

REPORT OF THE PRESIDENT OF THE *BANCO DE GUATEMALA* BEFORE THE CONGRESS OF THE REPUBLIC

Guatemala, July 14, 2005

1

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Mister President; Honorable General Assembly;

It is for me a special honor, as President of the Central Bank of the Republic, to appear before this national representation to fulfill the prescribed in article 60 of the Organic Law of the *Banco de Guatemala* and present the relative report of the execution of the monetary, exchange and credit policy in the current year. To support the content of this presentation with written material, we have requested a document be distributed to each one of the representatives that includes the content of the report made up of 66 slides which I will refer to in the course of the presentation.

Mr. President, honorable representatives, before referring to the content of the distributed document, independently from the fact that the objective and action of the Central Bank is the stability of the general level of prices and in its role of state advisor in economic matters, I have considered it opportune to formulate some comments relative to the internal and external environment within which the monetary policy has been executed during the first semester of 2005.

There is no doubt that these times are difficult. The national economy has had a long period of little growth determined mainly by the economic and political phenomena occurring in the international ambit, that continue to affect the country

and that have not made more dynamic behavior possible within the productive activities.

To mention only two phenomena with clear impact on our productive activity, we can mention, on the one hand, the effects of the economic policy of the United States of America in the entire world, with its clear impact in the low yield of our economy; on the other hand, I want to highlight the behavior of oil prices, whose persistent rise exercises clear impact on the internal prices and a significant effect on the productions costs of the productive structure of the country, effects that are magnified as a consequence of the deficient structure of generation of electricity dependent in a high percentage on the use of some petroleum derivatives. To these matters I will refer to in greater detail up ahead.

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1

But also in areas of the internal ambit, even though the factors that contributed in the recent past to the inhibition of the productive activity have been overcome substantially, and even though the dynamics of the economy begin to show encouraging signs of recuperation, the lagging of employment and income have not been significantly surpassed.

Also, the country has suffered an absence of a socially shared concept on the most appropriate conditions that should be made up to accelerate economic growth and to ensure social progress in a sustainable manner.

The rejections to the open-sky mining, the discussion on the installation of new electric power plants; taking advantage of the hydraulic resources of the country still available, and a lack of agreements that allow the participation of private capital in the construction of infrastructure is indispensable to ensure dynamic and sustainable development, are some of the examples of the acute problems that Guatemalans must resolve appropriately.

Our future will depend on how we socially overcome these problems, which promises to be successful if we act opportunely and consequently; or on the contrary, it could take us toward growing conflict that would make economic and sustainable social development impossible, if the decisions are postponed or not taken in the right direction.

I have wanted to make these comments before this honorable national assembly, because as you will see in the course of this presentation, I will refer to the evolution of these macro-economic indicators in general and to the monetary, exchange and financial in particular, and even though it is true that these areas show stable and compatible decisions with the formation of an appropriate environment for productive investment, these conditions should be strengthened and made sustainable in time, and it does not mean that we should adopt a complacent attitude or think that everything is all right.

What I must express and sustain firmly, is that the national macro-economic conditions, qualified recently by the General Director of the International Monetary Fund, as 'a pillar of the macro-economic stability of Central America' should be maintained and taken advantage of to make way for dynamic economic activity that betters the possibility of employment and income for the population and ensures the appropriate administration of goods and services for the consumer population.

I will now refer to the content of the report.

I. LEGAL BASE

Article 60. Report to the Congress of the Republic.
The President of the Banco de Guatemala must appear in order to render a circumstantial report before the Congress of the Republic, during the months of January and July of each year.

In the month of July, an account on the Monetary, Exchange and Credit Policy execution must be rendered for the current year.

FUNDAMENTAL OBJETIVE

‘Article 3. Fundamental Objective. The *Banco de Guatemala* has as its fundamental objective, to contribute to the creation and maintenance of the most favorable conditions to the orderly development of the national economy, for which, **it will propitiate the monetary, exchange and credit conditions that promote stability in the general level of prices.**’

II. MONETARY SCHEME OF EXPLICIT INFLATION GOALS

The Monetary, Exchange and Credit Policy for 2005 is framed within the process of the adoption of a modern monetary scheme of explicit inflation goals, within the framework of the Organic Law of the *Banco de Guatemala*.

The Monetary Board, in Resolution JM-160-2004, establishes the measures of the Monetary, Exchange and Credit Policy for 2005, whose principles of participation in the monetary and exchange markets pursue the purpose of deepening the process of adoption in a monetary scheme with explicit goals of inflation, according to best practices and standards at an international level in this matter.

According to said standards, the 'Scheme of Explicit Goals for Inflation' is a reference frame of monetary policy characterized by the public announcement of quantitative goals (or ranges) of official character (inflation rates) regarding one or more temporary horizons, with the explicit certainty that a low and stable inflation is the main objective in the long term.

This mechanism allows the Central Bank to guide the management of its monetary policy as of the comparison between the announced goal of inflation and the prognosis behavior of inflation. The 'Scheme of Explicit Goals of Inflation' constitutes a reference frame for the monetary policy and not an automatic application regulation.

A. ADVANCES IN THE MONEY MARKET

- Fixation of a single leading interest rate for the short term monetary stabilization operations (CDPs at 7 day terms);
- Elimination of fund raising quotas for 7 day term CDPs;
- Reduction of the number of bids; and,
- Fixation of fund raising quotas of CDPs that are summoned through the bids mechanism.

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5

In 2005, with the purpose of increasing the efficiency of the monetary policy they have introduced gradual modifications with the objective of operating the monetary stabilization in the market conditions.

B. ADVANCES IN THE EXCHANGE MARKET

- Participation sustained in explicit, transparent and comprehensible regulations for the markets;
- Elimination of the discretionary participations of the Banco de Guatemala in the exchange market; and,
- Reduction of the volatility and uncertainty of the evolution of the exchange rate.

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6

In the exchange policy, with the purpose of increasing the efficiency and transparency we introduce gradual modifications in the function of the fulfillment of the indicated principles.

C. IMPROVEMENTS IN THE MONETARY POLICY

Situation until 2004

- Inflation goals with a 12 month horizon.
- Multiple rates for the monetary policy.
- Analysis of the monetary policy measures based on the current behavior of the main indicative variables.
- Use of a monetary aggregate as a nominal anchor or as an intermediary goal.

Situation in 2005

- Inflation goal with a 24 month horizon.
- Only leading interest rate for the monetary policy (7 day term).
- Analysis of the monetary policy measures based on prognosis of the main variables.
 - Balance of inflation risks.
- Scheme of explicit inflation goals: emphasis on inflation as a nominal anchor.

During 2005 they have gradually introduced improvements in way in which the monetary policy is executed, with the goal of advancing in the adoption process of the scheme of explicit goals of inflation, according to the agreed by the Monetary Board.

C. IMPROVEMENTS IN THE MONETARY POLICY

Situation until 2004

- Discretionary participation in the exchange market.
- Placement of short term CDPs using the Electronic Banking Table of Money (MEBD) and the stock exchange as a bid mechanism.
- CDPs bids made every day.

Situation in 2005

- Participation in the exchange market based on the explicit rule known as the market.
- Short term placements only in the MEBD and in the stock exchange. The longer terms through the bid mechanism.
- Reduction in the bid frequency to three times a week and the gradual reduction of the number of offered terms.

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8

C. IMPROVEMENTS IN THE MONETARY POLICY

Situation until 2004

- Placement of CDPs in bids without quotas.
- The deeds of the Execution Committee were not being published.
- Changes in interest rates were adopted at any time.

Situation in 2005

- CDPs bid placements with predetermined quotas.
- Publication of the deeds of the Execution Committee.
- The decisions of the Execution Committee on the leading interest rate will be scheduled for adoption in the closest session after the 15 day of each month.

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9

The improvements that have been adopted in the monetary policy cooperates with transparency and expects the markets to be better informed in the actions

of the Central Bank and that, with that, adapt their economic decisions in a way that the monetary policy itself be more efficient.

It is worth mentioning that in order to strengthen the transparency in the way the monetary policy is conducted; the Central Bank makes the acts of the sessions of the Execution Committee public on the internet of said policy.

III. FUNDAMENTAL OBJECTIVE AND POLICY GOAL FOR 2005

A. FUNDAMENTAL OBJECTIVE

☞ The fundamental objective of the monetary, exchange and credit policy for 2005 is to create and maintain the most favorable conditions for the orderly development of the national economy, therefore it will propitiate the monetary, exchange and credit conditions that promote the stability of the general level of prices.

B. POLICY GOAL

☞ For December 2005, and in the twelve subsequent months, the inflationary rhythm, measured by the inter-annual variation of the Consumer Price Index, IPC, (for its acronym in Spanish), must be between 4% and 6%.

The fundamental objective is consecrated in Article 3 of the Organic Law of the Banco de Guatemala.

The policy goal was established by the Monetary Board in Resolution JM-160-2004, issued on December 29, 2004.

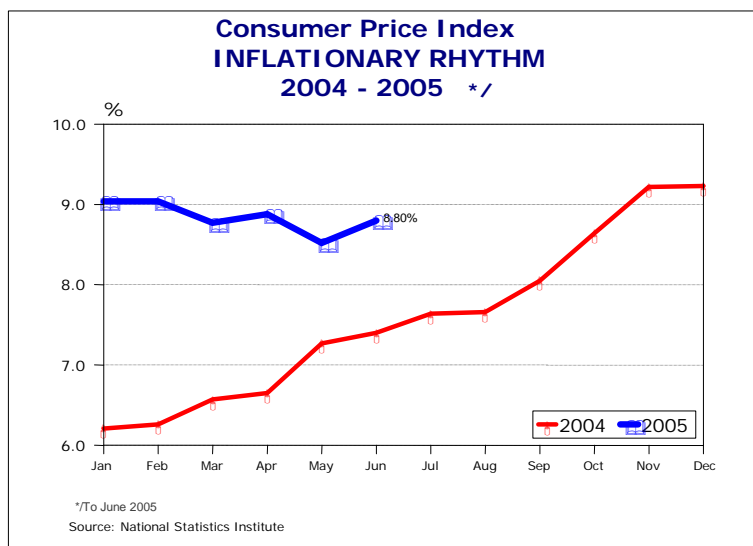
IV. EXECUTION OF THE MONETARY, EXCHANGE AND CREDIT POLICY IN THE CURRENT YEAR

A. STABILITY IN THE GENERAL LEVEL OF PRICES

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11

According to the Consumer Price Index made up by INE, to June 30, 2005, in the whole Republic, registered an inflationary rhythm of 8.80%.

