Country Report

Guatemala

January 2009

Economist Intelligence Unit
26 Red Lion Square
London WC1R 4HQ
United Kingdom

The Economist Intelligence Unit

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ISSN 1473-902X

Symbols for tables

“n/a” means not available; “–” means not applicable

Printed and distributed by Patersons Dartford, Questor Trade Park, 151 Avery Way, Dartford, Kent DA1 1JS, UK.

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Executive summary

Highlights

January 2009

Outlook for 2009-10

- Mr Colom lacks a working legislative majority and the alliances he has built in his first year in office will break down as economic difficulties mount in 2009-10.
- Pressure on the government to step up social spending in line with election commitments will underscore the government's need to implement tax reforms in 2009-10, but they are likely to be watered down by Congress.
- Our projection of a slowdown in real GDP growth in 2009 assumes that enhanced access to the US market under DR-CAFTA will place a floor under the decline in exports.
- We have revised downward our forecast for inflation in 2009 to an average 7.2% (previously 11.9%), owing to a projected sharp deterioration in domestic demand growth and falling fuel and transport prices.
- The quetzal is forecast to undergo a moderate adjustment in 2009-10 as capital inflows weaken, but currently our projections imply that the quetzal will remain strong in real terms, underscoring the risk of a sharper correction.
- The current-account deficit will narrow in 2009, despite falling exports, as import demand wanes and the oil import bill falls.

Monthly review

- As part of its plan to reshape and strengthen national security, the Colom government has undertaken two major reshuffles of security posts.
- Political tensions inside the minority centre-left Unidad Nacional de la Esperanza (UNE) government have prompted ten deputies to break away and form a new parliamentary group, Bloque de Libertad Democrática.
- Slowing revenue growth contributed to a fiscal deficit for the fourth consecutive month in November.
- The Central Bank has kept rates on hold, despite evidence of sluggish GDP growth and easing inflationary pressures.
- October data for money supply (M1) show that domestic demand is weakening sharply as a result of slowing remittances, higher lending rates and weaker credit growth.
- Despite the ongoing deterioration in international capital markets, the banking system ended the year in good shape, although signs of stress have started to arise.

Outlook for 2009-10

Political outlook

Domestic politics

A year into his five-year term of office, Álvaro Colom Caballeros of the Unidad Nacional de la Esperanza (UNE) will encounter more congressional difficulties in 2009-10. Deteriorating economic conditions, a fragmented Congress and internal divisions within the government's supporters will affect planned economic reforms and spending plans. Growing public discontent may lead to rising social unrest. With only 51 seats, the ruling party lacks a majority in the 158-seat Congress. In his first year in office, Mr Colom managed to forge alliances with other parties to enact a minor tax reform and expedite approval of the 2009 budget in November, but as economic difficulties mount in the outlook period and the president struggles to deliver his campaign promises, affecting his popularity, alliance-building will become more complicated. This will obstruct progress on reform and require the president to give parties more concessions in return for their support, weakening political effectiveness. Coalition-building will be complicated by internal strains, including within the UNE itself, which in the past month has prompted ten dissident deputies to split away to form a new congressional bloc.

Delivering on his election promises to increase spending on education, healthcare and rural development, and to tackle Guatemala’s high rates of violent crime, will be difficult, given institutional weaknesses, fiscal constraints and an economic downturn. The government’s efforts to increase taxes in order to raise the take—which at 10% of GDP remains among the lowest in the region—face opposition from the private sector and are likely to be watered down in Congress. Although Guatemala will continue to receive multilateral assistance, these constraints are likely to limit the resources available for public spending, and hence improvements, in social development areas, weighing on Mr Colom’s popularity.

International relations

The government will be keen to maintain close relations with the US under the incoming Democratic administration of Barack Obama, given the importance of trade ties and co-operation to combat the illegal drugs trade. However, tighter US immigration policy amid an economic recession will be a source of friction. The Dominican Republic-Central America Free-Trade Agreement (DR-CAFTA) with the US, which came into effect for Guatemala in 2006, has strongly supported intra-regional trade over the last two years, particularly in 2007, when real exports grew by 10.8%. A prolonged US downturn would affect trade with all DR-CAFTA members, meaning that the slowdown of the Guatemalan economy can persist well into 2010. Negotiations on a free-trade agreement (FTA) between the EU and Central America will spur moves towards further trade integration of the C4 countries (El Salvador, Guatemala, Nicaragua and Honduras). An FTA with Chile came into effect in 2008. The decision by Belize's government to hold a referendum on the long-standing territorial dispute with Guatemala has put pressure on the Guatemalan authorities to do likewise. The government is now preparing to hold the referendum in the first half of 2009.

Economic policy outlook

Policy trends

Despite the implementation of DR-CAFTA and generally disciplined fiscal and monetary policies in recent years, the sharp economic slowdown will hit revenue and widen the fiscal deficit. Nonetheless, the government will be under pressure to maintain its plans to increase social investment, raising the risk of a more severe deterioration of the fiscal balance than the Economist Intelligence Unit currently projects. This may lead to higher borrowing requirements, adding to exchange rate risk and forcing a more abrupt adjustment in the event that financing failed to materialise. The government's plans to introduce broader reform measures look unlikely to be realised in 2009. The government, under pressure from the textile sector, recently backed down from its proposal of extending the minimum wage increase to the *maquila* (offshore assembly for re-export) industry; this decision was driven by the need to avoid flight of *maquila* investments away from the country. It is unlikely that the government will manage to push through unpopular microeconomic reforms in the face of an economic deceleration and without the backing of a strong majority in Congress. Despite permanent preferential market access to the US under DR-CAFTA, attracting foreign investment amid a sharply deteriorating US and global economy, slowing growth at home and more restrictive access to credit will be difficult.

Fiscal policy

The public finances are set to deteriorate in the outlook period as the Colom government increases social and investment spending. The 2009 budget projects a fiscal deficit of 1.7% of GDP, but is based on an over-optimistic GDP growth forecast of 4.2%. The Impuesto de Solidaridad (ISO, solidarity tax), introduced in November with the budget as a replacement for the Impuesto Temporal de Apoyo a los Acuerdos de Paz (IETAAP), which is due to expire at the end of 2008, will help to prevent a more marked fall in revenue growth during 2009. Mr Colom's election commitment to increase social investment spending envisages wider reform of the tax system in order to provide the government with the necessary resources to step up spending. However, amid an economic downturn and parliamentary and private-sector opposition, we expect little in the way of tax reform in 2009-10. As a result, we anticipate the fiscal deficit will widen in 2009 to 2.6% of GDP as revenue collection continues to suffer from weakening growth. With private consumption growth slowing sharply, VAT revenue, which accounts for 48% of total revenue, will be badly hit. The deficit will widen further in 2010, to 2.8% of GDP, as spending continues to rise sharply to meet Mr Colom's campaign pledges. Guatemala will continue to rely on the private banking system to cover its borrowing requirement; however, as credit conditions will get less favourable in 2009 there is a higher risk that financing will not materialise.

