

Guatemala

1. General trends

Real GDP growth in Guatemala stood at 4.0% in 2008, down from 6.3% in 2007, reflecting lower investment and slower growth in private consumption. Because of the economic crisis in the United States, family remittances declined to the equivalent of 11.3% of GDP, although they still helped finance the sizeable trade deficit (15.3% of GDP). In addition, the balance-of-payments current account deficit (4.8% of GDP) was once again financed by rising foreign direct investment (FDI). Higher world oil and food prices in the first half of the year pushed inflation up to 9.4% for the year. The tax burden was equivalent to 11.3% of GDP—one percentage point less than in 2007—increasing the central government deficit to 1.6% of GDP, slightly above the 2007 level.

In January 2008, the country's newly inaugurated president, Álvaro Colom, promised to maintain macroeconomic stability and place greater emphasis on social policy and rural development. In his first year and a half in office, Colom has had relative success in keeping a lid on inflation despite external shocks. Nevertheless, both economic growth and fiscal performance have been threatened by the global financial crisis. The challenge will be to reach a consensus on legal regulations that will make greater fiscal resources available to respond to the urgent social as well as economic needs that the country faces as a result of the global recession.

In 2009, the Guatemalan economy has been hurt by the recession in the United States. Falls in exports, family remittances, investment and fiscal revenue have had a significant adverse impact on employment. On the domestic front, growth in the construction and agricultural sectors is expected to diminish. In 2009, in the light of this adverse context, the Economic Commission for Latin America and the Caribbean (ECLAC) expects a 1% decline in GDP, an inflation rate of around 5% and a central government deficit equivalent to 3.9% of GDP. At the beginning of the year, the National Economic Emergency and Recovery Programme (PNERE) was launched to mitigate the adverse consequences of the crisis.

2. Economic policy

(a) Fiscal policy

As a result of the economic slowdown, total government revenue in 2008 was 5.3% lower in real terms than in the previous year. Tax receipts declined by 5.2% following a

decline in receipts from indirect revenue (-7.3%), in particular revenue from import taxes, which dropped by 18%. Direct taxes rose by 0.5%, also in real terms, despite a 0.1% decrease in income-tax receipts. The tax burden fell to 11.3% of GDP, almost one percentage point lower than in 2007.

Total spending contracted by 3.2% in real terms. Current spending decreased 1.8% —led by external interests (-20.3%)— as did spending on education, health and social welfare (-15.7%). Capital expenditure also declined (5.9%), with a particularly sharp fall in the “other capital expenditure” component (-13.5%). As a result, the central government deficit rose slightly to 1.6% of GDP, compared with 1.4% in 2007.

In 2008, the external public debt increased by 3.7% over its 2007 level, and at the close of December it stood at 11.3% of GDP. The domestic debt grew by 8.3%, to stand at 8.9% of GDP at year-end. The ratio of total debt to GDP improved, declining from 21.4% in 2007 to 20.2% in 2008. In 2009, however, it is expected to rise to 21.5% of GDP because of new borrowing to mitigate the consequences of the global economic crisis.

At the end of 2008, the congress adopted a solidarity tax to replace the extraordinary tax imposed temporarily to support the peace agreement. In addition, in the first few months of 2009, congress began to discuss the application of a specific tax on the first registration of imported vehicles, to replace import tariffs, as well as an income tax reform bill, to be implemented in stages. Efforts are continuing to improve tax administration in order to reduce evasion.

Starting in the second half of 2008, the government rolled out a series of measures in response to the global economic crisis, such as a temporary, moderate reduction of the legal reserve requirement in order to increase liquidity in the financial system and strengthen support programmes for SMEs and the Mi Familia Progresiva programme. In January 2009, it launched the National Emergency Economic Recovery Programme.

Between late 2008 and early 2009, following negotiations with international financial organizations, the country received loan disbursements from the World Bank (US\$ 200 million) and the Inter-American Development Bank (IDB) (US\$ 650 million), as well as contingent funding from the International Money Fund (US\$ 950 million), to be used to finance various development programmes and cope with the consequences of the economic crisis.

In 2008, international credit-rating agencies changed their outlook for the long-term sovereign debt of Guatemala from positive to stable. In 2009, given the adverse economic effects of the crisis, these agencies are expected to further downgrade the country’s credit ratings.

