EXECUTION COMMITTEE

ACT NUMBER 14-2006

Session 14-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, March thirty-first, two thousand six, at eleven hours.

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 13-2006, corresponding to the session celebrated on March 24, 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 13-2006.

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 27 to 30 of 2006, registered an attraction of LTD's for Q2,409.0 million and maturity of Q2,302.8 million, which gave a net result of fund raising for Q106.2 million, associated to the operations in bidding (net attraction for Q11.0 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund-raising of Q47.0 million) and at the window (net maturity for Q48.2 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of March 27 to 30, 2006 for the biddings case, the cut interest rates were of: 5.00% for 91 days and of 6.2498% 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 27 to 30, 2006 period, with partial data, the minimum was of 4.18%, observed March 29, 2006, and the maximum of 4.38%, registered on March 28, 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 4.31%.

On the other hand, it was informed that during the March 27 to 30, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q80.0 million and maturity for Q20.4 million and US$0.2 million.

Regarding the Institutional Market for foreign currency the report stated that during the period of March 23 to 29, 2006, the average daily operations for purchase were of US$66.0 million and the sale was of US$59.8 million as the exchange rates showed a slight tendency, in sales toward the rise and for purchase toward the low. In effect, on Thursday, March 23 they were of Q7.60491 per US$1.00 for purchase and of Q7.62079 per US$1.00 for sale, on Friday, March 24 the rates were Q7.60275 and Q7.62312, on Monday, March 27 they were Q7.59853 and Q7.61830, Tuesday, March 28 they were Q7.60104 y Q7.61513, and finally, on Wednesday, March 29 they were Q7.59641 y Q7.61472.

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 24 to 30, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the only operation took place on Thursday, March 30 for US$0.9 million, at a weighted average exchange rate of Q7.61111 per US$1.00. 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 24 to 30, 2006, did not close operations. As for the closing price in reference up to Thursday, March 30, they indicated that for maturity to liquidate in June of 2006 it was of Q7.64000.

b) The Director for the Economic Studies Department informed that on March 30, 2006, the excess of the daily float of the banking system was located in a negative position of Q40.8 million, with a negative average position of Q121.6 million.

The highlights during the period of March 23 to 30, 2006 were the main monetizing factors were the decrease in the banking float for Q197.6 million and the balance for the deposits of the rest of the public sector in the Central Bank for Q150.3 million; and, the increase in balance of the Net International Reserve –RIN- balance for the equivalent of Q32.0 million; while the main demonetizing factors were the increase in the balance in the long term deposits constituted in the *Banco de Guatemala* for Q230.2 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 23, 2006, the lower limit was 1.17%, and the upper limit is 9.07%, while the simple average between the repurchase agreements of 8 to 15 days (4.35%) and the weighted average of the monetary stabilization operations of up to 91 days (4.60%) was situated at 4.48%, 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 23, 2006, the lower limit was 6.30% and the upper limit was 7.88%, 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 March 30, 2006, they indicated that it presents a deviation of Q629.7 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 23, 2006, it exhibited an inter-annual growth rate of 15.5%, which is under the tolerance margin estimated range for said variable on that same date (15.5% to 17.5%), 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 23.9%, which is within the range estimated for March 23, 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 March 2006, for December 2006 an inflationary rhythm of 7.74% 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 23, 2006, was -2.87 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 they remain the same 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 27 to 31, 2006 was of Q7.618 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 27 and 31) was of Q7.607 per US$1.00, which allows inferring that the observed value of the nominal exchange rate is found very close to 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 31 to April 6, 2006 indicate an increase in the creation of primary liquidity for Q3,470.9 million, fundamentally due to the maturity of LTD's. Also, an increase in the demand for monetary issue for Q212.7 million is foreseen and a daily banking liquidity position for Q402.6 million. Also, monetary issue is deviated in Q812.3 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q4,473.1 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 (Q3,571.3 million, according to registries to March 30, 2006) have to be relocated; and also, make additional fund-raising for around Q901.9 million.

