OFFERING MEMORANDUM

US$330,000,000

Republic of Guatemala

8⅛% NOTES DUE 2034

Interest payable on April 6 and October 6

The notes will mature on October 6, 2034. The notes will bear interest at a rate of 8⅛% per year, accruing from October 6, 2004. The first interest payment will be on April 6, 2005. The notes may be redeemed at the option of the holders on October 6, 2019, at 100% of the principal amount to be redeemed plus accrued and unpaid interest.

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.

For a more detailed description of the notes, see "Description of the Notes" beginning on page 97.

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

PRICE: 100% AND ACCRUED INTEREST, IF ANY

The notes have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") 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 112.

Citigroup Global Markets Inc. expects to deliver the notes to purchasers on October 6, 2004. The Republic expects that delivery of the notes will be made to purchasers in book-entry form through The Depository Trust Company, the Euroclear System and Clearstream Banking, société anonyme, on or about October 6, 2004.

Citigroup

September 29, 2004

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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.

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 Citigroup Global Markets Inc. (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.

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, as amended (the “Securities Act”). 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 inquires, 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, 2003 of Q8.02462 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 September 29, 2004, the official *quetzal*/U.S. dollar exchange rate was Q7.89531 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 on a calendar year, 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 2002 and 2003 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 the information provided is 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 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 of 1976, 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)

	1999	2000	2001	2002	2003[1]
Domestic Economy:					
Nominal GDP[2]	US$18,328.2	US$19,310.9	US$20,990.5	US$ 23,333.1	US$24,812.7
Nominal GDP	Q 135,287.0	Q 149,743.0	Q 164,794.8	Q 182,274.7	Q 196,696.0
Real GDP	4,896.8	5,073.6	5,192.0	5,308.8	5,421.4
Real GDP growth rate[3]	3.8%	3.6%	2.3%	2.2%	2.1%
Inflation rate[4]	4.9%	5.1%	8.9%	6.3%	5.9%
Open unemployment rate[5]	1.8%	1.4%	N/A[6]	3.2%	3.4%
Exchange rate (Q per US$1.00):[7]					
Average daily exchange rate for the year	Q 7.38138	Q 7.75431	Q 7.85091	Q 7.81185	Q 7.92722
Year end	7.79230	7.72016	7.97868	7.77485	8.02462
Balance of Payments:					
Total current account	US$(1,015.0)	US$(1,049.0)	US$(1,252.9)	US$ (1,234.9)	US$(1,050.6)
Of which:					
Trade balance	(1,778.7)	(2,086.4)	(2,746.6)	(3,485.1)	(3,673.3)
Services balance	48.9	172.0	496.9	273.9	160.8
Private transfers	714.8	865.4	996.8	1,976.3	2,461.9
Of which:					
Remittances	438.6	524.3	571.3	1,503.7	2,026.4
Foreign aid	272.6	337.0	405.7	463.0	402.4
Total capital account	889.6	1,703.4	1,726.7	1,256.7	1,600.2
Of which:					
Total private capital, net	414.7	1,470.3	1,424.4	1,078.7	1,181.0
Change in international reserves[8]	(125.4)	654.3	473.8	21.8	549.6
Bank of Guatemala net international reserves at end of period	1,219.7	1,874.1	2,347.9	2,369.7	2,919.3
Public Sector Finance:[2]					
Government revenue	US$ 2,021.8	US$ 2,123.9	US$ 2,320.7	US$ 2,659.0	US$ 2,745.9
As a % of nominal GDP	11.0%	11.0%	11.1%	11.4%	11.1%
Government expenditures	US$ 2,531.4	US$ 2,464.3	US$ 2,714.4	US$ 2,885.5	US$ 3,321.9
As a % of nominal GDP	13.8%	12.8%	12.9%	12.4%	13.4%
Government deficit	US$ (509.6)	US$ (340.4)	US$ (393.7)	US$ (226.5)	US$ (576.0)
As a % of nominal GDP	(2.8)%	(1.8)%	(1.9)%	(1.0)%	(2.3)%
Consolidated public sector surplus/(deficit)					
As a % of nominal GDP[9]	(2.9)%	(2.2)%	(2.3)%	(0.8)%	N/A
Public Sector Debt:					
External debt[10]	US$ 2,284.9	US$ 2,352.2	US$ 2,702.2	US$ 2,907.2[11]	US$ 3,265.6
As a % of nominal GDP	12.5%	12.2%	12.9%	12.5%	13.2%
Internal debt[11][12][13]	US$ 1,001.9	US$ 1,118.1	US$ 1,163.3	US$ 1,050.6	US$ 1,375.3
Internal debt[12][13]	Q 7,807.1	Q 8,631.6	Q 9,281.5	Q 8,168.6	Q 11,036.5
As a % of nominal GDP	5.8%	5.8%	5.6%	4.5%	5.5%
Total debt[13]	US$ 3,286.8	US$ 3,470.3	US$ 3,865.5	US$ 3,957.8	US$ 4,640.9
As a % of nominal GDP	17.9%	18.0%	18.4%	17.0%	18.7%
Public Sector External Debt Service:					
Amortization	US$ 104.0	US$ 112.1	US$ 140.8	US$ 150.9[1]	US$ 170.3
Interest payments	103.3	119.5	124.6	155.8[1]	142.9
Total external debt service	207.3	231.6	265.4	306.7	313.2
As a % of total exports	7.5%	7.5%	9.3%	11.7%	10.3%

(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 *quetzales*.
(4) Percentage change of the consumer price index from year to year.
(5) Rate of unemployed persons as a percentage of the economically active population.
(6) INE did not compile employment information in 2001.
(7) Exchange rates for transactions in the market involving purchase of dollars by Guatemalan banks as reported by the Bank of Guatemala.
(8) Represents the results of the balance of payments.
(9) 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 2003.
(10) External debt is defined as all public sector foreign-currency denominated debt, held by any person, other than Guatemalan residents.
(11) Translated from Q to US$ at the daily official exchange rate at the end of each year.
(12) Excludes intra-governmental debt.
(13) 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 June 30, 2004, the Bank of Guatemala's external debt was US$64.4 million and its internal debt totaled approximately US$1,962.2 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$24,812.7 million in 2003. The economy has expanded steadily in recent years, growing at a real rate of 3.8% in 1999, 3.6% in 2000, 2.3% in 2001, 2.2% in 2002 and an estimated 2.1% in 2003.

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

- continued growth;
- low inflation;
- a stable foreign exchange rate;
- increasing levels of remittances; and
- low external and internal public sector debt levels.

The rate of growth of the economy declined after 1999 as a 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 combined constituting approximately 7.0% of GDP in 2003 compared to 7.5% in 1999. The agricultural sector is a major component of the Guatemalan economy, accounting for approximately 22.6% of GDP in 2003 and approximately 36.8% 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 2003, remittances from Guatemalans working and living abroad increased to US$2,026.4 million compared to US$1,503.7 million in 2002. 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. Moderate worldwide economic growth, political instability in Iraq, terrorist threats, and other events have caused uncertainty and volatility in the United States and international economies and financial markets. While the United States and other countries to which Guatemala exports continue to experience moderate economic growth, it is unclear whether the same rates of growth will continue. The Republic cannot predict what future effects these events or others may have on these economies and financial markets or on Guatemala, including its exports and imports, remittances, tourism, regional trade integration and the Guatemalan economy generally.

Presidential Elections

In the November 9, 2003 general election, none of Efraín Ríos Montt, the nominee of the *Frente Republicano Guatemalteco* (FRG), Oscar Berger, the nominee of the *Gran Alianza Nacional* (GANA), or Alvaro Colom, the nominee of the *Unidad Nacional de la Esperanza* (UNE), secured a 50% majority of the popular vote to succeed president Alfonso Portillo Cabrera. In the run-off election on December 28, 2003 between Oscar Berger and Alvaro Colom, Oscar Berger was elected president of Guatemala by a 54% share of the popular vote. In these elections, GANA failed to secure a majority in Congress. GANA currently has 20.9% of congressional seats (33 of 158), FRG has 19.6% and UNE has 17.7%. Nine other parties control the remaining 62 seats with none of those parties controlling more than 14 seats. One of the newly elected government's greatest political challenges is to successfully implement its intended policies despite its lack of a majority in Congress.

Recent Developments

On January 7, 2004 the United Nations and the Guatemalan Government signed an agreement for the establishment of the *Comisión de Investigación de los Cuerpos Ilegales y Aparatos Clandestinos de Seguridad en Guatemala* (Commission for the Investigation of Illegal Organizations and Clandestine Security Bodies in Guatemala, or CICIACS). Approval of this agreement by Congress is currently pending. Congress requested a consulting opinion on this agreement from the Constitutional Court. The Court's opinion stated that some of the articles of the agreement, including those that permit CICIACS to investigate and prosecute human rights abuses and those that grant immunity to CICIACS Guatemalan personnel in connection with its permitted activities, are incompatible with the provisions of the Constitution of the Republic. As a result, the agreement is currently being amended to comply with all constitutional provisions. Although there can be no assurance that Congress will approve the agreement as amended, the Government intends to investigate human rights abuses in civil society and present its findings to the United Nations for deliberation.

On July 2, 2004, the Financial Action Task Force (FATF) removed Guatemala from 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, whose objective is to monitor governmental cooperation in fighting money laundering, corruption and drug trafficking matters. Since its June 2001 FATF classification as a non-cooperative country, Guatemala has developed a money laundering regime. See "Monetary System—Regulation of the Financial System."

On September 13, 2004, President Berger approved a law adopted by Congress in 2003 providing for the retroactive payments to civil patrolmen who served during Guatemala's civil war. The Portillo administration had agreed to pay each civil patrolman Q5,000, or approximately US$625, in three equal installments, the first installment of which was paid in 2003. The current administration has faced political and legal opposition to its commitment to ensure the payment of the second and third installments.

In 2004, the Guatemalan Government further implemented the 1996 Peace Accord by pursuing the prosecution of several public officials accused of corruption and by decreasing military spending. In May 2004, a Guatamalan judge ordered the house arrest of former unelected president and recent presidential candidate General Efraín Ríos Montt. General Montt is accused of organizing and participating in the political protests and violence that surrounded his bid for the presidency. Former President Alfonso Portillo, former Vice President Juan Francisco Reyes Lopez and former Finance Minister Jose Eduardo Weymann have also been charged with corruption and embezzlement of funds during their term in office. The former Vice President and Finance Minister are currently imprisoned awaiting trial. In addition, approximately 30 other public officers of the Portillo administration have been charged with corruption.

In compliance with the strategic objectives of the Peace Accord, the Berger administration has reduced the number of military officers and recruits from 27,000 in 2003 to 15,000 in 2004 in an effort to decrease military spending and increase social investment.

Guatemala City was selected to host the 2007 meeting of the International Olympic Committee, which will decide the site of the 2014 winter Olympic Games.

Guatemala continues to be affected by political, social, security 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 (Peace Accord) with the country's internal revolutionary movement after 36 years of armed conflict. The Government's obligations under the Peace Accord form the foundation of the *Programa de Paz* (Peace Program), which requires significant investments 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 International Monetary Fund (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 June 2004 of US$7,029.2 million have been financed by foreign aid and loans from the Guatemala Consulting Group of US$2,427.4 million and from tax revenues of US$4,601.8 million. On May 31, 2004, US$791.4 million of foreign loans and approximately US$459.0 million of foreign aid from the Guatemala Consulting Group was available to be used to fund programs in accordance with the Peace Program. Although the Government completed a majority of the projects required by the Peace Program, the Government plans to further its commitment by incorporating the Peace Program's strategic objectives into its domestic policy, including strengthening the rule of law and promoting a stable social and political framework for peace, rural development, and inter-cultural development. The Government expects to fund future projects in 2004, in an aggregate amount equal to approximately US$1,428.6 million, through foreign aid, loan commitments, and tax revenues and is analyzing the procedures for and availability of such funding. See "Republic of Guatemala—The Peace Program."

The Guatemala Consulting Group last met in May 2003 in Guatemala. 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. The next Guatemala Consulting Group meeting is scheduled for April 2005.

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 2003, coffee accounted for 11.1%, bananas accounted for 8.8% and sugar accounted for 7.2% of the total value of exported goods. 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. Production and export revenues from coffee, however, began to drop in 1999 and 2000 and then decreased significantly in 2001 and 2002 due to the worldwide decline in coffee prices. Production and export revenues from coffee increased in 2003, but still remains below 2001 levels.

The United States is Guatemala's largest trading partner, accounting for 29.9% of total exports and 43.8% of total imports in 2003. Guatemala is an active participant in various projects for regional economic integration among the Central American countries. In 2003, the Central American region accounted for 41.3% of Guatemala's total exports and 12.4% 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.

On May 28, 2004, Guatemala, along with other Central American countries and the United States, signed the Central American Free Trade Agreement (CAFTA) which will become effective upon congressional approval by the participating countries. The Republic anticipates that CAFTA may be implemented as early as 2005 and that it will create opportunities for economic growth through greater liberalization of trade restrictions, particularly with the United States. However, the approval process is still in progress and no assurances can be given as to the eventual implementation of CAFTA.

Fiscal and Monetary Policy

The Government had relatively small fiscal deficits from 1999 to 2002. In 2003, the Government recorded an estimated deficit of 2.3% of GDP compared to a deficit of 1.0% of GDP in 2002 due primarily to extraordinary expenses incurred in connection with special payments made to retiring military personnel and an initial payment to civil patrolmen who served during Guatemala's civil war. 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. Some of the Fiscal Pact targets have not been achieved, including increasing tax revenues to 12% of GDP and reducing the annual fiscal deficit to 1% of GDP. See "Public Sector Finances—Tax Regime." In addition, on April 1, 2002 and June 18, 2003, the Republic and the IMF entered into two stand-by arrangements each for 84 million of IMF Special Drawing Rights (SDRs), or US$123.3 million. The arrangements contained a number of fiscal and macroeconomic targets for the Republic, including maintaining a consolidated public sector deficit of 1.7% or less of GDP in 2003. See "Monetary System—Monetary Policy."

The Constitution provides for the *Junta Monetaria* (Monetary Board), which was established in 1946, 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 of the financial institutions, the Superintendency of Banks requested that the courts liquidate these entities. Liquidation proceedings are currently underway, pending resolution of suits filed by former shareholders.

As of June 30, 2004, total assets of these five financial entities represented 1.0% of total assets of the Guatemalan financial system and total deposits of these five entities equaled 0.16% 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. On November 13, 2001, the Bank of Guatemala made emergency loans available to the three commercial banks to avoid a bank-run by depositors. On June 30, 2004, the outstanding amount of these loans was Q1,597.8 million, approximately US$202.4 million. The commercial banks used the proceeds of these loans to satisfy existing creditors and, as a result, the Bank of Guatemala is now 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$114.0 million) arising out of these loans. At December 31, 2003, 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 4.9% in 1999, 5.1% in 2000, 8.9% in 2001, 6.3% in 2002 and 5.9% in 2003. For 2004, the Republic has targeted an inflation rate of between 4% and 6%.

Public Sector Debt

As of December 31, 2003:

- the Republic's public sector external debt (excluding debt of the Bank of Guatemala) was 107.1% of total exports;
- the Republic's public sector external debt service (excluding debt of the Bank of Guatemala) was 10.3% of total exports;
- the Republic's public sector external and internal debt (excluding debt of the Bank of Guatemala) was 18.7% of GDP; and
- the Republic's public sector external debt (excluding debt of the Bank of Guatemala) consisted of US$1,960.5 million in debt to multilateral agencies, US$530.1 million in debt to foreign governments and bilateral organizations, and 8½% Notes due 2007 (US$150.0 million), 10¼% Notes due 2011 (US$325.0 million), and 9¼% Notes due 2013 (US$300.0 million) held by investors.

The largest single creditor of the Guatemalan public sector is the IDB, which held US$1,209.0 million in public sector debt (excluding debt of the Bank of Guatemala) as of December 31, 2003.

As of June 30, 2004, the Bank of Guatemala's internal debt (consisting of fixed-rate term deposits) was Q15,488.1 million (approximately US$1,962.2 million) and its external debt was US$64.4 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 Disability, Old Age and Life Insurance program of the *Instituto Guatemalteco de Seguridad Social* (Guatemalan Social Security Institute or IGSS) is expected to face a social security short fall. To date the amount of this short fall has not been determined.

The Offering

Issuer	Republic of Guatemala.
Securities Offered	US$330,000,000 principal amount of 8⅛% Notes due 2034.
Maturity Date	October 6, 2034.
Interest Rate	8⅛% per annum.
Interest Payment Dates	April 6 and October 6 of each year, commencing April 6, 2005.
Form and Denominations	The Republic will issue the notes in the form of one or more 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. The Republic will issue the notes only in denominations of US$10,000 and integral multiples of US$1,000 in excess thereof.
Redemption	The Republic cannot redeem the notes prior to maturity. Each holder may cause the Republic to redeem such holder's notes in whole or in part, in any authorized denomination, on October 6, 2019 (the "early redemption date") at 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest up to, but not including, the early redemption date. To redeem, a holder must deliver a notice of redemption between August 7, 2019 and the close of business on September 6, 2019. See "Description of the Notes—Redemption, Purchase and Cancellation."
Ranking	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 below) and will be backed by the full faith and credit of the Republic. See "Description of the Notes—Ranking."
Withholding Tax and Additional Amounts	The Republic will make all 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 to noteholders. See "Description of the Notes—Additional Amounts" and "Taxation."

Covenants	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." The Republic has agreed to comply with other covenants as described under "Description of the Notes—Covenants."
Events of Default	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."
Use of Proceeds	The Republic will use the net proceeds of approximately US$ from the sale of the notes to pay interest on, principal of and other amounts due on internal and external debt servicing and for capital expenditures. Any amount not spent as described above will be deposited with the Bank of Guatemala to be used in connection with the 2005 budget currently in Congress. See "Use of Proceeds."
Transfer Restrictions	The notes have not been and will not be registered under the U.S. Securities Act 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^{SM} 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 Service 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 ratings 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 .	JPMorgan Chase Bank.
Luxembourg Transfer Agent and Paying Agent	J.P. Morgan Bank Luxembourg S.A.
Luxembourg Listing Agent	J.P. Morgan Bank 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 net proceeds from the sale of the notes will be approximately US$329.3 million. The Republic intends to use the net proceeds from the sale of the notes to pay interest on, principal of and other amounts due on internal and external debt servicing and for capital expenditures.

Any amounts not spent as described above will be deposited with the Bank of Guatemala to be used in connection with the 2005 budget currently in Congress.

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 puts it in the path of some of the hurricanes that sweep the Caribbean. Hurricane Mitch in 1998 was the last 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 in each subsequent year.

Guatemala's population is approximately 12.1 million people, approximately 53.9% 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 2.2 million inhabitants. Other large cities include Quetzaltenango, Escuintla and Coban. Since 1997, the population of Guatemala has grown at an average annual rate of approximately 2.6%. The country's main harbors are Puerto Barrios and Puerto Santo Tomas de Castilla on the Atlantic Ocean, and Puerto Quetzal on the Pacific Ocean. The country has two international airports.

In 2003, Guatemala's adult literacy rate as calculated by the *Instituto Nacional de Estadisticas* (National Institute of Statistics, or INE) was approximately 72.5%. The educational system consists of approximately 16,609 primary education institutions (ages 6-13), of which approximately 14,274 are public, and 5,531 secondary education institutions (ages 14-17), of which 3,860 are private. Guatemala's Constitution provides for compulsory education for all children up to the sixth grade. In 2003, approximately 2,163,760 students were enrolled at the primary school level, while enrollment at the secondary school level was approximately 654,570 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, one of which was founded in the last five years. In 2003, approximately 180,910 students were enrolled in Guatemala's nine universities.

