BANCO CENTRAL DE RESERVA DEL PERÚ

PRESS RELEASE

MONETARY PROGRAM FOR JANUARY 2007

BCRP MAINTAINS REFERENCE RATE AT 4.50%

i. The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent, considering that no inflationary pressures are expected in the short term and that the factors that have driven the inflation rate below the target range are transitory. These include the lower prices of fuels, of public utilities and of some food products which are expected to have a one-time impact on the inflation rate.

ii. The inflation targeting scheme implemented by the Central Bank since 2002 involves a series of preventive monetary measures to maintain inflation within the target range of between 1.5 and 3.5 percent. The inflation targeting regime considers the possibility of transitory diversions from the target range which fall out of the control of central banks and which are not deemed to require particular monetary measures to address them given their temporary nature.

iii. The Consumer Price Index of Metropolitan Lima (CPI) increased 0.03 percent in December 2006, as a result of which the last-12-month CPI inflation rate was 1.14 percent –below the lower band of the inflation target (1.5 – 2.5 percent)– in line with the trend forecast in the Central Bank's inflation report of September and with the announced monetary program for December. This lower inflation rate is associated with the lower prices of fuels, of electricity and telephone rates, and of some food products. The rate of core inflation –a trend indicator of price increases– was 0.15 percent in December, as a result of which last-12-month core inflation has increased from 1.23 percent in 2004 and 2005 to 1.4 percent in 2006.

    The last-12-month inflation rate is expected to remain below the lower band of the inflation target (1.5 percent) in the first part of 2007 due to the reversal of the price rises of some food products observed in the first four months of 2006, as these factors have a one-time impact on inflation and therefore require no particular monetary policy measures to address them.

iv. The acceleration of economic activity since 2005, with growth rates of domestic demand of around 10 percent during 2006, has been coupled by low levels of inflation. This evolution is explained by productivity increases in the economy as well as by the appreciation of the nuevo sol. In addition to this, business expectations on inflation are stable.

v. In this context, the Central Bank will continue evaluating all relevant macroeconomic information and will stand ready to take any necessary measure to ensure that inflation continues to be within the target range (1.5 – 3.5 percent). Particularly, the Central Bank will oversee that an increased domestic spending –that might exceed the improvements observed in terms of productivity– is not translated into inflationary pressures.

vi. In the last twelve months, the nominal exchange rate decreased 6.4 percent relative to the dollar, while the real exchange rate (considering the currency fluctuations of our main trading partners and relative inflation in these countries) declined less –1.3 percent– in a context of unprecedented increased terms of trade (26 percent) over the last 50 years.

vii. The interbank reference interest rate has been 4.5 percent since May 2006, and the average monthly interest rate for the interbank market was 4.51 percent in December. The short-term rates are relatively stable and long-term rates in domestic currency continue to exhibit a decreasing tendency. Thus, the average 90-day corporate prime rate for credit in soles was 5.23 percent in December, decreasing 2 bps. with respect to November. On the other hand, the yield on the 20-year sovereign bond in soles decreased for the seventh consecutive month and fell from 6.88 percent in November to 6.58 percent in December.

viii. During the session, the Board of Directors approved the following annual interest rates for active and passive operations between the BCRP and the financial system:

a. Direct temporary purchases of securities and rediscount operations: 5.25 percent.
b. Overnight deposits: 3.75 percent.

Likewise, the Board of Directors approved the following annual interest rates for 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 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.

ix. The Board will approve the following Monetary Program (for the month of February) on the session to be held on February 8, 2007.

x. In 2007, the Board of the Central Bank will approve the Monetary Program for each month according to the following schedule:

February 8	March 8	April 3	May 3
June 7	July 5	August 2	September 6
October 4	November 8	December 6	

Likewise, the BCRP will publish its **Inflation Reports** on the following dates:

February 9	June 8	October 5

Lima, January 4, 2007