

EXECUTION COMMITTEE
ACT NUMBER 46-2008

Session 46-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, September twelfth, two thousand eight, at fifteen hours and twenty 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 44-2008 and 45-2008 corresponding to the sessions celebrated on September 5 and 9, 2008.

CIRCULATE: projects of acts numbers 44-2008 and 45-2008.

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 the inflation risks of the Semi-structural Macroeconomic Model.

FOURTH: Inflation Risks Balance

FIFTH: Discussion and determination of quotas for the bidding of term deposits.

- a) Discussion
- b) Determination of quotas for the 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 projects of the corresponding acts for consideration.

Not having observations, the Committee approved Acts numbers 44-2008 and 45-2008.

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 September 5 to 11, 2008, registered a placements for LTD's of Q3,905.5 million and maturity for Q3,611.9

million, which gave as a result net placements for Q293.6 million, associated to the operations made in bidding through commerce exchanges (net maturity for Q127.1 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A.* stock exchange (net placements for Q389 million); and at the window (net placements for Q38.9 million).

Regarding the DP fund-raising, it was indicated that during the period of August 5 to 11, 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 94.5882% for maturities dated June 8, 2009, equivalent to a yield rate of 7.6495% and of 92.7403% for the maturities of September 7, 2009, equivalent to a yield rate of 7.8495%; while for the direct bid, the cut price was of 98.2868% for the maturities dated December 8, 2008, equivalent to a yield rate of 6.9499% and of 94.5882% for the maturities to June 8, 2009, equivalent to a yield rate of 7.6495%. 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 liquidity injecting operations it was reported that, during the period of September 5 to 11, 2008, operations for Q48.5 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 September 5 to 11, 2008 period, the minimum was of 7.32% observed on September 9, 2008 and the maximum was of 7.53% registered on September 10, 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 7.42%.

On the other hand, it was informed that on September 11 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 Q86.0 million with a weighted average yield of 7.3762%; of which Q36.0 million were made in the exchange market at a weighted average yield rate of 7.4125% and Q50.0 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\$4.4 million with an average weighted yield of

3.00%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of September 5 to 11, 2008, maturities were registered for Q10.0 million and maturities 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 September 4 to 10, 2008, the average daily operations for purchase were of US\$62.1 million and the sale was of US\$65.0 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Thursday, September 4 they were of Q7.51126 per US\$1.00 for purchase and of Q7.54071 per US\$1.00 for sale; in that order, on Friday, September 5 was of Q7.49028 and Q7.52057; on Monday, September 8 were of Q7.48854 and Q7.51986; and on Tuesday, September 9 they were Q7.49867 and Q7.52313 and, finally on Wednesday, September 10 was of Q7.49808 and of Q7.51806. Also, it was indicated that the current exchange reference rate for September 12, 13, 14 and 15 of the current year is Q7.49378 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 September 5 to 11, 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 September 5 to 11, 2008, did not close operations and that on Thursday, September 11 there was no reference price for the market to settle in September 2008.

c) The Director for the Economic Studies Department reported that between September 4 and 11, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q488.5 million to a one of Q759.0 million, while for the balance of investments in DP to 7 days in that period, went from Q2,838.0 million to Q3,227.0 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 Q3,326.5 million on September 4 to Q3,986.0 million on September 11, 2008. They

also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q3.2 million.

The highlights during the period of September 4 to 11, 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 Q674.4 million; while the main demonetizing factors were the increase in the balance of the legal banking reserve for Q342.6 million, of the monetary stabilization operations for Q293.6 million; in the deposits of the Rest of the public sector in the Central Bank for Q49.2 million and the decrease in the balance of the Net International Reserves for the equivalent in quetzales of Q166.4 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy, the Committee was informed that in the session of the Monetary Board made on September 12, 2008, said licensed body approved the segment of new runners for the following indicative variables: monetary issue, broad monetary base, payment means and banking credit to the private sector, so the information presented is based on those runners. In that context, they declared that with data to August 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 10.93% and with a softened exponential model of 11.88% the simple average of both models is located at 11.41%, 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 8.38% and with a softened exponential model of 7.96%; the simple average of both models is at 8.17%, 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 August 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 8.84%, whereas the estimated with a softened exponential model was of 8.51%; the simple average of both models is of 8.68%, 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 7.90%, whereas the estimated softened exponential model was of 6.48%; the simple average of both models is of 7.19%, 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 September 4, 2008, the lower limit was 7.74%, and the upper limit is 11.96%; 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 September 4, 2008, the lower limit was 5.04% and the upper limit was 5.94%, and the weighted average rate of long term deposits of the banking system was of 7.63% 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 September 11, 2008, is found Q580.1 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 Q2,479.3 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 (Q1,239.7) would indicate restricting the monetary policy.