Monetary policy

In response to a freeze in credit lines from international banks, owing to the international financial crisis, the Banco de Guatemala (Banguat, the central bank) eased the requirements on banks' accounting of reserves and established a temporary US-dollar fund facility for banks. However, Banguat has kept its intervention rate unchanged at 7.25% (still negative in real terms). Although inflation has eased to 9.4% in December, the central bank seems determined to keep inflation in single digits in 2009. Therefore, we do not expect Banguat to cut rates in the first quarter of 2009 unless the pace of inflation easing accelerates markedly. Under our baseline scenario, we envisage inflation to stay above the 4-7% target band over 2009 and this will limit the ability of the central bank to ease monetary policy. An expansionary fiscal stance will further reduce Banguat's scope to provide monetary stimulus to the economy as it cools in 2009.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	4.9	3.4	0.7	2.5
US	2.0	1.1	-2.0	0.7
EU27	2.9	1.3	-1.3	0.4
Exchange rates				
US$ effective (2000=100)	88.8	83.6	89.6	88.3
US$:€	1.369	1.463	1.285	1.300
SDR:US$	0.651	0.631	0.669	0.661
Financial indicators				
€ 3-month interbank rate	4.27	4.77	2.10	1.95
US$ 3-month commercial paper rate	5.06	2.18	1.55	2.20
Commodity prices				
Coffee (Arabica; US cents/lb)	123.5	139.7	107.0	95.5
Sugar (US cents/lb)	10.1	13.1	12.7	13.6
Oil (Brent; US$/b)	72.7	97.0	35.0	50.0
Industrial raw materials (% change in US$ terms)	11.2	-5.6	-33.4	11.3

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

We expect global growth, measured using purchasing power parity (PPP) rates, to slow to 0.7% in 2009, its lowest rate in 15 years, recovering only slightly to 2.5% in 2010. These rates will be a jolt for a global economy used to an average rate approaching 5% per year in 2004-07. The US economy will contract in 2009 before staging a weak recovery in 2010. In particular, import demand in the US will fall in 2009 and grow only slightly in 2010. This will hit Guatemala hard, given strong trade and investment links to its northern neighbour and the reliance of private consumption on inward remittances from Guatemalan workers in the US. There are, moreover, growing downside risks to our 2009 US forecasts. A mitigating factor for Guatemala as a net oil importer will be the fall we expect in oil prices. However, the benefits of projected marked improvement in terms of trade will be outweighed by a collapse in external demand. We also anticipate that tighter global liquidity conditions will weaken capital inflows into Guatemala, which, together with a weakening currency, will raise the risk of an adjustment to the external accounts and to growth.

Economic growth

Following a sustained period of high economic growth, the economy started to decelerate in the second half of 2007, mainly as a result of a contraction in exports triggered by slower US demand. After slowing in 2008 (to 3.9% from 5.6% in 2007), Guatemala's economy will undergo a deeper downturn in 2009, before posting a modest recovery in 2010. In 2009 we now expect growth to decelerate sharply, to 1.4% (previously 2.1% and well below Banguat's revised forecast of 3-3.5%), as the US economy contracts. Private consumption, the main driver of growth, will slow and investment will fall. Consumer expenditure will be hit by a fall in workers' remittances from Guatemalans living abroad (mainly in the US) as a result of US recession and tighter immigration controls. Private consumption (and investment) will also be hit by tighter access to credit and still high interest rates. Commercial lending rates have been tightening since the start of the year and are at their highest since October 2004. Inflation should ease, but it will remain above the central bank's target band of 4.5-6.5% in 2009, further constraining consumption by eroding real incomes. Public-sector investment will be restrained by the government fiscal position that makes it harder to step up social investment spending in 2009-10. DR-CAFTA will place a floor under real exports decline, as will the gradual easing of customs procedures in Central America; however, the severity of the contraction in US demand will result in exports falling by 4.4%. On the supply side, agriculture will grow only modestly, hit by falling soft commodities prices and a contraction in credit, which will halt investments in the sector. Industrial output will slacken, as manufacturing suffers falling demand from the US. In 2010 the beginnings of a mild US recovery will help lift growth slightly, to 2.6%, but the risks to our forecast are weighted on the downside. A deeper, more protracted US recession than we currently forecast would weigh heavily on Guatemala's growth prospects.

Inflation

Slowing domestic demand growth and sharp falls in oil and some soft commodity prices allowed annual inflation to slow to 9.4% in December, from a high of 13.4% in July. Since March, this is the first time Guatemala has experienced single-digit inflation. Nevertheless, year-end inflation was still a 12-year high and far above the upper limit of Banguat's 4.5-6.5% inflation target band for 2009. Despite weak oil and soft commodity prices generally, pressures resulting from high prices for some key foodstuffs, such as maize and a number of raw materials, and a projected depreciation of the currency, will keep inflation in 2009 above the central bank's target range. However, we now expect inflation to average 7.2% (previously 11.9%) over 2009; this downward revision is owing to our projected sharp deterioration in domestic demand growth and falling fuel and transport prices. Under our baseline scenario, inflation will average 9.2% in 2010 as commodity prices rise and domestic demand begins to recover. There are upside risks, given our forecast for the quetzal to undergo a substantial nominal depreciation in 2009, and the potential for a sharper fall than we currently envisage in the currency's value in 2010.

Exchange rates

Between 2004 and 2008 the quetzal appreciated by around 22% in real trade-weighted terms, boosted for much of this period by higher workers' remittances and short-term capital inflows in the context of global liquidity abundance and interest rate arbitrage. These trends began to reverse in the third quarter of 2008. Our forecast of weaker current- and capital-account inflows, owing to falling exports, a contraction in workers' remittances and a reduction in international liquidity, suggests that the quetzal will depreciate substantially in nominal terms in 2009, reaching Q8.6:US$1 at year-end, a real depreciation of

0.4% year on year. Official interest rates are currently negative in real terms. Even with inflation falling in 2010, the yield-seeking capital inflows that underpinned the currency in 2008 are unlikely to return, resulting in a further slight deterioration in that year. The main risk to our forecast is that the relaxation of the disciplined economic policies pursued by the Colom government will cause investor confidence to ebb and the quetzal to come under more severe pressure. We assume that Banguat will allow the quetzal to adjust to the adverse external environment and will only intervene in the event of volatility or significant overshooting. Weaker capital inflows and a large external financing requirement will cause international reserves to fall from US$4.7bn, but will still provide Banguat with resources to make smoothing interventions as the quetzal weakens.

