

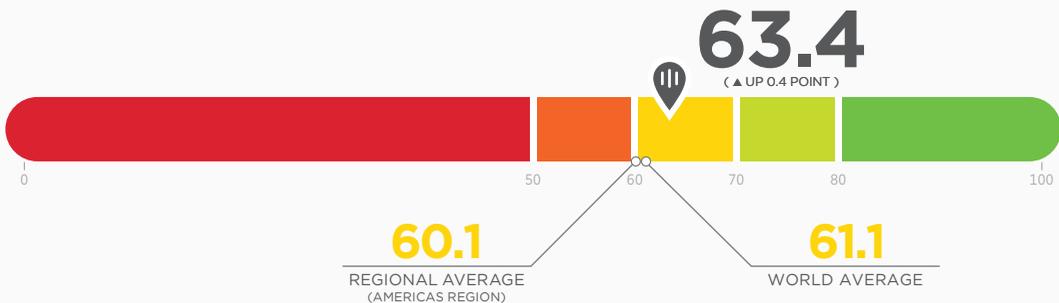
GUATEMALA

Guatemala's economic freedom score is 63.4, making its economy the 73rd freest in the 2018 *Index*. Its overall score has increased by 0.4 point, with significant improvements in **judicial effectiveness** and **investment freedom** offsetting declines in **property rights**, **monetary freedom**, and **business freedom**. Guatemala is ranked 14th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

The government would like to pursue reforms to encourage increased merchandise exports and stimulate economic growth, but it is on the defensive politically and therefore unlikely to move rapidly to tackle the fiscal deficit or improve public-sector efficiency. Long-standing constraints on economic freedom include widespread government corruption and fragile protection of property rights due to the weak rule of law. Lack of access to long-term financing is a significant impediment to business development and job growth.



ECONOMIC FREEDOM SCORE

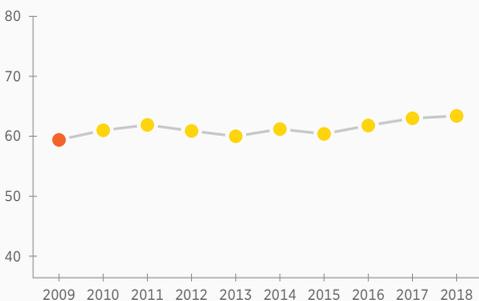


NOTABLE SUCCESSES:
Trade Freedom and Monetary Stability

CONCERNS:
Rule of Law, Labor Freedom, and Financial Freedom

OVERALL SCORE CHANGE SINCE 2014:
+2.2

FREEDOM TREND



QUICK FACTS

POPULATION:
16.7 million

GDP (PPP):
\$131.7 billion
3.0% growth in 2016
5-year compound annual growth 3.6%
\$7,899 per capita

