EXECUTION COMMITTEE

ACT NUMBER 31-2008

Session 31-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, June thirteenth, two thousand eight, at fifteen 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 projects of acts numbers 29-2008 and 30-2008, corresponding to the sessions celebrated on June 6 and 9, 2008.

CIRCULATE: projects of acts numbers 29-2008 and 30-2008.

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: Monthly Report of the Inflation Risks of the Semi-Structural Macroeconomic Model.

FOURTH: Inflation Risks balance.

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

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

SIXTH: 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 29-2008 and 30-2008.

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 June 6 to 12, 2008, registered a placements for LTD's of Q2,705.7 million and maturity for Q2,769.1 million, which gave as a result net maturities for Q63.4 million, associated to the operations made in bidding directly through the stock exchange (net maturity for Q67.0 million); in direct biddings with the public entities (net maturity for Q19.4 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net maturities for Q116.0 million); and at the window (net maturity for Q93.0 million).

Regarding the DP fund-raising, it was indicated that during the period of June 6 to 12, 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 98.2488% for the maturities of September 8, 2008, equivalent to a yield rate of 7.1492% and of 96.5580% for the maturities of December 8, 2008, equivalent to a yield rate of 7.1490%; of 94.9371% for the maturities of March 9, 2009, equivalent to a yield rate of 7.1301% and of 93.3529% for the maturities of June 8, 2009, equivalent to a yield rate of 7.1400%; while for the bidding made directly with public entities, the cut price was of 98.3691% for the maturities to September 9, 2008, equivalent to a yield rate of 6.6500% and of 94.9439% for the maturities of March 9, 2009, equivalent to a yield rate of 7.1200%. 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 June 6 to 12, 2008, operations for Q17.9 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 June 6 to 12, 2008 period, the minimum was of 6.71% observed on June 11, 2008 and the maximum was of 6.93% registered on June 9, 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 6.85%.

On the other hand, it was informed that on June 12 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 Q112.0 million with a weighted average yield of 6.7830%, of which Q17.0 million were made on the stock market at a yield rate of 6.8500% and Q95.0 million in the over the counter market at a yield rate of 6.7711%, as well as US$4.8 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 June 6 to 12, 2008; they registered placements for Q27.9 million and maturities for US$0.1 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of June 5 to 11, 2008, the average daily operations for purchase were of US$60.4 million and the sale was of US$66.8 million and that the weighted average exchange rates of the referred operations were stable. In effect, on Thursday, June 5 were of Q7.46402 per US$1.00 for purchase and of Q7.49091 per US$1.00 for sale; in that order, on Friday, June 6 were of Q7.48902 and Q7.52389; on Monday, June 9 they were Q7.47396 and Q7.50165; on Tuesday, June 10 they were Q7.46395 and Q7.48290; and, on Wednesday, June 11 they were Q7.45449 and of 7.47797. Also, it was indicated that the current exchange reference rate for June 13, 14 and 15 of the current year is Q7.46795 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 June 6 to 12, 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 auctioned the purchase of US dollars on June 12, 2008, for the amount of US$8.0 million, of which US$6.0 million were awarded at a weighted average exchange rate of Q7.47113 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 June 6 to 12, 2008, did not close operations and that on Thursday, June 12 there was no reference price for the market to settle in June 2008.

c) The Director for the Economic Studies Department reported that between June 5 and June 12, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q479.4 million to one of Q526.5 million. They also mentioned that during said period they registered net 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 a position of Q541.8 million to Q437.8 million.

