EXECUTION COMMITTEE

ACT NUMBER 8-2006

Session 8-2006 celebrated in the Banco de Guatemala building on Friday, February seventeenth, 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 7-2006, corresponding to the session celebrated on February 10, 2006.
(The project of the act circulated.)

SECOND: Market information and monetary variables.
a) Money and Exchange markets.
b) Monetary Variables

THIRD: Balance of Inflation Risks.

FOURTH: Prognosis of mid-term inflation (Semi-structural Macro-economic Model).

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

SIXTH: Other matters.

Not having more observations, the committee approves 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 7-2006.

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 February 13 to 17, 2006, with partial numbers to date, registered an attraction of LTD's for Q3,551.1 million and maturity of

Q2,375.2 million, which gave a net result of fund raising for Q1,175.9 million, associated to the operations in bidding (net attraction for Q50.7 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund raising of Q1,203.5 million) and at the window (net maturity for Q78.3 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of February 13 to 17, 2006 for the biddings case, the cut interest rates were of: 5.00% for 91 days, 6.2494% 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 February 13 to 17, 2006 period, with partial data, the minimum was of 4.32%, observed February 13, 2006, and the maximum of 4.52%, registered on February 14, 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 4.39% for public titles and of 5.75% for the financial sector titles.

On the other hand, it was informed that during the February 13 to 16, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q51.0 million and maturity for Q120.1 million.

Regarding the Institutional Market for foreign currency the report stated that during the period of February 10 to 16, 2006, the average daily operations for purchase were of US$66.5 million and the sale was of US$61.9 million as the exchange rates remained stable. In effect, on Friday, February 10 they were of Q7.59873 per US$1.00 for purchase and of Q7.61679 per US$1.00 for sale, on Monday, February 13 the rates were Q7.59748 and Q7.61908, on Tuesday, February 14 they were Q7.60133 and Q7.61842, Wednesday, February 15 they were Q7.60365 y Q7.62049, and finally, on Thursday, February 16 they were Q7.60718 y Q7.62246.

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 February 13 to 17, 2006, the Private Institutional Foreign Currency System –SPID-, commented that the following operations took place: on Tuesday, February 14 for

US$2.6 million at a weighted average exchange rate of Q7.618460750 per US$1.00, on Wednesday, February 15 US$0.5 million at Q7.61900; and, on Thursday, February 16, for US$0.4 million at Q7.62525. Regarding 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 following 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 February 13 to 17, 2006, did not close operations. As for the closing price in reference up to Friday, February 17, they indicated that for maturity to liquidate in March of 2006 the price was Q7.63750, and for the maturity to liquidate in June of 2006 it was of Q7.66000.

b) The Sub-director for the Economic Studies Department informed that on February 16, 2006, the excess of the daily float of the banking system was located in a position of Q11.4 million, with an average position of Q389.0 million.

The highlights during the period of February 9 to16, 2006, were: the main demonetizing factors were the increase in the balance of the deposits constituted in the *Banco de Guatemala* for Q368.7 million, the deposits of the Central Government in the *Banco de Guatemala* for Q88.2 million and the decrease in the balance of the Net International Reserve –RIN- balance for the equivalent of Q203.2 million; while the main monetizing factors were the decrease in the banking float balance for Q399.9 million and the deposits of the rest of the public sector in the Central Bank for Q92.3 million.

Regarding the indicative variables of the Monetary, Exchange Rate and Credit Policy they indicated that with the projection to January 2006, for December 2006 the total expected inflation estimated with a model of ordinary squared minimums is of 7.40% and with a softened exponential model of 6.49%; the simple average of both models is located at 6.95%, which is above the policy goal (6.0%+/-1 percentage point), which suggests the monetary policy remain invariable.

Regarding the expected subjacent inflation for 2006, with data up to January 2006, estimated with an integrated auto-regression model of mobile averages ARIMA was of 6.95%, whereas the estimated with a softened exponential model was of 5.87%; the simple average of both models is of 6.41%, which is above the policy goal (6.0%+/-1 percentage point), which suggests the monetary policy remain invariable.

