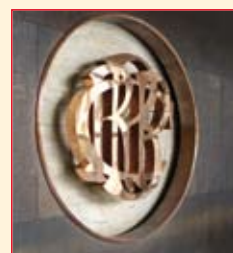
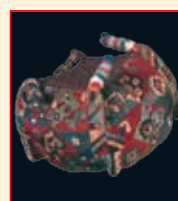




ECONOMIC REPORT | 2007



CENTRAL RESERVE BANK OF PERU



ECONOMIC
REPORT | 2007



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ECONOMIC REPORT 2007

Banco Central de Reserva del Perú

Jirón Antonio Miró Quesada 441 - Lima

Lima, June 2008

Page design and layout:

Iván Larco Degregori

Printed by:

Gráfica Técnica S.R.L.

Provedora La Solución S.R.L.

LIMA - PERU



CENTRAL RESERVE BANK OF PERU

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¹ This information may be found at the BCRP website: www.bcrp.gob.pe.

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Introduction

In 2007 economic activity in Peru continued to show a robust growth mainly due to the dynamic performance exhibited by the domestic market. Economic agents' positive expectations about the future evolution of the economy, as well as the growth of employment and disposable income favored both investment and private consumption. The growth of the product was coupled by a favorable domestic macroeconomic context, with surpluses in both the current account of the balance of payments and the fiscal balance.

The international environment, on the other hand, was characterized by uncertainty in international financial markets due to the mortgage crises in the United States and to the higher international prices of fuels and some food products, which rose at magnitudes unseen since the seventies.

In this scenario of supply imbalances –originated by external factors– and high growth of domestic demand, inflation showed a faster pace since mid-year causing last 12-month inflation to increase above the target range (between 1 and 3 percent) since October. The rises seen in external prices affected the local prices of food as well as firms' production costs and the costs of inputs. As a result of this, imported inflation increased from 0.3 percent in 2006 to 10.5 percent in 2007, thus becoming the main factor that explains the acceleration of inflation from 1.1 to 3.9 percent during this period.

After having grown at a rate of 7.6 percent in 2006, economic activity grew 9.0 percent in 2007 –the highest growth rate observed in the last 13 years. Domestic demand grew 11.6 percent, showing a generalized increase in all its components, particularly in public investment (19.7 percent) and private investment (23.2 percent), while private consumption grew 8.3 percent –the highest growth rate seen in the last 12 years. The high growth of investment was coupled by productivity improvements, which have also increased the potential of growth of the Peruvian economy. This increased dynamism was also reflected in indicators such as employment, which grew 8.3 percent in firms with 10 and more workers, and consumer credit, which increased 37 percent compared to the previous year.

Considering monetary policy lags, preventive measures were implemented in 2007. The Board of the Central Bank decided to raise the reference rate for the interbank market on two occasions –July and September–, as a result of which this rate increased from 4.5 percent in December 2006 to 5.0 percent in December 2007. In this way, the inflation expectations of economic agents remained anchored and inflationary pressures resulting from the high growth of domestic demand were prevented.

The current account of the balance of payments continued to show a surplus (1.4 percent of GDP), reflecting both a surplus of US\$ 8,356 million in the trade balance result and higher remittances from abroad, which increased 16 percent relative to 2006.

Exports, which grew 17.5 percent, continued to be favored by the high prices of minerals in the international market and by the demand of our main trade partners –especially in Asia and Latin America–, which showed growth rates of over 5 percent on average. Thus, while the prices of exports increased 14 percent, the volume of exports increased 3.3 percent. It is worth pointing out here the increasing importance of non-traditional exports whose volume grew by 8 percent during the year. On the other hand, imports



grew 31.8 percent in nominal terms, particularly due to higher imports of capital goods and inputs.

The evolution of the nominal exchange of the nuevo sol against the dollar during the year continued reflecting the robustness of external accounts and the weakening of the dollar in international markets. In nominal terms, the Nuevo Sol appreciated 7.0 percent against the dollar. However, in real terms, the average multilateral exchange remained stable during 2007 given that the nominal appreciation of the sol against the dollar was compensated by higher inflation in the rest of the world and by the depreciation of the nuevo sol against the currency basket of our main trading partners.

The strengthening of nuevo sol was associated with better macroeconomic fundamentals in the Peruvian economy, with the positive evolution of its external accounts and with portfolio movements showing a preference for the domestic currency, as well as with the weakening of the dollar in the international financial market. Among other factors, this is mainly explained by the high deficit in current account seen in the United States (6.2 percent of GDP in 2006), by fears of a recession in the US economy, and by the Federal Reserve's consecutive reductions of its interest rate. The nominal exchange declined from S/. 3.21 per dollar in December 2006 to S/. 2.98 in December 2007.

The Central Bank continued to intervene in the exchange market in order to offset volatility in this market, to preventively accumulate international reserves, and to compensate the sales of foreign currency to the treasury. Net purchases of foreign currency during the year amounted to US\$ 10,306 million, while sales of dollars to the public sector amounted to US\$ 3,275 million. Thus, the international position of the BCRP was US\$ 19,622 million, as a result of which international reserves amounted to US\$ 27,689 million. This accumulation of reserves has improved Peru's position to face adverse shocks, as reflected in the country's sound stance in terms of vulnerability indicators: the level of international reserves accumulated is equivalent to 4.1 times the short-term external debt, to 17 months of imports of goods, and to 92 percent of total liquidity in the private sector.

This higher growth of economic activity and the favorable international context for our main exports had a positive impact on fiscal revenues, which increased by a real 14 during 2007. The income tax paid by the mining sector increased 48 percent in real terms and the value added tax increased 15 percent. The expenditure of the general government showed a real growth of around 7 percent. As a result of this, an economic surplus equivalent to 3.1 percent of GDP was observed in the year (a surplus nearly one percentage point higher than the one recorded in 2006).

In 2007 the government continued carrying out debt management operations and placing Public Treasury Bonds in domestic currency as a strategy to improve the debt profile and reduce exchange risks. Bond exchange operations were carried out –Brady bonds were exchanged by global bonds– and debt prepayments were made –to the Paris Club and the Andean Development Corporation (CAF)– throughout the year, as a result of which the external debt has been reduced by US\$ 1,890 million compared to last year and the percentage of the total debt in domestic currency relative to the total public debt has been increased from 24.5 percent to 36.5 percent in this period.



The expansion of monetary aggregates such as liquidity and credit to the private sector was associated with increased economic activity and with the process of “bankarization” seen in the economy. Liquidity in domestic currency increased 34 percent, while liquidity in foreign currency increased 18 percent, with higher long-term deposits accounting mainly for both evolutions.

The ratios of dollarization of liquidity and credit decreased by 5 and 3 percentage points to 47 and 57 percent respectively. During the year, the BCRP gradually raised the limit for investments abroad by Private Administrators of Pension Funds (AFPs) from 12 to 15 percent, thus allowing them greater flexibility to manage their portfolios.

Banks’ financial indicators showed improvements mainly due to the reduction of the non-performing portfolio –non-performing loans decreased from 1.6 percent in 2006 to 1.3 percent in 2007– and to increased provisioning –the allowance to non-performing loans increased from 100.3 percent in 2006 to 124.4 percent in 2007. Moreover, return on equity (ROE) increased from 23.9 percent in 2006 to 27.9 percent in 2007.





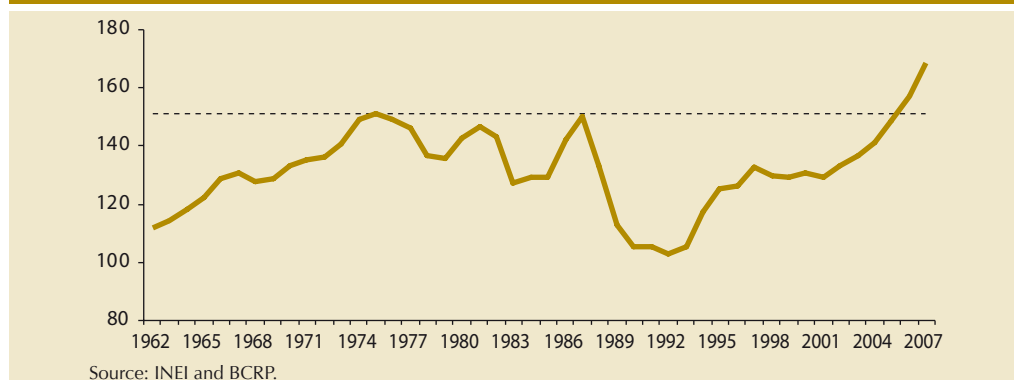
Detail of decorative band in tapestry
Wari Culture (AD 600-1000)

I. Production and Employment

Peru continued showing a high growth in 2007 –accumulating 78 months of consecutive growth between July 2001 and December 2007– in a context of favorable terms of trade, especially in the first half of the year. GDP grew at a rate of 9.0 percent, driven mainly by increased domestic demand as a result of macroeconomic stability, the growth of employment, and higher consumer confidence. Non-primary sectors, particularly construction, non-primary manufacturing, and commerce, accounted for the dynamism observed in the product.

In 2007, Peru's GDP grew 9.0 percent (the highest growth rate observed since 1994), with this result, the Peruvian economy accumulates six years of consecutive growth in per capita terms and reaches a level that is 11.5 percent higher than the previous historical peak observed in the 70s. The current process of expansion has been taking place in a context marked by the dynamism of investment, macroeconomic balances and growing employment, and economic agents' confidence.

GRAPH 1
REAL GROSS DOMESTIC PRODUCT PER CAPITA
(Index 1960=100)



1. Overall demand and supply

The acceleration of the Peruvian economic growth during 2007 (9.0 percent) was associated with an increased **domestic demand** (11.6 percent) that was driven by higher private consumption (8.3 percent) and private investment (23.2 percent).

1.1 Consumption

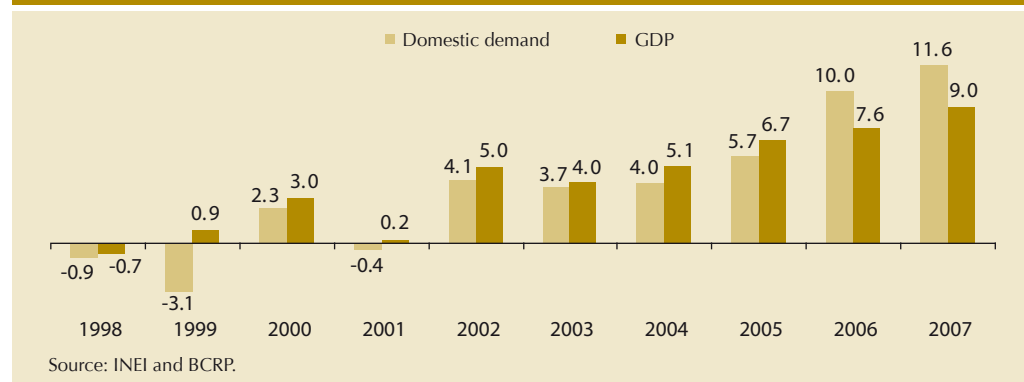
Private consumption increased 8.3 percent during 2007 in a context of growth of both the national disposable income (10.0 percent) and employment (8.3 percent). Employment grew 8.6 percent in Lima and 7.2 percent in the rest of the cities in the country.

TABLE 1
GROSS DOMESTIC PRODUCT BY TYPE OF SPENDING
 (Real percentage change)

	2005	2006	2007
Domestic Demand	5.7	10.0	11.6
a. Private consumption	4.6	6.2	8.3
b. Public consumption	9.1	8.7	4.8
c. Gross domestic investment	12.0	18.9	22.7
- Private	12.0	20.1	23.2
- Public	12.2	12.7	19.7
Exports	15.2	1.2	5.4
<i>Minus:</i>			
Imports	10.9	12.6	18.8
GDP	6.7	7.6	9.0

Source: BCRP and INEI.

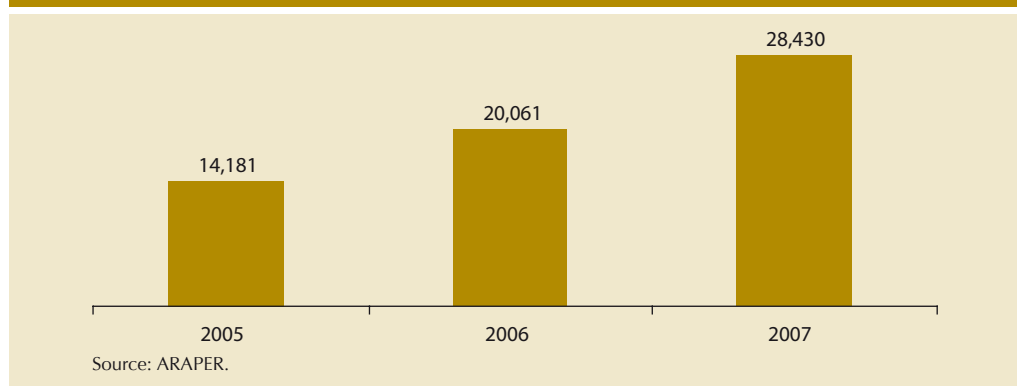
GRAPH 2
GDP AND DOMESTIC DEMAND
 (Percentage change)



Another factor that contributed to the growth of consumption was the 36.8 percent increase seen in consumer loans granted by the financial system (26.2 percent in the previous year). Additionally, consumers' confidence remained optimistic, as reflected in Apoyo's Consumer Confidence Index (INDICCA) which showed an average of 51.3 points during 2007.

Increased private consumption was reflected in the evolution of several indicators, such as the 24.6 percent increase seen in imports of durable consumer goods and the 41.7 percent increase observed in the sale of new family vehicles –a total of 28,430 new units were sold in 2007.

GRAPH 3
SALES OF NEW FAMILY CARS
 (Units)



1.2 Investment

Private investment grew 23.2 percent in 2007. This dynamism was reflected in firms' construction and expansion of plants, and purchases of machinery and equipment in all the economic sectors. The onset of new projects and the expansion of mines and explorations in the mining and hydrocarbon sector should be pointed out in terms of investment by sectors.

TABLE 2
MAIN PRIVATE INVESTMENT PROJECTS 2007
 (Millions of US\$)

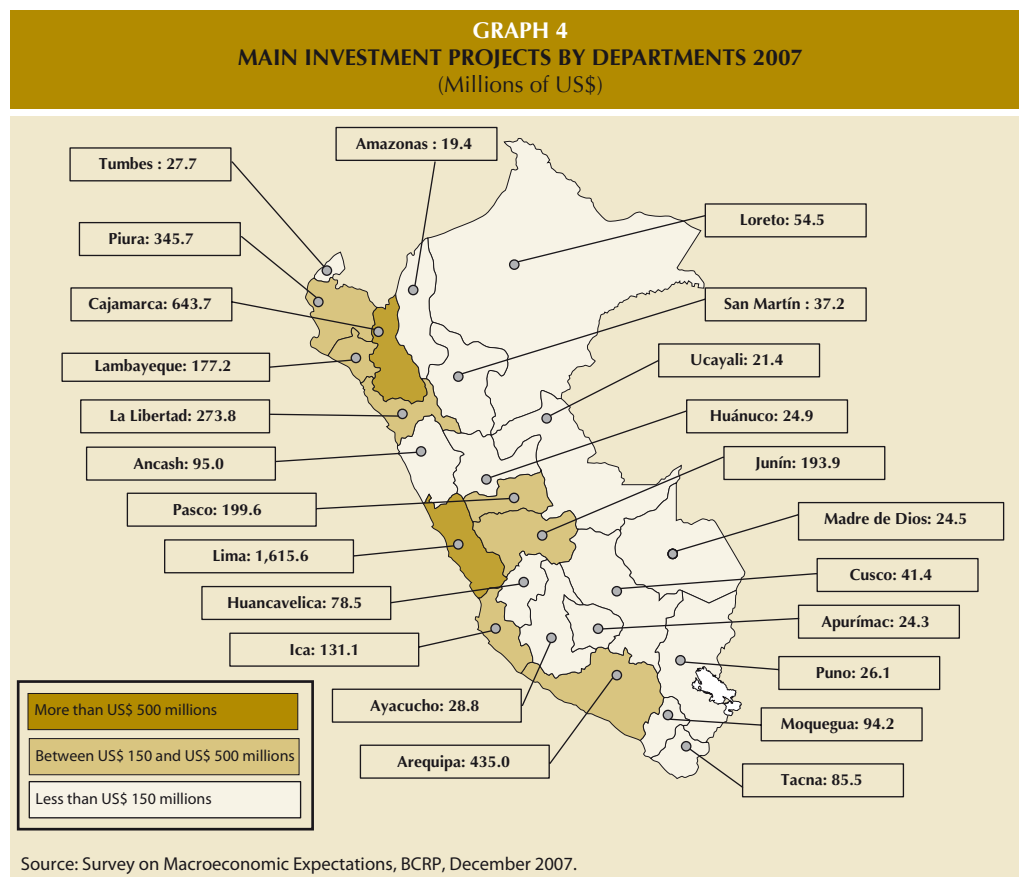
Sector	Amount
Agriculture and livestock	164
Fishing	225
Mining and fuel	1,617
Manufacturing	1,168
Electricity, water and gas	310
Construction	96
Commerce	487
Transport and telecommunications	636
Services	48
Total	4,750

Source: Survey of Macroeconomic Expectations, BCRP, December 2007; magazines and newspapers.

A growing domestic demand was the main factor encouraging investments in the manufacturing sector, which included the expansion of Backus' plants in the departments of Lima, Lambayeque, and Arequipa. Other important investments included the expansion of the Refinery of Cajamarquilla to increase the production of zinc and to initiate the production of metallic indium²; the expansion of furnace I at Cementos Lima's plant

² Metallic indium is a by-product obtained in the zinc production process. It has a high market value and is used to manufacture liquid crystal monitors.

in Atocongo; and Doe Run’s investment in Junín for the onset of its new plant for the production of sulfuric acid. It is worth mentioning here that Lima is the department that concentrates the higher investments in the manufacturing sector, followed by Arequipa, with the investments made by Aceros Arequipa and textile enterprises.



Investment in the sector of transport and communications was led by the investment projects carried out all over the country by Telefónica del Perú, América Móvil, Telmex Perú, and Nextel to expand fixed, mobile, and wideband telephony. Moreover, the construction of malls in Lambayeque, La Libertad, and Lima was noteworthy in the commerce sector.

Investment projects to be pointed out in the sector of electricity, gas, and water included the installation of the second generation turbine of 180 Mw in Enesur’s thermic power plant in Lima (which generates 3.5 percent of the total power generated in Peru), as well as water and sanitation projects. The most relevant investments in the agriculture and livestock sector were the sugar projects implemented by the enterprises Laredo, Casagrande, and Cartavio in La Libertad, and the cultivation of sugar cane to produce ethanol in Piura.

The investments made by fishing enterprises were mainly oriented to building new fish processing plants and to expanding fishing capacity. These investments were mainly concentrated in the departments of the Peruvian coast.

As regards road construction, the investment carried out by public-private associations (PPAs) to implement the projects associated with the Initiative for South American Regional Integration (IIRSA) are worth mentioning. Private investment in the case of IIRSA North, which will be executed in the following 4 years, amounts to US\$ 220 million.

Public investment grew 19.7 percent. The investments made by ESSALUD and public enterprises; regional governments; the Ministry of Housing, Construction, and Sanitation; the Ministry of Transport and Communications, the Ministry of Education, and the electricity sector should be highlighted. The main projects carried out in 2007 included the Reposo Saramiriza Road Axis N° 4; the Proyectos de Emergencia Social Productiva – PESP; the Ingenio-Chachapoyas highway; and the rehabilitation, improvement, and construction of the Piura-Guayaquil Road Axis N° 01, among other projects.

Public consumption increased 4.8 percent due to the higher purchases of goods and services by regional governments and ESSALUD, as well as to higher remunerations in local governments.

1.3 Real exports and imports

Exports increased 5.4 percent in real terms in 2007, after having grown 1.2 percent in 2006. This increase was associated with tariff preferences for our products in markets such as the United States and to the higher demand for our non-traditional export products in Latin America and the European Union. These factors were reflected in the growth of traditional exports, mainly mining products (due to the higher volumes of exports of copper, zinc, and lead) and fisheries (fish oil), as well as in the growth of non-traditional exports, particularly chemicals (essence oils and toilette products), agricultural products (fruit and legumes), and metal mechanic products.

In line with the growth of private consumption and private investment, **imports** grew 18.8 percent in real terms in the year. This was reflected in the higher growth of imports of consumer goods, both durable and non-durable; of imports of inputs for both industry and agriculture; and of imports of capital goods, which increased 42.0 percent in nominal terms.

1.4 Saving and investment

Investment increased from 19.8 to 23.0 percent of GDP in 2007. This increase is mainly explained by the growth of investment of the private sector, which increased from an

equivalent of 17.0 percent of GDP in 2006 to an equivalent of 19.9 percent of GDP in 2007 as a result of the economy's sustained growth, business' optimistic expectations, and the expansion of credit, among other factors.

This higher investment was coupled by an increase in domestic saving, due both to higher private and public saving. Domestic saving showed a rate of 24.4 percent of GDP –which represented an increase of 1.6 percentage points compared to 2006, of which higher public saving accounted for 1.0 percentage point and private saving accounted for 0.6 percentage points of this increase. In both cases, this reflected the impact of the increase seen in the national disposable income (10.0 percent) –higher than the 9.0 percent increase observed in GDP–, which was favored by higher terms of trade.

Domestic saving was higher than investment for the third consecutive year, as reflected in the 1.4 percent surplus recorded in the current account.

TABLE 3
SAVINGS AND INVESTMENT
(Percentage of GDP)

	2005	2006	2007
I. Investment (=II+III)	17.9	19.8	23.0
Public investment	2.9	2.8	3.1
Private investment	15.1	17.0	19.9
II. Domestic savings	19.3	22.8	24.4
Public sector	2.6	4.9	5.9
Private sector	16.7	17.9	18.5
III. External savings^{1/}	-1.4	-3.0	-1.4
Memo:			
Gross fixed investment	18.3	19.1	21.5

1/ A negative sign means that the domestic savings were higher than domestic investment, which contributes to reduce the country's net foreign debt.

Source: BCRP.

2. Production sectors

The growth of **gross domestic product** in 2007 was generalized in all the economic sectors. Non-primary activities –those with a higher component of added value and generation of employment– grew 10.8 percent, while primary activities –those oriented to the generation and/or extraction and processing of raw materials– grew at a lower pace (2.3 percent).

Primary sectors

Activity in the primary sectors grew 2.3 percent, although growth in the agriculture and livestock sector (3.1 percent), fishing sector (6.9 percent), and mining sector (2.1 percent) contrasted with the slight fall observed in the industry based on raw materials (-0.5 percent).

TABLE 4
GROSS DOMESTIC PRODUCT
 (Real percentage change)

	2005	2006	2007
Agriculture and livestock	4.8	7.4	3.1
Agriculture	4.0	8.3	2.1
Livestock	6.6	7.6	4.7
Fishing	3.2	2.4	6.9
Mining and fuel	8.4	1.4	2.1
Metallic mining	7.3	1.1	1.7
Fuel	23.4	5.7	6.5
Manufacturing	7.2	7.4	10.6
Manufacture based on raw materials	3.9	4.1	-0.5
Non-primary manufacture	8.2	8.3	12.9
Electricity and water	5.6	6.9	8.4
Construction	8.4	14.8	16.5
Commerce	6.3	11.1	10.5
Other services	6.4	7.0	9.3
GLOBAL GDP	6.7	7.6	9.0
GVA Primary sectors	5.8	4.5	2.3
GVA Non-primary sectors	6.8	8.5	10.8

Source: INEI and BCRP.

Agriculture and livestock sector

The **agriculture and livestock sector** grew 3.1 percent. The agriculture subsector showed a moderate growth of 2.1 percent due to favorable weather conditions in most parts of the country, except in the jungle areas where anomalous rainfall affected the production of coffee (excluding this product, the sector would have grown 4.2 percent). Activity in the agriculture sector was characterized by high volumes of harvested sugar cane and rice, as well as by historical production levels of potato (3,388 thousand MT), asparagus (283.5 thousand MT), and hard maize (1,117 thousand MT). Activity in the livestock subsector contributed to growth with 1.9 percentage points, favored by a positive evolution of poultry production (meat and eggs) and livestock production (meat and milk).

Crops in the coast showed good yields due to favorable weather conditions, while the yields of potato, wheat, and coffee in the mountain and jungle areas declined slightly due to cold temperatures, frost, and irregular rains. At the national level, the yields of hard yellow maize (4 MT/hectare), rice (7.2 MT/hectare), and sugar cane (122 MT/hectare) were 8, 5, and 11 percent higher than in 2006.

Sugar cane production increased 13.8 percent due to higher investment, as reflected in the 11 percent increase seen in in-field yields and the 3 percent increase seen in harvested areas.



The production of **potato** grew 4.3 percent, favored by cold temperatures in the coast that contributed to increase production in La Libertad and Ica, as well as in other departments such as Arequipa, Apurimac, Huanuco, Cajamarca, and Amazonas. The departments that were most affected by frost were Junin, Pasco, Huancavelica, and Ayacucho.

Rice production showed a 3.9 percent increase, basically in Lambayeque, Piura, and La Libertad, with a production level of 2,456 thousand MT –the second highest rice production level after the one recorded in 2005 (2,468 thousand MT). The lower yield of rice in San Martín due to the deficit of rainfall was more than compensated by increased production in the northern departments given the implementation of water storage reservoirs in these areas.

The production of **asparagus** grew 9.0 percent, encouraged by a 19.7 percent increase in farm prices during the year. This higher production was reflected in the higher volume of exports of canned, frozen, and fresh asparagus (24.8 percent, 28.9 percent, and 4.1 percent respectively).

TABLE 5
AGRICULTURE AND LIVESTOCK PRODUCTION BY MAIN PRODUCTS
(Percentage changes)

	2005	2006	2007
AGRICULTURE	4.0	8.3	2.1
Cotton	10.5	2.9	0.0
Rice	33.6	-4.3	3.9
Coffee	-22.1	56.1	-15.6
Sugar cane	-9.2	14.9	13.8
Dry bean	20.5	15.0	-0.8
Asparagus	9.7	26.2	9.0
Yellow maize	1.7	2.1	9.5
Amylaceous maize	10.9	3.2	-1.6
Potato	9.4	-1.3	4.3
Banana	2.0	4.8	3.4
Wheat	4.6	7.1	-4.7
Yucca	3.0	13.5	2.0
Mango	-13.8	36.1	-8.7
Garlic	11.7	33.8	10.2
Onion	-4.3	16.9	9.3
LIVESTOCK	6.6	7.6	4.7
Poultry	9.6	9.3	7.2
Eggs	3.9	11.0	5.4
Milk	4.7	7.5	6.2
Pork	5.0	5.6	5.6
Beef	4.6	6.2	0.4
TOTAL	4.8	7.4	3.1

Source: Ministry of Agriculture.

The production of **hard yellow maize** was 9.5 percent higher than in 2006 given that farm prices increased by 24.8 percent due to higher demand in the United States for the production of ethanol. The departments that contributed most to this production were La Libertad, Lima, and Ica.

Although the farm prices of some crops (i.e. potato and yucca) declined in 2007, most of them increased (especially in the cases of rice, amylaceous maize, onion, tomato, sweet potato, asparagus, hard yellow maize, cotton, coffee and wheat). Higher agricultural costs, such as fertilizers and labor, were offset by these higher prices.

TABLE 6
EVOLUTION OF FARM PRICES, 2005-2007
(Nuevos soles per kg)

Products	Price			% Chg.	
	2005	2006	2007	2006	2007
Domestic market					
Rice	0.65	0.58	0.81	-11.4	40.2
Amylaceous maize	1.04	0.95	1.16	8.3	21.8
Potato	0.37	0.50	0.44	36.1	-11.8
Yucca	0.28	0.33	0.30	107.9	-9.1
Onion	2.11	2.08	2.33	-1.4	11.8
Tomato	0.67	0.67	0.72	0.0	7.5
Sweet potato	0.28	0.36	0.46	28.6	27.8
Orange	0.41	0.42	0.40	2.4	-4.0
Papaya	0.38	0.34	0.28	10.5	-18.1
For industry and agro-exports					
Asparagus	2.89	2.59	3.11	-10.4	20.0
Hard yellow maize	0.49	0.53	0.66	8.3	24.8
Cotton	2.11	2.08	2.33	-1.4	11.8
Coffee	4.64	4.13	4.70	-11.0	13.8
Wheat	0.71	0.73	0.82	2.8	12.3

Source: Ministry of Agriculture.

Driven by increased domestic consumption, **livestock production** was led by a higher production of chicken meat (7.2 percent) and eggs (5.4 percent), dairy cattle (6.2 percent), and pigs (5.6 percent).

Fishing Sector

Activity in the **fishing sector** grew for the fourth consecutive year, with this year's result (6.9 percent) reflecting the higher catch of fish that was sold as frozen fish, fresh fish, or fish meal.

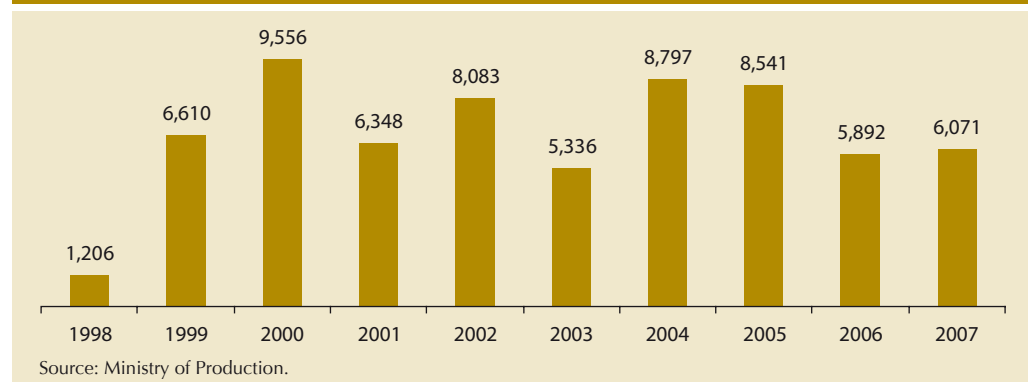
TABLE 7
FISH PRODUCTION
(Percentage change)

	2005	2006	2007
HUMAN CONSUMPTION	4.7	26.1	8.2
Canned fish	50.0	57.1	-19.9
Fresh fish	-7.3	10.3	9.1
Frozen fish	12.8	40.0	11.2
Dry-salted fish	5.7	-19.0	24.9
INDUSTRIAL CONSUMPTION	-3.1	-31.0	3.0
Anchovy	-2.9	-31.0	3.0
Other species	-99.2	3,208.0	-97.0
TOTAL	3.2	2.4	6.9

Source: Ministry of Production.

Increased fish catch for **human consumption** (8.2 percent) was due to larger volumes of yellow mackerel –used to elaborate frozen products– mainly during the first three months of the year, when this species is more abundant. In terms of fresh fish, it is worth pointing out the larger volumes of species, such as striped mullet, sand grunt, and palm ruff, which compensated the lower catch of yellow mackerel and Pacific chub mackerel that negatively affected the production of canned products.

GRAPH 5
ANCHOVY EXTRACTION
(Thousand metric tons)



With a total catch of 6.1 million tons (179 thousand tons more than in 2006), 2007 was a positive year for the extraction of anchovy. Sea temperatures declined due to La Niña phenomenon, which favored the presence and development of this species. In this context, the Ministry of Production increased the fishing quota in the northern and central coast areas (between Paita and Pisco) for the last fishing period by 300 thousand tons.

Mining and hydrocarbon sector

The **mining and hydrocarbon sector** grew 2.1 percent in 2007 due to the higher production of the metal mining industry (1.7 percent) and the hydrocarbon subsector (6.5 percent). The growth of **metal mining** was mainly led by a higher production of copper and zinc that contributed with 6.8 percentage points to the expansion of this sector. On the other hand, a lower production of gold due to Yanacocha's lower extraction accounted for a reduction of 5.6 percentage points in the sector's final result.

TABLE 8
MINING AND FUEL BY MAIN PRODUCTS
(Real percentage changes)

	2005	2006	2007
METALLIC MINING	7.0	0.6	1.7
Copper	-2.8	3.6	16.4
Tin	1.3	-8.7	1.4
Iron	7.5	4.8	6.7
Gold	20.0	-2.3	-16.1
Silver	4.4	8.3	0.7
Lead	4.3	-1.9	5.0
Zinc	-0.6	0.0	20.0
FUELS	23.4	5.7	6.5
Natural gas	76.5	17.0	50.7
Crude oil	17.9	3.9	-1.5
TOTAL	8.1	1.0	2.1

Source: Ministry of Energy and Mining.

The total production of **copper** in 2007 amounted to over one million fine metric tons (1'018,163 FMT), which represented a 16.4 percent increase explained by the onset of operations at Cerro Verde in Arequipa. The higher production of Xstrata Tintaya (5.9 percent) and Compañía Minera Milpo (3.2 percent), the latter of which initiated operations at Cerro Lindo in mid-2007, also contributed to this result. In contrast, Antamina's production declined due to operational problems in the company at the end of the year. With these results, Peru became the world's second producer of copper in 2007.

As regards the higher production of **silver** (0.7 percent) and lead (5.0 percent), the contribution of Volcan should be pointed out as this company has increased its production capacity significantly since 2006, accelerating the pace of its investments to strengthen its operations and improve mechanization in its mines.

The higher production of **zinc** (20.0 percent) was mainly due to Antamina, which contributed with 12.0 percentage points to the production of this metal. Other companies contributing to this higher production were Volcan Compañía Minera and Sociedad Minera El Brocal, with 3.6 and 1.8 percent respectively. Volcan's improved performance was associated with the expansion

of operations, as well as with improvements in the metal contents obtained. With these results, Peru took the place of Australia as the world's second producer of zinc, after China.

The production of **gold**, which amounted to 5.5 million troy ounces, declined by 16.1 percent due to Yanacocha's lower production. Although the latter fell 40.1 percent during the year, a slight but sustained recovery was observed as from September. In contrast with this, the gold production of Compañía de Minas Buenaventura increased by 44.2 percent due to the production of its Poracota unit in Arequipa, contributing with 1.7 percentage points to the production of gold.

