

## International Monetary Fund

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Lima, Peru  
June 23, 2008

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. The Peruvian economy has continued to perform remarkably well. In 2007, real GDP grew by 9 percent—a 13-year-high—formal employment rose by 8 percent, and the poverty rate declined to 39 percent. The nonfinancial public sector posted a surplus of 3.1 percent of GDP, and our prudent fiscal policy and debt management strategy have helped bring public debt down to 29.1 percent of GDP. The Central Reserve Bank of Peru continued to strengthen its net international reserves, which reached \$27.7 billion, with the sovereign shifting to a net creditor position. Such strong economic performance has helped Peru achieve investment grade status—a testimony to the prudent policies and reform efforts over the past several years. Notwithstanding the heightened risks in the global economy, we remain confident that the Peruvian economy will continue to perform solidly in the coming years.
2. In line with global developments, inflation rose to 5½ percent in March, driven by the significant increase in international food prices, to subsequently ease to 5.39 percent in May. The Central Reserve Bank of Peru has tightened monetary conditions markedly, raising interest rates by 125 basis points and reserve requirements, to avoid that imported inflation propagates through expectations to the rest of prices in the economy, which have risen by 2 percent over the past twelve months, once food items are excluded. Based on this and the reversal of some of these external shocks, we expect inflation to return gradually to within the official target range of 1-3 percent by mid-2009. All other quantitative performance criteria of the program for end-December 2007 and end-March 2008 were observed.
3. To guard against the impact of a potential decline in the terms of trade and a possible global recession, the Central Reserve Bank of Peru has accumulated \$6.4 billion of international reserves during the first quarter of 2008, well-above the program target.
4. To support macroeconomic stability, the fiscal target for the nonfinancial public sector has been raised to a surplus of 2 percent of GDP (from balance envisaged in the 2008 Budget), and incorporated into the Fund-supported program. While ensuring that social and infrastructure needs are met, the government will continue with its prudent fiscal strategy.

5. Further strengthening the poverty alleviation strategy remains a top priority for the government. The CIAS has continued to expand significantly the coverage of the social strategy *Crececer* and the cash-conditional program *Juntos*, both focused in rural areas. To continue strengthening the coverage and effectiveness of our social programs, the CIAS will begin undertaking an assessment review of *Juntos*, with technical collaboration from the Interamerican Development Bank.

6. Considerable progress has also been made in advancing the structural reform agenda. A Public-Private Partnership framework law was issued to improve the allocation of risk between private and public participants in PPP projects. *MiVivienda* no longer issues guarantees for foreign currency denominated mortgage loans. The reform of the National System of Public Investment (SNIP) to allow for the outsourcing of studies required for the formulation and approval of investment projects has been submitted to Congress (an end-March structural benchmark) and is expected to be approved soon. Specific measures related to capital market reforms are being implemented, such as the increase in the limit for foreign investment abroad by pension funds and the amendment to the General Banking Law, which allows the Superintendency of Banks (SBS) the introduction of Basel II capital requirements for market risks, both end-June 2008 structural benchmarks.

7. The Government believes that the policies set forth in this letter, as well as in our previous letters of January 3, 2007, June 12, 2007, and December 5, 2007, are adequate to achieve the objectives of the program, but stands ready to take any further measures that may become appropriate or needed for this purpose. In light of this, we hereby request the completion of the Third Review under the Stand-By Arrangement. We will maintain a close and proactive dialogue with the Fund, in accordance with Fund policies on such matters.

Sincerely yours,

/s/

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Luis Carranza

Minister of Economy and Finance

/s/

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Julio Velarde

President Central Reserve Bank of Peru

Table 1. Peru: Quantitative Performance Criteria and Inflation Consultation Mechanism for 2008

	Mar. 31	Jun. 30	Sept. 30	Dec. 31
(Cumulative amounts from December 31, 2007, millions of New Soles)				
<b>Borrowing requirement of the combined public sector</b>				
Unadjusted limits 1/ 2/ 3/ 4/	-2,036	-5,555	-6,302	-7,350
(Cumulative amounts from December 31, 2007, millions of U.S. dollars)				
<b>Net international reserves of the Central Reserve Bank, excluding foreign-currency deposits of financial institutions</b>				
Unadjusted targets 5/ 6/	-645	-404	-437	0
<b>Outstanding short-term external debt of the nonfinancial public sector</b>				
Limits	50	50	50	50
<b>Contracting or guaranteeing of nonconcessional public debt with maturity of at least one year</b>				
Unadjusted limits 7/ 8/ 9/	1,568	1,673	2,354	2,680
<b>Of which: external debt of 1-5 year maturity</b>				
Limits	100	100	100	100
<b>External payments arrears of the public sector (on a continuous basis)</b>				
Limits	0	0	0	0
<b>NPV of future government payments associated with PPP operations (on a continuous basis)</b>				
Unadjusted Limits 10/	1,860	1,860	1,860	1,860
(Consultation bands for the 12-month rate of inflation, in percent) 11/				
<b>Outer band (upper limit)</b>	5.0	5.0	5.0	5.0
Inner band (upper limit)	4.0	4.0	4.0	4.0
Central point	2.0	2.0	2.0	2.0
Inner band (lower limit)	0.0	0.0	0.0	0.0
<b>Outer band (lower limit)</b>	-0.5	-0.5	-0.5	-0.5

Sources: Staff estimations.

1/ PIPP proceeds are included below the line.

2/ The limit on the borrowing requirement of the combined public sector will be adjusted for the operating balance of the BCRP.

3/ The limit on the borrowing requirement of the combined public sector will be adjusted upward by up to US\$100 million for capital spending by Petroperu, over the \$30 million already included in the program.

