



Press Release
MONETARY PROGRAM FOR JUNE 2006

CENTRAL BANK MAINTAINS REFERENCE RATE AT 4.50%

1. The Board of the BCRP acknowledge the following information:
 - a. The Consumer Price Index of Metropolitan Lima (CPI) decreased 0.5 percent in May. This evolution is explained by the reduction in the prices of electricity, sugar, and potato; the price drop of the latter two products reverting part of the increases produced in the previous months. In this way, the CPI inflation rate for the last twelve months was 2.2 percent, within the target range (1.5 percent – 3.5 percent). On the other hand, the core inflation rate for the last 12 months was 1.3 percent.
 - b. In the January – April 2006 period, economic activity grew around 6 percent with respect to the same period last year. As in previous months, demand indicators show the constant dynamism of economic activity.
 - c. The average exchange rate decreased 1.6 percent in May, falling from S/. 3.33 in April to S/. 3.28 per dollar. Thus, the real exchange rate increased 0.4 percent in May (the sol depreciated 2.9 percent in real terms over the last twelve months) due to the depreciation of the dollar against other currencies. The BCRP intervened in the exchange market on May 17, purchasing US\$ 0.5 million.
 - d. The interbank interest rate in May was 4.48 percent, similar to the reference level (4.5 percent), while the 90-day corporate prime rate in soles fell from 6.8 percent in April to 5.9 percent. In this way, the upward pressures on the short-term interest rates were reverted. To do so, the BCRP continued carrying out significant repo auctions, increasing the maturities on these operations to up to three months.
 - e. The country risk indicator decreased from 181 basis points at the close of April to 168 basis points at the end of May. In this month, placements of 20-year nominal sovereign bonds were made for the first time, thus widening the yield curve of these securities.

2. The Board of the BCRP approved to maintain the interbank reference rate at 4.50 percent, taking into account that:
 - a. The Central Bank has been partially reducing monetary stimulation since the month of December, thereby generating an increase of 150 basis points in the reference interest rate. The BCRP will continue to evaluate relevant macroeconomic information in order to implement the measures required to guarantee that the level of inflation remain within the target range.
 - b. Economic activity in 2006 and 2007 is expected to grow between 5.0 and 5.5 percent, the dynamism of economic activity being consistent with the inflation target (within 1.5 and 3.5 percent).
3. If necessary, the Central Bank will intervene in the exchange market to reduce exchange volatility so that undesired effects on inflation and on economic activity in general are prevented.
4. The Board of the BCRP also approved to maintain the Bank's interest rates on active and passive operations (outside auctions). Thus,
 - a. For direct repo and for rediscount operations, the rate continues to be 5.25 percent.
 - b. For overnight deposits, the rate continues to be 3.75 percent.
5. The interest rates for the following operations in dollars between the BCRP and the financial entities are established as follows:
 - a. Rediscount facilities: 1-month LIBOR plus one percentage point.
 - b. Overnight deposits: overnight LIBOR minus 3/8 of a percentage point.
 - c. SWAP: the commission is maintained at a level that implies a minimum annual effective cost of 5.25 percent.
 - d. Reserve requirements in foreign currency subject to payment remain at 2.25 percent.
6. The Board will approve the following Monetary Program (July 2006) on the session to be held on July 6, 2006.

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