

CENTRAL RESERVE BANK OF PERU

WEEKLY REPORT

Nº 27 – July 8, 2005

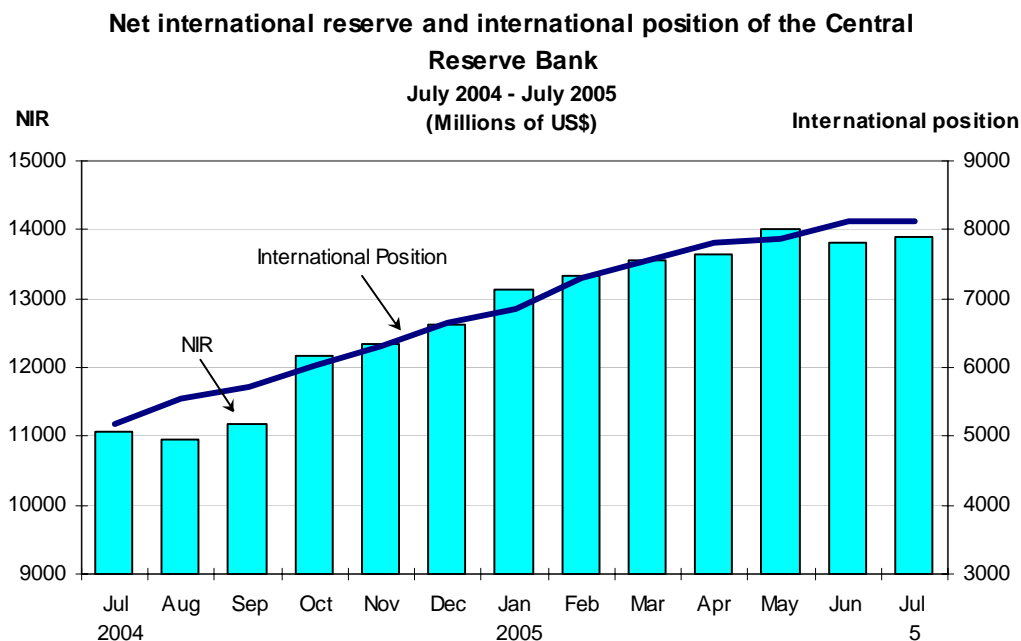
Net international reserves at US\$ 13 884 millions

In **June**, net international reserves (NIR) amounted to US\$ 13 818 millions, down US\$ 198 millions from end-May. This decrease was mainly due to lower public sector and financial system deposits in US\$ 294 and US\$ 177 millions, respectively, and changes in the value of currencies and gold in US\$ 12 millions. This evolution was partially offset by net purchases of foreign exchange by US\$ 265 millions (purchases over-the-counter mechanism by US\$ 365 millions and sales to the public sector by US\$ 100 millions) and investment yield in US\$ 19 millions.

As of **July 5**, NIR amounted to US\$ 13 884 millions, up US\$ 66 millions from end-June.

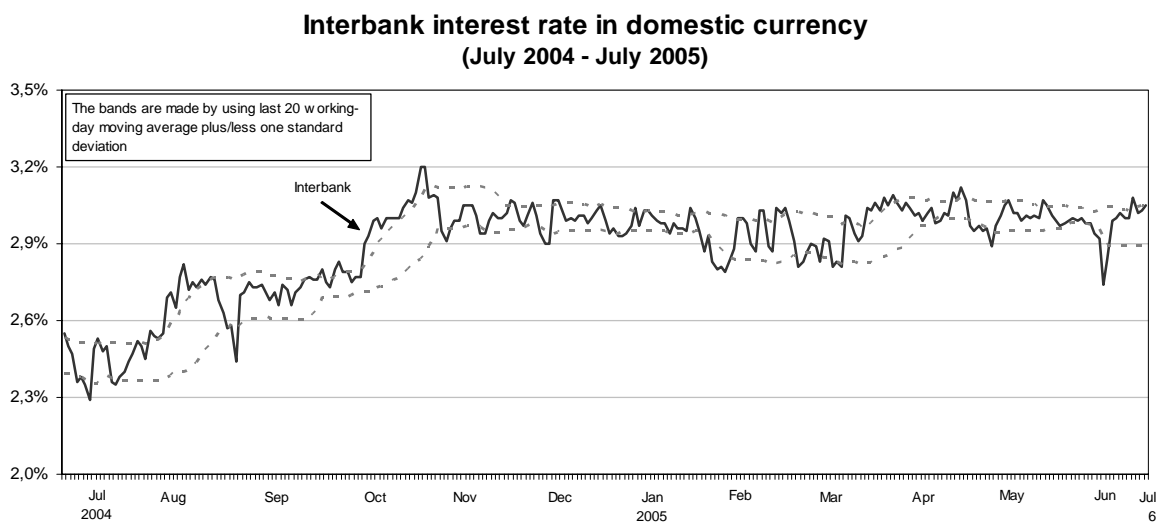
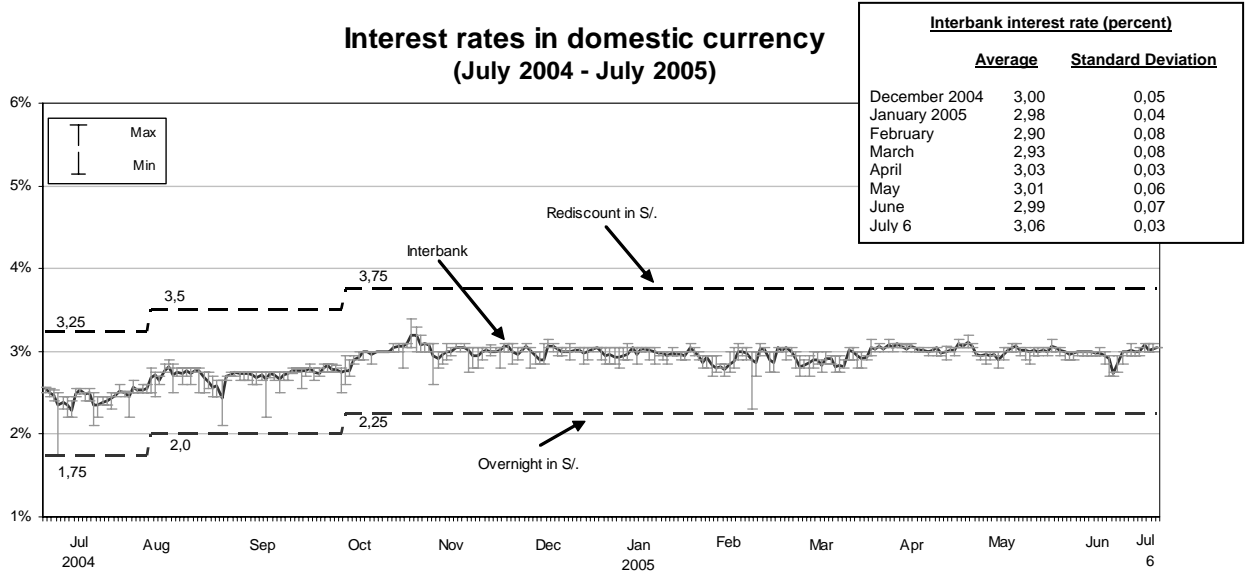
This increase was mainly due to net purchases of foreign exchange by US\$ 52 millions, higher financial system and public sector deposits in US\$ 66 and US\$ 3 millions, respectively, and investment yield in US\$ 1 million. This evolution was partially offset by changes in the value of currencies and gold in US\$ 52 millions and lower deposits of the Insurance Fund Deposit in US\$ 4 millions.

