EXECUTION COMMITTEE

ACT NUMBER 24-2006

Session 24-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, June 9, two thousand six, as of sixteen hours.

The Coordinator, with the corresponding quorum, for the consideration of the Execution Committee, submitted the project for the Order of the Day.

FIRST: Approval of Project for act number 23-2006, corresponding to the session celebrated on June 2, 2006.

(The project of act 23-2006 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 23-2006.

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 June 5 to 9 of 2006, with partial data to date, registered an attraction of LTD's for Q1,988.8 million and maturity of Q1,719.4 million, which gave a result of net maturity for Q269.4 million, associated to the operations in bidding (net maturity for Q89.4 million), in the Money Electronic Banking Table – MEBD- and in the stock exchange (net maturity of Q395.7 million) and at the window (net maturity for Q36.9 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of June 5 to 9, 2006 for the biddings case, the cut interest rates were of: 6.20% 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 June 5 to 9, 2006 period, with partial data, the minimum was of 4.20%, observed June 6, 2006, and the maximum of 5.01%, registered on June 5, 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 4.65% for the public titles and of 5.65% for the titles of the financial sector.

On the other hand, it was informed that during the June 5 to 8, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q100.0 million and maturity for Q0.3 million and US$10.0 million.

As to the long term deposit bidding positions in US dollars convened on June 7, 2006, it was mentioned that no bids were presented.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of June 2 to 8, 2006, the average daily operations for purchase were of US$59.5 million and the sale was of US$55.9 million and that the exchange rates in the referred period remained stable. In effect, on Friday, June 2 they were of Q7.59753 per US$1.00 for purchase and of Q7.62263 per US$1.00 for sale, on Monday, June 5 the rates were Q7.59288 and Q7.61754, on

Tuesday, June 6 they were of Q7.59388 and Q7.61373, on Wednesday, June 7 they were Q7.60200 and Q7.61996, and finally, on Thursday, June 8 they were Q7.60236 y Q7.62049.

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 June 2 to 9, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the following operations were made: on Tuesday, June 6 for US$0.2 million, at a weighted average exchange rate of Q7.61250 per US$1.00 and on Wednesday, June 7 of US$0.9 million for Q7.62200 and on Friday, June 9 for US$0.5 million for Q7.62000. 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, with the following prices: on June 2, at Q7.58900 and, from June 5 to 9 it was of Q7.5800, according to the guidelines of the Execution Committee.

On the other hand, they informed that the Future Foreign Currency Market that is operated by the National Stock Exchange, S.A., during the period of June 5 to 9, 2006, did not close operations. As for the closing price in reference up to Friday, June 9, they indicated that for maturity to settle in June of 2006 it was of Q7.61000 and for the maturity to settle in December 2006 was of Q7.62000.

c) The Sub-director for the Economic Studies Department informed that on June 8, 2006, the excess of the daily legal reserve of the banking system was located at Q395.7 million, with an average position of Q503.7 million.

The highlights during the period of June 1 to 8, 2006the main demonetizing factors were the increase in the balance of the deposits of the Central Government in the *Banco de Guatemala* for Q437.0 million; while the main monetizing factors were the decrease in the balance of the long term deposits constituted in the *Banco de Guatemala* for Q244.7 million and the deposits of the rest of the public sector in the Central Bank for Q77.9 million; and the increase in the Net International Reserve –RIN- balance for the equivalent of Q30.4 million.

Regarding the indicative variables of the Monetary, Exchange Rate and Credit Policy they indicated that with the projection to May 2006, for December 2006 the total expected inflation estimated with a model of ordinary squared minimums is of 7.67% and with a softened exponential model of 7.18%; the simple average of both models is located at 7.43%, 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 7.78% and with a softened exponential model of 6.32%; the simple average of both models is at 7.05%, 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 May 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 6.41%; the simple average of both models is of 6.65%, 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 subjacent inflation with an integrated autoregressive model of mobile averages ARIMA, was of 7.17%, whereas the estimated softened exponential model was of 5.99%.; the simple average of both models is of 6.58%, 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 June 1, 2006, the lower limit was 2.01%, and the upper limit is 9.91%; while the simple average between the repurchase agreements of 8 to 15 days (4.75%) and the weighted average of the monetary stabilization operations of up to 91 days (4.71%) was situated at 4.73%, 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 June 1, 2006, the lower limit was 6.30% and the upper limit was 7.88%, 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 June 8, 2006, they indicated that it presents a deviation of Q473.3 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 June 1, 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 27.2%, which is over the range estimated for June 1, 2006 (24.2% to 26.2%), which suggests a restrictive monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in May 2006, for December 2006 an inflationary rhythm of 7.80% 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 6.87%, which is over the monetary policy goal (5.0% +/- 1 percentage point), which suggests restricting the monetary policy.

Also it was indicated that the variable implied inflation expectations, for May 2006 showed an inflationary rhythm of 6.34%, 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 June 1, 2006, was -2.79 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, said orientation remained unchanged: six variables suggest that the monetary policy remain invariable (the subjacent inflation projection for 2006, the parameter rate, the parity liable rate, total payment means, 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 no variables suggest relaxing the monetary policy.

