EXECUTION COMMITTEE

ACT NUMBER 51-2008

Session 51-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, October seventeenth, two thousand eight, at eleven hours and forty-seven 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 50-2008 corresponding to the session celebrated on October 10, 2008.

CIRCULATE: project of act number 50-2008.

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 Semistructural Macroeconomic Model Inflation Risks

FOURTH: Inflation Risks Balance

FIFTH: Discussion and Determination of the quotas for term bidding.

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

Not having observations, the Committee approved Act number 50-2008.

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 October 10 to 16, 2008, registered a placements for LTD's of Q4,492.2 million and maturity for Q3,848.8 million, which gave as a result net maturities for Q643.4 million, associated to the operations made in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q712.0 million); and at the window (net maturities for Q68.6 million).

Regarding the DP fund-raising, it was indicated that during the period of October 10 to 16, 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 93.4263% for maturities dated September 7, 2009, equivalent to a yield rate of 7.8300%; 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 giving operations it was reported that, during the period of October 10 to 16, 2008, operations for Q111.1 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 10 to 16, 2008 period, the minimum was of 7.37% observed on October 10, 2008 and the maximum was of 7.49% registered on October 15, 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 7.43%.

On the other hand, it was informed that on October 16 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 Q48.0 million with a weighted average yield of 7.4219%; of which Q25.0 million were made in the exchange market at a weighted average yield rate of 7.4400% and Q23.0 million in the over the counter market, at a weighted average yield rate 7.4022%; as well as operations in the stock market for US$4.0 million with an average weighted yield rate of 4.0000%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of October 10 to 16, 2008, placements were registered for Q91.3 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of October 9 to 15, 2008, the average daily operations for purchase were of US$76.6 million and the sale was of US$75.0 million and that the weighted average exchange rates of the referred operations showed a slight tendency to fall, which stabilized at the end of the same. In effect, on Thursday, October 9 they were of Q7.50769 per US$1.00 for purchase and of Q7.53585 per US$1.00 for sale; in that order, on Friday, October 10 was of Q7.48193 and Q7.50908; on Tuesday, October 14 they were Q7.47797 and Q7.51009 and, finally on Wednesday, October 15 was of Q7.48852 and of Q7.50821. Also, it was indicated that the current exchange reference rate for October 17, 18, 19, and 20 of the current year is Q7.50764 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 10 to 16, 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 14 and Wednesday, October 15, they convened a bid for the amount of US$8.0 million, of which US$0.75 million were awarded for the weighted average exchange rate of Q7.50117 per US$1.00, in the auction held on Tuesday, October 14, 2008.

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 10 to 16, 2008, did not close operations and that on Thursday, October 16 there was no reference price for the market to settle in December 2008.

c) A Director for the Economic Studies Department reported that between October 9 and October 16, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q567.0 million to one of Q122.9 million, while for the balance of investments in DP to 7 days in that period, went from Q3,436.0 million to Q4,148.0 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 Q4,003.0 million on October 9 to Q4,025.1 million on October 16, 2008.

The highlights during the period of October 9 to 16, 2008, of the main demonetizing factors of the monetary issue was the increase in the balance of the term deposits constituted in the *Banco de Guatemala* for Q643.3 million and of the deposits of the rest of the public sector in the Central Bank for Q85.0 million and, on the other hand, the decrease in the balance of the Net International Reserves for the equivalent in quetzales of Q352.8 million; while the main monetizing factors were the decrease in the balance of the legal banking reserve for Q782.8 million and the deposits of the Central Government in the Banco de Guatemala for Q101.9 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 9, 2008, the lower limit was 7.26%, and the upper limit is 11.21%; 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 9, 2008, the lower limit was

7.78% and the upper limit was 8.68%, and the weighted average rate of long term deposits of the banking system was of 7.69% which is located within the fluctuation margin of the parity liable interest rate, which suggests a restrictive monetary policy.

As to primary liquidity it was indicated that monetary issue observed to October 16, 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 Q3,249.3 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, of Q1,624.6 would indicate restricting the monetary policy.

As to the total payment means, the inter-annual variation observed to October 9, 2008, rose to 5.3%, which is below the lower limit of the estimated runner for said variable on the same date (7.2% to 10.2%), 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 -0.95%, therefore suggests relaxing the monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered 14.6%, which is below the lower limit of the estimated runner for October 9, 2008 (16.2% to 19.2%), 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 -1.15%, 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 two indicative variables changed: the “Parameter Interest Rate” went from suggesting an invariable monterya policy orientation to advising a restrictive one and the “Parity Liable Interest Rate” went form suggesting an invariable monetary policy to advising the same be restrictive. Also, the Committee was informed on the orientation of said variables to October 17, 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 62.21% 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), 17.86% an invariable monetary policy (0.00% to September 17), and 17.86% suggest a relaxed monetary policy orientation (26.93% to September 17).

