

**COUNTRY PROFILE:****REPUBLIC OF GUATEMALA**

IES/02: ATTACHMENT A

**DATED:****SEPTEMBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No restrictions

*Recent Political Highlights*

- Guatemala held the first round of presidential elections on September 9 this year. The winner will assume Guatemala's presidency in January, succeeding Oscar Berger, who could not run for re-election and has been the country's president since January 2004. The president is elected by popular vote for a four-year term and may not serve consecutive terms.
- Presidential candidates Alvaro Colom and Otto Perez Molina will advance to a second round vote after neither earned the majority needed to win the September elections. Colom, who heads the National Unity of Hope, won 36% of the vote, while Perez Molina who heads the Patriotic Front received 29.2%. The election eliminated 12 other contenders from the race following a campaign dominated by pledges to restore order and security after more than 40 candidates and activists were killed. The second round of elections will take place in November. With one of the highest per capita murder rates (more than 5,000 killings a year) both candidates pledged to make fighting crime a priority.

*Recent Economic Highlights*

- Guatemala is the largest and most populous country in Central America. Its population was estimated at 12.7m in 2006.
- The distribution of income remains highly unequal. About 76% of the population lives in poverty and 16% live in extreme poverty.
- Guatemala's economy is dominated by the private sector which generates 85% of GDP. The agricultural sector accounts for about 25% of GDP, 75% of exports and half of the labour force. Coffee, sugar and bananas are the leading commercial and export crops. Guatemala produced 3.82 million 60-kg bags of coffee in the 2006-2007 crop year. GDP grew 4.6% in 2006 and is forecast at 4.5% in 2007.
- Most manufacturing is light assembly and food processing; mainly refined sugar and textiles and clothing. A petroleum industry has developed, although it has been limited by political unrest and environmentalist opposition.
- Ongoing challenges include increasing government revenues, negotiating further assistance from donors, curtailing drug trafficking and narrowing the trade deficit. Remittances from a large expatriate community that moved to the US during the war have become the primary source of foreign income, exceeding the total value of exports and tourism combined. According to the World Bank, Guatemala has significant potential to accelerate broad-based economic growth and poverty reduction through trade, regional integration and tourism.
- Foreign investment inflows remain weak with the exception of privatisation of utilities. Potential investors, both foreign and domestic cite corruption, lack of physical security and unreliable mechanisms for contract enforcement as the principal barriers to new business. Guatemala has relatively low tax revenues (around 10% of GDP) and this constrains public investment in social services and basic infrastructure, both of which are critical to poverty reduction and sustained growth.

*Latest Trade Developments*

- Main exports: coffee, sugar, petroleum, apparel, bananas, fruits and vegetables and cardamom.
- Main imports: fuels, machinery and transport equipment, construction materials, grain, fertilisers and electricity.
- Major trade partners: US, El Salvador, Honduras, Mexico, China, South Korea and Panama.
- South African exports to Guatemala more than tripled from R13.9m in 2005 to R46.5m in 2006, but have been declining in 2007, reaching only R3.8m in the year to June.
- The US is Guatemala's largest trading partner, providing 40% of Guatemala's imports and receiving 29% of its exports. On 1 July 2006, the Central American Free Trade Area (CAFTA) entered into force between the US and Guatemala. CAFTA eliminates customs tariffs on many categories of goods.