

# GUATEMALA

## Key conditions and challenges

**Table 1** 2020

|   |        |
|---|--------|
| Population, million                                   | 16.9   |
| GDP, current US\$ billion                             | 77.7   |
| GDP per capita, current US\$                          | 4606.2 |
| International poverty rate (\$ 19) <sup>a</sup>       | 8.8    |
| Lower middle-income poverty rate (\$3.2) <sup>a</sup> | 24.4   |
| Upper middle-income poverty rate (\$5.5) <sup>a</sup> | 49.1   |
| Gini index <sup>a</sup>                               | 48.3   |
| School enrollment, primary (% gross) <sup>b</sup>     | 101.9  |
| Life expectancy at birth, years <sup>b</sup>          | 74.1   |

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2014), 2011 PPPs.

(b) Most recent WDI value (2018).

The COVID-19 pandemic interrupted a prolonged period of robust growth driven by domestic demand. However, resilience in remittances and exports, and fiscal stimulus packages helped alleviate the impact of the pandemic. A vaccine rollout in the second half of 2021 will support the recovery, which could be partially offset by an expected fiscal consolidation. Poverty is expected to decline incrementally amid a gradual scaling back of COVID-related social programs.

Guatemala has experienced a prolonged period of macroeconomic stability and robust growth, with real GDP growth averaging 3.5 percent a year between 2010 and 2019. The latest official poverty estimates correspond to 2014, but projections suggest that poverty levels continued declining through 2020. Prudent fiscal management and credible monetary policy propelled an expansion driven by private consumption and investment. However, very low revenue mobilization effort has contributed to weak investment in social programs leading to very low human capital development relative to the country's income level. Moreover, weak total factor productivity and reliance on factor accumulation has resulted in lower growth potential.

The COVID-19 pandemic and the resulting stringent containment measures had a significant economic impact and aggravated existing vulnerabilities. As the number of COVID-19 cases edged up in the initial months of 2021, the country faces potential sweeping lockdowns and more protracted travel restrictions, implying greater output losses. Developing a coherent vaccination plan will be key to securing a robust recovery. Moreover, too fast a pace of fiscal consolidation could slow growth over the medium term.

Political instability, fueled by protests over corruption, and a fragmented political landscape have constrained the implementation

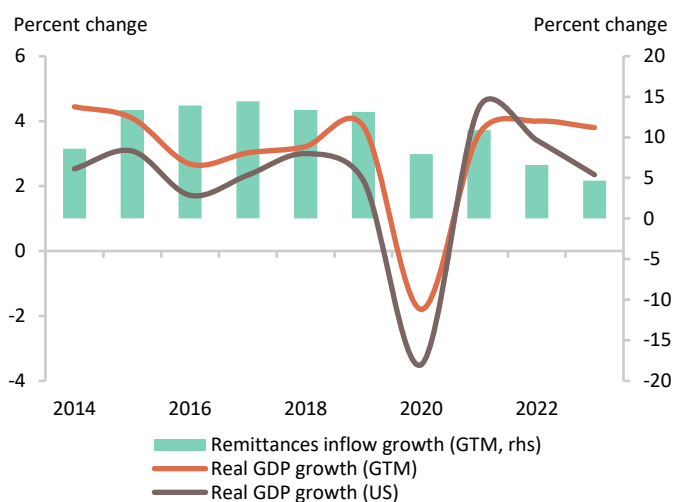
of urgently needed reforms in investment-friendly policies and social programs. Previous scandals and current elevated levels of corruption perception continue to strain the country's economic potential.

## Recent developments

The COVID-19 pandemic and subsequent containment measures had a negative impact on economic activity in 2020. The administration's swift response to the crisis, including suspension of non-essential activities, mass gatherings, and domestic travel, have resulted in an estimated real GDP contraction of 1.8 percent in 2020 (which is milder than previously projected due to a more robust recovery in the fourth quarter). The industry and service sectors were most impacted by the closures. On the demand side, investment, private consumption, and services exports were most affected. The current account balance further improved to an estimated surplus of 4.9 percent of GDP in 2020 as remittance inflows rebounded quickly from a temporary dip and the trade deficit shrank.

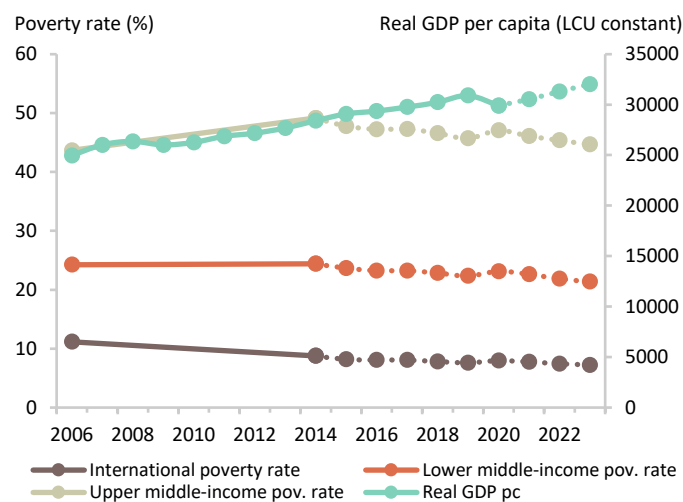
Congress passed three fiscal packages totaling around 3.4 percent of GDP in 2020. Increased social spending on cash transfers, school meals and food rations ameliorated the negative impacts of the economic crisis on vulnerable groups and hastened the recovery. Nevertheless, poverty rates are estimated to increase by 2 percentage points in 2020, representing about 350,000 more people living under the USD 5.5 PPP poverty line. Coupled with lower revenue

**FIGURE 1 Guatemala / Real GDP growth in Guatemala, U.S and remittances growth**



Sources: Banco de Guatemala, World Bank, Continuous Consensus Forecasts.

