



Press Release
MONETARY PROGRAM FOR APRIL 2006

CENTRAL BANK RAISES REFERENCE RATE FROM 4.00% TO 4.25%

1. The Board of the BCRP acknowledge the following information:
 - a. The Consumer Price Index of Metropolitan Lima (CPI) increased 0.46 percent, evolution explained by rises in school tuition fees and in the prices of some food products, such as sugar and potato. As a result, the CPI inflation rate over the last twelve months was 2.5 percent, in the middle of the target range (1.5 percent – 3.5 percent). On the other hand, the underlying inflation over the last 12 months was 1.4 percent.

Inflation is expected to converge to its target level (2.5 percent) throughout 2006.
 - b. Economic activity grew 4.4 percent in January 2006, with a 7.0 percent increase in the domestic demand. As in previous months, the indicators on consumer trust are recorded at the highest levels.
 - c. The evolution of the trade balance and terms of trade continues to be positive. The trade balance showed an accumulated surplus for the last 12 months of US\$ 5,210 million by February, while the terms of trade in the first bimester increased in 13.7 percent with respect to the same period last year due to a 24.1 percent increase in export prices.
 - d. The average exchange rate increased 1.6 percent in March, rising from S/. 3.29 per dollar in February to S/. 3.34 per dollar, as a result of which the real exchange rate increased 1.5 percent in March (1.6 percent of real depreciation in the last twelve months).
 - e. The Central Bank did not intervene in the exchange market in March. During this month, the bank's balance of net forward sales increased by US\$ 470 million, the public purchases of dollars in the spot market were US\$ 516 million, and the bank's exchange position increased in US\$ 95 million.
 - f. The average interest rate of the interbank market was 4.12 percent in March (3.82 percent higher than last month's), while the corporate prime rate for loans in soles went from 5.4 percent to 6.1 percent in the same period. In this month, the BCRP continued carrying out significant repo auctions in order to stabilize the interbank interest rate around the reference interest rate (4.0 percent in March). Exceptional upward

pressures on the interbank rate were recorded in the last days of March and first days of April, coinciding with the beginning of the period for income tax payments.

- g. The country risk indicator rose from 143 pbs at the end of February to 187 pbs at the end of March. In turn, the 15-year maturity sovereign bond yield increased from 7.5 to 8.2 percent.
2. The Board of the Central Bank approved to raise the reference interest rate for the interbank market from 4.00 percent to 4.25 percent. This decision has been taken considering that :
 - a. The dynamism of economic activity for 2006 (5.0 percent) is consistent with the continuous accomplishment of the inflation target (from 1.5 to 3.5 percent).
 - b. The raise in the interest rate will contribute to reduce the exchange rate volatility. If necessary, the Bank will continue to sell exchange currency at spot market and auctions of Adjustable Certificate Deposits (CDRBCRP) to avoid undesirable effects over prices and economic activity in general.
3. This decision does not imply a sequence of raises in the reference interest rate.
4. The Board approved the following interest rates for the Central Bank operations:
 - a. For direct repos and monetary regulation credits, the rate rises to 5.0 percent.
 - b. For overnight deposits, the rate rises to 3.50 percent.
5. The interest rates for the following operations in dollars between the Central Bank and the Financial system are established as follows:
 - a. Monetary regulation credits: 1-month LIBOR plus one percent.
 - b. Overnight deposits: overnight LIBOR minus $\frac{3}{8}$ of a percentage point.
 - c. Swap: the commission is raised to a level that implies a minimum annual effective cost of 5.0 percent.
 - d. Reserve requirements in foreign deposits subject to payment remain at 2.25 percent.

6. In order to improve liquidity provision for financial entities, the Board approved implementing the following measures:
 - a. Include CDRBCRP among the securities for temporary repos, provided that financial entities have no available CDBCRP or BTP, and according to liquidity conditions in the market. Likewise, CDRBCRP are included in the list of guarantees for Monetary Regulation Credits.
 - b. Include the private sector (non-financial) securities in local currency listed as assets that may be used for monetary regulation credits among the securities for direct repos.
7. The Board will approve the following Monetary Program (May 2006) on the session to be held on May 4, 2006.

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