EXECUTION COMMITTEE

ACT NUMBER 21-2006

Session 21-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, May 19, 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 20-2006, corresponding to the session celebrated on May 12, 2006, respectively.
(The project of act 20-2006 circulated.)

SECOND: Market information and monetary variables.

a) Money Market
b) Exchange markets.
c) Indicative Variables
d) Estimated Monetization Flow

THIRD: Determination of Bidding Quotas for Term Deposits.

FOURTH: Inflation Risks Balance.

FIFTH: Prognosis of the Inflation in the Mid Term (Semi-structural Macroeconomic Model).

SIXTH: Discussion and definition of the guidelines of execution for the Monetary, Exchange rate and Credit Policy

SEVENTH: 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 20-2006.

SECOND: Information of markets and monetary variables.

The coordinator requested the following information be provided.

a) The Director of the Department of Monetary Stabilization Operations, regarding the Money market informed that during the period from May 15 to 19 of 2006, with partial data to date, registered an attraction of LTD's for Q2,367.7 million and maturity of Q2,946.2 million, which gave a result of net fund raising for Q578.5 million, associated to the operations in bidding (net maturity for Q55.0 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q415.8 million) and at the window (net maturity for Q107.7 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of May 15 to 19, 2006 for the biddings case, the cut interest rates were of: 5.50% for 182 days and 6.2450% 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 15 to 19, 2006 period, with partial data, the minimum was of 4.58%, observed May 16, 2006, and the maximum of 4.64%, registered on May 18, 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 4.60% for the public titles and of 5.67% for the titles of the financial sector.

On the other hand, it was informed that during the May 15 to 18, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q30.0 million and maturity for Q1.0 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of May 12 to 18, 2006, the average daily operations for purchase were of US$62.9 million and the sale was of US$71.0 million and that the exchange rates in the referred period remained stable. In effect, on Friday, May 12 they were of Q7.56977 per US$1.00 for purchase and of Q7.58676 per US$1.00 for sale, on Monday, May 15 the rates were Q7.56857 and

Q7.58416, on Tuesday, May 16 they were of Q7.56830 and Q7.58395, on Wednesday, May 17 they were Q7.56945 and Q7.58415, and finally, on Thursday, May 18 they were Q7.57206 y Q7.58699.

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 15 to 19, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the following operations were made: on Monday, May 15 for US$2.0 million, at a weighted average exchange rate of Q7.58000 per US$1.00 and on Thursday, May 18 of US$0.2 million for Q7.58301. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, expressed that during the period the *Banco de Guatemala* made the following purchases: on Monday, May 15 for US$2.0 million, at a weighted average exchange rate of Q7.58000 per US$1.00, 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 15 to 19, 2006, did not close operations. As for the closing price in reference up to Friday, May 19, they indicated that for maturity to liquidate in June of 2006 it was of Q7.61000.

c) The Director for the Economic Studies Department informed that on May 18, 2006, the excess of the daily legal reserve of the banking system was located at Q350.5 million, with an average position of Q196.0 million.

The highlights during the period of May 11 to 18, 2006 the main demonetizing factors were the increase in the balance in the banking float balance for Q558.8 million and the deposits of the rest of the public sector in the Central Bank for Q97.0 million; while the main monetizing factors were the decrease in the balance of the long term deposits constituted in the *Banco de Guatemala* for Q294.7 million and the deposits of the Central Government in the *Banco de Guatemala* for Q45.0 million; and, the increase in Net International Reserve –RIN- balance for the equivalent of Q69.6 million.

