

## CHAPTER I

### NATURE AND ADMINISTRATIVE STRUCTURE OF THE *BANCO DE GUATEMALA*

Casa Nottebohm, location of the *Banco de Guatemala* from 1946 to 1948.

## **BANCO DE GUATEMALA**

### **Nature**

Article 2 of the Organic Law of the *Banco de Guatemala* stipulates that the *Banco de Guatemala*, as a Central Bank, is a decentralized, autonomous entity, with juristic person, private estate, with full capacity to acquire rights and to assume responsibilities, with indefinite duration and with domicile in the territorial division of Guatemala.

### **Main objective**

According to article 3 of the mentioned law, the *Banco de Guatemala* has as main objective to contribute in the creation and maintenance of the most favorable conditions for the organized development of the national economy; therefore, it will provide the monetary, exchange and credit conditions that promote the stability in the general rate of prices.

### **Functions**

The Central Bank has, among others functions determined by its organic law, the following functions:

- a) To be the only issuer of the national currency;
- b) To try to maintain an adequate liquidity rate of the banking system, by using the instruments established in its organic law;
- c) To pursue the good operation of the payment system;
- d) To receive in deposit the banking cash and the legal deposits referred in said law;
- e) To administer the international monetary reserves, according with the lineaments established by the Monetary Board; and,
- f) To carry out the other functions as Central Bank assigned by legal mandate.

## ADMINISTRATIVE STRUCTURE

Clause h) of article 26 of the mentioned law establishes that the Monetary Board has the responsibility of approving or modifying the administrative structure of the *Banco de Guatemala*, proposed by the General Director. Based on said decision, in resolution JM-106-2005 dated June 23<sup>rd</sup>, 2005, the Monetary Board, among other decisions, modified said administrative structure.

Said modification was mainly due to the strengthening of the International Monetary Reserves -RMI- [Acronym in Spanish.] and of the operations of monetary stabilization, taking into account the established by the good practices applied by the modern central banks. The referred modification of the administrative structure will allow establishing an operational scheme under an adequate segregation of functions and a clear delimitation of responsibilities among the entities that participate in said procedure. Besides, it is important to highlight the specialization that is pursued in the creation of the Risk Analysis of International Monetary Reserves area, the purpose of which is to contribute in achieving an effective administration of the risk related with the management of the international monetary reserves of the Central Bank.

In this context, the strengthening of the operative framework of the operations of monetary stabilization, on one hand, constitute an advance in the adoption of the scheme of explicit inflation goals (Inflation Targeting) and, on the other hand, allows an adequate rendering of accounts and transparency in the actions of the Central Bank. The administrative structure of the *Banco de Guatemala* is shown in the following chart:

**CHART**

## **INSTITUTIONAL STRATEGIC PLAN OF THE *BANCO DE GUATEMALA***

The Institutional Strategic Plan is a joint effort of the manager's office and officers of the *Banco de Guatemala*, which consists of the determination of the strategic objectives that allow strengthening its management, through the establishment of short, middle and long-term actions, so that the institution can fulfill its fundamental objective.

In that sense, the policy of the Central Bank's administration is to evaluate its Strategic Plan annually, in order to adapt said plan to the changes of the environment, to review its long-term objectives and to consider the implications that said changes represent for the fulfillment of its mission.

Below are the relevant elements of the Institutional Strategic Plan 2003-2007.

### **MISSION**

To promote the stability in the general rate of prices.

### **VISION**

The *Banco de Guatemala* will continue being a well known, reliable institution, carrying out only the functions that correspond to a central bank, which contributes in promoting the stability of the general rate of prices, through the full exercise of its autonomy, transparent management, organizational quality and availability of funds.

### **INSTITUTIONAL VALUES**

- Ethic
- Transparency
- Identification and compromise
- Loyalty
- Responsibility
- Efficiency
- Leadership
- Quality
- Empathy
- Respect

## STRATEGIC OBJECTIVES

1. To advance in the adoption process of a scheme of explicit inflation goals.
2. To permanently strength the institution's financial management capacity for the efficient execution of the Monetary, Exchange and Credit Policy, that contributes in promoting the stability in the general rate of prices.
3. To implement an integrated system of statistical information.
4. To continue with the modernization process of the payment system.
5. To strengthen the transparency.
6. To administer the risks that the institutional management faces.
7. To streamline the administrative structure of the *Banco de Guatemala* to strengthen its operation and improve its institutional efficiency.
8. To strengthen the administrative management capacity of the Central Bank.
9. To continue adopting the best practices that allow strengthening the institutional management.
10. To integrally strengthen the administration of the computer appliance technology in the *Banco de Guatemala*.
11. To foment the numismatics culture.

## ORGANIC STRUCTURE

### 1. Monetary Board

The Monetary Board, according with articles 132 of the Political Constitution of the Republic and 13 of the Organic Law of the *Banco de Guatemala*, is integrated by the following members:

- a) President, who is also the president of the *Banco de Guatemala*;
- b) Ministers of the *Ministerio of Finanzas Públicas, Ministerio of Economía* and *Ministerio de Agricultura, Ganadería y Alimentación*;
- c) A member elected by the Congress of the Republic;
- d) A member elected by the business associations of commerce, industry and agriculture;
- e) A member elected by the presidents of the administration councils or directive boards of the national private banks; and,
- f) A member elected by the *Consejo Superior de la Universidad de San Carlos de Guatemala*.

According with article 26 of the Organic Law of the *Banco de Guatemala*, the Monetary Board has the following responsibilities:

- a) To determine and evaluate the monetary, exchange and credit policy of the country, including the programmed goals, taking into account the national and international environment;
- b) To watch for the liquidity and solvency of the national banking system;
- c) To regulate the aspects regarding the banking cash and legal deposits, according with the Organic Law of the *Banco de Guatemala*;
- d) To regulate the banking clearing house or any other instrument or mechanism that pursue the same goals;
- e) To authorize, proposed by the General Director, the investment policy of the international monetary reserves;
- f) To establish the necessary reserves to strengthen the Bank's estate;
- g) To approve the Income and Expense Budget of the *Banco de Guatemala* and *Superintendencia de Bancos*;
- h) To approve or modify the administrative structure of the *Banco de Guatemala*, proposed to the General Director;
- i) To appoint and remove the General Director and other important authorities and officers of the Bank;
- j) To annually approve the Bank's balance sheets;
- k) To annually approve, for publication, the Aide-memoire of the Central Bank;
- l) To issue the regulations that correspond to it, according with its organic law and other laws;
- m) To approve the decisions, norms or legal instruments subjected by the *Superintendencia de Bancos* or, in its case, the *Banco de Guatemala*; and,
- n) To perform the other responsibilities and faculties that correspond to it, according with its organic law, the Monetary Law and other applicable legal decisions.

According with the Organic Law of the *Banco de Guatemala*, the responsibilities of the Monetary Board should be carried out without damaging reaching the fundamental objective of the Central Bank.

## 2. Presidency

The president and vice-president of the Monetary Board are also the president and vice-president of the *Banco de Guatemala*. They are appointed by the President of the Republic for a four-year period<sup>1</sup>. The president's responsibilities, as established in article 30 of the mentioned law, are the following:

- a) To propose to the Monetary Board the monetary, exchange and credit policy, including the programmed goals, as well as the measures and actions that help the effective execution;
- b) To keep a relationship with authorities and organizations of the State, particularly with the Executive Branch and to pursue the coordination of the economic, financial and fiscal policies of the State with the monetary, exchange and credit policy, in order to achieve the fundamental objective of the *Banco de Guatemala*; therefore, the president will assist to the general and specific cabinet meetings to which he is summoned;
- c) To approve the monetary policy report mentioned in article 61 of the Organic Law of the *Banco de Guatemala*<sup>2</sup>;
- d) To watch for the correct execution of the monetary, exchange and credit policy determined by the Monetary Board;
- e) To execute the main legal representation of the *Banco de Guatemala*, judicially and extra-judicially;
- f) To delegate his representation to the Vice-president;
- g) To grant mandates in name of the Central Bank, to represent it and to act in the administrative and jurisdictional environment, as a result of the actions and decisions adopted by the Monetary Board;
- h) To authorize with his signature, jointly with the signature of the General Director of the *Banco de Guatemala*, the money issued by the Central Bank;
- i) To lead and motivate the advertising of the execution of the Monetary Board, according with the established in article 63 of the Organic Law of the *Banco de Guatemala*<sup>3</sup>;

<sup>1</sup> Regarding the current President and Vice-president, their period started on October 1st, 2002.

<sup>2</sup> **ARTICLE 61. Publication of the report of monetary policy.** The *Banco de Guatemala*, every six months, will publish a report of monetary policy that contains an explanation of the operations carried out to reach the fundamental objective of the Bank.

<sup>3</sup> **ARTICLE 63. Promotion of the operations of the Monetary Board.** In order to maintain an adequate promotion of the actions of the Monetary Board, the President will decide the publication of a circumstanced summary of said actions when they affect the monetary, exchange and credit policy, or, affect the general liquidity conditions of the country's economy. The summary will include the arguments in favor and against of the resolved. The promotion will be careful in protecting confidential aspects that due to its nature may affect the normal development of the markets.



- j) To solve the issues that are not subjected to the decision of the Monetary Board; and,
- k) To carry out the other responsibilities that legally corresponds to it.

According with the Organic Law of the *Banco de Guatemala*, the responsibilities of the Monetary Board and of the *Banco de Guatemala* should be carried out without damaging reaching the fundamental objective of the Central Bank.

### **3. Administration**

The administration of the *Banco de Guatemala* is under the responsibility of the General Director, who is responsible, before the President of the institution and before the Monetary Board, of the correct and efficient operation of the Bank and has, as established in article 34 of the referred organic law, the following responsibilities:

- a) To prepare the issues to be subjected to the consideration of the Monetary Board and to dispose, in coordination with the President, the order in which they should be proposed in the meetings;
- b) To permanently watch the operation of the institution and branches, the observance of the applicable laws and rules, and the fulfillment of the resolutions of the Monetary Board;
- c) To order the publication of the monetary policy report mentioned in article 61 of the Organic Law of the *Banco de Guatemala*;
- d) To propose to the Monetary Board the appointment of the superior officers;
- e) To appoint and remove other officers and employees of the bank;
- f) To supervise that the administration of the international monetary reserves are carried out within the lineaments issued by the Monetary Board;
- g) To prepare the project of the Incomes and Expenses budget of the *Banco de Guatemala* and to watch for its correct application;
- h) To contract professional services considered necessary for the good operation of the Central Bank;
- i) To authorize the publication of the Incomes and Expenses budget of the *Banco de Guatemala* in the official newspaper;

- j) To authorize with his signature the balance sheets of the Central Bank;
- k) To authorize with his signature, jointly with the signature of the President of the *Banco de Guatemala*, the money issued by the Central Bank;
- l) To authorize with his signature all the documents and securities issued by the Central Bank; and,
- m) To carry out all its other responsibilities according with law, regulations and other applicable decisions issued by the Monetary Board.

