EXECUTION COMMITTEE

ACT NUMBER 17-2006

Session 17-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, April 21, two thousand six, at sixteen 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 acts number 15-2006 and 16-2006, corresponding to the session celebrated on April 7 and 11, 2006, respectively.
(The project of acts 15-2006 and 16-2006 circulated.)

SECOND: Market information and monetary variables.

a) Money and Exchange markets.
b) Monetary Variables

THIRD: Inflation Risks Balance.

FOURTH: Initial Conditions of the Semi-structural Macroeconomic Model.

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

SIXTH: 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 15-2006 and 16-2006.

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 17 to 21 of 2006, registered an attraction of LTD's for Q3,345.1 million and maturity of Q1,522.7 million, which gave a net result of fund raising for Q1,822.4 million, associated to the operations in bidding (net maturity for Q111.9 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund-raising of Q1,976.0 million) and at the window (net maturity for Q41.7 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of April 17 to 21, 2006 for the biddings case, the cut interest rates were 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 17 to 21, 2006 period, with partial data, the minimum was of 4.21%, observed April 21, 2006, and the maximum of 4.40%, registered on April 20, 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 4.27% for the public titles and of 5.66% for the titles of the financial sector.

On the other hand, it was informed that during the April 17 to 21, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q130.0 million and maturity for Q162.1 million.

As to the biddings in term deposits in US dollars convened on April 20, 2006 the IGSS made a term deposit in US dollars for US$26.0 million for a 91 day term were placed, at an interest rate of 4.71%, product of the maturity of the LTD's in said currency.

Regarding the Institutional Market for foreign currency the report stated that during the period of April 12 to 20, 2006, the average daily operations for purchase were of

US$55.5 million and the sale was of US$56.1 million as the exchange rates showed a slight tendency, in sales toward the rise and for purchase toward the low. In effect, on Wednesday, April 12 they were of Q7.57744 per US$1.00 for purchase and of Q7.60028 per US$1.00 for sale, on Monday, April 17 the rates were Q7.57779 and Q7.59761, on Tuesday, April 18 they were Q7.57665 and Q7.59587, Wednesday, April 19 they were Q7.57502 y Q7.59593, and finally, on Thursday, April 20 they were Q7.57786 y Q7.59401.

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 17 to 21, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, there were no operations. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, expressed that during the period, the *Banco de Guatemala* made the following purchases: on Tuesday, April 18 for US$6.5 million, at a weighted average exchange rate of Q7.58900 per US$1.00, on Wednesday, April 19 US$3.5 million, at Q7.58900; and on Friday, April 21 of US$5.0 million, at Q7.5800; 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 17 to 21, 2006, did not close operations. As for the closing price in reference up to Friday, April 21, 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 20, 2006, the excess of the daily float of the banking system was located in a negative position of Q844.7 million, with a negative average position of Q337.8 million.

The highlights during the period of April 13 to 20, 2006 were the main demonetizing factors were the increase in the balance in the long term deposits constituted in the *Banco de Guatemala* for Q1,789.1 million and the balance for the deposits of the rest of the public sector in the Central Bank for Q113.4 million; while the main monetizing factors were the decrease in the banking float for Q1,385.9 million and the deposits of the Central Government in the *Banco de Guatemala* for Q11.0 million and the increase in balance of the Net International Reserve –RIN- balance for the equivalent of Q46.4 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 13, 2006, the lower limit was 1.40%, and the upper limit is 9.30%, 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 (4.74%) was situated at 4.55%, 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 13, 2006, the lower limit was 6.43% and the upper limit was 8.01%, and the weighted average rate of long term deposits of the banking system was of 6.98%, 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 20, 2006, they indicated that it presents a deviation of Q439.6 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 13, 2006, it exhibited an inter-annual growth rate of 16.3%, which is under the tolerance margin estimated range for said variable on that same date (16.6% to 18.6%), 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 25.3%, which is within the range estimated for April 13, 2006 (23.6% to 25.6%), 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 restricting the monetary policy.

Also, it was indicated that the implied inflation expectations, for March 2006, show an inflationary rhythm of 6.27%, which is found within the 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 13, 2006, was -2.73 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, seven variables suggest 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, it was indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of April 17 to 21, 2006 was of Q7.625 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 17 and 19 of April) was of Q7.586 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: Inflation Risks Balance.

