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

Guatemala, July 25, 2006

I. LEGAL BASE

Article 60. Report to the Congress of the Republic. The President of the *Banco de Guatemala* should appear to render the circumstantial report before the Congress of the Republic, within the months of January and July each year.

In the month of July, account must be rendered of the execution of the Monetary, Exchange Rate and Credit Policy in the current year.

II. MONETARY SCHEME OF EXPLICIT INFLATION GOALS

The Monetary, Exchange Rate and Credit Policy for 2006 is framed within a process of adoption of a modern monetary scheme of explicit inflation goals, within the framework of the Organic Law of the *Banco de Guatemala*.

III. FUNDAMENTAL OBJECTIVE AND POLICY GOAL

A. FUNDAMENTAL OBJECTIVE

- Congruent with the mission that corresponds to the *Banco de Guatemala*, the fundamental objective of the Monetary, Exchange Rate and Credit Policy for 2006 is to create and maintain the most favorable conditions possible for the orderly development of the national economy, for which it will propitiate through monetary, exchange rate and credit policy conditions that promote stability in the general level of prices.

  In support of achieving the fundamental objective, and with the purpose that in the mid-term the domestic inflation converges toward the observed levels in the industrialized economies, the application of the monetary policy should be complemented by actions in financial modernization and fiscal balance consolidation ambits, in the framework of an integral and sustainable economic policy that propitiates competitivity and efficiency within the productive sector.

III. FUNDAMENTAL AND POLICY GOAL OBJECTIVE

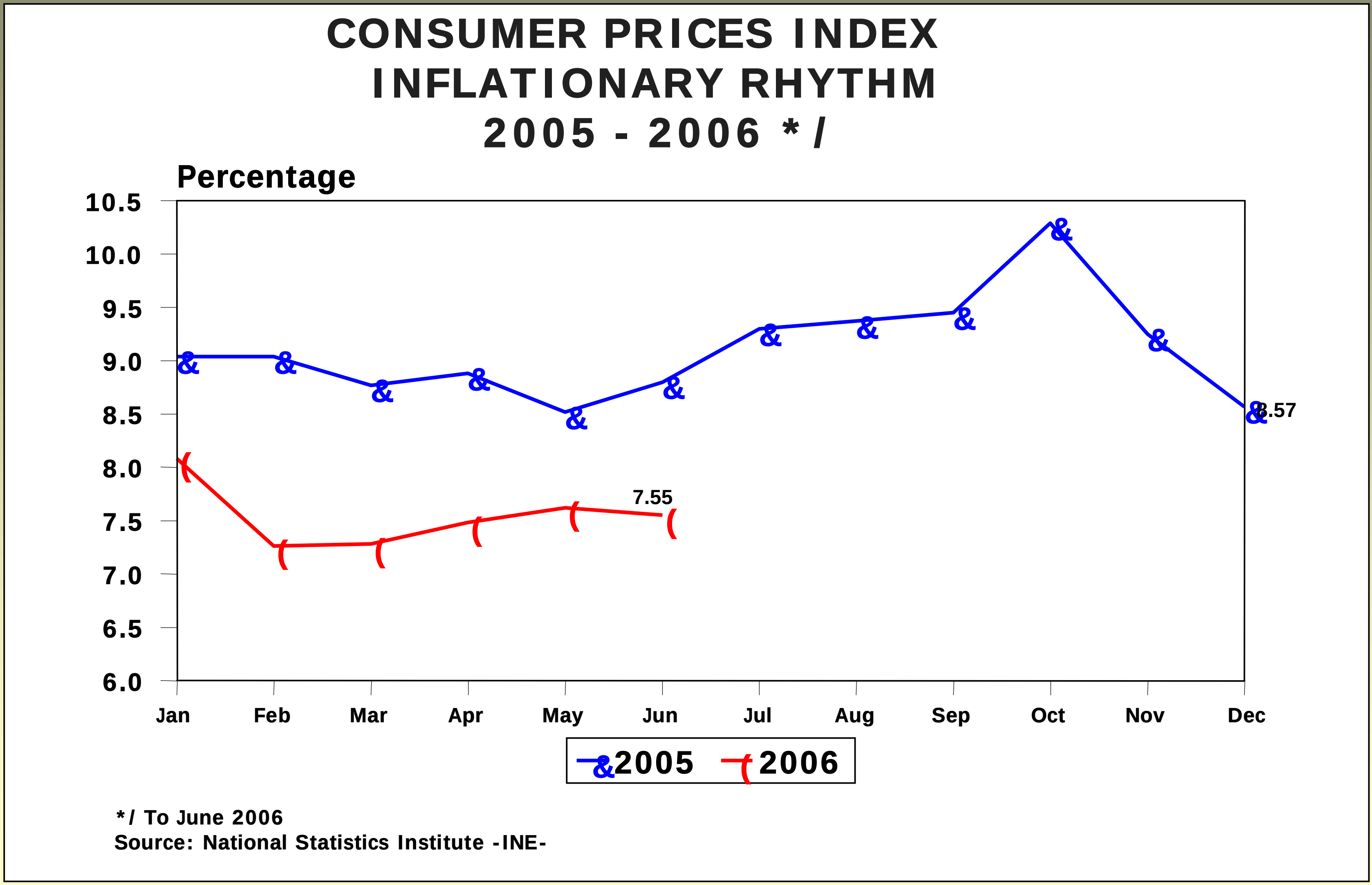
B. POLICY GOAL

- Ø For December 2006 the inflationary rhythm, measured by the inter-annual variation of the Consumer Price Index-IPC, for its acronym in Spanish-, must be at 6% +/- 1 percentage point and for December 2007 said rhythm should be at 5% +/- 1 percentage point.

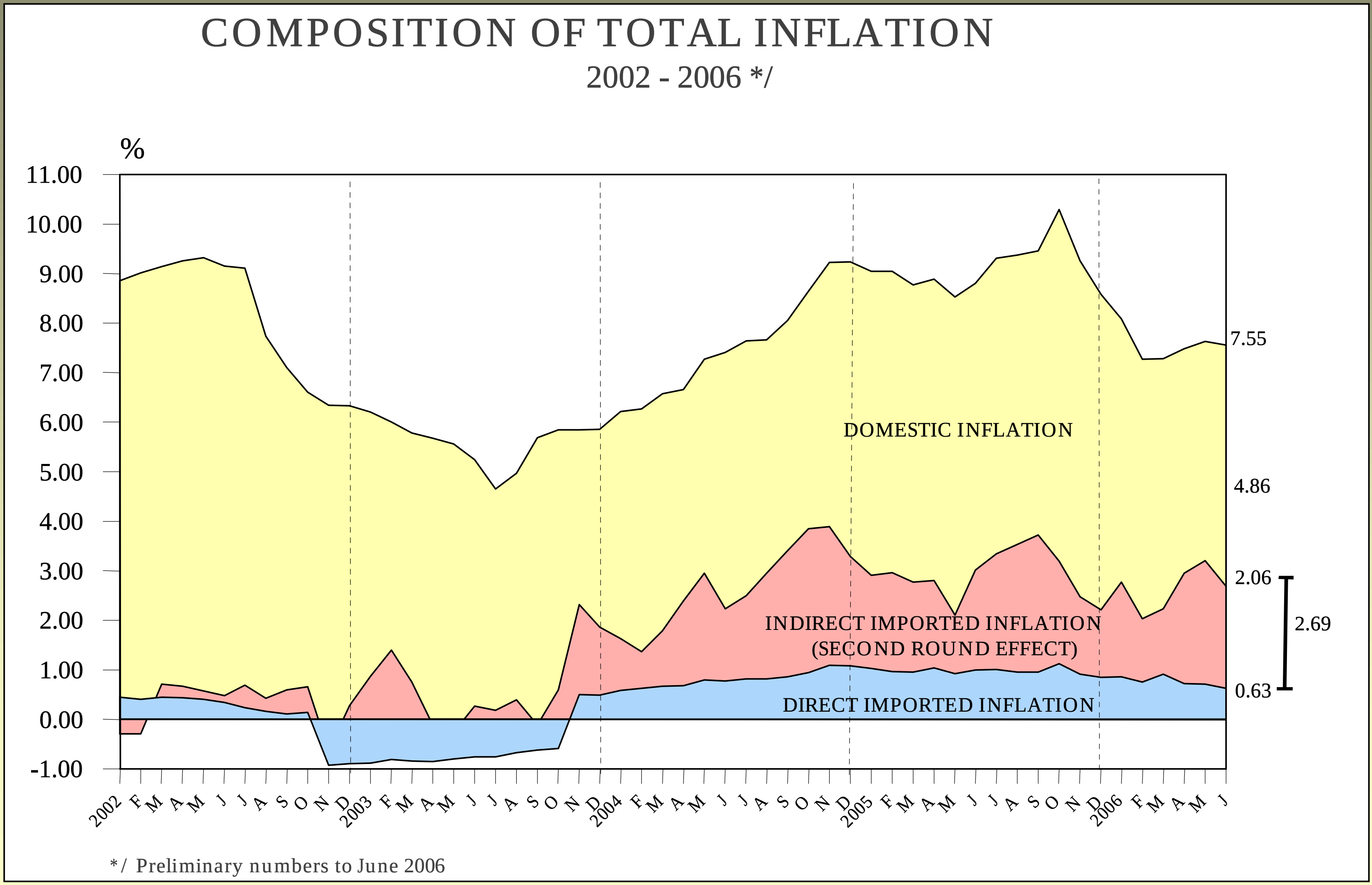
IV. EXECUTION FOR THE MONETARY, EXCHANGE RATE AND CREDIT POLICY IN THE CURRENT YEAR

A. STABILITY IN THE GENERAL LEVEL OF PRICES

According to the Consumer Prices Index -IPC- made by INE, to June 30, 2006, the entire Republic registered an inflationary rhythm of 7.55%.

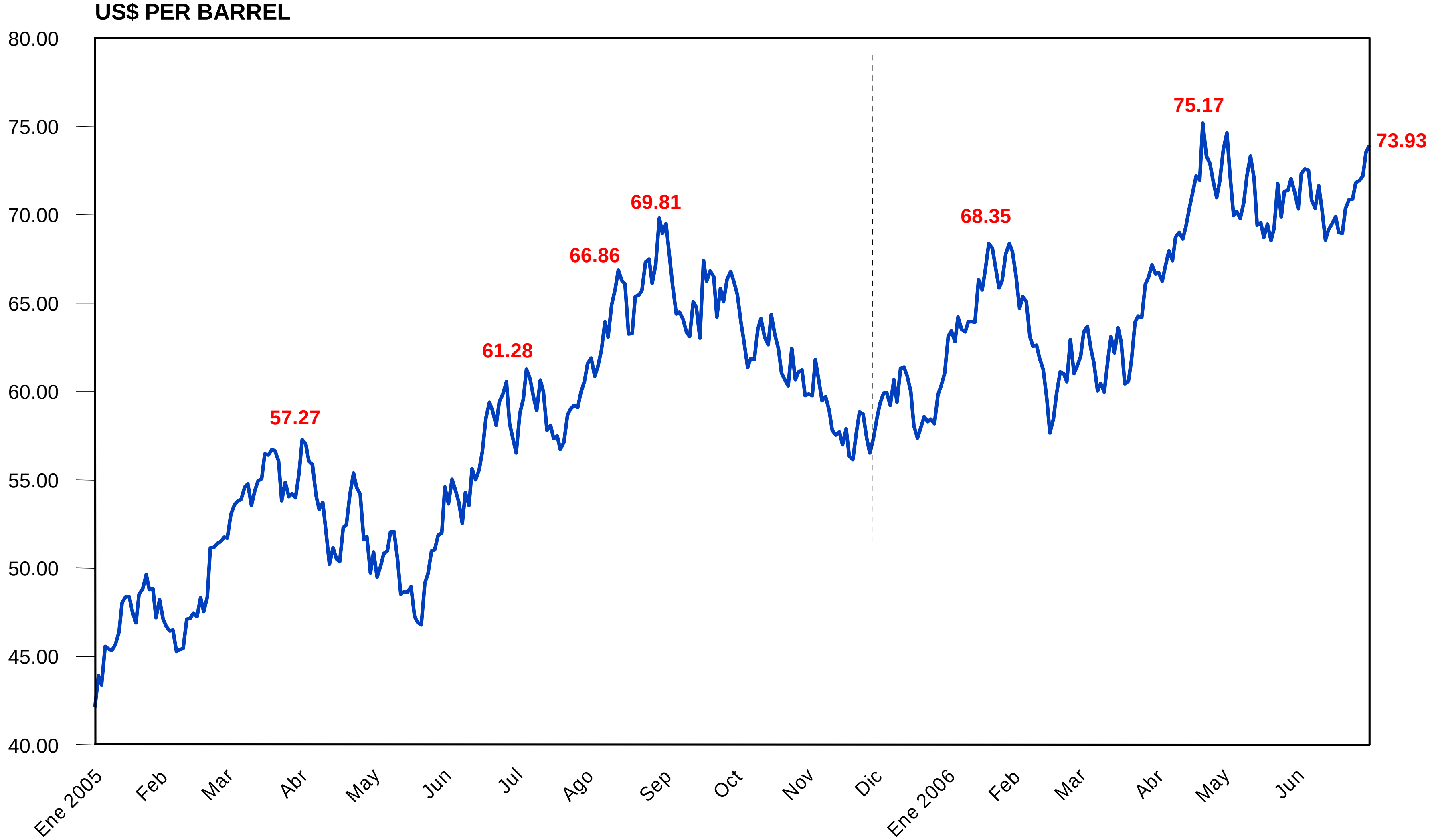


Of the total inflation of 7.55% registered to June 2006, domestic inflation has a participation of 4.86 percentage points and imported inflation has 2.69 percentage points.



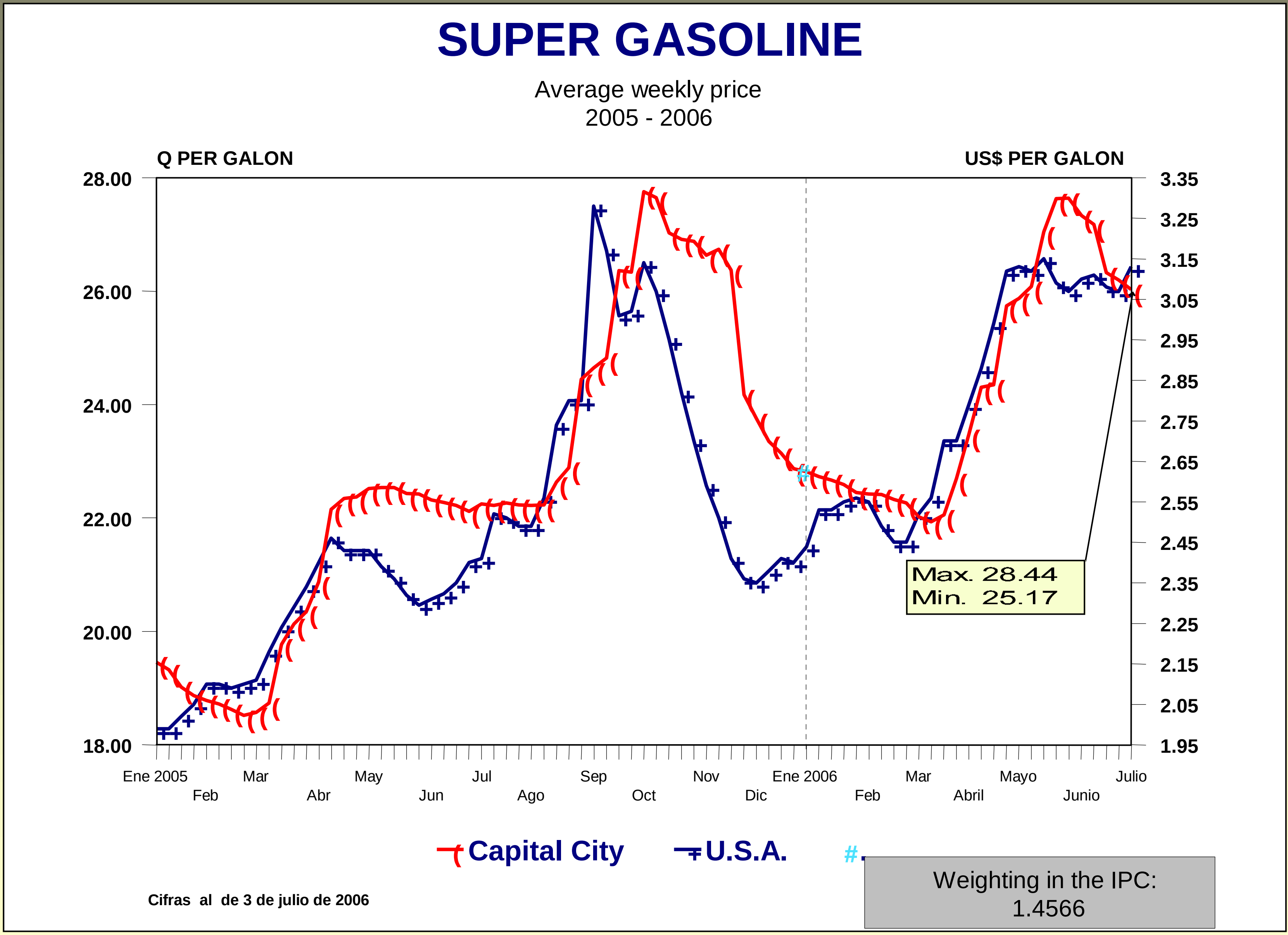
PETROLEUM

NEW YORK STOCK EXCHANGE (NYMEX)
FIRST FUTURES POSITION
FROM JANUARY 1, 2005 TO JUNE 30, 2006

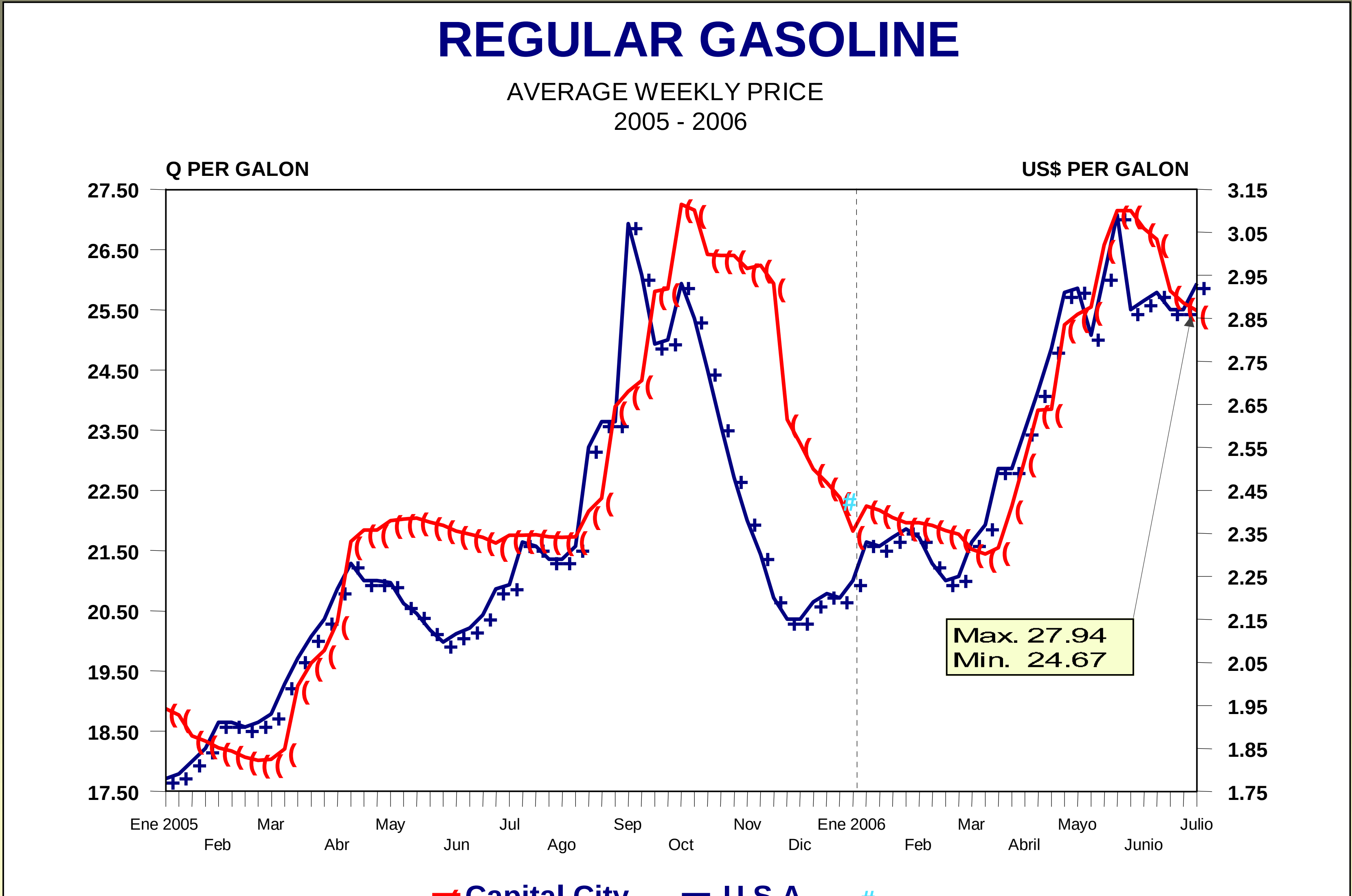


Source: Bloomberg.