Regarding the indicative variables of the Monetary, Exchange Rate and Credit Policy they indicated that with the projection to April 2006, for December 2006 the total expected inflation estimated with a model of ordinary squared minimums is of 7.55% and with a softened exponential model of 7.32%; the simple average of both models is located at 7.44%, 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 7.75% and with a softened exponential model of 6.22%; the simple average of both models is at 6.99%, 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 April 2006, estimated with an integrated auto-regression model of mobile averages ARIMA was of 6.89%, whereas the estimated with a softened exponential model was of 6.46%; the simple average of both models is of 6.68%, 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 7.01%, whereas the estimated softened exponential model was of 5.99%.; the simple average of both models is of 6.50%, 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 May 11, 2006, the lower limit was 1.94%, and the upper limit is 9.84%; while the simple average between the repurchase agreements of 8 to 15 days (5.05%) and the weighted average of the monetary stabilization operations of up to 91 days (4.68%) was situated at 4.87%, 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 May 11, 2006, the lower limit was 6.31% and the upper limit was 7.89%, and the weighted average rate of long term deposits of the banking system was of 7.02%, 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 18, 2006, they indicated that it presents a deviation of Q505.1 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 May 11, 2006, it exhibited an inter-annual growth rate of 16.8%, which is under the tolerance margin estimated range for said variable on that same date (16.8% to 18.8%), which advises an invariable monetary policy. Also, up to said date, the banking credit of the private sector registered an inter-annual growth rate of 26.1%, which is over the range estimated for May 11, 2006 (24.0% to 26.0%), which suggests a restrictive 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 April 2006 showed an inflationary rhythm of 6.44%, 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 May 11, 2006, was -2.69 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 "credit to the private sector" went from suggesting that the monetary policy remain invariable to suggesting that the monetary policy be restrictive; whereas the "payment means" variable went from suggesting that the monetary policy relax to remaining invariable, with an increase from six to seven, the number of variables that suggest that the monetary policy be restrictive (the total inflation projection for 2006 and for 2007, the subjacent inflation projection for 2007, the monetary issue, and the banking credit to the private sector and the inflation expectations of the private analysts for 2006 and for 2007); six variables remain advising the monetary policy to remain invariable (the subjacent inflation projection for 2006, the parameter rate, parity liable rate, the total payment means, the implied inflation expectations and the Monetary Conditions Index); and, no variable suggests the monetary policy relax.

At the request of one of the members, the Committee received information of the orientation of the indicative variables according to the methodology and interpretation proposed to the Monetary Board in the Monetary Policy Report to March 2006. Based on the analysis of the synthetic index that jointly evaluates the orientation of the referred variables, it was indicated that 62.71% of the total of the indicative variables certainly suggest a restrictive monetary policy; 14.64% suggest it be restrictive, but within the margin of tolerance; 22.65% that it be invariable; and 0.00% relax, within as well as outside the tolerance margin.

Finally, it was indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of May 15 to 19, 2006 was of Q7.619 per US$1.00 and the observed level (calculated as the average of the exchange rates for purchase and sale in the Institutional Market of Foreign Currency for the period between May 15 to 17) was of Q7.576 per US$1.00, which allows inferring that the observed value of the nominal exchange rate is found within the expected fluctuation band, but close to the lower limit, therefore in this light inflationary or deflationary pressures are not foreseen.

d) The Committee took note that the monetizing and demonetizing factors foreseen for the week of May 19 to 25, 2006 indicate an increase in the creation of primary liquidity for Q2, 715.7 million, fundamentally due to the maturity of LTD's. Also, a decrease in the demand for monetary issue for Q93.6 million is foreseen and a daily banking liquidity position for Q157.5 million. Also, monetary issue is deviated in Q687.8 million above the central programmed point for said variable, therefore the excess of aggregate liquidity estimated for the referred period is located at Q3,654.6 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 (Q2,557.7 million, according to registries to May 18, 2006) have to be relocated; and, also, have additional fund raising for around Q1,096.6 million.

THIRD: Determination of the bidding quotas for the term deposits.

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 22, 2006 to be established at Q25.0 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 May 22 to 26, 2006, it is not necessary to convene biddings of LTD's in the mentioned currency.

FOURTH: Inflation Risks Balance.

The Committee continued the analysis begun the week before, which should be presented to the Monetary Board in its session of May 24, 2006 so that, according to the approved calendar, said licensed body can make a decision regarding the level of the leading interest rate of the monetary policy. For said effect, the technical departments of the *Banco de Guatemala* presented the inflation risks balance to the Execution Committee, emphasizing the following aspects:

As to the external conditions, reference was made to the fact that the international oil prices on May 18, was at US$69.45 per barrel (a decrease of US$5.72 per barrel regarding the historic record reached April 21, 2006, date on which the risks balance were analyzed the month before). It was indicated that, according to Bloomberg, the volatility in the behavior of the international oil price is associated, in the first place, to the fact that the crude market is being pressured by the international crisis derived of the Iranian nuclear program (world's fourth oil producer) and, in second place, to the fact that the world oil production is found below the normal level of approximately one million barrels daily, due to the fact that the production term in the Golf of Mexico has not been normalized and because there is not a foreseeable short term solution to the internal political conflict in Nigeria. Added to the above, the breach between the world supply and demand of oil continues to be minimal, which, according to international experts in the crude 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. It was also mentioned that the behavior of the price of gasoline in Guatemala is directly related to the price of the same in the United States of America, although with certain delay, which is estimated is greater when the prices decrease in this country. In that sense, it was observed that even though the price of gasoline no longer increased in the United States, in Guatemala the prices remain high, therefore taking into account the mentioned delay, it could be foreseen that the price of gasoline is reduced or at least will no longer continue to increase in the next weeks.