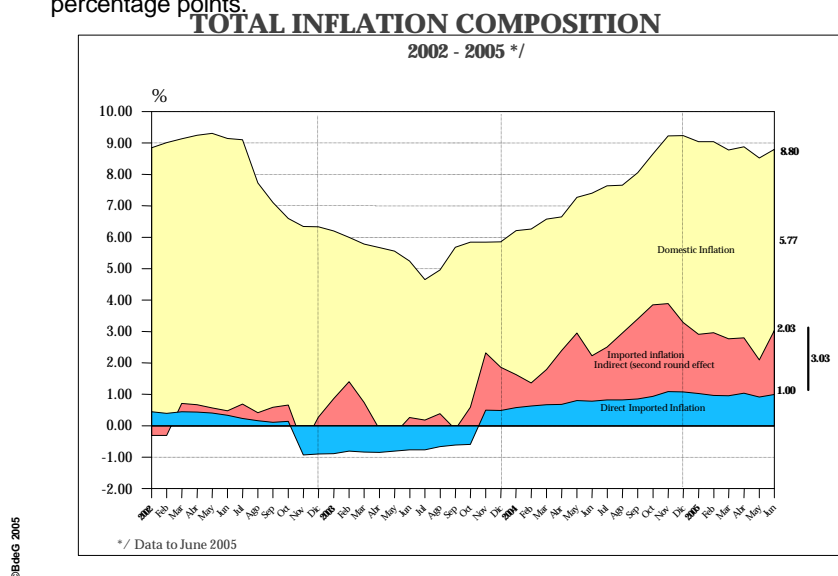


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12

During the first semester of the year, the inflationary rhythm, in the framework of the execution of the disciplined monetary and fiscal policies, decelerated 0.43 percentage points, when it surpassed 9.23% in December of 2004 to 8.80% in June of 2005.

Of the total inflation of 8.80% registered to June of 2005, the domestic inflation has a participation of 5.77 percentage points and the imported inflation of 3.03 percentage points.

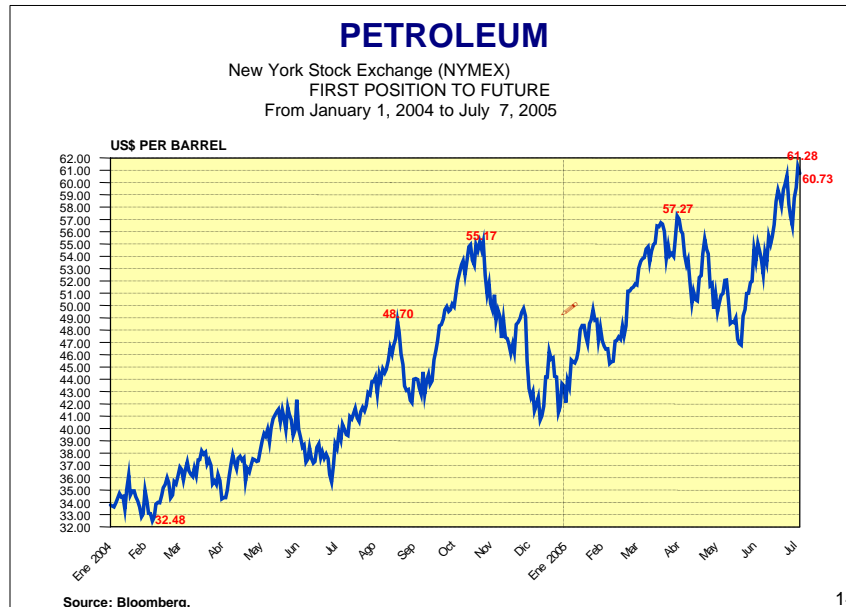


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In the first semester of 2005, the direct and indirect imported inflation has been constituted as a determining factor in the rise in prices observed in the first six months of the year.

The direct imported inflation is that which is produced in 11 of the titles of the basic food basket of the IPC whose supplies are directly affected by the changes in oil and electricity prices (according to the structure costs) and that, therefore, they have been increasing during the year.

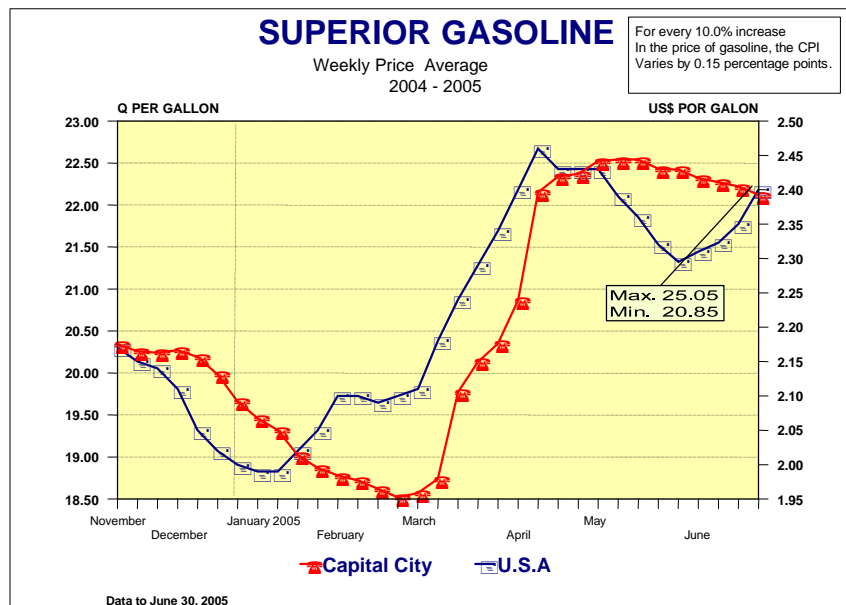
On their part, the indirect imported inflation is that which is generally produced in the rest of the components of the IPC and that affects the costs indirectly or secondarily, due to: the variation in the inflation of the partner countries; the variation in the type of nominal exchange; and, the variation of the international price of oil.



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14

As we can appreciate in the graph, during the first semester the price of petroleum has been unstable, even though it shows a tendency toward the rise, when it surpasses a price of US\$45.00 in January 2005 until it reaches at the end of June 2005 record levels higher to that of US\$60.00 with its inevitable effect to the internal raising of prices registered in the last month.

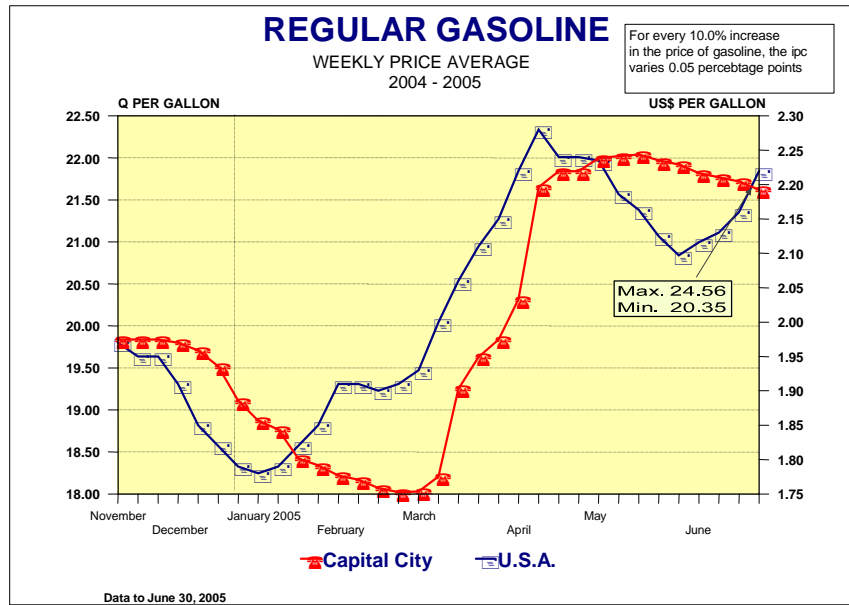


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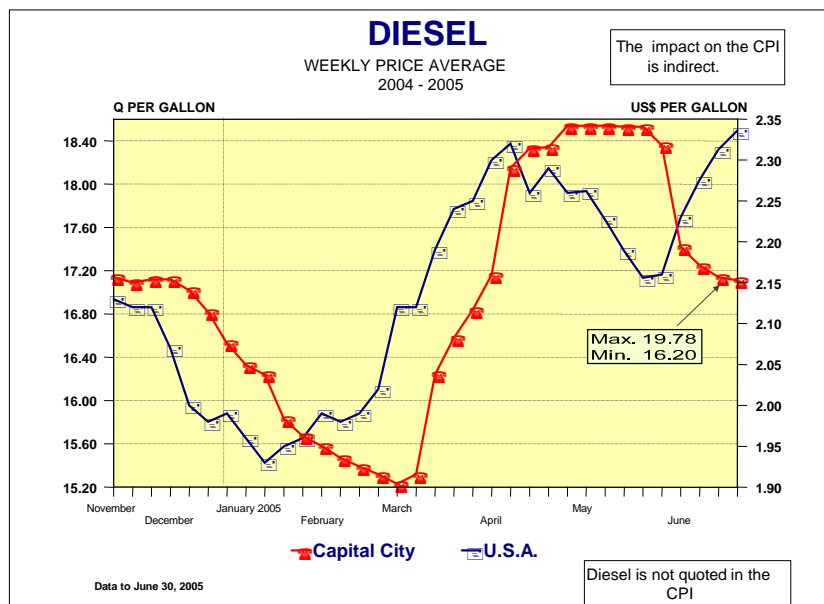
As is natural, the high oil prices have been transferred to the prices of fuel that present higher levels than those observed at the end of 2004.

Given that the internal prices in Guatemala continue with a slight lack compared to the behavior of the prices in the United States of America; therefore we can expect additional adjustment in the level of domestic prices.



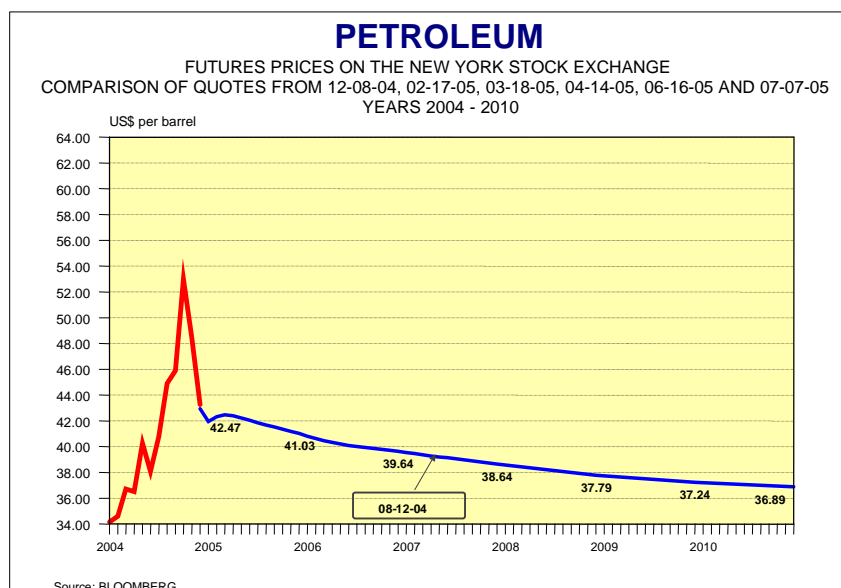
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The price of super gasoline, in the capital city, was at around Q21.50 at the end of June 2005, higher than the registered (around Q19.00) at the beginning of January.