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 17 to 23, 2008, which indicate a potential excess of primary liquidity for Q4,170.6 million mainly due to the maturity of CDs; if we add the daily banking legal reserve for Q300.8 million, is a potential excess fo aggregate liquidity, estimated for the referred period, of Q3,869.9 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 (Q4,489.3 million; according to the registry to October 16, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q619.4 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, Q40.0 million and of Q55.0 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: Monthly Report of the Inflation Risks 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, October 22, date on which said licensed body will decide on the level of said interest rate. The technical departments presented the Committee with the monthly report of inflation risks of the Semi-structural Macroeconomic Model and 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 September 11 to October 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 frequence. In that sense, the mentioned report is limited to presenting the result of processing new data avaialbale 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 decrease in the inflation risk, since the trajectory generated by the mechanical running of the MMS made in October 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 fourth 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 rthe fourth quarter of 2008. In inter-annual inflation terms, it was indicated that the projection for the fourth quarter of 2008 fell by 0.20 percentage points, when going from 11.90% (in the forecast of the third running of 2008) to 11.70% (in the mechanical running that incorporates new data). Said behavior is explained by the new data on the price of diesel (14 hundredths of a percentage point down), by the new Economic Monthly Activity Index (IMAE), of foreign demand (1 hudnredth basic points up) and by the new inflation data (7 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 99 basic points, when going from 8.20% (in the forecast of the third running of 2008) to 7.21% (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 (45 basic points down), by the new data of US inflation (18 basic points down), by the new Economic Monthly Activity Index (IMAE), of foreign demand (1 basic points up), by the new inflation data (34 basic points down) and by the new nominal exchange rate data (3 basic points down).

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 0.87 percentage points, when going from 7.59% (in the third running of 2008) to 6.72% (in the mechanical running that incorporates new data). Said decrease is mainly explained by the new data of the price of diesel (65 hundredths of a percentage point down), by the new US interest rate data (8 hundredths of a percentage point down), by the new IMAE data for foreign demand (1 hundredth of a percentage point up), by the new inflation data (14 hundredths of a percentage point down) and by the new nominal exchange rate (1 hundredth of a percentage point down).

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 103 basic points, when going from 6.87% (in the forecast of the third running of 2008) to 5.84% (in the mechanical running that incorporates new data).

Said behavior is explained by the new data for the price of diesel (66 basic points down), by the new US interest rate (24 basic points down),by the new IMAE data for domestic demand (1 point down), by the new IMAE data for foreign demand (2 basic points up), by the new inflation data (9 basic points down) and, by the new data of the nominal exchange rate (5 basic points down).

In summary, the technical departments indicated that, regarding the third running of the MMS in 2008 (made in August), the mechanical running of October 2008 indicates a trajecroty of inflation rates that are 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 even 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 October 1 to 16, 2008, on average, was at US$85.14 per barrel, which means a decrease of US$18.62 per barrel (17.95%) regarding the average price registered in September 2008 (US$103.76 per barrel) and an decrease of US$6.60 per barrel (7.19%) 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 October 16 was at US$70.26 per barrel, lower by US$20.91 per barrel (22.94%) regarding the price prevalent for that same position on September 16, 2008 (US$91.17 per barrel). On this particular, according to 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 two 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, as a result of the world financial crisis. As to supply factors: they mentioned an increase in the level of oil inventories in the US, which is located at 308.2 million barrels, to October 10, 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 October 1 and 16, 2008 it was US$7.59 per quintal, lower by US$2.05 per quintal (21.27%) to the observed average in September (US$9.64 per quintal), and higher by US$0.02 per quintal (0.26%) 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 average, between October 1 and 16, it was located at US$9.99 per quintal, which represents a decrease of US$2.00 per quintal (16.68%) regarding the observed level in September 2008 (US$11.99 per quintal), and a reduction of US$5.29 per quintal (34.62%) regarding the level registered in December 2007 (US$15.28 per quintal).

As to the international financial markets, it was indicated that the recent events have modified the environment where the monterya policy performs, espciallyl in advance countries, so the effects of said events can not be anticipated to having an effect on the world economy.

As to internal conditions, it was indicated that the monthly inflation in September 2008 was at -0.15%, (0.50% in August 2008) lower by 0.83 percentage points to the registered in September 2007 (0.68%) and lower by 0.49 percentage points to the average of registered variations in September during the last seven years (0.34%).

