EXECUTION COMMITTEE

ACT NUMBER 65-2005

Session 65-2005 celebrated in the *Banco de Guatemala* building on Thursday, December twenty-second, 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 64, corresponding to the session celebrated on December 16, 2005.
(The project of the act circulated.)

SECOND: Evaluation of the position of the bidding for Time Deposits in *quetzales* No. DP-154-2005.

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 approved the order of the day.

FIRST: The coordinator has put to consideration the corresponding project act.
Not having any observations, the committee approved act number 64-2005.

SECOND: Evaluation of the positions of bidding for time deposits in *quetzales* No. DP-154-2005.

The committee took note that bids for the Time deposits –LTD, (Q7.0 million at 2,912 days (8 years), at an interest rate of 8.40%) and, taking as a reference the yield curve, calculated through the interpolation of interest rates current for public titles, agreed to award the bid received for 8 year terms for Q7.0 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 December 19 to 22, 2005, with partial numbers to date, registered an attraction of LTD's for Q1,190.4 million and maturity of Q937.1 million, which gave a net result of fund raising for Q253.3 million, associated to the operations in bidding (net maturity for Q58.3 million), in the Money Electronic Banking Table –MEBD- and in the stock exchange (net maturity of Q480.0 million) and at the window (net maturity for Q168.4 million).

Regarding the interest rates applied in fund raising through LTD's, it was indicated that during the period of December 19 to 22, 2005 for the biddings case, the cut interest rates were of: 5.00% for 91 days, 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 4.25%.

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 December 19 to 22, 2005 period, with partial data to date, the minimum was of 4.22%, observed December 19, 2005, and the maximum of 4.71%, registered on December 20, 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 4.45% for public titles and of 5.60% for the financial sector titles.

On the other hand, it was informed that during the December 19 to 22, 2005 period, regarding Treasury Bond operations the maturity was registered for Q50.0 million and US$1.0 million.

As to the bidding of term deposits in US dollars convened on December 20, 2005, it was mentioned that no bids were presented.

Regarding the Institutional Market for foreign currency the report stated that during the period of December 15 to 21, 2005, the average daily operations for purchase were of US$70.5 million and the sale was of US$75.7 million as the exchange rates showed a tendency toward the low. In effect, on Thursday, December 15 they were of Q7.60734 per US$1.00 for purchase and of Q7.62463 per US$1.00 for sale, on Friday, December 16 the rates were Q7.60365 and Q7.62180, on Monday, December 19 they were Q7.58647 and Q7.61261, Tuesday, December 20 they were Q7.58706 y Q7.60369, and finally, on Wednesday, December 21 they were Q7.58238 y Q7.60155.

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 December 16 to 22 of the present year commented that the Private Institutional Foreign Currency System –SPID-, the following operations took place: on Wednesday, December 21 for US$3.0 million, at a weighted average exchange rate of Q7.59600 and on Thursday, December 22 for US$200.0, at Q7.60000. 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 the following prices: from December 5 to 7 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 December 16 to 22 no operations were closed. As for the closing price in reference up to Thursday, December 22, they indicated that for maturity to liquidate in March, 2006 it was of Q7.63000 and for the maturity to liquidate in June, 2006 was of Q7.64350.

b) The Sub-director for the Economic Studies Department informed that on December 21, 2005, the excess of the daily float of the banking system was located in a position of Q286.8 million, with an average position of Q405.7 million.

The highlights during the period of December 15 to 21, 2005, the main monetizing factors were decreases in the balance in banking float balance for Q449.7 million and the deposits of the Central Bank in the *Banco de Guatemala* for Q358.6 million; while the main demonetizing factors were the increase in the balance for the deposits of the rest of the public sector in the Central Bank for Q173.1 million and the long term deposits constituted in the *Banco de Guatemala* for Q135.3 million, and the decrease in the Net International Reserve –RIN- the equivalent of Q41.6 million.

Regarding the indicative variables of the Monetary, Exchange and Credit Policy they indicated that with the projection to November for December of 2005 the total expected inflation estimated with a model of ordinary squared minimums is of 9.15% and with a softened exponential model of 9.22%; the simple average of both models is located at 9.19%, 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 November 2005, estimated with an integrated auto-regression model of mobile averages ARIMA, was of 7.87%, whereas the estimated with a softened exponential model it was of 8.01%; the simple average of both models is of 7.94%, which is above the policy range goal (4.0%-6.0%), which suggests a restrictive monetary policy.

As to the parameter rate, up to December 15, 2005, the lower limit was 3.74%, and the upper limit is 11.64%, while the simple average resulting between the repurchase agreements of 8 to 15 days (4.25%) and the weighted average rate of open market operations –OMA- of up to 91 days (4.54%) was situated at 4.40%, which is located within the estimated for the parameter rate, situation that suggests that the monetary policy remain invariable. When referring to the parity passive rate, they declared that up to December 15, 2005, the lower limit was 6.08% and the upper limit was 7.66%, and the weighted average rate of long term deposits of the banking system was of 6.94%, which maintains itself within the range of the parity passive rate, which advises an invariable monetary policy.

As to monetary issue observed to December 21, 2005, they indicated that it presents a deviation of Q447.0 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 December 15, 2005, it exhibited an inter-annual growth rate of 15.6%, which is within the estimated range for said variable on that same date (11.4% to 13.4%), which advises to restrict the monetary policy. 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 December 15, 2005 (12.1% to 14.1%), which suggests a restrictive monetary policy.

As to inflation expectations of private analysts, they indicated that according to the poll made in November of 2005, for December of 2005 an inflationary rhythm of 10.17% 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 December 15, 2005, was -2.95 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 it remained the same regarding last week: six variables suggest that the monetary policy be restricted (the total inflation projection, the subjacent inflation projection, the inflation expectations of private analysts, monetary issue and banking credit to the private sector and the total payment means); three variables suggest the monetary policy remain invariable (parity passive rate, the parameter rate, and the Monetary Conditions Indexes); 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 December 23 to 29, 2005 indicate an increase in the creation of primary liquidity for Q2, 415.4 million, fundamentally due to the maturity of LTD's and the use of deposits of the Central Government in the *Banco de Guatemala*. Also, an increase is foreseen for the demand for monetary issue for Q213.2 million and a daily position of banking liquidity for December 29, 2005 for Q591.0 million. Also, monetary issue is deviated in Q485.1 million above the central programmed point for said variable, therefore the excess of added liquidity for the referred period is located at Q3, 278.3 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 (Q1,618.6 million, according to registries to December 21, 2005) have to be relocated; and also, make additional raising funds for around Q1,659.7 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 Q60.0 million for each term and for the 182 and 728 day terms to be convened Wednesday, the raising funds quota was established at Q60.0 million for each. On the other hand, a fund raising quota for Q60.0 million for a period of 2, 912 days (8 years) is to be convened on Thursday.

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 December 27 to 29, 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 4.25%, 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 Tuesday, Wednesday and Thursday for the following week; so Tuesday for 91 and 364 day terms, with an raising funds quota of Q60.0 million for each term; and Wednesdays for 182 and 728 day terms, with raising funds quotas for Q60.0 million each. 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

Thursday 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 Q60.0 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). Also the Committee established that the biddings for Wednesday, December 28 and Thursday, December 29, 2005, will be liquidated on Tuesday, January 3, 2006.

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.

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 also 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 said 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 fifteen minutes, all who attended sign in agreement.