



MONETARY PROGRAM FOR MAY 2017 BCRP LOWERED THE POLICY INTEREST RATE TO 4.0%

1. The Board of the Central Reserve Bank of Peru approved to lower the monetary policy interest rate by 25 basis points to 4.00 percent.

This level of the benchmark rate is compatible with an inflation forecast in which inflation converges to the target range during 2017 and remains within the target range in 2018. This forecast takes into account the following factors:

- i) The reversal of the supply shocks that affected inflation in the first quarter, confirming the trend projected in the previous month;
 - ii) Expectations of inflation in 12 months are temporarily close to the upper band of the inflation target range;
 - iii) The pace of growth of domestic economic activity has continued to slow down in recent months, the output showing a pace of growth below its potential growth level. Economic activity is expected to recover in the following quarters as a result of increased government spending and higher export prices, and
 - iv) The world economy continues to show a gradual recovery, although there is still some uncertainty about developed countries' policies.
2. The Board oversees new data on inflation and inflation determinants to assess the convenience of making additional changes in the monetary policy stance if deemed necessary.
 3. Inflation in April recorded a rate of -0.26 percent due to the significant reversal of increases in the prices of some foodstuffs, as a result of which the year-to-year rate of inflation fell from 3.97 percent in March to 3.69 percent in April. Inflation without food and energy showed a rate of 0.09 percent, as a result of which the year-to-year rate increased from 2.72 percent in March to 2.79 percent in April, within the target range.
 4. The indicators of business expectations have recovered in April, which would be reflecting the transitory nature of the economic slowdown observed in the first quarter of the year. In 2017 GDP is expected to grow between 2.5 and 3.2 percent.
 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: 2.75 percent.
 - b. Direct repos and rediscount operations: i) 4.55 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 4.55 percent.
 6. The Board will approve the Monetary Program for June on its meeting of June 8, 2017.

Lima, May 11, 2017