**FIGURE 2 Guatemala / Actual and projected poverty rates and real GDP per capita**



Source: World Bank. Notes: see Table 2.

collected amid weaker economic activity, the fiscal deficit increased to an estimated 4.9 percent of GDP in 2020. Consequently, debt levels have risen to an estimated 31.4 percent of GDP in 2020.

The Central Bank of Guatemala (CBG) responded promptly to ensure the stability of the quetzal and provided sufficient liquidity to the financial system. Uncertainty linked to the COVID-19 crisis caused excessive forex volatility prompting authorities to intervene in the market. To ensure greater liquidity availability, the CBG reduced the policy rate and allowed early redemption of time deposits, among other proactive policy measures. While inflation remained within the CBG's target of 4 +/- 1 percent at 3.2 percent in 2020, it picked up in 2020Q4 to 5.2 percent year-on-year, driven by food price increases.

## Outlook

Growth is expected to rebound in 2021 to 3.6 percent. However, the pace of the

rebound is restrained by heightened uncertainty over vaccine rollouts and rising COVID-19 cases. Private consumption and investment are expected to partially recover in 2021 and in earnest in 2022 as vaccinations become globally and domestically available. Manufacturing, construction, hotels and restaurants, financial services, and health are the sectors expected to contribute the most to the recovery. The economic fallout from Hurricanes Eta and Iota (losses estimated at 1.0 percent of GDP) will affect income and food security among smallholder farmers in rural Guatemala due to the impact on agricultural production. Nevertheless, despite the limited scale of new cash transfers to support families affected by the hurricanes, the proportion of poor households living below the international poverty line of US\$5.5/day (2011 PPP) is projected to fall from 47 percent in 2020 to 46 percent in 2021, driven by the expected recovery and rebound in services. Ongoing creation of a social registry will allow better targeting and quicker scaling of social assistance in the future.

Despite systematically low revenue mobilization, the fiscal deficit is projected to decline to 3.5 percent of GDP in 2021 as the unwinding of temporary COVID-related fiscal programs leads to lower overall public spending. Nonetheless, capital spending is expected to be higher in 2021 due to hurricane-related reconstruction. Concerns over the debt burden will prompt additional fiscal consolidation efforts, leading the debt-to-GDP ratio to ease to 32.0 percent of GDP in 2023.

Risks to the forecast are tilted toward the downside. Growth could be stalled with the worsening of the political environment, failure to renegotiate a higher fiscal ceiling in 2021, a slower vaccine rollout, and natural disasters. However, earlier resumption of global travel from faster vaccine rollouts in advanced economies can provide a boost to growth.

**TABLE 2 Guatemala / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

|   | 2018 | 2019 | 2020 e | 2021 f | 2022 f | 2023 f |
|---|------|------|--------|--------|--------|--------|
| <b>Real GDP growth, at constant market prices</b>                         | 3.2  | 3.8  | -1.8   | 3.6    | 4.0    | 3.8    |
| Private Consumption   | 3.5  | 4.3  | -2.5   | 5.5    | 4.5    | 4.2    |
| Government Consumption  | 6.1  | 3.5  | 4.3    | -1.0   | 0.8    | 1.6    |
| Gross Fixed Capital Investment  | 4.6  | 7.2  | -11.7  | 5.1    | 12.4   | 7.4    |
| Exports, Goods and Services   | -0.3 | -0.2 | -2.5   | 5.0    | 2.9    | 3.0    |
| Imports, Goods and Services   | 3.9  | 5.6  | -6.3   | 8.5    | 6.8    | 5.1    |
| <b>Real GDP growth, at constant factor prices</b>                         | 2.9  | 3.7  | -1.8   | 3.6    | 4.0    | 3.8    |
| Agriculture   | 2.4  | 2.3  | 2.5    | 2.1    | 2.5    | 2.7    |
| Industry  | 1.6  | 3.8  | -0.9   | 3.3    | 2.9    | 3.2    |
| Services  | 3.4  | 3.9  | -2.8   | 4.0    | 4.6    | 4.2    |
| <b>Inflation (Consumer Price Index)</b>                                   | 3.8  | 3.7  | 3.2    | 4.1    | 3.5    | 3.7    |
| <b>Current Account Balance (% of GDP)</b>                                 | 0.8  | 2.4  | 4.9    | 3.2    | 1.9    | 0.4    |
| <b>Fiscal Balance (% of GDP)</b>  | -1.9 | -2.3 | -4.9   | -3.5   | -2.1   | -1.6   |
| <b>Debt (% of GDP)</b>  | 26.2 | 26.6 | 31.4   | 32.9   | 32.6   | 32.0   |
| <b>Primary Balance (% of GDP)</b>   | -0.4 | -0.6 | -3.1   | -1.6   | -0.1   | 0.2    |
| <b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>       | 7.8  | 7.6  | 8.0    | 7.8    | 7.4    | 7.2    |
| <b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b> | 22.9 | 22.3 | 23.1   | 22.6   | 21.9   | 21.4   |
| <b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b> | 46.6 | 45.7 | 47.0   | 46.1   | 45.4   | 44.7   |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.  
Notes: e = estimate, f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2014-ENCOVI actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2014) with pass-through = 0.7 based on GDP per capita in constant LCU.