TABLE 9
INVESTMENTS EXECUTED BY MINING COMPANIES^{1/}
(Millions of US\$)

Companies	Metals	2005	2006	2007
Minera Yanacocha S.R.L. ^{2/}	Gold	238.0	277.0	290.0
Minera Barrick Misquichilca S.A. ^{3/}	Gold	172.0	63.0	53.2
Southern Peru Copper Corporation Sucursal del Perú ^{2/}	Copper	253.0	322.0	275.8
Volcan Compañía Minera S.A.A. ^{4/}	Polimetallic	49.8	43.0	112.0
Compañía Minera Antamina S.A. ^{2/}	Polimetallic	52.0	47.3	40.0
Empresa Minera Los Quenuales S.A. ^{5/}	Polimetallic	37.3	57.0	69.0
Compañía de Minas Buenaventura S.A.A.	Gold and silver	45.0	70.0	65.0
Compañía Minera Atacocha S.A. ^{2/}	Polimetallic	27.3	31.3	68.0
Sociedad Minera Cerro Verde S.A.	Copper	237.0	479.0	100.0
Shougang Hierro Perú S.A.A.	Iron	40.0	42.0	50.6
Minsur S.A.	Tin	8.0	12.0	6.0
Compañía Minera Condestable S.A.A. ^{2/}	Copper	3.6	12.7	7.6
Sociedad Minera El Brocal S.A. ^{2/}	Polimetallic	7.0	21.5	17.0
Sociedad Minera Corona S.A. / Gold Fields	Polimetallic	0.6	0.5	320.0
Compañía Minera Santa Luisa S.A.	Polimetallic	7.6	3.8	15.0
Others ^{6/}		11.6	22.0	43.9
TOTAL		1,189.7	1,504.0	1,533.1

1/ Based on the financial statements and information given by the companies.

2/ Information reported directly by companies.

3/ Includes investment in Pierina and the building of new mine Alto Chicama.

4/ Includes the investment in Empresa Administradora Chungar S.A.C., subsidiary company of Volcan Compañía Minera S.A.A.

5/ Includes Empresa Minera Iscaycruz and Empresa Minera Yauliyacu.

6/ Includes the investments of Raura, Huaron, Castrovirreyna, Pan American Silver, Poderosa, Milpo, Perubar and the Refinería de Zinc de Cajamarquilla.

Source: Companies.

The production of **hydrocarbons** grew 6.5 percent due to the higher production of natural gas (50.7 percent), associated mainly with the high level of sales in Camisea's lot 88 as a result of the demand of thermoelectric power stations. On the other hand, the production of hydrocarbons declined 1.5 percent due to Pluspetrol's low production levels in March and August as a result of maintenance operations and the impact of the earthquake of August 15 respectively.



TABLE 10
FUEL PRODUCTION

	2005	2006	2007
NATURAL GAS (Millions of cubic feet per day)	146.2	171.8	258.5
Aguaytía	41.7	37.9	38.4
Camisea	77.7	103.0	189.1
Petrotech	9.6	14.1	14.1
Petrobras	10.0	10.1	10.1
Others	7.1	6.7	6.9
CRUDE OIL (Thousands of barrels per day)	111.3	115.6	113.9
Pluspetrol ^{1/}	45.0	45.0	43.7
Petrobras	12.6	12.7	13.3
Petrotech	10.7	12.5	11.9
Camisea	32.1	34.7	33.7
Others	10.9	10.7	11.1

1/ Pluspetrol operates blocks 1-AB and 8, both in the northern jungle.
Source: Ministry of Energy and Mining.

Primary manufacturing

Production in the **resource-based manufacturing sector** fell 0.5 percent due to lower refining of non-ferrous metals, although other activities in this sector showed a positive evolution. The refining of non-ferrous metals declined 11.5 percent due to technical problems in Southern Copper Corporation that affected the production of copper anodes.

The higher refining of petroleum –particularly gasoline and kerosene– by enterprises such as Refinería La Pampilla and Petroperú was associated with increased domestic demand. On the other hand, the higher production of sugar was associated with a greater availability of sugar cane. A total of 909 thousand tons of sugar were produced in 2007 (805 thousand tons in 2006).

TABLE 11
RESOURCE-BASED MANUFACTURING BY
MAIN INDUSTRIAL GROUPS
(Real percentage changes)

	2005	2006	2007
RESOURCE-BASED MANUFACTURING	3.9	4.1	-0.5
Sugar	-11.7	15.6	12.8
Meat products	7.2	7.8	5.6
Fishmeal and fish oil	-2.1	-24.5	4.1
Canned and frozen fish products	2.7	54.4	1.3
Non-ferrous metals refining	-2.2	2.5	-11.5
Petroleum refining	16.3	-1.7	4.2

Source: Ministry of Production and INEI.

The higher production of fish meal and fish oil reflected the greater availability of anchovy, associated with favorable hydrobiological conditions. A total of 1,387 thousand tons were processed in 2007, while this figure amounted to 1,342 thousand tons in 2006.

Non-primary manufacturing

The sector of **non-primary manufacturing** grew 12.9 percent, the highest rate observed since 1994. This result is explained by increased private consumption, as reflected in the increase seen in the groups associated with massive consumption products, and by increased demand in the groups associated with construction, inputs for mining, and agro-exports.

TABLE 12
NON-PRIMARY MANUFACTURING BY MAIN INDUSTRIAL GROUPS
(Percentage change)

	2005	2006	2007
NON-PRIMARY MANUFACTURING	8.2	8.3	12.9
Food, beverages and tobacco	7.8	9.3	11.7
Textiles, leather and footwear	2.1	-2.0	6.7
Wood and furniture	-0.6	4.3	12.7
Paper and printing industry	16.7	7.9	11.5
Chemical, rubber and plastics products	8.2	11.9	12.8
Non metallic minerals	12.8	13.0	16.0
Iron and steel industry	19.1	12.3	8.1
Metallic products, machinery and equipment	8.7	17.1	19.3
Miscellaneous manufactures	9.9	5.8	31.7

Source: Ministry of Production and INEI.

The groups contributing most heavily to growth included food and beverages (2.8 percentage points); chemicals, rubber, and plastics (2.2 percentage points); metal products, machinery and equipment (2.0 percentage points), and non-metal minerals (1.7 percentage points).

TABLE 13
NON-PRIMARY MANUFACTURING: PERCENTAGE CONTRIBUTION
TO GROWTH BY MARKET OF DESTINATION
(Percentage points)

	Domestic	Foreign	Total
2003	2.9	0.8	3.7
2004	4.7	2.9	7.6
2005	5.9	2.3	8.2
2006	7.3	1.0	8.3
2007	11.2	1.7	12.9
Food and beverages	2.5	0.3	2.8
Textiles, leather and footwear	0.9	0.3	1.2
Wood and furniture	0.4	0.2	0.5
Paper and printing industry	1.0	0.2	1.2
Chemical, rubber and plastics products	1.5	0.6	2.2
Non metallic minerals	1.7	0.0	1.7
Iron and steel industry	0.4	0.0	0.4
Metallic products, machinery and equipment	1.9	0.1	2.0
Miscellaneous manufactures	1.0	0.0	1.0

Source: BCRP.

It is worth highlighting that the higher production of non-primary manufacturing in 2007 was based on the expansion of production for the domestic market, which accounted for 87 percent of total sales, a rate similar to that of 2006 (88 percent) and higher than the ones observed in previous years (72 and 62 percent in 2005 and 2004 respectively).

As previously pointed out, the domestic market accounts for 11.2 points percentage of total growth in non-primary manufacturing. The higher production of massive consumption products (such as toilet and cleaning products, miscellaneous food products, manufacturing products), of inputs (mainly glass, basic chemical substances, and paper and cardboard), and, of machinery, equipment and metal-mechanic products (such as transport equipment, electrical machinery and metal products) was noteworthy in the domestic market.

TABLE 14
GROWTH OF NON-PRIMARY MANUFACTURING BY DOMESTIC DEMAND
(Percentage change)

Consumer product	12.4	Inputs	10.9	Metallic products, machinery and equipment	15.9
Diverse manufactures ^{1/}	31.7	Glass	26.3	Transport equipment	40.7
Toilet and cleaning products	20.1	Basic chemical substances	19.1	Electrical machinery	24.9
Miscellaneous food products	15.3	Paper and cardboard	16.2	Metal products	15.8
Other items, paper and cardboard	15.1	Plastics	10.9	Iron and steel industry	8.1
Pharmaceutical	12.8	Explosives, natural and chemical essences	8.3	Machinery and equipment	1.6
Wood furniture	12.7	Paper and printing industry	8.0		
Beer and malt	10.6	Paper and paperboard containers	7.8		
Other garments	8.9	Rubber	5.8		
Dairy	8.2				
Oils and grease	3.2				
Carbonated beverages	2.7				

^{1/} Includes jewelry, bijouterie, matches and office supplies.
Source: Ministry of Production.

The branches associated with construction also contributed to the dynamic performance of non primary manufacturing with 2.9 percentage points. The production of conventional enamels, latex paints and fiber-cement boards was noteworthy.

Per capita production of the main massive consumption goods over the last five years increased significantly relative to 2002 due to families' higher incomes, particularly in the provinces, as reflected in the expansion of malls and supermarkets in these areas.

The higher production of juices and diverse beverages, paper towel, bottled water, shampoo, yogurt, cleaning products, and toilet paper should be pointed out.



TABLE 15
INDUSTRIES RELATED WITH THE CONSTRUCTION SECTOR

	2007	
	Percentage change	Percentage contribution
Metal structures	27.7	0.7
Non refractory ceramics for structural purposes	18.7	0.5
Basic iron and steel industry	8.5	0.3
Cement	6.7	0.3
Concrete, cement, gypsum articles	26.9	0.3
Paints, veneers and varnishes	22.4	0.3
Isolated wires and cables	31.5	0.2
Non refractory ceramics for non-structural purposes	28.6	0.2
Electricity distribution and control devices	18.8	0.1
Abrasive products	13.1	0.0
Wood plates, miscellaneous boards and panels	-0.7	0.0
Subtotal	16.1	2.9
Total	12.9	

1/ Percentage contribution to growth associated with non-primary manufacturing.
Source: Ministry of Production.

TABLE 16
PER CAPITA PRODUCTION OF SELECTED CONSUMER GOODS
(Percentage change 2002 - 2007)

	Measurement unit	2002	2007	Percentage change 2007/2002
Juices and refreshments	liters	1.2	7.8	537.0
Paper towel	kg	44.3	129.1	191.5
Bottled water	liters	2.2	6.1	177.6
Yogurt	kg	1.1	2.6	137.7
Shampoo	kg	0.1	0.3	132.3
Cleaning products	kg	0.3	0.6	94.5
Toilet paper	kg	0.9	1.7	85.7
Chocolates	kg	0.3	0.5	66.7
Beer	liters	23.5	37.8	60.8
Diapers	units	9.6	14.1	48.1
Evaporated milk	kg	9.4	13.8	47.1
Cheese	kg	0.2	0.3	39.0
Detergents	kg	3.2	4.5	38.4
Cosmetic soaps	kg	0.1	0.2	36.2
Hot dog	kg	0.5	0.6	33.5
Ham	kg	0.1	0.2	31.8
Poultry	kg	21.8	28.3	29.7
Candies	kg	0.4	0.5	26.7
Margarine	kg	0.5	0.6	17.6
Pasta	kg	9.3	10.6	14.0
Oils	kg	6.6	7.3	11.6
Rice	kg	56.0	61.5	9.7

Source: Ministry of Production.

Production of **goods and beverages** increased by 11.7 percent, due to the dynamism of the production of fruit juices, beer, yogurt, milk, and chocolate products.

The higher production of **dairy** products was due to the expansion of the main producer companies as a result of increased demand and the diversification of product presentations.

The group of **textiles, leather, and footwear** grew 6.7 percent, mainly due to the higher production of garments which increased 8.9 percent as a result of increased domestic demand. The branch of knitted garments grew 6.0 percent due to higher external demand, while the branch of yarns and knitted fabrics grew 2.4 percent. Moreover, the volume of exported knitted garments increased 4.0 percent during the year.

The **paper and printing** industry showed an increase of 11.5 percent due to the higher production of other paper and cardboard items, an evolution explained by the investments that the main firms made to meet higher demand and increase their installed capacity. The higher production seen in terms of publishing and printing was associated with increased exports of catalogs and pamphlets, as well as with increased demand for advertising fliers by stores, supermarkets, and department stores.

Production in the group of **chemical products, rubber, and plastic** grew 12.8 percent as a result of the higher production of toilet and cleaning products due to the introduction of new products and presentations in a context of high growth of private consumption. The higher production of industrial gases for the iron and steel industry, of sulfuric acid due to Southern's increased installed capacity, and the higher exports of chemical and natural colorants should be pointed out in terms of the evolution seen in the group of basic chemicals.

The industry of **plastic** products grew 10.9 percent, mainly due to the higher production of PVC pipes –associated with increased demand in the construction sector– and to a lesser extent to the higher production of containers and flexible wraps, due to increased demand for massive consumption goods. Moreover, the production of paints and barnishes also grew due to the higher demand of construction.

The group of **non-metal** minerals showed a 16.0 percent increase due to the growth of construction materials (majolica tiles and concrete items); cement, due to increased demand in construction; and glass, due to the higher demand for beer containers.

Production in the **steel and iron** industry increased 8.1 percent due to the expansion of installed capacity and the demand for construction iron.

Moreover, production in the group of **metal products, machinery, and equipment** grew 19.3 percent due to the higher production of metal products as a result of increased demand for metal structures in the sectors of construction, mining, and electricity, as well as to higher exports of welding electrodes. Furthermore, the higher production of electric machinery is explained by increased demand for electric wires, cables and generators.

In 2007, the branches producing massive consumption goods grew 12.4 percent, while the branches producing inputs and capital goods grew 10.9 percent and 15.9 percent, respectively.

Construction

Maintaining the favorable evolution observed in the last 6 years, the **construction sector** grew 16.5 percent in 2007. Diversified growth increased the demand for the construction of homes, offices, commercial and industrial facilities, as well as the implementation of construction projects in the sectors of mining and energy, and the implementation of road construction, maintenance and rehabilitation works.

The construction of residential buildings grew due to increased demand for housing, driven by families' higher purchasing capacity and by better conditions for mortgage loans (due to lower interest rates and longer terms).

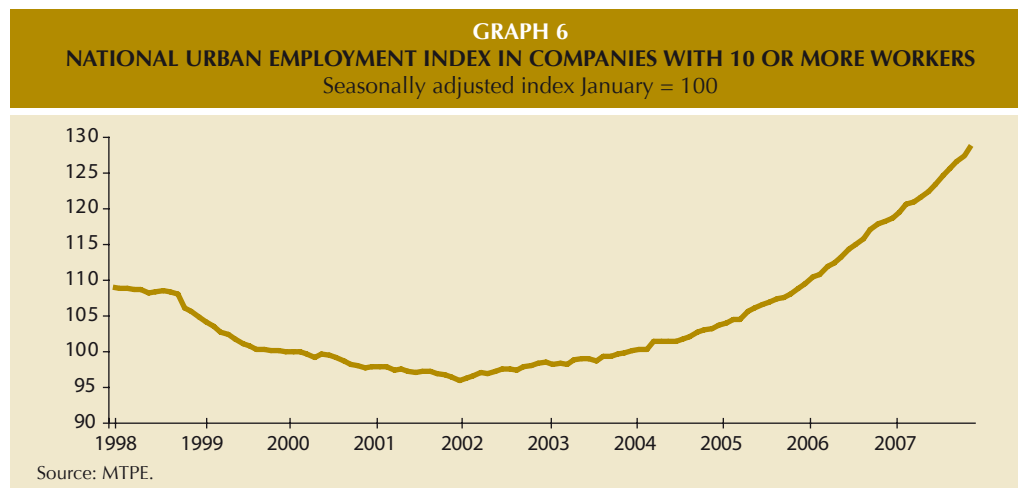
In 2007, the Ministry of Transport and Communications invested US\$ 800 million in road construction. The main projects carried out included the construction of the Izcuchaca - Huancavelica, Ollantaytambo - Alfamayo, Ingenio - Chachapoyas, and Tarapoto - Juanjui highways; as well as the construction of the bridge President Guillermo Billinghurst which will be the longest bridge in the country. The bridges Tambillo Grande and Rubio and their correspondign access roads were also built.

The boom of construction was influenced by investment projects in department stores, supermarkets, and by the sale of hardware and home maintenance items. The main projects included Grupo Falabella's US\$ 7 million investment in the construction of a Tottus supermarket in Chiclayo, the opening of Sodimac stores in Lima, Chiclayo, and Trujillo (US\$ 21 million) and other stores of this group in Ica and Cajamarca. Moreover, the Wong Group (Cencosud) opened 15 new stores with an investment of US\$ 40 million; Ripley invested US\$ 95 million in the construction of stores in Trujillo, Santa Anita and El Callao; Supermercados Peruanos invested US\$ 40 million in Trujillo, Chiclayo, Arequipa, Huancayo, and Lima; El Super invested US\$ 5 million in the construction of a supermarket in Arequipa; and US\$ 6 million were invested in the expansion of the commercial center Mega Plaza.



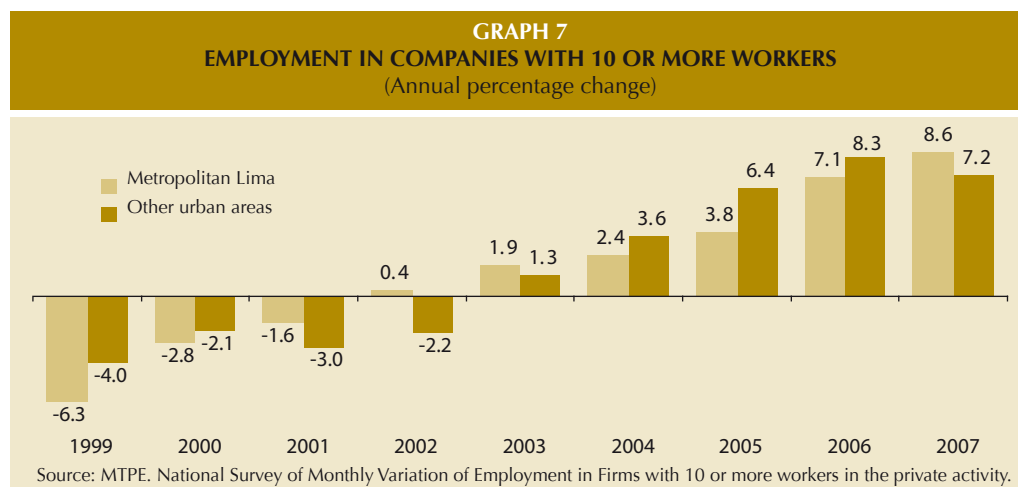
3. Employment

Employment in urban areas in Peru –considering formal firms with 10 and more workers– continued to show a favorable evolution and grew 8.3 percent in 2007, consolidating the positive trend observed since May 2002.



In contrast with the three last years, when employment was driven mainly by other cities, employment in 2007 grew especially in Metropolitan Lima (8.6 percent), while employment in the rest of urban areas grew at a rate of 7.2 percent.

By production sectors, employment was mainly driven by the manufacturing industry (9.3 percent), followed by commerce (8.8 percent) and services (8.4 percent).



In Metropolitan Lima, the highest variations were observed in the manufacturing industry, mainly due to growth of employment in the branches of textiles and garments, the food industry (dairy products, bread, softdrinks), jewelry, pharmaceutical products, and toilet items; followed by the service sector as a result of increased demand for workers in schools, restaurants, financial entities (AFPs, Edpymes, and insurance companies), and entrepreneurial advisory services.

At the regional level, employment grew particularly in Sullana, Trujillo, and Arequipa, mainly in agroindustrial activities oriented to exports. The growth of employment in Sullana was associated with the processing of mango, lemon, and banana, while in Trujillo and Arequipa it was mainly associated with the processing of green asparagus and the manufacturing of alpaca knitted garments respectively.

TABLE 17
URBAN EMPLOYMENT IN COMPANIES WITH 10 OR MORE WORKERS
(Growth rates)

	2005	2006	2007
URBAN PERU	4.5	7.3	8.3
Metropolitan Lima	3.8	7.1	8.6
Other urban areas	6.4	8.3	7.2
Sullana	23.3	14.1	13.2
Trujillo	5.6	17.0	12.7
Arequipa	4.2	7.5	11.2
Piura	8.5	8.3	11.1
Talara	18.7	10.7	10.1
Pucallpa	2.9	2.1	9.3
Cuzco	6.4	5.7	9.0
Tarapoto	7.3	8.7	7.9
Tacna	2.4	2.0	7.2
Pisco	6.1	6.6	6.7
Puno	5.5	3.1	6.2
Chincha	15.5	14.2	6.0
Ica	16.5	10.4	5.6
Huancayo	3.8	6.1	5.3
Chiclayo	3.5	7.5	4.2
Paíta	-4.6	9.4	3.7
Iquitos	9.1	3.2	1.9
Cajamarca	3.6	4.1	1.8
Huaraz	-7.4	3.0	1.2
Chimbote	0.4	0.8	-1.7

Source: Ministry of Labor.

II. Inflation

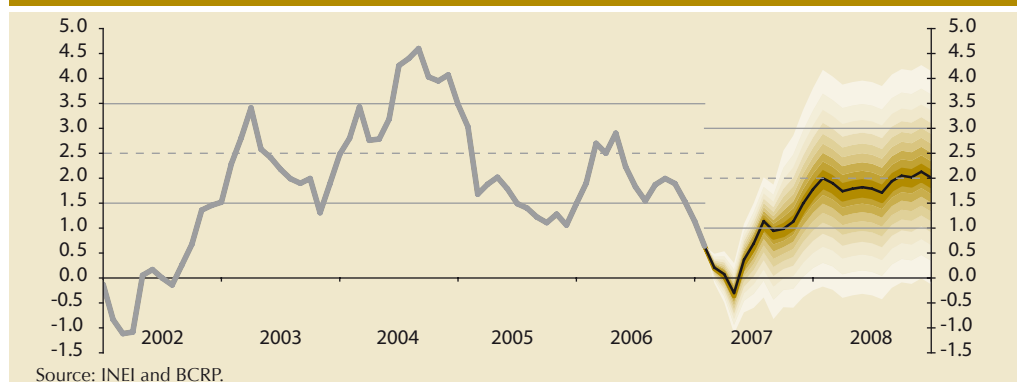
Inflation in 2007 (3.9 percent) was higher than in 2006 (1.1 percent). This higher rate of inflation was due to the effect of the prices of imported inputs (wheat, soybean oil, and petroleum) on the prices of foodstuffs, as reflected in the evolution of imported inflation which recorded 10.5 percent in 2007 (versus 0.3 percent in 2006). Core inflation –trend indicator– increased from 1.4 to 3.1 percent between 2006 and 2007. Excluding foodstuffs and beverages, inflation was 2.0 percent in 2007.

The rise in the price of food is an international phenomenon associated with both supply factors –such as lower cultivated areas and droughts in the main producing countries– and demand factors –such as increased consumption in Asian countries–.

Moreover, the costs of inputs used in the production of fuels, plastics, fertilizers, and foodstuffs have also increased, translating mainly into higher prices in a context of high growth of domestic demand.

The evolution of inflation in 2007 was mainly influenced by the higher international prices of fuels and food, which reached magnitudes unseen since the seventies that have led inflation to accelerate worldwide. In this context, the higher prices of imported goods have had a direct impact on the food component of the consumer basket and an indirect impact on firms' production costs and inputs. The impact of these rises was evidenced in the second half of the year when inflation began to accelerate and especially since October when the variation accumulated in the last 12 months increased above the 3 percent tolerance range, reaching a rate of 3.93 percent in December. The latter was associated with the spread of the rise in the international prices of food inputs –i.e. wheat, maize, and soybean– into the prices of foodstuffs that have an important effect on the consumer basket (bread, noodles, and oils).

GRAPH 8
INFLATION FORECAST
(Last 12 months percentage change)



It is worth pointing out that the probability that inflation could converge from the lower band of the target range (1 percent) to around 4 percent in 2007 was already mentioned in our Inflation Report of January.

The items with the highest positive weighted contribution to inflation included bread, meals outside the home, and fuels, while the items with the lowest negative weighted contribution to inflation included sugar, fresh legumes, and telephone rates.

TABLE 18
WEIGHTED CONTRIBUTION TO INFLATION 2007
(Percentage points)

Items	Weight	% Chg.	Positive contribution	Items	Weight	% Chg.	Negative contribution
Bread	3.7	19.2	0.84	Sugar	1.4	-9.2	-0.14
Meals outside the home	10.2	4.1	0.41	Fresh vegetables	0.4	-13.1	-0.07
Fuel	3.9	6.4	0.36	Telephone	1.3	-7.2	-0.07
Evaporated milk	2.2	11.3	0.24	Potatoes	1.5	-4.0	-0.07
Eggs	0.7	33.1	0.23	Onion	0.4	-14.4	-0.07
TOTAL			2.08				-0.42

Source: INEI and BCRP.

Imported inflation

The 10.5 percent rate of imported inflation was mainly explained by the higher prices of food (18.8 percent) and fuels (6.4 percent).

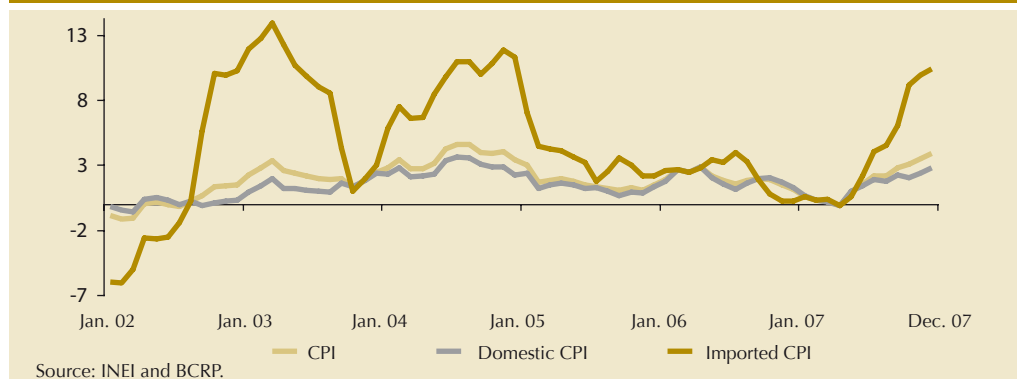
TABLE 19
DOMESTIC AND IMPORTED INFLATION
(Accumulated percentage change)

	Weighted	2002	2003	2004	2005	2006	2007
I. IMPORTED CPI	12.1	10.3	3.0	11.3	2.2	0.3	10.5
Food	5.4	10.0	-0.1	10.9	-1.5	2.1	18.8
Bread	3.7	13.6	-1.1	12.9	-0.3	3.4	19.2
Pasta	1.0	-1.2	-1.0	8.4	-2.2	-1.4	12.6
Petroleum	0.8	7.1	5.9	4.1	-6.8	-1.0	24.4
Fuel	3.9	15.6	8.9	17.8	6.9	-1.5	6.4
Domestic appliances	1.0	3.4	-1.9	-2.8	-1.2	-1.3	-1.5
Other	1.8	3.4	1.4	3.2	2.3	0.6	0.5
II. DOMESTIC CPI	87.9	0.3	2.4	2.3	1.4	1.3	2.8
III. CPI	100.0	1.5	2.5	3.5	1.5	1.1	3.9
Exchange rate		2.3	-1.2	-5.5	4.4	-6.4	-7.0

Source: INEI and BCRP.



GRAPH 9
INFLATION, DOMESTIC AND IMPORTED INFLATION
 (Last 12 month percentage change)



Bread and pasta: The prices of these products increased 19.2 percent and 12.6 percent respectively, reflecting the higher price of wheat flour (the wholesale price increased 43 percent), which is the main input used to elaborate them. In turn, this rise was due to the higher international price of wheat, partially offset by the elimination of the tariff and overcharge on wheat in July.

Oil: The accumulated increase in the price of oil as of December was 24 percent. This product was affected by the higher international price of soybean oil (63 percent) –the main input used to elaborate vegetable oils–.

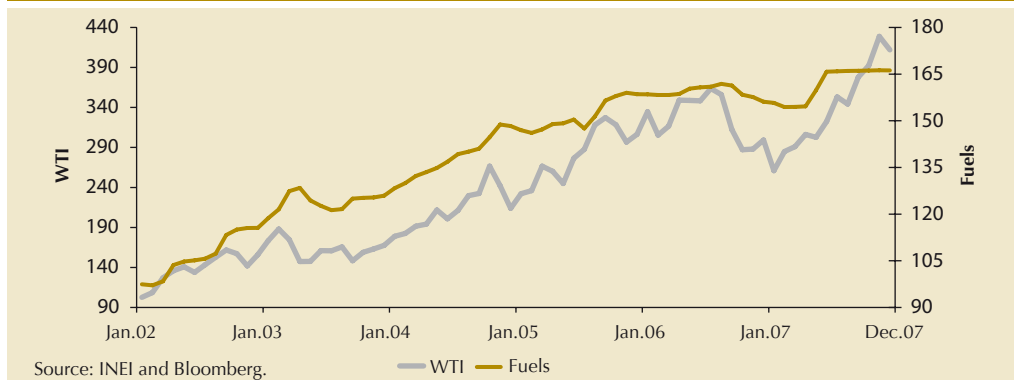
Fuels: The domestic price of fuels increased 6.4 percent on average in 2007. In the international market, the price of West Texas Intermediate oil (WTI oil) rose from US\$ 62 in December 2006 to US\$ 92 in December 2007. However, the impact of this rise on domestic prices was buffered through the Oil Price Stabilization Fund, which was increased by S/. 770 million in 2007.

TABLE 20
FUEL PRICES
 (Annual percentage change)

	2002	2003	2004	2005	2006	2007
FUELS	15.6	8.9	17.8	6.9	-1.5	6.4
Gasoline	15.7	9.7	17.7	9.2	-6.2	10.7
Gas	11.3	4.2	15.3	-10.9	0.3	1.3
Kerosene	20.4	13.0	20.3	21.0	2.2	5.8
WTI Price of oil (end of period)						
US Dollars	29.4	32.1	43.3	59.4	61.9	91.7
Nuevos soles	103.5	111.3	142.0	203.3	198.6	273.4

Source: INEI and Bloomberg.

GRAPH 10
PRICE OF WTI: OIL AND FUEL
 (Index December 2001 = 100)



Core inflation in 2007 (3.1 percent) was higher than in 2006 (1.4 percent) because the rise in the price of commodities also affected the price of core foodstuffs, such as milk, beef, meals outside the home, among other prices.

TABLE 21
INFLATION
 (Accumulated percentage change)

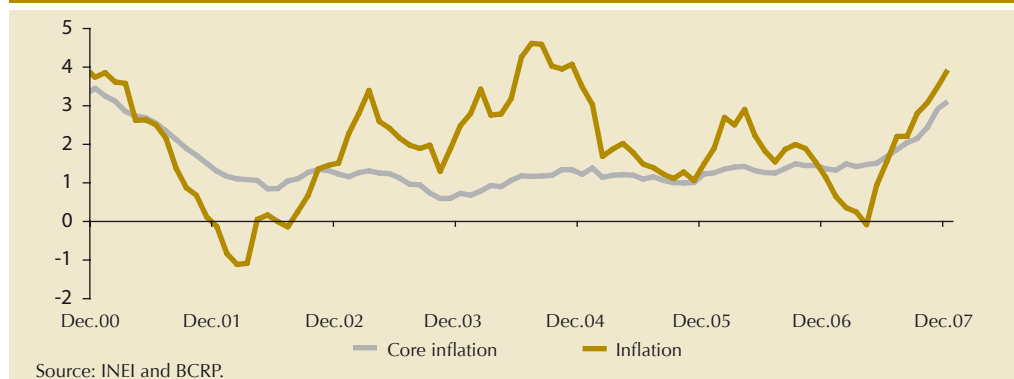
	Weighted	2002	2003	2004	2005	2006	2007	Annual average 2002-2007
I. Core	60.6	1.23	0.73	1.23	1.23	1.37	3.11	1.48
1. Food	10.7	0.02	0.14	3.24	0.98	0.98	6.24	1.91
2. Non-Food	49.9	1.49	0.85	0.80	1.28	1.45	2.44	1.39
a. Goods	23.3	1.39	0.08	-0.29	0.71	0.97	1.92	0.80
b. Services	26.6	1.57	1.53	1.75	1.77	1.85	2.88	1.89
II. Non-Core	39.4	1.96	5.16	6.75	1.87	0.83	5.07	3.58
1. Food	22.5	0.28	3.73	5.82	1.62	2.06	7.25	3.43
2. Non-Food	16.9	4.22	7.00	7.90	2.17	-0.67	2.37	3.79
a. Fuel	3.9	15.60	8.94	17.77	6.89	-1.50	6.45	8.84
b. Transport	8.4	0.11	10.99	3.49	1.29	1.12	0.82	2.90
c. Public services	4.6	1.96	-1.98	6.19	-1.72	-3.22	0.24	0.20
III. Total	100.0	1.52	2.48	3.48	1.49	1.14	3.93	2.33

Source: INEI and BCRP.

Non-core inflation accumulated 5.1 percent, particularly due to foodstuffs (7.2 percent) and fuels (6.4 percent).



GRAPH 11
INFLATION AND CORE INFLATION
 (Last 12-month percentage change)



Other items that contributed significantly to inflation

Items with a positive contribution:

Milk: The price of milk showed an accumulated variation of 11.3 percent as of December. According to milk producers, this rise was due to higher production costs as a result of the higher prices of the inputs used to feed cattle (wheat bran, maize, and cotton paste) and the higher prices of energy and fuels.

Eggs: The rise in the price of eggs (33 percent in 2007) would have been associated with increased demand, as well as with a lower placement of laying hens (-4 percent compared to 2006). In addition to this, some small enterprises would have been affected by the higher prices of feed inputs (maize and soybean), which would have implied an increase in the relative price of eggs.

Utility rates: The rates of public utilities increased 0.2 percent in 2007. The increase of electricity (1.9 percent) and water (3.2 percent) rates was partially offset by the reduction of telephone rates (-7.2 percent). Electricity rates fell 2.8 percent between April and May due to the annual update of block rates, which considered new generation projects. These rates increased 2.3 percent between June and July due to the approval of the rural electrification law, which considers a contribution of 2/1000 of 1 tax unit from residential users, and again 1.6 percent in August due to the quarterly adjustment that is made considering the higher prices of fuels.

Items with a negative contribution:

Sugar: The price of sugar showed an accumulated change of -9.2 percent as of December. According to available information, the production of sugar cane in 2007 increased

13.8 percent compared to the same period in 2006, mainly due to higher production in Lambayeque (22 percent) and La Libertad (15 percent) as a result of management improvements in the main enterprises.

