



BANCO DE GUATEMALA

PRESS RELEASE

THE MONETARY BOARD RAISES THE LEADING INTEREST RATE OF THE MONETARY POLICY FROM 4.75% TO 5.00%, AS OF THURSDAY, JULY 28, 2011

The Monetary Board in its session celebrated on July 27, 2011; after having heard the Inflation Risks Balance, the results of the mechanical running of the Semi-structural Macroeconomic Model and the orientation of the indicative variables of the monetary policy, based on an integral analysis of the domestic and foreign situation, decided by unanimity to raise the leading interest rate of the monetary policy by 25 basic points, from 4.75% to 5.00%.

The Monetary Board in its analysis considered that the world economy continues its expansion, although at a slower pace than forecasted. However, according to the International Monetary Fund, this moderation in growth is temporary and the forecasts still point toward world growth being over the historical average. It also considered that the international prices of commodities (oil, corn and wheat) in the last weeks started to show a growing trend and continue to be at high comparison levels with those of the previous year. Domestically, the Monetary Board took into account that the observed inflation to June continued to rise, partly as a result of the increase in commodity prices; that the forecasts and inflation expectations continue to be high, although they show certain moderation for 2012; that the IMAE continues registering positive rates and international trade continues to be dynamic; that public finance registered an improvement; and, although it is expected that the fiscal deficit for 2011 will be lower to the forecasted at the beginning of the year, said deficit continues to be higher than the values registered before the world crisis.

In that context, a prospective analysis of the expected behavior of the main variables of the national economy, and particularly, of expected inflation in the medium and long terms, the Monetary Board considered it necessary to adjust the interest rate of the monetary policy to counteract the second round effects in the evolution of inflation and abate the inflationary expectations and, in this way, start a convergence trajectory toward the medium term inflation target.

The Monetary Board declared that they will continue giving follow up to the forecast and inflation expectations and of the main economic indicators, domestic as well as foreign, particularly those that show strong uncertainty, in order to adopt timely actions that keep the inflation trajectory away from the medium term target.

Guatemala, July 27, 2011

With a month's delay, a summary of the arguments, presented in each session of the Monetary Board where there is a discussion as to the interest rate of the monetary policy, can be seen on the Web page of the Banco de Guatemala www.banguat.gob.gt