



MONETARY PROGRAM FOR SEPTEMBER 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 expectations continue to reverse gradually;
 - ii) 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;
 - iii) Local economic activity has been showing a pace of growth close to its potential growth level, and
 - iv) 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 new data on inflation and inflation determinants in the forecast horizon 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 August showed a rate of 0.36 percent, as a result of which the year-to-year rate of inflation has continued falling, declining from 2.96 percent in July to 2.94 in August. Inflation without food and energy recorded a rate of 0.17 percent, as a result of which the year-to-year rate rose from 2.87 percent to 2.96 percent. Inflation expectations have continued to decrease and show a declining path, which is within the target range in the following years.
4. Indicators of business expectations have improved for the third consecutive month and all of them remain on the optimistic side. In line with this, GDP is expected to grow 3.7 percent in 2016 and 4.2 percent in 2017. However, the indicators associated with construction and manufacturing have declined in the past two months due to the weakness of 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 October on October 13, 2016.