# EXECUTION COMMITTEE

# ACT NUMBER 11-2008

Session 11-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, March seventh, 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 10-2008, corresponding to the session celebrated on February 29, 2008.

CIRCULATE: project of act number 10-2008.

**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 determination for quotas for the biddinng of term deposits.

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-10-2008.

**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 11-2008.

**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 29 to March 6, 2008, registered an attraction of LTD's for Q616.7 million and maturity for Q1,482.9 million, which gave as a result net maturity for Q866.2 million, associated to the operations made through the commodities exchange (net maturities for Q33.0 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net maturity for Q519.0 million); and at the window (net maturity for Q314.2 million).

Regarding the DP fund-raising, it was indicated that during the period of February 29 to March 6, 2008, for the biddings case, the same would be held by due date and price and per term, for the biddings per due date and price, indicated that in the one made through the commerce exchanges, the cut price was of 93.3575% for the maturity on March 9, 2009, equivalent to a yield rate of 7.0001%, while for the bidding made directly there were no bids; and for the term bidding, the cut interest rate was of 7.50%, for the term of 1092 days (3 years). 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 29 to March 6, 2008, operations for Q120.1 million for a 7 day term, at an interest rate of 8.00%. It was indicated that in the referred operations they received Term Deposits from the *Banco de Guatemala* expressed in quetzales and Representative Certificates of Treasury Bonds from the Republic of Guatemala expressed in quetzales and in US dollars as a guarantee.

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 29 to March 6, 2008 period, the minimum was of 7.27% observed on March 3, 2008 and the maximum was of 7.86% registered on March 5, 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 7.72%.

On the other hand, it was informed that on March 6 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 Q314.0 million with a yield of 7.6982% and US$7.6 million with a yield of 4.5954%.

Finally, it was reported that during the period of February 29 to March 6, 2008, regarding operations with treasury bonds expressed in quetzales, registered placements for Q358.5 million and maturity for US$5.4 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of February 28 to March 5, 2008, the average daily operations for purchase were of US$68.4 million and the sale was of US$77.2 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, February 28, they were Q7.69647 per US$1.00 for purchase and of Q7.71864 per US$1.00 for sale; on Friday, February 29 they were Q7.68314 per US$1.00 Q7.70335; on Monday, March 3 they were Q7.66824 and of Q7.68818, on Tuesday, March 4 they were Q7.66464 and of Q7.68103; and, finally on Wednesday, March 5, 2008 they were Q7.66654 and of Q7.67262. Also, it was indicated that the current exchange reference rate for March 7, 8 and 9 of the current year is Q7.67742 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 29 to March 6, 2008, it was commented that the Private Institutional Foreign Currency System –SPID-, only on Thursday, March 6, they held operations for US$0.3 million at an exchange rate of Q7.68483 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 29 to March 6, 2008, did not close operations. They added that on Thursday, March 6, 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 28 and March 6, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q114.3 million to one of Q340.7 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q82.6 million. On the other hand, the average position of legal reserve in the mentioned period went from Q257.9 million to Q255.3 million.

The highlights during the period of February 28 to March 6, 2008, the main demonetizing factors of the monetary issue were the increase in the balance of the legal banking reserve for Q790.8 million and of the deposits of the Central Government in the *Banco de Guatemala* for Q422.6 million; while the main monetizing factors were the decrease in the balance of the term deposits constituted in the Central Bank for Q866.2 million and the deposits of the rest of the public sector for Q99.2 million; and, the increase in the balance of the Net International Reserves –NIR- for the equivalent in quetzales of Q253.6 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to February 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 7.29% and with a softened exponential model of 6.92%; the simple average of both models is located at 7.11%, percentage which is found over the tolerance margin of the policy target (5.5% +/- 1.5 percentage point), which suggests a restrictive monetary policy; and, for December 2009 the total expected inflation, estimated with an ordinary squared minimum model, is of 6.54% and with a softened exponential model of 6.49%; the simple average of both models is at 6.52%, which is over the tolerance margin of the policy target (5.5% +/- 1 percentage point), which suggests a restrictive monetary policy.

Regarding the expected subjacent inflation for December 2008, with data up to February 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 7.12%, whereas the estimated with a softened exponential model was of 6.63%; the simple average of both models is of 6.88%, 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 6.62%, whereas the estimated softened exponential model was of 6.15%; the simple average of both models is of 6.39%, 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 28, 2008, the lower limit was 7.27%, and the upper limit is 11.22%; 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 28, 2008, the lower limit was 4.76% and the upper limit was 5.66%, and the weighted average rate of long term deposits of the banking system was of 7.30% which is located over 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 March 6, 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 Q463.5 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 –Q231.7 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual growth observed to February 28, 2008, ascended to 10.4%, which is below the lower limit of the estimated runner for said variable on the same date (11.0 to 14.0%), which suggests relaxing the monetary policy; in which the econometric estimation for the payment means for December 2008 is of 12.6%, 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 (-0.30%) 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 23.7%, which is over the upper limit of the estimated runner for February 28, 2008 (20.6% to 23.6%), 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 21.2%, 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 0.15%, 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 quarter 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 "Total Projected Inflationary Rhythm" for December 2008 and December 2009, went from suggesting a moderately restrictive monetary policy to advising that the same be restrictive. Also indicating that the weightings for the inflation forecasts were modified, due to the fact that there was new inflation data observed to February, so that the relative importance of said forecasts for 2008 decreased and the corresponding to 2009 increased. In that context, according to the relative weights assigned to the indicative variables, it was reported that 42.90% of the same suggest a restrictive monetary policy orientation (31.10% the previous week); 27.98% suggest a moderately restrictive monetary policy (39.78% the previous week); 0.00% suggest an invariable monetary policy orientation (8.79% the previous week); and, 29.12% suggest a relaxed monetary policy (same 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 March 3 to 7, 2008 were of Q7.731 and Q7.611 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 March 3 and 6) was of Q7.678 per US$1.00; with which the observed value of the nominal exchange rate is located within the referred runner.