In May 2009, in response to the effects of the global economic crisis and the possibility of a 2% drop in tax receipts as a percentage of GDP, and in order to ensure prudent management of the fiscal deficit, the authorities adjusted the budget in line with the Rules

for Adjusting the Budget Performance in Fiscal Year 2009. Clearly, the size and effectiveness of the anti-crisis measures adopted will largely depend on the amount of funds available to the government. The risk is that, if the available resources are insufficient, the initially programmed budget of four billion quetzals will not be executed.

(b) Monetary and exchange-rate policy

Until July 2008, rising international prices for petroleum and petroleum products and food led to a year-on-year inflation rate of 9.4 %, well above the 4%-7% target range. To hold down inflationary pressure and as part of the adoption of explicit inflation targets, the monetary authorities raised the interest rate on seven-day deposit certificates from 6.5% in 2007 to 7.25% in December 2008. This measure brought down inflation at the end of 2008, but also led to a slowdown in economic activity. Between January and April 2009, in a bid to reactivate the economy, the central bank therefore lowered its monetary-policy rate in several steps, to 5.75%. This rate is expected to continue to decline for the rest of 2009.

In 2008, the nominal dollar-quetzal exchange rate was volatile because of the worsening international financial crisis and the possibility that sources of external financing might dry up, and this led the central bank to intervene in the foreign-exchange market. Even so, in late 2008 the bilateral real exchange rate with the dollar appreciated by 8.3% compared with the average rate for 2007, while international reserves increased by 20.5% to US\$ 3.6 billion (equivalent to three months of goods and services imports). Moreover, the real effective exchange rate (with all trading partners) appreciated by 6.4%.

In February 2009, the Monetary Board changed the rule on exchange-rate intervention in order to afford the Bank of Guatemala greater discretion to offset the unusual volatility of the nominal exchange rate. The Board also authorized the central bank to supply liquidity to banks in the system for as much as US\$ 290 million up to 31 May 2009. In addition, the margin of fluctuation of the moving average of the flexible exchange-rate system was broadened from 0.50% to 0.75%.

In 2008, the year-on-year increase in the money supply (M1) was 3.2%, while for M2 it was 6.4%. Broad money (M3) increased by 7.6%, as a result of the expansion of foreign-currency deposits (15.3%). These results point to the private sector’s preference for safer assets in the light of insecurity, inflationary expectations and the possibility of exchange-rate instability.

Nominal lending rates rose as high as 13.4%, while average nominal borrowing rates climbed from 4.9% in 2007 to 5.2% in 2008. Nonetheless, the latter were negative in real terms (-5.6%). The year-on-year increase in private-sector credit was 11%, half the previous year's figure and below the estimated target of between 14.6% and 17.6%. In addition, lending to the public sector decreased by 39%.

Several banks have merged in the last three years, strengthening their creditworthiness in the banking system. This trend continued in 2008 and the number of banking institutions declined from 21 in December 2007 to 19 in 2008. In December 2008, the country's banks reported an increase in non-performing loans in proportion to all lending (from 1.6% in 2007 to 2.4% in 2008), against a backdrop of the higher cost of financing and greater difficulties in obtaining it.

(c) Trade policy

Trade policy remained focused on projects and negotiations begun in previous years. A free trade agreement was signed with Panama in February 2008, and trade negotiations continued with Canada and Chile. During 2008 and the first half of 2009, Guatemala took part in talks for an association agreement between Central America and the European Union. These negotiations are expected to conclude in 2009.

President Álvaro Colom, of the Unidad Nacional de la Esperanza (UNE) party, has so far found it difficult to reach agreements with congress on the budget and debt, which have taken on particular importance owing to the urgent need to mitigate the adverse effect of the global economic crisis. These difficulties are partly due to the fact that congress is politically divided, with the ruling party holding only 51 of 158 seats.

3. The main variables

(a) Economic activity

Per capita GDP rose 1.5% in 2008, compared with a 4.0% increase in real GDP which was driven by consumption (up 4.3%), in particular a strong surge in public consumption (8.5%). By contrast, gross fixed investment contracted for the first time since 2000, by 6.2%.

