EXECUTION COMMITTEE

ACT NUMBER 1-2008

Session 1-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, January fourth, two thousand eight, at thirteen hours and fifteen minutes.

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

FIRST: Knowledge of the project of act number 69-2007, corresponding to the session celebrated on December 28, 2007.

CIRCULATE: project of act number 69-2007.

SECOND: Information on markets and monetary variables.

a) Money Market
b) Exchange Market
c) Indicative Variables
d) Estimated Monetization Flow
e) Proposal of quotas for bids in term deposits

THIRD: Preliminary report of the inflation to December 2007.

FOURTH: Determination of quotas and definition of the guidelines for the Execution of the Monetary, Exchange Rate and Credit Policy

a) Determination of quotas for bidding of term deposits
b) Definition of guidelines

FIFTH: Evaluation of the bids for the bidding of term deposits in quetzales No. DP-1-2008.

SIXTH: Other matters.

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

FIRST: Not having observations, the Committee approved Act number 69-2007.

SECOND: Information of markets and monetary variables.

The Coordinator requested the corresponding information be provided.

a) The Director of the Department of Monetary Stabilization Operations, regarding the Money market informed that during the period from December 28, 2007 to January 3, 2008, registered an attraction of LTD’s for Q1,660.6 million and maturity for Q1,242.9 million, which gave as a result net maturity for Q417.7 million, associated to the operations made through the commodities exchange (net maturity for Q65.7 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q439.5 million); and at the window (net fund-raising for Q43.9 million).

Regarding the DP fund-raising in the MEBD and in the *Bolsa de Valores Nacional, S. A*. stock exchange the fund-raising took place for 7 days; the leading interest rate was of 6. 50%.

Regarding liquidity injecting operations it was reported that, during the period of December 28, 2007 to January 3, 2008, operations for Q66.3 million for a 7 day term, at an interest rate of 8.00%. It was indicated that in the referred operations they received Term Certificates of Deposit from the *Banco de Guatemala*, Representative Certificates of Treasury Bonds from the Republic of Guatemala as a guarantee, expressed in US dollars.

As to 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 28, 2007 to January 3, 2008 period, the minimum was of 7.24% observed on January 3, 2008 and the maximum was of 7.45% registered on December 28, 2007. It also pointed out that the amounts negotiated were greater with public title guarantees and that the weighted average interest rate during said period was of 7.35% for public titles.

On the other hand, it was informed that during the December 28, 2007 to January 3, 2008 period, regarding the US Treasury Bond placements, registered maturity for US$2.3 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of December 27, 2007 to January 2, 2008, the average daily operations for purchase were of US$66.6 million and the sale was of US$83.4 million and that the weighted average exchange rates of the referred operations showed, at the beginning of the period indicate, a slight tendency to rise. In effect, on Thursday, December 27, 2007 they were Q7.59904 per US$1.00 for purchase and of Q7.61857 per US$1.00 sale, on Friday, December 28 they were Q7.61302 and of Q7.64861; and, finally on Wednesday, January 2, 2008 they were Q7.62326 and of Q7.65446. Also, it was indicated that the current exchange reference rate for January 4, 5 and 6 of the current year is Q7.63609 per US$1.00.

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 27, 2007 to January 2, 2008, it was commented that the Private Institutional Foreign Currency System –SPID-, there were no operations made. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, there were no operations, and also, that according to the established in the participation rules of the *Banco de Guatemala* in the exchange market, during the period, there were no convened auctions for US dollars.

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 27, 2007 to January 3, 2008, did not close operations.

c) The Director for the Economic Studies Department informed that, from December 27, 2007 to January 2, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q442.2 million to Q244.4 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q10.1 million. On the other hand, the average position of legal reserve in the mentioned period went from Q278.0 million to Q196.4 million.