The mentioned aspects confirm that the behavior of the international oil price and its derivatives continues to be the main inflationary risk for the country.

It was indicated that the index composed of the inflation of the main commercial partners of Guatemala continues to be relatively high. Even though the inflationary rhythm of the majority of the main partners decreased in April regarding the observed in the same month the year before, that of the United States in said month was at 3.55%, higher by 0.04 percentage points to the inflationary rhythm observed in April 2005 (3.51%); given that said country has the greatest relative weight within the index, it is considered that in this way the imported inflation risks continue to be present.

Reference was made to the 25 basic points that were recently added by the Federal Reserve of the United States in its objective interest rate to be located at 5.0%; also, it was indicated that according to the recent survey by Bloomberg, there exists a probability of 60% that the referred interest rate be increased to 5.25% in the meeting of the Open Market Operation Committee of the Federal Reserve to be made next June 29.

As to the internal conditions, it was indicated that regarding the variables subject to the following in the monetary program, to date it is observed that the level of operations of the monetary stabilization as well as the monetary issue continue to be deviated regarding the programmed, when average deviations of approximately Q1,914.0 million and Q505.0 million, respectively.

It was indicated that in the execution of public finance to April 30, 2006 it was observed that a surplus in accumulated terms of Q531.6 million (deficit of Q161.7 million to March 31), aspect that is indicative that fiscally, the inflationary pressures are contained but that, in the measure in which the execution of public expense accelerates according to the programmed, greater effort will be required of the monetary policy through the increase in the monetary stabilization operations.

As to inflation, it was emphasized that 7.48% of the inflationary rhythm observed in April, 2.93 percentage points are attributed to the imported inflation, associated to the effect of the increase in the price of oil, so that 4.55 percentage points correspond to the domestic inflation. It was indicated that when analyzed the evolution of the inflation throughout the year, the imported inflation slightly increased its relative weight regarding the observed in January, while the domestic inflation during said period showed a decrease of 0.73 percentage points. Notwithstanding, 2.21 percentage points of total imported inflation are attributed to second round effects, situation that could suggest the convenience of restricting the monetary conditions to moderate said inflation and with them 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 its situation to the date reported regarding the observed to April 21 (last date in which the Execution Committee analyzed the level of the leading interest rate) the number of indicative variables that suggest that the monetary policy be restricted increased from five to seven, (the total inflation projection for 2006 and for 2007, the subjacent inflation projection for 2007, the banking credit to the private sector, and the inflation expectations of the private analysts for 2006 and for 2007); six variables advise the monetary policy remain invariable (the subjacent inflation projection for 2006, the parameter rate, parity liable rate, the payment means, the implied inflation expectations and the Monetary Conditions Index); and, no variable suggests the monetary policy relax.

At the request of one of the members of the Committee, the comparison regarding the previous month's indicative variables was presented according to the proposal presented to the Monetary Board in the Report of the Monetary Policy to March 2006: 62.71% of the total of the indicative variables suggest a restrictive monetary policy with certainty (43.92% the month before); 14.64% suggest that it be restrictive, but within the tolerance margin (20.72% the month before); 22.65% that it be invariable (29.28% the month before); and, 0.00% that it relax (6.08% the month before).

Finally, the econometric projections of inflation for 2006, elaborated by the technical bodies, using data observed to April 2006, estimate that the total inflationary rhythm for December 2006 will be located over the tolerance margin of the policy goal (6.0% +/- 1 percentage point), which suggest restricting the monetary conditions. On the other hand, the subjacent inflationary rhythm for December 2006 was over the punctual value of the inflation goal (6.0%), but within the tolerance margin. Also when evaluating the prognosis of the total inflation as well as the subjacent inflation for December 2007 regarding the inflation goal foreseen for the end of the year (5.0% +/- 1 percentage point), both prognosis are over the referred goal, including taking into account the tolerance margin, which advises restricting the monetary policy. On the other hand, the inflation expectations of private analysts, according to the survey made in April, indicate that the panel of analysts continues projecting an inflationary rhythm for the end of 2006 and 2007 over the inflation goal for both years, even though in lesser magnitude than the survey made in March.

FIFTH: Inflation prognosis in mid-term (Semi-structural Macroeconomic Model).

