



Press Release

BOARD OF THE CENTRAL BANK APPROVED MONETARY PROGRAM FOR AUGUST 2003

BCR REDUCES REFERENCE INTEREST RATES IN 50 BASIS POINTS

1. In July, the Consumer Price Index of Metropolitan Lima (CPI) decreased 0,15 percent. Therefore, last 12 month inflation was 1,98 percent, down from June (2,2 percent). On the other hand, core inflation, a price indicator that excludes high volatility components from the CPI basket, was null in August and 1,4 percent through last 12 months.
2. The decisions of monetary policy are oriented to obtain an annual accumulated inflation rate of 2,5 percent, with a rank of tolerance of one percentage point upwards and downwards (1,5 –3,5 percent). These decisions are based on inflation forecasts in order to foresee inflationary or deflationary pressures. May Inflation Report presented an end-of-year inflation forecast near the lower limit of the announced range (1,5 – 2,5 percent). According to the more recent inflation forecasts, the probabilities that the end-of-year inflation rate falls near the lower limit of the range has increased.
3. **The Board of the Central Bank approved the reduction of the reference interest rates for off auction monetary operations in 50 basis points. Therefore, the reference interest rates will be:**
 - a. **3,50 percent: for direct temporary purchases of securities and monetary regulation credits**
 - b. **2,25 percent: for overnight deposits.**
4. These reductions of the active and passive interest rates of the BCR with banks imply a flexibility of the monetary policy stance. When the economy is under downward inflation pressures, the Central Bank looses the monetary policy to achieve the inflation target (2,5 percent, with a rank of tolerance of one percentage point upwards and downwards).
5. In case, the interbank interest rate exceeds 3,5 percent, monetary regulation credits and direct temporary purchases of security operations will be charged with the market interbank interest rate.
6. In July, the interbank interest rate was 3,47 percent, down from June (3,74 percent), following the reduction of 25 basis points in the reference interest rates for monetary regulation credits and overnight deposits that month.
7. In July, the daily average balance of banks' current account deposits at the Central Bank was S/. 194, slightly under the estimated range (S/. 195 millions to S/. 215 millions). For August, the forecasted range for the daily average balance of banks' deposits held at BCR is S/. 190 million to S/. 210 million, in line with a seasonal demand. It should be noted that this balance is not a target, nor a monetary stance indicator, since it is affected by seasonal factors as well as liquidity requirement changes.
8. The reference interest rate for BCR's operations in dollars are:
 - a. Monetary regulation credits: LIBOR at 1 month plus one percentage point
 - b. Overnight deposits: an interest rate equivalent to the rate for similar BCR's deposits held abroad
 - c. Swaps, the commission that implies an annual effective cost of 3,5 percent is maintained

Lima, August 7, 2003