**2000 Country Reports on Economic Policy and Trade Practices**
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

# GUATEMALA

## Key Economic Indicators 1/

(Millions of U.S. dollars unless otherwise indicated)

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| *Income, Production and Employment:* | | | |
| Nominal GDP 2/ | 19,016 | 18,272 | 18,895 |
| Real GDP Growth (pct) | 4.7 | 3.6 | 3.6 |
| GDP by Sector (pct): | | | |
| Agriculture | 24 | 23 | 23 |
| Manufacturing | 21 | 21 | 21 |
| Services | 47 | 47 | 47 |
| Government | 8 | 8 | 8 |
| Per Capita GDP (US$) 2/ | 1,793 | 1,635 | 1,636 |
| Labor Force (000s) 3/ | 3,416 | 4,208 | 4,317 |
| Unemployment Rate (pct) 4/ | 5.9 | N/A | N/A |
| *Money and Prices (annual percentage growth):* | | | |
| Money Supply Growth (M2) | 14.4 | 10.0 | 14.0 |
| Consumer Price Inflation 5/ | 7.4 | 4.92 | 5.0 |
| Exchange Rate (Quetzal/US$ annual average) | | | |
| Financial Market Rate (2000 data is Unofficial Embassy estimate) | 6.40 | 7.40 | 7.80 |
| *Balance of Payments and Trade:* | | | |
| Total Exports FOB 6/ | 2,562 | 2,493 | 2,642 |
| Exports to U.S. | 837 | 838 | 947 |
| Total Imports CIF 6/ | 4,651 | 4,560 | 4,678 |
| Imports from U.S. | 1,931 | 1,851 | 2,036 |
| Trade Balance 6/ | -2,089 | -2,067 | -2,036 |
| Balance with U.S. 6/ | -1,094 | -1,013 | -1,089 |
| External Public Debt 7/ | 2,368 | 2,600 | 2,700 |
| Fiscal Deficit/GDP (pct) 7/ | 2.9 | 2.8 | 2.3 |
| Current Account Deficit/GDP (pct) 7/ | 5.2 | 5.5 | 3.9 |
| Debt Service Payments/GDP (pct) 7/ | 1.6 | 1.8 | 2.2 |
| Gold and Foreign Exchange Reserves (Millions Net) 7/ | 1,400 | 1,100 | 1,800 |
| Aid from U.S. | 65 | 102 | 60 |

| | | | |
|---|---|---|---|
| Aid from Other Sources | N/A | N/A | N/A |

1/ 2000 figures are all estimates based on available data in October.
2/ GDP expressed in millions of U.S. Dollars.
3/ 1999 Labor Force Data from 1999 Survey of Family Income and Expenditures.
4/ Does not reflect estimated 40 to 50 percent underemployment.
5/ The official CPI is not regarded as an accurate measure of price movements
6/Merchandise trade data from Guatemalan customs and central bank. Trade data does not include approximately $250 million in value added by the apparel assembly industry. U.S. government data for U.S. imports from Guatemala were $2,265 million in 1999 and $2,072 million in 1998.
7/ Data from the Guatemalan government's preliminary 2001 budget projection and Guatemala's Central Bank.

*1. General Policy Framework*

Following the signing of the 1996 Peace Accords, which ended a 36-year armed internal conflict, Guatemala has experienced a resurgence of civic participation culminating in the creation of a Fiscal Pact, which was sent to congress in July. The Fiscal Pact was designed to bring together various sectors to develop tax and other proposals that would help the government increase revenues from 8 percent of GDP to 12 percent, and therefore, to ensure implementation of social reforms promised in the Peace Accords. The Guatemalan government has not accepted the recommendations of the Fiscal Pact, specifically rejecting a proposed increase in the value-added tax. Since assuming office in January 2000, the Portillo administration has made efforts to improve the tax collection system, whose reform is essential to national progress and development. Among the government's remaining challenges, however, are the need to address the fiscal deficit, the elimination of bureaucratic inefficiency as well as private and government corruption, development of physical infrastructure and human capital, improvement in internal security and justice, and designing policies that promote sustained macroeconomic stability.

Guatemala's economy, the largest in Central America, is generally open, though the lack of transparency and bureaucratic complexity often make it difficult for foreigners to compete on equal footing. For the last three years, real GDP growth has averaged about 4 percent and population growth about 2.9 percent annually. Security concerns, as well as insufficient investment in education, health care, telecommunications, and transportation constrain the more rapid development of Guatemala's economy. The telecommunications sector and key elements of the electricity industry have been privatized and the government has awarded concessions for the operation of the railroad and the postal service. Recent actions by the government to investigate the legality of contracts signed by the previous administration have cast a shadow over the investment climate. Guatemala has been a member of the WTO since 1995.