A majority of Guatemala's population is of Mayan descent and lives mainly in the highlands of the western and northern regions of the country; a large portion of this population speaks any of 23 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 29.1% 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, constituting 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	México	United States
Per capita gross national income[1]	US$1,760	US$710	US$930	US$3,690	US$2,110	US$4,020	US$1,870[5]	US$1,820	US$4,070	US$5,920	US$35,400
United Nations index of human development (world ranking)[2]	119	121	115	78	105	59	94	64	42	55	7
Life expectancy at birth (in years)[3]	66	69	66	76	70	75	67	72	78	74	77
Infant mortality (% of live births)[3]	3.6%	3.2%	3.2%	1.7%	3.3%	1.9%	3.2%	1.9%	0.9%	2.4%	0.7%
Adult literacy rate[3]	69.9%	76.7%[8]	80.0%[8]	87.6%	79.7%	92.3%	84.4%	92.1%	95.8%	90.5%[5]	99.0%
% of population below the poverty line[4]	33.8%[5]	47.9%[5]	68.8%[6]	25.2%[6]	54.0%[7]	25.1%[7]	28.6%[5]	28.7%[6]	23.3%[7]	34.8%[6]	N/A

(1) 2002 data. Calculated using the Atlas Method (Current US$).
(2) 2003 data. *Source:* United Nations Development Program.
(3) 2002 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.
(8) 2001 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, who succeeded General Ríos Montt. 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, the establishment of the office of the Human Rights Ombudsman and the establishment of the Constitutional Court. 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, Congress, pursuant to the 1985 Constitution, appointed Ramiro de León Carpio, who had been the 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 the 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 regulations, now being brokered by the United Nations, proceeded with new vigor. The Government and 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 FRG, headed by General Ríos Montt, and *Partido de Avanzada Nacional* (PAN), led by the former mayor of Guatemala City, Alvaro Arzú Irigoyen, emerged as the leading political parties. A Constitutional Court ruling in mid-1995 held that FRG's presidential candidate General 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 run-off in which Alvaro Arzú Irigoyen of PAN narrowly defeated Alfonso Portillo Cabrera of 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. PAN won 42 of the 80 seats in Congress and leadership of one-third of the municipal governments. FRG won 20 seats to become the principal opposition party. 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, constituting 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, which Alfonso Portillo Cabrera of FRG won with 68% of the vote followed by Oscar Berger of PAN with 32% of the vote. FRG won 63 of 113 legislative seats and PAN won 37. PAN subsequently ceded 13 legislative seats to the *Partido Unionista* (United Party), a group that split from PAN to form a separate party; four other parties won the remaining 13 legislative seats.

A number of important economic and fiscal objectives were achieved under the Portillo administration, including:

- signing free trade agreements with Mexico and the Dominican Republic, entering into bilateral investment agreements with Argentina, Cuba, France and Taiwan and making significant progress towards CAFTA;
- enacting several new laws, including a new Organic Law for the Bank of Guatemala and anti-money laundering legislation;
- increasing tax collections from 9.5% of GDP in 2000 to 10.3% of GDP in 2003;
- maintaining the public deficit at relatively low levels, 1.8% of GDP in 2000, and 1.0% in 2002;
- meeting many of the macroeconomic and fiscal targets agreed with the IMF in 2002 and 2003; and
- maintaining a relatively stable rate of inflation.

However, the end of President Portillo's term was marked by frequent allegations of corruption publicized by the media, political protest and violence, particularly in connection with General Ríos Montt's bid for the presidency. Former President Alfonso Portillo, former Vice President Juan Francisco Reyes Lopez and former Finance Minister Jose Eduardo Weymann have been charged with corruption and embezzlement of funds during their term in office, and approximately 30 other public officers of the Portillo administration have been charged with corruption. The former Vice President and Finance Minister are currently imprisoned awaiting trial.

In the presidential election held on November 9, 2003 and the run-off presidential election held on December 28, 2003, Oscar Berger of GANA, previously of PAN, defeated General Ríos Montt of FRG and Alvaro Colom of UNE. See "—2003 Elections."

Berger Administration

Important goals of the Berger administration include:

- continued liberalization of the economy and the trade regime;
- strengthening and modernizing the financial services sector;
- implementing tax reform;
- maintaining the public deficit at relatively low levels;
- maintaining a relatively stable rate of inflation;
- increasing fiscal transparency;
- continuing to implement the Peace Accord;
- reducing the size and spending of the military through retirement of active members;
- continuing negotiations for resolution of the territorial dispute with Belize;
- addressing ongoing problems associated with poverty through the creation of employment opportunities, the provision of social services and the improvement of infrastructure in the poorest rural areas; and
- increasing investment in infrastructure, particularly in the communications sector.

Impediments to economic growth during the period from 1999 to 2004 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. Moderate worldwide economic growth, political instability in Iraq, terrorist threats, and other events have caused uncertainty and volatility in the United States and the international economies and financial markets. While the United States and other countries to which Guatemala exports continue to experience moderate economic growth, it is not clear that the same rates of growth will continue. 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 exhibited a small increase in inflation, a stable foreign exchange rate, an increase in tax revenues and an increase in international reserves.

During the first six months of 2004:

- inflation increased to 4.8% compared to 3.3% for the same period in 2003;
- the average weighted exchange rate of the *quetzal* depreciated by 0.22% against the dollar, as compared to the same period in 2003;

- there was a fiscal surplus of 0.1% of GDP compared to a fiscal deficit of 0.8% of GDP for the same period in 2003 due to a decrease in government spending; and
- tax revenues reached approximately US$1,228.4 million compared to approximately US$1,218.2 million for the same period in 2003.

In addition, international reserves reached US$2,954.1 million on June 29, 2004 compared to US$2,554.0 million on June 29, 2003, representing a 15.7% increase.

A new tax reform measure approved by Congress in June 2004 introduced the Extraordinary and Temporary Tax in Support of the Peace Accord, or IETAAP, to replace the Tax on Mercantile and Agricultural Enterprises, or IEMA, which had been declared unconstitutional in January 2004. The IETAAP contemplates a fixed gross income tax rate of 2.5% for 2004 (with a possible reduction to 1.25%), a tax rate of 1.25% for 2005, and a tax rate of 1.00% for 2006 and 2007. In addition, the new tax reform measure establishes:

- a tax on distilled alcoholic beverages, beer and other fermented beverages; and
- the establishment of a flat income tax on business and individuals engaged in commercial enterprises of 5% per month of their gross revenues.

The tax measures included in the IETAAP are expected to generate an additional US$205.2 million in tax revenues for 2004. See "Public Sector Finance—Tax Regime."

2003 Elections

Prior to the presidential, congressional and municipal elections held on November 9, 2003 and the run-off presidential election held on December 28, 2003, violent protests and riots plagued parts of Guatemala City due to political and constitutional challenges to the presidential candidacy of General Efraín Ríos Montt who had already assumed the position of president of Guatemala in a 1982 military coup. The 1986 Guatemalan Constitution provides that any person formerly elected president or that assumes the presidency through a military coup is not eligible to run again for such office. However, on July 14, 2003 the Constitutional Court, the highest court in Guatemala ruling on constitutional matters, held that the ban on coup leaders formalized in the 1986 Constitution could not be applied retroactively to events before that date, based on a constitutional provision that laws cannot be applied retroactively.

On May 9, 2003, Standard & Poor's downgraded the Republic's rating to BB- (stable) from BB due to 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.

In the November 9, 2003 general election, none of General Ríos Montt, the nominee of FRG, Oscar Berger, the nominee of GANA, or Alvaro Colom, the nominee of UNE, secured a 50% majority of the popular vote to succeed President Alfonso Portillo Cabrera. In the run-off election on December 28, 2003 between Oscar Berger and Alvaro Colom, Oscar Berger was elected president of Guatemala by a 54% share of the popular vote. In these elections, GANA failed to secure a majority in Congress. GANA currently has 20.9% of congressional seats (33 of 158), FRG has 19.6% (31 of 158) and UNE has 17.7% (28 of 158). Nine other parties control the remaining 62 seats with none of those parties controlling more than 14 seats. One of the newly elected government's greatest political challenges is to successfully implement its intended policies despite its lack of a majority in Congress.

Developments with the IMF

The Republic and the IMF entered into two stand-by arrangements in 2002 and 2003. The Republic met all of the 2002 and a significant number of the 2003 fiscal and macroeconomic targets required by the stand-by arrangements. In 2003, the Republic met IMF targets for deficits, tax, revenue, inflation and reserves, among others, and also implemented economic liberalization measures. In 2003, the Republic's inflation rate of 5.9% complied with the target of between 4% and 6% and the increase in its international reserves of US$271.0 million surpassed the target of US$250.0 million. In addition, the Republic met the consolidated public sector deficit target of 1.7% of GDP and the social spending target of 5.3% of GDP. However, in 2003 the Republic's tax revenues of 10.3% of GDP did not meet the target of 10.7% of GDP established in the stand-by arrangement. The term of the stand-by arrangements with the IMF expired on March 15, 2004. See "Monetary System—Monetary Policy."

The Republic and the IMF are currently negotiating a new stand-by arrangement and expect such negotiations to be completed shortly. The IMF established a commission to analyze various aspects of the Republic's budget and economic management, including the Republic's (i) *Plan de Reactivación Económica y Social 2004-2005* (Economic and Social Reactivation Plan 2004-2005), (ii) evaluation and control of fiscal expenditures, and (iii) strategy to achieve the fiscal deficit target of 2.0% of GDP for 2004. The commission's analysis will focus on the Republic's macroeconomic policy and will be presented to the IMF's Board of Directors in October 2004. Although the Republic expects the new stand-by arrangement to be executed by early 2005, no assurances can be given that this will be achieved. The new stand-by arrangement would allow the Republic to rely on certain IMF resources in emergencies.

The IMF opened 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. Pursuant to Governmental Accord No. 86-2004, the *Comisión Nacional de los Acuerdos de Paz* (National Commission for the Peace Accord), an independent commission, was created to promote knowledge, social responsibility and accountability in all social sectors as well as to promote, develop, analyze and propose legal reforms, policies, programs and derivative projects that contribute to the goals of the Peace Program. The following table shows the Government's expenditures under the Peace Program since 1999:

Peace Program Expenditures
(in millions of US$)(1)

	1999	2000	2001	2002	2003	2004(2)
Health and social welfare	261.7	258.3	285.7	296.2	316.9	112.8
Education, science and culture	445.1	468.0	566.2	588.6	652.4	285.8
Housing	54.4	1.4	16.7	22.0	21.6	2.4
Domestic security	133.1	140.9	165.7	167.3	196.0	84.1
Judicial organizations	49.7	57.2	63.8	61.4	83.4	34.4
Public prosecutors	27.1	29.1	42.4	46.1	49.8	23.8
Total	971.1	954.9	1,140.5	1,181.6	1,320.1	543.3
Cumulative expenditures	1,888.8(3)	2,843.7	3,984.2	5,165.8	6,485.9	7,029.2

(1) Translated from Q to US$ at the average daily official exchange rate for the year.
(2) Through June 30, 2004.
(3) Includes US$917.7 million from 1998.
Source: Ministry of Public Finance and the Secretariat for Peace (defined below).

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 December 31, 2003, 751 projects had been identified as part of the Peace Program. The aggregate cost of the Peace Program is estimated at US$7,280.6 million. Aggregate expenditures from 1998 to the end of June 2004 of US$7,029.2 million have been financed by foreign aid and loans of US$2,427.4 million and tax revenues of US$4,601.8 million.

The key goals of the Berger administration regarding the Peace Program are:

- coordinating a strategy to stimulate and strengthen the establishment of peace;
- developing a process for analysis and review of the legal framework of the Peace Program;
- implementing and executing the Peace Program by both civil and political society, including government organizations;
- alleviating poverty through the creation of employment, the provision of social services and improvement of infrastructure in the poorest rural areas;
- strengthening the rule of law and institutionalization of a peaceful state;
- reconciling the different parties to the armed conflict;
- improving rural development;
- reducing the size and spending 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, 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 in accordance with the recommendations of the Commission on Historical Accuracy, which established a reparations program for victims and required investigation of disappeared persons. Additionally, the Secretariat for Peace formulates the strategy and policies for reducing poverty in Guatemala.

Members of the National Commission for the Peace Accord include the Secretary of the Executive Coordination of the President and the Secretary of the Peace, a director of the Board of Directors for the Legislative Branch or the Chairman of the Peace Commission of Congress, a Justice of the Supreme Court, a representative of the URNG, one representative from each of the four political parties or coalitions with majority representation in Congress, and seven citizens named by the president of Guatemala representing various sectors of Guatemalan civil society. In addition, the

Human Rights Attorney and the president 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, participate as observers. This Governmental Accord No. 86-2004 repealed Decree number 83-97, which created the *Comisión de Acompañamiento para Cumplimiento de los Acuerdos de Paz* (Supervisory Commission for the Completion of the Peace Accord).

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 rescheduling 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 December 31, 2004. MINUGUA's mission officially ended in 2002, but was extended initially through year end 2003 and then again for year end 2004. The Government has initiated a transition process with the Presidential Human Rights Commission (*Comisión Presidencial de Derechos Humanos*), or COPREDEH, to enable a more effective nationalization of its responsibilities, particularly with respect to the verification of human rights.

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 and the sixth meeting is scheduled for April 2005. 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 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. New cases alleging human rights abuses increased in 2002 and in 2003 compared to 2001. MINUGUA and the Republic have expressed their belief that the cases are expected to decrease in 2004.

The Government, through the Guatemalan Human Rights Ombudsman and the Minister of Foreign Affairs, has promoted the creation of a commission to investigate alleged human rights abuses, particularly those perpetrated by public security groups or unregulated private security companies. On January 7, 2004 the United Nations and the Guatemalan Government signed an agreement for the establishment of the *Comisión de Investigación de los Cuerpos Ilegales y Aparatos Clandestinos de Seguridad en Guatemala* (Commission for the Investigation of Illegal Organizations and Clandestine Security Bodies in Guatemala). Approval of this agreement by the Congress of the Republic is currently pending. Congress requested a consulting opinion on this agreement from the Constitutional Court. The Court's opinion stated that some of the articles of the agreement, including those that permit CICIACS to investigate and prosecute human rights abuses and those that grant immunity to CICIACS personnel in connection with its permitted activities, are incompatible with the provisions of the Constitution of the Republic. As a result, the agreement is currently being amended to comply with all constitutional provisions. Although there can be no assurance that Congress will approve the agreement as amended, the Government intends to investigate human rights abuses in civil society and present its findings to the United Nations for deliberation.

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 terms of office from five to four years and set the presidential term limit at one four-year 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 May 31, 2004, the Government had approximately 170,940 employees.

Executive

The President and Vice President are elected directly through universal suffrage. 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 September 2007. Pursuant to the amendments established by the *Ley Electoral y de Partidos Políticos* (Electoral and Political Parties Law), presidential, congressional and municipal elections take place on the first Sunday in September of each election year.

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

Legislative

The legislative branch consists of a unicameral Congress of 158 deputies, each of whom has a four-year term. Of these, 126 deputies are elected from geographical districts and 32 are elected by proportional representation based on the most recent population census. Congressional sessions run each year from January 14 through May 15 and from August 1 through November 30. Either the permanent commission of Congress, established to manage administrative matters when Congress is not in session, or the executive branch can call extraordinary sessions of Congress. Members of Congress can propose bills to 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 Congress.

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

	Congress(1)	
	Seats	%
Bancada de Gran Alianza Nacional (GANA)	33	20.9%
Frente Republicano Guatemalteco (FRG)	31	19.6
Unidad Nacional de la Esperanza (UNE)	28	17.7
Partido de Avanzada Nacional (PAN)	14	8.9
Independientes (no party affiliation)	13	8.2
Partido Patriota (PP)	9	5.7
Partido de Solidaridad Nacional (PSN)	7	4.4
Partido Unionista (PU).	5	3.3
Alianza Nueva Nación (ANN)	4	2.5
Bancada Bienestar Social (BIEN)	4	2.5
Movimiento Reformador (MR)	4	2.5
Others	6	3.8
Total	158	100.0%

(1) As of July 30, 2004.
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 Attorney General of the Republic heads the Public Ministry and serves as chief prosecutor. The Attorney General is named by the President for a term of four years, and can be removed by the President for cause. In February 2004, the former Attorney General was removed by President Berger for negligence in carrying out his duties. The Solicitor 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 make up 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

Following elections in 1999, six political parties were dissolved because they received less than 4% of the vote as required by law. PAN underwent an internal split, with a number of its deputies changing political parties or affiliation. In 2003, Congress approved an amendment to the Electoral and Political Parties Law that, among other things, made it more difficult to dissolve political parties.

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

- *Bancada de Gran Alianza Nacional* was formed in 2003 and is a coalition of three created parties. GANA currently has 33 deputies in Congress. President Berger is a member of GANA and was formerly a member of PAN.
- *Frente Republicano Guatemalteco* was founded by former unelected president General Ríos Montt in 1990 and currently has 31 deputies in Congress.
- *Unidad Nacional de la Esperanza* has 28 deputies in Congress and was officially registered in 2003 as a political party.
- *Partido de Avanzada Nacional* won 37 seats in Congress in 1999. Subsequently, 13 of these seats went to *Partido Unionista* when it broke off as a separate party in 2000. In 2003, 11 deputies broke off from PAN and formed GANA. PAN currently has 14 deputies in Congress.
- *Independientes* is the name used for a group of 13 deputies who originally belonged to different parties, primarily FRG.
- *Partido Patriota* was officially registered in 2003 and has nine deputies in Congress.
- *Partido de Solidaridad Nacional* was officially registered in 2003 and has seven deputies in Congress.
- *Partido Unionista* broke off from PAN in 2000 and was officially registered in 2003 as a political party. *Partido Unionista* currently has five deputies in Congress.
- *Alianza Nueva Nación* currently has four deputies in Congress.
- *Bancada Bienestar Social* has four deputies in Congress.
- *Movimiento Reformador* has four deputies in Congress.
- Other parties have a total of six deputies in Congress.

Delegates often change party affiliations.

Foreign Policy and International Relations

Guatemala maintains diplomatic relations with 122 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 Recertification 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 commonly referred to as "decertification," becomes 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 waived application of the consequences of decertification for the U.S. government's fiscal year ending September 30, 2003. On September 15, 2003, Guatemala was recertified by the government of the United States which cited Guatemala's good-will in improving its practices in the fight against drug trafficking.

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 to monitor measures adopted to combat the international illicit drug trade. The Government is taking the following steps to combat drug trafficking:

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

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 the territorial dispute. On various occasions, Guatemala has proposed submitting the dispute to an international court.

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 isolated incidents of violence in the border area involving rural workers, 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 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 arbitration proceedings.

These recommendations were not implemented by any of the parties and, as a result, no resolution to the territorial dispute was achieved in 2003. Guatemala and Belize are currently seeking to renew efforts to implement the confidence-building measures that expired in May 2004.

The Guatemalan Constitution provides that any final agreement regarding the Belize territorial dispute must be approved through a referendum. If an agreement is not reached, it is possible to commence proceedings to resolve this issue before the International Court.

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 (the 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 to coordinate tariffs. These treaties resulted in the following key achievements:

- elimination of barriers to free movement of goods, including all agricultural products, except unroasted coffee and sugar cane, 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
- stability in average import tariffs, as evidenced by an import tariff of 6.0% in 1999, 7.2% in 2001, 5.2% in 2002 and 6.3% in 2003.

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 all other Central American nations. On June 29, 2000, Guatemala signed a free trade agreement with El Salvador, Honduras and Mexico. On March 10, 2004, Guatemala and El Salvador initiated procedures to simplify the customs process at their borders, including placing customs officials from each country at the customs inspection site of the import country in the case of goods and for departing tourists. Guatemala and Honduras instituted similar procedures on April 14, 2004 and Honduras and Nicaragua followed on May 6, 2004.

The creation of a customs union, which would benefit from economies of scale if established in more than one country in the region, is a priority for the Government of Guatemala and the Government is currently in the process of negotiating and implementing a customs union with other Central American countries. Customs union pilot plans have been implemented by customs officers of Honduras and El Salvador in Tecún Umán at the Guatemalan-Mexican border and by customs officers of Honduras, Guatemala and El Salvador in Peñas Blancas at the Nicaraguan-Costa Rican border. Customs unions will facilitate the trade of goods and services in the Central American region.

On May 28, 2004, Guatemala, along with other Central American countries and the United States, signed the Central American Free Trade Agreement, or CAFTA, which will become effective upon congressional approval by the participating countries. The Republic anticipates that CAFTA may be implemented as early as 2005 and that it will create opportunities for economic growth through greater liberalization of trade restrictions, particularly with the United States. However, the approval process is still in progress and no assurances can be given as to the eventual implementation of CAFTA.

