EXECUTION COMMITTEE

ACT NUMBER 16-2006

Session 16-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Tuesday, April eleventh, 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: Market information and monetary variables.

a) Money and Exchange markets.
b) Monetary Variables

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

THIRD: Other matters.

Not having more observations, the committee approves the order of the day.

FIRST: 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 10 to 11 of 2006, registered an attraction of LTD's for Q267.9 million and maturity of Q347.5 million, which gave a net result of maturity for Q79.6 million, associated to the operations in bidding (net maturity for Q43.0 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q42.0 million) and at the window (net fund-raising for Q5.4 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of April 10 to 11, 2006 for the biddings case, the cut interest rates was 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 10 to 11, 2006 period, with partial data to this last date, only reported operations for April 10, with a weighted average rate of 4.46%. It also pointed out that the amounts negotiated were higher with public titles.

On the other hand, it was informed that during the April 10 to 11, 2006 period no Treasury-Bond operations were made.

Regarding the Institutional Market for foreign currency the report stated that during the period of April 7 to 10, 2006, the average daily operations for purchase were of US$79.7 million and the sale was of US$70.9 million and that the exchange rates for the referred period were stable. In effect, on Friday, April 7 they were of Q7.59803 per US$1.00 for purchase and of Q7.61400 per US$1.00 for sale, on Monday, April 10 the rates were Q7.59068 and Q7.61088.

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 7 to 10, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, there were no operations. 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 10 to 11, 2006, did not close operations. As for the closing price in reference up to Tuesday, April 11, they indicated that for maturity to liquidate in June of 2006 it was of Q7.63000.

b) The Director for the Economic Studies Department informed that on April 10, 2006, the excess of the daily float of the banking system was located in a negative position of Q583.9 million, with an average position of Q521.9 million.

The highlights during the period of April 6 to 10, 2006 were the main monetizing factors were the decrease in the balance in the long term deposits constituted in the *Banco de Guatemala* for Q584.6 million, the banking float for Q244.9 million and the balance for the deposits of the rest of the public sector in the Central Bank for Q36.7 million; and, the increase in balance of the Net International Reserve –RIN- balance for the equivalent of Q44.8 million; while the main demonetizing factors were the increase in the deposits of the Central Government in the *Banco de Guatemala* for Q432.7 million.

Regarding the indicative variables of the Monetary, Exchange Rate and Credit Policy they indicated that with the projection to March 2006, for December 2006 the total expected inflation estimated with a model of ordinary squared minimums is of 7.36% and with a softened exponential model of 6.06%; the simple average of both models is located at 6.71%, 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 March 2006, estimated with an integrated auto-regression model of mobile averages ARIMA was of 6.77%, whereas the estimated with a softened exponential model was of 5.50%; the simple average of both models is of 6.14%, 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 April 6, 2006, the lower limit was 1.55%, and the upper limit is 9.45%, while the simple average between the repurchase agreements of 8 to 15 days (4.48%) and the weighted average of the monetary stabilization operations of up to 91 days (4.66%) was situated at 4.57%, 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 April 6, 2006, the lower limit was 6.21% and the upper limit was 7.79%, 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 April 10, 2006, they indicated that it presents a deviation of Q450.5 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 April 6, 2006, it exhibited an inter-annual growth rate of 16.0%, which is under the tolerance margin estimated range for said variable on that same date (16.1% to 18.1%), 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 25.8%, which is within the range estimated for April 6, 2006 (24.0% to 26.0%), 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 April 6, 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 regarding the previous week, the variable "total payment means" went from suggesting that the monetary policy remain invariable to advising it to relax, therefore the variables went from eight to seven that advise the monetary policy remain invariable (the total inflation projection, the subjacent inflation projection, parameter rate, parity liable rate, 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 one suggests to relax it (the total payment means).

