EXECUTION COMMITTEE

ACT NUMBER 6-2008

Session 6-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, February eighth, two thousand eight, at thirteen hours.

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 5-2008, corresponding to the session celebrated on February 1, 2008.

CIRCULATE: project of act number 5-2008.

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) Discussion
b) Determination of quotas for bidding of term deposits
c) Definition of guidelines

FOURTH: Evaluation of the bids for the bidding of term deposits in quetzales No. DP-6-2008.

FIFTH: Other matters.

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

FIRST: The coordinator submitted the project of the corresponding act for consideration.

Not having observations, the Committee approved Act number 5-2008.

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 February 1 to 7, 2008, registered an attraction of LTD's for Q1,157.2 million and maturity for Q2,007.3

million, which gave as a result net maturity for Q850.1 million, associated to the operations made through the commodities exchange (net placements for Q103.4 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net maturity for Q956.0 million); and at the window (net fund-raising for Q2.5 million).

Regarding the DP fund-raising, it was indicated that during the period of February 1 to 7, 2008, for the biddings case, the same were made per due date, price and term, for the biddings for maturity date and price, indicated that in effect through the commerce exchanges, the cut price was of 97.7138% for maturities on June 9, 2008, equivalent to a yield rate of 6.7777%; of 96.0717% for the maturities of September 8, 2008, equivalent to a yield rate of 6.8777%; and, of 94.4394% for maturities on December 8, 2008, equivalent to a yield rate of 6.9777%, while for those held directly there were no bids presented; and, for the bidding term, the cut interest rate was of 7.50%, for the 1092 day (3 year) and of 8.10%, for the 2912 day (8 year) terms. As to the MEBD and in the *Bolsa de Valores Nacional, S. A*. stock exchange, the fund-raising was held for a 7 day term, the leading interest rate was of 6. 50%.

Regarding liquidity injecting operations it was reported that, during the period of February 1 to 7, 2008, operations for Q66.2 million for a 7 day term, at an interest rate of 8.00%. It was indicated that in the referred operations they received Representative Certificates of Treasury Bonds from the Republic of Guatemala as a guarantee, expressed in quetzales and 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 February 1 to 7, 2008 period, the minimum was of 6.62% observed on February 4 and the maximum was of 7.66% registered on February 7, 2008. It also pointed out that the amounts negotiated were guaranteed with public titles and that the weighted average interest rate during said period was of 7.30%.

On the other hand, it was informed that on February 7 of this year, they had repurchase agreement operations in the exchange market, by the banks of the system and the financial stock companies, with term deposits from the *Banco de Guatemala* and Guatemalan Treasury Bonds for Q545.0 million with a yield of 7.6261% and US$5.5 million with a yield of 4.3864%.

Finally, it was reported that during the period of February 1 to 7, 2008, regarding operations with treasury bonds expressed in quetzales, registered placements for Q16.0 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of January 31 to February 6, 2008, the average daily operations for purchase were of US$65.9 million and the sale was of US$71.6 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, January 31, they were Q7.76993 per US$1.00 for purchase and of Q7.78973 per US$1.00 for sale; on Friday, February 1 they were Q7.76055 per US$1.00 Q7.78899; on Monday, February 4 they were Q7.74079 and of Q7.77042, on Tuesday, February 5 they were Q7.72753 and of Q7.74870; and, finally on Wednesday, February 6, 2008 they were Q7.72733 and of Q7.74724. Also, it was indicated that the current exchange reference rate for February 8, 9 and 10 of the current year is Q7.74154 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 February 1 to 7, 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 February 1 to 7, 2008, did not close operations. They added that on Thursday, February 7, 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 31 to February 7, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q333.5 million to one of Q124.4 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q20.0 million. On the other hand, the average position of legal reserve in the mentioned period went from Q283.7 million to Q320.9 million.

