

CENTRAL RESERVE BANK OF PERU

WEEKLY REPORT

Nº 40 – October 7, 2004

Net international reserves at US\$ 11 265 million

During **September net international reserves (NIR)** amounted to US\$ 11 187 million, up US\$ 224 million from end-August. This increase was mainly due to higher financial and pension system deposits (US\$ 93 and US\$ 3 million, respectively), foreign currency purchases (US\$ 225 million) and investment returns (US\$ 33 million), which were partially offset by the net sales of foreign currency (US\$ 70 million) and lower public sector deposits (US\$ 60 million).

As of **October 5**, net international reserves (NIR) amounted to US\$ 11 265 million, up

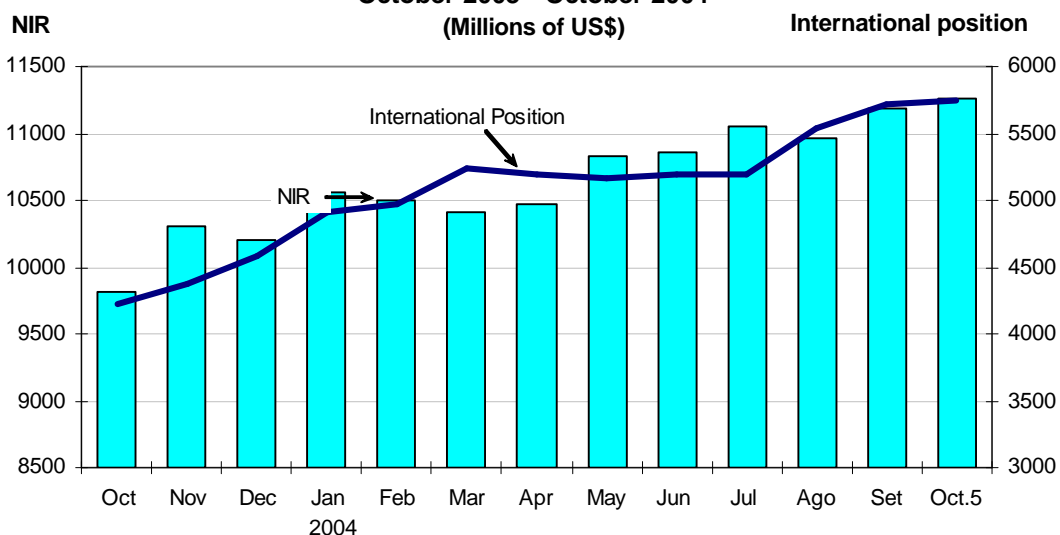
US\$ 78 million from end-September. This increase was mainly due to higher private deposits (US\$ 10 million), purchase of foreign exchange (US\$ 34 million) and higher public deposits (US\$ 45 million) which were partially offset by lower pensions system deposits (US\$ 4 million) and investment returns (US\$ 7 million).

Starting this year, NIRs have increased US\$ 1 070 million, whereas the Central Bank's **international position** (US\$ 5 750 million) grew by US\$ 1 167 million.

Net international reserve and international position of the Central Reserve Bank

October 2003 - October 2004

(Millions of US\$)

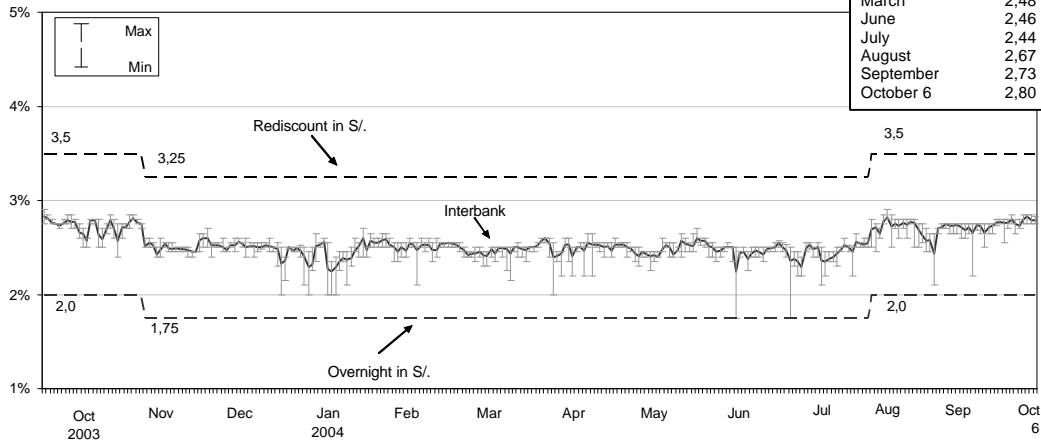


Interbank interest rate at 2,80%

As of September, the average interbank interest rate in domestic currency was 2,73%, higher than August's (2,67%). As of

