EXECUTION COMMITTEE

ACT NUMBER 37-2008

Session 37-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, July eighteenth, two thousand eight, at sixteen hours and twenty-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 36-2008, corresponding to the session celebrated on July 11, 2008.

CIRCULATE: project of act number 36-2008.

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 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 project of the corresponding act for consideration.

Not having observations, the Committee approved Act number 36-2008.

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 July 11 to 17, 2008, registered a placements for LTD's of Q3,374.5 million and maturity for Q2,571.6 million, which gave as a result net fund-raising for Q802.9 million, associated to the operations made in bidding through commerce exchanges (net fund-raising for Q9.6 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 Q851.0 million); and at the window (net maturity for Q57.7 million).

Regarding the DP fund-raising, it was indicated that during the period of July 11 to 17, 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 98.9157% for maturities dated September 8, 2008, equivalent to a yield rate of 7.1448% and of 93.8262% for the maturities of June 8, 2009, equivalent to a yield rate of 7.3000%; 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 11 to 17, 2008, operations for Q37.5 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.

Regarding the monetary stabilization operations in US dollars, on July 17, 2008, US$26.0 million matured, because the balance of the same remained at US$20.7 million.

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 11 to 17, 2008 period, the minimum was of 6.77% observed on July 11, 2008 and the maximum was of 7.05% registered on July 15, 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 July 17 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 Q168.0 million with a weighted average yield of 6.9247%, of which Q43.0 million were made on the stock market at a weighted average yield rate 6.8279% and Q125.0 million in the over the counter market, both at a yield rate of 6.9580%; as well as operations in the stock market for US$3.6 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 11 to 17, 2008, placements were registered for Q181.6 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of July 10 to 17, 2008, the average daily operations for purchase were of US$56.1 million and the sale was of US$60.5 million and that the weighted average exchange rates of the referred operations showed a tendency to fall, which reverted at the end of the same. In effect, on Thursday, July 10 were of Q7.42534 per US$1.00 for purchase and of Q7.44348 per US$1.00 for sale; in that order, on Friday, July 11 were of Q7.41833 and Q7.43713; on Monday, July 14 they were Q7.38125 and Q7.40964; and on Tuesday, July 15 they were Q7.36354 and Q7.38520; and, on Wednesday, July 16 they were Q7.36250 and Q7.38638; and, on Thursday, July 17, 2008 they were Q7.37986 and of Q7.40574. Also, it was indicated that the current exchange reference rate for July 18, 19 and 20 of the current year is Q7.39427 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 11 to 18, 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 11 to 18, 2008, did not close operations and that on Friday, July 18 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 10 and 17, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q598.3 million to a negative one of Q158.1 million, while for the balance of investments in DP to 7 days in that period, went form Q2,279.0 million to Q3,130.0 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, 877.3 million on July 10, 2008 to Q2,971.1 million on July 17, 2008. They also mentioned that during said period they registered net maturities of liquidity giving operations of the *Banco de Guatemala* for Q0.1 million.

The highlights during the period of July 10 to 17, 2008, of the main monetizing factors of the monetary issue were the decrease in the balance of the term deposits constituted in the Central Government in the *Banco de Guatemala* for Q499.1 million and the legal banking reserve for Q325.3 million; and on the other hand, the increase in the Net International Reserves for the equivalent in quetzales of Q165.6 million; while the main demonetizing factors were the increase in the balance of the term deposits in the Central Bank for Q594.7 million and of the deposits of the rest of the public sector in the Central Bank for Q222.7 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 10, 2008, the lower limit was 7.10%, and the upper limit is 11.05%; 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 10, 2008, the lower limit was 5.07% and the upper limit was 5.97%, and the weighted average rate of long term deposits of the banking system was of 7.49% 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 17, 2008, is found Q334.2 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 was at Q173.1 million over the upper limit of the programmed runner, which suggests a restrictive monetary policy. The average orientation of the deviation for the present week (-Q80.6 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual growth observed to July 10, 2008, rose to 7.0%, which is below the lower limit of the estimated runner for said variable on the same date (10.7% to 13.7%), which suggests relaxing the monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 10.0%, 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 (-2.35%) 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 18.9%, which is below the lower limit of the estimated runner for July 10, 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 15.2%, 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 -1.70%, 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 remained unchanged. 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, 17.10% a moderately restrictive monetary policy orientation, and 38.19% a relaxed monetary policy orientation.