The highlights during the period of December 27, 2007 to January 3, 2008, the main demonetizing factors of the monetary issue were the decrease in the balance of the Expenses and Products of the Central Bank for Q611.0 million, the increase in the balance of the deposits constituted in the Banco de Guatemala for Q417.7 million and of the deposits constituted in the Central Bank for Legal Banking Reserve for Q284.3 million; while the main monetizing factors were the decrease in the balance of the Central Government in the *Banco de Guatemala* for Q496.7 million and of the deposits in the *Banco de Guatemala* from the rest of the public sector for Q105.8 million, as well as the increase in the balance of the Net International Reserves for Q281.6 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with the projection to November 2007, for December 2007 the total expected inflation estimated with a model of ordinary squared minimums is of 8.53% and with a softened exponential model of 8.44%; the simple average of both models is located at 8.49%, percentage which is found over the tolerance margin (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy; and, for December 2008 the total expected inflation, estimated with an ordinary squared minimum model, is of 5.92% and with a softened exponential model of 7.32%; the simple average of both models is at 6.62%, which is over the punctual value of the policy target and within the tolerance margin (4.5% +/- 1 percentage point), which suggests a restrictive monetary policy.

Regarding the expected subjacent inflation for December 2007, with data up to November 2007, estimated with an integrated auto-regression model of mobile averages ARIMA was of 8.16%, whereas the estimated with a softened exponential model was of 8.27%; the simple average of both models is of 8.22%, which is over the tolerance margin for the policy target (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy; and, for December 2008 the estimated subjacent inflation with an integrated autoregressive model of mobile averages ARIMA, was of 6.38%, whereas the estimated softened exponential model was of 6.47%; the simple average of both models is of 6.43%, which is located over the punctual value of the inflation target and within the tolerance margin of the policy target (4.5% +/- 1 percentage point), which suggests a restrictive monetary policy.

As to the parameter rate, on December 27, 2007, the lower limit was 7.82%, and the upper limit is 11.77%; while the simple average between the repurchase agreements of 8 to 15 days (7.87%) and the weighted average of the monetary stabilization operations of up to 91 days (6.30%) was situated at 7.09%, which is located below the tolerance margin estimated for the parameter rate, situation that suggests restricting the monetary policy. When referring to the parity liable rate, they declared that up to December 27, 2007, the lower limit was 6.50% and the upper limit was 7.30%, and the weighted average rate of long term deposits of the banking system was of 7.28% which is located within the upper limit of the fluctuation margin of the parity liable rate, which suggests keeping the monetary policy invariable.

As to primary liquidity it was indicated that monetary issue observed to January 3, 2008, presents a deviation of Q596.4 million regarding the upper limit programmed runner for said variable, which would indicate that there is space available to restrict the monetary policy, whereas the base of an ample monetary base, on that same date, was at Q9.4 million below the lower limit of the programmed runner, which suggests a relaxed monetary policy. The weighted orientation of the deviation for the present week is for Q293.5 million, which would indicate restricting the monetary policy.

As to the total payment means, the inter-annual growth observed to December 27, 2007, ascended to 10.2%, below the lower limit of the tolerance margin estimated range for said variable (15.0% to 17.0%), which suggests a relaxed monetary policy; in which the econometric estimation for the payment means for December 2007 is of 10.5%, which is below the lower limit of the estimated range for December 2007 (15.0% to 17.0%), which suggests relaxing the monetary policy. The average orientation of the deviation of -4.65%, therefore suggests, relaxing the monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered growth of 26.0%, which is over the upper limit of the estimated runner for December 27, 2007 (21.0% to 23.0%), which suggests a restrictive monetary policy; on the other hand, the econometric estimation for the end of 2007 of the banking credit to the private sector is of 25.8%, which is over the upper limit of the estimated range (21.0% to 23.0%), which suggests a restrictive monetary policy. The average orientation of the deviations for the present week of 2.90%, therefore suggests, restricting the monetary policy.