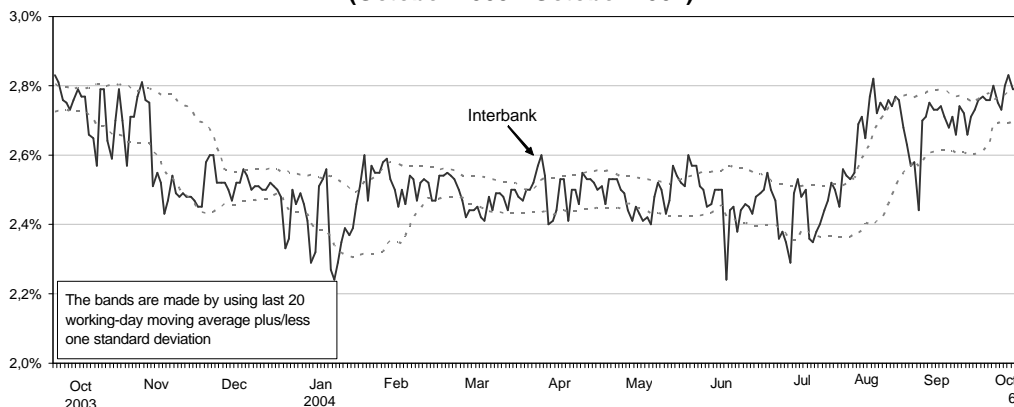
October 6 the average interbank rate was 2,80%.

**Interest rates in domestic currency
(October 2003 - October 2004)**



Interbank interest rate (percent)		
	Average	Standard Deviation
December 2003	2,51	0,05
March	2,48	0,04
June	2,46	0,07
July	2,44	0,07
August	2,67	0,10
September	2,73	0,04
October 6	2,80	0,01

**Interbank interest rate in domestic currency
(October 2003 - October 2004)**



Monetary operations

As of **October 6**, the daily average balance of banks' liquidity at the Central Bank was S/. 201 million. Between September 29 and October 6, the Central Bank made the following operations:

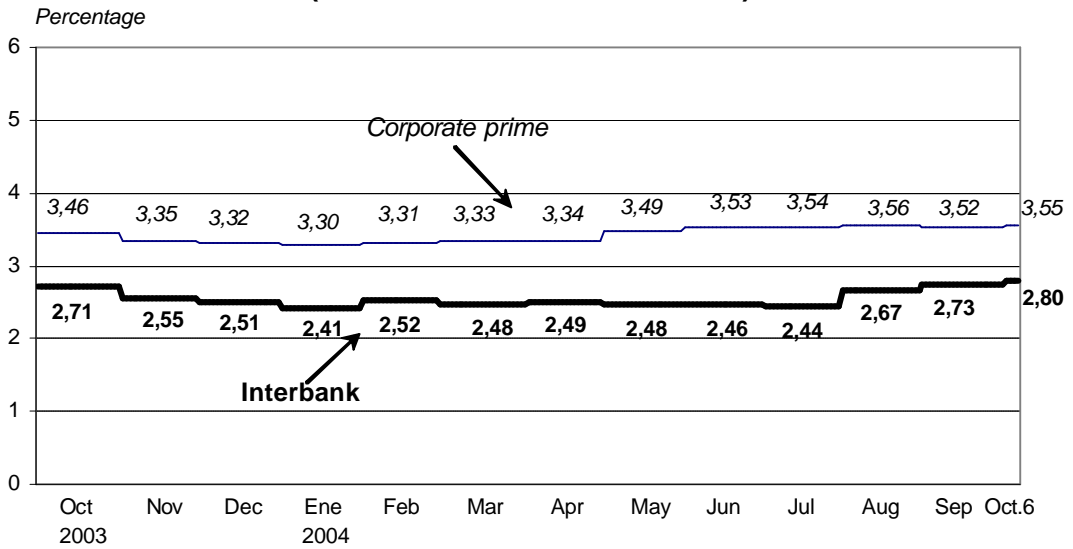
- **Auctions of temporary purchases of CDBCRP** with a i) 1-day maturity by S/. 110, S/. 50 and S/. 60 million at an average interest rate of 2,81, 2,80 and 2,83%; ii) 3-day by S/. 200 million at 2,81% ;
- **Auctions of CDBCRP** with a i) 9-month maturity by S/. 60 at an average interest rate of 4,04%.
- **Net Foreign exchange Purchases** of US\$ 53,5 million at an average rate of S/. 3,3362.
- **Overnight** deposits on September 30 for S/. 83,5 million.

