EXECUTION COMMITTEE

ACT NUMBER 60-2008

Session 60-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, December twelfth, two thousand eight, at thirteen hours.

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 acts numbers 58-2008 and 59-2008, corresponding to the sessions celebrated on December 5 and 8, 2008.

CIRCULATE: projects of acts numbers 58-2008 and 59-2008.

SECOND: Information on markets and monetary variables.

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

THIRD: Monthly Report of Inflation Risks of the Semi-Structural Macroeconomic Model.

FOURTH: Inflation Risks Balance.

FIFTH: Discussion

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 acts numbers 58-2008 and 59-2008.

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 December 5 to 11, 2008, registered a placements for DP's of Q8,330.9 million and maturity for Q7,205.7 million, which gave as a result net fund-raising for Q1,125.2 million, associated to the operations made in the commodities exchanges (net maturity for Q288.4 million), bidding directly with public entities (net maturity for Q2.8 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A*. stock exchange (net fund-raising for Q1,808.9 million); and at the window (net maturity for Q392.5 million).

Regarding the DP fund-raising, it was indicated that during the period of December 5 to 11, 2008, the same were made through biddings per due date and directly with public entities, declaring that the cut price was of 98.2607% for the maturity to March 9, 2009, equivalent to a yield rate of 7.0998% and of 94.5343% for the maturity of September 7, 2009, equivalent to a yield rate of 7.7301%.

Regarding liquidity giving operations it was reported that, during the period of December 5 to 11, 2008, operations for Q110.9 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 11, 2008 an auction was held and they received two bids for a total of US$1.1 million for a 60 day term, at an interest rate of 5.26750% and a bid for US$4.8 million for a 90 day term, at an interest rate of 5.49625%, which were awarded in their entirety on those terms.

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 December 5 to 11, 2008 period, the minimum was of 7.25% observed on December 8, 2008 and the maximum was of 7.43% registered on December 11, 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 December 11 of this year they held repurchase agreements of the stock markets and the over the counter markets of the banks of the system and the financial stock companies with term deposits of the *Banco de Guatemala* and Guatemalan Treasury Bonds for Q30.0 million, with a weighted average yield of 7.4750%; of which Q25.0 million are held in the stock market at a weighted average yield rate of 7.5000% and Q5.0 million in the over the counter market, at a weighted average yield rate 7.3500%; they also held 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 December 5 to 11, 2008 placements were registered for Q55.4 million and maturity for Q87.7 million.

b) The Director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of December 5 to 10, 2008, the average daily operations for purchase were of US$57.9 million and the sale was of US$54.5 million and that the weighted average exchange rates of the referred operations showed a tendency to rise, which reverted at the end. In effect, on Thursday, December 4 they were of Q7.69027 per US$1.00 for purchase and of Q7.72353 per US$1.00 for sale; in that order, on Friday, December 5 was of Q7.70373 and Q7.74386; on Monday, December 8 they were Q7.67067 and of Q7.71065; on Tuesday, December 9 they were Q7.66388 and Q7.68858 and, finally on Wednesday, December 10 was of Q7.64208 and of Q7.67260. Also, it was indicated that the current exchange reference rate for December 12, 13 and 14 of the current year is Q7.68625 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 December 5 to 11, 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, two auctions were convened for the sale of US dollars, on Monday, December 8, 2008, in which an amount of US$8.0 million was awarded at a weighted average exchange rate of Q7.71496 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 December 5 to 11, 2008, did not close operations and that on Thursday, December 11 there was no reference price for the market to settle in December 2008.

c) The Director for the Economic Studies Department reported that between December 4 and 11, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q1,187.3 million to one of Q216.9 million, while for the balance of investments in DP to 7 days in that period, went from Q5,655.1 million to Q7,464.0 million, so the amount of liquid resources of the banking system (daily position of legal reserve plus investments in DP to 7 days) showed a significant increase, when going from Q6,842.4 million on December 4 to Q7,680.9 million on December 11, 2008. According to preliminary numbers, the increase in liquid resources available of the banks in the system in the mentioned period, is mainly due to an increase in the banking fund-raising for an amount of Q1,300.0 million due to a transfer of resources on behalf of the Central Government to cover determined responsibilities like the Christmas bonus paid to public sectors and the payment to providers and contractors of the state.