The total inflationary rhythm (12.75%), the dynamic subjacent inflationary rhythm (9.09%) to September 2008, even when registering a decrease regarding the previous month, continue to be located over the upper limit of the tolerance margin determined by the Monetary Board for 2009.

The econometric projections of total inflationary rhythm for December 2009 (8.06%), even though they were lower to the estimated the previous month, continue to be over the tolerance margin of the inflation target for this year and the econometric projection of the dynamic subjacent inflationary rhythm for December 2009 (6.21%), was lower to the estimated the previous month, located over the punctual value of the inflation target (5.5%), but within the margin of +/-1 percentage point. The relative weight of imported inflation in the total inflationary rhythm has been reduced in the last three months (5.84% in June, 5.65% in July, 4.82% in August and 3.30% in September). As to the survey of inflation expectations to the panel of private analysts, according to the September survey, indicate that the total inflationary rhythm for the end of 2009 would be located at 9.51%, respectively. It is important to mention that even though said projection registered a moderate fall regarding the previous month, it is over the upper limit of the tolerance margin of the inflation target determined for 2009.

The execution of public finance, according to preliminary numbers to September 2008, registered a deficit of Q97.6 million, equivalent to 0.0% of the GDP (deficit of Q2,641.6 million to September 2007, equivalent to 1.0% of the GDP). On this, emphasis was made on the minor deficit registered to September was due to less public expense regarding an equal period in 2007.

Regarding the indicative variables they pointed out that when comparing the situation to date reported regarding that of the previous month, 62.21% of variables advise a restrictive monetary policy (63.73% the previous month); 19.93% suggest a moderately restrictive moentary policy (9.34% the previous month); and 17.86% advise a relaxed monetary policy orientation (26.93%the previous month).

The primary liquidity (monetary issue and broad monetary base) to October 16, 2008, showed an average deviation of Q1,624.6 million, situation that reflects a rising trend in the liquid resources available to banking entities; whereas the inter-annual variation of the banking credit to the private sector and of the payment means are below the lower limit of the estimated runner.

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

a) Discussion

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

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 of the monteray policy, that the Monetary Board is responsible for taking next Wednesday, highlighting that the acute instability in the international financial markets registered during the last weeks has significantly impacted the economic growth expectations of industrialized economies, broadening the margins of uncertainty regarding the effects of developing economies. Before such a scenario, the technical departments declared that, notwithstanding the current inflation being at two digits adn that the inflation forecasts come from econometric models, the mechanical running of the MMS and of the results of the survey fo inflation expectations, are over the upper level of inflation targets estasblished, in their opinion, they advise caution at this time in keeping the level of the leading interest rate of the moentary policy invariable, emphasizing that if it were not for the external conditions described their recommendation would have been to adjust the leading interst rate, taking into account that this is significantly negative in real terms. Additionally, the technical departments pointed out that although the commodities prices that have affected inflation since August of last year have recently registered important decreases, at internal level, said reductions are not perceived in the same degree, so imported inflation has reduced its important relevance in total inflation and has increased that of internal inflation, situation that stresses the existence of inflationary pressures. The mentioned lack of elasticity for the fall of inflation can be due to, among other factors, excesses of aggregate demand, inflation expectations of the economic agents and market imperfections.

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 analysis elements that could be useful in the decision regardingthe level of the leading interest rate of the monetary policy, programmed for October 22 of this year.

In the described context, the Committee declared that the total inflation to September (12.75%) fell for the second consecutive month, which could be an indicator of an inflation change trend. Said situation, added to the recent deceleration of the international price of oil and its derivatives, corn and wheat, will contribute to a greater moderation of the inflation expectations of the economic agents. Notwithstanding, they emphasized that the dynamic subjacent inflation in September was at 9.09% and has decelerated less than total inflation, at the same time inflation components, the imported inflation weight has fallen, while that of internal inflation has increased. On this, the Committee declared that the monetary policy as an important role for moderating the inflation expectations, so that in the current setting it is advisable that the leading interest rate remain at the same rate.

In the Committee they highlhgted that 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 2009 would be at 9.51%, level significantly over the target for this year.

When doing a prospective analysis of inflation behavior, it was indicated that the projection of the total inflationary rhythm for the end of 2009 of 8.06%, was also over the inflation target determined for said year. According to the Monthly Report of the inflation risk of the Semi-structural Macroeconomic Model, forecast an inflationary rhythm for the end of 2009 of 6.72%, also over the inflation target.

Last, they mentioned that the inter-annual variation of the payment means as well as the banking credit to the private secotr continue to reflect a falling trend, notwithstanding that the primary liquidity (monetary issue and broad monetary base) are over the upper limit of the programmed runner. In said behavior there may be an influence to lower credit demand, due to an increase in inflation and a deceleration of economic activity, as well as greater caution on behalf of banking entities in the granting of credit and keeping a higher reserve in the form of liquid assets, given the setting in international financial markets, where the credit conditions have hardened.