Corporate prime interest rate at 3,55%

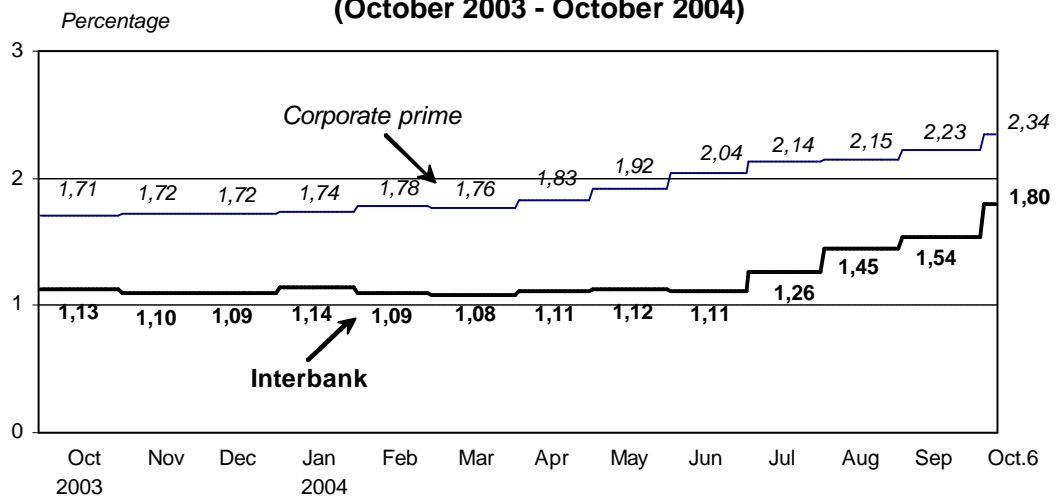
During **September**, the 90-day average corporate prime interest rate in **domestic currency** dropped from 3,56% to 3,52% in August. As of October 6, this average rate

is 3,55%. On the other hand, the rate in **dollars** raised from 2,15% in August to 2,23% in September. As of October 6, this rate is 2,34%.

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



**Monthly average interest rates in foreign currency
(October 2003 - October 2004)**



Exchange rate: S/. 3,333

During September the exchange rate was S/. 3,358 which meant a nominal appreciation of 1,1 percent with respect to August. With this, the yearly appreciation equals 3,3%. Regarding September 2003 the appreciation was 3,5%. These appreciations reflected the maintenance of

low devaluatory expectations associated with the favorable external conditions (commercial surplus, higher transfers, and new investment projects).

During September 2004, the Central Bank bought US\$ 223,5 million while Banco de

la Nación sold out US\$ 27 million. On the other hand, the BCRP sold US\$ 69 million to Banco de la Nacion out of the counter.

The multilateral real exchange rate of August showed an appreciation of 0,4 percent with regard to August. This result is explained basically by the 1,1 percent nominal appreciation given that the differential among the variation of the

external prices (0,7 %) and the domestic prices was almost nil (0,02%).

Up to October 6, the exchange was S/. 3,333. Up to the month, the BCRP intervened purchasing US\$ 39 million over the counter. Besides, the balance of net forward sales augmented by US\$ 19 million by October 5, whereas the exchange position dropped in US\$ 7 million.

BANKS' EXCHANGE POSITION
(Millions of US\$)

	December 2002	December 2003	August 2004	September	October 5
a. Net sales to the public (i-ii)	905	607	535	550	531
i. Forward sales to the public	1 141	834	1 028	1 056	1 031
ii. Forward purchases to the public	236	227	493	505	500
b. Banks' exchange position	643	536	461	492	485

MULTILATERAL EXCHANGE RATE INDEX
(1994=100)



Inflation was 0,02 percent in September

In September 2004, the rate of **inflation** was 0,02 percent, 4 percent for last 12 months and 3,2 percent for the first 9 months of the year. Five farm products contributed to -0,25 percentage points of monthly inflation: onion (-0,08 pp), potato (-0,06 pp), tomato and eggs (-0,04 pp each

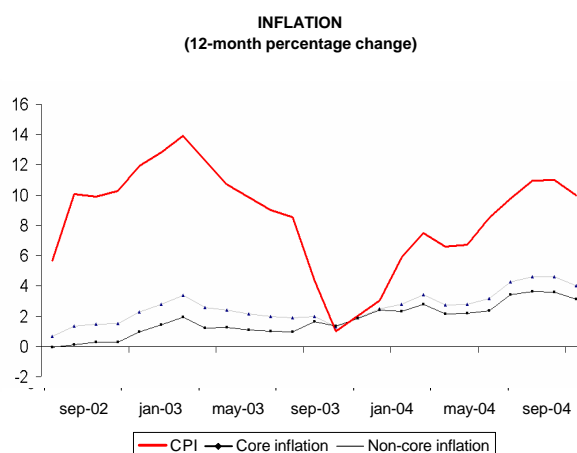
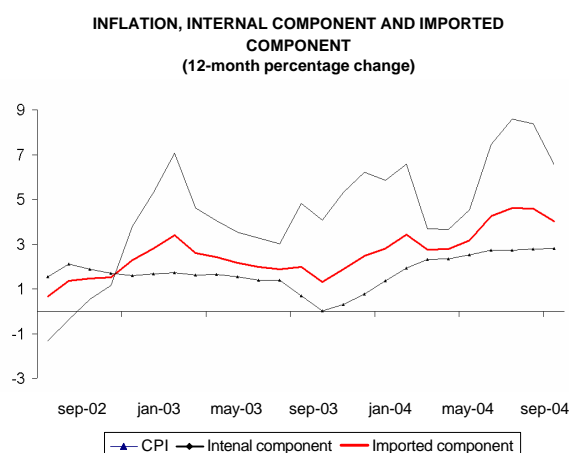
one) and vegetables (-0,03 pp), whereas the item "personal care" represented -0,06 pp. Conversely, poultry and fishing represented 0,17 and 0,04 pp of inflation, whereas electricity and fuels added 0,03 pp each one.

