



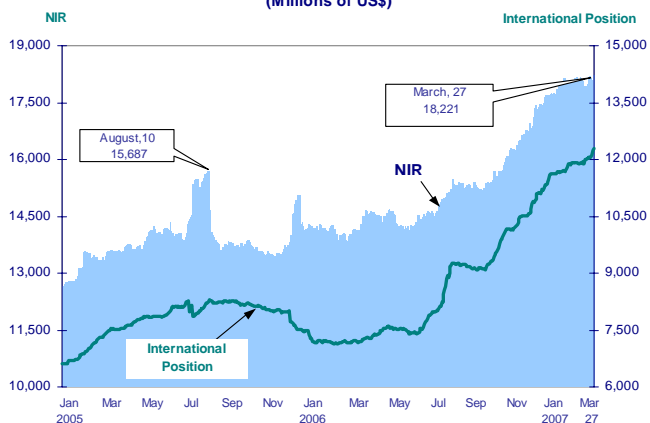
Indicators

- NIRs at US\$ 18,221 million.
- Exchange rate as of March 28: S/. 3.184 per dollar.
- Economic deficit of S/. 505 million in February.
- Country risk at 121 bps. as of March 28.
- Lima Stock Exchange grew 10.6 percent as of March 28.

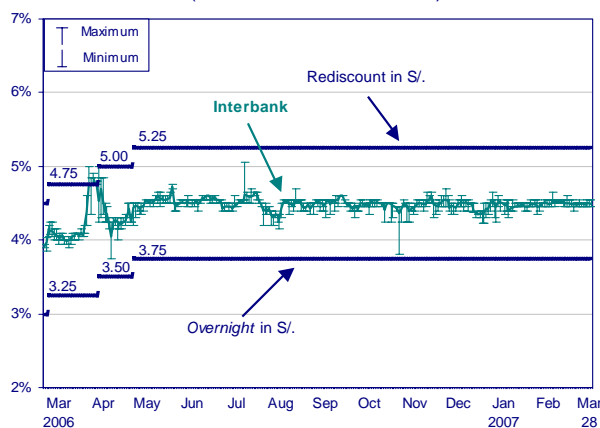
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**International Reserve and International Position of the BCRP
January 2005 - March 2007
(Millions of US\$)**



**Interest Rates in Domestic Currency
(March 2006 - March 2007)**



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



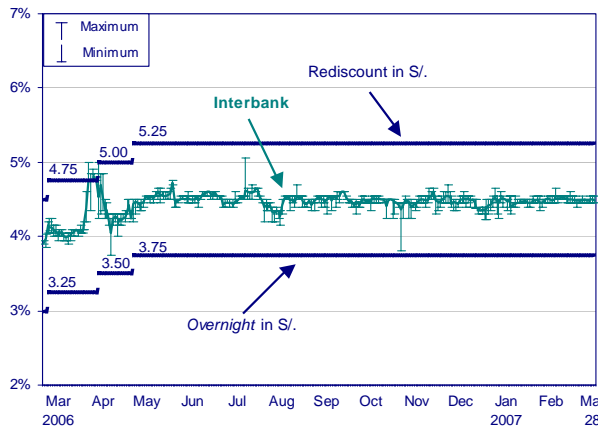
- Weekly Report N° 12-2007
- Monetary Policy, Regime Shifts, and Inflation Uncertainty in Peru (1949-2006)
- Dollarization Persistence and Individual Heterogeneity
- Informative Note on the Monetary Program: March 2007
- Why Central Banks Smooth Interest Rates? A Political Economy Explanation
- Quaterly charts.

Average Interbank Interest Rate as of March 28: 4.50 Percent

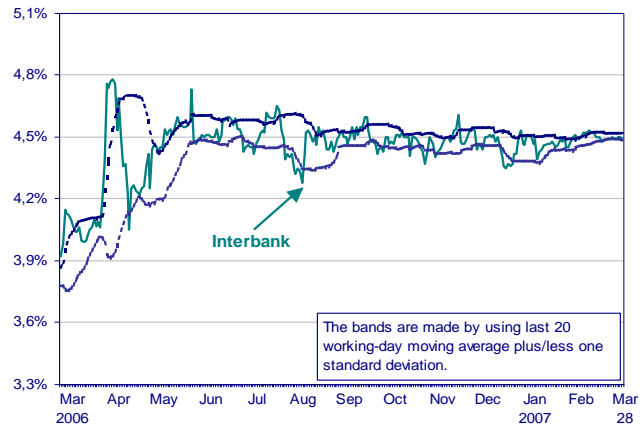
The average interbank interest rate in domestic currency as of March 28 was 4.50 percent, a level higher than the one posted in February (4.48 percent). Between March 21 and 28, this rate decreased from 4.50 to 4.49 percent.

