EXECUTION COMMITTEE

ACT NUMBER 57-2005

Session 57-2005 celebrated in the *Banco de Guatemala* building on Friday, November fourth, two thousand five, at fifteen hours and thirty minutes.

The coordinator, with the corresponding quorum, for the consideration of the Execution Committee submitted the project for the order of the day.

FIRST: Approval of Project for acts number 55-2005, and 56-2005, corresponding to the session celebrated on October 27 and 28, 2005.

(The project of the act circulated.)

SECOND: Evaluation of the position of the bidding for Time Deposits in *quetzales* No. DP-133-2005.

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 execution for the Monetary, Exchange and Credit Policy for the following week.

FIFTH: Other matters.

Not having more observations, the committee approves the order of the day.

FIRST: The coordinator has put to consideration the corresponding project act.

Not having any observations, the committee approved acts number 55-2005, and 56-2005.

SECOND: Evaluation of the positions of bidding for time deposits in *quetzales* No. DP-133-2005.

The committee took note that bids for the Time deposits –LTD, in *quetzales* number DP-133-2005. The committee was advised of the received bids in the bidding for long term deposits LTDs-(Q75.0 million at 1457 days (4 years), at an interest rate of 7.25%; Q75.0 million at 2184 days (6 years), at an interest rate of 7.75%; and, Q45.0 million at 2912 days (8 years), at an interest rate of between 8.3999% y 8.40%) and, taking the yield curve calculated through interpolation of current interest rates for public titles as a reference, agreeing to adjudicate the two received bids for a 4 year term for Q75.0 million, the two received bids for 6 year terms for Q75.0 million and Q15.0 million partial for the first bid received in an eight year term.

THIRD: Information of markets and monetary variables.

The coordinator requested that the corresponding information be presented.

a) The Director of the Department of Monetary Stabilization Operations, regarding the Money market informed that during the period from October 31 to November 4 of 2005, with partial numbers to date, registered an attraction of LTD's for Q1,274.4 million and maturity of Q2,108.2 million, which gave a net result of attraction for Q860.8 million, associated to the operations in bidding (net attraction for Q33.6 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity for Q773.0 million) and at the window (net maturity for Q121.4 million).

Regarding the interest rates applied for attraction of the LTD's, it was indicated that during the October 31 to November 4, 2005 period, in the case of biddings, the cut interest rate was of 5.00% for 91 day terms, 5.50% for 182 days and 6.2498% for 364 days: and 7.00% for 728 days. For its part the MEBD and the stock exchange attractions were made for 7 days, at an interest rate of 3.75%.

As for the weighted average interest rates of total operations of repurchase agreements made in the stock exchange of the country, it was indicated that, during the October 31 to November 4, 2005 period, with partial data, the minimum was of 3.78%, observed November 2, 2005, and the maximum of 3.90%, registered on October 31, 2005. It also pointed out that the amounts negotiated were higher with public titles and that the average weighted interest rates during said period were of 3.86% for public titles and of 4.66% for the financial sector titles.

On the other hand, it was informed that during the October 31 to November 4, 2005 period, regarding Treasury Bonds operations the maturity was registered for Q0.8 million.

Regarding the report on the Institutional Foreign Currency Market, during the period of October 27 to November 3, 2005, the average daily operations for purchase were US$72.0 million and for sale were of US$77.0 million and the exchange rates showed a slight tendency toward the decline. On Thursday, October 27 the rates were Q7.59804 for US$1.00 for purchase and of Q7.62342 for US$1.00 for sale, on Friday, October 28 it was Q7.59711 and Q7.61824, on Monday, October 31 they were Q7.59875 and Q7.62605; on Wednesday, November 2 they were Q7.59122 and Q7.61246, and finally on Thursday, November 3, they were Q7.58869 and Q7.60723.

As for biddings on time deposits in dollars from the United States of America, made on October 25, 2005, they were declared deserted at not having received a purchase order. In the operations of the electronic systems of negotiations of foreign currency administered by the *Bolsa de Valores Nacional, S.A.* (National Stock Exchange, S.A.), for the period of October 28 to November 4 of the present year commented that the Private Institutional Foreign Currency System –SPID-, operations took place only on Monday, October 31 were made for US$1.0 million at an average weighted exchange rate of Q7.61750. In the Electronic Foreign Currency Negotiation System –SINEDI-, they declared that during the period there were no operations and that the *Banco de Guatemala* received bids for the purchase of US$10.0 million, with a price of Q7.58900, according to the guidelines of the Execution Committee.

