EXECUTION COMMITTEE

ACT NUMBER 56-2008

Session 56-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, November twenty-first, two thousand eight, at twelve hours and fifteen 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 55-2008 corresponding to the session celebrated on November 14, 2008.

CIRCULATE: project of act number 55-2008.

SECOND: Information on markets and monetary variables.

a) Money Market
b) Exchange Market
c) Indicative Variables
d) Estimated Monetization Flow

THIRD: Mechanisms for providing liquidity in national currency, temporarily, to banks in the system

FOURTH: Discussion

FIFTH: 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 55-2008.

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 14 to 20, 2008, registered a placements for LTD's of Q5,237.1 million and maturity for Q4,468.1 million, which gave as a result net fund-raising for Q769.0 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 Q871.9 million); and at the window (net maturities for Q102.9 million).

Regarding the DP fund-raising, it was indicated that during the period of November 14 to 20, 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 14 to 20, 2008, operations for Q127.0 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.

Regarding repurchase agreement operations to provide liquidity in US dollars to the banks in the system, according to resolution JM-122-2008, it was reported that one auction was held and they received requests for US$21.0 million which were awarded in their entirety, as follows: a bid for US$10.0 million total for a 60 day term at an interest rate of 5.52875% and two bids for a total of US$11.0 million for a 90 day term, at an interest rate of 5.65313%.

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 14 to 20, 2008 period, the minimum was of 7.31% observed on November 18, 2008 and the maximum was of 7.52% registered on November 19, 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 7.40%.

On the other hand, it was informed that on November 20 of this year the banks of the system and the financial stock companies held repurchase agreement operations in the exchange market, with term deposits from the *Banco de Guatemala* and Guatemalan Treasury Bonds for Q65.0 million with a weighted average yield of 7.3154%; of which Q10.0 million were held in the stock market with a weighted average yield rate of 7.5000% and Q55.0 million in the over the counter market, at a weighted average yield rate of 7.2818%; as well as the repurchase agreement operations in US Dollars in the stock market for US$4.2 million with an average weighted yield rate of 2.0000%.

Finally, regarding the placement of treasury bonds of the Republic of Guatemala, during the period of November 14 to 20, 2008, placements were registered for Q1.7 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of November 13 to 19, 2008, the average daily operations for purchase were of US$58.8 million and the sale was of US$59.7 million and that the weighted average exchange rates of the referred operations showed a tendency to rise. In effect, on Thursday, November 13 they were of Q7.61235 per US$1.00 for purchase and of Q7.64998 per US$1.00 for sale; in that order, on Friday, November 14 was of Q7.62865 and Q7.67287; on Monday, November 17 they were Q7.62383 and of Q7.66084; on Tuesday, November 18 they were Q7.63397 and Q7.66845 and, finally on Wednesday, November 19 was of Q7.67740 and of Q7.72071. Also, it was indicated that the current exchange reference rate for November 21, 22 and 23 of the current year is Q7.75669 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 November 14 to 20, 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, a dollar sales auction was convened on November 14 and 17, in which the following were awarded: US$9.0 million at an average weighted yield rate of Q7.65972 per US$1.00 and US$8.5 million at an average weighted yield rate of Q7.65313 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 November 14 to 20, 2008, did not close operations and that on Thursday, November 20 there was no reference price for the market to settle in December 2008.

c) The Director for the Economic Studies Department reported that between November 13 and November 20, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q468.6 million to a negative one of Q352.4 million, while for the balance of investments in DP to 7 days in that period, went from Q4,186.1 million to Q5,058.0 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 Q4,654.7 million on November 13 to Q4,705.6 million on November 20, 2008. Stressing that the amount of liquid resources available has increased significantly in the last few weeks and is reflected in the deviation of the broad monetary base over the upper limit of the programmed runner, while the inter-annual variation of the payment means as well as the banking credit to the private sector continue reflecting a falling trend. Declaring that in said behavior there could be an influence of less credit demand from the inflation increase and from the declaration of economic activity, as well as greater caution on behalf of banking entities in granting credit and keeping a higher reserve of liquid assets, given the situation of the international financial market, where credit conditions have hardened.

The highlights during the period of November 13 to 20, 2008, of the main monetizing factors of the monetary issue were the decrease in the balance of the legal banking reserve for Q579.0 million and the deposits of the rest of the public sector in the Central Bank for Q47.1 million and, on the other hand, the increase of the balance of other net assets of the *Banco de Guatemala* for Q353.4 million; while the main demonetizing factors were the increase in the balance of the term deposits in the *Banco de Guatemala* for Q769.0 million and the decrease in the balance of the Net International Reserves for the equivalent in quetzales of Q132.0 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 November 13, 2008, the lower limit was 7.90%, and the upper limit is 11.85%; 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 November 13, 2008, the lower limit was 8.85% and the upper limit was 9.75%, and the weighted average rate of long term deposits of the banking system was of 7.74% 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 20, 2008, is within the programmed runner, which suggests a relaxed monetary policy; whereas the broad monetary base, on that same date, is over the programmed runner at Q4,132.2 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 Q2,066.1 million, which would indicate a restrictive monetary policy.

