GUATEMALA

Table 1	2021
Population, million	17.2
GDP, current US$ billion	86.2
GDP per capita, current US$	5017.2
International poverty rate ($2.15)[a]	9.5
Lower middle-income poverty rate ($3.65)[a]	25.9
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	74.5
Total GHG emissions (mtCO2e)	41.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ Most recent WDI value (2020).

While GDP is above pre-pandemic levels, poverty and food insecurity levels have not fully recovered, threatening inclusive and sustainable growth. While employment is near full recovery, the quality has deteriorated. Guatemala needs to reduce inflation, contain COVID-19, and increase tax revenues. Risks are on the downside: higher inflation and interest rates, which can result in social discontent, slowdown in trade partners' growth, especially the US, and the intensification of climate-related natural hazards.

Key conditions and challenges

Output recovered from the COVID-19 crisis: GDP in 2021 was 5 percent above the 2019 level; and remittances grew 7 percent in 2020 and 35 percent in 2021, reaching 17.7 of GDP, fueling private consumption. The country also recorded current account surpluses and accumulated international reserves.

There are several challenges ahead for Guatemala: reducing inflation, containing COVID-19, and increasing tax revenues, while dealing with high levels of poverty and inequality, low levels of human capital, socio-economic exclusion, and regional disparities.

The country did not escape the worldwide inflationary pressure, as local inflation is at its highest since 2008 driven by food and transportation prices. Although the number of COVID-19 deaths has not increased substantially, daily new cases were recently at an all-time high, as Guatemala has one of the lowest vaccination rates in LAC (only 49.8 percent of the population has a complete vaccination scheme, but in the capital city, coverage is near universal and around 70 percent had a booster shot).

The country is known for its conservative fiscal policy, low revenue, and expenditure levels. The debt-to-GDP ratio is around 30 percent. Revenues represent 12.4 percent of GDP, below the minimum needed for a functioning government (15 percent of GDP). Interest payments consume a lot of revenues and public expenditure needed to reach higher growth and shared prosperity is beyond its revenue capacity.

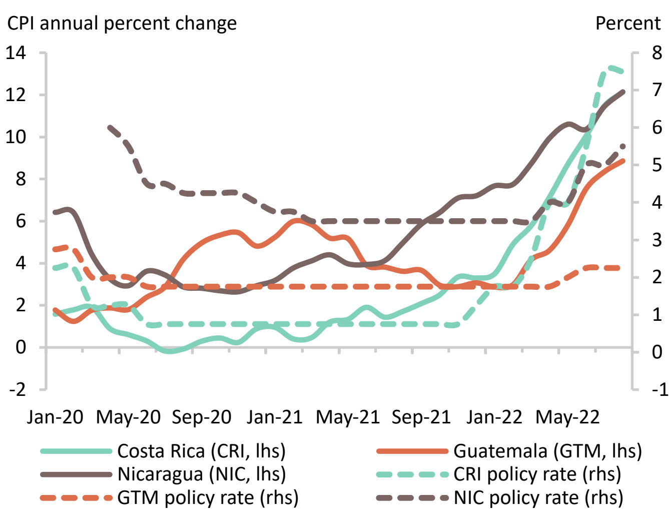
Despite steady economic growth, there has been limited progress in the reduction of poverty and inequality. In 2019, the poverty headcount rate reached 54 percent of the population (U$6.85 in 2017 PPP per day per person), close to the figure of 55.3 percent in 1998, making Guatemala the second poorest country in the region only behind Haiti. Employment growth has been concentrated in the informal sector, and real earnings have declined since 2010.

Recent developments

GDP grew 8 percent in 2021 driven by record-high remittances, low interest rates, and a favorable external environment, which fueled private consumption and investment. Remittances grew strongly in the first half of 2022, driving GDP growth to an estimated 4 percent, which will help to reduce poverty modestly, given that poor households are less likely to receive remittances.

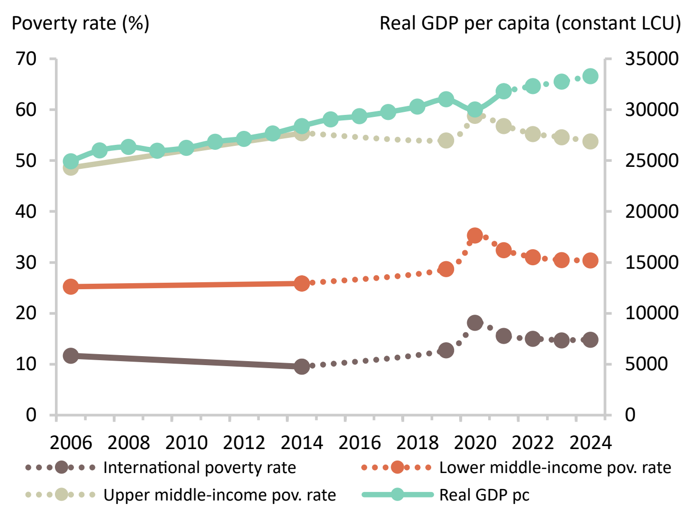
Higher commodity prices pushed inflation (12-month) to 8.9 percent in August, led by food (13.3 percent) and transportation (9.6 percent). Inflation would have been higher without the introduction of fuel subsidies. The central bank reacted by raising interest rates. However, real interest rates are still negative, and the central bank has been more moderate and slow-moving than its regional peers (Figure 1).