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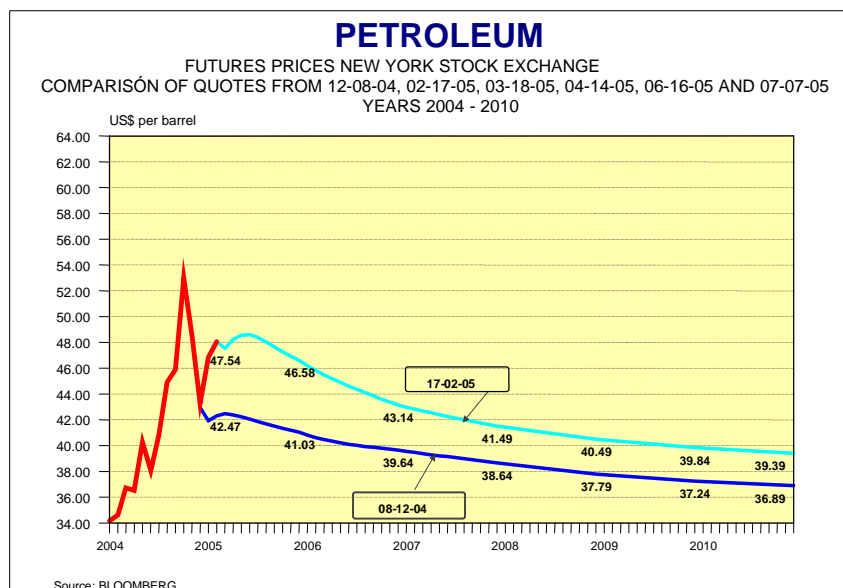
The price of diesel, in the capital city, at the end of June 2005 was around Q17.20, higher than the observed in January (Q16.50).



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18

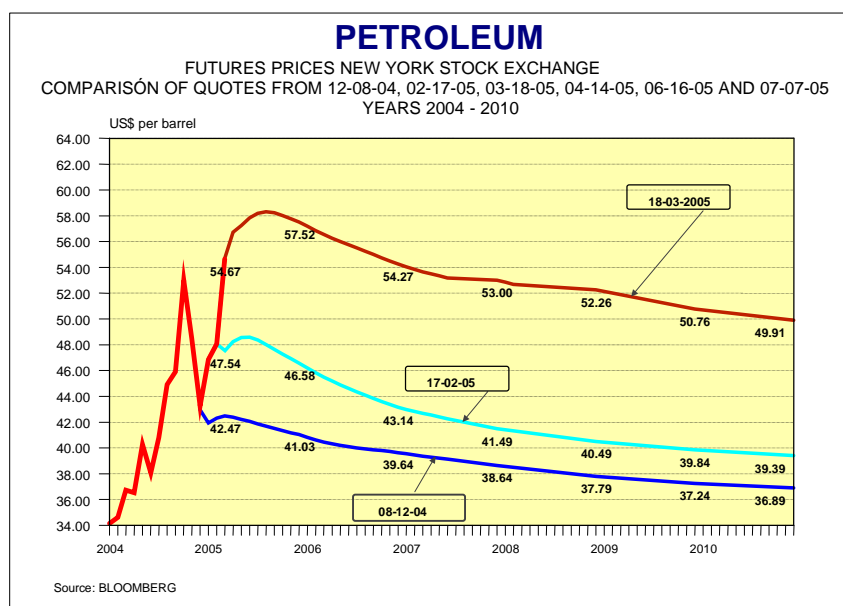
The Monetary, Exchange and Credit Policy for 2005 fixed a goal range of inflation between 4% and 6%, taking the projection of the future prices of crude oil in the international market as a reference, which, to December 2004 signaled that the international price of oil will descend gradually until 2010. The international projection estimated that for the end of 2005 the price of crude oil will be around US\$41.00 the barrel. This scenario has been changing considerably in the last months of 2005, aspect which could be appreciated in the following graphs.



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19

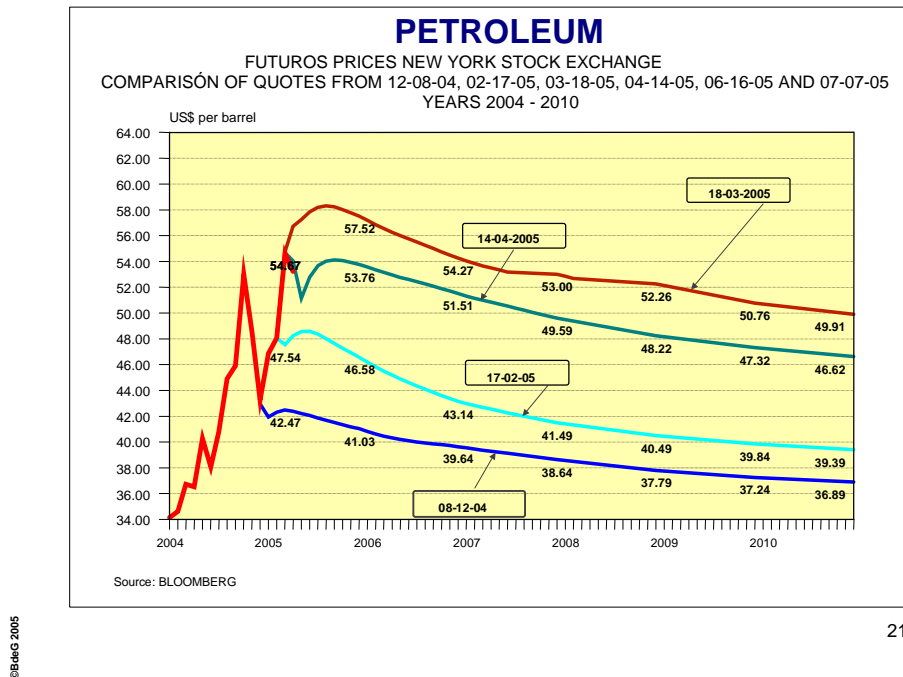
The international projection made on February 17, 2005, indicated that at the end of 2005 the price would be around US\$46.00 dollars the barrel; which would mean an increase of approximately US\$5.00 per barrel regarding the projected in December 2004.



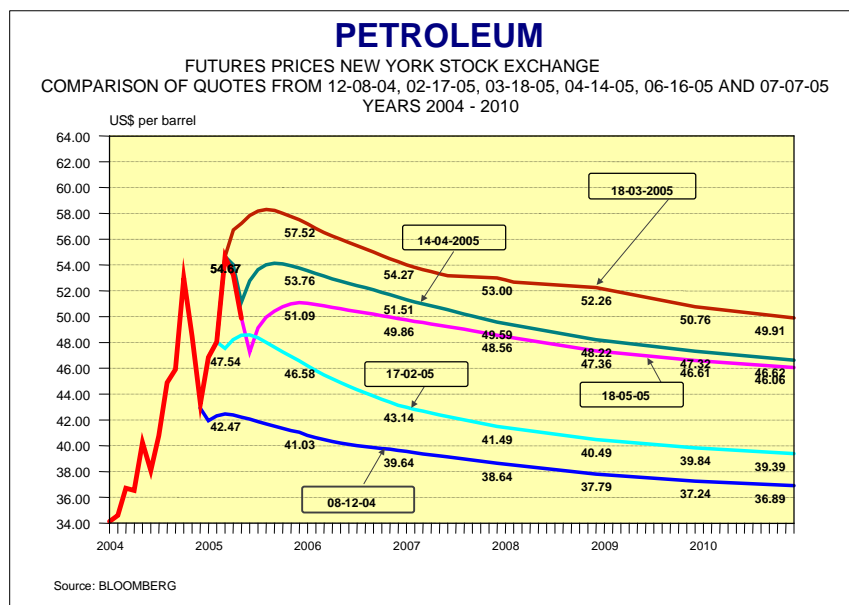
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20

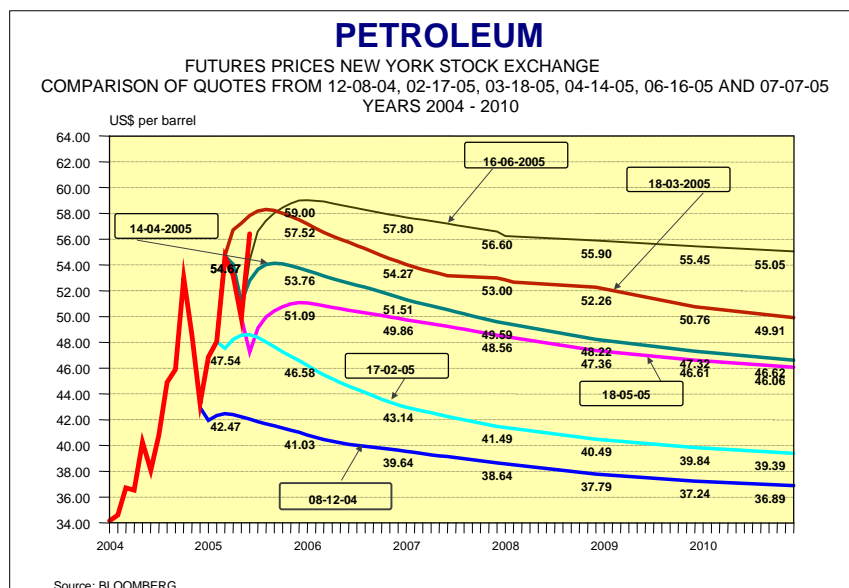
The international projection made on March 18, 2005, indicated that at the end of 2005 the price would be around US\$57.00 dollars the barrel; which means an increase of about US\$16.00 per barrel regarding the projected in December 2004.



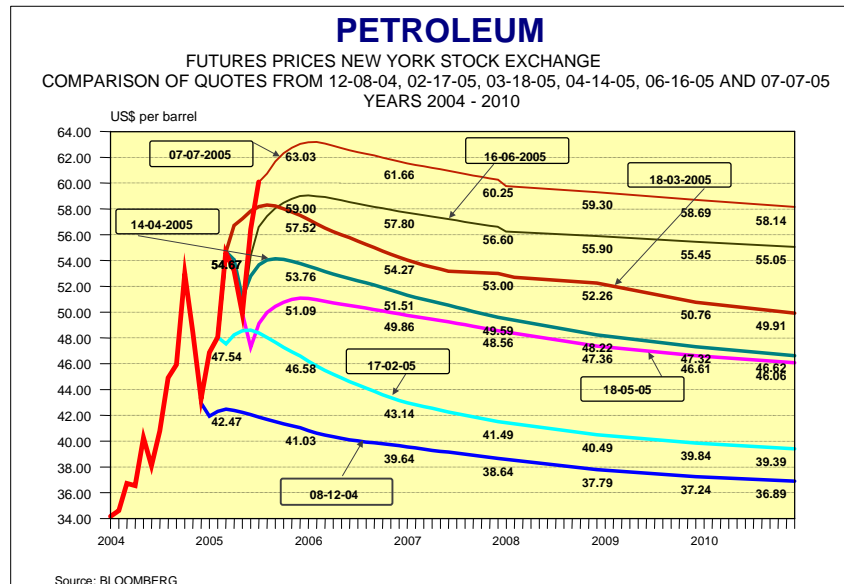
The international projection made on April 14, 2005, indicated that for the end of 2005 the price would be around US\$53.00 dollars the barrel; which means an increase of about US\$12.00 per barrel projected for December 2004.



The international projection made on May 18, 2005, indicated that for the end of 2005 the price would be around US\$51.00 dollars the barrel; which means an increase of about US\$10.00 per barrel projected for December 2004.