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 14 to 18, 2008 were of Q7.751 and Q7.631 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 14 and 17) was of Q7.391 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 18 to 24, 2008, which indicate an excess of primary liquidity for Q3,535.3 million fundamentally due to the maturity of CD and the use of deposits by the Central Government in the *Banco de Guatemala*; if we add the daily banking liquidity position for Q94.3 million and the deviation of the negative monetary issue for Q334.2 million, resulting in excess aggregate liquidity estimated for the referred period of Q3,295.4 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 (Q3,360.9 million; according to the registry to July 17, 2008) and fund-raise additionally for around Q65.5 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 Q10.0 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: Monthly Report of Inflation Risks of the Semi-structural Macroeconomic Model –MMS [For its acronym in Spanish]-.

The Committee continued deliberating on the analysis on the leading interest rate of the monetary policy to be presented to the Monetary Board in session dated Wednesday, July 23, date on which said licensed body will decide on the level of said interest rate. The technical departments presented the Committee with the Monthly Report of the Inflation Risks of the Semi-structural Macroeconomic Model and, on the other hand, the Inflation Risks Balance.

As to the Monthly Report of the Inflation Risks of the Semi-structural Macroeconomic Model, this indicates the direction in which the data from last month came (from June 11 to July 10, 2008) affect the risks that surround the forecast in the medium term based on the second running of the MMS in 2008 (made in May). The generation of the mentioned report is based on iterative and mechanical runs 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.

Mention was made of the Monthly Inflation Risks Report that does not constitute a new complete inflation forecast, since it does not incorporate the inherent qualitative analysis to the generation of the forecast that has been presented quarterly. In that sense, the mentioned report is limited to presenting the result of processing the new available data in the mechanical running of the MMS. Therefore, the qualitative results presented should not be interpreted literally, but only as indicative of the direction of the risks in the context of the last quarterly forecast.

Regarding the effect of the new available data on the forecast of inter-annual inflation, it was indicated that said effect points toward an increase of inflation risk, since the trajectory generated by the mechanical running of the MMS made in July moves toward 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 to higher levels regarding the corresponding trajectory of the second running of the MMS in 2008, on the horizon of the forecast understood between the third quarter of 2008 and up to the fourth quarter of 2009.

Following, the technical departments presented the breakdown of the effect of 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 increases by 0.53 percentage points, when going from 8.62% (in the forecast of the second running of 2008) to 9.15% (in the second mechanical running that incorporates the new data). Said behavior is explained by the new data of the diesel price (28 hundredths of a percentage point toward the rise), by the new inflation data from the United States of America (2 hundredths of a percentage point toward the rise), by the new data of the US GDP (2 hundredths of a percentage point toward the rise), by the new data of the US interest rate (1 hundredth of a percentage point toward the decline), by the new inflation data (20 hundredths of a percentage point toward the rise) and by the new data of the nominal exchange rate (2 hundredths of a percentage point toward the rise). In terms of the leading interest rate of the monetary policy, the average of said variable, for the quarters understood between the second and fourth of 2008, increased by 107 basic points, when going from 7.47% (in the forecast of the second running of 2008) to 8.54% (in the mechanical running that incorporates new data). Said increase is explained by the effect of the new data of the diesel price (92 basic points toward the rise), by the new US inflation data (1 basic point toward the rise), by the new US GDP (3 basic points toward the rise), by the new data of the inflation interest rate (12 basic points of 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 increased by 0.97 percentage points, when going from 6.44% (in the second running of 2008) to 7.41% (in the mechanical running that incorporates the new data). Said increase is explained by the new forecast of the price of diesel (81 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 US GDP (3 hundredths of a percentage point toward the rise),by the new US interest rate (3 hundredths of a percentage point toward the decline), by the new inflation data (11 hundredths of a percentage point toward the rise), and the new data of the new nominal exchange (3 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 138 basic points, when going from 6.11% (in the forecast of the second running of 2008) to 7.49% (in the mechanical running that incorporates new data). Said behavior is explained by the new forecast in the price of diesel (124 basic points toward the rise), by the new US inflation data (1 basic point toward the rise), by the new data of the US GDP (3 basic points toward the rise), by the new data of the US interest rate (8 basic point toward the decline), by the new inflation data (15 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 July 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 Inflation Risks Balance, the following aspects were highlighted:

