



**Press Release**  
**MONETARY PROGRAM FOR AUGUST 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 0.17 percent in July due to a 1.0 percent fall in terms of foodstuffs. Thus, the CPI inflation rate over the last twelve months was 1.55 percent, within the target range (1.5 percent – 3.5 percent). On the other hand, core inflation over the last 12 months remained at 1.3 percent.
  - b. In the January-June period, the Gross Domestic Product (GDP) grew 6 percent with respect to the same period last year. This evolution reflects the continuous dynamic performance of economic activity, with domestic demand growing at a rate of nearly 8.1 percent in the first semester. Consumption in the private sector is estimated to have grown 5.3 percent, while private investment would have grown 20.9 percent in the same period.
  - c. The average exchange rate decreased 0.6 percent in July to S/. 3.24 per dollar. The real multilateral exchange rate rose slightly in July because of a reduction in the general level of domestic prices and the depreciation of the dollar against other currencies.

In July, the Central Bank intervened in the exchange market purchasing US\$ 600 million in order to inject liquidity to the market in a more permanent fashion, given that there is a seasonal higher demand for local currency in this month. In July, there were foreign exchange net sales in the spot market by US\$ 493 million, while the stock of forward net sales of foreign currency dropped by US\$ 249 million.

- d. In July, the interbank interest rate was 4.50 percent, while the 90-day corporate prime rate for loans in soles fell from 5.8 percent to 5.6 percent between June and July.
- e. The country risk indicator by the end of July was 153 bps, a level lower than the one recorded by the close of June (169 bps). On the other hand, the yield of the Peruvian sovereign bond with a 20-year-maturity and denominated in domestic currency, decreased from 8.3 to 7.8 percent.

2. The Board of the Central Bank approved to maintain the reference interest rate for the interbank market at 4.50 percent. This decision has been taken taking into account that:
  - a. Between December 2005 and May 2006, as a result of a partial withdrawal of monetary stimulation, the reference interest rate rose by 150 basis points. The Central Bank will continue to assess all relevant macroeconomic information to guarantee that the necessary measures are in place to maintain inflation within the target range.
  - b. Forecasts on the dynamism of economic activity in the period 2006-2007 (around 5.5 percent) are consistent with the inflation target (from 1.5 to 3.5 percent).
3. The Board approved the following interest rates for the BCRP active and passive operations:
  - a. For direct repo and rediscount operations, the rate continues to be 5.25 percent.
  - b. For overnight deposits, the rate continues to be 3.75 percent.
4. The interest rates for the following operations in dollars between the Central Bank and the Financial system are established as follows:
  - a. Rediscount operations: 1-month LIBOR plus one percent.
  - b. Overnight deposits: overnight LIBOR minus  $\frac{3}{8}$  of a percentage point.
  - c. Swap: the commission continues to be at a level that implies a minimum annual effective cost of 5.25 percent.
  - d. Reserve requirements in foreign deposits subject to payment: the rate continues to be at 2.5 percent.
5. The Board will approve the following Monetary Program (for the month of September 2006) in its meeting of September 7, 2006.

.....