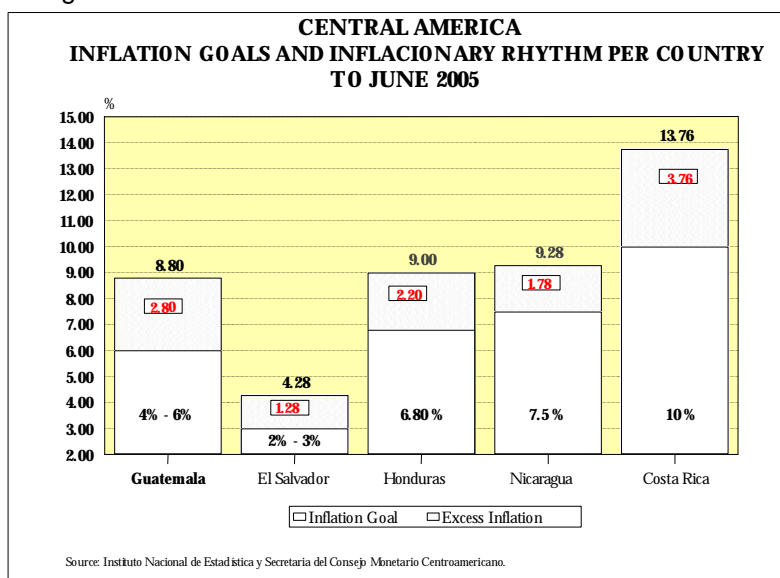
The international projection made on June 16, 2005, indicated that for the end of 2005 the price would be around US\$59.00 dollars the barrel; which means an increase of about US\$18.00 per barrel projected for December 2004.



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The international projection made on July 7, 2005, indicated that for the end of 2005 the price would be around US\$63.00 dollars the barrel; which means an increase of about US\$22.00 per barrel projected for December 2004.

To June of 2005, the inflationary rhythm in Central America was above the goal.



25

It is worth mentioning that in Central America, as is the case in Guatemala, the behavior of inflation over the goal is associated with the persistent increase of the international oil prices.

MAIN RISES REGISTERED TO JUNE 2005

BASIC EXPENSE		% OF VARIATION REGARDING PRE-VIOUS MONTH	INCIDENCE OF INTERMONTHLY VARIATION	WEIGHTING
1	Onion	29.84	0.06	0.2781
2	Carrot	11.40	0.02	0.1195
3	Spices, dressings and aromatic products	10.24	0.01	0.0461
4	Other produce and legumes	6.87	0.01	0.1972
5	Aerial Transportation	4.85	0.03	0.6274
6	Trips and/or recreation outside the country	4.81	0.03	0.5562
7	Beans	4.67	0.05	1.1755
8	Tortilla Products	4.11	0.15	1.6913
9	Oranges	3.32	0.00	0.0978
10	Bread	3.31	0.19	2.8264
Addition				7.6154

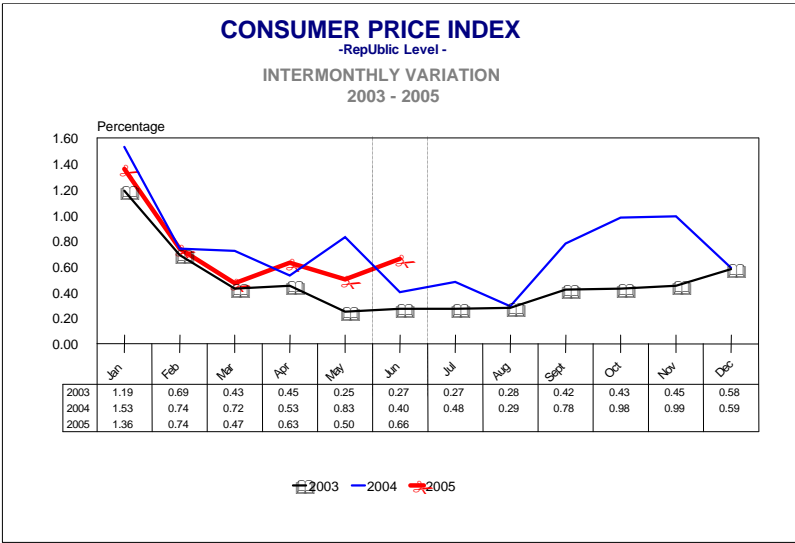
MAIN DECLINE REGISTERED IN JUNE OF 2005

BASIC EXPENSE		% OF VARIATION REGARDING PRE-VIOUS MONTH	INCIDENCE OF INTERMONTHLY VARIATION	WEIGHTING
1	Güisquil	-9.35	-0.03	0.1566
2	Propane Gas	-8.02	-0.07	1.0887
3	Tomato	-5.24	-0.04	0.7361
4	Other culinary herbs	-4.19	-0.01	0.1075
5	Other fresh fruit	-3.67	-0.03	0.5931
6	Apples of any variety	-2.91	0.00	0.0937
7	Bananas	-2.51	0.00	0.1169
8	Cumin	-2.20	0.00	0.0250
9	Cilantro	-2.17	0.00	0.0215
Addition				2.9392

26

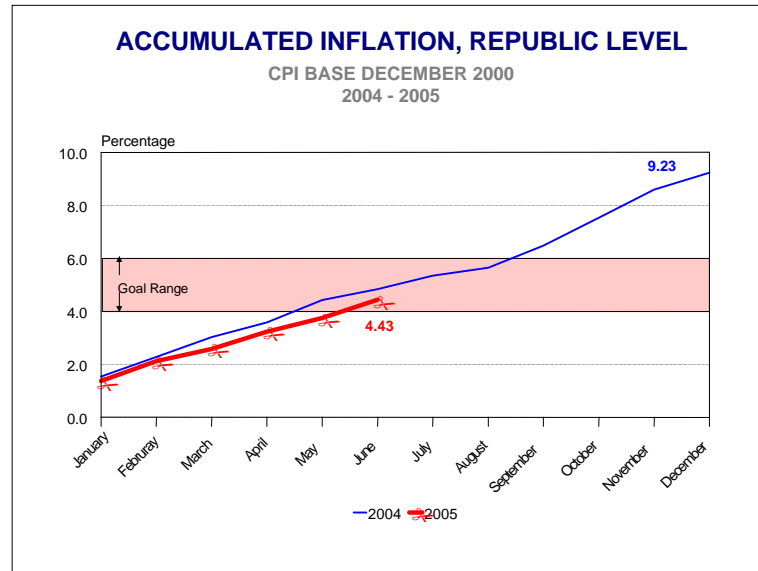
Even though in June 2005 they registered increases in a group of products of the basic food basket, they also observed decreases in other products of the basic food basket.

According to the Consumer Price Index made by INE, in the month of June 2005, in the republic and registered 0.66% inflation, higher by 0.26 percentage points to the registered on the same date in 2004.



As we have said, the rebound in the inter-monthly inflation corresponding to the month of June is a consequence of the increase of the international oil prices, explained above.

Also, the accumulated inflation to June is at 4.43%.



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28

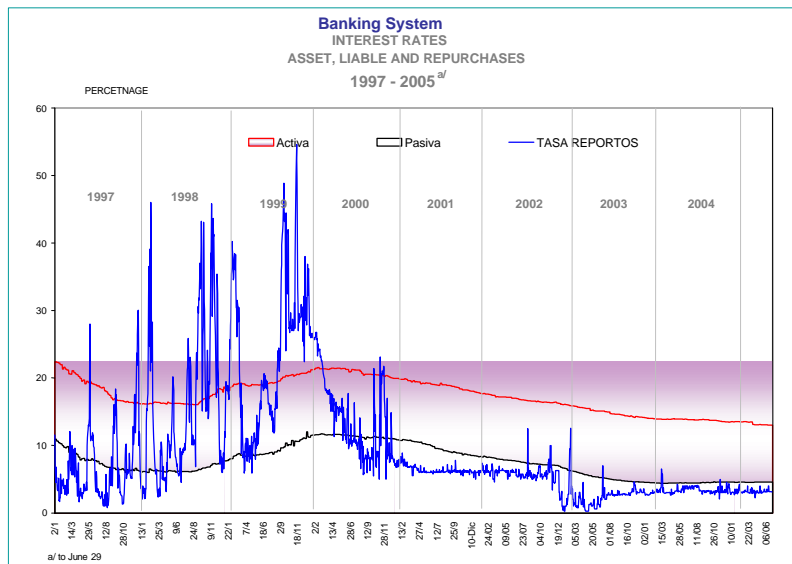
For the end of the year the inflationary rhythm will be slightly over 6%, as a consequence, mainly, as indicated, of the incidence of imported inflation, as long as the petroleum reduces its prices per barrel to similar levels of those of US\$41.0 that were taken into account for the determination of the inflation goal for the end of 2005.

B. STABLE INTEREST RATES

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29

The stability of the interest rate in the short term has been maintained since 2001.

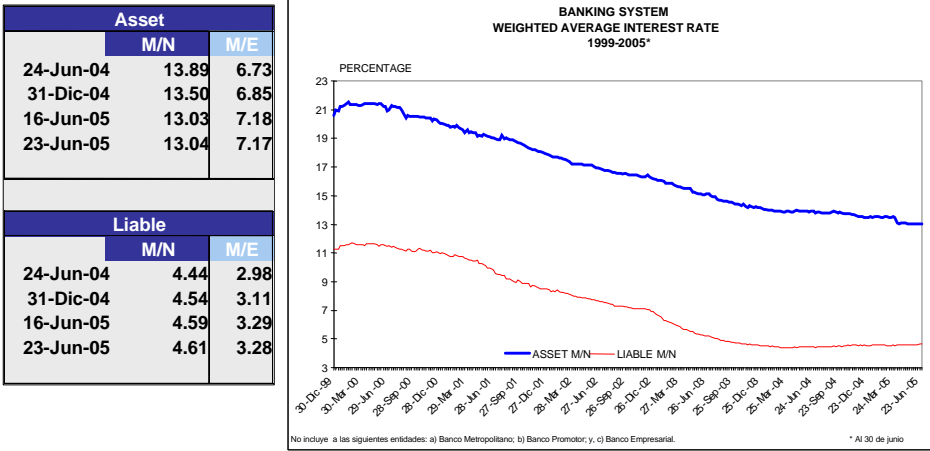


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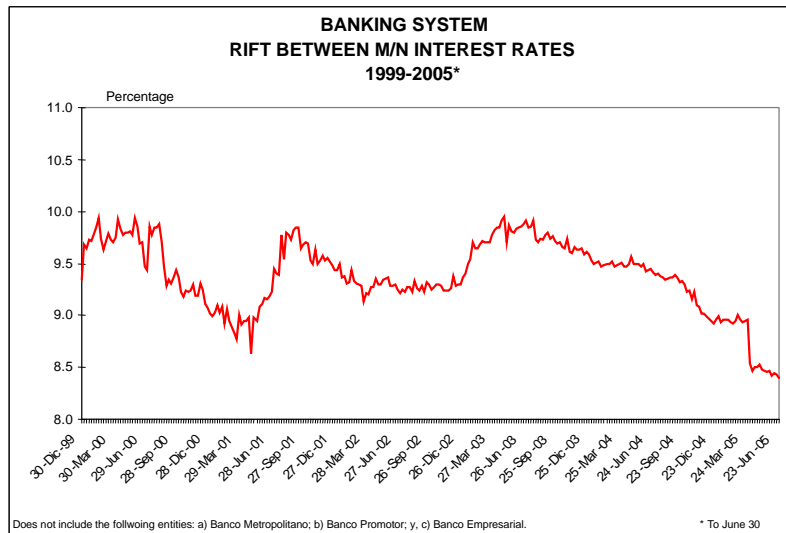
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The weighted average interest rate of the repurchase agreements operations has been stable since the first semester of 2004; on average, said rate is around 3.5%, aspect which reflects the existing liquidity in the economy.

