

EXECUTION COMMITTEE

ACT NUMBER 50-2005

Session 50-2005 celebrated at the *Banco de Guatemala* building, on Friday, October seventh, two thousand five, at sixteen hours.

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

FIRST: Approval for projects in Deed Number 49-2005, corresponding to the session Celebrated on September 30th., 2005.
(Project deed circulated)

SECOND: Evaluation of the positions for bidding of Term Deposits in *quetzales*.
No. DP-122-2005.

THIRD: Market information and Monetary Variables.
a) Money and Exchange Markets.
b) Monetary Variables.

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

FIFTH: Other matters.

Not having any other observations to set forth, the Committee approved the Order of the Day.

FIRST: The Coordinator presented the project of the corresponding deed for consideration. Not having any other observations the Committee approved Deed Number 49-2005.

SECOND: Evaluation of the bidding position for Term Deposits in *quetzales*.
No. DP-122-2005.

The Committee recognized the position received in the bidding for long-term deposits –CDP’s (Q10.0 million for 1456 days (4 years), at an interest rate of 7.25%; Q2.0 million for 2184 days (6 years), at an interest rate of 7.75%; and Q45.0 million for 2912 days (8 years), at an interest rate between 8.3950% and 8.40%, taking into account the yield curve as a reference calculated through the interpolation of current interest rates for public titles; it also agreed to adjudge the positions received for a 4 and 6 year term for Q10.0 million and Q2.0 million respectively, and adjudge a quota of Q25.0

million established for an eight year term among the four positions received for the said term.

THIRD: Market Information and Monetary Variables.

The Coordinator requested to proportionate the corresponding information.

a) The Director of the Department of Operations and Monetary Stabilization, in relation to the Money Market, informed that during the period from October 3 to October 7, 2005, with partial figures to the last date there were attractions of CDP's for Q2,346.8 million, and Q3,235.6 million, and in consequence there were net expirations for Q888.8 million, associated to the operations performed on biddings (Net attractions for Q12.9 million), at the Money Banking Electronic Table –MBET-, at the stock exchanges (Net expirations for Q761.0 million), and at the window (Net expirations for Q140.7 million).

With respect to the interest rates applied to the attractions of CDP's; he indicated that during the period from October 3 to October 6, 2005, for the bidding matter, the cut off interest rates were of: 5:00% for 91 days, 5, 4999 for 182 days, 6.00% for 364 days and 6.8944% for 728 days. On the other hand, the MBET and at the stock exchanges, the attractions were performed for 7 days at a leader interest rate of the monetary policy of 3.75%.

With respect to the prudent average interest rate of the total of the operations of distribution performed at the country's Stock Exchanges; he also indicated that during the period from October 3 to October 7, 2005, with partial data to the last date, the minimum was 2.58% observed on October 5th., 2005, and the maximum of 3.85% registered on October 6th., 2005. He also indicated that the negotiated amounts were larger with public titles, and that the prudent average interest rates during the said period were 2.89% for public titles, and 4.60% for the titles of the financing sector. On the other hand, he informed that, during the period from October 3 to October 7, 2005, with respect to the operations with treasury bonds there were expirations for Q0.4 million.

With respect to the bidding of long-term deposits in dollars of the United States of America, convoked the 4th. day of October, 2005, he mentioned that no demand position was presented.

With respect to the Institutional Market of Foreign Currency, he informed that during the period from September 30 to October 6, 2005, the daily average of purchase

operations was of US\$57.8 million, and sales of US\$58.2 million; and that the exchange rates showed a rise tendency. In effect, on Friday 30th., September were of Q7.68494 for US\$1.00 for the purchase, and of Q7.71276 for US\$1.00 for sale, on Monday third, October, were Q7.71628 and Q7.75122, on Wednesday, October 5th. were of Q7.72428 and Q7.74840.

With respect to the operations of the electronic system of foreign currency of negotiation which is administered by the National Stock Exchange S.A. corresponding to the period from October 3 to October 7 of the current year, he commented that the Private Institutional System of Foreign Currency –PISFC- performed the following operations: on Tuesday 4th. Of October for US\$1.1 million, at a prudent average exchange rate of Q7.75045, and on Wednesday 5th. of October US\$200.0 thousand, to Q7.75000.

With respect to the Electronic System of Foreign Currency Negotiation – ESFCN- he also exposed that during the period there were no operations, and that only the *Banco de Guatemala* deposited daily a purchase position for US\$10.0 million, whose prices were the following: On Monday 3rd. October of Q7.61482, Tuesday 4th., October of Q7.62632, Wednesday 5th., October of Q7.63667, and Thursday 6th., October of Q7.65324, and Friday 7th. October of Q7.67074.