The highlights during the period of December 4 to 11, 2008, of the main monetizing factors of the monetary issue were the decrease in the balance , of the legal banking reserve for Q966.9 million and of the deposits of the Central Government in the *Banco de Guatemala* per Q288.1 million and, on the other hand, the increase of the expenses and products of the *Banco de Guatemala* for Q96.9 million and of the Net International Reserves for the equivalent in quetzales of Q50.4 million; while the main demonetizing factors were the increase in the balance of the term deposits in the Central Bank for Q1,125.2 million and the deposits of the rest of the public sector in the Central Bank for Q129.8 million.

Regarding the indicative variables of the Monetary, Foreign Exchange Rate and Credit Policy declared that with data to November 2008, for December 2008 the total expected inflation estimated with a model of ordinary squared minimums is of 10.49% and with a softened exponential model of 9.93% the simple average of both models is located at 10.21%, 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 8.08% and with a softened exponential model of 7.07%; the simple average of both models is at 7.58%, 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 November 2008, estimated with an integrated auto-regression model of mobile averages ARIMA was of 7.76%, whereas the estimated with a softened exponential model was of 7.66%; the simple average of both models is of 7.71%, 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 5.81%, whereas the estimated softened exponential model was of 5.70%; the simple average of both models is of 5.76%, 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 December 4, 2008, the lower limit was 6.83%, and the upper limit is 10.78%; 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 December 4, 2008, the lower limit was 10.27% and the upper limit was 11.17%, and the weighted average rate of long term deposits of the banking system was of 7.79% 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 11, 2008, is out of line by Q245.8 million regarding the lower limit of the programmed runner, which suggests a relaxed monetary policy; whereas the broad monetary base, on that same date, is off by Q5,476.2 million regarding the upper limit of the programmed runner, which suggests a restrictive monetary policy. The average orientation of the deviation for the present week, of Q2,615.2 million, which would indicate a restrictive monetary policy.

As to the total payment means, the inter-annual variation observed to December 4, 2008, rose to 6.7%, 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 -1.60% 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 December 4, 2008 (14.5% to 17.5%), 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 11.3%, 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 -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 November 2008, showed an inflationary rhythm of 6.35%, 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 December 2008, projects an inflationary rhythm of 11.65% 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 7.25%. Also the forecast for the mechanical running of said model for a mid-term horizon projected an inflationary rhythm for December 2009 of 6.39%, conditioned to gradual adjustments to the leading interest rate of the monetary policy, up to 5.09% on average, in the last quarter of said year.

As to the orientation of the indicative variables, it was reported that two variables changed their orientation: the “Parameter Interest Rate” went from suggesting a restrictive monetary policy to advising an invariable monetary policy and the “Inflation Forecast in the Medium Term of the Semi-structural Macroeconomic Model” for December 2009, in its mechanical running in December, went from advising a restrictive monetary policy to suggesting it be moderately restrictive. In the same manner, it reported that the variables to December 12, 2008 regarding those to November 19, 2008 (last date in which the Monetary Board analyzed the leading interest rate of the monetary policy. In that sense it was indicated that 40.11% of the same suggest a restrictive monetary policy orientation (61.39% to November 19); 32.69% suggest a moderately restrictive monetary policy (20.75% to November 19); 9.34% suggest an invariable monetary policy (0.00% to November 19); and 17.86%

suggest a relaxed monetary policy orientation (equal percentage to November 19). 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 inflation econometric forecasts, total inflation forecasts coming from the MMS and inflation expectations) and to primary liquidity. On the other hand, it was indicated that the payment means and the banking credit to the private sector are over the variables segment that suggest relaxing the monetary policy, given that the inter-annual variation is located below the lower limit of the respective runners.

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 December 12 to 18, 2008, which indicate a potential excess of primary liquidity for Q7,298.6 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 Q785.0 million and the deviation observed in the monetary issue regarding the lower limit of the programmed runner(-Q245.8 million), resulting in potential excess for aggregate liquidity, estimated for the referred period, of Q7,837.8 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 (Q7,872.8 million; according to the registry to December 11, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q35.0 million.

THIRD: Monthly Report of the Semi-structural Macroeconomic Model.

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, December 17, date on which said licensed body will decide on the level of said interest rate. The technical departments presented the Committee with the mid-term forecasts generated by the fourth running in 2008 of the Semi-structural Macroeconomic Model and the Inflation Risks Balance.

