EXECUTION COMMITTEE

ACT NUMBER 49-2008

Session 49-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, October third, two thousand eight, at thirteen hours and forty-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 48-2008 corresponding to the session celebrated on September 26, 2008.

CIRCULATE: project of act number 48-2008.

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 48-2008.

SECOND: Information of markets and monetary variables.

The Coordinator requested the corresponding information be provided.

a) The Sub-Director of the Department of Monetary Stabilization Operations, regarding the Money Market informed that during the period from September 26 to October 2, 2008, registered a placements for LTD's of Q4,185.0 million and maturity for Q4,642.8 million, which gave as a result net maturities for Q457.8 million, associated to the operations made in bidding through commerce exchanges (net fund-raising for Q55.5 million), in direct bidding with public entities (net fund-raising fro Q1.0 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores*

Nacional, S. A. stock exchange (net maturities for Q569.0 million); and at the window (net maturities for Q54.7 million).

Regarding the DP fund-raising, it was indicated that during the period of September 26 to October 2, 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 94.9864% for maturities dated June 8, 2008, equivalent to a yield rate of 7.6451% and of 93.1304% for the maturity of September 7, 2009, equivalent to a yield rate of 7.8494%; and, for the direct bidding with public entities, the cut price was of 93.1303% for the maturities dated September 7, 2009, equivalent to a yield rate of 7.8496%. 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 26 to October 2, 2008, operations for Q98.0 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 26 to October 2, 2008 period, the minimum was of 5.85% observed on September 30, 2008 and the maximum was of 7.41% registered on October 1, 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 7.22%.

On the other hand, it was informed that on October 2 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 Q164.0 million with a weighted average yield of 7.3430%; of which Q64.0 million were made in the exchange market at a weighted average yield rate of 7.3594% and Q100.0 million in the over the counter market, at a weighted average yield rate 7.3325%; as well as operations in the stock market for US$3.7 million with an average weighted yield of 3.1500%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of September 26 to October 2, 2008, placements were registered for Q109.8 million.

b) The Sub-Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of September 25 to October 1, 2008, the average daily operations for purchase were of US$69.0 million and the sale was of US$67.0 million and that the weighted average exchange rates of the referred operations showed a tendency to rise. In effect, on Thursday, September 25 they were of Q7.44170 per US$1.00 for purchase and of Q7.46271 per US$1.00 for sale; in that order, on Friday, September 26 was of Q7.45381 and Q7.47745; on Monday, September 29 they were Q7.45336 and of Q7.48325; on Tuesday, September 30 they were Q7.47092 and Q7.50839 and, finally on Wednesday, October 1 was of Q7.49576 and of Q7.52832. Also, it was indicated that the current exchange reference rate for October 3, 4, and 5 of the current year is Q7.53129 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 26 to October 2, 2008, it was commented that the Private Institutional Foreign Currency System –SPID-, there were no operations. Regarding the Electronic Foreign Currency Negotiation System –SINEDI- there were no operations and, according to the established in the Participation Regulations 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 26 to October 2, 2008, did not close operations and that on Thursday, October 2 there was no reference price for the market to settle in December 2008.

c) The Director for the Economic Studies Department reported that between September 25 and October 2, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q296.6 million to one of Q405.9 million, while for the balance of investments in DP to 7 days in that period, went from Q4,185.0 million to Q3,616.0 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 Q4,481.6 million on September 25 to Q4,021.9 million on October 2, 2008. They also mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q27.9 million.

The highlights during the period of September 25 to October 2, 2008, of the main monetizing factors of the monetary issue were the decrease in the balance of the term deposits in the *Banco de Guatemala* for Q439.8 million, the deposits of the rest of the public sector in the Central Bank for Q160.3 million and the deposits of the Central Government in the Banco de Guatemala for Q157.9 million; while the main demonetizing factors were the increase in the balance of the legal banking reserve for Q430.9 million and the decrease in the balance of the Net International Reserves for the equivalent in quetzales of Q59.2 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy 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 policy.

As to the parameter rate, it was reported to September 25, 2008, the lower limit was 7.34%, and the upper limit is 11.29%; 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 25, 2008, the lower limit was 6.27% and the upper limit was 7.17%, and the weighted average rate of long term deposits of the banking system was of 7.66% 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 October 2, 2008, is found within the programmed limits, which suggest an invariable monetary policy; whereas the broad monetary base, on that same date, is within the programmed runner at Q3,444.9 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 (Q1,722.5) would indicate restricting the monetary policy.

As to the total payment means, the inter-annual variation observed to September 25, 2008, rose to 4.3%, which is below the lower limit of the estimated runner for said variable on the same date (7.1% to 10.1%), which suggests relaxing the monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 8.9%, which is within the expected range for December 2008 (8.0% to 11.0%), which suggests keeping the monetary policy invariable. The average orientation of the deviation (-1.40%) therefore suggests relaxing the monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered 15.4%, which is below the lower limit of the estimated runner for September 25, 2008 (16.8% to 19.8%), 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 13.3%, 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 -1.05%, 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 September 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 9.51%, 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 was informed on the orientation of said variables to September 26, 2008 regarding that to September 17, 2008, declared that the relative weight fo the same remains invariable.

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 October 3 to 9, 2008, which indicate an excess of primary liquidity for Q3,591.2 million mainly due to the maturity of CDs; if we add the daily banking legal reserve for Q674.8 million, is a potential excess fo aggregate liquidity, estimated for the referred period, of Q4,266.0 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 (Q4, 063.0 million; according to the registry to October 2, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q203.0 million.

e) The Sub-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 Q40.0 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: Discussion and determination of quotas for Term Deposits.

a) Discussion

The members of the Committee followed up on the macroeconomic issues of the country, taking into account the trends like the perspectives for the short and medium terms of the most relevant variables of the monetary, fiscal, real and external sectors.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for bidding on September 29, 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, Q50.0 million; for September 7, 2009, Q40.0 million; as well as the due date of June 7, 2010, without pre-established quotas.

FOURTH: Other Matters and Reports.

The Committee received information that the US Chamber of Representatives approved the financial relief pachage for the amount of US$700,000.0 million to mitigate the effects fo the financial crisis in said country. The referred package will be distributed three ways: the first, for an amount of US$250,000.0 million, the second for a total of US$100,000.0 million; and, the third, for an amount of US$350,000.0 million.

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