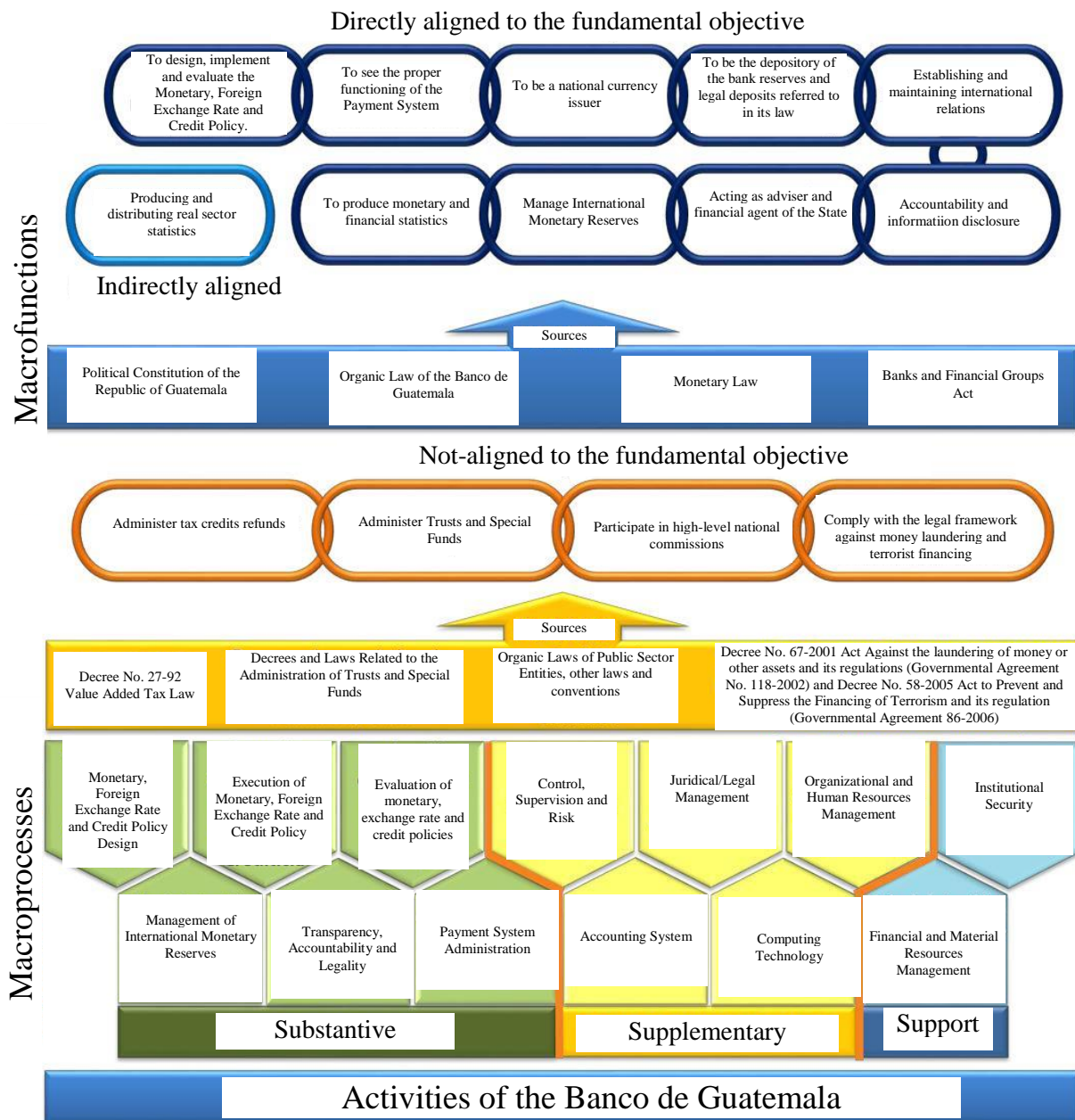# OPERATIONAL PLAN

The Operational Plan of the *Banco de Guatemala* is aimed at the fulfillment of the institution's fundamental objective and establishes, on the one hand, the design and implementation of the monetary, foreign exchange rate and credit policy and, on the other hand, the development of macro-functions and macro-processes within the Central Bank's framework.

1. INSTITUTIONAL MANAGEMENT FRAMEWORK

Directly aligned to the fundamental objective

Macrofunctions

To design, implement and evaluate the Monetary, Foreign Exchange Rate and Credit Policy.

To see the proper functioning of the Payment System

To be a national currency issuer

To be the depository of the bank reserves and legal deposits referred to in its law

Establishing and maintaining international relations

Producing and distributing real sector statistics

To produce monetary and financial statistics

Manage International Monetary Reserves

Acting as adviser and financial agent of the State

Accountability and informatiion disclosure

Indirectly aligned

Sources

| Political Constitution of the Republic of Guatemala | Organic Law of the Banco de Guatemala | Monetary Law | Banks and Financial Groups Act |

