

Doing Business in Guatemala

2009



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Guatemala has been provided by the office of UHY representatives:

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UHY Perez & Co was established in 2003 by professionals with 30+ years of experience in audit, accounting, business services & outsourcing, tax, and labour services, and more. The firm join UHY in 2008.

The information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at April 2009.

We look forward to helping you do business in Guatemala.

UHY Perez & Co is a member of UHY, an international association of independent accounting and consultancy firms, whose organising body is Urbach Hacker



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2. Business environment

Demography

Guatemala is a country of youth; 80% of its population is less than forty-five years old. The capital city, Guatemala, is located in the geographical heart of the country and is home to an average of 4.2 million inhabitants. Compared to other countries in the Central American region, Guatemala has the largest productive population percentage, by age group, and according to the projections by CELADE, by the year 2020, Guatemala will have the largest number of inhabitants in the productive age group.

Geography

- Location: Central America, bordering the North Pacific Ocean, between El Salvador and Mexico, and bordering the Gulf of Honduras (Caribbean Sea) between Honduras and Belize
- Border countries: Belize 266 km, El Salvador 203 km, Honduras 256 km & Mexico 962 km
- Area: Total: 108,890 sq km. Land: 108,430 sq km Water: 460 sq km
- Climate: Tropical; hot, humid in lowlands; cooler in highlands
- Terrain: Mostly mountains with narrow coastal plains and rolling limestone plateau (Petén)
- Administrative Divisions: Guatemala is divided into 22 departments (departamentos) and sub-divided into 332 municipalities (municipios).



Economy

Official Currency: Quetzal

Currency (code): Quetzal (GTQ), US dollar (USD), others allowed

Fiscal Year: Calendar Year

GDP (purchasing power parity): \$67.45 billion (2007 est.)

GDP (official exchange rate): \$31.35 billion (2007 est.)

GDP - real growth rate: 5.6% (2007 est.)

GDP - per capita (PPP): \$5,400 (2007 est.)

GDP - composition by sector: Agriculture: 13.8% Industry: 27.9% Services: 58.3% (2007 est.)

Agriculture - products: sugarcane, corn, bananas, coffee, beans, cardamom; cattle, sheep, pigs, chickens; industries: sugar, textiles and clothing, furniture, chemicals, petroleum, metals, rubber, tourism

Imports: \$12.67 billion f.o.b. (2007 est.)

Imports - commodities: fuels, machinery and transport equipment, construction materials, grain, fertilizers, electricity

Imports - partners: US 33.2%, Mexico 8.8%, China 6.5%, El Salvador 5.3%, South Korea 4.9% (2006)

Exports: \$7.468 billion f.o.b. (2007 est.)

Exports - commodities: coffee, sugar, petroleum, apparel, bananas, fruits and vegetables, cardamom

Exports - partners: US 44.6%, El Salvador 11.9%, Honduras 7.2%, Mexico 5.2% (2006)

Guatemala has the largest economic market in Central America, with a US\$34 billion GDP, representing 39.6% of the region's total GDR. The latest studies on investment banking highlight Guatemala's great economic stability throughout its history.

Population

13,002,206 (July 2008 est.)

Age structure: (2007 est.)

0-14 years: 40.1% (male 2,653,915 / female 2,565,841)
 15-64 years: 56.2% (male 3,539,874 / female 3,762,471)
 65 years and over: 3.7% (male 222,303 / female 257,802) (2008 est.)

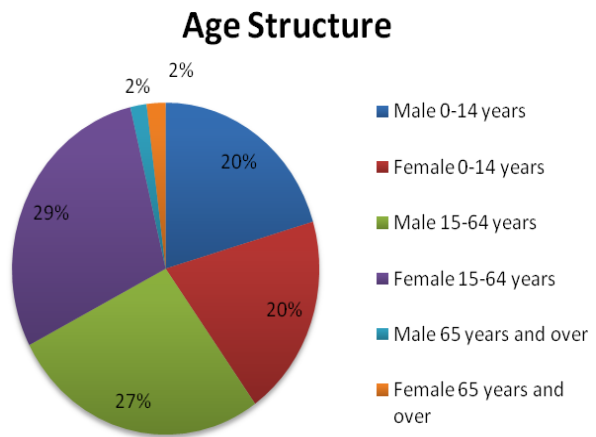
Median age: (2008 est.)

Total: 19.2 years
 Male: 18.6 years
 Female: 19.7 years
 Population growth rate:
 2.11% (2008 est.)