As to the total payment means, the inter-annual variation observed to September 4, 2008, rose to 5.5%, which is below the lower limit of the estimated runner for said variable on the same date (7.5% to 10.5%), which suggests relaxing the monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 8.5%, which is below the lower limit of the expected range for December 2008 (8.0% to 11.0%), which suggests keeping the monetary policy invariable. The average orientation of the deviation (-1.0%) 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 17.2%, which is below the lower limit of the estimated runner for September 4, 2008 (18.1% to 21.1%), 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 13.9%, which is below the expected range (14.0% to 17.0%), which suggests a relaxed monetary policy. The average orientation of the deviations for the present week of -0.50%, 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 August 2008, showed an inflationary rhythm of 6.32%, 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 63.73% of the same suggest a restrictive monetary policy orientation, 9.34% suggest a moderately restrictive monetary policy orientation; and 26.93% suggest a relaxed monetary policy orientation. Also, the Committee reported on the indication of said variables to September 12, 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, 63.73% of the same suggest a restrictive monetary policy (63.73% to August 20); 9.34% advise a moderately restrictive monetary policy (equal percentage to August 20); and, 26.93% a relaxed monetary policy orientation (equal percentage to August 20).

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 September 12 to 18, 2008, which indicate an excess of primary liquidity for Q3,760.7 million mainly due to the maturity of CDs and the use of deposits by the Central Government in the Banco de Guatemala; if we add the daily

banking liquidity position for Q513.3 million, resulting in excess aggregate liquidity estimated for the referred period of Q4,274.0 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 (Q3,707.0 million; according to the registry to September 11, 2008) and fund-raise additionally for around Q567.0 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, Q50.0 million and of Q65.0 million for the following maturity dates: December 8, 2008, March 9, 2009 and June 8, 2009, and September 7, 2009 respectively; and the due date of June 7, 2010, without a pre-established quota.

THIRD: Third Running of the Semi-structural Macroeconomic Model 2008.

The Committee continued deliberating on the analysis of the leading interest rate of the monetary policy to be presented to the Monetary Board in session dated Wednesday, September 17, date on which said licensed body will decide on the level of said interest rate. The technical departments presented the Committee with the medium term forecasts generated by the third running in 2008 of the Semi-structural Macroeconomic Model and, on the other hand, the Inflation Risks Balance.

Concerning the monthly report of inflation risks of the MMS, this indicates the direction in which the data came up in the last month (from August 11 to September 10, 2008) affect the risks that surround the forecast in the medium term based on the third running of the MMS in 2008 (made in August). The generation of the mentioned report is based on the iterative and mechanical runnings based on the new data (historic and/or forecast) of the diverse variables that feed the data base of the model in question.

It was mentioned that the monthly report of inflation risks of the MMS does not constitute a complete new forecast of inflation, since it does not incorporate the qualitative analysis inherent to the generation of the forecast that has been presented with quarterly frequency. In that sense, the mentioned report is limited to presenting the result of processing new data available in the mechanical running of the MMS. Therefore, they pointed out the quantitative results presented in this type of report should not be interpreted literally, but only as indicative of the direction of the risks in relation to the last quarterly forecast.

Regarding the effect of the new available data on the forecast of the inter-annual inflation, it was indicated that said effect points toward a slight decrease in the inflation risk, since the trajectory generated by the mechanical running of the MMS made in September is displaced to lower rates in comparison with the trajectory generated in August by the forecast of the third running of the MMS in 2008. Congruent with the above, it was pointed out that new data imply a trajectory for the leading interest rate of the monetary policy at levels slightly lower regarding the corresponding trajectory of the third running of the MMS in 2008 in the horizon of the forecast between the third quarter of 2008 and the fourth quarter of 2009.

