



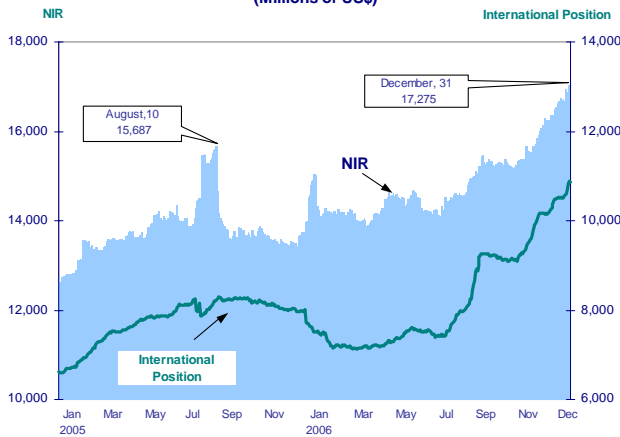
### Indicators

- ➔ BCRP maintains its interest rates.
- ➔ NIRs: US\$17,275 million.
- ➔ Average exchange rate at S/. 3.192 per dollar.
- ➔ Inflation at 1.1 percent in 2006.
- ➔ Country risk at 120 bps. as of January 3
- ➔ Lima Stock Exchange grew 168.3 percent during 2006.

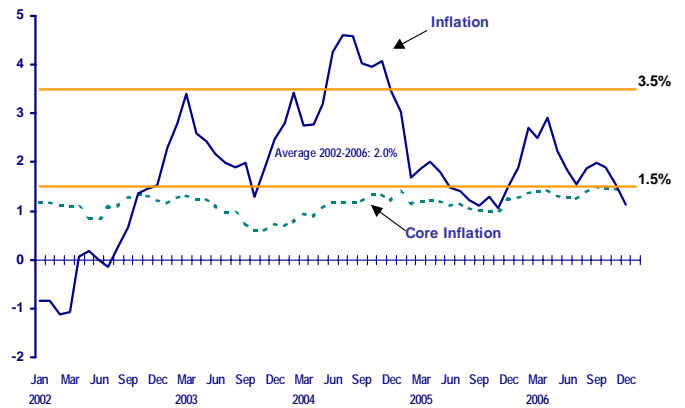
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International Reserve and International Position of the BCRP  
January 2005 - December 2006  
(Millions of US\$)



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



### Our website <http://www.bcrp.gob.pe>



- Weekly Report N° 1-2007
- Study Note N° 40: Product: October 2006
- Informative Note: Monetary Program, January 2007: BCRP keeps the reference interest rate at 4,50%
- Press release: Central bank demands respect to the legal order and the thing judged
- Comic strips on the strength of Nuevo Sol
- Magazine Moneda: N° 134 Collection Cohen

## 0.03 percent inflation in December and 1.14 percent inflation in 2006

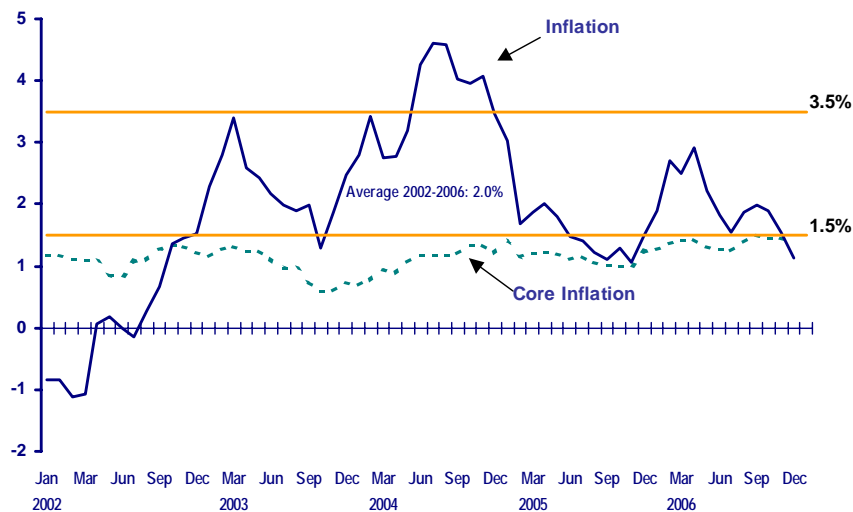
**Inflation** posted a rate of 0.03 percent in December and accumulated a last-12-month rate of 1.14 percent. This smaller inflation respect to the 2005, responds to the reduction of prices of fuels, tariffs of public services and prices of some foods.

