



## MONETARY PROGRAM FOR JULY 2007

### BCRP RAISES REFERENCE INTEREST RATE FROM 4.50% TO 4.75%

1. The Board of the Central Reserve Bank of Peru (BCRP) approved to raise the interbank reference rate from 4.50 to 4.75 percent. This preventive measure was adopted considering the lags with which monetary policy operates and in order to continue maintaining expectations anchored at low inflation levels, given the robust growth observed in terms of domestic demand.

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. Moreover, given current macroeconomic data, the Board considers that this adjustment in the reference interest rate does not imply the beginning of a sequence of interest rate rises.

2. The Board analyzed recent macroeconomic developments and prospects based on data for the last month, including the following:
  - a. The Consumer Price Index for Metropolitan Lima (CPI) increased 0.47 percent in June and accumulated 1.5 percent over the last 12 months, as a result of which inflation is again within the target range.

The evolution of inflation in June was influenced by rises in the prices of fuel and some food products, such as chicken meat. Like in previous episodes (first months of 2004 and 2006), these rises due to supply-related factors have a one time impact on inflation and, therefore, generate a transitory impact on the average growth of prices.

On the other hand, last 12-month core inflation –indicator of the price trend– increased from 1.5 percent in May to 1.7 percent in June.

Annual inflation during the first months of the year was below 1.0 percent and started converging towards the 2.0 percent target since May. Inflation is expected to continue this process, thus reverting the price corrections observed since May last year, in line with the forecasts of our last Inflation Report of May.

Non-financial companies expect inflation to be at 1.5 percent in 2007, while the expectations of financial entities and economic analysts are in line with the 2.0 percent inflation target.

- b. Domestic demand continues to show a high dynamism, growing at an estimated rate of 10.6 percent. The most dynamic components were private consumption and private investment (which grew 7.4 percent and 20.1 percent respectively).
  - c. The average monthly interest rate in the interbank market was 4.52 percent in June. Short-term rates are relatively stable; thus, the average 90-day corporate prime rate in soles was 5.20 percent in June, a similar rate to that of May.

However, due to the recent upward trend of international interest rates, an increase has been observed in the yield on the 20-year sovereign bond in soles which closed at 6.15 percent in June, a level 14 bps. higher than at end-May.

The General Index at the Lima Stock Exchange increased 11.1 percent in June. On the other hand, in May, last 12-month credit to the private sector grew 17.5 percent (17.6 percent in April) and 41.8 percent in the case of credit in domestic currency (39.4 percent in April).

- d. In June, the nuevo sol nominally depreciated on average 0.08 percent against the dollar, closing at S/. 3.168 per dollar. This evolution was mainly associated with a reduction in the net balance of forwards for a total of US\$ 518 million. In this context, the Central Bank purchased US\$ 371 million in the exchange market, amount that was 78 percent lower than the one purchased in May.
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: 4.00 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 5.50 percent.
  - d. Reserve requirements in foreign currency subject to remuneration: 3.25 percent.
4. The Board will approve the following Monetary Program (August 2007) in the session to be held on August 2, 2007.