

## 2022 Country Market Profile: Guatemala

Euromonitor reports that in 2021, the Guatemalan economy expanded in real terms, driven by increasing domestic consumption, public investment and external demand. However, the persisting pandemic-related risks, supply constraints and global inflationary pressures raise uncertainty and weigh on the country's economic outlook.

- Following real growth of 7.7% in 2021, Guatemala's economy is expected to expand at an average annual real rate of 3.4% over the medium term.
- The unemployment rate is expected to fall by 0.9% reaching 4.2% in 2022 - above the pre-pandemic level, yet lower than the average of 11.5% in Latin America in 2022.
- Inflation in Guatemala is forecast to remain unchanged at 4.2% in 2022.
- While Guatemala's merchandise exports increased by 21.4% and imports rose by 42.2% during 2021, the country remained a net importer of goods.
- Gross Fixed Capital Formation (GFCF) in Guatemala rose in real terms over 2021, as a result of strong economic recovery, fiscal stimulus measures and favorable financing conditions.
- The public debt-to-GDP ratio in Guatemala rose to 31.7% in 2021, which was below the regional average of 69.8%

Guatemala is the most populous country in Central America with a GDP per capita roughly half the average for Latin America and the Caribbean. The agricultural sector accounts for 13.5% of GDP and 31% of the labor force; key agricultural exports include sugar, coffee, bananas, and vegetables. Guatemala is the top remittance recipient in Central America as a result of Guatemala's large expatriate community in the U.S. These inflows are a primary source of foreign income, equivalent to two-thirds of the country's exports and about a tenth of its GDP.

Guatemala is experiencing a population boom which began in the 1980s and will continue for at least another decade. Total population in 2022 was 17.7 million, (CIA World Factbook Est.), – an increase of 6.1 million since 2000. The median age is slowly rising but was just 23.2 years in 2022.

USDA's Office of Agricultural Affairs, OAA, in Guatemala City reports that the Guatemalan economy relies on foreign exchange generated by international trade, remittances, and the tourism sector. Guatemala represents a growing market for U.S. companies and is a country with relative economic stability. In addition to U.S. Central America Dominican Republic Free Trade Agreement or "CAFTA-DR", Guatemala has signed bilateral or regional free trade agreements with Chile, Mexico, Colombia, Taiwan, Panama, the European Union, Peru, and the European Free Trade Association (EFTA) countries and is currently negotiating free trade agreements with South Korea, the United Kingdom, and Canada. Central America established a common external tariff schedule in 1998.

There are certain advantages and challenges the U.S. food suppliers face in the Guatemalan market.

## Advantages

- Strategic geographic access to Guatemala on both the Atlantic and Pacific Oceans
- Most imported products from the United States enter duty-free thanks to CAFTA-DR
- Low cost transportation of goods thanks to the proximity of U.S. ports. U.S. suppliers can export smaller quantities at competitive prices
- Supermarket chains open stores every year and mostly in the interior of the country - these new stores sell domestic products and imported goods
- Guatemala, El Salvador, and Honduras signed the customs union among the three countries
- The growing food processing industry is looking for quality food ingredients for ready-to-eat products, bakery, deli meats, beverages, and snacks
- Guatemalan food processors require imported bulk commodities, intermediate, and consumer-oriented ingredients to produce processed products for the domestic market and for exports to the world

## Challenges

- Roads throughout the country are in poor condition and transportation costs have increased up to 15% in the past two years
- FTAs with various countries create strong competition
- Many Guatemalan importers prefer that U.S. suppliers export their products through Miami to consolidate their products and reduce transportation costs
- Registration is always a concern to importers because it takes more than two weeks to issue import permits to importers
- Lack of cold chain procedures, and limited infrastructure and distribution for perishable product
- New Central American Technical Regulations are being implemented for importing food products and require U.S. companies to comply with more paperwork prior to entering the local market

