

CENTRAL RESERVE BANK OF PERU

WEEKLY REPORT

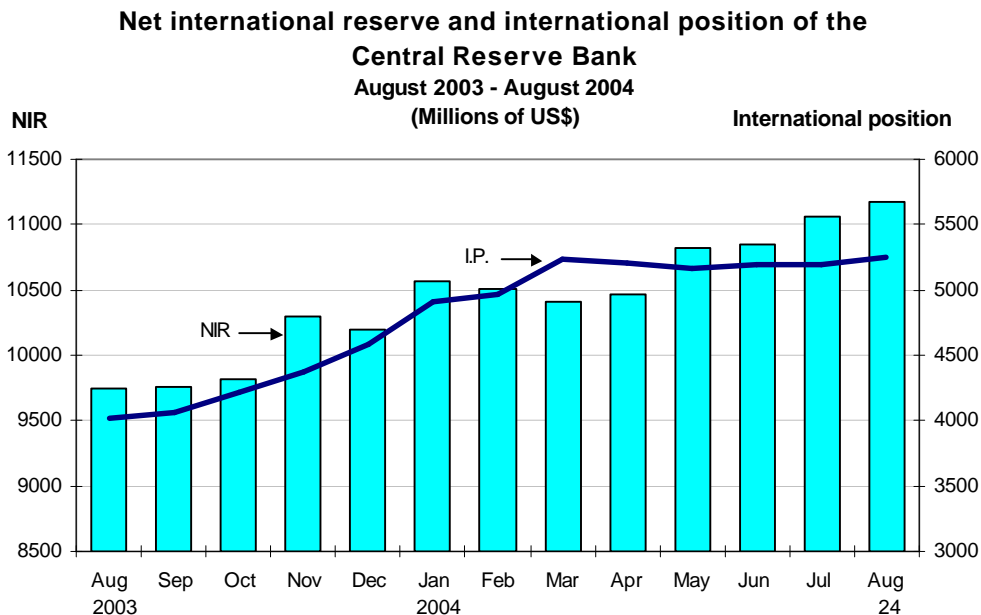
Nº 34– August 27, 2004

Net international reserves at US\$ 11 174 million

As of **August 24**, net international reserves (NIR) amounted to US\$ 11 174 million, up US\$ 118 million from end-July. This increase was mainly due to higher private deposits (US\$ 311), net purchases of foreign currency (US\$ 61 million) and investment yield (US\$ 38 million), which were partially offset by lower public

deposits (US\$ 271 million) and sell of foreign exchange (US\$ 20 million).

Starting this year, NIRs have increased US\$ 980 million, whereas the **Central Bank's international position** (US\$ 5 247 million) grew by US\$ 664 million.