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
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	4.47	0.06
February	4.48	0.02
March 28	4.50	0.01

Interest Rates in Domestic Currency
(March 2006 - March 2007)



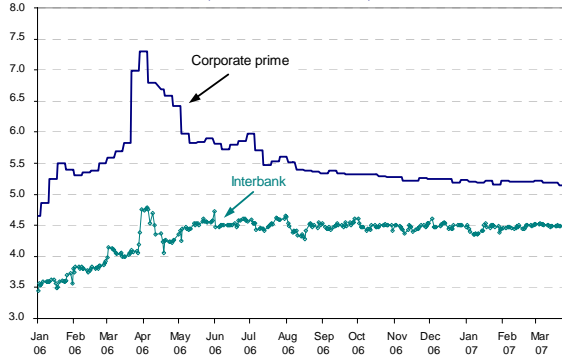
Interbank Interest Rate in Domestic Currency
(March 2006 - March 2007)



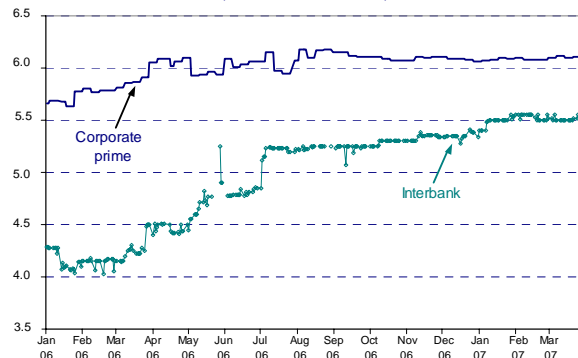
Corporate Prime Rate in Soles Decreased to 5.15 Percent

In **March 22 – 28**, the daily average of the 90-day corporate prime rate in domestic currency decreased from 5.19 percent to 5.15 percent, while this rate in dollars increased from 6.10 percent to 6.11 percent.

INTEREST RATE IN DOMESTIC CURRENCY
(As of March 28, 2007)



INTEREST RATE IN FOREIGN CURRENCY
(As of March 28, 2007)



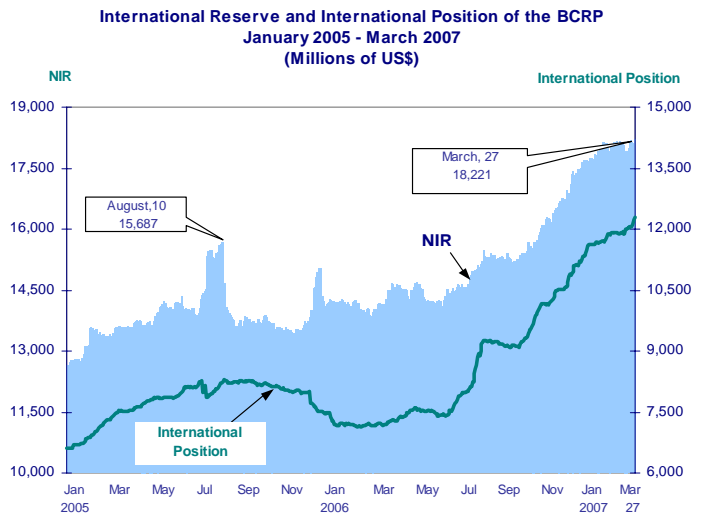
Monetary Operations

In **March 22 – 28, 2007**, the Central Bank made the following monetary operations:

- i) auctions of BCRP Certificates of Deposit with 1-day, 3-day, 1-week, and 1-year maturities for a daily average of S/. 981.9 million, with average interest rate on these operations ranging between 4.50 and 5.09 percent; ii) purchases of foreign currency for a total of US\$ 230 million, at an average exchange rate of S/. 3.183 per dollar; and iii) overnight deposits in domestic currency for a total of S/. 217.8 million.