### INFLATION RATE (Annual percentage change)

	Weighting	Monthly	12-month indicator		
		Dec. 2006	Dec. 2005	Nov. 2006	Dec. 2006
<b>I. CORE INFLATION</b>	<b>60.6</b>	<b>0.15</b>	<b>1.23</b>	<b>1.45</b>	<b>1.37</b>
<b>Goods</b>	<b>34.0</b>	<b>0.19</b>	<b>0.80</b>	<b>1.02</b>	<b>0.97</b>
Food	13.0	0.22	0.69	1.84	1.52
Textile and footwear	7.6	0.29	1.44	1.62	1.83
Electrical appliances	1.0	-0.15	-1.23	-0.93	-1.29
Other industrial goods	12.5	0.11	0.67	-0.07	0.04
<b>Services</b>	<b>26.6</b>	<b>0.10</b>	<b>1.77</b>	<b>1.99</b>	<b>1.85</b>
Restaurants	12.0	0.07	0.91	1.34	1.31
Education	5.1	0.09	2.44	3.62	3.62
Health	1.3	0.09	1.33	0.59	1.40
Renting	2.3	0.00	1.99	-0.20	-1.07
Other services	5.9	0.22	2.93	2.91	2.47
<b>II. NON CORE INFLATION</b>	<b>39.4</b>	<b>-0.16</b>	<b>1.87</b>	<b>1.65</b>	<b>0.83</b>
Food	22.5	-0.31	1.62	3.27	2.06
Fuel	3.9	-0.93	6.89	-0.88	-1.50
Transportation	8.4	1.01	1.29	0.90	1.12
Utilities	4.6	-0.79	-1.72	-2.02	-3.22
<b>III. CPI</b>	<b>100.0</b>	<b>0.03</b>	<b>1.49</b>	<b>1.54</b>	<b>1.14</b>

**Core inflation** in the month –indicator of growth trend of the prices– was 0.15 percent, so Core inflation last-12-month rate, were posted in 1.2 percent in 2004 and 2005, accumulated a last-12-month rate of 1.4 percent in 2006.

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



## Survey on macroeconomic expectations: January 2007

Between December 12 and 29, 2006, the BCRP conducted its Monthly Survey on Macroeconomic Expectations among 27 financial entities, 21 economic analysts and 388 non-financial companies.

The survey results point to lower expectations of inflation for 2007 than in previous months. The CPI is expected to have an annual variation within the range of 1.85-2.23 percent.

Moreover, survey results also reflect that the three groups have improved their expectations regarding the growth of GDP. This indicator would range between 6.25 and 6.80 percent in 2007.

On the other hand, the economic analysts and non-financial firms surveyed coincided in that the exchange rate will be S/. 3.25 per dollar for December 2007.

### ANALYSTS (Median<sup>1/</sup> of the sample)

	Date of the survey		
	Oct 31 2/	Nov 30 3/	Dec 29 4/
<b>Inflation (%)</b>			
Monthly: Jan. 2007	0.18	0.20	0.15
Annual: 2006	2.10	1.90	1.50
2007	2.50	2.40	2.10
<b>GDP growth (%)</b>			
Monthly: Nov	6.50	6.80	6.50
Dec	6.90	6.80	6.90
Annual: 2006	7.00	7.00	7.10
2007	5.80	5.90	6.25
<b>Exchange rate (S/. per US\$)</b>			
Monthly: Jan. 2007	3.24	3.23	3.21
December 2006	3.24	3.24	3.22
December 2007	3.29	3.26	3.25
<b>Interbank interest rate (%)</b>			
<i>In nuevos soles</i>			
Monthly: Jan. 2007	4.50	4.50	4.50
December 2006	4.50	4.50	4.50
December 2007	4.50	4.50	4.50

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

2/ 25 analysts.

3/ 22 analysts.

### NON-FINANCIAL SYSTEM FIRMS (Median<sup>1/</sup> of the sample)

	Date of the survey		
	Oct 31 2/	Nov 30 2/	Dec 29 3/
<b>Inflation (%)</b>			
Annual: 2006	1.90	1.60	1.50
2007	2.00	1.80	1.85
<b>GDP growth (%)</b>			
Annual: 2006	6.50	7.00	7.00
2007	6.20	6.50	6.80
<b>Exchange rate (S/. per US\$)</b>			
December 2006	3.27	3.24	3.22
December 2007	3.30	3.28	3.25

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

2/ 345 non-financial institutions.

3/ 394 non-financial institutions.

