

## EXECUTION COMMITTEE

### ACT NUMBER 24-2008

Session 24-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, May ninth, two thousand eight, at fifteen hours and twenty-eight 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 acts numbers 22-2008 and 23-2008, corresponding to the sessions celebrated on May 2 and 7, 2008.

CIRCULATE: projects of acts numbers 22-2008 and 23-2008.

**SECOND:** Evaluation of the bids for the bidding of term deposits in quetzales No. DP-18-2008.

**THIRD:** 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

**FOURTH:** Discussion and determination for quotas for the bidding of term deposits.

- a) Discussion
- b) Determination of quotas for bidding of term deposits

**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 acts for consideration.

Not having observations, the Committee approved Acts numbers 22-2008 and 23-2008.

**SECOND:** Evaluation of the bids for term deposit bidding in quetzales No. DP-18-2008.

The Committee was informed of the bidding of term deposit DP-18-2008, in which, according to the information received from the commerce exchanges, did not receive any bids, and therefore decided to declare it deserted.

**THIRD:** 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 May 2 to 8, 2008, registered an attraction of LTD's for Q680.7 million and maturity for Q1,945.7 million, which gave as a result net maturity for Q1,265.0 million, associated to the operations made in bidding directly with public entities (net maturity for Q2.0 million); and in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A.* stock exchange (net maturity for Q1,073.0 million); and at the window (net maturity for Q190.0 million).

Regarding the DP fund-raising, it was indicated that during the period of May 2 to 8, 2008 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 May 2 to 8, 2008, operations for Q70.9 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 May 2 to 8, 2008 period, the minimum was of 7.40% observed on May 7, 2008 and the maximum was of 7.58% registered on May 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 7.50%.

On the other hand, it was informed that on May 8 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 Q154.4 million with a weighted average yield of 7.4790% and for US\$3.0 million with an average weighted yield of 4.0000%.

Finally, it was reported that during the period of May 2 to 8, 2008, placement of treasury bonds of the Republic of Guatemala were registered, expressed in quetzales for Q114.2 million and maturity for US\$1.1 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of April 30

to May 7, 2008, the average daily operations for purchase were of US\$72.8 million and the sale was of US\$85.9 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, April 30 were of Q7.46775 per US\$1.00 for purchase and of Q7.48847 per US\$1.00 for sale; on Friday, May 2 were of Q7.45862 and Q7.47837; on Monday, May 5 they were Q7.44393 and Q7.47101; on Tuesday, May 6 they were Q7.43998 and Q7.45813; and, on Wednesday, May 7 they were Q7.42600 and of 7.44354. Also, it was indicated that the current exchange reference rate for May 9, 10 and 11 of the current year is Q7.42913 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 May 2 to 9, 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, May 5, Tuesday, May 6, Wednesday, May 7, Thursday, May 8, and Friday, May 9, 2008, which awarding results were, in the same order, bids for US\$4.0 million at a weighted average exchange rate of Q7.47093 per US\$1.00; US\$24.0 million at Q7.45088; and US\$20.4 million at Q7.43769; of US\$17.3 million at Q7.43266, and, of US\$10.0 million at Q7.42595.

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 May 2 to 8, 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 Sub-Director for the Economic Studies Department informed that between May 1 and 8, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a negative position of Q397.2 million to one of Q379.9 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q4.1 million. On the other hand, the average position of legal reserve in the mentioned period went from a negative position of Q397.2 million to Q504.8 million.

The highlights during the period of May 1 to 8, 2008, of the main demonetizing factors of the monetary issue were the increase in the balance of the legal banking

reserve for Q1,063.2 million and the deposits of the Central Government in the *Banco de Guatemala* for Q948.8 million; while the main monetizing factor was the decrease in the balance of the deposits constituted in the Central Bank for Q1,265.0 million and the increase in the balance of the Net International Reserves –RIN [For its acronym in Spanish] for the equivalent in quetzales of Q612.0 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to April 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 8.44% and with a softened exponential model of 9.08%; the simple average of both models is located at 8.76%, 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 7.33% and with a softened exponential model of 7.24%; the simple average of both models is at 7.29%, 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 April 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 7.80%, whereas the estimated with a softened exponential model was of 7.33%; the simple average of both models is of 7.57%, 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 restrictive monetary policy; and, for December 2009 the estimated subjacent inflation with an integrated autoregressive model of mobile averages ARIMA, was of 7.60%, whereas the estimated softened exponential model was of 6.26%; the simple average of both models is of 6.93%, 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 May 1, 2008, the lower limit was 8.45%, and the upper limit is 12.40%; 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 May 1, 2008, the lower limit was 4.75% and the upper limit was 5.65%, and the weighted average rate of long term deposits of the banking system was of 7.35% 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 8, 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 limit of the programmed runner, which suggests an invariable monetary policy. The weighted average orientation of the deviation for the present week (Q0.0 million) would indicate an invariable monetary policy.

