Guatemala

1. General trends

In 2009, the Guatemalan economy faced serious challenges as attempts were made to mitigate the impact of the global financial crisis, and in particular the impact of the recession in the United States. As result of the fall in exports, remittances, FDI and tourism, real GDP grew by only 0.6%, down from 3.3% in 2008, while per capita GDP contracted by 1.9%. The increase in the trade deficit (to 9.8% of GDP) was offset by the inflow of remittances (10.5% of GDP), notwithstanding the decline in the latter. The balance-of-payments current account deficit (0.6% of GDP) was partially financed with incoming FDI (1.6% of GDP), which, although lower than in 2008, was significant given the international economic crisis.

Year-on-year inflation as of December was -0.3%, owing to lower international oil and food prices, the economic slowdown and the management of monetary policy. Public finance was strained by lower tax receipts, which stood at 10.7% of GDP, or one percentage point lower than in 2008. The central government's deficit thus doubled from the previous year's level to 3.2% of GDP.

In two and a half years in office, President Álvaro Colom has been faced with the challenge of keeping his commitment to maintain macroeconomic stability and award more priority to social policy and rural development amid an acute global economic crisis. Legislative changes are required to increase the amount of fiscal resources that can be used to meet the country's urgent economic and social needs.

In 2010, the economy is expected to experience moderate growth (about 2%). Although stronger demand for export manufactures and agricultural products is projected, the eruption of the Pocaya volcano and tropical storm Agatha are expected to lead to lower output. Annual inflation is expected to stand at about 5%, as a result of the economic recovery in the United States and increased external flows. Authorities project a central government fiscal deficit of close to 3% of GDP.

2. Economic policy

(a) Fiscal policy

For 2009, Congress approved a solidarity tax, which took effect in January of that year, replacing the temporary extraordinary tax equivalent to 1% of GDP levied to support the peace agreement. Nevertheless, a year and a half after the executive submitted a bill to overhaul the tax system and collect an additional 1% of GDP, its attempts to persuade Congress and top business leaders reached an impasse. Deliberations on the proposed reform continued in the first half of 2010.

In May 2009, because of the global financial crisis, the economic slowdown and declining real tax receipts, the budget was cut in accordance with the Rules for Adjusting the Budget Performance in Fiscal Year 2009, to limit the budget shortfall to about 2% of GDP.

Total central government revenue fell by 5.9%, in real terms, in 2009, as a result of the economic downturn. Tax collection —excluding social contributions— fell by 6.2%, mainly because of the drop in indirect revenue (down by 8.1%), in particular value added tax (down by 8.6%) and import tax (down by 13.4%) receipts. Revenue from direct taxes decreased by 1.7% as a consequence of a 3.7% drop in income tax receipts. All told, the tax burden stood at 10.7% of GDP, one percentage point lower than in 2008.

Total spending in real terms rose by 6.5%. Current spending increased by 12.9%, driven by higher wages (up by 18.4%) and transfers and other income (up by 13.9%). Social spending rose by 23.6%. Nevertheless, capital expenditures fell by 6.7%. Hence, the central government's deficit rose from 1.6% of GDP in 2008 to 3.2% in 2009.

In 2010, public finance is expected to come under a certain amount of pressure. At the end of 2009, the failure to approve the budget made it necessary to adjust expenditures. In April 2010, a 4.5 billion quetzal bond issue to narrow the financing gap was approved. In addition, new public investment is needed in the wake of the natural disasters that hit the country in May and June 2010, and the government therefore negotiated additional loans of US$ 85 million in May with the World Bank.

The external public debt had risen, in nominal, year-on-year terms, by 12.5% as of December 2009. It thus stood at 13.2% of GDP, two percentage points higher than in 2008, and remains among the lowest in the region. The domestic debt climbed by 16.7% and stood at 10% of GDP at the end of 2009. Total indebtedness as a percentage of GDP increased from 20.1% in 2008 to 23.3% in 2009. It is expected to fall slightly in 2010 owing to the improved economic situation.

Throughout 2009, the leading rating agencies maintained their assessment of Guatemala's long-term sovereign debt unchanged with a stable outlook.

In 2009, the country received loans from the World Bank (disbursements of US$ 200 million) and the Inter-American Development Bank (US$ 650 million of which US$ 280 was disbursed in 2009), as well as precautionary funding from a standby agreement with the International Monetary Fund in April (US$ 935 million, due in 18 months) to finance various development programmes and ensure external liquidity to weather the economic crisis.

