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[Arrangement for Peru](#)

January 26, 2007

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**Peru:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

January 3, 2007

The following item is a Letter of Intent of the government of Peru, which describes the policies that Peru intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Peru, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Lima, Peru  
January 3, 2007

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Mr. de Rato:

1. Peru's economy has performed well in recent years: economic growth has been relatively strong, inflation has remained low, and most financial indicators have improved. However, large social deficits persist, as half of the population still lives below the poverty line and one-fourth of all Peruvian children are affected by malnutrition. Access to basic public services, notably education, health, and security remains largely inadequate.
2. The Government is determined to implement a comprehensive strategy aimed at boosting Peru's economic growth while ensuring that its benefits are shared by all. Our program seeks to consolidate macroeconomic stability, alleviate poverty decisively, and address structural weaknesses to enhance medium-term growth prospects. Long-standing vulnerabilities related to a narrow tax base, poor infrastructure, high dollarization and low financial intermediation, and high labor informality are being addressed to support growth.
3. The attached Memorandum of Economic and Financial Policies (MEFP) presents the plans of the Government of Peru for 2007–08. In support of its program, the government requests a Stand-By Arrangement (SBA) from the Fund totaling SDR 172.37 million (27 percent of quota), covering the period through February 28, 2009. The requested SBA would help bolster market confidence and provide an important anchor to policies to entrench macroeconomic stability, decisively tackle poverty, and enhance medium-term growth. The government intends to treat the requested arrangement as precautionary.
4. The Government of Peru believes that the policies described in the attached MEFP are adequate for meeting the objectives of the program, but stands ready to take any additional measures that may be needed for this purpose. We will maintain a close and proactive policy dialogue with the Fund, in accordance with Fund policies on such consultations. There will be four semi-annual reviews under the program, and the first review

will be completed by May 15, 2007. Performance criteria and structural benchmarks under the program are set out in Tables 1 and 2 of the MEFP.

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

## MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2007–08

1. Over the past several years, Peru has made progress in consolidating macroeconomic stability and in implementing important reforms. Supported by a favorable external environment, the economy has been experiencing its longest expansion on record, with growth averaging 4¼ percent a year since 2001. Inflation has remained well contained in the context of the inflation targeting framework, and the external position has strengthened significantly. Progress was also made in strengthening the medium-term underpinnings of fiscal policy, consolidating the prudential and supervisory frameworks for the financial system, and in taking steps to improve the business environment.
2. Notwithstanding this strong performance, the Government of Peru is aware of the critical and pressing challenges facing the nation and is committed to addressing them. Moreover, it will implement the policies needed to help secure investment grade status while ensuring a more equal distribution of the benefits associated with growth. Accordingly, the government intends to consolidate macroeconomic stability and establish the conditions to reduce poverty decisively, enhance medium-term growth prospects, help promote employment growth, improve basic public services, and diminish incentives for informality. Critical to achieving these objectives is the implementation of reforms that strengthen the effectiveness of public institutions.
3. Macroeconomic policies for 2007–08 aim at sustaining economic growth, low inflation, and a strong external position. The economy is expected to grow by 5.5–6 percent, led increasingly by a strong domestic demand, and twelve-month inflation is projected to remain at around 2.5 percent. The external current account surplus would narrow to ¼ percent of GDP in 2007–08, and net international reserves are projected to grow by at least US\$400 million in 2007, with some further increase in 2008. To achieve these objectives, we will maintain prudent fiscal and monetary policies, while implementing growth-enhancing reforms.

### A. Consolidating Macroeconomic Stability

4. In the public sector, emphasis is being placed on prudent policies, while making room for needed increases in social and infrastructure spending. The overall balance of the combined sector is targeted to shift from a surplus of 1.0 percent of GDP in 2006 to a deficit of 0.8 percent in 2007, and 0.7 percent of GDP in 2008. The program includes an adjustor under which any central government revenue (net of mandatory transfers) exceeding programmed amounts will be saved to reduce the overall deficit to no more than 0.5 percent of GDP in 2007. Public sector debt is expected to fall from 37½ percent of GDP at the end of 2005 to close to 30 percent by end–2008. The fiscal objectives of the program will be monitored on a quarterly basis through ceilings on the borrowing requirement of the combined public sector; the contracting or guaranteeing of nonconcessional medium- and long-term public debt; and the outstanding short-term external debt of the nonfinancial public

sector. The program also includes a ceiling on the future stream of government obligations associated with new concessions and public-private partnerships awarded by the government.

