FOR INFORMATION PURPOSES ONLY
THIS IS NOT AN OFFER OF THE SECURITIES HEREIN DESCRIBED

US$500,000,000

The Republic of El Salvador

8.25% Notes due 2032

Interest will be payable semi-annually in arrears on April 10 and October 10 of each year commencing on October 10, 2002. The Notes will mature on April 10, 2032. Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic of El Salvador. Application has been made to list the Notes on the Luxembourg Stock Exchange and the El Salvador Stock Exchange.

Price: 98.646%
plus accrued interest, if any, from April 10, 2002

Delivery of the Notes will be made on or about April 10, 2002.

The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to certain persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Credit Suisse First Boston | **Salomon Smith Barney**

April 3, 2002

El Salvador

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS OR THE RISKS INVOLVED.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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Because the Republic or its affiliates may purchase and resell the Notes in certain transactions exempt from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act"), the ability of any subsequent holder of Notes to reoffer, resell, pledge or otherwise transfer the Notes pursuant to the exemption provided by Rule 144 under the Securities Act may be limited.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES 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 THAT ANY DOCUMENT FILED UNDER RA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT THE 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.

The Notes will be direct, general and unconditional obligations of the Republic. The Notes will, at all times, rank equally without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated Public External Indebtedness (as defined herein) of the Republic.

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by a permanent global Note (which may be subdivided) in fully registered form without interest coupons (the "Regulation S Global Note") registered in the name of Citivic Nominees Limited, as a nominee of, and deposited with, Citibank, N.A., London office, as common depositary for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by a permanent Global Note (which may be subdivided) in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes") registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC") and deposited with Citibank, N.A., London office, as custodian (the "Custodian") for DTC. Beneficial interests of DTC Participants (as defined under "Delivery of the Notes and Transfer Restrictions") in the Global Notes will be shown on, and transfers thereof between DTC Participants will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg. See "Clearing and Settlement." Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Terms and Conditions of the Notes — Form, Denomination and Title." For restrictions on transfer applicable to the Notes, see "Delivery of the Notes and Transfer Restrictions" and "Subscription and Sale."

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Notes, would make this document as a whole or any such information misleading in any material respect. The Republic accepts responsibility accordingly.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Managers to subscribe to or purchase any of the Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Offering Circular or any part of it and the offering, possession, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Managers to inform themselves about and to observe any such restrictions. See "Subscription and Sale" and "Delivery of the Notes and Transfer Restrictions" for a description of further restrictions on the offer, sale and delivery of Notes and on distribution of this Offering Circular and other offering material relating to the Notes.

Each person purchasing Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and

- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reofferred, resold, pledged or otherwise transferred except as described under "Delivery of the Notes and Transfer Restrictions."

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Notes with a view to distribution thereof in the United States. Each person purchasing Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein;
- it has not relied on the Managers or any person affiliated with the Managers in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Managers.

IN CONNECTION WITH THIS ISSUE OF NOTES, SALOMON SMITH BARNEY INC. MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PRESENTATION OF INFORMATION

Unless otherwise specified or the context requires, references to "US dollars" and "US$" are to United States dollars and references to the *"colón"* and *"colones"* and "¢" are to Salvadoran *colones.*

References to "FOB" are to exports free on board and to "CIF" are to imports including cost, insurance and freight charges.

Data identified as "preliminary data" reflects an interim calculation and is subject to change.

References to *maquila* are to the assembly of imported goods for re-export.

References to "Central America" and "Central American countries" are to El Salvador, Costa Rica, Guatemala, Honduras and Nicaragua.

Certain economic and financial data in this Offering Circular is derived from information previously published by the *Banco Central de Reserva de El Salvador* (the "Central Bank") and other governmental entities of El Salvador. This data is subject to correction and change in subsequent publications.

Certain other information in this Offering Circular is derived from information made publicly available by the United Nations.

References to "net international reserves" are to foreign currency reserves. The term current account surplus (deficit) as applied to the balance of payments includes foreign aid, unless otherwise specified.

Certain amounts included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain government officials and others as well as a number of assumptions and estimates which are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are principally contained in the sections "Offering Circular Summary," "The Republic of El Salvador," "The Salvadoran Economy," "Foreign Trade and Balance of Payments," "Monetary System," "Public Sector Finances" and "Public Debt." In addition, in those and other portions of this Offering Circular, the words "anticipates," "believes," "estimates," "expects," "plans," "intends," "projections" and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements. Such statements reflect the current views of the Republic with respect to future events and are subject to certain risks, uncertainties and assumptions. The Republic undertakes no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, there can be no assurances that the events described or implied in the forward-looking statements contained in this Offering Circular will in fact occur.

ENFORCEMENT OF CIVIL LIABILITIES

The Republic is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments in the courts of the United States. Under its Constitution, the Republic is not permitted to consent to jurisdiction of the courts of any foreign jurisdiction. The Republic has not consented to the jurisdiction of any court outside El Salvador in connection with actions arising out of or based on the Notes or in connection with the enforcement of any judgment arising out of such actions, nor has the Republic appointed an agent for service of process outside El Salvador. The Republic has agreed to the following arbitration provisions as part of the Terms and Conditions of the Notes:

> Any dispute, controversy or claim arising out of or relating to the Notes (other than any action arising out of or based on the United States federal or state securities laws), including the performance, interpretation, construction, breach, termination or invalidity thereof shall be finally settled by arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (excluding Article 26 thereof) as in effect on the date of the Fiscal Agency Agreement (the "UNCITRAL Arbitration Rules"). The number of arbitrators shall be three, to be appointed in accordance with Section II of the UNCITRAL Arbitration Rules. The appointing authority shall be the Chairman of the International Court of Arbitration of the International Chamber of Commerce. The third arbitrator may be (but need not be) of the same nationality as any of the parties to the arbitration. The place of arbitration shall be New York, New York. The language to be used in the arbitration proceedings shall be English. Any arbitral tribunal constituted under this paragraph shall make its decisions entirely on the basis of the substantive law of the State of New York.
>
> The decision of any arbitral tribunal shall be final to the fullest extent permitted by law, and a court judgment may be entered thereon by any Salvadoran court lawfully entitled to enter such judgment. In any arbitration or related legal proceedings for the conversion of an arbitral award into a judgment, the Republic will not raise any defense that it could not raise but for the fact that it is a sovereign state. The Republic has not consented to the jurisdiction of any court outside El Salvador, in connection with actions arising out of or based on the Notes or in connection with the enforcement of any judgment arising out of such actions, nor has the Republic appointed an agent for service of process outside El Salvador. The Republic waives any *forum non conveniens* defense in any proceeding in El Salvador.
>
> No arbitration proceedings hereunder shall be binding upon or in any way affect the right or interest of any person other than the claimant or respondent with respect to such arbitration.
>
> The Republic's consent to arbitration shall not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador.

The Republic has represented that it has no right to immunity on the grounds of sovereignty or otherwise, from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award (except, in each case, for the limitation on alienation of public property) in respect of any proceeding or any other matter arising out of or relating to its obligations contained in the Notes. The enforcement by a Salvadoran court of a foreign arbitral award is subject to recognition by the *Corte Suprema de Justicia* (the "Supreme Court") of the Republic, which will recognize such award if all the required formalities are observed and the award does not contravene Salvadoran national sovereignty, public policy and "good morals." The public property *(bienes de uso público)* of the Republic located in El Salvador is not subject to execution or attachment, either prior to or after judgment. The execution of a judgment against El Salvador in El Salvador is only available in accordance with the procedures set forth in Articles 450 et seq. of the Salvadoran Civil Procedure Code, which envisions registration of the judgment for inclusion in the budget for payment in a subsequent fiscal year of the Republic.

EXCHANGE RATE INFORMATION

From 1989 to December 31, 2000, although El Salvador set no official exchange controls on the *colón* and the exchange rate was permitted to float freely based on market forces, the Central Bank had a policy of purchasing and selling US dollars periodically for the purpose of limiting movement in the *colón*/US dollar exchange rate. No official fluctuation range was established.

On November 30, 2000, the Legislative Assembly approved the *Ley de Integración Monetaria* (the "Monetary Integration Act"), which fixed the *colón* to the US dollar at ¢8.75 to US$1.00 effective January 1, 2001. The Monetary Integration Act allows free circulation of the US dollar in the Salvadoran economy and makes the US dollar the unit of account for the financial system in El Salvador. See "Foreign Trade and Balance of Payments — Exchange Rate Policy and Foreign Exchange Rates."

The following table sets forth the high, low, average and period-end market exchange rates for the periods presented, expressed in *colones* per US dollar and not adjusted for inflation, as published by the Central Bank. The Federal Reserve Bank of New York does not report a noon buying rate for *colones.*

Exchange Rates

Year	High (1)	Low (2)	Average (3)	Period-End (4)
1997	8.79	8.72	8.75	8.79
1998	8.79	8.72	8.75	8.79
1999	8.79	8.71	8.75	8.79
2000	8.79	8.71	8.75	8.79
2001 (5)	8.75	8.75	8.75	8.75
2002 (through April 3, 2002) (5)	8.75	8.75	8.75	8.75

(1) High of monthly average prices for the sale of US dollars stated in *colones*.

(2) Low of monthly average prices for the purchase of US dollars stated in *colones*.

(3) The average exchange rate is the average of the purchase and sale prices of US dollars stated in *colones*.

(4) Average price for the sale of US dollars stated in *colones* in the last month of the period presented.

(5) Since January 1, 2001, the *colón*/US dollar exchange rate is fixed at ¢8.75/US$1.00 pursuant to the Monetary Integration Act. As a result, there is no differentiation between the high, low, average and period-end exchange rates.

Source: *Banco Central de Reserva de El Salvador.*

Currency conversions contained in this Offering Circular should not be construed as representations that *colones* have been, could have been or could be converted into US dollars at the indicated or any other rate of exchange.

OFFERING CIRCULAR SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

The Republic of El Salvador

General

El Salvador is a republic and its form of government is a representative democracy. In March 1999, Francisco Flores was elected President of the Republic. He took office on June 1, 1999, replacing Armando Calderón Sol, who was elected in 1994. El Salvador is the smallest territorially and most densely populated of the five Central American countries, bounded on the south by the Pacific Ocean, on the northwest by Guatemala and on the northeast and east by Honduras. El Salvador had a gross domestic product ("GDP") of approximately US$13.7 billion in 2001.

Economy

Beginning in late 1989, the government began to implement a number of measures designed to strengthen the private sector and to minimize the government's role in the economy. The principal steps taken by the government since 1989 to stimulate the economy include the following:

- Adopting the Monetary Integration Act, which went into effect on January 1, 2001 and fixes the *colón* to the US dollar at ¢8.75 to US$1.00, allows free circulation of the US dollar in the Salvadoran economy and makes the US dollar the unit of account for El Salvador's financial sector. The power of the Central Bank to issue new *colones* or coins ceased as of January 1, 2001. All deposits, credits, pensions and other operations of the financial system were redenominated to US dollars on that date. Non-financial firms may use either *colones* or US dollars to express their financial records and accounting. Salaries and wages may be denominated in either *colones* or US dollars, while prices can be specified in *colones* or US dollars but were required to be labeled in both currencies until July 1, 2001. See "Foreign Trade and Balance of Payments — Exchange Rate Policy and Foreign Exchange Rates."

- Reducing the role of government in many sectors of the economy through a series of privatizations designed to encourage private investment and foster competition. The government received net privatization revenues of US$929.7 million in 1998 and US$168.6 million in 1999, through the privatization of the country's electricity distribution companies and telecommunications providers. The government also granted private concessions for certain services and facilities at the international airport and sold an alcohol factory and six state-owned sugar mills to private investors. The government did not privatize any assets or operations in 2000 or 2001. The government may continue the privatization process in 2002 and 2003, through the sale of its remaining interests in the telecommunications company and electricity distribution companies, as well as the possible granting of concessions in port facilities and the international airport. See "The Salvadoran Economy — Privatizations."

- Promoting trade and foreign investment through the elimination of some tariffs and the application of three tariff rates to approximately 90% of imports, the adoption of laws allowing unlimited remittances of earnings by foreign companies, the provision for duty drawbacks on certain exports and the establishment of free trade zones covering over 590,000 square meters. These measures are intended to stimulate manufacturing, principally by *maquila* plants, which are exempt from import and export duties and enjoy certain income tax exemptions. In addition to implementing the initiatives of the *Mercado Común Centroamericano* (the "Central American Common Market" or "CACM"), the Republic has reached free trade agreements with Mexico, Chile, the Dominican Republic and Panama and has qualified for enhanced, preferential access to the United States market under the Caribbean Basin Initiative. See "Foreign Trade and Balance of Payments — Regional Integration and Free Trade."

- Implementing a comprehensive tax reform that includes the simplification of the tax system and the reduction and elimination of some taxes and tax credits. The reforms commenced with the introduction of a value added tax in 1992 to provide a consistent revenue source. Amendments to the value added tax legislation in 1999 and 2000 were directed at reducing tax avoidance, eliminating exemptions and closing loopholes. A new tax code which became effective in January 2001 provides the tax administration with the tools to enforce tax compliance and to accelerate the imposition of fines and sanctions. Recent tax reforms, approved in the second semester of 2001, have eliminated certain tax exemptions and created stricter customs enforcement measures. See "Public Sector Finances — Taxation."

- Decentralizing the government and modernizing, downsizing and closing public sector institutions. The Republic increased municipal allocations in the general budget from 3.6% to 6.0% of current revenues and reduced the size of government by decreasing the number of employees and combining ministries. Recent reforms have permitted the government a more flexible public sector employment policy as well as reduced or eliminated subsidies for electricity, water consumption and public transportation. See "The Salvadoran Economy — Principal Reforms from 1979 to Present."

- Reforming the pay-as-you-go pension system in 1996 by creating a private pension system modeled on the then-existing Chilean system. The prior public pension system remains in place for certain older workers and others who elected to remain in the public system. Recent reforms have permitted the government to further reduce its obligations under the pension systems. The creation of the private pension system reduced by approximately 50% the net present value of the government's obligations with respect to pensions. See "The Salvadoran Economy — Employment and Wages — Pension Reform."

- Privatizing the banking system in 1991, establishing an independent Central Bank and establishing a regulatory framework intended to promote competition among financial institutions. See "The Monetary System."

Benefiting from these measures, El Salvador's real GDP increased at an average annual rate of 4.4% from 1992 to 2001 and 3.1% from 1997 to 2001. El Salvador's rate of inflation decreased from 12.1% in 1993 to 7.4% in 1996 and to 1.4% in 2001. Primarily as a result of the Monetary Integration Act, the average interest rate for the month of December 2001 on short- and long-term loans fell to 7.8% and 9.1%, respectively, compared to 12.2% and 13.7%, respectively, for the month of December 2000.

Worker remittances from Salvadorans abroad and a strong capital account resulted in the steady growth of foreign currency reserves from 1992 through 1999. Foreign currency reserves declined by approximately 4.0% from December 31, 1999 to December 31, 2000 and by approximately 9.6% from December 31, 2000 to December 31, 2001, as the Central Bank provided commercial banks with US dollars in connection with the implementation of the Monetary Integration Act. By pursuing fiscally conservative policies, the Republic's ratio of public external debt to GDP decreased from 28.6% in 1993 to 22.0% in 2000 and increased to 24.7% in 2001.

In recent years, *maquila* (assembly for re-export) has been the most dynamic activity within the economy, with *maquila* production increasing 65.5% in real terms from 1997 to 2001. According to the *Ministerio de Economía* (the "Ministry of Economy"), as of December 31, 2001 there were 246 *maquila* plants, 88 of which are located in free-trade zones, with the remaining 158 operating outside the free-trade zones. Over half of the *maquila* plants established in the free-trade zones produce apparel and linens, mainly for export to the United States. In 2001, *maquila* exports represented 57.6% of total exports of goods.

Traditionally, coffee has been the main agricultural product of the Republic and an important sector of the overall Salvadoran economy. As the economy has increasingly come to rely on industrial production, particularly *maquila*, the importance of coffee to the economy has lessened. Coffee accounted for 2.0% of GDP and 16.7% of agricultural production in 2001 compared to 3.8% and 25.5%, respectively, in 1993. Coffee is nevertheless an important source of employment in El Salvador, generating approximately 96,800

jobs in the 2001/2002 harvest, which accounted for 3.9% of employment nationwide. Coffee is also an important source of foreign currency. In 2001, it accounted for 4.0% of total Salvadoran exports of goods.

The Peace Accord

In addition to the economic, monetary and fiscal reforms undertaken by the government, the government has implemented a series of initiatives designed to promote social and democratic reforms. These social and democratic reforms flowed from the agreement (the "Peace Accord") signed by the government and the *Frente Farabundo Martí para la Liberación Nacional* (the "FMLN") ending 12 years of guerrilla war in the Republic. The three main objectives established by the Peace Accord were:

- the reintegration of former participants in the guerrilla war into the Salvadoran economy and society;
- the implementation of democratic reforms; and
- assistance to rural communities.

The development of programs to achieve these objectives was assisted and monitored by the United Nations. In December 1996, as a result of the implementation of many of these programs, the General Assembly of the United Nations adopted a resolution to withdraw its on-site observers and continue the United Nations verification responsibilities through periodic visits. The General Assembly of the United Nations noted the commitment of the Republic and other parties to the full implementation of the Peace Accord. The Republic believes the objectives of the Peace Accord have been substantially accomplished.

Selected Economic Indicators

	For the Year Ended December 31,				
	1997	1998	1999	2000	2001
	(in millions of US dollars, except percentages and where noted)				
The Economy					
Nominal GDP	$11,135	$12,008	$12,465(2)	$13,139(2)	$13,739(2)
Real GDP (in millions of *colones*)(1)	¢52,204	¢54,162	¢56,029(2)	¢57,250(2)	¢58,297(2)
Real GDP growth(1)	4.2%	3.7%	3.4%(2)	2.2%(2)	1.8%(2)
Annual inflation(3)	1.9%	4.2%	(1.0)%	4.3%	1.4%
Balance of Payments					
Exports (FOB goods and services)	$ 2,988	$ 3,159	$ 3,288	$ 3,803(2)	$ 4,146(2)
Imports (FOB goods and services)	4,447	4,777	5,109	6,031(2)	$ 6,326(2)
Trade and services balance	(1,459)	(1,618)	(1,821)	(2,228)(2)	(2,181)(2)
Current account surplus (deficit) of the balance of payments	(98)	(91)	(239)	(431)(2)	(177)(2)
As % of GDP(4)	(0.9)%	(0.8)%	(1.9)%	(3.3)%(2)	(1.3)%(2)
Net international reserves	$ 1,462	$ 1,765	$ 1,970	$ 1,891	$ 1,710
Non-Financial Public Sector					
Total revenues	$ 1,789	$ 1,906	$ 1,955	$ 2,180	$ 2,147(2)
Total expenditures	1,986	2,210	2,300	2,579	2,649(2)
Primary balance surplus	385	315	197	123	259
As % of GDP	3.5%	2.6%	1.6%	0.9%	1.9%
Surplus (deficit)(4)	$ (197)	$ (304)	$ (345)	$ (399)	$ (502)(2)
As % of GDP	(1.8)%	(2.5)%	(2.8)%	(3.0)%	(3.7)%(2)
Public Sector Debt(5)					
Total public debt	$ 4,028	$ 3,988	$ 4,306	$ 4,782	$ 5,541
Internal debt	1,531	1,459	1,584	1,893	2,151
External debt	2,497	2,529	2,723	2,888	3,391(2)
Total public debt (as % of GDP)	36.2%	33.2%	34.5%	36.4%	40.3%
Public internal debt (as % of GDP)	13.7%	12.1%	12.7%	14.4%	15.7%
Public external debt (as % of GDP)	22.4%	21.1%	21.8%	22.0%	24.7%
External debt service (as % of exports of goods and services)(6)	9.9%	9.6%	9.0%	6.1%	6.5%
Average Exchange Rate					
(*colones* per US dollar)(7)	¢8.75	¢8.75	¢8.75	¢8.75	¢8.75

(1) At constant 1990 prices.

(2) Preliminary data.

(3) As measured by the variation in the *Índice de Precios al Consumidor* (Consumer Price Index or the "CPI") published by the National Bureau of Statistics and Census.

(4) Including foreign aid.

(5) Including debt of the Central Bank.

(6) Exports (FOB goods and services). Calculation does not include Central Bank debt service.

(7) The average exchange rate is the average of the purchase and sale prices of US dollars stated in *colones*. As of January 1, 2001, the *colón*/US dollar is fixed at ¢8.75/US$1.00.

Source: *Banco Central de Reserva de El Salvador.*

THE OFFERING

Issuer	The Republic of El Salvador.
Issue Amount	US$500,000,000 principal amount.
Issue Price	98.646% of the principal amount of the Notes, plus accrued interest, if any, from April 10, 2002.
Maturity Date	April 10, 2032.
Interest	The Notes will bear interest from the date of issue at the rate of 8.25% per annum payable semi-annually in arrears on April 10 and October 10 of each year, commencing on October 10, 2002.
Withholding Tax; Additional Amounts	Principal of and interest on the Notes are payable by the Republic without withholding or deduction for or on account of taxes imposed by El Salvador to the extent described herein. In the event that the Republic is required by law to deduct or withhold taxes, duties, assessments or governmental charges, the Republic will pay Additional Amounts (as defined herein) as necessary to enable holders of Notes to receive such amounts after such deduction or withholding as they would have received absent such deduction or withholding, subject to certain exceptions. See "Terms and Conditions of the Notes — Payment of Additional Amounts."
Status	The Notes will be direct, general, unsecured and unconditional obligations of the Republic. The Notes will at all times rank equally without any preference among themselves and at least equally with all other present and future Public External Indebtedness of the Republic. See "Terms and Conditions of the Notes — General," "— Negative Pledge" and "— Covenants."
Negative Pledge and Certain Covenants	The Terms and Conditions of the Notes contain certain covenants and restrictions on the creation or subsistence of any Security (as defined herein) securing Public External Indebtedness, with certain exceptions. See "Terms and Conditions of the Notes — Negative Pledge" and "— Covenants."
Use of Proceeds	Net proceeds from the issuance of the Notes will be used to finance the general activities of the Republic, including, without limitation, capital expenditures and the refinancing of internal debt of the Republic.
Form of Notes	Registered only, without coupons. No Notes will be issued in bearer form.
Denominations	Each Note will be issued in minimum denominations of US$10,000 and integral multiples of US$1,000 in excess thereof.
Further Issues	The Republic may, without the consent of the holders of the Notes, create and issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Notes, so that such further notes may be consolidated and form a single series with the Notes.

Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange and the *Bolsa de Valores de El Salvador* (the "El Salvador Stock Exchange").
Governing Law	The Notes shall be governed by, and construed in accordance with, the laws of the State of New York, United States of America, except that all matters concerning authorization and execution by the Republic, as well as the bringing of any actions and the enforcement of any judgment against the Republic in the courts of the Republic will be governed by the laws of the Republic.
Arbitration	Any dispute, controversy or claim arising out of or relating to the Notes, including the performance, interpretation, construction, breach, termination or invalidity thereof, will be finally settled by arbitration in New York, New York, in accordance with the UNCITRAL Arbitration Rules. Any arbitral tribunal constituted under the terms of the Notes will be required to make its decisions entirely on the basis of the substantive law of the State of New York as provided above.
	The Republic's consent to arbitration will not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador, and the Republic has waived immunity from jurisdiction to which it might otherwise be entitled in any such proceedings or execution of an arbitral award in El Salvador (except for the limitation on alienation of public property).
Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent	Citibank, N.A., London office.
Luxembourg Transfer and Paying Agent	Dexia Banque Internationale à Luxembourg.

USE OF PROCEEDS

The net proceeds from the issuance of the Notes will be used by the Republic to finance the general activities of the Republic, including without limitation, capital expenditures and the refinancing of internal debt of the Republic.