If CAFTA comes into force, it could facilitate trade and investment by the elimination of tariffs on imports and other barriers to the trade of goods and services, benefiting consumers with substantial value and volume purchases. Likewise, it could enable the consolidation of unilateral tariff preferences granted by the United States, like the CBI and the Generalized Preferences System (*Sistema Generalizado de Preferencias*), achieving consolidation of the markets, enhancing competition, and promoting a smooth transition, on both a national and regional scale, for the agricultural, industrial, textile and manufactured goods industry to implement the challenges of putting CAFTA into operation.

CAFTA may result in a short-term fiscal down-turn due to reduced tariffs that is expected to be offset in the medium-term by increased investment and competition between companies, which will increase the availability of Guatemalan products in Central America. In addition, it is expected that CAFTA's international free market policy will facilitate Guatemala's entrance into U.S. markets.

Free Trade Zones

Free trade zones are industrial parks set aside for manufacturing 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 1,061 companies operating within these trade zones employing 183,699 people as of December 31, 2003. Since the establishment of these free trade zones, aggregate investment in these zones totaled approximately Q7,299.7 million (US$920.8 million) and total exports from companies within the free trade zones to countries outside of Central America were approximately Q8,615.7 million (US$1,086.9 million) at December 31, 2003. As of December 31, 2003, there were 14 free trade zones located throughout Guatemala and an additional three free trade zones are planned to open by year end 2004.

Trade Initiatives Involving the United States and Other Countries

In 1981, the U.S. government established the 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 that require that 35% of the content of a product be from member countries to be eligible for duty-free treatment. The U.S. government 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 the 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 and *Banco Centroamericano de Integración Económica* (Central American Bank of Economic Integration, or CABEI). 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.

On May 28, 2004, Guatemala, along with other Central American countries and the United States, signed CAFTA, which will become effective upon congressional approval by the participating countries. See "—Regional Trade Initiatives Involving Central America."

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

- improve competition through the *Programa Nacional de Competitividad* (Program of National Competition);
- diversify production;
- enter into additional international trade agreements;
- eliminate unfair competition and improve consumer protection laws;
- support small businesses partnerships with technical assistance and other programs; and
- enhance legal protection for foreign investors.

In recent years, Congress has approved free trade agreements with Mexico and the Dominican Republic.

In addition, Guatemala is currently negotiating free trade agreements with Canada, Chile and Panama.

Political, Social, Security and Other Problems Affecting Guatemala

Guatemala is a developing country that is affected by political, social, security and other problems and conditions, including, among others, trafficking in drugs, alien smuggling, organized crime, high crime rates, human rights concerns, and a need to implement political, economic and social reforms.

President Berger's administration recognizes that many of the cited political, social, security and other problems and conditions exist and require prompt attention. The current administration has, for example, initiated prosecutions against a number of officials for alleged corruption, established anti-crime and anti-corruption initiatives through the reorganization of the police force and the creation of elite security groups composed of members of the national police force and military, and implemented ethical standards for state employees.

The current administration intends to devote resources and efforts to combat these political, social, security 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 7.5% of GDP in 1999, 7.6% in 2000, 7.7% in 2001, 7.5% in 2002 and 7.0% in 2003.

The Guatemalan economy historically has relied heavily upon agriculture, which, in turn, has 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 Development Since 1999

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

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

GDP expanded at a real rate of 3.8% in 1999, 3.6% in 2000, 2.3% in 2001, 2.2% in 2002 and an estimated 2.1% in 2003. During the period from 1999 to 2003, 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 Government's intervention in the case of three banks and two financial institutions and subsequent efforts to strengthen the legal framework for supervision of the banking system. See "Monetary System." Although the Government recorded a deficit of 2.3% of GDP in 2003 compared to 1.0% of GDP in 2002, the Government had relatively small fiscal deficits from 1999 to 2002. The increase in the deficit in 2003 was due primarily to extraordinary expenses incurred in connection with special payments made to retiring military personnel and an initial payment to civil patrolmen who served during Guatemala's civil war.

Important economic goals achieved during the last five years 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 signing CAFTA, which would become effective upon congressional approval by the participating countries;
- strengthening and modernizing the financial sector, including through improved supervision and the enactment of 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 10.3% of GDP in 2003;
- maintaining relatively stable rates of inflation;
- increasing fiscal transparency;
- addressing ongoing problems associated with poverty through the creation of employment opportunities, the provision of social services and the improvement of the infrastructure in the poorest rural areas;
- increasing investment in infrastructure, particularly in the communications sector; and
- increasing reconstruction efforts related to the Peace Program.

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 10.3% of GDP in 2003, 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 specific tax measures and a detailed implementation schedule to achieve these goals. Congress approved significant tax reforms in 2001 and June 2004. 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 2.1% in 2003. Real GDP growth in 2003 was led primarily by agriculture, wholesale and retail trade and manufacturing sectors. The rate of growth of the economy 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 from 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 remained relatively stable during the last five years, increasing from 4.9% in 1999 to 5.1% in 2000 and to 8.9% in 2001 and decreasing to 6.3% in 2002 and 5.9% in 2003. Inflation in 2003 did not exceed the inflation target set by the Monetary Board, which had been between 4.0% and 6.0% for 2003. 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 2004.

As of June 30, 2004, the gold reserves of the Republic were US$86.9 million compared to US$73.4 million as of March 31, 2003.

In 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 1999 through 2002, principally reflecting an increase in private savings triggered by the effects of the privatizations and higher profit margins.

Investment and savings decreased by 2.4% in 2003 due to the uncertainty surrounding the presidential, congressional and municipal elections. However, the Government is expecting an increase of 2.0% in 2004 in each of these revenue sources as a result of the implementation of the *Plan de Reactivación Económica y Social 2004-2005* (Economic and Social Reactivation Plan 2004-2005) established by the Government to: (i) increase security; (ii) strengthen and modernize public institutions, focusing particularly on administration, criminal prosecution and property registration; and (iii) provide a stable economy that promotes confidence and encourage long-term investments by individuals and businesses. The Government intends to stabilize the economy by: increasing security; investing in education; increasing productive capacity in rural areas; encouraging Guatemalans living abroad to invest in Guatemala; increasing public and private investment; and increasing competition. However, the Government cannot provide any assurance that any of these goals will be achieved.

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)(1)

	1999		2000		2001		2002		2003(2)	
	US$	%	US$	%	US$	%	US$	%	US$	%
Private expenditure:										
Private consumption	15,519.4	84.7	16,205.3	84.0	17,822.0	84.9	20,090.7	86.1	21,691.1	87.4
Private investment	2,720.9	14.8	2,650.8	13.7	2,598.7	12.4	2,957.3	12.7	3,003.7	12.1
Change in inventory	(98.6)	(0.5)	330.0	1.7	454.4	2.2	852.5	3.6	851.0	3.4
Total private expenditure	18,141.7	99.0	19,186.1	99.4	20,875.1	99.5	23,900.5	102.4	25,545.8	102.9
Public expenditure:										
Public consumption	1,158.6	6.3	1,352.3	7.0	1,581.9	7.5	1,664.8	7.1	1,805.6	7.3
Public investment	558.4	3.1	463.2	2.4	649.8	3.1	648.0	2.8	625.7	2.5
Total public expenditure	1,717.0	9.4	1,815.5	9.4	2.231.7	10.6	2,312.8	9.9	2,431.3	9.8
Gross national expenditures	19,858.7	108.4	21,001.6	108.8	23,106.8	110.1	26,213.3	112.3	27,977.1	112.7
Exports of goods and services	3,483.3	19.0	3,899.9	20.2	3,939.2	18.8	3,987.8	17.1	4,152.7	16.7
Imports of goods and services	(5,013.8)	(27.4)	(5,590.6)	(29.0)	(6,055.5)	(28.9)	(6,868.0)	(29.4)	(7,317.1)	(29.4)
Gross domestic product	18,328.2	100.0	19,310.9	100.0	20,990.5	100.0	23,333.1	100.0	24,812.7	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)

	1999		2000		2001		2002		2003(1)	
	Q	%	Q	%	Q	%	Q	%	Q	%
Private expenditure:										
Private consumption	114,554.3	84.7	125,660.6	84.0	139,919.0	84.9	156,945.3	86.1	171,950.5	87.4
Private investment	20,083.7	14.8	20,555.4	13.7	20,402.3	12.4	23,102.0	12.7	23,810.7	12.1
Change in inventory	(727.6)	(0.5)	2,560.3	1.7	3,567.1	2.2	6,660.1	3.6	6,746.4	3.4
Total private expenditure	133,910.4	99.0	148,776.3	99.4	163,888.4	99.5	186,707.4	102.4	202,507.6	102.9
Public expenditure:										
Public consumption	8,552.3	6.3	10,485.9	7.0	12,419.6	7.5	13,004.8	7.1	14,313.0	7.3
Public investment	4,121.6	3.1	3,591.6	2.4	5,101.7	3.1	5,062.2	2.8	4,960.1	2.5
Total public expenditure	12,673.9	9.4	14,077.5	9.4	17,521.3	10.6	18,067.0	9.9	19,273.1	9.8
Gross national expenditures	146,584.3	108.4	162,853.8	108.8	181,409.7	110.1	204,774.4	112.3	221,780.7	112.7
Exports of goods and services	25,711.2	19.0	30,240.7	20.2	30,926.5	18.8	31,152.7	17.1	32,919.8	16.7
Imports of goods and services	(37,008.5)	(27.4)	(43,351.4)	(29.0)	(47,541.4)	(28.9)	(53,652.4)	(29.4)	(58,004.5)	(29.4)
Gross domestic product	135,287.0	100.0	149,743.0	100.0	164,794.8	100.0	182,274.7	100.0	196,696.0	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.

Investments and Savings(1)
(as % of GDP)

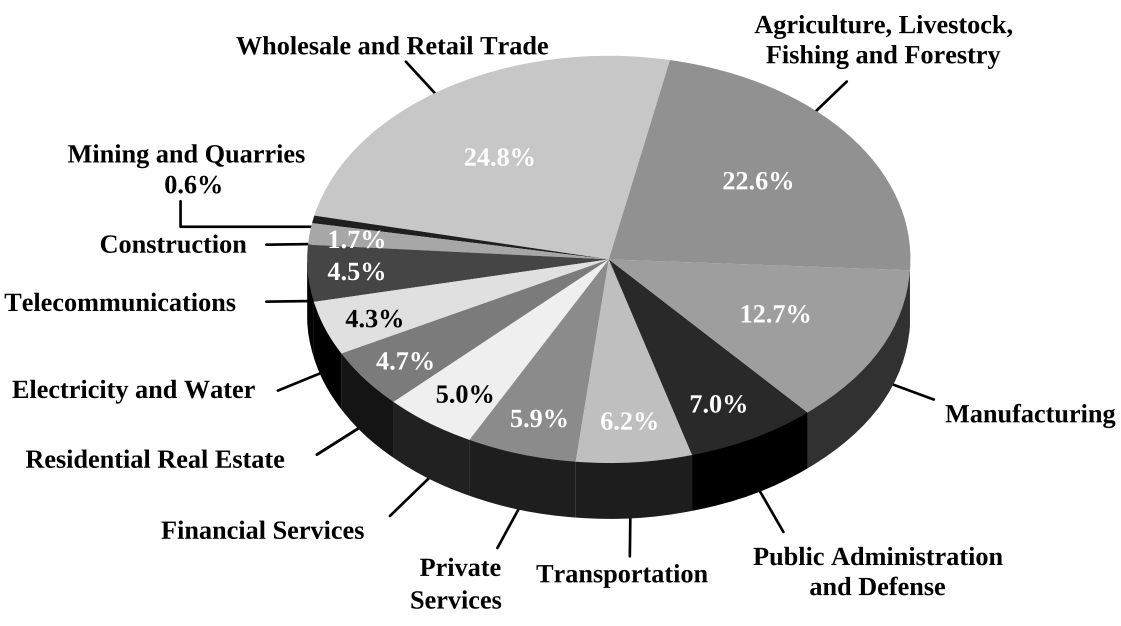
	1999	2000	2001	2002	2003
Gross domestic investments	17.3%	17.8%	17.6%	18.7%	18.3%
Domestic savings:					
Public savings	3.8	3.0	3.0	4.8	4.6
Private savings	8.0	9.4	8.7	8.9	8.6
Total domestic savings	11.8	12.4	11.7	13.7	13.2
External savings	5.5	5.4	5.9	5.0	5.1
Total savings	17.3%	17.8%	17.6%	18.7%	18.3%

(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 2003 (based upon preliminary data).

Sectors of the Guatemalan Economy (as a % of GDP for 2003)



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)

	1999		2000		2001		2002		2003[1]	
	Q	%	Q	%	Q	%	Q	%	Q	%
Primary production:										
Agriculture, livestock, fishing and forestry	1,128.6	23.0	1,157.9	22.8	1,171.3	22.6	1,192.5	22.5	1,227.8	22.6
Mining and quarries	28.8	0.6	26.4	0.5	26.6	0.5	29.2	0.6	29.7	0.6
Total primary production	1,157.4	23.6	1,184.3	23.3	1,197.9	23.1	1,221.7	23.1	1,257.5	23.2
Secondary production:										
Manufacturing	656.0	13.4	668.2	13.2	675.6	13.0	681.0	12.8	688.0	12.7
Electricity and water	179.6	3.7	210.9	4.2	204.6	3.9	223.2	4.2	233.2	4.3
Construction	120.7	2.5	98.6	1.9	110.5	2.1	93.6	1.8	91.6	1.7
Total secondary production	956.3	19.6	977.7	19.3	990.7	19.0	997.8	18.8	1,012.8	18.7
Services:										
Wholesale and retail trade	1,199.9	24.5	1,249.5	24.6	1,282.9	24.7	1,319.2	24.9	1,346.3	24.8
Transportation	297.3	6.1	308.6	6.1	319.2	6.2	329.0	6.1	338.3	6.2
Storage	1.8	—	1.5	—	1.4	—	1.2	—	1.1	—
Telecommunications	156.0	3.2	179.4	3.6	202.2	3.9	222.1	4.1	242.5	4.5
Residential real estate	225.6	4.6	232.6	4.6	239.0	4.6	245.4	4.6	252.6	4.7
Financial services	257.6	5.3	265.6	5.2	260.5	5.0	265.3	5.0	269.2	5.0
Public administration and defense	365.8	7.5	384.7	7.6	398.0	7.7	395.8	7.5	378.8	7.0
Private services[2]	279.1	5.7	289.7	5.7	300.2	5.8	311.2	5.9	322.3	5.9
Total services	2,783.1	56.8	2,911.6	57.4	3,003.4	57.9	3,089.2	58.1	3,151.1	58.1
Total GDP	4,896.8	100.0	5,073.6	100.0	5,192.0	100.0	5,308.7	100.0	5,421.4	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)

	1999	2000	2001	2002(1)	2003(1)
Primary production:					
Agriculture, livestock, fishing and forestry	2.1	2.6	1.2	1.8	3.0
Mining and quarries	(2.0)	(8.5)	0.7	10.0	1.6
Total primary production	2.0	2.3	1.1	2.0	2.9
Secondary production:					
Manufacturing	2.5	1.9	1.1	0.8	1.0
Electricity and water	11.1	17.4	(3.0)	9.1	4.5
Construction	7.8	(18.3)	12.1	(15.3)	(2.2)
Total secondary production	4.7	2.2	1.1	(0.1)	1.5
Services:					
Wholesale and retail trade	3.2	4.1	2.7	2.8	2.1
Transportation	5.1	3.8	3.4	3.1	2.8
Storage	5.9	(16.7)	(8.3)	(14.0)	(10.7)
Telecommunications	10.1	15.0	12.7	9.8	9.2
Residential real estate	3.9	3.1	2.7	2.7	2.9
Financial services	5.2	3.1	(1.9)	1.8	1.5
Public administration and defense	5.3	5.1	3.5	(0.6)	(4.3)
Private services(2)	3.8	3.8	3.6	3.7	3.5
Total services	4.3	4.6	3.2	2.9	2.0
Total GDP	3.8	3.6	2.3	2.2	2.1

(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, representing 22.6% of total GDP and approximately 36.8% of the Republic's export value in 2003. 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 the amount of foreign currency exchange in the banking system.

The agricultural sector has grown at an average annual rate of approximately 2.1% per year for the years 1999 through 2003. 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 2003, corn production increased 1.0% to 23.4 million *quintales*; bean production increased 1.0% to 2.1 million *quintales*; and potato production increased 10.0% to 2.2 million *quintales*, in each case compared to 2002.

Livestock grew 1.9% in 2003 compared to 2002, reflecting an increase in domestic consumption, while forestry grew 2.5% in 2003 compared to 2002, and fishing grew 8.0% in 2003 compared to 2002.

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*)

	1999	2000	2001	2002	2003(1)
Coffee	5,445.0	5,330.7	4,664.3	4,300.0	4,600.0
Sugar	340,102.0	311,716.5	329,870.2	367,396.5	354,864.9
Bananas	14,342.0	18,042.2	19,521.6	21,649.5	20,848.5
Vegetables	9,741.7	10,355.5	10,541.9	9,529.8	9,186.8
Cardamom	320.0	325.9	380.3	481.9	650.6
Potatoes	1,665.0	1,764.9	1,874.3	2,000.0	2,172.5

(1) Preliminary data.
Source: Bank of Guatemala.

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

	1999	2000	2001	2002	2003(1)
Coffee	214.7	210.2	184.0	169.6	181.4
Sugar	105.4	96.6	102.3	113.9	110.0
Bananas	55.0	69.2	74.8	83.0	79.9
Vegetables	58.4	62.1	63.3	57.2	55.1
Cardamom	49.3	50.2	58.6	74.2	100.2
Potatoes	7.2	7.6	8.1	8.6	9.4
Livestock	397.4	414.7	433.1	439.3	447.7
Forestry	79.9	82.3	84.8	87.0	89.1
Fishing	14.3	16.1	17.3	18.7	20.2

(1) Preliminary data.
Source: Bank of Guatemala.

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

	1999	2000	2001	2002	2003(1)
Coffee	10.0	(2.1)	(12.5)	(7.8)	7.0
Sugar	(11.5)	(8.3)	5.8	11.4	(3.4)
Bananas	(15.8)	25.8	8.2	10.9	(3.7)
Vegetables	18.0	6.3	1.8	(9.6)	(3.6)
Cardamom	(17.4)	1.8	16.7	26.7	35.0
Potatoes	4.3	6.0	6.2	6.7	8.6
Livestock	5.3	4.4	4.4	1.4	1.9
Forestry	2.2	3.0	3.1	2.5	2.5
Fishing	10.0	12.0	8.0	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 3.3% of GDP in 2003 and 11.1% of the total value of exports in 2003 compared to 12.0% in 2002. 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 2003 were the United States (46.2%), Italy (12.4%) and Germany (11.4%).

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 1999 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

	1999	2000	2001	2002	2003(1)
Production(2)	5,445.0	5,330.7	4,664.3	4,300.0	4,600.0
Export volume(2)	6,115.8	6,316.8	5,282.8	4,528.7	4,972.3
Value of exports (in millions of US$)	587.9	572.3	300.8	269.0	292.3
Price per quintal (in US$)(3)	96.1	90.6	56.9	59.4	58.8

(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 1999, the volume of coffee exports was 6.1 million *quintales* and the value of coffee exports was US$587.9 million. In 2000, coffee production decreased to 5.3 million *quintales*. 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 and 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 worldwide overproduction, 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.

In 2003, the value of coffee exports increased 8.7% to US$292.3 million from US$269.0 million in 2002. This increase is attributed to an increase in the international market price of coffee due to a 19.4% decrease in worldwide coffee production, particularly by Vietnam, compared to 2002. The increase in coffee export value is also attributed to an increase in demand for high quality coffee by both the United States and European Union, according to ANACAFE.

Sugar. Sugar is the second largest source of export revenues, accounting for 2.0% of GDP in 2003 and 7.2% of total export revenues in 2003. Sugar export revenues increased to US$189.2 million in 2003 compared to US$208.2 million in 2002, despite a fall in international prices. Most of Guatemala's sugar is exported to South Korea (30.4%) and the United States (15.8%).

Sugar export volume increased in 2000 due to an increase in demand from Peru, Canada, South Korea and Russia. In 2000, the volume of sugar exports increased 6.1% to 26.6 million *quintales*, while the value of sugar exports decreased 4.5% from to US$179.6 million, in each case compared to 1999. 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% to 31.4 million *quintales*, while the value of sugar exports increased 44.5% to US$259.6 million, in each case compared to 2000. 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 27.3 million *quintales* in 2001, while the value of sugar exports decreased 19.8% to US$208.2 million compared to 2001, due to the decrease of the average price per *quintal* of sugar from US$8.27 in 2001 to US$7.62 in 2002.

