EXECUTION COMMITTEE

ACT NUMBER 19-2006

Session 19-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, May 5, 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 18-2006, corresponding to the session celebrated on April 28, 2006, respectively.
(The project of act 18-2006 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 18-2006.

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 May 2 to 5 of 2006, with partial data to date, registered an attraction of LTD's for Q1,937.0 million and maturity of Q2,428.9 million, which gave a net result of net maturity for Q491.9 million, associated to the operations in bidding (net maturity for Q95.3 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q114.0 million) and at the window (net maturity for Q282.6 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of May 2 to 5, 2006 for the biddings case, the cut interest rates were of: 5.50% for 182 days and 6.2499% 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 4.50%.

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 May 2 to 5, 2006 period, with partial data, the minimum was of 4.19%, observed May 5, 2006, and the maximum of 4.98%, registered on May 2 and 4, 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 4.69% 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 May 2 to 4, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q120.0 million and maturity for US$0.1 million.

Regarding the Institutional Market for foreign currency the report stated that during the period of April 28 to May 4, 2006, the average daily operations for purchase were of US$70.1 million and the sale was of US$71.1 million and that the exchange rates in the referred period remained stable. In effect, on Friday, April 28 they were of Q7.57713 per US$1.00 for purchase and of Q7.59866 per US$1.00 for sale, on Tuesday, May 2 the rates were Q7.57281 and Q7.59003, on Wednesday, May 3 they were Q7.57184 and Q7.58731, and finally, on Thursday, May 4 they were Q7.57176 y Q7.58536.

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 May 2 to 5, 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 Tuesday, May 2 for US$1.0

million, at a weighted average exchange rate of Q7.58500 per US$1.00, on Wednesday, May 3 of US$21.0 million, at Q7.58414, on Thursday, May 4, US$3.0 million, at Q7.58300; and on Friday, May 5 US$7.0 million at Q7.58243, 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 May 2 to 5, 2006, did not close operations. As for the closing price in reference up to Friday, May 5, they indicated that for maturity to liquidate in June of 2006 it was of Q7.62000.

b) The Director for the Economic Studies Department informed that on May 4, 2006, the excess of the daily float of the banking system was located at Q612.6 million, with a average position of Q401.0 million.

The highlights during the period of April 27 to May 4, 2006 the main monetizing factors were the decrease in the balance in the long term deposits constituted in the *Banco de Guatemala* for Q563.9 million and the deposits of the rest of the public sector in the Central Bank for Q43.8 million; and, the increase in balance of the Net International Reserve –RIN- balance for the equivalent of Q487.2 million; while the main demonetizing factors were the increase in the banking float balance for Q607.2 million and the deposits of the Central Government in the *Banco de Guatemala* for Q257.1 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 27, 2006, the lower limit was 1.61%, and the upper limit is 9.51%, while the simple average between the repurchase agreements of 8 to 15 days (4.43%) and the weighted average of the monetary stabilization operations of up to 91 days (4.62%) was situated at 4.53%, 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 27, 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 7.00%, which maintains itself within the fluctuation range of the parity liable rate, which advises an invariable monetary policy.

As to monetary issue observed to May 4, 2006, they indicated that it presents a deviation of Q613.2 million regarding the upper limit programmed runner for said variable, which would indicate that there is space available to restrict the monetary policy.

As to the total payment means, to April 27, 2006, it exhibited an inter-annual growth rate of 14.6%, which is under the tolerance margin estimated range for said variable on that same date (15.4% to 17.4%), 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 27, 2006 (23.3% to 25.3%), which suggests restricting the 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 an invariable monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to April 27, 2006, was -2.64 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 three variables regarding the prognosis of inflation for December 2007 (the total inflation projection, the subjacent inflation projection and the inflation expectations of private analysts). Regarding the previous week, the variable "banking credit to the private sector" went from suggesting that the monetary policy remain invariable to suggesting that the monetary policy be restricted (the total inflation projection for 2007, the subjacent inflation projection for 2007, the monetary issue, the banking credit to the private sector and the inflation expectations of the private analysts for 2006 and for 2007); the variables that suggest the monetary policy remain invariable went from seven to six (the total inflation projection, the subjacent inflation projection for 2006, the parameter rate, parity liable rate, the implied inflation expectations and the Monetary Conditions Index); and, one variable suggests the monetary policy relax (the payment means).

On the other hand, it was indicated that regarding the behavior of the nominal exchange rate, the central expected runner for the week of May 2 to 5, 2006 was of Q7.617 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 May 2 and 3) was of Q7.593 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 appreciation of the nominal exchange rate in the last weeks. In that regard, and based on the information presented by the technical departments, it was indicated that the appreciation currently observed is similar, but in lesser magnitude, to the registered in the same period of 2005, since between January 3 and May 4, 2006, the percentage of appreciation was of 0.27%, so much so that in the same period of 2005 it was of 2.0%. On the other hand, it was highlighted that between April 19 and May 4, 2006 (period in which appreciation accelerated the nominal exchange rate), the appreciation percentage was of 0.09%, and in the same period of 2005 it was of 0.78%. As to the purchase of foreign currency on behalf of the *Banco de Guatemala*, in order to moderate the volatility of said variable, it was indicated that they have been minor in 2006, since it is observed that between January 3 and May 4, 2006, purchases for US$73.5 million were registered, and in the same period of 2005 these were of US$308.8 million.