Fresh legumes: The prices of legumes fell 13 percent on average. It is worth mentioning that the price of peas, which is the product with the highest weight in this group, declined 18 percent. Pea production increased 12.4 percent in 2007.

Potato: The price of potato decreased 4 percent during 2007 due to higher supply. According to the Ministry of Agriculture, the production of potato nationwide grew 4.3 percent in 2007.

Onion: The price of onion fell 14.4 percent due to higher production (9.3 percent). In Arequipa, Lima's main supplier of potato, production grew 6.3 percent given that cultivated areas increased due to better farm prices during the sowing period.

The drop of telephone rates reflected mainly the reduction of the monthly basic rate for classic residential lines and a series of rate plans resulting from negotiations between the state and Telefónica del Perú.

TABLE 22
PUBLIC UTILITY RATES
(Percentage change)

	2002	2003	2004	2005	2006	2007
Public utilities	2.0	-2.0	6.2	-1.7	-3.2	0.2
Electricity	7.9	-4.6	12.0	-2.5	-7.3	1.9
Telephone	-8.3	0.3	-2.0	-7.0	-6.2	-7.2
Water	2.3	0.9	3.0	5.2	8.5	3.2

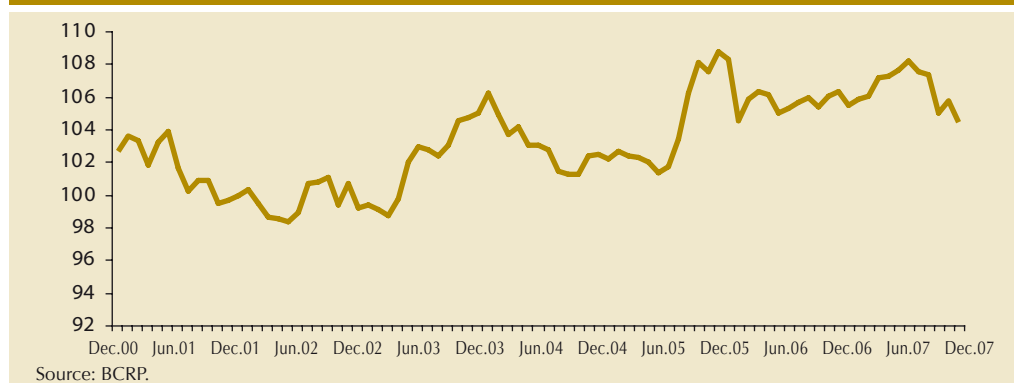
Source: INEI.

III. Exchange Rate

The real exchange rate appreciated 1.7 percent during 2007 mainly as a result of the weakening of the dollar against the currencies of our main trading partners. This appreciation was in part offset by a lower domestic inflation compared to inflation levels in the rest of the world. The Nuevo Sol appreciated 7.0 percent in nominal terms in a context marked by a series of reductions in the Federal Reserve's reference interest rate.

The Nuevo Sol strengthened in a context of better macroeconomic fundamentals in the Peruvian economy, a favorable evolution of both the current account and the financial account (which showed surpluses of 1.4 and 7.6 percent of GDP respectively), and portfolio movements towards the local currency (the dollarization ratio of liquidity in the banking system decreased from 51 to 46 percent). Among other factors, all of this was associated with the weakening of the dollar in the international financial system due to fears of a recession in the US economy and to the consecutive cuts implemented by the US Federal Reserve in its interest rate. Thus, the nominal exchange rate fell from S/. 3.21 per dollar in December 2006 to S/. 2.98 in December 2007.

GRAPH 12
MULTILATERAL REAL EXCHANGE RATE INDEX
(December 2001 = 100)



The BCRP intervenes in the exchange market in order to reduce excessive volatility in exchange. The Central Bank has been purchasing dollars to prevent the domestic currency from strengthening too abruptly in a context in which the composition of private sector portfolios is shifting toward a higher participation of assets in domestic currency and an inflow of external speculative capitals is being observed. These purchases of dollars allow increasing the BCRP's international reserves, thus strengthening the country's external position to face adverse situations in the event of a reversal of the current favorable international context. It is worth mentioning that a part of these purchases of dollars are aimed at meeting the public sector's demand for foreign currency to fulfill its obligations in said currency.

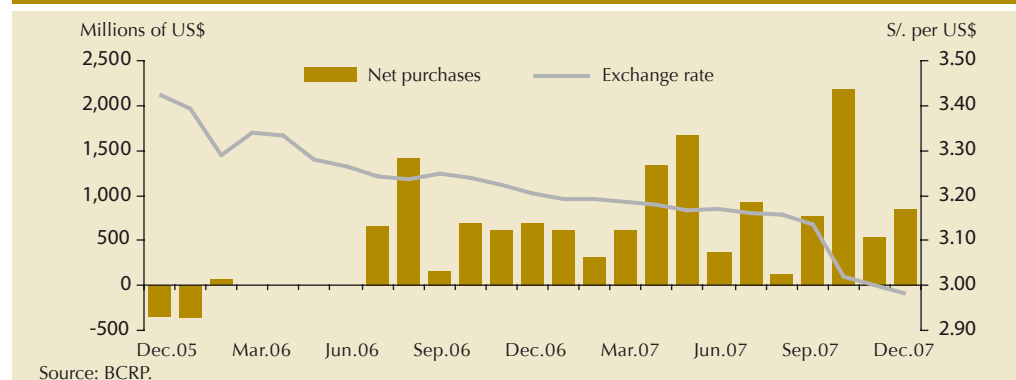
In this context of high volatility of exchange, the BCRP intervened in the exchange market purchasing foreign currency for a total of US\$ 10,306 million during 2007, and sold US\$ 3,275 million to the Public Treasury. Most of these operations were carried out in April (US\$ 1,330 million), May (US\$ 1,671 million), and October (US\$ 2,181 million) when higher appreciatory pressures were observed.

TABLE 23
BILATERAL EXCHANGE RATE S/. per M.U.
(Percentage change)

	Weighted ^{1/}	Nominal Chg. Dec. 07/ Dec. 06	Real Chg. Dec. 07/ Dec. 06
United States	29.23	-7.0	-7.0
Eurozone	12.31	2.4	1.2
Japan	3.98	-3.1	-6.5
Brazil	5.52	11.8	12.1
United Kingdom	1.31	-4.6	-6.4
Chile	6.66	-1.6	1.7
China	11.37	-1.3	2.2
Colombia	4.20	4.6	5.9
Mexico	2.93	-6.9	-6.9
Argentina	2.61	-10.5	-6.5
Corea	2.16	-7.7	-8.0
Taiwan	1.89	-6.7	-7.5
Venezuela	3.10	-7.0	9.6
Canada	4.77	7.0	5.8
Ecuador	4.61	-7.0	-8.1
Suiza	3.37	-1.4	-3.5
Basket	100.00	-1.7	-2.5

1/ Weighted according to the trade volume 2005.
Source: IMF, Reuters, Bloomberg and SBS.

GRAPH 13
BCRP NET PURCHASES OF DOLLARS AND EXCHANGE RATE



Country risk

After dropping to minimum levels in the first half of the year, the spreads on emerging countries' bonds increased due to fears of an international credit crisis.

Spreads showed a strong downward trend in the first half of the year. This favorable evolution of spreads was influenced by the improvement of economic fundamentals in most economies (increase in international reserves, reducing and readjusting of debt profile, among others), reflected in turn by the better ratings assigned by the main risk rating agencies to emerging countries.

Thus, during 2007, *Standard & Poor's* increased the risk rating of Chile, Mexico, Brazil, and Colombia. Likewise, *Moody's* improved Brazil's rating and *Fitch* improved the rating of Mexico and Brazil. However, after reaching minimum levels between end May and the first half of June, the downward evolution of spreads reversed, affected by the higher turbulence observed in international markets as a result of the subprime mortgage crisis in the United States. The EMBI+ and Credit default Swap spreads increased due to higher risk aversion.

TABLE 24
SPREADS OF EMERGING MARKETS^{1/}
(In bps)

	2003	2004	2005	2006	2007	Variation 2007- 2006
EMBI+	418	356	245	169	239	70
Latin America	521	420	283	186	268	82
Brazil	463	382	311	192	221	29
Colombia	431	332	238	161	195	34
Mexico	199	166	126	98	149	51
Argentina	5,632	4,703	504	216	410	194
Peru	312	220	206	118	178	60
CDS (Credit Default Swap) 5 years						
Brazil	404	305	225	100	103	4
Colombia	441	341	167	114	130	16
Mexico	122	80	63	41	69	29
Argentina	n.a.	n.a.	367	203	462	259
Peru	292	204	221	91	116	25

^{1/} Data at the end of period.
Source: Bloomberg and Reuters.



Wool Kilim-like tapestry
Chimu Culture (AD 1000-1470)

IV. External Sector

The dynamism of the world economy continued to determine positive results in our external accounts during 2007. Despite fears of a recession in the United States in the third quarter of the year, the growth of South East Asian and Latin American countries translated into both higher prices for our raw materials and larger volumes of exports, particularly non-traditional exports. Accumulating 6 years of consecutive growth, our terms of trade increased 3.6 percent and the volume of exports grew 3.3 percent this year, mainly due to the 8.0 percent increase observed in the volumes of non-traditional exports. With these results, the current account of the balance of payments showed a surplus of US\$ 1,505 million, equivalent to 1.4 percent of GDP. By components, this was the result of a trade surplus of US\$ 8,356 million and current transfers amounting to US\$ 2,495 million. This result was partially offset by the deficits observed in services and factor income.

Moreover, the Peruvian economy became an attractive market for external capitals, allowing a significant increase in international reserves which represented 25 percent of GDP at end 2007.

1. International context

In 2007, the world economy grew 4.9 percent, a similar rate to the one observed in 2006. The slowdown in the US economy, associated with lower activity in the real estate sector and by the developments seen in the subprime mortgage market, was compensated by the dynamism of emerging countries (particularly China and India, and the rest of countries in the region). The problems in the US subprime market negatively affected the international financial markets, deteriorating credit conditions and increasing investors' risk aversion.

In most economies, growth was coupled by inflationary pressures associated with the higher international prices of main food products (particularly wheat, soybean, and maize) and fuels, which had already increased significantly during 2006. Increased global demand (particularly from China), the substitution of oil by biofuels, and supply problems in certain products account for this trend.

2. Terms of trade

Continuing with the consecutive growth observed over the last six years, in 2007 our terms of trade grew 3.6 percent given that the increase in the average prices of exports (14 percent) was higher than the increase in the average prices of imports (10 percent). It is worth pointing out that although this increase in 2007 was lower than in recent years, the current level of this indicator is 60 percent higher than the one observed in 2001.

The higher prices of exports in the year reflected both increased global demand and the tight balance between supply and demand, as well as low inventories of some metals. In this sense, it is estimated that global inventories of **copper** would cover only a week and a

half of consumption, in line with China's strong demand and cuts in the main producing countries (Chile, Peru, Mexico, Indonesia, and Canada). In this context, the international price of copper increased 6 percent during 2007. Moreover, the price of **gold** rose 15 percent reflecting the increased physical demand of India, China, and the Middle East, as well as the higher demand of investors who sought hedge in this metal after the Federal Reserve reduced its interest rates.

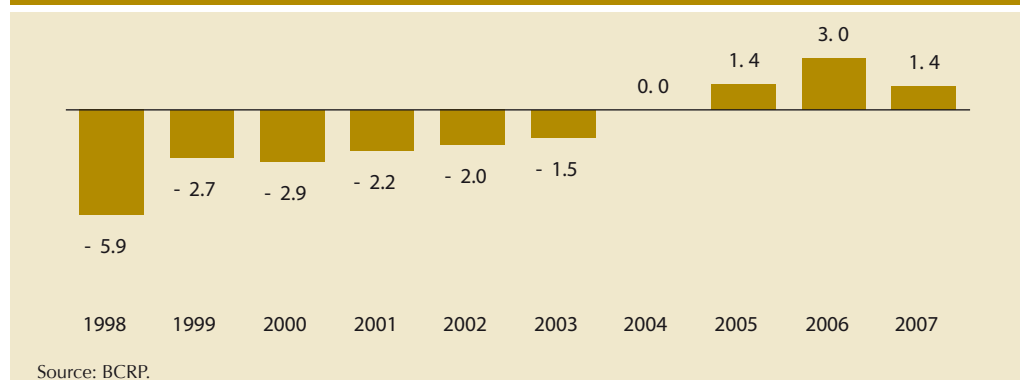
The prices of imports showed an upward trend, particularly in the case of food and fuels. The prices of the main grains rose significantly due to continued supply constraints as a result of adverse weather conditions and lower cultivated areas of wheat and soybean, as well as of increased demand for biofuels in a context of high oil prices, and increased demand for soybean, maize, and sugar to feed animals. These factors were reflected in the drop of global inventories which, in some cases, reached levels that had not been observed for over 20 years.

A speculative component added onto this, generating higher price volatility given the higher participation of investment funds in the grain market. Additionally, supply problems in some grain producing countries have generated the establishment of tariff and para-tariff measures that are constraining trade and accentuating concerns that the shortages could be greater.

3. Balance of payments

In 2007, the **current account** of the balance of payments showed a positive result for the fourth consecutive year with a surplus of US\$ 1,505 million, equivalent to 1.4 percent of GDP. This favorable result is explained by the trade surplus and by higher remittances from Peruvians living abroad, which offset the deficits in factor income and services.

GRAPH 14
BALANCE OF THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
(Percentage of GDP)



It should be pointed out that the positive result in the balance of payments reflects the development strategy aimed at connecting Peru to international markets through the negotiation of free trade agreements and the reduction of administrative costs for exporters³. In this sense, it is worth highlighting that the Peru-US Trade Agreement was ratified in December 2007 by the US Senate by 77 votes for and 14 votes against said agreement, which consolidates and expands the access to this market that Peru had achieved through the ATPDEA.

TABLE 25
BALANCE OF PAYMENTS

	Millions of US\$			Percentage of GDP		
	2005	2006	2007	2005	2006	2007
I. CURRENT ACCOUNT BALANCE	1,148	2,755	1,505	1.4	3.0	1.4
1. Trade balance	5,286	8,934	8,356	6.7	9.6	7.7
a. Exports	17,368	23,800	27,956	21.9	25.5	25.6
b. Imports	-12,082	-14,866	-19,599	-15.2	-15.9	-17.9
2. Services	-834	-781	-928	-1.1	-0.8	-0.8
a. Exports	2,289	2,647	3,343	2.9	2.8	3.1
b. Imports	-3,123	-3,428	-4,270	-3.9	-3.7	-3.9
3. Investment income	-5,076	-7,583	-8,418	-6.4	-8.1	-7.7
a. Private	-4,211	-6,903	-7,985	-5.3	-7.4	-7.3
b. Public	-865	-679	-433	-1.1	-0.7	-0.4
4. Current transfers	1,772	2,185	2,495	2.2	2.3	2.3
of which: Remittances	1,440	1,837	2,131	1.8	2.0	2.0
II. FINANCIAL ACCOUNT	141	639	8,558	0.2	0.7	7.8
1. Private sector	1,818	1,941	9,002	2.3	2.1	8.2
2. Public sector	-1,441	-738	-2,473	-1.8	-0.8	-2.3
3. Short-term capital	-236	-563	2,030	-0.3	-0.6	1.9
III. EXCEPTIONAL FINANCING	100	27	67	0.1	0.0	0.1
IV. NET ERRORS AND OMISSIONS	239	-668	-476	0.3	-0.7	-0.4
V. BCRP NET RESERVE FLOWS	1,628	2,753	9,654	2.0	3.0	8.8
(V = I + II + III + IV)						
1. Change in NIRs balance	1,466	3,178	10,414	1.8	3.4	9.5
2. Valuation changes and monetization of gold	-162	425	760	-0.2	0.5	0.7

Source: BCRP, MEF, SBS, SUNAT, Ministry of Trade Affairs, Cofide, ONP, FCR, Zofratatna, Banco de la Nación, Cavali ICLV S.A., Proinversión, BIS and companies.

The **trade surplus** this year amounted to US\$ 8,356 million, a sum slightly lower than that of 2006 (US\$ 8,934 million) given that imports grew at a higher rate than exports: in 2007 imports grew 31.8 percent, while exports grew 17.5 percent. The deficit in **services** increased from US\$ 781 million in 2006 to US\$ 928 million in 2007 due to higher freight expenses.

³ An example of this was the establishment of the Foreign Trade Single Window, a mechanism that seeks to promote the use of electronic means to obtain permits, certifications, licenses, and other authorizations required by the State to import and export goods.

The higher deficit observed in terms of **factor income** relative to the previous year reflected the higher return of enterprises with foreign shareholding in a context of high economic growth and higher prices of mining products. Firms' profits in 2007 amounted to US\$ 7,865 million, a sum 16.7 percent higher than in 2006. On the other hand, remittances from Peruvians residing abroad grew 16.0 percent, accounting for US\$ 2,495 million of the higher flow of **current transfers**.

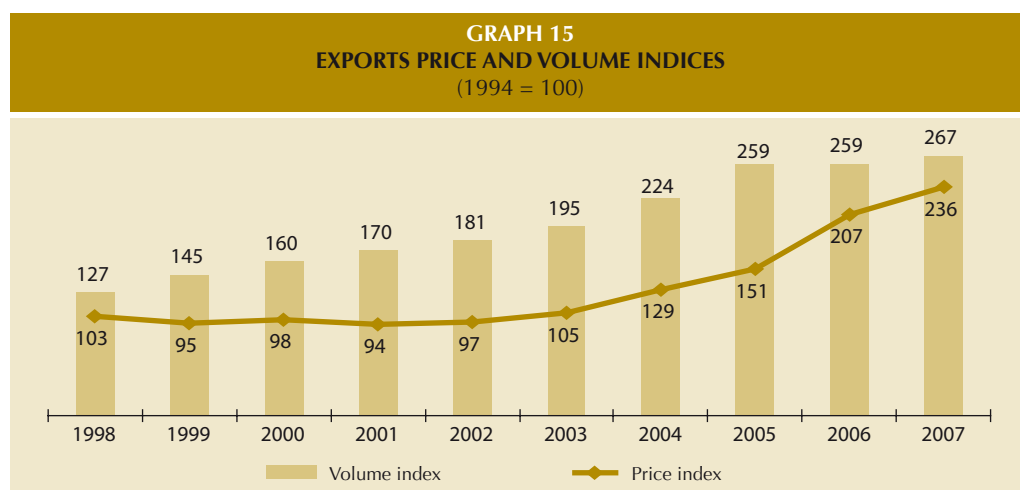
The sustained growth of the Peruvian economy in a context of macroeconomic stability and optimistic business expectations encouraged the inflow of capitals oriented to financing investments in the private sector. As a result of this, the **financial account of the private sector** amounted to US\$ 9,002 million (US\$ 1,941 million in 2006). Direct foreign investment and long-term loans accounted for this financing, which showed historical records of US\$ 5,343 million and US\$ 3,995 million respectively.

These financial flows are consistent with the dynamism of economic activity and with the country's favorable economic prospects. It should be pointed out that a part of these funds are profits reinvested in all the sectors, although the inflow of external capitals oriented to investments in bonds issued in the country was also significant.

During 2007, a strong inflow of short-term external capitals was also observed. This was associated both with bank's higher requirements of foreign currency in a context of liquidity tightness due to the hedging of their forwards operations and with non-residents' demand for BCRP Certificates of Deposit.

3.1 Exports

Exports amounted to US\$ 27,956 million, which represented a 17.5 percent increase compared to 2006. This increase was explained by both higher prices (14 percent) and by larger volumes of exports (3.3 percent).



The **main destination markets** of our exports were the United States (with 19.7 percent of total exports), followed by China and Japan (with 10.9 and 7.8 percent of total exports respectively). However, the weight of the United States in terms of our foreign trade has been declining, whereas exports to China and Japan have been increasing. It is worth pointing out that exports to Japan increased by over two-fold compared to 2005. Likewise, the relative weight of Switzerland and Spain in terms of our exports has also increased.

The growth of exports was mainly associated with higher prices for our **traditional products** (15.9 percent in 2007), reflecting the higher international average prices of copper, gold, silver, tin, lead, zinc, molybdenum, coffee, and fish meal and fish oil.

In terms of volume, traditional exports grew only 1.0 percent, mainly due to larger shipments of copper and zinc.

TABLE 26
EXPORTS INDEX^{1/}
(Percentage change)

	Volume	Price
	2007 / 2006	2007 / 2006
Total	3.3	14.0
Traditional Exports	1.0	15.9
Particularly:		
Fish meal	-6.0	8.0
Coffee	-27.0	9.1
Copper	10.1	9.0
Gold	-10.6	15.4
Zinc	16.8	12.7
Petroleum and derivatives	8.3	18.3
Non-traditional Exports	8.0	10.5
Particularly:		
Agriculture and livestock	9.2	12.9
Fishing	5.7	9.2
Textiles	5.8	10.5
Chemicals	22.9	8.8
Metal industry ^{2/}	-7.2	17.8

1/ Calculated on the base of unit value (after dividing total value between total volume).

2/ Includes jewelry.

Source: BCRP and SUNAT.

Thus, the flow of traditional exports amounted to US\$ 21,493 million in 2007, a sum 17.0 percent higher than in 2006. In GDP terms, this flow was equivalent to 19.7 percent of the product, a similar level to that of the previous year. The exports of mining products, which showed the highest increase in both absolute and relative terms, amounted to US\$ 17,328 million. This sum represented 80.6 percent of traditional exports and 62.0 percent of our overall sales abroad during 2007.

Copper continued to be the main export in terms of the exported value. Copper exports in 2007 amounted to US\$ 7,241 million, which represented a 19.6 percent increase relative to 2006. This increase is not only explained by the higher average price of copper (4.7 percent), but also by the larger volume of copper exports due to increased shipments of copper concentrate from Cerro Verde.

TABLE 27
FOB EXPORTS BY GROUP OF PRODUCTS

	Millions of US\$			Percentage change	
	2005	2006	2007	2006	2007
I. TRADITIONAL PRODUCTS	12,950	18,374	21,493	41.9	17.0
FISHING	1,303	1,334	1,456	2.3	9.2
Fishmeal	1,147	1,137	1,208	-0.9	6.2
Fish oil	156	196	248	26.1	26.4
AGRICULTURAL PRODUCTS	331	573	460	73.2	-19.7
Coffee	307	515	427	67.8	-17.0
Sugar	13	43	19	238.0	-56.3
Cotton	3	7	3	112.5	-54.0
Other agricultural products ^{1/}	8	9	11	3.2	32.0
MINERAL PRODUCTS	9,790	14,707	17,328	50.2	17.8
Copper ^{2/}	3,472	6,054	7,241	74.4	19.6
Gold	3,095	4,004	4,157	29.4	3.8
Zinc	805	1,991	2,535	147.3	27.3
Lead ^{2/}	491	713	1,033	45.0	45.0
Molybdenum	1,107	840	982	-24.1	16.9
Silver (refined)	281	480	537	70.9	12.1
Tin	301	346	507	14.7	46.7
Iron	216	256	286	18.5	11.6
Other mineral products ^{3/}	21	24	51	13.6	109.7
PETROLEUM AND DERIVATIVES	1,526	1,760	2,248	15.4	27.8
II. NON-TRADITIONAL PRODUCTS	4,277	5,271	6,288	23.2	19.3
Textile	1,275	1,471	1,730	15.4	17.6
Agriculture and livestock	1,008	1,216	1,503	20.6	23.7
Basic metal industries and jewelry	493	829	907	68.0	9.4
Chemical	538	601	803	11.9	33.6
Fishing	323	433	498	34.1	15.0
Timbers and papers, and related manufacture	261	333	360	27.4	8.3
Fabricated metal products and machinery	191	163	215	-14.5	31.9
Non-metallic minerals	118	135	165	14.6	21.7
Other products ^{4/}	70	89	107	27.4	19.9
III. OTHER PRODUCTS^{5/}	141	156	175	10.3	12.1
IV. TOTAL EXPORTS	17,368	23,800	27,956	37.0	17.5

1/ Including coca leaves and derivatives, molasses, wools and furs.

2/ Including silver contents.

3/ Including bismuth and wolfram.

4/ Mainly fur, leather and handicrafts.

5/ Fuel and food sold to foreign ships and aircrafts and repairs of capital goods.

Source: BCRP and SUNAT.

Non-traditional exports in 2007 totaled US\$ 6,288 million, a sum 19.3 percent higher than in 2006 due to higher prices (10.5 percent) and larger volumes (8.0 percent). The growth of non-traditional exports was led by the sectors of agriculture and livestock, textiles, and chemicals, while fishing exports –particularly giant squid and species for canned products– showed a lower growth due to adverse climatic conditions.

GRAPH 16
NON-TRADITIONAL EXPORTS
(Millions of US\$)



Agriculture and livestock exports increased 23.7 percent in nominal terms, due both to prices (12.9 percent) and volumes (9.2 percent). The higher exports of fresh asparagus and asparagus conserves (both of which amounted to US\$ 100 million) were noteworthy.

Textile exports increased 17.6 percent due to higher average prices and volumes (10.5 and 5.8 percent respectively). It is worth mentioning the higher exports of t-shirts, which increased by US\$ 76 million. This sector's result was also favored by Venezuela's increased demand for garments, as well as by larger sales to the United States.

Exports of chemical products increased 33.6 percent, due to larger volumes (22.9 percent) and, to a lesser extent, to higher prices (8.8 percent). The larger shipments of flexible laminate for wraps, destined mainly to Venezuela, should be pointed out.

3.2 Imports

Imports grew from US\$ 14,866 million in 2006 to US\$ 19,599 million in 2007 (31.8 percent increase) as a result of higher volumes of imports associated with increased economic activity and the higher prices of inputs used to elaborate foodstuffs and fuels.

Higher imports of capital goods and inputs, particularly for industry, were seen in 2007. The former amounted to US\$ 5,885 million, while the latter amounted to US\$ 10,416 million.

TABLE 28
IMPORTS INDEX ^{1/}
 (Percentage change according the same period of the previous year)

	Volumen	Price
	2007 / 2006	2007 / 2006
Imports	19.6	10.0
Of which:		
Core foodstuffs	4.8	30.2
Wheat	4.7	45.2
Maize	6.4	41.6
Rice	81.0	18.9
Sugar	0.5	-17.0
Soy	2.4	29.0
Diary	-13.2	46.6
Meat	12.7	4.1
Petroleum and derivatives	12.7	14.8

1/ Calculated on the basis of unit value (after dividing total value between total volume).
 Source: BCRP and SUNAT.

Imports of **consumer goods** increased 22.2 percent. Imports of durable goods grew 24.6 percent, while non-durable consumer goods grew 20.3 percent. The higher imports of automobiles, motorcycles, and television (as a whole grew 36.3 percent), while the larger imports of medicines, prepared and edible products, dairy, and footwear were noteworthy among the latter.

Purchases of inputs, which represented 53.1 percent of imports, increased 30.4 percent. It is worth pointing out the larger purchases of inputs for industry, which increased from US\$ 4,742 in 2006 to US\$ 6,205 million in 2007.

Imports of food inputs increased by 43.7 percent and amounted to US\$ 1,000 million, reflecting the higher prices of wheat, maize, and soybean. Wheat and maize imports increased by over 40 percent, while imports of soybean increased 29 percent. Although the growth of imports of industrial inputs was generalized, the higher imports of plastics, iron and steel products, textiles, chemicals, and fertilizers were noteworthy.

The oil balance was negative by US\$ 1,242 million due to the higher imports of crude and derivatives, which amounted to US\$ 3,490 million as a result of both higher prices (14.8 percent) and volumes (12.7 percent) given increased domestic demand.



TABLE 29
IMPORTS FOB, BY USE OR ECONOMIC DESTINATION

	Millions of US\$			Percentage change	
	2005	2006	2007	2006	2007
I. CONSUMER GOODS	2,308	2,611	3,191	13.2	22.2
Non-durable	1,338	1,457	1,753	8.9	20.3
Durable	970	1,154	1,438	19.0	24.6
II. INPUTS	6,600	7,987	10,416	21.0	30.4
Fuel, lubricants and related	2,325	2,808	3,623	20.8	29.0
Raw materials for agriculture	384	437	589	13.7	34.8
Raw materials for industry	3,890	4,742	6,205	21.9	30.8
III. CAPITAL GOODS	3,064	4,145	5,885	35.3	42.0
Construction materials	305	475	590	55.8	24.1
For agriculture	37	31	51	-16.0	62.6
For industry	2,114	2,800	3,988	32.4	42.4
Transport equipment	607	839	1,257	38.2	49.8
IV. OTHER GOODS^{1/}	110	122	106	10.8	-13.3
V. TOTAL IMPORTS	12,082	14,866	19,599	23.0	31.8
Note:					
Main food products^{2/}	746	880	1,203	17.9	36.7
Wheat	209	224	345	7.2	53.9
Maize or sorgo	123	172	259	40.2	50.1
Rice	43	14	31	-67.1	118.6
Sugar ^{3/}	68	100	84	47.2	-16.2
Dairy	34	46	61	33.9	31.4
Soybean	246	299	396	21.6	32.4
Meat	23	24	27	3.7	15.9

1/ It includes the donation of goods, the purchase of fuel and food from peruvian ships and the repair of capital goods in other country, as well as the other good considered according to the classifier used.

2/ Excludes food donations.

3/ Includes unrefined sugar cane.

Source: BCRP, SUNAT, Zofratatna, Banco de la Nación and companies.

The purchases of **capital goods** increased (42.0 percent) due mainly to higher imports of capital goods for industry (42.4 percent) and transport equipment (49.8 percent), both of which reflected the onset of investment projects in the hydrocarbon sector, as well as the expansion of production plants in the manufacturing sector.

By **market of origin**, the main supplier of imported products was the United States with 17.7 percent of total imports, followed by China and Brazil (12.0 and 9.1 percent respectively). In contrast with exports, it should be pointed out that imports from USA to Peru show a similar level to the one observed over the last three years. On the other hand, the relative higher participation of China in the structure of our imports should also be pointed out.

3.3 Services

The service component showed a deficit of US\$ 928 million due to outlays for a total of US\$ 4,270 million and incomes for a total of US\$ 3,343 million. The deficit for services in 2007 was US\$ 147 million higher than in 2006, mainly due to higher freight expenses paid to non-resident firms for the trade of goods, which grew by US\$ 354 million between 2006 and 2007. It should be pointed out that freight costs for the transport of bulk products increased significantly: the average price per ton of food increased 49.8 percent compared to 2006, reflecting the higher prices of fuels and the lower availability of free carriers given the demand of China and India (See box).

The higher deficit in transport was partially offset by incomes associated with travels (visitors' spending), which grew 22.9 percent relative to 2006 due to a higher number of visitors in the country (12.2 percent) and a higher average spending per person (9.4 percent). On the other hand, the expenditure of Peruvians visiting other countries increased 27.6 percent. It is worth pointing out the incomes resulting from travels represented 58 percent of total incomes associated with this heading.

**TABLE 30
SERVICES**

	Millions of US\$			Percentage change	
	2005	2006	2007	2006	2007
I. TRANSPORT	-858	-934	-1,257	-8.9	-34.5
1. Credit	440	525	632	19.3	20.4
2. Debit	-1,298	-1,460	-1,889	-12.5	-29.4
II. TRAVEL	557	788	931	41.5	18.2
1. Credit	1,308	1,577	1,938	20.5	22.9
2. Debit	-752	-789	-1,007	-4.9	-27.6
III. COMMUNICATIONS	-28	-27	-21	4.0	20.1
1. Credit	69	82	88	19.4	7.8
2. Debit	-96	-109	-110	-12.7	-0.9
IV. INSURANCE AND REINSURANCE	-115	-163	-13	-41.8	92.1
1. Credit	118	103	297	-13.5	189.5
2. Debit	-233	-265	-310	-13.7	-16.8
V. OTHER^{1/}	-391	-446	-568	-14.0	-27.4
1. Credit	354	361	388	2.0	7.4
2. Debit	-744	-806	-955	-8.3	-18.5
VI. TOTAL SERVICES	-834	-781	-928	6.3	-18.7
1. Credit	2,289	2,647	3,343	15.6	26.3
2. Debit	-3,123	-3,428	-4,270	-9.8	-24.6

1/ Includes services of government, financial, information technology, royalties, equipment rental and business services, among others.

Source: BCRP, SUNAT, Ministry of Trade Affairs and companies.

BOX 1

FOOD IMPORT SHIPPING COSTS INCREASED

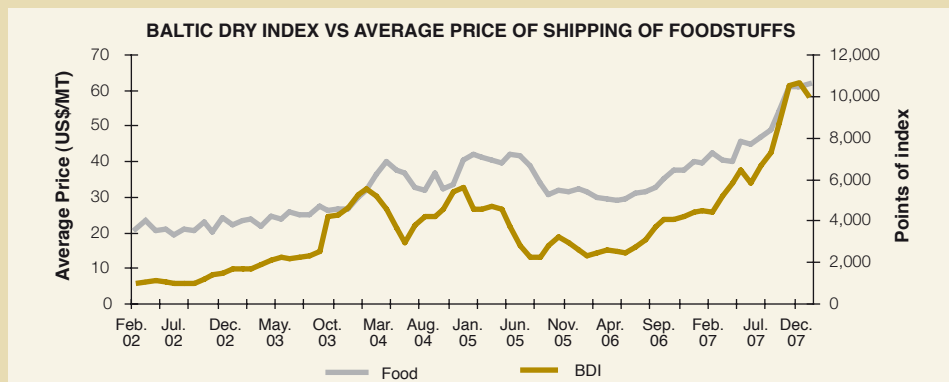
Bills for import freights in 2007 amounted to US\$ 1,447 million –a sum equivalent to 7.4 percent of total imports–, with shipping rates accounting for 90 percent of this total. The prices of international maritime transport showed an upward trend since September 2006, leading food import bills to increase by 56.6 percent in 2007 due to higher shipping rates. The shipping rates for moving maize, wheat, and soybean increased even more due to the higher prices of fuels and the lower availability of free maritime carriers, given the higher demand of China, India, and the main global steel producers and copper users for transport services.

AVERAGE PRICE OF SHIPPING OF FOOD IMPORT, YEARS 2003 - 2007

	2003	2004	2005	2006	2007
Foodstuffs (US\$/MT)	25	35	37	33	50
Percentage change (%)	17.6	39.2	4.7	-10.4	49.8
Maize (US\$/MT)	23	35	36	31	50
Percentage change (%)	31.5	53.6	2.9	-16.1	63.7
Wheat (US\$/MT)	22	27	31	29	46
Percentage change (%)	17.6	25.7	13.3	-8.1	61.3
Soybean (US\$/MT)	29	41	42	39	54
Percentage change (%)	21.2	43.1	1.7	-6.6	37.8
Other foodstuffs (US\$/MT)	82.5	54.3	47.6	44.0	48.3
Percentage change (%)	72.1	-34.1	-12.3	-7.7	9.7

^{1/} Percentage change respect to the same period of previous year.

