EXECUTION COMMITTEE

ACT NUMBER 29-2008

Session 29-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, June sixth, two thousand eight, at sixteen hours and forty-three 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 28-2008, corresponding to the session celebrated on May 30, 2008.

CIRCULATE: project of act number 28-2008.

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 Act number 28-2008.

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 May 30 to June 5, 2008, registered a placements for LTD's of Q2,279.8 million and maturity for Q3,065.0 million, which gave as a result net maturities for Q785.2 million, associated to the operations made in bidding directly through the stock exchange (net maturity for Q30.1 million); in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores*

Nacional, S. A. stock exchange (net maturities for Q691.0 million); and at the window (net maturity for Q64.1 million).

Regarding the DP fund-raising, it was indicated that during the period of May 30 to June 5, 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 94.8141% for the maturities of March 9, 2009, equivalent to a yield rate of 7.1299% and of 93.2337% for the maturities of June 8, 2009, equivalent ot a yield rate of 7.1400%. 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 30 to June 5, 2008, operations for Q17.7 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 30 to June 5, 2008 period, the minimum was of 6.79% observed on June 3, 2008 and the maximum was of 7.06% registered on June 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 6.86%.

On the other hand, it was informed that on June 5 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 Q223.0 million with a weighted average yield of 6.8372%, of which Q120.0 million were made on the stock market at a yield rate of 6.8850% and Q103.0 million in the over the counter market at a yield rate of 6.7816%, as well as US$3.9 million with an average weighted yield of 4.0000% in the stock market.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of May 30 to June 5, 2008; they registered placements for Q42.5 million and maturities for US$1.0 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of May 29 to June 4, 2008, the average daily operations for purchase were of US$69.7 million and the sale was of US$72.3 million and that the weighted average exchange rates of the referred operations were stable. In effect, on Thursday, May 29 were of Q7.42348 per US$1.00 for purchase and of Q7.43856 per US$1.00 for sale; in that order, on Friday, May 30 were of Q7.42196 and Q7.44600; on Monday, June 2 they were Q7.42689 and Q7.44869; on Tuesday, June 3 they were Q7.43163 and Q7.45381; and, on Wednesday, June 4 they were Q7.44330 and of 7.46533. Also, it was indicated that the current exchange reference rate for June 6, 7 and 8 of the current year is Q7.47899 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 30 to June 5, 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 did not convene bids for the purchase of 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 May 30 to June 5, 2008, did not close operations and that on Thursday, June 5 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 29 and June 5, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a negative position of Q370.9 million to a positive one of Q505.1 million. They also mentioned that during said period they registered net maturities of liquidity giving operations of the *Banco de Guatemala* for Q15.4 million. On the other hand, the average position of legal reserve in the mentioned period went from a position of Q148.6 million to Q547.0 million.

The highlights during the period of May 29 to June 5, 2008, of the main demonetizing factors of the monetary issue were the increase in the balance of the legal banking reserve for Q1,029.9 million and of the deposits of the Central Government in the *Banco de Guatemala* for Q879.1 million; while the main monetizing factors were the decrease in the of the balance of the deposits constituted in the Central Bank for Q785.2 million and the increase in the balance of the Net International Reserves for the equivalent in quetzales of Q1,069.6 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 29, 2008, the lower limit was 4.79%, and the upper limit is 8.74%; 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 29, 2008, the lower limit was 4.38% and the upper limit was 5.28%, and the weighted average rate of long term deposits of the banking system was of 7.39% 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 June 5, 2008, is found Q182.7 million below the programmed runner for said variable, which would indicate relaxing the monetary policy, whereas the base of a broad monetary base, on that same date, is found at Q220.4 million over the upper limit of the programmed runner, which suggests an invariable monetary policy. The weighted average orientation of the deviation for the present week (Q18.9 million) would indicate restricting the monetary policy.

As to the total payment means, the inter-annual growth observed to May 29, 2008, rose to 8.9%, which is below the lower limit of the estimated runner for said variable on the same date (10.5% to 13.5%), which suggests relaxing the monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 9.7%, 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 (-1.45%) 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 21.2%, which is within the estimated runner for May 29, 2008 (20.7% to 23.7%), 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 16.0%, 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 -0.50%, 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 May 2008, for December 2008 the inflation projection is at 9.92%, 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 8.23%, 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 "Primary Liquidity" variable, went from suggesting a relaxed monetary policy to advising it be restrictive. 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 (36.19% the week before), 16.28% a moderately restrictive monetary policy orientation (equal percentage the week before), 9.34% an invariable monetary policy orientation (equal percentage the week before), and 26.93% a relaxed monetary policy orientation (38.19% 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 June 2 to 6, 2008 were of Q7.753 and Q7.633 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 June 2 and 5) was of Q7.455 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 June 6 to 12, 2008, which indicate an excess of primary liquidity for Q2,820.5 million, mainly due to the maturity of long term of CDs; if we add the daily banking liquidity position for Q313.9 million and the excess of aggregate liquidity estimated for the referred period of Q2,951.7 million; if these factors are given, to make a compatible issue offer with the programmed demand, it would be necessary for the CDs that mature during the period (Q2,768.9 million; according to the registry to June 5, 2008) and fund-raise additionally for around Q182.8 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 Q15.0 million, Q15.0 million, Q35.0 million and of Q45.0 million for the following maturity dates: September 8, 2008 and December 8, 2008, March 9, 2009 and June 8, 2009, respectively; and the due date of June 7, 2010, without a pre-established quota.

THIRD: Discussion and determination of quotas for Term Deposits.

Regarding the determination of quotas for bidding on June 9, 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 September 8, 2008, Q15.0 million; for December 8, 2008, Q15.0 million; and, for March 9, 2009, Q35.0 million; June 8, 2008, Q45.0 million; as well as the due date of June 7, 2010, without a pre-established quotas.

FOURTH: Other Matters and Reports.

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