



BANCO DE GUATEMALA

PRESS BULLETIN

THE EXECUTION COMMITTEE OF BANCO DE GUATEMALA INCREASES THE INTEREST RATES OF THE MONETARY POLICY FROM 3.25% TO 3.50%, AS OF MONDAY, AUGUST 22nd 2005

1. Based on the increase on the general level of prices of 0.94% observed in July, the second highest of the year, the action taken today by the Execution Committee is addressed to reduce the inflationary pressures that could be related to the exceptional increase in the international price of oil as well as to related events, which in July increased the prices of two specific items of the family's basic needs: first, meat (which price increased when the product's demand increased in the international markets, which increased exportations, specially to Mexico); and, second, vegetables and legumes (which were scarce in the local market due to the pouring rains recorded in June and July.)
2. Even though some of such extraordinary factors would not happen again in August, there is the possibility that the excessive increase of price of raw oil still continues to be shown, which together with the fact that the inflationary rhythm in July exceeds the 9% level, it could negatively influence the inflationary expectations of economical agents, which makes it necessary to adjust the main interest rate of the monetary policy in order to satisfy such expectations.
3. Even though inflation in Guatemala does not reach alarming levels, if compared with the recorded on the remaining countries of the region, and also, if it is considered that the subjacent inflation has not shown an extraordinary improvement, it should not loose the purpose of the importance that for an economy like the one for Guatemala means to keep the total inflationary rhythm on one-digit level, in order to avoid inconvenient decisions regarding consumption, saving, and investment by the economic agents, thus, the Central Bank could consider future adjustments in the leader interest rate of the monetary policy, when necessary, until it assures that the inflationary expectations are under control.
4. The performances of the Execution Committee are looking forward for the convergence of the inflationary rhythm in the year 2006 to the range between 4% and 6%, all in the basis of the satisfying result reached in the fiscal policy execution and consistency with the perspectives of a higher activity in the national economy.

Guatemala, August 19th, 2005

The deeds in which it is spread upon the record deliberations and decisions made by the Execution Committee may be seen at Banco de Guatemala website: www.banguat.gob.gt