International Reserves: New Historical Record of US\$ 18,221 Million on March 27

Net international reserves (NIRs) as of **March 27** increased US\$ 86 million relative to end February and amounted to US\$ 18,221 million. This increase in the balance of NIRs was mainly due to BCRP exchange operations (US\$ 550 million), higher investment yield (US\$ 35 million), and better prices for other securities (US\$ 18 million). This result was offset by sales of foreign currency to the Public Treasury for the repayment of the external debt (US\$ 200 million), by lower public sector deposits (US\$ 186 million), by lower banks' deposits (US\$ 128 million) and by lower deposits from the Deposit Insurance Fund (US\$ 11 million).

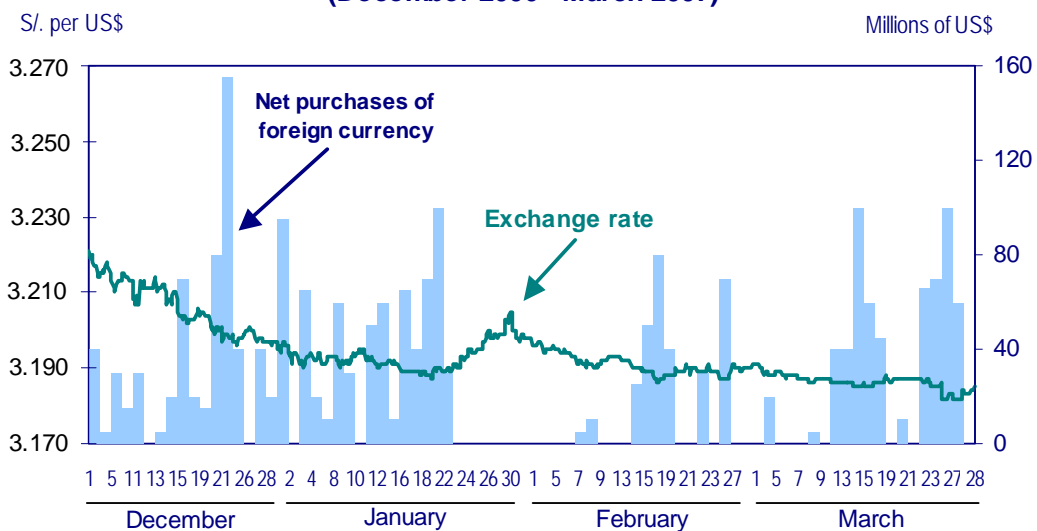


As of March 27, the **international position of the BCRP** (US\$ 12,300 million) has increased US\$ 375 million with respect to the close of February.

Exchange Rate at S/. 3.184 per Dollar

Between March 21 and 28, the average ask price of the interbank exchange rate fell from S/. 3.187 to S/. 3.184 per dollar, as a result of which the nuevo sol has appreciated 0.2 percent so far this month. In the March 1-28 period, the Central Bank intervened in the exchange market buying US\$ 550 million.

Interbank Ask- Exchange Rate and Net Purchases of Foreign Currency (December 2006 - March 2007)



Monetary Base as of March 22, 2007

The balance of the **monetary base** as of March 22 (S/.13,113 million) decreased 0.1 percent (S/. 7 million) relative to end February. On average, the monetary base grew at an annual rate of 21.1 percent in this period (20.3 percent in February).

By sources, operations contributing to the contraction of the monetary base included sales of dollars to the public sector (US\$ 200 million, or S/. 637 million), net placements of BCRP Certificates of Deposits (S/. 392 million), and higher public sector deposits (S/. 46 million). Conversely, the monetary base expanded due to purchases of foreign currency (US\$ 320 million, or S/. 1,019 million).

Liquidity and Credit to the Private Sector in February

In February, liquidity in **domestic currency** increased 0.9 percent (S/. 308 million), reaching a balance of S/. 35,583 million (annual growth of 25.4 percent). On the other hand, liquidity in **foreign currency** increased 0.5 percent (US\$ 62 million), thus reaching a balance of US\$ 13,084 million (annual growth of 9.5 percent).

