EXECUTION COMMITTEE

ACT NUMBER 30-2006

Session 30-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, July 21, two thousand six, as of 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 29-2006, corresponding to the session celebrated on July 14, 2006.
(The project of act 29-2006 circulated.)

SECOND: Market information and monetary variables.

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

THIRD: Inflation Risks Balance

FOURTH: Initial Conditions of the Semi-structural Macroeconomic Model

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

a) Discussion
b) Determination of the quotas for bidding in term deposits
c) Definition of guidelines

SIXTH: 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 29-2006.

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 July 17 to 21 of 2006, with partial data to date, registered an attraction of LTD's for Q2,497.7 million and maturity of Q3,168.0 million, which gave a result of net fund-raising for Q670.3 million, associated to the biddings (net maturity for Q31.3 million, in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q612.0 million) and at the window (net maturity for Q27.0 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of July 17 to 21, 2006 for the biddings case, the cut interest rates were of: 5.00% for 91 days and of 6.2199% 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 4.75%.

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 July 17 to 21, 2006 period, with partial data, the minimum was of 4.80%, observed July 19, 2006, and the maximum of 5.00%, registered on July 20, 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 4.85% for the public titles and of 6.04% for the titles of the financial sector.

On the other hand, it was informed that during the July 17 to 20, 2006 period, regarding Treasury-Bond operations the fund-raising registered was for Q60.0 million and maturity for US$5.0 million.

As to the long term deposit bidding positions in US dollars convened on July 19, 2006, it was mentioned that no bids were presented.

On the other hand, it was reported that to July 20, 2006 the IGSS made a term deposit in US dollars for US$26.0 million for a 364 day term at an interest rate of 5.27%, product of maturities in LTD's in said currency.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of July 14 to 20, 2006, the average daily operations for purchase were of US$50.0 million and the sale was of US$66.3 million and that the exchange rates in the referred period remained stable. In effect, on Friday, July 14 they were of Q7.57263 per US$1.00 for purchase and of Q7.58864 per US$1.00 for sale, on Monday, July 17 the rates were Q7.56639 and Q7.58597, on Tuesday, July 18 they were of Q7.56855 and Q7.58403, on Wednesday, July 19 they were Q7.57044 and Q7.58476, and finally, on Thursday, July 20 they were Q7.57152 y Q7.58591.

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 July 14 to 21, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, that only one operation was made: on Friday, July 21 for US$0.1 million for a weighted average exchange rate of Q7.58100 per US$1.00. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, expressed that during the period the *Banco de Guatemala* registered a purchase bid on Monday, July 17 for US$4.0 million, at a weighted average exchange rate 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 July 17 to 21, 2006, did not close operations. As for the closing price in reference up to Friday, July 21, they indicated that for maturity to settle in December 2006 was of Q7.62000.

c) The Director for the Economic Studies Department informed that on July 20, 2006, the excess of the daily legal reserve of the banking system was located at Q79.3 million, with an average position of Q307.0 million.

The highlights during the period of July 13 to 20, 2006 the main monetizing factors were the decrease in the balance of the deposits of the Central Government in the *Banco de Guatemala* for Q670.2 million and the daily legal reserve for Q51.2 million; while the main demonetizing factors were the long term deposits constituted in the *Banco de Guatemala* for Q395.5 million and the deposits of the rest of the public sector in the Central Bank for Q199.1 million; and the decrease in the Net International Reserve –RIN- balance for the equivalent of Q100.8 million.

Regarding the indicative variables of the Monetary, Exchange Rate and Credit Policy they indicated that with the projection to June 2006, for December 2006 the total expected inflation estimated with a model of ordinary squared minimums is of 7.58% and with a softened exponential model of 7.41%; the simple average of both models is located at 7.50%, which is found within the margin of tolerance (6.0% +/- 1 percentage point), which suggests restricting the monetary policy; and, for December 2007 the total expected inflation, estimated with an ordinary squared minimum model, is of 7.76% and with a softened exponential model of 6.42%; the simple average of both models is at 7.09%, 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 June 2006, estimated with an integrated auto-regression model of mobile averages ARIMA was of 6.65%, whereas the estimated with a softened exponential model was of 6.42%; the simple average of both models is of 6.54%, which is over the punctual value of the inflation goal but within the margin of tolerance for the policy goal (6.0% +/- 1 percentage point), which suggests the monetary policy be moderately restrictive; and, for December 2007 the estimated subjacent inflation with an integrated autoregressive model of mobile averages ARIMA, was of 7.03%, whereas the estimated softened exponential model was of 6.01%.; the simple average of both models is of 6.52%, which is located over the tolerance margin of the policy goal (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy.

