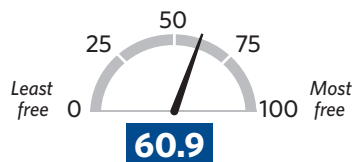




GUATEMALA

Economic Freedom Score



World Rank: **82** Regional Rank: **17**

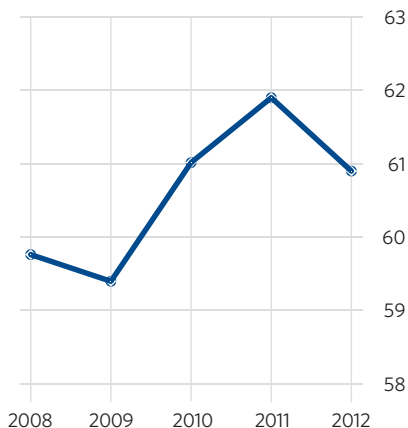
Guatemala's economic freedom score is 60.9, making its economy the 82nd freest in the 2012 *Index*. Its score has decreased by 1.0 point, reflecting declines in four of the 10 economic freedoms including property rights, freedom from corruption, and business freedom. Guatemala is ranked 17th out of 29 countries in the South and Central America/Caribbean region, and its overall score is just above the world average.

The Guatemalan government's record on structural reform has been uneven, and economic growth remains constrained by institutional weaknesses that erode the foundations for long-term economic development. In particular, the judicial system remains inefficient and vulnerable to political interference. Corruption, perceived as widespread, continues to be a problem.

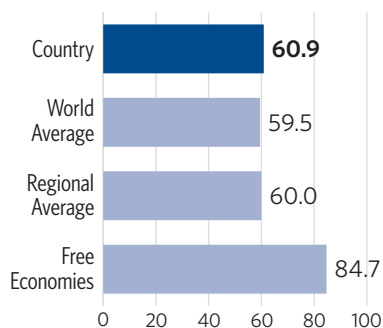
The overall regulatory framework is not well designed to promote the emergence of a dynamic private sector and encourage broad-based employment growth. Guatemala enjoys relatively high trade freedom, as tariff rates are quite low, but the dynamic economic gains from trade are undercut by the absence of reform progress in other policy areas that are critical to sustaining open markets in the financial and investment areas.

BACKGROUND: Guatemala has long suffered from political violence, corruption, and instability. More than half of the population lives below the poverty line, less than half of the youth are enrolled in secondary schools, and half of the labor force works in agriculture. Leftist President Álvaro Colom, elected in 2007 and constitutionally barred from re-election, divorced his wife in May 2011 to make her constitutionally eligible to run to succeed him. Their plan failed when the courts ruled her ineligible. Though Colom promised jobs and improvements in education and health care, the plight of the poor has not improved. Crime and drug trafficking remain persistent problems. The most advanced sector, telecommunications, is fully deregulated. The Central America–Dominican Republic–United States Free Trade Agreement has encouraged trade flows and employment.

Freedom Trend



Country Comparisons



Quick Facts

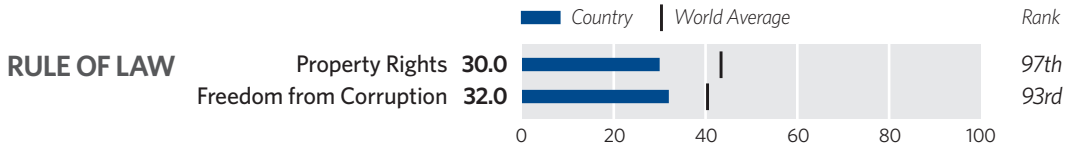
- Population:** 14.4 million
- GDP (PPP):** \$70.2 billion
- 2.6% growth in 2010
- 5-year compound annual growth 3.6%
- \$4,885 per capita
- Unemployment:** 3.2%
- Inflation (CPI):** 3.9%
- FDI Inflow:** \$686.8 million
- Public Debt:** 24.2% of GDP

How Do We Measure Economic Freedom?

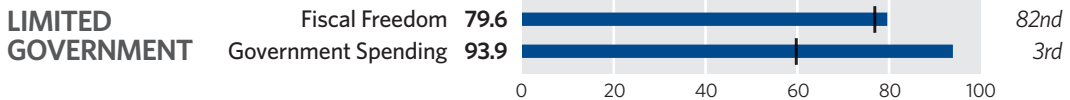
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

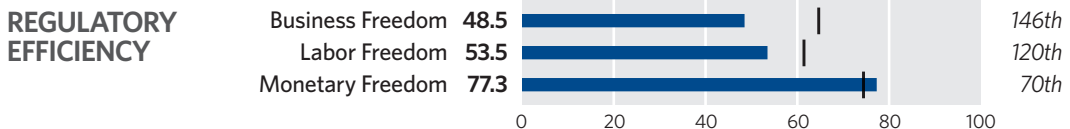
THE TEN ECONOMIC FREEDOMS



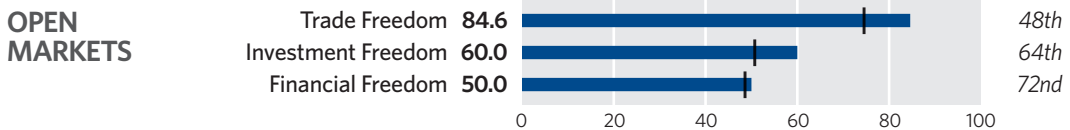
An effectively functioning legal framework is not in place. Judicial resolution of disputes is time-consuming and often unreliable. Inadequate documentation can lead to conflicting claims of land ownership, undercutting protection of property rights. Corruption remains pervasive. Despite reforms in 2009, large government procurements are often subject to injunctions based on claims of errors in the bidding process.



The top income and corporate tax rates are 31 percent. Other taxes include a value-added tax (VAT) and a tax on real estate, with the overall tax burden amounting to 10.7 percent of total domestic income. Government spending corresponds to 14.3 percent of total domestic output. The budget balance continues to be in deficit, although public debt remains less than 25 percent of GDP.



Progress in improving Guatemala’s regulatory framework has been uneven. Bureaucratic hurdles remain common, including lengthy processes for launching a business and obtaining necessary permits. Labor regulations are rigid, and a large portion of the workforce is employed in the informal sector. Inflation has been moderate. The state maintains few price controls but subsidizes numerous key economic activities and products.



The trade weighted tariff rate is quite low at 2.7 percent, with a moderate level of non-tariff barriers adding slightly to the cost of trade. Foreign investors technically receive national treatment, but regulatory hurdles can serve as barriers to investment. The financial sector is dominated by bank-centered financial conglomerates, with the five largest banks accounting for almost 80 percent of total assets. Capital markets are underdeveloped.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-5.0	Fiscal Freedom	+0.1	Business Freedom	-3.6	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	-0.5	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	+0.9	Financial Freedom	0