



BANCO CENTRAL DE RESERVA DEL PERÚ

WEEKLY REPORT

Nº 20 – May 19, 2006

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MACROECONOMIC INDICATORS

AS OF IQ-2006

GDP grew by 7.2 percent in IQ-2006

The **gross domestic product** grew by 7.2 percent in the I quarter, propelled by boosting private investment, which rose 25.4 percent, and the 5.3 percent increase in private consumption. As a result, private investment as a percentage of GDP reached a share of 17.9 percent, the highest level since the IVQ of 1998.

The dynamism of private investment reflects growing international prices of our main commodities, mainly ores, as well as a fine macroeconomic environment which favors investors' confidence.

GLOBAL DEMAND AND SUPPLY
(Annual Growth Rates)

	2005		2006
	I Q	Year	I Q
<u>GLOBAL DEMAND (1+2)</u>	<u>7.1</u>	<u>7.1</u>	<u>8.6</u>
1. Domestic demand ¹	4.8	5.7	10.5
a. Private consumption	4.0	4.4	5.3
b. Public consumption	10.1	9.8	8.4
c. Private investment	6.5	13.9	25.4
d. Public investment	3.6	12.3	7.8
2. Exports	18.8	14.2	0.0
<u>GLOBAL SUPPLY (3+4)</u>	<u>7.1</u>	<u>7.1</u>	<u>8.6</u>
3. GDP	6.2	6.6	7.2
4. Imports	12.3	9.9	16.6

1/ includes variation of stocks.

Source: INEI and BCR.

Private consumption maintaining the trend of previous quarter recorded a higher pace of growth (5.3 percent), into a context of growing employment, income and better credit access.

Over the I quarter, employment in enterprises of 10 or more workers on a National basis increased 6.1 percent according to the Ministry of Labor and Employment Promotion. National disposable income grew by 8.5 percent, whereas banking system average interest rates for consumer credits decreased from 37.3 percent in IQ-2005 to 36.8 percent in IQ-2006.

DISPOSABLE NATIONAL INCOME (Growth Rates)

	1Q.04	1Q.05	1Q.06
Gross Domestic Product (GDP)	4.8	6.2	7.2
Gross National Product (GNP) 1/	3.2	5.3	4.7
Gross National Income (NI) 2/	5.6	5.6	8.2
Disposable National Income (DNI) 3/	5.8	5.7	8.5

1/ Exclude from GDP the net rent pay back to productive factors non residents.

2/ Include wins or losses by variations in trade terms.

3/ Add to NI the net transfer received from non residents.

Source: INEI and BCRP.

Other indicators reflecting the increase in private consumption over this period were:

- The 29.8 percent increase in financial system consumer credit, exceeding the increase recorded in IQ-2005 (23.2 percent).
- The 45.1 percent growth in sales of new vehicles, exceeding the increase of a year ago (24.8 percent).
- The 19.1 percent increase in imports of durable consumer goods versus a 12.2 percent increase in IQ-2005.
- The consumer confidence index measured by Apoyo reached 51.7 points in the first quarter of the year, versus 39,7 points over similar period a year ago.

Private investment grew by 25.4 percent in the I quarter, recording the higher pace of growth since its recovery started in IIIQ-2002. In that extent, the increase in terms of trade, the higher sales and corporate profits and better business expectations got enterprises to invest in new technologies and plant expansions in order to face higher levels of demand.

In the first quarter of the year, it is worth noting the program of expansion and modernization of Toquepala carried out by Southern –this project should mean annual savings of US\$ 25 million in operating costs-. On the other hand, another worth mentioning project is Cerro Verde's primary sulfides.

In the same token, private enterprises of the manufacturing, electricity, commercial, hotel and service sectors carried out investment projects in non-residential buildings (extensions and construction of new facilities) as well as in the acquisition of new machinery. The latter was also reflected in the 43 percent increase of capital good imports.

Public consumption rose 8,4 percent due to higher central government payrolls mainly in Domestic Affairs, Education and Health due to the set of the second section of wage increases granted to teachers and medical doctors. These disbursements were followed by higher central government acquisition of goods and services.

On the other hand, public investment recorded a 7.8 percent increase lead by higher disbursement of the central government, higher investment of local governments, EsSalud and projects carried out by PetroPerú.

Export recorded a nil variation over the I quarter of 2006. The lower export volumes of zinc, copper, molybdenum, lead, fish meal and coffee were offset by higher embankment of gold. Non traditional exports grew by 14 percent, thanks to the dynamism of chemical, agriculture and non-metallic exports.

Imports grew by 16.6 percent reflecting larger acquisitions of capital and intermediate goods (43.0 and 45.6 percent, respectively). Intermediate goods for industry grew by 50.5 percent whereas capital goods for industry and transportation increased 43.0 and 46.7 percent, respectively.

GDP by sectors

Over the I quarter of 2006, construction and **non-primary manufacturing** stood out among non primary sectors with rates of growth of 16.3 and 6.2 percent, respectively. On the other hand, the **primary sector** dynamism was explained by the contribution of fishing (18.5 percent), based on raw material manufacturing (6.6 percent) and mining (5.1 percent).

GROSS DOMESTIC PRODUCT

(Growth rates respect to the same period of the previous year)

	2005		2006
	I Trim.	Año	I Trim.
Agriculture and Livestock	2.1	4.6	2.0
Agriculture	0.2	3.2	0.0
Livestock	4.6	6.6	4.3
Fishing	12.7	1.5	19.8
Mining and Fuel	0.9	8.6	5.0
Metallic mining	-1.6	7.4	5.5
Natural gas and oil	34.1	23.5	0.4
Manufacturing	7.2	7.0	6.3
Based on raw materials	4.8	4.0	6.6
Non-primary	7.8	7.6	6.2
Electricity and water	3.8	5.3	6.7
Construction	2.8	8.7	16.3
Commerce	7.3	6.0	9.0
Other services	7.8	6.7	6.3
GROSS VALUE ADDED (GVA)	6.2	6.7	6.9
Taxes on products and import duties	7.2	6.4	9.6
GDP	6.3	6.6	7.2
Primary sector GVA	2.3	5.9	4.3
Non-primary sector GVA	7.2	6.9	7.5

Primary sectors grew by 4.3 percent over the IQ-2006

The **agriculture & livestock sector** grew by 2.0 percent over the IQ-2006 reflecting a higher livestock output (4.3 percent) –mainly in poultry, bovine and eggs- since agriculture output recorded a nil rate of growth.

Inside the agriculture sector, there were increases in the production of coffee, mangoes, grapes, olives, cacao; which are mainly oriented to the external market, as well as sugar cane. On the other hand, there was a decrease in those domestic market oriented products such as potato, hard-yellow corn and rice due to weather and water disposability conditions.

Fishing output recorded a 19.8 percent growth over the I quarter of the year, due to higher catch for human oriented purposes –such as frozen and canned- partially offset by lower catch of fresh fishing.

In the I quarter of the year, a warmer temperature conditions made possible to increase the catch of mackerel and jack mackerel species that grew by 61 and 12 percent, respectively. It made also possible the catch of species not seen since 1999, such as the “bonito”.

Regarding industrial production, Ministry Resolution gave authorization to the catch of anchovy between March 27 and April 5 in Tumbes and Arequipa, excluding specific areas with young species presence. As a result, this quarter had 4 more days of effective fishing with a full ban period.

