

Guatemala

1. General trends

In 2010, Guatemala's real GDP grew by 2.8% (up from 0.5% in 2009), driven by an upturn in exports as the United States economy picked up and by growth, albeit modest, in domestic demand on the back of a slight improvement in remittances and foreign direct investment (FDI). Annual inflation, as at December, reached 5.4%, and the fiscal deficit stood at about 3.3% of GDP (just higher than the 3.1% of GDP posted in 2009). The trade deficit represented 10.8% of GDP and the balance-of-payments current account deficit was equivalent to 2% of GDP.

The economy is projected to grow by 4% in 2011 owing to moderate external and domestic demand and public investment; however, it will not be possible to offset fully the effects of the uncertainty surrounding the presidential elections to be held in September 2011. Inflation will rise slightly to about 6% as a result of higher prices for imported goods and the likelihood of a lower margin of idle capacity in some productive sectors. The central government's deficit could exceed slightly its current level as a proportion of

GDP owing to the possibility of higher spending during the 2011 electoral process and the commitment to meeting social needs. Indeed, the presidential elections in September will take place against the backdrop of a modest economic recovery and worsening public security. The most significant challenge for the next government, as for this and previous governments, is reaching the consensus necessary to boost fiscal revenue in order to respond to the urgent economic and social challenges that the country is facing.

2. Economic policy

(a) Fiscal policy

In 2010, total real central government revenue rose by 4.3% in relation to 2009.

Tax revenues were up by 3.9%, especially as a result of higher indirect taxes (5.3%), in particular value added tax on imports (9.6%). Direct taxes edged up by 0.9% (0.4 percentage points higher than in 2009) because of higher income tax revenues (2.1%). The tax burden stood at 10.9% 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).

Total real public spending rose by 5% in relation to 2009, mainly owing to higher current spending (5.5%), as capital spending increased by only 3.8%. Among the components of current spending that rose the most were wages (6.6%), which make up 25.9% of total current spending, and domestic interest payments (10.2%). Thus, the central government's deficit was equivalent to 3.3% of GDP, a slight increase on the 3.1% recorded in 2009.

According to the authorities' revenue and expenditure estimates at the beginning of 2010, the central government's deficit would close the year at 3.1% of GDP; however, because of the spending involved in responding to natural

disasters (the eruption of the Pacaya volcano, tropical storm Agatha and subsequent torrential rains),¹ the deficit rose to 3.3% of GDP.

The government estimated that the rebuilding effort would require an investment of 15.369 billion quetzales over a five-year period (2011-2015), which was equivalent to 4.6% of GDP in 2010.

In order to begin putting its reconstruction plan into action, in 2010 the government obtained a development policy loan with a catastrophe deferred drawdown option totalling US\$ 85 million, equivalent to 680 million quetzales, from the World Bank. In addition, the Congress authorized the issuing and placement of “reconstruction bonds” worth 1.680 billion quetzales in November 2010. Furthermore, following the disaster, the Congress approved a 2.36 billion quetzal increase in the overall State budget (which was similar to that for 2009, since the draft budget for 2010 was not approved by the Congress).

Actual spending on reconstruction in 2010 totalled 640.7 million quetzales (barely 4.2% of estimated total spending), of which 64% was financed through the World Bank disaster response loan, 10.6% through “reconstruction bonds” and 25.4% through others sources of financing, such as grants and current revenues.

Low revenues forced the government to resort to higher borrowing. Total public debt amounted to 81.518 billion quetzales at the close of 2010, equivalent to 24.6% of GDP (compared with 23% of GDP in 2009). Domestic debt went up by 20.2%, while external debt rose by 12.9%. This figure does not take into account the central government’s floating debt, which is equivalent to about 1% of GDP.

A large proportion of the total debt will mature between 2011 and 2020, entailing disbursements that could soon put pressure on public finances.

