

## EXECUTION COMMITTEE

### ACT NUMBER 27-2008

Session 27-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, May twenty-third, two thousand eight, at thirteen hours and forty 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 25-2008 and 26-2008, corresponding to the sessions celebrated on May 16 and 19, 2008, respectively.

CIRCULATE: project of act number 25-2008 and 26-2008.

**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:** 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 25-2008 and 26-2008.

**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 May 16 to 22, 2008, registered an attraction of LTD's for Q2,447.7 million and maturity for Q2,196.3 million, which gave as a result net fund-raising for Q251.4 million, associated to the operations made in bidding directly with public entities (net maturity for Q107.4 million);

in direct bidding with public entities (net fund-raising for Q81.9 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A.* stock exchange (net fund-raising for Q370.0 million); and at the window (net maturity for Q93.1 million).

Regarding the DP fund-raising, it was indicated that during the period of May 16 to 22, 2008, for the case of bidding, the same were made per due date and price, indicated that in the bidding made through the commodities exchange, the cut price was of 96.2012% for the maturities of December 8, 2008, equivalent to yield rate of 7.1001% and of 94.5761% for the maturities of March 9, 2009, equivalent to a yield rate of 7.1199%, while for those made directly the cut price was 94.5616% for the maturities of March 9, 2009, equivalent to a yield rate of 7.1401%,. As for 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 16 to 22, 2008, operations for Q33.2 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 16 to 22, 2008 period, the minimum was of 6.86% observed on May 21, 2008 and the maximum was of 6.98% registered on May 22, 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 6.90%.

On the other hand, it was informed that on May 22 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 Q77.5 million with a weighted average yield of 7.0203% and for US\$4.9 million with an average weighted yield of 4.0000%.

Finally, it was reported that during the period of May 16 to 22, 2008, placement of treasury bonds of the Republic of Guatemala were registered, expressed in quetzales for Q10.0 million and maturity for US\$0.4 million.

b) The Sub-Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of May 15 to 21, 2008, the average daily operations for purchase were of US\$66.7 million and the sale was of US\$77.8 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, May 15 were of Q7.43183 per US\$1.00 for purchase and of Q7.45568 per US\$1.00 for sale; in that order, on Friday, May 16 were of Q7.42304 and Q7.44306; on Monday, May 19 they were Q7.41262 and Q7.43789; on Tuesday, May 20 they were Q7.41394 and Q7.43662; and, on Wednesday, May 21 they were Q7.41492 and of 7.43197. Also, it was indicated that the current exchange reference rate for May 23, 24 and 25 of the current year is Q7.42688 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 16 to 22, 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 Wednesday, May 21, awarded US\$9.5 million at an average weighted exchange rate of Q7.42784 per US\$1.00.

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 16 to 22, 2008, did not close operations and that on Thursday, May 22 there was no reference price for the market to settle in June 2008.

c) The Director for the Economic Studies Department reported that between May 15 and 22, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a negative position of Q67.0 million to a negative position of Q261.4 million, fundamentally due to the fact that in the indicated period the banks of the system made DP investments from the *Banco de Guatemala* for around Q260.0 million. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q31.8 million. On the other hand, the average position of legal reserve in the mentioned period went from a position of Q566.9 million to Q423.8 million.

The highlights during the period of May 15 to 22, 2008, of the main demonetizing factors of the monetary issue were the increase in the balance of the

deposits of the rest of the public sector in the *Banco de Guatemala* for Q252.8 million; of term deposits constituted in the Central Bank for Q251.4 million and of the deposits of the Central Government in the *Banco de Guatemala* for Q120.2 million and, the decrease in the balance of Other Net Assets for Q111.7 million; while the main monetizing factors were the decrease in the balance of the legal banking reserve for Q364.1 million and the increase in the balance of the Net International Reserves –RIN [For its acronym in Spanish] for the equivalent in quetzales of Q188.8 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 15, 2008, the lower limit was 4.85%, and the upper limit is 8.80%; while the leading interest rate of the monetary policy was at 6.75%, which is within the tolerance margin estimated for the parameter rate, situation that suggests an invariable monetary policy. When referring to the parity liable rate, they declared that up to May 15, 2008, the lower limit was 4.54% and the

upper limit was 5.44%, and the weighted average rate of long term deposits of the banking system was of 7.37% 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 22, 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 Q27.8 million over the upper limit of the programmed runner, which suggests a restrictive monetary policy. The weighted average orientation of the deviation for the present week (Q13.9 million) would indicate restricting the monetary policy.

As to the total payment means, the inter-annual growth observed to May 15, 2008, rose to 8.6%, 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; whereas, the econometric estimation of the payment means for December 2008 is of 9.1%, which is below the lower limit of the expected range for December 2008 (11.0% to 14.0%), which suggest relaxing the monetary policy. The average orientation of the deviation (-2.15%) 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 21.8%, which is below the estimated runner for May 8, 2008 (21.0% to 24.0%), 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 16.7%, which is below the expected range (17.0% to 20.0%), which suggests a relaxed monetary policy. The average orientation of the deviations for the present week of -0.15%, 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 7.38%, 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 May 2008 to forecast the total inflationary rhythm, this is projected for December 2008 at an inflationary rhythm of 8.62%, 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 7.11%. Also the forecast for said model of a mid-term horizon projected an inflationary rhythm for December 2009 of 6.44%, conditioned to gradual adjustments to the leading interest rate, in the last year at 4.16%.

As to the orientation of the indicative variables, regarding last week, the "Banking Credit to the Private Sector" variable, went from suggesting an invariable monetary policy to advising it be relaxed. Due to the above, according to the relative weight assigned to the indicative variables, it was reported that 47.45% of the same suggest a restrictive monetary policy orientation (equal percentage the week before), 16.28% a moderately restrictive monetary policy orientation (equal percentage the week before), 9.34% an invariable monetary policy orientation (18.41% the week before), and 26.93% a relaxed monetary policy orientation (17.86% the week before).

On the other hand, they indicated that regarding the behavior of the nominal exchange rate, the upper and lower limits for the estimated runner (according to its seasonality) for the week of May 19 to 23, 2008 were of Q7.738 and Q7.618 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 19 and 22) was of Q7.429 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 23 to 29, 2008, which indicate an excess of primary liquidity for Q3,284.4 million, fundamentally due to the maturity of long term of CDs and the use of deposits by the Central Government in the *Banco de Guatemala*; if we add the banking liquidity daily position for Q55.1 million, resulting in an excess of aggregate liquidity for the referred period of Q3,339.5 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 (Q2,394.5 million; according to the registry to May 22, 2008) and make additional fund-raising for around Q945.1 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 Q15.0 million, Q15.0 million, Q25.0 million and of Q35.0 million for the following maturity dates: June 9, 2008 and September 8, 2008 and December 8, 2008, March 9, 2009, respectively; and the due date of June 7, 2010, without a pre-established quota.

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

a) Discussion

Regarding the determination of quotas for bidding on May 26, 2008, the proposal from the Department of Monetary Stabilization Operations was taken into account, that includes the information that provides the estimated monetization flow for the following week and, on the other hand, the guidelines to keep the number of weekly bids. Based on this, the Committee approved the proposal of the technical departments and, therefore, agreed to establish the fund-raising quotas in the following manner: for June 9, 2008, Q15.0 million; for September 8, 2008, Q15.0 million; for December 8, 2008, Q25.0 million; and, for March 9, 2009, Q35.0 million; as well as the due date of June 7, 2010, without a pre-established quota.

**FOURTH:** Other Matters and Reports.

Not having other matters or reports 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.