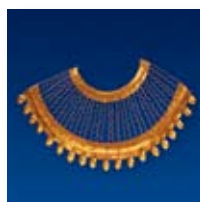


ANNUAL REPORT 2006



CENTRAL RESERVE BANK OF PERU

CENTRAL RESERVE BANK OF PERU

Board of Directors

Julio Velarde Flores
Chairman

Carlos Raffo Dasso
Vice Chairman

Beatriz Boza Dibos

José Chlimper Ackerman

Alfonso López Chau Nava

Abel Salinas Izaguirre

José Valderrama León
Directors



CENTRAL RESERVE BANK OF PERU

Board of Directors

As of July 31, 2006

Oscar Dancourt Masías
Acting President

Kurt Burneo Farfán
Guillermo Garrido Lecca
Eduardo Iriarte Jiménez
Daniel Schydrowsky Rosenberg
Directors

CENTRAL RESERVE BANK OF PERU

Seniors Officers as of December 31, 2006

Renzo Rossini Miñán
General Manager

Marylin Choy Chong
Central Manager for Technical Affairs

Dehera Bruce Mitrani
General Secretary

Economic Studies Department

Adrián Armas Rivas	Manager
Teresa Lamas Pérez	Deputy Manager - Real Sector
Jorge Loyola Hurtado	Deputy Manager - Analysis
Fernando Vásquez Sanabria	Deputy Manager - Monetary Sector
Jorge Estrella Viladegut	Deputy Manager - Public Sector
Gladys Choy Chong	Deputy Manager - External Sector
Vicente Tuesta Reátegui	Deputy Manager - Research

Credit and Financial Regulation Department

Juan Ramírez Andueza	Manager
Eduardo Costa Bidegaray	Deputy Manager - Financial Regulation and Evaluation
Jesús Zapata Pardo	Deputy Manager - Monetary Policy Operation
Luis Martínez Green	Deputy Manager - System of Payment

International Operations Department

Carlos Ballón Avalos	Manager
Jorge Patrón Worm	Deputy Manager - Reserve Analysis
Sandra Mansilla Cristóbal	Deputy Manager - Reserve Management
Felipe Reátegui Masjuán	Deputy Manager - International Agreements

Treasury Department

Arturo Pastor Porras	Manager
Milton Vega Bernal	Deputy Manager - Currency Administration
Gonzalo Iparraquirre Leandro	Deputy Manager - Custody
John Vela Guimet	Deputy Manager - National Mint

Communications Department

Susana Ishisaka Frukawa	Deputy Manager - Information
José Rocca Espinoza	Deputy Manager - Institutional Relations

Legal Department

Manuel Monteagudo Valdez	Manager
Helena Uzátegui Tellería	Deputy Manager - Legal Department
Héctor Herrera Soares	Deputy Manager - Legal Department

RR HH Department

Mario Mesía Lizaraso	Manager
Carlos López Obregón	Deputy Manager

Information Technology Department

Felipe Roel Montellanos	Manager
Herbert Fritas Yaya	Deputy Manager - IT Solutions
Miguel Tejada Malaspina	Deputy Manager - IT Services
Carlos Cabrera Delgado-Neira	Deputy Manager - IT Security and Processes

Administration Department

Javier Olivera Vega	Manager
Javier Gutiérrez González	Deputy Manager - Logistic
Alejandro Rozas Alosilla Velasco	Deputy Manager - Services

Internal Audity Department

Oscar Solís de la Rosa	Manager
Juan Villanueva Chang	Deputy Manager

Accounting and Supervision Department

Emilio Pallette Celi	Manager
Carmen Aguilar Mondoñedo	Deputy Manager - Accounting
Luis Valdivia Acevedo	Deputy Manager - Supervision

Teresa San Bartolomé Gelicich
Manager of Branch Heads

Arequipa
Javier Curo García

Cusco
Raúl Castro Alegría

Huancayo
Portugal Mauriola Flores

Iquitos
Violeta Vigo Silva

Piura
José Monzón García

Puno
Jorge Labrín Crisanto

Trujillo
Carlos Alatrística Gironzini

Introduction

The Peruvian economy showed a good economic performance during 2006: the gross domestic product grew 8.0 percent –the highest growth rate since 1995–, inflation was 1.1 percent; and the international environment continued to be favorable in a context of growth of our main trading partners and improved terms of trade. This scenario contributed importantly to the increase observed in fiscal revenues and to a fiscal surplus of 2.0 percent of GDP, as well as to improve the financial indicators of banking institutions. This favorable evolution of the Peruvian economy also contributed to improve the rating assigned to Peru’s sovereign debt by rating agencies, such as Fitch and Standard & Poor’s, as a result of which Peru reached a level below investment grade.