In the banking system, the interest rate of the national currency shows a sustained tendency toward the low, even though it has decelerated since April 2004.



The rift between the asset and liable interest rate in national currency has diminished.



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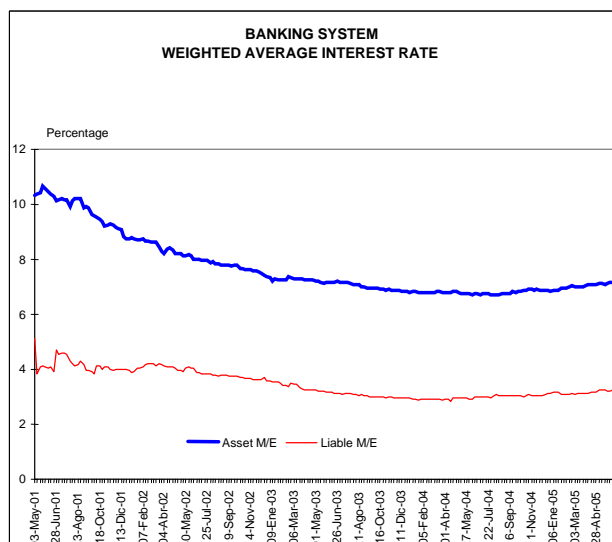
32

On the one hand, the rift between the asset and liable interest rate in national currency during the first semester of 2005 has shown a slight reduction. As a matter of fact, the rift was reduced by 0.53 percentage points, surpassing 8.96 percentage points in December 2004 to 8.43 percentage points to June 2005.

In the banking system, the interest rate of the national currency shows a sustained tendency toward the low, even though it has decelerated since April 2004.

Asset	
	M/E
24-Jun-04	6.73
31-Dec-04	6.85
16-Jun-05	7.18
23-Jun-05	7.17

Liabile	
	M/E
24-Jun-04	2.98
31-Dec-04	3.11
16-Jun-05	3.29
23-Jun-05	3.28



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34

The asset interest rate of foreign currency, weighted average, has shown an increase, when surpassing 6.85% in December 2004 at 7.17% to June 30, 2005. On its part, the liable interest rate in foreign currency, weighted average, has exhibited a slight increase, situating itself at 3.28% to June 30, 2005, which is slightly higher than the registered in December of the previous year (3.11%). The breach between the asset and liable interest rate in foreign currency has shown a slight increase during the first semester of 2005, since it increased 0.15 percentage points, surpassing 3.74 percentage points in December of 2004 at 3.89 percentage points to June of 2005.

C. EXCHANGE RATE

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33

In the long term the exchange rate remains stable.



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35

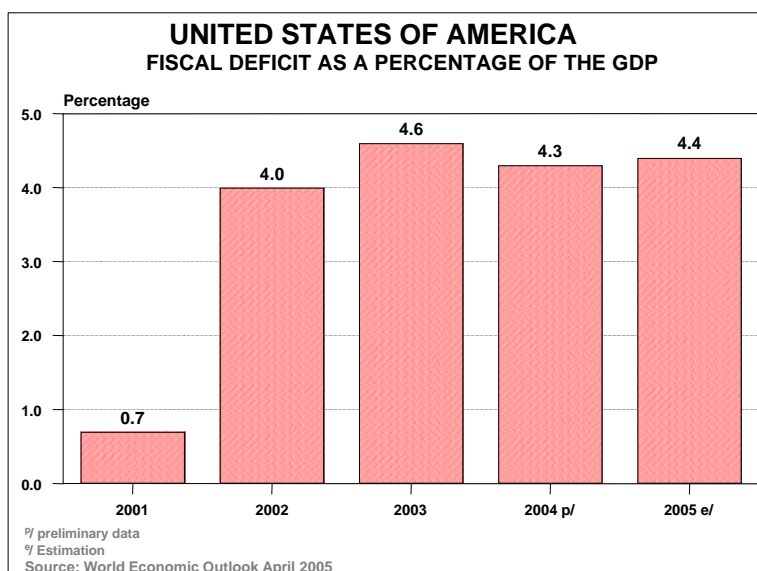
The monetary, exchange and credit policy for 2005 determines that the current exchange regimen is flexible; therefore the exchange rate is determined by the interaction between offer and demand of foreign currency in the market. In that

sense, the *Banco de Guatemala*, according to said policy, can only participate in the exchange market with the purpose of reducing the volatility in the exchange rate, as well as in the acquisition of foreign currency required by the bank itself, the central government and the other entities of the public sector, to fulfill with the external commitments.

As of April 2004, the exchange rate of the quetzal began to show nominal appreciation, which kept its tendency until the beginning of April 2005, when said behavior began to disappear given the increases in the interest rates in the United States of America, which has propitiated a lesser flow of capital to the country. Also, the internal factors have influenced in the appreciation of the referred variable, they have also started to disappear (a lesser flow in the rhythm of family remittances to the country, among others).

In the described context, to June 30, 2005 the nominal exchange rate is located at Q7.60 per US\$1.00(Q7.75 per US\$1.00 to December 2004).

THE DEPRECIATION OF THE DOLLAR IS A WORLD PHENOMENON



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36

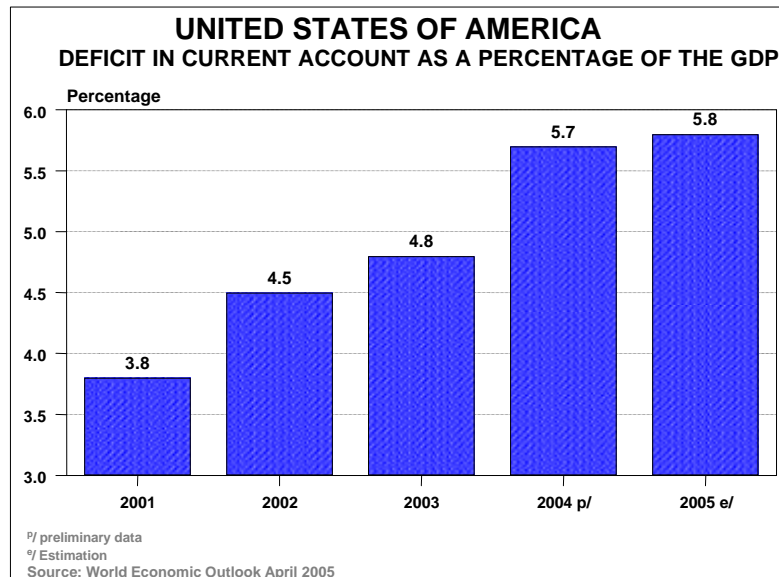
The appreciation of the quetzal registered since last year is not but a reflection of the massive flow of dollars that have inundated the financial markets, provoking the following depreciation of the American currency.

One of the reasons the increase in flow of dollars toward the international markets is in the increase in fiscal deficit of the United States of America, that have maintained levels above 4% of the GNP in the last years.

To have an idea of the magnitude of this deficit and the increase in the circulation of North American dollars in the world economy, is worth highlighting that in absolute terms, a deficit of 4% of the GNP in the United States of America, is equivalent to the formidable sum of approximately US\$400.0 billion; in other words, approximately US\$1,096.0 million daily.

We must consider that the execution ambit of the fiscal policy of the United States is not the territory of the United States, but the entire world, where the increase in the amount of circulating dollars in the national economy has generated effects of appreciation that the local currencies show around the world.

THE DEPRECIATION OF THE DOLLAR IS A WORLD PHENOMENON



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37

The growing deficit in the current account of payment balance of the United States of America has also implied an excess in circulating dollars toward the rest of the world.

In the last four years, the deficit in the current account of payment balance of the United States of America has been growing, estimating that for 2004 and 2005 a higher level than 5% of the GNP.

The previous has increased the offer of dollars regarding the demand.

The high fiscal deficits and the current account increase the expected depreciation of the dollar, therefore it reduced the demand of this currency in the international financial markets and, therefore, it elevated the relative offer of this currency in said markets.

Also, the before the danger of deflation, in 2003 the United States implemented a more expansive monetary policy, which also collaborated with the increase in the offer of dollars in international financial markets for that year and for 2004.

We esteem that the offer of dollars for the rest of the world has increased in more than 40% since 2003.

THE DEPRECIATION OF THE DOLLAR IS A WORLD PHENOMENON

COMPORTAMIENTO DEL TIPO DE CAMBIO DE ALGUNOS PAÍSES SELECCIONADOS VARIACIÓN INTERANUAL

PAÍS	Moneda	31 de diciembre de 2003	31 de diciembre de 2004	Variación % + = deprec. - = aprec.	30 de junio de 2004	30 de junio de 2005	Variación % + = deprec. - = aprec.
República Dominicana	Peso	35.95	28.50	-20.72	45.00	28.35	-37.00
Brasil	Real	2.89	2.66	-7.96	3.09	2.33	-24.60
Colombia	Peso	2,780.00	2,354.75	-15.30	2,693.20	2,354.75	-12.57
Rumanía	Leu	32,596.03	29,282.48	-10.17	33,473.00	29,866.00	-10.78
Corea del Sur	Won	1,192.10	1,035.10	-13.17	1,155.45	1,034.50	-10.47
Polonia	Zloty	3.73	3.01	-19.34	3.69	3.34	-9.49
Chile	Peso	592.75	555.75	-6.24	636.00	577.75	-9.16
Canadá	Dólar	1.30	1.20	-7.33	1.33	1.23	-7.52
Euro	Euro	0.79	0.74	-7.08	0.79	0.74	-7.08
Inglaterra	Libra	0.56	0.52	-6.90	0.56	0.52	-6.90
México	Peso	11.23	11.15	-0.73	11.49	10.75	-6.44
Perú	Nuevo Sol	3.46	3.28	-5.20	3.47	3.25	-6.34
República Checa	Corona	25.71	22.42	-12.78	26.17	24.85	-5.04
Slovakia	Corona	32.67	28.58	-12.53	32.69	31.69	-3.06
Hungría	Fiorint	208.70	181.02	-13.26	205.61	204.04	-0.76
Japón	Yen	107.22	102.63	-4.28	108.77	110.92	1.98
Sudáfrica	Rand	6.68	5.67	-15.25	6.14	6.65	8.31
Haití	Gourde	40.00	36.00	-10.00	32.35	39.40	21.79

Fuente: Bloomberg

(Behavior of the exchange rate in some chosen countries. Inter-annual variation.)

The massive exit of United States dollars to the rest of the world has been the fundamental reason why the majority of countries have registered the appreciation of its currencies, as a balancing entry.