THE REPUBLIC OF EL SALVADOR

Territory, Population and Society

El Salvador is the smallest territorially and most densely populated of the five Central American countries, encompassing 8,124 square miles (21,041 square kilometers). El Salvador is bounded on the south by 210 miles of Pacific Ocean coastline, on the northwest by Guatemala and on the northeast and east by Honduras. In the north, the Sierra Madre mountains rise to over 9,000 feet above sea level. Two major earthquakes struck El Salvador in January and February 2001. Prior to such earthquakes, the last significant earthquake occurred in 1986. Throughout the country, there are 25 distinct volcanoes, most of which are dormant. The most recent major volcanic eruption was in 1946. El Salvador enjoys two seasons, rainy and dry. The rainy season lasts from early May through October, while the dry season lasts from November through April.

In September 1992, the International Court of Justice resolved a border dispute between El Salvador and Honduras. At present, the process of border demarcation is continuing although controversy exists as to the maritime boundaries in the *Golfo de Fonseca*.

El Salvador's population is currently estimated at 6.5 million people by the *Dirección General de Estadística y Censos* (the "National Bureau of Statistics and Census"), a division of the Ministry of Economy, and is divided almost equally between urban and rural areas. In addition, more than one million Salvadorans are believed to be living and working outside of the country, principally in the United States. These foreign residents make a significant contribution to the Republic's economy through remittances to their families in El Salvador. Over 90% of the current population is *mestizo* (of mixed European and Indian descent). According to the 1992 census, San Salvador, the capital and country's largest city, had a population of 416,346. The average annual population growth rate for the Republic is projected to be approximately 2.1% for the period 1995 to 2025 according to the National Bureau of Statistics and Census. Most of the population is Roman Catholic.

The following table sets forth information on per capita gross domestic product, average life expectancy, adult literacy rates and infant mortality rates in certain countries.

Selected Comparative Social Statistics

	El Salvador	Nicaragua	Honduras	Guatemala	Panama	Costa Rica	United States
Per Capita GDP(1)	$4,344	$2,279	$2,340	$3,674	$5,875	$8,860	$31,872
Average Life Expectancy(2)	69.5	68.1	65.7	64.5	73.9	76.2	76.8
Adult Literacy Rate(3)	78.3%	68.2%	74.0%	68.1%	91.7%	95.5%	99.0%
Infant Mortality(4)	35	38	33	45	21	13	7

(1) Based on 1999 figures, adjusted for purchasing power parity.

(2) In years, at 1999.

(3) At 1999.

(4) Per thousand live births in 1999.

Source: *Human Development Report 2001, United Nations.*

Historical Background

Prior to the Spanish conquest in the early 16th century, the area that is now El Salvador was occupied by various Indian tribes. The Spanish conquest began in 1524 with the arrival of an expedition from Guatemala led by Pedro de Alvarado. A Spanish settlement was permanently established in San Salvador in 1528 and became the agricultural center of the Captaincy General of Guatemala. Under the Spanish, the area became a center for the production of several commercial crops including cocoa, indigo and balsam wood.

Following independence from Spain in 1821, El Salvador became a member of the Central American Federation, which was dissolved in 1838 after a military coup in Honduras. Thereafter, as an independent republic, El Salvador slowly shifted its economy from its earlier dependence on indigo, cocoa and balsam wood to one based on coffee.

During the end of the nineteenth and the first quarter of the twentieth century, coffee cultivation on extensive plantations contributed to the establishment of a wealthy landholding minority. Social tensions came to a head in 1932, when an uprising of the landless peasantry led by the recently formed Communist Party was quashed by General Maximiliano Hernández after the loss of 30,000 lives. From 1932 to 1979, El Salvador was governed by a succession of military leaders.

On October 15, 1979, a revolutionary *junta* composed of civilians and members of the military assumed control of the country. Early in 1980, the *Partido Demócrata Cristiano* (the "PDC") joined the *junta* and imposed a program of economic reforms that included the nationalization of the banking system, agrarian reform aimed at the re-distribution of land ownership and the granting of exclusive monopolies to state-owned entities for the international sale of coffee and sugar. In 1982, a popularly elected Constitutional Assembly began drafting a new constitution that became effective in 1983 and that, with amendments, is still in force. In 1984, in the first presidential election under the new Constitution, the PDC leader José Napoleón Duarte, was elected president.

During this time, several guerrilla organizations unified to form the FMLN. From 1980 until the signing of the Peace Accord in 1992, the Republic faced internal political and military conflicts which caused the loss of approximately 75,000 lives, triggered extensive emigration, displaced hundreds of thousands of persons within the country and caused widespread destruction to the country's infrastructure and economy.

Mr. Duarte was replaced in the 1989 presidential election by Alfredo Cristiani of the *Alianza Republicana Nacionalista* ("ARENA") party. The Cristiani administration implemented a number of changes designed to reinvigorate the economy. The benefits of these measures were evidenced by real GDP growth of 4.8% and 3.6% in 1990 and 1991, respectively, as compared to decreases or minimal growth in the period from 1985 through 1989. Nonetheless, the real benefits for the economy were limited due to the ongoing military conflict.

On January 16, 1992, after 12 years of conflict, the government and the FMLN signed the Peace Accord in Mexico City. The Peace Accord (i) established the specific requirements for ending the armed conflict; (ii) addressed certain root causes of the conflict by instituting commitments from the parties to follow democratic principles; and (iii) placed specific emphasis on the process of reconstruction as part of the economic and social development of the Republic. Since the signing of the Peace Accord, the Republic has implemented a series of initiatives designed to promote social, economic and democratic reforms establishing a lasting foundation for peace. In December 1996, as a result of the implementation of many of these initiatives, the General Assembly of the United Nations adopted a resolution to withdraw its on-site observers and continue the United Nations verification responsibilities through periodic visits. The General Assembly noted the commitment of the Republic and other parties to the full implementation of the Peace Accord. The Republic believes the objectives of the Peace Accord have been substantially completed.

The principal programs established pursuant to the Peace Accord were intended to meet the following goals:

- *Economic and social reintegration of former guerrillas and military personnel into the economy and society.* The immediate aim of the reintegration projects was to generate employment and income for the former combatants and military personnel. The projects included a program to transfer title to rural land to certain beneficiaries, United Nations agricultural training programs, agricultural credit access programs through the *Banco de Fomento Agropecuario,* vocational training and scholarship programs, and loan programs for the establishment of small business and scholarships.

- *Building public confidence in the government.* Through electoral reforms and voter identification and registration, changes in the judiciary including the evaluation and training of judges, the replacement of internal military police with a trained national civilian police force and the establishment of a human rights commission, the government has sought to restore and build confidence in the government.
- *Assistance to rural communities significantly affected by the conflict.* The Republic provided assistance to rural communities in the short-term through basic municipal services, food and housing and in the medium- and long-term through the promotion of production, infrastructure and capital investment projects in education, health, environmental protection, economic and social infrastructure and municipal development.

The aggregate cost of implementing these programs (including related debt service) from 1992 through 2001 was US$2,535.9 million. Of this amount, the Republic financed approximately US$1,266.4 million internally, approximately US$508.8 million through external debt and approximately US$760.7 million with donations from foreign governments and international agencies. In addition, the Republic benefited from the voluntary write-off by the United States of certain of its external debt in 1993 and from the restructuring of the terms of much of its other external debt. See "Public Debt." The Republic believes that substantially all of the costs to the Republic of implementing the programs established pursuant to the Peace Accord have been incurred.

Since the signing of the Peace Accord, the Republic has undertaken a number of economic, monetary and fiscal reforms designed to create stability and growth in the economy. For a discussion of these reforms, see "The Salvadoran Economy — Principal Reforms from 1979 to Present."

In recent years, El Salvador's development has been affected by a series of natural disasters. Hurricane Mitch struck El Salvador on October 30, 1998, bringing high winds and torrential rains and causing floods and landslides, particularly affecting the departments of Usulután and San Miguel in the eastern lowlands. The *Comité de Emergencia Nacional* (National Emergency Department) reported 240 deaths and 84,000 people affected in these areas. While damage to infrastructure in El Salvador was less severe than that in Honduras, Nicaragua and Guatemala, such damage was still significant.

On January 13, 2001 and again on February 13, 2001, El Salvador experienced a series of devastating earthquakes that left nearly 2,000 people dead or missing and 8,000 injured, and caused severe dislocations across all sectors of Salvadoran society. The earthquake damage was severe, with the impact concentrated on housing, schools and other basic infrastructure in rural areas that are among the country's poorest regions.

Form of Government

El Salvador is a republic and its form of government is a representative democracy, with powers divided among executive, legislative and judicial branches. Elections are held every five years for president and vice president and every three years for members of the single house of the legislative assembly (the "Legislative Assembly") and local governments. All Salvadoran citizens 18 years or older are entitled to vote. As part of the implementation of democratic reforms under the Peace Accord, there has been a major effort to improve voter identification and registration.

Executive authority is vested in the president and vice president, who are elected for a term of five years, and 12 cabinet ministers. Cabinet ministers are appointed, and may be removed at will, by the president. The president may propose legislation to the Legislative Assembly and has veto power over legislation, which may be overridden by a two-thirds vote of the Legislative Assembly. The president also appoints the regional governors for the 14 departments of El Salvador. The current president of El Salvador, Francisco Flores of ARENA, was elected in March 1999. President Flores was installed on June 1, 1999, replacing President Armando Calderón Sol. The next presidential election is scheduled to be held in March 2004. The next legislative and municipal government elections are due to occur in March 2003.

Legislative authority is vested in the Legislative Assembly, which is comprised of a single house of 84 elected members. The Legislative Assembly has the power to enact legislation, ratify treaties and approve the annual budget. Bills must be approved by a majority of the Legislative Assembly to be enacted as laws. Constitutional amendments require approval by the Legislative Assembly in two sessions, the first by a majority of the members of the Legislative Assembly and the second by a two-thirds vote.

During legislative elections held in March 1997, ARENA lost its absolute majority in the Legislative Assembly and control of several local governments. In contrast, the FMLN made gains, although it was unable to win a majority in the 84-member Legislative Assembly. In the March 2000 legislative elections, FMLN gained a larger number of seats surpassing by two seats the number obtained by ARENA, which maintained the 29 seats obtained in the March 1997 elections. As a result of no one party having control over the Legislative Assembly, matters are resolved through the creation of coalitions of ARENA or FMLN with one or more of the numerous minority parties. During the fourth quarter of 2001, six FMLN members of the Legislative Assembly split from FMLN. On April 2, 2002, the FMLN announced that five of those six legislators had been expelled from the party.

Following changes in political party affiliations of certain members of the Legislative Assembly, the current composition of the Legislative Assembly is described in the following table.

Legislative Assembly
Composition By Political Party

Political Party	Number of Members
ARENA	29
FMLN	31(1)
Partido de Conciliación Nacional	15
Partido Demócrata Cristiano	5
Convergencia Democrática/CDU(2)	2
Partido de Acción Nacional	1
Independent legislators(3)	1
Total	84

(1) Includes six members of FMLN that have announced that they will vote independently. On April 2, 2002, the FMLN announced that five of those six legislators had been expelled from the party.

(2) The *Convergencia Democrática* party was phased out as a party because it had not reached (together with the *Centro Democrático Unido* Coalition) the minimum requirement of 6% of the total votes.

(3) Not affiliated with any political party.

National judicial authority is vested in the Supreme Court and several lower courts. The Supreme Court, the highest judicial authority in the Republic, is composed of nine justices appointed by the Legislative Assembly from two different lists of nominees separately and independently prepared by the National Council of the Judiciary and the Salvadoran Bar Association. Each Supreme Court justice serves a nine-year term and may be re-appointed. The terms of the Supreme Court justices are staggered such that three justices are appointed every three years. Judges serving on courts of appeal, certain first-instance tribunals and justices of the peace are appointed by the Supreme Court, also from lists prepared by the National Council of the Judiciary. The Constitution provides that the annual national budget must include appropriations for the Judiciary totaling at least 6% of the central government's current revenues. The Judicial Training School was created as part of the implementation of the Peace Accord.

Memberships in International Organizations

El Salvador is a member of the United Nations and the Organization of American States and many of their respective specialized agencies, as well as the International Monetary Fund ("IMF"), the International Bank for Reconstruction and Development, the World Trade Organization (the "WTO"), the Inter-American Development Bank and the *Banco Centroamericano de Integración Económica*. El Salvador is also a beneficiary of the Caribbean Basin Initiative ("CBI"), which, subject to certain exceptions, provides duty-free access to the U.S. markets for certain goods manufactured or processed in CBI beneficiary countries. See "Foreign Trade and Balance of Payments — Regional Integration and Free Trade — Trade Initiatives Involving the United States."

THE SALVADORAN ECONOMY

Principal Reforms from 1979 to Present

The economy of El Salvador has substantially recovered from a series of negative developments during the period from 1979 through the inauguration of President Alfredo Cristiani in 1989, which included the nationalization of the banking system, costly failures in land reform, contraction of the manufacturing and agricultural sectors, the creation of state-owned monopolies in certain industries and extensive government spending related to the civil war. El Salvador experienced a substantial flight of capital from the country and significant emigration of economically active segments of the population to avoid the conflict and the depressed economy. The public sector recorded a substantial fiscal deficit financed by the Central Bank. In addition, as a result of the depressed economy, the Republic fell behind on certain of its external indebtedness, which was restructured after the implementation of the Peace Accord.

Principal Reforms

In 1989, the Republic began to implement a number of economic, monetary and fiscal reforms designed to create stability and growth in the economy. The benefits of these reforms are evidenced by average real GDP growth of 4.4% per year from 1992 to 2001. The reforms have focused on:

- Fixing the exchange rate to the US dollar and introducing the US dollar into the Salvadoran economy as legal tender and the unit of account of the financial system through the Monetary Integration Act;
- Reforming the pension system through the creation of a private pension system;
- Privatizing and modernizing the banking sector;
- Restructuring the Central Bank as an autonomous entity with a prohibition on financing of the central government;
- Lowering tariff levels and liberalizing trade, including entering into free trade agreements with various trading partners;
- Modifying the tax system, including simplification of the tax base;
- Decentralizing and reducing the size of the government; and
- Privatizing certain state-owned companies.

Monetary Integration Act. Effective as of January 1, 2001, the Legislative Assembly fixed the exchange rate of the *colón* to the US dollar at ¢8.75 to US$1.00, permitted the US dollar to circulate freely in the Salvadoran economy along with the *colón* and designated the US dollar as the unit of account for the Salvadoran financial system. These reforms were intended to stabilize permanently the value of the *colón* against the US dollar, reduce interest rates, increase the local savings rate, control inflation, encourage foreign investment, and simplify the management of the economy. The fixed exchange rate replaced the free floating exchange rate that had been in place since 1989. See "Foreign Trade and Balance of Payments — Exchange Rate Policy and Foreign Exchange."

Reforming the pension system. The government reformed the country's pension system effective on April 15, 1998 with the creation of a new system pursuant to which a substantial portion of the public pay-as-you-go pension system was replaced by a private system based on individual contributions. Under the new system, participating workers make monthly contributions to private pension funds which invest in permitted Salvadoran securities. Additional reforms to the pension system law which became effective January 1, 2002 reduced the government's obligations by authorizing the government to make certain payments in installments over 15 years as opposed to in one lump sum. At December 31, 2001, 919,805 Salvadoran workers were participating in the private system. At December 31, 2001, US$789.9 million in

assets, equivalent to 5.7% of GDP, were under management by the system's private pension fund managers. See "The Salvadoran Economy — Employment and Wages — Pension Reform."

Privatizing and modernizing the banking sector. The government modernized the banking sector in El Salvador through the privatization in the early 1990s of commercial banks and the savings and loan associations in order to promote competition and the development of a stronger financial system. The government also created the *Superintendencia del Sistema Financiero* (the "Superintendency of the Financial System") to regulate the banking industry. Further, the Legislative Assembly enacted legislation limiting loans to shareholders, increasing minimum capital requirements in light of the Basle Accord, regulating the supervisory powers and independence of the Superintendency of the Financial System and creating the *Instituto de Garantía de Depósitos* (the "Deposit Guaranty Agency"), which guarantees deposits up to US$6,286 and has the authority to provide funding to banks with liquidity problems. See "Monetary System — Financial Sector."

Restructuring the Central Bank. The Central Bank was restructured as an autonomous institution whose fundamental objective is to protect the stability of the currency and to maintain favorable monetary, credit and financial conditions in the economy. The Central Bank is not permitted to be a funding source for the central government. See "Monetary System — The Central Bank (*Banco Central de Reserva de El Salvador*)."

Promoting trade and foreign investment. In an effort to promote trade and foreign investment, the government has eliminated some tariffs and applied three tariff rates to approximately 90% of imports, adopted laws allowing remittances of earnings by foreign companies, provided for rebates of duties on certain exports and encouraged the establishment of free trade zones covering over 590,000 square meters as of December 31, 2001. These measures are intended to stimulate manufacturing, principally by *maquila* plants, which are exempt from import and export duties and enjoy certain income tax exemptions. In addition to implementing the Central American Common Market initiatives, the Republic has reached free trade agreements with Mexico, Chile, the Dominican Republic and Panama and has, effective October 2, 2000, qualified for enhanced, preferential access to the United States market under the Caribbean Basin Initiative. See "Foreign Trade and Balance of Payments — Tariffs and Other Trade Restrictions" and "— Regional Integration and Free Trade."

Modifying the tax system. The government introduced a value added tax in 1992 to provide a consistent revenue source. Amendments to the value added tax legislation in 1999 and 2000 have been directed at reducing tax avoidance, eliminating exemptions and closing loopholes. A new tax code, which became effective in January 2001, provides for the tax administration tools to enforce tax compliance and to accelerate the imposition of fines and sanctions. In the fourth quarter of 2001, the government eliminated certain tax exemptions and created stricter enforcement measures for customs. See "Public Sector Finances — Taxation."

Decentralizing and reducing the size of government. The government enacted legislation in 1998 aimed at decentralizing the government by increasing municipal allocations in the general budget from 3.6% to 6.0% of current revenues. Continuing its policy to modernize public sector institutions, the Republic has reduced the size of government by decreasing the number of employees and combining ministries. Since such time, the Republic combined the Justice, Interior and Public Safety ministries into the Ministry of Governance and reduced the number of employees through outsourcing, a hiring freeze, attrition and voluntary early retirement. To increase efficiency in tax collection and reduce tax evasion, in October 2001, the Ministry of Finance merged the General Customs Revenue Agency and the General Internal Revenue Agency. An amendment to the *Ley del Servicio Civil* (the "Civil Service Law") enacted December 19, 2001 permits the government a more flexible public sector employment policy which the government expects will help to reduce its payroll in future years. In addition, in 2001, the Republic reduced or eliminated subsidies for electricity, water consumption and public transportation.

In line with President Flores' program to promote Central American integration and to exert a unified control over the movement in goods, the Ministry of Finance implemented integrated customs facilities

with Guatemala and Honduras and established customs facilities in Puerto Quetzal and Puerto Cortez, the main ports in Guatemala and Honduras, respectively.

Privatizing certain state-owned companies. The government reduced its role in many sectors of the economy through a series of privatizations designed to encourage private investment and foster competition. The government received net privatization revenues of US$929.7 million in 1998 and US$168.6 million in 1999 through the privatization of the country's electricity distribution companies and telecommunications provider as well as the granting of private concessions for certain services and facilities at the international airport and the sale of alcohol factories and six state-owned sugar mills to private investors. The government did not privatize any assets or operations in 2000 or 2001. The government may continue the privatization process in 2002 and 2003 through the sale of its remaining interests in the telecommunications company and electricity distribution companies as well as the possible granting of concessions in port facilities and the international airport. See "— Privatizations."

Privatizations

Telecommunications Privatization. Until 1998, *Administración Nacional de Telecomunicaciones* ("ANTEL") was the sole provider of basic telephone service in El Salvador and had sole power to license or grant concessions for related services. In September 1991, ANTEL granted a concession for cellular telecommunications to a company owned by Millicom International Cellular S.A. and local investors. Data transmission facilities have been leased to private operators. In addition, several paging service providers have obtained licenses to provide services.

In July 1998, ANTEL was privatized through a public auction in which France Telecom purchased 51% of the capital stock of the entity holding the fixed line telecommunications assets of ANTEL, *Compañía de Telecomunicaciones de El Salvador* ("CTE"), for US$275.0 million and *Telefónica de España* purchased 51% of the capital stock of the entity holding ANTEL's wireless telecommunications assets, *Internacional de Telecomunicaciones* ("INTEL"), which subsequently changed its name to *Telefónica El Salvador,* for US$41.0 million. The government sold approximately 6% of CTE's capital stock to the company's employees. The government sold its remaining interest in INTEL to the public on October 26, 1999 for US$43.5 million. The government may sell its remaining interests in CTE in 2002 and 2003.

The government transferred the net proceeds from the privatization of ANTEL (US$391.8 million) to the ANTEL Privatization Fund. Interest generated by the ANTEL Privatization Fund is used to promote employment by attracting foreign investment and increasing exports and tourism, to promote handicraft industries and for forest development and protection programs, school food programs and scholarship programs. During 2001, US$21.8 million was invested in such projects and US$120 million of the capital in the ANTEL Privatization Fund was used for reconstruction efforts related to January and February 2001 earthquakes as well as other public works. The Legislative Assembly designated US$60 million of the capital in the ANTEL Privatization Fund for use in 2002 for four major highway projects.

Electricity Privatization. All planning, regulatory and executive functions concerning power generation, transmission and distribution were vested until 1998 in the *Comisión Ejecutiva Hidroélectrica del Río Lempa* ("CEL"), a state monopoly. Approximately 50% of the Republic's electricity is generated by CEL. A private company, *Compañía Nejapa Power,* owns and operates a power plant located in Nejapa on the north side of San Salvador. The plant has a generating capacity of 151.2MW, which represents approximately 12.6% of the Republic's total approximate generation capacity of 1,200MW. In May 1999, CEL filed for international arbitration of a dispute involving termination of the power purchase agreement executed in 1993 between CEL and *Compañía Nejapa Power*. On March 21, 2002, the arbitral tribunal in Switzerland ruled that the power supply contract was deemed terminated and ordered CEL to pay, within 60 days, US$90 million to *Compañía Nejapa Power* to compensate it for lost income from the agreement. The term of the agreement was for an additional 13 years and CEL's future obligations under it totaled approximately US$234 million for power purchases over such period. In addition, many of the large

manufacturing enterprises in El Salvador have their own generating capacity. From 1986 to 1998, CEL transmitted and distributed all of the Republic's electricity.

Privatization of Electricity Distribution Facilities. In 1996, the Legislative Assembly approved the *Plan de Gestión del Servicio Público de Distribución de Energía Eléctrica* (the "Electricity Distribution Act") to privatize the electricity distribution companies in El Salvador. Prior to the privatization, CEL controlled the four operating electricity distribution companies: *Compañía de Alumbrado Eléctrico de San Salvador* ("CAESS"), *Empresa Eléctrica de Oriente* ("EEO"), *Distribuidora de Electricidad del Sur* ("DELSUR") and *Compañía de Luz Eléctrica de Santa Ana* ("CLESA"). Ownership of a fifth company, *Distribuidora Eléctrica de Usulután* ("DEUSEM"), was divided equally between CEL, local governments and private investors. Pursuant to an auction, CEL sold the four companies in January 1998 as follows: (i) a joint-venture between *C.A. La Electricidad de Caracas* (Venezuela) and Reliant Energy (United States) purchased approximately 75% of the capital stock of each of CAESS and EEO; (ii) AES El Salvador, an affiliate of AES Corporation (USA) ("AES") purchased approximately 75% of the capital stock of CLESA and (iii) Emel Group (Chile) purchased approximately 75% of the capital stock of DELSUR. Net proceeds (including a purchase price adjustment of US$12.5 million paid to AES) from the sale of the four companies were US$573.6 million. Employees acquired approximately 18% of the capital stock of each of the four electricity companies and the remaining 7% of the capital stock was sold to the public.