For each 10% increase in the price of super gasoline, the IPC varies 0.15 percentage points.



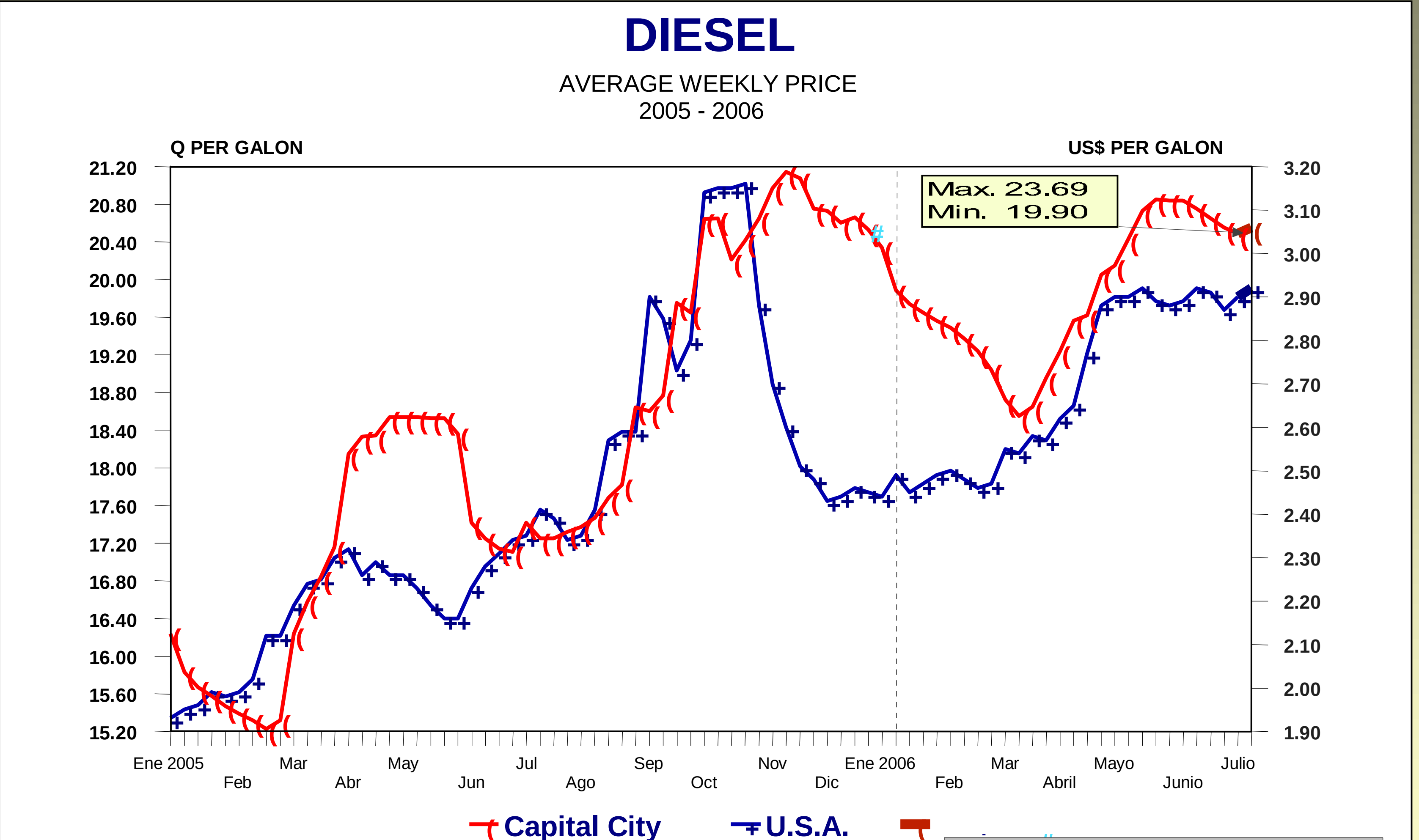
For each 10% increase in the price of regular gasoline, the IPC varies 0.05 percentage points.



Cifras al de 3 de julio de 2006

Weighting in the IPC: 0.5898

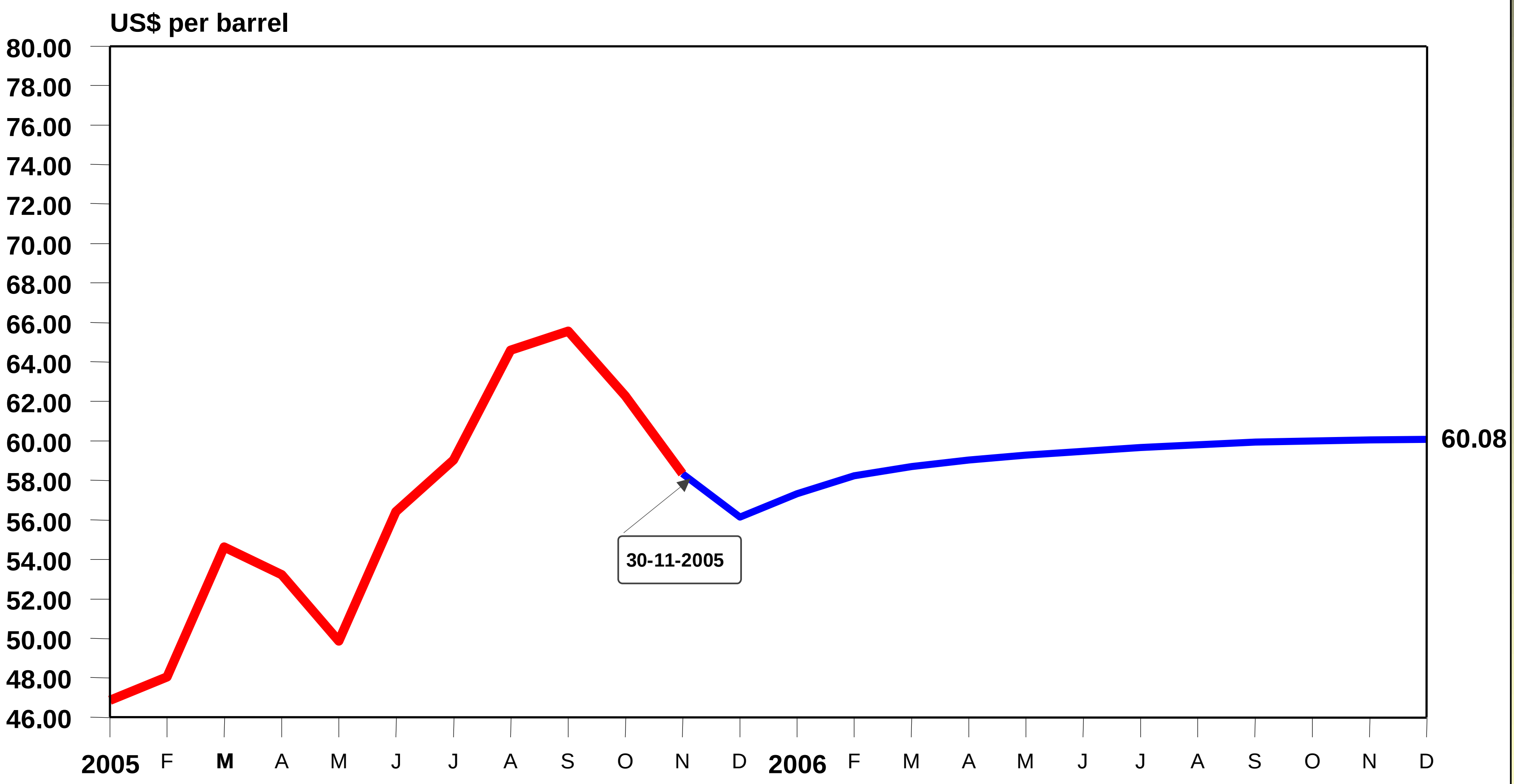
The impact of the price of diesel in the IPC is indirect.



Diesel is not quoted in the IPC.

PETROLEUM

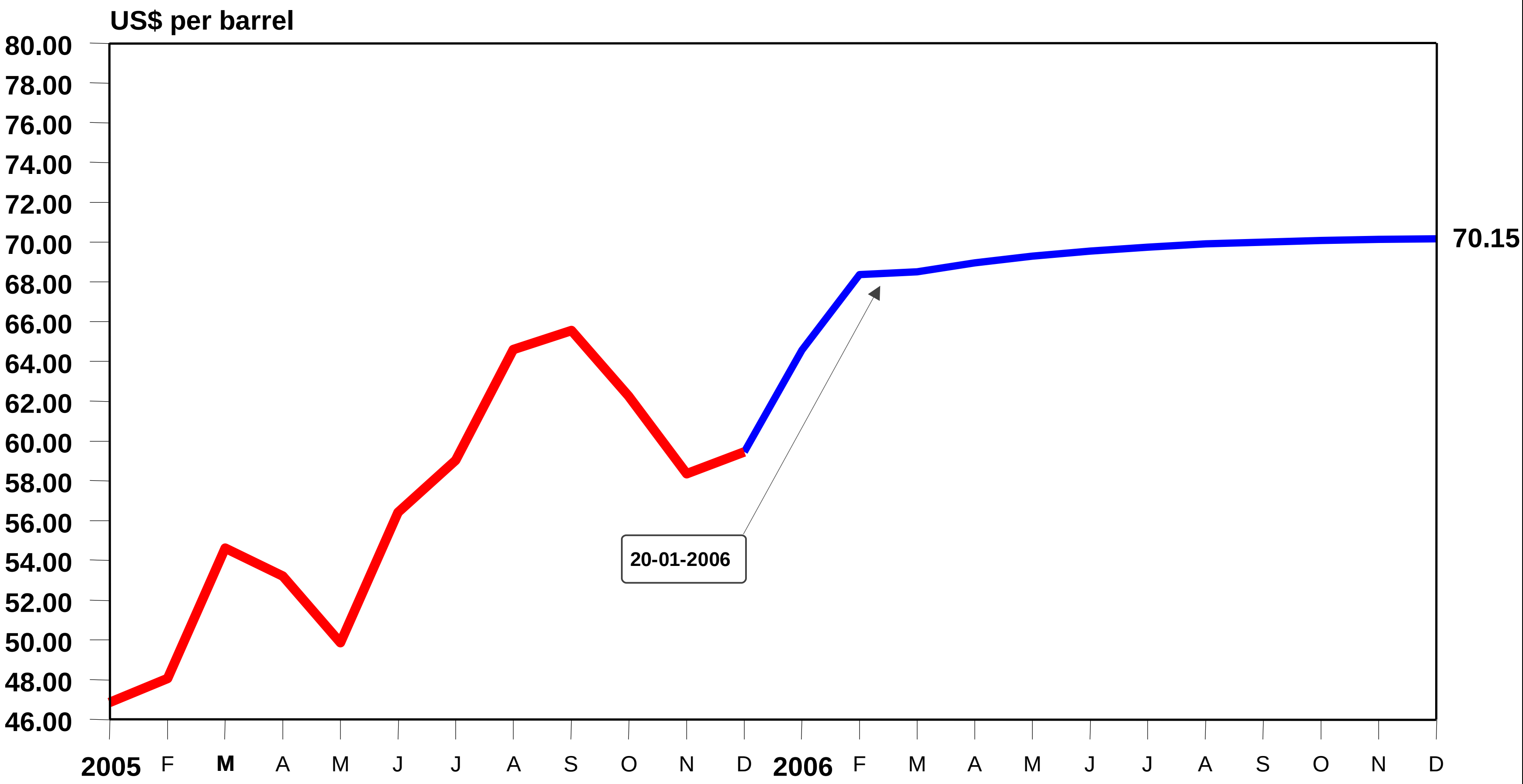
FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



Sourcee: BLOOMBERG

PETROLEUM

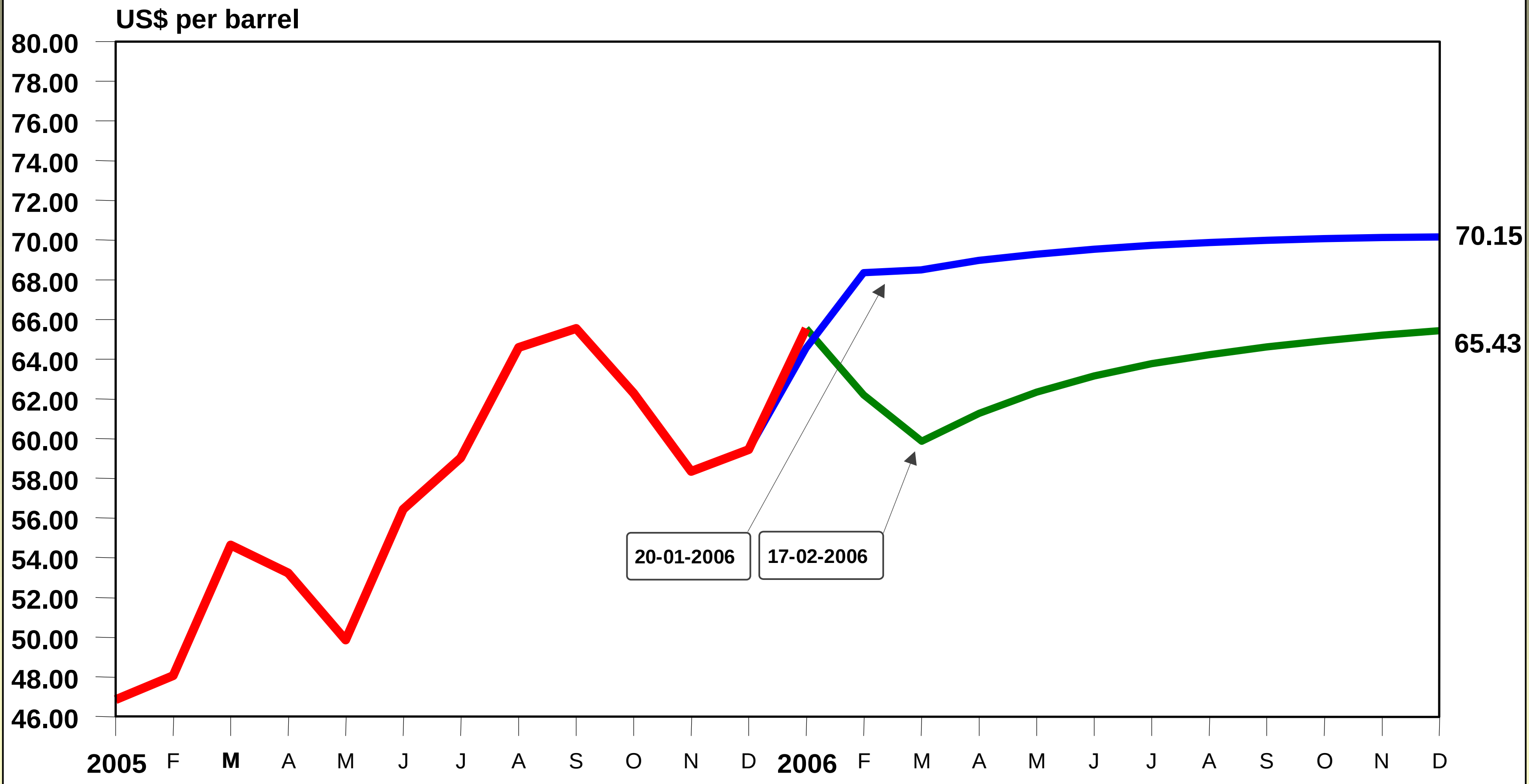
FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