According with the Organic Law of the *Banco de Guatemala*, the responsibilities of the General Director should be carried out without damaging reaching the fundamental objective of the Central Bank.

It is important to highlight that the administrative structure of the *Banco de Guatemala* is integrated by the Economic, Financial, Administrative and Legal areas; each of them are under the responsibility of a director. Besides, each area is divided in departments, which at the same time are divided in sections or units.

## **EXECUTION COMMITTEE**

One of the aspects that should be highlighted is regarding the operation of the Execution Committee<sup>4</sup>, through which the Central Bank executes the monetary, exchange and credit policy determined annually by the Monetary Board.

Said Committee, according with the mentioned law and as decided in resolution JM-192-2002 of the Monetary Board on June 1<sup>st</sup>, 2002, is integrated by the President of the *Banco de Guatemala*, who at the same time coordinates the same, the Vice-president, the General Director and directors of the Economic and Financial areas. Besides, the Director of the Legal area and directors of the international, economic studies and operations of monetary stabilization departments are technical advisors of said committee.

The Execution Committee, according with article 40 of the Organic Law of the *Banco de Guatemala*, has the following responsibilities:

- a) To use the instruments of monetary policy as approved by the Monetary Board;
- b) To inform the Monetary Board in the next meeting, through its coordinator, about the execution of the monetary, exchange and credit policy that it adopted; and,

4 The aspects related with the integration, duties, meetings and responsibilities of the Execution Committee are contained in articles 39 to 42 of the Organic Law of the *Banco de Guatemala*.

- c) To carry out the other responsibilities assigned by the Monetary Board in order to execute the monetary, exchange and credit policy.

To develop the considered in clause c) transcribed, the Monetary Board, in resolution JM-193-2002 dated June 1<sup>st</sup>, 2002, assigned to the Execution Committee the following additional responsibilities:

- d) To define the amounts and other financial conditions, as well the momentum, for the reception of term deposits and for the issue, placement or acquisition of bonds of monetary stabilization or other securities issued by the Central Bank;
- e) To define the amounts and other financial conditions, as well as the momentum, for the negotiation, in the secondary securities market, of security titles issued by entities of the public sector; and,
- f) To define the amounts, as well as the momentum, for the purchase and sale of foreign currency by the *Banco de Guatemala*.

The responsibilities of the Execution Committee should be carried out without obstructing to reach the fundamental objective of the Central Bank.

## **CHAPTER II**

### **OPERATIONS AND ACCOUNTS OF THE *BANCO DE GUATEMALA***

Casa Larrazábal, location of the *Banco de Guatemala* de 1948 a 1966.

## OPERATIONS AND ACCOUNTS OF THE *BANCO DE GUATEMALA*

### 1. Term deposits

#### 1.1 In *quetzales*

As part of the operations of monetary stabilization that the *Banco de Guatemala* carries out in the execution of the monetary, exchange and credit policy, in 2005 it continued receiving term deposits through the different fund-raising mechanisms. With that regard, at the end of said year, the balance of said deposits was of Q17,535.3 million, amount higher in Q1,142.0 million than the one registered at the end of 2004. The fund-raisings carried out through the different mechanisms were of Q115,854.9 million, while the expirations were of Q114,712.9 million, as shown in the following table:

TABLE 1

**BANCO DE GUATEMALA**  
**CIRCULATION OF TERM DEPOSITS**  
**YEAR 2005**  
(Million of *quetzales*)

MECHANISM	BALANCE TOL 31/12/2004	FUND RAISINGS	EXPIRATIONS	BALANCE TO 31/12/2005	ABSOLUTE VARIATION
<b>TOTAL</b>	<b>16,393.3</b>	<b>115,854.9</b>	<b>114,712.9</b>	<b>17,535.3</b>	<b>1,142.0</b>
Bid	7,884.7	7,649.0	6,746.5	8,787.2	902.5
MEBD <sup>y</sup> and stock exchange	3,250.0	93,379.0	94,068.0	2,561.0	-689.0
Window	4,720.5	14,640.0	13,731.3	5,629.2	908.7
Remunerated banking cash	538.1	186.9	167.1	557.9	19.8

<sup>y</sup> Electronic Banking Table of Money

<sup>2</sup> Does not include deposits of Q3.2 million due to investments of the *Ministerio de Finanzas Públicas* derived from the Extraordinary and Temporal Solidarity Tax -ISET- [Acronym in Spanish.]

#### 1.2 In dollars of the United States of America

To December 31<sup>st</sup>, 2005, the balance of the term deposits in dollars of the United States of America that the system's banks registered in the *Banco de Guatemala* as remunerated banking cash was of US\$6.9 million, higher in US\$1.1 million than the registered at the end of 2004.

On the other hand, the Monetary Board in resolution JM-99-2004 dated September 8<sup>th</sup>, 2004, authorized the *Banco de Guatemala* to receive term deposits in dollars of the United States of America, through the bid mechanism in stock exchange, through the system of competitive offers regarding the interest rate.

The balance of said deposits, to December 31<sup>st</sup>, 2005, was of US\$1.3 million, lower in US\$5.0 million than the registered at the end of 2004.

In summary, by the end of 2005, the total balance of the term deposits in dollars of the United States of America was of US\$8.2 million, lower in US\$3.9 million than the ones observed to December 31<sup>st</sup>, 2004, as shown in the following table:

TABLE 2  
**BANCO DE GUATEMALA**  
**CIRCULATION OF TERM DEPOSITS IN US DOLLARS**  
**YEAR 2005**  
(Million of US dollars)

MECHANISM	BALANCE TO 31/12/2004	FUND-RAISINGS	EXPIRATIONS	BALANCE TO 31/12/2005	ABSOLUTE VARIATION
<b>TOTAL</b>	<b><u>12.1</u></b>	<b><u>35.9</u></b>	<b><u>39.8</u></b>	<b><u>8.2</u></b>	<b><u>-3.9</u></b>
Remunerated banking cash	5.8	5.0	3.9	6.9	1.1
Bid	6.3	30.9	35.9	1.3	-5.0

## 2. Operations with securities

### 2.1 Bonds in portfolio of the *Banco de Guatemala*

The balance of bonds in the portfolio of the *Banco de Guatemala*, by the end of 2005, was of Q5.2 million, completely integrated by banking bonds with guarantee of mortgage booklets acquired by the Central Bank before 1990. Said balance is lower in Q17.6 million (77.2%) regarding the one observed at the end of 2004, reduction that mainly corresponds to the advanced payment of said bonds and programmed amortization of capital.

### 2.2 Stabilization bonds

The balance of the stabilization bonds in dollars of the United States of America issued by the *Banco de Guatemala* showed a variation of US\$1.5 million with regard to 2004, due to the regularization of said balances, by prescription of the payment obligation of the due capital and interests, according with the regulations for the issue, placement and amortization of the stabilization bonds.

Consequently, to December 31<sup>st</sup>, 2005, there was no balance pending of payment of this type of securities.

Regarding the origin of said bonds, it is important to mention that according with the control of changes enforced during the eighties, the *Banco de Guatemala* should sell foreign currency to the private sector so that this pays its foreign debt. In this context, the Central Bank issue Stabilization Bonds 1983 and 1984, in dollars of the United States of America, so that the same served as payment mean for those credits that the private sector acquired from non-residents. For that reason, said sector should have previously informed the Central Bank of the equivalent in national currency of the credits in foreign currency. In 1988 a new issue of stabilization bonds was carried out, in order to exchange them for the bonds of the two previous issues. On the other hand, in 1990 another issue of bonds was carried out in order to offer it as a payment option of the obligations of the *Banco de Guatemala* with the private international banking.

### **3. Treasury bonds received to cover net deficiencies**

In fulfillment of the established in clause b) of article 9 of the Organic Law of the *Banco de Guatemala*, the State, through the *Ministerio de Finanzas Públicas*, on August 29<sup>th</sup>, 2005 issue in favor of the *Banco de Guatemala* Representative Certificates of the Treasury Bonds of the Republic of Guatemala of Q963.7 million, to cover the net deficiency of the Central Bank that corresponds to the fiscal year 2003, to a term of 29.7 years and an annual interest rate of 3.87%.

## **4. International monetary reserves and transactions in foreign currency**

### **4.1 International monetary reserves**

The rate of the absolute international monetary reserves of the *Banco de Guatemala*, by the end of 2005, was of US\$3,782.7 million, higher in US\$253.9 million regarding the one observed by the end of 2004. On the other hand, the balance of the obligations in foreign currency up to one-year term was reduced in US\$0.5 million regarding the previous year, which was placed in US\$0.3 million. As indicated, the balance of the net international monetary reserves, to December 31<sup>st</sup>, 2005, was of US\$3,782.4 million, higher in US\$254.4 million than the one registered on the same date of 2004.

Table 3

**BANCO DE GUATEMALA**  
**INTERNATIONAL MONETARY RESERVES**  
**ABSOLUTE AND NET**  
**YEARS 2004 - 2005**  
(Million of US dollars)

CONCEPT		2004	2005	VARIATION	
				ABSOLUTE	RELATIVE
I.	Absolute reserves	3,528.8	3,782.7	253.9	7.2
II.	Obligations up to one year-term	0.8	0.3	-0.5	-62.5
III.	Net reserves	3,528.0	3,782.4	254.4	7.2

#### 4.2 Administration of the international monetary reserves

The Monetary Board, in resolution JM-29-2004 dated April 1<sup>st</sup>, 2004, modified by resolution JM-135-2004 dated November 10<sup>th</sup>, 2004, authorized the investment policy of the international monetary reserves of the *Banco de Guatemala*, so that said reserves are invested according with liquidity criteria, security and profitability and established the distribution mechanism of the same, creating, for the effect, the Liquidity and Portfolio tranches.

The Liquidity tranche is directly administered by the *Banco de Guatemala* and its main purpose is to assist the liquidity needs that might arise from the differences between the flow of the estimated incomes and programmed expenses of foreign currency in the short term. The investments that constitute the Liquidity Tranche, per institution, to December 31<sup>st</sup>, 2005, are shown below:



TABLE 4

**BANCO DE GUATEMALA**  
**INTERNATIONAL MONETARY RESERVES**  
**INVESTMENTS OF THE LIQUIDITY TRANCHE**  
**TO DECEMBER 31st, 2005**  
(Million of US dollars)

BANKS	AMOUNT
<b>TERM DEPOSITS</b>	<b>10.0</b>
HSBC Bank USA, Panama	5.0
Depfa Bank plc, Dublin	5.0
<b>SIGHT DEPOSITS IN THE FEDERAL RESERVE BANK OF NEW YORK</b>	<b>56.7</b>
<b>TOTAL</b>	<b>66.7</b>

<sup>11</sup> In the following institutions:

Citibank, NA, New York; Banco Internacional de Costa Rica, Miami; Dresdner Bank Lateinamerika, AG, Hamburgo; Banca Commerciale Italiana, Milán; The Bank of New York, New York; Bank of Nova Scotia, Toronto; UBS, AG, Zürich; Société Générale, Paris; Bank of Tokyo Mitsubishi Ltd., Tokyo; Lloyds TSB Bank plc, Londres; and, Wachovia Bank, NA, New York.