4/ In 2008, the limit on the borrowing requirement of the combined public sector will be adjusted downwards by the amount of central government revenues net of mandatory transfers exceed program estimates of S/. 12,767 million at end-March, up to a ceiling of S/. 450 million; S/. 26,493 million at end-June, up to a ceiling of S/. 900 million. No adjusters will be applied to the end-September 2008 nor to the end-December 2008 targets.

5/ The target for net international reserves will be adjusted upward by the amount by which net foreign borrowing of the nonfinancial public sector exceeds -US\$600 million at end-March, -US\$394 million at end-June, -US\$497 million at end-September, and -US\$41 million at end-December 2008. It will be adjusted downward for shortfalls from programmed net foreign borrowing. The amounts in excess will be deposited at the BCRP.

6/ The target for net international reserves will be adjusted downward for withdrawals for portfolio management purposes of deposits held at the Central Reserve Bank by the Consolidated Pension Reserve Fund (FCR) and any other funds managed by the ONP. This downward adjustment will not exceed US\$300 million at any time in 2008.

7/ The limit will be adjusted upward by any amount of debt issued, and used in, debt-exchange operations, or for prefinancing of government operations.

8/ The current debt limits do not include contracting of non-guaranteed debt by Petroperu and will be adjusted upward by up to US\$300 million for debt contracted by Petroperu during 2008.

9/ The limit on contracting and guaranteeing of nonconcessional public debt will be adjusted upwards for guarantees contracted or extended by the government in relation to concessions, up to a ceiling of US\$293 million for the year as a whole.

10/ Discount rates to calculate the NPV of the future stream of payments will be the currency-specific commercial interest reference rates (CIRRs) published by the OECD and specified in the TMU.

11/ Should inflation fall outside the inner band, the authorities will discuss with the Fund staff the appropriate policy response. Should inflation fall outside the outer band, the authorities will also complete a consultation with the Executive Board of the Fund on the proposed policy response before requesting further purchases under the arrangement.

## TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

1. This technical memorandum sets out the understandings between the Peruvian authorities and the Fund relating to the monitoring of the program for 2008. It defines the concepts used to assess compliance with quantitative performance criteria specified in the letter of the Government of Peru dated June 23, 2008. It also sets the frequency of the data to be provided to the Fund for monitoring the program. For purposes of the program for 2008, operations in foreign currency will be converted into *Nuevos Soles* at the average program exchange rate of S/. 2.90 per U.S. dollar.

### I. DEFINITIONS OF CONCEPTS

2. The nonfinancial public sector (**NFPS**) includes the central government, the autonomous agencies, the local and regional governments, and the nonfinancial public enterprises.

3. **The borrowing requirement of the combined public sector (PSBR)** will be measured as: (a) net domestic financing of the NFPS; plus (b) net external financing of the NFPS; plus (c) proceeds from the Private Investment Promotion Program (PIPP); and less (d) the operating balance of the Central Reserve Bank of Peru (BCRP). The PSBR will be adjusted to exclude the impact of data revisions that do not represent a change of its flows during 2008. The components of the PSBR (see Table 1), will be defined and measured as follows:

(a) **The net domestic financing of the NFPS** is defined as the *sum* of: (i) the increase in net claims of the domestic **financial system**<sup>1</sup> on the NFPS, excluding Peruvian Brady bonds and other government bonds initially sold abroad; (ii) the net increase in the amount of public sector bonds<sup>2</sup> held outside the domestic financial system and the NFPS, excluding Peruvian Brady bonds and other bonds initially sold abroad; and (iii) the increase in the floating debt of the NFPS due to expenditure operations and tax refund arrears; *less* (iv) the accumulation of stocks, bonds, or other domestic financial assets by the NFPS and (v) the amortization of pension related bonds. In the case of enterprises that are divested after December 31, 2007, the net credit of the financial system to these enterprises will be recorded, for the remainder of the program period, as unchanged from their level at the time of the PIPP.

(b) **The net external financing of the NFPS** comprises (i) disbursements of loans; plus (ii) receipts from the issuance of government bonds abroad; minus (iii) cash payments of

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<sup>1</sup> The financial system comprises the banking system, the Corporación Financiera de Desarrollo (COFIDE), *MiVivienda* and all other nonbank financial intermediaries. The banking system includes the BCRP, the commercial banks, *Banco de la Nación* (BN), and *AgroBanco*.

<sup>2</sup> Excluding the new issuances of pension-related bonds.

principal (current maturities of both loans and bonds); minus (iv) cash payments of arrears (principal and interest); plus/minus (v) the net increase/decrease in short-term external debt; minus (vi) debt buy-backs or other prepayments of debt (at market value) not included in the following item (including repayments of short-term external debt assumed by the government at the time of the divestiture of public enterprises, net of the proceeds from the sale of inventories of such enterprises); minus (vii) debt-equity swaps used in the PIPP accounted at the market value of these papers as defined by *ProInversion*; minus/plus (viii) the net increase/decrease in foreign assets of the nonfinancial public sector (including those held abroad by the *Fondo Consolidado de Reservas* (FCR), and any other fund managed by the *Oficina de Normalización Previsional* (ONP)) (see Table 2).

(c) **PIPP proceeds** are defined as (i) the cash payments received by the Treasury from the sale of state-owned assets (including proceeds transferred to the FCR, and any other specialized funds) valued at the program exchange rate, plus (ii) debt equity swaps used in the PIPP, accounted at market values as defined by *ProInversion*. PIPP proceeds also include up-front payments received by the Treasury for the granting of concessions for public services but exclude the annual payments under the concession program, which are part of nontax revenue.