Year-to-date, NIRs have increased US\$ 1 253 millions, whereas the **Central Bank's international position** (US\$ 8 127 millions) grew by US\$ 1 488 millions.



Interbank interest rate at 3,06 percent

In **June**, the average interest rate in domestic currency was 2,99 percent. As of **July 6**, this average was 3,06 percent.



Monetary operations

Between **June 30 and July 6**, the Central Bank made the following operations:

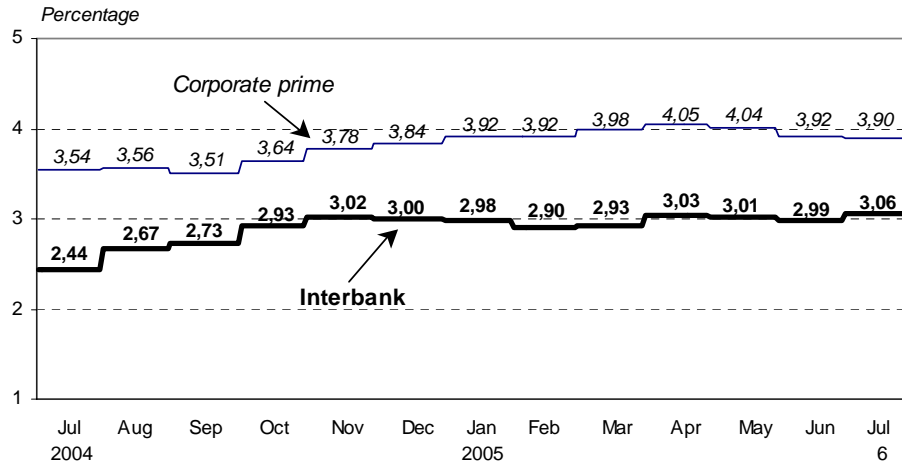
- Auctions of temporary purchase of CDBCRP and BTP with a: i) 1-day maturity by S/. 75 millions at 3,07 percent; ii) 3-day by S/. 375 millions at 3,09 percent and iii) 7-days by S/. 100 and S/. 80 millions at 3,16 and 3,15 percent, respectively.
- Foreign currency purchase over-the-counter mechanism by US\$ 100 millions at an average exchange rate of S/. 3,252.
- Overnight deposits on June 30 by S/. 105,3 millions.

Corporate prime interest rate at 3,90 percent

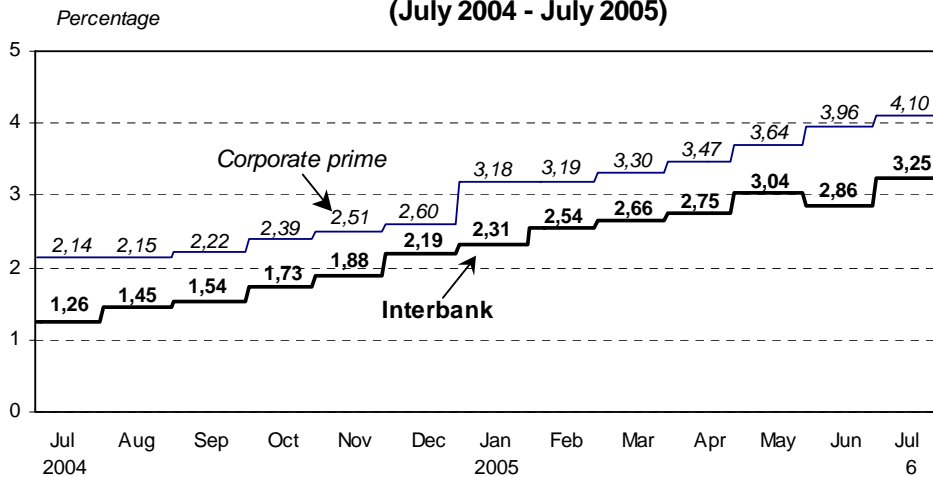
In **June**, the 90-day average corporate prime interest rate in domestic currency decreased from 4,04 in May to 3,92 percent, meanwhile the rate in dollars increased from 3,64 to 3,96 percent. As of **July 6**, the corporate rate in domestic and