In early 2009, the start up of the National Emergency Economic Recovery Programme was announced. The programme aims to boost the anti-cyclical stimulus of public spending, provide social protection to at-risk sectors, make the budget more fiscally sustainable and promote competitiveness. Nevertheless, the programme failed to sufficiently mitigate the harmful effects of the crisis on poverty and inequality owing to the lack of financing caused by the failure to pass fiscal reform.

(b) Monetary and exchange-rate policies

In December 2009, in a context of lower inflation and waning external demand because of the global financial crisis, the authorities reduced the monetary-policy interest rate on seven-day deposit certificates to 4.5% from the 7.25% rate that had prevailed in 2008. The rate remained unchanged in the first six months of 2010 because the macroeconomic situation was perceived as stable.

In 2009, the nominal quetzal-dollar exchange rate saw intermittent volatility as a result of the international crisis and the dwindling sources of external financing. Over the course of the year, the real bilateral exchange rate with the United States dollar depreciated 5.0% in comparison with the 2008 average. The Monetary Board responded to the international financial crisis by changing the rule on exchange-rate interventions in order to afford the Bank of Guatemala greater discretion to counter the unusual volatility in the nominal exchange rate. The Board also authorized the central bank to inject up to US$ 290 million in liquidity into the banking system until 31 May 2009. In addition, the band in which moving average of the flexible exchange-rate system is allowed to fluctuate was broadened from 0.50% to 0.75%, which alleviated exchange-rate uncertainty. Starting in February 2010, the Monetary Board also authorized the transfer of pension funds invested in private financial companies to the banking system, where they would be classified as scheduled savings deposits.

The money supply (M1) increased by 5.7%, in nominal, year-on-year terms in 2009, while M2 increased by 7.5%. The broad money supply (M3) expanded by 10%, driven by a 26% growth in foreign-currency deposits. These trends point to the private sector's preference for safer assets, in light of global financial uncertainty and exchange-rate instability.

Average nominal lending rates rose by one half of a percentage point from 2008, to 13.9%, while deposit rates climbed from 5.2% in 2008 to 5.6% in 2009. Private sector credit grew by only 1%, in nominal, year-on-year, terms, ten percentage points lower than the growth in 2008. Hence, it GDP terms, credit slipped from 29.5% in 2008 to 29% in 2009. This is explained by financial institutions' more rigorous examination of potential lenders in addition to lower demand as a consequence of the economic slowdown. Public sector lending diminished by 53%. Net international reserves increased from 29% to 39% because of revenue and disbursements from international financial agencies, which rose to US$ 4.65 billion, or the equivalent of 4.5 months of goods and services imports.

The strengthening of the legal and regulatory framework in 2002, as well as the lack of close ties with the United States' financial system, enabled Guatemala's banking system to emerge from the global economic crisis relatively unscathed. In December 2009, the country's banks reported declining profits, a narrowing financial intermediation margin and a rising ratio of non-performing loans to total lending (from 2.3% in 2008 to 2.7% in 2009) within a context of higher costs for funding and greater difficulties in obtaining it. Provisions on portfolio losses were also raised, which reduced financial market uncertainty. The banking system is expected to see growth once again in 2010 as private sector lending resumes.

(c) Trade policy

Guatemala continued trade negotiations with Canada in 2009. The country's free trade agreement with Chile took effect in March 2010, and in May Central America and the European Union concluded negotiations and signed an association agreement.

According to the World Economic Forum's Global Enabling Trade Report, the business climate in Guatemala worsened between 2009 and 2010 as the country dropped from fifty-eighth place to sixty-ninth out of 121 countries. The categories in which the country declined the most were regulatory environment and physical security. Still, it improved in six international-comparison indexes, moving up, for example, from eighty-fourth to eightieth place in competitiveness.

The country's severe food crisis was further aggravated by drought in 2009. The European Union said that it would donate some US$ 50 million in 2010 and 2011 to bolster food security in rural areas. In 2010, the European Union and the Central American Bank for Economic Integration signed agreements for US$ 2.3 million to promote economic and social development in Guatemala. With these and other funds, in 2009 and 2010 the Government of Guatemala was able to attend to families' most urgent needs and has prepared sustainable development community projects.

The Executive Board of the International Monetary Fund concluded Article IV Consultation with Guatemala in February 2010.

