EXECUTION COMMITTEE

ACT NUMBER 32-2006

Session 32-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, August 4, 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 31-2006, corresponding to the session celebrated on July 28, 2006.
The project of act 31-2006 circulated.

SECOND: Market information and monetary variables.

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

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

a) Discussion
b) Determination of the quotas for long term bidding.
c) Definition of the Guidelines

FOURTH: Other matters.

Not having more observations, the committee approves the order of the day.

FIRST: The coordinator has put to consideration the corresponding project act.

Not having any observations, the committee approved act number 31-2006.

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 31 to August 4 of 2006, with partial data to date, registered an attraction of LTD's for Q2, 334.3 million associated to the operations made in bidding (net maturity for Q116.3 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q2, 029.5 million) and at the window (net maturity for Q188.5 million).

As to the bidding of LTD's in US dollars convened on August 2, 2005, it was mentioned that no bids were presented.

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of July 31 to August 4, 2006 for the biddings case, the cut interest rates was 6.22% 364 days. On the other hand, in the MEBD and in the stock exchange the fund-raising took place for 7 days, the leading interest rate was 5.00%.

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 31 to August 4, 2006 period, with partial data, the minimum was of 4.61%, observed July 31, 2006, and the maximum of 5.21%, registered on August 4, 2006. It also pointed out that the amounts negotiated were 5.04% with public titles and 5.86% for financial sector titles.

On the other hand, it was informed that during the July 31 to August 3, 2006 period, regarding Treasury-Bond operations there were placements for Q240.0 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of July 28 to August 3, 2006, the average daily operations for purchase were of US$70.7 million and the sale was of US$72.2 million and that the exchange rates in the referred period remained stable. In effect, on Friday, July 28 they were of Q7.57177 per US$1.00 for purchase and of Q7.58537 per US$1.00 for sale, on Monday, July 31 the rates were Q7.56696 and Q7.58668, on Tuesday, August 1 they were of Q7.57140 and Q7.58832, on Wednesday, August 2 they were Q7.56858 and Q7.58617 and finally, on Thursday, August 3 the rates were Q7.57073 and 7.58484.

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 31 to August 4, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the only operation made was on Tuesday, August 1 for US$0.1 million, at a weighted average exchange rate of Q7.58750 per US$1.00 and on Wednesday August 2 for US$0.4 million at Q7.58550 and on Thursday, August 3 for US$0.1 million, at Q7.58500 and on Friday, August 4, for US$1.3 million, at Q7.59000. 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$6.0 million, with 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 July 31 to August 4, 2006, did not close operations. As for the closing price in reference up to Friday, August 4, they indicated that for maturity to settle in December 2006 was of Q7.61000.

c) The Director for the Economic Studies Department informed that on August 3, 2006, the daily legal reserve of the banking system was located at Q536.3 million, with an average position of Q203.4 million.

The highlights during the period of July 27 to August 3, 2006 the main monetizing factors of the monetary issue were the decrease in the balance the long term deposits constituted in the *Banco de Guatemala* for Q1, 150.9 million and the deposits in the rest of the public sector in the Central Bank for Q55.9 million; and, the increase in the balance of the Net International Reserve –RIN- balance for the equivalent of Q12.8 million; while the main demonetizing factors were the increase in the daily legal reserve balance for Q255.9 million; and the decrease in the Expenses and Products of the *Banco de Guatemala* for Q35.2 million. Regarding the main demonetizing factors of the Ample Monetary Base it was reported that these were the increase in the balance of the deposits of the Central Government in the Banco de Guatemala for Q255.9 million and the banking float for Q77.1 million; and, the decrease in the Expenses and Products of the *Banco de Guatemala* for Q35.2 million; while the main monetizing factors are the decrease in the balance of term deposits greater than 91 days constituted int eh BAnco de Guatemala for Q63.2 million and the deposits of the rest of the public sector in the Central Bank for Q55.9 million; and the increase in the balance of the Net International Reserves for the equivalent to Q12.8 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 and 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 27, 2006, the lower limit was 3.39%, and the upper limit is 7.34%; while the simple average between the repurchase agreements of 8 to 15 days (5.25%) and the weighted average of the monetary stabilization operations of up to 91 days (4.87%) was situated at 5.06%, 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 27, 2006, the lower limit was 6.78% and the upper limit was 8.36%, and the weighted average rate of long term deposits of the banking system was of 7.06%, which is located within the fluctuation range of the parity liable rate, which advises an invariable monetary policy.

