

EXECUTION COMMITTEE

ACT NUMBER 43-2008

Session 43-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, August twenty-ninth, two thousand eight, at thirteen hours and five 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 42-2008 corresponding to the session celebrated on August 22, 2008.

CIRCULATE: project of act number 42-2008.

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 of the quotas for term bidding.

- a) Discussion
- b) Determination of the quotas for bidding on 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 act for consideration.

Not having observations, the Committee approved Act number 42-2008.

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 August 22 to 28, 2008, registered a placements for LTD's of Q3,040.8 million and maturity for Q2,906.4 million, which gave as a result net maturity for Q134.4 million, associated to the operations made in bidding through commerce exchanges (net placements for Q45.5 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores*

Nacional, S. A. stock exchange (net maturity for Q58.0 million); and at the window (net maturity for Q146.9 million).

Regarding the DP fund-raising, it was indicated that during the period of August 22 to 28, 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 96.1037% for maturities dated March 9, 2009, equivalent to a yield rate of 7.5500%; for the maturities on June 8, 2009 the cut price was of 94.3264%, equivalent to a yield rate of 7.6496%; while for the direct bid 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 7.25%.

Regarding the operations of liquidity giving, it was reported that, during the period of August 22 to 28, 2008, operations for Q37.6 million for a 7 day term; at an interest rate of 8.75%. 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 August 22 to 28, 2008 period, the minimum was of 7.20% observed on August 22, 2008 and the maximum was of 7.42% registered on August 25, 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 7.32%.

On the other hand, it was informed that on August 28 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 Q55.0 million with a weighted average yield of 7.2973%; of which Q50.0 million were made in the exchange market at a weighted average yield rate of 7.2920% and Q5.0 million in the over the counter market, at a weighted average yield rate 7.35%; as well as operations in the stock market for US\$3.5 million with an average weighted yield of 3.7143%; of which US\$3.0 million were made in the exchange market with a weighted average yield rate of 3.00% and US\$0.5 million in the over the counter market, at a weighted average yield rate of 8.00%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of August 22 to 28, 2008, maturities were registered for Q22.0 million and maturity 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 August 21 to 27, 2008, the average daily operations for purchase were of US\$63.2 million and the sale was of US\$67.0 million and that the weighted average exchange rates of the referred operations had a tendency to rise. In effect, on Wednesday, August 21 were of Q7.40424 per US\$1.00 for purchase and of Q7.43467 per US\$1.00 for sale; in that order, on Thursday, August 22 they were of Q7.40239 and of Q7.42158; on Monday, August 25 were of Q7.40411 and Q7.43170; on Tuesday, August 26 they were Q7.42352 and Q7.44947 and finally for Wednesday, August 27 was of Q7.42488 and Q7.44777. Also, it was indicated that the current exchange reference rate for August 29, 30 and 31 of the current year is Q7.43996 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 August 22 to 28, 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 August 22 to 28, 2008, did not close operations and that on Thursday, August 28 there was no reference price for the market to settle in September 2008.

c) The Director for the Economic Studies Department reported that between August 21 and 28, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q104.5 million to one of Q676.5 million, while for the balance of investments in DP to 7 days in that period, went from Q2,691.0 million to Q2,633.0 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 Q2,795.5 million on August 21 to Q3,309.4 million on August 28, 2008. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q5.8 million.

The highlights during the period of August 21 to 28, 2008, of the main monetizing factors of the monetary issue were the decrease in the balance of the deposits of the Central Government in the *Banco de Guatemala* for Q696.1 million and the deposits of the rest of the public sector in the Central Bank for Q110.7 million; while the main demonetizing factors were the increase in the balance of the legal banking reserve for Q580.2 million and the balance of the monetary stabilization operations for Q134.4 million; and on the other hand, the decrease in the balance of net international monetary reserves (RIN, for its acronym in Spanish) for the equivalent to Q69.9 million and the balance of other net assets (OAN, for its acronym in Spanish) for Q80.1 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy they indicated that with data to July 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 11.17% and with a softened exponential model of 12.14% the simple average of both models is located at 11.66%, 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 8.98% and with a softened exponential model of 8.10%; the simple average of both models is at 8.54%, 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 July 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 8.83%, whereas the estimated with a softened exponential model was of 8.71%; the simple average of both models is of 8.77%, 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 7.72%, whereas the estimated softened exponential model was of 6.97%; the simple average of both models is of 7.35%, 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 August 21, 2008, the lower limit was 7.63%, and the upper limit is 11.58%; while the leading interest rate of the monetary

