

EXECUTION COMMITTEE

ACT NUMBER 38-2008

Session 38-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, July twenty-fifth, two thousand eight, at thirteen hours.

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 37-2008 corresponding to the session celebrated on July 18, 2008.

CIRCULATE: project of act number 37-2008.

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 Act number 37-2008.

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 18 to 24, 2008, registered a placements for LTD's of Q3,631.0 million and maturity for Q3,360.6 million, which gave as a result net fund-raising for Q270.4 million, associated to the operations made in bidding through commerce exchanges (net maturities for Q9.0 million), in bidding directly with public entities (net fund-raising for Q200.9 million), in the operations made in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional*,

S. A. stock exchange (net fund-raising for Q87.0 million); and at the window (net maturity for Q8.5 million).

Regarding the DP fund-raising, it was indicated that during the period of July 18 to 24, 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 93.9730% for maturities dated June 8, 2009, equivalent to a yield rate of 7.2700%. 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% from July 18 to 23 and at 7.25% on July 24, 2008, according to the increase of 50 basic points to said interest rate, approved by the Monetary Board in the session celebrated July 23, 2008.

Regarding liquidity injecting operations it was reported that, during the period of July 18 to 24, 2008, operations for Q37.6 million for a 7 day term; in the following manner: Q17.7 million at an interest rate of 8.25% corresponding to July 23, 2008 and Q19.9 million at an interest rate of 8.75%, dated July 24, 2008. 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 18 to 24, 2008 period, the minimum was of 6.75% observed on July 22, 2008 and the maximum was of 7.29% registered on July 24, 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 6.93%.

On the other hand, it was informed that on July 24 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 Q65.0 million with a weighted average yield of 7.3731%, of which Q20.0 million were made on the stock market at a weighted average yield rate 7.3500% and Q45.0 million in the over the counter market, at a weighted yield rate of 7.3833%; as well as operations in the stock market for US\$3.5 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 18 to 24, 2008, placements were registered for

Q403.9 million and maturities for Q425.0 million and US\$5.4 million. They also indicated that on July 24, 2008 the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury.] issued Representative Certificates of Treasury Bonds of the Republic of Guatemala to cover the net deficiency of the *Banco de Guatemala* corresponding to the 2006 accounting year for Q393,347,696.00.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of July 18 to 23, 2008, the average daily operations for purchase were of US\$61.0 million and the sale was of US\$62.5 million and that the weighted average exchange rates of the referred operations showed a tendency to rise. In effect, on Friday, July 18 were of Q7.41173 per US\$1.00 for purchase and of Q7.44201 per US\$1.00 for sale; in that order, on Monday, July 21 was of Q7.40868 and Q7.44068; and on Tuesday, July 22 they were Q7.42245 and Q7.45505; and, on Wednesday, July 23 they were Q7.45930 and Q7.49062. Also, it was indicated that the current exchange reference rate for July 25, 26 and 27 of the current year is Q7.47821 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 21 to 24, 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 any 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 18 to 24, 2008, did not close operations and that on Thursday, July 24 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 17 and 24, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q121.2 million to a negative one of Q230.6 million, while for the balance of investments in DP to 7 days in that period, went from Q3,130.0 million to Q3,217.0 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 Q3,008.8 million on July 17 to Q2,986.4 million on July 24, 2008. They also mentioned that

during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q0.1 million.

The highlights during the period of July 17 to 24, 2008, of the main demonetizing factors of the monetary issue were the decrease in the balance of the Net International Reserves for the equivalent in quetzales of Q456.0 million; and on the other hand, the increase in the balance of the term deposits constituted in the Central Bank for Q270.4 million and of the deposits of the Central Government in the *Banco de Guatemala* for Q52.5 million; while the main monetizing factors were the decrease in the balance of the legal banking reserve for Q470.9 million and the increase in the balance of the expenses and products of the *Banco de Guatemala* for Q43.2 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 12.15% 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 17, 2008, the lower limit was

7.01%, and the upper limit is 10.96%; 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 17, 2008, the lower limit was 4.99% and the upper limit was 5.89%, and the weighted average rate of long term deposits of the banking system was of 7.50% 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 24, 2008, is found Q430.1 below the lower limit of the programmed runner, which would indicate relaxing the monetary policy, whereas the broad monetary base, on that same date, is within the programmed runner at Q229.7 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 (-Q100.2 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual variation observed to July 17, 2008, rose to 6.8%, 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 10.0%, 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 (-2.55%) 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 19.1%, which is below the lower limit of the estimated runner for July 17, 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 15.1%, 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 -1.65%, 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 the previous 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 21 to 25, 2008 were of Q7.759 and Q7.639 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 21 and 24) was of Q7.456 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 25 to 31, 2008, which indicate an excess of primary liquidity for Q4,295.4 million mainly due to the maturity of CDs and the use of deposits in the Central Government in the *Banco de Guatemala*; if we add the daily negative banking liquidity position for Q461.4 million and the deviation of the negative monetary issue for Q430.0 million, resulting in excess aggregate liquidity estimated for the referred period of Q3,403.9 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 (Q3,465.5 million; according to the registry to July 24, 2008) and fund-raise additionally for around Q61.6 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 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.

Regarding the determination of quotas for bidding on July 28, 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 sixteen minutes, in the same place and on the same date indicated, the participants signed in agreement.