Output was sluggish in nearly every sector, falling in real terms in some cases. The supply of basic services increased by 14%, four percentage points less than in 2007. Other sectors, such as commerce, restaurants, finance and social and community services, grew at an rate of 4.6% overall. Agriculture was up by 2%, four percentage points less than the previous year. Output of both traditional and non-traditional crops rose by close to 2% in comparison with a 3% increase in livestock, forestry and fishing. Industrial growth remained modest (2.4%) and the construction sector was 3.6% down because of slowing private-sector projects and the deteriorating business climate. Mining output fell by 0.8% in 2008, after posting strong growth in 2007 (13.9%).

The monthly index of economic activity reflected a gradual but steady slowing from mid-2008, although in April 2009 it posted a year-on-year increase of 1.3%. A year earlier, the corresponding increase had been 4.2%. ECLAC expects that the worsening impact of the global economic crisis will translate into a 1% drop in real GDP in 2009.

(b) Prices, wages and employment

In December 2008, the year-on-year inflation rate stood at 9.4%, seven tenths of a percentage point higher than in 2007. The reason for this was high international petroleum and food prices that persisted until July, which led to rising prices for other goods and services. Particularly noteworthy were the increases in the prices of food and non-alcoholic beverages (12.4%) and of transportation and communication (10.5%). The government set an inflation target for 2009 of 4.5%-6.5%. As of May 2009, year-on-year inflation was 2.3%.

In 2008, although average minimum wages rose by 5.7%, average real wages declined by 2.6%. In early 2009, minimum wages were raised by 10.7% for both farm and non-farm workers, except in the maquila industry. In March 2008, the Ministry of Labour and Social Security estimated the national unemployment rate at 5.5%. No official information has since been released. Analysts estimate that in 2009 the unemployment rate will be close to 7% owing to the slowdown in production.

(c) The external sector

In 2008, despite slight growth in absolute terms, the goods and services deficit declined in proportion to GDP by two percentage points, from 17% in 2007 to 15.3%.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	3.6	2.3	3.9	2.5	3.2	3.3	5.4	6.3	4.0
Per capita gross domestic product	1.2	-0.1	1.3	0.0	0.6	0.7	2.8	3.7	1.5
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	2.6	1.2	5.4	2.5	4.2	2.1	1.3	5.9	2.0
Mining and quarrying	-8.5	0.8	16.0	-6.0	-11.9	-3.2	17.6	13.9	-0.8
Manufacturing	1.9	1.1	1.1	2.5	4.9	2.6	2.8	4.0	2.4
Electricity, gas and water	17.4	-3.0	5.1	4.9	3.6	2.7	3.0	6.3	2.2
Construction	-18.3	12.2	15.4	-3.7	-8.9	4.5	13.1	8.8	-3.6
Wholesale and retail commerce, restaurants and hotels	4.1	2.7	2.0	1.5	3.1	3.2	3.9	4.0	3.3
Transport, storage and communications	7.6	6.8	7.8	10.0	15.4	11.3	18.6	22.9	18.2
Financial institutions, insurance, real estate and business services	3.1	0.3	5.0	5.9	5.5	5.3	6.0	5.5	6.0
Community, social and personal services	4.6	3.5	3.1	1.4	0.5	2.3	5.4	6.0	4.8
Gross domestic product, by type of expenditure									
Consumption	4.2	4.0	9.9	8.5	9.6	11.3	10.6	13.9	14.8
General government	10.4	5.4	6.2	6.4	-0.1	5.5	9.2	17.8	15.0
Private	3.5	3.8	10.3	8.8	10.7	11.9	10.7	13.6	14.8
Gross domestic investment	-8.8	1.8	16.6	3.6	7.5	8.8	21.6	10.9	3.0
Exports (goods and services)	3.8	-4.0	3.1	5.0	14.5	1.3	10.1	15.1	14.4
Imports (goods and services)	6.0	6.9	6.3	8.3	14.6	6.2	13.1	14.9	12.9
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	20.1	19.7	20.6	20.3	20.8	19.7	20.8	20.7	18.7
National saving	14.0	13.2	14.5	15.6	16.0	15.2	15.8	15.5	13.9
External saving	6.1	6.5	6.1	4.7	4.9	4.6	5.0	5.2	4.8
Millions of dollars									
Balance of payments									
Current account balance	-1 049	-1 211	-1 262	-1 020	-1 165	-1 241	-1 524	-1 786	-1 863
Goods balance	-1 599	-2 212	-2 837	-2 960	-3 632	-4 191	-4 852	-5 487	-5 574
Exports, f.o.b.	3 961	4 111	4 224	4 526	5 105	5 460	6 082	6 983	7 848
Imports, f.o.b.	5 560	6 322	7 061	7 486	8 737	9 650	10 934	12 470	13 422
Services trade balance	-109	-146	-251	-263	-244	-142	-260	-310	-370
Income balance	-209	-68	-275	-303	-410	-485	-680	-843	-929
Net current transfers	868	1 215	2 102	2 506	3 122	3 577	4 268	4 854	5 010
Capital and financial balance ^d	1 703	1 686	1 269	1 554	1 769	1 479	1 776	2 002	2 195
Net foreign direct investment	230	488	183	218	255	470	552	720	822
Other capital movements	1 474	1 198	1 085	1 337	1 514	1 009	1 225	1 283	1 374
Overall balance	654	475	7	535	604	239	252	216	333
Variation in reserve assets ^e	-654	-475	-7	-535	-604	-239	-252	-216	-333
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	100.0	96.2	88.6	88.8	85.7	79.3	76.9	76.3	72.2
Terms of trade for goods (index: 2000=100)	100.0	96.7	95.8	93.0	92.1	91.3	89.6	87.9	85.6
Net resource transfer (millions of dollars)	1 494	1 618	993	1 251	1 359	995	1 096	1 160	1 266
Gross external public debt (millions of dollars)	2 644	2 925	3 119	3 467	3 844	3 723	3 958	4 226	4 382
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	...	...	...	...
Annual percentages									
Prices									
Variation in consumer prices (December-December)	5.1	8.9	6.3	5.9	9.2	8.6	5.8	8.7	9.4
Variation in nominal exchange rate (annual average)	5.1	1.2	-0.5	1.5	0.1	-3.8	-0.5	0.9	-1.5
Variation in average real wage	3.8	0.5	-0.9	0.4	-2.2	-4.0	-1.1	-1.6	-2.6
Nominal deposit rate ⁱ	10.2	8.8	7.1	5.2	4.5	4.6	4.7	4.9	5.2
Nominal lending rate ⁱ	20.9	19.0	16.9	15.0	13.8	13.0	12.8	12.8	13.4