External sector

Despite falling exports in 2009 in the face of falling US demand, a slowing pace of import growth as consumer retrenchment takes hold in Guatemala amid decelerating remittances and GDP growth will result in a modest narrowing of the trade deficit. The services deficit will also narrow, both nominally and as a percentage of GDP, as freight prices fall. As a result, the current-account deficit will narrow in 2009, to 3.5% of GDP from an estimated 4.9% of GDP in 2008. In 2010 the deficit will fall further, to 3.3% of GDP, as export demand undergoes a modest recovery, but import demand remains weak as consumers and businesses remain cautious. Obtaining the external finance needed at these levels would prove difficult if foreign direct investment (FDI) and other capital inflows were to weaken further than we currently forecast in the face of deterioration in international conditions. A shortfall would cause growth (and therefore the external financing requirement) to fall below forecast levels.

Forecast summary

(% unless otherwise indicated)

	2007[a]	2008[b]	2009[c]	2010[c]
Real GDP growth	5.7	3.9	1.4	2.6
Gross agricultural production growth	3.9	3.2	1.8	2.2
Consumer price inflation (av)	6.8	11.4	7.2	9.2
Consumer price inflation (year-end)	8.8	9.4	8.9	8.0
Money market interest rate (av; %)	6.6[b]	6.7	7.0	6.7
Central government balance (% of GDP)	-1.4	-1.8	-2.6	-2.8
Exports of goods fob (US$ bn)	7.0[b]	8.1	7.6	8.1
Imports of goods fob (US$ bn)	12.5[b]	14.1	12.2	12.8
Current-account balance (US$ bn)	-1.5[b]	-2.1	-1.6	-1.6
Current-account balance (% of GDP)	-4.4[b]	-4.9	-3.5	-3.3
External debt (year-end; US$ bn)	5.8[b]	6.0	5.8	6.4
Exchange rate Q:US$ (av)	7.67	7.56	8.19	8.66
Exchange rate Q:US$ (year-end)	7.63	7.73	8.60	8.71
Exchange rate Q:€ (av)	10.50	11.06	10.53	11.26
Exchange rate Q:€ (year-end)	11.14	9.89	11.18	11.36

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Monthly review: January 2009

The political scene

Government announces major changes to security cabinets

As part of its plan to reshape and strengthen the government's security policy, the president, Álvaro Colom Caballeros, unveiled two major changes to the security cabinets. On January 9th 2009 the interior minister, Francisco Jimenez, was replaced by Salavador Gándara. On December 21st 2008 Abraham Valenzuela was appointed defence minister in place of Marco Tulio Garcia. In addition, the vice-minister of defence, the chief of general staff and the head of the military inspectorate were removed too. The decisions came after a dramatic year for Guatemala's security situation. According to the national police (PNC, Policia Nacional Civil), there were 6,200 homicides during 2008, meaning an average of 17 violent deaths per day. Faced with this escalation of violence, the state's reaction proved to be weak; with only 382 people detained on murder charges, the impunity rate has been dramatically high. The December reshuffle also followed tensions between Mr Colom and the former heads of the defence cabinet, which recently refused to open secret army files at the president's request. The reshuffle sparked criticism from the right-of-centre Partido Patriota (PP), the largest opposition party, which accused Mr Colom of destabilising the army. With this move, Mr Colom intends to assert his authority over the military and to strengthen the support for his government's national security policy going forward. The military is likely to play a crucial role in the government's efforts to tackle organised crime and drug-trafficking; these efforts will require an increase in the use of army forces to patrol areas where the drug cartels now operate with impunity. The new cabinet is expected to follow more closely the policy direction of Mr. Colom.

Political tensions lead to resignation of 10 UNE deputies

Political tensions inside the minority centre-left Unidad Nacional de la Esperanza (UNE) government led to the resignation of ten deputies on December 4th. The outgoing deputies decided to form a new parliamentary group called the Bloque de Libertad Democrática. The internal disputes were triggered by two decisions from UNE's top authorities. Manuel Baldizón, a prominent figure inside UNE, was first accused of disloyalty to the party and later expelled after he announced his intention to run at the party's next leadership election, which is due in May 2009. The charges of disloyalty were based on an alleged transfer of funds from the national budget to an NGO close to the Baldizón's family. The other decision that prompted the deputies' secession was the appointment of Nery Samaoya as head of the UNE legislative bench, with no prior consultation with the party's base. Although UNE and its allies retain majority in the Congressional Assembly, the resignations will weaken the government's ability to push forward its policy agenda. It will increase the government's reliance on its allies' parties in the policymaking process, the Gran Alianza Nacional (GANA), the Frente Republicano Guatemalteco (FRG), Bancada Gautemala and Unión del Cambio Nacional.

Guatemala and Belize dispute set to go to International Court

Guatemala and Beliza have agreed to refer their long-standing territorial dispute to the International Court of Justice in the Hague. On December 8th the Guatemalan minister of foreign relations, Haroldo Rodas and his Belizean counterpart, Wilfred Elrington, reached the agreement under the supervision of the Organization of American States (OAS). The decision will be subject to a popular referendum in both countries. Therefore, it will take between three and five years before the case will reach the court in The Hague. Given that Mr Rodas set the settlement of this territorial dispute as one of the government's foreign policy priorities for 2008-12, the agreement represents an important diplomatic advance on government's priority foreign policy issues. Guatemala is claiming around 12.550 sq metres that constitute around 50% of Belize's territory. The dispute dates back to 1860, when the UK made an offer to Guatemala in order to make the area part of Belize. As the UK did not fulfil the terms of the agreement, the controversy between the two countries started. The efforts to settle the dispute under the OAS's supervision started in 2000. The Guatemalan government looks determined to push the settlement of the dispute forward, as the Tribunal Supremo Electoral (TSE, the electoral authority) is preparing to hold the referendum in the first half of 2009, provided that the Congress will ratify the agreement.

