

Guatemala

Guatemala's real GDP is expected to grow by 3.3% in 2011; this would better the 2.8% posted in 2010 and consolidate the recovery following the economy's weak performance in 2009 (0.5%). This growth, driven by the slight upturn in exports and domestic demand, was slower than expected at the beginning of the year owing to the international economic slowdown. Year-on-year inflation reached 7.2% (higher than the target of between 4% and 6%). The fiscal deficit stood at about 2.9% of GDP, which was slightly lower than in 2010 (3.3% of GDP). The trade deficit topped 11% of GDP; the balance-of-payments current account deficit was 3.4% of GDP, higher than the 2% of GDP recorded in 2010.

In the November 2011 run-off election, Mr. Otto Pérez Molina of the Patriotic Party was elected President of Guatemala, although he did not win a majority in the Congress. The challenge is now to reach the consensus required to increase tax revenues enough to address the urgent economic and social challenges that the country faces.

The economy is expected to grow by 3% in 2012 as exports put in a modest performance and domestic demand remains weak amidst global economic uncertainty, with little public policy scope for measures that could spur sustained economic growth. The new administration might be able to win the tax reform needed to increase the tax burden to at least 13%.

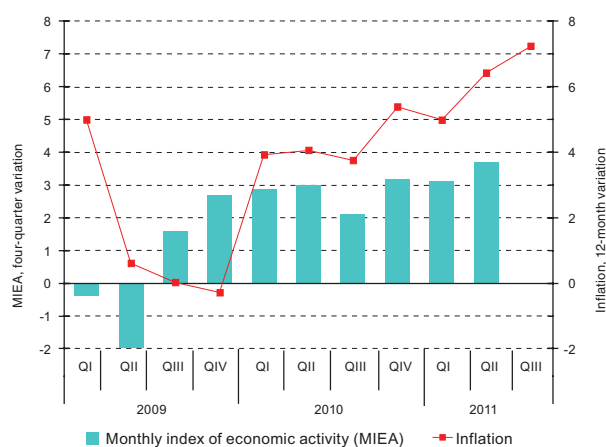
The fiscal deficit for 2011 is estimated to stand at 2.9% of GDP (compared with 3.3% in 2010) owing to lower-than-estimated social expenditure and the fact that spending in the wake of 2010's natural disasters also fell short (because of a lack of resources only 11% of planned investments in reconstruction were executed). Total central government public debt reached 24.3% of GDP, similar to the figure for 2010 (24.6%), without taking account of unquantified central government floating debt.

Total central government revenue rose by 3.9% in real terms, which was slightly less than the 4.3% increase seen in 2010. Budget reallocations and a funding shortfall held the increase in total spending to a mere 0.7% in real terms. Capital spending bore the brunt of the impact, slumping by 10.3%; current expenditure went up by 5.1% in real terms, driven by, among other factors, higher wages. The tax burden, excluding social security contributions, reached

10.6% of GDP, slightly higher than in 2010 (10.5%), owing in part to the passage of tax evasion legislation in late 2010; a second anti-evasion bill was held up in the Congress in 2011.

The monetary-policy interest rate, which had been kept at 4.5% since 2010, was raised three times to reach 5.5% on 29 September 2011, in response to higher inflation expectations. The Bank of Guatemala set up an overnight deposit facility in order to bolster monetary policy instruments and secondary market operations. It is estimated that the bilateral nominal exchange rate of the quetzal against the United States dollar depreciated by

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.

2% (9% in real terms) in 2011. Net international reserves will reach about US\$ 6.5 billion at the end of December, equivalent to nearly three months of imports of goods and services and 5.8% more than in 2010.

Monetary aggregates M1, M2 and M3 increased slightly in real terms compared with 2010 in response to the upturn in economic activity. Real interest rates on loans and deposits, which averaged 6.8% and 0.8%, respectively, in the third quarter, were lower than in 2010. Total credit went up by 12% (4.7% in real terms). The credit portfolio with the highest nominal growth was consumer loans (20%), while the mortgage portfolio saw the lowest nominal growth (4%).