As to the parameter rate, up to February 9, 2006, the lower limit was 1.39%, and the upper limit is 9.29%, while the simple average between the repurchase agreements of 8 to 15 days (4.47%) and the weighted average rate of the monetary stabilization operations of up to 91 days (4.61%) was situated at 4.54%, which is located within the estimated for the parameter rate, situation that suggests remaining at an invariable monetary policy. When referring to the parity passive rate, they declared that up to February 9, 2006, the lower limit was 6.46% and the upper limit was 8.04%, and the weighted average rate of long term deposits of the banking system was of 6.96%, which maintains itself within the fluctuation range of the parity passive rate, which advises an invariable monetary policy.

As to monetary issue observed to February 16, 2006, they indicated that it presents a deviation of Q411.9 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 February 9, 2006, it exhibited an inter-annual growth rate of 16.2%, which is within the estimated range for said variable on that same date (17.3% to 19.3%), which advises relaxing the monetary policy. Also, up to said date, the banking credit of the private sector registered an inter-annual growth rate of 22.6%, which is below the lower limit of the estimated range for February 9, 2006 (22.8% to 24.8%), which suggests relaxing the monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in January 2006, for December 2006 an inflationary rhythm of 7.53% is expected, which is above the goal for monetary policy (6.0%+/-1 percentage point), an aspect which suggests restricting monetary policy. Also it was indicated that the new implied inflation expectations, for January 2006 showed an inflationary rhythm of 5.95%, which is within the tolerance margin for the monetary policy goal for 2006 (6.0%+/-1 percentage point); which suggests an invariable monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to February 9, 2006, was -2.83 percentage points which is within the range estimated for said variable on that date (-3.71 to -2.11 percentage points), which advises that the 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 suggest the monetary policy remain invariable (the total inflation projection, the subjacent inflation projection, the parameter rate, parity passive rate, the implied inflation expectations and the Monetary Conditions Index); two variables suggest the monetary policy remain relaxed (total payment means and the banking credit to the private sector); and suggest the monetary policy remain restrictive (the inflation expectations of private analysts and monetary issue).

THIRD: Inflation Risks Balance.

The Committee continued the analysis beginning the week before, which must be presented to the Monetary Board in its session of February 22, 2006 therefore, according to the calendar approved, said certified body made a decision regarding the leading interest rate of the monetary policy. For the effect, the technical departments of the *Banco de Guatemala* presented, on the one hand, the prognosis for the mid-term generated in the first running of the Semi-structural Macroeconomic Model (MMS for its acronym in Spanish), and on the other hand, the inflation risks balance.

Concerning the inflation risks balance the following were detected:

As to the external conditions, it was indicated that, even though the recent information of the international oil market pointed to a reduction in price of said product, the breach between world oil supply and demand is minimal, which, according to international experts in the crude oil market, generates an ample volatility in the international price of oil, therefore any event that affects said market can make the price of crude oil rise or decrease abruptly. The previous confirms that the behavior of the referred price continues to be the main inflationary risk in the country, although in lesser magnitude than in 2005 and in January 2006.

It was indicated that the external inflation would continue to be a risk; as the compound inflation index of the main commercial partners of Guatemala accordingly continues to be relatively high. In effect, the inflationary rhythm of the United States of America (country with a greater relative weight within the index) is foreseen to be located at around 3.70% in January 2006, which implies an increase of around 0.75 percentage points regarding the inflationary rhythm observed in January, 2005 (2.97%), therefore in this manner the imported inflation has not improved; however, a deceleration of the referred index in 2006 is foreseen, which would go from 3.95% in December 2005 to 3.80% in December 2006.

As to the internal conditions, it was indicated that regarding the variables subject to a follow up in the monetary program, in the first place, to date, the level of monetary operations stabilization is below the programmed; and, in second place: the monetary issue continues to observe a deviation over the upper limit of the programmed runner for said variable.

It was mentioned that the inflationary rhythm in January 2006 decelerated regarding that of December 2005 and that the greater part of excess inflation over the established goal is attributable to exogenous factors, mainly to the effect of oil prices. The fact that of the 8.08% of the inflationary rhythm observed in January, 2.81 percentage points are attributable to imported inflation was also emphasized; of which 0.52 percentage points correspond to historic imported inflation, and the remaining 5.79 percentage points can be attributable to monetary factors, which implies that in the absence of exogenous shocks, the inter-annual inflation would be below the punctual inflation goal (6%).

