

# The Impact of COVID on the Guatemalan Economy

## I. Economic and Labor Context - Pre-pandemic COVID-19

Although Guatemala's growth rate has been slower than that observed in the region, the country presents a moderate and stable economic performance. According to preliminary figures, the country closed 2019 with an economic growth rate at close to 3.6%. Recent ECLAC projections<sup>1</sup>, World Bank<sup>2</sup> and the IMF<sup>3</sup>, estimate variations negative in the order of -4.1%, -3.0% and -2% of GDP in 2020 respectively.

In addition to the interruption of supplies and the contraction of activities such as tourism (represents 4.4% of employment) and private consumption, it is necessary to consider the effects it will have on the Guatemalan economy. The decrease of remittances and exports, due to the reduction in the economic activity and rising unemployment in the United States will have a major impact. In Guatemala, remittances represent 12% of GDP, and are used mainly for consumption, with which, its decrease, will have a significant impact on increasing poverty.

The pre-crisis economic situation will not only determine the type and magnitude of the effect of the derived shocks, it will also affect the country's response capacity. Policy responses to dealing with the crisis in the short term (relief, protection and repair) and recovery measures (medium term) will require a significant fiscal effort on the expenditure side. In this regard, Guatemala has prioritized the implementation of measures of fiscal consolidation that mainly translate into a reduction in the levels of public spending. This has allowed the country to maintain a solid fiscal position. In 2019 the fiscal deficit was 2.3% of GDP largely due to significant infrastructure expenditures and investment in human capital. Given the need of acquiring funds to face the pandemic, that proportion could increase considerably in the next years. The Guatemalan economy has a high degree of commercial and financial integration with the international economy, this will expose it to the global economic effects of the coronavirus.

The looming economic crisis will adversely affect the world of work in three dimensions: 1) quantity of available employment, 2) the quality of work, and 3) the effects on specific groups in employment status vulnerable to adverse consequences in the labor market. In each of these dimensions, the crisis will generate additional pressures to those countries which already faced economic challenges in the pre-crisis. In the best of cases, it will slow down the speed of reduction of the principal deficits in obtaining and maintaining decent work within the country.

A preliminary estimate of current jobs at risk from a sectoral approach for Guatemala indicates that 49.3% of total employment, or 3,416,476 jobs are at high risk. Guatemala is the country with the lowest unemployment rate in Latin America (2.5% in 2019), however, with the COVID-19 pandemic, a significant increase in the number of unemployed people is to be expected. The incidence of unemployment among different population groups is an important characteristic to take into account, since the impact on this indicator, as demonstrated by the world economic crisis of 2008-09 will tend to be differentiated and will strike out at those people in the most vulnerable condition. **The unemployment rate for women (3.5%) is slightly higher than that for men (2.0%). Young people (15 to 24 years) for their part, registered an unemployment rate of 5.8% compared to a rate of 1.4% for 25-year-olds and more. Due to the impact of the pandemic, the gap between youth and adults is expected to deepen even further. Faced with an economic contraction, it is young people who will face the most difficulties in finding a job.**

The concentration of employment growth in the country tends to occur in sectors with low productivity and in the informal sector of the economy, however, it is important to note that last year, the Guatemalan economy did not create new jobs for people who entered the labor market, rather it expelled workers (at about 15,000 fewer jobs from 2018 to 2019).

## **2. Quality of Work**

The informal economy is particularly vulnerable and sensitive to the impacts of the COVID-19 pandemic. Informal employment has been growing in size and relative weight with respect to the total occupation, and is predominantly found in sectors where the crisis will be strongest hit. Employed persons in a condition of informality are more vulnerable to the consequences of the economic crisis that is looming.

The high incidence of informality is an important feature of the Guatemalan labor market; therefore, it is quite probable that the impact of the crisis will not only be reflected in the increase in unemployment and informality, but also in labor income, especially of the less qualified employed and in the informal economy. This will have a devastating effect on the working poor, particularly those who currently are not able to generate even the minimum monthly salary in their economic activities. It will also likely impact the effect that the crisis will have on income equality, which can be mitigated or deepened depending on the way in which the recovery and stimulus policies for the labor market are implemented.

## **3. The Most Vulnerable**

As mentioned previously, young people face high unemployment and underemployment, and they are more vulnerable to a decrease in the demand for labor, as found in the last global financial crisis in 2008. Older workers are also more vulnerable economically. Women are also a particularly important group, as a result of the extensive work they carry out in the sectors most affected (particularly services).

In the case of Guatemala, we cannot ignore labor vulnerability of the indigenous population, as they represent 37.3% of the population employed in the country, and yet the differences in working conditions with respect to the non-indigenous population are very latent. This population works mainly in the informal sector (83.7%), which implies that only the 10.1% have access to S.S. coverage and other benefits, as opposed to 28.8% of the non-indigenous population. Without question, however, the greatest inequality is evidenced in the income of workers in the informal sector where the income of an indigenous worker is equivalent to one third of the income of a non-indigenous person. Therefore, this population will be one of the most affected by the current crisis and coming economic recession.

**Note:** The COVID-19 pandemic also shows the importance of human mobility in the systemic balance supply and demand needs for goods and services in labor markets, even in the context of Guatemalan workers who have traveled abroad from the pandemic. Information provided by the Ministry of Foreign Relations reports that from April 16 to June 11, 2020 a total of 5,065 workers Guatemalans have traveled abroad, specifically to Canada (96%) and the United States (4%) respectively,

in this sense, it is important to guarantee work environments with adequate occupational health and safety measures in the places of destination.

#### **4. Some final thoughts:**

It is imperative to concentrate efforts on individuals and groups in conditions of greater vulnerability in terms of the effects of the economic recession derived from the COVID-19 pandemic. Measures especially aimed at working people in the microenterprise especially of services, low-paid women, domestic workers, those in the informal economy that are not subject to legislation protection of employment and vulnerable to a direct shock in disposable income, will be more effective.

**Young people in particular are more vulnerable to unemployment, informality and low income.**

It is very likely that the job destruction that this pandemic brings with it will have a negative impact on child labor, by forcing families to seek alternatives to offset the loss of jobs and, subsequently, income associated with it. **The answer, therefore, must be global and even focused there and where most progress towards eradication can be made.**

**Youth unemployment levels will be exacerbated as a consequence of the economic crisis and labor. Include the school-work transition approach in policy responses and learning permanent training (vocational rehabilitation, generation of competences) could be a useful tool to medium term as a way of inclusion in labor markets.**

**It is essential to move towards an integrated medium-term strategy to facilitate the transit of workers and companies from the informal economy to the formal economy. While the measures implemented to mitigate the effects on the loss of income of companies and the loss of jobs in the informal sector are essential; it also opens a key opportunity to establish mechanisms, programs, policy actions and specific projects that facilitate access to social security in groups difficult to cover, improve financial inclusion, facilitate access to business development services, simplify business registration procedures, among other measures contemplated in Recommendation 204 of the ILO on the Transition to the Formal Economy.**