In 2003, the value of sugar exports decreased due to worldwide overproduction, particularly from Brazil, Thailand, India and South Africa. As a result, the value of sugar exports decreased by US$19.0 million compared to 2002.

Bananas. Bananas are produced mainly for export by multinational companies and represented 1.5% of GDP and 8.8% of total export revenues in 2003. In 2003, all of Guatemala's banana exports went to the United States. The value of banana exports reached US$230.6 million in 2003.

In 1999, banana production decreased to 14.3 million *quintales*, while export volume decreased 19.2% to 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 18.0 million *quintales*, while the value of banana exports increased 31.2% to 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 and labor related problems that affected the other main 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. In 2003, the volume of bananas exported and the value of banana exports decreased due to worldwide overproduction. As a result, the value of banana exports decreased by US$2.4 million in 2003 compared to 2002.

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, improved 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 1.1% of GDP and US$78.9 million in export value in 2003. The value of cardamom exports 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. In 2003, the international price of cardamom decreased primarily a result of overproduction by Guatemala, the principal world cardamom exporter, due to the replacement of coffee plantations with cardamom plantations. As a result, although the gross value of cardamom increased, the export value of cardamom decreased by US$14.2 million in 2003 compared to 2002.

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$1,437.3 million in 1999 to US$1,532.9 million in 2000, decreased to US$1,513.9 million in 2001, and increased to US$1,514.8 million in 2002 and to US$1,661.5 million in 2003. The increase during 2002 and 2003 is the result of continued increases in exports outside of Central America to compensate for decreases in traditional exports of coffee and chemical products, particularly to the United States.

Exports of non-traditional products grew at an average annual rate of 1.7% in the period from 1999 through 2003, while traditional exports decreased at an average annual rate of 3.1% over the same period. Non-traditional exports represented 52.3% of total exports in 1999 and 63.2% in 2003. 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, 15.5% in 2002 compared to 2001 and 9.7% in 2003 compared to 2002. Approximately 66% of non-traditional exports in 2002 were to Central American countries. In 2003, exports of non-traditional products to countries outside Central America increased despite the worldwide economic downturn, with significant increases in exports of food products, chemical products and fruit and fruit preparations. In 2003, chemical products, flowers and plants, and processed food were the largest non-traditional exports to countries outside Central America, accounting for US$105.0 million, US$41.4 million and US$61.3 million in revenue, respectively.

Secondary Production

Manufacturing

The manufacturing sector accounted for 12.7% of GDP in 2003 compared to 12.8% of GDP in 2002. 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, 0.8% in 2002 and 1.0% in 2003, 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)

	1999	2000	2001	2002	2003(1)
Food products, except beverages	637.1	645.1	657.1	671.9	685.3
Textiles	123.2	125.5	125.2	127.0	126.4
Shoes, clothing, textile products	158.5	162.1	163.3	165.4	168.5
Chemical substances and products	52.6	53.7	54.0	54.8	56.1
Metal products	105.8	108.5	108.6	108.7	107.3
Beverages	114.8	118.9	119.0	107.4	112.0

(1) Preliminary data.
Source: Bank of Guatemala.

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

	1999	2000	2001	2002	2003(1)
Food products, except beverages	2.3	1.3	1.9	2.3	2.0
Textiles	2.3	1.9	(0.2)	1.4	(0.5)
Shoes, clothing, textile products	2.3	2.3	0.7	1.3	1.9
Chemical substances and products	3.1	2.1	0.6	1.5	2.4
Metal products	2.9	2.6	0.1	0.2	(1.3)
Beverages	3.1	3.6	0.1	(9.8)	4.3

(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 Nicaraguan government.

Despite a decrease in the number of *maquila*s, *maquila* exports increased from US$287.7 million in 1999 to US$373.8 million in 2000 and US$396.2 million in 2001, decreased to US$345.8 million in 2002 and increased to US$418.5 million in 2003. 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 2004, the Government expects that an additional 60 *maquilas* will commence operations. At the same time, *maquilas* and manufacturing may be adversely affected by an increase in the minimum wage or any adverse change to 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, the Republic anticipates that CAFTA will be implemented in 2005. If implemented, United States and Canadian companies may transfer operations from Mexico to Central America to take advantage of lower operating costs. See "Republic of Guatemala—Regional Integration and Free Trade—Regional Trade Initiatives Involving Central America."

Electricity and Water

Electricity and water represented 4.3% of GDP in 2003. Until 1996, the availability of electrical power in Guatemala was essentially limited to major cities, as a result of inadequate generation and transmission. Approximately 90.1% of the population had access to electricity in 2003, 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 68.0% of Guatemala's electricity in 2003, while hydroelectric power plants supplied 32.0% of Guatemala's power.

In 2003, total national electricity generation was 6.7 million megawatt hours (MWh) compared to 4.8 million MWh in 1999. Energy capacity increased during 2003 due to the installation of six generators in response to increased domestic demand and foreign demand from the Republic of El Salvador. As of December 2003, total electricity consumption in Guatemala was 6.7 million MWh, of which 6.3 million MWh was consumed domestically and the balance was exported, primarily to El Salvador. As of December 31, 2003, installed capacity was 2,012.0 MW and demand was 1,601.0 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 networks in El Salvador, permitting cross-border sales and purchases of electricity on the spot market. Guatemala has been a net exporter of electricity since 1998.

Construction

From 1999 to 2003, the construction sector contracted at a real average annual rate of 3.2%, principally due to a decrease in public sector expenditures for social infrastructure during 2000 and 2003. In 2003, construction contracted by 2.2% compared to 2002 due a reduction in expenditure caused by fiscal discipline imposed by the Government in order to, among other things, meet the terms and conditions of the stand-by arrangements entered into with the IMF. See "Monetary System—Stand-by Arrangement."

Guatemala has a housing deficit of approximately 1.0 million homes. To reduce the housing deficit, the Government has implemented a national housing policy that provides subsidies for the construction of residences. The subsidies are granted by the *Fondo Guatemalteco de la* Vivienda (Guatemalan Housing Fund, or FOGUAVI) to supplement the contribution of individuals with limited resources. In July 2004, 4,500 residences were in construction. The budget approved for 2004 was Q184.1 million (US$22.6 million) and the proposed budget for 2005, subject to Congress approval, is Q276.3 million (US$33.3 million).

Services

The services sector accounted for 58.1% of GDP in 2003 and 2002. Wholesale and retail trade constituted the largest component of the services sector, accounting for 24.8% of GDP in 2003. The other components of the services sector are public administration and defense (7.0% of GDP in 2003); transportation (6.2% of GDP in 2003); private services, which includes health and recreational services (5.9% of GDP in 2003); financial services (5.0% of GDP in 2003); residential real estate (4.7% of GDP in 2003); and telecommunications (4.5% of GDP in 2003).

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 880,223 tourists in 2003 compared to 884,190 in 2002 and 822,695 in 1999. Tourism revenue in 2003 was US$599.7 million, making tourism the second largest source of foreign currency after non-traditional products. The average expenditure per tourist, including hotel and travel, increased from US$485.0 in 1999 to US$681.3 in 2003. Hotel capacity in Guatemala increased from 15,378 rooms in 1999 to 17,519 rooms in 2003.

Belize, Guatemala, Honduras, Mexico and El Salvador are considering an integrated approach to promote tourism to Central America. In addition, one of the Government's principal priorities is the development of tourism. Tourism had long been hampered by Guatemala's internal armed confrontation prior to the signing of the Peace Accord in 1996. The political instability in Iraq, terrorist threats, security problems and other similar events are likely to have a negative impact on tourism and tourism revenues in 2004 and later periods.

Wholesale and Retail Trade

Between 1999 and 2003, the wholesale and retail trade sector grew at a real average annual rate of 3.0%. In 2003, this sector grew at a rate of 2.1%, a faster rate than the economy as a whole, reflecting increased demand for goods and services in the wholesale and retail trade sector.

Transportation

Between 1999 and 2003, the transportation sector grew at a real average annual rate of 3.7%. An increase in the number of cargo trucks contributed to the growth of this sector.

Telecommunications

Between 1999 and 2003, the telecommunications sector grew at a real average annual rate of 11.4%. 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,				
	1999	2000	2001	2002(1)	2003(1)
Mobile telephone lines	338,490	856,831	1,146,423	1,577,085	2,034,777
Fixed telephone lines	610,701	676,631	756,085	845,968	944,140
Total telephone lines	949,191	1,533,462	1,902,508	2,423,053	2,978,917
Number of telephone lines per 100 inhabitants	8.6	13.4	15.8	21.1	23.6

(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 1999 through 2003. In 2003, this sector grew 2.9% due to an increase in private construction authorizations during 2002, which caused an increase in the amount of available housing.

Financial Services

In the period from 1999 to 2003, the financial services sector grew at a real annual average rate of 1.9%. This sector contracted by 1.9% in 2001, grew by 1.8% in 2002 and grew by 1.5% in 2003 due to an increase in demand for brokerage services.

Public Administration and Defense

From 1999 to 2003, the public administration and defense sector grew at a real annual average rate of 1.8% 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 and 2003, this sector contracted at an annual rate of 0.6% and 4.3% 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).

Since 1999, the Modernization Commission shifted its focus from privatizing state-owned agencies 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.

The government is currently preparing a revival of its economic program with the business sector, which focuses on the following three goals:

- promotion of exports and the improvement of business environment and competition;
- development of public investment projects, tourism, housing and private sector alliances; and
- investment of Q1,000.0 million (US$126.1 million) in 112 municipalities in poverty elimination programs.

The Government intends to provide concessions for the hydroelectric plants of Chulac, Xalalá and Serchil in the current presidential term, which are expected to generate private investment of more than US$1,000.0 million. Furthermore, the resumption of the *Programa de Electrificación Rural* (Rural Electrification Program) is also planned, with the aim of achieving a 90% electrification rate in rural areas to benefit 1.6 million rural inhabitants. The Government intends to establish a trust of Q45.0 million (US$5.6 million) for the lease of land to farmers. The Government also intends to increase trade and tourism by improving the Santa Elena (Petén) airport, which will have international direct flights, and those at Retahlhuleu, Puerto Barrios and San José in Escuintla.

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 2003, the communications sector grew by 9.2% compared to 9.8% in 2002. In 2003, approximately 555,864 new telephone lines were installed, of which approximately 457,692 were mobile telephones and approximately 98,172 were 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 15 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 no assurance can be given as to when this work or any portion of it will be completed. Currently, the Communication, Infrastructure and Housing Ministry is evaluating the contractual compliance by the Railroad Development Corporation.

Electricity

The privatization of the Government's interest in the 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. EEGSA was purchased 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.

In 1999, shortly after the sale of EEGSA, 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 50.0% from 1999 to 2003, while the number of DEORSA's customers grew by 59.6% during the same period.

EEGSA is the largest electric utility in Central America and distributes approximately 40.2% of Guatemala's power and serves more than 716,988 customers, with demand growing at an annual rate of approximately 6.1%. From 1999 to 2003, EEGSA increased its number of customers by 27.0%. Of the remaining 59.8% of electric power distributed, 23.6% is distributed by DEOCSA and DEORSA, 13.7% is distributed by private distribution and electric companies, and 5.2% is distributed by 13 smaller municipal distribution companies.

Congress enacted a *Tarifa Social* (Social Rate) that subsidizes users whose consumption of electricity is equal to or less than 300 kilowatt hours (kWh) per month, benefiting approximately 1,250,000 households, or 90%, of the population that has electric service. In the first quarter of 2003, the cost of the Social Rate per kWh for EEGSA, DEORSA and DEOCSA was Q0.64, Q0.62 and Q0.62, respectively, or approximately US$0.08, which increased to Q0.71, Q0.70 and Q0.71, respectively, or approximately US$0.09 in the first quarter 2004. To support the Social Rate, INDE provides a subsidy of approximately Q0.02, or US$0.003, for each of EEGSA and DEORSA and Q0.002 per kWh, or US$0.0003, for DEOCSA.

Roads

Guatemala has 8,722.7 miles (14,044 kilometers) of roads, approximately 40.1% 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). The Republic is studying proposals to construct a new airport outside Guatemala City.

Employment and Wages

The minimum agricultural wage is currently Q1,158.0 per month with a guaranteed monthly incentive bonus of Q250.0. The minimum wage in the rest of the economy is Q1,190.1 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, 2003, there were over 1,605 labor unions representing 122,131 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 1999 to 3.4% in 2003. Underemployment, as reported by INE, was 16.0% at the end of 2003. 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 based on other criteria may be significantly higher. Many individuals 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.

Employment and Wages

	1999	2000	2001	2002(1)	2003(2)
Total employed (in millions)	3.6	3.7	3.8	5.0	4.9
Open unemployment rate(3)	1.8%	1.4%	N/A(4)	3.2%	3.4%

(1) *Encuesta Nacional de Empleo Octubre-Diciembre 2002.*
(2) *Encuesta Nacional de Empleo e Ingresos*.
(3) Rate of unemployed persons as a percentage of the economically active population.
(4) INE did not compile employment information in 2001.
N/A = Not available.
Source: INE estimates.

The increase in the unemployment rate for 2002 was significantly influenced by a change in the methodology used to calculate the unemployment rate. The methodology used starting in 2002 includes as unemployed "passive employees," or individuals not actively seeking employment due to their limited possibilities.

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

Employment
(% of total employment)

	December 31,				
	1999	2000	2001	2002	2003(1)
Agriculture, livestock, fishing and forestry	20.6	18.6	16.4	15.3	15.2
Mining and quarries	0.3	0.3	0.3	0.2	0.2
Manufacturing	18.6	20.3	20.8	20.6	20.5
Construction	2.5	2.3	2.3	2.5	2.4
Electricity and water	1.2	1.0	1.1	1.1	1.1
Transportation and telecommunications	3.1	3.2	3.4	3.3	3.2
Wholesale and retail trade	15.6	15.6	16.1	16.6	16.8
Private services	38.1	38.7	39.6	40.4	40.6
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 (70% of the economically-active population) 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 zero in 2004. 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 Berger administration is taking the following measures to alleviate poverty:

- focusing, together with non-governmental organizations and the private sector, on increasing access to credit, training and business consulting programs, particularly in the 102 poorest municipalities;
- promoting employment in rural areas by establishing alliances between large, small and micro-businesses;
- investing in social and productive sectors, focusing on the poorest sectors located in rural areas;
- building additional housing financed by the private and public sector;
- investing in preventive health care including rehabilitation and malnutrition for widows and orphans, with a particular focus on pregnant women and small children; and
- improving education by reducing illiteracy and extending elementary education.

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 Program, employees contribute 1% of their total salary, employers contribute 3% of their total payroll and the Government contributes 1.5% of the payroll. For the Illness and Maternity Program, employees contribute 2.0% of their salary, employers contribute 4.0% of their total payroll and the Government contributes 2.0% of the salaries for all workers. The Government's contribution, both in its official capacity and as an employer, is determined annually by the executive branch in accordance with the technical studies of the IGSS.

The Disability, Old Age and Life Insurance program of IGSS is expected to face a social security short fall. To date the amount of this short fall has not been determined.

Current and former employees of IGSS are under investigation for the alleged embezzlement of funds 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 past officers of IGSS and other individuals that transferred funds from IGSS to foreign financial institutions. Legal proceedings against seven former officers are pending in Guatemalan courts and as of the date of this offering memorandum, three officers of IGSS have been sentenced to prison or to pay fines.

However, these resolutions by the Guatemalan courts may still be subject to further appeals. Four other cases are still pending in the courts.

As of December 31, 2003, there were over 957,921 contributing members of the social security system, representing about 19.5% of the Republic's workforce of approximately 4.9 million individuals at that date. Approximately 1.3 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 18.5% of the nation's total population.

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 a conservationist culture to protect natural resources and the quality of the environment;
- developing an economic culture to take advantage of sustainable natural resources and to preserve the quality of the environment;
- strengthening legal protection of the environment; 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 costs which in turn will tend to lower prices, and 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 1999 and 2003, the Republic's current account registered annual deficits that fluctuated between 6.0% and 4.2% of GDP. In 2003, the current account deficit was US$1,050.6 million (4.2% of GDP) compared to US$1,234.9 million (5.3% of GDP) in 2002. Except for 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 2003, the current account showed a deficit of 4.2% of GDP, compared to a deficit of 5.3% of GDP in 2002 and decreased slightly in real terms. This lower deficit in 2003 is mainly attributable to higher levels of remittances from Guatemalans living and working abroad.

Since 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 1999 and 2003, the Republic's capital account registered increasing annual surpluses for every year except 2002 as a result of lower private capital inflows (US$1,256.7 million compared to US$1,726.7 million in 2001). In 2003, the capital account surplus reached US$1,600.2 million, which offset the current account deficit for that year by US$549.6 million. The capital account surpluses have offset the current account deficit in each year between 2000 and 2003.

Levels of foreign direct investment decreased significantly in 2002 and 2003 compared to 2000 and 2001 reflecting the receipt in 2000 and 2001 of revenues from the privatization of various state-owned enterprises. In 2003, foreign direct investment increased to US$115.8 million from US$110.6 million in 2002. Medium and long-term capital primarily representing US$475.6 million (77.5%) in loans totaled US$613.3 million in 2003, or 58.4% of the current account deficit. During the period from 1999 to 2001, medium- and long-term private capital was generated 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:

Balance of Payments
(in millions of US$)

	1999	2000	2001	2002	2003(1)
Current account:					
Trade balance:					
Exports (FOB):					
Traditional	1,056.3	1,178.3	949.7	958.4	968.3
Non-traditional	1,437.3	1,532.9	1,513.9	1,514.8	1,661.5
Maquila	287.7	373.8	396.2	345.8	418.5
Total exports	2,781.3	3,085.0	2,859.8	2,819.0	3,048.3
Imports (CIF)	(4,560.0)	(5,171.4)	(5,606.4)	(6,304.1)	(6,721.6)
Trade balance	(1,778.7)	(2,086.4)	(2,746.6)	(3,485.1)	(3,673.3)
Services balance(2)	48.9	172.0	496.9	273.9	160.8
Private transfers:					
Remittances	438.6	524.3	571.3	1,503.7	2,026.4
Foreign aid	272.6	337.0	405.7	463.0	402.4
Other	3.6	4.1	19.8	9.6	33.1
Total private transfers, net	714.8	865.4	996.8	1,976.3	2,461.9
Total current account	(1,015.0)	(1,049.0)	(1,252.9)	(1,234.9)	(1,050.6)
Capital account:					
Official transfers, net	68.4	85.5	93.4	124.2	133.8
Official capital, net:					
Non-financial public sector capital, net	432.4	172.0	220.1	64.9	296.8
Bank of Guatemala capital, net	(25.9)	(24.4)	(11.2)	(11.1)	(11.4)
Total official capital, net	406.5	147.6	208.9	53.8	285.4
Private capital, net:					
Foreign direct investment, net	154.6	229.6	455.5	110.6	115.8
Medium-and long-term debt, net	544.0	677.0	598.6	575.9	613.3
Short-term debt, net	(283.9)	563.7	370.3	392.2	451.9
Total private capital, net	414.7	1,470.3	1,424.4	1,078.7	1,181.0
Total capital account	889.6	1,703.4	1,726.7	1,256.7	1,600.2
Change in international reserves(3)	(125.4)	654.4	473.8	21.8	549.6
Current account balance (as % of GDP)	(5.5)%	(5.4)%	(6.0)%	(5.3)%	(4.2)%

(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 2003, in terms of total exports value:

- coffee accounted for 11.1% compared to 10.9% in 2002;
- sugar accounted for 7.2% compared to 8.4% in 2002; and
- bananas accounted for 8.8% compared to 9.4% in 2002.

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 1999, 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 63.2% of total exports in 2003 compared to 61.2% in 2002.

In 2003, Guatemala's most important imports were consumer goods, which accounted for 32.6% of total imports; raw materials and intermediate products, which accounted for 31.8%; and capital goods, which accounted for 19.8%. The United States is Guatemala's most important trading partner, accounting for 29.9% of Guatemala's exports and 43.8% of its imports in 2003. The most important exports from Guatemala to the U.S. in 2003 were bananas, oil, coffee, clothing, sugar, fruits and fruit preparations, flowers and plants.

