



Press Release
MONETARY PROGRAM FOR SEPTEMBER 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 0.14 percent in August as a result of an 8.5 increase in water rates and a rise in the prices of onion and citrus fruits. In this way, the CPI inflation rate over the last twelve months was 1.9 percent, within the target range (1.5 percent – 3.5 percent). On the other hand, core inflation showed a similar evolution in August with a rate of 0.13 percent, accumulating a last-12-month change of 1.4 percent.
 - b. In the January-July period, the Gross Domestic Product (GDP) grew approximately 6.7 percent with respect to the same period last year. This evolution reflects the continuous dynamic performance of economic activity, with domestic demand growing at an estimated rate of 8.6 percent in the January-July period. Consumption in the private sector is estimated to have grown 5 percent, while private investment is estimated to have grown 18 percent in the same period.
 - c. The average exchange rate decreased 0.3 percent in August to S/. 3.24 per dollar. The real exchange rate rose 0.5 percent (2.0 percent depreciation of the nuevo sol in real terms over the last 12 months), an evolution associated with the depreciation of the dollar against other currencies.

In August, the Central Bank intervened in the exchange market purchasing US\$ 1,410 million. A total of US\$ 765 million were offered on the spot market and the total of exchange-related hedging operations declined by US\$ 643 million.

- d. The average interbank interest rate was 4.44 percent in August. Downward pressures on the interbank interest rate were observed during the month; in this context, the Central Bank conducted operations aimed at injecting liquidity into the market by purchasing dollars. Therefore, and in order to sterilize this greater supply of liquid funds, the Central Bank resumed placements of BCRP Certificate of Deposits (BCRPCDs). On the other hand, the 90-day corporate prime rate for loans in soles fell from 5.7 percent to 5.4 percent between July and August.

- e. The country risk indicator by the end of August was 135 bps, a level lower than that recorded by the close of July (152 bps). On the other hand, the yield of the Peruvian sovereign bond with a 20-year-maturity in domestic currency decreased for the third consecutive month, falling from 7.8 to 7.5 percent in August.
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 (between 5.5 and 6.0 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 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 deposits subject to payment: the rate continues to be 2.5 percent.
5. The Board will approve the following Monetary Program (for the month of October 2006) in its meeting of October 5, 2006.

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