



Press Release

BOARD OF THE CENTRAL BANK APPROVED MONETARY PROGRAM FOR AUGUST 2004

CENTRAL BANK RAISES REFERENCE INTEREST RATE TO 2.75%

1. In July, the Consumer Price Index of Metropolitan Lima (CPI) increased 0.19 percent (2.3 percent in annual basis), due mainly to the price increases in fuel and transportation. The cumulative inflation in the January-July period was 3.2 percent. Thus, 12-month inflation reached 4.6 percent, higher than in June (4.3 percent). Core inflation, indicator of the inflationary trend, was 2.7 percent over last 12 months. Import goods price index rose by 11.0 percent in similar period.

As mentioned in May Inflation Report, the rate of inflation is transitorily above the upper bound of the range due to consecutive supply shocks over the first half of the year (foodstuffs and fuel). In this regard, the Central Bank is taking actions so inflation would converge to its target.

The Central Bank forecasts that the 12-month cumulative inflation would decrease over the next months near to the upper bound of the target range (1.5-3.5 percent) for 2004 and around the mid-point of the range (2.5 percent) for 2005.

2. **The Board of the Central Bank raised in 25 basis points the reference interest rates of the monetary operations:**
 - a. **The monetary operations regarding injection or withdrawal of liquidity by means of auctions will be made in order to place the interbank interest rate around the center of the corridor set by the reference interest rates (2.75 percent). Since November 2003 this reference rate was 2.5 percent.**
 - b. **For direct repos and monetary regulation credits, the rate went up from 3.25 to 3.5 percent.**
 - c. **For overnight deposits, the rate went up from 1.75 to 2.0 percent.**
3. In case of the interbank interest rate be higher than 3.5 percent, monetary regulation credits and direct repos will be charged with the market interbank interest rate.
4. For August, the forecasted range for the daily average balance of banks' deposits held at BCR is S/.165 - S/.185 million. This balance is neither a target nor a monetary policy stance indicator, since it is also affected by seasonal factors as well as liquidity demand changes.
5. The interest rates for Central Bank's operations in dollars are:
 - a. Monetary regulation credits: 1-month LIBOR 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 is raised to a level that implies a minimum annual effective cost of 3.5 percent.
6. September Monetary program will be approved in the Board of Directors meeting of September 9, 2004.

Lima, August 5, 2004