THE DEPRECIATION OF THE DOLLAR IS A WORLD PHENOMENON

RESERVAS MONETARIAS INTERNACIONALES							
En Millones de Dólares de Estados Unidos de América							
PAIS	2003	2004	2005	Variaciones 2004-2003		Variaciones 2005-2004	
				absoluta	relativa	absoluta	relativa
AMERICA DEL SUR				17,740.6		18,892.3	
Uruguay	2,086.7	2,512.1	2,168.0	u/	425.4	20.4	-344.1
Colombia	10,783.9	13,196.6	13,641.8	g/	2,412.7	22.4	445.2
Brasil	49,254.0	52,937.0	59,897.0	u/	3,683.0	7.5	6,960.0
Chile	15,851.2	16,016.0	17,258.8	d/	164.8	1.0	1,242.8
Argentina	14,153.4	19,310.0	22,997.9	u/	5,156.6	36.4	3,687.9
Ecuador	1,160.4	1,437.3	1,665.2	u/	276.9	23.9	217.9
Bolivia	976.8	1,123.3	1,102.9	u/	147.5	15.1	-20.4
Paraguay	968.9	1,167.6	1,245.6	b/	198.7	20.5	78.0
Perú	10,206.0	12,649.0	14,005.0	u/	2,443.0	23.9	1,356.0
Venezuela	20,666.0	23,498.0	26,767.0	h/	2,832.0	13.7	5,269.0
OTROS PAISES				517,406.3		78,001.1	
República Dominicana	123.6	602.2	1,174.3	g/	478.6	387.2	572.1
México	59,058.9	64,233.4	60,655.0	u/	5,174.5	8.8	-3,578.4
Eurozona	346,712.8	362,836.9	373,778.8	b/	16,124.1	4.7	10,941.9
China	403,251.0	609,932.0	659,144.0	a/	206,681.0	51.3	49,212.0
India	103,151.0	131,178.0	139,566.0	e/	28,027.0	27.2	8,388.0
Japón	673,529.0	844,543.0	842,468.0	e/	171,014.0	25.4	-2,075.0
Corea del Sur	155,352.4	199,066.1	206,100.0	e/	43,713.7	28.1	7,033.9
Indonesia	36,295.7	36,320.5	34,378.8	h/	24.8	0.1	-1,941.7
Malasia	44,208.2	66,209.3	73,738.2	b/	22,001.1	49.8	7,528.9
Singapur	96,324.0	112,807.5	116,004.3	e/	16,483.5	17.1	3,196.8
Tailandia	42,147.7	49,831.7	48,554.3	e/	7,684.0	18.2	-1,277.4
Reino Unido	20,602.8	26,275.9	31,875.0	e/	5,673.1	27.5	5,599.1
Slovakia	11,678.1	14,417.5	15,620.0	g/	2,145.8	23.5	1,202.5
Hungría	12,749.0	15,920.0	17,499.0	e/	3,171.0	24.9	1,579.0
Canadá	36,223.0	34,419.0	34,488.0	h/	-1,804.0	-5.0	69.0

Fuente: Bancos Centrales.

a/ Datos a marzo, b/ Datos a abril, c/ Datos a mayo, d/ Datos al 15 de junio, e/ Datos al 17 de junio,

f/ Datos al 21 de junio, g/ Datos al 22 de junio, h/ Datos al 23 de junio, i/ Datos al 24 de junio, j/ Datos al 27 de junio.

(International monetary reserves, in million of US dollars)

The Central Banks in the majority of countries have decided to participate in the exchange market buying dollars (increasing its International Monetary Reserves) with the purpose of moderating the appreciation effects.

ACTIONS IN EXCHANGE MATTERS

- ✓ The *Banco de Guatemala*, according to the current Monetary, Exchange and Credit Policy, in order to avoid the volatility in the nominal exchange rate has participated in the exchange market buying foreign currency in the January to July 2005 period.
- ✓ The interventions of the *Banco de Guatemala* have been made in the prudent frame of the monetary policy, without it affecting the exchange rate tendency.
- ✓ Additionally, the Banco de Guatemala has adopted, as a participation mechanism, fund raising through the placement of CDPs expressed in US dollars.

In exchange matters, the *Banco de Guatemala* has acted in the same manner as the central banks of other countries that face massive influx of dollars.

The previous having been said in the setting of the current monetary policy approved by the Monetary Board that establishes that 'the *Banco de Guatemala* will respect the trajectory of the exchange rate market and will limit itself to participating in the exchange market, in order to avoid volatility.'

Reducing exchange volatility is of the interest of the monetary policy because and excessive volatility has negative effects on the assigning of resources and in negotiation plans of businesses.

On the other hand, an excessive exchange appreciation regarding the US dollar (because it deals with our main commercial partner) can have negative effects on the deficit of the current account of payment balance and cause damage to the exportation apparatus toward the United States.

However, it is important to mention that, at the same time that an appreciation has been produced regarding the dollar, the quetzal has depreciated regarding other currencies that have been more affected by the world phenomenon of the

depreciation of the dollar. For example, since June 2002 the quetzal has depreciated more than 31% regarding the Euro, and more than 24% regarding the Sterling Pound and more than 12% regarding the Yen.

BANCO DE GUATEMALA PARTICIPATION IN THE SINEDI Millions of US\$						
Periodo			NET		TOTAL MARKET	
	Compras	Ventas	Compras	Ventas	COMPRAS	VENTAS
1994	130.9	85.9	45.0		4,819.2	4,702.6
1995	62.5	82.0		19.5	7,212.9	7,199.5
1996	180.3	86.0	94.3		8,366.0	8,346.1
1997	62.8	265.51		202.7	11,268.9	11,269.7
1998	2.5	587.9		585.4	13,966.0	13,978.0
1999	---	435.5		435.5	12,999.0	13,010.0
2000	536.5	52.8	483.7		15,076.0	15,073.0
2001	2.2	23.7		21.5	15,330.0	15,278.0
2002	70.3	0.0	70.3		14,163.0	14,118.0
2003	0.0	9.8		9.8	12,969.4	12,867.9
2004	449.2	0.0	449.2		13,970.9	14,294.7
2005 ^{a/}	81.8	0.0	346.6		7,431.8 ^{b/}	7,724.6

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^{a/} To June 30.

^{b/} To June 30.

41

The participation of the *Banco de Guatemala* in the exchange market purchasing currency in the January-July 2005 period ascends to US\$346.6 million.

Said amount is considered moderate, especially if it is compared with the total amounts of purchase and sales in the institutional markets of currency that to June 30 was around US\$7,500.0 million.

OTHER ACTIONS FOR MODERATING THE EFFECT OF CAPITAL INFLOW

- ✓ Fiscal support: the fiscal discipline keeps the domestic interest rate under control, making them less attractive for the external capital.
- ✓ Futures markets: soften the exchange effects reducing costs for the exporters. *Banguat* is evaluating its participation and/or promote that market.
- ✓ Promote the productivity: ideal mechanism for the improvement of competitiveness. It includes the maintenance of the stability of internal prices.
- ✓ International adjustment: The monetary and (more slowly) fiscal policies of the United States are being corrected. Guatemala has asked the FMI (in G-24) to watch and propitiate the correction of the lack of balance in the world economy.

To successfully face the effects of the massive flows of capital toward the country requires action in different environments of public policy.

The maintenance of domestic interest rates at sustainable and relatively low levels depends on the prevalent macro-economic disciplines, especially to maintain a healthy fiscal policy.

On the other hand, the private sector must resort to more intense exchange cover through measures in the future that are already available in the stock exchange system of the country. The *Banco de Guatemala* is evaluating the pertinence of participating directly in this market or of promoting private participation in it.

Promoting productivity, propitiated by public policies as well as by private decisions, must also be a fundamental stone for the permanent improvement of the competitiveness of the country and substantially counteracting the negative exchange effects of the capital flows.

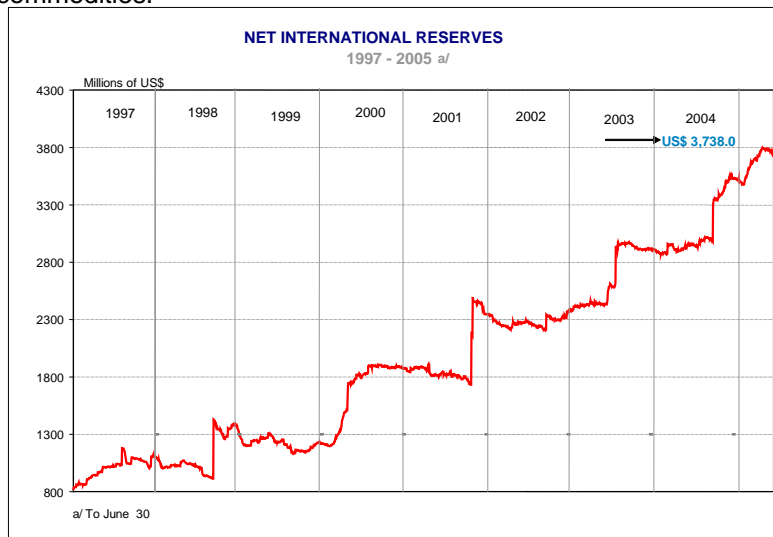
Finally, the recent monetary measures applied in the United States, as well as the announced fiscal adjustment, will contribute to reducing the excess dollars in the international markets.

D. INTERNATIONAL MONETARY RESERVES

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43

To June 30 the net international monetary reserves were located at US\$3,738.0 million. Representing 5.3 months of imported commodities.



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44

To June 30 the net international monetary reserves were located at US\$3,738.0 million, amount above US\$210.0 million at the registered level to December 31, 2004. It is worth mentioning that said amount represents around 5.2 months of goods importations, aspect that evidences an external solid and favorable

position. The solidity of the external position of the country can also be measured through the coverage of the external public debt. In that sense, to June 30, 2005, the level of RIN was equivalent to 5.3 times the service amount of the service of the external public debt for a year (4.8 times to June 30, 2004).

E. OPEN MARKET OPERATIONS

PRINCIPAL INSTRUMENT OF STABILIZATION

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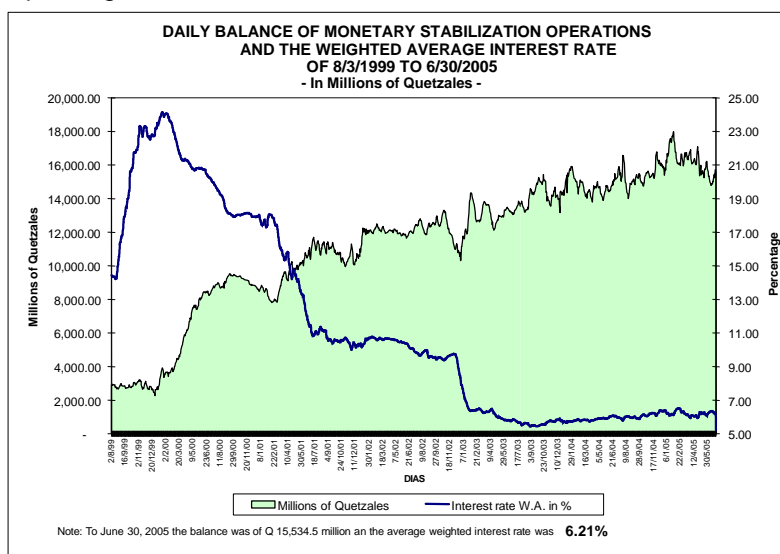
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Currently, the majority of modern central banks, acting in the presence of a flexible exchange rate regimen, has experimented the advantages that offers the use of the operations of the open market as an instrument to moderate the level of liquidity, in contrast with the limitations and undesired collateral effects (distortions in the money market and in the financial intermediation) that mean the use of other instruments of monetary control. Those are, the open market operations have been converted one of the instruments of frequent use of the monetary policy, not only in the developed countries, but also in the developing countries, in virtue of the fact that they have, among others, the following advantages:

a) It is a very flexible instrument that allows the central bank to purchase or sell values for the necessary amount to expand and contract the quantity of the primary money quickly, according to the needs of a monetary program;

- b) Its use depends directly on the Central Bank, which contributes to its deciding when and which moment to induce changes in the monetary offer, according to the monetary program:
- c) They can be used opportunely, which allows counteracting unforeseen movements of liquidity;
- d) They are voluntary character transactions, that when they do not have an element of grievance as the case of banking float, allow a distribution of more adequate costs;
- e) The costs of placement are more transparent regarding other instruments; and,
- f) They provide clear signals to the market regarding the level and direction that the interest rates must lead according to the objectives and goals of the monetary policy.