On the other hand, he informed that the Futures Market of Foreign Exchange that operated the National Stock Exchange S.A. during the period from October 3 to October 7, 2005, did not close the operations. With respect to the closing price, of reference, to Friday 7th. of October, indicated that the expirations to liquidate on December 2005 was Q7.76000, and for expirations to liquidate on March, 2006 was Q7.77440.

b) The Assistant Director of the Department of Economic Studies informed that on October 6th., 2005, the surplus of the daily reserve of the banking system situated in a position of Q313.2 million with a negative average position of Q84.0 million.

He underlined that during the period from September 29 to October 6, 2005, the principal monetary factors were the diminutions on the deposit balance to term constituted at the *Banco de Guatemala* for Q963.5 million of the deposits of the Central Government at the *Banco de Guatemala* for Q173.7 million; while the principal monetary factors were the increment in the balances of bank reserves for Q896.7 million, and of the deposits of the rest of the public sector at the Central Bank for Q55.7 million;

and the diminution in the balance of Net International Reserves –NIR- for the equivalent for Q138.4 million.

With respect to the indicative variables of the Credit, Exchange and Monetary Policy he indicated that with the projection to August, for December, 2005, the total inflation expected, estimated with a model of minimum ordinary squares, is of 6.69%, and with a model of an exponential smoothness of 8.37% the simple average of both models is situated in 7.53% which is above the goal rank of policy (4.0% to 6.0%) which suggest a restrictive monetary policy.

With respect to the underlying inflation expected to 2005, with data to August of 2005, and estimated with an auto regressive integrated model of mobile averages ARIMA, was of 7.43%, but estimated with an exponential smoothing model was of 7.89%, the simple average of both models is 7.66% which is above the goal rank of policy (4.0% to 6.0%) which suggest a restrictive monetary policy.

With respect to the parameter rate, he informed that to September 29th., 2005, the inferior limit was 3.4%, and the superior limit was 11.30%, while the resulting simple average between the repurchase rate from 8 to 15 days (3.90%), and the prudent average rate of the operations of open market –OMA´s- for 91 days (3.87%) situated in 3.89%, which is situated within the limits of the parameter rate, situation which suggest the convenience of an invariable monetary policy. With respect to the passive parity rate, he indicated that to September 29th., 2005, the inferior limit was 5.81%, and the superior limit 7.39%, while the prudent average rate of term deposits of the banking system was 6.92% which is within the rank of the passive parity rate, which suggest an invariable monetary policy.

With respect to the monetary issue observed on October 6th., 2005, he indicated that it presents a deviation of Q349.6 million in respect to the superior limit programmed for the said variable, which indicates that there is space to restrict the monetary policy.

With respect to the means of total payment, to September 29th., 2005, showed an inter-annual increment of 15.2% which is within the estimated rank for the said variable to that date (13.6% to 15.6%), which suggest to keep an invariable monetary policy. Also, to the indicated date, the banking credit to the private sector registered an inter-annual increment of 20.1% which is above the superior limit of the estimated rank to September 29th., 2005 (16.4% to 18.4%) which suggest a restrictive monetary policy.

With respect to the inflation expectations by private analysts, HE indicated that according to a survey performed on September 2005, an inflationary rhythm of 8.66% is expected for December, which is above the rank of the monetary policy goal (4.0% to 6.0%) aspects that suggest to restrict the monetary policy.

He also mentioned that the Indicator of Monetary Conditions –ICM- to September 29th, 2005, was -3.20 percentage points which is within the estimated rank for the said variable to that date (-4.19 to -2.59 percentage points) which suggest to keep invariable the monetary policy.

To conclude, he informed that the orientation of the indicative variables is the same as last week's orientation: five variables suggest a restrictive monetary policy (The projection of total inflation, the projection of underlying inflation, the inflation expectations by private analysts, the monetary issue, and bank credit to the private sector); four variables suggest to keep invariable the monetary policy (The parameter rate, the passive parity rate, the Indicator of Monetary Conditions and means of total payment), and any of the variables suggest to relax it.

On the other hand, he presented the partial information upon inflation to September, 2005, with respect to the report of the Statistic National Institute –SNI- (The monthly inflation was 0.85% superior in 0.49 percentage points, to that of August, 2005; the inflationary rhythm situated in 9.45%, superior in 0.08 percentage points to that of August, 2005, and superior in 1.4 percentage points to the one observed on September, 2004). As the session of the Committee was taking place there was no information related to the subjacent inflation, domestic and imported inflation, and for the projections for December, 2005, and December 2006, either of total inflation and subjacent inflation. About the matter, the technical departments indicated that in the following session would be presented the complementary information about inflation, so that the Committee has the necessary elements for the discussion upon its adopted position in the session in which the level of the leader interest rate will be reviewed (October 21^{sts}. 2005).

FOURTH: Analysis of the Monetary Situation and definition of the guidelines of the performance of the Credit, Exchange and Monetary Policy for the following week.

- a) Analysis of the monetary situation.