Central American countries accounted for 41.3% of total exports and 12.4% of imports in 2003. The most important Guatemalan exports to Central America in 2003 were chemical products, processed foods, construction materials, paper and cardboard items, plastics and fruits and fruit preparations. Other important trading partners include Mexico, Venezuela, Germany, Saudi Arabia, South Korea 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 2003:

- exported goods (expressed on an FOB basis and excluding *maquila* exports) increased 6.3% to US$2,629.8 million compared to 2002;
- exports of traditional products increased 1.0% to US$968.3 million compared to 2002;
- coffee export revenues increased 8.7% to US$292.3 million due to a 9.8% increase in the volume exported;
- banana exports decreased 1.0% to US$230.6 million compared to 2002 reflecting an oversupply;
- the value of exports of non-traditional products increased 9.7% to US$1,661.5 million compared to 2002, due to an increase in exports to Central American countries (increased 8.1%) and the rest of the world (increased 12.8%); and
- total imports, expressed on a CIF basis, increased by 6.6% compared to 2002.

In 2003, exports to North America and Europe increased compared to 2002 due to the worldwide economic recuperation which resulted in higher 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 2003, the weighted average import tariff was 6.3% compared to 6.0% in 1999. The Republic's current import tariff structure is as follows.

Import Tariffs

	1999	2000	2001	2002	2003
Raw materials:					
Produced within Central America	5.0%	5.0%	5.0%	5.0%	5.0%
Produced outside Central America	—	—	—	—	—
Intermediate goods	10.0	10.0	10.0	10.0	10.0
Capital goods	—	—	—	—	—
Average import tariff(1)	6.0	6.0	7.2	5.2	6.3

(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(1)
(in millions of US$ and as % of total exports)

	1999		2000		2001		2002		2003(2)	
	US$	%	US$	%	US$	%	US$	%	US$	%
Traditional:										
Coffee	587.9	23.6	572.3	21.1	300.8	12.2	269.0	10.9	292.3	11.1
Sugar	188.1	7.5	179.6	6.6	259.5	10.6	208.2	8.4	189.2	7.2
Bananas	143.1	5.7	187.8	6.9	193.0	7.8	233.0	9.4	230.6	8.8
Cardamom	56.4	2.3	79.4	2.9	96.1	3.9	93.1	3.8	78.9	3.0
Oil	80.8	3.3	159.2	5.9	100.3	4.1	155.1	6.3	177.3	6.7
Total traditional	1,056.3	42.4	1,178.3	43.4	949.7	38.6	958.4	38.8	968.3	36.8
Non-traditional:										
Exports outside of Central America:										
Chemical products	111.7	4.5	90.9	3.3	68.4	2.8	88.8	3.6	105.0	4.0
Vegetables	50.5	2.0	49.4	1.8	26.2	1.1	23.8	1.0	25.0	1.0
Fruits and preparations	65.3	2.6	82.0	3.0	41.8	1.7	35.6	1.4	49.0	1.9
Natural rubber	22.6	0.9	25.0	0.9	23.0	0.9	27.1	1.1	33.2	1.3
Flowers and plants	44.3	1.8	53.3	2.0	46.8	1.9	38.7	1.6	41.4	1.6
Sesame seeds	17.4	0.7	18.3	0.7	18.2	0.7	20.4	0.8	16.6	0.6
Processed foods	48.2	1.9	45.0	1.7	34.1	1.4	42.0	1.7	61.3	2.3
Shrimp, fish and lobster	28.1	1.1	34.9	1.3	22.4	0.9	7.2	0.3	11.5	0.4
Other(3)	259.3	10.4	318.8	11.8	173.4	7.0	223.7	9.0	229.1	8.7
Total non-traditional exports to countries other than those located in Central America	647.4	25.9	717.6	26.5	454.3	18.4	507.3	20.5	572.1	21.8
Exports to Central America	789.9	31.7	815.3	30.1	1,059.6	43.0	1,007.5	40.7	1,089.4	41.4
Total non-traditional	1,437.3	57.6	1,532.9	56.6	1,513.9	61.5	1,514.8	61.2	1,661.5	63.2
Total exports	2,493.6	100.0	2,711.2	100.0	2,463.6	100.0	2,473.2	100.0	2,629.8	100.0

(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)[1]
(in millions of US$ and as % of total exports)

	1999		2000		2001		2002		2003[2]	
	US$	%	US$	%	US$	%	US$	%	US$	%
North America:										
United States	837.6	33.6	975.6	36.0	657.9	26.7	728.2	29.4	787.2	29.9
Mexico	97.4	3.9	120.7	4.5	80.9	3.3	76.3	3.1	106.7	4.1
Canada	35.0	1.4	63.0	2.3	43.7	1.8	35.4	1.4	37.0	1.4
Total North America	970.0	38.9	1,159.3	42.8	782.5	31.8	839.9	34.0	930.9	35.4
Central America:										
Costa Rica	139.7	5.6	127.4	4.7	156.4	6.3	143.1	5.8	152.3	5.8
El Salvador	321.2	12.9	342.6	12.6	477.2	19.4	459.7	18.6	500.8	19.0
Honduras	220.3	8.8	234.2	8.6	295.4	12.0	272.7	11.0	280.6	10.7
Nicaragua	108.7	4.4	114.8	4.2	130.6	5.3	136.8	5.5	153.6	5.8
Total Central America	789.9	31.7	819.0	30.1	1,059.6	43.0	1,012.3	40.9	1,087.3	41.3
South America:										
Argentina	1.5	0.1	0.5	—	0.5	—	0.2	—	0.1	—
Brazil	0.9	—	0.4	—	0.3	—	0.6	—	0.5	—
Colombia	7.7	0.3	10.2	0.4	7.3	0.3	7.6	0.3	6.6	0.3
Ecuador	3.8	0.2	1.9	0.1	0.8	—	1.9	0.1	2.3	0.1
Venezuela	14.3	0.6	9.6	0.4	7.9	0.3	15.6	0.6	3.1	0.1
Other South America	26.5	1.1	18.2	0.7	9.9	0.4	15.6	0.6	5.6	0.2
Total South America	54.7	2.3	40.8	1.6	26.7	1.1	41.5	1.7	18.2	0.7
Europe:										
France	20.4	0.8	19.3	0.7	7.1	0.3	5.4	0.2	7.2	0.3
Germany	99.5	4.0	108.3	4.0	59.6	2.4	46.5	1.9	46.2	1.8
Italy	23.6	0.9	25.2	0.9	16.8	0.7	14.2	0.6	19.9	0.8
Netherlands	41.1	1.6	—	—	16.2	0.7	14.1	0.6	25.0	1.0
Spain	9.6	0.4	15.5	0.6	13.3	0.5	4.8	0.2	7.6	0.3
United Kingdom	24.6	1.0	16.3	0.6	9.3	0.4	8.8	0.4	8.3	0.3
Other EU	68.1	2.7	88.6	3.3	49.1	2.0	17.5	0.7	20.6	0.8
Total EU	286.9	11.4	273.2	10.1	171.4	7.0	111.3	4.5	134.8	5.1
Other Europe	32.1	1.3	83.0	3.0	33.8	1.4	64.9	2.6	81.6	3.1
Total Europe	319.0	12.7	356.2	13.1	205.2	8.4	176.2	7.1	216.4	8.2
Asia:										
Japan	58.0	2.3	62.8	2.3	43.3	1.8	29.2	1.2	20.5	0.8
Saudi Arabia	27.7	1.1	47.8	1.8	57.1	2.3	46.5	1.9	35.9	1.4
South Korea	31.9	1.3	28.7	1.1	96.1	3.9	86.0	3.5	59.4	2.3
Taiwan	0.6	—	5.6	0.2	5.5	0.2	4.7	0.2	0.2	—
Other Asia	56.7	2.3	30.7	1.1	38.9	1.6	58.1	2.3	59.3	2.3
Total Asia	174.9	7.0	175.6	6.5	240.9	9.8	224.8	9.1	175.3	6.7
Africa:										
South Africa	0.8	—	2.1	0.1	1.1	—	0.5	—	0.4	—
Other Africa	17.4	0.7	19.7	0.7	3.5	0.1	17.8	0.7	12.8	0.5
Total Africa	18.2	0.7	21.8	0.8	4.6	0.1	18.3	0.7	13.2	0.5
Oceania:										
Australia	0.4	—	0.8	—	0.2	—	0.6	—	0.5	—
New Zealand	0.2	—	0.3	—	0.1	—	0.1	—	0.1	—
Total Oceania	0.6	—	1.1	—	0.3	—	0.7	—	0.6	—
Other[3]	166.3	6.7	137.4	5.1	143.8	5.8	159.5	6.4	187.9	7.1
Total	2,493.6	100.0	2,711.2	100.0	2,463.6	100.0	2,473.2	100.0	2,629.8	100.0

(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[1]

	1999	2000	2001	2002(2)	2003
Coffee export volume (thousands of *quintales*)	6,115.8	6,316.8	5,282.8	4,528.5	4,972.3
Coffee export price (US$/*quintal*)	96.1	90.6	56.9	59.4	58.8
Sugar export volume (thousands of *quintales*)	25,064.9	26,606.1	31,380.3	27,329.7	27,481.1
Sugar export price (US$/*quintal*)	7.5	6.8	8.3	7.6	6.9
Banana export volume (thousands of *quintales*)	11,814.9	16,121.0	16,962.7	20,817.6	20,736.9
Banana export price (US$/*quintal*)	12.1	11.7	11.4	11.2	11.1
Oil export volume (thousands of barrels per year)	7,145.6	7,370.3	7,104.6	8,401.3	8,237.5
Oil price (US$/barrel)	11.3	21.6	14.1	18.5	21.5
Cardamom export volume (thousands of *quintales*)	287.3	315.4	331.6	414.9	620.3
Cardamom export price (US$/*quintal*)	196.3	251.7	289.8	224.4	127.2

(1) Price is average over year for selected quality of product.
(2) Preliminary data.
Source: Bank of Guatemala.

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

	1999		2000		2001		2002		2003[1]	
	US$	%	US$	%	US$	%	US$	%	US$	%
Raw materials and intermediate goods:										
Agriculture	107.8	2.4	118.9	2.3	137.6	2.4	144.0	2.3	173.3	2.6
Manufacturing	1,415.8	31.0	1,659.6	32.1	1,735.8	31.0	1,989.6	31.6	1,965.7	29.2
Total raw materials and intermediate goods	1,523.6	33.4	1,778.5	34.4	1,873.4	33.4	2,133.6	33.9	2,139.0	31.8
Consumer goods:										
Durable	318.9	7.0	350.9	6.8	424.8	7.6	468.5	7.4	536.9	8.0
Non-durable	960.3	21.1	1,084.7	21.0	1,359.2	24.2	1,534.7	24.4	1,651.8	24.6
Total consumer goods	1,279.2	28.1	1,435.6	27.8	1,784.2	31.8	2,003.2	31.8	2,188.7	32.6
Capital goods:										
Manufacturing, telecommunications and construction	950.9	20.8	969.3	18.7	876.2	15.6	1,030.2	16.3	951.9	14.2
Transportation	308.1	6.8	253.6	4.9	270.1	4.9	291.3	4.6	328.9	4.9
Agriculture	51.1	1.1	51.5	1.0	50.1	0.9	47.0	0.7	50.0	0.7
Total capital goods	1,310.1	28.7	1,274.4	24.6	1,196.4	21.4	1,368.5	21.7	1,330.8	19.8
Mineral fuels and lubricants	321.6	7.1	540.4	10.4	595.9	10.6	650.2	10.3	908.5	13.5
Construction materials	125.2	2.7	142.3	2.8	156.4	2.8	148.1	2.3	154.2	2.3
Other	0.3	—	0.3	—	0.3	—	0.5	—	0.4	—
Total imports	4,560.0	100.0	5,171.5	100.0	5,606.4	100.0	6,304.1	100.0	6,721.6	100.0

(1) Preliminary data.
Source: Bank of Guatemala.

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

	1999		2000		2001		2002		2003[1]	
	US$	%	US$	%	US$	%	US$	%	US$	%
North America:										
United States	1,805.8	39.6	2,071.2	40.1	1,964.6	35.0	2,806.2	44.5	2,941.4	43.8
Mexico	498.8	10.9	576.0	11.1	594.6	10.6	552.6	8.8	561.9	8.4
Canada	118.9	2.6	124.7	2.4	140.6	2.5	69.9	1.1	57.3	0.9
Total North America	2,423.5	53.1	2,771.9	53.6	2,699.8	48.1	3,428.7	54.4	3,560.6	53.0
Central America:										
Costa Rica	141.4	3.1	201.0	3.9	232.2	4.1	286.8	4.5	302.1	4.5
El Salvador	201.9	4.4	313.5	6.1	385.0	6.9	383.0	6.1	399.0	5.9
Honduras	78.9	1.7	84.1	1.6	129.3	2.3	101.0	1.6	101.6	1.5
Nicaragua	7.3	0.2	16.9	0.3	30.4	0.5	27.3	0.4	28.9	0.4
Total Central America	429.5	9.4	615.8	11.9	776.9	13.8	798.1	12.7	831.6	12.4
South America:										
Argentina	26.4	0.6	30.7	0.6	54.0	1.0	28.2	0.4	30.2	0.4
Brazil	57.9	1.3	67.3	1.3	84.3	1.5	78.8	1.2	119.9	1.8
Colombia	51.4	1.1	66.3	1.3	98.0	1.8	81.9	1.3	93.6	1.4
Ecuador	14.8	0.3	26.6	0.5	36.4	0.7	7.3	0.1	11.0	0.2
Venezuela	205.6	4.5	275.9	5.3	271.8	4.8	44.2	0.7	26.0	0.4
Other	41.4	0.9	46.3	0.9	61.6	1.1	57.7	0.9	77.0	1.1
Total South America	397.5	8.7	513.1	9.9	606.1	10.9	298.1	4.7	357.7	5.3
Europe:										
France	25.4	0.6	29.0	0.6	35.5	0.6	44.0	0.7	58.8	0.9
Germany	121.5	2.7	126.3	2.4	158.9	2.8	158.4	2.5	159.0	2.4
Italy	48.7	1.1	55.7	1.1	56.9	1.0	62.4	1.0	58.3	0.9
Netherlands	26.5	0.6	23.7	0.5	16.0	0.3	29.7	0.5	30.7	0.5
Spain	63.8	1.4	69.3	1.3	83.7	1.5	97.8	1.6	89.8	1.3
United Kingdom	34.2	0.8	31.2	0.6	39.0	0.7	47.5	0.8	36.6	0.5
Other	86.2	1.9	75.8	1.5	142.7	2.6	124.0	2.0	81.0	1.2
Total EU	406.3	8.9	411.0	8.0	532.7	9.5	563.8	8.9	514.2	7.7
Other Europe	67.6	1.5	80.1	1.5	90.3	1.6	175.4	2.8	183.8	2.7
Total Europe	473.9	10.4	491.1	9.5	623.0	11.1	739.2	11.7	698.0	10.4
Asia:										
Indonesia	2.5	0.1	5.3	0.1	9.2	0.2	2.9	—	2.9	—
Japan	181.6	4.0	166.6	3.2	289.7	5.2	204.2	3.2	248.6	3.7
South Korea	38.5	0.8	69.3	1.3	77.1	1.4	83.8	1.3	81.1	1.2
Taiwan	70.6	1.5	59.3	1.2	58.8	1.0	69.6	1.1	68.9	1.0
Other Asia	123.0	2.7	103.3	2.0	224.5	4.0	184.9	2.9	187.5	2.8
Total Asia	416.2	9.1	403.8	7.8	659.3	11.8	545.4	8.7	589.0	8.8
Africa:										
South Africa	1.4	—	2.6	0.1	1.6	—	1.5	—	0.8	—
Other Africa	12.7	0.3	0.4	—	3.6	0.1	1.2	—	1.1	—
Total Africa	14.1	0.3	3.0	0.1	5.2	0.1	2.7	—	1.9	—
Oceania:										
Australia	7.6	0.2	6.8	0.1	6.2	0.1	8.1	0.1	6.3	0.1
New Zealand	12.3	0.3	11.1	0.2	26.2	0.5	19.0	0.3	19.2	0.3
Total Oceania	19.9	0.5	17.9	0.3	32.4	0.6	27.1	0.4	25.5	0.4
Other[2]	385.4	8.5	354.8	6.9	203.9	3.6	464.8	7.4	657.3	9.8
Total	4,560.0	100.0	5,171.4	100.0	5,606.6	100.0	6,304.1	100.0	6,721.6	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 1999 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, US$110.6 million in 2002 and US$115.8 million in 2003. 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$438.6 million in 1999 to US$2,026.4 million in 2003 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 1999 through 2003, 99.0% of remittances came from the United States. 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 2003, the Bank of Guatemala sold dollars totaling US$9.8 million in the foreign currency market and did not purchase U.S. dollars in the foreign currency market. The Bank of Guatemala purchased US$129.9 million in U.S. dollars in the foreign currency in the first six months of 2004.

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

Exchange Rates(1)
(Q per US$1.00)

	Period End		Average for Period	
	Buy	Sell	Buy	Sell
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	8.02462	8.05675	7.92722	7.95269
2004:				
January	8.10480	8.12355	8.09656	8.12409
February	8.09506	8.11101	8.09276	8.11334
March	8.08527	8.10296	8.08830	8.10820
April	7.98594	8.00872	8.03783	8.06175
May	7.96273	7.98295	7.97208	7.99490
June	7.89330	7.91026	7.93073	7.95170
July	7.92346	7.95794	7.87883	7.90706
August	7.88857	7.90576	7.89739	7.92361

(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 September 29, 2004 was Q7.89531 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 is comprised of 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, as the governing body of the Bank of Guatemala, to determine the monetary, foreign exchange and credit policies of the country. 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 increased from 4.9% in 1999 to 5.1% in 2000, increased to 8.9% in 2001, decreased to 6.3% in 2002 and decreased to 5.9% in 2003. 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 2004, 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. These fixed-rate term deposits are traded on limited markets (principally an inter-bank market), and are regulated by decrees issued by the Monetary Board. As of December 31, 2002, the amount of fixed rate term deposits represented Q11,158.7 million and increased to Q14,508.5 million for the transactions as of December 31, 2003 due to the Bank of Guatemala's efforts to achieve price stability. See "—Financial Sector."

The Republic and the IMF entered into two stand-by arrangements each for SDR 84 million, or US$123.3 million, on April 1, 2002 and June 18, 2003. Proceeds from these facilities were available to be used to support the Government's economic programs for 2002 and 2003. The arrangements contained a number of fiscal and macroeconomic targets for the Republic. Guatemala did not make any drawdowns under the IMF facility in 2002 and 2003, because it did not need these funds. Guatemala met all monetary and fiscal targets under the arrangement in 2002 and most of the fiscal targets of the 2003 arrangement. The year 2002 was the first year in which Guatemala met all fiscal and macroeconomic targets in an IMF stand-by arrangement since Guatemala joined the IMF 58 years ago. The design and implementation of monetary and fiscal policy in 2002 and 2003 allowed the Republic to meet these conditions in both years.

2002 IMF Targets

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."

2003 IMF Targets

Guatemala's economic program in 2003 focused on maintaining a stable macroeconomic monetary policy and complying with the fiscal requirements established in the stand-by arrangements with the IMF. The principal obligations under the stand-by arrangements included:

- maintaining a public sector deficit of 1.7% or less of GDP;
- maintaining tax revenues of at least 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*;
- increasing social spending to approximately 5.3% of GDP by year end 2003.
- maintaining a controlled fiscal policy to avoid the economic uncertainty that occurred in previous electoral years;
- continuing the implementation of a new legal framework, strengthening the regulated financial system and integrating off-shore entities into the financial system; and
- implementing changes directed to improving transparency and governance in the public sector.

In 2003, the Republic met IMF targets for deficits, tax, revenue, inflation and reserves, among others, and also implemented economic liberalization measures. In 2003, the Republic's inflation rate of 5.9% complied with the target of between 4% and 6% and the increase in its international reserves of US$271.0 million surpassed the target of US$250.0 million. In addition, the Republic met the consolidated public sector deficit target of 1.7% of GDP and the social spending target of 5.3% of GDP. However, in 2003 the Republic's tax revenues of 10.3% of GDP did not meet the target of 10.7% of GDP established in the stand-by arrangement. The term of the stand-by arrangements with the IMF expired on March 15, 2004.