Birth rate: 28.55 births/1,000 population (2008 est.)

Life expectancy at birth: (2008 est.) Total population: 69.69 years

Male: 68.22 years
 Female: 71.86 years



Nationality:

Noun: Guatemalan(s) Adjective: Guatemalan

Ethnic groups: Mestizo (mixed Amerindian-Spanish - in local Spanish called Ladino) and European 59.4%, K'iche 9.1%, Kaqchikel 8.4%, Mam 7.9%, Q'eqchi 6.3%, other Mayan 8.6%, indigenous non-Mayan 0.2%, other 0.1%. (2001 census)

Religions: Roman Catholic, Protestant, indigenous Mayan beliefs

Languages: Spanish 60%, Amerindian languages 40% (23 officially recognized Amerindian languages, including Quiche, Cakchiquel, Kekchi, Mam, Garifuna, and Xinca)

Prestigious universities with 70 national-based sites are part of the recognized institutions integrating the country's educational system. With a university-level population of over 200,000 students, Guatemala boasts the largest university level population in the Central American region.

3. Foreign investment

Macro Economic Stability

Guatemala has enjoyed a stable and dynamic economy and, as a consequence, during the last decade, the Gross Domestic Product (GDP) has shown an average growth of 5.0% and Guatemala has become the largest economy of the region. At the end of 2007 the Guatemalan GNP registered a growth rate of 5.6% according to information provided by the Banco de Guatemala.

Guatemala has the largest economic market in Central America, with a US\$34 billion GDP, representing 39.6% of the region's total GDP. The latest studies on investment banking highlight Guatemala's great economic stability throughout its history. Due to globalization the services and manufacturing sectors have experienced the most important growth. On the other hand, agriculture remains strong and incorporates high levels in the use of technology which in turn, has resulted in a dynamic growth in the related economic sectors such as transportation and logistics. The latter have increased lately due to the strategic geographic location of our country and its preferential access to several international markets.

Inflation

The inflation rate in Guatemala has been the lowest in the Central American region. The year 2007 was the first one to register an increase, attributed mainly to the increase in the international price of oil, but even so, it has remained below the regional indexes.

The compounded average interest rates have shown a tendency to decrease during the last few years. In fact, the active rate was 16.20% in 2002 while by the end of 2006 was 12.88%. For January 2008 an active interest rate of 12.74% was recorded. It is important to state that as shown in the preceding chart, in 1986 Guatemala exported 149 products; it had 237 exporting companies and was positioned in only eight different markets. In 2007 Guatemala exported over 4,075 products over 131 world markets and had 3,879 companies promoting Guatemalan trade. This advance is the result of the efforts of the Guatemalans who are diversifying their products, want to compete at the world level and are interested in joining the globalization movement.

Banking System

In Guatemala, banking institutions are regulated by the Law of Banks and by all the applicable provisions of the Monetary Law and the Organic Law of the Bank of Guatemala. Banks operate under the supervision of the Superintendencia de Bancos (Bank Superintendent), which also supervises the Central Bank.

The Monetary Board must authorize all the mergers, acquisitions and the establishment of new banks in Guatemala. New banks must submit their request to the Superintendencia de Bancos, as a first step. This entity verifies that legal requirements are met, such as a justified public interest and favorable economical conditions, as well as the capacity of financing of the new bank, its capital stock and the trustworthiness of its owners. Once these conditions have been assessed, the Superintendencia de Bancos sends the report to the Monetary Board, which is charged of authorizing new banking institutions to operate in Guatemala.

As of March 2008, there were 21 commercial banks operating in Guatemala, including the branch of a foreign bank.

As of March 2008, the total assets of the banking system were Q119, 919 million (USD 15,748 million). The total assets of Guatemala's banking system have almost doubled in the past five years.

Guatemala's top five banks manage 79% of the total assets of the Banking System:

- Banco Industrial (28.7%)
- G&T Continental (19.04%)
- Banco de Desarrollo Rural (17.34%)
- Agromercantil (7.44%)
- Reformador (6.73%).

Financial System

Guatemala has a solid financial system, based on macroeconomic stability and a strong legal framework.