foreign currency were 3,90 percent and 4,10 percent, respectively. The increase in the rate in dollars is influenced by the increase in 25 basis points of the federal funds interest rate on June 30.

Monthly average interest rate in domestic currency (July 2004 - July 2005)



Monthly average interest rate in foreign currency (July 2004 - July 2005)



Exchange rate: S/. 3,253

As of **July 6**, the asked banking system exchange rate was S/. 3,253. In **June** the average exchange rate slightly decreased 0,1 percent to S/. 3,253 per dollar. The year-to-date appreciation was 0,9 percent; and the year-to-year appreciation 6,5 percent.

In the month the market was influenced by the maintenance of favorable external accounts and the announcement of the deal with the Paris Club. Most of the regional currencies appreciate against the US dollar based on better macroeconomic fundamentals, higher capitals flows and lower spreads of the sovereign debt.

In this context, the Central Bank period intervened by purchases over-the-counter mechanism by US\$ 365 millions, which was partially offset by sales of foreign currency to the Public Treasury by US\$ 100 millions.

In June, the **bank's balance of net forward sales** slightly decreased from US\$ 358 to US\$ 355 million and the **bank's exchange position** dropped in US\$ 48 millions to US\$ 490 millions.

BANKS' EXCHANGE POSITION
(Millions of US\$)

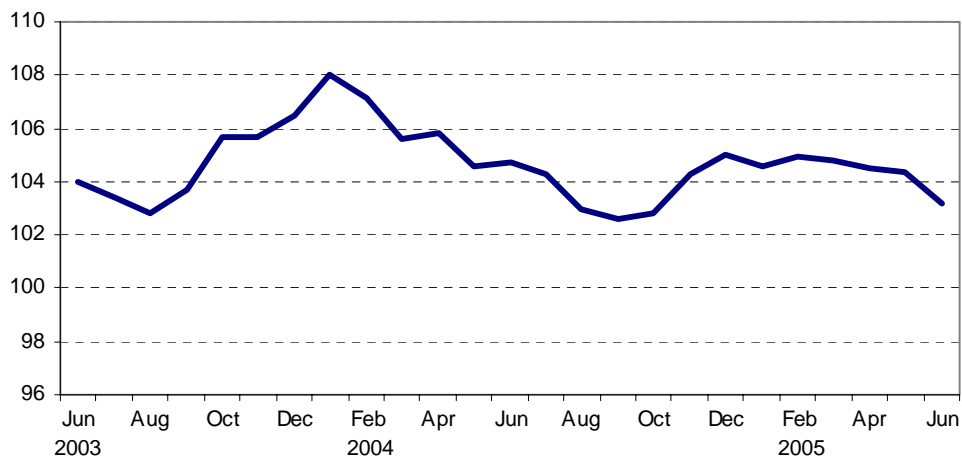
	December 2003	December 2004	May 2005	June
a. Net sales to the public (i-ii)	607	699	538	490
i. Forward sales to the public	834	1 163	979	1 101
ii. Forward purchases to the public	227	464	440	611
b. Banks' exchange position	536	340	358	355

Real exchange rate: 1,1 percent lower in June

In **June**, the **real exchange rate** decreased 1,1 percent due to a nominal appreciation of 0,1 percent and the difference between domestic inflation (0,3 percent) and estimated external inflation (-0,8 percent). In annual terms, the real exchange rate fell 1,4 percent as a result of a 6,5 percent nominal appreciation and the differential between domestic and

external inflation (6,9 and 1,5 percent, respectively). It should be noted that external inflation mainly reflects the appreciation of the US dollar against some of our main trade partners' currencies such as the euro (4,3 percent), sterling pound (2,0 percent), yen (1,9 percent), Korean won (1,2 percent) and Chilean peso (1,1 percent).

MULTILATERAL EXCHANGE RATE INDEX
(1994=100)



June inflation was 0,26 percent

The rate of **inflation** for June was 0,26 percent, amounting to 1,49 over last 12 months. Three items accounted for 0,25 percentage points of monthly inflation: onion (0,10 pp), fish (0,08 pp) and papaya

(0,07 pp); conversely fresh vegetables, personal care articles and rice had a negative contribution on inflation with -0,05, -0,04 and -0,03 percentage points, respectively.

