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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CURRENT ECONOMIC POSITION
AND PROSPECTS
OF
GUATEMALA

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Western Hemisphere Department

CURRENCY EQUIVALENTS

1 Quetzal = 1 U.S. dollar

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BASIC DATA

<u>Area:</u>	42,040 square miles
<u>Population</u>	4,278,341 (April 1964 census)
Rate of growth 1955-64:	3.1%
Population density per sq. mile:	102
Other significant factors:	50% of population is Indian and is at low subsistence level. 90% illiteracy in this sector.
<u>Political status:</u>	Self-governing republic.
<u>Gross national product 1964:</u>	1250 million quetzales
Rate of growth 1950-62:	3.5% annual average (real terms)
1963-64:	7% annual average (real terms)
Per capita 1964, US \$:	280
<u>Gross domestic product at factor cost 1963:</u>	1205 million quetzales
of which, in percent, Agriculture:	32
Mining:	-
Manufacturing:	13
Other significant sectors:	-

Percent of GDP at market prices

	<u>1963</u>	<u>Long-term (1950-63)</u>
Gross investment	12	12
Gross savings	10	10
Balance of payments current account deficit	3	3
Investment income payments	-	-
Government taxation revenue or current revenues	8	8
<u>Resource gap as % of investment</u>	23	17

Money and credit (million quetzales)

Relationship to large monetary or customs area:	Member Central America Common Market Member Central America Clearing House	
		Rate of change in recent years (% annual 1960-64)
	<u>1964</u>	<u>(% annual 1960-64)</u>
Total money supply	126	5
Time and savings deposits	71	25
Commercial bank credit to private sector	128	14
Other lending to private sector	21	-2
Rate of change in prices	2% (est.)	-

Public sector operations (million quetzales)

	<u>1963/64</u>	<u>Long-term rate of change (% annual 1955-64)</u>
Government current receipts	98	2
Government total expenditures	106	3
Surplus/deficit	-8	-
Government capital expenditures	26	-
Public investment expenditures	32	4
Total external assistance to public sector (gross)	7	-20 (last three years)

External public debt (US \$ million)*

	<u>1962</u>	<u>1964</u>
Total debt	63	58
Total annual debt service	12	16
Debt service ratio	9.8%	10.6%

Balance of payments (US \$ million)

	<u>1964</u>	<u>Long-term rate of change (% annual 1955-64)</u>
Total exports	167	5.5%
Total imports	183	7.5%
Net invisibles	-22	-
Net current account balance	-37	12%
	<u>Past average (1956-61)</u>	<u>1964</u>
Commodity concentration of exports	80%	48%
Gross foreign exchange reserves	55	59
	or 5 months' imports	or 4 months' imports

External financial assistance (US \$ million)

	<u>Past average (1961-63)</u>		<u>1964</u>	
	Commitments	Disbursements	Commitments	Disbursements
<u>Total (gross)</u>	18	15	13	13
Soft assistance	9	8	-	4
Hard assistance	9	7	13	9

IBRD and IDA Operations (US \$ million)

<u>Past operations</u>	<u>Amount committed</u>	<u>Amount disbursed</u>
IBRD	18.2	18.2
IDA	-	-
Total	18.2	18.2

* Note: Tables 1 and 2 in Appendix I are being revised.

SUMMARY AND CONCLUSIONS

1. Until very recently, the Guatemalan economy has been growing very slowly. Real per capita income declined from Q271 in 1957 to Q266 in 1962. The lack of dynamism in the economy was largely the result of the stagnation of export values, due to the pronounced drop in coffee prices after 1957 at a time when coffee accounted for 65-70 percent of total export earnings, and the accompanying stagnation of investment. The gradual development of new products for export was not sufficient to offset the decline in coffee earnings.
2. Since 1963, there has been a marked recovery in exports and economic growth. GNP has been growing by about 7 percent per annum in real terms compared with a 3 percent annual average during 1957-62. Exports rose from \$119 million in 1962 to \$154 million in 1963 and \$167 million in 1964. The main elements in this expansion were a bumper coffee crop, a rapid expansion in cotton acreage for export, and the growth of minor exports, such as sugar, meat and exports of manufactures to Central America. In addition, the new government which overthrew the regime of President Ydigoras Fuentes in March 1963 has been successful in restoring an atmosphere of business confidence; rising export earnings have thus also been accompanied by a marked increase in private construction and industrial investment.
3. Guatemala has faced chronic fiscal problems in recent years. Since 1957/58, revenues have been slowly declining because of a heavy dependence on taxes on foreign trade. Keeping expenditures constant was not enough to prevent the fiscal situation from deteriorating, and it became particularly acute in 1962/63, forcing the government to borrow abroad to pay its bills. The new government in mid-1963 successfully put into effect a number of tax measures which enabled the authorities to raise revenues substantially for the first time in several years and to significantly reduce the budget deficit for 1963/64. However, the situation has since deteriorated again, this time because of a rapid increase in current expenditures since mid-1964. At the recent pace, the authorities could be faced with serious financing difficulties in 1965.
4. The authorities should be able to overcome its current problem with a modest limitation on the expansion of current expenditures and a feasible improvement in tax administration, including the re-establishment of the coffee export tax on its former basis. Beyond that, the authorities should consider undertaking, preferably with some outside assistance, the preparation of a program of measures to raise the level of public revenues. The burden of Central Government taxation is low (about 8 percent of GDP), too low if Guatemala is to pursue even a moderate expansion of public investment and accompanying current expenditures in the years ahead.
5. The authorities have prepared a public investment program for the period 1965-69. The targets of the program are ambitious and imply

raising public investment from about 3 per cent of GDP in 1964 to 7 per cent of prospective GDP in 1969. A substantial increase in public investment is desirable in light of the stagnation of public investment over the last seven years and of the larger role the public sector should play in an economy in which half the population is in cultural and economic isolation. However, the levels proposed in the program are excessive in the light of the present rhythm of project preparation and the present prospects for financing such a program. Significant increases in public savings and in the flow of development loans to the public sector will be required even if only a moderate increase in public investment above the levels of recent years is to be achieved. As far as the sector composition of proposed investment is concerned, the program for education appears to be insufficient. Without a very substantial effort at all levels of education, Guatemala could within a decade face serious obstacles to its continued economic development.

6. Prospects for the growth of foreign exchange earnings are encouraging. Guatemala should accordingly be able to finance an adequate growth of imports of goods and services and at the same time gradually limit or reduce the present fairly large current account deficit (which averaged 2.3 per cent of GNP in 1963-64). The very rapid growth of imports which occurred in 1963-64 after six years of declining import levels is not likely to continue at the same pace in the next few years.

7. Export earnings should grow at an average annual rate of about 6 per cent from \$167 million in 1964 to about \$230 million in 1970. Their composition should also improve as dependence on coffee is likely to be substantially reduced, making export earnings less vulnerable to a substantial drop in coffee prices than they were in 1957-62. However, the prospects for exports and for continued economic growth require a minimum degree of political stability. In the past fifteen years, political turbulence has at times seriously affected the pace of economic growth. The political situation is likely to be stable in the foreseeable future.

8. Service on Guatemala's external public debt, which totalled an estimated \$10 million in 1964 (6.5 per cent of export earnings), rises to \$16.9 million in 1965 (\$21.9 million if a six-month budget support loan is included), and thereafter declines rapidly to \$5.7 million in 1970. The fairly high debt service in 1965 is due to medium and short-term borrowings to finance budgetary deficits in previous years and to amortizations falling due on revolving credits for industry and agriculture. If public savings are increased to prevent further commitment of Guatemala's external borrowing capacity to finance current budgetary deficits, Guatemala should be able readily to obtain a substantial amount of new foreign loan commitments for high-priority projects. On the basis of the investment levels that now seem probable, such borrowing could be all on conventional terms. However, if a major expansion in investment expenditures is effected, some portion of new foreign assistance might justifiably be made available on soft terms.

I. INTRODUCTION

1. Guatemala, the northernmost of the Central American republics, has the largest population and the most varied physical environment among them. The high central mountain region has for hundreds of years been the traditional home of the descendants of the Mayan Indians, who comprise half the population and to this day remain largely isolated from the main economic life of the country. The task of integrating them into modern times is a formidable one. The opening of new areas may in time help somewhat in this process, as has been the case in the relatively recent opening up of the rich Pacific coastal lands. But the Indian seasonal workers who have come to the coast, particularly for the cotton harvest, have rarely settled and have almost invariably returned to their highland communities.

2. The opening up of the Pacific coast in the last six or seven years, as a result of road construction in the middle and late fifties, was one of the major recommendations of the Bank's 1952 Survey Mission, and is undoubtedly one of the chief events of recent Guatemalan economic development. The authorities are now beginning to think of opening up the relatively underdeveloped areas towards the Peten (the northern jungle territory) and the Atlantic coast. But with more broken terrain, relatively long distances to commercial centres and ports and the consequent need for heavy infrastructure investments, these areas will be much more costly to develop than the Pacific coast. As for the Peten itself, it remains a distant "far west" of unknown potential.

3. The recent political history of Guatemala has been characterized by the predominant role of the army in the political life of the country. Changes of government have rarely been smooth. In 1954, President Arbenz (himself originally an army colonel) was toppled by Colonel Castillo Armas, whose successful period as president was cut short by his assassination in 1957. His successor, Colonel Ydigoras Fuentes, was deposed in March 1963 by a group of army officers under Colonel Peralta Azurdia, the present Chief of Government. A constituent assembly was elected in 1964. Depending on the new constitution to be agreed on, presidential elections may be held later in 1965.

4. Past changes in government have in some instances meant fairly radical changes in public policies. The resulting uncertainty and instability have undoubtedly been one of the main reasons for Guatemala's hesitant economic performance in the last fifteen years or so, unlike the record of the other Central American economies in this period. Until 1963, the pattern of slow economic expansion, normally less than the growth in population, was interrupted only by a short-lived "coffee-induced" boom in 1956.

II. ECONOMIC GROWTH

5. The growth pattern of the Guatemalan economy in the last decade has mainly reflected the movement in the level of export earnings (export earnings account for 12-15 per cent of total domestic product) and related private sector activity. The principal impact of the public sector, apart from the negative effect of political instability on private investment, has been to open up the Pacific coastal area to private development initiative.

6. In the mid-fifties coffee accounted for two-thirds of export earnings, and was thus the main single factor determining the course of economic activity. After the sharp drop in coffee prices which began in 1957 (the average price dropped almost 40% from 1957 to 1962), the continuation of US grant assistance begun under the Castillo Armas government, the slow growth of other exports and the strengthening of manufacturing were not sufficient to keep income growth ahead of population growth. From 1957 to 1962 per capita GDP in real terms fell slightly as GDP rose by an average rate of 3.0 per cent compared to a rate of population growth of about 3.1 per cent. (For the period 1950 to 1963, the national accounts show an average growth of GDP in constant prices of about 3.5 per cent, slightly ahead of population growth.^{1/}

7. The renewed advance of the economy in 1963 was the result mainly of domestic forces, as the private sector substantially increased production for export despite the fact that export price prospects had not, with minor exceptions, markedly improved. The substantial increase in the production of coffee, and particularly cotton led to revival of export growth and a renewal of business confidence with a resulting expansion in the construction and building materials industries particularly. The renewal of economic growth in 1963 involved a sharp recovery in the level of private domestic investment, which had fallen as a proportion of GNP since 1957. After having accounted for about 15.6 per cent of GNP in 1956-57, total gross domestic investment had fallen to 10.3 per cent of GNP in 1961-62. Private investment fell less sharply from 9.6 per cent of GNP to 7.5 per cent of GNP. The recovery of private investment in 1963 to 9.3 per cent of GNP was paralleled by an almost equal increase in domestic private savings. While the boom begun in 1963 has thus been largely the result of a sharp rise in exports, the increasing strength of manufacturing for the domestic and Central American market that has become evident does represent the beginning of a significant break with the traditional pattern of influence of the external sector on the economy.

8. Preliminary information for 1964 indicates that the rapid growth begun in 1963 continued at a rapid pace. GNP rose by about 9 per cent in current prices, and 7 per cent in real terms. The pattern of growth has been a continuation of the 1963 pattern; the main factors have been a 25 per cent

^{1/} The analysis here is based on the revised national accounts (tables 3-7 in Appendix I), which are the subject of a discussion in Appendix III.

increase in cotton exports (a slower rate than the 60 per cent increase achieved in 1963) and the 8 per cent increase in total exports, and a higher level of activity in construction and manufacturing.

9. The recent expansion of the economy is not likely to have more than marginally affected the large subsistence sector of the economy, which remains relatively very poor. Since the Indian sector of the economy probably stagnated in the fifties and early sixties, possibly with a per capita GDP of about \$100, the per capita GDP of the modern sector is likely to have grown slowly from about Q360 in 1950 to about Q450 in 1963. While there are no statistics on income distribution, it is fairly clear that aside from the uneven distribution of income between the Indian and modern sectors of the economy, there exist very substantial differences within the latter sector itself. The growth of manufacturing has helped in the formation of a new middle class, but the noticeable disparities in income distribution continue and could, unless gradually mitigated, pose a serious threat to the political stability of the country in the foreseeable future. There have recently been signs of unusual social unrest in some isolated areas of the country.

Agriculture

10. Agriculture continues to be the largest sector in the economy. In spite of the growth in manufacturing in recent years, the contribution of agriculture to the gross domestic product has not diminished (it represented 33 per cent of GDP in 1950 and 32 per cent in 1963). While coffee remains the principal agricultural product (accounting for almost a quarter of the value of agricultural production), Guatemala possesses a more varied agricultural production than the other Central American countries. This diversity is due to physical environment (as in the case of chicle or temperate zone fruits) and to the endeavors of the private sector (as in the case of rubber, and citronella and lemon grass).