From the net proceeds of this privatization (including sales to employees and the public), which amounted to US$581.4 million, US$320.0 million was used to repay short-term foreign currency debt and US$104.8 million was used to finance certain social and infrastructure projects. Subsequently, CAESS purchased DEUSEM from each one of its original owners in three stages during the second half of 1998. In June 2000, AES, the parent company of CLESA, acquired *C.A. La Electricidad de Caracas* and, thereby, its indirect interests in CAESS, EEO and DEUSEM, and in the fourth quarter of 2000, AES acquired Reliant Energy's interests in CAESS, EEO and DEUSEM. The government intends to sell its remaining interests in the distribution companies at a future date.

Privatization of Electricity Generation Facilities. The Electricity Distribution Act also provides for the restructuring of CEL for the privatization of electricity generation facilities. On July 30, 1999, after a bidding process, Duke Energy International El Salvador acquired for US$125.1 million 80% of the capital stock of the companies holding the thermal assets of CEL. In August 1999, the remaining 20% of the capital stock was sold to employees.

Transportation Privatization. The Republic has approximately 10,018 kilometers of roads. Two major highways cross the country: the Pan-American highway links the Republic with Guatemala in the west and Honduras in the east; and the *Carretera Litoral,* which runs south of the Pan-American highway, links Sonsonate to the west and Zacatecoluca and Usulután to the east. As part of the Peace Accord, the government launched a program to restore the country's roads and bridges with funding of US$195.0 million from the Inter-American Development Bank, US$85.4 million from Japan and US$19.0 million from the *Banco Centroamericano de Integración Económica*. The Republic has outsourced the maintenance of roads to private companies formed by former Ministry of Public Works employees who purchased the maintenance equipment from the government.

The Republic has two main seaports, Cutuco, to the east of San Salvador, and Acajutla, the major cargo seaport, to the west of San Salvador. The *Comisión Ejecutiva Portuaria Autónoma* (the Autonomous Executive Ports Commission or "CEPA") administers these ports and the international airport. The government is currently evaluating a possible public tender for port facilities.

The El Salvador International Airport is located 40 kilometers south of San Salvador and is served by a number of international airlines. In March 1998, the government completed a US$14.5 million expansion program for the airport and concessions have been granted to private companies for a number of facilities and services at and near the airport. The government is currently evaluating a possible public tender for the privatization of other facilities at the airport, possibly through concessions.

Privatization of the Pension System. The government reformed the country's pension system effective on April 15, 1998 with the creation of a new private pension system. Additional reforms to the pension system were enacted in 2001. See "The Salvadoran Economy — Employment and Wages — Pension Reform."

Effects of Reforms

As a result of the implementation of these laws and programs, the economy experienced increases in consumer spending that caused real GDP to grow at an average annual rate of 6.9% from 1992 to 1995. During the same four-year period, imports increased from US$2.1 billion in 1992 to US$3.7 billion in 1995, funded by a 117% increase in lending to the private sector from ¢13.3 billion in 1992 to ¢29.0 billion in 1995. The reforms during the 1992 to 1995 period laid the foundation for stability in future periods. During the period from 1996 to 2001, the average rate of growth of real GDP slowed to 2.8% compared with 4.4% in the period from 1992 to 2001, due in large part to natural phenomena and increases in world oil prices and decreases in coffee prices in the international market as well as the slow-down in the U.S. economy in 2001.

After reaching 19.9% in 1992, inflation in El Salvador fell to 7.4% for 1996 and to 1.4% for 2001.

Between 1992 and 2001, El Salvador's trade and services deficit grew from US$1.1 billion to US$2.2 billion. This trade gap has been largely offset by the high volume of worker remittances from Salvadorans abroad, which first exceeded US$1.0 billion during 1995 and totaled US$1.9 billion in 2001. See "Foreign Trade and Balance of Payments."

Exports of goods and services increased from US$1.4 billion in 1993 to approximately US$4.1 billion in 2001, largely as a result of measures to eliminate trade barriers through tariff reductions and to establish free trade zones (areas free from import or export duties and with an income tax exemption) and rebates for nontraditional exported goods manufactured outside of a free-trade zone. Primarily as a result of the Monetary Integration Act, average interest rates for the month of December 2001 on short-term and long-term loans fell to 7.8% and 9.1%, respectively, compared to 12.2% and 13.7%, respectively, for the month of December 2000. As of December 31, 2001, approximately 54.6%, or US$325.2 million, of all cash in circulation was in US dollars. The domestic currency interest rate (passive basic rate — 180 days) decreased from 10.65% at December 31, 1999 to 3.89% at December 31, 2001, a level similar to the corresponding foreign currency interest rate. Foreign direct investment in the financial system in El Salvador was US$41.4 million during 2001, a 162% increase from the US$15.8 million investment level in 2000. Nominal local savings increased 50.6%, amounting to 2.5% of nominal GDP, in 2001 compared to 1.8% in 2000.

Gross Domestic Product

The following table sets forth the Republic's real GDP growth for the periods presented.

Real GDP and Real GDP Growth by Economic Sector

	For the Year Ended December 31,				
	1997	1998	1999(1)	2000(1)	2001(1)
Real GDP (in millions of *colones*)(2)	¢52,204.2	¢54,161.6	¢56,029.5	¢57,249.7	¢58,297.0
Real GDP growth(2)	4.2%	3.7%	3.4%	2.2%	1.8%
Real GDP growth by sector:					
Manufacturing	8.0	6.6	3.7	4.1	4.2
Trade, restaurants and hotels	2.9	4.0	2.0	3.3	1.6
Agriculture, livestock and fishing	0.4	(0.7)	7.7	(3.1)	(2.1)
Transportation, storage and communications	7.7	4.2	9.5	6.1	2.9
Residential leasing	1.8	2.0	0.5	1.5	(2.4)
Government services(5)	3.8	0.3	1.6	0.7	0.5
Community, social, personal, and domestic services(4)	3.0	2.1	0.3	1.4	1.1
Construction	6.2	8.5	(1.8)	(3.4)	10.0
Finance and insurance	12.6	9.6	12.0	6.7	1.6
Real estate and business services(3)	4.4	2.8	0.2	1.2	1.5
Electricity, gas and water	4.2	6.1	2.7	(2.3)	4.2
Mining	6.5	5.3	0.4	(4.7)	12.0

(1) Preliminary data.

(2) Based on constant 1990 prices.

(3) Includes leasing and use of non-residential real estate and professional, legal, accounting and similar services.

(4) Includes education and private health care services, entertainment (cinemas and television), and other services such as veterinary services, services provided by commercial, professional, labor and religious associations, and repair and maintenance services provided by electricians, technicians, etc.

(5) Includes wages and fringe benefits paid by the government to its employees.

Source: *Banco Central de Reserva de El Salvador.*

After centuries of dependence upon agricultural products, the Salvadoran economy has increasingly come to rely on industrial production which now accounts for 23.0% of GDP. In 2001, agricultural products represented 9.5% of Salvadoran GDP compared to 17.5% in 1975. Traditionally, coffee has been the main agricultural product of the Republic and typically represents the largest agricultural component of GDP. See "— Principal Sectors of the Economy."

As measured by real growth in GDP, economic growth in El Salvador averaged 4.4% per year from 1992 to 2001 and 3.1% per year from 1997 to 2001. Following the signing of the Peace Accord, private consumption grew in real terms by 4.9% per year from 1992 to 2001 and 2.6% per year from 1997 to 2001. Increased private consumption was satisfied largely with imports of goods (excluding *maquila*, which increased from US$1.7 billion in 1992 to US$3.9 billion in 2001) and was fueled by an increase in lending to the private sector from US$1.5 billion for 1992 to US$5.2 billion for 2001.

To prevent the destabilizing effects of rapid credit expansion, the Central Bank intervened in 1995 to restrict credit by increasing the reserve requirement that commercial banks must keep on deposit at the Central Bank. At the same time, the government increased the value added tax to 13.0%. The combined

effect of these two measures, together with the delayed effect on El Salvador of the devaluation of the Mexican peso at the end of 1994, resulted in slower growth in GDP of only 1.7% in real terms for 1996. In 1997, GDP increased by 4.2% in real terms mainly due to an increase in *maquila* related activities, improvements in the Central American countries' economies, elimination of raw materials and capital goods tariffs and the reduction of interest rates, among other factors.

In 1998, real GDP growth slowed to 3.7% due primarily to the effects of Hurricane Mitch. Agriculture was among the most severely affected sectors, with the most significant losses suffered by small landowners. According to the *Ministerio de Agricultura y Ganadería* (Ministry of Agriculture), 18.3% of the total estimated production of basic grains and 2.6% of coffee acreage under cultivation were affected by Hurricane Mitch.

Real GDP increased at a rate of 2.2% in 2000, as compared to 3.4% in 1999. External and internal causes contributed to the slower growth of real GDP experienced in 2000. The rise in international oil prices dampened domestic production by creating additional expenditures for oil derivatives products. In addition, the fall in international prices of coffee and other agricultural products affected the growth of internal demand and income. For example, the unfavorable international market price for coffee provided less incentive for harvesters to produce coffee in 2000. Further, higher costs in the construction industry caused the delay of many projects leading to a contraction of the sector.

In 2001, real GDP grew at a rate of 1.8%, as compared to 2.2% in 2000. The growth rate in 2001 was negatively affected by:

- the impact of the earthquakes in January and February 2001;
- the decrease in the growth rate of the *maquila* sector primarily as a result of the slow-down of the U.S. economy in 2001;
- continued low international prices of coffee; and
- high international oil prices.

These negative factors were partially offset by investment expenditures relating to the reconstruction due to the earthquakes as well as the effect lower interest rates had on consumption and investment.

Principal Sectors of the Economy

The following table sets forth the percentages of nominal GDP by economic sector for the periods presented.

Nominal GDP by Economic Sector

	For the Year Ended December 31,				
	1997	1998	1999(1)	2000(1)	2001(1)
	(as percentage of total GDP)				
Manufacturing	21.0%	21.4%	22.6%	23.1%	23.0%
Trade, restaurants and hotels	19.5	19.3	19.0	19.4	19.5
Agriculture, livestock and fishing	13.4	12.1	10.5	9.8	9.5
Transportation, storage and communications	7.8	8.1	8.3	8.5	8.5
Residential leasing	8.0	8.0	7.9	7.9	7.6
Government services	6.8	7.2	7.6	7.3	7.2
Community, social, personal, and domestic services	6.3	6.5	6.6	6.7	6.7
Construction	4.3	4.4	4.3	4.4	4.6
Finance and insurance	3.6	3.7	4.2	4.3	4.4
Real estate and business services	4.2	4.2	4.1	4.0	4.1
Electricity, gas and water	1.6	2.0	2.0	1.7	1.6
Mining	0.5	0.4	0.4	0.4	0.4
Plus: tariffs and value added tax	6.7	6.6	6.5	6.6	6.9
Less: imputed financial services(2)	(3.7)	(3.9)	(4.0)	(4.0)	(4.0)
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Preliminary data.

(2) Imputed financial services include the difference between interest accrued and interest paid by the financial sector.

Source: *Banco Central de Reserva de El Salvador.*

Manufacturing

In recent years, manufacturing has become a key sector of the Salvadoran economy. Since 1997, the manufacturing sector has generated an annual average of 22.2% of the Republic's GDP and increased from 1997 to 2001 by 19.9% in real terms. Manufacturing has been one of the fastest growing sectors of the Salvadoran economy during the period from 1997 to 2001, increasing at an average annual rate of 5.3% in real terms compared to an annual average of 3.1% for real GDP from 1997 to 2001. *Maquila* activity has been the most important component of the manufacturing sector.

The following table sets forth production (at constant 1990 prices) of El Salvador's principal manufacturing activities for the periods presented.

Principal Manufacturing Activities

	For the Year Ended December 31,				
	1997	1998	1999(1)	2000(1)	2001(1)
	(in millions of *colones*) (2)				
Maquila (assembly for re-export)	¢ 1,100.1	¢ 1,323.4	¢ 1,416.6	¢ 1,712.0	¢ 1,820.2
Beverages	979.7	987.3	1,089.3	1,145.9	1,236.8
Chemicals	955.4	1,076.1	1,165.0	1,101.6	1,167.7
Baked goods	1,009.5	1,099.5	1,088.2	1,110.2	1,114.6
Sugar	798.2	863.5	896.7	934.9	936.5
Other processed foods	723.9	757.8	786.1	839.6	865.4
Textiles	739.6	762.7	751.5	762.9	800.9
Refined oil products	600.3	618.5	682.0	664.7	685.2
Metallic mineral products	506.0	562.1	574.9	593.4	642.5
Printing and related industries	568.3	610.5	632.1	619.4	624.0
Non-metallic mineral products	531.9	553.8	556.8	569.0	593.3
Leather and related products	470.9	540.8	500.3	514.8	505.8
Transport supplies and diverse manufacturing products	363.0	408.6	436.6	469.5	485.5
Milk products	333.6	372.8	378.5	399.7	417.5
Machinery and equipment	406.8	440.4	436.7	421.0	426.8
Paper and cardboard	285.9	298.2	306.9	328.6	366.4
Plastic products	257.0	289.5	296.8	316.8	364.1
Apparel	239.7	254.4	262.7	267.4	251.9
Meat packaging and related products	215.1	231.4	238.9	247.0	253.9
Lumber and related products	159.0	151.1	156.7	159.0	167.6
Other	201.4	1.6	1.1	0.8	0.9
	¢11,445.2	¢12,204.1	¢12,654.3	¢13,178.3	¢13,727.3

(1) Preliminary data.

(2) In constant 1990 prices.

Source: *Banco Central de Reserva de El Salvador.*

Maquila (assembly for re-export) has been the most dynamic activity within the manufacturing sector, increasing in real terms from ¢1,100.1 million in 1997 to an estimated ¢1,820.2 million in 2001. This represents an increase of 65.5% during that period. *Maquila* increased 6.3% in real terms in 2001 compared with 4.2% for the manufacturing sector as a whole. The *maquila* growth rate slowed in 2001, compared to 2000, when it grew at a rate of 20.9%, largely as a result of the slow-down in the U.S. economy. Nonetheless, the level of *maquila* production in 2001 was at its highest historical level.

According to the Ministry of Economy, as of December 31, 2001, there were 246 *maquila* plants, 88 of which are located in free-trade zones, with the remaining 158 operating outside the geographic boundaries of the free-trade zones. Over half of the *maquila* plants established in the free-trade zones produce apparel and linens, mainly for export to the United States. Companies that operate in a free-trade zone are exempt from import and export duties and enjoy a ten-year exemption from income taxes, provided the manufactured goods are exported outside of Central America. Firms that operate outside of a

free-trade zone and that do not export 100% of their production are entitled to a 6.0% rebate on exports of non-traditional goods outside of Central America. See "Foreign Trade and Balance of Payments — Composition of Foreign Trade."

Trade, Restaurants and Hotels

From 1997 to 2001, the trade, restaurants and hotels sector grew by an annual real rate of 2.8%. Growth in the trade sector slowed during the period from 1997 to 2001, compared with a 7.4% growth rate in the 1992 to 1996 period due to higher private consumption in the earlier period. Growth in the restaurant and hotel industries largely follows patterns of tourism. Tourism to El Salvador increased after the signing of the Peace Accord in 1992, but has subsequently decreased and was particularly adversely affected by the September 11, 2001 terrorist attacks in the United States. Accordingly, the restaurant and hotel industries' rate of growth has slowed as well.

Agriculture, Livestock and Fishing

Agriculture, livestock and fishing accounted for an estimated 9.5% of the Republic's nominal GDP during 2001. In contrast with the 3.1% average annual real growth of the Republic's GDP during the 1997-2001 period, this sector grew at an average real annual rate of 0.4% during the period. The decrease in the percentage that agriculture represents of the Republic's GDP is the result of several factors, including: increases in other sectors of the Salvadoran economy, particularly *maquila*; increasing urbanization of the population; and the volatility of coffee prices. Total land dedicated to the cultivation of traditional products (coffee, sugar, cotton, corn, beans, rice and sorghum) decreased 12% over the 1980-2001 period. In 2001, the agriculture, livestock and fishing sector contracted by 2.1% primarily as a result of the decline in coffee production.

Coffee is El Salvador's principal agricultural export. Currently, there are approximately 160,724 hectares devoted to the cultivation of coffee, representing approximately 7.7% of the country's land. Coffee production, valued in real terms, decreased by 8.3% in 1998 due to the negative effects of El Niño and Hurricane Mitch. In 2001, coffee accounted for 76.4% of agricultural exports and for 4.0% of total exports of goods. Proceeds from coffee exports decreased to US$115.1 million for 2001 compared with US$298.0 million for 2000, primarily due to the continued decline in international coffee prices as well as a decrease in volume resulting from the effects of the earthquakes in the early part of 2001. Coffee is nevertheless an important source of employment in El Salvador, generating approximately 96,800 jobs in the 2001/2002 harvest, which accounted for 3.9% of employment nationwide.

In July 2000, the *Fondo de Emergencia para el Café* (the "Coffee Emergency Fund") was created by the Legislative Assembly to revitalize the coffee production industry by extending financing to coffee producers to enable them to repay debts related to their coffee production activity, thereby freeing funds for investment in the coffee industry. The Coffee Emergency Fund obtained US$80 million of proceeds through a December 2000 issuance of zero coupon eurobonds that mature in six month installments over a ten-year period and have an aggregate face amount at maturity of US$123,248,752. The Coffee Emergency Fund distributed the proceeds to coffee producers through the extension of financing. The Coffee Emergency Fund is administered by the Coffee Council, an autonomous public organization consisting of representatives from the government and private trade organizations.

With the exception of coffee, most agricultural production is for domestic consumption. The Republic generally permits the import of most agricultural products which meet established health standards, with the exception of poultry products. Since 1992, the *Ministerio de Salud* (Ministry of Health) has forbidden the import of all poultry products in an effort to limit several common avian diseases such as salmonella.

The following table sets forth the production (at constant 1990 prices) of certain major agricultural, livestock and fishing products for the periods presented.

Main Agricultural, Livestock and Fishing Products

	For the Year Ended December 31,				
	1997	1998	1999(1)	2000(1)	2001(1)
	(in millions of *colones*) (2)				
Basic grains	¢1,297.0	¢1,193.6	¢1,416.6	¢1,301.9	¢1,291.2
Other agricultural	1,177.2	1,195.1	1,230.1	1,254.8	1,279.9
Livestock	1,169.5	1,192.3	1,219.5	1,249.0	1,274.0
Coffee	1,465.9	1,344.4	1,549.3	1,325.2	1,152.9
Poultry	728.1	782.9	846.9	909.8	891.6
Sugar cane	381.0	437.7	424.2	418.5	411.0
Forestry	386.1	386.2	393.9	397.8	399.8
Fishing	186.3	211.1	174.1	166.1	182.7
Cotton	0.0	0.0	5.4	8.9	3.3
	¢6,791.0	¢6,743.3	¢7,260.0	¢7,032.0	¢6,886.4

(1) Preliminary data.

(2) Based on constant 1990 prices.

Source: *Banco Central de Reserva de El Salvador.*

Transportation, Storage and Communications

In the period 1993 to 1997, prior to the privatization of the telecommunications company ANTEL, annual average growth in the transportation, storage and communications sector was similar to that of the entire economy, whereas, for the period from 1998 to 2001, the 5.7% average annual growth rate for the sector was more than double the 2.8% rate for the economy as a whole during the period. Communications was the leading subsector. The privatization program in this sector introduced greater competition in the industry as the multinational corporations acquiring assets of ANTEL made investments in network expansion. In 2001, the transportation, storage and communications sector grew by 2.9% primarily as a result of growth in the transportation subsector due to the clean-up effort following the January and February 2001 earthquakes as well as growth in the cellular telephone industry.

Construction

Reconstruction after the military conflict contributed to the construction sector's average annual real rate of growth of 8.1% in the period from 1992 to 1995. In 1996, with the deceleration of the economy as a whole, growth in this sector slowed to 2.7%. In 1997 and 1998, the sector grew, in real terms, at annual rates of 6.2% and 8.5%, respectively, as a result of government expenditures on roads and other infrastructure projects. In 1999, the sector decreased by 1.8%. The negative rate of growth was a result of delays in the development of new housing projects due to problems with environmental regulations and the insolvency of *Banco de Crédito Inmobiliario S.A.* ("CREDISA"), an institution dedicated to financing housing and construction projects. Furthermore, investment in construction projects was affected by the delay in the approval of the general budget for 1999.

In 2000, the construction sector contracted by 3.4% as a result of several factors, including environmental regulation that limited the execution of large housing projects, higher construction costs and low growth in purchasing power and the deficiency of certain public institutions in the planning and the administration of projects. In 2001, the construction sector grew by 10.0% primarily as a result of the

reconstruction effort following the earthquakes in January and February 2001, as well as increases in housing construction, which were partially attributable to falling interest rates in the country during 2001.

Finance and Insurance

From 1997 to 2001, the financial services sector grew at an average annual real rate of 8.5%. This growth was primarily the result of an increase in lending to the private sector at an average annual rate of 6.6% during the same period. During 2001, the financial services sector grew by 1.6%. This reduced growth rate was primarily due to lower interest rates, an increase in levels of insurance claims as a result of the 2001 earthquakes and a decrease in the growth rate in lending to the private sector.

Currently, there are 11 private retail banks, two state-owned retail banks and one state-owned mezzanine bank *(Banco Multisectorial de Inversiones)* which lends to commercial banks and financial institutions and one non-bank financial institution *(financiera)* operating in El Salvador. At December 31, 2001, the Salvadoran commercial banks had total assets of US$8.7 billion, equivalent to approximately 63.5% of nominal GDP for 2001. The financial system also includes broker dealers, insurance companies and the El Salvador Stock Exchange. See "Monetary System — Financial Sector."

Employment and Wages

Since 1991, the labor force in El Salvador has grown at an average annual rate of 3.1%, partly due to the greater participation of women in the labor force. Unemployment decreased from 8.0% in 1997 to 6.9% in 2001. The economic sectors with the greatest job generation during the 1997 to 2001 period are finance (annual average of 7.5%), manufacturing (annual average of 5.4%) and trade (annual average of 3.1%). The percentage of workers in the informal sector of the economy appears to have remained constant during the same period, but the government has no official count of such workers.

El Salvador's labor law provides for a daily minimum wage, currently set at US$4.80 in the industrial sector and US$2.47 in the agricultural sector. Minimum wages are set by a council composed of representatives from the government, the private sector and labor organizations. Minimum wages for each major sector of the economy are set taking into account the evolution of real wages and the overall economic situation. The legal workday is eight hours and the legal workweek is 44 hours. The law prohibits employment of minors under the age of 14 unless such employment is necessary for family sustenance and does not interfere with schooling.

The law prohibits actions against workers seeking to organize. Unions and strikes are only legal in the private sector. Public sector workers may form associations but are not legally allowed to strike. Pursuant to an amendment to the Civil Service Law enacted December 19, 2001, the government has the ability to terminate the appointment of public sector employees.

The following table sets forth daily minimum wages by economic activity in effect for the periods presented.

Daily Minimum Wages by Economic Sector

	Agriculture	Coffee(1)	Sugar(1)	Cotton(1)	Industry and Services	Trade	Construction
				(in US dollars)			
1997	2.26	2.26	2.26	2.26	4.40	4.40	4.89
1998	2.47	2.47	2.47	2.47	4.80	4.80	5.26
1999	2.47	2.47	2.47	2.47	4.80	4.80	5.57
2000	2.47	2.47	2.47	2.47	4.80	4.80	6.40
2001	2.47	2.47	2.47	2.47	4.80	4.80	6.40
2002(2)	2.47	2.47	2.47	2.47	4.80	4.80	7.82

(1) Excluding seasonal workers who are guaranteed minimum wages at different levels.

(2) Through April 3, 2002.

Source: *Diario Oficial* (Official Gazette of El Salvador).

Social Security

El Salvador's Constitution provides for the guarantee of social security benefits to workers and their families. Social security benefits provide assistance in case of accidents, illness, maternity, disability, retirement and death. Participation in the social security system for coverage for accident, illness, maternity and disability is mandatory for all individuals, except for teachers in the public sector and self-employed individuals. These benefits are administered by the *Instituto Salvadoreño del Seguro Social* (the "Salvadoran Social Security Institute").

