law on Extinction of Domain, which is intended to combat organized crime and to administer assets obtained with illicit funds. In May 2016, the cumulative revenues of the central government recorded a real year-on-year increase of 2.3%, while spending had contracted by 14.6%, primarily through the cutback in capital spending (down by 35.4% in real terms). The external debt declined slightly in the first four months of the year (-1.2%, compared to the balance at the end of the previous year), while the domestic debt rose by 3.7%.

(b) Monetary policy

Monetary policy during 2015 had an expansionary thrust. It represented essentially an adjustment to reflect the economic situation, characterized by a moderate recovery in global economic activity, low international prices for certain commodities such as oil, maize and wheat, and favourable trends in private consumption, family remittances and bank lending. The annual benchmark interest rate was cut on three occasions—in February, June and September—by a cumulative total of 100 basis points, bringing it to 3%.

Yet transmission to the rest of the financial system has been weak and the interest rate paid by banks on deposits remained around 5.5% throughout the year (in nominal terms), the same level as in 2014. The lending rate dropped slightly, from 13.8% on average in 2014 to an average of 13.2% in 2015. At the end of 2015, bank credit to the private sector showed year-on-year growth of 12.8%, compared to 8.8% in 2014. Lending was focused primarily on consumption, accounting for 34.2% of the total, followed by trade (23.8%) and services (16.5%). M1 rose by 11.1% year-on-year in 2015, while M2 showed a year-on-year increase of 10.5%.

During the first six months of 2016, the central bank's monetary board held the benchmark interest rate at 3%, unchanged from the close of the previous year. During the first quarter the bank deposit rate was unchanged from its level at the end of the previous year, at 5.5% (nominal). The bank lending rate remained stable in comparison with December 2015, at 13.2%. In general, the performance of the main monetary and credit aggregates was fairly consistent with economic growth forecasts and the inflation target. Bank lending to the private sector was up 8.1% on a year-over-year basis in May 2016, representing a slowdown in comparison with its performance at the end of 2015.

(c) Exchange-rate policy and other policies

The average nominal exchange rate was 7.64 quetzals to the dollar in 2015, implying an appreciation of 1.1% over the average for 2014 (a real appreciation of 3.4%). The level of net international reserves continued to reflect the country's sound external position: at the end of December those reserves stood at US\$ 7.751 billion (equal to nearly 5 months' import cover), up during the year by 5.7%.

Despite the recent bout of political instability, at the end of October 2015 Standard & Poor's confirmed its risk ratings of BB for foreign currency and BB+ for domestic currency, with a stable outlook, citing the sound performance of the Guatemala's macroeconomic indicators and its fiscal and monetary discipline.

At 30 June 2016 the nominal exchange rate showed a depreciation of 0.4% (a change equivalent in real terms to an appreciation of 1.9%). As of 28 June, the Bank of Guatemala's participation in the exchange market, consistent with the prevailing intervention rule, had generated foreign-exchange purchases of US\$ 487.8 million, an amount that rose swiftly during the second quarter of 2016. On 31 May 2016, international reserves stood at US\$ 8.549 billion, US\$ 798 million above their level in December 2015.

On the trade policy front, the government, in coordination with other Central American countries, launched negotiations for a free trade agreement with the Republic of Korea. In addition, in February 2015 Guatemala and Honduras signed an agreement to establish a customs union between the two countries, with a view to enhancing their competitiveness through free transit of merchandise and persons. That agreement came into force in May 2016.

3. The main variables

(a) The external sector

In 2015, the value of goods exports fell by 1.1% and that of imports by 3.5%, primarily as a result of falling prices for the products traded. In volume terms, exports grew by 9.5%, while the average price fell by 9.6% year-on-year. Traditional exports were down by 6.8% in value (mainly because of the drop in the international price of sugar, one of Guatemala's principal export products), while non-traditional exports were up by 0.8%. There was also a reduction in the volume of sugar exported, due to the delayed start of the 2015-2016 harvest as a result of scarce rainfall, which diminished yields. Among goods exports, the best performers were chemical products, lumber and clothing. The main export markets in 2015 were the United States (34.9% of total exports), Central America (29.0%), the eurozone (6.8%) and Mexico (4.0%).

Despite the sharp increase in the volume of imported goods (13.1%), average prices fell by 14.2% in 2015, a trend that was particularly pronounced in the case of fuels and lubricants (-38.7%). In value terms, intermediate goods showed the sharpest drop in 2015 (-11.5%).

