

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** COVID-19 Impact on Guatemalan Agriculture

**Country:** Guatemala

**Post:** Guatemala City

**Report Category:** Agricultural Situation, Agricultural Situation

**Prepared By:** Karla Tay

**Approved By:** Rachel Nelson

**Report Highlights:**

Guatemala's GDP growth is expected to slow as a result of COVID-19. The agricultural sector's participation in the national GDP is expected to drop from 13.5 to 9.7%. From January to May 2020, some of the traditional exports (bananas, sugar, and cardamom) have seen relative growth, while exports of rubber and sugar molasses, as well as fruits and vegetables have decreased. The agricultural sector is forecast to recover to 6% growth by the first quarter of CY2021.

**Situational Report**

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Guatemala's first case of COVID-19 was reported on March 13, 2020. After almost three months, the disease curve in Guatemala continues to grow. The Government of Guatemala immediately established a "state of calamity" once cases were found, to address the urgent need of containing and mitigating the disease to save lives and avoid a collapse of the precarious health system. On June 3, 2020, the President of Guatemala published Presidential Decree 146-2020 in the official gazette, "Diario de Centroamerica", which outlines the phases for the reopening of the economy to the new normal. Guatemala is still in Phase 0, as positive cases continue increasing and are expected to reach the highest peak in June 2020.

During the state of calamity approved by Congress, the Government of Guatemala published a series of decrees to provide for the funding and operational mechanisms needed to support affected families and sectors. On April 1, 2020, the Congress of Guatemala approved using \$1.11 billion to address the COVID-19 emergency and increasing the 2020 national budget by \$666.7 million. The additional funding comes from internal and foreign debt, including two loans from the Interamerican Development Bank - one for \$100 million and the other for \$150 million- in addition to one loan from the Central American Economic Integration Bank for \$193.2 million. The economic support to the productive sectors includes low interest rates (after the Guatemala National Bank established its official rate at 2 percent, one of the lowest in the region) and economic safeguard programs for employees and the unemployed. It is worth noting however, that Guatemala's formal labor sector accounts for less than 30 percent of the working population. The rest of the government's aid will go towards social programs and food security.

Prior to COVID-19, the Guatemalan National Bank expected Guatemala to experience economic growth of 4.5 percent in CY2020. However, since then, the International Monetary Fund revised the estimate to 2.5 percent, the Guatemalan National Bank to 0.5 percent, and the Central American Business Intelligence (CABI) estimates a GDP contraction of 3 percent. The National Gross Domestic Production for the first quarter closed at 3.5 percent. CABI's estimates an economic contraction of 2.6 percent in the second quarter, 4.2 percent in the third quarter, and 2.5 percent in the last quarter. The economy is expected to recover in the first semester of CY2021, directly tied to the economic recovery of the United States.

Table 1 reflects preliminary analysis by the Ministry of Economy for Guatemala's top five export products, in terms of value, for January to May 2020. It is important to note the participation of the agricultural sector. Except for edible fats and oils, where exports have consistently decreased, the export values of bananas, sugar, and cardamom have increased during the first 5 months of CY2020, despite COVID-19.

Table 1  
Guatemalan Main Five Export Products - Value \*

PRODUCT	US\$ Million	% Variation				
		Jan	Feb	Mar	Apr	May
	Accumulated up to May					
<b>Total Exports</b>	4,410.9	19.2	16.4	9.5	6.3	4.6
<b>Bananas</b>	507.4	5.6	6.8	6.0	4.5	38.1
<b>Textiles</b>	494.8	13.3	3.9	-5.3	-13.7	-15.3
<b>Sugar</b>	429.9	65.8	55.3	32.2	52.6	32.7
<b>Cardamom</b>	403.9	79.8	106.0	48.3	39.2	30.2
<b>Edible fats and oils</b>	167.7	-7.3	-14.8	-4.5	-6.1	-5.8

Note: \*Preliminary data

Source: Economic Analysis Direction/Ministry of Economy of Guatemala, June 2020

In terms of volume, Table 2 shows that from January to May 2020, exports of bananas and sugar have increased, while sugar molasses dropped. Exports of other fruits (fresh, dried, or frozen) have increased and are an important non-traditional export sector. However, their expected growth of roughly 40 percent has dropped to less than 15 percent as a result of COVID-19. Not reflected in the table but reported by CABI is COVID-19's absolute negative impact on rubber sales to Mexico (60 percent share), the United States (20 percent share), and Colombia (20 percent share). Frozen fruits, honey, and flower exports to the European Union were negatively impacted as a result of reduced demands and increased transportation and logistics costs.

