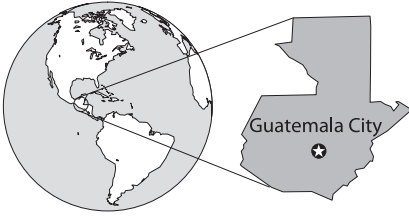


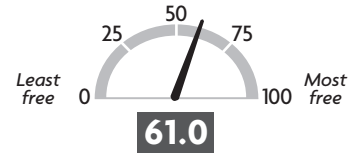
GUATEMALA



World Rank: **83**

Regional Rank: **17**

Economic Freedom Score



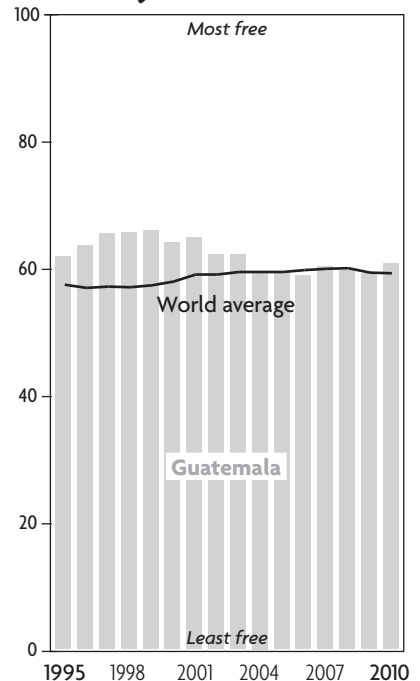
Guatemala's economic freedom score is 61, making its economy the 83rd freest in the 2010 *Index*. Its score has increased by 1.6 points, reflecting improvements in trade freedom, property rights, and freedom from corruption. Guatemala is ranked 17th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world average.

Gradually advancing its economic freedom, Guatemala has regained its status as a "moderately free" economy. It scores particularly well in government spending while also scoring well in trade freedom and fiscal freedom. Government expenditures are effectively controlled, with stable fiscal and public finance management, including throughout the global financial crisis. Public debt is among the region's lowest. Personal and corporate tax rates are moderate, and the overall tax burden is relatively low.

Guatemala's overall economic freedom is curbed by a relative lack of business freedom and respect for property rights and widespread corruption. Business licensing procedures are burdensome, and bureaucratic impediments persist. Judicial inefficiency undermines the rule of law.

BACKGROUND: President Alvaro Colom of the leftist National Unity for Hope Party was elected in 2007, promising social democracy, accelerated rural development, improved education, and access to health care. Ongoing issues include crime; rising youth gang membership; judicial weakness and corruption; and participation in Petrocaribe, Venezuela's long-term oil loans and subsidies program, designed to create loyalty to and dependence on Hugo Chávez. About 80 percent of Guatemalans live below the poverty line, less than half of all age-appropriate youth are enrolled in secondary schools, and nearly half of the labor force works in agriculture. The most advanced sector, telecommunications, is fully deregulated. The Central America–Dominican Republic–United States Free Trade Agreement has led to greater trade and employment. Leading exports include coffee, sugar, bananas, winter vegetables, cut flowers, and textiles.

Country's Score Over Time



Quick Facts

Population: 13.7 million

GDP (PPP): \$65.1 billion

4.0% growth in 2008

4.7% 5-year compound annual growth

\$4,760 per capita

Unemployment: estimated at over 40% (including underemployment)

Inflation (CPI): 11.4%

FDI Inflow: \$838.0 million

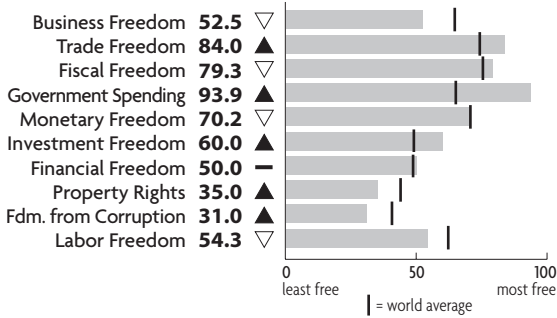
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

GUATEMALA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 52.5

The overall freedom to conduct a business is restricted by Guatemala's regulatory environment. Starting a business takes an average of 29 days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 218 days.

