

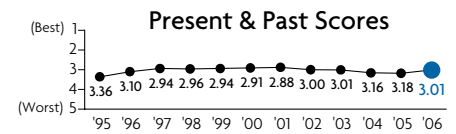


GUATEMALA

Rank: 74

Score: 3.01

Category: Mostly Unfree



QUICK STUDY

SCORES

Trade Policy	2.5
Fiscal Burden	3.6
Government Intervention	1
Monetary Policy	3
Foreign Investment	3
Banking and Finance	3
Wages and Prices	2
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Regulation	4
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Population: 12,307,091

Total area: 108,890 sq. km

GDP: \$20.6 billion

GDP growth rate: 2.1%

GDP per capita: \$1,675

Major exports: coffee, sugar, bananas, apparel, petroleum

Exports of goods and services: \$3.8 billion

Major export trading partners: US 58.6%, El Salvador 8.6%, Mexico 3.1%

Major imports: fuels, construction materials, machinery and transport equipment

Imports of goods and services: \$6.4 billion

Major import trading partners: US 34.3%, Mexico 8.9%, South Korea 7.9%, El Salvador 5.4%, China 4.6%

Foreign direct investment (net): \$91.3 million

2003 Data (in constant 2000 US dollars)

Guatemala is Central America's most populous country. Traditionally, coffee, sugar, and fruit have been the primary exports, with more than 50 percent of the workforce engaged in agriculture, but tourism and apparel assembly now earn more, and remittances (\$2.5 billion in 2004) make up the bulk of foreign exchange. President Oscar Berger has managed to get a series of fiscal measures through Congress even though his coalition lacks a majority. In June 2004, his administration reduced the armed forces by more than one-third and cut their budget to 0.33 percent of GDP. The government has steadily withdrawn from owning services and energy utilities. The DR-CAFTA trade pact, ratified by both Guatemala and the U.S. in 2005, could boost trade and employment prospects for those working in the large informal sector. High crime rates and rising youth gang membership challenge Guatemala's more numerous and better-trained police, and a weak judiciary still faces a backlog of cases and remains plagued by intimidation and corruption. Guatemala's banking and finance score is 1 point worse this year; however, its trade policy score is 0.5 point better, its fiscal burden of government score is 0.2 point better, and its government intervention score and capital flows and foreign investment score are both 1 point better. As a result, Guatemala's overall score is 0.17 point better this year.



TRADE POLICY

Score: **2.5–Better** (moderate level of protectionism)

According to the World Bank, Guatemala's weighted average tariff rate in 2004 was 4.9 percent, down from the 5.8 percent in 2001 reported in the 2005 *Index*, based on World Bank data. Red tape and customs corruption hinder trade. "Imports are generally not subject to non-tariff trade barriers," reports the U.S. Department of Commerce, "though there are occasional cases of arbitrary customs valuation and excessive bureaucratic obstacles." Based on the lower tariff rate, as well as a revision of the trade factor methodology, Guatemala's trade policy score is 0.5 point better this year.



FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **3–Stable** (moderate tax rates)

Score—Corporate Taxation: **4–Better** (high tax rates)

Score—Change in Government Expenditures: **3.5–Worse** (low increase)

Final Score: **3.6–Better** (high cost of government)

According to Deloitte, Guatemala's top income tax rate is 31 percent. The top corporate tax rate is also 31 percent, down from the 35 percent reported in the 2005 *Index*. In 2003, based on data from the central bank, government expenditures as a share of GDP increased 1 percentage point to 13.4 percent, compared to a 0.5 percentage point decrease in 2002. On net, Guatemala's fiscal burden of government score is 0.2 point better this year.



GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **1–Better** (very low level)

The World Bank reports that the government consumed 4.9 percent of GDP in 2003, down from the 7.6 percent reported in the 2005 *Index*. In the same year, based on data from the Ministry of Public Finance, Guatemala received 2.28 percent of its total revenues from state-owned enterprises and government ownership of property, down from the 5.04 percent reported in the

2005 *Index*. As a result, Guatemala's government intervention score is 1 point better this year.