As to the parameter rate, up to July 13, 2006, the lower limit was 3.43%, and the upper limit is 7.38%; while the simple average between the repurchase agreements of 8 to 15 days (5.00%) and the weighted average of the monetary stabilization operations of up to 91 days (4.84%) was situated at 4.92%, 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 July 13, 2006, the lower limit was 6.91% and the upper limit was 8.49%, 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 primary liquidity it was indicated that the monetary issue observed to July 20, 2006, presented a deviation of Q521.4 million regarding the upper limit programmed runner for said variable, which would indicate that there is space available to restrict the monetary policy, so mucho so that the behavior of the ample monetary base, on the same date, is within the programmed runner, which suggests an invariable monetary policy. The weighted orientation of the deviations for the present week of Q260.7 million would be indicating restricting the monetary policy.

As to the total payment means, to July 13, 2006, ascended to 19.1%, locating itself over the tolerance margin estimated for said variable (16.6% to 18.6%), which advises restricting the monetary policy; whereas the econometric estimation of the payment means for the end of 2006 is of 17.8%, which is over the upper limit of the estimated range for December 2006 (13.0% to 15.0%), which advises restricting the monetary policy. The average orientation of the deviations of 1.65%, suggest, therefore, restricting the monetary policy. Also, up to said date, the inter-annual variation of the banking credit to the private sector registered a growth rate of 26.6%, which is over the upper limit of the range estimated for July 13, 2006 (22.8% to 24.8%), which suggests a restrictive monetary policy; on the other hand, the econometric estimation for the end of 2006 of the banking credit to the private sector is of 27.4%, which is over the upper limit of the estimated range (16.0% to 18.0%), which suggests restricting the monetary policy. The average orientation of the deviations for the present week is of 5.60%, suggesting therefore, restricting the monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in June 2006, for December 2006 an inflationary rhythm of 7.73% 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 7.47%, which is over the referred tolerance margin of 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 June 2006 showed an inflationary rhythm of 6.03%, which is slightly over the punctual point of the policy goal and within the tolerance margin of the monetary policy for 2006 (6.0% +/- 1 percentage point), which suggests a moderately restrictive monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to July 13, 2006, was -2.78 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.

Regarding the Semi-structural Macroeconomic Model used for forecasting the total inflation rhythm, projected for December 2006 a rhythm of 6.88%, conditioned to gradual adjustments in the leading interest rate of the monetary policy until locating itself at 5.47% at the end of the year, which suggests restricting the monetary policy. Also, the prognosis for said model for a mid-term horizon projects an inflationary rhythm of 5.13% for December 2007, conditioned to gradual adjustments in the leading interest rate of the monetary policy until locating itself at 3.52%, which would suggest restricting the monetary policy.

To conclude this report, regarding the orientation of the indicative variables; it was reported that regarding the previous week, said orientation remained unchanged and according to the relative assigned weight of the indicative variables by the members of the Monetary Board, indicated that 63.72% of the same advise a restrictive monetary policy orientation; 24.23% suggest an invariable monetary policy orientation; and 12.05% advise a moderately restrictive 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 July 17 to 21, 2006 was of Q7.646 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 17 to 19) was of Q7.577 per US$1.00, which allows inferring that the observed value of the nominal exchange rate is slightly below the lower limit of the expected fluctuation band; however the behavior of the estimated runner, could expect a depreciation in the following weeks, and therefore still considering that 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 July 21 to 27, 2006 indicate an increase in the creation of primary liquidity for Q3,648.4 million, fundamentally due to the maturity of LTD's and the use of deposits of the Central Government in the *Banco de Guatemala*. Also, a increase in the demand for monetary issue for Q141.5 million is foreseen and a daily banking liquidity position for Q564.0 million. Also, monetary issue is deviated in Q704.0 million over the central programmed point for said variable, therefore the excess of aggregate liquidity estimated for the referred period is located at Q4,774.9 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 (Q3,194.5 million, according to registries to July 20, 2006) have to be relocated; and, also, have additional fund raising for around Q1,580.5 million.

THIRD: Balance of Inflation Risks.