Regarding the indicative variables it was pointed out that, when comparing the situation of these informed, to date, regarding the situation observed to January 20, 2006 (date on which the Committee last analyzed the level of the leading interest rate), the number of indicative variables that suggest restricting the monetary policy decreased from four to two (the monetary issue and the inflation expectations of the panel of private analysts); increased from one to two the variables that advise relaxing the monetary policy (the total payment means and the banking credit to the private sector); and, six variables advise that the monetary policy remain invariable (the projection of total inflation, the projection of subjacent inflation, the parity liable rate, the parameter rate, the implicit inflation expectations and the Monetary Conditions Index).

Finally, the econometric projections of inflation for 2006, prepared by the technical departments, using data observed to January 2006, estimate inflation (total and subjacent) for December 2006, to be located within a margin of tolerance for the policy goal (6% +/- 1 percentage point). Notwithstanding, it was also pointed out that a stricter interpretation of the inflation goal; in other words, when considering the punctual goal of 6%, it indicates that the referred projections are located over said goal. On the other hand, it was also mentioned that the inflation expectations of the panel of private analysts, according to the survey made in January, indicating that the referred panel projects an inflationary rhythm for the end of 2006 at a level over the inflation goal.

FOURTH: Prognosis of the mid-term inflation (Semi-structural Macroeconomic Model).

The Technical Departments presented the mid term prognosis generated by the first running of the Semi-structural Macroeconomic Model to the Committee. In the presentation of the Semi-structural Macroeconomic Model it was indicated that the prognosis of inflation in the short term generated by the series time model, illustrating that the trimester inflation (annualized and trimesterly) in the first and second trimesters of 2006 will be of 5.38% and 6.81%, respectively. On the other hand, in inter-annual variation rate terms of the Consumer Price Index, the corresponding prognosis is of 8.07% and 7.63%, for the first and second trimesters of 2006, respectively.

Regarding the mid term prognosis by the MMS, it was indicated that the first running of the model foresees an inter-annual variation rate of the CPI of 6.51% in the fourth trimester of 2006 and of 5.71% in the fourth trimester of 2007.

Also, the referred prognosis that was pointed out is conditional to the projected trajectory of the leading interest rate of the monetary policy of the Central Bank.

It was indicated that the referred prognosis in the mid-term are based on a risk estimation in which there is a 50% probability that the inflation is greater than the modal prognosis (in other words, of those values with greater probability of occurrence). Also, it was commented that, on the one hand, there is a 40% probability that the inflation rate is within the tolerance margin of the inflation goal for the fourth trimester of 2006 (6% +/- 1 percentage point). In that regard, emphasis was made on the fact that while the prognosis horizon is more extended, the trust intervals of these tend to be wider and, therefore, the uncertainty, also.

The technical departments pointed out that the trajectory of the leading interest rate of the monetary policy, that according to the MMS, it is compatible with the previous prognosis on the inflation rate, involves values of said interest rate of 4.5%, 5.0%, 5.5% and 5.75% in the first, second, third and fourth trimesters of 2007, in their order.

Regarding the growth rate of the real product, the technical departments indicate that, as long as statistics in national accounts can be counted on every trimester, the MMS uses trimesterly data and not of the season of the Monthly Economic Activity Index, IMAE, primary. It was also indicated that, for effects of the running of the model, they compute the potential growth of the economy with the softened trajectory, through the application of the Hodrick-Prescott filter, of the primary IMAE. According to the data observed in the fourth trimester of 2005, the growth rate of the IMAE (4.12%) would be over the potential growth rate (2.92%). The prognosis model that, congruent with the decreasing trajectory in the next eight trimesters, so much so that the potential growth rate would have a slightly ascendant behavior in said period, in order that in the fourth trimester of 2006 the foreseen growth rate would be of 3.47%, higher to the potential growth rate foreseen for that period (3.01%).

