EXECUTION COMMITTEE

ACT NUMBER 18-2006

Session 18-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, April 28, 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 17-2006, corresponding to the session celebrated on April 21, 2006, respectively.
(The project of act 17-2006 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 act number 17-2006.

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 24 to 28 of 2006, with partial data to date, registered an attraction of LTD's for Q2,350.6 million and maturity of Q3,612.7 million, which gave a net result of fund raising for Q1,262.1 million, associated to the operations in bidding (net maturity for Q56.5 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund-raising of Q1,179.0 million) and at the window (net maturity for Q26.6 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of April 24 to 28, 2006 for the biddings case, the cut interest rates were of: 5.0% for 91 days and 6.2475% 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% from April 24 to 26 and of 4.50% of April 27 to 28, 2006, according to the increase made in the interest rate by the Monetary Board in its session of April 26, 2006.

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 24 to 28, 2006 period, with partial data, the minimum was of 4.29%, observed April 24, 2006, and the maximum of 4.44%, registered on April 27, 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 4.35% for the public titles and of 5.85% for the titles of the financial sector.

On the other hand, it was informed that during the April 24 to 27, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q65.0 million and maturity for US$0.2 million.

Regarding the Institutional Market for foreign currency the report stated that during the period of April 21 to 27, 2006, the average daily operations for purchase were of US$68.2 million and the sale was of US$76.8 million and that the exchange rates in the referred period remained stable. In effect, on Friday, April 21 they were of Q7.57475 per US$1.00 for purchase and of Q7.59360 per US$1.00 for sale, on Monday, April 24 the rates were Q7.57439 and Q7.59418, on Tuesday, April 25 they were Q7.57584 and Q7.58986, Wednesday, April 26 they were Q7.57478 y Q7.58970, and finally, on Thursday, April 27 they were Q7.57307 y Q7.59070.

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 24 to 28, 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 of April 21 to 27, the *Banco de Guatemala* made the following purchases: on Friday, April 21 for US$5.0 million, at a weighted average exchange rate of Q7.58800 per US$1.00, on Monday, April 24 for US$5.0 million, at Q7.58800, on Tuesday, April 25 for US$19.0 million, at Q7.58653; and on Wednesday, April 26 of US$3.0 million, at Q7.58533; 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 24 to 28, 2006, did not close operations. As for the closing price in reference up to Friday, April 28, 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 27, 2006, the excess of the daily float of the banking system was located at Q230.7 million, with a average position of Q119.3 million.

The highlights during the period of April 20 to 27, 2006 the main monetizing factors were the decrease in the balance in the long term deposits constituted in the *Banco de Guatemala* for Q955.4 million and the increase in balance of the Net International Reserve –RIN- balance for the equivalent of Q208.8 million; while the main demonetizing factors were the increase in the banking float balance for Q1,063.4 million, the deposits of the Central Government in the *Banco de Guatemala* for Q51.3 million and the deposits of the rest of the public sector in the Central Bank for Q15.7 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; and, for December 2007 the total expected inflation, estimated with an ordinary squared minimum model, is of 7.72% and with a softened exponential model of 5.41%; the simple average of both models is at

6.57%, which is over the expected policy goal (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy.

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; and, for December 2007 the estimated inflation with an integrated autoregressive model of mobile averages ARIMA, was of 6.95%, whereas the estimated softened exponential model was of 5.95%.; the simple average of both models is of 6.45%, which is located over the policy goal (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy.

As to the parameter rate, up to April 20, 2006, the lower limit was 1.57%, and the upper limit is 9.47%, while the simple average between the repurchase agreements of 8 to 15 days (4.42%) and the weighted average of the monetary stabilization operations of up to 91 days (4.55%) 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 April 20, 2006, the lower limit was 6.28% and the upper limit was 7.86%, and the weighted average rate of long term deposits of the banking system was of 7.01%, 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 27, 2006, they indicated that it presents a deviation of Q635.1 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 20, 2006, it exhibited an inter-annual growth rate of 15.6%, which is under the tolerance margin estimated range for said variable on that same date (17.0% to 19.0%), 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 25.3%, which is within the range estimated for April 20, 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 April 2006, for December 2006 an inflationary rhythm of 7.54% is expected, which is above the goal for monetary policy (6.0% +/- 1 percentage point), an aspect which suggests restricting monetary policy; and, for December 2007, the inflation projection is located at 6.88%, which is over the monetary policy goal (5.0% +/- 1 percentage point), which suggests restricting the 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.