As to the total payment means, the inter-annual variation observed to November 13, 2008, rose to 6.4%, which is below the lower limit of the estimated runner for said variable on the same date (7.7% to 10.7%), which suggests a relaxed monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 7.2%, 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 -1.05% suggests a relaxed monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered 12.6%, which is below the lower limit of the estimated runner for November 13, 2008 (14.9% to 17.9%), which suggests a relaxed monetary policy; on the other hand, the econometric estimation for December 2008 of the banking credit to the private sector is 11.8%, 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 -2.25%, 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 fourth running used in November 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 7.42%. Also the forecast for the mechanical running of said model for a mid-term horizon projected an inflationary rhythm for December 2009 of 7.01%, conditioned to gradual adjustments to the leading interest rate of the monetary policy, up to 5.20% on average, in the last quarter of said year.

As to the orientation of the indicative variables, regarding the previous week, it remained unchanged. 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. It was emphasized that the indicative variables that suggest a restrictive monetary policy an d a moderately restrictive monetary policy, are those that are associated to inflation (total and subjacent econometric inflation forecasts coming from the MMS and inflation expectations), since they are found over the established targets. In the same manner, primary liquidity (given that the monetary base is over the upper limit of the programmed runner), suggest a restrictive monetary policy. On the other hand, given the behavior toward deceleration in its inter-annual variation and that they are below the lower limit of the respective runners, the payment means and the banking credit to the private sector, are between the segment of variables that suggest relaxing the monetary policy.

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 November 21 to 27, 2008, which indicate a potential excess of primary liquidity for Q5,672.8 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 Q374.3 million, resulting in potential excess for aggregate liquidity, estimated for the referred period, of Q5,298.6 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 (Q5,439.6 million; according to the registry to November 20, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q141.0 million.

THIRD: Mechanism for providing liquidity in national currency, temporarily, to banks in the system.

Notwithstanding the increase that the banks in the system have registered in available liquid resources, given the international situation, it is not possible to quantify the magnitude of deceleration of foreign flow, among them, foreign credit lines, family remittances, exportations and tourism, even when the external financing for the fiscal deficit forecast for 2009 is significant.

Due to the above, in the Committee they have been analyzing measures that will provide temporary liquidity to the banks in the system in the short term that will allow them to take care of the credit demand that qualifies in the risk analysis, without committing the efforts of the Monetary Authority to moderate inflation.

In that context, the technical departments proposed that the Execution Committee adopt two mechanisms to temporarily provide liquidity in national currency to the banks in the system. The first mechanism refers to the anticipated redemption of Term Deposits (DP) constituted in the *Banco de Guatemala* by the banks in the system. The second mechanism consists of purchasing Treasury Bonds from the Republic of Guatemala in quetzales, held by banking entities.

As to the anticipated redemption of the DP constituted in the *Banco de Guatemala*, they proposed that the decision be current up to December 31, 2008. The anticipated DP redemption offer will be held on the Monday of every week, as long as the banking liquidity conditions merit, in amounts established according to the situation of banking liquidity. The referred redemption will apply to the DPs that were originally placed in terms between three and eight years.

Regarding the purchase operations of the Treasury Bonds of the Republic of Guatemala expressed in quetzales, they also proposed that the measure be current up to December 31, 2008, holding operations on Mondays every week. The referred operations contemplate those values titles with original terms of 5, 6, 7, 8, 10 and 12 years, at face value.

FOURTH: 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 Committee was informed on the recent depreciation of the nominal exchange rate, which activated the participation rule of the *Banco de Guatemala* in the exchange market. On this, it was indicated that this behavior is mainly due to greater demand of foreign currency by a bank in the system, as a result of some businesses that operate in the electricity generation and distribution sector buying foreign currency to comply with obligations related to the operations flow.

The Committee agreed that, the *Banco de Guatemala* will provide an easier outlet for banking entities to acquire liquidity in national currency temporarily, through the adoption of the following mechanisms: i) anticipated redemption of term deposits (DP) constituted in the *Banco de Guatemala*; and, ii) holding purchase operations of Treasury Bonds of the Republic of Guatemala expressed in quetzales. They also agreed to establish amounts of Q75.0 million for each one of the mechanisms indicated, for the events to be convened on Monday, November 24, 2008 and, in the following events the amounts will be determined by the *Banco de Guatemala* based on liquidity behavior.

SIXTH: Other Matters and Reports.

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