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
	Percentages of GDP								
Central administration									
Total income	12.3	12.4	12.8	12.5	12.3	12.0	12.7	12.9	12.1
Tax income	11.5	11.1	12.2	11.9	11.8	11.5	12.1	12.3	11.6
Total expenditure	14.3	14.5	13.9	15.1	13.4	13.7	14.7	14.3	13.7
Current expenditure	10.2	10.3	9.7	10.1	9.2	9.1	9.4	9.5	9.2
Interest	1.4	1.6	1.4	1.3	1.4	1.4	1.4	1.5	1.4
Capital expenditure	4.1	4.2	4.2	5.1	4.3	4.6	5.3	4.8	4.5
Primary balance	-0.6	-0.6	0.3	-1.3	0.3	-0.3	-0.6	0.0	-0.3
Overall balance	-2.0	-2.1	-1.1	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6
Central-government public debt	19.0	20.2	18.4	20.9	21.4	20.8	21.7	21.4	20.2
Domestic	6.5	6.3	5.0	6.3	6.7	7.9	8.8	9.3	8.9
External	12.5	13.9	13.3	14.6	14.7	12.8	12.9	12.1	11.3
Money and credit^k									
Domestic credit	19.1	18.3	18.1	18.4	17.7	21.0	25.4	27.7	26.6
To the public sector	-2.5	-3.8	-3.1	-2.9	-3.9	-2.9	-2.3	-2.6	-2.8
To the private sector	19.8	20.6	20.0	20.4	20.9	23.2	27.1	30.0	29.1
Others	1.7	1.5	1.1	0.9	0.7	0.6	0.7	0.4	0.4
Liquidity (M3)	30.3	32.1	31.7	33.5	34.0	35.7	37.8	37.1	35.4
Currency outside banks and local-currency deposits (M2)	30.3	30.7	29.6	30.7	30.3	31.8	33.6	32.4	30.5
Foreign-currency deposits	0.1	1.4	2.0	2.8	3.7	3.9	4.2	4.7	4.8

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

^a Preliminary figures.

^b From 2001 onward, based on figures in local currency at constant 2001 prices. Year 2000, based on figures in local currency at constant 1958 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 Average rate for deposits in the banking system.