They mentioned that the Monetary Conditions Index –ICM-, to April 20, 2006, was -2.71 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).

Regarding the observation presented in the heart of the committee in its previous session, regarding the context of a scheme of explicit inflation goals it is necessary that the monetary policy negotiators consider the fulfillment of the inflation goal in a horizon in mid term; the technical departments presented the indicative variables that have a mid-term, the technical departments presented the indicative variables that have a prognosis for December 2007. In that sense, the total projection inflation as well as the subjacent inflation projection for December 2007 present superior values to the established goal the end of said year (5.0% +/- 1 percentage point), even over the margin of tolerance. The same situation is presented by the inflation expectations by private analysts for the end of 2007 obtained in the survey made in April. In said context, the three mentioned variables would be added to the number of indicative variables that recommend restricting the monetary policy.

On the other hand, it was indicated that regarding the behavior of the nominal exchange rate, the central expected runner for the week of April 24 to 28, 2006 was of Q7.629 per US$1.00 and the observed level (calculated as the average of the types of exchange rate for purchase and sale in the institutional market of foreign exchange for the period between April 24 and 26) was of Q7.583 per US$1.00, which allows inferring that the observed value of the nominal exchange rate, is close to the expected level, therefore in this light 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

A member of the Committee referred to the orientation of the monetary policy derived of the behavior of the payment means and the banking credit to the private sector. In that regard, it was indicated that in their opinion special emphasis would be given to the econometric projection that alternatively to the estimated runner is made for both variables, in virtue of the fact that the same allows evaluating if with the current trajectory of the referred variables a convergence can be achieved toward the estimated ranges for the end of the year. In that sense, it was highlighted that according to the econometric projection of the banking credit, this would be located over the estimated range (16%-18%), therefore said projection would be advising restricting the monetary policy instead of it remaining invariable (just as it is recommended by the estimated runner); in the case of the payment means, the projection indicates that with the current trajectory of said variable this would be locating itself at the end of the year within the estimated range (13%-15%), therefore the orientation would be that the policy remain invariable instead of it relaxing, as is indicated by the estimated runner. In that context, a member of the Committee indicated that in the clause regarding the orientation of the indicative variables of the Report of the Monetary Policy to March 2006, a proposal was included that takes into account said consideration and that suggests a form of making a combination between the orientation of the estimated runner and the econometric projection operative. Another member of the Committee pointed out that if it is important to take into account the previous opinion, in their judgment it is sufficient to observe that the prognosis of total and subjacent inflation is found over the established goal for the Monetary Board in the mid-term, to sustain that the monetary policy be restrictive.

The Committee took note that the monetizing and demonetizing factors foreseen for the week of April 28 to May 4, 2006 indicate an increase in the creation of primary liquidity for Q2,569.6 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 Q119.1 million is foreseen and a daily banking liquidity position for Q444.6 million. Also, monetary issue is deviated in Q817.7 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q3,712.7 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 (Q2,604.9 million, according to registries to April 27, 2006) have to be relocated; and also, make additional fund-raising for around Q1,107.8 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 182 and 364 day terms to be convened on Wednesday, May 3, 2006 to be established at Q20.0 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.

The Committee analyzed the behavior of the fund-raising in 7 day terms in the MEBD and in the stock exchange during the current year, establishing that in the case of the stock exchange said fund-raising has decreased substantially, therefore agreeing that as of May 2, 2006, said fund-raising would be made only in the MEBD, due, in part, that the referred fund-raising be made through the stock exchange decreased by 50.1% of the total fund-raising in January of the current year, at 12.6% in April; and, on the other hand, that the use of the mechanism of the stock exchange, before the imminent fee payment required of the Central Bank, would imply increasing the cost of the monetary policy.

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 May 2 to 5, 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 May 2 to 5, 2006, modifying some of 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 4.50%, 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 Wednesday, May 3 for the terms of 182 and 364 days, with a fund-raising quota for Q20.0 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.

FOURTH: Other matters.

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