Economic policy

Weak revenue growth deepens fiscal deficit

Preliminary fiscal data for the first 11 months of the year show a marked weakening in fiscal performance. In January-November central government revenue grew by 6.8%, down from growth of 14.9% a year earlier. Tax revenue growth slowed to 6.4%, down from 15.7% a year earlier, recording an even more marked deceleration. Value-added tax (VAT), accounting for around 48% of total revenue, continues to record the slowest rate of increase among tax revenue components, rising by 6.5% year on year, down from growth of 23.3% in the same period of last year, indicating that consumers are feeling the pinch as a result of the economic slowdown. Total spending grew by 6.2% year on year, as a result of spending on goods and services surging by 53% and wages and salaries spending increasing by 12.6% (partly reflecting a rise of 8% in teachers' pay implemented in January). Since the start of the year, capital expenditure has remained below 2007 levels, the combined effect of pre-election spending in 2007 providing a high base of comparison, the winding down of post-hurricane reconstruction spending and institutional weakness in carrying out planned capital outlays on the part of the government since it took office in January. However, in the first 11 months of 2008 capital expenditure turned to positive growth, rising by 2%, with government real direct investment recording positive growth (5.7%) for the first time this year. On the other hand, government financial investment fell by 42.8% and capital transfers to private and external sectors declined by 67.4%. The reason behind the surge in spending on goods and services is not clear; it may be associated with the social investments and security programmes that the government has launched during 2008. However, the rise in spending on goods and services, together with a drop in capital transfers may suggest that a change in accounting rules has occurred recently. Nevertheless, slowing revenue growth resulted in a fiscal deficit for the fourth consecutive month in November. Although at just Q2.72bn (US$349.6m), the fiscal deficit for January-November was lower than the Q2.73bn (US$350.1m) reported in the same period of 2007, it marks a turnaround from January-April, when the fiscal accounts registered a surplus.

Central government finances
(Q m; Jan-Nov)

	2007	2008[a]	% change
Total revenue & donations	**30,515.1**	**32,590.8**	**6.8**
Tax revenue	28,979.4	30,833.1	6.4
Income tax	6,208.4	6,924.9	11.5
Agricultural & mercantile business tax (IEMA)	8.7	10.5	20.7
Tax to support the peace agreements (IETAAP)	2,028.3	2,310.7	13.9
VAT	13,929.3	14,840.9	6.5
Total spending	**33,244.3**	**35,313.8**	**6.2**
Wages	7,380.2	8,313.4	12.6
Goods & services	2,837.5	4,340.6	53.0
Interest payments	3,677.1	3,808.5	3.6
Transfers	6,608.1	5,605.9	-15.2
Capital expenditure	10,841.7	11,054.0	2.0
Current balance	8,100.2	8,315.6	2.7
Overall balance	**-2,729.2**	**-2,723.1**	**-0.2**
Financing	**2,729.2**	**2,723.1**	**n/a**
External (net)	2,936.0	813.7	n/a
Internal (net)	-206.8	1,909.4	n/a
Changes in deposits (-indicates increase)	-2,748.0	883.7	-132.2

[a] Preliminary figures.

Source: Ministry of Finance.

Banguat keeps rate on hold in spite of sluggish GDP growth

Although November data showed a marked decline in economic growth, coupled with easing inflationary pressures, on December 17th the Junta Monetaria (the monetary policy committee) decided to keep interest rates on hold at 7.25%. The decision highlighted the concerns of the Banco de Guatemala to bring inflation closer to the target range of 4-7% for 2008. Consumer price inflation slowed to 9.4% in December, down from a high of 14.2% in July, although it is still the highest inflation rate recorded since December 1996 (10.9%). This was the result of lower international prices for oil, maize and wheat, which have offset the inflationary impact of a weakening domestic currency in December. Had Banguat reduced interest rates, this could have weakened the quetzal further, resulting in higher inflation. With remittance growth slowing and short-term capital inflows drying up, the quetzal continued its depreciating trend in December. From a high of Q7.38:US$1 on July 17th, the quetzal had depreciated by over 5% in nominal terms to Q7.78:US$1 on December 31st, highlighting the risks to inflation through the exchange rate mechanism.

The government announces increase in minimum wage

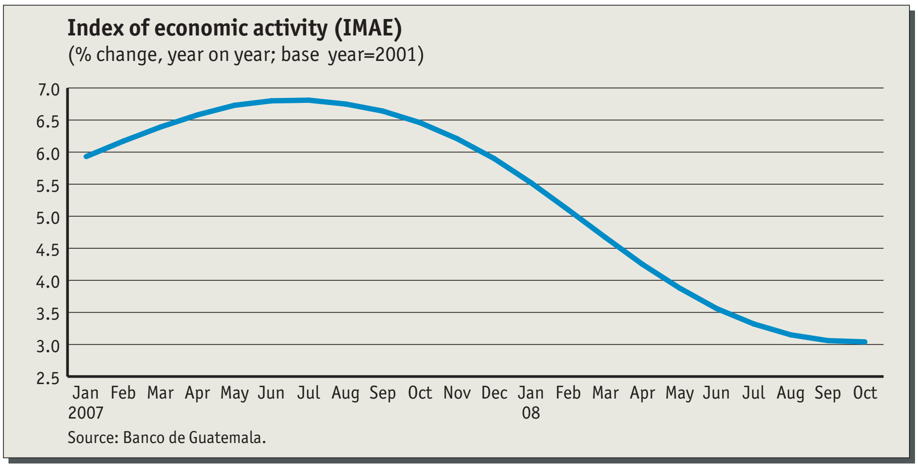
At the end of December, the president, Álvaro Colom Caballeros, announced an increase in the daily minimum wage for 2009, which set wages for workers in the agricultural sector at the same level with non-agricultural workers. The measure will exclude workers in the *maquila* (offshore assembly for re-export) industry. The minimum wage for workers in the *maquila* industry, which was established for the first time in January 2008, will remain unchanged in 2009 at a rate of Q47.75 per day. The measure introduces a minimum wage of Q52 (US$6.68) per day, which represents an increase of 10.6% for agricultural wages and 7.2% for non-agricultural wages. With the decision not to extend the minimum wage to the *maquila* industry, the government sought to take precautions against the flight of *maquila* investments towards Honduras or Nicaragua, loss of jobs in the industry and loss of competitiveness in the face of increased competition from Asian exporters to the US. However, Mr. Colom has pointed out that future reductions in electricity prices and improved public administration efficiency will allow the government to fulfil its commitment to extend the minimum wage increase to the *maquila* industry.