In the presentation of the Semi-structural Macroeconomic Model, MMS, it was pointed out that the short term inflation prognosis, generated by time-series models, indicate a trimestral inflation (annualized) for the second and third trimesters of 2006 of 7.69% and 7.07%, respectively; on the other hand, the inter-annual variation rates of the Consumer Price Index, IPC, are foreseen at 7.41% and 6.99%, for the second and third trimesters of 2006, respectively. The mid term prognosis generated by the second running of the MMS indicated a rate of inter-annual variation of the CPI of 6.88% in the fourth trimester of 2006, and of 5.13% in the fourth trimester of 2007. It was also pointed out that said prognosis are conditionals to the trajectory projected of the leading interest rate of monetary policy. It was indicated that the referred prognosis of mid term is based on the risks balance where there exists a 50% probability that the inflation be greater than the modal prognosis (in other words, of those values with greater probability of occurrence). It was commented that, on the one hand, there is a 46% probability that the inflation rate is within the margin of tolerance of the inflation goal for the fourth trimester of 2006 (6.0% +/- 1 percentage point) and, on the other hand, there exists a 31% probability that said rate is found within the tolerance margin of the policy goal for the fourth trimester of 2007 (5.0% +/- 1 percentage point). In that regard, the fact that the wider the prognosis horizon, the trust intervals of the same tend to widen, was emphasized and, therefore, the uncertainty too. According to the technical departments, the trajectory of the leading interest rate of trust of the monetary policy that according to the MMS is compatible with the previous prognosis on the inflation rate, involves values of said interest rate of 15.6%, 5.53% and 5.47% in the second, third and fourth trimesters of 2006, respectively; and, of 5.19%, 4.66%, 4.12% and 3.52% in the first, second, third and fourth trimesters of 2007, in their order. Regarding the growth rate of the real product, the technical departments indicated that, as long as statistics are not counted on for national accounts with trimestral frequency, the MMS uses trimestral and un-seasonal data from the Monthly Primary Economic Activity Index (IMAE for its acronym in Spanish).

It was also indicated that, based on the mentioned index, the product breach (in other words, the difference between the observed product and the potential product) is estimated at 1.69% of the potential product in the first trimester of 2006. The prognosis model declares that said breach will gradually decrease until practically vanishing in the first trimester of 2008.

When combining this product breach prognosis behavior with the potential growth estimations for the years 2006 to 2008 (4.40%, 4.95% and 5.30%, respectively), the growth rate prognosis for the gross internal product are obtained for said years: 4.81%, 4.37% and 5.18%, respectively. Also, the technical departments made a presentation in which the topic of the neutral interest rate is approached within the context of the MMS.

SIXTH: Discussion and Definition of the execution guidelines of the Monetary, Exchange rate and Credit Policy

a) Discussion

The technical departments of the *Banco de Guatemala*, after having exposed the elements that compose the inflation risks balance, the mid and long term prognosis derived of the second running of the Semi-structural Macroeconomic Model, as well as the behavior of the indicative variables of the monetary policy, they came to the conclusion that the factors that advise restricting the monetary policy prevail, therefore an adjustment in the leading interest rate will contribute, on the one hand, to moderating the inflationary 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 2006 and for 2007.

Based on the presentations of the technical departments, as to the orientation of the indicative variables, the results of the second running of the MMS and of the inflation risks balance, the Committee was of the opinion that the contents of said presentations reasonably reflect the current junction of the monetary policy.

The Committee emphasized the fact that in March and April 2006 the tendency to deceleration that the inflationary rhythm had shown between November 2005 and February 2006 had reverted. Also, emphasis was made on the fact that the prognosis of the total inflationary rhythm for the end of 2006 and of 2007 is observed, obtained form the econometric models that are being used, are located over the goal of inflation, including taking into account the tolerance margin of +/- 1 percentage point, which advises adopting restriction measures of the monetary conditions. On the other hand, if the results of the survey of inflation expectations of the private panel of analysts made in April showed a reduction of inflationary rhythm projected for 2006 as well as for 2007, it was commented, on the one hand that both prognosis are still located over the inflation goal established for said years, and on the other, that on the date of the survey the inflation results for April were not known.

