

FOLLOW-UP CONSULTING GROUP

**GUATEMALA:
MACROECONOMIC EVOLUTION 2000 – 2002 AND
PERSPECTIVES 2003**

**MESSAGE FROM THE CONSTITUTIONAL PRESIDENT
OF THE REPUBLIC OF GUATEMALA
ALFONSO PORTILLO**

The main objective of the summons to a follow-up meeting to the encounter of the Consulting Group for Guatemala that took place at the International Development Bank (IDB) headquarters in Washington, D. C. in February 2002, is that the Government, Civil Society and the International Community examine and evaluate together the advances reached in the plans, programs and projects presented at that time.

For the Guatemalan government it is particularly important to emphasize the work areas in which it has concentrated its macroeconomic stability strategy to reduce poverty within the framework of compliance with the Peace Agreements. This document presents some of the efforts to promote economic and social development in a sustainable manner, to the consideration of the follow-up meeting.

In accordance with the lines of work established since the beginning and after having finished three years in power, the government has managed to integrate an inclusive and participative strategy for the promotion of rural development, based on new legislation and inter-institutional efforts of the public sector, with a common work philosophy. This has permitted to take concrete actions to privilege development in the interior of the Republic, trying to give special attention to the most representative productive and social sectors.

Decentralization of the public sector, the empowerment of local authorities and the promotion of an orderly participation of rural communities, are the public policies that try to open new space to productive investment among small farmers and micro-entrepreneurs. The purpose is to initiate a sustainable and participatory process that, starting with the community effort and consensus, will be beneficial to all Guatemalans in general.

We hope that with the accompaniment of the International Community, the development strategy adopted by this administration will have the necessary continuity to reach mid and long-term benefits. However, I have no doubt that the positive results obtained up to this date will provide an important basis for the beneficiaries themselves to support politically their consolidation at the local level.

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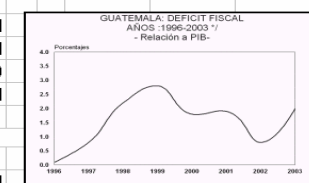
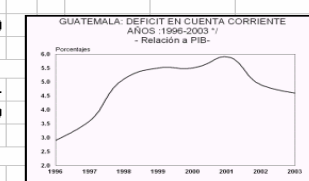
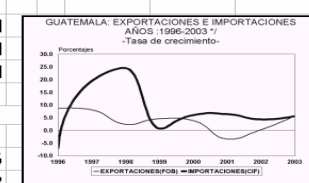
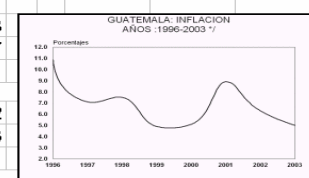
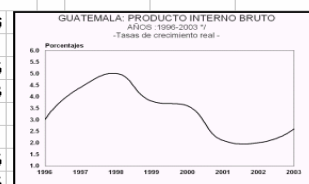
Table No. 1
GUATEMALA: MAIN ECONOMIC AND SOCIAL INDICATORS
2000 - 2003

Concept	2000	2001	2002 e/	2003 f/
Illiteracy (in %) 1/				
Total population (in millions) 1/	11.4	11.7	12.0	n.d
Economically active population (in %)	31.6	31.6	32.5	n.d
Annual variation rates				
Real gross national product	3.6	2.1	2.0	2.6
Real gross national product by branches				
Goods	2.3	1.1	0.8	1.5
Services	4.6	3.2	2.9	3.3
Real gross national product by expence				
Consumption				
Private	3.5	3.4	3.2	2.5
Public	7.9	5.4	1.5	3.5
Gross formation of fixed capital	-8.8	-0.9	2.6	1.4
Private	-4.6	-5.5	9.1	4.8
Public	-20.6	14.1	-13.5	-9.3
Exports in real terms	3.8	-3.4	-3.2	1.8
Imports in real terms	6.0	6.4	4.2	3.7
Percentage of the GNP				
Real public investment	2.7	3.0	11.2	8.2
Real private investment	9.0	8.3	-13.5	-9.3
Variation rate				
Inflation (December to December)	5.1	8.9	6.3	2/
External sector				
Terms of exchange	67.8	69.7	68.4	70.7
Average exchange rate at the end of the period (quetzal per dollar)	7.7	8.0	7.8	n.d
Index of real exchange rate 3/	87.1	90.7	96.2	n.d
External public debt (In million of US dollar)	2,615.8	2,846.9	3,037.1	n.d
Millions of dollars				
Balance of payments				
Current account	-1,049.0	-1,238.4	-1,172.7	-1,231.5
Balance of commercial goods	-1,914.4	-3,138.2	-3,839.5	-4,047.2
Exports FOB	2,711.2	2,468.4	2,238.2	2,369.0
Imports CIF	5,171.4	5,606.6	6,077.7	6,416.2
Capital account	1,703.4	1,712.2	1,194.4	1,481.5
Global balance	654.4	473.8	21.7	250.0
Variation of reserve assets (- means increase)	-654.4	-473.8	-21.7	-250.0
Percentages				
Debt service/exports of goods and services	6.1	7.9	9.8	10.4
Result of current account/GNP	-5.5	-5.9	-5.0	-4.9
Variation rates				
Currency and credit				
Net international reserves	53.7	25.3	-1.8	n.d
Credit to the private sector	9.7	13.6	10.2	10-12 2/
Means of payment	18.1	13.9	11.8	9-11 2/
Percentages of the GNP				
Central government				
Total income	11.1	11.0	15.1	n.d
Total expenses	13.0	12.9	4.9	n.d
Deficit or surplus	-1.8	-1.9	-1.0	-2.0
Internal debt balance (In millions of quetzales)	8,629.6	9,281.5	8,169.9	n.d
Annual rates				
Interest rates weighted average				
On Assets	20.1	17.9	16.2	n.d
On Liabilities	11.0	8.5	6.9	n.d

