



**Press Release
N° 012-2006-BCRP**

MONETARY PROGRAM FOR MARCH 2006

**CENTRAL BANK RAISES REFERENCE INTEREST RATE FROM 3.75%
TO 4.00%**

1. The Board of the Central Bank acknowledge the following information:
 - a. The Consumer Price Index of Metropolitan Lima (CPI) rose 0.55 percent in February, explained by temporary price rises of poultry, potato and eggs (0.51 percentage points). Thus, CPI inflation rate over the last 12 months was 2.7 percent, within the target range (1.5 – 3.5 percent). Core inflation over the last 12 months was 0.9 percent.

It is expected that the inflation rate over last 12 months be maintained around the target level (2.5 percent) through 2006.
 - b. Economic activity grew 7.7 percent in the fourth quarter of 2005, thus GDP increased 6.7 percent in 2005, the highest growth rate since 1997. The indicators of consumer confidence are also located in their higher levels ever registered.
 - c. The growing trend of the trade balance surplus is maintained, reaching a record of US\$ 1 676 million for the fourth quarter of 2005, and 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 decreased 3.1 percent in February to S/. 3.29 per dollar from S/. 3.39 per dollar in January. Thus, in February, the real exchange rate diminished 3.5 percent (0.5 percent of real appreciation in the last 12 months). During most of the month downward pressures on the nominal exchange rate were observed; however, during the last 2 days, upward pressures were registered, so the exchange rate closed February in S/. 3.30 per dollar. Thus, it is maintained the high volatility of the exchange rate observed in the last months.
 - e. In February, the Central Bank intervened purchasing US\$ 59 million in the exchange market to avoid an excessive exchange rate volatility. It is worth to mention that no purchases were carried out since September of

the previous year. During February, the bank's balance of net forward sales of foreign currency was reduced in US\$ 120 million, the public sales of dollars to banks in the spot market were of US\$ 262 million and the bank's exchange position increased in US\$ 74 million.

- f. The average interest rate of the interbank market was 3.82 percent in February, higher than in the previous month (3.58 percent), while the corporate prime rate for loans in soles increased from 5.1 percent to 5.4 percent in the same period. In February, the BCRP continued carrying out repo auctions in order to stabilize the interbank interest rate around the reference interest rate (3.75 percent in February).
 - g. The country risk indicator dropped from 160 bps at the end of January to 143 bps at the end of February. This indicator reached a lowest level of 128 bps on February 27. The 15-year maturity sovereign bond yield in soles decreased from 8.0 to 7.5 percent.
2. The Board of the Central Bank approved to raise the reference interest rate for the interbank market from 3.75 percent to 4.00 percent. This decision was taken considering that:
 - a. The expected 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 of the reference interest rate will contribute to prevent situations of upward volatility in the exchange market. The Bank will continue, if necessary, with their interventions to reduce the exchange rate volatility, selling foreign currency at the spot market and auctioning Adjustable Certificate Deposits (CDRBCRP) to avoid undesirable effects on inflation and economic activity in general.
 3. This decision does not imply a sequence of interest rates rises.
 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 4.75 percent.
 - b. For overnight deposits, the rate raises to 3.25 percent.
 5. In the case that the interbank interest rate be higher than 4.75 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 percentage point.
 - b. Overnight deposits: overnight LIBOR minus 3/8 of a percentage point.
 - c. Swap: the commission raises to a level that implies a minimum annual effective cost of 4.75 percent.
 - d. Reserve requirement deposits in foreign currency subject to payment: 2.25 percent.
7. The session in which the Board will approve the following Monetary Program (April) will be held on April 6th, 2006.

.....