In the Committee there was consensus that the risks in the environment where the monetary policy currently develops have to be taken into account. As to the risks associated with the external environment, a theme of discussion was the scenario, especially worrying, of the international price of oil that tends to be located even over the pessimist scenario expected at the beginning of the year. Recollection as to the difference in the rise in 2004 and 2005, the current increase is attributable more to factors that affect the world oil supply, which reduces the margin of manual labor that is available to countries for adopting policies oriented to restricting demand. The fact that the monetary policy has a fundamental role to perform was also reiterated; in order to lessen the "secondary round effects" derived of the rise in the price of fuels and associated to the expectations of the economic agents as well as the manner in which such expectations can affect the determination of the costs and future prices in the market, reason for which it is pertinent to adopt opportune measures that placate the inflationary expectations. A member of the Committee highlighted the fact that if it is true that the international price of oil stabilized after an important rise in the third week of April (which could help foresee the price of fuel in Guatemala having a tendency to stabilize in the next weeks), also part of the impact of the referred rise is already translated to the internal prices in the country, which confirms that it is necessary to follow making efforts to contain the inflationary expectations through a restriction of the monetary conditions.

As to the risks in the internal ambit, it was pointed out that statistics on the Gross Internal Product and employment as frequent as every trimester are still not counted on, some indicators of the aggregate demand like the expansion of the banking credit to the private sector, the increase in the exportations, the increase in the importations, the continuous growth that continues from the IMAE and the results of the MMS in matter of product breach, reflect an expansion of real economic activity that can qualify as robust and that, if it is not accompanied by a similar growth of the productive capacity, could translate eventually into inflationary pressures. A member of the Committee pointed out that, in this sense, an essential labor of the monetary policy is avoiding situations of “overheating” of the economy and propitiate that the real growth is sustainable.

Another analysis topic was the behavior of the nominal exchange rate that, in contrast with the three previous weeks, in the last week showed much stability and greater congruency with its seasonality, which has allowed that the Central Bank no longer purchase in the exchange market. In that regard, a member of the Committee indicated that the considerations of the exchange rate regarding a possible increase of the leading interest rate should take into account that the Federal Reserve of the United States of America again increased its objective interest rate, therefore the differential interest rates regarding the policy rate in the mentioned country is greater every time (in favor of the American rates) and with a tendency to continue increasing, therefore a moderate adjustment in the domestic interest rate should not significantly affect the exchange market. Another member of the Committee indicated that an additional relevant topic in the exchange market worth mentioning is the revision of the participation rule of the Central Bank in the market, which, according to its opinion does not allow sufficient flexibility in the determination of price of foreign currency, indicating that on this aspect there already exists a presented proposal to the Monetary Board in the Report on the Monetary Policy to March 2006, which is being discussed.

In the described context, in the heart of the Committee the analysis that the increase in the leading interest rate of the monetary policy was forbidden, taking into account, on the one hand, that the monetary policy should act opportunely with the purpose of moderating the inflationary expectations, in order to lessen the effects of the "secondary round effects" associated to the imported inflation and, on the other hand, should act with a mid-term vision in order to ensure that the robust economic growth is sustainable in the mid-term, which requires a stable macroeconomic environment. It was also mentioned that a moderate adjustment to the leading interest rate on this occasion, besides being something that could be expected in the market, has the convenience of avoiding that in the future they should adopt minor gradual adjustments to achieve the same purposes. In that sense, there was consensus in that the increase in the leading interest rate should be moderate (25 basic points), in order not to generate volatility in the short term interest rate in the money market.

Just like the previous month, the Committee also analyzed the possible impact on the rise in the leading interest rate, reiterating the criteria that given that the national economic activity seems to be growing robustly, a small adjustment in the leading interest rate would hardly affect the short term growth, and possibly favor it in the long term; in any case, if any effect were produced in the growth, this would be small (according to what is confirmed by the Semi-structural Macroeconomic Model) and would be more than compensated by the reduction in the inflation risk or external, financial or future exchange imbalance. In that sense, an opportune adjustment of the leading interest rate could have positive effects in matter of certainty and, therefore favor the economic growth in the mid-term.

Last, the members of the Committee reiterated the declared on previous occasions, in the sense that just as the interest rate can be raised when circumstances like the current ones prevail, so also should said rate be reduced when such circumstances show diverse inverse behavior.

b) Definition of the guidelines of the execution of the Monetary, Exchange Rate and Credit Policy:

Based on the discussed, the Committee agreed that for the week of May 22 to 26, 2006, it will continue with 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 Monday, May 22 for the terms of 91 and 364 days, with a fund-raising quota for Q25.0 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 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 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 will use the interest rates of the Treasury Letters of the United States of America in similar terms as a reference.

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.

SEVENTH: Other matters.

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