EXECUTION COMMITTEE

ACT NUMBER 1-2006

Session 1-2006 celebrated in the *Banco de Guatemala* building on Friday, January sixth, two thousand six, at fifteen hours and thirty minutes.

The coordinator, with the corresponding quorum, for the consideration of the Execution Committee submitted the project for the order of the day.

FIRST: Approval of Project for act number 66-2005, corresponding to the session celebrated on December 29, 2005.
(The project of the act circulated.)

SECOND: Market information and monetary variables.

a) Money and Exchange markets.
b) Monetary Variables

THIRD: Analysis of the monetary situation and definition of the guidelines of execution for the Monetary, Exchange and Credit Policy for the following week.

FOURTH: Other matters.
Not having more observations, the committee approved the order of the day.

FIRST: The coordinator has put to consideration the corresponding project act.
Not having any observations, the committee approved act number 66-2005.

SECOND: Information of markets and monetary variables.

The coordinator requested that the corresponding information be presented.

a) The Director of the Department of Monetary Stabilization Operations, regarding the Money Market informed that during the period from January 3 to 6, 2006, with partial numbers to date, registered an attraction of LTD's for Q2,966.7 million and maturity of Q3,194.3 million, which gave a net result of fund raising for Q227.6 million, associated to the operations in bidding (net fund-raising for Q7.7 million), in the Money Electronic

Banking Table –MEBD- and in the stock exchange (net maturity of Q164.0 million) and at the window (net maturity for Q71.3 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of January 3 to 6, 2006 for the biddings case, the cut interest rates were of: 5.00% for 91 days, 6.25% for 364 days. On the other hand, in the MEBD and in the stock exchange the fund-raising took place for 7 days, at the leading interest rate of the monetary policy of 4.25%.

As for the weighted average interest rates of total operations of repurchase agreements made in the stock exchange of the country, it was indicated that, during the January 3 to 6, 2006 period, with partial data to date, the minimum was of 4.06%, observed January 3, 2006, and the maximum of 4.49%, registered on January 4, 2006. It also pointed out that the amounts negotiated were higher with public titles and that the average weighted interest rates during said period were of 4.35% for public titles and of 5.66% for the financial sector titles.

On the other hand, it was informed that during the January 3 to 5, 2006 period, regarding Treasury Bond operations the maturity was registered for Q110.7 million and US$1.1 million.

Regarding the Institutional Market for foreign currency the report stated that during the period of December 28, 2005 to January 5, 2006, the average daily operations for purchase were of US$72.6 million and the sale was of US$75.3 million and the exchange rates showed a tendency toward the rise. In effect, on Wednesday, December 28 they were of Q7.59204 per US$1.00 for purchase and of Q7.61208 per US$1.00 for sale, on Thursday, December 29 the rates were Q7.59832 and Q7.62227, on Tuesday, January 3 they were Q7.61148 and Q7.64175, Wednesday, January 4 they were Q7.62309 y Q7.64567, and finally, on Thursday, January 5 they were Q7.63195 y Q7.65420.

In the operations of the electronic systems of negotiations of foreign currency administered by the *Bolsa de Valores Nacional, S.A.* (National Stock Exchange, S.A.), for the period of December 29, 2005 to January 6, 2006 of the present year commented that the Private Institutional Foreign Currency System –SPID-, there were no operations. In the Electronic Foreign Currency Negotiation System –SINEDI-, they declared that during the period no operations were closed and only the *Banco de Guatemala* received daily, a bid for the purchase of US$10.0 million, with a price of Q7.58900, according to the guidelines of the Execution Committee.

On the other hand, they informed that the Future Foreign Currency Market that is operated by the National Stock Exchange, S.A., during the period of December 29, 2005 to January 6, 2006, no operations were closed. As for the closing price in reference up to Friday, January 6, they indicated that for maturity to liquidate in March, 2006 it was of Q7.65000 and for the maturity to liquidate in June, 2006 was of Q7.66000.

b) The Sub-director for the Economic Studies Department informed that on January 5, 2005, the excess of the daily float of the banking system was located in a negative position of Q674.5 million, with an average position of Q309.1 million.

