EXECUTION COMMITTEE

ACT NUMBER 10-2008

Session 10-2008 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-ninth, two thousand eight, at twelve hours and forty 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 9-2008, corresponding to the session celebrated on February 22, 2008.

CIRCULATE: project of act number 9-2008.

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

FOURTH: Evaluation of the bids for the bidding of term deposits in quetzales No. DP-9-2008.

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 9-2008.

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 22 to 28, 2008, registered an attraction of LTD's for Q1,225.3 million and maturity for Q645.3 million, which gave as a result net maturity for Q201.1 million, associated to the operations made through the commodities exchange (net maturities for Q39.9 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q443.0 million); and at the window (net fund-raising for Q176.9 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 22 to 28, 2008, operations for Q37.5 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 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 22 to 28, 2008 period, the minimum was of 7.52% observed on February 28, 2008 and the maximum was of 7.80% registered on February 27, 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 7.63%.

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 Q549.0 million with a yield of 7.4936% and US$4.3 million with a yield of 4.2500%.

Finally, it was reported that during the period of February 22 to 28, 2008, regarding operations with treasury bonds expressed in quetzales, registered placements for Q115.6 million and maturity for US$0.4 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of February 21 to 27, 2008, the average daily operations for purchase were of US$79.7 million and the sale was of US$82.5 million and that the weighted average exchange rates of the referred operations showed a tendency to rise. In effect, on Thursday, February 21, they were Q7.69427 per US$1.00 for purchase and of Q7.71221 per US$1.00 for sale; on Friday, February 22 they were Q7.69157 per US$1.00 Q7.70749; on Monday, February 25 they were Q7.69249 and of Q7.71463, on Tuesday, February 26 they were Q7.70327 and of Q7.71786; and, finally on Wednesday, February 27, 2008 they were Q7.71336 and of Q7.73677. Also, it was indicated that the current exchange reference rate for February 29, March 1 and 2 of the current year is Q7.70987 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 22 to 28, 2008, it was commented that the Private Institutional Foreign Currency System –SPID-, only on Wednesday, February 27, they closed operations for US$1.0 million at an exchange rate of Q7.73250 per US$1.00. 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 22 to 28, 2008, did not close operations. They added that on Thursday, February 28, 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 February 21 and 28, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q302.7 million to a negative one of Q112.4 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q38.1 million. On the other hand, the average position of legal reserve in the mentioned period went from Q285.2 million to Q285.0 million.

The highlights during the period of February 21 to 28, 2008, the main monetizing factors of the monetary issue were the decrease in the balance of the legal banking reserve for Q399.4 million and of the deposits of the Central Government in the *Banco de Guatemala* for Q354.4 million; while the main demonetizing factors were the increase in the balance of the term deposits constituted in the Central Bank for Q580.0 million and the deposits of the rest of the public sector for Q26.7 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 21, 2008, the lower limit was 7.40%, and the upper limit is 11.35%; 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 21, 2008, the lower limit was 4.70% and the upper limit was 5.60%, 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 28, 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 Q799.9 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 –Q400.0 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual growth observed to February 21, 2008, ascended to 10.3%, which is below the lower limit of the estimated runner for said variable on the same date (11.1 to 14.1%), which suggests relaxing the 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 (-0.40%) 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 23.6%, which is over the upper limit of the estimated runner for February 21, 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 21.5%, 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 0.30%, 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 February 2008, for December 2008 the inflation projection is at 7.88%, 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 7.41%, 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 "Payment Means" went from suggesting an invariable monetary policy to advising that the same be relaxed. In that context, it was reported that 31.10% of the same suggest a restrictive monetary policy orientation (same percentage the previous week); 39.78% suggest a moderately restrictive monetary policy (same percentage the previous week); 0.00% suggest an invariable monetary policy orientation (8.79% the previous week); and, 29.12% suggest a relaxed monetary policy (20.33% 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 25 to 29, 2008 were of Q7.733 and Q7.613 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 25 and 28) was of Q7.713 per US$1.00; with which the observed value of the nominal exchange rate is located within 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 29 to March 6, 2008, which indicate an excess of primary liquidity for Q1,708.6 million, fundamentally due to the use of deposits by the Central Government in the *Banco de Guatemala* and the maturity of CDs; if we add the position of banking legal reserve for Q161.2 million resulting in an excess of aggregate liquidity for the referred period of Q1,869.8 million,; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q1,486.5 million; according to the registry to February 28, 2008) have to be relocated; and, besides make additional fund-raising for around Q383.2 million.

e) The Director of the Department of Monetary Stabilization Operations recommended that the Execution Committee, due to the proximity of the due date of March 10, 2008 eliminate it and in its place include the maturity date of March 9, 2009. In that sense, 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 Q20.0 million, Q10.0 million, Q35.0 million and of Q10.0 million for the following maturity dates: June 9, 2008 and September 8, 2008 and December 8, 2008, March 9, 2009, respectively.

THIRD: Discussion and determination of quotas for Term Deposits.

a) Discussion

The Execution Committee based on the indicated by the Director of the Department of Monetary Stabilization Operations, analyzed the due dates for making term deposit bids and, taking into consideration the proximity of the due date of March 10, 2008, agreed that the should be eliminated and in its place include the maturity date of March 9, 2009.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for the bidding on March 3, 2008 the Committee took into account; on the one hand, the proposal of the Department of the Monetary Stabilization Operations, to include the information provided by the estimated monetization flow for the following week, and, on the other hand, the guideline to keeping a limited 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 June 9, 2008, Q20.0 million, September 8, 2008, Q10.0 million; December 8, 2008, Q35.0 million; and for March 9, 2009, Q10.0 million.

FOURTH: Evaluation of the bids for the bidding of the Term Deposits in *quetzales* No. DP-9-2008.

The Committee was informed of the bidding of term deposit DP-9-2008. In that regard, it was indicated that the same received a bid for an amount of Q1.5 million for a 1092 day term (3 years), at an interest rate of 7.50% annually. The committee after having analyzed the bid received, decided to award it.

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.