



MONETARY PROGRAM FOR FEBRUARY 2016 BCRP RAISES THE POLICY INTEREST RATE TO 4.25%

1. The Board of the Central Reserve Bank of Peru approved to raise the monetary policy interest rate by 25 bps to 4.25 percent. The Board has taken this decision considering a gradual return of inflation to the inflation target range in the forecast horizon, taking into account the following factors:
 - i) Inflation has been affected by temporary supply factors, such as the rise in the prices of some food products and utilities, as well as by the depreciation of the sol against the dollar.
 - ii) These increases in consumer prices have affected the expected rate of inflation, pushing it above the target range, which can fuel inflation in turn.
 - iii) Local economic activity has been recovering.
 - iv) The global economy continues showing volatility in exchange rates, in stock prices and in commodity prices, with mixed signals of recovery in terms of production and employment in the larger economies.
2. The Board oversees the inflation forecasts and inflation determinants, including how inflation expectations evolve, to evaluate the convenience of making additional adjustments in the monetary policy rate. Inflation is expected to gradually return again within the target range in a period of time similar to the monetary policy horizon.
3. Inflation in January showed a rate of 0.37 percent, as a result of which the interannual rate of inflation rose from 4.4 percent in December to 4.6 percent in January. The monthly rate of inflation is explained by the increase observed in the prices of perishable food products and electricity rates. Inflation without food and energy recorded a rate of -0.07 percent, as a result of which the interannual rate of inflation declined from 3.5 percent in December to 3.4 in January. In this month, the rate of inflation expected for 2016 was 3.5 percent and the rate of inflation expected for 2017 was 3.0 percent.
4. Recent indicators of economic activity and business and consumer expectations show an economic cycle with lower GDP growth rates than the potential output levels until the third quarter of 2015, but with a faster pace of growth in the last quarter of the year. In 2016 the economy is foreseen to grow at rates similar to those of the potential output.
5. The Board of the Central Bank also approved to raise the annual interest rates on lending and deposit operations in domestic currency (not included in auctions) between the 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 March at the Board meeting that will be held on March 10, 2016.