Economic performance

GDP growth is sluggish in all sectors

According to preliminary estimates from the Banco de Guatemala, (Banguat, the central bank), real GDP grew by 4% in 2008, down from a revised rate of 6.3% in 2007. This is broadly in line with the Economist Intelligence Unit estimate of 3.9% for 2008. The monthly index of economic activity (IMAE), released by the central bank, shows the economy reached its peak in July 2007 when it grew by 6.8%; since then, output has started to decelerate gradually and it grew by 3% in October, its lowest rate since August 2005, suggesting that there are no signs of a recovery and that growth prospects going forward remain lacklustre. Although a disciplined fiscal and monetary policy ensured macroeconomic stability over 2008, external conditions continue to worsen as the US, EU and Japan have all entered recession, providing a huge blow to Guatemala's exports prospects in those markets.

A contraction in money supply (M1) for the eighth consecutive month suggests that domestic demand is weakening sharply as a result of slowing remittances, higher lending rates and weaker credit growth. Remittances from Guatemalans working abroad, mainly in the US, have slowed sharply in recent months, hit by rising job losses in immigrant-intensive industries, such as construction and a clampdown on illegal workers. Remittances growth slowed to 4.5% in 2008, down from 14.3% in 2007. With around 50% of remittances going directly towards private consumption, according to the International Labour Organisation, a sharp slowing in their amount has a significant impact on domestic demand. Commercial interest rates have been tightening over the last year: the average weighted lending rate in local currency rose to 13.8% in December, up from 12.9% a year earlier. Concurrently, banks are more cautious in extending credit to the private sector as a result of the seizure in international capital markets. Therefore, growth in private sector credit slowed to 11.5% year on year in November, down from 27.6% a year earlier. In November, government spending decelerated to 6.2%, compared with a rate of growth of 16.6% in November 2007.



With the exception of banking and insurance and public administration, growth in all the sectors of the economy has been slower than in 2007. Growth in the agricultural sector more than halved in 2008 (2%, down from 5.9% in 2007), badly affected by declines in sugar and coffee production and a fall in the cardamom harvest. Guatemala was not immune from the general crisis of the construction sector; output contracted by 3.6%, mainly as a result of a reduction in public investments, owing to institutional weaknesses in delivering planned capital outlays. The slowdown in construction fed through to the mining sector, which contracted by 0.8%, down from 13.9% positive growth a year earlier. Transport and communications was the main driver of economic growth in 2008, although growth declined to 18.2% down from 22.9% in 2007, as a result of slower growth in the mobile phone and Internet services market.

Gross domestic product by sector
(% change, year on year; constant 2001 prices)

	2007[a]	2008[b]
Agriculture, forestry & fishing	5.9	2.0
Mining	13.9	-0.8
Manufacturing	3.0	2.4
Construction	8.8	-3.6
Electricity & water	6.3	2.2
Transport & communications	22.9	18.2
Commerce & retail	4.0	3.3
Banking, insurance & real estate	9.9	11.8
Housing	3.9	3.7
Public administration & defence	4.6	5.4
Private services	6.5	4.5
GDP	**6.3**	**4.0**

[a] Preliminary figures. [b] Official estimates.

Source: Banco de Guatemala.

Banking sector posts positive results for 2008

Despite the ongoing deterioration in international capital markets, the banking system has yet to feel the full effects. According to data released by the Superintendencia de Bancos (the financial watchdog), commercial banks' profits slowed in the first 11 months of 2008, but the contraction appears to have been mild, with profits rising by 23.2%, down from 36.2% a year earlier. A relatively underdeveloped banking system has so far acted as a shelter for Guatemala's financial system; banks' exposure to subprime and other financial derivatives products is limited and commercial banks' investments in equities are low. As a result, the recent crash in global equity markets has barely affected the banking sector. However, some signs of stress in the sector have started to arise. Although the ratio of non-performing loans (NPLs) remained low as a percentage of total loans, at 2.8% it was considerably higher than 1.9% a year ago. Furthermore, the freeze in credit lines from international banks has caused concern that banks could face liquidity problems. As a result, in November the central bank adopted a number of short-term measures aimed at injecting liquidity into the system. The decision came as data showed money supply (M1) contracting for the third successive quarter in July-September. November data confirmed a slowdown in private sector credit; which was down to 11.5% year on year, down from 27.6% a year earlier. Fourth quarter data will give a clearer picture on whether the move is having any effect in easing liquidity to the system.

Data and charts

Annual data and forecast

	2004[a]	2005[a]	2006[a]	2007[a]	2008[b]	2009[c]	2010[c]
GDP							
Nominal GDP (US$ m)	23,965	27,211	30,193[b]	35,101[b]	42,533	44,119	48,310
Nominal GDP (Q m)	190,440	207,729	229,548[b]	269,340[b]	321,590	361,502	418,358
Real GDP growth (%)	3.2	3.3	5.3	5.7	3.9	1.4	2.6
Expenditure on GDP (% real change)							
Private consumption	3.9	4.3	4.6	5.0	4.2	2.4	3.0
Government consumption	-6.6	1.7	5.7	5.3	5.0	5.4	5.0
Gross fixed investment	-1.2	4.3	15.7	7.9	3.0	-1.0	1.5
Exports of goods & services	8.2	-2.1	4.8	10.8	3.5	-4.4	1.1
Imports of goods & services	5.7	-0.6	6.5	7.0	4.2	-0.8	2.6
Origin of GDP (% real change)							
Agriculture	4.2	2.1	1.3	3.9	3.2	1.8	2.2
Industry	-0.2	5.2	4.9	4.8	3.5	-1.2	1.1
Services	3.8	3.9	6.3	6.7	4.0	2.5	3.0
Population and income							
Population (m)	12.4	12.7	13.0	13.4[b]	13.7	14.0	14.4
GDP per head (US$ at PPP)	4,942	5,141	5,450[b]	5,777[b]	6,071	6,093	6,168
Fiscal indicators (% of GDP)							
Central government budget revenue	12.3	12.0	12.7	12.5	11.2	10.8	10.3
Central government budget expenditure	13.4	13.7	14.7	13.9	12.9	13.3	13.1
Central government budget balance	-1.1	-1.7	-1.9	-1.4	-1.8	-2.6	-2.8
Public debt	30.5	29.6	28.3	25.2	23.7	25.9	23.6
Prices and financial indicators							
Exchange rate Q:US$ (end-period)	7.75	7.61	7.62	7.63	7.73	8.60	8.71
Exchange rate ¥:Q (end-period)	13.25	15.50	15.61	14.64	12.30	10.75	10.51
Consumer prices (end-period; %)	9.2	8.6	5.8	8.8	9.4	8.9	8.0
Stock of money M1 (% change)	7.8	16.5	20.4	10.5	-12.0	3.0	6.0
Stock of money M2 (% change)	11.5	14.1	13.4	11.3	-0.8	6.8	8.6
Lending interest rate (av; %)	13.8	13.0	12.8	12.8	13.6	13.9	13.6
Current account (US$ m)							
Trade balance	-3,632	-4,191	-4,852	-5,470[b]	-6,061	-4,601	-4,764
Goods: exports fob	5,105	5,460	6,082	7,012[b]	8,073	7,641	8,074
Goods: imports fob	-8,737	-9,650	-10,934	-12,482[b]	-14,134	-12,242	-12,838
Services balance	-244	-142	-266	-473[b]	-512	-406	-258
Income balance	-410	-485	-662	-397[b]	-378	-430	-476
Current transfers balance	3,050	3,517	4,207	4,806[b]	4,877	3,877	3,925
Current-account balance	-1,236	-1,300	-1,573	-1,535[b]	-2,074	-1,560	-1,574
External debt (US$ m)							
Debt stock	5,531	5,349	5,496	5,804[b]	6,038	5,807	6,365
Debt service paid	547	477	551	719[b]	712	703	717
Principal repayments	290	215	258	342[b]	363	363	340
Interest	257	263	293	377[b]	348	340	377
International reserves (US$ m)							
Total international reserves	3,436	3,673	3,924	4,139	4,659	3,679	3,809