Concerning the monthly report of inflation risks of the MMS, this indicated the direction in which the data from the previous month (from November 11 to December 10, 2008) affect the risks that surround the forecast in the medium term based on the fourth running of the MMS in 2008 (made in November). The generation of the mentioned report is based on the iterative and mechanical runnings of the MMS based on the new data (historical 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 does not constitute a complete inflation forecast, since it does not incorporate the qualitative analysis inherent to the generation of the forecast that has been presented quarterly. In that sense, the mentioned report is limited to presenting the result of processing the new available data in a mechanical running of the MMS. Therefore, they pointed out that the qualitative results presented in this type of report should not be interpreted literally, but only as indicators of the direction of the risks involving the last quarterly forecast.

Regarding the effect of the new available data on the inter-annual inflation forecast, it was indicated that the trajectory generated by the referred running moves toward lower rates in comparison with the trajectory generated in November for the forecast of the fourth running of the MMS in 2008. Congruent with the above, they pointed out that the new data imply a trajectory for the leading interest rate of the monetary policy in levels slightly below the corresponding trajectory of the fourth running, along the forecast horizon.

Then, the technical departments presented the breakdown of the effect of new data on the forecast of the MMS generated in the fourth running of 2008 (held in November), for the end of 2008. In terms of inter-annual inflation, it was indicated that the projection decreased by only 0.05 percentage points, when going from 11.70% (in the forecast of the fourth running of 2008) to 11.65% (in the mechanical running incorporating the new data). Said behavior is explained by the new data on the price of diesel (3 hundredths of a percentage point down), by the new external inflation data (1 hundredth of a percentage point down) and by the new inflation data (1 hundredth of a percentage point down). In terms of the leading interest rate of the monetary policy, the forecast of said variable went from 7.42% (in the forecast of the fourth running of 2008) to 7.25% (in the mechanical running that incorporates new data). Said decrease is explained by the effect of the new data of the price of diesel (7 basic points down), by the new external inflation data (6 basic points down) and by the new interest rate of United States of America (2 basic points down) and by the new inflation data (2 basic points down).

As to the breakdown of the effect of new data on the forecast of the MMS generated in the fourth running of 2008 (made in November) for the end of 2009, it was indicated that, in terms of inter-annual inflation, the projection decreased by 0.62 percentage points, when going from 7.01% (in the fourth running of 2008) to 6.39% (in the mechanical running that incorporates new data), due to the new data on the price of diesel (46 hundredths of a percentage point down), by the new external inflation data (7 hundredths of a percentage point down) and by the new interest rate of United States of America (6 hundredths of a percentage point down) and by the new inflation data (3 hundredths of a percentage point down).

Regarding the leading interest rate of the monetary policy, it was pointed out that the average of said variable, for the quarters between the fourth of 2008 and the fourth of 2009, fell by 15 basic points, when going from 6.32% (in the forecast of the fourth running of 2008) to 6.17% (in the mechanical running that incorporates new data). This behavior is mainly explained by the new data in the price of diesel (11 basic points down), by the new external inflation data (2 basic points down), by the new data of the US interest rate (1 basic point down) and by the new inflation data (1 basic point down).

As to the forecast of the average leading interest rate of the monetary policy for the five quarters between the fourth of 2008 and the fourth of 2009, which was generated in the fourth running of 2008 (6.32%), is lower by 30 basic points to the average forecast generated, for the same period in the third running of 2008 (6.62%). The decrease of this average forecast is mainly explained by the changes in the following factors: the price of diesel (-82 basic points) and the short term inflation forecast (45 basic points). It was also indicated that when comparing the inter-annual inflation forecast of the model with the inflation targets established by resolution JM-211-2007, observing that at the end of 2008 and 2009 the inter-annual inflation rate would be over the monetary policy targets.

Summarizing, the technical departments indicated that, regarding the fourth running of the MMS in 2008 (made in November), the mechanical running in December 2008 indicates a trajectory of the lowest inflation rates, over the current established monetary policy target for 2008 and 2009 within the tolerance margin of the inflation target for that year, but over the punctual value of the same. The referred runner also indicates a trajectory of lowest leading interest rates of the monetary policy 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 macroeconomic environment continues to evidence the presence of simultaneous external shocks, like the permanence of the financial crisis, the world economic deceleration and, although in less intensity, the inflation level in the case of emerging economies and developing countries. The above advises caution in the monetary policy decisions, particularly because the uncertainty of the world macroeconomic performance has increased and the trust in international financial markets has not been recovered. In the case of the international price of oil, corn, wheat and other raw materials, they mentioned that it continues to fall.