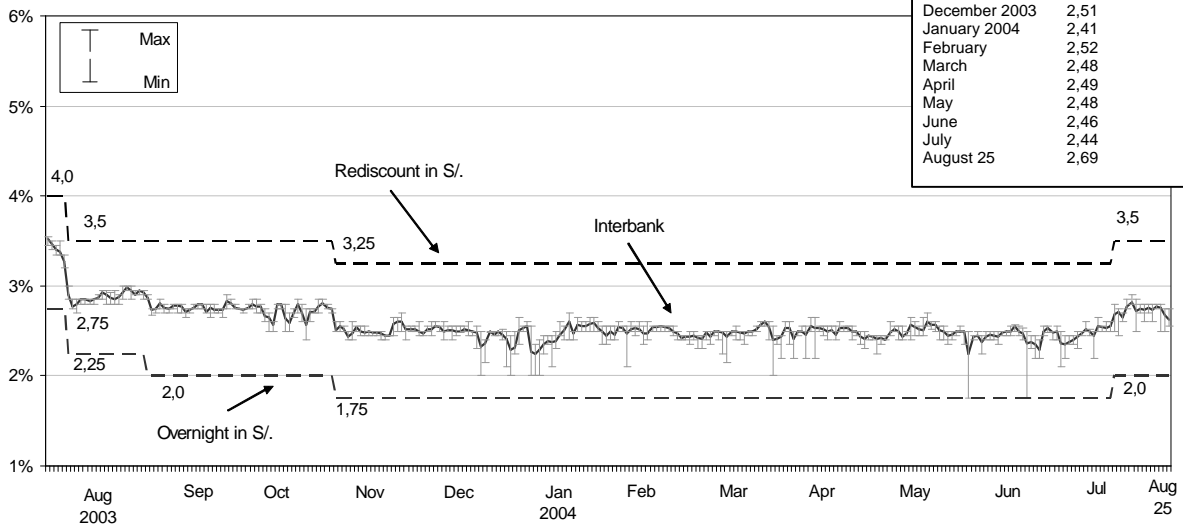


Interbank interest rate at 2,69%

As of **August 25**, the average interbank interest rate in domestic

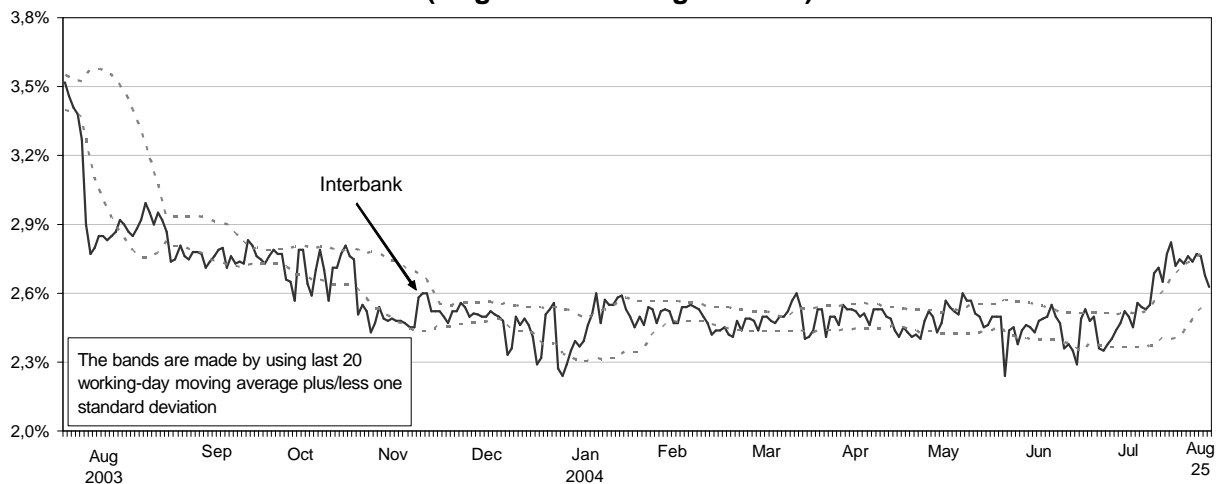
currency was 2,69%, higher than July's (2,44%).

Interest rates in domestic currency (August 2003 - August 2004)



Interbank interest rate		
	Average	Standard Deviation
December 2003	2,51	0,05
January 2004	2,41	0,10
February	2,52	0,04
March	2,48	0,04
April	2,49	0,06
May	2,48	0,05
June	2,46	0,07
July	2,44	0,07
August 25	2,69	0,09

Interbank interest rate in domestic currency (August 2003 - August 2004)



Monetary operations

As of **August 25**, the daily average balance of banks' liquidity at the Central Bank was S/. 222 million. Between **August 19 and 25**, the Central Bank made the following operations:

- Auctions of CDBCRP with a i) 7-day maturity by S/. 100 at an average interest rate of 2,83%; ii) 8-day by S/. 13

million at 2,85% ; iii) 7-month by S/. 60 million at 4,10%; iv) 9-month by S/. 40 at 4,27%; and v) 1-year by 40 at 4,64%.

- Auctions of temporary purchase of CDBCRP and BTP with a 1-day maturity by S/. 30 million at 2,76%.

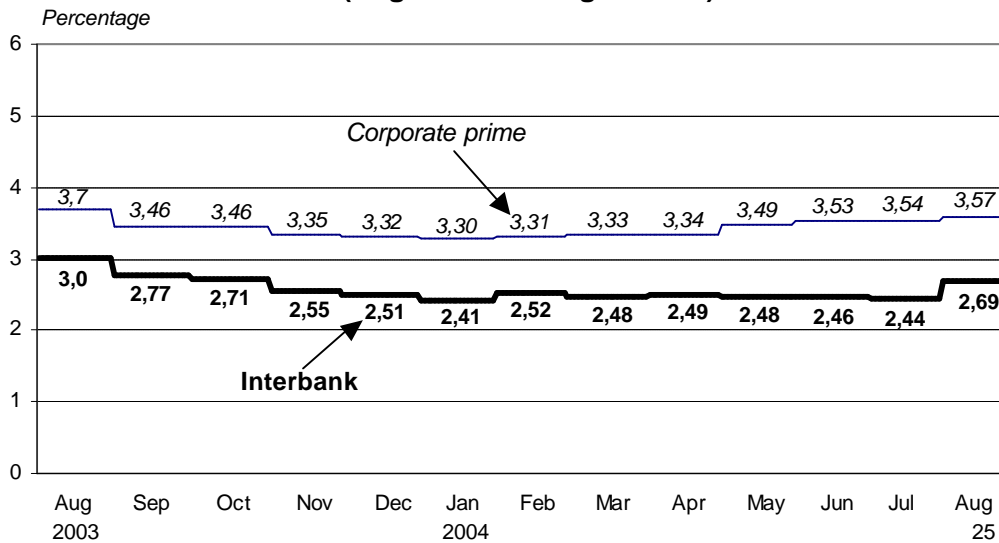
- Purchase of foreign currency over the counter by US\$ 81 million at an average exchange rate of S/. 3,379.
- Overnight deposits on August 19, 20, 23, 24 and 25, by S/.20, S/.12, S/.178, 65,5 and S/.25 million, respectively.