The technical departments presented the breakdown of the effect of new data on the forecast of the MMS generated in the third running of 2008 (made in August), of the fourth quarter of 2008. In inter-annual inflation terms, it was indicated that the projection for the fourth quarter of 2009 fell by 0.05 percentage points, when going from 11.90% (in the forecast of the third running of 2008) to 11.85% (in the mechanical running that incorporates new data). Said behavior is explained by the new data on the price of diesel (3 hundredths of a percentage point down) and by the new inflation data (2 hundredths of a percentage point down). In terms of the leading interest rate of the monetary policy, the average of said variable, for the quarters from third and fourth of 2008, decreased by 39 basic points, when going from 8.20% (in the forecast of the third running of 2008) to 7.81% (in the mechanical running that incorporates the new data). Said decrease is explained by the effect of the new data on the price of diesel (40 basic points down), by the new data of US inflation (1 basic point up), by the new Economic Monthly Activity Index (IMAE), of domestic demand (5 basic points down), by the new external demand IMAE (2 basic points down), by the new inflation data (1 basic point down) and by the new nominal exchange rate data (8 basic points up).

As to the breakdown of the effect of new data on the forecast of the MMS generated in the third running of 2008 (made in August) for the fourth quarter of 2009, it was indicated that, in terms of inter-annual inflation, the projection for the fourth quarter of 2009 falls by 0.24 percentage points, when going from 7.59% (in the third running of 2008) to 7.35% (in the mechanical running that incorporates new data). Said decrease is mainly explained by the new data of the price of diesel (24 hundredths of a percentage point down), by the new US inflation data (1 hundredth of a percentage point up), by the new IMAE data for domestic demand (2 hundredths of a

percentage point down), by the new inflation data (2 hundredths of a percentage point down) and by the new nominal exchange rate (5 hundredths of a percentage point up).

In terms of the leading interest rate of the monetary policy, they pointed out that the average of said variable, for the quarters between the third of 2008 and the fourth of 2009, fell by 50 basic points, when going from 6.87% (in the forecast of the third running of 2008) to 6.37% (in the mechanical running that incorporates new data). Said behavior is explained by the new data for the price of diesel (50 basic points down), by the new data for the US inflation (2 basic points up), by the new US interest rate (1 basic point up), by the new IMAE data for domestic demand (6 points down), by the new IMAE data for foreign demand (5 basic points down), by the new inflation data (1 basic point down) and by the new data of the nominal exchange rate (9 basic points up).

In summary, the technical departments indicated that, regarding the third running of the MMS in 2008 (made in August), the mechanical running of September 2008 indicates a trajectory of inflation rates that are slightly lower, but over the established inflation targets for 2008 and for 2009, as well as a trajectory for the leading interest rate of the monetary policy slightly lower throughout the forecast horizon.

FOURTH: Inflation Risks Balance

Regarding the Inflation Risks Balance, the following aspects were highlighted: As to external conditions, it was indicated that the international price of oil, from September 1 to 11, 2008, on average, was at US\$105.78 per barrel, which means a decrease of US\$10.91 per barrel (9.35%) regarding the average price registered in August 2008 (US\$116.69 per barrel) and an increase of US\$14.04 per barrel (15.30%) regarding the average price registered during December 2007 (US\$91.74 per barrel), according to Bloomberg the average price of crude oil for delivery in December 2008, on September 11 was at US\$101.25 per barrel, lower by US\$15.33 per barrel (13.15%) regarding the price prevalent for that same position on August 13, 2008 (US\$116.58 per barrel). On this particular, according to reports by international experts, the referred behavior in the price of crude oil is associated to supply and demand factors. As to demand, they made reference to three factors: the first, associated to the strengthening of the US dollar regarding other currencies; the second, regarding the expectations for a decrease in the demand for crude oil on behalf of industrialized nations; and, the third, regarding the stabilization of the

demand of oil on behalf of China and a decrease for the demand on behalf of India. As to supply factors: they mentioned a slight reduction in the level of oil inventories of oil in the US, which is located at 298.0 million barrels, to September 5, 2008, according to information from the US Department of Energy.