It was indicated that the international price of oil, from December 1 to 11, 2008, on average, was at US$44.98 per barrel, which means a reduction of US$12.46 per barrel (21.69%) regarding the average price registered in November 2008 (US$57.44 per barrel) and a decrease of US$46.76 per barrel (50.97%) 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 2009, on December 11 was at US$60.06 per barrel, lower by US$8.23 per barrel (12.05%) regarding the price prevalent for that same position on November 13, 2008 (US$68.29 per barrel). On this particular, according to international experts, the referred behavior in the price of crude oil is associated to supply and demand and other factors. As to demand, they made reference to two elements: the first, associated to the strengthening of the US dollar regarding other currencies; and, the second, associated to the expectations for a decrease in the demand for crude oil on behalf of industrialized nations. As to supply factors: they mentioned the stability in the level of oil inventories in the US, which are at 320.8 million barrels, to December 5, 2008, according to information from the US Department of Energy. As to other factors, reference was made to the international financial crisis, which could influence the behavior of crude oil in the short term, since this is considered a financial asset (futures market) for investing, after the drops registered in the stock markets of the world.

As to the behavior of the international price of corn and wheat, it was reported that on December 11, 2008 corn was at US$5.75 per quintal, lower by US$0.93 per quintal (13.92%) to the observed average in November (US$6.68 per quintal), and lower by US$1.82 per quintal (24.04%) to the registered in December 2007 (US$7.57 per quintal). While for wheat, on December 11 it was at US$8.10 per quintal, which represents a decrease of US$0.79 per quintal (8.89%) regarding the average observed in November 2008 (US$8.89 per quintal), and a reduction of US$7.18 per quintal (46.99%) regarding the level registered in December 2007 (US$15.28 per quintal).

As to internal conditions, it was indicated that the monthly inflation in November 2008 was at 0.01%, (0.50% in October 2008) lower to the registered in November 2007 (1.89%) and lower by 0.72 percentage points to the average of registered variations in November during the last seven years (0.73%). The total inflationary rhythm, although it decreased 2.08 percentage points in November 2008, it remains at double digits at 10.85%. As to the dynamic subjacent inflationary rhythm it was at 8.25%, regarding 9.12% in October, decreasing in less proportion than total inflation.

The econometric projections of total inflationary rhythm for December 2009 based on new inflation data are at 7.58% and continue to be over the upper limit of the tolerance margin of the inflation target forecast for this year. The econometric projection of the dynamic subjacent inflationary rhythm for December 2009 (5.76%), is lower to the estimated the previous month, although it continues to be over the punctual value of the inflation target (5.5%), but within the tolerance margin of +/-1 percentage point. In which the inflation expectations of the panel of private analysts, according to the November survey, indicate that a total inflationary rhythm for the end of 2009 would be located at 9.08%. It is important to highlight that although the projection registers a decrease 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 November 2008, registered a deficit of Q2,817.1 million, equivalent to 0.1% of the GDP (deficit of Q2,729.2 million to November 2007, equivalent to 1.1% of the GDP). In that regard, they highlighted that the fiscal deficit to November 2008 registered an increase of Q2,538.0 million and that the preliminary closing estimation provided by the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury.] points toward a fiscal deficit of around 1.6% of the GDP, which is reflected in the deposits withdrawal of the Central Government in the *Banco de Guatemala* between November 1 and December 11 for around Q2,100.0 million, changing the surplus trend to September and the moderate deficit observed to October 2008.

Regarding the indicative variables, they pointed out that when comparing the situation to date reported regarding that of the previous month, 40.11% of the variables advise a restrictive monetary policy (61.39% the previous month); 32.69% suggest a moderately restrictive monetary policy (20.75% the previous month); 9.34% suggest an invariable monetary policy (0.00% the previous month) and 17.86% advise a relaxed monetary policy orientation (equal percentage the previous month).

As to the primary liquidity, it is over the programmed runner, reflecting excess liquidity in local currency of Q2,615.2 million; whereas, in the case of the inter-annual variation of the banking credit to the private sector, they stressed that it has shown dynamic behavior in the last six weeks, since to October 23, 2008 credit had been on the rise, on average Q150.0 million per week, whereas between October 23 and December 4, said average increased around Q320.0 million. It was mentioned that the increase in the last six weeks represents 25.5% of the total credit granted to December 4, 2008, while the growth in those six weeks the year before, represented 18.6% of the total.

The use of hired credit lines by banks in the system abroad has reflected a decrease of around US$66.0 million, between November 1 and December 4, 2008.

FIFTH: 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.

As to the Inflation Risks Balance, in the heart of the Committee it was mentioned that these continue to be complex and that the uncertainty on world macroeconomic performance deepened.