Corporate prime interest rate at 3,57%

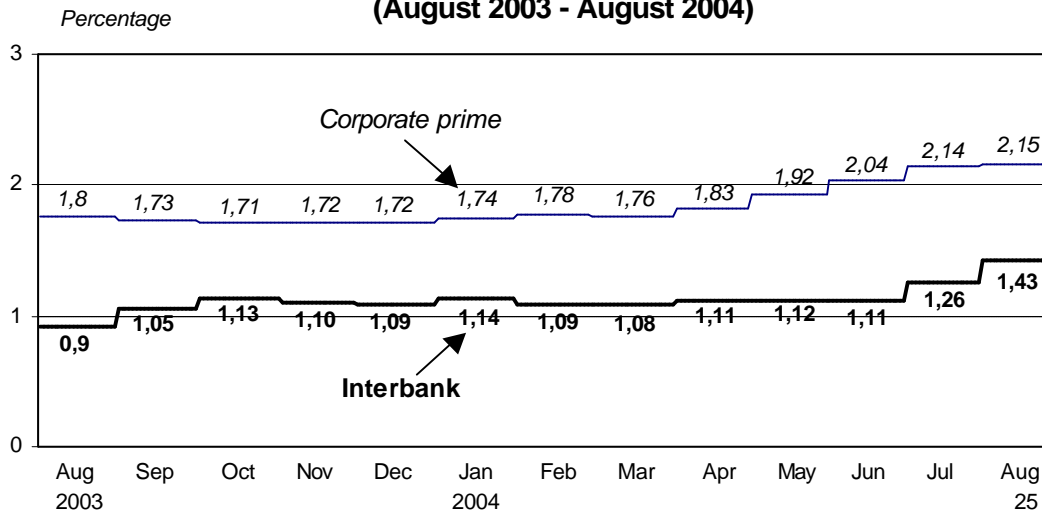
As of **August 25**, the 90-day average corporate prime interest rate in domestic currency rose to 3,57% from 3,54% in July

whereas the rate in dollars passed from 2,14% to 2,15%, over the same period.

**Monthly average interest rates in domestic currency
(August 2003 - August 2004)**



**Monthly average interest rate in foreign currency
(August 2003 - August 2004)**



Exchange rate: S/. 3,380

Between **August 18 and 25**, the exchange rate appreciated from S/. 3,389 to S/. 3,380 within a context of an increase in foreign exchange liquidity as a consequence of higher exports. As well, there has been an increase in local currency demand because of the tax-payment season, the

appreciation of the mayor of currencies in the region and the reduction in country risk. Besides, the **balance of net forward sales** augmented by US\$ 39 by August 25, whereas the **bank's exchange position** dropped in US\$ 88 million.

BANKS' EXCHANGE POSITION
(Millions of US\$)

	December 2002	December 2003	July 2004	August 25
a. Net sales to the public (i-ii)	905	607	534	573
i. Forward sales to the public	1 141	834	987	1 038
ii. Forward purchases to the public	236	227	454	466
b. Banks' exchange position	643	536	603	515

Monetary base as of August 22, 2004

The **monetary base** balance as of August 22 was S/. 7 643 million, down 7,0% (S/. 574 million) from end-July. In average terms, the year on year rate of growth of the monetary base was 17% compared with 18,8% in July.

The main explanation for this result was the withdrawal of temporary purchases of securities (S/. 175 million), higher net

auctions of CDBCRP (S/. 583 million), and dollar sales to public sector (US\$ 20 million or S/. 68 million). These operations were offset by the purchase of foreign currency over the counter (US\$ 44 million or S/. 147 million), the reduction of public sector deposits (S/. 54 million) and the reduction of overnight financial enterprises deposits in the Central Bank (S/. 30 million).

Banking system monetary accounts: July 2004

During July, liquidity in **domestic currency** increased 2,5% (S/. 517 million) to a balance of S/. 21 102 million (10,1% for the year). Credit to the private sector in the same currency augmented in 1,0% (S/. 103 million) to S/. 10 633 million (4,9% for the year).

Liquidity in **foreign currency** rose 2,6% (US\$ 245 million) to US\$ 9 745 million, up 2,3% from a year ago. Credit to the private sector (US\$ 9 947 million) increased US\$ 51 million (0,5%). In annual terms, this aggregate has rose by 0,9%.