5. To provide room for needed infrastructure spending while preserving fiscal discipline, the Fiscal Responsibility and Transparency Law (FRTL) is expected to be amended. A mechanism of sanctions is to be introduced in case of noncompliance with this law, and the 3-percent annual limit on the real growth in government spending was redefined, to exclude maintenance and investment spending. These changes would allow the government to increase public investment to 4.5 percent of GDP over the next five years.

6. The government is committed to broadening the tax base by reducing tax exemptions. To that effect, following the completion of a study on regional and sectoral tax exemptions, by March 2007 it will submit to congress a draft law that would rationalize fiscal exemptions. Steps will be taken to limit the adverse impact on tax collections from the creation of the tax free zone in *Puno*. With the same objective, tax exemptions for companies effectively operating in the high altitude regions of the country will only apply to a limited number of taxes. During 2007, the government will seek to finalize arrangements aimed at replacing regional tax exemptions with government transfers earmarked for infrastructure for other regions, similar to the agreement reached in July 2005 with the *San Martín* region.

7. The government intends to simplify, broaden, and enhance the effectiveness of the tax regime. In the area of tax policy, the Financial Transactions Tax rate will be gradually reduced beginning in January 2008. Prior to end-March 2007, MEF will specify the tax treatment of financial derivative instruments and financial securitization transactions. It will harmonize the tax treatment of repurchase agreements and certificates of deposits by end-2007. Legislation will be introduced in congress by end-December 2006 to reinstate the recently-eliminated tax on casinos and slot machines. The fiscal regime will continue to be consistent with enhancing the relative competitiveness of Peru in attracting investment into the mining and hydrocarbon sectors. In this regard, the government will not impose any new measures that would result in the unilateral cancellation of tax stability contracts. In the area of tax administration, performance indicators will be established at SUNAT to strengthen its effectiveness, particularly at customs. Administrative measures will be taken to avoid misuse of the duty drawback for exports, make the process of advanced VAT refunds more efficient, and simplify the system for small taxpayers (RUS).

8. Modernizing the budgetary process is critical to strengthening fiscal management and the effectiveness of public spending. The 2008 budget will be prepared following a budget classification aligned with international standards and incorporated into the charts of accounts. A comprehensive reform is under way to move gradually to performance budgeting in the accounts of the public sector, with the aim of completing this process by 2010. With assistance from the World Bank, performance indicators will be identified with a view to introducing performance budgeting for public investment by 2008. To improve transparency and facilitate supervision over public resources, the government will establish fully

functioning Treasury Single Accounts for the central government by end-December 2007 and for subnational governments by end-December 2008. The independent assessment of the government's Financial Management Information System (SIAF) will be completed by September 2007 and its recommendations will start to be implemented soon thereafter.

9. A transparent and effective fiscal framework constitutes the backbone of macroeconomic stability. To that effect, a Committee for Fiscal Policy Coordination will be created to ensure that all nonfinancial public sector entities continue to abide by the guidelines and goals established in the FRTL. To take into account the need to undertake long-delayed investments, the proposed program incorporates adjustors in the ceilings for contracting and guaranteeing of nonconcessional public debt (US\$300 million) and in the overall deficit of the public sector (up to US\$100 million) for additional capital expenditure undertaken by PetroPeru, in order to comply with environmental requirements.

10. The decentralization process will proceed in a fiscally sound manner. Efforts to strengthen the administrative capacity of subnational governments will be deepened during 2007-08, and functions devolved to subnational governments upon their satisfactorily meeting all the Accreditation System criteria. The government will monitor the quality of public expenditure for devolved functions and establish a registry of subnational debt at the Ministry of Finance. To this end, by March 2007 the Ministry of Finance will establish a unit to monitor the operations of subnational governments and their performance relative to the fiscal rules. It will also request that all regional governments and large municipalities comply with reporting rules by end-2007.

11. To simplify and expedite the approval of public investment projects, the government will reform the National System of Public Investment (SNIP). In accordance with a recently-approved law, its operations will be decentralized, with steps taken in close coordination between the Ministry of Finance and the regions to ensure that the quality of project assessments is preserved, and that SNIP procedures are better aligned with existing regional budget procedures. In this context, the limit on projects not subject to SNIP approval has been revised upward from S/. 4 million to S/. 10 million. Efforts will be made to develop and strengthen project assessment capacity of regional and local governments.

