



MONETARY PROGRAM FOR OCTOBER 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. Therefore, should expectations about inflation increase or should domestic demand grow at a faster pace than productive capacity and productivity gains, the Bank will adopt additional 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 0.61 percent in September and accumulated 2.80 percent over the last 12 months, within the monetary target range (2 percent, plus or minus one percentage point). Core inflation –indicator of the inflation trend– was 0.19 percent and accumulated 2.15 percent over the last twelve months.

Last 12-month inflation should transitorily be in the upper band of the inflation target (3.0 percent), mainly as a result of a higher imported inflation, particularly in terms of inputs used for the production of food products. These shocks have temporary impacts on inflation and therefore inflation is expected to converge thereafter to the inflation target (2.0 percent), as in previous similar episodes.

Inflation expectations for 2008 and 2009, as reflected in the surveys carried out with firms, financial entities and economic analysts, remain around the monetary policy inflation target of 2.0 percent.

- b. Economic activity continues to show a robust growth: GDP grew 7.9 percent and domestic demand grew 10.9 percent during the first seven months of this year.
- c. In September the nuevo sol appreciated 0.4 percent against the currency basket of our main trading partners, although the domestic currency has depreciated 0.48 percent so far this year. The nuevo sol appreciated 2.4 percent against the dollar in September and 3.4 percent year-to-date. The exchange rate by the close of the month was S/. 3.087 per dollar.
- d. The average monthly interest rate for the interbank market was 4.97 percent in September, a level close to the reference interest rate.
- e. The spread of the global bond (indicator of the country risk) decreased from 166 bps. in August to 137 bps. at end-September, in a context of lower volatility in the international financial markets. Moreover, the yield on the 20-year sovereign bond in soles closed at 6.44 percent in September, a level 31 bps. lower than at the

close of August, while the yield on the 30-year bond at the close of the month was 6.64 percent, a level 26 bps. lower than at the close of the previous month.

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 (November 2007) in the session to be held on November 8, 2007.