

EXECUTION COMMITTEE

ACT NUMBER 50-2008

Session 50-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, October tenth, two thousand eight, at thirteen 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 project of act number 49-2008 corresponding to the session celebrated on October 3, 2008.

CIRCULATE: project of act number 49-2008.

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 49-2008.

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 October 3 to 9, 2008, registered a placements for LTD's of Q3,857.1 million and maturity for Q4,063.1 million, which gave as a result net maturities for Q206.0 million, associated to the operations made in bidding through commerce exchanges (net fund-raising for Q7.9 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores*

Nacional, S. A. stock exchange (net maturities for Q180.0 million); and at the window (net maturities for Q33.9 million).

Regarding the DP fund-raising, it was indicated that during the period of October 3 to 9, 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 98.7388% for maturities dated December 8, 2008, equivalent to a yield rate of 7.4003%: of 96.9129% for the maturities dated March 9, 2009, equivalent to a yield rate of 7.5499% and of 93.2612% for the maturity of September 7, 2009, equivalent to a yield rate of 7.8494%; and, for the direct bidding with public entities, did not present 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 liquidity injecting operations it was reported that, during the period of October 3 to 9, 2008, operations for Q105.7 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 October 3 to 9, 2008 period, the minimum was of 7.37% observed on October 9, 2008 and the maximum was of 7.48% registered on October 8, 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 October 9 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 Q75.0 million with a weighted average yield of 7.3240%; of which Q82.0 million were made in the exchange market at a weighted average yield rate of 7.3145% and Q13.0 million in the over the counter market, at a weighted average yield rate 7.3692%; as well as the repurchase agreement operations in US Dollars for US\$9.1 million with an average weighted yield rate of 4.7159%; of which US\$4.1 were held in the stock market at a weighted average exchange rate of 3.1500% and US\$5.0 million in the over the counter market, at an average weighted yield of 6.0000%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of October 3 to 9, 2008, placements were registered for Q58.5 million.

b) The Sub-Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of October 2 to 8, 2008, the average daily operations for purchase were of US\$62.1 million and the sale was of US\$62.8 million and that the weighted average exchange rates of the referred operations showed a tendency to rise. In effect, on Thursday, October 2 they were of Q7.51538 per US\$1.00 for purchase and of Q7.54408 per US\$1.00 for sale; in that order, on Friday, October 3 was of Q7.54012 and Q7.57497; on Monday, October 6 they were Q7.54685 and of Q7.59014; on Tuesday, October 7 they were Q7.55972 and Q7.59882 and, finally on Wednesday, October 8 was of Q7.53260 and of Q7.56872. Also, it was indicated that the current exchange reference rate for October 10, 11, 12, and 13 of the current year is Q7.53601 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 October 3 to 9, 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 Regulations of the *Banco de Guatemala* in the institutional foreign currency market, on Tuesday, October 7, they convened a bid for the amount of US\$8.0 million, of which US\$4.1 million were awarded for the weighted average exchange rate of Q7.58660 per US\$1.00.

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 October 3 to 9, 2008, did not close operations and that on Thursday, October 9 there was no reference price for the market to settle in December 2008.

c) A Sub-Director for the Economic Studies Department reported that between October 2 and October 9, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q374.1 million to one of Q585.8 million, while for the balance of investments in DP to 7 days in that period, went from Q3,616.0 million to Q3,436.0 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 Q3,990.1 million on October 2 to Q4,021.8 million on October 9, 2008. They also

mentioned that during said period they registered net placements of liquidity giving operations of the *Banco de Guatemala* for Q7.7 million.

The highlights during the period of October 2 to 9, 2008, of the main demonetizing factor of the monetary issue was the increase in the balance of the deposits of the Central Government in the Banco de Guatemala for Q595.7 million; while the main monetizing factors were the decrease in the balance of the term deposits in the Banco de Guatemala for Q206.0 million, of the deposits of the rest of the public sector in the Central Bank for Q74.3 million and of the legal banking reserve for Q69.3 million and for the increase in the balance of the Net International Reserves for the equivalent in quetzales of Q204.8 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy declared that with data to September 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 10.98% and with a softened exponential model of 10.94% the simple average of both models is located at 10.96%, 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 8.40% and with a softened exponential model of 7.72%; the simple average of both models is at 8.06%, 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 September 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 8.04%, whereas the estimated with a softened exponential model was of 7.74%; the simple average of both models is of 7.89%, 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 6.39%, whereas the estimated softened exponential model was of 6.02%; the simple average of both models is of 6.21%, which is located over the punctual value of the inflation target and within the tolerance margin of the same (5.5% +/- 1 percentage point), which suggests a moderately restrictive monetary policy.