Guatemala is the largest market for U.S. exports of consumer food products in Central America. Exports of these products totaled US\$636.9 million, another significant increase of 36% from the prior year in 2021. Guatemala is the 2<sup>nd</sup> largest U.S. export market for processed foods in Central America after Panama in 2021. Guatemala imported a record high US\$478.9 million in U.S. processed foods in 2021, growth of 26%. Top processed food exports from the U.S. in 2021 included:

- Fats & Oils
- Food Preparations & Ingredients
- Processed/Prepared Dairy Products
- Processed Vegetables & Pulses
- Prepared/Preserved Meats
- Condiments, Sauces, Jams & Jellies

Retail Sector Highlights:

Euromonitor has estimated that the 2022 retail sales of packaged food products in Guatemala will reach US\$6.7 billion. Guatemala remains the largest packaged food market in Central America. This also represents an increase of over US\$1.3 billion or 24.2% from 2018. They also forecast the packaged food market to grow to US\$9.1 billion by 2026, an increase of over US\$2.3 billion and 34.6% from 2022. High growth categories in the forecast include:

- Dairy Products (Ex. Cheese)
- Ready Meals
- Cheese
- Baby Food
- Ice Cream & Frozen Desserts
- Rice, Pasta And Noodles
- Processed Meat, Seafood & Alternatives to Meat
- Savory Snacks

FAS Guatemala City reports that the two largest supermarkets in Guatemala are Walmart Mexico and Central America, with a retail value share of 51%; followed by Unisuper (La Torre/Econosuper), with 21.5% of retail value share. These supermarkets target middle and high-income consumers and low to mid-low-income consumers. There are still many opportunities in the retail sector, since only 30% of total food sales are made by supermarkets. This opportunity is also an advantage for informal retailers who are mostly concentrated in the rural areas of the country and mainly attract low income and mid-income consumers. According to Euromonitor, in 2021, sales at the supermarkets increased 9.7% from 2020 and totaled \$1.9 billion.

Euromonitor reports that Hypermarkets and supermarkets, led by Wal-Mart Centroamérica SA, are expected to continue increasing their number of outlets, although their expansion strategy is likely to be slower. As such, the La Torre (Unisuper SA) supermarket gained value share during the review period due to their outlet expansion strategy and is continuously strengthening its brand through different strategies, such as site expansion, diversifying and launching the convenience store La Torre Express, and recently in 2021 launching its first private label line, Essential Everyday. It is a premium private label line that launched in selected FMCG categories positioning the brand as imported products from the USA, and products that are not more expensive.

Additionally, both hypermarkets and supermarkets are likely to continue to record retail value sales growth (at constant 2021 prices) in the forecast period supported by the growing needs of Guatemalan households, population growth rates in the country and strategies, such as site expansion and private label products offering attractive prices.

Furthermore, many supermarket customers started using e-commerce during 2020 and purchased their groceries through supermarkets' social media accounts. Thus, these consumers were targeted when mini supermarkets started emerging in 2020 and continued to do so in 2021. These mini supermarkets have no retail stores, offering their products only through social media sites such as, Instagram or Facebook and providing delivery services, mostly in Guatemala City.

During 2020, hypermarkets exceeded supermarket's retail value sales growth, due to being supported by many consumers searching for lower prices and economy brands thanks to price sensitivity as a result of economic uncertainty. However, during 2021 supermarkets recorded retail value sales growth that was marginally higher than that of hypermarkets, due to supermarkets registering lackluster retail value sales growth in 2020. Both channels performed well in 2021 thanks to many consumers being more relaxed and willing to go to outlets. On the other hand, e-commerce continued to register retail value sales growth during 2021 but sales growth decelerated, despite the delta version of COVID-19 leading to another wave in August and September 2021.

