

# BANCO CENTRAL DE RESERVA DEL PERÚ



## PRESS RELEASE

### MONETARY PROGRAM FOR FEBRUARY 2007

#### BCRP MAINTAINS REFERENCE RATE AT 4.50%

- i. The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven the inflation rate below the target range are transitory. These include the lower prices of fuels, of public utilities and of some food products.
- ii. The Consumer Price Index of Metropolitan Lima (CPI) increased 0.01 percent in January, as a result of which the last-12-month CPI inflation rate fell from 1.14 percent in December to 0.64 percent in January. On the other hand, the rate of core inflation was 0.1 percent, accumulating a last-12-month rate of 1.3 percent.

The last-12-month inflation rate is expected to remain below the lower band of the inflation target (1.5 percent) in the first part of 2007 due to the reversal of the price rises of some food products observed in the first four months of 2006, in line with the forecasts outlined in the Inflation Report of September 2006 as well as with the recent communiqués on the Monetary Program. The above-mentioned factors have a one-time impact on inflation and therefore require no particular monetary policy measures to address them.

- iii. The evolution of prices takes place amid a context characterized by a dynamic performance of economic activity, whose growth –estimated at 7.9 percent by end 2006– is considered to be the highest level of growth recorded in the last 11 years. This evolution is explained by the expansion of the productive capacity as a result of higher investment and productivity, the appreciation of the nuevo sol, and increased competition, reflected in lower margins and expectations of inflation.
- iv. In this context, the Central Bank will continue to evaluate all relevant macroeconomic indicators and stands ready to take any necessary measures to ensure that inflation converges to the target range. Particularly, the Central Bank will oversee that an increased domestic spending –that might exceed the improvements observed in terms of productivity– is not translated into inflationary pressures.
- v. The average monthly interbank reference rate was 4.47 in January. The short-term rates are relatively stable. Thus, the 90-day corporate prime rate in soles in January was 5.20 percent, a level that was 3 basis points lower

## BANCO CENTRAL DE RESERVA DEL PERÚ

than the one posted in December. On the other hand, the country risk indicator at end January was 131 bps., which represented an increase of 14 bps. with respect to the previous month. Furthermore, the yield on the 20-year sovereign bond in soles decreased at the close of month was 6.77 percent, increasing 19 bps. with respect to the close of December.

- vi. In January, the nuevo sol appreciated 0.4 percent on average in nominal terms and depreciated 0.1 percent by the end of the period, thus closing the month at S/. 3.198 per dollar.
- vii. During the session, the Board of Directors approved the following annual interest rates for active and passive operations between the BCRP and the financial system:
  - a. Direct temporary purchases of securities and rediscount operations: 5.25 percent.
  - b. Overnight deposits: 3.75 percent.

Likewise, the Board of Directors approved the following annual interest rates for 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 5.25 percent.
  - d. Reserve requirements in foreign currency subject to remuneration: 3.0 percent.
- viii. The Board approved to initiate the procedures required to raise the maximum limit of investments abroad from 12.0 percent to 13.5 percent for Private Administrators of Pension Funds (Administradoras Privadas de Fondos de Pensiones).
- ix. The Board will approve the following Monetary Program (for the month of March) on its session to be held on March 8, 2007.