

Summary of the BCRP Communiqués on the Monetary Program 2007

January 4: The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven inflation below the target range are transitory. These include the lower prices of fuels, of public utilities and of some food products which are expected to have a one-time impact on the inflation rate.

The Board of Directors also 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; and 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 3/8 of one percentage point; c. Swap: a commission equivalent to a minimum annual effective cost of 5.25 percent; and d. Reserve requirements in foreign currency subject to remuneration: 2.75 percent.

The Board also announced the schedule of the sessions when the monetary program for each month will be approved in 2007: February 8, March 8, April 3, May 3, June 7, July 5, August 2, September 6, October 4, November 8, and December 6; as well as the dates when the inflation reports will be published: February 9, June 8 and October 5.

February 8: The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven the inflation rate below the target range are transitory. These include the lower prices of fuels, of public utilities and of some food products.

The Board also approved to raise the interest rate on reserve requirements of deposits in foreign currency subject to remuneration from 2.75 to 3.0 percent, and to initiate procedures to raise the maximum limit for investments abroad by Private Administrators of Pension Funds from 12.0 to 13.5 percent.

March 8: The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven the inflation rate below the target range are transitory. These include the lower prices of public utilities and some food products.

April 3: 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 on a timely basis when deemed appropriate.



May 3: The Board of the Central Reserve Bank of Peru (BCRP) decided to maintain the interbank reference rate at 4.5 percent, but expressed concerns about a possible inflationary impact in a 12-18 month horizon due to a very high increase of domestic demand. Therefore, should inflationary pressures be observed, the Board will be inclined to withdraw monetary stimulus.

The Board also approved to raise the interest rate on reserve requirements of deposits in foreign currency subject to remuneration from 3.0 to 3.25 percent, and to initiate procedures to raise the maximum limit for investments abroad by Private Administrators of Pension Funds from 13.5 to 15.0 percent.

June 7: The Board of the Central Reserve Bank of Peru (BCRP) decided to maintain the interbank reference rate at 4.5 percent, as inflation is in the lower band of the inflation target (between 1 and 3 percent) and core inflation remains stable at 1.5 percent. This evolution reflects a balance between a strong dynamism of domestic demand and improved productivity in the economy. The Board follows closely the evolution of these variables and their impact on inflation in a 12-18 month horizon in order to make any preventive adjustment in the monetary policy stance should this be required.

July 5: The Board of the Central Reserve Bank of Peru approved to raise the interbank reference rate from 4.50 to 4.75 percent. This preventive measure was adopted considering the lags with which monetary policy operates and in order to continue maintaining expectations anchored at low inflation levels, given the robust growth observed in terms of domestic demand. The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects. Moreover, given current macroeconomic data, the Board considers that this adjustment in the reference interest rate does not imply the beginning of a sequence of interest rate rises.

The Board also approved the annual interest rates on the following active and passive operations between the BCRP and the financial system: a. Direct repo and rediscount operations: 5.50 percent, and b. Overnight deposits: 4.00 percent. Likewise, a commission equivalent to a minimum annual effective cost of 5.50 percent was approved for Swap.

August 2: The Board of the Central Reserve Bank of Peru (BCRP) approved to maintain the interbank reference rate at 4.75 percent, but expressed concerns that the rises in the international prices of fuel and in some inputs used in the production of food products might reflect in inflationary expectations. These rises have a transitory impact on inflation. The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects.

Therefore, should expectations about inflation increase or should domestic demand increase to a level exceeding the gains resulting from productivity, the BCRP will implement additional preventive adjustments in the reference interest rate.

September 6: The Board of the Central Reserve Bank of Peru (BCRP) approved to raise the monetary reference rate from 4.75 to 5.0 percent. This preventive measure is taken considering the lags with which monetary policy operates in order to continue maintaining

expectations of low inflation anchored, in view of the robust growth shown by domestic demand in a context marked by an increase in the price of imported inputs. The Board will continue to oversee the evolution of inflation and its determinants, differentiating the factors that have temporary impacts from those with permanent effects.

The Board also approved the annual interest rates on the following active and passive operations between the BCRP and the financial system: a. Direct repo and rediscount operations: 5.75 percent, and b. Overnight deposits: 4.25 percent. Likewise, a commission equivalent to a minimum annual effective cost of 5.75 percent was approved for Swap.

October 4: The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent. The Board also said that the Bank will adopt additional preventive adjustments in the reference interest rate should expectations about inflation increase or should domestic demand grow at a faster pace than productive capacity and productivity gains.

November 8: The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent. The Central Bank pointed out that inflation's recent increase above the target is basically associated with rises in the international prices of some basic food inputs. Therefore, the Bank continues to keep a close watch on international economy developments and on their repercussions on inflation in the country.

December 6: The Board of the Central Bank approved to maintain the monetary policy reference rate at 5.0 percent. The Central Bank pointed out that inflation's recent increase above the target is basically associated with rises in the international prices of some food inputs, but said that inflation in November has decreased to 0.11 percent, a rate compatible with the inflation target.

The Board also announced the schedule of the sessions when the monetary program for each month will be approved in 2008: January 10, February 7, March 13, April 10, May 8, June 12, July 10, August 7, September 11, October 9, November 13, and December 11.