EVOLUTION OF LIQUIDITY AND CREDIT TO THE PRIVATE SECTOR										
	MONETARY BASE		LIQUIDITY IN D/C		CREDIT IN D/C		LIQUIDITY IN F/C		CREDIT IN F/C	
	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR	VAR.(%) MONTH	VAR.(%) YEAR
2005										
Mar.	-0.2%	25.7%	4.2%	35.5%	2.8%	15.5%	-1.3%	3.8%	0.4%	3.2%
Jun.	1.9%	28.1%	1.8%	34.1%	1.2%	19.0%	0.4%	5.0%	1.5%	5.5%
Sep.	-0.1%	31.8%	0.6%	39.5%	2.5%	24.6%	0.5%	4.8%	-1.2%	4.9%
Dec.	13.1%	25.7%	7.7%	33.3%	6.5%	36.4%	2.9%	10.5%	0.0%	5.7%
2006										
Jan.	-7.2%	25.0%	-4.4%	29.1%	1.1%	38.0%	3.3%	14.5%	-3.4%	2.4%
Feb.	0.3%	22.9%	0.9%	25.1%	2.8%	40.4%	1.7%	17.1%	0.0%	2.5%
Mar.	0.8%	24.2%	2.4%	22.9%	2.3%	39.7%	1.7%	20.7%	1.7%	3.7%
Apr.	0.3%	18.3%	-4.0%	19.0%	1.2%	39.5%	-1.0%	16.1%	0.5%	2.3%
May.	-1.6%	15.5%	-0.2%	18.2%	1.0%	38.1%	-1.1%	12.8%	3.3%	3.6%
Jun.	2.3%	16.0%	1.6%	18.0%	1.9%	39.0%	0.4%	12.9%	2.0%	4.1%
Jul.	8.0%	11.7%	2.6%	12.1%	1.6%	38.7%	1.0%	14.9%	0.5%	3.9%
Aug.	-4.2%	12.8%	1.2%	13.3%	2.0%	36.7%	0.9%	14.4%	-0.6%	5.2%
Sep.	0.9%	13.9%	1.1%	14.0%	2.5%	36.7%	0.8%	14.7%	0.9%	7.4%
Oct.	0.8%	13.5%	2.6%	15.2%	3.4%	35.7%	1.8%	15.9%	0.4%	7.6%
Nov.	2.6%	15.6%	4.2%	16.2%	3.1%	33.6%	2.4%	15.6%	1.3%	6.7%
Dec.	15.7%	18.3%	10.2%	19.0%	3.2%	29.5%	2.0%	14.6%	-1.8%	4.7%
2007										
Jan.	-6.8%	18.8%	0.7%	25.4%	1.4%	29.9%	-0.1%	10.9%	0.0%	8.4%
Feb.	1.5%	20.2%	0.9%	25.4%	3.1%	30.3%	0.5%	9.5%	0.8%	9.2%
Memo:										
Balance as of Jan. 31 (Mill.S/.or Mill.US\$)	12,927		35,275		25,029		13,022		11,927	
Balance as of Feb. 28 (Mill.S/.or Mill.US\$)	13,120		35,583		25,808		13,084		12,024	

In February, **credit to the private sector** increased 1.5 percent (S/. 969 million). Credit to the private sector in domestic currency grew 3.1 percent (S/. 780 million), thus reaching a balance of S/. 25,808 million (annual growth of 30.3 percent). By type of institution, this growth was mainly driven by banks (S/. 393 million), state banks (11.2 percent, or S/. 162 million) and by investment mutual funds (25.1 percent, or S/. 159 million).

Over the last 12 months, credit to the private sector grew at a rate of 30.3 percent (S/. 6,008 million), with banks accounting for most of this growth (S/. 4,490 million).

FINANCIAL SYSTEM CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance of Millions of S/.			Percentage change	
	Feb.06	Jan.07	Feb.07	Feb.07/ Feb.06	Feb.07/ Jan.07
Commercial banks	13,830	17,927	18,320	32.5	2.2
Banco de la Nacion	1,537	1,453	1,616	5.1	11.2
Microfinance institutions	2,911	3,620	3,678	26.3	1.6
Financial companies	1,192	1,396	1,404	17.8	0.5
Mutual funds	330	633	791	139.5	25.1
TOTAL	19,800	25,029	25,808	30.3	3.1
Memo:					
Financial system credit to the private sector	23,220	28,971	29,599	27.5	2.2

Credit to the private sector in foreign currency grew 0.8 percent (US\$ 97 million), reaching a balance of US\$ 12,024 million. This outcome is explained mainly by increased loans granted by both banks (US\$ 50 million) and by investment mutual funds (US\$ 41 million).