(d) **The operating balance of the BCRP** includes: (i) cash interest earnings of the BCRP minus cash interest payments by the BCRP, in both domestic and foreign currency; (ii) the administrative expenses of the BCRP; and (iii) any realized cash losses or gains from activities in currencies, financial instruments, and derivatives.

4. **The quarterly limits on the borrowing requirement of the combined public sector (PSBR)** will be reduced by the amount to which revenues of the central government net of mandatory transfers exceed program estimates of S/.12,767 million at end-March, up to a ceiling of S/. 450 million; and S/. 26,493 million at end-June, up to a ceiling of S/. 900 million. No revenue adjustor will be applied to the quarterly limits on the PSBR when assessing the end-September and end-December performance criteria. Mandatory transfers are earmarked central government expenditures that are linked to revenue. These comprise the *canon and sobrecanon, fondo de Camisea, regalía minera, renta de aduanas*, and the *Impuesto de Promoción Municipal (IPM)*.

5. **The consultation bands for inflation** are based on the 12-month rate of change in consumer prices as measured by the *Indice de Precios al Consumidor (IPC)* at the level of Metropolitan Lima by the *Instituto Nacional de Estadística e Informática* (INEI). Should inflation fall outside an inner band of 2 percentage points around the central point of 2 percent, the authorities will discuss with the Fund staff on an appropriate policy response. Should inflation fall outside an outer band of 3 percentage points above and 2.5 percentage points below the central point of 2 percent, the authorities will discuss with Fund staff an appropriate policy response, and complete a consultation with the Executive Board of the Fund on the proposed policy response before requesting further purchases under the program.

6. **The net consumer lending of the *Banco de la Nación*** will be defined as disbursements of all consumer loans, including these under the “*Multired Program*” (established in November 2001), including *Multired Maestro*, *Multired Policia* and *Multired Pensionistas ONP*, and “*Prestamos a 60 Quotas*” (established in September 2004) less cash amortizations under the loan programs. Interest payments on these loans are excluded from the definition of net lending.
7. **The net international reserves of the BCRP, excluding foreign-currency deposits of financial institutions**, are defined for the purpose of the program as: (a) the foreign assets of the BCRP (excluding subscriptions to the IMF and the Latin American Reserve Fund (FLAR), *Pesos Andinos*, credit lines to other central banks, *Corporación Andina de Fomento* (CAF) bonds, and foreign assets temporarily held by the BCRP as part of swap operations); less (b) reserve liabilities, defined as the sum of: (i) the BCRP’s external liabilities with an original maturity of less than one year, and (ii) its liabilities to the IMF, to the Inter-American Development Bank (IADB) and to the FLAR; less (c) deposits in foreign currency by the banking system, other financial intermediaries and the private sector, net of repos of Treasury bonds with the financial system.
8. **BCRP’s silver holdings** will be included as net domestic assets and excluded from the net international reserves.
9. **BCRP’s gold holdings** will be accounted at US\$646.89 per troy ounce (the average book value as of June 30, 2007), SDRs at US\$1.514 per SDR. Foreign currency assets and liabilities of the BCRP in other currencies than US\$ will be valued at the exchange rate of June 30, 2007. Net international reserves will be adjusted to exclude any valuation gains or losses resulting from net sales or deliveries of gold by the BCRP. The end-June 2007 level of net international reserves is shown in Table 3.
10. The flows of the **short-term external debt of the NFPS** are defined as the net change in the NFPS’s outstanding external indebtedness with a maturity of less than one year (including instruments with put options that would be triggered within one year of the contracting date), measured, in part, on the basis of the operations of a selected sample of public enterprises comprising *Petroperú* and *Electroperú*. These limits exclude normal import financing but include forward commodity sales. In the case of companies sold to the private sector under the PIPP, the short-term debt of these entities will be recorded, for the remainder of the program period, as unchanged from their level at the time of the PIPP. The end-June 2007 stock of short-term external debt of the NFPS is shown in Table 4.
11. **The contracting or guaranteeing of nonconcessional public debt with a maturity of at least one year** refers to all domestic and external obligations of the NFPS contracted or guaranteed by the government, COFIDE, the BCRP, the BN, and any other public financial entity, except for loans classified as reserve liabilities of the BCRP. The program limits on nonconcessional debt will exclude: (i) any new loans extended in the context of a debt

rescheduling or debt reduction operation; (ii) any loans on concessional terms; and (iii) certificates (CDBCRPs and CDBCRP-NRs) issued by the BCRP for conducting monetary policy. The program limits will be adjusted upward by up to US\$300 million for debt contracted by *Petroperu* during 2008 that is not guaranteed by the central government.

12. **For the purpose of the performance criterion on the contracting or guaranteeing of public debt**, external public debt applies also to commitments contracted or guaranteed for which value has not been received. In this regard, the term “debt” has the meaning set forth in point No.9 of the Guidelines on Performance Criteria with respect to Foreign Debt adopted on August 24, 2000 (Board Decision No. 12274-(00/85)). Thus, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time: these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property; (iv) PAO Entitlement Recognition Certificates (CRPAOs) used to facilitate the financing of Public-Private Partnership (PPP) projects by concessionaires.<sup>3</sup> For the purpose of the performance criterion, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. Foreign currency public debt to be contracted or guaranteed will be converted based on the program exchange rate, with cross rates for non-dollar foreign currencies set based upon the rate on the day of the transaction, published by REUTERS.

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<sup>3</sup> Under Peruvian law, the CRPAOs are not treated as sovereign debt.



13. For program purposes, **a debt is concessional** if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt (i.e., grant element) is equal to nominal value minus NPV divided by nominal value. The NPV of debt at the time of its disbursement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the OECD. For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. For the purposes of the program through end-December 2008, the CIRRs published by the OECD in August 2007 will be used (Table 5).