The Committee continued the analysis beginning the week before, which must be presented to the Monetary Board in its session of April 26, 2006 therefore, according to the calendar approved, said certified body made a decision regarding the leading interest rate of the monetary policy. For the effect, the technical departments of the *Banco de Guatemala* presented, on the one hand, the inflation risks balance, emphasizing the following aspects:

As to the external conditions, reference was made to the increase of the record international price of oil on April 19, 2006, located at US$72.17 per barrel (increase of US$9.40 in comparison to that of March 17, 2006, date in which the balance risk of the month before was analyzed). It was indicated that, according to Bloomberg news agency, the behavior tending toward the rise in the international price of oil is associated, in the first place, to the fact that the crude oil market is being pressured by the international crisis derived from the Iranian nuclear program (fourth oil producing country in the world) and, in second place, to the fact that world oil production is found below the normal level of approximately one million barrels daily, due to the fact that production in the Gulf of Mexico has not yet normalized and that a short term solution is not foreseen for the internal political conflict in Nigeria. Also, it was informed that according to the information of operation closing in the New York Stock Exchange (received a few minutes before the session of the Committee), the quote for the price of international oil went up to US$75.15 per barrel, a new historical record for the price of crude oil. According to the information obtained, said rise was mainly due to two factors: the first, associated with the intensification of the Iranian nuclear program and, the second, regarding the existing fear in the market that the current gasoline inventory in the United States be insufficient to cover the expected demand of said product during the summer. Added to the above, it was informed that the breach between world oil supply and demand continues to be minimal, which, according to international experts in the crude oil market, generates a wide volatility in the international price of oil, therefore any event that affects the referred market could make the price of oil elevate abruptly. With that, the continued rising behavior of the international price of oil is confirmed to be the greatest inflationary risk for the country.

It was indicated that the compound inflation index of the main commercial partners of Guatemala continues to be relatively high. Notwithstanding, that the inflationary rhythm of the majority of the main partners decreased in March 2006 regarding the observed in the same month the previous year; that of the United States in said month, was located at 3.36%, higher by 0.21 percentage points regarding the inflationary rhythm observed in

March, 2005 (3.15%); given that said country has the greater relative weight within the index, it is considered that in this manner, the imported inflation risks continue to be present.

Reference was made to the raise adjustment of 25 basic points recently made by the Federal Reserve of the United States in its objective interest rate, putting it at 4.75%; also, it was indicated that according to the recent survey by Bloomberg, there is a 100% probability that the referred interest rate will increase to 5.00% in the meeting with the Open Market Operations Federal Committee of the Federal Reserve to be held on May 10, 2006.

As to the internal conditions, it was indicated that regarding the variables subject to a follow up in the monetary program, they continue to observe, to date, the level of monetary operations stabilization as well as the monetary issue, which continue a deviation regarding the programmed, when observing average deviations of approximately Q1,800.0 million and Q450.0 million, respectively.

It was indicated that in the execution of public finance a decrease in the deficit in accumulated terms is observed, when on March 31 it was found at Q161.7 million (Q202.4 million to February 28), aspect that is indicative that fiscally, the inflationary pressures are still contained, but that, in the measure in which the execution of public expense accelerates according to the programmed, greater effort will have to be made by the monetary policy through the increase in operations of monetary stabilization.

Regarding inflation, it was mentioned that of 7.28% of the inflationary rhythm observed in March, 2.00 percentage points are attributed to imported inflation, associated to the effect of the increase in the oil price, of which 5.28 percentage points correspond to domestic inflation. It was indicated that when analyzing the evolution of the inflation in the first trimester of the year, the imported inflation reduced its relative weight regarding the observed in January, while domestic inflation during said period did not show any reduction, situation that could suggest the convenience of restricting monetary conditions that could restrain said inflation and with that strengthen the credibility of the monetary policy in terms of fulfillment of the inflation goal for December 2006 and December 2007.

Regarding the indicative variables it was pointed out that, when comparing the situation of these informed, to date, regarding the situation observed to March 17 (last date on which the Committee last analyzed the level of the leading interest rate), the number of indicative variables that suggest restricting the monetary policy remains at two (the monetary issue and the inflation expectations of the panel of private analysts); the variables that advise the monetary policy remain invariable were reduced from eight to seven (the projection of total inflation, the projection of subjacent inflation, the parity liable rate, the parameter rate, the implicit inflation expectations, the banking credit to the private sector and the Monetary Conditions Index); and one variable advises relaxing the monetary policy (the total payment means).