policy was at 7.25%, which is below the lower limit of 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 August 21, 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 7.60% 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 August 28, 2008, is found Q674.5 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 Q352.1 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 (-Q161.2 million) would indicate relaxing the monetary policy.

As to the total payment means, the inter-annual variation observed to August 21, 2008, rose to 5.4%, 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 8.9%, 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 (-3.80%) 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 16.8%, which is below the lower limit of the estimated runner for August 21, 2008 (19.8% to 22.8%), 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 14.0%, 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 -3.00%, 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 August 2008, for December 2008 the inflation projection is at 12.21%, 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 9.65%, 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 July 2008, showed an inflationary rhythm of 6.29%, 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 August 2008 to forecast the total inflationary rhythm, this is projected for December 2008 at an inflationary rhythm of 11.90%, 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 8.26%. Also the forecast for said model of a mid-term horizon projected an inflationary rhythm for December 2009 of 7.59%, conditioned to gradual adjustments to the leading interest rate, in the last year at 4.85%.

As to the orientation of the indicative variables, regarding the previous week, it was indicated that it remained unchanged. In that sense, according to the relative weight assigned to the indicative variables, it was reported that 52.47% of the same suggest a restrictive monetary policy orientation, 9.34% suggest a moderately restrictive monetary policy orientation; and 38.19% suggest a relaxed monetary policy orientation. Also, the Committee reported on the indication of said variables to August 29, 2008 regarding that to August 20, 2008 (date in which the Monetary Board analyzed the level of the leading interest rate of the monetary policy). In that sense, 52.47% of the same suggest a restrictive monetary policy (63.73% to August 20); 9.34% advises a moderately restrictive monetary policy (equal percentage to August 20); and, 38.19% a relaxed monetary policy orientation (26.93% to August 20).

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 August 25 to 28, 2008 were of Q7.800 and Q7.680 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 August 25 and 28) was of Q7.436 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 August 29 to September 4, 2008, which indicate an excess of primary liquidity for Q2,922.4 million mainly due to the maturity of CDs: if to

this we add the daily position of the banking reserve for Q496.3 million and the deviation observed in the monetary issue for Q674.6 million, resulting in excess of aggregate liquidity, estimated for the referred period, of Q2,744.3 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 (Q2,980.5 million; according to the registry to August 28, 2008) and fund-raise additionally for around Q236.2 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, Q10.0 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 members of the Committee made the usual follow up of the macroeconomic situation of the country, taking into account the tendencies like the perspectives for the short and medium terms of the most relevant variables of the monetary, fiscal, real and external monetary sectors. They highlighted the behavior of some variables, which information is obtained with weekly frequency, usually registering variability, underlining that the relevant analysis must be founded in the tendency of variables in a broader period. Due to the above, the integral analysis that the Committee does monthly is based on the balance of the internal as well as external inflation risks, in the orientation of the indicative variables and in the runnings of the Semi-Structural Macroeconomic Model –MMS-.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for bidding on September 1, 2008, through the stock exchanges, they took into account the proposal from the Department of Monetary Stabilization Operations 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, Q10.0 million; and, for March 9, 2009, Q25.0 million; June 8, 2009, Q35.0 million; as well as the due date of June 7, 2010, without a pre-established quotas.

FOURTH: Other Matters and Reports.

The Committee was informed that in the most recent coordination meeting, the representatives of the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury.] indicated that said ministry decided to make an only placement of Treasury Bonds a week (on Tuesdays), adding the placements made thorough auction (on Tuesdays) which were made in bidding (on Thursdays), with the objective of cooperating in the development of secondary values markets, which is congruent with the recommendations of international experts. They also mentioned that the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury.] would offer 3, 5, 7 and 10 year terms.

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