EXECUTION COMMITTEE

ACT NUMBER 34-2006

Session 34-2006 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city on Friday, August 18, 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 33-2006, corresponding to the session celebrated on August 11, 2006.
The project of act 33-2006 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: Mid-Term Inflation Prognosis (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 long term bidding.
c) Definition of the 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 33-2006.

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 August 14 to 18, 2006, with partial data to date, registered an attraction of LTD's for Q1, 853.1 million and maturity for Q1,605.3 million, which gave as a result for net fund-raising for Q247.8 million, associated to the operations made in bidding (net maturity for Q34.7 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund-raising of Q299.0 million) and at the window (net maturity for Q16.5 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of August 14 to 18, 2006 for the biddings case, the cut interest rates was5.4999% for 182 days and of 6.1999% for 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 August 14 to 18, 2006 period, with partial data, the minimum was of 5.08%, observed August 14 and 16, 2006, and the maximum of 5.19%, registered on August 17, 2006. It also pointed out that the amounts negotiated were greater with public title guarantees and that the average weighted during said period was of 5.12% for public titles and 6.24% for financial sector titles.

On the other hand, it was informed that during the August 14 to 18, 2006 period, regarding Treasury-Bond operations there were placements for Q100.0 million and maturity for Q0.1 million and US$0.1 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of August 11 to 17, 2006, the average daily operations for purchase were of US$78.5 million and the sale was of US$81.2 million and that the exchange rates in the referred period remained stable. In effect, on Friday, August 11 they were of Q7.56850 per US$1.00 for purchase and of Q7.58274 per US$1.00 for sale, on Monday, August 14 the rates were Q7.56719 and Q7.58301, on Wednesday, August 16 they were Q7.56477 and Q7.58143 and finally, on Thursday, August 17 the rates were Q7.56738 and 7.58051.

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 August 14 to 18, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the only operation made was on Friday, August 18 for US$0.2 million, at a weighted average exchange rate of Q7.57800 per US$1.00. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, expressed that during the period there were purchases on the following days: on Monday, August 14 for US$6.0 million, at a weighted average exchange rate of Q7.57900 per US$1.00, on Wednesday, August 16 for $1.0 million, at Q7.57800 and, on Thursday August 17 for US$3.0 million at Q7.57800, 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 August 14 to 18, 2006, did not close operations. As for the closing price in reference up to Friday, August 18, 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 17, 2006, the daily legal reserve of the banking system was located at Q44.3 million, with an average position of Q381.0 million.

The highlights during the period of August 10 to 17, 2006 the main demonetizing factors of the monetary issue were the increase in the balance the long term deposits constituted in the *Banco de Guatemala* for Q456.3 million and the deposits of the rest of the public sector in the Central Bank for Q114.7 million; while the main monetizing factors were the decrease in the daily legal reserve balance for Q389.6 million and the deposits of the Central Government in the *Banco de Guatemala* for Q122.4 million; and the increase in the balance of the Net International Reserve –RIN- balance for Q52.8 million. Regarding the main monetizing factors of the Ample Monetary Base; it was reported that these were the decrease in the balance of the deposits of the Central Government in the *Banco de Guatemala* for Q122.4 million and of the deposits in terms greater to 91 days constituted in the Banco de Guatmeala for Q37.5 million; and the increase in the balance of the Net International Reserve –RIN for the equivalent to Q52.8 million; while the main demonetizing factors were the increase in the deposits of the rest of the public in the

Central Bank for Q114.7 million and the banking legal reserve in foreign currency for the equivalent to Q35.3 million.

Regarding the indicative variables of the Monetary, Exchange Rate and Credit Policy they indicated that with the projection to July 2006, for December 2006 the total expected inflation estimated with a model of ordinary squared minimums is of 6.85% and with a softened exponential model of 7.38%; the simple average of both models is located at 7.12%, which is found over 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 7.71% and with a softened exponential model of 6.48%; the simple average of both models is at 7.10%, which is over the expected policy goal (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy.

Regarding the expected subjacent inflation for December 2006, with data up to July 2006, estimated with an integrated auto-regression model of mobile averages ARIMA was of 6.44%, whereas the estimated with a softened exponential model was of 6.65%; the simple average of both models is of 6.55%, 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 6.90%, whereas the estimated softened exponential model was of 6.05%; the simple average of both models is of 6.48%, 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 August 10, 2006, the lower limit was 3.09%, and the upper limit is 7.04%; 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 (5.00%) was situated at 5.13%, 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 August 10, 2006, the lower limit was 6.61% and the upper limit was 8.19%, and the weighted average rate of long term deposits of the banking system was of 7.08%, 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 17, 2006, presents a deviation of Q570.9 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 is found within the programmed runner, which would suggest the monetary policy remain invariable. The weighted orientation of the deviation for the present week is for Q285.4 million, which would indicate restricting the monetary policy.