On the other hand, the Portfolio tranche is administered by the *Banco de Guatemala* as well as by well-known worldwide financial institutions, specialized in the administration of portfolio, therefore, the Monetary Board has authorized the *Banco de Guatemala* to contract the service of such institutions. Said tranche is constituted by the difference between the amount of the susceptible liquidity reserves if inverted and the amount of the Liquidity tranche. In order to strengthen the management associated with the administration of the international monetary reserves, based on the best practices regarding said matter recognized as international standards, a contract of reserves advisory and management was subscribed with the World Bank, known as “*Reserves Advisory and Management Program*” -RAMP-, which has as main purpose to assist the central banks that participate in the updating and strengthening of their internal capacity to administer the international monetary reserves. In that context, the Treasury of the World Bank and the *Banco de Guatemala* administer part of the funds of the Portfolio tranche. In 2005, the Central Bank, as part of the advisory received through the referred RAMP program, implemented the domestic management of investments under a scheme of liable replication of reference portfolio. The distribution of the funds of the Portfolio tranche to December 31<sup>st</sup>, 2005 is shown below:

TABLE 5

**BANCO DE GUATEMALA**  
**INTERNATIONAL MONETARY RESERVES**  
**PORTFOLIO TRANCHE**  
**TO DECEMBER 31, 2005**  
(Million of US dollars)

ADMINISTRATOR	AMOUNT
UBS Global Asset Management (Americas) Inc.	991.5
Merrill Lynch Investment Managers	231.9
Allianz Global Investors Advisory GmbH	885.7
JP Morgan Asset Management (UK) Ltd.	655.9
World Bank (RAMP)	507.8
<i>Banco de Guatemala</i> (RAMP)	303.6
<b>TOTAL</b>	<b>3,576.4</b>

The funds that constitute the Portfolio tranche are under the custody of the State Street Bank and Trust Company, entity that was contracted at the beginning of 2005 to render technical services of global custody to the *Banco de Guatemala*.

According to clause e) of article 4 of the Organic Law of the *Banco de Guatemala* and the referred investment policy of the international monetary reserves, the General Direction of the institution, during 2005, invested the international monetary reserves of the *Banco de Guatemala* in repurchase agreements; in deposits immediately demandable and term deposits in international financial institutions and in first-order foreign banks; gold deposits in entities specialized in this type of investments; in bills, notes and treasury bonds; in securities issued or guaranteed by international organizations, financial institutions or foreign governments of recognized solvency; in securities issued by governmental agencies with superb guarantee; and, in other long-term instruments.

Regarding the liquidity and security of the investments, both criteria are evidenced in the qualification of the instruments in which the international monetary reserves of the *Banco de Guatemala* are invested. For that reason, for the short-term securities the qualifications allowed are the ones no lower than A -1, of Standard & Poor's; and, P-1 de Moody's Investors Service; while the qualifications

allowed for the long-term securities are those not lower than AA-, of Standard & Poor's; and, Aa3, of Moody's Investors Services.

With regard to the average net profitability of the international monetary reserves investment, considering the market value of the investment portfolio of the *Banco de Guatemala* abroad, during 2005 was of 3.12% annually for the Liquidity Tranche and of 2.81% annually for the Portfolio tranche.

The following table shows the average amount invested monthly and the profitability obtained in the Liquidity Tranche during 2005.

TABLE 6  
**BANCO DE GUATEMALA**  
**INTERNATIONAL MONETARY RESERVES**  
**YIELD OF THE LIQUIDITY TRANCHE**  
**YEAR 2005**  
(Thousand of US dollars)

<b>MONTH</b>	<b>INVERTED AVERAGE AMOUNT</b>	<b>YIELD AMOUNT</b>	<b>ANNUAL YIELD RATE</b>
January	795,341.2	1,485.3	2.17%
February	389,552.3	727.1	2.40%
March	479,013.1	1,050.6	2.55%
April	560,807.8	1,261.5	2.70%
May	344,466.0	862.5	2.91%
June	318,883.6	787.1	2.96%
July	189,107.7	512.7	3.15%
August	137,690.0	403.8	3.41%
September	130,659.6	383.3	3.52%
October	96,523.4	304.7	3.67%
November	74,516.8	244.2	3.93%
December	68,416.6	239.8	4.07%

With regard to the Portfolio Tranch, the following table shows the market value of the investment portfolios at the end of each month, as well as the net profitability obtained during 2005.

5The referred short-term qualifications define that the capacity of the issuer to fulfill its financial commitment is "Extremely Strong"; in other words, the same correspond to the highest credit quality and with a high repayment capacity from the issuer. On the other hand, the long-term qualifications define that the issuer's capacity to fulfill its financial compromise is "Extremely strong" or "very strong"; in other words, that the same correspond to instruments of the highest credit quality or a very low expectation of investment risk.

TABLE 7

**BANCO DE GUATEMALA**  
**INTERNATIONAL MONETARY RESERVES**  
**NET YIELD OF THE PORTFOLIO TRANCHE**  
**YEAR 2005**

(Thousand of US dollars)

<b>MONTH</b>	<b>AMOUNT <sup>1/</sup></b>	<b>YIELD AMOUNT</b>	<b>ANNUAL YIELD RATE</b>
January	2,610,806.8	3,666.2	1.67%
February	3,012,330.5	3,323.7	1.47%
March	3,018,072.3	5,741.8	2.27%
April	3,026,689.3	8,617.0	3.53%
May	3,335,305.4	8,616.1	3.11%
June	3,342,468.0	7,162.6	2.64%
July	3,548,095.4	5,627.5	1.93%
August	3,559,799.6	11,704.2	3.95%
September	3,565,822.4	6,022.7	2.08%
October	3,573,989.9	8,167.5	2.73%
November	3,585,301.0	11,311.1	3.92%
December	3,598,267.1	12,966.1	4.34%

<sup>1/</sup> Market value of the investment portfolios by the end of each month

To December 31st, 2005 the distribution of the international absolute monetary reserves was the following:

TABLE 8

**BANCO DE GUATEMALA**  
**ABSOLUTE INTERNATIONAL MONETARY RESERVES**  
**AL 31 DE DICIEMBRE DE 2005**  
(Millones de US dólares)

I. Investments of the Liquidity Tranche	66.7
II. Investments of the Portfolio Tranche	3,576.4
III. Operative Reserve <sup>1/</sup>	8.4
IV. Other assets <sup>2/</sup>	131.2
<b>TOTAL</b>	<b>3,782.7</b>

<sup>1/</sup> In the following institutions:

Citibank, NA, New York; Banco Internacional de Costa Rica, Miami; Dresdner Bank, AG, Frankfurt; Banca Commerciale Italiana, Milán; The Bank of New York, New York; Bank of Nova Scotia, Toronto; UBS, AG, Zürich; Société Générale, Paris; Bank of Tokio Mitsubishi Ltd., Tokio; Lloyds TSB Bank plc, Londres; and, Wachovia Bank, NA, New York.

<sup>2/</sup> Mainly includes contributions to international financial organizations, monetary gold, tenencia de derechos especiales de giro, settlement agreements and reciprocal credits and funds of special programs.

### 4.3 Movement of credit letters

To attend the import operations carried out in 2005 by the public sector and by the *Banco de Guatemala*, documentary credits were issue for a total of US\$4.8 million and settlement of US\$6.3 million were carried out. As a result of the indicated operations, by the end of 2005 the balance of the current credit letters was of US\$1.0 million, lower in US\$1.5 million with regard to the one registered on December 31<sup>st</sup>, 2004.

Below the circulation of the credit letters is shown:

TABLE 9  
**BANCO DE GUATEMALA**  
**CIRCULATION OF CREDIT LETTERS**  
**YEAR 2005**

CONCEPT	AMOUNT OF CREDIT LETTERS	MILLION OF US DOLLARS
Current to 12-31-2004	16	2.5
(+) Credit letters issued	16	4.8
(-) Credit letters settled	22	6.3
Current to 12-31-2005	10	1.0

<sup>11</sup> Note of explanation No. 24 of annex 2 to the Balance sheets of the *Banco de Guatemala*, page 71 of this aide-memoire, the contingency derived from the credit letter No. 17232 is commented, with that regard the *Corte de Constitucionalidad* instructed to the Central Bank to return the funds to the *Superintendencia de Administración Tributaria*.

#### 4.4 Issue of drafts and payment orders

During 2005 the *Banco de Guatemala* carried out fund transfers and payments to institutions abroad for an amount of US\$1,741.5 million, higher in US\$202.4 million than the one of the previous year. For that reason, it issue written drafts, as well as payment orders through the SWIFT system<sup>6</sup>. Through said transactions the obligations acquired by the public sector and *Banco de Guatemala*, the foreign currency operations with the banking system and the movement of the international monetary reserves was attended.

TABLE 10  
**BANCO DE GUATEMALA**  
**ISSUE OF DRAFTS AND PAYMENT ORDERS**  
**YEARS 2004 - 2005**

CONCEPT	AMOUNT OF OPERATIONS		ABSOLUTE VARIATION	MILLION OF US DOLLARS		ABSOLUTE VARIATION
	2004	2005		2004	2005	
TOTAL	7,247	7,739	492	1,539.1	1,741.5	202.4
I. Drafts	1,775	1,502	-273	42.7	26.8	-15.9
II. Payment orders	5,472	6,237	765	1,496.4	1,714.7	218.3

<sup>6</sup> Acronyms of the *Society for Worldwide Interbank Financial Telecommunications*, society that provides electronic communication services to financial institutions around the world.

#### 4.5 Participation in the exchange market

The exchange regimen that exists in Guatemala is the flexible exchange rate and the monetary, exchange and credit policy approved by the Monetary Board has been specifying it since 2001. In said regimen, the exchange rate is determined by the interaction between the offer and demand of foreign currency in the economy, which is consistent with a monetary scheme of explicit inflation goals. The *Banco de Guatemala* participates in the exchange market only to moderate the volatility of the exchange rate, without modifying its trend, or to acquire the foreign currency required by the Central Bank, central government and other entities of the public sector in order to cover their obligations in foreign currency.

In 2005 the behavior of the nominal exchange rate registered some periods of volatility; therefore, the *Banco de Guatemala*, according with the lineaments of Monetary, Exchange and Credit policy, participated in the exchange market purchasing foreign currency for US\$466.6 million, through the Foreign Currency Electronic Trading System -SINEDI- [Acronyms in Spanish.], in order to reduce the volatility of said variable.

On the other hand, during 2005, with the authorization of the Monetary Board contained in resolution JM-92-2004 dated August 25<sup>th</sup>, 2004, the *Banco de Guatemala* used the mechanism denominated Private Institutional Foreign Currency System -SPID- [Acronym in Spanish], carried out by the *Bolsa de Valores Nacional, S. A.*, to obtain information related with the foreign currency purchase and sale operations that the institutions that integrate the Foreign Currency Institutional Market carried out among them.