FIGURE 1 Guatemala / CPI and policy interest rates



Source: Banco Central de Nicaragua and Banco Central de Guatemala.

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



Source: World Bank. Notes: see Table 2.

Imports have outgrown exports since 2021, which together with higher commodity prices widened the trade deficit and narrowed the current account surplus. Nonetheless, the country accumulated US$2.8 billion in reserves (3.3 percent of GDP) in 2021.

The fiscal deficit narrowed to 1.2 percent of GDP in 2021 due to higher revenues and lower expenditures, as emergency spending, including transfers to households (Bono Familia), was scaled back. In the first half of 2022, tax revenues, especially VAT on imports, continue to grow above budget forecasts, which yield a central government primary surplus of 0.6 percent of GDP, despite spending 0.5 percent of GDP on fuel and energy subsidies.

It is estimated that in 2021 poverty remained above pre-pandemic levels, at approximately 56.8 percent (U$6.85 in 2017 PPP per day per person). By the end of 2021, while employment levels recovered, there was a deterioration in the quality of employment (more informality and less hours worked) compared to before the crisis (2021 LAC HFPS). The effects on food insecurity also lingered by the end of 2021 (5.6 pp above pre-pandemic levels), and the impact on school attendance are amongst the region's most severe (of about 28 pp between February 2020 and mid-2021).

Outlook

GDP is expected to grow 3.4 percent in 2022 underpinned by a large carryover from 2021 and high growth in remittances. However, the slowdown in the US economy, higher commodity prices, and interest rates will bring growth down to 3.1 in 2023, before rebounding to 3.5 percent in the medium term. Higher commodity prices are projected to drive inflation up in 2022 and slowly decline thereafter. Risks to the forecast are mostly on the downside. Higher inflation can reduce private consumption and require higher interest rates, which would reduce GDP growth.

The poverty rate (U$6.85 in 2017 PPP per day per person) is expected to decrease slightly to 55.3 in 2022, and 54.6 percent by 2023. High inflation will limit the purchasing power of households, curbing efforts to reduce poverty and inequality. A slowdown of remittances could slow down private consumption, further hindering poverty and inequality reduction.

Foreign exchange interventions to stabilize the exchange rate will continue and monetary policy will tighten to combat inflation. The current account will remain in surplus during the forecasting period, but surpluses will be smaller as remittance growth will dim and imports are growing due to higher prices and economic activity.

The budget deficit is expected to increase to 2.4 percent of GDP in 2022 as spending is expected to grow to 14.8 percent of GDP, due to an increase in social transfers, subsidies, and public investment. Revenues will remain high in 2022 benefiting from higher import revenues. The deficit will come down starting in 2023 due to lower expenditures, while revenues are expected to be flat at 12.2 percent of GDP, after the windfall gains on imports phase out. Debt is projected to decline as cash deposits are used in 2023 to cancel debt and the primary balance turns to surplus in 2024.

TABLE 2 Guatemala / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.0	-1.8	8.0	3.4	3.1	3.5
Private Consumption	4.7	-1.4	8.9	4.1	3.8	4.0
Government Consumption	2.7	1.5	5.0	3.5	1.7	-1.8
Gross Fixed Capital Investment	8.9	-6.2	20.8	4.0	2.8	5.8
Exports, Goods and Services	0.2	-7.7	11.7	6.3	3.0	3.3
Imports, Goods and Services	5.0	-5.7	22.1	6.7	4.0	3.9
Real GDP growth, at constant factor prices	3.8	-1.6	7.7	3.4	3.1	3.5
Agriculture	1.7	-0.2	3.5	2.3	2.4	2.4
Industry	3.9	-1.2	8.4	2.6	2.8	2.8
Services	4.0	-2.0	8.1	3.9	3.4	3.9
Inflation (Consumer Price Index)	3.7	3.2	4.3	6.5	5.5	4.5
Current Account Balance (% of GDP)	2.4	5.0	2.5	1.4	1.1	0.7
Fiscal Balance (% of GDP)	-2.2	-4.9	-1.2	-2.4	-2.2	-1.5
Debt (% of GDP)	26.5	31.6	30.8	30.7	30.2	29.8
Primary Balance (% of GDP)	-0.6	-3.2	0.6	-0.7	-0.4	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	12.8	18.1	15.5	15.0	14.7	14.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	28.7	35.3	32.4	31.0	30.5	30.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	54.0	58.8	56.8	55.3	54.6	53.8
GHG emissions growth (mtCO2e)	3.9	3.3	3.9	4.7	6.1	6.4
Energy related GHG emissions (% of total)	53.9	55.2	55.2	56.5	58.2	59.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.