



## MONETARY PROGRAM FOR NOVEMBER 2007

### BCRP MAINTAINS THE REFERENCE INTEREST RATE AT 5.0%

1. The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent

The Board continues to oversee the evolution of inflation and its determinants, distinguishing the factors with temporary impacts from those with permanent effects.

Inflation's recent increase above the target is basically associated with rises in the international prices of some basic food inputs. The Bank continues to keep a close watch on international economy developments and on their repercussions on inflation in the country.

Therefore, should expectations about inflation increase or should domestic demand grow at a faster pace than productive capacity and productivity, the Bank will adopt any necessary preventive adjustments in the reference interest rate.

2. The Board made this decision considering the following macroeconomic information:
  - a. The Consumer Price Index for Metropolitan Lima (CPI) increased 0.31 percent in October and accumulated 3.1 percent over the last 12 months, a level above the monetary target range (2 percent, plus or minus one percentage point). Core inflation –indicator of the inflation trend– was 0.35 percent and accumulated 2.4 percent over the last twelve months.

Imported inflation, indicator representing the part of inflation that is mainly determined by international prices, was 2.20 percent in October and was mainly due to the rise in the price of bread, given the increase observed in the international price of wheat. As a result of this, imported inflation showed a last 12-month rate of 9.18 percent.

As pointed out in our Inflation Report of September, last 12-month inflation is expected to be transitorily above the upper band of the target range (3.0 percent) in the short-term, due mainly to a higher imported inflation rate, particularly in terms of inputs used for the production of food products. These shocks have temporary impacts on inflation and, therefore, inflation should converge thereafter to the target (2.0 percent), as in other similar episodes.

As reflected in the surveys carried out with firms and economic analysts, inflation expectations for 2008 and 2009 remain around the monetary policy inflation target of 2.0 percent. Moreover, according to the surveys carried out with financial entities, inflation expectations for 2008 and 2009 are 2.6 and 2.5 percent respectively.

- b. Economic activity continues to show a robust growth: GDP grew 7.7 percent and domestic demand grew 10.9 percent during the first eight months of this year.

- c. The nuevo sol appreciated 2.9 percent against the dollar in October and 6.2 year-to-date. The exchange rate by the close of the month was S/. 3.00 per dollar. Moreover, the nuevo sol appreciated 1.5 percent against the currency basket of our trading partners in October, and has appreciated 1.0 percent so far this year.
  - d. The average monthly interest rate for the interbank market was 4.98 percent in October, close to the reference interest rate.
  - e. The spread of the global bond (indicator of the country risk) closed at 136 bps. in October (137 bps. at end-September). Furthermore, the yield on the 20-year and 30-year sovereign bonds in soles closed at 6.3 and 6.5 percent respectively in October. In both cases, the interest rates on these bonds declined by 14 bps. compared to end September.
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: 5.75 percent.
  - b. Overnight deposits: 4.25 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 5.75 percent.
  - d. Reserve requirements in foreign currency subject to remuneration: 3.5 percent.
4. The Board will approve the following Monetary Program (December 2007) in the session to be held on December 6, 2007.