

OFFERING MEMORANDUM

***US\$300,000,000***



***Republic of Guatemala***

**9¼% NOTES DUE 2013**

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**Interest payable on February 1 and August 1**

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The notes will mature on August 1, 2013. The notes will bear interest at a rate of 9¼% per year, accruing from August 1, 2003. The first interest payment will be on February 1, 2004.

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The notes will be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic and will rank equally with all other existing and future unsubordinated and unsecured public external indebtedness of the Republic. The notes will be backed by the full faith and credit of the Republic.

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For a more detailed description of the notes, see "Description of the Notes" beginning on page 96.

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Application has been made to list the notes on the Luxembourg Stock Exchange.

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**PRICE 100% AND ACCRUED INTEREST, IF ANY**

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The notes have not been registered under the U.S. Securities Act of 1933 or the securities laws of any other jurisdiction and are being offered only (1) to qualified institutional buyers under Rule 144A of the Securities Act and (2) outside the United States in compliance with Regulation S of the Securities Act. For a description of certain restrictions on transfer, see "Transfer Restrictions" beginning on page 109.

UBS Securities LLC expects to deliver the notes to purchasers on August 1, 2003. The Republic expects that delivery of the notes will be made to purchasers in book-entry form through the Depositary Trust Company, the Euroclear System and Clearstream Banking, société anonyme on or about August 1, 2003.

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*sole bookrunner*

**UBS INVESTMENT BANK**

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July 29, 2003

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**This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any notes by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder will under any circumstances imply that there has been no change in the affairs of the Republic or that the information contained in this offering memorandum is correct as of any date subsequent to the date hereof.**

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This offering memorandum has been prepared by the Republic solely for use in connection with the proposed offering of the notes. This offering memorandum does not constitute an offer to the public generally to subscribe for or otherwise acquire securities. Each prospective purchaser, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no photocopies of this offering memorandum or any documents referred to herein.

Each prospective purchaser of notes acknowledges that (1) it has been afforded an opportunity to request from the Republic and to review, and has received, all additional information considered by such purchaser to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum, (2) it has not relied on UBS Securities LLC (the “Initial Purchaser”) or any person affiliated with the Initial Purchaser in connection with its investigation of the accuracy of this information or its investment decision and (3) no person has been authorized to give any information or to make any representation concerning the Republic or the notes other than as contained in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by the Republic or the Initial Purchaser.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS OFFERING, PROSPECTIVE PURCHASERS AND PURCHASERS (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF THE PROSPECTIVE PURCHASER OR PURCHASER) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF (I) THE OFFERING AND (II) ANY OF ITS TRANSACTIONS, AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE PROSPECTIVE PURCHASERS OR PURCHASERS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF THE FIRST DISCUSSIONS BETWEEN THE REPUBLIC AND ITS REPRESENTATIVES AND THE PROSPECTIVE PURCHASERS OR PURCHASERS REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.

IN MAKING AN INVESTMENT DECISION, EACH PROSPECTIVE PURCHASER MUST RELY ON ITS OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE NOTES HAVE NOT BEEN RECOMMENDED BY ANY U.S. OR

NON-U.S. FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THESE AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933. Accordingly, the notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Each prospective purchaser should be aware that it may be required to bear the financial risks of this investment for an indefinite period of time. See "Transfer Restrictions."

All applicable provisions of the Financial Services and Markets Act 2000 must be complied with in respect of anything done in relation to the notes in, from or otherwise involving the United Kingdom.

Each prospective purchaser of notes must comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes, and it must obtain any required consent, approval or permission for the purchase, offer or sale by it of the notes under the laws and regulations applicable to it in force in the jurisdiction to which it is subject or in which it makes those purchases, offers or sales. Neither the Republic nor the Initial Purchaser have any responsibility therefor. See "Transfer Restrictions."

The Republic, having made all reasonable inquiries, confirms that this offering memorandum contains all information that is material in the context of the issue of the notes, that the information contained in this offering memorandum is true and accurate in all material respects, and that there are no other facts the omission of which makes this offering memorandum as a whole or any such information misleading in any material respect. The Republic accepts responsibility accordingly.

The Initial Purchaser is not making any express or implied representation or warranty as to the accuracy or completeness of the information contained in this offering memorandum. The Initial Purchaser has not independently verified any information contained in this offering memorandum and assumes no responsibility for the accuracy or completeness of this information. Nothing contained in this offering memorandum is, or will be relied upon, as a promise or representation, whether as to the past or to the future.

The Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

Neither the Republic nor the Initial Purchaser, nor any of their representatives, is making any representation regarding the legality of an investment by it under appropriate legal investment or similar laws. Each prospective purchaser should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the notes.

Each prospective purchaser of notes should rely only on the information contained in this offering memorandum. The Republic has not authorized any person to provide any prospective purchaser of notes with information different from that contained in this offering memorandum. The Republic is offering to sell the notes only where offers and sales are permitted. The information contained in this offering memorandum is accurate only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or of any sale of the notes.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW**

**HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## CERTAIN DEFINED TERMS AND CONVENTIONS

### Certain Defined Terms

All references in this offering memorandum to “Guatemala” or the “Republic” are to the Republic of Guatemala, and all references to the “Government” are to the national government of Guatemala and its authorized representatives.

One *quintal* is a unit of weight equal to 100 pounds.

The terms set forth below have the following meanings for the purposes of this offering memorandum:

- Gross domestic product (GDP) is a measure of the total value of final products and services produced in a country in a specific year. Nominal GDP measures the total value of final production in current prices. Real GDP measures the total value of final production in constant prices of a particular year, which allows for comparisons of historical GDP that exclude the effects of inflation. In this offering memorandum, real GDP figures are based on constant 1958 prices, the year used by *Banco de Guatemala* for purposes of maintaining real GDP statistics. GDP growth rates and growth rates for the various sectors of the Guatemalan economy are based on real figures, unless otherwise indicated. *Banco de Guatemala* is the Central Bank of the Republic and is referred to in this offering memorandum as the “Bank of Guatemala”.
- For balance of payments purposes, imports and exports are calculated based upon statistics reported to the Republic’s customs authorities upon entry and departure of goods into and out of Guatemala. Exports are calculated on a free-on-board (FOB) basis at a given point of departure. Imports are calculated on a cost, insurance and freight (CIF) basis at a given point of arrival.
- An inflation rate provides an aggregate measure of the rate of change in the prices of goods and services in the economy. The Republic measures the inflation rate by the percentage change between two periods in the consumer price index. The consumer price index is based on a basket of goods and services identified by the *Instituto Nacional de Estadística* (National Institute of Statistics, or INE) that reflects the pattern of consumption of Guatemalan households. The price for each good or service that makes up the basket of goods and services is weighted according to its relative importance in an average household’s consumption pattern in order to calculate the consumer price index. The annual percentage change in the consumer price index is calculated by comparing the index as of a date against the index for the corresponding date in the prior year. Since January 1, 2001, the consumer price index has been calculated using information from eight geographic regions or departments where the 15 largest cities in Guatemala are located and a basket of 422 goods and services. Previously, the index was calculated using information from Guatemala City only and a basket of 212 goods and services. The Republic does not compile statistics to calculate a producer price index or a wholesale price index, which are other indices often used by certain countries to measure inflation.

### Currency of Presentation and Exchange Rates

Unless otherwise indicated, references to “U.S. dollars,” “dollars” and “US\$” are to United States dollars, and references to “*quetzales*” and “Q” are to Guatemalan *quetzales*. Unless otherwise indicated, we have converted *quetzales* into dollars, and dollars and other foreign currencies into *quetzales*, for each year based upon the *quetzal*/U.S. dollar exchange rate for the purchase of U.S. dollars by the Bank of Guatemala, which is referred to as the official *quetzal*/U.S. dollar exchange rate, on December 31, 2002 of Q7.77485 per US\$1.00. Currency conversions, including conversions of *quetzales* to U.S. dollars, are solely for the convenience of the reader. These conversions are not a representation that the amounts in question have been, could have been or could be converted into any other currency, at any particular rate or at all.

On July 28, 2003, the official *quetzal*/U.S. dollar exchange rate was Q7.89695 per US\$1.00. See “Balance of Payments and Foreign Trade—Exchange Rate Policy and Foreign Exchange Rates.”

## **Presentation of Financial and Economic Information**

The Republic has presented all annual information in this offering memorandum based upon January 1 to December 31 years, unless otherwise indicated.

Certain financial and economic information presented in this offering memorandum may be subject to routine revision and possible adjustment. In particular, some information and data for 2001 and 2002 are preliminary and are subject to revision or adjustment as additional or amended information may become available. We have identified such information and data as “preliminary” in this offering memorandum. The Government believes that this review process is substantially similar to the practices of other industrialized nations. The Government does not currently expect that any such revisions or adjustments will be material, although no assurances may be given that material changes will not be made or that information provided will be complete.

Totals in some tables in this offering memorandum may differ from the sum of individual amounts in those tables due to rounding.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Forward-looking statements are statements that are not historical facts, including statements about the Republic's beliefs and expectations. These statements are based on current plans, estimates and projections, so you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made. The Republic undertakes no obligation to update any of these statements in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. The Republic cannot assure you that actual events or results will not differ materially from any forward-looking statements contained in this offering memorandum. A number of important factors could cause actual results to differ materially from the Republic's expectations. These factors include, but are not limited to:

- adverse external factors, such as:
  - international geo-political tensions and uncertainties;
  - changes in the international prices of commodities and/or international interest rates, which could increase the Republic's current account deficit and budgetary expenditures;
  - economic conditions in the United States and in other Central American countries;
  - changes in import tariffs and exchange rates, recession or low economic growth affecting the Republic's trading partners or other countries, all of which could negatively affect Guatemalan exports and imports, reduce the growth or the level of income from tourism, reduce the growth rate or induce a contraction of the economy and, indirectly, reduce tax revenues and other public sector revenues, with the result of adversely affecting the Republic's fiscal accounts;
  - changes in the level of foreign aid or other external support provided by the United States or other countries;
  - increased costs of crude oil resulting from political or social instability or armed conflict in oil producing states, such as Venezuela and countries in the Middle East; and
  - a decrease in the rate of growth of remittances from Guatemalans living and working abroad;
- adverse domestic factors, such as lower-than-expected fiscal revenues, which could induce higher domestic interest rates and an appreciation or depreciation of the *quetzal* and which could also lead to lower economic growth, changes in exports or imports, declines in income from tourism or decreases in the Bank of Guatemala's international reserves; and
- other adverse factors including climatic or internal or external political events.



## ENFORCEMENT OF CIVIL LIABILITIES

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize in the United States or elsewhere upon judgments against the Republic. To the fullest extent permitted by applicable law, the Republic will irrevocably submit to the non-exclusive jurisdiction of any New York state or U.S. federal court sitting in The City of New York, and any appellate court thereof, in any suit, action or proceeding arising out of or relating to the notes, and the Republic will irrevocably agree that all claims in respect of any such suit, action or proceeding may be heard and determined in any such New York state or U.S. federal court. The Republic will irrevocably waive, to the fullest extent that it may effectively do so, the defense of an inconvenient forum to the maintenance of any suit, action or proceeding and any objection to any proceeding whether on the grounds of venue, residence or domicile. To the extent that the Republic has or hereafter may acquire any sovereign or other immunity from the jurisdiction of such courts with respect to any suit, action or proceeding arising out of or relating to the notes offered hereby or the Republic's failure or alleged failure to perform any obligations under the notes (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise), the Republic will, to the fullest extent permitted under the U.S. Foreign Sovereign Immunities Act of 1976 and other applicable law, irrevocably waive such immunity in respect of any such suit, action or proceeding; *provided, however*, that under the U.S. Foreign Sovereign Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment. In addition, under the laws of Guatemala, the property and revenues of the Republic inside Guatemala are exempt from attachment or other form of execution before or after judgment. See "Description of the Notes—Governing Law" and "—Submission to Jurisdiction."

Notwithstanding the preceding paragraph, the Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under the U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic with respect to such actions, it would not be possible to obtain a judgment in such an action brought in a U.S. court against the Republic unless such court were to determine that the Republic is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such action. In addition, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment. Execution upon property of Guatemala located in the United States to enforce a U.S. judgment may not be possible except under the limited circumstances specified in the U.S. Foreign Sovereign Immunities Act.

## SUMMARY

*The following summary may not contain all the information that may be important to you. Investors should read the entire offering memorandum carefully before making an investment decision.*

### SELECTED ECONOMIC INFORMATION (in millions of US\$ or Q, except as otherwise indicated)

	1998	1999	2000	2001	2002 <sup>(1)</sup>
<b>Domestic Economy:</b>					
Nominal GDP <sup>(2)</sup> .....	US\$19,358.4	US\$18,328.2	US\$19,310.9	US\$20,990.5	US\$23,290.9
Nominal GDP .....	Q 124,022.5	Q 135,287.0	Q 149,743.0	Q 164,794.8	Q 181,945.1
Real GDP .....	4,715.5	4,896.8	5,073.6	5,192.0	5,308.6
Real GDP growth rate <sup>(3)</sup> .....	5.0%	3.8%	3.6%	2.3%	2.2%
Inflation rate <sup>(4)</sup> .....	7.5%	4.9%	5.1%	8.9%	6.3%
Open unemployment rate <sup>(5)</sup> .....	1.8%	1.8%	1.4%	N/A	3.2%
Exchange rate (Q per US\$1.00): <sup>(6)</sup>					
Average daily exchange rate for the year .....	Q 6.40664	Q 7.38138	Q 7.75431	Q 7.85091	Q 7.81185
Year end .....	6.84284	7.79230	7.72016	7.97868	7.77485
<b>Balance of Payments:</b>					
Total current account .....	US\$ (997.2)	US\$(1,015.0)	US\$(1,049.0)	US\$(1,252.9)	US\$(1,193.0)
Of which:					
Trade balance .....	(1,803.3)	(1,778.7)	(2,086.4)	(2,746.6)	(3,449.5)
Services balance .....	100.8	48.9	172.0	496.9	298.1
Private transfers .....	705.3	714.8	865.4	996.8	1,958.4
Of which:					
Remittances .....	423.2	438.6	524.3	571.3	1,503.7
Foreign aid .....	277.6	272.6	337.0	405.7	440.2
Total capital account .....	1,239.8	889.6	1,703.4	1,726.7	1,214.8
Of which:					
Total private capital, net .....	904.6	414.7	1,470.3	1,424.4	1,031.2
Change in international reserves <sup>(7)</sup> .....	242.6	(125.4)	654.3	473.8	21.8
Bank of Guatemala net international reserves at end of period .....	1,345.1	1,219.7	1,874.1	2,347.9	2,369.7
<b>Public Sector Finance:<sup>(2)</sup></b>					
Government revenue .....	US\$ 2,000.3	US\$ 2,021.8	US\$ 2,123.9	US \$2,320.7	US\$ 2,659.0
As a % of nominal GDP .....	10.3%	11.0%	11.0%	11.1%	11.4%
Government expenditures .....	US\$ 2,408.5	US\$ 2,531.4	US\$ 2,464.3	US\$ 2,714.4	US\$ 2,885.5
As a % of nominal GDP .....	12.4%	13.8%	12.8%	12.9%	12.4%
Government deficit .....	US\$ (408.2)	US\$ (509.6)	US\$ (340.4)	US\$ (393.7)	US\$ (226.5)
As a % of nominal GDP .....	(2.1)%	(2.8)%	(1.8)%	(1.9)%	(1.0)%
Consolidated public sector surplus/(deficit) .....					
As a % of nominal GDP <sup>(8)</sup> .....	(1.8)%	(2.9)%	(2.2)%	(2.3)%	(0.8)
<b>Public Sector Debt:</b>					
External debt <sup>(9)</sup> .....	US\$ 2,198.4	US\$ 2,284.9	US\$2,352.2	US\$ 2,702.2	US\$2,907.2
As a % of nominal GDP .....	11.4%	12.5%	12.2%	12.9%	12.5%
Internal debt <sup>(10)(11)(12)</sup> .....	US\$ 914.7	US\$ 1,001.9	US\$1,118.1	US\$1,163.3	US\$1,050.6
Internal debt <sup>(11)(12)</sup> .....	Q 6,259.4	Q 7,807.1	Q 8,631.6	Q 9,281.5	Q 8,168.6
As a % of nominal GDP .....	5.0%	5.8%	5.8%	5.6%	4.5%
Total debt <sup>(12)</sup> .....	US\$ 3,113.1	US\$ 3,286.8	US\$3,470.3	US\$3,865.5	US\$3,957.8
As a % of nominal GDP .....	16.1%	17.9%	18.0%	18.4%	17.0%
<b>Public Sector External Debt Service:</b>					
Amortization .....	US\$ 98.7	US\$ 104.0	US\$112.1	US\$140.8	US\$150.9
Interest payments .....	82.0	103.3	119.5	124.6	155.8
Total external debt service .....	180.7	207.3	231.6	265.4	306.7
As a % of total exports .....	6.3%	7.5%	7.5%	9.3%	11.7%

(1) Preliminary data.

(2) Translated from Q to US\$ at the average daily exchange rate for the year.

(3) Percentage change from previous year based on millions of *quetzales*.

(4) Percentage change of the consumer price index year over year.

(5) Rate of unemployed persons as a percentage of the economically active population.

(6) Exchange rates for transactions in the market involving purchase of dollars by Guatemalan banks as reported by the Bank of Guatemala.

(7) Represent the results of the balance of payments.

(8) Percentages are based on estimates provided to the Republic by the International Monetary Fund (IMF). The IMF has not provided to the Republic estimates for 2002. Estimates for 2002 were provided by the Ministry of Public Finance.

(9) External debt is defined as all public sector foreign-currency denominated debt, held by any person, other than Guatemalan residents.

(10) Translated from Q to US\$ at the daily official exchange rate at the end of each year.

(11) Excludes intra-governmental debt.

(12) The Government has no legal or other obligations to repay debt of the Bank of Guatemala and therefore amounts do not include debt of the Bank of Guatemala. As of March 31, 2003, the Bank of Guatemala's external debt was US\$79.9 million and its internal debt totaled approximately US\$1,729.4 million. See "Public Sector Debt—Debt of the Bank of Guatemala".

N/A = Not available.

Source: Bank of Guatemala, Ministry of Public Finance and IMF.

## REPUBLIC OF GUATEMALA

### Economy

Guatemala has the largest economy in Central America, with an estimated GDP of US\$23,290.9 million in 2002. The economy has expanded steadily in recent years, growing at a real rate of 5.0% in 1998, 3.8% in 1999, 3.6% in 2000, 2.3% in 2001 and an estimated 2.2% in 2002.

Over the last five years, Guatemala's economy has been characterized by:

- continued growth;
- low inflation;
- a stable foreign exchange rate;
- relatively small public sector fiscal deficits; and
- low external and internal public sector debt levels.

The rate of growth of the economy increased in 1998, but declined in 1999 primarily due to the effects of Hurricane Mitch on the agricultural, livestock, fishing and forestry sector (which we refer to as the "agricultural sector") and lower worldwide coffee prices. The decline in the years after 1999 was the result of lower economic growth in the United States and the rest of Central America, which are Guatemala's main trading partners, as well as lower worldwide coffee prices.

Economic activity in Guatemala is principally driven by the private sector. The Government has historically played a limited role in the economy, with public administration and defense spending together constituting approximately 7.5% of GDP in 2002 compared to 7.4% in 1998. The agricultural sector is a major component of the Guatemalan economy, accounting for approximately 22.5% of GDP in 2002 and approximately 35.3% of the country's export revenues.

Guatemala's balance of payment accounts and foreign currency inflows are favorably influenced by remittances from Guatemalans living and working abroad. In 2002, remittances from Guatemalans working and living abroad increased to US\$1,503.7 million compared to US\$571.3 million in 2001. This increase was primarily a result of lower fees charged by currency transfer companies in the United States, fewer Guatemalan legal restrictions on transfers, and the downturn in the Guatemalan agricultural sector.

Guatemala's economy is affected by external events. The current worldwide economic slowdown, war with Iraq, terrorist threats, arms buildup in North Korea, popular unrest in Venezuela and other events have caused uncertainty and volatility in the United States and the international economies and financial markets. The United States and other countries to which Guatemala exports continue to experience an economic downturn. The Republic cannot predict what future effects these events or others may have on these economies and financial markets or on Guatemala, including on exports and imports, remittances, tourism, regional trade integration and the Guatemalan economy generally.

### Elections

Presidential, congressional and municipal elections are scheduled for November 9, 2003. The Guatemalan Constitution provides that any person who has been elected President or that assumes the presidency through a military coup is not eligible to run again for such office. As of July 27, 2003, no candidates had officially registered and the official deadline for registration is August 31, 2003. Several new political parties are still in the process of registration. Electoral authorities have not objected to the presence of international observers during the 2003 election.

The candidacy of General Efraín Ríos Montt, who was president of Guatemala between 1982 and 1983, has been met by controversy and legal opposition. On July 14, 2003, the Constitutional Court of Guatemala, the highest court in Guatemala ruling on constitutional matters, based on a constitutional provision that provides that laws cannot be applied retroactively, ruled in favor of Ríos Montt's candidacy for the presidency, despite the rulings of

the Guatemalan election court and the Supreme Court of Justice, against such candidacy. These developments have been met by controversy and criticism of the Government by various social and human rights groups and to violent protests in Guatemala City on July 24 and 25, 2003 by supporters of Ríos Montt. See “Republic of Guatemala—Elections”. The Government cannot assure that General Ríos Montt’s candidacy or actions by his supporters will not lead to further social unrest or political instability or that it will not adversely affect relations with the United States and other countries.

### **Recent Developments**

On January 31, 2003, U.S. President George W. Bush, based upon the recommendation of the U.S. Department of State, “decertified” Guatemala for having, in the opinion of the U.S. executive branch, “failed demonstrably” to take measures to combat international illicit drug trade during 2002. Any country that is decertified becomes, absent a waiver, ineligible to receive many types of U.S. foreign aid and also could be barred from participating in, or receiving benefits from, certain U.S.-sponsored or supported programs or initiatives. President Bush determined that the continued provision of U.S. assistance to Guatemala was “vital to the national interests of the United States” and waived the consequences of decertification in the case of Guatemala. Since the date of Guatemala’s decertification, the Government has taken several measures to further combat illicit drug trade. Such measures include the increased seizure of cocaine and the signing of a cooperation agreement with the United States. See “Republic of Guatemala—Recent Decertification of Guatemala by President Bush”.

Guatemala continues to be affected by political, social and other problems and conditions that could threaten the country’s economic performance, financial position and political and social stability. See “Republic of Guatemala—Political, Social and Other Problems Affecting Guatemala”.

### **The Peace Program**

In 1996, the Government reached a peace agreement with the country’s internal revolutionary movement after 36 years of armed conflict. The Government’s undertakings under the peace agreements form the foundation of the *Programa de Paz* (Peace Program), which requires a significant investment in human, economic and infrastructure development and significantly higher levels of public expenditures. In 1997, 25 countries and 22 international financial institutions, including among others the World Bank, the Inter-American Development Bank (IDB), and the IMF, commonly referred to as the “Guatemala Consulting Group”, met in Brussels and in Guatemala to discuss financial assistance to the Republic. The participants pledged an aggregate of US\$2,300.0 million in direct aid and loans. Peace Program expenditures from 1998 through March 2003 of US\$5,454.5 million have been financed by foreign aid and loans from the Guatemala Consulting Group of US\$2,113.1 million and from tax revenues of US\$3,341.4 million. The Government expects the various projects to be completed by December 2004 at an additional cost of approximately US\$1,806.1 million, which the Government expects to fund through available foreign aid, loan commitments, and tax revenues. In addition, as of June 30, 2003, the Government issued US\$286.9 million in local debt to fund expenses to be incurred in connection with the Peace Program. See “Republic of Guatemala—The Peace Program”.

In 1998, Hurricane Mitch caused major economic and human damage in Guatemala of approximately US\$500.0 million. The damage diverted resources from the implementation of the Peace Program and other development priorities. As a result, since 1999, the Government accelerated drawdowns on its foreign aid and loan commitments from the Guatemala Consulting Group in order to meet its commitments under the Peace Program. On March 31, 2003, US\$895.1 million of foreign loans and approximately US\$466.8 million of foreign aid from the Guatemala Consulting Group was available to be used to fund programs in accordance with the Peace Program.

In May 2003, the Guatemala Consulting Group met in Guatemala. This meeting was a follow-up meeting to the Fourth Guatemala Consulting Group meeting that took place in February 2002. Several entities of the Government, leaders of political parties, the private sector and civil society, delegates from 20 donor nations and representatives of 18 multilateral donor agencies attended the meeting. The participants recognized Guatemala’s achievements in its macroeconomic performance and appealed for national unity to reinforce national efforts to reach the goals set forth in the Peace Program.

### **Foreign Trade**

Guatemala’s foreign trade has historically been, and continues to be, characterized by the export of primary goods and the import of raw materials, consumer goods, capital goods and intermediate products. In 2002, coffee

accounted for 12.0% of the total value of exported goods, sugar for 9.3% and bananas for 10.4%. Revenues from the export of many products, both traditional and non-traditional, are subject to international price fluctuations, as well as other climatic and international developments. Although Hurricane Mitch had a negative effect on agricultural production in 1999, production and export revenues from agricultural products increased in 2000. Export revenues from coffee, however, began to drop in 1999 and 2000 and then decreased significantly in 2001 and 2002 due to the decline in worldwide coffee prices.

The United States is Guatemala's largest trading partner, accounting for 30.3% of total exports and 38.5% of total imports in 2002. Guatemala is an active participant in various projects for regional economic integration among the Central American countries. In 2002, the Central American region accounted for 39.0% of Guatemala's total exports and 11.0% of total imports. In 2000, Guatemala received "NAFTA parity" status from the United States as a member of the Caribbean Basin Initiative (CBI) giving it preferential access to U.S. markets, especially for textiles and clothing products. Guatemala is party to more than 22 treaties relating to international commerce.

Guatemala is negotiating with other Central American countries and the United States to establish a Central American Free Trade Agreement (CAFTA). Discussions regarding CAFTA are currently taking place and the fifth round of meetings took place in Tegucigalpa, Honduras in June 2003, with further rounds scheduled for later in 2003. The participants have already negotiated several topics, including access to markets, rules of origin, and technical obstacles to commerce. Other topics, such as free trade on sensitive products will be discussed in later negotiation rounds. The IDB has agreed to assist the Central American nations in preparations and negotiations for the CAFTA. The Republic anticipates that CAFTA would create opportunities for economic growth through greater liberalization of trade restrictions, particularly with the United States. In the event that the scheduled rounds of negotiations are favorably concluded, the Republic anticipates that CAFTA may be implemented as early as March 2004. However, negotiations are still in progress and no assurances can be given as to further progress or a timetable for eventual implementation or any impact decertification may have on these negotiations.

### **Fiscal and Monetary Policy**

The Government has run relatively small fiscal deficits during the last five years. In 2002, the Government recorded an estimated deficit of 1.0% of GDP compared to a deficit of 1.9% of GDP in 2001. In May 2000, 130 organizations and the executive, legislative and judicial branches of government entered into the *Pacto Fiscal* (Fiscal Pact). The Fiscal Pact requires that the Government strive to achieve certain financial targets, including an increase in tax revenues to 12% of GDP and a decrease in the average annual fiscal deficit to approximately 1% of GDP by the end of 2003. In addition, in its stand-by arrangement with the IMF reached on June 18, 2003, the Government has agreed to maintain a public sector deficit of 1.7% or less of GDP during the nine months following the date of the arrangement.

The Constitution established the *Junta Monetaria* (Monetary Board) to determine the monetary, foreign exchange and credit policies of the Republic. The Monetary Board also oversees the liquidity and solvency of the national banking system, seeking to assure the stability and strength of national savings and pursuing monetary stability through the Bank of Guatemala. The Bank of Guatemala operates as an autonomous financial institution governed by the Monetary Board. The Constitution prohibits the Bank of Guatemala from directly or indirectly financing the Government or public or private entities other than regulated financial institutions.

The Government is working to strengthen Guatemala's financial institutions. The Monetary Board intervened in the operations of three commercial banks and two other financial institutions in 2001 due to liquidity problems arising out of administrative irregularities, loans to affiliates and regulatory non-compliance. After assessing the status, the Superintendency of Banks requested the courts to liquidate these entities. Liquidation proceedings are currently pending.

As of March 31, 2003, total assets of these five financial entities represented 1.01% of total assets of the Guatemalan financial system and the total deposits of these five entities were 0.19% of total deposits in the financial system. The Government believes that the liquidation of these entities will not have a material adverse effect on the Guatemalan financial sector. The Bank of Guatemala made emergency loans available to the three commercial banks to avoid a bank-run by depositors. On March 31, 2003, the outstanding amount of these loans was Q1,597.8 million, approximately US\$204.5 million. The banks used the proceeds of these loans to satisfy existing creditors and now the Bank of Guatemala is the sole creditor of these banks. Once liquidation is complete, the Government expects that it will incur losses amounting to approximately Q900.0 million (approximately US\$115.2 million) arising out of these loans. At December 31, 2002, the Bank of Guatemala recorded reserves on its balance sheet for

the full amount of these loans. Since July 2001, the Monetary Board has not intervened in or lent funds to any bank or other financial institution in Guatemala. See “Monetary System—Financial Sector”.

Guatemala’s inflation rate has been relatively stable over the last ten years, and was 7.5% in 1998, 4.9% in 1999, 5.1% in 2000, 8.9% in 2001 and 6.3% in 2002. For 2003, the Republic has targeted an inflation rate of between 4% and 6%.

### **Public Sector Debt**

As of December 31, 2002:

- the Republic’s public sector external debt (excluding debt of the Bank of Guatemala) was 110.6% of total exports;
- the Republic’s public sector external debt service (excluding debt of the Bank of Guatemala) was 11.7% of total exports;
- the Republic’s public sector external and internal debt (excluding debt of the Bank of Guatemala) was 17.0% of GDP; and
- the Republic’s public sector external debt (excluding debt of the Bank of Guatemala) consisted of US\$1,894.9 million in debt to multilateral agencies, US\$537.3 million in debt to foreign governments and bilateral organizations, 8½% Notes due 2007 (US\$150.0 million), and 10¼% Notes due 2011 (US\$325.0 million) held by investors.

The largest single creditor of the Guatemalan public sector is the IDB, which held US\$1,182.8 million in public sector debt (excluding debt of the Bank of Guatemala) as of December 31, 2002.

At March 31, 2003, the Bank of Guatemala’s internal debt (consisting of fixed-rate term deposits) was Q13,644.2 million (approximately US\$1,729.4 million) and its external debt was US\$79.9 million. The Bank of Guatemala has not incurred any additional external indebtedness since 1992. Guatemalan law prohibits the Bank of Guatemala from incurring external indebtedness. The Bank of Guatemala and the Republic manage their debt separately and independently and follow distinct policies in this regard.

Although the Republic has from time to time restructured multilateral and bilateral debt with supranational and foreign governmental lenders, the Republic has never defaulted on any debt owed to any private sector creditors, including foreign commercial banks and other external debtholders.

## THE OFFERING

Issuer .....	Republic of Guatemala.
Securities Offered .....	US\$300,000,000 principal amount of 9¼% Notes due 2013.
Maturity Date .....	August 1, 2013.
Interest Rate .....	9¼% per annum.
Interest Payment Dates .....	February 1 and August 1 of each year, commencing on February 1, 2004.
Form and Denominations .....	<p>The Republic will issue the notes in the form of global notes, without coupons, registered in the name of a nominee of DTC, as depositary, for the accounts of its participants (including Clearstream Banking, société anonyme, or Clearstream Banking, and Euroclear Bank S.A./N.V., or Euroclear). Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.</p> <p>The Republic will issue the notes only in denominations of US\$10,000 and integral multiples of US\$1,000 in excess thereof.</p>
Redemption or Sinking Fund .....	None.
Ranking .....	<p>The notes will be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic, will rank equally in right of payment with all of the Republic's existing and future unsubordinated and unsecured External Indebtedness (as defined) and will be backed by the full faith and credit of the Republic. See "Description of the Notes—Ranking."</p>
Withholding Tax and Additional Amounts .....	<p>The Republic will make all interest payments on the notes without withholding or deducting any Guatemalan taxes, unless required by law. If Guatemalan law requires the Republic to withhold or deduct taxes, the Republic will pay noteholders, subject to certain exceptions, additional amounts to provide the equivalent of full payment of interest to noteholders. See "Description of the Notes—Additional Amounts" and "Taxation."</p>
Covenants .....	<p>The Republic will not create or permit to subsist any Lien (other than Permitted Liens) on its revenues, properties or assets as security for any of its Public External Indebtedness, unless the Republic's obligations under the notes are secured equally and ratably with that Public External Indebtedness. See "Description of the Notes—Covenants" and "—Definitions."</p> <p>The Republic has agreed to comply with other covenants as described under "Description of the Notes—Covenants."</p>
Events of Default .....	<p>The notes will contain events of default, the occurrence of which may result in the acceleration of the Republic's obligations under the notes prior to maturity. See "Description of the Notes—Events of Default."</p>

Use of Proceeds .....	<p>The Republic will use the net proceeds from the sale of the notes as follows:</p> <ul style="list-style-type: none"> <li>• approximately US\$53.2 million to pay interest and other amounts due on domestic public debt;</li> <li>• approximately US\$141.8 million to pay interest on, principal of and other amounts due on external public debt;</li> <li>• approximately US\$48.5 million to deposit with the Bank of Guatemala which will have the immediate effect of increasing foreign currency reserves of the Bank of Guatemala in accordance with the Republic's 2003 Stand-by Arrangement with the IMF (these amounts may be available, depending on the terms of future agreements with the IMF and other factors, for future use by the Government in connection with the 2004 budget which has not yet been approved); and</li> <li>• approximately US\$45.7 million to US\$56.5 million to finance infrastructure projects.</li> </ul> <p>The use of proceeds is subject to modification by the Congress of the Republic as described in "Use of Proceeds".</p>
Transfer Restrictions .....	The notes have not been and will not be registered under the U.S. Securities Act of 1933 and, subject to certain exceptions, may not be offered or sold within the United States. The notes will be subject to restrictions on transfer. See "Transfer Restrictions."
Listing.....	Application has been made to list the notes on the Luxembourg Stock Exchange. The Republic can give no assurance that the notes will be approved for listing on the Luxembourg Stock Exchange. The notes are also expected to trade in The PORTAL Market.
Absence of a Public Market for the Notes .....	The notes will be a new issue of securities, and there is no established market for the notes. The Republic and the Initial Purchaser cannot assure you that a liquid market for the notes will develop. The Initial Purchaser has advised the Republic that it currently intends to make a market in the notes. However, the Initial Purchaser is not obligated to do so, and any market-making with respect to the notes may be discontinued without notice.
Ratings of the Notes .....	As of the date of this offering memorandum, the Republic's foreign-currency rating by Moody's Investors Services is Ba2 and the Republic's foreign currency sovereign credit rating by Standard & Poor's Rating Service is BB- (stable). The ratings of the notes do not constitute a recommendation to buy, sell or hold the notes and may be subject to revision or withdrawal at any time by the rating organizations. You should evaluate each rating independently of any other rating of the notes or other securities of the Republic.
Fiscal Agent, Registrar, Transfer Agent and Principal Paying Agent .....	The Bank of New York.



Luxembourg Transfer Agent and Paying

Agent..... The Bank of New York (Luxembourg) S.A.

Luxembourg Listing Agent ..... The Bank of New York (Luxembourg) S.A.

Governing Law..... State of New York, except that the authorization and execution of  
the notes will be governed by the laws of Guatemala.

## USE OF PROCEEDS

The Republic will use the net proceeds from the sale of the notes as follows:

- approximately US\$53.2 million to pay interest and other amounts due on domestic public debt as set forth in Appendix B;
- approximately US\$141.8 million to pay interest on, principal of and other amounts due on external public debt as set forth in Appendix B;
- approximately US\$48.5 million to deposit with the Bank of Guatemala which will have the immediate effect of increasing foreign currency reserves of the Bank of Guatemala in accordance with the Republic's 2003 Stand-by Arrangement with the IMF (these amounts may be available, depending on the terms of future agreements with the IMF and other factors, for future use by the Government in connection with the 2004 budget which has not yet been approved); and
- approximately US\$45.7 million to US\$56.5 million for the following infrastructure projects:
  - approximately US\$3.9 million to US\$4.7 million for construction and maintenance of government buildings;
  - approximately US\$21.0 million to US\$26.0 million for construction and maintenance of schools, hospitals, housing and environmental projects;
  - approximately US\$14.5 million to US\$18.1 million for construction and maintenance of roads and airports;
  - approximately US\$1.3 million to US\$1.6 million for maintenance of cultural and archeological heritage sites;
  - approximately US\$2.5 million to US\$2.9 million for electricity and water projects; and
  - approximately US\$2.5 million to US\$3.2 million for agricultural projects and land reform.

Depending on cost over-runs and other circumstances, amounts the Government may use for any one particular infrastructure project may vary from currently budgeted amounts. However, the Government does not intend to spend more than US\$56.5 million of the proceeds from the sale of the notes on the infrastructure projects described above. In addition, depending on exchange rate fluctuations and changes in applicable interest rates, the Republic's actual debt service amounts may vary from the amounts set forth in Appendix B. Any amounts not spent in accordance with the uses described above, will be deposited with the Bank of Guatemala and are to be used in connection with the 2004 budget which has not yet been approved.

Disbursements of proceeds from the sale of the notes must be reported in the *Sistema Integrado de Administración Financiera* (Financial Administration Integrated System, or SIAF). SIAF is a governmental system implemented in 1998 to permit public access to information to improve transparency in governmental expenditures. See "Public Sector Finances—Consolidated Public Sector". In addition, the General Accounting Controller is obligated under Article 232 of the Guatemalan Constitution and Decree 31-2002 to monitor the disbursements and use of proceeds from the sale of the notes in accordance with applicable laws of Guatemala.

The Congress of Guatemala authorized the issuance and sale of the notes in connection with the establishment of the 2003 budget. The authorizing laws for the notes and the 2003 budget, as amended, permit the application of the proceeds of the sale of the notes as described above. Congress has the constitutional power to amend the 2003 budget or otherwise pass laws that could alter the application of the proceeds of the sale of the notes from that described above.

The Government, through the Ministry of Public Finance, will pay commissions and expenses estimated to be approximately US\$2.5 million relating to the offering of the notes.

## REPUBLIC OF GUATEMALA

### Territory and Population

Guatemala is a Central American republic located immediately south of Mexico and covers a territory of 42,042 square miles (108,889 square kilometers). Guatemala is divided into 22 departments. The country's lowlands are comprised of two northern regions, the Petén and the Atlantic littoral, and one southern region, a narrow and fertile Pacific coastal plain stretching the southern length of the country. The Central Highlands comprise approximately half of the total land area and cut across the midsection of the country, with mountain ranges from southeast to northwest. The Pacific side of the Central Highlands includes a range of volcanoes and has experienced major earthquakes throughout the history of the country.

While Guatemala is located in a tropical region, temperate seas and the country's irregular terrain create a diversity of climates, ranging from temperate in the highlands to more tropical on the coasts. There is a dry season from November to April. The location of Guatemala often puts it in the path of hurricanes that sweep the Caribbean region between the months of June and November. Hurricane Mitch in 1998 was the last major hurricane to strike Guatemala and caused major economic and human damage. The occurrence of natural disasters, or the threat of such occurrences, could adversely affect Guatemala. Most individuals and businesses in Guatemala are not insured against such occurrences. However, despite the effect of Hurricane Mitch, the Guatemalan economy continued to grow in 1998 and beyond.

Guatemala's population is approximately 11.2 million people, approximately 60% of whom live in rural areas, and the rest in urban areas. The Department of Guatemala has approximately 2.5 million inhabitants and the capital, Guatemala City, has approximately 1.0 million inhabitants. Other large cities include Quetzaltenango, Escuintla and Cobán. Since 1997, the population of Guatemala has grown at an average annual rate of 2.6%. The country's main harbors are Puerto Barrios and Puerto Santo Tomás de Castilla on the Atlantic Ocean, and Puerto Quetzal on the Pacific Ocean. The country has two international airports.

In 2002, Guatemala's adult literacy rate was approximately 73.8%. The education system consists of approximately 16,335 primary education institutions (ages 6-13), of which approximately 13,861 are public, and 5,117 secondary education institutions (ages 14-17), of which 3,572 are private. Guatemala's Constitution provides for compulsory education for all children up to the sixth grade. In 2002, approximately 2,085,961 students were enrolled at the primary school level, while enrollment at the secondary school level was approximately 604,968 students. Guatemala has one public university, the *Universidad de San Carlos de Guatemala* (University of San Carlos) which has a central campus in Guatemala City and 11 smaller campuses in the main provincial capitals. Guatemala also has eight private universities, two of which were founded in the last five years. In 2002, approximately 172,838 students were enrolled in Guatemala's nine universities.

