

## Guatemala

In 2009, the Guatemalan authorities faced major challenges in their efforts to offset the impact of the international financial crisis and, in particular, the recession in the United States, on the country's economy. The crisis was transmitted through slumps in exports, remittances, foreign direct investment (FDI) and tourism. According to estimates, the Guatemalan economy contracted by 1% in 2009, as compared with 4% growth in 2008. The inflation rate fell from 9.4% to 2% and the fiscal deficit was 3.4% of GDP. Although the trade deficit reached 11% of GDP, the inflow of remittances, albeit at a reduced rate, kept the balance-of-payments current account deficit at 2.2% of GDP.

According to forecasts economic growth of 2% in 2010 with inflation at around 3%, due to the economic revival occurring in the United States and increased foreign capital inflows. Authorities are projecting the central government deficit at approximately 3.4% of GDP.

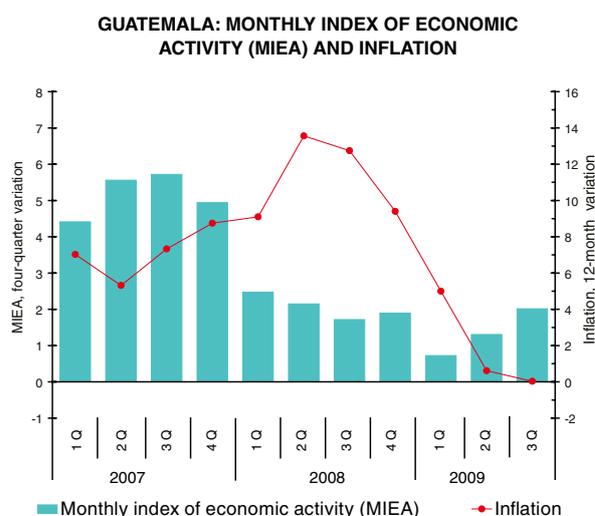
The fiscal deficit in 2009, as a proportion of GDP, is estimated to have doubled compared with 2008. In May 2009, given the downturn in economic activity and the real reduction in tax revenues of around 2.6% of GDP, the budget was adjusted to reduce the resulting gap (approximately 4 billion quetzales over the amount budgeted). In addition, the National Congress authorized an increase in the issuance of domestic currency bonds for a total of 3 billion quetzales, and approved a World Bank loan of US\$ 350 million (41.5% to be disbursed in 2009 and the remainder in 2010) and another loan of US\$ 38 million from the Inter-American Development Bank (IDB). Thus, it is estimated that the public debt will be 22% of GDP, compared with 20% of GDP in 2008.

Total real government revenues were down by 9.4% compared with 2008, while total expenditures grew by 5.5%, primarily as a result of increased current expenditures (10.5%), with capital expenditures dropping 4.6% in real terms. The tax burden was 9.9% of GDP, 1.5 percentage points lower than in 2008, settling well below the regional average and below the figure stipulated in the Peace Accords.

One year after the submission of a proposal for fiscal modernization and expanded tax collections (amounting to just over 1% of GDP), negotiations between the executive

branch, the Congress and business leaders broke down. Although this initiative was withdrawn on 27 August 2009, it is vital that the country reach a fiscal agreement and that efforts to improve tax administration proceed, in order to stem tax evasion and smuggling and boost revenues.

In January 2009, an ambitious plan was announced to deal with the crisis, and the National Emergency and Economic Recovery Programme was implemented to increase countercyclical public spending, provide social protection to vulnerable segments of the population, make



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

the budget fiscally sustainable and promote competitiveness. However, the results of this countercyclical policy were compromised by lack of funding. As a result, only marginal progress was made on reduction of poverty, inequality and insecurity, and this was compounded by a serious food crisis caused by drought in the country. Given this situation, the government was forced to intervene, and declared a “state of public calamity” in September 2009. International assistance was also sought and has been coming in gradually.