12. The Government of Peru intends to continue pursuing active debt management operations to deepen the domestic capital market further. It will continue to increase the share and duration of local currency instruments, to reduce exchange rate risks and extend the yield curve; it will also lengthen the maturity of new placements abroad in order to smooth out the amortization profile of external public debt. The Ministry of Finance will finalize a methodology for valuing the contingent liabilities of the public sector in relation to PPP projects. The Ministry of Finance also intends to enhance the design of the financing instruments used in the PPP projects.

13. The authorities are fully committed to preserving price stability and further strengthening the inflation targeting framework. Toward these objectives, the Central Reserve Bank of Peru stands ready to adjust interest rates as required to meet the inflation target. The Central Bank will limit its intervention in the foreign exchange market to avoid excessive volatility and build international reserves, thus helping economic agents to better internalize foreign exchange risks.

### **B. Reducing Poverty**

14. The sustainability of Peru's economic development critically hinges on a prompt and significant reduction in poverty levels. To effectively address social problems, including the critical issue of chronic malnutrition among children less than five years old, the government has established several new programs and is expanding and reforming existing ones:

- Child nutrition programs are being consolidated and strengthened to bring malnutrition down by five percentage points by 2011. Access to health insurance is being facilitated, particularly for those living in conditions of extreme poverty.
- The newly-created *Fondo para la Igualdad*, funded with the savings associated with recently-introduced austerity measures and transfers authorized by the Ministry of Finance, will be effectively used to address social needs. A registry of beneficiaries from all social programs will also be established.
- The *Agua para Todos* program is designed to help reduce by half the share of the population without access to potable water over the next five years. The government is also stepping up its housing efforts for the poor through the *Techo Propio* program and strengthening Cofopri's efforts to issue property titles. The number of families benefited under the conditional cash-transfer program *Juntos* will be raised from 180,000 in 2006 to 300,000 by end-2007.
- In the area of education, the accreditation system for teachers will be strengthened and their skills improved through continuous training.

15. To help design better policies in the fight against poverty and, in general, with respect to all social expenditures, the government will entrust the Secretary of Social Affairs (CIAS) to prepare reforms in this area. Social assistance programs have become extensive and are in need of streamlining and consolidation. By March 2007, the CIAS will have completed a comprehensive stocktaking of all social programs and prepared an action plan aimed at optimizing their functioning. Completion of the report by March 2007 will be a structural benchmark under the program. In implementing the poverty alleviation strategy, efforts will focus, with the support of multilateral institutions, on strengthening the indicators for monitoring and assessing key social programs.

16. The government has recently reached agreement with mining sector companies to make voluntary contributions toward a privately managed fund to support poverty alleviation and infrastructure needs. A committee, comprising subnational governments and mining sector companies, has been established to select the specific projects that will be financed with these contributions.

### **C. Promoting Long-Term Growth**

17. To help overcome existing deficiencies in public infrastructure, the Government is promoting the use of Public-Private Partnerships (PPPs). To that effect, a framework law will be submitted to congress by June 2007, which will provide guidelines on all aspects of PPP operations, including project selection and approval, reporting requirements, conflict resolution procedures, and adherence to international accounting standards. During 2007, the government plans to initiate PPP operations for a total amount of US\$3 billion, with large projects in the areas of ports, highways, and sanitation. All PPPs will continue to be evaluated by the SNIP and, to ensure that the increased reliance on PPPs is consistent with fiscal sustainability, the program has established a limit on the net present value of future government payments, firm and contingent, associated with new PPP operations.

18. The government is firmly committed to ensuring sustained formal employment generation in the private sector while aiming at a gradual reduction in labor market informality. Steps will be taken to further improve employment generation while developing a more comprehensive social protection net and providing progressive access to benefits to informal sector workers. The Government also plans to renew the current labor regime governing micro-enterprises before its expiration by end-2008.

19. Fostering the conditions for the growth of private sector activity is a core government objective. Steps have been taken to press ahead with administrative simplification and a one-step window is being implemented for new businesses and exporters. The positive results of the pilot program of commercial courts in Lima have helped expedite the resolution of business disputes, and the Judiciary intends to establish such courts in several other cities by end-2008.

20. The government intends to increase the openness of the economy further. The ratification of the Free Trade Agreement (FTA) with the United States will represent an important step in this area. Upon ratification of this agreement, the government will provide temporary compensation to affected producers for a limited period of time, without compromising the fiscal targets. The government will continue reducing tariff protection at the MFN level but also seek new bilateral FTAs, with a view to increasing further Peru's insertion in the world economy and boosting exports.