Source: BLOOMBERG

PETROLEUM

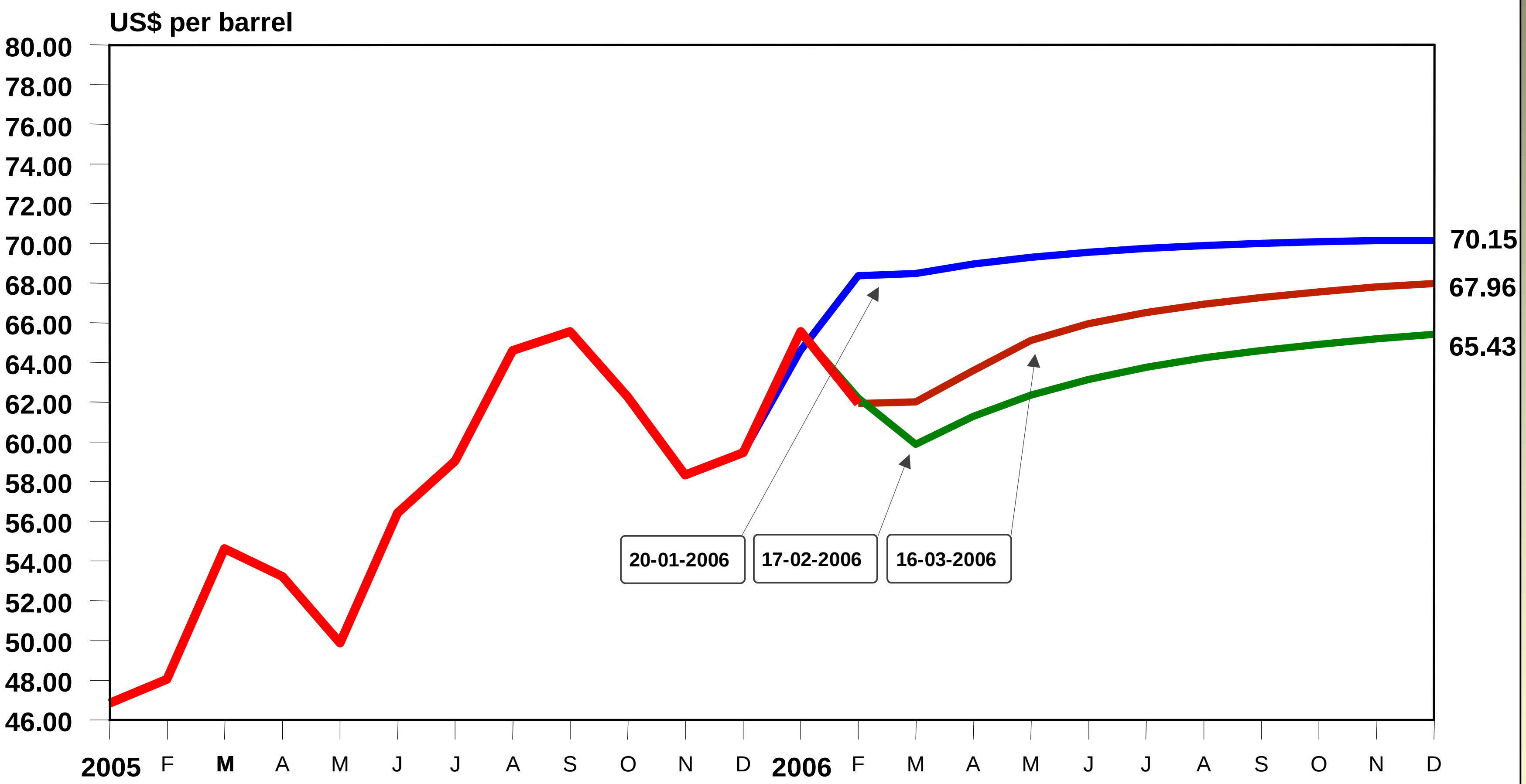
FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



Source: BLOOMBERG

PETROLEUM

FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



Source: BLOOMBERG

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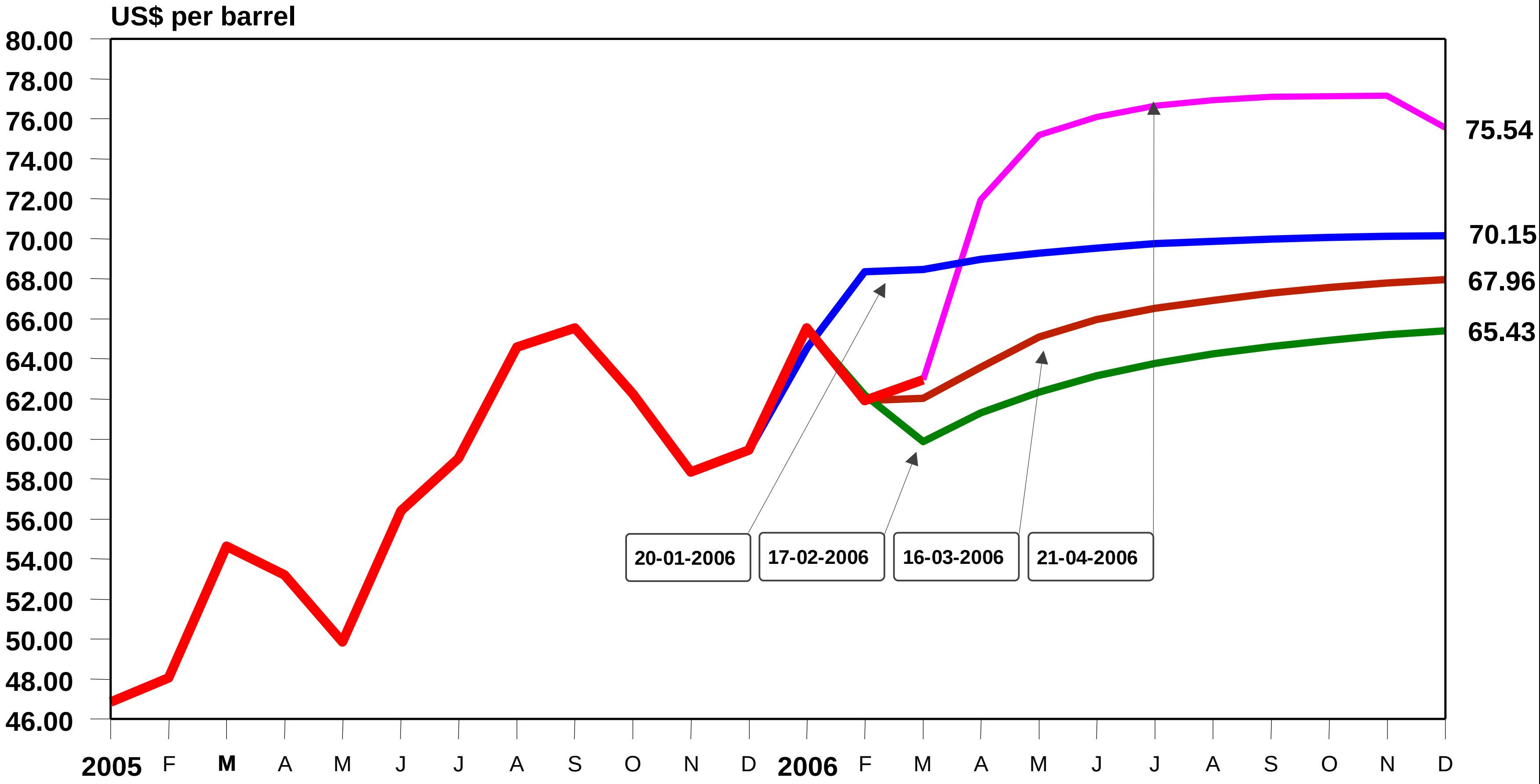
FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



Source: BLOOMBERG

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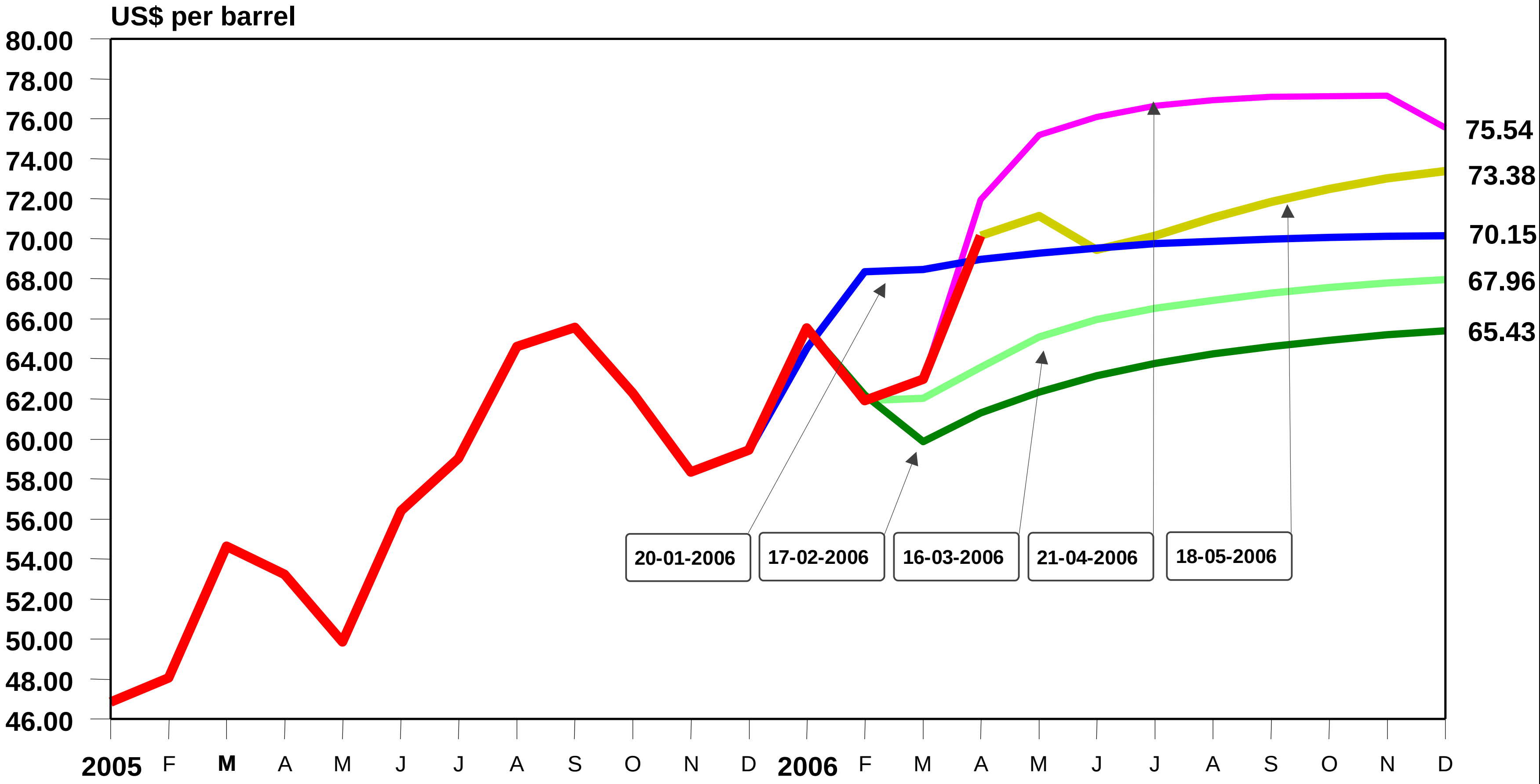
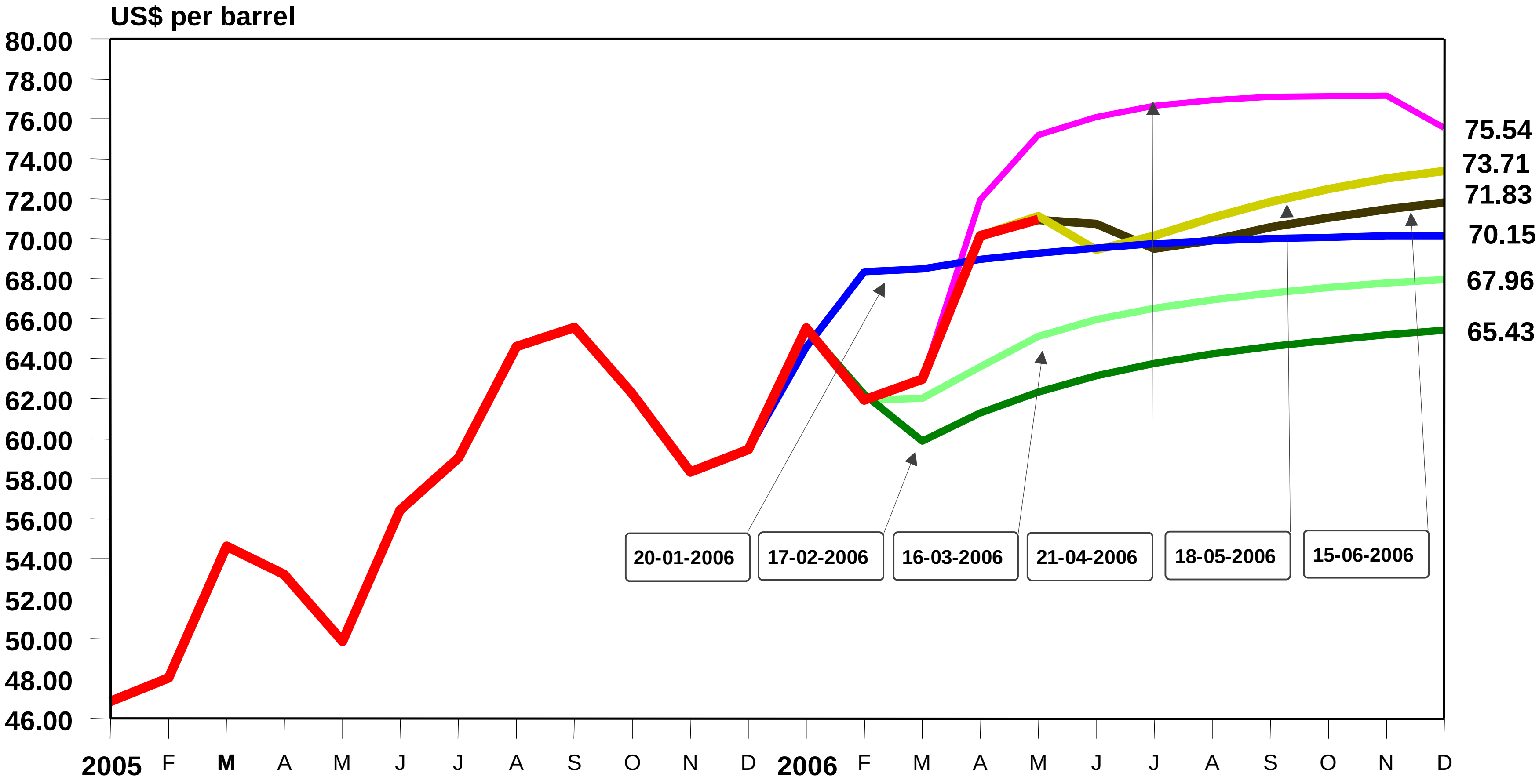
FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



Source: BLOOMBERG

PETROLEUM

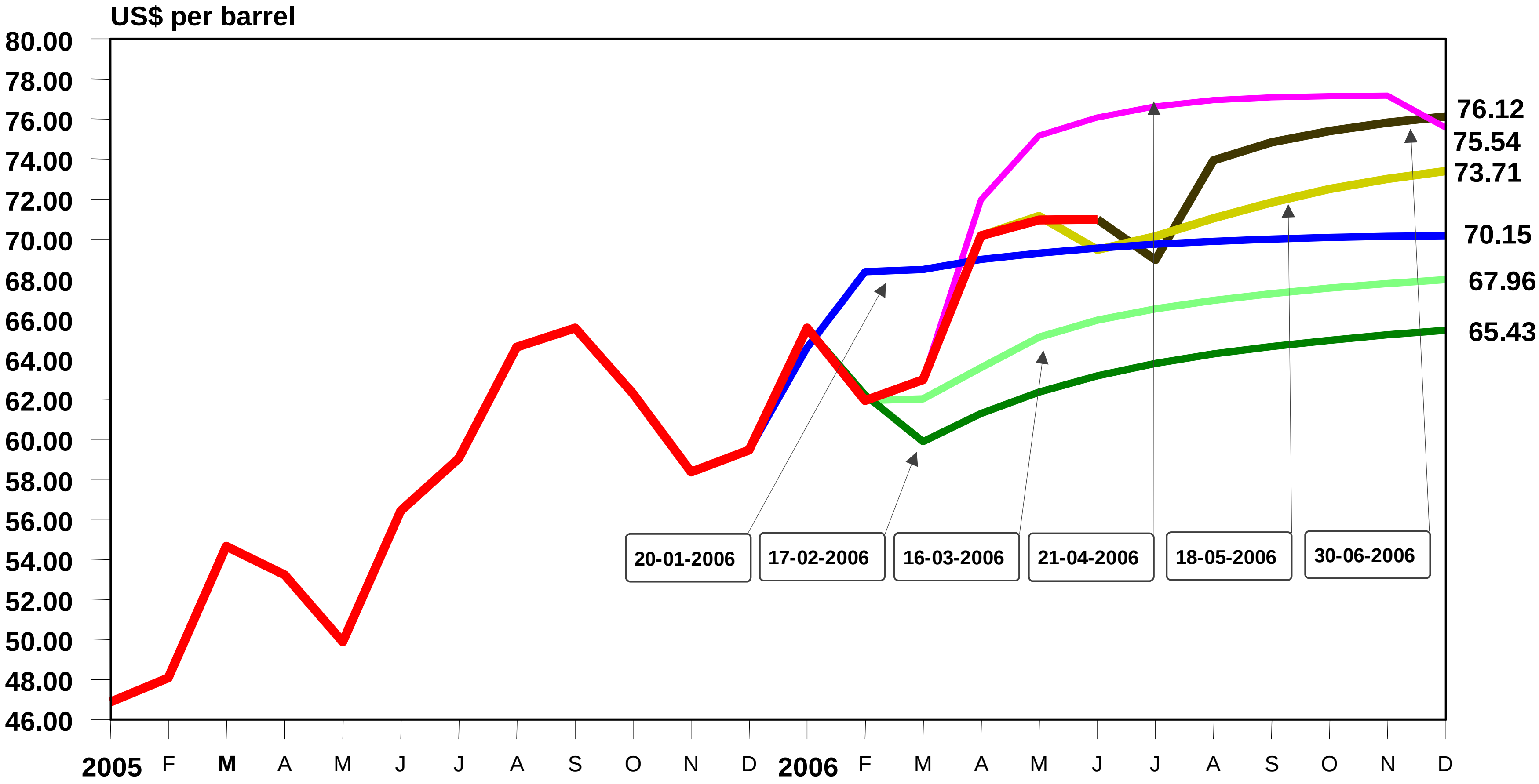
FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



