



MONETARY PROGRAM FOR SEPTEMBER 2007

BCRP RAISES THE REFERENCE INTEREST RATE FROM 4.75% TO 5.0%

1. The Board of the Central Reserve Bank of Peru (BCRP) approved to raise the monetary reference rate from 4.75 to 5.0 percent. This preventive measure is taken considering the lags with which monetary policy operates in order to continue maintaining expectations of low inflation anchored, in view of the robust growth shown by domestic demand in a context market by an increase in the price of imported inputs.

The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects.

2. The Board analyzed the following macroeconomic information:
 - a. The Consumer Price Index for Metropolitan Lima (CPI) increased 0.14 percent in August and accumulated 2.2 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 0.3 percent and accumulated 2.0 percent over the last twelve months.

As reflected in the surveys carried out with economic analysts and financial entities at the end of August, the inflation rate this year is expected to be 2.5 percent. Moreover, economic analysts consider that inflation next year would reach 2.0 percent, while financial entities consider that it would reach 2.3 percent. On the other hand, non-financial entities expect inflation to remain at 1.8 percent at the close of 2007 and 2008.

- b. Economic activity continues to show a robust growth: GDP grew 7.8 percent in the first half of the year and domestic demand grew 10.4 percent during the same period.
- c. The average exchange rate in August was S/. 3.159 per dollar, which represented a 0.08 percent average appreciation of the nuevo sol against the dollar compared with the month of July. In terms of the currency basket of our trading partners, the nuevo sol appreciated 0.72 percent mainly due to the strengthening of the dollar against other currencies.
- d. The average monthly interest rate in the interbank market was 4.77 percent in August, a level close to the reference interest rate.
- e. The average spread of the global bond (indicator of the country risk) increased from 129 bps. in July to 169 bps. in August, in a context of volatility in the international financial markets. Moreover, the yield on the 20-year sovereign bond in soles closed at 6.75 percent in August, a level 10 bps. higher than at the close of July (6.65 percent), while the yield on the 30-year bond at the close of the month was 6.90 percent, a level slightly higher (7 bps.) than at the close of the previous month. Furthermore, the average corporate prime rate rose from 5.3 to 5.4 percent between July and August.

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 (October 2007) in the session to be held on October 4, 2007. Furthermore, the following Inflation Report will be published on October 5.