EXECUTION COMMITTEE

ACT NUMBER 44-2005

Session 44-2005 celebrated in the *Banco de Guatemala* building, on Friday, September second, two thousand five, as of fifteen hours and 30 minutes.

The coordinator, with the corresponding quorum, submitted to the Execution Committee the projects of Order of the Day for consideration.

FIRST: Approval for projects in Deed number 43-2005, corresponding to session celebrated on August 26, 2005.

(Project deeds circulated.)

SECOND: Evaluation of the positions for bidding of Term Deposits in *quetzales*. Number DP-107-2005.

THIRD: Market Information and Monetary Variables.

a) Money and Exchange markets

b) Monetary Variables

FOURTH: Analysis of the Monetary Situation and Definition for the Guidelines of Monetary, Exchange and Credit Policy execution for the following week.

FIFTH: Other matters.

Not having observations, the Committee approved the Order of the Day.

FIRST: The Coordinator presented the project of the corresponding deed for consideration.

Not having observations, the Committee approved Deeds number 43-2005.

SECOND: Evaluation of the bidding positions for Term Deposits in *quetzales*. No. DP-107-2005.

The Committee recognized the positions received in the bidding for long term deposits –CDP's- (154.0 million for 1456 days (4 years), at an interest rate of 7.25%) appreciating that taking into account the yield curve for reference calculated through interpolation of current interest rates for public titles, the three positions received are subject to awarding, therefore it agreed to award said positions for Q154.0 million.

THIRD: Market and Monetary Variable Information

The coordinator requested that the corresponding information be presented.

a) The Sub-Director of the Department of Operations for Monetary Stabilization, regarding the Money Market informed that during the period of August 29 to September 2, 2005, with partial numbers to this date, they registered raising funds of CDP's for Q2,491.4 million and maturity for Q2, 489.4 million, which gave a result of net raising funds for Q2.0 million, associated to the operations performed in bidding (net raising funds for Q56.6 million), in the Electronic Banking Money Table –MEBD- and in the stock exchange (net raising funds for Q124.0 million) and in window (net raising funds for Q178.6 million). Regarding applied interest to raising funds of CDP's, they indicated that during the August 29 to September 2, 2005 period, for bidding cases the cut interest rates were of 5.00% for 91 days, 5.75% for 182 days, 6.4990% for 364 day and 7.0% for 728 days. For their part, the MEBD and the stock exchange raising funds were for 7 day, and the interest rate was of 3.50%. As to the average pondered interest rates of the total operations the repurchase agreements in the stock exchange of the country indicated that during the August 29 to September 2, 2005 period, with partial data to date, the minimum was 1.88%, observed on August 30, 2005, and the maximum was 4.26%, registered September 1, 2005. Also, they pointed out that the negotiated sums were higher with public titles and the average pondered interest rate during said period was 2.72% for public titles and 4.36% for the financial sector titles. On the other hand, they informed that, during the period of August 29 to September 2, 2005, regarding operations of treasury bonds they registered placement for Q963.7 million, that correspond to Representative Certificates of Treasure Bonds of the Republic of Guatemala issued by the *Ministerio de Finanzas Públicas* (Equivalent to the Department of the Treasury) in favor of the *Banco de Guatemala* with the objective of covering the net deficiencies corresponding to accounting exercise for 2003 and maturity for Q1.5 million and US$ 0.4 million. As to biddings for long term deposit in United States of America dollars, made during the August 29 to September 2, 2005 period, they mentioned that in 2 biddings summoned no presented purchase order proposals. Regarding the Institutional Foreign Currency Market informed that during the August 26 to September 1, 2005 period, the average daily purchase operations were of US$63.9 million and sales were of US$70.0 million and the exchange rates were stable. In effect, on Friday, August 26 the rate was Q7.58642 for US$1.00 at purchase and of Q7.60205 for US$1.00 at the sale, on Monday, August 29 the rates were

Q7.57924 and Q7.59958, on Tuesday, August 30 the rates were Q7.58255 and Q7.59568, on Wednesday, August 31 the rates were Q7.58341 and Q7.59776, on Thursday, September 1 the rates were Q7.58323 and Q7.59879. Regarding the electronic systems operations for negotiation of foreign currency administered by the National Stock Exchange, S.A., corresponding to the August 29 to September 2, 2005 period, commented that the Private Institutional System for Foreign Currency –SPID-, made the following operations: Tuesday, August 30 for US$2.3 million, at a pondered exchange rate of Q7.59500 and on Friday, September 2 US$100.0 million, at Q7.60250. Regarding the Electronic Negotiation System of Foreign Currency –SINEDI-, presented that during the period no operations were closed and only the *Banco de Guatemala* made a daily income proposal for purchase of US$10.0 million, at a price of Q7.58800. On the other hand, they informed that Future Foreign Currency Markets that operate the National Stock Exchange, S.A. closed operations. As to the closing, for reference, on Friday, September 2 they indicated that the maturity to liquidate in September of 2005 was of Q7.64000, for the maturity to liquidate in December of 2005 it was of Q7.67000 and for the maturity to liquidate in March of 2006 it was of Q7.71000.

b) The director of the Economic Studies Department informed that on September 1, 2005, the excess of daily float and the average of the banking system were located in a negative position of Q381.7 million. It was highlighted that in the period of August 25 to September 1, 2005, the main monetizing factors were the decreases in the banking float balances for Q276.5 million, the deposits of the Central Government in the *Banco de Guatemala* for Q156.5 million and the deposits of the rest of the public sector in the Central Bank for Q23.1 million; and the increase in the balance of the Net International Reserves –RIN- for the equivalent to Q67.2 million; while the main demonetizing factor was the increase in the balance of the long term deposits in the *Banco de Guatemala* for Q270.4 million.

