EXECUTION COMMITTEE

ACT NUMBER 36-2008

Session 36-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, July eleventh, two thousand eight, at thirteen hours and ten 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 34-2008 and 35-2008, corresponding to the sessions celebrated on July 4 and 8, 2008.

CIRCULATE: project of act number 34-2008 and 35-2008.

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 34-2008 and 35-2008.

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 July 4 to 10, 2008, registered a placements for LTD’s of Q2,573.9 million and maturity for Q2,313.0 million, which gave as a result net maturities for Q260.9 million, associated to the operations made in bidding through commerce exchanges (net maturities for Q6.5 million), operations made in the Electronic Banking Money Table –MEBD- and in the

Bolsa de Valores Nacional, S. A. stock exchange (net fund-raising for Q305.0 million); and at the window (net maturity for Q37.6 million).

Regarding the DP fund-raising, it was indicated that during the period of July 4 to 10, 2008, for the biddings case, the same were made per due date and price, indicated that in the bidding made through the commerce exchanges, the cut price was of 98.7818% for maturities dated September 8, 2008, equivalent to a yield rate of 7.1449%; while for those made directly, there were no bids. In 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 July 4 to 10, 2008, operations for Q37.6 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 July 4 to 10, 2008 period, the minimum was of 6.77% observed on July 4, 2008 and the maximum was of 7.16% registered on July 8, 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 July 10 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 Q149.0 million with a weighted average yield of 6.8654%, of which Q37.0 million were made on the stock market at a weighted average yield rate 6.8987% and Q112.0 million in the over the counter market, both at a yield rate of6.8545%; as well as operations in the stock market for US$4.5 million with an average weighted yield of 4.0000%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of July 4 to 10, 2008, placements were registered for Q27.2 million and maturities for US$0.1 million.

b) The Sub-Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of July 3 to 9, 2008, the average daily operations for purchase were of US$63.6 million and the sale was of US$75.3 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, July 3 were of Q7.49113 per US$1.00 for purchase and of Q7.51435 per US$1.00 for sale; in that order, on Friday, July 4 were of Q7.46929 and Q7.49826; on Monday, July 7 they were Q7.45496 and Q7.47676; and on Tuesday, July 8 they were Q7.43603 and Q7.46030; and, on Wednesday, July 9 they were Q7.43161 and Q7.44766. Also, it was indicated that the current exchange reference rate for July 11, 12 and 13 of the current year is Q7.43846 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 July 4 to 10, 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 institutional foreign currency market, did not convene and bids in 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 July 4 to 10, 2008, did not close operations and that on Thursday, July 3 there was no reference price for the market to settle in September 2008.

c) The Director for the Economic Studies Department reported that between July 3 and 10, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q673.0 million to a one of Q692.1 million, while for the balance of investments in DP to 7 days in that period, went form Q1,874.0 million to Q2,279.0 million, so the amount of liquid resources of the banking system (daily position of legal reserve plus investments in DP to 7 days) went from Q2, 547.0 million on July 3 to Q2,971.1 million on July 10, 2008. They also mentioned that during said period they registered net maturities of liquidity giving operations of the *Banco de Guatemala* for Q0.2 million.

The highlights during the period of July 3 to 10, 2008, of the main demonetizing factors of the monetary issue were the increase in the balance of the term deposits constituted in the Central Bank for Q260.9 million and the decrease in the balance of the Net International Reserves for the equivalent in quetzales of Q180.0 million; while the main monetizing factors were the decrease in the balance of the deposits of the Central Government in the *Banco de Guatemala* for Q103.7 million, the deposits of the rest of the public sector in the Central Bank for Q50.4 million and the legal banking reserve for Q68.8 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to June 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 10.61% and with a softened exponential model of 12.51%; the simple average of both models is located at 11.38%, 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 8.95% and with a softened exponential model of 8.03%; the simple average of both models is at 8.49%, 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 June 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 8.74%, whereas the estimated with a softened exponential model was of 8.68%; the simple average of both models is of 8.71%, 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 7.71%, whereas the estimated softened exponential model was of 6.90%; the simple average of both models is of 7.31%, 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 July 3, 2008, the lower limit was 7.21%, and the upper limit is 11.16%; 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 a restrictive monetary policy. When referring to the parity liable rate, they declared that up to July 3, 2008, the lower limit was 4.89% and the upper limit was 5.79%, and the weighted average rate of long term deposits of the banking system was of 7.46% 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 July 10, 2008, is found Q414.8 below the lower limit of the programmed runner, which would indicate relaxing the monetary policy, whereas the base of a broad monetary base, on that same date, is within the programmed runner, which suggests an invariable monetary policy. The average orientation of the deviation for the present week (-Q207.4 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual growth observed to July 3, 2008, rose to 7.0%, 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 10.1%, 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 (-2.40%) 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 19.0%, which is below the lower limit of the estimated runner for July 3, 2008 (20.2% to 23.2%), 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 -1.40%, 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 June 2008, for December 2008 the inflation projection is at 11.86%, 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 10.70%, 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 June 2008, showed an inflationary rhythm of 6.25%, 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, it was indicated that the variable of “Parameter Interest Rate” went form suggesting an invariable monetary policy to advising the same be restrictive. In that sense, according to the relative weight assigned to the indicative variables, it was reported that 44.71% of the same suggest a restrictive monetary policy orientation (35.80% the previous week), 17.10% a moderately restrictive monetary policy orientation (16.67% the previous week), 0.00% an invariable monetary policy orientation (9.34% the previous week), and 38.19% a relaxed monetary policy orientation (equal percentage the previous week).