The trend observed in Peru’s import shipping costs is in line with the information provided by the Baltic Dry Index (BDI), an index on shipping rates elaborated by the Baltic Exchange. This index covers dry bulk shipping rates for carrying a range of commodities (excluding petroleum) by sea through 24 world shipping routes, of which around 30 percent originate in Latin America. The Baltic Dry Index increased by over two-fold in 2007, reaching a record level of 11,039 points on November 13.



This increase in shipping costs is explained by an over demand for dry bulk shipping services given the high pace of growth of international trade. In addition to the lag observed in terms of vessel production, there is also a lag of nearly 36 months between the order and delivery of vessels, as a result of which new carriers would only be available in 2010.

1/ Taking in the main shipping routes measured on a timecharter and voyage basis, the BDI –reference value for sea shipping rates– covers capesize, panamax and handy dry bulk carriers carrying a range of commodities. The index is made up of an average of the Baltic Supramax, Panamax and Capesize indices which are weighed in terms of the shipping costs for each main route.

2/ The Baltic Exchange is a British organization that operates the global marketplace for shipbrokers, ship owners, and charterers.

3.4 Investment income

The investment income deficit amounted to US\$ 8,418 million in 2007. This deficit is mainly explained by the result observed in the private sector (a negative flow of US\$ 7,985 million), while the deficit in the public sector fell from US\$ 679 million in 2006 to US\$ 433 million in 2007 due to increased incomes associated with the BCRP's higher international reserves.

The negative flow in the private sector is explained by a higher remittance of profits by companies with foreign shareholding, particularly mining companies⁴ (70.2 percent of total) whose profits have increased due to the higher prices of minerals –profits increased from US\$ 18 million in 1999 to US\$ 7,865 million this year. It should be pointed out that profits include both dividends paid to investors abroad and non-distributed gains.

Outlays for interests associated with the public and private sectors' external debt amounted to US\$ 2,120 million.

TABLE 31
INVESTMENT INCOME
(Millions of US\$)

	Millions of US\$			Percentage change	
	2005	2006	2007	2006	2007
I. INCOME	625	1,033	1,567	65.4	51.6
1. Private	208	368	594	76.6	61.5
2. Public	417	666	973	59.8	46.2
II. EXPENSES	5,701	8,616	9,985	51.1	15.9
1. Private	4,419	7,271	8,579	64.5	18.0
Profits ^{1/}	4,030	6,741	7,865	67.3	16.7
Interests	390	531	714	36.2	34.6
· due to long-term loans	213	218	308	2.6	41.4
· due to bonds	16	98	133	529.5	35.9
· due to short-term loans ^{2/}	162	215	273	32.8	27.2
2. Public	1,282	1,345	1,406	4.9	4.5
Interests by long term loans	738	695	716	-5.8	3.0
Interests by bonds	539	645	670	19.8	3.9
Interests BCRP ^{3/}	5	5	20	-8.8	306.5
III. BALANCE (I-II)	-5,076	-7,583	-8,418	-49.4	-11.0
1. Private	-4,211	-6,903	-7,985	-63.9	-15.7
2. Public	-865	-679	-433	21.5	36.3

1/ Profits or losses accrued in the period. Includes profits and dividends remitted abroad plus undistributed gains.

2/ Includes interests of non-financial public enterprises.

3/ Includes interest of short-term and long-term loans.

Source: BCRP, MEF, Cofide, ONP and companies.

⁴ The highest earnings were generated in the mining sector, followed by the financial sector.



3.5 Current transfers

Current transfers increased 14.2 percent in 2007 due to higher remittances from Peruvians living abroad (16.0 percent). A lower relative participation of remittances from the United States is being observed due both to the slowdown of construction and to the weakening of the dollar against the euro and the yen. Current transfers in 2007 amounted to US\$ 2,495 million, a sum equivalent to 2.3 percent of GDP.

3.6 Financial account of the private sector and short-term capitals

In line with the country's economic dynamism, the financial account was characterized by strong increases in the flow of external resources. In this context, the private sector financial account and short-term capitals amounted to US\$ 11,032 million, invested in several economic sectors. This amount was US\$ 9,654 million higher than in 2006 due to higher direct investment, long-term disbursements, and portfolio investment in the country.

TABLE 32
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR AND SHORT-TERM CAPITALS
(Millions of US\$)

	2005	2006	2007
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR AND SHORT-TERM CAPITALS	1,582	1,378	11,032
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR	1,818	1,941	9,002
1. INFLOWS	4,122	4,347	10,608
A. Direct investment	2,579	3,467	5,343
of which: Reinvestment	2,724	2,353	4,696
B. Long-term disbursements	647	725	3,955
C. Portfolio investment	897	155	1,310
2. OUTFLOWS	-2,304	-2,406	-1,606
A. Portfolio investment	-690	-1,885	-987
B. Long-term amortization	-1,614	-521	-619
SHORT-TERM CAPITALS	-236	-563	2,030
A. Banks	103	-348	1,552
B. BCRP	0	0	850
C. Others	-339	-216	-372

Source: BCRP, Cavali ICLV S.A., Proinversión and companies.

By components, the private sector financial account amounted to US\$ 9,002 million, of which US\$ 5,343 million was direct investment (including reinvestment of earnings, capital contributions, and privatization). Increased direct investment is mainly explained by a higher reinvestment of earnings (US\$ 4,696 million versus US\$ 2,353 million in 2006), especially in the mining and oil, where several investment plans are already in place for 2008 and the following years given favorable expectations about the evolution of

economic activity in the country. This higher amount of retained earnings resulted mainly from the lower dividends paid by mining companies to foreign investment: dividends dropped 33 percent compared to 2006. Moreover, new investment was mainly oriented to the hydrocarbon, fishing and mining sectors.

BOX 2

DIRECT FOREIGN INVESTMENT AND REINVESTMENT OF EARNINGS

Direct foreign investment (DFI) was minimum and even negative until the early nineties. With the stabilization of the economy and the pacification of the country, the inflow of foreign capitals showed a more dynamic pace, especially in the sectors of communications, energy and mining.

The inflows of DFI observed in the country in the following years, mainly in the mining sector, as well as the higher prices of exports increased the earnings of said investments.

It is worth pointing out that firms' financing through capital contributions of the parent company, loans to third parties, or capital gain reinvestment depends not only on general economic and financial conditions, but also on firms' management plans.

When we analyze the overall flows of DFI until 2002 we see that DFI consisted mostly of new external financing: contributions of the parent company or incomes for privatization. On average, the payment of dividends was 78 percent of total earnings generated.

Dividend payment depends on firms' policies and plans for future investment in Peru and in the rest of the world. On the other hand, the reinvestment of earnings reflects investors' will to maintain gains in a country. Today, nearly 80 percent of reinvestment in the Peruvian mining sector comes from companies that have investment plans for 2008 and the upcoming years.

Dividend payment in the last five years represents around 50 percent of the earnings generated by these companies. However, the share of gain reinvestment in DFI has been 86 percent. This evolution reflects the current capacity of firms to finance their investment projects with the resources generated in the country. A similar situation is observed in Chile, for example, where gain reinvestment in the last five years represented 85 percent of DFI.

EARNINGS AND DIRECT FOREIGN INVESTMENT (DFI)

	Millions of US\$			Percentage contribution		
	1990-2002	2003-2007	1990-2007	1990-2002	2003-2007	1990-2007
Total earnings	4,096	22,314	26,410	100	100	100
Dividend payment	3,211	10,039	13,250	78	45	50
Reinvestment	884	12,275	13,159	22	55	50
FDI	19,526	14,262	33,787	100	100	100
Reinvestment	884	12,275	13,159	5	86	39
Net capital contributions ^{1/}	12,885	1,791	14,676	66	13	43
Privatization	5,756	196	5,952	29	1	18

^{1/} Includes net loans of head office.

On the other hand, the net flow of long-term loans amounted to US\$ 3,363 million, particularly due to direct credit to the financial sector (US\$ 2,313 million) and to loans to the non-financial sector (the sale of an important bank's portfolio to foreign investors and the loans granted to the fishing and oil sectors should be pointed out here). Loan amortization was US\$ 619 million in 2007.

The net flow of other external assets and liabilities amounted to US\$ 194 million. In other words, the increase of liabilities with non-residents was higher than the increase seen in the assets that residents in the country purchased abroad. The investment portfolio in the country during the year was higher, especially due to the purchase of sovereign bonds and CDBCRP by non-residents. This compensated the lower portfolio of investments abroad since institutional investors diversified their portfolios to reduce risks given the volatility observed in the international market.

The financial flow of short-term capitals amounted to US\$ 2,030 million, mainly due to the higher financing provided to banks and to the acquisition of BCRP Certificates of Deposit by non-resident investors.

4. International asset and liability position

Peru's international position increased in terms of the external debt from US\$ 28,395 to US\$ 32,565 million, in line with the higher financing received by the private sector. The public debt decreased both in nominal terms and as a percentage of GDP, in line with the strategy aimed at reducing the debt in foreign currency.

The foreign investment position increased from US\$ 19,356 million (equivalent to 20.8 percent of GDP) to US\$ 24,744 million (equivalent to 22.7 percent of GDP) between 2006 and 2007, while capital participation showed an important increase, rising from US\$ 9,043 million (equivalent to 9.7 percent of GDP) to US\$ 19,077 million (equivalent to 17.5 percent of GDP) in the same period due to the higher value of assets held by non-residents.



BOX 3

**THE SUBPRIME MORTGAGE MARKET AND ITS
IMPACTS ON INTERNATIONAL FINANCIAL MARKETS**

Subprime mortgage loans –or high risk mortgages– are loans granted to borrowers with low credit scores, and represent 13.7 percent of the US mortgage market^{1/}. These loans are basically characterized by the amount of the loan –which is usually higher than 80 percent of the value of the mortgaged residence– and by a debt service-to-income ratio of over 55 percent, as well as by incomplete documentation.

Subprime mortgages are usually taken at variable interest rates (200-300 bps higher than rates on prime mortgages), especially at adjustable interest rates (the interest rate is fixed during two or three years and is then readjusted at much higher variable rate). The subprime mortgage market has shown a significant dynamism in the last years, growing from US\$ 190 billion in 2001 to US\$ 600 billion in 2006.

This evolution in the subprime mortgage market was coupled by a growing supply of securities backed by mortgages in the subprime segment. The demand for these securities was favored by the reduction of interest rates in the United States (due to the FED's expansionary policy at the beginning of this decade and to emerging economies' high demand for US Treasury bonds) and by the development of structured financial instruments^{2/}. However, the mortgage boom started showing a reversal after the FED began to raise its interest rates in 2005, while the prices of residences initiated a downward trend.

Since early 2007, higher mortgage default levels –default rose from 13.8 percent in the first quarter to 17.3 percent in the fourth quarter– caused problems to the financial companies that had generated these mortgages (for example, New Century went bankrupt in March), as well as the reduction of the scores assigned to mortgage-backed securities (MBS) and collateralized debt obligations (CDO). Initially only investment funds with high exposure to these papers were affected –for instance, three Bear Stearn's funds collapsed in July–, but later generated stagnation in the operations of financial institutions^{3/} receiving short-term funds for investments in said financial securities, also causing problems in the banks promoting the latter (i.e. BNP Paribas in August and Northern Rock in September).

The expected higher deterioration of the subprime mortgage market (due to the drop in the prices of houses and the expected adjustment of interest rates on mortgage loans) generated a reduction in credit scores, with the subsequent drop of value of securities associated with subprime mortgages. Little interest in said financial instruments then caused significant losses in most major banks worldwide, by the overvaluation in such securities, as well as liquidity problems.

The deterioration of liquidity conditions observed in the bank systems of developed economies led investors' risk perception to increase, which in turn contributed to increase fears of a greater slowdown in the global economy, generating subsequently the drop of stock markets and the decline of the yield on the US Treasury bond.

In this context, the main central banks started injecting liquidity into the bank system and then either reduced interest rates (USA and the UK) or postponed raising them (Eurozone and Japan). Given announcements of weak results and due to increased requirements of capital from major banks (especially Citigroup banks, Merrill Lynch, UBS), central banks reacted more vigorously implementing a series of measures aimed at reducing credit constraints (i.e. offering more liquid funds, extending the term of collaterals, and accepting a greater variety of collaterals).

The measures adopted by central banks and the announcements of capital contributions (mainly from governments' investment funds) made by the major financial corporations have prevented lending conditions from deteriorating even further, yet risks of new episodes of volatility remain since the losses officially recognized by banks are only a fraction of the losses incurred in the subprime mortgage market.

1/ The US mortgage market is estimated to be equivalent to 85 percent of GDP in the United States GDP and to 55 percent of the value of residences.

2/ Namely Mortgage Backed Securities (MBS) and Collateral Debt Obligations (CDO).

3/ Special Investment Vehicles (SIV) and conduits.

V. Public Finances

In 2007, the fiscal accounts showed a surplus for the second consecutive year. The non-financial public sector (NFPS) showed a surplus equivalent to 3.1 percent of GDP, a result 1 percentage point higher than the one observed in the previous year.

Public sector incomes improved significantly, especially in terms of tax collection due both to high economic growth and to firms' increased earnings due mainly to the high prices of minerals. The non-financial expenditure of the general government increased by a real 7 percent real in 2007, mainly due to increased investment (19 percent). Current expenditure increased 4.5 percent.

A series of debt exchange and debt repayment operations carried out during the year allowed reducing the weight of the external debt from 23.6 percent of GDP in 2006 to 18.4 percent of GDP in 2007. Moreover, the fiscal surplus obtained allowed reducing the balance of the public debt from 32.7 to 29.2 percent of GDP, while the net debt was reduced by the equivalent of 17.5 percent of GDP.

1. Fiscal policy indicators

Conventional economic outcome

The positive performance of public finance in 2007, reflected in a surplus of 3.1 percent of GDP, was associated to a great extent to the growth of the current revenues of the general government, which represented 20.4 percent of GDP (19.7 percent in 2006). Another factor contributing to this was the lower ratio of the non-financial expenditure of the general government, which fell from 16.2 to 15.7 percent of GDP, while state enterprises showed a primary result equivalent to 0.1 percent of GDP. As a result of this, the primary result in the public sector was 4.8 percent of GDP (versus 3.9 percent in 2006).

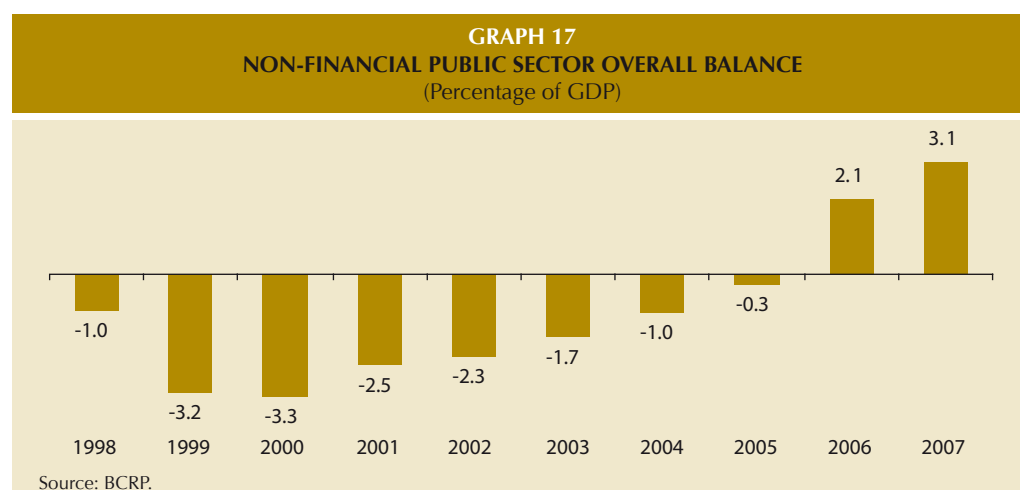


TABLE 33
NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE

	Millions of nuevos soles			Percentage of GDP		
	2005	2006	2007	2005	2006	2007
I. PRIMARY BALANCE	4,277	11,956	16,475	1.6	3.9	4.8
1. Central government primary balance	3,720	11,098	16,190	1.4	3.6	4.7
a. Current revenues	47,815	60,056	69,455	18.3	19.7	20.4
i. Tax-revenue	36,311	46,218	53,359	13.9	15.1	15.6
ii. Non-tax revenue	11,504	13,837	16,096	4.4	4.5	4.7
b. Non-financial expenditure	44,481	49,318	53,651	17.0	16.2	15.7
i. Current	37,320	40,833	43,407	14.2	13.4	12.7
ii. Capital	7,162	8,485	10,244	2.7	2.8	3.0
c. Capital revenues	386	361	386	0.1	0.1	0.1
2. Primary balance of public companies	557	858	285	0.2	0.3	0.1
II. INTERESTS	5,066	5,693	6,029	1.9	1.9	1.8
1. External debts	4,175	4,337	4,287	1.6	1.4	1.3
2. Internal debts	891	1,357	1,742	0.3	0.4	0.5
III. OVERALL BALANCE (I-II)	-789	6,263	10,446	-0.3	2.1	3.1
1. Net financing abroad (a+b+c)	-3,813	-2,175	-6,585	-1.5	-0.7	-1.9
(Millions of US\$)	-\$ 1,167	-\$ 658	-\$ 2,147	-1.5	-0.7	-1.9
a. Disbursements	\$ 2,628	\$ 609	\$ 3,384	3.3	0.6	3.1
b. Amortization	\$ 3,678	\$ 1,193	\$ 5,661	4.6	1.3	5.2
c. Other	-\$ 117	-\$ 74	\$ 131	-0.1	-0.1	0.1
2. Net domestic financing	4,417	-4,392	-4,310	1.7	-1.4	-1.3
3. Privatization	185	304	449	0.1	0.1	0.1

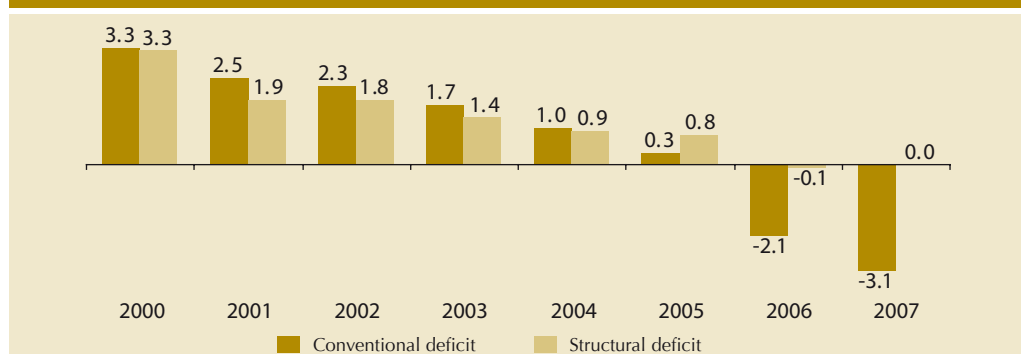
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state companies and public institutions.

Structural overall balance

The structural overall balance seeks to isolate the effect of the economy's position in the economic cycle, as well as the impact of the higher prices of mineral exports on fiscal accounts.

Estimates show that the structural deficit has been gradually declining from levels of 3.3 percent of GDP in 2000 to a position of virtual balance in 2006 that continued in 2007.

GRAPH 18
CONVENTIONAL AND STRUCTURAL DEFICIT OF NFPS
(Percentage of GDP)



Source: BCRP.



2. Central government

In 2007 the central government posted its best economic outcome since the seventies, reaching a surplus of 1.8 percent of GDP – a result 0.4 of a percentage point higher than that of 2006. This improvement in the primary balance (3.4 percent of GDP) is mainly explained by the evolution of revenues in a context of increased tax collection due to the higher prices of commodities and growing domestic demand.

2.1 Central government revenues

The central government **current revenues** were equivalent to 17.9 percent of GDP, 0.6 of a percentage point of GDP higher than in 2006.

This growth of revenues is mainly explained by higher income tax revenues due to the growth of export prices, the expansion of economic activity, and to higher income tax ratios than the ones observed in the previous year.

TABLE 34
CENTRAL GOVERNMENT REVENUES

	Percentage of GDP			Real % change		Percent structure		
	2005	2006	2007	2006	2007	2005	2006	2007
I. TAX REVENUE	13.6	14.9	15.4	25.3	13.3	86.7	86.3	85.8
1. Income tax	4.3	6.0	6.7	61.4	21.9	27.3	34.9	37.4
-Individual	1.2	1.3	1.3	25.3	12.1	7.5	7.4	7.3
-Corporate	2.3	3.7	4.2	80.7	26.0	14.8	21.3	23.5
-Clearing ^{1/}	0.8	1.1	1.2	57.9	19.7	5.0	6.2	6.5
2. Import tax	1.2	0.9	0.6	-11.2	-24.1	7.7	5.4	3.6
3. Value-added tax	7.0	7.1	7.4	15.3	15.4	44.6	40.8	41.3
-Domestic	4.0	3.9	4.0	11.0	11.4	25.8	22.7	22.2
-Imports	2.9	3.1	3.4	21.2	20.3	18.8	18.1	19.1
4. Excise tax	1.6	1.3	1.3	-2.5	4.3	9.9	7.7	7.0
-Fuel	1.0	0.8	0.7	-9.8	-0.9	6.4	4.6	4.0
-Others	0.6	0.5	0.5	10.4	12.0	3.6	3.1	3.1
5. Other tax revenues	1.1	1.1	1.1	10.8	12.2	7.3	6.4	6.3
-ITF	0.3	0.3	0.3	17.1	20.1	1.7	1.6	1.7
-ITAN	0.4	0.4	0.4	13.3	17.2	2.6	2.4	2.4
-IAE	0.0	0.0	0.0	n.a.	n.a.	0.2	0.0	0.0
-IES	0.0	0.0	0.0	-30.2	-11.4	0.0	0.0	0.0
-Tax fractioning	0.2	0.2	0.1	27.2	-2.6	1.0	1.0	0.8
-Other	0.3	0.2	0.2	4.5	5.8	1.7	1.4	1.3
6. Tax refund ^{2/}	-1.6	-1.5	-1.8	12.7	25.1	-10.0	-8.9	-9.8
II. NON-TAX REVENUES^{3/}	2.1	2.4	2.5	29.9	17.7	13.3	13.7	14.2
III. TOTAL	15.7	17.3	17.9	25.9	13.9	100.0	100.0	100.0

1/ Represents the income tax generated the previous year.

2/ Includes current transfers of public enterprises.

3/ Represents the payments received in February of the current year to January of the following year, plus the regularization campaign on March and April of the following year.

Source: MEF, Banco de la Nación, BCRP and SUNAT.

Moreover, tariff reduction measures implemented during the year allowed reducing the average tariff from 8.3 to 5.7 percent. As a result of this, revenues for import duties declined.

These measures not only contributed to reduce the price of inputs and capital goods, thus encouraging investment and the use of new technologies, but also offset the impact of the higher prices of fuel and imported foodstuffs.

TABLE 35
FISCAL REVENUES COEFFICIENTS
(Percentage of GDP)

	2005	2006	2007
Tax burden of the central government ^{1/}	13.6	14.9	15.4
Fiscal burden of the central government	15.7	17.3	17.9
Fiscal burden of the consolidated central government ^{2/}	17.3	18.9	19.5
Fiscal burden of the general government ^{3/}	18.3	19.7	20.4

1/ Central government tax revenues.

2/ Including central government current revenues, contributions to the social security system and pension system, and own resources of the Consolidated Previsional Reserve Fund (FCR), Fonahpu, regulating and registration entities.

3/ Fiscal burden of the consolidated central government and own resources of local government.

Source: MEF, Banco de la Nación, BCRP and SUNAT .

Income tax, which led the growth of tax revenues of the central government in 2007, increased from 6.0 to 6.7 percent in GDP terms. It is worth pointing out that the contribution of the mining sector grew by 48 percent, as a result of which the share of the mining sector in terms of income tax increased from 44 percent in 2006 to 51 percent in 2007.

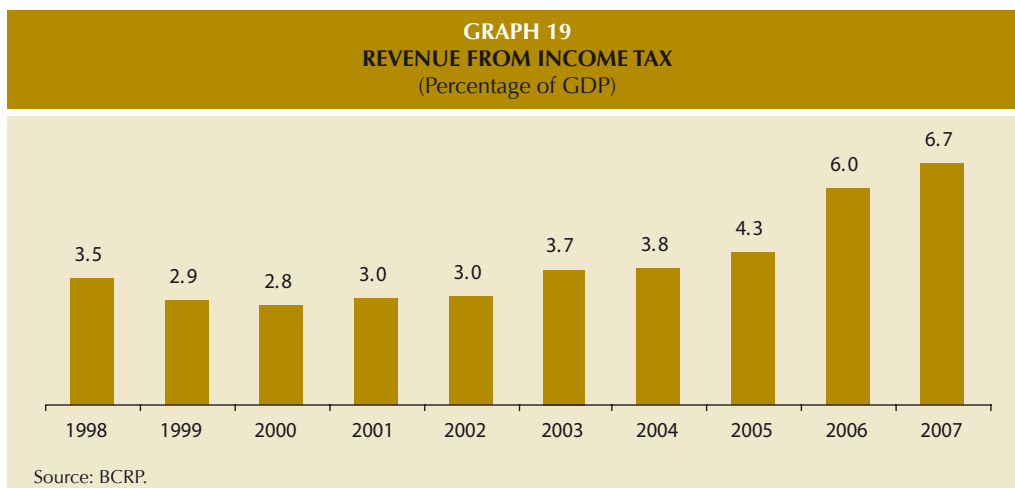
TABLE 36
CORPORATE TAX COLLECTION BY SECTORS
(Millions of nuevos soles)

	2005	2006	2007	Real % change	
				2006/2005	2007/2006
Mining	2,168	5,767	8,703	160.8	48.3
Fuel	413	970	969	130.1	-1.9
Financial System	372	814	712	114.2	-14.0
Manufacture	1,110	1,597	1,729	41.1	6.3
Telecommunications	559	717	579	25.8	-20.7
Others	2,601	3,234	4,395	21.9	33.5
TOTAL	7,223	13,100	17,087	77.8	28.2

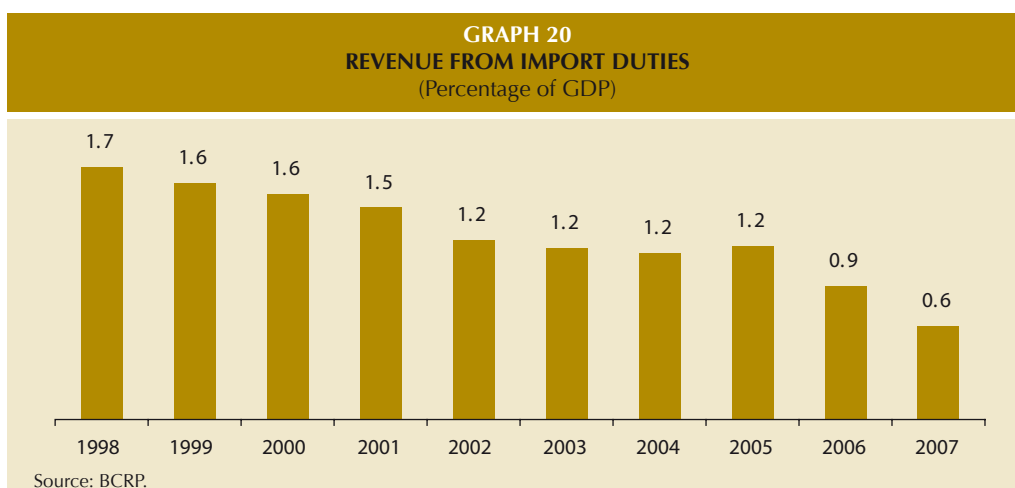
Source: SUNAT.

Revenues from the individual income tax also increased by a real 12 percent due to higher disposable income, higher employment levels, and earning distribution to employees, especially in the mining sector. These revenues increased despite the lower contribution of independent workers associated with amendments to adjust the suspension of tax withholding, in force since January 2007, in order to avoid reimbursements for overpayments.

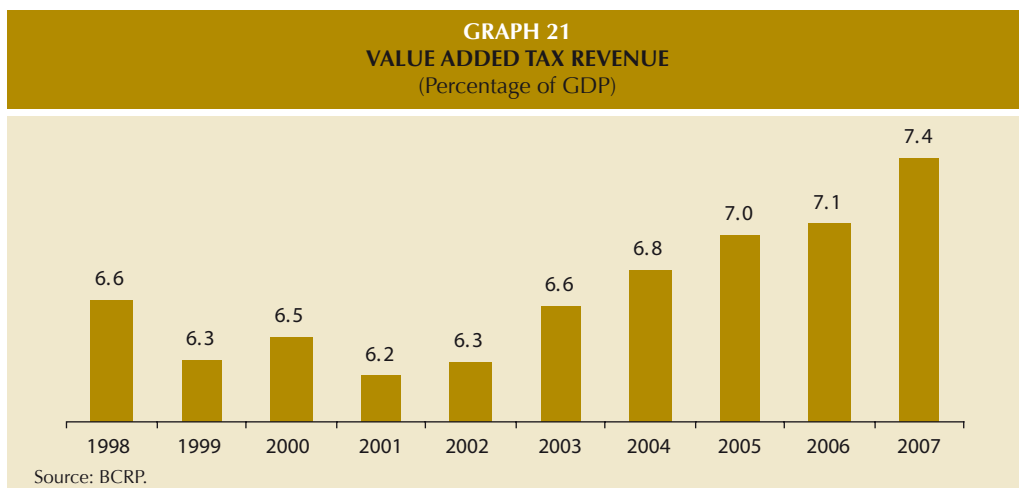




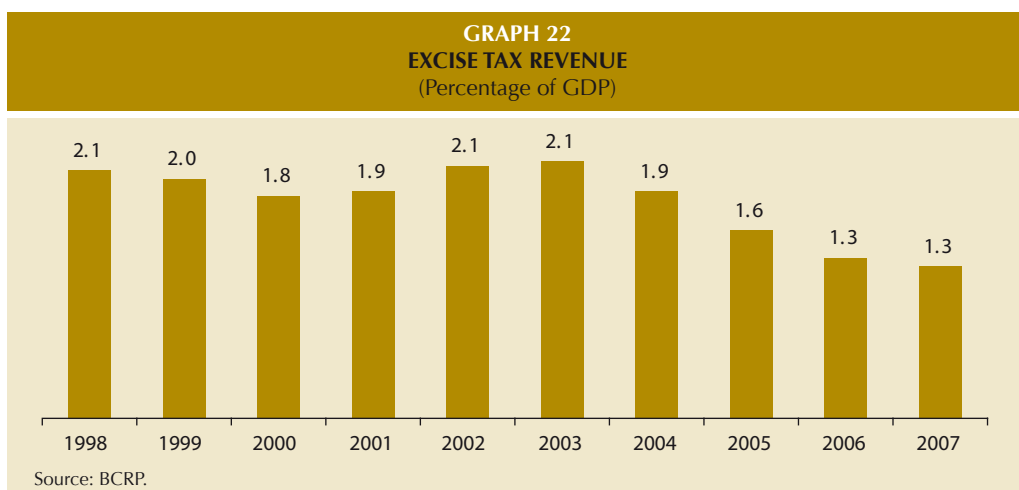
Revenues from **import duties**, which amounted to the equivalent of 0.6 percent of GDP, fell 24 percent in real terms. This result is mainly explained by the reduction of tariffs implemented in the year that led the average tariff rate to decline from 8.3 percent in 2006 to 5.7 percent. These tariff reductions were partially compensated by increased imports during this period (34 percent).



In 2007 revenues from the **value added tax (IGV)** grew 15 percent in real terms, reaching a level equivalent to 7.4 percentage points of GDP. This increase was explained by higher domestic demand, control actions developed by the tax agency, and the reinforcement of tax collection systems in the case of the internal VAT, and by higher imports in the case of the external VAT.



Revenues from the **excise tax** (ISC) during 2007 remained at 1.3 percentage points of GDP and grew 4 percent in real terms. This increase was due to the higher collection of excise tax from items not associated with fuels (12 percent), such as soft drinks, mineral water, and beer as a result of increased sales, as well as by higher imports of goods subject to this tax. On the other hand, the excise tax on fuels was reduced only once, on December 24, to connect it with the Fuel Price Stabilization Fund.



Revenues from **other tax revenues** remained at 1.1 percent of GDP and grew 12 percent in real terms, particularly due to the higher collection resulting from the ITF or Tax on Financial Transactions (20 percent), which is explained by increased bank transactions given that the tax rate remained at 0.08 percent during 2007. Revenues from the Temporary Tax on Net Assets (equivalent to 0.4 percentage points of GDP) grew 17 percent due to the increase seen in the taxable base.

TABLE 37
EVOLUTION OF FUEL EXCISE TAX^{1/}
 (Nuevos soles per galon)

	2005			2006				2007
	Jul. 02	Aug. 02	Sep. 10	Jan. 01	Apr. 13	Apr. 25	Aug. 15	Dec. 24
84-octane gasoline	2.90	2.90	2.60	2.60	2.35	2.25	2.05	1.85
90-octane gasoline	3.71	3.61	3.31	3.31	3.06	2.96	2.66	2.46
95-octane gasoline	4.02	3.92	3.62	3.62	3.32	3.22	2.92	2.92
97-octane gasoline	4.35	4.15	3.85	3.85	3.55	3.45	3.15	3.15
Kerosene	2.07	2.07	1.77	2.21	2.21	2.11	2.11	1.94
Diesel 2	1.70	1.60	1.40	1.84	1.84	1.74	1.54	1.39
AVERAGE^{2/}	1.78	1.71	1.51	1.80	1.75	1.66	1.50	1.37

1/ Liquefied petroleum gas was excluded from the list of products affected by the excise tax fuel since July 02, 2005 (DS 081-2005-EF).

2/ Weighted average based on the domestic sales of fuels in 2004.

Source: Official daily "El Peruano" (Legislation).

2.2 Central government expenditures

Total central government expenditures amounted to 16.3 percent of GDP, which represented a real increase of 12 percent compared to 2006. This increase is mainly explained by higher transfers to subnational governments (especially mining royalties). Excluding these transfers, the central government non-financial expenditure increased by a real 6.7 percent, particularly as a result of a 20.2 percent increase in capital expenditure.