TRADE FREEDOM — 84

Guatemala's weighted average tariff rate was 3 percent in 2008. Import taxes, import licensing, non-transparent sanitary and phytosanitary regulations, services market access restrictions, inconsistent customs valuation and administration, problems enforcing intellectual property rights, and inadequate infrastructure add to the cost of trade. Ten points were deducted from Guatemala's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 79.3

Guatemala's tax rates are moderately high. The top income and corporate tax rates are 31 percent. Other taxes include a value-added tax (VAT) and a tax on real estate. In the most recent year, overall tax revenue as a percentage of GDP increased slightly to 12.1 percent, reflecting efforts to improve tax administration.

GOVERNMENT SPENDING— 93.9

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 14.3 percent of GDP. State ownership of enterprises, though not extensive, persists in telecommunications and port control. Overall, stable budgetary management has maintained Guatemala's solid fiscal situation through the global downturn.

MONETARY FREEDOM — 70.2

Inflation has been high, averaging 9.8 percent between 2006 and 2008. Inflation peaked at more than 14 percent on an annualized basis in July 2008 but fell below 4 percent by early 2009 as the price of commodities on global markets declined. The government maintains few price controls but subsidizes numerous economic activities and products, such as fuel and housing construction. Ten points were deducted from Guatemala's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 60

Foreign investors receive national treatment. Some profes-

sional services may be supplied only by professionals with locally recognized academic credentials, and mining activities face additional restrictions as minerals and petroleum are the property of the state. While the government has instituted many reforms, complex and non-transparent laws and regulations, inconsistent judicial decisions, burdensome bureaucracy, and corruption continue to deter investment. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, and transfers. Foreign investors may not own land immediately adjacent to rivers, oceans, or international borders.

FINANCIAL FREEDOM — 50

Guatemala's small financial system is dominated by bank-centered financial conglomerates, and banking has undergone drastic reorganization. Since the banking crises of 2006 and 2007, the government has modernized regulation and strengthened supervision. There are 20 banks, one of which is foreign-owned. The five largest banks account for almost 80 percent of total assets. Sixteen non-bank financial institutions carry out investment banking and medium-term and long-term lending. Foreign banks' presence is small, and their market share accounts for about 8 percent of deposits. Bank supervision and transparency have been strengthened under a legal and regulatory framework adopted in 2002 and legislation passed in 2005 and 2006, which also makes government intervention easier. Capital markets are small and not fully developed. Two commercial exchanges deal almost exclusively in commercial paper and government bonds. The Stock Market Law, intended to improve mechanisms to make information concerning issuing institutions more readily available, was signed into law in 2008.

PROPERTY RIGHTS — 35

Judicial resolution of disputes is time-consuming and often unreliable. Civil cases can take as long as a decade. Judicial corruption is not uncommon. Inadequately documented titles and gaps in the public record can lead to conflicting claims of land ownership. Land invasions by squatters are increasingly common in rural areas, and evicting squatters can be difficult. Successful prosecution of intellectual property rights cases is rare. Guatemala is ranked 80th out of 115 countries in the 2009 International Property Rights Index.

FREEDOM FROM CORRUPTION — 31

Corruption is perceived as widespread. Guatemala ranks 96th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Guatemala has ratified the U.N. Convention Against Corruption, but corruption remains a serious problem in customs transactions and at many levels of government.

LABOR FREEDOM — 54.3

Labor regulations are rigid. The non-salary cost of employing a worker is moderate, but dismissing an employee is relatively costly.