

COUNTRY PROFILE:**REPUBLIC OF GUATEMALA****DATED:****MARCH 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<i>Export Department Comment/Opinion</i>	Rating 3C. Cover is considered on an open basis. We have fair underwriting experience. This is not a claims free market.
--	---

Recent Political Highlights

- President Alvaro Colom took to office in January 2008 for a four year term. According to the country's constitution, the president may only serve one term and is not allowed to run for a second term.
- The next election will be held in September 2011.
- Guatemala's first lady, Sandra Torres de Colom announced her intention to run for president. This enjoyed much media attention as the country's constitution prohibits close relatives of the head of state to run for president opening up the question what she would do in order to qualify as a presidential candidate.
- President Colom will struggle to maintain support as public dissatisfaction and a slow economic recovery continue, with suggested economic reforms including the long delayed tax reform further decreasing support. The right-wing leader Perez Molina is expected to be victorious in the 2011 elections based on his anti-crime campaign getting much needed support.
- The country is plagued by violence mostly drug-related that further deteriorates the security situation in the country.
- Political analysts do not expect the 2011 presidential elections to bring any significant changes to Guatemala. Structural changes are needed to improve the social and economic situation in the country. Analysts argue in favour of constitutional changes including the independence of the Supreme Court as the president currently appoints the head of the public prosecutor's office. Other areas that need attention include the fiscal policy, high levels of income inequality and political representation.

Recent Economic Highlights

- Guatemala's total population is estimated at 13.8m, the most populous country in Central America. The agricultural sector accounts for ±15% of GDP and employs half of the work force. More than half of the population lives below the national poverty line and 15% lives in extreme poverty. 80% of farmland is owned by 5% of the population, citing one of the highest levels of inequality in the world.
- Guatemala is heavily dependent on the US economic performance as this is their main export market and source of remittances. The country is the top remittance recipient in Latin America.
- The congress managed to approve the 2011 budget after several months of delay due to disagreements within congress. More funds will be allocated towards infrastructure investment and a budget deficit of 2.8% is expected, slightly higher than the 2.5% target recommended by the IMF.
- The country suffered from a volcano eruption and tropical storm near Guatemala City in May 2010 resulting in economic losses estimated at 2.4% of GDP. This did not derail the country's economic performance however as real GDP growth increased from 0.6% in 2009 to 2.2% in 2010. GDP composition by sector: services sector 62%, industrial sector 24% and the agricultural sector 14%.
- Guatemala is considered as one of the most violent countries in the world. UN data shows that more than 95% of murders in the country are never solved with 40% drug-related. The country suffers from an increased presence of drug cartels, mostly originating from Mexico as the Mexican government is taking a tougher stance on these cartels. The country is also strategically situated to enable these organisations to secure a drug trafficking route from South America to the North American markets. In December 2010 President Colom declared a two month state of siege in the poorer Northern Province in an effort to regain control of several cities plagued by drug-related violence. The security situation in the country is perceived continue to deteriorate.
- The country has a narrow tax base and low tax income. Tax reforms have been met with great opposition from the private sector and vested interests within congress resulting in the country having one of the lowest tax/GDP ratios in the region estimated at 11.2% in 2010. The EIU does not expect President Colom to implement significant policies to address these structural weaknesses due to the proximity of the general elections and the government's weak legislative position. The EIU forecast public debt levels to increase that could hinder the government's efforts to increase social spending. Consumer spending is expected to remain low as a result of a decline in the availability of credit and lower remittances from abroad. The weaker foreign exchange inflows are expected to place downward pressure on the currency. The affect of the global economic crisis and the continued low fiscal revenues further increase the need for a fiscal reform. The EIU forecast GDP growth to average 3.2% in 2011/12.
- Guatemala is still in the process of negotiating a Stand-by Arrangement with the IMF worth an estimated \$300m. This is needed to boost foreign business confidence in the country especially during the political uncertainty surrounding the 2011 presidential elections.

Latest Trade Developments

- Total exports increased from \$7.2bn in 2009 to \$8.4bn in 2010. Export commodities include: coffee, sugar, petroleum, apparel, bananas and fruits and vegetables.
- Total import increased from \$11.5bn in 2009 to \$12.6bn in 2010. Import commodities include: fuels, machinery and transport equipment, construction materials and grain.
- Main trading partners include: US, El Salvador, Mexico, China and Honduras.
- SA's exports to Guatemala totalled R12.1m in 2008, R12.7m in 2009 and R24.7m in 2010.
- SA's imports from Guatemala totalled R20.3m in 2008, R40.6m in 2009 and R87.1m in 2010.