#### 5. Credit portfolio

With regard to the credit operations of the *Banco de Guatemala*, during 2005 the institution did not receive any request with that regard and there were no amortizations registered regarding the advances for financial restructuring granted in previous years. Consequently, the balance of the credit portfolio to December 31<sup>st</sup>, 2005 was of Q457.1 million, which, while deducing the reserve for credit assets assessment of Q165.8 million, was placed in Q291.3 million.

With regard to the contingent credit lines granted by the *Banco de Guatemala* in 2001 to three banking institutions that were administratively intervened in that year<sup>7</sup>, the balance of said funding remained invariable during 2005 (Q1,597.8 million), due that there was no amortization in said credits. It is important to mention that on this portfolio, the Central Bank has a reserve for credit assets assessment equivalent to one hundred percent of its balance.

7 *Banco Empresarial, S. A.*, according with resolution JM-82-2001; *Banco Metropolitano, S. A.*, according with resolution JM-112-2001; and, *Banco Promotor, S. A.*, according with resolution JM-113 -2001. It is important to indicate that these entities are currently subjected to the bankruptcy process in the competent jurisdictional branches.

For that reason, on December 31<sup>st</sup>, the balance of the gross credit portfolio with internal resources of the *Banco de Guatemala* was of Q2,054.9 million, while the net credit portfolio was of Q291.3 million. With that regard, it is important to mention that the difference of Q1,763.6 million registered between both sectors correspond to the total amount of assessment reserves that were constituted on the same date of the referred gross portfolio.

TABLE 11  
**BANCO DE GUATEMALA**  
**BALANCE OF THE CREDIT PORTFOLIO**  
**YEAR 2005**  
(Million of quetzales)

CONCEPT	BALANCE TO 31/12/2004	AMORTIZATIONS DURING 2005	BALANCE TO 31/12/2005
<b>TOTAL GROSS CREDIT PORTFOLIO</b>	<b>2,054.9 <sup>a/</sup></b>	<b>0.0</b>	<b>2,054.9</b>
<b>I. Advances for financial restructuration</b>	<b>457.1</b>	<b>0.0</b>	<b>457.1</b>
Banco Empresarial, S. A.	53.4	0.0	53.4
Banco Metropolitano, S. A.	182.3	0.0	182.3
Banco Promotor, S. A.	221.0	0.0	221.0
Financiera Agro Comercial, S. A.	0.4	0.0	0.4
<b>II. Contingent credit lines</b>	<b>1,597.8</b>	<b>0.0</b>	<b>1,597.8</b>
Banco Empresarial, S. A.	456.8	0.0	456.8
Banco Metropolitano, S. A.	612.9	0.0	612.9
Banco Promotor, S. A.	528.1	0.0	528.1
<b>III. Reserves per asset valuation</b>	<b>1,752.0</b>	<b>0.0</b>	<b>1,763.6</b>
On advances for financial restructuration	154.2	0.0	165.8 <sup>b/</sup>
On contingent credit lines	1,597.8	0.0	1,597.8
<b>TOTAL NET CREDIT PORTFOLIO (I+II-III)</b>	<b>302.9</b>	<b>0.0</b>	<b>291.3</b>

<sup>a/</sup> Due balance

<sup>b/</sup> On November 2nd, 2005 an adjustment of Q11.6 million was carried out to the estimation per valuation, from whichs Q10.0 million correspond to the *Banco Metropolitano, S. A.*, and Q1.6 million to the *Banco Promotor, S. A.*

## 6. Obligations abroad

To December 31<sup>st</sup>, 2005, the balance of the obligations with institutions abroad was reduced in US\$0.5 million; while the pending payment balance of stabilization bonds was reduced in US\$1.5 million; therefore, the balance of the referred obligations of the *Banco de Guatemala* was of US\$0.3 million (US\$2.3 million in 2004). The reduction of said balances is derived from the amortization of obligations with multilateral organizations (US\$0.5 million) and from the accounting regularization of the balances of stabilization bonds (US\$1.5 million), as a result of the prescription of the capital payment obligation and non-collected interests,



according with the regulations for the issue, placement and amortization of stabilization bonds.

TABLE 12  
**BANCO DE GUATEMALA**  
**OBLIGATIONS ABROAD**  
**YEARS 2004 - 2005**  
(Million of US dollars)

CONCEPT	2004	2005	VARIATION	
			ABSOLUTE	RELATIVE
<b>TOTAL</b>	<b>2.3</b>	<b>0.3</b>	<b>-2.0</b>	<b>-87.0</b>
<b>I. Obligations abroad</b>	<b>0.8</b>	<b>0.3</b>	<b>-0.5</b>	<b>-62.5</b>
Multilateral organizations	0.8	0.3 <sup>a/</sup>	-0.5	-62.5
<b>II. Issue of bonds</b>	<b>1.5</b>	<b>0.0</b>	<b>-1.5</b>	<b>-100.0</b>
Stabilization bonds	1.5	0.0 <sup>b/</sup>	-1.5	-100.0

<sup>a/</sup> Term deposit constituted by the *Fondo Centroamericano de Estabilización Monetaria -FOCEM-*.

<sup>b/</sup> In December 2005 this balance was regularized due to the prescription of the obligation of capital payment and non-collected interests

## 7. Deposits of the non-financial public sector

The deposits of the non-financial public sector in the *Banco de Guatemala* are integrated by the resources that the central government and the rest of the public sector maintain in the Central Bank. In this context, to December 31<sup>st</sup>, 2005, the total of deposits that the central government has in the *Banco de Guatemala* was of Q7,130.8 million, lower in Q1,083.8 million (13.2%) regarding the amount registered on the same date of 2004. It is important to indicate that, according with the *Ministerio de Finanzas Públicas*<sup>8</sup>, said reduction was mainly due to the higher expenditure to finance the Rehabilitation and Reconstruction Program originated by the tropical storm Stan of Q978.3 million. In effect, Q428.3 million were used to assist the emergency derived from said climatic phenomenon, between October and December of 2005.

With the remaining Q550.0 million, in December of said year, the provision of funds to finance the referred program was carried out through the establishment of a trust in the banking system. Regarding the deposits rate of the rest of the non-financial public sector in the *Banco de Guatemala*, to December 31<sup>st</sup>, 2005, it was placed in Q228.9 million, higher in Q59.0 million (34.7%) than the one registered to December 31<sup>st</sup>, 2004. Said variation is mainly explained by the increase of the deposits of the *Instituto Guatemalteco de Seguridad Social*, which increased from Q4.4 million in 2004 to Q65.3 million in 2005.

<sup>8</sup> *Ministerio de Finanzas Públicas*, Aide-memoire year 2005.

Derived from the above, the deposits of the non-financial public sector in the *Banco de Guatemala*, by the end of 2005, were of Q7,359.7 million, lower in Q1,024.8 million (12.2%) regarding the balance registered in 2004.

TABLE 13

**DEPOSITS OF THE NON-FINANCIAL PUBLIC SECTOR IN THE *BANCO DE GUATEMALA***  
**YEARS 2004 - 2005**  
(Million of *quetzales* )

CONCEPT	2004	2005	VARIATION	
			ABSOLUTE	RELATIVE
<b>DEPOSITS OF THE NON-FINANCIAL PUBLIC SECTOR</b>	<b><u>8,384.5</u></b>	<b><u>7,359.7</u></b>	<b><u>-1,024.8</u></b>	<b><u>-12.2</u></b>
<b>I. Central Government</b>	<b>8,214.6</b>	<b>7,130.8</b>	<b>-1,083.8</b>	<b>-13.2</b>
<b>II. Rest of the Public Sector</b>	<b>169.9</b>	<b>228.9</b>	<b>59.0</b>	<b>34.7</b>

## 8. Financial agent of the State

During 2005 the *Banco de Guatemala*, according with article 53 of its organic law, carried out several operations that are under its responsibility as financial agent of the State, which are described below:

### 8.1 Operations with Treasury bonds

To December 31<sup>st</sup>, 2005, according with the order accounts of the accounting registries of the *Banco de Guatemala*, the balance of the Treasury bonds in circulation expressed in *quetzales* was of Q10,422.6 million. Said balance is higher in Q4,534.5 million (77.0%) than the one registered on December 31<sup>st</sup>, 2004, as net result of the placements through the bid and auction mechanisms of Q4,316.0 million, delivery to the *Banco de Guatemala* of Q963.7 million of treasury bonds to cover its net deficiency that corresponds to the fiscal year 2003 and amortizations of Q745.2 million.

On the other hand, the balance of the treasury bonds expressed in dollars of the United States of America, to December 31<sup>st</sup>, 2005, was of US\$1,876.9 million, lower in US\$120.8 million than the one registered on the same date of the previous year, as a result of the amortizations carried out during 2005.

TABLE 14

**OPERATIONS WITH TREASURY BONDS**  
**YEARS 2004 - 2005**  
(Million)

CONCEPT	2004	2005		VARIATION	
	BALANCE	NEGOTIATED	AMORTIZED	BALANCE	ABSOLUTE RELATIVE
<b>I. TREASURY BONDS IN QUETZALES</b>	<b>5,888.1</b>	<b>5,279.7</b>	<b>745.2</b>	<b>10,422.6</b>	<b>4,534.5 77.0</b>
Of the Republic of Guatemala	5,888.1	5,279.7 <sup>4/</sup>	745.2	10,422.6	4,534.5 77.0
<b>II. TREASURY BONDS IN US DOLLARS</b>	<b>1,997.7</b>	<b>0.0</b>	<b>120.8</b>	<b>1,876.9</b>	<b>-120.8 -6.0</b>
Fiscal Year 1997	194.0	0.0	0.0	194.0	0.0 0.0
Fiscal Year 1998	37.5	0.0	0.0	37.5	0.0 0.0
Fiscal Year 1999	3.7	0.0	3.7	0.0	-3.7 -100.0
Of the Republic of Guatemala	1,102.6	0.0	75.2	1,027.4	-75.2 -6.8
Of the Republic of Guatemala - Peace Bonds	659.3	0.0	41.9	618.0	-41.9 -6.3

<sup>4/</sup>Includes Q963.7 million of treasury bonds delivered to the *Banco de Guatemala* to cover the net deficiency of the fiscal year 2003.

## 8.2 Administration of amortization funds

The amortization funds constituted by the public sector to assist the service of the bonded debt of the central government and municipalities, to December 31<sup>st</sup>, 2005, were of Q604.9 million, from which Q604.8 million correspond to the central government and Q0.1 million to the Municipalities of Guatemala and Quetzaltenango.

It is important to indicate that the balance of the amortization fund of the central government, to December 31<sup>st</sup>, 2004 and the supply carried out in 2005 allow attending opportunely the service of the bonded debt.