The reduction in the current account deficit (which narrowed to 0.3% of GDP) was due primarily to shrinkage of the trade deficit in goods and services: that deficit stood at 9.2% of GDP, an improvement of 1.5 percentage points of GDP from its 2014 level. Family remittances were up by 13.4% in 2015, to US\$ 6.285 billion (equivalent to 10.6% of GDP). That performance is explained in part by an upswing in

the labour market and a reduction in unemployment among Hispanics on the back of an economic upturn in the United States.

Inflows of foreign direct investment (FDI) were down by 13% year-on-year in 2015, at US\$ 1.209 billion (equivalent to 1.9% of GDP). The electricity sector received 31.2% of investment, the manufacturing industry 15.7%, commerce 11.7%, agriculture, oil and mines and quarries together 11.5%, and the banking sector 10.3%. The main countries of origin of FDI were the United States (28.8% of the total, concentrated in the electricity sector), Colombia (15.0%), Mexico (8.1%) and Canada (5.2%).

In the four months to April 2016, the value of exports fell by 2.9% year-on-year. Exports showed a decline in volume (-3.4%) while average prices remained constant. During this time, the value of imports dropped by 4.4%, reflecting primarily the decline in average prices (-13.3%), while their volume rose by 9.9% over the same period. The Bank of Guatemala estimates that export values will rise over the course of 2016 by between 1% and 4%, and the value of imports will increase by between 2% and 5%. Inflows of foreign currency in the form of family remittances have been rising, and on a cumulative basis to May 2016, reached US\$ 2.898 billion, an increase of 19.8% from the amount recorded in the same period of 2015.

(b) Economic activity

Real GDP growth stood at 4.1% in 2015, down slightly from the 4.2% recorded in 2014. Real GDP growth exceeded potential GDP (which stands at 3.5%, as estimated by the Bank of Guatemala), thanks to the positive performance of domestic demand. This increase raised per capita output by 1.7%. In the first quarter of 2015, GDP grew at a year-on-year rate of 5.0%. After slowing to 3.5% year-on-year in the second quarter, it then posted growth rates of 4.0% and 4.1%, respectively, in the last two quarters. This faster growth was due to a sharp increase in private consumption, fed by real wage increases and increased bank lending to the private sector, together with an expansion in investment. Net exports, meanwhile, made a negative contribution to overall GDP growth.

With respect to the origin of output, all the major economic sectors showed positive growth during 2015. Performance was particularly strong in the sector of financial intermediation, insurance and auxiliary activities (which rose at a year-on-year rate of 10.6%). Agriculture, livestock, hunting, forestry and fisheries were up by 4.0%, thanks to better yields for traditional products, especially bananas and coffee (in the wake of the damage wrought in previous years by the coffee rust fungus). Trade was up by 3.9%, driven by demand for household articles and appliances, food, beverages and tobacco, and automotive vehicles. The manufacturing industries grew by 3.5%, led by the food and beverages, textiles and clothing, and machinery and equipment sectors.

As measured by the monthly index of economic activity (IMAE) trend-cycle series, economic activity during the first four months of 2016 showed year-on-year growth of 2.7%, lower than that recorded in the prior-year period (4.4%). The sectors that contributed most to this growth were manufacturing, trade, financial intermediation, insurance and auxiliary activities, and transportation, storage and communications.

(c) Prices, wages and employment

At the end of December 2015, the year-on-year increase in consumer prices was 3.1% (up from 2.9% in 2014). This trend was explained primarily by a combination of higher prices for food and non-alcoholic beverages, recreation and culture, and restaurants and hotels, which were partially offset by

lower prices for housing, water, electricity, gas and other fuels, and transport. October 2015 saw a reversal of the downward trend in the year-on-year growth rate in prices that had prevailed in the first three quarters of the year, and prices began to rise noticeably, due in part to the gradual fading of the impact of lower prices for energy products and, in part, to the supply shock felt in certain agricultural products (especially tomatoes and other fruits and vegetables) under the influence of the El Niño climatic phenomenon.

According to information gathered in the first round of the National Employment and Incomes Survey, the total open unemployment rate dropped slightly to 2.4% (compared to 2.9% in May 2014). The female unemployment rate was higher (at 3.1%) than that for men (2.1%). The overall participation rate of the economically active population stood at 60.4%, below the 61.7% observed in May 2014. By sex, the participation rate for men (84.6%) was more than double that for women. According to the Guatemalan Institute of Social Security (IGSS), enrolled members in formal jobs numbered 1,267,429 in 2015, 2.4% more than in 2014. This increase occurred primarily in the manufacturing and mining sectors (up by 2.3%), commerce (4.1%), other services including transport, storage and communications (2.3%) and agriculture (0.3%). The number of members employed in the construction sector dropped on a year-on-year basis (-7.1%).