Inflation Rate
Annual percentage change

	POND.	Monthly	12 motnhs indicator			average annual indicator		
		Sep. 2004	Sep. 2003	Aug. 2004	Sep. 2004	Sep. 2003	Aug. 2004	Sep. 2004
I. Core Inflation	68,3	0,02	0,68	2,79	2,80	1,58	1,71	1,89
Goods	41,8	-0,05	0,11	3,49	3,49	1,54	1,75	2,03
Food and Beverages	20,7	0,14	-0,38	7,43	7,69	1,92	3,28	3,95
Textiles and Footware	7,6	0,07	0,50	1,15	1,34	0,92	0,96	1,03
Electrical Appliances	1,0	0,31	-3,00	-2,83	-2,61	1,19	-1,98	-1,94
Other Industrial Goods	12,5	-0,50	0,92	-1,05	-1,61	1,32	-0,02	-0,23
Services	26,6	0,13	1,57	1,71	1,73	1,63	1,66	1,67
Restaurants	12,0	0,17	1,45	1,94	1,91	1,35	1,55	1,58
Education	5,1	0,52	3,02	3,63	3,97	2,95	3,34	3,42
Health	1,3	0,05	3,09	0,73	0,54	3,11	1,96	1,75
Renting	2,3	-0,42	-0,20	-0,17	-0,59	1,05	0,37	0,34
Other Services	5,9	-0,09	0,88	0,47	0,47	1,00	0,81	0,78
II. Non Core Inflation	31,7	0,02	4,83	8,38	6,54	3,39	5,75	5,90
Food	14,8	-0,51	1,11	13,68	9,65	-1,41	6,95	7,66
Fuel	3,9	0,66	10,30	15,18	12,83	17,37	9,07	9,30
Transportation	8,4	0,26	11,22	0,44	0,76	6,65	5,34	4,48
Utilities	4,6	0,62	-0,16	0,91	1,52	0,77	-0,58	-0,44
III. CPI	100,0	0,02	1,98	4,59	4,03	2,15	3,01	3,18
Note:								
Imported component	12,1	0,22	4,37	11,00	9,99	10,27	6,46	6,93
Core inflation without food and beverages	47,6	-0,04	1,13	0,81	0,70	1,29	1,03	1,00
Total food	33,2	-0,15	0,59	10,64	9,02	0,56	5,37	6,07

Core inflation was 0,02 percent in September and 2,8 percent over last 12 months. On the other hand, the non-core component of inflation was 0,02 percent this month and 6,5 percent in annual terms. Core inflation excluding foodstuffs

and beverages amounted to -0,04 percent this month (0,7 percent over last 12 months). Finally, imported inflation reached 0,22 percent in September and 10 percent over last 12 months.



Macroeconomic Expectations

Between September 23 and 30, the Central Bank carried out the monthly Macroeconomic Expectations survey

among 29 financial enterprises, 345 non-financial businesses and 18 economic analysts with the following results:

FINANCIAL SYSTEM INSTITUTIONS

(Median^{1/} of the sample)

	Date of the survey		
	Jul. 27 2/	Ago. 31 3/	Sep. 30 2/
Inflation (%)			
Monthly: october	--	--	0,1
Annual: 2004	3,3	3,5	3,5
2005	2,9	3,0	2,5
GDP growth (%)			
Monthly: august	4,0	4,0	4,0
september	--	4,1	4,0
october	--	--	4,0
Annual: 2004	4,2	4,3	4,3
2005	4,0	4,1	4,5
Exchange rate (S/. per US\$)			
Monthly: october	--	--	3,35
December 2004	3,46	3,40	3,35
December 2005	3,50	3,48	3,42
Interbank interest rate (%)			
<i>In nuevos soles</i>			
Monthly: october	--	--	2,8
December 2004	2,8	3,0	3,0
December 2005	3,3	3,5	3,5
<i>In U.S. Dollars</i>			
Monthly: october	--	--	1,7
December 2004	1,6	1,8	2,0
December 2005	2,3	2,5	2,6

1/ The median indicates the central value of the sample in order to reduce the bias due to extreme value.

2/ 29 financial institutions.

3/ 28 financial institutions.