Finally, the econometric projections of inflation for 2006, prepared by the technical departments, using data observed to March 2006, estimating that the inflationary rhythm (total and subjacent) for December 2006, will be located within a margin of tolerance for the policy goal (6.0% +/- 1 percentage point) from an ample perspective. Notwithstanding, it was also pointed out that there was a stricter interpretation of the inflation goal; in other words, when considering the punctual goal of 6.0%, it indicates that both projections are located over said goal, which, within the scheme of explicit inflation goals must be interpreted as a signal that the monetary policy must be restricted. In that regard, a member of the Committee indicated that, in their opinion, given that in a context of explicit inflation goals; a mid-term inflation goal has to be fixed, it is necessary that the technical departments also highlight the fact that when evaluating the prognosis as well as the total inflation as well as the subjacent inflation for December 2007 regarding the inflation goal foreseen at the end of the year (5% +/- percentage point), both prognosis are over the referred goal, including taking into account the tolerance margin. On the other hand, it was also indicated that the inflation expectations of the private analysts, according to the survey made in March, indicated that the panel of analysts continues projecting an inflationary rhythm for the end of 2006 over the inflation goal, even though in lesser magnitude than the survey made in February.

FOURTH: Initial conditions of the Semi-structural Macroeconomic Model

The Technical Departments presented the short term inflation prognosis corresponding to the second and third trimesters of 2006, which would be incorporated as initial conditions in the Semi-structural Macroeconomic Model, MMS (for its acronym in

Spanish), in order to produce the inflation prognosis for the end of 2006 and 2007, so that the discussion generated by the Committee serves as a basis to make the proceeding adjustments, prior to making the second run of the mentioned model. It was indicated that this procedure responds to the notion that the short term prognosis methods are more appropriate than MMS for forecasting one or two trimesters, whereas the model itself is more appropriate for making mid term prognosis, since it takes into account the interactions between variables that are sustained in the macroeconomic theory. In that context, the short term prognosis presented corresponds to the second and third trimesters of 2006, and refer to two classes of variables: a) the exogenous variables to the model; and, b) the endogenous variables to the model. Regarding the exogenous variables: prognosis coming from specialized external sources for international oil prices are presented, as well as for four variables corresponding to the economy of the United States: prices of diesel, inflation, growth of the real GNP and the interest rate for the US treasury titles that expire in one year. Particularly, regarding the international price of oil, the prognosis presented was generated by the Global Insight firm and correspond to the March 2006 report. In said prognosis a base scenario as well as high and low price scenarios were presented.

As to total inflation, it was indicated that the annualized and out of season prognosis was of 6.08% and 6.45% for the second and third trimesters of 2006, respectively. In terms of inter-annual variation for the total Consumer Price Index, the previous values correspond to 6.99% for the second trimester of 2006 and 6.41% for the third trimester of 2006. The prognosis for the referred trimesters fundamentally reflects the inertia of the inflationary phenomenon (quantified for the time series models), their seasonality (influenced by the seasonal behavior of fruit and vegetables) and the expected behavior of the price of oil and its derivatives.

Finally, the technical departments indicated that the results of the second run of the Semi-structural macro-economic model will be ready around the third week of May.

After the presentation on behalf of the technical departments, a member of the Committee suggested that, taking the latest news as a reference in what has observed an increase in the international price of oil, as well as the fact that the scenario of oil prices provided by Global Insight still correspond to the month of March, instead of using the base scenario as an initial condition, a high price scenario will be used. In that context and taking into account that the report of April 2006 of said firm will be published at the end of the month, the Execution Committee will require the technical departments that generate a new version of inflation prognosis in the short term using the base scenario of prognosis of international oil prices provided by Global Insight in its April 2006 report; or the high oil price scenario from the March 2006 report; of them, the one that is closest to the current prevalent prices.

FIFTH: 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 technical departments of the *Banco de Guatemala*, having exposed the elements that compose the inflation risks balance, the prognosis of short term inflation corresponding to the second and third trimester for 2006 that will be incorporated as initial conditions in the Semi-structural Macroeconomic Model, MMS for producing the second runner of the mentioned model and its inflation prognosis at the end of 2006 and of 2007, as well as the behavior of indicative variables of the monetary policy, came to the conclusion that they are prevalent factors that advise restricting the monetary conditions, therefore an adjustment in the leading interest rate would contribute to, on the one hand, moderating the inflation expectations of the economic agents and, on the other hand, strengthening the credibility of the Central Bank in the management of the monetary policy, aspect of great importance for the fulfillment of the inflation goal for December 2006 and of December 2007.

Based on the analysis made by the technical departments, in the orientation of the indicative variables and in the inflation risks balance, the Committee coincided with the referred departments, in the sense that the analysis made, reasonably presents the current conjunction of the monetary policy.

