

Today's strengths could become tomorrow's weaknesses

General Information



GDP	USD68.7633bn (World ranking 69, World Bank 2016)
Population	16.58mn (World ranking 67, World Bank 2016)
Form of state	Constitutional Democratic Republic
Head of government	Jimmy Morales (FCN, right-wing)
Next elections	2019, presidential and legislative



Strengths

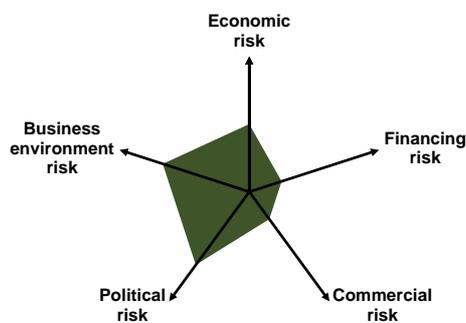
- Prudent macroeconomic policy framework
- Moderate debt ratios and adequate external balance
- Access to international financial support likely if needed
- Trade agreement with the U.S. (DR-CAFTA)
- Adequate business environment

Weaknesses

- High dependency on primary commodities and the U.S. (trade and remittances)
- Weak institutional framework, legacy of political instability
- Severe levels of crime and drug trafficking
- Low medium-term real GDP per capita growth and highly skewed income distribution

Country Rating

B1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	33% 1	37% United States
El Salvador	11% 2	11% Mexico
Honduras	8% 3	10% China
Nicaragua	6% 4	5% El Salvador
Costa Rica	5% 5	4% Panama

By product (% of total)

Exports	Rank	Imports
Vegetables and fruits	16% 1	10% Petroleum and petroleum products
Clothing and accessories	12% 2	7% Road vehicles
Sugar and honey	9% 3	5% Textile yarn and related products
Coffee, tea, cocoa, spices, and manufactures thereof	9% 4	5% Miscellaneous manufactured articles
Metalliferous ores and metal scrap	6% 5	4% Telecommunication and sound recording apparatus

Source: UNCTAD (2016)

Economic Overview

Robust performance ahead

Economic growth in Guatemala is likely to accelerate, from +3.0% in 2017 to +3.4% in 2018 and +3.8% in 2019. Strong performance of the US economy should support activity in Guatemala in two ways. First, export growth should accelerate. Second, and more importantly, robust consumer spending could be buoyed by remittances flows from the US, on the back of continued employment gains in the American labor market. Consumer spending accounts for about 85% of GDP in Guatemala. Inflation should remain stable (4.3% in 2017, 4.2% in 2018, 4.0% in 2019) as oil prices stay at moderate levels.

Guatemala's business climate is above regional average and ranks 88th globally according to the World Bank Doing Business survey. While getting credit, electricity and paying taxes is facilitated in the country, the regulatory quality and control of corruption scores lag behind. These weaknesses, along with low infrastructure quality, dampen the medium-term growth outlook. Yet, the policy framework in Guatemala is sound. (i) The central bank is likely to continue pursuing an accommodative monetary policy to support activity. (ii) The Central American Free Trade Agreement (CAFTA-DR) should grant better access to the US market and attract investment. (iii) Fiscal policy is prudent. The fiscal deficit is expected to remain stable below -2%.

External vulnerabilities on pause for now

The high dependence on the US economy is an inherent risk to Guatemala, from both the exports and the consumer spending point of view. In addition, natural disasters and extreme weather conditions pose a threat to infrastructure and harvests. As commodity exports account for half of total Guatemalan exports, commodity prices also greatly drive export revenues. The dollarization of the economy poses risks to monetary sovereignty. It is the flip side of the increase in remittances flows which have allowed net foreign currency flows to turn positive again. Foreign reserves cover more than 6 months of imports and both public and external debt-to-GDP ratios are moderate and projected to stay under control. The current account balance turned back to a deficit in 2017 after posting a surplus in 2016 (1% of GDP). It is projected to stay manageable thanks to remittance flows and foreign direct investment.

The economy stayed dynamic in 2015 amid a political crisis. Yet recent corruption allegations against president Morales could deteriorate further the social climate and institutional stability at the expense of economic outcomes.

Key economic forecasts

	2016	2017	2018f	2019f
GDP growth (% change)	3.1	3.0	3.4	3.8
Inflation (% , yearly average)	4.4	4.3	4.2	4.0
Fiscal balance (% of GDP)	-1.1	-1.5	-1.8	-1.8
Public debt (% of GDP)	24.5	24.6	25.0	25.1
Current account (% of GDP)	1.0	-0.5	-0.7	-1.8
External debt (% of GDP)	29.9	28.0	26.3	24.3

Sources: National statistics, IMF-WEO, Euler Hermes

Annual GDP Growth (%)



Sources: National statistics, IMF-WEO, Euler Hermes

Net foreign currency flows (4Q, in USD bn)



Sources: National statistics, Euler Hermes

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