As to the external conditions, it was indicated that the international price of oil, from July 1 to 17, 2008, on average, was at US$139.82 per barrel, which means an increase of US$5.80 per barrel (4.33%) regarding the average price registered in June 2008 (US$134.02 per barrel) and an increase of US$48.08 per barrel (52.41%) 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 July 17 was at US$131.52 per barrel, lower by US$6.39 per barrel (4.63%) 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 in 2008 is associated to supply and demand factors and especially 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 investors in futures markets. As to supply factors, they first mentioned OPEC continues to restrict their supply of crude oil in the world market; and, second, that according to the US Department of Energy, their level of oil reserves continues to be low. 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 a very slight decrease was registered when on July 17, 2008 at US$12.44 per quintal, lower by US$0.04 per quintal (0.32%) to the observed at the end of June (US$12.48 per quintal), and higher by US$4.87 per quintal (64.33%) 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 June the internal price of white corn (with a weighting in the Consumer Index Price of 0.75%) registered an important increase in its price when at Q134.00 per quintal, lower by Q15.0 per quintal (12.61%) to the observed at the end of May (Q119.0 per quintal), and higher by Q21.0 per quintal (18.58%) to the registered in December 2007 (Q113.00 per quintal). Taking into account that the price of said product continues to be high 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 on July 17 it was at US$11.88 per quintal, which represents an decrease of US$0.13 per quintal (1.08%) regarding the observed level in June 2008 (US$12.01 per quintal), and a reduction of US$2.61 per quintal (18.01%) regarding the level registered in December 2007 (US$14.49 per quintal). Although there was a recent moderation in the international price of wheat, it continues to be a source of inflationary pressure, due to the fact that it still remains over the levels registered during the first seven months of 2007, which could continue to influence in the prices of derived products, like flour, bread and pasta.

As to internal conditions, it was indicated that inter-monthly inflation in June 2008 was at 1.63%, higher by 1.18 percentage points to the registered in June 2007 (0.45%) and higher by 0.96 percentage points to the average of registered variations in May during the last eight years (0.67%). The total inflationary rhythm (13.56%), the subjacent inflationary rhythm (12.45%) and the dynamic subjacent inflationary rhythm

(9.09%) to June 2008, registered an increase regarding the previous month, located over the tolerance margin of the inflation target determined for 2008 (5.5% +/- 1.5 percentage point).

As to econometric projections of total inflationary rhythm for December 2008 and December 2009 (11.38% and 8.49%, in that order), as well as the econometric projections of the dynamic subjacent inflationary rhythm for December 2008 and December 2009 (8.71% and 7.31%, respectively) are over the tolerance margin of the inflation target for both years. As to the results of the survey to inflation expectations of the panel of private analysts made in June 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 May. Both projections are over the inflation target established for each one of the referred years.

The members of the Committee reiterated their concern about the increase of the internal prices observed in June 2008, particularly because the increases in the inter-monthly inflation for four consecutive months has been higher than 1%, the highest was 1.63% in June (the highest monthly variation in the last eight years), so it could be giving a propagation of goods and services prices where imported inflation should not have a significant incidence.

The execution of public finance, according to preliminary number to June 2008, registered a surplus of Q1,315.8 million, equivalent to 0.5% of the GDP (deficit of Q632.0 million to June 2007, equivalent to 0.2% of the GDP). Notwithstanding, emphasis was made on the following aspects: a) that the surplus registered to June, is due to less public expense regarding an equal period in 2007 as well as greater levels of tributary collection; b) that the deposits of the Central Government in the *Banco de Guatemala*, net disbursements of external debt were, on average, in the first quarter of 2008, around Q483.0 million below the programmed, while between April 1 and July 17 it was around Q23.0 million below the programmed on average; c) that to July 16, 2008, the Central Government had placed Treasury Bonds for Q1,493.7 million, of which 77.4% corresponded to placements with the public sector and 22.6% correspond to the private sector, situation that contrasts with the observed to that date the previous year, when the amount placed (Q3,216.6 million), 31.0% was with the public sector and the remaining 69.0% with the private sector.

