EXECUTION COMMITTEE

ACT NUMBER 18-2008

Session 18-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, April eleventh, two thousand eight, at fifteen hours and ten 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 projects of acts numbers 16-2008 and 17, 2008, corresponding to the sessions celebrated on April 4 and 8, 2008.

CIRCULATE: projects of acts numbers 16-2008 and 17-2008.

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-14-2008.

FIFTH: Presentation: Dynamic Subjacent Inflation.

SIXTH: Other matters and reports.

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

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

Not having observations, the Committee approved Act number 16-2008 and 17-2008.

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 April 4 to 10, 2008, registered an attraction of LTD's for Q642.0 million and maturity for Q1,005.7 million, which gave as a result net maturity for Q363.7 million, associated to the operations made through the commodities exchange (net maturities for Q64.1 million); in direct bidding from public entities (net fundraising for Q128.7 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net maturity for Q255.0 million); and at the window (net maturity for Q173.3 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 the DP fund-raising, it was indicated that during the period of April 4 to 10, 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, a bid for Q3.0 million was presented at a price of 93.7436%, equivalent to a yield rate of 7.25%, which was not awarded, while for the bidding made directly, the cut prices was of 98.8702% for the maturities of June 9, 2008, equivalent to a yield rate of 6.6205% and of 93.9564% for the maturity of March 9, 2009, equivalent to a yield rate of 6.9875%; and, for the term bidding, the cut interest rate was of 7.50%, for the 1092 day (3 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. 75%.

Regarding liquidity injecting operations it was reported that, during the period of April 4 to 10, 2008, operations for Q145.1 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 April 4 to 10, 2008 period, the minimum was of 7.67% observed on April 8, 2008 and the maximum was of 7.84% registered on April 10, 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 7.79%.

On the other hand, it was informed that on April 10 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 Q590.0 million with a yield of 7.8767% and US$4.0 million with a yield of 4.0000%.

Finally, it was reported that during the period of April 4 to 10, 2008, placement of treasury bonds for Q44.1 million were registered.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of April 3 to 10, 2008, the average daily operations for purchase were of US$66.4 million and the sale was of US$74.7 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, April 3 were of Q7.58581 per US$1.00 for purchase and of Q7.60544 per US$1.00 for sale; on Friday, April 4 they were QQ7.57729 and Q7.59638; on Monday, April 7 they were Q7.56734 and Q7.59501; on Tuesday, April 8 they were Q7.56731 and Q7.58779; on Wednesday, April 9, 2008 they were Q7.56941 and of Q7.58761 and on Thursday, April 10 they were Q7.56849 and Q7.58479. Also, it was indicated that the current exchange reference rate for April 11, 12 and 13 of the current year is Q7.57896 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 April 4 to 11, 2008, it was commented that the Private Institutional Foreign Currency System –SPID-, there were no operations. Regarding the Electronic Foreign Currency Negotiation System –SINEDI-, according to the established in the participation rules of the *Banco de Guatemala* in the exchange market, the Central Bank convened bids for the purchase of US dollars, on Monday, April 7, Tuesday, April 8 and Wednesday, April 9, 2008, receiving, in the same order, bids for US$1.6 million, US$1.3 million and US$0.7 million, of which US$1.0 million were awarded at a weighted average exchange rate of Q7.58790 per US$1.00; US$0.4 million at Q7.58495; and US$0.1 million at Q7.58151, respectively.

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 April 4 to 11, 2008, did not close operations and that on Friday, April 11 there was no reference price for the market to settle in June 2008.

c) The Director for the Economic Studies Department informed that, from April 3 and 10, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q816.3 million to one of Q286.6 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q0.1 million. On the other hand, the average position of legal reserve in the mentioned period went from Q499.1 million to Q433.1 million.