The highlights during the period of December 29, 2005 to January 5, 2006, the main demonetizing factors were the increase in the balances of the banking float for Q727.7 million, the deposits of the rest of the public sector in the Central Bank for Q145.7 million and the deposits of the central government in the *Banco de Guatemala* for Q33.3 million; while the main monetizing factors were the decrease in the long term deposits constituted in the *Banco de Guatemala* for Q345.8 million and the increase in the Net International Reserve –RIN- the equivalent of Q127.2 million.

Regarding the indicative variables of the Monetary, Exchange and Credit Policy they indicated that with the projection to November for December of 2005 the total expected inflation estimated with a model of ordinary squared minimums is of 9.15% and with a softened exponential model of 9.22%; the simple average of both models is located at 9.19%, which is above the policy range goal (4.0%-6.0%), which suggests a restrictive monetary policy.

Regarding the expected subjacent inflation for 2005, with data up to November 2005, estimated with an integrated auto-regression model of mobile averages ARIMA, was of 7.87%, whereas the estimated with a softened exponential model it was of 8.01%; the simple average of both models is of 7.94%, which is above the policy range goal (4.0%-6.0%), which suggests a restrictive monetary policy.

As to the parameter rate, up to December 29, 2005, the lower limit was 3.87%, and the upper limit is 11.77%, while the simple average resulting between the repurchase agreements of 8 to 15 days (5.50%) and the weighted average rate of open market operations –OMA- of up to 91 days (4.50%) was situated at 5.00%, which is located within the estimated for the parameter rate, situation that suggests that the monetary policy remain invariable. When referring to the parity passive rate, they declared that up to December 29, 2005, the lower limit was 6.25% and the upper limit was 7.83%, and the weighted average rate of long term deposits of the banking system was of 6.94%, which maintains itself within the range of the parity passive rate, which advises an invariable monetary policy.

As to monetary issue observed to January 5, 2006, they indicated that it presents a deviation of Q318.3 million according to the upper limit programmed for said variable, which would indicate that there is space available to restrict the monetary policy.

As to the total payment means, to December 29, 2005, it exhibited an inter-annual growth rate of 14.8%, which is within the estimated range for said variable on that same date (10.0% to 12.0%), which advises to restrict the monetary policy. Also, up to said date, the banking credit to the private sector registered an inter-annual growth rate of 21.9%, which is above the upper limit of the estimated range for December 29, 2005 (11.5% to 13.5%), which suggests a restrictive monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in December of 2005, for December of 2005 an inflationary rhythm of 9.61% is expected, which is above the goal range for monetary policy (4.0% to 6.0%), an aspect which suggests restricting monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to December 29, 2005, was -2.91 percentage points which is within the range estimated for said variable on that date (-4.19 to -2.59 percentage points), which advises that monetary policy should remain invariable.

To conclude this report, regarding the orientation of the indicative variables; it was reported that it remained the same regarding last week: six variables suggest that the monetary policy be restricted (the total inflation projection, the subjacent inflation projection, the inflation expectations of private analysts, monetary issue, banking credit to the private sector and the total payment means); three variables suggest the monetary policy remain invariable (parity passive rate, the parameter rate, and the Monetary Conditions Indexes); and none suggest to be lax with it.

THIRD: Analysis of the monetary situation and definition of the guidelines of Monetary, Exchange and Credit Policy execution for the following week.

a) Analysis of the monetary situation

The Committee took note that the monetizing and demonetizing factors foreseen for the week of January 6 to 12, 2006 indicate an increase in the creation of primary liquidity for Q2, 605.5 million, fundamentally due to the maturity of LTD's. Also, a decrease is foreseen for the demand for monetary issue for Q256.8 million and a daily position of banking liquidity for January 12, 2006 for Q169.1 million. Also, monetary issue is deviated in Q500.9 million above the central programmed point for said variable, therefore the excess of added liquidity for the referred period is located at Q3, 532.3 million; if these factors are given, the Committee considered that it would be necessary to make the issue offer compatible with the demand programmed, that the LTD's that expire during the period (Q2,490.3 million, according to registries to January 5, 2006) have to be relocated; and also, make additional raising funds for around Q1,042.0 million.