A majority of Guatemala's population is of Mayan descent, lives mainly in the highlands of the western and northern regions of the country and a large portion of this population speaks any of 22 Mayan languages. Many of these languages are spoken by as few as 10,000 people, while one is spoken by over one million people. Most of the remainder of the population is *ladino*, a group that consists mostly of people with mixed indigenous and European backgrounds. *Ladinos* represent a majority of the population in Guatemala City. Spanish is the official language of Guatemala, but approximately 31% of the population speaks Mayan languages. As part of the Peace Accord, the Government initiated bilingual education in both Spanish and certain Mayan languages, and implemented other measures to provide government documents and materials in the most widely spoken Mayan languages.

According to the World Bank, Guatemala's economy is the largest in Central America, comprising roughly one-third of the region's GDP. Guatemala is classified by the World Bank as a lower middle income developing country. The following table sets forth certain comparative information for Guatemala relative to certain other countries.

## Selected Comparative Statistics

	Guatemala	Nicaragua	Honduras	Jamaica	El Salvador	Panama	Dominican Republic	Colombia	Costa Rica	Mexico	United States
Per capita GNP <sup>(1)</sup> .....	US\$3,770	US\$2,100	US\$2,390	US\$3,500	US\$4,390	US\$5,700	US\$5,720	US\$5,890	US\$8,250	US\$8,810	US\$34,260
United Nations index of human development (world ranking) <sup>(2)</sup> .....	108	106	107	78	95	52	86	62	41	51	6
Life expectancy at birth (in years) <sup>(3)</sup> .....	65	69	66	75	70	75	67	72	77	73	77
Infant mortality (% of live births) <sup>(3)</sup> .....	3.9%	3.3%	3.5%	2.0%	2.9%	2.0%	3.9%	2.0%	1.0%	2.9%	0.7%
Adult literacy rate <sup>(3)</sup> .....	71.1%	69.0%	75.0%	87.0%	79.0%	92.0%	84.0%	92.0%	96.0%	91.0%	99.0%
% of households below the poverty line <sup>(4)</sup> .....	33.8% <sup>(5)</sup>	N/A	68.8% <sup>(6)</sup>	25.2% <sup>(6)</sup>	54.0% <sup>(7)</sup>	25.1% <sup>(7)</sup>	16.0% <sup>(6)</sup>	28.7% <sup>(6)</sup>	23.3% <sup>(7)</sup>	34.8% <sup>(6)</sup>	N/A

(1) 2000 data, adjusted to reflect differences in purchasing power.

(2) 1999 data. *Source:* United Nations Development Program.

(3) 2001 data.

(4) The poverty line used in this offering memorandum is defined as a monthly income of US\$60 per capita per household (or daily income of US\$2 per capita per household), adjusted to reflect differences in purchasing power.

(5) 1998 data.

(6) 1996 data.

(7) 1997 data.

N/A = Not available.

*Source:* World Bank, unless otherwise indicated.

## History

Beginning with simple farming villages dating back to 2500 B.C., the Maya of Guatemala and the Yucatan peninsula developed an advanced civilization that continues to influence Guatemalan culture today. The Maya civilization reached its highest level of development with major achievements in art, mathematics and astronomy between 250 A.D. and 900 A.D.

The Spanish *conquistadores*, led by Pedro de Alvarado, arrived in Guatemala in 1523 and began colonizing the region soon thereafter. Under Spanish rule, the Guatemalan cities of Ciudad Vieja and La Antigua Guatemala successively served as the capital of the Captaincy General of Guatemala, which covered most of Central America.

Guatemala gained independence from Spain in 1821, briefly becoming a part of the Mexican Empire. After independence from Mexico in 1823, Guatemala formed part of the United Provinces of Central America, a federation of Central American republics that lasted for two decades. From 1838 until the 1920s, Guatemala was governed by a series of autocratic leaders, including Rafael Carrera, Justo Rufino Barrios and Manuel Estrada Cabrera. A decade of limited political democratization occurred in the 1920s. Between 1931 and 1944, during the administration of General Jorge Ubico, the military increased in size and importance. After a popular revolution in 1944, a civilian President, Juan José Arévalo, implemented a series of reforms, relating in particular to land, education and labor. His elected successor, Colonel Jacobo Arbenz Guzmán, attempted to extend this reform process, but was overthrown in 1954 in a non-violent military coup led by Colonel Carlos Castillo Armas and supported by foreign governments. Between 1954 and 1960, both Colonel Castillo Armas and his successor, General Miguel Ydígoras Fuentes, reversed many of the reforms initiated by the Arévalo and Arbenz administrations.

In response to these changes and General Ydígoras' increasingly autocratic rule, a group of junior military officers attempted to overthrow the Government in 1960. When the coup failed, some of these officers began an armed insurrection. Fostered by discrimination against indigenous peoples, exclusion of certain groups from the political process, disenfranchisement of the poor and international geo-political interests related to the Cold War, this armed conflict continued for 36 years. Three principal guerrilla groups conducted economic sabotage and targeted Government installations and members of the Government security forces in armed attacks during this period. These three organizations combined to form the *Unidad Revolucionaria Nacional Guatemalteca* (Guatemalan National Revolutionary Unit, or URNG). The military continued to control or heavily influence Guatemalan politics and Government throughout the 1970s and early 1980s. In 1982, a military coup brought

General Efraín Ríos Montt to power. Under General Ríos Montt's regime, the counterinsurgency campaign intensified.

Military rule began to ease in 1985 under General Oscar Mejía Victores. Electoral laws were enacted and congressional elections scheduled. On May 31, 1985, after nine months of debate, a new constitution was adopted, general elections were held and Vinicio Cerezo, the presidential candidate of the *Democracia Cristiana Guatemalteca* (Guatemalan Christian Democracy party, or DCG) won the presidency with approximately 70% of the vote. President Cerezo took office in January 1986. The new constitution provided for many reforms, including new laws of *habeas corpus*, the creation of a legislative human rights committee and the establishment of the office of the Human Rights Ombudsman. President Cerezo's administration created the National Reconciliation Commission to initiate a peace dialogue with Guatemala's revolutionary groups. In addition, the Supreme Court embarked on a series of reforms to fight corruption and improve the efficiency of the legal system.

Presidential and congressional elections were held on November 11, 1990, and Jorge Serrano Elías was inaugurated as President on January 14, 1991, marking the country's first peaceful transfer of power since independence. During the Serrano administration, inflation rates decreased and the economy began to improve. On May 25, 1993, President Serrano dissolved Congress and the Supreme Court and attempted to restrict civil rights, allegedly to fight corruption. This coup, however, failed as a result of strong opposition from all sectors of Guatemalan society, international pressure, and the army's enforcement of the decisions of the Constitutional Court. The Constitutional Court, whose decisions take precedence over the Supreme Court on issues relating to the Constitution, held the coup to be unconstitutional. The failed coup led to the demise of the Serrano administration.

On June 5, 1993, under the Constitution adopted in 1985, Congress appointed Ramiro de León Carpio, who had been Human Rights Ombudsman, to complete Serrano's presidential term. President de León launched an ambitious anti-corruption campaign demanding the resignation of all members of Congress and Supreme Court. Presidential and popular pressure led to a November 1993 agreement between the President and Congress to reform the Constitution. Among the proposed constitutional reforms was a reduction in the legislative and presidential terms of office from five years to four. The ensuing constitutional reforms were approved by popular referendum on January 30, 1994, and President de León served out his appointed term. Under President de León, the Peace Accord, now brokered by the United Nations, proceeded with new vigor. The Government and the URNG signed a number of agreements described below under "—The Peace Program," but the de León administration failed to implement lasting social and human rights improvements. In August 1994, a new Congress was elected, and the FRG headed by General Efraín Ríos Montt, and the PAN, led by the former mayor of Guatemala City, Mr. Alvaro Arzú Irigoyen, emerged as the leading political parties. A Constitutional Court ruling in mid-1995 held that the FRG's presidential candidate Ríos Montt, who had previously held office from 1982 to 1983, was ineligible to run for president.

In presidential, congressional and municipal elections held in two rounds in November 1995 and January 1996, nearly 20 parties participated. The presidential election led to a runoff in which Alvaro Arzú Irigoyen of the PAN narrowly defeated Alfonso Portillo Cabrera of the FRG. The presidential candidate of the newly-formed *Frente Democrático Nueva Guatemala* (New Guatemala Democratic Front, or FDNG), the first legally-recognized party of the left to participate in elections in 40 years, won approximately 8% of the vote, and six FDNG deputies, including several internationally recognized human rights activists, were elected to Congress. The PAN won 42 of the 80 seats in Congress and leadership of one-third of the municipal governments. The FRG won 20 seats to become the principal opposition party. The DCG and the *Unión del Centro Nacional* (Central National Union), had seven deputies between them.

President Arzú's administration, which came to office on January 14, 1996, prioritized resolution of the armed conflict and, in a move to advance the peace process, met with guerrilla leaders.

In December 1996, the Government reached the Peace Accord, ending 36 years of armed conflict. The armed confrontation left more than 150,000 casualties, particularly among the rural poor. The confrontation had also hampered development, particularly in rural areas. The period of most intense hostilities was 1980 through 1985, which coincided with a period of economic stagnation and recession.

Once the Peace Accord was signed in December 1996, the Government called the international community to a meeting in Brussels in January 1997 to request financial assistance in order to fulfill the obligations of the Peace Accord. Twenty-five countries and 22 international financial institutions, including among others the World Bank, the IDB and the IMF, comprising the Guatemala Consulting Group attended the meeting and pledged US\$1,900 million in direct aid and loans to support the Peace Accord. In September 1997, a second meeting of the Guatemala Consulting Group resulted in an additional US\$400 million in direct aid and loans. On October 23, 1998, at the third meeting of the Guatemala Consulting Group in Brussels, 21 countries and 20 international financial institutions ratified their support for the Peace Accord.

In November 1999, Guatemala held presidential, congressional and municipal elections followed by a run-off presidential election on December 26, 1999. The FRG won 63 of 113 legislative seats and the PAN won 37. The PAN subsequently ceded 13 legislative seats to the *Bancada Unionista* (United Bench), a group that split from the PAN to form a separate party; four other parties won the remaining 13 legislative seats. In the run-off presidential election, Alfonso Portillo of the FRG (the current President) won 68% of the vote against 32% for Oscar Berger of the PAN. Guatemalan politics have recently been characterized by splits in established opposition parties and changes in political parties and affiliations of various members of Congress.

### **Portillo Administration**

Important goals achieved during the Portillo administration include:

- continued liberalization of the economy and the trade regime through signing free trade agreements with Mexico and the Dominican Republic, entering into bilateral investment agreements with Argentina, Cuba, France and Taiwan and significant progress towards CAFTA;
- strengthening and modernizing the financial services sector and enacting several new laws, including a new Organic Law for the Bank of Guatemala and anti-money laundering legislation;
- tax reform and increasing tax collections from 9.5% of GDP in 2000 to 10.6% of GDP in 2002, the highest rate in the history of the Republic;
- reducing the public deficit from 1.8% of GDP in 2000 to 1.0% in 2002;
- meeting macroeconomic and fiscal targets agreed upon with the IMF;
- maintaining a relatively stable rate of inflation;
- increasing fiscal transparency;
- continuing to implement the Peace Accords;
- continuing the demobilization of the military through relocation, reassignment and retirement of active members;
- continuing the progress in the resolution of the territorial dispute with Belize;
- addressing ongoing problems associated with poverty through the implementation at the end of 2001 of the *Estrategia de Reducción de Pobreza* (or Poverty Reduction Strategy); and
- increasing investment in infrastructure, particularly in the communications sector.

Impediments to economic growth during the period from 1998 to 2002 have included high rates of crime, low levels of education and an underdeveloped local capital market. In addition, Guatemala requires significant infrastructure development, particularly in the transportation, telecommunications and electricity sectors.

Guatemala's economy is affected by external events. The current worldwide economic slowdown, war with Iraq, terrorist threats, arms buildup in North Korea, popular unrest in Venezuela and other events or have caused uncertainty and volatility in the United States and the international economies and financial markets. The United States and other countries to which Guatemala exports continue to experience an economic downturn. The Republic cannot predict what future effects these events or others may have on these economies and financial markets or on Guatemala, including on exports and imports, remittances, tourism, regional trade integration and the Guatemalan economy generally.

### **Recent Economic Developments**

Recently, Guatemala has continued to exhibit low inflation, a stable foreign exchange rate, a stable fiscal deficit, an increase in tax revenues and an increase in international reserves. During the first three months of 2003:

- inflation decreased to 2.3% compared to 2.9% for the same period in 2002;
- the average weighted exchange rate of the *quetzal* appreciated by 0.14% against the dollar, as compared to the same period in 2002;
- the fiscal deficit reached 0.3% of GDP compared to 0.1% of GDP for the same period in 2002; and
- tax revenues reached approximately US\$574.3 million compared to approximately US\$506.3 million for the same period in 2002.

In addition, international reserves reached US\$2,428.2 million on March 31, 2003 compared to US\$2,247.7 million on March 31, 2002, representing an 8% increase.

### **Elections**

Presidential, congressional and municipal elections are scheduled for November 9, 2003. The Guatemalan Constitution provides that any person who has been elected President or that assumes the presidency through a military coup is not eligible to run again for such office. As of July 27, 2003, no candidates had officially registered and the official deadline for registration is August 31, 2003. Several new political parties are still in the process of registration. Electoral authorities have shown an open attitude toward the presence of international observers during the 2003 election.

The candidacy of General Efraín Ríos Montt, who was president of Guatemala between 1982 and 1983, has been met by controversy and legal opposition. The Guatemalan election court and the Supreme Court of Justice have ruled against Ríos Montt's candidacy on the basis that the 1986 Guatemalan Constitution provides that former heads of state and military coup participants cannot run for the presidency.

Nonetheless, on July 14, 2003, the Constitutional Court, the highest court in Guatemala ruling on constitutional matters, based on a constitutional provision that provides that laws cannot be applied retroactively, overturned these courts' decisions in a 4-3 verdict. Since Ríos Montt had assumed power in Guatemala in a 1982 military coup, the Court agreed with Ríos Montt's argument that the ban on coup leaders, formalized in the 1986 Constitution, could not be applied retroactively to events before that date.

Following the decision by the Constitutional Court, political and other opponents of Ríos Montt's candidacy as well as some legal analysts in Guatemala charged that the Constitutional Court's July 14, 2003 decision was erroneous and affected by political influence. Such criticism derived in part from the association with the FRG of three of the four members of the Constitutional Court that voted in favor of Ríos Montt. Both President Portillo and Ríos Montt are members of the FRG.

On July 20, 2003, in response to a petition by two political parties further challenging Ríos Montt's ability to register as a candidate, the Supreme Court of Justice issued a temporary injunction prohibiting Ríos Montt from



registering pending resolution of the petition. At this time, there are procedural uncertainties relating to timing of the resolution of this petition.

Beginning on July 24, 2003, violent protesters organized in support of Ríos Montt in Guatemala City, surrounding the Supreme Court and Constitutional Court buildings, as well as other buildings and residential areas, and threatening reporters, one of whom died of a heart attack while fleeing the crowd. The protests deteriorated into rioting that paralyzed parts of Guatemala City and caused damage to property. Protesters disbanded on July 25, 2003, reportedly following the request of Ríos Montt. Police and other law enforcement personnel did not intervene, for the most part, to stop the protesters. The Minister of Governance, Adolfo Reyes Calderón, relieved the chief of the National Civil Police of his duties, pending an investigation into the reasons for his defiance of orders to curb the protests.

These riots provoked strong condemnation by the United States, Spain, other governmental authorities and human rights and press groups. The U.S. State Department charged that the FRG provided support to rioters and called the demonstrations “an affront to democracy.”

The Government cannot assure that Ríos Montt’s candidacy will not provoke further controversy or violence or that, if Ríos Montt is able to run for the presidency, this would not adversely affect relations with the United States and other countries as well as social and political stability in Guatemala.

On May 9, 2003, Standard & Poor’s downgraded the Republic’s rating to BB- (stable) from BB on concern that political polarization ahead of November’s elections would interfere with the implementation of effective economic policy and delay Guatemala’s ongoing structural reform process. In addition, on July 7, 2003, Standard & Poor’s issued a commentary stating that the rising political polarization between the Government and the opposition over the last two years has increasingly jeopardized the policymaking process in Guatemala.

### **Recent Developments with the IMF**

On June 18, 2003, the Republic and the IMF entered into a nine month stand-by arrangement (“precautionary arrangement”) for SDR\$84 million or approximately US\$120 million. Proceeds of this facility are available to support the economic program of the Republic through March 15, 2004. Based on the Republic’s performance during the term of the 2002 stand-by arrangement, the IMF granted the Republic immediate access to SDR\$52.5 million under this facility. See “Monetary System—Stand-by Arrangement”. The 2003 arrangement contains a number of fiscal and macroeconomic targets for the Republic, including:

- maintaining a public sector deficit of 1.7% or less of GDP;
- maintaining the level of tax revenues at least at 10.7% of GDP, the level achieved in 2002;
- increasing net international reserves by US\$250 million;
- reducing inflation to between 4% and 6%;
- increasing transparency of governmental institutions;
- further liberalizing the Guatemalan economy;
- maintaining the free exchange rate for the *quetzal*; and
- increasing social spending to approximately 5.3% of GDP by year end 2003.

The Republic and the IMF entered into the previous stand-by arrangement for SDR\$84 million (Special Drawing Rights), or approximately US\$105 million on April 1, 2002. Proceeds of this facility were available to be used to support the Government’s economic program for 2002. The arrangement contained a number of fiscal and macroeconomic targets for the Republic. Guatemala did not make any drawdowns under the IMF facility in 2002,

because it did not need these funds. Guatemala met all monetary and fiscal targets under the arrangement in 2002. The year 2002 was the first year in which Guatemala met all fiscal and macroeconomic conditions in an IMF stand-by arrangement since Guatemala joined the IMF 57 years ago.

The IMF has informed the Republic that it intends to open a permanent office in Guatemala City in 2003.

### The Peace Program

The Peace Program contemplates significant investment in human, economic and infrastructure development. The initial period for the Peace Program was from 1997 through 2000. This period has been extended to provide for additional investments through 2004. The following table shows the Government's expenditures under the Peace Program since 1998:

<b>Peace Program Expenditures</b> (in millions of US\$) <sup>(1)</sup>						
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003<sup>(2)</sup></b>
Health and social welfare .....	215.7	261.7	258.3	285.7	296.2	78.9
Education, science and culture .....	408.5	445.1	468.0	566.2	588.6	116.3
Housing .....	105.2	54.4	1.4	16.7	22.0	2.1
Domestic security .....	102.1	133.1	140.9	165.7	167.3	48.4
Judicial organizations .....	54.2	49.7	58.9	69.7	61.4	19.7
Public prosecutors .....	27.4	27.1	31.6	42.4	46.1	17.8
<b>Total .....</b>	<b>913.1</b>	<b>971.1</b>	<b>959.1</b>	<b>1,146.4</b>	<b>1,181.6</b>	<b>283.2</b>
Accumulated expenditures .....	913.1	1,884.2	2,843.3	3,989.7	5,171.3	5,454.5

(1) Translated from Q to US\$ at the average daily official exchange rate for the year.

(2) Through March 31, 2003.

Source: Ministry of Public Finance and the Secretariat for Peace.

Expenditures in the above six areas included the following:

- Health and social welfare — public health measures, preventive medicine, broader coverage, modernization and measures to reduce malnutrition;
- Education, science and culture — preservation of tourist sights, education about Guatemala's national heritage, new textbooks and additional school meals;
- Housing — construction and financing of low-income housing;
- Domestic security — strengthening the police and improving prisons;
- Judicial organizations — modernization of the judicial system, additional training and education for judges, increased numbers of judges in rural areas and increased availability of public defenders; and
- Public prosecutors — additional training and resources for public prosecutors.

The Peace Program has required a significant increase in public expenditures by the Government. As of March 31, 2003, 733 projects had been identified as part of the Peace Program. The aggregate cost of the Peace Program is currently estimated at US\$7,260.6 million. Expenditures through the end of March 2003 of US\$5,454.5 million have been financed by foreign aid and loans of US\$2,113.1 million and tax revenues of US\$3,341.4 million. The Government expects the various projects to be completed by December 2004 at an additional estimated cost of US\$1,806.1 million, which the Government expects to fund through available foreign aid, loan commitments, treasury bonds, tax revenues and other sources.

The key goals of President Portillo's administration with respect to the Peace Program are:

- strengthening the judicial system;
- increasing protection of human rights;
- alleviating poverty through implementation of the Poverty Reduction Strategy;
- strengthening the rule of law and institutionalization of a peaceful state;
- reconciliation of the different parties to the armed conflict;
- rural development;
- demobilizing certain units of the military by offering retirement and severance payments to active members; and
- revitalizing impoverished sectors of the economy such as the agricultural sector.

The *Secretaría de la Paz* (Secretariat for Peace), whose head is appointed by the President, is a supporting entity that assesses the Government's performance and coordinates compliance with its commitments under the Peace Accord. The Secretariat for Peace is responsible for implementing peace agreements, following the recommendations of the Commission on Historical Accuracy, which determined the role and liabilities of the Government and the guerrillas in the internal armed conflict. Additionally, the Secretariat for Peace formulated the strategy and the policies for reducing poverty in Guatemala.

The *Comisión de Acompañamiento para Cumplimiento de los Acuerdos de Paz* (Supervisory Commission for the Completion of the Peace Accord) is an independent commission that works jointly with the Secretariat for Peace to oversee implementation of the Peace Accord. It is responsible for strengthening the internal procedures for human rights appeals before the phase out of the United Nations Mission for the Verification of Human Rights and Compliance with the Provisions of the Universal Agreement on Human Rights, which we refer to as MINUGUA, which operates under a temporary mandate. To that end, MINUGUA has created tables that monitor the observance and protection of human rights in each department of the country.

MINUGUA monitors compliance by the Government with the provisions of the Peace Accord and recommends any changes needed to avoid or correct noncompliance. It also evaluates the implementation and advancement of specific Peace Accord programs and projects, and publishes periodic reports on their implementation. MINUGUA also assisted in drafting the law detailing the Government's responsibility to indemnify victims of the internal armed conflict and assisted the Supervisory Commission for the Completion of the Peace Accord in the rescheduling of the timetable for completing the Peace Accord. In its most recent report, MINUGUA recommended that the Republic adopt a government policy on crimes against civil liberties and human rights and establish courts for speakers of Mayan languages. The Government expects to achieve the goals established by MINUGUA by 2004. MINUGUA's mission officially ended in 2002, but was extended through year end 2003.

In May 2003, the Guatemala Consulting Group, an organization consisting of 25 countries and 22 international financial institutions, including among others the World Bank, the IDB, and the IMF, met in Guatemala. This meeting was a follow-up meeting to the Fourth Guatemala Consulting Group meeting that took place in February 2002. Several entities of the Government, leaders of political parties, the private sector and civil society, delegates from 20 donor nations, and representatives of 18 multilateral donor agencies attended the meeting. The participants recognized Guatemala's achievements in its macroeconomic performance and appealed for national unity to reinforce national efforts to reach the goals set forth in the Peace Program. Participants noted the Republic's progress towards:

- establishing an anti-corruption commission,

- establishing a commission that will investigate illegal and clandestine groups, and
- dissolving the presidential guard that has been associated with the commission of human rights abuses.

Participants also suggested that the Government allocate more resources to high-priority social programs, the national police, the public prosecutor's office, the Human Rights Ombudsman's office and justice administration.

Despite a history of violent harassment of human rights activists by the Guatemalan military, these incidents decreased in frequency from 1997 through 2001. However, new cases alleging human rights abuses increased in 2002 compared to 2001. The Government, through the Guatemalan Human Rights Ombudsman and the Minister of Foreign Affairs, has set the basis to pursue the creation of a commission to investigate alleged human rights abuses, particularly those perpetrated by public security groups or unregulated private security companies. For this purpose, the Government has requested the support of the United Nations, the Organization of American States (OAS) and Human Rights Watch. The commission will be integrated by three commissioners. The United Nations, OAS and the Guatemalan President will each appoint one commissioner. The Government estimates that this commission will be created during the last quarter of 2003.

Human rights prosecutor Sergio Morales has asked President Portillo to investigate clandestine groups believed to be responsible for attacks and threats occurring principally since the year 2000, against judges, attorneys, human rights activists, religious figures and journalists. The Government has stated that non-state paramilitary groups have been responsible for the wave of violence. In March 2003, Foreign Minister Edgar Gutierrez, a well known human rights activist in Guatemala, signed an agreement paving the way for a major probe to begin in September 2003 aimed at identifying and stopping these groups.

The Government recognizes that peace, social stability and respect for human rights are important to ensuring economic growth and reconstruction. No assurance can be given, however, that social conflicts and violence will not resurge or continue.

## **Government and Political Parties**

Guatemala's current Constitution was adopted by a constituent assembly in 1985, after the 1965 constitution had been suspended in 1982 following a military coup. The Constitution was amended through a referendum in January 1994 that, among other things, reduced the legislative and presidential terms of office from five to four years and set a presidential term limit of one term.

The Government is divided into three branches: executive, legislative and judicial. A separate Supreme Electoral Tribunal has independent authority to call and administer elections. There is also a separate Human Rights Ombudsman. As of December 31, 2002, the Government had approximately 189,468 employees.

### ***Executive***

The President and Vice President are elected directly through universal suffrage and each of these executive officials is limited to a single four-year term without the possibility of reelection. The President proposes legislation to Congress and appoints all 13 cabinet ministers. The President also is the commander-in-chief of the armed forces and has the power to veto legislation approved by the legislative branch. The legislative branch can override any Presidential veto and enact the legislation by affirmative vote of two-thirds of Congress. The next presidential and Congressional elections are scheduled for November 9, 2003.

Guatemala is divided into 22 administrative subdivisions called departments, which are administered by governors appointed by the President. These departments, in turn, are comprised of 331 municipalities, which are governed by popularly elected mayors and councils who generally serve for four-year terms.

## ***Legislative***

The legislative branch consists of a unicameral Congress of 113 deputies, each of whom has a four-year term. Of these, 91 deputies were elected from geographical districts and 22 were elected by proportional representation from a national list. Based upon the most recent population census, the national list was amended and in the November 9, 2003 elections, a total of 158 deputies will be elected. Congressional sessions run each year from January 14 through May 15 and from August 1 through November 30. Either the permanent commission of the Congress or the executive branch can call extraordinary sessions. Members of Congress can propose bills to the Congress, and acts of Congress are passed by an affirmative vote of an absolute majority of members, except in certain specified cases. Congress also decides, by two-thirds majority vote, whether to bring charges against Cabinet-level officials.

Congress has the exclusive power to levy taxes. In order for any Government entity to borrow money, it must follow certain legal procedures and receive prior approval from the Congress.

The following table shows the current composition of Congress by political party or affiliation:

	<b>Congress<sup>(1)</sup></b>	
	<b>Seats</b>	<b>%</b>
<i>Frente Republicano Guatemalteco (FRG)</i> .....	60	53.1%
<i>Bancada of Gran Alianza Nacional (GANAN)</i> .....	13	11.5
<i>Bancada Unionista</i> .....	11	9.7
<i>Partido de Avanzada Nacional (PAN)</i> .....	8	7.1
<i>URNG-Desarrollo Integral Auténtico (DIA)</i> .....	5	4.4
<i>Unidad Nacional de la Esperanza (UNE)</i> .....	5	4.4
<i>Alianza Nueva Nación (ANN)</i> .....	3	2.7
<i>Democracia Cristiana Guatemalteca (DCG)</i> .....	2	1.8
<i>Others</i> .....	6	5.3
<b>Total</b> .....	<b>113</b>	<b>100.0%</b>

(1) As of June 10, 2003.

Source: Guatemalan Congress.

## ***Judiciary***

The highest judicial authority in Guatemala is the Supreme Court. Its 13 justices hold office for five-year terms. There are also 24 appellate courts and 175 courts of first instance. In addition, there are small claims courts.

Supreme Court justices are appointed by Congress from a list of 26 candidates submitted by a commission consisting of representatives from the General Assembly of the National Bar Association, law school deans, university rectors and appellate judges. Appellate court judges also are appointed by Congress. Judges of first instance courts are appointed by the Supreme Court.

The Public Ministry, an auxiliary institution of public administration and the courts, has as its principal function ensuring and monitoring compliance with the laws of the country. The Solicitor General of the Republic heads the Public Ministry and serves as chief prosecutor. The Solicitor General is named by the President for a term of four years, and can be removed by the President for cause. The Attorney General represents the Republic in legal matters and provides legal advice to the various state entities.

The Constitutional Court has exclusive jurisdiction to hear cases regarding the constitutionality of laws and other specific governmental actions and is responsible for the enforcement of human rights laws. Five regular magistrates and five alternates appointed for five-year terms comprise the Constitutional Court. Each of the

following institutions designates one regular and one alternate magistrate: the Supreme Court; the Congress; the President; the Superior Board of the University of San Carlos; and the General Assembly of the National Bar Association.

### ***Political Parties***

In the two rounds of elections held in November 1999 and December 1999, the FRG won both the presidency and the majority in Congress. Following these elections, six political parties were dissolved because they received less than 4% of the vote as required by law. The PAN underwent an internal split, with a number of its deputies changing political parties or affiliation. Currently, Congress is discussing a proposed amendment to the electoral law that, among other things, could make it more difficult to dissolve political parties. As of the date of this offering memorandum, the Republic believes that it is not likely that these reforms will be adopted and enacted before the 2003 elections.

The following are the main parties or political affiliations represented in Congress:

- *Frente Republicano Guatemalteco* was founded by former General Ríos Montt in 1990 and currently has 60 deputies in Congress. President Portillo is a member of the FRG.
- *Bancada of Gran Alianza Nacional* was formed in 2003 and is a coalition of three recently created parties. The *Bancada of GANA* currently has 13 deputies in Congress, including 11 that broke off from PAN.
- *Bancada Unionista* broke off from the PAN in 2000 and is in the process of becoming officially registered as a political party. The *Bancada Unionista* currently has 11 deputies in Congress.
- *Partido de Avanzada Nacional* was organized by supporters of Alvaro Arzú Irigoyen when he was Mayor of Guatemala City. In the 1999 elections, PAN won 37 seats in Congress. Subsequently, 13 of these seats went to the *Bancada Unionista* when it broke off as a separate party in 2000. In 2003, 11 deputies broke off and formed the GANA coalition. The PAN currently has 8 deputies in Congress.
- *URNG-DIA* broke off from the Alianza Nueva Nación and currently has five deputies in Congress.
- *UNE* has five deputies in Congress and is in the process of becoming officially registered as a political party.
- *Alianza Nueva Nación* has three deputies in Congress.
- *Democracia Cristiana Guatemalteca* is a Christian Democratic party, whose leader, Vinicio Cerezo, was elected president in 1985. The DCG has two deputies in Congress.

### **Foreign Policy and International Relations**

Guatemala maintains diplomatic relations with 121 countries and is a member of many regional and international organizations including, among others, the following:

- United Nations, including many of its specialized agencies;
- OAS;
- IDB;
- International Bank for Reconstruction and Development (World Bank, or IBRD);
- International Development Association (IDA);

- International Finance Corporation (IFC);
- IMF; and
- World Trade Organization (WTO).

### **Recent Decertification of Guatemala by President Bush**

On January 31, 2003, U.S. President George W. Bush determined, based upon the recommendation of the U.S. Department of State, that Guatemala, along with two other countries, had, in the opinion of the U.S. executive branch, “failed demonstrably” to adhere to international counternarcotics agreements and to take measures to combat the international illicit drug trade. Under U.S. federal law, any country that is so designated by the President, a process which is commonly referred to as “decertification”, becomes, absent a waiver, ineligible for many types of foreign aid from the U.S. government. In addition, a decertified country could be barred from participating in, or receiving the benefits of, U.S.-sponsored or -supported programs and initiatives.

President Bush determined, as permitted by U.S. federal law, that the continued provision of U.S. assistance to Guatemala remained “vital to the national interests of the United States” and waived application of the consequences of decertification for the U.S. government’s fiscal year ending September 30, 2003. This waiver may be revoked prior to the next decertification determination, although waivers granted to other countries in prior fiscal years have not, in practice, been revoked during the course of such fiscal years. Despite the grant of the waiver, however, the U.S. government has temporarily reduced its financial support to Guatemala for the combat of drug trafficking. The next decertification determination must be presented to the U.S. Congress by no later than September 15, 2003. No assurance can be given, however, that certification will be granted.

The Government recognizes that relations with the United States are vital to its national interests and, as a result, is holding frequent meetings with representatives of the U.S. government in order to address the problems and conditions that resulted in the decertification. The Government is taking the following steps to combat drug trafficking:

- increase confiscation of narcotics;
- increase arrests of accused drug traffickers;
- closely supervise maritime traffic to increase interdiction of drug smuggling;
- promptly destroy seized narcotics;
- strengthen the *Servicio de Análisis e Información Antinarcótica* (Anti-narcotics Information and Analysis Service);
- heighten enforcement of new anti-money laundering law;
- increase use of extradition proceedings;
- expand regulation of chemical ingredients used in the manufacture of illegal drugs; and
- broaden use of search warrants to combat illicit drug-related activity.

The Government received U.S. foreign aid totaling approximately US\$58.5 million in 2002. The largest U.S. foreign aid programs consist of food supply and distribution and health services for women who live in rural areas of the country, which accounted for US\$12.4 million and US\$4.7 million, respectively, in 2002. The Government expects to receive comparable amounts of U.S. foreign aid in 2003.

In the event that Guatemala continues to be decertified by the U.S. government, and the waiver of the consequences of decertification is withdrawn or not extended, Guatemala would lose U.S. foreign aid and also could be barred from participating in, or receiving benefits from, some U.S.-sponsored or –supported programs and initiatives, in which case the negative effect on Guatemala’s economic performance, financial position and political and social stability would be material. Any such adverse developments or consequences could impair the Government’s ability to meet its obligations under external and internal indebtedness, including its obligations under the notes.

## **Relations with Belize**

Guatemala has a long-standing claim to a large portion of Belize, which was the subject of a territorial dispute with the United Kingdom and, subsequently, with Belize after it gained independence from the United Kingdom in 1981. In that year, Belize unilaterally claimed rights to a portion of the territory claimed by Guatemala. Guatemala and Belize have never been involved in an armed conflict over this issue. In December 1989, Guatemala sponsored Belize for permanent observer status in the OAS. In 1991, Guatemala recognized Belize’s independence and established diplomatic ties, although it acknowledged that the countries’ boundaries remained in dispute. On various occasions, Guatemala has proposed submitting the dispute to an international court to solve the territorial dispute.

In early 2000, the Guatemalan Government proposed a territorial settlement that would have transferred more than half of Belize’s territory to Guatemala. Following a series of incidents, Guatemala and Belize agreed to implement several confidence-building measures to reduce tensions under the auspices of OAS-sponsored talks held in November 2000. These initiatives were followed by an agreement between both countries to open substantive discussions on the territorial dispute. Belize and Guatemala subsequently entered into an agreement under the OAS mediation to resolve their dispute and on August 16, 2002, the mediators presented the following recommendations:

- that the parties agree to procedures for a negotiated solution to the territorial dispute, including territorial and maritime definitions and delimitations, implementation of a free trade agreement and a mutual investment agreement, creation of a multinational ecological park among Guatemala, Belize and Honduras, and the establishment of a development fund that would have a minimum initial capital of US\$200 million for alleviating poverty and promoting development in the border area between Guatemala and Belize; or
- that the parties submit the territorial dispute to the International Court of Justice or an arbitration proceedings.

The Guatemalan Constitution provides that any final agreement regarding the Belize territorial dispute has to be approved through a referendum. The recommendations presented by the mediators also require Guatemala and Belize to call for such a referendum to decide on the implementation of the recommendations. Because the recommendations provide that the parties still have to negotiate certain treaties, the recommendations do not qualify under the Guatemalan Constitution as a final agreement eligible for submission to a referendum in Guatemala. The Government is considering initiating proceedings in the Constitutional Court to resolve this issue.

Guatemala believes that this territorial dispute has not impaired its good relations with Belize.

## **Regional Integration and Free Trade**

Guatemala’s economy is characterized by an open foreign trade policy as evidenced by its low tariffs. Guatemala has benefited from regional trade initiatives designed to open the markets of Central American nations to other nations in Latin America and North America. Regional integration has been especially beneficial to Guatemalan industry, particularly because it has enhanced its agricultural and processed foods exports. Trade initiatives with the United States have increased access to the U.S. market for many Guatemalan products and have provided a framework for further negotiations concerning trade liberalization between the two nations. Increased access to international markets and liberalization of trade barriers are related elements of Guatemala’s plan to increase international competitiveness and exports and to encourage investment.



### ***Regional Trade Initiatives Involving Central America***

Guatemala participates in several regional initiatives to promote trade and investment. The most significant of these initiatives consist of the following:

- *Mercado Común Centroamericano* (Central American Common Market);
- Caribbean Basin Initiative (CBI); and
- Trade and Investment Framework Agreement (TIFA).

In 1960, Guatemala, El Salvador, Honduras and Nicaragua, joined by Costa Rica in 1963, signed the General Treaty for Central American Economic Integration (General Treaty), which provided the framework for the Central American Common Market. The Central American Common Market was implemented in 1963 as an attempt to move towards regional economic integration. The General Treaty envisioned a customs union, macroeconomic coordination and a regime for balancing regional development through the designation of integrated industries, which would benefit from economies of scale if established in more than one country in the region. The Central American Common Market helped create a boom in intra-regional trade in the 1960s and early 1970s. However, the Central American Common Market essentially collapsed during the late 1970s due to political problems and economic imbalances. Intra-regional trade contracted sharply during the 1980s.

In the 1990s, the member nations of the Central American Common Market decided to reinvigorate the regional integration movement and signed several treaties to allow for the free movement of a majority of the products of the member nations and coordinate tariffs. These treaties resulted in the following key achievements:

- elimination of barriers to free movement of goods, including some agricultural products, and people among the member nations;
- equal treatment of companies from other member nations that invest in the construction of roads, bridges, irrigation systems, electrification and similar regional infrastructure projects; and
- a general trend in the reduction of average import tariffs from 8.5% in 1998 to 5.2% in 2002, despite an interim increase to 7.2% in 2001.

Guatemala is in the process of conforming its trade regulations to the basic principles of the General Agreement on Trade in Services of the WTO. Central American nations also have begun discussions with respect to a proposed regional Project of Regulations for the Trade in Services, which would provide a framework for the gradual liberalization of services and trade.

In March 1998, Guatemala signed the TIFA with other Central American nations. On June 29, 2000, Guatemala signed a free trade agreement with El Salvador, Honduras and Mexico. In addition, Guatemala is currently negotiating free trade agreements with Canada, Chile and Panama.

Guatemala is negotiating with other Central American countries and the United States to establish a Central American Free Trade Agreement, or CAFTA. Discussions regarding CAFTA are currently taking place and the fifth round of meetings took place in Tegucigalpa, Honduras in June 2003, with further rounds scheduled for later in 2003. The IDB has agreed to assist the Central American nations in preparations and negotiations for the CAFTA. The participants have negotiated several topics, including access to markets, rules of origin, and technical obstacles to commerce. Other topics, such as free trade on sensitive products will be discussed in later negotiation rounds. The Republic anticipates that CAFTA would create opportunities for economic growth through greater liberalization of trade restrictions, particularly with the United States. In the event that the scheduled rounds of negotiations are favorably concluded in 2003, the Republic anticipates that CAFTA may be implemented as early as March 2004. However, negotiations are still in progress and no assurances can be given as to further progress or a timetable for eventual implementation or of the impact of the U.S. government's decertification of Guatemala on the final outcome of the CAFTA.

### ***Free Trade Zones***

Free trade zones are industrial parks set aside for manufacturing of a variety of products exclusively for export. These industrial parks operate in a nearly free trade environment. Some of the manufacturing in the free trade zones consists of assembly manufacturing, with raw materials imported into Guatemala, free of import duties, and then assembled to produce finished goods for export. Intermediate and capital goods entering the free trade zones are likewise not subject to import tariffs, and goods manufactured in the free trade zones enter the United States free of import duties or with preferential duties under the CBI. Exports from the free trade zones have also benefited from preferential trade treatment accorded by the United States to certain textile products under the U.S.-Caribbean Textile Parity Agreement, which was approved by the U.S. Congress in May 2000. The tax advantages of the free trade zones include:

- five-year exemptions from income taxes from commencement of commercial activities (consisting of the sale and distribution of goods after they are imported to Guatemala);
- ten-year exemptions from income taxes for industries and services from commencement of operations (consisting of the transformation of raw materials into the final product as well as the rendering of services to other industries); and
- exemption from VAT for operations within and between free zones.

