

## Guatemala

The Guatemalan economy grew by 5.5% in 2007 thanks to the buoyancy of private consumption, which was boosted by large inflows of family remittances (12.5% of GDP). Those inflows went some way towards financing the country's large trade deficit (about 17% of GDP). The current-account deficit (5% of GDP) was more than covered by foreign direct investment and other capital inflows. The yearly inflation figure to November was 9.1%, mostly owing to supply factors, so the 2007 inflation target of 4%-6% was not met.

For 2008, the authorities project GDP growth of 5.0%, an inflation rate between 3.5% and 5.5% and a central government deficit of 1.6% of GDP. The new government will take office in January 2008, and is expected to comply with the commitment to maintain macroeconomic stability and give greater priority to social policies. It will have to face the public security problems and construct legal standards to enable the authorities to have access to stable and sufficient revenue. The tax burden stood at 12% of GDP, well below the average for Latin America and the Caribbean.

Up to September 2007, total government revenue in real terms rose by 9% (compared with 11% in 2006), boosted by economic growth. In real terms, current expenditure increased by 8% and capital expenditure by 17%. Particularly significant was the growth of physical investment as a result of new public works projects. As a result, the government deficit in 2007 was slightly above the 2006 figure of 1.9% of GDP. A one-year extension is currently being arranged for the extraordinary tax imposed temporarily to support the peace agreements (IETAP), which is due to expire at the end of 2007. If this is agreed, it will generate revenue equivalent to 1% of GDP for the 2008 budget.

In the course of the year, in order to counter inflationary pressures, the monetary authorities made five increases of 0.25 points each to the monetary policy rate, which stood at 6.25% in December. International reserves rose, mostly because of disbursements from government external borrowing; this was reflected in an

increase in public external debt of US\$ 300 million. A proportion of the resulting resources was held in central bank deposits, so fiscal policy contributed to holding back the growth of the money supply. Open-market operations were continued, albeit at a lower rate than in 2006. In October, the year-on-year variation of means of payment in real terms was 4%, while variation in credit to the private sector was 12% for local-currency and 34% in terms of foreign currency. This was beyond the range established in the monetary programme, due to lower financial costs and the relative stability of the nominal exchange rate.

Up to November, the central bank did not intervene in the exchange market. In comparison with 2006, the quetzal experienced a slight real effective appreciation (0.5%). However, the appreciation was significant (12%) with regard to the average for the period 2000-2006.

Despite the suspension of two banks (one in October 2006 and the other in January 2007), the country's banking system operated in a framework of relatively stable interest rates. The nominal lending rate averaged 12.9%, while the average nominal borrowing rate was 4.8%. Several bank mergers have taken place since October 2006 in response to the strategy of national banks to increase their solvency. Non-performing loans and loans in arrears, as a percentage of the total credit portfolio, fell from 5.9% in 2006 to 5.3% in 2007.

GDP growth in 2007 was due to buoyant construction and transport and communications, which posted growth rates of around 15%. Construction

was boosted by increased public investment and the expansion of credit to the private sector. Growth in the transport and communications sector was mainly attributable to investment by telecommunications enterprises. Agriculture grew by 4% thanks to a recovery of traditional crops. Coffee production climbed as its prices picked up on the international markets, while sugar production rose owing to increased demand in the light of higher export quotas under the Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR). Manufacturing growth remained modest at 3%.

Inflation gathered pace during the year to reach year-on-year variation of 9.1% in November, compared with 5.8% at the end of 2006. The main determinants were supply factors such as the price hikes in petroleum and its derivatives as well as in food (partly offset by the relative stability of the exchange rate). In October, food prices chalked up year-on-year variation of 14.0%, partly due to the harvest losses in the wake of high rainfall.

In 2007, the minimum daily wage was 44.58 quetzals for agricultural activities and 45.82 quetzals for non-agricultural activities. In September, the cost of the basic basket of foods was 55.16 quetzals a day. Real minimum wages fell by 1%. According to the three employment surveys carried out by the Social Research and Study Association (ASIES), half of companies reported employment as unchanged.<sup>1</sup> However, there was a rise in the number of companies reporting an increase in the number of jobs (from 27% in January to 36% in September).

The value of merchandise exports climbed by 16% in 2007, mainly on the strength of the increase in traditional exports (especially banana and coffee). The best performances by non-traditional exports were fruits, vegetables and legumes, as well as other food products (in terms of volumes) and mineral products (by volumes). Up to August, external sales of clothing showed a decline (-28%). The value of merchandise imports expanded by 15%. Main examples included purchases of durables (24%)

#### GUATEMALA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	3.5	4.9	5.5
Per capita gross domestic product	0.9	2.3	2.9
Consumer prices	8.6	5.8	9.1 <sup>b</sup>
Real minimum wage	-1.4	3.2	-1.4
Money (M1)	14.5	18.2	19.0 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-7.1	-3.1	-0.4 <sup>e</sup>
Terms of trade	-0.9	-1.9	-0.9
<b>Annual average percentages</b>			
National administration overall balance / GDP	-1.7	-1.9	-2.3
Nominal deposit rate	4.6	4.7	4.9 <sup>f</sup>
Nominal lending rate	13.0	12.8	12.8 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	6 611	7 420	8 561
Imports of goods and services	11 234	12 750	14 425
Current account	-1 432	-1 592	-1 678
Capital and financial account	1 686	1 871	1 846
Overall balance	254	279	169

**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 2007.

<sup>c</sup> Twelve-month variation to October 2007.

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

<sup>e</sup> Year-on-year average variation, January to October 2007.

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

and construction materials (35%). The oil bill continued to grow and represented 18% of total imports.

Revenues from family remittances amounted to US\$ 4.2 billion. The rate of growth of remittances fell from 21% in 2006 to 17% in 2007. This reduced buoyancy is a reflection of rising unemployment, lower wages for Guatemalan emigrants working in the troubled construction industry in the United States and the recent toughening of the migration policy in that country.<sup>2</sup> Income from remittances remains a key factor in financing the wide goods and services deficit. The current-account deficit was amply covered by capital inflows, causing international reserves to swell by US\$ 170 million.

<sup>1</sup> The latest data on employment are from the national employment and income survey of 2004. The national employment and unemployment survey was carried out in the fourth quarter of 2007, and its results will be available in 2008.

<sup>2</sup> There are estimated to be 1.4 million Guatemalans living abroad, most of those in the United States.