Potential Future IMF Stand-By Arrangement

The Republic and the IMF are currently negotiating a new stand-by arrangement and expect such negotiations to be completed shortly. The IMF established a commission to analyze various aspects of the Republic's budget and economic management, including the Republic's (i) *Plan de Reactivación Económica y Social 2004-2005* (Economic and Social Reactivation Plan 2004-2005), (ii) evaluation and control of fiscal expenditures, and (iii) strategy to achieve the fiscal deficit target of 2.0%. The commission's analysis will focus on the Republic's macroeconomic policy and will be presented to the IMF's Board of Directors in October 2004. Although the Republic expects the new stand-by arrangement to be executed by early 2005, no assurances can be given that this will be achieved. The new stand-by arrangement would allow the Republic to rely on certain IMF resources in emergencies.

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 of the financial institutions, the Superintendency of Banks requested that the courts liquidate these entities. Liquidation proceedings are currently underway pending resolution of suits filed by former shareholders.

As of June 30, 2004, the total assets of these entities represented 1.0% of the total assets of the Guatemalan financial system and the total deposits of these five entities equaled 0.16% of the 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 June 30, 2004, the outstanding amount of these loans was Q1,597.8 million, or approximately US$202.4 million. The commercial banks used the proceeds of these loans to satisfy existing creditors and, as a result, the Bank of Guatemala is now the sole creditor of these banks. Once liquidation is complete, the Government expects that it will incur losses amounting to approximately Q900.0 million, or approximately US$114.0 million, arising out of these loans. At December 31, 2003, 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 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 foreign currency transactions that are suspected of being associated with 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 through a Memorandum of Understanding (MOU). 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), which is the Guatemalan Financial Intelligence Unit 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, and has been developing a national network for the prevention, control and surveillance of money laundering activities. On July 2, 2004, Guatemala was removed from the FATF's "Non-Cooperative Countries and Territories List" due to Guatemala's development and on-going implementation of an effective counter money laundering regime.

- 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 that the Bank of Guatemala 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 effective as of June 1, 2002, 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 effective as of June 1, 2002, 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 effective as of June 1, 2002, 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 June 30, 2004, Guatemala had 24 private banks, including one branch of a foreign-owned bank, and one state-owned bank. Banking activity is concentrated in the ten largest banks, which as of June 30, 2004, held 81.6% of the assets and 83.3% of the deposits in the Guatemalan banking system. As of June 30, 2004, total assets of Guatemalan commercial banks totaled Q68,260.6 million. Total liabilities of Guatemala commercial banks totaled Q62,384.5 million of which Q50,260.9 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 reserve or investment requirements, and so 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 National Mortgage Bank) is the only state-owned commercial bank in Guatemala. Guatemala 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 June 30, 2004, this bank had total liabilities of Q1,960.6 million. As of the date of this offering memorandum, the Republic has transferred Q293.0 million to capitalize Guatemala 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,					June 30, 2004			
	1999	2000	2001	2002	2003	2004[1]	Loans	Deposits	Assets
Commercial banks	33	31	30	30	25	24	91.6%	97.2%	91.0%
Finance firms	19	19	18	18	18	18	5.1	—	5.8
Crédito Hipotecario Nacional de Guatemala	1	1	1	1	1	1	3.3	2.8	3.2
Total	53	51	49	49	44	43	100.0%	100.0%	100.0%

(1) Three banks and three finance firms are not included because they are in the process of exiting the market.
Source: Superintendency of Banks.

Total assets in the Guatemalan financial system increased from 31.9% of GDP for 1999 to 37.0% of GDP for 2003. 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);
- *Banco Granai & Towson S.A.* merged with *Banco Continental, S.A.* to form *Banco G&T-Continental, S.A.* (June 2001); and
- *Banco del Ejército, S.A.* (April 2003) and *Banco de Nor-Oriente, S.A.* (June 2003) merged into Guatemala National Mortgage Bank.

On June 5, 2004, the Monetary Board approved the transfer of a substantial part of the assets and liabilities of Lloyds TSB Bank PLC, *sucursal* Guatemala, *to Banco Cuscatlán de Guatemala, S.A.* by resolution JM-35-2004. Lloyds TSB Bank PLC, *sucursal* Guatemala, ceased its banking operations following the closure of the Guatemala branch office.

The Monetary Board has not approved the merger of *Banco SCI, S.A.* and *Banco Corporativo, S.A.* and such merger is currently in progress.

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)

	Financial System		Commercial Banks	
December 31,	**US$(1)**	**Growth rate (%)**	**US$(1)**	**Growth rate (%)**
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	9,322.2	3.6	8,865.3	4.5
2004(2)	9,854.2	5.7	9,335.7	6.2

(1) Translated at the official exchange rate as of the date indicated.
(2) As of June 30.
Source: Superintendency of Banks.

Commercial banks are the principal source of private sector financing and accounted for 95.1% of all loans to the private sector as of June 30, 2004. Major borrowers include companies engaged in wholesale and retail trade (20.1% of total loans at June 30, 2004) and agriculture, livestock, fishing and forestry (7.4% of total loans at June 30, 2004). Consumer credit has increased significantly from 23.2% of total loans at December 31, 1998 to 42.6% of total loans at June 30, 2004. 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)

	December 31,				
	1999	2000	2001	2002	2003
Private sector:					
Agriculture, livestock, fishing and forestry	3,674.2	3,643.7	2,698.0	2,559.1	3,078.6
Mining and quarries	8.3	8.2	16.0	50.5	16.2
Manufacturing	2,518.8	3,020.6	3,247.0	3,691.7	3,868.1
Electricity and water	218.3	364.0	412.0	517.6	470.3
Construction	2,825.0	2,722.4	2,216.0	2,162.0	2,302.2
Wholesale and retail trade	6,513.7	6,895.0	7,364.0	7,512.3	7,347.7
Transportation, storage and telecommunications	375.0	336.5	518.0	259.1	266.1
Financial services	1,465.3	1,361.1	1,188.0	1,148.1	1,278.9
Community, social and personal services	1,193.0	1,018.6	878.0	870.0	1,104.5
Consumer credit, private transfers and others	6,429.6	7,131.9	9,631.0	12,094.8	13,013.5
Total private sector loans	25,221.2	26,502.0	28,168.0	30,865.2	32,746.2
Total public sector loans	1,400.4	796.0	969.8	149.7	1,251.9
Total loans	26,621.6	27,298.0	29,137.8	31,014.9	33,998.0

Source: Superintendency of Banks.

Loans of the Financial System by Sector
(in millions of US$)(1)

	December 31,				
	1999	2000	2001	2002	2003
Private sector:					
Agriculture, livestock, fishing and forestry	471.5	472.0	338.2	329.2	383.6
Mining and quarries	1.1	1.1	2.0	6.5	2.0
Manufacturing	323.3	391.3	407.0	474.8	482.0
Electricity and water	28.0	47.1	51.6	66.6	58.6
Construction	362.5	352.6	277.7	278.1	286.9
Wholesale and retail trade	835.9	893.1	923.0	966.2	915.6
Transportation, storage and telecommunications	48.1	43.6	64.9	33.3	33.2
Financial services	188.0	176.3	148.9	147.7	159.4
Community, social and personal services	153.1	131.9	110.0	111.9	137.6
Consumer credit, private transfers and others	825.1	923.8	1,207.1	1,555.6	1,621.7
Total private sector loans	3,236.6	3,432.8	3,530.4	3,969.9	4,080.6
Total public sector loans	179.7	103.1	121.5	19.3	156.0
Total loans	3,416.3	3,535.9	3,651.9	3,989.2	4,236.6

(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,				
	1999	2000	2001	2002	2003
Private sector:					
Agriculture, livestock, fishing and forestry	13.8	13.3	9.3	8.3	9.0
Mining and quarries	—	—	0.1	0.2	—
Manufacturing	9.5	11.1	11.1	11.9	11.4
Electricity and water	0.8	1.3	1.4	1.7	1.4
Construction	10.6	10.0	7.6	7.0	6.8
Wholesale and retail trade	24.5	25.3	25.3	24.2	21.6
Transportation, storage and telecommunications	1.4	1.2	1.8	0.8	0.8
Financial services	5.5	5.0	4.1	3.7	3.8
Community, social and personal services	4.5	3.7	3.0	2.8	3.2
Consumer credit, private transfers and others	24.2	26.1	33.0	39.0	38.3
Total private sector loans	94.8	97.0	96.7	99.5	96.3
Total public sector loans	5.2	3.0	3.3	0.5	3.7
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(1)
(as % of total loans outstanding)

December 31,	
1999	86.2
2000	89.3
2001	93.2
2002	95.0
2003	91.6
2004(2)	93.7

(1) Excludes loans made to the private sector by finance firms.
(2) As of June 30.
Source: Superintendency of Banks.

Interest rates float freely without governmental restraints. The weighted average bank lending rate was 16.45% in 2002, 14.48% in 2003 and 14.14% as of June 30, 2004.

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

Interest Rates on Commercial Bank Loans
(%)

	1999	2000	2001	2002	2003	2004[(1)]
Loans	20.80	20.09	17.92	16.38	14.36	13.78
Weighted average rate on loans[(2)]	20.77	20.05	17.90	16.45	14.48	14.14
Real	15.85	14.97	8.99	10.12	8.63	6.74

(1) As of June 30.
(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
(%)

	1999	2000	2001	2002	2003	2004[(1)]
Savings deposits	5.21	5.35	4.12	2.87	1.87	1.74
Fixed-rate term deposits	18.05	15.32	11.32	9.92	6.91	6.72
Weighted average rate paid on deposits[(2)]	11.25	10.98	7.72	5.71	3.84	3.77
Real	6.33	5.90	(2.09)	(0.62)	(2.01)	(3.63)

(1) As of June 30.
(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 1.4% in 2003 compared to 2002. This increase was primarily due to growth in the net domestic assets of the Bank of Guatemala. M1 increased at a cumulative rate of 63.1% from December 31, 1999 to December 31, 2003, M2 increased at a cumulative rate of 68.9% and M3 increased at a cumulative rate of 65.0% in the same period. The Republic's monetary base increased in the period from 1999 to 2003 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$)[1]

	December 31,				
	1999	2000	2001	2002[2]	2003[2]
Currency in circulation	995.0	943.2	1,045.7	1,122.2	1,321.9
Commercial bank deposits at the Bank of Guatemala	428.1	650.4	703.1	971.8	801.4
Monetary base	1,423.1	1,593.6	1,748.8	2,094.0	2,123.3
Gross international reserves	1,242.7	1,884.8	2,358.8	2,380.6	2,931.5
Net international reserves	1,219.7	1,874.1	2,347.9	2,369.6	2,919.3

(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, 2003, the ratio of gross international reserves to the monetary base was approximately 1.4 and outstanding credits of the financial system totaled US$4,530.0 million. The private sector is the principal recipient of commercial loans. Private-sector credits from commercial banks grew at an average annual rate of 6.7% from US$3,090.0 million in 1998 to US$4,253.7 million in 2003.

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

Liquidity and Credit Aggregates
(in millions of US$)[1]

	December 31,				
	1999	2000	2001	2002[5]	2003[5]
Monetary aggregates:					
Currency in circulation	995.0	943.2	1,045.7	1,122.2	1,321.9
M1	1,988.8	2,416.0	2,520.8	2,779.0	3,244.1
M2	4,293.5	5,116.1	5,919.3	6,608.7	7,250.8
M3	4,510.6	5,266.4	5,998.1	6,730.3	7,442.3
Credit by sector:[2]					
Public sector	179.7	96.6	121.5	19.3	156.0
Private sector	3,092.8	3,441.1	3,795.4	3,970.5	4,253.7
Other[3]	281.4	299.8	272.2	165.7	120.2
Total credit aggregates	3,553.9	3,837.5	4,189.1	4,155.5	4,530.0
Deposits:[4]					
Local currency	3,298.7	4,173.0	4,615.9	5,061.9	5,318.3
Other	—	—	257.5	424.5	610.6
Total deposits	3,298.7	4,173.0	4,873.5	5,486.4	5,928.9

(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)(1)

	December 31,									
	1999		2000		2001		2002(2)		2003(2)	
	US$	%	US$	%	US$	%	US$	%	US$	%
Monetary issue	1,081.7	17.4	1,064.0	(1.6)	1,187.6	11.6	1,286.1	8.3	1,486.0	15.5
Monetary base	1,423.1	(4.9)	1,593.6	12.0	1,748.8	9.7	2,094.0	19.7	2,123.3	1.4
M1	1,988.8	0.3	2,416.0	21.5	2,520.8	4.3	2,779.0	10.2	3,244.1	16.7
Quasi-money	2,304.7	(9.5)	2,700.2	17.2	3,291.2	21.9	3,649.2	10.9	3,726.1	2.1
M2	4,293.5	(5.2)	5,116.1	19.2	5,919.3	15.7	6,608.7	11.6	7,250.8	9.7

(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.

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 June 30, 2004.

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

	Commercial and Consumer Loans		Mortgage Loans	
Category	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, 2004.

Classification of Aggregate Assets of the Guatemalan Financial System(1)
(in millions of US$)(2)

Category	Banks	Financial Institutions	Total	Percentage
A	3,886	185	4,071	93.0%
B	67	5	72	1.6
C	35	2	37	0.9
D	38	4	42	1.0
E	148	7	155	3.5
Total	4,174	203	4,377	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 as of the dates indicated.

The Guatemalan Financial System—Past-Due Loans[1]
(as % of total loans)

	Over-Due Loans as % of Total Loans[2]	Past-Due Loans as % of Total Loans[3]
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 December 31, 2003	3.0	3.7
As of June 30, 2004	3.5	3.7

(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 yet able to implement the requirements of the new Basle Accord (Basle II) 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, whose 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 and related regulations. See

"—Financial Sector." Both the law and the regulations conform to FATF's 40 recommendations. On July 2, 2004, Guatemala was removed from the "Non-Cooperative Countries and Territories List" as a result of Guatemala's development and on-going implementation of an effective counter money laundering regime.

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 of the financial institutions, the Superintendency of Banks requested that the courts liquidate these entities. Liquidation proceedings are currently underway, pending resolution of suits filed by former shareholders. 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 legislation requiring financial intermediaries that process remittances to use, at a maximum, the exchange rate published by the Bank of Guatemala plus five basis points. This new legislation also imposed a maximum interest rate for credit cards. However, the Bank of Guatemala and Guatemala National Mortgage Bank are not allowed to charge any such additional basis points in remittance transactions. The Bank of Guatemala filed a lawsuit before the Constitutional Court challenging the constitutionality of part of this new law alleging that it violated the autonomy of the central bank. In January 2004, the Constitutional Court held that the law was unconstitutional, and banks are now not subject to such exchange and interest rates caps.

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 5.9% in 2003. 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 between 4.0% and 6.0% for 2004, 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
(%)

	End of Period
1999	4.9
2000	5.1
2001	8.9
2002	6.3
2003	5.9
2004:	
January	1.5
February	2.3
March	3.0
April	3.6
May	4.4
June	4.8
July	5.3
August	5.6

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$815.5 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, US$2,369.7 million at the end of 2002 and US$2,919.3 million as of December 31, 2003. As of June 30, 2004 net international reserves were US$2,954.1 million.

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$)(1)

	December 31,				
	1999	2000	2001	2002	2003
Bank of Guatemala:					
Assets(2)	1,242.7	1,884.8	2,358.8	2,380.6	2,931.5
Liabilities	(23.0)	(10.7)	(10.9)	(11.0)	(12.2)
Total	1,219.7	1,874.1	2,347.9	2,369.6	2,919.3
Commercial private banks:					
Assets	79.8	110.3	200.7	236.6	283.2
Liabilities	(488.7)	(661.1)	(664.9)	(692.7)	(747.0)
Total	(408.8)	(550.8)	(464.2)	(456.1)	(463.8)
Net international reserves of the banking system	810.9	1,323.3	1,883.7	1,913.5	2,455.5

(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.

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. These fixed-rate term deposits are traded on limited markets (principally an inter-bank market) and are regulated by decrees issued by the Monetary Board. As of December 31, 2002, the amount of fixed rate term deposits represented Q11,158.7 million and increased to Q14,508.5 million as of December 31, 2003 due to the Bank of Guatemala's efforts to regulate price levels. See "—Financial Sector."

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* (National Stock Exchange); *Bolsa de Productos y Mercancías* (Mercantile and Products Exchange); and *Bolsa de Valores Global* (Global Stock Exchange). 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 2003, total trading volume on the National Stock Exchange was approximately Q67,532.3 million (US$8,519.0 million), representing a 12.3% increase, and trading on the Exchange Corporation was approximately Q742.3 million (US$93.6 million), representing a 103.6% increase, each compared to 2002.

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 2004 budget was presented to Congress on September 2, 2003 but it was not approved. Consequently, the budget approved for the fiscal year ended 2003, as adjusted pursuant to modifications submitted by the Republic and approved by Congress, is still in full force and effect for 2004. In addition, the *Ley Orgánica del Presupuesto* (Organizational Budget Law), pursuant to Decree No. 101-97 of Congress, mandates that the executive branch provide an analysis of the budget by sub-category by means of a governmental accord. As a result, Governmental Accord No. 856-2003, dated December 23, 2003, presented the required analysis of the revenue and expenses of the budget of Q30,809.3 million (US$3,886.5 million) for 2004. However, the budget was adjusted to Q28,825.2 million (US$3,582.2 million) due to an expected deficit of 2% as a result of the Constitutional Court ruling that the Tax on Mercantile and Agricultural Enterprises is unconstitutional. See "—Tax Regime."

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. 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. See "The Guatemalan Economy—Privatization and the Rule of the State in the Economy—Electricity." 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.

Municipalities prepare their own budgets with the advice of the *Instituto de Fomento Municipal* (Municipal Development Institute). Municipal budgets are not subject to the approval of the Ministry of Public Finance or Congress. Under the Constitution, municipalities and certain national 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. 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 municipalities. This share of Government revenues is divided among the municipalities 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, delivers a report to the Government and Congress on their financial situation, revenues and expenditure, budgets and activities. The University of San Carlos receives a constitutionally-mandated 5% of the ordinary revenues of the Government and prepares its own budget.

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)(1)

	1999	2000	2001	2002	2003	Budget 2004
Fiscal revenue:						
Current revenues:						
Taxes:(2)						
Import duties	245.7	232.9	252.1	289.7	300.7	293.4
Taxes on goods and services (including VAT)(3)	1,093.4	1,132.9	1,284.2	1,528.9	1,594.1	1,725.9
Estate and real estate taxes	1.7	2.2	1.1	1.1	1.1	1.1
Income taxes	392.2	424.9	491.1	649.8	662.2	663.6
Other(4)	77.3	141.9	0.3	0.4	0.3	0.4
Total tax revenues	1,810.3	1,934.8	2,028.8	2,469.9	2,558.4	2,684.4
Social security contributions	41.0	46.0	52.8	60.0	63.7	66.3
Non-tax revenues:						
Public services	17.7	17.4	17.5	24.7	26.1	23.6
Other	126.0	79.3	147.7	49.2	48.0	54.0
Total non-tax revenues	143.7	96.7	165.3	73.9	74.0	77.6
Current transfers(5)	25.5	45.0	72.1	53.4	47.6	37.3
Other current revenues	—	—	—	—	—	—
Total current revenues	2,020.5	2,122.5	2,318.9	2,657.3	2,743.6	2,865.6
Capital revenues:						
Capital income	1.3	1.4	1.8	1.7	2.3	1.2
Total capital revenues	1.3	1.4	1.8	1.7	2.3	1.2
Total fiscal revenue	2,021.8	2,123.9	2,320.7	2,659.0	2,745.9	2,866.8
Expenditures:						
Current expenditures:						
Consumption expenditures	928.9	1,031.2	1,086.2	1,120.2	1,198.3	1,190.8
Interest on public internal debt	117.5	125.0	175.9	134.2	143.5	220.8
Interest on public external debt	89.6	111.1	116.2	146.4	142.4	181.2
Social security contributions	106.7	129.7	144.0	161.7	174.3	203.2
Current transfers	336.2	353.2	413.7	445.8	552.8	538.9
Total current expenditures	1,578.9	1,750.2	1,936.0	2,008.2	2,211.3	2,334.9
Capital expenditures:						
Real investment	338.7	278.3	265.3	294.0	248.5	320.8
Financial investment	216.0	7.0	33.2	29.5	8.5	20.5
Capital transfers	397.8	428.8	479.9	553.8	853.5	737.4
Total capital expenditures	952.5	714.1	778.4	877.3	1,110.6	1,078.7
Total expenditures	2,531.4	2,464.3	2,714.4	2,885.5	3,321.9	3,413.6
Fiscal balance:						
Current account balance	441.6	372.3	382.9	649.1	532.3	530.7
Capital account deficit	(951.2)	(712.7)	(776.6)	(875.6)	(1,108.3)	(1,077.5)
Fiscal surplus/(deficit)	(509.6)	(340.4)	(393.7)	(226.5)	(576.0)	(546.8)
Financing:						
Net foreign financing	277.9	87.3	73.0	206.0	326.1	294.6
Net domestic financing	209.7	106.1	82.9	48.9	361.8	252.2
Other financing sources	22.0	147.0	237.8	(28.4)	(111.9)	—
Total financing	509.6	340.4	393.7	226.5	576.0	546.8
GDP	18,328.2	19,310.9	20,990.5	23,333.1	24,812.7	26,571.6
Nominal exchange rate	7.38138	7.75431	7.85091	7.81185	7.92722	8.04685
Government revenues as % of GDP	11.0%	11.0%	11.1%	11.4%	11.1%	10.8%
Government expenditures as % of GDP	13.8%	12.8%	12.9%	12.4%	13.4%	12.8%
Surplus/(deficit) as % of GDP	(2.8)%	(1.8)%	(1.9)%	(1.0)%	(2.3)%	(2.1)%

(1) Translated from Q to US$ at the average daily exchange rate for the year.
(2) Revenues in adjusted budget 2004 include US$99.4 million from tax administration improvements and US$316.8 million from fiscal reform.
(3) Revenue figures for 2001 are net of tax refunds.
(4) Includes sales of property, leases of property and right payments, among others.
(5) Includes foreign aid.
Source: Ministry of Public Finance.