14. **The concessionality of loans in currency baskets** will be assessed on the basis of U.S. dollar interest rate tables. For loans with interest rates based on the internal policy of the creditors, the relevant interest rate to define concessionality will be the interest rate for each creditor at the time of the commitment. Loans or portions of loans extended in the context of a debt rescheduling or a debt reduction operation will be excluded from the ceiling.

15. **The NPV of the future government payments associated with PPP operations** will include all payments, firm and contingent, committed by the government in relation to new PPP projects signed during the program period. Specifically, such payments will include, *inter alia*, annual payments for the coverage of the investment made by the concessionaire (*Pagos Anuales por Obra*, or PAOs); annual payments for the maintenance and operation of the project (*Pagos Anuales por Mantenimiento y Operación* or PAMOs); and the minimum annual revenues guaranteed to a concessionaire by the government (*Ingresos Minimos Anuales Garantizados*, or IMAGs). For those projects where the government's payment commitments have yet to be defined in terms of PAOs and PAMOs, the target also includes the estimated aggregate annual payments for the project (*Pagos Anuales por Servicio*, or PAS). The discount factor used in the calculation of the NPV of the payments will be the 10-year commercial interest reference rate (CIRR). For purposes of the program through end-December 2008, the CIRRs published by the OECD in August 2007 will be used (Table 5).

16. **The external payments arrears of the public sector** include arrears to multilateral financial institutions, to Paris Club creditors, and to other foreign creditors with whom debt restructuring agreements have been concluded. They exclude arrears outstanding at end-2007 that were not covered under restructuring agreements. The public sector will be defined to include the NFPS, COFIDE, the BCRP, the BN, and any other state development bank.

17. **Definitions used in Table 1 of the letter of intent dated [June x, 2008] for the calculation of adjusters, limits and targets for net international reserves:**

- a. **Net foreign borrowing** (Table 2) is defined as the sum of disbursements of loans (I.2.b.i); plus receipts from the issuance of government bonds abroad (I.2.b.ii); minus cash payments of principal (I.2.b.iii); minus cash payments of arrears (principal and interest) (I.2.b.iv); plus/minus the net increase/decrease in short-term external debt (I.2.b.v).
- b. **The withdrawals for portfolio management purposes** of deposits held at the BCRP by the FCR and any other fund managed by the ONP, mentioned in footnote 6 of Table 1 attached to the letter of intent dated June 23, 2008 refer to placements of funds that are in accord with an investment plan approved by the Board of the FCR, excluding deposits in public financial institutions and government securities.

## II. PERIODIC REPORTING

18. Periodic reporting includes:
- (a) The latest *Nota Semanal* published by the BCRP;
  - (b) Report of BCRP daily operations;
  - (c) Daily exchange rate statistics.
  - (d) Monthly Report of:
    - (i) **Performance criteria**  
Data on the program's quarterly quantitative performance criteria.
    - (ii) **Financial sector**
      - (a) Disaggregation of the net domestic assets of the BCRP and BN with details of the other net accounts.
      - (b) Evolution of gross disbursements and cash amortizations of consumer loans under the "*Multired Program*" of *Banco de la Nación*.
    - (iii) **Fiscal sector**
      - (a) PSBR as defined in Table 1.
      - (b) List of domestic and external debt instruments contracted or guaranteed by the public sector, including data on the amount, lender, grace period, maturity, and interest rate (refinancing credits should be labeled as such), collateral guarantees, any instrument enhancements (such as but not limited to put or call options) that affect the price or maturity of the debt instrument.
      - (c) Summary of disbursements and interest and amortization due and paid (identifying the payments of arrears) of loans included in the records of the General Directorate of Public Credit by creditor and debtor, indicating foreign origin (distinguishing between financial and nonfinancial public sector debt) and domestic origin (Table 6).
      - (d) Cash operations of the treasury (which includes floating debt, with a memorandum item on tax refund arrears).

- (e) Data on PIPP revenue, which will include gross receipts, costs of the PIPP, use of debt-for-equity swaps, commissions received by *ProInversion* and the resulting cash receipts received by the Treasury and the FCR. In addition, the report will include debts assumed by the government in connection with the PIPP.
  - (f) Stocks of the central government PIPP accounts in the BCRP and the BN.
- (iv) **External sector**
- (a) Summary of imports by products (volume and prices); and
  - (b) Summary of exports by products (volume and price).
- (d) **Quarterly data on the breakdown of public sector debt**, distinguishing between external and domestic total public sector debt by currency composition and instruments, according to the debt definition of the *Marco Macroeconomico Multianual* (MMM), and including CRPAOs.
- (f) **Other**
- (a) Summary of legislative changes pertaining to economic matters.
  - (b) BCRP circulars.
  - (c) BCRP inflation report.