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 July 7 to 11, 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 July 7 and 10) was of Q7.451 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 July 11 to 17, 2008, which indicate an excess of primary liquidity for Q3,120.8 million, if we add the daily banking liquidity position for Q177.5 million and the deviation of the negative monetary issue for Q414.8 million, resulting in excess aggregate liquidity estimated for the referred period of Q2,528.5 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 (Q2,571.7 million; according to the registry to July 10, 2008) and fund-raise additionally for around Q43.3 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: 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.

a) Discussion

The Committee began the analysis discussion that must be presented to the Monetary Board in session dated Wednesday, July 23, 2008 when, according to the annual calendar, said licensed body will decide on the level of the leading interest rate of the monetary policy. In that regard, it was mentioned that the inflationary scenario has changed significantly in the last few weeks. In the world economy, although the risks of financial instability and economic deceleration continue latent, the greater current threat and concern is the increase in inflation. In this context, in the Committee some specific factors were discussed that could be considered in the inflation risks balance that the technical departments will present in the next Committee meeting, which are described as:

i. The international price of oil, from July 1 to 10, 2008, on average, was at US$140.71 per barrel, which means an increase of US$6.69 per barrel (4.99%) regarding the average price registered during June 2008 (US$134.02 per barrel) and of US$48.97 per barrel (53.38%) regarding the average price in December 2007 (US$91.74 per barrel). Additionally, according to Bloomberg, the price of crude oil for delivery in December 2008 was at US$143.94 per barrel on July 10, higher by US$6.03 per barrel (4.37%) regarding the price prevalent for the same position on June 12, 2008 (US$137.91 per barrel).

ii. The international price of corn and wheat continues to be over the observed levels in 2007, so its follow up continues to be relevant in the evaluation of the inflation risks balance. In that sense, it was indicated that the price of corn continues with a tendency to rise, when on July 10, it was at US$12.71 per quintal, which means an increase of US$0.23 per quintal regarding the price registered during June 2008 (US$12.48 per quintal) and of US$5.14 per quintal regarding the price in December 2007 (US$7.57 per quintal), while the price of wheat on that same date was at US$12.14 per quintal regarding the increase of US$0.13 per quintal regarding the price registered during June 2008 (US$12.01 per quintal) and a decrease of US$2.35 per quintal regarding that of

December 2007 (US$14.49 per quintal). As to wheat, it was highlighted that its tendency to decrease since March of this year, halted, registering a rise for the second consecutive month.

iii. The total inflationary rhythm (13.56%), the subjacent inflationary rhythm (12.45%) and the dynamic subjacent inflationary rhythm (9.09%) to June 2008, continue to be 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 (11.38% and 8.49%, respectively), as well as the econometric projections of dynamic subjacent inflation for December 2008 and for December 2009 (8.71% and 7.31%, respectively), 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 survey made in June indicate that the total inflationary rhythm for the end of 2008 and 2009 would be at 11.86% and 10.70%, respectively. Both projections are 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 positive, situation that is reflected in the amount of liquid resources available (daily position of legal reserve added to the monetary stabilization operations), which to June 10, 2008 were at around Q2,970.0 million.

vii. The inter-annual variation of banking credit to the private sector and of the payment means has decelerated, located below the lower limit of the estimated runner.

viii. The monetary issue is below the lower limit of the programmed runner, whereas the broad monetary base is located within the estimated runner.

ix. The fiscal surplus at Q1,301.8 million (equivalent to 0.5% of the GDP), as a result of the increase of the total income of 10.4% and a decrease of total expenses of 1.7%, regarding the same period the year before.

b) Determination of quotas for term deposit bidding

Regarding the determination of quotas for bidding on July 14, 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, Q25.0 million; June 8, 2008, Q35.0 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 fourteen hours and thirty-four minutes, in the same place and on the same date indicated, the participants signed in agreement.