On the other hand, the information of the Consumer Price Index to March 2006 based on the report by the National Statistics Institute –INE, [for its acronym in Spanish] (the monthly inflation was 0.48%, higher by 0.51 percentage points to 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 to the registered in 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 to the observed in February 2006 (7.03%) and lower by 0.64 percentage points to that of March 2005 (7.87%)); as well as the estimations of the imported and domestic components of total inflation (of the 7.28% inflationary rhythm to March 2006, 2.00 percentage points are attributable to imported inflation, of which, 1.32 percentage points correspond to the indirect imported inflation (second round effect); therefore, the inflationary rhythm, 5.28 percentage points correspond to domestic inflation).

Finally, it was indicated that regarding the behavior of the nominal exchange rate, the central expected runner of the week of April 3 to 7, 2006 was of Q7.617 per US$1.00 and the observed level (calculated as the average of the purchase and sale exchange rates in the institutional market of foreign currency for the period between April 3 to 7) was of Q7.606 per US$1.00, which allows inferring that the value of the observed nominal exchange rate is very close to the expected level, therefore no inflationary or deflationary pressures are foreseen in this direction.

SECOND: 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 17 to 20, 2006 indicate an increase in the creation of primary liquidity for Q1,281.4 million, fundamentally due to the maturity of LTD’s and the use of the deposits of the Central Government in the *Banco de Guatemala*. Also, a decrease in the demand for monetary issue for Q366.1 million is foreseen and a daily banking liquidity position for Q274.3 million. Also, monetary issue is deviated in Q517.3 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q2,439.1 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 (Q974.0 million, according to registries to April 10, 2006) have to be relocated; and also, make additional fund-raising for around Q1,465.1 million.

Based on the information received, the Committee began the discussion on the analysis that must be presented to the Monetary Board in its Wednesday, April 26 session, when, according to the approved calendar, the board would have taken a determination regarding the level of the leading interest rate of the monetary policy. For the effect, in the heart of the Committee as many factors were analyzed that advise raising the referred interest rate, as those that advise it to remain invariable, so that the same can be incorporated in the balance of inflation risks that the technical departments will present in the next meeting with the Execution Committee.

As to the factors that advise raising the leading interest rate the following were mentioned:

i. The last quote on the futures price of oil increased by around US$5.00 per barrel, regarding the price of March, on April 10 at US$ 68.74 per barrel, therefore for 2006 it is expected that the price remain high; therefore, the referred price continues constituting itself, in the current circumstances, in the main factor of inflationary risk in the country, although in lesser magnitude than in 2005.

ii. The deceleration that has been observed in the inflationary rhythm (total as well subjacent) since November 2005 came to a halt in March 2006, when it was located at 7.28% and 7.23%, respectively.

iii. Regarding the variables subject to follow up in the monetary program, in the first term, the level of monetary stabilization operations to date continue to be below the programmed level, and in the second term, the monetary issue continues to register a deviation over the upper limit of the programmed runner for said variable.

iv. The inflationary rhythm projections (total and subjacent) for December 2006 and December 2007, based on the econometric methods, increased in relation to the projections made in February of the current year.

On the other hand, regarding the factors that advise keeping the monetary policy leading interest rate invariable, are the following:

i. The number of indicative variables that advise restricting the monetary policy remains at two (equal in number to March 2006), so much so that the payment means variable, after suggesting to keep the monetary policy invariable went to advising it relax in April; therefore, the number of variables that suggest keeping the monetary policy invariable was reduced from eight to seven.

ii. The result of the survey of inflation expectations of the panel of private analysts made in March (that incorporates information of observed inflation to February) reflects in a decrease of 0.31 percentage points in the projection of the inflationary rhythm for December 2006, when going from 8.05% in February to 7.74 in March.

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 17, 2006 to be established at Q40.0 million and Q50.0 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 17 to 21, 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 Execution Committee agreed that for the week of April 17 to 21, 2006, to keep the execution guidelines of the monetary policy observed during the present week, in the sense of continuing 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 17, 2006 the terms of 182 and 364 days, with a fund-raising quota for Q40.0 million and Q50.0 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, through the established rules for that effect.

THIRD: 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.