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2006	2007				2008		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Central government finance (Q m)								
Revenue	8,275	8,093	7,703	8,355	9,384	8,959	8,521	9,025
Expenditure	11,275	7,929	8,499	10,367	10,590	7,562	8,579	10,407
Balance	-3,001	165	-797	-2,012	-1,206	1,397	-57	-1,384
Prices								
Consumer prices (2000=100)	154.1	158.2	160.0	162.6	166.5	166.5	166.5	166.5
Consumer prices (% change, year on year)	4.8	6.2	5.5	6.0	8.1	5.2	4.1	2.4
Financial indicators								
Exchange rate Q:US$ (av)	7.61	7.69	7.66	7.68	7.66	7.69	7.49	7.44
Exchange rate Q:US$ (end-period)	7.62	7.69	7.72	7.75	7.63	7.60	7.53	7.49
Lending rate (av; %)	12.89	12.96	12.78	12.73	12.88	12.87	13.33	13.57
M1 (end-period; Q m)	43,004	44,336	44,313	45,083	47,514	43,435	41,919	41,676
M1 (% change, year on year)	20.4	22.3	18.0	17.2	10.5	-2.0	-5.4	-7.6
M2 (end-period; Q m)	103,905	105,290	107,882	112,031	115,636	113,262	113,236	115,328
M2 (% change, year on year)	13.4	11.9	10.2	11.1	11.3	7.6	5.0	2.9
Sectoral trends								
Coffee production (annual totals; '000 tonnes)[a]	21.6	(		21.6	)	n/a	n/a	n/a
Foreign trade (Q m)								
Exports fob	881.8	1,135.5	1,214.5	1,080.9	1,064.3	1,329.6	1,558.1	1,430.6
Coffee	63.4	134.4	239.9	147.7	55.7	199.1	260.8	141.7
Sugar	31.0	133.4	131.4	63.2	30.1	56.4	113.2	120.7
Imports cif	**2,678.5**	**2,718.2**	**2,795.7**	**3,118.0**	**3,216.0**	**3,072.5**	**3,549.6**	**3,355.2**
Trade balance	-1,796.7	-1,582.7	-1,581.2	-2,037.1	-2,151.7	-1,742.9	-1,991.5	-1,924.6
Foreign payments (US$ m)								
Merchandise trade balance	-1,331.6	-1,174.6	-1,133.0	-1,524.7	-1,637.9	n/a	n/a	n/a
Services balance	-106.5	-48.0	-84.4	-53.9	-133.5	n/a	n/a	n/a
Income balance	-178.0	-173.0	-173.4	-203.2	-219.8	n/a	n/a	n/a
Net transfer payments	1,096.6	1,024.7	1,241.1	1,258.4	1,281.4	n/a	n/a	n/a
Current-account balance	-519.5	-370.9	-149.7	-523.4	-709.8	n/a	n/a	n/a
Reserves excl gold (end-period)	3,915.0	4,098.5	4,340.2	4,106.3	4,129.9	4,128.1	4,562.5	4,544.9

[a] Estimate.

Sources: Food & Agricultural Organisation; IMF, *International Financial Statistics*; Banco de Guatemala.