The 5.0 percent growth in the **mining and fuel sector** mainly obeyed to higher extraction of gold (15.4 percent) thanks to the entry of Alto Chicama in June 2005 and, to a lower extent, higher Yanacocha’s output, appealed by higher international quotations (the gold quote passed from US\$ 427.5 per ounce in IQ-2005 to US\$ 552.9 in IQ-2006). There was also a higher production of copper (6.8 percent), reflecting Antamina’s dynamism and an increased iron production (14.9 percent). Conversely, zinc production dropped 13 percent due to the lower concentration of zinc in the extracted mineral in Antamina –copper and zinc are mostly extracted together from mines- Hydrocarbon production increased 0.4 percent, lead by higher natural gas extraction (21.7 percent), whose monthly average level passed from 2,858 cubic feet in IQ-2005 to 3,458 in IQ-2006, reflecting higher Camisea and Petrotech output –the former despite the rupture in one of the pipelines in March-.

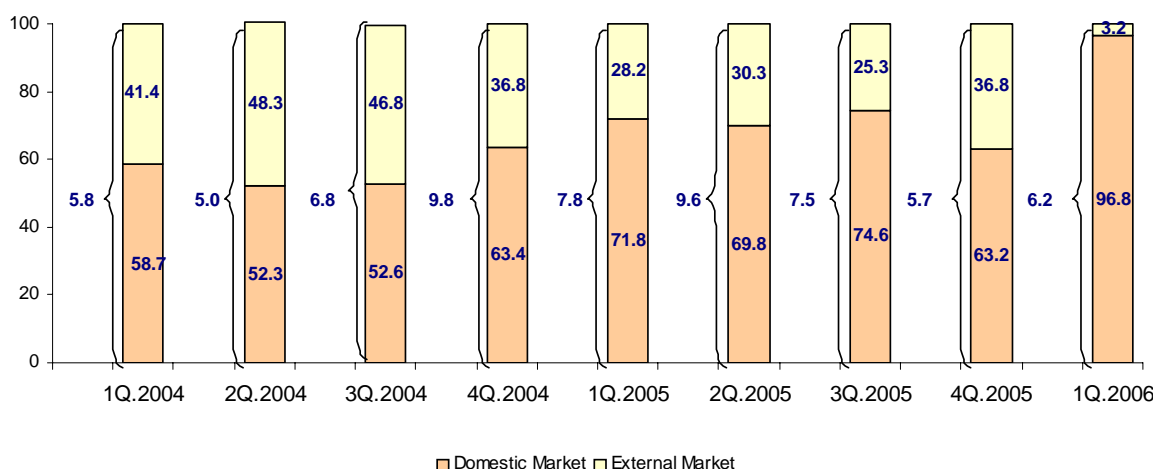
Non-primary sectors increased 7.5 percent in the I quarter

Manufacturing output recorded a 6.3 percent increase in the I quarter with rates of expansion of 6.6 percent for **raw-material processing activities** and 6.2 percent for **non-primary industries**.

The higher activity in **raw-material processing activities** obeyed to higher production of canned and frozen fish, thanks to the higher availability of anchovy and other sea species; as well as higher production of meat –bovine and poultry-; and sugarcane reflecting the increase in sugar cane output. The latter was partially offset by the lower refining of non-ferrous metals.

Following the trend of previous quarters, **non-primary manufacturing** grew by 6.2 percent, propelled by higher domestic demand and non-traditional exports in a context of growing employment and income population.

Growth of manufacturing non primary by destiny market
(Porcentaje puntos)



Among the items that grew the most, it should be mentioned cement –oriented to both the domestic and external markets-, metal structure for mining, construction and electricity use; printing activities –reflecting the higher demand due the electoral campaign-; beer, due to higher domestic demand and lower prices; tiles, reflecting higher residential building projects; metallic package; pharmaceutical products and explosives.

Industries with higher increases

CIU	Jan.-Mar. 2006	
	Var. %	Contrib. % 1/
Cement	19.5	0.8
Manufacture of structural metal products	36.3	0.7
Printing activities	12.8	0.7
Beer and malt beverage	27.0	0.5
Ceramics	26.6	0.5
Other metal products	18.5	0.5
Pharmacy products	37.4	0.5
Explosives and natural and chemical essences	16.1	0.4
Subtotal	21.2	4.6
Total	6.2	

1/ Percent contribution to non primary manufacturing
Source: Ministry of Production

The **construction sector** recorded a 16.3 percent growth over the I quarter of the year, propelled by self-construction programs, the dynamism of the mortgage market –in particular Mivivienda-; the carrying out of civil task by local and regional governments funded with Canon resources as well as the extension and construction of new facilities by large mining companies.

Current Account Deficit of 0.8 Percent of GDP in I Quarter

The **I quarter** of 2006 recorded a **current account** deficit of US\$ 167 million, equivalent to 0.8 percent of GDP. This deficit contrasts with the US\$ 141 million surplus logged in the same period last year. This is explained by the growth of imports (28 percent) produced by the expansion of domestic demand, which was promoted particularly by private investment in the period. Likewise, in line with higher sales abroad, the profits reported by companies with foreign capital share reached a total of US\$ 1,296 million, which represents a US\$ 477 million increase with respect to the same period last year. Moreover, remittances of Peruvians living abroad amounted to US\$ 386 million (up US\$ 77 million).

On the other hand, the **financial account** was US\$ 271 million. The financial account of the private sector was US\$ 729 millions; while the short-term capital was negative in US\$ 218 millions. In this quarter it was recorded foreign direct investment for US\$ 1,122 million, partially offset by abroad financial investment for US\$ 463 millions. The public sector financial account was negative in US\$ 240 millions.

BALANCE OF PAYMENTS

(Millions of US\$)

	1Q.05	2Q.05	3Q.05	4Q.05	2005	1Q.06
I. CURRENT ACCOUNT BALANCE	141	143	383	363	1 030	- 167
<i>(as percentage of GDP)</i>	<i>0.8</i>	<i>0.7</i>	<i>2.0</i>	<i>1.8</i>	<i>1.3</i>	<i>-0.8</i>
1. Trade balance	1 090	1 030	1 367	1 676	5 163	1 176
a. Exports	3 748	4 052	4 523	4 924	17 247	4 566
b. Imports	- 2 658	- 3 022	- 3 156	- 3 248	- 12 084	- 3 390
2. Services	- 252	- 251	- 161	- 249	- 913	- 216
a. Exports	499	515	624	540	2 179	593
b. Imports	- 751	- 767	- 786	- 788	- 3 092	- 810
3. Investment income	- 1 087	- 1 075	- 1 289	- 1 560	- 5 011	- 1 592
a. Private	- 863	- 844	- 1 093	- 1 347	- 4 146	- 1 347
b. Public	- 224	- 231	- 196	- 213	- 865	- 245
4. Current transfers	390	439	467	495	1 791	465
of which: Workers' remittances	309	345	376	411	1 440	386
II. FINANCIAL ACCOUNT	687	- 46	- 638	198	200	271
1. Private sector	287	767	144	656	1 854	729
2. Public sector	168	- 375	- 1 176	- 57	- 1 441	- 240
3. Short-term capital	232	- 439	394	- 401	- 213	- 218
III. EXCEPTIONAL FINANCING	2	40	59	0	100	26
IV. BCRP NET INTERNATIONAL RESERVES FLOW (1-2)	- 985	- 401	147	- 389	- 1 628	- 251
<i>(Increased with negative sign)</i>						
1. Change in Central Bank reserves	- 924	- 263	122	- 402	- 1 466	- 375
2. Valuation change and monetization of gold	61	138	- 24	- 12	162	- 125
V. NET ERRORS AND OMISSIONS	155	265	49	- 171	298	121
Note:						
Gross external financing to the private sector 2/	811	624	896	793	3 124	1 226

1/ In the year 2005 it includes US\$744 millions, correspondents to acquisitions of sovereign bonds by the non-residents.