Expenditure in salaries and wages increased 2 percent in real terms, mainly due to the rises for public university faculty members approved in the frame of the Programa de Homologación de la Docencia Universitaria (D.U. 033-2005). The participation of salaries and wages declined from 4.1 to 3.8 percent of GDP due to austerity measures adopted in terms of current expenditure.

Spending in goods and services increased by a real 6 percent, reflecting the higher expenditure of the Ministries of Defense and Interior in replacing equipments and in official operations, as well as higher expenditure in the Ministry of Health (health care), the Ministry of Transport and Communications (road maintenance and conservation), the Ministry of Education (to improve educational quality and train teachers), etc. In GDP terms, spending in good and services decreased from 3.3 to 3.2 percent between 2006 and 2007.

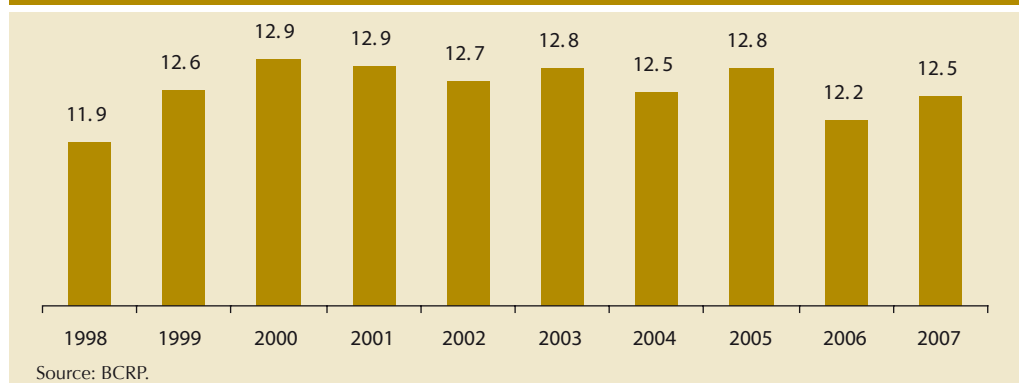
Expenditure for transfers, which amounted to S/. 18,599 million, increased by a real 26 percent due mainly to the higher transfers of mining royalties to local governments (S/. 2,558 million), which increased from 0.7 to 1.4 percent of GDP.

According to the Budget Law for the Public Sector for FY 2007 (Law N° 28927), the mining royalty is now transferred to regional governments, universities, and local governments in

TABLE 38
CENTRAL GOVERNMENT EXPENDITURES

	Percentage of GDP			Real % change		Percent structure		
	2005	2006	2007	2006	2007	2005	2006	2007
I. NON-FINANCIAL EXPENDITURE	14.7	14.2	14.6	10.2	13.5	88.9	88.9	90.0
1. CURRENT EXPENDITURE	12.8	12.2	12.5	8.8	12.4	77.6	76.5	76.8
a. Wages and salaries	4.4	4.1	3.8	6.2	1.9	26.8	25.8	23.5
b. Goods and services	3.4	3.3	3.2	11.5	6.0	20.7	20.9	19.8
c. Transfers	5.0	4.8	5.5	9.2	26.0	30.1	29.8	33.5
- Pensions	1.5	1.3	1.2	-1.6	-0.5	9.3	8.3	7.3
- ONP-Fonahpu	1.0	0.8	0.8	-6.6	1.5	6.2	5.3	4.8
- Foncomun	0.8	0.8	0.8	16.3	14.4	4.7	5.0	5.1
- Royalties	0.5	0.7	1.4	59.1	126.8	3.0	4.3	8.8
- Other	1.1	1.1	1.2	11.3	21.4	6.9	7.0	7.5
2. CAPITAL EXPENDITURE	1.9	2.0	2.2	20.4	20.2	11.3	12.3	13.2
a. Gross capital formation	1.7	1.6	1.8	5.1	23.4	10.3	9.8	10.8
b. Other	0.2	0.4	0.4	178.4	7.9	1.0	2.5	2.4
II. INTEREST PAYMENTS	1.8	1.8	1.6	10.7	0.3	11.1	11.1	10.0
1. Domestic debt	0.3	0.4	0.4	66.7	12.5	1.5	2.3	2.3
2. External debt	1.6	1.4	1.2	1.8	-2.9	9.6	8.8	7.7
III. TOTAL (I+ II)	16.5	16.0	16.3	10.3	12.0	100.0	100.0	100.0
Memo:								
Non financial Expenditures excluding transfers^{1/}	11.6	10.8	10.5	5.9	6.7	70.5	67.7	64.5
1/ Does not include Central government transfers to the rest of public entities. Source: MEF, Banco de la Nación and BCRP.								

GRAPH 23
CENTRAL GOVERNMENT CURRENT EXPENDITURE
(Percentage of GDP)



a single transfer, instead of by monthly transfers as it used to be. Hence, a total of S/. 4,042 million was transferred to local and regional governments in June 2007, accumulating S/. 4,899 million in the year (S/. 1,659 million in 2006).

Capital expenses grew 20 percent in real terms, increasing from 2.0 percent of GDP in 2006 to 2.2 percent in 2007. This increase is mainly explained by a real growth in gross capital formation (23 percent), with higher expenses recorded in the sectors of: Transport (S/. 1,318 million) as a result of road maintenance and improvement; Agriculture and livestock (S/. 506 million), to support production (improvement of irrigation infrastructure, preservation of natural resources); Education (S/. 382 million), to improve education infrastructure and educational quality; Housing (S/. 338 million), to improve and maintain sidewalks, avenues and parks; to improve water and sanitation, and to implement the National Water and Sanitation Project in rural areas; Electricity (S/. 158 million), basically to install small power systems in several villages; and Health (S/. 100 million), to equip hospitals.

TABLE 39
INVESTMENT PROJECTS OF THE CENTRAL GOVERNMENT BY SECTORS
(Thousand nuevos soles)

MAIN PROYECTS	2006	2007	Nominal Chg. %
Transport	1,152,939	1,317,914	14.3
Health	69,843	100,479	43.9
Electricity	67,472	158,087	134.3
Agriculture and livestock	446,259	506,278	13.4
Housing	229,340	337,716	47.3
Economy	45,960	63,361	37.9
Justice	28,203	79,546	182.0
Education	390,915	382,190	-2.2
Infrastructure	66,048	49,321	-25.3
Other	2,282,256	3,004,718	31.7
Total	4,779,235	5,999,610	25.5

Source: MEF -SIAF.

Financial expenditure fell by 0.2 of a percentage point of GDP compared to 2006 (1.6 percent of GDP), of which 1.2 percent of GDP was the service of interests of the external debt and 0.4 of a percentage point was interests of the internal debt.

3. Rest of central government

Entities in the rest of the central government showed a surplus of S/. 650 million in 2007, a sum lower by S/. 263 million than the one recorded in 2006. This lower result in 2007 is mainly explained by operations in the Consolidated Reserve Fund (FCR), and compensated by operations in the Oficina de Normalización Previsional (ONP) and EsSalud.

In contrast with the surplus of S/. 356 million obtained in 2006, the result of the FCR was negative by S/. 286 million due mainly to the S/. 324 million transferred by the central government in 2006 for the redemption of Recognition Bonds given in 2006 and for the higher interests generated by these bonds in 2007.



The ONP showed a surplus of S/. 309 million –higher by S/. 269 million than the one recorded in 2006– due to current revenues from contributions and higher current transfers from the Public Treasury to pay pensions.

EsSalud posted a surplus of S/. 240 million –S/. 79 million higher than in 2006–, due mainly to increased current revenues from contributions and current transfers to cover the debt generated by the valuation of the balance of the National Pension System reserve.

4. Local governments

Local governments recorded a surplus of S/. 3,595 million, equivalent to 1.1 percent of GDP, and S/. 3,406 million higher than in 2006. This result is explained by higher transfers of mining royalties (canon), which increased from S/.1,309 million in 2006 to S/. 3,867 million in 2007. The balance of local government deposits in the financial system by December 2007 amounted to S/. 5,157 million (S/.1,476 million in 2006).

5. Promotion of private investment

The revenue from privatizations and concessions amounted to US\$ 534.9 million in 2007 and included the Michiquillay Mining Project (Anglo American Services), the sale of Cemento Andino S.A. at the Lima Stock Exchange, and the concession of stretches 1 and 5 of the Interoceanic Highway among the most relevant.

6. Public debt

The balance of the public debt in GDP terms fell from 32.7 to 29.2 percent between 2006 and 2007, showing a decrease of 3.5 percentage points of GDP due to the expansion of economic activity and to the fact that a primary surplus (4.8 percent of GDP) was generated.

The reduction of the public debt in GDP terms was mainly reflected in the lower component of the external debt, whose ratio declined from 23.6 to 18.4 percent of GDP. This was in part offset by a higher ratio of internal debt, which increased from 9.1 to 10.8 percent of GDP.

The evolution of the public debt reflected important debt management operations carried out during 2007 in order to reduce the foreign currency component of the debt and reprogram maturities, including the following:

- A total of US\$ 1,793 million was prepaid to the Paris Club in October 2007. This operation was mainly financed through the issue of internal debt (30-year sovereign bonds).

TABLE 40
PRIVATIZATIONS AND CONCESSIONS 2007
(Millions of US\$)

Privatizations and Concessions	Date	Buyer	Sale Value	Investment Project
PRIVATIZATION			484.44	707.69
1. Tourist Complex El Chaco - La Puntilla	Feb. 07	Albergue Turístico San Agustín S.A.C.	0.04	0.99
2. Land lots	Feb.- Dec.	Several	10.85	
3. Mining Project Michiquillay	Apr. 30	Anglo American Services	403.00	700.00
4. Buildings	May - Dec	Several	6.23	
5. Tourist Complex El Chaco - La Puntilla	Jul. 20	Peruvian Tours Agency		6.70
6. Cemento Andino S. A.	Aug. 27	Stocks sale	63.86	
7. Project Bayobar (Second Fase) ^{1/}	Aug. 29	Several	0.46	
CONCESSIONS			50.46	323.20
1. Rural Telecommunication program "Internet Rural"	Jun. 14	Teléfono del Perú		11.50
2. Rural Broadband	Jul. 26	Several		17.00
3. Mobile Public Service in Band B	Jul. 27	América Movil SAC	22.22	
4. Private Communication Service in Bands D and E	Jul. 27	Nextel del Perú S.A.	27.00	
5. Project Centro Cívico de Lima ^{2/}	Aug. 24	Urbi Propiedades	1.24	12.40
6. Corredor Vial Interoceánica Sur ^{3/} Stretch 1 San Juan de Marcona -Urcos	Aug. 29	Diverse consortium Consortio Interoceánico San Juan de Marcona - Urcos		282.30 98.90
Tramo 5 Matarani - Azangaro - Ilo - Juliaca		Consortio del Sur Puerto Matarani - Juliaca /Puerto Ilo-Juliaca Azángaro		183.40
7. Public Telecommunication Service in Band 900 MHZ ^{4/}	Dec. 28	Teléfono Móviles S. A.		
TOTAL			534.90	1.030.89

1/ Additionally, a bi-annual deferred compensation based on the volume of material extracted from each deposit has been committed (US\$ 5.1 per ton of lime, US\$ 1.5 per ton of diatomite, and US\$ 0.60 per ton of gypsum).

2/ Additionally 15% of revenues from the economic exploitation of infrastructure shall be delivered to the state.

3/ The State guarantees concessionaires an annual payment for works carried out (PAO) and an annual payment for maintenance operations (PAMO).

4/ The result was a monthly retribution of S / . 30 lower than the established base price and a of one-time installation cost of S / . 170 lower than the established rate.

Source: PROINVERSIÓN.

- An operation was made in January 2007 to substitute credit to the Banco de la Nación (US\$ 827 million) in foreign currency by 30-year Treasury Bonds in domestic currency.
- Exchanging public debt with the amortization of Brady and Global 2012 bonds through the issue of Global bonds with longer maturities (US\$ 2,262 million) in March 2007. No other bonds were placed abroad during 2007, which contributed to reduce the debt component in foreign currency and to reduce exchange risks associated with the debt.

The total nominal public debt in US dollars at end 2007 amounted to US\$ 31,870 million (US\$ 1,381 million higher than in 2006). In nominal terms, the external debt amounted to US\$ 20,081 million (down US\$ 1,890 million), while the internal debt amounted to US\$ 11,789 million (up US\$ 3,271 million), reflecting the debt management operations



carried out to reduce the weight of the external debt and increase the weight of the internal debt in terms of the overall debt. As a result of these operations, the weight of the external debt declined from 72.1 to 63.0 percent between December 2006 and December 2007.

This reduction of the external public debt (US\$ 1,890 million) is explained by higher amortizations (US\$ 5,691 million) relative to disbursements received (US\$ 3,384 million) and by the effect of the higher valuation of other currencies, especially the yen and the euro, against the dollar (US\$ 417 million). The strong amortizations and disbursements include the above-mentioned exchange operations of Brady and Global 2012 Bonds and the prepayment made to the Paris Club.

The balance of domestic debt increased by S/. 8,096 million due to an increase of Treasury bonds by S/. 9,226 million (S/. 7,105 million in sovereign bonds, S/. 2,352 million in debt

TABLE 41
PUBLIC DEBT AS OF DECEMBER 2007^{1/}
(Millions of US\$)

	2005 Dec.	2006 Dec.	2007 Dec.	Differential 07-06
PUBLIC DEBT	29,968	30,490	31,870	1,381
(% of GDP)	37.7	32.7	29.2	-3.5
I. FOREIGN PUBLIC DEBT	22,279	21,972	20,081	-1,890
(% of GDP)	28.1	23.6	18.4	-5.2
CREDITS	13,886	13,580	11,820	-1,760
Multilateral Organizations	7,983	7,843	7,851	8
Paris Club	5,696	5,629	3,883	-1,746
Others	207	107	86	-22
BONDS	8,393	8,392	8,262	-130
II. DOMESTIC PUBLIC DEBT	7,688	8,518	11,789	3,271
(% of GDP)	9.7	8.2	9.6	1.4
1. LONG TERM	6,896	7,603	10,440	2,838
BANK LOANS	890	780	52	-728
TREASURY BONDS	6,006	6,809	10,343	3,534
1. Debt exchange bonds	122	91	883	791
2. Sovereign bonds	2,951	3,699	6,318	2,619
3. Recognition bonds	2,677	2,795	2,986	191
4. Others bonds	255	224	157	-67
LIMA MUNICIPALITY BONDS	0	14	45	31
2. SHORT TERM	793	915	1 349	433
FLOATING DEBT	654	915	1 349	433
Memo:				
Liabilities from Public-private partnership (PPP) ^{2/}	0	69	659	590

1/ The bonds are classified according to the market where they were issued. Therefore, the Brady and Global Bonds issued abroad are part of the external public debt, including those purchased by residents.

Sovereign bonds issued in the domestic market include those acquired by non-residents.

2/ Value of principal for the issue of Certificates of Recognition of Rights for the Annual Payment of works carried out (PAO). Source: MEF, Banco de la Nación, ONP and COFIDE.

swap with the Banco de la Nación, and S/. 1,115 million in floating debt). Sovereign Bonds for a total of S/. 7,247 million were placed in 2007, of which S/. 4,750 million were issued in July to finance the prepayment of the debt to the countries member of the Paris Club (D.S. 092-2007-EF).

Internal bank credits and external debt (credits and bonds) were substituted by internal and external bonds with longer maturities, as a result of which the ratio of public debt in foreign currency relative to the overall debt declined from 75.5 to 63.5 percent between end 2006 and end 2007.

Net debt

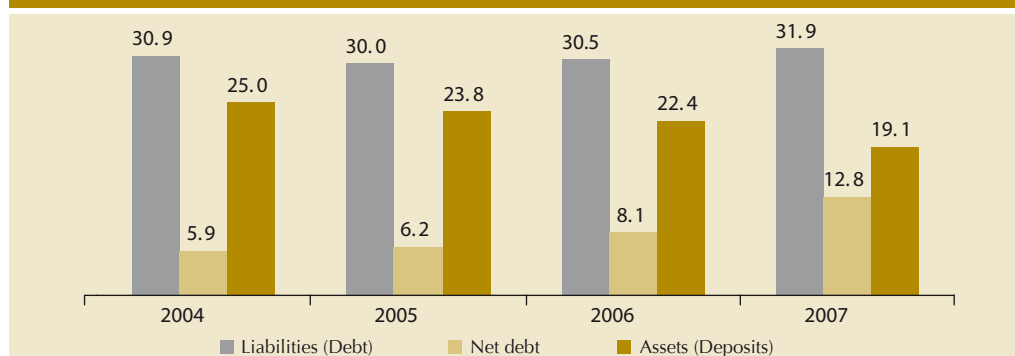
The net public debt, measured as the difference between public sector assets –defined as total deposits– and liabilities –defined as total public debt– continued to decline mainly as a result of the surpluses recorded in the last two years. The net debt fell from US\$ 22,424 million to US\$ 19,061 million between end 2006 and end 2007, showing a reduction of US\$ 3,363 million (decreasing from 24.0 to 17.5 percent in GDP terms). This result is mainly explained by the higher deposits made in the NFPS in 2007, which increased by US\$ 4,744 million compared to 2006.

TABLE 42
NET PUBLIC DEBT
(In millions of US\$)

Years	Assets (Deposits)	Liabilities (Debt)	Net Debt	% GDP		
				Assets	Liabilities	Net Debt
2004	5,857	30,905	25,048	8.4	44.3	35.9
2005	6,172	29,968	23,796	7.8	37.7	30.0
2006	8,065	30,490	22,424	8.6	32.7	24.0
2007	12,809	31,870	19,061	11.7	29.2	17.5

Source: BCRP and MEF.

GRAPH 24
NET PUBLIC DEBT
(Billions of US\$)



Source: BCRP and MEF.

TABLE 43
BALANCE OF PUBLIC DEBT^{1/ 2/}

	Millions of US\$			Percentage of GDP		
	2005	2006	2007	2005	2006	2007
PUBLIC DEBT	29,968	30,490	31,870	37.7	32.7	29.2
I. FOREIGN PUBLIC DEBT^{3/}	22,279	21,972	20,081	28.0	23.6	18.4
CREDITS	13,886	13,580	11,820	17.5	14.6	10.8
Multilateral Organizations	7,983	7,843	7,851	10.1	8.4	7.2
Paris Club	5,696	5,629	3,883	7.2	6.0	3.6
Suppliers	158	73	60	0.2	0.1	0.1
Commercial Banks	1	1	1	0.0	0.0	0.0
Latin America	33	25	20	0.0	0.0	0.0
Other bilateral loans ^{4/}	16	9	5	0.0	0.0	0.0
BONDS	8,393	8,392	8,262	10.6	9.0	7.6
II. DOMESTIC PUBLIC DEBT	7,688	8,518	11,789	9.7	9.1	10.8
1. LONG TERM	6,896	7,603	10,440	8.7	8.2	9.6
CREDITS FROM BANKS	890	780	52	1.1	0.8	0.0
CREDITS FROM BANCO DE LA NACIÓN	890	774	19	1.1	0.8	0.0
OTHER BANKS	0	6	33	0.0	0.0	0.0
TREASURY BONDS	6,006	6,809	10,343	7.6	7.3	9.5
1. Financial System Support Bonds	222	224	157	0.3	0.2	0.1
2. Debt exchange bonds ^{5/}	122	91	883	0.2	0.1	0.8
3. Sovereign Bonds	2,951	3,699	6,318	3.7	4.0	5.8
4. Caja de Pensiones Militar-Policial Bonds	34	0	0	0.0	0.0	0.0
5. Pension Recognition Bonds	2,677	2,795	2,986	3.4	3.0	2.7
LIMA MUNICIPALITY BONDS	0	14	45	0.0	0.0	0.0
2. SHORT TERM	793	915	1,349	1.0	1.0	1.2
CREDITS FROM BANCO DE LA NACIÓN ^{6/}	139	0	0	0.2	0.0	0.0
FLOATING DEBT	654	915	1,349	0.8	1.0	1.2
Memo:						
Obligations by public-private associations ^{7/}	0	69	659	0.0	0.1	0.6

1/ Preliminary.

2/ The bonds are classified according to the market where they were issued. Therefore, the Brady and Global Bonds issued abroad are part of the external public debt, including those purchased by residents.

Sovereign bonds issued in the domestic market include those acquired by non-residents.

3/ The external debt includes medium and long term debt of COFIDE and excludes loans to balance of payments.

4/ Former Soviet Union countries. Includes the People's Republic of China.

5/ D.U. N° 068-99, D.S. N° 002-2007-EF.

6/ Includes Public Treasury overdrafts in the Banco de la Nación and credit to the Instituto Nacional de Defensa Civil.

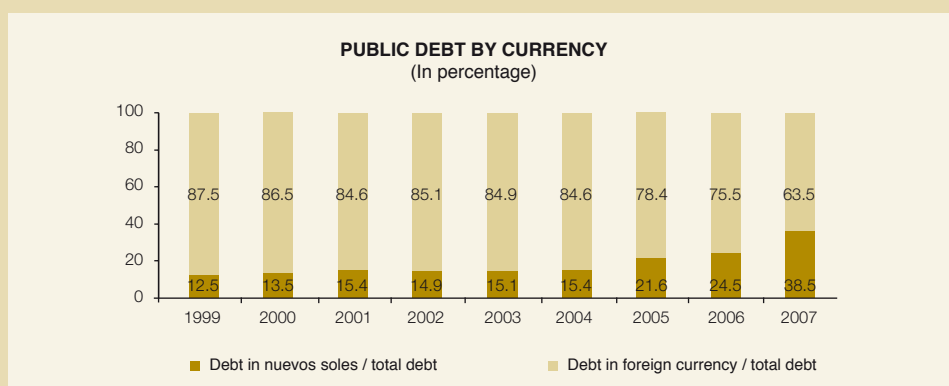
7/ Value of principal for the issue of Certificates of Recognition of the Rights of the Annual Payment for works (CRPAO's).

Source: MEF, Banco de la Nación, ONP, and COFIDE.

BOX 4

PUBLIC DEBT MANAGEMENT

The management of the public debt has been oriented to improving the State’s assets and liabilities. Several market mechanisms have been used to reduce the dollarization of the debt, including the prepayment to countries member of the Paris Club and exchange and interest rate risk coverage. The graph below shows that public debt in foreign currency declined from 87.5 percent in 1999 to 63.5 percent in 2007, while the share of domestic currency-denominated instruments within the public debt portfolio increased from 12.5 percent to 36.5 percent in this period.



It should be pointed out that as a result of the implementation of these risk coverage mechanisms called Cross Currency Swap Extinguible, in 2007 the debt subject to fixed rates was 77 percent.

This mechanism has allowed Peru to reduce the cost of swap through the lower interest rate paid for this. This lower cost derives from the possibility that in the event that Peru should not comply with its obligations in soles, the swap commitments are no longer in force, as a result of which the hedging operation is void and Peru maintains its liabilities in dollars.

In 2007, these operations were carried out with the Deutsche Bank AG, exchanging thereby a total of US\$ 201 million of external debt –at fixed rates in both US dollars and soles– with the IBRD (International Bank for Development and Reconstruction), the KFW¹ (Kreditanstalt für Wiederaufbau), and the US Government.

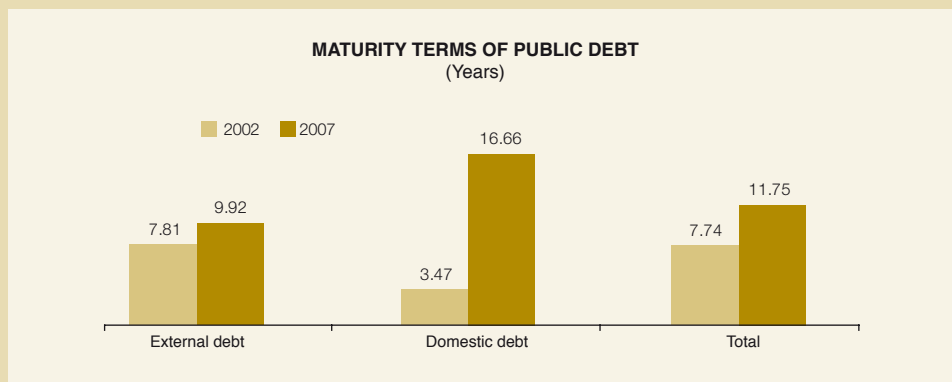
Additionally, a similar operation was carried out with the JPMorgan Chase Bank, USA, to exchange external debt (denominated in US dollars at a variable rate and in soles at a fixed rate) with the IBRD for a total of US\$ 150 million.

Moreover, another operation was made with Credit Suisse International to exchange a total of US\$ 109 million, € 29 million and ¥ 6,175 million of the external debt in US dollars, euros, yens, and soles at fixed rates contracted with AID (Agency for International Development), the OECF (The Overseas Economic Cooperation Fund), and the IADB.

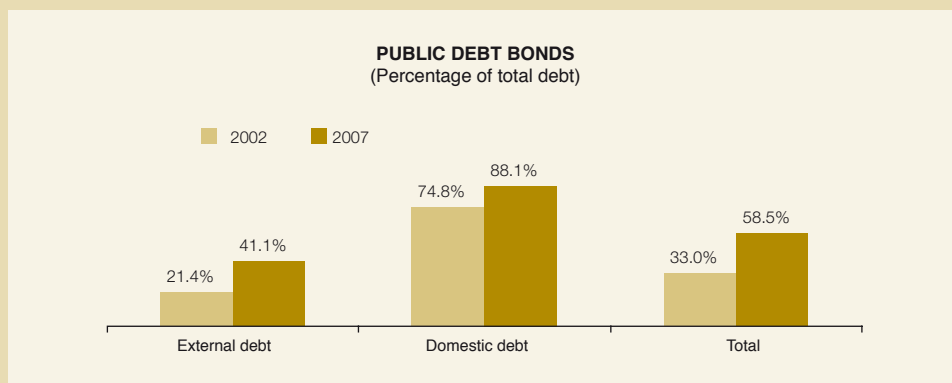
As regards the debt maturity, using 2002 as the reference year we see that the average term of the debt has been extended from 7.74 years in 2002 to 11.75 years in 2007. Although the maturity term for the overall debt has increased by 4 years, it should be pointed out that a domestic capital market

1/ The Kreditanstalt für Wiederaufbau (KFW) is a German bank whose functions are those of a promotional bank for the German economy and a development bank for the developing countries.

has been developed, thus contributing to generate a yield curve of nearly 40 years, as evidenced in the extension of the domestic debt maturity from 3.47 years in 2002 to 16.66 years in 2007.



In addition to the operations aimed at readjusting the debt profile and debt exchange operations in terms of both external and domestic debt, this greater extension of the overall debt has been possible due to a higher concentration of new debt in commercial instruments, such as bonds, as well as to an increasingly lower concentration of debt in other financial sources, such as banks' credits. Thus, the share of bonds in terms of total debt increased from 33.0 percent in 2002 to 58.5 percent in 2007. This was based on an increase of external bond issues, which represented an increase of 25.5 percentage points in public financing through global bonds between 2002 and 2007.



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VI. Money and Credit

Preventive measures adopted in 2007 included raising the monetary policy rate on two occasions, in a context characterized by a strong growth of domestic demand, high uncertainty in international financial markets, and higher than expected rises in the prices of fuels and foodstuffs. The Central Bank also sought to reinforce monetary stability and promote greater dedollarization in the Peruvian economy adopting a stricter inflation target. Thus, the Board of the BCRP approved to reduce the inflation target –measured as the increase of last 12-month CPI prices– from 2.5 to 2.0 percent, plus or minus one percentage point, as of January.

In order to reinforce the Central Bank's commitment of preserving monetary stability, the Board of the BCRP approved to reduce the inflation target from 2.5 to 2.0 percent, plus or minus one percentage point, as of January. Therefore, monetary policy actions were aimed at leading last 12-month inflation to converge to a rate of 2 percent, but considered the possibility that inflation might transitorily fall outside the target range in the short-term due to events such as variations in the prices of imported goods or in the prices of products subject to abrupt changes in local supply.

This lower inflation target is expected to contribute to dedollarize the economy and to further develop the capital market as the value of the domestic currency will be strengthened in the long-term.

1. Monetary policy actions

Monetary policy decisions adopted during the year were mainly of a preventive nature in a context characterized by a strong growth of domestic demand, high uncertainty in international financial markets, and higher than expected rises in the prices of food and fuels.

Special attention was given in the first months of the year to the evolution of the balance between higher domestic expenditure and the growth of productivity in a context in which no inflationary pressures were observed and in which the reversal in the price rises of foodstuffs seen in the first four months of 2006 had contributed to lead annual inflation below the lower band of the inflation target. Thus, the BCRP decided to maintain the reference rate at 4.5 percent until July.

However, in May this macroeconomic scenario began to change when some of the risks considered in the Inflation Report of January materialized with higher than expected rises in the international prices of fuels and food. In this new context, an upward trend was observed in last 12-month inflation due mainly to higher imported inflation. Moreover, in a context of strong dynamism of economic activity and a robust growth of domestic demand, core inflation –trend indicator of the growth of prices– also began to accelerate,



increasing from 1.5 to 1.7 percent between May and June after having remained stable at an average level of 1.4 percent during the previous twelve months.

Given this higher risk scenario and considering monetary policy lags, in July the Board decided to raise the reference rate from 4.5 to 4.75 percent as a preventive measure aimed at maintaining inflation expectations within the target range. The Central Bank continued to withdraw monetary stimulus in September due to concerns that the higher international prices of fuels and some food inputs might translate into higher inflationary expectations. Thus, the Board raised the monetary policy rate to 5.0 percent in a context in which banks and non-financial entities corrected their inflation expectations for 2007 and 2008 slightly upwards.

During the last quarter of 2007, a pause was made in terms of modifying the monetary stimulus to assess the impact of the turbulence seen in international markets due to the US subprime mortgage crisis and to observe the economy's reaction to the monetary actions implemented in July and September.

However, the economic developments observed in the last months of 2007 showed that the scenario of higher growth of domestic demand and higher prices of food and fuel considered in the risk balance of the Inflation Report of September 2007 had materialized. Thus, at end 2007 inflation posted 3.9 percent, while core inflation showed a rate of 3.1 percent –slightly above the upper band of the target range, although core inflation excluding foodstuffs was 2.4 percent in the same period. This deviation of inflation above the target range was mainly due to imported inflation, which had in part translated into expectations and some components of core inflation.

2. Interest rates

In general the interest rates in soles in the Peruvian bank system remained stable during the first half of 2007, increasing thereafter in the second half of the year, influenced by the preventive adjustments made in the BCRP's reference rate in July and September (the reference rate was raised by 25 basis points on each occasion). This conduct was more evident in the case of short-term active and passive rates and lower-risk rates, which depend more directly on monetary policy decisions. On the other hand, long-term active rates showed a downward trend due to positive economic performance and firms' better financial standing, as well as to increased competition among financial entities.

The average interest rate on 31 to 180 day-term deposits increased from 4.8 percent in December 2006 to 5.3 percent in October 2007 (51 basis points) during the first ten months of the year, similarly to the reference interest rate, stabilizing around this level at



BOX 5

NEW INFLATION TARGET: 2.0 PERCENT

The Peruvian Political Constitution of 1993 establishes that the mission of the BCRP is to preserve monetary stability and that the Central Bank is independent, as established in its Organic Law. The Constitution also establishes that the Central Bank must inform the public about the actions and procedures adopted by the bank to fulfill its constitutional mandate.

Between 1990 and 2001, monetary policy was based on the expansion of the monetary base. However, the correlation between inflation and the growth of the monetary base faded away with the reduction of inflation, making it more difficult to communicate monetary policy decisions. Therefore, an Inflation Targeting scheme was adopted since 2002.

Under this scheme, the Central Bank's monetary actions are oriented to meeting an annual inflation target. The inflation target until 2006 was 2.5 percent, plus or minus one percentage point.

In order to reinforce its commitment of preserving monetary stability, in 2007 the Board of the BCRP reduced the inflation target from 2.5 to 2.0 percent, plus or minus one percentage point.

This decision was based on the following reasons:

1. A lower rate of inflation contributes to the dedollarization of transactions and saving, as well as to the development of a capital market given that domestic currency is strengthened.
2. The monetary policy rates of our main trading partners are set at 2.0 percent or lower. Therefore, the value of the Nuevo Sol against other currencies will not depreciate in the long run to compensate higher inflation in the country.
3. The institutional robustness of the BCRP is currently similar to that of central banks in industrialized countries, most of which have inflation targets around 2 percent. In this sense, Arnone et. al (2006) says that the degree of economic independence of the BCRP is higher than the ones observed in emerging and developing countries and similar to the ones observed in industrialized countries.

Under the inflation targeting scheme, the BCRP announces the inflation target to the public in order to maintain economic agents' inflation expectations anchored around this target. The BCRP also seeks that actions are implemented on a timely basis in order to counter inflationary or deflationary pressures that could lead inflation away from the target, given monetary policy lags.

Therefore, the tolerance range of plus or minus one percentage point of the target provides flexibility to monetary policy and prevents reactions associated with temporary price fluctuations.

the end of the year. On the other hand, the average rate on 181 to 360 day-term deposits remained unchanged around 5.7 percent, showing only a reduction of 28 basis points between May and September when the rate was 5.5 percent. As regards active rates in soles, the 3-month corporate prime rate –for low risk clients– increased from 5.2 to 5.6 percent between end 2006 and end 2007, while the active rate with a constant structure –which includes credits with different risk levels– fell from 17.1 to 16.3 percent in the same period.



TABLE 44
INTEREST RATES IN DOMESTIC CURRENCY
(Percentage)

	2005	2006	2007
1. Interbank	3.3	4.5	5.0
2. Term deposits (31 to 180 days)	3.6	4.8	5.3
3. Term deposits (181 to 360 days)	4.6	5.7	5.6
4. Prime lending	4.4	5.2	5.6
5. Average lending rate (up to 360 days)	13.9	13.8	13.2
6. Fix-weighted average lending rate	17.0	17.1	16.3
7. 3-month Libor	4.7	5.1	5.5

Source: SBS and BCRP.

In case of the conduct of interest rates in dollars, this evolution was reflected mainly for investors' increased perception of country risk due to the uncertainty generated by the crisis of the US subprime mortgage market. Thus, short-term interest rates in dollars increased by up to 40 basis points between end 2006 and end 2007. However, like rates in soles, long-term rates in dollars continued to decline due to clients' lower perception of credit risk.

