

Guatemala

The Guatemalan economy grew by around 3.3% in 2008, a marked slowdown from the 5.7% posted for 2007. Growth was driven by external demand and private consumption. The yearly inflation figure is expected to rise from 8.7% to 10.9%, mainly owing to supply factors, and the fiscal deficit should drop to around 1.2% of GDP. Although the trade deficit is projected to be high (16% of GDP), the inflow of current transfers should limit the balance-of-payments current account deficit to 5% of GDP, which is expected to be financed by capital flows which will also increase international reserves.

The new government which took office in January 2008 emphasized social and rural development policies, support for small and medium-sized enterprises, public security and the justice system. It is also seeking to establish legal standards that ensure access to stable and sufficient revenue.

According to ECLAC estimates, the economy will grow by 2% in 2009. The budget for the coming year includes increased allocations in the government's priority areas. The authorities are predicting a central government deficit of 2% of GDP, although increased expenditure will help soften the impact of the slowdown in the United States economy. The main consequences for economic growth will be slower expansion of export income, remittances and foreign direct investment (FDI).

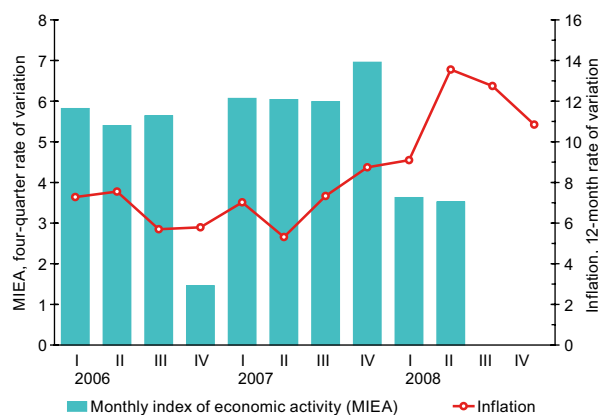
The central government deficit for 2008 is projected at 1.2% of GDP, representing a fall for the second year running. In the first eight months of 2008, total real government revenues were down by about 3.5% compared to the same period in 2007, owing to slower growth and increased inflation. Total spending fell by 13%, mainly because spending on public works was held back by new budgetary standards implemented at the beginning of the year to provide greater transparency in fiscal management. Increased budget performance is expected in the fourth quarter. The tax burden stood at 12% of GDP, well below the average for the region.

At the end of 2008, the national congress adopted a solidarity tax to replace the extraordinary tax imposed temporarily to support the peace agreement. A specific tax on the first registration of imported vehicles was also proposed, to replace import tariffs. An income tax reform

bill, to be implemented in stages, is expected to be placed before parliament in 2009.

Like others in the region, the central bank had to deal with complex monetary policy issues in 2008. A significant part of the inflationary trends were caused by external supply problems which were largely beyond the bank's control, but it had to try to curb pressures caused by second-round effects. The authorities were also aware of the initial consequences for the country's economy of slowing growth in the United States. The monetary-policy interest rate was raised only twice in 2008, in March and July, rising from 6.5% to 7.25%, compared to 2007 when six adjustments were made and the rate climbed from 5% to 6.5%.

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.

The increased interest rate differential with respect to the United States caused an inflow of short-term capital which led to a real appreciation of the quetzal. In April 2008, to mitigate this appreciation, the monetary authorities invoked the rule that allows them to intervene in the foreign-exchange market and by October they had purchased US\$ 242 million. Consequently, international reserves rose by a similar amount.

Real monetary aggregates suffered a decline in 2008 (between 2% and 3%) caused by steep cuts in fiscal expenditure, increasing monetary sterilization operations and depressed growth in loans offered by the commercial banks. The real rise of credit to the private sector is expected to fall to 4% compared to the 16% posted in 2007. In 2008, real interest rates on loans and deposits averaged 2% and -6%, respectively. Although in the first quarter three major international banks that were already operating in the region joined the national financial system, by mid-year the assets of foreign banks made up only 8% of the total assets of the Guatemalan banking system.

Economic growth is expected to slow to 3.3% for 2008, as a result of the downturn in private consumption caused by a reduced inflow of remittances. The strong expansion of external demand, however, should prevent a sharper fall in growth. All sectors other than construction are expected to expand. While transport, communications and banking are projected to grow at two-digit rates, construction, which recorded 12% growth in 2007, is predicted to slow somewhat owing to the postponement of private-sector projects and public infrastructure initiatives during the new government's first year in office. Agriculture and manufacturing are projected to grow by around 2%.

Inflation rose in 2008, reaching a year-on-year variation of 14.2% in July but falling back to 10.9% in November (in 2007 it had stood at 8.7%). This was down to supply factors such as the rise in fuel and food prices, partially counteracted by the nominal revaluation of the currency. Food prices are expected to record a year-on-year increase of around 15%, partly because of crop losses caused by the heavy rainfall that hit the country in October.

No employment survey data were available for 2008, although in March the Ministry of Labour and Social Security estimated the unemployment rate at around 5.5%. Up to October, there had been no nominal adjustments to the daily minimum wage, which dropped by almost 10% in real terms.

GUATEMALA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	5.3	5.7	3.3
Per capita gross domestic product	2.7	3.2	0.8
Consumer prices	5.8	8.7	10.9 ^b
Average real wage	3.2	-1.6	-11.0
Money (M1)	18.4	14.1	-0.5 ^c
Real effective exchange rate ^d	-2.9	-0.0	-4.7 ^e
Terms of trade	-1.9	-1.9	-0.9
Annual average percentages			
Central administration			
overall balance / GDP	-1.9	-1.5	-1.2
Nominal deposit rate	4.7	4.9	5.1 ^f
Nominal lending rate	12.8	12.8	13.3 ^f
Millions of dollars			
Exports of goods and services	7 601	8 721	9 914
Imports of goods and services	12 719	14 511	16 166
Current account	-1 512	-1 697	-1 823
Capital and financial account	1 765	1 913	2 123
Overall balance	252	216	300

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 2008.

^c Twelve-month variation to October 2008.

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

^e Year-on-year average variation, January to October.

^f Average from January to October, annualized.

Thanks to prices higher than those of previous years, the value of goods exports is expected to record an increase of about 15%, the same as in 2007. This result was influenced by the increased value of non-traditional exports (42%), particularly those of food and chemicals. Sales of traditional products were dominated by coffee, cardamom and petroleum, while sugar exports fell by 16%, mainly because of a drop in export volumes caused by maritime transport difficulties. An 11% rise was recorded for imported goods, driven by purchases of intermediate and consumer goods, while capital goods imports became sluggish. Up to October 2008, income from family remittances had stood at US\$ 3.657 billion. The annual growth rate for these remittances dropped to 6.7% (14.4% in 2007) influenced by the problems in the economy of the United States and the hardening of its immigration policy. Net foreign direct investment inflows were equivalent to 2% of GDP, slightly above the figure recorded in 2007.