2/ Includes direct investment without privatization plus the disbursements of private sector long-term loans.

Trade surplus at US\$ 1,176 millions

First quarter **trade balance** record a US\$ 1,176 millions, US\$ 86 millions higher than the recorded the previous year.

TRADE BALANCE

(Millions of US\$)

	1Q.05	2Q.05	3Q.05	4Q.05	2005	1Q.06
1. EXPORTS	3748	4052	4523	4924	17247	4566
Traditional products	2738	2981	3412	3708	12839	3415
Non-traditional products	980	1033	1077	1181	4271	1113
Other products	31	38	33	35	137	39
2. IMPORTS	2658	3022	3156	3248	12084	3390
Consumer goods	498	561	591	640	2290	570
Raw materials and intermediate goods	1472	1665	1731	1731	6598	1822
Capital goods	658	763	803	854	3078	959
Other goods	30	33	31	23	118	39
3. TRADE BALANCE	1090	1030	1367	1676	5163	1176

Exports growth US\$ 818 millions (22 percent) due to higher traditional (27 percent) and non traditional (20 percent) exports; while **imports** increased US\$ 732 millions (28 percent), due to higher capital goods purchases.

Exports performance was propelled by better international prices (24 percent), partially offset by lower volumes (1.5 percent). The last was due to lower fish meal, zinc and copper. **Traditional exports** rose by higher mining and petroleum exports. The average export prices increased 32 percent, and volumes fall 6 percent. **Non-traditional exports** growth due to agricultural and fishing products, partially offset by lower textile and chemical exports.

Imports increased by higher capital goods (46 percent), raw material (24 percent) and consumption goods (15 percent). The growth in capital goods is associated to industrial investment, Cerro Verde mining project. Higher raw material imports were explained by more paper, plastic and metallic structures. In this quarter there were more imports in cars, domestic electronic appliance, medicines and clothes.

Public surplus at 3.9 percent of GDP in I Quarter 2005

During the first quarter of 2006, the Non-Financial Public Sector **overall balance** (SPNF) registered a surplus of 3,9 percent of GDP, upper in 1,6 percentage points of GDP with respect to the first quarter of 2005. This result was explained by the improvement in the primary balance, specially in central government's, due to higher current revenues activity (2.1 percentage points of GDP), in front of lower non-financial expenditures (2.1 percentage points of GDP), diminished by higher maturity public debt interests in 0,5 percent of GDP.

CENTRAL GOVERNMENT OPERATIONS
(Percentage of GDP)

	2005					2006
	I	II	III	IV	Year	I
1. CURRENT REVENUES	15.7	16.7	15.4	15.6	15.9	17.8
Var. % real	12%	21%	9%	13%	14%	26%
2. NON-FINANCIAL EXPENDITURE	12.8	12.5	15.3	18.7	14.9	12.7
Var. % real	10%	5%	5%	20%	11%	9%
CURRENT EXPENDITURE	12.0	11.3	13.3	15.3	13.0	11.9
Var. % real	11%	5%	6%	19%	10%	10%
CAPITAL EXPENDITURE	0.8	1.2	2.0	3.4	1.9	0.8
Var. % real	0%	3%	-2%	29%	12%	7%
3. REST	1.4	0.3	1.4	-0.4	0.7	1.3
4. PRIMARY BALANCE	4.3	4.6	1.5	-3.5	1.6	6.4
5. INTEREST PAYMENTS	2.0	1.8	2.1	2.0	2.0	2.5
6. OVERALL BALANCE	2.3	2.8	-0.6	-5.5	-0.3	3.9
7. NET FINANCING	-2.3	-2.8	0.6	5.5	0.3	-3.9
- External	0.7	-1.3	-5.3	0.0	-1.5	-1.4
- Domestic	-3.0	-1.6	5.8	5.4	1.7	-2.5
- Privatization	0.0	0.1	0.0	0.1	0.1	0.0

The **current revenues** totaled 17.8 percent of GDP, up 2.1 percentage points compared with similar period from last year and 2.1 percentage points in real terms. Tax revenue record a 1.5 percentage points of GDP growth, whereas non-tax revenues increased 0.6 percentage points of GDP, impelled by higher canon and royalties (0.3 percentage points of GDP) mainly associated with oil and gas activities and the higher transfer revenues (0.4 percentage points of GDP).

In the **tax revenues**, income tax registers the higher activity, growing 1.1 percentage points of GDP and 39 percent in real terms with regard to similar quarter from 2005. This improvement was propelled by the corporate taxes evolution, it increments in 60 percent, in real terms, this was explained by higher payments ratios in advance corresponding to this year, affected by international prices upon mining enterprises and the credit balance decrease of an important enterprises group. In the other hand, the improvement of individual income tax was explained by greater economy activity. Also, the revenues by income tax regularization payments were higher in 28 percent, supported for better enterprises results during 2005 and extraordinary payments from an enterprise, which generated revenue by regularization payment amounting S/. 150 million corresponding to previous years.

The **non-financial expenditures** of the central government reached to 12.7 percent of GDP, even though it was lower in 0.1 percent of GDP with respect to similar period of the previous year, in real terms it means an increase of 9 percent. This higher expenditure was registered basically in the current expenditures (11.9 percent of GDP), as by higher good and services expenditure as by higher transfer.

During the first quarter of 2006, the operations of the **rest of NFPS** recorded a surplus of S/. 113 million, similar to amount registered in the first quarter of 2005 (S/. 110 million). It is explained because the better results recorded by EsSalud and ONP were made up for a deteriorated overall balance of FCR and regulation organizations, specially Sunat.

Essalud surplus (S/. 92 millions) responds to higher income due to better covertures, financial facilities, and more small companies registered. ONP surplus (S/. 103 millions) was associated to higher incomes, while the FCR deficit (S/. 90 millions) was due to higher financial expenses. On the other hand, Tax Administration (Sunat) recorded S/. 27 million deficit.

Local government (S/. 320 millions) increased S/. 30 million respect to the previous year, due to higher transfers from the Central Government (mining and petroleum royalty, mainly).

Non-financial public reached and economic surplus of S/. 169 million, S/. 117 million lower than the previous year. This result was due to Petroperu and Electroperu performance, partially offset by better incomes from Sedapal and regional electricity companies.

Interest paid by the public sector (2.5 percent of GDP) growth 34 percent in real terms. It was due to higher payments of external debt associated to global bonds and international financial institutions. There were also an increase in the service to internal debt and credits with the Banco de la Nación.

In this quarter, the **external financing** was negative (1.4 percent of GDP). It was recorded lower disbursements (US\$ 579 millions) and there was no global bond issues in comparison with one year ago. The payments during this quarter was lower in response to less pays to the Paris Club due to the prepayments made in 2005.

