



MONETARY PROGRAM FOR JANUARY 2008

BCRP RAISED REFERENCE INTEREST RATE FROM 5.0% TO 5.25%

1. The Board of the Central Bank approved to raise the monetary policy reference rate from 5.0 to 5.25 percent. This measure has been adopted to maintain inflation expectations within the inflation target range, given the increase seen in the international prices of food products in a context of strong growth of domestic demand.

As pointed out in previous communiqués, inflation's temporary rate above the target is mainly explained by imported inflation, which posted 10.5 percent in 2007. The supply and demand imbalances in the international markets of grains and fuel have implied a generalized increase of inflation worldwide.

The Board continues to oversee the evolution of inflation and its determinants, both domestic and external, distinguishing the factors with temporary impacts from those with permanent effects. As in previous occasions, the Board will adopt any necessary adjustment required to ensure that inflation converges to the target range.

2. The Board made this decision considering the following macroeconomic information:
 - a. The Consumer Price Index for Metropolitan Lima (CPI) increased 0.45 percent in December, with seasonal rises in the price of chicken and domestic transportation accounting for nearly fifty percent of this increase. Inflation over the last twelve months was 3.93 percent, above the inflation target range (2 percent, plus or minus one percentage point). Moreover, imported inflation was 0.23 percent and showed a last 12-month rate of 10.46 percent.

Core inflation was 0.34 percent and accumulated 3.1 percent over the last twelve months. Factors contributing to this evolution also included the higher prices of imported inputs used for the production of food products, as reflected in the price rise of evaporated milk and "eating out" meals.

The expectations of economic agents regarding inflation were revised upwards between November and December, but remain within the inflation target range. According to the surveys carried out by the BCRP, inflation expectations range between 2.2 and 3.0 percent for 2008 and between 2.2 and 2.7 percent for 2009.

- b. Economic activity continues to show a robust growth: GDP grew 8.4 percent and domestic demand grew 11.3 percent during the first ten months of 2007. Furthermore, the drive of private consumption has been coupled by a high growth of consumer loans.
 - c. The nuevo sol appreciated 0.67 percent against the dollar in December, accumulating an appreciation of 7.0 percent in 2007. On the other hand, the nuevo sol appreciated 0.68 percent against the currency basket of our trading partners in December and 2.3 percent in 2007.
 - d. The average monthly interest rate for the interbank market was 4.99 percent in December, close to the reference interest rate.

3. During the session, the Board approved the annual interest rates on the following active and passive operations in soles between the BCRP and the financial system:

- a. Direct repo and rediscount operations: 6.0 percent.
- b. Overnight deposits: 4.5 percent.

Likewise, the Board of Directors approved the interest rates on the following 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 3/8 of one percentage point.
 - c. Swap: a commission equivalent to a minimum annual effective cost of 6.0 percent.
 - d. Reserve requirements in foreign currency corresponding to additional reserve requirements, provided that they are deposited in this Central Bank, will accrue interests at a rate equivalent to the London Interbank Offered Rate (LIBOR) minus 7/8 of one percentage point. The LIBOR rate will refer to the average rate for 1-month credits in US dollars in the London interbank market at 11:00 hours (London time) and according to the information provided by the British Bankers Association through Reuters.
4. In addition, the Board approved to initiate the procedures to raise from 16 to 17 percent the maximum amount that Private Administrators of Pension Funds are allowed to invest abroad.
5. The Board of Directors will approve the Monetary Program for the next month on February 7. The BCRP will publish its **Inflation Reports** on the following dates:

February 8

June 13

October 10