The leading international rating agencies did not downgrade their assessment of Guatemala’s long-term sovereign debt in 2010. In fact, Moody’s, Standard and Poor’s and Fitch Ratings maintained Guatemala’s foreign-currency bond ratings at below investment grade (Ba1, BB y BB+, respectively) with a stable outlook.

¹ For further details, see “Evaluación de daños y pérdidas sectoriales y estimación de necesidades ocasionadas por desastres en Guatemala desde mayo a septiembre de 2010” (Spanish only) and evaluations of damage and losses by sector, and needs estimates in the wake of subsequent weather events between June and September 2010, prepared by the Government of Guatemala with support from the Inter-American Development Bank (IDB), World Bank, Economic Commission for Latin America and the Caribbean (ECLAC), International Monetary Fund (IMF), United Nations Population Fund (UNFPA), Global Facility for Disaster Recovery and Reduction (GFDRR) and United Nations Development Programme (UNDP).

The overall State budget for the 2011 tax year totalled 54.391 billion quetzales, but was increased to 56.003 billion quetzales at the end of March to take account of higher spending. The authorities are expecting a tax burden equivalent to 10.8% of GDP, including revenues equalling almost 0.3% of GDP, which would be generated if the new tax evasion legislation is passed. The bill was put forward to improve tax administration. In 2011, tax revenues are expected to reach 38 billion quetzales, 9.3% more than in 2010. The rest of public spending will be covered by external loans for 6.2 billion quetzales, local and international bond issues for 5.3 billion quetzales and 1.1 billion quetzales in grants. The central government’s deficit could widen as a result of higher spending during the electoral process.

The State budget is extremely rigid (about 91% of budget resources are earmarked), owing to the tax system, which leaves little room for manoeuvre unless the tax burden is increased.² As long as tax revenues continue to rise at a slower pace than borrowing, there is an urgent need for reform in order to give the State more resources and make higher social spending and public investment possible without putting macroeconomic stability at risk.

(b) Monetary and exchange-rate policies

In 2010, the monetary-policy interest rate held steady at 4.5%, which represented a fall of 0.7% in real terms. While the Bank of Guatemala intervened on several occasions to prevent volatility in the exchange market, the nominal bilateral exchange rate against the United States dollar reflected a 1.0% appreciation over the year compared with 2009 (3.1% in real terms). The level of international reserves was similar to that recorded in 2009, equivalent to almost five months of goods and services imports.

On average, in 2010 the monetary aggregates went up slightly in real terms (4.6%), thanks to the upturn in economic activity. The narrow money supply (M1) grew by 3.9% year-on-year and M2 by 4.3%. The broad money supply (M3) expanded by 5.6%, boosted by the 12.5% increase in foreign currency deposits.

Real interest rates on loans and deposits averaged 9.1% and 1.6%, respectively, both of which were lower than the rates in 2009 (11.8% and 3.7%, respectively). This drop reflects greater liquidity in the banking system, and a certain efficiency in banking administration. The value of new loans granted by the banking system went up by 5.4% in real terms in 2010. Transport was the

² Many resources are earmarked in the constitution, for example, the IVA-Paz (peace value added tax) and contributions to the municipalities.

branch of economic activity that saw the highest increase (74.8%), accounting for 1.3% of all loans. Commercial and consumer loans, which account for the highest proportions of lending (26.4% and 24.4%, respectively), went up by 5.7% and 16.2%, respectively.

In 2010, commercial banking withstood the international crisis thanks to earlier improvements to banking legislation and regulation. Thus the financial system consolidated its stability and solvency, primarily in terms of liquidity on the back of a slight improvement in non-performing loans. Commercial banks showed a preference for acquiring public securities because of their favourable returns and the greater certainty they offer when providing loans for productive investments, which had a positive influence on the solidity of the banks' assets.