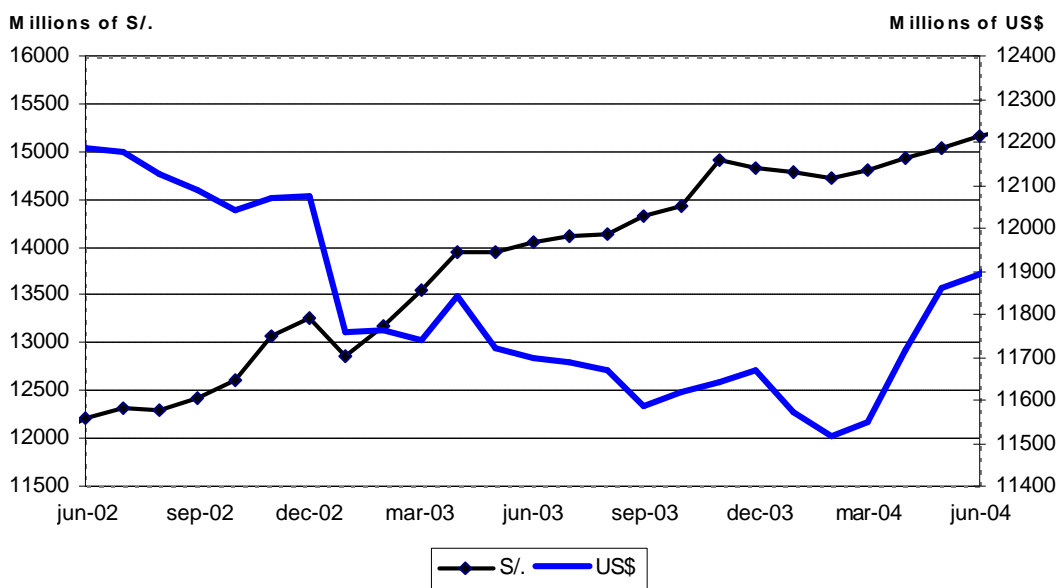
END OF PERIOD MONETARY AGGREGATES OF THE BANKING SYSTEM												
	BASE MONETARY		LIQUIDITY IN D/C		CREDIT IN D/C		LIQUIDITY IN F/C		LIABILITIES 1/		CREDIT IN F/C	
	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR
2002												
Dec.	11,1%	11,0%	6,3%	10,6%	0,8%	7,1%	-2,7%	1,4%	-4,8%	-34,3%	-0,3%	-3,6%
2003												
Jan.	-9,2%	9,4%	-3,1%	10,8%	-3,6%	5,4%	0,0%	2,8%	-11,0%	-40,5%	-2,9%	-5,2%
Feb.	-0,3%	8,3%	2,6%	11,3%	3,8%	7,5%	-0,1%	2,8%	10,5%	-38,0%	-0,2%	-6,7%
Mar.	-1,1%	5,0%	1,8%	10,6%	1,6%	6,3%	-0,1%	4,1%	-15,3%	-44,9%	-0,4%	-6,1%
Apr.	3,1%	9,5%	-0,3%	11,1%	3,6%	14,6%	-0,6%	3,4%	12,4%	-35,8%	1,0%	-5,7%
May.	-1,1%	8,4%	0,8%	12,1%	0,4%	14,0%	-0,9%	2,7%	-2,2%	-39,1%	-0,9%	-6,8%
Jun.	1,7%	6,5%	-1,7%	7,8%	-1,1%	11,2%	1,1%	3,5%	-2,8%	-42,7%	-0,2%	-6,5%
Jul.	8,3%	2,8%	5,8%	7,3%	0,1%	10,5%	-1,3%	-1,6%	3,7%	-42,8%	-0,7%	-6,8%
Aug.	-3,3%	4,2%	-1,6%	6,8%	-0,7%	9,9%	-0,2%	-3,6%	-7,8%	-46,1%	0,1%	-6,0%
Sep.	-2,5%	6,0%	0,1%	9,3%	-0,1%	7,9%	-0,8%	-3,1%	-1,5%	-45,9%	-1,1%	-6,0%
Oct.	1,4%	6,4%	0,7%	11,9%	-0,5%	5,7%	0,5%	-3,9%	5,4%	-41,4%	-0,1%	-5,3%
Nov.	2,8%	9,7%	1,7%	13,3%	3,0%	7,2%	-0,7%	-5,7%	4,3%	-12,3%	0,2%	-5,5%
Dec.	11,5%	10,1%	3,6%	10,5%	-1,2%	5,1%	0,5%	-2,6%	-0,1%	-8,0%	-0,6%	-5,8%
2004												
Jan.	-6,4%	13,4%	2,6%	17,0%	-0,2%	8,8%	-0,2%	-2,7%	1,4%	4,8%	-1,0%	-4,0%
Feb.	0,7%	14,5%	-0,6%	13,3%	-0,5%	4,2%	-2,7%	-5,3%	1,9%	-3,3%	-0,9%	-4,6%
Mar.	0,7%	16,6%	1,5%	12,9%	3,6%	6,3%	0,0%	-5,2%	-4,7%	8,8%	0,5%	-3,7%
Apr.	4,4%	18,2%	-0,6%	12,6%	0,0%	2,6%	0,9%	-3,8%	7,4%	4,0%	1,2%	-3,5%
May.	0,7%	20,3%	0,3%	12,1%	-0,2%	2,0%	-0,5%	-3,4%	14,2%	21,4%	1,4%	-1,2%
Jun.	0,7%	19,2%	-0,3%	13,6%	0,8%	3,9%	3,0%	-1,6%	3,1%	28,7%	0,7%	-0,4%
Jul.	9,9%	21,0%	2,5%	10,1%	1,0%	4,9%	2,6%	2,3%	-5,5%	17,4%	0,5%	0,9%
Memo:												
Balance as of Jun.30 (Mill.S/. or Mill.US\$)	7 476		20 585		10 530		9 501		874		9 896	
Balance as of Jul.31 (Mill.S/. or Mill.US\$)	8 217		21 102		10 633		9 745		826		9 947	
1/ Short term external liabilities of banking enterprises.												