The highlights during the period of June 5 to 12, 2008, of the main demonetizing factors of the monetary issue were the increase in the balance of the deposits of the Central Government in the *Banco de Guatemala* for Q112.5 million and the decrease in the balance of the Net International Reserves for the equivalent in quetzales to Q167.2 million; while the main monetizing factors were the decrease in the balance of the deposits constituted in the Central Bank for Q63.4 million and the legal banking reserve for Q29.3 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to May 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 8.89% and with a softened exponential model of 10.16%; the simple average of both models is located at 9.53%, 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 8.65% and with a softened exponential model of 7.92%; the simple average of both models is at 8.29%, 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 May 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 8.20%, whereas the estimated with a softened exponential model was of 8.26%; the simple average of both models is of 8.23%, which is over the punctual value of the inflation target (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 7.65%, whereas the estimated softened exponential model was of 6.69%; the simple average of both models is of 7.17%, 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 that to June 5, 2008, the lower limit was 6.24%, and the upper limit is 10.19%; 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 June 5, 2008, the lower limit was 4.37% and the upper limit was 5.27%, and the weighted average rate of long term deposits of the banking system was of 7.41% 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 12, 2008, is found Q232.9 million below the programmed runner for said variable, which would indicate relaxing the monetary policy, whereas the base of a broad monetary base, to that same date, is found within the programmed runner, which suggests an invariable monetary policy. The weighted average orientation of the deviation for the present week (-Q116.5 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual growth observed to June 5, 2008, rose to 9.1%, which is below the lower limit of the estimated runner for said variable on the same date (10.9% to 13.9%), which suggests relaxing the monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 9.9%, 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 20.3%, which is below the estimated runner for June 5, 2008 (20.5% to 23.5%), which suggests a relaxed monetary policy; on the other hand, the econometric estimation for the end of 2008 of the banking credit to the private sector is 15.4%, 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 -0.90%, 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 May 2008, showed an inflationary rhythm of 6.16%, 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 restrictive 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 35.80% of the same suggest a restrictive monetary policy orientation (47.45% the week before), 16.67% a moderately restrictive monetary policy orientation (16.23% the week before), 9.34% an invariable monetary policy orientation (equal percentage the week before), and 38.19% a relaxed monetary policy orientation (26.93% 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 9 to 13, 2008 were of Q7.767 and Q7.647 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 9 and 12) was of Q7.477 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 13 to 19, 2008, which indicate an excess of primary liquidity for Q2,651.0 million, mainly due to the maturity of long term of CDs and the use of deposits of the Central Government in the *Banco de Guatemala*; if we add the daily banking liquidity position for Q250.2 million and the accumulated excess of negative monetary issue for Q232.9 million, resulting in an excess of aggregate liquidity estimated for the referred period of Q2,668.2 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 (Q2,425.2 million; according to the registry to June 12, 2008) and fund-raise additionally for around Q243.1 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 Q30.0 million, Q30.0 million, Q55.0 million and of Q75.0 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: Monthly report on Inflation Risks of the Semi-structural Model Macro-economic -MMS-.

The Committee deliberated on the analysis of the level of the leading interest rate of the monetary policy that it must present to the Monetary Board in the session for Wednesday, June 18, 2008, in which said licensed body will decide the level of the leading interest rate of the monetary policy. For said effect, the technical departments presented the Monthly Report on Inflation Risks of the Semi-structural Macroeconomic Model- MMS- to the Committee and on the other hand, the Inflation Risks Balance.

It was mentioned that the Monthly Inflation Risks Report of the Semi-structural Macroeconomic Model –MMS [For its acronym in Spanish.] indicates the direction in which the data suggest in the last month (from May 11 to June 10, 2008) affect the risks that surround mid-term forecast based on the second running of the MMS in 2008 (made in May). The generation of the mentioned running is based on the iterative and mechanical running of the MMS, based on the new data (historic and/or forecast) of the diverse variables that feed the data base of the model in question.

It was mentioned that the Monthly Inflation Risks Report does not constitute a new complete inflation forecast, since it does not incorporate the qualitative analysis inherent to the generation of the complete forecast that has been presented previously with a quarterly frequency. In that sense, the mentioned report is limited to presenting the result of processing new available data in a mechanical running of the MMS. Therefore, it was pointed out that the quantitative results presented in this type of report must not be interpreted literally, but only as indicative of the direction of risks based on the last quarterly forecast.

Regarding the effect of new available data in the forecast of inter-annual inflation, it was indicated that said effect will point to an increase of inflation risk, since the trajectory generated by the mechanical running of the MMS made in June is translated to higher rates in comparison to the trajectory generated in May by the forecast of the second running of the MMS in 2008. Congruent with the above, it was pointed out that the new data imply a trajectory for the leading interest rate of the monetary policy in levels higher regarding the corresponding trajectory of the first running of the MMS in 2008 for the third quarter of 2008 up to the fourth quarter of 2009.