TABLE 15  
**BANCO DE GUATEMALA**  
**AMORTIZATION FUNDS OF THE BONDED DEBT**  
**OF THE CENTRAL GOVERNMENT AND MUNICIPALITIES**  
**YEAR 2005**  
(Million of *quetzales* )

CONCEPT	TOTAL	FUNDS	
		CENTRAL GOVERNMENT	MUNICIPALITIES
Balance to December 31st, 2004	237.5	237.4	0.1
(+) Provisioning	4,224.4	4,224.4	0.0
(-) Payments	<u>3,857.0</u>	<u>3,857.0</u>	<u>0.0</u>
Capital	1,694.7	1,694.7	0.0
Interests and services	2,162.3	2,162.3	0.0
Balance to December 31st, 2005	604.9	604.8	0.1

### 8.3 Trusts and guarantee funds under administration

The State, by means of the *Ministerio de Finanzas Públicas*, has constituted trusts and created guarantee funds, the resources of which are administered by the Central Bank. Said trusts and funds have as objective to promote activities that, within the governmental policies, have been considered important for the economic and social development of the country.

To December 31<sup>st</sup>, 2005, the balance of the trusted estate of the referred trusts and guarantee funds under administration was of Q733.6 million, higher in Q73.2 million than the one registered the previous year (Q660.4 million). Said increase is mainly due to the movement registered in the trusts: "Trust of the National Fund for Peace", "Global Credit Program for the Micro and Small company" and "Improvement of the Small Coffee producer".

TABLE 16  
**BANCO DE GUATEMALA**  
**TRUSTS AND GUARANTEE FUNDS UNDER ADMINISTRATION**  
**TO DECEMBER 31st, 2004 AND 2005**  
(Million of *quetzales*)

CONCEPT	BALANCE		ABSOLUTE VARIATION	PERCENTAGE STRUCTURE 2005
	2004	2005		
<b>TOTAL</b>	<b>660.4</b>	<b>733.6</b>	<b>73.2</b>	<b>100.0</b>
<b>I. TRUSTS</b>	<b>660.4</b>	<b>733.6</b>	<b>73.2</b>	<b>100.0</b>
Trust of the National Peace Fund	490.9	560.7	69.8	76.5
Improvement of the small coffee producer	77.1	77.3	0.2	10.5
Administration trust of the <i>Fondo Nacional de Ciencia y Tecnología -FONACYT-</i>	0.5	0.0	-0.5	0.0
Specific Reconstruction Extraordinary Fund	10.4	10.4	0.0	1.4
Peace Community Development Program -DECOPAZ-	0.0	0.0	0.0	0.0
Global Program of Credit for the Micro and small Company	81.5	85.2	3.7	11.6
<b>II. GUARANTEE FUNDS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Housing Guarantee Fund	0.0 <sup>“</sup>	0.0 <sup>“</sup>	0.0	0.0
<b>III. OTHER FUNDS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Fund for the Reactivation of the Industrial Sector	0.0 <sup>“</sup>	0.0 <sup>“</sup>	0.0	0.0

<sup>“</sup> The balance is of Q33.8 thousand

<sup>“</sup> The balance is of Q32.3 thousand

## 9. Fund for the Savings protection

The fund for the savings protection regulated in decree number 19-2002 of the Congress of the Republic, Law of Banks and Financial Groups, was created in order to guarantee the recovery of the client's deposits in the banking system up to Q20.0 thousands or its equivalent in foreign currency, per individual or legal person. The resources of this fund are administered by the *Banco de Guatemala* and its regulatory decisions were approved by the Monetary Board in resolution JM-187-2002 dated June 1<sup>st</sup>, 2002.

According with the foreseen in article 86 of the Law of Banks and Financial Groups, the financing sources of the Fund for Savings Protection are the following:

- a) The quotas that the national banks and branches of foreign banks must pay, according with article 88 of the referred law;
- b) The yields of the investments of their resources, fines and interests;
- c) The cash that is obtained from the settlement process of the corresponding bank, with regard to the subrogation of rights referred in article 91 of the same law;

- d) The cash obtained from the sale of assets adjudicated to said fund, regarding the settlement process of the corresponding bank, with regard to the subrogation of rights referred in article 91;
- e) The contribution of the State to cover deficiencies of the Fund or to enlarge its coverage; and,
- f) Other sources that increase its resources.

The resources of the Fund for Savings Protection are not subjected to seizure; they are not reimbursable and can only be applied for the finalities foreseen in the Law of Banks and Financial Groups.

The estate of the Fund for Savings Protection, to December 31<sup>st</sup>, 2005 (Annex 1), was of Q1,520.1 million, higher in Q141.8 million than the observed the previous year (Q1,378.3 million). The balance of said estate is constituted by Q173.2 million that correspond to formation quotas provided by the system's banks; Q568.2 million of contributions in cash from the State; Q540.2 million of contributions of the State in Peace bonds; Q31.4 million derived from the Fund of Savings Protection contained in Decree number 4-2002 of the Congress of the Republic; Q232.6 million that correspond to the results to be applied; and, because of the reduction of Q25.5 million due to the variation in the account of exchange differentials.

## **10. Trustee Fund of the Banking Capitalization**

The Trustee Fund of Banking Capitalization -FCB- [Acronym in Spanish.] was created through decree number 74-2002 of the Congress of the Republic of Guatemala, in order to financially support the sanitation and strengthening process of the national banking system within the context of banking fusion, acquisition of assets and asset and liability exclusion process, carried out based on the Law of Banks and Financial Groups.

According with the referred decree, the resources of the FCB are administered through a trust constituted in the *Banco de Guatemala*, which acts as trustee of the same. The trustor is the state of Guatemala through the *Ministerio de Finanzas Públicas*, figuring as trustees the banks that are interested and that are eligible for the financing and the State of Guatemala. The superior branch of the trust is the Technical Committee integrated by two representatives of the *Ministerio de Finanzas Públicas* and two representatives of the Central Bank, which has as part of its attributions to issue the regulatory decisions for its operation, as well as the trusts, which were approved in the Ministerial Agreement number 51-2004 of the *Ministerio de Finanzas Públicas* dated September 24<sup>th</sup>, 2004. In said agreement the following normative was approved:

- a) Regulations of the Technical Committee of the Trust Fund for Banking Capitalization;
- b) Regulations of Banks Eligibility to be funded by the Trust Fund for Banking Capitalization;
- c) Regulations of Financial Assistance to the System's Banks;
- d) Regulations for the sale of Assets of the Trust Fund for Banking Capitalization; and,
- e) Investment policy of resources of the Trust Fund for Banking Capitalization.

The FCB was capitalized on December 3<sup>rd</sup>, 2004 for an amount of Q193.5 million, equivalent to US\$25.0 million, derived from the second disbursement of the BIRF-7130-GU loan, granted to the Government of the Republic by the International Bank for Reconstruction and Development<sup>9</sup>. The estate of the FCB to December 31<sup>st</sup>, 2005 was of Q205.0 million, higher in Q1.0 million than the one registered the previous year (Q204.0 million). The balance of said estate is constituted by Q193.5 million that corresponds to the contribution of the state and Q11.5 million that corresponds to the accumulated results.

## **11. Payment system**

### **11.1 Modernization of the payment system**

The *Banco de Guatemala*, based on the Matrix of the Modernization of the Payment System, approved in resolution JM-140-2004, which contains the strengthening of the normative framework of the payment system, the implementation of a modern payment system and the institutional cooperation for the modernization of the payment systems; in order to continue in the modernization process of the national payment system, during 2005 it oriented its actions, on one hand, to the contracting of a private entity for the administration of the Banking Clearing House and, on the other hand, to the development of the Real Time Gross Settlement System, actions that, in general terms, are summarized below.

#### **11.1.1 Banking Clearing House**

Article 70 of the Organic Law of the *Banco de Guatemala* stipulates that the banking cash, as well as the funds deposited by the system's banks in the Central Bank, will serve as a base for the checks clearing system through a clearing house. The Regulation of the Banking Clearing House was approved by the Monetary Board in resolution JM-51-2003 dated April 23<sup>rd</sup>, 2003. Said clearing house has as objective to daily clear the checks received from each bank of the system in charge of the others.

9 The first disbursement (US\$48.5 million) and 50% of the second disbursement were destined to capitalize the Fund for the Savings Protection.

On August 1<sup>st</sup>, 2005, the General Director of the *Banco de Guatemala*, through resolution GG-01-2005, approved the Normative Instrument of the Main Clearer for the operations of the Banking Clearing House; the Manual of Norms and Procedures of the General Clearing Process per pictures; and, the General Contingency Strategies.

On August 12<sup>th</sup>, 2005, the *Banco de Guatemala*, according with the Regulation of the Banking Clearing House, gave the administration of the Banking Clearing House to the Banking Association of Guatemala -ABG-[Acronym in Spanish.]. Said association contracted the entity denominated *Imágenes Computarizadas de Guatemala, Sociedad Anónima, -ICG-*, designated as the Main Clearer, which is responsible of carrying out the checks clearing process electronically and of establishing the net multilateral result of said process for settlement in the cash accounts that the participating banks have in the *Banco de Guatemala*.

During 2005, the total of checks in national currency received for clearing was of 29.6 million for an amount of Q423,181.1 million, higher in Q17,632.2 million than the ones received in 2004. From the total of checks received in the clearing house, from August 16<sup>th</sup> to December 31<sup>st</sup>, 2005, 11.3 million of checks for an amount of Q158,403.6 million were cleared under the administration of ABG.

TABLE 17

**BANCO DE GUATEMALA**  
**OPERATIONS OF THE BANKING CLEARING HOUSE**  
**YEARS 2004 - 2005**  
(Millones)

CONCEPT	2004	2005	ABSOLUTE VARIATION
Cheques received	40.1	29.6	-10.5
Amount in <i>quetzales</i>	405,548.9	423,181.1	17,632.2

On the other hand, during 2005 the total of checks in foreign currency received for clearing was of 0.25 million for a total amount of US\$2,973.5 million, higher in US\$1,493.0 million than the ones received in 2004.

It is important to mention that on August 16<sup>th</sup> to December 31<sup>st</sup>, 2005, 0.1 million of checks were cleared for an amount of US\$1,267.3 million, under the administration of ABG.



TABLE 18

**BANCO DE GUATEMALA**  
**OPERATIONS OF THE BANKING CLEARING HOUSE**  
**YEARS 2004 - 2005**  
(Million)

CONCEPT	2004	2005	ABSOLUTE VARIATION
Checks received	0.20	0.25	0.05
Amount in US dollars	1,480.50	2,973.50	1,493.00

### 11.1.2 Real Time Gross Settlement System –LBTR [Acronym in Spanish.]

The *Banco de Guatemala*, in 2005, continued developing the Real Time Gross Settlement System -LBTR-, through which the system's banks, the financial societies, the stock exchange, the public entities and other economic agents will settle their transactions in a gross way and in real time, in national currency as well as in foreign currency. Within the benefits of said system are, on one hand, the reduction of the operating time for the registry of the operations and the settlement in real time of the payment among the participants, which will allow the immediate availability of the funds and, on the other hand, the strengthening of the security and efficiency in the operations through the use of electronic means and sophisticated mechanisms of security information technology.