The Government believes these tax advantages have drawn foreign companies to operate in Guatemala. There were 999 companies operating within these trade zones employing 172,406 people as of December 31, 2002. Since the establishment of these free trade zones, aggregate investment in this zones totaled approximately Q6,417.9 million (US\$825.5 million) and total exports from companies within the free trade zones to countries outside of Central America were approximately Q7,570.4 million (US\$973.7 million) as of December 31, 2002. As of December 31, 2002, there were 13 free trade zones located throughout Guatemala and an additional five free trade zones are planned to open by year end 2003.

### ***Trade Initiatives Involving the United States and other Countries***

In 1981, the U.S. government established the Caribbean Basin Initiative (CBI) to aid Central American and Caribbean countries, including Panama, by providing duty-free access to the U.S. market for all goods originating in member countries. The list of duty-free products contains a few notable exceptions, including beef, textiles, clothing, oil and oil derivatives. Sugar remains subject to quotas. The CBI also contains rules of origin which require that products must have at least 35% content from member countries to be eligible for duty-free treatment. The United States is currently considering the adoption of the Interim Trade Program, which would remove all tariffs and quotas on textiles and clothing exported to the United States from CBI countries that conform to rules on labor, intellectual property rights and protection of the environment provided for in the North American Free Trade Agreement (NAFTA).

In December 1994, at the Summit of the Americas in Miami, Florida, the presidents of the United States and the Central American countries signed the *Conjunto Centroamericano-USA* (CONCAUSA), a partnership for sustainable development, which set a goal of achieving a Free Trade Area of the Americas by 2005. CONCAUSA has fostered cooperation among its member countries and promoted a unified strategy for the sustainable political, economic, social and environmental development of Central America, along with other programs such as the CBI. A renewed version of CONCAUSA was signed in Washington, D.C. on June 7, 2001, which seeks to improve Central America's environmental management, competitiveness in global markets and protection of its biodiversity. The member countries of CONCAUSA are finalizing work on an updated plan of action that will foster sustainable economic development, promote free trade, conserve Central America's biodiversity, strengthen environmental laws and their enforcement, and improve energy efficiency.

In 2000, Guatemala received "NAFTA parity" status from the United States as a member of CBI, which affords it significant benefits including more favorable access to U.S. markets especially for textiles and clothing products.

On June 15, 2001, Mexico, Guatemala, and six other Central American countries signed the Puebla–Panama Plan, which is intended to strengthen regional development by linking Mexico’s nine southern states with Central America. The signatories are still negotiating the terms of the funding with the IDB. The Puebla–Panama Plan is expected to strengthen regional development by fostering joint planning to promote tourism, trade, education and environmental protection; ease travel restrictions between the member countries; improve transportation links; and connect power, telephone and gas grids in order to eventually tie such grids into U.S. and Canadian systems.

Guatemala is a participant in preliminary talks with other Central American countries and the United States to establish CAFTA. See “—Regional Trade Initiatives Involving Central America”.

The Portillo administration has established the following objectives for its trade policy:

- enter into additional international trade agreements;
- improve unfair competition and consumer protection laws;
- support small businesses with technical assistance and other programs; and
- enhance legal protection for foreign investors.

During Portillo’s administration, Congress has approved free trade agreements with Mexico and the Dominican Republic.

### **Political, Social and Other Problems Affecting Guatemala**

Guatemala is a developing country that is affected by political, social and other problems and conditions.

In October 2002, members of the Bush Administration testified before the Subcommittee on The Western Hemisphere of the Committee on International Relations of the U.S. House of Representatives. The testifying government officials included, among others, Otto J. Reich, the then Assistant Secretary for Western Hemisphere Affairs of the U.S. Department of State. According to the then Assistant Secretary and other persons, significant problems and conditions affecting Guatemala include, among others, corruption, trafficking in drugs, alien smuggling, organized crime, high crime rates, human rights concerns, and a need to implement political, economic and social reforms.

The Government does not fully accept the characterization of Guatemala by the former Assistant Secretary and other persons. However, the administration of President Portillo recognizes that many of the cited political, social and other problems and conditions do exist and require its prompt attention. The current administration has, for example, initiated prosecutions against a number of officials for alleged corruption. The Government has also stated that paramilitary groups, responsible for a resurgence in threats, violence and intimidation against human rights activists and judges, among others, pose a problem to social stability. The Government has begun to take steps to identify, investigate and address actions by these groups.

The current administration intends to devote resources and efforts to combat these political, social and other problems. No assurance can be given, however, that these problems and conditions will be successfully remedied or as to the intentions of any future administration in this regard.

## THE GUATEMALAN ECONOMY

Economic activity in Guatemala is principally driven by the private sector. The Government has historically played a very limited role in the economy, with public administration and defense spending constituting 7.4% of GDP in 1998, 7.5% in 1999, 7.6% in 2000, 7.7% in 2001 and 7.5% in 2002.

The Guatemalan economy historically has relied heavily upon agriculture, which, in turn, relied heavily on the export of coffee, sugar, bananas and cardamom. As Central American countries took strides towards regional economic integration in the 1960s and 1970s, Guatemala became an important regional source for manufactured consumer products as well as processed foods, and the Republic has made some strides in promoting the export of non-traditional products.

### **Economic Developments During the 1998-2002 Period**

Over the last five years, Guatemala's economy has been characterized by:

- continued growth;
- low inflation;
- a stable foreign exchange rate;
- relatively small public sector fiscal deficits; and
- low external and internal public sector debt levels.

GDP expanded at a real rate of 5.0% in 1998 (despite the effects of Hurricane Mitch), 3.8% in 1999, 3.6% in 2000, 2.3% in 2001 and an estimated 2.2% in 2002. During the period from 1998 to 2002, the rate of growth of the economy has declined due to the effects of Hurricane Mitch, global economic conditions and the decrease in commodity prices worldwide for many of Guatemala's main exports. Starting in 1999, the Government began to confront and address weaknesses in its financial sector, which resulted in the intervention of three banks and two financial institutions and subsequent efforts to strengthen the legal framework for supervision of the banking system. See "Monetary System." The Government has run relatively small fiscal deficits during the last five years. In 2002, the Government recorded a deficit of 1.0% of GDP compared to 1.9% of GDP in 2001.

Important economic goals achieved during the Portillo administration include:

- continuing the liberalization of the economy and the trade regime through signing free trade agreements with Mexico and the Dominican Republic, entering into bilateral investment agreements with Argentina, Cuba, France and Taiwan and significant progress towards CAFTA;
- strengthening and modernizing the financial sector, including through better supervision, and through enacting several new laws, including a new Organic Law for the Bank of Guatemala and anti-money laundering legislation;
- reforming the tax regime and increasing tax collections from 9.4% of GDP in 2000 to 10.6% of GDP in 2002, the highest rate in the history of the Republic;
- reducing the public deficit from 1.8% of GDP in 2000 to 1.0% in 2002;
- meeting macroeconomic and fiscal targets agreed upon with the IMF;
- maintaining relatively stable rates of inflation;
- increasing fiscal transparency;

- addressing ongoing problems associated with poverty through the implementation at the end of 2001 of the Poverty Reduction Strategy;
- increasing investment in infrastructure, particularly in the communications sector; and
- increasing reconstruction efforts related to the Peace Program following more than three decades of civil war.

In May 2000, 130 organizations and the executive, legislative and judicial branches of government entered into the Fiscal Pact, a set of commitments regarding tax revenues, social spending, balancing the budget and other fiscal matters. The Fiscal Pact requires that the Government strive to achieve certain financial targets, including an increase in tax revenues to 12% of GDP from a current 10.6% of GDP in 2002, a decrease in the average annual fiscal deficit to approximately 1% of GDP by the end of 2003 and the formation of a supervisory committee to ensure compliance with the goals of the Fiscal Pact. In June 2000, the signatories to the Fiscal Pact signed the Political Agreement for Peace Program Financings, which includes various specific tax measures and a detailed implementation schedule to achieve these goals. Congress approved significant tax reforms in 2001, including the following:

- an increase in the VAT from 10% to 12%;
- an increase in the tax on mercantile and agricultural enterprises;
- the elimination or reduction of certain exemptions, credits and deductions with respect to corporate and personal income taxes, including limitations on the use of VAT as a tax credit for income tax purposes;
- the reduction of exemptions applicable to taxes on airfares and an increase in airport departure taxes;
- an increase in motor vehicle licensing taxes;
- the reduction of exemptions with respect to, and the broader applicability of, stamp taxes;
- the improvement of tax enforcement and collection; and
- other changes in the tax and criminal codes intended to increase tax revenues and collections in various sectors of the economy.

The Constitutional Court is reviewing several challenges to the constitutionality of several laws, including laws on taxes on mercantile and agricultural enterprises, taxes on oil and fuel distribution, taxes on beer and other beverages, taxes on certain goods imported to Central America, and taxes on land, water and air vehicles. See “Public Sector Finances—Tax Regime.”

### **Gross Domestic Product and Structure of the Economy**

Guatemala has the largest economy in Central America based on GDP, according to the World Bank. The economy has expanded in recent years, growing at a real rate estimated at 2.2% in 2002. Real GDP growth in 2002 was led primarily by the wholesale and retail trade, agriculture and manufacturing sectors. The rate of growth of the economy increased steadily in 1998, but then declined in 1999 due to the effects of Hurricane Mitch primarily on the agricultural sector and lower worldwide coffee prices. The decline in the rate of economic growth in the years after 1999 was due to lower demand for exports, particularly agricultural products and products from the free trade zones, from the United States and other countries in Central America, which are Guatemala’s main trading partners. The lower demand resulted from the worldwide economic slowdown. Lower worldwide coffee prices also affected the Guatemalan economy.

The inflation rate has generally declined during the last five years, from 7.5% in 1998 to 5.1% in 2000, increased to 8.9% in 2001 and decreased to 6.3% in 2002. Inflation in 2001 and 2002 exceeded the inflation target

set by the Monetary Board, which had been between 4.0% and 6.0% in each of those years. Since January 1, 2001, the consumer price index has been calculated using information from eight geographic regions or departments where the 15 largest cities in Guatemala are located and a basket of 422 goods and services. Previously, the index was calculated using information from Guatemala City only and a basket of 212 goods and services. The new methodology permits the calculation of inflation on a more accurate and reliable basis. The Monetary Board has targeted an inflation rate between 4.0% and 6.0% for 2003.

Net international monetary reserves of the Bank of Guatemala were US\$2,347.9 million as of December 31, 2001 and US\$2,369.7 million as of December 31, 2002, covering approximately 4.4 months of imports of goods and services as of that date.

As of March 31, 2003, the gold reserves of the Republic were US\$73.4 million compared to US\$65.0 as of March 31, 2002.

In 1998, 1999 and 2001, Guatemala experienced an increase in foreign direct investments as a result of the receipt of proceeds from privatizations in those years. Foreign direct investment decreased in 2000 compared to 1999, primarily as a result of lower levels of public investment. Foreign direct investment decreased further in 2002 compared to 2001, primarily due to a decrease in privatizations. Savings rates increased in the period from 1998 through 2002, principally reflecting an increase in private savings triggered by the effects of the privatizations and higher profit margins.

The following tables set forth GDP by expenditures and as a percentage of total GDP for the years indicated:

**Gross Domestic Product by Expenditure**  
(in millions of US\$ and as % of total GDP)<sup>(1)</sup>

	1998		1999		2000		2001		2002 <sup>(2)</sup>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
<b>Private expenditure:</b>										
Private consumption.....	16,456.1	85.0	15,519.4	84.7	16,205.3	84.0	17,822.0	84.9	20,073.2	86.2
Private investment.....	2,642.6	13.7	2,720.9	14.8	2,650.8	13.7	2,598.7	12.4	2,998.5	12.9
Change in inventory.....	145.0	0.7	(98.6)	(0.5)	330.0	1.7	454.4	2.2	718.4	3.1
Total private expenditure.....	19,243.7	99.4	18,141.7	99.0	19,186.1	99.4	20,875.1	99.5	23,790.1	102.2
<b>Public expenditure:</b>										
Public consumption.....	1,099.1	5.7	1,158.6	6.3	1,352.3	7.0	1,581.9	7.5	1,664.8	7.1
Public investment.....	579.9	3.0	558.4	3.1	463.2	2.4	649.8	3.1	648.0	2.8
Total public expenditure.....	1,679.0	8.7	1,717.0	9.4	1,815.5	9.4	2,231.7	10.6	2,312.8	9.9
Gross national expenditures.....	20,922.7	108.1	19,858.7	108.4	21,001.6	108.8	23,106.8	110.1	26,102.9	112.1
Exports of goods and services.....	3,517.7	18.2	3,483.3	19.0	3,899.9	20.2	3,939.2	18.8	3,760.8	16.1
Imports of goods and services.....	(5,082.0)	(26.3)	(5,013.8)	(27.4)	(5,590.6)	(29.0)	(6,055.5)	(28.9)	(6,572.8)	(28.2)
Gross domestic product.....	19,358.4	100.0	18,328.2	100.0	19,310.9	100.0	20,990.5	100.0	23,290.9	100.0

(1) Translated at the average daily official exchange rate for each year.

(2) Preliminary data.

Source: Bank of Guatemala.

**Gross Domestic Product by Expenditure**  
(in millions of Q and as % of total GDP)

	<b>1998</b>		<b>1999</b>		<b>2000</b>		<b>2001</b>		<b>2002<sup>(1)</sup></b>	
	<b>Q</b>	<b>%</b>	<b>Q</b>	<b>%</b>	<b>Q</b>	<b>%</b>	<b>Q</b>	<b>%</b>	<b>Q</b>	<b>%</b>
<b>Private expenditure:</b>										
Private consumption .....	105,428.5	85.0	114,554.3	84.7	125,660.6	84.0	139,919.0	84.9	156,808.9	86.2
Private investment .....	16,930.0	13.7	20,083.7	14.8	20,555.4	13.7	20,402.3	12.4	23,423.6	12.9
Change in inventory .....	929.2	0.7	(727.6)	(0.5)	2,560.3	1.7	3,567.1	2.2	5,612.2	3.1
Total private expenditure .....	123,287.7	99.4	133,910.4	99.0	148,776.3	99.4	163,888.4	99.5	185,844.7	102.2
<b>Public expenditure:</b>										
Public consumption .....	7,041.3	5.7	8,552.3	6.3	10,485.9	7.0	12,419.6	7.5	13,004.8	7.1
Public investment .....	3,715.2	3.0	4,121.6	3.1	3,591.6	2.4	5,101.7	3.1	5,062.2	2.8
Total public expenditure .....	10,756.5	8.7	12,673.9	9.4	14,077.5	9.4	17,521.3	10.6	18,067.0	9.9
Gross national expenditures .....	134,044.2	108.1	146,584.3	108.4	162,853.8	108.8	181,409.7	110.1	203,911.7	112.1
Exports of goods and services .....	22,536.9	18.2	25,711.2	19.0	30,240.7	20.2	30,926.5	18.8	29,378.9	16.1
Imports of goods and services .....	(32,558.6)	(26.3)	(37,008.5)	(27.4)	(43,351.4)	(29.0)	(47,541.4)	(28.9)	(51,345.5)	(28.2)
Gross domestic product ...	124,022.5	100.0	135,287.0	100.0	149,743.0	100.0	164,794.8	100.0	181,945.1	100.0

(1) Preliminary data.

Source: Bank of Guatemala.

The following table sets forth investments and savings as a percentage of GDP for the years indicated.

	<b>Investments and Savings<sup>(1)</sup></b> (as % of GDP)				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Gross domestic investments .....	17.4%	17.3%	17.8%	17.6%	18.7%
Domestic savings:					
Public savings .....	3.5	3.8	3.0	3.0	4.8
Private savings .....	8.7	8.0	9.4	8.7	8.9
Total domestic savings .....	12.2	11.8	12.4	11.7	13.7
External savings .....	5.2	5.5	5.4	5.9	5.0
Total savings .....	17.4%	17.3%	17.8%	17.6%	18.7%

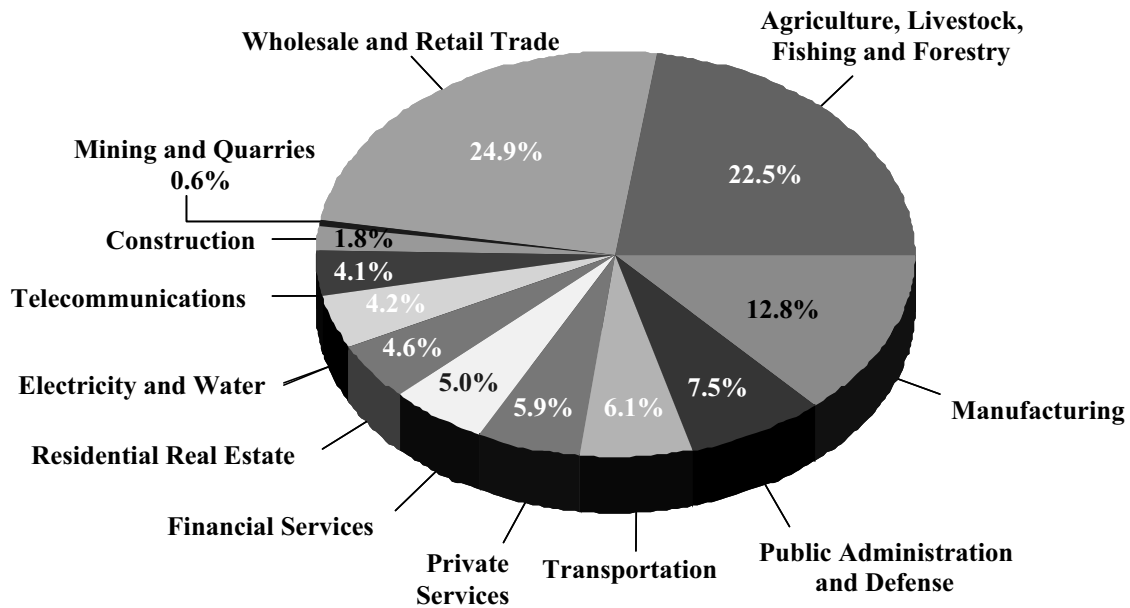
(1) Unofficial data. The Bank of Guatemala does not publish this information; therefore, it is considered unofficial.

Source: Bank of Guatemala.

## Principal Sectors of the Economy

The principal economic activities in Guatemala are wholesale and retail trade, and agriculture, livestock, fishing and forestry. The following chart presents the contribution of each sector of the Guatemalan economy to GDP in 2002 (based upon preliminary data).

Sectors of the Guatemalan Economy (as a % of GDP for 2002)





The following tables set forth the distribution of real GDP by economic sector as a percentage of real GDP for the years indicated, and annual growth of real GDP by sector.

**Gross Domestic Product by Economic Sector**  
(in millions of Q at real prices and as % of real GDP at real prices)

	1998		1999		2000		2001		2002 <sup>(1)</sup>	
	Q	%	Q	%	Q	%	Q	%	Q	%
<b>Primary production:</b>										
Agriculture, livestock, fishing and forestry .....	1,105.3	23.4	1,128.6	23.0	1,157.9	22.8	1,171.3	22.6	1,192.5	22.5
Mining and quarries.....	29.4	0.6	28.8	0.6	26.4	0.5	26.6	0.5	29.2	0.6
Total primary production .....	1,134.7	24.0	1,157.4	23.6	1,184.3	23.3	1,197.9	23.1	1,221.7	23.1
<b>Secondary production:</b>										
Manufacturing .....	639.8	13.6	656.0	13.4	668.2	13.2	675.6	13.0	681.0	12.8
Electricity and water.....	161.7	3.4	179.6	3.7	210.9	4.2	204.6	3.9	223.2	4.2
Construction.....	112.0	2.4	120.7	2.5	98.6	1.9	110.5	2.1	93.6	1.8
Total secondary production .....	913.5	19.4	956.3	19.6	977.7	19.3	990.7	19.0	997.8	18.8
<b>Services:</b>										
Wholesale and retail trade .....	1,162.9	24.7	1,199.9	24.5	1,249.5	24.6	1,282.9	24.7	1,319.2	24.9
Transportation.....	282.8	6.0	297.3	6.1	308.6	6.1	319.2	6.2	328.6	6.1
Storage .....	1.7	—	1.8	—	1.5	—	1.4	—	1.5	—
Telecommunications.....	141.7	3.0	156.0	3.2	179.4	3.6	202.2	3.9	222.1	4.1
Residential real estate .....	217.2	4.6	225.6	4.6	232.6	4.6	239.0	4.6	245.4	4.6
Financial services .....	244.9	5.2	257.6	5.3	265.6	5.2	260.5	5.0	265.3	5.0
Public administration and defense....	347.3	7.4	365.8	7.5	384.7	7.6	398.0	7.7	395.8	7.5
Private services <sup>(2)</sup> .....	268.8	5.7	279.1	5.7	289.7	5.7	300.2	5.8	311.2	5.9
Total services .....	2,667.3	56.6	2,783.1	56.8	2,911.6	57.4	3,003.4	57.9	3,089.1	58.1
Total GDP .....	4,715.5	100.0	4,896.8	100.0	5,073.6	100.0	5,192.0	100.0	5,308.6	100.0

(1) Preliminary data.

(2) Includes health, recreational services and hotels.

Source: Bank of Guatemala.

**Growth of Real Gross Domestic Product by Sector**  
(% change from previous year)

	1998	1999	2000	2001	2002 <sup>(1)</sup>
<b>Primary production:</b>					
Agriculture, livestock, fishing and forestry .....	3.7	2.1	2.6	1.2	1.8
Mining and quarries .....	21.0	(2.0)	(8.5)	0.7	10.0
Total primary production .....	4.1	2.0	2.3	1.1	1.5
<b>Secondary production:</b>					
Manufacturing .....	3.6	2.5	1.9	1.1	0.8
Electricity and water .....	5.8	11.1	17.4	(3.0)	9.1
Construction .....	9.3	7.8	(18.3)	12.1	(15.3)
Total secondary production .....	4.7	4.7	2.2	1.1	(0.1)
<b>Services:</b>					
Wholesale and retail trade .....	5.3	3.2	4.1	2.7	2.8
Transportation .....	7.4	5.1	3.8	3.4	3.0
Storage .....	—	5.9	(16.7)	(8.3)	5.0
Telecommunications .....	7.9	10.1	15.0	12.7	9.8
Residential real estate .....	3.3	3.9	3.1	2.7	2.7
Financial services .....	8.4	5.2	3.1	(1.9)	1.8
Public administration and defense .....	4.4	5.3	5.1	3.5	(0.6)
Private services <sup>(2)</sup> .....	3.6	3.8	3.8	3.6	3.7
Total services .....	5.5	4.3	4.6	3.2	2.9
<b>Total GDP .....</b>	<b>5.0</b>	<b>3.8</b>	<b>3.6</b>	<b>2.3</b>	<b>2.2</b>

(1) Preliminary data.

(2) Includes health, recreational services and hotels.

Source: Bank of Guatemala.

## Primary Production

### *Agriculture, Livestock, Fishing and Forestry*

The agricultural sector historically has been a major component of the economy, accounting in 2002 for 22.5% of total GDP and approximately 35.3% of the Republic's export value. Value of imports and exports is calculated based upon statistics reported to the Republic's customs agency upon entry and departure of goods into the Republic. Export and import revenue is calculated based upon amount of foreign currency exchange in the banking system.

The agricultural sector has grown at an average annual rate of approximately 2.3% per year for the years 1998 through 2002. During this period, agricultural production, export revenues and export value were affected by Hurricane Mitch in 1998, a decline in worldwide coffee prices in 1999 and in subsequent years, and a greater demand for non-traditional products, such as chemical products, flowers and plants and processed foods.

Of Guatemala's total land area, less than one-third is devoted to agriculture. Guatemala has diverse climatic conditions, rich volcanic soil and varying altitudes, all of which make it well-suited for cultivation of tropical and sub-tropical crops. Guatemala's major traditional agricultural products for domestic consumption are corn, beans, sorghum and rice. Coffee, sugar, bananas and cardamom dominate agricultural exports. The major non-traditional agricultural products for export include fruits, flowers and plants, and vegetables.

Corn, beans and potatoes are staple foods in Guatemala, and most domestic consumption requirements are met by local production. In 2002, corn production increased 1.0% to 23.2 million *quintales*; bean production increased 1.0% to 2.1 million *quintales*; and potato production increased 6.7% to 2.0 million *quintales*, in each case compared to 2001.

Livestock grew 1.4% in 2002 compared to 2001, reflecting decreased domestic consumption, while forestry grew 2.5% in 2002 compared to 2001, and fishing grew 8.0% in 2002 compared to 2001.

The following tables set forth information regarding the production of certain products in the agricultural sector for the years indicated.

**Production of Selected Primary Goods**  
(in thousands of *quintales*)

	1998	1999	2000	2001	2002 <sup>(1)</sup>
Coffee .....	4,950.0	5,445.0	5,330.7	4,664.3	4,300.0
Sugar .....	384,040.0	340,102.0	311,716.5	329,870.2	367,396.5
Bananas .....	17,033.2	14,342.0	18,042.2	19,521.6	21,649.5
Vegetables .....	8,255.7	9,741.7	10,355.5	10,541.9	9,529.8
Cardamom .....	387.6	320.0	325.9	380.3	481.9
Potatoes .....	1,585.7	1,665.0	1,764.9	1,874.3	2,000.0

(1) Preliminary data.

Source: Bank of Guatemala.

**Gross Value of Selected Primary Goods Production**  
(in millions of Q, at real prices)

	1998	1999	2000	2001	2002 <sup>(1)</sup>
Coffee .....	195.2	214.7	210.2	184.0	169.6
Sugar .....	119.1	105.4	96.6	102.3	113.9
Bananas .....	65.3	55.0	69.2	74.8	83.0
Vegetables .....	49.5	58.4	62.1	63.3	57.2
Cardamom .....	59.7	49.3	50.2	58.6	74.2
Potatoes .....	6.9	7.2	7.6	8.1	8.7
Livestock .....	377.5	397.4	414.7	433.1	439.3
Forestry .....	78.2	79.9	82.3	84.8	86.9
Fishing .....	13.0	14.3	16.1	17.3	18.7

(1) Preliminary data.

Source: Bank of Guatemala.

**Gross Value of Selected Primary Goods Production**  
(% change from previous year, at real prices)

	1998	1999	2000	2001	2002 <sup>(1)</sup>
Coffee .....	1.5	10.0	(2.1)	(12.5)	(7.8)
Sugar .....	19.5	(11.5)	(8.3)	5.8	11.4
Bananas .....	3.0	(15.8)	25.8	8.2	10.9
Vegetables .....	(0.6)	18.0	6.3	1.8	(9.6)
Cardamom .....	2.1	(17.4)	1.8	16.7	26.7
Potatoes .....	3.0	4.3	6.0	6.2	6.7
Livestock .....	3.5	5.3	4.4	4.4	1.4
Forestry .....	1.0	2.2	3.0	3.1	2.5
Fishing .....	1.6	10.0	12.0	8.0	8.0

(1) Preliminary data.

Source: Bank of Guatemala.

*Coffee.* Guatemala is one of the world's leading coffee producers. Substantially all of Guatemala's coffee is of the arabica type and is exported. Coffee is Guatemala's most important export product, accounting for 3.2% of GDP in 2002 and 12.0% of total value of exports in 2002 compared to 12.2% in 2001. The *Asociación Nacional del Café* (the National Coffee Association, or ANACAFE), the private coffee growers' association in Guatemala, seeks to improve the quality and variety of the product and to implement technological advances in the production of coffee. Major purchasers of Guatemalan coffee in 2002 were the United States (46.3%), Germany (13.9%) and Japan (7.1%).

Coffee, like sugar, is a commodity and international prices are determined on the basis of worldwide supply and demand. Historically, coffee exports have been higher than production due to imports of raw coffee beans into Guatemala from other Central American countries which are then exported by Guatemala. Worldwide coffee prices have declined since 1998 due to increased supply from new entrants in the market such as Vietnam. To counteract the effects of the decline in wholesale coffee prices, during 2001, the Government issued coffee notes in an aggregate amount of US\$100 million to aid coffee growers in Guatemala.

The following table sets forth coffee production, value of coffee exports and the average price per *quintal* of coffee for the agricultural years indicated. Agricultural years are based on the seasonality of the production of the relevant agricultural product. The agricultural year for coffee takes place from October of one year to September of the following year.

#### Coffee Production and Prices

	1998	1999	2000	2001	2002 <sup>(1)</sup>
Production <sup>(2)</sup> .....	4,950.0	5,445.0	5,330.7	4,664.3	4,300.0
Export volume <sup>(2)</sup> .....	4,622.4	6,115.8	6,316.8	5,282.8	4,528.7
Value of exports (in millions of US\$).....	584.5	587.9	572.3	300.8	269.0
Price per <i>quintal</i> (in US\$) <sup>(3)</sup> .....	126.4	96.1	90.6	56.9	59.4

(1) Preliminary data.

(2) In thousands of *quintales*.

(3) Amounts reflect the average export price per *quintal* of coffee, not the average international price of coffee.

Source: Bank of Guatemala.

In 1998, the volume of coffee exports was 4.6 million *quintales* and the value of coffee exports was US\$584.5 million. In 1999, coffee production increased to 6.1 million *quintales* and decreased to 5.3 million *quintales* in 2000. In 2000, the volume of coffee exports increased 3.3% to reach 6.3 million *quintales*, while the value of coffee exports decreased 2.6% to reach US\$572.3 compared to 1999. This increase in export volume in 2000 was mainly due to additional production in sales to new markets such as Bulgaria, Romania and Indonesia. Coffee export revenues did not increase proportionately because of the decrease in worldwide coffee prices.

In 2001, the volume of coffee exports decreased 16.4% to 5.3 million *quintales*, while the value of coffee exports decreased 47.4% compared to 2000, falling to US\$300.8 million. The decrease in coffee export value in 2001 was mostly caused by a significant drop in worldwide coffee prices. Coffee prices decreased 37.2% to US\$56.9 per *quintal* in 2001 compared to 2000, due in part to the continuing drop in prices which was precipitated by the excess supply worldwide.

In 2002, Guatemala's coffee exports continued to decline. The volume exported decreased 14.3% compared to 2001 to reach 4.5 million *quintales*, while the value of coffee exports decreased 10.6% compared to 2001, falling to US\$269.0 million. The decrease in coffee export value in 2002 was mostly caused by overproduction worldwide, particularly in Brazil and Vietnam, which resulted in reduced prices and lower revenue. Coffee prices increased 4.4% in 2002 compared to 2001. To counteract the decline in coffee export revenues, many coffee producers in Guatemala are now turning to production of high end coffee, normally produced at very high altitudes.

*Sugar.* Sugar is the second largest source of export revenues, accounting for 2.1% of GDP in 2002 and 9.3% of total export revenues in 2002. Sugar export revenues increased to US\$208.2 million in 2002 compared to US\$259.5 million in 2001, despite the fall in international prices. Most of Guatemala's sugar is exported to South Korea (42.2%) and the United States (8.6%).

Sugar export volume increased in 1998 due to new markets like South Korea, sales to Russia and increased demand from Peru and Canada. In 1998, the volume of sugar exports was 30.0 million *quintales* and the value of sugar exports was US\$310.6 million compared to 25.1 million *quintales* and a value of sugar exports of US\$188.1 million in 1999. These decreases in 1999 were the result of various climatic factors, including droughts and Hurricane Mitch in late 1998. In 2000, the volume of sugar exports increased 6.1% compared to 1999 to 26.6 million *quintales*, while the value of sugar exports decreased 4.5% compared to 1999 to US\$179.6 million. This

decrease in value was partially the result of a worldwide excess supply of sugar which also resulted in lower prices in the global markets.

In 2001, the volume of sugar exports increased 18.0% compared to 2000 to 31.4 million *quintales*, while the value of sugar exports increased 44.5% compared to 2000 to US\$259.6 million. These increases were partially the result of higher prices in the global markets.

In 2002, the volume of sugar exports decreased 12.9% compared to 2001 to 27.3 million *quintales*, while the value of sugar exports decreased 19.8% compared to 2001 to US\$208.2 million, despite the decrease of the average price per *quintal* of sugar from US\$8.27 in 2001 to US\$7.62 in 2002.

*Bananas.* Bananas are produced mainly for export by multinational companies and accounted for 1.6% of GDP in 2002 and 10.4% of total export revenues in 2002. In 2002, all of Guatemala's banana exports went to the United States. The value of banana exports reached US\$233.0 million in 2002.

In 1998, banana production was 17.0 million *quintales*, while banana export volume was 14.6 million *quintales* and the value of banana exports was US\$177.9 million. In 1999, banana production decreased to 14.3 million *quintales*, while export volume decreased 19.2% to reach 11.8 million *quintales* and the value of banana exports decreased 19.6% to US\$143.1 million compared to 1998. In 2000, banana production increased 25.8% to reach 18.0 million *quintales*, while the value of banana exports increased 31.2% to reach US\$187.8 million compared to 1999. In 2001, banana production increased 8.2% to 19.5 million *quintales* while the value of banana exports increased 2.8% to US\$193.0 million compared to 2000. These increases were due principally to greater worldwide demand for bananas from Guatemala due to climatic conditions that affected the other main banana exporting countries and labor related problems in other banana exporting countries. In 2002, banana production increased 10.9% to 21.6 million *quintales* while the value of banana exports increased 20.7% to US\$233.0 million compared to 2001. These increases were due principally to adverse climatic conditions affecting Costa Rica which in turn resulted in increased demand from the United States for bananas produced outside Costa Rica.

Guatemala has taken a number of steps designed to increase production and to satisfy the increased external demand for bananas, including the restoration of banana planting lands that were damaged by floods in the eastern region of Izabal, better crop protection measures and labor stability.

*Cardamom.* Guatemala is a major producer of cardamom, a spice that is exported primarily to the Middle East. This spice accounted for 1.4% of GDP and US\$93.1 million in export value in 2002. The value of cardamom exports decreased by 3.4% in 1998, and then increased 54.1% in 1999, 40.8% in 2000, and 21.0% in 2001, in each case compared to exports in the prior year, primarily due to greater international demand, particularly from Middle Eastern countries. In 2002, cardamom exports increased 26.9% compared to 2001 as a result of increased demand from countries such as Singapore, Saudi Arabia and Egypt, and exports to new markets such as the British Virgin Islands, Thailand and Nepal.

*Non-traditional products.* In recent years, Guatemalan producers have transferred resources to the production of higher value-added non-traditional products, taking advantage of increased foreign demand for such products. Non-traditional export products in Guatemala include chemical products, flowers and plants, processed foods, and fruits and fruit preparations.

Exports of non-traditional products increased from US\$1,394.8 million in 1998, to US\$1,437.3 million in 1999, to US\$1,532.9 million in 2000, but decreased to US\$1,513.9 million in 2001, and to US\$1,279.8 in 2002. The decrease during 2001 and 2002 is the result of continued decrease in exports outside of Central America, particularly to the United States.

Exports of non-traditional products grew at an average annual rate of 1.5% in the period from 1998 through 2002, while traditional exports decreased at an average annual rate of 3.4% over the same period. Non-traditional exports represented 54.4% of total exports in 1998 and 57.2% in 2002. Exports of non-traditional products increased 3.0% in 1999 compared to 1998, and 6.7% in 2000 compared to 1999, but decreased 1.2% in 2001 compared to 2000 and 15.5% in 2002 compared to 2001. Approximately 68% of non-traditional exports in 2002

were to Central American countries. In 2002, exports of non-traditional products to countries outside Central America decreased due to the worldwide economic downturn, with significant decreases in exports of fruit and fruit preparations, vegetables, shrimp, fish and lobster. In 2002, chemical products, flowers and plants, and processed food were the largest non-traditional exports to countries outside Central America, accounting for US\$65.5 million, US\$42.1 million and US\$39.8 million, respectively.

## Secondary Production

### *Manufacturing*

The manufacturing sector accounted for 12.8% of GDP in 2002 compared to 13.0% of GDP in 2001. Non-durable manufactured goods account for about two-thirds of total manufacturing. Textiles and clothing, chemicals, cosmetics, glassware and processed food are the most significant manufactured goods. The manufacturing sector has benefited from certain protectionist measures available under the Central American Common Market, which are being eliminated gradually. The manufacturing sector's largest export markets within Central America are El Salvador and Honduras. Exports in the manufacturing sector increased 2.5% in 1999, 1.9% in 2000, 1.1% in 2001 and 0.8% in 2002, in each case compared to the prior year. The manufacturing sector's share of the economy has decreased slightly as a result of increased imports of non-durable goods and a more open trade policy, which creates competition from imported manufactured products.

The following tables set forth information regarding selected manufacturing production for the years indicated.

**Gross Value of the Production of Selected Manufacturing Goods**  
(in millions of Q, at real prices)

	1998	1999	2000	2001	2002 <sup>(1)</sup>
Food products, except beverages .....	622.5	637.1	645.1	657.1	671.9
Textiles .....	120.4	123.2	125.5	125.2	127.0
Shoes, clothing, textile products .....	154.9	158.5	162.1	163.3	165.4
Chemical substances and products.....	51.0	52.6	53.7	54.0	54.8
Metal products .....	102.8	105.8	108.5	108.6	108.7
Beverages .....	111.3	114.8	118.9	119.0	107.4

(1) Preliminary data.

Source: Bank of Guatemala.

**Gross Value of the Production of Selected Manufacturing Goods**  
(% change from previous year, at real prices)

	1998	1999	2000	2001	2002 <sup>(1)</sup>
Food products, except beverages .....	3.7	2.3	1.3	1.9	2.3
Textiles .....	3.6	2.3	1.9	(0.2)	1.4
Shoes, clothing, textile products .....	3.7	2.3	2.3	0.7	1.3
Chemical substances and products.....	3.4	3.1	2.1	0.6	1.5
Metal products .....	3.3	2.9	2.6	0.1	0.2
Beverages .....	3.5	3.1	3.6	0.7	(9.8)

(1) Preliminary data.

Source: Bank of Guatemala.

Guatemala attempted to promote exports of manufactured goods to countries outside Central America by promulgating laws in the late 1980s allowing for the creation of *maquilas*, which are assembly plants for low value-added export products and which operate throughout Guatemala. The *maquilas* pay no import or export duties, and no income or value-added taxes for a period of up to ten years from commencement of their operations, as long as they export products to countries outside Central America. A number of foreign corporations took advantage of these favorable tax rules and established plants for the assembly of finished goods in free trade zones.

With the signing of NAFTA, some foreign corporations shifted production to Mexico to take advantage of the favorable trade terms available there for exports to the United States and Canada. Others have shifted production to Nicaragua to take advantage of more favorable tax treatment offered by the government there.

Despite a decrease in the number of *maquilas*, *maquila* exports have increased from US\$284.9 million in 1998 to US\$287.7 million in 1999, to US\$373.8 million in 2000, to US\$396.2 million in 2001 and decreased to US\$390.3 million in 2002. Prospects for Guatemalan *maquilas* and other manufacturing may improve if the United States enacts the Interim Trade Program, which would allow member nations of the Caribbean Basin Initiative to export textiles and clothing to the United States on the same basis as Mexico. During 2003, the Government expects that an additional 10 *maquilas* will commence operations. At the same time, *maquilas* and manufacturing may be adversely affected by any further worsening of the economies in the United States and elsewhere.

CAFTA, if implemented, would provide Guatemala access to the U.S. markets on terms as or more favorable than those enjoyed by Mexico under NAFTA. Currently, it is anticipated that CAFTA will be implemented in March 2004. If implemented, United States and Canadian companies may transfer operations from Mexico to Central America to take advantage of lower operating costs. Implementation of CAFTA is subject to uncertainties presented by many factors, including Guatemala's recent decertification. See "Republic of Guatemala—Recent Decertification of Guatemala by President Bush".

### *Electricity and Water*

Electricity and water represented 4.2% of GDP in 2002. Until 1996, the availability of electrical power in Guatemala was essentially limited to major cities as a result of inadequate generation and transmission. Approximately 84.6% of the population had access to electricity in 2002, primarily due to greater competition as a result of deregulation and privatization of generation and distribution facilities between 1994 and 1999. Thermoelectric power plants provided 67.1% of Guatemala's electricity in 2002, while hydroelectric power plants supplied 32.9% of Guatemala's power.

In 2002, total national electricity generation was 6.4 million megawatt hours (MWh) compared to 4.5 million MWh in 1998. Energy capacity increased during 2002 due to the installation of two generators in response to increased domestic demand and from the Republic of El Salvador. As of December 2002, total electricity consumption in Guatemala was 6.4 million MWh, of which 6.0 million MWh was consumed domestically and the balance was exported, primarily to El Salvador. As of December 31, 2002, installed capacity was 1,735.8 MW and demand was 1,209.0 MW.

In 1999, the Government privatized its electricity distribution operations through the sale of shares of two electricity distribution companies for an aggregate of US\$100.8 million. Net proceeds of these sales were used to build new electrical infrastructure.

The Guatemalan power grid is connected with the Salvadoran networks, permitting cross-border sales and purchases of electricity on the spot market. Guatemala has been a net exporter of electricity since 1998.