Then, the technical departments presented the breakdown of the effects of the new data on the forecast of the MMS generated in the second running of 2008 (made in May), for the fourth quarter of 2008. In terms of inter-annual inflation, it was indicated that the projection for the fourth quarter of 2008 increased by 0.29 percentage points, when surpassing 8.62% (in the forecast of the second running of 2008) to 8.91% (in the mechanical running that incorporates the new data). Said behavior is explained by the new forecast on the price of diesel (17 hundredths of a point toward the rise), by the new inflation data of the United States of America (2 hundredths of a point toward the rise), by the new forecast of the interest rate of the United States of America (1 hundredth of a percentage point toward the decline), by the data of the Monthly Economic Activity Index of domestic demand (1 hundredth of a point toward the decline), by the new inflation data (10 hundredths of a point toward the rise), and by the new inflation data of the nominal exchange rate (2 hundredths of a point toward the rise). In terms of the leading interest rate, the average of said variable for the quarters between the second and fourth quarters of 2008, increased by 17 basic points, when going from 7.47% (in the forecast of the second running of 2008) to 7.64% (in the mechanical running that incorporate the new data). Said increase is explained by the effect of the new forecast of the price of diesel (12 basic points toward the rise), by the new forecast of inflation from the United States of America (1 basic point toward the rise), by the new forecast of the interest rate in the United States of America (3 basic points toward the decline), by the new inflation data (4 basic points toward the rise) and by the new data of the nominal exchange rate (3 basic points toward the rise).

As to the breakdown of the effect of the new data on the forecast of the MMS generated in the second running of 2008 (made in May) for the fourth quarter of 2009, it was indicated that, in terms of inter-annual inflation, the projection for the fourth quarter of 2009 increase by 0.35 percentage points, when going from 6.44% (in the second running of 2008) to 6.79% (in the mechanical running that incorporates the new data). Said increase is explained by the new forecast of the price of diesel (29 hundredths of a percentage point toward the rise), by the new US inflation data (2 hundredths of a percentage point toward the rise), by the new forecast of the US interest rate (5 hundredths of a percentage point toward the decline), by the new data of the IMAE of domestic demand (1 hundredths of a percentage point toward the fall), and the new data of the new nominal exchange (5 hundredths of a percentage point toward the rise).

As to the leading interest rate of the monetary policy, it was pointed out that the average of said variable, for the quarters understood as those between the second of 2008 and fourth quarter of 2009, increase by 38 basic points, when going from 6.11% (in the forecast of the second running of 2008) to 6.49% (in the mechanical running that incorporates new data). Said behavior is explained by the new forecast in the price of diesel (35 basic points toward the rise), by the new US inflation forecast (1 basic point toward the rise), by the new interest rate in the United States of America (4 basic point toward the rise), by the new inflation data (3 basic points toward the rise) and by the new data of the new nominal exchange (3 basic points toward the rise).

In summary the technical departments indicated that, regarding the second running of the MMS in 2008 (made in May), the mechanical running of June 2008 indicate a trajectory of the highest inflation rates, over the current target of the monetary policy established for 2008 and for 2009, as well as with a trajectory for the highest leading interest rate of the monetary policy throughout the forecast horizon.

FOURTH: Inflation Risks Balance

Regarding the inflation risks balance, the following aspects were highlighted:

As to the external conditions, it was indicated that the international price of oil, from June 1 to 12, 2008, on average, was at US$131.05 per barrel, which means an increase of US$5.59 per barrel (4.46%) regarding the average price registered in May 2008 (US$125.46 per barrel) and an increase of US$39.31 per barrel (42.85%) regarding the average price registered during December 2007 (US$91.74 per barrel). On the other hand, the price of crude oil for delivery in December 2008, according to Bloomberg, on June 12, 2008 was at US$137.91 per barrel, higher by US$46.94 per barrel (51.60%) regarding the price registered for the same position on December 31, 2007 that was of US$90.97 per barrel. In that sense, according to reports by international experts, the referred behavior in the price of crude oil is associated to supply and demand factors and to the speculation observed in the market. As to demand factors, they mentioned the weakening US dollar regarding other currencies, which has stimulated the participation of the first they mentioned OPEC, in its last meeting (March 5, 2008), agreed to keep the current crude oil production invariable (29.67 million barrels daily), which is considered insufficient to satisfy the current demand; and, second, that according to information from the US Department of Energy, the level of crude oil reserves of that country reduced for the fourth consecutive week, located at 302.2 million barrels, on June 6, 2008. As to market speculation, reference was made to the slim margin between world supply and demand of oil, which causes any oil production news to affect oil production, which can influence in a new increase in the futures price, as well as its derivatives.