As to inflation expectations from the panel of private analysts, they indicated that according to the poll made in December 2007, for December 2007 the inflation projection is at 8.59% is expected, which is over the tolerance margin of the monetary policy target (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy; and, for December 2008, the inflation projection was at 7.62%, which is also over said tolerance margin (4.5% +/-1 percentage point), which suggests a restrictive monetary policy. It was also indicated that the inflation targeting variable, with data to November, 2007, shows an inflationary rhythm of 6.20%, which is over the tolerance margin of the monetary policy target for 2007 (5.0% +/- 1 percentage point), which suggests a restrictive monetary policy.

Regarding the Semi-structural Macroeconomic Model (MMS) used in November to forecast the total inflationary rhythm, projected an inflationary rhythm of 7.04% for December 2007, conditioned to gradual adjustments in the leading interest rate of the monetary policy until locating itself, on average, in the last trimester of said year at 6.42%, which suggests a restrictive monetary policy.

Also, the forecast of said model for a mid term horizon, projects an inflationary rhythm of 6.16% for December 2008, conditioned to the gradual adjustments in the leading interest rate of the monetary policy until locating, on average, in the last trimester of said year at 5.86%, which suggest a restrictive monetary policy.

Regarding the orientation of the indicative variables, declared that regarding the previous week, said orientation remained unchanged. In that sense, according to the relative assigned weights of the indicative variables by the members of the Monetary Board, it was reported that 82.14% of the same suggest a restrictive monetary policy orientation; and, 9.07% an invariable monetary policy orientation; and, the remaining 8.79% suggest a relaxed monetary policy.

Finally, they indicated that regarding the behavior of the nominal exchange rate, the upper limit for the estimated runner for the week of January 2 to 4, 2007 were of Q7.726 and Q7.606 per US$1.00, respectively; and the observed level (calculated as the average of the exchange rates for purchase and sale in the Institutional Market of Foreign Currency for the period between January 2 and 3) was of Q7.638 per US$1.00; with which the observed value of the nominal exchange rate is located below the referred runner.

d) The Sub-director of the Department of Economic Studies informed the Committee of the monetizing and demonetizing factors forecast in the Estimated Monetization Flow for the week of January 4 to 10, 2008, which indicate an excess of primary liquidity for Q2,752.1 million, fundamentally due to the maturity of CDs; if we add the negative position of banking legal reserve for Q55.3 million and the deviation observed for monetary issue for Q596.4 million, resulting in an excess of aggregate liquidity for the referred period of Q3,403.8 million; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q1,647.6 million; according to the registry to January 3, 2008) have to be relocated; and, besides make additional fund-raising for around Q1,756.2 million.

e) The Director of the Department of Monetary Stabilization Operations, based on the estimated monetization flow and on the guidelines established for the determination of the quotas for the bidding of term deposits through the commodity exchanges, proposed that they be Q10.0 million, Q20.0 million, Q10.0 million and of Q30.0 million for the following maturity dates: March 10, 2008, June 9, 2008 and September 8, 2008 and December 8, 2008, respectively.

THIRD: Preliminary inflation report to December 2007.

The Director of the Department of Economic Studies presented the preliminary information of the Consumer Price Index to December 2007 reported by the National Statistics Institute –INE- and indicated that the monthly inflation was of 0.94%, lower by 0.95 percentage points, to November 2007 and less than 0.35 percentage points to the observed in December 2006. In that regard, they mentioned that in December 2007, based on the information received by the INE, they observed reductions in the median prices of the following goods and services: tomato (32.56%); other legumes and leguminous plants (5.98%); corn (4.56%); other culinary herbs (4.37%); oranges (4.23%); trips abroad (1.06%); and, automobiles (0.66%). They also registered rises in the median of the following goods and services: urban transportation (19.59%); aerial transportation (15.07%); extra-urban transportation (11.20%); propane gas (4.89%); breakfast (3.02%); gasoline (2.90%); lunch (2.54%); and, bread (1.96%). As to inflationary rhythm, it was at 8.75%, lower by 0.38 percentage points to the registered in November 2007 (9.13%), but higher by 2.96 percentage points to the observed in December 2006 (5.79%). The subjacent inflation registered a rhythm of 8.90%, higher by 0.60 percentage points to the observed in November 2007 (8.30%) and greater by 3.37 percentage points to the registered in December 2006 (5.53%); as well as the estimations of the imported and domestic components of total inflation of the 8.75% of the inflationary rhythm to December 2007, the imported inflation (direct and indirect) was at 3.17 percentage points; therefore, 5.58 percentage points correspond to internal inflation.

