EXECUTION COMMITTEE

ACT NUMBER 60-2005

Session 60-2005 celebrated in the *Banco de Guatemala* building on Friday, November twenty-fifth, 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 act number 59-2005, corresponding to the session celebrated on November 18, 2005.
(The project of the act circulated.)

SECOND: Evaluation of the position of the bidding for Time Deposits in *quetzales* No. DP-142-2005.

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 59-2005.

SECOND: Evaluation of the positions of bidding for time deposits in *quetzales*
No. DP-142-2005.

The committee took note that bids for the Time deposits –LTD, (Q75.0 million at 2,184 days (6 years), at an interest rate of 7.75%); and, Q6.0 million at 2,912 days (8 years), at an interest rate of between 8.3999 and 8.40%) and, taking as a reference the yield curve, calculated through the interpolation of interest rates current for public titles, agreed to award two bids received for 6 year terms for Q75.0 million and two bids received for 8 year terms for Q6.0 million.

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 November 21 to 25 of 2005, with partial numbers to date, registered an attraction of LTD's for Q3,047.2 million and maturity of Q2,074.5 million, which gave a net result of fund raising for Q972.7 million, associated to the operations in bidding (net attraction for Q875.0 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net fund raising of Q875.0 million) and at the window (net fund raising for Q69.9 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of November 21 to 24, 2005 for the biddings case, the cut interest rates were of: 5.00% for 91 days, 5.50% for 182 days, 6.2498% for 364 days; and 7.00% for 728 days. On the other hand, in the MEBD and in the stock exchange the fund-raising took place for 7 days, at the leading interest rate of the monetary policy of 4%.

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 November 21 to 25, 2005 period, with partial data, the minimum was of 3.52%, observed November 25, 2005, and the maximum of 4.19%, registered on November 23, 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 3.78% for public titles and of 4.55% for the financial sector titles.

On the other hand, it was informed that during the November 21 to 25, 2005 period, regarding Treasury Bonds operations the maturity was registered for Q0.1 million and US$2.5 million.

As to the bidding of term deposits in US dollars convened on November 22, 2005, it was mentioned that no bids were presented.

Regarding the Institutional Market for foreign currency the report stated that during the period of November 18 to 24, 2005, the average daily operations for purchase were of US$53.8 million and the sale was of US$56.7 million as the exchange rates were stable. In effect, on Friday, November 18 they were of Q7.60226 per US$1.00 for purchase and of Q7.62175 per US$1.00 for sale, on Monday, November 21 the rates were Q7.59575 and Q7.62172, on Tuesday, November 22 they were Q7.60033 and Q7.62494, Wednesday, November 23 they were Q7.60823 y Q7.63485, and finally, on Thursday, November 24 they were Q7.60876 y Q7.62866.

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 November 21 to 25 of the present year commented that the Private Institutional Foreign Currency System –SPID-, only on Wednesday, November 23, there was an operation for US$1.0 million, at a weighted average exchange rate of Q7.63500. In the Electronic Foreign Currency Negotiation System –SINEDI-, they declared that during the period no operations were closed and only the *Banco de Guatemala* received daily, a bid 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 November 21 to 25, 2005, did not close operations. As for the closing price in reference up to Friday, November 25, 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 Q7.64000.

b) The director for the Economic Studies Department informed that on November 24, 2005, the excess of the daily float of the banking system was located in a negative position of Q127.6 million, with an average position of Q290.9 million.

The highlights during the period of November 17 to 24, 2005, the demonetizing factors were the increase in balances of the long term deposits constituted in the *Banco de Guatemala* for Q765.3 million and the deposits of the rest of the public sector in the Central Bank for Q35.6 million; while the main monetizing factors were decreases in the balance in the deposits of the Central Government in the *Banco de Guatemala* for Q305.5 million and the banking float balance for Q287.7 million; and the increase in the Net International Reserve –RIN- balance for the equivalent of Q116.0 million.

