



**Press Release**  
**MONETARY PROGRAM FOR MAY 2006**

**CENTRAL BANK RAISES REFERENCE RATE FROM 4.25% TO 4.50%**

1. The Board of the BCRP acknowledge the following information:

- a. The recent evolution of the inflation rate is associated to a rise in the prices of some products in particular, and this rise is connected to transitory factors affecting the supply.

The Consumer Price Index of Metropolitan Lima (CPI) increased 0.51 percent in April, 0.45 percentage points of which are explained by a rise in the price of sugar. In the case of the accumulated inflation for January-April 2006 (2.0 percent), the prices of sugar, poultry meat, and potato account for 1.3 percent of this figure. In the case of the inflation rate over the last twelve months (2.9 percent), again the rise in the prices of potato and sugar, as well as in the price of fuels, account for 1.5 percentage points.

The core inflation rate –an indicator that expresses the trend in price increases, but isolates the most volatile components of the CPI- over the last 12 months was 1.4 percent.

- b. Economic activity recorded a growth of 4.9 percent in February 2006, with a 7.5 percent increase in the domestic demand (private investment grew by 23.3 that month). As in previous months, demand indicators show the constant dynamism of economic activity.
- c. The average exchange rate decreased 0.27 percent in April, falling from S/. 3.34 in March to S/. 3.33 per dollar, as a result of which the real exchange rate increased 0.2 percent (a 2.1 percent real depreciation in the last twelve months) due to the depreciation of the dollar against other currencies. The BCRP did not intervene in the exchange market in April.
- d. The Central Bank continued carrying out significant repo auctions in April in order to both revert exceptional upward pressures on the interbank interest rate and to stabilize it around the reference interest rate (4.25 percent in April).

The average interest rate in the interbank market was 4.26 percent at the end of April (4.76 percent lower than last month's), while the corporate prime rate for loans in soles went from 7.3 at the end of March to 6.4 percent at the end of April.

- e. The country risk indicator decreased from 187 basis points at the end of March to 181 basis points at the end of April. In turn, the 15-year maturity sovereign bond yield decreased from 8.25 to 8.06 percent.

2. The Board of the Central Bank approved to raise the reference interest rate for the interbank market from 4.25 percent to 4.50 percent. This decision has been made taking into account the following considerations:
  - a. The dynamism of economic activity for 2006 (5.0 percent) is consistent with the continuous accomplishment of the inflation target (between 1.5 and 3.5 percent).
  - b. The rise in the interest rate will contribute to reduce volatility in the exchange market. If necessary, the Bank will intervene and reduce volatility by selling exchange currency at spot market and carrying out auctions of Adjustable Certificate Deposits (CDRBCRP) in order to avoid undesirable effects over prices and economic activity in general.
3. This decision does not imply a sequence of rises in the reference interest rate.
4. The Board approved the following interest rates for the Central Bank operations:
  - a. For direct repo operations and for rediscount facilities, the rate rises to 5.25 percent.
  - b. For overnight deposits, the rate rises to 3.75 percent.
5. The interest rates for the following operations in dollars between the Central Bank and the Financial system are established as follows:
  - a. Rediscount facilities: 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 5.25 percent.
  - d. Reserve requirements in foreign deposits subject to payment remain at 2.25 percent.
6. The Board will approve the following Monetary Program (June 2006) on the session to be held on June 1, 2006.

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