The monetary-policy interest rate, which applies to seven-day deposit certificates, held steady at 4.5% from 2010 until 31 March 2011 when it rose to 4.75% in response to higher inflation. Further increases are expected before the end of the year. In order to implement the monetary-policy interest rate, the Bank of Guatemala set up an overnight deposit facility, thus changing its neutralization and liquidity operations through auctions and permanent facilities as follows: seven-day deposits until 31 May 2011 and one-day deposits from 1 June 2011. The aim was to strengthen monetary-policy instruments and secondary market operations.

The exchange-rate system was moderated in order to consolidate the scheme of explicit inflation targets. The band in which the moving average is allowed to fluctuate was broadened from 0.5% to 0.6%, while all other parameters remained unchanged. These changes

seek to strengthen the capacity to respond in the event of pressures on public spending as a result of the electoral process and the uncertainty surrounding how well and for how long the global economy will pick up.

(c) Trade and other policies

In terms of its trade policy in 2010, Guatemala continued with the projects and negotiations begun in previous years. A free trade agreement between Guatemala and Chile entered into force in March 2010. A meeting on the trade pillar of the Association Agreement between Central America and the European Union was held in mid-March 2010 in Brussels; and the negotiations of the Agreement were subsequently concluded in May 2010. In April 2010, legislation on public-private partnerships to develop the country's economic infrastructure was adopted with a view to speeding up competitive bidding processes and making the subsequent allocation of contracts more transparent, while also scaling up the quality and quantity of investments. However, as at May 2011, the regulations issued under the legislation had yet to be adopted.

In force since April 2009, Guatemala's stand-by arrangement with the International Monetary Fund (IMF) expired on 21 October 2010. In its fourth review under the stand-by arrangement, the IMF Executive Board determined that the country had met the targets of this precautionary arrangement.

The monetary authorities are currently evaluating the type of programme or line of credit they could apply for in the coming months. A new agreement, with resources equalling some US\$ 300 million, is expected to be signed following the 2011 presidential elections.

3. The main variables

(a) Economic activity

In 2010, real GDP went up by 2.8%, which limited the rise in per capita GDP to only 0.3%. The higher GDP is attributable mainly to the expansion in basic and other services (3.9%), manufacturing (3.2%) and agriculture (0.6%). Construction contracted by 11.9%, owing to the lack of private investment plans because of the scarcity of bank financing and the slow execution of public works.