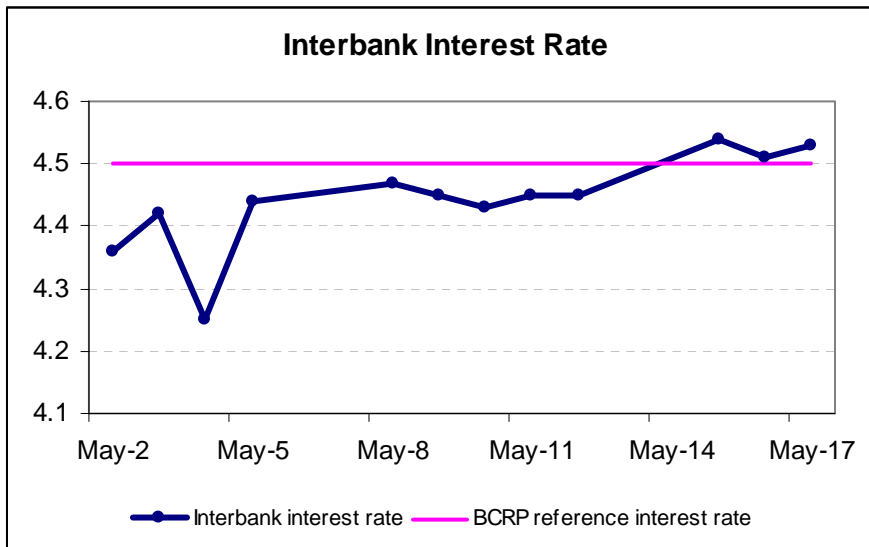
In the domestic financing area, in this quarter were issue S/. 326 millions in sovereign bonds, and were paid S/. 45 millions. There were also privatizations by US\$ 14 millions, mainly the take over of Casa Grande sugar company made by Grupo Gloria for US\$ 12 millions, and the stock selling of Cartavio agro industry by US\$ 2 millions.

In March 2006, the total public sector debt was US\$ 29,545 million, US\$ 22,096 from foreign debt and US\$ 7,449 from domestic debt. That amount fall US\$ 1,096 respect to the previous year.

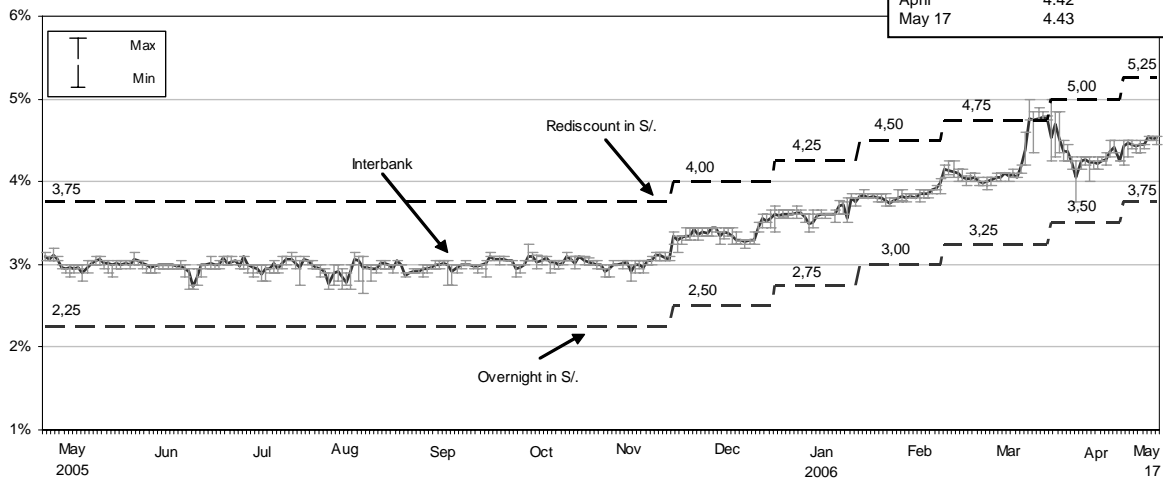
MONTHLY AND WEEKLY REPORT

The Average Interbank Interest Rate at 4.43 Percent

The average interbank interest rate in domestic currency increased from 4.42 percent in April to 4.43 percent as of May 17. The interbank interest rate during the month of May was variable and ranged between 4.25 and 4.54 percent, approaching in the last days to the Central Bank's reference interest rate (4.5 percent). This behavior response to the positive balance in liquidity in soles for the financial system by the second consecutive week, due to the greater transfers about soles to the Bank of Nation by the income tax payments from the main taxpayers.