11. Guatemala's recent agricultural expansion reflects primarily the free response of private farmers to market developments domestically and abroad. The government has not interfered with this process, and has tried to assist it mostly with credit facilities. The government owned Development Institute (INFOP), which functions as a development and agricultural bank, increased its lending for agriculture substantially in the period 1961-1963. The activities of the extension service maintained by the Ministry of Agriculture have been increased. The autonomous supervised credit agency (SCICAS) for small farmers was established in 1961 and has substantially increased its lending in the last two years. While the expansion of the main commercial-scale crops has almost entirely been the work of the private sector, the Bank of Guatemala has been helpful as a channel for medium- and long-term foreign loans to the private sector (mostly from United States official sources and private banks), which have been important in the expansion of cotton, beef, and rubber production, among others. The contribution of the Bank of Guatemala has been important since it was able to obtain funds and terms from the foreign banks which might not have been available to the Guatemalan commercial banks.

12. The development of cotton into Guatemala's second most important export is the most striking aspect of agricultural development since 1960.^{1/} As prospects for coffee worsened in the late fifties, Guatemalan entrepreneurs took advantage of excellent natural conditions and proximity of available land on the Pacific coast to begin a major expansion of production, starting in 1961/62. From 95,000 bales in 1960/61 production rose to 300,000 bales in 1963/64. The value of cotton exports rose from \$5.8 million in 1960 to \$33 million in 1964. Guatemala should be able to reach an exportable production of about 475,000 bales by the end of the decade (See Appendix II). Beyond such a level, the availability of suitable land on the Pacific coast may pose a problem.

13. The production of coffee has grown rapidly in the last seven or eight years, largely because of improved yields. Because of a poor harvest in the 1964/65 season, coffee exports fell from \$77 million in 1963 to \$71 million in 1964, but, with a normal harvest and the higher prices that have been prevailing since the end of 1963, they are likely to rise to about \$85 million in 1965. Beyond 1965, however, the value of coffee exports cannot be expected to grow substantially in the remainder of the decade partly because of a moderate decline in price and because the increased production is likely to create a surplus above likely future export quotas under the International Coffee Agreement. The output of bananas, the other traditional export product, has not been increasing, and since 1961 has suffered badly, because of bad weather, disease and the gradual dismantling of the plantations on the Pacific coast. 1965 production is expected to fall to 2.5 million stems, less than half the annual average for the past decade. With the present expansion plans on the Atlantic coast, banana production and exports are expected to recover to about 5 or 6 million stems in five years.

14. The production of staple foods for the domestic market, particularly corn^{2/} and beans, has over the last decade barely kept up with population. Conditions of cultivation for corn and beans are primitive, production is almost exclusively in the hands of small holders. Farmers suffer from wide seasonal price fluctuations, the sharpest declines occurring during their marketing period. The government is at present considering a plan to increase storage capacity for these products in order to reduce these fluctuations and make production of these crops more remunerative for the farmer. Due to effective high support prices, wheat production has risen rapidly. Over the next few years, the output of staple foods is unlikely to be a major dynamic element in the economy, although if sufficient storage is built and the supply of credit remains adequate, it could grow at a faster rate than population.

^{1/} For a more detailed account of trends and prospects in the main crops, see Appendix II.

^{2/} The official statistics, which show a 23 per cent increase in corn production between 1961 and 1963, probably overstate the increase that actually occurred.

15. Meat and sugar production have increased rapidly since 1960, under the stimulus of demand in the U.S. market. The livestock industry has also benefited from medium-term credit from abroad, which has been channelled through the Bank of Guatemala. Prospects for the continued growth of meat and sugar production are good, but because of uncertainties in export markets, the domestic market will increasingly determine the course of output for these products. The rapid growth of rubber production for the domestic market has been helped by intensive public and private research programs: by the beginning of the seventies, Guatemala is likely to be able to begin exporting natural rubber.

16. Over the next five years or so, agricultural output should increase on average by 4 to 5 per cent annually (or about the same as the rate in the last decade), with a possible slowing down towards the end of the decade if the expansion of cotton production ceases, and production for export should continue to grow faster than production for the domestic market. In addition to cotton and some recovery in bananas, there are some minor products such as essential oils (citronella and lemon oil) and fruits and vegetables, which are likely to be developed further. The authorities are providing some technical and financial assistance in this respect. Beyond 1970, however, the outlook is uncertain since the Pacific coastal lands, where most of the recent increases in production have taken place, will no longer be plentifully available. The authorities have already begun to investigate new products and new areas: a four-year study of marginal coffee areas and possible substitute products began in November 1964, a forest survey of part of the Peten is in progress, disbursements on a loan for rubber production are being accelerated, the colonization institute has prepared some blueprints for settlement projects near the southern Peten region, and a survey of possible areas for irrigation is in progress. It is not yet clear, however, how encouraging the results of these various surveys are likely to be.

Mining, Manufacturing and Construction

17. Guatemala possesses a variety of minerals which have been exploited on a small scale. These activities do not appear likely to increase. However, the large deposits of nickel ore in the Lake Izabal area do offer an important prospect of diversifying and increasing Guatemala's total exports: once fully in operation, a mining enterprise could export about \$14-15 million (annual gross value) of nickel-iron product. A project has been formulated and has been under discussion for some time between the authorities and a foreign firm, but decisions have still to be taken on a new mining code, a concession, and on the financing of the project - which is estimated to require an investment of almost \$60 million. Guatemala could not expect to begin to export nickel until 3 to 5 years after decisions are reached on these points. In the meantime, the authorities are about to begin a general mineral survey of two other areas with financial assistance from the United Nations Special Fund. Also, production of small quantities of magnesite for export should begin shortly.

18. The manufacturing sector, which in 1964 accounted for about 13 per cent of GDP, grew at an average rate of 5.5 per cent from 1960 to 1963. The rate of growth accelerated to a rapid 10 per cent in 1964. The development of manu-

facturing has been stimulated by the generous provisions of the Industrial Development Law,^{1/} and by the increasing opportunities for export to the other countries of the Central American common market. Total exports (mostly of manufactures) from Guatemala to the other four countries have risen from about \$9 million in 1961 to \$17 million in 1963 and \$28 million in 1964. The processing of food products has grown particularly rapidly, followed by clothing and textiles, and chemicals. Finance for investment in industry has come in part from direct foreign investment, which has been especially important in providing technical know-how and brand names. Also important have been profits transferred from other sectors such as coffee and commerce, the loan funds from U.S. banks channelled through the Bank of Guatemala, and more recently, funds from the IDB and the Central American Bank. A private development bank has recently been formed, and is about to begin operations with the help of an AID \$5 million loan.

19. Guatemala possesses a dynamic entrepreneurial class whose ranks are growing as distributors and wholesalers switch from merchandising to manufacturing. There are still plenty of opportunities for reasonably economic import-substitution; expansions or new plants for such items as higher-quality textiles, glass products, sanitary equipment, processed foods, vegetable and animal fats are already under way. Through the provisions of the Industrial Development Law, other industries such as synthetic fibers and fertilizers are also being encouraged but the prospects for such industries are uncertain unless they can obtain markets in other countries of the Central American market. The stimulus to manufactures of exports to other Central American countries may eventually diminish as some of the other countries, which started their industrial development later, set up competing plants, but overall the prospects for continued industrial development are good. The expansion that has taken place to-date has received little financial assistance from Guatemalan banks for the financing of sales; the banks have not generally been willing to grant credit for this purpose, nor has the Bank of Guatemala been ready to rediscount such paper.

20. The contribution of the construction industry to GNP rose from Q23 million in 1962 to Q40 million in 1964 - a level higher than the previous record of Q37 million in 1957. A large part of the construction boom has been for residential construction, particularly middle-income housing. The rapid increase in the loanable funds of savings and loan associations has in large part made this possible.* Foreign investors have now become interested in housing investment, and, with an AID-guarantee, \$8 million from private US lenders has been obtained by the private sector. While this boomlet in middle-income housing is encouraging, increasing care is now required to prevent overbuilding, which could shake the confidence of local investors and savers.

^{1/} The Industrial Development Law of 1959 provides for certain exemptions on profits and income taxes, and import duties on equipment and raw material imports, for new industries or existing industries expanding their capacity.

* In the first 10 months of 1964, the savings deposits of the two main savings and loan associations rose from Q4.1 million to Q6.8 million (the average deposit was of Q145) and outstanding mortgage bonds of these savings institutions rose from Q3.5 million to Q7.1 million.

III. PUBLIC FINANCE

21. The public sector finances in Guatemala reflect primarily those of the Central Government. While there are a few autonomous agencies with their own revenues, a large proportion of their resources are received as transfers from the central government.

22. From fiscal year 1957/58 to 1962/63, central government current revenues steadily declined as coffee prices, and total exports and imports fell and no new taxes were introduced to make revenues less dependent on foreign trade. Even though expenditures were kept from rising, an increasing budget deficit appeared.

Table I: Fiscal Position of the Central Government 1961-1965
(million quetzales)

Fiscal year	1961/62	1962/63	1963/64	July-Dec. 1964	Budget 1965	Proj. 1965
Current revenue	87.2	82.8	97.8	50.2	113.2	110
Total cash expenditures	101.1	97.2	105.6	65.1	149.4	130
Deficit	-13.9	-14.4	-7.8	-14.9	-36.2	-20
Financed by:						
Foreign grants	11.9	2.6	2.5	0.4	2.8	
Net foreign borrowing	-3.2	6.7	-	3.9	-4.0	
Net domestic borrowing	3.2	5.2	9.0	14.6	35.6	
Other	2.0	-0.1	-3.7	-4.0	1.8	
Change in floating debt	8.0	-3.6	1.7	-6.3	-	

Source: Table 13 - Appendix I.

23. Up to 1961/62, the major part of the deficit was financed by U.S. grant assistance. But in 1960/61 and even more in 1962/63, the authorities were faced with a substantial fall-off in U.S. grants. The Bank of Guatemala limited the amount of its budget financing, but the government, unable to cut its expenditures or to borrow private savings in Guatemala, was forced to borrow at short- and medium- term from U.S. banks. This borrowing created a fairly heavy external debt service burden up to 1965 (see para.60).

24. The steady deterioration in the fiscal situation ended in fiscal year 1963/64 as revenues increased with the economic recovery in 1963 and, as the new government which came into power in March 1963 put into effect a number of new tax measures. Revenues rose from 7.7 per cent of GNP in 1962 to 8.4 per cent in GNP, although this is still well below the 10 per cent level prevailing in the boom of the mid-fifties. The budget deficit was at

the same time reduced to more easily manageable proportions. Since the second half of 1964, however, expenditures have begun again to rise considerably faster than revenues, partly because the unusual six-month transitional budget ^{1/} was used to satisfy political demands for a number of low-priority current expenditures. Late in 1964, therefore, the government again had recourse to short-term foreign borrowing for budgetary deficit financing.

Revenues

25. The tax structure of Guatemala has changed very little in the last decade. Taxes on foreign trade, various excise taxes and other indirect taxes have typically accounted for three-quarters of total current revenues. While a number of sound fiscal practices have been continued over the years (such as strictly limiting the earmarking of certain taxes to the amount necessary for debt service), hardly any significant new revenue measures were taken in recent years until 1962/63. The tax measures taken in 1962 and 1963 did not reduce dependence on indirect taxes; however, they will make the revenue structure less dependent on foreign trade.

26. The chief measures taken were the following:

- i) A personal income tax was established for the first time in Guatemalan history in December 1962 by the Ydigoras government.
- ii) The stamp and stamped paper tax was raised in July 1963.
- iii) At the same time, export taxes were placed on cotton and essential oils.
- iv) The tax on gasoline was changed from an import to an excise tax in July 1963, and a tax placed on diesel fuel.
- v) In order to improve the administration of the property tax, a general declaration of properties was decreed in September 1963.

27. The income tax, applicable for the first time in fiscal 1963/64, replaces the business profits tax in effect since 1935. In its immediate implications, the change is not great. The profits tax was simple to administer since the number of contributors was relatively small and deductions and exemptions were severely limited. The new income tax is not likely, at least in the first two or three years, to bring in higher revenues than the former profits tax. The profits tax applied basically to the larger commercial and industrial enterprises, excluding the agricultural sector. The agricultural sector continues to be virtually excluded from the new income tax since gross agricultural incomes below Q15,000 are exempt (leaving out most of the producers for the local market) and producers can deduct export taxes from their income tax liability: with present income tax rates, this is virtually tantamount to an exemption from paying income tax. A number of fairly substantial deductions are allowed industrial enterprises, such as for net profits re-invested, use of local raw materials, etc. These deductions are new and are likely to lead to a smaller intake in the next year or two from the industrial sector than under the old tax, even though the nominal rates are unchanged.

^{1/} The fiscal year runs from July 1 to June 30. Starting January 1, 1965 the fiscal year will coincide with the calendar year. A transitional budget covered the period July 1 to December 31, 1964.

Deductions in the case of personal income are substantial.

Table II: Central Government Current Revenues 1960/61-1965
(million quetzales)

	1960/1	1961/2	1962/3	1963/4	July-Dec. 1964	Proj. 1965
Business Profits Tax*	6.3	7.6	7.7	8.6	4.6	9.5
Property tax	1.4	1.6	1.8	2.4	1.2	3.5
Import duties	28.1	26.5	25.4	27.3	14.1	30.5
Export taxes	8.3	8.9	6.2	6.4	1.8	6.0
Liquor and Tobacco taxes	15.9	15.0	15.4	16.6	8.5	18.5
Stamp tax	5.6	5.8	6.5	12.4	6.9	14.5
Other indirect taxes	4.6	3.5	3.8	7.4	(9.5
Earmarked taxes	9.3	9.0	8.6	9.0	(12.9	9.5
Other	7.8	9.3	7.5	7.7	(8.5
TOTAL	87.3	87.2	82.8	97.8	50.2	110.0

* Includes income tax starting in 1963/64.

Source: Table 14 in Appendix I.

28. The income tax does, nevertheless, offer the possibility of substantially increasing in the future the revenue from direct taxes. In the meantime, it is difficult to assess its likely yield since in 1963/64 revenue from the profits tax was still coming in, but it is unlikely that the new tax will reach much more than Q10 million annually in the next two or three years. The authorities have been considering possible measures to make the income tax into a bigger revenue earner. Such measures should be based on a review of the provisions which in effect exclude the agricultural sector and of the generous deductions allowed for personal income taxes.* However, for the time being, no specific proposals have been put forward.