FIFTH: Analysis of the monetary situation and definition of the guidelines of Monetary, Exchange Rate 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 February 17 to 23, 2006 indicate an increase in the creation of primary liquidity for Q3, 934.0 million, fundamentally due to the maturity of LTD's. Also, an increase in the demand for monetary issue for Q1.4 million is foreseen and a daily banking liquidity position for Q192.9 million. Also, monetary issue is deviated in Q594.5 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q4, 720.0 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 (Q3,305.3 million, according to registries to February 16, 2006) have to be relocated; and also, make additional raising funds for around Q1, 414.7 million.

Based on the information provided, the technical bodies presented the conclusions to the Committee that, at the same time, deliberated on the analysis that must be presented to the Monetary Board.

In that context, after having exposed the relative to the elements that compose the inflation risks balance, the prognosis of the mid term that provides the first running of the Semi-structural Macroeconomic Model, as well as the behavior of the indicative variables of the monetary policy, the technical departments arrived at the conclusion that the factors prevail that advise restricting the monetary conditions, therefore an adjustment in the leading interest rate will contribute to, on the one hand, that they moderate the inflationary expectations even more and, on the other hand, support the credibility of the Central Bank in the management of the monetary policy, aspect of extreme importance for the fulfillment of the inflation goal for December 2006 and 2007.

According to the analysis made by the technical bodies, and based on the orientation of the indicative variables, in the balance of inflation risks and on the results of the first running of the semi-structural macroeconomic model, some members of the Committee expressed that if the analysis and conclusion of the technical bodies, in the sense that some factors oriented toward restricting the monetary conditions prevail, is well founded, it is also important to consider other aspects that point toward the convenience of acting prudently in the current junction.

In the first place, the Committee considered that the inflation continued its tendency toward deceleration, also registering the lowest inflation of all Januarys since the new Consumer Price Index began, also since domestic inflation (excluding imported inflation) was reduced in more than one percentage point, locating itself at a rhythm of 5.27%. Also, that the projections of inflation, in the short term, (total and subjacent) indicate this would continue reducing and that it would be located slightly over the punctual goal (and within the tolerance range, for the first time in several months) for 2006, even though it is outside the goal for 2007. The members of the Committee also commented that the inflation projections, in the mid term, (annualized trimesterly and annually) generated by the MMS also indicate a descendant trajectory, that would be slightly over the punctual goal (and within the “range”) for the fourth trimester of 2006 as well as for the fourth trimester of 2007; also, it was indicated that according to the Macroeconomic Structural model, the greater possibilities are that inflation is located within 6% and 7% in 2007. At the same time the Committee observed that the inflation projections, in the mid term, implied that the additional increases in the leading interest rate in the course of 2006, beginning in the first trimester even. Some members of the committee pointed out that the convenience of reflecting on the possibility of an additional deceleration that the observed inflation could substantially change the projections and that would allow greater laxness as to the trajectory of the leading interest rate.

Another topic of analysis was the behavior of the international price of oil. In this regard, the Committee highlighted the fact that this was the main factor that proved that the inflation will be greater than that in 2004 and 2005. It was pointed out that the prices have been falling in the last weeks, including under the projected level (that integrate the CPI of the basic food basket). A member of the Committee indicated that said reduction of prices must be analyzed carefully, given that according to recent information from Global Insight, the breach that exists between world supply and demand of oil is minimum (around 0.6 million daily barrels) when in normal conditions, said breach is approximately 3.0 million daily barrels, which shows the vulnerability of said market, so that any eventuality of an economic or political nature can influence positively or negatively on the behavior of the price. In particular, it was commented that the decision of the Organization of the Oil Exporting Countries, OPEP, would take in March as to the exportation quotas, which would have to be watched with attention and evaluate with the repercussion on future prices.

Some members of the Committee consider it convenient to analyze the behavior of the exchange rate and its relation with the decision that will have to be made in matter of the leading interest rate, coinciding in that the exchange rate has been shown to be stable in the last weeks. A member of the Committee indicated that the level shown the week before does not register a significant deviation regarding the estimated level. In that sense, the Committee estimated that the exchange stability observed indicates that in this manner, there are no inflationary or deflationary pressures. It was also commented that the rises in the leading interest rate of the Federal Reserve, whose occurrence is assigned a high probability for the next sessions, could propitiate a reversion of the capital movements (toward the exterior) that affects the exchange rate. A member of the Committee expressed that, in the current junction, the exchange rate should not be an element that interferes in the decisions of the monetary policy, since it has had extremely stable behavior, under any measure of volatility like the ones that in their opportunity were stated by Professor

Sebastian Edwards. In that regard, the Committee reiterated the importance of promptly adopting the new rule of participation in the exchange market, in order to ensure the compatibility of the scheme of explicit inflation goals of participation in the exchange market.