TABLE 45
INTEREST RATES IN FOREIGN CURRENCY
(Percentage)

	2005	2006	2007
1. Interbank	4.2	5.4	5.9
2. Term deposits (31 to 180 days)	2.9	3.4	3.8
3. Term deposits (181 to 360 days)	2.9	3.6	3.9
4. Prime lending	5.5	6.1	6.4
5. Average lending rate (up to 360 days)	9.4	10.1	9.7
6. Fix-weighted average lending rate	10.3	10.6	10.0
7. 3-month Libor	4.5	5.4	5.0

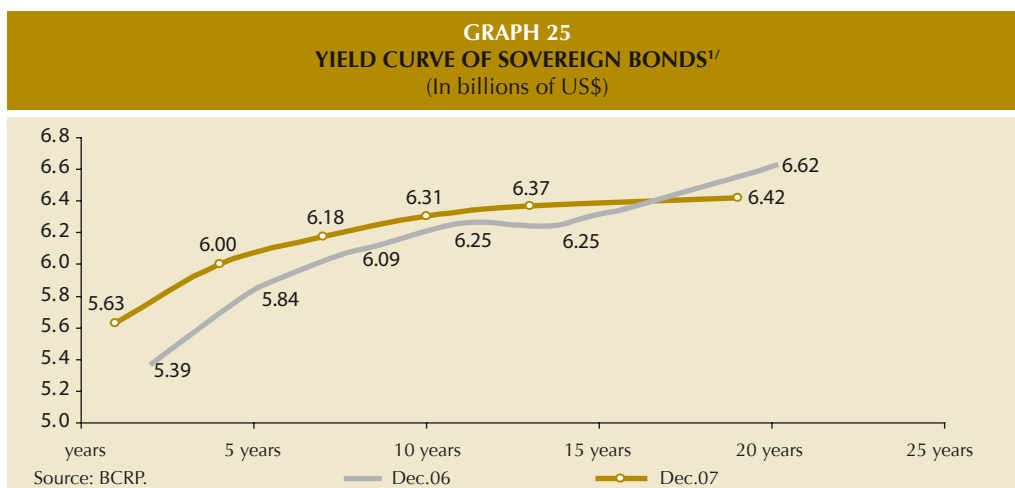
Source: SBS and BCRP.

By rate modalities, a downward trend was observed in the cost of credit for the corporate sector and for microenterprises due to improvements in borrowers' payment capacity. The average rate for commercial loans in soles fell from 9.5 percent at end 2006 to 9.0 percent at end 2007, while the rate for credit to microenterprises fell from 39.1 to 35.6 percent in



the same period. Likewise, average interest rates in dollars for productive activity showed a downward trend: the interest rate for loans to microenterprises declined from 24.7 percent to 23.8 percent between end 2006 and end 2007, while the rate for commercial loans fell from 9.9 to 9.2 percent in the same period.

The yield curve on sovereign bonds in the fixed income market increased in the case of bonds with maturities of over 15 years, reflecting the shift seen in the Central Bank’s monetary policy, as well as increased country risk perception in mid-2007 given expectations of a slowdown in the US economy due to the subprime mortgage crisis in that country. The strength of the Nuevo Sol against the dollar was not enough to revert this trend. The rates with shorter maturity terms increased the most: the rate on the 1-year bond (maturing in 2008) increased 24 points (to 5.63 percent), while the rate on the 10-year bond (maturing in 2017) increased 6 points (to 6.31 percent). On the other hand, the rate on the 20-year bond (maturing in 2027) fell 20 percentage points to 6.42 percent.



Short-term interest rates –represented by BCRP Certificates of Deposit– increased influenced by the BCRP adjustment of its monetary stance: this rate increased 72 basis points in one year (from 5.13 percent at end 2006 to 5.85 percent at end 2007), showing a higher increase than the one observed in the BCRP reference rate (50 points), which reflected investors’ perception of higher country risk.

3. Monetary aggregates

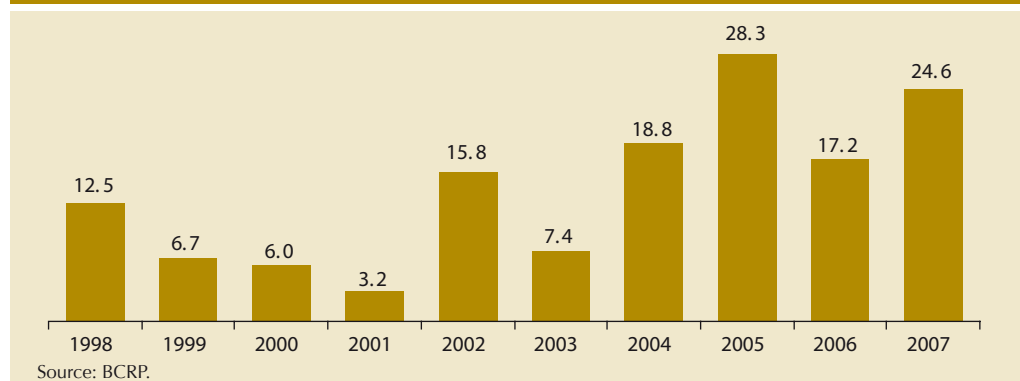
Monetary aggregates showed a high growth in 2007 due to factors such as the expansion of economic activity, the process of dedollarization, and “bankarization”. In order to maintain inflation expectations anchored around the target, the BCRP raised its reference interest rate in both July and September, which slightly affected the growth of lower aggregates. However, aggregates in general showed higher growth rates than in previous

years, particularly in the case of aggregates in soles as a result of dedollarization and “bankarization”.

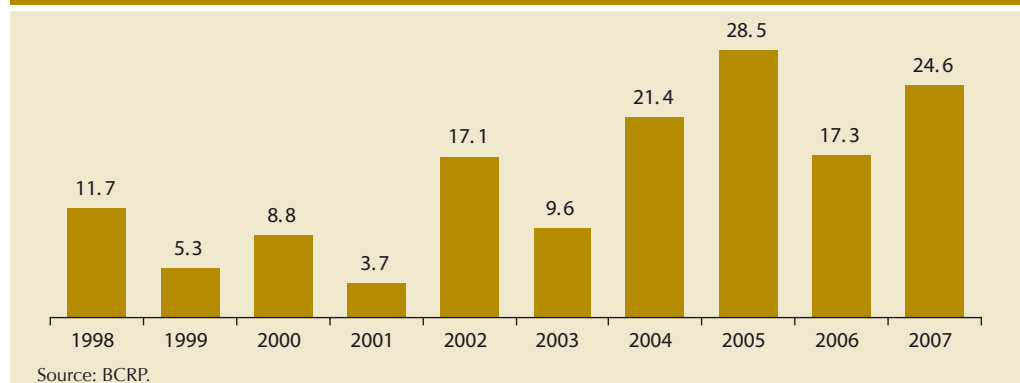
Monetary base and currency

The average balances of the primary base and currency increased 24.6 percent in 2007, showing a higher growth rate than in 2006 (17.2 percent and 17.3 percent respectively), in line with the higher demand for Nuevos Soles due to the expansion of economic activity and to dedollarization.

GRAPH 26
MONETARY BASE
(Annual percentage change, period average)



GRAPH 27
CURRENCY
(Annual percentage change, period average)



On average terms, the 24.6 percent growth of the monetary base –as well as the 31.5 percent growth of liquidity in soles in the private sector– was consistent with an



11.8 percent average growth in nominal GDP, a 15.0 percent drop in the circulation velocity of money, and a 5.6 percent increase in the bank multiplier. The increase in the average multiplier in 2007 was mainly associated with a reduction of the preference for currency (the latter decreased from 32.4 percent to 29.6 percent between 2006 and 2007).

The primary base during 2007 was S/. 3,916 million. Its growth was mainly explained by the BCRP exchange operations (S/. 21,914 million or US\$ 7,070 million), which included purchases of foreign currency (S/. 32,057 million or US\$ 10,306 million), in part compensated by net sales of dollars to the public sector (S/. 10,263 million or US\$ 3,275

TABLE 46
AVERAGE BROAD MONEY IN NUEVOS SOLES OF THE PRIVATE SECTOR
(Average percentage change of year)

	GDP Deflator	GDP Growth		Local Currency Broad money	Velocity of money	Money supply components	
		Real	Nominal			Monetary Base	Multiplier
2005	3.1	6.7	10.0	34.6	-18.2	28.3	4.9
2006	8.3	7.6	16.5	17.9	-1.2	17.2	0.6
2007	4.8	9.0	11.8	31.5	-15.0	24.6	5.6

Source: BCRP.

TABLE 47
OPERATIONS OF CENTRAL RESERVE BANK OF PERU
(In millions of nuevos soles)

	2003	2004	2005	2006	2007
I. NET INTERNATIONAL POSITION	4,315	6,917	2,518	11,696	26,464
(Millions of US\$)	1,242	2,056	811	3,636	8,536
1. Foreign exchange operations	998	1,854	767	2,861	7,070
A. Over the counter	1,050	2,340	2,699	3,944	10,306
B. Public sector	-51	-487	-1,935	-1,084	-3,275
C. Other operations	-1	2	3	1	39
2. Other operations	244	202	44	775	1,466
II. NET DOMESTIC ASSETS	-3,560	-5,252	-438	-10,016	-23,275
1. Public sector deposits	-921	-721	-2,821	-5,434	-6,751
2. Reverse Repos	-170	0	2,850	-2,850	0
3. BCRP Certificates of Deposit	-2,462	-4,158	578	-389	-13,393
4. BCRP Indexed Certificates of Deposit (CDR)	319	0	-1,202	1,202	0
5. Overnight deposits	65	-52	-8	-188	227
6. Reserve requirements in domestic currency	7	-148	4	63	-157
7. Other assets	-398	-173	160	-2,420	-3,201
III. CURRENCY	755	1,665	2,080	1,680	3,189
Memo: Balance at the end of period					
- BCRP Certificates of Deposit	4,097	8,255	7,676	8,066	21,458
- Public sector deposits	1,196	1,918	4,738	10,172	16,924

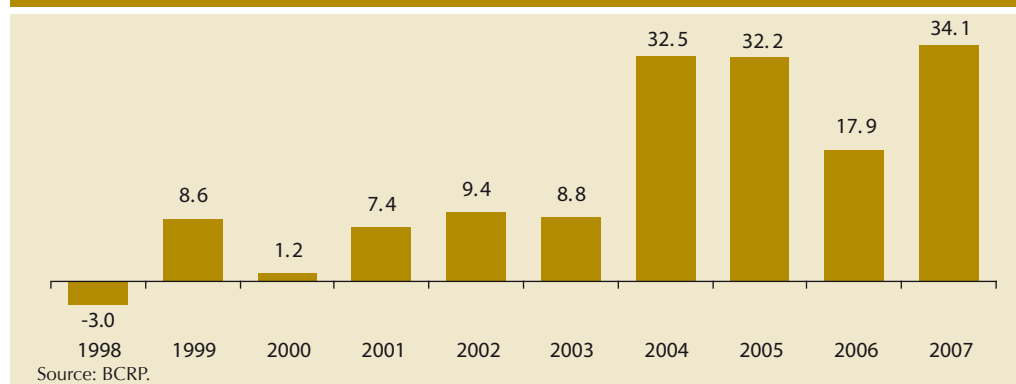
Source: BCRP.

million). Conversely, the monetary base shrank due to net placements of BCRP Certificates of Deposit (S/. 13,393 million) and to public sector's higher deposits at the BCRP (S/. 6,751 million).

Liquidity in Depository Corporations

The growth of liquidity in domestic currency increased from 17.9 percent in 2006 to 34.1 percent in 2007.

GRAPH 28
LIQUIDITY IN NUEVOS SOLES IN DEPOSITORY CORPORATIONS
(Annual percentage change, period average)



However, in contrast with 2006, the growth of liquidity in soles was mainly driven by term deposits, which grew 51.8 percent (10.4 percent in 2006) reflecting the public's higher preference for assets used to store value.

TABLE 48
LIQUIDITY AND SAVINGS IN DOMESTIC CURRENCY IN DEPOSITORY CORPORATIONS

	Balance in millions of nuevos soles			Growth rate	
	2005	2006	2007	2006	2007
Currency	10,036	11,687	14,857	16.5	27.1
Demand deposits	5,453	7,231	9,895	32.6	36.8
Savings deposits	5,767	6,658	8,547	15.5	28.4
Term Deposits	6,630	7,318	11,111	10.4	51.8
Securities and others	581	678	594	16.8	-12.4
TOTAL	28,467	33,573	45,005	17.9	34.1

Source: BCRP.

Liquidity in dollars grew 18.3 percent (12.7 percent in 2006), also due to the higher growth of deposits with longer maturity terms. Deposits with maturity terms in dollars explain 58 percent of variation of annual growth of liquidity in such currency.



TABLE 49
LIQUIDITY AND SAVINGS IN FOREIGN CURRENCY IN DEPOSITORY CORPORATIONS

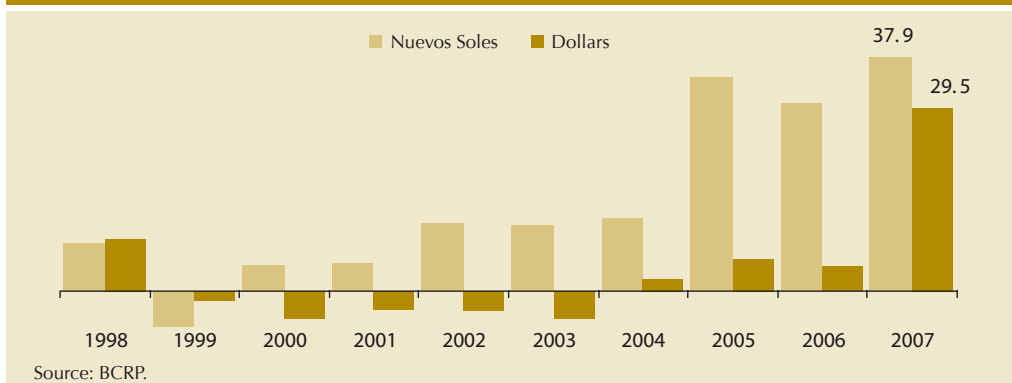
	Balance in millions of Dollars			Growth rate	
	2005	2006	2007	2006	2007
Demand deposits	2,235	2,668	3,368	19.4	26.2
Savings deposits	2,331	2,654	2,837	13.9	6.9
Term Deposits	5,102	5,607	6,777	9.9	20.9
Securities and others	137	120	86	-12.1	-28.2
TOTAL	9,805	11,049	13,068	12.7	18.3

Source: BCRP.

Credit to the private sector

Total credit to the private sector grew at a rate of 28.0 percent, the highest growth rate observed since 1997. Credit to the private sector in soles grew 37.9 percent (30.2 percent in 2006), while credit to the private sector in dollars grew 29.5 percent, (3.9 percent in 2006). The dollarization ratio of credit to the private sector decreased from 60 to 57 percent.

GRAPH 29
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC AND FOREIGN CURRENCY
(Annual percentage change, period average)



The expansion of credit in Nuevos Soles was mainly associated with loans from banks (42.6 percent, with an annual flow of S/. 7,526 million) and from the Banco de la Nación (68.2 percent, with an annual flow of S/. 907 million). Credit in the segment of micro financial entities grew 13.9 percent (annual flow of S/. 701 million), showing a lower growth than in 2006 (44.5 percent). The most dynamic entities in this segment were rural deposit banks (44.8 percent).

Credit to the private sector in foreign currency grew 29.5 percent (with an annual flow of US\$ 3,310 million), with banks' higher lending accounting for most of this growth (annual flow of US\$ 3,287 million).

TABLE 50
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance in millions of nuevos soles			Growth rate		Flows	
	2005	2006	2007	2006	2007	2006	2007
Commercial banks	13,105	17,669	25,195	34.8	42.6	4,564	7,526
Banco de la Nación	1,277	1,330	2,237	4.1	68.2	53	907
Development Banking System	202	130	158	-35.8	21.6	-72	28
Microfinance institutions	3,985	5,058	5,759	26.9	13.9	1,072	701
Local government S&Ls	1,848	2,400	3,193	29.9	33.0	552	793
Rural S&Ls	348	462	669	33.0	44.8	115	207
Saving and credit cooperatives	634	758	952	19.6	25.6	124	194
Financial companies	1,156	1,437	945	24.3	-34.3	281	-493
Total Financial System	18,570	24,186	33,349	30.2	37.9	5,617	9,163

Source: BCRP.

TABLE 51
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY

	Balance in millions of Dollars			Growth rate		Flows	
	2005	2006	2007	2006	2007	2006	2007
Commercial banks	10,041	10,370	13,657	3.3	31.7	329	3,287
Banco de la Nación	22	14	12	-37.4	-15.3	-8	-2
Development Banking System	160	159	161	-0.7	1.1	-1	2
Microfinance institutions	573	673	696	17.4	3.5	100	23
Local government S&Ls	292	349	370	19.4	6.2	57	21
Rural S&Ls	56	55	48	-1.5	-12.5	-1	-7
Saving and credit cooperatives	188	224	250	19.0	11.6	36	26
Financial companies	37	46	28	22.5	-38.1	8	-17
Total Financial System	10,796	11,216	14,525	3.9	29.5	420	3,310

Source: BCRP.

4. Banks

In 2007 banks continued to show improved financial indicators, particularly in terms of lower exposure to credit risks, and the “solarization” of credit and deposits. This lower exposure to credit risks was reflected in the reduction of non-performing loans (which decreased from 1.6 percent in 2006 to 1.3 percent in 2007) and in the higher provision coverage for non-performing loans, which increased from 100.3 percent in 2006 to 124.4 percent in 2007.

Despite lower margins for active and passive operations, return on equity (ROE) increased from 23.9 percent in 2006 to 27.9 percent in 2007 due to improvements in banks’ efficiency and to the investment of surplus liquidity in BCRP Certificates of Deposit.



TABLE 52
COMMERCIAL BANKS INDICATORS
(Percentage)

	2005	2006	2007
Non-performing loans / Gross assets ^{1/}	2.1	1.6	1.3
Provisions / Non-performing, Restructured ^{2/}	80.3	100.3	124.4
Return on equity ratio	22.2	23.9	27.9

1/ Including overdue loans.
2/ Non-performing loans plus refinanced and restructured credits.
Source: SBS.

Placements in both soles and dollars grew at a higher rate than in 2006. The former grew 46.9 percent, mainly due to the dynamism of mortgage loans (105.1 percent), although this segment is still small in terms of volume.

Consumer loans in soles, which grew significantly, showed a growth rate of 56.1 percent (flow of S/. 3,406 million), higher than in 2006. This growth is in part due to the inclusion of the former CMR, whose credits were mainly consumer loans in soles. On the other hand, placements in dollars grew 33.7 percent, driven mainly by commercial loans (39.6 percent).

It is worth mentioning that two new banks incorporated this year: the former Financiera CMR, which became Banco Falabella in June, and Banco Santander in October.

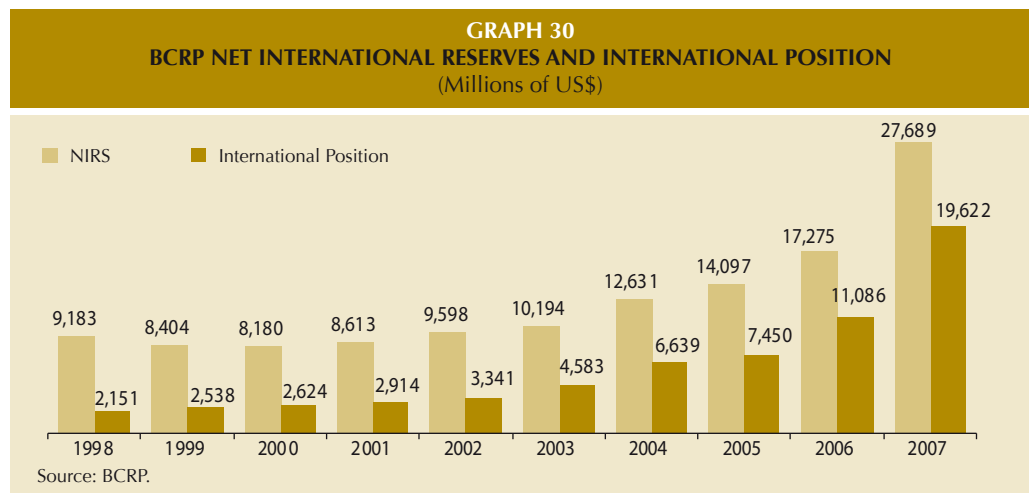
TABLE 53
COMMERCIAL BANKS DIRECT CREDITS

	DOMESTIC CURRENCY (Millions of nuevos soles)							
	End-of-period balances			Flows		Percentage change		
	2005	2006	2007	2006	2007	2006	2007	
Commercial	6,372	8,557	11,602	2,185	3,045	34.3	35.6	
Microbusiness	1,548	1,959	2,828	411	869	26.6	44.3	
Consumer	4,269	6,075	9,480	1,806	3,406	42.3	56.1	
Mortgage	275	793	1,627	518	834	188.6	105.1	
TOTAL	12,464	17,384	25,538	4,920	8,153	39.5	46.9	
	FOREIGN CURRENCY (Millions of US\$)							
	End-of-period balances			Flows		Percentage change		
	2005	2006	2007	2006	2007	2006	2007	
Commercial	6,525	7,425	10,369	900	2,943	13.8	39.6	
Microbusiness	182	223	291	41	69	22.3	30.7	
Consumer	586	690	908	105	217	17.9	31.5	
Mortgage	1,807	1,960	2,196	153	236	8.5	12.1	
TOTAL	9,100	10,298	13,764	1,199	3,466	13.2	33.7	

Source: SBS.

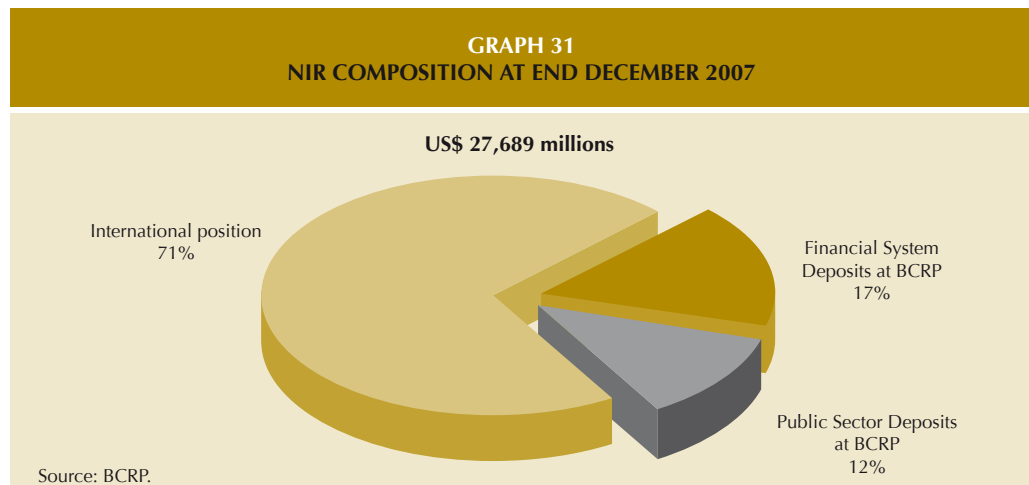
5. Net international reserves (NIRs)

Peru’s liquidity international position continued to improve in 2007, as reflected in the country’s higher NIRs and the better international position of the BCRP, which amounted to US\$ 27,689 and US\$ 19,622 million respectively at the end of 2007.



The annual increase in NIRs (US\$ 10,414 million) is basically explained by net purchases of foreign currency (US\$ 10,306 million during 2007), as well as by banks’ higher deposits (US\$ 1,154 million), net investment yield (US\$ 773 million), and public sector’s higher deposits (US\$ 630 million).

This was offset by net sales of dollars to the public sector, which amounted to US\$ 3,275 million in the year.



The BCRP's international position increased by US\$ 8,536 million to US\$ 19,622 million in December due to the high volume of net purchases during the year. With this result, the BCRP's foreign exchange position in terms of NIRs increased from 64 percent at end 2006 to 71 percent at end 2007. Other components contributing to the evolution of NIRs (as of December) included banks' reserve requirements and deposits in dollars at the BCRP (17 percent), as well as public sector's deposits (12 percent).

6. Financial saving and capital market

Financial saving includes all the liabilities of the financial system with the private sector, excluding money (banknotes and coins held by the public and demand deposits). In 2007 financial saving grew 33.4 percent compared to 2006, increasing from 30.3 percent to 36.1 percent in GDP terms. This growth was mainly driven by saving in soles, which increased from 17.0 to 22.8 percent in GDP terms. In contrast with 2006, this growth of financial saving in soles was not only associated with the growth of private pension funds, but also with the growth of term deposits and mutual funds, which reflects the public's higher acceptance of the Nuevo Sol as medium to store value.

TABLE 54
FINANCIAL SAVINGS
(Average balance, in percentage of GDP)

	Domestic Currency	Foreign Currency	Total
1998	6.3	15.9	22.2
1999	7.1	17.7	24.8
2000	7.9	17.5	25.5
2001	9.1	17.5	26.6
2002	10.6	16.8	27.4
2003	12.1	16.3	28.4
2004	13.4	14.7	28.0
2005	15.4	13.6	29.0
2006	17.0	13.2	30.3
2007	22.8	13.3	36.1

Source: BCRP.

Primary bond market

At end 2007 the balance of fixed-income instruments issued by companies in the private sector had increased 12 percent compared to 2006 (17 percent considering a constant exchange rate). Excluding financial entities, the number of issuers increased from 51 to 55.

By type of issuer, the balance of instruments issued by non-financial private firms (mainly corporate bonds) increased 11 percent, showing an annual flow of S/. 1,111million. By currencies, the share of instruments denominated in soles relative to total instruments increased from 27 percent at end 2006 to 37 percent at end 2007, which implied that the

share of bonds in dollars decreased from 64 percent to 55 percent. Moreover, the maturity terms of bond issues in soles were also longer. Thus, while 26 percent of bond issues in soles matured in 5 years or more in 2006, this percentage increased to 45 percent in 2007. The firms with the largest bond issues in soles included Telefónica del Perú (S/.650 million), Gloria (S/. 240 million), Banco Continental BBVA (S/.185 million) and Banco de Crédito del Perú (S/.180 million), while the firms with the largest issues in dollars were Banco Continental BBVA (US\$ 114 million), Relapasa (US\$ 78 million) and Red de Energía del Perú (US\$ 60 million).

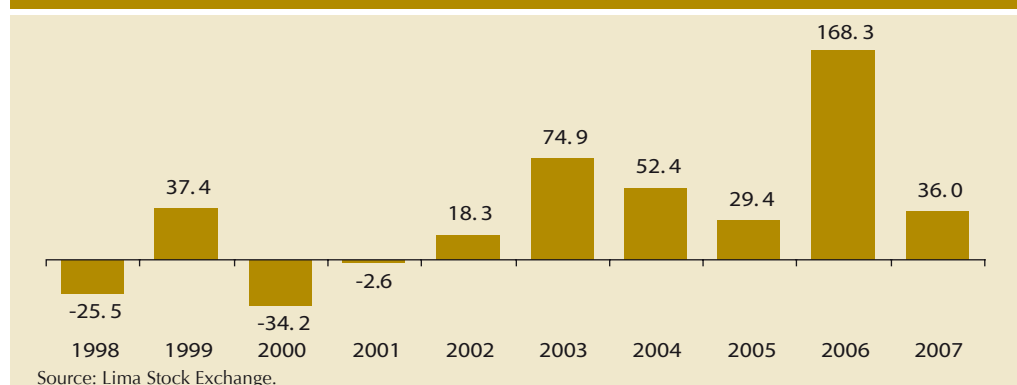
Stock exchange

The Lima Stock Exchange (LSE) recorded six years of consecutive gains showing a yield of 36.0 percent in its General Index (IGBVL) in 2007. Furthermore, the Blue Chip Index (ISBVL) –which records the 15 most representative stocks– showed an annual yield of 31.0 percent. It is worth pointing out that the LSE was the second most profitable Latin American stock exchange after the Sao Paulo Stock Exchange (43.6 percent).

By economic sector, the most profitable shares were those oriented to the domestic market, such as industrial and agroindustrial stocks (69.4 percent and 87.9 percent respectively).

The LSE showed a differentiated conduct in the year. The General Index accumulated a yield of 81.8 percent between January and July, mainly due to the growth of the domestic market, but since July the LSE was affected by the crisis of the US subprime market and the subsequent fall of global stock markets. In November the General Index at the LSE recorded its strongest monthly fall (15.9 percent) since the Russian crisis of 1998, reverting most of the gains obtained in the previous months.

GRAPH 32
LIMA STOCK EXCHANGE
(Annual Profitability)



The amount of transactions during 2007 (S/. 38.9 billion) increased 88.4 percent compared to 2006. The most dynamic segment was the segment of variable income papers, whose volume of transactions grew 96.5 percent compared to 2006, while the segment of fixed income papers grew 35.0 percent. The value of market capitalization increased 68 percent compared to end 2006, reaching an average level equivalent to 95 percent of GDP (63 percent in 2006).

It is worth mentioning that the LSE established a new index in June. This index, called the National Capitalization Index (INCA), tracks the performance of the 20 most liquid securities listed at the LSE, but weighing it against the market capitalization of the free-float of these securities⁵.

**TABLE 55
STOCK EXCHANGE**

	2005	2006	2007	Percentage change	
				2006	2007
INDICES (end of period)					
(December 1991 = 100)					
General Stock Index	4,802	12,884	17,525	168.3	36.0
Blue Chip Index	7,681	22,159	29,035	188.5	31.0
Index Peru-15	8,440	24,959	34,039	195.7	36.4
TRADING VOLUME^{1/}					
(Millions of nuevos soles)					
Equities	8,754	17,916	35,197	104.7	96.5
Fixed-income instruments	3,268	2,708	3,657	-17.1	35.0
LSE MARKET CAPITALIZATION					
(Millions of nuevos soles)					
	124,062	192,364	324,118	55.1	68.5
(Millions of US\$)	36,170	60,114	108,039	66.2	79.7
(Percentage of GDP)	47.4	63.0	95.0		
1/ Only cash operations					
Source: Lima Stock Exchange.					

The value of variable and fixed income securities listed at CAVALI increased from US\$ 31,115 million at end 2006 to US\$ 56,941 million at end 2007 (83 percent). Moreover, the value of shareholdings at market prices grew 101 percent compared to 2006, reaching a value of US\$ 43,818 million.

This increase at nominal value was 25 percent (US\$ 7,257 million). The participation of non-resident investors (valued at market prices) increased from 43 percent to 48 percent.

⁵ Free-float is usually defined as all shares held by investors owning 1 percent or less of all shares of a security.

TABLE 56
VALUE OF HOLDINGS IN CAVALI: EQUITIES AND FIXED INCOME

	Balance in millions of US\$			Participation %	
	2005	2006	2007	2006	2007
NOMINAL VALUE	5,052	5,825	7,257	100	100
Residents	3,340	3,595	3,890	62	54
Non-residents	1,712	2,230	3,367	38	46
MARKET VALUE	14,265	21,805	43,818	100	100
Residents	7,517	12,491	22,972	57	52
Non-residents	6,748	9,314	20,846	43	48

Source: CAVALI.

Private pension system

The value of private pension funds as of December 2007 amounted to S/. 60,406 million (32.6 percent higher than at end 2006) and increased from 14.9 percent in 2006 to 17.7 percent in 2007 in GDP terms. Furthermore, the number of affiliates increased by 5.6 percent to 4.1 million.

TABLE 57
PRIVATE PENSION SYSTEM

	2005	2006	2007
Number of affiliates			
In thousands	3,637	3,882	4,101
Percentage change, end-of-period	7.1	6.7	5.6
Fund Value			
In millions of nuevos soles	32,223	45,547	60,406
Percentage change, end-of-period	25.6	41.4	32.6
As percentage of GDP	12.3	14.9	17.7
Year on Year Yields (in percentages)			
Nominal	20.2	28.3	25.0
Real	18.4	26.8	20.2

Source: SBS.

The real return of pension funds was 20.2 percent (26.8 percent in 2006), the highest return recorded since the system started operating in 1993, due mainly to the lower return of investments in shares.

Given the strong yield observed at the stock exchange, especially in the first half of the year, the participation of pension funds type 3 (higher risk) increased from 5.0 percent to 23.1 percent, while the participation of pension funds type 2 (medium risk) fell from 89.1 percent to 71.9 percent.

TABLE 58
PRIVATE PENSION SYSTEM

	2005	2006	2007
Fund type (S/. Millions)	32,223	45,547	60,406
Type - 1	2,270	2,667	3,044
Type - 2	29,740	40,599	43,427
Type - 3	213	2,281	13,935
Percentage participation	100.0	100.0	100.0
Type - 1	7.0	5.8	5.0
Type - 2	92.3	89.1	71.9
Type - 3	0.7	5.0	23.1

Source: SBS.

The participation of investments abroad by private administrators of pension funds (AFPs) also increased from 8.5 percent to 13.2 percent given the greater flexibility given to said investments, whose limit was raised from 12 percent (limit in force until December 2006) to 15 percent (in force until December 2007). The share of Public Treasury sovereign bonds, including global bonds in soles, also increased from 17.7 percent to 20.7 percent. On the other hand, the participation of corporate securities fell from 62.9 percent to 59.4 percent, mainly due to the drop seen in securitization instruments and quotas of investment funds. Moreover, the participation of deposits declined from 5.5 percent to 2.0 percent.

TABLE 59
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO
(Percentage)

	2005	2006	2007
a. Government securities	20.3	19.1	21.9
Central government	13.8	14.5	19.7
Central Bank securities	1.8	3.2	1.0
Brady bonds	4.7	1.3	1.3
b. Financial institutions	11.4	9.2	5.4
Deposits in domestic currency	4.4	4.9	1.7
Deposits in foreign currency	3.0	0.6	0.3
Shares ^{1/}	3.2	2.9	2.8
Bonds	0.8	0.8	0.6
c. Non-financial institutions	58.3	62.9	59.4
Common and investment shares	35.6	41.3	40.6
Corporate bonds	11.1	12.1	13.5
Securitization instruments	8.7	7.1	4.0
Domestic investment funds	2.8	2.4	1.3
d. Foreign Investments	10.1	8.5	13.2
Foreign States debt securities	9.5	6.3	10.6
Foreigns Mutual funds	0.3	2.0	1.5
Foreign shares	0.3	0.2	0.6
American Depositary Shares (ADS)	0.0	0.0	0.5
e. Others^{2/}	-0.1	0.3	0.1

1/ Includes mortgage bills and Investment Funds share.

