

BANCO CENTRAL DE RESERVA DEL PERÚ



MONETARY PROGRAM FOR MARCH 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 public utilities and some food products.
- ii. The Consumer Price Index of Metropolitan Lima (CPI) increased 0.26 percent in February, as a result of which the last-12-month CPI inflation rate fell from 0.64 percent in January to 0.36 percent in February. On the other hand, the rate of core inflation –indicator of the trend of price increases– was 0.26 percent, accumulating a last-12-month rate of 1.49 percent.

The last-12-month inflation rate should remain below the lower band of the inflation target (1.0 percent) in the first part of 2007 due to the reversal of the price rises of some food products observed in the first months of 2006, in line with the forecasts outlined in the Inflation Report of January 2007. The above-mentioned factors have a one-time impact on inflation and therefore require no particular monetary policy measures to address them.

- iii. This evolution of prices has taken place amid a context marked by a strongly dynamic performance of economic activity, which posted the highest level of growth (0.8 percent) observed in the last 11 years in 2006. 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, low expectations of inflation, and increased competition reflected in lower margins.
- iv. The macroeconomic prospects and the balance of risks described in our Inflation Report of January 2007 prevail. Thus, based on the expected pace of growth of economic activity, inflation expectations in line with the inflation target, and a moderate evolution of imported inflation, inflation is expected to converge to a rate of 2 percent. In contrast with the 2003-2005 period, the prices of food products and fuels are not expected to generate an upward trend of inflation in the forecast horizon, as normal conditions of supply are forecast in the agricultural sector and relatively moderate price rises are expected in the international price of fuels.
- v. This upward trend in the forecast growth of economic activity for 2007 (6.8 percent) is being confirmed by the first indicators of demand this year, although no signals of inflation are observed yet. In this context, the Central

BANCO CENTRAL DE RESERVA DEL PERÚ

Bank stands ready to prevent that an increase in domestic spending might be translated into inflationary pressures.

- vi. The average monthly interbank reference rate was 4.48 in February. The short-term rates are relatively stable, while the long-term rates for operations in domestic currency continue to show a downward trend. Thus, the 90-day corporate prime rate in soles in February was 5.20 percent, a level that was 1 basis point higher than the one posted in January, while the yield on the 20-year sovereign bond in soles decreased at the close of month was 6.40 percent, decreasing 36 bps. with respect to end January.
- vii. Emerging markets exhibited a higher volatility in the last week of February which involved portfolio adjustments in terms of the assets of these economies (currency, sovereign bonds, etc.). In this context, the country risk indicator was 136 bps. at the close of February, which represented an increase of 5 bps. relative to the previous month.
- viii. In February, the nuevo sol appreciated 0.1 percent in nominal terms and closed at S/. 3.191 per dollar at the end of the month.
- ix. 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 equal to a minimum annual effective cost of 5.25 percent.
 - d. Reserve requirements in foreign currency subject to remuneration: 3.0 percent.
- x. The Board will approve the following Monetary Program (for the month of April) on its session to be held on April 3, 2007.