Source: BLOOMBERG

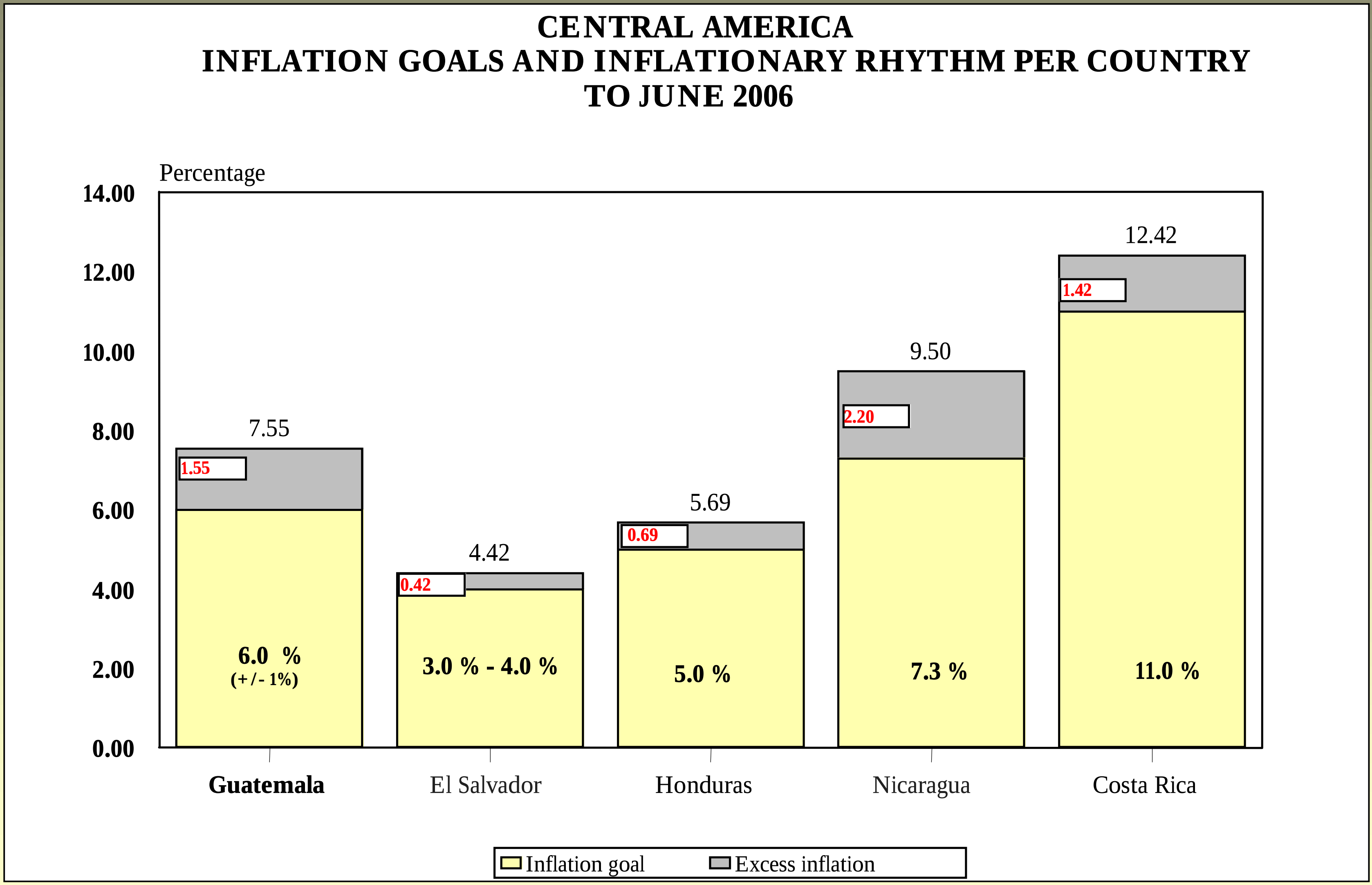
PETROLEUM

FUTURES PRICES NEW YORK STOCK EXCHANGE
YEARS 2005 - 2006



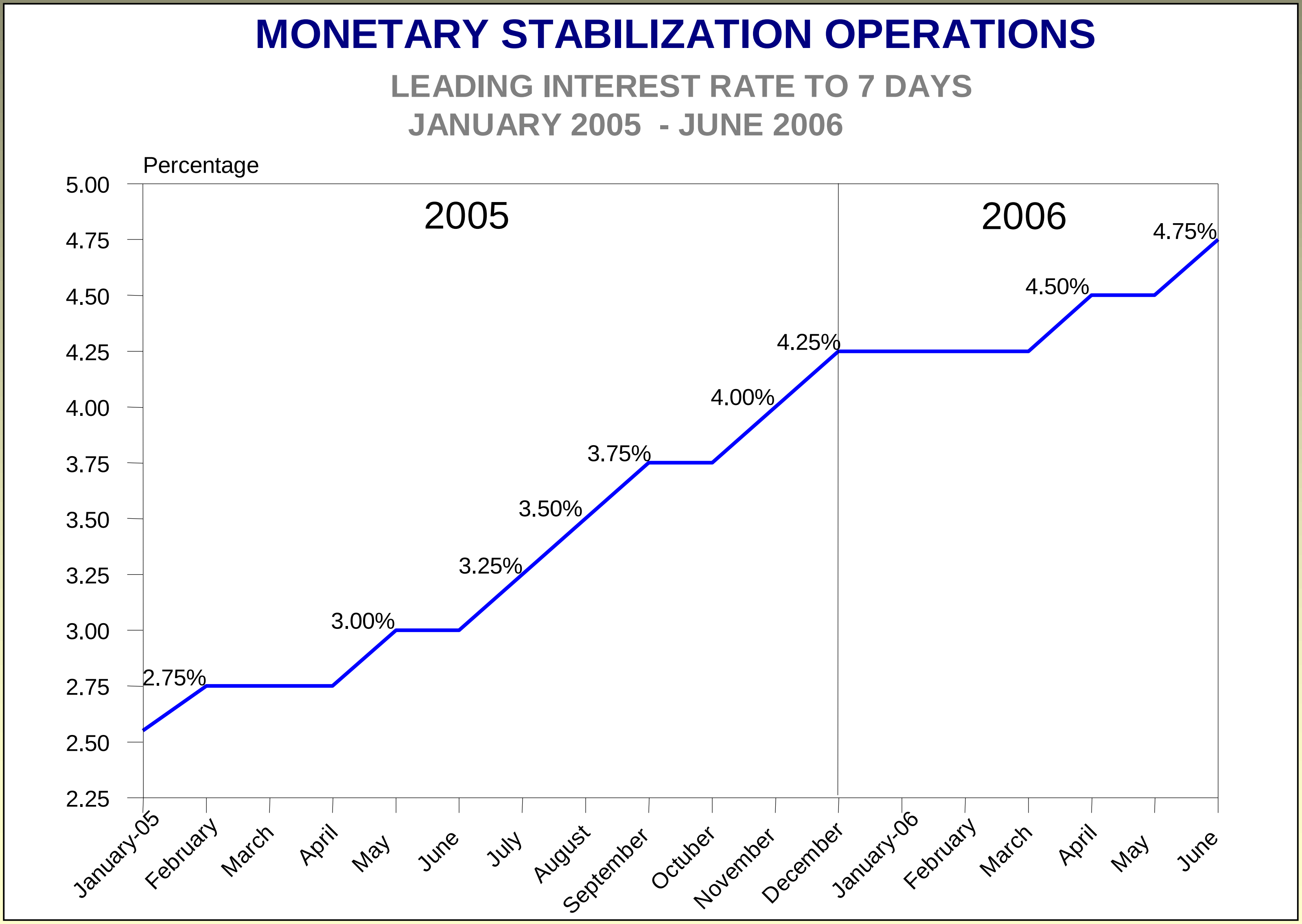
Source: BLOOMBERG

To June 2006, the inflationary rhythm in Central America was over the inflationary goal in all the countries of the region.



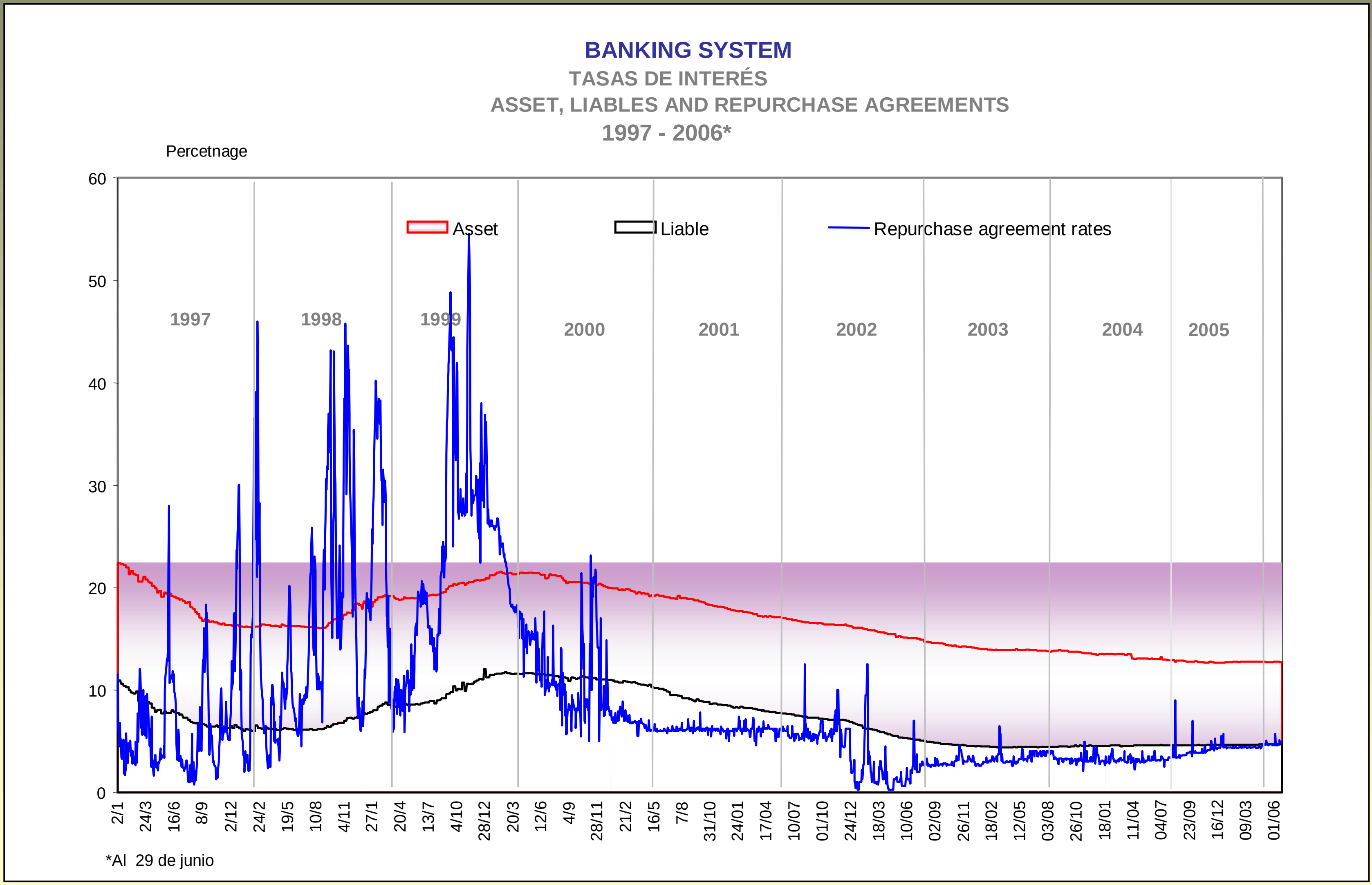
B. LEADING INTEREST RATES

The leading interest rate of the monetary policy was increased on seven occasions in 2005 and on two occasions in 2006, in order to placate the inflationary expectations and send a message of certainty in the commitment of the Central Bank.



C. STABLE INTEREST RATES

The stability of the short term interest rate has remained since 2001.



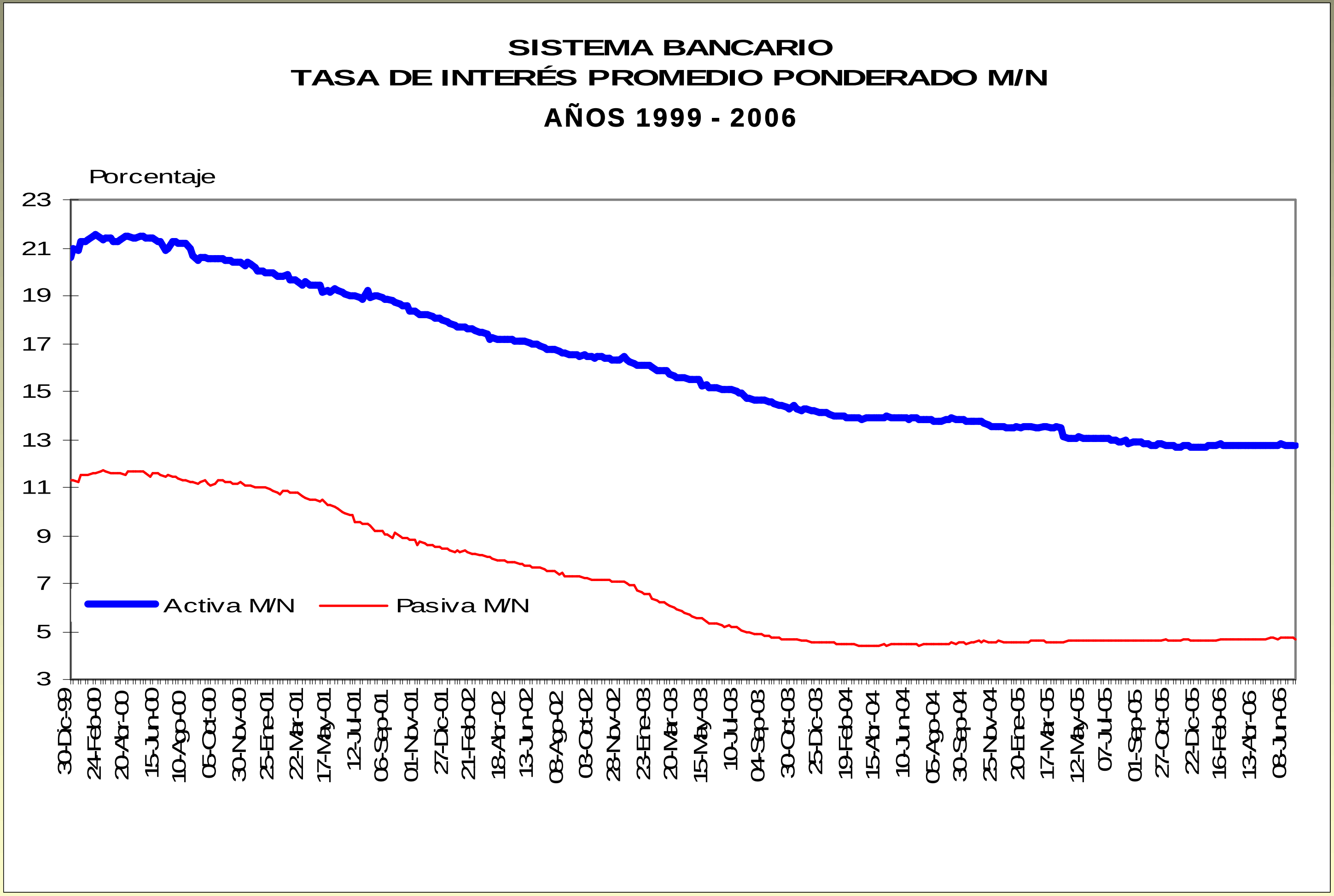
In the banking system, the interest rates in national currency show stable behavior.

Banking System

Weighted Average Interest Rate M/N

Activa M/N [1/]	
30-Jun-05	13.02
31-Dic-05	12.67
22-Jun-06	12.73
29-Jun-06	12.72

Pasiva M/N [2/]	
30-Jun-05	4.62
31-Dic-05	4.62
22-Jun-06	4.71
29-Jun-06	4.70



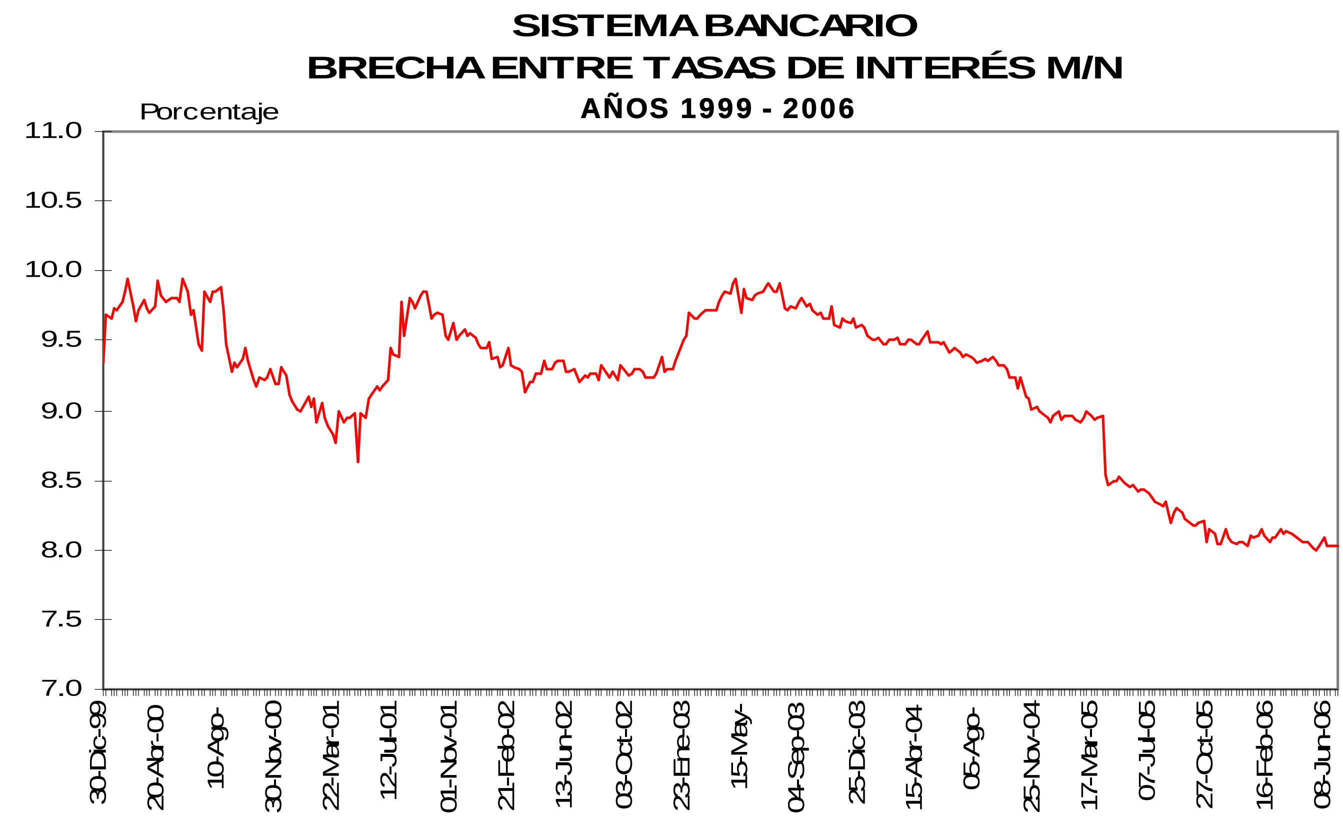
The gap between the asset interest rate and the liable interest rate in national currency has decreased.