29. The property tax does not make up for the gaps left by the income tax. Although property tax revenues have risen fairly rapidly, they are small. 60 per cent of the taxable properties are reported to be in the department of Guatemala (the area surrounding Guatemala City): the property tax has therefore touched lightly on the larger agricultural estates. The 1963 decree has produced some 200,000 declarations but a major overhaul of administrative machinery will be required if these declarations are to lead to a rapid and substantial increase in revenues. A cadastral survey is under consideration, but tangible results are likely to be distant. Before increases in rates can be made equitably, some of the more glaring disparities

* An average couple with three children and an income of \$6000 (or over four times the national average) would, after the normal deductions, pay \$36 in tax. The comparable tax in the U.S. would be about \$400.

in valuations will have to be corrected. The authorities have begun to take some steps in this direction.

30. The most effective measure put into effect by the new government has been the higher rates on stamp and stamped paper taxes which apply to most commercial transactions. As a result of a near-doubling of the rates, revenue rose from Q6.5 million in 1962/63 to Q12.4 million in 1963/64. The revenue from these taxes has in the past been fairly responsive to trends in commerce (and thus stagnated for several years up to 1962/63) and should in future grow at about the same pace as the economy.

31. During the period of high coffee prices until 1957, export tax revenues (almost entirely from coffee) accounted for almost one-fifth of current revenue. With the drop in prices, revenue dropped rapidly. The upturn in volume and prices in 1963/64 has not been reflected in revenues, however, because since October 1962 the tax is no longer based on identifiable price quotations in the New York market but on local contract prices. The yield of export taxes for the second half of 1964 was very low indeed, even after making allowances for slow coffee shipments. The fact that the government has failed to reap any benefits from the higher coffee prices prevailing since the end of 1963 should call for an immediate reappraisal of the present basis for the coffee tax. There is no reason to believe that Guatemalan coffee producers could not bear the weight of a coffee tax as well as their neighbors in El Salvador, where coffee tax revenues have responded to the increased prices. A reasonable export tax on a sliding scale based on international prices would in any case be consistent with the policy being pursued by the authorities of eliminating marginal coffee production. Of the other taxes, the tax imposed on cotton exports yielded only about Q375,000 in 1963/64, partly because of administrative difficulties in implementing it. The other export taxes, on bananas and essential oils, cannot at present be expected to become significant revenue-earners.

32. Import duties have been the mainstay of government revenues. They fell with imports from 1957 to 1962, but recovered from Q25.4 million in 1962/1963 to Q31.8 million ^{1/} in 1963/1964. This recovery was largely due to the rise in imports, and to a lesser degree to some higher rates and new taxes, such as the tax on diesel fuel imposed in July 1963. For the future, import tax revenues are not likely to grow as fast as imports. The proportion of duty-free imports is likely to rise with the expansion of public investment and imports by enterprises under the Industrial Promotion Law: there are signs of such an increase in exemptions in the second half of 1964, when import duty revenue rose very slowly despite a rapid increase in imports (at an annual rate of about 20%). Offsetting increases in tariffs would be difficult in view of Guatemala's commitments under the common external tariff for Central America.

33. The projected current revenues of Q110 million in fiscal 1965 will represent a 12 per cent increase over fiscal 1963/64. But the revenue effort of

^{1/} This takes into account Q4.5 million from the petroleum tax, which was import duty before 1963/64.

Guatemala remains small (about 8% of GNP)*. It seems quite clear that unless new revenue measures are taken soon the government's recent inability to finance its current expenditure will become chronic and serious.

34. There are at present obvious gaps in the revenue structure which could be filled soon with relatively simple measures. One short-term step might be the reestablishment of the coffee export tax to its pre-1962 basis. But for the longer run, a comprehensive review of the tax system in order to work out a well-conceived program of new revenue measures should be started soon, preferably with the assistance of international organizations which have particular expertise in this field. Among some of the main questions which might be covered by such a survey are the following:

- a) The desirable yield from taxation of agriculture and methods of taxing agriculture through the income tax, property taxes or export taxes; also, the adequacy of present direct tax yields in the context of the whole economy.
- b) Ways of improving the administration of direct taxes.
- c) Possible new taxes, such as an urban property tax (to make up for the difficulties of rapidly raising revenue from the present property tax), and consumer or excise taxes (as substitutes for some import duty revenue losses).

Expenditures and Financing

35. Most of the changes in the level of expenditures in recent years up to 1962/63 have been the result of changes in the level of investment expenditures (See Section IV below). Since their peak of Q50 million in 1956/57-1957/58, when they accounted for over 40 per cent of total expenditures^{1/}, investment expenditures dropped to an average of Q25 million in the last four years, or about one quarter of total expenditures. Current expenditures increased only slowly, with the result that total expenditures in 1963/64 were still lower than their peak in the mid-fifties.

36. Despite the fact that the authorities kept expenditures from rising in the years 1958/59-1962/63 when revenues were stagnant or falling, a substantial gap between revenues and total expenditures (averaging 12 per cent of expenditures) continued during those years. Since over 60 per cent of the gap was financed by U.S. grants the authorities felt no compulsion to take steps to reduce it. With the sharp and permanent reduction in grant assistance in 1962/63^{2/}, however, the authorities had to look for new sources of financing. In 1962/63, \$7 million was obtained from U.S. commercial banks: this medium-term borrowing, together with \$6.3 million borrowed two years before to reduce the floating debt, led to a fairly heavy burden of external debt service up to 1965.

* The tax effort is low even if allowance is made for the fact that the Indian sector is almost entirely outside the tax system. Current revenues, as a percentage of the GNP of the "modern" sector, may be about 11-12 per cent. The taxation of foreign companies does not account for an important proportion of total revenues.

^{1/}Data for investment expenditures are approximate.

^{2/}In the late fifties, the U.S. authorities decided to phase off grant assistance. For various reasons, assistance was continued until 1961/62.

37. After the substantial improvement in the fiscal position in 1963/64, the situation deteriorated in the second half of 1964. This deterioration was partly due to the interim nature of the budget covering the period, which was therefore allowed to grow with little restraint. In December 1964, because of a temporary cash shortage due to the exceptionally high expenditures in the six-month transitional budget coupled with a rapid reduction of the internal floating debt accumulated from previous years, a \$5 million six-month loan was obtained from a U.S. bank. The export bonanza and the ensuing higher level of liquidity in the economy in 1963 and 1964 has enabled the government to place an increasing proportion of bonds among the commercial banks and the public. Gross borrowing from the Bank of Guatemala in 1963-64 has also risen rapidly, but has been more than offset by a rise in public sector deposits, mostly of the Central Government (see Appendix I, Table 20).

38. The 1965 Budget envisages a very sizeable increase in expenditures (net of amortization) from actual expenditures of Q106 million in 1963/64 to Q149 million in 1965. However, investment expenditures are likely to be lower than budgeted, so that total expenditures should be around Q130 million, about the same as the annual rate in the second half of 1964*. The increase over 1963/64 is thus likely to be entirely in current expenditures, with the largest increases in education, public health and defence. A level of expenditures of Q130 million will present the government with a substantial financing problem, since disbursements on foreign loans are likely to be negative on a net basis, assuming the \$5 million budget loan obtained in 1964 is repaid in 1965. Unless the government is to have recourse to further foreign borrowing for budgetary purposes (with its consequences for external debt service) or to an imprudent level of borrowing from the Bank of Guatemala, expenditures will have to be held down to Q120 million or so.

39. Even in the years of declining revenues before 1963/64, the Central Government has in most years been able to generate modest current account savings, which were not inadequate in relation to the relatively low level of public investment. In 1963/64, these savings reached an estimated record Q18.2 million, or 57 per cent of total public investment (see text Table III). However, due to the exceptionally rapid rise in current expenditures in the second half of 1964, savings were negligible and may well have been negative. With projected current revenues of Q110 million in 1965 and current expenditures of Q103 million, central government savings available for investment might be of the order of Q7 million (see Table III below).

40. It is clear that unless further tax measures are taken and a limitation on the sudden rise of current expenditures is achieved, the authorities will be faced with a difficult fiscal problem and will be gradually less able to finance a reasonable share of what is likely to be a growing volume of

* Out of the total budget of Q149 million, Q52 million is set aside for investment, including Q17 million of "capital transfers". Part of these are used to meet the operating costs of state agencies. Possibly half is used for the administration and execution of actual investment projects. Of the Q52 million budgeted, it is likely that only about Q35 million will be spent, due to the lack of sufficient projects.

public investment. Even though a financing problem is already apparent in 1965, it is not of unmanageable proportions provided the authorities begin

Table III: Estimates of Savings of Central Government 1961/62-1965

	1961/2	1962/3	1963/4	July-Dec. 1964	Proj. 1965
Current revenues	87.2	82.8	97.8	50.2	110
Total current expenditures* (est.)	77.1	77.1	79.6	53.0	103
Current expenditures <u>1/</u>	74.1	73.1	74.6	50.0	95
Transfers <u>2/</u>	3.0	4.0	5.0	3.0	8
Savings on current account	10.1	5.7	18.2	-2.8	7
Total public investment	34.4	20.6	32.2	n.a.	37

* Expenditures incurred, not payments made.

1/ As shown in Table 15 of Appendix I.

2/ These are staff estimates of "capital transfers" actually used for current expenditures.

to take some steps now and at the same time begin to elaborate a program of tax measures based on a comprehensive study. Among the immediate measures which might be considered are a) restoring the basis for the coffee tax to international market prices* and b) limiting current expenditures so that total expenditures for 1965 do not exceed Q120 million. Such a level would still allow for a 13 per cent increase in expenditures over fiscal 1963/64.

IV. PUBLIC INVESTMENT

41. Public investment reached a peak of Q61 million, or 6.4 per cent of GDP, in 1957. This level was made possible by the plentiful availability of foreign funds through loans and grants, the relatively favourable fiscal position of the government at that time, and the existence of projects (particularly road construction) ready to absorb the available funds. Since then, however, as the fiscal situation deteriorated and the amount of project loans diminished since few new projects were prepared, public investment declined rapidly to an average of about Q30 million, or 3 per cent of GDP, in 1959-62. The recovery of the economy in 1963 and 1964 has not been followed by a significant increase in public investment.

42. The level of public investment in the last seven or eight years has thus on the whole failed to meet the needs of the Guatemalan economy. Even

* This is likely to bring in another Q4-5 million in revenue at present prices.

the fairly modest levels of investment projected in the Government's 1960/1-1963/4 development program, somewhat lower than the peak levels of the mid-fifties, have not been achieved. In addition, the composition of actual investment expenditures has left much to be desired. Investments in electric power and education have been unduly low. Some of the "social" investment has been on low-priority public building projects such as the expensive Social Security headquarters. On the other hand, some of the road construction projects have represented high-priority expenditures and the land settlement programs have been well-conceived, although actual results have fallen short of expectations.

43. The preliminary public investment program prepared for the period 1965-69 involves a very substantial increase in public investment. From a proposed level of Q58 million in 1965 (or 4.3 per cent of projected GDP), public investment would rise to Q119 million (or about 7 per cent of GDP). After the stagnation of public investment in the last seven or eight years, such an increase could be justified if the public sector could prepare enough high-priority projects to absorb the proposed level of expenditures. Such a level would not be unreasonable in an economy in which, because of the social and economic backwardness of half the population, the public sector is necessarily called on to play a bigger role. However, not enough projects are at present available to achieve the levels projected for the initial years of the program, and the targets for subsequent years are not likely to be achieved either unless a major effort at project preparation is begun soon.

Table IV: Actual and Programmed Public Investment
(million quetzales, annual averages for period)

	1960/1-1963/4		1965-69
	Program	Actual	Program
Road Construction	16.8	6.3	(21.6
Ports	1.7	1.3	
Telecommunications	0.5	0.6	4.3
Power	3.8	1.9	11.2
Agriculture	7.2	5.8	17.3
Health and welfare	3.1	4.5	8.6
Housing	1.8	2.8	8.6
Public works (incl. schools)	4.8	5.1	(14.7 <u>2/</u>
Other <u>1/</u>	3.2	1.4	
TOTAL	42.6	29.5	86.3

1/ Cadastral survey and Regional Plan for the Peten region.

2/ Including Q10.3 million for education.

44. The 1965-69 program correctly places increased emphasis on electric power and agriculture. Investment in electric power facilities definitely deserves high priority, since some areas outside the capital have for some time experienced relatively small shortages and the area of the

capital city itself may face shortages by 1966-1967 unless generating capacity is increased rapidly. One 13 MW facility is at present being completed, and studies exist for the next stage of power expansion: however, substantial further progress is needed in management and administration if the present public power agency is to be effective in building and operating the new facilities.

45. Perhaps the most striking feature of the investment program is its relative neglect of education in relation to Guatemala's unusually backward educational situation. The authorities have made a competent analysis of the deficiencies in the present situation, but the proposed education program does not reflect the conclusions of this analysis. Its main feature is the construction of 6,000 primary school classrooms: even if these were to be built on time, their capacity (some 180,000 children) would only give room to increase primary school enrollment from 45 per cent of primary school-age population to a little over 50 per cent. If the high drop-out rate is taken into account, together with the fact that no firm project yet exists for the proposed schools, the program is insufficient. The overall illiteracy rate is reported to be 72 per cent, with illiteracy of 82 per cent in rural areas and 90 per cent among the Indians. For a country reaching Guatemala's stage of development, this situation calls for a massive education effort at all levels unless the growth of the economy is to encounter serious obstacles within a decade. A Bank/UNESCO mission will study the education situation and program shortly.

46. Because the deficient status of project preparation makes the realization of program expenditure quite improbable, "probable" public investments for 1965-67 have been estimated independently (Table 17), for the most part on the basis of projects already under construction or about to be started. In the case of roads, the estimate assumes the completion within two or three years of the projects being financed by Eximbank and DLF/AID, the beginning of the major construction and improvement of the Rancho-Coban road*, and the purchase of \$5 million of new maintenance equipment. For ports, it assumes the completion within three years of the Atlantic port improvement financed with the help of an Eximbank loan already approved. In the case of power and telecommunications, the completion of the present projects in 1965 is assumed, together with the initiation of the next stage of expansion in 1966 - which would require obtaining new foreign loan commitments in 1965. The projections for public housing and water supply should be realistic because of the undisbursed foreign loans available (see Table 19 in Appendix I) although the very slow rate of disbursement on these loans will have to be accelerated. Projections for other sectors, such as education and agriculture, are not based on firm projects.