Agriculture and commerce are the dominant economic activities. Agriculture accounts for two thirds of exports and about 40 percent of all employment, though there is much underemployment in all sectors. Activity in the agricultural sector is concentrated in production of the traditional products of coffee, sugar, and bananas. Dramatic declines in world prices for coffee have adversely affected the economy. Non-traditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other non-traditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. The textile sector expects significant increases in its exports to the United States as a result of enhanced benefits it will receive under the Caribbean Basin Initiative. Remittances from abroad, which the Guatemalan government estimates at between $450-500 million per year, are a significant source of foreign exchange.

Though tax revenues have historically been less than 8 percent of GDP, the government is committed to increasing tax revenues to 12 percent of GDP by 2002 in order to fund social and economic development projects as set forth in the Peace Accords. Tax revenues in 2000 are expected to be 9.8 percent of GDP. Beginning in 1994, the central bank (Bank of Guatemala) was prohibited from financing the government’s budget deficit, forcing the government to issue treasury bonds, most of which were short-term. In 1996 the government began issuing securities for longer terms (up to 5 and 10 years), including several dollar-denominated issues placed on the international market at lower rates of interest than offered on local currency denominated bonds.

In 1999 the Guatemalan currency experienced strong downward pressure in the foreign exchange market, leading the central bank to issue short-term notes to absorb excess liquidity and reduce consumption demand. Though the central bank achieved macroeconomic stability in 2000, having curtailed capital flight and controlled inflation, high commercial bank lending rates continue to discourage productive investment and retarding growth. Furthermore, the high volume of open market operations implies a large future cost to the central bank and has raised the question of whether the central bank can continue to maintain a relatively permissive monetary policy in the face of continued fiscal debt. Several placements of dollar-denominated government securities were issued in 1999 to finance part of the budget deficit, however the deficit remains problematic. Despite increased reliance upon dollar-denominated instruments that carry lower coupon rates than notes denominated in local currency, debt service costs will increase in 2001 as a result of both higher debt and the depreciation of the local currency.

*2. Exchange Rate Policy*

Guatemala's trade deficit and capital flight in 1999 put pressure on the foreign exchange market. Though Guatemala sold an additional $400 million in foreign reserves in 1999, the local currency still depreciated by approximately 13 percent. By issuing short-term notes to absorb the excess liquidity, the Central Bank stabilized the exchange rate in the first half of 2000, while simultaneously managing to raise foreign reserves to approximately $1.8 billion. Access to foreign exchange is unrestricted and there are no reports of foreign exchange shortages.

Though the government passed legislation in 1998 to permit banks and financial institutions to offer dollar-denominated accounts, enabling regulations have not been issued. A number of local banks currently offer dollar denominated accounts in which the funds are actually held in offshore accounts.

*3. Structural Policies*

As part of the Peace Process, the government is committed to increasing spending on social welfare programs, infrastructure expansion, and economic development programs. Though much of the financing for this additional spending will come from grants and loans provided by the international donor community, Guatemala is under pressure to generate significant internal resources to complement foreign grants and lending to fund these expenditures. The Fiscal Pact sought to address Guatemala's need for higher internal income by designing a new tax system. Among numerous other changes, the Fiscal Pact included a proposal to raise the nation's value-added tax from 10 to 12 percent. Without this increase, it is unlikely that the Guatemalan government will be able to collect revenues equal to the 12 percent of GDP required under the Peace Accords. At this time, it is unclear what measures the Guatemalan government will take to achieve this goal.

The Superintendency of Tax Administration, created in 1999 to improve compliance, reported revenue increases of 11 percent in the first seven months of 2000, as compared to the same period in 1999. Ninety percent of the government's current income is from taxes. Indirect taxes, primarily the value-added tax and duties, account for 80 percent of all tax revenues. Personal income taxes account for less than two percent of all tax revenues. Guatemala received over $500 million from the sale of the state-owned electricity company in 1998 and an additional $400 million over three years from the 1998 privatization of the telephone company. Over $300 million of these funds have been used for retirement of public debt. The Guatemalan government issued a decree on June 30, 2000 (Decree 44-2000) that would eliminate tax deductibility of interest paid to foreign banks. However, proposed changes in implementing the decree may address U.S. business concerns about the tax measures, depending on further interpretation.