On the other hand, they informed that the Future Foreign Currency Market that is operated by the National Stock Exchange, S.A., during the period of October 28 to November 4, 2005, did not close operations. As for the closing price in reference up to Friday, November 4, they indicated that for maturity to liquidate in December of 2005 the price was Q7.62500, and for the maturity to liquidate in March of 2006 it was of Q7.64300.

b) The director for the Economic Studies Department informed that on November 3, 2005, the excess of the daily exchange rate of the banking system was located in a negative position of Q397.0 million, with an average position of Q306.6 million.

The highlights during the period of October 27 to November 3, 2005, the main monetizing factors were the decreases in balance for long term deposits constituted in the *Banco de Guatemala* for Q1, 034.6 million and of the deposits for the rest of the public sector in the Central Bank for Q36.6 million; and, the increase in the Net International Reserve –RIN- balance for the equivalent of Q50.4 million; while the main demonetizing factors were the increase in balances of the banking float for Q947.4 million and the deposits in the Central Government for Q24.4 million.

Regarding the indicative variables of the Monetary, Exchange and Credit Policy they indicated that with the projection to September for December of 2005 the total inflation estimated with a model of ordinary squared minimums is of 7.50% and with a softened exponential model of 9.04%; the simple average of both models is located at 8.27%, which is above the policy range goal (4.0%-6.0%), which suggests a restrictive monetary policy.

Regarding the expected subjacent inflation for 2005, with data up to September 2005, estimated with an integrated auto-regression model of mobile averages ARIMA, was of 7.52%, whereas the estimated with a softened exponential model it was of 7.93%; the simple average of both models is of 7.73%, which is above the policy range goal (4.0%-6.0%), which suggests a restrictive monetary policy.

As to the parameter rate, up to October 27, 2005, the lower limit was 3.38%, and the upper limit is 11.28%, while the simple average between the repurchase agreements of 8 to 15 days (3.90%) and the weighted average rate of open market operations –OMA- of up to 91 days (4.01%) was situated at 3.96%, which is located within the limits of the parameter rate, situation that suggests the convenience of the invariable monetary policy. When referring to the parity passive rate, they declared that up to October 27, 2005, the lower limit was 5.73% and the upper limit was 7.31%, and the weighted average rate of long term deposits of the banking system was of 6.92%, which maintains itself within the range of the parity passive rate, which is advised by the invariable monetary policy.

As to monetary issue observed to November 3, 2005, they indicated that it presents a deviation of Q513.6 million according to the upper limit programmed for said variable, which would indicate that there is space available to restrict the monetary policy.

As to the total payment means, to October 27, 2005, it exhibited an inter-annual growth rate of 15.6%, which is within the estimated range for said variable on that same date (14.2% to 16.2%), which advises the monetary policy to remain invariable. Also, up to said date, the banking credit to the private sector registered an inter-annual growth rate of 20.3%, which is above the upper limit of the estimated range for October 27, 2005 (15.6% to 17.6%), which suggests a restrictive monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in October of 2005, for December of 2005 an inflationary rhythm of 9.14% is expected, which is above the goal range for monetary policy (4.0% to 6.0%), an aspect which suggests restricting the monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to October 27, 2005, was -2.89 percentage points which is within the range estimated for said variable on that date (-4.19 to -2.59 percentage points), which advises that monetary policy should remain invariable.

To conclude this report, orientation of the indicative variables remains the same regarding the previous week: five variables suggest that the monetary policy be restrictive (the total inflation projection, the subjacent inflation projection, the inflation expectations of private analysts, monetary issue and banking credit to the private sector); four variables suggest that monetary policy remain invariable (parameter rate, parity passive rate, Monetary Conditions Indexes and the total payment means); and do not suggest to be lax with it.

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

a) Analysis of the monetary situation

The Committee took note that the monetizing and demonetizing factors foreseen for the week of November 4 to November 10, 2005 indicate an increase in the creation of primary liquidity for Q1, 019.8 million, fundamentally due to the maturity of LTD's. Also, an increase is foreseen for the demand for monetary issue for Q66.0 million and a daily banking liquidity position for November 10, 2005 for Q362.2 million. Also, monetary issue is deviated in Q642.3 million above the central programmed point for said variable, therefore the excess of added liquidity for the referred period is located at Q1, 958.3 million; if these factors are given, the Committee considered that it would be necessary to make the issue offer compatible with the demand programmed, that the LTD's that expire during the period (Q1,578.2 million, according to registries to November 3, 2005) have to be relocated; and also, make additional fund raising for about Q380.1 million.