Over the last 12 months, credit in foreign currency grew at a rate of 9.2 percent (US\$ 1,013 million). Banks and mutual funds accounted also for this growth, with credit to the private sector in dollars amounting to US\$ 820 million and US\$ 103 million respectively.

FINANCIAL SYSTEM CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY

	Balance of Millions of US dollars.			Percentage change	
	Feb.06	Jan.07	Feb.07	Feb.07/ Feb.06	Feb.07/ Jan.07
Commercial banks	9,570	10,339	10,390	8.6	0.5
Banco de la Nacion	182	173	173	-5.1	0.2
Microfinance institutions	540	626	631	16.9	0.9
Financial companies	37	45	45	22.7	-0.1
Mutual funds	681	744	784	15.2	5.5
TOTAL	11,011	11,927	12,024	9.2	0.8
Memo:					
Financial system credit to the private sector	12,498	13,696	13,701	9.6	0.0

Central government recorded an surplus of S/. 4,116 Million in the last 12 month

Central government operations in March 2006 – February 2007 recorded an surplus of S/. 4,116 million an outcome contrasting with the S/. 686 million deficit observed in the March 2005–February 2006.

This outcome is explained by a growth in current revenues, which increased by S/. 10,403 million (a growth of 22 percent in real terms), whereas non-financial expenditure increased by S/. 5,297 million (a growth of 12 percent in real terms).

By the way, the accumulated primary surplus of S/. 9,548 million (S/. 4,501 million in the March 2005 – February 2006 period). Accumulated interests grew 3 percent in real terms.

CENTRAL GOVERNMENT OPERATIONS

(Millions of Nuevos Soles, annual accumulated)

	Periods of 12 months				
	Mar 2005	Feb 2006	Mar 2006	Real % Chg.	
	Feb 2006	Jan 2007	Feb 2007	C/A	C/B
	A	B	C		
1. CURRENT REVENUES	42 942	53 042	53 345	22.1	0.5
A. TAX REVENUE	37 171	45 779	46 133	22.0	0.8
B. NON TAX REVENUE	5 771	7 262	7 212	22.9	-0.7
2. NON-FINANCIAL EXPENDITURE	38 840	43 577	44 137	11.8	1.3
A. CURRENT EXPENDITURE	33 902	37 576	38 114	10.6	1.4
B. CAPITAL EXPENDITURE	4 938	6 001	6 023	20.0	0.4
3. CAPITAL REVENUES	399	346	339	-16.3	-1.9
4. PRIMARY BALANCE	4 501	9 810	9 547		
5. INTEREST PAYMENTS	5 188	5 365	5 431	3.1	1.2
6. OVERALL BALANCE	- 686	4 445	4 116		
7. NET FINANCING	686	-4 445	-4 116		
1. External	-4 830	-1 801	-1 957		
A. Disbursements	7 145	2 002	1 871		
B. Amortizations	-11 974	-3 803	-3 828		
2. Domestic	5 342	-2 948	-2 515		
3. Privatization	174	303	356		

Central government operations in February showed an economic deficit of S/. 505 million. Current revenues increased 9 percent in real terms, while non-financial expenditure increased 19 percent in real terms, mainly due to increased transfers to other public entities. Isolating the effect of these transfers, non-financial expenditure grew 4 percent in real terms.

CENTRAL GOVERNMENT OPERATIONS

(Millions of Nuevos Soles)

	2006		2007		Real % Chg.		
	Feb		Jan	Feb	1 month	12 month	Acum.12m
1. CURRENT REVENUES	3,435	4,654	3,739	-19.9	8.5	22.1	
A. TAX REVENUE	2,870	4,150	3,223	-22.5	11.9	22.0	
B. NON TAX REVENUE	566	504	516	2.0	-9.2	22.9	
2. NON-FINANCIAL EXPENDITURE	2,864	2,759	3,425	23.8	19.1	11.8	
A. CURRENT EXPENDITURE	2,685	2,678	3,224	20.1	19.6	10.6	
B. CAPITAL EXPENDITURE	180	81	201	148.6	11.7	20.0	
3. CAPITAL REVENUES	13	62	6	-89.7	-49.8	-16.3	
4. PRIMARY BALANCE	584	1 958	320				
5. INTEREST PAYMENTS	760	428	826	92.5	8.3	3.1	
6. OVERALL BALANCE	- 176	1,530	- 505				
7. NET FINANCING	176	-1,530	505				
1. External	- 228	- 66	- 383				
A. Disbursements	151	56	20				
B. Amortizations	- 379	- 122	- 404				
2. Domestic	400	-1,467	832				
3. Privatization	4	3	56				