As to the parameter rate, it was reported that to October 2, 2008, the lower limit

was 7.22%, and the upper limit is 11.17%; while the leading interest rate of the monetary policy was at 7.25%, which is within the tolerance margin estimated for the parameter rate, situation that suggests an invariable monetary policy. When referring to the parity liable rate, they declared that up to October 2, 2008, the lower limit was 7.06% and the upper limit was 7.96%, and the weighted average rate of long term deposits of the banking system was of 7.67% which is located within the fluctuation margin of the parity liable interest rate, which suggests an invariable monetary policy.

As to primary liquidity it was indicated that monetary issue observed to October 9, 2008, is found within the programmed limits, which suggest an invariable monetary policy; whereas the broad monetary base, on that same date, is over the programmed runner at Q2,918.6 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, of Q1,459.3 would indicate restricting the monetary policy.

As to the total payment means, the inter-annual variation observed to October 2, 2008, rose to 5.3%, which is below the lower limit of the estimated runner for said variable on the same date (6.9% to 9.9%), which suggests relaxing the monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 8.7%, 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 (-0.80%) therefore suggests relaxing the monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered 15.5%, which is below the lower limit of the estimated runner for October 2, 2008 (16.9% to 19.9%), 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 September 2008, showed an inflationary rhythm of 6.33%, 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 reported that three indicative variables changed: the "Dynamic Subjacent Inflation Forecast for 2009" went from suggesting a restrictive monetary policy to advising the same be moderately restrictive; the "Parameter Interest Rate" went from suggesting a restrictive monetary policy to advising an invariable one; and, the "Parity Liable Interest Rate" went from suggesting a relaxed monetary policy to an invariable one. Also, the Committee was informed on the orientation of said variables to October 10, 2008 regarding that to September 17, 2008 (date in which the Monetary Board analyzed the level of the leading interest rate of the monetary policy). In that sense, according to the relative weight assigned to the indicative variables, it was reported that 43.80 of the same suggest a restrictive monetary policy orientation (63.73% to September 17), 19.93 suggest a moderately restrictive monetary policy orientation (9.34% to September 17), 18.41% an invariable monetary policy (0.00% to September 17), and 17.86% suggest a relaxed monetary policy orientation (26.93% to September 17).

On the other hand, the Committee received a report of the inflation to September, 2008, according to the information from the National Statistics Institute. Indicating that the inflationary rhythm decelerated, when going from 13.69% in August to 12.75% in September. The monthly inflation was of -0.15%, lower by 0.65 percentage points to that of August 2008 and lower by 0.83 percentage points to the observed in September 2007. It was mentioned that in September 2008 they observed reductions in the median prices of the following goods and services: bread (2.51%), tomato (19.25%), tortilla products (2.34%), gasoline (2.28%), other vegetables and orchard products (5.30%) and propane gas (2.69%). They also

registered hikes in the median prices of the following goods and services: onion (52.65%), eggs (5.32%), poultry meats (2.18%), other fresh fruit (3.55%), ball-shaped soap (2.51%), and snacks (2.14%). The subjacent dynamic inflation registered a rhythm of 9.09%, lower by 0.18 percentage points to the observed in August 2008 (9.27%) and higher by 3.98 percentage points to the observed in September 2007 (5.11%). The Committee also received information on the estimations of the imported and internal components of total inflation to the referred month. In that sense, of the total inflationary rhythm to September 2008 (12.75%), 3.30 percentage points are due to measurable imported inflation, associated to the effect that comes from the increase in international prices of crude oil and its derivatives, as well as corn and wheat, whereas 9.45 percentage points correspond to internal inflation.