Regarding the indicative variables for the Monetary, Exchange and Credit Policy they indicated that the projection to July, for December of 2005 the total estimated inflation with a model of ordinary minimum squared is of 6.61% and with a softened exponential model of 8.12%; the simple average of both models is located in 7.37%, which is found in the goal range for policy (4.0% to 6.0%), which suggests a restrictive monetary policy. Regarding the expected subjacent inflation for 2005, with data to July of 2005, estimated with a mobile averages integrated auto-regression model ARIMA, was of 8.32%, and estimated with a softened exponential model it was of 8.09%; the simple average of both models is of 8.21%, which is above the goal range of policy (4.0% to 6.0%), which suggests a restrictive monetary policy. Regarding the parameter rate, the report for August 25, 2005, the lower limit was of 3.41%, whereas the upper limit was at 11.31%, while the resulting simple average between repurchase agreements at 8 to 15 days (3.65%) and the average pondered rate of the open market operations –OMA- of up to 91 days (3.57%) was located at 3.61%, which is located within the parameter rate limits, situation which suggests the convenience of an invariable monetary policy. Regarding the parity passive rate, they declared that to August 25, 2005, the inferior limit was of 6.69% and the upper limit of 8.27%, as to the pondered average rate of long term deposits in the banking system was of 6.90%, which is within the parity passive rate range, which advises an invariable monetary rate.

Regarding monetary issue observed to September 1, 2005, they indicated that the present deviation of Q307.2 million with regard to the upper programmed limit for said variable, which would indicate an existing space to restrict monetary policy. As to total payment means, up to August 25, 2005, they exhibited an inter-annual growth of 14.4%, which is within the estimated range for said variable on the same date (12.9% to 14.9%), which advises that monetary policy remain invariable. Also, up to the same date, the banking credit for the private sector registered an inter-annual growth rate of 19.3%, which is above the upper limit of the estimated range for August 25, 2005 (17.0% to 19.0%), which suggests a restrictive monetary policy.

Regarding the inflation expectations of private analysts, they indicated that, according to the polls of August, 2005, for December, 2005 they expect an inflationary rhythm of 8.39%, which is above the goal range for monetary policy (4.0% a 6.0%), aspect which suggests restricting monetary policy.

They mentioned the Monetary Conditions Index –ICM-, to August 25, 2005, was of -2.71 percentage points which is within the estimated range for said variables for that date (-4.19 to -2.59 percentage points), advises that the monetary policy remain invariable.

To conclude, they informed that the orientation of the indicative variable remain the same as the week before: five variables suggest the monetary policy be restrictive (the total inflation projection, the subjacent inflation projection, the expectations of inflation by private analysts, the monetary issue and the banking credit to the private sector); four variables suggest that the monetary policy remain invariable (the parameter rate, the parity passive rate, the Monetary Conditions Index and the total payment means); and none suggest to relax it.

FOURTH: Analysis of the monetary situation and definition of the Guidelines of execution for the Monetary, Exchange and Credit Policy for the following week.

a) Analysis of the Monetary Situation

The committee noted that the monetizing and demonetizing factors foreseen for the week of September 2 to 8, 2005 period indicate an increase in the creation of primary liquidity for Q2, 945.0 million, fundamentally due, to maturity of CDP's. They also foresee an increase in the demand of monetary issue for Q103.0 million and an accumulated position for banking liquidity for Q23.8 million. Also, that the monetary issue is deviated in Q436.2 million above the central programmed point of said variable, therefore the excess of added liquidity for the referred periods is located at Q3, 508.0 million; if these factors are given, the Committee considered it would be necessary, to make the issue offer compatible with the programmed demand, that the CDP that expire during that period (Q2, 973.6 million, according to registries to September 1, 2005) have to relocate; and, also, make additional raising funds for about Q534.4 million.

