



Press Release
MONETARY PROGRAM FOR FEBRUARY 2006

CENTRAL BANK RAISES REFERENCE RATE FROM 3.50% TO 3.75%

1. The Board of the Central Bank acknowledge the following information:
 - a. The Consumer Price Index of Metropolitan Lima (CPI) rose 0.5 percent in January, explained by temporary price rises of poultry (8.6 percent) and other food as potato and vegetables, related the two latter with sowings delays. Thus, the CPI inflation rate over the last twelve months was 1.9 percent, within the target range (1.5 percent – 3.5 percent). It is expected the convergence of inflation toward its target level (2.5 percent) in 2006.
 - b. The economic activity would have been accelerated its growth in the fourth quarter (7.5 percent), being maintained the estimation of a 6.3 percent growth for 2005, the highest rate since 1997. The indicators of consumer confidence are located also in their higher levels ever registered.
 - c. The growing tendency of the trade balance surplus is maintained, being forecasted a record of US\$ 1 676 million for the fourth quarter 2005, reaching an annual surplus of US\$ 5 163 million or 6.6 percent of GDP. The terms of trade increased 7.0 percent that year due to the 18.4 percent increase of export prices.
 - d. The average exchange rate average diminished 0.9 percent in January, from S/. 3.43 per dollar in December to S/. 3.39 per dollar. Thus, in January, the real exchange rate diminished 0.3 percent (4.0 percent of real depreciation in the last twelve months). The pressures for the nominal exchange rate increase at the beginning of month were dissipated completely in the second two-week period, so the exchange rate closed January at S/. 3.31 per dollar.
 - e. In the first two-week period of January, the Central Bank intervened with US\$ 364 million in the exchange market (sales of US\$ 355 million and placements of Adjustable Certificates of Deposit (CDRBCRP) by US\$ 9 million) to avoid an excessive exchange rate volatility. During last month, the bank's balance of net forward sales increased US\$ 202 million, the public purchases of dollars in the spot market were of US\$ 172 million and the bank's exchange position diminished by

US\$ 69 million. Since January 17, the Central Bank has not intervened in the exchange market.

- f. The average interest rate of the interbank market was 3.58 percent in January, higher than the one observed in the previous month (3.33 percent), while the corporate prime rate for loans in soles passed from 4.4 percent to 5.2 percent. In this month, the BCRP carried out repo auctions in order to stabilize the interbank interest rate around the reference interest rate (3.50 percent in January).
 - g. The country risk indicator diminished from 206 bps at the end of December to 160 bps at the end of January. In turn the 15-year maturity sovereign bond yield in soles diminished from 8.3 to 8.0 percent.
2. The Board of the Central Bank approved to raise the reference interest rate for the interbank market from 3.50 percent to 3.75 percent. This decision has been take considering:
 - a. The dynamism of the economic activity for 2006 (5.0 percent) is consistent with the continuous accomplishment of inflation target (from 1.5 to 3.5 percent).
 - b. The raise in the interest rate will cooperate to reduce the exchange rate volatility. The Bank will continue, if necessary, selling exchange currency at spot market and auctions of Adjustable Certificate Deposits (CDRBCRP) to avoid undesirable effects over prices and economic activity in general.
 3. As mentioned in the Press Releases of the two previous Monetary Programs, this decision does not imply a sequence of raises in the reference interest rate.
 4. It was approved to raise the lending and deposits interest rates for the Central Bank operations:
 - a. For direct repos and monetary regulation credits, the rate raises to 4.50 percent.
 - b. For overnight deposits, the rate raises to 3.00 percent.
 5. In the case that the interbank interest rate be higher than 4.50 percent, monetary regulation credits and direct repos will be charged with the market interbank interest rate.

6. The interest rates for the following operations in dollars between the Central Bank and the Financial System are:
 - a. Monetary regulation credits: 1-month LIBOR plus one percent point.
 - b. Overnight deposits: overnight LIBOR minus $\frac{3}{8}$ of a percentage point.
 - c. Swap: the commission raises to a level that implies a minimum annual effective cost of 4.50 percent.
 - d. Reserve requirement in foreign deposits subject to payment: 2.25 percent.

7. The session in which the Board will approve the following Monetary Program (March 2005) will be held on March 2th, 2006.

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