

EXECUTION COMMITTEE

ACT NUMBER 35-2008

Session 35-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Tuesday, July eighth, two thousand eight, at sixteen hours and nine minutes.

The coordinator, with the corresponding quorum, for the consideration of the Execution Committee submitted the project for the order of the day.

FIRST: Review of the monthly inflation report to June 2008.

SECOND: Other matters and reports.

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

FIRST: Review of the monthly inflation report to June 2008. .

The Coordinator requested the corresponding information be provided.

The Director of the Department of Economic Studies presented the report on inflation to June 2008, according to the information from the National Statistics Institute (INE for its acronym in Spanish) and indicated that the monthly inflation was of 1.63%, higher by 0.20 percentage points to that of May 2008 and higher by 1.18 percentage points to the observed in June 2007. In that regard, it was mentioned that in June 2008; hikes were observed in the prices of goods and services: air transportation (32.38%); gasoline (7.45%); beans (11.81%); bread (1.60%); corn (9.54%); extra urban transportation (7.39%); tortillas (1.89%); and urban transportation (5.34%). They also registered reductions in the median prices of the following goods and services: carrots (3.73%); eggs (0.88%); travel and/or recreation within the country (1.21%); and, repair and maintenance of vehicles (0.88%). The inflationary rhythm was at 13.56%, higher by 1.32 percentage points to the registered in May 2008 (12.24%) and higher by 8.25 percentage points to the observed in June 2007 (5.31%). The dynamic subjacent inflation registered a rhythm of 9.09%, higher by 0.70 percentage points to the observed in May 2008 (8.39%) and higher by 4.79 percentage points to the registered in June 2007 (4.30%). They also presented information on the estimations of the imported and domestic components of total inflation in the referred month. In that sense, it was indicated that that the total inflationary rhythm to June 2008 (13.56%), 4.93 percentage points are due to imported inflation, associated to the direct and indirect effect of increased prices in the

international oil and its derivatives market, whereas 8.63 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 and subjacent dynamic inflationary rhythm, in which data is incorporated of the observed data to June 2008. According to said estimations, the total inflationary rhythm as well as the dynamic subjacent inflation is located over the tolerance margin of the inflation target forecast for each of those years. As to the total econometric projection of total inflation for December 2008, it was indicated that this is higher by 1.85 percentage points to the estimation made with data to May, when it was at 11.38%, 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 (8.49%) regarding the determined inflation target for the end of the mentioned year, pointed out that said projection is higher by 0.20 percentage points to the estimated with data to May, 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 8.71%, higher by 0.48 percentage points to the estimation with data to May, 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 (7.31%) it is higher by 0.14 percentage points to the estimation of the previous month (7.17%), located over the tolerance margin of the inflation target determined (5.5% +/- 1.5 percentage points).

In the described context, the Committee reiterated their concern for the result of inflation to June 2008; due to the deepening of the tendency to rise that has been registered. It was highlighted that the inflation registered to June was greater than expected and higher to the average of inflations to June in the last eight years. In that sense, in the heart of the Committee, they discussed the factors that are influencing the referred behavior. In that regard, it was highlighted that if the total inflationary rhythm reflects the supply effects of external factors, associated to the increase in international oil prices and its derivatives and to the rise in the world level of food prices, taking into account that the behavior of the main monetary aggregates does not reflect liquidity excesses to date, the Committee considered that the inflation

expectations of the economic agents could be exacerbating, which, at the same time, could be causing adjustments in the prices of goods and services of the basic food basket, added to those mentioned in supply shocks.

The Committee also highlighted that the inflation expectations have been unanchored and that, currently the projections of the private panel of analysts are located 4.86 percentage points over the upper limit of the inflation target for 2008 and 4.20 percentage points over the upper limit of the inflation target for 2009, situation that is concerning due to the fact that the process of formation of the prices of goods and services produced in the Guatemalan economy could be contaminated even more with higher inflation expectations.

SECOND: Other matters and reports.

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