Not-aligned to the fundamental objective

Administer tax credits refunds

Administer Trusts and Special Funds

Participate in high-level national commissions

Comply with the legal framework against money laundering and terrorist financing

Sources

Decree No. 27-92 Value Added Tax Law

Decrees and Laws Related to the Administration of Trusts and Special Funds

Organic Laws of Public Sector Entities, other laws and conventions

Decree No. 67-2001 Act Against the laundering of money or other assets and its regulations (Governmental Agreement No. 118-2002) and Decree No. 58-2005 Act to Prevent and Suppress the Financing of Terrorism and its regulation (Governmental Agreement 86-2006)

Macroprocesses

Monetary, Foreign Exchange Rate and Credit Policy Design

Execution of Monetary, Foreign Exchange Rate and Credit Policy

Evaluation of monetary, exchange rate and credit policies

Control, Supervision and Risk

Juridical/Legal Management

Organizational and Human Resources Management

Institutional Security

Management of International Monetary Reserves

Transparency, Accountability and Legality

Payment System Administration

Accounting System

Computing Technology

Financial and Material Resources Management

Substantive

Supplementary

Support

Activities of the Banco de Guatemala

2. EXPLICIT INFLATION TARGETING SCHEME

In 2005, the monetary authority adopted the scheme of explicit inflation targets, which is based on the flexibility and opportunity that the monetary policy must have to provide certainty to economic agents regarding the monetary authority's commitment to maintain stability at the general price level. The Monetary Board, in accordance with paragraph a) of article 26 of the Organic Law of *Banco de Guatemala*, has the power to determine and evaluate the monetary, exchange rate and credit policy of the country, including the programmed goals, taking into account the national and international economic environment.

3. FUNDAMENTAL OBJECTIVE AND POLICY GOAL

A. FUNDAMENTAL OBJECTIVE

In accordance with Article 3 of its organic law, the central objective of *Banco de Guatemala* is to contribute to the creation and maintenance of the most favourable conditions to the orderly development of the national economy, by developing monetary, exchange and credit conditions that promote stability in the general level of prices.

B. POLICY GOAL

In a scheme of explicit inflation targets, it is particularly important to define a path for the inflation target that allows enchoring inflation expectations of economic agents, in the short, medium and long term, at levels consistent with maintaining the stability of the general price level. The setting of targets facilitates the aforementioned expectations to be anchored to such path, therefore the medium-term inflation target is 4.0% +/- 1 percentage point.

C. INDICATIVE VARIABLES

The indicative variables, within the scheme of explicit inflation targets, allow to guide monetary policy actions towards the achievement of the medium-term inflation target. The following indicative variables will be monitored, among others:

1. Projected total inflation rate

The projected total inflation rate will be monitored and compared with inflation targets for the established periods. Additionally, forecasts regarding this variable with moving horizons will be presented for information purposes.

2. Projected underlying inflation rate

The projected underlying inflation rate will be monitored and compared with inflation targets for the established periods. Additionally, forecasts regarding this variable with moving horizons will be presented for information purposes.

3. **Inflation expectations of the private analysts panel**

   These inflation expectations can substantially influence the determination of the inflation rate. Therefore, the inflation forecast from an economic expectations survey will be monitored and compared with inflation targets for the established periods. In addition, forecasts regarding this variable with moving horizons will be presented for information purposes.

4. **Interest rate parameter**

   The parameter interest rate (base on the so-called Taylor Rule) will be monitored by comparing the level of the leading monetary policy interest rate with such rate, ==within a corridor==.

5. **Monetary policy interest rate of macroeconomic models**

   The interest rate recommended by macroeconomic models is important as an indicator of monetary policy stance and direction, as it suggests trajectories of the main interest rate to achieve a given inflation rate over a given period of time; therefore the arithmetic average of policy interest rates recommended by macroeconomic models will be monitored.

D. **INFORMATIVE VARIABLES**

The informative variables, within the scheme of explicit inflation targets, allow to improve the understanding of transmission mechanisms of monetary policy as well as its position. The following information variables will be monitored, among others:

1. **Monetary issue**

   In order to comprehensively monitor the the monetary issue behaviour, the aforementioned variable will be monitored through consistent macroeconomic projections from its inter annual variation rate for the established periods. In addition, forecasts of this variable with moving horizons will be carried out.

2. **Payment methods**

   The payment methods (money supply) will be monitored through consistent macroeconomic projections from its inter annual variation rate for the established periods. In addition, forecasts of this variable with moving horizons will be carried out.

3. **Banking credit to private sector**

   The inter annual variation rate of banking credit to the private sector will be monitored through macroeconomically consistent projections from its inter annual variation rate for the established periods. In addition, forecasts of this variable with moving horizons will be carried out.

4. Real equilibrium Exchange rate

Deviations of real exchange rate from the equilibrium real exchange rate will be monitored on a quarterly basis in order to estimate the overappreciation overdepreciation of the real exchange rate.

5. Weighted average asset and liability interest rates (tasa de interés activa y pasiva) of the banking system

To complement the monitoring of banking credit to the private sector and methods of payment, the weighted average active and passive interest rates (tasa de interés activa y pasiva) of the banking system will be monitored.

6. Short-term interest rate

The repo transactions interest rate will be monitored with a 1 day-term.

7. Neutral interest rate

The estimation of the neutral interest rate will be monitored to determine the monetary policy stance (neutral, restrictive or accomodative).

8. Monetary Conditions Index (MCI)

The calculation of the Monetary Conditions Index will be monitored also to determine the monetary policy stance.

Guatemala, January 2020