Source: Banco de Guatemala

1/Source: : Instituto Nacional de Estadística (INE) y Centro Latinoamericano y Caribeño de Demografía (CELADE)

2/ Goal 2003, 3/ Base 1997, e/ In the case of the GNP, estimated amounts. f/ Amounts projected to the end of 2003.



I. BACKGROUND

1. During the period 1997-1999 Guatemalan economy registered macroeconomic unbalances generated by the slackening of both fiscal and monetary policies, which in an attempt to stimulate economic activity, generated unbalances in the financial and external sectors. The result of the combination of said policies was an increase in the deficit of the current account of the balance of payments and a loss of international monetary reserves,

associated to accelerated depreciations of the nominal exchange rate.

2. Because of the inherited unfavorable macroeconomic conditions, since 2000 the government efforts have concentrated on re-establishing the adequate behavior of the main macroeconomic variables (inflation control, reduction of the fiscal deficit and stability both in interest rates and in the nominal exchange rate), within the efforts in which the coordinated actions regarding monetary and fiscal policies have been relevant.

Table No. 2
ORIGIN OF THE GROSS NATIONAL PRODUCT BY BRANCH OF ACTIVITY
AT MARKET PRICES
YEARS: 2000 – 2002
(Thousands of 1958 quetzals)

C O N C E P T	2000	2001 p/	2002 e/	P O R C E N T A G E S		
				2000	2001	2002
GROSS NATIONAL PRODUCT	<u>5,073.6</u>	<u>5,190.2</u>	<u>5,293.3</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Agriculture, forestry, hunting and fishing	1,157.9	1,171.3	1,187.4	22.8	22.6	22.4
Exploitation of mines and quarries	26.4	26.6	28.3	0.5	0.5	0.5
Manufacturing industry	668.2	673.8	678.3	13.2	13.0	12.8
Building	98.6	110.6	92.7	1.9	2.1	1.8
Electricity and water	210.9	204.6	217.1	4.2	3.9	4.1
Transportation, warehousing & comm.	489.6	522.8	550.5	9.6	10.1	10.4
Wholesale and retail commerce	1,249.5	1,282.9	1,311.5	24.6	24.7	24.8
Banking, insurance and real estate	265.6	260.6	261.3	5.2	5.0	4.9
Home ownership	232.6	239.0	245.3	4.6	4.6	4.6
Public administration and defense	384.7	398.1	409.6	7.6	7.7	7.7
Private services	289.7	300.2	311.3	5.7	5.8	5.9

p/Preliminary amounts e/Estimated amounts

Source: Banco de Guatemala

II. ECONOMIC POLICY ACHIEVEMENTS 2000-2002

A. Monetary policy

3. In 2000, monetary policy concentrated on reaching the objective of recuperating

confidence in national currency, strengthening of the national financial system and establishing the conditions for sustainable macroeconomic stability. The achievement of said strategic objective brought forth the need of disciplined application of policy

measures in three areas: 1) a monetary policy whose orientation was based on stability of the general price level; 2) a fiscal policy directed to attain an important reduction of the fiscal deficit; and, 3) a policy that would enable the strengthening of the financial system through the modernization of the regulatory frame.

