EXECUTION COMMITTEE

ACT NUMBER 22-2008

Session 22-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, May second, two thousand eight, at thirteen hours and fifteen 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 21-2008, corresponding to the session celebrated on April 25, 2008.

CIRCULATE: project of act number 21-2008.

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-17-2008.

FIFTH: Other matters and reports.

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

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

Not having observations, the Committee approved Act number 21-2008.

SECOND: Information of markets and monetary variables.

The Coordinator requested the corresponding information be provided.

a) The Sub-Director of the Department of Monetary Stabilization Operations, regarding the Money market informed that during the period from April 25 to 30, 2008, registered an attraction of LTD's for Q1,674.6 million and maturity for Q464.1 million, which gave as a result net fund-raising for Q1,210.5 million, associated to the operations made in bidding directly with public entities (net fundraising for Q2.6 million); and in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q1,032.0 million); and at the window (net fund-raising for Q175.9 million).

Regarding the DP fund-raising, it was indicated that during the period of April 25 to 30, 2008, for the biddings case, the same were held by maturity date and price, indicated that in the bidding made through the commodities exchange, there were no bids, while for those made directly, the cut price was of 94.1957% for maturity to March 9, 2009, equivalent to a yield rate of 7.1401%. As to those held 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. 75%.

Regarding liquidity injecting operations it was reported that, during the period of April 25 to 30, 2008, operations for Q66.8 million for a 7 day term, at an interest rate of 8.25%. It was indicated that in the referred operations they received 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 25 to 30, 2008 period, the minimum was of 7.25% observed on April 30, 2008 and the maximum was of 8.01% registered on April 28, 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 7.56%.

On the other hand, it was informed that on April 30 of this year, they had repurchase agreement operations in the exchange market and in the over the counter market, in the banks of the system and the financial stock companies, with term deposits from the *Banco de Guatemala* and Guatemalan Treasury Bonds for Q166.0 million with a weighted average yield of 7.2892% and for US$4.0 million with a yield of 4.0000%.

Finally, it was reported that during the period of April 25 to 30, 2008, placement of treasury bonds of the Republic of Guatemala were registered, expressed in quetzales for Q1.1 million.

b) The Sub-Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of April 24 to 29, 2008, the average daily operations for purchase were of US$80.2

million and the sale was of US$79.4 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, April 24 were of Q7.48388 per US$1.00 for purchase and of Q7.50106 per US$1.00 for sale; on Friday, April 25 were of Q7.47435 and Q7.49247; in that order, on Monday, April 28 they were Q7.47171 and Q7.50193; on Tuesday, April 29 they were Q7.47326 and Q7.49421. Also, it was indicated that the current exchange reference rate for May 2, 3 and 4 of the current year is Q7.48184 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 25 to 30, 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 Friday, April 25, Monday, April 28, and Tuesday, April 29, 2008, which awarding results were, in the same order, bids for US$9.3 million at a weighted average exchange rate of Q7.48380 per US$1.00; US$0.5 million at Q7.49750; and US$16.6 million at Q7.48762.

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 25 to 30, 2008, did not close operations and that on Wednesday, April 30 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 24 and May 1, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q500.0 million to a negative one of Q350.6 million. They also mentioned that during said period they registered net maturity of liquidity giving operations of the *Banco de Guatemala* for Q0.2 million. On the other hand, the average position of legal reserve in the mentioned period went from Q102.1 million to a negative position of Q350.6 million.

The highlights during the period of April 24 to May 1, 2008, the main monetizing factors of the monetary issue were the decrease in the balance of the legal banking reserve for Q897.7 million, the deposits of the Central Government in the *Banco de Guatemala* for Q232.1 million and the deposits of the rest of the public sector in the *Banco de Guatemala* for Q152.0 million; and the increase of the balance of the Net International Reserves –RIN [For its acronym in Spanish] for the equivalent in quetzales of Q220.0 million; while the main demonetizing factor was the increase in the balance of the deposits constituted in the Central Bank for Q1,210.5 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 6.87%, whereas the estimated with a softened exponential model was of 6.87%; the simple average of both models is of 6.87%, which is over the punctual value of the inflation target and within the tolerance margin of the same (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 6.71%, whereas the estimated softened exponential model was of 6.60%; the simple average of both models is of 6.66%, which is located over the tolerance margin of the same (5.5% +/- 1 percentage point), which suggests a restrictive monetary policy.

As to the parameter rate, it was reported to April 24, 2008, the lower limit was 7.29%, and the upper limit is 11.24%; 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 24, 2008, the lower limit was 4.84% and the upper limit was 5.74%, and the weighted average rate of long term deposits of the banking system was of 7.34% 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 May 1, 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 Q337.6 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 (-Q168.8 million) which would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual growth observed to April 24, 2008, rose to 8.9%, which is below the lower limit of the estimated runner for said variable on the same date (12.2% to 15.2%), which suggests relaxing the monetary policy; in which the econometric estimation for the payment means for December 2008 is of 9.8%, which is below the expected range for December 2008 (12.0% to 15.0%), which suggests relaxing the monetary policy. The average orientation of the deviation (-2.75%) 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 22.4%, which is within the estimated runner for April 24, 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 18.7%, which is within 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 April 2008, for December 2008 the inflation projection is at 8.73%, which is over the tolerance margin of the policy target (5.5%+/-1.5 percentage points), which suggests a restrictive monetary policy; and, for December 2009, the inflation projection will be at 7.38%, which is also over the tolerance margin estimated for said year (5.5%+/-1 percentage 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 percentage 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%, 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%. 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%.

Regarding the orientation of the indicative variables, reference was made to the fact that the Monetary Board, in their April 30, 2008 session, approved the follow up of the dynamic subjacent inflation. Due to the above, in the synthetic index said variable was included. In that sense, according to the relative weight assigned to the indicative variables, it was reported that 40.93% of the same suggest a resticitve monetary policy; 20.88% suggest a moderately restrictive monetary policy; 9.07% suggest an invariable monetary policy orientation; and, 29.12% suggest a relaxed monetary policy.

On the other hand, they indicated that regarding the behavior of the nominal exchange rate, the upper and lower limits for the estimated runner for the week of April 28 to May 2, 2008 were of Q7.727 and Q7.607 per US$1.00, respectively; and the observed level (calculated as the average of the exchange rate in the Institutional Market of Foreign Currency for the period between April 28 and 30) was of Q7.485 per US$1.00; with which the observed value of the nominal exchange rate is located below the lower limit of 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 May 2 to 8, 2008, which indicate an excess of primary liquidity for Q1,539.6 million, fundamentally due to the maturity of long term of CDs; if we add the negative banking liquidity daily position for Q410.9 million resulting in an excess of aggregate liquidity for the referred period of Q1,128.7 million; if these factors are given, to make a compatible issue offer with the programmed demand, it would be necessary to re-place the CDs that mature during the period (Q1,946.1 million; according to the registry to April 30, 2008) could discontinue placements for around Q817.4 million.

e) The Sub-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 to the Execution Committee 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 May 5, 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 term deposit bidding in quetzales No. DP-17-2008.

The Committee was informed of the bidding of term deposit DP-17-2008, in which, according to the information received from the commerce exchanges, did not receive any bids, and therefore decided to declare it deserted.

FIFTH: Other matters and reports.

Not having other matters or reports 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.