**Table 1 Peru: Public Sector Borrowing Requirement 2007-08**  
(In million of Nuevos Soles)

	Stock as of Dec. 31 2006 1/	Stock as of Dec.31 2007 1/	Flow Jan-Dec	Stock as of Dec. 31 2007 2/	Stock as of Mar.31 2008 2/	Flow Jan-Mar
<b>a. Net domestic financing of the nonfinancial public sector</b>	<b>21</b>	<b>-6 019</b>	<b>-6 040</b>	<b>-4 427</b>	<b>-3 466</b>	<b>961</b>
i. Net claims of the financial system (1+2+3)	-10 843	-18 764	-7 921	-17 366	-17 451	- 84
1. Net credit of the banking system on the NFPS, COFIDE and MiVivie	-21 587	-35 745	-14 158	-34 117	-32 907	1 210
Credits	5 281	5 321	40	5 314	4 609	- 705
Liabilities	26 868	41 066	14 198	39 431	37 516	-1 915
2. Net credit of COFIDE and MiVivienda on the banking system	3 145	3 660	515	3 433	3 626	193
Credits	3 293	3 906	613	3 679	3 945	266
Liabilities	148	246	98	246	319	72
3. Net credit of nonbanking financial institutions on the NFPS	7 599	13 322	5 723	13 318	11 831	-1 487
Credits	8 194	13 909	5 715	13 893	12 422	-1 471
Liabilities	595	588	- 8	575	592	17
ii. Stock of NFPS bonds in circulation (excluding bonds held by NFPS and of the financial system)	10 766	11 725	958	11 725	14 389	2 664
1. Total	21 945	31 296	9 351	31 230	31 640	410
2. Less: holdings of the financial system (including COFIDE and MiVivi)	10 816	19 031	8 215	18 976	16 634	-2 342
3. Less: holdings of nonfinancial public sector entities	363	540	178	529	618	88
iii. Floating debt	3 695	4 813	1 118	4 813	3 124	-1 689
iv. Less: Accumulation of stocks, bonds, or other domestic financial assets by the NFPS	2 517	2 606	89	2 412	2 342	- 71
v. Less: Issuance of pension recognition bonds in program period	1 080	1 187	107	1 187	1 187	0
<b>b. Net external financing</b> (Millions of US dollars)			<b>-6 966</b> -\$ 2,150			<b>-4 119</b> -\$ 1,420
<b>c. Privatization</b> (Millions of US dollars)			<b>462</b> \$ 143			<b>22</b> \$ 8
<b>d. Operating balance of the BCRP</b>			<b>632</b>			<b>-86</b>
<b>PSBR (a+b+c-d)</b>			<b>-13 176</b>			<b>-3 050</b>

1/ Foreign currency valued at US\$ 1 = S/. 3,24

2/ Foreign currency valued at US\$ 1 = S/. 2,90

**Table 2 Peru: Public External Debt 1/  
Net External Financing N.F.P.S. 2007-08**  
(In millions of dollars)

	2007								2008			
	Jan - Mar		Jan - Jun		Jan - Sep		Jan - Dec		Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Prel.	Prog.	Prog.	Prog.	Prog.
<b>i. Loan Disbursements</b>	294	50	440	105	592	367	1,000	1,043	145	291	436	1140
<b>-Projects</b>	144	50	290	105	442	167	600	243	145	291	436	600
<b>-Non Projects</b>	150	0	150	0	150	200	400	800	0	0	0	540
<b>ii. Bonds</b>	0	2,290	0	2,290	0	2,290	0	2,290	0	290	290	290
<b>iii. Cash payments on amortization</b>	309	-2,747	578	-3,014	866	-3,289	1,148	-5,597	-745	-975	-1224	-1470
<b>- Loans</b>	252	-256	521	-523	753	-776	1,035	-1,029	-223	-453	-679	-926
<b>- Bonds</b>	56	-56	56	-56	113	-78	113	-78	-522	-522	-544	-544
<b>- Prepayments</b>		-2,435		-2,435		-2,435		-4,490				
<b>iv. Cash payments to settle arrears</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>v. Change in short term debt (increase+)</b>	0	23	0	-35	0	31	0	80	0	0	0	0
<b>A. NET FOREIGN BORROWING (i+ii-iii-iv+v)</b>	<b>-14</b>	<b>-385</b>	<b>-138</b>	<b>-654</b>	<b>-274</b>	<b>-601</b>	<b>-148</b>	<b>-2,184</b>	<b>-600</b>	<b>-394</b>	<b>-497</b>	<b>-41</b>
<b>vi. Debt equity swaps</b>	0	0	0	0	0	0	0	0	0	0	0	0
<b>vii. Change in foreign assets held by the NFP</b>	3	7	6	12	8	25	11	16	7	10	17	20
<b>viii. <u>Investment project under the PIPP 2/</u></b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	0	46	0	51	<u>0</u>	<u>0</u>		
<b>B. NET EXTERNAL FINANCING (A-vi-vii+viii)</b>	<b>-17</b>	<b>-391</b>	<b>-143</b>	<b>-664</b>	<b>-282</b>	<b>580</b>	<b>-159</b>	<b>-2,150</b>	<b>-607</b>	<b>-404</b>	<b>-514</b>	<b>-61</b>

1/ Excludes balance of payments support loans to the Central Reserve Bank of Peru.

2/ Includes disbursements for the project "Yuncan" since April 2004.

Source: Central Reserve Bank of Peru

**Table 3: Peru. Net International Reserves of the Central Reserve Bank of Peru excluding foreign currency deposits of financial institutions 1/**  
(In millions of US dollars)