3. The main variables

(a) Economic activity

Real GDP rose by only 0.6% in 2009 as a result of the severe (16.8%) contraction of gross fixed investment and the slight increase (0.7%) in private consumption that was only partially offset by the 8.8% growth in public consumption (8.8%). Consequently, per capita GDP fell by 1.9%. In 2010, real GDP is expected to grow by about 2%, causing per capita GDP to once again decline.

Agricultural output grew by 1.7% in 2009, as the near stagnation that began in the sector the previous year continued. Traditional crop production saw 9.1% growth, but non-traditional crops contracted by 0.4%, while livestock, forestry and fishing production increased by 1.8%. Output in basic services increased by 3.8%, far below the 11.8% growth in 2008. Other services, such as commerce, restaurants, finance and community and social services, grew by 3%, one and a half percentage points lower than in 2008. Industrial growth remained lacklustre (1%), while mining output fell by 1.1% and construction by 13.4% owing to the deteriorating business climate and scarce credit for private projects.

The monthly index of economic activity pointed to a slight recovery starting in July 2009. For April 2010, the index rose by an annualized 2.6%, half a percentage point higher than in April 2009.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	2.3	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.6
Per capita gross domestic product	-0.1	1.3	0.0	0.6	0.7	2.8	3.7	0.8	-1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.2	5.4	2.5	4.2	2.1	1.3	5.9	0.9	1.7
Mining and quarrying	0.8	16.0	-6.0	-11.9	-3.2	17.6	13.9	-4.3	-1.1
Manufacturing	1.1	1.1	2.5	4.9	2.6	3.8	3.0	2.0	0.9
Electricity, gas and water	-3.0	5.1	4.9	3.6	2.7	3.0	6.3	1.6	0.1
Construction	12.2	15.4	-3.7	-8.9	4.5	13.1	8.8	-0.8	-13.4
Wholesale and retail commerce, restaurants and hotels	2.7	2.0	1.5	3.1	3.2	3.9	4.1	2.0	-1.6
Transport, storage and communications	6.8	7.8	10.0	15.4	11.3	18.6	22.8	14.6	4.7
Financial institutions, insurance, real estate and business services	0.3	5.0	5.9	5.5	5.3	6.0	5.5	4.9	4.0
Community, social and personal services	3.5	3.1	1.4	0.5	2.3	5.4	6.0	5.7	5.0
Gross domestic product, by type of expenditure									
Consumption	4.0	3.0	3.3	2.8	4.0	4.7	5.7	5.0	-0.9
General government	5.4	-0.1	-1.5	-6.6	1.7	5.7	8.3	11.3	5.0
Private	3.8	3.4	3.9	3.9	4.3	4.6	5.5	4.4	-1.5
Gross capital formation	1.8	9.3	-3.1	-1.2	4.3	15.7	5.0	-6.2	-7.0
Exports (goods and services)[)]	-4.0	0.7	-0.5	8.2	-2.1	4.8	9.4	-0.2	-6.0
Imports (goods and services)	6.9	2.0	0.5	5.7	-0.6	6.5	7.2	-5.7	-8.0
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	19.7	20.6	20.3	20.8	19.7	20.8	20.8	16.4	16.8
National saving	13.2	14.5	15.6	16.0	15.2	15.8	15.6	11.8	16.2
External saving	6.5	6.1	4.7	4.9	4.6	5.0	5.2	4.5	0.6
					Millions of dollars				
Balance of payments									
Current account balance	-1 211	-1 262	-1 020	-1 165	-1 241	-1 524	-1 786	-1 773	-217
Goods balance	-2 212	-2 837	-2 960	-3 632	-4 191	-4 852	-5 487	-5 575	-3 301
Exports, f.o.b.	4 111	4 224	4 526	5 105	5 460	6 082	6 983	7 847	7 330
Imports, f.o.b.	6 322	7 061	7 486	8 737	9 650	10 934	12 470	13 421	10 632
Services trade balance	-146	-251	-263	-244	-142	-260	-310	-276	-370
Income balance	-68	-275	-303	-410	-485	-680	-843	-927	-948
Net current transfers	1 215	2 102	2 506	3 122	3 577	4 268	4 854	5 004	4 402
Capital and financial balance [d]	1 686	1 269	1 554	1 769	1 479	1 776	2 002	2 106	690
Net foreign direct investment	488	183	218	255	470	552	720	737	543
Other capital movements	1 198	1 085	1 337	1 514	1 009	1 225	1 283	1 368	147
Overall balance	475	7	535	604	239	252	216	333	473
Variation in reserve assets [e]	-475	-7	-535	-604	-239	-252	-216	-333	-473
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	96.1	88.7	88.6	85.8	79.3	76.9	76.3	72.5	75.1
Terms of trade for goods (index: 2000=100)	96.7	95.8	93.0	92.1	91.3	89.6	87.9	85.6	92.9
Net resource transfer (millions of dollars)	1 618	993	1 251	1 359	995	1 096	1 160	1 179	-258
Gross external public debt (millions of dollars)	2 925	3 119	3 467	3 844	3 723	3 958	4 226	4 382	4 928
					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)	8.9	6.3	5.9	9.2	8.6	5.8	8.7	9.4	-0.3
Variation in nominal exchange rate (annual average)	1.0	-0.2	1.3	0.4	-3.9	-0.5	0.9	-1.2	7.4
Variation in average real wage	0.5	-0.9	0.4	-2.2	-4.0	-1.1	-1.6	-2.6	0.1
Nominal deposit rate [i]	8.8	7.1	5.2	4.5	4.6	4.7	4.9	5.2	5.6
Nominal lending rate [j]	19.0	16.9	15.0	13.8	13.0	12.8	12.8	13.4	13.8
					Percentages of GDP				
Central administration									
Total revenue	12.4	12.8	12.5	12.3	12.0	12.7	12.8	12.0	11.2
Tax revenue	11.1	12.2	11.9	11.8	11.5	12.1	12.3	11.5	10.7
Total expenditure	14.5	13.9	15.1	13.4	13.7	14.7	14.3	13.6	14.3
Current expenditure	10.3	9.7	10.1	9.2	9.1	9.4	9.5	9.2	10.2
Interest	1.6	1.4	1.3	1.4	1.4	1.4	1.5	1.4	1.4