Banking System

Gap between Interest Rates M/N

Puntos Porcentuales	
30-Jun-05	8.40
31-Dic-05	8.05
22-Jun-06	8.02
29-Jun-06	8.02

Variación respecto al	
30-Jun-05	-0.38
31-Dic-05	-0.03
22-Jun-06	0.00



Nota: No se incluyen los bancos respecto de los cuales se solicitó la declaratoria de quiebra.

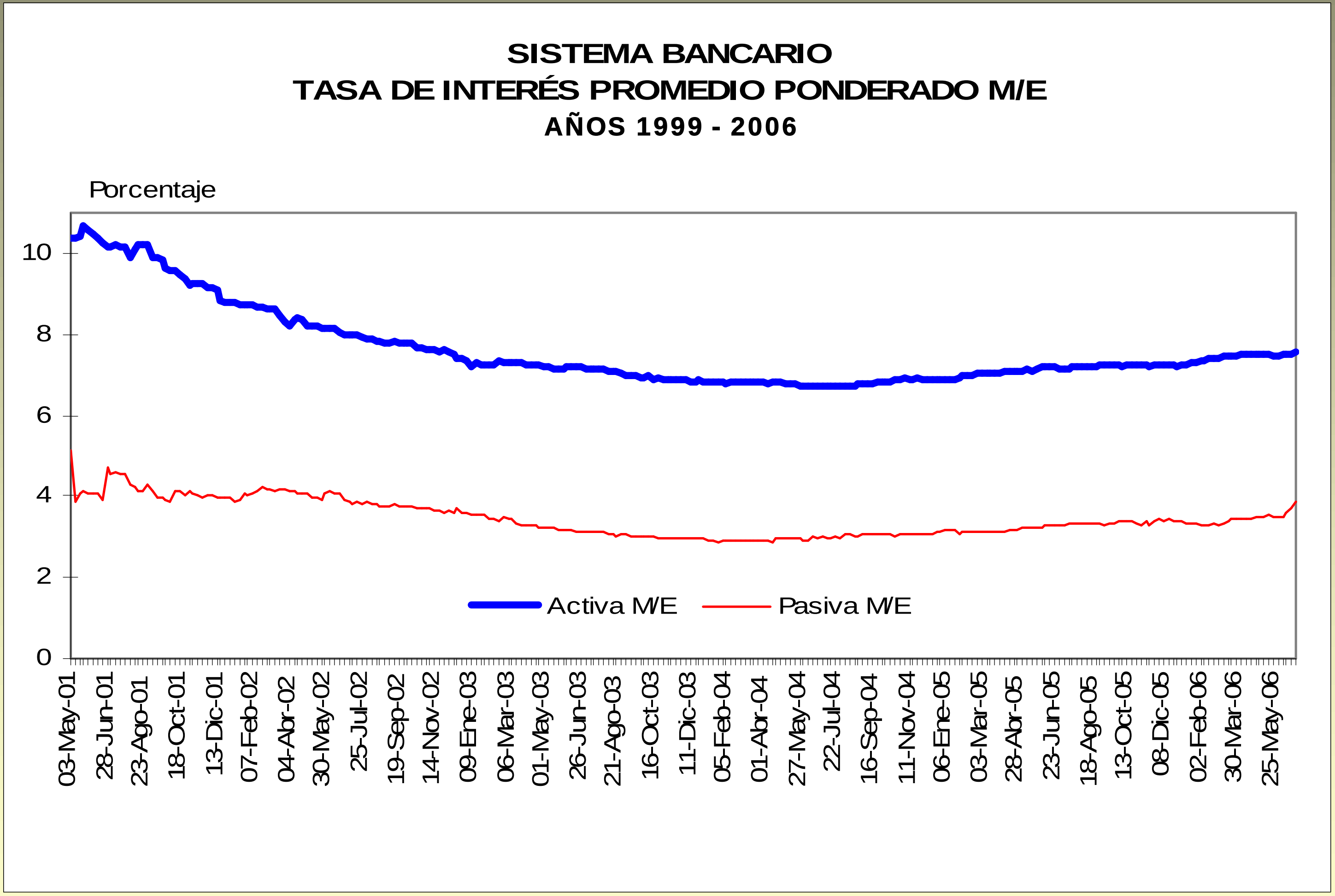
The level of the banking system, interest rates in foreign currency register a slight tendency toward increasing.

Banking System

Weighted Average Interest Rate M/E

Activa M/E [1/]	
30-Jun-05	7.15
31-Dic-05	7.21
22-Jun-06	7.53
29-Jun-06	7.54

Pasiva M/E [2/]	
30-Jun-05	3.27
31-Dic-05	3.41
22-Jun-06	3.71
29-Jun-06	3.88

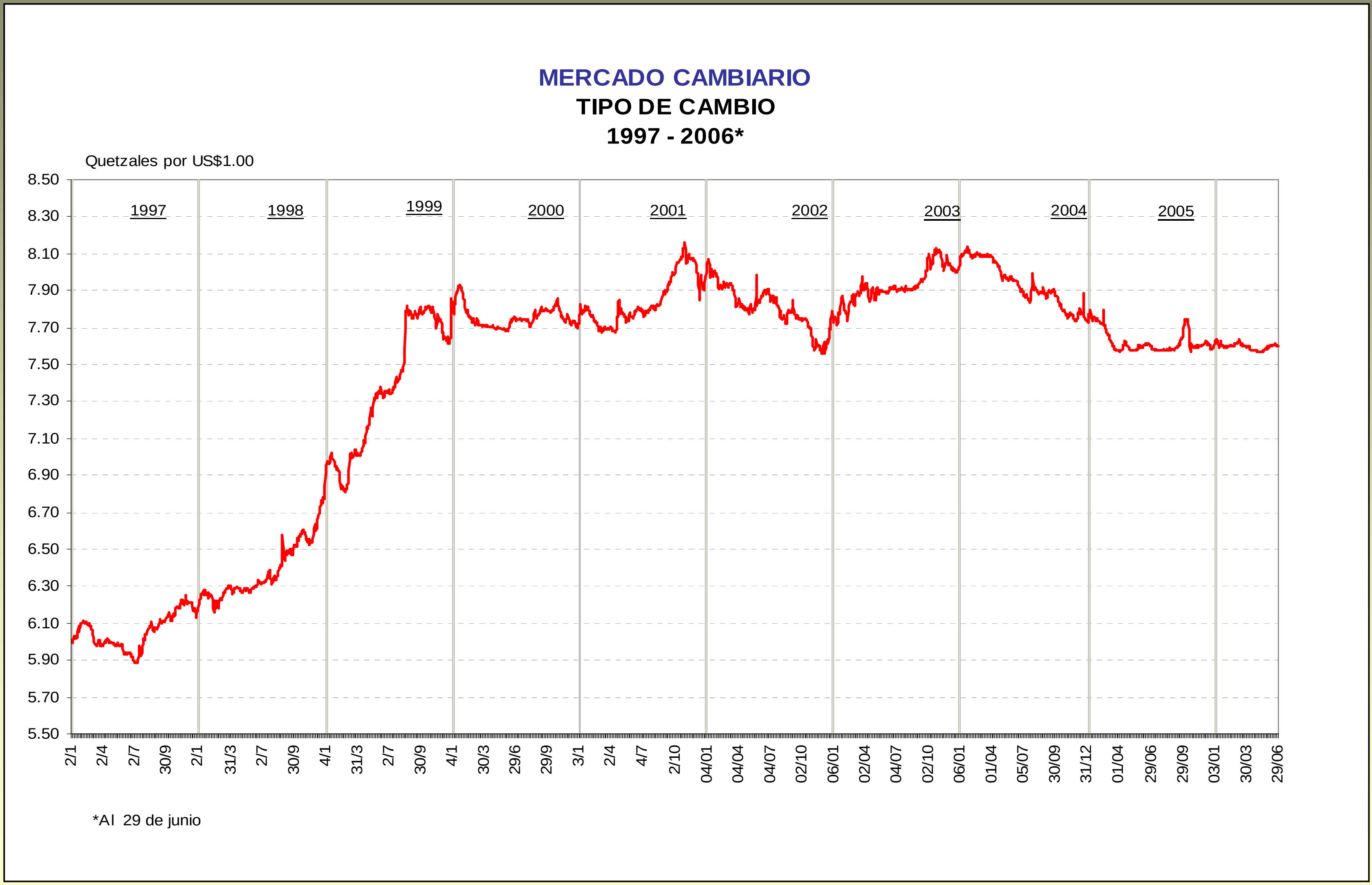


D. EXCHANGE RATE

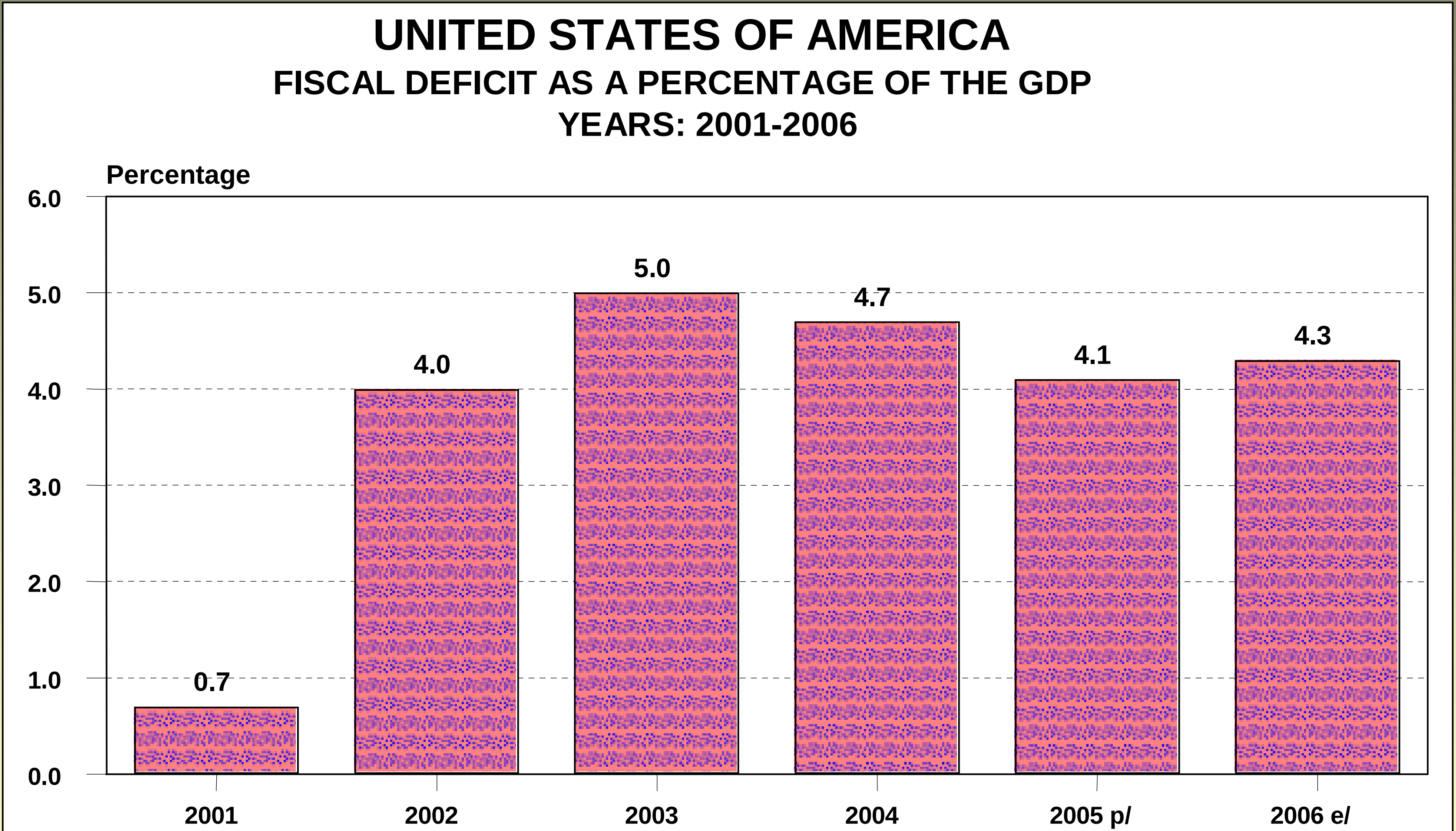
In the long term the exchange rate has remained stable.

Market Exchange

Exchange Rate



THE DEPRECIATION OF THE DOLLAR IS A WORLD PHENOMENON



p/ Preliminar
e/ e stimación
Fuente: World Economic Outlook Abril 2006

THE DEPRECIATION OF THE DOLLAR IS A WORLD PHENOMENON

BEHAVIOR OF THE EXCHANGE RATE
REGARDING THE US DOLLAR
OF SELECTED COUNTRIES
INTER-ANNUAL VARIATION

COUNTRY	Currency	31 of the liquidation de 2003	31 of Liquidation de 2004	31 de Diciembre de 2005	Variation % (+) = deprec. (-) = aprec. 2004	Variation % (+) = deprec. (-) = aprec. 2005	June 30 2005	June 30 2006	Variation % (+) = deprec. (-) = aprec. 2006
Czech Republic	Crown	25.71	22.42	24.55	-12.78	9.50	24.85	22.27	-10.38
Canada	Dollar	1.30	1.20	1.16	-7.33	-3.32	1.23	1.12	-8.88
Paraguay	Guaraní	6,100.00	6,115.00	6,100.00	0.25	-0.25	6,060.00	5,550.00	-8.42
South Korea	Won	1,192.10	1,035.10	1,010.00	-13.17	-2.42	1,034.50	948.70	-8.29
Thailand	Bath	39.62	38.92	41.03	-1.77	5.42	41.33	38.12	-7.77
Brazil	Real	2.89	2.66	2.34	-8.14	-12.07	2.33	2.17	-7.18
Chile	Peso	592.75	555.75	512.00	-6.24	-7.87	577.75	538.85	-6.73
Rumania	Leu	32,596.03	29,282.48	31,092.50	-10.17	6.18	29,866.00	27,996.00	-6.26
Singapur	Dólar	1.70	1.63	1.66	-3.99	1.92	1.69	1.58	-6.10
Slovaquia	Corona	32.67	28.58	31.98	-12.53	11.88	31.69	30.05	-5.18
Indonesia	Rupia	8,420.00	9,270.00	9,830.00	10.10	6.04	9,760.00	9,263.00	-5.09
Poland	Zloty	3.73	3.01	3.25	-19.34	7.77	3.34	3.18	-4.80
Uruguay	Peso	29.32	26.40	24.05	-9.94	-8.90	24.64	23.75	-3.59
China	Yuan	8.28	8.28	8.07	0.00	-2.49	8.28	7.99	-3.41
Malaysia	Ringgit	3.80	3.80	3.78	0.00	-0.54	3.80	3.67	-3.30
Bolivia	Boliviano	7.80	8.04	8.00	3.08	-0.51	8.09	8.00	-1.19
Haiti	Gourde	40.00	36.00	42.15	-10.00	17.08	39.40	39.05	-0.89

Source: Bloomberg

THE DEPRECIATION OF THE DOLLAR IS A WORLD PHENOMENON

Net International Reserves

RESERVAS MONETARIAS INTERNACIONALES

En Millones de Dólares de Estados Unidos de América

PAÍS	2004	2005	2006		Variaciones 2004-2005		Variaciones 2005-2006	
					absoluta	relativa	absoluta	relativa
AMÉRICA DEL SUR					**21,566.0**		**9,595.4**	
Brasil	52,937.0	53,800.0	62,670.0	d/	863.0	1.6	8,870.0	16.5
Venezuela	23,498.0	29,636.0	31,133.0	d/	6,138.0	26.1	1,497.0	5.1
Bolivia	1,123.3	1,714.2	2,474.1	d/	590.9	52.6	759.9	44.3
Uruguay	2,512.1	3,071.0	3,506.0	d/	558.9	22.2	435.0	14.2
Perú	12,649.0	14,097.0	14,415.0	d/	1,448.0	11.4	318.0	2.3
Chile	15,274.0	16,963.4	17,570.1	d/	1,689.4	11.1	606.7	3.6
Ecuador	1,437.3	2,146.9	2,264.1	d/	709.6	49.4	117.2	5.5
Paraguay	1,167.6	1,297.3	1,413.3	c/	129.7	11.1	116.0	8.9
Colombia	14,275.4	14,947.0	14,409.3	d/	671.7	4.7	-537.7	-3.6
Argentina	19,310.0	28,076.9	25,490.1	d/	8,766.9	45.4	-2,586.7	-9.2
OTROS PAÍSES					**266,999.4**		**206,314.5**	
China	609,932.0	818,872.0	875,070.0	a/	208,940.0	34.3	56,198.0	6.9
Eurozona	362,836.9	377,739.9	422,246.2	b/	14,903.0	4.1	44,506.2	11.8
India	131,178.0	137,206.0	162,912.0	d/	6,028.0	4.6	25,706.0	18.7
Japón	844,543.0	846,897.0	864,878.0	d/	2,354.0	0.3	17,981.0	2.1
Corea del Sur	199,066.1	210,391.0	224,360.0	d/	11,324.9	5.7	13,969.0	6.6
Singapur	112,807.5	116,646.2	128,738.3	d/	3,838.7	3.4	12,092.1	10.4
México	61,496.3	68,668.9	78,743.0	d/	7,172.6	11.7	10,074.1	14.7
Indonesia	36,320.5	34,723.7	40,107.1	d/	-1,596.8	-4.4	5,383.4	15.5
Malasia	66,209.3	70,183.3	78,665.7	c/	3,974.0	6.0	8,482.4	12.1
Tailandia	49,831.7	52,103.5	58,057.4	d/	2,271.8	4.6	5,953.9	11.4
Hungría	15,963.3	18,603.0	21,130.7	d/	2,639.8	16.5	2,527.7	13.6
Canadá	34,419.0	33,018.0	35,916.0	d/	-1,401.0	-4.1	2,898.0	8.8
Slovakia	14,417.5	15,498.6	16,149.9	d/	1,081.1	7.5	651.3	4.2
Guatemala	3,528.0	3,782.4	4,062.4	d/	254.4	7.2	280.0	7.4
República Dominicana	602.2	1,519.7	1,618.4	d/	917.5	152.4	98.7	6.5
Reino Unido	26,275.9	30,573.3	30,086.0	d/	4,297.4	16.4	-487.3	-1.6

Fuente: Bancos Centrales.

