

Introduction

In a context of optimistic expectations regarding the evolution of the economy and showing the highest growth rate in the last 13 years, domestic production in Peru grew 9 percent in 2007. The remarkable pace of growth observed in the country over the past eight consecutive years has contributed to consolidate sustained growth and to gradually reduce poverty. It is worth pointing out that per capita GDP has grown 34 percent in this period.

Driven by domestic demand which increased by a real 11.6 percent in 2007, this economic expansion reflects high rates of growth in private consumption and private investment, consumer and business optimism, a higher disposable income, increased employment, high prices for our main exports, and the expansion of credit. Private investment grew 23 percent after increasing 20 percent in 2006. This growth of investment has been coupled with the adoption of more modern technologies, as reflected in the significant growth observed in imports of capital goods.

It is also worth pointing out the dynamism of exports, which reached a new historical record level of US\$ 28 billion, favored by the positive evolution of prices in external markets (the prices of traditional and non-traditional exports grew 16 and 9 percent respectively), the diversification of products, and access to new markets which boosted the growth of non-traditional exports (19 percent).

The international environment was marked by continuous rises in the prices of fuels and some food products that translated into inflationary pressures in most countries. In Peru, these pressures had a direct impact on the price of food and an indirect impact on firms' production costs and inputs. In this context, given that last 12 months inflation increased above the target since October, the Central Bank adopted preventive measures to lead inflation back to the target range (between 1 and 3 percent). Thus, the reference interest rate was raised by 25 basis points in both July and September to prevent that the high growth of domestic demand would generate inflationary pressures, as well as to maintain inflation expectations anchored around the target range.

In 2007 international reserves increased by over 60 percent to over US\$ 27 billion, which has implied greater efforts in terms of the portfolio that the Central Bank manages according to safety, liquidity, and profitability criteria.

Furthermore, the dynamic performance of the economy and a growing process of dedollarization –associated with the positive evolution of macroeconomic fundamentals and with the revaluation of our currency– were reflected in a higher demand for means of payment and in the operation of electronic payment systems. In 2007, efforts were also made at the Central Bank to modernize the bank's operations and to contribute to generate a better understanding of the bank's role and of economic and financial issues, among other actions.

This document discusses the above mentioned aspects and, in line with the Central Bank's policy of transparency, also presents the financial statements of our institution which have been duly audited by a prestigious international auditing firm.

