

BANCO CENTRAL DE RESERVA DEL PERÚ



MONETARY PROGRAM FOR APRIL 2007

BCRP MAINTAINS REFERENCE RATE AT 4.50%

- i. The Board of the Central Bank (BCRP) approved to maintain the reference interest rate for the interbank market at 4.50 percent. However, the Board expressed concerns about the possible inflationary impact that a growth of domestic demand exceeding the rates forecast by the Bank might have in a 12-18 time horizon. Therefore, should this trend persist, the Board would be inclined to withdraw monetary stimulus when deemed appropriate and on a timely basis.
- ii. The Board analyzed recent macroeconomic developments and prospects on the basis of information for the last month, including the following:

- a. The Consumer Price Index of Metropolitan Lima (CPI) increased 0.35 percent in March, as a result of which the last-12-month CPI inflation rate fell from 0.36 percent in February to 0.25 percent in March and would be likely to come closer to zero in April, in line with the forecasts included in our Inflation Report of January 2007. On the other hand, the rate of core inflation –indicator of the trend of price increases– was 0.33 percent, accumulating a last-12-month rate of 1.42 percent (1.49 percent in February).

The last-12-month inflation rate should remain transitorily below the lower band of the inflation target (1.0 percent) in the first part of 2007, due to both the reversal of the price rises of some food products observed in the first months of 2006 and the lower prices of fuels and public utility rates observed in the last months of 2006.

- b. Domestic demand grew from 12.5 percent in the fourth quarter of 2006 to an estimated rate of 13.5 percent in January-February 2007, driven by the growth of private consumption (6.9 percent) and private investment (23.4 percent). The Board expressed concern about the high growth of domestic demand and, in this context, stands ready to anticipate an eventual impact on prices that could be caused by an increased expansion of domestic spending and to withdraw monetary stimulus.
- c. The average monthly interbank reference rate was 4.50 in March. The short-term rates are relatively stable, while the long-term rates for operations in domestic currency continue to show a downward trend. Thus, the 90-day corporate prime rate in soles in March was 5.18 percent, a level that was 2 basis point lower than the one posted in February, while the yield on the 20-year sovereign bond in soles at

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end March was 6.35 percent, decreasing 5 bps. relative to end February. The General Index at the Lima Stock Exchange grew 13.2 in March. On the other hand, in February, last-12-month credit to the private sector grew 16.8 percent, while credit to the private sector in domestic currency grew 30.3 percent.

- d. In March, on average the nuevo sol appreciated 0.1 percent in nominal terms and closed at S/. 3.184 per dollar at the end of the month. This evolution was mainly associated with a dollar supply of US\$ 666 million in the exchange market (spot operations), partly explained by the fact that the period for paying income tax started. In this context, the Central Bank purchased US\$ 610 million in the exchange market to reduce the volatility of exchange and accumulate international reserves.
- iii. During the session, the Board of Directors approved the following annual interest rates for active and passive operations between the BCRP and the financial system:
 - a. Direct temporary purchases of securities and rediscount operations: 5.25 percent.
 - b. Overnight deposits: 3.75 percent.

Likewise, the Board of Directors approved the following annual interest rates for operations in dollars between the BCRP and the financial system:

- a. Rediscount operations: 1-month LIBOR plus one percentage point.
 - b. Overnight deposits: overnight LIBOR minus $\frac{3}{8}$ of one percentage point.
 - c. Swap: a commission equal to a minimum annual effective cost of 5.25 percent.
 - d. Reserve requirements in foreign currency subject to remuneration: 3.0 percent.
- iv. The Board will approve the following Monetary Program (for the month of May) on its session to be held on May 3, 2007.

Lima, April 3rd, 2007