47. These "probable" levels of investment for the period 1965-67 are fairly conservative staff estimates and imply no major new project preparation effort for the time being. Even the conservative levels projected, however, are likely to confront the authorities with a financing problem (Table 18). On the basis of requirements for public investment and amortization averaging

* See Map.

Q52 million annually for the 3-year period, a major increase in public savings will be required. Disbursements on loans already committed or likely to be approved plus accompanying^{1/} grants are likely to average about Q17 million, leaving about Q35 million to be financed internally. In the absence of unexpectedly adverse developments, the government should be able to borrow domestically from non-inflationary, mostly private, sources at a rate similar to that of 1964, or about Q5 million annually. After allowing for a small amount of borrowing from other sources, the public sector would therefore have to generate savings of about Q25 million annually. Central government current account savings (virtually tantamount to public savings), reached about Q18 million in fiscal 1963/64.

48. The achievement of a level of Q25 million annually will require a significant effort. But an appropriate combination of tax and expenditure measures yielding this increase should be manageable, especially if autonomous agencies such as the power agency and the social security institute can gradually generate additional savings of their own. However, if no action is taken to raise tax revenues and to limit the growth of current expenditures to a much more moderate rate than that implied in the 1965 budget, a serious financing problem will soon emerge and even the modest levels of investment envisaged in Table 17 may not be achieved. This could have serious effects on economic growth, since a major part of the proposed investment is to expand basic services - such as power, transport and education - to permit the continued growth of the Guatemalan economy.

V. MONETARY AND BALANCE OF PAYMENTS DEVELOPMENTS

Monetary Developments

49. The Bank of Guatemala has traditionally followed a cautious monetary policy. While allowing adequately for the credit needs of the private sector, it avoided a volume of credit expansion which might jeopardize the foreign exchange position. This policy has been successful in maintaining price and exchange stability: the domestic price level did not rise at all from the mid-fifties to 1963, and the quetzal has been at par with the dollar since 1922. The public sector demand for credit during this period was modest.

50. During 1958-62 total credit grew at a moderate pace (by 18 percent over the four years) with most of the increase to the private sector, particularly for cotton crop financing. The money supply remained virtually constant during the period. But with the revival of exports and the change of government in 1963, this stationary situation was sharply altered. The very rapid expansion of private savings through the banking system permitted a rapid expansion of credit to take place. While the expansion in credit to the public sector was more than offset by the rise in public sector deposits,

^{1/} Two-thirds of expenditures on the construction and improvement of the Inter-American Highway are met out of U.S. grants: the remaining third is normally made available by the U.S. Government on a loan basis.

credit to the private sector increased by 15 percent in 1963 and again by 15 percent in 1964 (Table 20), with cotton, coffee and cattle accounting for a major part of the increase. Parallel with this rise went an average annual increase of 8 percent in the money supply, and an even faster rise in time and savings deposits, by 73 percent over the period. The expansion of credit has been accompanied by some rise in prices in 1964. Domestic prices (the wholesale price index) rose by 4.8 percent in the first eleven months of 1964 and the consumer price index by somewhat less.

51. Imports rose by 22 percent in 1963, and by a further 21 percent in 1964; but the recovery of exports has not been the sole force accounting for the extraordinary growth of imports; a very rapid growth of foreign supplier credits to the private sector appears to have taken place in 1963 and 1964. 1/

Balance of Payments

52. After six years of stagnating exports and declining imports, imports of goods and services are likely to have been particularly sensitive to rising incomes in 1963-1964. Travel abroad rose to a reported average of about \$11 million compared to an estimated average of \$4 million during the previous four years. Data on import composition* show a rapid increase in the major categories of merchandise imports. In 1963, consumer goods and raw materials showed the largest increases. In 1964, imports of capital goods rose by 37 percent, entirely accounted for by private sector investment, and no doubt in large part made possible by the relative ease in obtaining the supplier credits referred to above. If travel is taken into account, the import boom of 1963-64 has to a significant extent been a consumer import boom. In the next few years, it is likely that foreign exchange earnings will increase at a slower rate than in the last two years, but the rate of growth of imports is at the same time also likely to slow down.

53. The stagnation of exports prior to 1963 was the result of the sharp drop in coffee prices. The volume of coffee exported rose by 30 percent from 1956 to 1962, but the price drop was proportionately larger, falling from a peak of 68 U.S. cents/lb. in 1956 to 38 cents in 1962 and 36 cents in 1963. The expansion of new export products such as cotton and shrimp did begin during the period, but was not sufficient to raise the level of merchandise exports. The renewed growth of exports in 1963 was due to a nearly 20 percent increase in coffee production, the moderate

1/ No estimates of the amount outstanding on these credits or of their purpose is available; the increase shown in text table V of "other private capital" indicates the orders of magnitude, however. The authorities should endeavor to obtain the fullest possible information on the repayment schedules for these credits, and to regulate their inflow so that repayments do not bunch together.

* See Table 25 in Appendix I. These data should be taken as indicative only of general trends in the various categories.

Table V: Balance of Payments 1962-65

(million U.S. dollars)

	1962	1963	1964	Proj. 1965
Exports f.o.b.	119.0	154.1	167.3	184
Imports f.o.b.	122.9	150.4	182.5	198
Net services	-19.7	-24.3	-21.5	-22
Balance on trade and services	-23.6	-20.6	-36.7	-36
Grants	7.9	2.4	2.0	2
Direct investment	9.3	5.0	8.0	10
Other private capital (net)	7.0	18.5	27.1	15
Loans to public sector (net) ^{a/}	-2.9	11.7	5.6	8
Total non-compensatory capital	21.3	37.6	42.7	35
Errors and omissions	-11.0	-6.9	-3.7	--
Surplus or deficit	-13.3	10.1	2.3	-1

^{a/}Including development loans channelled through Bank of Guatemala.

expansion of meat and sugar production for export, the rapid extension of the area under cotton and the acceleration in exports, mostly of manufactures, to other Central American countries. These last two elements are new and did not exist in the late fifties. Even though it is likely that the increase in cotton production will slow down in the next few years and that exports of manufactures to Central America may not continue to grow at the recent rate, both cotton and total exports to the regional market are likely to ensure that in the next few years Guatemala will build up a more diversified and resilient export structure. The outlook for merchandise exports in the next few years is encouraging. On the basis of the projection below (see text table VI), exports should grow at an average annual rate of 6 percent between 1964 and 1970. By 1970, coffee would account for a little over a third of total exports compared to about 70 percent in the middle and late fifties. Even if coffee prices were to drop to a level of, say, US\$ 33-34 per lb. in 1970, Guatemala should still be able to achieve a reasonable rate of export growth averaging about 5 percent annually over the next five years or so. If prices were to drop this sharply in the immediate future - an unlikely occurrence, however - export growth could well cease or greatly slow down in the next couple of years.

54. Other foreign exchange earnings amounted to \$30 million in 1963, of which \$4 million was attributable to tourism ^{1/}. With its proximity to the United States and Mexico, its unusual and easily accessible scenic and

^{1/} Tourism earnings averaged \$6.5 million annually in 1959-62.

historical sites, and colorful folklore, Guatemala should, with modest improvements in existing facilities, be able to achieve a very substantial increase in tourist earnings. Foreign exchange earnings on invisibles and services can thus be expected to increase to at least \$40 million by 1970, with total exports of goods and services reaching \$270 million compared to \$174 million in 1963 and about \$195 million in 1964.

Table VI: Guatemala: Exports 1963-70
(million US dollars)

	Actual 1963	Actual 1964	Projected*	
			1965	1970
Coffee	77.0	71.0	83.0	84.0
Volume ('000 60 kg. bags)	1,637	1,250	1,500	1,650
Price (U.S. cents per lb.)	35.7	43.0	42.0	39.0
Bananas	11.5	8.1	5.5	13.0
Volume (million stems)	5.3	3.7	2.5	6.5
Price (U.S. \$ per stem)	2.2	2.2	2.2	2.0
Cotton	24.4	32.7	36.0	49.5
Volume ('000 quintals of 100 lbs.)	1,020	1,310	1,500	2,250
Price (U.S. cents per lb.)	24.0	25.0	24.0	22.0
Sugar	6.1	6.1	3.0	3.5
Meat	4.4	3.7	4.5	6.0
Essential oils	3.2	2.1	2.5	6.0
Shrimp, chicle, and lumber	3.2	4.3	4.5	8.0
Other (incl. manufactures)	24.2	39.6	45.0	60.0
	154.1	167.2	184.0	230.0

* The export projection is based on the assumptions discussed in paras 12-13 and Appendix II.

55. The international reserve position is adequate. The Bank of Guatemala was able to increase its gross gold and foreign exchange reserves from \$46.2 million at the end of 1962 to \$58.6 million at the end of 1963. The reserve position did not change in 1964, since the increased current account deficit (\$37 million compared to \$21 million for 1963) was compensated for (and in part caused) by a heavy inflow of private capital. In itself the large size of the current account deficit in 1964, amounting to 2.9 per cent of GNP and 22 per cent of export earnings, is likely to be temporary, since it was the result of an exceptionally large increase in imports, in part brought about and financed by foreign private capital inflows.

56. Guatemala has faced balance of payments difficulties in the recent past. At the end of 1962, the authorities had to cope with severe reserve losses as a result of a combination of factors, including the heavy repayments falling due on loans made in 1960 by U.S. banks for the government budget. Exchange controls were imposed and the situation was rapidly corrected with the export boom of 1963. However, the danger of a similar situation arising in future exists as long as the current account deficit is allowed to continue at its high 1964 level. With a deficit of such magnitude, heavy repayments on supplier credits, for example, might result in a reduction of reserves to an imprudent level. The projected net inflow of foreign loans and grants to the public sector (Table 18 in Appendix I) would not on present expectations be likely to offset a substantial reduction in net private capital inflows, if such a reduction were to take place.

57. The authorities should be able in the immediate years ahead to keep the growth of imports of goods and services more or less in line with the growth of foreign exchange earnings, particularly in view of the encouraging prospects for foreign exchange earnings. The recent rapid growth of imports should slow down, if credit expansion is kept within bounds and some form of restraint is implemented on the inflow of private foreign supplier credits. With these prospects and policies, the authorities should be able to gradually reduce the current account deficit below the level of recent years, and definitely to keep it below the 1964 level.

VI. PROSPECTS AND CREDITWORTHINESS

58. With a modicum of political stability, the Guatemalan economy should grow at a satisfactory rate in the next few years. If, as is likely, the private sector continues its dynamic performance of recent years, the gross domestic product can reasonably be expected to grow at an average rate of 5 per cent annually in real terms. Exports are likely to grow somewhat faster (about 6 per cent annually compared to stagnation in the period 1957-62, and a 40 per cent rise in 1963-64), while agricultural production for the local market may increase at a slightly faster rate than population (a continuation of the tendency in the last 7-8 years). While the growth of exports may slow down towards the end of the sixties, sufficient possibilities exist for new products, such as nickel ore, rubber and industrialized lumber, so that diversified export growth could continue into the seventies.

59. On the basis of these prospects the preservation of Guatemala's creditworthiness will depend primarily on future fiscal policies. If the authorities, by raising revenues and limiting the growth of current expenditures, avoid further recurrence to short-term external borrowing to finance budgetary deficits, Guatemala should be able to borrow substantial sums abroad for high-priority projects over the next few years. The fiscal measures called for to achieve this goal do not represent radical changes, and should be manageable.

60. The external public debt of Guatemala totalled \$74 million at the end of 1964; about \$42 million of this had been disbursed. Actual service on the external public debt amounted to about \$10 million in 1964, or 6.5 per cent of merchandise exports. Estimated service rises to \$21.9 million in 1965 (or 11.9

per cent of projected merchandise exports), including amortization of a six-month budget support loan obtained at the end of 1964. After 1965, all of the past borrowing for the budget will be paid off, and service on the existing debt falls to \$7.1 million in 1966, and \$5.7 million in 1970 (or 2.5 per cent of projected export earnings).

61. Guatemala could thus comfortably borrow more abroad to finance its investment plans. On present expectations, the relatively limited size of the external capital requirements of Guatemala over the next three years or so (see paras.46-47) should enable it to prudently borrow these funds on conventional terms. If, however, the authorities launch on much larger programs than those projected for high-priority sectors such as education, the resource gap could become significantly larger and could warrant the provision of external assistance on soft terms.

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TABLE 1

GUATEMALA - EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF
JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS JULY 1 - DECEMBER 31, 1964 1/

Debt Repayable in Foreign Currencies
(thousand U.S. dollar equivalents)

Item	Debt outstanding June 30, 1964		Major reported additions
	Net of undisbursed	Including undisbursed	July 1 - December 31, 1964
TOTAL EXTERNAL PUBLIC DEBT	<u>35,537</u>	<u>58,278</u>	<u>235</u>
Privately-placed debt	<u>12,613</u>	<u>12,899</u>	-
IBRD loan	<u>11,080</u>	<u>11,080</u>	-
IDB loans	<u>1,781</u>	<u>7,100</u>	<u>235</u>
U.S. Government loans	<u>10,063</u>	<u>27,199</u>	-
Export-Import Bank	4,391	15,944	-
AID	5,672	11,255	-

- 1/ Does not include the following two loans:
- a) \$1,000,000 from Meadow Brook National Bank 5 $\frac{1}{2}$ %, 1963.
 - b) \$1,000,000 from Philadelphia National Bank 5 7/8%, 1963.
 - c) Includes \$4,962,000 drawn and outstanding of lines of credit. Excludes \$9,840,000 not yet drawn.

