



## MONETARY PROGRAM FOR FEBRUARY 2008

### BCRP MAINTAINS THE REFERENCE INTEREST RATE AT 5.25%

1. The Board of the Central Bank approved to maintain the monetary policy reference interest rate at 5.25 percent.

However, the recent increase in the rates of reserve requirements in domestic currency implies a more restrictive monetary stance as this translates into higher active interest rates and, therefore, favors a more moderate growth of credit in the financial system. The impact of this increase in the rate of reserve requirements is estimated to be equivalent in the short-term to an increase of 25 basis points, although this effect should tend toward 50 basis points in the next months. It is worth noting that in addition to the reference interest rate, the Central Bank may resort occasionally to other instruments of monetary control, such as the rate of reserve requirements.

Moreover, the increase in the rates of reserve requirements in domestic currency was complemented with other measures, such as an increase in the rates of reserve requirements in foreign currency and the launching of Certificates of Deposit Subject to Limited Negotiation, with the purpose of neutralizing the massive inflow of short-term capitals observed in the first half of January.

As pointed out in previous communiqués, the fact that inflation shows temporarily a rate above the target is basically explained by imported inflation, which posted 10.7 percent in the last 12 months. The supply and demand imbalances seen in the international markets of grains and fuel have implied a generalized increase of inflation worldwide.

With the aforementioned measures and with the gradual normalization of the international financial turbulence, inflation should converge to the target range in the second half of 2008.

The Board continues to oversee the evolution of inflation and its determinants, both domestic and external, distinguishing the factors with temporary impacts from those with permanent effects, and stands ready to take any necessary measure required to ensure that inflation converges to the target range.

2. The Board made this decision considering the following macroeconomic information:
  - a. The Consumer Price Index of Metropolitan Lima (CPI) increased 0.2 percent in January, showing a lower increase than in December 2007 (0.45 percent). Last 12-month inflation was 4.15 percent –above the inflation target range (2 percent, plus or minus one percentage point)–, due to the impact of a higher imported inflation which showed an annual rate of 10.7 percent.

Core inflation was 0.25 percent in January and 3.27 percent over the last twelve months. Another factor contributing to this evolution was the higher prices of foodstuffs.

According to the surveys carried out, inflation is expected to range between 2.95 and 3.60 percent in 2008 and between 2.50 and 3.20 percent in 2009.

The recent measures implemented and a decreasing trend in last 12-month inflation that would be seen as of the second quarter of this year should contribute to expectations' convergence toward the target.

- b. Economic activity and domestic demand continue to show a dynamic performance due to the optimistic outlook of consumers and business and to the higher growth of credit. Domestic demand is estimated to have grown 11 percent in 2007, while GDP is estimated to have grown 8.5 percent.
  - c. The average exchange rate fell 1.0 percent compared to December and 7.6 percent over the last twelve months.
  - d. The average monthly interbank interest rate in January was exceptionally below the reference interest rate (4.44 percent) due to the extraordinary measures implemented to deal with the massive inflow of speculative capitals. The interbank rate has been converging toward the reference rate in the last days, and operations have been made at said rate.
3. During the session, the Board approved to maintain the annual interest rates on the active and passive operations between the BCRP and the financial system:
  4. The Board will approve the Monetary Program for the next month on March 13.