The Committee considered that another important element to analyze is the behavior of the real production. In that regard, it was commented that the IMAE shows a sustained tendency toward the rise since a few months back, which at the same time, reflects on the prognosis of economic growth for 2006 (4.4%). This vigorous rhythm is also backed up by the dynamism of the banking credit to the private sector. It was mentioned that the semi-structural macroeconomic model indicates that, in 2006, said behavior marks a superior level of production than potential, if it is a reflection of the economic dynamism observed, at the same time it intertwines some risk that inflationary pressures may go up on behalf of the aggregate demand. In that regard, it was indicated that the adjustments that the model contemplates in matter of raising the interest rates would close the gap between it and real production at its potential level, without it implying a significant reduction under said potential level, but a definite trajectory toward a more sustainable mid term.

The Committee also considered it adequate to debate on the interpretation that must be given to the indicative variables. Among other aspects discussed was the fact that the number of variables that suggest greater restriction of the monetary policy has been evidently reduced, regarding the previous month, is highlighted. However, the fact that the relative variables to the monetary program (particularly the monetary issue and the Monetary Stabilization Operations) continue deviated (in an expansive sense) since a few months back, is highlighted. Also, it was pointed out that precaution must be had when interpreting the variable to the banking credit to the private sector, since the validity of the projection method used must still be evaluated. A member of the Committee highlighted the importance that, in the face of contradictory signals of indicative variables, the importance of the parameter rate reported, which, even adjusting its tolerance range to half a standard deviation (instead of using only one deviation) indicates that the monetary conditions have changed regarding 2005, since in 2006 the neutral rate seems to be closer to the short term rate.

In particular, a member of the Committee expressed that a relevant aspect to consider is the fact that the inflationary rhythm in January decelerated even more than the foreseen, which could have favorable repercussions on the inflationary expectations, so that if the leading interest rate of the monetary policy were left invariable, it would be easier to reinforce said expectations, so much so that an increase in said rate could send confused signals to the markets. However, another member of the Committee indicated that if said risk does exist, they must also consider the fact that the price of sugar on the domestic market has increased, product that could increase the cost of production of other basic food products (for example, bread) and it was also mentioned that a corn scarcity is expected between March and May of the current year, and therefore, an increase in the price for the final consumer (associated with the disasters of tropical storm Stan, as well as the flooding that affected the grain plantations in January in Petén); both events would generate raises in the CPI in the next months.

In the described context, a member of the Committee and an advisor indicated that, given the inflation prognosis located over a punctual inflation goal of 6% for 2006 (in a strict interpretation) and that the semi-structural macroeconomic model indicate that the achievement of the goal requires raising the leading interest rate; it is advisable to keep in mind that the monetary policy actions in a scheme of explicit inflation goals must be sure, at the same time, opportune and gradual, in order that the inflationary expectations be moderate and reach the goal with the least cost possible, at the same time strengthening the credibility of the Central Bank before the markets, since this is fundamental for the monetary policy to continue being effective in the future.

On this, another member of the Committee presented the possibility that, with the objective of acting opportunely and gradually, in February the leading interest rate will be adjusted by 12.5 basic points and, in March, if the monetary conditions were still advising to give another equal adjustment. However, another member of the Committee mentioned that, according to the recommendations of Doctors Sebastian Edwards and Rodrigo Vergara, presented in their report "Monetary Policy and Macroeconomic stability in Guatemala", November 2004; the international experience suggests that the adjustments to the interest rate of the monetary policy of little magnitude are not advisable, and therefore give the wrong impression, on the one hand, that the Central Bank has full knowledge of the mechanisms of transmission of the monetary policy and, on the other hand, that there is optimum fine tuning in the determination of the political regulation, which could erode the credibility of the monetary policy in small and open economies, that are in a transition process toward a scheme of explicit inflation goals, reason why the magnitude of adjustments in the monetary policy are conventionally of 25 basic points.

