



Press Release

MONETARY PROGRAM FOR JANUARY 2006

CENTRAL BANK RAISES REFERENCE RATE FROM 3,25% TO 3,50%

1. The Board of the Central Bank acknowledge the following information:
 - a. The Consumer Price Index of Metropolitan Lima (CPI) increased 0,4 percent in December. Thus, the inflation rate registered in 2005 was 1,5 percent, at the lower limit of the target range (1,5 percent – 3,5 percent). With this result the inflation target is accomplished by fourth consecutive year. Since 2006, the inflation target will be evaluated continuously.
 - b. The economic activity has a sustained growth, being forecasted a 6,3 percent growth for 2005, the highest rate observed since 1997.
 - c. The growing tendency of the trade balance surplus continues, being forecasted a record level for 2005 of US\$ 4 751 million (equivalent to 6 percent of GDP and greater in US\$ 1 958 million than the previous year).
 - d. The average exchange rate increased 1,4 percent in December from S/. 3,38 per dollar in November to S/. 3,43 per dollar in December. Thus, in 2005, the sol depreciated 4,4 percent in nominal terms and 4 percent in real terms.
 - e. In December, the Bank intervened with US\$ 644 million in the foreign exchange market with foreign currency sales by US\$ 345 million and Adjustable Certificates of Deposits (CDRBCRP) by US\$ 300 million to avoid excessive market volatility. During last month, the bank's balance of net forward sales increased in US\$ 581 million, the public purchases of dollars in the spot market were US\$ 80 million and the bank's exchange position grew by US\$ 40 million.
 - f. The possibility of this raising volatility in the electoral period had been already anticipated in the Inflation Report, against which the Central Bank preventively accumulated exchange position and international reserves in the last two years (US\$ 2,9 billion and US\$ 3,9 billion, respectively), reaching balances of US\$ 7 451 million and US\$ 14 097 million, respectively, at the end of 2005.
 - g. The average interest rate of the interbank market was 3,33 percent in December, higher than the one observed in the previous month (3,02 percent), while the corporate prime rate for loans in soles passed from 4,0 percent to 4,4 percent. In this month, the BCRP carried out 35 repo

auctions in order to stabilize the interbank interest rate around the reference interest rate (3,25 percent in December).

2. The Board of the Central Bank approved to raise the reference interest rate for the interbank market from 3,25 percent to 3,50 percent. This decision has been take considering:
 - a. The dynamism of the economic activity for 2006 (5,0 percent) is consistent with the 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 and auction of Adjustable Certificate Deposits (indexed to the exchange rate) to reduce the pressure over prices, the stability on the exchange rate, and the economic activity in general.
3. As mentioned in the December Press Release, 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 4,25 percent.
 - b. For overnight deposits, the rate raises to 2, 75 percent.
5. In the case that the interbank interest rate be higher than 4,25 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 3/8 of a percentage point.
 - c. Swap: the commission raises to a level that implies a minimum annual effective cost of 4,25 percent.
 - d. Reserve requirement in foreign deposits subject to payment: 2,25 percent.

7. For 2006, the Board of the Central Bank will release its monthly monetary program the following dates:

February 2nd	March 2nd	April 6th	May 4 th
June 1st	July 6th	August 3rd	September 7th
October 5th	November 2nd	December 7th	

8. The Central Bank will release its **Inflation Report** the following dates:

February 3rd	June 2nd	October 6th
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