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 10 to 16, 2008, which indicate a potential excess of primary liquidity for Q3,986.4 million mainly due to the maturity of CDs and the use of deposits of the Central Government in the Banco de Guatemala; if we add the daily banking legal reserve for Q19.9 million, is a potential excess of aggregate liquidity, estimated for the referred period, of Q4,006.3 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 (Q3,846.5 million; according to the registry to October 9, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q159.8 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, Q35.0 million and of Q45.0 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 situation 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.

The Committee began the discussion of the analysis that it must present to the Monetary Board in the Wednesday, October 22 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 international macroeconomic environment is characterized by the existence of inflationary pressures, that coexist with the expectations of economic deceleration and a financial crisis of great proportions. Notwithstanding, reference was made to the fall in international prices of oil, corn and wheat. In that context, in the Committee they discussed some of the factors that could be considered in the inflation risks balance that the technical departments will present in the next Committee meeting, which are described as follows:

- i. The international price of oil, from October 1 to 8, 2008 was located at US\$91.40 per barrel on average, which means a reduction of US\$12.36 per barrel (11.91%) regarding the average price registered during September 2008 (US\$103.76 per barrel) and a reduction of US\$0.34 per barrel (0.37%) regarding the average price in December 2007 (US\$91.74 per barrel). Additionally, according to Bloomberg, the price of crude oil for delivery in December 2008 on October 9 was at US\$86.62 per barrel, lower by US\$4.55 per barrel (4.99%) regarding the price prevalent for the same position on September 16, 2008 (US\$91.17 per barrel).
- ii. As to the behavior of the international price of corn, it was reported that it registered a fall, on October 9, 2008 it was at US\$7.83 per quintal, lower by US\$1.81 per quintal (18.78%) to the average observed in September (US\$9.64 per quintal) and higher by US\$0.33 per quintal (4.36%) to the registered in December 2007 (US\$7.57 per quintal). They mentioned that although there was a recent moderation in the international price of corn, this 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, they mentioned that to October 9, 2008 it was at US\$6.87 per quintal, lower by US\$2.27 per quintal (24.84%) regarding the average observed in September 2008 (US\$9.14 per quintal) and a reduction of US\$4.12 per quintal (28.43%) regarding the registered level at the end of December 2007 (US\$14.49 per quintal).

- iv. The total inflationary rhythm (12.75%) and the dynamic subjacent inflationary rhythm (9.09%) to September 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).
 - v. The econometric projections of total inflation for December 2008 and of 2009 (10.96% and 8.06%, in that order), as well as the econometric projection of the dynamic subjacent inflation for December 2008 (7.89%), even when they are lower to the estimated the month before, continue to be located over the tolerance margin of the inflation target forecast for each one of those years.
 - vi. The econometric projection of dynamic subjacent infaltoin for December 2009 (6.21%), was lower to the estimated the month before, located over the punctual value of the inflation target (5.5%) adn within the margin of +/-1 percentage point.
 - vii. The inflation expectations of the panel of private analysts, according to the survey made in September indicate that the total inflationary rhythm for the end of 2008 and 2009 would be at 12.21% and 9.51%. Highlighting that, even when the projection for December 2009 registered a moderate fall regarding the previous month, both projections were over the upper limit fo the tolerance margin of the inflation target determined for each one of the referred years.
 - viii. The liquidity conditions in the banking system are positive, situation that is reflected in the amount of liquid resources available (daily position of legal reserve plus the balance of monetary stabilization operations for 7 day term), which to October 9, 2008 is located around Q4,021.8 million.
 - ix. The inter-annual variation fo the banking credit to the private sector and the payment means, are below the lower limit of the estimated runner.
 - x. The monetary issue is within the programmed runner, while the broad monetary base is over the upper limit of the programmed runner.
 - xi. The fiscal deficit to September 2008, according to preliminary numbers of the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Departement of the Treasury.], was at Q97.6 million (equivalent to 0.0% of the GDP), as a result of the increase of the total income of 8.6% and to a decrease in total expenses of 0.9%, regarding the same period the year before.
- b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for bidding on October 14, 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, Q35.0 million; for September 7, 2009, Q45.0 million; as well as the due date of June 7, 2010, without pre-established quotas.

FOURTH: Other Matters and Reports.

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