As in preceding years, GDP growth showed a generalized increase in all domestic demand components, particularly in private consumption (6.5 percent) and private investment (20.2 percent). This strong economic growth occurred in a context characterized by a high level of consumer and business confidence, favored by price stability in the economy, a greater dynamism of credit, and an international scenario with high rates of expansion and high prices for our main export products. Growth in 2006 was also associated with an improvement in the productivity of production factors which, together with greater investment, had a positive impact on the potential product. This high pace of growth was also reflected in an important expansion of employment, which grew 7.3 percent in firms with 10 and more workers in urban areas. It is worth highlighting that employment grew at a higher rate in other cities (8.3 percent) of the country than in Metropolitan Lima (7.1 percent).

Accumulated inflation by December 2006 was 1.1 percent, a rate lower than the one observed in 2005 (1.5 percent). This outcome was associated with the reversal of the supply shocks seen in 2005, which affected the prices of food products, and with a decline in the prices of fuel and electricity rates. Core inflation –indicator of the price trend– posted 1.4 percent, a rate lower than that of 2005 (1.2 percent).

During the first five months of the year, the Central Bank raised the monetary reference interest rate by 25 basis points each month, reaching 4.5 percent in May 2006. The reference interest rate remained unchanged thereafter in a context of stability of core inflation despite the fact that domestic demand increased. This situation was explained by expectations of low inflation, increased productivity in the economy, and the appreciation of the Nuevo Sol.



The current account of the balance of payments posted a surplus of 2.8 percent of GDP, the second highest surplus since 1950. This result reflected the evolution of the trade balance which logged a new surplus record of US\$ 8,934 million, as well as greater remittances from abroad.

The result in the trade balance was explained by the increased demand generated by the economic growth of our trading partners and by the increase in terms of trade (27 percent). Exports grew 37 percent, an outcome explained mainly by a similar growth in the prices of our exports, as well as by higher volumes of non-traditional exports. On the other hand, imports grew 23 percent, mainly as a result of higher imports of capital goods and raw materials.

On average, the multilateral exchange rate increased 1.8 percent in real terms in 2006 due both to the fact that inflation was higher in the rest of the world than in Peru and to the fact that the Nuevo Sol depreciated relative to the basket of currencies of our main trading partners. In nominal terms, the Nuevo Sol appreciated 6.4 percent relative to the dollar, although the evolution of exchange fluctuated along the year. Upward pressures associated with the electoral process were observed in the first half of the year, and also in May and June, but the latter were associated with the higher volatility of capital flows. Once the electoral uncertainty was over, the improvement in confidence was one of the key factors contributing to the appreciatory trend of the Nuevo Sol.

In order to offset excessive volatility in nominal exchange and to preventively accumulate international reserves, the Central Bank intervened in the exchange market purchasing foreign currency for a total of US\$ 3,944 million –most of these net purchases were carried out in the second half of 2006– and selling a total of US\$ 1,084 million to the public sector. As a result of this, a record level was achieved in terms of annual accumulation (US\$ 3,636 million) and the international position of the BCRP rose to US\$ 11,086 million. Likewise, the balance of international reserves reached US\$ 17,275 million at end-2006, a sum equivalent to 3.7 times the short-term debt, 14 months of imports of goods and 72 percent of total liquidity in the private sector. In this way, the Peruvian economy maintained a robust international liquidity that strengthened its capacity to face adverse external shocks.

The high growth of economic activity and the high prices of exports of minerals were fundamental factors that contributed to increase tax revenues (25.3 percent in annual terms), especially those on account of the income tax (61.4 percent) and the value-added tax (15.3 percent). As a result, the economic outcome of the Non-Financial Public Sector posted a surplus of 2.0 percent of GDP in 2006.

Moreover, debt management operations and placements of Public Treasury bonds in domestic currency were also carried out in 2006 to restructure the profile of the public debt and dedollarize it in order to reduce market risks and the vulnerability of fiscal accounts vis-à-vis adverse external shocks.

Liquidity and credit to the private sector continued to grow at high rates during 2006. Total liquidity grew 12 percent on average, while liquidity in domestic currency grew 19

percent. Credit to the private sector grew 8 percent, and the 30 percent increase seen in credit in domestic currency was noteworthy. Thus, the dedollarization process continued consolidating for the sixth consecutive year during 2006. The level of dollarization of liquidity and credit decreased 3 and 6 percentage points, thus reaching ratios of 54 and 61 percent respectively. Moreover, in November 2006 the BCRP raised the limit for the investments of Private Pension Funds (AFPs) abroad from 10.5 to 12 percent, which favors even further the diversification of its portfolio.

The expansion of economic activity was also reflected in the improvement of the financial indicators of banking entities, including particularly the reduction of the ratio of non-performing loans –which recorded a historical minimum of 1.6 percent in 2006– and the increase observed in return on equity (ROE), which rose to 23.9 percent. Furthermore, greater investment was seen at the Lima Stock Exchange (LSE), whose General Index increased by 168 percent, the highest rate posted at the LSE since 1992.

MAINLY EVENTS IN 2006