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Dec	6.90	6.80	6.90
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December 2006	4.50	4.50	4.50
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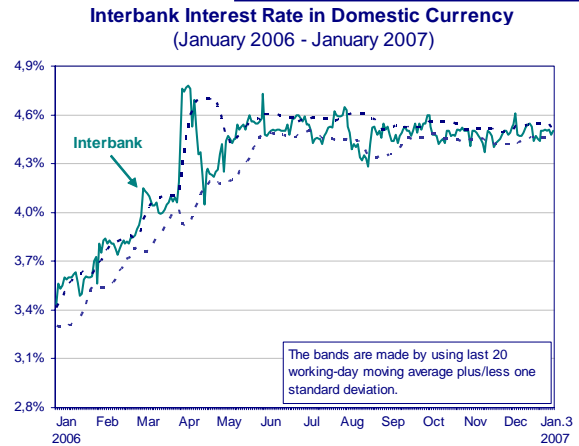
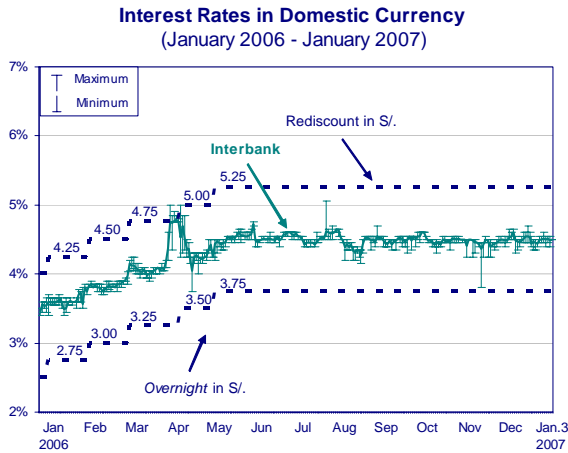
2/ 25 analysts.

3/ 22 analysts.

## As of January 3: the average interbank interest rate at 4.51 percent

As of January 3, 2007, the average monthly interbank rate continues to be 4.51 percent (similar to that of December 2006).

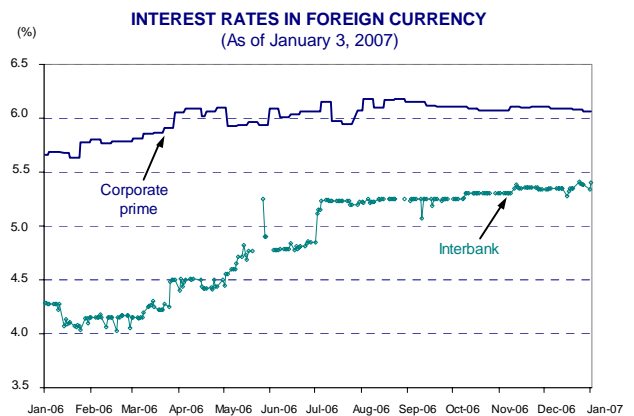
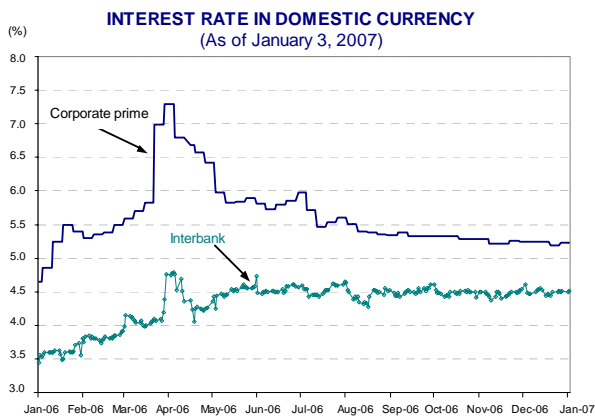
Interbank Interest Rate Average (percent)		
	Average	Standard Deviation
December 2004	3.00	0.05
December 2005	3.34	0.08
March 2006	4.12	0.17
June	4.53	0.07
July	4.50	0.06
August	4.44	0.01
September	4.51	0.04
October	4.50	0.04
November	4.48	0.04
December	4.51	0.04
January 2007 1-3	4.51	0.01



## Corporate prime rate in soles decreased to 5.23 percent

In December, the 90-day corporate prime rate in soles was 5.23 percent, 0.02 percentage points lower than the average one recorded in the month of November. This rate in foreign currency, on the other hand, was 6.09 percent in December, decreasing slightly with respect of the rate recorded in November (6.10 percent). These results reflect that the corporate rate prime rate in domestic currency that is 0.86 percentage points lower than that in foreign currency.

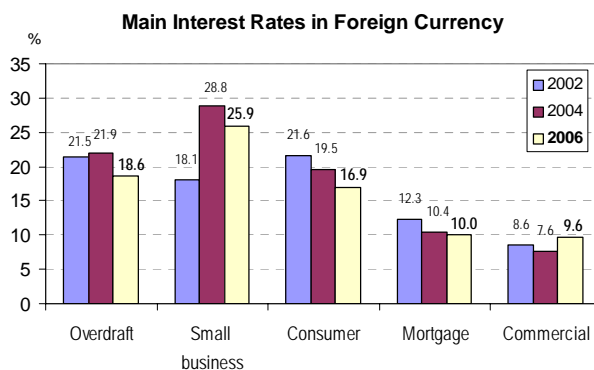
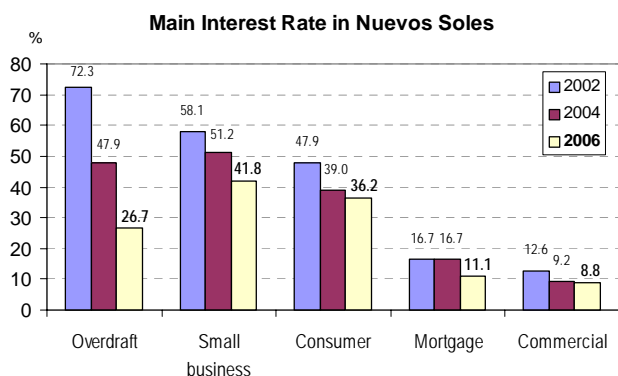
As of January 3, 2007, the 90-day corporate prime rate in domestic currency is 5.23 percent and 6.06 percent in dollars.