[a] / A marzo, [b] / A abril, [c] / A mayo, [d] / A junio.

ACTIONS IN EXCHANGE MATTERS

- ü The *Banco de Guatemala*, according to the current Monetary, Exchange Rate and Credit Policy, and in order to avoid volatility in the nominal exchange rate, has participated in the exchange market purchasing foreign currency in the January to June 2006 period.

- ü The participations of the *Banco de Guatemala* have been made in the prudent framework of the monetary policy without these affecting the tendency of the exchange rate.

- ü Additionally, the *Banco de Guatemala*, as a participation mechanism, has adopted the fund-raising of resources through the placement of long-term deposits expressed in US dollars.

Participation in the SINEDI

Millions of US dollars

BANCO DE GUATEMALA
PARTICIPACIÓN EN EL SINEDI
Millones de US$

			NETO		TOTAL MERCADO	
Período	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	466.6	0.0	466.6		15,109.1	15,667.2
2006 [a/]	106.5	0.0	106.5		8,413.3	[b/] 8,511.6

[a/] Último día de participación, 15 de mayo. [b/] Al 29 de junio

OTHER ACTIONS FOR MODERATING THE EFFECT OF CAPITAL INFLOW

- ü Fiscal Support : fiscal discipline keeps the domestic interest rates under control, making them less attractive for external capital.

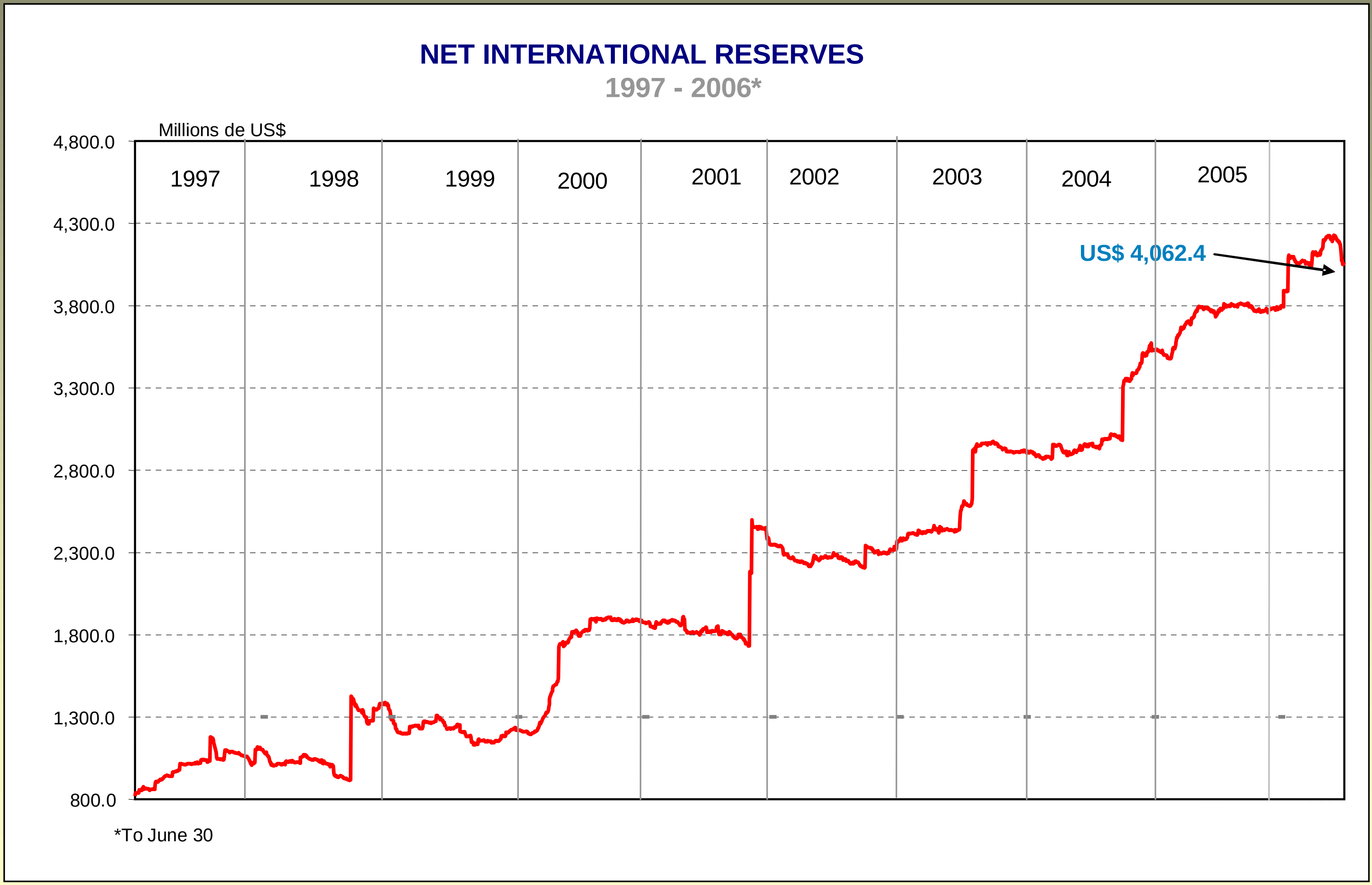
- ü Futures Markets to: soften the exchange effects reducing costs to exporters.

- ü Promoting productivity: ideal mechanism for improving competitivity. Includes the maintenance of stability of internal prices.

- ü International Adjustment: The monetary and (more slowly) the fiscal policies of the US are being corrected.

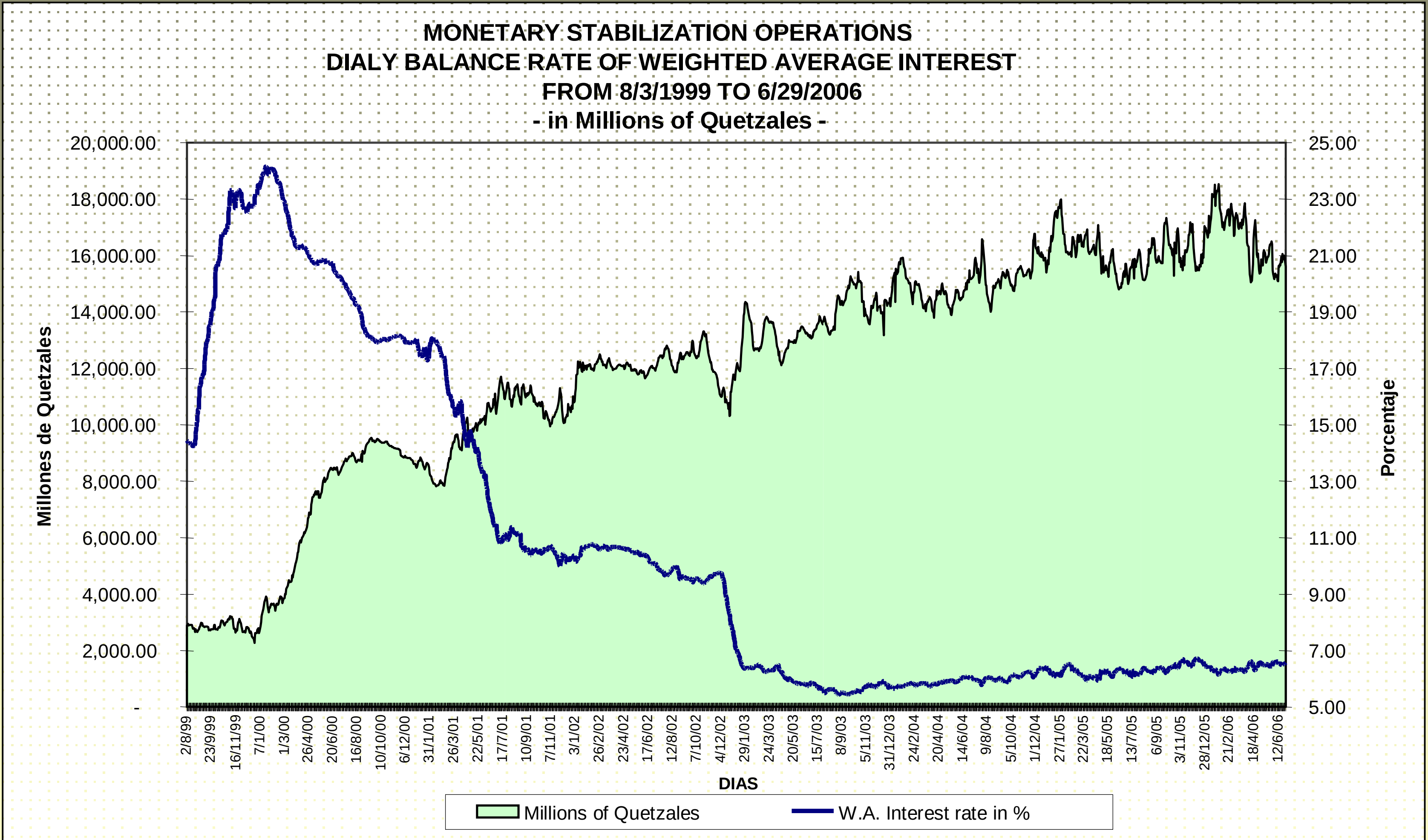
E. INTERNATIONAL MONETARY RESERVES

To June 30, 2006, the NIR were at US$4,062.4 million, equivalent to 4.7 months of goods importations.



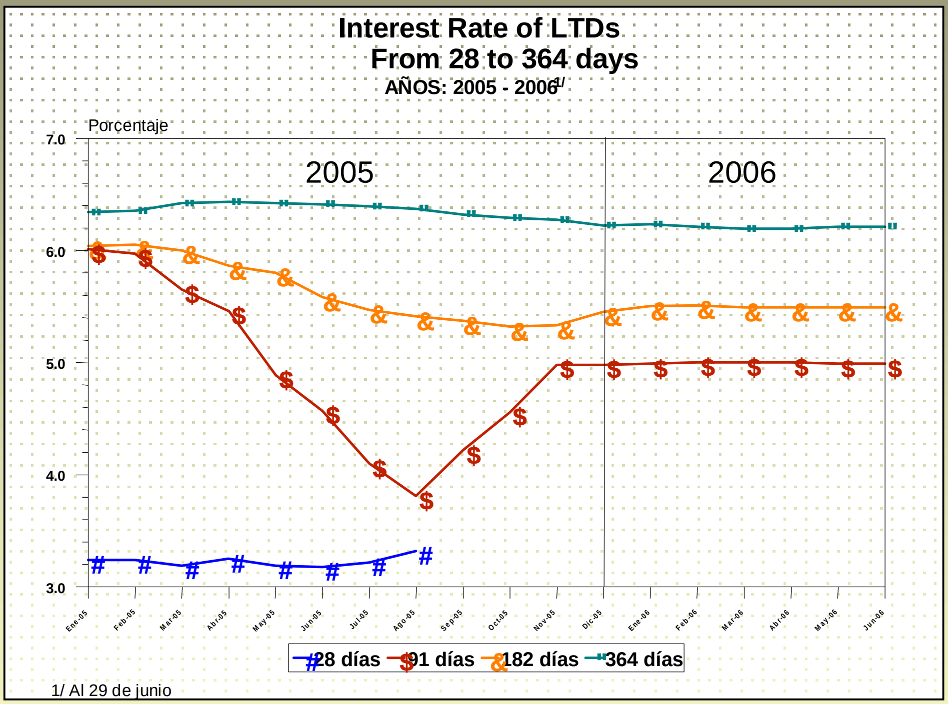
F. MONETARY STABILIZATION OPERATIONS

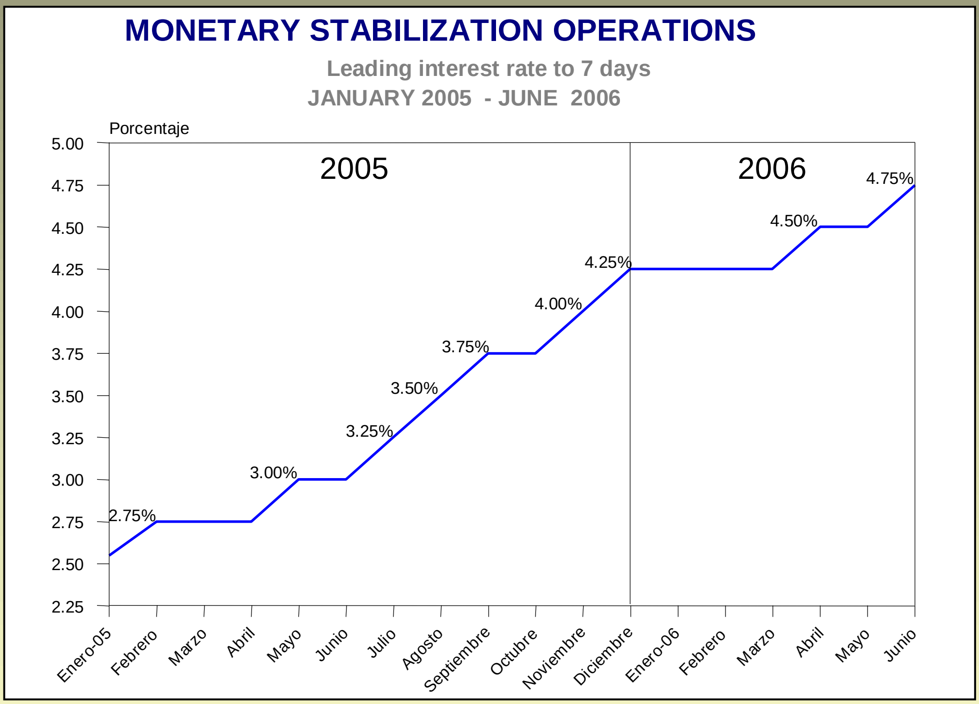
In the January-June 2006 period, the balance of MSO was kept around Q16.7 billion. Its interest rate increased slightly, when going from 6.44% in December 2005 to 6.58% in June 2006.



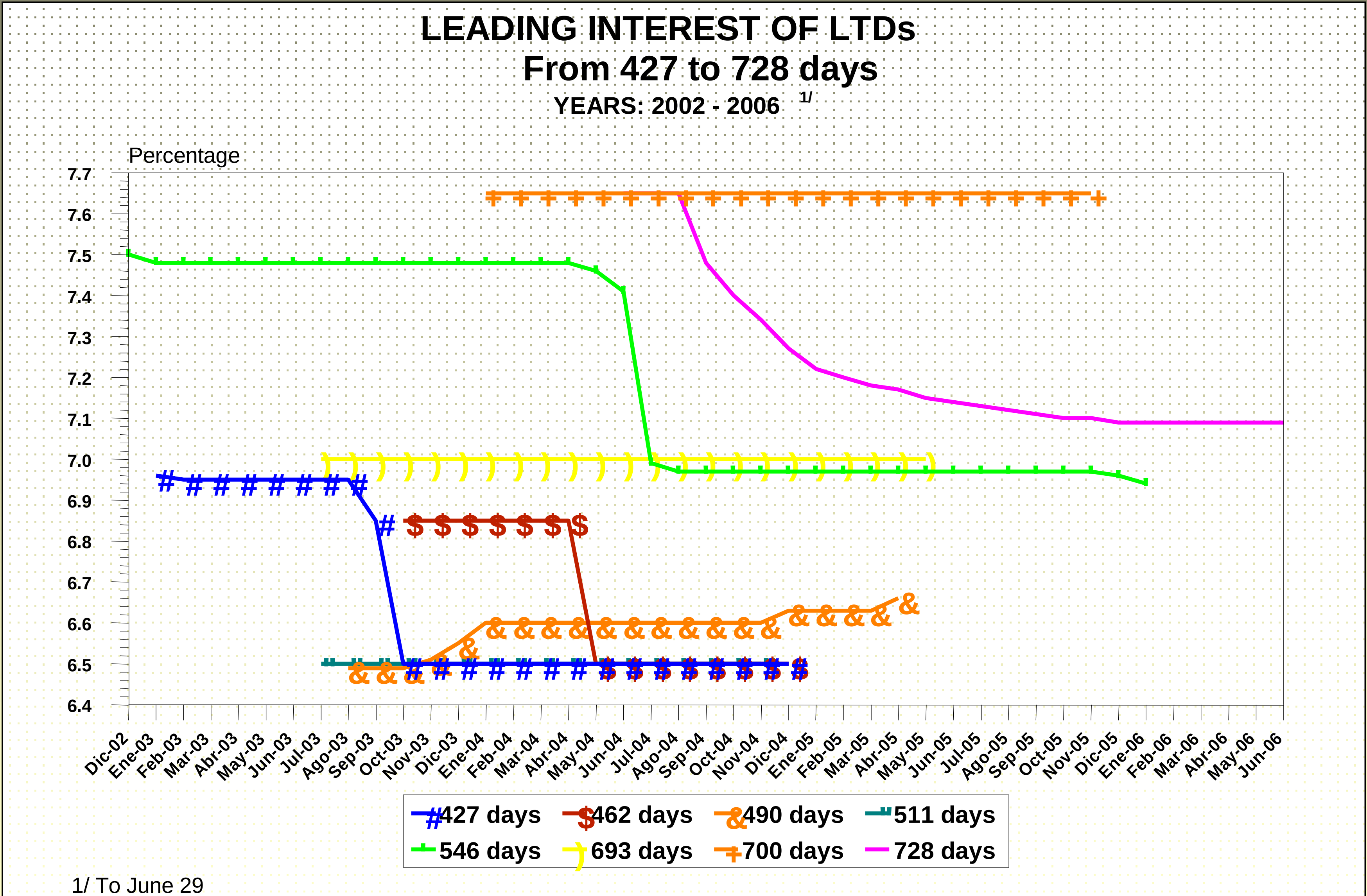
Nota: Al 29 de junio de 2006 el saldo es de Q 15,613.7 millones y la tasa de interés promedio ponderada es de 6.58%

In order to moderate the inflationary expectations, the adjustments in the leading interest rate have been gradual.