Retirement and death benefits for public and private sector workers who remained in the public pension system after the pension reform in 1998 are provided by the *Instituto Nacional de Pensiones de los Empleados Públicos* (the "National Public Pension Institute") and the Salvadoran Social Security Institute through a separate governmental system. The government provides medical services to the population not covered by the Salvadoran Social Security Institute or the National Public Pension Institute through a network of 30 hospitals and 579 health facilities across the country.

The social security system is financed through a combination of contributions from the workers and employers. As of January 1, 2002, all employees, except for teachers in the public sector and self-employed individuals, contributed 3.0% of their salary and employers contributed 7.5% of their total payroll for accident, illness, maternity and disability benefits. For retirement and death benefits, private sector employees contributed 7.0% of their salary and employers contributed 7.0% of their total payroll to the Salvadoran Social Security Institute and public sector employees contributed 6.5% of their salary and their employers contributed 6.5% of their total payroll to the National Public Pension Institute.

The following table sets forth the distribution of workers in the private sector by economic sector and as a percentage of the labor force in the private sector contributing to the Salvadoran Social Security Institute by number and percentage for the periods presented. No comparable information is available for workers in the informal sector of the economy.

Contributors by Sector

	For the Year Ended December 31,									
	1997		1998		1999		2000(1)		2001(1)(2)	
	Number	%	Number	%	Number	%	Number	%	Number	%
Industry	148,134	35.0%	145,769	34.9%	169,696	37.6%	176,012	38.8%	171,504	37.3%
Commerce	85,017	20.1	80,345	19.2	94,615	21.0	94,780	20.9	94,699	20.6
Finance	55,696	13.2	61,252	14.7	67,138	14.9	68,119	15.0	74,901	16.3
Services	68,443	16.2	66,180	15.9	56,449	12.5	56,893	12.5	60,739	13.2
Construction	35,650	8.4	32,248	7.7	29,532	6.5	25,334	5.6	25,846	5.6
Transport and Communication	13,868	3.3	16,827	4.0	20,118	4.5	19,989	4.4	18,835	4.1
Agriculture	9,729	2.3	8,304	2.0	10,493	2.3	9,665	2.1	9,575	2.1
Electricity, Gas and Water	5,775	1.4	5,725	1.4	2,721	0.6	2,781	0.6	3,147	0.7
Mining	873	0.2	751	0.2	781	0.2	529	0.1	535	0.1
Total	423,185	100.0%	417,401	100.0%	451,543	100.0%	454,102	100.0%	459,781	100.0%

(1) Preliminary data.

(2) 2001 information is as of October 31, 2001.

Source: *Instituto Salvadoreño del Seguro Social.*

Pension Reform

On December 20, 1996, the Legislative Assembly approved the creation of a private pension system for eligible workers (including both public sector employees and private sector employees) in El Salvador modeled on the then-existing Chilean system. The *Superintendencia de Pensiones* (the "Superintendency of Pensions") is responsible for overseeing both the public pension system and the private pension system. Private pension companies *(Administradoras de Fondos de Pensiones)* were authorized to operate by the pension system law on April 15, 1998. All workers 35 years old or younger were required to affiliate with a private pension company by April 15, 1999. Men between the ages of 36 and 55 and women between the ages of 36 and 50 had the option of continuing with the prior public pension system, or switching to the new private pension system, while women over the age of 50 and men over the age of 55 were not eligible to participate in the new private pension system and were required to remain in the prior public pension system. All workers entering the work force since April 15, 1998 have been required to participate in the private pension system, regardless of age. At December 31, 2001, 919,805 workers were covered by this private pension system. At December 31, 2001, there were 54,840 workers participating in the public pension system.

As of January 1, 2002, employees participating in the private pension system are required to contribute up to 6.25% of their salary on a monthly basis to a private pension fund (a portion of such amount represents commissions). Employers are required to contribute 6.75% to each worker's private pension fund account on a monthly basis.

When employees who transferred to the private pension system retire, the government issues *Certificados de Traspaso* (Certificates of Transfer or "CTs") to the relevant private pension fund in order to credit the employees for their prior contributions to the public pension system. Beginning in January 2002, the CTs, as a result of reforms to the pension system law, are payable over a 15-year period commencing upon the date of the relevant employee's retirement. CTs were previously payable in one lump sum.

The creation of the private pension system reduced by approximately 50% the net present value of the government's obligations with respect to pensions. The government currently projects that the difference

between contributions to the public pension system and benefits payable to retirees under the public pension system and partial benefits payable to retirees who switched to the private pension system for the time they were covered by the public pension system will reach 0.9% of GDP in 2002, growing thereafter to reach a projected peak deficit as a percentage of GDP of 2.0% in 2005. The accumulated deficit for the period from 2002-2005 could reach approximately US$1,047.6 million.

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

During the 1960s, El Salvador imposed tariff and non-tariff barriers to foreign competition in an effort to encourage the development of a domestic industrial base. By 1970, as a result of the country's shortage of natural resources, El Salvador imported 74.0% of its raw materials and 95.0% of its capital goods from countries outside the CACM. In an effort to reduce this import dependency, El Salvador introduced incentives to foreign investment, and the *maquila* industry developed in free-trade zones to take advantage of El Salvador's comparatively low labor costs.

With the reform programs begun in 1989 and the initiatives implemented after the signing of the Peace Accord, the export sector of the economy began to grow. By 2001, exports of goods and services accounted for 30.2% of nominal GDP. In 2001, imports accounted for 46.0% of nominal GDP, mostly in the form of intermediate goods (33.7% of total imports) and consumer goods (25.3% of total imports). Export earnings have grown 18.1% from 1997 to 2001 primarily as a result of higher *maquila* exports, which have grown steadily by an annual average rate of 17.2% from 1997 to 2001. Based on preliminary information, the trade and services deficit decreased from 17.0% of nominal GDP during 2000 to 15.9% of nominal GDP during 2001 and the current account deficit of the balance of payments decreased from 3.3% of nominal GDP in 2000 to 1.3% of nominal GDP in 2001 as a result of the decrease in the trade and services deficit and the increase in current account transfers.

Tariffs and Other Trade Restrictions

Until the late 1980s, El Salvador used tariff barriers to protect its domestic industry against foreign competition. Import duties ranged from zero to 290%, with up to 25 different rates. Exports were largely controlled by the government, with the international commercialization of coffee and sugar in the hands of state-owned monopolies.

Since 1989, the Republic has significantly liberalized its foreign trade policy. The tariff structure has been simplified and currently consists of three principal rates: zero for capital goods, between 5% and 10% for intermediate goods and 15% for consumer goods. These three rates apply to approximately 90% of imports. There are some products with different rates, such as jewelry, fine arts, guns and ammunition. Import licenses have been eliminated for most goods and export license requirements have been replaced by reporting requirements primarily designed to ensure collection of data relating to foreign trade. The national coffee and sugar boards have been dissolved, eliminating government involvement in these industries.

Regional Integration and Free Trade

El Salvador has benefited from regional trade initiatives that have opened up the markets of Central American nations to other nations in the region. Regional integration has been especially beneficial to the manufacturing sector. Increased access to international markets and liberalization of trade barriers are components of El Salvador's plan to increase international competitiveness, to improve export revenues and to encourage foreign investment. In recent years, the Republic has intensified its efforts to strengthen its trade arrangements with its primary trading partners including:

- entering into, along with several other Central American countries, a free trade agreement with the Dominican Republic that became effective on October 1, 2001;
- entering into, along with Guatemala and Honduras, a free trade agreement with Chile that has been approved by all parties and will become effective upon exchange of final documentation;
- entering into, along with Guatemala and Honduras, a free trade agreement with Mexico that became effective on March 15, 2001;

- entering into a free trade agreement with Panama on March 6, 2002 that will become effective upon approval by the countries' respective legislative assemblies;
- participating in the Free Trade Area of the Americas negotiations; and
- participating in free trade agreement negotiations with Canada.

Trade Initiatives Involving Central America

The opening of the markets of Central America began in 1960 when El Salvador, Guatemala, 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 CACM. The CACM envisioned the creation of a customs union as a temporary step towards the creation of a common market similar to the European Union. In 1995, the five members of the CACM agreed to reduce gradually their external tariff structures for goods produced outside the Central American region. In January 2000, the Central American nations agreed to a tariff structure with, and Salvadoran tariffs are currently set at, three principal rates: 0% for capital goods; between 5% and 10% for intermediate goods; and 15% for consumer goods.

In early 1998, El Salvador and several Central American countries signed a free trade agreement with the Dominican Republic intended to create a free trade zone in accordance with WTO regulations. This agreement became effective on October 1, 2001. In October 1999, El Salvador, Guatemala and Honduras entered into a free trade agreement with Chile that has been approved by the respective legislative assemblies and will become effective upon the exchange of final documentation. El Salvador, Guatemala and Honduras reached a free trade agreement with Mexico, which became effective for El Salvador on March 15, 2001. This free trade agreement with Mexico does not apply to trade between El Salvador and Guatemala or Honduras. On March 6, 2002, El Salvador and Panama entered into a free trade agreement that is pending approval by the respective legislative assemblies of both countries.

Trade Initiatives Involving the United States and Canada

El Salvador has been a beneficiary of the CBI since 1983, when the United States government established the CBI to aid Central American and Caribbean countries. The CBI provides duty-free access to the U.S. market for certain goods manufactured and processed in CBI member countries. Excluded from the original list of duty-free products were beef, textiles, clothing, oil and oil derivatives. Sugar remains subject to quotas. The CBI also contains rules of origin which require that products must have at least 35 percent CBI-country content in order to be eligible for duty-free treatment.

On October 2, 2000, the United States declared El Salvador eligible for enhanced CBI benefits available under the Caribbean Basin Trade Partnership Act of 2000 (the "CBTPA"). The CBTPA significantly expands preferential treatment for apparel made in the Caribbean Basin region. Duty/quota-free treatment is provided for apparel made in the Caribbean Basin region from U.S. fabrics formed from U.S. yarns. Duty/quota-free treatment is also available for certain knit apparel made in CBTPA beneficiary countries from fabrics formed in the Caribbean Basin region, provided that U.S. yarns are used in forming the fabric. This "regional fabric" benefit for knit apparel is subject to an overall yearly limit, with a separate limit provided for T-shirts.

New duty/quota-free treatment is also available for apparel made in the Caribbean Basin region from fabrics determined to be in "short supply" in the United States, and for designated "hand-loomed, handmade or folklore" articles. In addition to these apparel preferences, the CBTPA provides NAFTA-equivalent tariff treatment for certain items previously excluded from duty-free treatment under the CBI program (e.g., footwear, canned tuna, oil products, watches and watch parts).

In December 1994, at the Summit of the Americas in Miami, the Presidents of the United States, the five Central American countries, Belize and Panama signed the *Conjunto Centroamericano-USA*, a partnership for sustainable development which commits its signatories to achieving a Free Trade Area of the Americas by 2005. At the Summit of the Americas in Quebec City in April 2001, the parties

reiterated their commitment to achieve a Free Trade Area of the Americas by 2005. On January 16, 2002, U.S. President George W. Bush announced that the United States would explore a free trade agreement with the countries of Central America. The U.S. government stated that it believes that this negotiation will complement its goal of completing the Free Trade Area of the Americas no later than January 2005. In addition, in March 1999, the United States signed a bilateral investment treaty with El Salvador intended to encourage foreign investment. The treaty is not yet effective.

At the Canada-Central America Summit in Guatemala on September 28, 2000, the Prime Minister of Canada agreed to a request by the leaders of the Central American countries of El Salvador, Guatemala, Honduras and Nicaragua to pursue free trade negotiations. On November 21, 2001, the Canadian Minister for International Trade announced the launch of free trade negotiations. Canadian and Central American officials met for the second round of formal negotiations towards a bilateral free trade agreement in February 2002. Further rounds of negotiations may be held as early as April 2002.

Composition of Foreign Trade

The Republic's largest trading partners are the United States, Guatemala and Honduras. The following table sets forth the country of destination of the Republic's exports for the periods presented.

Merchandise Exports by Country of Destination

	For the Year Ended December 31,					Percentage of Total Exports	
	1997	1998	1999	2000(1)	2001(1)	1997	2001(1)
	(in millions of US dollars, except percentages)						
North America							
Canada	$ 11.4	$ 4.7	$ 9.4	$ 6.4	$ 4.9	0.5%	0.2%
Mexico	17.9	17.3	14.3	13.4	24.6	0.7	0.9
United States	1,319.5	1,447.3	1,576.5	1,920.3	1,874.8	54.4	65.4
Central America							
Belize	3.0	4.3	4.3	5.8	7.8	0.1	0.3
Costa Rica	111.8	110.4	91.9	85.7	94.6	4.6	3.3
Guatemala	266.1	283.7	284.1	319.2	323.2	11.0	11.3
Honduras	136.1	148.7	171.6	225.1	184.3	5.6	6.4
Nicaragua	64.9	75.0	91.1	107.5	120.3	2.7	4.2
South America and the Caribbean							
Chile	3.7	1.4	6.0	1.6	1.9	0.2	0.1
Dominican Republic	11.5	13.4	14.2	12.2	12.4	0.5	0.4
Panama	24.7	24.3	35.4	39.0	48.9	1.0	1.7
Puerto Rico	5.7	4.9	4.8	3.6	4.2	0.2	0.1
Venezuela	2.8	2.6	1.6	1.2	6.5	0.1	0.2
Europe							
Benelux(2)	90.6	46.6	24.9	18.0	5.8	3.7	0.2
Germany	239.7	140.3	105.2	94.4	48.8	9.9	1.7
Other	116.7	116.2	74.7	87.8	102.1	4.8	3.6
Total	$2,426.1	$2,441.1	$2,510.0	$2,941.2	$2,865.1	100.0%	100.0%

(1) Preliminary data.

(2) Belgium, Netherlands and Luxembourg.

Note: The average exchange rate for each year has been used to translate *colones* into US dollars. See "Offering Circular Summary — Selected Economic Indicators."

Source: *Banco Central de Reserva de El Salvador.*

In 2001, 25.5% of El Salvador's merchandise exports went to Central American countries, compared to 24.0% in 1997. Primarily as a result of the free trade agreement with Mexico that became effective in 2001, exports to Mexico in 2001 increased by approximately 84%, although they still represented less than 1% of total exports for such year. Exports to the United States increased from 54.4% of the Republic's total exports in 1997 to 65.4% in 2001. Exports to the United States consist primarily of *maquila* products, coffee, sugar, shrimp, apparel and textiles.

The following table sets forth the composition of the Republic's major exports for the periods presented.

Merchandise Exports (FOB) by Groups of Products

	For the Year Ended December 31,					Percentage of Total Exports	
	1997	1998	1999	2000(1)	2001(1)	1997	2001(1)
	(in millions of US dollars, except percentages)						
Maquila	$1,055.0	$1,184.7	$1,333.4	$1,609.0	$1,651.6	43.5%	57.6%
Agricultural products							
Coffee	520.5	323.7	245.1	298.0	115.1	21.5	4.0
Other	20.5	22.3	22.7	35.1	35.6	0.8	1.2
Manufacturing							
Paper	69.4	72.0	80.0	89.9	99.6	2.9	3.5
Textiles	128.3	145.8	145.0	150.3	145.0	5.3	5.1
Shoes and footwear	16.9	18.0	15.0	18.8	19.0	0.7	0.7
Food, beverages and tobacco	155.6	181.9	173.6	183.0	226.0	6.4	7.9
Chemicals	146.1	159.9	151.2	151.4	151.8	6.0	5.3
Mineral products	48.7	49.0	66.9	69.6	74.6	2.0	2.6
Animal products							
Shrimp	28.9	31.7	24.2	15.5	18.9	1.2	0.7
Other	25.1	26.4	22.8	31.7	20.3	1.0	0.7
Other	211.1	225.7	230.1	288.9	307.6	8.7	10.7
Total	$2,426.1	$2,441.1	$2,510.0	$2,941.2	$2,865.1	100.0%	100.0%

(1) Preliminary data.

Note: The average exchange rate for each year has been used to translate *colones* into US dollars. See "Offering Circular Summary — Selected Economic Indicators."

Source: *Banco Central de Reserva de El Salvador.*

Maquila exports have been the primary driver of the Republic's increased exports from 1997 to 2001, increasing by 56.5% during such period. By contrast, coffee exports have fallen by 77.9% during such period.

The following table describes the origin of the Republic's imports during the periods presented.

Merchandise Imports (CIF) by Country of Origin

	For the Year Ended December 31, (in millions of US dollars, except percentages)					Percentage of Total Imports	
	1997	1998	1999	2000(1)	2001(1)	1997	2001(1)
North America							
Canada	$ 20.5	$ 29.7	$ 29.9	$ 34.8	$ 37.4	0.5%	0.7%
Mexico	236.3	238.6	264.0	257.3	312.4	6.3	6.2
United States	1,975.8	2,031.6	2,110.1	2,451.2	2,463.5	52.8	49.0
Central America							
Costa Rica	116.8	115.1	116.2	143.6	163.4	3.1	3.3
Guatemala	328.7	350.4	384.5	478.1	435.4	8.8	8.7
Honduras	85.4	87.8	87.7	119.5	134.7	2.3	2.7
Nicaragua	51.3	49.4	64.6	69.8	89.1	1.4	1.8
South America and the Caribbean							
Argentina	12.6	16.6	8.9	7.9	11.7	0.3	0.2
Brazil	23.7	26.0	33.5	41.5	52.0	0.6	1.0
Colombia	42.3	32.8	37.5	27.5	35.0	1.1	0.7
Chile	8.4	10.9	13.9	22.0	15.8	0.2	0.3
Ecuador	79.6	85.5	81.6	152.3	127.4	2.1	2.5
Panama	102.8	106.0	98.3	129.7	135.1	2.7	2.7
Peru	12.6	6.5	7.2	7.3	13.1	0.3	0.3
Venezuela	63.8	41.8	43.5	64.9	82.3	1.7	1.6
Europe							
Benelux(2)	30.9	43.8	28.8	25.7	33.0	0.8	0.7
Germany	93.6	90.3	74.5	75.8	89.0	2.5	1.8
Japan	91.6	145.3	126.7	122.5	124.4	2.4	2.5
Other	367.7	460.1	483.3	716.0	672.7	9.8	13.4
Total	$3,744.4	$3,968.2	$4,094.7	$4,947.4	$5,027.4	100.0%	100.0%

(1) Preliminary data.

(2) Belgium, Netherlands and Luxembourg.

Note: The average exchange rate for each year has been used to translate *colones* into US dollars. See "Offering Circular Summary — Selected Economic Indicators."

Source: *Banco Central de Reserva de El Salvador.*

The United States is the principal source of El Salvador's imports. Imports from the United States consist primarily of raw materials for *maquila*, automobiles, oil products, paper and corn. Imports from the United States increased by 24.7% from 1997 to 2001, although they decreased from 52.8% of the Republic's imports in 1997 to 49.0% in 2001. During the same period, the trade deficit of El Salvador with the United States decreased from US$656.3 million in 1997 to US$588.7 million in 2001.

The following table sets forth the composition of the Republic's imports for the periods presented.

Merchandise Imports (CIF) by Type of Goods

	For the Year Ended December 31,					Percentage of Total Imports	
	1997	1998	1999	2000(1)	2001(1)	1997	2001(1)
	(in millions of US dollars, except percentages)						
Consumer Goods	$913.5	$ 930.4	$1,004.5	$1,218.4	$1,270.8	24.4%	25.3%
Non-durable	764.0	789.1	837.0	1,041.0	1,097.9	20.4	21.8
Durable	149.5	141.3	167.5	177.4	172.9	4.0	3.4
Intermediate Goods	1,321.9	1,359.1	1,318.6	1,618.0	1,695.0	35.3	33.7
Manufacturing	993.8	1,025.9	1,004.5	1,238.6	1,280.6	26.5	25.5
Agriculture	132.8	115.2	85.1	99.0	96.9	3.5	1.9
Construction	161.9	180.5	166.8	192.0	253.8	4.3	5.0
Other	33.4	37.5	62.0	88.4	63.7	0.9	1.3
Capital Goods	745.1	831.9	817.1	958.5	900.0	19.9	17.9
Manufacturing	229.2	242.1	222.9	227.4	280.6	6.1	5.6
Transport	286.9	321.3	396.4	413.3	355.5	7.7	7.1
Agriculture	18.0	25.6	16.4	12.7	15.0	0.5	0.3
Construction	69.9	80.4	53.1	39.1	50.3	1.9	1.0
Other	141.1	162.5	128.4	266.0	198.6	3.8	4.0
Maquila	763.9	846.8	954.7	1,152.7	1,161.6	20.4	23.1
Total	$3,744.4	$3,968.2	$4,094.7	$4,947.4	$5,027.4	100.0%	100.0%

(1) Preliminary data.

Note: The average exchange rate for each year has been used to translate *colones* into US dollars. See "Offering Circular Summary — Selected Economic Indicators."

Source: *Banco Central de Reserva de El Salvador.*

Corresponding to the growth of *maquila* exports during the 1997 to 2001 period, *maquila* imports, as a percentage of total imports of goods, has increased from 20.4% in 1997 to 23.1% in 2001. The increase in remittances from abroad during the period helped increase imports of non-durable consumer imports from 20.4% of in 1997 to 21.8% in 2001.

Balance of Payments

The Republic's current account of its balance of payments for the past several years has been characterized by deficits, which were, until 2001, substantially offset by capital account surpluses. The negative balances in the current account have been the result of trade deficits and have been partially offset by remittances from Salvadorans working abroad. Capital account surpluses resulted in a positive balance of payments in each year in the eight year period ended on December 31, 1999. The negative balance of payments in 2000 reflected an increase of US$191.2 million of the current account deficit attributable to growth in imports and a fall in capital inflow of US$171.1 million compared to 1999 levels. In 2001, the negative balance of payments was primarily the result of a US$176.8 million deficit in the current account. Unlike recent years, the deficit in the current account was not offset by a capital account surplus as the capital account registered a US$0.9 million deficit.

The following table sets forth the Republic's balance of payments for the periods presented.

Balance of Payments

	For the Year Ended December 31,				
	1997	1998	1999	2000(1)	2001(1)
	(in millions of US dollars, except percentages)				
Current account	$ (97.7)	$ (90.7)	$ (239.3)	$ (430.5)	$ (176.8)
Trade and services balance	(1,458.6)	(1,617.5)	(1,820.8)	(2,227.6)	(2,180.6)
Exports (FOB goods and services)	2,987.9	3,159.3	3,287.8	3,802.9	4,145.6
Imports (CIF goods and services)	4,446.5	4,776.8	5,108.6	6,030.5	6,326.2
Transfers	1,360.9	1,526.8	1,581.5	1,797.1	2,003.8
Private	1,305.5	1,481.8	1,553.4	1,769.0	1,969.4
Remittances	1,199.5	1,338.3	1,373.8	1,750.7	1,910.5
Public(2)	55.4	45.0	28.1	28.1	34.4
Capital account balance	460.3	393.9	447.1	276.0	(0.9)
Public sector	248.2	33.3	188.0	56.6	373.0
Central Bank	27.9	(157.9)	(15.0)	(10.7)	(40.5)
Financial sector	132.8	(28.5)	30.8	(34.4)	(234.6)
Private sector(3)	51.4	548.0	243.3	373.5	(98.8)
Change in international reserves	362.6	303.2	207.8	(45.5)	(177.7)
Current account surplus (deficit) for the balance of payments/Nominal GDP	(0.9)%	(0.8)%	(1.9)%	(3.3)%	(1.3)%

(1) Preliminary data.

(2) Includes transfers to the central government and other governmental entities.

(3) Includes errors and omissions in the statistical compilation. Before 1998, the Central Bank did not have mechanisms in place to measure accurately foreign direct investment in El Salvador. See "— Capital Account."