Pursuant to Decree No. 303-2015, a new minimum daily wage of 81.87 quetzals came into effect in January 2016 for the agricultural and non-agricultural sectors, representing an increase of 4% over 2015. Over that same period, the daily wage in the maquila sector also rose, by 3.5%, to 74.89 quetzals.

Year-on-year to May 2016, the inflation rate was 4.4% (compared to 2.6% in the same month of the previous year), above the target set by the Bank of Guatemala. This increase was occasioned primarily by the higher cost of food and non-alcoholic beverages, which showed a year-on-year increase of 10.0%. The growth in core inflation in May was 1.5%, thus maintaining the downward trend that began in the second half of 2015.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	6.3	3.3	0.5	2.9	4.2	3.0	3.7	4.2	4.1
Per capita gross domestic product	3.9	1.0	-1.6	0.7	2.0	0.8	1.6	2.1	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.9	0.9	3.8	-0.2	5.0	4.9	4.7	3.2	3.3
Mining and quarrying	13.9	-4.3	3.3	3.5	18.4	-19.3	3.5	46.7	8.4
Manufacturing	3.0	2.0	-0.9	3.3	3.0	3.3	3.5	3.2	3.5
Electricity, gas and water	6.3	1.6	0.7	5.1	5.6	6.4	5.2	5.0	4.5
Construction	8.8	-0.5	-10.8	-11.5	2.4	0.8	1.7	4.4	3.4
Wholesale and retail commerce, restaurants and hotels	4.1	2.6	-1.5	3.6	3.7	3.0	3.2	3.8	5.6
Transport, storage and communications	22.8	14.6	2.5	2.9	4.8	3.1	2.9	3.0	3.3
Financial institutions, insurance, real estate and business services	6.6	5.7	2.9	3.4	4.1	4.6	4.9	4.6	6.0
Community, social and personal services	4.8	5.2	6.9	6.8	4.4	4.4	4.8	2.6	2.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.6	5.0	1.1	3.9	3.7	3.4	3.9	4.1	5.1
Government consumption	8.3	11.3	14.3	7.8	4.1	5.8	5.6	5.9	-0.1
Private consumption	5.4	4.3	-0.3	3.4	3.6	3.1	3.7	3.9	5.8
Gross capital formation	7.8	-19.5	-17.9	7.3	16.2	2.0	-1.0	5.2	7.5
Exports (goods and services)	9.4	-0.2	-2.7	6.1	3.0	1.8	6.7	7.9	4.0
Imports (goods and services)	7.2	-5.7	-7.8	10.0	7.0	2.8	4.3	7.0	8.9
	Percentajes of GDP								
Investment and saving c/									
Gross capital formation	20.8	16.4	13.1	13.9	15.2	15.0	14.0	13.7	13.4
National saving	15.6	12.8	13.8	12.6	11.9	12.4	11.5	11.6	13.1
External saving	5.2	3.6	-0.7	1.4	3.4	2.6	2.5	2.1	0.3
	Millions of dollars								
Balance of payments									
Current account balance	-1,786	-1,414	273	-563	-1,599	-1,310	-1,351	-1,230	-203
Goods balance	-5,487	-5,575	-3,348	-4,271	-4,963	-5,735	-6,176	-6,064	-5,549
Exports, f.o.b.	6,983	7,847	7,295	8,536	10,519	10,103	10,183	10,992	10,831
Imports, f.o.b.	12,470	13,421	10,643	12,806	15,482	15,838	16,359	17,056	16,380
Services trade balance	-310	-10	97	-27	-119	78	-81	-203	-310
Income balance	-843	-938	-1,102	-1,211	-1,650	-1,298	-1,207	-1,408	-1,423
Net current transfers	4,854	5,108	4,626	4,946	5,134	5,645	6,113	6,445	7,079
Capital and financial balance d/	2,002	1,747	200	1,240	1,805	1,808	2,053	1,302	678
Net foreign direct investment	720	737	574	782	1,009	1,205	1,262	1,282	1,116
Other capital movements	1,282	1,009	-374	458	796	603	792	20	-438
Overall balance	216	333	473	677	206	499	702	73	475
Variation in reserve assets e/	-216	-333	-473	-677	-206	-499	-702	-73	-475
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	96.4	91.2	94.4	93.5	89.5	88.3	87.2	83.8	77.9
Terms of trade for goods (index: 2010=100)	95.1	92.6	100.5	100.0	99.1	93.7	91.8	93.0	93.0
Net resource transfer (millions of dollars)	1,159	809	-902	29	154	511	846	-105	-745
Total gross external debt (millions of dollars)	10,909	11,163	11,248	12,026	14,021	15,339	17,307	19,530	20,300

