EXECUTION COMMITTEE

ACT NUMBER 57-2008

Session 57-2008 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-eighth, two thousand eight, at thirteen hours and 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 56-2008 corresponding to the session celebrated on November 21, 2008.

CIRCULATE: project of act number 56-2008.

SECOND: Information on markets and monetary variables.

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

THIRD: Discussion

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 56-2008.

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 November 21 to 27, 2008, registered a placements for LTD's of Q5,660.1 million and maturity for Q5,513.4 million, which gave as a result net fund-raising for Q146.7 million, associated to the operations made in the commodities exchanges (net maturity for Q280.0 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q215.1 million); and at the window (net fund-raising for Q211.6 million).

Regarding the DP fund-raising, it was indicated that during the period of November 21 to 27, 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%.

On the other hand, it was reported that according to resolution JM-104-2008 of the Monetary Board, on November 26 of the current year they raised term deposits for US$18.0 million, for a 14 day term.

Regarding liquidity giving operations it was reported that, during the period of November 21 to 27, 2008, operations for Q94.1 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.

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 on November 27, 2008 an auction was held and they received two bids for a total of US$10.0 million for a 90 day term, at an interest rate of 5.70250%, which were awarded in their entirety on those terms.

Regarding the mechanisms to provide liquidity in national currency to the banks of the system, temporarily, reported that on November 24, 2008 they held operations for anticipated redemption of Term Deposits constituted in the *Banco de Guatemala* for Q75.0 million and purchase operations of Treasury Bonds of the Republic of Guatemala expressed in quetzales for Q75.0 million.

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 21 to 27, 2008 period, the minimum was of 7.25% observed on November 24, 2008 and the maximum was of 7.51% registered on November 25, 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 7.39%.

On the other hand, it was informed that on November 27 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 Q83.0 million with a weighted average yield of 7.3837%; of which Q58.0 million were held in the stock market with a weighted average yield rate of 7.4414% and Q25.0 million in the over the counter market, at a weighted average yield rate of 7.2500%; 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 21 to 27, 2008 placements were registered for Q34.2 million.

b) The Sub-Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of November 20 to 26, 2008, the average daily operations for purchase were of US$63.7 million and the sale was of US$57.2 million and that the weighted average exchange rates of the referred operations showed a tendency to rise. In effect, on Thursday, November 20 they were of Q7.74073 per US$1.00 for purchase and of Q7.78407 per US$1.00 for sale; in that order, on Friday, November 21 was of Q7.73548 and Q7.77108; on Monday, November 24 they were Q7.70542 and of Q7.74156; on Tuesday, November 25 they were Q7.66417 and Q7.72353 and, finally on Wednesday, November 26 was of Q7.68381 and of Q7.71323. Also, it was indicated that the current exchange reference rate for November 28, 29 and 30 of the current year is Q7.69008 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 21 to 27, 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 21 and 24, in which the following were awarded: US$23.0 million at an average weighted yield rate of Q7.75816 per US$1.9 million at an average weighted yield rate of Q7.74104 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 21 to 27, 2008, did not close operations and that on Thursday, November 27 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 20 and 27, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q348.9 million to a positive one of Q239.2 million, while for the balance of investments in DP to 7 days in that period, went from Q5,058.0 million to Q5,273.1 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 Q4,709.1 million on November 20 to Q5,512.3 million on November 27, 2008. Stressing that the amount of liquid resources available have increased significantly in the last few weeks (situation that 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. In that regard, it was indicated that in said behavior a lower demand of credit could be influencing due to the increase of inflation and of the deceleration of economic activity, as well as greater caution on behalf of the 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. Therefore, the measures that have been adopted to temporarily give liquidity to the banking entities have the purpose of causing said liquidity is for taking care of credit demand that qualifies in the respective risk analysis, without committing efforts to the Monetary Authority to moderate inflation.

The highlights during the period of November 20 to 27, 2008, of the main monetizing factors of the monetary issue were the decrease in the balance of the Central Government in the *Banco de Guatemala* per Q1,050.3 million, and of the deposits of the rest of the public sector in the Central Bank for Q48.0 million and, on the other hand the increase in the balance of the Net International Reserves for the equivalent in quetzales of Q18.4 million; while the main demonetizing factors were the increase in the balance of the legal banking reserve for Q608.2 million and of the term deposits in the Central Bank for Q146.7 million and, on the other hand, due to the decrease in the balance of other net assets of the *Banco de Guatemala* for Q212.8 million and the expenses and products of the *Banco de Guatemala* for Q20.4 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 November 20, 2008, the lower limit was 8.33%, and the upper limit is 12.28%; 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 20, 2008, the lower limit was 9.47% and the upper limit was 10.37%, and the weighted average rate of long term deposits of the banking system was of 7.75% 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 27, 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 Q4,744.7 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 Q2,240.3 million, which would indicate a restrictive monetary policy.

As to the total payment means, the inter-annual variation observed to November 20, 2008, rose to 6.8%, which is below the lower limit of the estimated runner for said variable on the same date (9.1% to 12.1%), 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 -1.55% suggests a relaxed monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered 12.7%, which is below the lower limit of the estimated runner for November 20, 2008 (15.1% to 18.1%), 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 -2.30%, 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 and 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 28 to December 4, 2008, which indicate a potential excess of primary liquidity for Q5,932.9 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 Q412.5 million and the deviation observed in the monetary issue regarding the lower limit of the programmed runner (-Q264.1 million), resulting in potential excess for aggregate liquidity, estimated for the referred period, of Q6,081.3 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 (Q6,446.7 million; according to the registry to November 27, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q365.4 million.

THIRD: 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 agreed that the *Banco de Guatemala* continue with the decision to temporarily give liquidity in national currency, to banking entities through anticipated redemption mechanisms of Term Deposits (DP) constituted in the *Banco de Guatemala,* and the purchase of Treasury Bonds of the Republic of Guatemala expressed in quetzales. In that sense, they agreed to establish amounts of Q25.0 million for each one of the indicated mechanisms for the events to be convened on Monday, December 1, 2008.

FOURTH: Other Matters and Reports.

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