

## Guatemala

In 2010, Guatemala's real GDP grew by 2.5% (up from 0.5% in 2009), driven by increased exports as the United States economy recovered and by growth, albeit modest, in domestic demand. Remittances and foreign direct investment (FDI) also saw a slight improvement. Inflation reached 5.3%, and the fiscal deficit stood at about 3.5% of GDP (higher than the 3.1% of GDP posted in 2009). The trade deficit reached 11.3% of GDP, and the balance-of-payments current-account deficit stood at 2.7% of GDP.

The economy is projected to grow by 2.5% in 2011. One contributing factor was higher public investment in rebuilding from the damage caused by the 2010 eruption of the Pacaya volcano, tropical storm Agatha and subsequent torrential rains.<sup>1</sup> Another factor was moderate domestic and external demand, which will offset the effects of uncertainty surrounding the September 2011 presidential elections. Inflation will come in at about 5.5%, as a result of stronger domestic demand and higher prices for imported goods. The central government's deficit could exceed its current level owing to an increase in social demands and the possibility of higher spending during the electoral process.

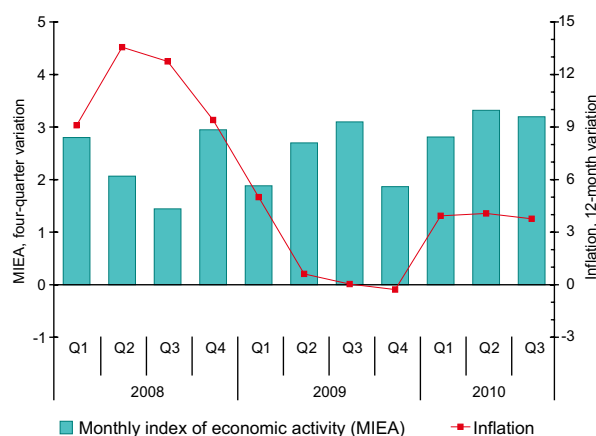
In early 2010, the authorities projected a central-government deficit of close to 2.7% of GDP, but higher social spending and the expenses arising from the natural disasters will very likely push it up to about 3.5% of GDP. Thus, it is estimated that the central government's total public debt was 24% of GDP in 2010, which is one percentage point higher than in 2009. This figure does not take into account the central government's floating debt, the size of which is being calculated by the national authorities.

The government estimates that the rebuilding effort will require an investment of 15.369 billion quetzales over a five-year period (2011-2015), which is equivalent

to 4.6% of GDP in 2010. The funding gap is therefore expected to be close to 12 billion quetzales (equivalent to 3.6% of GDP in 2010). Of that amount, the authorities are expecting some 6.2 billion quetzales in the form of international cooperation.

Total real central government revenue is estimated to have risen by 1.7% in relation to 2009. Real total spending shrank by 0.3%, owing mainly to the 9.4% fall in capital expenditure, which was dragged down by the decline in real investment since current expenditure rose by 3.4% in real terms. The tax burden stood at 10.6% of GDP, which was similar to the level in 2009 but much lower than the target stipulated in the Peace Accords (13.2% of GDP).

**GUATEMALA: MONTHLY INDEX OF ECONOMIC ACTIVITY (MIEA) AND INFLATION**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>1</sup> For further details, see the evaluation of damage and losses, by sector, and needs estimate in the wake of natural disasters in Guatemala between May and September 2010 and the evaluation of damage and losses by sector, and needs estimate in the wake of subsequent weather events between June and September 2010, prepared by the Government of Guatemala with support from the international community, 2010.

The authorities are expecting the tax burden to reach at least 10.8% of GDP in 2011, following the adoption of new tax evasion legislation in late 2010. However, more far-reaching fiscal reform is still needed.

The main monetary-policy interest rate remained at 4.5% but fell by 0.7% in real terms. It is estimated that the bilateral nominal exchange rate against the United States dollar appreciated by 3% (6% in real terms). At the end of December, international reserves will be equivalent to four and a half months of imports of goods and services, which is similar to the level observed in 2009.