The execution Committee took note of the Open Market operations of the United States Federal Reserve, in its session of November 1, 2005, and agreed to raise the objective interest rate of federal funds in 25 basic points (twelfth time in the last 16 months).

In that regard, it was commented that said measure was adopted jointly, where the prices of energy are high and where the economic activity and employment in the United States is still absorbing the effects of Hurricane Katrina, situation which according to the official press release of the Federal Reserve has been moderate due to the accommodated position of the monetary policy and the gains in productivity. A comment was also made regarding the press release that indicated that the accumulated increase in energy prices could create additional inflationary pressure but that, in contrast, the inflation attributable to monetary factors (subjacent inflation) has remained relatively low in the last months.

Regarding the determination of quotas for biddings in the following week, the information provided for estimated daily flow of monetization for the following week and as an established rule for determining quotas, therefore the Committee agreed that the quota of raising funds for the 91 and 364 day terms to be convened on Monday would be established at Q10.0 million for each term and for the 182 and 728 day terms to be convened Wednesday, the raising funds quota was established at Q10.0 million each.

On the other hand, a fund raising quota for Q10.0 million for the 2,912 day (8 year) term to be called on Friday.

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

Based on the monetary situation analysis, the Execution Committee agreed that for the week of November 7 to November 11, 2005, they would maintain the execution guidelines for the monetary policy observed during the present week; in other words, continue to operate in MEBD and in the Stock exchange, in raising funds as well as in giving liquidity to the market. The raising funds operations will be 7 day terms without quota, at an interest rate of 3.75%, whereas, the offer position of liquidity at 7 day terms, with an initial interest rate of 7.65%, whose guarantee of said operations will be constituted by receiving public titles, only. It is worth mentioning that the Committee stressed the importance of participating in both; in other words, maintaining simultaneous positions of giving liquidity to the market and liquidity withdrawal, considering said participation constitutes a sign of disposition of the Central Bank to moderate the volatility of the short term interest rate.

The Committee, taking into consideration the agreed with the fiscal policy to participate in the money market, agreed that the calling for biddings for term deposits would continue on Monday, Wednesday and Friday of the following week; so Monday for 91 and 364 day terms, with an raising funds quota of Q10.0 million for each term; and Wednesday for 182 and 728 day terms, with raising funds quotas for Q10.0 million for each of the terms. The interest rates would be determined according to the market conditions, reflected in the positions received, considering the established yield curve by the technical department; and on Friday the 1456 day (4 years), 2184 day (6 years) and 2912 day (8 years) terms, for the 4 and 6 year term without a pre-established raising funds quota and for 8 years with a fund raising quota for Q10.0 million. For the corresponding awarding, the committee will decide the amount to award for each term and for the determination of the interest rate to apply, as reference the one that corresponds to each one of the mentioned terms in a yield curve calculated through interpolation in the interest rates for 364 days (1 year) and 10 year terms will be taken. The payment of interest for the terms longer than 364 days will be at each semester, so as to keep with the same conditions held by the *Ministerio de Finanzas Públicas* (Equivalent to the Department of the Treasury).

On the other hand, the Committee agreed to continue acquiring directly at the window, with official and public entities. In the case of official entities, that the raising funds continue according to the prevalent financial conditions; in other words, the interest rate for 7 day terms would be the one that applies for the *Banco de Guatemala* in the MEBD and in the stock exchange and, for the other terms, it would be the mobile average for each term, the weighted average interest rate resulting from the four previous bidding events. Whereas the raising funds for the pubic, the interest rate for each term, cannot be higher than the corresponding weighted average bid minus one percentage point.

On the other hand, the Committee agreed to summon for biddings of term deposits in United States dollars –DP in US$- should be made on Tuesdays for each week in the 91 and 336 day terms, for the amount of up to US$30.0 million. The bids to be received will be awarded up to 3.05% for the 91 day term and up to 3.89% for the 336 day term, according to the agreed in session 48-2005, without excluding the possibility that if the terms received deserve it, they could receive higher rates, a session would be conceived for the rewarding.

The Committee agreed to continue accepting the constitution of term deposits in United States dollars directly at a window, from public entities, in current terms of (91 days and 336 days) and that the interest rate applied would be the resulting weighted average from the last awarded bidding for long term deposits in that currency.

As for the participation of the *Banco de Guatemala* in the Exchange market, the Committee agreed that it should continue participating in the SINEDI through participation rules established in session 55-2005 dated October 27, 2005.

FIFTH: Other matters.

Not having any other matter to see, the session ends at sixteen hours and thirty minutes, all who attended sign in agreement.