

BANCO CENTRAL DE RESERVA DEL PERÚ

Press release



BOARD OF THE BANK APPROVED MONETARY PROGRAM FOR THE YEAR 2002

- ✓ **Liquidity and credit growth will be consistent with the consolidation of monetary stability and real reactivation.**
 - ✓ **The Central Reserve Bank adopts a new monetary policy framework named Explicit Inflation Targeting.**
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- In the January 24 meeting, the Board of Directors of the Central Reserve Bank agreed the end-of-year annual inflation target range would be centered on 2,5 percent with a margin of one percent point on each side of the midpoint. Likewise, the Board approved the Monetary Program for the year 2002, which is based on a new framework Inflation Targeting. According to this, monetary policy decisions will be continuously adjusted in order to reach the target. The Board of the Bank will approve and release its monetary policy actions aimed at reaching this goal, but taking into account the level of economic activity. The analysis made by the Bank will be based on a set of surveys as well as forecasts and inflation indicators.
 - The target approved this year is consistent with an eased monetary stance adopted in the last months, which was reflected in the diminishing of interest rates. Thus, short-term interest rate in domestic currency of the interbank market passed from 8,4 percent in July to 5,9 percent in September and to 3,1 percent in December. Likewise, a domestic demand growth of 3,4 percent, after the fall in 2001 (1,2 percent), is considered as well. It should be noted that inflation and exchange rate expectations of financial enterprises point out increments of 2,2 and 2,3 percent, respectively, in line with the Central Bank's target.
 - In the first meeting of every month, the Central Bank's Board of Directors will choose and release the range for the disposable liquidity in the interbank market in order to affect its interest rates. Furthermore, the Bank will announce relevant interest rates for its operations with commercial banks.

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- In order to regulate banking sector's disposable liquidity, the BCR relies on tools to inject or withdraw liquidity from the market. In order to inject liquidity, the Bank counts on temporary purchases (repos) of Certificates of Deposits of the BCR, Treasury bonds and foreign currency (swaps) as well as credits of monetary regulation and purchases of foreign currency in the spot market. On the other hand, the Bank withdraws liquidity throughout auctions of Certificates of Deposits of the BCR, overnight deposits and sales of foreign currency in the spot market.
- The Inflation Targeting framework is fully compatible with the existent floating exchange rate regime.
- The Inflation Targeting framework is supported by monetary policy transparency, so that economic agents' inflation expectations could be based on Central Bank's target and decisions. Therefore, the Bank will release every four months, in January, May and September, an assessment of the monetary program. The Bank has released via Internet (www.bcrp.gob.pe) the **MONETARY PROGRAM FOR THE YEAR 2002**.
- Finally, the monetary policy decisions taken during every Board meeting will be released at the end of session in an **Informative Note** posted up in the web page.