The major convenience stores recorded healthy retail value sales growth in 2021, but this was on the back of low sales growth in 2020. Sales growth was mostly as a result of geographical expansion. As such, sales growth in 2021 was much lower than that of most of the pre-pandemic review period. On the other hand, forecourt retailers registered the most dynamic retail value sales growth during 2021 due to a sharp decline in sales during 2020, despite most consumers not having returned to pre-COVID-19 shopping habits of convenience shopping at forecourt retailers. Interviewed sources commented that alcoholic drinks and cigarettes were forecourt retailers' main money-making products and since social gatherings had not resumed to previous levels, these products' sales remained at lower than normal levels.

#### Best Prospects:

In 2020 100% of U.S. agricultural products entered Guatemala free from duties (with some quota exceptions) and U.S. products have great opportunities in the Guatemalan market. U.S. products such as grains, beef, pork, chicken, oils, fruits and vegetables, as well as other food items, are highly sought after by consumers, hotels, restaurants, and the food processing industry. White corn is the main staple in Guatemala and therefore is the most protected product under CAFTA-DR with a tariff of 20% that will never phase out and a quota that expands by 2% annually in perpetuity.

#### Foodservice Sector Highlights:

FAS Guatemala City reports that since the beginning of COVID-19 in Guatemala, some new business opportunities have appeared in the food service sector. As sales to hotels and restaurants decreased, companies began supplying imported food products to small businesses who initiated food delivery services to consumers. The government's curfew and movement restrictions from March-September 2020, forced the restaurant industry to adapt and make changes to their business operations.

Many restaurants began offering more home delivery services, readymade meals, and meals designed to be quickly re-heated and served at home. Technology played a main role in publicizing these services, and social media channels made it possible for restaurants to continue operating and have the capacity to serve their customers, even as social distancing policies required a 50% reduction in dine-in capacity. The top on-line food delivery apps available in Guatemala are: Pedidos Ya, Hugo, and Uber Eats.

As the workforce returns to normal work schedules and workers need to eat while away from home, fast food restaurants and informal dining places are now offering office-delivery services. The informal dining places are generally small family-owned cafeterias and street food vendors who offer products like grilled hot dogs to go. These vendors offer additional options for breakfast or lunch away from home. Fine dining is mostly for middle and high-income consumers, and these restaurants have the highest demand during the weekends or when people celebrate special occasions like birthdays, Valentine's Day, Mother's Day, etc.

In 2020, five out of ten jobs were lost in the tourism sector. According to the Bank of Guatemala (Banguat), the tourism sector had a total income of US\$211.7 million compared to the US\$958.9 million reported in 2019. Although some of the activities have re-activated in the past few months, the tourism sector has not been able to return to the same number of visitors that Guatemala had in 2019. Hotels were impacted not just in the decrease of the number of rooms occupied but also in the reduction of other activities such as business conventions, and social events, because of the restrictions for inperson gatherings.

According to a study made by Deloitte, before the pandemic, the restaurant sector in Guatemala accounted for 2.5% of total GDP, employed 200,000 people, that worked at 18,000 restaurants; these restaurants include small and medium size restaurants, 25 U.S. food franchises, cafeterias, and formal dining restaurants. The pandemic affected the restaurant sector in different ways, depending on their size: a) some of the small and medium size restaurants had to close their operations; and others, had to change their business operations for takeout services and home delivery options; b) fast-food restaurants had the advantage that they already offered home delivery services and although in some cases, they had to close some restaurants, the majority of these restaurants remained opened; c) fine-dine restaurants had to close for the beginning of the pandemic and re-established operations around September 2020; their greatest impact was the investment they had to make to implement biosafety measures.

#### Best Product Prospects:

FAS Guatemala City reports that products present in the Hotel Restaurant and Institutional (HRI) sector which offer good potential from the U.S. include beef and beef products, pork and pork products, poultry meat and products (ex. eggs), dairy products, processed fruits and vegetables, craft beers, snack foods, condiments and sauces and frozen potatoes.

