



## GUATEMALA

### **Political Outlook:**

On August 2019, Guatemala elected Alejandro Giammattei of the center-right-wing VAMOS party, as the new President of the nation for the 2020-2024 period. President Giammattei took office on January 14<sup>th</sup> with a promise to tackle corruption, improve security and stimulate job creation through increased investment in export sectors and tourism. He built a cabinet drawn from technocratic and business backgrounds. He also presented an inaugural plan “*Plan Nacional de Innovación y Desarrollo*”, that includes a list of 58 legislative initiatives. These initiatives include reforms on sales taxes, and the expansion of free-trade zones, among others. One of his first acts was a strong anti-drug gang or *maras* resolution.

The new president doesn’t hold legislative majority, since 19 political parties represent a fragmented Congress. This means that the new cabinet will have to continually build support for government initiatives among lawmakers.

Multiple tests of the new cabinet’s political skills have been seen before the first one hundred days of the government; first it was the revision of the budget made for 2020, then the implementation of an immigration deal with the United States and now the COVID-19 situation puts under pressure the new authorities. President Giammattei has been handling the crisis by implementing early measures, such as the declaration of a State of Calamity, the closing of borders and the nationwide curfew. It is expected that his administration will take a hardline stance on security issues while pursuing broadly macroeconomic policies. High levels of party fragmentation will undermine political effectiveness. The economy is expected to be hit hard by the coronavirus outbreak.

### **Economic Outlook:**

The Guatemalan economy has experienced prolonged macroeconomic stability that can be attributed to a combination of inflation targeting, prudent fiscal management and managed floating exchange rate. The country has had a solid economic performance in recent years, with a GDP growth rate of 3.1% in 2016, 2.8% in 2017 and 3.1% in 2018. The country’s economy grew by 3.3% in 2019 and was expected to grow by 2.8% in



2020. Over the last five years, inflation has fluctuated between 3.5% and 5.2% on a year-on-year basis, the exchange rate remained durably linked with dollar fluctuations. The export sector represents more than 14% of GDP with the United States as the main destination for its products, mostly concerned in the traditional sectors: clothing, followed by bananas, coffee and sugar. Measured by nominal GDP, Guatemala is the tenth largest economy of Latin American, but measured by GDP per capita, it occupies the 26<sup>th</sup> position of the 32 economies of the region.

Guatemala's economy is expected to slow down due to the spread of COVID-19. President Giammattei has announced a series of social programs and an economic reactivation strategy in response to the economic impact of the novel coronavirus pandemic. Guatemala's Central Bank (BANGUAT) also announced other measures to ease financial conditions and boost liquidity, including a temporary relaxation of various credit risk management provisions for commercial banks. The decision also came in response to weak inflation in early 2020. Annual inflation has dipped below Banguat's target range of 3-5% in the first two months of 2020, reflecting weak domestic demand.

It is expected that Banguat will implement an additional 50-basis-point cut to its policy rate in 2020. The central bank has room to maneuver following significant rate cuts by the Federal Reserve and inflationary trends. A significant downward revision to the 2020 real GDP forecast has been made to account for the impact of the coronavirus pandemic on domestic economic activity.

### **Investment Trends:**

The strict curfew measure has had an effect that has carried over to the entire economy, causing some companies, in the absence of sales, to have to dismiss employees, others to reduce or terminate operations. Citizens are starting to save more, businesspersons are postponing their investment, and consequently aggregate demand in the economy is falling.

Everything points to the fact that the Executive Branch will implement counter-cyclical measures to maintain economic stability in variables such as consumer prices, productive growth and employment, in order to overcome any recessive event that may arise in the face of risk scenarios.

The Economic Activity Confidence Index fell in March due to the possible effects of the coronavirus on the productive apparatus in Guatemala. The Monetary Board decided to adjust downwards the economic growth projection for this year to place it



in a range of 0.5% to 1.5% with a central value of 1%, due to the direct effects of the coronavirus. In addition, the government issued a suspension of public and private sector activities to prevent the spread of the virus in mid-February and presented an economic recovery plan to Congress.