## Main interest rates in soles decreased in 2006

Reflecting a lower risk premium given improved economic activity, greater competition, and a reduction in payment arrears, a decrease has been observed in interest rates in soles between 2002 and 2006. The average overdraft rate in soles fell to 26.7 percent; the rate for credit in soles to small business dropped to 41.8 percent; the rate for consumer loans fell to 36.2 percent and the rate for commercial loans decreased to 8.8 percent.

Between 2002 and 2006 the interest rates for credit in foreign currency exhibited a differentiated conduct: the rates on overdrafts, consumer loans and mortgage loans decreased while the rates on credits to small business and commercial loans increased.



## Monetary operations

Between **December 28, 2006 and January 3, 2007**, the Central Bank made the following monetary operations:

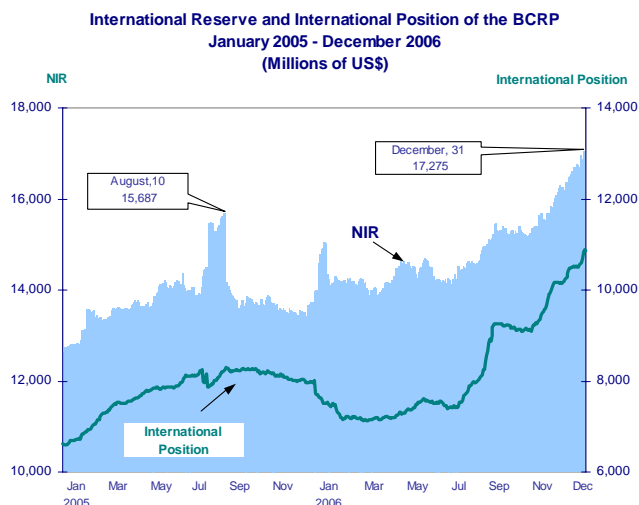
i) Auctions of BCRP Certificates of Deposits with 1-day, 4-day, 1-week, 3-month and 6-month maturities for a daily average of S/. 882.2 million. The average interest rate on these securities ranged between 4.49 and 5.04 percent; ii) Purchases of foreign currency for a total of US\$ 180 million at an average exchange rate of S/. 3.195 per dollar; and iii) Overnight deposits in domestic currency for a total of S/. 291.4 million.

## International Reserves at US\$ 17,275 million

At the end of 2006, Peru's Net International Reserves (NIRs) amounted to US\$ 17,275 million and, as of December 28, net international reserves (NIRs) amounted to US\$ 17,430 million, posted a new historical record.

This level of reserves is equivalent to 3.2 times a year's liabilities with other countries, to 79 percent of total liquidity in the banking system, and to 14 months of imports, and therefore contributes to the country's economic and financial stability.

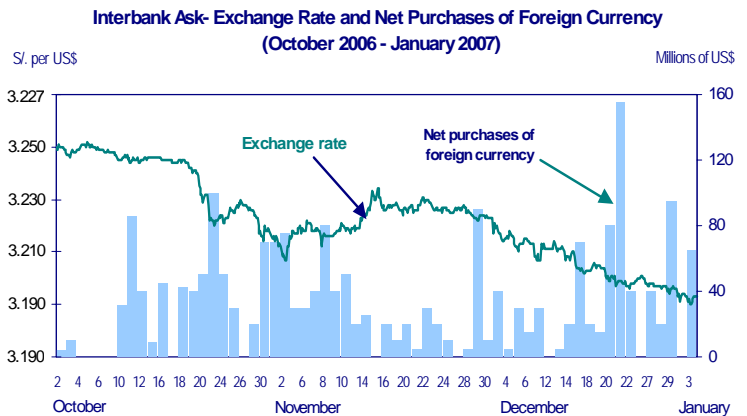
At the end of 2006, the **Exchange Position of the BCRP** (US\$ 10,086 million) has increased by US\$ 3,636 million with respect to the end of 2005.



## Nominal exchange rate at December in 2006

In **December**, the average exchange rate was S/. 3.206 per dollar, which represented a 0.5 percent appreciation of the sol with respect to November 2006, a level that is 6.4 percent lower than the average rate in December 2005.