In the described context, the Committee emphasized the fact that, notwithstanding that the total inflationary rhythm decelerated significantly between November 2005 and February 2006, in March said variable increased. In that sense, it was indicated that said increase, although slight, could mean the beginning of a reversal of the deceleration tendency of the inflationary rhythm. Also, emphasis was made on the fact that the inflation prognosis observed was located over the punctual value of the inflation goal of 6% for 2006 (in a strict interpretation), which advises adopting measures of restriction of the monetary conditions. In the case of 2007, given that in the context of the explicit inflation goals it is necessary to consider the fulfillment of the inflation goal with emphasis on a mid-term horizon, the Committee declared its preoccupation for the results of the inflation prognosis for December of that year, since with data to March 2006, said prognosis were of 6.57% for total inflation and 6.45% for subjacent inflation, which are over the inflation goal, considering even the tolerance margin (5.0% +/- 1 percentage point), which suggests the need to restrict the monetary policy.

On the other hand, the Committee agreed that they must also take into account the ambit risks of the current execution of the monetary policy. As to the risks associated to the external ambit, a member of the committee made reference to the report on the "World Economy Perspectives" of the International Monetary Fund of April 2006; it points out that in the last ten years the globalization forces imply a greater competition among the actors of the world market, which supports the effort of the central banks to keep the inflation controlled, notwithstanding which, the same document points out that, in the measure in which the wasted installed capacity depletes and the price of primary commodities remains high (tendency that seems to persist), the inflationary pressures could return to the world scenario. Result of this, several industrial countries today show low pressure labor markets, which will at the same time reduce the benign effects that global competition has had on salaries. All this shows that the task of central banks around the world would tend to complicate in the next months. It was added that, on the other hand, the excess liquidity in the international markets have shot a "yield search" that has affected the exchange markets, like the Guatemalan, which could also be close to ending, since the monetary restriction in Japan, United States and Europe could make the capital flow revert. It was highlighted that, in addition to the above, the information cited warns that a reduction could be given in the global savings rate on behalf of the corporations, which could also contribute to a rise in the international interest rates. It was indicated that this "normalization" of the conditions of world liquidity could mean some degree of future volatility, especially in the markets where the price of assets (especially real estate) have been inflated, concluding that all the above declares a complex future panorama so that the central banks could keep macroeconomic stability, particularly, the stability in the general level of prices, therefore it is prudent to consider the adoption of precautionary measures oriented to preparing the macroeconomic environment to better resist the manner of adjustments that could be given in external financial conditions.

Another theme of analysis in the external environment was the scenario, especially worrying, the oil prices, that tend to be located above the expected pessimist scenario at the beginning of the year. It was indicated that, different from the rises in 2004 and 2005, the current rise is attributable more to offer factors (Nigeria, Iran, Iraq), which makes the maneuver margin of the rest of the world, in order to adopt policies oriented toward restricting the demand, more reduced. In that regard, the opinion of a member of the Committee was that the last increases observed in the international price of oil could surely generate inflationary pressure in the next months. On this particular, another member of the Committee made reference to the fact that, even though it is true that the monetary policy could do little to counterweigh the effects of the first round of fuel rises, sight should not be lost that there is a possibility that the monetary policy would achieve minimizing the "second round effect", especially if the opportune measures are taken that calm the inflationary expectations. The Committee asked the technical bodies to investigate this topic deeper, taking into account what other central banks have done in this regard.

As to the internal environmental risks, it was pointed out that the growth that has been observed in the banking credit to the private sector continues to be motive of analysis and reflection. A member of the committee indicated that it must not be forgotten that the role of the Central Bank is to preserve the stability of prices in a sustainable manner, which includes watching over keeping favorable conditions for the financial stability in general, in order to avoid future exchange, financial, inflationary or deflationary crisis, originated by the current lack of balance. It was added that if short term rates are kept too low, the risk is run that it would be interpreted as an endorsement for excesses in liquidity and excessive risk taking in the financial markets. It was indicated that credit booms, if not translated in the short term inflation, they can be translated, for example, in a real estate boom that, the same as inflation, can have distorting effects in the manner in which prices are made and, therefore, in the efficient assigning of economic resources, which would backfire in the surge of lack of balance, for example, in the current account of payment balance that would be manifest through the relation of little savings and excess investment. In that regard, a member of the Committee declared that if it is true that there is no certainty that the accelerated growth of credit to the private sector observed currently would have to inevitably be translated in this type of unbalance, it was indicated that this uncertainty is something with which economic policy is faced, therefore it is a valid reason to continue with caution; but that, in their opinion, the fact that acting with caution is not synonymous of not taking monetary policy measures; it was pointed out that other central banks (in England, New Zealand and Australia) in the recent past, have taken measures to moderate the real estate booms, and Mervyn King, the vice-governor of the Bank of England, remembered that he had indicated that this implies accepting the risk that the inflation could fall a little under the goal in the short term, but in order to avoid the explosion of a real estate bubble will cause a great deflation in the future. However, another member of the Execution Committee declared that if the previous arguments are not valid, sight must not be lost that the fundamental objective of the Central Bank is to maintain the monetary conditions that allow stability in the general level of prices, for which the monetary policy counts on the corresponding instruments, therefore at their criteria, the worry of watching over the stability in the financial system, in the case of a real estate boom, must be faced through a strengthening of financial supervision.