Table 2  
Guatemalan Main Five Export Products - Volume\*

PRODUCT	MT (1000's)	Accumulated Variation (%)				
		Jan	Feb	Mar	Apr	May
	Accumulated up to May					
<b>Total Exports</b>	6,058.4	14.0	13.5	11.0	14.0	14.4
<b>Bananas</b>	1,280.7	4.1	6.3	6.3	4.1	27.8
<b>Sugar</b>	1,227.5	77.2	53.9	27.1	50.5	30.8
<b>Nickle</b>	595.5	353.2	250.1	223.8	185.0	127.0
<b>Fruits (Fresh, Dried, Frozen)</b>	346.6	45.5	30.7	16.8	13.6	14.5
<b>Sugar Molasses</b>	306.6	-52.2	-38.1	-39.1	-27.5	-17.4

Note: \*Preliminary data

Source: Economic Analysis Direction/Ministry of Economy of Guatemala, June 2020

In CY2019, the agricultural sector in Guatemala represented 13.5 percent of the country's GDP. The ag sector grew 7 percent in the first quarter of CY2020, one of the highest in Latin America. Prior to COVID-19, the lowest reported performance of the agricultural sector was when it shrunk by 20 percent, which took place over 27 months during the 2007-2009 crisis. Unexpectedly, COVID-19 shocked the Guatemalan agricultural sector, which shrunk by 29 percent in the first 3 weeks. Fortunately, the sector is expected to recover quickly.

CABI estimates the agricultural sector will shrink 4 percent in the second quarter of CY2020, 11 percent in the third quarter, and 6.5 percent in the last quarter of the year. The sector is forecast to recover during the first quarter of CY 2021 with 6 percent growth. According to preliminary estimates of the Bank of Guatemala, agriculture's participation in the CY2020 GDP will drop to 9.7 percent.

The Guatemalan Chamber of Agriculture (CAMAGRO) has subcontracted CABI to carry out several surveys during COVID-19 to better understand its impact on the agricultural sector. CABI conducted the latest survey from April 27 to May 6, 2020 with 156 participating companies, 34 percent of which were large companies, 24 percent very small companies, 21 percent medium, and 21 percent small companies. Participating companies include agricultural producers (banana, coffee, sugar, African palm oil, rubber, livestock, dairy, poultry and eggs, pork, vegetables, fruits and horticulture), including agricultural inputs; the food and beverage industry; and agricultural transportation service companies.

According to CABI's survey, at least 68 percent of large companies have liquidity problems, compared to 82 percent of the medium and smaller companies, which are more dependent on daily sales.

Independent of their size, all companies have seen a 53 percent reduction in worldwide demand -due to cancelation or reduction of contracts - and a 47 percent drop in local demand -mainly due to the closure of restaurants followed by partial reduction supermarkets and wet markets' operating hours.

Roughly 40 percent of the companies reported a decrease in sales of more than 20 percent, while 30 percent of the companies reported a decrease of 15 to 20 percent. The rest of the companies experienced drops in sales under 15 percent. At least 58 percent of the companies reported increased operational costs. The most important cost for agricultural companies is manual labor, which accounts for 72 percent of the total costs, followed by agricultural inputs, which account for 17 percent of total costs. From the sample, 26 percent of the companies have cancelled hiring contracts and 13 percent have gone without at least 50 percent of their manual labor.

The survey shows that 53 percent of the agricultural companies have requested loans, mostly in the range of \$120,000 to \$620,000. COVID-19 measures that have most hit the agricultural sector are restricted working hours for the companies and their workers, as well as the same restriction for operation hours for the buyers and suppliers. At least 63 percent of the companies have been affected by reduced service hours and staffing in government institutions responsible for trade (Ministry of Agriculture, Customs, etc.).

According to the companies, if the restriction measures continue for the next 2 months, at least 55 percent of the companies expect drops in sales, 40 percent will consider further reduction in personnel, and 15 percent are considering reduced or cancelled planting for the next season. The agricultural sector is requesting the Government of Guatemala to consider providing access to lower interest rate loans; flexibility in labor laws; tax reduction/elimination of taxes including extraordinary taxes, taxes on agricultural inputs, and the Value Added Tax on the food production supply chains.

**Attachments:**

No Attachments.