The operations that the participants will carry out are the following: transference of funds, payment instructions, payment of investments in security titles issued by the Government of the Republic and Term Deposits constituted in the *Banco de Guatemala*, instructions for money withdrawal, settlement of bilateral and multilateral clearing results, operations on account of the public sector, settlement of operations under the modalities delivery versus payment and payment versus payment, payment of commissions for the services rendered in the system, consults and generation of files, and, preparation and generation of reports and statistical information.

To carry out and settle the mentioned operations, the LBTR system will interact with the internal systems of the *Banco de Guatemala* that affect the monetary deposits accounts constituted in the Central Bank. It also foresees to be connected with the foreign negotiation and clearing systems developed by private companies such as the Electronic Banking Table of Money and the Automated Clearing Houses, administered by ABG, as well as the Electronic System of Foreign Currency Trade and Electronic Settlement System, both administered by the *Bolsa de Valores Nacional, S. A.*, due that said systems carry out high and low

security transactions in the financial system, which currently are settled using checks, payment instructions through codified fax and written payment instructions.

Besides, it is important to mention that the operation of the LBTR system is designed to use two communication networks, one of a local provider (BANCARED) and the other of an international provider (SWIFT).

Finally, the *Banco de Guatemala* subjected to the consideration of the Monetary Board the project of Regulation of the Real Time Gross Settlement System, the objective of which is to regulate the administration and operation of said system, as well as the requisites that should be fulfill by the participants in the same, which was approved in resolution JM-166-2005 dated November 30<sup>th</sup>, 2005.

## **12. Paper money and coins issued and amortized**

According with clause a) of article 4 of its organic law, only the *Banco de Guatemala* can issue money in the national territory. In this context, in 2005 the Central Bank issue paper money and coins for an amount, jointly, of Q3,014.5 million. From said amount, Q2,980.0 million correspond to paper money and Q34.5 million to coins. On the other hand, the Central Bank amortized paper money for Q2,693.1 million and did not amortize coins.

TABLE 19

**BANCO DE GUATEMALA**  
**PAPER MONEY AND COINS**  
**ISSUED AND AMORTIZED**  
**YEAR 2005**  
(Thousand of *quetzales*)

DENOMINATION	ISSUED	AMORTIZED
<b>TOTAL</b>	<b><u>3,014,465.0</u></b>	<b><u>2,693,100.0</u></b>
PAPER MONEY	<u>2,980,000.0</u>	<u>2,693,100.0</u>
1.00	0.0	800.0
0.50	0.0	1,800.0
5.00	190,000.0	227,500.0
10.00	150,000.0	313,000.0
20.00	290,000.0	460,000.0
50.00	450,000.0	725,000.0
100.00	1,900,000.0	965,000.0
COINS	<u>34,465.0</u>	<u>0.0</u>
0.01	115.0	0.0
0.05	1,800.0	0.0
0.10	4,850.0	0.0
0.25	0.0	0.0
0.50	8,900.0	0.0
1.00	18,800.0	0.0

### 13. Contributions of Guatemala to international financial organizations

According with the corresponding international agreements subscribed by the Government of the Republic of Guatemala, the Central Bank, in 2005, made a contribution of US\$0.4 million to the *Corporación Interamericana de Inversiones - CII-*, which corresponds to the payment of the sixth quota of the participation of Guatemala in the First General Increase of Resources of said corporation<sup>10</sup>.

Derived from the above, to December 31<sup>st</sup>, 2005 the balances of the contributions in national and foreign currency to international financial organizations were of Q316.9 million and US\$112.7 million, respectively.

<sup>10</sup> Participation approved by the Monetary Board in resolution JM-442-99 dated September 28<sup>th</sup>, 1999.

## **14. Balance sheets**

### **14.1 General Balance**

To December 31<sup>st</sup>, 2005 the asset of the *Banco de Guatemala* was of Q53,935.6 million, amount integrated by the balance of the following accounts: Investment in Foreign Securities of Q27,169.2 million; Restoration of estate to be collected from the State of Q18,899.0 million; Contributions to International Financial Organizations of Q3,259.3 million; Treasury bonds received to cover the net deficiencies of Q963.7 million; Deposits abroad of Q570.8 million; Monetary gold of Q858.7 million; Domestic credit of Q291.3 million; and, the total of the balances of other asset accounts of Q1,923.6 million. On matters of liability, this was of Q51,331.5 million, integrated by the balance of the following accounts: Titles of the Central Bank of Q17,993.8 million; National currency of Q14,261.9 million; Deposits of the General Government of Q7,876.2 million; Monetary Deposits of Q6,414.0 million; near money liabilities of Q1,124.7 million; obligations with international financial organizations of Q2,644.8 million; and, the total of the balances of other liability accounts of Q1,016.1 million. Consequently, the estate of the institution to that date was of Q2,604.1 million (Annex 2).

It is important to indicate that the Q18,899.0 million registered in the account of Restorations of the estate to be collected from the state, Q16,834.2 million were derived, on one hand, from the cost of monetary, exchange and credit policy in which the Central Bank fell during the 1984-2001 period of Q15,236.4 million originated from the correction of the fiscal misbalances and from the granting of exchange subsidies and, on the other hand, by the registry of estimations for the assessment of credit assets of Q1,597.8 million, generated by the contingent credit lines granted to three banking entities that were object of administrative intervention. On the other hand, the difference of Q2,064.8 million is integrated by Q905.3 million and by Q1,159.5 million that correspond to net deficiencies registered in 2002 and in 2004, respectively.

### **14.2 Results status**

During the period from January 1<sup>st</sup> to December 31<sup>st</sup>, 2005, the Results Status of the *Banco de Guatemala* shows that the sector of financial products was of Q883.5 million, while the financial expenditures were of Q201.0 million; therefore, the financial result was of Q682.5 million. While deducing from this amount Q303.0 million that correspond to administrative expenses, a positive result in operation of Q379.5 million was shown. On the other hand, the rectification of the results of previous fiscal years was of Q69.8 million, the inspection quota of the *Superintendencia de Bancos* of Q83.9 million and the cost of monetary, exchange and credit policy of Q959.2 million; therefore, the *Banco de Guatemala* obtained at the end of the referred fiscal year a net deficiency of Q593.8 million.

## **CHAPTER III**

### **TRANSPARENCY AND RENDERING OF ACCOUNTS**

Meetings Room of the Monetary Board

## 1. Transparency and rendering of accounts

### 1.1 Appearance of the President of the *Banco de Guatemala* before the Congress of the Republic

In fulfillment of the stipulated in article 60 of the Organic Law of the *Banco de Guatemala*, in January and July, 2005, the President of the institution appear before the Congress of the Republic: in January, to render a detailed report regarding the acts and policies of the Central Bank in 2004, as well as to explain the objectives and policies foreseen for 2005; and, in July, to render account regarding the execution of the monetary, exchange and credit policy in the current fiscal year.

### 1.2 Publication of information

The main reports and publications of the *Banco de Guatemala* during 2005 were the following:

INFORM OR PUBLICATION	MONTH OF PUBLICATION
Detailed report of the execution of the Monetary Board regarding the issue of resolution JM-160-2004, in which determined the Monetary, Exchange and Credit policy for 2005.	January
Incomes and Expenditures Budget of the <i>Banco de Guatemala</i> that correspond to 2005	January
Reports of monetary, exchange and credit policy, which contains explanations of the operations carried out to reach the fundamental objective of the Central Bank <ul style="list-style-type: none"><li>• Report to March</li><li>• Report to June</li></ul>	April July
Aide-memoire of the <i>Banco de Guatemala</i> 2004	March
Study of the National Economy 2004	May
Balance sheets in an analytical way to December 31 <sup>st</sup> , 2004, verified by an independent auditor	May
Position of the reserve assets and liabilities and compromises in foreign currency	May
Detailed summary of the actions carried out by the Monetary Board in order to know the Report of Monetary Policy to June, 2005	August
Evaluation of the execution of the monetary, exchange and credit policy to November 2005	December
Proposal of monetary, exchange and credit policy for 2006. December	December

Monetary, exchange and credit policy for 2006 determined by the Monetary Board	December
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OTHER REPORTS AND PUBLICATIONS	FREQUENCY
Reports regarding International Monetary Reserves	Quarterly
Statistics and macroeconomic indicators of the real, foreign, monetary, financial and fiscal sectors of the economy	Daily, weekly and monthly
Deeds of the Execution Committee	Weekly
Press conferences regarding the execution of the monetary, exchange and credit policy	Monthly
General Balance	Monthly
Reports of the operations of the <i>Banco de Guatemala</i> regarding the banks intervened administratively	Frequent
Resolutions of the Monetary Board of general observance for the entities supervised and inspected by the <i>Superintendencia de Bancos</i> and that affect thirds	Frequent

## 2. Communication strategy

The *Banco de Guatemala*, in its Institutional Strategic Plan, continued with the Communication Strategy in order to facilitate the development, transfer and use of information, carrying out full acknowledgment of the importance or role that it has in the design and management framework of the monetary, exchange and credit policy.

Based on the referred strategy, the following programs were implemented:

PROGRAM	OBJECTIVE	MAIN ACTIONS
Macroeconomic signs	To orient the economic agents to make decisions	Press releases, bulletins and press conferences
Trend monitoring	To follow up the trends of public opinion that might affect the development of the policies and actions of the Central Bank, as well as its image.	Permanent review and synthesis of the information spread through the media
Direct Marketing	To propitiate the approach of the Central Bank with important audiences to its management.	Dialogues, interviews, informative meetings and participation in forums.
Formation and promotion	To promote and strength the knowledge of the population in economic	<i>Revista Banca Central</i> , Monetary notes, booklets of the <i>Banguat</i> , Books of

	matters, as well as to create a clear understanding of the work of the Central Bank	Economic Formation and thematic publications.
Information/Communication	To provide clear and adequate information that support the mission of the institution.	Information about macroeconomic variables through internet and other media.
Prevention and Crisis administration	To orient the communicational actions before unexpected events that the Central Bank might face.	Contingence plans.
Image and Institutional Identity	To develop activities oriented to promote the exchange of experiences, the strengthening of the institution's values and the general knowledge of the bank.	Net of libraries and academic libraries



## **CHAPTER IV**

### **OTHER ACTIVITIES OF THE CENTRAL BANK**

Meetings room of the Central Library of the *Banco de Guatemala*.

## OTHER ACTIVITIES OF THE CENTRAL BANK

### 1. Participation in international meetings regarding monetary aspects

The *Banco de Guatemala* participated in April 2005 in the spring meetings and in September of the same year, jointly with the International Monetary Fund -IMF- and World Bank -WB-. Among the main topics that were discussed are the behavior of the world economy and international financial markets, their risks and economic policy responses, the redefinition of the IMF strategic management and the support to the efforts that the low-income member countries are carrying out to reduce poverty, the assistance to reach the objectives of the millennium's development, the strengthening of the state of right and the combat of the corruption.

