



## MONETARY PROGRAM FOR DECEMBER 2008 <sup>1</sup>

### BCRP MAINTAINS REFERENCE INTEREST RATE AT 6.50%

1. The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 6.50 percent.

Monthly inflation in November was lower than in previous months despite the price rises observed in residential electricity and potable water rates. Inflation in the next months should continue showing the expected downward trend, which includes the effects of the recent drops observed in the international prices of food inputs and fuels.

2. The Board also approved to reduce minimum legal reserve requirements from 9.0 to 7.5 percent, which would release approximately S/. 650 million, and to reduce marginal reserve requirements in foreign currency from 35 to 30 percent.

The series of policies applied by the Central Bank since September to offset the effects of the international financial crisis have allowed financial entities to significantly increase their liquidity and that credit to the private sector, in both domestic and foreign currency, continue to grow, showing higher rates of growth than the ones observed in the first nine months of the year.

The flow of credit in soles increased from a monthly average of S/. 1,077 million between January and September to a total of S/. 2,487 million in October and to an estimated flow of S/. 1,882 million in November. On the other hand, credit in dollars increased from a monthly average of US\$ 203 million between January and September to US\$ 385 million in October and to an estimated flow of US\$ 379 million in November. These figures reflect the normal flow of credit, which contributes to economic growth.

3. The Board will continue to oversee the development of domestic demand and of the national and international economic and financial situation, as well as the evolution of inflation and its determinants. The Board also reiterates that the Central Bank will adopt any necessary measures to lead inflation to gradually converge to the target range. Moreover, the Board reaffirms its commitment of using monetary instruments to supply the economy with the amount of liquidity required and states that a more flexible monetary stance will be adopted as inflation expectations start converging towards the target range.
4. The Board also approved to maintain the following annual interest rates on active and passive operations in domestic currency (not included in auctions) between the BCRP and the financial system:
  - a. Direct repo and rediscount operations: 7.25 percent.
  - b. Overnight deposits: 5.75 percent.
  - c. Swap: a commission equivalent to a minimum annual effective cost of 7.25 percent.
5. The Board will approve the Monetary Program for January 2009 on its session of January 8, 2008.

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<sup>1</sup> The Board's session to determine the monetary program for the month of December was held on Wednesday, December 10 instead of on Thursday, December 11 due to a Governor's mission abroad.