	Stock as of:		
	30-Jun-07	31-Dec-07	31-Mar-08
<b>a. <u>Assets</u></b>	<b><u>21,186</u></b>	<b><u>27,165</u></b>	<b><u>32,959</u></b>
Deposits abroad	8,060	9,568	11,115
Securities	12,378	16,834	21,085
Gold 2/	721	721	721
Holdings of SDR 3/	12	13	11
Reciprocal credit agreement	6	19	16
Cash	10	10	10
Others	0	0	0
<b>b. <u>Liabilities</u></b>	<b><u>27</u></b>	<b><u>31</u></b>	<b><u>31</u></b>
Reciprocal credit agreement	0	4	3
Liabilities with international organizations	<b>26</b>	<b>28</b>	<b>28</b>
IMF 3/	0	1	1
IADB	26	27	28
FLAR	0	0	0
<b>c. <u>Foreign currency deposits of financial institutions at the Central Bank</u></b>	<b><u>3,547</u></b>	<b><u>4,655</u></b>	<b><u>4,111</u></b>
Banking enterprises	3,395	4,396	3,669
Banco de la Nación	58	174	315
COFIDE	24	20	80
Financial enterprises	70	65	46
<b>d. <u>Treasury bond repos</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>e. <u>Swaps</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>f. <u>Valuation US\$/other currencies</u></b>	<b><u>0</u></b>	<b><u>249</u></b>	<b><u>547</u></b>
<b>g. <u>Net international Reserves - Program definition (a-b-c+d-e-f)</u></b>	<b><u>17,612</u></b>	<b><u>22,229</u></b>	<b><u>28,270</u></b>
<b><u>Memorandum items:</u></b>			
1. Subscription to the IMF and FLAR	348	348	348
2. Pesos andinos	20	0	0
3. CAF bonds	0	0	0
4. Valuation change by BCRP's gold holdings	0	207	299
5. Valuation change by BCRP's SDR holdings	0	1	2
6. Net international reserves, official definition (g+c-d+e+f+1+2+3+4+5)	21,528	27,689	33,576

Source: Central Reserve Bank of Peru.

1/ As defined in the Technical Memorandum of Understanding

2/ Gold valued at US\$ 646,88755

3/ Valued at US\$ 1,51434 per SDR.

**Table 4. Peru: Short term external debt owed by the  
Non-Financial Public Sector**

(In millions of US\$)

	Export Financing	Working Capital	Import Financing	Total
As of end-June 2007				
<b><u>Total</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>99</u></b>	<b><u>99</u></b>
Petroperu	0	0	99	99
Electroperu	0	0	0	0
General government	0	0	0	0
As of end-December 2007				
<b><u>Total</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>277</u></b>	<b><u>277</u></b>
Petroperu	0	0	277	277
Electroperu	0	0	0	0
General government	0	0	0	0
As of end-March 2008				
<b><u>Total</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>379</u></b>	<b><u>379</u></b>
Petroperu	0	0	379	379
Electroperu	0	0	0	0
General government	0	0	0	0

Source: Central Reserve Bank of Peru and state companies.

**Table 5. Peru: Commercial Interest Reference Rates (CIRRs)**

Note: the latest six-month CIRRs averages are to be used for loans whose maturity is less than 15 years. For all others use 10-year averages.

	Average CIRRs		Previous rates for loans with maturity =>15 years contracted in											
	Six-month	Ten-year	before 1999	1999	2000	2001	2002	2003	2004	2005	2006			
	2/07-8/07	1/97-12/06	1/86-12/95	1/89-12/98	1/90-12/99	1/91-12/00	1/92 - 12/01	1/93 - 12/02	1/94 - 12/03	1/95 - 12/04	1/96 - 12/05	1/		
Australian Dollar	7.10%	6.61%	12.15%	10.15%	9.28%	8.55%	7.98%	7.68%	7.48%	7.24%	6.85%			
Austrian Schilling 2/	n.a.	5.34%	8.35%	7.73%	7.65%	7.43%	6.72%	6.34%	6.03%	5.76%	5.45%			
Belgian Franc 2/	n.a.	5.48%	9.25%	8.60%	8.45%	8.13%	7.21%	6.80%	6.44%	6.07%	5.68%			
Canadian Dollar > 8.5 years	5.19%	5.95%	9.83%	8.90%	6.07%	6.78%	7.41%	7.34%	7.05%	6.69%	6.25%			
Danish Krone	5.21%	5.41%	10.37%	8.88%	8.33%	7.80%	7.29%	6.81%	6.37%	6.09%	5.65%			
Finnish Markkaa 2/	n.a.	5.36%	10.64%	9.32%	9.15%	8.72%	7.56%	6.92%	6.43%	6.02%	5.55%			
<b>French Franc 2/</b>	n.a.	5.36%	9.62%	8.42%	8.19%	7.82%	6.95%	6.50%	6.16%	5.89%	5.51%			
<b>German Mark 2/</b>	n.a.	5.34%	7.91%	7.62%	7.54%	7.27%	6.58%	6.23%	5.96%	5.73%	5.45%			
Irish Punt 2/	n.a.	5.47%	10.37%	7.59%	8.36%	8.44%	7.44%	6.97%	6.50%	6.16%	5.70%			
Italian Lira 2/	n.a.	5.43%	11.50%	10.38%	10.06%	9.71%	8.30%	7.61%	6.94%	6.47%	5.81%			
<b>Japanese Yen</b>	2.46%	2.03%	5.53%	4.65%	4.30%	3.75%	3.17%	2.77%	2.45%	2.24%	2.08%			
Korean Won	6.03%	8.32%	n.a.	n.a.	n.a.	11.57%	10.74%	10.19%	9.55%	9.04%	8.59%			
Netherlands Guilder >8.5 year	n.a.	5.53%	8.08%	5.24%	5.81%	6.52%	6.95%	6.75%	6.43%	6.11%	5.74%			
New Zealand dollar	7.70%	7.25%	12.17%	9.62%	8.90%	8.33%	7.97%	7.94%	7.80%	7.68%	7.46%			
Norwegian Krone	5.80%	6.14%	11.27%	8.93%	8.36%	7.94%	7.60%	7.28%	7.04%	6.74%	6.36%			
Spanish Peseta 2/	n.a.	5.47%	12.99%	11.35%	10.89%	10.31%	8.65%	7.92%	7.20%	6.65%	5.91%			
Swedish Krona	5.06%	5.57%	11.67%	10.10%	9.42%	8.61%	8.04%	7.52%	7.08%	6.67%	5.98%			
Swiss Franc	3.75%	3.83%	6.68%	3.78%	5.97%	5.67%	5.26%	4.85%	4.55%	4.31%	4.01%			
<b>U.K. Pound</b>	6.19%	6.25%	10.37%	9.53%	8.99%	8.38%	7.85%	7.41%	7.16%	6.91%	6.53%			
<b>U.S. Dollar &gt; 8.5 years</b>	5.72%	5.93%	8.62%	7.93%	7.59%	7.35%	7.06%	6.85%	6.63%	6.36%	6.09%			
<b>Euro (ECU for ten-year avg)</b>	5.17%	5.19%	8.56%	7.99%	7.82%	7.13%	6.79%	6.40%	6.07%	5.80%	5.39%			
<b>Memorandum:</b>														
<b>SDR 3/</b>	5.22%	5.11%	8.22%	7.51%	7.21%	6.85%	6.49%	6.17%	5.90%	5.64%	5.33%			