Regarding the indicative variables of the Monetary, Exchange and Credit Policy they indicated that with the projection to October for December of 2005 the total inflation estimated with a model of ordinary squared minimums is of 9.60% and with a softened exponential model of 9.81%; the simple average of both models is located at 9.71%, 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 October 2005, estimated with an integrated auto-regression model of mobile averages ARIMA, was of 7.57%, whereas the estimated with a softened exponential model it was of 8.62%; the simple average of both models is of 8.10%, which is above the policy range goal (4.0%-6.0%), which suggests a restrictive monetary policy.

As to the parameter rate, up to November 17, 2005, the lower limit was 4.28%, and the upper limit is 12.18%, while the simple average between the repurchase agreements of 8 to 15 days (4.00%) and the weighted average rate of open market operations –OMA- of up to 91 days (4.28%) was situated at 4.14%, which is located within the estimated for the parameter rate, situation that suggests a restrictive monetary policy. When referring to the parity passive rate, they declared that up to November 17, 2005, the lower limit was 5.98% and the upper limit was 7.56%, and the weighted average rate of long term deposits of the banking system was of 6.93%, which maintains itself within the range of the parity passive rate, which advises an invariable monetary policy.

As to monetary issue observed to November 24, 2005, they indicated that it presents a deviation of Q477.7 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 November 17, 2005, it exhibited an inter-annual growth rate of 16.1%, which is within the estimated range for said variable on that same date (14.9% to 16.9%), 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 21.0%, which is above the upper limit of the estimated range for November 17, 2005 (14.5% to 16.5%), 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 monetary policy.

They mentioned that the Monetary Conditions Index –ICM-, to November 17, 2005, was -2.91 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, regarding the orientation of the indicative variables; it was reported that regarding last week, the “parameter rate” variable went from suggesting that the monetary policy remain invariable to suggest it be restrictive, giving ah increase to six variables that suggest restricting the monetary policy (the total inflation projection, the subjacent inflation projection, the inflation expectations of private analysts, monetary issue and banking credit to the private sector and parameter rate); there was a decrease to three variables that suggest the monetary policy remain invariable (parity passive rate, Monetary Conditions Indexes and the total payment means); and none 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 previewed for the week of November 25 to December 1, 2005 indicate an increase in the creation of primary liquidity for Q2,874.6 million, fundamentally due to the maturity of LTD’s. Also, an increase is foreseen for the demand for monetary issue for Q387.0 million and a daily position of banking liquidity for December 1, 2005 for Q339.4 million. Also, monetary issue is deviated in Q606.1 million above the central programmed point for said variable, therefore the excess of added liquidity for the referred period is located at Q2, 754.3 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 (Q2,745.0 million, according to registries to November 24, 2005) have to be relocated; and also, make additional raising funds for around Q9.3 million.

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, based on what 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 Q30.0 million for each term and for the 182 and 728 day terms to be convened Wednesday, the raising funds quota was established at Q30.0 million each. On the other hand, a fund raising quota for Q30.0 million for a period of 2, 912 days (8 years) is to be convened 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 28 to December 2, 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 4.00%, 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 venues; 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 for the following week; so Monday for 91 and 364 day terms, with an raising funds quota of Q30.0 million for each term; and Wednesdays for 182 and 728 day terms, with raising funds quotas for Q30.0 million for each of the terms. The interest rates would be determined according to the market conditions, reflected in the bids received, considering the established yield curve by the technical department; and on Fridays 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 Q30.0 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, the interest rate would be the mobile average, for each term, of the weighted average interest rate resulting in the previous four bidding events. As to fund raising for the public, the interest rate for each term, can not be higher than the weighted average of the corresponding bid minus one percentage point.

On the other hand, the Committee agreed to summon biddings for term deposits in US dollars –DP in US$- to be made on Tuesdays of each week for 91 and 336 day terms, for an amount of up to US$30.0 million. The bids received can be awarded an interest rate of up to 3.05% for 91 day terms and up to 3.89% for 336 day terms, according to the agreed in session 48-2005, without excluding the possibility that, if the bids received deserve better rates, a session with the Committee will be convened to decide its awarding.

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 six minutes, all who attended sign in agreement.