Added to this, the advisors of the Committee expressed their opinion regarding the decision on the level of the leading interest rate of the monetary policy, which the Monetary Board must make on Wednesday, December 17, 2008, highlighting that the instability in the international financial markets has significantly impacted the economic growth expectations in industrialized economies, broadening the uncertainty margins regarding the effects that said situation could have on developing economies. Before said scenario, the technical departments declared that, notwithstanding that inflation is currently at double-digits and that the inflation forecasts coming from the econometric models, the forecasts of the mechanical running of the MMS and of the results of the inflation expectations survey are over the established inflation targets, in their opinion, caution advises keeping an invariable monetary policy leading interest rate, in their opinion, given the complexity of the current international scenario, it is necessary to act cautiously and they advised that the level of the referred interest rate remain invariable. Additionally, the technical departments pointed out that although international commodities prices have affected inflation rates since August of last year, they have registered important decreases recently, therefore imported inflation has reduced its relative importance in total inflation, internally said reductions are not yet significantly perceived and the relative weight of internal inflation, situation that, added to the fact that dynamic subjacent inflation has reduced more than total inflation, showing that there are still inflationary pressures that could be associated to expectations, even negative, on the level of prices, but could gradually give way in the next few months.

The Committee deliberated on the content of the presentations of the technical departments, with the objective of presenting the analysis elements to the Monetary Board that could be useful in the decision regarding the level of the leading interest rate of the monetary policy, programmed for December 17 of this year. In that context, in the Committee reference was made as to the behavior observed and expected of inflation. In that regard, they indicated that there had been a favorable change in the prices of crude oil and its derivatives, corn and wheat, internationally, the inflationary rhythm of Guatemala continued to rise and remained in double-digits in November, when it was at 10.85%, although it showed the highest deceleration of the year with 2.08 percentage points. Contrary to the observed in total inflationary rhythm, the dynamic subjacent inflation rhythm in November, was reduced only by 0.87 percentage points.

When holding the prospective analysis of inflation behavior, it was indicated that the inflation forecasts for December 2009, derived from the total inflationary rhythm (7.58%) and of the survey made to the panel of private analysts (9.08%), are over the inflation target determined for said year, while the monthly mechanical running forecasts of the MMS (6.39%) put inflation for 2009 within the tolerance margin, but over the punctual value of the inflation target established for said year.

The Committee declared that the monetary policy, without ignoring that the intensification of the international financial crisis could affect economic growth in the country in 2009, has an important role for moderating the inflation expectations of the economic agents, so in the current situation it is advisable that before prevalent uncertainty, it be cautious in order to strengthen the expectations of the economic agents regarding the future inflation through the commitment of the monetary authority to stabilize prices, reason for which the leading interest rate at this time must remain the same, especially taking into account that said interest rate continues to be negative in real terms.

As to the behavior of monetary aggregates, it was mentioned that although the payment means and the banking credit to the private sector continue reflecting inter-annual growth rate below the estimated values, as of October 23, the banking credit to the private sector has registered a more dynamic behavior than the observed before said date and during the same period the year before. In effect, the credit granted in the last six weeks represents 25.5% of the total credit granted to December 4, 2008, whereas in the same six weeks last year said portion was of 18.6%. As to primary liquidity they mentioned that it is over the upper limit of the programmed runner.

The Committee analyzed the environment risks in which the monetary policy is currently executed in detail. As to risks associated to the external environment, they mentioned that, worldwide, the turbulence registered in the international financial markets stood out and that the majority of industrialized countries had relaxed their monetary policy positions with the purpose of giving back trust to the financial markets and stabilize them. On their part, in the inflation risks balance of developing nations, the weight of inflationary pressure is high, so the majority of central banks of said countries, particularly those that operate in a scheme of explicit inflation targets, have kept a restrictive monetary policy position throughout 2008.

The Committee deliberated long and hard on the recommendation it would present to the Monetary Board as to the level of the leading interest rate of the monetary policy. In that sense, members of the Committee expressed their opinion taking into account the integral analysis of the current external and internal situation.