CONSULTANTS

(Median^{1/} of the sample)

	Date of the survey		
	Jul. 27 2/	Ago. 31 2/	Sep. 30 3/
Inflation (%)			
Monthly: october	--	--	0,1
Annual: 2004	3,3	3,4	3,5
2005	2,3	2,5	2,5
GDP growth (%)			
Monthly: august	4,5	4,1	4,0
september	--	4,3	4,2
october	--	--	4,3
Annual: 2004	4,5	4,4	4,3
2005	4,1	4,1	4,2
Exchange rate (S/. per US\$)			
Monthly: october	--	--	3,35
December 2004	3,48	3,40	3,39
December 2005	3,50	3,50	3,47
Interbank interest rate (%)			
<i>In nuevos soles</i>			
Monthly: october	--	--	2,8
December 2004	2,8	3,0	3,0
December 2005	3,0	3,6	3,1
<i>In U.S. Dollars</i>			
Monthly: october	--	--	1,5
December 2004	1,3	1,6	1,7
December 2005	2,0	2,5	2,5

1/ The median indicates the central value of the sample in order to reduce the bias due to extreme value.

2/ 17 consultants.

3/ 18 consultants.

NON-FINANCIAL SYSTEM INSTITUTIONS

(Median^{1/} of the sample)

	Date of the survey		
	Jul. 27 2/	Ago. 31 2/	Sep. 30 2/
Inflation (%)			
Annual: 2004	3,0	3,5	3,5
2005	2,8	3,0	3,0
GDP growth (%)			
Annual: 2004	4,0	4,0	4,0
2005	4,0	4,2	4,2
Exchange rate (S/. per US\$)			
December 2004	3,50	3,45	3,40
December 2005	3,58	3,51	3,50

1/ The median indicates the central value of the sample in order to reduce the bias due to extreme value.

2/ 345 non-financial institutions.

Monetary base as of September, 2004

The **monetary base** balance as of September was S/. 7 751 million, down 0% (S/. 75 million) from end-August. In average terms, the year on year rate of growth of the monetary base was 20,0% compared with 16,9% in August.

The main explanations for this result were purchase of foreign currency (US\$ 224

million or S/. 751 million) and lower overnight deposits of financial enterprises (S/. 66 million). On the other hand, operations reducing monetary base were CDBCRP auctions for (S/. 630 million), dollar sales to the public sector (US\$ 70 million or S/. 233 million) and higher public sector deposits (S/. 109 million).

Banking system monetary accounts: September 15, 2004

During the las 4 weeks up to September 15, liquidity in **domestic currency** increased 2,9% (S/. 607 million) to a balance of S/. 21 671 million (15,8% for the year). Credit to the private sector in the same currency augmented in 1,8% (S/. 190 million) to S/. 10 803 million. However, in annual terms this aggregates grew by 8,0%.

Liquidity in **foreign currency** rose 2,2% (US\$ 210 million) to US\$ 9 576 million, down 0,9% from a year ago. For this year, annual growth rate is 0,2%. In relation to the private sector, this was 0,9% (US\$ 86 million) mounting US\$ 9 806 million.

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%	0,5%	12,3%	-0,2%	1,9%	-0,4%	-3,3%	13,6%	20,7%	1,5%	-1,2%
Jun.	0,7%	19,2%	-0,4%	13,8%	0,8%	3,9%	3,1%	-1,4%	3,5%	28,6%	0,7%	-0,4%
Jul.	9,9%	21,0%	2,5%	10,3%	1,0%	4,9%	2,4%	2,3%	-5,5%	17,2%	0,5%	0,9%
Aug.	-5,2%	18,6%	1,6%	13,9%	0,9%	6,6%	-2,0%	0,5%	-5,1%	20,6%	-1,3%	-0,5%
Set.15	-1,3%	17,0%	2,9%	15,8%	1,8%	8,0%	-2,2%	0,2%	-3,5%	27,8%	-0,9%	-0,2%
Memo:												
Balance as of Aug.15 (Mill.S/. or Mill.US\$)	7 801		21 064		10 614		9 786		907		9 892	
Balance as of Sep.15 (Mill.S/. or Mill.US\$)	7 701		21 671		10 803		9 576		875		9 806	
1/ Short term external liabilities of banking enterprises.												

August trade surplus: US\$ 240 million

August 2004 saw a positive trade balance -for a sixth consecutive month- of US\$ 230 million, up US\$ 129 million from a year ago. Thus, last 12 month record reached US\$ 1 957 million.