Mining faltered by 0.1%. In terms of demand, gross fixed investment inched up by 0.2%, reversing the downward trend seen in 2009 when it fell by 14.0%. Private investment expanded by 6.5%, while public investment slumped by 18.9% and total consumption grew by 4.0%. The economy would probably have displayed higher growth in 2010 if it were not for the adverse effects of the torrential rains and natural disasters. ECLAC estimated that its impact on GDP was equivalent to about 0.3 percentage points of GDP.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Annual growth rates^b								
Gross domestic product	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.5	2.8
Per capita gross domestic product	1.3	0.0	0.6	0.7	2.8	3.7	0.8	-1.9	0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.4	2.5	4.2	2.1	1.3	5.9	0.9	3.8	0.6
Mining and quarrying	16.0	-6.0	-11.9	-3.2	17.6	13.9	-4.3	4.2	-0.1
Manufacturing	1.1	2.5	4.9	2.6	3.8	3.0	2.0	-0.9	3.2
Electricity, gas and water	5.1	4.9	3.6	2.7	3.0	6.3	1.6	0.7	-0.4
Construction	15.4	-3.7	-8.9	4.5	13.1	8.8	-0.5	-10.8	-11.9
Wholesale and retail commerce, restaurants and hotels	2.0	1.5	3.1	3.2	3.9	4.1	2.0	-2.1	4.4
Transport, storage and communications	7.8	10.0	15.4	11.3	18.6	22.8	14.6	2.6	2.4
Financial institutions, insurance, real estate and business services	5.0	5.9	5.5	5.3	6.0	5.5	4.8	3.4	3.0
Community, social and personal services	3.1	1.4	0.5	2.3	5.4	6.0	5.8	4.5	5.3
Gross domestic product, by type of expenditure									
Consumption	3.0	3.3	2.8	4.0	4.7	5.7	5.0	1.6	4.0
General government	-0.1	-1.5	-6.6	1.7	5.7	8.3	11.3	14.3	7.8
Private	3.4	3.9	3.9	4.3	4.6	5.5	4.3	0.3	3.5
Gross capital formation	9.3	-3.1	-1.2	4.3	15.7	5.0	-5.8	-14.0	0.2
Exports (goods and services)	0.7	-0.5	8.2	-2.1	4.8	9.4	-0.2	-6.1	8.4
Imports (goods and services)	2.0	0.5	5.7	-0.6	6.5	7.2	-5.7	-9.3	13.7
	Percentages of GDP								
Investment and saving^c									
Gross capital formation	20.6	20.3	20.8	19.7	20.8	20.8	16.4	12.8	14.7
National saving	14.5	15.6	16.0	15.2	15.8	15.6	12.1	12.9	12.7
External saving	6.1	4.7	4.9	4.6	5.0	5.2	4.3	-0.0	2.0
	Millions of dollars								
Balance of payments									
Current account balance	-1 262	-1 020	-1 165	-1 241	-1 524	-1 786	-1 680	8	-826
Goods balance	-2 837	-2 960	-3 632	-4 191	-4 852	-5 487	-5 575	-3 348	-4 292
Exports, f.o.b.	4 224	4 526	5 105	5 460	6 082	6 983	7 847	7 295	8 566
Imports, f.o.b.	7 061	7 486	8 737	9 650	10 934	12 470	13 421	10 643	12 858
Services trade balance	-251	-263	-244	-142	-260	-310	-276	-159	-154
Income balance	-275	-303	-410	-485	-680	-843	-938	-1 111	-1 200
Net current transfers	2 102	2 506	3 122	3 577	4 268	4 854	5 108	4 626	4 820
Capital and financial balance ^d	1 269	1 554	1 769	1 480	1 776	2 002	2 013	465	1 503
Net foreign direct investment	183	218	255	470	552	720	737	574	663
Other capital movements	1 085	1 337	1 514	1 010	1 225	1 282	1 276	-108	840
Overall balance	7	535	604	239	252	216	333	473	677
Variation in reserve assets ^e	-7	-535	-604	-239	-252	-216	-333	-473	-677
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	88.7	88.6	85.8	79.3	76.9	76.3	72.4	75.0	74.6
Terms of trade for goods (index: 2000=100)	104.9	101.9	100.9	100.0	98.1	96.3	93.8	101.8	101.3
Net resource transfer (millions of dollars)	993	1 251	1 359	995	1 096	1 159	1 075	-646	303
Gross external public debt (millions of dollars)	3 119	3 467	3 844	3 723	3 958	4 226	4 382	4 928	5 562
	Average annual rates								
Employment									
Labour force participation rate ^g	61.5	61.4	56.1	...	...	...	...	...	...
Open unemployment rate ^h	5.4	5.2	4.4	...	...	...	...	...	4.8
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	6.3	5.9	9.2	8.6	5.8	8.7	9.4	-0.3	5.4
Variation in nominal exchange rate (annual average)	-0.2	1.3	0.4	-3.9	-0.5	0.9	-1.2	7.4	-1.0
Variation in average real wage	-0.9	0.4	-2.2	-4.0	-1.1	-1.6	-2.6	0.1	2.8
Nominal deposit rate ⁱ	7.1	5.2	4.5	4.6	4.7	4.9	5.2	5.6	5.5
Nominal lending rate ^j	16.9	15.0	13.8	13.0	12.8	12.8	13.4	13.8	13.3
	Percentages of GDP								
Central administration									
Total revenue	12.8	12.5	12.3	12.0	12.7	12.8	12.0	11.1	11.3
Tax revenue	12.2	11.9	11.8	11.5	12.1	12.3	11.5	10.6	10.8
Total expenditure	13.9	15.1	13.4	13.7	14.7	14.3	13.6	14.2	14.6
Current expenditure	9.7	10.1	9.2	9.1	9.4	9.5	9.2	10.1	10.4
Interest	1.4	1.3	1.4	1.4	1.4	1.5	1.4	1.4	1.5
Capital expenditure	4.2	5.1	4.3	4.6	5.3	4.8	4.5	4.1	4.1
Primary balance	0.3	-1.3	0.3	-0.3	-0.6	0.0	-0.3	-1.7	-1.8
Overall balance	-1.1	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6	-3.1	-3.3