The highlights during the period of April 3 to 10, 2008, the main demonetizing factor of the monetary issue was the increase in the balance of the deposits in the Central Bank in the *Banco de Guatemala* for Q1,318.8 million; while the main monetizing factors were the decrease in the balance of the legal banking reserve for Q679.3 million and of the term deposits constituted in the Central Bank for Q363.7 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to March 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 7.41% and with a softened exponential model of 7.47%; the simple average of both models is located at 7.44%, 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 6.86% and with a softened exponential model of 6.37%; the simple average of both models is at 6.62%, 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 March 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 7.66%, whereas the estimated with a softened exponential model was of 7.07%; the simple average of both models is of 7.37%, which is over the tolerance margin for the policy target (5.5% +/- 1.5 percentage point), which suggests a restrictive monetary policy; and, for December 2009 the estimated subjacent inflation with an integrated autoregressive model of mobile averages ARIMA, was of 6.70%, whereas the estimated softened exponential model was of 6.30%; the simple average of both models is of 6.50%, 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 April 3, 2008, the lower limit was 7.62%, and the upper limit is 11.57%; 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 April 3, 2008, the lower limit was 4.80% and the upper limit was 5.70%, 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 10, 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 at Q956.0 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 (-Q478.00 million) which would indicate keeping a relaxed monetary policy.

As to the total payment means, the inter-annual growth observed to April 3, 2008, ascended to 9.8%, which is below the lower limit of the estimated runner for said variable on the same date (11.4 to 14.4%), which suggests relaxing the monetary policy; in which the econometric estimation for the payment means for December 2008 is of 12.0%, 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 (-0.80%) 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 23.2%, which is within the upper limit of the estimated runner for April 3, 2008 (21.2% to 24.2%), 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 19.4%, 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 March 2008, showed an inflationary rhythm of 6.05%, 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, they declared that regarding the previous week, the orientation of two variables varied: “Projected Subjacent Inflationary Rhythm” for December 2008 that went from suggesting a moderately restrictive monetary policy to advising that the same be restrictive and the “Primary Liquidity” that went form suggesting an invariable monetary policy to suggesting the same be a relaxed monetary policy. It was also indicated that the weightings for the inflation forecasts be modified, due to the fact that new inflation data was observed to March, so that it decreased the relative importance of said forecasts for 2008 and 2009. In that context, according to the relative weights assigned to the indicative variables, it was reported that 38.46% of the same suggest a restrictive monetary policy orientation (33.83% the previous week); 23.35% suggest a moderately restrictive monetary policy (27.98%the previous week); 9.07% suggest an invariable monetary policy orientation (20.33% the previous week); and, 29.12% suggest a relaxed monetary policy (17.86% 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 April 7 to 11, 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 April 7 and 10) was of Q7.581 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 April 11 to 17, 2008, which indicate an excess of primary liquidity for Q792.4 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 Q255.5 million resulting in an excess of aggregate liquidity for the referred period of Q536.9 million; if these factors are given, to make a compatible issue offer with the programmed demand, that the CDs that mature during the period (Q649.3 million; according to the registry to April 10, 2008) have to be relocated; and, besides make additional fund-raising for around Q112.4 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 Q25.0 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

In the committee there was discussion on the behavior of the appreciation that has been shown in the nominal exchange rate. In that regard, the technical departments indicated that said behavior, in general, is congruent with its seasonality and that when examining the surplus of the adjusted exchange balance in 2007 and 2008, both are positive, but do not differ significantly. It was also indicated that within the income we can highlight the fact that the private capital flows remain at a similar level to that of last year; therefore to date there is no evidence of capital flow to the country, attracted by differentials of interest rates.

In that context, the Committee requested the technical departments deepen the analysis, taking into account that according to the seasonality, as of the last week of April, could expect the nominal exchange rate to stop its tendency toward appreciation.