The highlights during the period of January 31 to February 7, 2008, the main monetizing factors of the monetary issue were the decrease in the balance of the term deposits constituted in the Central Bank for Q850.1 million, of the legal banking reserve for Q106.6 million and of the deposits of the rest of the public sector in the *Banco de Guatemala* for Q77.7 million; and, the increase in the balance of the Net International Monetary Reserves for the equivalent to Q91.2 million; while the main demonetizing factors were the increase in the balance of the deposits from the Central Government in the *Banco de Guatemala* for Q1,118.9 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to Janaury 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 6.93% and with a softened exponential model of 6.88%; the simple average of both models is located at 6.91%, percentage which is found over the punctual value of the inflation target and within the tolerance margin of the inflation target (5.5% +/- 1.5 percentage point), which suggests a moderately restrictive monetary policy; and, for December 2009 the total expected inflation, estimated with an ordinary squared minimum model, is of 6.48% and with a softened exponential model of 6.45%; the simple average of both models is at 6.47%, which is over the punctual value of the inflation 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 6.64%, whereas the estimated with a softened exponential model was of 6.54%; the simple average of both models is of 6.59%, which is over the tolerance margin for the policy target (5.5% +/- 1.5 percentage point), which suggests a moderately restrictive monetary policy; and, for December 2009 the estimated subjacent inflation with an integrated autoregressive model of mobile averages ARIMA, was of 6.43%, whereas the estimated softened exponential model was of 5.98%; the simple average of both models is of 6.21%, 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, it was reported to January 31, 2008, the lower limit was 8.05%, and the upper limit is 12.00%; while the leading interest rate of the monetary policy was at 6.50%, which is 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 31, 2008, the lower limit was 5.05% and the upper limit was 5.95%, and the weighted average rate of long term deposits of the banking system was of 7.27% which is located within the upper limit of the fluctuation margin of the parity liable rate, which suggests relaxing the monetary policy.

As to primary liquidity it was indicated that monetary issue observed to February 7, 2008, is found within the 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 (Q0.0 million) would indicate an invariable monetary policy.

As to the total payment means, the inter-annual growth observed to January 31, 2008, ascended to 11.5%, within the estimated runner for said variable on the same date (11.2% to 14.2%), which suggests an invariable monetary policy; in which the econometric estimation for the payment means for December 2008 is of 12.9%, 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 24.5%, which is over the upper limit of the estimated runner for January 31, 2008 (20.4% to 23.4%), 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 21.9%, 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 1.00%, therefore suggests, restricting the monetary policy. Also indicating that the implied inflation expectations variable with data to January 2008, showed an inflationary rhythm of 6.17%, which is over the punctual value of the inflation target and within the tolerance of the monetary policy target for 2008 (5.5% +/- 1.5 percentual points), which suggests a moderately restrictive monetary policy.

Regarding the Semi-structural Macroeconomic Model (MMS) used in November to forecast the total inflationary rhythm, projected an inflationary rhythm of 6.16% for December 2008, 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 5.86%, which suggests a restrictive monetary policy.

Regarding the orientation of the indicative variables, declared that regarding the previous week, it was reported that the orientation varied in two indicative variables: in the first term, the “primary liquidity” went form suggesting a restrictive monetary policy to advising a moderately restrictive monetary policy. Also, they indicated that the weightings for the inflation forecast were modified, due to the fact that new inflation data were observed in January. Particularly, the relative importance of the inflation forecasts for 2008 was slightly reduced and marginally increased the importance of the same for 2009.

In that context, according to the relative weight assigned to the indicative variables, it was reported that 37.09% of the same suggest a restrictive monetary policy orientation (57.69% the previous week); 33.79% suggest a moderately restrictive monetary policy (24.45% the previous week); 20.05% suggest an invariable monetary policy orientation (8.79% the previous week); and, 9.07% suggest a relaxed monetary policy (equal percentage the previous week).

On the other hand, they indicated that regarding the behavior of the nominal exchange rate, the upper limit for the estimated runner for the week of February 4 to 8, 2008 were of Q7.722 and Q7.602 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 February 4 and 7) was of Q7.745 per US$1.00; with which the observed value of the nominal exchange rate is located over the referred runner.

Finally, they reported the behavior of inflation to January 2008 reported by the National Statistics Institute –INE [For its acronym in Spanish] and indicated that the monthly inflation was of 0.99%, higher by 0.05 percentual points to that of December 2007 and lower by 0.33 percentual points to the observed in January 2007. In that regard, it was mentioned that in January 2008, based on the information of the INE, observed rises in the mean prices of the following goods and services: güisquil (34.51%); potato (24.97%); monthly quota of higher education (8.60%); other fresh fruit (5.93%); soap (5.19%); milk (5.10%); monthly quota of secondary education (4.29%);