### *Construction*

From 1998 to 2002, the construction sector contracted at a real average annual rate of 0.9%, principally due to a decrease in public sector expenditures for social infrastructure during 2000 and 2002. In 2002, construction contracted by 15.3% compared to 2001 due to lower expenditure caused by fiscal discipline imposed by the Government in order to, among other things, meet the terms and conditions of the stand-by arrangement entered into with the IMF. See "Monetary System—Stand-by Arrangement".

Guatemala has a housing deficit of approximately 1.6 million homes. In this respect, the Government has implemented a national housing policy which includes the granting of subsidies for the construction and purchase of residences. Subsidies are granted to individuals that (i) exist below the poverty line and reside in pauperized and high risk areas, (ii) exist below the poverty line but have some saving capacity, or (iii) have savings capacity. In 2002, the Government approved subsidies for the construction of 5,835 homes for an aggregate amount of Q79.2

million (US\$10.1 million). The Government estimates that during 2003 it will grant 14,500 subsidies with an approximate value of Q200.0 million (approximately US\$25.6 million).

## Services

The services sector accounted for 58.1% of GDP in 2002 compared to 57.9% of GDP in 2001. Wholesale and retail trade constituted the largest component of the services sector, accounting for 24.9% of GDP in 2002. The other components of the services sector are public administration and defense (7.5% of GDP in 2002); transportation (6.1% of GDP in 2002); private services, which includes health and recreational services (5.9% of GDP in 2002); financial services (5.0% of GDP in 2002); residential real estate (4.6% of GDP in 2002); and telecommunications (4.1% of GDP in 2002).

Tourism has a significant effect on the services sector, particularly on wholesale and retail trade, private services and transportation. Guatemala receives significant revenues from tourists who are attracted by its Mayan culture, history and archeological sites, its colonial cities, jungles, mountains, and its tropical and temperate climates. Guatemala's major tourist destinations include Tikal, La Antigua Guatemala, Lake Atitlán and Chichicastenango. According to the *Instituto Guatemalteco de Turismo* (Guatemalan Tourism Institute), there were 881,345 tourists in 2002 compared to 835,492 in 2001 and 822,695 in 1998, and tourism revenue in 2002 was US\$612.4 million, making tourism third only to coffee and non-traditional products as a source of foreign currency. The average expenditure per tourist, including hotel and travel, increased from US\$507.0 in 1998 to US\$694.8 in 2002. Hotel capacity in Guatemala increased from 14,744 rooms in 1998 to 17,738 rooms in 2002.

Belize, Guatemala, Honduras, Mexico and El Salvador are considering an integrated approach to promote tourism to Central America. However, the Government does not budget or allocate significant amounts to develop tourism because of other budgetary priorities. Tourism had long been hampered by the internal armed confrontation prior to the signing of the Peace Accord in 1996. The current worldwide economic slowdown, war on Iraq, terrorist threats, arms buildup in North Korea, popular unrest in Venezuela and other similar events are likely to have a negative impact on tourism and tourism revenues in 2002 and later periods.

### *Wholesale and Retail Trade*

Between 1998 and 2002, the wholesale and retail trade sector grew at a real average annual rate of 3.6%. In 2002, this sector grew at a rate of 2.8%, a faster rate than the economy as a whole, reflecting decreased demand for manufactured goods and increased demand for goods and services in the wholesale and retail trade sector.

### *Transportation*

Between 1998 and 2002, the transportation sector grew at a real average annual rate of 4.5%. An increase in the number of cargo trucks contributed to growth of this sector.

### *Telecommunications*

Between 1998 and 2002, the telecommunications sector grew at a real average annual rate of 11.1%. This rate of growth resulted from the licensing of frequency bands for cellular and fixed phone services and the expansion of telephone services generally, primarily as a result of privatizations. Currently, four telephone companies operate in Guatemala. The following table sets forth the number of telephone lines as of the years indicated:



### Selected Telecommunications Information

	December 31,				
	1998	1999	2000	2001 <sup>(1)</sup>	2002 <sup>(1)</sup>
Mobile telephone lines .....	111,445	338,490	856,831	1,146,441	1,527,148
Fixed telephone lines.....	517,000	610,701	676,631	756,085	845,597
Total telephone lines .....	628,445	949,191	1,533,462	1,902,526	2,372,745
Number of telephone lines per 100 inhabitants.....	5.8	8.6	13.4	16.3	19.8

(1) Preliminary data.

Source: *Superintendencia de Telecomunicaciones de Guatemala* (Superintendency of Telecommunications) and INE.

#### *Residential Real Estate*

The residential real estate sector grew at a real annual average rate of 3.1% from 1998 through 2002. This sector grew at a faster rate than the Guatemalan economy as a whole in 2002 due to an increase in private construction authorizations during 2001, which caused an increase in the number of available housing.

#### *Financial Services*

In the period from 1998 to 2002, the financial services sector grew at a real annual average rate of 3.3%, faster than the Guatemalan economy as a whole. This sector contracted by 1.9% in 2001 but grew by 1.8% in 2002 due to an increase in demand for brokerage services.

#### *Public Administration and Defense*

From 1998 to 2002, the public administration and defense sector grew at a real annual average rate of 3.5%, faster than the Guatemalan economy as a whole, because of higher defense spending as a result of efforts to professionalize the military, expand administration and increase wages for public sector employees in accordance with the mandates of the Peace Program. In 2002, this sector contracted at an annual rate of 0.6% as the result of the fiscal discipline adopted by the Government.

### **Privatization and Role of the State in the Economy**

The Government's economic policy seeks to adhere to free market principles, and the Government has traditionally refrained from intervening in the economy. Prior to 1996, the Government was involved primarily in the electricity and telecommunications sectors. In 1996, the Government created a Presidential Commission for the Modernization of the Executive Branch and Privatization (now called the Presidential Commission for the Reform of the State, Decentralization and Citizen Participation, or Modernization Commission). The Modernization Commission, which reports directly to the President, has a mandate to:

- modernize and privatize state-owned enterprises, including undertaking measures geared to granting concessions and other measures to modernize the public sector, and
- promote political, tax, social, cultural, administrative and economic decentralization of the state, preferably in consultation with the municipal governments.

Prior to 1999, the Modernization Commission focused on privatizing state-owned enterprises. Since 1999, it has shifted its focus to decentralizing and modernizing governmental agencies, social services and pensions, deregulation, increased efficiency of governmental action and the privatization of certain state-owned entities. As an initial step towards privatization, in 1996 the Government enacted the *Ley General de Telecomunicaciones* (General Telecommunications Law), and the *Ley General de Electricidad* (General Electricity Law). These laws established a new legal and regulatory framework for these industries and aimed to increase competition in a demonopolized, liberalized environment.

## *Telecommunications*

In 1996, the Modernization Commission took steps to privatize *Empresa Guatemalteca de Telecomunicaciones* (GUATEL), which was the state-owned telephone company. The General Telecommunications Law eliminated GUATEL's monopoly and permitted private firms to compete in long distance telephony, wireless communications, and cable television and satellite services through the grant of non-exclusive licenses, under the supervision of the Superintendency of Telecommunications.

GUATEL was privatized in 1998 through a process that involved transferring local telephone, long distance and cellular assets of GUATEL to *Telecomunicaciones de Guatemala, S.A.* (TELGUA), followed by an offering of 95% of the capital stock of TELGUA. In a second bidding round, the successful bidder, LUCA, S.A., which is now owned by *América Móvil, S.A. de C.V.*, an entity that was spun-off from *Teléfonos de México, S.A. de C.V.*, paid US\$700.0 million for its shares of TELGUA. The Portillo administration filed a suit against LUCA, S.A., TELGUA and GUATEL challenging the bidding process on the basis that the price paid for the privatized assets was insufficient. A settlement was reached on October 31, 2001.

Subsequent to the approval of the General Telecommunications Law, GUATEL, which operated a fixed line network, solicited bids for the construction of a cellular network. With the privatization of TELGUA, other telecommunications companies began to enter the Guatemalan market. In early 1999, TELGUA signed an agreement with 14 private telecommunications operators to provide international calling services and *Telefónica S.A.*, the Spanish telecommunications consortium, set up operations in Guatemala in May 1999. *Telefónica* and Bell South, together with TELGUA's PCS unit, also compete directly with *Comunicaciones Celulares, S.A.* (Comcel), the leading mobile telephone provider in Guatemala.

In 2002, the communications sector grew by 9.8% compared to 12.7% in 2001. In 2002, approximately 470,219 new telephone lines were installed, of which approximately 380,707 were mobile telephones and approximately 89,512 fixed lines.

## *Railroads*

Another privatization project involves *Ferrocarriles de Guatemala* (Railroads of Guatemala, or FEGUA), which owns the country's railroad infrastructure, comprising a trunk system connecting Guatemala City, the main ports of Puerto Santo Tomás de Castilla, and Puerto Quetzal, to the borders with Mexico, Honduras and El Salvador, with a total of approximately 486.5 miles (783 kilometers) of tracks. Partly due to competition from road transportation, FEGUA has not been operational in the last 14 years, and its physical infrastructure is in serious need of repair.

Following competitive bidding in June 1997, the Government awarded to Railroad Development Corporation, a U.S. company, rights to use such infrastructure along with rights of way along the tracks, which can be used for the construction of fiber-optic and pipeline connections. The concession was granted for a 50-year period in exchange for a percentage of annual revenues. Railroad Development Corporation is investing US\$10 million in the first phase of development to resume rail service. Freight trains currently can operate on 204 miles of track between Puerto Barrios, Zacapa and Ciudad Real in Guatemala City and on the border with Mexico, in Tecún Uman, San Marcos. Railroad Development Corporation is in the process of repairing and rendering operational the remainder of the system, but the Republic cannot assure you when this work or any portion of it will be completed. From 1999 to 2002, Railroad Development Corporation invested Q73.1 million (US\$9.7 million) in infrastructure repair and equipment acquisition.

## *Electricity*

The privatization of the Government's interest in electricity sector began in 1994 with the sale of generating facilities. In October 1996, Congress voted to reform the country's electric power market and allow the private sector to participate in a number of projects. In October 1997, the state-owned generating company *Instituto Nacional de Electrificación* (the National Electricity Institute, or INDE) was divided into three separate companies with INDE becoming a holding company. In July 1998, the Government privatized the entire electricity distribution

network with the sale of an 80% stake in *Empresa Eléctrica de Guatemala, S.A.* (the Electricity Company of Guatemala, or EEGSA), which serves Guatemala City and the departments of Sacatepéquez and Escuintla, for US\$520.0 million. The purchase was by an international consortium which includes a subsidiary of TECO Power Services, a U.S. company, *Iberdrola Energía, S.A.*, a Spanish company and *EDP-Electricidade de Portugal S.A.*, a Portuguese company.

Shortly after the sale of EEGSA, in 1999 the Government privatized the two other subsidiaries of INDE, *Distribuidora de Electricidad de Occidente, S.A.* (DEOCSA), and *Distribuidora de Electricidad de Oriente, S.A.* (DEORSA), for US\$100.8 million. The net proceeds of this privatization were used for electric infrastructure development projects. The number of DEOCSA's customers grew by 52.1% from 1999 to 2002, while the number of DEORSA's customers grew 53.6% during the same period.

EEGSA is the largest electric utility in Central America and distributes approximately 47.1% of Guatemala's power and serves more than 657,643 customers, with demand growing at an annual rate of approximately 6%. From 1998 to 2002, EEGSA increased its number of customers by 24.9%. The remaining 52.9% of Guatemala's electric power is distributed by 13 smaller municipal distribution companies.

#### *Roads*

Guatemala has 8,957.4 miles (14,415 kilometers) of roads, approximately 36% of which are paved. In 1998, the Government awarded *Constructora Marhnos S.A. de C.V.*, a Mexican company, a 25-year concession to operate and maintain the Palín-Escuintla highway, an approximately 23 kilometer toll road. The Modernization Committee is considering the possibility of attracting additional private investment in road infrastructure, possibly through the construction of toll roads as alternatives to overcrowded and insufficient public roads.

#### *Airports*

Guatemala has two major international airports which are operated by the Government. The *La Aurora* airport is located in Guatemala City and has one landing strip of approximately 1.9 miles (2,987 meters). The *Santa Elena Petén* airport is located in the Department of Petén and has one landing strip of approximately 1.9 miles (3,000 meters).

### **Employment and Wages**

The minimum agricultural wage is currently Q957.0 per month with a guaranteed monthly incentive bonus of Q250.0. The minimum wage in the rest of the economy is Q1,026.0 per month with a guaranteed monthly incentive bonus of Q250.0. Employers are also required to make two additional annual payments, each equaling one month's wages. As of December 31, 2002, there were over 1,544 labor unions representing 121,621 members.

INE does not compile employment information on as timely or detailed a basis as in most industrialized countries and, accordingly, its data may not be as comprehensive. Most of INE's employment information is in the form of estimates because of a lack of data and methodology to compile definitive data. INE did not compile employment information during 2001. INE's definitions of employment and open unemployment are based on the methodology developed by the International Labor Organization and the System of National Accounts of the United Nations. Open unemployment, as reported by INE, has increased from 1.8% of the economically-active population in 1998 to 3.2% in 2002. Underemployment, as reported by INE, was 15.1% at the end of 2002. Underemployed individuals are defined as those who are willing but unable to obtain full-time work (40 hours per week in the public sector and 48 hours per week in the other sectors). Underemployment calculated based on other criteria may be significantly higher. Many in the rural population make their livelihoods in subsistence farming, and may be classified as underemployed. Unemployment and underemployment may increase as persons displaced from Guatemala during the internal armed confrontation return to the work force or if demobilized forces are unable to find employment.

The following table sets forth information regarding the unemployment rate for the years indicated.

<b>Employment and Wages</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002<sup>(1)</sup></b>
Total employed (in millions).....	3.4	3.6	3.7	3.8	5.0
Open unemployment rate <sup>(2)</sup> .....	1.8%	1.8%	1.4%	N/A <sup>(3)</sup>	3.2%

(1) *Encuesta Nacional de Empleo Octubre-Diciembre 2002.*

(2) Rate of unemployed persons as a percentage of the economically active population.

(3) INE did not compile employment information in 2001.

N/A = Not available.

Source: INE estimates.

The following table sets forth information on employment by economic sector for the years indicated.

<b>Employment</b> (% of total employment)					
	<b>December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002<sup>(1)</sup></b>
Agriculture, livestock, fishing and forestry.....	23.0	20.6	18.6	16.4	14.1
Mining and quarries.....	0.3	0.3	0.3	0.3	0.2
Manufacturing.....	16.9	18.6	20.3	20.8	20.5
Construction.....	3.1	2.5	2.3	2.3	2.6
Electricity and water .....	1.3	1.2	1.0	1.1	1.0
Transportation and telecommunications.....	3.1	3.1	3.2	3.4	3.6
Wholesale and retail trade .....	15.3	15.6	15.6	16.1	16.7
Private services .....	37.0	38.1	38.7	39.6	41.3
Total.....	100.0	100.0	100.0	100.0	100.0

(1) Preliminary data.

Source: *Instituto Guatemalteco de Seguridad Social* (Guatemalan Social Security Institute, or IGSS).

## **Informal Economy**

The Guatemalan economy has a significant “informal sector” that provides employment to many people, including a significant number of women. The term “informal sector” refers to economic activities that take place outside of the formal norms of economic transactions established by the state or developed through formal business practices. The informal sector includes small businesses that are the result of individual or family initiatives. It generally involves the production and exchange of legal goods and services without the appropriate business permits, without reporting of tax liability, without complying with labor regulations, and without legal guarantees for suppliers and end users. The Government does not maintain official statistics on the informal sector but estimates that a substantial part of the population works in this sector.

## **Poverty and Income Distribution**

Poverty in Guatemala results primarily from unemployment and underemployment, marked class disparities in access to education, health care and jobs, and significant differences in income between skilled and unskilled workers. Guatemala’s per capita GDP growth was negative over the last two years and is expected to be negative in 2003. Poverty has also been exacerbated by the lack of an adequate social security system, although this problem has partially been offset by the availability of low wage employment in the public sector.

The Portillo administration has taken the following measures to alleviate poverty:

- implemented the Poverty Reduction Strategy (described below);
- built additional housing and granted direct subsidies or long-term loans;

- invested in preventative health care including vaccinations and combated malnutrition with a particular focus on pregnant women and small children; and
- improved education by introducing new textbooks in certain Mayan languages and offered additional school meals.

At the end of 2001, the Central Government presented its Poverty Reduction Strategy, which includes the following key elements:

- preferential support for rural areas where poverty is higher, through increases in public expenditure;
- decentralizing public administration, giving municipalities greater authority; and
- increasing participation of citizens in programs.

## **Social Security**

Social security benefits are constitutionally guaranteed to workers and their families, and are intended to provide assistance in case of accident, illness, maternity, disability, old age and death. The social security system for private workers is administered by the IGSS, a public sector entity. Public sector workers are covered through a Government pension system.

Participation in the social security system is mandatory, and the system is financed by contributions from the Government, employers and employees. For the Disability, Old Age and Life Insurance Program, employees contribute 1.8% of their salary, employers contribute 3.7% of their total payroll and the Government contributes 25.0% of the system's annual pension payments. For the Accident, Illness and Maternity Program, employees contribute 3.0% of their salary, employers contribute 7% of their total payroll and the Government contributes 3.0% of the salaries for all workers. The Government's contribution, both in its official capacity and as an employer, is designated annually by the executive branch in accordance with the technical studies of the IGSS.

The pension component of IGSS, which was created in 1977, accumulated reserves during its first 15 years of existence, and began making pension benefits payments in 1993. As of November 30, 2002, IGSS had approximately Q6,509.3 million (US\$859.0 million) in reserves. The Government pension system operates on a pay-as-you-go basis and relies entirely on annual appropriations from the national budget to pay benefits. Recently, the mandatory retirement age was increased from 60 to 65 years to ensure the solvency of the national pension system.

As of December 31, 2001, there were over 927,768 contributing members of the social security system, representing about one-fourth of the Republic's approximately 3.8 million workforce at that date. Approximately one million additional individuals received assistance as family members of contributing workers, as retirees receiving pension payments, or as non-contributing members. Individuals who received assistance represented approximately 17.0% of the nation's total population.

Current and former employees of IGSS are under investigation for the alleged embezzlement from IGSS reported to be of approximately US\$52.5 million. It is believed that this amount was diverted from IGSS accounts to a trust established at a local bank. The Superintendency of Banks discovered the transfer as it was monitoring suspicious activities under the Republic's new anti-money laundering law. The office of the public prosecutor is also investigating other claims filed against certain officers of the *Registro General de la Propiedad* (General Property Registry) for allegedly causing a technical failure in the Registry's system that enabled IGSS's employees to embezzle IGSS's funds. Legal proceedings are pending in Guatemalan courts and as of the date of this offering memorandum no court has ruled on these matters.

## **Environmental Policy**

Guatemala's environmental problems include pollution, solid waste disposal, deforestation, pesticides, lack of environmental regulation for industry, and contamination of rivers and lakes. Guatemala has initiated a Campaign to Protect Guatemalan Life with the objective of strengthening enforcement of existing environmental laws. The Government has also created a protected Mayan Biosphere in Petén. Additional environmental reform initiatives are currently pending before Congress.

With the signing of the Agreement on Socio-Economic Issues and Agrarian Situation with the URNG on May 6, 1996, the Government undertook an initiative to provide environmental education, improve environmental health, design urban policy with a view towards environmental protection and promote sustainable management of environmental resources. The Government has proposed an environmental policy consisting of the following main objectives:

- developing an interest in and respect for the environment in Guatemala;
- strengthening legal protection of the environment;
- exploring environmentally accepted uses of hydroelectric power;
- encouraging the use of sustainable energy sources; and
- reducing pollution.

The *Ministerio de Ambiente y Recursos Naturales* (Ministry of Environment and Natural Resources) was created in January 2001 with a mandate to administer environmental laws and to promote protection of the environment. Guatemala has signed and ratified several international agreements, such as the United Nations General Agreement on Climatic Changes and the Kyoto Protocol.

## BALANCE OF PAYMENTS AND FOREIGN TRADE

### Balance of Payments

The balance of payments is used to record the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is composed of the current account and the capital account.

During the 1990s, the balance of payments consisted of a current account deficit offset by a capital account surplus. The historical current account deficit resulted from substantial merchandise trade deficits (higher imports than exports) and relatively small net services outflows, partially offset by substantial private transfers consisting principally of remittances from Guatemalans living abroad, mostly in the United States, and grants and foreign aid used to purchase non-capital goods.

Beginning in the second half of 1998, balance of payments accounts demonstrated signs of disequilibrium. The growth in imports outpaced Guatemalan exports resulting in trade balance deficits. This was attributable to the value of the Guatemalan currency as compared to competing exporters, the effects of Hurricane Mitch and a reduction in prices and demand for Guatemala's principal exports (primarily agricultural products) resulting from the economic crises in Asia, Russia and Brazil.

#### *Current Account*

The current account consists of:

- the trade balance (the difference in value of exports minus imports);
- net services; and
- private transfers.

One of the most important aspects of the current account is the trade balance. The four primary factors that drive the trade balance are:

- the relative rate of economic growth of a country as compared to that of its trading partners – generally, if a country's economy grows faster than that of its trading partners, its relative level of consumption of goods and services will tend to rise, and its level of imports will tend to increase more rapidly than its level of exports;
- the relative level of domestic prices against foreign prices, as reflected by the real exchange rate – generally, if a country's domestic prices rise relative to those of its trading partners, there is a tendency for the country's level of exports to decline and for its level of imports to increase;
- changes in production costs, technology, and worker skills – more efficient production will tend to lower production cost, which in turn will tend to lower prices. As prices fall, there is a tendency for the country's level of exports to increase; and
- changes in consumer tastes, which may affect the demand for a country's goods and services abroad, and the demand for foreign products in the domestic market.

Between 1998 and 2002, the Republic's current account registered annual deficits that fluctuated between 5.9% and 5.1% of GDP. In 2002, the current account deficit was US\$1,193.0 million (5.1% of GDP) compared to US\$1,252.9 million (5.9% of GDP) in 2001. Except for the period between 1998 and 1999, the trade deficit, the most significant component of the current account, has continued to expand in real terms, although it has fluctuated as a percentage of GDP reflecting growth in GDP. During 2002, the current account showed a deficit of 5.1% of GDP, compared to a deficit of 5.9% of GDP in 2001 and decreased slightly in real terms. This lower deficit in 2002 is mainly attributable to higher levels of remittances from Guatemalans living and working abroad.

In 2002, remittances increased substantially due to:

- lower remittance fees in the United States as a result of increased competition among currency transfer companies;
- Guatemalans sending additional funds to family members to offset negative effects in the agricultural sectors; and
- fewer legal restrictions on transfer as a result of enactment of the *Ley de Libre Negociación de Divisas* (Law for the Free Transfer of Foreign Currency) in Guatemala. See “—Exchange Rate Policy and Foreign Exchange Rates”.

#### *Capital Account*

The capital account reflects direct investment and monetary flows into and out of a nation’s financial markets.

Between 1998 and 2002, the Republic’s capital account registered increasing annual surpluses for every year except 1999 and 2002 as a result of lower private capital inflows (US\$1,031.2 million compared to US\$1,424.4 million in 2001). In 2002, the capital account surplus reached US\$1,214.8 million which offset the current account deficit for that year by US\$21.8 million. The capital account surpluses have offset the current account deficit in each year between 1998 and 2002, except for 1999.

Levels of foreign direct investment decreased significantly in 1999 compared to 1998 when various state-owned enterprises were privatized. In 2002, foreign direct investment decreased significantly compared to 2001 to US\$110.0 million from US\$455.5 million, largely as a result of the worldwide economic downturn and lack of privatization activity in 2002 compared to 2001. Medium- and long-term capital totaled US\$300.0 million in 2002, which equaled 26.7% of the current account deficit for that year. During the period from 1998 to 2001, medium- and long-term private capital derived from external indebtedness and foreign direct investment was primarily due to privatization.



The following table sets forth information regarding the Republic's balance of payments for the years indicated:

<b>Balance of Payments</b> (in millions of US\$)					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001<sup>(1)</sup></b>	<b>2002<sup>(1)</sup></b>
<b>Current account:</b>					
Trade balance:					
Exports (FOB):					
Traditional .....	1,167.9	1,056.3	1,178.3	949.7	958.4
Non-traditional .....	1,394.8	1,437.3	1,532.9	1,513.9	1,279.8
<i>Maquila</i> .....	284.9	287.7	373.8	396.2	390.3
Total exports .....	2,847.6	2,781.3	3,085.0	2,859.8	2,628.5
Imports (CIF) .....	(4,650.9)	(4,560.0)	(5,171.4)	(5,606.4)	(6,078.0)
Trade balance .....	(1,803.3)	(1,778.7)	(2,086.4)	(2,746.6)	(3,449.5)
Services balance <sup>(2)</sup> .....	100.8	48.9	172.0	496.9	298.1
Private transfers:					
Remittances .....	423.2	438.6	524.3	571.3	1,503.7
Foreign aid .....	277.6	272.6	337.0	405.7	440.2
Other .....	4.5	3.6	4.1	19.8	14.5
Total private transfers, net .....	705.3	714.8	865.4	996.8	1,958.4
Total current account .....	(997.2)	(1,015.0)	(1,049.0)	(1,252.9)	(1,193.0)
<b>Capital account:</b>					
Official transfers, net .....	71.0	68.4	85.5	93.4	129.8
Official capital, net:					
Non-financial public sector capital, net .....	318.4	432.4	172.0	220.1	64.9
Bank of Guatemala capital, net .....	(54.2)	(25.9)	(24.4)	(11.2)	(11.1)
Total official capital, net .....	264.2	406.5	147.6	208.9	53.8
Private capital, net:					
Foreign direct investment, net .....	672.8	154.6	229.6	455.5	110.2
Medium- and long-term debt, net .....	448.5	544.0	677.0	598.6	575.9
Short-term debt, net .....	(216.7)	(283.9)	563.7	370.3	345.1
Total private capital, net .....	904.6	414.7	1,470.3	1,424.4	1,031.2
Total capital account .....	1,239.8	889.6	1,703.4	1,726.7	1,214.8
Change in international reserves <sup>(3)</sup> .....	242.6	(125.4)	654.4	473.8	21.8
Current account balance (as % of GDP) .....	(5.2)%	(5.5)%	(5.4)%	(5.9)%	(5.1)%

(1) Preliminary data.

(2) Includes net financial income/expense, tourism and other income and expenses.

(3) Represents the results of the balance of payments.

Source: Bank of Guatemala.

## Foreign Trade

Guatemala's trade continues to be characterized by the export of agricultural commodities and the import of raw materials, consumer and capital goods, and intermediate products. In 2002, in terms of total exports value:

- coffee accounted for 12.0% compared to 12.2% in 2001;
- sugar accounted for 9.3% compared to 10.5% in 2001; and
- bananas accounted for 10.4% compared to 7.8% in 2001.

Exports of many products, both traditional and non-traditional, are subject to international price fluctuations, as well as other climatic and international developments. While worldwide coffee prices have declined since 1998, export revenues have been sustained by increased volume.

Domestic producers and Guatemalan subsidiaries of multinational corporations have taken advantage of market opportunities and Guatemala's liberal regulatory environment to expand into exports of non-traditional products. Exports of non-traditional goods, including chemical products and fruit preparations, accounted for 57.2% of total exports in 2002 compared to 61.5% in 2001.

In 2002, Guatemala's most important imports were consumer goods, which accounted for 32.5% of total imports; raw materials and intermediate products, which accounted for 31.4%; and capital goods, which accounted for 23.0%. The United States is Guatemala's most important trading partner, accounting for 30.3% of Guatemala's exports and 38.5% of imports in 2002. The most important exports from Guatemala to the U.S. in 2002 were coffee, sugar, clothing, bananas, fruits and fruit preparations.

Central American countries accounted for 39.0% of total exports and 11.1% of imports in 2002. The most important Guatemalan exports to Central America in 2002 were electricity, chemical products, processed foods, construction materials and plastics. Other important trading partners include Mexico, Venezuela, Germany, Saudi Arabia and Japan. Guatemala's trade balance with the rest of Central America has been positive because of its leading position as a net exporter in the region and the fact that it has the largest economy in the region.

In 2002:

- exported goods (expressed on an FOB basis and excluding *maquila* exports) decreased 9.1% to US\$2,238.2 million compared to 2001;
- exports of traditional products increased 0.9% to US\$958.4 million compared to 2001;
- coffee export revenues decreased 10.6% to US\$269.0 million due to a 14.3% decrease in the volume exported and to lower international prices;
- banana exports increased 20.7% to US\$233.0 million compared to 2001 reflecting decreased banana production in Costa Rica and Honduras;
- the value of exports of non-traditional products decreased 15.5% to US\$1,279.8 million compared to 2001, especially to Central American countries; and
- total imports, expressed on a CIF basis, increased by 8.4% compared to 2001.

In 2002, exports to North America and Europe decreased compared to 2001 due to the worldwide economic slowdown which resulted in lower demand from most industrialized nations. Exports to Central America increased due to the increased penetration of Guatemalan products into neighboring markets and increased demand from countries in Central America.

The Republic's import tariffs are among the lowest in Central America, reflecting its openness to foreign trade. In 2002, the weighted average import tariff was 5.2% compared to 8.5% in 1998. The Republic's current import tariff structure is as follows.

<b>Import Tariffs</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Raw materials:					
Produced within Central America .....	7.0%	5.0%	5.0%	5.0%	5.0%
Produced outside Central America .....	—	—	—	—	—
Intermediate goods .....	14.0	10.0	10.0	10.0	10.0
Capital goods .....	—	—	—	—	—
Average import tariff <sup>(1)</sup> .....	8.5	6.0	6.0	7.2	5.2

(1) Weighted average of total collected tariffs and total value of imports.

The following tables set forth certain further information regarding exports and imports for the years indicated:

**Exports (FOB) by Type of Product<sup>(1)</sup>**  
(in millions of US\$ and as % of total exports)

	1998		1999		2000		2001 <sup>(2)</sup>		2002 <sup>(2)</sup>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
<b>Traditional:</b>										
Coffee .....	584.5	22.8	587.9	23.6	572.3	21.1	300.8	12.2	269.0	12.0
Sugar .....	310.6	12.1	188.1	7.5	179.6	6.6	259.5	10.6	208.2	9.3
Bananas .....	177.9	6.9	143.1	5.7	187.8	6.9	193.0	7.8	233.0	10.4
Cardamom .....	36.6	1.4	56.4	2.3	79.4	2.9	96.1	3.9	93.1	4.2
Oil .....	58.3	2.3	80.8	3.3	159.2	5.9	100.3	4.1	155.1	6.9
Total traditional .....	<u>1,167.9</u>	<u>45.5</u>	<u>1,056.3</u>	<u>42.4</u>	<u>1,178.3</u>	<u>43.4</u>	<u>949.7</u>	<u>38.6</u>	<u>958.4</u>	<u>42.8</u>
<b>Non-traditional:</b>										
Exports outside of Central America:										
Chemical products .....	91.7	3.6	111.7	4.5	90.9	3.3	68.4	2.8	63.9	2.9
Vegetables .....	51.7	2.0	50.5	2.0	49.4	1.8	26.2	1.1	23.8	1.1
Fruits and preparations .....	59.4	2.3	65.3	2.6	82.0	3.0	41.8	1.7	35.6	1.6
Natural rubber .....	24.5	1.0	22.6	0.9	25.0	0.9	23.0	0.9	27.1	1.2
Flowers and plants .....	43.3	1.7	44.3	1.8	53.3	2.0	46.8	1.9	38.9	1.7
Sesame seeds .....	18.6	0.7	17.4	0.7	18.3	0.7	18.2	0.7	20.3	0.9
Processed foods .....	52.9	2.1	48.2	1.9	45.0	1.7	34.1	1.4	40.1	1.8
Shrimp, fish and lobster .....	24.7	1.0	28.1	1.1	34.9	1.3	22.4	0.9	7.2	0.3
Other <sup>(3)</sup> .....	279.5	10.9	259.3	10.4	318.8	11.8	173.4	7.0	149.2	6.8
Total non-traditional exports to countries other than those located in Central America .....	646.3	25.3	647.4	25.9	717.6	26.5	454.3	18.4	406.1	18.1
Exports to Central America .....	748.5	29.2	789.9	31.7	815.3	30.1	1,059.6	43.0	873.7	39.1
Total non-traditional .....	<u>1,394.8</u>	<u>54.5</u>	<u>1,437.3</u>	<u>57.6</u>	<u>1,532.9</u>	<u>56.6</u>	<u>1,513.9</u>	<u>61.5</u>	<u>1,279.8</u>	<u>57.2</u>
Total exports .....	<u>2,562.7</u>	<u>100.0</u>	<u>2,493.6</u>	<u>100.0</u>	<u>2,711.2</u>	<u>100.0</u>	<u>2,463.6</u>	<u>100.0</u>	<u>2,238.2</u>	<u>100.0</u>

(1) These amounts do not include *maquila* production.

(2) Preliminary data.

(3) Includes honey, tobacco, clothing, textiles, wood and glass.

Source: Bank of Guatemala.

**Geographic Distribution of Exports (FOB)<sup>(1)</sup>**  
(in millions of US\$ and as % of total exports)

	1998		1999		2000		2001 <sup>(2)</sup>		2002 <sup>(2)</sup>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
<b>North America:</b>										
United States .....	837.2	32.7	837.6	33.6	975.6	36.0	657.9	26.7	679.0	30.3
Mexico .....	105.3	4.1	97.4	3.9	120.7	4.5	80.9	3.3	76.5	3.4
Canada .....	53.9	2.1	35.0	1.4	63.0	2.3	43.7	1.8	35.0	1.6
Total North America .....	996.4	38.9	970.0	38.9	1,159.3	42.8	782.5	31.8	790.5	35.3
<b>Central America:</b>										
Costa Rica .....	120.0	4.7	139.7	5.6	127.4	4.7	156.4	6.3	119.1	5.3
El Salvador .....	320.1	12.5	321.2	12.9	342.6	12.6	477.2	19.4	403.6	18.0
Honduras .....	215.9	8.4	220.3	8.8	234.2	8.6	295.4	12.0	236.6	10.6
Nicaragua .....	92.5	3.6	108.7	4.4	114.8	4.2	130.6	5.3	114.5	5.1
Total Central America .....	748.5	29.2	789.9	31.7	819.0	30.1	1,059.6	43.0	873.8	39.0
<b>South America:</b>										
Argentina .....	2.1	0.1	1.5	0.1	0.5	—	0.5	—	0.2	—
Brazil .....	0.3	—	0.9	—	0.4	—	0.3	—	0.4	—
Colombia .....	7.4	0.3	7.7	0.3	10.2	0.4	7.3	0.3	8.7	0.4
Ecuador .....	3.3	0.1	3.8	0.2	1.9	0.1	0.8	—	2.0	0.1
Venezuela .....	26.7	1.0	14.3	0.6	9.6	0.4	7.9	0.3	—	—
Other South America .....	61.8	2.4	26.5	1.1	18.2	0.7	9.9	0.4	56.7	2.5
Total South America .....	101.6	3.9	54.7	2.3	40.8	1.6	26.7	1.1	67.9	3.0
<b>Europe:</b>										
France .....	20.4	0.8	20.4	0.8	19.3	0.7	7.1	0.3	5.4	0.2
Germany .....	111.0	4.3	99.5	4.0	108.3	4.0	59.6	2.4	46.2	2.1
Italy .....	29.7	1.2	23.6	0.9	25.2	0.9	16.8	0.7	140.5	6.3
Netherlands .....	37.2	1.5	41.1	1.6	—	—	16.2	0.7	31.6	1.4
Spain .....	11.4	0.4	9.6	0.4	15.5	0.6	13.3	0.5	3.4	0.2
United Kingdom .....	28.5	1.1	24.6	1.0	16.3	0.6	9.3	0.4	3.1	0.1
Other EU .....	76.8	3.0	68.1	2.7	88.6	3.3	49.1	2.0	4.0	0.2
Total EU .....	315.0	12.3	286.9	11.4	273.2	10.1	171.4	7.0	234.2	10.5
Other Europe .....	100.7	3.9	32.1	1.3	83.0	3.0	33.8	1.4	8.7	0.4
Total Europe .....	415.7	16.2	319.0	12.7	356.2	13.1	205.2	8.4	242.9	10.9
<b>Asia:</b>										
Japan .....	57.4	2.2	58.0	2.3	62.8	2.3	43.3	1.8	23.1	1.0
Saudi Arabia .....	17.7	0.7	27.7	1.1	47.8	1.8	57.1	2.3	77.9	3.5
South Korea .....	52.8	2.1	31.9	1.3	28.7	1.1	96.1	3.9	0.4	—
Taiwan .....	0.9	—	0.6	—	5.6	0.2	5.5	0.2	0.2	—
Other Asia .....	22.7	0.9	56.7	2.3	30.7	1.1	38.9	1.6	26.6	1.2
Total Asia .....	151.5	5.9	174.9	7.0	175.6	6.5	240.9	9.8	128.2	5.7
<b>Africa:</b>										
South Africa .....	4.1	0.2	0.8	—	2.1	0.1	1.1	—	—	—
Other Africa .....	14.5	0.6	17.4	0.7	19.7	0.7	3.5	0.1	—	—
Total Africa .....	18.6	0.8	18.2	0.7	21.8	0.8	4.6	0.1	—	—
<b>Oceania:</b>										
Australia .....	2.4	0.1	0.4	—	0.8	—	0.2	—	—	—
New Zealand .....	0.1	—	0.2	—	0.3	—	0.1	—	—	—
Total Oceania .....	2.5	0.1	0.6	—	1.1	—	0.3	—	—	—
Other <sup>(3)</sup> .....	127.9	5.0	166.3	6.7	137.4	5.1	143.8	5.8	134.9	6.1
<b>Total</b> .....	<u>2,562.7</u>	<u>100.0</u>	<u>2,493.6</u>	<u>100.0</u>	<u>2,711.2</u>	<u>100.0</u>	<u>2,463.6</u>	<u>100.0</u>	<u>2,238.2</u>	<u>100.0</u>

(1) These amounts do not include *maquila* production.

(2) Preliminary data.

(3) Includes the Dominican Republic, Netherlands Antilles, Panama and Puerto Rico.

Source: Bank of Guatemala.

### Volume and Price of Leading Exports<sup>(1)</sup>

	1998	1999	2000	2001	2002
Coffee export volume (thousands of <i>quintales</i> ) .....	4,622.4	6,115.8	6,316.8	5,282.8	4,528.7
Coffee export price (US\$/ <i>quintal</i> ) .....	126.4	96.1	90.6	56.9	59.4
Sugar export volume (thousands of <i>quintales</i> ) .....	30,045.1	25,064.9	26,606.1	31,380.3	27,329.7
Sugar export price (US\$/ <i>quintal</i> ) .....	10.3	7.5	6.8	8.3	7.6
Banana export volume (thousands of <i>quintales</i> ) .....	14,616.4	11,814.9	16,121.0	16,962.7	20,817.6
Banana export price (US\$/ <i>quintal</i> ) .....	12.2	12.1	11.7	11.4	11.2
Oil export volume (thousands of barrels per year) .....	8,288.8	7,145.6	7,370.3	7,104.6	8,401.3
Oil price (US\$/barrel) .....	7.0	11.3	21.6	14.1	18.5
Cardamom export volume (thousands of <i>quintales</i> ) .....	378.7	287.3	315.4	331.6	420.7
Cardamom export price (US\$/ <i>quintal</i> ) .....	96.6	196.3	251.7	289.8	221.3

(1) Price is average over year for selected quality of product.

Source: Bank of Guatemala.

### Imports (CIF) by Product (in millions of US\$ and as % of total imports)

	1998		1999		2000		2001 <sup>(1)</sup>		2002 <sup>(1)</sup>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Raw materials and intermediate goods:										
Agriculture .....	114.6	2.5	107.8	2.4	118.9	2.3	137.6	2.4	140.7	2.3
Manufacturing .....	1,507.8	32.4	1,415.8	31.0	1,659.6	32.1	1,735.8	31.0	1,767.6	29.1
Total raw materials and intermediate goods ....	1,622.4	34.9	1,523.6	33.4	1,778.5	34.4	1,873.4	33.4	1,908.3	31.4
Consumer goods:										
Durable .....	402.6	8.7	318.9	7.0	350.9	6.8	424.8	7.6	479.3	7.9
Non-durable .....	968.9	20.8	960.3	21.1	1,084.7	21.0	1,359.2	24.2	1,496.2	24.6
Total consumer goods .....	1,371.5	29.5	1,279.2	28.1	1,435.6	27.8	1,784.2	31.8	1,975.5	32.5
Capital goods:										
Manufacturing, telecommunications and construction .....	869.4	18.7	950.9	20.8	969.3	18.7	876.2	15.6	1,046.5	17.2
Transportation .....	288.7	6.2	308.1	6.8	253.6	4.9	270.1	4.9	301.1	5.0
Agriculture .....	64.1	1.4	51.1	1.1	51.5	1.0	50.1	0.9	48.1	0.8
Total capital goods .....	1,222.2	26.3	1,310.1	28.7	1,274.4	24.6	1,196.4	21.4	1,395.7	23.0
Mineral fuels and lubricants .....	284.2	6.1	321.6	7.1	540.4	10.4	595.9	10.6	646.9	10.6
Construction materials .....	150.4	3.2	125.2	2.7	142.3	2.8	156.4	2.8	151.1	2.5
Other .....	0.2	—	0.3	—	0.3	—	0.3	—	0.5	—
Total imports .....	4,650.9	100.0	4,560.0	100.0	5,171.5	100.0	5,606.4	100.0	6,078.0	100.0

(1) Preliminary data.