Note: The average exchange rate for each year has been used to translate *colones* into US dollars. See "Offering Circular Summary — Selected Economic Indicators."

Source: *Banco Central de Reserva de El Salvador.*

Current Account

In the years following the signing of the Peace Accord, the trade deficit grew from US$1.1 billion for 1992 to approximately US$1.5 billion for 1997 and approximately US$2.2 billion for 2001. The increase in the trade deficit reflects the growth of imports at a higher rate than the growth of exports during the period. Imports have been fueled during the period by increases in remittances from abroad while lower international coffee prices in recent years restrained the growth in exports.

From 1992 to 2001, transfers from abroad in the form of worker remittances increased from US$858.3 million in 1992 to US$1,910.5 million in 2001. Due to the number of Salvadorans who emigrated to escape the civil war, worker remittances have been a significant factor in the composition of the Republic's current account, and in 2001 represented approximately 31.1% of all current account inflows in the balance of payments.

The impact of these remittances on the Republic's balance of payments has been two-fold. First, by raising national income, worker remittances increase private consumption of foreign and domestic goods and services, thereby creating inflationary pressures. Second, by partially funding the increased demand for imports, the inflow of worker remittances has reduced the current account deficit. There can be no assurances as to the levels of worker remittances in the future, as the level of remittances is subject to

various social and economic factors, such as the return to El Salvador of some of the workers currently in the United States, changes in U.S. immigration policy, the deaths of older recipients of remittances, the eventual employment of younger recipients of remittances and the establishment of families outside of El Salvador by Salvadorans who remain abroad. Nevertheless, remittances in 2001 outpaced remittances during 2000, rising from US$1,750.7 million to US$1,910.5 million which may have been partially attributable to the earthquakes in 2001.

In the years leading up to and immediately following the signing of the Peace Accord, foreign aid (both monetary and in-kind donations) was an important component in the Republic's balance of payments, partially offsetting the trade deficit. The level of this foreign aid reached US$284.1 million for 1994 partially as a result of the implementation of the Peace Accord and fell to US$187.3 million for 2000. In 2001, foreign aid increased to US$292.9 million, primarily as a result of aid related to the January and February 2001 earthquakes.

Capital Account

El Salvador registered a positive capital account balance during the eight-year period ended December 31, 2000. In 2001, the capital account balance was negative US$0.9 million primarily as a result of a US$373.0 million public sector capital account surplus that did not offset a US$98.8 private sector capital account deficit due to an increase in deposits and assets by residents and a US$234.6 million financial sector capital account deficit due mainly to investments by Salvadoran financial institutions in other Central American financial institutions.

In 1997, the public sector capital account surplus was US$248.2 million, while in 1998 El Salvador reported a public sector capital account surplus of US$33.3 million due to the prepayment of external debt with privatization revenues. In 1999, the public sector capital account surplus was US$188.0 million, mainly due to the US$150.0 million external notes issued by the Republic in August 1999. In 2000, the public sector capital account surplus was US$56.6 million, mainly due to the US$50.0 million external notes issued by the Republic in January 2000. In 2001, the public sector capital account surplus was US$373.0 million, mainly due to the US$353.5 million external notes issued by the Republic in July 2001.

Due to the lack of mechanisms to identify and incorporate private sector transactions into the Republic's capital account transactions, such transactions are only marginally reflected in the balance of payments information published by the Central Bank. The Legislative Assembly on October 14, 1999 enacted the *Ley de Inversiones* (the "Investment Law") that implements reporting requirements that permit a more accurate measurement of foreign direct investment in El Salvador. The Investment Law also clarifies certain rules directed to protect foreign investments in El Salvador. Foreign investment must be registered with the National Investment Office of the Ministry of Economy. While the Investment Law recognizes the protection of investor's property rights, expropriation is permitted for public interest reasons with just compensation paid to the investor. There are no limitations on repatriation of profits. Registered foreign investors are entitled to repatriate their investment plus any capital gains and are exempted from withholding tax on dividends. Investors are still liable, however, for tax, labor, social security, bankruptcy and other legal obligations. Foreign direct investment increased to US$235.0 million in 2001 from US$173.4 million in 2000 due to investments in the *maquila* and financial industries in 2001, as well as the reinvestment of profits in the manufacturing sector.

Foreign Currency Reserves

At December 31, 2001, net international reserves were US$1.71 billion or approximately 5.3 times monthly average imports (excluding *maquila*) for that year and at February 28, 2002, net international reserves were US$1.75 billion. Since 1996, El Salvador's foreign currency reserves have steadily increased, mostly as a result of increased exports and worker remittances, except for a 4.0% decrease in 2000 as a consequence of using deposits abroad to provide US dollars to the financial sector in preparation for the Monetary Integration Act implementation and a further 9.6% decline in 2001 as the result of the use by the Republic of maturing investments to support the implementation of the Monetary Integration Act. As

of December 31, 2001, 3.0% of the Republic's net international reserves was held in cash compared with 10.5% as of December 31, 2000. Both percentages reflected historically high cash reserves to support the implementation of the Monetary Integration Act.

The following table sets forth the net international reserves of the Central Bank for the periods presented.

Net International Reserves

	At December 31,				
	1997	1998	1999	2000	2001
	(in millions of US dollars, except months)				
Assets:					
Gold(1)	$ 152.5	$ 152.5	$ 152.5	$ 120.7	$ 117.8
Foreign currencies	1,269.1	1,577.7	1,757.2	1,707.0	1,594.1
Cash	0.7	1.1	1.6	199.0	50.6
Deposits abroad	291.9	402.8	397.3	85.4	181.3
Investments	969.7	1,173.8	1,358.3	1,422.6	1,303.3
Clearing centers	6.8	0.0	0.0	0.0	0.0
Special drawing rights	33.9	35.1	34.3	33.0	31.3
Other	6.6	0.0	28.3	33.0	27.1
Liabilities:					
Total liabilities	0.0	0.0	2.8	2.8	2.0
Net international reserves	$1,462.1	$1,765.3	$1,969.5	$1,890.9	$1,709.6
Coverage of imports of goods excluding *maquila* (in months)(2)	6.2	6.8	7.5	6.0	5.3

(1) Through 1999, gold was valued at US$325.00/troy ounce. For 2000, gold was valued at US$257.10/troy ounce. For 2001, gold was valued at US$251.10/troy ounce.

(2) Net international reserves over average monthly imports.

Note: The average exchange rate for each year has been used to translate colones into US dollars. See "Offering Circular Summary — Selected Economic Indicators."

Source: *Banco Central de Reserva de El Salvador.*

Exchange Rate Policy and Foreign Exchange Rates

From 1989 to December 31, 2000, El Salvador set no official exchange controls on the *colón* and the exchange rate was permitted to float freely based on market forces. During this period, the Central Bank had a policy of purchasing and selling US dollars periodically for the purpose of limiting excessive volatility in the *colón*/US dollar exchange rate, although no official fluctuation range was established.

On November 30, 2000, the Legislative Assembly approved the Monetary Integration Act, proposed by President Flores on November 22, 2000, fixing the *colón* to the US dollar at ¢8.75 to US$1.00. This legislation went into effect on January 1, 2001. Pursuant to this legislation, the US dollar is legal tender in El Salvador and is allowed to circulate freely in the Salvadoran economy along with the *colón*. Further, the US dollar is the unit of account for the financial system in El Salvador and all the financial system's operations and accounting are denominated in US dollars. All deposits, credits, pensions and other operations of the financial system were converted to US dollars on January 1, 2001. Non-financial firms may use either *colones* or US dollars to express their financial records and accounting. Salaries and wages may be denominated in either *colones* or US dollars, while prices can be specified in *colones* or US dollars but were required to be labeled in both currencies until July 1, 2001.

The Central Bank exchanges *colones* for US dollars through the banking system and banks are prohibited from charging commissions for the exchange of *colones* to US dollars and US dollars to *colones*. Each bank must maintain a liquid reserve of US dollars at the Central Bank as a percentage of its obligations. The power of the Central Bank to issue new *colones* or coins ceased as of January 1, 2001. At December 31, 2001, the Central Bank had US$1,709.6 million of foreign currency reserves, equal to approximately 105.3% of the monetary base.

The benefits that the government sought as a result of the Monetary Integration Act included the following:

- a reduction in interest rates as a result of a reduction in foreign exchange risk;
- the development of a greater variety of financial instruments that are typically not denominated in *colones* but which are common in US dollars;
- an increased level of foreign investment in the financial system, attracted by the protection against devaluation and the attendant improvement in El Salvador's creditworthiness and stability; and
- an increase in the local savings rate due to a reduction in inflation and devaluation risk.

As of December 31, 2001, approximately 54.6%, or US$325.2 million, of all cash in circulation was in US dollars. The domestic currency interest rate (passive basic rate — 180 days) decreased from 10.65% at December 31, 1999 to 3.89% at December 31, 2001, approximating the corresponding foreign currency interest rate. Foreign direct investment in the financial system in El Salvador was US$41.4 million during 2001, a 162% increase from the US$15.8 million investment level in 2000. Nominal local savings increased 50.6%, amounting to 2.5% of nominal GDP, in 2001 compared to 1.8% in 2000.

Four cases were filed with the Supreme Court challenging the constitutionality of the Monetary Integration Act. The Supreme Court consolidated the four cases into one case and, on November 13, 2001, dismissed the case holding that, among other matters, the various challenged provisions of the Monetary Integration Act do not violate the Constitution and that the Monetary Integration Act (and the use of the US dollar in El Salvador) does not violate the sovereignty of the Republic because the adoption of the Monetary Integration Act is an expression of sovereignty by the people.

MONETARY SYSTEM

The Central Bank (Banco Central de Reserva de El Salvador)

Created in 1934, the Central Bank was reorganized in 1991 with the objectives of controlling inflation, preserving the internal and external value of the national currency and maintaining adequate levels of liquidity in the financial system. The Central Bank is prohibited from financing directly or indirectly the government or any state-owned entities, or from investing in securities issued by any of them. A constitutional amendment has been submitted to the Legislative Assembly to incorporate these prohibitions in the Constitution and remains pending.

The Central Bank is an independent institution governed by a board of six members who are appointed to five-year terms and are removable only for cause. The President of the Central Bank, one of the six board members, is appointed by the President of the Republic. The Executive Cabinet chooses the remaining Board members pursuant to nominations from the banks and *financieras*, the Economic Cabinet and industry and professional organizations.

Prior to January 1, 2001, the Central Bank issued *Certificados de Administración Monetaria a Descuento* (the "CAM-Ds"), fixed-rate instruments issuable in *colones,* as a means of controlling monetary supply. Since January 1, 2001, and according to the Monetary Integration Act, the Central Bank has ceased issuing new CAM-Ds. No CAM-Ds are currently outstanding. The Central Bank instead now issues *Certificados Negociables de Liquidez* ("CENELIs"), which are US dollar denominated liquidity management instruments that are auctioned by the Central Bank weekly every Tuesday. As of December 31, 2001, a principal amount of approximately US$631.3 million CENELIs was outstanding.

Financial Sector

The entities participating in the financial system in El Salvador include commercial banks, certain state-owned banks specializing in incentive credit, insurance companies, broker/dealers, one security depository, one operating rating agency, bonded warehouses, financial leasing companies, factoring companies, the El Salvador Stock Exchange and the Deposit Guaranty Institute.

In the early 1980s, the government nationalized all commercial banks and savings and loans associations. During the ensuing years, the operation of the financial system was frequently in the hands of political appointees, and by 1989, the system was essentially insolvent. As the state-owned banks lost public confidence, private entities were formed accepting deposits and extending credits. Beginning in 1989, the Republic began the modernization of the financial system through the reorganization of the Central Bank, the regulation of financial institutions and the privatization of the banks through the sale of shares to bank employees and individual shareholders.

Following the privatization of the banking system in 1992, the Central Bank recognized an account receivable from the government for approximately US$100 million in connection with bad loans the Central Bank absorbed from the privatized entities. Since such time, the financial sector in El Salvador has grown steadily and by December 31, 2001, the aggregate value of deposits in the system was US$9.1 billion including deposits held by the two state-owned banks but not including deposits held by CREDISA, which is in liquidation, or by *Financiera Calpia S.A.*

The Central Bank has imposed on financial institutions capital adequacy requirements and other standards corresponding to the Basle Accords. Under applicable law, the current capital adequacy requirement of 10.5% is scheduled to be gradually increased to 11.0% by January 2003, 11.5% in 2004 and 12.0% in 2005. The Superintendency of the Financial System supervises compliance with these standards. The Banking Law, approved by the Legislative Assembly on September 2, 1999, includes limits on loans to shareholders, increases minimum capital requirements and regulates supervisory powers and the independence of the Superintendency of the Financial System. The Deposit Guaranty Institute, created by the Banking Law, guarantees deposits up to US$6,286 and has the authority to contribute funds to banks with liquidity problems. It was originally funded by the government and currently receives contributions

from banks operating in the financial system. The Banking Law also governs the transparency and reporting requirements of banks, imposes audit standards and limits related party loans and other transactions to increase the responsibility of the banks.

Commercial Banks

At December 31, 2001, El Salvador had 11 private commercial banks, including two foreign banks. Along with the two foreign banks, three other commercial banks have substantial foreign ownership. On that date, the total assets of Salvadoran commercial banks were US$8.7 billion, compared with US$7.9 billion at December 31, 2000, US$7.4 billion at December 31, 1999, and US$7.2 billion at December 31, 1998.

Commercial banks are under the supervision of the Superintendency of the Financial System and are subject to periodic reporting requirements and mandatory audits. Commercial banks are required to maintain a certain percentage of their deposits as a reserve deposited at the Central Bank in the form of cash or securities issued by the Central Bank. See "— Interest Rates and Money Supply."

The Superintendency of the Financial System is currently liquidating CREDISA due to its insolvency and expects the liquidation process to terminate in 2004. The Central Bank approved a US$141.7 million loan to CREDISA in connection with the liquidation process. This bank lent primarily to the construction sector.

Financieras

There is one *financiera* operating in El Salvador. It is a private financial institution authorized to engage in most types of banking activities, but is prohibited from accepting demand deposits. It funds its activities with savings deposits, time deposits, certificates of deposit, bonds or lines of credit from multilateral institutions. The Banking Law provides that no more *financieras* may be licensed. The existing *financiera* must convert to a bank by October 2002.

Non-banking Financial Intermediaries

The financial system in El Salvador also includes non-banking financial intermediaries, consisting primarily of cooperatives/credit unions (entities constituted to provide financial services to their members), federations (organizations of cooperatives engaging in the same type of financial activity that provide assessment and technical assistance services to their member cooperatives) and savings and loans associations (non-governmental financial entities that may collect deposits from the public and issue loans). The non-banking financial intermediaries are supervised by the Superintendency of the Financial System pursuant to the *Ley de Intermediarios Financieros No Bancarios* (the "Non-Banking Financial Intermediaries Law"), which became effective July 1, 2001. The purpose of the creation of these entities by the Non-Banking Financial Intermediaries Law is to improve access to the financial system for micro and small enterprises through competition.

Pension Funds

In 1996, a new pension system law was enacted, pursuant to which a substantial portion of the public, pay-as-you-go pension system was replaced by a private system based on individual accounts. Under the new system, participating workers make monthly contributions to private pension funds which invest in permitted Salvadoran securities. At December 31, 2001, 919,805 workers were participating in the private system and US$789.9 million in assets, equivalent to 5.7% of GDP, were under the management of the private pension fund managers. Currently, there are three pension funds, one of which is in liquidation and the assets of which will be transferred to the other two funds. See "The Salvadoran Economy — Employment and Wages — Pension Reform."

State-Owned Financial Institutions

In addition to the Central Bank and the mezzanine bank, *Banco Multisectorial de Inversiones*, the state owns the following four other financial institutions, each of which was chartered for the purpose of extending credit to a specific sector of the economy:

- *Banco de Fomento Agropecuario* (Rural Development Bank);
- *Banco Hipotecario de El Salvador, S.A.* (Mortgage Bank of El Salvador);
- *Fondo de Financiamiento y Garantía de la Pequeña Empresa* (Small Business Finance and Guaranty Fund); and
- *Fondo Social para la Vivienda* (Social Housing Fund).

Certain of these institutions extend credit on favorable terms. These state-owned entities are governed by special legislation in addition to the general rules applicable to private financial institutions and, at December 31, 2001, had an aggregate of approximately US$1.4 billion in total assets and approximately US$1.2 billion in total liabilities.

Capital Markets

El Salvador's capital markets have grown in recent years as the financial system has modernized; however, retail trading of debt and equity securities of private Salvadoran issuers is relatively new and has remained limited thus far. Most of the trading on Salvadoran capital markets involves the purchase and sale of government securities. The El Salvador Stock Exchange opened in 1992 and currently lists 49 companies and three public institutions. In 2001, US$8.8 billion worth of securities were exchanged on the El Salvador Stock Exchange, an approximately 16% decrease from 2000. Through February 28, 2002, US$1.3 billion worth of securities have been exchanged in 2002. The Salvadoran capital markets are regulated by the *Ley Orgánica de la Superintendencia de Valores* (Superintendency of Securities Law) enacted in 1996 and supervised by the Superintendency of Securities.

Interest Rates and Money Supply

The following table sets forth the average interest rates for the periods presented.

Average Interest Rates(1)

	For the Year Ended December 31,				
	1997	1998	1999	2000	2001
	(in percentages)				
Loans					
Short-term	16.1%	15.0%	15.5%	14.0%	9.6%
Long-term	17.0	16.3	16.1	15.5	10.8
Interbank	10.4	9.4	10.7	6.9	5.3
Central Bank(2)	12.3	10.3	10.5	9.0	4.1
Deposits					
30-day	11.6	10.7	11.4	9.3	5.4
180-day	11.8	10.3	10.8	9.3	5.5

(1) Market rates other than with respect to the Central Bank.

(2) Rates are the interest rates charged by the Central Bank to *Banco Multisectorial de Inversiones.*

Source: *Banco Central de Reserva de El Salvador.*

Primarily as a result of the Monetary Integration Act, the average interest rates for the month of December 2001 on short-term and long-term loans had fallen to 7.8% and 9.1%, respectively, and to 3.65% and 3.89%, respectively, on 30-day and 180-day term deposits.

The following table sets forth the principal monetary indicators for the periods presented.

Principal Monetary Indicators

	At December 31,				
	1997	1998(1)	1999	2000(2)	2001(2)
	(in millions of US dollars)				
Currency in circulation	$ 368.9	$ 402.8	$ 538.7	$ 449.4	$ 220.8
Demand deposits	547.1	592.4	605.9	611.5	950.4
M1	916.0	992.2	1,144.6	1,060.9	1,171.2
Savings	1,203.6	1,305.5	1,308.0	1,452.5	1,781.1
Term deposits	2,433.0	2,682.3	2,988.5	3,018.9	3,248.5
M2 (M1 plus savings plus term deposits)	4,552.5	4,983.0	5,441.1	5,532.2	6,200.8
Deposits in foreign currency	375.5	427.8	472.0	498.3	0.0
Others	189.0	194.3	244.8	331.1	323.5
M3 (M2 plus deposits in foreign currency plus others)	$5,117.0	$5,605.2	$6,157.8	$6,361.7	$6,524.3

(1) Since 1998, *Banco de Fomento Agropecuario* is included.

(2) Preliminary data.

Source: *Banco Central de Reserva de El Salvador.*

From 1997 to 2000, the Central Bank influenced the money supply through the issuance of *Certificados de Administración Monetaria* at par and, from 1998 to 2000, by the issuance of CAM-Ds. In March 1999, the Central Bank began the implementation of a gradual decrease of the reserve requirement *(encaje)* by a total of 3%. The reserve requirement applicable to checking accounts, savings accounts and deposit certificates is currently 25%, 20% and 15%, respectively.

Effective January 1, 2001, pursuant to the Monetary Integration Act, the US dollar is legal tender in El Salvador and is allowed to circulate freely in El Salvador. Cash in circulation, which is a measure of *colones* in circulation and does not include US dollars in circulation in El Salvador, decreased by approximately 51% from December 31, 2000 to December 31, 2001, as the US dollar was integrated into the Salvadoran economy. Further, pursuant to the Monetary Integration Act, all *colones* deposits were converted into US dollars effective January 1, 2001, and the US dollar became the unit of account in the financial system. As a result, US dollar deposits that in prior periods were classified as deposits in foreign currency are, for 2001, classified as demand deposits, savings or term deposits, as applicable.

Inflation

Inflation in El Salvador is measured by the CPI, which is computed by the National Bureau of Statistics and Census using a standard basket of goods and services. The basket uses the December 1992 price level as the basis for determining the CPI and is affected by the prices of food staples (fruits and vegetables, basic grains such as corn, rice and beans and others) which comprise 41.6% of the total weight of the basket.

Beginning in 1979, as the fiscal deficit increased and the Central Bank became the government's main funding source, inflation rates began to increase, reaching a maximum of 31.9% in 1985. In 1991, a comprehensive amendment of the statute governing the Central Bank prohibited it from financing the

government, and attributed the responsibility for supporting the *colón* to its board of directors. Pursuant to this authority, the board of directors of the Central Bank adopted monetary policies to control inflation and made active use of a variety of monetary instruments to ensure that such policies were observed.

The following table sets forth the rate of inflation in the Republic as measured by the CPI for the periods presented.

Inflation

	For the Year Ended December 31,				
	1997	1998	1999	2000	2001
Inflation	1.9%	4.2%	(1.0)%	4.3%	1.4%

Source: *Banco Central de Reserva de El Salvador.*

In 1997, inflation was 1.9%, the lowest annual rate in the previous 25 years, largely due to disciplined monetary and fiscal policies. Inflation increased to 4.2% for 1998, primarily as a result of decreased agricultural production associated with droughts attributable to El Niño and the negative impact of Hurricane Mitch. In 1999, inflation decreased to a negative rate of 1.0%, primarily as a result of an increase in food production and the stabilization of prices in the agricultural sector after the inflationary effects of Hurricane Mitch at the end of 1999. In 2000, inflation increased to 4.3% primarily as a result of the elimination in May 2000 of the exemption from the value added tax with respect to food and medicine, the reduction of the subsidy on electricity for residential consumers and the rise in international oil prices.

In 2001, the inflation rate decreased to 1.4%, continuing the post-Peace Accord downward trend that had been interrupted during the 1998-2000 period by the distorting effects that Hurricane Mitch had on prices. Inflation was also influenced by the elimination of a charge to consumers on purchases of gasoline of approximately six *colones* per gallon which had subsidized diesel fuel for public transportation, as well as the decrease in international oil prices during the fourth quarter of 2001.

PUBLIC SECTOR FINANCES

Overview

Budget Process

El Salvador's Constitution requires that for each fiscal year a general budget must be prepared and submitted to the Legislative Assembly for approval. The budget contains estimates of revenues expected to be collected, and authorizes expenditures during the fiscal year. State-owned autonomous entities, other than those in the financial public sector, prepare individual budgets which are also submitted to the Legislative Assembly for approval.

The constitutional principles concerning budgetary matters are set forth in the *Ley Orgánica de Administración Financiera del Estado y su Reglamento* (the State Financial Administration Law or "AFI"), a statute enacted in 1995 to regulate several financial matters of the Republic. Pursuant to the AFI, the Republic's nonfinancial public sector's budget consists of the General Budget (as defined below), budgets for municipalities and the Salvadoran Social Security Institute and budgets for several non-financial autonomous entities (such as CEL and CEPA).

The general budget ("General Budget") is prepared by the Ministry of Finance following budgetary guidelines adopted by the president and the cabinet and consists of the budget for the agencies and ministries of the central government and the budgets for the legislative and judicial branches. The budget for the judicial branch is prepared by the Supreme Court and submitted to the Ministry of Finance for inclusion, without modifications, in the General Budget. The budget for the legislative branch is approved by the Legislative Assembly after consultation with the Executive Branch. Simultaneously with the presentation of the General Budget, the Ministry of Finance submits individual budgets to the Legislative Assembly prepared by each non-financial autonomous entity, with such modifications as the Ministry of Finance deems appropriate. Pursuant to the Constitution, at least 6% of the central government's current revenues contained in the General Budget must be allocated to the Judiciary and, pursuant to the Economic and Social Development Fund Law, 6% of the current revenues must be allocated to municipalities.

