

EXECUTION COMMITTEE

ACT NUMBER 45-2008

Session 45-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Tuesday, September ninth, two thousand eight, at fifteen hours and fifteen minutes.

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

FIRST: Review of the inflation corresponding to August 2008.

SECOND: Other matters and reports.

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

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

The Coordinator requested the corresponding information be provided.

The Director of the Department of Economic Studies presented the report on inflation to August 2008, according to the information from the National Statistics Institute (INE for its acronym in Spanish) and indicated that the inflationary rhythm decelerated, going from 14.16% in July to 13.69% in August. The monthly inflation was of 0.50%, lower by 0.75 percentage points to that of July 2008 and lower by 0.42 percentage points to the observed in August 2007. It was mentioned that in August 2008 hikes were observed in the prices of goods and services: air transportation (32.42%); beans (7.20%); tortillas (2.18%); eggs (4.31%); soap in a ball shape (3.57%); poultry meats, fresh, refrigerated and frozen (1.36%); onion (16.35%); rice (4.28%); powder detergent for clothing (2.66%); and, take out foods (8.53%). They also registered reductions in the median prices of the following goods and services: tomato (22.57%); gasoline (2.37%); potato (6.01%); electricity (0.92%); and, chayote (8.97%). The dynamic subjacent inflation registered a rhythm of 9.27%, lower by 0.16 percentage points to the observed in July 2008 (9.43%) and higher by 4.41 percentage points to the registered in August 2007 (4.86%). They also presented information on the estimations of the imported and domestic components of total inflation in the referred month. In that sense, it was indicated that the total inflationary rhythm to August 2008 (13.69%), 4.82 percentage points are due to measurable imported inflation, associated to the effect coming from the increase in the international prices of oil and its derivatives, as well as corn and wheat; whereas 8.87 percentage points correspond to internal inflation.

The Committee also received information from the technical departments regarding econometric estimations for December 2008 and 2009 of the total and subjacent dynamic inflationary rhythm, in which data is incorporated of the observed data to August 2008. Although said estimations decreased regarding the previous month, they are still located over the tolerance margin of the inflation target forecast for each of those years. Regarding the econometric projection of total inflation for December 2008, it was indicated that this is lower by 0.25 percentage points to the estimation made with data to July, when it was at 11.41%, percentage which is over the tolerance margin of the determined inflation target for said year (5.5% +/- 1.5 percentage points). On the other hand, when evaluating the total inflation projection for December 2009 (8.17%) regarding the determined inflation target for the end of the mentioned year, pointed out that said projection is lower by 0.37 percentage points to the estimated with data to July, located over the tolerance margin of the inflation target (5.5% +/- 1 percentage point).

Regarding the econometric projection of the subjacent inflation for December 2008, it was reported to be at 8.68%, lower by 0.09 percentage points to the estimation with data to July, located over the tolerance margin of the inflation target determined for that year (5.5% +/- 1.5 percentage points). When examining the econometric estimation for December 2009 (7.19%) it is higher by 0.16 percentage points to the estimation of the previous month (7.35%), located over the tolerance margin of the inflation target determined (5.5% +/- 1.5 percentage points).

The Committee began the discussion of the analysis that must be presented to the Monetary Board in the Wednesday, September 17 session, 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 indicated that the inflationary pressures have remained worldwide. Notwithstanding, reference was made as to the recent behavior of the international prices of oil, corn and wheat, which have reduced, situation that, on the one hand, would have a favorable effect on the inflation expectations of the economic agents and, on the other hand, could promote the reduction of the internal prices and that the monetary and fiscal policies remain disciplined. In that context, the Committee discussed some factors that could be considered in the inflation risks balance that the technical departments will present in the next meeting of the Committee, which are described as follows:

- i. The international price of oil, from September 1 to 8, 2008, on average, it was located at US\$107.90 per barrel, which means a reduction of US\$8.79 per barrel (7.53%) regarding the average price registered during August 2008 (US\$116.69 per barrel) and an increase of US\$16.16 per barrel (17.61%) regarding the average price of December 2007 (US\$91.74 per barrel). Additionally, according to the Bloomberg, the price of crude oil for delivery in December 2008, on September 8 was at US\$107.04 per barrel, lower by US\$9.54 per barrel (8.18%) regarding the prevalent price for the same position on August 13, 2008 (US\$116.58 per barrel).
- ii. As to the behavior of the international price of corn, it was reported that it registered a slight fall, when on September 8, 2008 it was at US\$9.91 per quintal, lower by US\$0.25 per quintal (2.46%) to the observed at the end of August (US\$10.16 per quintal) and higher by US\$2.34 per quintal (30.91%) to the registered in December 2007 (US\$7.57 per quintal). It was mentioned that although there was a recent moderation in the international price of corn, it continues to be a source of inflationary pressure, since it remains over the registered levels during 2007, so its follow up continues to be relevant in the evaluation of the inflation risks balance.
- iii. As to the international price of wheat, it was mentioned that the same on September 8 was at US\$10.00 per quintal, which represents a decrease of US\$1.28 per quintal (11.35%) regarding the observed level at the end of August 2008 (US\$11.28 per quintal) and a reduction of US\$4.49 per quintal (30.99%) regarding the registered level at the end of December 2007 (US\$14.49 per quintal). It was indicated that although a reduction was observed in the international price of wheat as of July 2008, it continues to be a source of inflationary pressures, since it remains over the registered levels in 2007.
- iv. The total inflationary rhythm (13.69%) and the dynamic subjacent inflationary rhythm (9.27%) to August 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). The econometric projections of total inflation for December 2008 and 2009 (11.41% and 8.17%, in that order), as well as the econometric projections of dynamic subjacent inflation for December 2008 and 2009 (8.68% y 7.19%, respectively), even when they are lower than the estimations of the previous month, they 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 August, indicate that the total inflationary rhythm for the end of 2008 and 2009

are located at 12.21% and 9.65%, respectively. It was highlighted that both projections are over the upper limit of the tolerance margin of the infalton target determined for each one of the referred years and that the projection for the end of 2008 decreased regarding the previous month, while for 2009 registered a moderate increase.

vi. The liquidity conditions in the banking system are positive, situation that is reflected in the amount of liquid resources available (daily legal reserve position added to the balance of monetary stabilization operations at 7 day terms), which to September 8, 2008 was at around Q3 billion.

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

viii. The monetary issue is located below the programmed runner, while the broad monetary base is located over the upper limit of the programmed runner.

ix. The fiscal surplus to August 2008, according to preliminary numbers from the Ministerio de Finanzas Públicas [Roughly equivalent to the US Department of the Treasury.], is at Q1,049.8 million (equivalent to 0.4% of the GDP), as a result of the increase in total income of 9.5% and a decrease of total expenses of 3.3%, regarding the same period the previous year.

SECOND: Other matters and reports.

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