EXECUTION COMMITTEE

ACT NUMBER 2-2008

Session 2-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, January eleventh, 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 1-2008, corresponding to the session celebrated on January 4, 2008.

CIRCULATE: project of act number 1-2008.

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: 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

FOURTH: Evaluation of the bids for the bidding of term deposits in quetzales No. DP-2-2008.

FIFTH: Other matters.

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

FIRST: Not having observations, the Committee approved Act number 1-2008.

SECOND: Information of markets and monetary variables.

The Coordinator requested the corresponding information be provided.

a) The Sub-Director of the Department of Monetary Stabilization Operations, regarding the Money market informed that during the period from January 4 to 10, 2008, registered an attraction of LTD’s for Q2,321.5 million and maturity for Q1,647.6 million, which gave as a result net maturity for Q673.9 million, associated to the operations made through the commodities exchange (net maturity for Q29.5 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q788.5 million); and at the window (net fund-raising for Q85.1 million).

Regarding the DP fund-raising, it was indicated that during the period of January 4 to 10, 2007, for the biddings case, the same were made on the maturity date and price and term, for the biddings for maturity and price, indicated that there were no bids; and, for the term bidding, the short term interest rate was of 7.25% for the 1092 day term (3 years). On the other hand, 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 January 4 to 10, 2008, operations for Q261.0 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 January 4 to 10, 2008 period, the minimum was of 6.64% observed on January 9, 2008 and the maximum was of 7.64% registered on January 4, 2008. 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 7.24% for public titles.

On the other hand, it was informed that during the January 4 to 10, 2008 period, regarding the US Treasury Bond placements, registered maturity for US$6.3 million.

b) The Sub-Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of January 3 to 9, 2008, the average daily operations for purchase were of US$57.0 million and the sale was of US$69.0 million and that the weighted average exchange rates of the referred operations showed, at the beginning of the period indicate, a tendency to rise. In effect, on Thursday, January 3, they were Q7.61854 per US$1.00 for purchase and of Q7.64366 per US$1.00 sale, on Friday, January 4 they were Q7.61972 and of Q7.64366, on Monday, January 7 they were Q7.62112 and of

Q7.64573, on Tuesday, January 8 they were Q7.64158 and of Q7.67362; and, finally on Wednesday, January 9, 2008 they were Q7.67395 and of Q7.70524. Also, it was indicated that the current exchange reference rate for January 11, 12 and 13 of the current year is Q7.71907 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 January 4 to 10, 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 January 4 to 10, 2008, did not close operations. They added that on Thursday, January 10, there was no reference price for the market to settle in March, 2008, since no operations had been closed.

c) The Director for the Economic Studies Department informed that, from January 3 to 9, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q375.7 million to Q1,428.4 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q194.7 million. On the other hand, the average position of legal reserve in the mentioned period went from Q181.5 million to Q1,011.7 million.

The highlights during the period of January 3 to 10, 2008, the main demonetizing factors of the monetary issue were the increase in the balance of the Legal Banking Reserve for Q826.3 million and the term deposits constituted in the *Banco de Guatemala* for Q673.9 million; while the main monetizing factors were the decrease in the balance of the deposits in the *Banco de Guatemala* from the Central Government for Q453.8 million and from the rest of the public sector for Q60.4 million; and, the increase in the balance of the Net International Reserves for Q74.4 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with the projection to December 2007, for December

2008 the total expected inflation estimated with a model of ordinary squared minimums is of 6.43% and with a softened exponential model of 6.68%; the simple average of both models is located at 6.56%, percentage which is found over the tolerance margin (5.5% +/- 1 percentage point), which suggests a moderately restrictive monetary policy; and, for December 2008 the total expected inflation, estimated with an ordinary squared minimum model, is of 6.21% and with a softened exponential model of 6.31%; the simple average of both models is at 6.26%, which is over the punctual value of the policy target and within the tolerance margin (5.5% +/- 1 percentage point), which suggests a moderately restrictive monetary policy.

Regarding the expected subjacent inflation for December 2008, with data up to December 2007, estimated with an integrated auto-regression model of mobile averages ARIMA was of 6.88%, whereas the estimated with a softened exponential model was of 6.42%; the simple average of both models is of 6.65%, which is over the tolerance margin for the policy target (5.5% +/- 1 percentage point), which suggests a restrictive monetary policy; and, for December 2009 the estimated subjacent inflation with an integrated autoregressive model of mobile averages ARIMA, was of 6.45%, whereas the estimated softened exponential model was of 5.80%; the simple average of both models is of 6.13%, which is located over the punctual value of the inflation target and within the tolerance margin of the policy target (5.5% +/- 1 percentage point), which suggests a moderately restrictive monetary policy.