Finally, they presented the information of the inflation behavior to February 2008 reported by the National Statistics Institute –INE- and indicated that the monthly inflation was of 0.69%, lower by 0.3 percentage points to that of January 2008 and higher by 0.34 percentage points to the observed in February 2007. In that regard, they mentioned that in February 2008, based on the information from the INE, they observed hikes in the median prices of the following goods and services: entrance fee expenses for cultural, social and recreational spots (10.37%); electricity services (8.60%); potato (7.83%); residential telephone services (4.88%); milk (2.21%); poultry meats (1.76%); routine home maintenance expenses (1.61%); and bread (1.46%). They also reported registered reduction in the mean prices of the following goods and services: tomato (21.99%); onion (17.41%); militon (11.13%); other culinary herbs (9.90%); other vegetables and orchard varieties (4.74%); and air transportation (3.80%). As to inflationary rhythm it was at 8.76%, higher by 0.37 percentage points to the registered in January 2008 (8.39%) and higher by 2.14 percentage points to the observed in February 2007 (6.62%). The subjacent inflation registered a rhythm of 8.96%, higher by 0.29 percentage points to the registered in February 2008 (6.07%); on the other hand, as to the estimations of the imported and domestic components of total inflation to the referred month, it was reported that of the total inflationary rhythm to February 2008 (8.76%), 3.47 percentage points are due to imported inflation and 5.29 percentage points correspond to internal inflation.

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 March 7 to 13, 2008, which indicate an excess of primary liquidity for Q1,162.6 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 Q134.2 million resulting in an excess of aggregate liquidity for the referred period of Q1,296.8 million,; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q896.0 million; according to the registry to March 6, 2008) have to be relocated; and, besides make additional fund-raising for around Q400.8 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 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

Based on the information received, the committee began the discussion of the analysis that must be presented to the Monetary Board in its Wednesday, March 26, 2008 session, when according to the annual calendar, said licensed body will decide on 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 elaboration of the inflation risks balance that the technical departments will present in one of the following Committee meetings, which are described as follows:

i. With information received to March 6, 2008, the international price of oil on average was at US$102.99 per barrel, which means an increase of US$7.64 per barrel (8.01%), which means an increase regarding the average price registered during February 2008 (US$95.35 per barrel). Additionally, according to Bloomberg, the price of crude oil for delivery in December 2008 was at US$101.18 per barrel on March 6, higher by US$7.36 per barrel (7.84%) regarding the price prevalent for the same position on February 15, 2008 (US$93.82 per barrel), last date in which the Committee discussed the leading interest rate level.

ii. Regarding the behavior of the international price of corn and wheat, which constitute supply factors that have influenced in the behavior of internal inflation, it was indicated that the same maintain the tendency to rise and remain over the observed levels in 2007, therefore their follow up continues to be relevant in the evaluation of the inflation risks balance.

iii. The total inflationary rhythm (8.76%) and the subjacent inflationary rhythm (8.96%) observed in February 2008 increased, located over the upper limit of the tolerance margin determined by the Monetary Board for 2008 (5.5% +/- 1.5 percentage points).

iv. The econometric projections of total inflation, for December 2008 as well as for December 2009 (7.11% and 6.52%), are located over the tolerance margin of the inflation target for both years; whereas the econometric projections for subjacent inflation for the referred dates (6.88% and 6.39%) although they are over the punctual value of the inflation target for each year (5.5%), even when it is within the tolerance margin of +/- 1.5 percentage points for December 2008 and +/- 1 percentage point for December 2009.

v. The inflation expectations from the panel of private analysts, according to the survey made in February indicates that the total inflationary rhythm for the end of 2008 and 2009 would be at 7.88% and 7.41%. Both projections are over the upper limit of the tolerance margin of the inflation target determined for each one of the referred years.

vi. The banking credit to the private sector, although it shows a decelerating tendency, continues to be over the upper limit of the programmed runner.

vii. The primary liquidity has shown a congruent behavior with the programmed values.

viii. The payment means in the last two weeks have been below the lower limit of the estimated runner.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for the bidding on March 10, 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-10-2008.

The Committee was informed of the bidding of term deposit DP-10-2008. In that regard, it was indicated that in the same they received a bid for an amount of Q220.0 thousands 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 thirty-five minutes, in the same place and on the same date indicated, the participants signed in agreement.