The Committee began the discussion of the analysis that must be presented to the Monetary Board in the Wednesday, April 23, 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 making the inflation risks balance that the technical departments will present in the next Committee meeting, which are described as follows:

i. The international price of oil, to April 10, 2008, was, on average, at US$106.81 per barrel, which means an increase of US$1.39 per barrel (1.32%) regarding the average price registered during March 2008 (US$105.42 per barrel). Additionally, according to Bloomberg the price of crude oil for delivery in December 2008, on April 10 was at US$105.89 per barrel, higher by US$7.75 per barrel (7.90%) regarding the prevailing price for the same position to March 20, 2008 (US$98.14 per barrel), last date in which the Committee discussed the level of the leading interest rate.

ii. Regarding the behavior of the international prices of corn and wheat, which constitute supply factors that have influenced the behavior of internal inflation, it was indicated that in the case of corn, this remains with a tendency to rise, and, in the case of wheat, it was reported that it registered an important decrease in its price; notwithstanding, the prices of both products remain over the levels observed in 2007, so their follow up continues to be relevant in the evaluation of inflation risks balance.

iii. The total inflationary rhythm (9.10%) and the subjacent inflationary rhythm (9.13%) observed to March 2008 increased for the second consecutive month, 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 (7.44% and 6.62%, in that order) and to the econometric projection of subjacent inflation for December 2008 (7.37%), are located over the tolerance margin of the inflation target for both years; whereas the econometric projection of subjacent inflation for December 2009 (6.50%), is located over the punctual value of the inflation target for that year (5.5%), but within the tolerance margin of +/- 1 percentage point.

v. The inflation expectation of the panel of private analysts, according to the survey made in March, indicate that the total inflationary rhythm for the end of 2008 and 2009 are located at 8.25% and 7.51%, respectively. 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 is located within the programmed runner.

vii. The primary liquidity (monetary issue and broad monetary base) show a falling behavior.

viii. The total payment means are located below the lower limit of the estimated runner.

b) Determination of bidding quotas of term deposits.

Regarding the determination of quotas fro bidding from April 14, 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, Q25.0 million.

FOURTH: Evaluation of the bids for the bidding of the Term Deposits in *quetzales* No. DP-14-2008.

The Committee was informed of the bidding of term deposit DP-14-2008, in which, according to the information received from the commerce exchanges, did not receive any bids, and therefore decided to declare it deserted.

FIFTH: Presentation: Dynamic Subjacent Inflation

According to the agreed in the previous session of the Committee, the technical departments presented various measures of dynamic subjacent inflation. In that regard, it was indicated that said measures are founded on three methods, which are based on the exclusion of the prices of more volatile goods and services of the Consumer Price Index and that, when they are not always the same, allow measuring the dynamic subjacent inflation. In that sense, the first method consists of excluding those prices of goods and services which inter-monthly positive or negative variation (adjusted by their impact on the CPI) is equivalent to two standard deviations. The second method, is based on a proposal from the IMF that consists of excluding the more volatile prices of goods and services that are the result of the multiplication of the positive or negative inter-monthly variation of each product for the weighting of each one of the basic expenses that make up the CPI and that are equivalent to two standard deviations. The third method consists of excluding the prices of goods and services which positive or negative inter-monthly variation is equivalent to two standard deviations.

Taking into account the qualities of each of the three methods reviewed, the technical bodies concluded that they considered the third method the most appropriate; in other words, the one based on the exclusion of the inter-monthly variations, is the most appropriate, given that it is transparent and easy to interpret on behalf of the economic agents and is not influenced by the relative weight of each product in the consumer price index.

Based on the presentation and the recommendation of the technical departments, in the Committee there was consensus in that the most appropriate method is the third, since it is the simplest to use and interpret by the public and because it allows obtaining a better measure of the behavior of the inflation that obeys to monetary factors, characteristic of special importance of the conduction of the monetary policy, in a scheme of explicit inflation targets.

In the described context, the Committee agreed to propose that the Monetary Board modify the current calculation of subjacent inflation for the calculation based on the exclusion method by inter-monthly variation.

SIXTH: Other matters and reports.

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