In the January to June of 2005 period, the balance of the OMAs was maintained around Q15.5 billion. Its interest rate decreased, when surpassing 6.32% in December 2004 to 6.21% to June of 2004.

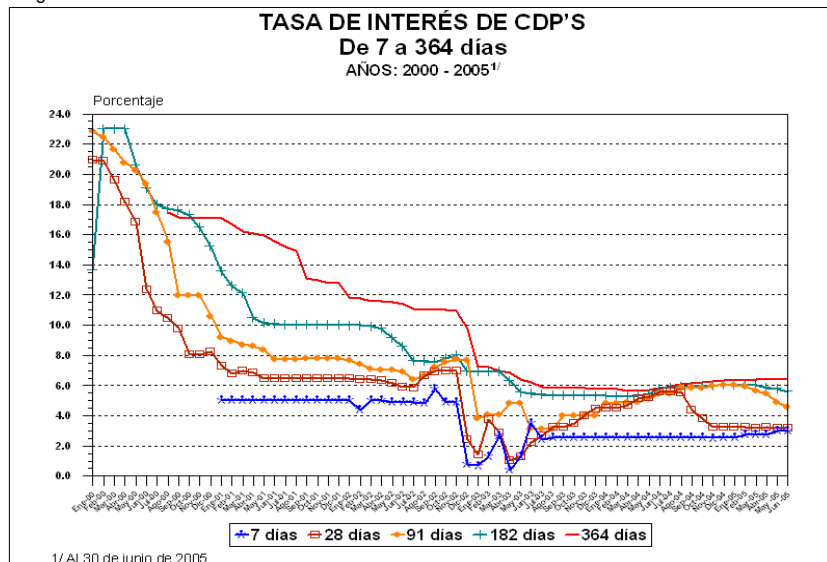


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46

The operations balance of the open market has been reduced gradually in the period between January and June of 2005, in a stable environment of the weighted average interest rate.

In order to restrain the excess of primary issue in the economy, the adjustments in the interest rate have been gradual.

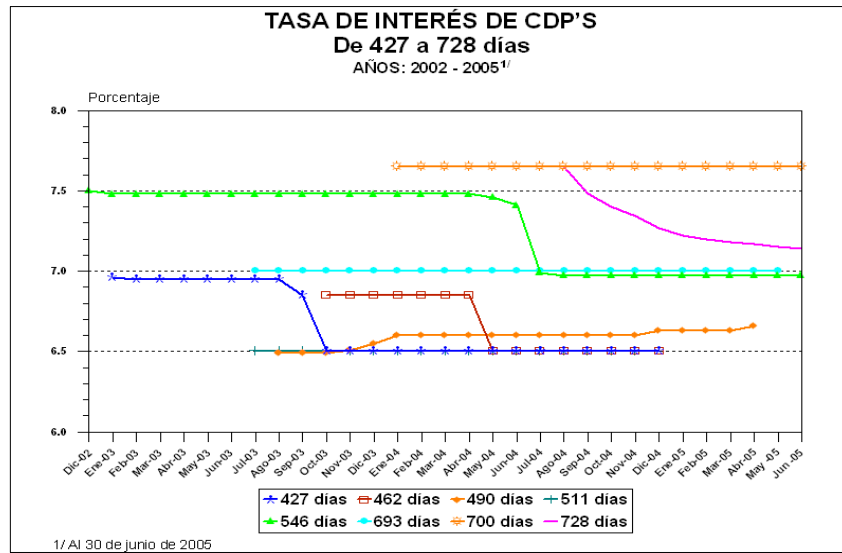


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(Interest rate of the LTD's, years 2000-2005)

The leading interest rate of the monetary policy (7 day-term) has had two increases in the first trimester of 2005, the rest of the rate practically have not registered variation, except in the 91 day-term.

The stability has allowed the central bank to make longer term market certificates available.



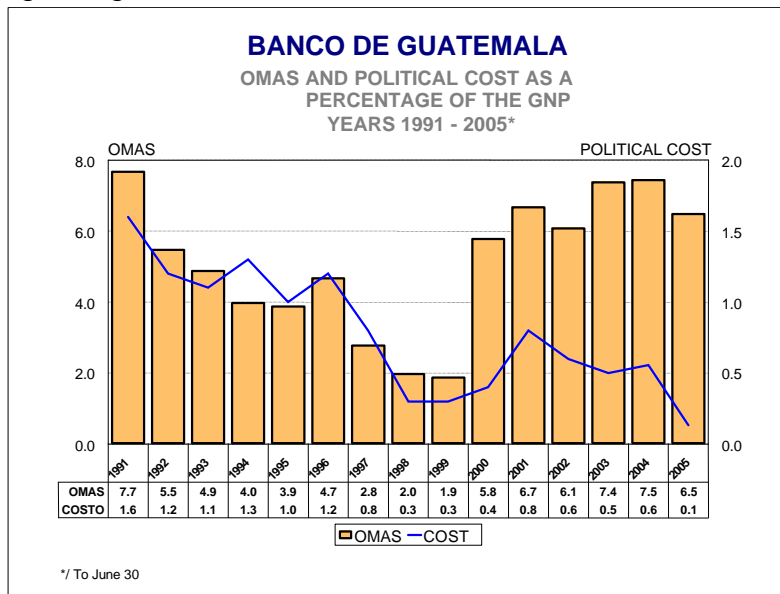
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48

(Interest rates of LTD's from 427-728 day terms from 2002 to 2005)

The interest rates for long terms did not vary during the semester either, except the 728 day term.

The cost of the policy is maintained at levels of 0.1% regarding the GNP.



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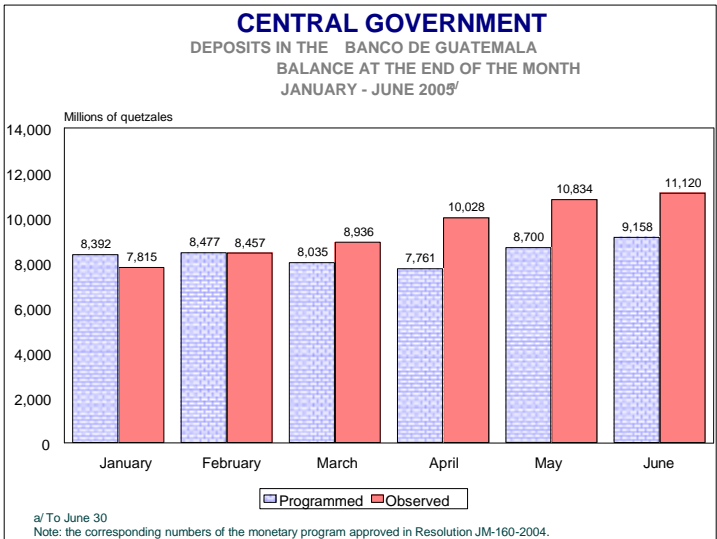
49

For the end of 2005, they expect the cost of the monetary policy as a percentage of the GNP will not surpass 0.3%.

F. DEPOSITS OF THE CENTRAL
GOVERNMENT
FUNDAMENTAL SUPPORT OF THE
FISCAL POLICY TO THE STABILITY

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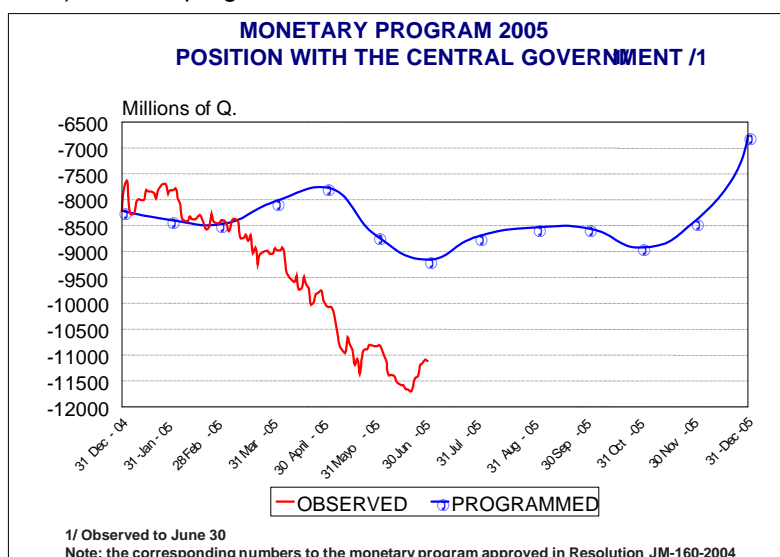
The support of the fiscal policy to the monetary policy is evidenced in the amount of deposits of the central government in the *Banco de Guatemala*, surpassing the programmed amount.



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The government has been increasing its deposits in the *Banco de Guatemala*. Effectively, from January to June of the current year the Central Government has increased its deposits to around Q3, 300.0 million, which contrasts with the programmed increase by approximately Q750.0 million.

The support of the fiscal policy to the monetary policy is evidenced in the position (level of deposits of the central government in the Central Bank) over the programmed.



52

To June 30, of 2005, the level of deposits of the Central Government in the *Banco de Guatemala* was approximately Q11, 000.0 million, amount over by about Q1, 900.0 to the programmed.

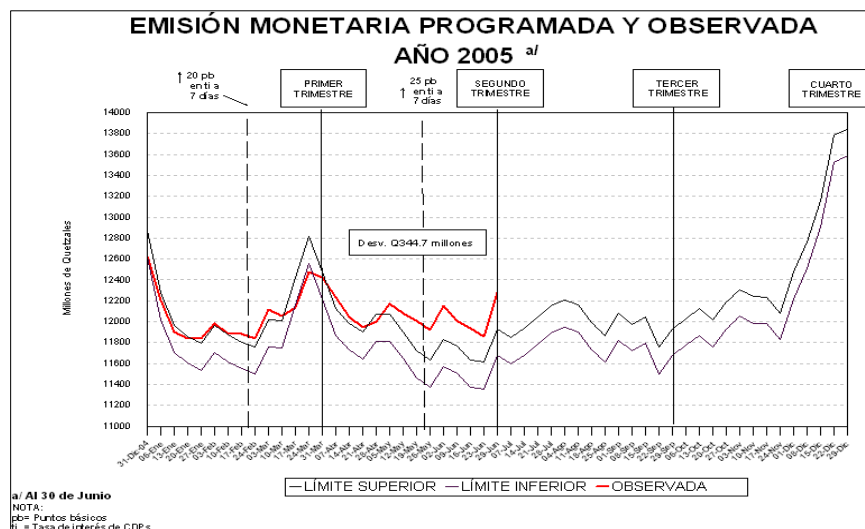
G. MONETARY ISSUE

MONEY IN PUBLIC POWER

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During the second trimester of 2005, in general, the trajectory of the monetary issue was kept above the higher limit of the programmed lobby.



