

Fiscal and institutional challenges for the new government

General Information



GDP	USD63.794bn (World ranking 68, World Bank 2015)
Population	16.34mn (World ranking 66, World Bank 2015)
Form of state	Presidential Republic
Head of government	Jimmy Morales
Next elections	2019, presidential and legislative



Strengths

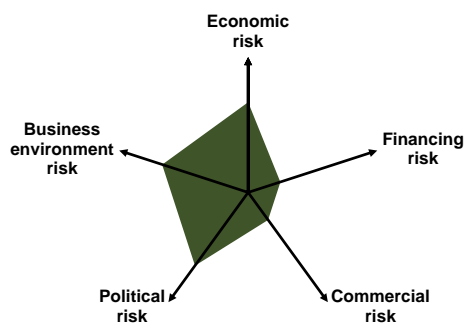
- Prudent macroeconomic policy framework
- Moderate debt ratios and adequate external balance
- Access to international financial support likely if needed
- Trade agreement with the U.S. (DR-CAFTA)
- Adequate business environment

Weaknesses

- High dependency on primary commodities and the U.S. (trade and remittances) although exports are diversified
- 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	35%	1	37%	United States
El Salvador	12%	2	12%	Mexico
Honduras	8%	3	11%	China
Nicaragua	5%	4	5%	El Salvador
Mexico	4%	5	3%	Panama

By product (% of total)

Exports		Rank	Imports	
Fruit	10%	1	14%	Mineral fuels
Clothing	10%	2	9%	Industrial machinery
Sugar	9%	3	8%	Electrical machinery
Coffee and tea	9%	4	7%	Vehicles
Ores	7%	5	6%	Plastics

Sources: Comtrade, Euler Hermes



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Economic Overview

Growth to remain strong

Real GDP growth is expected to recover to the long-term average, with a +3.5% rise in 2016 and +3.8% in 2017. Private consumption which accounts for 84% of GDP will remain the main engine of growth, supported by low inflation and accommodative monetary policy. Consumer prices are expected to remain within the inflation range of 4% +/-1pp in the foreseeable future, while credit should continue to expand. The U.S.'s recovery drove exports, remittances, tourism, and FDI inflows. Guatemala will continue to benefit if oil prices remain low.

Fiscal and institutional fragilities

Public finances are vulnerable despite low levels of fiscal deficit and public debt. Narrow fiscal revenues (less than 12% of GDP) raise doubts about the sustainability of public finances, as public spending is fairly inflexible. Current expenses account for more than 75% of total spending, of which 45% are for functional expenses, 10% for payment of debt service and 20% for subsidies and other transfers.

The external position is broadly sound although vulnerable to external shocks given strong dependency on agricultural exports (notably sugar and coffee) and linkages to the U.S. (through exports, remittances and investment). The current account deficit is moderate (expected to score -0.7% of GDP in 2016) as the wide trade deficit is mostly offset by remittances. The external deficit is largely financed by public borrowing and FDI inflows. These are foreseen to remain strong in coming years due to ongoing investment projects in agriculture, mining and the banking sectors. FX reserves are comfortable (above 5 months of import cover), allowing the monetary authorities to defend the managed float of the exchange rate against the USD (within a range of 7.8GTQ/USD +/- 0.3). The external debt is moderate (below 30% of GDP).

Adequate business environment

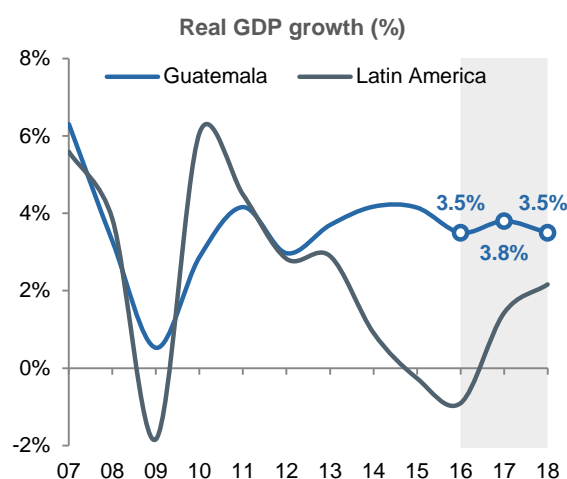
According to the World Bank's Ease of Doing Business 2016 survey, Guatemala ranks 88 out of 190 countries, above the average of the main Latin American economies. The country performs particularly well in getting credit and getting electricity. However, important shortcomings remain with regard to protecting minority investors, enforcing contracts and resolving insolvencies, reflecting weak regulatory quality and the complexity of the rule of law. Lack of physical investment, low human capital and worrisome security issues hamper investor confidence.

Key economic forecasts

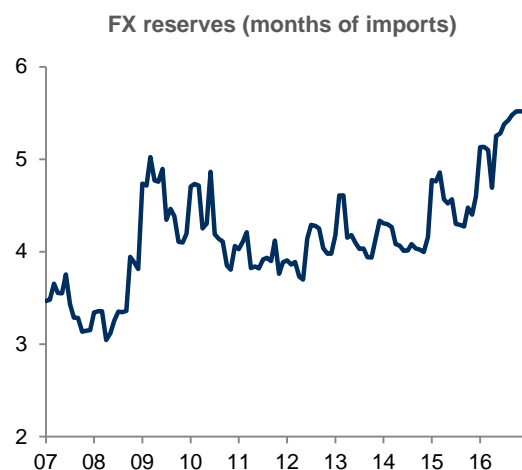
	2015	2016	2017	2018
GDP growth (% change)	4.1	3.5	3.8	3.5
Inflation (% , yearly average)	2.4	4.4	3.6	3.9
Fiscal balance* (% of GDP)	-1.4	-1.6	-1.8	-2.0
Public debt* (% of GDP)	24.2	24.1	24.5	24.9
Current account (% of GDP)	-0.3	-0.7	-1.2	-1.3
External debt (% of GDP)	29.4	27.5	26.1	24.5

*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF, IHS, Euler Hermes



Sources: IHS, Euler Hermes



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