Tax Regime

Except for certain municipality and real estate taxes, taxes in Guatemala are collected through the *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. 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)

	1999	2000	2001	2002	2003	Budget 2004
Import duties	13.6	12.0	12.4	11.7	11.7	10.9
Taxes on goods and services (including VAT)	60.4	58.6	63.3	61.9	62 3	64.3
Estate and real estate taxes	0.1	0.1	0.1	0.1	0.1	—
Income taxes	21.6	22.0	24.2	26.3	25.9	24.7
Other taxes	4.3	7.3	—	—	0.1	0.1
Total tax revenues(1)	100.0	100.0	100.0	100.0	100.0	100.0

(1) Revenues in adjusted budget 2004 include US$99.4 million from tax administration improvements and US$316.8 million from fiscal reform.

Source: Ministry of Public Finance.

The deficit was 2.8% of GDP in 1999, 1.8% of GDP in 2000, 1.9% of GDP in 2001, 1.0% of GDP in 2002 and 2.3% of GDP in 2003. Tax revenues, including revenues from import duties, comprised the majority of Government revenues.

Revenues from import duties constituted 11.7% of total Government revenues in 2003. There are no taxes on exports. Revenues from VAT and other taxes on goods and services constituted 62.3% of total Government revenues in 2003, while revenue from income taxes constituted 25.9% of total tax revenues in 2003.

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 and 10.3% in 2003.

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 10.3% of GDP for 2003, 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 addition, the signatories to the Fiscal Pact agreed to specific tax measures and a detailed implementation schedule. Significant tax reforms were approved by Congress in 2001 and in June 2004, including among others, the following:

- an increase in VAT from 10% to 12%;
- elimination or reduction of certain exemptions, credits and deductions with respect to corporate income taxes;
- 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 as a result of increased criminal penalties for tax evasion;
- amendments to the income tax law, including the establishment of a flat tax and modifications to the fiscal year;
- the creation of an extraordinary temporary Peace Program tax that fixes the gross income tax at 2.5% for 2004, with a possible reduction to 1.25% for payments received in September and December 2004; 1.25% for 2005 and at 1% for 2006 and 2007;
- amendments to the tax on distribution of distilled alcoholic beverages, beer and other beverages; 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; 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% of GDP. 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:

Taxable Annual Income (Q)	Tax
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.

On June 29, 2004, Congress amended the Income Tax Law by Decree No. 18-04, in accordance with the obligation to improve tax legislation and collection and increase financial resources as enumerated in the Peace Accord. Along with the Fiscal Pact, the amended Income Tax Law is intended to increase revenue by enlarging the taxable base by adjusting taxes, simplifying tax collection and decreasing tax fraud and evasion.

The Republic applies a single 31% tax rate to the income of companies and individuals engaged in commercial enterprises, or a 5% monthly payment on the revenue of such enterprises. Pursuant to Decree No. 19-04, Congress approved the Extraordinary Temporary Tax for the Support of the Peace Accord. This tax fixes the gross income of enterprises at 2.5% for 2004, with a possible reduction to 1.25% if payment is received in September and December 2004, at 1.25% for 2005 and at 1% for 2006 and 2007.

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 revenues increased to 6.5% of GDP in 2002 compared to 6.1% of GDP in 2001 and decreased to 4.7% of GDP in 2003.

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.

Consolidated Public Sector

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

Consolidated Public Sector Accounts
(as % of GDP)

	1999	2000	2001	2002	2003(1)
Balance:					
Total non-financial public sector	(2.6)	(1.8)	(1.5)	(0.2)	N/A
Bank of Guatemala losses	(0.3)	(0.4)	(0.8)	(0.6)	N/A
Consolidated public sector deficit	(2.9)	(2.2)	(2.3)	(0.8)	N/A
Financing:					
External:					
Foreign loans (net)	1.5	0.4	0.3	0.6	N/A
Bonds	0.9	0.5	0.9	(0.5)	N/A
Total external	2.6	0.9	1.2	0.1	N/A
Internal:					
Total banking system	0.4	0.5	(1.8)	1.4	N/A
Bonds	(1.0)	(0.1)	1.0	(0.3)	N/A
Change in floating debt	—	0.2	0.4	(0.4)	N/A
Total internal	(0.6)	0.6	(0.4)	0.7	N/A
Sale of assets	0.9	0.7	1.5	0.0	N/A
Combined public sector financing	2.9	2.2	2.3	0.8	N/A

(1) The IMF did not publish information regarding consolidated public sector accounts in 2003.
N/A = Not available.
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 1999 through 2002 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 1999 through 2002 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 the 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, including 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.

2005 Budget

The 2005 budget is being prepared by the Ministry of Public Finance on the basis of the assumptions set forth below:

Principal 2005 Budget Assumptions[(1)]

	2005
Real GDP growth rate	3.2%
Inflation	4% to 6%
Exchange rate (Q per US$1.00)	8.27

(1) 2005 budget assumptions were used in the budget presented to Congress on September 2, 2004.
Source: Bank of Guatemala.

The Republic can give no assurances that the assumptions used in preparing the 2005 budget will prove accurate. The proposed budget for 2005 was submitted to Congress on September 2, 2004, and is expected to be approved in November 2004. The proceeds from this offering that are not spent in 2004 may be used to finance expenditures in 2005.

PUBLIC SECTOR DEBT

General

Public sector debt in Guatemala (excluding debt of the Bank of Guatemala) totaled approximately US$4,640.9 million at December 31, 2003.

As of December 31, 2003:

- the Republic's public sector external debt (excluding debt of the Bank of Guatemala) was 107.1% of total exports;
- the Republic's public sector external debt service (excluding debt of the Bank of Guatemala) was 10.3% of total exports;
- the Republic's public sector external and internal debt (excluding debt of the Bank of Guatemala) was 18.7% of GDP; and
- the Republic's public sector external debt (excluding debt of the Bank of Guatemala) consisted of US$1,960.5 million in debt to multilateral agencies, US$530.1 million in debt to foreign governments and bilateral organizations, the 8½% Notes due 2007 (US$150.0 million), the 10¼% Notes due 2011 (US$325.0 million), and the 9¼% Notes due 2013 (US$300.0 million) held by investors.

The largest single creditor to the Guatemalan public sector is the Inter-American Development Bank, which held US$1,209.0 million in debt of the public sector (excluding debt of the Bank of Guatemala) as of December 31, 2003.

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, 2003, the Bank of Guatemala's internal debt was Q14,508.5 million (US$1,804.2 million) and its external debt was US$70.4 million. The Bank of Guatemala and the Republic manage their debt separately and independently and follow distinct policies in this regard.

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(1)
(in millions of US$, except %)(2)

	December 31,					June 30,
	1999	2000	2001	2002(3)	2003(3)	2004(3)
Official Creditors:						
Multilateral organizations:						
Inter-American Development Bank	937.2	963.8	1,024.3	1,182.9	1,209.0	1,268.5
World Bank	270.6	307.4	340.6	411.2	438.1	437.2
Banco Centroamericano de Integración Económica	259.5	287.5	280.2	273.6	283.9	276.2
International Fund for Agricultural Development	12.9	12.4	12.7	12.3	13.6	13.8
Organization of Petroleum Exporting Countries	12.3	13.2	13.0	14.9	15.9	15.1
Total multilateral organizations	1,492.5	1,584.3	1,670.8	1,894.9	1,960.5	2,010.8
Bilateral lending institutions:						
United States	252.0	242.6	220.9	199.8	178.3	173.0
Kreditanstalt für Wiederaufbau—Germany	55.9	52.2	49.0	60.7	74.9	73.7
Mediocredito Centrale—Italy	31.2	27.7	23.6	19.5	14.9	13.3
Banco de Desarrollo de Venezuela	15.5	9.5	7.4	5.3	3.2	2.2
Canadian International Development Agency	1.9	1.8	1.6	1.5	1.8	1.7
Union Bank of Switzerland	6.4	4.9	2.5	1.5	1.2	1.2
Japanese Bank for International Cooperation	98.0	110.8	99.7	109.6	129.4	130.0
Paris Club	67.6	64.5	53.6	51.6	43.9	37.7
Eximbank—Republic of China (Taiwan)	113.9	103.9	98.1	87.8	78.3	75.1
International Cooperation and Development Fund—Republic of China (Taiwan)	—	—	—	—	4.2	7.2
Total bilateral entities	642.4	617.9	556.4	537.3	530.1	515.1
Private Creditors:						
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	325.0
9¼% Notes due 2013	—	—	—	—	300.0	300.0
	150.0	150.0	475.0	475.0	775.0	775.0
Total	2,284.9	2,352.2	2,702.2	2,907.2	3,265.6	3,300.9
External debt (as % of GDP)	12.5%	12.2%	12.9%	12.5%	13.2%	N/A
External debt interest service (as % of GDP)	0.6%	0.6%	0.6%	0.7%	0.6%	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.
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, 2003.

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

Currency	Amount	% of total external debt
U.S. dollar	3,017.6	92.41
Japanese yen	129.4	3.96
Euros	102.0	3.12
Special drawing right[(1)]	13.6	0.42
Canadian dollar	1.8	0.05
Swiss franc	1.2	0.04
Total	3,265.6	100.00

(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$)

	December 31,				
	1999	2000	2001	2002	2003
Interest payments	103.3	119.5	124.6	155.8	142.9
Amortization	104.0	112.1	140.8	150.9	170.3
Total public sector external debt service	207.3	231.6	265.4	306.7	313.2
Total public sector external debt service:					
as a % of total exports[(1)]	7.5	7.5	9.3	11.7	10.3
as a % of GDP[(1)]	1.1	1.2	1.3	1.3	1.3
as a % of total tax revenue[(1)]	11.5	12.0	13.1	12.4	12.2

(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,									
	1999		2000		2001		2002		2003	
	US$	%	US$	%	US$	%	US$	%	US$	%
Fixed rate:										
0-3%	713.0	31.2	722.4	30.7	694.5	25.7	639.5	22.0	661.3	20.2
3-6%	300.1	13.1	255.2	10.9	241.4	8.9	256.3	8.8	241.0	7.4
6-9%	189.5	8.3	199.0	8.5	167.6	6.2	190.2	6.6	168.7	5.2
More than 9%	7.0	0.3	3.4	0.1	326.4	12.1	335.3	11.5	632.3	19.4
Floating Rate	1,075.3	47.1	1,172.2	49.8	1,272.3	47.1	1,485.9	51.1	1,562.4	47.8
Total	2,284.9	100.0	2,352.2	100.0	2,702.2	100.0	2,907.2	100.0	3,265.6	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, eurobonds 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 2004 through 2014:

Debt Service on Existing Public Sector External Debt(1)
(in millions of US$)(2)

	2004		2005		2006		2007		2008		2009	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Government	166.5	178.9	194.8	172.7	196.7	162.8	342.0	153.8	185.3	133.0	181.9	124.1
Rest of public sector	14.2	3.7	11.2	4.5	7.3	4.8	7.3	4.9	8.7	4.6	8.6	4.3
Total	180.7	182.6	206.0	177.2	204.0	167.6	349.3	158.7	194.0	137.6	190.5	128.4

	2010		2011		2012		2013		2014	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Government	166.4	116.2	478.4	108.8	138.0	68.8	417.0	63.0	103.1	30.6
Rest of public sector	8.6	4.1	8.1	3.8	7.6	3.6	7.7	3.4	7.4	3.1
Total	175.0	120.3	486.5	112.6	145.6	72.4	424.7	66.3	110.5	33.7

(1) The amounts in this table are for existing public sector debt only as of June 30, 2004.
(2) Non-US dollar amounts have been translated to US$ at the official exchange rate as of June 30, 2004.
Source: Ministry of Public Finance.

The Republic's total multilateral debt at June 30, 2004, was 60.9% of total public sector external debt and debt to foreign governments and bilateral organizations was 15.6% 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 June 30, 2004 was the Republic's US$150.0 million of 8½% Notes due 2007, the US$325.0 million 10¼% Notes due 2011 and the US$300.0 million 9¼% Notes due 2013, which represented 23.5% 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 Q11,289.1 million, or US$1,430.2 million as of June 30, 2004. 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 June 30, 2004, held Q3,300.6 million or US$418.15 million in bonds outstanding. Certain of the treasury bonds that the Government classifies as internal debt are held by external creditors and are U.S. dollar demonimated. These bonds amounted to US$113.8 million as of June 30, 2004.

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(1)
(in millions of Q and US$)(2)

	December 31,										As of June 30,	
	1999		2000		2001		2002		2003		2004(3)	
	Q	US$	Q	US$	Q	US$	Q	US$	Q	US$	Q	US$
Government bonds	7,807.1	1,001.9	8,631.6	1,118.1	9,281.5	1,163.3	8,168.6	1,050.6	11,036.5	1,375.3	11,289.1	1,430.2
Total public sector domestic debt as % of GDP	5.8%		5.8%		5.6%		4.5%		5.5%		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$)[(1)]

	December 31,				
	1999	2000	2001	2002	2003
Interest payments	117.5	125.0	175.9	134.2	143.5
Amortization	44.1	2.9	142.7[(2)]	191.4[(2)]	—
Total public sector internal debt service	161.6	127.9	318.6	325.6	143.5
Total public sector internal debt service:					
as a % of GDP[(3)]	0.9	0.7	1.5	0.8	0.6
as a % of total tax revenue[(3)]	8.9	6.6	15.7	13.2	5.6

(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 2004 through 2013.

Debt Service on Existing Public Sector Internal Debt[(1)]
(in millions of US$)[(2)]

	2004		2005		2006		2007		2008	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
In US$	153.3	73.8	120.9	62.4	228.0	49.2	60.5	38.3	136.6	34.2
In Q	65.3	77.3	94.4	69.8	200.2	42.9	105.0	22.4		17.6
Total	218.6	151.1	215.3	132.2	428.2	92.1	165.5	60.7	136.6	51.8

	2009		2010		2011		2012		2013	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
In US$	49.7	24.2	31.2	19.7	85.2	18.2	30.5	10.3	48.0	6.7
In Q	51.2	14.3		11.3	77.5	5.7				
Total	100.9	38.5	31.2	31.0	162.7	23.9	30.5	10.3	48.0	6.7

(1) The amounts in this table are for existing public sector debt only as of June 30, 2004.
(2) The amounts in Q have been converted to US$ at the official exchange rate as of June 30, 2004.
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 were due and paid in April 2003.

The *Ley Orgánica del Presupuesto* (Organizational Budget Law), pursuant to Decree No. 101-97 of Congress, mandates that the Republic shall establish an account with the Bank of Guatemala to guarantee debt service. In addition, pursuant to Decree No. 20-04, which authorizes the issuance of these notes, the Republic is required to maintain an account with the Bank of Guatemala known as the "*Fondo de Amortizacion*" (Amortization Fund) into which it is required to make payments for interest on, principal of and commissions and other expenses related to debt service on these notes. This Decree No. 20-04 permits the Bank of Guatemala to freely transmit payments received from the Republic to the Amortization Fund. Similar laws provide for such payments to be made into the Amortization Fund for payments due on other debt issuances. However, Decrees Nos. 101-97 and 20-04 and any similar laws may be altered by an act of Congress.

Although the Republic has from time to time 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. There is no assurance that, however, that the Republic will not default on external debt in the future.

In August 1997, the Republic issued US$150.0 million of its 8½% Notes due 2007, in November 2001 the Republic issued US$325.0 million of its 10¼% Notes due 2011 and in July 2003 issued US$300.0 million of its 9¼% Notes due 2013 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 CABEI) 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 CABEI regarding satisfaction of its obligations under this loan. The Government made full payment of this loan in 2001.

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 that 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 June 30, 2004, the Bank of Guatemala's internal debt consisting of fixed-rate term deposits was Q15,488.1 million (US$1,962.2 million) and its external debt was US$64.4 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$)

	December 31,				
	1999	2000	2001	2002	2003
Interest payments	10.5	9.8	7.2	4.2	3.3
Amortizations	30.3	23.1	11.2	11.1	11.4
Total	40.8	32.9	18.4	15.3	14.7

Bank of Guatemala's External Debt by Creditor
(in millions of US$)

	December 31,				
	1999	2000	2001	2002	2003
Multilateral organizations					
Medium term	8.3	4.6	3.9	3.0	2.2
Longterm	39.0	25.9	21.9	18.9	16.0
Total multilateral organizations	47.3	30.5	25.8	21.9	18.2
Bilateral lending institutions					
Long term	68.4	61.6	55.7	49.7	43.8
Private creditors					
Short term	2.4	2.3	2.0	1.7	1.5
Long term	8.8	8.3	7.8	7.4	6.9
Total	11.2	10.6	9.8	9.1	8.4
Total debt	126.9	102.7	91.3	80.7	70.4

DESCRIPTION OF THE NOTES

The notes will be issued under a fiscal agency agreement, to be dated as of October 6, 2004, among the Republic, JPMorgan Chase Bank, 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 J.P. Morgan Bank 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$330,000,000 (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 October 6, 2034.

The notes will bear interest from October 6, 2004 at a rate of 8⅛% per annum. Interest on the notes will be payable semi-annually in arrears on April 6 and October 6 of each year, commencing on April 6, 2005. 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.

Early Redemption

The Republic cannot redeem the notes at its option prior to maturity. Each holder may cause the Republic to redeem such holder's notes, in whole or in part, in any authorized denomination, on October 6, 2019 (the "early redemption date") at 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest up to, but not including, the early redemption date, *provided* that to exercise this early redemption option, the holder must take the following steps between August 7, 2019 and the close of business on September 6, 2019 (the "notice period"):

(i) If the notes are represented by a global note, a holder must ensure that, prior to the end of the notice period, the fiscal agent receives appropriate wire transfer instructions for the payment of the notes to be redeemed and:

(A) a notice of redemption in the form provided for in Exhibit F of the fiscal agency agreement (a "notice of redemption") together with instructions to the fiscal agent for DTC to surrender the holder's interest in the global note; or

(B) a telegram, telex, fax transmission or letter from a member of a national securities exchange, NASD Inc., DTC (in accordance with its normal procedures) or a commercial bank or trust company in the United States that: (x) contains the name of the holder of the global notes, the principal amount of the global note to be repaid and the CUSIP number, as appropriate; or (y) describes the terms of the global note, states that the early redemption option is being exercised, and guarantees that a properly completed notice of redemption, together with instructions for DTC to surrender the holder's interest in the global note, will be received by the fiscal agent no later than five business days after the date of the telegram, telex, fax transmission or letter. The fiscal agent must receive all of these documents prior to the end of the notice period and no later than five business days after the date of the telegram, telex, fax transmission or letter for the notice of redemption to be effective.