Source: Bank of Guatemala.

**Geographic Distribution of Imports (CIF)**  
(in millions of US\$ and as % of total imports)

	1998		1999		2000		2001 <sup>(1)</sup>		2002 <sup>(1)</sup>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
<b>North America:</b>										
United States.....	1,930.7	41.5	1,805.8	39.6	2,071.2	40.1	1,964.6	35.0	2,337.0	38.5
Mexico.....	485.1	10.4	498.8	10.9	576.0	11.1	594.6	10.6	573.8	9.4
Canada.....	56.1	1.2	118.9	2.6	124.7	2.4	140.6	2.5	54.7	0.9
Total North America.....	2,471.9	53.1	2,423.5	53.1	2,771.9	53.6	2,699.8	48.1	2,965.5	48.8
<b>Central America:</b>										
Costa Rica.....	163.2	3.5	141.4	3.1	201.0	3.9	232.2	4.1	211.5	3.5
El Salvador.....	334.9	7.2	201.9	4.4	313.5	6.1	385.0	6.9	343.4	5.7
Honduras.....	96.1	2.1	78.9	1.7	84.1	1.6	129.3	2.3	90.6	1.5
Nicaragua.....	13.9	0.3	7.3	0.2	16.9	0.3	30.4	0.5	21.9	0.3
Total Central America.....	608.1	13.1	429.5	9.4	615.8	11.9	776.9	13.8	667.4	11.0
<b>South America:</b>										
Argentina.....	45.5	1.0	26.4	0.6	30.7	0.6	54.0	1.0	46.8	0.8
Brazil.....	62.0	1.3	57.9	1.3	67.3	1.3	84.3	1.5	147.7	2.4
Colombia.....	45.6	1.0	51.4	1.1	66.3	1.3	98.0	1.8	114.9	1.9
Ecuador.....	18.1	0.4	14.8	0.3	26.6	0.5	36.4	0.7	55.3	0.9
Venezuela.....	152.7	3.3	205.6	4.5	275.9	5.3	271.8	4.8	100.3	1.7
Other.....	31.2	0.7	41.4	0.9	46.3	0.9	61.6	1.1	184.2	3.0
Total South America.....	355.1	7.7	397.5	8.7	513.1	9.9	606.1	10.9	649.2	10.7
<b>Europe:</b>										
France.....	29.9	0.6	25.4	0.6	29.0	0.6	35.5	0.6	28.0	0.5
Germany.....	131.7	2.8	121.5	2.7	126.3	2.4	158.9	2.8	162.3	2.7
Italy.....	45.1	1.0	48.7	1.1	55.7	1.1	56.9	1.0	91.8	1.5
Netherlands.....	40.7	0.9	26.5	0.6	23.7	0.5	16.0	0.3	46.2	0.7
Spain.....	51.6	1.1	63.8	1.4	69.3	1.3	83.7	1.5	101.5	1.7
United Kingdom.....	51.5	1.1	34.2	0.8	31.2	0.6	39.0	0.7	49.8	0.8
Other.....	79.4	1.7	86.2	1.9	75.8	1.5	142.7	2.6	49.8	0.8
Total EU.....	429.9	9.2	406.3	8.9	411.0	8.0	532.7	9.5	529.4	8.7
Other Europe.....	91.5	2.0	67.6	1.5	80.1	1.5	90.3	1.6	102.1	1.7
Total Europe.....	521.4	11.2	473.9	10.4	491.1	9.5	623.0	11.1	631.5	10.4
<b>Asia:</b>										
Indonesia.....	3.3	0.1	2.5	0.1	5.3	0.1	9.2	0.2	—	—
Japan.....	209.2	4.5	181.6	4.0	166.6	3.2	289.7	5.2	348.9	5.7
South Korea.....	46.7	1.0	38.5	0.8	69.3	1.3	77.1	1.4	76.0	1.3
Taiwan.....	72.4	1.6	70.6	1.5	59.3	1.2	58.8	1.0	76.6	1.3
Other Asia.....	57.6	1.2	123.0	2.7	103.3	2.0	224.5	4.0	74.8	1.2
Total Asia.....	389.2	8.4	416.2	9.1	403.8	7.8	659.3	11.8	576.3	9.5
<b>Africa:</b>										
South Africa.....	1.4	—	1.4	—	2.6	0.1	1.6	—	3.0	0.1
Other Africa.....	1.8	—	12.7	0.3	0.4	—	3.6	0.1	—	—
Total Africa.....	3.2	—	14.1	0.3	3.0	0.1	5.2	0.1	3.0	0.1
<b>Oceania:</b>										
Australia.....	4.9	0.1	7.6	0.2	6.8	0.1	6.2	0.1	—	—
New Zealand.....	15.0	0.3	12.3	0.3	11.1	0.2	26.2	0.5	—	—
Total Oceania.....	19.9	0.4	19.9	0.5	17.9	0.3	32.4	0.6	—	—
Other <sup>(2)</sup> .....	282.1	6.1	385.4	8.5	354.8	6.9	203.9	3.6	585.1	9.5
<b>Total</b> .....	4,650.9	100.0	4,560.0	100.0	5,171.4	100.0	5,606.6	100.0	6,078.0	100.0

(1) Preliminary data.

(2) Includes the Dominican Republic, Netherlands Antilles, Panama and Puerto Rico.

Source: Bank of Guatemala.

## Foreign Direct Investment

Foreign direct investment in Guatemala as a percentage of GDP is relatively small compared to other Latin American countries primarily because, prior to 1996 when the Peace Accord was implemented, Guatemala was not an attractive country to foreign investors. In addition, Guatemala has been affected by its relatively low levels of qualified workers, which has impeded the expansion of *maquila* production and increased reliance on low cost manufacturing facilities that do not require significant investment.

Foreign investors in Guatemala generally enjoy the same rights and have the same obligations as Guatemalan investors. Multinational companies, primarily from the United States, Germany and South Korea, are some of the major foreign investors in Guatemala.

Generally, foreign direct investment was high in the period from 1998 through 2001 as a result of privatizations of the telecommunications, electricity and other sectors. Foreign direct investment was US\$229.6 million in 2000, US\$455.5 million in 2001 and US\$110.2 million in 2002. Foreign direct investment decreased from 2001 to 2002 primarily as a result of the absence of any privatization proceeds in 2002 and of the global economic slowdown. Privatization proceeds represented 86.8%, 67.3%, 68.7%, 77.8% and 0% of foreign direct investment in 1998, 1999, 2000, 2001 and 2002, respectively. The Republic historically has not relied on foreign direct investment to service its debt.

## Remittances

Remittances consist of funds sent to people and institutions in Guatemala by Guatemalans living and working abroad, particularly in the United States. Net remittances have more than tripled from US\$423.2 million in 1998 to US\$1,503.7 million in 2002 primarily as a result of lower remittance fees in the United States as a result of increased competition among currency transfer companies; additional funds transferred to family members to offset negative effects in the agricultural sectors; and fewer legal restrictions on transfers as a result of enactment of the Law for the Free Transfer of Foreign Currency. See “—Exchange Rate Policy and Foreign Exchange Rates”.

In the period from 1998 through 2002, on average 99.0% of remittances came from the United States. Despite the economic slowdown in the United States, remittances increased in 2001 and 2002 from levels in prior years. Remittances are one of the most important sources of foreign exchange in the private currency exchange market and have been one of the most stable variables in the Republic’s balance of payments. According to the *Organización Internacional para las Migraciones* (International Migration Organization), the main country to which Guatemalans migrate is the United States. An estimated 1.2 million Guatemalans currently reside in the United States out of an estimated total of 1.3 million residing abroad.

## Exchange Rate Policy and Foreign Exchange Rates

Since 1994, the Monetary Board has allowed the exchange rate for the *quetzal* to be determined predominantly by market forces. The Bank of Guatemala has infrequently intervened in the foreign exchange market by buying or selling U.S. dollars in order to counter temporary imbalances of supply and demand or drastic fluctuations in the exchange rate caused by speculative, cyclical or seasonal factors that affect the balance of payments. Since 1996, the Bank of Guatemala has intervened in the foreign exchange market through the *Sistema Electrónico de Negociación de Divisas*, an electronic system for buying and selling foreign exchange which improves the Bank of Guatemala’s ability to gain information about the exchange market. No current restrictions exist on the conversion of *quetzales* into other currencies. On May 1, 2001, the Law of Free Transfer of Foreign Currency came into effect permitting both domestic and foreign banks in Guatemala to freely enter into foreign currency denominated contracts and accept monetary deposits and offer bank accounts in foreign currency.

During 2002, the Bank of Guatemala purchased dollars totaling US\$70.3 million in the foreign currency market and did not sell U.S. dollars in the foreign currency market. During the first three months of 2003, the Bank of Guatemala did not sell or purchase U.S. dollars in the foreign currency market.

The following table sets forth certain information concerning the *quetzal*-to-dollar commercial exchange rate for the dates and periods indicated.

**Exchange Rates<sup>(1)</sup>**  
(Q per US\$1.00)

	Period End		Average for Period	
	Buy	Sell	Buy	Sell
1998.....	6.84284	6.85364	6.40664	6.42187
1999.....	7.79230	7.84937	7.38138	7.40072
2000.....	7.72016	7.74225	7.75431	7.77019
2001.....	7.97868	8.02228	7.85091	7.87161
2002.....	7.77485	7.83955	7.81185	7.83452
2003:				
January.....	7.86672	7.89673	7.78111	7.81123
February.....	7.86155	7.88685	7.81348	7.83952
March.....	7.90524	7.93476	7.88953	7.91756
April.....	7.86292	7.88741	7.89351	7.92228
May.....	7.89427	7.91627	7.88988	7.91515
June.....	7.91673	7.93939	7.90681	7.93022

(1) Exchange rates for transactions in the market involving purchase and sale of U.S. dollars by Guatemalan banks as reported by the Bank of Guatemala.

Source: Bank of Guatemala.

The exchange rate for the purchase of U.S. dollars by Guatemalan banks reported by the Bank of Guatemala on July 10, 2003 was Q7.89780 per US\$1.00. No representation is made that *quetzal* amounts have been or could have been converted into U.S. dollars at the foregoing rate on the date indicated.



## MONETARY SYSTEM

### Financial System

The financial system of Guatemala comprises the Bank of Guatemala, commercial banks, finance firms, auxiliary credit institutions, foreign exchange houses, development banks and securities exchanges. The financial system, except for securities exchanges, is supervised and administered by the Monetary Board, the Bank of Guatemala and the Superintendency of Banks.

#### *The Monetary Board and the Bank of Guatemala*

The Constitution empowers the Monetary Board to determine the monetary, foreign exchange and credit policies of the country as the governing body of the Bank of Guatemala. The Monetary Board acts through the Bank of Guatemala to execute its policies. The Monetary Board also oversees the liquidity and solvency of the national banking system, seeking to ensure the stability and strength of national savings. The Monetary Board is headed by the President of the Bank of Guatemala, the Minister of Public Finance, the Minister of Economy, the Minister of Agriculture, Livestock and Food, a designee of Congress, a designee of business associations, a designee of commercial banks and a designee of the University of San Carlos.

The Bank of Guatemala was created as Guatemala's Central Bank to design, evaluate and administer monetary, foreign exchange and audit policies conducive to economic development in Guatemala. Under the direction and supervision of the Monetary Board, the Bank of Guatemala operates as an autonomous financial institution. The decisions of the Bank of Guatemala are not subject to approval by any other governmental entity. The Bank of Guatemala also promotes liquidity, solvency and the efficient functioning of the national banking system. Under current law, the President of the Bank of Guatemala can only be removed for cause by a two-thirds majority of Congress.

The Bank of Guatemala is in charge of intervening in the foreign exchange market to counter speculation and stabilize the currency, to administer the nation's international monetary reserves and the system of payments, and to protect the balance of payments.

As a result of the 1994 constitutional reforms, the Bank of Guatemala is prohibited from directly or indirectly financing the Government or public or private entities other than financial institutions, and cannot acquire securities issued or sold in the primary market by the public sector. The Constitution permits the Bank of Guatemala to finance public sector entities only in case of national emergency, and then only upon the request of the President of the Republic and with the approval of a two-thirds majority of Congress.

The Bank of Guatemala's new organic law, which became effective on June 1, 2002, establishes the Bank of Guatemala's fundamental objective to create and maintain the most favorable conditions for the orderly development of the Guatemalan economy. To that end, the Bank of Guatemala will use monetary, exchange and credit policies to promote stability in the general level of prices.

### Monetary Policy

The Monetary Board seeks to pursue price stability, especially in the wake of the severe economic difficulties that Guatemala encountered during the 1980s, which culminated in an inflation rate of 60.6% in 1990. Guatemala's inflation rate declined from 7.5% in 1998 to 5.1% in 2000, increased to 8.9% in 2001, and then decreased to 6.3% in 2002. The Monetary Board recognizes that Guatemala did not meet inflation targets in 2001 and 2002, mainly due to the increase in VAT from 10% to 12% in 2001, which caused an increase in prices, and to higher gasoline, diesel and gas prices in 2002. The Monetary Board's current monetary policy is to maintain the inflation rate between 4.0% and 6.0% during 2003, as well as to:

- promote stability in the general level of prices to achieve sustainable economic development;
- maintain a free exchange rate; and

- continue the modernization of the financial system.

The Bank of Guatemala, acting under the direction of the Monetary Board, has primary responsibility for managing the Government's monetary policy. In 2000, the Bank of Guatemala announced that it would implement monetary policy primarily through open market transactions, that there would be no further decreases in bank reserve requirements and that its foreign exchange reserves would not be used for monetary policy purposes. The Bank of Guatemala conducts its monetary policy through open market operations. For that purpose, the Bank of Guatemala issues *quetzal*-denominated *Depósitos a Plazos*, or fixed-rate term deposits. As of December 31, 2002, the amount of fixed rate term deposits represented Q11,158.7 million and increased to Q13,644.2 million for the transactions as of March 31, 2003 due to the Bank of Guatemala's efforts to achieve price stability. See “—Financial Sector”.

### **Stand-by Arrangement**

On June 18, 2003, the Republic and the IMF entered into a nine month stand-by arrangement (“precautionary arrangement”) for SDR\$84 million (Special Drawing Rights), or approximately US\$120 million. The monetary and financial targets that are part of this facility are:

- maintaining a public sector deficit of 1.7% or less of GDP;
- increasing net international reserves by US\$250 million;
- reducing inflation to between 4% and 6%; and
- maintaining the free exchange rate for the *quetzal*.

The Republic and the IMF entered into the previous stand-by arrangement for SDR\$84 million, or approximately US\$105 million on April 1, 2002. Proceeds of this facility were available to be used to support the Government's economic program for 2002. The arrangement contained a number of fiscal and macroeconomic targets for the Republic. Guatemala did not make any drawdowns under the IMF facility in 2002, because it did not need these funds. Guatemala met all monetary and fiscal targets under the arrangement in 2002. The year 2002 was the first year in which Guatemala met all fiscal and macroeconomic conditions in an IMF stand-by arrangement since Guatemala joined the IMF 57 years ago. The design and implementation of monetary and fiscal policy in 2002 allowed the Republic to meet these conditions in 2002.

During 2002, the Republic adopted a number of new laws including the Bank of Guatemala's new Organic Law, the Monetary Law, the Banking and Financial Groups Law and the Banking Supervision Law reflecting IMF requirements. See “—Financial Sector.” In addition, net international reserves were US\$198.0 million above the minimum target required by IMF for that year and net domestic assets were Q1,684.4 million (approximately US\$215.6 million) lower than the established maximum. The combined public sector deficit in 2002 was 0.8% of GDP, a level below the maximum limit established in the stand-by arrangement.

### **Financial Sector**

The Government is working to strengthen the country's financial institutions. In 1999, the Guatemalan financial sector was adversely affected by the impact of Hurricane Mitch on loan assets, a sharp devaluation of the *quetzal* and a decline in international securities markets that affected the value of investment securities and other assets held by banks. At the time, the financial sector was operating under antiquated banking rules, which for the most part dated back to 1944. The prior legal framework did not provide for the same level of supervision of the banking system as the current system is intended to provide. With the assistance of the World Bank and the IMF, the Government addressed the modernization of the financial system by initiating legal reforms and focusing on troubled banks and financial institutions.

In 2001, the Monetary Board intervened in the operations of three commercial banks—*Banco Metropolitano, S.A.*, *Banco Promotor, S.A.* and *Banco Empresarial, S.A.* and two other financial institutions—

*Financiera Metropolitana, S.A.* and *Financiera Agrocomercial, S.A.*, in 2001. After assessing the status, the Superintendency of Banks requested the courts to liquidate these entities. Liquidation proceedings are currently pending.

As of March 31, 2003, total assets of these entities represented 1.01% of total assets of the Guatemalan financial system and the total deposits of these five entities were 0.19% of total deposits in the financial system. The Government believes that the liquidation of these entities will not have a material adverse effect on the Guatemalan financial sector. The Bank of Guatemala made emergency loans available to the three commercial banks to avoid a bank-run by depositors. On March 31, 2003, the outstanding amount of these loans was Q1,597.8 million, approximately US\$204.5 million. The banks used the proceeds of these loans to satisfy existing creditors and now the Bank of Guatemala is the sole creditor of these banks. Once liquidation is complete, the Government expects that it will incur losses amounting to approximately Q900.0 million (approximately US\$115.2 million) arising out of these loans. At December 31, 2002, the Bank of Guatemala recorded reserves in its balance sheet for the full amount of these loans. Since July 2001, the Monetary Board has not intervened in or lent funds to any bank or financial institution in Guatemala.

Under the Government's *Programa de Fortalecimiento del Sistema Financiero Nacional* (Program to Strengthen the Financial System), Congress enacted the following laws to reflect current international standards:

- The Anti-Money Laundering Law enacted in December 2001 provides the framework to regulate transactions in foreign currency suspected to proceed from illegal activities such as the drug trade. This law makes money-laundering a crime, requires reporting of suspicious financial transactions, and permits the Guatemalan authorities to share information about such suspicious transactions with other countries. Any cash transaction in excess of US\$10,000 in domestic or foreign currency has to be registered and reported to the Superintendency of Banks. This law establishes that banks, among others, must maintain registries to identify and know the identity of their customers and calls for the creation of the *Intendencia de Verificación Especial* (Special Verification Intendency), charged with analyzing and monitoring information related to money-laundering activities. Any person carrying an amount equal to or in excess of US\$10,000 in domestic or foreign currency into or out of the country, must report such fact at the port of entry or exit. The Special Verification Intendency has the obligation to keep registries and prepare statistical information related to its mandate. The Government is of the view that this law and its enforcement strengthens money-laundering controls sufficiently so that Guatemala may be taken off the list of “non-cooperative” countries as elaborated by the Financial Action Task Force (FATF), although the Government cannot offer any assurances in this respect. See “—Regulation of the Financial System”.
- The Bank of Guatemala’s new Organic Law, which became effective on June 1, 2002, has the following key objectives: strengthening the autonomy of the Bank of Guatemala, redefining minimum reserve requirements for the banking system and enhancing the transparency of its internal operations. The new law also provides that the Bank of Guatemala is an autonomous entity authorized to set monetary policy, that members of the Monetary Board can only be removed for cause and requires the Bank of Guatemala to release to the public information related to monetary policy and its implementation. In addition, the new law establishes the Bank of Guatemala’s fundamental objective to create and maintain the most favorable conditions for the orderly development of the Guatemalan economy. For that purpose, the Bank of Guatemala will use monetary, exchange and credit policies to promote stability in the general level of prices.
- The new Monetary Law, reflecting changes in the international financial markets, mandates the free convertibility of foreign exchange and free movement of capital. This law provides the legal framework to generate confidence in the financial services sector and provides legal protection for foreign exchange operations. In addition, the new Monetary Law provides that the Bank of Guatemala is the only entity that can issue domestic currency.
- The new Banking and Financial Groups Law constitutes the basic legal framework to improve the level of competitiveness and strength of the Republic’s financial institutions. It addresses the regulation of financial groups and administration of risks among banking institutions, consolidates the

supervision of banks and financial groups, streamlines mechanisms for the restructuring and disposition of insolvent institutions, and provides for transparency of information.

- The new Banking Supervision Law gives the Superintendency of Banks greater functional independence, regulatory oversight and greater disciplinary authority to exercise its supervisory functions more effectively. This new law is intended to promote greater public confidence in the banking system. In addition, this law establishes the qualifications that the head of the Superintendency of Banks must have, including its authority and causes for removal.

Instability previously experienced by the financial sector has led to necessary bank consolidation. The Government believes that this process is on-going and represents an appropriate market response to problems in the financial system.

The new legal and regulatory framework is still in process of implementation, but has already yielded improvements. New regulations complying with the Basle accord have been put in place. The Government has allowed the use of foreign currencies in financial contracts and through legislation has set limits on banks' related-party loans. Stronger sanctions have also been brought to bear on non-compliant banks.

Nevertheless, the Guatemalan financial sector still faces strong challenges. The Government cannot assure you that banks will not experience liquidity and solvency problems in the future or that such problems will not have a material adverse effect on the sector and on the economy.

#### *Banks*

As of March 31, 2003, Guatemala had 27 private banks, including two branches of foreign-owned banks, and one state-owned bank. Banking activity is concentrated in the ten largest banks, which at March 31, 2003, held 78.0% of the assets and 79.4% of the deposits in the Guatemalan banking system. As of March 31, 2003, total assets of Guatemalan commercial banks totaled Q62,839.1 million. Total liabilities of Guatemala commercial banks totaled Q56,338.5 million of which Q45,375.3 million were deposits. Bank branches are heavily concentrated in Guatemala City, Quetzaltenango and Escuintla, with the rest of the country considered to be underserved by bank branches.

#### *Finance Firms*

Guatemalan law allows for the existence of *financieras* (finance firms) that act as financial intermediaries. By attracting and channeling medium- and long-term domestic capital in the form of either debt or equity investments in domestic corporations, these institutions promote the establishment of productive enterprises. Finance firms may not receive deposits from the public, and instead finance their operations primarily through loans and the issuance of bonds or notes, as well as their own capital. Finance firms are not subject to the reserve or investment requirements, so that their cost of capital is lower than that of banks. There are currently 19 finance firms in Guatemala, of which 18 are private and one is state-owned.

#### *National Mortgage Bank*

*Crédito Hipotecario Nacional de Guatemala* (Guatemala's National Mortgage Bank) is the only state-owned commercial bank in Guatemala. Guatemala's National Mortgage Bank provides credit for housing and commercial construction and other activities and finances its operations almost exclusively with deposits, paid-in capital and capital reserves. As of March 31, 2003, this bank had total liabilities of Q1,438.3 million. Two banks are in the process of merging with Guatemala's National Mortgage Bank. See "—Financial Sector". As of the date of this offering memorandum, the Republic has transferred Q100.0 million and US\$25.0 million to capitalize Guatemala's National Mortgage Bank.

The following table identifies the number of financial institutions and distribution of loans, deposits and assets in the financial system corresponding to each category as of the dates indicated.

**Number of Financial Institutions and Distribution of Loans, Deposits and Assets**

	December 31,						March 31, 2003		
	1998	1999	2000	2001	2002	2003 <sup>(1)</sup>	Loans	Deposits	Assets
Commercial banks.....	33	33	31	30	30	27	92.2%	97.2%	91.0%
Finance firms.....	20	19	19	18	18	18	5.4	—	6.0
<i>Crédito Hipotecario Nacional de</i>									
<i>Guatemala</i> .....	1	1	1	1	1	1	2.4	2.8	3.0
Total.....	54	53	51	49	49	46	100.0%	100.0%	100.0%

(1) Four banks and three finance firms are not included because they are in the process of going out of the market.

Source: Superintendency of Banks.

Total assets in the Guatemalan financial system increased from 32.9% of GDP for 1998 to 38.6% of GDP for 2002. This growth occurred in the context of overall economic growth and a stable price environment. In this period, only two foreign banks operated in Guatemala. Since 1999, the Guatemalan banking industry has experienced significant consolidation, driven principally by the need to become more competitive, including:

- Multibanco, S.A., merged with Banco del Café, S.A. (July 1999);
- Banco de la Construcción, S.A., merged with Banco Reformador, S.A. (August 2000);
- Banco del Agro, S.A. merged with Banco Agrícola Mercantil S.A. to form Banco Agromercantil de Guatemala, S.A. (November 2000); and
- Banco Granai & Towson S.A. merged with Banco Continental, S.A. to form Banco G&T-Continental, S.A. (June 2001).

The Monetary Board has approved the merger of each of *Banco del Ejército, S.A.* and *Banco del Nororienté, S.A.* into Guatemala's National Mortgage Bank. The merger of *Banco del Ejército* was concluded during April 2003 and various procedures are underway to conclude the merger of *Banco del Nororienté*.

There are currently no restrictions on foreign investment in Guatemalan banks or financial institutions.

The following table sets forth the total gross assets of the Guatemalan financial system as of the dates indicated and the percentage growth from the prior year.

**Total Assets of the Guatemalan Financial System**  
(in millions of US\$ and as % change from previous year)

December 31,	Financial System		Commercial Banks	
	US\$ <sup>(1)</sup>	Growth rate (%)	US\$ <sup>(1)</sup>	Growth rate (%)
1998.....	6,436.1	9.2	5,596.4	9.1
1999.....	5,989.0	(6.9)	5,278.7	(5.7)
2000.....	7,049.0	17.7	6,423.9	21.7
2001.....	8,238.4	16.9	7,677.7	19.5
2002.....	8,997.7	9.2	8,482.6	10.5
2003 <sup>(2)</sup> .....	9,311.1	3.5	8,750.4	3.2

(1) Translated at the official exchange rate as of the date indicated.

(2) As of May 31.

Source: Superintendency of Banks.

Commercial banks are the principal source of private sector financing and accounted for 94.7% of all loans to the private sector as of March 31, 2003. Major borrowers include companies engaged in wholesale and retail trade (23.9% of total loans at March 31, 2003) and agriculture, livestock, fishing and forestry (9.2% of total loans at March 31, 2003). Consumer credit has increased significantly from 23.2% of total loans at December 31, 1998 to 40.7% of total loans at March 31, 2003. The increase is primarily due to the greater availability of consumer credit and diversification of financial products. The following tables set forth information regarding the allocation of loans to each sector of the economy as of the dates indicated.

**Loans of the Financial System by Sector**  
(in millions of Q at real prices)

	December 31,				
	1998	1999	2000	2001	2002
Private sector:					
Agriculture, livestock, fishing and forestry.....	3,031.1	3,674.2	3,643.7	2,698.0	2,559.1
Mining and quarries.....	3.3	8.3	8.2	16.0	50.5
Manufacturing .....	2,409.8	2,518.8	3,020.6	3,247.0	3,691.7
Electricity and water.....	112.1	218.3	364.0	412.0	517.6
Construction.....	2,747.5	2,825.0	2,722.4	2,216.0	2,162.0
Wholesale and retail trade .....	6,004.3	6,513.7	6,895.0	7,364.0	7,512.3
Transportation, storage and telecommunications.....	332.7	375.0	336.5	518.0	259.1
Financial services .....	1,372.5	1,465.3	1,361.1	1,188.0	1,148.1
Community, social and personal services .....	931.5	1,193.0	1,018.6	878.0	870.0
Consumer credit, private transfers and others.....	5,628.1	6,429.6	7,131.9	9,631.0	12,094.8
Total private sector loans .....	22,572.9	25,221.2	26,502.0	28,168.0	30,865.2
Total public sector loans.....	1,681.0	1,400.4	796.0	969.8	232.3
Total loans.....	24,253.9	26,621.6	27,298.0	29,137.8	31,097.5

Source: Superintendency of Banks.

**Loans of the Financial System by Sector**  
(in millions of US\$)<sup>(1)</sup>

	December 31,				
	1998	1999	2000	2001	2002
<b>Private sector:</b>					
Agriculture, livestock, fishing and forestry.....	443.0	471.5	472.0	338.2	329.2
Mining and quarries.....	0.5	1.1	1.1	2.0	6.5
Manufacturing .....	352.2	323.3	391.3	407.0	474.8
Electricity and water.....	16.4	28.0	47.1	51.6	66.6
Construction.....	401.5	362.5	352.6	277.7	278.1
Wholesale and retail trade .....	877.5	835.9	893.1	923.0	966.2
Transportation, storage and telecommunications.....	48.6	48.1	43.6	64.9	33.3
Financial services .....	200.6	188.0	176.3	148.9	147.7
Community, social and personal services .....	136.1	153.1	131.9	110.0	111.9
Consumer credit, private transfers and others.....	822.5	825.1	923.8	1,207.1	1,555.6
Total private sector loans.....	3,298.9	3,236.6	3,432.8	3,530.4	3,969.9
Total public sector loans.....	245.7	179.7	103.1	121.5	29.9
Total loans .....	3,544.6	3,416.3	3,535.9	3,651.9	3,999.8

(1) Translated from Q to US\$ at the official exchange rate for the date indicated.

Source: Superintendency of Banks.

**Loans of the Financial System by Sector**  
(as % of total loans)

	December 31,				
	1998	1999	2000	2001	2002
<b>Private sector:</b>					
Agriculture, livestock, fishing and forestry .....	12.5	13.8	13.3	9.3	8.2
Mining and quarries .....	—	—	—	0.1	0.2
Manufacturing .....	9.9	9.5	11.1	11.1	11.9
Electricity and water.....	0.5	0.8	1.3	1.4	1.7
Construction .....	11.3	10.6	10.0	7.6	7.0
Wholesale and retail trade.....	24.8	24.5	25.3	25.3	24.2
Transportation, storage and telecommunications .....	1.4	1.4	1.2	1.8	0.8
Financial services .....	5.7	5.5	5.0	4.1	3.7
Community, social and personal services.....	3.8	4.5	3.7	3.0	2.8
Consumer credit, private transfers and others .....	23.2	24.2	26.1	33.0	38.8
Total private sector loans.....	93.1	94.8	97.0	96.7	99.3
Total public sector loans .....	6.9	5.2	3.0	3.3	0.7
Total loans .....	100.0	100.0	100.0	100.0	100.0

Source: Superintendency of Banks.

The following table sets forth bank credit to the private sector as of the dates indicated.

**Bank Credit to the Private Sector<sup>(1)</sup>**  
(as % of total loans outstanding)

<u>December 31,</u>	
1998 .....	83.7
1999 .....	86.2
2000 .....	89.3
2001 .....	93.2
2002 .....	95.0
2003 <sup>(2)</sup> .....	94.7

(1) Excludes loans made to the private sector by finance firms.

(2) As of March 31.

Source: Superintendency of Banks.

Interest rates float freely without governmental restraints. The weighted average bank lending rate was 8.99% in 2001, 10.12% in 2002 and 9.83% as of March 31, 2003.

The following table sets forth information regarding interest rates for the years indicated.

**Interest Rates on Commercial Bank Loans**

		(%)				
	1998	1999	2000	2001	2002	2003 <sup>(1)</sup>
Loans .....	17.87	20.80	20.09	17.92	16.38	16.01
Weighted average rate on loans <sup>(2)</sup> .....	17.91	20.77	20.05	17.90	16.45	15.61
Real .....	10.43	15.85	14.97	8.99	10.12	9.83

(1) As of March 31.

(2) Represents weighted average interest rate for each period.

Source: Superintendency of Banks.

The following table sets forth information on interest rates applicable to deposits and loans for the years indicated.

**Interest Rates on Deposits Paid by Commercial Banks**  
(%)

	1998	1999	2000	2001	2002	2003 <sup>(1)</sup>
Savings deposits .....	4.84	5.21	5.35	4.12	2.87	2.69
Fixed-rate term deposits .....	10.76	18.05	15.32	11.32	9.62	8.27
Weighted average rate paid on deposits <sup>(2)</sup> .....	7.08	11.25	10.98	7.72	6.29	5.84
Real .....	(0.40)	6.33	5.90	(2.09)	(0.04)	0.06

(1) As of March 31.

(2) Represent the weighted average interest rate for each year.

Source: Superintendency of Banks.

**Liquidity and Credit Aggregates**

There are several money-supply measures currently in place in Guatemala. The most significant are M1, M2 and M3 which generally are composed of the following:

- M1: currency held by the public and demand deposits;
- M2: M1 plus savings and time deposits; and



- M3: M2 plus bonds held by the public.

The Republic's monetary base increased 24.5% in 2002 compared to 2001. This increase was primarily due to growth in the net domestic assets of the Bank of Guatemala. M1 increased at a cumulative rate of 66.9% from December 31, 1998 to December 31, 2002, M2 increased at a cumulative rate of 44.9% and M3 increased at a cumulative rate of 43.7% in the same period. The Republic's monetary base increased in the period from 1998 to 2002 due to increased liquidity in the financial system offset partially by an increase in Governmental deposits and an increase in open market transactions.

The sources for the monetary base are net international reserves plus net internal credit of the Bank of Guatemala. The uses of the monetary base are commercial bank deposits held by the Bank of Guatemala and all currency in circulation.

The following table sets forth the composition of the Republic's monetary base (expressed in terms of the Bank of Guatemala's monetary liabilities) and international reserves as of the dates indicated.

**Monetary Base and the Bank of Guatemala's International Reserves**  
(in millions of US\$)<sup>(1)</sup>

	<b>December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001<sup>(2)</sup></b>	<b>2002<sup>(2)</sup></b>
Currency in circulation.....	820.3	993.0	943.1	1,045.8	1,128.7
Commercial bank deposits at the Bank of Guatemala.....	676.6	430.1	650.4	736.6	1,090.7
Monetary base.....	<u>1,496.9</u>	<u>1,423.1</u>	<u>1,593.5</u>	<u>1,782.4</u>	<u>2,219.4</u>
Gross international reserves .....	1,368.3	1,242.7	1,884.8	2,358.8	2,380.6
Net international reserves .....	1,345.1	1,219.7	1,874.1	2,347.9	2,369.7

(1) Translated from Q to US\$ at the official exchange rate for the date indicated.

(2) Including domestic and foreign currency.

Source: Bank of Guatemala.

As of December 31, 2002, the ratio of gross international reserves to the monetary base was approximately 1.1 and outstanding credits of the financial system totaled US\$4,574.0 million. The private sector is the principal recipient of commercial loans. Private-sector credits from commercial banks grew at an average annual rate of 7.5% from US\$3,058.2 million in 1998 to US\$4,205.2 million in 2002.

The following table shows liquidity and credit aggregates as of the dates indicated.

**Liquidity and Credit Aggregates**  
(in millions of US\$)<sup>(1)</sup>

	December 31,				
	1998	1999	2000	2001 <sup>(5)</sup>	2002 <sup>(5)</sup>
<b>Monetary aggregates:</b>					
Currency in circulation .....	820.3	993.0	943.1	1,045.8	1,128.7
M1 .....	1,898.3	1,889.0	2,314.2	2,628.1	3,168.6
M2 .....	4,610.7	4,373.6	5,236.8	5,919.3	6,681.0
M3 .....	4,899.0	4,654.2	5,720.7	6,216.8	7,040.3
<b>Credit by sector:<sup>(2)</sup></b>					
Public sector .....	252.2	148.6	96.6	121.5	29.9
Private sector .....	3,058.2	3,112.1	3,440.6	3,795.4	4,205.2
Other <sup>(3)</sup> .....	649.2	508.6	434.4	380.6	338.8
Total credit aggregates .....	3,959.6	3,769.3	3,971.6	4,297.5	4,574.0
<b>Deposits:<sup>(4)</sup></b>					
Local currency .....	3,790.4	3,380.6	4,293.7	4,873.5	5,552.3
Other .....	281.4	270.9	211.1	180.0	136.8
Total deposits .....	4,071.8	3,651.5	4,504.8	5,053.5	5,689.1

(1) Translated from Q to US\$ at the official exchange rate for the date indicated.

(2) Commercial bank credit.

(3) Includes finance firms.

(4) Commercial bank deposits.

(5) Including domestic and foreign currency.

Source: Bank of Guatemala.

The following table shows principal monetary indicators as of the dates indicated.

**Principal Monetary Indicators**  
(in millions of US\$ and % change from previous year)<sup>(1)</sup>

	December 31,									
	1998		1999		2000		2001 <sup>(2)</sup>		2002 <sup>(2)</sup>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Monetary issue .....	921.7	1.89	1,081.7	17.4	1,064.0	(1.63)	1,187.7	11.6	1,304.9	9.9
Monetary base .....	1,496.9	(13.77)	1,423.1	(4.9)	1,593.5	11.98	1,782.4	11.9	2,219.4	24.5
M1 .....	1,898.3	0.79	1,889.0	(0.5)	2,314.2	22.51	2,628.1	13.6	3,168.6	20.6
Quasi-money .....	2,712.4	(1.15)	2,484.6	(8.4)	2,922.6	17.63	3,291.2	12.6	3,512.4	6.7
M2 .....	4,610.7	(0.36)	4,373.6	(5.1)	5,236.8	19.74	5,919.3	13.0	6,681.0	12.9

(1) Translated from Q to US\$ at the official exchange rate for the date indicated.

(2) Including domestic and foreign currency.

Source: Bank of Guatemala.

## Supervision of the Financial System

The Superintendency of Banks has adopted the loan risk classifications provided in the Basle Accord. The following table sets forth the risk categories and loan-loss reserve requirements in effect as of March 31, 2003.

### Risk Categories and Required Loan-loss Reserves (as % of total loans in financial systems)

Category	Commercial and Consumer Loans		Mortgage Loans	
	Loan-loss reserve	Criteria (days past due)	Loan-loss reserve	Criteria (days past due)
A.....	0.0	0 to 30 days	0.0	0 to 30 days
B.....	5.0	31 to 90 days	5.0	31 to 90 days
C.....	20.0	91 to 180 days	20.0	91 to 180 days
D.....	50.0	181 to 360 days	50.0	181 to 360 days
E.....	100.0	over 360 days	100.0	over 360 days

Source: Superintendency of Banks.

The following table sets forth information regarding loans of the banking system by risk category as of March 31, 2003.

### Classification of Aggregate Assets of the Guatemalan Financial System<sup>(1)</sup> (in millions of US\$)<sup>(2)</sup>

Category	Banks	Financial Institutions	Total	Percentage
A.....	3,357	187	3,544	86.9%
B.....	97	5	102	2.5
C.....	51	2	53	1.3
D.....	65	4	69	1.7
E.....	302	8	310	7.6
Total .....	3,872	206	4,078	100.0%

(1) Intervened institutions are not included.

(2) Translated from Q to US\$ at the official exchange rate as of the date indicated.

Source: Superintendency of Banks.

The following table sets forth information regarding past-due loans by type of institution as of the dates indicated.

### The Guatemalan Financial System — Past-Due Loans<sup>(1)</sup> (as % of total loans)

	Over-Due Loans as % of Total Loans <sup>(2)</sup>	Past-Due Loans as % of Total Loans <sup>(3)</sup>
As of December 31, 2000 .....	3.8	5.2
As of December 31, 2001 .....	3.6	4.4
As of December 31, 2002 .....	3.0	4.3
As of March 31, 2003 .....	3.6	4.6

(1) Intervened institutions are not included.

(2) Loans with respect to which an interim payment is 30 days or more past due.

(3) Loans not paid at maturity.

Source: Superintendency of Banks.

## **Regulation of the Financial System**

Commercial banking in Guatemala grew rapidly after the Monetary Board introduced the Program for the Modernization of the National Financial System in September 1993, which was incorporated into a Congressional decree in April 1995.

Among other things, this program:

- liberalized interest rates;
- required publication of financial information;
- generally prohibited the Bank of Guatemala from providing credit to the public sector, a principle subsequently included in the Constitution;
- liberalized the exchange rate regime;
- permitted banks to acquire shares of financial services companies, to borrow securities and to provide credit card, financial leasing and factoring services;
- increased the percentage of equity in property backing mortgage loans;
- promulgated procedures for classification of the credit portfolio; and
- reorganized the Superintendency of Banks.