After Guatemala's stand-by arrangement with the International Monetary Fund (IMF) expired on 21 October 2010, it signed no new drawing rights agreements in 2011.

With regard to trade, the countries of Central America and Mexico signed a free trade agreement at the Summit of the Tuxtla Mechanism for Dialogue and Coordination in November 2011 to combine the trade agreements in force between these countries.

The real GDP growth rate of 3.3% is attributable to the solid expansion in mining, commerce and financial and trade services, while manufacturing and agriculture recorded more modest growth and construction once again contracted, although at a lower rate than in 2010. On the demand side, gross fixed investment increased by 2%, which compares positively with its virtually flat performance in 2010 (0.4%). Private investment increased by 6.8%, but public investment fell by 3.2% and is far from returning to the levels recorded before its collapse in 2010 when it dropped by 16%. Public consumption was up by 3.6%, and private consumption rose by 4.1%. Tropical depression 12-E in October 2011 had a negative impact on economic growth for the year, shaving 0.14 percentage points off real GDP growth in 2011. The monthly index of economic activity trend-cycle series recorded an annualized increase of 3.67% to September 2011, which was higher than the 3.4% seen in September 2010.

Higher prices for imported goods, especially oil and food, pushed consumer prices up by 7.2% from December 2010 to December 2011 compared with 5.4% in 2010. The minimum agricultural and non-agricultural wage was raised by 5.9% in 2011; wages in the maquila sector were raised by 7.1% in real terms. The recovery of economic activity is expected to bring the open unemployment rate down to 3.2%, only three tenths of a percentage point lower than in 2010.

GUATEMALA: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	0.5	2.8	3.3
Per capita gross domestic product	-1.9	0.3	0.8
Consumer prices	-0.3	5.4	6.1 ^b
Real minimum wage	5.1	3.7	7.0
Money (M1)	5.7	9.5	8.7 ^b
Real effective exchange rate ^c	3.6	-0.7	-3.9 ^d
Terms of trade	8.5	-0.5	-1.7
Annual average percentages			
Open urban unemployment rate	...	4.8	...
Central government			
overall balance / GDP	-3.1	-3.3	-2.9
Nominal deposit rate ^e	5.6	5.5	5.3 ^f
Nominal lending rate ^g	13.8	13.3	13.4 ^f
Millions of dollars			
Exports of goods and services	9 220	10 782	12 938
Imports of goods and services	12 727	15 228	18 390
Current account balance	8	-826	-1 914
Capital and financial balance ^h	465	1 503	2 534
Overall balance	473	677	620

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

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c A negative rate indicates an appreciation of the currency in real terms.

^d January to October average, year-on-year variation.

^e Weighted average rate for deposits in the banking system.

^f January-November average.

^g Weighted average lending rates in the banking system.

^h Includes errors and omissions.

Goods exports shot up by 23.8% in 2011, against 17.3% in 2010. Traditional exports rose by 23.3% (with coffee and banana exports jumping up by 35.4% and 25.2%, respectively, in value terms); non-traditional exports increased by 23.9%. Goods imports expanded by 21.9%. Demand for intermediate goods performed particularly well (27.4%), although it was driven by rising prices for hydrocarbons and other industrial inputs. Imports of capital goods and consumer goods increased by 17.9% and 13.4%, respectively.

Income from family remittances rose by 8.3% to stand at US\$ 4.469 billion. Tourism, another significant source of foreign currency inflows, grew by 5% to US\$ 1.447 billion, which compares poorly with the 16.9% growth recorded in 2010. As a result, the current account deficit stood at 3.4% of GDP in 2011. Foreign direct investment (FDI) went up by 11.5%, to the equivalent of 1.6% of GDP; the capital and financial account posted a surplus of US\$ 1.483 billion. Net capital inflows (including errors and omissions) exceeded the current account deficit, such that the balance of payments was a positive US\$ 191 million, that is, US\$ 486 million less than in 2010.