Financial system credit to the private sector: July 2004

Over July 2004, financial system credit to the private sector increased 0,6% in soles and in foreign currency for a fifth month in

a row. The annual rate of growth was 8,0% in soles and 2,4% in dollars.

FINANCIAL SYSTEM CREDIT TO THE PRIVATE SECTOR



In July the increase of soles-denominated credit (S/. 91 million) obeyed to the expansion to that of Banco de la Nación (S/. 42 million), commercial banks (S/. 36 million) and microfinance institutions (S/. 10 million). Through last 12 months, credit has expanded in S/. 1 133 million:

S/. 512 million from institutional investors; S/. 485 million from microfinance institutions and S/. 352 million from Banco de la Nación; partially offset by lower banking credit (S/. 68 million) and leasing and others (S/. 149 million).

FINANCIAL SYSTEM CREDIT TO THE PRIVATE SECTOR IN LOCAL CURRENCY

	Millions of nuevos soles			Percentage change	
	Jul 03	Jun 04	Jul 04	Jul 04/ Jul 03	Jul 04/ Jun 04
Commercial banks 1/	8 150	8 046	8 082	-0,8	0,5
Banco de la Nación	463	773	815	75,9	5,4
Microfinance institutions	3 288	3 763	3 773	14,7	0,3
Banks (microfinance credits)	671	961	966	43,9	0,6
Local government S&Ls	952	1 179	1 186	24,6	0,6
Rural S&Ls	155	211	215	39,0	1,9
Cooperatives	423	451	451	6,6	-,-
Edpymes	151	180	185	22,0	2,8
Financial companies	937	782	770	-17,8	-1,5
Institutional investors 2/	1 790	2 305	2 303	28,7	-0,1
AFPS	1 220	1 494	1 498	22,8	0,3
Insurance companies	498	623	627	25,9	0,6
Mutual funds	72	188	178	148,3	-5,4
Leasing companies and others	430	276	281	-34,7	1,8
Total Financial System	14 121	15 163	15 254	8,0	0,6

1/ Excludes microfinance credits.

2/ Mainly securities issued by the private sector.

The expansion of dollar-denominated credits (US\$ 72 million) was mainly recorded among commercial banks (US\$ 51 million), institutional investors (US\$ 10 million) and microfinance institutions (US\$ 8 million). Through last 12 month, credit in dollars increased US\$ 278

million, due to the expansion of microfinance institutions (US\$ 115 million), commercial banks (US\$ 113 million) and institutional investors credit (US\$ 110 million) that counteracted the fall of leasing enterprises (US\$ 61 million).

FINANCIAL SYSTEM CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY

	Millions of US dollars			Percentage change	
	Jul 03	Jun 04	Jul 04	Jul 04/ Jul 03	Jul 04/ Jun 04
Commercial banks 1/	9 500	9 562	9 613	1,2	0,5
Banco de la Nación	23	22	22	-1,4	-0,1
Microfinance institutions	453	560	568	25,5	1,5
Banks (microfinance credits)	85	98	101	18,6	2,4
Local government S&Ls	147	212	217	48,3	2,4
Rural S&Ls	44	47	48	9,8	2,1
Cooperatives	106	130	130	22,0	-,-
Edpymes	36	43	43	19,5	-,-
Financial companies	35	29	29	-17,0	0,7
Institutional investors 2/	1 042	1 142	1 152	10,6	0,9
AFPS	537	553	572	6,6	3,4
Insurance companies	45	59	63	39,2	6,0
Mutual funds	460	529	518	12,5	-2,3
Leasing companies and others	671	608	610	-9,0	0,3
Total Financial System	11 688	11 894	11 966	2,4	0,6

1/ Excludes microfinance credits.