Source: Statistics Division
IBRD -- Economics Department

TABLE 2

GUATEMALA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING
INCLUDING UNDISBURSED AS OF JUNE 30, 1964 WITH MAJOR REPORTED ADDITIONS
JULY 1 - DECEMBER 31, 1964 ^{1/}

Debt Repayable in Foreign Currencies
(thousand U.S. dollar equivalents)

Year	Debt Outstanding plus undisbursed January 1	Payments during year			Privately Placed Debt	IBRD Loans	IDB Loans	United States Government		
		Amortization	Interest	Total				Total	Export Import Bank	AID
1964	58,278 ^{2/}	14,202	2,009	16,211	8,033	1,994	312	5,872	5,497	376
1965	53,146	7,845	2,637	10,482	5,253	1,993	529	2,707	2,064	643
1966	45,201	5,504	2,440	7,944	2,432	1,993	796	2,723	1,993	730
1967	39,798	5,912	2,220	8,132	2,150	1,993	980	3,009	2,267	741
1968	33,886	5,477	1,847	7,324	1,484	1,993	982	2,907	2,154	753
1969	28,409	4,201	1,576	5,777		1,993	982	2,802	2,037	764
1970	24,208	4,316	1,344	5,660		1,992	981	2,687	1,911	776
1971	19,892	2,310	1,130	3,440			855	2,585	1,798	787
1972	17,582	3,835	967	4,801			810	3,991	1,684	2,308
1973	13,747	3,901	739	4,639			773	3,866	1,570	2,296
1974	9,846	3,549	489	4,038			281	3,757	1,455	2,302
1975	6,297	1,874	286	2,160			271	1,889	1,331	558
1976	4,423	837	196	1,033			260	773	527	246
1977	3,586	719	159	878			250	628	383	246
1978	2,867	518	126	644			240	405	366	39

^{1/} Includes all debt listed in Table 1 prepared April 22, 1965.

^{2/} Amount outstanding is as of June 30, 1964; payments are for the entire year.

Source: Statistics Division IERD - Economics Department.

TABLE 3
GUATEMALA: POPULATION

	<u>Mid-year population</u>
1950	2,805,157 (census data)
1955	3,258,010 (estimated)
1960	3,765,039 (estimated)
1964 (April 18-26)	4,278,341 (census)

	<u>Average annual rates of growth</u>
1950-1964	% 3.06
1950-1955	% 3.04
1955-1960	% 2.94
1960-1964	% 3.25

Source: Direccion General de Estadistica.

TABLE 4
GUATEMALA: TRENDS IN GROSS NATIONAL PRODUCT 1950-1963 ^{1/}

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	Prelim. 1963
Gross National Product at current prices (million quetzales)	641	684	687	728	775	807	896	933	962	984	1,010	1,031	1,080	1,164
Rate of growth (percentage)	-	6.7	0.4	6.0	6.3	4.2	11.1	4.2	3.1	2.2	2.7	2.1	4.8	7.8
Gross National Product in 1958 prices (million quetzales)	731	742	754	781	806	828	908	947	962	999	1,027	1,054	1,085	1,159
Rate of growth (percentage)	-	1.5	1.6	3.6	3.2	2.7	9.7	4.3	1.6	3.8	2.8	2.6	2.9	6.8
Per capita GNP in 1958 prices (quetzales)	257	252	250	251	251	251	267	271	268	270	269	267	266	273
Rate of growth (percentage)		-2.0	-1.1	0.6	-	-	6.5	1.3	-1.0	0.7	-0.4	-0.7	-0.3	2.7

^{1/} New revised series.

Source: Working Party of Bank of Guatemala, Planning Council and ECLA.

TABLE 5

GUATEMALA: GROSS NATIONAL PRODUCT AT CURRENT PRICES, 1950-1963*

(million quetzales)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Private consumption	546.6	578.0	571.6	614.2	666.5	668.8	719.2	755.2	807.5	826.8	852.1	861.5	922.1	970.8
Public consumption	32.9	38.5	46.9	48.9	50.1	49.2	57.1	64.3	70.4	78.4	79.9	83.1	77.2	81.5
Gross domestic fixed investment	66.8	71.7	62.6	59.6	59.7	79.9	134.4	150.2	137.1	112.6	103.2	108.6	108.2	139.8
Public	(15.4)	(17.5)	(20.8)	(21.8)	(22.9)	(31.5)	(48.2)	(60.7)	(49.9)	(36.6)	(26.6)	(31.9)	(27.3)	(32.3)
Private	(51.5)	(54.1)	(41.8)	(37.8)	(36.8)	(48.4)	(86.2)	(89.4)	(87.1)	(76.0)	(76.6)	(76.7)	(80.9)	(107.5)
Change in inventory	-1.4	-1.1	-7.0	1.2	0.4	14.1	7.1	3.7	-1.1	-0.6	5.6	7.7	5.2	8.4
Exports of goods and services	85.2	89.2	99.2	104.1	108.4	112.5	133.1	128.5	121.7	122.3	131.9	128.7	130.4	170.0
Less imports of goods and services	84.7	89.7	83.9	90.7	101.2	111.6	149.7	161.9	165.1	148.1	152.2	146.2	150.9	196.1
Gross Domestic Product	645.4	686.6	689.3	737.5	783.8	812.9	901.3	940.1	970.5	991.4	1,020.5	1,043.3	1,092.1	1,174.4
Net income transfers abroad	-4.0	-2.2	-2.3	-9.1	-9.3	-6.2	-5.4	-6.9	-8.7	-7.9	-10.4	-12.4	-11.9	-10.1
Gross National Product at current prices	641.4	684.4	687.1	728.4	774.5	806.7	895.9	933.2	962.2	983.6	1,010.1	1,031.0	1,080.3	1,164.4
Rate of growth (percentage)	-	6.7	0.4	6.0	6.3	4.2	11.1	4.2	3.1	2.2	2.7	2.1	4.8	7.8

* New revised series.

Source: Working Party of Bank of Guatemala, Planning Council and ECLA.

TABLE 6
GUATEMALA: SECTOR ORIGIN OF GROSS DOMESTIC PRODUCT

(million quetzales of 1958)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963 ^{1/}
Agriculture and fishing	239.4	236.4	242.4	251.4	252.8	248.6	264.9	269.3	284.8	310.0	319.4	324.4	339.8	378.8
Mining	1.5	1.7	1.7	1.4	1.2	1.9	2.4	2.6	2.2	1.3	2.0	1.3	0.4	0.4
Manufacturing industry	86.6	89.3	91.7	93.4	98.9	98.3	106.8	116.8	123.0	126.9	132.8	140.5	146.7	153.6
Construction	21.7	21.0	19.0	18.7	18.6	21.9	29.3	36.7	31.7	24.2	21.6	25.9	23.1	30.1
Public utilities	3.4	3.7	4.0	3.9	4.6	4.9	5.1	5.7	6.4	6.9	7.3	8.3	8.9	9.3
Transport and communications	26.3	27.7	27.3	30.3	30.9	39.9	42.3	48.8	49.4	49.9	50.3	55.3	67.5	72.6
Commerce	192.7	193.2	194.5	203.0	210.5	217.4	239.9	255.1	265.4	277.1	289.3	295.4	293.3	315.0
Banking, insurance, real estate	9.2	9.7	9.8	10.0	8.6	10.8	14.3	13.1	13.7	14.1	15.5	17.0	20.9	22.7
Real estate rent	60.4	63.0	65.2	67.2	69.5	71.6	73.7	75.9	78.0	80.1	81.9	83.3	84.7	87.4
Public administration and defence	41.7	45.1	48.9	50.5	47.1	44.0	51.7	52.4	56.6	64.8	63.7	70.8	62.0	63.8
Other services	39.6	41.7	43.2	45.5	47.0	49.9	52.3	56.2	59.8	63.0	64.1	65.9	68.3	71.7
Total GDP expenditures	722.3	732.5	747.7	775.3	789.6	809.1	882.7	932.5	970.9	1,018.1	1,047.9	1,088.1	1,115.6	1,205.3
Terms of trade adjustment	14.1	12.0	9.1	15.2	26.3	25.4	31.1	21.7	-	-10.5	-9.3	-21.1	-17.5	-36.5
Gross Domestic Product	736.4	744.5	756.8	790.5	815.9	834.5	913.8	954.2	970.9	1,007.6	1,038.5	1,067.0	1,098.2	1,168.8

^{1/} Preliminary.

Source: Working Party of Bank of Guatemala, Planning Council and ECLA.

TABLE 7

GUATEMALA: THE FINANCING OF GROSS DOMESTIC INVESTMENT 1950-1963*

(million quetzales)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
														Prelim.
Gross Domestic Fixed Investment	66.8	71.7	62.6	59.6	59.7	79.9	134.4	150.2	137.1	112.6	103.2	108.6	108.2	139.8
Change in Inventory	-1.4	-1.1	-7.0	1.2	0.3	14.1	7.1	3.7	-1.1	-0.6	5.6	7.7	5.2	8.4
Gross Domestic Investment	65.4	70.6	55.6	60.9	60.1	94.0	141.6	153.9	136.0	112.0	108.3	116.3	113.4	148.2
Financed by														
1. Gross Domestic Savings	61.7	68.5	68.2	64.8	59.1	91.1	121.2	114.8	85.4	80.2	81.2	91.4	84.7	113.5
Depreciation	29.9	33.9	35.4	35.0	35.9	36.2	42.8	43.4	47.4	44.2	48.7	50.4	50.6	51.8
Net Savings	31.7	34.6	32.8	29.9	23.1	54.9	78.3	71.4	38.0	36.0	32.5	41.0	34.1	61.7
Public Sector <u>1/</u>	15.5	18.3	18.1	22.3	30.9	40.1	38.9	36.9	32.3	21.8	21.1	18.6	20.9	25.5
Private Sector	16.2	16.4	14.5	7.5	-7.7	14.8	39.5	34.6	5.7	14.2	11.4	22.4	13.1	36.2
2. Current Account Deficit (- Surplus)	3.7	2.1	-12.6	-4.0	1.0	2.9	20.4	39.1	50.6	31.8	27.6	24.9	28.8	34.8

* Revised series.

1/ Apparently includes grants as part of Central Government current revenues.

Source: Working Party of Bank of Guatemala, Planning Council and ECLA.

TABLE 8

GUATEMALA: LAND USE AND YIELDS OF MAIN CROPS

	1950			1961		
	Production 1000 quintals	Area 1000 manzanas ^{1/}	Yield quintals	Production 1000 quintals	Area 1000 manzanas ^{1/}	Yield quintals
Corn	9,639	1,120	15	11,683	1,371 ^{2/}	15
Wheat	477	662	9	536	758	11
Beans	1,292	53	12	1,752	48	12
Potatoes	191	106	42	308	144	58
Vegetables	1,755	5	924	2,590	3	996
Fruits ^{3/}	2,005	2	44	2,848	63	45
Coffee (green)	1,471	182	8	2,171	236	9
Cotton	41	2	18	1,343	45	30
Bananas ('000 stems)	7,621	29	259	7,241	20	357
Lemon tea and citronella grasses	3,461	6	577	3,739	8	456
Sugar cane	23,424	22	1,060	38,109	31	1,237
Tobacco	39	5	7	48	6	8
Rubber ('000 lbs)	422	1	602	1,140	4	300

^{1/} 1 manzana = 1.73 acres.

^{2/} This represents about 10% of the total area of the country.

^{3/} Deciduous fruits: apples, pears, etc.

Source: Working Party of Bank of Guatemala, Planning Council and ECLA.

TABLE 9

GUATEMALA: AGRICULTURAL PRODUCTION 1950-1964 ^{1/}

(thousand quintals of approx. 101 lbs)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	Est.1963 Value 2/ (million 1964 quetza- les)	Prelim. 1964
<u>Mainly for Domestic Use</u>																
Corn	9,639	10,863	10,198	9,485	8,637	8,299	9,668	9,870	10,391	11,152	11,442	11,683	12,159	12,789	27.6	14,452
Rice	187	247	214	236	212	198	224	243	254	318	295	273	344	356	1.8	390
Beans	1,292	1,416	1,438	1,395	1,318	1,169	1,357	1,346	1,560	1,667	1,724	1,752	1,787	2,044	18.2	2,122
Wheat	477	572	485	431	400	318	434	400	469	469	461	536	561	621	4.1	736
Sugar cane ('000 lbs)	7,208	6,021	7,593	9,055	11,338	11,432	12,086	13,413	14,716	14,850	21,105	20,045	28,033	28,777	9.0	31,787
Rubber	422	733	733	1,020	1,037	1,053	1,068	1,079	1,115	1,140	1,140	1,140	2,457	3,331	0.7	4,031
<u>Mainly for Export</u>																
Coffee	1,471	1,374	1,606	1,535	1,462	1,612	1,710	1,706	1,934	2,237	2,222	2,171	2,240	2,501	98.6	2,075
Cotton	15	28	57	94	144	185	212	242	316	344	357	479	727	1,223	30.9	1,477
Bananas (million stems)	7.6	6.0	4.6	7.9	7.1	6.1	6.1	6.1	5.6	6.3	8.2	7.2	4.5	5.6	14.6	n.a.
Chicle	15	26	22	-	8	24	15	17	16	28	31	35	10	18	0.9	25
Citronella and Lemon tea grass	3,461	5,046	3,463	3,148	1,485	2,847	5,974	7,448	3,429	2,434	2,252	3,739	5,704	8,091	1.8	8,447

^{1/} This revised series has been used for the computation of the revised GNP data shown in Tables Source: Working Party
of Bank of Guatemala,
^{2/} 1958 prices: prices of products for domestic use have not changed markedly since then. Planning Council, and ECLA.

TABLE 10

GUATEMALA: TRENDS IN INDUSTRIAL PRODUCTION AND CONSTRUCTION

	1957	1958	1959	1960	1961	1962	1963
<u>Indices (1946 = 100)</u>							
Non-durable goods	149	161	173	174	184	186	210
Food	163	159	179	172	198	185	213
Beverages	137	139	141	138	136	131	136
Tobacco	151	152	155	167	164	168	176
Chemicals	200	239	321	383	423	467	664
Textiles	99	115	102	108	124	131	152
Clothing	144	226	219	215	191	168	183
Electric power	262	302	385	374	427	484	553
Durable goods	218	256	242	221	237	208	252
Lumber	157	144	140	106	115	84	84
Non-metallic minerals	285	380	355	348	572	345	437
<u>Individual items</u>							
Cement (1950 = 100)	235	283	278	270	301	279	378
Cigarettes (million units)	1,707	1,724	1,752	1,889	1,854	1,912	1,997
Beer (million liters)	15.5	18.7	20.2	16.6	16.1	15.4	17.9
Flour (thousand tons)	27.5	32.1	37.0	48.8	52.5	52.6	59.1
Value of private construction during year in city of Guatemala (million quetzales)	4.7	4.9	5.2	6.1	6.0	5.8	6.8

Source: Direccion General de Estadistica, Guatemala en Cifras.
The Direccion is preparing a revised industrial production index.