The Legislative Assembly must approve the budget for the non-financial public sector before December 31 of each year. In the event the new budget has not been approved by January 1, the budget for the prior year remains in effect until the Legislative Assembly approves the new budget. The Ministry of Finance, however, has authority to make changes to the extended budget by executive decree in order to meet existing obligations, including debt service obligations, of the Republic in excess of those of the prior year. Expenditures are capped at the levels in the budget approved by the Legislative Assembly.

At the end of each fiscal year, the Executive Branch must submit a report on the execution of the budget to the Legislative Assembly and to the *Corte de Cuentas de la República*, the supervisory board in charge of overseeing the Republic's public finances.

Fiscal Policy

During the late 1970s and early 1980s, the economy of El Salvador was in recession due to the civil war, and the fiscal deficit reached 13.9% of nominal GDP in 1981. Loans from the Central Bank became the main source of government financing and resulted in high rates of inflation. In 1986, the government devalued the *colón* and attempted to eliminate the fiscal deficit with the imposition of new taxes. By the end of 1986, the deficit fell to 0.8% of nominal GDP, while inflation was 30.4%. The expected recovery of the economy did not occur, and by 1988, the fiscal deficit was growing again.

In 1989, the government began to implement numerous economic changes, including the privatization of the banking system, the promulgation of a new statutory framework for the financial sector, and the enactment of a statute prohibiting the Central Bank from directly or indirectly financing the government. As a result of the new policies and the increase in foreign aid that followed the signing of the Peace Accord in 1992, the fiscal deficit for the nonfinancial public sector as a percentage of nominal GDP

declined from 4.6% in 1992 to 1.6% in 1993. In 1994, the administration of President Armando Calderón Sol reduced tariffs to open the economy to international competition, improved tax collections and prioritized and reduced government expenditures to decrease the size of the government. These policies reduced the fiscal deficit to 0.6% of GDP in 1994 and 0.1% of GDP in 1995.

In 1996, the combined effect of a reduction in foreign aid and the decrease in the rate of growth of the economy increased the deficit as a percentage of GDP to 2.5%. In 1997 and 1998 the fiscal deficit was 1.8% and 2.6% of GDP, respectively. The negative impact of the Mexican crisis on the Salvadoran economy in 1996 resulted in a decrease in the tax base, and subsequently, in tax collections for 1997. During the economic recovery of 1998, government expenditures increased due to severance payments to employees of privatized public enterprises and an increase in goods and services and government salaries.

In 1999, the deficit was 2.8% of GDP as social and public safety expenditures increased. In 2000, the deficit increased to 3.0% of GDP primarily due to an increase in the electricity subsidy during the first half of 2000 in order to lessen the impact of higher electricity rates. Although the current account balance increased from a deficit of US$80.2 million in 2000 to a surplus of US$58.5 million in 2001, the deficit in 2001 increased to 3.7% of GDP. The increase in the deficit as a percentage of GDP in 2001 was primarily the result of US$186.6 million in investment by the government attributable to the earthquake reconstruction effort as well as US$7.9 million in current expenditures for emergency relief relating to the earthquakes.

The 2002 budget submitted to the Legislative Assembly on September 25, 2001 contemplates a deficit of 3.3% of GDP for the non-financial public sector (excluding obligations relating to the pension system then estimated at 0.9% of GDP). The Legislative Assembly adopted the budget on December 19, 2001. At the time the 2002 budget was approved, the arbitral decision terminating the power purchase agreement between CEL and *Compañía Nejapa Power* and ordering CEL, a non-financial public sector entity, to pay *Compañía Nejapa Power* US$90.0 million as compensation had not been entered.

Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented, as well as revenues and expenditures estimated for 2002.

Non-Financial Public Sector
Consolidated Revenues and Expenditures(1)

	For the Year Ended December 31,					
	1997	1998	1999	2000	2001(2)	2002 Estimate(3)
	(in millions of US dollars, except percentages)					
Revenues						
Current revenues(4)	$ 1,761.8	$ 1,887.9	$ 1,920.6	$ 2,062.4	$ 2,088.1	$ 2,318.8
Capital revenues	4.6	5.7	1.0	7.6	1.2	5.3
Foreign aid	22.6	12.1	33.0	110.1	57.4	30.5
Total revenues	$ 1,788.9	$ 1,905.7	$ 1,954.6	$ 2,180.1	$ 2,146.7	$ 2,354.6
Expenditures						
Current expenditures(4)	$ 1,549.0	$ 1,750.6	$ 1,896.4	$ 2,142.6	$ 2,029.5	$ 2,161.2
Consumption	1,128.2	1,251.9	1,391.2	1,491.7	1,520.6	1,614.2
Interest	172.6	177.4	172.2	203.3	200.0	263.2
Transfers	248.1	321.3	332.9	447.6	308.9	283.8
Capital expenditures	443.6	459.9	403.9	436.3	619.6	678.4
Gross investment	415.4	442.1	389.0	388.3	602.2	649.3
Capital transfers	28.2	13.7	15.0	56.0	17.4	29.1
Net lending	(6.9)	(1.0)	(0.3)	(0.3)	(0.2)	(0.2)
Total expenditures	$ 1,985.7	$ 2,209.5	$ 2,300.0	$ 2,578.6	$ 2,648.9	$ 2,839.4
Current account surplus (deficit)(5)	$ 212.8	$ 137.3	$ 24.3	$ (80.2)	$ 58.5	$ 157.7
Surplus (deficit) excluding foreign aid	(219.4)	(315.9)	(378.4)	(508.6)	(559.6)	(515.2)
Surplus (deficit) including foreign aid	(196.8)	(303.8)	(345.4)	(398.5)	(502.2)	(484.7)
External financing	226.4	(23.2)	155.1	200.0	614.9	781.9
Internal financing	(29.6)	339.0	191.7	198.7	(112.7)	(297.2)
Current account surplus (deficit)/ Nominal GDP	1.9%	1.1%	0.2%	(0.6)%	0.4%	1.1%
Surplus (deficit) excluding foreign aid/Nominal GDP	(2.0)	(2.8)	(3.0)	(3.9)	(4.1)	(3.5)
Surplus (deficit) including foreign aid/Nominal GDP	(1.8)	(2.5)	(2.8)	(3.0)	(3.7)	(3.3)
Nominal GDP	$11,134.6	$12,008.4	$12,464.7	$13,139.1	$13,738.9	$14,600.6

(1) All figures are presented on a cash basis.

(2) Preliminary data.

(3) At the time the 2002 budget was approved, the arbitral decision terminating the power purchase agreement between CEL and *Compañía Nejapa Power* and ordering CEL, a non-financial public sector entity, to pay *Compañía Nejapa Power* US$90.0 million as compensation had not been entered.

(4) Current revenues and current expenditures are presented on a gross basis.

(5) The current account equals current revenues less current expenditures.

Source: *Ministerio de Hacienda.*

Central Government Revenues

The following table shows the composition of the Salvadoran central government's revenues and foreign aid for the periods presented.

Central Government Revenues and Foreign Aid(1)

	For the Year Ended December 31,				
	1997	1998	1999	2000	2001(2)
	(in millions of US dollars)				
Tax revenues(3)					
Income	$ 334.3	$ 369.0	$ 411.5	$ 451.1	$ 455.4
Property transfers	13.4	14.4	13.6	11.6	11.6
Imports	145.8	145.7	148.0	140.5	146.0
Consumption(4)	72.2	66.3	51.5	48.7	49.2
Value added tax	664.6	727.2	733.7	799.8	866.3
Others	1.0	0.4	0.1	0.1	0.1
Special contributions (FOVIAL)(5)	0.0	0.0	0.0	0.0	1.6
Total tax revenues	1,231.3	1,322.9	1,358.3	1,451.8	1,530.2
Non-tax revenues(6)	128.5	152.5	82.0	103.1	84.1
Total current revenues	1,359.8	1,475.4	1,440.4	1,554.9	1,614.3
Capital revenues	3.8	3.4	0.6	1.2	0.5
Foreign aid	0.6	0.0	13.9	77.1	32.1
Total revenues	$1,364.2	$1,478.8	$1,454.9	$1,633.2	$1,646.9

(1) All figures are presented on a cash basis.

(2) Preliminary data.

(3) Tax revenues are presented on a gross basis.

(4) Beginning in 1998, gasoline related revenues are registered as non-tax revenues.

(5) In 2001, the government imposed a levy of US$0.20/gallon on gasoline and diesel which will be specifically used for road maintenance and improvements.

(6) Includes fines, license fees, plate issuance fees, passport fees.

Source: *Ministerio de Hacienda.*

Total central government revenues (including foreign aid) were 12.0% of nominal GDP for 2001. One of the challenges facing the government is the collection of income taxes, as evidenced by the dependence of the government on indirect taxes such as the value added tax. To a lesser extent, collection of the value added tax is also a challenge, particularly in connection with transactions related to the informal sector of the economy. Continuing a trend that began in 1992, the value added tax was the principal component of tax revenues in 2001, generating approximately 56.6% of total tax revenues. Income tax revenues accounted for approximately 29.8% of tax revenues during the same year. Import duties, the third largest component of tax revenues, accounted for approximately 9.5% of tax revenues in 2001. The existence of a large informal sector of the economy inhibits tax collection but the value added tax assists the government in collecting revenues from certain transactions in which that sector engages. See "— Taxation."

Central Government Expenditures

Between 1992 and 1994, central government expenditures increased 52% from US$782.0 million to US$1.2 billion and represented 13.1% and 14.1% of nominal GDP in 1992 and 1994, respectively, due to the expansion of the economy after the signing of the Peace Accord. Government expenditures on public

works, public health, education and human rights and law enforcement saw the greatest increases. The most significant reduction in public expenditure from 1992 through 1996 was on defense spending, which fell from US$147.2 million in 1992 to approximately US$98.5 million in 1996 as a result of the termination of the armed conflict and the demobilization of military personnel. Expenditures relating to social goals, including health, education and housing represented approximately 29.5% of government expenditures in 1996 and 37.9% in 2001. The 2002 budget reflects the continued shift from military spending to social goals, with approximately 30.9% of the central government budget allocated to social development compared with 29.9% and 30.3% budgeted for social spending in 2000 and 2001, respectively.

Between 1995 and 1998, central government expenditures as a percentage of nominal GDP decreased, reflecting the more limited role of the government in the economy. Expenditures as a percentage of nominal GDP increased in 1999, reflecting the increase in spending related to social goals and public security. In 2000, central government expenditures as a percentage of nominal GDP increased as a result of increased expenditures by the government on education, health and other social programs, including the hiring of new teachers, doctors and nurses. In addition, capital expenditures increased in 2000 as compared to 1999 due to increased transfers to municipalities for investment purposes at the local level.

Central government expenditures as a percentage of nominal GDP increased to 14.3% in 2001 compared to 13.5% in 2000. Increased central government expenditures in 2001 were primarily attributable to four factors:

- increased public works spending including the construction and maintenance of roads as part of the reconstruction from the damage caused by the January and February 2001 earthquakes;
- a 9.2% increase in public investment in economic and social infrastructure;
- increased educational spending including the construction of new schools and the hiring of additional teachers; and
- increased transfers to municipalities for investment purposes at the local level.

The government undertook several reforms during the third and fourth quarters of 2001 which are expected to reduce central government expenditures in future years. The reforms include:

- the reduction or elimination of subsidies for electricity, water consumption and public transportation; and
- an amendment to the Civil Service Law which enables the government to implement a more flexible public sector employment policy, as a result of which the number of public employees fell from 101,037 in 2001 to 91,653 in 2002.

The following table shows the actual central government expenditures for the periods presented.

Central Government Expenditures(1)

	For the Year Ended December 31,				
	1997	1998	1999	2000	2001
	(in millions of US dollars, except percentages)				
Education	$ 259.7	$ 295.4	$ 317.8	$ 334.6	$ 394.1
Public health	144.3	172.1	186.1	197.4	205.0
Public security(3)	140.6	143.3	151.0	158.4	155.9
Defense	97.6	108.7	106.4	111.6	130.5
Public works	101.9	122.8	146.6	66.5	130.2
Judiciary	72.4	83.5	96.9	101.5	106.6
Presidency	38.9	46.2	53.1	56.5	73.0
Finance(2)(5)	34.3	42.7	64.9	69.0	56.6
Economy	33.7	37.0	36.0	35.4	39.7
Interior	33.8	16.9	18.2	33.0	36.2
Agriculture	25.8	29.6	26.3	23.5	25.6
Foreign relations	64.3	29.3	26.7	21.7	23.4
Attorney General	7.7	13.6	17.8	18.7	18.5
Legislature	9.3	13.1	13.3	14.4	15.5
Controller	9.4	13.2	14.2	13.6	13.0
General Prosecutor	5.6	9.4	11.5	12.3	12.9
Electoral tribunal	5.1	13.2	20.3	16.9	10.7
Labor	4.1	4.6	5.5	6.2	6.4
Housing and urban development	3.6	4.3	4.7	4.7	7.3
Transport	0.0	4.2	4.3	4.7	5.3
Environmental	0.1	2.0	2.7	3.5	4.1
National Judicial Council(4)	0.0	0.0	0.0	3.2	3.5
Defense of human rights	3.0	3.5	3.8	3.5	3.3
Civil service tribunal	0.1	0.1	0.1	0.1	0.1
Justice	14.1	18.6	18.8	0.0	0.0
Public Treasury(5)	308.2	263.4	336.0	468.3	491.1
Interest payments	163.6	139.4	122.5	130.6	176.1
Current transfers	144.6	124.0	138.6	195.9	152.1
General obligations	123.4	61.6	129.0	181.1	136.6
Other obligations	21.3	62.4	9.6	14.7	15.5
Capital transfers	0.0	0.0	79.6	96.1	162.9
Financial investments	0.0	0.0	0.0	45.7	0.0
Total	$1,417.7	$1,490.8	$1,683.0	$1,779.3	$1,968.5
Central government expenditure/Nominal GDP	12.7%	12.4%	13.5%	13.5%	14.3%

(1) All figures are presented on a cash basis.

(2) Includes operating expenses of the Ministry of Finance.

(3) Includes expenditures of *Policia Nacional Civil* and *Academia Nacional de Seguridad Pública*; starting 2000 includes Justice budget. In June 2001, the Ministry of Justice and Public Safety merged with Ministry of the Interior into the Ministry of Governance.

(4) Prior to 2000, expenditures included under Justice.

(5) Excludes amortizations.

Source: *Ministerio de Hacienda.*

Taxation

The Salvadoran Constitution authorizes the levy and collection of taxes by tax authorities at the national level. The central government collects taxes on personal and corporate income and on transfers of real estate. In addition, it collects import duties and a value added tax on tangible assets and services.

Approximately 94.8% of the central government's current revenues came from various forms of taxation in 2001. The central government's tax revenues were US$1,530.2 million in 2001, an increase of 5.4% over 2000 revenues, which was principally associated with increases in value added tax collections. Value-added tax collections increased as a result of increased general economic activity as well as increased collection of the value-added tax with respect to imports. The increase in collections of the value-added tax relating to imports can be attributed to both improved tax collection in general with respect to imports and an increased level of imports in 2001. El Salvador improved its tax collection through its efforts to reduce smuggling activity partly due to new customs facilities, procedures and personnel.

The value added tax was the principal component of tax revenues in 2001 generating approximately 56.6% of the total. The value added tax applies to most services except for educational, transportation and cultural services, among others, as well as to sales of most tangible assets. To compensate for the reduction in customs duties as well as the elimination of coffee export taxes and the property tax, the Republic raised the value added tax from 10% to 13% in 1995.

The second largest component of tax revenues is the income tax, which accounted for 29.8% of tax revenues during 2001. Personal income tax rates for residents and non-residents who file tax returns in the Republic range from 10% to 30%. A flat 25% rate applies to non-resident taxpayers and corporate entities. Import duties, the third largest component of tax revenues, accounted for approximately 9.5% of tax revenues in 2001.

In addition to changes in the value added tax rates, other tax changes and laws approved in recent years include the elimination of property taxes in May 1994, the increase of fees for registration of rights, contracts and other documents in February 1993, and the creation of free trade zones which exempt users from import and export duties and income and real estate transfer taxes. The government has also enacted laws and implemented systems designed to improve the collection of income taxes, which have historically been characterized by high rates of evasion and avoidance. In a series of laws enacted in 1999 and 2000, the Legislative Assembly amended the import tax fraud law and the value added tax and income tax laws. The amendments to the import tax fraud law were primarily directed to reduce tax avoidance by increasing the list of acts considered to constitute import tax fraud and authorizing the imposition of stronger penalties. The amendments to the value added tax law restricted tax credits on items such as basic foods as well as the elimination of exemptions for medicines, fruits and vegetables and basic grains, among others. A loophole in the income tax law was closed by requiring private and public companies and businesses to withhold 10% of any amount paid for services provided.

The Legislative Assembly approved a new tax code which became effective in January 2001 and allows the government to unify procedures for different taxes and expedite the process of imposing and collecting fines from taxpayers not complying with the legal framework. In addition, the Legislative Assembly approved a levy of US$0.20/gallon on gasoline and diesel which will be specifically used for road maintenance and improvements and, effective January 2002, the elimination of the ¢75,000 exemption from the income tax for companies.

PUBLIC DEBT

General

Public sector debt, including the internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was approximately US$5,541.8 million at December 31, 2001.

Under the Constitution, the Legislative Assembly has the power to adopt legislation governing the issuance of public debt and to appropriate funds required for debt service Acting pursuant to this constitutional mandate, the Legislative Assembly approved the AFI, which governs, among other matters, the procedures that must be observed in all matters regarding public debt. AFI rules concerning public debt apply to all state-owned entities, with the exception of the Central Bank and the state-owned financial institutions, as well as to obligations of the municipalities guaranteed by the national government. The Central Bank and the state-owned financial institutions are subject to restrictions in their respective charters regarding the issuance of debt. They are also subject to AFI if they issue obligations guaranteed by the Republic.

Because all AFI-governed public debt must be in accordance with the public indebtedness policies adopted by the Executive Branch, a non-financial public sector entity must obtain the prior written approval of the Ministry of Finance before entering into any negotiations with respect to borrowing. Any contract executed by such entities without approval of the Ministry of Finance is null and void and unenforceable as against that entity or the Republic and may give rise to civil and criminal liability for the individuals involved. Once approval of the Ministry of Finance is obtained, the entity may proceed to negotiate the terms and conditions of the obligations to be incurred, provided that its own charter gives it the authority to conduct such negotiations on its own behalf; otherwise, the Ministry of Finance conducts the negotiations with the participation of the Ministry of Foreign Relations in case of transactions with international lenders. Loan proceeds are disbursed to the Republic which, in turn, transfers them to the ultimate borrower pursuant to an agreement between the Ministry of Finance and such entity.

Although public debt service is the primary responsibility of the entity for whose benefit the loan was received, AFI-governed debt is an obligation of the Republic. Accordingly, transfers from the Central Government to any entity pursuant to the annual budget take into account debt service obligations for the following year.

Treasury Bills ("LETES")

To solve temporary revenue shortages, the Ministry of Finance is authorized to issue short-term debt instruments known as "LETES." LETES are US dollar denominated and are sold at discounts that reflect market conditions at the time of issuance. The maximum maturity of LETES is 360 days. At December 31, 2001, US$685.6 million of LETES denominated in US dollars were outstanding with an average term to maturity of approximately 227.5 days.

External Debt

External debt obligations of El Salvador are to multilateral organizations, bilateral institutions and commercial lenders, including certain external capital markets transactions. The total external debt of the public sector in El Salvador, excluding the Central Bank, was US$3,270.9 million at December 31, 2001. The Central Bank's external debt at December 31, 2001 was US$120.2 million.

Since the signing of the Peace Accord in 1992, most of the external debt of the Republic has been incurred with multilateral organizations, and the funds borrowed have been used primarily for the reconstruction and improvement of physical infrastructure. From 1990 to 1999, the Republic entered into six stand-by arrangements with the IMF, totaling 237.25 million Special Drawing Rights. The Republic did not draw on any of these stand-by arrangements, the last of which expired on February 22, 2000. Since

1999, the Republic has been involved in the following four note issuances which are included in its external debt:

- US$150.0 million of external notes issued by the Republic in August 1999 that mature on August 15, 2006;
- US$50.0 million of external notes issued by the Republic in January 2000 that mature on January 15, 2007;
- the zero coupon notes issued by the Coffee Emergency Fund of El Salvador, with a guaranty of the Republic, for an aggregate issue price of US$80.0 million with an aggregate face amount at maturity of US$123,248,752, that mature from 2001 to 2010; and
- US$353.5 million of external notes issued by the Republic in July 2001, that mature on July 25, 2011.

To finance reconstruction associated with the January and February 2001 earthquakes, the Republic received US$327.0 million in new loans from multilateral and bilateral sources, including US$238.0 million in loans from the Inter-American Development Bank, and secured the reprogramming of US$116.4 million of existing loans from such sources to the reconstruction effort. The proceeds of these loans will be disbursed over the 2001 to 2005 period.

The following table sets forth the total public external debt for the periods presented.

Public Sector External Debt

	At December 31,				
	1997	**1998**	**1999**	**2000**	**2001(1)**
	(in millions of US dollars, except percentages)				
Central government	$1,772.9	$1,888.4	$2,184.5	$2,293.3	$2,989.8
Public financial and non-financial entities	486.0	462.0	377.0	440.5	281.1
Sub-total	2,258.9	2,350.4	2,561.5	2,733.8	3,270.9
Central Bank	238.0	179.0	161.0	154.3	120.2
Total	$2,496.9	$2,529.4	$2,722.5	$2,888.1	$3,391.1
External public debt as a percentage of nominal GDP	22.4%	21.1%	21.8%	22.0%	24.7%

(1) Preliminary data.

Source: *Banco Central de Reserva de El Salvador.*

The following table shows the composition of the Republic's external public debt by type of creditor for the periods presented.

Public Sector External Debt by Type of Creditor

	At December 31,				
	1997	1998	1999	2000	2001(1)
	(in millions of US dollars)				
Central Government and Public Financial and Non-Financial Entities	$2,259.4	$2,350.1	$2,561.8	$2,733.8	$3,270.9
Multilateral	1,533.6	1,675.9	1,730.6	1,799.7	1,970.7
Bilateral	608.6	650.6	657.8	645.7	667.6
Commercial	117.2	23.6	173.4	288.4	632.6
Central Bank	237.5	179.3	160.7	154.3	120.2
Multilateral	175.9	143.8	139.7	127.7	106.3
Bilateral	21.6	21.6	20.0	16.9	13.9
Commercial	40.0	13.9	1.0	9.7	0.0
Total Public Sector	$2,496.9	$2,529.4	$2,722.5	$2,888.1	$3,391.1

(1) Preliminary data.

Source: *Banco Central de Reserva de El Salvador.*

The US$171.0 million increase in the multilateral indebtedness of the central government and the public financial and non-financial entities from December 31, 2000 to December 31, 2001 is due primarily to the impact of the disbursement of loans for reconstruction and other infrastructure investments. The US$344.2 million increase in commercial indebtedness from December 31, 2000 to December 31, 2001 is due primarily to the Republic's July 2001 issuance of US$353.3 million of external notes.

The following table shows the rates of interest applicable to the outstanding principal balance of the Republic's public external debt at December 31, 2001.

Interest on Public Sector External Debt

	At December 31, 2001	
	Amount	Percentage
	(in millions of US dollars, except percentages)	
Fixed Rate		
0-3%	$1,037.7	30.6%
3-6%	240.8	7.1
6-9%	796.9	23.5
More than 9%	284.9	8.4
Floating Rate	1,030.9	30.4
Total	$3,391.1	100.0%

Source: *Banco Central de Reserva de El Salvador.*

The following table sets forth the government's current projections regarding external debt service with respect to debt already disbursed to the public sector, not including the Central Bank, for the years 2002 to 2011.