Regarding the adopted by the Execution Committee in its previous session, on the reduction of quotas for the offered terms in its weekly biddings for LTD's, as well as the frequency of these, a member of the Committee declared that, in their opinion, it is convenient to give careful follow up to the results of said measures evaluating, on the one hand, if the objective of fomenting competition among participants in the bidding mechanism of LTD's is being fulfilled and, on the other hand, contrast the above with a risk that together with the reduction of quotas, a concentration in the 7 day term can be generated, which at the same time, could induce to a lesser effectiveness in the strategy that has been being implemented in order to gradually transfer the liquidity in the short term (joint liquidity) to the longer terms (structural liquidity). In that regard, it was indicated that if through the referred measure, competition among biddings can be produced, situation recommended by the experts in the International Monetary Fund that has assisted the *Banco de Guatemala* in the adoption of the Scheme of Explicit Inflation Goals; it is also true that they have advised to avoid the balance of monetary stabilization operations of the Central Bank be proportionally elevated in short terms, since this subtracts effectiveness to the monetary policy.

Additionally, it was indicated that they would have to take into account that the effectiveness with which the monetary policy has been transmitted to the aggregate demand and, therefore the inflation behavior, depends, in good measure to the manner in which the markets interpret and make the leading interest rate of the monetary policy their own, before which the expectations of the Central Bank has to constantly neutralize relatively important amounts of relative liquidity in the short term which could mean a settling of the effectiveness of the pointing out of the monetary policy.

Another member of the Committee indicated that they coincide with the expressed arguments, but that sight must not be lost on behalf of rationalization of the measures of reducing the fund-raising quotas in the bidding mechanism; its just that these have been consistently higher than the observed offer in the mentioned mechanism, which implies that under this interest rate condition for the bidding terms, when no longer competitive, are not representative of the liquidity conditions of the money market. Also, it was mentioned that if it is true, that a non-desirable concentration of the balances of the Monetary Stabilization Operations (OEM, for its acronym in Spanish), in the 7 day term, it must be taken into account that the monetary policy has as its only signaling instrument the leading interest rate, precisely for 7 day fund-raisers and that favoring prices for artificial money and other terms could be inconvenient, as long as the interest rate is being used opportunely moving toward the rise or low according to the offer within reach of the inflation objective.

In the previous context, the Committee suggested that in the Monetary Policy Report for March 2006, still being made, they include an analysis for the mentioned measure and in the context of improvements for the operative procedures contained in the approved Monetary Board.

On the other hand, the technical bodies distributed a pilot survey among the members of the Committee with the purpose of evaluating the relative importance that each indicative variable of the monetary policy has for each one of them. With that, they are looking to build an index that will allow the evaluation, jointly, with the orientation of the referred variables taking into consideration the weighting that each variable could have within the process of monetary policy decision making.

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 on the other hand, the adopted measures of the previous week regarding the reduction of quotas and the number of weekly biddings; as well as alternating the bidding terms. Based on the above, the Committee agreed that the fund-raising quota for the 182 and 364 day terms to be convened on Monday, April 3, 2006 to be established at Q50.0 million, each.

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 April 3 to 7, 2006, 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 April 3 to 7, 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 to convene a bid for the term deposit on April 3, 2006 the terms of 182 and 364 days, with a fund-raising quota for Q50.0 million each. 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 convene a bidding of term deposits in United States dollars, on Wednesday, April 5, 2006, in the 91 days and 364 day terms, for an amount of up to US30.0 million. The bids received will be awarded taking the leading interest rate of the Treasury Letters of the United States of America in similar terms as a reference rate, without excluding the possibility that if the bids received at higher rate than they deserve, a session of the Committee would be convened to determine the awarding.

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 twelve hours, in the same place and on the same date indicated, all who attended sign in agreement.