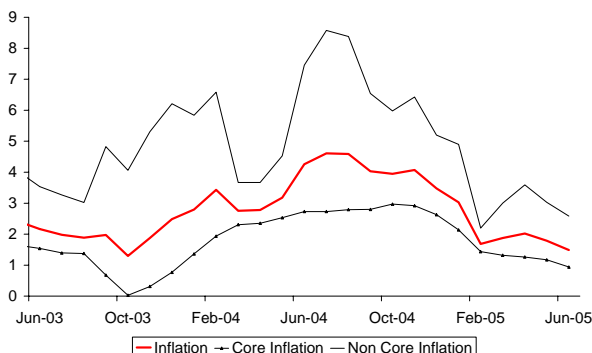
INFLATION RATE
(Annual percentage change)

	Weighting	Monthly	12-month indicator			Average annual indicator		
		Jun. 2005	Jun. 2004	May. 2005	Jun. 2005	Jun. 2004	May. 2005	Jun. 2005
I. CORE INFLATION	68,3	-0,01	2,73	1,17	0,94	1,48	2,24	2,09
Goods	41,8	-0,09	3,28	1,10	0,74	1,38	2,61	2,39
Food	20,7	0,01	6,77	1,73	1,15	2,34	5,40	4,92
Textile and footwear	7,6	0,17	1,31	1,31	1,25	0,91	1,38	1,38
Electrical appliances	1,0	0,00	-1,26	-3,90	-3,61	-1,85	-2,90	-3,09
Other industrial goods	12,5	-0,43	-0,91	0,27	0,03	0,33	-0,91	-0,83
Services	26,6	0,11	1,88	1,28	1,26	1,64	1,66	1,60
Restaurants	12,0	0,10	1,82	1,19	1,11	1,49	1,70	1,65
Education	5,1	0,00	3,70	3,39	3,20	3,25	3,96	3,91
Health	1,3	1,14	1,51	0,89	2,23	2,23	1,07	1,13
Renting	2,3	0,00	0,39	-2,24	-2,05	0,44	-1,17	-1,38
Other services	5,9	0,02	1,02	0,98	0,80	0,86	0,67	0,66
II. NON CORE INFLATION	31,7	0,86	7,46	3,03	2,58	4,87	5,40	4,98
Food	14,8	1,45	13,21	0,44	-0,41	4,05	5,19	4,06
Fuel	3,9	0,80	11,56	10,66	9,90	8,80	13,87	13,70
Transportation	8,4	0,06	0,02	3,84	3,99	7,16	2,36	2,69
Utilities	4,6	0,51	0,03	1,64	1,87	-0,69	2,96	3,12
III. CPI	100,0	0,26	4,26	1,79	1,49	2,56	3,27	3,03
Note.-								
Imported inflation	12,1	0,25	9,79	3,68	3,25	6,06	8,18	7,62
Core inflation excluding food	47,6	-0,02	1,00	0,92	0,84	1,11	0,85	0,84
Total food	33,2	0,65	10,17	1,12	0,39	3,54	5,59	4,77

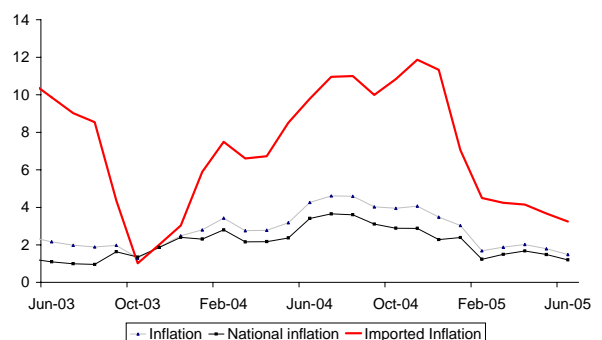
Core inflation was -0,01 percent in June and 0,94 percent through last 12 months. The **non-core component** was 0,86 percent in the month and 2,58 percent throughout the year. It should be noted that when **foodstuffs and beverage are**

excluded, core inflation is -0,02 percent in June and 0,84 percent over last 12 months. Finally, **imported inflation** amounted to 0,25 and 3,25 percent in June and over last 12 months, respectively.

INFLATION AND CORE INFLATION
(Last 12-month cumulative variation)



INFLATION AND IMPORTED INFLATION
(Last 12-month cumulative variation)



Macroeconomic Expectations

Between June 17 and 30, Central Bank of Peru conducted the monthly Macroeconomic Expectations survey among 30 financial system institutions,

345 non-financial system firms and 23 economic analysts with the following results:

FINANCIAL SYSTEM INSTITUTIONS (Median^{1/} of the sample)

	Date of the survey		
	Apr. 29 2/	May 31 3/	Jun. 30 4/
Inflation (%)			
Monthly: July	--	--	0,2
Annual: 2005	2,5	2,5	2,5
2006	2,5	2,6	2,6
GDP growth (%)			
Monthly: May	4,5	4,9	5,0
June	--	4,8	5,0
July	--	--	5,0
Annual: 2005	4,5	4,8	5,0
2006	4,2	4,2	4,5
Exchange rate (S/. per US\$)			
Monthly: July	--	--	3,25
December 2005	3,28	3,27	3,26
December 2006	3,34	3,32	3,30
Interbank interest rate (%) In nuevos soles			
Monthly: July	--	--	3,0
December 2005	3,6	3,5	3,3
December 2006	4,5	4,5	4,1

1/ The median indicates the sample central value which reduces any bias caused by extreme values.

2/ 29 financial institutions.

3/ 28 financial institutions.

4/ 30 financial institutions.

