EXECUTION COMMITTEE

ACT NUMBER 13-2006

Session 13-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, March 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 12-2006, corresponding to the session celebrated on March 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 12-2006.

SECOND: Information of markets and monetary variables.

The coordinator requested the following information be provided.

a) The Sub-director of the Department of Monetary Stabilization Operations, regarding the Money market informed that during the period from March 20 to 24 of 2006, with partial numbers to date, registered an attraction of LTD's for Q2,493.5 million and maturity of Q2,301.0 million, which gave a net result of fund raising for Q192.5 million, associated to the operations in bidding (net attraction for Q48.7 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund-raising of Q201.0 million) and at the window (net maturity for Q40.2 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of March 20 to 24, 2006 for the biddings case, the cut interest rates were of: 4.9995% for 91 days and of 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 March 20 to 24, 2006 period, with partial data, the minimum was of 3.95%, observed March 23, 2006, and the maximum of 4.40%, registered on March 20 and 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 4.29% for public titles and of 5.75% for the financial sector titles.

On the other hand, it was informed that during the March 20 to 23, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q135.0 million and maturity for Q20.0 million and US$5.0 million.

Regarding the Institutional Market for foreign currency the report stated that during the period of March 17 to 23, 2006, the average daily operations for purchase were of US$65.4 million and the sale was of US$65.4 million as the exchange rates showed a slight tendency, in sales toward the rise and for purchase toward the low. In effect, on Friday, March 17 they were of Q7.61020 per US$1.00 for purchase and of Q7.62976 per US$1.00 for sale, on Monday, March 20 the rates were Q7.60138 and Q7.62391, on Tuesday, March 21 they were Q7.59958 and Q7.61481, Wednesday, March 22 they were Q7.59912 y Q7.62106, and finally, on Thursday, March 23 they were Q7.60491 y Q7.62079.

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 March 20 to 24, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the following operations took place: on Monday, March 20 for US$2.0 million, at a weighted average exchange rate of Q7.61750; on Tuesday, March 21

US$3.2 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 March 20 to 24, 2006, did not close operations. As for the closing price in reference up to Friday, March 24, they indicated that for maturity to liquidate in June of 2006 it was of Q7.65000.

b) The Director for the Economic Studies Department informed that on March 23, 2006, the excess of the daily float of the banking system was located in a negative position of Q173.9 million, with a negative average position of Q182.6 million.

The highlights during the period of March 16 to 23, 2006 were the main demonetizing factors were the increase in the balance for the deposits of the rest of the public sector in the Central Bank for Q159.7 million and the balance in the long term deposits constituted in the *Banco de Guatemala* for Q50.5 million; and the decrease in balance of the Net International Reserve –RIN- balance for the equivalent of Q71.2 million; while the main monetizing factors were the decrease in the banking float for Q138.2 million and the deposits for the Central Government in the *Banco de Guatemala* for Q101.4 million.

Regarding the indicative variables of the Monetary, Exchange Rate and Credit Policy they indicated that with the projection to February 2006, for December 2006 the total expected inflation estimated with a model of ordinary squared minimums is of 6.83% and with a softened exponential model of 6.03%; the simple average of both models is located at 6.43%, which is found within the margin of tolerance (6.0% +/- 1 percentage point), which suggests the monetary policy remain invariable.

Regarding the expected subjacent inflation for 2006, with data up to February 2006, estimated with an integrated auto-regression model of mobile averages ARIMA was of 6.11%, whereas the estimated with a softened exponential model was of 5.53%; the simple average of both models is of 5.82%, which is within the margin of tolerance for the policy goal (6.0% +/- 1 percentage point), which suggests the monetary policy remain invariable.

As to the parameter rate, up to March 16, 2006, the lower limit was 1.26%, and the upper limit is 8.92%, while the simple average between the repurchase agreements of 8 to 15 days (4.40%) and the weighted average of the monetary stabilization operations of up to 91 days (4.61%) was situated at 4.51%, which is located within the tolerance margin estimated for the parameter rate, situation that suggests the monetary policy remain invariable. When referring to the parity liable rate, they declared that up to March 16, 2006, the lower limit was 6.28% and the upper limit was 7.86%, and the weighted average rate of long term deposits of the banking system was of 6.99%, which maintains itself within the fluctuation range of the parity liable rate, which advises an invariable monetary policy.