Guatemala's macroeconomic stability has been achieved thanks to the adoption of disciplined fiscal and monetary policies, as well as crucial banking reforms. This stability can be clearly seen through the following figures:

- Guatemala's 12% public debt-to- GDP ratio in 2007 makes it one of the lowest in the region
- Guatemala's fiscal deficit of 0.81% GDP for 2007 is the lowest among Central American countries and lower than 2006
- Guatemala's economy has been characterized in the past four decades by low inflation rates, during the past 10 years the country has maintained inflation rates under two digits

- In the last four years, Guatemala has experienced a continuous economic growth. In 2006, Guatemala's economy grew a 4.6% and 4.7% for 2007 despite the beginning of the US economic crisis
- In 2007, international reserves were equivalent to approximately 7.4% of GDP (\$4.5 billion dollars)
- The exchange rate Quetzales/US Dollars has been quite stable and regular during the past decade, but this year the dollar has appreciated by approximately 5%.

Guatemala's Financial System is structured as follows:

- Monetary Board: entity responsible for approving, annually, the monetary policy;
- Banco de Guatemala (BANGUAT): the BANGUAT is Guatemala's Central Bank. It is an autonomous institution commissioned to execute monetary policy, approved by the Monetary Board;
- Superintendencia de Bancos (Superintendency of Banks): institution commissioned to supervise the Central Bank and other financial institutions with operations in Guatemala;
- Financial institutions: as of March 2008, the following institutions were supervised by the Superintendencia de Bancos (operating):
 - 21 commercial banks
 - 16 Financing Companies
 - 15 Warehousing Firms
 - 9 Credit Card Companies
 - 17 Insurance Companies.

The Financial System is built on a solid legal framework, updated in 2002, as an effort to modernize and create a more efficient system. This task was jointly carried out by the World Bank (WB), the Inter-American Development Bank (IDB) and the International Monetary Fund (IMF). Some of the main actions undertaken to strengthen Guatemala's financial system were the following:

- The reinforcement of fiscal discipline
- The creation of more controls on the issuance of currency
- A financial law reform aimed at increasing financial supervision, in order to prevent financial problems and increase banking safety.

These reforms also included the introduction of legislation by the Superintendencia de Bancos (Superintendency of Banks), that facilitate the establishment of foreign banks and the opening of new branches in the country.

These changes have had a great impact on the performance of the financial system as a whole. The following patterns have been observed in the past years:

- Better solvency, liquidity and efficiency ratios among financial institutions.
- A reduction of financial intermediation costs. There has been a progressive decline in the difference between the savings and loan interest rates in the past decade.
- The establishment of a more dynamic and efficient financial supervision, thanks to new laws that allow a consolidated supervision of financial corporations, strengthen risk management policies, define a uniform system of public information disclosure for financial institutions and create a solid sanction system.

Guatemala's Financial System lies on the following financial laws:

- The Law of Free Negotiation of Foreign Currency
- Law Against Money and other Assets Laundering
- Organic Law of the Bank of Guatemala, Monetary Law
- Law of Financial Supervision, Law for Banks and Financial Groups
- Law to prevent and control financing of terrorism.

4. Taxes in Guatemala

The Guatemalan tax environment is regulated by a Tax Code with two basic sections; one comprising the general aspects of tax legislation and the other with rules that have to do with the procedural actions.

A discussion over Tax assessments may very well last for as long as four years. Fines range from small amounts such as Q. 100 for using unauthorized invoice forms, to the closing of businesses for other major misdemeanours. The statute of limitations runs for four years.

Basic tax income in the Guatemalan budget comes from VAT. The rate is 12% and it falls on sales of goods & services as well as on imports. The taxable basis in this case includes import duties paid.

Exports of goods and services are VAT exempt. Exporters may access a reimbursement system calling for filing monthly requests before the Central Bank. Under the general system, the re-quest may be filed for 100% of the VAT credit, accrued. But under the special system, exporters could get back, as much as 75% for amounts up to Q500, 000 or up to 60% for amounts in excess of Q500, 000; the rest must be requested thru the use of the general system.

For regular commercial activities the compensation of VAT debits and credits operates, as derived from sales and purchases.

Also, important for our tributary system is income tax. The system operates based on the territorial principle; that is, all Guatemalan source income is taxed. Two systems for payment of ISR exist, beginning July 1st of 2004; one calls for payment of 5% on gross income and the other for payment of 31% on taxable income; taxpayer's choice.

Tax is paid annually but advanced quarterly; three systems for determining quarterly payments exist (one is thru monthly closings; the other is based on an estimated quarterly income of 5% of gross income; and the other is based on one fourth of prior year's tax paid).

