EXECUTION COMMITTEE

ACT NUMBER 58-2008

Session 58-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, December fifth, two thousand eight, at fifteen hours and fifty-five 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 57-2008 corresponding to the session celebrated on November 28, 2008.

CIRCULATE: project of act number 57-2008.

SECOND: Information on markets and monetary variables.

a) Money Market
b) Exchange Market
c) Indicative Variables

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 57-2008.

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 28 to December 4, 2008, registered a placements for DP's of Q6,378.6 million and maturity for Q6,472.7 million, which gave as a result net maturity for Q94.1 million, associated to the operations made in the commodities exchanges (net maturity for Q202.6 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q382.1 million); and at the window (net maturity for Q273.6 million).

Regarding the DP fund-raising, it was indicated that during the period of November 28 to December 4, 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 28 to December 4, 2008; they raised term deposits for US$20.0 million, for a 14 day term, and there were maturities for US$28.0 million.

Regarding liquidity giving operations it was reported that, during the period of November 28 to December 4, 2008, operations for Q130.2 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 December 4, 2008 an auction was held and they received two bids for a total of US$9.4 million for a 90 day term, at an interest rate of 5.69250%, 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 December 1, 2008 they held operations for anticipated redemption of Term Deposits constituted in the *Banco de Guatemala* for Q25.0 million and purchase operations of Treasury Bonds of the Republic of Guatemala expressed in quetzales for Q25.0 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 28 to December 4, 2008 period, the minimum was of 7.27% observed on December 2 and 4, 2008 and the maximum was of 7.48% registered on December 1, 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 7.30%.

On the other hand, it was informed that on December 4 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 Q52.0 million with a weighted average yield of 7.3452%; and 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 28 to December 4, 2008 placements were registered for Q136.3 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of November 27 to December 3, 2008, the average daily operations for purchase were of US$51.2 million and the sale was of US$58.3 million and that the weighted average exchange rates of the referred operations showed a tendency to fall, which reverted at the end. In effect, on Thursday, November 27 they were of Q7.66868 per US$1.00 for purchase and of Q7.69568 per US$1.00 for sale; in that order, on Friday, November 28 was of Q7.64331 and Q7.68585; on Monday, December 1 they were Q7.62834 and of Q7.66531; on Tuesday, December 2 they were Q7.63414 and Q7.66287 and, finally on Wednesday, December 3 was of Q7.64175 and of Q7.67329. Also, it was indicated that the current exchange reference rate for December 5, 6 and 7 of the current year is Q7.70056 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 28 to December 4, 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 an auction for 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 November 28 to December 4, 2008, did not close operations and that on Thursday, December 4 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 27 and December 4, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q362.3 million to one of Q1,300.2 million, while for the balance of investments in DP to 7 days in that period, went from Q5,273.1 million to Q5,655.1 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 Q5,635.4 million on November 27 to Q6,955.3 million on December 4, 2008. Stressing that the amount of daily legal reserve between November 27 and December

4, 2008 (Q937.9 million), including the effect, to December 4, of the Moderate and Temporary Flexibilization of the Banking Legal Reserve for around Q740.0 million.

The highlights during the period of November 27 to December 4, 2008, of the main monetizing factors of the monetary issue were the increase in the balance of Other Net Assets of the *Banco de Guatemala* for Q501.6 million and, on the other hand, the decrease in the balance of the deposits of the Central Government in the *Banco de Guatemala* per Q281.9 million, of the legal banking reserve for Q150.5 million and of the term deposits in the Central Bank for Q94.1 million; while the main demonetizing factors were the decrease in the balance of the Net International Reserves for the equivalent in quetzales of Q192.8 million and the expenses and products of the *Banco de Guatemala* for Q41.3 million and the increase in the balance of the deposits of the rest of the public sector in the Central Bank for Q173.0 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 27, 2008, the lower limit was 7.93%, and the upper limit is 11.88%; 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 27, 2008, the lower limit was 9.56% and the upper limit was 10.46%, and the weighted average rate of long term deposits of the banking system was of 7.77% 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 December 4, 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 Q5,581.0 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 Q2,790.5 million, which would indicate a restrictive monetary policy.

As to the total payment means, the inter-annual variation observed to November 27, 2008, rose to 7.4%, which is below the lower limit of the estimated runner for said variable on the same date (8.8% to 11.8%), which suggests a relaxed monetary policy; whereas, the econometric estimation of the payment means for December 2008 is of 7.3%, 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 12.0%, which is below the lower limit of the estimated runner for November 27, 2008 (14.6% to 17.6%), 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 11.4%, 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 -2.60%, 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 November 2008, for December 2008 the inflation projection is at 11.08%, 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 9.08%, 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. Notwithstanding, the weightings for the inflation forecasts were modified, so the relative importance for said forecasts decreased for 2008 and increased for 2009. In that sense, according to the relative weight assigned to the indicative variables, it was reported that 60.44% of the same suggest a restrictive monetary policy orientation, 21.70% 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 relaxing the monetary policy, given that the inter-annual variation is located below the lower limit of the respective runners.

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, taking into account the significant increase registered in liquid resources available between November 27 and December 4, agreed that for the week of December 8-12 it was not necessary to offer relative liquidity fund-giving opportunities to the anticipated redemption of Term Deposits constituted by the banks of the system in the *Banco de Guatemala* and the purchase of Bonds of the Republic of Guatemala.

Based on the discussed, the Execution Committee agreed the following:

a) That the *Banco de Guatemala* continues accepting the constitution of term deposits for 7 day terms, at the leading interest rate of the monetary policy, through the MEBD and the Values System of the National Stock Exchange (*Bolsa de Valores Nacional, S. A*.).

b) Call the term deposit biddings, directly with public entities, on the following dates: March 9, 2009, June 8, 2009 and September 7, 2009, and September 7, 2009, without pre-established quotas and without nominal standardized values.

c) That the *Banco de Guatemala* continue to accept the constitution of term deposits in quetzales, by due date, at discount, with past due established dates in the previous clause of this numeral; and, in US dollars directly at the window and at the terms it deem convenient.

d) That the *Banco de Guatemala* continue accepting the constitution of term deposits in quetzales, at the window, daily, from the public, for the remaining terms regarding the following due dates: March 9, 2009, June 8, 2009 and September 7, 2009, at face value, and at the interest rate to apply, whether it be the interest rate equivalent to the weighted average yields of the last biddings through the commodities exchange, minus one percentage point.

FOURTH: Other Matters and Reports.

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