In February, the current revenues of the central government (S/. 3,739 million) increased 9 percent in real terms relative to February 2005, an evolution explained by a 12 percent increase of **tax revenues** (S/. 3 223 million) in real terms. This growth resulted mainly from higher payments of income tax (23 percent), of value-added tax -VAT- (17 percent) and from excise tax -ISC- (11 percent). Factors explaining this growth include the greater dynamism of economic activity, a favorable international context, and Sunat's oversight actions.

Non-financial expenditure in February (S/. 3,425 million) grew 19 percent in real terms relative to the same month last year. By group of expenditure, this increase is mainly explained by an increase of non-financial current expenditure (S/. 539 million). Moreover, by line of expenditure, transfers increased by 51 percent in real terms, wages and salaries increased 5 percent, and goods and services increased 2 percent.

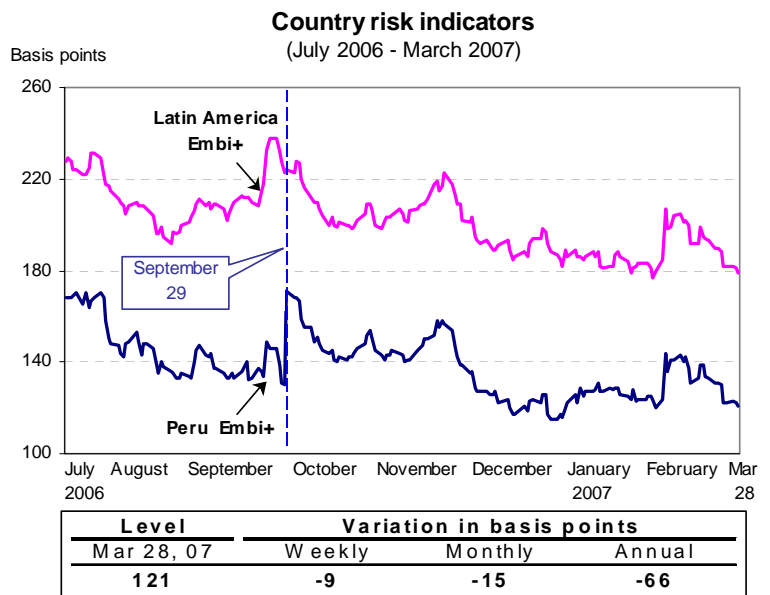
Domestic financing amounted to S/. 832 million. On the other hand, **external financing** was negative by S/. 383 million (US\$ 120 million) as a result of amortizations (US\$ 127 million) that were higher than disbursements (US\$ 6 million).

International Markets

Country Risk at 121 basis points

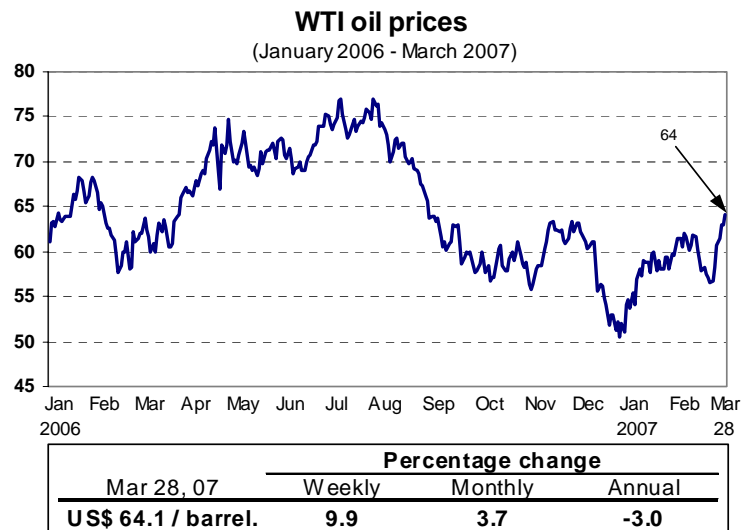
From March 21 to March 28, the country risk indicator –measured by the **EMBI+ Peru** spread– decreased from 130 to 121 basis points, following the trend of the spread in other countries in the region.

