GUATEMALA

Table 1	2023
Population, million	17.6
GDP, current US$ billion	104.4
GDP per capita, current US$	5933.4
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]	103.9
Life expectancy at birth, years[b]	68.7
Total GHG emissions (mtCO2e)	42.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ Most recent WDI value (2022).

Guatemala has grown steadily in recent years with sound macroeconomic performance but with poor social outcomes, due to low and ineffective social expenditure and low productivity. Addressing these challenges requires higher and better social expenditure and infrastructure investment. The government moved in the right direction by increasing cash transfers and public investment in 2024, but these changes need to be persistent and sustainably funded by recurrent revenues to preserve a sound macroeconomic environment.

Key conditions and challenges

While Guatemala has grown steadily in the last 10 years, poverty and inequality reduction have been very limited. Guatemala's GDP per capita grew by 1.9 percent from 2014 to 2023 while the average for LAC was 0.3 percent over the same period. However, poverty under the upper-middle income country international poverty line ($6.85/day per capita, 2017 PPP) remains one of the highest in the region at 55.2 percent of the population, the same as in 2014 (55.4 percent). Human capital outcomes have shown little progress in this period, particularly for racial minorities. Child malnutrition remains critical, with 44 percent of children under five stunted in 2022.

Guatemala faces several structural challenges: low and ineffective social expenditure, lack of dynamism in the labor market, and low productivity, driven by poor infrastructure. Social expenditure reached 6.3 percent of GDP in 2021, compared to 9.3 percent on average for Central America and Dominican Republic (CADR). Informality reached 70.3 percent in 2023, while labor force participation stood at 59 percent, with a much lower rate among women (39.7 percent), hindering efforts to reduce poverty and inequality. Total factor productivity remained stagnant over the last 10 years, dragging on growth potential.

The government has moved in the right direction by increasing infrastructure spending and by promising a temporary increase in cash transfers in 2024. However, Guatemala needs to increase and improve infrastructure and social expenditure permanently to reach results, requiring higher government revenues (currently at 12.9 percent of GDP for the central government), to preserve fiscal sustainability.

Recent developments

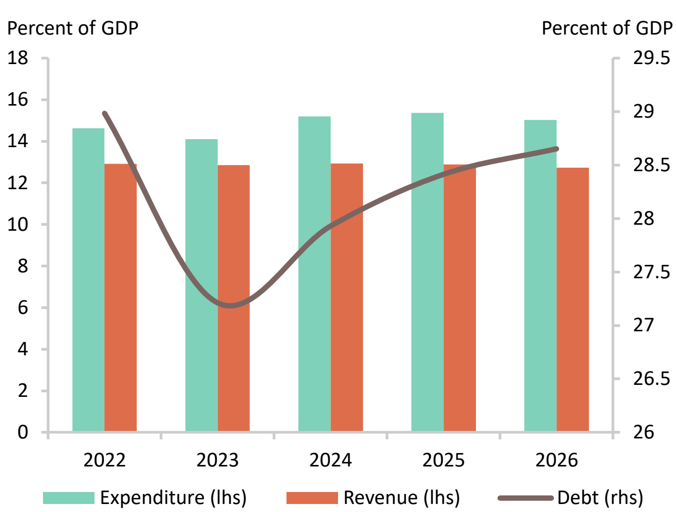
The economy has rebounded from negative spillovers of recent political turmoil. The country's sovereign risk returned to being the lowest among CADR countries. In the first half of 2024, economic activity grew by 3.5 percent, led by the finance, health, and hospitality sectors. On the demand side, growth was driven by remittances-fueled private consumption.

Remittances reached 19.5 percent of GDP in 2023 and together with a lower trade deficit, propelled the current account surplus to 3.1 percent of GDP. They decelerated mildly in 2024—7 percent up to July versus 12.1 percent by July 2023, reflecting a deceleration in the US economy. Higher imports increased the trade deficit by 13 percent. Nonetheless, the current account remained in surplus, and international reserves reached 10 months of imports in July.

Inflation declined from 4.2 percent in 2023 to 3.1 percent in August of 2024, despite El Niño's impacts on food prices, helped by lower housing and food prices.

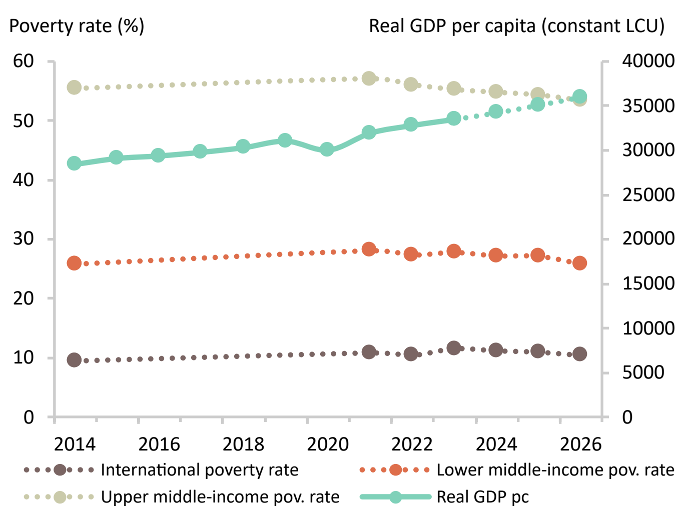
Fiscal results reflected prudent management with low deficit and low debt in 2023 (0.8 and 27.2 percent of GDP respectively). The central government posted a budget