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54

(Programmed and observed monetary issue, 2005)

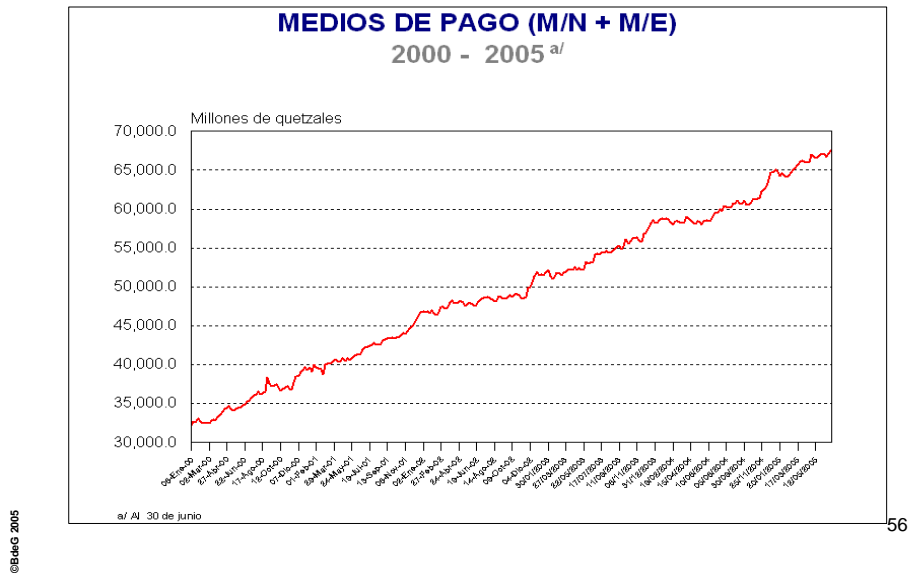
During the first trimester, in general, but especially during the second trimester, the trajectory of the monetary issue was maintained above the upper limit of the programmed lobby. In that sense, the Execution Committee of the *Banco de Guatemala* considered it prudent to take measures of adjustment through monetary, therefore, with the main purpose of avoiding the rise in the prices derived from the increase in the international oil prices which will infect all the sectors of the economy; to abate the inflationary expectations; and, at the same time, to contribute to the gradual elimination of the excess existent in the offer of the monetary issue, it resolved to increase the leading interest rate in the stabilization operations on two occasions. The interest rate of the LTDs for a 7 day-term was adjusted in the following manner:

? On february18 from 2.55% to 2.75%

? On May 20 from 2.75% to 3.00%

H. PAYMENT MEANS AND CREDIT TO THE PRIVATE SECTOR

To June of 2005 the payment means registered inter-annual growth of 13.6%. Said percentage is found within the estimated runner for June 30 of said variable (13.1%-15.1%).

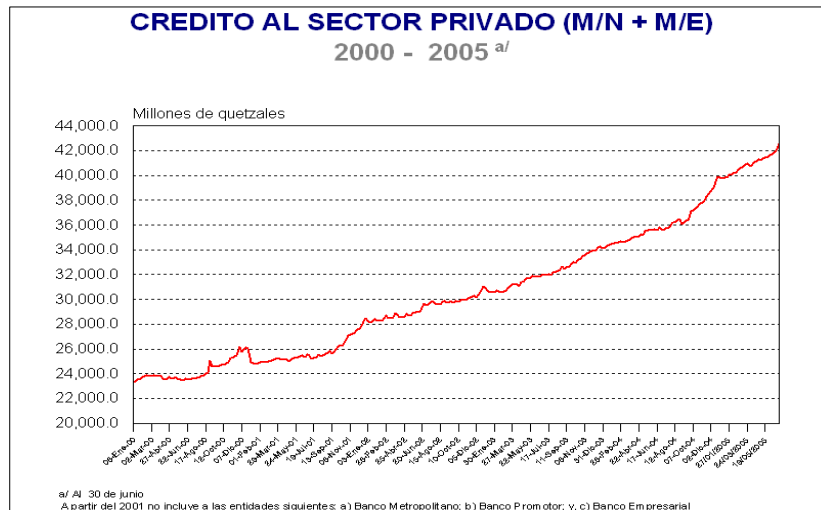


56

(Means of Payment)

In the Monetary, Exchange and Credit Policy for 2005 they estimated, according to the economic activity growth, with the inflation goal and with the speed of money circulation, the total payment means (M2) to the month of December will grow between 10% and 12%, in the inter-annual terms. To June 30, the total payment means (local currency and foreign currency) corresponding to M2 reached a level of Q67, 634.5 million, which represents growth, in inter-annual terms, of 13.6%. Said percentage, although higher than the range forecast for December in the current monetary policy, is located within the estimated runner for this variable to June 30, 2005.

To June 2005, the interannual banking credit growth rate to the private sector was located at 19.3%, within the estimated runner for June 30, 2005 (17.4%-19.4%).



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57

(Credit to the Private Sector)

In the Monetary, Exchange and Credit Policy for 2005, they estimated that, consistent with the payment means growth, with the inflation goal and with the expected economic growth, the banking credit to the private sector reaches an inter-annual growth rate of between 11.5% and 13.5%.

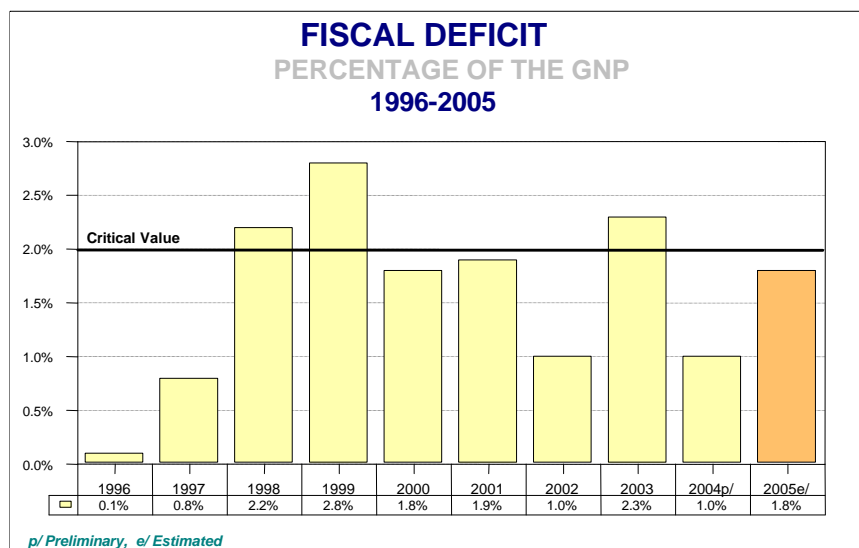
To June 30 of 2005, the total banking credit to the private sector was at Q42, 564.7 million, registering an inter-annual growth rate of 19.3%, which even though it is above the estimated range for the end of the year; it is still located within the estimated run to June 30, 2005 (17.4% - 19.4%).

V. PERSPECTIVES FOR 2005

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58

A. IN THE FISCAL SECTOR

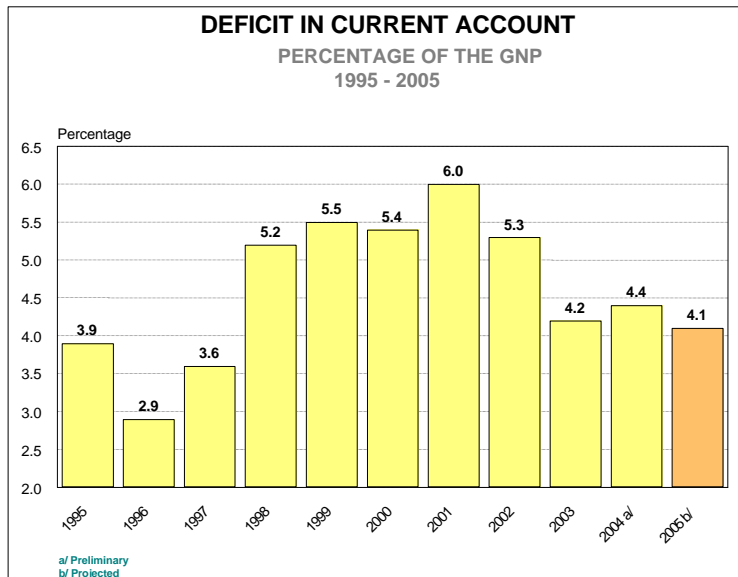


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59

Given the behavior of the budget execution of the first semester of 2005, we expect that the fiscal deficit regarding the GNP will not be over 1.8% for the end of the year.

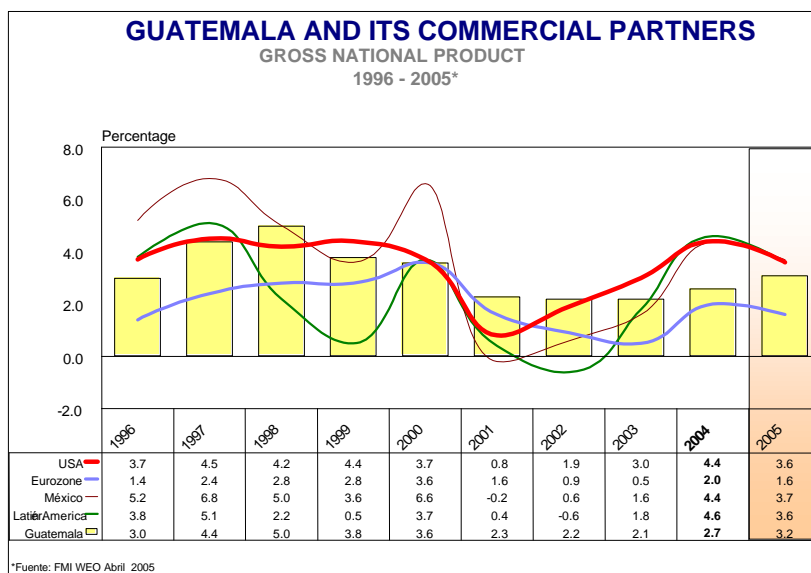
B. IN THE EXTERNAL SECTOR



60

From 2001, the current account deficit as a percentage of the GNP has decreased persistently, to an estimated 4.1% for 2005.

C. IN THE REAL SECTOR



61

VI. CONCLUSIONS

A. During the first semester of 2005, notwithstanding the increase of the oil prices, the inflationary rhythm has gradually decelerated, as a consequence of the application of the monetary policy and fiscal disciplines.

B. The *Banco de Guatemala* will continue to watch in order to preserve conditions of macro economic stability in the country and will remain vigilant of the behavior of the level of prices and the expectations surrounding them, taking into consideration any adjustment (which could be rise or decrease) in the leading interest rate of the OMAs in the near future, it will work, among other factors, the evolution of the second semester on three fundamental aspects:

- ✓ The evolution of the international oil prices and their impact on domestic inflation;
- ✓ The success of the fiscal policy in keeping the fiscal deficit below 1.8% of the GDP; and,
- ✓ The behavior of the international interest rates, which are forecast can increase more in the second semester of the year.

¡Thank you for your attention!!

**REPORT OF THE
PRESIDENT OF THE BANCO
DE GUATEMALA BEFORE
THE CONGRESS OF THE
REPUBLIC**

Guatemala, July 14, 2005