EXECUTION COMMITTEE

ACT NUMBER 9-2008

Session 9-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, February twenty-second, two thousand eight, at twelve hours and fifty 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 acts numbers 7-2008 and 8-2008, corresponding to the sessions celebrated on February 15 and 18, 2008.

CIRCULATE: project of acts numbers 7-2008 and 8-2008.

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: Discussion 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-8-2008.

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 Acts numbers 7-2008 and 8-2008.

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 15 to 21, 2008, registered an attraction of LTD's for Q598.2 million and maturity for Q799.3 million, which gave as a result net maturity for Q201.1 million, associated to the operations made through the commodities exchange (net placements for Q48.7 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net maturity for Q74.0 million); and at the window (net fund-raising for Q78.4 million).

Regarding the DP fund-raising in 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 15 to 21, 2008, operations for Q75.6 million for a 7 day term, at an interest rate of 8.00%. It was indicated that in the referred operations they received Deposits certificates fro the *Banco de Guatemala* expressed in quetzales and 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 15 to 21, 2008 period, the minimum was of 7.65% observed on February 20 and 21, 2008 and the maximum was of 7.72% registered on February 15 and 19, 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 7.69%.

On the other hand, it was informed that on February 21 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 Q342.0 million with a yield of 7.6250% and US$3.8 million with a yield of 4.4868%.

Finally, it was reported that during the period of February 15 to 21, 2008, regarding operations with treasury bonds expressed in quetzales, registered placements for Q188.6 million and maturity for US$0.1 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of February

14 to 20, 2008, the average daily operations for purchase were of US$63.6 million and the sale was of US$71.2 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, February 14, they were Q7.72330 per US$1.00 for purchase and of Q7.74291 per US$1.00 for sale; on Friday, February 15 they were Q7.70976 per US$1.00 Q7.73250; on Monday, February 18 they were Q7.69797 and of Q7.71865, on Tuesday, February 19 they were Q7.69037 and of Q7.71468; and, finally on Wednesday, February 20, 2008 they were Q7.69707 and of Q7.71440. Also, it was indicated that the current exchange reference rate for February 22, 23 and 24 of the current year is Q7.70326 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 15 to 21, 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 15 to 21, 2008, did not close operations. They added that on Thursday, February 21, there was no reference price for the market to settle in March 2008, since no operations had been closed.

c) The Sub-Director for the Economic Studies Department informed that, from February 14 and 21, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q246.8 million to one of Q257.6 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q22.9 million. On the other hand, the average position of legal reserve in the mentioned period went from Q262.2 million to Q283.0 million.

The highlights during the period of February 14 to 21, 2008, the main demonetizing factors of the monetary issue were the increase in the balance of the deposits in the Banco de Guatemala of the Central Government for Q409.4 million and the rest of the public sector for Q47.4 million; while the main monetizing factors were the decrease in the balance of the term deposits constituted in the Central Bank for Q201.1 million and the increase in the balance of the Net International Monetary Reserves for Q93.6 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to January 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 January 2008, 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 February 14, 2008, the lower limit was 7.42%, and the upper limit is 11.37%; 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

February 14, 2008, the lower limit was 4.79% and the upper limit was 5.69%, and the weighted average rate of long term deposits of the banking system was of 7.30% 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 21, 2008, is found within the programmed runner for said variable, which would indicate an invariable monetary policy, whereas the base of an ample monetary base, on that same date, is at Q929.5 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 –Q464.8 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual growth observed to February 14, 2008, ascended to 11.4%, within the estimated runner for said variable on the same date (10.6% to 13.6%), which suggests an invariable monetary policy; in which the econometric estimation for the payment means for December 2008 is of 13.4%, 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 23.9%, which is over the upper limit of the estimated runner for February 14, 2008 (20.5% to 23.5%), 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 21.7%, 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 0.55%, therefore suggests, restricting the monetary policy.

As to the inflation expectations of the panel of private analysts, it was indicated that, according to the survey made in January 2008, for December 2008 the inflation projection is at 7.87%, which is over the tolerance margin of the policy target (5.5%+/-1.5 percentual points), which suggests a restrictive monetary policy; and, for December 2009, the inflation projection will be at 7.32%, which is also over the tolerance margin estimated for said year (5.5%+/-1 percentual point), which 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 February 2008 to forecast the total inflationary rhythm, projected an inflationary rhythm of 7.27% 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 6.33%, which suggests a restrictive monetary policy. Also the forecast for said model of a mid-term horizon projected an inflationary rhythm for December 2009 of 5.70%, conditioned to gradual adjustments to the leading interest rate of the monetary policy until it reached 4.78%, on average, in the last quarter of said year, which is suggesting a moderately restrictive monetary policy.

Regarding the orientation of the indicative variables, declared that regarding the previous week, it was reported that the same remained unchanged. In that context, it was reported that 31.10% of the same suggest a restrictive monetary policy orientation; 39.78% suggest a moderately restrictive monetary policy; 8.79% suggest an invariable monetary policy orientation; and, 20.33% suggest a relaxed monetary policy.

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 18 to 22, 2008 were of Q7.723 and Q7.603 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 18 and 21) was of Q7.706 per US$1.00; with which the observed value of the nominal exchange rate is located over 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 February 22 to 28, 2008, which indicate an excess of primary liquidity for Q1,203.8 million, fundamentally due to the maturity of CDs; if we add the position of banking legal reserve for Q165.7 million resulting in an excess of aggregate liquidity for the referred period of Q1,369.5 million; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q649.4 million; according to the registry to February 21,

2008) have to be relocated; and, besides make additional fund-raising for around Q720.7 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, Q25.0 million, Q15.0 million and of Q40.0 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

The Committee analyzed the established guidelines for the execution of the Monetary, Foreign exchange rate and Credit policy and determined that it is convenient to continue with the same and will only proceed to determine the quotas for the biddings per price and maturity date weekly, held through the commodities exchanges and, when necessary change the maturity dates.

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, Q25.0 million, September 8, 2008, Q15.0 million; and for December 8, 2008, Q40.0 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 agreed that from Monday, February 25, 2008 on, they 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 that as of Monday, February 25, 2008, the guidelines will be:

i. That the convening for the bidding through the commodity exchanges will be made on Mondays and Fridays. That on Mondays, biddings for maturity on March 10, 2008, for June 9, 2008, for September 8, 2008 and December 8, 2008 will be convened. For the bidding of February 25, the fund raising quotas will be of Q15.0 million, Q25.0 million, Q15.0 million and of Q40.0 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 Fridays, 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 Mondays 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 term 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, they convene DP biddings in US 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-8-2008.

The Committee was informed of the bidding of term deposit DP-8-2008, 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 fifteen minutes, in the same place and on the same date indicated, the participants signed in agreement.