



MONETARY PROGRAM FOR AUGUST 2016 BCRP MAINTAINED THE POLICY INTEREST RATE AT 4.25%

1. The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy interest rate at 4.25 percent. The Board has taken this decision considering that:
 - i) Inflation has returned to the target range;
 - ii) Inflation expectations continue to reverse gradually;
 - iii) The effects of the rise in the prices of some food products and utilities as well as the effects of the exchange rate on inflation have been reversing;
 - iv) Local economic activity has been showing a pace of growth close to its potential growth level, and
 - v) The global economy continues showing mixed signals of recovery in terms of production and employment as well as lower volatility in financial markets.
2. The Board oversees the inflation forecasts and inflation determinants to evaluate the convenience of making additional adjustments in the monetary policy rate. Inflation is expected to remain within the upper band of the inflation target range in the next months and to continue showing a downward trend in 2017, the rate of inflation at end-2017 being estimated at 2.0 percent.
3. Inflation in July showed a rate of 0.08 percent, as a result of which the year-to-year rate of inflation has continued falling, declining from 3.3 percent in June to 2.96 percent in July. Inflation without food and energy recorded a rate of 0.19 percent, as a result of which the year-to-year rate fell from 3.3 percent to 2.9 percent. Inflation expectations have continued to decrease and continue showing a declining path, which is within the target range in the following years.
4. Indicators of business expectations continue improving and are all on the optimistic side. In line with this, expectations of GDP growth rates in 2016 have risen from 3.7 percent in June to 3.8 percent in July, while expectations of GDP growth rates in 2017 have risen from 4.0 percent to 4.2 percent. However, the indicators associated with construction and manufacturing have declined in July due to lower investment.
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 BCRP and the financial system, as specified below:
 - a. Overnight deposits: 3.0 percent.
 - b. Direct repos and rediscount operations: i) 4.80 percent for the first 15 operations carried out by a financial institution in the last 12 months, and ii) the interest rate set by the Committee of Monetary and Foreign Exchange Operations for additional operations to the 15 first operations carried out in the last 12 months.
 - c. Swaps: a commission equivalent to a minimum annual effective cost of 4.80 percent.
6. The Board will approve the Monetary Program for September at the Board meeting that will be held on September 8, 2016.