2/ Includes commercial bills and securitization assets.

Source: SBS.

Mutual investment funds

The total equity administered by mutual investment funds in 2007 grew 57.5 percent, while the number of participants increased 64.3 percent to over 275 thousand participants at the end of the year. The total number of operating funds increased from 35 to 36.

TABLE 60
MUTUAL FUNDS^{1/}

	2005	2006	2007
Number of participants			
(In units)	115,447	167,492	275,126
Percentage change, end-of-period	40.0	45.1	64.3
Funds value			
In millions of Nuevos Soles	6,848	8,248	12,989
Percentage change, end-of-period	18.0	20.4	57.5
As a percentage of GDP	2.6	2.7	3.8
Composition (percentage)			
Mixed-income funds	3.1	5.8	26.6
Fixed-income funds	96.9	94.2	73.4
In Nuevos Soles	15.5	17.7	20.9
In US\$	81.3	76.5	52.4
Structured	0.3	0.2	0.1
Nominal Profitability (in percentages)			
Mixed-income funds and variable yield	6.2	19.6	5.1
Fixed-Income funds(Nuevos Soles)	4.3	4.7	4.4
Fixed-Income funds(US\$) ^{2/}	3.2	-2.5	-1.4
Structured ^{2/}	-	-0.8	-2.6
Real Profitability (in percentages)			
Mixed-income funds and variable yield	4.6	18.3	1.1
Fixed-Income funds (Nuevos Soles)	2.8	3.5	0.5
Fixed-Income funds(US\$) ^{2/}	1.7	-3.6	-5.1
Structured ^{2/}	-	-1.9	-6.3

1/ Figures recorded at end-December.

2/ Interest rates in US\$ plus change of exchange rate in the period.

Source: CONASEV and BCRP.

By type of fund, the participation of mixed funds showed the highest growth, increasing from 5.8 to 26.6 percent, while the participation of fixed income funds declined from 94.2 percent to 73.4 percent. The increase seen in the former was associated with the high return observed at the stock exchange in the first half of the year. The share of mutual funds in soles increased from 17.7 percent to 20.9 percent, reflecting a decline in the dollarization ratio (from 81 percent at end 2006 to 69 percent at end 2007). New participants in the mutual fund system amounted to 108 thousand participants, of which 69 thousand preferred funds in soles and 39 thousand preferred funds in dollars.

Mutual fund investments were mainly oriented to local shares and BCRP securities. The share of local actions in terms of total shares increased from 0.7 percent to 11.3 percent,



while the participation of CDBCRPs increased from 9.0 percent to 17.6 percent. In contrast, the participation of private bonds and short-term instruments dropped from 34.3 to 23.4 percent, while the participation of bank deposits and bonds fell from 33.5 to 23.9 percent.

TABLE 61
MUTUAL FUND INVESTMENT COMPOSITION

	2005	2006	2007
a. Government securities	15.4	25.3	29.8
Central government	8.4	7.1	5.0
Global bonds and Brady bonds	3.6	9.3	7.3
Central Bank securities	3.5	9.0	17.6
b. Financial institutions	42.3	33.5	23.9
Deposits in domestic currency	6.9	7.6	4.8
Deposits in foreign currency	21.8	15.3	9.4
Financial system Bonds	13.5	10.5	8.9
Shares and others	0.0	0.1	0.7
c. Non-financial institutions	37.8	35.0	34.8
Common and investment shares	0.5	0.7	11.3
Corporate bonds	37.3	34.3	23.4
d. Foreign Investments	2.0	5.2	6.4
e. Others ^{1/}	2.5	1.0	5.2

1/ Includes Repos operations and pact operations.
Source: CONASEV.



Fragment of decorative border
Three-dimensional cotton and wool knitted fabric
Nazca Culture (BC 200-AD 700)

STATISTICAL APPENDICES*

* The appendices and other tables with historical statistics may be found at the BCRP website (www.bcrp.gob.pe)



Decorative border in Kilim-like tapestry
Chimu Culture (AD 1000-1470)

**APPENDIX 1
GROSS DOMESTIC PRODUCT**
(Millions of nuevos soles at 1994 prices)

YEAR	GROSS DOMESTIC PRODUCT 1/ (1)	POPULATION 2/ (Thousands) (2)	GDP Per Capita (Nuevos soles at 1994 prices) (3)	Percentage change			INFLATION
				(1)	(2)	(3)	
1950	21,929	7,632.5	2,873.1				9.5
1951	23,987	7,826.3	3,064.9	9.4	2.5	6.7	8.2
1952	25,231	8,025.7	3,143.8	5.2	2.5	2.6	6.4
1953	26,470	8,232.2	3,215.4	4.9	2.6	2.3	8.6
1954	28,086	8,447.0	3,324.9	6.1	2.6	3.4	4.8
1955	29,719	8,671.5	3,427.2	5.8	2.7	3.1	4.6
1956	31,006	8,904.9	3,482.0	4.3	2.7	1.6	6.0
1957	33,097	9,146.2	3,618.7	6.7	2.7	3.9	7.1
1958	32,855	9,396.7	3,496.5	-0.7	2.7	-3.4	8.9
1959	33,369	9,657.8	3,455.1	1.6	2.8	-1.2	16.8
1960	36,355	9,931.0	3,660.8	9.0	2.8	6.0	2.6
1961	39,413	10,217.5	3,857.4	8.4	2.9	5.4	8.7
1962	43,054	10,516.5	4,093.9	9.2	2.9	6.1	4.9
1963	45,387	10,825.8	4,192.5	5.4	2.9	2.4	8.7
1964	48,198	11,143.4	4,325.3	6.2	2.9	3.2	11.4
1965	51,406	11,467.2	4,482.8	6.7	2.9	3.6	14.6
1966	55,590	11,796.3	4,712.5	8.1	2.9	5.1	7.9
1967	58,046	12,132.1	4,784.5	4.4	2.8	1.5	19.0
1968	58,271	12,475.9	4,670.7	0.4	2.8	-2.4	9.8
1969	60,528	12,829.0	4,718.1	3.9	2.8	1.0	5.7
1970	64,275	13,192.7	4,872.0	6.2	2.8	3.3	5.5
1971	67,177	13,567.7	4,951.3	4.5	2.8	1.6	7.5
1972	69,479	13,953.2	4,979.4	3.4	2.8	0.6	4.2
1973	73,980	14,348.1	5,156.1	6.5	2.8	3.5	13.8
1974	80,481	14,751.1	5,455.9	8.8	2.8	5.8	19.1
1975	84,024	15,161.1	5,542.1	4.4	2.8	1.6	24.0
1976	85,004	15,580.8	5,455.7	1.2	2.8	-1.6	44.6
1977	85,529	16,011.0	5,341.9	0.6	2.8	-2.1	32.6
1978	82,296	16,447.6	5,003.5	-3.8	2.7	-6.3	73.9
1979	83,920	16,886.6	4,969.6	2.0	2.7	-0.7	66.7
1980	90,354	17,324.2	5,215.5	7.7	2.6	4.9	60.1
1981	95,291	17,762.2	5,364.8	5.5	2.5	2.9	72.7
1982	94,979	18,125.0	5,240.2	-0.3	2.0	-2.3	72.9
1983	86,111	18,495.2	4,655.9	-9.3	2.0	-11.2	125.1
1984	89,382	18,872.9	4,736.0	3.8	2.0	1.7	111.5
1985	91,250	19,258.4	4,738.2	2.1	2.0	0.0	158.3
1986	102,301	19,651.7	5,205.7	12.1	2.0	9.9	62.9
1987	110,222	20,053.1	5,496.5	7.7	2.0	5.6	114.5
1988	99,839	20,462.7	4,879.1	-9.4	2.0	-11.2	1,722.3
1989	86,431	20,880.6	4,139.3	-13.4	2.0	-15.2	2,775.3
1990	82,032	21,307.1	3,850.0	-5.1	2.0	-7.0	7,649.6
1991	83,760	21,742.2	3,852.4	2.1	2.0	0.1	139.2
1992	83,401	22,186.3	3,759.1	-0.4	2.0	-2.4	56.7
1993	87,375	22,639.4	3,859.4	4.8	2.0	2.7	39.5
1994	98,577	22,998.6	4,286.2	12.8	1.6	11.1	15.4
1995	107,064	23,363.5	4,582.5	8.6	1.6	6.9	10.2
1996	109,760	23,734.1	4,624.6	2.5	1.6	0.9	11.8
1997	117,294	24,110.7	4,864.8	6.9	1.6	5.2	6.5
1998	116,522	24,493.2	4,757.3	-0.7	1.6	-2.2	6.0
1999	117,587	24,881.8	4,725.8	0.9	1.6	-0.7	3.7
2000	121,057	25,276.5	4,789.3	3.0	1.6	1.3	3.7
2001	121,317	25,677.5	4,724.6	0.2	1.6	-1.4	-0.1
2002	127,407	26,084.9	4,884.3	5.0	1.6	3.4	1.5
2003	132,545	26,498.7	5,001.9	4.0	1.6	2.4	2.5
2004	139,320	26,919.1	5,175.5	5.1	1.6	3.5	3.5
2005 3/	148,716	27,346.2	5,438.3	6.7	1.6	5.1	1.5
2006 3/	159,955	27,780.0	5,757.9	7.6	1.6	5.9	1.1
2007 3/	174,328	28,220.8	6,177.3	9.0	1.6	7.3	3.9

1/ The GDP for the period 1950-1989 was estimated using the GDP's percentage with 1979 as base year.

2/ Total Population for 1994-2007 period was estimated based on the 2007 Census.

3/ Preliminary.

Source: INEI and BCRP.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 2
MACROECONOMIC INDICATORS
(Percentage of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SAVINGS-INVESTMENT										
Domestic savings	17.7	18.4	17.3	16.6	16.4	16.9	18.1	19.3	22.8	24.4
Public sector	3.8	1.7	0.7	0.7	0.7	1.2	1.8	2.6	4.9	5.9
Private sector	13.9	16.7	16.6	15.9	15.7	15.7	16.3	16.7	17.9	18.5
External savings	5.9	2.7	2.9	2.2	2.0	1.5	0.0	-1.4	-3.0	-1.4
Investment	23.6	21.1	20.2	18.8	18.4	18.4	18.1	17.9	19.8	23.0
Public sector	4.5	4.8	4.0	3.1	2.8	2.8	2.8	2.9	2.8	3.1
Private sector	19.1	16.3	16.2	15.7	15.6	15.6	15.3	15.1	17.0	19.9
BALANCE OF PAYMENTS										
Current account balance	-5.9	-2.7	-2.9	-2.2	-2.0	-1.5	0.0	1.4	3.0	1.4
Trade balance	-4.3	-1.2	-0.8	-0.3	0.6	1.4	4.3	6.7	9.6	7.7
Services	-1.2	-1.1	-1.4	-1.8	-1.8	-1.5	-1.0	-1.1	-0.8	-0.8
Investment income	-2.1	-2.2	-2.6	-2.0	-2.6	-3.5	-5.3	-6.4	-8.1	-7.7
Current transfer	1.7	1.8	1.9	1.9	1.8	2.0	2.1	2.2	2.3	2.3
Financial account	3.2	1.1	1.9	2.9	3.2	1.1	3.1	0.2	0.7	7.8
Private sector	3.2	3.3	2.8	1.8	2.7	-0.2	1.3	2.3	2.1	8.2
Public sector	0.1	0.7	0.5	0.7	1.9	1.0	1.4	-1.8	-0.8	-2.3
Short-term capital	-0.1	-2.9	-1.4	0.4	-1.4	0.2	0.3	-0.3	-0.6	1.9
Exceptional financing	0.4	0.0	-0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.1
BCR net international reserves flow (-)	-1.8	-1.5	-0.4	0.8	1.5	0.8	3.4	2.0	3.0	8.8
Net errors and omissions	0.5	0.0	0.7	0.2	0.2	1.1	0.2	0.3	-0.7	-0.4
NON-FINANCIAL PUBLIC SECTOR										
Current account savings	3.8	1.7	0.7	0.7	0.7	1.2	1.8	2.6	4.9	5.9
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Capital expenditure	5.0	5.0	4.1	3.3	3.0	3.0	2.9	3.0	3.0	3.2
Public investment	4.5	4.8	4.0	3.1	2.8	2.8	2.8	2.9	2.8	3.1
Other capital expenditure	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Overall balance	-1.0	-3.2	-3.3	-2.5	-2.3	-1.7	-1.0	-0.3	2.1	3.1
Financing	1.0	3.2	3.3	2.5	2.3	1.7	1.0	0.3	-2.1	-3.1
External financing	0.4	-0.2	1.2	0.9	2.1	1.4	1.5	-1.5	-0.7	-1.9
Domestic financing	0.1	2.7	1.3	1.0	-0.6	0.3	-0.6	1.7	-1.4	-1.3
Privatization	0.5	0.8	0.8	0.6	0.7	0.1	0.2	0.1	0.1	0.1

Source: BCRP.
Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 3
NATIONAL DISPOSABLE INCOME
 (Percentage change)

	1998	1999	2000	2001	2002	2003	2004	2005 1/	2006 1/	2007 1/
Gross domestic product	-0.7	0.9	3.0	0.2	5.0	4.0	5.1	6.7	7.6	9.0
- Investment income	-32.3	1.3	25.9	-23.0	32.3	42.6	62.1	31.5	44.6	3.6
Gross national product	0.4	0.9	2.5	0.8	4.5	3.0	3.1	5.4	5.0	9.5
Gross national income	-1.7	-0.1	2.3	0.3	4.7	3.5	5.2	6.6	11.2	10.1
+ Current transfers	6.1	5.0	5.4	2.3	-1.8	14.9	11.8	17.9	19.4	6.6
National disposable income	-1.6	0.0	2.4	0.3	4.6	3.7	5.4	6.8	11.4	10.0

1/ Preliminary

Source: INEI and BCRP.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 4
OVERALL DEMAND AND SUPPLY
(Real percentage change)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
								1/	1/	1/
I. Total demand	-0.2	-1.8	3.1	0.6	4.6	4.1	5.7	7.4	8.3	10.6
1. Domestic demand	-0.9	-3.1	2.3	-0.4	4.1	3.7	4.0	5.7	10.0	11.6
a. Private consumption	-0.9	-0.4	3.7	1.5	4.9	3.4	3.6	4.6	6.2	8.3
b. Public consumption	2.5	3.5	3.1	-0.8	0.0	3.9	4.1	9.1	8.7	4.8
c. Gross domestic investment	-2.3	-13.6	-2.7	-7.1	3.0	4.8	5.2	8.4	24.7	25.5
Gross fixed investment	-1.4	-11.2	-4.9	-8.2	-0.5	5.9	7.7	12.0	18.9	22.7
- Private	-2.4	-15.2	-1.7	-4.7	0.2	6.3	8.1	12.0	20.1	23.2
- Public	2.9	6.3	-15.8	-22.5	-4.0	4.0	5.7	12.2	12.7	19.7
2. Exports of goods and non-financial services	5.6	7.6	8.0	6.8	7.5	6.2	15.2	15.2	1.2	5.4
II. Total supply	-0.2	-1.8	3.1	0.6	4.6	4.1	5.7	7.4	8.3	10.6
1. GDP	-0.7	0.9	3.0	0.2	5.0	4.0	5.1	6.7	7.6	9.0
2. Imports of goods and non-financial services	2.3	-15.2	3.8	2.9	2.3	4.2	9.6	10.9	12.6	18.8
Memo:										
Production-domestic demand gap	0.3	4.1	0.6	0.6	0.9	0.4	1.1	1.0	-2.2	-2.4
1/ Preliminary. Source: INEI and BCRP. Elaborated by the Department of Economic Studies, BCRP.										

APPENDIX 5
GROSS DOMESTIC PRODUCT BY PRODUCTION SECTOR
 (Percentage change)

	1998	1999	2000	2001	2002	2003	2004	2005 1/	2006 1/	2007 1/
Agriculture and livestock 2/	0.5	10.1	6.6	0.6	6.1	3.0	0.2	4.8	7.4	3.1
- Agriculture	0.1	13.0	6.3	-2.3	6.1	1.6	-3.2	4.0	8.3	2.1
- Livestock	1.8	6.9	6.3	4.6	5.3	3.0	2.0	6.6	7.6	4.7
Fishing	-13.4	28.2	10.4	-11.1	6.1	-10.3	30.7	3.2	2.4	6.9
Mining and fuel	3.7	13.1	2.4	9.9	12.0	5.5	5.3	8.4	1.4	2.1
- Metallic and non-metallic mining	4.3	15.9	3.4	11.1	13.0	6.3	5.1	7.3	1.0	1.8
- Natural gas and oil	-0.2	-6.9	-6.5	-2.0	0.7	-4.3	7.1	23.4	5.7	6.5
Manufacturing	-3.5	-0.7	5.8	0.7	5.7	3.6	7.7	7.2	7.4	10.6
- Based on raw materials	-9.9	15.9	9.1	-1.7	4.8	3.2	8.0	3.9	4.1	-0.5
- Non-primary industries	-1.8	-4.7	4.9	1.4	5.9	3.7	7.6	8.2	8.3	12.9
Construction	0.6	-10.5	-6.5	-6.5	7.7	4.5	4.7	8.4	14.8	16.5
Commerce	-3.1	-1.0	3.9	0.9	3.3	2.4	5.8	6.3	11.1	10.5
Electricity and water	6.2	3.0	3.2	1.6	5.5	3.7	4.5	5.6	6.9	8.4
Other services	0.0	1.7	2.0	-0.5	4.0	4.7	4.4	6.4	7.0	9.3
GROSS DOMESTIC PRODUCT	-0.7	0.9	3.0	0.2	5.0	4.0	5.1	6.7	7.6	9.0
Primary sectors gross value added	-1.0	12.5	5.9	2.6	7.7	3.5	4.0	5.8	4.5	2.3
Non primary sector gross value added	-0.7	-0.9	2.2	-0.3	4.5	4.0	5.2	6.8	8.5	10.8

1/ Preliminary.

2/ Includes silviculture.

Source: INEI and BCRP.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 6
CONSUMER PRICE INDEX
(Percentage change)

	1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		
	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	
January	0.91	6.91	0.01	5.07	0.07	3.78	0.19	3.86	-0.52	-0.83	0.23	2.28	0.54	2.80	0.10	3.03	0.50	1.90	0.01	0.64	
February	1.23	8.14	0.31	4.11	0.48	3.95	0.25	3.61	-0.04	-1.11	0.47	2.80	1.09	3.43	-0.23	1.68	0.55	2.70	0.26	0.36	
March	1.32	8.19	0.61	3.39	0.54	3.88	0.51	3.58	0.54	-1.08	1.12	3.39	0.46	2.76	0.65	1.88	0.46	2.50	0.35	0.25	
April	0.61	8.43	0.59	3.37	0.51	3.80	-0.42	2.62	0.73	0.05	-0.05	2.59	-0.02	2.78	0.12	2.02	0.51	2.90	0.18	-0.08	
May	0.59	8.25	0.47	3.24	0.02	3.33	0.02	2.63	0.14	0.17	-0.03	2.42	0.35	3.18	0.13	1.79	-0.53	2.23	0.49	0.94	
June	0.53	7.66	0.18	2.88	0.06	3.21	-0.06	2.51	-0.23	0.00	-0.47	2.17	0.56	4.26	0.26	1.49	-0.13	1.83	0.47	1.55	
July	0.63	7.44	0.26	2.51	0.52	3.47	0.17	2.16	0.03	-0.14	-0.15	1.98	0.19	4.61	0.10	1.40	-0.17	1.55	0.48	2.21	
August	0.26	7.48	0.17	2.41	0.47	3.78	-0.30	1.37	0.10	0.26	0.01	1.89	-0.01	4.59	-0.18	1.22	0.14	1.87	0.14	2.20	
September	-0.54	6.59	0.46	3.44	0.56	3.88	0.06	0.87	0.47	0.68	0.56	1.98	0.02	4.03	-0.09	1.11	0.03	1.99	0.61	2.80	
October	-0.33	6.08	-0.12	3.66	0.23	4.25	0.04	0.68	0.72	1.36	0.05	1.30	-0.02	3.95	0.14	1.28	0.04	1.89	0.31	3.08	
November	0.03	6.03	0.28	3.92	0.06	4.02	-0.49	0.12	-0.40	1.46	0.17	1.88	0.29	4.07	0.07	1.06	-0.28	1.54	0.11	3.49	
December	0.62	6.01	0.43	3.73	0.15	3.73	-0.09	-0.13	-0.03	1.52	0.56	2.48	-0.01	3.48	0.42	1.49	0.03	1.14	0.45	3.93	
Memo:																					
Annual average		7.25		3.47		3.76		1.98		0.19		2.26		3.66		1.62		2.00		1.78	

Source: INEI.
Elaborated by the Department of Economic Studies, BCRP.

**APPENDIX 7
CORE INFLATION
(Percentage change)**

	1998		1999		2000		2001		2002		2003		2004		2005		2006		2007	
	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY	Monthly	YoY
January	0.54	7.57	0.76	7.41	0.40	4.57	0.20	3.25	0.07	1.17	0.00	1.16	-0.06	0.68	0.10	1.39	0.13	1.26	0.10	1.33
February	0.47	6.85	0.56	7.51	0.22	4.21	0.08	3.11	0.02	1.11	0.13	1.27	0.24	0.79	0.00	1.14	0.09	1.36	0.26	1.49
March	0.79	6.76	0.73	7.44	0.39	3.86	0.14	2.85	0.12	1.08	0.16	1.31	0.30	0.93	0.35	1.20	0.41	1.41	0.33	1.42
April	0.55	6.58	0.51	7.40	0.27	3.61	0.15	2.73	0.13	1.06	0.07	1.25	0.05	0.90	0.06	1.21	0.08	1.42	0.13	1.48
May	0.47	6.41	0.37	7.29	0.28	3.53	0.24	2.69	0.03	0.85	0.01	1.24	0.17	1.06	0.16	1.20	0.05	1.32	0.09	1.51
June	0.40	6.23	0.19	7.07	0.28	3.62	0.14	2.55	0.14	0.85	0.03	1.13	0.15	1.18	0.05	1.10	0.00	1.27	0.17	1.68
July	0.56	6.24	0.15	6.64	0.17	3.63	-0.02	2.35	0.17	1.05	0.01	0.96	0.00	1.17	0.06	1.16	0.05	1.25	0.23	1.86
August	0.71	6.33	0.38	6.29	0.28	3.53	0.05	2.12	0.11	1.11	0.10	0.95	0.11	1.18	0.01	1.06	0.13	1.38	0.31	2.04
September	0.69	6.65	0.28	5.86	0.28	3.53	0.06	1.89	0.22	1.27	0.01	0.74	0.02	1.19	-0.03	1.01	0.08	1.49	0.19	2.15
October	0.79	6.97	0.45	5.50	0.20	3.27	0.03	1.71	0.10	1.35	-0.04	0.60	0.11	1.35	0.10	1.00	0.06	1.45	0.35	2.44
November	0.54	7.15	0.34	5.29	0.36	3.29	0.15	1.51	0.12	1.32	0.13	0.60	0.12	1.34	0.13	1.01	0.13	1.45	0.59	2.91
December	0.45	7.17	0.12	4.95	0.28	3.45	0.08	1.30	0.00	1.23	0.13	0.73	0.02	1.23	0.24	1.23	0.15	1.37	0.34	3.11
Memo:																				
Annual average		6.74		6.54		3.67		2.33		1.12		0.99		1.08		1.14		1.37		1.95

Source: INEI.
Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 8
INFLATION BY CONSUMER GROUPS
 (Percentage change)

	Weighing	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General index	100.00	6.01	3.73	3.73	-0.13	1.52	2.48	3.48	1.49	1.14	3.93
Food and beverages	47.55	5.79	-0.91	1.56	-0.21	0.50	1.89	4.00	1.13	1.76	6.02
Textiles and footwear	7.49	5.58	6.52	2.58	1.95	1.00	0.79	1.47	1.45	1.91	2.81
Rent, fuel and energy	8.85	5.78	13.82	12.08	-5.21	7.00	1.87	8.90	2.44	-0.25	2.14
Furniture, household goods, and home maintenance	4.95	8.48	3.38	4.55	1.41	2.10	1.08	0.87	1.15	1.23	1.97
Health	2.90	7.50	10.85	6.19	4.48	3.40	1.84	2.94	2.40	0.63	1.34
Transport and communications	12.41	3.06	13.55	5.78	-0.86	1.10	9.00	4.45	2.69	-0.51	1.87
Recreation, entertainment and culture services	8.82	8.80	6.30	4.59	3.21	2.50	2.05	1.72	1.41	1.02	2.39
Other goods and services	7.04	7.81	9.13	4.34	1.90	0.40	-0.40	-2.80	-0.21	1.65	1.22

Source: INEI.
 Elaborated by the Department of Economic Studies, BCRP.

**APPENDIX 9
EXCHANGE RATE
(S/. per US\$)**

	Period average				End of period			
	Bank rate 1/		Informal rate		Bank rate 1/		Informal rate	
	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask
1998	2.92	2.93	2.92	2.93	3.14	3.16	3.15	3.15
1999	3.38	3.38	3.38	3.38	3.51	3.51	3.51	3.51
2000	3.49	3.49	3.49	3.49	3.52	3.53	3.52	3.53
2001	3.51	3.51	3.50	3.51	3.44	3.45	3.45	3.45
2002	3.52	3.52	3.51	3.52	3.51	3.52	3.52	3.53
2003	3.48	3.48	3.47	3.48	3.46	3.46	3.47	3.48
2004	3.41	3.41	3.41	3.41	3.28	3.28	3.28	3.28
2005	3.29	3.30	3.29	3.29	3.43	3.43	3.42	3.43
January	3.27	3.27	3.27	3.27	3.26	3.26	3.25	3.26
February	3.26	3.26	3.25	3.26	3.26	3.26	3.25	3.26
March	3.26	3.26	3.25	3.26	3.26	3.26	3.26	3.26
April	3.26	3.26	3.25	3.25	3.26	3.26	3.25	3.25
May	3.25	3.26	3.25	3.26	3.25	3.26	3.25	3.26
June	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
July	3.25	3.25	3.25	3.25	3.25	3.26	3.25	3.25
August	3.26	3.26	3.25	3.26	3.28	3.29	3.27	3.28
September	3.31	3.31	3.29	3.30	3.34	3.35	3.33	3.34
October	3.38	3.38	3.37	3.38	3.38	3.38	3.37	3.38
November	3.38	3.38	3.37	3.37	3.41	3.41	3.40	3.41
December	3.42	3.43	3.42	3.42	3.43	3.43	3.42	3.43
2006	3.27	3.27	3.27	3.28	3.19	3.20	3.20	3.20
January	3.39	3.39	3.40	3.40	3.31	3.31	3.31	3.32
February	3.29	3.29	3.29	3.29	3.29	3.29	3.29	3.29
March	3.34	3.34	3.33	3.34	3.36	3.36	3.35	3.35
April	3.33	3.33	3.33	3.34	3.31	3.31	3.32	3.32
May	3.28	3.28	3.28	3.28	3.29	3.29	3.29	3.30
June	3.26	3.26	3.26	3.26	3.26	3.26	3.25	3.26
July	3.24	3.24	3.24	3.25	3.24	3.24	3.24	3.24
August	3.23	3.24	3.23	3.23	3.24	3.24	3.24	3.24
September	3.25	3.25	3.24	3.24	3.25	3.25	3.24	3.25
October	3.24	3.24	3.23	3.24	3.21	3.22	3.21	3.22
November	3.22	3.22	3.21	3.22	3.22	3.22	3.22	3.23
December	3.20	3.21	3.21	3.21	3.19	3.20	3.20	3.20
2007	3.13	3.13	3.13	3.13	3.00	3.00	2.99	2.99
January	3.19	3.19	3.19	3.20	3.20	3.20	3.19	3.20
February	3.19	3.19	3.19	3.19	3.19	3.19	3.18	3.19
March	3.19	3.19	3.18	3.19	3.18	3.18	3.18	3.19
April	3.18	3.18	3.18	3.18	3.17	3.17	3.17	3.17
May	3.17	3.17	3.16	3.17	3.17	3.18	3.17	3.17
June	3.17	3.17	3.17	3.17	3.17	3.17	3.16	3.17
July	3.16	3.16	3.16	3.16	3.16	3.16	3.16	3.17
August	3.16	3.16	3.15	3.16	3.16	3.16	3.16	3.16
September	3.14	3.14	3.14	3.14	3.09	3.09	3.09	3.09
October	3.02	3.02	3.01	3.02	3.00	3.00	3.00	3.01
November	3.00	3.00	2.99	3.00	3.00	3.00	2.99	3.00
December	2.98	2.98	2.98	2.99	3.00	3.00	2.99	2.99

1/ Price in the free market published by the SBS.
Source: SBS and Reuters.
Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 10
REAL BILATERAL AND MULTILATERAL EXCHANGE RATES
(Average data in the period)

	INDEX OF NOMINAL EXCHANGE RATE (S/. x US\$)			INDEX OF BILATERAL REAL EXCHANGE RATE 1/			INFLATION USA	INDEX OF NOMINAL EXCHANGE RATE (S/. x BASQUET)	EXTERNAL INFLATION	INDEX OF MULTILATERAL REAL EXCHANGE RATE 2/
	Base: Dec. 2001 = 100			Base: Dec. 2001 = 100			Base: Dec. 2001 = 100	Base: Dec. 2001 = 100	Base: Dec. 2001 = 100	Base: Dec. 2001 = 100
	Bid	Ask	Average	Bid	Ask	Average			Multilateral 2/	
1998	85.1	85.2	85.2	85.5	85.6	85.5	92.3	97.7	85.0	90.5
1999	98.4	98.5	98.4	97.6	97.7	97.7	94.3	108.8	89.1	102.1
2000	101.5	101.6	101.5	100.4	100.4	100.4	97.5	107.9	95.0	104.0
2001	102.1	102.1	102.1	101.7	101.7	101.7	100.2	102.9	99.3	101.6
2002	102.4	102.4	102.4	103.5	103.4	103.5	101.8	97.6	102.9	99.7
2003	101.3	101.2	101.3	102.4	102.3	102.3	104.1	98.0	107.3	102.1
2004	99.4	99.3	99.4	99.5	99.4	99.5	106.9	99.2	110.9	103.1
2005	95.9	95.9	95.9	97.7	97.7	97.7	110.5	98.4	114.8	104.1
January	95.1	95.1	95.1	95.3	95.3	95.3	107.9	97.9	112.5	102.2
February	94.9	94.9	94.9	95.8	95.8	95.8	108.5	97.7	113.0	102.7
March	94.9	94.9	94.9	95.9	95.9	95.9	109.4	97.6	113.5	102.4
April	94.8	94.8	94.8	96.4	96.4	96.4	110.1	97.1	114.2	102.4
May	94.8	94.7	94.7	96.1	96.1	96.1	110.0	97.0	114.0	102.0
June	94.7	94.7	94.7	95.8	95.8	95.8	110.1	96.4	114.4	101.3
July	94.7	94.7	94.7	96.2	96.1	96.1	110.6	96.3	115.1	101.8
August	94.8	94.8	94.8	97.0	97.0	97.0	111.1	97.5	115.3	103.5
September	96.3	96.3	96.3	99.8	99.8	99.8	112.5	99.3	116.2	106.2
October	98.4	98.4	98.4	102.0	102.0	102.0	112.7	100.9	116.5	108.2
November	98.3	98.3	98.3	101.0	101.0	101.0	111.8	100.6	116.3	107.6
December	99.7	99.7	99.7	101.6	101.6	101.6	111.4	102.3	116.2	108.8
2006	95.3	95.3	95.3	98.2	98.2	98.2	114.1	99.0	118.4	105.9
January	98.8	98.8	98.8	101.0	100.9	100.9	112.2	101.9	116.7	108.3
February	95.7	95.7	95.7	97.5	97.5	97.5	112.5	98.8	116.9	104.6
March	97.2	97.2	97.2	99.1	99.1	99.1	113.1	100.3	117.1	105.9
April	97.0	97.0	97.0	99.2	99.2	99.2	114.0	100.5	117.9	106.3
May	95.5	95.4	95.4	98.6	98.6	98.6	114.6	99.8	118.0	106.2
June	95.0	95.0	95.0	98.5	98.5	98.5	114.8	98.2	118.4	105.0
July	94.4	94.4	94.4	98.4	98.3	98.3	115.2	97.8	119.0	105.3
August	94.2	94.1	94.1	98.1	98.1	98.1	115.4	98.1	119.3	105.7
September	94.6	94.5	94.5	98.0	98.0	98.0	114.8	98.3	119.3	105.9
October	94.3	94.2	94.2	97.2	97.1	97.1	114.2	98.0	119.2	105.4
November	93.8	93.8	93.8	96.8	96.8	96.8	114.0	98.2	119.3	106.0
December	93.3	93.3	93.3	96.4	96.4	96.4	114.2	98.2	119.6	106.3
2007	91.1	91.0	91.1	94.9	94.9	94.9	117.3	97.8	122.7	106.5
January	92.9	92.9	92.9	96.3	96.3	96.3	114.6	97.2	119.9	105.5
February	92.9	92.8	92.9	96.5	96.5	96.5	115.2	97.5	120.4	105.9
March	92.7	92.7	92.7	96.9	96.9	96.9	116.2	97.6	120.9	106.0
April	92.5	92.5	92.5	97.2	97.1	97.1	117.0	98.2	121.6	107.2
May	92.2	92.2	92.2	97.0	96.9	96.9	117.7	98.6	121.8	107.3
June	92.3	92.3	92.3	96.8	96.7	96.8	117.9	98.9	122.4	107.7
July	92.0	92.0	92.0	96.0	96.0	96.0	117.9	99.4	123.1	108.3
August	91.9	91.9	91.9	95.6	95.6	95.6	117.7	98.7	123.3	107.6
September	91.3	91.3	91.3	94.6	94.6	94.6	118.0	98.8	123.8	107.4
October	87.9	87.9	87.9	91.0	91.0	91.0	118.2	96.5	124.2	105.0
November	87.4	87.3	87.4	90.9	90.9	90.9	118.9	96.6	125.1	105.7
December	86.8	86.8	86.8	89.8	89.8	89.8	118.9	95.7	125.3	104.5

1/ Considering the Price Index of the United States of America.

2/ Considering the Price Index of our 20 main trading partners.

