



MONETARY PROGRAM FOR MAY 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, but expressed concerns about a possible inflationary impact in a 12-18 month horizon due to a very high increase of domestic demand. Therefore, should inflationary pressures be observed, the Board will be inclined to withdraw monetary stimulus.
2. The Board analyzed recent macroeconomic developments and prospects based on data on the last month, including the following:

- a. The Consumer Price Index for Metropolitan Lima (CPI) increased 0.18 percent in April. As a result of this, the last 12-month CPI inflation rate fell from 0.25 percent in March to -0.08 percent in April, in line with the forecasts included in the Inflation Report of January. On the other hand, core inflation –indicator of the trend of price increases– was 0.13 percent, and accumulated a last 12-month rate of 1.48 percent (1.42 percent in March).

Last 12-month inflation in the first months of 2007 should transitorily be below the lower band of the inflation target (1.0 percent). Inflation should be in the range of the inflation target in the second half of the year, in line with Inflation Report forecasts, and would converge to the 2.0 percent inflation target thereafter.

- b. Domestic demand grew from 12.5 percent in the fourth quarter of 2006 to an estimated rate of 10.5 percent in the first quarter of 2007, mainly as a result of increased private consumption (6.9 percent) and private investment (18.8 percent). In this context, the Board stands ready to anticipate the eventual impact on prices of a very high expansion of internal spending in a 12-18 horizon through the withdrawal of monetary stimulus.
- c. The average monthly interest rate in the interbank market was 4.51 percent in April. 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, decreasing by 1 basis point relative to March, while the yield on the 20-year sovereign bond in soles was 6.02 percent, 23 bps. lower than at end March. The General Index of the Lima Stock Exchange grew 20.5 percent in April. In March, last 12-month credit to the private sector grew 18.1 percent and 33.9 percent in the case of credit in domestic currency.
- d. In April, the nuevo sol appreciated on average 0.2 percent in nominal terms, closing at S/. 3.179 per dollar. This evolution was mainly

associated with a supply of dollars in the spot exchange market and in the forward market of US\$ 601 million and US\$ 900 million respectively. In this context, the Central Bank purchased US\$ 1,330 million in the exchange market to reduce the volatility of exchange and to accumulate international reserves. This amount was higher than in March, due to operations associated to the regularization of income tax payments.

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 $\frac{3}{8}$ 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: 3.25 percent annually.
4. The Board approved to initiate procedures to raise the limit for investments abroad by Private Administrators of Pension Funds from 13.5 to 15.0 percent.
 5. The Board will approve the following Monetary Program (June 2007) on the session to be held on June 7, 2007.