As to primary liquidity it was indicated that monetary issue observed to August 3, 2006, presents a deviation of Q567.7 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 behavior of a wide monetary base, to date, is within the programmed runner, which suggests an invariable monetary policy. The weighted orientation of the deviation for the present week is for Q283.9 million, which would indicate restricting the monetary policy.

As to the total payment means, the inter-annual growth observed to July 27, 2006, it ascended to 18.0%, locating itself over the tolerance margin estimated range for said variable (15.6% to 17.6%), which advises a restrictive monetary policy; in which the econometric estimation for the payment means for the end of 2006 is of 17.9%, which is over the upper limit of the estimated range for December 2006 (13.0% to 15.0%), which suggests a restrictive monetary policy. The average orientation of the deviation of 1.65%, therefore suggests, restricting the monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered growth of 27.0%, which is over the range estimated for July 27, 2006 (22.3% to 24.3%), 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 27.9%, 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 of 6.25%, therefore suggests, restricting the monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in July 2006, for December 2006 an inflationary rhythm of 7.40% 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 7.07%, 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 July 2006 showed an inflationary rhythm of 5.90%, which is within a tolerance margin of the monetary policy for 2006 (6.0% +/- 1 percentage point), which suggests a moderately relaxed monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to July 27, 2006, was -2.68 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 (MMS) used for foreseeing the total inflationary rhythm, projected a rhythm of 6.88% for December 2006, conditioned by gradual adjustments in the leading interest rate of the monetary policy until locating itself at the end of the year at 5.47%, which suggests restricting the monetary policy. Also, the prognosis for said model for a mid-term horizon, projects that for December 2007 an inflationary rhythm of 5.13%, conditioned to gradual adjustments in the leading interest rate of the monetary policy until stopping at 3.52%, which would be suggesting restricting the monetary policy.

To conclude, regarding the orientation of the indicative variables, it was indicated that regarding the previous week, the variable "liable parity interest rate" went from suggesting restricting the monetary policy to advising it be invariable, on its part the "implied inflation expectations" went form suggesting a moderately restrictive to advising the same be moderately relaxed. With that, according to the relative weight assigned to the indicative variables by the members of the Monetary Board, they indicated that 63.72% of the same advise a restrictive monetary policy orientation; (72.13% the previous week); 3.38% suggest a moderately restrictive monetary policy (12.05% the previous week); 24.23% an invariable monetary policy orientation ((15.82% the previous week); and 8.67% advise a moderately relaxed monetary policy (the previous week no variable suggested said orientation).

Finally, they indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of July 31 to August 4, 2006 was of Q7.663 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 July 31 and August 2) was of Q7.578 per US$1.00, which allows inferring that the observed value of the nominal exchange rate is found slightly below the lower limit of the expected fluctuation band.

d) The Committee took note that the monetizing and demonetizing factors foreseen for the week of August 4 to 10, 2006 indicate an increase in the creation of primary liquidity for Q1, 906.0 million, fundamentally due to the maturity of LTD's. Also, an decrease in the demand for monetary issue for Q120.4 million is foreseen and a daily banking liquidity position for Q82.1 million. Also, monetary issue is deviated in Q750.3 million above the central programmed point for said variable, therefore the excess of aggregate liquidity estimated for the referred period is located at Q2,858.8 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 (Q2,164.2 million, according to registries to August 3, 2006) have to be relocated; and, also, have additional fund raising for around Q694.6 million.

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

a) Determination of the quotas for term deposit bidding.

Regarding the determination of quotas for the biddings in the following week, the information provided by the daily monetization flow was taken into account, on the one hand, the guideline to keeping the quota amount limited and the number of weekly bids. Additionally, the Committee taking into account, on the one hand, the favorable conditions in the money market and, on the other hand, the strategy of transferring liquidity in the mid term, agreed that, temporarily they would not convene bids for 91 days, which is substituted for the 182 day term. Based on this, the Committee agreed that the fund-raising bid for the 182 day and 364 day terms to be convened on Monday, August 7 to be established at Q20.0 million and Q40.0 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 August 7 to 11, 2006, it is not necessary to convene biddings in LTD's in said currency.

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 August 7 to 11, 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 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, August 7 for the terms of 182 and 364 days, with a fund-raising quota for Q20.0 million and Q40.0 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 August 9, 2006 in 91 days 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 terms of 91, 182 days and 364 days and for the interest rate to be 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.

FOURTH: Other matters.

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