5. Investment

Legal Framework for Foreign Investment

Guatemalan law explicitly promotes investment and includes provisions that recognize and guarantee private property rights equally for Guatemalan nationals and foreign investors. No restrictions are placed on foreigners on owning any amount of stock in any Guatemalan company. All sectors of the Guatemalan economy are open to both local and foreign investment and ownership. However, some restrictions apply to sectors considered to be of strategic interest, such as telecommunications and some forms of transportation. Other than applicable taxes, no restrictions apply to remittance of profits and repatriation of capital. Guatemalan law supports an open market respecting entrepreneurial activity and foreign investment.

Foreign investment in Guatemala

Foreign investment in Guatemala is usually carried out by establishing a local company or a branch of a foreign company.

Types of Guatemalan Companies

The Guatemalan Commercial Code regulates the formation of the following types of companies (Article # 10 of the Guatemalan Commercial Code):

- General Partnership (Sociedad Colectiva): Partners are jointly and severally liable to the full extent of their personal assets;
- Limited Liability Partnership (Sociedad de Responsabilidad Limitada): Maximum of twenty partners, in which each partner is personally liable up to the amount of equity paid in. The limited partners can have no management voice in the operation of the firm;
- Limited Partnership (Sociedad en Comandita Simple): Formed by two types of partners: one or more general partners who direct business and are jointly and severally liable for debts and one or more limited partners whose liability is limited to the amount of equity paid in. The limited partners can have no management voice in the operation of the partnership;
- Special Limited Partnership (Sociedad en Comandita por Acciones): Same as limited partnership except shares represent equity;
- Corporation (Sociedad Anonima): Equity is divided and represented in equal value shares. Responsibility of each stockholder is limited to shares held. The corporation must have a board of directors, or a sole administrator, and must hold an annual meeting whose minutes must be notarized.

No limitation exists on the number or percentage of foreigners serving on a board of directors of a Guatemalan company. Companies are required to have a legal representative, who must be a resident alien with a work permit or be a Guatemalan citizen. Shares may be made out to the stockholder's name or issued to the bearer.

Tourism Investors Brief

Investment Opportunities & Reasons to Invest in Guatemala's Tourism Sector
Guatemala's great tourism potential offers multiple investment opportunities in diverse tourism segments and areas of the country, either through new projects development or existing projects that are available for sale. Some of the main reasons to invest in the tourism sector are:

- Notorious increase of tourism demand: Record growth rate of 34% in the number of tourists in 2004, maintaining the positive trend with a 12% increase in 2005 and 12.8% increase in the first two quarters of 2006;
- New airlines and more flights to and from the country: Including one direct flight from Europe, offering more than 145,500 new seats monthly;
- Great access and connectivity due to the country's location: Link from Central America to Mexico's Riviera Maya with a new road under construction joining both countries and access through both the Atlantic and Pacific Oceans.
- A 29% increase of tourist arrivals by cruise ships in the last season (November 2005 – March 2006), compared to the same season in 2004-2005:: With the presence of various cruise lines as Carnival Cruise Line, Radisson Seven Seas, Holland America, Silver Sea and others;
- Favourable weather conditions throughout the year: Due to the country's geographical location, Guatemala is characterized by its "Eternal Spring" weather that allows tourists to explore and enjoy a variety of activities any time of the year;
- Diversity of attractions in a relatively small territory of 108,889 Km²: Destinies where the tourists enjoy adventure, ecotourism, sports, archaeological sites, biodiversity, living Mayan culture cities, colonial destinations, pleasure and business activities;
- Complete Government support: Tourism has been declared a national priority, thus a "National Policy for the Sustainable Development of Guatemala's Tourism 2004-2014" has been created;
- New Law of Incentives for National Tourism Development under approval by Guatemala's Congress: This new law provides a series of benefits to investors in the Hospitality Industry and all other services related with tourism such as tax exemptions and others;

- International marketing campaign and promotion strategy by the National Tourism Institute: Great efforts are made to promote the country as a tourism destination throughout the world sponsored by INGUAT -National Tourism Institute;
- Efficient workforce: An economically active population of 34%, representing 31% of Central America's EAP.

In addition, two of the most potential regions of the country are being supported by Government institutions for tourism expansion with new projects ready to develop.