As to the behavior of the international price of corn, it was reported that it registered a decrease, when on September 11, 2008 it was US\$9.84 per quintal, lower by US\$0.32 per quintal (3.15%) to the observed at the end of August (US\$10.16 per quintal), but higher by US\$2.27 per quintal (29.99%) to the registered in December 2007 (US\$7.57 per quintal). It is was mentioned that although the recent moderation in the international price of corn, although it remains over the registered levels during 2007 and given its incidence on the prices of other products of the basic food basket (particularly of the tortilla products and poultry meats), its follow up continues to be relevant in evlautaion of the inflation risks balance.

As to the international price of wheat, they mentioned that on September 11 it was at US\$9.75 per quintal, which represents an decrease of US\$1.53 per quintal (13.56%) regarding the observed level in August 2008 (US\$11.28 per quintal), and a reduction of US\$4.74 per quintal (32.71%) regarding the level registered in December 2007 (US\$14.49 per quintal). It was indicated that even when an important reduction was registered in the international price of wheat as of July 2008, it continues to be a over the levels registered in 2007.

As to internal conditions, it was indicated that the monthly inflation in August 2008 was at 0.50%, (1.25% in July 2008) lower by 0.42 percentage points to the registered in August 2007 (0.92%) and higher by 0.02 percentage points to the average of registered variations in August during the last seven years (0.48%).

The total inflationary rhythm (13.69%), the dynamic subjacent inflationary rhythm (9.27%) to August 2008, even when registering a decrease regarding the previous month, located 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 inflationary rhythm for December 2008 and December 2009 (11.41% and 8.17%, in that order), as well as the econometric projections of the dynamic subjacent inflationary rhythm for December 2008 and December 2009 (8.68% and 7.19%, respectively) even though they were lower to the estimated the previous month, are over the tolerance margin of the inflation target for both years. The relative weight of imported inflation in the total inflationary rhythm has

been reduced in the last two months (5.84% in June, 5.65% in July and 4.82% in August). As to the results of the survey to inflation expectations of the panel of private analysts made in July, they indicate that the total inflationary rhythm for the end of 2008 and 2009 would be located at 12.21% and 9.65%, respectively. It is important to mention that both projections are over the upper limit of the tolerance margin of the inflation 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, it registered an increase.

The execution of public finance, according to preliminary numbers to August 2008, registered a surplus of Q1,049.8 million, equivalent to 0.4% of the GDP (deficit of Q1,829.9 million to August 2007, equivalent to 0.7% of the GDP). On this, emphasis was made on the surplus registered in August, due to less public expense regarding an equal period in 2007 as well as greater levels of tax collection.

Regarding the indicative variables they pointed out that when comparing the situation to date reported regarding that of the previous month, 63.73% of variables advise a restrictive monetary policy (equal percentage the previous month); 9.34% suggest a moderately restrictive monetary policy (equal percentage the previous month); and 26.93% advise a relaxed monetary policy orientation (equal percentage the previous month).

The primary liquidity (monetary issue and broad monetary base) to September 11, 2008, showed an average deviation of Q1,239.7 million, as a result of the deviation of the broad monetary base regarding the upper limit of the programmed runner, situation that reflects the tendency the rise in the liquid resources available to banking entities. As to the inter-annual variation of the banking credit to the private sector and of the payment means, both have been decelerating, located below the lower limit of the estimated runner.

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 inflation risks balance, the monthly report of the inflation risks balance derived from the Semi-structural Macroeconomic Model –MMS [For its acronym in Spanish], as well as the behavior of the indicative variables of the monetary policy, concluded that the inflation risks balance continues to be complex.

In that sense, the advisors of the Committee gave their opinion regarding the

decision on the level of the leading interest rate, indicating that a higher inflation leads to weak and unsustainable economic growth in the medium term, so before the inflationary pressures it may be convenient to continue with gradual adjustments in the leading interest rate of the monetary policy and keep a trajectory to rise of said rate, so that the inflation converges more rapidly to its goal; this position is being adopted by other central Latin American banks that have established a scheme of explicit inflation targets and that have a lower level of inflation than that of Guatemala. They also pointed out that if the prices of some goods have recently registered a down behavior in the international markets, internally said prices have not been reduced in the same magnitude as international prices; when considering that imported inflation has been affected with the same intensity to that of total inflation, the decrease in the international price of fuel, corn and wheat will not have greater impact on total inflation at the end of the year.