In December 2006, banks' net purchases from the public amounted to US\$ 450 million, higher than the purchases of US\$ 283 million in November; the net sales forward decreased at US\$ 214 million in December, and the same behavior of the banks' exchange position decreased in US\$ 108 million.



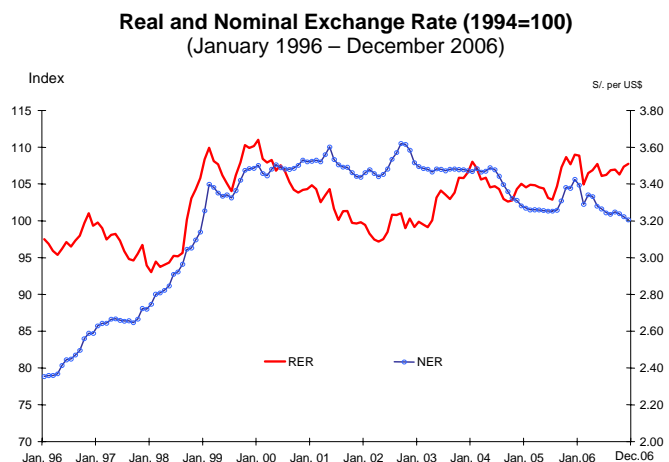
During December the net purchases of foreign currency at the BCRP was US\$ 695 million.

**FOREIGN EXCHANGE TRANSACTIONS OF COMMERCIAL BANKS**  
(Millions of US\$)

	December 2005	March	Jun	September	November	December
<b>a. Net spot purchases</b>	<b>-117</b>	<b>594</b>	<b>989</b>	<b>283</b>	<b>283</b>	<b>450</b>
<b>a. Net sales to the public (i-ii)</b>	<b>581</b>	<b>470</b>	<b>260</b>	<b>45</b>	<b>-133</b>	<b>-214</b>
i. Forward sales to the public	351	546	155	-107	-285	149
ii. Forward purchases to the public	-230	76	-105	-152	-152	363
<b>b. Bank's exchange position</b>	<b>40</b>	<b>95</b>	<b>-110</b>	<b>17</b>	<b>-108</b>	<b>-108</b>

## Multilateral exchange rate appreciated by 1.3 percent in real terms

The real exchange rate index lowered 1.3 percent in 2006. This evolution is explained by a 6.4 percent nominal appreciation of the nuevo sol and domestic inflation posted a rate of 1.1 percent, while external inflation was 6.7 percent. This last factor includes in addition to the inflations of our main commercial partners, the depreciation of the dollar against the other currencies such as euro, yen, pound, real Brazilian, etc.



## Monetary base as of December 22, 2006

The balance of the **monetary base** as of December 22 (S/.13,784 million) increased 15.0 percent (S/. 1,801 million) with respect to end-November. In average terms, the annual growth rate of the monetary base in this period was 16.1 percent (14.5 percent in November).

By sources, the operations contributing to the expansion of the monetary base included purchases of foreign currency at the Central Bank's Front Office (US\$ 540 million, or S/. 1,730 million), the maturities of BCRP Adjustable Certificates of Deposit (S/. 620 million), as well as lower public sector deposits (S/. 179 million) and banks' overnight deposits (S/. 17 million). Conversely, the primary base contracted as a result of net placements of BCRP Certificates of Deposit (S/. 579 million), sales of dollars to the public sector (US\$ 50 million, or S/. 160 million), and lower temporary purchases of securities (S/. 40 million).

## Monetary accounts of the Banking System as of December 15, 2006

In the last 4 weeks, liquidity in **domestic currency** increased 8.2 percent (S/. 2,610 million), thus amounting to S/. 34,570 million (annual growth of 14.9 percent). Credit to the private sector in domestic currency increased by 5.5 percent (S/. 1,031 million) and amounted to S/. 19,790 million (annual growth of 33.6 percent).