NON-FINANCIAL SYSTEM FIRMS (Median^{1/} of the sample)

	Date of the survey		
	Apr. 29 2/	May 31 2/	Jun. 30 2/
Inflation (%)			
Annual: 2005	2,8	2,6	3,0
2006	3,0	3,0	3,0
GDP growth (%)			
Annual: 2005	4,5	4,5	4,8
2006	4,5	4,5	4,5
Exchange rate (S/. per US\$)			
December 2005	3,30	3,30	3,29
December 2006	3,40	3,40	3,35

1/ The median indicates the sample central value which reduces any bias caused by extreme values.

2/ 345 non-financial institutions.

ANALYSTS (Median^{1/} of the sample)

	Date of the survey		
	Apr. 29 2/	May 31 2/	Jun. 30 2/
Inflation (%)			
Monthly: July	--	--	0,1
Annual: 2005	2,5	2,5	2,5
2006	2,5	2,5	2,5
GDP growth (%)			
Monthly: May	5,0	5,2	5,0
June	--	5,1	5,1
July	--	--	5,0
Annual: 2005	5,0	5,0	5,0
2006	4,5	4,5	4,5
Exchange rate (S/. per US\$)			
Monthly: July	--	--	3,25
December 2005	3,28	3,29	3,27
December 2006	3,33	3,34	3,30
Interbank interest rate (%) In nuevos soles			
Monthly: July	--	--	3,0
December 2005	3,5	3,3	3,3
December 2006	4,4	4,2	4,0

1/ The median indicates the sample central value which reduces any bias caused by extreme values.

2/ 23 analysts.

Monetary base as of June 30, 2005

The **monetary base** balance as of June 30 was S/. 9 576 millions, up 1,9 percent (S/. 175 millions) from end-May. In average terms, the year on year rate of growth of the monetary base in this period was 28,3 percent (27,6 percent in May).

The main explanations for this result were purchases of foreign currency over-the-

counter mechanism (US\$ 365 millions or S/. 1 187 millions) and lower public sector deposits (S/. 106 millions). These operations were partially offset by CDBCRP's net placements (S/. 892 millions) and sales of foreign currency to the public sector (US\$ 100 millions or S/. 325 millions).

Banking system monetary accounts as of June 15, 2005

Through last 4 weeks, liquidity in **domestic currency** increased 0,2 percent (S/. 64 millions), to a balance of S/. 27 560 millions. Credit to the private sector in the same currency augmented 1,2 percent (S/. 151 millions) to S/. 12 216 millions. However, in annual terms this aggregates grew by 34,2 and 16,9 percent, respectively.

Liquidity in **foreign currency** increased 2,7 percent (US\$ 271 millions) to US\$ 10 145 millions (an annual growth rate of 7,4 percent). Credit to the private sector in the same currency augmented 2,1 percent (US\$ 209 millions) to US\$ 10 375 millions (an annual growth rate of 5,1 percent).

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
2003												
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%	-0,1%	14,1%	0,8%	3,9%	3,0%	-1,5%	3,4%	28,4%	0,7%	-0,3%
Jul.	9,9%	21,0%	2,6%	10,7%	1,2%	5,1%	2,4%	2,2%	-5,1%	17,6%	0,5%	0,8%
Aug.	-5,2%	18,6%	1,3%	14,0%	0,4%	6,2%	-1,8%	0,6%	-5,2%	20,8%	-1,2%	-0,5%
Sep.	-1,0%	20,5%	2,8%	17,0%	1,6%	8,0%	-0,1%	1,3%	6,5%	30,6%	-1,2%	-0,6%
Oct.	4,5%	24,3%	6,7%	24,1%	3,5%	12,3%	-0,9%	-0,1%	-17,1%	2,8%	-0,7%	-1,1%
Nov.	0,6%	21,7%	2,9%	25,6%	0,4%	9,4%	0,4%	1,1%	4,2%	2,7%	1,0%	-0,4%
Dec.	14,9%	25,3%	5,7%	28,1%	1,0%	11,9%	0,8%	1,4%	1,6%	4,5%	1,1%	1,3%
2005												
Jan.	-6,7%	25,0%	0,3%	25,3%	-0,2%	11,9%	0,5%	2,1%	24,7%	28,4%	0,3%	2,7%
Feb.	2,0%	26,7%	3,8%	30,8%	0,4%	12,9%	-0,5%	4,3%	-9,4%	14,1%	-0,1%	3,5%
Mar.	-0,2%	25,7%	3,7%	33,6%	2,8%	12,1%	-2,0%	2,2%	6,0%	27,0%	0,4%	3,4%
Apr.	5,2%	26,6%	-1,1%	32,9%	1,6%	13,9%	5,3%	6,6%	11,1%	31,3%	2,1%	4,3%
May.	0,8%	26,7%	0,1%	32,3%	1,7%	16,1%	1,9%	9,1%	-2,1%	13,2%	2,1%	5,0%
Jun.15	-0,4%	25,9%	0,2%	34,2%	1,2%	16,9%	2,7%	7,4%	-0,4%	5,8%	2,1%	5,1%
Memo:												
Balance as of May.15 (Mill.S/. or Mill.USS)	9 488		27 496		12 065		9 874		906		10 165	
Balance as of Jun.15 (Mill.S/. or Mill.USS)	9 454		27 560		12 216		10 145		903		10 375	
1/ Short term external liabilities of banking enterprises.												

Trade balance recorded a US\$ 346 million surplus in May

In **May**, the trade balance recorded a surplus for 25 consecutive months. This month the trade surplus was US\$ 346 million, up US\$ 118 million (52 percent) from a year ago. Over the period January-May 2005 the trade balance recorded a surplus of US\$ 1 581 million and US\$ 3 450 million over last 12 month.

