

EXECUTION COMMITTEE

ACT NUMBER 54-2008

Session 54-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, November seventh, two thousand eight, at fourteen hours and twenty-two 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 53-2008 corresponding to the session celebrated on October 30, 2008.

CIRCULATE: project of act number 53-2008.

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 53-2008.

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 November 3 to 6, 2008, registered a placements for LTD's of Q3,481.2 million and maturity for Q4,648.3 million, which gave as a result net maturities for Q1,167.1 million, associated to the operations made in bidding through commerce exchanges (net maturities for Q15.0 million), in bidding directly with public entities (net maturities for 99.7 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A.*

stock exchange (net maturities for Q1,128.0 million); and at the window (net fund-raising for Q24.1 million).

Regarding the DP fund-raising, it was indicated that during the period of November 3 to 6, 2008, the same were made through 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 November 3 to 6, 2008, operations for Q125.0 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 November 3 to 6, 2008 period, the minimum was of 7.25% observed on November 3, 2008 and the maximum was of 7.40% registered on November 6, 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 7.31%.

On the other hand, it was informed that on November 6 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 Q73.0 million with a weighted average yield of 7.3918%; of which Q38.0 million were made in the exchange market at a weighted average yield rate of 7.3974% and Q35.0 million in the over the counter market, at a weighted average yield rate 7.3857%; as well as the repurchase agreement operations in US Dollars for US\$7.5 million with an average weighted yield rate of 3.4396%; of which US\$4.2 were held in the stock market at a weighted average exchange rate of 3.0000% and US\$3.3 million in the over the counter market, at an average weighted yield of 4.0000%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of November 3 to 6, 2008, placements were registered for Q403.9 million and maturities for US\$51.4 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of October 29 to November 5, 2008, the average daily operations for purchase were of US\$66.8

million and the sale was of US\$68.0 million and that the weighted average exchange rates of the referred operations showed a tendency to fall. In effect, on Wednesday, October 29 they were of Q7.54968 per US\$1.00 for purchase and of Q7.58129 per US\$1.00 for sale; in that order, on Thursday, October 30 was of Q7.54041 and Q7.56737; on Monday, November 3 they were Q7.53280 and of Q7.56525; on Tuesday, November 4 they were Q7.52659 and Q7.55487 and, finally on Wednesday, November 5 was of Q7.51711 and of Q7.54060. Also, it was indicated that the current exchange reference rate for November 7, 8 and 9 of the current year is Q7.52375 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 30 to November 6, 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 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 October 30 to November 6, 2008, did not close operations and that on Thursday, November 6 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 30 and November 6, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q128.2 million to one of Q1,183.6 million, while for the balance of investments in DP to 7 days in that period, went from Q4,115.0 million to Q2,987.0 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 Q4,243.2 million on October 30 to Q4,170.6 million on November 6, 2008.

The highlights during the period of October 30 to November 6, 2008, of the main demonetizing factor of the monetary issue were the increase in the balance of the legal banking reserve for Q1,375.8 million; while the main monetizing factors were the decrease in the balance of the term deposits in the *Banco de Guatemala* for Q1,167.1 million; and also the increase in the balance of the Net International Reserves for the equivalent in quetzales of Q150.4 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and

Credit Policy declared that with data to October 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 10.82% and with a softened exponential model of 10.90% the simple average of both models is located at 10.86%, 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 8.37% and with a softened exponential model of 7.64%; the simple average of both models is at 8.01%, which is over the tolerance margin of the inflation target (5.5% +/- 1 percentage point), which suggests a restrictive monetary policy.

Regarding the projected subjacent inflation for December 2008, with data up to October 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 8.00%, whereas the estimated with a softened exponential model was of 7.83%; the simple average of both models is of 7.92%, which is over the tolerance margin of the inflation target (5.5% +/- 1.5 percentage point), which suggests a restrictive monetary policy; and, for December 2009 the estimated subjacent inflation with an ARIMA model is of 6.37%, whereas the estimated softened exponential model was of 6.10%; the simple average of both models is of 6.24%, 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 30, 2008, the lower limit was 7.55%, and the upper limit is 11.50%; while the leading interest rate of the monetary policy was at 7.25%, which is below 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 October 30, 2008, the lower limit was 7.82% and the upper limit was 8.72%, and the weighted average rate of long term deposits of the banking system was of 7.72% which is located below the lower limit of 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 November 6, 2008, is within the programmed runner, which suggests an invariable monetary policy; whereas the broad monetary base, on that same date, is over the programmed runner at Q3,626.1 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 Q1,813.1 million, which would indicate a restrictive monetary policy.

As to the total payment means, the inter-annual variation observed to October 30, 2008, rose to 5.3%, which is below the lower limit of the estimated runner for said variable on the same date (7.7% to 10.7%), which suggests relaxing the monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 7.5%, which is below the lower limit of the range expected for December 2008 (8.0% to 11.0%), which suggests a relaxed monetary policy. The average orientation of the deviations for the present week of -1.45% suggests a relaxed monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered 13.5%, which is below the lower limit of the estimated runner for October 30, 2008 (15.5% to 18.5%), 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 12.2%, 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 -1.90%, 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 October 2008, for December 2008 the inflation projection is at 11.51%, 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 9.36%, 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 October 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 Inflation Forecast in the Medium Term of the Semi-structural Macroeconomic Model (MMS) corresponding to the mechanical running used in October 2008, projects an inflationary rhythm of 11.70% for December 2008, 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 7.34%. Also the forecast for said model of a mid-term horizon projected an inflationary rhythm for

December 2009 of 6.72%, conditioned to gradual adjustments to the leading interest rate of the monetary policy, up to 3.93% on average, in the last quarter of said year.