It was mentioned that abstracting the international financial events of the last few days and concentrating on the inflation risks balance that was presented in the Committee, the situation of the same was pretty balanced, therefore, they considered it reasonable to recommend a pause in the increase of the leading interest rate of the monetary policy, even when among the factors that prudently suggest an adjustment to the leading interest rate are: a) that the inflation projections and inflationary expectations are found over the established targets for 2008 and 2009, b) that the banking system counts on an important amount of liquid resources available, that could eventually be destined toward credit activities; c) that the relative weight of the imported component in the total inflationary rhythm has been falling, whereas the component of internal inflation has increased.

Based on the presented they stressed that there are other factors to be taken into account, among the highlighted are: the surplus of public finance; the falling behavior of the inter-annual variation of the banking credit to the private sector and the payment means; and, the fact that in the last few days a deterioration of the world financial markets has intensified, generating uncertainty in the markets regarding the duration of the crisis and its effects on the international real economy, which increases the complexity of the inflation risks balance.

Based on the presentations of the technical departments, the Committee deliberated on the content of the same, with the objective of presenting the Monetary Board with the analysis elements that could be useful in the decision regarding the

level of the leading interest rate of the monetary policy, programmed for September 17 this year.

In the described context, the Committee declared that the total inflationary rhythm to August (13.69%) fell regarding the registered in July (14.16%), which could be an indicator that the inflation would begin reverting its upward tendency that has been registered since the beginning of the year. Notwithstanding, they stressed that the subjacent inflationary rhythm to August 2008 was at 9.27%, level that, given the deceleration that has been registered since the main monetary aggregates (monetary issue, payment means and banking credit to the private sector), could be reflecting inflation expectations that still remain high. In that sense, the Committee declared that the monetary policy has an important role for moderating said expectations through additional measures, but that for the moment it would be convenient to wait for favorable effects in the referred expectations that are expected from the recent contention of external shocks.

In the Committee they stressed that 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 would be at 12.21% and 9.65%, respectively. It was highlighted that although both projections are over the upper limit of the tolerance margin of the inflation target determined for each one of the referred years, the projection for the end of 2008 was reduced regarding the previous months, which could indicate that the inflation expectations are beginning to moderate.

When making a prospective analysis of the inflation behavior, it was indicated that the projections of the total inflationary rhythm for the end of 2008 coming from the arithmetic average of the two econometric models that have been used, point to an inflationary rhythm of 11.41%, over 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 8.17% is projected, percentage which is also over the inflation target determined for said year. Also, according to the monthly report of the inflation risks of the MMS, an inflationary rhythm of 11.85% is forecast for the end of 2009, while for the end of 2009 the forecast is of 7.35%, both over the upper limit of the inflation target determined for each one of those years.

Last, the inter-annual variation for the payment means as well as for the banking credit to the private sector continues to reflect a falling tendency. Notwithstanding, they highlighted primary liquidity (monetary issue and broad

monetary base), are over the upper limit of the programmed runner.

The Committee analyzed the environmental risks in detail in which the current monetary policy is executed. As to the associated external environmental risks, they stressed that although there is a worldwide concern for economic decleration and its duration, this has varied recently in some countries and regions; in effect, the performance forecast for the US economy has improved, but has deteriorated in the Eurozone. They also mentioned that turbulence in international financial markets has intensified in the last few days, aspect that has generated greater uncertainty. As to inflation, it was mentioned that this continues to be an important threat, given its growing behavior in the present year. It was mentioned that although recently the international prices of oil, corn and wheat have fallen and said situation for Guatemala is relevant, given that it could help moderate the inflation expectations of economic agents and, on the other hand, that the effects coming from external supply shocks to date have not become important reductions in internal prices, even when imported inflation has gradually been reduced.

In the described context, in the monetary policy environment, the central banks, in general, have kept an active monetary policy with the purpose of moderating the inflation expectations in order to ensure that inflation converge toward medium term targets. In Latin America, all countries that operate under a scheme of explicit inflation targets have increased their monetary policy interest rates in September (among them are: Brazil, 75 basic points, Chile, 50 basic points and Peru, 25 basic points).

In the Committee they discussed the evolution of international prices of crude oil, corn and wheat. In that regard, they highlighted that the evolution of the variables mentioned continues reflecting the persistence of inflationary risks, so its close follow up is relevant in the inflation risks balance.