As to the total payment means, the inter-annual growth observed to August 10, 2006, it ascended to 17.6%, locating itself over the tolerance margin estimated range for said variable (16.3% to 18.3%), which advises an invariable monetary policy; in which the econometric estimation for the payment means for the end of 2006 is of 17.6%, 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 1.30%, 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 26.8%, which is over the range estimated for August 10, 2006 (22.4% to 24.4%), 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 26.5%, 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 5.45%, 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 August 10, 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 6.73% 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 5.42%, 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 5.78%, conditioned to gradual adjustments in the leading interest rate of the monetary policy until stopping at 4.08%, 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, said orientation remained unchanged. According to the relative weight assigned to the indicative variables for the members of the Monetary Board, indicated that 64.23% of the same advise an orientation of restrictive monetary policy; 2.87% suggests a moderately restrictive monetary policy; 24.23% suggests an invariable monetary policy orientation; 8.67% a moderately relaxed monetary policy.

Finally, they indicated that regarding the behavior of the nominal exchange rate, the center of the expected runner for the week of August 14 to 18, 2006 was of Q7.617 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 August 14 to 16) was of Q7.574 per US$1.00, which is found slightly below the referred limit.

d) The Committee took note that the monetizing and demonetizing factors foreseen for the week of August 18 to 24, 2006 indicating increase in the creation of primary liquidity for Q2, 476.0 million, fundamentally due to the maturity of LTD’s and the depostis of the Central Government in the *Banco de Guatemala*. Also, a decrease in the demand for monetary issue for Q77.9 million is foreseen and a daily negative banking liquidity position for Q115.0 million. Also, monetary issue is deviated in Q753.5 million above the central programmed point for said variable, therefore the excess of aggregate liquidity estimated for the referred period is located at Q3,192.3 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 (Q2,116.8 million, according to registries to August 17, 2006) have to be relocated; and, also, have additional fund raising for around Q1,075.5 million.

THIRD: Inflation Risks Balance.

The Committee continued the analysis beginning the week before, which must be presented to the Monetary Board in its session of August 23, 2006 therefore, according to the calendar approved, said certified body made a decision regarding the leading interest rate of the monetary policy. For the effect, the technical departments of the *Banco de Guatemala* presented, on the one hand, the inflation risks balance, emphasizing the following aspects:

As to the external conditions, reference was made to the report issued by Bloomberg on August 17, 2006, the futures price of oil for December 2006, was located at US$73.41 per barrel, registering a decrease of US$3.03 regarding the price observed on July 21, 2006 (date in which the inflation risks balance was analyzed the month before. It was indicated that, according to the referred agency, the decrease in the international price of oil is mainly associated, to the fear that there will be a reduction in air traffic, as a consequence of the new security measures in the main international airports, as well as the fact that fuel demand in the United States has begun registering a reduction, originated by the finalization of the summer season and due to a decrease in economic growth. It was mentioned that geo-political conflicts persist which have been mentioned in previous reports (international nuclear program Iranian crisis, internal political crisis in Nigeria; and the international alarm due to long reach missile launches on behalf of North Korea to the Japanese Sea), which, added to the fact that the gap between world oil supply and demand continues to be minimal, has provoked prices of international crude oil to remain high.

Additionally, it was mentioned that, based on the latest available information, the price of gasoline in Guatemala registers an increase, however, derived from the fact that the prices of gasoline in Guatemala are correlated with the observed behavior in gasoline prices in the United States of America, and in the last week the price of gasoline in the mentioned country registered a slight decrease, expecting therefore that in the next few weeks, as is observed in other periods, said reduction will transfer to internal fuel prices.

It was indicated that the composed inflation index of the main commercial partners of Guatemala continues to be relatively high, located around 4.3% (4.02% estimated for the end of 2006). It is worth indicating that, in the particular case of the United States, the inflationary rhythm in July was located at 4.15%, higher by 0.98 percentage points to the inflationary rhythm observed in the same month in 2005 (3.17%); given that said country has a greater relative weight within the referred index, it is considered that in this manner the imported inflation risks continue to be present.

