



MONETARY PROGRAM FOR MARCH 2008

BCRP MAINTAINS REFERENCE INTEREST RATE AT 5.25% AND RAISES THE RATES OF RESERVE REQUIREMENTS

1. The Board of Directors of the Banco Central de Reserva del Perú approved to raise legal reserve requirements from 7 to 8 percent and to increase marginal reserve requirements from 15 to 20 percent as of April 2008. The Board also approved to increase the rate of marginal reserve requirements for non-resident financial entities' short-term deposits and liabilities in any currency to 40 percent.

The Board decided to maintain the monetary policy reference interest rate at 5.25 percent considering that the impact of the increase of the rate of reserve requirements, effective as of April, would be equivalent to raising said rate by 50 basis points.

These additional raises of the reserve requirement ratio add onto the measures being implemented by the BCRP since July 2007 in order to lead inflation to converge to the target range as soon as possible. Between July 2007 and January 2008 the reference interest rate was raised on three occasions, as a result of which this rate increased from 4.5 to 5.25 percent. Moreover, in February the BCRP raised the rates of reserve requirements in domestic currency and foreign currency. The raise of the rate of reserve requirements in domestic currency implemented in February is estimated to have an impact equivalent to raising the interest rate by 59 basis points.

All these measures imply an additional adjustment in the monetary policy to prevent that the rises seen in international prices translate into inflation expectations in a context of strong growth of domestic demand.

2. As pointed out in previous communiqués, inflation is temporarily above the target mainly due to imported inflation, which affects the main food inputs.

In February, inflation showed a monthly rate of 0.91 percent, while core inflation was 0.36 percent. These results were also influenced by adverse weather conditions which affected the supply of foodstuffs. Thus, in February the rate of inflation excluding foodstuffs was 0.04 percent.

Accumulated inflation over the last 12 months up to February was 4.82 percent. Core inflation was 3.4 percent, but it should be taken into account that this includes some food products such as milk, beef, and eating out-related prices. Accumulated inflation excluding foodstuffs was 2.1 percent.

This evolution of inflation has influenced higher inflationary expectations over the last few months. However, the recently adopted measures and the downward trend that inflation should follow after supply problems subside should contribute to expectations' convergence towards the target.

The Board of Directors continues to oversee the evolution of inflation and its determinants, both domestic and external, distinguishing the factors with temporary effects from those with permanent impacts in order to adopt any necessary measure required to lead inflation back to the target range.

3. During the session, the Board approved to maintain the interest rates on active and passive operations with the financial system.
4. Furthermore, the Board also approved to initiate the procedures required to raise the limit of the investments that Private Pension Fund Administrators can make abroad from 17 to 20 percent.
5. The Board of Directors will approve the Monetary Program for April on its session of April 10.