On the other hand, they mentioned that the nominal exchange rate, although it has registered some episodes of volatility, to date it has been congruent with its seasonality. They highlighted that the behavior of the nominal exchange rate toward appreciation to September 12, 2008, is due to its seasonality, as well as the increase of foreign currency from exportations, family remittances and flow of private capital in the long term.

In the heart of the Committee there was broad deliberation as to the recommendation on the level of the leading interest rate that would be presented to the Monetary Board. For said effect, the members of the Committee gave their opinion,

taking into account an integral analysis of the current external and internal situation.

A member of the Committee indicated that the current scenario was very complex so a decision as to the leading interest rate was difficult; however, that said decision would have to be made, putting into perspective the commitment of the Central Bank to keeping a low and stable inflation rate in the medium term; additionally, indicating that to achieve sustainable economic growth in the long term it is necessary to keep stability in the general level of prices. In that sense, when taking into consideration that the adjustment measures of the interest rate affect the level of prices, with delay, it is considered necessary that in the current situation they adopt the necessary opportune measures, so it is recommended to increase the leading interest rate of the monetary policy.

Another member of the Committee suggested keeping the leading interest rate of the monetary policy invariable on the basis of three aspects: a) banking credit to the private sector and payment means below the estimated runners, as well as the surplus in public finance; b) the fall in the international price of crude oil and its derivatives, as well as that of corn and wheat; and, c) the recent events in the US financial system.

Another member of the Committee declared that without taking into consideration the recent turbulence in the international financial markets, the risks balance was oriented toward increasing the leading interest rate; however, given what happened in said markets over the weekend, declared to agree in suggesting to the Monetary Board that the leading interest rate remain at its current level.

On the other hand, another member of the Committee indicated that the main contribution that the Central Bank could make to society is to keep the general level of prices stable and that, according to the projections of inflation and the inflationary expectations of the economic agents, the Monetary Board should adopt a more active monetary policy; however, they highlighted that the previous weekend there was a very particular international financial situation that could lead to decleration in internal aggregate demand, due to the economic deceleration that could be registered in the US in the following months; therefore, they highlighted that until the effects of said events on the economy of the country are not clear, they suggest recommending the Monetary Board keep the level of the leading interest rate invariable and close monitoring and follow up should be kept of the behavior of the variables and macroeconomic indicators.

Last, another member of the Committee indicated that the current decision is

very complex, taking into account that the most relevant risk consists of registering inflation levels over the established targets for 2008 and for 2009, which is shown in the inflation forecasts and of the inflationary expectations of the panel of private analysts. In that sense, they declared that although the inflationary rhythm decelerated in August, it still remains at two digits, so the margin to adopt monetary policy measures is still broad. Highlighting that the moderation of international prices does not transfer immediately to internal prices, so a significant reduction of the inflationary rhythm in this manner can not be trusted. They also stated their concern on the important rise that the liquid resources of the banking system have registered during the last few weeks, which constitute liquidity potential that could leave the economy. They also underlined that they foresee an acceleration of public expense for the remainder of the year and that the Budget Project for 2009 presented by the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury.] to the Congress of the Republic, forecasts an increase in the fiscal deficit and important financing with external resources, situation that could generate pressure in the aggregate demand and, therefore in the general level of the prices. They declared that notwithstanding the mentioned, the decision becomes more complex, not only for the effects that the international financial unbalance could have on the country, but for the signs that the monetary policy measures should send to the economic agents in certainty terms, so, while the effects of the situation are cleared, they decided to share the position of keeping an expectant toll of the measures of monetary restriction.

As a result of the long discussion and analysis, there was consensus in the committee that it was recommendable, at this time, to keep the level of the leading interest rate of the monetary policy invariable at 7.25% and that the evolution of the inflation risks balance should be observed in order to establish its changes and orientation in the following month, so it is important to give close follow up to the main macroeconomic variables and internal and external indicators.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for bidding on September 16, 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 December 8, 2008, Q10.0 million; and, for March 9, 2009, Q10.0 million; June 8, 2009, Q60.0 million; for September 7, 2009, Q65.0 million; as well as the due date of June 7, 2010, without pre-established quotas.

SIXTH: Other Matters and Reports.

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