As to the external situation, a member of the Committee indicated that the international financial crisis continues to intensify and its effects have spread to the majority of countries. In that sense, the monetary and fiscal authorities of industrialized nations have taken different measures, among them: reduce the interest rate, recapitalize banks, give more significant amounts of liquidity in markets and acquire assets from financial institutions, and even so, they have not been able to recover the trust of the markets and the credit conditions continue to be restricted. Another member of the Committee declared that in emerging economies and developing countries (especially those in Latin America that operate under a scheme of inflation targeting), they have kept a more conservative monetary policy position (even keeping the leading interest rate invariable, in their most recent decision), this is due to the fact that, although there has been a marked reduction in international merchandise prices, the observed inflation and the inflation expectations have remained high and are, in general, over the inflation targets.

The above is evident in recent decisions made by central banks in Latin America that operate with an inflation targeting scheme (Brazil, Mexico, Chile, Colombia and Peru), that agreed to keep their monetary policy rate invariable, even when, in those countries the inflation level is significantly lower than that in Guatemala, the effects of the international financial crisis have been more intense and present deceleration of economic growth, and all, expect Brazil, register a marked deceleration in the banking credit to the private sector.

They highlighted the fact that in developing countries it is easier for inflation expectations to lift anchor, which at the same time makes it more difficult for inflation to return to lower rates after an external shock, situation that limits a more flexible monetary policy. Several members of the Committee agreed with this, given that the indirect effects of external shocks have still not faded, situation that keeps inflation expectations high, which requires the adoption of monetary policy measures that allow the convergence of said inflation expectation targets in the medium term.

They added that the main factors that influence deceleration of regional credit have to do with the international situation characterized by the lack of trust, risk aversion and decrease of external flow, which has made a lower liquidity scenario that, on the one hand, influences real sector behavior and, on the other hand, financial sector behavior. In that sense, the *Banco de Guatemala*, in order to provide temporary liquidity to banking entities has implemented the following mechanisms: a) Provide liquidity in US dollars through repurchase agreement operations, for up to US$275.0 million; b) Temporarily and moderately make the legal banking reserve analysis more flexible; c) Keep the window for liquidity giving in national currency at 7 day terms; d) temporarily close the DP placements for terms greater than 7 days; e) allow anticipated rendering of DP's of the *Banco de Guatemala*; and, f), Buy Treasury Bonds from the Republic of Guatemala, these last two in function of the variation of Central Government deposits in the *Banco de Guatemala*.

As to internal conditions, it was highlighted that, although there are demand pressures that reflect dynamic subjacent and internal behavior; that the inflation forecasts of the econometric models, of the mechanical running of the MMS, as well as the survey expectations, are over the inflation target in the medium term; that the registered reductions in the international oil, corn and wheat prices are still not reflected in the same magnitude in internal prices; inflation is at double-digits, which causes distortions in economic growth, due to the influence of economic resource assignment; and, that public finance reverted the surplus observed up to September and the moderate deficit observed in October, increasing said deficit in November by Q2,538.0 million, with a preliminary closing estimation provided by the *Ministerio de Finanzas Públicas* [Roughly equivalent to the US Department of the Treasury.], that points toward a fiscal deficit of around 1.6% of the GDP. The above is reflected in the withdrawal of deposits by the Central Government in the *Banco de Guatemala,* between November 1 and December 11, for around Q2,100.0 million.

As a result of the long and hard discussion and analysis, the Committee decided to recommend that the Monetary Board keep the leading interest rate of the monetary policy invariable at 7.25% at this time, and to continue to see the evolution of the inflation risks balance in order to establish changes and orientation for next month. The Committee also stressed that in the measure in which inflation and its forecasts show a clear tendency to drop and a gradual convergence of the medium term target, and taking into account the other relevant macroeconomic variables of the internal and external environment, there could be room to begin a gradual reduction of the leading interest rate of the monetary policy.

On the other hand, the Execution Committee, taking into account the significant increase registered in the liquid resources available between December 4 and 11, agreed that for the week of December 15 to 19 it would not be necessary to offer the facility of liquidity giving regarding the anticipated redemption of DP's constituted by the banks of the system in the *Banco de Guatemala* and to the purchase of Treasury Bonds of the Republic of Guatemala. In the same manner, they decided not to convene bidding of term deposits directly with public entities.

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

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

b) That the *Banco de Guatemala* continues accepting term deposits in quetzales from public entities, for the following due dates: March 9, 2009, June 8, 2009 and September 7, 2009.

c) That the *Banco de Guatemala* continues accepting term deposits from the public daily at the window, in quetzales for the remaining terms as follows: March 9, 2009, June 8, 2009 and September 7, 2009, at nominal value and the rate to apply it the interest rate equivalent to the weighted average yield rates of the last biddings through the commerce exchanges, minus a percentage point.

SIXTH: Other Matters and Reports.

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