2/ Mainly securities issued by the private sector.

Last 12 month primary surplus of S/. 2 204 million to July

Central government operations in the period August 2003 – July 2004 recorded a S/. 2 204 million surplus, compared with the S/. 532 million surplus over the period August 2002 - July 2003. The latter was explained by the S/. 3 365 million increase of current revenue (11%) that exceeded the expansion of non-financial expenditure in S/. 1 797 million (6%). Cumulative interests (S/. 4 407 million) grew by 6%; hence, the overall deficit, S/. 2 203 million, was S/. 1 427 million lower than a year

ago.

In **July**, **central government operations** recorded a S/. 638 million overall deficit. The primary deficit reached S/. 406 million, due to the increase in current revenue (17%), against the increase of non-financial expenses (14%). On the other hand, interest amounted to S/. 232 million, up 9% from a year ago.

CENTRAL GOVERNMENT OPERATIONS

(Millions of Nuevos Soles)

	Monthly data			Aug 2002	Jul 2003	Aug 2003	C/A	C/B
	2003	July 2004	% var.	Jul 2003	Jun 2004	Jul 2004		
				A	B	C		
1. CURRENT REVENUES	2 437	2 847	16,8%	30 597	33 552	33 962	11,0	1,2
2. NON-FINANCIAL EXPENDITURE	2 927	3 324	13,6%	30 357	31 757	32 154	5,9	1,2
A. CURRENT EXPENDITURE	2 625	2 958	12,7%	26 504	28 053	28 386	7,1	1,2
B. CAPITAL EXPENDITURE	302	366	21,1%	3 854	3 704	3 767	-2,2	1,7
3. CAPITAL REVENUES	81	71	-12,7%	292	406	395	35,3	-2,5
4. <u>PRIMARY BALANCE</u>	<u>-409</u>	<u>-406</u>		<u>532</u>	<u>2 201</u>	<u>2 204</u>		
5. INTEREST PAYMENTS	213	232	8,9%	4 161	4 388	4 407	5,9	0,4
6. <u>OVERALL BALANCE</u>	<u>-622</u>	<u>-638</u>		<u>-3 629</u>	<u>-2 187</u>	<u>-2 203</u>		
7. NET FINANCING	622	638		3 629	2 187	2 203		
1. External	-19	48		2 488	3 054	3 120		
A. Disbursements	88	190		5 823	7 409	7 511		
B. Amortizations	-107	-142		-3 335	-4 355	-4 391		
2. Domestic	636	584		21	-1 275	-1 327		
3. Privatization	4	6		1 120	409	410		

Current revenue amounted to S/. 2 847 million, up 17% from June 2003. **Tax revenue** increased 17%, due to greater collection of IGV (23%), duties (14%), Income (16%) and other revenues (55%) which were partially offset by lower excise taxes (26%). This expansion in government revenues is explained by a greater economic activity, improvements in terms of trade, higher investments and the impact of the financial transactions tax. On the other hand, **non-tax revenue** expanded 19%.

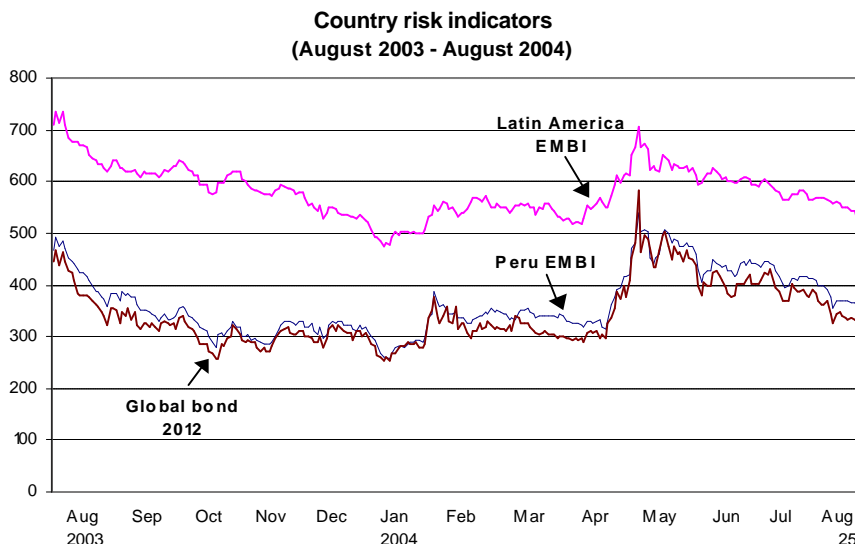
Non-financial expenditure totaled S/. 3 324 million, up S/. 397 million from

June 2003, reflecting the increase in current non financial expenditures (S/. 333 million, 13%). **External financing** was positive (US\$ 584 million) because US\$ 55 were received as disbursements and US\$ 41 million were paid as amortization. Meanwhile, **internal financing** was positive S/. 584 million. S/. 95 million corresponding to issues as sovereign debt and S/. 445 million was as amortizations while deposits in Banco de la Nación decreased in 522. Deposits in the Public Treasury augmented in S/. 107 million while US\$ 268 million were reduced to attend the foreign debt.

