

EXECUTION COMMITTEE

ACT NUMBER 30-2008

Session 30-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Monday, June ninth, two thousand eight, at thirteen hours and thirty-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: Inflation report to May 2008.

SECOND: Other matters and reports.

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

FIRST: Inflation Report to May 2008. .

The Coordinator requested the corresponding information be provided.

The Director of the Department of Economic Studies presented the report on inflation to May 2008 reported by the National Statistics Institute (INE for its acronym in Spanish) and indicated that the monthly inflation was of 1.43%, higher by 0.03 percentage points to that of April 2008 and higher by 1.69 percentage points to the observed in May 2007. In that regard, it was mentioned that in May 2008, based on the information provided by INE; hikes were observed in the prices of goods and services: tomato (28.43%); beans (11.37%); electricity (8.61%); extra-urban transportation (5.96%); gasoline (5.42%); fresh and frozen poultry meats (2.82%); lunch (1.87%); and bread (1.68%). They also registered reductions in the median prices of the following goods and services: spices, dressings and aromatic products (9.11%); güisquil (7.63%); other fresh fruit (1.72%); other vegetables and orchard products (1.66%); air transportation (1.22%); and, eggs (0.50%). The total inflationary rhythm was at 12.24%, higher by 1.87 percentage points to the registered in April 2008 (10.37%) and higher by 6.77 percentage points to the observed in May 2007 (5.47%). The dynamic subjacent inflation registered a rhythm of 8.39%, higher by 0.88 percentage points to the observed in April 2008 (7.51%) and higher by 4.10 percentage points to the registered in May 2007 (4.29%). They also presented information on the estimations of the imported and domestic of total inflation to the referred month. In that sense, it was indicated that the total inflationary rhythm to May 2008 (12.24%), 4.27 percentage points are due to imported inflation, associated to the

direct and indirect effect of the increase of prices in the international oil and its derivatives market, whereas 7.97 percentage points correspond to internal inflation.

The Committee also received information from the technical departments regarding econometric estimations for December 2008 and 2009 of the total inflationary rhythm and subjacent dynamic inflation, in which observed data to May 2008 is incorporated. According to said estimations, the total inflationary rhythm as well as the dynamic subjacent inflation is over the tolerance margin of the inflation target forecast for each one of those years. As to the econometric projection of total inflation for December 2008, it was indicated that this is higher by 0.77 percentage points to the estimation made with data to April, when it was at 9.53%, percentage which is over the tolerance margin of the determined inflation target for said year (5.5% +/- 1.5 percentage points). The total inflation projection for December 2009 (8.29%) regarding the inflation target determined for the end of the mentioned year, pointed out that said projection is higher by one percentage point to the estimated with data to April, located over the tolerance margin of the inflation target (5.5% +/- 1 percentage point).

Regarding the econometric projection of the subjacent inflation for December 2008, it was reported to be at 8.23%, higher by 0.66 percentage points to the estimation made in April, located over the tolerance margin of the inflation target determined for that year (5.5% +/- 1.5 percentage points). When examining the econometric estimation for December 2009 (7.17%), it was higher by 0.24 percentage points to the estimation the previous month (6.93%), located over the punctual value of the inflation target (5.5% +/- 1.5 percentage points).

In the described context, the Committee declared its concern for the result of the inflation to May 2008, due to the fact that the same accentuates the tendency to rise, which has been registered in the inflationary rhythm. They highlighted the fact that the inflation registered to May was higher than the expected and higher to the average inflation to May of the last eight years. In that sense, in the heart of the Committee they discussed the factors that have influenced the referred behavior. In that regard, they stressed that the acceleration of the inflationary rhythm to May 2008 was influenced by the arithmetic effect due to the fact that the inflation in May 2007 was negative (-0.26%) and that the inflation to May 2008 was higher than the historic values of inflation that occur in May. They also highlighted that although the total

inflationary rhythm reflects the effect of external supply factors, associated to the increase of international prices of oil and its derivatives and a rise in worldwide food prices, taking into account that the behavior of the main monetary aggregates do not reflect excess liquidity to date, the Committee considered that these could be accentuating the inflation expectations of the economic agents, which could cause the adjustments to be made in the prices of goods and services of the basic food basket, added to those that come from the mentioned supply shocks.

SECOND: Other Matters and Reports.

The Committee began a discussion of the analysis that must be presented to the Monetary Board in its Wednesday, June 18, 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 of the factors that could be considered in the inflation risks balance that the technical departments will present in the next meeting of the Committee, which are described as follows:

- i. The international price of oil, from June 1 to 6, 2008, on average, was at US\$128.14 per barrel, which means an increase of US\$2.68 per barrel (2.14%) regarding the average price registered during May 2008 (US\$125.46 per barrel). Additionally, according to Bloomberg, the average price of crude oil for delivery in December 2008 was at US\$137.88 per barrel, on June 6, higher by US\$14.83 per barrel (12.05%) regarding the prevalent price for the same position to May 15, 2008 (US\$123.05 per barrel).
- ii. The international prices of corn and wheat continue to be over the observed levels in 2007, so their follow up continues to be relevant in the evaluation of the balance of inflation risks. In that sense, it was indicated that the price of corn continues to rise; on June 9, it was at US\$11.19 per quintal, while the price of wheat was at US\$11.12 per quintal. Regarding the price of wheat, they highlighted that it did not continue to fall, like it had since March of this year.
- iii. The total inflationary rhythm (12.24%), the subjacent inflationary rhythm (11.37%) and the dynamic subjacent inflationary rhythm (8.39%) to May

2008 increased for the fourth 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 (9.53% and 8.29%), as well as the econometric projection of dynamic subjacent inflation for December 2008 and for December 2009 (8.23% and 7.17%), are over the tolerance margin of the inflation target for both years.
- v. The inflation expectations of the panel of private analysts, according to the May survey, indicate that the total inflationary rhythm for the end of 2008 and 2009 would be at 9.92% and 8.23%, respectively. Both projections would be over the upper limit of the tolerance margin of the inflation target determined for each one of the referred years.
- vi. The liquidity conditions in the banking system are favorable, situation that is reflected in the amount of liquid resources available (daily legal reserve positions and the balance of monetary stabilization operations), which to June 5, 2008 were around Q2,400.0 million.
- vii. The inter-annual variation of the banking credit to the private sector has been decelerating, located within the estimated runner.
- viii. The components of primary liquidity (monetary issue and broad monetary base) are close to the programmed values.
- ix. The inter-annual variation of the payment means are below the lower limit of the referred runner.

Not having other matters to attend to, the session ended at fifteen hours and twenty-seven minutes, in the same place and on the same date indicated; the participants signed in agreement.