



Guatemala

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Research & Analytics

COUNTRY		CREDIT RATING			
Real GDP growth (%) 2016	3.60%	S&P Foreign Currency	BB (Stable)	Major Trade Partners	US 36.1%, El Salvador 11.8%, Honduras 8.3%, Nicaragua 4.8%
Next General Election	Oct 2019	Fitch Foreign Currency	BB (Stable)	Major Exports	Sugar, coffee, petroleum, apparel, manuf. products, minerals
Exchange Rate	GTQ 7.675	Moody's Foreign Currency	Ba1 (Neg)	GDP Composition	Agriculture: 13.3%, industry: 23.5%, services: 63.2%

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK

The Guatemalan economy expanded by 4.1% in 2015 supported by several infrastructure projects and pre-election spending. Economy activity averaged 2.6% yoy for 1Q16 (5.0% - 1Q15) due to adverse weather conditions which affected food production and also waning investor sentiment amid high crime rates and corruption concerns. The Guatemalan economy is driven by its services sector, accounting on average for approximately 50% of economic activity. The main service activities include financial services and transportation and communication. After the services sector, manufacturing is the second largest economic sector, accounting for approximately 24% of GDP. Within this sector, the food and beverages industry accounts for about 45% of total activity. Construction accounts for a relatively small percentage of economic activity at just 2.8%. Agriculture accounts for approximately 10% of economic activity. Guatemala is the biggest Central American coffee producer after Honduras. Guatemala is also a significant sugar producer. The agricultural sector accounts for about 40% of exports. Weather conditions are expected to improve in the latter part of the year as the effects of El Nino dissipate and also private consumption increases due to rising worker remittance inflows. These factors will help boost growth to a forecasted 3.4% in 2016.

LABOUR, INFLATION AND THE FINANCIAL SYSTEM

In March 2016, the rate of inflation measured 4.3% y-o-y which was within the Central Bank's target inflation rate of 4% ± 1%. This was mainly due to an increase in food prices which was driven by both demand pressures and adverse weather conditions, including widespread drought associated with El Nino. However, core inflation (minus food and fuel) measured 1.5% y-o-y as at March 2016. The agricultural sector provides employment for 50% of the labor force. The Guatemalan unemployment rate remained low and was reported at 3.0% in 2015. In November 2015, the central bank reduced its policy rate to 3% from 3.25% with no adjustments YTD 2016. No changes are expected in the short term.

EXTERNAL ACCOUNTS

The current account deficit narrowed from 2% of GDP in 2014 to 0.25% of GDP in 2015 due to strong remittances and low international oil prices. The deficit was over-financed by FDI and public sector borrowing resulting in foreign reserve accumulation with net international reserves standing at 4.2 months of imports at end-2015. The current account deficit is forecasted at 0.40% of GDP for 2016. Growth in current account receipts will be dependent on growth in the US economy, its main trading partner. Remittances are an important source of foreign income with most originating in the United States. In 2012, Guatemalans in the US provided USD4.8 billion in remittances, accounting for approximately 10% of GDP. Remittances have increased significantly as the U.S. economy improves and is the largest single source of foreign income and forecasted to continue growing approximately 10% a year. In the 12 months to February 2016, remittances grew 29.2%.

FISCAL PROFILE

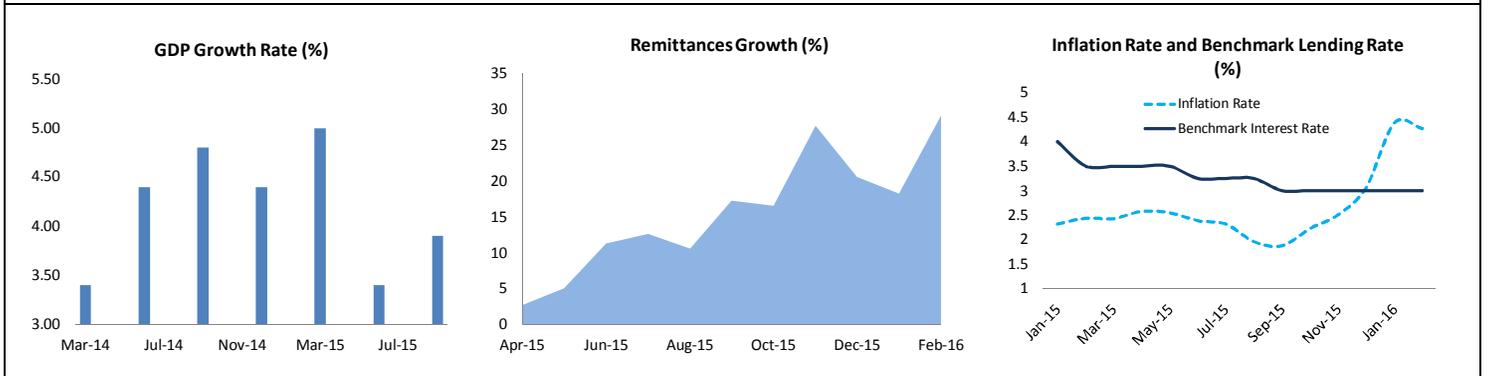
The fiscal deficit fell below the budget target of 2% of GDP measuring 1.5% of GDP in 2015. There was shortfall in revenues of 1.25% of GDP which was offset by even larger cuts in spending, driven in part by delays in multilateral loan disbursements. The fiscal deficit is expected to remain stable at 1.6% of GDP in 2016 and remain around this level in the medium term. Public debt remains among the lowest in the region measuring 24% of GDP in 2015 (though it is moderately high in relation to fiscal revenues) and is forecast to hover around 24% of GDP in the coming years.

CREDIT RATING

In June 2014, Fitch Ratings downgraded Guatemala's long-term foreign and local currency credit ratings to 'BB' from 'BB+'. According to Fitch, Guatemala has not been able to make sufficient progress to materially enhance its growth prospects, widen its revenue base and improve its fiscal flexibility. As a result, Guatemala's relative standing in Fitch's 'BB' category has been eroded over the years in terms of its revenue base, average growth rate and aggravated by weak governance and human development indicators. In Dec 2015, Standard & Poor's affirmed Guatemala's rating at 'BB' with a stable outlook. The ratings reflected the country's moderate fiscal and external deficits, low debt levels to GDP and stable monetary policy tempering its weak and slow growing economy.

OUTLOOK

In October 2015, Jimmy Morales of the FCN Nacion party won a landslide victory in second round voting. The new president based his campaign on fighting corruption and reform but as in the case of other Latin American countries he will face difficulties in implementing reforms due to a fragmented congress. The FCN hold only 11 out of the 158 seats in the unicameral legislature and this coupled with the inexperience of the President will make policymaking very difficult and sway investor sentiment. With 40% of the country's exports going to the US and 94% of Guatemalans living abroad residing in the US, the health of the external account is strongly related to the health of the US economy. A strengthening U.S will bolster remittance inflows and manufactured exports and depressed oil prices will also provide additional tailwinds to the economy. Guatemala remains vulnerable to external shocks with close to 50% of total debt denominated in foreign currency. Political uncertainty, contraction in capital spending and a decline in the agricultural industry due to adverse weather condition are expected to temper growth to 3.7% in 2016. In February 2016, the government announced plans to freeze public hiring, suspend vehicle purchases and leasing of new building. Through these measures, the government plans to save 150 million quetzals. *First Citizens Research & Analytics maintains a stable view on Guatemala due to its moderate fiscal deficit and low debt but notes the risks associated with its low growth rate and dependency on the U.S.*



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