Between January and November of 2009, the main monetary policy interest rate dropped by 275 basis points. A year-end rate of around 4.5% (2.5% in real terms) is therefore being projected. In February 2009, the Monetary Board changed the rule on exchange-rate intervention in order to afford the Bank of Guatemala greater discretion to counteract volatility. The Board also authorized the central bank to supply liquidity to the financial system up to a maximum of US\$ 290 million through 31 May 2009. In addition, the band of fluctuation for the daily moving average within the flexible exchange-rate system was expanded from 0.50% to 0.75%. Up to November 2009, the Bank of Guatemala intervened in the currency market on 20 occasions. It is estimated that the bilateral nominal exchange rate with respect to the United States dollar depreciated 7% (3% in real terms). At the same time, international reserves reached levels similar to those of 2008, equivalent to four months' imports of goods and services.

Real monetary aggregates increased slightly in 2009 (by between 3% and 4%) in response to the significant slowdown in economic activity. Real interest rates on loans and deposits averaged 11.1% and 2.9%, respectively, compared with the low rates recorded in 2008 (1.7% and -5.6%, respectively). Loans to the private sector increased in real terms by 4.6%, while loans to the public sector fell 19.9%. The main banking indicators, above all those relating to non-performing loans, deteriorated slightly. Accordingly, there was a rise in the number of individuals and businesses renegotiating their liabilities with banks in order to avoid default.

With the 1% drop in GDP, 20 years of continued expansion came to an end. Construction experienced the greatest contraction (-9.1%), followed by mining, which fell by 2.6%. Services, agriculture and manufacturing, on the other hand, remained flat. In terms of demand, gross fixed investment fell 14%, while domestic investment declined 32% as a result of the significant drop in inventories. Private investment saw a 15% reduction, while public investment fell by 10%. Total consumption grew by barely 1.5%. In 2009, results of surveys on economic and employment prospects, as well as consumer confidence indices, were negative. By 2010, however, a moderate recovery is expected.

#### GUATEMALA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 <sup>a</sup>
<b>Annual percentage growth rates</b>			
Gross domestic product	6.3	4.0	-1.0
Per capita gross domestic product	3.7	1.5	-3.4
Consumer prices	8.7	9.4	-0.7 <sup>b</sup>
Average real wage	-1.7	-10.2	4.8
Money (M1)	14.1	3.4	7.4 <sup>b</sup>
Real effective exchange rate <sup>c</sup>	-0.8	-5.4	1.9 <sup>d</sup>
Terms of trade	-1.9	-2.7	7.9
<b>Annual average percentages</b>			
Central administration			
overall balance/GDP	-1.4	-1.6	-3.4
Nominal deposit rate	4.9	5.2	5.6 <sup>e</sup>
Nominal lending rate	12.8	13.4	13.9 <sup>e</sup>
<b>Millions of dollars</b>			
Exports of goods and services	8 714	9 637	8 894
Imports of goods and services	14 511	15 581	13 219
Current account balance	-1 786	-1 863	-628
Capital and financial account balance <sup>f</sup>	2 002	2 195	514
Overall balance	216	333	-114

**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 October 2009.

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

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

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

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

Inflation slowed in 2009, reaching barely 2%, owing to the drop in economic activity and reduced prices for fuel, food and non-alcoholic beverages. In early 2009, the minimum wage rose 10.6% for farm workers and 7.2% for non-farm workers, except in the maquila industry, leading to positive real-wage figures. The unemployment rate for 2009 is expected to be around 7%, compared with 5.5% in 2008. Up to October 2009, job applications increased by approximately 50% compared with the same period in 2008.

In 2009, as a result of the global economic crisis, exports of goods fell by 8.5% as compared with 2008, due to the decline in non-traditional exports (-14%). In terms of traditional products, exports of cardamom, bananas and sugar rose, while earnings from coffee exports fell 4.4% mostly as a result of reductions in export volumes. Imports of goods dropped by 16.7%, primarily due to reductions in imports of intermediate goods (-16%), consumer goods (-17.6%) and capital goods (-18.2%). By the end of the year, revenue from family remittances will have declined by 11%. At the same time, foreign-exchange earnings from tourism decreased by approximately 10% as a result of the outbreak of influenza A (H1N1), a worsening of security problems and the effects of the global economic recession. Revenue from FDI inflows were equivalent to 2% of GDP, despite a 9.5% decline compared with 2008.