The Committee was advised that on August 29, 2005 in the active accounts for "treasury bonds received to cover Net Deficiencies" of the General Balance of the *Banco de Guatemala* in the amount of Q963.7 million were registered, corresponding to the nominal value of the representative certificates of the Treasury Bonds of the Republic of Guatemala issued by the *Ministerio de Finanzas Públicas* (Equivalent to the Department of the Treasury) in favor of the *Banco de Guatemala* with the objective of covering the corresponding net deficiencies to the accounting year of 2003. Particularly, they mentioned that according to the analysis of the financial, monetary and legal implications for the referred issue, made by the technical bodies of this institution, they recommended the General Management, that in agreement with prevalent conditions in the national financial markets, the most convenient position for the *Banco de Guatemala*, for the moment, is to conserve in its power the referred certificates and no to negotiate them in the secondary value markets, taking into account that in the first case, the *Banco de Guatemala* will obtain annual income for Q37.2 million, which will increase the financial products of the institution in national currency, and at the same time, reduce the costs of monetary policy; while in the second case; where secondary markets are negotiated, given the characteristics of issue to term (29.7 year) and an interest rate of (3.87%), the institution could incur in financial loss, which would have to be absorbed by the *Ministerio de Finanzas Públicas* (Equivalent to the Department of the Treasury) when it recognized the net deficiency for each year during the effect operation of the titles. Regarding the determination of quotas for the biddings of the following week, took into account the information that provided the estimated daily flow of monetization for the week of September 2 to 8, as an established rule for the determination of quotas, based on what the Committee agreed with the raising funds quota for the 91 day term and the 364 day term to be convened on Monday to establish at Q10.0 million and Q20.0 million, respectively. For the 182 and 728 day terms convened for Wednesday the raising funds quota established was at Q20.0 million and Q30.0 million, respectively.

b) Definition of the guidelines for execution of Monetary, Exchange and Credit Policy for the following week.

Regarding the analysis of the monetary situation, the Execution Committee agreed that for the week of September 5 to 9, 2005, it should maintain the execution guidelines for the monetary policy observed during the present week; in other words, continue operations in MEBD and in the stock exchange, in raising funds as well as in giving liquidity to the market.

The raising funds operations at 7 day term, without quota, at an interest rate of 3.50%, whereas, the proposal for the liquidity offer at a 7 day term, at an initial interest rate of 7.65%, whose guarantee of said operations will be constituted receiving only public titles. It is worth mentioning that the Committee reiterated the importance of participating in both venues; in other words, maintaining simultaneous positions for giving liquidity to the market and retiring liquidity, considering that said participation constitutes a sign of disposition of the Central Bank for moderating the volatility in the short term interest rate.

The Committee, taking into account the agreed in coordination matters with the fiscal policy for the participation in the money market, agreed that the summons for biddings for long term deposits should continue on Mondays, Wednesdays and Fridays of every week; therefore; on Monday 91 day terms and 364 day terms, with a quota of raising funds of Q10.0 million and Q20.0 million, respectively; and on Wednesday the

182 day and 728 day terms, with a quota for raising funds of Q20.0 million, for 182 day term and Q30.0 million for the 728 day term. The interest rates will be determined according to the conditions of the market, reflected in the received positions, considering the established yield curve by the technical departments; and on Friday the 1456 day (4 year), 2184 day (6 year) and 2912 day (8 year) terms, without a pre-established quota for raising funds. For the corresponding awarding, the Committee will decide on the amount to award for each term and for the determination of the interest rate to apply, as a reference they will take each corresponding term onto a calculated yield curve and through interpolation of the interest rates of 364 day (1 year) and 10 year terms to determine the awards. The payment of interest for the terms of more than 364 days will be per semester, that, with the goal of maintaining the same conditions with which the *Ministerio de Finanzas Públicas* (Equivalent to the Department of the Treasury). On the other hand, the Committee agreed to continue raising funds through the window, directly, with official and public entities. In the case of the official entities, the raising of funds will continue to be according to the prevalent financial conditions; in other words, the interest rate for the 7 day term will be the one applied by the *Banco de Guatemala* in the MEBD and in the stock exchange and, for the other terms, it will be a pondered average that results in the bidding of term deposits in *quetzales*. For those terms that are not awarded or that have not been included in the summons for bidding, during the last week, the rate to apply will be determined through interpolation of the term rate for 7 days and the remaining pondered average for the shortest term of the last awarded bidding. As to the raising of funds with the public, the interest rate, for each term, can not be higher than the pondered average corresponding to the bidding minus one percentage point.

On the other hand, the Committee agreed that the summons for bidding of term deposits in United States dollars –DP in US$- be made on Tuesdays and Thursdays of each week in 91 and 336 day terms, for up to US$30.0 million. The proposals received can be awarded an interest rate of up to 3.05% for the 91 day term and up to 3.75% for the 336 day term. However, if the interest rates requested by the investors are close to the prevalent interest rates in the domestic market of the United States of America for the same terms, due to the latest adjustment by the Federal Reserve, to the objective interest rate, the Committee would convene a meeting to decide on the awarding.

The Committee agreed to continue accepting the constitution of long term deposits in dollars from the United States of America, directly at the window, from public entities, in the current terms (91 days and 336 days) and that the applied interest rates will be the pondered average interest rates resulting in the latest bidding awarding of long term deposits expressed in said currency.

As to the participation of the *Banco de Guatemala* in the exchange market, the Committee agreed to continue participating in the SINEDI through the rules of participation established in Session 15-2005.

FIFTH: Other matters.

Not having other matters to deal with, the session ends at sixteen hours and thirty-eight minutes, the attending parties sign in agreement.