



Annual Report 2002

CENTRAL RESERVE BANK OF PERU

BOARD OF DIRECTORS

Richard Webb Duarte
Chairman of the Board

Carlos Castro Rodríguez
Vice-Chairman

Kurt Burneo Farfán
Director

Oscar Dancourt Masías
Director

Gonzalo García Nuñez
Director

Daniel Schydrowsky Rosenberg
Director

Julio Velarde Flores
Director

CENTRAL RESERVE BANK OF PERU

Senior Officers as of December 31, 2002

Henry Barclay Rey de Castro
General Manager

Marylin Choy Chong
Central Manager for Technical Affairs

- Juan Ramírez Andueza
Manager for Credits and Financial Regulation
 - Luis Martínez Green
Deputy Manager for Credits and Services
 - Mario Mesía Lizaraso
Deputy Manager for Financial Regulation and Evaluation
- Carlos Ballón Avalos
Manager for International Operations
 - Jorge Patrón Worm
Deputy Manager Foreign International Investments
 - Teresa San Bartolomé Gelicich
Deputy Manager for International Agreements
- Pacífico Huamán Soto
Manager for Treasury
 - Augusto Otero Castro
Deputy Manager for Custody
 - José Arturo Pastor Porras
Deputy Manager for Analysis and Programming for Bills and Coins
 - Saúl Paredes Zúñiga
Deputy Manager for the National Mint
- *Administration Department*
 - Raúl Arce Baca
Deputy Manager for Administrative Services
 - Roberto Eslava Robles
Deputy Manager for Personnel
- Manuel Monteagudo Valdez
Legal Affairs
 - Jorge Bravo Benites
Deputy Manager for Legal Office
 - Helena Uzátegui Tellería
Deputy Manager for Technical Affairs
- Manuel Ruiz Huidobro Cubas
Manager for Technical Information and
 - José Rocca Espinoza
Deputy Manager for Relations and Services
- Renzo Rossini Miñán
Manager for Economic Studies
 - Adrián Armas Rivas
Deputy Manager for the Monetary Sector
 - Gladys Choy Chong
Deputy Manager for the External Sector
 - Jorge Estrella Viladegut
Deputy Manager for the Public Sector
 - Susana Ishisaka Frukawa
Deputy Manager for Research and Global Analysis
 - Teresa Lamas Pérez
Deputy Manager for the Real Sector
- Emilio Pallette Celi
Manager for Accounting and Supervision
 - Carmen Aguilar Mondoñedo
Deputy Manager for Accounting
 - Luis Valdivia Acevedo
Deputy Manager for Supervision
- Percy Damiani Arboleda
Systems Manager
 - Ricardo Chávez Caballero
Deputy Manager for System Development
 - Rolando Pacheco Campusano
Deputy Manager for Operations and Users Support
 - Juan Carlos Pacheco Pacheco
Deputy Manager for Technical Services
- José Ponce Vigil
Internal Auditor
 - Alberto Aquino Velaochaga
Supervisor I
 - Romano Batagelj Cobolli
Supervisor I, Systems Auditor

Dehera Bruce Mitrani
General Secretary

Branch Heads

Arequipa
Javier Curo García

Iquitos
José Monzón García

Cusco
Raúl Castro Alegría

Piura
Carlos Alatrística Gironzini

Trujillo
Jaime Esquivel Rodríguez

Huancayo
Alejandro Rozas Alosilla Velasco

Puno
Flavio Miraval Bedoya

Introduction

In 2002, the Central Reserve Bank of Peru adopted the Explicit Inflation Targeting as its monetary policy regime. The Central Bank set an annual inflation target of 2,5 percent within a range of 1 percentage point up (3,5) or down (1,5). Annual inflation rate in 2002 was 1,52 percent, near the lower limit of the targeted range announced by the Central Bank's monetary policy.

Decisions of the monetary authority during this year were aimed at reverting the deflationary and recessive process that prevailed in the second half of 2001. The Central Bank's Board decisions during the first half of this year were aimed at increasing banking liquidity to reduce interbank interest rates. In the second half, the Central Bank took a cautious stance, given the significant volatility of international financial markets and a scenario where economic indicators started to show signs of growth and lower deflationary pressures.

