



MONETARY PROGRAM FOR JULY 2017 **BCRP LOWERED THE POLICY INTEREST RATE TO 3.75%**

1. The Board of the Central Reserve Bank of Peru approved to lower the monetary policy interest rate by 25 basis points to 3.75 percent.

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

- i) The reversal of the supply shocks that affected inflation in the first quarter continued in June, as a result of which inflation returned to the target range. Moreover, inflation without food and energy continued to decline within the target range;
 - ii) Expectations of inflation in 12 months have continued to fall and remain within the inflation target range;
 - iii) The pace of growth of domestic economic activity continues to be below its potential growth level. Economic activity is expected to recover in the following quarters as a result of increased government and private spending, and
 - iv) The world economy continues to show a gradual recovery, although there is still some uncertainty about the policies of developed countries, particularly about the reversal of the monetary stimulus of central banks in these economies.
2. The Board is giving special close attention to new data on inflation and inflation determinants, particularly to data about the velocity of expectations' convergence to the inflation target range, the degree of reversal of the supply shocks, and the pace of recovery of public and private spending, to assess the convenience of making additional changes in the monetary policy stance if deemed necessary.
 3. Inflation in June registered a rate of -0.16 percent due to the reversal of some food prices, as a result of which the year-to-year rate of inflation fell for the third consecutive month, declining from 3.04 percent in May to 2.73 percent in June. Inflation without food and energy showed a rate of 0.06 percent, as a result of which the year-to-year rate decreased from 2.54 percent in May to 2.38 percent in June, within the target range (between 1 and 3 percent). Inflation is foreseen to remain within this range during 2017 and 2018.
 4. The indicators of business expectations about economic activity remain on the optimistic side and GDP is expected to grow between 2.5 and 3.0 percent in 2017.
 5. The Board of the Central Bank also approved to lower 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: 2.50 percent.
 - b. Direct repos and rediscount operations: i) 4.30 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 4.30 percent.
 6. The Board will approve the Monetary Program for August on its meeting of August 10, 2017.

Lima, July 13, 2017