As to the total payment means, the inter-annual growth observed to May 1, 2008, rose to 8.5%, which is below the lower limit of the estimated runner for said variable on the same date (12.0% to 15.0%), which suggests relaxing the monetary policy. The average orientation of the deviation (-3.10%) 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 22.2%, which is within the estimated runner for May 1, 2008 (21.7% to 24.7%), 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 17.9%, which is below the expected range (18.0% to 21.0%), which suggests a relaxed monetary policy. The average orientation of the deviations for the present week of -0.05%, therefore suggests a relaxed 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 8.73%, which is also over the tolerance margin of the inflation target (5.5%+/-1 percentage point), which suggests restricting the monetary policy. Also indicating that the implied inflation expectations variable with data to April 2008, showed an inflationary rhythm of 6.11%, 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, regarding the previous week, the following changes were indicated: a) the "Projected Subjacent Inflationary Rhythm" for December 2008 went from suggesting a moderately restrictive monetary policy orientation to advising that it be restrictive; b) the "Primary Liquidity" went from suggesting a relaxed monetary policy to suggesting that the same be invariable; and, c) the "Banking Credit to the Private Sector" went from indicating an invariable monetary policy orientation to advising the same be relaxed. They also indicated that the weightings for the inflation forecasts were modified, according to the new inflation data observed to April, so that it decreased the relative importance of said forecasts for 2008 and increased for 2009. Due to the above, according to the relative weight assigned to the indicative variables, it was reported that 45.53% of the same suggest a restrictive monetary policy (40.93% the previous week); 16.28% suggest a moderately restrictive monetary policy (20.88% the previous week); 11.26% suggest an invariable monetary policy orientation (9.07% the previous week); and, 26.93% suggest a relaxed monetary policy (29.12% the previous week).

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 May 5 to 9, 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 May 5 and 8) was of Q7.446 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) A 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 8 to 15, 2008, which indicate an excess of primary liquidity for Q986.1 million, fundamentally due to the maturity of long term of CDs; if we add the banking liquidity daily position for Q639.8 million, resulting in an excess of aggregate liquidity for the referred period of Q1,625.9 million; if these factors are given, to make a compatible issue offer with the programmed demand, it would be necessary to replace the CDs that mature during the period (Q689.2 million; according to the registry to May 8, 2008) and make additional fund-raising for around Q936.7 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 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.

On the other hand, it was reported that the *Bolsa de Valores Nacional, Sociedad Anónima* (National Stock Exchange, Stock Company) made the modifications to the computer systems and made trials for their corresponding operation and, also, that the connection trails and settlement of the systems of the *Banco de Guatemala*, oriented to the making of the CD operations to 7 days with the private non-financial sector, contemplated in the Monetary, Foreign Exchange Rate and Credit Policy for 2008. In that sense, proposed that as of Monday, May 12, 2008 the Execution Committee hold fund raising for CD's with the private non-financial sector, for 7 day terms at the leading interest rate of the monetary policy, through the Values System of the *Bolsa de Valores Nacional, Sociedad Anónima* (National Stock Exchange, Stock Company).

**FOURTH:** Discussion and determination of quotas for Term Deposits.

a) Discussion

The Committee began the discussion of the analysis that the Monetary Board must present in its May 21, 2008 session, when according to the annual calendar, said licensed body will decide of the level of the leading interest rate of the monetary policy. For said effect, in the Committee some factors were discussed that could be considered in 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, from May 1 to 8, 2008, on average, it was at US\$119.65 per barrel, which means an increase of US\$7.19 per barrel (6.39%), regarding the average price registered during April 2008 (US\$112.46 per barrel). Additionally, according to Bloomberg, the price of crude oil for delivery in December 2008 was located at US\$121.61 per barrel on May 8, 2008, higher by US\$10.72 per barrel, (9.67%) regarding the prevailing price for the same position on April 17, 2008 (US\$110.89 per barrel).

ii. AS to the international price of corn and wheat, which constitute supply factors that have been influenced by the internal inflation behavior, it was indicated that in the

case of corn, this remains with its tendency to rise; while for wheat, this registered an important decrease in its price; notwithstanding, the price of both products remain over the observed levels in similar periods in 2007, therefore its follow up continues to be relevant in the evaluation for the inflation risks balance.

iii. The total inflationary rhythm (10.37%), the subjacent inflationary rhythm (10.0%) and the dynamic subjacent inflationary rhythm (7.51%) to April 2008 increased for the third 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 and for December 2009 (8.76% and 7.29%, in that order), as well as the econometric projections of the dynamic subjacent inflation for December 2008 and for December 2009 (7.57% and 6.93%, respectively), are located over the tolerance margin of the inflation target for both years.

v. The inflation expectations for the panel of private analysts, according to the survey made in April, indicate that the inflationary rhythm for the end of 2008 and 2009 would be located at 8.73% and 7.38%, 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 inter-annual variation of the banking credit to the private sector, although it has been decelerating, was within the estimated runner.

vii. The components of primary liquidity (monetary issue and broad monetary base) to May 8 are within the respective estimated runners.

viii. The inter-annual variation of the payment means was below the lower limit of the estimated runner.

On the other hand, the Execution Committee based on the proposal from the Director of the Department of Monetary Stabilizations, regarding fund-raising for CD's through the mechanism of the Values System of the *Bolsa de Valores Nacional, Sociedad Anónima* (National Stock Exchange, Stock Company), for a 7 day term, at a leading interest rate of the monetary policy, with the private non-financial sector, resolved to modify some established guidelines in its 9-2008 session dated February 22, 2008 and agreed that as of May 12, 2008, proceed in the following manner:

i. That the *Banco de Guatemala* fund-raise for the 7 day terms through the Values System of the *Bolsa de Valores Nacional, Sociedad Anónima* (National Stock



Exchange, Stock Company), with the private non-financial sector, at the leading interest rate of the monetary policy.

ii. That the convening for bidding through the commodities exchanges are made only on Mondays per due date and not hold biddings on Fridays.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for bidding from May 12, 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.

**FIFTH:** Other Matters and Reports.

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