As to the behavior of the international price of corn, it was reported that an important rise was registered when on June 12, 2008 at US$11.66 per quintal, higher by 8.87% to the observed at the end of May (US$10.71 per quintal), and higher by 54.03% to the registered in December 2007 (US$7.57 per quintal), therefore its follow up in the risks balance is important as a supply factor. Reference was also made to the fact, that according to the information of the National Statistics Institute INE [For its acronym in Spanish), in May the internal price of white corn (with a weighting in the Consumer Index Price of 0.75%) registered a slight drop in its price when at Q119.00 per quintal, lower by 0.23% to the observed at the end of April (Q119.27 per quintal), but higher by 5.31% to the registered in December 2007 (Q113.00 per quintal). Taking into account that the price of said product continues to rise and given its incidence on the prices of other products of the basic food basket (particularly of the tortilla products and poultry meats), there are still inflationary risks this way.

As to the international price of wheat, they mentioned that since March the price has been dropping continuously; on June 12, the price was US$11.20 per quintal, which represents an increase of approximately 2.10% regarding the observed level in May 2008 (US$10.97 per quintal), and a decrease of 22.71% regarding the level registered in December 2007. In this circumstance, the referred price continues to be a source of inflationary pressure, due to the fact that it still remains over the levels registered during the first six months of 2007, which could continue to influence in the prices of derived products, like flour, bread and pasta.

Regarding the composed inflation index of the main commercial partners of Guatemala, it was indicated that it increased considerably in May 2008, located at 5.53%, percentage which is over the value registered in December 2007 (5.07%). They added that in the case of inflationary rhythm in the United States of America, in May 2008 it was at 4.18%, lower to the observed in April 2008 (3.94%) than the registered in May 2007 (2.69%); therefore, taking into account that said country has the highest relative weight within the referred index, in this manner imported inflation risks persist.

As to internal conditions, it was indicated that inter-monthly inflation in May 2008 was at 1.43%, higher by 1.69 percentage points to the registered in May 2007 (-0.26%) and higher by 0.92 percentage points to the average of registered variations in May during the last eight years (0.51%). On the other hand, total and subjacent inflationary rhythms observed in May 2008 (12.24% and 8.39%, respectively), although they registered an increase regarding the previous month, and continue to be over the tolerance margin of the inflation target determined by the Monetary Board for 2008 (5.5% +/- 1.5 percentage point).

As to econometric projections of total and subjacent inflationary rhythm (estimate based on the Dynamic Subjacent Inflation) for December 2008 and December 2009, they are over the tolerance margin of the inflation target for each of those years. As to the results of the survey to inflation expectations of the panel of private analysts made in May 2008, reveal that said panel projects an inflationary rhythm for the end of 2008 and 2009, higher to the forecast in the survey made in April. Both projections are over the inflation target established for each one of the referred years.

Regarding the execution of public finance, it was indicated that according to preliminary number to May, 2008, registered a surplus of Q1,575.4 million, equivalent to 0.5% of the GDP (deficit of Q520.1 million to May 2007, equivalent to 0.2% of the GDP). Notwithstanding, emphasis was made on the following aspects: a) that the surplus registered to May, is due to less rhythm of public expense (reduction of 3.2% to May, regarding an equal period in 2007) as to greater levels fo tributary collection (increase of 11.7% to May, regarding an equal period in 2007); b) that the level of deposits of the Central Government in the *Banco de Guatemala*, net disbursements of external debt, registered am increase between December 31, 2007 and of June 12, 2008 of Q1,680.4 million while between April 30 and June 12, the mentioned level of deposits increased Q271.6 million; and, c) that to June 12, 2008, the Central Government had placed Treasury Bonds for Q1,217.7 million, of which 88.7% corresponded to placements with the public sector and 11.3% correspond to the private sector, situation that contrasts with the observed to that date the previous year, when the amount placed (Q2,689.4 million), 28.6% was with the public sector and the remaining 71.4% with the private sector.