A member of the committee also made reference to the fact that the report of the Monetary Policy to March 2006 must be considered (which the technical departments will present to the Monetary Board in the next few days), it was mentioned that in the results of the first running of the semi-structural macroeconomic model it is clearly observed that the inflation goal can be achieved, but in order to do so, it necessarily requires a raise in the leading interest rate of the monetary policy, increase that, given the delay with which the monetary policy operates, must be adopted opportunely so the inflation converges with the goal in the foreseen horizon. On the other hand, it was commented that the referred model indicates that the breach of production is greater than zero; in other words that the economy could be growing in the current juncture at a greater rhythm than at its level of non-inflationary equilibrium.

In the described context, in the heart of the Committee the analysis that an adjustment is justifiable in the leading interest rate of the monetary policy was denied, taking into account that opportune action must be taken and with a mid term vision that allows the economic growth be sustainable in an environment of macroeconomic stability, and to avoid that in the future, they would have to adopt more abrupt adjustments to achieve the same purposes.

Following, in the Committee the possible impact of a raise in the leading interest rate was also analyzed. A member of the Committee indicated that a factor that favors the referred rise is circumscribed to the fact that the national production seems to be growing robustly, therefore a small adjustment (of 25 basic points), in the current circumstances, would hardly affect the growth rhythm in the short term, and possibly favor it in the long term. It was pointed out that the current macroeconomic environment favors the growth of the economic activity; as an example reference was made to: a) in the Monetary Policy report to March 2006 it was indicated that the growth of the world economy remains positive, which favors the national economic growth perspective, therefore the Central American Free Trade Agreement, Dominican Republic, to be enforced in the short term, should not significantly change the growth perspective of the economic activity; b) that the Monthly Index of Economic Activity, IMAE, (for its acronym in Spanish), the banking credit to the private sector and the diverse surveys that the *Banco de Guatemala* has made, confirm the dynamic growth rhythm of the national economy; and c) that even when the domestic inflation continues showing a lesser rhythm to the previous year, the achievement of the goal is feasible for 2006 and 2007, only if the opportune measures are taken.

Regarding the exchange dilemma that sometimes could influence the decision of raising the leading interest rate, a member of the Execution Committee indicated that it is worthwhile to also have a mid-term sight, since observing that the differential of interest rates regarding the rate of the US policy is each time greater (in favor of US rates) and with a tendency to continue rising, a modest adjustment in the domestic interest rate should not significantly affect the exchange market.

Another member of the Committee declared that in the remote case that there would be economic growth effects, these would be very small (according to the confirmed by the Semi-structural macroeconomic model) and would be more than compensated by the reduction in the inflation risk or the external, financial or futures exchange unbalances. In that sense, an opportune adjustment of the leading interest rate could have positive effects in matters of certainty and, therefore, favor economic growth in the mid-term.

Last, the members of the Committee pointed out that it has to be kept in mind that just as the leading interest rates can rise, when circumstances like the current ones prevail, said rate must also be reduced when the circumstances show inverse behavior.

The Committee took note that the monetizing and demonetizing factors foreseen for the week of April 21 to 27, 2006 indicate an increase in the creation of primary liquidity for Q3,936.6 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 Q180.3 million is foreseen and a daily banking liquidity position for Q370.0 million. Also, monetary issue is deviated in Q622.2 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q4,396.1 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 (Q3,546.9 million, according to registries to April 20, 2006) have to be relocated; and also, make additional fund-raising for around Q849.3 million.

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 24, 2006 to be established at Q40.0 million and Q60.0 million, respectively.

Regarding the convening to bidding of LTD's in US dollars, the Committee took into account the foreseen maturity of Treasury Bonds expressed in US dollars, and considered that for the week of April 24 to 28, 2006, to not convene biddings 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 24 to 28, 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 24, 2006 the terms of 91 and 364 days, with a fund-raising quota for Q40.0 million and Q60.0 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 for the effect.

SIXTH: Other matters.

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