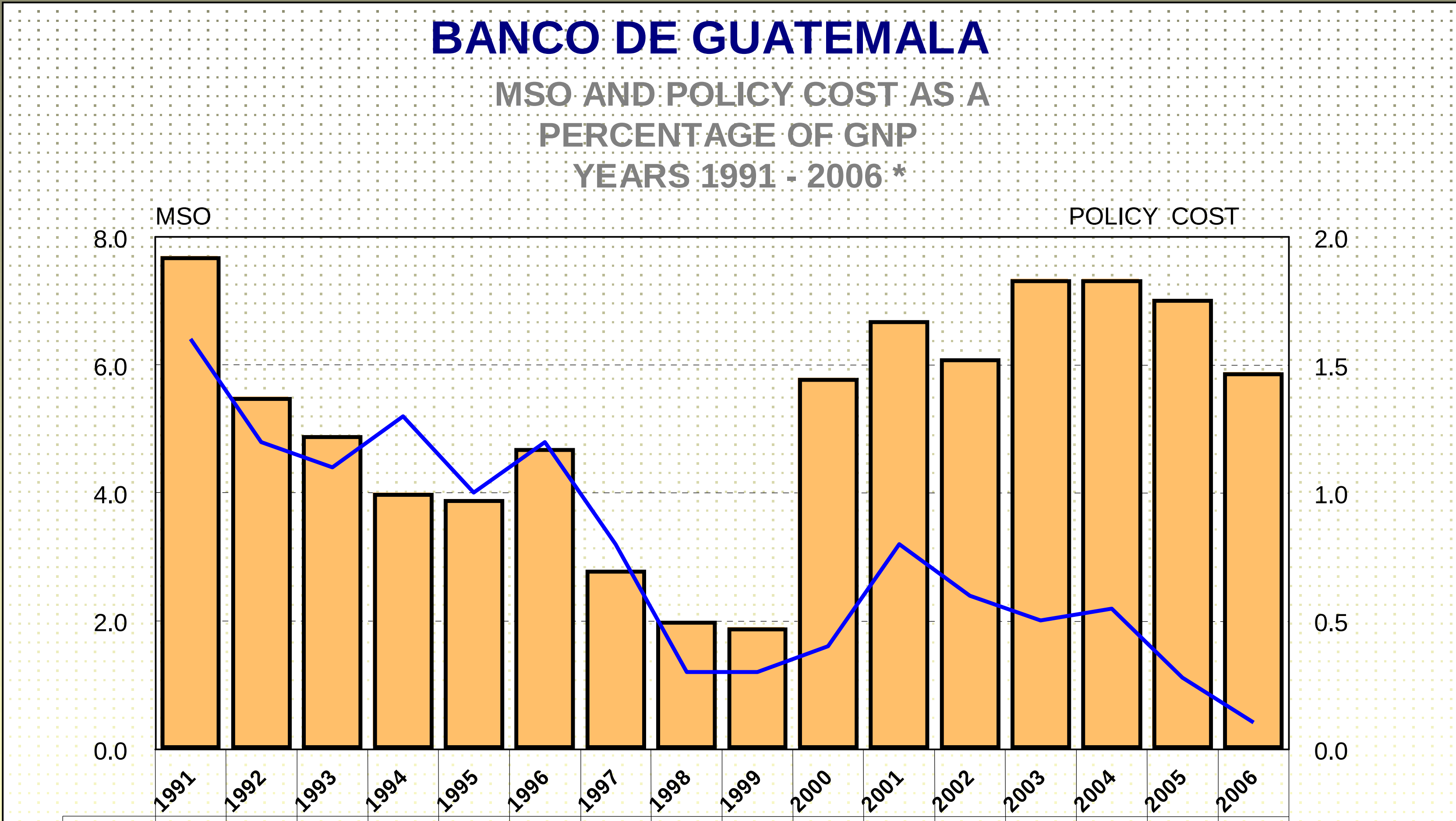


As of January 2006, the *Banco de Guatemala* quit convening the term bids of more than 364 days.



1/ To June 29

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



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
MSO	**7.7**	**5.5**	**4.9**	**4.0**	**3.9**	**4.7**	**2.8**	**2.0**	**1.9**	**5.8**	**6.7**	**6.1**	**7.3**	**7.3**	**7.0**	**5.9**
COST	**1.6**	**1.2**	**1.1**	**1.3**	**1.0**	**1.2**	**0.8**	**0.3**	**0.3**	**0.4**	**0.8**	**0.6**	**0.5**	**0.5**	**0.3**	**0.1**

* Al 29 de junio

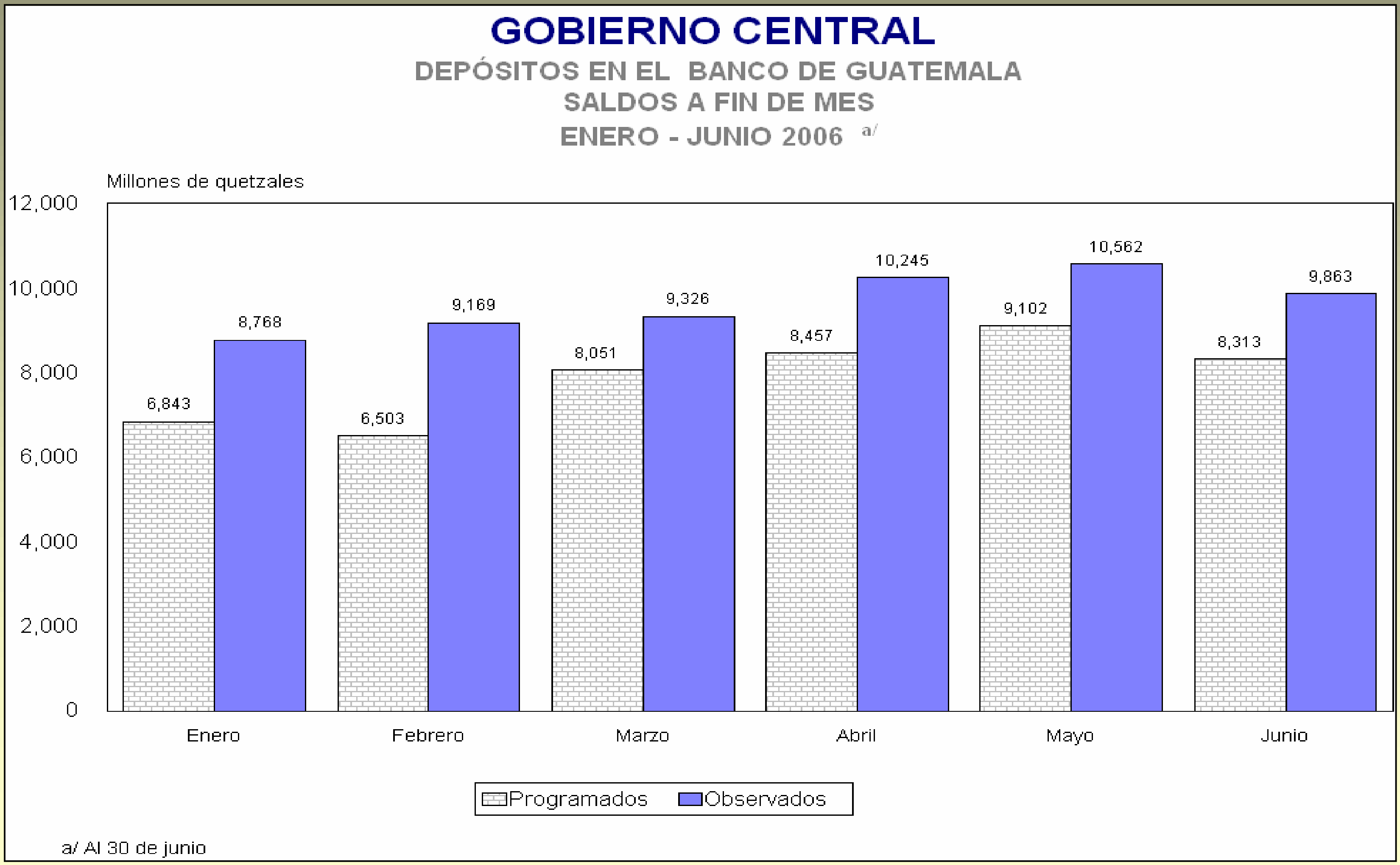
G. CENTRAL GOVERNMENT DEPOSITS

FUNDAMENTAL SUPPORT OF THE FISCAL POLICY TOWARD STABILITY

The support of the fiscal policy toward the monetary policy was evidenced in the balance of the deposits of the central government in the *Banco de Guatemala*, over the programmed.

Central Government

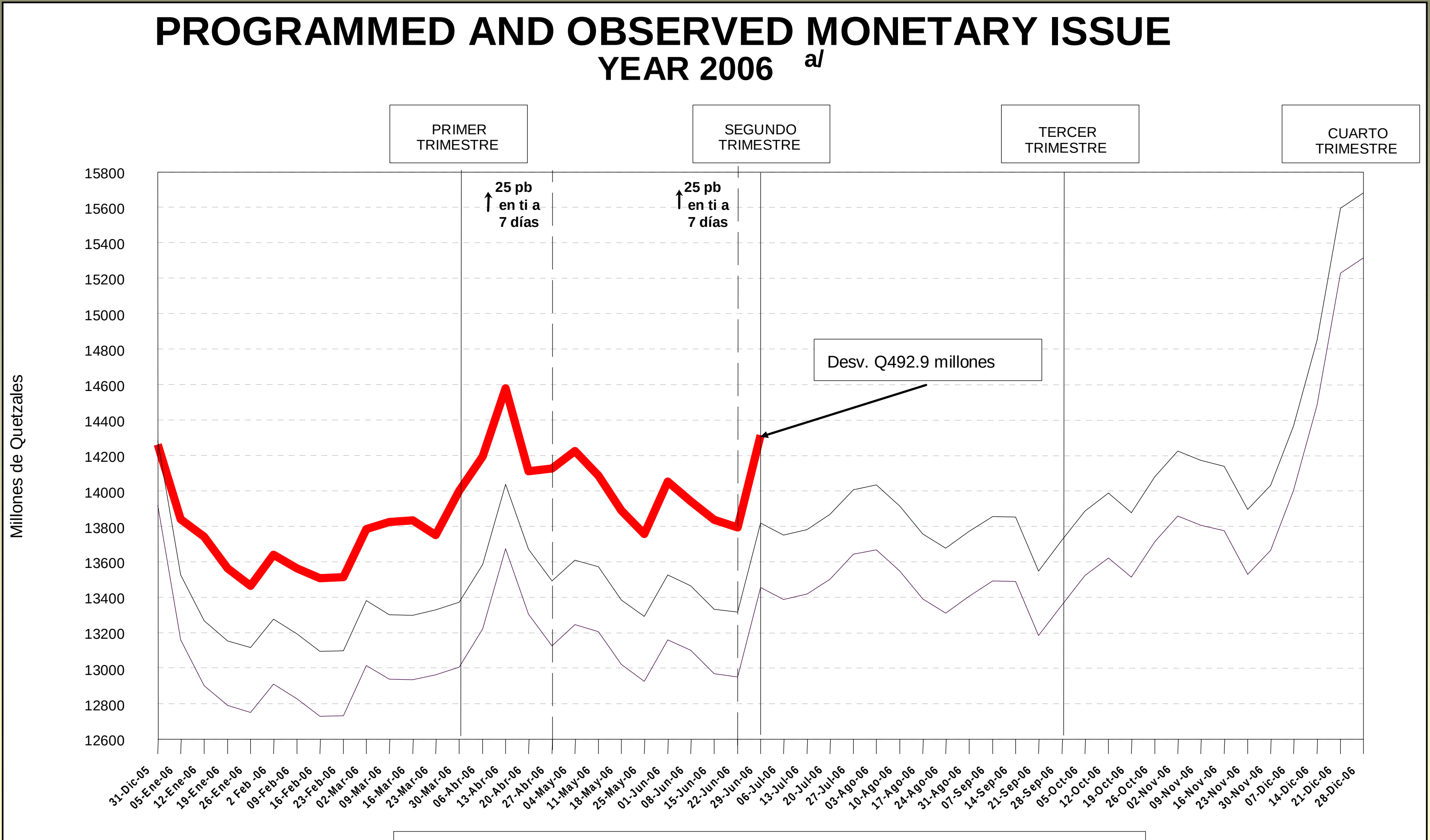
Deposits in the *Banco de Guatemala*



H. MONEY IN POWER OF THE PUBLIC
(Primary Liquidity)

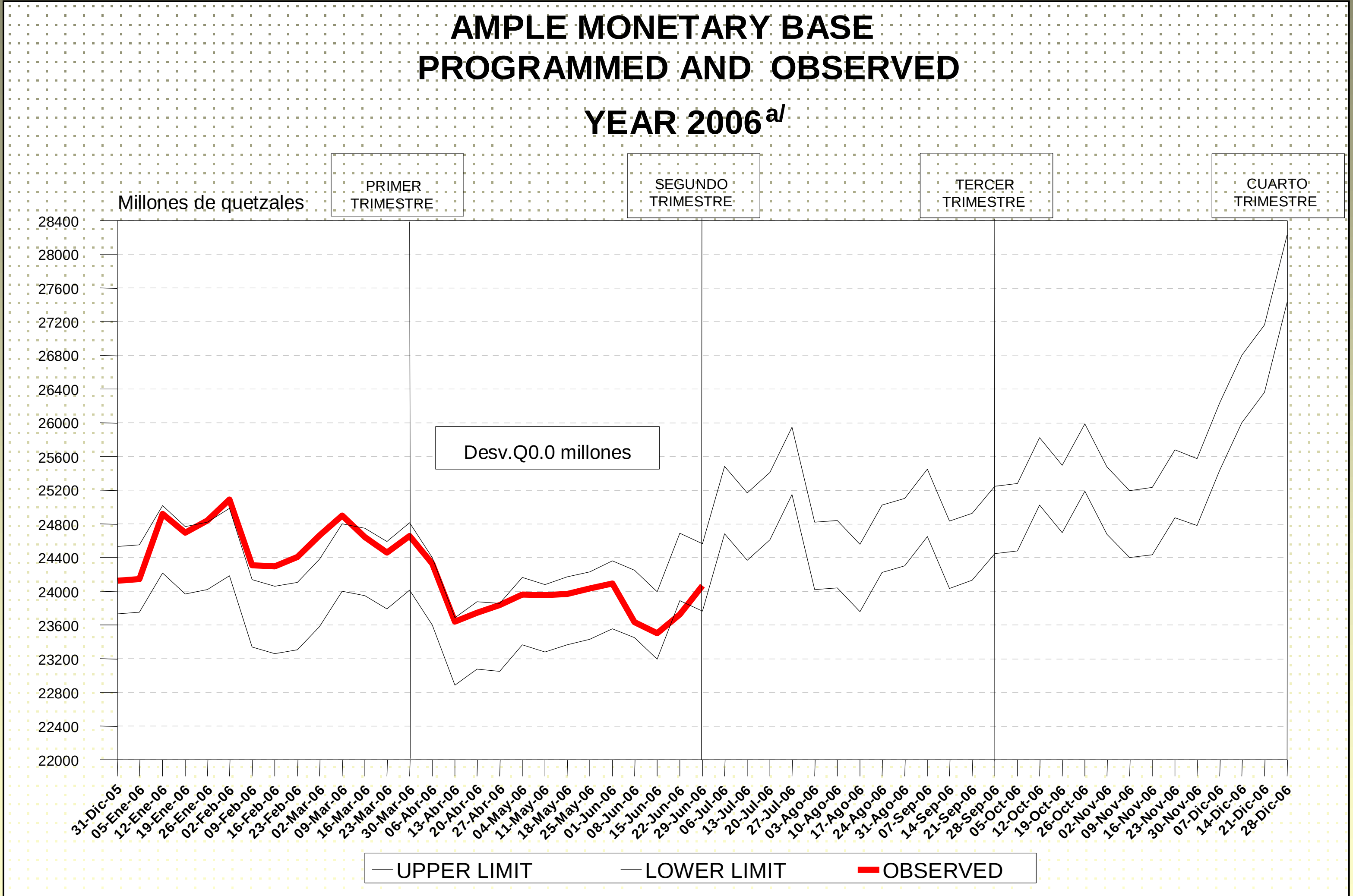
- MONETARY ISSUE
- MONETARY BASE

During first semester of 2006, in general, the trajectory of the monetary issue was over the upper limit of the programmed runner.



a/ To June 29
NOTA:
pb = Puntos básicos
ti = Tasa de interés de CDPs

At the end of the first semester, the ample monetary base was located within the programmed runner.



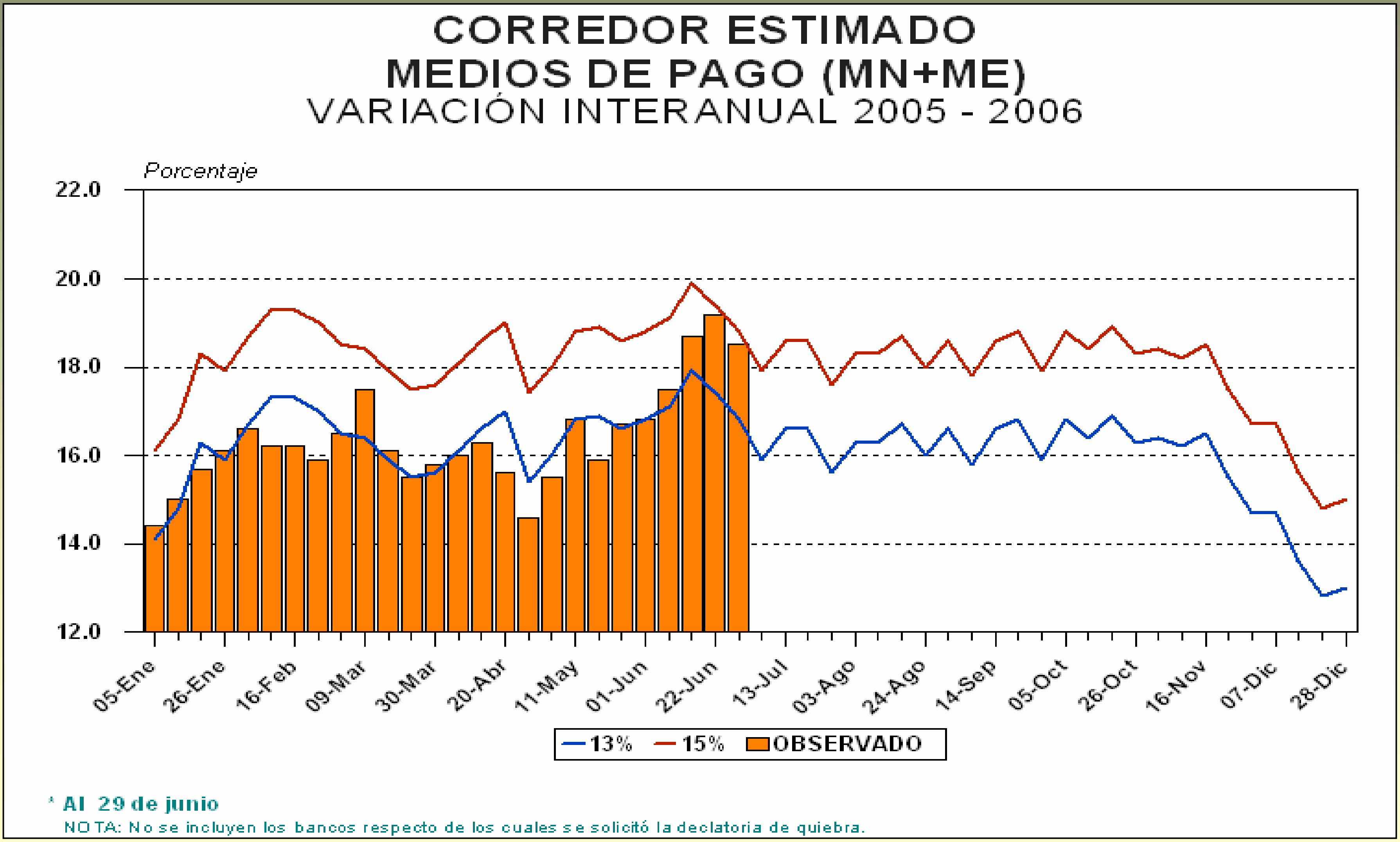
a/ Base Monetaria Estimada al 30/06/06 = Q24,066.32 millones
Límite superior al 29/06/06 = Q24,566.4 millones
Límite inferior al 29/06/06 = Q23,766.4 millones
Desviación = Q0.0 millones

I. PAYMENT MEANS AND BANKING CREDIT TO THE PRIVATE SECTOR

To June 2006 the payment means registered an inter-annual growth of 18.5%. Said percentage is found within the estimated runner for June 29 of said variable (16.8%-18.8%).