Monthly data

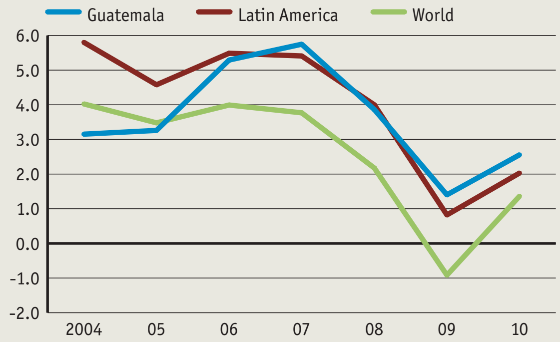
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Q:US$ (av)												
2006	7.62	7.61	7.62	7.59	7.58	7.61	7.58	7.58	7.61	7.61	7.61	7.60
2007	7.68	7.70	7.69	7.66	7.64	7.68	7.68	7.66	7.70	7.72	7.64	7.63
2008	7.71	7.72	7.64	7.54	7.43	7.49	7.44	7.41	7.46	7.53	7.64	n/a
Exchange rate Q:US$ (end-period)												
2006	7.60	7.62	7.61	7.59	7.60	7.60	7.58	7.60	7.62	7.58	7.64	7.62
2007	7.74	7.72	7.69	7.66	7.67	7.72	7.68	7.68	7.75	7.68	7.67	7.63
2008	7.78	7.69	7.60	7.48	7.43	7.53	7.43	7.44	7.49	7.55	7.66	n/a
Central government budget revenue (Q m)												
2006	2,527	1,715	2,526	2,749	2,060	1,934	3,126	2,160	2,180	3,140	2,432	2,703
2007	2,880	2,061	3,152	3,031	2,338	2,334	3,600	2,503	2,252	3,730	2,635	3,019
2008	3,096	2,571	3,292	3,660	2,498	2,363	4,011	2,541	2,473	3,684	2,310	n/a
Central government budget expenditure (Q m)												
2006	2,154	2,276	2,467	2,078	2,692	2,306	3,239	2,515	2,720	2,423	3,654	5,198
2007	2,025	2,089	3,815	2,805	3,249	2,445	3,941	3,362	3,064	2,886	3,566	4,138
2008	2,550	2,054	2,958	2,891	3,079	2,609	3,881	2,916	3,610	3,920	4,848	n/a
Central government budget balance (Q m)												
2006	373	-561	59	671	-632	-372	-113	-354	-541	717	-1,222	-2,496
2007	856	-28	-663	226	-911	-112	-341	-859	-812	844	-931	-1,119
2008	546	517	334	769	-581	-245	129	-376	-1,137	-236	-2,538	n/a
M1 (% change, year on year)												
2006	16.0	16.9	15.5	16.0	16.7	19.3	15.7	17.7	16.9	17.3	16.6	20.4
2007	20.0	19.7	22.3	16.1	18.4	18.0	16.3	15.4	17.2	14.1	12.1	10.5
2008	6.9	4.4	-2.0	-1.2	-3.4	-5.4	-4.0	-5.1	-7.6	-4.7	n/a	n/a
M2 (% change, year on year)												
2006	13.8	14.7	15.1	14.4	15.6	17.5	16.6	17.0	16.5	16.3	16.4	13.4
2007	12.3	11.9	11.9	9.8	10.0	10.2	10.3	9.5	11.1	11.0	9.9	11.3
2008	12.4	11.4	7.6	6.7	7.3	5.0	5.1	4.5	2.9	3.8	n/a	n/a
Deposit rate (av; %)												
2006	4.4	4.4	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.7	4.7
2007	4.7	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
2008	4.8	4.8	4.9	4.9	4.9	5.0	5.1	5.2	5.3	n/a	n/a	n/a
Lending rate (av; %)												
2006	12.7	12.7	12.8	12.7	12.7	12.7	12.7	12.7	12.7	12.9	12.9	12.9
2007	13.0	13.0	12.9	12.8	12.8	12.8	12.8	12.6	12.8	12.9	12.9	12.9
2008	12.7	12.8	13.1	13.3	13.3	13.4	13.5	13.6	13.7	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2006	7.6	6.9	7.2	7.3	7.4	7.5	6.8	6.9	5.6	4.2	4.6	5.7
2007	5.9	6.2	6.6	6.2	5.3	5.0	5.4	5.8	6.9	7.1	8.4	8.7
2008	8.1	8.7	8.9	10.1	11.6	13.3	13.4	13.1	12.3	12.9	10.7	n/a
Goods exports fob (US$ m)												
2006	271.7	271.4	326.9	299.6	364.8	351.7	292.6	334.4	318.2	274.9	292.1	314.8
2007	363.8	347.7	424.0	375.3	429.7	409.5	376.2	365.4	339.3	321.6	375.0	367.7
2008	423.6	417.8	488.2	504.9	521.2	532.0	539.6	432.7	458.3	378.5	n/a	n/a
Goods imports cif (US$ m)												
2006	775.8	698.9	830.1	740.1	930.4	901.4	854.6	883.0	864.1	926.6	923.3	828.6
2007	927.9	824.8	965.5	809.2	1,013.2	973.3	1,054.1	1,119.2	944.7	1,129.6	1,050.6	1,035.8
2008	994.4	1,038.3	1,039.8	1,245.6	1,169.5	1,134.5	1,226.9	1,094.6	1,033.7	1,136.9	n/a	n/a

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Trade balance fob-cif (US$ m)												
2006	-504.1	-427.5	-503.2	-440.5	-565.6	-549.7	-562.0	-548.6	-545.9	-651.7	-631.2	-513.8
2007	-564.1	-477.1	-541.5	-433.9	-583.5	-563.8	-677.9	-753.8	-605.4	-808.0	-675.6	-668.1
2008	-570.8	-620.5	-551.6	-740.7	-648.3	-602.5	-687.3	-661.9	-575.4	-758.4	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2006	3,956.4	3,940.2	3,982.0	3,994.3	4,061.5	3,921.4	3,892.4	3,889.8	3,894.2	3,897.8	3,904.6	3,915.0
2007	3,887.3	3,903.5	4,098.5	4,108.7	4,102.2	4,340.2	4,289.8	4,110.7	4,106.3	4,108.6	4,123.4	4,129.9
2008	4,110.0	4,129.7	4,128.1	4,271.4	4,372.4	4,562.5	4,534.6	4,526.7	4,544.9	4,615.1	4,541.7	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

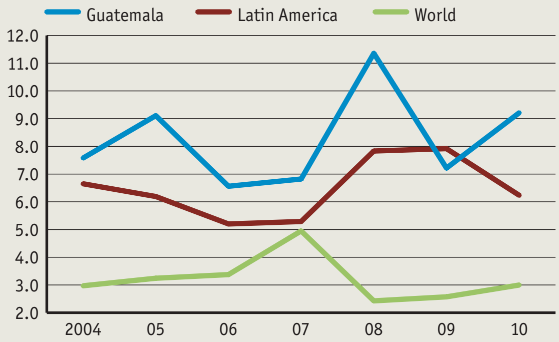
Annual trends charts

Real GDP growth
(% change)



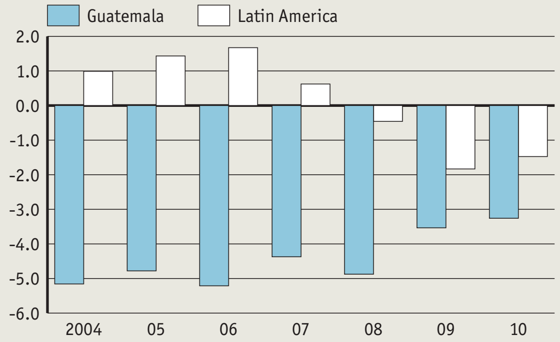
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



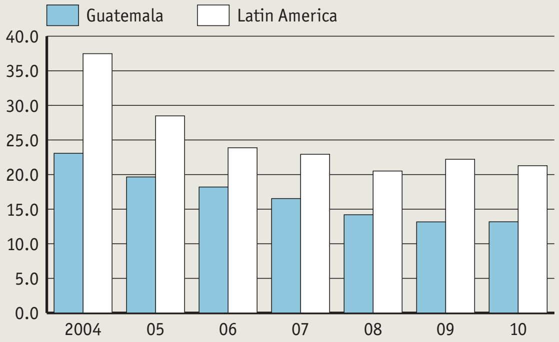
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