bread (3.42%); and poultry meat (2.43%). They also registered reductions in the mean prices of the following goods and services: tomato (17.52%); air transportation (15.56%); onion (8.02%); trips within the country (3.31%); trips abroad (2.99%); and, medical services (2.49%). As to inflationary rhythm it was at 8.39%, lower by 0.36 percentual points to the registered in December 2007 (8.75%) and higher by 2.17 percentual points to the observed in January 2007 (6.22%). The subjacent inflation registered a rhythm of 8.67%, lower by 0.23 percentual points to the observed in December 2007 (8.90%) and higher by 3.14 percentual points to the registered in January 2007 (5.53%); on the other hand, as to the estimations of the imported and domestic components of total inflation, reported that the total inflationary rhythm to January 2008 (8.39%), 3.37 percentual points is due to imported inflation; therefore, 5.02 percentual points correspond to internal inflation.

d) The 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 February 8 to 14, 2008, which indicate an excess of primary liquidity for Q731.5 million, fundamentally due to the maturity of CDs; if we add the position of banking legal reserve for Q303.9 million resulting in an excess of aggregate liquidity for the referred period of Q1,035.5 million; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q985.5 million; according to the registry to February 7, 2008) have to be relocated; and, besides make additional fund-raising for around Q49.9 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 Q15.0 million, Q35.0 million, Q15.0 million and of Q45.0 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) Discussion

Based on the information received, the Committee began the discussion of the analysis that the Monetary Board must present in the Wednesday, February 20, 2008 session, when according to the annual calendar, said body will decide the level of the leading interest rate of the monetary policy. For said effect, in the Committee they discussed some factors that could be considered in the make up of the inflation risks balance that the technical departments will present int eh next Committee meeting, which are described as follows:

i. With information to February 7, 3008, the international price of oil, on average, was at US$88.53 per barrel, which means a decrease of US$3.21 per barrel (3.50%), regarding the average price registered during December 2007 (US$91.74 per barrel). Additionally, according to Bloomberg, the price of crude oil for delivery in December 2008 was at US$87.33 per barrel on February 7, lower by US$2.17 per barrel (2.42%) regarding the price registered for the same position on December 21, 2007 (US$89.50 per barrel), last date in which the Committee discussed the level of the leading interest rate.

ii. Regarding the behavior of the international price of corn and wheat, which constitute supply factors that have influencing the behavior of internal inflation, indicating that he same have kept a rising tendency and remain over the observed levels in 2007, so its follow up continues to be relevant in the evaluation of the inflation risks balance.

iii. The total inflationary rhythm (8.39%) and the subjacent inflationary rhythm (8.67%) observed in January 2008, even when they decelerated, were over the upper limit of the tolerance margin determined by the Monetary Board for 2008 (5.5% +/- 1.5 percentual points).

iv. The econometric projections of total inflation as well as subjacent inflation to December 2008 (6.91% and 6.59%, in that order), although they are over the punctual value of the inflation target for said year (5.5%), even within the margin of +/- 1.5 percentual points. Also, the projections of the referred variables for December 2009 (6.47% and 6.21%, respectively), are over the punctual value of the inflation target for said year (5.5%), but within the margin of +/- 1 percentual point.

v. The inflation expectations of the panel of private analysts, according to the survey made in January, indicate that the total inflationary rhythm for the end of 2008 and 2009 are located at 7.87% and 7.32%, respectively. Both projections are over the upper limit of the tolerance margin of the inflation target determined for each one of those years.

vi. The banking credit to the private sector, although they show a tendency to the deceleration, continues to be over the upper limit of the programmed runner.

b) 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, Q15.0 million; for June 9, 2008, Q35.0 million, September 8, 2008, Q15.0 million; and for December 8, 2008, Q45.0 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.

c) Definition of the guidelines.

Based on the discussed, the Execution Committee for the week of February 11 to 15, 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, February 11 and Friday, February 15, 2008. On Monday February 11 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 Q15.0 million, Q35.0 million, Q15.0 million and of Q45.0 million, respectively. The prices awarded will be determined according to the market conditions, reflected in the bids received, considering the reference prices established by the technical departments. On Friday, February 8, the convening would be for 3 year term, 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 Monday, February 11 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 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 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 February 11 to 15, 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-168-2006 and JM-211-2007.

FOURTH: Evaluation of the bids for the bidding of the Term Deposits in *quetzales* No. DP-6-2008.

The Committee was informed of the bidding of term deposit DP-6-2008, in which according to the information received from the commerce exchanges, did not receive any bids, therefore the Committee decided to declare it deserted.

FIFTH: Other matters.

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