

## I. INFLATION

For the second consecutive year, **inflation** reached a 3,7 percent rate, which fell within the target set by the Central Reserve Bank of Peru (3,5 to 4,0 percent).

TABLE 1  
ANNUAL INFLATION RATES  
(Percentage change)

Year	End of period	Average	Year	End of period	Average
1961	8,7	6,1	1981	72,7	75,4
1962	4,7	6,7	1982	72,9	64,5
1963	8,8	6,0	1983	125,1	111,2
1964	11,4	9,8	1984	111,5	110,2
1965	14,8	16,3	1985	158,3	163,4
1966	7,7	8,9	1986	62,9	77,9
1967	18,9	9,9	1987	114,5	85,8
1968	9,8	19,2	1988	1 722,3	667,0
1969	5,7	6,3	1989	2 775,3	3 398,7
1970	5,6	4,9	1990	7 649,7	7 481,7
1971	7,6	6,8	1991	139,2	409,5
1972	4,3	7,1	1992	56,7	73,5
1973	13,8	9,5	1993	39,5	48,6
1974	19,2	16,8	1994	15,4	23,7
1975	24,0	23,6	1995	10,2	11,1
1976	44,7	33,5	1996	11,8	11,5
1977	32,4	38,0	1997	6,5	8,5
1978	73,7	57,8	1998	6,0	7,3
1979	66,7	67,7	1999	3,7	3,5
1980	60,8	59,2	2000	3,7	3,8



**Core inflation**—which measures the general trend of consumer prices—decreased from 4,6 percent in 1999 to 3,2 percent in 2000. The latter is lower

than headline inflation because core inflation excludes the impact of fuel prices on the domestic market.

**TABLE 2**  
**TARGET RANGES, CORE INFLATION AND HEADLINE INFLATION**  
(Percentage change)

	Target range	Headline inflation	Core inflation
1994	15,0 - 20,0	15,4	18,4
1995	9,0 - 11,0	10,2	11,1
1996	9,5 - 11,5	11,8	9,7
1997	8,0 - 10,0	6,5	7,4
1998	7,5 - 9,0	6,0	7,8
1999	5,0 - 6,0	3,7	4,6
2000	3,5 - 4,0	3,7	3,2

In 2000 the prices of *tradable goods* grew at a higher rate than those of *non-tradable goods* (4,7 percent versus 3,1 percent). Within the first group, fuel prices grew 30 percent, while prices of food products grew 0,3 percent, reflecting the behavior of prices of evaporated milk, sugar, beans, fruit, oils, and cereal flour. As for the second

group, prices of food products grew 0,2 percent, due mainly to price increases for potatoes and fresh and frozen fish, offset by prices declines for chicken, onion and carrots, while service prices grew 4,3 percent as a result of price increases for water supply (10 percent), education (6 percent) and urban transportation (5 percent).

**TABLE 3**  
**INFLATION IN METROPOLITAN LIMA**  
(Percentage change)

	Weight base year 1994	1998	1999	2000
<b>GENERAL INDEX</b>	<b>100,0</b>	<b>6,0</b>	<b>3,7</b>	<b>3,7</b>
<b>TRADABLE PRODUCTS</b>	<b>41,7</b>	<b>7,3</b>	<b>3,9</b>	<b>4,7</b>
Food	19,4	8,9	-1,1	0,3
Textiles and Footwear	6,5	5,6	6,7	2,6
Fuels	3,3	-3,0	25,9	30,3
Electric appliances	0,5	10,5	7,2	1,8
Other	12,0	8,4	4,8	5,1
<b>NON-TRADABLE PRODUCTS</b>	<b>58,3</b>	<b>5,1</b>	<b>3,6</b>	<b>3,1</b>
Food	20,7	2,2	-5,1	0,2
Services	36,3	6,7	8,0	4,3
<i>Public Services</i>	4,1	5,9	12,7	5,1
<i>Labor</i>	2,1	5,9	2,3	2,8
<i>Health</i>	0,8	5,0	6,8	4,7
<i>Transportation</i>	6,7	2,7	13,4	5,2
<i>Education</i>	3,0	10,6	6,6	5,6
<i>Restaurants</i>	15,4	6,6	5,9	3,7
<i>Rent</i>	2,9	12,8	8,4	3,4
<i>Other services</i>	1,4	6,6	4,8	5,5
Others	1,3	3,1	3,9	3,5

**Exchange rate**

End-of-period nominal depreciation of the domestic currency in the year 2000 was 1,0 percent, versus 11 percent in 1999. Greater exchange rate stability was explained by lower capital outflows — from US\$ 1 676 million in 1999 to US\$ 368 million in 2000— and by a lower terms of trade deterioration relative to the two previous years.

The external deflation experienced by Peru's main trade partners — explained by the depreciation of their currencies against the U.S. dollar— offset the increase in their consumer price indexes. The euro and yen faced depreciations of 13 and 9 percent, respectively. It should be noted that the U.S. Federal Reserve increased its interest rate three times during the year.

In general terms, the nuevo sol showed a slight appreciation over the first months. During the rest of the year it remained stable, except for few episodes related with political events.

Thus, from January to mid-March, the appreciation of the nuevo sol led, on March 8, to its minimum level in the year (S/. 3,40 per dollar). Such trend was partially associated with an improvement in the perception of regional risk. In the foreign exchange market, this situation led to a reduction in net forward sales.

This trend changed since end-March, when the nuevo sol was affected by political uncertainty associated with the electoral process. Between April and May, the exchange rate showed high volatility, and depreciation reached 1,8 percent. Since September, political events, the Elliot Associates embargo and the outlook adjustment (from stable to negative) by some credit rating agencies further weakened the nuevo sol. In this context, the exchange rate reached a maximum value of S/. 3,55 on November 20. After the new interim government took office and political uncertainty was reduced, the exchange rate reversed this trend, reaching S/. 3,53 per dollar by end-December.