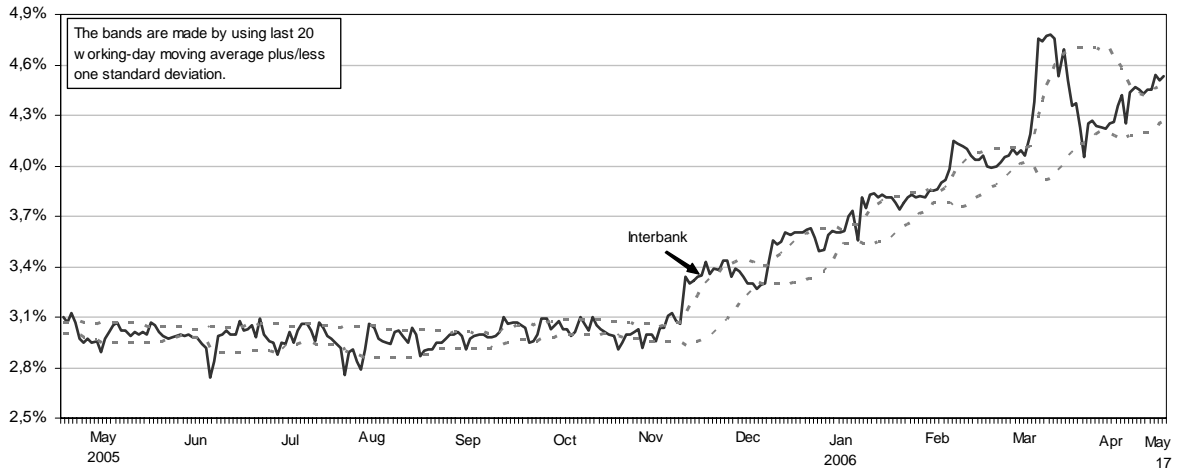


**Interest rates in domestic currency
(May 2005 - May 2006)**



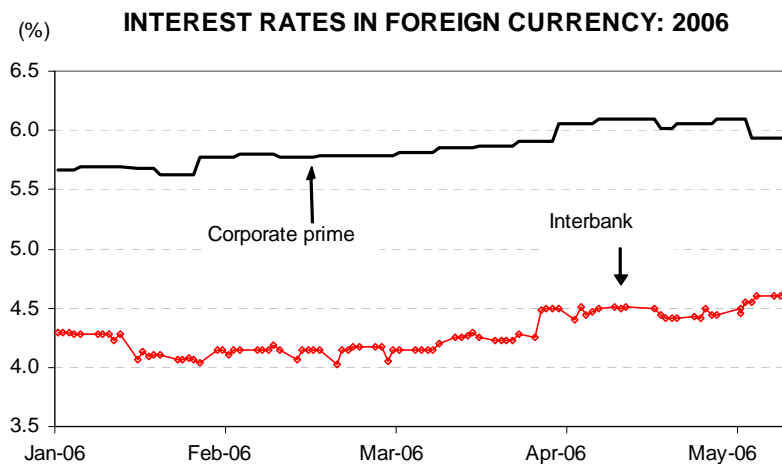
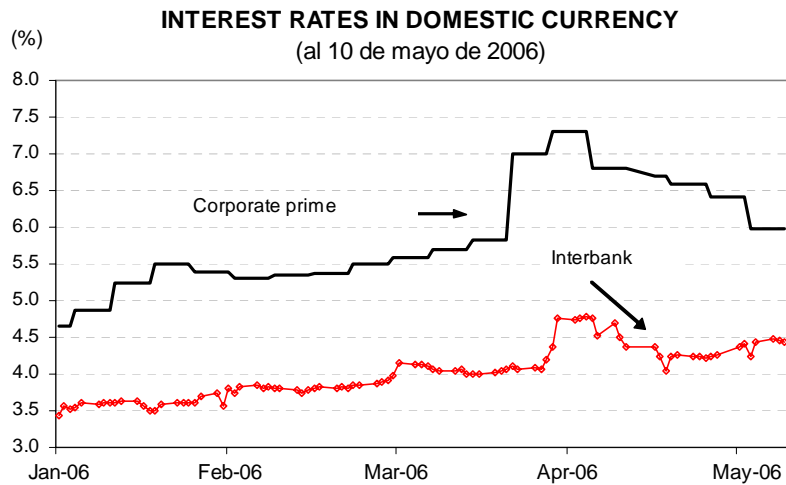
Interbank interest rate (percent)		
	Average	Standard Deviation
December 2004	3.00	0.05
December 2005	3.34	0.08
January 2006	3.58	0.06
February	3.82	0.04
March	4.12	0.17
April	4.42	0.24
May 17	4.43	0.08

Interbank interest rate in domestic currency (May 2005 - May 2006)



Corporate Prime Rate in Soles decreased to 5.99 Percent in May

As of May 17, the average 90-day corporate prime rate in soles decreased from 6.76 percent in April to 5.99 percent, and in dollars from 6.06 in April to 5.96 percent as of May 17.



Monetary Operations

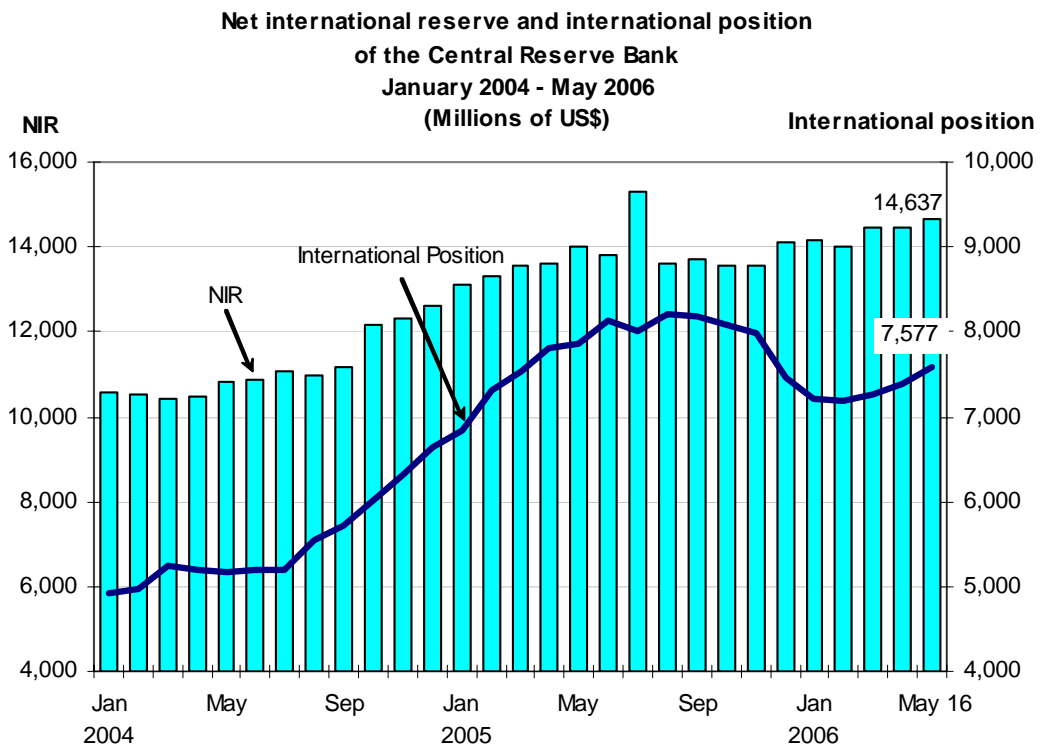
Between **May 11 and 17**, the Central Reserve Bank made the following operations:

- Auctions of temporary purchases of BCRP and BTP Certificates of Deposits for a daily average of S/. 296 million involving 1 day, 3 day, 1 month and 3 months maturities. The average interest rate ranged between 4.51 and 5.12 percent.
- Overnight deposits on May 11, 12 and 15 for S/. 60, S/. 53 and S/. 13 million respectively.
- Purchases of foreign currency over-the-counter mechanism by US\$ 0,5 million on May 17

Net International Reserves at US\$ 14,637 Million

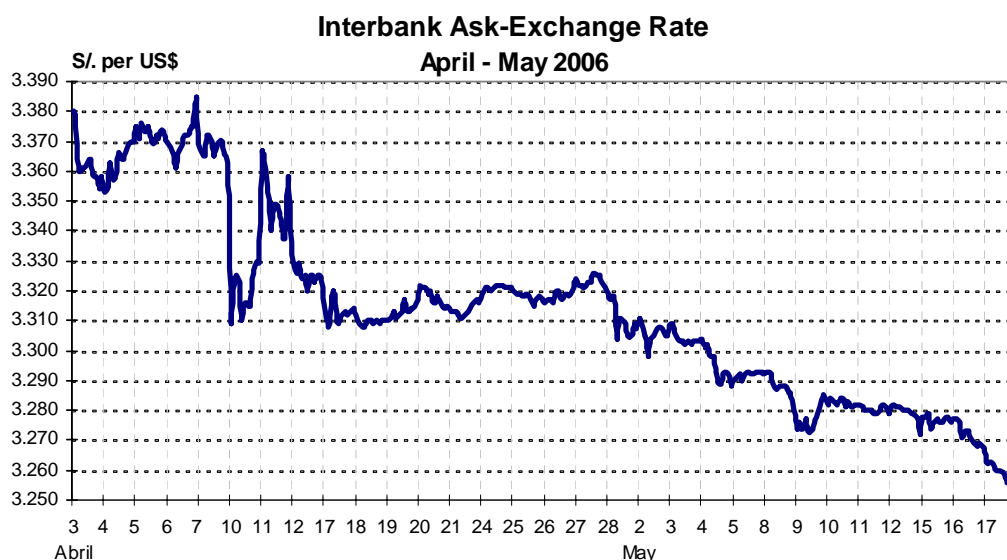
As of **May 16**, **net international reserves (NIR)** reached US\$ 14,637 million, increasing US\$ 144 million with respect to the level recorded at the close of April, due to mainly higher public sector deposits in the BCRP for US\$ 316 million, better prices for gold and currencies in US\$ 93 million and increased investment yields for US\$ 5 million; This evolution was partially by lower financial system deposits in the BCRP by a total of US\$ 268 million.

Year-to-date, NIRs have increased US\$ 540 million whereas the **Central Bank's international position** has grown to US\$ 7,577 million showing an increase by US\$ 93 with respect to April and has accumulated US\$ 127 million year-to-date.