The behavior of the nominal exchange rate toward appreciation until July 17, 2008, is explained by an increase in the income of foreign currency due to exportations, private cash flow in the long term, by a lower demand of foreign currency for importations and the liquidation of positions in foreign currency on behalf of some companies to cover the Bono 14 [a fourteenth salary in the year.]

Regarding the indicative variables, when comparing their situation to date regarding the observed the month before, 44.71% of the variables advised a restrictive monetary policy (35.80% the month before), 17.10% suggest a moderately restrictive monetary policy (16.67% the month before); 0.00% suggest an invariable monetary policy (9.34% the month before); and the remaining 38.19% advise a relaxed monetary policy (equal percentage the month before).

The primary liquidity (monetary issue and broad monetary base) to July 17, 2008, showed an average deviation of –Q80.6 million, mainly as a result of the deviation of the monetary issue regarding the lower limit of the programmed runner. Whereas the inter-annual variation of the banking credit to the private sector and of the payment means has been decelerating, located below the lower limit of the estimated runner; however, according to the calculations of the technical departments, after having estimated several fiscal scenarios for the rest of the year, forecast that the monetary aggregates (banking credit to the private sector, payment means, monetary issue and monetary base), would be accelerating the inter-annual growth in the following months.

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 behavior of the indicative variables of the Monetary Policy, the monthly report of inflation risks derived from the Semi-structural Macroeconomic Model –MMS [For its acronym in Spanish] and the inflation risks balance, stated that the factors that prevail advise a rise in the leading interest rate, which will contribute to moderating the spread of imported inflation effects and to the acceleration of the inflation expectations to other goods and services prices.

Based on the presentation of the technical departments, the Committee deliberated on the content of the same with the purpose of presenting the main tendencies and thoughts, as well as analysis elements that could be considered in the decision regarding the level of the leading interest rate of the monetary policy programmed for July 23 of this year.

Regarding the behavior of inflation to June 2008, in the Committee reference was made at to the marked tendency to rise of the total inflationary rhythm in which the year has transpired. The members of the Committee reiterated their concern for the increase in the internal prices observed in June 2008, particularly because the increase in inter-monthly inflation for four consecutive months has been higher than 1%, the highest was 1.63% in June (representing the highest monthly variation in the last eight years), so it could be giving a propagation of goods and services prices where imported inflation should not have a significant incidence.

The dynamic subjacent inflation rhythm also registered a significant tendency to rise, located in June 2008 at 9.09%, level that, considering that currently the main monetary aggregates do not reflect excess of liquidity of the internal origin, would fundamentally evidence an acceleration of the inflation expectations of the economic agents.

In the Committee they highlighted that the results of the survey of inflation expectations to the panel of private analysts made in June 2008, reveal that said panel projects an inflationary rhythm of 11.86% for the end of 2008 and of 10.70% at the end of 2009, values over the projected the month before and also over the upper limits of the inflation target established for each one of those years.

When making a prospective analysis of inflation behavior, it was indicated that the total inflationary rhythm projections for the end of 2008 come from the arithmetic average of the two econometric models that have been used, pointing toward an inflationary rhythm of 11.38%, higher by 4.38 percentage points to the inflation target determined by the monetary authority for the present year (5.5% +/- 1.5 percentage points). For the end of 2009 a total inflationary rhythm of 8.49% is projected, percentage that is also located over the inflation target determined for said year.

Also, according to the mechanical running of the Semi-structural Macroeconomic Model, forecast an inflationary rhythm for the end of 2008 of 9.15%, while for the end of 2009 the forecast is of 7.41%, both over the upper limit of the inflation target determined for each one of those years.

The Committee analyzed the risks of the environment in detail in which they currently execute the monetary policy. As to the risks associated to the external environment, they highlighted that the worldwide inflationary scenario has changed significantly in the last weeks; that is why in international economy, although the financial instability risks and economic deceleration are latent, the greater current threat and concern is the increase of observed inflation, reason for which several central banks have adopted monetary policy decisions that, on the one hand, avoid the propagation of inflation that comes from external shocks toward other goods and services prices and, on the other hand, to induce a moderation of inflationary expectations.