1/ Estimates based on actual CIRRs for 1/97 to 12/06.

2/ For the current 10-year averages, rates for Euro are used from 1/99.

3/ The 10-year SDR denominated CIRR rate was constructed based on the weighted average of the five 10-year CIRR averages for the underlying currencies. For details for six-month and ten-year SDR CIRR averages, please refer to "current CIRR\_SDR" sheet in this workbook.

**Previous six-month rates**

	Loans with maturity <15 years, contracted between:																	
	2/15/99 and 8/14/99	8/15/99 and 2/14/00	2/15/00 and 8/14/00	8/15/00 and 2/14/01	2/15/01 and 8/14/01	8/15/01 and 2/14/02	2/15/02 and 8/14/02	8/15/02 and 2/14/03	2/15/03 and 8/14/03	8/15/03 and 2/14/04	2/15/04 and 8/14/04	8/15/04 and 2/14/05	2/15/05 and 8/14/05	8/15/05 and 2/14/06	2/15/06 and 8/14/06	8/15/06 and 2/14/07	2/15/07 and 8/14/2007	
<i>based on rates:</i>	2/15 thru 8/14/98	8/15/98- 2/14/99	2/15 thru 8/14/99	8/15/99- 2/14/00	2/15 thru 8/14/00	8/15/00- 2/14/01	2/15 thru 8/14/01	8/15/01- 2/14/02	2/15 thru 8/14/02	8/15/02- 2/14/03	2/15/03- 8/14/03	2/15/04- 8/14/04	8/15/04- 2/14/05	2/15/05- 8/14/05	2/14/06	8/15/06- 2/14/2007	8/15/06- 2/14/2007	
Australian Dollar	6.42%	6.01%	6.34%	7.20%	7.47%	6.99%	6.27%	6.18%	6.83%	6.23%	5.83%	6.45%	6.6%	6.34%	6.36%	6.24%	6.51%	6.83%
Austrian Schilling	5.59%	4.99%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belgian Franc	5.99%	5.24%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Canadian Dollar > 8.5 years	6.27%	6.12%	6.20%	6.88%	7.26%	6.80%	6.24%	6.17%	6.21%	5.69%	5.50%	5.24%	5.0%	5.23%	4.85%	4.79%	5.22%	5.08%
Danish Krone	5.77%	5.44%	4.72%	5.71%	6.46%	6.55%	6.01%	5.66%	6.15%	5.48%	4.85%	5.02%	5.0%	4.75%	4.13%	3.99%	4.71%	4.76%
Finnish Markkaa	5.52%	5.04%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>French Franc</b>	5.71%	5.03%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>German Mark</b>	5.57%	4.86%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Irish Punt	5.69%	4.93%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italian Lira	5.31%	5.22%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Japanese Yen</b>	2.32%	2.28%	2.13%	2.05%	1.98%	2.02%	1.58%	1.55%	1.95%	1.64%	1.45%	1.92%	2.0%	1.87%	2.05%	2.49%	2.49%	2.49%
Korean Won	n.a.	n.a.	n.a.	10.51%	10.18%	8.85%	7.91%	7.42%	7.95%	7.00%	6.11%	5.94%	5.9%	4.80%	5.10%	5.94%	6.10%	5.82%
Netherlands Guilder >8.5 year	6.12%	5.43%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Zealand dollar	8.17%	6.76%	6.64%	7.74%	8.08%	7.57%	7.16%	7.10%	7.51%	7.00%	6.45%	6.36%	6.9%	7.10%	7.02%	6.87%	6.87%	7.19%
Norwegian Krone	6.11%	6.58%	5.97%	6.82%	7.51%	7.98%	7.96%	7.46%	7.75%	7.34%	5.97%	5.27%	4.7%	4.45%	4.21%	4.35%	4.81%	5.09%
Spanish Peseta	5.68%	4.98%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Swedish Krona	6.04%	5.38%	4.78%	6.19%	6.46%	6.03%	5.63%	5.89%	6.42%	5.85%	5.22%	5.31%	5.4%	5.15%	4.33%	4.01%	4.50%	4.70%
Swiss Franc	4.07%	3.91%	3.81%	4.50%	5.24%	5.17%	4.17%	3.89%	4.05%	3.06%	2.88%	3.39%	3.4%	3.30%	2.85%	2.84%	3.40%	3.43%
<b>U.K. Pound</b>	7.15%	6.53%	5.79%	6.97%	7.03%	6.59%	6.11%	5.96%	6.17%	5.60%	5.22%	5.69%	5.9%	5.82%	5.54%	5.26%	5.34%	5.68%
<b>U.S. Dollar &gt; 8.5 years</b>	6.63%	5.92%	6.37%	7.18%	7.54%	6.86%	6.09%	5.67%	5.86%	4.75%	4.38%	4.75%	4.9%	4.89%	5.04%	5.27%	5.78%	5.73%
<b>ECU/Euro</b>	5.36%	4.72%	4.72%	5.82%	6.27%	6.15%	5.73%	5.53%	5.91%	5.27%	4.73%	4.85%	4.8%	4.61%	4.17%	4.05%	4.62%	4.76%
<b>SDR</b>	5.59%	5.01%	5.02%	5.80%	6.07%	5.88%	5.31%	5.04%	5.32%	4.53%	4.13%	4.46%	5.64%	4.49%	4.37%	4.50%	4.97%	5.04%