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Central-government public debt	18.4	20.9	21.4	20.8	21.7	21.3	20.1	23.0	24.2
Domestic	5.0	6.3	6.7	7.9	8.8	9.2	8.9	9.9	11.1
External	13.3	14.6	14.7	12.8	12.9	12.1	11.3	13.0	13.1
Money and credit^k									
Domestic credit	18.1	18.4	17.7	21.4	25.4	27.6	26.5	26.9	26.5
To the public sector	-3.1	-2.9	-3.9	-2.5	-2.3	-2.6	-2.8	-2.0	-2.0
To the private sector	20.0	20.4	20.9	23.2	27.1	29.9	29.0	28.7	28.1
Others	1.1	0.9	0.7	0.6	0.7	0.4	0.4	0.2	0.3
Liquidity (M3)	31.7	33.5	34.0	35.7	38.3	37.0	35.2	37.3	38.4
Currency outside banks and local-currency deposits (M2)	29.6	30.7	30.3	31.8	34.0	32.3	30.4	31.4	32.0
Foreign-currency deposits	2.0	2.8	3.7	3.9	4.3	4.7	4.8	5.9	6.4

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2001 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; nationwide total.

ⁱ Weighted average rate for deposits in the banking system.

^j Weighted average lending rates in the banking system.

^k The monetary figures are end-of-year stocks.

The trend-cycle series of the monthly index of economic activity has picked up since mid-2010, giving an annualized increase of 3.4% in April 2011 (compared with 3.2% in April 2010). Growth of 4% is expected for 2011, on the back of domestic demand and public spending in connection with the electoral period and the reconstruction works following the disasters in 2010. The authorities estimate that between 2.514 billion quetzales (0.8% of 2010 GDP) and 4.155 billion quetzales (1.3% of 2010 GDP) will be spent on this item in 2011.

(b) Prices, wages and employment

The consumer price index rose by 5.4% between December 2009 and December 2010, owing mainly to the economic recovery, higher prices for imported goods and temporary variations caused by natural disasters. Higher prices for food and beverages because of the natural disasters contributed about 0.2% to inflation by the end of the year. Inflation of about 6% is expected for 2011, as higher prices for the main commodities, such as oil, maize and wheat, have a significant and direct impact on inflation in Guatemala.

In January 2010, the increase in the minimum wage came into effect. The minimum wage for both agricultural and non-agricultural activities thus rose from 52 quetzales per day to 56 quetzales per day, representing a nominal increase of 7.7% (2.4% higher in real terms than 12 months earlier). 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.

The natural disasters in 2010 led to a temporary increase in unemployment in the areas that were hit. This situation was mitigated by rehabilitation and reconstruction activities and the economic recovery. In 2010 the estimated unemployment rate was about 3.5%, compared with 3.2% in 2008 (last official reported data). In 2010, the Guatemalan Social Security Institute had 1,107,192 registered contributors, 1.7% more than the previous year.

