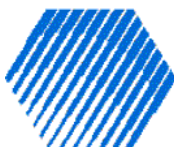


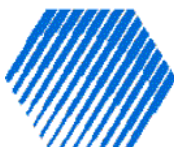
EXECUTIVE SUMMARY

2005 year

- a) Economic Forecast. Relevant Aspects of 2005
- National economy will grow around 3% in 2005
 - Exports maintain a good performance
 - Foreign purchased increase the rate of growth
 - Current account deficit will be reduced as not seen recent in years (estimated in 3% of GDP).
 - Fiscal deficit in 1.5% % of the GDP (Copades re-estimated).
 - Liquidity surplus remain present and lending rate continues its downward trend. That is promoting an expansion of commercial credit.
 - Bank lending to the private sector in FC is 33.9% of borrowing in LC.
 - This bank lending is nourished in 43.8% from the borrowing facilities, and the rest comes from the US dollar deposits received by the banks. It was 40% in October'05.
 - The inflationary rate can reach 10.5% after hurricane Stan.
 - The OMO's rate for 7-day of Central Bank increases to 4.00%.
 - Exchange rate placed again in the COPADES scenario.
- b) Real Activity Sector
- Despite the natural disasters associated to the tropical storm Stan (Oct'05), causing deaths, huge losses of business capital, deprivation of provisions, epidemics, and, on the other hand, the continuous impact of oil prices, the national economy will grow around 3% in 2005.
 - Therefore, should such effects have not occurred; the economic development could have been approximate to the official estimate (3.2%) and the IMF estimate.
 - Official assessment on the effects caused by Stan:
 - 474.821 victims (4% of the entire population)
 - 669 deaths (confirmed)
 - 884 disappeared
 - 42.941 persons in shelters
 - The total amount of the impact (Q 7.47 billion) is equal to 3.4% of the GNP for 2004
 - The amount of damages (Q 3.16 billion) represents 39% of the gross capital formation in the construction of 2004
 - Losses (Q 4.31 billion) are equal to 2% of the GNP.
 - Transfers of money to family and friends living in Guatemala imply an oxygen bag supporting the domestic consumption capacity (reaching US\$ 2.6 billion, 11.5% of inter-annual growth).



- c) External Sector
- Exports continue to have a good dynamism and will end the year in nearly 14.5%. According to the foreign trade figures as of September, and the reference of the records of the Balance of Payments (with data as of October 27).
 - Imports increase the growth rate and will end the year in approximately 13.0%. For such purpose, as for exports, October was estimated (still not available) and the series was projected for the end of the year.
 - Actually, the trade balance is estimated as 14.5% of GDP and Current account deficit will be reduced as not seen in recent years (estimated in 3% of GDP).
- d) Fiscal Balance and Financing Resources
- Income and more dynamic expenses and fewer deficits by October. It is estimated that the year will end with a deficit of 1.5% of the GDP for a greater acceleration of the estimated expenses by the end of the year, although the execution will not amount to the estimated budget.
 - Total income an inter-annual increase of 8.8% (2% the previous month), while expenses went up 13% (-11.3% the previous month).
 - Fiscal deficit between 1.7% of the GDP (Official Budget) and 1.5% (Copades re-estimated), but always will be higher than the fiscal deficit recorded the previous year (it was 1% of the GDP).
 - No bonds were placed at home or abroad since July. Accrued net financing (after deducting redemptions) covers a deficit of Q. 1.125 million as of today, and maintains an annual increase in deposits of the Central Government with Banco de Guatemala for Q. 1.4 billion. This condition supports the monetary policy.
- e) Monetary and Financial Sector
- Any liquid assets surplus contribute to maintain stable the interest rates, with a slight downward trend.
 - Loans have risen encouraged by low interest rates.
 - Total liquidity would be growing in around 15.4%, and credit to the consolidated private sector around 21.0%, within an official projections in data monthly series.
 - Bank lending to the private sector, in foreign currency is 33.9% of borrowing in national currency, due to the stability of the rate of exchange, and low interest rates. This bank lending is nourished in 43.8% from the borrowing facilities, and the rest comes from the US dollar deposits received by the banks. It was 40% in October'05.



Loan Volume and %			
	Dec-04	Penultimate Data Oct-05	Last Data Nov-17-05
	Expressed in US\$MM except ratios		
1. Loans to the Private Sector (L/C)	3,799.5	4,462.1	4,543.7
2. Loans to the Private Sector (F/C)	1,376.6	1,480.0	1,540.6
Ratio 2/1	36.2%	33.2%	33.9%
3. Bank System Net External Assets	-555	-606	-674
Ratio 3/2	40.3%	41.0%	43.7%
4. Monetary Aggregates (F/C)	993.2	1,154.2	1,147.5
Ratio 2/4	138.6%	128.2%	134.3%

Source: Banguat and Copades.
Local Currency (L/C); Foreign Currency (F/C)

f) Interest Rate

- Bank interest rates with non-perceptible movements.
- The leader rate (rate for 7-day operations) of Central Bank (CB) increases $\frac{1}{4}$ percentage points to 4.00%.
- Term borrowing rates continue to be negative in real terms. However, there are still not any competitive external options.

g) Inflation Rate

- Only in nine months of the year, the CPI recorded an accrued change of 6.69%, exceeding Banguat's goal ceiling, without Stan. At 8.57% in October and after Stan.
- The inflationary rate can reach 10.5% after hurricane Stan as a medium scenario (if not, could be around 8.5%)

h) Exchange Rate

- After the recent devaluation movements (from end of September to 22 of October) that implied more relative volatility levels, The rate of exchange is, as anticipated and explained by COPADES, within the fluctuation scenarios forecasted for 2005.
- The average annual rate of exchange for 2005 would mean an appreciation of -3.8% from 2004. The actual inter-annual rate is -1.7% because the weighed average selling rate of exchange is 7.63 against US\$1.00 vs. Q7.76/US\$ 1.00 previous year.

2006 year

i) ECONOMIC REACTIVATION

- It is estimated that the moderate economic reactivation that began two years ago, will continue throughout 2006. in actual terms the GDP could grow 3.8%.

j) GOOD FOREIGN TRADE DYNAMICS

- It is difficult to maintain high growth rates in exports. However, exports may still expand around 13.5%, in part due to the windows of opportunity opened by CAFTA. Included is the value added by the inbond assembly industry.
- A slight deceleration is foreseen for the growth rates in imports, to be positioned in around 12.5%. However, in real terms, imports mean more than 70% of exports, and are benefited with an appreciated currency (Quetzal).

k) DEFICIT IN CURRENT ACCOUNT

- The high commercial deficit will continue, neutralized largely by the mass transfers of money to family and friends living in Guatemala, that intermingled with hot money and other flows, will keep on growing to be probably standing above US\$ 3.3 billion.
- Current account deficit will be 2.3% of GDP.

l) TAX CONDITION

- According to the expenditure that may be executed, the deficit would be around 2.4% with respect to the GDP.

m) BEHAVIOR OF THE RATE OF EXCHANGE

- A reduction in the interest rates differential, a greater dynamism of imports, and a high level of NIR cause to foresee a slight nominal devaluation of 2.0% for 2006, ending two years of continuous appreciation.
- It is suitable to remember that the average nominal devaluation of the last five-year period has been around 0.29%.

n) INTEREST RATES AND INFLATION

- From the time the public debt has been placed in the local financial market, a slight rise in both the borrowing and lending rates would be expected, although less than the international market, given the levels of liquid assets expected, and the lending competition to the private sector.
- COPADES estimates a mean inflation scenario of 8% for 2006.