



## MONETARY PROGRAM FOR AUGUST 2007

### BCRP MAINTAINS THE REFERENCE INTEREST RATE AT 4.75%

1. The Board of the Central Reserve Bank of Peru (BCRP) approved to maintain the interbank reference rate at 4.75 percent, but expressed concerns that the rises in the international prices of fuel and in some inputs used in the production of food products might reflect in inflationary expectations. These rises have a transitory impact on inflation. The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects.

Therefore, should expectations about inflation increase or should domestic demand increase to a level exceeding the gains resulting from productivity, the BCRP will implement additional preventive adjustments in the reference interest rate.

2. The Board analyzed the following macroeconomic information:
  - a. The Consumer Price Index for Metropolitan Lima (CPI) increased 0.48 percent in July and accumulated 2.2 percent over the last 12 months, within the target range (2 percent, plus or minus one percentage point). Last 12-month core inflation –indicator of the inflation trend– was 1.9 percent, below the 2 percent inflation target.

Inflation expectations for this year, as reflected in the surveys carried out with economic analysts and financial entities at the end of July, continue to be anchored to the 2 percent monetary inflation target.

The rate of inflation in the last three months was mainly influenced by rises in the international prices of inputs for the production of food products, such as soy bean (10.7 percent) and wheat (27.6 percent), as well as rises in the international prices of fuel (19.0 percent). These rises should not have a permanent and generalized impact on the overall prices of the consumer basket as long as expectations continue to be anchored to the inflation target.

- b. Economic activity continues to show a robust growth: GDP is expected to grow 7.7 percent in the second quarter and domestic demand is expected to grow 10.3 percent in the same period.
  - c. The nuevo sol appreciated 0.3 percent against the dollar in July, reaching an average exchange rate of S/. 3.161 per dollar. On the other hand, the nuevo sol depreciated 0.5 percent against the currency basket of our trading partners, mainly due to the weakening of the dollar against other currencies. Therefore, in real terms the nuevo sol depreciated 0.3 percent.
  - c. The average monthly interest rate in the interbank market was 4.69 percent in July. Short-term rates increased following the rise of the reference interest rate

to 4.75 percent on July 6. Thus, the average 90-day corporate prime rate in soles was 5.3 percent, 10 basis points higher than at end June.

Due to the volatility seen in international financial markets in the last days of July, an increase was observed in the yield on the 20-year sovereign bond in soles which closed at 6.65 percent in July, a level 50 bps. higher than at end June. Moreover, 30-year sovereign bonds were issued for the first time in July. The yield on these bonds was 6.83 percent at the close of the month.

3. During the session, the Board approved the annual interest rates on the following active and passive operations in soles between the BCRP and the financial system:
  - a. Direct repo and rediscount operations: 5.50 percent.
  - b. Overnight deposits: 4 percent.

Likewise, the Board of Directors approved the interest rates on the following operations in dollars between the BCRP and the financial system:

- a. Rediscount operations: 1-month LIBOR plus one percentage point.
  - b. Overnight deposits: overnight LIBOR minus  $\frac{3}{8}$  of one percentage point.
  - c. Swap: a commission equivalent to a minimum annual effective cost of 5.50 percent.
  - d. Reserve requirements in foreign currency subject to remuneration: 3.25 percent.
4. The Board will approve the following Monetary Program (September 2007) in the session to be held on September 6, 2007. Furthermore, the following Inflation Report will be published on October 5.