AS to the nominal exchange rate, this continues to show a tendency to appreciate, according to the seasonal behavior. Regarding the indicative variables, when comparing their situation to date regarding the observed the month before, 35.80% of the variables advised a restrictive monetary policy (47.45% the month before), 16.67% suggest a moderately restrictive monetary policy (16.28% the month before); 9.34% suggest an invariable monetary policy (18.41% the month before); and the remaining 38.19% advise a relaxed monetary policy (17.86% the month before).

The primary liquidity (monetary issue and broad monetary base) to June 12, 2008, showed an average deviation below the lower limit of the programmed runner of Q116.5 million, particularly as a result of the deviation of the monetary issue. As to inter-annual variation of the payment means it is below the lower limit of the estimated runner.

Last, the inter-annual variation of the banking credit to the private sector has been decelerating, and on the last date measured it was below the lower limit of the estimated runner.

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

a) Discussion.

The technical departments of the *Banco de Guatemala*, after having presented the monthly report of inflation risks due to the Semi-structural Macroeconomic Model – MMS [For its acronym in Spanish] the elements that make up the inflation risks balance, as well as the behavior of the indicative variables of the monetary policy, came to the conclusion that the factors that advise restricting the monetary policy prevail, so an adjustment to the leading interest rate of the monetary policy will contribute to moderating the inflationary expectations of the economic agents as well as counteracting the effects of the second round effects of the imported inflation.

Based on the presentation of the technical departments, the Committee deliberated on the content of the same with the purpose of presenting the main analysis elements, as well as the thoughts and conclusions that could be considered in the decision regarding the level of the leading interest rate of the monetary policy programmed for June 18 of this year.

Regarding the behavior of inflation to May 2008, in the Committee reference was made to the fact that the inflationary rhythm increased for the fourth consecutive month at 12.24% (8.76% in February, 9.10% in March and 10.37% in April, 2008), situation that could exacerbate the inflation expectations of the economic agents. When the prospective analysis of the inflation behavior was made, it was indicated that the total inflationary rhythm projections for the end of 2008 from the arithmetic average of the two econometric models that have been used, point to an inflationary rhythm of 9.53%, higher to the inflation target determined by the monetary authority for the current year. For the end of 2009, a total inflationary rhythm of 8.29% is projected, percentage that is over the inflation target determined for said year.

The committee also analyzed the environmental risks in which the monetary policy is currently executed. As to the risks associated to the external environment, they discussed the evolution of international oil, corn and wheat prices, as well as the recent behavior of inflation of the main commercial partners of the country. In that regard, it was highlighted that the evolution of the mentioned variables continues to reflect the persistence of inflationary risks, so their close follow up is relevant in the inflation risks balance.

In the described context, in the Committee they declared that an integral analysis of variables and macroeconomic indicators show that it is convenient to restrict the monetary conditions, highlighting the following aspects: a) currently total inflation is at two digits and the tendency has increased in the last few months even when the effect of imported inflation is clear, in the first and second rounds it has been significant; a relevant aspect due to the importance of anchoring the inflation expectations of the economic agents; b) the inflation forecast of econometric methods as well as coming from the mechanical running of the MMS, is over the target for 2008 and 2009; c) Even though the inflation expectations of the panel of private analysts is a sample of the expectations of economic agents, it has increased in the last few months and although there is a mix of some rational and adapting expectations in some cases, it’s true that the expectations of said pane have increased; d) In terms of monetary aggregates, the payment means are below the programmed runner, but the gap between the lower limit and the observed value has been reduced. On the other hand, the banking credit to the private sector, although it has been close to the lower limit, there is potential to increase in the same way that could be seen in the second semester of the year, especially if the forecast fiscal expansion is considered; and, e) as to public finance, although a surplus has been seen in January to May and a lower surplus is expected in June, the latest information published by the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury] contrasts with the fact that although an increase of government deposits are seen between January and June for approximately Q2,900.0 million, the latest projections reviewed on behalf of the *Ministerio* indicate that there has been an intense use of the deposits of the government in the *Banco de Guatemala*, which are estimated to be around Q5,000.0 million, if we add the intention of a budgetary increase, given the sources of financing proposed, which would imply the use of till for an additional Q1,400.0 million. In that sense, according to the declared by the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury] public expense has accelerated in the second semester of the year, therefore public finance would register a deficit and greater use of deposits, which when in circulation would influence in greater importance of primary monetization; with which the prospective scenario will point to the following months of payment means and the credit will accelerate and they may generate additional inflationary pressures due to excess liquidity. Within the scheme of inflation expectation targets, the policy actions are delayed; in other words, an adjustment of the leading interest rate of the monetary policy at this time is not to decelerate the inflationary rhythm in the short term, but, to moderate the inflation expectations of the economic agents and also so that at the moment in which the resources of the government begin to circulate in the economy, there is a change in the costs of opportunity for the banks of the system and will therefore lead them to deposit part of the excess liquidity in the Central Bank, making this a measure to anticipate the described scenario.