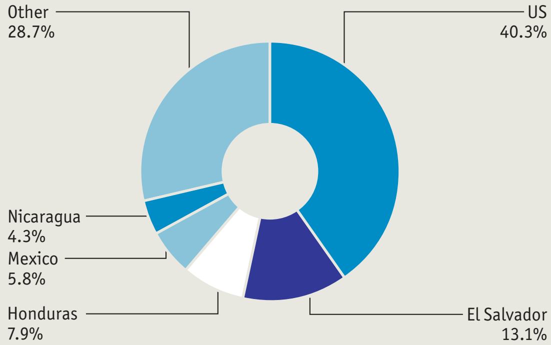
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



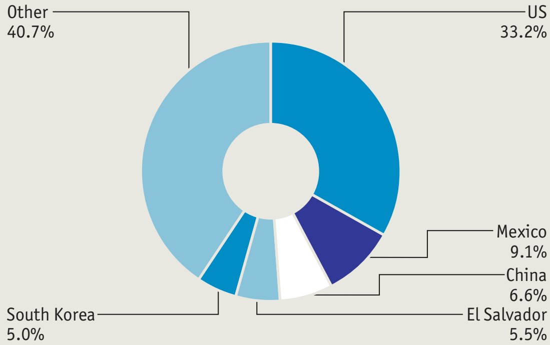
Source: Economist Intelligence Unit.

Main destinations of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

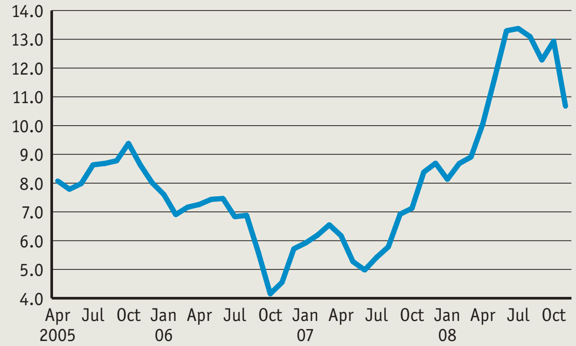
Main origins of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

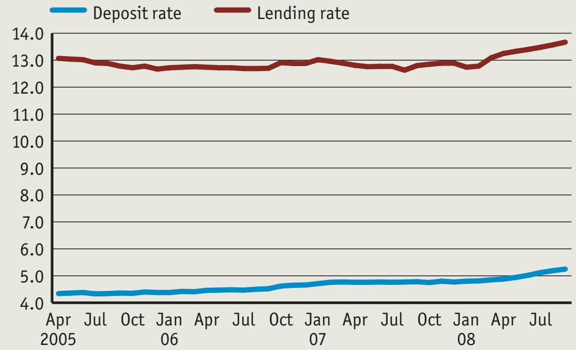
Monthly trends charts

Price inflation
(% change, year on year)



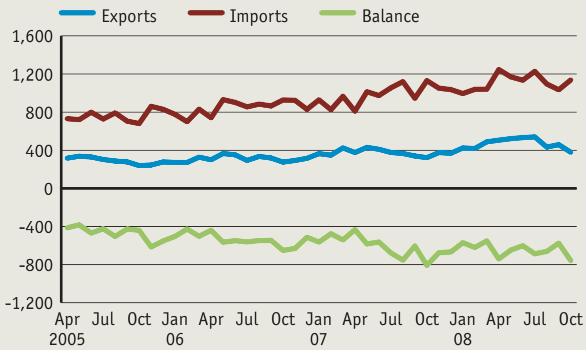
Source: Economist Intelligence Unit.

Interest rates
(av; %)



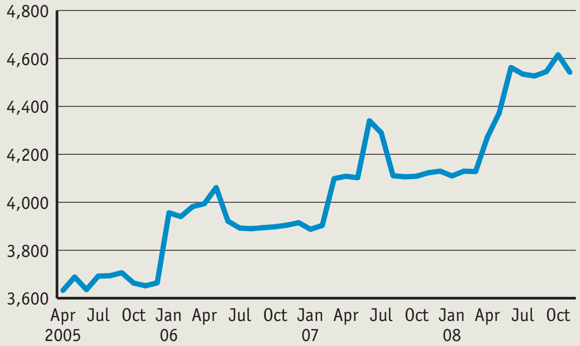
Source: Economist Intelligence Unit.

Foreign trade
(US$ m; goods only)



Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US$ m)



Source: Economist Intelligence Unit.

Country snapshot

Political structure

Official name	Republic of Guatemala
Form of state	Unitary republic
Legal system	US-style Supreme Court system
National legislature	Unicameral Congress, with 158 members, elected every four years; re-election possible for members and leader of Congress
Electoral system	Universal adult suffrage
National elections	Elections held on September 9th 2007 (presidential, congressional, municipal), in which the left-of-centre Unidad Nacional de la Esperanza (UNE) won the largest number of seats (51); presidential second round on November 4th 2007 won by Álvaro Colom of the UNE. The new government was sworn in on January 14th 2008. Next elections: September 2011 (presidential, congressional and municipal), with a second-round run-off in November as required
Head of state	President, elected by universal suffrage for a single term of four years; cabinet, headed and appointed by the president
National government	Unidad Nacional de la Esperanza (UNE)
Main political organisations	Main opposition parties: Gran Alianza Nacional (GANA); Frente Republicano Guatemalteco (FRG); Partido de Avanzada Nacional (PAN); Partido Patriota (PP); Centro de Acción Social (CASA); Unión del Cambio Nacional (UCN); Unión Democrática (UD); Partido Unionista (PU); Encuentro por Guatemala (EG); Unidad Revolucionaria Nacional Guatemalteca (URNG);

	President	Álvaro Colom Caballeros
	Vice-president	Rafael Espada
Key ministers	**Agriculture, livestock & food**	Julio Recinos Salas
	Communications, transport & public works	Luis Alfredo Alejos Olivero
	Culture & sport	Jerónimo Lancerio
	Defence	Abraham Valenzuela
	Economy & trade	Romulo Caballeros Otero
	Education	Ana Ordóñez de Molina
	Energy & mines	Carlos Iván Meany Valerio
	Environment	Luis Alberto Ferraté Feliche
	Finance	Juan Alberto Fuentes Knight
	Foreign relations	Roger Haroldo Rodas Melgar
	Health & social welfare	Celso Cerezo
	Interior	Salavador Gándara
	Labour & social security	Édgar Rodríguez

President of Congress	Aristides Crespo
Central bank president	María Antonieta de Bonilla

