

Guatemala

Central America's largest economy

5 July 2023

We've been chatting Guatemala recently – here's a quick twelve bullet point overview:

1. Guatemala's 18mn population and \$94bn GDP economy are the largest in Central America. The capital, Guatemala City, hosts Central America's most populous urban agglomeration, with 3mn people. The country borders Mexico, Belize, Honduras and El Salvador and opens to the Atlantic (via the Caribbean) and Pacific Oceans. Guatemala has over 30 volcanos, 3 of which are active. The highest, Volcan Tajumulco, rises 4,220m above sea level
2. Mayan civilisation (2600BC – 1697AD) long pre-dates the arrival of the Spanish (in 1524) and independence (in 1821). Following a CIA-sponsored coup in 1954, Guatemala suffered Latin America's longest civil war from 1960 until 1996, which resulted in around 200,000 civilian deaths.
3. Spanish is the native language of 55% of Guatemalans; an additional 22 Mayan and two indigenous languages are spoken across the country—44% of the population self-identify as Indigenous Mayan.
4. Instant coffee and chocolate bars are two of Guatemala's most famous inventions – as is the McDonald's Happy Meal. The inventor of reCAPTCHA is Guatemalan. Che Guevara was radicalised and earned the nickname 'Che' in Guatemala. The annual *Skach Koyl* festival in the town of Todos Santos features a drunken horse race (the rider, not the horse).
5. Guatemala's currency, the quetzal, is named after the national bird, the *resplendent quetzal*, whose tail feathers were once used as currency. Despite having strengthened by 49% in REER terms since 2010 (20% since 2015), one of the IMF's models suggests a slight REER undervaluation of the quetzal (c13%).
6. GDP per capita was \$5,560 in 2022, and the economy grew by 4.1% (slowing from 2021's 8% post-COVID rebound). The IMF expects a further modest slowdown to 3.4% this year, back in line with the (astonishingly consistent) 3.5% annual average growth rate of the past 10, 20 and 30 years. Unsurprisingly, the IMF estimates potential growth at 3.5%, with growth constrained by poor infrastructure, low human development indicators and weak governance scores.

7. Despite Guatemala's upper-middle income categorisation by the World Bank, inequality is high. 47% of the population is rural, and the poverty rate was estimated at 55% in 2022, with 46.5% of infants under five years suffering from malnutrition, according to UNICEF. 83% of the population is literate (above the 70-80% threshold typically needed for industrialisation); the median age is just 23; and the total fertility rate has fallen to just 2.3 children per woman from 6 in 1983.
8. 14x richer per capita than Guatemala, the US is an irresistible draw for many. 2.7mn Guatemalans are estimated to live outside the country, mainly in the US, and more than 230,000 were found illegally crossing the US border in both 2021 and 2022. There are some reports of domestic labour shortages in agriculture and construction. Migration is effectively Guatemala's largest export earner: remittances reached 19.0% of GDP in 2022, exceeding total goods exports (15.0% of GDP), more than covering its trade deficit (14.9% of GDP), and allowing the country to run a current account surplus since 2016. Major exports are bananas, coffee, clothes, palm oil, cardamoms, and raw sugar; major imports are fuel, chemicals, and machinery; and the largest trading partner is the US (one-third of exports and imports).
9. Government debt is low, with central government debt at just 29% of GDP (43% is in foreign currency; most external debt is with multilateral institutions). Credit to the private sector is also relatively low at 40% of GDP, and the banks are conservatively funded, with a system average loans-to-deposits ratio of 72%. However, financial inclusion is low, with only 37% of the population having access to a bank or mobile money account (well below the 55% of sub-Saharan Africa).
10. Meagre tax collection of just 13% of GDP (though improving recently) constrains the government's debt capacity and ability to fund public infrastructure investments (at sub-1% of GDP, 18th out of 21 countries in Latin America). Broadening the tax base to incorporate the 71% of the active population working in the informal sector would be a good start. Credit ratings are Fitch BB (2023), Moody's Ba1 (2010) and S&P BB (2023), with both S&P and Fitch having upgraded this year.
11. Electricity – 92% of the population has access to electricity (99% urban, 85% rural); consumption in 2020 was 656kWh per capita (within the range that typically allows manufacturing to take off). 70% of electricity capacity is renewables-based (hydro, biomass, wind, solar and geothermal).
12. At the request of several leading candidates who had been disqualified from the ballot paper, nearly a quarter of votes cast in the 25 June Presidential election were blank or spoiled – more than were cast for the leading candidate, former first lady Sandra Torres of the centre-left Unidad Nacional de la Esperanza (UNE) who won just 16% of the vote. Anti-corruption candidate, Bernardo Arévalo of the centre-left Semilla party, came a surprise second with 12% of the vote. Both should go through to the second round on 20 August (the current president, conservative Alejandro Giammattei, must stand down under Guatemala's single-term limit). However, this now depends on the decision of

Guatemala's Constitutional Court, which has suspended the first round results, pending a five-day review, following a request from ten political parties. Arévalo has said he fears attempts to block him from the presidency. A shift to the centre-left from the current centre-right government suggests more social spending and a modestly wider fiscal deficit. However, a fragmented Congress, weak institutions – the attorney general, María Consuelo Porras, is subject to US and EU sanctions – and vested interests suggest that challenges in delivering the much-needed developmental agenda will remain.

Conclusion

Guatemala remains a 3.5% growth story without significant imbalances (assuming remittances continue). But for growth to break out on the upside, a significant step up in infrastructure and investment will be needed, funded by improved government tax collection with stronger institutions to support investment and FDI. On the positive side, Guatemala still has growth upsides from urbanisation and nearshoring trends, and a long track record of conservative fiscal policy and central bank independence reduces macro risk. The second round of the Presidential election will be a litmus test for the anti-corruption agenda, but a victory for anti-corruption candidate, Bernardo Arévalo, would still face the challenges of a fragmented Congress and tackling the so-called “corrupt pact” of vested interests between political, judicial and business sectors.

Table 1. Guatemala: Selected Economic and Financial Indicators

		2020	2021	2022E	2023F	2024F	2025F
GDP growth	(% yoy)	-1.8	8.0	4.1	3.4	3.5	3.6
GDP	(\$bn)	77.7	86.0	95.0	103.8	112.6	121.2
GDP per capita	(\$)	4,323	4,689	5,077	5,436	5,780	6,097
CPI (avg)	(% yoy)	3.2	4.3	6.9	7.5	5.5	4.3
CPI (eop)	(% yoy)	4.8	3.1	9.2	6.4	7.5	5.5
Budget balance	(% of GDP)	-4.9	-1.2	-1.7	-1.7	-1.8	-1.9
Central government revenue	(% of GDP)	10.7	12.3	12.7	12.2	12.1	12.0
Central government debt	(% of GDP)	31.5	30.8	29.2	28.2	27.8	27.7
Current account	(% of GDP)	5.0	2.2	1.4	1.5	1.3	1.2
Trade balance (goods)	(% of GDP)	-8.1	-12.7	-14.9	-13.9	-13.5	-13.0
Remittances	(% of GDP)	14.6	17.8	19.0	18.2	17.2	16.6
Credit to the private sector	(% yoy)	6.4	12.7	16.0	14.0	7.0	7.5
Gross domestic investment	(% of GDP)	13.5	16.9	16.7	16.1	15.5	15.2

Source: IMF

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