The Committee received information of technical departments regarding the econometric estimations for December 2008 and 2009 of the total and subjacent inflationary rhythm, in which they incorporate the data regarding the inflation registered to December 2007. As to econometric projections of total inflation for December 2008, they indicated that this is inferior by 0.06 percentage points to the estimation made with data to November, when located at 6.56%, percentage that is located over the punctual value of the inflation target determined for said year (5.5%), but within the tolerance margin of +/- 1.5 percentage points. As to the evaluation of the projection of total inflation for December 2009 (6.26%) regarding the inflation target determined for the end of the referred year, highlighting that for said projection it will be over the punctual value of the inflation target (5.5%), but within the tolerance margin of +/- 1 percentage point.

Regarding the econometric projection of subjacent inflation for December 2008, it was reported that it was at 6.65%, higher by 0.22 percentage points to the estimation of the previous month, located over the punctual value of the inflation target determined for said year, but within the tolerance margin of +/- 1.5 percentage points. On the other hand, the econometric estimation for December 2009 was at 6.13%, over the punctual value of the inflation target determined for said year, but within the tolerance margin of +/- 1 percentage point.

FOURTH: Determination of quotas and definition of the execution guidelines of the Monetary, Exchange rate and Credit Policy

a) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for the biddings in the following week, the Committee took into account; on the one hand, the proposal of the Department of the Monetary Stabilization Operations, that include the information provided by the estimated monetization flow for the following week, and, on the other hand, the guideline to keeping limited amounts of quotas and the number of weekly bids. Based on the above, the Committee agreed to approve the proposal of the technical departments and, therefore, approved the fund-raising quotas in the following manner: for March 10, 2008, Q10.0 million; for June 9, 2008, Q20.0 million, September 8, 2008, Q10.0 million; and for December 8, 2008, Q30.0 million. In the case of direct bidding with public entities, they are to convene without pre-established quotas, without standardized nominal values in multiples of Q100.0, with maturity on the indicated dates and per price.

b) Definition of the guidelines.

Based on the discussed, the Execution Committee for the week of January 7 to 11, 2008, agreed to continue with operations through the MEBD and of the Values system of the *Bolsa de Valores Nacional, S. A*. (National stock exchange), for fund-raising as well as giving liquidity to the market. The fund-raising operations were made for 7 day terms without quotas, at a leading interest rate of the monetary policy and the bids of liquidity offer in 7 day terms, at an interest rate that maintains the current spread on the leading interest rate of the monetary policy of 1.50 percentage points. The guarantee of liquidity giving operations is constituted by receiving Term Certificates Deposits of the *Banco de Guatemala* or public titles expressed in quetzales or in US dollars: for the case of titles expressed in quetzales they will be received at face value and for those in US dollars, for the equivalent in quetzales at the reference exchange rate current for the operation date. It is worth indicating that the Committee reiterated the importance of participating in both venues; in other words, keeping liquidity giving bids and the retiring of liquidity simultaneously, considering said participation constitutes a signal of willingness by the Central Bank to moderate the volatility in the short term interest rate.