Exchange Rate falls to S/. 3.26 per US Dollar

As of **May 17**, the interbank exchange rate appreciated 1.4 percent with respect to the end of April, falling from S/. 3.307 to S/. 3.261 per dollar. The exchange rate during this month has been showing a decreasing tendency due to greater tranquility among economic agents vis-à-vis the electoral process. In this context, the Central Bank purchased foreign currency by US\$ 0.5 million as of May 17, to attenuate the volatility fall that day.



As of May 16, the balance of net forward sales has decreased by US\$ 191 million, and the banks foreign exchange position has decreased by US\$ 76 million.

BANK'S EXCHANGE POSITION
(Millions of US\$)

	December 2004	December 2005	January 2006	February	March	April	May. 16
a. Net sales to the public (i-ii)	699	1,027	1,229	1,109	1,579	1,556	1,365
i. Forward sales to the public	1,163	1,813	2,092	1,880	2,426	2,060	1,979
ii. Forward purchases to the public	464	785	863	771	847	504	614
b. Bank's exchange position	340	480	411	485	581	625	549

Monetary Base as of May 15, 2006

The **monetary base** balance as of May 15 was S/. 10,777 million down 2.4 percent (S/. 263 million) from end-April. In average terms, the last 12 month rate of expansion of the monetary base was 16.4 percent (22.7 percent in April)

By sources, the operations that contributed the decrease in the monetary base were the lower temporary purchase of securities (S/. 874 million). Conversely, the monetary base increased by lower public sector deposits (S/. 396 million) and lower banks' overnight deposits (S/. 188 million) from financial system.

GDP grew 10.7 percent in March 2006

GDP grew 10.7 percent in March, the highest rate in nine years (since April 1997). All the economic activities registered a positive evolution, standing out the non-primary sectors.

It is important to mention that the GDP data of March includes the statistical effect of the Holy Week celebration in different months of 2005 and 2006. During 2005, the Holy Week was in March, so the GDP rate of growth in March of this year turns out to be higher. On the contrary, in April of this year the inverse effect will be observed.

Non-primary sectors grew 10.8 percent, especially construction (21.1 percent, the highest rate since October 1997), commerce (15.6 percent) and the non-primary manufacturing (9.2 percent).

Primary sectors increased 7.8 percent, recovering the positive trend of 2005 after the deceleration observed in the previous two months. Fishing sector grew prompted by the higher anchovy extraction; metallic mining industry due to the extraction of gold and copper; primary manufacturing because of the higher frozen fish, fishmeal and marine preserves due to the higher availability of giant squid, mackerel, horse mackerel and anchovy; and the farm sector due to the production of export crops, cane of sugar and poultry.

GROSS DOMESTIC PRODUCT
(Percentage variations respect to the same period of the previous year)

	March		January - March	
	2005	2006	2005	2006
Agriculture and Livestock	2.9	4.7	2.5	2.0
Agriculture	0.8	5.0	0.9	0.0
Livestock	5.8	4.3	4.6	4.3
Fishing	9.5	38.2	12.6	19.8
Mining and Fuel	2.7	7.4	0.9	5.0
Metallic mining	0.2	9.2	-1.6	5.4
Natural gas and oil	36.2	-9.5	34.1	0.4
Manufacturing	3.9	9.8	7.2	6.3
Based on raw materials	3.6	12.7	4.8	6.6
Non-primary	4.0	9.2	7.8	6.2
Electricity and water	4.1	7.0	3.8	6.7
Construction	-0.2	20.1	2.8	16.3
Commerce	6.1	15.6	8.3	9.0
Other services	5.6	8.6	7.1	6.3
<u>GROSS VALUE ADDED (GVA)</u>	<u>4.6</u>	<u>10.2</u>	<u>6.1</u>	<u>6.9</u>
Taxes on products and import duties	10.8	14.7	7.2	9.6
<u>GDP</u>	<u>5.1</u>	<u>10.7</u>	<u>6.2</u>	<u>7.2</u>
Primary sector GVA	3.1	7.8	2.5	4.3
Non-primary sector GVA	4.9	10.8	7.1	7.5
Domestic demand indicator	3.0	15.0	4.8	10.5

Agriculture & livestock grew 4.7 percent. This evolution was influenced by the higher production of coffee, in which the good weather conditions were reflected in better performances with respect to the previous campaign; mangoes due to the delay in the Kent variety crops, which is carried out generally between November and January of each year; olives due to a higher production in Tacna, where new plants were added and due to the good weather conditions; and grapes, encourage by a higher foreign demand.

Likewise, it was observed a growth in sugar cane favored by better weather conditions with respect to the previous campaign and poultry, as in previous months, due to the expansion of domestic consumption. The increase in these products more than compensated the smaller production of traditional crops as potato in the central mountains and the hard yellow maize in San Martin.

Fishing sector grew 38.3 percent due to the higher anchovy catches, in a context of a historic record in its international quotation, US\$ 881.5/TM in March, with an upward tendency due to the expectations of smaller global supply. Also contributed to this outcome higher unloadings to elaborate frozen giant squid products in Paita and Tacna, cities in which the businesses concentrate plants for foreign markets (Spain, Italy, Japan, South Korea and China).

Mining and Fuel sector registered a growth of 7.7 percent explained by the higher production of gold, copper, silver and iron, in a context of high historic levels in the quotations of these minerals (gold: US\$ 558.08/onza troy; copper: cts.US\$ 231.46/pound; silver: US\$ 10.38/ounce troy) with expectations of an upward tendency.

Gold production increased 15.2 percent due to the starting of Alto Chicama project in June of 2005, which produced 61,628 ounces. Other reasons were the higher production of Yanacocha (14.6 percent), Minera Aurifera Retamas (20.3 percent) and Inversiones Mineras del Sur (20.4 percent)

Copper production grew 15.2 percent prompted by Antamina (26.4 percent) and Doe Run (40.4 percent). This outcome was partly compensated by the falls of Volcan (-25.7 percent) and Los Quenuales (-6.4 percent) mining companies.

In the **manufacturing sector**, the production based on raw materials increased 12.7 percent, reflecting the production of the fishing industry; meat products; and in a lower extent of sugar and non-ferrous metals refining. This evolution was compensated with the smaller petroleum refining.

Industries with higher decreases March 2006

CIU	March	
	Var. %	Contrib. % 1/
Cement	31.7	1.2
Manufacture of structural metal products	52.3	1.1
Others metal products (packages)	39.0	0.9
Explosives and natural and chemical essences	22.0	0.6
Ceramics	27.4	0.5
Furniture	22.1	0.5
Manufacture of machinery for mining, quarrying and construction	117.9	0.4
Soft drink	14.5	0.4
Beer & Malta	20.4	0.4
Processing and preserving of fruit and vegetables	32.1	0.4
Subtotal	29.9	6.4
Total	9.2	

1/ Percent contribution to non primary manufacturing
Source: Ministerio de la Producción.

Non-primary manufacturing increased 9.2 percent. The groups that contributed the most to the monthly growth were: metallic products, machinery and equipment due to the higher demand of the mining and construction projects; non-metallic minerals as cement; chemical products, rubber and plastics due to the new toilet and cleaning products (creams for hair, perfumes and detergents) and the good expectations of mother's day campaigns and by the higher demand

associated to the agriculture sector as insecticides and fertilizers; and food, beverages and tobacco due to new products (juices), higher domestic demand (beer) and improvements in the coverage capacity of the sodas industry.

The branches that contributed more to the growth in March were: cement associated to the growth of the construction sector; metallic products for structural use prompted by the demand of the construction and mining sectors; other metallic products associated to the marine canned products and explosives; natural and chemical essences related to the higher activity of the mining sector.