Regarding the determination of quotas for biddings in the following week, the information provided for estimated daily flow of monetization for the following week and the established rule for that effect. Also, the Committee was informed of the conversation with the representatives of the *Ministerio de Finanzas Públicas* (Equivalent to the Department of the Treasury), in the coordination meeting made on January 6, 2006, regarding the placement of Treasury Bonds on the Money Market, foreseen for Tuesdays and Thursdays of each week. In that sense, in order to maintain adequate coordination in the money Market, the Committee agreed that the Central Bank fund-raise through LTDs on Mondays and Fridays of every week.

Based on the above, the Committee agreed that for the following week, the fund raising quota for the 91 and 364 day terms to be convened on Monday of that week was established at Q50.0 million and Q40.0 million, respectively; and for the 182 and 728 day terms to be convened on Friday, was established at Q40.0 million each.

Regarding the biddings for LTDs convened in US dollars, the Committee took note that for the following week there were no important maturities of Treasury Bonds expressed in US dollars with residents, which suggest that through this venue, there would be no pressure in the exchange market, reason why it was agreed on that for the week of January 9 to 13, 2006, no LTDs would be convened for bidding in the mentioned currency.

b) Definition of the execution guidelines for the Monetary, Exchange and Credit Policy for the following week.

Based on the monetary situation analysis, the Execution Committee agreed that for the week of January 9 to 13, 2006, they would maintain the execution guidelines for the monetary policy observed during the present week; in other words, continue to operate in MEBD and in the Stock exchange, in raising funds as well as in giving liquidity to the market. The raising funds operations will be 7 day terms without quota, at an interest rate of 4.25%, whereas, the offer position of liquidity at 7 day terms, with an initial interest rate of 7.65%, whose guarantee of said operations will be constituted by receiving public titles, only. It is worth mentioning that the Committee stressed the importance of participating in both venues; in other words, maintaining simultaneous positions of giving liquidity to the market and liquidity withdrawal, considering said participation constitutes a sign of disposition of the Central Bank to moderate the volatility of the short term interest rate.

The Committee, taking into consideration the agreed with the fiscal policy to participate in the money market, agreed that the calling for biddings for term deposits would continue on Monday and Friday for the following week; so Monday for 91 and 364 day terms, with an raising funds quota of Q50.0 million and Q40.0 million, respectively; and Friday for 182 and 728 day terms, with raising funds quotas for Q40.0 million each. The interest rates would be determined according to the market conditions, reflected in the bids received, considering the established yield curve by the technical department. The payment of interest for the 728 day term will be every semester, so as to keep with the same conditions held by the *Ministerio de Finanzas Públicas* (Equivalent to the Department of the Treasury).

On the other hand, the Committee agreed to continue acquiring directly at the window, with official and public entities. In the case of official entities, that the raising funds continue according to the prevalent financial conditions; in other words, the interest rate for 7 day terms would be the one that applies for the *Banco de Guatemala* in the MEBD and in the stock exchange and, for the other terms, the interest rate would be the mobile average, for each term, of the weighted average interest rate resulting in the previous four bidding events. As to fund raising for the public, the interest rate for each term, can not be higher than the weighted average of the corresponding bid minus one percentage point.

The committee agreed to continue accepting the constitution of long term deposits in US dollars directly at the window, from public entities, in current terms (91 days and 336 days) and that the interest rate to apply would be that of the weighted average result from the last bidding awarded to term deposits in said currency.

As for the participation of the *Banco de Guatemala* in the Exchange market, the Committee agreed that it should continue participating in the SINEDI through participation rules established in session 55-2005 dated October 27, 2005.

FOURTH: Other matters.

Not having any other matter to see, the session ends at sixteen hours and forty minutes, all who attended sign in agreement.