If a note is represented by a global note, the holder of the note will be DTC's nominee. Therefore, DTC's nominee will be the only entity that can exercise the early redemption option. In order to ensure that DTC's nominee will timely exercise a right to redemption with respect to a particular note, the beneficial owner of that note must instruct the direct participant, or indirect participant through which it holds an interest in that note, to notify DTC of its desire to exercise a right of early redemption.

(ii) If the notes are in definitive, certificated form, a holder must ensure that, prior to the end of the notice period, the fiscal agent receives appropriate wire transfer instructions for the payment of the notes to be redeemed and:

(A) the certificated note, together with a duly completed notice of redemption; or

(B) a telegram, telex, fax transmission or letter from a member of a national securities exchange, NASD Inc., DTC (in accordance with its normal procedures) or a commercial bank or trust company in the United States that: (x) contains the name of the registered holder of the certificated note, the principal amount of the certificated note to be repaid and the certificate number or description of the terms of the certificated note; (y) states that the redemption option is being exercised; and (z) guarantees that the certificated note with the properly completed notice of redemption will be received by the fiscal agent no later than five business days after the date of the telegram, telex, fax transmission or letter. The fiscal agent must receive the certificated note with the properly completed notice of redemption prior to the end of the notice period and no later than five business days after the date of the telegram, telex, fax or letter for the notice of redemption to be effective.

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 notes 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.

Redemption, Purchase and Cancellation

The notes will not be redeemable prior to maturity at the option of the Republic. Holders of the notes may redeem the notes on October 6, 2019 as described in "—Early Redemption" and on acceleration following an event of default.

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.

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 of 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 (as defined in the fiscal agency agreement) 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 66⅔% 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 that:

- 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 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 66⅔% 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 66⅔% in aggregate principal amount of the Outstanding notes.

However, the holders of not less than 75% 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;
- change the early redemption provisions 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 75% 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 75% 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.

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 with respect to the notes 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 with respect to the notes 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 with respect to the notes 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 of 1976 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 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 Securities Act 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 Securities Act 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 Securities Act) 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 under the Securities Act) 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 Securities Act, 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 Securities Act;

(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 Securities Act;

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 REGULATION S 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 Securities Act. 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.

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. Any loss recognized upon a sale, exchange or retirement of a note by a U.S. holder may be sourced outside the U.S. by reference to the source of interest on the note. 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 (currently 28%) 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 July 1, 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 and Switzerland have initialed an agreement 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$330,000,000, and the Initial Purchaser has agreed to purchase from the Republic notes in the amount of US$330,000,000.

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[SM] 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 overallot in connection with this offering, creating a short position in the notes for its own accounts. In addition, to cover overallotments 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 Securities Act 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 Citigroup Global Markets Inc., 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. Rodrigo Quevedo Castellanos of the firm Presa, Polanco, Quevedo, Orantes & Sisniega, S.C., Guatemalan counsel to the Republic, and by Milbank, Tweed, Hadley & McCloy 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 Rodríguez, Archila, Castellanos, Solares & Aguilar, S.C., Guatemalan counsel to the Initial Purchaser. As to all matters of Guatemalan law, Milbank, Tweed, Hadley & McCloy LLP may rely on the opinion of Presa, Polanco, Quevedo, Orantes & Sisniega, S.C. and Cleary, Gottlieb, Steen & Hamilton may rely upon the opinion of Rodríguez, Archila, Castellanos, Solares & Aguilar, S.C.

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 20-04 of the Congress of the Republic, effective July 7, 2004, amending Congressional Decree Number 75-2002 of the Congress of the Republic, effective January 1, 2003.

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 20-04 and 75-2002 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 P8056G AB 9 and 401494 AD 1, 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 020259507, and the International Securities Identification Numbers (ISIN) for the Regulation S Global Note and the Rule 144A Global Note are USP8056GAB97 and US401494AD16, 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, 2003.

APPENDIX A
REPUBLIC OF GUATEMALA: GLOBAL PUBLIC SECTOR EXTERNAL DEBT
(AS OF JUNE 30, 2004)(1)

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of June 30, 2004 (in thousands of US$)
USAID	Government	2/10/83	3.00	6/30/08	3,038
USAID	Government	6/6/86	5.00	6/9/11	13,873
USAID	Government	9/30/87	5.00	10/30/14	3,273
USAID	Government	9/1/65	2.00	6/23/07	194
USAID	Government	8/17/65	2.00	2/7/07	69
USAID	Government	8/17/66	2.50	3/21/07	152
USAID	Government	8/17/66	3.00	3/21/07	62
USAID	Government	10/14/66	2.50	4/3/08	135
USAID	Government	7/10/67	2.50	7/2/09	361
USAID	Government	11/14/68	2.50	7/23/11	2,677
USAID	Government	2/5/71	3.00	10/17/13	511
USAID	INFOM	12/3/70	3.00	08/28/12	367
USAID	Government	12/3/70	3.00	8/28/12	425
USAID	Government	7/17/70	3.00	4/21/11	7,203
USAID	INDE	8/20/71	3.00	08/11/12	2,620
USAID	Government	11/19/71	3.00	9/18/12	877
USAID	Government	2/14/73	3.00	6/4/14	1,329
USAID	Government	2/28/73	3.00	8/9/14	555
USAID	Government	4/30/74	3.00	4/22/15	2,106
USAID	Government	04/08/76	3.00	4/19/18	7,422
USAID	Government	6/13/83	3.00	12/27/23	2,160
USAID	Government	5/18/78	3.00	12/1/10	786
USAID	Government	5/21/79	3.00	3/23/06	1,345
USAID	Government	9/30/83	3.00	4/18/13	1,186
USAID	Government	7/13/79	3.00	6/25/06	565
USAID	Government	9/24/81	3.00	1/11/09	1,442
USAID	Government	9/30/83	3.00	1/16/10	1,106
USAID	Government	9/30/83	3.00	3/12/11	2,518
USAID	Government	3/20/85	3.00	9/21/12	1,667
USAID	Government	9/27/86	5.00	9/25/12	135
USAID	Government	3/20/85	3.00	9/26/10	4,284
USAID	Government	3/20/85	5.00	12/12/13	355
USAID	Government	3/20/85	5.00	12/12/13	366
USAID	Government	9/30/87	5.00	07/18/22	495
USAID	Government	9/30/87	5.00	9/11/15	5,536
USAID	Government	9/30/87	3.00	5/27/18	128
USAID	Government	9/30/87	2.00	9/21/20	379
USAID	Government	11/3/75	3.00	10/20/18	4,112
USAID	Government	9/14/77	3.00	1/28/21	3,099
USAID	Government	8/31/82	3.00	7/2/09	599
USAID	Government	8/31/82	3.00	7/2/09	135
USAID	Government	12/27/84	3.00	9/6/10	1,221
USAID	Government	12/27/84	3.00	3/26/11	2,102
USAID	Government	9/27/86	5.00	12/01/12	194
USAID	Government	9/27/86	5.00	10/14/16	119
USAID	Government	9/27/86	5.00	9/27/18	34

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of June 30, 2004 (in thousands of US$)
USAID	Government	9/19/80	3.00	3/26/07	1,101
USAID	Government	3/15/85	3.00	11/23/08	1,255
USAID	Government	9/20/76	3.00	5/16/18	4,555
CABEI	Government	8/17/66	3.50	5/8/06	255
CABEI	Government	9/2/76	4.00	9/2/04	62
CABEI	Government	4/30/81	5.00	12/2/08	1,203
CABEI	Government	8/3/81	6.50	8/31/09	4,021
CABEI	Government	3/28/95	6.90	03/28/10	29,861
CABEI	Government	3/30/95	6.90	9/30/06	9,561
CABEI	Government	3/30/95	7.28	3/30/07	5,664
CABEI	Government	9/10/97	7.15	9/10/09	11,220
CABEI	Government	4/17/98	7.50	04/17/10	25,904
CABEI	MUNGUAT	5/15/97	7.60	5/15/04	136
CABEI	Government	11/18/97	7.49	11/18/09	8,382
CABEI	Government	2/6/98	8.05	2/6/10	6,907
CABEI	Government	3/9/98	6.13	3/9/10	14,206
CABEI	Government	10/15/98	3.00	10/15/18	959
CABEI	Government	10/15/98	3.00	04/15/18	959
CABEI	Government	10/27/97	7.28	10/27/12	12,320
CABEI	Government	2/18/99	6.90	2/18/09	23,445
CABEI	Government	2/9/99	3.00	2/9/19	1,000
CABEI	Government	2/18/99	6.90	2/18/11	8,240
CABEI	Government	7/5/99	7.40	7/5/11	54,114
CABEI	Government	10/15/99	7.15	10/15/11	32,961
CABEI	Government	12/21/01	6.90	02/12/14	12,301
CABEI	Government	5/13/03	6.90	5/13/23	12,500
IDB	Government	5/19/76	0.00	5/19/16	5,597
IDB	Government	12/4/85	7.28	10/21/05	5,674
IDB	INDE	10/4/85	9.50	8/11/05	5,343
IDB	Government	3/5/87	7.13	3/6/12	6,830
IDB	EMPAGUA	10/16/73	1.25	10/16/13	3,159
IDB	Government	10/2/73	2.00	10/6/13	5,542
IDB	Government	2/26/74	2.00	2/24/14	3,100
IDB	Government	5/7/75	2.00	5/6/15	1,833
IDB	Government	5/21/75	2.00	5/20/15	809
IDB	Government	5/21/75	2.00	5/20/15	3,667
IDB	Government	1/15/76	2.00	1/15/16	4,566
IDB	Government	1/15/76	2.00	1/15/16	2,472
IDB	Government	5/24/84	6.10	5/13/04	6
IDB	INDE	1/10/76	2.00	1/15/16	17,557
IDB	Government	1/15/76	2.00	1/15/16	6,514
IDB	CORFINA	4/5/76	2.00	4/6/16	2,637
IDB	Government	6/30/76	2.00	7/6/16	11,243
IDB	Government	09/27/84	7.95	5/24/04	391
IDB	Government	6/2/77	2.00	5/24/17	11,536
IDB	EMPAGUA	5/18/78	1.75	5/18/18	14,681
IDB	Government	2/18/81	2.00	2/18/21	14,821
IDB	Government	6/12/81	2.00	5/24/21	14,579
IDB	Government	4/27/82	2.00	10/24/22	8,934
IDB	Government	4/27/82	2.00	10/24/22	13,503
IDB	Government	3/20/83	2.00	3/24/23	6,962

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of June 30, 2004 (in thousands of US$)
IDB	Government	3/20/83	2.00	3/24/23	11,048
IDB	Government	9/6/83	2.00	9/6/23	10,034
IDB	Government	5/24/84	2.00	5/24/24	4,915
IDB	INDE	9/27/84	2.00	9/24/24	11,278
IDB	Government	1/25/94	4.66	7/25/13	47,108
IDB	Government	1/25/94	4.85	07/25/13	13,053
IDB	Government	3/5/87	2.00	3/6/27	9,688
IDB	Government	03/05/87	2.00	3/6/27	19,094
IDB	Government	9/30/96	5.39	09/30/21	1,318
IDB	Government	10/2/91	2.00	10/2/31	30,585
IDB	Government	12/07/92	2.00	11/24/32	13,889
IDB	Government	2/3/93	2.00	2/3/33	40,340
IDB	Government	1/13/96	4.98	1/13/21	89,474
IDB	Government	1/13/96	4.96	1/13/21	44,737
IDB	Government	10/04/95	4.66	1/13/16	20,568
IDB	Government	1/13/96	4.98	1/13/21	12,455
IDB	Government	1/25/94	2.00	1/25/34	40,000
IDB	Government	12/30/96	5.80	12/16/26	38,847
IDB	Government	1/21/97	4.98	1/21/27	16,292
IDB	Government	1/21/97	1.00	1/21/37	31,022
IDB	Government	9/10/97	4.96	09/10/22	1,778
IDB	Government	9/10/97	5.18	9/10/22	7,078
IDB	Government	10/20/97	4.98	10/20/17	67,425
IDB	Government	10/20/97	4.98	10/20/17	7,357
IDB	Government	3/14/98	1.00	3/14/38	10,188
IDB	Government	3/14/98	5.80	3/14/23	50,494
IDB	Government	9/18/98	5.60	9/18/28	14,466
IDB	Government	12/11/98	4.98	12/11/18	5,803
IDB	Government	1/22/99	4.96	1/22/29	38,272
IDB	Government	3/14/99	4.96	3/14/29	17,385
IDB	Government	3/26/00	4.96	3/26/20	6,398
IDB	Government	10/18/99	6.19	10/18/29	79,124
IDB	Government	7/3/01	5.25	7/3/26	76,509
IDB	Government	3/22/01	0.00	11/24/32	393
IDB	Government	2/11/02	3.27	2/11/27	517
IDB	Government	2/11/02	5.60	2/11/22	927
IDB	Government	2/11/02	4.96	2/11/32	4,364
IDB	Government	9/17/02	4.48	9/17/22	200,000
IDB	Government	9/17/02	5.18	9/17/27	2,080
IDB	Government	12/12/02	4.97	12/12/27	232
IDB	INDE	9/17/02	5.50	3/17/28	3
IDB	Government	12/12/02	5.27	12/12/22	8
IBRD	Government	3/5/76	8.66	12/15/05	2,110
IBRD	Government	11/15/89	6.61	8/15/05	814
IBRD	MUNGUAT	11/15/89	6.61	8/15/05	384
IBRD	Government	8/14/96	0.00	10/01/07	2,000
IBRD	Government	5/21/93	3.99	2/15/13	18,221
IBRD	Government	1/10/90	3.99	2/15/09	8,680
IBRD	Government	12/8/92	6.20	11/01/12	83,685
IBRD	Government	9/29/93	6.61	11/01/12	13,637
IBRD	Government	1/22/96	3.99	8/15/15	7,990

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of June 30, 2004 (in thousands of US$)
IBRD	Government	3/3/98	5.97	11/15/10	6,585
IBRD	Government	10/20/97	6.07	4/15/11	27,827
IBRD	Government	9/11/98	5.53	9/15/11	11,475
IBRD	Government	9/11/98	7.36	1/15/18	45,406
IBRD	Government	9/11/98	1.36	1/15/18	15,030
IBRD	Government	12/4/98	1.97	10/15/18	14,242
IBRD	Government	1/22/99	1.79	8/15/18	18,555
IBRD	Government	1/22/99	1.62	8/15/18	48,935
IBRD	Government	4/27/00	1.62	02/15/19	18,539
IBRD	Government	4/27/00	3.40	10/15/18	20,493
IBRD	Government	5/23/02	1.78	6/15/19	1,621
IBRD	Government	11/14/02	1.73	2/15/18	14,010
IBRD	Government	2/10/03	1.71	9/01/18	6,755
IBRD	Government	12/13/02	1.76	08/15/18	250
IBRD	Government	12/13/02	5.22	8/25/18	50,000
KFW	Government	5/17/77	2.00	6/30/07	479
KFW	Government	6/13/88	0.75	6/30/38	5,266
KFW	Government	6/13/88	2.00	6/30/18	278
KFW	Government	12/03/86	0.75	12/31/36	10,067
KFW	Government	9/29/87	0.75	6/30/37	10,221
KFW	Government	6/8/90	0.75	12/31/40	7,260
KFW	Government	6/13/88	0.75	6/30/38	5,264
KFW	Government	6/13/88	0.75	12/31/38	2,669
KFW	Government	12/23/92	0.75	12/30/42	1,193
KFW	Government	8/30/95	0.75	12/30/45	1,718
KFW	Government	03/31/95	0.75	6/30/45	9,292
KFW	Government	4/27/95	0.75	6/30/35	9,292
KFW	Government	1/22/98	0.75	06/30/48	8,003
KFW	Government	6/25/02	0.75	12/30/52	2,683
CONV	INDE	10/24/90	1.50	2/18/11	7,238
CONV	Government	11/16/92	1.50	3/1/13	4,369
CONV	Government	6/7/85	2.50	11/10/06	108
CONV	Government	11/21/85	2.50	03/01/08	894
CONV	Government	12/20/85	2.50	09/05/06	602
IFAD	Government	10/10/84	4.00	10/1/04	137
IFAD	Government	10/8/90	4.00	2/15/10	3,092
IFAD	Government	11/30/92	4.00	2/15/12	4,246
IFAD	Government	7/6/98	2.55	2/15/17	3,167
IFAD	Government	2/27/01	2.64	02/15/20	3,193
BANDES	Government	8/13/91	5.77	12/30/04	327
BANDES	Government	/20/ 12/96	4.66	12/30/05	1,868
OPEC	Government	10/24/89	4.25	5/15/06	657
OPEC	Government	6/6/91	4.50	1/15/08	753
OPEC	Government	11/4/92	3.75	7/15/09	1,421
OPEC	Government	8/22/97	3.50	02/22/14	3,746
OPEC	Government	8/22/97	3.50	02/22/14	3,124
OPEC	Government	12/2/98	3.75	06/02/15	1,232
OPEC	Government	10/10/01	2.00	4/15/18	4,199
CIDA	Government	3/16/76	0.00	9/30/25	199
CIDA	Government	7/13/77	0.00	3/31/27	1,493
PL	Government	8/1/84	4.00	10/17/04	443

Lender	Borrower	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Outstanding Amount as of June 30, 2004 (in thousands of US$)
PL	Government	6/6/85	4.00	10/20/05	2,481
PL	Government	7/2/86	4.00	12/08/06	3,030
PL	Government	5/26/87	4.00	10/26/07	5,493
PL	Government	6/16/88	4.00	9/27/08	3,335
PL	Government	6/16/88	4.00	9/30/08	1,137
PL	Government	10/28/88	4.00	9/6/09	5,129
PL	Government	4/28/88	4.00	9/11/09	1,702
PL	Government	6/11/90	4.00	10/9/10	7,876
PL	Government	7/15/91	4.00	12/7/11	9,402
PL	Government	03/19/92	4.00	11/24/12	8,761
PL	Government	7/29/93	4.00	12/19/13	9,060
PL	Government	7/29/93	4.00	1/8/14	621
PL	Government	7/29/93	4.00	12/21/14	10,899
PL	Government	7/8/98	4.00	12/24/22	4,136
PL	Government	8/13/99	1.50	01/25/24	10,084
UBS	INDE	03/12/90	4.34	12/31/11	1,147
JBIC	Government	01/30/89	3.50	2/20/20	40,340
JBIC	EMPAGUA	6/16/92	2.70	06/20/22	36,078
JBIC	Government	12/27/95	3.00	12/20/24	27,260
JBIC	Government	9/30/99	1.48	4/20/39	26,333
CHINA	Government	4/20/96	4.00	04/20/06	5,000
CHINA	Government	1/23/98	5.00	1/23/13	18,000
CHINA	Government	1/23/98	5.00	1/23/13	18,000
CHINA	Government	4/22/99	5.00	4/22/19	14,100
CHINA	Government	1/22/99	5.00	1/22/14	20,000
ICDF	Government	6/22/99	2.00	1/15/24	4,000
ICDF	Government	8/09/02	3.50	2/15/22	3,200
HERMES ALEMANIA	Government	3/25/93	7.40	10/1/07	7,489
MEDIOCREDITO CENTRALE	Government	3/25/93	1.50	10/1/12	1,116
EDC	Government	03/25/93	1.81	10/01/07	6,624
COFACE	Government	03/25/93	5.09	10/1/07	15,534
COFACE	Government	3/25/93	1.57	10/1/07	7,001
Holders of 8½ Notes due 2007	Government	8/4/97	8.50	8/3/07	150,000
Holders of 10¼ Notes due 2011	Government	11/8/01	10.25	11/8/11	325,000
Holders of 9¼ Notes due 2013	Government	8/01/03	9.25	8/01/13	300,000

(1) Excluding loans with outstanding amounts less than US$1,000 as of June 30, 2004.

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
ICDF	=	International Cooperation and Development Fund—Republic of China, Taiwan
CHINA	=	Export Import Bank of the Republic of China
COFACE	=	Compagnie Française du Commerce Extérieur
CORFINA	=	Corporación Financiera Nacional
CONV	=	Convenzione Finanziera Italiana
EDC	=	Export Development Corporation—Canada
EMPAGUA	=	Empresa Municipal de Aqua
IFAD	=	International Fund for Agricultural Development
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
BANDES	=	Banco de Desarrollo Económico y Social de Venezuela

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