EXECUTION COMMITTEE

ACT NUMBER 22-2006

Session 22-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, May 26, 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 21-2006, corresponding to the session celebrated on May 19, 2006.
(The project of act 21-2006 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: Discussion and definition of the guidelines of execution for the Monetary, Exchange rate and Credit Policy.

FIFTH: 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 21-2006.

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 22 to 26 of 2006, with partial data to date, registered an attraction of LTD's for Q2,974.5 million and maturity of Q2,262.3 million, which gave a result of net fund raising for Q712.2 million, associated to the operations in bidding (net maturity for Q29.3 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund-raising of Q566.8 million) and at the window (net fund-raising for Q174.7 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 22 to 26, 2006 period, with partial data, the minimum was of 4.18%, observed May 25, 2006, and the maximum of 4.70%, registered on May 24, 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 4.52% for the public titles and of 5.71% for the titles of the financial sector.

On the other hand, it was informed that during the May 22 to 25, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q85.0 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of May 19 to 25, 2006, the average daily operations for purchase were of US$66.8 million and the sale was of US$69.5 million and that the exchange rates in the referred period remained stable. In effect, on Friday, May 19 they were of Q7.57086 per US$1.00 for purchase and of Q7.59067 per US$1.00 for sale, on Monday, May 22 the rates were Q7.57180 and Q7.59581, on Tuesday, May 23 they were of Q7.58127 and Q7.59590, on Wednesday, May 24 they were Q7.58280 and Q7.59824, and finally, on Thursday, May 25 they were Q7.58485 y Q7.59857.

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 22 to 26, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the following operations were made: on Monday, May 22 for US$0.1 million, at a weighted average exchange rate of Q7.58500 per US$1.00 and on Tuesday, May 23 of US$2.0 million for Q7.59600, Thursday, May 25 for US$1.6 million at Q7.59994 and on Friday, May 26 for US$0.2 million at Q7.60500. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, expressed that during the period there were no operations and only the *Banco de Guatemala* registered a daily purchase bid for US$10.0 million, at a price of Q7.57900 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 22 to 26, 2006, did not close operations. As for the closing price in reference up to Friday, May 26, 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 25, 2006, the excess of the daily legal reserve of the banking system was located at Q41.0 million, with an average position of Q156.4 million.

The highlights during the period of May 18 to 25, 2006 the main demonetizing factors were the increase in the balance of the long term deposits constituted in the *Banco de Guatemala* for Q480.1 million and the decrease in the Net International Reserve –RIN-balance for the equivalent of Q180.0 million; while the main monetizing factors were the decrease in the banking float balance for Q298.6 million, the deposits of the Central Government in the *Banco de Guatemala* for Q113.8 million and the deposits of the rest of the public sector in the Central Bank for Q22.8 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 18, 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 (4.72%) and the weighted average of the monetary stabilization operations of up to 91 days (4.69%) was situated at 4.71%, 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 18, 2006, the lower limit was 6.35% and the upper limit was 7.93%, and the weighted average rate of long term deposits of the banking system was of 7.03%, 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 25, 2006, they indicated that it presents a deviation of Q466.6 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 18, 2006, it exhibited an inter-annual growth rate of 15.9%, which is under the tolerance margin estimated range for said variable on that same date (16.9% to 18.9%), 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

26.4%, which is over the range estimated for May 18, 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 18, 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 "payment means" went from suggesting that the monetary policy remain invariable to suggesting that the monetary policy relax; with a decrease from six to five, the number of variables that suggest that the monetary policy remain invariable (the subjacent inflation projection for 2006, the parameter rate, the parity liable rate, and the implied inflation expectations and the Monetary Conditions Index); seven variables continue advising the monetary policy remain restrictive (the total inflation projection for 2006 and 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); and one variable suggests relaxing the monetary policy (total payment means).

Finally, it was indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of May 22 to 26, 2006 was of Q7.636 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 22 to 24) was of Q7.588 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 26 to June 1, 2006 indicate an increase in the creation of primary liquidity for Q3, 170.1 million, fundamentally due to the maturity of LTD's. Also, an increase in the demand for monetary issue for Q234.7 million is foreseen and a daily banking liquidity position for Q158.8 million. Also, monetary issue is deviated in Q649.2 million above the central programmed point for said variable, therefore the excess of aggregate liquidity estimated for the referred period is located at Q3,743.3 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 (Q3,056.6 million, according to registries to May 25, 2006) have to be relocated; and, also, have additional fund raising for around Q686.7 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 182 and 364 day terms to be convened on Monday, May 29, 2006 to be established at Q20.0 million and Q45.0 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 29 to June 2, 2006, it is not necessary to convene biddings of LTD's in the mentioned currency.

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

a) Discussion

A member of the Committee made reference to the cyclical behavior that has been observed in the banking liquidity to date in 2006. In that regard, it was indicated that in the majority of months in the year, the information on the daily legal reserve position in the banking system reflects that abundant liquidity exists at the beginning of the month and very little at the end. In that sense, another member of the Committee declared that said behavior obeys a manner of administration of liquidity on behalf of the banking treasurers in the system, in the sense that they prefer to overextend at the beginning of the month to later administrate the average liquidity during the rest of the month, in order to fulfill the requirements of banking float or legal reserve. In that context, the Committee requested that the technical departments study a time series that will allow making projections of the banking aggregate liquidity that the technical departments present to the Committee weekly, based on the daily monetization flow.

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 29 to June 2, 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 29 for the terms of 182 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 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.

FIFTH: Other matters.

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