In April 1995, bank regulatory authorities implemented the 1986 Capital Accord of the Basle Committee of international bank regulators, which requires banks to maintain a ratio of capital to risk-weighted assets of at least 10%. The Government is not able to implement the requirements of the new Basle Accord (Basle II) immediately because several key features of that regulatory scheme such as rating agencies and other experts currently do not exist in the Guatemalan financial system. Basle II also requires more stringent market discipline and greater transparency than in the current Guatemalan financial system. However, the first steps towards compliance with Basle II have been taken through the enactment of several financial laws during 2002. See “— Financial Sector”.

In June 2001, the Financial Action Task Force (FATF) included Guatemala on its “Non-Cooperative Countries and Territories List” in connection with money laundering. FATF is a task force of representatives from 31 countries and organizations including the United States and the United Kingdom. Its objective is to monitor governmental cooperation in fighting money-laundering, corruption and drug trafficking matters. In response to FATF’s classification, on December 17, 2001, Congress enacted the Anti-Money Laundering Law, Decree No. 67-2001 and related regulations. Both the law and the regulations conform to FATF’s 40 recommendations. Among other things, the law and regulations created the Financial Intelligence Unit within the Superintendency of Banks under the name of Special Verification Intendency. The Special Verification Intendency has been developing a national network for the prevention, control and surveillance of money-laundering activities. In its June 2002 assessment, FATF determined that of its 25 assessment criteria, Guatemala met 16 with nine still being in implementation. According to the most recent evaluation of February 2003, Guatemala improved its compliance record and currently complies with 18 of the 25 assessment criteria and seven are still in implementation.

The Superintendency of Banks, acting under the direction of the Monetary Board, supervises and inspects financial institutions. The Monetary Board proposes three candidates and the President chooses and appoints one as the Superintendent of Banks to a four-year term. Banks are required to file monthly and annual reports of external auditors regarding their credit portfolios and liabilities. The Bank of Guatemala may extend emergency advances to banks facing liquidity problems.

There were no commercial bank insolvencies in Guatemala from 1970 through 2000. However, in 2001, the Monetary Board intervened in the operations of three commercial banks and two other financial institutions due

to liquidity problems arising out of administrative irregularities, loans to affiliates and regulatory non-compliance. After assessing the status, the Superintendency of Banks requested the courts to liquidate these entities. Liquidation proceedings are currently pending. As of March 31, 2003, total assets of these entities represented 1.01% of total assets of the Guatemalan financial system and the total deposits of these entities were 0.19% of total deposits in the financial system. The Government believes that the intervention and liquidation of these banks and financial institutions will not have a material adverse effect on the Guatemalan financial sector. The Bank of Guatemala extended emergency advances to these institutions in order to avoid a potential bank-run on the entire banking system and preserve normal money transfer mechanisms. These advances were renegotiated as three-year, low-interest restructuring loans in an aggregate amount of Q1,597.8 million (approximately US\$204.5 million) outstanding at March 31, 2003. Since July 2001, the Monetary Board has not intervened in or lent funds to any bank or financial institution in Guatemala. See “—Financial Sector.”

The Bank of Guatemala has promulgated reserve requirements that must be followed by all banks. The reserve requirement or *encaje* consists of a compulsory deposit with the Bank of Guatemala of an amount equal to 14.6% of total deposits. Besides the mandatory reserve of total deposits, the banks have to deposit with the Bank of Guatemala 14.6% of funds from the issuance of bonds and financial promissory notes. The same percentages apply to operations in foreign currency.

On June 19, 2003 Congress enacted new legislation that provides that financial intermediaries that process remittances have to use the exchange rate published by the Bank of Guatemala plus a maximum of five basis points. However, the Bank of Guatemala and the Guatemala’s National Mortgage Bank are not allowed to charge any such additional basis points in remittances transactions. The Bank of Guatemala filed a lawsuit before the Constitutional Court challenging the constitutionality of this new law alleging that it violates the autonomy of the central bank. The Constitutional Court has not resolved this challenge.

Notwithstanding the Government’s efforts to improve the regulation and supervision of the financial system, the Government cannot assure that insolvencies and financial fraud or other irregularities will not occur in the future.

## Inflation

Inflation fell gradually from its high of 60.6% in 1990 to 5.1% in 2000, increased to 8.9% in 2001 and decreased to 6.3% in 2002. Inflation increased in 2001 primarily because of the increase in the VAT rate from 10% to 12%. The Monetary Board recognizes that inflation for the years 2001 and 2002 was slightly higher than its inflation targets, particularly in 2002. The Monetary Board has targeted an inflation rate of between 4.0% and 6.0% for 2003, which the Government expects to achieve by maintaining discipline and coordination between fiscal and monetary policy.

The following table shows changes in the consumer price index for the periods indicated.

**Variation in Consumer Price Index  
(%)**

	<b>End of Period</b>
1998 .....	7.5
1999 .....	4.9
2000 .....	5.1
2001 .....	8.9
2002 .....	6.3
2003:	
January .....	1.2
February .....	1.9
March .....	2.3
April .....	2.8
May .....	3.1
June .....	3.3

Source: Bank of Guatemala.

Since January 1, 2001, the consumer price index has been calculated using information from the eight geographic regions or departments where the 15 largest cities in Guatemala are located and a basket of 422 goods and services. Previously, the index was calculated using information from Guatemala City only and a basket of 212 goods and services.

### International Monetary Reserves

Guatemala's net international reserves, which were US\$815.6 million at the end of 1996, have increased in recent years. Net international reserves of the Bank of Guatemala were US\$1,345.1 million at the end of 1998, US\$1,219.7 million at the end of 1999, US\$1,874.1 million at the end of 2000, US\$2,347.9 million at the end of 2001, and US\$2,369.7 million at the end of 2002, which covered 4.4 months of imports of goods and services at the level of imports for 2002. As of March 31, 2003 net international reserves were US\$2,428.2 million.

The Republic expects net international reserves of the Bank of Guatemala to increase by approximately US\$250.0 million during 2003 as a result of the issuance of the notes described in this offering memorandum. The Republic gives no assurances that this increase in reserves will occur due to, among other factors, the economic downturn in the United States and certain other countries and other external or internal political and economic factors.

The following table sets forth the net international reserves of the banking system as of the dates indicated.

**Net International Reserves of the Banking System**  
(in millions of US\$)<sup>(1)</sup>

	<b>December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Bank of Guatemala:					
Assets <sup>(2)</sup> .....	1,368.3	1,242.7	1,884.8	2,358.8	2,380.6
Liabilities.....	(23.2)	(23.0)	(10.7)	(10.9)	(10.9)
Total.....	<u>1,345.1</u>	<u>1,219.7</u>	<u>1,874.1</u>	<u>2,347.9</u>	<u>2,369.7</u>
Commercial private banks:					
Assets.....	65.7	84.4	123.7	200.7	294.4
Liabilities.....	(494.4)	(440.0)	(632.2)	(664.9)	(699.1)
Total.....	<u>(428.7)</u>	<u>(355.6)</u>	<u>(508.5)</u>	<u>(464.2)</u>	<u>(404.6)</u>
Net international reserves of the banking system.....	<u>916.4</u>	<u>864.1</u>	<u>1,365.6</u>	<u>1,883.7</u>	<u>1,965.0</u>

(1) Translated from Q to US\$ at the official exchange rate as of the date indicated.

(2) Amounts also reflect the gross international reserves of Bank of Guatemala.

Source: Bank of Guatemala.

### Capital Markets

The Guatemalan capital markets have grown in recent years with the modernization of the financial system. However, retail trading in debt and equity securities of Guatemalan private corporations is still relatively new and has remained limited. Most trading in Guatemalan capital markets involves the purchase or sale of Government securities.

Guatemala has sought to create a legal framework to support the transparent and efficient operation of its securities markets and, to that end, enacted the Stock Market Law in December 1996. There are currently three securities exchanges: the *Bolsa de Valores Nacional, S.A.* (National Stock Exchange); *Bolsa Agrícola Nacional, S.A.*; and *Bolsa Global, S.A.* The latter two exchanges have filed an application to merge. Pending approval, the two exchanges report their results jointly as the *Corporación Bursátil* (Exchange Corporation). Initially, the exchanges developed primarily for the trading of government debt securities. More recently, they have served as

interbank markets on which overnight and short-term deposits, as well as government debt securities, are traded. The interbank positions traded typically are collateralized with public sector securities, making these transactions comparable to repurchase transactions.

In 2002, total trading volume on the National Stock Exchange was approximately Q62,387.8 million (US\$7,986.3 million), representing a 14.4% decrease compared to 2001. In 2002, total trading volume of debt securities on the Exchange Corporation was Q438.4 million, a 15.0% decrease over 2001.

## PUBLIC SECTOR FINANCES

The public sector consists of the following agencies and ministries of the Government:

- local governments;
- non-financial public institutions, including social service, education and development institutions;
- public enterprises; and
- financial public institutions.

### Public Sector Budget Process

Under the Constitution, a general, centralized budget for income and expenditures for the Republic must be prepared annually and approved by November of each year. The Constitution permits public sector entities to have separate budgets, when specifically authorized by law, but such budgets must incorporate the level of transfers to these entities approved in the Government budget and then be submitted to the executive branch and Congress for their information. Although certain revenues can be earmarked for specific purposes, public revenues are centralized and separate, direct funding of public sector entities is, in principle, not authorized, except as specifically permitted by law. The Constitution requires transparency in public spending and, accordingly, prohibits any confidential expenditures. All public entities that use private funds must publish in detail the source and use of such funds within six months of the end of the year. Under the Constitution, public sector revenues and expenditures, as well as related financial matters, are audited by the Comptroller General of Accounts.

#### *Government*

The budget process is set forth in the Constitution and the Organic Budget Law. The Minister of Public Finance has primary responsibility for preparing budget proposals and develops, early in the year, the strategy for the formulation of the following year's budget. The President then promulgates the goals for each ministry and agency for the coming year, including guidelines to be used in determining the level of expenditure for each Government entity. After consultations with the Bank of Guatemala and the *Secretaría de Planificación y Programación de la Presidencia* (Secretariat of Planning and Programming), the *Dirección Técnica del Presupuesto del Ministerio de Finanzas Públicas* (Technical Budget Office of the Ministry of Public Finance) prepares the preliminary budget based on macroeconomic projections of the Bank of Guatemala and the Secretariat of Planning and Programming. Technical analysts from the Technical Budget Office visit each of the regions of Guatemala to discuss the budget with the Regional Development Council and Congressional representatives. The Minister of Public Finance then presents the preliminary budget to the Economic Cabinet, which consists of the Minister of Agriculture, Livestock and Food, the Minister of Mines and Energy, the Minister of the Economy, the Minister of Public Finance, the President of the Bank of Guatemala and the Secretariat of Planning and Programming. The Economic Cabinet then analyzes the budget and presents its recommendations to the Minister of Public Finance, who, after making revisions, presents the budget to the entire Cabinet.

The Minister of Public Finance must present the proposed budget to Congress by September 2 of each year. The Minister of Public Finance is then called before Congress to explain the budget proposal in a series of plenary and committee hearings. The Finance Committee of Congress evaluates the budget proposal and forwards its recommendation to Congress for consideration. Congress has the authority to accept, reject or amend the proposal, but may only increase the total amount of expenditures if it concurrently specifies a source of additional revenues to cover the increased spending. If Congress rejects the budget for the next year, the Organic Budget Law specifies that the existing budget would be continued into the next year, with any amendments that Congress may enact. Congress has until December 1 of each year to consider and approve the budget. Amendments to the budget during the course of the year follow a process similar to that required for original approval described above.

The proposed 2003 budget was presented to Congress on September 2, 2002 and was approved on November 15, 2002.



### *Other Public Sector Entities*

The Government budget provides for transfers from the Government to each of the other entities within the public sector. The budget process for the other public sector entities differs from that of the Government.

Each of the non-financial public institutions and public enterprises prepares its own budget proposal with the advice of the Technical Budget Office, taking into account any Government transfers to that entity in the Government budget. The INDE is the only public enterprise exempted from the general budget process and prepares its own budget and then transmits the budget to the Technical Budget Office for its information and for preparation of the governmental agreement on the budget. Each non-financial public institution transmits its proposal to the Technical Budget Office, which in turn presents its analysis to the Minister of Public Finance for review and approval. The Technical Budget Office then prepares the governmental agreement on the budget of the non-financial public institution, which is signed by the Ministry of Public Finance. The final budget for each non-financial public institution incorporates the corresponding level of transfer that is stated in the final Government budget promulgated by December 1 of each year. The budget for each non-financial public institution must be approved by December 15 for the coming year, and, once approved, the budget is sent to Congress for its information and for integration into the national budget.

Local governments prepare their own budgets with the advice of the *Instituto de Fomento Municipal* (Municipal Development Institute). Local government budgets are not subject to the approval of the Ministry of Public Finance or Congress. Under the Constitution, municipalities and other entities that are granted autonomous and decentralized status may act by delegation of national powers. All such autonomous and decentralized entities must act in accordance with the general policies of the nation, except for the requirement that the University of San Carlos deliver a report to the Government and Congress on their financial situation, revenues and expenditure, budgets and activities. The activities of autonomous and decentralized entities may be made subject to Governmental approval, by operation of law, and can be countermanded by Congress by means of a dissolution or suspension order by a two-thirds majority vote. Autonomous and decentralized entities can by law be authorized to maintain separate budgets and private funds, provided that such budgets and funds continue to be subject to integration in the central budget and to control by the central authorities. The Constitution mandates that 10% of the ordinary revenues of the Government be transferred to local governments. This share of Government revenues is divided among the local governments in accordance with a formula provided by law.

Public financial institutions except for the *Fondo de Inversión Social* (Social Investment Fund) and the *Fondo Nacional para la Paz* (National Fund for Peace), which are part of the Government budget, prepare their own budgets, taking into account any transfers to such institutions established in the Government budget. The University of San Carlos, which has a number of campuses throughout Guatemala, receives a constitutionally-mandated 5% of the ordinary revenues of the Government and prepares its own budget.

In the past, the Bank of Guatemala incurred certain losses in the course of implementing its monetary, exchange rate and credit policies. The Bank of Guatemala recorded these losses in an account entitled quasi-fiscal losses. The Superintendency of Banks conducted an audit and determined that at the end of 2001 quasi-fiscal losses totaled Q16,834.2 million (approximately US\$2,144 million). In accordance with Article 83 of the Bank of Guatemala's new Organic Law and upon prior authorization of the Guatemalan Congress, that liability will be transferred to the Ministry of Public Finance in exchange for a Q16,834.2 million 100 year non-interest bearing note issued by the Ministry of Public Finance. See "Public Sector Debt—Debt of the Bank of Guatemala."

The following table sets forth information regarding public sector accounts for the years indicated.

**Central Government Accounts**  
(in millions of US\$, except as otherwise indicated)<sup>(1)</sup>

	1998	1999	2000	2001	2002	Budget 2003 <sup>(2)</sup>
<b>Fiscal revenue:</b>						
Current revenues:						
Taxes:						
Import duties .....	262.6	245.7	232.9	252.1	289.7	310.4
Taxes on goods and services (including VAT) ....	1,089.7	1,093.4	1,132.9	1,284.2	1,528.9	1,590.7
Estate and real estate taxes .....	1.5	1.7	2.2	1.1	1.1	1.1
Income taxes .....	370.0	392.2	424.9	491.1	649.8	623.1
Other.....	82.7	77.3	141.9	0.3	0.4	0.3
Total tax revenues .....	1,806.5	1,810.3	1,934.8	2,028.8	2,469.9	2,525.6
Social security contributions.....	34.9	41.0	46.0	52.8	60.0	55.5
Non-tax revenues:						
Public services .....	38.2	17.7	17.4	17.5	24.7	29.9
Other <sup>(3)</sup> .....	95.1	126.0	79.3	147.7	49.2	36.4
Total non-tax revenues .....	133.3	143.7	96.7	165.3	73.9	66.3
Current transfers <sup>(4)</sup> .....	14.7	25.5	45.0	72.1	53.4	41.4
Other current revenues.....	—	—	—	—	—	—
Total current revenues .....	1,989.4	2,020.5	2,122.5	2,318.9	2,657.3	2,688.8
Capital revenues:						
Capital income.....	10.9	1.3	1.4	1.8	1.7	12.6
Total capital revenues .....	10.9	1.3	1.4	1.8	1.7	12.6
Total fiscal revenue .....	2,000.3	2,021.8	2,123.9	2,320.7	2,659.0	2,701.4
<b>Expenditures:</b>						
Current expenditures:						
Consumption expenditures .....	912.1	928.9	1,031.2	1,086.2	1,120.2	1,162.6
Interest on public internal debt .....	151.9	117.5	125.0	175.9	134.2	142.3
Interest on public external debt .....	60.5	89.6	111.1	116.2	146.4	199.9
Social security contributions .....	100.0	106.7	129.7	144.0	161.7	230.7
Current transfers .....	296.8	336.2	353.2	413.7	445.8	494.5
Total current expenditures.....	1,521.3	1,578.9	1,750.2	1,936.0	2,008.2	2,230.0
Capital expenditures:						
Real investment.....	337.0	338.7	278.3	265.3	294.0	319.7
Financial investment.....	189.8	216.0	7.0	33.2	29.5	30.5
Capital transfers .....	360.4	397.8	428.8	479.9	553.8	852.0
Total capital expenditures .....	887.2	952.5	714.1	778.4	877.3	1,202.2
Total expenditures .....	2,408.5	2,531.4	2,464.3	2,714.4	2,885.5	3,432.2
<b>Fiscal balance:</b>						
Current account balance.....	468.1	441.6	372.3	382.9	649.1	458.8
Capital account deficit .....	(876.3)	(951.2)	(712.7)	(776.6)	(875.6)	(1,189.6)
Fiscal surplus/(deficit) .....	(408.2)	(509.6)	(340.4)	(393.7)	(226.5)	(730.8)
<b>Financing:</b>						
Net foreign financing.....	283.8	277.9	87.3	73.0	206.0	669.7
Net domestic financing.....	60.7	209.7	106.1	82.9	48.9	—
Other financing sources .....	63.7	22.0	147.0	237.8	28.4	61.1
Total financing.....	408.2	509.6	340.4	393.7	226.5	730.8
GDP .....	19,358.4	18,328.2	19,310.9	20,990.5	23,290.9	24,043.5
Nominal exchange rate .....	6.40664	7.38138	7.75431	7.85091	7.81185	8.15000
Government revenues as % of GDP .....	10.3%	11.0%	11.0%	11.1%	11.4%	11.2%
Government expenditures as % of GDP .....	12.4%	13.8%	12.8%	12.9%	12.4%	14.3%
Surplus/(deficit) as % of GDP .....	(2.1)%	(2.8)%	(1.8)%	(1.9)%	(1.0)%	(3.0)%

(1) Translated from Q to US\$ at the average daily exchange rate for the year.

(2) Revenue figures for 2003 are net of tax refunds. Amounts presented are from the 2003 budget approved by Congress in November 2002.

(3) Includes sales of property, leases of property and right payments, among others.

(4) Includes foreign aid.

Source: Ministry of Public Finance.

## Tax Regime

Except for certain municipality and real estate taxes, taxes in Guatemala are collected through *Superintendencia de Administración Tributaria* (Superintendency of Fiscal Administration, or SAT). The purpose of SAT is to both implement and improve tax collection through the use of modern procedures. The SAT was created in 1998 with the support of the World Bank, which pledged a loan of US\$28.2 million for its creation.

The following table sets forth the composition of the Republic's tax revenues for the years indicated.

**Tax Revenues of the Republic**  
(as % of total tax revenue)

	1998	1999	2000	2001	2002 <sup>(1)</sup>	Budget 2003
Import duties.....	14.5	13.6	12.0	12.4	11.8	12.3
Taxes on goods and services (including VAT).....	60.3	60.4	58.6	63.3	61.3	62.9
Estate and real estate taxes.....	0.1	0.1	0.1	0.1	0.1	0.1
Income taxes.....	20.5	21.6	22.0	24.2	26.4	24.7
Other taxes.....	4.6	4.3	7.3	-	0.5	-
Total tax revenues.....	100.0	100.0	100.0	100.0	100.0	100.0

(1) Preliminary data.

Source: Ministry of Public Finance.

On October 15, 2002, the Constitutional Court, after a challenge by the Guatemalan Chamber of Industry, declared certain newly adopted taxes on fuel distribution unconstitutional on the basis that the effective result was double taxation because VAT taxes were already imposed upon import. Subsequently, the Government issued several decrees establishing new import duties for certain products, including fuel and fuel products. These taxes were declared unconstitutional on the grounds that the executive branch did not have the authority to impose taxes without approval of Congress. On February 7, 2003, the Guatemalan Congress passed a law (Decree 04-2003) that contemplates increased import taxes on fuel and fuel products having similar effects as the previously enacted tax law adopted by the executive branch. However, certain provisions of this law were challenged before the Constitutional Court. The Constitutional Court has suspended the application of one of the challenged provisions of this law until this challenge is resolved. If these provisions of the law are declared unconstitutional, the Republic's tax revenues may be adversely affected.

The Government has run relatively small deficits during the last five years, with the Government balance ranging from a deficit of 2.1% of GDP in 1998 to a deficit of 1.0% of GDP in 2002. Tax revenues, including revenues from import duties, comprised the majority of Government revenues, constituting 10.6% of GDP in 2002 compared to 9.7% in 2001.

Revenues from import duties constituted 11.8% of total Government revenues in 2002. There are no taxes on exports. Revenues from VAT and other taxes on goods and services constituted 61.3% of total Government revenues in 2002, while revenue from income taxes constituted 26.4% of total Government revenues in 2002.

The Republic historically has experienced low levels of tax collection due to:

- business and commercial culture that accepts and assumes the non-payment of taxes;
- high levels of tax evasion; and
- collection problems caused by difficulties in obtaining and managing information on taxpayers.

The Republic has been seeking to improve its tax-enforcement record and increased tax collection from 9.5% of GDP in 2000 to 10.6% of GDP in 2002.

In May 2000, 130 organizations and the executive, legislative and judicial branches of government entered into the Fiscal Pact, a set of commitments regarding tax revenues, social spending, balancing the budget and other fiscal matters. The Fiscal Pact requires that the Government strive to achieve certain financial targets, including an increase in tax revenues to 12% of GDP, from a current 10.6% of GDP for 2002, a decrease in the annual fiscal deficit to approximately 1% of GDP by the end of 2003, and formation of a supervisory committee to ensure compliance with the goals of the Fiscal Pact. In June 2000, the signatories to the Fiscal Pact signed the Political Agreement for Peace Program financings, which includes various specific tax measures and a detailed implementation schedule. Significant tax reforms were approved by Congress, including among others, the following:

- an increase in VAT from 10% to 12%;
- an increase in the tax on mercantile and agricultural enterprises;
- elimination or reduction of certain exemptions, credits and deductions with respect to corporate and personal income taxes, including limitations on the use of VAT as a tax credit for income tax purposes;
- fewer exemptions applicable to taxes on airfares and increased airport departure taxes;
- increased motor vehicle licensing taxes;
- fewer exemptions with respect to and broader applicability of stamp taxes;
- improved tax enforcement and collection; and
- other changes in the tax and criminal codes intended to increase tax revenues and collections in various sectors of the economy.

The Government collects various types of taxes, including:

- income tax;
- value-added tax;
- tax on mercantile and agricultural enterprises; and
- tax on interest.

The Government recognizes that, although most targets of the Fiscal Pact have been met, some targets have not been achieved, including increasing tax revenues to 12% of GDP and reducing the annual fiscal deficit to 1%. The Government expects to review the Fiscal Pact in the short term in order to target those specific issues and redirect its strategy towards the achievement of those certain targets, although no assurances can be given in this regard.

### *Income Tax*

Guatemalan tax law provides for the following income tax brackets for individuals:

<b>Taxable Annual Income (Q)</b>	<b>Tax</b>
0 — 65,000 .....	15%
65,000 — 180,000 .....	Q9,750.0 plus 20% of the excess over Q65,000
180,000 — 295,000 .....	Q32,750.0 plus 25% of the excess over Q180,000
over 295,000 .....	Q61,500.0 plus 31% of the excess over Q295,000

The income tax that an individual pays is composed of both a fixed amount and a rate-based amount. Both components are determined by the amount of an individual taxpayer's annual income. The fixed income tax component is calculated by determining in which income tax bracket the individual's annual income falls. The rate-based income tax component is determined in two steps. First, the individual taxpayer deducts the amount at the lower end of the applicable tax bracket from that individual's annual income. The difference in these two amounts is then multiplied by the applicable rate-based multiplier for that individual's annual income tax bracket. The product of this calculation is the rate-based income tax component of the individual's income tax.

The Republic applies a single 31% tax rate to the income of companies and individuals engaged in commercial enterprises.

### *Value-Added Tax*

The Republic imposes a 12% VAT in respect of sales of goods, services, leases and imports. Prior to the tax reform that took effect in August 2001, the VAT rate was 10%. As a result of the 2001 tax reform, VAT tax revenues increased to 6.5% of GDP in 2002 compared to 6.1% of GDP in 2001 and are expected to increase to 6.6% of GDP in 2003.

The Constitutional Court is reviewing the constitutionality of an increase in the VAT applicable to alcoholic beverages. The Constitutional Court suspended the application of this tax increase until the challenge is resolved. If the tax increase is declared unconstitutional, the Republic's tax revenues may be adversely affected.

### *Tax on Mercantile and Agricultural Enterprises*

The Republic levies a quarterly tax on all corporations domiciled in the country. Corporations may choose between a 2.5% rate over taxable assets (total assets minus, among others, tax credits) and a 1.25% rate on the corporation's gross income in the previous taxpayer's fiscal year. The tax rates were recently increased so that, effective January 1, 2002, a 3.5% rate and a 2.25% rate will apply to taxable assets and gross income, respectively. In 2002, the Guatemalan Chamber of Industry and other individuals filed two lawsuits challenging the constitutionality of certain articles of the law implementing this tax, alleging that constitutional rights, such as equality and payment capacity, had been violated. The Constitutional Court has not resolved either of these challenges, but has denied *suspensión provisional*, or preliminary injunctive relief. If these provisions of the law are declared unconstitutional, the Republic's tax revenues may be adversely affected.

### *Tax on Interest*

The Republic imposes a 10% withholding tax on interest earned on investments, with certain exceptions, including interest paid by banks, insurance and bonding companies, financial institutions and other entities supervised by the Superintendency of Banks.

The Constitutional Court is reviewing certain challenges to the constitutionality of other laws, including laws on taxes on oil and fuel distribution, taxes on beer and other beverages, compensatory taxes on certain goods imported to Central America, and taxes on land, water and air vehicles. The Constitutional Court has not resolved

these challenges, which were initiated primarily by businesses affected by these tax laws. However, the Court suspended the application of these taxes until the challenges are resolved. The Republic estimates that during the tax suspension, for the year 2003, the Government could lose up to Q700.0 million (approximately US\$89.6 million) in tax revenues. If these laws and/or provisions of the laws are declared unconstitutional, the Republic's tax revenues may be adversely affected.

### Consolidated Public Sector

The following table sets forth information regarding consolidated public sector accounts for the years indicated.

<b>Consolidated Public Sector Accounts</b> (as % of GDP)					
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Balance:</b>					
Total non-financial public sector .	0.2	(1.5)	(2.6)	(1.8)	(1.5)
Bank of Guatemala losses.....	(0.8)	(0.3)	(0.3)	(0.4)	(0.8)
Consolidated public sector deficit.	<u>(0.6)</u>	<u>(1.8)</u>	<u>(2.9)</u>	<u>(2.2)</u>	<u>(2.3)</u>
<b>Financing:</b>					
External:					
Foreign loans (net) .....	0.5	1.2	1.5	0.4	0.3
Bonds.....	1.4	0.3	0.9	0.5	0.9
Total external.....	<u>1.9</u>	<u>1.6</u>	<u>2.6</u>	<u>0.9</u>	<u>1.2</u>
Internal:					
Total banking system.....	(0.6)	(2.8)	0.4	0.5	(1.8)
Bonds .....	(0.4)	(0.1)	(1.0)	(0.1)	1.0
Change in floating debt .....	(0.3)	—	—	0.2	0.4
Total internal.....	<u>(1.3)</u>	<u>(3.0)</u>	<u>(0.6)</u>	<u>0.6</u>	<u>(0.4)</u>
Sale of assets.....	—	3.1	0.9	0.7	1.5
Combined public sector financing.....	<u>0.6</u>	<u>1.8</u>	<u>2.9</u>	<u>2.2</u>	<u>2.3</u>

Source: IMF estimates prepared on the basis of information provided by the Ministry of Public Finance and the Bank of Guatemala.

Information concerning consolidated public sector accounts for 1997 through 2001 was provided by the IMF. The Republic has not yet compiled and published this information itself. The IMF uses its own internally generated figures, along with information supplied by the Bank of Guatemala and the Ministry of Public Finance, to generate consolidated public sector account information. The Republic has furnished the amounts for the years 1997 through 2001 in the above table from information provided to the Republic by the IMF. However, because the Republic did not prepare this information, it can give no assurances as to its accuracy.

In 1998, the *Sistema Integrado de Administración Tributaria* (Financial Administration Integrated System, or SIAF) was created to develop a computer system which permits public access to information to improve transparency in governmental expenditures. This project was supported and funded by the World Bank and divided into several stages, with the ultimate goal of including consolidated public sector and local government information into the system.

SIAF gathers data related to Central Government's transactions through the *Sistema de Contabilidad Integrada* (Integrated Accounting System, or SICOIN), facilitating access to governmental information, such as execution of budgets, accounting statements and economic transactions. Since 2000, new decentralized or autonomous entities have started to use SICOIN allowing them to formulate the budget from the aggregated and consolidated account of all of the nonfinancial public sector. In 2000, the World Bank recognized SIAF from among 2,500 projects worldwide as the leading project based on the objectives achieved.

The extension of project SIAF III contemplates the integration of the Republic's 331 municipalities as of the year 2006. SIAF currently has more than 1,000 users which include the office of the Vice President of the Republic, the presidents of the *Comisión de Finanzas* (Financial Commission) and of the *Junta Directiva del Congreso de la República* (Board of the Republic's Congress), the General Accounting Controller, the Secretariat of Planning and Programming, as well as the Ministers.

## 2003 Budget

The 2003 budget was prepared by the Ministry of Public Finance on the basis of the assumptions set forth below:

### Principal 2003 Budget Assumptions<sup>(1)</sup>

	<u>2003</u>
Real GDP growth rate .....	2.8%
Inflation .....	4% to 6%
Exchange rate (Q per US\$1.00) .....	8.15

(1) 2003 budget assumptions were used in budget approved by Congress.

Source: Bank of Guatemala.

The Republic can give no assurances that the assumptions used in preparing the 2003 budget will prove accurate. The proposed budget for 2003 was submitted to Congress and approved on November 15, 2002. The 2003 budget projects fiscal revenues of Q22,017.8 million or US\$2,701.4 million. This amount does not take into account the receipt of proceeds from this offering of notes or external debt incurred by the Government.

Projected fiscal revenues represent a 6.7% increase in 2003 compared to 2002. The budget for 2003 projects public expenditures of Q27,973.5 million or US\$3,432.2 million.

## PUBLIC SECTOR DEBT

### General

Public sector debt in Guatemala (excluding debt of the Bank of Guatemala) totaled approximately US\$3,957.8 million at December 31, 2002.

As of December 31, 2002:

- the Republic's public sector external debt (excluding debt of the Bank of Guatemala) was 110.6% of total exports;
- the Republic's public sector external debt service (excluding debt of the Bank of Guatemala) was 11.7% of total exports;
- the Republic's public sector external and internal debt (excluding debt of the Bank of Guatemala) was 17.0% of GDP; and
- the Republic's public sector external debt (excluding debt of the Bank of Guatemala) consisted of US\$1,894.9 million in debt to multilateral agencies, US\$537.3 million in debt to foreign governments and bilateral organizations, the 8½% Notes due 2007 (US\$150.0 million), and the 10¼% Notes due 2011 (US\$325.0 million) held by investors.

The largest single creditor to the Guatemalan public sector is the Inter-American Development Bank, which held US\$1,182.9 million in debt of the public sector (excluding debt of the Bank of Guatemala) as of December 31, 2002.

The Republic has in place certain procedures to manage public sector debt, including requiring favorable opinions of the Monetary Board, the Secretariat of Planning and Programming and the Ministry of Public Finance, followed by a Congressional decree authorizing such indebtedness. Under the law, the Government is not liable for the debts of autonomous public sector entities, including the Bank of Guatemala, without an express guarantee undertaken by the Government and authorized by Congress. The constitutive laws of certain public sector entities, including Guatemala's National Mortgage Bank, expressly provide that their liabilities are guaranteed by the Government.

In accordance with applicable law, since June 1992, the Bank of Guatemala has not incurred any additional external indebtedness. The Bank of Guatemala's internal debt was incurred as a result of its efforts to manage liquidity in the financial system. At December 31, 2002, the Bank of Guatemala's internal debt was Q11,158.7 million (US\$1,428.4 million) and its external debt was US\$80.7 million. The Bank of Guatemala and the Republic manage their debt separately and independently and follow distinct policies in this regard.

On October 25, 2002, Congress authorized the issuance of up to US\$700 million of bonds through the "Bond Law", including the notes offered hereby. As of June 30, 2003, US\$287.0 million of bonds (with a weighted average per annum interest rate of 7.34% and a weighted average maturity of 8.22 years) have been sold in the Guatemalan local markets.

Shortly after the enactment of the Bond Law, 14 separate lawsuits by various private individuals or businesses were filed challenging the constitutionality of the Bond Law generally and several provisions in particular, on the basis, among others, that the decree established an unconstitutional delegation of powers from the legislative to the executive branch. Under the Guatemalan Constitution any individual has the right to file a suit challenging the constitutionality of any law, regulation or other order of general application. The Guatemalan Constitutional Court heard all 14 suits and on January 14, 2003 dismissed all of these suits as being without merit. This ruling cannot be appealed further by the same litigants but other individuals can still bring suit, either on the same grounds or on different ones. However, the Republic believes it is not likely that new arguments will be raised with respect to the Bond Law and that it is not likely that the Constitutional Court will reverse its prior ruling in the event any new suit is filed.



## Public Sector External Debt

The following table sets forth the external public sector debt of the Republic, excluding debt of the Bank of Guatemala as of the dates indicated.

Public Sector External Debt by Creditor <sup>(1)</sup> (in millions of US\$, except %) <sup>(2)</sup>						
	December 31,					March 31,
	1998	1999	2000	2001 <sup>(3)</sup>	2002 <sup>(3)</sup>	2003 <sup>(3)</sup>
<b>Official Creditors:</b>						
Multilateral organizations:						
Inter-American Development Bank .....	790.3	937.2	963.8	1,024.3	1,182.9	1,191.7
World Bank .....	212.4	270.6	307.4	340.6	411.2	415.6
<i>Banco Centroamericano de Integración Económica</i> .....	215.3	259.5	287.5	280.2	273.6	277.3
International Fund for Agricultural Development .....	11.6	12.9	12.4	12.7	12.3	11.4
Organization of Petroleum Exporting Countries .....	8.7	12.3	13.2	13.0	14.9	15.6
Total multilateral organizations .....	1,238.3	1,492.5	1,584.3	1,670.8	1,894.9	1,911.6
Bilateral lending institutions:						
United States .....	264.8	252.0	242.6	220.9	199.8	197.7
<i>Kreditanstalt für Wiederaufbau</i> – Germany .....	65.9	55.9	52.2	49.0	60.7	63.9
<i>Mediocredito Centrale</i> – Italy .....	34.6	31.2	27.7	23.6	19.5	18.4
France .....	10.3	—	—	—	—	—
<i>Fondo de Inversiones de Venezuela</i> .....	18.1	15.5	9.5	7.4	5.3	5.3
Canadian International Development Agency .....	1.8	1.9	1.8	1.6	1.5	1.6
Central Bank of Austria .....	—	—	—	—	—	—
Union Bank of Switzerland .....	8.1	6.4	4.9	2.5	1.5	1.5
Japanese Bank for International Cooperation .....	60.2	98.0	110.8	99.7	109.6	113.4
Paris Club .....	73.8	67.6	64.5	53.6	51.6	47.9
Eximbank – Republic of China (Taiwan) ..	83.8	113.9	103.9	98.1	87.8	87.8
Total bilateral entities .....	621.4	642.4	617.9	556.4	537.3	537.5
<b>Private Creditors:</b>						
Foreign commercial banks:						
<i>Banco Exterior de España</i> <sup>(4)</sup> .....	188.7	—	—	—	—	—
Total commercial banks .....	188.7	—	—	—	—	—
8½% Notes due 2007 .....	150.0	150.0	150.0	150.0	150.0	150.0
10¼% Notes due 2011 .....	—	—	—	325.0	325.0	325.0
	150.0	150.0	150.0	475.0	475.0	475.0
Total .....	2,198.4	2,284.9	2,352.2	2,702.2	2,907.2	2,924.1
External debt (as % of GDP) .....	11.4%	12.5%	12.2%	12.9%	12.5%	N/A
External debt interest service (as % of GDP) .....	0.4%	0.6%	0.6%	0.6%	0.7%	N/A

(1) Figures do not include (i) Bank of Guatemala's debt or (ii) the external bond indebtedness (so-called "coffee bonds") of the *Asociación Nacional del Café*, or ANACAFE, guaranteed by the Government, with an original principal balance of US\$65 million.

(2) Non-U.S. dollar amounts are translated to US\$ at the official exchange rate for the year-end date.

(3) Preliminary data.

(4) Figures include principal amount, but not accrued interest, due on the CORFINA loan described in "—Bilateral Creditors" below.

N/A = Not available.

Source: Ministry of Public Finance.

A significant portion of the multilateral and bilateral debt of the public sector is on favorable terms that provide, among other things, long repayment terms, significant grace periods and below-market interest rates. Loans from the Inter-American Development Bank, for example, often accrue interest at a rate of 1% or 2% per annum and have grace periods of up to ten years.

The following table sets forth public sector external debt by currency as of December 31, 2002.

**Summary of Public Sector External Debt by Currency**  
(in millions of US\$, except %)

<b>Currency</b>	<b>Amount</b>	<b>% of total external debt</b>
U.S. dollar.....	2,693.1	92.64
Japanese yen.....	109.6	3.77
Euros.....	89.1	3.07
Special drawing right <sup>(1)</sup> .....	12.3	0.42
Canadian dollar .....	1.6	0.05
Swiss franc .....	1.5	0.05
<b>Total.....</b>	<b>2,907.2</b>	<b>100.00</b>

(1) Unit of account of IMF.

Source: Ministry of Public Finance.

The following table sets forth information regarding the Republic's public sector external debt service as of the dates indicated.

**Public Sector External Debt Service**  
(in millions of US\$)

	<b>December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Interest payments.....	82.0	103.3	119.5	124.6	155.8
Amortization.....	98.7	104.0	112.1	140.8	150.9
Total public sector external debt service.....	180.7	207.3	231.6	265.4	306.7
Total public sector external debt service:					
as a % of total exports <sup>(1)</sup> .....	6.3	7.5	7.5	9.3	11.7
as a % of GDP <sup>(1)</sup> .....	0.9	1.1	1.2	1.3	1.3
as a % of total tax revenue <sup>(1)</sup> .....	10.0	11.5	12.0	13.1	12.4

(1) Percentage based on year then ended.

Source: Ministry of Public Finance.

The following table sets forth information regarding the external public debt of Guatemala by interest rate and by type as of the years indicated.

**Public Sector External Debt by Interest Rate Type**  
(in millions of US\$ and as % of total)

	December 31,									
	1998		1999		2000		2001		2002	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
<b>Fixed rate:</b>										
0-3%.....	704.2	32.0	713.0	31.2	722.4	30.7	694.5	25.7	639.5	22.0
3-6%.....	250.9	11.4	300.1	13.1	255.2	10.9	241.4	8.9	256.3	8.8
6-9%.....	413.0	18.8	189.5	8.3	199.0	8.5	167.6	6.2	190.2	6.6
More than 9% .....	10.8	0.5	7.0	0.3	3.4	0.1	326.4	12.1	335.3	11.5
<b>Floating Rate</b> .....	819.5	37.3	1,075.3	47.1	1,172.2	49.8	1,272.3	47.1	1,485.9	51.1
<b>Total</b> .....	2,198.4	100.0	2,284.9	100.0	2,352.2	100.0	2,702.2	100.0	2,907.2	100.0

Source: Ministry of Public Finance.

In recent years, the Guatemalan public sector has reduced its commercial bank debt, while at the same time increasing multilateral and bilateral debt.