Reference was made according to the survey recently made by Bloomberg; there is a 90.0% probability that the Open Market Operations Committee of the Federal Reserve keep the objective federal funds interest rate invariable in its September 20, 2006 meeting.

As to the internal conditions, it was indicated that regarding the variables subject to follow up in the monetary program, it is still observed that, in the same year, the level of monetary stabilization operations as well as the monetary issue continue to be deviated regarding the programmed, when observing average deviations of approximately Q2,316.0 million and Q482.0 million, respectively.

It was indicated that the public finances execution to July 31, 2006 observed a deficit of Q592.2 million, equivalent to 0.2% of the GDP (deficit of Q139.6 million to July 31, 2005, equivalent to 0.1% of the GDP).

Corresponding to the inflation, it was emphasized that of 7.045 of the inflationary rhythm observed to July, 2.79 percentage points are attributable to imported inflation, associated to the effect of the increase in the international price of oil, of which 4.25 percentage points correspond to domestic inflation. It was indicated that when analyzing the evolution of inflation throughout the year, domestic inflation has shone a tendency toward the low. On the other hand, imported inflation was greater to the observed the month before. Notwithstanding, it was indicated that the latter still showed a greater level of 2.18 percentage points, of which, unlike direct imported inflation, can be moderated through monetary policy measures.

Regarding the indicative variables, it was pointed out that, when comparing the situation to the date reported regarding the observed to July 13 (last date in which the Committee analyzed the level of the leading interest rate of the monetary policy), the variable ‘implicit inflation expectations’ went from suggesting a moderately restrictive monetary policy to advise that the same be moderately relaxed, with that, according to the relative weight assigned to the indicative variables by the members of the Monetary Board, it was reported that the 64.23% of the same advise an orientation of a moderately restrictive monetary policy (63.72% of the month before); 2.87% suggest an orientation of a moderately restrictive monetary policy (12.05% the month before); 24.23% suggest an invariable monetary policy orientation (equal to the percentage of the month before); and, 8.67% advise a moderately relaxed monetary policy orientation (the month before no variables advise said orientation).

Last, the econometric inflation projections for 2006, made by the technical bodies, using observed data to July 2006, estimate that the total inflationary rhythm for December 2006 will be over the tolerance margin of the inflationary goal (6.0% +/- 1 percentage point). On the other hand, the estimation of the subjacent inflationary rhythm for December 2006 is within the tolerance margin of the mentioned goal. Notwithstanding, when considering a stricter interpretation of the inflation goal; in other words, when taking the punctual value of 6.0%, would indicate that both projections would be over the mentioned goal, which, in the context of a scheme of explicit inflation goals could be interpreted as a signal toward the restriction of the monetary conditions. Additionally, when evaluating the prognosis of the total inflation as well as the subjacent inflation for December 2007 regarding the inflation goal foreseen for the end of said year (5.0% +/- 1 percentage point), it was indicated that both prognosis are over the referred goal, including the inflation expectations of the private analysts panels, according to the survey made in July, indicate that the mentioned panel will continue projecting an inflationary rhythm at the end of 2006 and 2007 over the inflation goal, even though in lesser magnitude than the survey made in June.

FOURTH: Mid Term Inflation Prognosis (Semi-structural Macroeconomic Model)

The technical departments of the *Banco de Guatemala* presented the prognosis of the Semi-structural Macroeconomic Model, (MMS for its acronym in Spanish) to the Committee, making reference to the changes in the prognosis of the inter-annual inflation rate for December 2007. The value of said prognosis that had been generated in the MMS in the second trimester of 2006 was of 5.13%; whereas the new prognosis of said variable, in the third trimester of 2006, is of 5.78%. The increase in the value foreseen (0.65 percentage points) is explained by the changes in the values recently observed or foreseen of the following variables: the price of diesel (explains 33.3% of the change), the exchange rate (27.5%), inflation (22.2%), leading interest rate (10.6%), interest rate in the United States of America (5.3%), gap of domestic demand product (1.3%), active banking interest rate (0.5%), gap of the external demand product (0.1%), Gross Domestic Product of the United States (0.1%), change in the specification and the calibration model (0%) and inflation in the United States of America (-0.8%).

Regarding the mid-term prognosis generated by the MMS, the technical bodies indicated that the running of the corresponding model to the third trimester of 2006 makes the inter-annual variation rate foreseeable for the Consumer Price Index of 6.73% in the fourth trimester of 2006 and of 5.78% in the fourth trimester of 2007, prognosis that are conditioned to the projected trajectory of the leading interest rate of the monetary policy.