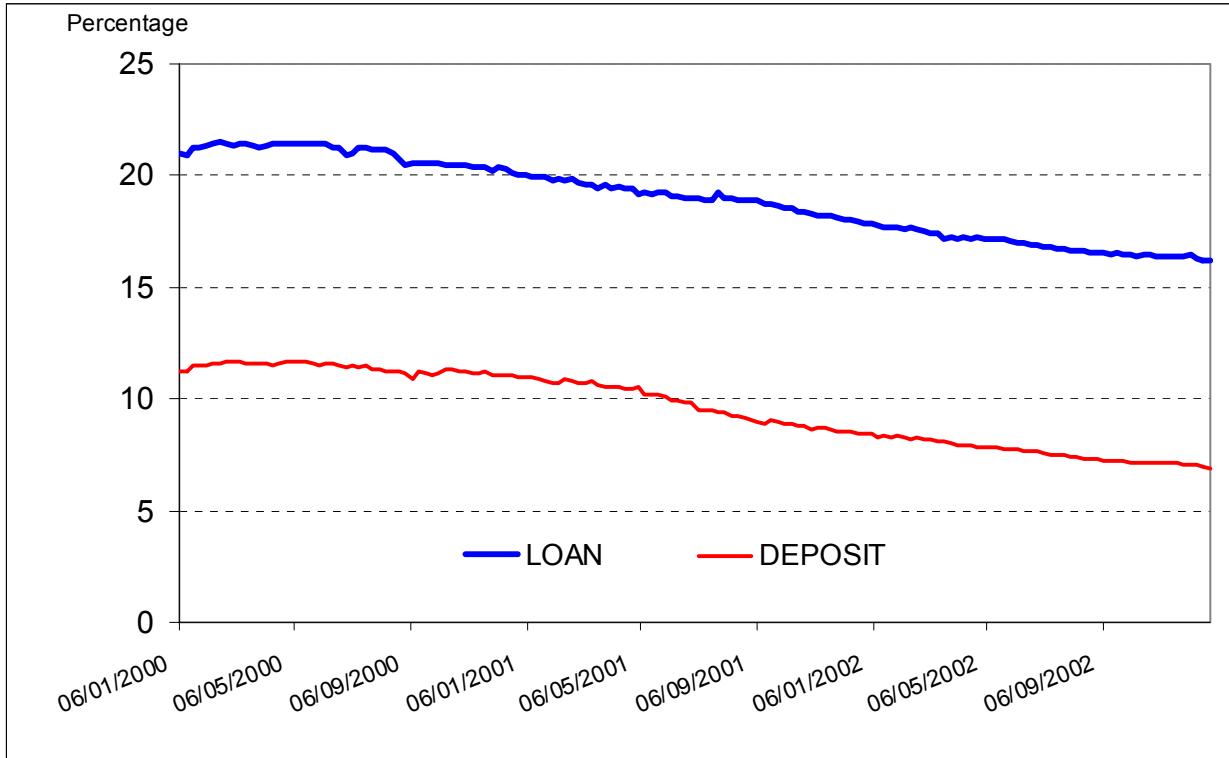
4. In 2001 the main objective of monetary policy was to propitiate stability in the general price level. As a complement to that and without risking the main objective, it continued to moderate the volatility of the money and exchange markets. These actions started in 2000. In order to attain the fundamental objective, it was considered that, since monetary policy is part of economic policy, it should face challenges that year, which should be faced in an opportune and efficient manner in order to preserve macroeconomic stability and propitiate economic reactivation.
5. Within these challenges, the most relevant ones for monetary policy were the existence of a persistent fiscal gap, the strengthening of the financial intermediation process in the banking system, the persistence of adverse terms of exchange, the insufficient stability to attain growth and the pressures to force a relaxation of the monetary policy. Within this context, the strategic aspects set forth for the implementation of a monetary policy that would propitiate achieving the fundamental objectives were: 1) a monetary policy oriented to consolidate macroeconomic trust and stability and 2) improvements in the design and operation of monetary policy.
6. In 2002, with the purpose of consolidating trust in economic agents as far as macroeconomic performance was concerned, the monetary, exchange and credit policy established that the

main objective of the Central Bank was to continue propitiating stability of the general price level, with the conviction that that is the best contribution that said policy can make towards achieving a sustainable production and employment growth and, therefore, to the orderly development of national economy.

