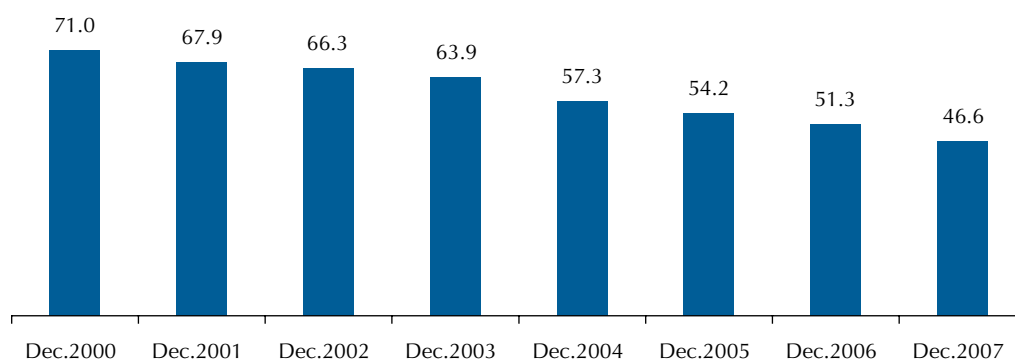


Strengthening the Use of the Nuevo Sol

During 2007, the nuevo sol continued to strengthen against the dollar, which was reflected in lower levels of dollarization of both liquidity and credit to the private sector. The dollarization ratio of liquidity declined from 51.3 percent in December 2006 to 46.6 percent in December 2007. Credit to the private sector in foreign currency decreased from 60.5 percent to 56.8 percent during the same period.

GRAPH 5
DOLLARIZATION OF LIQUIDITY IN THE PRIVATE SECTOR
 (Percentage end of period)



Strengthening
 the Use of the
 Nuevo Sol

Low uncertainty regarding inflation also contributed to the placement of 30-year government bonds in domestic currency for the first time in our history, favoring in turn the extension of terms for loans in domestic currency, which can now be over 20 years.

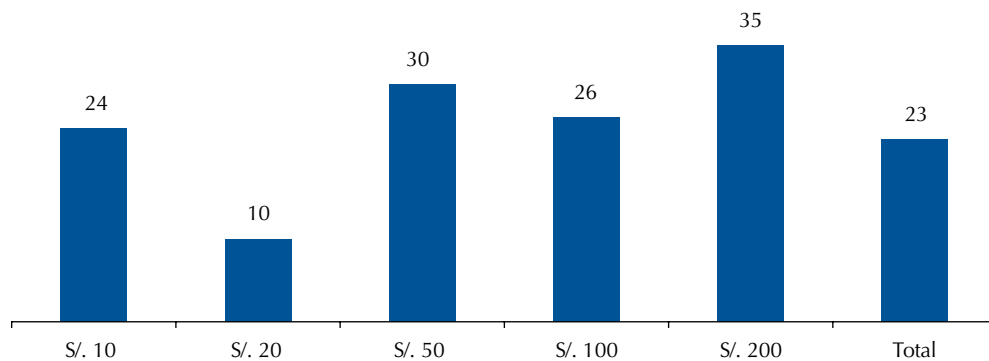
To contribute to increase confidence in the domestic currency, the BCRP continued to improve the quality standards and the conservation of banknotes during 2007. Together with the increased demand for currency associated with economic growth, this measure resulted in a greater dynamism in the supply of banknotes and the destruction of deteriorated notes.

a. Banknotes and coins in circulation

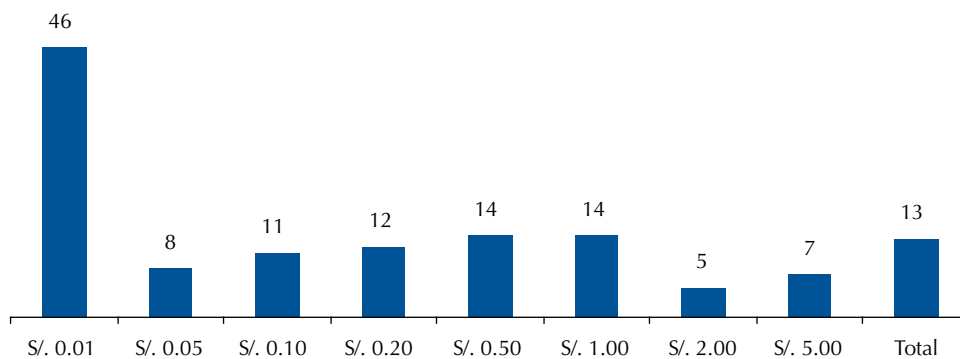
The balance of banknotes in circulation was S/. 16,104 millions in 2007 (26 percent higher than in 2006), while the balance of coins in circulation reached S/. 894 millions (10 percent higher than in 2006). This increase is explained by the country's economic growth and by people's and business higher preference for national currency.