On the other hand, they indicated that the referred mid-term prognosis was based on a risk estimation in which the probability that the inflation is greater than the modal prognosis (in other words, of those values with greater probability of occurrence) is of 54.0% for the fourth trimester of 2006 and of 56.0% for the fourth trimester of 2007. Also, it was commented that, on the one hand, there is a 56.8% probability that the inflation rate is within the tolerance margin of the inflation goal for the fourth trimester of 2006 (6.0% +/- 1 percentage point) and, on the other hand, that there is a 31.0% of probability that said rate is within the tolerance margin of the inflation goal for the fourth trimester of 2007 (5.0% +/- 1 percentage point). In that regard, emphasis was made on the fact that the wider the prognosis horizon, the trust intervals tend to be wider and, therefore, also is uncertainty.

According to the technical departments, the trajectory of the leading interest rate of the monetary policy that, according to the MMS, is compatible with the previous prognosis on the inflation rate, involves values of said interest rate of 5.09% and 5.42% for the third and fourth trimesters of 2006, respectively; and, of 5.51%, 5.22%, 4.70% and 4.08% for each one of the trimesters of 2007, in that order.

Regarding the growth rate of each real product, the technical departments indicated that, as long as statistics of national accounts with trimesteral frequency are not counted on, the MMS uses trimesteralized and unseasonal data from the Monthly Economic Activity Primary Index.

They also indicated, that based on said index, the product gap (in other words, the difference between the observed product and the potential product) is estimated in 2.14% of the potential product in the second trimester of 2006. The prognosis model that says said gap will decrease gradually until practically disappearing in the fourth trimester of 2008. When combining this gap product behavior prognosis with the potential growth estimations for 2006 and 2007 (4.00% and 4.18%), the growth rate prognosis is obtained from the gross domestic product for said years, of 4.32% and 3.31% respectively.

A member of the Committee indicated that it is necessary to include, within the presentation of the MMS prognosis that is taken to the Monetary Board, the real exchange rate gap behavior prognosis that referred model gives, since a member of the Board had shown interest in knowing the model prognosis regarding this variable.

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* after having presented the elements that make up the inflation risks balance, the mid and long term prognosis derived from the third running of the Semi-structural Macroeconomic Model, 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 prevailed, therefore an adjustment to the leading interest rate would contribute, on the one hand, to strengthen the credibility of the Central Bank in the management of the monetary policy, aspect of great importance for the fulfillment of the inflation goal for 2006 and for 2007.

Based on the presentations of the technical departments, as to the orientation of the indicative variables, the results of the third running of the MMS and of the inflation risks balance, the Committee deliberated on the content of said presentations in order to transfer some analysis and opinion elements to the Monetary Board that could be of some use as decision making material of the leading interest rate, foreseen for Wednesday 23 of this month.

As to the inflation behavior to July 2006, the Committee emphasized that for the second consecutive month a tendency to decrease has been registered in the total inflationary rhythm; however, this is still over the inflation goal (including taking into account the tolerance margin of +/- 1 percentage point), which, considering that there are still four months left in the year, make this variable (individually considered) advise adopting measures opportune for monetary restriction. Corresponding to the decomposition of the inflationary rhythm, in imported and domestic inflation, in the Committee it was highlighted that in July 2006 the domestic inflation (4.25 percentage points) was reduced considerably regarding the observed the previous month (4.86 percentage points), as in December 2005 (6.36 percentage points). On the other hand, of the 2.79 percentage points that correspond to imported inflation, 2.18 percentage points are attributable to second round effect, of which, different from first round imported inflation, can be moderated through measures of monetary restriction.

In the Committee it was emphasized that in an explicit inflation goals scheme forward looking analysis becomes 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 July, it is observed that the prognosis of total inflationary rhythm for the end of 2006 and 2007, obtained through the econometric models that are being used, continue being located over the upper limit of the established goal (6.0% +/- 1 percentage point), which also advises adopting restriction measures of the monetary conditions. On the other hand, it was also mentioned that the results of the inflation expectations survey of the panel of private analysts made in July, even though it is over the established inflation goal for 2006 and for 2007, show a descent in the inflationary rhythm projected for said years.