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Employment	Average annual rates								
Open unemployment rate g/	4.8	3.1	4.0	3.8	4.0	2.8
Prices	Annual percentages								
Variation in consumer prices (December-December)	8.7	9.4	-0.3	5.4	6.2	3.4	4.4	2.9	3.1
Variation in nominal exchange rate (annual average)	0.9	-1.2	7.4	-1.0	-3.4	0.6	0.3	-1.6	-1.0
Variation in average real wage	-1.6	-2.6	0.1	2.8	0.4	4.0	-0.1	2.5	3.4
Nominal deposit rate h/	4.9	5.2	5.6	5.5	5.3	5.3	5.5	5.5	5.5
Nominal lending rate i/	12.8	13.4	13.8	13.3	13.4	13.5	13.6	13.8	13.2
Central government	Percentajes of GDP								
Total revenue	12.8	12.0	11.1	11.2	11.6	11.6	11.6	11.5	10.8
Tax revenue	12.1	11.3	10.3	10.4	10.9	10.8	11.0	10.8	10.2
Total expenditure	14.3	13.6	14.2	14.5	14.4	14.0	13.8	13.4	12.3
Current expenditure	9.5	9.2	10.1	10.4	10.5	10.7	10.8	10.5	10.1
Interest	1.5	1.4	1.4	1.5	1.5	1.5	1.6	1.4	1.6
Capital expenditure	4.8	4.5	4.1	4.1	4.0	3.3	3.0	2.9	2.2
Primary balance	0.0	-0.3	-1.7	-1.8	-1.3	-0.9	-0.6	-0.4	0.1
Overall balance	-1.4	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1	-1.9	-1.4
Central government public debt	21.4	19.9	22.8	24.0	23.7	24.3	24.6	24.3	24.4
Domestic	9.2	8.7	9.9	11.0	12.1	11.9	11.6	12.7	12.7
External	12.1	11.1	12.9	13.0	11.5	12.4	12.9	11.6	11.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	34.5	32.9	32.9	32.8	33.9	35.9	37.0	38.6	39.6
To the public sector	10.4	9.6	12.2	12.7	13.2	7.4	8.0	8.8	8.4
To the private sector	28.2	27.3	25.3	23.8	23.7	31.7	32.6	33.0	34.4
Others	-4.0	-4.0	-4.6	-3.8	-2.9	-3.1	-3.6	-3.2	-3.2
Monetary base	10.9	9.7	10.3	10.2	10.1	10.4	10.2	10.3	10.6
Money (M1)	17.2	16.1	16.2	16.4	15.8	16.0	15.4	15.4	15.8
M2	33.9	32.2	33.5	34.1	33.4	34.6	35.0	35.4	36.4
Foreign-currency deposits	11.1	11.0	12.7	12.5	11.4	11.4	12.1	11.9	11.6

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

	2014				2015				2016	
	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/	3.4	4.4	4.7	4.1	5.0	3.5	4.0	4.1	2.8	...
Gross international reserves (millions of dollars)	7,146	7,162	7,177	7,161	7,684	7,696	7,564	7,579	7,634	8,112 c/
Real effective exchange rate (index: 2005=100) d/	85.1	85.3	84.2	80.8	78.9	79.1	77.3	76.1	74.4	75.3 c/
Consumer prices (12-month percentage variation)	3.2	3.1	3.5	2.9	2.4	2.4	1.9	3.1	4.3	4.4 c/
Average nominal exchange rate (quetzales per dollar)	7.8	7.8	7.8	7.6	7.6	7.7	7.7	7.6	7.7	7.7
Nominal interest rates (average annualized percentages)										
Deposit rate e/	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5 c/
Lending rate f/	13.8	13.8	13.8	13.7	13.5	13.2	13.1	13.1	13.1	8.8 c/
Interbank rate	5.0	4.5	4.4	4.2	3.8	3.4	3.2	3.0	3.3	3.5
Monetary policy rates	4.9	4.7	4.5	4.3	3.7	3.4	3.2	3.0	3.0	3.0
International bond issues (millions of dollars)	800	300	-	-	-	-	-	-	-	700
Domestic credit (variation from same quarter of preceding year)	12.8	13.5	11.1	10.8	12.0	13.0	11.8	11.2	10.4	7.8 c/
Non-performing loans as a percentage of total credit	1.3	1.5	1.5	1.3	1.3	1.4	1.4	1.4	1.5	1.6 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.