*4. Debt Management Policies*

Despite inclusion of capital income from the 1998 sale of state-owned assets, the FY 2000 budget projects a deficit of 2.3 percent of GDP. While the Portillo administration has cut back government expenditures, the FY 2001 budget still projects a deficit of $524 million. In the absence of firm policies designed to increase revenues and political commitments to fund the peace accords, many experts expect higher fiscal deficits than those forecast by the government. This deficit will be financed through a combination of internal borrowing, foreign borrowing, and loans from foreign governments and international lending agencies. Guatemala's total public debt at the end of 2000 will be approximately $3.7 billion, of which $1 billion is internally held and $2.7 billion is foreign debt.

Guatemala has successfully converted some domestic debt from short term, high-interest instruments to longer-term, lower interest debt, including dollar-denominated commercial debt. The FY 2001 budget calls for appropriation of $452 million for debt service. Guatemala is current in its payments on both U.S. and other foreign debt.

*5. Aid*

USAID contributes $60 to $65 million annually to Guatemala in technical assistance and development programs. Total foreign donations anticipated in the 2001 budget are approximately $103 million. However, the budget only includes funds already pledged and programmed. Actual financial assistance is usually significantly higher than as stated in the preliminary budget document.

*6. Significant Barriers to U.S. Exports*

Guatemala applies the common external tariff schedule of the Central American Common Market, which ranges from zero to 15 percent for most agricultural and industrial goods. Exceptions include agricultural commodity imports in excess of their Tariff Rate Quotas (TRQ).

Guatemala, in compliance with its WTO obligations, created TRQs for rice, corn, wheat and wheat flour, apples, poultry and beef. All poultry parts are valued at a minimum of 56 cents/pound for customs purposes, significantly increasing the effective tariff rate and the cost of imported poultry products. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings. Also, the Quota Allocation Procedure is complicated and costly, in effect creating a barrier to entry.

Imported processed foods must be registered with the Ministry of Health by each individual importer. However, importers have the option of joining an association of importers and paying a fee for the use of other members' registrations. Processed foods must also be labeled in Spanish. Enforcement of this requirement has been lax, though compliance is increasing. Stickers on labels are allowed.

Sanitary and phytosanitary licenses are required for all imports of animal origin, and plants and vegetables. Inspection of the processing plant in the country of origin, at the importers' expense, is technically required for the license; however, implementation has been uneven, limiting trade disruption.

Importers should be aware that all documentation for import procedures requires consular certification, an administrative process that can be time consuming. Delays in obtaining certification have resulted in some losses to shipments of perishables. Imports are not generally subject to nontariff trade barriers, though arbitrary customs valuation and excessive bureaucracy occasionally create delays and complicate the importation process.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. However, recent actions by the government, attempting to renegotiate existing investment terms have negatively affected some foreign investments. Subsurface minerals, petroleum, and other resources are property of the state and concessions are typically granted in the form of production-sharing contracts.

Surface transportation is limited to companies with at least 51 percent Guatemalan ownership. Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the major U.S. accounting firms, for example, are represented through one of these methods.

*7. Export Subsidies Policies*

There are no export subsidies.

*8. Protection of U.S. Intellectual Property*

Guatemala belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty. Nevertheless, in 1999 the U.S. Trade Representative placed Guatemala on the “Special 301” Priority Watch List due to inadequate protection of intellectual property rights (IPR).

In August 2000 the Guatemalan Congress passed legislation that should increase the protection afforded to the holders of intellectual property rights. Effective November 1, 2000, IPR violations become criminal, as opposed to civil, offenses, and the government is required to name a special prosecutor for IPR.

*9. Worker Rights*

The Guatemalan Constitution and the country's labor code guarantee a progressive range of internationally recognized worker rights. Exercise of these rights, however, is not effectively secured by the institutions charged with doing so. Guatemalan labor activists persistently complain that, when their labor and civil rights are violated, at times egregiously, the justice system fails to redress the injury and the perpetrators benefit from impunity. Guatemala's beneficiary status under the Caribbean Basin Trade Preference Act (CBTPA) will be reviewed in April 2001, with a focus on further improvements in the area of worker rights. In addition, the Office of the U.S. Trade Representative (USTR) has self-initiated a review of Guatemala's eligibility as a beneficiary country under the General System of Preferences (GSP). This review will also be concluded in April 2001 and will focus on the Guatemalan government's response to anti-union violence and other aspects of international recognized worker rights.