The Committee analyzed the risks of the environment in detail where the monetary policy is currently executed. As to associated risks in the external environment, they highlighted that worldwide, the turbulence registered in the international financial markets stands out and that the greater part of industrialized countries had relaxed their monetary policy positions in order to give back confidence to the financial markets and stabilize them. As to inflation risks balance of developing countries, the weight of inflationary pressure is high, so the majority of central banks of said coutnries, particularly those that operate in a scheme of explicit inflation targets, has kept a restrictive monetary policy position throughout 2008.

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

On the other hand, they mentioned that the nominal exchange rate has registered some of the volatile episodes to date, activating the participation regulation of the *Banco de Guatemala* in the institutional foreign currency markets for the window as to the purchase of foreign currency. It was indicated that, in general, to date the nominal exchange rate has been congruent with the season and that the registered appreciation to date is due to an increase in the income of foreign currency for exportations, family remmitances and private cash flow in the long term.

The Committee discussed the recommendation that it will present to the Monetary Board on the level of the leading interest rate of the monetary policy broadly. For said effect, the members of the Committee expressed their opinion, taking into account an integral analysis of the internal and external settings.

As to the external setting, a member of the Committee indicated that the recent events in the international financial markets have modified the environment of the monetary policy in an important manner, especially in developed countries; particularly, the deepest concern internationally is the intensification of the current financial crisis and its effects on world economic growth during the next quarters. In that sense, it was mentioned that the monetary measures that have been implemented mainly by central banks in industrialized countries, are exceptional and point toward more trust to the markets and to stabilize them to ensure economic reactivation. Another member of the Committee declared that in the case of emerging economies and developing countries (particulary those that operate under a scheme of explicit inflation targets), have kept a more conservative monetary policy bid, that according to the international experts is due to the fact that the inflation of said countries remains high, that the effect of the hikes in the commodities is greater regarding developing countries due to high relative weight of the headings of foods in the basic food baskets and that in developing countries it is easier that the inflation expectations detach, which at the same time makes inflaton returns at lower levels, situation that limits spaces to adopt anticyclical and expansive policies. Various members of the committee coincided in that the above is due to external supply shocks, aspect that keeps the infaltoin expectations high, which requires the adoption of monetary policy measures, that allows the convergence of said expectations to inflation targets in the medium term.

As to the internal conditions, in the heart of the Committee they asked if in the case of Guatemala, in the current setting, it is possible to consider a reduction in the leading interest rate of the monetary policy. In that regard, after much deliberation they agreed that there were no conditions to reduce the level of the leading interest rate, due to the following: a) there are still pressures from demand that reflect on the behavior of the subjacent dynamic inflation and in the internal inflation; b) the inflation forecasts of econometric models, of the mechanical running of the MMS, as well as the survey of expectations is found over the inflation target for 2009; c) the behavior of the international oil, corn and wheat prices, has not had a symmetrical effect in the general level of internal prices (the hikes are transmitted faster than the lowering); d) a two digit inflation causes distorting effects in economic growth and could even reduce it; e) a reduction in the leading interest rate could send a confusing message to the economic agents regarding the position of the monetary policy; and, f) in the behavior of the banking credit to the private sector have influenced different factors toward the rise in the leading interest rate of the monetary policy.

In addition, a member of the Committee commented that the risk grade firms from Standard & Poor's and Fitch Ratings, reduced their perspective for the grade for El Salvador's soverign risk (from stable to negative) taking into account, among other aspects, the current inflation levels it experiments, the growing risks in fiscal matters and the limited flexibility of the economic policies in said country to face a less favorable international environment. In Guatemala's case, the graders have kept their perspective unchanged on the soverign risk grading of the country, due to, among other factors, the discipline of the moentary and fiscal policies and a stable macroeconomic environment. However, Standard & Poor's in its latest report pointed out that the Central Bank has been criticized for adopting a more aggrestive position for inflation control.

As a result of the long discussion and analysis, in the heart of the Committee there was consensus in recommending the Monetary Board, at this time, keep the level of the leading interest rate of the monetary policy invariable at 7.25% and continue to observe the evolution of the inflation risks blanace in order to establish its changes and orientation for the next month, so it is important to give close follow up to the main variable and internal as well as external relevant macroeconomic indicators.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for bidding on October 21, 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, Q40.0 million; for September 7, 2009, Q55.0 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 fifteen hours and ten minutes, in the same place and on the same date indicated, the participants signed in agreement.