In the described context, it was declared that it must be kept in mind that rash movements in the exchange rate have detrimental effects in the investment and consumer decisions of the economic agents, this being the reason why the participation of the *Banco de Guatemala* is oriented toward moderating the volatility of the exchange rate without affecting its tendency; it was pointed out that, taking care of the magnitudes of the exchange appreciation, the participation of the bank in the exchange market was more justified last year than currently; therefore, in their judgment, the current exchange regulation has remained too rigid and could be obligating the Central Bank to participate unnecessarily in the exchange market and, at the same time, impeding an exchange rate adjustment that agrees more with the market conditions. It was mentioned that they were aware of the political dilemma that the capital flows pose to the country, and that they coincide in that the bank must participate in moderating the exchange movements in order to give time to the economic agents to adjust to the new conditions, but at the same time must adjust to the participation regulation in order to minimize the negative aspects (in matter of monetization) the same assumes.

In the described context, other members of the Committee indicated that said situation is matter of analysis in the heart of the Monetary Board, making emphasis on the fact that in the report of the Monetary Policy to March, 2006 (in discussion of the heart of the mentioned committee of the licensed body) is presenting a proposal of modification of the current exchange regulation that is in line with the presented by the member of the Committee.

A member of the Committee indicated that to make the analysis more precise for the orientation that the indicative variables could give could be of use in knowing what results the version throws for these which include the revision in its calculation form and interpretation in the form in which it was proposed to the Monetary Board in the Report of the Monetary Policy in March, 2006. In that regard, the technical departments presented the results requested, including the Mid-term prognosis of the Semi-structural Macroeconomic model and the variable composed of the primary liquidity (that include the monetary issue as well as the Ample Monetary Base); also, the analysis of the synthetic index to jointly evaluate the orientation of the referred variables was presented, taking into account the relative importance that each one of them has for the Committee in the process of decision making for the monetary policy. In that sense, it was indicated that the 21.55% of the total of the indicative variables suggests with certainty is a restrictive monetary policy; 44.20% suggest that it be restrictive, but within the tolerance margin; 28.18% that it be invariable; and 0.00% that it relax, but within the tolerance margin; and 6.07% suggest that it be relaxed with certainty.

The Committee took note that the monetizing and demonetizing factors foreseen for the week of May 5 to 11, 2006 indicate an increase in the creation of primary liquidity for Q1,096.0 million, fundamentally due to the maturity of LTD's. Also, a decrease in the demand for monetary issue for Q38.1 million is foreseen and a daily banking liquidity position for Q46.0 million. Also, monetary issue is deviated in Q795.8 million above the central programmed point for said variable, therefore the excess of aggregate liquidity for the referred period is located at Q1,975.9 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 (Q2,059.3 million, according to registries to May 4, 2006) have to be relocated around Q1,975.9 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, May 8, 2006 to be established at Q20.0 million and Q45.0 million, respectively.

The Committee again analyzed the behavior of the 7 day terms in the MEBD and in the stock exchange said fund raising has decreased substantially, agreed that as of May 8, 2006 said fund raising would be made again by means of the same, taking into consideration that, according to the agreed by persons of the referred entities, do not contemplate charging commissions to the Central Bank for the placemtne of LTD's made through it.

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 8 to 12, 2006, it is necessary to 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 discussed, the Committee agreed that for the week of May 8 to 12, 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 8 for the terms of 91 and 364 days, with a fund-raising quota for Q20.0 million and Q45.0 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 public entities, that the fund raising continue to be according to the prevalent financial conditions; in other words, the interest rate for the 7 day terms will be the one applied by the *Banco de Guatemala* in the MEBD and in the stock exchange and, for the other terms, the interest rate will be the mobile average, for each term, of the weighted average interest rate of the previous four bidding events. As to fund raising for the public, the interest rate for each term, can not be higher than the weighted average of the corresponding bid minus one percentage point.

The Committee agreed to convene the biddings of term deposits in United States dollars –DP's in US$, on Wednesday, May 10, 2006, for the terms of 91 days and 364 days, for the amount of up to US$30.0 million. The bids received will be awarded using as a reference the interest rates of the Treasury Letters of the United States of America in similar terms, without excluding the possibility that if said bids were received in higher rates merit it, a session of the Committee will be convened to decide the awarding.

The Committee agreed to continue accepting the constitution of term deposits in United States dollars directly at the window, from public entities, in current terms of (91 days and 364 days) and that the interest rate applied use the interest rates of the Treasury Letters of the United States of America in similar terms.

As for the participation of the *Banco de Guatemala* in the exchange market, the Committee agreed that while they wait for the presentation of the Participation Regulation in the exchange market submitted for approval to the Monetary Board in the Monetary Policy Report to March 2006, 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 ten minutes, in the same place and on the same date indicated, all who attended sign in agreement.