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Capital expenditure	4.2	4.2	5.1	4.3	4.6	5.3	4.8	4.5	4.1
Primary balance	-0.6	0.3	-1.3	0.3	-0.3	-0.6	0.0	-0.3	-1.7
Overall balance	-2.1	-1.1	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6	-3.2
Central-government public debt	20.2	18.4	20.9	21.4	20.8	21.7	21.3	20.1	23.3
Domestic	6.3	5.0	6.3	6.7	7.9	8.8	9.2	8.9	10.1
External	13.9	13.3	14.6	14.7	12.8	12.9	12.1	11.3	13.2
Money and credit [k]									
Domestic credit	18.3	18.1	18.4	17.7	21.4	25.4	27.6	26.5	27.2
To the public sector	-3.8	-3.1	-2.9	-3.9	-2.5	-2.3	-2.6	-2.8	-2.0
To the private sector	20.6	20.0	20.4	20.9	23.2	27.1	29.9	29.0	29.0
Others	1.5	1.1	0.9	0.7	0.6	0.7	0.4	0.4	0.2
Liquidity (M3)	32.1	31.7	33.5	34.0	35.7	38.3	37.0	35.2	37.6
Currency outside banks and local-currency deposits (M2)	30.7	29.6	30.7	30.3	31.8	34.0	32.3	30.4	31.7
Foreign-currency deposits	1.4	2.0	2.8	3.7	3.9	4.3	4.7	4.8	5.9

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] Average rate for deposits in the banking system.
[j] Weighted average lending rates.
[k] The monetary figures are end-of-year stocks.

(b) Prices, wages and employment

As of December 2009, the consumer price index had declined by 0.3%, year-on-year, compared with a 9.4% increase in 2008. The cost of educational services fell by 4.4%, while prices for food and non-alcoholic beverages dropped by 2.8% and medical care and transportation and communication costs rose moderately (4.4% and 3.4%, respectively). On average, prices rose by an annual rate of 1.7%. The government set an annual inflation target of 4%-6% for 2010. As of June, the year-on-year price increase was 4.1%.

In 2009, the minimum wage rose by 10.6% for agricultural workers and by 7.2% for others except those in the maquila sector. Because of the negative rate of inflation, real wages increased on average by 6.2% —the first increase in four years. No official information has been released on unemployment since March 2008. For 2010, a number of analysts are predicting an unemployment rate of 5%, down from the 7% estimated rate in 2009, owing to the improved economic outlook. An adjustment setting a uniform daily minimum wage of 56 quetzals in both agricultural and non-agricultural activities took effect in January 2010. Nominal farm wages thus rose by 7.7%, and maquila wages rose from 47.8 to 51.8 quetzals per day, that is, by a nominal 8.5%.