It is worth mentioning that the government announced that soles-denominated sovereign bonds for a total of US\$ 1.8 billion would be issued in the local market during the second and third quarters of 2007 in order to prepay the debt with the Paris Club.



Oil Quotation Rose to US\$ 64.1 Per Barrel

In March 21-28, the price of **WTI oil** increased 9.9 percent to US\$ 64.1 per barrel, due to geopolitical tensions in the Middle East –the UN imposed new sanctions on Iran, and tensions between Iran and England rose due to the capture of 15 British marines in the Persian Gulf–, to expectations that the demand for oil will increase in the US given the proximity of the summer vacation season, and the decline of inventories of crude and gasoline in the US.



The US Department of Energy reported that inventories of crude and gasoline had decreased by 0.9 and 0.3 million barrels to 328.4 and 210.2 million barrels respectively during the week ended March 23.

From March 21 to 28, the quotation of **gold** increased 1.3 percent to US\$ 667.1 per troy ounce. Factors contributing to this outcome included the weakening of the dollar against the yen –which increased the demand for gold as an investment option–, the increase of energy costs –the rise in the quotation of crude– that encouraged demand for gold as a hedge against inflation, and greater geopolitical uncertainty in the Middle East.



In the same period, the price of **copper** increased 0.8 percent to US\$ 3.06 per pound. This outcome is associated with a 5.32 percent decline of inventories at the London Metal Exchange (to 179,225 MT, the highest drop of inventories since June 2006), and with China's increased demand for copper –in February 2007, China imported the highest volume of refined copper (152,651 MT) since February 2004. However, this increase in the price of copper was partially offset by an investors take-profit and by increased fears that the slowdown in the US mortgage market might lead to decrease the demand for copper.



Furthermore, based on China and India's increased demand for commodities and on expectations of a faster pace of growth in Europe and Japan, the Deutsche Bank's forecast on the price of copper for the last months of 2007 was adjusted upwards.

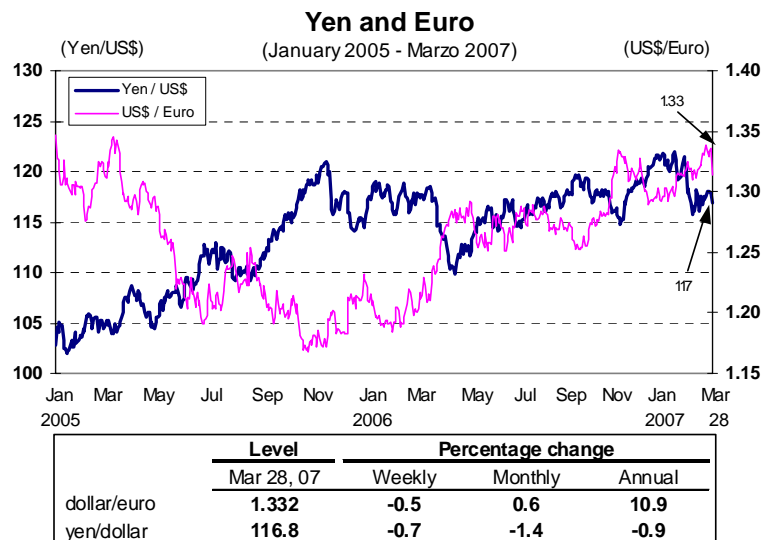
Between March 21 and 28, the price of **zinc** rose 0.2 percent to US\$ 1.45 per pound, although inventories at the London Metal Exchange increased 0.4 percent to 107,275 MT. This improvement in the price of zinc was due to investors' take position given the low prices of zinc observed over the past few weeks.

Moreover, it is also worth highlighting that China launched zinc futures trading at the Shanghai Futures Exchange (SHFE) on March 26 after China Securities Regulatory Commission authorized these operations at the SHFE.