^j Average rate for loans in the banking system.

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

The balance-of-payments current account deficit stood at 4.8% of GDP, almost half a percentage point less than in the previous year. The terms of trade once again deteriorated (by 2.7%), as had occurred over the past five years. For 2009, it is expected that both exports and imports will decrease by about 10%, the current account deficit will be close to 3% of GDP and the terms of trade will improve, as the global economic crisis causes the international price of oil and prices for some imported goods to fall.

As a consequence of the global economic crisis, goods exports in 2008 increased at a lower rate than in the previous year, but even so they grew by 12.4%, principally owing to the strong showing of traditional exports such as cardamom (51.7%), petroleum (50%) and coffee (12%). This result was due to significant price increases, given that export volumes rose only slightly. Non-traditional exports grew at a rate of 10.5%, one and a half percentage points lower than in 2007. The products most favoured by higher prices included foodstuffs (30.6%) and vegetables (21.5%). External sales to the rest of Central America continued to rise (20.1%), while those to the rest of the world climbed by 9.4%, four percentage points less than in 2007.

Imports grew at a lower rate: 7.6% in 2008 compared with 14.0% in 2007. The main factor in this decline was intermediate goods purchases (12.6%). Particularly significant was the increase in fuel and food prices up

to mid-2008. The oil bill accounted for 16.7% of all purchases (7.2% of GDP). Purchases of consumer goods increased by 3.4%, far less than in 2007 (14.2%). Capital goods purchases declined by 3.9%.

The deficit in non-factor services totalled US\$ 370 million, as a result of high income from other services and tourism. The negative income balance rose to 10% owing to the increase in repatriated profits (US\$ 886 million) and interest paid (US\$ 494 million). Current transfers—mostly family remittances—continued to mitigate the deficit in factor and non-factor services. In 2008, remittances totalled US\$ 4.315 billion, a 4.5% year-on-year increase compared with the 14% increase in 2007. Remittances are expected to decline in 2009 because of falling employment among Hispanics in the United States.

The financial and capital accounts showed a positive net balance of US\$ 2.195 billion. Foreign direct investment increased once again (14.16%), although it remained modest in proportion to GDP (2.1%), and targeted the communications, banking and retail sectors. Net capital inflows (including errors and omissions) exceeded the current account deficit, such that the balance of payments had a positive balance of US\$ 333 million. Nevertheless, in 2009 the situation will be much more difficult, as the adverse effects of the recession become more pronounced; hence, the balance-of-payments current account deficit is expected to decrease.

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2007				2008 ^a				2009 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	6.5	7.0	7.2	6.6	4.3	4.3	2.6	3.3	0.1	...
Goods exports, f.o.b. (millions of dollars)	1 711	1 829	1 697	1 661	1 879	2 111	2 069	1 706	1 886	...
Goods imports, c.i.f. (millions of dollars)	3 164	3 236	3 526	3 650	3 489	3 997	3 822	3 237	2 626	...
Gross international reserves (millions of dollars)	4 250	4 489	4 275	4 310	4 338	4 771	4 745	4 659	5 030	...
Real effective exchange rate (index: 2000=100) ^c	76.8	77.4	77.2	77.2	76.0	73.3	71.2	68.2	71.1	73.9 ^d
Consumer prices (12-month percentage variation)	7.0	5.3	7.3	8.7	9.1	13.6	12.7	9.4	5.0	0.6
Average nominal exchange rate (quetzals per dollar)	7.4	7.8	7.9	7.8	7.9	7.6	7.6	7.7	0.0	7.7
Nominal interest rates (annualized percentages)										
Deposit rate ^e	4.9	4.9	4.9	4.9	5.0	5.1	5.3	5.4	5.6	5.7
Lending rate ^f	12.9	12.8	12.7	12.9	12.9	13.3	13.6	13.8	13.9	13.8
Domestic credit (variation from same quarter of preceding year)	31.6	22.3	24.5	23.8	19.5	15.2	8.6	8.5	...	...
Non-performing loans as a percentage of total credit	2.4	2.2	1.9	1.6	2.9	2.6	2.6	2.3	2.6	3.2 ^d

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

^a Preliminary figures.

^b IMAE - variación anual del promedio trimestral.

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

^d Data to May.

^e Average rate for deposits in the banking system.

^f Average rate for loans by the banking system.