The Committee continued the analysis begun the previous week, which it should present to the Monetary Board in its July 26, 2006 session 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 presented the Execution Committee the balance of inflation risks, emphasizing the following aspects: As to the external conditions, reference was made to the fact that according to Bloomberg, the international price of oil reached a new historic record, on July 14 of this year, at US$77.03 per barrel. It was indicated that, according to the referred news agency, the behavior toward the rise in the international price of oil associated, mainly, to the addition of two new geopolitical incidents to those already existing (the international Iranian nuclear program; the internal political conflict in Nigeria; and the growing demand in the growth of crude oil on behalf of the United States of America and China), which are: the international alarm of the long range trial missile launchings in North Korea and the recent conflict between Libya and Israel. The previous incidents, added to the fact that the breach between world supply and demand of petroleum continues to be minimal, according to international experts, have intensified the volatility in the international price of oil, therefore any event that affects the referred market makes the price of crude oil rise abruptly. As a consequence of the above, with information to July 20, the future price of fuel for December 2006, is at US$76.26 per barrel, registering an increase of US$4.43 regarding the observed price on June 15, 2006 (date in which the risks balance of the month before were analyzed).

Additionally, it was mentioned that based on the last information available, the price of gasoline in Guatemala already registers a slight rise and with the increase that has also been observed in the last weeks, as has been observed in other episodes, this last one transfers to internal fuel prices.

It was indicated that a compound inflation index with the rest of the social partners of Guatemala continues to be relatively high, located at around 4.5% (4.02% estimated for the end of 2006). It is worth indicating that, in the particular case of the United States of America, the inflationary rhythm to June was at 4.43%, over by 1.9 percentage points to the inflationary rhythm observed in the same month in 2005 (2.53%); given that said country has a greater relative weight within the referred index, is considered that imported inflation risks continue to be present.

Reference was made that according to the survey made recently by Bloomberg, there exists a probability of 65.0% that the interest rate of the federal funds increase to 5.50% in the Open markets Operation Federal Committee of the Federal Reserve to be held on August 8, 2006.

As to internal conditions, it was pointed out that regarding the variables subject to follow up in the monetary program, to date, we continue to observe that the level of operations of monetary stabilization as well as the monetary issue continue to be deviated regarding the programmed, when observing average deviations of approximately Q2,144.0 million and Q521.0 million, respectively.

It was indicated that in the execution of public finance to June 30, 2006, a deficit of Q476.7 million was observed (deficit of Q101.2 million to May 31, 2006).

Regarding inflation, it was emphasized that 7.55% of the inflationary rhythm observed in June, 2.69 percentage points are attributable to imported inflation, associated to the effects of the increase in international oil prices, therefore 4.86 percentage points correspond to domestic inflation. It was indicated that when analyzing the evolution of inflation throughout the year, domestic inflation has reduced up to May, but in June it reverted its tendency; on the other hand, imported inflation is less to the observed the month before, particularly indirect imported inflation that decreased 0.43 percentage points. Notwithstanding, it was pointed out that the latter still shows a level of 2.06 percentage points, of which, different from direct imported inflation, can be moderated through monetary policy measures.

Regarding the indicative variables, it was pointed out that, when comparing their situation to date reported, regarding the observed June 15 (last date in which the Committee analyzed the level of the leading interest rate) 63.72% of the same advise a restrictive monetary policy orientation; (63.72% the previous week); 12.05% advise a moderately restrictive monetary policy (12.50% the previous week); and 24.23% suggest an invariable monetary policy orientation; (same percentage of the previous week).

Finally, the inflation econometric projections for 2006, made by the technical bodies, using data observed to June 2006, estimate that the total inflationary rhythm for December 2006 will be over the tolerance margin of the monetary policy (6.0% +/- 1 percentage point) and constitute the highest value observed in all projections made to date during the year. On the other hand, the subjacent inflationary rhythm estimation for December 2006 is within the tolerance margin of the mentioned policy goal. Notwithstanding, when considering a stricter interpretation of the inflation goal; in other words, when taking the punctual value of 6.0%, it would indicate that both projections would be over the mentioned value, which, in the context of the scheme of explicit inflation goals can be interpreted as a clear sign toward restriction of the monetary conditions. Additionally, when evaluating the prognosis of total inflation as well as subjacent inflation for December 2007 regarding the inflation goal foreseen for the end of said year (5.0% +/- 1 percentage point), it was indicated that both prognosis were over the referred goal, including the tolerance margin. On the other hand, the inflation expectations of private analysts were also mentioned, according to the survey made in June, indicating that the panel of analysts continues projecting an inflationary rhythm for the end of 2006 over the inflation goal, even in lesser magnitude than the survey made in May, but that the projection for December 2007 registers an increase of 0.6 percentage points, when going from 6.87% in May to 7.47% in June, which is associated, according to consultations made to some analysts, when increasing the price of international oil, which has coincided with the increase of production costs due to the rise in fuel.