As to monetary issue observed to March 23, 2006, they indicated that it presents a deviation of Q421.9 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 March 16, 2006, it exhibited an inter-annual growth rate of 16.1%, which is under the tolerance margin estimated range for said variable on that same date (15.9% to 17.9%), 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 23.7%, which is within the range estimated for March 16, 2006 (22.7% to 24.7%), which suggests an invariable monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in February 2006, for December 2006 an inflationary rhythm of 8.05% 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 February 2006 showed an inflationary rhythm of 6.08%, 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 March 16, 2006, was -2.91 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 the previous week, eight variables the monetary policy remain invariable (the total inflation projection, the subjacent inflation projection, parameter rate, parity liable rate, the total payment means, the banking credit to the private sector, implied inflation expectations, and the Monetary Conditions Index); two variables suggest the monetary policy remain restrictive (monetary issue, the inflation expectations of private analysts), and none suggest to relax it.

On the other hand, it was indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of March 20 to 24, 2006 was of Q7.168 per US$1.00 and the level observed (calculated through the average of the exchange rates for purchase and sale in the institutional market of foreign currency for the period between March 20 and 22) was of Q7.61 per US$1.00, which allows inferring that the observed value of the nominal exchange rate is found within the expected level, therefore, in that direction inflationary or deflationary pressures are not foreseen.

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 March 24 to 30, 2006 indicate an increase in the creation of primary liquidity for Q3,186.4 million, fundamentally due to the maturity of LTD's. Also, an increase in the demand for monetary issue for Q41.8 million is foreseen and a daily banking liquidity position for Q94.1 million. Also, monetary issue is deviated in Q604.5 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q3,655.1 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 (Q3,181.4 million, according to registries to March 23, 2006) have to be relocated; and also, make additional fund-raising for around Q473.6 million.

The technical departments informed the Committee on the results of the analysis on the convenience of reducing the frequency of weekly bids of LTD's, which incorporates recommendations of the International Monetary Fund, IMF, in said matter. In that regard, the observed behavior to date in 2006 of the established quotas for the LTD bids was given, the ordered amounts, as well as the awarded amounts. According to the analysis made, it was observed that from January to March of the current year, the ordered amounts in bidding for the 91 day term has been considerably reduced, when going from Q874.7 million in January, to Q475.0 million in February and to Q21.4 million from March 1 to 24. Therefore, it was observed that in the month of March the offer for quotas for LTD's bid; that is determined weekly, was widely superior to the demand of said LTD's for the referred term; therefore the total awarding was made in a frame in which the market competition for the awarding of the established bids was limited.

In the described context, the technical departments proposed to the Execution Committee, that, with the purpose of establishing competition among the participants in the bidding mechanism, the frequency of these be reduced to one per week (on Mondays) and that the terms be bid alternately; in other words, the 91 and 364 day terms in one week and the 182 and 364 day terms the following week and so on.

With this, it was indicated that the implementation of operative improvements to make the monetary stabilization operations would take place gradually, according to the recommendations by external experts, in the sense of preparing the money market so that, in the future, bids can be made with a monthly periodicity.

Considering the information presented by the technical departments, the Execution Committee deliberated on said proposal, emphasizing that it is convenient that the weekly bids become more competitive, taking into account the scheme that has been used as to the Central Bank fixing the bid amounts and that the market fix the bid interest rates in each of the terms it bids.

In that sense, it was agreed that the bids be made in the proposed manner by the technical departments and with lower quotas than those that had been established in previous weeks, given that the money market demand has been consistently lower to the offered amounts.

Regarding the determination of quotas for the biddings in the following week, 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 for the 91 and 364 day terms to be convened on Monday, March 27, 2006 to be established at Q20.0 million and Q40.0 million, respectively.

Regarding the convening to bidding of LTD's 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 March 27 to 31, 2006, it would not be necessary to convene a bidding of LTD's 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 March 27 to 31, 2006, to keep the execution guidelines of the monetary policy observed during the present week; 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 as of March 27, 2006 the convening for the biddings of the term deposits be on Mondays: on Monday for the 91 and 364 day terms, with a fund raising quota for Q20.0 million and Q40.0 respectively. The interest rates will be determined according to the conditions of the market, reflected in the bids received.

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 the 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 agreed that while they continue discussing and analyzing the fine-tuning of the participation rules in the exchange market that will have to be approved by the Monetary Board in the next few weeks, to continue participating through the electronic negotiating system of foreign currency, according to the 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.