Estimated Runner for Estimated Payment Means

Inter-annual variation 2005-2006



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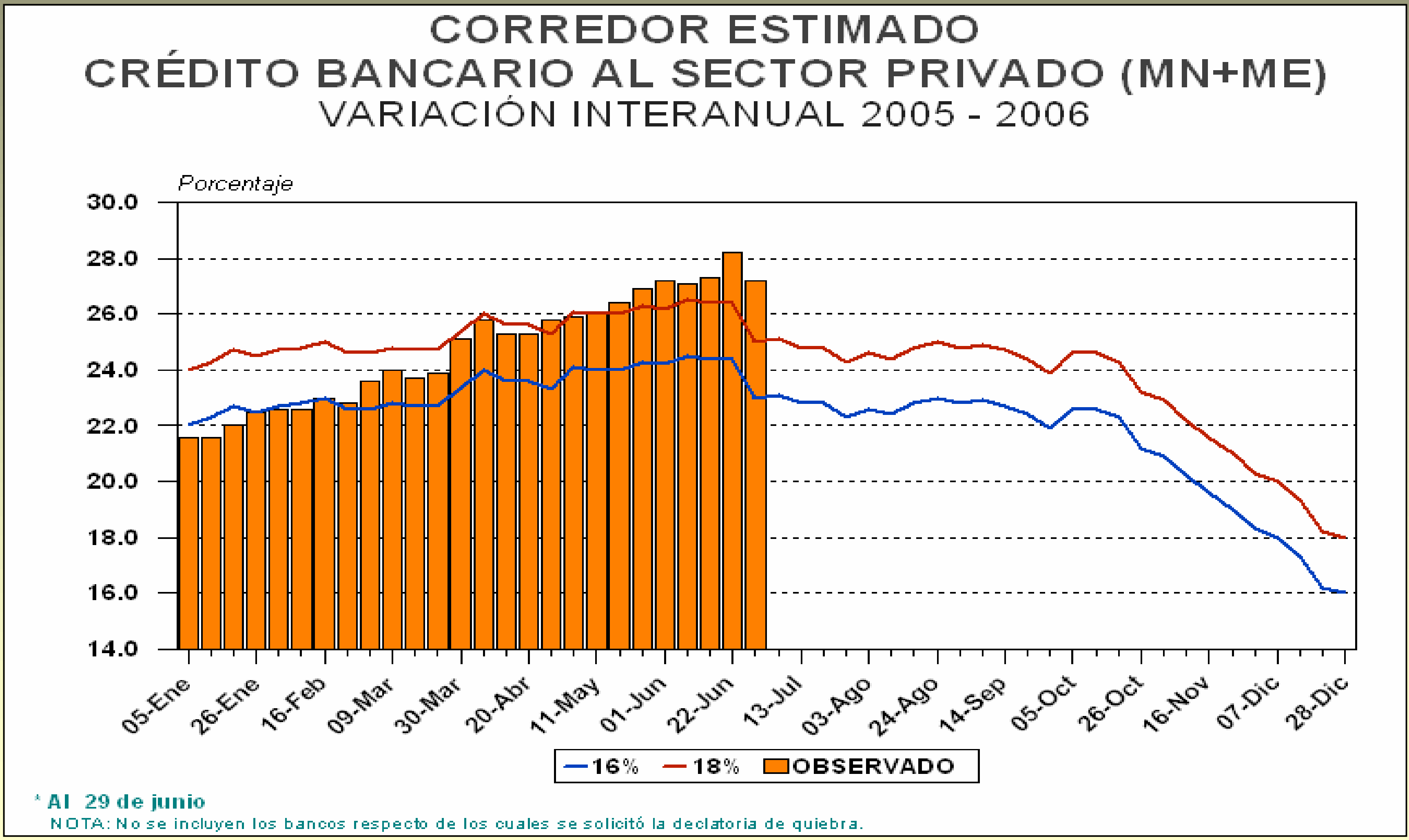
To June 2006, the inter-annual growth rate of the banking credit to the private sector was at 27.2%, 2.2 percentage points over the estimated for June 29, 2006 (23.0%-25.0%).

Banking Credit to the Private Sector Estimated Runner

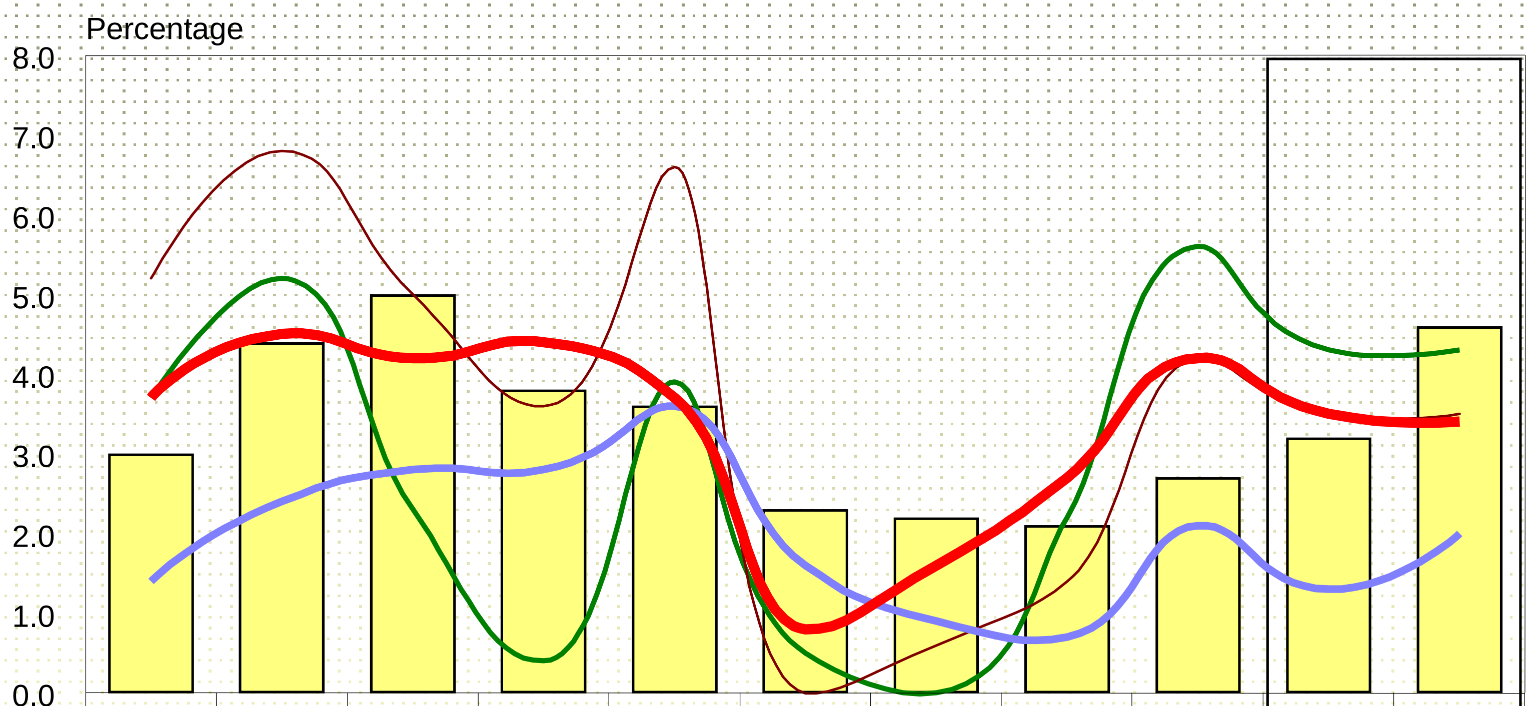


V. PERSPECTIVES FOR 2006

A. IN THE REAL SECTOR

GUATEMALA AND COMMERCIAL PARTNERS

GROSS DOMESTIC PRODUCT
1996 - 2006

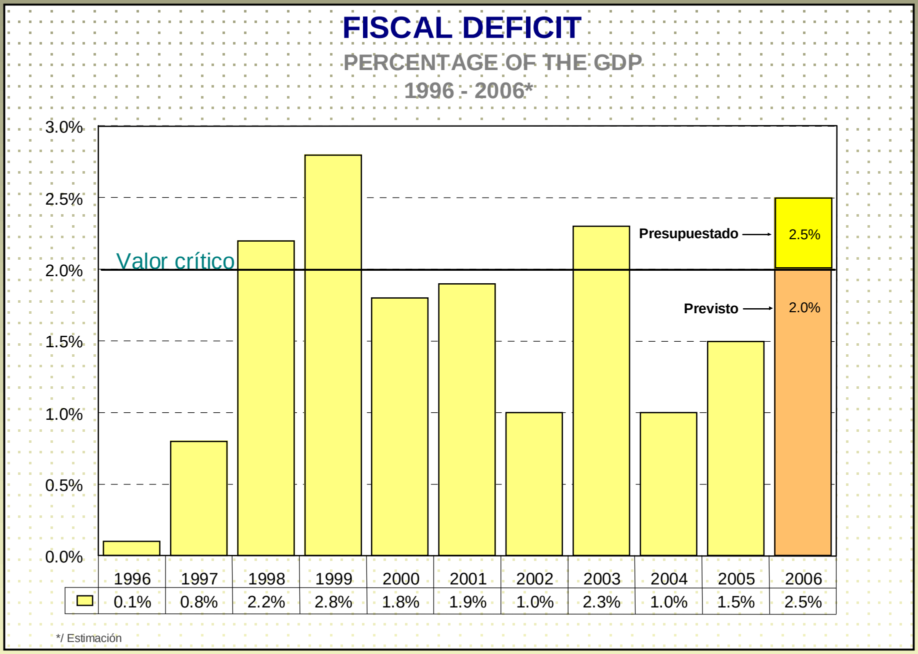


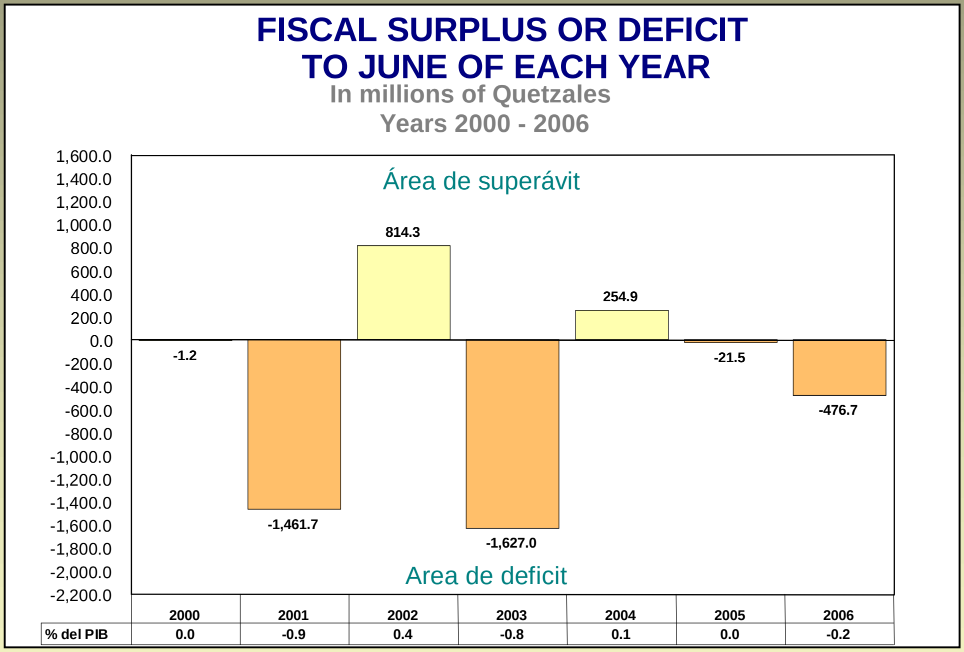
	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005 ***	**2006 ****
USA	3.7	4.5	4.2	4.4	3.7	0.8	1.6	2.7	4.2	**3.5**	**3.4**
Eurozona	1.4	2.4	2.8	2.8	3.6	1.6	0.9	0.7	2.1	**1.3**	**2.0**
Mexico	5.2	6.8	5.0	3.6	6.6	0.0	0.6	1.4	4.2	**3.5**	**3.5**
Latin Am	3.7	5.2	2.3	0.4	3.9	0.5	0.0	2.2	5.6	**4.3**	**4.3**
Guatemala	3.0	4.4	5.0	3.8	3.6	2.3	2.2	2.1	2.7	**3.2**	**4.6**

Sourcee: FMI WEO April 2006

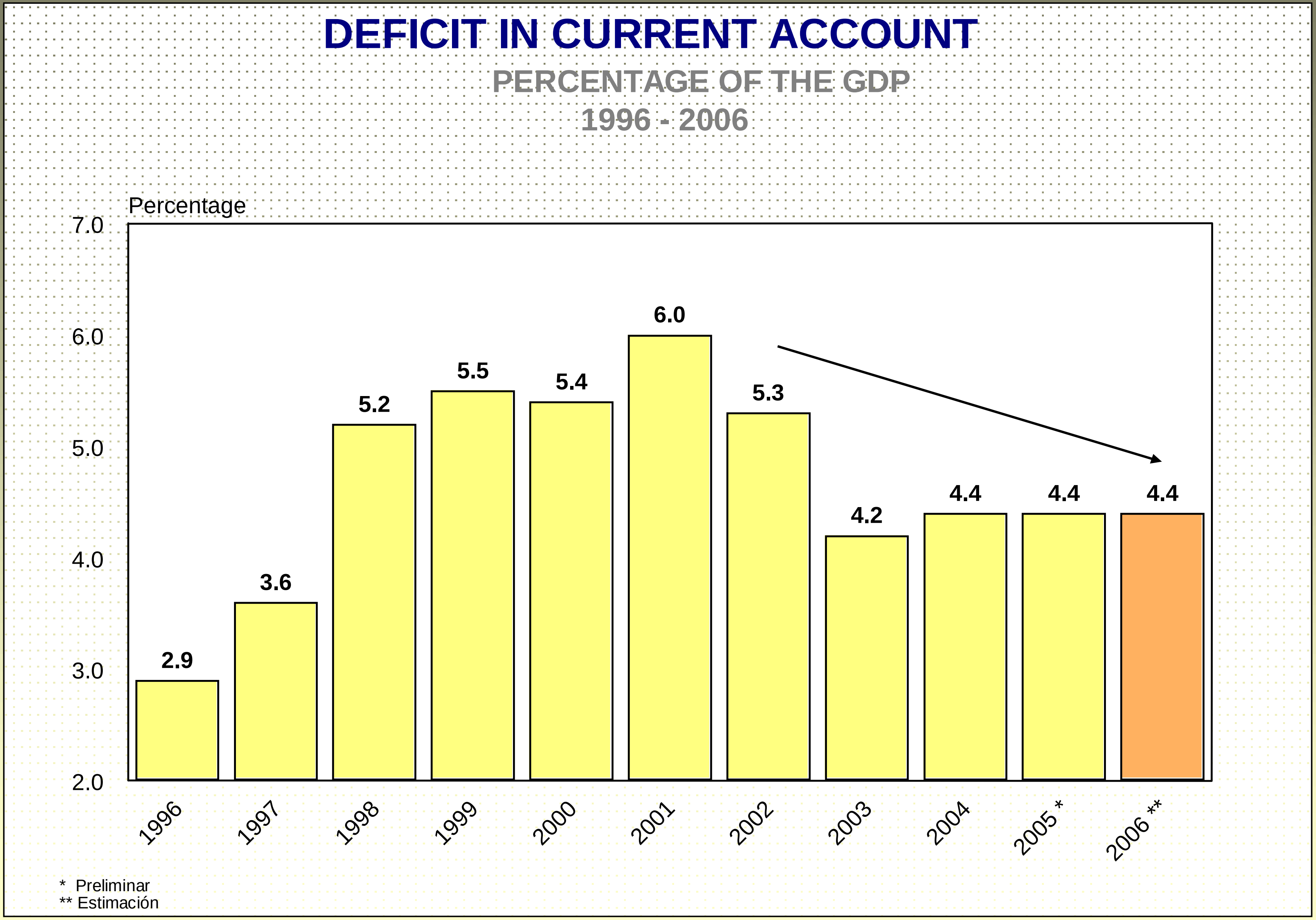
* Preliminar
** Estimación

B. IN THE FISCAL SECTOR





C. IN THE EXTERNAL SECTOR



VI. CONCLUSIONS

A. During the first semester of 2006, notwithstanding the increase of the international price of oil, the inflationary rhythm has gradually decelerated, due to the application of monetary and fiscal policy disciplines.

B. The *Banco de Guatemala* will continue to watch over the preservation of the macroeconomic stability conditions of the country and will remain vigilant of the behavior of the price level and of the expectations surrounding them, taking into account that any adjustment (that to either increase or decrease) in the leading interest rate in the near future, will be due to, among other factors, the evolution in the second semester of three fundamental aspects:

- ü The evolution of the international price of oil and its impact on domestic inflation;
- ü The success of fiscal policy regarding keeping the fiscal deficit under control; and,
- ü The behavior of the international interest rates, which are foreseen as being able to increase in the second semester of the year.

Thank you very much for your attention!

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

Guatemala, July 25, 2006