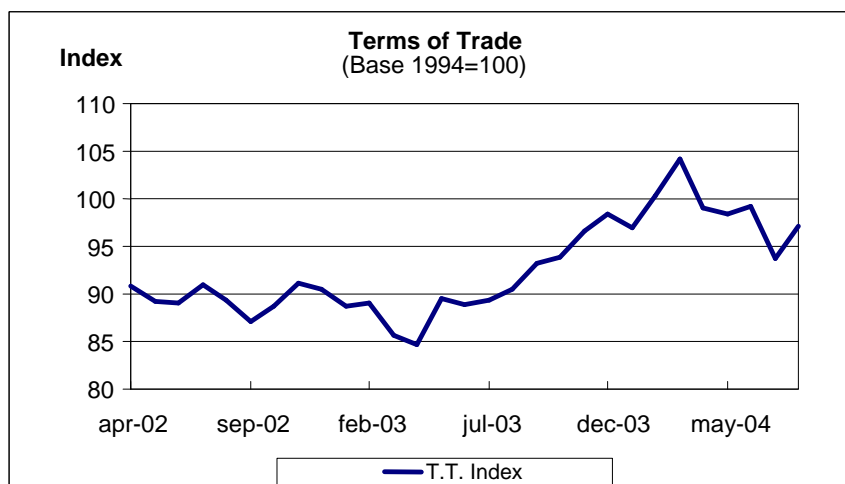
Exports recorded a top of US\$ 1 127 million this month, US\$ 369 million or 49 percent higher than August 2003 (an increase of 55 percent for traditional products and 38 percent for non-traditional ones). Traditional exports were mainly accounted for a higher sale of mining products (US\$ 192 million, or 50 percent increase) and fisheries (US\$ 95 million, or 161 percent increase). On the other hand, higher exports of non-traditional products were accounted for textile- (US\$ 27 million, or 40 percent increase) and farm products (US\$ 20 million, or 42 percent increase). Against July 2004, exports grew by 1 percent (US\$ 12 million), both traditional and non-traditional exports increased 1 percent -exports of mining and farm products stood out with rises of 6 and 8 percent, respectively-.

Imports amounted to US\$ 897 million in August, the highest figure since last April, up 37 percent from August 2003 and 14 percent from July 2004. The former was explained by larger acquisitions of intermediate goods (57 percent) –of which fuels grew by 132 percent- and of capital goods (21 percent); namely transportation equipment and building materials; whereas imports of consumer goods increased 11 percent (23 percent for non durables). Against July 2004, imports expanded 14 percent thanks to larger acquisitions of intermediate-, capital- and consumer goods (17, 15 and 4 percent, respectively).

Terms of trade increased 7,4 percent between August 2003 and August 2004. Average export prices grew by 17,3 percent, exceeding the increase in import prices (9,2 percent). The increase in export prices obeyed to dearer ores, whereas the higher quotations for oil, wheat, soybean and dairy products explained the rise of imports prices.

Trade Balance
(Millions of US\$)

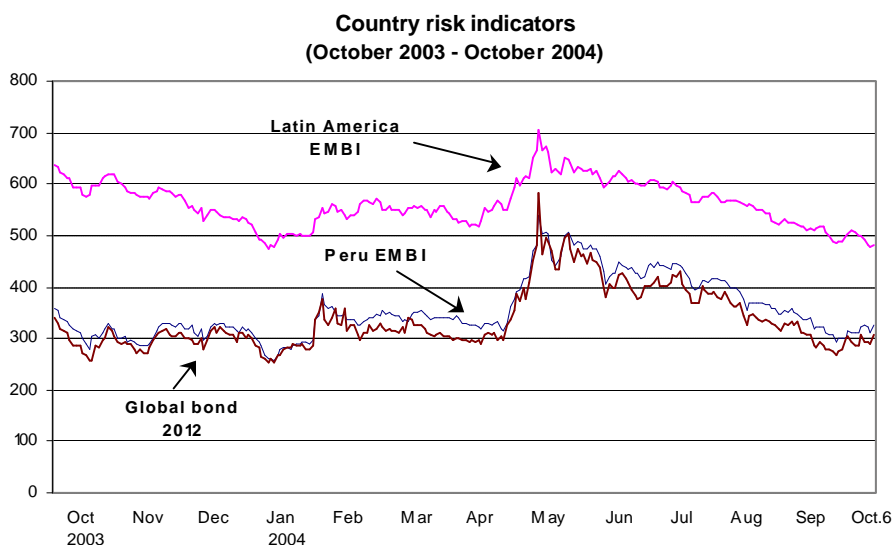
	Monthly data			Annual data				
	2003	August	% change	Sep.2002	Aug.2003	Sep.2003	C/A	C/B
		2004		Aug.2003	Jul.2004	Aug.2004		
			A	B	C			
Exports	<u>757</u>	<u>1 127</u>	<u>49</u>	<u>8 465</u>	<u>10 656</u>	<u>11 025</u>	<u>30,2</u>	<u>3,5</u>
Traditional	529	817	55	5 908	7 459	7 747	31,1	3,9
Non traditional	218	301	38	2 444	3 080	3 163	29,4	2,7
Others	10	9	- 15	113	117	115	1,5	- 1,3
Imports	<u>657</u>	<u>897</u>	<u>37</u>	<u>8 050</u>	<u>8 828</u>	<u>9 068</u>	<u>12,6</u>	<u>2,7</u>
Consumption goods	148	164	11	1 838	1 847	1 863	1,4	0,9
Raw materials and intermediate goods	319	502	57	4 139	4 758	4 941	19,4	3,8
Bienes de capital	184	223	21	1 998	2 144	2 183	9,3	1,8
Others	6	8	36	76	79	81	6,7	2,7
Trade Balance	<u>-101</u>	<u>230</u>	<u>129</u>	<u>-415</u>	<u>1 828</u>	<u>1 957</u>	<u>-371,7</u>	<u>-7,1</u>