TABLE 11

GUATEMALA: ELECTRIC POWER AND TRANSPORT 1954-1963

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
<u>Power</u> ^{1/}										
Installed capacity (MW)	41	42	48	56	57	67	76	79	84	91
Power generated (million kwh)	154	165	171	193	219	238	259	281	315	336
<u>Transport</u>										
Freight moved by railroad (thousand short tons)	978	1,081	1,105	1,101	991	875	1,018	886	809	798
Port traffic (thousand metric tons of merchandise ^{2/})	704	913	911	933	935	1,007	1,138	1,125	1,104	1,354
Puerto Barrios ^{3/}	395	469	492	484	422	475	552	491	439	496
Matias de Galvez ^{3/}	-	-	45	41	26	48	82	92	147	194
San Jose ^{4/}	249	367	273	284	346	349	364	381	416	445
Champerico ^{4/}	17	3	36	50	57	59	52	60	43	78
Motor vehicles ^{5/} (thousands)	19.1	22.3	27.9	29.4	34.3	37.4	41.0	44.5	48.1	
Passenger cars	9.7	10.9	15.2	15.7	19.9	21.2	23.5	25.7	28.0	
Trucks	4.0	5.3	5.5	5.7	5.9	6.7	7.1	7.6	8.1	
Other	5.4	6.1	7.2	8.0	8.5	9.5	10.4	11.2	11.9	

^{1/} Including plants for private service.

^{2/} Foreign trade only.

^{3/} Atlantic coast.

^{4/} Pacific coast.

^{5/} Excludes vehicles owned by armed forces, and motorcycles.

Source: Instituto Nacional de Electrificación (INDE), Dirección General de Estadística, Dirección de Tránsito.

TABLE 12

GUATEMALA: TRENDS IN EDUCATION 1954-1963

(State schools only)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
<u>Primary Education</u>										
Number of schools	2,803	2,828	2,864	2,884	2,915	2,943	2,965	2,991	3,049	3,120
Number of teachers	6,663	6,814	7,099	7,189	7,550	7,597	7,820	8,082	8,404	8,615
Pupils enrolled (thousands)	189	196	209	226	233	253	267	280	304	324 ^{2/}
<u>Secondary Schools</u>										
Number of schools	39	43	48	53	56	61	61	57	56	57
Number of teachers	1,188	1,207	1,366	1,401	1,618	1,701	1,811	1,832	1,818	1,843
Pupils enrolled (thousands)	12.0	12.4	13.2	13.9	14.4	16.0	17.5	18.2	20.3	20.7 ^{3/}
<u>Technical and Vocational ^{1/}</u>										
Number of teachers	114	106	107	106	106	113	113	114	111	111
Pupils enrolled (thousands)	2.9	2.8	3.0	3.4	2.2	2.6	2.8	2.8	3.2	3.4

^{1/} 18 schools.^{2/} There were in addition about 37,000 pupils enrolled in private primary schools in 1963. The total enrollment of 361,000 represents 45% of the total population of 800,000 aged 6 to 12 (six grades).^{3/} There were in addition about 19,000 pupils enrolled in private secondary schools in 1963. The total enrollment of 39,300 represents 10.3% of the total population of 380,000 aged 13 to 18 (five grades).

Source: Ministry of Education and Direccion General de Estadistica.

TABLE 13

GUATEMALA: CENTRAL GOVERNMENT FISCAL OPERATIONS 1958/59-1963/64

(million quetzales)

	1958/59	1959/60	1960/61	1961/62	1962/63	1963/64	July-Dec. ^{1/} 1964
Current Revenues	89.9	88.3	87.3	87.2	82.8	97.8	50.2
Cash Expenditures	104.6	93.0	100.6	101.1	97.2	105.6	65.1
Authorized during fiscal year	101.9	87.3	90.2	94.5	86.6	99.3	59.7
From previous fiscal years	2.7	5.7	10.4	6.6	10.6	5.3	5.4
Deficit ^{2/}	-14.7	-4.7	-13.3	-13.9	-14.4	-7.8	-14.9
Financed by							
Foreign grants	8.5	5.7	8.0	11.9	2.6	2.5	0.4
Net foreign borrowing	1.1	-0.9	9.0	-3.2	6.7	-	3.9
Development loans (gross)	(1.7	0.3)	3.9	0.6	2.6	4.7	
Other loans (gross)	(6.3	-)	6.3	-	7.0	-	
Amortization	-0.6	-1.2	-1.2	-3.8	-2.9	-4.7	
Net internal borrowing	-2.2	-3.0	1.2	3.2	5.2	9.0	14.6
New bond issues	4.4	1.6	6.0	8.1	11.4	15.4	
Amortization	-6.6	-4.6	-4.8	-4.9	-6.2	-6.4	
Decrease in deposits (- increase)	7.3	2.9	-4.9	1.5	-1.7	-5.2	-1.9
Discrepancy	-	-	-	0.5	-1.6	1.5	-2.1

^{1/} A special transitional budgetary period.^{2/} See text Table III for estimate of current account savings.

Source: Banco de Guatemala, and Annual Statements of General Accounting Office.

TABLE 14

GUATEMALA: CENTRAL GOVERNMENT CURRENT REVENUES 1954/55-1963/64

(million quetzales)

	54/55	55/56	56/57	57/58	58/59	59/60	60/61	61/62	62/63	63/64	July-Dec. 1964 ^{6/}
Business Profits Tax ^{1/}	5.1	5.7	6.3	7.0	7.1	6.4	6.3	7.6	7.7	8.6	4.6
Property Tax	0.9	0.9	0.9	1.1	1.2	1.3	1.4	1.6	1.8	2.4	1.2
Inheritances and Donations Tax	0.1	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.2
Import Duties	21.4	23.7	27.6	29.5	31.3	28.2	28.1	26.5	25.4	27.3	14.1
Export Taxes (mostly coffee)	14.8	14.0	15.4	11.7	10.5	9.7	8.3	8.9	6.2	6.4	1.8
Liquor and Tobacco Taxes	12.7	12.9	14.4	15.5	15.9	16.1	15.9	15.0	15.4	16.6	8.5
Stamp Tax	4.0	4.9	5.6	6.0	5.7	5.5	5.6	5.8	6.5	12.4	6.9
Other Indirect Taxes	2.4	2.9	3.5	4.3	3.8	4.0	4.6	3.5	3.8	7.4	^{5/} (
Non-tax Revenues ^{2/}	5.5	9.0	10.8	7.6	5.9	7.0	6.8	6.9	6.9	7.2	{ 12.9
Earmarked Taxes ^{3/}	4.9	4.7	6.6	8.7	8.2	9.0	9.3	9.0	8.6	9.0	
Other ^{4/}	7.3	0.6	-	-	0.1	0.9	0.7	2.2	0.3	0.2	
Total Current Revenues	79.1	79.6	91.4	91.6	89.9	88.3	87.3	87.2	82.8	97.8	50.2

^{1/} Starting 1963/64, includes income tax established in July 1963.

^{2/} Includes sales of public services, employee contributions to pension funds.

^{3/} Various excise taxes earmarked for debt amortization.

^{4/} Includes sales of public properties.

^{5/} Includes tax on petroleum, previously collected as an import duty.

^{6/} A transitional budgetary period.

Source: Banco de Guatemala, Boletín Estadístico.

TABLE 15

GUATEMALA: CENTRAL GOVERNMENT EXPENDITURES* 1954/55-1963/64

(million quetzales)

	54/55	55/56	56/57	57/58	58/59	59/60	60/61	61/62	62/63	63/64
<u>Current Expenditures</u> 1/	49.8	55.7	63.2	64.2	69.7	76.9	72.0	74.1	73.1	74.6
Administration	24.9	27.2	30.2	29.8	36.5	38.7	36.1	38.5	33.6	30.0
Education, Health and Other										
Social	15.9	17.3	21.3	21.3	19.5	24.5	22.2	21.5	24.6	26.8
Defence	7.4	8.6	8.9	9.7	9.9	9.6	9.2	9.1	9.4	11.2
Pensions	1.2	1.8	1.4	1.6	1.8	1.9	2.1	2.3	2.4	2.6
Interest on the Public Debt	0.4	0.8	1.3	1.7	2.0	2.1	2.3	2.7	3.1	3.8
<u>Investment Expenditures</u> 1/	29.4	44.5	50.7	49.4	37.7	24.5	25.9	35.4	20.6	32.2
Equipment	1.1	1.1	1.1	1.1	2.4	0.3	0.2	0.6	-	0.8
Studies and Supervision	1.4	2.8	2.1	3.2	4.4	2.9	0.6	0.5	0.6	-
Roads (incl.some maintenance)	12.8	27.4	35.7	30.9	14.7	7.5	4.9	11.9	9.3	12.4
Other Public Works	9.5	10.8	8.0	9.5	9.6	7.7	9.0	8.9	4.2	8.3
Other 2/	4.6	2.5	3.8	4.8	6.7	6.0	11.2	13.5	6.4	10.5
<u>Total</u>	79.2	100.2	113.9	113.6	107.4	101.4	97.9	109.5	93.7	106.7

* Excluding debt amortization. These data represent obligations incurred, not cash payments actually made.

1/ The division between Current and Investment expenditures is not strict, but indicates orders of magnitude.

2/ Includes "capital transfers" to autonomous agencies. Part of these should be considered as current expenditures.

Source: Banco de Guatemala, Boletín Estadístico.

TABLE 16

GUATEMALA: HOLDERS OF CENTRAL GOVERNMENT DOMESTIC BONDED DEBT 1961-1964

(million quetzales)

Debt outstanding at end of year	1961	1962	1963	1964
Held by:				
Banco de Guatemala	30.2	25.8	37.3	41.5
Institutional Funds ^{1/}	5.6	11.8	11.3	8.0
State Agencies ^{2/}	1.5	0.9	1.4	4.8
Private Sector	4.5	5.4	7.3	11.9
Insurance companies	0.9	1.1	1.3	1.7
Public	3.6	4.3	6.0	10.2
Total outstanding	41.9	43.9	57.3	66.2

^{1/} "Institutional Funds" are government deposits in the Banco de Guatemala held for debt amortization. The funds are invested in government bonds.

^{2/} Includes the 3 state-owned banks, the Social Security Institute, and various autonomous agencies.

Source: Banco de Guatemala.

TABLE 17

GUATEMALA: PUBLIC INVESTMENT 1960/61-1967

(million quetzales)

Fiscal years	1960/1	1961/2	1962/3	1963/4*	1965		1966		1967	
					Plan	Probable	Plan	Probable	Plan	Probable
Roads ^{1/}	5.6	7.8	4.6	7.2	24.3	11	17.3	10	17.8	9
Ports and Airports	2.0	1.3	0.8	1.2	5.7	2	8.1	3	7.3	3
Telecommunications	0.1	-	0.9	1.4	2.9	2	3.3	2	4.2	2
Electric Power	0.5	0.2	2.6	4.2	7.5	4	8.6	5	10.9	6
Agriculture	4.7	7.4	4.2	6.7	11.5	5	13.3	5	16.7	6
Health and Welfare ^{2/}	7.1	5.9	2.0	3.1	5.7	4	6.6	4	8.4	4
Housing	3.1	2.9	2.0	3.1	5.7	3	6.6	4	8.4	4
Education	{ 6.5	7.5	2.5	3.9	6.9	4	8.0	4	10.0	5
Public works					{ 2.9	2	3.4	3	4.2	3
Other	1.3	1.8	1.0	1.4	{					
TOTAL	30.9	34.4	20.6	32.2	57.5	37	66.4	40	83.7	42

* No data available on the transitional period in the second half of 1964.

^{1/} Excludes maintenance, except for purchases of major maintenance equipment.

^{2/} Includes water supply and sewerage.

Source: Actuals and Plan: Planning Council; Projections: IBRD staff estimates.

TABLE 18

GUATEMALA: THE FINANCING OF PUBLIC INVESTMENT AND DEBT REPAYMENT

(million quetzales)

	1960/1	1961/2	1962/3	1963/4	P R O J E C T I O N		
					1965	1966	1967
<u>Financing Required</u>							
Total Public Investment	30.9	34.4	20.6	32.2	37	40	42
Amortization ^{1/}	6.0	8.7	9.1	11.1	17	12	14
Foreign debt	1.2	3.8	2.9	4.7	10	4	4
Domestic debt	4.8	4.9	6.2	6.4	7	8	10
Total Financing Required	36.9	43.1	29.7	43.3	54	52	56
<u>Sources of Financing</u>							
Foreign grants	8.0	11.9	2.6	2.5	2	4	5
Drawings on foreign loans	10.2	0.6	9.6	4.7	15 ^{4/}	13 ^{4/}	12 ^{4/}
Public savings ^{2/}	12.3	10.1	5.7	18.2	37	35	39
Other ^{3/}	6.4	20.5	11.8	17.9			

^{1/} Central Govt. only for period 1960/1-1963/4-autonomous agencies, excluding banks, would not substantially alter data.

For period 1965-67, data differ from debt service tables because latter include borrowing by public sector banks.

^{2/} Public savings are current revenues (Table) less Current expenditures (as shown on Table) less transfers to autonomous agencies (as shown in text Table III).

^{3/} Balancing item. The movements of this item generally agree with the combined movement of the government's floating debt and other internal borrowing (as shown in text Table I). The large increase in 1961/62 is partly explained by a Q8 million increase in the floating debt.

^{4/} Based on drawings on existing loans, plus loans likely to be approved at present pace of project preparation.

Source: Planning Council, Banco de Guatemala, and IBRD staff.