Exports amounted to US\$ 1 353 million this month, up US\$ 363 million (37 percent) from a year ago. Traditional exports increased 42 percent, mainly reflecting higher sales of oil & derivatives (US\$ 104 million or 397 percent) and molybdenum (US\$ 78 million or 367

million). On the other hand, exports of non-traditional products grew by 23 percent with a higher dynamism of fabricated metal products and machinery (US\$ 21 million or 212 percent) and agriculture products (US\$ 15 million or 25 percent); both accounted for by 55 percent of the overall increase in this sector.

Imports totaled US\$ 1 007 million in May, 32 percent up from May 2004, but 5 percent down from the previous month. The former was explained by higher acquisitions of intermediate-, capital- and consumer-goods by 35, 32 and 26 percent, respectively.

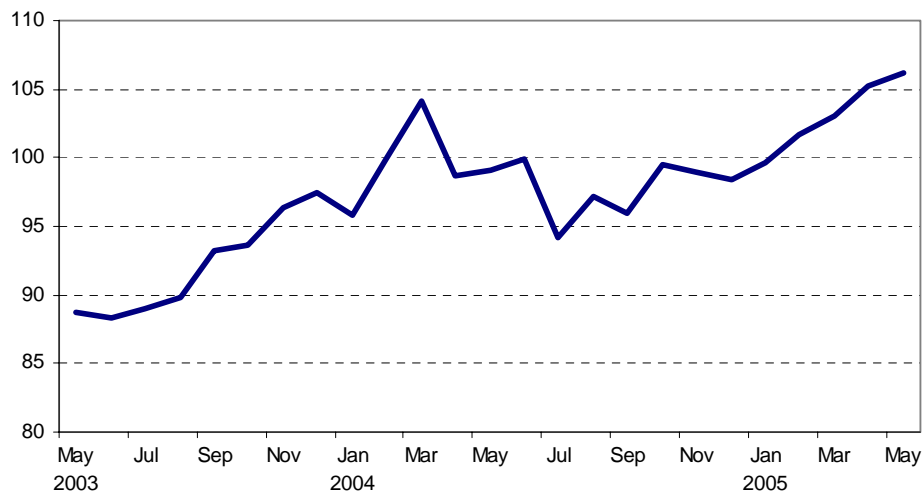
TRADE BALANCE
(Millions of US\$)

	Monthly data			Annual data				
	2004	May	% var.	Jun.2003	May.2004	Jun.2004	C/A	C/B
		2005		May.2004	Apr.2005	May.2005		
			A	B	C			
EXPORTS	<u>991</u>	<u>1 353</u>	<u>36,6</u>	<u>10 296</u>	<u>13 917</u>	<u>14 279</u>	<u>38,7</u>	<u>2,6</u>
Traditional products	690	979	41,9	7 223	10 031	10 321	42,9	2,9
Non-traditional products	292	359	23,1	2 963	3 767	3 835	29,4	1,8
Other products	8	14	70,9	111	118	124	11,8	5,1
IMPORTS	<u>763</u>	<u>1 007</u>	<u>32,0</u>	<u>8 616</u>	<u>10 585</u>	<u>10 830</u>	<u>25,7</u>	<u>2,3</u>
Consumer goods	150	189	25,7	1 834	2 096	2 135	16,4	1,8
Raw materials and intermediate goods	408	551	35,1	4 594	5 790	5 933	29,1	2,5
Capital goods	195	258	32,4	2 097	2 567	2 630	25,4	2,5
Other goods	10	9	- 6,3	90	133	132	46,8	- 0,5
TRADE BALANCE	<u>228</u>	<u>346</u>	<u>52,0</u>	<u>1 681</u>	<u>3 331</u>	<u>3 450</u>	<u>105,3</u>	<u>3,6</u>

Terms of trade rose 7,2 percent in May, thanks to an 16,9 percent increase in

export prices that exceeded the 9,1 percent price increase in imports.

TERMS OF TRADE
(1994=100)

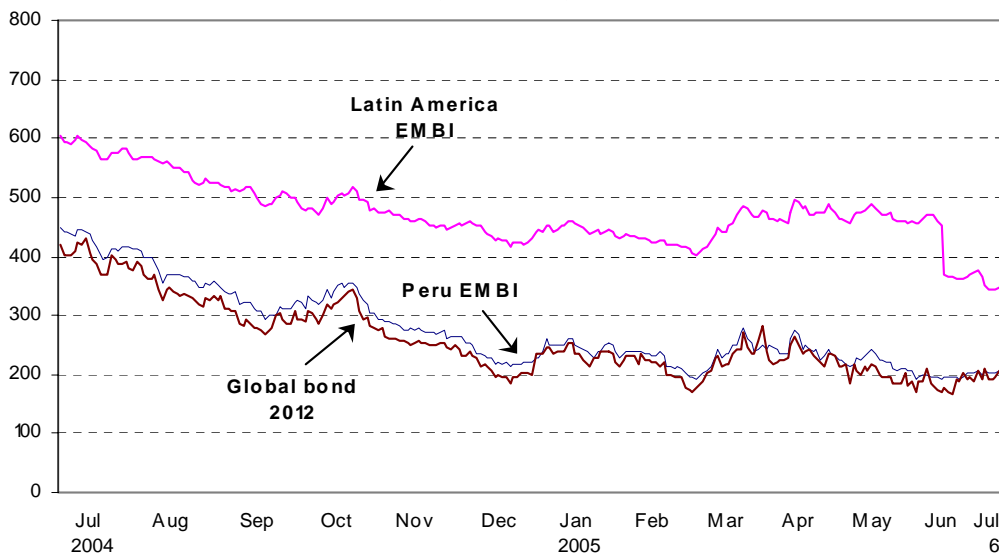


2012 Global bond's spread at 2,07 percent

In **June**, the **2012 global bond's** spread decreased from 2,03 to 1,88 percent; and the **EMBI+ Peru** spread from 2,22 to 1,98 percent. The country-risk recorded a

minimum on June 13 (1,91 percent). As of **July 6**, the 2012 global spread was 2,07 percent and the EMBI+ Peru 2,05 percent.