Spread of Global bond 2012 at 3,08%

During September, the spread of the Peruvian Global ten-year Bond and Sovereign Bonds were priced at 3,06% after being at 3,33% and 3,23% from 3,57% respectively. This reduction is basically explained by lower risk perception

and by new investment projects and improvement of exports. As of October 6, the spread of the Peruvian Global ten-year Bond and Sovereign Bonds were priced at 3,08% and 3,25% respectively as a market correction after a 9,5% fall in September.



International markets

In September, the **gold** quotation increased 1,7% to US\$ 417,40 per troy ounce due to the fact that this metal is being bought as a cover strategy facing the risk of inflation derived from the high oil

prices as the weakening of the US Dollar. Continuing in the same trend, as of October 6, gold quotation was US\$ 420 per troy ounce.

Gold quotation



During September, the **copper** quotation increased 10,3% to US\$1,42 per pound, as the LME inventories fell 11% to 93 thousand MT. This falling has been generated by a broader Chinese demand (17%) while at August imports grew in 36%, and by strike of workers from Southern Peru Copper Corporation that

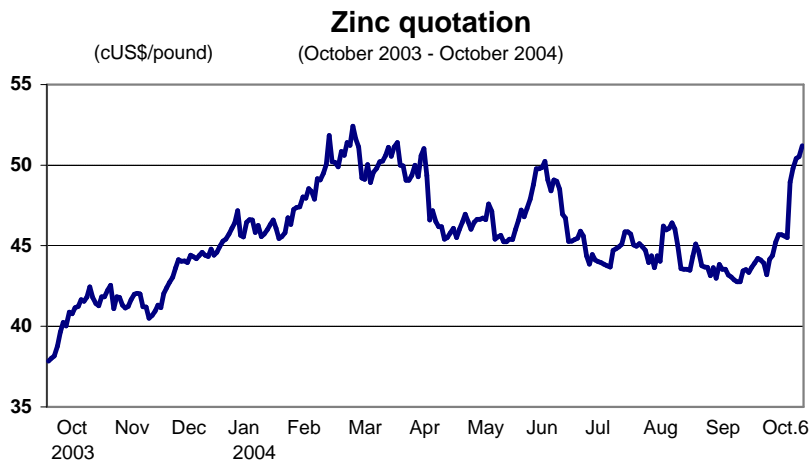
lasted 13 days. As of October 6 the copper quotation raised to US\$1,44. Over this week, LME inventories continued at low levels explained by a higher US and Chinese demands and by the strike at Atlantic Copper (the principal copper mine in Spain).

Copper quotation



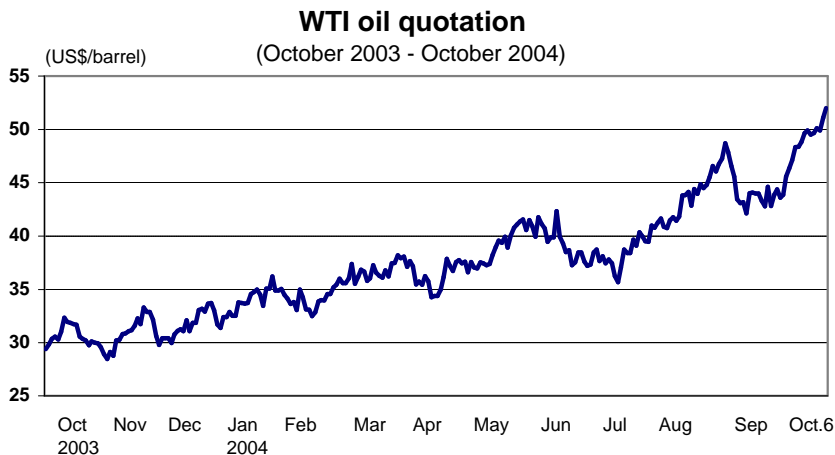
In September, the **zinc** quotation increased 12,40% to US\$ 0,49 per pound. Chinese demand for this base metal is expected to grow significantly the next

year due to projects in the galvanized iron industry. As of October 6, zinc was US\$ 0,51 per pound.



The **WTI oil** price grew 18,6% to US\$ 49,6 per barrel because of hurricane Ivan interrupting Mexican production, problems in Yukos oil company, and by revals threatening of oil field targeting in Nigeria, the worlds 9th producer.