a. *The Right of Association* and b. *The Right to Organize and Bargain Collectively:* The Guatemalan Constitution guarantees the right of association. The constitution also specifically guarantees workers the right to unionize. Furthermore, the constitution stipulates that "what is established in treaties and conventions to which the state is party is to be considered part of the basic rights enjoyed by Guatemalan workers." Guatemala is one of only 27 countries to have ratified all seven of the ILO's "core" conventions, including Convention 87 (Freedom of Association and Protection of Right to Organize) and Convention 98 (Right to Organize and Collective Bargaining). The Labor Ministry in June 2000 sent to the National Legislature a package of proposed changes to the Labor Code aimed to bring Guatemala's labor law into full accord with Conventions 87 and 98.

In practice, workers who exercise the right of association and try to organize unions are often fired for doing so. The law fully protects workers from retribution for forming and participating in trade union activities, but effective enforcement of these provisions is the exception rather than the rule. Less than 3 percent of the country's workforce of 4.3 million is organized. Most of these workers belong to private sector unions. Under the Portillo administration, the Labor Ministry has undertaken a far-reaching effort to improve the labor inspection function.

The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members. Many employers routinely seek to circumvent labor code provisions in order to resist union activities, which they view as disruptive and as a challenge to their full control of the workplace. An ineffective legal system and inadequate penalties for violations have hindered enforcement of the right to form unions and participate in trade union activities. Although the Labor Code provides that workers illegally fired for union activity should be reinstated within 24 hours, in practice employers often file a series of appeals, or simply defy judicial orders of reinstatement. Penalties for defying such orders were increased somewhat in the 1992 labor code reform and again in Decree 35-98, which went into effect in June 1998.

c. *Prohibition of Forced or Compulsory Labor:* The constitution bars forced or compulsory labor. Labor for prisoners with sentences of more than two years is obligatory, but this labor may not be used as punishment for expression of political or other opinions, or as a method of political reeducation.

d. *Minimum Age for Employment of Children:* The constitution bars employment of minors under the age of 14 except as authorized by law. In addition, the constitution prohibits "employing minors in work that is incompatible with their physical ability or that puts at risk their moral development." Employment of minors requires written permission from the Ministry of Labor. There are fewer than 5,000 such permits in effect, the majority of them for work in the in-bond processing for export, or maquila, sector. The Ministry of Labor is engaged actively in reducing the number of these permits and issued less than 1,500 in 1999. However, many children under the age of 14 are employed without legal permission. They generally receive no social benefits, social insurance, vacations, or severance pay, and earn below-minimum salaries. The Labor Ministry has a program to educate minors, their parents, and employers on the rights of minors in the labor market. In 1992 the government formed the Child Worker Protection Unit within the Ministry of Labor. Work began last year on a "National Plan for the Prevention and Eradication of Child Labor and Protection of Adolescent Workers." The Ministry of Labor, with the support of a consortium of NGOs, has been drafting this plan. The Ministry of Labor actively supports and cooperates with NGO programs to combat child labor.

e. *Acceptable Conditions of Work:* The constitution provides for a 44-hour normal workweek and the average number of hours worked is 42.5. Occupational safety and health regulations exist but often are not strictly enforced. The minimum wage is far below the level necessary to support an urban family of four, though many urban workers earn two or three times this amount; however, not all workers are paid the legally-mandated minimum wage.

f. *Rights in Sectors with U.S. Investment:* With few exceptions, international corporations adhere to the labor code and respect worker rights. There have been some credible complaints about failure to respect the right of association in the construction phase of power generating plants. U.S. companies are among the leaders in requiring that maquilas that produce garments for them adhere to codes of conduct with respect to working conditions and worker rights.

**Extent of U.S. Investment in Selected Industries**—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

| Category | | Amount |
|---|---|---|
| Petroleum | | 453 |
| Total Manufacturing | | 217 |
| Food & Kindred Products | 91 | |
| Chemicals & Allied Products | 74 | |
| Primary & Fabricated Metals | 2 | |
| Industrial Machinery and Equipment | 0 | |
| Electric & Electronic Equipment | 0 | |
| Transportation Equipment | 0 | |
| Other Manufacturing | 50 | |
| Wholesale Trade | | 25 |
| Banking | | (1) |
| Finance/Insurance/Real Estate | | (1) |
| Services | | 4 |
| Other Industries | | (1) |
| TOTAL ALL INDUSTRIES | | 453 |

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.