

BANCO CENTRAL DE RESERVA DEL PERÚ



PRESS RELEASE

MONETARY PROGRAM FOR DECEMBER 2006

BCRP MAINTAINS THE REFERENCE INTEREST RATE AT 4.50%

1. The Board of Directors of the BCRP decided to maintain the reference interest rate for the interbank market at 4.50 percent, taking into account that:
 - a. The inflation rate continues to be within the lower range of the announced target range (1.5 – 2.5 percent), in line with the inflation forecasts outlined in our Inflation Report of September. As described in this Report, due to the reversal of the price increases observed in some food products, inflation is expected to be temporarily below the lower range of the inflation target during the next months, returning thereafter to a level within the inflation target range (1.5 percent – 3.5 percent).
 - b. The risks forecast in our previous Inflation Report persist. Particularly, an increased growth of domestic demand –not coupled by an increase in productivity- would generate upward pressures on inflation and would, consequently, require that preventive adjustments be made in terms of the monetary stance. In this context, the Central Bank will continue to evaluate any relevant macroeconomic information and take any necessary action in order to ensure that inflation remains within the target range in the medium term.
2. This decision has been made taking into account the following information:
 - a. The Consumer Price Index for Metropolitan Lima (CPI) decreased 0.28 percent in November. As a result of this, the CPI inflation rate accumulated in the last twelve months was 1.54 percent, close to the lower range of the inflation target (1.5 percent). One of the factors explaining this evolution was the prices of food products, especially the lower prices of onion, poultry, potato and sugar. On the other hand, core inflation was 0.13 percent, and accumulated a last-12-month rate of 1.45 percent.
 - b. Economic activity is estimated to have grown by 6.9 percent in October, accumulating a rate of 7.4 percent in the January-October 2006 period, boosted by the dynamic performance of domestic demand which is estimated to have grown 9.6 percent in the same period. All domestic demand components show high rates of growth, particularly private consumption and investment which are estimated to have grown 5.8 percent and 19.7 percent respectively as a result of a favorable context marked by high consumers' and business confidence.

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- c. The average monthly interest rate in the interbank market was 4.48 percent in November, while the average 90-day corporate prime rate for credit in soles was 5.25 percent, a level 6 bps. lower than in October.
- d. The country risk indicator at the end of November was 158 bps., which represented an increase of 8 bps. with respect to the close of October, and reflected –although to a lesser extent- the evolution observed in the region. Furthermore, the yield of the 20-year sovereign bonds in domestic currency decreased for the sixth consecutive month, falling from 6.90 percent in October to 6.88 percent in November.
- e. The nuevo sol appreciated 0.5 percent in nominal terms against the dollar in November when the exchange rate was S/. 3.22 per dollar. However, in real terms, the nuevo sol depreciated 0.6 percent against the currencies of our main trading partners, and taking into account relative inflation with said countries. Over the last twelve months, the nuevo sol has appreciated 4.6 percent against the dollar in nominal terms and 0.7 percent in real terms.

During the month of November, banks' exchange position increased by US\$ 48 million. The balance of net forward sales decreased by US\$ 133 million and net purchases of dollars in the spot market amounted to US\$ 569 million. The Central Bank intervened in the exchange market purchasing US\$ 610 million, of which US\$ 150 million were sold to the Public Treasury.

3. During the session, the Board of Directors approved the annual interest rates on the following operations in soles between the BCRP and the financial system:
 - a. Direct repo and rediscount operations: 5.25 percent.
 - b. Overnight deposits: 3.75 percent.

Likewise, the Board of Directors approved the interest rates on the following 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 $\frac{3}{8}$ of one percentage point.
 - c. Swap: a commission equivalent to a minimum annual effective cost of 5.25 percent.
 - d. Reserve requirements in foreign currency subject to remuneration: 2.75 percent annually.
4. The Board will approve the following Monetary Program (January 2007) on the session to be held on January 4, 2007.

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