



MONETARY PROGRAM FOR JUNE 2014

BCRP MAINTAINS THE REFERENCE INTEREST RATE AT 4.0%

1. The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference rate at 4.0 percent.

This level of the reference rate is compatible with an inflation forecast converging to the target range in 2014 and to 2 percent in 2015. The decision of maintaining the monetary policy rate takes into account that: i) inflation expectations remain anchored within the inflation target range; ii) GDP has been recording lower growth rates than the country's potential level of growth, which is expected to be a temporary situation; iii) recent indicators show mixed signals of recovery in the world economy, and iv) the supply factors that led inflation to increase are becoming more moderate.

2. Inflation in May showed a rate of 0.23 percent and thus inflation in the last 12 months rose from 3.52 percent in April to 3.56 percent in May, as reflected in the price rise of some food products due to seasonal factors. The rate of inflation without food and energy was 0.14 percent. As a result of this, the rate of inflation in the last 12 months accumulated 2.82 percent.

Inflation is forecast to remain initially close to the upper band of the target range due to the persistent effect of the supply shocks and to converge thereafter to the 2 percent target.

3. Current and advanced indicators of activity show a temporary weakening in economic activity, with lower GDP growth rates than the potential output due mainly to the lower dynamism observed in investment and exports.
4. The BCRP has continued reducing the rate of required reserves in domestic currency in June, lowering it from 12.0 percent to 11.5 percent with the purpose of supporting the dynamism of credit in soles. This rate reduction is effective as of July.
5. The Board oversees the inflation forecasts and inflation determinants, and will implement additional monetary easing measures if it is necessary.
6. 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 the BCRP and the financial system, as described below:

- a. Overnight deposits: 2.80 percent.
- b. Direct repos and rediscount operations: 4.80 percent.
- c. Swaps: a commission equivalent to a minimum annual effective cost of 4.80 percent.

7. The Board will approve the Monetary Program for July on its meeting of July 10, 2014.