EXECUTION COMMITTEE

ACT NUMBER 9-2006

Session 9-2006 celebrated in the Banco de Guatemala building located at séptima avenida número veintidós guión cero uno, zona uno of this city on Friday, February twenty fourth, 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 8-2006, corresponding to the session celebrated on February 17, 2006.
(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 rate and Credit Policy for the following week.

FOURTH: 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 acts number 8-2006.

SECOND: Information of markets and monetary variables.

a) The Director of the Department of Monetary Stabilization Operations, regarding the Money market informed that during the period from February 20 to 24 of 2006, with partial numbers to date, registered an attraction of LTD's for Q2,688.9 million and maturity of Q2,439.9 million, which gave a net result of fund raising for Q249.0 million, associated to the operations in bidding (net attraction for Q62.5 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund raising of Q254.0 million) and at the window (net maturity for Q57.5 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of February 20 to 24, 2006 for the biddings case, the cut interest rates were of: 5.00% for 91 days, 6.2499% 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 20 to 24, 2006 period, with partial data, the minimum was of 4.30%, observed February 20, 2006, and the maximum of 4.60%, registered on February 24, 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 4.36% for public titles and of 5.25% for the financial sector titles.

On the other hand, it was informed that during the February 20 to 23, 2006 period, regarding Treasury Bond operations the fund-raising registered was for Q60.0 million and maturity for Q0.4 million and US$5.0 million.

Regarding the Institutional Market for foreign currency the report stated that during the period of February 17 to 23, 2006, the average daily operations for purchase were of US$67.0 million and the sale was of US$65.2 million as the exchange rates showed a slight tendency, in sales toward the rise and for purchase toward the low. In effect, on Friday, February 17 they were of Q7.60259 per US$1.00 for purchase and of Q7.61902 per US$1.00 for sale, on Monday, February 20 the rates were Q7.59487 and Q7.61915, on Tuesday, February 21 they were Q7.59509 and Q7.61804, Wednesday, February 22 they were Q7.59733 y Q7.61330, and finally, on Thursday, February 23 they were Q7.59957 y Q7.61397.

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 20 to 24, 2006, the Private Institutional Foreign Currency System –SPID-, the following operations took place: on Tuesday, February 21 for US$3.5 million, at a weighted average exchange rate of Q7.60814 per US$1.00 and on Wednesday, February 22, for US$2.0 million at Q7.61000. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, they declared that during the period no operations were closed; and the *Banco de Guatemala* received a daily 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 February 20 to 24, 2006, did not close operations. As for the closing price in reference up to Friday, February 24, 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 Q7.65000.

b) The Director for the Economic Studies Department informed that on February 23, 2006, the excess of the daily float of the banking system was located in a position of Q49.4 million, with an average position of Q204.4 million.

The highlights during the period of February 16 to 23, 2006, were: the main monetizing factors were the decrease in the balance for the deposits for the Central Government in the Banco de Guatemala for Q249.1 million and the long term deposits constituted in the Banco de Guatemala for Q103.7 million; while the main demonetizing factors were the increase in banking float balance for Q171.4 million and the deposits of the rest of the public sector in the Central Bank for Q162.2 million; and the decrease in the balance of the Net International Reserve –RIN- balance for the equivalent of Q6.4 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 16, 2006, the lower limit was 1.47%, and the upper limit is 9.37%, while the simple average between the repurchase agreements of 8 to 15 days (4.35%) and the weighted average rate of open market operations –OMA- of up to 91 days (4.59%) was situated at 4.47%, 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 16, 2006, 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 6.97%, which maintains itself within the fluctuation range of the parity liable rate, which advises an invariable monetary policy.

As to monetary issue observed to February 23, 2006, they indicated that it presents a deviation of Q416.0 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 16, 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 23.0%, which is above the upper limit of the estimated range for February 16, 2006 (23.0% to 25.0%), which suggests an invariable 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 a tolerance margin of the monetary policy for 2006 (6.0% +/- 1 percentage point), which suggests an invariable monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to February 16, 2006, was -2.92 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 regarding last week, the variable “banking credit to the private sector” went from suggesting that the monetary policy be relaxed to recommending that the same remain invariable, and the variables went from six to seven that suggest the monetary policy remain invariable (the total inflation projection, the subjacent inflation projection, parameter rate, parity passive rate, the banking credit to the private sector, implied inflation expectations, Monetary Conditions Indexes); two variables remain that advise the monetary policy be restrictive (monetary issue, the inflation expectations of private analysts); and the variables were reduced from two to one that suggest a relaxed monetary policy (the total payment means).

THIRD: 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 24 to March 2, 2006 indicate an increase in the creation of primary liquidity for Q3,886.2 million, fundamentally due to the maturity of LTD’s. Also, an increase in the demand for monetary issue for Q283.2 million is foreseen and a daily banking liquidity position for Q296.1 million. Also, monetary issue is deviated in Q598.7 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q4, 497.8 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 (Q3,331.5 million, according to registries to February 23, 2006) have to be relocated; and also, make additional fund-raising for around Q 1,166.3 million.

The technical departments informed the Committee on the degree of advance, on the one hand, of the actions oriented to the issuing of deposit certificates to term according to maturity date, whose purpose, among other aspects, is of generating “points of liquidity” that allow separating, through market decisions, the short term liquidity from the long term liquidity; and on the other hand, of the transfer of titles of deposit certificates in custody of the Banco de Guatemala, in order to cooperate with the development of the secondary market; both aspects contained in resolution JM-185-2005, through which the Monetary Board determined the Monetary, Exchange rate and Credit Policy for 2006. The Committee exchanged opinions regarding the information received and made some observations, in order that they are analyzed by the technical departments and included in the implementation of the referred measures.

On the other hand, the Committee was also informed by the technical departments on the results obtained of some estimation exercises oriented toward establishing if the current calculation method of the weekly runner of the banking credit to the private sector and the payment means continues to be valid. In that regard, a member of the Committee stated that in his opinion the current calculation method for the estimation of the weekly runner as well as the banking credit to the private sector and the payment means continue to be valid, but the interpretation of the orientation of the monetary policy that offer both variables can be improved, if, complementarily, an econometric estimation is taken into account that dynamically evaluates the possibility of converging toward the inter-annual growth rate foreseen for both variables for the end of 2006. In that context, the Committee asked the technical departments to evaluate the feasibility of implementing said proposal in order to improve the interpretation of the signals that offer both indicative variables of the monetary policy.

Regarding the determination of quotas for the biddings in the following weeks, the information provided by the daily monetization flow was taken into account, estimated for the following week and the rule established for the effect, the Committee agreed that for the following week the fund-raising quota the 91 and 364 day terms to be convened on Monday to be established at Q70.0 million and Q60.0 million, respectively, and for the 182 day term to be convened on Friday to be of Q50.0 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 27 to March 3, 2006, it would not be necessary to convene a bidding 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 27 to March 3, 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 Q70.0 million and Q60.0 respectively and on Friday for 182 days, with a fund-raising quota of Q50.0 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 the market interest rates.

On the other hand, the Committee agreed to continue fund raising directly at the window, with the official 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 use the interest rates of the Treasury Letters of the United States of America 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.

FOURTH: Other matters.

Not having any other matter to discuss, the session ends at sixteen hours and thirty minutes, in the same place and on the same date indicated, all who attended sign in agreement.