FIGURE 1 Guatemala / Higher spending on social programs and investment to increase government deficit and debt



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

surplus in the first half of 2024 due to higher revenues and constant nominal expenditures. However, an expenditure increase of approximately 1.8 percentage points of GDP for the 2024 budget was recently approved and is expected to reverse this surplus.

The 2023 ENCOVI (Encuesta Nacional de Condiciones de Vida) confirmed that the incidence of poverty has declined very little over the last decade, and inequality has increased, signaling little improvement in living standards for those at the bottom of the distribution. Inequality measured by the Gini Index reached 50.2 in 2023, compared to 48.3 in 2014. Similarly, gaps in access to essential services remain. For example, while 63.3 percent of the non-poor population has access to a sewerage system, that number reaches 39 percent for the poor (non-extreme) and 14.1 percent for the extreme poor.

Outlook

Guatemala's economic activity is rebounding, benefitting from lower uncertainty, growing remittances, and higher government expenditure, bringing GDP growth near to its potential (estimated at 4 to 4.5 percent). Over time, government consumption and investment are expected to increase their contribution to growth, while private consumption's contribution will slow down due to lower remittances growth and higher government spending.

External accounts will record a smaller surplus due to lower remittances growth and higher imports. International reserves are expected to remain at comfortable levels and the exchange rate is expected to remain stable. Inflation will converge to the central bank target range (4 +/- 1 percent), expelling any left-over effect from external shocks.

Guatemala can achieve higher and more egalitarian growth if it continues to improve its social safety net system and increase infrastructure investment, as proposed in the medium-term macro-fiscal framework contained in the 2025 budget. This expenditure increase will be financed by efficiency gains in tax administration and higher debt. The MPO baseline forecast includes average deficits of 2.4 percent of GDP and debt at 28.7 percent of GDP by 2026, which is sustainable. The binding constraint is not the debt level, but payment capacity as the interest-payment-to-revenue ratio is expected to increase from 13.4 in 2024 to 15.2 percent in 2029.

Poverty is projected to decline modestly towards 54.3 percent in 2025 ($6.85/day, 2017 PPP) thanks to economic growth, lower inflation, and increased social spending. Inequality is estimated to remain at similar levels in the next two years.

Main risks to the forecast are the effects of La Niña on agricultural output, and on inflation, which would demand a more restrictive monetary policy. Natural disasters, a common occurrence in the country, could reduce GDP, pressuring the already low tax revenues, and trigger additional expenditures, adding fiscal pressures. Finally, a harder landing in the US and policy changes related to trade, remittances and migration could affect Guatemala's external sector.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	8.0	4.2	3.5	3.7	4.0	4.0
Private consumption	8.5	4.3	4.4	4.0	4.3	4.3
Government consumption	4.6	7.2	3.3	0.6	4.1	1.0
Gross fixed capital investment	19.8	4.3	7.4	6.9	6.5	8.5
Exports, goods and services	10.2	7.5	-2.5	2.3	2.1	2.0
Imports, goods and services	19.5	4.8	5.9	4.1	4.8	4.8
Real GDP growth, at constant factor prices	7.8	4.4	3.1	3.7	4.0	4.0
Agriculture	4.2	2.8	2.2	1.1	3.5	3.0
Industry	8.6	4.6	2.5	2.0	3.3	3.3
Services	8.1	4.6	3.5	4.7	4.3	4.4
Inflation (consumer price index)	4.3	6.9	6.3	3.4	4.6	4.0
Current account balance (% of GDP)	2.2	1.3	3.1	2.8	1.9	1.2
Net foreign direct investment inflow (% of GDP)	3.4	0.8	0.8	1.8	1.8	1.8
Fiscal balance (% of GDP)	-1.1	-1.7	-1.3	-2.3	-2.5	-2.3
Revenues (% of GDP)	12.7	12.9	12.8	12.9	12.9	12.7
Debt (% of GDP)	30.6	29.0	27.2	27.9	28.4	28.6
Primary balance (% of GDP)	0.6	-0.1	0.4	-0.3	-0.5	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	10.8	10.4	11.5	11.2	10.9	10.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	28.1	27.4	27.8	27.2	27.2	25.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	57.0	56.0	55.2	54.8	54.3	53.4
GHG emissions growth (mtCO2e)	7.1	3.9	3.1	1.9	3.5	3.3
Energy related GHG emissions (% of total)	54.6	55.8	56.5	56.7	57.5	58.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2023. Forecasts are from 2024 to 2026.
b/ Projections using microsimulation methodology.