Spread of Global bond 2012 at 3,38%

Between the **18 and 25 of August**, the spread of the Peruvian Global bond ten year bond and the Peruvian EMBI+ index where reduced from 338% to 314% and form 366% to 346% respectively. This has

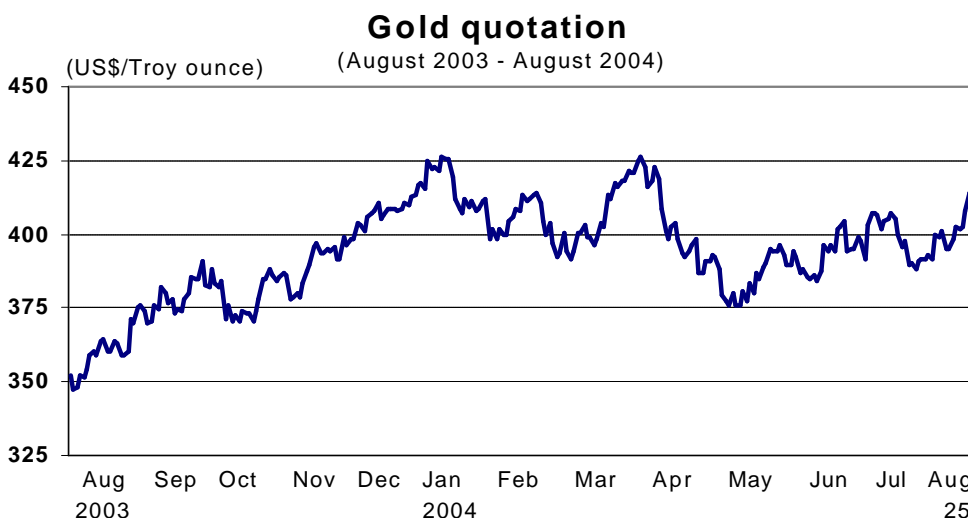
reflected a positive attitude by foreign investors towards emerging markets as expectations of strong Fed Fund Rates increase have diminished.



International markets

Between **August 11 and 18**, the **gold** quotation increased 1,2% to US\$ 407 per Troy ounce due to the fact that this metal

is being bought as an strategic financial asset as oil prices are hiking.



The **copper** quotation went 2,7% to US\$1,25. Over this week, LME inventories went from 111 to 109 thousand MT. These facts are explained by a lower demand by

European operators and a lower performance of the real state market in the United States.

Copper quotation

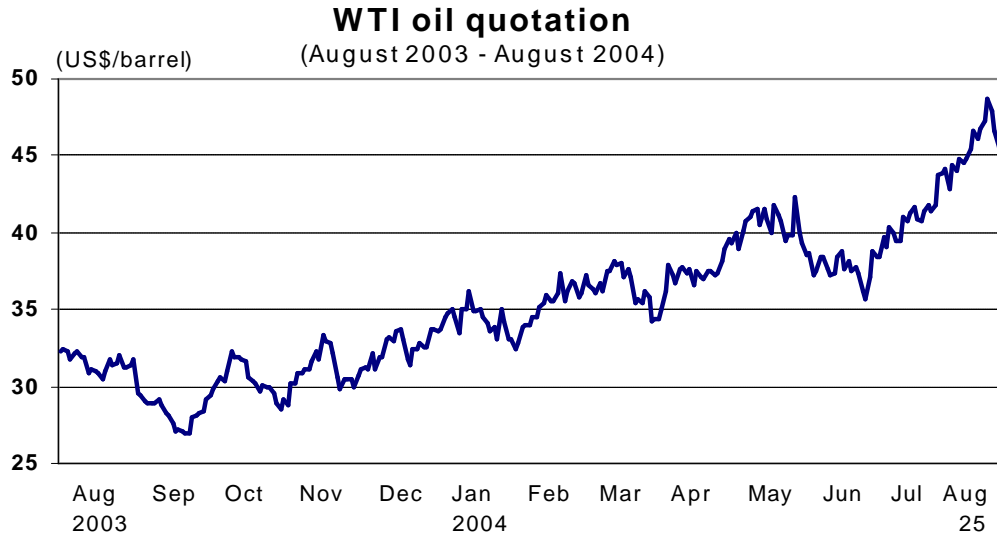


In the period under analysis, the **zinc** quotation increased 1,8% to US\$ 0,43 per pound. LME zinc inventories remained at 738 thousand MT.