In the Committee there was discussion on the evolution of international oil, corn and wheat prices. In that regard, they highlighted that the evolution of the mentioned variables continues to reflect the persistence of inflationary risk, so its close follow up is relevant in the inflation risks balance.

Regarding internal conditions, in the Committee it was mentioned that the nominal exchange rate, although it has registered some volatile episodes, to date this year it is congruent with the season. They stressed that according to the analysis made by the technical departments, the tendency of said variable toward appreciation to July 17, 2008, is explained by an increase in the income of foreign currency importations, by private capital flow in the long term, by a lower demand of foreign currency for importations and by the settlement of positions in foreign currency on behalf of some businesses to cover the Bono 14 [A 14th salary.]

In the Committee they highlighted that in the context of the explicit inflation scheme, the fact that the projections of inflation are persistently located over the goals, is a reason to raise the interest rate of the monetary policy. However, they highlighted that the complex environment in which the monetary policy currently unfolds, said decision must be the result of an integral analysis. In that context, in the Committee they declared that an integral analysis of variables and macroeconomic indicators indicate the convenience of adjusting the rise in the leading interest rate of the monetary policy, highlighting the following aspects: a) currently total inflation is at two digits and the tendency has been growing in the last five months, even when the effect that imported inflation has had is clear, in the first as well as second round, the fact that inflation expectations have been deteriorating must not be discarded, unanchoring the inflation target, so it is necessary to take measures to avoid the effects of imported inflation propagating to the prices of goods and services that have no relation with it; b) the inflation forecasts of econometric methods like those coming from the mechanical running of the MMS, are located over the 2008 and 2009 target; c) the supply shocks continue representing the inflationary risks (hikes in international oil, corn and wheat prices), which could broaden the second round effects; and, d) according to the information provided by the *Ministerio de Finanzas Públicas* [Roughly equivalent to the

US Department of the Treasury.] an acceleration of public expense is forecast for the intense use of Central Government deposits in the *Banco de Guatemala* for the rest of the year. Said situation is not forecast to achieve placements to cover maturities for the rest of this year, given the current placement of Treasury Bonds, the use of till resources could be greater.

In the Committee they highlighted that the actions of the monetary policy have delayed action on inflation, in other words, an increase in the leading interest rate at this time has the purpose of moderating the inflation expectations of the economic agents and propitiate that the same gradually anchor to the inflation targets in the medium term. Also, a raise in the leading interest rate would contribute that at that moment, in which they would accelerate public expense, would not generate excess primary liquidity in the economy.

In the Committee there was consensus that the analysis is complex in the current occasion, where there is an important deterioration of the inflationary panorama where there are still prevailing pressures due to supply shocks, mainly, in food and energy. In that sense, it was indicated that taking into account that the scheme of explicit inflation targets mainly seeks to anchor the inflationary expectations, so the Central Bank must act before those supply shocks, due to the uncertainty that the same generate and by the persistence of the expectations.

In the Committee emphasis was made on the fact that the deterioration of the inflationary panorama, even when a gradual focus has been continued, it advises that the increase in the leading interest rate of the monetary policy be greater, given that to effectively abate the inflationary expectations, more intense measures are necessary.

As a result of the discussion, in the heart of the Committee there was consensus that, the current occasion is more complex than that of the previous month, not only because it continues to present inflationary risks, but because the international context is changing constantly, which increases the uncertainty margins. Due to the above, in the Committee the criteria that it is advisable to increase the leading interest rate prevailed, taking into account that the monetary policy, on the one hand, must act opportunely with the purpose of strengthening the commitment message to the Monetary Authority to maintain the stability in the general level of prices, considering that the monetary policy has certain delay on inflation; and, on the other hand, it must operate with a medium term vision in order to cooperate with the economic growth path being sustainable in time; which necessarily requires, among other factors, an environment of price stability. In synthesis, it was reiterated 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 moderating the inflation expectations of the economic agents, contributing in this manner to their gradual anchoring.

Due to the above, the Committee concluded in recommending that the Monetary Board increase the leading interest rate of the monetary policy at this time by 75 basic points.

b) Determination of quotas for term deposit bidding

Regarding the determination of quotas for bidding on July 21, 2008, through commodities exchanges, 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, Q10.0 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.

SIXTH: Other Matters and Reports.

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