FOURTH: Initial conditions of the Semi-structural Macroeconomic Model

The technical departments of the *Banco de Guatemala* presented the Committee with the initial conditions for the running of the Semi-structural Macroeconomic Model (MMS, for its acronym in Spanish) corresponding to the third trimester of 2006, with the objective o receiving feedback of the same to make adjustments as necessary, prior to the analysis of the said running of the mentioned model. In that context, the initial conditions of model running included the prognosis of two types of variables; a) Variables exogenous to the model; and b) variables endogenous to the model. Regarding the exogenous specialized external source variables prognosis were presented for the international price of diesel, as well as for three variables corresponding to the economy of the United States: the real GDP growth, inflation and the interest rate of the US treasury titles with a one year maturity.

As to the endogenous variables, short term breach product and inflation prognosis were presented. It was indicated that this procedure responds to the notion that the short term prognosis methods are more appropriate than the MMS to forecast one or two trimesters, whereas the model itself is more appropriate to forecast in the mid-term, since it takes into account the interactions between variables that are sustained in the macroeconomic theory. Also, breach product prognosis and measures were given in domestic demand as well as external demand. In both cases positive breaches were reported in the first trimester of 2006 and positive breach forecasts for the second and third trimesters for that same year.

Regarding total inflation, it was indicated that the annualized and unseasonal trimestral inflation prognosis was of 7.55% and 7.31% for the third and fourth trimesters of 2006, respectively. In terms of inter-annual variation rhythm for the total Consumer Price Index (IPC, for its acronym in Spanish), the previous values correspond to 6.83% for the third trimester of 2006 and 6.99% for the fourth trimester of 2006. The prognosis for the referred trimesters fundamentally reflects the inertia of the inflationary phenomenon (quantified for the time series models), the seasonality (influenced by the seasonal behavior of fruit and vegetables) and the expected behavior of the petroleum prices and its derivatives.

Finally, the technical departments indicated that, according to the program for trimester activities of the Prognosis Team, the results of the third running of the Semi-structural Macroeconomic Model will be ready for the fourth week of August.

After the presentation from the technical departments, a member of the Committee suggested that, taking the latest news as a reference in which an increase in the international price of oil had been observed, as well as the recent news as to the behavior of inflation in the United States, distribution of asymmetric probabilities be used in the central prognosis that said variables that are over the central prognosis be of 65.0%.

FIFTH: 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,* having presented the elements that compose the inflation risks balance, the short term inflation prognosis to the third and fourth trimesters of 2006 that will be incorporated as initial conditions in the Semi-structural macroeconomic model (MMS, for its acronym in Spanish) to produce the third running of the mentioned model and its inflation prognosis for the end of 2006 and 2007, as well as the behavior of the indicative variables of the monetary policy, came to the conclusion that the factors that advise restricting the monetary conditions prevail, therefore an adjustment in the leading interest rate would contribute to, on the one hand, 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 particular importance for the fulfillment of the inflation goal for 2006 and 2007.

Based on the presentations of the technical departments and taking into consideration the orientation of the indicative variables and the inflation risks balance, the Committee was of the opinion that the contained in said presentations reasonably reflected the current junction of the monetary policy.

As to the behavior of inflation to June 2006, the Committee emphasized the fact that notwithstanding that the inflationary rhythm in June of the current year was lower than the previous month, it is still over the inflation goal, including taking into account the tolerance margin of +/- 1 percentage point, which, considering there are still five months left in the year, advises adopting restriction measures of the monetary conditions for the achievement of the inflationary goal. As to the breaking down of the inflationary rhythm, into imported and domestic inflation, in the Committee it was highlighted that in June domestic inflation (4.86 percentage points) reverted the falling tendency that has been shown throughout the year (of 6.36 percentage points in December 2005 to 4.44 percentage points in May 2006). On the other hand, of the 2.69 percentage points that correspond to imported inflation, 2.06 percentage points are attributable to second round effects, which, unlike first round imported inflation, can be moderated through monetary restriction measures.