7. In order to attain the main objective of said policy, which is, as stated above, to promote stability in the general price level, as well as avoiding volatility in the money and exchange markets, the main conditions that should be considered were identified, and they were the consolidation of public finances, the perspectives of the external environment, the pressures to force a relaxation of monetary policy and the application of a new legal framework.
8. In this context, the monetary authority considered necessary to apply a policy strategy directed to four areas of fundamental action: i) the strengthening of national currency with a framework of free monetary circulation; ii) the coordination of the State's financial policy; iii) the sustainability of the current account deficit of the balance of payments; and, iv) the negotiation of a macroeconomic program with the International Monetary Fund (IMF).
9. The observation of what happened during 2002 allows us to state that, in fact, the mentioned conditions were present and, therefore, the implementation of monetary policy was adapted successfully in the framework of the indicated strategy. It is convenient to mention that the results in matters of macroeconomic stability were satisfactory and materialized in the achievement of the inflation goal and in stability of both the exchange rate and the interest rate.

10. In 2003, in accordance with the Organization Law of the Banco de Guatemala, the main objective of monetary, exchange and credit policy is to contribute to the creation and maintenance of the conditions that are most favorable to the orderly development of national economy. To that effect it will promote the monetary, exchange and credit conditions that promote stability of the general price level. In order to attain that objective, it is necessary to reiterate that a prudent monetary policy must be complemented by a disciplined fiscal policy.
11. In order to comply with its main objective, in 2003 economic policy must work within a series of conditions: a) maintaining fiscal discipline; b) the tendencies of the external sector; c) economic stability and growth; d) maintaining monetary discipline, and, e) the implementation of new financial legislation. To that effect, the establishment of monetary policy is based on the following strategic points: 1) strengthening of the national currency as a payment means, as an account unit, and as a value deposit within a framework of free circulation of currencies; 2) the coordination of State financial policy; 3) the fragility of the balance of payments' current account, and 4) the extension for 2003 of the Stand-By Agreement with the International Monetary Fund (IMF).
12. The implementation of active and disciplined monetary and fiscal policies so far in 2003 has allowed the consolidation of stability in the main macroeconomic variables. In effect, in the external sector, the international monetary reserves, as of March 5, were US\$2,424.3 millions. This amount is US\$54.7 millions higher from the balance registered as of December 31, 2002 (US\$2,369.6 millions), and represents coverage of around 4.7 months of imports of goods and services.
13. In matters of the exchange rate, it has been stable. As of March 5, 2003, this variable was at Q.7.83 per US\$1.00, which maintains the tendency with the level reached in December 2002 (Q.7.81 per US\$1.00). Said behavior is attributed partly to the private capital flow that has come into the country, as investors from neighboring countries have deposited their financial assets in Guatemala, and from the increase in family remittances and the sale of Peace Bonds. It is convenient to indicate that these flows have been necessary to finance the external deficit of the current account, which is estimated for 2003 as 4.6% of the GNP.
14. Regarding the weighted average of the banking system's interest rates for investments and loans, they tend to continue to decrease. They went from 16.20% and 6.91% on December 26, 2002, to 15.76% and 6.05% on March 6, 2003.

**Graph No.1
BANKING SYSTEM: LOAN DEPOSIT INTEREST RATES
WEIGHTED AVERAGE
Period 2000 – 2002**



Source: Banco de Guatemala

15. In matters of inflation, it is important to indicate that it has been measured by the Consumer Price Index (CPI) calculated by the National Statistics Institute (NSI) as of February 2003, and in inter-annual terms it is at 6.0%, significantly lower than that observed during the same period of the previous year (9.01%). Said result is due to the implementation of an active and disciplined monetary policy directed to consolidate stability of the general price level.

B. Fiscal policy

16. The Consulting Group meeting in February 2002 confirmed and strengthened the essential

characteristics of the Government's fiscal policy. Said characteristics were ratified and incorporated as central elements of the contingency agreement subscribed with the International Monetary Fund (IMF).

17. The basic characteristics of the fiscal policy consist of reducing the deficit of the combined public sector, to rationalize public expense without neglecting social expenditure and to prevent adverse contingencies. With this purpose, a continuous reform and tax adaptation process has been established, which has allowed to increase fiscal income to finance expenses that are compatible with a reasonable fiscal deficit.