Taking into account the above, a member of the Committee indicated that there are indicators and signals that point in opposite directions, which make it difficult to reach a clear conclusion and that, in their opinion, before said situation one or two indicators should be prioritized for analysis, that could well be the parameter rate and the semi-structural macroeconomic model; it was pointed out that when doing so, and taking into account the referred model as a tool where familiarization is necessary and must be fine tuned, it seems prudent for now to advise not modifying the leading interest rate. An advisor for the Committee effectively indicated that the model is just a simplification of reality, and it is perfectly valid, from a technical point of view, that the Committee as well as the Monetary Board, take into account elements and variables that are not explicitly included in said model in order to conclude and adopt decisions that they estimate are necessary. Another member of the Committee declared agreeing with not modifying the leading interest rate, but warned that it is necessary to give the markets security, in the sense that the Central Bank is ready to act opportunely and firmly to achieve the inflation goal, therefore it would not be convenient to discard possible raises in the leading interest rate in the following months, in the measure that the risks balance and the indicative variables converge in the sense that the semi-structural macroeconomic model suggests.

In the described context, in the heart of the Committee the analysis that the current situation advises to act cautiously and points to waiting until March to make any adjustments in the leading interest rate of the monetary policy.

Regarding the determination of the quotas for the bids for the following week, the information provided by the daily monetization flow estimated for the following week and the established rule for the determination of quotas, therefore the Committee based on this agreed that the quota for fund raising for the 91 and 364 day terms to be convened on Monday will be established at Q95.0 and Q75.0 million, respectively, and for the 182 day terms to be convened on Friday was to be of Q75.0 million.

Regarding the convening to bidding of LTDs in US dollars, the Committee agreed that for the following week there would be important maturities for Treasury Bonds expressed in US dollars, and considered that for the week of February 20 to 24, 2006, it is not necessary to convene biddings of LTDs in the mentioned currency.

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

Based on the analysis of the monetary situation, the Committee agreed that for the week of February 20 to 24, 2006, to keep the execution guidelines of the monetary policy observed during the present week of; in other words, continue with operations in the MEBD and in the stock exchange, for fund-raising as well as giving liquidity to the market. The fund-raising operations were made for 7 day terms without quotas, at a leading interest rate of 4.25%, and the bids of liquidity offer in 7 day terms, at a leading interest rate of 7.65%, whose guarantee of said operations will be constituted only by receiving public titles. It is worth indicating that the Committee reiterated the importance of participating in both venues; in other words, keeping simultaneous liquidity giving bids and the retiring of liquidity, considering said participation constitutes a signal of willingness by the Central Bank to moderate the volatility in the short term interest rate.

The Committee taking into account the agreed in matters of coordination with the fiscal policy for the participation in the money market, agreed that the convening for the biddings of the term deposits be on Monday and Friday, that way: on Monday for the 91 and 364 day terms, with a fund raising quota for Q95.0 million and Q75.0 respectively and on Friday for 182 days, with a fund-raising quota of Q75.0 million. The interest rates will be determined according to the conditions of the market, reflected in the bids received, considering the yield curve established by the technical departments, based on market interest rates.

On the other hand, the Committee agreed to continue fund raising directly at the window, with the private and public entities. In the case of the official entities, that the fund raising continue to be according to the prevalent financial conditions; in other words, the interest rate for the 7 day terms will be the one applied by the *Banco de Guatemala* in the MEBD and in the stock exchange and, for the other terms, the interest rate will be the mobile average, for each term, of the weighted average interest rate of 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 term deposits in United States dollars directly at a window, from public entities, in current terms of (91 days and 364 days) and that the interest rate applied would be as a reference interest rate for the US Treasury Letters in similar terms.

As for the participation of the *Banco de Guatemala* in the Exchange market, the Committee discussed some options with the technical bodies in order to continue defining the participation rule in the exchange market that was approved by the Monetary Board in the next few weeks, having agreed to present a new proposal in the shortest time possible; meanwhile, the Committee agreed that it should continue participating in the SINEDI through participation rules established in session 55-2005 dated October 27, 2005.

SIXTH: Other matters.

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