The Committee also analyzed the environmental risks in which the execution of the monetary policy evolves. As to the risks associated to the external environment, a discussion theme was the scenario of the international oil price that tends to be located over the pessimistic scenario expected at the beginning of the year. They were reminded that, even direct effects on the inflation derived of this phenomenon are an evident exogenous factor to the monetary policy; this has a primary role to play to lessen the indirect effects derived of the rise in the prices of fuel, as well as the effects associated to the expectations of the economic agents so that such expectations can affect the determination of the costs and futures prices in the market, aspect that suggests the pertinence of adopting opportune measures that moderate said inflationary expectations.

A member of the Committee highlighted the fact that, if the current level of the international price of oil continues to be high, the same has stabilized after the record high registered in mid July 2006, and that even recently has begun registering a tendency to lower associated to the fear that a decrease in air traffic will be registered, due to the new security measures in the main international airports and that the demand of fuel in the United States has begun to be contained, given the fact that the end of the summer season is near. Additionally, it was indicated that the price of gasoline in the United States has begun to reduce, behavior that, given the correlation between the price of fuel in said country and in the Guatemalan market, could reflect in a reduction in the internal price of fuel in the next few weeks.

As to the internal environment risks, it was pointed out that the behavior toward the appreciation of the nominal exchange rate that has been observed in the last weeks could be a factor that advises not making an adjustment in the leading interest rate of the monetary policy, on the basis that an exchange appreciation could have effects on the aggregate demand similar to the rise in the internal interest rate, added to the fact that the US Federal Reserve kept the objective interest rate invariable at 5.25% in the meeting held on August 8, 2006, which keeps the differential interest rates invariable and, therefore, does not foretell changes in the direction of the capital flow in the current occasion.

Another member of the Committee indicated that a relevant theme worth mentioning is the current participation rule of the Central Bank in the exchange market, which according to their opinion, does not allow sufficient flexibility in the determination of the nominal exchange rate. In effect, the member argued that the little flexibility in the current specification of the mentioned rule could have induced that the registered appreciation of the nominal exchange rate, to date, has been less than the produced with a minor intervention of the Central Bank and, therefore, could have stopped a faster reduction of the inflationary rhythm, as is described in the behavior of the Semi-structural Macro-economic Model. Other members of the Committee coincided in pointing out that, in effect, the referred model is constructed in such a way that a tendency toward appreciation of the exchange rate has similar effects on inflation to those derived of a rise in the leading interest rate, aspect that calls to deep reflection on the convenience of making the current exchange rule more flexible.

In the described context, in the heart of the Committee the analysis that stood out expressing, the balance of inflation risks, as well as the Semi-structural Macroeconomic Model and the orientation of the indicative variables, continues leaning toward the convenience of restricting the monetary policy to converge toward the 2007 inflation goal. This implies that unless certain extremely positive events occurred that would modify the trajectory of the variables and indicated elements, it would then be necessary in the near future to increase the leading interest rate in the monetary policy, taking into account, on the one hand, that the monetary policy has a role to perform in moderating the inflationary expectations associated to the second round effects derived of the imported inflation, and on the other hand, that said policy have a delayed effect on inflation, therefore the same must incorporate a forward looking vision in order to ensure that the foreseen increase in economic growth be sustainable in time, which requires an environment of macroeconomic stability.

Notwithstanding the above, certain analysis factors, among which recent moderation is highlighted, of observed inflation as well as the inflationary expectations of the panel of private analysts, as well as the international price of fuel, as well as the tendencies registered in the exchange market, make up a scenario in which it is reasonable to wait for new data that allow confirming (or discarding) that the referred moderation be sustainable. Therefore, the Committee is of the opinion that, at this moment, a pause can be reasonable in the increase of the leading interest rate of the monetary policy, given that it is prudent to advise having greater information to make an appropriate and opportune decision. In the

Committee it was highlighted that said pause is congruent with what the Semi-structural macroeconomic model, as to achieving that the inflationary rhythm be within the goals (foreseen at 6.73% for 2006 and 5.78% for 2007), the leading interest rate of the monetary policy could be located at an average of 5.09% in the third trimester of 2006, before rising in the fourth trimester of 2006 (5.42%) and in the first of 2007 (5.51%), for later beginning reductions in the subsequent trimesters.

b) 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. Based on this, the Committee agreed that the fund-raising bid for the 182 day and 364 day terms be established at Q15.0 million and Q35.0 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 21 to 25, 2006, it is not necessary to convene biddings in LTD's in said currency.

c) 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 21 to 25, 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 Wednesday, August 21 for the terms of 182 and 364 days, with a fund-raising quota for Q15.0 million and Q35.0 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 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.

SIXTH: Other matters.

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