(c) The external sector

In 2010, goods exports were up by 17.4% compared with 2009. Traditional exports rose by 16.2%; non-traditional exports increased by 17.8%. Among the traditional exports, sugar shot up by 43.1%, oil by 18.8% and green coffee by 21.8%, while banana exports dropped by 15%. As to non-traditional goods, natural rubber exports burgeoned by 70.3%, although they made up only 2.6% of the total. Exports of shrimp, fish and lobster experienced the largest fall, slumping by 12.3%. Exports of goods to Central America, which made up 28.3% of all exports, grew by 20.4%, while those to the rest of the world expanded by 16.2%. In particular, exports to the United States (40% of all exports) increased by 2.5%, after falling by 9.1% in 2009.

Goods imports went up by 20.1% owing to higher demand for capital goods (26.7%). Intermediate goods imports surged by 19.5%. The oil bill, which accounted for 17.9% of the total intermediate goods amounted to

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-0.4	-2.0	1.6	2.7	2.9	3.0	2.1	3.1	...	...
Goods exports, f.o.b. (millions of dollars)	1 842	1 858	1 718	1 796	2 156	2 204	1 919	2 188	2 722	1 012 ^d
Goods imports, c.i.f. (millions of dollars)	2 632	2 765	2 949	3 186	3 057	3 470	3 563	3 748	3 854	1 391 ^d
Gross international reserves (millions of dollars)	5 030	5 137	5 087	5 213	5 547	5 848	5 659	5 954	6 191	6 421
Real effective exchange rate (index: 2000=100) ^e	71.2	74.5	76.5	78.0	75.9	73.9	74.1	74.5	72.5	71.4
Consumer prices (12-month percentage variation)	5.0	0.6	0.0	-0.3	3.9	4.1	3.8	5.4	5.0	6.4
Average nominal exchange rate (quetzales per dollar)	7.94	8.10	8.24	8.31	8.18	8.01	8.04	8.02	7.82	7.64
Nominal interest rates (annualized percentages)										
Deposit rate ^f	5.6	5.7	5.7	5.6	5.6	5.5	5.4	5.4	5.3	5.3 ^d
Lending rate ^g	13.9	13.8	13.9	13.7	13.5	13.4	13.3	13.2	13.3	13.4 ^d
Interbank rate	6.8	5.9	4.9	4.5	4.9	4.7	4.6	4.4	4.4	4.6
Domestic credit (variation from same quarter of preceding year)	6.3	14.3	11.1	5.5	10.3	2.3	4.6	6.1	8.1	...
Non-performing loans as a percentage of total credit total credit	2.62	3.04	3.19	2.71	2.66	2.8	2.68	2.11	1.94	2.12

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2001 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

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

^g Weighted average lending rates in the banking system.

US\$ 2.476 billion, equivalent to 6% of GDP. Imports of consumer goods rose by 17.1%. Imports from Central America (10.8% of the total) were up by 13.3% and those from the rest of the world expanded by 20.9%. In 2010, the terms of trade for goods and services worsened by 0.5%, after having improved by 8.5% in 2009.

Family remittances rose by 5.5% in 2010, contrasting with the 9.3% drop the previous year, and were equivalent to 10% of GDP—a significant proportion of national revenue. Foreign-currency inflows from tourism (about 1.9 million visitors—5.6% more than in 2009) rose by 6.2% to reach US\$ 1.378 billion owing to the better promotion of the sector and the improvement in the global economy. The current account deficit was equivalent to 2% of GDP, compared with 0% in 2009.

Foreign direct investment (FDI) in the energy, communications and services sectors went up by 14.5%, equalling 1.7% of GDP. The balance of the financial and capital account was positive. Net capital inflows (including errors and omissions) exceeded the current account deficit, such that the balance of payments showed a surplus of US\$ 676.9 million, or about 1.6% of GDP.

A moderate increase in the imports growth rate is projected for 2011 owing to the increase in food and commodity prices (especially petroleum products). As a result, the current account deficit will be close to 3.2% of GDP. Remittances are expected to grow by 5% to about US\$ 4.3 billion. FDI is expected to reach US\$ 770 million (equivalent to 1.7% of GDP).