On the other hand, liquidity in **foreign currency** increased 5.5 percent (US\$ 625 million), thus amounting to US\$ 11,977 million (annual growth of 12.4 percent). Credit to the private sector in foreign currency increased 2.2 percent (US\$ 238 million) and amounted to US\$ 11,084 million (annual growth of 7.0 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
<b>2004</b>												
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%
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%
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%
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%
<b>2005</b>												
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%
Jun.	1.9%	28.1%	2.2%	35.4%	0.8%	16.2%	-0.7%	4.9%	-4.0%	4.7%	1.5%	5.7%
Sep.	-0.1%	31.8%	-0.6%	27.9%	2.0%	21.0%	1.5%	5.5%	-9.8%	-0.9%	-1.4%	4.6%
Oct.	1.2%	27.6%	1.1%	21.2%	3.6%	21.2%	0.2%	6.6%	-11.1%	6.3%	0.1%	5.4%
Nov.	0.7%	27.7%	1.6%	19.7%	5.4%	27.2%	2.8%	9.1%	9.9%	12.1%	1.9%	6.3%
Dec.	13.1%	25.7%	5.3%	19.5%	7.0%	34.8%	3.8%	12.4%	33.9%	48.0%	-0.2%	5.0%
<b>2006</b>												
Jan.	-7.2%	25.0%	-4.8%	13.4%	2.5%	38.3%	2.7%	14.8%	-28.8%	-15.5%	-4.1%	0.4%
Feb.	0.3%	22.9%	1.1%	10.5%	2.5%	41.2%	1.4%	17.0%	8.1%	0.8%	-0.7%	-0.2%
Mar.	0.8%	24.2%	2.1%	8.8%	1.3%	39.2%	2.4%	22.3%	-5.5%	-10.1%	2.5%	1.9%
Apr.	0.3%	18.3%	-4.4%	5.2%	1.3%	38.6%	-2.3%	14.8%	-13.7%	-29.8%	0.6%	0.3%
May.	-1.6%	15.5%	-1.2%	3.9%	0.5%	37.0%	-2.1%	9.4%	1.1%	-27.7%	3.7%	2.1%
Jun.	2.3%	16.0%	0.9%	2.5%	2.1%	38.8%	-0.2%	10.0%	-0.6%	-25.1%	2.0%	2.6%
Jul.	8.0%	11.7%	2.8%	1.8%	1.4%	38.0%	1.4%	12.1%	-15.3%	-40.1%	0.4%	2.4%
Aug.	-4.2%	12.8%	2.6%	6.4%	1.5%	35.5%	-0.3%	11.6%	-0.2%	-37.1%	-0.9%	3.7%
Sep.	0.9%	13.9%	0.7%	7.8%	2.4%	36.0%	-0.1%	9.9%	-10.4%	-37.5%	0.8%	6.0%
Oct.	0.8%	13.5%	1.9%	8.6%	3.4%	35.8%	1.2%	11.0%	26.4%	-11.1%	0.3%	6.2%
Nov.	2.6%	15.6%	3.7%	10.6%	3.9%	33.9%	2.8%	11.0%	15.9%	-6.4%	1.2%	5.5%
Dec.15	12.0%	17.1%	8.2%	14.9%	5.5%	33.6%	5.5%	12.4%	-5.8%	-33.6%	2.2%	7.0%
Memo:												
Balance as of Nov. 15 (Mill.S/. or Mill.US\$)	11,934		31,959		18,758		11,352		686		10,846	
Balance as of Dec. 15 (Mill.S/. or Mill.US\$)	13,371		34,570		19,790		11,977		646		11,084	

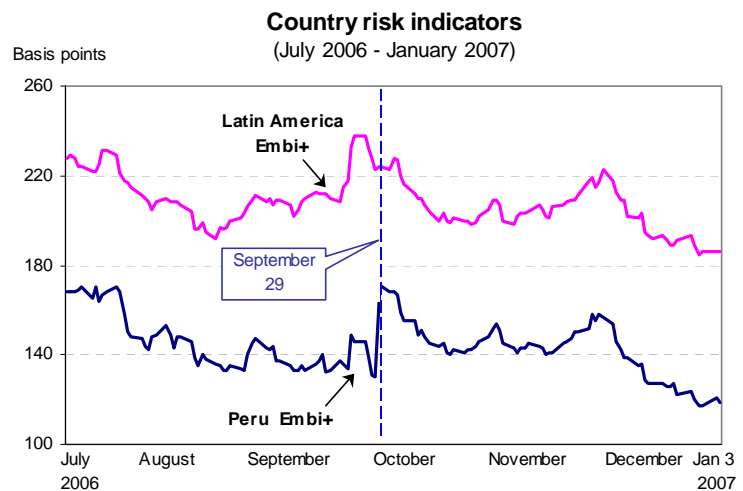
1/ Short term external liabilities of banking enterprises.



## International Markets

### Country risk at 120 basis points as of January 3, 2007

Between November 30 and December 29, 2006, the country risk measured by the **EMBI+ Peru** spread fell from 158 to 117 basis points. On average, the country risk indicator in December decreased 16 basis points with respect to November (from 147 to 131 basis points). This evolution follows the trend of the spreads of the rest of emerging countries and the region given less pessimism regarding growth in the US, as reflected in the increased yield on 10-year US "Treasury".