Zinc quotation

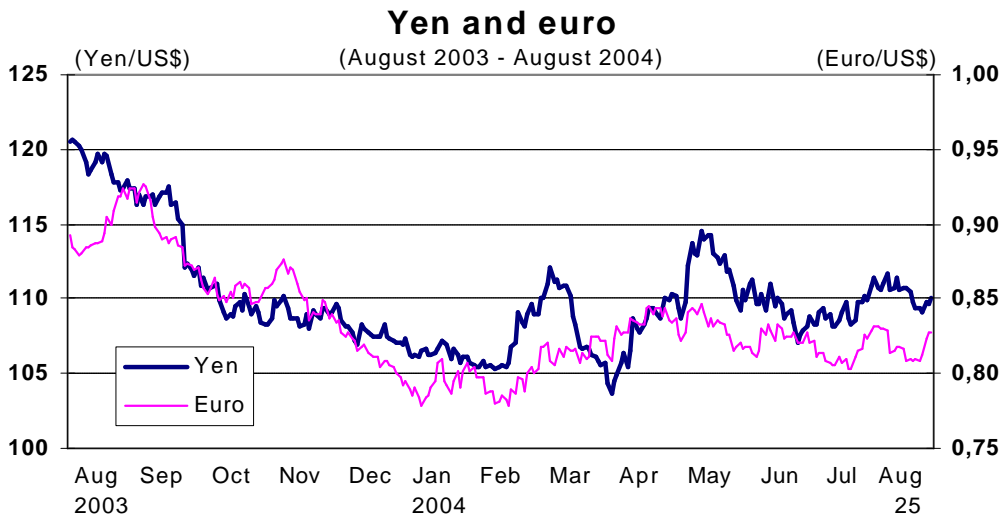


The WTI oil price fell 8% to US\$ 43,5 per barrel as Iraqi exports are returning to their business as usual levels. US inventories have maintained in the same levels of barrels.



The US dollar appreciated by 2,1% and 0,7% against the euro and yen respectively. The former due to the

reduction in oil prices which mitigated lower growth expectations for the US.

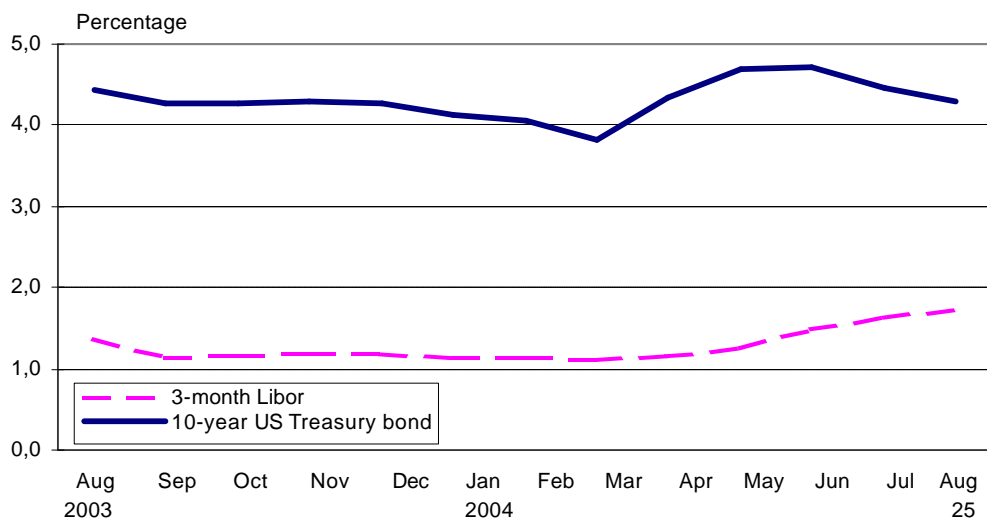


The past week, the **3-month Libor** where raised from 1,73% to 1,77%, whereas the yield of **10-year US Treasury bonds** increased from 4,24% to 4,26%. The

slighter demand for this type of assets can be explained by a change of investment portfolios towards other assets.

Libor and yield of 10-year matured US Treasury bond

(August 2003 - August 2004)



Lima Stock Exchange (LSE)

As of August 25, the LSE increased 0,7% and 0,4% in its General Index and its Blue Chip Index respectively thanks to lower cost expectations as a result of the start-up of

project Camisea. In the year, these indexes record cumulative increases of 16,8% and 17,9%, respectively.

LSE indicators (August 2003 - August 2004)