Real estate in Guatemala

There are a lot of opportunities to discover in Guatemala and there is a lot of land available to develop new commercial and residential projects in Guatemala City and in the countryside. Following are some ideas and options for real estate business in Guatemala:

- Property Restoration: Centro Historico offers a lot of historic constructions available for this concept.
- New Office Buildings: Dedicated to foreign companies and Call Centers opening business in Guatemala.
- Housing developments for Retirees: The climate and the location of Guatemala is an excellent option for projects for retired people coming from USA, Canada, and Europe.
- Remittances: Guatemalans working in different cities in USA send money remittances to their families living in Guatemala, especially for housing. There is great demand for housing from this people. It is important to mention the fact that in 2003 remittances amounted to approximately US\$2400 million dollars.
- Tourism: Different places are available for new real estate ecological developments:
 - Guatemala Modern and Colonial: Guatemala City and Antigua Guatemala. (Center of the country).
 - Indigenous and Native Land: Atitlan Lake and others. (West part of the country).
 - Mayan World: Tropical Rain Forest Parks, Archeological sites like Tikal, Animal and plant biotope, rivers, lakes, etc. (North).
 - Natural Paradise: rivers, tropical rain forest, (North). Caribbean: Atlantic Ocean, Rio Dulce, Lago de Izabal. (East side).
 - Pacific Coast: Guatemala is the best place in the world for fishing (sail fish).

6. Doing Business in Guatemala

Business Protocol in Guatemala

Initial Contact

In Guatemala local contacts are essential. Potential buyers do not react well to the direct, 'cold' approach. Plan to attend a trade show or join a trade mission to meet interested parties. You can also arrange for a chamber of commerce, trade association, government agency or bank to introduce you to Guatemalan companies.

Your first written correspondence should be in Spanish, stating that if possible you would prefer to correspond in English from then on. Request an appointment about two weeks in advance. Expect to meet in an office rather than in a restaurant or bar. Schedule only two meetings per day, one between 10 and 11:30 am and the second starting at 3 pm.

Importance of Relationships

Expect to invest a considerable amount of time developing good rapport and a pleasant, relaxed relationship before discussing business. Establishing an atmosphere of trust is a precondition to a successful business relationship.

Good topics for small talk are football (soccer), Guatemalan history, literature and places to visit as well as information about your home town and region. You will probably need two or three visits to the country before you can expect to do serious business. Like other Latin Americans, Guatemalans value deep, long-lasting relationships.

Hierarchy, Status and Respect

In Guatemala one's status depends more on social class, education and family background than on personal achievement. Business visitors can enhance their status by displaying a lively interest in intellectual pursuits, dressing elegantly and staying in top hotels.

Proper Protocol

Shake hands with everyone in the room, both men and women, when meeting or departing. The handshake should not be too firm.

Use last names only preceded by Señor, Señora or Señorita (Mr., Mrs. or Miss). The use of titles is very common, such as Licenciado (anyone with a college degree), Doctor, Profesor, Arquitecto, Ingeniero, etc. The use of the title without the last name (Señor Ingeniero) is also appropriate.

Smile and maintain eye contact when you are introduced to someone. "Como esta?" (How are you?) is the most common greeting.

Business cards in English are accepted. However, all correspondence and documents from your company should be translated into Spanish.

Putting your hands in your pockets while talking to someone is considered impolite. Another gesture to avoid is the American OK sign.

Communication Style

As warm and friendly people, Guatemalans tend to be talkative, non-verbally expressive and open about showing emotion in public. Don't be offended if you are sometimes interrupted in mid-sentence -- conversational overlap is not rude in Guatemala. However, avoid direct confrontation during negotiations.

Never expect to get down to business quickly. Guatemalans need some time to get to know you.

Business Entertainment

Wise negotiators include plenty of time for socializing during these drawn-out discussions. If you wish to entertain a high-level executive, ask his secretary to recommend a restaurant. It is important to host your counterpart only at elegant, prestigious establishments. Similarly, business visitors should only stay in top hotels while in Guatemala.

Women drink wine, spirits and liqueurs -- beer is considered a man's drink. Guatemalans normally eat a light breakfast between 7 and 9 am and a substantial lunch between noon and 2 pm. Dinner usually starts after 7 pm but dinner parties don't normally get underway until after 9:00 pm.

Avoid using the side of your fork to cut anything and do not pick up food of any kind with your hands. Although they are very expressive people, Guatemalans do not like a lot of conversation during meals. Wait until coffee is served before talking business, unless your counterpart introduces the topic.

7. Free Trade Agreements

Current Negotiations

Guatemala currently has negotiations with:

- Central American Custom Union
- Association Agreement with EU
- FTA with Panama
- FTA with Canada
- FTA with Chile
- FTA with Colombia
- FTA with CARICOM.

8. UHY firms in Guatemala

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9. UHY offices worldwide

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