



MONETARY PROGRAM FOR JUNE 2007 BCRP MAINTAINS THE REFERENCE INTEREST RATE AT 4.50%

1. The Board of the Central Reserve Bank of Peru (BCRP) decided to maintain the interbank reference rate at 4.5 percent, as inflation is in the lower band of the inflation target (between 1 and 3 percent) and core inflation remains stable at 1.5 percent. This evolution reflects a balance between a strong dynamism of domestic demand and improved productivity in the economy. The Board follows closely the evolution of these variables and their impact on inflation in a 12-18 month horizon in order to make any preventive adjustment in the monetary policy stance should this be required.
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 0.49 percent in May, as a result of which the last 12-month CPI inflation rate was 0.94 percent. On the other hand, core inflation –indicator of the trend of price increases– was 0.09 percent and accumulated a last 12-month rate of 1.5 percent (the same rate as in April).

Annual inflation in the first months of 2007 has been below 1.0 percent, in line with the forecasts of our January Inflation Report. In May inflation started to converge to the inflation target of 2.0 percent and is expected to be within the inflation target (between 1 and 3 percent) as of June.

Non-financial companies expect inflation to be at 1.5 percent in 2007, while financial entities and economic analysts expect inflation to be at 1.9 percent.

- b. Domestic demand grew from 12.6 percent in the fourth quarter of 2006 to 10.2 percent in the first quarter of 2007, mainly as a result of increased private consumption (7.4 percent) and private investment (19.5 percent).
 - c. The average monthly interest rate in the interbank market was 4.49 percent in May. Short-term rates are relatively stable, while long-term rates in domestic currency continue to show a downward trend. Thus, the average 90-day corporate prime rate in soles in the same month was 5.18 percent – the same rate as in April–, while the yield on the 20-year sovereign bond in soles at the close of the month was 6.01 percent, 1 bp. lower than at end April. The General Index of the Lima Stock Exchange fell 2.6 percent in May. Moreover, in April, last 12-month credit to the private sector (without considering the effect of exchange fluctuations) grew 21percent (18 percent in March) and 39 percent in the case of credit in domestic currency (33 percent in March).

- d. In May the nuevo sol appreciated on average 0.3 percent in nominal terms, closing at S/. 3.175 per dollar. This evolution was mainly associated with a supply of dollars in the spot exchange market and in the forward market of US\$ 1,389 million and US\$ 440 million respectively. In this context, the Central Bank purchased US\$ 1,671 million in the exchange market to reduce the volatility of exchange and to accumulate international reserves.
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: 5.25 percent.
 - b. Overnight deposits: 3.75 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 5.25 percent.
 - d. Reserve requirements in foreign currency subject to remuneration: 3.25 percent annually.
4. The Board will approve the following Monetary Program (July 2007) in the session to be held on July 5, 2007.