Table No. 3
Guatemala: Execution of Expenses by Purpose and Function, 2001 – 2002
Millions of Quetzals

Description	2001	2002*	Difference	
			Absolute	Relative
Total	22,179.3	23,511.9	1,332.6	6.0
Government Administration	2,817.9	3,052.1	234.1	8.3
Legislative	136.6	141.1	4.5	3.3
Judicial	938.6	937.8	-0.7	-0.1
Government Management	16.9	23.3	6.4	37.8
Foreign Affairs	226.7	229.4	2.7	1.2
Fiscal Administration	797.2	869.2	71.9	9.0
Auditing and Control	91.9	100.4	8.6	9.3
General Services	587.2	742.4	155.2	26.4
Other Administrative Activities	22.8	8.4	-14.4	-63.3
Defense and Internal Security	2,708.1	2,364.3	-343.8	-12.7
Defense	1,407.5	1,057.3	-350.2	-24.9
Internal Security	1,300.6	1,307.0	6.4	0.5
Social Services	10,427.7	11,443.6	1,015.9	9.7
Public Health and Assistance	1,745.4	1,774.8	29.4	1.7
Work and Social Security	1,745.9	1,717.5	-28.4	-1.6
Education	4,077.7	4,238.9	161.2	4.0
Culture and Sports	299.5	356.3	56.8	19.0
Science and Technology	68.1	2.7	-65.4	-96.1
Water and Sanitation	372.2	369.9	-2.3	-0.6
Housing	131.3	171.5	40.2	30.6
Urban and Rural Development	1,825.3	2,492.3	667.0	36.5
Environment	125.6	169.0	43.3	34.5
Other Social Services	36.8	150.7	113.9	309.4
Economic Services	3,083.5	3,411.3	327.8	10.6
Mining and Hydrocarbons	37.4	30.6	-6.8	-18.2
Energy	34.2	17.4	-16.8	-49.2
Communications	61.0	85.4	24.5	40.2
Transportation	1,898.7	2,131.1	232.5	12.2
Industry and Commerce	110.7	145.9	35.2	31.8
Tourism	52.0	49.7	-2.3	-4.4
Agriculture and Livestock	875.1	833.0	-42.1	-4.8
Financial Services and Insurance		100.0		
Other Activities of Economic Services	14.5	18.2	3.7	25.2
Public Debt	2,289.8	2,269.4	-20.4	-0.9
Interests, Commissions and other expenses	2,289.8	2,269.4	-20.4	-0.9
Others not classified	852.3	971.3	119.0	14.0
Debt Amortization	852.3	971.3	119.0	14.0

Source: Ministry of Public Finances

18. One of the most important achievements obtained by the government in matters of fiscal policy has been to comply with the objective of reducing the fiscal deficit, as a substantive contribution to the country's macroeconomic

stabilization. With the converging efforts of the tax increase and containment of expenses without affecting expenses dedicated to social sectors, the fiscal deficit in 2002 reached 1.0% of the GNP.

Table No. 4
Financial Situation of the Central Government
Period: 1999 – February 2003
Millions of Quetzals

Concept	1999	2000	2001	2002	February 2003*
Total income	14,923.9	16,469.3	18,222.1	20,764.9	3,396.1
Ordinary Income	14,914.1	16,458.3	18,207.7	20,751.5	3,396.1
<i>Tax Income</i>	13,362.6	15,003.0	15,928.7	19,294.7	3,246.3
<i>Direct taxes</i>	2,907.3	3,312.2	3,864.1	5,085.4	1,001.6
<i>Indirect taxes</i>	10,455.3	10,857.0	12,064.7	14,209.2	2,244.7
<i>Non-Tax and Transfer Income</i>	1,541.7	1,444.3	2,264.6	1,443.4	149.9
Capital Income	9.8	11.0	14.4	13.4	0.0
Total Expenses	18,728.2	19,109.8	21,327.0	22,540.7	3,379.2
<i>Ordinary Expenses</i>	11,684.5	12,738.1	15,198.5	15,687.3	2,593.5
<i>Capital Expenses</i>	7,043.7	5,537.9	6,130.8	6,853.4	785.8
Current Account Balance	3,229.7	3,720.2	3,009.2	5,064.2	802.6
Budgetary Balance	-3,804.2	-2,640.5	-3,105.0	-1,775.8	16.9
Total Financing	3,804.2	2,640.5	3,105.0	1,775.8	-16.9
<i>Net External Financing</i>	3,379.1	651.4	3,234.2	1,609.2	119.6
<i>Net Internal Financing</i>	425.1	1,989.0	-129.3	166.6	-136.6
Capital Income	0.0	1,005.5	2,423.4	0.0	0.0
Variation in cash (+) decrease					
(-) increase	205.4	159.1	-3,202.5	1,279.5	-473.5

*Preliminary amounts as of February 28, 2003

*Source: Ministry of Public Finances

19. A very important fact is that because of the structural deficiencies of the Guatemalan economy, to reach the level of fiscal deficit described constituted a significant contribution for the objective of maintaining stability, without giving up social expense. This is an extraordinary event because, traditionally, the fiscal adjustments were done at the expense

of social expenses and investments, destined to the poorest sectors and, therefore, the most vulnerable and least represented of society.