MONETARY POLICY

Score: **3–Stable** (moderate level of inflation)

From 1995 to 2004, Guatemala's weighted average annual rate of inflation was 6.98 percent.



CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: **3–Better** (moderate barriers)

Guatemala grants foreign investors national treatment and allows the full repatriation of profits. The Economist Intelligence Unit reports that restrictions on foreign investment include prohibition of "rendering of licensed professional services" by foreign firms and limits on foreign ownership of domestic airlines, newspapers and commercial radio stations, mining and forestry operations, petroleum operations, and real estate. According to the U.S. Department of Commerce, "Though Guatemala passed a foreign investment law in 1998 to streamline and facilitate foreign investment, time-consuming administrative procedures, arbitrary bureaucratic impediments and judicial decisions, a high crime rate and corruption" impede investment. Minerals, petroleum, and natural resources are considered the property of the state. The International Monetary Fund reports that residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, and transfers. Based on evidence that foreign investment is welcomed in most sectors, Guatemala's capital flows and foreign investment score is 1 point better this year.



BANKING AND FINANCE

Score: **3–Worse** (moderate level of restrictions)

According to the International Monetary Fund, "Prudential norms have been tightened under the new legal and regulatory framework adopted in 2002; bank supervision has been strengthened; and offshore banks have been brought into the regulatory framework." The Economist Intelligence Unit reports that 25 banks, one of which was foreign, were operating in Guatemala as of October 2004. The government owns or partially owns two of the nation's largest banks, which account for slightly less than 10 percent of total banking assets. The U.S. Department of Commerce reports that "recent progress in money laundering and bank regulatory reform led to Guatemala's removal from the Financial Action Task Force's list of non-cooperating countries in the fight against money laundering in July 2004." According to the EIU, "Foreign corporations are legally prohibited from writing most kinds of insurance, though they may offer a full product line through local subsidiaries." Based on evidence of government involvement in the banking sector and restrictions on financial activities, Guatemala's banking and finance score is 1 point worse this year.



WAGES AND PRICES

Score: **2–Stable** (low level of intervention)

According to the Economist Intelligence Unit, "Guatemala has no price controls and is gradually eliminating subsidies on various economic activities and products (such as fuel)... [T]he government maintains some 24,000 direct subsidies, among them a Q[uetzal]12,000-per-house subsidy on construction costs." Guatemala has a minimum wage law, but the U.S. Department of State reports that noncompliance is common in the rural and informal sectors.



PROPERTY RIGHTS

Score: **4–Stable** (low level of protection)

The Economist Intelligence Unit characterizes the judicial system as "backlogged and often influenced by political machinations." According to the U.S. Department of Commerce, "Resolution of business disputes through Guatemala's judicial system is time-consuming and often unreliable. Civil cases can take as long as a decade to resolve... Corruption in the judiciary is not uncommon." In addition, "Land invasions by squatters are increasingly common in rural areas. It can be difficult to obtain and enforce eviction notices, as land title is often clouded and the police tend to avoid actions against squatters that could provoke violence."



REGULATION

Score: **4–Stable** (high level)

Vague regulations cause significant bureaucratic obstacles to establishing a business. According to the U.S. Department of Commerce, problems include "time-consuming administrative procedures, arbitrary bureaucratic impediments, corruption, and a sometimes anti-business attitude of the current administration." In addition, "regulations often contain few explicit criteria for government administrators, resulting in ambiguous requirements that are applied inconsistently or retroactively by different government agencies." The Economist Intelligence Unit reports that labor laws are somewhat rigid.



INFORMAL MARKET

Score: **4–Stable** (high level of activity)

Transparency International's 2004 score for Guatemala is 2.2. Therefore, Guatemala's informal market score is 4 this year.