Industries with higher decreases March 2005

CIU	March	
	Var. %	Contrib. % 1/
Basic chemicals	-16.5	-0.5
Miscellaneous manufacturing products	-5.7	-0.5
Paper and cardboard	-16.1	-0.3
Manufacture of footwear	-74.2	-0.2
Manufacture of electricity distribution and control apparatus	-43.7	-0.2
Sawmilling and planing of wood	-12.3	-0.2
Subtotal	-12.4	-1.9

1/ Percent contribution to non primary manufacturing
Source: Ministerio de la Producción.

The branches with more contraction were: chemical substances due to the lower sales of natural colorants and chemicals in the external and local markets; other clothing articles facing a reorientation of the business strategy to higher quality and price markets; and paper and paperboard due to stoppages of representative businesses facing lower demand and problems in the supplying of raw materials.

Construction sector grew 20.1 percent, a figure not observed since October 1997. This increase was reflected in a 19.7 percent increment of domestic demand of cement; the growth of 25.8 percent of mortgage loans and the projects execution by local governments.

Employment in businesses with 10 and more employees continued growing, at 6.3 percent at national level in March. The higher growth continued being registered in the cities of the interior of the country, which increased 7.9 percent, compared to the 5,8 percent growth in Lima.

The higher employment growth was registered in Chíncha (22.6 percent) related to the export farming activities (asparagus, artichoke and poultry production); Ica (18.3 percent) associate to the agro-industry (asparagus and artichoke); Chimbote (15.3 percent) due to the fishmeal and marine preserves products.

Outlook for April 2006

Currently available preliminary data on the sectors of oil, construction and electricity, and taxes revenues, relevant to the economic activity of April, is included below:

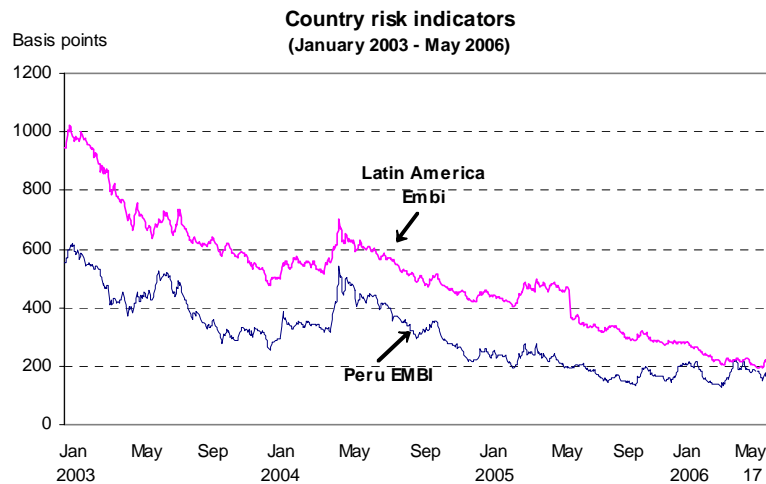
- Anchovy's extraction decreased by 69.7 percent according to IMARPE.
- A 4.0 percent increase in domestic sales of cement, excluding the Yanacocha project, according to Asocem.
- A 4.9 percent increase was recorded in energy production, according to the COES.

International Markets

International market indicators over the past few days included an increase in the country risk marker, strong volatility in the prices of copper and zinc, and a drop in the price of gold, as well as a light decline in Lima Stock Exchange indices.

Country Risk Increases to 169 Basis Points

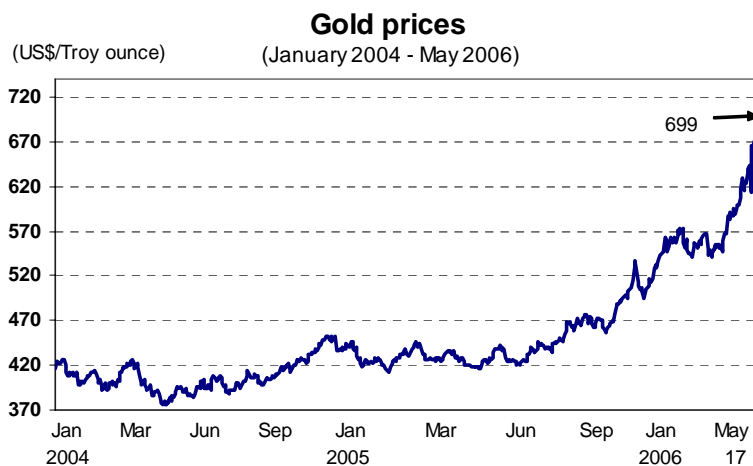
After decreasing to 151 basis points on May 10 due to the positive performance of the economy and to the successful placement of Peruvian sovereign bonds, the country risk measured by the **EMBI+ Peru** spread rose to 169 basis points as of **May 17**. Increases recorded over the past three consecutive days seem to confirm an upward trend in this indicator.



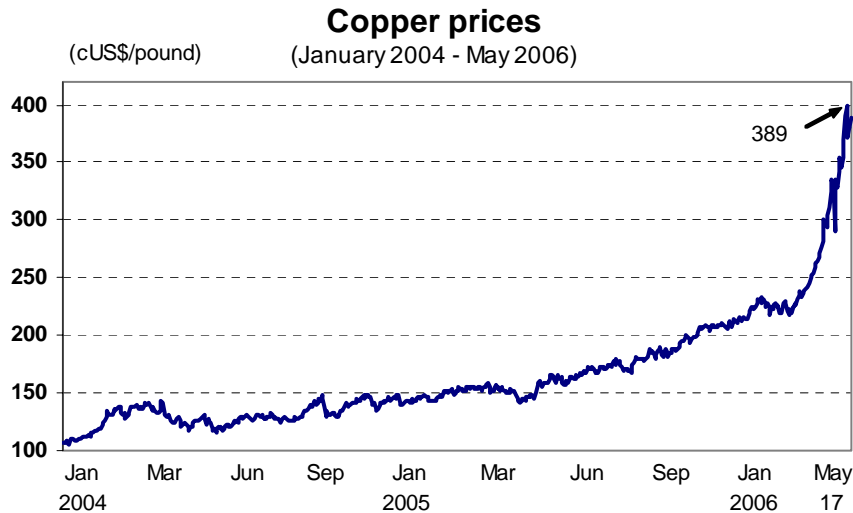
High Volatility in Commodity Prices

In **May 10-17**, the **gold** quotation decreased 0.4 percent to US\$ 699 per troy ounce, due to the publication of optimistic statistics on the US economy.

In the week of analysis, the **gold** quotation reached again its maximum historical level in the past 25 years –US\$ 720.7 per troy ounce on May 11– due to investors’ higher demand for gold, as alternative to other investment options, given geopolitical uncertainties and higher inflation. However, some analysts reported that the market volatility would probably continue over the next days due to inflation, geopolitical fears, and fluctuations in the exchange market. The decline recorded in past days was influenced by higher sales of this mineral and by a higher appreciation of the dollar.