The Committee, taking into account the agreed in matters of coordination with the fiscal policy for the participation in the money market, agreed:

i. That the convening for the bidding through the commodity exchanges will be made on Monday January 7 and 11, 2008. On Monday January 7 will convene a bidding with a maturity date for March 10, 2008, for June 9, 2008, for September 8, 2008 and December 8, 2008, with fund raising quotas of Q10.0 million, Q20.0 million, Q10.0 million and of Q30.0 million, respectively. The prices awarded would be determined according to the market conditions, reflected in the bids received, considering the reference prices established by the technical departments. On Friday, January 11, the convening would be for 3, 8 and 10 year terms, without pre-established quotas; for the corresponding awarding, the Committee would decide the amount to award for each term, taking into account the estimated reference rates for the technical departments. The interest payment would be every six months, in order that the same conditions in which the *Ministerio de Finanzas Públicas* [Equivalent to the Department of the Treasury.]

ii. Convene bidding directly with public entities, on Tuesday, January 8 for the due dates of March 10, 2008, June 9, 2008, September 8, 2008, and for December 8, 2008, per price, without pre-established quotas and without standardized nominal values, in multiples of Q100.00. The awarded prices would be determined according to the conditions of the market, reflected in the bids received, considering the reference prices established by the technical departments.

iii. That fund raising continue directly at the window with public entities, per due dates, without pre-established quotas, without standardized nominal values, in multiples of Q100.00 and per price; the prices to apply will be established based on the equivalent weighted average yields, of the resulting prices, minus a fourth percentage point, in that order; of the direct bidding; the bidding through commodities exchange or the simple mobile averages of the weighted average prices of the last two bidding events; also, that they continue receiving DP in 7 day, 3, 8 and 10 year terms; for the 7 day term the interest rate will be that applied by the *Banco de Guatemala* in the MEBD and the commodities exchange, while for the 3, 8 and 10 year terms the interest rate will be the mobile average, for each term, of the weighted average interest rate resulting from the four previous bidding events.

iv. That they continue receiving DP from the private non financial sector, at the window, daily, for the remaining terms regarding the due dates established, at its face value, in multiples of Q100.00 and that the interest rate to apply in each week would be the equivalent interest rate to eh weighted average yields of the biddings through the commerce exchanges, minus one percentage point.

v. As for the bidding convening of DP in dollars, the Committee instructed the General Manager and the Financial Manager of the *Banco de Guatemala* so that, if there were volatility in the nominal exchange rate, in the week of January 7 to 11, 2008, convene DP biddings in dollars at 91, 182 and 364 day terms, without pre-established quotas. For the awarding of the bids, the interest rate for the Treasury Letters from the United States in similar terms can be taken as a reference.

On the other hand, the Committee agreed that the *Banco de Guatemala* could continue accepting the constitution of term deposits from public entities in US dollars directly at the window, at terms it deems convenient. The interest rate to be applied will be determined by a Commission in which the Presidency, Management and Department of Monetary Stabilization Operations from the *Banco de Guatemala* will participate, for which they will use the interest rates of the Treasury Letters of the United States of America in similar terms as a reference or the yield rate of investments in the international monetary reserves.

As for the participation of the *Banco de Guatemala* in the exchange market, the participation regulations established by the Monetary Board in resolutions JM-211-2007 and JM-168-2006.

FIFTH: Evaluation of the bids for the bidding of the Term Deposits in *quetzales* No. DP-1-2008.

The Committee was informed of the bidding of term deposit DP-6-2008, in which, they received bids for a total amount of Q7.5 million, distributed in the following manner: the first for an amount of Q5.5 million at a term of 1,093 days (3 years) at an interest rate of 7.25% per annum. and the second for an amount of Q2.0 million at a term of 3641 days (10 years) at an interest rate of 11.11% per annum. The committee after having analyzed the bids received, decide to only award the bid for the 1093 day term (3 years) for an amount of Q5.5 million at a rate of 7.25% per annum.

SIXTH: Other matters.

Not having other matters to discuss, the session ended at fourteen hours and fifteen minutes, in the same place and on the same date indicated, the participants signed in agreement.