Source: SBS, International Financial Statistics of the IMF, INEI and Reuters.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 11
BALANCE OF PAYMENTS
(Millions of US\$)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. CURRENT ACCOUNT BALANCE	-3,336	-1,380	-1,546	-1,203	-1,110	-949	19	1,148	2,755	1,505
1. Trade balance	-2,462	-623	-403	-179	321	886	3,004	5,286	8,934	8,356
a. Exports FOB	5,757	6,088	6,955	7,026	7,714	9,091	12,809	17,368	23,800	27,956
b. Imports FOB	-8,219	-6,710	-7,358	-7,204	-7,393	-8,205	-9,805	-12,082	-14,866	-19,599
2. Services	-657	-588	-735	-963	-994	-900	-732	-834	-781	-928
a. Exports	1,775	1,624	1,555	1,437	1,455	1,716	1,993	2,289	2,647	3,343
b. Imports	-2,432	-2,212	-2,290	-2,400	-2,449	-2,616	-2,725	-3,123	-3,428	-4,270
3. Investment income	-1,204	-1,112	-1,410	-1,101	-1,457	-2,144	-3,686	-5,076	-7,583	-8,418
a. Private sector	-762	-549	-896	-550	-746	-1,275	-2,715	-4,211	-6,903	-7,985
b. Public sector	-442	-563	-513	-551	-711	-869	-970	-865	-679	-433
4. Current transfers	987	943	1,001	1,040	1,019	1,209	1,433	1,772	2,185	2,495
of which: remittances from abroad	647	670	718	753	705	869	1,133	1,440	1,837	2,131
II. FINANCIAL ACCOUNT	1,792	583	1,023	1,544	1,800	672	2,154	141	639	8,558
1. Private sector	1,805	1,678	1,481	983	1,538	-105	937	1,818	1,941	9,002
2. Public sector 1/	58	381	277	372	1,056	630	988	-1,441	-738	-2,473
3. Short-term capital	-72	-1,476	-735	189	-794	147	230	-236	-563	2,030
III. EXCEPTIONAL FINANCING	244	24	-58	-1	14	64	26	100	27	67
IV. NET ERRORS AND OMISSIONS	295	-2	388	110	130	689	151	239	-668	-476
V. BCRP NET INTERNATIONAL RESERVES FLOW	-1,006	-775	-193	450	833	477	2,351	1,628	2,753	9,654
(V = I + II + III + IV)										
1. Change in Central Bank reserves	-986	-780	-224	433	985	596	2,437	1,466	3,178	10,414
2. Valuation effect and monetization of gold	20	-5	-31	-16	152	119	86	-162	425	760
Memo:										
GDP (millions of US\$)	56,824	51,537	53,337	53,933	56,769	61,346	69,777	79,427	93,260	109,217

1/ Bonds are classified according to the market where they were issued. The Brady and Global Bonds issued abroad are part of the external public debt, including those purchased by residents.
Source: BCRP, MEF, SBS, SUNAT, Ministry of Foreign Affairs, Cofide, ONP, FCR, Tacna Free Trade Zone, Banco de la Nación, Cavali ICLV S.A., Proinversión, Bank for International Settlements (BIS), and companies.
Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 12
EXPORTS BY GROUPS OF PRODUCTS
(Millions of US\$)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. Traditional products	3,712	4,142	4,804	4,730	5,369	6,356	9,199	12,950	18,374	21,493
Fishing	410	601	955	926	892	821	1,104	1,303	1,334	1,456
Agricultural	323	282	249	207	216	224	325	331	573	460
Mineral	2,747	3,008	3,220	3,205	3,809	4,690	7,124	9,790	14,707	17,328
Petroleum and derivatives	233	251	381	391	451	621	646	1,526	1,760	2,248
2. Non-traditional products	1,967	1,876	2,044	2,183	2,256	2,620	3,479	4,277	5,271	6,288
Agriculture and livestock	302	406	394	437	550	624	801	1,008	1,216	1,503
Fishing	225	190	177	197	164	205	277	323	433	498
Textile	534	575	701	664	677	823	1,092	1,275	1,471	1,730
Wood and papers, and manufactures	69	101	123	142	177	172	214	261	333	360
Chemicals	197	195	212	247	256	316	415	538	601	803
Non-metallic minerals	52	51	47	58	68	74	94	118	135	165
Iron and steel products and jewelry	355	255	265	242	222	262	391	493	829	907
Metal products and machinery	105	76	97	160	110	99	136	191	163	215
Other products ^{1/}	129	27	29	36	33	45	58	70	89	107
3. Other products^{2/}	78	69	107	113	89	114	131	141	156	175
4. EXPORTS	5,757	6,088	6,955	7,026	7,714	9,091	12,809	17,368	23,800	27,956
Memo:										
IN PERCENT OF TOTAL (%)										
Fishing	7.1	9.9	13.7	13.2	11.6	9.0	8.6	7.5	5.6	5.2
Agricultural products	5.6	4.6	3.6	3.0	2.8	2.5	2.5	1.9	2.4	1.6
Mineral products	47.7	49.4	46.3	45.6	49.4	51.6	55.6	56.4	61.8	62.0
Petroleum and derivatives	4.0	4.1	5.5	5.6	5.8	6.8	5.0	8.8	7.4	8.0
TRADITIONAL PRODUCTS	64.4	68.0	69.1	67.4	69.6	69.9	71.7	74.6	77.2	76.8
NON-TRADITIONAL PRODUCTS	34.2	30.8	29.4	31.1	29.2	28.8	27.2	24.6	22.1	22.5
OTHER	1.4	1.2	1.5	1.5	1.2	1.3	1.1	0.8	0.7	0.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Includes mainly fur and leather, and handicrafts.

2/ Including fuel and food sold to foreign ships and aircrafts, and repairs of capital goods.

Source: BCRP, SUNAT and companies.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 13
TERMS OF TRADE
(Year 1994 = 100)

	Exports 1/ 2/				Imports 1/ 3/				Terms of trade	
	Nominal prices		Volume		Nominal prices		Volume		Index	% change
	Index	% change	Index	% change	Index	% change	Index	% change		
1998	103.0	-11.2	126.9	-4.6	105.6	-4.9	142.0	1.2	97.5	-6.6
1999	95.1	-7.7	144.8	14.1	106.1	0.5	115.3	-18.8	89.6	-8.1
2000	98.4	3.5	160.1	10.5	111.7	5.3	120.1	4.2	88.0	-1.7
2001	93.6	-4.9	170.0	6.2	108.2	-3.2	121.5	1.2	86.5	-1.7
2002	96.5	3.2	180.6	6.2	106.3	-1.7	126.8	4.3	90.8	5.0
2003	105.4	9.2	194.9	7.9	115.9	9.0	129.1	1.9	90.9	0.1
2004	129.3	22.7	223.6	14.7	130.0	12.1	137.4	6.4	99.5	9.4
2005	151.1	16.8	259.2	15.9	143.8	10.6	153.2	11.5	105.1	5.6
2006	206.9	36.9	259.0	-0.1	154.5	7.4	175.5	14.5	133.9	27.4
2007	235.8	14.0	267.4	3.3	169.9	10.0	209.9	19.6	138.7	3.6

1/ Weighted according to current and previous month's trade structure. Chain-linked Fisher Index

2/ Estimated on the basis of export prices for each individual traditional item and the price basket of our main trading partners for other exports.

3/ Estimated on the basis of import prices for food and fuels, and a basket of our main trading partners for other imports.

Source: BCRP, SUNAT, Zofraticna, Banco de la Nación and companies.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 14
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR
(Millions of US\$)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. DIRECT INVESTMENT 1/	1,582	1,812	810	1,070	2,156	1,275	1,599	2,579	3,467	5,343
of which: Re-investment	-159	-271	51	-246	-8	638	1,864	2,724	2,353	4,696
2. LONG-TERM LOANS	630	158	970	204	-146	-166	-281	-967	204	3,336
a. Disbursements	1,442	951	1,899	1,032	675	559	726	647	725	3,955
b. Amortization	-812	-793	-929	-828	-821	-725	-1,007	-1,614	-521	-619
3. BONDS (NET) 2/	122	-18	-48	-97	-153	-36	-4	127	-27	0
4. STOCK MARKET AND ADR'S 3/	-346	-107	123	43	-9	1	-74	25	-45	130
5. OTHER EXTERNAL ASSETS AND LIABILITIES 4/	-184	-167	-374	-237	-310	-1,179	-304	55	-1,658	194
6. TOTAL	1,805	1,678	1,481	983	1,538	-105	937	1,818	1,941	9,002

1/ Includes retained earnings in each period. Said earnings may be capitalized or distributed to shareholders in following periods.

2/ In net terms, bonds issued minus bonds redeemed. Includes credit notes and securitizations.

3/ Includes non-residents' net acquisitions of financial assets, recorded at Cavali-ICLV (clearing and settlement institution). Also includes placements of American Depositary Receipts (ADRs).

4/ Includes both non-residents' portfolio movements in terms of domestic assets and local investors' portfolio movements in terms of assets abroad.

Source: BCRP, Cavali ICLV S.A., Proinversión and companies.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 15
INTERNATIONAL ASSET AND LIABILITY POSITION
 (Levels at end period, millions of US\$)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. ASSETS	15,218	14,552	14,377	14,413	15,714	18,038	21,214	24,971	31,987	46,636
1. BCRP Reserve Assets	9,982	9,002	8,562	8,837	9,690	10,206	12,649	14,120	17,329	27,720
2. Financial System assets (excluding the BCRP) 1/	1,757	2,061	2,420	2,682	2,990	4,404	4,834	6,398	9,348	11,770
3. Others Assets	3,479	3,489	3,395	2,894	3,034	3,428	3,731	4,454	5,310	7,146
II. LIABILITIES	41,177	41,236	41,321	41,456	43,411	46,308	48,483	51,250	56,794	76,388
1. Bonds and private and public external debt 2/	30,142	28,586	27,981	27,195	27,872	29,587	31,244	28,657	28,395	32,566
a. Medium- and long-term	23,944	23,855	24,241	23,963	25,283	27,062	28,475	25,449	25,319	26,760
Private sector 3/	3,625	3,765	4,687	4,795	4,496	4,294	4,009	3,170	3,347	6,679
BCRP	756	589	349	202	73	0	0	0	0	0
Public sector 4/	19,562	19,500	19,205	18,967	20,715	22,768	24,466	22,279	21,972	20,081
b. Short-term	6,199	4,731	3,740	3,232	2,589	2,525	2,769	3,208	3,076	5,806
Financial system (excluding the BCRP)	3,126	1,963	1,723	1,321	817	732	834	1,178	921	2,552
BCRP	43	10	34	23	19	12	18	23	54	921
Other 5/	3,030	2,759	1,983	1,888	1,753	1,782	1,917	2,007	2,101	2,334
2. Direct investment	8,297	9,791	11,062	11,835	12,549	12,876	13,310	15,889	19,356	24,744
3. Stock Market and ADRs	2,737	2,859	2,278	2,427	2,990	3,845	3,928	6,705	9,043	19,077

1/ Includes non-residents' assets in local currency.

2/ The external public debt -the debt of the central government plus the debt of public enterprises (the latter of which accounts for 5 percent of the total debt) is mainly a mid- and long-term debt (99 percent).

3/ Includes liabilities in domestic currency with non-residents.

4/ Bonds are classified according to where they were issued. Therefore, Brady and Global Bonds issued abroad are considered to be part of the external public debt including those held by residents.

5/ Includes mainly the short-term debt of the non-financial private sector.

Source: BCRP, MEF, Cavali ICLV S.A., Proinversión, BIS and companies.

Elaborated by the Department of Economic Studies, BCRP.

**APPENDIX 16
OPERATIONS OF THE NON-FINANCIAL PUBLIC SECTOR**

	Millions of nuevos soles										Percentage of GDP									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
								1/	1/									1/	1/	
I. PRIMARY BALANCE	1,986	-1,519	-1,561	-427	-214	927	2,409	4,277	11,956	16,475	1.2	-0.9	-0.8	-0.2	-0.1	0.4	1.0	1.6	3.9	4.8
1. Central Government Primary Balance	1,241	-1,815	-1,120	-1,230	-310	478	1,405	2,965	9,816	11,535	0.7	-1.0	-0.6	-0.6	-0.2	0.2	0.6	1.1	3.2	3.4
a. Current revenues	26,194	25,482	27,705	27,059	28,559	31,568	35,381	41,046	52,715	61,113	15.8	14.6	14.9	14.3	14.3	14.8	14.9	15.7	17.3	17.9
i. Tax revenues	23,144	22,072	22,769	23,541	24,062	27,405	31,144	35,589	45,485	52,454	13.9	12.7	12.2	12.4	12.1	12.8	13.1	13.6	14.9	15.4
ii. Non-tax revenues	3,050	3,410	4,935	3,518	4,498	4,163	4,238	5,458	7,229	8,659	1.8	2.0	2.7	1.9	2.3	2.0	1.8	2.1	2.4	2.5
b. Non-financial expenditure	25,485	27,835	29,360	28,580	29,241	31,451	34,165	38,468	43,260	49,962	15.3	16.0	15.8	15.1	14.6	14.7	14.4	14.7	14.2	14.6
i. Current	19,862	21,930	24,101	24,349	25,285	27,371	29,870	33,577	37,252	42,613	11.9	12.6	12.9	12.9	12.7	12.8	12.5	12.8	12.2	12.5
ii. Capital	5,623	5,906	5,259	4,231	3,956	4,080	4,295	4,891	6,008	7,349	3.4	3.4	2.8	2.2	2.0	1.9	1.8	1.9	2.0	2.2
c. Capital revenues 2/	532	539	535	291	371	361	189	386	361	385	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1
2. Primary Balance of the Rest of the Public Sector	745	295	-441	803	97	449	1,004	1,312	2,140	4,940	0.4	0.2	-0.2	0.4	0.0	0.2	0.4	0.5	0.7	1.4
a. Rest of Central Government	797	380	287	300	127	216	350	10	1,004	1,010	0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.3	0.3
b. Local governments	106	-135	185	102	207	333	325	745	279	3,645	0.1	-0.1	0.1	0.1	0.1	0.2	0.1	0.3	0.1	1.1
c. Public enterprises	-158	51	-913	402	-237	-100	329	557	858	285	-0.1	0.0	-0.5	0.2	-0.1	0.0	0.1	0.2	0.3	0.1
II. INTEREST	3,624	4,104	4,614	4,266	4,282	4,606	4,867	5,066	5,693	6,029	2.2	2.4	2.5	2.3	2.1	2.2	2.0	1.9	1.9	1.8
1. External debt	2,972	3,549	3,583	3,665	3,515	3,763	3,951	4,175	4,337	4,287	1.8	2.0	1.9	1.9	1.8	1.8	1.7	1.6	1.4	1.3
2. Domestic debt	652	555	1,031	601	767	843	915	891	1,357	1,742	0.4	0.3	0.6	0.3	0.4	0.4	0.4	0.3	0.4	0.5
III. OVERALL BALANCE (I-II)	-1,638	-5,624	-6,176	-4,693	-4,495	-3,679	-2,458	-789	6,263	10,446	-1.0	-3.2	-3.3	-2.5	-2.3	-1.7	-1.0	-0.3	2.1	3.1
IV. NET FINANCING	1,638	5,624	6,176	4,693	4,495	3,679	2,458	789	-6,263	-10,446	1.0	3.2	3.3	2.5	2.3	1.7	1.0	0.3	-2.1	-3.1
1. External financing	642	-346	2,288	1,755	4,144	2,928	3,598	-3,813	-2,175	-6,585	0.4	-0.2	1.2	0.9	2.1	1.4	1.5	-1.5	-0.7	-1.9
(Millions of US\$) (a-b+c)	\$ 224	-\$ 90	\$ 656	\$ 498	\$ 1,183	\$ 841	\$ 1,076	-\$ 1,167	-\$ 658	-\$ 2,147	0.4	-0.2	1.2	0.9	2.1	1.4	1.5	-1.5	-0.7	-1.9
a. Disbursements	\$ 657	\$ 812	\$ 1,299	\$ 1,318	\$ 2,863	\$ 2,101	\$ 2,474	\$ 2,628	\$ 609	\$ 3,384	1.2	1.6	2.4	2.4	5.0	3.4	3.5	3.3	0.6	3.1
b. Amortization	\$ 678	\$ 948	\$ 633	\$ 735	\$ 1,793	\$ 1,187	\$ 1,348	\$ 3,678	\$ 1,193	\$ 5,661	1.2	1.9	1.2	1.4	3.1	1.9	1.9	4.6	1.3	5.2
c. Other 3/	\$ 244	\$ 46	-\$ 10	-\$ 85	\$ 113	-\$ 73	-\$ 49	-\$ 117	-\$ 74	\$ 131	0.4	0.1	0.0	-0.2	0.2	-0.1	-0.1	-0.1	-0.1	0.1
2. Domestic financing	232	4,651	2,461	1,804	-1,152	570	-1,529	4,417	-4,392	-4,310	0.1	2.7	1.3	1.0	-0.6	0.3	-0.6	1.7	-1.4	-1.3
3. Privatization	764	1,318	1,427	1,134	1,503	181	389	185	304	449	0.5	0.8	0.8	0.6	0.8	0.1	0.2	0.1	0.1	0.1

1/ Preliminary.

2/ Deducting payments to the American International Group and Peru-Germany Agreement.

3/ Includes exceptional and short-run financing.

Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, Public welfare Agencies, local governments, state-owned enterprises and public institutions.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 17
MONETARY ACCOUNTS OF THE FINANCIAL SYSTEM 1/ 2/
(Millions of nuevos soles)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. SHORT-TERM NET EXTERNAL ASSETS	22,064	26,773	26,082	28,093	33,718	34,820	40,771	47,504	56,032	78,658
(Millions of US\$)	7,004	7,628	7,389	8,167	9,606	10,064	12,430	13,849	17,510	26,219
A. Assets	34,550	35,953	33,731	33,647	37,136	37,704	43,531	51,622	58,944	86,176
B. Liabilities	12,486	9,180	7,648	5,554	3,418	2,883	2,760	4,118	2,912	7,518
II. LONG-TERM NET EXTERNAL ASSETS	-1,447	-2,328	1,118	3,195	4,996	10,623	11,419	16,332	23,226	19,674
(Millions of US\$) 3/	-597	-833	-84	477	955	2,542	2,927	4,762	6,279	6,149
A. Credits	3,840	5,285	8,011	8,919	10,183	16,021	17,098	21,953	29,560	35,365
B. Liabilities	5,287	7,613	6,892	5,724	5,187	5,398	5,679	5,621	6,334	15,691
III. DOMESTIC CREDIT (A+B-C+D)	25,130	28,814	28,330	27,971	26,847	28,199	30,641	37,990	44,071	59,806
A. Public sector	-16,403	-13,128	-11,541	-8,363	-9,637	-8,772	-10,121	-8,908	-10,746	-17,777
1. Credits	4,736	6,526	6,132	8,829	9,324	10,160	10,053	12,755	13,288	18,967
- Central government	4,379	5,798	5,496	8,192	8,782	9,586	9,520	12,387	13,063	18,733
- Rest of the public sector	357	728	637	637	542	574	533	367	225	235
2. Deposits	21,140	19,654	17,674	17,192	18,960	18,933	20,174	21,662	24,034	36,745
- Central government	11,513	7,912	6,006	5,272	6,855	7,980	10,073	12,160	13,738	21,680
- Rest of the public sector	9,627	11,741	11,668	11,920	12,106	10,952	10,101	9,502	10,296	15,064
B. Private sector	54,987	59,911	59,465	57,440	60,054	61,358	64,271	74,945	86,575	111,218
Domestic currency	13,130	13,314	13,624	14,387	17,107	20,183	23,796	29,984	41,436	58,037
Foreign currency	41,857	46,597	45,842	43,053	42,947	41,174	40,476	44,961	45,138	53,181
(Millions of US\$)	13,288	13,276	12,986	12,515	12,236	11,900	12,340	13,108	14,106	17,727
C. Equity, reserves, provisions and balances	19,939	25,671	29,873	33,591	36,051	34,450	34,391	37,864	42,523	47,150
D. Other assets and liabilities	6,485	7,702	10,279	12,485	12,481	10,063	10,882	9,817	10,765	13,515
IV. MONEY LIABILITIES										
WITH THE PRIVATE SECTOR (I+II+III)	45,748	53,258	55,531	59,259	65,562	73,642	82,831	101,825	123,329	158,138
A. Domestic currency	17,317	21,268	22,631	26,704	31,289	38,891	48,047	62,016	80,843	109,548
1. Money	6,482	7,311	7,087	7,509	8,197	9,312	12,420	15,489	18,918	24,753
Notes and coins held by the public	3,936	4,608	4,514	4,911	5,573	6,319	7,982	10,036	11,687	14,857
Demand deposits in domestic currency	2,546	2,703	2,573	2,598	2,624	2,993	4,438	5,453	7,231	9,895
2. Quasi money	10,835	13,957	15,543	19,195	23,092	29,579	35,627	46,527	61,925	84,795
Saving deposits	2,843	2,812	2,766	2,985	3,090	3,615	4,201	5,767	6,658	8,547
Term deposits	1,542	1,623	2,103	2,482	3,016	3,116	4,575	6,630	7,318	11,111
Pension funds	5,396	8,344	9,599	12,350	15,754	21,844	25,651	32,223	45,547	60,406
Other securities	1,054	1,178	1,076	1,378	1,231	1,004	1,201	1,908	2,401	4,731
B. Quasi money in foreign currency	28,431	31,990	32,900	32,555	34,273	34,751	34,784	39,809	42,485	48,590
(Millions of US\$)	9,026	9,114	9,320	9,464	9,764	10,044	10,605	11,606	13,277	16,197
1. Deposits	27,098	29,045	30,663	28,532	29,113	28,241	28,400	33,160	34,973	38,946
2. Rest	1,333	2,945	2,237	4,023	5,160	6,510	6,384	6,649	7,512	9,644

1/ Preliminary data as from 2006.

2/ Foreign currency denominated balances valued at the average price between the bid and ask exchange rate at the end of period.

3/ Considering the balances of operations made in foreign currency operations.

Source: Financial system institutions.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 18
BROAD MONEY AND CREDIT TO THE PRIVATE SECTOR 1/
(In percentage of GDP)

	Monetary base	Currency in circulation	Money	Quasi money	Broad money in domestic currency	Broad money in foreign currency	Broad money	Credit to the private sector in domestic currency	Credit to the private sector in foreign currency	Credit to the private sector Total
1998	2.7	2.1	3.6	3.2	6.9	15.9	22.7	5.5	21.0	26.6
1999	2.7	2.1	3.5	3.1	6.6	17.7	24.2	5.7	23.0	28.6
2000	2.7	2.1	3.5	2.9	6.4	17.4	23.8	5.0	21.8	26.8
2001	2.8	2.2	3.4	3.0	6.4	16.4	22.8	5.1	20.4	25.5
2002	3.0	2.4	3.7	3.3	6.9	14.6	21.5	5.2	18.9	24.1
2003	3.0	2.4	3.8	3.2	7.0	13.8	20.7	5.5	16.6	22.1
2004	3.2	2.7	4.2	3.2	7.5	12.3	19.7	5.4	14.5	19.8
2005	3.8	3.1	5.0	4.1	9.1	11.4	20.6	5.8	13.4	19.2
2006	3.8	3.1	5.0	4.2	9.2	11.2	20.4	6.9	11.8	18.6
2007	4.2	3.5	5.8	5.0	10.9	10.8	21.7	8.3	11.3	19.6

1/ Average.

Source: Financial system institutions.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 19
NOMINAL AND REAL INTEREST RATES IN DOMESTIC AND FOREIGN CURRENCY
 (End of year, annual effective rate)

	DOMESTIC CURRENCY										FOREIGN CURRENCY									
	Lending average (TAMN)		Loans up to 360 days		Deposits average (TIPMN)		Savings		Interbank		Lending average (TAMEX)		Loans up to 360 days		Deposits average (TIPMEX)		Savings		Interbank	
	Nominal	Real 1/	Nominal	Real 1/	Nominal	Real 1/	Nominal	Real 1/	Nominal	Real 1/	Nominal	Real 2/	Nominal	Real 2/	Nominal	Real 2/	Nominal	Real 2/	Nominal	Real 2/
1998	37.1	29.3	33.2	25.6	12.6	6.2	10.6	4.3	12.9	6.5	16.8	27.2	16.5	26.9	5.4	14.8	4.5	13.8	11.2	21.1
1999	32.0	27.3	27.6	23.0	10.6	6.6	8.1	4.2	16.9	12.7	14.8	22.7	13.7	21.6	4.9	12.2	3.8	11.0	6.6	14.0
2000	26.5	22.0	26.5	22.0	9.4	5.5	7.5	3.7	11.4	7.4	12.6	9.8	11.9	9.1	4.6	2.0	3.3	0.7	8.4	5.7
2001	23.0	23.2	17.2	17.3	5.1	5.2	3.0	3.1	3.1	3.2	10.2	7.7	8.7	6.2	2.2	-0.1	1.2	-1.1	2.1	-0.2
2002	20.7	18.9	14.8	13.1	3.6	2.0	1.7	0.2	3.8	2.2	10.2	11.0	8.1	8.9	1.3	2.1	0.7	1.5	2.2	3.0
2003	22.3	19.3	14.0	11.2	2.5	0.1	1.3	-1.2	2.5	0.0	9.3	5.4	7.2	3.4	1.0	-2.7	0.6	-3.0	1.1	-2.6
2004	25.4	21.1	14.7	10.8	2.5	-1.0	1.3	-2.2	3.0	-0.5	9.2	-0.3	7.7	-1.6	1.2	-7.5	0.6	-8.1	2.2	-6.6
2005	23.6	21.8	13.9	12.2	2.6	1.1	1.2	-0.3	3.3	1.8	10.4	13.5	9.4	12.5	1.8	4.7	0.6	3.4	4.2	7.1
2006	23.1	21.7	13.8	12.5	3.2	2.0	1.4	0.3	4.5	3.3	10.8	9.6	10.1	8.8	2.2	1.0	0.7	-0.4	5.4	-2.6
2007	22.3	17.7	13.2	9.0	3.4	-0.5	1.5	-2.3	5.0	1.0	10.5	6.3	9.7	5.5	2.5	-1.4	0.8	-3.0	5.9	1.9

1/ Last 12-month inflation is deducted from nominal interest rate.

2/ Nominal interest rate adjusted in terms of last 12-month variation in exchange rate and last 12-month inflation.

Source: SBS and BCRP.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 20
MONETARY ACCOUNTS OF THE CENTRAL RESERVE BANK OF PERU 1/
(Millions of nuevos soles)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. NET INTERNATIONAL RESERVES	28,928	29,497	28,875	29,630	33,689	35,272	41,430	48,353	55,279	83,066
(Millions of US\$)	9,183	8,404	8,180	8,613	9,598	10,194	12,631	14,097	17,275	27,689
A. Assets	31,444	31,600	30,227	30,403	34,014	35,313	41,488	48,430	55,453	83,161
B. Liabilities	2,516	2,103	1,351	773	324	40	59	77	174	94
II. LONG-TERM NET EXTERNAL ASSETS	12	9	36	41	42	39	35	34	29	-2,583
(Millions of US\$) 2/	6	10	13	12	12	12	11	10	9	28
A. Credits	1,410	2,444	2,974	2,941	2,822	3,098	3,263	3,187	3,138	3,171
B. Liabilities	1,398	2,435	2,937	2,900	2,780	3,058	3,228	3,153	3,109	5,754
III. DOMESTIC CREDIT (A+B+C-D+E)	-14,322	-12,966	-12,104	-11,496	-14,127	-14,333	-14,575	-13,701	-22,561	-31,663
A. Public sector	-11,977	-10,158	-9,441	-8,557	-10,112	-9,665	-10,475	-9,712	-12,988	-17,558
1. Credits	614	538	425	396	350	237	39	0	0	0
- Central government 3/	614	538	425	396	350	237	39	0	0	0
- Rest of the public sector 4/	0	0	0	0	0	0	0	0	0	0
2. Deposits	12,590	10,696	9,866	8,953	10,462	9,903	10,514	9,712	12,988	17,558
- Central government	7,558	4,057	2,248	1,447	2,430	3,188	4,835	5,295	9,004	14,317
- Rest of the public sector 4/	5,033	6,639	7,617	7,506	8,032	6,715	5,678	4,417	3,984	3,241
B. Private sector	0	0	0	0	0	0	0	0	0	0
C. Banking system 5/	-349	72	-505	-749	-851	-1,414	-1,941	-1,127	-6,642	-11,264
- Banco de la Nación	-552	-191	-602	-749	-1,021	-1,414	-1,941	-3,977	-6,642	-11,264
- Development banking system	0	0	0	0	0	0	0	0	0	0
- Banking institutions	203	263	97	0	170	0	0	2,850	0	0
D. Capital, reserves, provisions and balances	460	431	435	567	709	802	592	598	1,317	2,429
E. Other assets and liabilities (net)	-1,536	-2,450	-1,724	-1,623	-2,455	-2,452	-1,567	-2,263	-1,614	-412
IV. MONEY LIABILITIES										
WITH THE PRIVATE SECTOR (I+II+III)	14,618	16,540	16,807	18,175	19,604	20,978	26,890	34,686	32,747	48,821
A. Domestic currency	5,296	6,216	6,979	7,930	8,758	11,503	17,478	20,511	21,902	35,436
1. Monetary base	5,023	5,876	5,642	6,087	6,759	7,441	9,327	11,724	13,864	17,779
1.1 Notes and coins issued	4,825	5,815	5,575	5,993	6,620	7,309	9,047	11,448	13,651	16,999
- Vault cash	875	1,184	1,038	1,048	1,005	939	1,011	1,332	1,855	2,015
- Currency	3,950	4,631	4,537	4,945	5,615	6,370	8,036	10,116	11,796	14,985
1.2 Deposits	197	61	67	94	139	132	280	276	212	780
- Banks	189	54	54	77	96	60	208	76	89	609
- Others	9	7	13	17	43	73	72	199	124	171
2. Securities issued 6/	273	340	1,336	1,842	1,999	4,062	8,152	8,788	8,039	17,656
B. Foreign currency	9,323	10,324	9,828	10,245	10,846	9,475	9,412	14,174	10,845	13,385
(Millions of US\$)	2,960	2,941	2,784	2,978	3,090	2,738	2,869	4,132	3,389	4,462
1. Deposits	9,322	10,324	9,828	10,245	10,846	9,474	9,411	14,174	10,844	13,384
1.1 Banks	9,239	10,248	9,749	10,131	10,698	9,296	9,219	13,979	10,599	13,189
1.2 Other	83	75	78	114	148	179	192	195	246	195
2. Certificates	0	0	0	0	0	0	0	1	1	1

1/ Foreign currency is valued at the average price between the bid and ask exchange rate at the end of period.

2/ Includes only foreign currency operations.

3/ In July 1994, the BCRP monetary accounts included "BCRP Capitalización" Bonds (S/. 614 million) which were delivered by the Treasury (D.S. N° 66-94-EF and R.M. N° 143-94-EF/75).

The Public Treasury repurchased these bonds with the BCRP's net profits (article 92° of the BCRP organic law).

4/ Includes COFIDE.

5/ Since January 31, 1994, the balances of the credit to Banco de la Nación and Development banks in process of dissolution are net of their deposits at the BCRP.

6/ Considering to BCRP Certificate of Deposits (CDBCRP) and BCRP indexed Certificates of Deposit (CDR) held by banks and the private sector.

Includes overnight deposits in domestic currency held by the financial system institutions.

Source: BCRP.

Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 21
NET INTERNATIONAL RESERVES (NIRs)
(Millions of US\$)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. FOREIGN EXCHANGE OPERATIONS	-330	253	63	135	128	998	1,854	767	2,861	7,070
1. Over the Counter	560	196	3	145	-32	1,050	2,340	2,699	3,944	10,306
a. Purchases	643	316	3	203	95	1,050	2,340	3,130	4,299	10,306
b. Sales	-83	-120	0	-58	-127	0	0	-431	-355	0
2. Operations with the Public Sector	-955	46	54	-9	157	-51	-487	-1,935	-1,084	-3,275
3. Others (net)	65	11	6	-1	3	-1	2	3	1	39
II. DEPOSITS OF FINANCIAL SYSTEM	-649	-99	-12	245	185	-488	23	1,251	-684	1,154
III. DEPOSITS OF THE PUBLIC SECTOR	-121	-1,034	-269	-158	364	-139	359	-587	245	630
IV. NET INTERESTS	155	132	135	216	195	174	188	261	329	773
V. OTHERS	-41	-32	-141	-5	113	52	13	-226	427	788
VI. TOTAL	-986	-780	-224	433	985	596	2,437	1,466	3,178	10,414

Source: BCRP.
Elaborated by the Department of Economic Studies, BCRP.

APPENDIX 22
FINANCIAL SOUNDNESS INDICATORS ON COMMERCIAL BANKS
 (Percentages)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. OPERATIONAL EFFICIENCY										
Global Leverage (times)	8.91	8.41	7.79	7.84	7.98	7.53	7.15	8.35	8.01	8.24
2. PORTFOLIO QUALITY										
Non performing, restructured, refinanced loans / Gross loans	7.02	8.33	9.69	9.01	7.58	5.80	3.71	2.14	1.63	1.26
Non performing, restructured, refinanced loans in D.C. / Direct loans in D.C.	6.42	6.37	7.39	5.21	5.17	3.99	3.01	2.09	1.88	1.56
Non performing, restructured, refinanced loans in F.C. / Direct loans in F.C.	7.20	8.73	10.34	9.93	8.19	6.32	3.93	2.15	1.49	1.07
Refinanced and restructured credits / Direct credits	3.59	5.19	6.12	7.99	6.97	6.37	5.83	4.13	2.45	1.41
Provisions / Non performing, restructured, refinanced loans	92.36	99.45	107.44	118.93	133.16	141.10	176.46	235.26	251.40	278.39
3. LIQUIDITY 1/										
Liquidity Ratio in D.C.	11.07	15.25	22.57	22.55	23.47	32.85	44.76	38.58	43.08	57.28
Liquidity Ratio in F.C.	34.18	38.23	40.62	45.96	49.26	43.63	43.92	49.23	44.99	36.95
4. REAL YIELDS										
Net profits / Average Patrimony	8.83	3.86	2.93	4.46	8.43	10.85	11.26	22.16	23.86	27.86
Net profits / Average Asset	0.81	0.37	0.30	0.43	0.83	1.11	1.18	2.18	2.18	2.49

1/ Monthly averages of liquid assets between short term liabilities of banks in domestic currency and foreign currency.

The figures for 1998-2000 have been calculated based on information provided by banks.

Source: Banking entities, SBS and AFP.

Elaborated by the Department of Economic Studies, BCRP.

ECONOMIC REPORT 2007

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