20. In 2002, the social expense executed by the Government was higher by 627 million quetzals than the expected goal per the Peace Agreements. During the

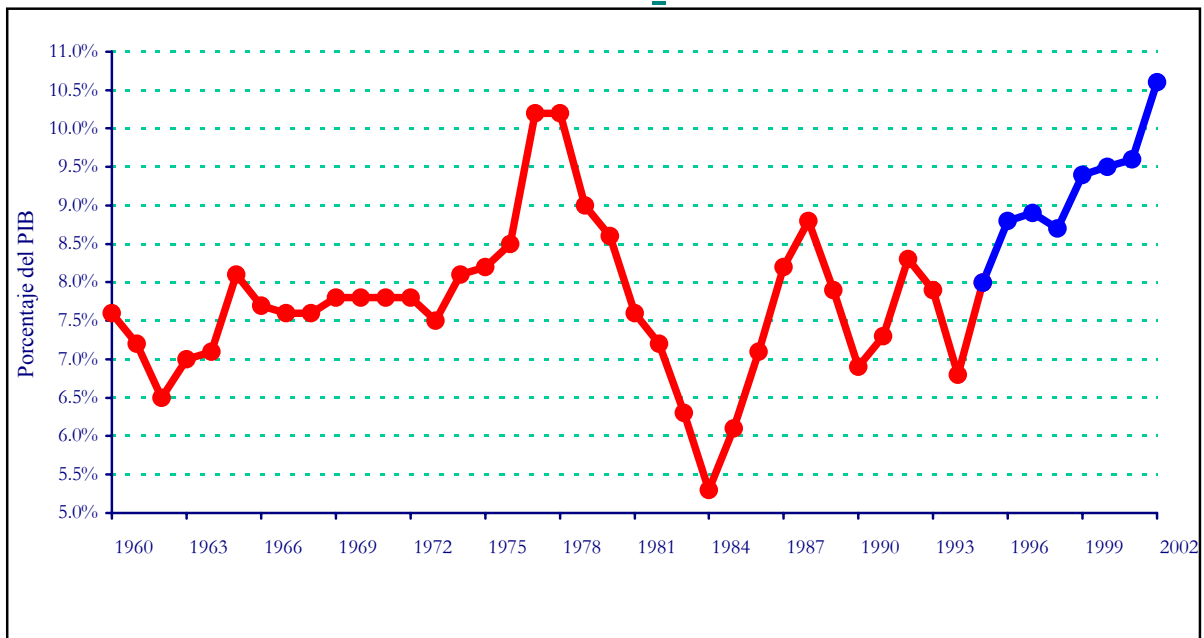
year, more than nine thousand million quetzals were dedicated to health,

education, housing, security and justice. What is also important is that the application of the expense did not imply lack of attention to the macroeconomic stability objective that can be evaluated on the fiscal side by the level of deficit reached.

21. As a complement to the austerity, rationality and priority of public expense

that privileged social expense, the government continued to make efforts to give the tax system sufficient sustainability to satisfy the increasing demands of public goods and services. As a result of the fiscal reform, in 2002 the tax load reached 10.7% of the GNP, the highest rate in the country's fiscal history.

