



MONETARY PROGRAM FOR AUGUST 2014

BCRP MAINTAINED THE REFERENCE INTEREST RATE AT 3.75%

1. The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference rate at 3.75 percent.

This level of the reference rate is compatible with an inflation forecast according to which inflation will converge to the target range in 2014 and to 2.0 percent in 2015. This forecast takes into account that: i) inflation expectations remain anchored within the inflation target range; ii) GDP continues to show lower growth rates than the country's potential level of growth, which is expected to be a temporary situation; iii) recent indicators show signals of recovery in the U.S. economy, and iv) the supply factors that led inflation to increase are moderating at a slower pace than expected.

2. Inflation in July showed a rate of 0.43 percent, as a result of which inflation in the last 12 months fell from 3.45 percent in June to 3.33 percent in July. The rate of inflation excluding food and energy was 0.24 percent, as a result of which the rate of inflation in the last 12 months fell from 2.77 percent in June to 2.73 percent in July.

Inflation is forecast to remain initially close to the upper band of the target range due to the persistent effect of the supply shocks and to converge thereafter to the 2 percent target.

3. Current and advanced indicators of activity continue to show a weaker economic cycle than the one expected, with lower GDP growth rates than the potential output due mainly to the lower dynamism observed in investment and exports.
4. The Board oversees the inflation forecasts and inflation determinants, and will implement additional monetary easing measures if it is necessary.
5. The Board of the Central Bank also approved to maintain the annual interest rates on lending and deposit operations in domestic currency (not included in auctions) between the BCRP and the financial system, as described below:
 - a. Overnight deposits: 2.55 percent.
 - b. Direct repos and rediscount operations: 4.55 percent.
 - c. Swaps: a commission equivalent to a minimum annual effective cost of 4.55 percent.

6. The Monetary Program for September will be approved on the Board's meeting of September 11, 2014.