Dollar Depreciated Against the Yen

In the same period of analysis, the **dollar** appreciated 0.5 percent against the **euro** and depreciated 0.7 percent against the **yen**. In the US, the dollar lost ground against the yen due to signals that the weakening of the sub-prime market continued –sales of new houses dropped by 3.9 percent to its lowest level in nearly 7 years– and to a FED's report indicating that the US economy would show a moderate growth and a gradual decrease of inflation this year. Moreover, the yen strengthened as increased risk-aversion –geopolitical problems in the Middle East– generated a reversal of speculative operations (carry trade).



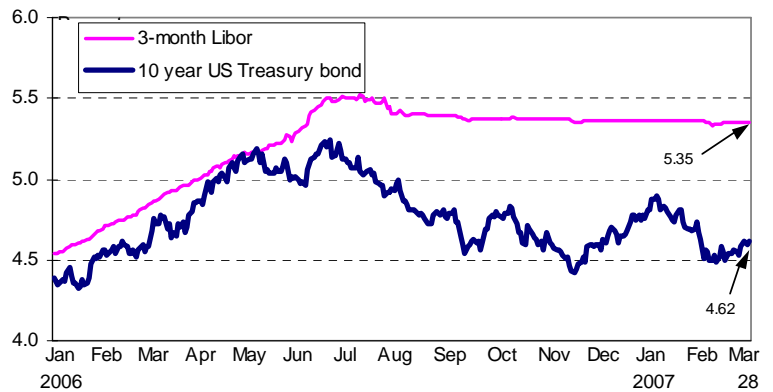
Yield on 10-Year US Treasuries Rose to 4.62 Percent

Between March 21 and 28, the **3-month Libor** remained unchanged at 5.35 percent and the yield on the 10-year US **Treasury bond** rose from 4.54 to 4.62 percent, due to some positive or higher than expected indicators, such as growth in the fourth quarter of 2006.

GDP in the US grew at an annual rate of 2.5 in the fourth quarter, exceeding forecasts that it would grow 2.2 percent.

In addition to this, requests for unemployment subsidies unexpectedly dropped from 318 thousand to 308 thousand applications on March 24.

3-month Libor and yield on 10-year US Treasury bonds
(January 2006 - March 2007)



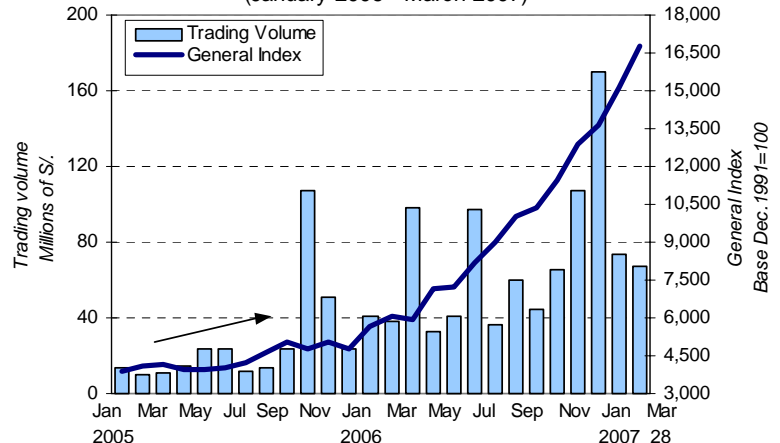
	Mar 28, 07	Variation in percentage points		
		Weekly	Monthly	Annual
Libor 3-months	5.35	0	0	39
Treasuries 10Y	4.62	8	5	-15

Lima Stock Exchange Grew 10.6 Percent as of March 28

As of March 28, the **General** and **Blue Chip** indices of the Lima Stock Exchange (LSE) grew 10.6 and 8.6 percent respectively, driven by mining stocks after the rise in the international prices of basic and precious metals.

Expectations of positive business balances in the first quarter of the year, especially in the industrial sector, also contributed to the growth of the LSE.

Lima Stock Exchange Indicators
(January 2006 - March 2007)



	As of:	Percentage change		
		Mar 28, 07	Weekly	To Feb. 07
General Index	16,762.8	3.6	10.6	30.1
Blue Chip index	28,017.3	2.7	8.6	26.4

The main indices of stocks in the region closed with negative indicators this week. These outcomes were associated with the negative results logged by the mortgage sector in the US.

So far this year, the **General** and **Blue Chip** indices of the Lima Stock Exchange have grown 30.1 and 26.4 percent respectively.