The President of the Central Bank, as Alternate Governor of the Inter-American Development Bank -IDB-, participated in the annual meeting of the bank's governors, celebrated in April 2005. Among the topics discussed, the migrations and remittances in matters of globalization were mainly included; the strengthening of links and inter-regional cooperation between Latin America and Asia, in matters of the world economy; the exchange of the best practices among Asia, Latin America and the Caribbean to reach the objectives of the millennium's development; and, the dedollarization<sup>11</sup> strategies and debt markets in national currency in the emerging economies.

At a regional rate, in February, June, September and November 2005, the *Banco de Guatemala* participated in meetings of the Central American Monetary Council -CAMC-, in which, among other topics, the following were discussed: liquidity projections and monetary operations; Model Law of Payment Systems and Security Settlement of Central America and Dominican Republic; and, review of the standards for the harmonization of the public debt markets and of the monetary and financial statistics of the region.

The *Banco de Guatemala* participated in April and September 2005 in meetings of the Governmental Board of the Center for Latin American Monetary Studies- CEMLA- [Acronym in Spanish.], of the Governors of the Central Banks of the American Continent and Governors of the Central Banks of Latin America and Spain. In said meetings the following topics were discussed: exchange rate and objective inflation, public debt and macroeconomic vulnerability, flow of family remittances towards the region, mitigation of the debt and conditionality, and assistance of the IMF in case of crises.

<sup>11</sup> Understood as the major use of domestic currency regarding the dollar of the United States of America.

Besides, in April and September of 2005, the *Banco de Guatemala* participated in the meetings of the Intergovernmental Group of the Forty-four for International Monetary Issues and Development -G-24-. The topics that were mainly discussed in said meetings are the perspectives of the world economy and countries in transition, as well as the support to low-income countries that are fighting against poverty.

## **2. Statistical improvement**

In the framework of the statistical strengthening process that trend to the adoption of the Fourth Manual of the United Nations National Accounts (System of National Accounts 1993 -SCN93-) and to the selection of a recent base year, in 2005 the National Program for Improving Economic Statistics -PRONAME- continued, which was developed jointly by the *Banco de Guatemala* and the *Instituto Nacional de Estadística -INE-*, which foresees the execution of specific programs that include the economic surveys and updating of the DINEL National Directory of Businesses and Locations. On the other hand, advances were carried out in the implementation processes of the Fifth Manual of the IMF Payment Balance and Manual of the Monetary and Financial Statistics. Besides, the implementation process of the Systems of Quarterly National Accounts.

### **2.1 Economic Surveys**

In order to obtain economic-accounting information per branch of economic activity and per institutional sector of the variables that constitute the accounts foreseen by the SCN93, in 2005 the Third Continuous Economic Survey was carried out to compile information that corresponds to 2004. For that reason, according with the corresponding sample analysis, 1,335 companies that integrate the DINEL were interviewed.

### **2.2 Updating of the DINEL**

The updating of information of companies located in the urban area of the municipalities of Guatemala and *Quetzaltenango* and three municipalities of *Totonicapán*, interviewing for the effect a total of 48,903 companies located in 757 cartographic sectors<sup>12</sup>.

### **2.3 Advances in the implementation of the System of National Accounts 1993 -SCN93-**

Based on the information obtained from the First Continuous Economic Survey and Second Continuous Economic Survey, in 2005, with preliminary character for 2002 and 2003, the following were prepared: a) to current prices, the production accounts and generation of income for 143 activities included in the

<sup>12</sup> It is the geographical working area assigned to an interviewer for research.

Nomenclature of Economic Activities of Guatemala -NAEG- [Acronym in Spanish.]; the sheets of equilibrium of offer and use for 226 products; the Table of Offer and Use; and, the economic accounts integrated by institutional sectors and sub-sectors, according with the Nomenclature of the Country's Institutional Sectors - NSI- [Acronym in Spanish.]; and, b) to constant prices, the corresponding production accounts and generation of income for the mentioned 143 economic activities and corresponding table of Offer and Use.

## **2.4 Advances in the implementation of the Fifth Manual of the IMF Payment Balance**

The *Banco de Guatemala*, regarding the statistical treatment of the foreign sector, is in the phase of implementing the Fifth Manual of the Payment Balance. In that sense, during 2005 two concrete actions were carried out. First, between June and September of the mentioned year, the Central Bank implemented a program of business and institutional surveys in order to compile economic and financial information that corresponds to 2004<sup>13</sup> of: companies of direct foreign investment; foreign and national companies of international transport; institutions that receive donations abroad; international organizations located in Guatemala; and, companies of other services. Second, a process for the adaptation of the exchange statistics registry was started; therefore, a proposal was prepared for the modification of the forms of statistical registry of income and expenditure of foreign currency and Daily Circulation of Foreign Currency; so that, the content of the same is congruent with the Fifth Manual of Payment Balance.

## **2.5 Advances in the implementation of the Manual of Monetary and Financial Statistics**

In 2005, the implementation of the Manual of Monetary and Financial Statistics -MEMF- [Acronym in Spanish.], edition 2000 of the IMF<sup>14</sup> was continued; the methodological framework of this manual incorporates the best international practices in matters of compilation and publication of the monetary statistics from the central banks.

In that sense, the *Banco de Guatemala* enlarges the coverage of the monetary and financial statistics, according with the regulations of said manual, while including other financial intermediates that are different from the system's banks and financial societies, from which the following can be mentioned: off shore entities, insuring companies, bonded warehouses and entities of credit cards. Besides, since October of said year, the savings and credit cooperatives started to provide information, which was adequately incorporated to the monetary and financial statistics.

13 According with the corresponding sample analysis, 847 companies that carried out transactions abroad were surveyed.

14 The manual considers, among other aspects, that the monetary statistics of a country should fulfill two basic requirements. Firstly, that the same identify the sector that acts in the financial intermediation (bidders and demanders of the resources), which is denominated in said manual as "sectioning". The second requirement is related with the fact that the monetary statistics should include, in its compilation, all the agents that directly or indirectly participate in the financial intermediation process, which in the manual's terms is denominated as "coverage".

## **2.6 Implementation of the Quarterly National Accounts**

As part of the improvement process of the national economic statistics and within the conceptual framework of the SCN93, in October 2005 the implementation of the System of Quarterly National Accounts was started, the objective of which is to develop an accounts system that allows counting on a short-term indicator consistent with the annual accounts base 2001, that contributes to follow up the monetary, exchange and credit policy and that at the same time becomes an additional instrument for the public and private economic agents to make adequate decisions.

## **2.7 Survey of Inflation Expectations of the Private Analysts Panel–EEI**

In the Monetary, Exchange and Credit Policy for 2005, the inflation prognosis derived from the Survey of Inflation Expectations of the Private Analysts Panel<sup>15</sup> was included as indicative variable. In that sense, during that year said survey was carried out monthly in order to know the opinion of the national and international analysts, experts in the operative procedures of the monetary policy regarding the expected evolution of the prices in the economy. In said survey, it was also obtained the opinion of the mentioned panel regarding the growth expectations of the Gross Domestic Product -GDP- and the confidence rate in the economic activity.

## **2.8 Survey of Business Opinion –EOE [Acronym in Spanish.]**

Since 1981 the *Banco de Guatemala* carries out a survey to industrial companies every six months in order to evaluate the development of said activity. The EOE obtains qualitative information regarding the variations in the production volume, volume of sales in the domestic and foreign market, stock of finalized products, price of the national and imported raw materials, salaries, investment in machinery, occupation rate and use of the installed capacity.

In the mentioned context, in 2005 two surveys of business opinion were carried out addressed to about 400 industrial institutions located in the territorial division of Guatemala<sup>16</sup>. The first survey was carried out in February and March, evaluating the development of the industrial activity in 2004 and the expectations for the first semester of 2005. The second survey was carried out between August and September, evaluating the development of the industrial activity during the first semester and the expectations for the second semester.

## **2.9 Integrated System of Statistical Information**

In the Institutional Strategic Plan 2003-2007, the project for the creation of the Integrated System of Statistical Information of the *Banco de Guatemala* was

15 The inflation expectations are defined as the perception of the economic agents regarding the future behavior of the prices in the economy.

16 The statistical framework of the survey is constituted by the DINEL, prepared by the *Banco de Guatemala* and *INE*, between July 2000 and June 2001.

approved to implement a single base of economic and financial data, so that the Central Bank uses it to achieve its fundamental goal, to support the follow up of the monetary, exchange and credit policy, and, to promote in an adequate and transparent manner said information. The project for the creation of said base consists of three phases; the first one was completed in 2005, which consisted in the establishment of the rates of responsibility regarding the management of the information in the implementation of data update mechanisms and in the design of a program of statistical information management.

### **3. System of Prognosis and Analysis of the Monetary Policy**

Since March 2005, with the advise of the IMF regarding the Explicit Inflation Goals, and as part of the series of operative reforms that the *Banco de Guatemala* is carrying out in the transition period of the monetary policy towards that scheme, the implementation of the System of Prognosis and Analysis of the Monetary Policy -SPAPM- was started, which consists of a group of technical tools<sup>17</sup> used to prepare the prognosis of the economic variables that are relevant for the Central Bank, mainly inflation and economic growth prognosis, in order to support the decisions of the monetary policy.

### **4. Academic events**

The *Banco de Guatemala* carried out academic activities related with economic topics, linked with the monetary, exchange and credit policy, highlighting the following:

#### **4.1 “Doctor Manuel Noriega Morales” contest**

The *Banco de Guatemala*, since 1989, has been promoting the Permanent Research Contest about Topics of Interest for the Central Bank, “*Doctor Manuel Noriega Morales*”, which has as purpose to stimulate and foment the scientific research in areas of interest for the central bank, related with its competence, particularly in the monetary, exchange, credit, banking, administrative and legal fields.

According with the bases of the contest, the Central Bank grants awards to the first three places. In that sense, in 2005 the first place corresponded to the study denominated “*Determiners of the Corporative Debt in Foreign Currency: the Latin American case*”, presented by the economist Andrián Leandro Gastón, Argentinean; the second place was adjudicated to the study denominated “*Long-term Financial Intermediation and Economic Growth: considerations regarding the experience in the financial development of Guatemala since 1990*”, presented by the Guatemalan economist Carlos Gerardo Acevedo Flores; and, the third place,

17 Econometric models, relevant information derived from expert analysts, economic indicators and data base, among other tools.

was adjudicated to the study denominated “*¿Who should act as last instance lender? The bio-monetary case,*” by the economist Jorge Ponce, Uruguayan. On the other hand, considering not only the quality but also the scientific merit of the researches, the members of the rating jury<sup>18</sup> agreed to grant said honorable mention to two researches: first, the denominated “*Intervention of the Banco de Guatemala and the volatility of the exchange rate*”, by the Guatemalan economist William Fernando Vásquez Mazariegos and, the second, denominated “*Convertibility and last instance lender: the experience of Argentina in the 90’s*”, presented by the economists Ernesto Buchieri and Santiago Gastaldi, both Argentinean.

Besides, said jury decided to publish the study denominated “*Estimation of additional liquidity requirements in the banking entities to confront events of extraordinary withdrawals*”, presented by Kléber Rolando Mejía Caguasango and Katia Paulina Garzón Alvear, mathematician and economist, respectively, both Ecuadorian.