As to the orientation of the indicative variables, regarding the previous week, it remained unchanged. Notwithstanding, the weightings of the inflation forecasts were modified due to the new inflation data observed in October, so it decreased the relative importance of said forecasts for 2008 and increased for 2009. In that sense, according to the relative weight assigned to the indicative variables, it was reported that 61.39% of the same suggest a restrictive monetary policy orientation, 20.75% suggest a moderately restrictive monetary policy orientation, and 17.86% suggest a relaxed monetary policy orientation.

On the other hand, the Committee was informed of the inflation behavior to October 2008. According to the information from the National Statistics Institute, it was indicated that the inflationary rhythm registered an increase, when going from 12.75% in September to 12.93% in October. The monthly inflation was of 0.50%, higher by 0.65 percentage points to that of September 2008 and higher by 0.16 percentage points to the observed in October 2007. It was mentioned that in October 2008 they observed hikes in the median prices of the following goods and services: urban transportation (13.32%), bread (1.85%), onion (17.55%), other fresh fruit (3.25%), potato (4.15%), tortilla products (0.64%), air transportation (2.44%), eggs (2.11%), lunch (0.44%) and chayote (9.56%). They also registered decreases in the median prices of the following goods and services: gasoline (9.34%), expenses derived from manufactured and natural gas (7.86%), tomato (9.74%); expenses derived from electricity (1.29%); other vehicles (3.33%); and, data processing equipment (3.89%). The subjacent dynamic inflation registered a rhythm of 9.12%, higher by 0.03 percentage points to the observed in September 2008 (9.09%) and higher by 3.83 percentage points to the observed in October 2007 (5.29%). 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 October 2008 (12.93%), 1.60 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 11.33 percentage points correspond to internal inflation.

d) The 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 November 7 to 13, 2008, which indicate a potential excess of primary liquidity for Q3,733.3 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 Q455.4 million, resulting in potential excess for aggregate liquidity, estimated for the referred period, of Q4,188.7 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 (Q3,531.3 million; according to the registry to November 6, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q657.5 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, Q25.0 million and of Q25.0 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 trends like the perspectives for the short and medium terms of the most relevant variables of the monetary, fiscal, real and external sectors. The members of the Committee also expressed their concern for the inflation results to October, which showed that the inflationary pressures and that the inflation expectations remain and have not significantly improved regarding the behavior of future inflation, although the inflation forecasts show a slight decrease. The behavior of inflation confirms the concern the Committee has had throughout the year, in the sense that, although there are elements due to the international crisis that advises caution in the monetary policy actions, it is clear that inflation has not given way; therefore, future policy decisions must continue to be analyzed with extreme caution. Added to this, the Committee emphasized that although a lower inflationary rhythm could be expected for November, this would not give margin to much optimism, if we take into account that it could reflect an arithmetic effect in good measure, due to the fact that inflation in November 2007 was historically high.

The Committee began the discussion of the analysis that it must present to the

Monetary Board in the Wednesday, November 19 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 in the international macroeconomic environment there are simultaneous external shocks, like the intensification of the financial crisis, the world economic deceleration and a high level of inflation. 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 November 1 to 6, 2008 was located at US\$65.13 per barrel on average, which means a reduction of US\$11.59 per barrel (15.11%) regarding the average price registered during October 2008 (US\$76.72 per barrel) and a reduction of US\$26.61 per barrel (29.01%) 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 November 6 was at US\$71.08 per barrel, lower by US\$4.97 per barrel (6.54%) regarding the price prevalent for the same position on October 16, 2008 (US\$76.05 per barrel).
- ii. As to the behavior of the international price of corn, it was reported that it registered a fall, on November 6, 2008 it was at US\$7.07 per quintal, lower by US\$0.30 per quintal (4.07%) to the average observed in October (US\$7.37 per quintal) and lower by US\$0.50 per quintal (6.61%) 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 level in the first nine months of 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 November 6, 2008 it was at US\$9.14 per quintal, lower by US\$0.36 per quintal (3.79%) regarding the average observed to October 2008 (US\$9.50 per quintal) and a reduction of US\$6.14 per quintal (40.18%) regarding the registered level at the end of December 2007 (US\$15.28 per quintal).
- iv. The total inflationary rhythm increased by 12.75% in September to 12.93% in October 2008 and the dynamic subjacent inflationary rhythm also increased

- 9.09% the previous month to 9.12% in October 2008, so they continue to be over the upper limit of the tolerance margin determined by the Monetary Board for 2009 (5.5% +/- 1.5 percentage points).
- v. The econometric projections of total inflation for December 2009 (8.01%), although it decreased regarding last month, it is over the tolerance margin of the inflation target forecast for the referred year.
 - vi. The econometric projection of dynamic subjacent inflation for December 2009 (6.24%) is slightly higher to the estimated the month before and is located over the punctual value of the inflation target (5.5%), but within the margin of +/-1 percentage point.
 - vii. The inflation expectations of the panel of private analysts, according to the survey made in October indicate that the total inflationary rhythm for the end of 2009 would be at 9.36%. Highlighting that, even when the projection for December 2009 registered a moderate decrease regarding the previous month, it is over the upper limit of the tolerance margin of the inflation target determined for the mentioned year.
 - 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 November 6, 2008 is located around Q4,170.0 million.
 - ix. The inter-annual variation of 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.

b) Determination of quotas for bidding of term deposits.

Regarding the determination of quotas for bidding on November 10, 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, Q25.0 million; for September 7, 2009, Q25.0 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 fifteen hours and fifty minutes, in the same place and on the same date indicated, the participants signed in agreement.