Public Sector External Debt Service 2001-2011(1)

	For the Year Ending December 31,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	(in millions of US dollars)									
Central Government	$300.7	$319.0	$310.0	$300.0	$437.0	$313.0	$245.0	$228.0	$217.0	$558.0
Principal	135.6	158.0	161.0	160.0	306.0	204.0	149.0	140.0	136.0	484.0
Interest	165.1	161.0	149.0	140.0	131.0	109.0	96.0	88.0	81.0	74.0
Rest of Public Sector	25.3	28.0	28.0	28.0	26.0	25.0	24.0	21.0	19.0	9.0
Principal	12.3	16.0	17.0	18.0	18.0	18.0	18.0	17.0	16.0	7.0
Interest	13.0	12.0	11.0	10.0	8.0	7.0	6.0	4.0	3.0	2.0
Total Debt Service	$326.0	$347.0	$338.0	$328.0	$463.0	$338.0	$269.0	$249.0	$236.0	$567.0

(1) Medium- and Long-Term.

Source: *Banco Central de Reserva de El Salvador.*

Debt Record

During the civil war, El Salvador was unable to service a portion of its international debt. Between 1990 and 1993, the Republic successfully negotiated a rescheduling of certain loans totaling US$382.5 million and forgiveness of certain other obligations with some international creditors. In 1993, the U.S. Agency for International Development, at its own initiative, forgave US$463.9 million of outstanding debt and Canada converted Cnd$8.1 million of outstanding debt to an obligation of the Republic to use amounts which would have been applied to service this debt for environmental projects. In 1999, the government of France, at its own initiative, forgave FF133.0 million of outstanding debt. The Republic continued to service such debt until France completed the debt forgiveness process. Since 1993, El Salvador has not rescheduled any loans and has not defaulted on any of its indebtedness.

Internal Debt

The Republic's public sector internal debt, excluding the Central Bank, was US$2,150.7 million at December 31, 2001. The Republic's public sector debt is denominated in both US dollars and *colones*. As a result of the Monetary Integration Act, all future issuance of public sector internal debt will be in US dollars.

The Republic's central government internal debt consists of obligations to public sector and private entities. Although pursuant to its charter the Central Bank is not allowed to finance the government, this restriction became effective only in 1994. Prior thereto, the Central Bank had extensively financed government operations. At December 31, 2001, the outstanding principal balance of obligations related to such activity was US$704.4 million. No interest was outstanding at such date.

The following table sets forth the public sector internal debt for the periods presented.

Public Sector Internal Debt(1)

	At December 31,				
	1997	1998	1999	2000	2001(2)
	(in millions of US dollars, except percentage)				
Central Government(3)	$1,050.4	$ 930.8	$ 994.9	$1,249.9	$1,473.9
Public non-financial entities	0.7	3.3	6.1	8.8	19.6
Public financial entities	394.1	445.6	573.1	625.2	647.8
Municipalities and other government institutions	85.6	79.3	9.7	9.5	9.4
Total	$1,530.8	$1,459.0	$1,583.8	$1,893.4	$2,150.7
Internal public debt as a percentage of nominal GDP	13.7%	12.1%	12.7%	14.4%	15.7%

(1) Does not includes internal debt obligations of the Central Bank.

(2) Preliminary data.

(3) Includes obligations to the Central Bank.

Source: *Banco Central de Reserva de El Salvador.*

Central government internal debt increased from US$1,050.4 million at December 31, 1997 to US$1,473.9 million at December 31, 2001. A significant part of this balance is represented by bonds issued by the government for various purposes, including the payment of compensation for lands expropriated prior to 1989 and to fund the fiscal deficit. The internal debt incurred by public financial entities is largely represented by bonds issued by the *Fondo de Saneamiento del Sistema Financiero,* a special purpose public entity created to acquire from state-owned banks and other financial institutions loans in arrears and other assets of a similar nature prior to their privatization. The internal debt obligations of the Central Bank represent, in large part, indebtedness incurred through open market operations.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will appear on the reverse of each of the Notes (the "Terms and Conditions"). Certain provisions of the Notes refer to and are subject to the Fiscal Agency Agreement to be dated as of April 3, 2002, among the Republic, Citibank, N.A., London Office, as Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent and the paying agents and the transfer agents named therein. The description of the Notes set forth herein does not purport to be complete and is qualified in its entirety by reference to the Notes and the Fiscal Agency Agreement.

1. General. (a) This Note is one of a duly authorized issue of 8.25% Notes due 2032 (the "Notes") of the Republic, limited to the aggregate principal amount of US$500,000,000 (except as otherwise provided below) issued pursuant to a Fiscal Agency Agreement (the "Fiscal Agency Agreement") to be dated as of April 3, 2002, among the Republic, Citibank, N.A., London office, as fiscal agent (the "Fiscal Agent"), principal paying agent (the "Principal Paying Agent"), registrar (the "Registrar") and transfer agent (the "Transfer Agent"), which expressions shall include any successors to Citibank, N.A., London office, in its capacity as such, and Dexia Banque Internationale à Luxembourg, as transfer agent (a "Transfer Agent") and paying agent (a "Paying Agent" and together, the "Agents," which term shall include the Fiscal Agent, the Paying Agents, the Registrar and the Transfer Agents). If not previously redeemed (see Section 7 below), the entire principal amount of the Notes together with accrued interest thereon is payable on April 10, 2032.

(b) The Notes are direct, general and unconditional obligations of the Republic. The Notes shall at all times rank equally without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated Public External Indebtedness of the Republic.

(c) The holders of the Notes will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and may be inspected at the office of the Fiscal Agent and at the offices of the paying agents referred to below.

(d) The issue of the Notes is authorized under Legislative Decree No. 675 (as published in the *Diario Oficial* on December 19, 2001) and Legislative Decree No. 681 (as published in the *Diario Oficial* on December 20, 2001) of the Republic's Legislative Assembly.

2. Form, Denomination and Title. (a) Each Note will be issued in minimum denominations of US$10,000 and integral multiples of US$1,000 in excess thereof. The Notes, and the transfer thereof, shall be registered as provided in Section 9 below and in the Fiscal Agency Agreement. In this Note, "Noteholder" and (in relation to a Note) "holder" mean the person in whose name a Note is registered. A Noteholder may (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.

(b) Notes initially sold within the United States in reliance on Rule 144A under the Securities Act will be represented by the Restricted Global Note and will be deposited with Citibank, N.A., London office, as custodian for, and registered in the name of Cede & Co. as a nominee of, DTC.

(c) Notes initially sold outside the United States pursuant to Regulation S under the Securities Act will be represented by the Regulation S Global Note and will be deposited with Citibank, N.A., London office, as common depositary for, and registered in the name of Citivic Nominees Limited, as a nominee of such common depositary in respect of interests held through, Euroclear and Clearstream, Luxembourg. A beneficial interest in the Regulation S Global Note may at all times be held only through Euroclear and Clearstream, Luxembourg.

(d) Registration of title to Notes initially represented by the Restricted Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless (i) such depositary notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing

agency" registered under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), or is at any time no longer eligible to act as such, and the Republic is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) following a failure to pay at maturity or upon acceleration of any Note, the Fiscal Agent has received a notice from the registered holder of the Restricted Global Note requesting exchange of a specified amount of the Restricted Global Note for individual note certificates (the "Restricted Note Certificates").

Registration of title to Notes initially represented by the Regulation S Global Note in a name other than the nominee of the common depositary for Euroclear and Clearstream, Luxembourg will not be permitted unless (i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) following a failure to pay principal in respect of any Note at maturity or upon acceleration of any Note, and the Fiscal Agent has received a request from the registered holder of the Regulation S Global Note requesting exchange of the Regulation S Global Note for individual note certificates (the "Regulation S Note Certificates" and together with the Restricted Note Certificates, the "Note Certificates").

(e) The Notes will not be issued in bearer form. So long as Euroclear or Clearstream, Luxembourg or the nominee of their common depositary or DTC or its nominee is the registered owner of a Global Note, it will be considered the sole owner or holder of the Notes represented thereby for all purposes under the Notes and the Fiscal Agency Agreement. Neither the Republic nor any Agent will have any responsibility or liability for any aspect of the records relating to or payments made by Euroclear, Clearstream, Luxembourg or DTC on account of beneficial interests in a Global Note.

3. Interest. (a) Interest on the Notes will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(b) The Notes will bear interest from and including the date of issue to, but excluding, April 10, 2032 at the rate of 8.25% per annum on the principal amount thereof payable semi-annually in arrears on April 10 and October 10 of each year commencing on October 10, 2002. Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation and surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (ii) the day seven days after the Fiscal Agent or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes (except to the extent that there is failure in the subsequent payment to the relevant holders).

4. Payment and Paying Agents. (a) Payment of principal of the Notes (together with accrued interest) will only be made to the person in whose name such Note is registered as of the close of business on the due date for payment of the principal, following presentation and surrender of such Note at the office of the Principal Paying Agent or any other Paying Agent, by U.S. dollar check drawn on, or by transfer to a U.S. dollar account maintained by the holder with, a bank located in New York City. Payment 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 fifteenth day (if the Notes are represented by Note Certificates) or the third day (if the Notes are represented by Global Notes) (whether or not a business day) (the "Record Date") prior to the relevant due date for the payment of interest. Payment of such interest will be made by a U.S. dollar check drawn on a bank in New York City mailed to the holder at such holder's registered address, or, upon application of the holder to the Principal Paying Agent or any other Paying Agent in New York City or in Luxembourg not later than the relevant Record Date, by transfer of immediately available funds to a U.S. dollar account maintained by the holder with a bank in New York City. If any day for payment of principal or interest in respect of any Note ("Payment Date") is not a Business Day the holder shall not be entitled to payment until the next Business Day following such 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 shall accrue as a result of the delay in payment.

"Business Day" means a day, other than a Saturday or Sunday, in which the commercial banks and foreign exchange markets are open, or not authorized to close, in Luxembourg, New York City, San Salvador, or the city of the Paying Agent to which the Note is surrendered for payment.

(b) The Republic agrees that so long as any of the Notes are outstanding, it will maintain (i) a Principal Paying Agent in a Western European or United States city for payments on the Notes, (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, a Paying Agent and Transfer Agent in Luxembourg, (iii) a Registrar having a specified office in London, and (iv) a Paying Agent having a specified office in London. The Republic has initially appointed Citibank, N.A., as fiscal agent and as principal paying agent, registrar and transfer agent and Dexia Banque Internationale à Luxembourg, as paying agent and transfer agent. Subject to the foregoing, the Republic shall have the right at any time to terminate any such appointments and to appoint any other Agents in such other places as it may deem appropriate upon notice in accordance with Section 13 below.

(c) Payments in respect of the Notes shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

5. Payment of Additional Amounts. (a) All payments by the Republic in respect of the Notes shall be made without withholding or deduction for or on account of any present or future taxes, duties, fines, penalties, assessments or other governmental charges of whatsoever nature (or interest on any taxes, duties, fines, penalties, assessments or other governmental charges of whatsoever nature) imposed or levied by or on behalf of the Republic or any political subdivision or authority thereof or therein having power to tax, unless the Republic is compelled by law to deduct or withhold such taxes, duties, fines, penalties, assessments or governmental charges (or interest on any taxes, duties, fines, penalties, assessments or other governmental charges). In such event, the Republic shall make such withholding, make payment of the amount so withheld to the appropriate governmental authority (and promptly forward to each holder of a Note an official receipt (or a certified copy) or other documentation evidencing such payment) and forthwith pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the net amounts receivable by the holders of Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Notes in the absence of such withholding or deduction. No such Additional Amounts shall be payable:

(i) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, fines, penalties, assessments or governmental charges (or interest thereon) in respect of such Note by reason of such holder's having some connection with the Republic other than the holding of the Note; or

(ii) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, fines, penalties, assessments or governmental charges (or interest thereon) in respect of any Note 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 thereof or therein, of such holder or the holder of any interest in such Note or rights in respect thereof, if compliance is required by the Republic, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from such deduction or withholding; provided, however, that the Republic shall be obligated to pay Additional Amounts 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 United States tax law, regulation and administrative practice; or

(iii) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, fines, penalties, assessments or governmental charges (or interest thereon) in respect of any Note by reason of the failure of such holder to present such holder's Note for payment (where such presentment is required) within 30 calendar days after the date on which such payment thereof became due and payable or is duly provided for and notice thereof is given to the holder, whichever occurs first.

(b) Whenever there is mentioned herein, in any context, the payment of the principal of or interest on, or in respect of, a Note, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Section, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section, and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

6. The Agents. (a) In acting under the Fiscal Agency Agreement and in connection with the Notes, the Fiscal Agent, the Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and each other Agent are acting solely as agent of the Republic and do 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 (or any Additional Amounts) on the Notes shall be held in an account by it and applied as set forth herein. For a description of the duties and the immunities and rights of the Fiscal Agent, the Principal Paying Agent, the Paying Agents, the Registrar and the Transfer Agents under the Fiscal Agency Agreement, reference is made to the Fiscal Agency Agreement, and the obligations of the Fiscal Agent, the Principal Paying Agent, the Paying Agents, the Registrar and the Transfer Agents to the owners or holders of Notes are subject to such immunities and rights.

(b) All monies paid by or on behalf of the Republic to the Principal Paying Agent or any other paying agent for the payment of the principal of or interest on any Note which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Republic upon the Republic's written request therefor and the holder of such Note will thereafter look only to the Republic for payment. Upon such repayment, all liability of the Principal Paying Agent and any other paying agent with respect thereto shall thereupon cease, without, however, limiting in any way the obligation of the Republic in respect of the amount so paid.

7. Redemption and Purchase; Further Issues. (a) The entire principal amount of the Notes together with accrued interest thereon is payable on April 10, 2032. The Notes will not be redeemable prior to maturity at the option of the Republic or (except on acceleration following an Event of Default) the Noteholders.

(b) The Republic may at any time, directly or indirectly, purchase Notes in the open market or otherwise at any price. Any purchase by tender shall be made available to all Noteholders alike. The Notes so purchased, while held by or on behalf of the Republic, shall not entitle the holder to vote the Notes and shall not be deemed to be outstanding for purposes of calculating quorums.

(c) All Notes so purchased may at the Republic's discretion be held, resold or surrendered to the Fiscal Agent for cancellation.

(d) The Republic may, without the consent of Noteholders, create and issue additional debt securities having the same terms and conditions as the Notes (or the same except for the amount of the first interest payment) in accordance with applicable law. The Republic may consolidate the additional debt securities to form a single series with the outstanding Notes.

8. Events of Default. In the event that one or more of the following events (herein referred to as "Events of Default") shall have occurred and be continuing:

(a) the Republic shall default in the payment of principal in respect of the Notes when and as the same are due;

(b) the Republic shall default in the payment of interest in respect of any of the Notes when and as the same are due, and such default shall continue for a period of fifteen days thereafter;

(c) the Republic shall fail to perform any of its other obligations under the Notes, which default shall continue unremedied within 60 days after notice of such default shall have been given to the Republic by the Fiscal Agent or the Noteholders;

(d) as a result of any default or event of default resulting from the failure to make any payment of principal or of interest thereunder when due contained in any agreement or instrument related to any External Indebtedness (as defined herein) of the Republic in excess of US$25,000,000, such External Indebtedness becomes due and payable prior to the stated maturity thereof or if the Republic defaults in the payment or repayment of any of its External Indebtedness in excess of US$25,000,000 on the maturity thereof as extended by any applicable days of grace or any guarantee or indemnity given by the Republic of any External Indebtedness in excess of US$25,000,000 of others shall not be honored when due and called or within any period of grace applicable thereto;

(e) a moratorium shall be declared on the payment of any Public External Indebtedness of the Republic which does not expressly exclude the Notes; or

(f) the Republic shall deny, repudiate or contest the validity of its obligations under the Notes;

then the holders of not less than 25 percent in principal amount of the Notes outstanding may by written notice to the Republic and the Fiscal Agent declare the Notes then outstanding to be due and payable immediately at their principal face amount plus interest accrued thereon to the date of payment, including any Additional Amounts, unless prior to receipt of such demand by the Republic all such defaults have been cured.

9. Replacement, Exchange and Transfer. (a) If any Note shall become mutilated or defaced or be destroyed, lost or stolen, the Fiscal Agent shall, subject to having received the prior approval of the Republic (such approval not to be unreasonably withheld), authenticate and deliver a new Note at the offices of the Registrar in New York, on such terms as the Republic or the Registrar 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 or defacement or destruction, loss or theft, the applicant for a substitute Note shall furnish to the Republic, the Fiscal Agent and the Registrar such indemnity as the Republic, the Fiscal Agent or the Registrar, as the case may be, may require and evidence to their satisfaction of the destruction, loss or theft of such Note, and of the ownership thereof. In every case of mutilation or defacement of a Note, the holder shall surrender to the Registrar the Note so mutilated or defaced. 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 thereto and any other expenses (including the fees and expenses of the Fiscal Agent or the Registrar) connected therewith. If any Note which has matured or is about to mature shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Republic may pay or authorize payment of the same without issuing a substitute Note.

(b) Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, and subject to Section 9(e) below, a Note or Notes may be exchanged for a Note or Notes of equal aggregate principal amount, but in such different authorized denominations as may be requested by the holder, by surrender of such Note or Notes to the office of the Registrar, or to the office of any transfer agent, together with a written request for the exchange.

(c) Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, and subject to Section 9(e) below, a Note may be transferred in whole or in part (in the principal amount of US$10,000 and integral multiples of US$1,000 in excess thereof) 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 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 thereof or such holder's or holders' attorney-in-fact or attorneys-in-fact duly authorized in writing.

(d) The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses of delivery by other than regular mail (if any) and except, if the Republic shall so require, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto or, in connection with Section 9(a) above, the fees and expenses of the Registrar or Fiscal Agent, will be borne by the Republic.

(e) The Registrar may decline 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.

10. Negative Pledge. (a) Negative Pledge. So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Republic will not create or permit to subsist any Security (as defined herein) upon the whole or any part of its present or future revenues, property or assets to secure any present or future Public External Indebtedness (as defined herein) of the Republic without at the same time or prior thereto securing the Notes equally and ratably therewith or providing such other security for the Notes as shall be approved by the holders of a majority of the aggregate principal amount outstanding of the Notes.

(b) Exceptions. The following exceptions apply to the Republic's obligations under subparagraph (a) above:

(i) any Security upon property to secure Public External Indebtedness of the Republic incurred for the purpose of financing the acquisition of such property and any renewal or extension of any such Security which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing;

(ii) any Security existing upon property to secure Public External Indebtedness of the Republic at the time of the acquisition of such property and any renewal or extension of any such Security which is limited to the original property covered thereby and which secures any renewal or extension of the original secured refinancing;

(iii) any Security in existence as of the date of the Fiscal Agency Agreement or any renewal or extension thereof which secures only the renewal or extension of the original secured financing;

(iv) any Security 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 or any renewal or extension of such Security, provided that (A) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayment of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues; and

(v) any Security or Securities in addition to those permitted pursuant to clauses (i) through (iv) above, and any renewal or extension thereof, provided that the aggregate amount of Public External Indebtedness secured by such additional Security or Securities shall not exceed the equivalent of US$25,000,000.

(c) Definitions. For the purposes of this Note:

(i) "External Indebtedness" means any Indebtedness which is issued pursuant to agreements or evidenced by instruments subject to Chapter XII of the Commerce Code of the Republic.

(ii) "Indebtedness" means any obligation (whether present or future, actual or contingent) for the payment or repayment of borrowed money or arising from bonds, debentures, notes or other similar instruments.

(iii) "Person" means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having a separate legal personality.

(iv) "Public External Indebtedness" means any External Indebtedness which is in the form of, or represented by, bonds, notes or other securities which are or are intended to be or are securities which are commonly quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market (including, without limiting the generality of the foregoing, securities eligible for resale pursuant to Rule 144A under the Securities Act), and which 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.

(v) "Security" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, any equivalent created or arising under the laws of the Republic of El Salvador.

11. Covenants. So long as any Note is outstanding, the Republic will:

(a) Ranking: ensure that its obligations under the Notes will at all times constitute direct, general and unconditional obligations of the Republic ranking at all times *pari passu* without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated Public External Indebtedness of the Republic; and

(b) Listing: use reasonable efforts to maintain the listing of the Notes on the Luxembourg Stock Exchange.

12. Modifications, Amendments and Waivers. (a) The Fiscal Agency Agreement and the Notes (including the Terms and Conditions) may be modified or amended without the consent of the holder of any Note: (i) for the purposes of curing any ambiguity or curing, correcting or supplementing any defective or inconsistent provisions contained therein or (ii) in any manner that the parties thereto may deem mutually necessary or desirable that will not adversely affect, in any material respect, the interests of the holders of Notes.

(b) Modifications and amendments to the Fiscal Agency Agreement and the Notes (including the Terms and Conditions) may also be made, and future compliance therewith or past default by the Republic may be waived, with the written consent of the holders of at least a majority in aggregate principal amount of the Notes at the time outstanding, or by the adoption of a resolution at a meeting of the Noteholders held in accordance with the provisions of Schedule 7 to the Fiscal Agency Agreement; provided, however, that no such modification or amendment and no such waiver may, without the written consent or the affirmative vote of the holder of each Note affected thereby, (i) change the stated maturity of the principal of or any installment of interest on any such Note; (ii) reduce the principal amount of or interest on any such Note; (iii) change the obligation of the Republic to pay Additional Amounts pursuant to Section 5 above; (iv) change the currency of payment of principal of, or interest on, any such Note; or (v) reduce the percentage of the principal amount of Notes at the time outstanding necessary to modify or amend the Fiscal Agency Agreement or the Notes or to waive any future compliance or past default or to take any other action under the Fiscal Agency Agreement or the Notes. Any such modifications, amendments or waivers will be conclusive and binding on all holders of Notes, whether or not they have given such consent or were present at such meeting, and on all future holders of Notes, whether or not notation of such modifications, amendments or waivers is made upon the Notes. Any instrument given by or on behalf of any holder of a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Note.

13. Notices. All notices to holders of Notes will be valid if (a) given in writing and mailed to the holders of Notes at their respective addresses shown in the Note register and (b) (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require) published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in such other publication or city or cities as specified in the Fiscal Agency Agreement. Any such notice shall be deemed to have been given (x) on the date of mailing, in the case of mailed notice, and (y) on the date of such publication or, if published more than once, on the first date on which publication is made, in the case of published notice.

14. Prescription. All claims against the Republic for payment of principal of or interest on or in respect of the Notes shall prescribe unless made within five years from the date on which such payment first became due.

15. Governing Law. These Notes are governed by, and construed in accordance with, the law of the State of New York, except that all matters concerning authorization and execution by the Republic, as well as the bringing of any actions and the enforcement of any judgment against the Republic in the courts of the Republic, will be governed by the laws of the Republic.

16. Arbitration. Any dispute, controversy or claim arising out of or relating to the Notes (other than any action arising out of or based on the United States federal or state securities laws), including the performance, interpretation, construction, breach, termination or invalidity thereof shall be finally settled by arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (excluding Article 26 thereof) as in effect on the date of the Fiscal Agency Agreement (the "UNCITRAL Arbitration Rules"). The number of arbitrators shall be three, to be appointed in accordance with Section II of the UNCITRAL Arbitration Rules. The appointing authority shall be the Chairman of the International Court of Arbitration of the International Chamber of Commerce. The third arbitrator may be (but need not be) of the same nationality as any of the parties to the arbitration. The place of arbitration shall be New York, New York. The language to be used in the arbitration proceedings shall be English. Any arbitral tribunal constituted under this paragraph shall make its decisions entirely on the basis of the substantive law of the State of New York.