On the other hand, it was indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of June 5 to 9, 2006 was of

Q7.651 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 June 5 to 7) was of Q7.607 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.

Finally, the information of the Consumer Price Index was presented to May, 2006 based on the report of the National Statistics Institute (INE for its acronym in Spanish), indicated that the monthly inflation rate was of 0.63%, lower by 0.19 percentage points to that of April 2006 and higher by 0.13 percentage points to the observed in May 2005; the inflationary rhythm was located at 7.62%, higher by 0.14 percentage points to the registered in April 2006 (7.48%) and lower by 0.90 percentage points to the observed in May 2005 (8.52%); the subjacent inflation registered a rhythm of 7.29%, lower by 0.01 percentage points to the observed in April 2006 (7.30%) and lower by 0.57 percentage points to that of May 2005 (7.86%). Regarding the estimations of the imported and domestic components of total inflation, it was reported that of the 7.62% of the inflationary rhythm to May 2006, 3.18 percentage points are attributable to imported inflation, of which, at the same time 2.47 percentage points correspond to indirect imported inflation (second round effect); therefore, the inflationary rhythm, 4.44 percentage points correspond to domestic inflation.

d) The Committee took note that the monetizing and demonetizing factors foreseen for the week of June 9 to 15, 2006 indicate an increase in the creation of primary liquidity for Q1, 883.9 million, fundamentally due to the maturity of LTD's. Also, a decrease in the demand for monetary issue for Q134.1 million is foreseen and a daily banking liquidity position for Q253.9 million. Also, monetary issue is deviated in Q655.9 million above the central programmed point for said variable, therefore the excess of aggregate liquidity estimated for the referred period is located at Q2,927.8 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 (Q2,069.2 million, according to registries to June 8, 2006) have to be relocated; and, also, have additional fund raising for around Q858.7 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, June 12, 2006 to be established at Q15.0 million and Q30.0 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 June 12 to 16, 2006, it is 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:

Based on the information received, the Committee began the discussion on the analysis that must be presented to the Monetary Board in its session of Wednesday, June 21 when, according to the approved calendar, the Board will make a decision regarding the level of the leading interest rate of the monetary policy. For the effect, in the heart of the Committee the factors which advise raising the referred interest rate as well as those that advise keeping it invariable, so that these can be taken into account in the balance of inflation risks that the technical departments will present in the next meeting of the Committee.

As to the factors which advise raising the leading interest rate the following were mentioned:

i. The international price of oil, that in 2006 are expected to remain high, is a factor that continues to be the main inflationary risk in the country, although in lower magnitude than in 2005. In effect, according to the last quote of the futures price of oil, it increased slightly to US$73.71 per barrel for the end of 2006, level that is located over the prevailing bid of May 19 (date in which the Committee discussed the level of the leading interest rate) that was of US$73.38 per barrel.

ii. The inflationary rhythm (total as well as subjacent), after it had a deceleration in February, as of March continues with a tendency toward the rise.

iii. The projections of the inflationary rhythm (total and subjacent) for December 2006, based on both econometric methods did not show important decelerations regarding those of the previous month. In effect, said projections barely decreased one and three percentage points, respectively. The above contrasts with the projections for December 2007, which increased in six and eight percentage points.

iv. The result of the survey of the inflation expectations of the panel of private analysts made in May (that incorporates information of the observed inflation in April) reflects an increase of 0.26 percentage points in the projection of the inflationary rhythm to December 2006, when going from 7.54% in April to 7.80% in May.

On the other hand, regarding the factors that advise maintaining the leading interest rate of the monetary policy invariable, the following were identified:

i. The price of gasoline in the domestic market has begun to decelerate recently, which could contain the tendency toward growth of the total inflationary rhythm.

ii. Based on the decomposition of the inflationary rhythm, in imported and domestic inflation, on the one hand the domestic inflation has been substantially reducing, when going from 6.36% in December 2005 to 4.44% in May 2006 has been observed, and on the other hand, that if the average of domestic inflation is added to the imported historic inflation (0.52%), said rhythm ascends to 4.96%, located within the tolerance margin of the inflation goal (6% +/- 1 percentage point).

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

Based on the discussed, the Committee agreed that for the week of June 12 to 16, 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, June 12 for the terms of 182 and 364 days, with a fund-raising quota for Q15.0 million and Q30.0 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 bidding for term deposits in United States dollars, on Wednesday, June 14, 2006, in 91 and 364 day terms, for an amount of up to US$30.0 million. The bids received will be awarded the reference interest rates of the Treasury Letters of the United States of America in similar terms, without excluding the possibility of receiving higher rates if they merit it, convening a session of the Committee 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 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 to continue participating through the electronic negotiating system of foreign currency, with a bid of US$10.0 million at a price equal to that of the last purchase made by the *Banco de Guatemala* and according to the participation regulations established for the effect.

FIFTH: Other matters.

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