The Committee realized that the monetized and demonetized factors foreseen for the week from October 7 to October 13, 2005, indicated an increase on the creation of primary liquidity for Q2,573.7 million, due to the expirations of CDP's. Also, it anticipated an increase on the demand of monetary issue for Q94.0 million, and an accumulated position of negative bank liquidity for Q42.9 million. Also, that the monetary issue is askew in Q478.5 million above the central point programmed for the said variable, in such a way that, the surplus of aggregated liquidity for the said period is situated in Q2,915.4 million; if these factors would present, the committee considered that it is necessary in order to make the issue offer compatible with the programmed demand that the CDP's which fall due during the period (Q2,585.2 million, according to the registers of October 6th. 2005), have to be replaced, and in addition to make additional attractions around Q330.2 million.

With respect to the determination of quotas for bidding of the following week, it took into account the information provided by the daily flow on monetization estimated for the following week, and the established rule for the quota's determination, in such a way that the Committee agreed that the attraction quota for 91 and 364 days terms to convoke on Monday were established in Q20.0 million, and Q30.0 million respectively. On the other hand, it is established an attraction quota of Q25.0 million for a term of 2912 days (8 years) to convoke on Friday.

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

With respect to the analysis of the Monetary Situation, the Executive Committee agreed, from the week from October 10 to October 14, to keep the guidelines of performance of the monetary policy observed during the current week; for say, to continue doing operations at MBET, and at the stock exchanges, either of attraction and injection. The attraction operations will perform on a 7 day term without quota, at interest rate of 3.75%, as the positions of liquidity offer to a 7 day term, at an initial interest rate of 7.65%, whose guaranty of said operations will be constituted by receiving only public titles. It is important to indicate that the Committee reiterated the importance to participate in both ways; by keeping simultaneously positions of injection and liquidity withdrawal, considering that said participation constitutes a signal of the Central Bank disposition to shape the volatility of the short-term interest rate.

The Committee, taking into account what was agreed with respect to the coordination with the fiscal policy for the participation at money markets, agreed that

convocations for biddings of term deposits continue on Mondays and Fridays on the following week, thus, Monday to a term of 91 days and 364 days, with an attraction quota of Q20.0 million and Q30.0 million respectively. Interest rates will be determined according to the market conditions, reflected in the positions that will be received, and considering the yield curve established by the technical departments; and on Friday to a term of 1456 days (4 years), 2184 days (6 years), and 2912 days (8 years), for terms of 4 and 6 years without quota pre-announced of attraction, and for 8 years with an attraction quota of Q25.0 million. For the corresponding adjudication, the Committee will decide the amount to adjudicate for each term, and for the determination of the interest rate to apply, it will take as reference that which corresponds to each one of the said terms in a yield curve calculated by the interpolation of interest rates to 364 days (one year), and a term of 10 years. The payment of interest for terms longer than 364 days will be every semester in order to keep the same conditions in which the Ministry of Public Finances used to perform.

On the other hand, the Committee agreed to continue realizing attractions directly at the window, with the official entities, it recommended to continue the attractions according to the current financing conditions, the interest rate for a term of 7 days will be the one applied by the *Banco de Guatemala* and the MBET and the Stock Exchanges, and for the other terms, the interest rate will be the mobile average for each term, of the prudent average interest rate resulting of the four previous bidding events. With respect to attractions with the public, the interest rate for each term will not be higher than that one of the prudent average of the corresponding bidding minus a percentage point.

On the other hand, the Committee agreed that the convocation for biddings for term deposits in dollars of the United States of America –DP's in US\$ -take place on Tuesday of each week for the terms of 91 days and 336 days, for an amount of US\$30.0 million until the *Banco de Guatemala* participates at the first threshold of the participation rule of sale in the foreign exchange market. The positions which are received can be adjudged at interest rates up to 3.05% for a term of 91 days, and up to 3.89% for a term of 336 days, according to the stipulated in session 48-2005 without excluding the possibility that if the positions received to superior rates merit, it would be necessary to convoke a session of the Committee to decide the adjudging.

The Committee agreed to continue accepting the constitution of term deposits in dollars of the United States of America in a direct manner at the window, of public

entities, to the terms in force (91 days and 336 days), and that the interested rate to apply will be the prudent average resulting from the last adjudged bidding of term deposits expressed in the said currency.

With respect to the participation of the *Banco de Guatemala* at the foreign exchange market, the Committee analyzed that in the rise context that has been observed at the nominal exchange rate, it is advisable to review the participation rule on the side of foreign currency sales, in order to evaluate the convenience that in the said rule can be seen a symmetry related to the established for purchases which incorporates three thresholds, and with the fundamental purpose of moderating the volatility which presents in the nominal exchange rate. About that matter, taking into consideration the importance of the theme, the Committee requested to the technical departments to present a proposal, and that the said proposal would be known in an extraordinary session programmed for the following week. Meanwhile, the Committee agreed to continue participating at the SINEDI through the participation rules established to such effect.

FIFTH: Other matters.

Not having any other matter to set forth, the session ended at the seventeen hours and twenty eight minutes, and signed accordingly by the persons therein