



MONETARY PROGRAM FOR DECEMBER 2007

BCRP MAINTAINS THE REFERENCE INTEREST RATE AT 5.0%

1. The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent

The Board continues to oversee the evolution of inflation and its determinants, distinguishing the factors with temporary impacts from those with permanent effects. Likewise, the Central Bank continues to keep a close watch on international economy developments and on their repercussions on inflation in the country.

Inflation's recent increase above the target is basically associated with rises in the international prices of some basic food inputs. However, inflation in November has decreased to 0.11 percent, a rate compatible with the inflation target.

Should expectations about inflation increase or should domestic demand grow at a faster pace than productive capacity and productivity, the Bank will make any necessary preventive adjustments in the reference interest rate.

2. The Board made this decision considering the following macroeconomic information:
 - a. The Consumer Price Index for Metropolitan Lima (CPI) increased 0.11 percent in November –the second lowest rate this year– and accumulated 3.5 percent over the last 12 months, a level above the monetary target range (2 percent, plus or minus one percentage point). The rise in the prices of papaya, evaporated milk, and citrus fruits observed during the month were partially offset by a drop in the prices of poultry, onion, and sugar. Core inflation was 0.59 percent and accumulated 2.9 percent over the last twelve months. On the other hand, imported inflation was 0.5 percent in November and showed a last 12-month rate of 10.0 percent.

As pointed out in our Inflation Report of September, last 12-month inflation is expected to be transitorily above the upper band of the target range (3.0 percent) in the short-term, due mainly to a higher imported inflation rate, particularly in terms of inputs used for the production of food products. Inflation is expected to converge to the target (2.0 percent), as in other similar episodes.

Firms' expectations on inflation for 2008 and 2009 remain around 2.0 percent. On the other hand, inflation expectations in the case of financial entities and economic analysts have been revised slightly upwards, but remain within the inflation target range. Thus, according to the surveys carried out with financial entities and economic analysts, inflation expectations for 2008 and 2009 are 2.8 and 2.5 percent respectively in the case of the former and 2.5 and 2.4 respectively in the case of the latter.

- b. Economic activity continues to show a robust growth: GDP grew 8.2 percent and domestic demand grew 11.2 percent during the first nine months of this year.
- c. The nuevo sol appreciated 0.63 percent against the dollar in November and 6.4

year-to-date. Moreover, the nuevo sol depreciated 0.15 percent against the currency basket of our trading partners in November, and has appreciated 1.6 percent so far this year.

- d. The average monthly interest rate for the interbank market was 4.99 percent in November, close to the reference interest rate.
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: 5.75 percent.
 - b. Overnight deposits: 4.25 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 3/8 of one percentage point.
 - c. Swap: a commission equivalent to a minimum annual effective cost of 5.75 percent.
 - d. Reserve requirements in foreign currency subject to remuneration: 3.5 percent.
4. In 2008, the Board will approve the Monetary Program for each month according to the following schedule:

January 10	February 7	March 13	April 10
May 8	June 12	July 10	August 7
September 11	October 9	November 13	December 11