

I. INFLATION

Inflation dropped from 6,0 per cent in 1998 to 3,7 per cent in 1999, the lowest rate since 1960, and fell below the target set by the Central Reserve Bank of Peru (5 to 6 per cent) for the second year in a row.

TABLE 1
ANNUAL INFLATION RATES

Year	End of period	Average	Year	End of period	Average
1960	2,4	8,7	1980	60,8	59,2
1961	8,7	6,1	1981	72,7	75,4
1962	4,7	6,7	1982	72,9	64,5
1963	8,8	6,0	1983	125,1	111,2
1964	11,4	9,8	1984	111,5	110,2
1965	14,8	16,3	1985	158,3	163,4
1966	7,7	8,9	1986	62,9	77,9
1967	18,9	9,9	1987	114,5	85,8
1968	9,8	19,2	1988	1 722,3	667,0
1969	5,7	6,3	1989	2 775,3	3 398,7
1970	5,6	4,9	1990	7 649,7	7 481,7
1971	7,6	6,8	1991	139,2	409,5
1972	4,3	7,1	1992	56,7	73,5
1973	13,8	9,5	1993	39,5	48,6
1974	19,2	16,8	1994	15,4	23,7
1975	24,0	23,6	1995	10,2	11,1
1976	44,7	33,5	1996	11,8	11,5
1977	32,4	38,0	1997	6,5	8,5
1978	73,7	57,8	1998	6,0	7,3
1979	66,7	67,7	1999	3,7	3,5

This result was partly due to the decline in the prices of food products such as rice, potato and chicken, thanks to a recovery of supply after the damage caused by the "El Niño". Core inflation reached 4,6 percent, which was closer to the target rate. Core inflation excludes products such as chicken, potatoes, onion, bread, fish, eggs, citrus fruits and other vegetables whose, monthly percentage changes are mainly subject to supply shocks and not related to monetary policy.

TABLE 2
TARGET, CORE AND OFFICIAL INFLATION

	Target	Core	Official
1994	15,0 - 20,0	17,5	15,4
1995	9,0 - 11,0	10,4	10,2
1996	9,5 - 11,5	9,9	11,8
1997	8,0 - 10,0	7,8	6,5
1998	6,5 - 8,5	6,8	6,0
1999	5,0 - 6,0	4,6	3,7

TABLE 3
INFLATION IN METROPOLITAN LIMA

	Weight	1997	1998	1999
I. GENERAL INDEX	100,0	6,5	6,0	3,7
II. TRADABLE PRODUCTS	41,7	5,7	7,4	3,9
FOOD	19,4	4,4	9,0	-1,1
TEXTILES AND FOOTWEAR	6,5	7,2	5,6	6,7
FUEL	3,3	-3,8	-3,0	25,9
ELECTRICAL APPLIANCES	0,5	4,3	10,5	7,2
OTHERS	12,0	9,7	8,4	4,8
III. NON-TRADABLE PRODUCTS	58,3	7,0	5,1	3,6
FOOD	20,7	4,9	2,2	-5,1
SERVICES	36,3	8,2	6,7	8,0
Public Services	4,1	4,8	5,9	12,7
Labor	2,1	7,7	5,9	2,3
Health	0,8	10,2	5,0	6,8
Transportation	6,7	7,4	2,7	13,4
Education	3,0	13,3	10,6	6,6
Restaurants	15,4	8,6	6,6	5,9
Rent	2,9	7,5	12,8	8,4
Other services	1,4	6,1	6,6	4,8
OTHER	1,3	4,1	3,1	3,9

In 1999, the prices of tradable goods (3,9 per cent) grew at a slightly higher rate than those of non-tradable goods (3,6 per cent). Inside the first group fuel prices grew 25,9 percent, while the

prices of food products fell 1,1 percent, reflecting the evolution of rice (-3,3 percent), milk (-7,6 percent) and oil (-6,8 percent). As for the second group, the prices of food products fell 5,1 percent,

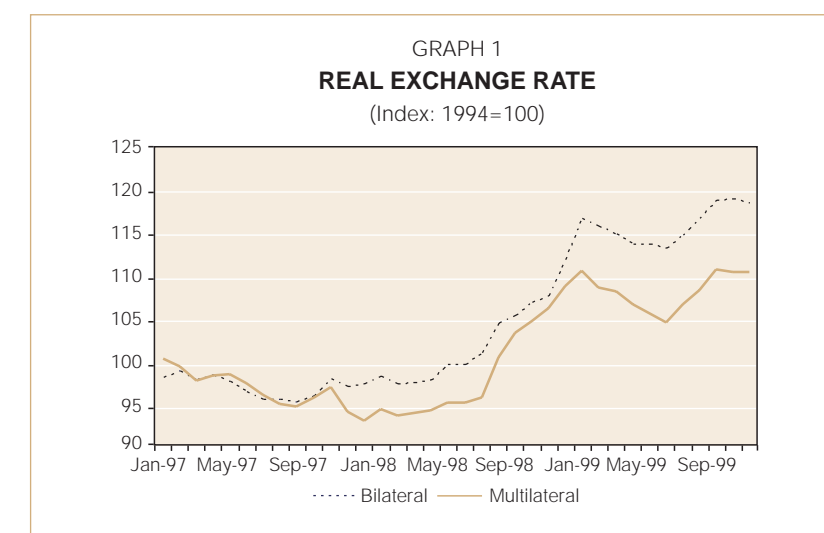
due mainly to chicken (-9,6 percent) and potato (-17,0 percent), while the prices of services grew 8,0 percent, as a result of increases in electricity (17,1 per cent), water (11,1 per cent) and urban transportation (13,4 per cent).

Exchange rate

The increase in the nominal exchange rate during 1999 was influenced by conditions in the external sector, namely adverse terms of trade and declining short-term capital flows. End-of-period nominal depreciation was 11 percent (from S/. 3,16 to S/. 3,51), lower than in 1998 (15,4 percent). It is important to note that the depreciation of the domestic currency did not pass through totally to inflation. Inflation has been gradually reduced due to the monetary policy, the supply response of agricultural products and a

weak domestic demand. In the context of a free-floating exchange rate regime, these developments led to a real depreciation of 4 percent, which is consistent with the changing conditions in the external sector.

Events in neighbor countries influenced nominal variation of the domestic currency during the year. In the first half of the year, nominal depreciation reached 6,4 percent, influenced by the devaluation of the Brazilian Real, which eventually adopted a flexible exchange rate regime. The 4,5 percent depreciation that occurred in the second half of the year was influenced by the default of external payments in Ecuador and the elimination of exchange rate bands in Colombia and Chile. In 1999 these countries also allowed their currencies to float.



1/ Real exchange rate has been estimated taking into account 1994 as a base year. Additionally, external inflation has considered twenty countries, according to their shares in Peruvian foreign trade.