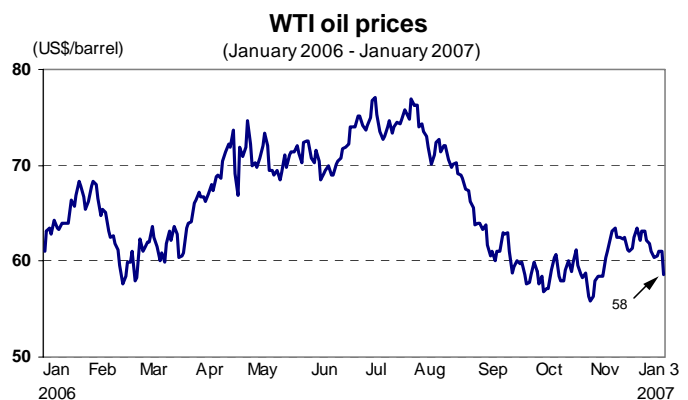


Likewise, 2006 was a positive year for Peruvian sovereign bonds, which benefited from the improvement of macroeconomic fundamentals in the country and from a favorable international context. On December 20, the rating agency Standard and Poor's upgraded the rating of the Peruvian debt to stable. In this way, Peru's country risk indicator maintained the decreasing tendency exhibited in previous years and closed 2006 with a historical minimum level of 117 basis points.

As of **January 3, 2007** the **EMBI+ Peru** spread was 120 basis points.

### The price of oil dropped to US\$ 58.6 per barrel as of January 3

In the same period, the price of **WTI** oil decreased 3.3 percent –from US\$ 63.1 to US\$ 61.1 per barrel– due to a warmer than usual winter in the Northern Hemisphere which is expected to reduce the demand of heating oil until January and to the lower demand for oil projected for China by the International Energy Agency. On the other hand, this result was offset by a decrease of crude and gasoline inventories in the US, by the OPEC's cut on production quotas and by increased geopolitical tensions in the Middel East.



It is worth pointing out that the price of oil increased 4.4 percent in 2006.

As of **January 3**, the price of **WTI oil** has dropped to US\$ 58.3 per barrel, mainly due to a prolonged warmer weather in the US, which is expected to cause a lower demand for heating oil according to the US National Weather Service.



**From November 30 to December 29, 2006**, the quotation of **gold** decreased from US\$ 648.1 to US\$ 635.0 per troy ounce (2.0 percent), mainly as a result of the strengthening of the dollar during the month, which has reduced the appeal of gold as an investment asset. However, this decrease was offset by greater geopolitical fears in the Middle East after Iran defied the sanctions imposed by the United Nations and by higher consumption of gold in India –the world’s main buyer of this metal–given the wedding season in this country.



During 2006, the price of gold increased by 23.3 percent.

As of **January 3**, the quotation of gold increased to US\$ 636.0 per troy ounce after the Central Bank of Russia increased its position of gold by 2.2 percent to 394.1 MT in the third quarter of 2006, according to data provided by the Gold World Council in London. Another element contributing to this evolution was higher expectations that the Bank of China will increase its gold positions in 2007.

**Between November 30 and December 29, 2006**, the price of **copper** decreased 9.3 percent, falling from US\$ 3.15 to US\$ 2.85 per pound and decreasing 5.0 percent on average between November and December. This evolution in the price of copper was associated with an increase of copper inventories in the main stock markets in the world (i.e. the London Metal Exchange, the Shanghai Stock Exchange, and Comex Division of the New York Mercantile Exchange), as well as with the favorable resolution of labor negotiations between Codelco –the first producer of copper in the world– and workers in its main divisions.



By the end of 2006, the price of copper had increased 45.6 percent.

As of **January 3**, the copper quotation decreased to US\$ 2.62 per pound due to expectations of a lower demand in the United States given the drop of spending in construction in November (and consequently, of demand for pipes and wires using this metal), as well as to continuous increases of copper inventories at the London Metal Exchange.

The price of **zinc** fell from US\$ 1.99 to US\$ 1.96 per pound (1.3 percent) between **November 30 and December 29, 2006**. This result was due to a variation of inventories at the London Metal Exchange, which decreased 3 percent to a total of 88 thousand MT, and to a profit-take by investment funds.

It should be pointed out that zinc was the basic metal with the highest yield in 2006, with an accumulated increase of 142.0 percent in its quotation.

As of **January 3**, the price of zinc has dropped to US\$ 1.82 per pound given an increase of inventories at the London Metal Exchange.