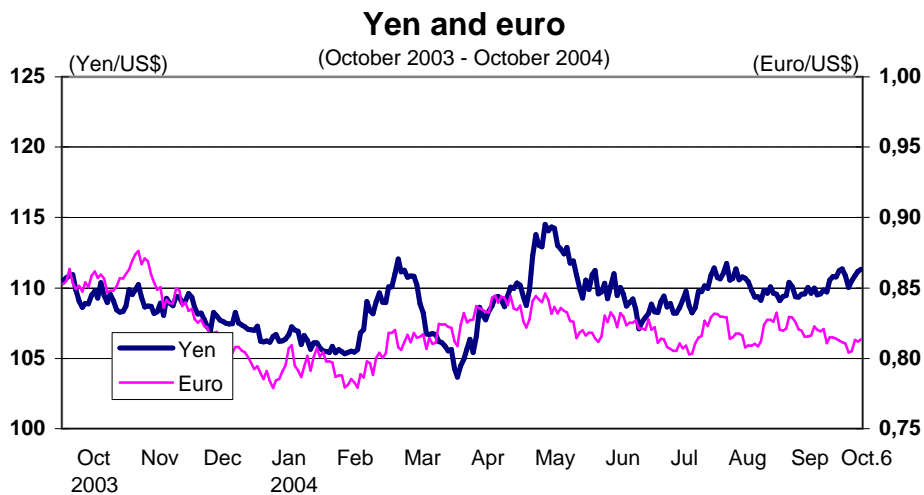
As of October 6, the WTI oil price grew to US\$ 52,0 per barrel due to the situation in Nigeria and by hurricane Ivan causing lack of supply in the US which has generated expectations of insufficient supply for a cold winter.



The US dollar depreciated by 0,3% against the euro (from 1,22 to 1,23 dollar per Euro) and appreciated 0,1% against the yen (from 110,23 to 110,08 yen per dollar).

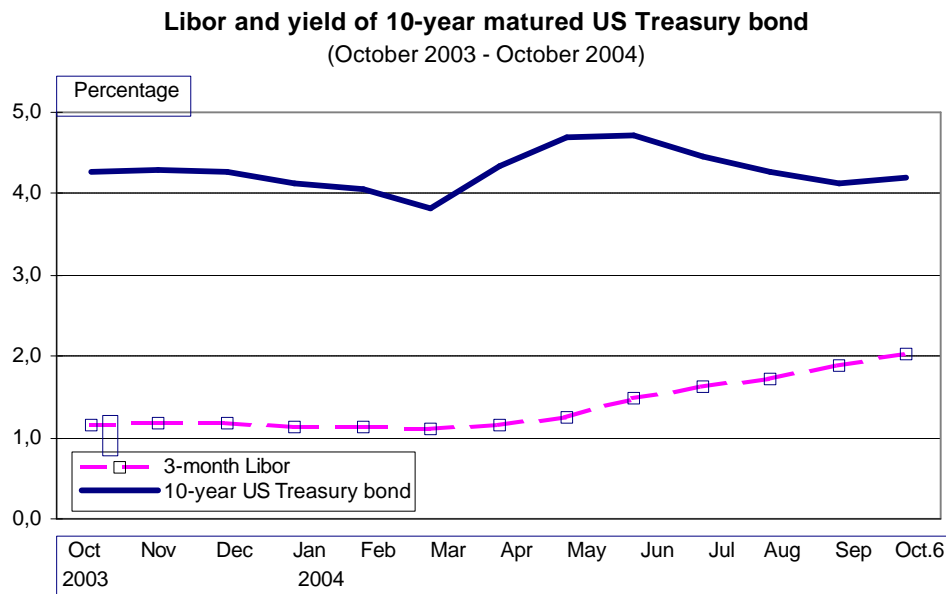
During September 29 and October 26 the Dollar depreciated 0,5% and appreciated 0,3% against the yen. During the week, the Dollar kept fluctuating in small margin against the Euro appreciating 0,2 at the end of the week (from 1,2324 to 1,2304

per Euro). The Dollar was favored by increasing perspectives on the US economic Growth as a consequence of favorable economic indicators in that country. That accompanied by the ECB's (European Central Bank) president with respect to the fact that it would maintain its interest rate at 2% up to 2005. That within an industrial production inflation for the Eurozone of 0,4% in August and 3,1% during the last 12 months because of the impact in petroleum prices.



The past month, the **3-month Libor** where raised from 1,73% to 1,90%, with regarding August whereas yield of US Treasury bonds with a 10 year decreased from 4,3% to 4,1%. By October 6, the 3-month Libor where raised from 2,01% to

2,05%, whereas the yield of US Treasury bonds with a 10 year increased from 4,09% to 4,22% thanks to a revision of the US output growth and positive indicator of manufacturing in Chicago.



Lima Stock Exchange (LSE)

As of September, the LSE increased 15,0% and 16,4% in its General Index and its Blue Chip Index respectively. As of October 6, the 13,1% and 14,3% in its General Index and

its Blue Chip Index respectively. In the year, these indexes record cumulative increases of 37,9% and 40,5%, respectively.

