



**Press Release**  
**MONETARY PROGRAM FOR NOVEMBER 2006**

**CENTRAL BANK MAINTAINS REFERENCE RATE AT 4.50%**

1. The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that:
  - a. Inflation continues to be at the lower band of the announced target range (1.5 – 2.5 percent), as a result of which the estimated evolution of inflation described in the Inflation Report of September stands. Thus, in the 2006-2007 forecast horizon, inflation would temporarily settle at the lower band of the target range –due to the reversal of the increase in the price of some food products–, converging gradually to 2.5 percent.
  - b. The risks described in our previous Inflation Report persist. A higher growth of domestic demand –should it not be coupled by the growth of investment or productivity– would generate upward pressures on inflation. In this context, the Central Bank will continue to evaluate all relevant macroeconomic information to guarantee that the necessary measures are in place to maintain inflation within the target range (1.5 percent – 3.5 percent) in the medium term.
2. This decision has been made taking into account the following information:
  - a. The Consumer Price Index of Metropolitan Lima (CPI) increased 0.04 percent in October. In this way, the CPI inflation rate over the last twelve months was 1.89 percent, within the target range announced for inflation. On the other hand, core inflation was 0.06 percent, accumulating a last-12-month change of 1.45 percent.
  - b. Maintaining the dynamic performance it has exhibited so far this year, economic activity is estimated to have grown 8.7 percent in the third quarter, driven by domestic demand, which is estimated to have grown 10.5 percent in the same period. Private consumption, on the other hand, would have grown 6.3 percent in the third quarter, while private investment would have grown 16.5 percent. These evolutions have taken place in a favorable context supported by consumer and business confidence.
  - c. The average interest rate in the interbank market was 4.50 percent in October (similar to the reference rate), while the 90-day corporate prime rate in soles decreased to 5.31 percent, posting 3 bps. less than in September.

- d. The country risk indicator recorded 150 bps. at the close of October, a lower level than the one posted at the close of September (171 bps). On the other hand, the yield on the 20-year sovereign decreased for the fifth consecutive month, falling from 7.4 to 6.9 percent in October.
- e. Moreover, in October, the nominal average exchange rate decreased 0.3 percent with respect to September, and the real exchange rate declined 0.2 percent. The nominal exchange closed at S/. 3.24 per dollar.

During the month of October, banks' net forward sales of foreign currency decreased by US\$ 526 million; net sales of foreign currency to banks on the spot market amounted to US\$ 152 million; and banks exchange position decreased by US\$ 25 million. In this scenario, the BCRP intervened in the exchange market purchasing US\$ 696 million, of which US\$ 120 million were sold to the Public Treasury.

- 3. The Board of the BCRP approved the following interest rates for active and passive operations of both the BCRP and the financial system:
  - a. For direct repo and rediscount operations, the rate continues to be 5.25 percent.
  - b. For overnight deposits, the rate continues to be 3.75 percent.

Likewise, the interest rates for the following operations in dollars between the Central Bank and the financial system are established as follows:

- a. Rediscount operations: 1-month LIBOR plus one percentage point.
  - b. Overnight deposits: overnight LIBOR minus 3/8 of a percentage point.
  - c. Swap: the commission continues to be at a level that implies a minimum annual effective cost of 5.25 percent.
  - d. Reserve requirements in foreign deposits subject to payment: the rate continues to be 2.5 percent.
- 4. In addition to this, the Board decided to initiate the required procedures to increase the maximum limit of investments abroad from 10.5 percent to 12.0 percent for Private Administrators of Pension Funds (*Administradoras Privadas de Fondos de Pensiones*).
  - 5. The Board will approve the following Monetary Program (for the month of December 2006) in its meeting of December 7, 2006.