In terms of units of banknotes and coins, 2007 closed with a balance of 302 million units of banknotes in circulation –23 percent higher than in 2006– and 1,683 million units of coins in circulation –13 percent higher. The increase in the circulation of S/. 200 nuevos soles banknotes (35 percent) and S/ 0.01 nuevos soles coins (46 percent) is worth highlighting.

GRAPH 6
PERCENTAGE CHANGE OF BANKNOTES IN CIRCULATION 2007/2006



GRAPH 7
PERCENTAGE CHANGE OF COINS IN CIRCULATION

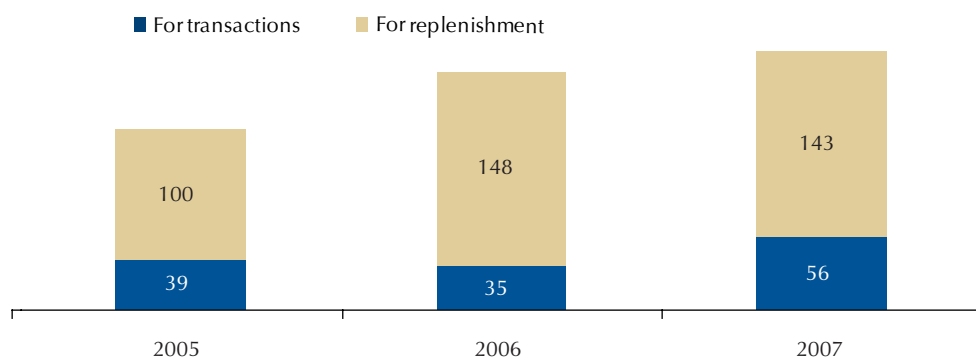


b. Replenishment

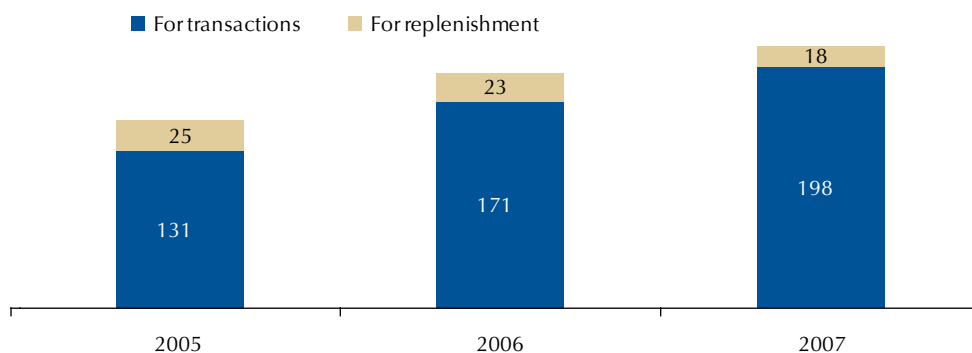
The replenishment of banknotes has shown an important increase during the last few years as a result of the improvement in the quality standard since January 2006. In this way, the replenishment of banknotes increased 48 percent in 2006 and remained above the 143 million units in 2007. On the other hand, the replenishment of coins reached 18 million units.



GRAPH 8
COMPONENTS OF THE NET FLOW OF BANKNOTES DELIVERED
 (Million units)



GRAPH 9
COMPONENTS OF THE NET FLOW OF COINS DELIVERED
 (Million units)



c. Supply of banknotes and coins

The Bank received 230 million banknotes in 2007, of which 105 million corresponded to the completion of contracts signed in 2005 and 125 million to contracts signed in 2007.

TABLE 6
ARRIVAL OF NEW BANKNOTES
 (Million units)

| Denomination | Amount received |
|--------------|-----------------|
| S/. 10.00 | 85 |
| S/. 50.00 | 100 |
| S/. 100.00 | 45 |
| Total | 230 |



To ensure an adequate supply of coins, a contract was established for the procurement of 277 tons of aluminum rolled strip coils, 486 tons of brass rolled strip coils, and 798 tons of nickel silver rolled (alpacca) strip coils. Moreover, the service of transforming 160 and 170 tons of brass and nickel silver into coins was also contracted.