On average, real monetary aggregates increased slightly in 2010 (3.2%) in response to the upturn in economic activity. Real interest rates on loans and deposits, which averaged 7.1% and 0.8%, respectively, were lower than in 2009 (11.8% and 3.7%, respectively). At year-end, there are plans to phase in an overnight deposit facility to regulate liquidity and curb the inflationary pressures caused by monetary factors. While credit in foreign currency (25% of the total) fell by 7.1%, credit in quetzales (75% of the total) expanded by 6.6%, resulting in an average increase of 3.2% overall (a 2.4% drop in real terms). This was a reflection of the cautious response to uncertainty and to tougher credit requirements.

In early September 2010, the Executive Board of the International Monetary Fund (IMF) concluded the fourth review under the stand-by arrangement and determined that the country had met the targets of this precautionary arrangement set to expire on 21 October 2010. The monetary authorities are currently assessing the type of programme or line of credit that they might need in the coming months.

GDP grew by 2.5% thanks to the expansion of services (3.5%), manufacturing (2.2%) and agriculture (1.6%). Construction contracted by 12.2% (similar to the figure for 2009), as the sector struggled to overcome financial uncertainty and oversupply. Mining fell by 0.4%. With regard to demand, gross fixed investment declined by 5%, compared with 15% in 2009. Private investment saw a 2.8% reduction, while public investment fell by 13.6%. Total consumption grew by 1.9%. Without the damage caused by the torrential rains, economic growth for 2010 would probably have been higher than 2.5%. Growth of at least 2.5% is expected for 2011, on the strength of domestic demand and public spending on rebuilding after the natural disasters in 2010. It is estimated that between 2.514 billion quetzales (0.8% of GDP in 2010) and 4.155 billion quetzales (1.3% of GDP in 2010) will be allocated to the rebuilding effort.

Despite the sound monetary policy management, the consumer price index rose by an estimated 5.3% between December 2009 and December 2010, owing mainly to the economic recovery and to marked, though temporary, variations caused by the natural disasters. Food

#### GUATEMALA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 <sup>a</sup>
<b>Annual percentage growth rates</b>			
Gross domestic product	3.3	0.5	2.5
Per capita gross domestic product	0.8	-2.0	0.0
Consumer prices	9.4	-0.3	5.3 <sup>b</sup>
Average real wage	-1.6	-10.2	5.1
Money (M1)	3.2	5.7	9.5 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-5.1	3.7	0.1 <sup>e</sup>
Terms of trade	-2.7	8.5	-0.3
<b>Annual average percentages</b>			
Central administration overall balance / GDP	-1.6	-3.1	-3.5
Nominal deposit rate	5.2	5.6	5.5 <sup>f</sup>
Nominal lending rate	13.4	13.8	13.4 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	9 720	8 843	9 812
Imports of goods and services	15 570	12 514	14 406
Current account	-1 773	-217	-1 095
Capital and financial account <sup>g</sup>	2 106	690	1 389
Overall balance	333	473	294

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2010.

<sup>c</sup> Twelve-month variation to October 2010.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year variation, January to October average.

<sup>f</sup> Average from January to October, annualized.

<sup>g</sup> Includes errors and omissions.

and beverages alone contributed an additional 0.2% to inflation by year-end. An adjustment setting a uniform minimum wage of 56 quetzales in both agricultural and non-agricultural activities took effect in January 2010. Nominal wages thus rose by 7.7% (2.4% in real terms). Wages in the maquila sector rose from 47.8 quetzales per day to 51.8 quetzales per day—an increase of 8.4% in nominal terms and 3% in real terms. Some analysts estimate that in 2010 the unemployment rate will be 5% (estimated 7% in 2009) because of the upturn in economic activity.

In 2010, goods exports were up by 11.8% in relation to 2009. Traditional exports rose by 13.4%; non-traditional exports increased by 11.2%. Goods imports grew by 15.7%, on the strength of greater demand for intermediate goods (20.3%) that was largely due to rising hydrocarbons prices. Imports of capital goods and consumer goods increased by 10.8% and 9.5%, respectively.

Unlike the previous year, it is estimated that revenues from family remittances increased by 3.7%. Inflows of foreign exchange from tourism grew by approximately 6% as the flow of visits by Guatemalans residing abroad picked up. As a result, the current-account deficit stood at 2.7% of GDP. Foreign direct investment (FDI) inflows were equivalent to 1.8% of GDP, and the balances of the capital and financial accounts were positive. Net capital inflows (including errors and omissions) therefore exceeded the current account deficit, such that the balance of payments was a positive US\$ 294 million.