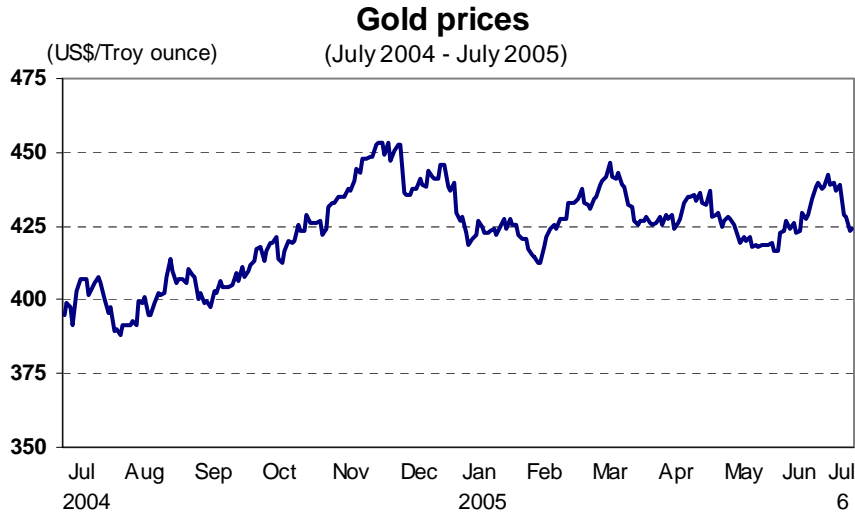
Country risk indicators
(July 2004 - July 2005)



International markets

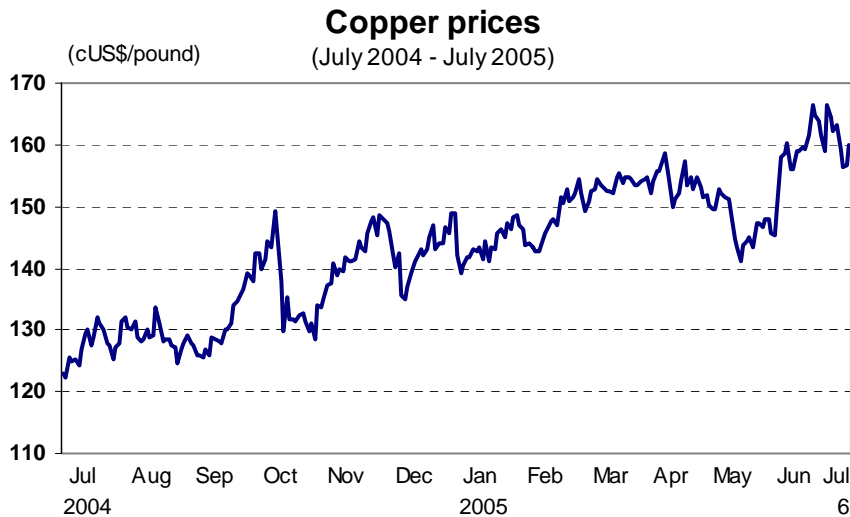
In **June**, the **gold's** average price was US\$ 431 per Troy ounce, up 2,1 percent from May thanks to soaring energy prices that increased the gold demand like a

safe asset. As of **July 6**, the gold quotation declined 3,4 percent to US\$ 424 per Troy ounce due to the strengthening of the US dollar.



The **copper** average price soared 8,4 percent in June (to US\$ 1,60 per pound) reflecting the lower international inventory levels, which made the quotation to reach a peak twice (on June 17 and 24), the

highest of last 17 years (US\$ 1,66 per pound). As of **July 6**, the quotation remained at US\$ 1,60 per pound, whereas LME inventories decreased to 29 thousand MT.



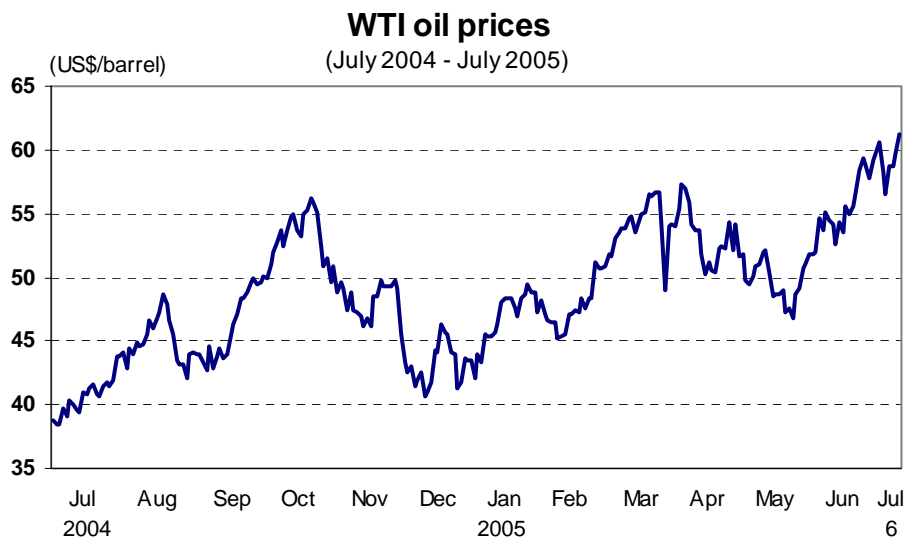
The **zinc** average price increased 2,8 percent in June to US\$ 0,58 per pound in line with copper and other commodities prices. As of **July 6**, the zinc quoted at

US\$ 0,54, down 2,9 percent from June, affected by the impact in the global economic growth of soaring oil prices.