Productive activity indicators also started to point upwards, after negative behavior of domestic demand from 1997 through 2001, excepting 2000. Gross Domestic Product grew at a real 5,3 percent, driven by favorable evolutions both in primary sectors, which expanded 6,4 percent, and non-primary sectors that grew 4,8 percent.

These results reflect, on the one hand, the positive impact of more dynamic non-primary sectors, in particular manufacturing and construction, with the latter driven by several house building programs that were launched during this year and, for the second consecutive year, the impact of Antamina, which accounted for about 1 percentage point in the annual GDP growth.

Domestic demand grew 4,7 percent driven by greater private consumption (up 4,4 percent) and investment (6,9 percent), and exports growing at a rate of 6,3 percent. Among factors supporting private sector consumption growth we find larger national disposable income, improved consumer expectations since the second half of 2002, falling interest rates and greater loan placement by micro finance organizations. Another important consideration was improved job creation reflected by the 4,4 percent rise of the employed labor force in Metropolitan Lima.



After 4 years of negative growth rate, private investment recovered starting in the third quarter of this year as a consequence of greater construction activities, better corporate earnings and improved expectations about the economy.

Reduced interest rates throughout the year had a positive impact on recovering economic activity and propelled increased monetary and credit aggregates. Total credit from the financial system to private sector grew since the second half accounting for a 2,3 percent annual expansion. The larger growth was recorded in soles-denominated loans (10,3 percent). As a consequence the credit «dollarization» coefficient dropped from 77,9 percent in 2001 to 76,2 percent in 2002.

Financial system corporate profit rates were higher than a year before. Provisions among banking companies reached almost 30 percent above their non performing loans. The non performing loans over net loans ratio dropped to 7,6 percent, an improvement of an slightly over 1 percentage point compared to a year before.

In the foreign sector, the current account deficit reached US\$ 1 206 million, equivalent to 2,1 percent of GDP, while the trade balance recorded a US\$ 207 million surplus, the first one since 1990. This improvement reflects mainly the growth of volume of exports by 5 percent, compared to 1 percent rise in imports and a 2,5 percent improvement in the terms of trade.

Despite an improved trade balance, the current account deficit in the balance of payment remained at 2001 level, due to a greater deficit in the services and factors rent balance. The financial account in the balance of payments recorded flows worth US\$ 1 980 million, US\$ 430 million higher than the previous year, in particular increased long term capital flows towards the private sector (US\$ 758 million) and public sector (US\$ 657 million).

Peru continued to show sound international liquidity, which, together with the flexible exchange rate regime, have permitted to successfully face the uncertainty of international financial markets. Net international reserves at Central Bank reached US\$ 9 598 million as of December 2002, equivalent to 2,1 times 1-year debt payments and 15-month's worth of imports.

Government finances showed moderate expansion throughout 2002, aimed at giving an impulse to the economy and overcoming stagnation. Hence, the non-financial public sector deficit reached 2,3 percent of GDP. This year, the Peruvian government placed global bonds in the international financial market

in two opportunities for a total US\$ 1 923 million (nominal value) of which US\$ 1 billion were freely available new resources while US\$ 923 million were Brady debt swaps for global bonds.

Administrative measures were introduced in 2002 to increase tax collection. Larger private companies were designated as withholding agents while a withdrawal system was enforced for sales of rice, sugar and ethylic alcohol. Perception system on fuel sales was enforced together with improved oversight of tax payers involved in transactions with State agencies. In addition, the top income tax rate for individuals was raised and the advanced payment of income tax on the basis of net assets for major tax payers was introduced to become effective in 2003.

In July 2002, the legal framework for decentralization was enacted, with regional authorities elected in November. They took office in 2003.

In sum, 2002 was characterized by the end of the recession that prevailed in the last 4 years and the positive evolution of the main economic and external vulnerability indicators, while inflation remained within the announced targeted range.