Table 6. Peru: Stock of Domestic Debt of the NFPS

	Legal Norm	Gross placements		Stock (estimated) (Millions of Nuevos Soles)
		Currency	Amount	
<b>Af of end-June 2007</b>				
<b>Banking Credits</b>				<b>116</b>
<b>Credits from BN</b>				<b>13</b>
Credit to central government		US\$ / S/. / Y		0
Credit to local governments		US\$ / S/.		13
Net public treasury overdraft		S/.		0
Other Banks		S/.		102
<b>Bonds</b>				<b>16,509</b>
Bonos TP - Financial system strengthening	D.U. 041-99	US\$	175	167
Bonos TP - Temporal suscription of stocks	D.U. 034-99	US\$	52	165
Bonos TP - Debt exchange bonds	D.S. 002-2007-EF	S/.	2,645	2,645
Bonos TP - RFA and FOPE programs	D.S. 059-2000-EF / D.U. 050-2002	US\$	109	381
Bonos TP - Sovereign bonds 1/		S/.	13,812	13,042
Bonos Municipalidad de Lima		S/.	250	109
<b>Total</b>				<b>16,624</b>
<i>Of which:</i>				
Pension Reform Bonds (Bonos de Reconocimiento)	D.S. 096-95-EF	S/.		8,896
Floating debt		S/.		1,565
<b>As of end-December 2007</b>				
<b>Banking Credits</b>				<b>156</b>
<b>Credits from BN</b>				<b>57</b>
Credit to central government		US\$ / S/. / Y		12
Credit to local governments		US\$ / S/.		45
Net public treasury overdraft		S/.		0
Other Banks		S/.		99
<b>Bonds</b>				<b>22,178</b>
Bonos TP - Financial system strengthening	D.U. 041-99	US\$	175.3315854	106
Bonos TP - Temporal suscription of stocks	D.U. 034-99	US\$	52.06	0
Bonos TP - Temporal portfolio exchange	D.S. 114-98-EF	US\$	136.3	0
Bonos TP - Debt exchange bonds	D.S. 068-99-EF	US\$	259	0
Bonos TP - Debt exchange bonds	D.S. 002-2007-EF	S/.	2644.571931	2,645
Bonos TP - RFA and FOPE programs	D.S. 059-2000-EF / D.U. 050-2002	US\$	109.456	363
Bonos TP - Financial system consolidation	D.U. 108-2000 / D.U. 099-2001	US\$	392	0
Bonos TP - Sovereign bonds 1/		S/.	13812	18,929
Bonos TP - Caja de Pensiones Militar Policial Bonds	D.U. 030-2001	US\$	34	0
Bonos Municipalidad de Lima		S/.	250	135
<b>Total</b>				<b>22,334</b>
<i>Of which:</i>				
Pension Reform Bonds (Bonos de Reconocimiento)	D.S. 096-95-EF	S/.		8,945
Floating debt		S/.		4,041
<b>Af of end-March 2008</b>				
<b>Banking Credits</b>				<b>151</b>
<b>Credits from BN</b>				<b>52</b>
Credit to central government		US\$ / S/. / Y		8
Credit to local governments		US\$ / S/.		44
Net public treasury overdraft		S/.		0
<b>Other Banks</b>		S/.		<b>99</b>
<b>Bonds</b>				<b>22,246</b>
Capitalización BCRP	D.S.066-94-EF	S/.	614	<b>0</b>
Serie A			239	0
Serie B			375	0
Bonos TP - Financial system strengthening	D.U. 041-99	US\$	175	98
Bonos TP - Temporal suscription of stocks	D.U. 034-99	US\$	52	0
Bonos TP - Temporal portfolio exchange	D.S. 114-98-EF	US\$	136	0
Bonos TP - Debt exchange bonds	D.S. 068-99-EF	US\$	259	0
Bonos TP - Debt exchange bonds	D.S. 002-2007-EF	S/.	2,645	2,415
Bonos TP - RFA and FOPE programs	D.S. 059-2000-EF / D.U. 050-2002	US\$	109	334
Bonos TP - Financial system consolidation	D.U. 108-2000 / D.U. 099-2001	US\$	392	0
Bonos TP - Sovereign bonds 1/		S/.	16,692	19,238
Bonos TP - Caja de Pensiones Militar Policial Bonds	D.U. 030-2001	US\$	34	0
Bonos Municipalidad de Lima		S/.	250	162
<b>Total</b>				<b>22,397</b>
<i>Of which:</i>				
Pension Reform Bonds (Bonos de Reconocimiento)	D.S. 096-95-EF	S/.		9076
Floating debt		S/.		2351

1/ Include public debt operations to exchange Bonds Financial system consolidation for Sovereign Bonds (S/. 851 millions in May and S/. 393 millions in September of 2007), the Bonds to prepay external public debt with Paris Club (S/. 2 619 millions in July and August of 2005) and Japeco ( S/. 811 millions in November of 2005), the Bonds to prepay external public debt with Japeco ( S/. 278 millions in May of 2006), and the Bonds to prepay external public debt with Japeco ( S/. 280 millions in February of 2007) and Paris Club (S/. 4 750 millions in July of 2007).

Source: Central Reserve Bank of Peru