The following table sets forth the Government's current projections regarding debt service on existing public sector external debt, excluding debt of the Bank of Guatemala, for the years 2003 through 2013:

**Debt Service on Existing Public Sector External Debt<sup>(1)</sup>**  
(in millions of US\$)<sup>(2)</sup>

	2003		2004		2005		2006		2007		2008	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Government .....	169.0	168.2	191.0	174.2	204.9	168.7	205.0	160.5	357.5	148.0	215.4	122.8
Rest of public sector .....	23.8	4.7	18.0	4.2	10.6	4.2	7.0	4.5	7.0	4.6	8.4	4.3
<b>Total</b> .....	192.8	172.9	209.0	178.4	215.5	172.9	212.0	165.0	364.5	152.6	223.8	127.1

	2009		2010		2011		2012		2013	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Government .....	213.6	112.6	196.3	101.6	506.2	92.1	157.8	50.4	136.9	43.1
Rest of public sector .....	8.3	4.1	8.3	3.9	7.8	3.6	7.3	3.4	7.4	3.2
<b>Total</b> .....	221.9	116.7	204.6	105.5	514.0	95.7	165.1	53.8	144.3	46.3

(1) The amounts in this table are for existing public sector debt only as of March 31, 2003.

(2) Non-US dollar amounts have been translated to US\$ at the official exchange rate as of December 31, 2002.

Source: Ministry of Public Finance.

The Republic's total multilateral debt at March 31, 2003, was 65.4% of total public sector external debt and debt to foreign governments and bilateral organizations was 18.4% of total public sector debt, in each case excluding debt of Bank of Guatemala. The only public sector external debt of the Republic to private creditors outstanding at March 31, 2003 was the Republic's US\$150.0 million of 8½% Notes due 2007 and the US\$325.0 million 10¼% Notes due 2011, which represented 16.2% of total public sector external debt as of that date.

The Republic will incur additional indebtedness in the future, which may increase its external debt service payments.

The Government incurred limited amounts of commercial debt in the 1990s, and as a result did not need to restructure that debt through the issuance of Brady Bonds. Short-term foreign currency shortages were managed through the issuance of Bank of Guatemala Stabilization Bonds.

### Public Sector Internal Debt

The Republic's public sector internal debt, not including internal debt of the Bank of Guatemala, was Q8,627.67 million, or US\$1,091.4 million as of March 31, 2003. A portion of such debt is owed to public sector entities.

The Republic's public sector internal debt consists primarily of Government bonds which are held by internal and external private sector creditors as well as by other public sector entities, mainly the Guatemalan Institute of Social Security, which as of March 31, 2003, held Q3,525.7 million or US\$446.0 million in bonds outstanding. Certain of the treasury bonds that the Government classifies as internal debt are held by external creditors and are *quetzal*-denominated and indexed to the U.S. dollar. These bonds amounted to Q1,531.0 million, or US\$196.7 million as of March 31, 2003.

The Government has undertaken to reduce the Republic's debt with the Bank of Guatemala, and has recently accelerated amortization payments on this debt through the application of certain proceeds from the privatization program. As a result, the only debt of the Government to the Bank of Guatemala is a Q22.7 million guaranty relating to a loan granted by IBRD to finance industrial projects.

The following table, which does not include the Bank of Guatemala's debt, sets forth outstanding public sector internal debt as of the dates indicated.

**Public Sector Internal Debt<sup>(1)</sup>**  
(in millions of Q and US\$)<sup>(2)</sup>

	December 31,										As of March 31,	
	1998		1999		2000		2001		2002		2003 <sup>(3)</sup>	
	Q	US\$	Q	US\$	Q	US\$	Q	US\$	Q	US\$	Q	US\$
Government bonds .....	6,259.4	914.7	7,807.1	1,001.9	8,631.6	1,118.1	9,281.5	1,163.3	8,168.6	1,050.6	8,627.7	1,091.4
Total public sector domestic debt												
as % of GDP ....	5.0%		5.8%		5.8%		5.6%		4.5%		N/A	

(1) Includes certain bonds of the Government held by entities of the public sector like the Guatemalan Institute of Social Security.

(2) Translated from Q to US\$ at the official exchange rate at the period-end date.

(3) Preliminary data.

N/A = Not available.

Source: Bank of Guatemala and Ministry of Public Finance.

The following table sets forth information regarding the Republic's public sector internal debt service as of the dates indicated.

**Public Sector Internal Debt Service**  
(in millions of US\$)<sup>(1)</sup>

	December 31,				
	1998	1999	2000	2001	2002
Interest payments .....	151.9	117.5	125.0	175.9	140.4
Amortization .....	96.7	108.6	—	142.7 <sup>(2)</sup>	191.4 <sup>(2)</sup>
Total public sector internal debt service .....	248.6	226.1	125.0	318.6	331.8
Total public sector internal debt service:					
as a % of GDP <sup>(3)</sup> .....	1.3	1.2	0.6	1.5	1.4
as a % of total tax revenue <sup>(3)</sup> .....	13.8	12.5	6.5	15.7	13.5

(1) Translated from Q to US\$ at the average daily exchange rate for each year.

(2) Repaid with net proceeds from the Republic's US\$325.0 million 10¼ Notes due 2011.

(3) Percentage based on GDP and debt due as of the year then ended.

Source: Ministry of Public Finance.

The following table shows the projection of the Republic's internal debt service, excluding the Bank of Guatemala, for the years 2003 through 2012.

**Debt Service on Existing Public Sector Internal Debt<sup>(1)</sup>**  
(in millions of US\$)<sup>(2)</sup>

	2003		2004		2005		2006		2007	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
In US\$ .....	127.3	51.2	76.1	43.8	60.5	37.9	105.9	30.9	17.6	25.5
In Q .....	80.9	77.6	59.6	56.1	94.5	53.0	200.4	26.1	24.6	8.7
Total .....	208.2	128.8	135.7	99.9	155.0	90.9	306.3	57.0	42.2	34.2

	2008		2009		2010		2011		2012	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
In US\$ .....	99.7	23.3	41.9	15.9	16.7	12.0	85.2	11.4	30.5	3.5
In Q .....	-	7.0	28.3	4.1	-	-	-	-	-	-
Total .....	99.7	30.3	70.2	20.0	16.7	12.0	85.2	11.4	30.5	3.5

(1) The amounts in this table are for existing public sector debt only as of March 31, 2003.

(2) The amounts in Q have been converted to US\$ at the official exchange rate as of March 31, 2003.

Source: Ministry of Public Finance.

## Debt Record

The Republic has from time to time restructured and rescheduled certain bilateral and multilateral loans, some of which were in arrears. The Republic is not currently in arrears on any of such loans. The Government incurred limited amounts of commercial bank debt in the 1980s, and had no need to restructure any such debt.

In the early 1990s, the Government fell into arrears on certain loans from foreign sovereign lenders. On March 25, 1993, the Government reached an agreement through the Paris Club to consolidate and reschedule or refinance its public sector external debt with each bilateral and multilateral agency with whom the Republic was in arrears. Under the terms of the Paris Club agreement, the Republic began repaying certain debt other than official development aid loans in the principal amount of US\$3.6 million in April 2001. Payments on official development aid loans in the principal amount of US\$8.6 million are due in April 2003.

In August 1997, the Republic issued US\$150.0 million of its 8½% Notes due 2007, and in November 2001 the Republic issued US\$325.0 million of its 10¼% Notes due 2011 in the international capital markets. The Republic has been and continues to be in compliance with all payments and other obligations in respect of these two issues of notes. The notes described in this offering memorandum will constitute public sector external debt.

From 1980 to 1984, *Corporación Financiera Nacional* (CORFINA) borrowed US\$188.7 million from *Banco Exterior de España* to finance a pulp plant project of *Celulosas de Guatemala, S.A.*, a pulp and forestry products company. This pulp plant never commenced operations. Because Congress had not approved the loan (including the guarantee of the Republic), the Republic was not responsible for any obligations with respect to the loan under Guatemalan law. The loan was partially guaranteed by *Compañía Española de Seguros de Crédito a la Exportación, S.A.* (CESCE), a Spanish financial institution. Upon non-payment of the loan, CESCE paid to *Banco Exterior de España* the portion of the loan that CESCE had guaranteed so that CESCE became a creditor of CORFINA, together with *Banco Exterior de España*. Subsequent to the non-payment, *Banco Exterior de España* was acquired by a Spanish commercial bank. As of March 31, 2001, the aggregate amount of these obligations (including accrued interest and other amounts) was approximately US\$637.5 million. In March 2001, the Republic and the government of Spain agreed on forgiveness of US\$500.0 million of these obligations in exchange for forgiveness by the Republic of an equivalent amount of debt of the Nicaraguan government owed to the Republic and the right to the proceeds from the sale of the pulp plant. CORFINA is in the process of selling the pulp plant in order to pay the balance of its obligations. As of the date of this offering memorandum, the CORFINA loan is the only indebtedness of a Government-controlled financial institution carrying a guarantee of the Republic that was not authorized by the Congress of the Republic. See “Description of the Notes—Events of Default”.

The Republic is guarantor of a loan with an original principal amount of US\$56.2 million that was made in May 15, 1997 to the municipality of Guatemala City by the *Banco Centroamericano de Integración Económica* (Central American Bank of Economic Integration, or CABEL,) a multilateral bank in Central America. After Guatemala City failed to make certain principal and interest payments on this loan in 1999, the Government entered into discussions with CABEL regarding satisfaction of its obligations under this loan. The Government made full payment of this loan in 2001.

Although the Republic has from time to time, as indicated above, restructured multilateral and bilateral debt, the Republic has not defaulted on any external debt owed to any private sector creditors, including foreign commercial banks and other external debtholders.

On May 9, 2003, Standard & Poor’s downgraded the Republic’s rating to BB- (stable) from BB on concern that political polarization ahead of November’s elections would interfere with the implementation of effective economic policy and delay Guatemala’s ongoing structural reform process. In addition, on July 7, 2003, Standard & Poor’s issued a commentary stating that the rising political polarization between the Government and the opposition over the last two years has increasingly jeopardized the policymaking process in Guatemala.

### **Debt of the Bank of Guatemala**

The Bank of Guatemala has sought to reduce its external debt balance, with amortizations and debt service exceeding new disbursements over the 1990s. In 1992, the Monetary Board issued its new monetary policy which barred the Bank of Guatemala from incurring additional external debt. Since that year, the Bank of Guatemala has been making interest and amortization payments on pre-1992 external debt, but has not incurred any additional external debt. At March 31, 2003, the Bank of Guatemala’s internal debt consisting of fixed-rate term deposits was Q13,644.2 million (US\$1,729.4 million) and its external debt was US\$79.9 million. The Bank of Guatemala and the Republic manage their debt separately and independently and follow distinct policies in this regard.

In the past, the Bank of Guatemala incurred certain losses in the course of implementing its monetary, exchange rate and credit policies. The Bank of Guatemala recorded these losses in an account entitled quasi-fiscal losses. The Superintendency of Banks conducted an audit and determined that at the end of 2001 quasi-fiscal losses totaled Q16,834.2 million (approximately US\$2,144.0 million). In accordance with Article 83 of the Bank of Guatemala’s new Organic Law and upon prior authorization of the Guatemalan Congress, that liability will be

transferred to the Ministry of Public Finance in exchange for a Q16,834.2 million 100 year non-interest bearing note issued by the Ministry of Public Finance.

The following tables show payments on external debt and external debt by creditor as of the dates indicated:

**External Debt of the Bank of Guatemala**

(in millions of US\$)

	<b>December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Interest payments.....	14.7	10.5	9.8	7.2	4.2
Amortizations .....	57.5	30.3	23.1	11.2	11.1
Total.....	72.2	40.8	32.9	18.4	15.3

**Bank of Guatemala's External Debt by Creditor**

(in millions of US\$)

	<b>December 31,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Multilateral organizations</b>					
Short term.....	1.3	1.3	1.3	1.3	1.3
Medium term.....	10.8	7.1	3.3	2.6	1.7
Lon term.....	50.3	39.0	25.8	21.9	18.9
Total multilateral organizations .....	62.4	47.4	30.4	25.8	21.9
<b>Bilateral lending institutions</b>					
Long term.....	78.2	68.4	61.6	55.7	49.7
<b>Private creditors</b>					
Short term.....	5.9	2.3	2.3	2.0	1.7
Long term.....	9.3	8.8	8.3	7.8	7.4
Total .....	15.2	11.1	10.6	9.8	9.1
Total debt .....	155.8	126.9	102.6	91.3	80.7

## DESCRIPTION OF THE NOTES

The notes will be issued under a fiscal agency agreement, to be dated as of August 1, 2003, among the Republic, The Bank of New York, as fiscal agent, principal paying agent, registrar and transfer agent (the “fiscal agent,” the “paying agent,” the “registrar,” and the “transfer agent,” and collectively, the “agent”, which terms will include their respective successors and permitted assigns) and The Bank of New York (Luxembourg) S.A., as a paying agent and transfer agent. Capitalized terms used but not defined in this description will have the meanings given to them in the fiscal agency agreement.

This section of this offering memorandum is intended to be an overview of the material provisions of the notes and the fiscal agency agreement. Because this section is only a summary, you should refer to the fiscal agency agreement for a complete description of the Republic’s obligations and your rights as a holder of the notes. The holders of the notes will be entitled to the benefits of, be bound by, and be deemed to have notice of, all the provisions of the fiscal agency agreement. Copies of the fiscal agency agreement will be on file and may be inspected at the principal office of the fiscal agent in The City of New York and at the offices of the paying agents specified on the back cover page of this offering memorandum.

### Principal and Interest

The notes will be limited to an aggregate principal amount of US\$300,000,000 (except as provided under “— Further Issuances” and “—Replacement, Exchange and Transfer”).

The notes will mature, and will be repaid at par (unless previously repaid), on August 1, 2013.

The notes will bear interest from August 1, 2003 at a rate of 9¼% per annum. Interest on the notes will be payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 2004. Interest on the notes will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

### Further Issuances

The Republic may from time to time, without the consent of the holders of the notes, create and issue further notes having the same terms and conditions as the notes in all respects, except for the issue date, the issue price and first payment of interest thereon. Additional bonds issued in this manner will be consolidated with and will form a single issue with the notes.

### Ranking

The notes will constitute general, direct, unconditional, unsubordinated and unsecured Indebtedness (as defined under “—Covenants” and “—Definitions”) of the Republic and will rank equally among themselves and with all other present and future unsubordinated and unsecured External Indebtedness of the Republic. The Republic has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the notes.

### Form, Denomination and Title

The notes are issuable in fully registered form, without coupons, in denominations of US\$10,000 or any amount in excess thereof which is an integral multiple of US\$1,000. The notes, and transfer thereof, will be registered as provided under “—Replacement, Exchange and Transfer” and in the fiscal agency agreement.

The notes will be represented by one or more registered notes in global form, but in limited circumstances may be represented by notes in physical certificated form. See “Book-Entry Settlement and Clearance.”

A person in whose name a note is registered will, to the fullest extent permitted by law, be treated at all times, by all persons and for all purposes as the absolute owner of such note regardless of any notice of ownership, theft or loss or of any writing thereon.



## **Replacement, Exchange and Transfer**

If any note will become mutilated or defaced or be destroyed, lost or stolen, the fiscal agent will authenticate and deliver a new note on such terms as the Republic and the fiscal agent may require, in exchange and substitution for the mutilated or defaced note or in lieu of and in substitution for the destroyed, lost or stolen note. In every case of mutilation, defacement, destruction, loss or theft, the applicant for a substitute note must furnish the Republic and the fiscal agent such indemnity as the Republic and the fiscal agent may require and evidence to their satisfaction of the destruction, loss or theft of such note and of the ownership of the note. In every case of mutilation or defacement of a note, the holder will surrender to the fiscal agent the mutilated or defaced note. In addition, prior to the issuance of any substitute note, the Republic may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation to such issuance and any other related expenses, including the fees and expenses of the fiscal agent. If any note which has matured or is about to mature will become mutilated or defaced or be apparently destroyed, lost or stolen, the Republic may pay or authorize payment of such note without issuing a substitute note.

Upon the terms and subject to the conditions set forth in the fiscal agency agreement, a note or notes may be exchanged for a note or notes of equal aggregate principal amount in such same or different authorized denominations as may be requested by the holder, by surrender of such note or notes at the office of the registrar, or at the office of any transfer agent, together with a written request for the exchange.

Upon the terms and subject to the conditions set forth in the fiscal agency agreement and subject to the restrictions on transfer described under “Transfer Restrictions,” a note may be transferred in whole or in part in an authorized denomination by the holder or holders surrendering the note for registration of transfer at the office of the registrar or at the office of any transfer agent, duly endorsed by, or accompanied by a written instrument of transfer in lieu of endorsement in form satisfactory to the Republic and the registrar or any such transfer agent, as the case may be, duly executed by, the holder or holders of such note or its attorney-in-fact or attorneys-in-fact duly authorized in writing.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions will be borne by the Republic, except for the expenses of delivery other than by regular mail, if any, and except for, if the Republic requires it, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation to such exchange or registration of transfer.

Notwithstanding the foregoing, the registrar, the transfer agent or the fiscal agent, as the case may be, will not be required to register the transfer or exchange of notes for a period of 15 days preceding the due date for any payment of principal of or interest on the notes.

## **Covenants**

So long as any note remains outstanding, the Republic has agreed to certain covenants, including:

(1) *Negative Pledge*: The Republic will not create or allow any Lien to exist on the whole or any part of its present or future revenues, properties or assets to secure any Public External Indebtedness unless, at the same time or prior to the creation of the Lien, the Republic’s obligations under the notes are secured equally and ratably with such Public External Indebtedness. The Republic may, however, create or allow the following Permitted Liens:

- any Lien upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property by the Republic and any renewal or extension of any such Lien which is limited to the original property covered by the Lien and which secures only the renewal or extension of the original secured financing;
- any Lien existing in respect of an asset at the time of its acquisition by the Republic and any renewal or extension of any such Lien which is limited to the original asset covered by the Lien and which secures only the renewal or extension of the original secured obligation;

- any Lien in existence on the date of the fiscal agency agreement, including any renewal or extension of such Lien which secures only the renewal or extension of the original secured financing;
- any Lien securing Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project and any renewal or extension of any such Lien, provided that:
  - the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness; and
  - the property over which such Lien is granted consists solely of such assets and revenues or claims that arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such assets; and
- Liens in addition to those permitted by other Permitted Liens above, and any renewal or extension of such Liens, provided that the aggregate amount of Public External Indebtedness secured by all such additional Liens does not exceed US\$30,000,000 (or its equivalent in other currencies) at any time.

(2) *Authorizations:* The Republic will:

- obtain and maintain in full force and effect all approvals, authorizations, permits, consents, exemptions and licenses and will take all other actions (including, without limitation, any notice to, or filing or registration with, any agency, department, ministry, authority, statutory corporation or other body or juridical entity of the Republic or regulatory or administrative body of the Republic) which may be necessary for the continued validity and enforceability of the notes; and
- take all necessary and appropriate governmental and administrative action (including, without limitation, making all necessary budget appropriations) in order for the Republic to be able to make all payments required under the notes.

(3) *Membership in International Monetary Fund:* The Republic will maintain its membership in, and eligibility to use the general resources of, the International Monetary Fund.

(4) *Listing:* The Republic will use its best efforts to list the notes, and thereafter to maintain the listing of the notes, on the Luxembourg Stock Exchange.

## Events of Default

Each of the following is an event of default with respect to the notes:

(1) *Non-Payment of Principal:* Failure to pay for 30 continuous calendar days principal on any of the notes when due; or

(2) *Non-Payment of Interest:* Failure to pay for 30 continuous calendar days interest on the notes when due; or

(3) *Breach of Other Obligations:* Failure to perform any other obligation under the notes for a period of 60 calendar days following written notice to the fiscal agent by the holder of any note requiring the breach to be remedied; or

(4) *Cross-Default:* Failure to make any payment in an aggregate principal amount in excess of US\$20,000,000 (or its equivalent in other currencies) in respect of Public External Indebtedness when payable (whether upon maturity, acceleration or otherwise, as such time may be extended by any applicable grace period or

waiver), and the continuance of such failure for a period of 45 calendar days following written notice to the fiscal agent by the holder of any note requiring the breach to be remedied; or

(5) *Moratorium*: Formal and official declaration by the Republic of a moratorium with respect to the payment of principal of or interest on Public External Indebtedness which does not expressly exclude the notes; or

(6) *Denial of Obligations under Notes*: Denial by an authorized official of the Republic of the Republic's obligations under the notes.

If any of the events of default described above occurs and is continuing, the holders of at least 25% of the aggregate principal amount of the Outstanding notes may, by written notice to the Republic and the fiscal agent, declare all the notes to be due and payable immediately, unless prior to receipt of such notice by the Republic all such defaults are cured. Notes held by or on behalf of the Republic will not be considered "outstanding" for purposes of the preceding sentence. Holders of less than 25% of the aggregate principal amount of the Outstanding notes may not, on their own, declare the notes to be due and payable immediately. Holders of the notes may exercise these rights only by providing a written demand to the Republic and the fiscal agent at a time when the event of default is continuing.

Upon any declaration of acceleration, the principal, interest and all other amounts payable on the notes will be immediately due and payable on the date the Republic and the fiscal agent receive written notice of this declaration, unless the Republic has remedied the events of default prior to receiving the notice. The holders of 66 2/3% or more of the aggregate principal amount of the Outstanding notes may rescind a declaration of acceleration if the event or events of default giving rise to the declaration have been cured or waived.

Any default in respect of Indebtedness outstanding as of the date of the fiscal agency agreement and arising in the form of a guarantee to secure obligations for borrowed money for which a financial institution controlled by the Republic is liable shall not constitute an Event of Default under clause 4 above unless the Republic's guarantee in respect of such Indebtedness has been approved by appropriate and specific Congressional action of the Republic. See "Public Sector Debt—Debt Record".

## Definitions

As used under "—Covenants", "—Ranking" and "—Events of Default", the following terms will have the specified definitions:

"*External*" means, with reference to any Indebtedness, any Indebtedness that is payable, or that at the option of the payee thereof may be payable, in a currency other than the lawful currency of the Republic;

"*Indebtedness*" means a person's actual or contingent payment obligations for borrowed money, together with such person's actual or contingent liabilities under guarantee or similar arrangements to secure the payment of any other party's obligations for borrowed money;

"*Lien*" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement having the practical effect of constituting a security interest, whether in effect on the date of the fiscal agency agreement or at any time thereafter, including, without limitation, any equivalent claim or interest created or arising under the laws of Guatemala;

"*Public External Indebtedness*" means Public Indebtedness that is External;

"*Public Indebtedness*" means any Indebtedness of, or guaranteed by, the Republic which:

- is publicly offered or privately placed in securities markets;
- is in the form of, or represented by, bonds, notes or other securities or any guarantees thereof;

- is, or was expressly intended at the time of issue to be, quoted, listed or traded on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, securities that are issued for cash consideration and that are eligible for sale pursuant to Rule 144A or Regulation S under the Securities Act (or any successor law or regulation of similar effect)); and
- has an original maturity of more than one year or is combined with a commitment so that the original maturity of one year or less may be extended at the option of the Republic to a period in excess of one year; and

“*Person*” and “*party*” include the Republic.

### **Modifications, Amendments and Waivers**

A meeting of holders of notes may be called, as set forth below, at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the fiscal agency agreement or the notes to be made, given or taken by holders of notes or to modify, amend or supplement the terms and conditions of the notes or the fiscal agency agreement as provided below. The Republic may at any time call a meeting of holders of notes for any such purpose to be held at such time and at such place as the Republic will determine. Notice of every such meeting, setting forth the time and the place of such meeting and in reasonable detail the action proposed to be taken at such meeting, will be given as provided in the terms and conditions of the notes, not less than 30 nor more than 60 calendar days prior to the date fixed for the meeting. In case at any time the Republic or the holders of at least 10% in aggregate principal amount of the notes then Outstanding (as defined in the fiscal agency agreement) will have requested the fiscal agent to call a meeting of the holders of notes for any such purpose, by written request setting forth the time and place of, and in reasonable detail the action proposed to be taken at, the meeting, the fiscal agent will call such a meeting for such purposes by giving notice of the meeting as provided in the terms and conditions of the notes.

To be entitled to vote at any meeting of holders of notes, a person must be a holder of outstanding notes or a person duly appointed by an instrument in writing as proxy for such holder. The persons entitled to vote a majority in principal amount of the Outstanding notes will constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting will, if convened at the request of the holders, be dissolved. In any other case, the meeting may be adjourned for a period of not less than 10 calendar days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 calendar days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting will be given in the same manner as provided in the preceding paragraph. Notice of the reconvening of an adjourned meeting will state expressly that, at the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25% in principal amount of the Outstanding notes will constitute a quorum for the taking of any action set forth in the notice of the original meeting. Any meeting of holders of notes at which a quorum is present may be adjourned from time to time by a vote of a majority in principal amount of the Outstanding notes represented at the meeting, and the meeting may be held as so adjourned without further notice (except, so long as the notes are listed on the Luxembourg Stock Exchange, as may be required under the regulations of that Exchange).

The Republic, the fiscal agent and the holders may generally modify or take actions with respect to the fiscal agency agreement or the terms of the notes with:

- the affirmative vote of the holders of not less than 66 2/3% in aggregate principal amount of the Outstanding notes that are represented at a duly called and held meeting; or
- the written consent of the holders of 66 2/3% in aggregate principal amount of the Outstanding notes.

However, the holders of not less than 85% in aggregate principal amount of the Outstanding notes, whether voting at a meeting or by written consent, must consent to any amendments, modification, change or waiver with respect to the notes that would:

- change the due date for the payment of the principal of, or any installment of interest on, any note;
- reduce the principal amount of any note, or the portion of such principal amount which is payable upon acceleration of the maturity of such note, or the interest rate on the note;
- change the currency in which any payment in respect of any note is payable or the place or places in which such payment is to be made;
- permit early redemption of the notes;
- change the definition of “Outstanding” with respect to the notes;
- change the governing law provision of the notes;
- change the courts to the jurisdiction of which the Republic has submitted, the Republic’s obligation to appoint and maintain an agent for service of process in the Borough of Manhattan, The City of New York or the Republic’s waiver of immunity in respect of actions or proceedings brought by any holder based upon the notes, as described in this offering memorandum;
- change the ranking of the notes, as described under “Ranking”;
- in connection with an offer to acquire all or any portion of the notes, amend any event of default under the notes;
- change the obligation of the Republic to pay additional amounts (as defined below); or
- reduce the percentage or proportion of the principal amount of the notes that is required to modify, amend or supplement the fiscal agency agreement or the terms and conditions of the notes or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided in the fiscal agency agreement or the notes to be made, taken or given.

Any such modification, amendment or supplement will be binding on the holders of notes. We refer to the above matters as “reserved matters”. At any meeting of holders held to discuss a reserved matter, the persons entitled to vote 85% of the aggregate principal amount of the Outstanding notes shall constitute a quorum. A change to a reserved matter, including the payment terms of the notes, can be made without the consent of the holders of the notes, as long as a supermajority of the holders (that is, the holders of at least 85% in aggregate principal amount of the Outstanding notes, whether voting at a meeting or by written consent) agrees to the change.

The Republic and the fiscal agent may, upon agreement between themselves, without the affirmative vote or consent of any holder of notes, modify, amend or supplement the fiscal agency agreement or the notes for the following purposes:

- adding to the covenants of the Republic for the benefit of the holders of notes;
- surrendering any rights or power conferred upon the Republic;
- securing the notes pursuant to the requirements of the notes or otherwise;
- correcting or supplementing any ambiguous or defective provision contained in the fiscal agency agreement or in the notes; or

- amending the fiscal agency agreement or the terms and conditions of the notes in any manner which will not adversely affect the rights or interests of any holder of notes in any material respect.

## **Payments and Agents**

The principal of the notes will be payable in U.S. dollars against surrender of such notes at the office of the paying agent in The City of New York or, subject to applicable laws and regulations, at the office of any paying agent by U.S. dollar check drawn on, or upon application of any holder of at least US\$1,000,000 principal amount of notes by transfer to a U.S. dollar account maintained by the holder with, a bank located in The City of New York.

Payment of any installment of interest on a note will be made to the person in whose name such note is registered at the close of business on the regular record date immediately preceding the related scheduled payment date (as defined on the face of the notes). As used herein, “regular record date” means, with respect to any scheduled payment date, the 15th day prior to such scheduled payment date (whether or not a business day). Payment of such interest will be made by a U.S. dollar check drawn on a bank in The City of New York mailed to the holder at such holder’s registered address or upon application of any holder of at least US\$1,000,000 principal amount of notes to the paying agent in The City of New York not later than the relevant regular record date, by transfer of immediately available funds to a U.S. dollar account maintained by such holder with a bank in The City of New York.

All moneys paid by or on behalf of the Republic to the paying agent or any other paying agent for the payments of the principal of or interest on any note which remain unclaimed at the end of two years after such principal or interest will have become due and payable will be repaid to the Republic (including all interest accrued, if any, with respect to any such amounts), and the holder of such note will thereafter look only to the Republic for payment. Upon such repayment, all liability of the paying agent and any other paying agent with respect to the note will cease, without, however, limiting in any way the obligation of the Republic in respect of the amount so repaid, subject to the provisions set forth under “—Prescription”.

The Republic has agreed that, so long as any note remains outstanding, it will maintain a paying agent in a western European city for payments on notes (which will be Luxembourg so long as the notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require), a registrar having a specified office in The City of New York, a paying agent having a specified office in The City of New York and a transfer agent in Luxembourg (so long as the notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require). The Republic has initially appointed the paying agents and transfer agents for the notes specified on the inside back cover page of this offering memorandum. Subject to the foregoing, the Republic will have the right at any time to terminate any such appointment and to appoint any other agents in such other places as it may deem appropriate upon notice in accordance with “—Notices” and in accordance with the fiscal agency agreement.

Payments in respect of the notes will be made in such coin or currency of the United States that is legal tender for the payment of public and private debts at the time of payment.

In any case when a payment date (as defined in the fiscal agency agreement) is not a business day at any place of payment, then the relevant payment need not be made on such date at such place, but may be made on the next succeeding day at such place which is a business day in the applicable jurisdiction, with the same force and effect as if made on the date for such payment, and no additional interest in respect of such payment date will accrue for the period from and after such payment date.

In acting under the fiscal agency agreement and in connection with the notes, each of the agents and each other paying agent and transfer agent is acting solely as agent of the Republic and does not assume any obligation toward or relationship of agency or trust for or with the owner or holder of any note except that any funds held by any such agent for payment of principal of or interest on the notes will be held in trust by it and applied as set forth in the notes and fiscal agency agreement, and will be segregated from other funds held by it. For a description of the duties and the immunities and rights of each of the agents under the fiscal agency agreement, reference is made to the fiscal agency agreement, and the obligations of each of the agents to the owners or holders of notes are subject to such immunities and rights.

## **Redemption, Purchase and Cancellation**

The notes will not be redeemable prior to maturity at the option of the Republic or, except on acceleration following an event of default, the holders of the notes.

The Republic may at any time purchase the notes at any price in the open market or otherwise. The notes so purchased by the Republic may, at the Republic's discretion, be held or surrendered to the fiscal agent for cancellation unless resold in reliance upon Regulation S under the Securities Act.

## **Additional Amounts**

All payments by the Republic in respect of the notes will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments, or other governmental charges of whatever nature imposed or levied by the Republic or any political subdivision or authority of the Republic having power to tax ("Guatemalan taxes"), unless it is compelled by law to deduct or withhold such taxes, duties, assessments, or governmental charges. In such event, the Republic will make such withholding, make payment of the amount so withheld to the appropriate governmental authority and from then on pay such additional amounts ("additional amounts") as may be necessary to ensure that the net amounts receivable by the holders of the notes after such withholding or deduction will equal the payment which would have been receivable in respect of the notes in the absence of such withholding or deduction. No such additional amounts will, however, be payable in respect of:

- any note held by or on behalf of a holder who is liable for Guatemalan taxes by reason of such holder having some connection with the Republic otherwise than merely by the holding of such note or by the receipt of principal or interest in respect of the note;
- any note held by or on behalf of a holder who is liable for Guatemalan taxes by reason of such holder's failure to comply with any reasonable certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with the Republic or any political subdivision or taxing authority of the Republic of such holder or the holder of any interest in such note or rights in respect of the note, if compliance is required by the Republic, or any political subdivision or taxing authority of the Republic, as a precondition to exemption from such deduction or withholding; *provided, however*, that the limitations on the Republic's obligations to pay additional amounts set forth in this clause will not apply if such certification, identification, or other reporting requirement would be materially more onerous, in form, in procedure, or in substance of information disclosed by the relevant holders or beneficial owners than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administrative practice (such as U.S. Internal Revenue Service Forms W-8BEN, W-8ECI or W-9); or
- any note held by or on behalf of a holder who is liable for Guatemalan taxes by reason of the failure of such holder to present such holder's note for payment (where such presentation is required) within 30 calendar days after the date on which such payment of the note became due and payable or is duly provided for and notice of the date on which payment is due is given to the holder, whichever occurs later.

Whenever the payment of the principal of, or interest on, or any amounts in respect of, a note, are mentioned in any context, such mention will be deemed to include the payment of additional amounts to the extent that, in such context, additional amounts are, were or would be payable in respect of a note, and express mention of the payment of additional amounts, if applicable, will not be construed as excluding additional amounts where such express mention is not made.

## **Prescription**

All claims against the Republic for payment of principal of or interest (including additional amounts, if any) on or in respect of the notes will be prescribed unless made within five years from the date on which such payment first became due.

## **Notices**

Notices will be mailed to holders of notes at their registered addresses and will be deemed to have been given on the date of mailing. DTC, Euroclear and Clearstream Banking will communicate such notices to their participants in accordance with their standard practices. In addition, all notices to holders of the notes will be published, if and so long as the notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxemburger Wort*. If publication in accordance with the preceding sentence is not practicable, notice will be validly given if made in accordance with the requirements of the Luxembourg Stock Exchange.

## **Governing Law**

The notes and the fiscal agency agreement will be governed by, and interpreted in accordance with, the laws of the State of New York, except that the due authorization and execution of the notes by the Republic will be governed by the laws of Guatemala.

## **Submission to Jurisdiction**

The Republic will irrevocably submit to the non-exclusive jurisdiction of any New York state or U.S. federal court sitting in The City of New York, and any appellate court from any such courts, in any suit, action or proceeding arising out of or relating to the offering and sale of the notes or the Republic's failure, or alleged failure, to perform any obligations under the notes (a "related proceeding", which term will exclude claims or causes of action arising under the U.S. federal securities laws) and the Republic will irrevocably agree that all claims in respect of any related proceeding may be heard and determined in any such New York state or U.S. federal court. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any related proceeding, and any objection to any related proceeding, whether on the grounds of venue, residence or domicile. The Republic will agree that a final judgment in any related proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The Republic agrees to cause an appearance to be filed on its behalf and to defend itself in connection with any legal action instituted against it. However, a default judgment obtained in the United States against the Republic, resulting from the Republic's failure to appear and defend itself in any suit filed against the Republic, or from the Republic's deemed absence at the proceedings, may not be enforceable in the Republic.

The Republic will appoint the person for the time being acting as, or discharging the function of, Consul General of Guatemala in The City of New York (currently with an office at 57 Park Avenue, New York, New York 10016), and agrees that for so long as any note remains outstanding the person from time to time so acting, or discharging such functions, will be deemed to have been appointed as the Republic's agent for service of process (the "process agent") to receive on behalf of the Republic and its property service of copies of the summons and complaint and any other process which may be served in any related proceeding in any New York state or U.S. federal court sitting in The City of New York. The Republic will agree that such service may be made by U.S. registered mail or by delivering by hand a copy of such process to the Republic in care of the process agent at the address specified above for the process agent (and the Republic will agree that such service will be effective upon the mailing or delivery by hand of such process to the office of the process agent), and the Republic will authorize and direct the process agent to accept on its behalf such service. The Republic will agree that failure of the process agent to give notice to the Republic, or failure of the Republic to receive notice, of such service of process will not affect in any way the validity of such service on the process agent or the Republic. The Republic will also irrevocably consent to the service of any and all process in any related proceeding in any New York state or U.S. federal court sitting in The City of New York by depositing with the U.S. mail, postage prepaid, copies of such process addressed to the Republic at the Ministry of Public Finance, and the Republic will agree that such service will be effective seven days after mailing thereof. The Republic will agree that it will take any and all reasonable actions that may be necessary to continue the designation of the process agent in full force and effect, and to cause the process agent to continue to act as such. In addition, the Republic will agree that none of its agreements described in this paragraph or the preceding paragraph will affect the right of any party to serve legal process in any other manner permitted by law or affect the right of any party to bring any suit, action or proceeding against any other party or its property in the courts of other jurisdictions. However, the Republic has not consented to service in respect of any action, suit or proceeding brought against it under U.S. federal or any state securities laws.



To the extent that the Republic has or from this date forward may acquire any immunity (sovereign or otherwise) from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Republic has, to the fullest extent permitted under the U.S. Foreign Sovereign Immunities Act or any other applicable law, irrevocably waived such immunity in respect of any action or proceeding arising out of, or related to, the offering and sale of the notes or the Republic's failure, or alleged failure, to perform any obligations under the notes; *provided, however*, that, under the laws of the Republic, the property and revenues of the Republic inside Guatemala are exempt from attachment or other form of execution, whether before or after judgment. The Republic's waiver of sovereign immunity does not extend to actions brought under the U.S. federal securities laws.

### **Currency Indemnity**

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due under the notes or a situation described above to the holder of a note in one currency into another currency, the Republic and each holder will be deemed to have agreed that the exchange rate used will be that at which in accordance with normal banking procedures such holder could purchase the first currency with such other currency in the city which is the principal financial center of the country of issue of the first currency on the second business day preceding the day on which final judgment is given.

The obligation of the Republic in respect of any sum payable by it to the holder of a note will, notwithstanding any judgment in a currency (the "judgment currency") other than that in which such sum is denominated in accordance with the applicable provisions of the notes (the "note currency"), be discharged only to the extent that on the business day following receipt by such holder of the note of any sum adjudged to be so due in the judgment currency, such holder of the note may in accordance with normal banking procedures purchase the note currency with the judgment currency. If the amount of the note currency so purchased is less than the sum originally due to the holder of the note in the note currency (determined in the manner set forth in the preceding paragraph), the Republic will agree, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of the note against such loss, and if the amount of the note currency so purchased exceeds the sum originally due to the holder of the note such holder will agree to remit to the Republic such excess, *provided* that such holder will have no obligation to remit any such excess as long as the Republic will have failed to pay such holder any obligations due and payable under the note, in which case such excess may be applied to such obligations of the Republic under the note in accordance with the terms of the note.

### **Concerning the Fiscal Agent**

The fiscal agency agreement contains provisions relating to the rights, obligations and duties of the fiscal agent, indemnification of the fiscal agent, release of the fiscal agent relief from responsibility for certain actions taken by it, and the replacement, in certain circumstances, of the fiscal agent by another qualified financial institution.

## **BOOK-ENTRY SETTLEMENT AND CLEARANCE**

### **Global Notes**

The notes will initially be issued in the form of two registered notes in global form, without interest coupons, as follows:

- notes sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1933 will be represented by a global note (which we refer to in this offering memorandum as the “Rule 144A Global Note”); and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will be represented by a global note (which we refer to in this offering memorandum as the “Regulation S Global Note”).

Upon issuance, each of the global notes will be deposited with the fiscal agent as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each global note will be limited to persons who have accounts with DTC (which we refer to in this offering memorandum as the “DTC participants”) or persons who hold interests through DTC participants. The Republic expects that under procedures established by DTC:

- upon deposit of each global note with DTC’s custodian, DTC will credit portions of the principal amount of the global note to the accounts of the DTC participants designated by the Initial Purchaser; and
- ownership of beneficial interests in each global note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in each global note).

Investors may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream Banking, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Note through organizations other than Euroclear or Clearstream Banking that are DTC participants. Each of Euroclear and Clearstream Banking will appoint a DTC participant to act as its depositary for the interests in the Regulation S Global Note that are held within DTC for the account of each of these settlement systems on behalf of its respective participants.

Euroclear and Clearstream Banking will hold omnibus positions on behalf of their participants through customers’ securities accounts for Euroclear and Clearstream Banking on the books of their respective depositaries, which in turn will hold positions in customers’ securities accounts in the depositaries’ names on the books of DTC.

Beneficial interests in the global notes may not be exchanged for notes in physical certificated form except in the limited circumstances described below.

Each global note and beneficial interests in each global note will be subject to restrictions on transfer as described under “Transfer Restrictions.”

### **Exchanges between the Global Notes**

Beneficial interests in one global note may generally be exchanged for interests in another global note. The fiscal agent may require the seller to provide certain written certifications in the form provided in the fiscal agency agreement.

Any beneficial interest in a global note that is transferred to a person who takes delivery through another global note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other global note.

### **Book-Entry Procedures for the Global Notes**

All interests in the global notes will be subject to the operations and procedures of DTC, Euroclear and Clearstream Banking. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Republic nor the Initial Purchaser are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a “clearing corporation” within the meaning of the Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the U.S. Securities Exchange Act of 1934.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, including the Initial Purchaser; banks and trust companies; clearing corporations; and other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC’s nominee is the registered owner of a global note, that nominee will be considered the sole owner or holder of the notes represented by that global note for all purposes under the fiscal agency agreement. Except as provided below, owners of beneficial interests in a global note:

- will not be entitled to have notes represented by the global note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the notes under the fiscal agency agreement for any purpose, including with respect to the giving of any direction, instruction or approval to the fiscal agent under the fiscal agency agreement.