The decision of any arbitral tribunal shall be final to the fullest extent permitted by law, and a court judgment may be entered thereon by any Salvadoran court lawfully entitled to enter such judgment. In any arbitration or related legal proceedings for the conversion of an arbitral award into a judgment, the Republic will not raise any defense that it could not raise but for the fact that it is a sovereign state. The Republic has not consented to the jurisdiction of any court outside El Salvador, in connection with actions arising out of or based on the Notes or in connection with the enforcement of any judgment arising out of such actions, nor has the Republic appointed an agent for service of process outside El Salvador. The Republic waives any *forum non conveniens* defense in any proceeding in El Salvador.

No arbitration proceedings hereunder shall be binding upon or in any way affect the right or interest of any person other than the claimant or respondent with respect to such arbitration.

The Republic's consent to arbitration shall not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador.

17. Sovereign Immunity. The Republic represents and warrants that it has no right to immunity on the grounds of sovereignty or otherwise, from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award (except, in each case, for the limitation on alienation of public property) in respect of any proceeding or any other matter arising out of or relating to its obligations contained in the Notes. The enforcement by a Salvadoran court of a foreign arbitral award is subject to recognition by the Supreme Court of Justice of the Republic, which will recognize such award if all the required formalities are observed and the award does not contravene Salvadoran national sovereignty, public policy and "good morals." The public property (*bienes de uso público*) of the Republic located in El Salvador is not subject to execution or attachment, either prior or after judgment. The execution of a judgment against El Salvador in El Salvador is only available in accordance with the procedures set forth in Article 450 et seq. of the Salvadoran Civil Procedure Code, which envisions registration of the judgment for inclusion in the budget for payment in a subsequent fiscal year of the Republic.

The Republic hereby irrevocably waives, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceedings (including appeals) in El Salvador arising out of or relating to the Notes, the posting of any bond or the furnishing, directly or indirectly, of any other security.

18. Judgment Currency. All payments required to be made hereunder by the Republic shall be in US dollars, regardless of any law, rule, regulation or statute, whether now or hereafter in existence or in effect in any jurisdiction, which affects or purports to affect such obligations. The obligation of the

Republic in respect of any such amount due hereunder shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount of US dollars that any of the Agents may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which any of the Agents receives such payments. If the amount in US dollars that may be so purchased for any reason falls short of the amount originally due, the Republic shall pay such additional amounts, in US dollars, as may be necessary to compensate for such a shortfall. Any obligation of the Republic not discharged by such payment shall be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited and Salomon Smith Barney Inc. (the "Managers") have, pursuant to a Subscription Agreement dated April 3, 2002 (the "Subscription Agreement"), severally but not jointly, agreed with the Republic to subscribe and pay for the Notes. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and that the Managers are committed to take and to pay for all of the Notes if any are taken. The Republic has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes, and to contribute to payments which the Managers may make in respect thereof.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, United States persons except to qualified institutional buyers in reliance on Rule 144A and to certain persons in offshore transactions in reliance on Regulation S. In addition, until 40 days after commencement of the Offering, an offer or sale of any of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

The Managers propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law, and Credit Suisse First Boston (Europe) Limited, through Credit Suisse First Boston Corporation as its selling agent, and Salomon Smith Barney Inc. propose to offer the Notes to qualified institutional buyers in the United States pursuant to Rule 144A. Each Manager has agreed that, except as permitted under the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States. Terms used in this paragraph have the meanings given to them by Regulation S. Transfer of the Notes will be restricted as described under "Transfer Restrictions."

Each Manager represents, warrants and agrees that: (i) it has not offered or sold and, prior to the expiry of a period of six months from April 10, 2002, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this Offering Circular or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Republic nor any Manager shall have any responsibility therefor.

Salomon Smith Barney Inc. may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). Over-allotment involves sales in excess of the offering size, which creates a short position for Salomon Smith Barney Inc. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit Salomon Smith Barney Inc. to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Such stabilizing transactions, covering

transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of such transactions. Stabilizing transactions, if commenced, may be discontinued at any time.

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified on the cover page of this Offering Circular, which will be the fifth business day following the date of pricing of the Notes (this settlement cycle being referred to as "T + 5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, U.S. purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T + 5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes in other countries who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

DELIVERY OF THE NOTES AND TRANSFER RESTRICTIONS

Registered Global Notes

Notes offered or sold in offshore transactions in reliance on Regulation S will be initially represented by the Regulation S Global Note deposited with Citibank, N.A., London office, as common depositary for, and registered in the name of Citivic Nominees Limited, as nominee of, such common depositary for the accounts of Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg, unless delivery is made through the Restricted Global Note in accordance with the certification requirements described below.

Notes offered, sold or resold within the United States in reliance on Rule 144A will be initially represented by the Restricted Global Note which will be a permanent global Note (which may be subdivided) in fully registered form without interest coupons registered in the name of Cede & Co., as nominee for, and deposited with Citibank, N.A., London office as custodian (the "Custodian") for, DTC. The Restricted Global Note (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth below and in the Fiscal Agency Agreement and, unless determined otherwise by the Republic in accordance with applicable law, will bear the legend regarding such restrictions set forth under "— U.S. Transfer Restrictions" (the "Securities Act Legend").

Until and including the 40th day after the later of the commencement of the offering and April 10, 2002 ("the Closing Date") (the "40-Day Restricted Period"), a beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor in the form provided for in the Fiscal Agency Agreement (a "Transfer Certificate") to the effect that such transfer is being made to a person whom the transferor reasonably believes is purchasing for its own account or accounts over which it exercises sole investment discretion and that such person and each such account is a qualified institutional buyer, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After expiration of the 40-Day Restricted Period, such certification requirements will no longer apply to such transfers. The beneficial interest arising from any such transfer will be subject to the transfer restrictions applicable to beneficial interests in the Restricted Global Note.

Beneficial interests in the Restricted Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note, whether during or after the 40-Day Restricted Period, only upon receipt by the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Rule 904 of Regulation S or Rule 144 under the Securities Act (if available) and that the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for as long as it remains such an interest.

Upon the issue of the Global Notes, DTC, Euroclear or Clearstream, Luxembourg or their nominees will credit, on their internal systems, the respective principal amount of the individual beneficial interests represented by each Restricted Global Note to the accounts of persons who have accounts with such depositary. Such accounts initially will be designated by or on behalf of the Managers.

Ownership of the beneficial interests in the Restricted Global Note will be limited to persons who have accounts with DTC ("DTC Participants") or persons who hold interests through DTC Participants (including Euroclear and Clearstream, Luxembourg). Ownership of beneficial interests in the Restricted Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of the DTC Participants) and the records of

the Indirect Participants, as defined herein (with respect to interests of persons other than the DTC Participants).

Investors may hold their beneficial interests in the Regulation S Global Note through Clearstream, Luxembourg or Euroclear, if they are participants in such systems, or indirectly through organizations which are participants in such systems.

So long as the depositary for a Global Note, or its nominee, is the registered owner or holder of such Global Note, such depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreement and the Notes. No owner of a beneficial interest in a Global Note will be able to transfer that interest except in accordance with the relevant depositary's applicable procedures.

Note Certificates

Registration of title to Notes initially represented by the Restricted Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless (i) such depositary notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Republic is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) following a failure to pay at maturity or upon acceleration of any Note, the Fiscal Agent has received a notice from the registered holder of the Restricted Global Note requesting exchange of interests in the Restricted Global Note for individual note certificates (the "Restricted Note Certificates").

Registration of title to Notes initially represented by the Regulation S Global Note in a name other than the nominee of the common depositary for Euroclear and Clearstream, Luxembourg will not be permitted unless (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) following a failure to pay principal in respect of any Note at maturity or upon acceleration of any Note, and the Fiscal Agent has received a request from the registered holder of the Regulation S Global Note requesting exchange of interests in the Regulation S Global Note for individual note certificates (the "Regulation S Note Certificates" and together with the Restricted Note Certificates, the "Note Certificates").

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Republic will execute and the Registrar, upon receipt of an officer's certificate from the Republic for the authentication and delivery of Note Certificates, will authenticate and deliver Note Certificates in any authorized denomination, in an aggregate principal amount equal to the principal amount of the Global Notes representing such Note Certificates, in exchange for such Note Certificates.

Note Certificates will only be issued in exchange for interests in the Global Notes in the limited circumstances above, and until such exchange has occurred, owners of beneficial interests in a Global Note will not be entitled to have any portion of such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Note Certificates in definitive form and will not be considered to be owners or holders of any Notes under the Fiscal Agency Agreement or the Notes. Note Certificates may be issued with the Securities Act Legend ("Restricted Note Certificates"). Restricted Note Certificates and the Restricted Global Note are referred to herein as "Restricted Notes." Note Certificates issued without the Securities Act Legend, together with the Regulation S Global Note, are referred to herein as "Regulation S Notes."

Regulation S Notes are exchangeable only for, and may be transferred only in the form of, Regulation S Notes and Restricted Notes are exchangeable only for, and may be transferred only in the form of, Restricted Notes; provided, however, that upon the request of a holder of a Regulation S Note, such Regulation S Note may be transferred in the form of a Restricted Note, provided that if the requested transfer is being made on or prior to the 40th day after the later of the commencement of the

offering or the Closing Date thereof, the transfer is made by a transferor who has advised the Republic and the Registrar in writing that the transfer is being made in compliance with the provisions of Rule 144A under the Securities Act and upon presentation to the Republic and the Registrar by the transferor of a certificate provided in the Fiscal Agency Agreement; and provided further, however, that a Restricted Note may be transferred in the form of an Regulation S Note if the requested transfer is being made by a transferor who has advised the Republic and the Registrar in writing that the transfer is being made in compliance with the provisions of Regulation S under the Securities Act and upon presentation to the Republic and the Registrar by the transferor of a certificate provided in the Fiscal Agency Agreement.

In addition to the restriction on transfer of Notes set forth above and unless determined otherwise by the Republic in accordance with applicable law, the Registrar shall register the transfer of a Restricted Note after receipt of:

(a) a Transfer Certificate signed by the transferor indicating that such transfer is being made pursuant to, and in compliance with, Rule 144A; or

(b) a Transfer Certificate signed by the transferor indicating that such transfer is being made pursuant to, and in compliance with, Regulation S.

In addition, the Republic may, as a condition to the registration of any such transfer of a Restricted Note, require the transferor to furnish such other certifications, legal opinions or other information (at the transferor's expense) as it may reasonably require to confirm that the proposed transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable laws.

Subject to the restrictions on transfer and exchange set forth in the Fiscal Agency Agreement and the Notes, the holder of any Note Certificate may transfer or exchange the same in whole or in part (in a principal amount equal to the minimum authorized denomination or any integral multiple thereof) by surrendering such Note Certificate at the corporate trust office of the Registrar or a Transfer Agent.

U.S. Transfer Restrictions

The Notes are being offered, sold and resold in the United States to qualified institutional buyers in reliance on Rule 144A.

Each purchaser of Notes offered hereby who is a U.S. person or is in the United States (each as defined in Regulation S) will be deemed to have represented and agreed as follows:

(a) The purchaser is purchasing the Notes for its own account or an account over which it exercises sole investment discretion and that it or such account is a qualified institutional buyer and the Notes are being sold to it in reliance on Rule 144A.

(b) The Notes have not been and will not be registered under the Securities Act or any state securities law and may not be reoffered, resold, pledged or otherwise transferred except (A) if in the United States, in compliance with Rule 144A under the Securities Act to a person whom the seller reasonably believes is a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer, whom the seller has informed, in each case, that the reoffer, resale, pledge or other transfer is being made in reliance on Rule 144A, (B) if in the United States, pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available and upon delivery of an opinion of counsel in a form satisfactory to the Republic); or (C) if outside the United States, in compliance with Rule 904 of Regulation S under the Securities Act; in each case in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

(c) The Restricted Global Note and each Restricted Note Certificate will bear a legend to the following effect unless the Republic determines otherwise in compliance with applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY SECURITIES LAW OF ANY STATE IN THE UNITED STATES OF AMERICA, AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED BY THE FOLLOWING SENTENCES. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) PURCHASING FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE SELLER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A; (B) IN THE UNITED STATES, PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE AND UPON DELIVERY OF AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE REPUBLIC); OR (C) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. TERMS USED IN THIS PARAGRAPH HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S OR RULE 144A, AS APPLICABLE, UNDER THE SECURITIES ACT.

The Republic recognizes that none of DTC, Euroclear or Clearstream, Luxembourg in any way undertakes to, and none of DTC, Euroclear or Clearstream, Luxembourg shall have any responsibility to, monitor or ascertain the compliance of any transactions in the Notes with any exemptions from registration under the Securities Act or of any other state or federal securities law.

CLEARING AND SETTLEMENT

Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreement and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Republic, any Agent or any Manager or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to, or payments made, on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

DTC has advised the Republic that it is a limited purpose trust company organized under the laws of the State of New York, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entries, thereby eliminating the need for physical movement of securities. DTC Participants include securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to the DTC system also is available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant either directly or indirectly ("Indirect Participants").

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Fiscal Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the third business day before the due date for such payment so long as the Notes are represented by a Global Note, or on the fifteenth day before the due date for such payment so long as the Notes are in the form of Note Certificates (the "Record Date"). Trading between the Restricted Global Note and the Regulation S Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant interest payment date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Interests in the Regulation S Global Note and the Restricted Global Note will be in uncertificated book-entry form. The holdings of book-entry interests in the Notes through Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) Citivic Nominees

Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Secondary Market Trading in Relation to Global Registered Notes

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System if payment is effected in US dollars or free of payment if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free-of-payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and

Clearstream, Luxembourg and evidenced by the Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Republic, the Fiscal Agent, the Registrar, any Paying Agent, any Transfer Agent, the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

So long as the Regulation S Global Note is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to holders of Notes represented by a beneficial interest in the Regulation S Global Note may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System. Notices to holders of Notes represented by a beneficial interest in the Restricted Global Note may be given by delivery of the relevant notice to DTC or the Alternative Clearing System; except that, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in an English language newspaper having general circulation in Europe.

TAXATION

El Salvador Taxation

The following is a general discussion of Salvadoran tax considerations. The discussion is based upon the tax laws of El Salvador as in effect on the date of this Offering Circular, which are subject to change. Prospective investors should consult their own tax advisers with respect to Salvadoran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, El Salvador.

Under current Salvadoran law, payments of interest on the Notes to residents and non-resident taxpayers of the Republic are subject to taxation in the Republic. Holding a Note will not by itself subject a Noteholder to any tax in El Salvador. Payments of principal and interest on the Notes are not subject to income or withholding tax in El Salvador to non-resident non-taxpayer Noteholders. In addition, gains realized on the sale or other disposition of the Notes are not subject to income or withholding tax in El Salvador provided the transaction takes place outside El Salvador or, if within El Salvador, through a Salvadoran stock exchange. There are no Salvadoran transfer, inheritance, gift or succession taxes applicable to the Notes.

United States Taxation

The following summary of certain United States federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes is based upon existing United States federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not purport to discuss all aspects of United States federal income taxation which may be relevant to a particular investor in light of that investor's individual investment circumstances, such as investors whose functional currency is not the United States dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, and tax-exempt organizations and investors holding Notes as a position in a "straddle," "conversion transaction," or "constructive sale" transaction). In addition, this summary does not discuss any foreign, state, or local tax considerations. This summary only applies to investors that hold Notes as "capital assets" (generally, property held for investment) within the meaning of the United States Internal Revenue Code of 1986, as amended (the "Code"). Prospective investors should consult their own tax advisors regarding the U.S. federal, state, and local, as well as foreign income and other, tax considerations of investing in the Notes.

For purposes of this summary, a "US Holder" includes an individual who is a citizen or resident of the United States, a corporation or partnership (including an entity treated as a corporation or partnership for United States federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia, (other than a partnership that is not treated as a United States person under any applicable Treasury regulations), an estate whose income is subject to United States federal income tax regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. 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 under the Code and applicable Treasury regulations prior to that date, that elect to continue to be treated as United States persons under the Code or applicable Treasury regulations also will be a US Holder. As used herein, the term "non-US Holder" means a holder of a Note that is not a US Holder.

Payments of Interest and Additional Amounts

Payments of interest on a Note (including Additional Amounts, if any) will generally be taxable to a US Holder as ordinary interest income in accordance with the US Holder's regular method of tax accounting. Interest on the Notes constitutes income from sources outside the United States but, with

certain exceptions, is treated separately, together with other items of "passive income" or "financial services income," for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. If any foreign taxes were to be paid or withheld in respect of payments on the Notes, a US Holder might be eligible, subject to a number of complex limitations, for a foreign tax credit.

Sale, Exchange or Retirement of a Note

A US Holder will generally recognize taxable gain or loss upon the sale, exchange, retirement or other disposition of a Note (including payments as a result of an acceleration) in an amount equal to the difference between the amount realized upon that sale, exchange, retirement or other disposition (other than amounts representing accrued and unpaid interest) and that US Holder's adjusted tax basis in the Note. A US Holder's adjusted tax basis in a Note will generally equal that US Holder's initial investment in the Note, increased by any amounts includible in income by a US Holder as market discount and reduced by any amortized premium (each as described below). That gain or loss will generally be long-term capital gain or loss if the Note is held for more than one year, and will generally be U.S. source income or loss for U.S. foreign tax credit purposes.

Market Discount

If a US Holder purchases a Note for an amount that is less than its adjusted issue price as of the purchase date, that US Holder will be treated as having purchased that Note at a "market discount," unless that market discount is less than a specified *de minimis* amount.

Under the market discount rules, a US Holder will be required to treat any gain realized on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the lesser of (i) the amount of that realized gain or (ii) the market discount which has not previously been included in income and is treated as having accrued on that Note at the time of that disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless the US Holder elects to accrue market discount on the basis of semi-annual compounding.

A US Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Note with market discount until the maturity of the Note or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A US Holder may elect to include market discount in income currently as it accrues (on either a ratable or semi-annual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the Note and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest income for United States federal income tax purposes. An election to include market discount in income as it accrues will apply to all debt instruments acquired by the US Holder on or after the first day of the first taxable year to which that election applies and may be revoked only with the consent of the IRS.

Premium

If a US Holder purchases a Note for an amount that is greater than its stated principal amount, that US Holder will be considered to have purchased the Note with "amortizable bond premium" equal in amount to that excess. A US Holder may elect to amortize that premium using a constant yield method over the remaining term of the Note and may offset interest otherwise required to be included in respect of the Note during any taxable year by the amortized amount of such excess for the taxable year. Any election to amortize bond premium applies to all taxable debt instruments held by the US Holder at the beginning of the first taxable year to which the election applies and to all taxable debt instruments acquired on or after that date. The election may be revoked only with the consent of the IRS.

Non-US Holders

Subject to the discussion below of special rules that may apply to certain non-US Holders and the discussion below of "backup" withholding, payments of interest and any Additional Amounts on the Notes are currently not subject to U.S. federal income tax, including withholding tax, if paid to a "non-US Holder," whether or not that non-US Holder is engaged in a trade or business in the United States, unless:

(i) the corporation is an insurance company carrying on a U.S. insurance business to which the interest is attributable, within the meaning of the Code, or

(ii) the individual or corporation has an office or other fixed place of business in the United States to which the interest is attributable and the interest is derived in the active conduct of a banking, financing or similar business within the United States and certain other conditions exist.

In addition, (i) subject to the discussion below of special rules that may apply to certain non-US Holders and the discussion below of backup withholding, a non-US Holder will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of a Note, and (ii) the Notes will be deemed to be situated outside the United States for purposes of the U.S. federal estate tax and will not be includible in the gross estate for purposes of that tax in the case of a non-US Holder who was not a citizen of the United States at the time of death.

Special rules may apply in the case of non-US Holders (i) that are engaged in a U.S. trade or business, (ii) that are former citizens or long-term residents of the U.S., "controlled foreign corporations," "foreign personal holding companies," corporations which accumulate earnings to avoid U.S. federal income tax, and certain foreign charitable organizations, each within the meaning of the Code, or (iii) certain non-resident alien individuals who are present in the U.S. for 183 days or more during a taxable year. Such persons are urged to consult their U.S. tax advisors before purchasing Notes.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal of and interest and any Additional Amounts on the Notes to non-corporate US Holders if those payments are made within the United States or by or through a custodian or nominee that is a United States Controlled Person, as defined below. Backup withholding tax will apply to those payments if such a US Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States federal income tax return. Payments of principal and interest to beneficial owners who are non-US Holders generally will not be subject to information reporting and backup withholding, but those holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on United States Internal Revenue Service Forms W-8BEN.

The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker will generally be subject to the information reporting and backup withholding rules described above. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a foreign office of a broker that is a United States Controlled Person, unless the broker has documentary evidence that the holder or beneficial owner is not a US Holder or the holder or beneficial owner otherwise establishes an exemption.

Under recently issued U.S. Treasury regulations, a payment to a foreign partnership is treated, with some exceptions, for backup withholding purposes as a payment directly to the partners, so that the partners are required to provide any required certifications. Investors who hold a Note through a partnership or other pass-through entity, should consult their own tax advisors regarding the application of these regulations to their own situation.

A "United States Controlled Person" is:

- a United States person (as defined in the United States Treasury regulations);
- a controlled foreign corporation for United States federal income tax purposes;
- a foreign person 50% or more of whose gross income is derived for tax purposes from a U.S. trade or business for a specified three-year period; or
- a foreign partnership in which United States persons hold more than 50% of the income or capital interests or which is engaged in a U.S. trade or business.

Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against the holder's United States federal income tax liability as long as the holder provides the required information to the Internal Revenue Service.

Proposed European Union Directive on Taxation of Certain Interest Payments

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. According to the most recently available information, it is proposed that, subject to a number of important conditions being met, member states will be required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a paying agent within its jurisdiction to an individual resident in that other member state, subject to the right of certain individual states (including Luxembourg) to opt instead for a withholding system for a transitional period in relation to such payments. The proposals are not yet final and they may be subject to further amendment and/or clarification.

You should consult your own tax advisors regarding the potential adoption and application of the proposed directive or any similar directive.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by Lic. Belisario Amadeo Artiga Artiga, the Fiscal General ("Attorney General") of the Republic and by Espíno Nieto, Umaña & Asociados, Salvadoran counsel to the Republic, and by Arnold & Porter, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Managers by Guandique Segovia Quintanilla, Salvadoran counsel to the Managers, and by Cleary, Gottlieb, Steen & Hamilton, U.S. counsel to the Managers. As to all matters of Salvadoran law, Arnold & Porter will rely on the opinions of the Attorney General and Espíno Nieto, Umaña & Asociados, and Cleary, Gottlieb, Steen & Hamilton will rely upon the opinion of Guandique Segovia Quintanilla.

GENERAL INFORMATION

1. The Regulation S Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg and the Restricted Global Note has been accepted for clearance through DTC. The CUSIP numbers for the Regulation S Global Note and the Restricted Global Note are P01012 AE 6 and 283875 AH 5, respectively. The common codes for the Regulation S Global Note and the Restricted Global Note are 014617337 and 014617418, respectively, and the International Securities Identification Numbers ("ISIN") for the Regulation S Global Note and the Restricted Global Note are XS0146173371 and US283875AH54, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of El Salvador in connection with the issue and performance of the Notes. The issue of the Notes is authorized under Legislative Decree No. 675 (as published in the *Diario Oficial* on December 19, 2001) and Legislative Decree No. 681 (as published in the *Diario Oficial* on December 20, 2001) of the Republic's Legislative Assembly.

3. Neither the Republic nor any Ministry of the Republic is involved in any litigation or arbitration proceedings which are material in the context of the issue of the Notes nor, so far as the Republic is aware, are any such litigation or arbitration proceedings pending or threatened.

4. Application has been made to list the Notes on the Luxembourg Stock Exchange. So long as any of the Notes are listed on the Luxembourg Stock Exchange and the rules of such stock exchange shall so require, the Republic will maintain a paying agent and transfer agent in Luxembourg.

5. Copies of the following documents may be obtained on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

(a) the Fiscal Agency Agreement incorporating the forms of Global Notes and Note Certificates;

(b) copies of the Constitution of the Republic, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and

(c) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

6. Other than as disclosed herein, 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, 2001.

ISSUER

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REPUBLICA DE EL SALVADOR EN LA AMERICA CENTRAL
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