#### Food Processing Sector Highlights:

FAS Guatemala City reports that Guatemala is one of the top food processing countries in Central America; meats and bakery and dairy products continue to lead the domestic food processing sector. U.S. suppliers have good opportunities to export bulk, intermediate, and consumer-oriented products that can be used as ingredients for further processing. After two years of Covid-19, Guatemalans have changed some of their consumer habits

and preferences. They are cooking more at home, increasingly use social media platforms to purchase products, and seek healthier food and beverage options. In 2021, the U.S. exported US\$545.9 million in bulk commodities (wheat, corn, and rice); US\$470.2 million in intermediate products (soybean meal, soybean oil, vegetable oil, sweeteners, and beverage bases).

The food and beverage processing industry in Guatemala is the second largest exporting sector, after the textile industry, with 95% of production exported to 67 different countries around the world. In 2020, Guatemalan export sales of processed foods to the world were US\$2.9 billion, and despite the pandemic, the food and beverage sector in Guatemala increased its exports by 2.8% from 2019. This sector represented 3.8% of total GDP. Guatemala's food industry comprises more than 1,500 food-processing companies. The majority are small companies with less than 20 employees. These companies supply the domestic market and mainly export to other Central American countries and the United States.

In 2021, the Guatemalan Chamber of Food and Beverages (CGAB) reported that the processed food and beverage exports from Guatemala to the world increased 28% versus 2020, totaling US\$1.1 billion, becoming the country's main exporting sector, followed by the textile and clothing sector with a growth of 26% over 2020. Main destinations of exports were to Central America with 43%; Mexico with 10%; and the United States with 8%. Palm oil, cookies and other bakery products, prepared sauces, and non-alcoholic beverages are among the largest exports of processed food goods.

The main food processors are: Alimentos S.A./Alimentos Maravilla (cereals, refried beans, snacks, nonalcoholic beverages; soy based foods; seeds); Bimbo (bakery products); Cargill/Perry (poultry, processed meats; pet food); CMI Corporation (cookies, crackers, cereals, pasta, animal feed, processed meats; pet food); Fresh Del Monte (canned fruits, and vegetables, refried beans, ketchups and tomato paste; dried fruits; fruit nectars, juices); Nestlé/Malher (soups; dairy; chicken, and beef dried broths, confectionary, etc.); Pepsico/Frito Lay (snacks, beverages.)

Some of the U.S. companies that have a large presence in the Guatemalan food processing industry are Cargill, Chiquita Brands International, Frito Lay, Pepsi-Co Bottling Co., Ralston Purina, Del Monte, and Wal-Mart. Bimbo from Mexico and Nestlé from Switzerland are important foreign investors in the country. Local companies are also growing, not only because of a higher local demand but also because exports are increasing every year.

The main consumer trends in Guatemala are healthy products that include seeds, nuts, or dried fruits or contain less fat, sugars, and additives; ready-to-eat meats which are breaded, pre-cooked, or flavored; a preference for private label products, as they are perceived as more affordable products with the quality of a well-known brand. Among the preferred processed food products, the list includes dairy products (yogurts; fresh cheeses, cream); rice, noodles, soups, wheat, and corn flours; canned tuna; refried beans; cookies, and processed meats.

Best Product Prospects:

FAS Guatemala City reports that the areas with the most growth potential for the food processing industry are:

- Processed Meats: Mechanically deboned meat (MDM); boneless picnic; pork bellies, trimmings and offals; animal fats; flours (fillers);
- Beverages: fruit concentrates and nectars; drink bases and syrups; soy flakes and soy powder; artificial fruit flavors;
- Baking: pancake mixes; pre-mixes; bulk cake flours; snacks: dehydrated potato flakes and powder; tree nuts; fruit fillings; whey powder, protein concentrates; corn; soups and broths: fresh potatoes, dehydrated potato flakes and powder; condiments;
- Dairy: yogurts; artisanal cheeses (fresh); processed cheeses; ice-cream; butters.