

EXECUTION COMMITTEE
ACT NUMBER 61-2008

Session 61-2008 celebrated in the *Banco de Guatemala* building located at *séptima avenida número veintidós guión cero uno, zona uno* of this city, on Friday, December nineteenth, two thousand eight, at seventeen hours and thirty 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 60-2008 corresponding to the session celebrated on December 12, 2008.

CIRCULATE: project of act number 60-2008.

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 60-2008.

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 December 12 to 18, 2008, registered a placements for DP's of Q7,124.1 million and maturity for Q7,882.5 million, which gave as a result net maturity for Q758.4 million, associated to the operations made in the commodities exchanges (net maturity for Q10.3 million), in the Electronic Banking Money Table –MEBD- and in the *Bolsa de Valores Nacional, S. A.* stock exchange (net fund-raising for Q595.9 million); and at the window (net maturity for Q152.2 million).

Regarding the DP fund-raising, it was indicated that during the period of December 12 to 18, 2008, the same were made through the window (with public

entities and the non-financial public sector) and 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 of the monetary policy (7.25%).

Regarding liquidity giving operations it was reported that, during the period of December 12 to 18, 2008, operations for Q110.6 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.

On the other hand, it was reported that according to resolution JM-104-2008 of the Monetary Board, on December 12 to 18, 2008 there were maturities for US\$20.0 million.

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 18, 2008 an auction was held and they received two bids for a total of US\$5.3 million; as follows: a bid for US\$1.1 million for a 60 day term, at an interest rate of 4.71500% and a bid for US\$4.2 million for a 90 day term, at an interest rate of 5.02500%, 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 12 to 18, 2008 period, the minimum was of 7.27% observed on December 12, and the maximum was of 7.48% registered on December 15, 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 7.32%.

On the other hand, it was informed that on December 18 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 Q88.0 million with a weighted average yield of 7.3074%; of which Q27.0 million were made on the exchange market at a weighted average yield rate of 7.4333% and Q61.0 in the over the counter market, at a weighted average yield rate of 7.2516%; they also held repurchase agreement operations in US dollars in the stock market for US\$6.0 million with an average weighted yield rate of 1.0583%.

Finally, regarding the placement of Treasury Bonds of the Republic of Guatemala, during the period of December 12 to 18, 2008 placements were registered for Q495.8 million.

b) The Sub-director for the Monetary Stabilization Operations Department regarding the Institutional Market for foreign currency reported that during the period of December 11 to 17, 2008, the average daily operations for purchase were of US\$57.5 million and the sale was of US\$54.1 million and that the weighted average exchange rates of the referred operations showed a tendency to rise. In effect, on Thursday, December 11 they were of Q7.66414 per US\$1.00 for purchase and of Q7.70275 per US\$1.00 for sale; in that order, on Friday, December 12 was of Q7.68079 and Q7.71674; on Monday, December 15 they were Q7.64618 and of Q7.67952; on Tuesday, December 16 they were Q7.65762 and Q7.68391 and, finally on Wednesday, December 17 was of Q7.69119 and of Q7.72339. Also, it was indicated that the current exchange reference rate for December 19, 20 and 21 of the current year is Q7.70793 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 12 to 18, 2008, it was commented that the Private Institutional Foreign Currency System –SPID-, there were no operations. Regarding the Electronic Foreign Currency Negotiation System –SINEDI- there were no operations, and, also, 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 December 12 to 18, 2008, did not close operations and that on Thursday, December 18 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 11 and December 18, 2008, according to preliminary numbers, the daily legal reserve of the banking system went from a position of Q132.3 million to one of Q375.1 million, while for the balance of investments in DP to 7 days in that period, went from Q7,464.0 million to Q6,868.2 million. They also indicated that the amount of liquid resources of the banking system (daily position of legal reserve plus investments in DP to 7 days) fell Q353.0 million when going from Q7,596.3 million on December 11

to Q7,243.3 million on December 18, 2008.

The highlights during the period of December 11 to 18, 2008, of the main monetizing factors of the monetary issue were the decrease in the balance of the term deposits in the Central Bank for Q758.4 million, the deposits of the rest of the public sector in the Central Bank for Q352.0 million and the deposits of the Central Government in the *Banco de Guatemala* for Q3.5 million and, on the other hand, the increase of the Net International Reserves for the equivalent of Q92.8 million; while the main demonetizing factors were the increase in the balance of the legal banking reserve for Q494.7 million and the decrease in the balance of the expenses and products of the *Banco de Guatemala* for Q7.3 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 projected 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 11, 2008, the lower limit was 6.94%, and the upper limit is 10.89%; while the leading interest rate of the

monetary policy was at 7.25%, which is within the tolerance margin estimated for the parameter rate, situation that suggests an invariable monetary policy. When referring to the parity liable rate, they declared that up to December 11, 2008, the lower limit was 9.94% and the upper limit was 10.84%, and the weighted average rate of long term deposits of the banking system was of 7.81% 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 18, 2008, is out of line by Q145.1 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 Q5,488.3 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 Q2,671.6 million, which would indicate a restrictive monetary policy.

As to the total payment means, the inter-annual variation observed to December 11, 2008, rose to 6.9%, which is below the lower limit of the estimated runner for said variable on the same date (8.4% to 11.4%), which suggests a relaxed monetary policy; whereas, the econometric estimation of the inter-annual variation of the payment means for December 2008 is of 7.0%, 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 -1.25% suggests a relaxed monetary policy. Also, up to said date, the inter-annual variation of banking credit of the private sector registered 11.7%, which is below the lower limit of the estimated runner for December 11, 2008 (14.3% to 17.3%), 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 11.2%, which is below the expected range (14.0% to 17.0%), which suggests a relaxed monetary policy. The average orientation of the deviations for the present week of -2.70%, 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 mechanical running 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 it remained unchanged from last week. In that sense it was indicated that 40.11% of the same suggest a restrictive monetary policy orientation; 32.69% suggest a moderately restrictive monetary policy; 9.34% suggest an invariable monetary policy; 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 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 19 to 24, 2008, which indicate a potential excess of primary liquidity for Q5,378.4 million mainly due to the maturity of CDs; if we add the daily banking legal reserve for Q696.4 million and the deviation observed in the monetary issue regarding the lower limit of the programmed runner(-Q145.1 million), resulting in potential excess for aggregate liquidity, estimated for the referred

period, of Q5,929.7 million; if these factors are given, to make a compatible issue offer with the programmed demand, it would be necessary for the CDs that mature during the period (Q5,974.0 million; according to the registry to December 18, 2008) were relocated and an effort was made for additional Monetary Stabilization Operations for Q44.3 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, taking into account the conditions of liquidity forecast for the week between December 22 and 26 are normal for the season, agreed that for said week it would not be 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. They also agreed not to convene term deposit biddings directly with public entities.

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.

c) 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 and five minutes, in the same place and on the same date indicated, the participants signed in agreement.