Additionally, in the Committee it was emphasized that in an explicit inflation goals scheme the forward looking prospect is relevant so that the adoption of monetary policy measures are made opportunely. In that sense, it was indicated that, when incorporating the inflation data to June, it is observed that the total inflationary rhythm prognosis for the end of 2006 and 2007, obtained through econometric models that have been used, increased regarding those of the previous month and continue locating themselves over the upper limit of the established goal (6.0%+/- 1 percentage point), which advises adopting restriction measures. Also, it was indicated that the results of the survey of inflation expectations of the private panel of analysts made in June 2006 showed a decrease in the inflationary rhythm projected for 2006, but an important increase for 2007, which can be associated to the perception on the possible secondary effects derived of the recent increases in the international price of oil. Reference was also made to the fact that the short term inflation prognosis, that will be used as initial conditions in the third running of the Semi-structural Macroeconomic Model, indicate that the inflationary rhythm will be at 6.83% in the third trimester and at 6.99% at the end of December 2006.

In the Committee there was consensus that the environmental risks, where the monetary policy is executed, also have to be taken into account. As to the associated risks in the external environment, in the Committee it was highlighted that the scenario of the international price of oil continues to be the main risk in inflation in Guatemala, which worsened in this month due to the incorporation of two new geopolitical events added to those that have been affecting crude oil world supply, which are: the international alarm raised by the launching of long reach trial missiles by North Korea and the recent conflict between Israel and Lebanon. In that sense, it was a reminder that the monetary policy has a primary role to perform to lessen the second round effects derived from the rise in fuel prices and those associated to the economic agent expectations as well as the manner in which said expectations can affect the determination of the costs and future prices in the market, reason why, when estimating that the increase in the inflation expectations of the private panel of analysts for December 2007 obeys the factor of the rise in the oil price, it is pertinent to adopt opportune measures that moderate said inflationary expectations.

As to the internal ambit risks, it was pointed out that the behavior toward the appreciation of the nominal exchange rate that has been observed in the last weeks can be a factor that advises not adjusting the leading interest rate of the monetary policy, on the basis that a rise in the interest rate can be an incentive to the income of new short term capital into the country, which could intensify the appreciation of the nominal exchange rate. In that regard, a member of the Committee indicated that regarding this we have to consider that, according to Bloomberg, there exists a 65.0% probability that the Federal Reserve of the United States will again increase its objective interest rate to 5.50% in the next meeting to be held on August 8, 2006, therefore the differential of the interest rates regarding the policy rate in the mentioned country will be greater each time (in favor of the US interest rates), therefore a modest adjustment in the domestic interest rate should not significantly affect the exchange market. Another member of the Committee indicated that, the observed appreciation must also be observed in the nominal exchange rate, to date in 2006 has been 0.43%, lower to the observed in an equal period of 2005 (2.08%) and of 2004 (2.44%).

In the described context, in the heart of the Committee the analysis that an increase in the leading interest rate is advisable prevailed, on the one hand, they must act opportunely with the purpose of strengthening the message that the Central Bank continues with its objective of fulfilling the inflationary goal, in order to moderate the inflationary expectations that contribute to lessening the second round effects, associated to imported inflation, taking into account that the monetary policy acts delayed on inflation (as is confirmed by the empiric studies made by the technical bodies of the *Banco de Guatemala*) and, on the other hand, that must operate with a mid-term vision in order to cooperate with the economic growth path to be sustainable in time, which necessarily requires, among other factors, of an environment of price stability. Also, it was indicated that an adjustment in the leading interest rate allows getting closer to what the Semi-structural Macroeconomic Model suggests, as to what for reaching an inflationary rhythm for December 2006 of 6.88%, the leading interest rate of the monetary policy should be located in the second trimester of 2006 in 5.16%, in the third trimester in 5.53%, and in December in 5.47%, this last level marks the beginning of a gradual reduction process of said rate that will be prolonged until the end of 2007, congruent with the inflation mid-term horizon.

In that sense, there was consensus in that the increase of the leading interest rate should be moderate (25 basic points) to not produce volatility in the short term interest rates in the money market and propitiate a positive environment among the economic agents and, therefore, favoring the sustainability of economic growth in the mid term.

b) 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, July 24, 2006 to be established at Q25.0 million and Q75.0 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 July 24 to 28, 2006 it was not necessary to convene LTD biddings in said currency.

c) Definition of the execution guidelines of the Monetary, Exchange rate and Credit Policy

Based on the discussed, the Execution Committee agreed that for the week of July 24 to 28, 2006, continue with the execution guidelines of the monetary policy observed during the present week; in other words, continue making 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 liable leading interest rate of the monetary policy, 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, July 24 for the terms of 182 and 364 days, with a fund-raising quota for Q25.0 million and Q75.0 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 not convene bidding for term deposits in United States dollars.

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, 182 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.

SIXTH: Other matters.

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