As to the parameter rate, on January 3, 2008, the lower limit was 7.72%, and the upper limit is 11.67%; while the leading interest rate was below the lower limit of the estimated tolerance margin for the parameter rate, situation that suggests restricting the monetary policy. When referring to the parity liable rate, they declared that up to January 3, 2008, the lower limit was 6.37% and the upper limit was 7.27%, and the weighted average rate of long term deposits of the banking system was of 7.26% 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 10, 2008, presents a deviation of Q272.2 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, is within the programmed runner, which suggests an invariable monetary policy. The weighted orientation of the deviation for the present week is for Q136.1 million, which would indicate restricting the monetary policy.

As to the total payment means, the inter-annual growth observed to January 3, 2008, ascended to 12.2%, within the estimated runner for said variable on the same date (10.8% to 13.8%), which suggests an invariable monetary policy; in which the econometric estimation for the payment means for December 2008 is of 13.6%, which is within expected range for December 2008 (12.0% to 15.0%), which suggests an invariable monetary policy. The average orientation of the deviation (0.00%) therefore suggests an invariable monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered growth of 25.4%, which is over the upper limit of the estimated runner for January 3, 2008 (20.9% to 23.9%), which suggests a restrictive monetary policy; on the other hand, the econometric estimation for the end of 2008 of the banking credit to the private sector is of 22.1%, which is over the upper limit of the expected range (18.0% to 21.0%), which suggests a restrictive monetary policy. The average orientation of the deviations for the present week of 1.30%, 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 December, 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 the “total projected inflationary rhythm” and “Projected subjacent inflationary rhythm”, went from suggesting a restrictive monetary policy to advising that the same be moderately restrictive. It was reported that said modification is fundamentally due to the inflation target determined for 2008, as well as its tolerance margin. On the other hand, the “payment means” variable went from indicating a relaxed monetary policy to indicating an invariable one. In that sense, according to the relative assigned weights of the indicative variables by the members of the Monetary Board, it was reported that 57.69% of the same suggest a restrictive monetary policy orientation (82.14 the previous week); 24.45% suggest a moderately restrictive monetary policy (0.00% the previous week); 17.86% suggest an invariable monetary policy orientation (9.07% the previous week); and, 0.00% suggest a relaxed monetary policy (8.79% the previous week).

Finally, they indicated that regarding the behavior of the nominal exchange rate, the upper limit for the estimated runner for the week of January 7 to 11, 2008 were of Q7.754 and Q7.634 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 7 and 10) was of Q7.676 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 11 to 17, 2008, which indicate an excess of primary liquidity for Q2,062.9 million, fundamentally due to the maturity of CDs; if we add the negative position of banking legal reserve for Q422.4 million and the deviation observed for monetary issue for Q272.2 million, resulting in an excess of aggregate liquidity for the referred period of Q2,757.5 million; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q2,324.0 million; according to the registry to January 10, 2008) have to be relocated; and, besides make additional fund-raising for around Q433.5 million.

e) The Sub-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: 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 14 to 18, 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 14 and Friday, January 18, 2008. On Monday January 14 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 15 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 the 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 14 to 18, 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.

FOURTH: Evaluation of the bids for the bidding of the Term Deposits in *quetzales* No. DP-2-2008.

The Committee was informed of the bidding of term deposit DP-2-2008, in which, they received bids for a total amount of Q30.1 million for terms of 1092 days (3 years) and 3641 days (10 years). Regarding the 1092 day term (3 years), they received three bids for a total amount of Q20.1 million, distributed in the following manner: the first for an amount of Q0.1 million at an interest rate of 7.2499% per annum; and the second and third for Q10.0 million each at an interest rate of 7.2500% and 7.500% per annum, respectively. As for the 3641 day term (10 years), a bid of Q10.1 million at an annual interest rate of 11.1111% per annum was received The committee after having analyzed the bids received, decided to award the three bids for a 1092 day term (3 years): the first for an amount of Q0.1 million at an interest rate of 7.2499% annually; and the second and third for Q10.0 million for each, at interest rates of 7.2500% and 7.5000% annually, respectively.

FIFTH: Other matters.

The Committee was informed of the decision in terms of monetary policy interest rates adopted in January 2008 by the Bank of England, the Central Bank of Europe, and the Central Bank of Chile and the Central Reserve Bank of Peru. They also mentioned that the authorities of the first two central banks decided to keep their monetary policy interest rates invariable (at 5.5% and at 4.0%, respectively), although the markets discounted a reduction in the interest rates, in order to give incentive to internal consumption.

Regarding the decisions from the Central Bank of Chile and the Central Reserve Bank of Peru, they mentioned that both institutions decided to increase their monetary policy interest rates to 6.25% and 5.25%, respectively, with the objective of containing the existing inflationary pressures, derived from the increase in the international price of oil and in some food products. The authorities of both central banks coincided on the fact that the decision of restricting the monetary policy was consistent with the objective of placating the inflationary expectations in the medium term, therefore they were willing, in case it were necessary, to continue adjusting the rise in their monetary policy interest rates.

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.