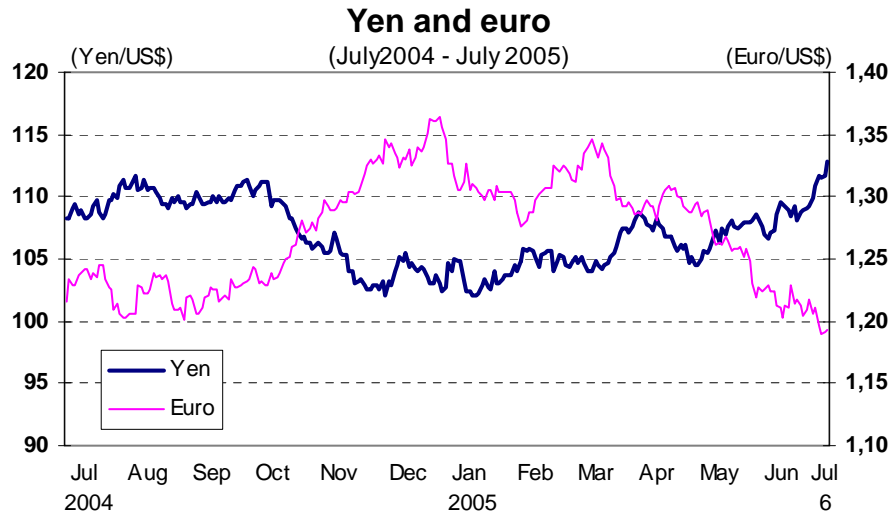
The **WTI oil** price recorded a 13,6 percent rise in June (to US\$ 56,5 per barrel), due to the concern about oil producers' capacity to meet higher global demand

(specially from China). As of **July 6**, the oil price peaked at US\$ 61,3 per barrel reflecting the drop in oil inventories according to the US Energy Department.



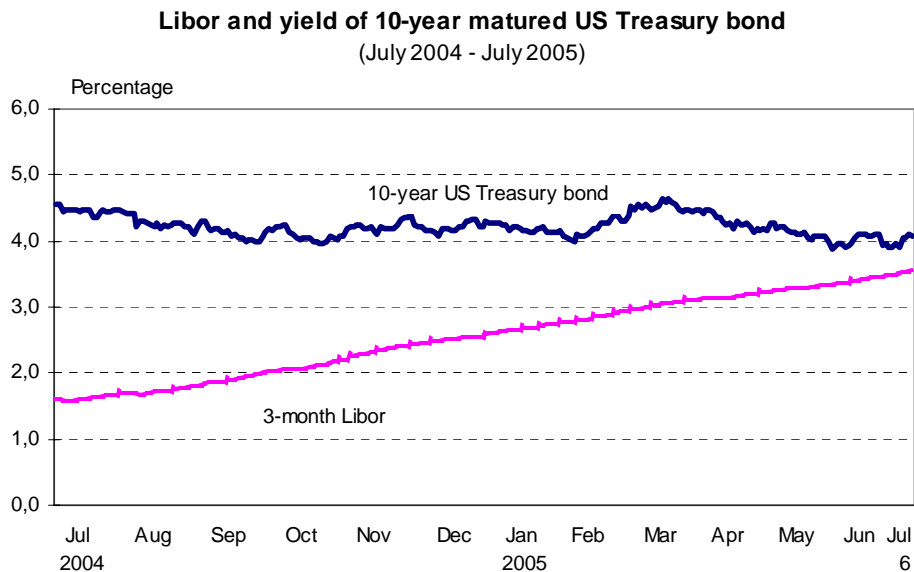
In June, in average terms, the **US dollar** appreciated 4,1 against the **euro** and 1,8 percent against the **yen**; thanks to the higher differential between US interest rates and those in Eurozone. On July 4,

the US dollar reached a maximum of last 14 months (1,19 US\$ per euro) against the euro, whereas on July 6, it recorded a 13-month maximum against the yen (113 yen per US\$).



In June, the **3-month Libor** increased from 3,28 to 3,42 percent, whereas the yield of the **10-year-matured US Treasury bond** passed from 4,13 to 3,99

percent. Since mid-April long-term interest rates in the US record a declining trend due to a subdued inflation.



Lima Stock Exchange

In June, the **General** and **Blue Chip** indices of the Lima Stock Exchange increased 2,9 and 1,6 percent, respectively, reflecting the good performance of fishing, mining, construction and foodstuff companies. As

of July 6, these indices increased 0,6 and 0,4 percent reflecting the market expectations for second quarter's financial statements. In the year, these indices have increased 9,5 and 7,7 percent, respectively.

LSE indicators
(July 2004 - July 2005)

