



Press Release
MONETARY PROGRAM FOR OCTOBER 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) increased 0.03 percent in September. In this way, the CPI inflation rate over the last twelve months was 1.99 percent, within the target range (1.5 percent – 3.5 percent). On the other hand, core inflation exhibited a rate of 0.08 percent, accumulating a last-12-month change of 1.49 percent. Factors explaining the lack of inflationary pressures despite the expansion of domestic demand include continuous low expectations of inflation, improvements in the productivity of factors, and the trend towards the appreciation of the nuevo sol that has been observed recently.
 - b. Economic activity continues to show a dynamic performance with an estimated growth rate of 7.1 percent in the January-August period, led by the expansion of domestic demand, which recorded a growth rate of 9.1 percent in this same period. Consumption in the private sector is estimated to have grown 5.5 percent, while private investment is estimated to have grown 19.1 percent in the same period, in a context marked by high consumer and business confidence. Moreover, public consumption and investment are estimated to have grown 9.1 and 10.4 percent respectively.
 - c. The nominal and real exchange rate increased 0.4 and 0.3 percent respectively in September. The nominal exchange rate rose to S/. 3.25 per dollar. In the last 12 months, the nuevo sol has appreciated 1.8 percent against the dollar in nominal terms and has remained stable in real terms.

In September, the Central Bank intervened in the exchange market purchasing US\$ 166 million and sold US\$ 200 million to the Public Treasury.

- d. The average interbank interest rate was 4.51 percent in September, while the average 90-day corporate prime rate in soles decreased to 5.34 percent in September, falling 11 bps. with respect to August.
- e. The country risk indicator by the end of September was 171 bps, a higher level than the one recorded by the close of August (135 bps). This higher level is explained by the new methodology that is being used to calculate this indicator since September 29, and now includes bonds involving a longer maturity in the basket. With the methodology previously used, the

country risk on September 28 was 130 bps., 5 bps. below the level posted in the previous month. On the other hand, the yield of the Peruvian sovereign bond with a 20-year-maturity in domestic currency decreased for the fourth consecutive month, falling from 7.5 to 7.4 percent in September.

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. The recent evolution of inflation, which is settling at the lower level of the target range, has led to revise inflation downward for the 2006-2007 timeframe.
 - b. In this context, the dynamic performance of economic activity forecast for the period 2006 (between 6.5 and 7.0 percent) and 2007 (between 5.5 and 6.0 percent) would allow gradually achieving inflation levels that are close to the inflation target.
 - c. The Central Bank will continue to assess the accumulated impact of recent adjustments of the reference rate, as well as all relevant macroeconomic information to guarantee that the necessary measures are in place to maintain inflation within the target range.
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 percentage point.
 - b. Overnight deposits: overnight LIBOR minus 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 currency subject to payment: the rate continues to be 2.5 percent.
5. The Board will approve the following Monetary Program (for the month of November 2006) in its meeting of November 2, 2006.

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