TABLE 19

GUATEMALA: DISBURSEMENTS ON PRINCIPAL FOREIGN DEVELOPMENT CREDITS TO PUBLIC SECTOR*

(million U.S. dollars)

Source	Purpose and amount	Date of Signature or Approval	1962	1963	1964	Undisbursed balance
<u>Highways</u>						
Eximbank	7.5	Aug. 1960	0.5	1.9	1.6	3.6 ^{5/}
"	3.0	Dec. 1960	-	-	-	3.0
DLF/AID	2.1	Jan. 1961	0.1	0.3	0.5	1.3
"	5.4	Jan. 1961	0.4	2.0	1.2	1.8
<u>Power and Utilities</u>						
IDB	3.2	June 1964	-	-	0.2	3.0
IDB	3.5 (water supply)	Aug. 1962	-	0.1	1.1	2.3
<u>Housing</u>						
IDB	5.3	Oct. 1962	-	-	0.1	5.2
<u>Credit to Agriculture and Industry ^{1/}</u>						
Eximbank	5.0	Dec. 1959	0.6	1.1	-	Cancelled
DLF/AID	5.0 ^{2/}	Aug. 1959	0.8	0.2	0.2	3.9
IDB	5.0	Sept. 1961	0.4	1.2	0.4	2.9
"	2.5	Apr. 1963	-	-	0.3	2.2
U.S. commercial banks	21.5 ^{3/}	Various dates	3.9	3.7	1.7 ^{4/}	n.a.

* gross disbursements.

^{1/} Channelled through the Banco de Guatemala, for use by the private sector.^{2/} For rubber production.^{3/} Only loans with at least 3 years' maturity included. The amount shown is the original amount of the lines of credit: not all is necessarily expected to be used.^{4/} January-June only.^{5/} In addition, there is an Eximbank loan of \$4.6 million for port improvement made in June 1964 and not yet used.

Source: Statements of individual agencies, and Banco de Guatemala.

TABLE 20

GUATEMALA: SUMMARY ACCOUNTS OF THE BANKING SYSTEM 1960-1964

(million quetzales)

End of Period	1960	1961	1962	1963	1964
International Assets (net)	47.6	42.6	30.3	40.6	38.0
Bank of Guatemala	50.7	48.3	41.9	48.9	48.3
Other Banks	-3.1	-5.6	-11.6	-8.6	-10.3
Domestic Assets	159.4	172.0	186.1	217.8	255.9
Credit to Public Sector	30.5	37.5	32.3	44.6	55.2
From Bank of Guatemala	(26.6)	(33.2)	(28.8)	(41.0)	(44.8)
Credit to Private Sector	104.2	108.8	112.6	129.5	148.6
From Deposit Money Banks	(79.9)	(87.1)	(95.5)	(108.5)	(127.9)
From State Development Banks	(24.3)	(21.7)	(17.1)	(21.0)	(20.7)
Unclassified Assets	24.8	27.8	41.2	43.8	51.5
Interbank Float	-	0.1	0.1	-	0.6
Total	207.0	216.6	216.4	258.4	293.9
Domestic Liabilities to Private Sector	152.0	156.2	163.4	188.0	215.6
Currency in Circulation	61.5	62.2	62.9	67.0	71.7
Monetary Deposits	41.0	40.9	44.4	52.0	54.5
Quasi-monetary Deposits	31.2	35.6	41.3	51.0	70.6
Deposits in Foreign Exchange	0.1	0.1	0.1	0.1	0.1
Bonds	8.8	7.9	4.4	6.7	7.2
Capital	9.3	9.5	10.1	11.2	11.5
Other Liabilities	55.0	60.4	60.0	70.4	78.3
Public Sector Deposits	18.0	25.1	12.9	28.9	33.5
Official Capital	25.8	22.8	25.9	24.8	27.9
Unclassified Liabilities	10.4	12.5	14.1	16.6	16.9
Interbank Float	0.7	-	-	0.1	-

Source: International Monetary Fund, on basis of balance sheets of Bank of Guatemala and other banks.

TABLE 21

GUATEMALA: PURPOSE OF CREDIT TO THE PRIVATE SECTOR 1/

(million quetzales; loans outstanding at end of year)

	1958	1959	1960	1961	1962	1963	Sept. 1963	Sept. 1964
Cotton	6.8	6.0	6.3	9.5	14.0	18.4	11.9	
Coffee	13.4	10.5	11.9	22.1	15.2	14.0	16.5	
Cattle	10.4	11.7	12.8	10.5	11.6	15.0	13.0	16.0
Other agriculture	7.7	8.1	7.9	10.3	9.7	10.5	10.5	
Total agriculture	38.3	36.3	38.9	52.4	50.5	57.9	51.9	58.3
Commerce	17.5	14.9	16.5	17.3	16.0	17.5	15.1	17.0
Industry and mining	8.8	10.2	10.7	12.8	12.8	16.5	15.4	19.1
Construction	7.3	8.5	9.5	8.2	8.4	8.9	10.9	10.4
Various	23.6	25.3	28.6	18.1	24.9	28.7	22.5	25.9
<u>Total</u>	95.5	95.2	104.2	108.8	112.6	129.5	115.8	130.7

1/ includes credit from the deposit money banks and the state development banks only.

Source: Bank of Guatemala.

TABLE 22

GUATEMALA: WHOLESALE PRICE INDEX IN GUATEMALA CITY 1/

(1950 = 100)

	1957	1958	1959	1960	1961	1962	1963	1964 Nov.
Domestic products	105	106	107	105	104	105	105	110
Food and drink	107	110	111	108	106	109	107	117
Textiles	101	98	98	99	101	99	99	94
Construction materials	103	104	104	102	104	104	104	106
Imported products	110	109	107	109	112	114	114	116
Food and drink	114	114	116	121	131	135	136	139
Fuels	102	100	89	84	81	81	79	77
Wholesale price index	105.2	106.3	107.1	105.7	104.5	106.1	105.6	110.4

1/ The trend of the consumer price index does not, since the mid-fifties, differ significantly from that of the wholesale price index shown here. In 1964, however, consumer prices appear to have risen less than wholesale prices.

Source: Bank of Guatemala, Boletín Estadístico

TABLE 23
GUATEMALA: BALANCE OF PAYMENTS 1956-1963
 (million U.S. dollars)

	1956	1957	1958	1959	1960	1961	1962	1963	Prelim. 1964
Exports f.o.b.	122.5	115.9	107.7	103.9	115.9	114.0	119.0	154.1	167.3
Imports f.o.b.	126.9	136.6	138.1	124.3	124.8	120.6	122.9	150.4	182.5
Trade balance	-4.4	-20.7	-30.4	-20.4	-8.9	-6.6	-3.9	3.7	-15.2
Freight and merchandise insurance	-14.1	-15.0	-15.0	-15.1	-11.8	-12.1	-12.3	-14.2	-17.2
Other transport and travel	0.1	0.6	-0.2	-1.4	-2.7	-0.8	1.0	-9.0	
Investment income	-2.4	-2.1	-3.4	-4.7	-5.0	-6.7	-8.6	-4.7	-3.0
Other services and private transfers	-3.8	-2.4	-0.9	0.5	0.3	2.1	0.2	3.6	
Total net services	-20.2	-18.9	-19.5	-18.7	-16.6	-15.9	-19.7	-24.3	-21.5
Balance on trade and services	-24.6	-39.6	-49.9	-39.1	-25.5	-22.5	-23.6	-20.6	-36.7
U. S. grants	16.8	19.7	11.7	10.5	14.5	14.6	7.9	2.4	2.0
Direct investment	6.9	17.8	14.9	19.5	16.8	7.6	9.3	5.0	8.0
Other private capital (net)	4.0	-0.7	2.3	4.0	2.6	5.6	7.0	18.5	27.1
Loans to public sector (net) ^{1/}	8.4	7.6	4.9	1.1	3.4	-3.5	-4.8	8.8	1.8
Total non-compensatory capital ^{1/}	36.1	45.4	33.8	35.1	37.3	24.3	19.4	34.7	38.9
Errors and omissions	2.7	-2.3	-9.8	-1.8	-6.2	-5.4	-11.0	-6.9	-3.7
Surplus or deficit	14.2	3.5	-25.9	-5.8	5.6	-3.7	-15.2	7.2	-1.5

^{1/} Excludes development loans channelled through the Bank of Guatemala, amounting to \$3.1, 1.9, 2.9 and 3.8 million respectively in 1961-64.

Source: International Monetary Fund, Balance of Payments Yearbook, and IMF staff (1964).

TABLE 24

GUATEMALA: INTERNATIONAL RESERVES
(million U.S. dollars)

End of year	1956	1957	1958	1959	1960	1961	1962	1963	1964
<u>Bank of Guatemala</u>									
Net gold and foreign exchange	68.7	73.2	48.7	43.6	53.2	53.6	42.7	55.9	56.8
1) Gross gold and foreign exchange	69.9	73.8	47.8	40.3	50.2	51.1	46.2	58.6	55.8
2) Net IMF position	1.3	1.3	1.3	3.8	3.8	3.8	-1.2	-0.1	3.8
3) Reserve liabilities ^{1/}	-2.5	-1.9	-0.4	-0.5	-0.8	-1.3	-2.3	-2.6	-2.8
<u>Other Banks</u>									
Net reserves (1-2)	1.4	0.7	0.7	1.2	-0.6	-3.3	-5.4	-6.0	-6.6
1) Foreign assets	2.9	1.8	2.1	2.0	2.0	3.2	2.8	2.5	3.6
2) Reserve liabilities	-1.5	1.1	1.4	0.8	2.6	6.5 ^{2/}	8.2	8.5	10.2
<u>Total net reserves^{3/}</u>	70.1	73.9	49.4	45.8	52.6	50.3	37.3	49.9	50.2

^{1/} Excludes liabilities of the Bank of Guatemala for development loans.

^{2/} The increase in foreign liabilities of the banks after 1960 reflects increasing use of foreign acceptance financing of the cotton and coffee harvests.

^{3/} The slight discrepancy between these data and the reserve movements in Table 23 is due to presentation of the different sources used.

Source: International Monetary Fund.

TABLE 25

GUATEMALA: COMPOSITION OF IMPORTS 1956-1963

(million U.S. dollars c.i.f.)

	1956	1957	1958	1959	1960	1961	1962	1963	Prelim. 1964
<u>Consumer goods</u>	54.7	59.8	63.9	52.2	51.7	50.7	49.3	60.4	69.8
Food and drink	11.1	11.1	11.5	10.1	9.7	9.3	10.9	11.9	
Textiles and clothing	15.3	15.9	16.9	12.2	12.5	12.9	10.1	11.8	
Other consumer non-durables	12.5	14.3	15.6	12.9	12.9	12.5	12.7	16.2	
Automobiles	3.4	4.0	4.2	4.6	3.5	4.0	3.6	5.2	
Other consumer durables	12.5	14.5	15.7	12.5	13.1	12.0	12.0	15.3	
<u>Raw materials</u>	21.7	25.3	26.8	26.8	31.7	33.1	34.5	46.4	50.5
Yarn and fibers	1.7	2.3	2.3	2.4	4.2	4.1	4.5	5.8	
Wheat and flour	3.6	4.2	5.1	5.2	4.3	4.8	4.5	5.3	
Chemicals and fertilizers	7.2	8.8	8.1	8.7	12.0	12.9	13.2	18.5	
Metals	2.8	3.1	3.3	4.1	3.6	3.7	3.1	6.2	
Other raw materials	6.4	6.9	8.0	6.4	7.6	7.6	9.2	10.6	
<u>Capital goods</u>	49.9	50.3	46.4	41.1	40.9	35.4	38.4	44.1	60.4
Construction	11.6	14.4	10.6	9.2	9.6	6.7	8.0	6.3	
Agricultural	8.6	6.0	4.9	3.2	2.8	4.9	5.4	6.2	
Transport (vehicles)	12.7	11.3	11.3	10.0	11.9	8.1	7.5	10.3	
Industrial	7.8	8.3	8.2	9.6	8.3	8.0	9.9	10.3	
Other	9.2	10.3	11.4	9.1	8.3	7.7	7.6	11.0	
Fuels and Lubricants	11.0	11.5	12.3	13.5	13.9	13.4	12.8	13.6	12.6
Various	0.6	0.6	0.7	0.4	0.4	0.9	1.0	1.2	6.2
<u>Total</u>	137.9	147.6	150.1	134.0	138.6	133.6	136.0	165.5	199.7

Source and classification: Bank of Guatemala.

TABLE 26

GUATEMALA: COMPOSITION OF EXPORTS 1950, 1955-64

(Values in million U.S. dollars)

	1950	1955	1956	1957	1958	1959	1960	1961	1962	1963	Prelim. 1964
Coffee	52.8	75.5	91.9	82.3	77.5	74.2	74.6	67.1	67.1	77.1	71.0
Volume (000 quintals)	1,195	1,286	1,358	1,344	1,553	1,804	1,737	1,718	1,791	2,161	1,650
Price (U.S.¢ per lb)	44.2	58.8	67.7	61.2	50.0	41.2	42.9	39.1	37.5	35.7	43.0
Bananas	18.9	14.5	15.1	14.5	13.1	14.6	17.3	13.9	9.5	11.5	8.1
Volume (million stems)	5.1	5.5	5.2	5.3	4.7	5.5	7.3	6.3	4.1	5.3	3.7
Price <u>1/</u> (U.S.\$ per stem)	3.7	2.6	2.9	2.8	2.8	2.7	2.4	2.2	2.3	2.2	2.2
Cotton	-	4.5	5.0	4.2	5.4	4.1	5.8	10.2	15.4	24.4	32.7
Volume (000 quintals)	-	140	171	157	217	226	254	425	632	1,020	1,310
Price (U.S.¢ per lb)	-	32.1	29.0	28.5	26.0	18.3	22.9	24.1	24.3	24.0	25.0
Boned meat	-	-	-	-	-	-	0.2	0.8	3.8	4.4	3.7
Sugar	-	-	-	-	-	0.1	0.1	0.9	3.0	6.1	6.1
Essential oils <u>2/</u>	1.5	1.1	3.3	3.2	1.0	0.7	0.8	1.7	2.9	3.2	2.1
Shrimp	-	-	-	-	-	0.1	0.4	0.5	1.3	1.1	1.0
Chicle	0.7	1.4	1.0	1.1	0.9	1.5	1.9	2.3	1.4	1.1	1.2
Lumber	0.2	0.8	0.6	0.4	0.4	0.5	0.9	0.9	1.1	1.0	1.7
Other <u>3/</u>	4.8	6.8	7.4	10.7	9.1	11.6	14.2	16.9	13.0	24.2	39.6
TOTAL	78.9	104.6	124.3	116.4	107.4	107.4	116.2	115.2	118.5	154.1	167.2

1/ Since the value of banana exports is an estimate, the price is shown only to indicate the general trend, not actual prices.