## **4.2 Economic Periods**

The *Banco de Guatemala* organizes, since 1992, cycles of economic periods, which have as objective to analyze and discuss current economical and financial topics of interest for the country and for the central bank. This event is specially addressed to researchers, professionals and professors involved in economical and financial areas. Due to expressed invitation of the *Banco de Guatemala*, said event counted with the participation of eminent international professors, officers of international organizations, public officers and officers of the financial sector, who developed important conferences regarding topics of worldwide interest, besides of sharing their experiences in the economic and financial fields, contributing in this way to increase the pile of experiences and knowledge of professionals, students and interested people that participate in said event.

With that regard, on June 23<sup>rd</sup> and 24<sup>th</sup>, 2005 the XIV Cycle of Economic Periods<sup>19</sup> was held, with conferences about the topic “*The effects of the Globalization: Macroeconomic and financial impacts in countries with small and emerging economies*”. For that reason, the participation of well-known experts and researchers, as JiSheng Zhang, of Allianz Global Investors (*Challenges and Opportunities before an Emerging Economic Potential: the case of the People’s Republic of China*); Rodrigo Vergara, of the *Pontificia Universidad Católica de Chile* (*Productivity and Growth: International patterns and experience of Chile*); Thorsten L. Beck, of the World Bank (*Deposits Insurance and Efficiency in the Banking System*); and, George G. Kaufman, of Loyola University, Chicago (*Reduction of the Systemic Risk in the Banking System*).

18 The rating jury was integrated by Doctor Josefina Martínez de Prera, Economist in the Office of Enterprise, Trade and Environment of the United States Agency for International Development -USAID-; Doctor Renzo Rossini Miñán, General Director of the *Banco Central de Reserva de Perú*; and, Doctor Carlos A. Ibarra Niño, Professor and Chief of the Department of Economy of the *Universidad de las Américas* in Puebla, Mexico.

### 4.3 Higher Degree Program

Since 1989 the *Banco de Guatemala* has been offering the Higher Degree Program, in order to provide a solid academic training on economical and financial topics of interest for the Central Bank, in response to the need of specialization in this kind of topics and to help in the professional development of the *Banco de Guatemala*, of employees of the Latin American central banks and professionals in economic sciences and in other related professions, graduated from the different universities of the country.

In 2005 the following higher degree programs were developed: a) “Mention in Economy and Applied Finances”, from which 12 participants were graduated: 1 from *Banco de Guatemala*, 1 from the *Superintendencia de Bancos* and 10 from the country’s universities; b) “Mention in Updating”, so that the personnel of the institution that have received high-rate training update their knowledge and receive analytical tools of recent development and of high application potential in institutional tasks. From said program, 20 participants were graduated; and, c) “Mention in English Language”, the purpose of which is to improve the knowledge of this language from the institution’s personnel. During the referred year, 2 participants graduated from this program.

### 4.4 Participation of the Research network of the Latin American Central Banks

From October 5<sup>th</sup> to 7<sup>th</sup>, 2005 the X Meeting of the Research Network of the Latin American Central Banks was held in the city of Lima, Peru, organized by the *Centro de Estudios Monetarios Latinoamericanos-CEMLA*- and by the *Banco Central de Reserva del Perú*. Said event has as fundamental objective to provide a link that facilitates the exchange of ideas among researchers of the region’s central banks that are interested in the analysis of topics associated with the macroeconomic, monetary, banking and financial sectors.

The *Banco de Guatemala* participated in said meeting with the research denominated “*Measuring the banking risk in Guatemala: a Focus of Options*”, prepared by Juan Carlos Castañeda Fuentes, Oscar Leonel Herrera Velásquez and Carlos Antonio Alvarado Mendoza, who work in the Department of Economic Research. Besides, it is important to mention the participation of Juan Carlos Castañeda Fuentes, director of said department and who was part of the Round Table of said event, with a conference about the topic “*Strengthening of the Guatemalan Financial System*”.

19 The conferences of this event can be consulted on the web site of the *Banco de Guatemala*.



#### **4.5 Participation in the Annual Meeting of the Latin American and Caribbean Economic Association –LACEA [Acronym in Spanish.]**

This event was carried out from October 27th to 29th in the city of Paris, France and was organized by The American University of Paris. It is important to mention that the objective of the mentioned event is to foment and facilitate the exchange of ideas between economists and performers of economic policy in Latin America. On behalf of the *Banco de Guatemala* the following conferences were presented: “Intra Industry Trade in the Early European Industrialization: Historical evidence based on French Trade”, y “Put- Options on Bank -Deposits: an Efficient Deposit-Insurance Scheme for Guatemala”, prepared by Carlos Eduardo Castillo Maldonado; and, by Juan Carlos Castañeda Fuentes and Oscar Leonel Herrera Velásquez, respectively, who are officers of the Department of Economic Research.

## **CHAPTER V**

### **MAIN RESULTS OF THE EXECUTION OF MONETARY, EXCHANGE AND CREDIT POLICY IN 2005**

Building where the *Banco de Guatemala* is located since 1966.

## MAIN RESULTS OF THE EXECUTION OF THE MONETARY, EXCHANGE AND CREDIT POLICY IN 2005<sup>20</sup>

The Monetary Board in resolution JM-160-2004 dated December 29<sup>th</sup>, 2004, determined the Monetary, Exchange and Credit Policy for 2005, which was executed by the *Banco de Guatemala* through the Execution Committee. Said policy was designed to continue with the adoption process of a complete scheme of explicit inflation goals and oriented to consolidate the stability and confidence in the main macroeconomic and financial variables.

The implementation of the monetary policy in 2005, as indicated, has been consistent with the efforts of advancing in the adoption of an integral scheme of explicit inflation goals, based on the election of the inflation goal as the nominal anchor of the economy and is consolidated with the implementation of a flexible exchange rate regimen, with the use of instruments of indirect monetary control (operations of monetary stabilization, privileging the decisions of the market), as well as the improvement of the transparency of the operations of the Central Bank, which will allow to continue consolidating the stability and confidence in the main macroeconomic and financial variables.

In that context, during 2005 the monetary policy was carried out, in the external order, before the behavior to the rise of the international oil price that continued being the fundamental factor that explained the behavior of the inflationary rate, the same as in 2004; and, a high dynamism of the global economy in 2005, mainly supported by the evolution of the economic growth of the United States of America and People's Republic of China. In the domestic order, it was important the support provided by the fiscal policy to the monetary policy through a budget execution that generated a fiscal deficit lower than the programmed and, by the creation of positive economic growth expectations of the economic agents, derived not only from the mentioned behavior of the global economy, but also from the consolidation of the governmental management.

During 2005, though the disinflation process was not as expected, the inflation rate was lower than the registered in the previous year. The inflation behavior is associated, on one hand, with the trend to the rise of the international oil price, which continued being a fundamental factor that explains the level of the observed inflationary rate and, on the other hand, with the effect that occurred in the prices of some agricultural and non-agricultural products due to the tropical storm Stan in October of 2005; though it was reverted in November and December, it negatively affected the expectations of the economic agents regarding the future evolution of the inflation. Before said scenario, the management of the monetary policy was oriented to take the measures that help decelerating the inflationary rate. In that sense, the monetary authority in order, on one hand, to reduce the inflationary expectations of the economic agents and, on the other hand, to send a

20 An ample version about this topic can be consulted in the document "*Política Monetaria, Cambiaria y Crediticia: Evaluación a Noviembre de 2005 y Propuesta para 2006*", which is found on the web site of the *Banco de Guatemala*.

certain message about the compromise of the Central Bank to continue watching for the stability in the general rate of prices, it adjusted seven times the leading interest rate of the monetary policy in order to increase it from 2.55% to 4.25%.

Besides, in order to increase the effectiveness of the monetary policy, and according with the lineaments of the Monetary Board, actions were adopted to improve its operative procedures, oriented to advance in the adoption process of a complete monetary scheme of explicit inflation goals (*Inflation Targeting*).

In that context, during the first five months of 2005, the inflationary rate, in the execution framework of the disciplined monetary and fiscal policies, was decelerated in 0.71 percentage points from 9.23% in December 2004 to 8.52% in May 2005. However, due that the international price per oil barrel, estimated by the international financial market that would remain in 2005, as an average, in US\$42.38 per barrel, had a behavior to the rise during the year until reaching a historical rate of US\$69.81 by the end of August, which caused that the trend towards deceleration, shown by the inflationary rate, reverted its behavior since June. Besides, in October an increase in the prices was observed, all at once<sup>21</sup>, associated with the tropical storm Stan<sup>22</sup>. Nevertheless, during November and December the inflationary rate was decelerated, due to the adjustment in the prices of the agricultural products that normalize its distribution and to the fall in the price of fuels.

As a result, the inflationary rate was of 8.57% by the end of December, lower than 9.23% observed in December 2004. According with estimations of the technical department of the *Banco de Guatemala*, the inflation behavior to December can be divided in imported and domestic. In that sense, the inflationary rate observed to December 2005 (8.57%), 2.21 percentage points are attributed to the imported inflation, from which, 1.36 percentage points correspond to the indirect imported inflation<sup>23</sup> (second-round effect); therefore, from the total inflationary rate, 6.36 percentage points correspond to the domestic inflation.

The macroeconomic results of the country in 2005 are the following: the inflation was of 8.57% (9.23% in 2004); the net international monetary reserves were of US\$3,782.4 million, higher than the one registered to December 31<sup>st</sup>, 2004 (US\$3,528.0 million), which represented a coverage of 4.7 months of import of goods and non-factorial services; the asset and liable average weighted interest rates of the banking system continue with a stable behavior, placed in 12.67% (13.50% in 2004) and in 4.62% (4.54% in 2004), respectively.

21 With regard to the tropical storm Stan, which was a temporal offer shock; its effect on the prices disappeared when the distribution of the affected products was normalized.

22 This climatic phenomenon generated a temporal scarcity of some products, which caused that the consumer price index, on one hand, registered an increase of 1.76% in October, which was the highest since the occurrence of the hurricane Mitch in 1998 and, on the other hand, exhibited an inflationary rate of 10.29%. It is important to indicate that the increase in the inflation of October, 1.01 percentage points corresponded to the inflationary effect caused by the tropical storm Stan.

23 It refers to the increase of the prices of goods and services that in its costs structure do not incorporate oil derivatives, but that are indirectly affected by aspects such as the costs of transport, electricity and others.

Besides, preliminary data for 2005 indicate that the deficit in current account of the payment balance regarding the GDP was of 4.1% (4.4% in 2004); the fiscal deficit of the government regarding the GDP was of 1.5%; the tax burden was of 9.9%; and, the GDP grew in real terms 3.2% (2.7% in 2004). On the other hand, the nominal exchange rate was appreciated in 1.81%, from Q7.75 per US\$1.00 on December 31<sup>st</sup>, 2004 to Q7.61 per US\$1.00 on December 31<sup>st</sup>, 2005.