EXECUTION COMMITTEE

ACT NUMBER 15-2006

Session 15-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, April seventh, 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 14-2006, corresponding to the session celebrated on March 31, 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 14-2006.

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 April 3 to 7 of 2006, registered an attraction of LTD's for Q1,501.4 million and maturity of Q2,716.3 million, which gave a net result of fund raising for Q1,214.9 million, associated to the operations in bidding (net maturity for Q78.4 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q956.0 million) and at the window (net maturity for Q180.5 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of April 3 to 7, 2006 for the biddings case, the cut interest rates were of: 5.50% for 182 days and of 6.2495% 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 April 3 to 7, 2006 period, with partial data, the minimum was of 4.29%, observed April 3, 2006, and the maximum of 4.76%, registered on April 6, 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 4.51% for the public titles and of 5.75% for the titles of the financial sector.

On the other hand, it was informed that during the April 3 to 6, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q75.0 million and maturity for Q35.5 million and US$3.1 million.

As to the biddings in term deposits in US dollars convened on April 5, 2006, it was mentioned that bids for US$17.0 million for a 364 day term were placed, at an interest rate of 5.85% and 6.25%, which were not awarded.

Regarding the Institutional Market for foreign currency the report stated that during the period of March 31 to April 6, 2006, the average daily operations for purchase were of US$77.7 million and the sale was of US$77.5 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 31 they were of Q7.59761 per US$1.00 for purchase and of Q7.61640 per US$1.00 for sale, on Monday, April 3 the rates were Q7.59408 and Q7.61464, on Tuesday, April 4 they were Q7.59611 and Q7.61263, Wednesday, April 5 they were Q7.60059 y Q7.61418, and finally, on Thursday, April 6 they were Q7.59940 y Q7.61419.

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 April 3 to 7, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the only operation took place on Wednesday, April 5 for US$0.1 million, at a weighted average exchange rate of Q7.61100 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 April 3 to 7, 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 April 6, 2006, the excess of the daily float of the banking system was located in a negative position of Q788.8 million, with a negative average position of Q431.4 million.

The highlights during the period of March 30 to April 6, 2006 were the main monetizing factors were the decrease in the balance in the long term deposits constituted in the *Banco de Guatemala* for Q1,506.1 million and the balance for the deposits of the rest of the public sector in the Central Bank for Q38.1 million; and, the increase in balance of the Net International Reserve –RIN- balance for the equivalent of Q501.6 million; while the main demonetizing factors were the increase in the deposits of the Central Government in the *Banco de Guatemala* for Q928.8 million and the banking float for Q874.0 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 30, 2006, the lower limit was 1.26%, and the upper limit is 9.16%, 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 (4.58%) was situated at 4.49%, 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 30, 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 April 6, 2006, they indicated that it presents a deviation of Q608.2 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 30, 2006, it exhibited an inter-annual growth rate of 15.8%, which is under the tolerance margin estimated range for said variable on that same date (15.6% to 17.6%), which advises the monetary policy remain invariable. Also, up to said date, the banking credit of the private sector registered an inter-annual growth rate of 25.1%, which is within the range estimated for March 30, 2006 (23.4% to 25.4%), 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 March 2006 showed an inflationary rhythm of 6.27%, 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 30, 2006, was -2.84 percentage points which is within the fluctuation margin 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, the information of the partial Consumer Price Index to March 2006 based on the report by the National Statistics Institute, INE, was presented. The monthly inflation was of 0.48%, higher by 0.51 percentage points than that of February 2006 and higher by 0.01 percentage points to the observed in March 2005; the inflationary rhythm was located at 7.28%, higher by 0.02 percentage points than that of February 2006 (7.26%) and lower by 1.49 percentage points to the observed in March 2005 (8.77%); the subjacent inflation registered a rhythm of 7.23%, higher by 0.20 percentage points than that of February 2006 (7.03%) and inferior by 0.64 percentage points than that of March 2005 (7.87%).

Finally, it was indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of April 3 to 7, 2006 was of Q7.617 for US$1.00 and the level observed (calculated as the average of the exchange rates of purchase and sale in the institutional market of foreign currency for the period between the 3 and 5 of April) was of Q7.605 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 April 7 to 12, 2006 indicate an increase in the creation of primary liquidity for Q670.1 million, fundamentally due to the maturity of LTD's and the estimated increase in the deposits of the Central Government in the *Banco de Guatemala*. Also, an increase in the demand for monetary issue for Q452.9 million is foreseen and a daily banking liquidity position for Q437.8 million. Also, monetary issue is deviated in Q790.9 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q1,445.8 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 (Q1,550.0 million, according to registries to April 6, 2006) have to be relocated; and also, make additional fund-raising for around Q1,445.8 million.

When analyzing the behavior of the total inflationary rhythm observed to March 2006, a member of the Committee declared his concern due to the increase that said variable registered the previous month, which, although slight, could be indicating the beginning of a reversal in the decreasing tendency that the inflationary rhythm has been registering since December 2005, particularly if it is taken into account that the international prices of oil have registered a significant increase in the last weeks, which could have influenced in the domestic prices of fuel, which since mid-March have shown a tendency toward the rise. Additionally, another member of the Committee indicated that the observed increase in March of the subjacent inflation (variable which behavior has greater association with monetary factors), which was greater by 0.14 percentage points to the total inflation, which could be indicating the need to restrict the monetary conditions.

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 91 and 364 day terms to be convened on Monday, April 10, 2006 to be established at Q20.0 million and Q30.0 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 April 10 to 12, 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 10 to 12, 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 Monday, April 10, 2006 the terms of 91 and 364 days, with a fund-raising quota for Q20.0 million and Q30.0 million, 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.