2/ Lemon grass oil and citronella oil. 1950 and 1955 data are unadjusted.

3/ Includes among others, soluble coffee, honey, seed and seedlings, fruits and vegetables (\$2.8 million in 1963), cacao, cottonseed, tin concentrates, beverages, plywood, paperbags, tires, and various other manufactured products.

Source: Direccion General de Estadistica, and Bank of Guatemala.

TABLE 27

GUATEMALA: TERMS OF TRADE 1955-1964

(1958 = 100)

	Export prices	Coffee	Bananas	Import Prices	Terms of Trade
1955	122	118	112	92	133
1956	138	134	107	94	147
1957	126	123	99	100	126
1958	100	100	100	100	100
1959	84	83	94	98	86
1960	86	86	81	99	87
1961	82	79	78	103	80
1962	82	75	101	105	78
1963	77	72	84	105	73
1964	n.a.	92 ^{1/}	84 ^{1/}	107 ^{2/}	n.a.

^{1/} Second quarter only.

^{2/} First nine months only.

Source: International Financial Statistics

TRENDS AND PROSPECTS IN MAIN AGRICULTURAL PRODUCTS

Export Products

1. Coffee has been Guatemala's traditional export. As in Costa Rica and El Salvador, production increased rapidly in the late fifties and early sixties as producers tried to make up for lower prices. The dissemination of better cultivation methods and the wider use of fertilizer was made easier by the fact that some 2,200 producers make up 80 percent of production. The National Coffee Producers Association maintains its own extension service of 30 agronomists and middle-level technicians. There is still plenty of room to increase yields, since it is estimated that so far about one-third of the area under coffee is scientifically managed. If recent improvements in yields continue, production is likely to increase rapidly in the remainder of the decade. The Bank of Guatemala has since 1957 attempted to discourage coffee expansion by refusing to rediscount loans for the expansion of the area under coffee. The authorities are trying to encourage diversification out of coffee: for this purpose, a four-year \$1 million study with financial assistance from the UN Special Fund was begun in October 1964. The study will focus on economically marginal areas (mostly the highest and lowest altitude areas) and study the possibilities for products to substitute coffee in those areas.

2. Coffee production has risen from about 1.5 million 60 kg. bags in 1958/59 to a record 2.1 million bags in 1962/63, and about 2 million in 1963/64. About two-thirds of this increase is the result of a rise in yields. The 1964/65 harvest will only reach about 1.6 million bags, due to an unusually dry spring and a leaf-miner epidemic. After domestic consumption of about 300,000 bags, this would leave 1.3 million for export, well within Guatemala's revised 1964/65 quota of 1.37 million bags under the International Coffee Agreement. Partly as a result of the lower harvest, and a delayed picking season, exports in the last quarter of 1964 were unusually small, with the result that the total volume exported in calendar 1964 (1.26 million bags) represented a sharp drop from the 1963 level (1.62 million bags). The drop was partly made up by the higher coffee prices prevailing since the end of 1963: the value of coffee exports fell from \$77 million in 1963 to \$71 million in 1964. If, as is likely, the leaf-miner epidemic is successfully controlled, the 1965/66 harvest is likely to be about 2 million bags. On this basis, exports in calendar 1965 could reach 1.6 million bags or more. Exports by 1970 could well reach 1.9 million bags, out of a total production of some 2.3 million bags. It is nevertheless difficult to forecast actual exports for 1965 and beyond because Guatemala is likely to have a substantial surplus above its likely quota under the International Coffee Agreement. Exports to "new markets", which are outside the quota, have been small: the authorities are at present investigating the possibilities of the Japanese market. On the whole, it would be unsafe to assume more than a very moderate growth of the volume of coffee exports to about 1.65 million bags by 1970. On this basis, and with prospects for a moderate drop in

coffee prices in the next five years, coffee cannot be expected to provide a major stimulus to economic growth after 1965.

3. The remarkable growth of cotton production is the most salient feature of agricultural development in recent years, starting in 1961. The rapid expansion, entirely engineered and carried out by the private sector, was stimulated in part by the improved accessibility and plentiful availability of the Pacific coastal lands, where (as in similar areas of El Salvador and Nicaragua) climate and soil conditions are excellent for short-staple cotton. Another factor no doubt was the uncertain prospect for coffee prices. The expansion has taken place on newly-cleared lands, pasture land, and former properties of the United Fruit Co. which have been sold as the company transferred its banana operations to the Atlantic coast. Yields in Guatemala are among the highest in the world: costs of production have risen somewhat but more scientific management of insecticide spraying could reverse or limit the effects of higher costs. With the excellent natural conditions for production, Guatemala is likely to continue expanding cotton production. Land is the chief limiting factor, beyond a production of about 500,000 bales, although moderate price declines could limit the expansion. If prices remain at about their present level or slightly lower, Guatemala could reach a production of 450,000 bales in 1969/70. Thereafter, production is likely to level off.

Guatemala: Cotton Production and Exports

(thousand bales of 480 lbs.)

Crop year	Average 1950/51-1953/54	Average 1957/58-1960/61	1961/2	1962/3	1963/4	Est. 1964/5
Production	15	76	145	242	300	325
Domestic consumption	11	16	25	30	30	n.a.
Exports	3	60	115	212	270	n.a.

Source: US Department of Agriculture, and International Cotton Advisory Committee.

4. Bananas are the third most important export product, but are declining in importance. In July 1964, the United Fruit Company made its last shipment from the Pacific coast: its operations are now concentrated on the Atlantic coast. Shipments fell from 6.3 million stems in 1961 to 3.5 million in 1964 as a result of bad weather and disease. They are likely to fall further to about 2.3 million stems in 1965. Beyond 1965, shipments could rise back to about 6 million stems in 1970 if the expansion program now under way is fully carried out. With market uncertainties,

however, recovery may be slowed down. The Atlantic coast operation is exclusively devoted to disease-resistant varieties.

5. Guatemala has a number of minor agricultural products which might in time help to diversify exports further. Guatemala has for many years exported essential oils (made from citronella and lemon grass) which are used as basis for perfume manufacture. The development of synthetic substitutes poses uncertainties for the future, but synthetics are still expensive and have been developed in part because of the irregularity of supplies from traditional producers in Southeast Asia. Guatemala, which supplies about one-quarter the present demand for natural essential oils, has the advantage over these suppliers of relatively large production units, and of an effective marketing organization. The Government is allocating revenue from an export tax for a research program to cut costs. The program has good chances of success, and Guatemala could substantially increase its production, at present about 1,600 tons (3.5 million lbs. amounting to \$3.2 million of exports in 1963). With a rapidly growing world demand, Guatemala could conceivably reach exports of 8 or 9 million lbs. in five years, amounting to about \$7-8 million at prevailing prices.

6. Due to climate and altitude, Guatemala possesses good possibilities for expanding fruit and vegetable production for export to other Central American countries. With quality control and a better organization of production, exports could rise substantially above their 1963 level of \$2.8 million. The authorities are considering a supervised credit program for this purpose. Exports of chicle, which grows wild in the Peten, are not likely to increase in the foreseeable future. Guatemala possesses large forest resources, both of hardwoods and pine. These could in time form the basis for a number of possible industries; a forest survey of part of the Peten region is being carried out with UN Special Fund financial assistance and should enable the authorities to take preliminary decisions on necessary infrastructure requirements once the survey is completed in 1966.

Products Primarily for the Domestic Market

7. Corn is the staple of the Guatemalan diet. Its cultivation is the chief source of rural employment and occupies over half of the area at present under cultivation. Over the last decade, corn production has barely kept up with population, although in the last three years production appears to have grown somewhat faster, possibly because of good weather, and the increased availability of credit from the supervised credit program of SCICAS and other official sources. Price supports have not been a factor encouraging production: the support price is low compared to prevailing market prices (which in any case show considerable seasonal variations, well above the support price) and to international prices. However, the pronounced seasonal price variations are likely to have discouraged expansion. INFOP's total storage capacity, virtually the only storage available in the country for grains, covers only about 3 percent of corn production. A program of construction is under consideration to expand the storage capacity to about 10 percent of present production:

it should enable the authorities to stabilize prices seasonally, if complemented with local or on-the-farm storage.

8. Prospects for corn production could be significantly improved in the next few years if corn production were developed on large estates on the Pacific coast; some cotton producers have shown interest in the possibilities for large-scale high-yield corn cultivation, although there is enough land still available so that it need not necessarily take place for the time being at the expense of cotton. Without such re-orientation, production over the next few years is unlikely to increase faster than population, unless an effective price stabilization program can be devised for highland producers.

9. Trends in other staple foodstuffs vary. Rice production has increased moderately in recent years, but Guatemala is not yet self-sufficient in rice. Guatemala is barely self-sufficient in beans, the second most important item in the popular diet: the primitive and small-scale conditions of cultivation make the introduction of better practices difficult. The high support price for soft wheat enforced upon the millers by the Government has, together with supervised credit, resulted in a significant rise in output: Guatemala imports hard wheat but the soft wheat program, which is being expanded, has an important social value for the higher upland areas, where few other products can be grown.

10. Guatemala has since 1961 become an exporter of boned beef to the United States. Meat exports reached \$4.4 million in 1963. This performance has been based in part on imports of Honduran cattle on the hoof, but also on an increase in domestic production, especially on large Pacific coast estates. A determining factor was the increased availability of medium-term credit channelled through the Bank of Guatemala from abroad. Production can be expected to grow rapidly in the next few years, but, with the existing U.S. meat import legislation, under which quotas could be placed on meat exports by Central America, exports cannot be expected to grow more than slowly unless shipments are made to new markets such as Western Europe. The very low level of popular nutrition should give ample room for an increase in domestic per capita meat consumption, although present prices may not be sufficiently encouraging to producers and may at the same time place the product beyond the reach of the wider consuming public.

11. Under the stimulus of purchases by the United States, sugar production has increased rapidly from about 93,000 short tons in 1960/61 to 170,000 short tons in 1963/64. Most of this increase has gone into exports, which rose from 6,700 short tons in 1960 to 51,500 tons in 1963. Domestic consumption has risen rapidly, although per capita consumption remains low compared to other Central American countries. Guatemalan producers should within a few years supply a domestic consumption of 150,000 short tons, and exports of about 50,000 short tons. In view of the present prospects for prices on the world market, Guatemala will have to rely almost entirely on the United States market for its sugar exports. With present production costs and the controlled internal minimum retail

price of US7.5 cents/lb., it is doubtful if an average external price much below US5.0 cents/lb. would prove attractive for exports.

12. Guatemala possesses excellent natural conditions for the production of natural rubber. With the help of government and private experimental stations, a rapid increase in acreage is taking place. Financing for the expansion comes partly from the planters themselves (some are coffee producers from lower tropical marginal areas) and from a \$5 million US Government loan, channelled through the Bank of Guatemala and INFOP. Production is at present small (about 2,000 tons) and supplies only a fraction of the needs of the local tire factory. 23,000 acres are planted, and plans are under way for a further expansion. Production is expected to reach 24,000 tons by 1972, a level likely to leave a surplus for export. Production costs are reportedly low enough to make the possibility of exports attractive, even at lower prices than those now prevailing.

THE REVISED NATIONAL ACCOUNTS

1. The new national accounts recently completed by a joint team of the Bank of Guatemala, the Planning Council and the U. N. Economic Commission for Latin America, show a substantially higher income than the previous accounts, which were largely based on estimates made by a team* from the U. S. Federal Reserve Board for 1947-48. The old accounts showed a Gross Domestic Product at current prices of Q679 million for 1961; under the new accounts, this has become Q1,067 million. The new accounts have not substantially altered the rate of growth of GDP, GNP or national income. The substantially higher income level resulting from the new accounts is largely the result of a revision of the product of agriculture, commerce and "other services" (including real estate rent). The following data for 1958^{1/} show the extent of the change:

Guatemala: Sector Origin of GDP, 1958
(million quetzales, current prices)

	Old series	Revised series
Agriculture	210	285
Manufacturing and mining	125	125
Construction	27	32
Public Utilities	5	6
Transport and communications	43	49
Commerce	60	265
Banking and insurance	17	14
Public administration	78	57
Other services	83	138
TOTAL	647	971

Virtually the whole of these increases has been reflected in an increase in estimated private consumption expenditures, from Q513 million under the old accounts for 1958 to Q808 million under the new accounts. The new accounts thus reflect a much higher estimate of the value of production and commerce originating in the subsistence sector of the economy. It is difficult to evaluate the accuracy of such estimates, although it is probable that over time the old series came to underestimate the contribution of agricultural production in the subsistence sector.

^{1/} Year chosen because the new sector accounts are based on 1958 prices.

* J. H. Adler, E. R. Schlesinger and E.C. Olson.

2. The increase in production (almost all in agriculture) shown in the new series is not of such a size as to justify the extremely large increase in the estimate of "commerce". In relation to other Central American countries, the ratio of commerce to agricultural and manufacturing production appears to be very high indeed, and is probably overestimated. If, however, the new series is approximately correct, the implication would be that the Indian population is much less poor than has generally been thought. The per capita income in this sector might then be closer to Q200 than Q100. If this is true, one way to raise the low level of the tax effort - which amounts to about 8 per cent of GNP at present - would be through a much more broadly-based tax system. At present, the tax system largely bypasses the subsistence sector except for some indirect taxes, such as those on liquor - which are in any case probably evaded to a significant extent in the countryside.