EXECUTION COMMITTEE

ACT NUMBER 16-2008

Session 16-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, April fourth, 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 act number 15-2008, corresponding to the session celebrated on March 28, 2008.

CIRCULATE: project of act number 15-2008.

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 bidding 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-13-2008.

FIFTH: Other matters.

FIRST: The coordinator submitted the projects of the corresponding acts for consideration.

Not having observations, the Committee approved act number 15-2008.

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 March 28 to April 3, 2008, registered an attraction of LTD's for Q855.8 million and maturity for Q2,262.1 million, which gave as a result net maturities for Q1,406.3 million, associated to the operations made through the commodities exchange (net maturities for Q45.5 million); bidding directly with public entities (net fund-raising for Q1.1 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net maturity for Q1,350.0 million); and at the window (net maturity for Q11.9 million).

Regarding the DP fund-raising, it was indicated that during the period of March 28 to April 3, 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, did not present bids, while for the bidding made directly, the cut price was of 93.8328% for the maturity on March 9, 2009, equivalent to a yield rate of 6.9941%, while for the bidding made in commerce exchanges, did not receive bids. 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 6.75%.

Regarding liquidity injecting operations it was reported that, during the period of March 28 to April 3, 2008, operations for Q145.2 million for a 7 day term, at an interest rate of 8.25%. 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 March 28 to April 3, 2008 period, the minimum was of 7.15% observed on March 28, 2008 and the maximum was of 7.70% registered on April 2, 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 7.48%.

On the other hand, it was informed that on April 3 of this year, they had repurchase agreement operations in the exchange market, in the over the counter, by the banks of the system and the financial stock companies, with term deposits from the *Banco de Guatemala* and Guatemalan Treasury Bonds for Q220.0 million with a yield of 7.6091% and US$4.0 million with a yield of 4.0000%.

Finally, it was reported that during the period of March 28 to April 3, 2008, placements for Q19.3 million in treasury bonds were registered.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of March 27 to April 2, 2008, the average daily operations for purchase were of US$73.6 million and the sale was of US$78.1 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, March 27, they were Q7.61515 per US$1.00 for purchase and of Q7.63410 per US$1.00 for sale; on Friday, March 28 they were Q7.59741 per US$1.00 Q7.61901; and, finally on Monday, March 31 they were Q7.58960 and of Q7.61162; on Tuesday, April 1 they were Q7.58725 and of Q7.60962, and finally, on Wednesday, April 2, they were Q7.58706 and of Q7.60700. Also, it was indicated that the current exchange reference rate for April 4, 5 and 6 of the current year is Q7.59693 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 March 28 to April 3, 2008, it was commented that the Private Institutional Foreign Currency System –SPID-, there were no operations. 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 March 28 to April 3, 2008, did not close operations. They added that on Thursday, April 3, there was no reference price for the market to settle in June 2008, since no operations had been closed.

c) The Director for the Economic Studies Department informed that, from March 27 and April 3, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a negative position of Q663.6 million to one of Q792.9 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q4.5 million. On the other hand, the average position of legal reserve in the mentioned period went from Q293.4 million to Q491.3 million.

The highlights during the period of March 27 to April 3, 2008, the main demonetizing factors of the monetary issue were the increase in the balance of the legal banking reserve for Q1,674.0 million and the deposits of the Central Government in the *Banco de Guatemala* for Q85.6 million; while the main monetizing factors were the decrease in the balance of the term deposits in the Central Bank for Q1,406.3 million and of the deposits of the rest of the public sector in the *Banco de Guatemala* for Q47.6 million and, the increase in the balance of the Net International Reserves for the equivalent to Q96.8 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 March 27, 2008, the lower limit was 7.38%, and the upper limit is 11.33%; while the leading interest rate of the monetary policy was at 6.75%, 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 March 27, 2008, the lower limit was 4.69% and the upper limit was 5.59%, and the weighted average rate of long term deposits of the banking system was of 7.32% 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 April 3, 2008, is found within the programmed runner for said variable, which would indicate an invariable monetary policy, whereas the base of a broad monetary base, on that same date, is found within the programmed runner, which suggests an invariable monetary policy. The weighted orientation of the deviation for the present week (Q0.00) would indicate keeping an invariable monetary policy.

As to the total payment means, the inter-annual growth observed to March 27, 2008, ascended to 9.5%, 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 12.1%, 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 (-0.75%) 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 22.1%, which is over the upper limit of the estimated runner for March 27, 2008 (20.5% to 23.5%), which suggests an invariable monetary policy; on the other hand, the econometric estimation for the end of 2008 of the banking credit to the private sector is of 19.3%, which is over the upper limit of the expected range (18.0% to 21.0%), which suggests an invariable monetary policy. The average orientation of the deviations for the present week of 0.00%, therefore suggests an invariable monetary policy.

As to the inflation expectations of the panel of private analysts, it was indicated that, according to the survey made in March 2008, for December 2008 the inflation projection is at 8.25%, 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 7.51%, 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 February 2008, showed an inflationary rhythm of 6.13%, 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 remained unchanged. In that sense, it was reported that 33.83% of the same suggest a restrictive monetary policy orientation; 27.98% suggest a moderately restrictive monetary policy; 20.33% suggest an invariable monetary policy orientation; and, 17.86% 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 March 31 to April 4, 2008 were of Q7.736 and Q7.616 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 31 and April 3) was of Q7.600 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 April 4 to 10, 2008, which indicate an excess of primary liquidity for Q51.7 million, fundamentally due to the use of deposits by the Central Government in the *Banco de Guatemala* and the decrease of the Net International Reserves, compensated in part by the maturity of CDs; if we add the position of banking legal reserve for Q445.3 million resulting in an excess of aggregate liquidity for the referred period of Q393.6 million; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q1,006.3 million; according to the registry to April 3, 2008) are allowed to mature around Q612.7 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 Q10.0 million, Q10.0 million, Q20.0 million and of

Q30.0 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.

Regarding the determination of quotas fro bidding from March 31, 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, Q10.0 million, September 8, 2008, Q10.0 million; December 8, 2008, Q20.0 million; and for March 9, 2009, Q30.0 million.

FOURTH: Evaluation of the bids for the bidding of the Term Deposits in *quetzales* No. DP-13-2008.

The Committee was informed of the bidding of term deposit DP-13-2008, in which, it was indicated that a bid was received for Q0.9 million for a 1092 day term (3 years), at an annual interest rate of 7.50%. 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 ten minutes, in the same place and on the same date indicated, the participants signed in agreement.