Additionally, a contract was also established for the procurement of 118 million brass coin blanks (for S/. 0.10 and S/. 0.20 coins), 70.5 million nickel silver blanks for S/. 0.50 coins, and 35 million bi-metal blanks (for S/. 2.00 and S/. 5.00 coins). A significant part of these purchases will be delivered to the Bank in 2008.

d. Mint coin production

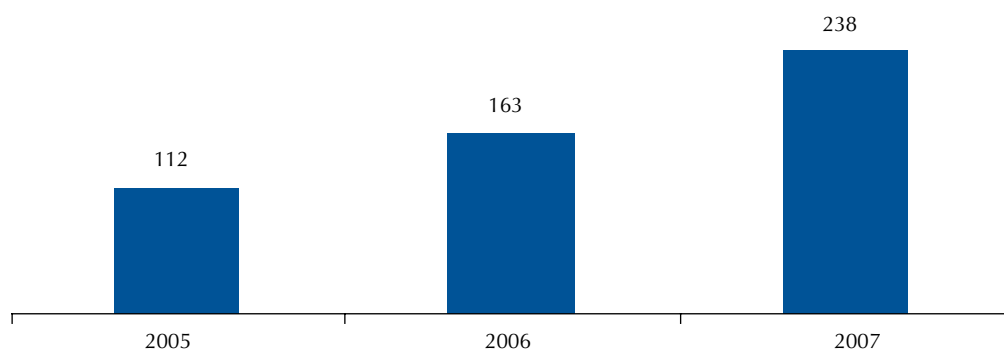
The National Mint produced 238 million coins during 2007, a production 46 percent higher than in 2006. It is worth pointing out that the production of coins in 2007 has been the highest observed since coins denominated in nuevos soles began to be locally minted in 1991. The highest volumes of coins produced were coins of S/. 0.01 and S/. 0.10 cents.

**TABLE 7
PRODUCTION OF COINS**

| Denomination | Alloy | Amount (Millions of units) | Value (Millions of Nuevos Soles) |
|--------------|---------------|-------------------------------|-------------------------------------|
| S/. 0.01 | Aluminum | 48.8 | 0.49 |
| S/. 0.05 | Aluminum | 12.4 | 0.62 |
| S/. 0.05 | Brass | 12.8 | 0.64 |
| S/. 0.10 | Brass | 64.8 | 6.48 |
| S/. 0.20 | Brass | 18.0 | 3.60 |
| S/. 0.50 | Nickel-silver | 31.2 | 15.60 |
| S/. 1.00 | Nickel-silver | 36.7 | 36.70 |
| S/. 2.00 | Bi-metal | 7.0 | 14.00 |
| S/. 5.00 | Bi-metal | 6.4 | 32.00 |
| Total | | 238.1 | 110.13 |

Source: BCRP.

**GRAPH 10
COINS PRODUCTION**
(Millions of units)

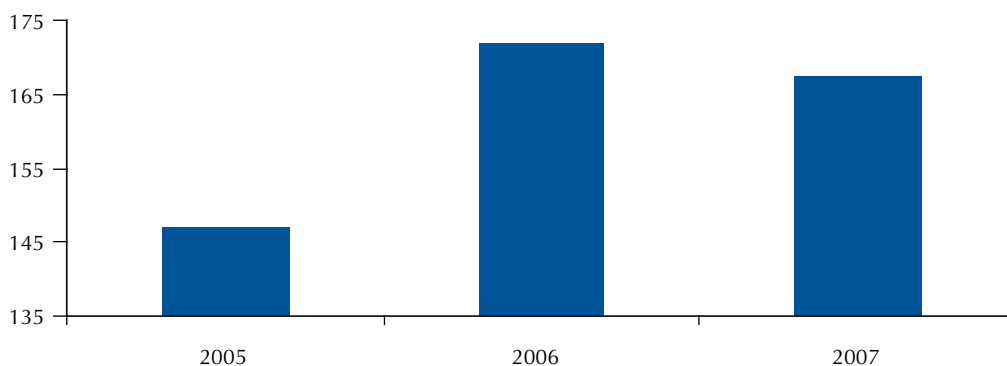


e. Counterfeit banknotes and coins

The amount of counterfeit banknotes and coins in domestic currency that have been withheld declined 1.9 percent in the case of banknotes and 53.6 percent in the case of coins compared to 2006. This reduction is explained by the actions implemented by the BCRP, including numerous campaigns to disseminate the security measures in banknotes and coins, as well as having improved the quality standard of banknotes since 2006, which has made it easier for the public to identify the security measures.

Moreover, supporting the work of the Policía Nacional del Peru and the Public Ministry, the intelligence work of the central office in charge of fighting against currency counterfeiting contributed to carrying out 34 successful interventions in 2007 (the number of interventions was 62 percent higher than in 2006). Local and foreign counterfeit currency, as well as machinery and instruments used to falsify notes and coins, were confiscated in these interventions.

GRAPH 11
WITHHELD COUNTERFEIT BANKNOTES
(Thousand units)



GRAPH 12
WITHHELD COUNTERFEIT COINS
(Thousand units)

