



Press Release

GT-15-2018

ICEFI presented in Washington, D.C. a study that concluded that the fight against corruption has beneficial economic and fiscal impacts

The Central American Institute for Fiscal Studies (ICEFI) presented with the support of the Center for Strategic and International Studies (CSIS) the study entitled The Economic and Fiscal Impact of the Fight Against Corruption in Guatemala, an Empirical and Documentary Analysis

The study recognizes that economic growth in Guatemala has slowed down; going from 4.2% in 2014 to 2.8% in 2017, but explains that this was mainly due to six factors. First, austerity in public spending, which in 2017 was around 13% of GDP for the third consecutive year. Second, low budget execution, mainly public investment: while in 2014 the Government executed 78% of its public investment budget, in 2016 it dropped to only 46.3% and in 2017 closed at 55.5%. Third, the inability of the tax administration to increase tax collection, which remains below 11%, one of the lowest in the world and well below the 13.2% minimum indicative goal set by the 1996 Peace Accords. Fourth, inflation, as higher prices increased the cost of living of households affecting negatively their consumption (the main component of the aggregate demand in the Guatemalan economy). Fifth, sharp decline in the bank credit to the private sector, due to investor caution to political instability and banks preference for Government and foreign bonds. Sixth, nominal exchange rate appreciation of Quetzal against US dollar, creating disadvantages for Guatemalan exports. The technical analysis did not identify the fight against corruption as an explaining factor for the economic slowdown.

In addition to the 2017 macroeconomic data analysis, ICEFI highlights structural factors limiting economic growth. The Study quotes the *Evaluation of the Monetary, Exchange Rate and Credit Policy to November 2017 and Economic Perspectives for 2018* prepared by the Central Bank of Guatemala, which concludes that for 67 years capital has not contributed to economic growth, so that low levels of public and private investment are a structural characteristic of the Guatemalan economy. This reiterates that the 2017 economic slowdown cannot be explained solely by specific situations such as the fight against corruption and impunity started in 2015.

Icefi also points to the fact that the economic slow down is a Central American regional phenomenon, not exclusive of Guatemala. Also that economic growth in the United States decelerated since 2015, a relevant fact for Central America since the US is the main trade partner of the region. It concludes that it is impossible that the fight against corruption and impunity in Guatemala be an explaining factor for the economic deceleration in other countries.

The study looked with all technical rigors at the relationship between corruption (or the fight against corruption) and the economy, and concluded that in Guatemala, as suggested by common sense, the fight against corruption is beneficial to the economy. Moreover, the analysis revealed that investment is the main



transmission channel for the damaging impact of corruption, and therefore it is the most benefited by the fight against corruption. A similar conclusion is revealed by the *2017/2018 Global Competitiveness Index* published by the *World Economic Forum*, which shows Guatemala as the 84th out of 137 countries, mainly affected by the category “Ethics and corruption in the public sector” with a significantly low rating (2.6 of 7). In that Competitiveness Index, the businesspersons consulted indicated that of the 16 most problematic factors for doing business in Guatemala the most acute are *Crime and Theft*, and *Corruption*. From this data ICEFI concludes that the fight against corruption improves conditions for business and investment, which in the midterm increases and sustains economic growth while improving competitiveness.

ICEFI believes, that contrary to some poorly informed options, the fight against corruption must continue and intensify in Guatemala. First, because it is a non inalienable ethical principle, and second because technical analysis show that it has a more positive impact on economic agents confidence, investment, competitiveness and economic growth.

In the event participated as commentators Todd Robinson, former U.S. Ambassador and Senior Adviser for Central America at the State Department; Michael A. Matera, Director and Senior Fellow, Americas Program at CSIS and Mark L. Schneider, Senior Adviser on the Americas Program and CSIS Human Rights Initiative.

Washington D.C., United States of America, August 7, 2018.

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