EXECUTION COMMITTEE

ACT NUMBER 36-2006

Session 36-2006 celebrated in the Banco de Guatemala building located at séptima avenida número veintidós guión cero uno, zona uno of this city on Friday, September 1, 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 35-2006, corresponding to the session celebrated on August 25, 2006.
The project of act 35-2006 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) Determination of the quotas for long term bidding.
b) 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 35-2006.

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 28 to September 1, 2006, with partial data to date, registered an attraction of LTD’s for Q1,496.5 million and maturity for

Q2,544.6 million, which gave as a result for maturity for Q1,048.1 million, associated to the operations made in bidding (net maturity for Q10.6 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q1,076.0 million) and at the window (net fund-raising for Q38.5 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of August 28 to September 1, 2006 for the biddings case, the cut interest rates was5.50% for 182 days and of 6.1949% 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 28 to September 1, 2006 period, with partial data, the minimum was of 5.06%, observed August 28, 2006, and the maximum of 5.17%, registered on September 1, 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 5.08% for public titles and 6.15% for financial sector titles.

On the other hand, it was informed that during the August 28 to 31, 2006 period, regarding Treasury-Bond operations there were placements registered for Q1,198.0 million which include Q1, 159.5 million in Treasury bonds issued to cover net deficiency in the year 2004 of the Banco de Guatemala, as well as net 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 25 to 31, 2006, the average daily operations for purchase were of US$75.9 million and the sale was of US$73.5 million and that the exchange rates in the referred period showed a slight depreciation. In effect, on Friday, August 25 they were of Q7.57341 per US$1.00 for purchase and of Q7.59321 per US$1.00 for sale, on Monday, August 28 the rates were Q7.58169 and Q7.60159, on Tuesday, August 29 they were of Q7.59142 and Q7.61188, on Wednesday, August 30 they were Q7.60131 and Q7.62554 and finally, on Thursday, August 31 the rates were Q7.59223 and 7.60997.

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 28 to September 1, 2006, it was commented that the Private Institutional Foreign Currency System –SPID-, the only operation made was on Tuesday, August 29 for US$0.1 million, at a weighted average exchange rate of Q7.60250 per US$1.00. 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 Q7.57800 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 August 28 to September 1, 2006, did not close operations. As for the closing price in reference up to Friday, September 1, 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 31, 2006, the daily legal reserve of the banking system showed a negative position of Q564.0 million, with an average position of Q146.7 million.

The highlights during the period of August 24 to 31, 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 Q959.0 million, the deposits of the Central Government in the Banco de Guatemala for Q254.6 million and the deposits of the rest of the public sector in the Central Bank for Q95.3million; while the main demonetizing factors were million the increase in the daily legal reserve balance for Q930.3 million and the decrease in the balance of the Net International Reserve -RIN- balance for the equivalent of Q56.0 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 Q254.6 million, the deposits of the rest of the public sector in the Central Bank for Q95.3 million and of the daily banking legal reserve in foreign currency for the equivalent of Q61.5 million; while the main demonetizing factors were the decrease in the balance of the Net International Reserve -RIN- for the equivalent to Q56.0 million and of the deposits of terms greater than 91 days constituted in the Banco de Guatemala for Q47.3 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 24, 2006, the lower limit was 3.06%, and the upper limit is 7.01%; 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 24, 2006, the lower limit was 6.55% and the upper limit was 8.13%, 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 31, 2006, presents a deviation of Q537.9 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, to date is at Q131.2 million under the lower limit of the programmed runner, which suggests a relaxed monetary policy. The weighted orientation of the deviation for the present week is for Q203.4 million, which would indicate restricting the monetary policy.

As to the total payment means, the inter-annual growth observed to August 24, 2006, it ascended to 17.3%, locating itself over the tolerance margin estimated range for said variable (16.0% to 18.0%), which advises an invariable monetary policy; in which the econometric estimation for the payment means for the end of 2006 is of 17.4%, 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 1.20%, 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 27.8%, which is over the range estimated for August 24, 2006 (23.0% to 25.0%), 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 5.65%, therefore suggests, restricting the monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in August 2006, for December 2006 an inflationary rhythm of 7.41% 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 7.26%, 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 located slightly below the punctual point for the monetary policy goal for 2006 (6.0% +/- 1 percentage point), which suggests a moderately relaxed monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to August 24, 2006, was -2.71 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 even though the individual orientation of each variable remains unchanged. According to the relative weightings assigned to said variables by the members Monetary Board, indicated that 64.23% of the same advise an orientation of restrictive monetary policy, 2.87% advise a moderately restrictive monetary policy; 24.23% suggest an invariable monetary policy; and, 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 28 to September 1, 2006 was of Q7.665 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 28 to 30) was of Q7.602 per US$1.00, which allows inferring that the observed value of the nominal exchange rate is found slightly below the lower limit.

d) The Committee took note that the monetizing and demonetizing factors foreseen for the week of September 1 to 7, 2006 indicating increase in the creation of primary liquidity for Q1,888.6 million, fundamentally due to the maturity of LTD's. Also, a decrease in the demand for monetary issue for Q85.0 million is foreseen and a daily banking liquidity position for Q182.8 million. Also, monetary issue is deviated in Q720.5 million above the central programmed point for said variable, therefore the excess of aggregate liquidity estimated for the referred period is located at Q2,706.9 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 (Q1,814.3 million, according to registries to August 31, 2006) have to be relocated; and, also, have additional fund raising for around Q892.6 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. Based on this, the Committee agreed that the fund-raising bid for the 182 day and 364 day terms be established at Q10.0 million and Q25.0 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 September 4 to 8, 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 September 4 to 8, 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 28 for the terms of 182 and 364 days, with a fund-raising quota for Q10.0 million and Q25.0 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.

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.