As a result, each investor who owns a beneficial interest in a global note must rely on the procedures of DTC to exercise any rights of a holder of notes under the fiscal agency agreement (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest in the notes).

Payments of principal and interest with respect to the notes represented by a global note will be made by the fiscal agent to DTC’s nominee as the registered holder of the global note. Neither the Republic nor the fiscal agent will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a global note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a global note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream Banking will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and participants in Euroclear or Clearstream Banking, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream Banking. To deliver or receive an interest in a global note held in a Euroclear or Clearstream Banking account, an investor must send transfer instructions to Euroclear or Clearstream Banking, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream Banking, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant global notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream Banking participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream Banking.

Because of time zone differences, the securities account of a Euroclear or Clearstream Banking participant that purchases an interest in a global note from a DTC participant will be credited on the business day for Euroclear or Clearstream Banking immediately following the DTC settlement date. Cash received in Euroclear or Clearstream Banking from the sale of an interest in a global note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Banking cash account as of the business day for Euroclear or Clearstream Banking following the DTC settlement date.

DTC, Euroclear and Clearstream Banking have agreed to the above procedures to facilitate transfers of interests in the global notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the fiscal agent will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

### **Certificated Notes**

Notes in physical certificated form will be issued in registered form and delivered to each person that DTC identifies as a beneficial owner of the related notes only if:

- DTC notifies the Republic at any time that it is unwilling or unable to continue as depositary for the global notes and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days;
- the Republic, at its option, notifies the fiscal agent that it elects to cause the issuance of certificated notes; or
- an event of default has occurred and is continuing with respect to the notes.

## TRANSFER RESTRICTIONS

The notes are subject to the following restrictions on transfer. By purchasing notes, you will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the Initial Purchaser:

- (1) You acknowledge that:
  - the notes have not been registered under the U.S. Securities Act of 1933 or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
  - unless so registered, the notes may not be offered, sold or otherwise transferred except under a transaction exempt from, or not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in, as applicable, paragraph (4) or (5) below.
- (2) You represent that you are not an affiliate (as defined in Rule 144 under the U.S. Securities Act of 1933) of the Republic, that you are not acting on the Republic's behalf and that either:
  - you are a qualified institutional buyer (as defined in Rule 144A) and are purchasing notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchaser is selling the notes to you in reliance upon Rule 144A; or
  - you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing notes in an offshore transaction in accordance with Regulation S.
- (3) You acknowledge that neither the Republic nor the Initial Purchaser nor any person representing the Republic or the Initial Purchaser has made any representation to you with respect to the Republic or the offering of the notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the notes. You agree that you have had access to such information concerning the Republic and the notes as you have deemed necessary in connection with your decision to purchase notes, including an opportunity to ask questions of and request information from the Republic.
- (4) If you are purchasing notes in reliance upon Rule 144A, you represent that you are purchasing notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the U.S. Securities Act of 1933, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing notes, and each subsequent holder of the notes by its acceptance of the notes will agree, that until the end of the resale restriction period (as defined below), the notes may be offered, sold, pledged or otherwise transferred only:
  - (a) to the Republic or an affiliate of the Republic;
  - (b) under a registration statement that has been declared effective under the U.S. Securities Act of 1933;
  - (c) for so long as the notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the offer, sale, pledge or other transfer is being made in reliance on Rule 144A;
  - (d) through offers and sales that occur outside the United States within the meaning of Regulation S;

(e) under any other available exemption from the registration requirements of the U.S. Securities Act of 1933;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date of the offering of the notes until the date that is two years (in the case of Rule 144A notes) after the later of the closing date and the last date that the Republic or any of its affiliates was the owner of the notes or any predecessor of the notes (which period we refer to in this offering memorandum as the "resale restriction period"), and will not apply after the resale restriction period ends; and
- each note will bear a legend substantially to the following effect:

**"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR TRANSFER OF THIS NOTE IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS, INCLUDING THOSE SET FORTH IN THE FISCAL AGENCY AGREEMENT REFERRED TO ON THE REVERSE HEREOF. THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE, ACKNOWLEDGES THAT THIS NOTE IS A "RESTRICTED SECURITY" FOR PURPOSES OF THE SECURITIES ACT AND AGREES FOR THE BENEFIT OF THE REPUBLIC OF GUATEMALA (THE "ISSUER") THAT THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS TWO YEARS (IN THE CASE OF 144A NOTES) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE), ONLY (A) TO THE ISSUER, (B) UNDER A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE UNDER RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE OFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, (D) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATIONS UNDER THE SECURITIES ACT, OR (E) UNDER ANY OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE RIGHT OF THE ISSUER PRIOR TO ANY SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO IT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE."**

(5) If you are purchasing notes in reliance upon Regulation S, you represent that you are purchasing notes for your account, or for one or more investors accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the U.S. Securities Act of 1933. You agree, on your behalf and on behalf of any investor account for which you are purchasing notes, that each note will bear a legend substantially to the following effect:

**“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION. ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”**

(6) You acknowledge that the Republic, the Initial Purchaser and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have been made by your purchase of notes is no longer accurate, you will promptly notify the Republic and the Initial Purchaser. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

(7) According to the Luxembourg Stock Exchange, Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the notes shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

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Because of the foregoing transfer restrictions, purchasers of notes are advised to consult their respective legal advisors prior to making any offer, resale, pledge or other transfer of notes.

## **TAXATION**

*The following discussion summarizes certain U.S. federal income and Guatemalan tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws, regulations, rulings and decisions now in effect in the United States and on laws and regulations in effect in Guatemala, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.*

*This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.*

### **Guatemalan Taxation**

Under current Guatemalan law, payments of principal and interest on the notes placed outside Guatemala are not subject to Guatemalan income or withholding tax. Gains realized on the sale or other disposition of the notes outside Guatemala also will not be subject to Guatemalan income or withholding tax. There are no Guatemalan transfer, inheritance or succession taxes applicable to the notes, provided that the holders of the notes are neither residents nor engaged in trade or business through a permanent establishment in Guatemala and at the time of death of a holder of a note, the notes are not physically located in the territorial jurisdiction of the Republic.

### **United States Federal Income Taxation**

The following is a summary of U.S. federal income tax consequences of the acquisition, ownership and retirement of notes by a holder of the notes. This summary applies only to notes held as capital assets and does not address U.S. federal income tax rules applicable to holders who are subject to special treatment under the U.S. federal income tax laws including insurance companies, tax exempt organizations, banks, dealers or traders in securities or currencies, holders that mark their securities to market or to holders that will hold a note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar. Moreover, this summary does not address the U.S. federal income tax treatment of holders that do not acquire notes as part of the initial offering at the initial issue price. Prospective purchasers should consult their own tax advisors with respect to the U.S. federal, state, local, gift, estate and foreign tax consequences of acquiring, holding and retirement of notes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and existing, proposed and temporary U.S. Treasury Regulations currently in effect. These authorities are subject to changes that could affect the tax consequences described in this U.S. federal income tax discussion.

For purposes of this summary, a U.S. Holder is a holder of notes who, for U.S. federal income tax purposes, is:

- a citizen or resident alien individual of the United States;
- a corporation, including an entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Notwithstanding the preceding sentence, to the extent provided in Treasury Regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to such date that elect to be treated as United States persons, shall also be considered a U.S. Holder. If a partnership holds notes, the tax treatment of a



partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding notes, you should consult your tax advisors. If you hold a note and are not a U.S. Holder, you are a “Non-U.S. Holder.”

### **Interest**

Interest paid on a note including additional amounts, if any, will be includible in a U.S. Holder's gross income as ordinary interest income in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the notes will be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the notes will constitute “passive income” or, in the case of banks or other financial services entities, “financial services income.” The rules relating to foreign tax credits are extremely complex. U.S. Holders should consult with their own tax advisors with regard to the availability of a foreign tax credit and the application of the foreign tax credit rules to their own tax situation.

Payments of interest on a note to a Non-U.S. Holder will not be subject to U.S. federal income tax unless the interest is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States.

### **Sale, Exchange or Retirement**

Upon the sale, exchange or retirement of a note, a U.S. Holder will recognize taxable gain or loss equal to the difference, if any, between the amount realized (except that any amount attributable to accrued and unpaid interest will be treated as a payment of interest for federal income tax purposes) on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note will equal the holder's cost of the note. Any gain or loss will be capital gain or loss although amounts received that are attributable to accrued but unpaid interest will be taxable as ordinary income. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to capital gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if the U.S. Holder's holding period for the note exceeds one year. Any gain recognized upon a sale exchange, or retirement of a note by a U.S. Holder will be treated as U.S. source income. The deductibility of capital losses is limited.

Any gain realized by a Non-U.S. Holder upon the sale exchange or retirement of a note will not be subject to U.S. federal income tax, unless the gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or, in the case of any gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other requirements are met.

### **U.S. Backup Withholding Tax and Information Reporting**

Payments of interest, principal or proceeds from the disposition, exchange, redemption or retirement of a note may be subject to information reporting or to backup withholding of U.S. federal income tax at the applicable rate if a recipient who is a noncorporate U.S. Holder fails to furnish to the paying agent an Internal Revenue Service Form W-9 containing its taxpayer identification number or to otherwise establish an exemption from withholding. Penalties also may be imposed on a recipient that fails to properly supply Form W-9 or other evidence of exemption from withholding. Any amounts deducted and withheld may be allowed as a credit against the recipient's U.S. federal income tax liability, if any. If withholding results in an overpayment of taxes, a refund may be obtained.

Payments of principal or interest, and payments on the sale, exchange or retirement of a note to or through a foreign office of a broker will not be subject to backup withholding. Payments to or through the United States office of a broker will be subject to backup withholding of U.S. federal income tax at the applicable rate unless the Non-U.S. Holder has submitted Internal Revenue Service Form W-8BEN to the paying agent signed under penalties of perjury, attesting to its foreign status.

## **European Union Savings Directive**

On June 3, 2003, the Council of the European Union adopted a directive on the taxation of savings income. Pursuant to the directive, each member state of the EU will be required, beginning in 2005, to provide to the tax authorities of the other member states information regarding payments of interest (or other similar income) paid by persons within its jurisdiction to individual residents of such other member states, except that Belgium, Luxembourg, and Austria will instead operate a withholding system in relation to such payments until such time as the EU is able to enter into satisfactory information exchange agreements with several non-EU countries. In addition, the Council approved a draft agreement with Switzerland pursuant to which Switzerland would impose withholding tax on non-Swiss source interest payments paid by persons within its jurisdiction to individual residents of the EU, and would share a portion of the revenue with the recipients' countries of residence.

**THIS SUMMARY DOES NOT CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE CONSEQUENCES OF OWNING THE NOTES.**

## PRIVATE PLACEMENT

Under the terms and conditions in the Purchase Agreement between the Republic and the Initial Purchaser, executed the date of the offering memorandum, the Republic has agreed to sell to the Initial Purchaser notes in the amount of US\$300,000,000, and the Initial Purchaser has agreed to purchase from the Republic notes in the amount of US\$300,000,000.

The purchase agreement provides that the Initial Purchaser will purchase all of the notes if any of them are purchased.

Under the terms of the Purchase Agreement, the Initial Purchaser, subject to the conditions thereof, has agreed to purchase the notes at a discount from the price indicated on the cover page of this offering memorandum and to resell the notes to purchasers as described under “Transfer Restrictions”. The notes will initially be offered at the price indicated on the cover page of this offering memorandum. After the initial offering of the notes, the offering price and other selling terms may from time to time be varied by the Initial Purchaser without notice. The Purchase Agreement provides that the obligation of the Initial Purchaser to pay for and accept delivery of the notes is subject to, among other conditions, the delivery of legal opinions by its U.S. and Guatemalan counsel

The Purchase Agreement provides that the Republic will indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the Initial Purchaser may be required to made in respect of those liabilities.

The notes will constitute a new class of securities with no established trading market. Application has been made to list the notes on the Luxembourg Stock Exchange. The Republic cannot assure you that the notes will be approved for listing on the Luxembourg Stock Exchange. The notes are also expected to be designated eligible for trading in The PORTAL Market. However, the Republic and the Initial Purchaser cannot provide any assurances as to the liquidity of or the trading market for the notes.

The Initial Purchaser has advised that it presently intends to make a market in the notes as permitted by applicable laws and regulations. The Initial Purchaser is not obligated, however, to make a market and any such market-making may be discontinued at any time at the discretion of the Initial Purchaser.

In order to facilitate the offering of the notes, the Initial Purchaser may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the Initial Purchaser may overallocate in connection with this offering, creating a short position in the notes for its own accounts. In addition, to cover overallocations or to stabilize the price of the notes, the Initial Purchaser may bid for, and purchase, the notes in the open market. Finally, the Initial Purchaser may reclaim selling concessions allowed to a dealer for distributing the notes in the offering if the Initial Purchaser repurchases previously distributed notes in transactions to cover short positions, to stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The Initial Purchaser is not required to engage in these activities, and may end any of these activities at any time.

The notes have not been registered under the U.S. Securities Act of 1933 and may not be offered or sold except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions”.

In connection with the offering outside the United States, the Initial Purchaser has agreed that it will not offer or sell the notes to, or for the account or benefit of, U.S. persons (1) as part of its distribution at any time or (2) otherwise prior to 40 days after the closing of the offering, except pursuant to an applicable exemption from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of this offering, an offer or sale of notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

The Initial Purchaser has also represented and agreed that it has complied, and will comply, with all applicable provisions of the Financial Services and Markets Act 2000 of the United Kingdom with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

The Republic has agreed that it will not, subject to certain exceptions, without the consent of UBS Securities LLC, offer, sell or contract to sell, or otherwise dispose of, any external debt securities denominated in a currency other than *quetzales* issued or guaranteed by the Republic (other than the notes offered hereunder) until three months after the closing date of the offering.

The Initial Purchaser and its affiliates have engaged in, and may in the future engage in, commercial banking, investment banking and other financial and financial advisory services and other commercial dealings with the Republic or its affiliates. The Initial Purchaser and its affiliates have received customary fees and commissions for these transactions.

## **LEGAL MATTERS**

The validity of the notes will be passed upon on behalf of the Republic by Mr. Gabriel Orellana Rojas of the firm Gabriel Orellana & Asociados, Guatemalan counsel to the Republic, and by Sidley Austin Brown & Wood LLP, U.S. counsel to the Republic, and on behalf of the Initial Purchaser by Cleary Gottlieb Steen & Hamilton, U.S. counsel to the Initial Purchaser, and Lusky & Asociados, Guatemalan counsel to the Initial Purchaser. As to all matters of Guatemalan law, Sidley Austin Brown & Wood LLP may rely on the opinion of Mr. Gabriel Orellana Rojas of the firm Gabriel Orellana & Asociados and Cleary Gottlieb Steen & Hamilton may rely upon the opinion of Lusky & Asociados.

## **OFFICIAL STATEMENTS**

Information in this offering memorandum whose source is identified as a publication of the Republic or one of its agencies or instrumentalities relies on the authority of such publication as a public official document of the Republic.

## **GENERAL INFORMATION**

1. The issuance of the notes was authorized pursuant to Congressional Decree Number 62-2002 of the Congress of the Republic, effective October 26, 2002, amended by Decree Number 75-2002 of the Congress of the Republic, effective January 1, 2003 and Decree Number 26-2003 of the Congress of the Republic, effective June 12, 2003, and the issue of the notes will be conducted in accordance with the regulations of the Ministry of Public Finance with respect to such issue. This offering memorandum has been approved by the Republic through the Ministry of Public Finance.

2. Application has been made to list the notes on the Luxembourg Stock Exchange.

3. Except as otherwise set forth herein, neither the Republic nor any governmental agency of the Republic is involved in any litigation or arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issue of the notes and which would materially and adversely affect the Republic's ability to meet its obligations under the notes and the fiscal agency agreement and, so far as the Republic is aware, no such litigation or arbitration or administrative proceedings are pending or threatened.

4. Copies of the following documents shall be available during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the specified offices of the fiscal agent and the paying agents:

- The fiscal agency agreement (including the forms of the notes);
- English translations of Congressional Decrees 62-2002, 75-2002 and 26-2003 referred to in paragraph 1 above;
- The Republic's consolidated public sector fiscal accounts for 2002 and, as soon as available, each subsequent year; and
- The Republic's budget for its next fiscal year, as soon as available after approval by Congress.

5. Application has been made to have the notes that are sold outside the United States in reliance on Regulation S under the Securities Act and represented by the Regulation S Global Note accepted for clearance through Euroclear and Clearstream Banking. The CUSIP numbers for the Regulation S Global Note and the Rule 144A Global Note are P5015V AC 0 and 401494 AC 3, respectively. Application has also been made for the Regulation S Global Note and the Rule 144A Global Note to be accepted for clearance through the Euroclear and Clearstream banking clearance systems and the Notes have been accepted for clearance in such systems. The Common Code for the Regulation S Global Note is 017402820, and the International Securities Identification Numbers (ISIN) for the Regulation S Global Note and the Rule 144A Global Note are USP5015VAC02 and US401494AC33, respectively.

6. Other than as disclosed in this offering memorandum, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the notes since December 31, 2002.

**APPENDIX A**  
**REPUBLIC OF GUATEMALA: GLOBAL PUBLIC SECTOR EXTERNAL DEBT**  
**(as of March 31, 2003)<sup>(1)</sup>**

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of March 31, 2003 (in thousands of US\$)
USAID	Government	2/10/83	2.50	6/30/08	4,086
USAID	Government	6/6/86	5.00	6/9/11	15,333
USAID	Government	9/30/87	5.00	10/30/14	3,616
USAID	Government	9/1/65	2.00	6/23/07	290
USAID	Government	8/17/65	2.00	2/7/07	92
USAID	Government	8/17/66	2.50	3/21/07	203
USAID	Government	8/17/66	3.00	3/21/07	83
USAID	Government	10/14/66	2.50	4/3/08	167
USAID	Government	7/10/67	2.50	7/2/09	469
USAID	Government	11/14/68	2.50	7/23/11	2,998
USAID	Government	2/5/71	3.00	10/17/13	579
USAID	INFOM	12/3/70	3.00	08/28/12	405
USAID	Government	12/3/70	3.00	8/28/12	468
USAID	Government	7/17/70	3.00	4/21/11	8,561
USAID	INDE	8/20/71	3.00	08/11/12	2,887
USAID	Government	11/19/71	3.00	9/18/12	966
USAID	Government	2/14/73	3.00	6/4/14	1,496
USAID	Government	2/28/73	3.00	8/9/14	599
USAID	Government	4/30/74	3.00	4/22/15	2,344
USAID	Government	04/08/76	3.00	4/19/18	8,049
USAID	Government	6/13/83	3.00	12/27/23	2,280
USAID	Government	5/18/78	3.00	12/1/10	947
USAID	Government	5/21/79	3.00	3/23/06	1,988
USAID	Government	9/30/83	3.00	4/18/13	1,354
USAID	Government	7/13/79	3.00	6/25/06	968
USAID	Government	9/24/81	3.00	1/11/09	1,881
USAID	Government	9/30/83	3.00	1/16/10	1,272
USAID	Government	9/30/83	3.00	3/12/11	2,837
USAID	Government	3/20/85	3.00	9/21/12	1,837
USAID	Government	9/27/86	5.00	9/25/12	148
USAID	Government	3/20/85	3.00	9/26/10	4,873
USAID	Government	3/20/85	5.00	12/12/13	398
USAID	Government	3/20/85	5.00	12/12/13	410
USAID	Government	9/30/87	5.00	07/18/22	528
USAID	Government	9/30/87	5.00	9/11/15	5,884
USAID	Government	9/30/87	3.00	5/27/18	137
USAID	Government	9/30/87	2.00	9/21/20	379
USAID	Government	11/3/75	3.00	10/20/18	4,445

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of March 31, 2003 (in thousands of US\$)
USAID	Government	9/14/77	3.00	1/28/21	3,237
USAID	Government	8/31/82	3.00	7/2/09	763
USAID	Government	8/31/82	3.00	7/2/09	172
USAID	Government	12/27/84	3.00	9/6/10	1,389
USAID	Government	12/27/84	3.00	3/26/11	2,368
USAID	Government	9/27/86	5.00	12/01/12	221
USAID	Government	9/27/86	5.00	10/14/16	129
USAID	Government	9/27/86	3.00	9/27/18	36
USAID	Government	9/19/80	3.00	3/26/07	1,446
USAID	Government	3/15/85	3.00	11/23/08	1,638
USAID	Government	9/20/76	3.00	5/16/18	4,940
CABEI	Government	8/17/66	3.50	5/8/06	445
CABEI	Government	5/5/94	8.07	5/5/04	5,466
CABEI	Government	9/2/76	4.00	9/2/04	190
CABEI	Government	4/30/81	5.00	12/2/08	1,604
CABEI	Government	8/3/81	6.50	8/31/09	4,676
CABEI	Government	1/10/89	9.00	1/10/04	897
CABEI	Government	1/10/89	9.00	1/10/04	633
CABEI	Government	1/10/89	9.00	1/10/04	309
CABEI	Government	3/28/95	7.60	03/28/10	34,739
CABEI	Government	3/30/95	8.07	9/30/06	12,748
CABEI	Government	3/30/95	8.00	3/30/07	7,551
CABEI	Government	9/10/97	8.00	9/10/09	13,260
CABEI	Government	4/17/98	8.00	04/17/10	32,380
CABEI	MUNGUAT	5/15/97	7.60	5/15/04	16,576
CABEI	Government	11/18/97	7.49	11/18/09	10,667
CABEI	Government	2/6/98	8.50	2/6/10	7,532
CABEI	Government	3/9/98	10.50	3/9/10	12,666
CABEI	Government	10/15/98	3.00	10/15/19	993
CABEI	Government	10/15/98	3.00	04/15/18	992
CABEI	Government	10/27/97	7.60	10/27/12	9,738
CABEI	Government	2/18/99	7.60	2/18/09	16,575
CABEI	Government	2/9/99	3.00	2/9/19	823
CABEI	Government	2/18/99	7.40	2/18/11	7,505
CABEI	Government	7/5/99	7.40	7/5/11	28,647
CABEI	Government	10/15/99	7.40	10/15/11	37,672
CABEI	Government	12/21/01	8.00	02/12/14	12,000
IDB	Government	5/19/76	0.00	5/19/16	6,297
IDB	Government	12/4/85	8.38	10/21/05	10,697
IDB	INDE	10/4/85	9.50	8/11/05	8,897
IDB	Government	3/5/87	7.13	3/6/12	7,294
IDB	EMPAGUA	10/16/73	1.25	10/16/13	3,658



Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of March 31, 2003 (in thousands of US\$)
IDB	Government	10/2/73	2.00	10/6/13	6,125
IDB	Government	2/26/74	2.00	2/24/14	3,410
IDB	Government	5/7/75	2.00	5/6/15	2,083
IDB	Government	5/21/75	2.00	5/20/15	920
IDB	Government	5/21/75	2.00	5/20/15	4,167
IDB	Government	1/15/76	2.00	1/15/16	4,732
IDB	Government	5/25/84	9.50	1/24/04	635
IDB	Government	1/15/76	2.00	1/15/16	2,585
IDB	Government	5/24/84	8.75	5/13/04	429
IDB	INDE	1/10/76	2.00	1/15/16	18,930
IDB	Government	1/15/76	2.00	1/15/16	6,668
IDB	CORFINA	4/5/76	2.00	4/6/16	2,908
IDB	Government	6/30/76	2.00	7/6/16	12,181
IDB	Government	09/27/84	9.50	5/24/04	1,234
IDB	Government	6/2/77	2.00	5/24/17	12,354
IDB	EMPAGUA	5/18/78	1.75	5/18/18	15,768
IDB	Government	2/18/81	2.00	2/18/21	14,961
IDB	Government	6/12/81	2.00	5/24/21	15,823
IDB	Government	4/27/82	2.00	10/24/22	9,170
IDB	Government	4/27/82	2.00	10/24/22	13,724
IDB	Government	3/20/83	2.00	3/24/23	6,826
IDB	Government	3/20/83	2.00	3/24/23	11,331
IDB	Government	9/6/83	2.00	9/6/23	10,082
IDB	Government	5/24/84	2.00	5/24/24	5,103
IDB	INDE	9/27/84	2.00	9/24/24	11,749
IDB	Government	1/25/94	5.27	7/25/13	49,229
IDB	Government	1/25/94	5.58	07/25/13	13,681
IDB	Government	3/5/87	2.00	3/6/27	10,076
IDB	Government	03/05/87	2.00	3/6/27	19,925
IDB	Government	9/30/96	5.39	09/30/21	1,393
IDB	Government	10/2/91	2.00	10/2/31	29,921
IDB	Government	12/07/92	2.00	05/24/32	14,186
IDB	Government	2/3/93	2.00	2/3/33	39,542
IDB	Government	1/13/96	5.39	1/13/21	94,737
IDB	Government	1/13/96	5.80	1/13/21	47,368
IDB	Government	10/26/94	5.27	1/13/16	21,171
IDB	Government	1/13/96	5.39	1/13/21	13,188
IDB	Government	1/25/94	1.00	1/25/19	40,000
IDB	Government	12/30/96	6.19	12/16/26	41,437
IDB	Government	1/21/97	5.39	1/21/27	17,000
IDB	Government	1/21/97	1.00	1/21/37	31,022
IDB	Government	9/10/97	5.39	09/10/22	366

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of March 31, 2003 (in thousands of US\$)
IDB	Government	9/10/97	5.39	9/10/22	5,208
IDB	Government	10/20/97	5.39	10/20/17	74,917
IDB	Government	10/20/97	6.97	10/20/17	7,546
IDB	Government	3/14/98	1.00	3/14/38	10,049
IDB	Government	3/14/98	6.97	3/14/23	53,140
IDB	Government	9/18/98	5.39	9/18/28	14,956
IDB	Government	12/11/98	5.80	12/11/18	3,784
IDB	Government	1/22/99	6.58	1/22/29	39,670
IDB	Government	3/14/99	5.39	3/14/29	13,196
IDB	Government	3/26/00	6.18	3/26/20	4,277
IDB	Government	10/18/99	6.98	10/18/29	60,786
IDB	Government	7/3/01	5.93	7/3/26	64,573
IDB	Government	3/22/01	0.00		393
IDB	Government	2/22/01	0.00		210
IDB	Government	2/11/02	4.95	2/11/27	206
IDB	Government	12/26/00	6.25	2/11/22	967
IDB	Government	2/11/02	5.58	2/11/32	2,981
IDB	Government	9/17/02	4.85	9/17/22	120,100
IDB	Government	9/17/02	5.39	9/17/27	252
IBRD	Government	3/5/76	8.66	12/15/05	3,960
IBRD	Government	11/15/89	7.96	8/15/05	1,375
IBRD	MUNGUAT	11/15/89	7.96	8/15/05	648
IBRD	Government	8/14/96	0.00	10/01/07	2,000
IBRD	Government	5/21/93	8.76	2/15/13	19,604
IBRD	Government	1/10/90	8.32	2/15/09	10,061
IBRD	Government	12/8/92	7.35	11/1/13	93,690
IBRD	Government	9/29/93	7.96	11/01/12	15,264
IBRD	Government	1/22/96	4.96	8/15/15	8,430
IBRD	Government	3/3/98	5.97	11/15/10	7,330
IBRD	Government	10/20/97	5.72	4/15/11	32,398
IBRD	Government	9/11/98	6.09	3/15/11	10,853
IBRD	Government	9/11/98	2.13	1/15/18	43,280
IBRD	Government	9/11/98	2.13	1/15/18	15,700
IBRD	Government	12/4/98	2.23	1/15/18	11,526
IBRD	Government	1/22/99	2.34	10/15/18	14,867
IBRD	Government	1/22/99	2.20	8/15/18	49,611
IBRD	Government	4/27/00	2.47	02/15/19	13,053
IBRD	Government	4/27/00	3.68	10/15/18	10,760
IBRD	Government	5/23/02	3.78	6/15/19	503
IBRD	Government	11/14/02	8.02	2/15/18	622
IBRD	Government	12/13/02	7.98	08/15/18	50
IBRD	Government	12/13/02	8.02	8/25/18	50,000

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of	
					March 31, 2003 (in thousands of US\$)	
KFW	Government	5/17/77	2.00	6/30/07	646	
KFW	Government	6/13/88	0.75	6/30/38	4,941	
KFW	Government	6/13/88	2.00	6/30/18	276	
KFW	Government	12/03/86	0.75	12/31/36	9,465	
KFW	Government	9/29/87	0.75	6/30/37	9,604	
KFW	Government	6/8/90	0.75	12/31/40	6,792	
KFW	Government	6/13/88	0.75	6/30/38	4,940	
KFW	Government	6/13/88	0.75	12/31/38	2,502	
KFW	Government	12/23/92	0.75	12/30/42	1,113	
KFW	Government	8/30/95	0.75	12/30/45	1,588	
KFW	Government	03/31/95	0.75	6/30/45	8,351	
KFW	Government	4/27/95	0.75	6/30/35	8,351	
KFW	Government	1/22/98	0.75	06/30/48	5,293	
KFW	INDE	10/24/90	1.50	2/18/11	8,272	
CONV	Government	11/16/92	1.50	3/1/13	4,854	
CONV	Government	6/7/85	2.50	11/10/06	212	
CONV	INDE	6/7/85	2.50	04/22/04	270	
CONV	MUNGUAT	6/7/85	2.50	8/06/03	5	
CONV	Government	11/21/85	2.50	03/01/08	1,699	
CONV	Government	12/20/85	2.50	09/05/06	1,822	
IFAD	Government	10/10/84	4.00	10/1/04	637	
IFAD	Government	10/8/90	4.00	2/15/10	3,377	
IFAD	Government	11/30/92	4.00	2/15/12	4,472	
IFAD	Government	7/6/98	2.64	2/15/17	1,617	
IFAD	Government	2/27/01	2.64	02/15/20	1,298	
FIV	Government	8/13/91	5.97	12/30/04	1,308	
FIV	Government	12/12/96	5.27	12/30/05	4,010	
OPEC	Government	10/24/89	4.25	5/15/06	1,150	
OPEC	Government	6/6/91	4.50	1/15/08	942	
OPEC	Government	11/4/92	3.75	7/15/09	1,679	
OPEC	Government	8/22/97	6.50	02/22/14	4,121	
OPEC	Government	8/22/97	3.50	02/22/14	3,541	
OPEC	Government	12/2/98	3.75	06/02/15	1,440	
OPEC	Government	10/10/01	2.00	4/15/18	2,719	
CIDA	Government	3/16/76	0.00	9/30/25	191	
CIDA	Government	7/13/77	0.00	3/31/27	1,428	
PL	Government	8/1/84	4.00	10/17/04	887	
PL	Government	6/6/85	4.00	10/20/05	3,722	
PL	Government	7/2/86	4.00	12/08/06	4,040	
PL	Government	5/26/87	4.00	10/26/07	6,866	
PL	Government	6/16/88	4.00	9/27/08	4,002	
PL	Government	6/16/88	4.00	9/30/08	1,364	

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of March 31, 2003 (in thousands of US\$)
PL	Government	10/28/88	4.00	9/6/09	5,984
PL	Government	4/28/88	4.00	9/11/09	1,985
PL	Government	6/11/90	4.00	10/9/10	9,001
PL	Government	7/15/91	4.00	12/7/11	10,577
PL	Government	03/19/92	4.00	11/24/12	9,734
PL	Government	7/29/93	4.00	12/19/13	9,966
PL	Government	7/29/93	4.00	1/8/14	684
PL	Government	7/29/93	4.00	12/21/14	11,890
PL	Government	8/7/98	3.00	12/24/22	4,354
PL	Government	8/13/99	1.50	01/25/24	10,084
UBS	INDE	03/12/90	4.58	12/31/11	1,543
JBIC	Government	01/30/89	3.50	2/20/20	39,239
JBIC	EMPAGUA	6/16/92	2.70	06/20/22	35,781
JBIC	Government	12/27/95	3.00	12/20/24	24,956
JBIC	Government	9/30/99	1.48	4/20/39	13,411
CHINA	Government	11/26/91	4.00	11/26/03	5,000
CHINA	Government	4/20/96	4.00	04/20/06	8,750
CHINA	Government	1/23/98	5.00	1/23/13	20,000
CHINA	Government	1/23/98	5.00	1/23/13	20,000
CHINA	Government	4/22/99	5.00	4/22/19	14,100
CHINA	Government	1/22/99	5.00	1/22/14	20,000
CHINA	Government	6/22/99	2.00	1/15/24	3,703
HERMES ALEMANIA	Government	3/25/93	7.40	10/1/07	8,654
MEDIO CREDITO CENTRALE	Government	3/25/93	1.50	10/1/12	1,248
EDC	Government	03/25/93	2.31	10/01/07	8,516
COFACE	Government	03/25/93	5.23	10/1/07	17,950
COFACE	Government	11/10/94	1.86	10/1/07	9,001
Holders of 81/2 Notes due 2007	Government	8/4/97	8.50	8/3/07	150,000
Holders of 101/4 Notes due 2011	Government	11/8/01	10.25	11/8/11	325,000

(1) Excluding loans with outstanding amounts less than US\$1,000 as of March 31, 2003.

Defined terms for Appendix A:

CIDA	=	Canadian International Development Agency
USAID	=	United States Agency for International Development
CABEI	=	Central American Bank of Economic Integration
IDB	=	Inter-American Development Bank
IBRD	=	International Bank for Reconstruction and Development
CHINA	=	Export Import Bank of the Republic of China
COFACE	=	Compagnie Française du Commerce Extérieur
CORFINA	=	Corporación Financiera Nacional
CONV	=	Convenzione Finanziaria Italiana
EDC	=	Export Development Corporation – Canada
EMPAGUA	=	Empresa Municipal de Agua
IFAD	=	International Fund for Agricultural Development
FIV	=	Fondo de Inversiones de Venezuela
INDE	=	Instituto Nacional de Electrificación
INFOM	=	Instituto de Fomento Municipal
JBIC	=	Japanese Bank for International Cooperation
KFW	=	Kreditanstalt für Wiederaufbau
MUNGUAT	=	Municipalidad de Guatemala
OPEC	=	Organization of Petroleum Exporting Countries
PL	=	United States Department of Agriculture
UBS	=	Union Bank of Switzerland

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**APPENDIX B**  
**REPUBLIC OF GUATEMALA: DOMESTIC AND EXTERNAL PUBLIC DEBT**  
**SERVICED WITH PROCEEDS<sup>(1)</sup>**

**DOMESTIC PUBLIC DEBT**  
**FROM AUGUST 2003 THROUGH DECEMBER 2003**  
**(as of June 30, 2003, in US\$)**

<b>Description</b>	<b>August</b>	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>	<b>Total</b>
Interest	\$6,246,071.70	\$6,631,918.33	\$10,777,313.77	\$10,218,442.11	\$17,778,512.22	\$51,652,258.14
Fees and other expenses	302,363.04	302,363.04	302,363.04	302,363.04	302,363.04	1,511,815.22
<b>Total</b>	<b>\$6,548,434.75</b>	<b>\$6,934,281.38</b>	<b>\$11,079,676.81</b>	<b>\$10,520,805.16</b>	<b>\$18,080,875.26</b>	<b>\$53,164,073.36</b>

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<sup>(1)</sup> The Republic's domestic and external public debt is denominated in various currencies, including *quetzales*, and, in some cases, external debt bears interest at a floating rate. For purposes of this Appendix B, amounts for domestic and external debt that are denominated in currencies other than US dollars have been translated into US dollars. Depending on exchange rate fluctuations and changes in applicable interest rates, the Republic's actual debt service amounts may vary from the amounts set forth in this Appendix B.

**EXTERNAL PUBLIC DEBT**  
**FROM AUGUST 2003 THROUGH DECEMBER 2003**  
(as of June 30, 2003, in US\$)

<b>Lender</b>	<b>Amortization</b>	<b>Interest</b>	<b>Fees</b>	<b>Total</b>
<b>AUGUST</b>				
USAID	54,709.92	16,846.48	0.00	71,556.40
CABEI	3,903,253.86	2,109,412.46	114,455.76	6,127,122.08
IDB	1,263,042.95	705,748.77	302,327.94	2,271,119.67
IBRD	2,614,594.91	5,290,783.72	1,245,216.25	9,150,594.88
ICDF	0.00	3,063.70	29,017.42	32,081.12
CONV	125,238.88	8,478.99	0.00	133,717.87
IFAD	994,872.99	207,032.09	0.00	1,201,905.08
JBIC	1,166,465.13	734,832.56	0.00	1,901,297.69
OPEC	395,833.33	196,814.90	38,554.26	631,202.49
EUROBONDS 2007	0.00	6,375,000.00	0.00	6,375,000.00
	<b>\$10,518,011.97</b>	<b>\$15,648,013.68</b>	<b>\$1,729,571.63</b>	<b>\$27,895,597.28</b>
<b>SEPTEMBER</b>				
CIDA	37,149.86	0.00	0.00	37,149.86
USAID	1,499,717.13	424,463.00	0.00	1,924,180.13
CABEI	7,225,767.22	3,249,723.79	1,916.67	10,477,407.68
IDB	3,781,908.28	7,100,396.77	426,536.21	11,308,841.26
IBRD	244,230.55	342,841.05	136,214.58	723,286.18
CONV	300,698.38	40,083.73	0.00	340,782.11
PL	2,032,771.41	533,405.68	0.00	2,566,177.09
	<b>\$15,122,242.83</b>	<b>\$11,690,914.02</b>	<b>\$564,667.46</b>	<b>\$27,377,824.31</b>
<b>OCTOBER</b>				
USAID	1,064,056.81	459,063.80	0.00	1,523,120.61
CABEI	5,810,254.96	2,990,086.74	0.00	8,800,341.70
IDB	5,706,524.67	5,449,298.76	91,767.65	11,247,591.08
IBRD	1,687,545.90	1,276,617.44	36,374.94	3,000,538.28
EXIMBANK CHINA	1,250,000.00	510,875.00	0.00	1,760,875.00
CLUB DE PARIS	5,149,017.46	717,070.14	0.00	5,866,087.60
CONV	186,031.92	6,723.79	0.00	192,755.71
IFAD	210,748.46	13,088.62	0.00	223,837.08
JBIC	0.00	161,128.97	0.00	161,128.97
OPEC	0.00	30,194.30	21,995.49	52,189.79
PL	4,182,318.26	819,028.13	0.00	5,001,346.39
	<b>\$25,246,498.44</b>	<b>\$12,433,175.68</b>	<b>\$150,138.08</b>	<b>\$37,829,812.20</b>
<b>NOVEMBER</b>				
USAID	258,760.40	98,240.44	0.00	357,000.84
CABEI	2,545,175.64	699,177.47	0.00	3,244,353.11
IDB	2,311,687.10	589,055.61	7,579.78	2,908,322.50
IBRD	4,482,215.84	4,075,048.45	0.00	8,557,264.29
EXIMBANK CHINA	2,500,000.00	51,111.11	0.00	2,551,111.11
CONV	39,697.52	2,406.40	0.00	42,103.92
OPEC	164,240.00	20,945.38	4,928.32	190,113.70
PL	973,436.18	389,374.47	0.00	1,362,810.65
EUROBONDS 2011	0.00	13,952,060.68	0.00	13,952,060.68
	<b>\$13,275,212.68</b>	<b>\$19,877,420.01</b>	<b>\$12,508.10</b>	<b>\$33,165,140.80</b>



<b>Lender</b>	<b>Amortization</b>	<b>Interest</b>	<b>Fees</b>	<b>Total</b>
<b>DECEMBER</b>				
USAID	1,456,151.78	520,286.48	0.00	1,976,438.26
CABEI	135,000.00	252,908.79	50,797.60	438,706.39
IDB	1,017,275.48	1,458,596.02	441,466.07	2,917,337.57
IBRD	880,000.00	218,471.38	156,950.30	1,255,421.68
CONV	244,985.01	7,518.24	0.00	252,503.25
FIV	1,041,200.00	127,047.28	0.00	1,168,247.28
JBIC	0.00	379,393.46	0.00	379,393.46
KFW	674,749.46	269,307.15	15,137.34	959,193.94
OPEC	208,330.00	42,993.80	11,506.34	262,830.14
PL	4,299,922.66	1,657,557.43	0.00	5,957,480.09
	<b>\$9,957,614.39</b>	<b>\$4,934,080.02</b>	<b>\$675,857.65</b>	<b>\$15,567,552.06</b>
<b>TOTAL</b>	<b>\$74,119,580.32</b>	<b>\$64,583,603.41</b>	<b>\$3,132,742.92</b>	<b>\$141,835,926.65</b>

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