Graph No. 2
Guatemala: Tax Burden
1960 – 2002*

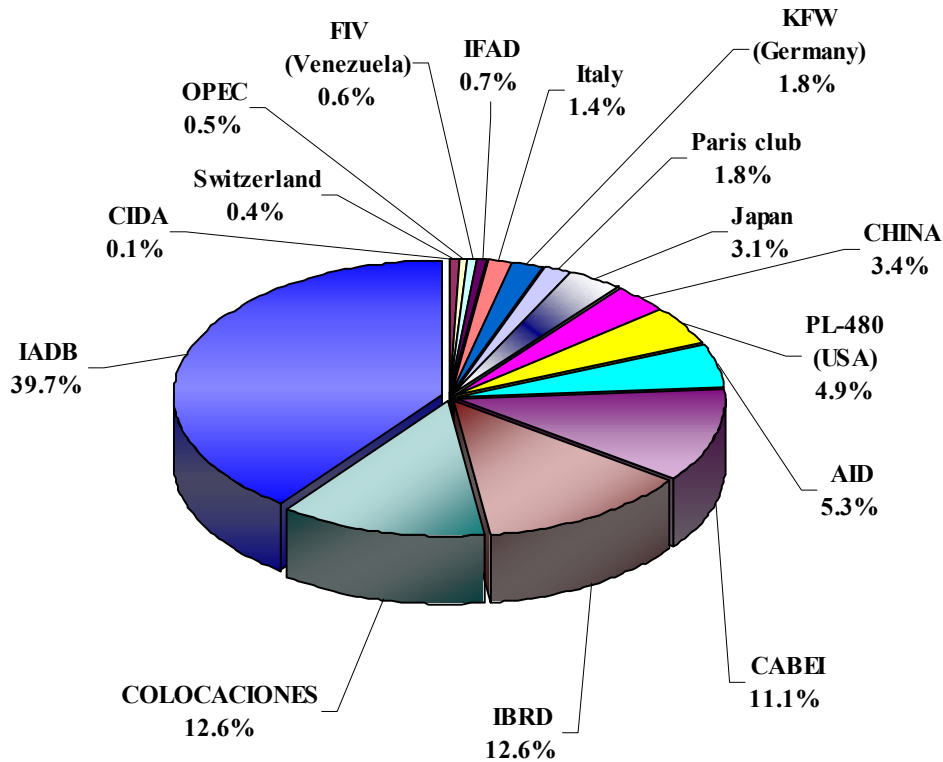


* Preliminary. Source: Ministry of Public Finance

22. The increase of ordinary income, especially from taxes, as well as the rationalization of ordinary expenses, has meant public finance savings in the current account that in 2002 represented 2.8% of the GNP. To finance for the physical and financial investment programs and projects, an external financing policy was

applied which pretends, on one hand, to maintain the indebtedness levels within the parameters that are internationally accepted as manageable, with profiles of sustainable service and, on the other hand, to optimize the available external resources.

**Graph No. 3
GUATEMALA: STRUCTURE OF THE EXTERNAL PUBLIC DEBT STOCK AS OF
12/31/2002**



Source: Ministry of Public Finance

23. Besides the achievements in the area of public income and expenses, measures towards providing public finances with a greater transparency were intensified. To this end, the integral reform of financial administration and control of public finances was continued, making it easier for the public to access information and incorporating new public entities to the system.
24. Concretely, the measures to strengthen fiscal transparency basically include strengthening the Financial Administration Integrated System (FAIS)

and the measures adopted for the modernization of tax administration, through the Superintendence of Tax Administration (STA). Also, the approval of a series of laws was achieved, such as the Municipal Code (Legislative Decree 12-2002), and the new Organizational Law of the Office of the Controller General (Legislative Decree 31-2002). Finally, initiatives for new laws have also been presented, which are still pending approval, regarding a new Municipal Tax Code, a new law for Purchases and Acquisitions and a new Organization Law for the Budget. Also, it is planned

to adopt the Code of Fiscal Transparency of the International Monetary Fund that, together with a new law of Fiscal Transparency, would reinforce the rendering of accounts and the definition of responsibilities in the handling of public finances.

C. Stand-By Agreement with the International Monetary Fund

25. On April 1, 2002 the Stand-By Agreement with the International Monetary Fund came into effect. Besides being an endorsement to the quality and coherence of economic policy, especially in the monetary and fiscal fields, said agreement guaranteed the audit of the country's macroeconomic program by that international organization. In that sense, the subscription of said agreement constituted a commitment of the Government to achieve the macroeconomic stability goals in 2002. In effect, this contributed to the reduction of inflation, to the process of putting public finances on a sound footing and to maintaining a sustainable external position. All these factors have contributed to consolidate the expectations of the economic agents, national and international, regarding the future performance of the Guatemalan economy. For the following and compliance of the economic program, the government made specific commitments in the fiscal, monetary, financial, external and structural reform areas.
26. As mentioned, in the fiscal sector, the objective was to reduce the combined deficit of the public sector, to reorient public expense towards social expense and to prevent the contingencies of the restructuring of the banking system. In this sense, fiscal policy was oriented towards the reduction in 2002 of the combined deficit of the public sector to 1.5% of the GNP and the fiscal deficit to 1.3% of the GNP. According to information from the Ministry of Public Finances, at the end of 2002 the fiscal deficit of the central government was 1.0% of the GNP, as per budget operations.
27. In the monetary sector, the objective was to reduce inflation and maintain an adequate level of international monetary reserves. Here, the central bank continued to maintain a disciplined monetary policy consistent with a balanced fiscal situation and the strengthening of the banking system. In effect, for 2002 the program contemplated inflation to be between 4% and 6%; as of December 2002, the inflation rhythm was at 6.3%, slightly over the higher limit of the range established as a goal by the Monetary Board at the beginning of the year.
28. In the financial sector, the objective was to strengthen the efficiency, transparency and competitiveness of the financial system, and the institutional framework within which it develops. Here, the main commitment was that the Congress of the Republic approve the new financial legislation. Said commitment was complied with on June 1, 2002, when the following laws came into effect: the Organization Law of the Banco de Guatemala; the Monetary Law; the Law of Banks and Financial Groups, and the Law of Financial Supervision.
29. As to the structural reforms, the objective was to make deep changes tending to remove the existing distortions in the markets, in order to obtain an improvement in productivity and in the efficiency with which the