UNEMPLOYMENT:
2.4%

INFLATION (CPI):
4.5%

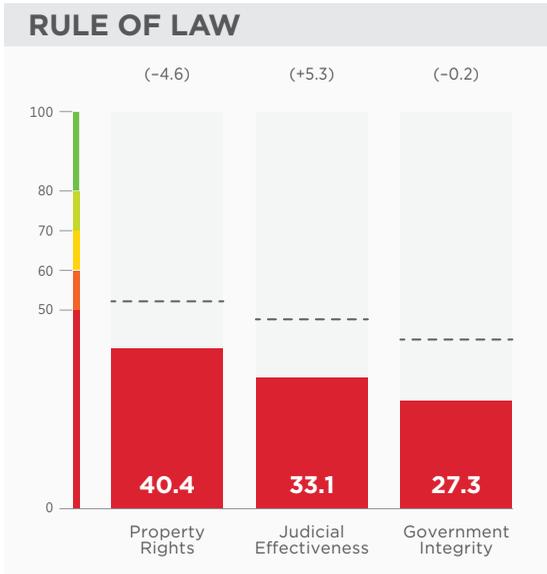
FDI INFLOW:
\$1.2 billion

PUBLIC DEBT:
25.3% of GDP

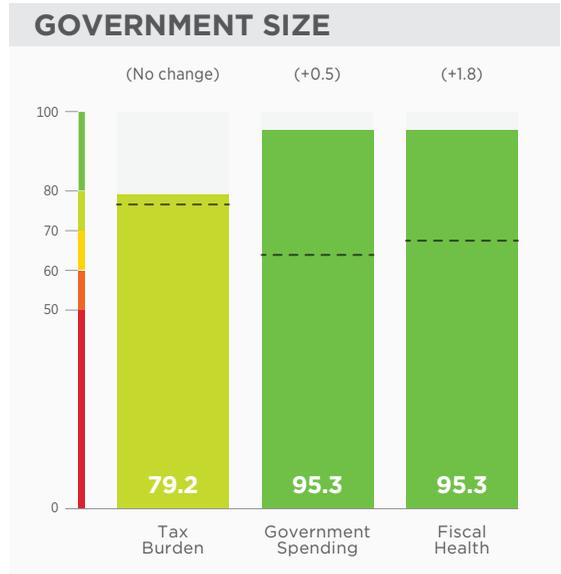
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Guatemala won its independence from Spain in 1821. A long guerrilla war that left more than 200,000 dead ended with a peace agreement in 1996. Since then, Guatemala has pursued macroeconomic stabilization with reforms that have attracted foreign investment. Instability spiked anew when the rightist Patriotic Party government collapsed in late 2015. Political neophyte Jimmy Morales, who began his five-year term as president in early 2016, has made little progress on promised improvements in health care, education, and security, and his reputation has been tarnished by allegations of corruption. More than half of the population lives below the national poverty line. Guatemala remains a major drug trafficking transit country, and gang violence continues to impede economic development.

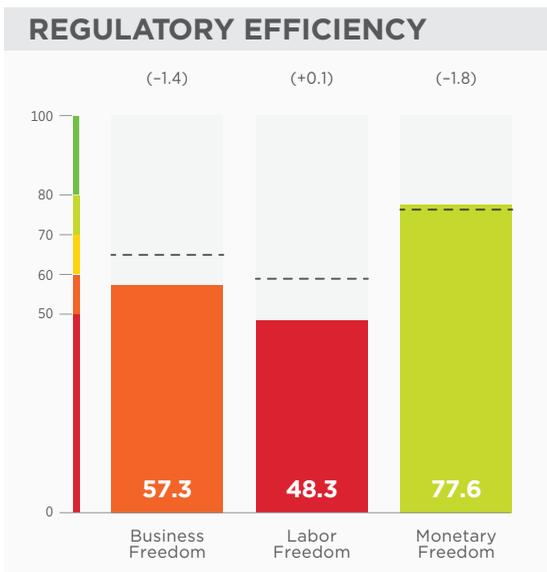
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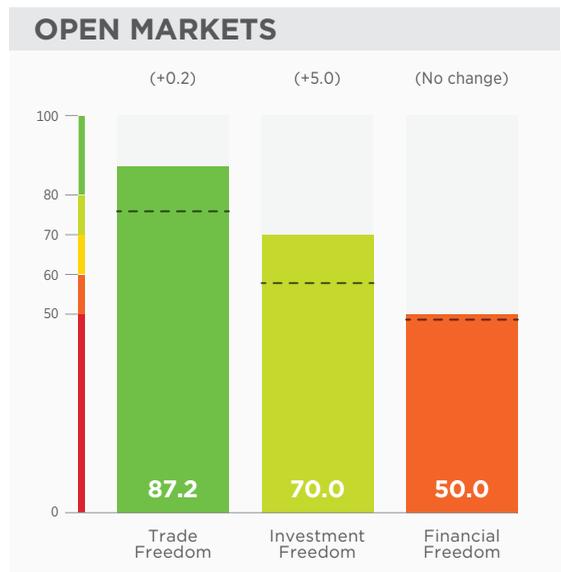
Guatemala has a system for registration of real property, but defects in titles and ownership gaps in the public record can lead to conflicting claims of land ownership. The judiciary is hobbled by corruption, inefficiency, capacity shortages, and intimidation of judges and prosecutors. Corruption and mismanagement remain widespread, especially in the customs and tax agencies.



The top individual income and corporate tax rates are 31 percent. Other taxes include value-added and real estate taxes. The overall tax burden equals 12.7 percent of total domestic income. Over the past three years, government spending has amounted to 12.5 percent of total output (GDP), and budget deficits have average 1.5 percent of GDP. Public debt is equivalent to 25.3 percent of GDP.



Complex and confusing laws and regulations, inconsistent judicial decisions, and bureaucratic inefficiencies continue to undermine business development. Outmoded labor regulations are rigid. More than twice as many individuals work in the informal sector as in the formal sector. The state maintains few price controls but subsidizes electricity for low-income families, public transport in Guatemala City, and diesel fuel for trucks and buses.



Trade is moderately important to Guatemala's economy; the combined value of exports and imports equals 47 percent of GDP. The average applied tariff rate is 1.4 percent. Nontariff barriers impede some trade. Government openness to foreign investment is below average. Banking is highly concentrated, relatively stable, and well capitalized, and the number of nonperforming loans is declining. The insurance market is now open to foreign firms.