They also mentioned some factors that advise keeping the leading interest rate invariable, among which the following were mentioned: a) That some monetary aggregates are located below the lower limits of their respective runners, although the deviation has been reduced; b) that the gap of the product was reduced in the second running of the MMS in 2008, which could be reflecting less infaltoinary pressures from aggregate demand.

In the Committee there was consensus that the analysis is complex in the current scenario, when observing an inflation risks balance where inflationary pressures prevail, due to supply shocks, mainly in food and energy that in some way affect inflation. In that sense, it was indicated that it must be taken into account that the inflation target scheme looks to anchor inflationary pressures as its main component, so a relevant question in monetary policy terms would be: Must the Central Bank act before supply shocks? The natural answer would be that it would act when these supply shocks contaminate inflationary expectations; in the current case what is made evident is that these supply shocks, due to uncertainty that exists and because of their durability, are affecting inflationary expectations and that is clearly shown in the behavior of the rise in expectations from the panel of private analysts in the last few months; in other words, the inflation expectations for 2008 and 2009, are now greater than the prevalent in previous months, as long as, the economic agents perceive that the inflation will be more persistent than it should be and only if that would be a reason to justify that the Monetary Authority send a signal to lessen these effects. It is likely that the costs are pointed out that could implicate a measure of this nature, but the final objective is to keep stability in the mid-term. With that measure, the result of the consumer price index in June will probably not achieve significant improvement, but it would send the right signal to the economic agents regarding the fact that the Monetary Authority is concerned about inflation in the mid-term and that it wants to counteract the second round effects. Some members of the Committee were of the opinion that the increase should be higher than 25 basic points to lessen the inflation expectations of the economic agents, indicating that for example, in countries in South America the recent adjustments have been much stronger, because they have also sent the message of anchoring their expectations at more reasonable levels to continue with a gradual focus where they avoid significant transfers in the long term interest rates, but to knock down expectations sometimes requires stronger measures. Another element that was considered it that regarding the normal subjacent inflation and the dynamic subjacent inflation showing a tendency to rise and from the operative point of view this is the indicator that the Central Bank must use to measure if it is reaching its objective, in both cases there is a deviation regarding targets.

As a result of the discussion, in the heart of the Committee there was consensus that, as was indicated, the current scenario is much more complex than that of last month, not only because it continues to present inflationary risks, but because the international context is changing constantly, which increases the uncertainty margins. Notwithstanding the referred complexity, in the Committee the criteria that it was advisable to increase the leading interest rate of the monetary policy prevailed, on the one hand, opportune action must be taken in order to strengthen the commitment of the Monetary Authority in keeping the stability in the general level of prices, considering that the monetary policy is delayed on inflation and, on the other hand, that they must operate with a medium term vision in order to cooperate with a sustainable economic path in time, which necessarily requires, among other factors, an environment of stability of prices. In that sense, it was indicated that a rise in the leading interest rate at this time does not have the purpose of decelerating the inflationary rhythm in the short term, but moderates the inflation expectations of the economic agents, contributing in this manner to their being anchored gradually to the inflation targets established by the Monetary Authority.

In the described context, there was consensus in that the increase of the leading interest rate must be moderate (25 basic points) to promote a positive environment among economic agents and, also a moderation of inflationary expectations. In the Committee emphasis was made on the importance of the coordination among the monetary and fiscal policies, due to the fact that an adequate combination of policies is always redundant with keeping an environment of macroeconomic stability.

b) Determination of the quotas for term deposit bids.

Regarding the determination of quotas for bidding on June 16, 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, Q30.0 million; for December 8, 2008, Q30.0 million; and, for March 9, 2009, Q55.0 million; June 8, 2008, Q75.0 million; as well as the due date of June 7, 2010, without a pre-established quotas.

SIXTH: Other Matters and Reports.

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