production factors are combined. Among these reforms, it is worthwhile to

mention the intensification of the negotiations of several free trade treaties (Canada, Panama and the United States of America), as well as the practice of open regionalism that has allowed to some extent the diversification of supply and markets.

D. Financial sector

30. As to the strengthening of the national financial system, in April 2002 the Congress of the Republic approved Decree Number 16-2002, Organization Law of the Banco de Guatemala; Decree Number 17-2002, Monetary Law; Decree Number 18-2002, Law of Financial Supervision, and Decree Number 19-2002, Law of Banks and Financial Groups. As indicated, the new legal framework was approved on June 1, 2002 with the object of propitiating greater stability and efficiency of the financial system, in order to improve the channeling of savings in the mid-term, in order to benefit productive investments.
31. The legal framework referred to constitutes an integral and harmonious reform of the national financial system, which will allow the country to strengthen and modernize the monetary and banking system in the years to come, in accordance with the better international practices, all of which will not only protect and foment national savings, but will have the effect of attracting financial flows to the country.
32. The Organization Law of the Banco de Guatemala incorporates the modern approach of assigning to the central bank the fundamental objective of promoting stability in the general price level, substituting the approach of searching for multiple objectives that was in the previous law. Establishing a fundamental objective in terms of the search and maintenance of stability in the general price level, which is what a central bank is best equipped to do, will allow the Banco de Guatemala to concentrate its efforts to attain that goal, thus maximizing the better contribution that it can offer to obtain the country's economic development. Also, the new law strengthens operational autonomy, in accordance with the constitutional precepts, because it gives the Central Bank an adequate degree of discretion to achieve its fundamental objective, without creating distortions in sectors other than the monetary.
33. The Monetary Law guarantees the use of national currency as an account unit and as a means of payment in every act or business with monetary content. Also, it guarantees the free mobility of capitals and the free external convertibility of the national currency.
34. The Law of Banks and Financial Groups constitutes the juridical framework that, according to international standards, regulates the organizational structures that financial institutions have adopted today. Besides, it provides the required basis for the national banks to operate efficiently and with certainty in an environment of competition and globalization.
35. The Law of Financial Supervision gives the supervisory entity the means to exercise consolidated supervision that covers all the companies in a financial group, so that the risks that they assume and which might affect the bank of that financial group, may be adequately evaluated and controlled.

III. PERSPECTIVES FOR 2003

36. For this year it is estimated that economic activity, measured by the gross national product in real terms, will register a growth rate of 2.6%, higher

than that estimated for 2002 (2.0%). This behavior can be explained partly by an improvement in the external environment, mainly by a better performance of the United States of America's economy, the country's main commercial partner, which according to the International Monetary Fund (IMF) will grow 2.6% in 2003 (2.0% in 2002). It is appropriate to mention that the higher expected growth in the American economy will have a positive effect on the rest of Central American countries, which will translate into a higher demand for Guatemalan products.

37. In the monetary field, the 2003 policy will try to make greater efforts towards obtaining the fundamental objective, which is the stability of the general price level, that requires of the support of fiscal policy. In this context, monetary policy will continue to orient its actions

towards the consolidation of macroeconomic stability, at the same

time endeavoring to maintain a close coordination with the State's financial policy.

38. The foreseen extension of the Stand-by Agreement with the IMF would provide a clear sign of the Government's commitment to maintain consistent economic policies during 2003. The extension of the mentioned agreement would benefit the consolidation of macroeconomic stability, would improve the economic agents' expectations, would contribute to the reduction of the country-risk and would promote national and international investments.

39. The Government will continue its efforts to increase free trade, working in a joint manner with the rest of Central America. The ordinary transactions will continue to be free of restrictions and the Government will abstain from increasing import and export tariffs or introducing non-tariff barriers for balance of payments purposes.