(c) The external sector

The goods and services trade deficit narrowed from 15.0% of GDP in 2008 to 10.1% in 2009. The economic slowdown and the current-transfers surplus (12.1% of GDP) helped to mitigate the commercial deficit. Hence, the deficit of the balance-of-payments current account thus stood at 0.6% of GDP, four percentage points lower than in 2008. For the first time in ten years, the terms of trade in goods improved, rising by 6.7%. However, when services are factored in, the overall terms of trade improved by 5.2%. For 2010, the global economic recovery is expected to lead to higher rates of growth of exports and imports and a current account deficit of close to 3% of GDP.

Total exports fell by 6.6% from 2008 to 2009. Traditional exports rose by 4.6%, driven mainly by stronger exports of cardamom (46.2%), bananas (34.9%) and sugar (34.5%). Non-traditional exports declined by 10.2%, including, most notably, lower sales of natural rubber (-30%), wood and manufactures (-18.5%), garments (-15.3%), food products (-15.2%) and chemicals (-14.6%). Exports to Central America declined by 15.9%, led by the drop in manufactures. Exports to the rest of the world fell by 4.5%. Exports rose by 17.7% between May 2009 and May 2010.

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	2.8	2.0	1.3	2.7	1.4	2.3	2.7	1.5	3.1	...
Goods exports, f.o.b. (millions of dollars)	1 879	2 111	2 069	1 679	1 841	1 858	1 718	1 796	2 163	1 462 [c]
Goods imports, c.i.f. (millions of dollars)	3 490	3 996	3 822	3 238	2 632	2 765	2 949	3 185	3 055	2 298 [c]
Gross international reserves (millions of dollars)	4 338	4 771	4 745	4 659	5 030	5 137	5 087	5 213	5 547	...
Real effective exchange rate (index: 2000=100) [d]	76.0	74.2	71.3	68.4	71.3	74.5	76.5	78.2	75.8	74.0 [c]
Consumer prices (12-month percentage variation)	9.1	13.6	12.7	9.4	5.0	0.6	0.0	-0.3	3.9	3.5 [c]
Average nominal exchange rate (quetzales per dollar)	7.7	7.6	7.5	7.6	7.9	8.1	8.2	8.3	8.2	8.0
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.0	5.1	5.3	5.4	5.6	5.7	5.7	5.6	5.6	5.6 [c]
Lending rate [f]	12.9	13.3	13.6	13.8	13.9	13.8	13.9	13.7	13.5	13.4 [c]
Domestic credit (variation from same quarter of preceding year)	19.5	15.2	8.6	8.5	6.3	14.3	11.1	5.5	9.7	...
Non-performing loans as a percentage of total credit	2.9	2.6	2.6	2.4	2.6	3.0	3.2	2.7	2.7	2.7 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Monthly index of economic activity – year-on-year variation of the quarterly average.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Average rate for deposits in the banking system.
[f] Average rate for loans by the banking system.
[g] Data to April.

Total imports decreased by 20.8% between 2008 and 2009, mainly because of the 24.2% decline in intermediate goods purchases. The oil bill accounted for 17.6% of total imports (5.9% of GDP in 2009 versus 7.2% in 2008). The next largest decline was in capital goods imports, which were down 22%, followed by consumer goods, which fell by 12.1%. In May 2010, imports were up 21.6%, year-on-year.

The external deficit in factor income and transfers rose by 2.3% owing to the continued repatriation of profits abroad (US$ 785 million) and to interest payments (US$ 400 million). Despite declining by 12%, current transfers —mostly family remittances— continued to mitigate the current-account deficit. Family remittances stood at US$ 3.91 billion, 9.3% lower than in 2008. Remittances are expected to climb in 2010 as a result of the rekindling of the United States economy.

In 2009, the financial and capital accounts not including errors and omissions of the balance of payments posted a US$ 92 million deficit —in a sharp downturn from the US$ 1.22 billion surplus in 2008. FDI declined by 24.9%, to 1.6% of GDP, one-half percentage point lower than in 2008. The bulk of FDI went to communications (reinvestments by telephone operators), energy and services (calls centres). Because of the recession, net capital inflows (including errors and omissions) exceeded the current account deficit, such that the balance of payments had a positive balance of US$ 473 million.