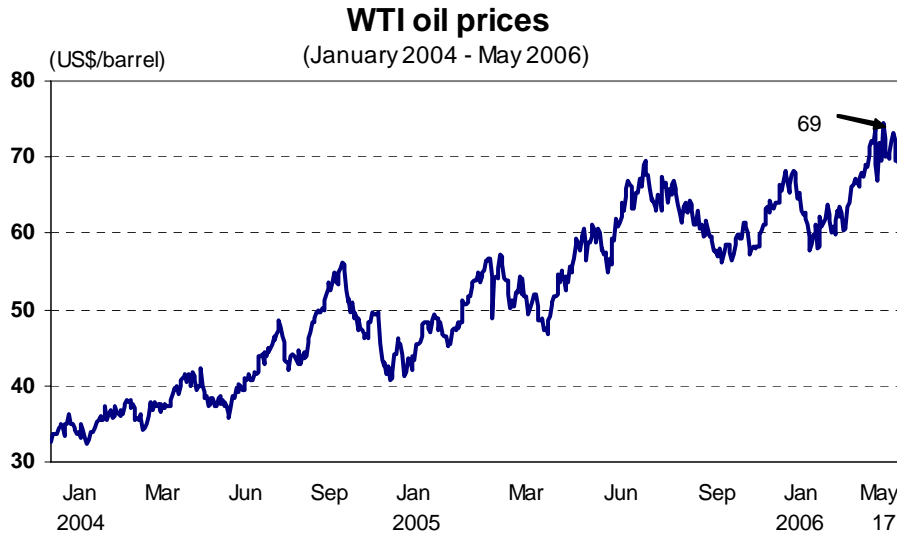
After reaching its highest-ever level (US\$ 3.98 per pound) in the first week of May due to the decrease of world stocks and greater purchases by speculating agents, the price of **copper** fell to S\$ 3.69 per pound on May 10. However, in the week of analysis (as of May 17), the **price of copper** increased to US\$ 389 per pound. This rise is explained by expectations of a growth of demand in the short run, due to China's intention to implement a 5-year program aimed at increasing its strategic reserves of minerals given the likelihood of a world shortage.



During this same period, the price of **zinc** continued to increase, reaching US\$ 1.66 per pound on May 17, which represents a 13.6 percent increase so far this month. The price of zinc had reached a new historic record in the previous week (US\$ 1.81 per pound) due to China's higher demand for this mineral. The price correction was influenced by the announcement that the Russian company UGMK was going to build a plant in Bashkiria which would contribute to increase production by 100 000 MT once it started operating.

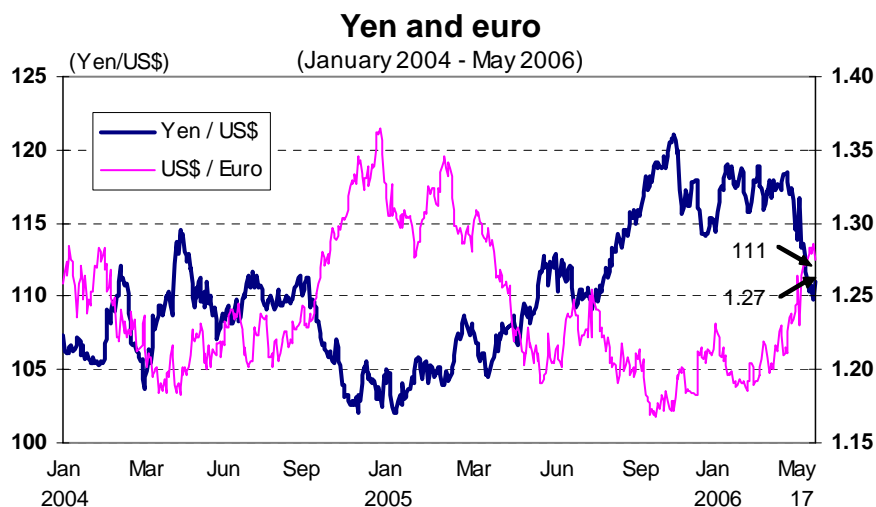


In the **May 10-17** period, the price of **WTI oil** decreased 4.8 percent to US\$ 68.7 per barrel as a result of investors' fears that high prices might bring about a downturn in economic growth, and indicators of the appreciation of China's domestic currency. The downward trend observed in the price of crude oil was caused by supply and demand problems produced after the International Energy Agency (IEA) lowered its demand estimates by 200 000 barrels per day, and after the US Department of Energy (DOE) reported that gasoline inventories in the United States had risen.



The Dollar Appreciated Against the Euro and the Yen

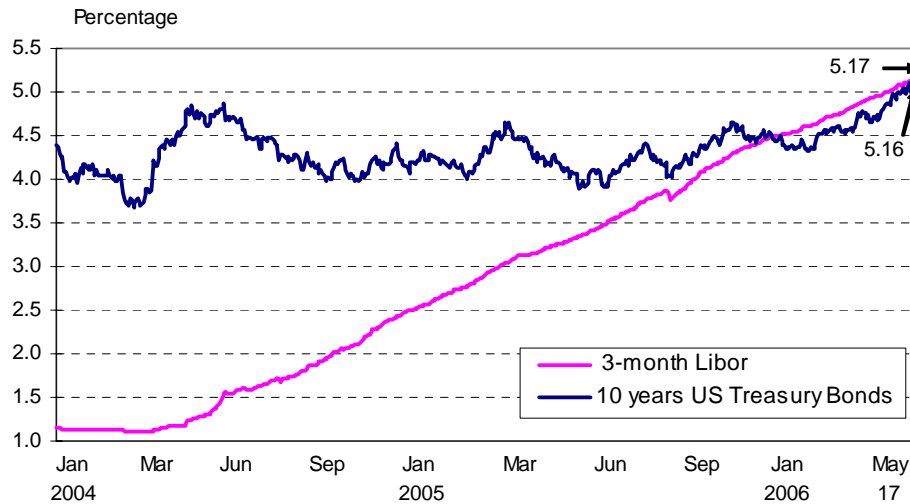
From **May 10 to May 17**, the **US dollar** appreciated 0.4 percent against the **euro** and 0.4 percent against the **yen**. This evolution was influenced by significant rises in the Consumers Price Index (0.6 percent) and the level of Core Inflation (0.3 percent) during the month of April, both of which were higher than expected. This higher level of inflation contributed to increase expectations that the Federal Reserve will raise the interest rate in June. However, the dollar's appreciation against other currencies has not been so considerable given the various announcements that the European Community will try to maintain the strong position of the euro, and that Japan, together with the other Asian countries, will allow the appreciation of their domestic currencies in order to contribute to the balance of the world trade flow.



Yield of the US Treasuries With a 10-Year Maturity increased to 5.15 Percent

Between **May 10 and 17**, the **3-month Libor** increased from 5.16 to 5.17 percent, whereas the **yield of the US Treasuries with a 10-year maturity** rose from 5.13 to 5.15 percent. The price of US Treasuries fell after the Consumers Price Index (CPI) increased above the expected level, thus reducing the interest rate on bonds. It is worth mentioning that the yield of the US Treasuries had reached 5.19 percent in the previous week due to greater expectations of inflation and of a smaller demand.

Libor and yield of 10-year matured US Treasury bond
(January 2004 - May 2006)



Lima Stock Exchange Falls 3.6 Percent

As of **May 17**, the **General** and **Blue Chip** indices of the Lima Stock Exchange decreased to 3.6 and 5.2 percent respectively, due to short term corrections in mining shares given a significant adjustment in international prices of minerals, including the international quotations of gold and silver. Investors showed greater caution and opted for profit taking given the proximity of the electoral process. Nevertheless, so far this month, the General and Blue Chip indices have recorded a growth of 2.7 and 2.2 percent respectively.

Lima Stock Exchange indicators
(January 2003 - May 2006)