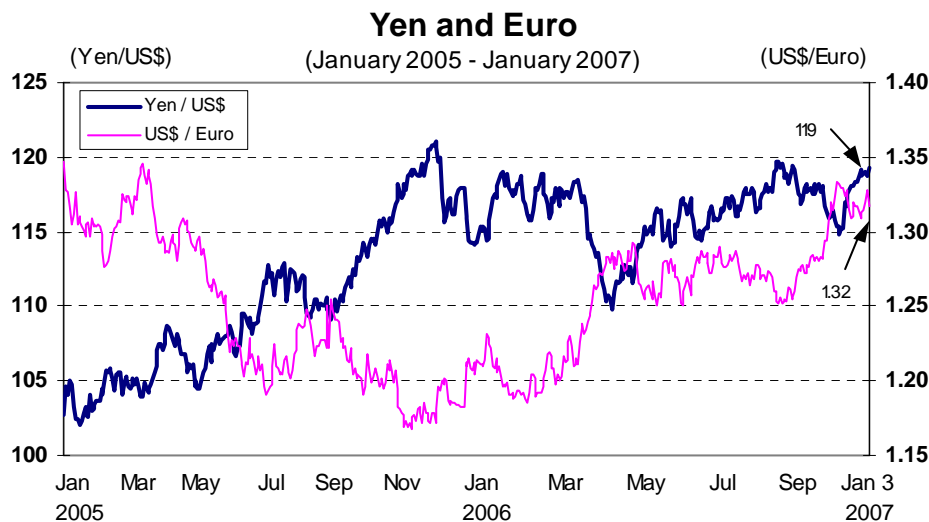


### Dollar appreciated against the euro and the yen

Between **November 30 and December 29, 2006**, the **dollar** appreciated 0.3 percent against the **euro** and 2.8 percent against the **yen**. The strengthening of the dollar is associated with lower expectations that the Federal Reserve will reduce its rates in 2007 after reports showed improvements in the consumer confidence index in December and positive indicators of employment and activity. Moreover, the Federal Reserve decided, for the fourth consecutive time, to maintain its reference rate at 5.25 percent. The yen, on the other hand, was affected by lower expectations that the Bank of Japan will raise its reference rate in the near future.

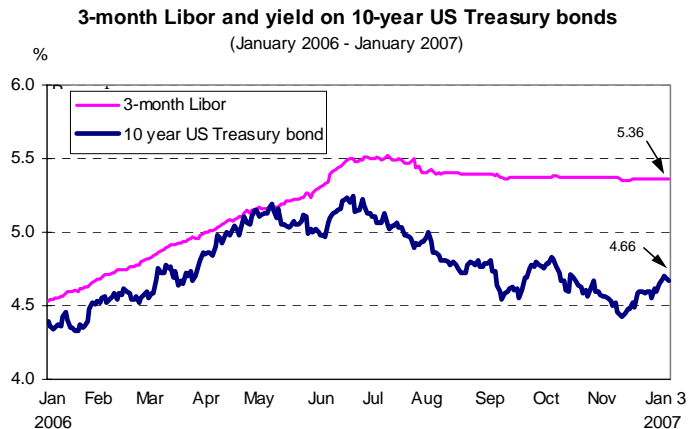
In 2006, the dollar depreciated 11.6 percent against the euro and 0.5 percent against the yen.

So far this month, the dollar has appreciated 0.3 percent against the euro and 0.3 percent against the yen.



### Yield on 10-year US Treasuries increased 4.66 percent as of January 3

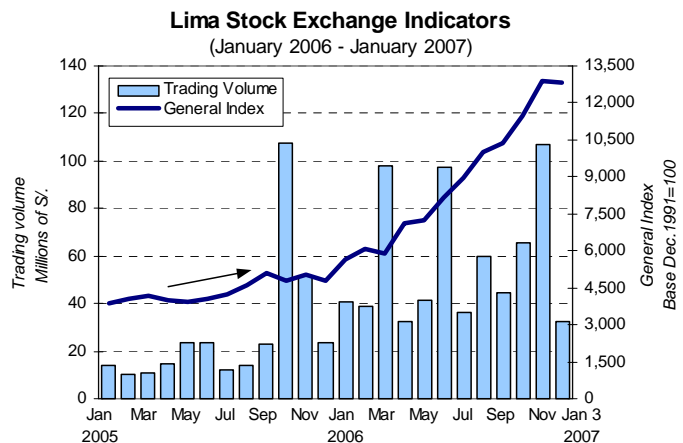
In the **November 30 – December 29** period, the **3-month Libor** decreased from 5.37 to 5.36 percent and the yield on the 10-year **Treasury bond** increased from 4.46 to 4.70 percent. Economic pessimism has eased after positive data of activity in the service sector of the United States reinforced market expectations that the growth of the US economy probably will not drop so drastically as previously thought.



As of **January 3**, the **3-month Libor** remained at 5.36 percent and the yield on the 10-year **Treasury bond** decreased to 4.66 percent.

### Lima Stock Exchange grew 168.3 percent in 2006 and posted a new record

In **December**, the **General** and **Blue Chip** indices of the Lima Stock Exchange (LSE) grew 12.2 and 12.1 percent respectively, as a result of the positive financial statements that pushed mining stocks upwards, of strong liquidity, and of investors' relief after the Peruvian Government decided that gains resulting from stock exchange operations will continue to be tax-exempted until 2009.



In 2006, the **General** and **Blue Chip** indices of the Lima Stock Exchange (LSE) accumulated gains of 168.3 and 188.5 percent respectively, and became the most profitable stock exchange market in the world. The most profitable sectors in 2006 included mining and agriculture with a yield of 260 and 239 percent respectively.

**As of January 3**, the **General** and **Blue Chip** indices of the LSE dropped by 0.2 and 0.8 percent respectively, influenced by the reduction of basic metals' quotations, particularly copper and zinc.