#### D. Strengthening the Resilience of the Financial Sector

21. The government will continue to strengthen financial sector regulation and supervision in order to enhance the resilience of the financial system. In this aspect, regulations were recently issued, aimed at preventing over-indebtedness by households and ameliorating foreign-currency-induced credit risks. In the period ahead, efforts will be focused on sustaining financial de-dollarization, improving the reliability of the payments system, expanding the role of public banks in promoting access to financial markets, and enhancing the development of the capital market.
22. To sustain the de-dollarization process, sound macroeconomic policies are being complemented by prudential regulations aimed at mitigating foreign-currency induced credit risks. The Superintendency of Banks (SBS) is ensuring that banks complete their assessment of unhedged borrowers by end-2006 and that, as required, reclassify their loans and build the associated provisioning requirements if needed. By December 2007, the SBS will strengthen the regulations on classification of loans and provisioning to fully take into account foreign-currency induced credit risks. The SBS will also issue norms to introduce lower loan-to-value ratios for mortgage loans in foreign currency to unhedged borrowers. In line with the Basel II Accord, the government will also seek to modify the General Banking Law with a view to introducing specific capital requirements for exposure to foreign currency credit risks.
23. The government will continue to promote mortgage lending in domestic currency under the *MiVivienda* program. To that effect, steps will be taken to ensure that, by end-June 2007, most new mortgage loans guaranteed by *MiVivienda* are denominated in nuevo soles. *MiVivienda*'s guarantee and provision of the "good payer bond" on mortgages in foreign currency will be discontinued for any new loan signed after that date. *MiVivienda* will also gradually increase its resources through issuance of long-term bonds in soles.
24. With respect to the payments system, the authorities will complete the DVP for fixed-income and will establish oversight of over-the-counter trading platforms. The legal framework for empowering the central bank to oversee and regulate the entire payment system will be defined by June 2007. To further strengthen the payments system, the authorities will also modify the banking law to ensure the seniority of the central bank as a lender of last resort among creditors.
25. Public banks will operate as second tier institutions. Agrobanco was recently recapitalized and mechanisms are being established to ensure that Banco de la Nación assists small and medium-size regional businesses more effectively. To that effect, it has started channeling its new lending operations to micro enterprises primarily through nonbank financial institutions. A coordinating committee comprised of representatives of the *Corporación Financiera de Desarrollo* (COFIDE), Banco de la Nación, and Agrobanco will be established by March 2007, to determine, according to strict financial criteria, which financial institutions should be allowed to enter into infrastructure agreements with Banco de

la Nación. Banco de la Nación will also continue to comply with a 25 percent annual growth limit on its consumer lending operations in 2007 and 2008. Steps will be taken to strengthen the oversight of the SBS over Banco de la Nación.

26. The government will implement additional measures aimed at improving the financial soundness and corporate governance of microfinance institutions. In particular, the minimum capital requirements for establishing such institutions will be raised. To enhance the transparency of credit operations and enforce consumer protection, the SBS will ensure that information on interest rates charged by financial intermediaries are presented in a transparent manner to the public.

27. Recognizing the increased importance of private pension funds in the economy, the government will seek to enhance their operating environment. The limits on private pension funds abroad will be gradually raised, while other cross-limits will be eased. The authorities will also assess whether minimum hedging requirements for foreign exchange investments of AFPs should be introduced. In order to promote the development of capital markets, an assessment will be undertaken to evaluate existing methods of infrastructure finance and determine whether the legal and regulatory frameworks should be modified, with a view to improving investor demand and reducing transaction structuring costs. A calendar for the issuance of infrastructure bonds in domestic currency will be developed by June 2007. The government also plans to strengthen the role and administrative capacity of the *Comisión Nacional Supervisora de Empresas y Valores* (CONASEV), to better align it with the development of new instruments and the increase in trading volumes.

Table 1. Peru: Quantitative Performance Criteria and Inflation Consultation Mechanism for 2007

	Program		Indicative	
	Mar. 31	Jun. 30	Sept. 30	Dec. 31
(Cumulative amounts from December 31, 2006, millions of New Soles)				
<b>Borrowing requirement of the combined public sector</b>				
Unadjusted limits 1/ 2/ 3/ 4/	-1,396	-4,190	-2,761	2,418
(Cumulative amounts from December 31, 2006, millions of U.S. dollars)				
<b>Net international reserves of the Central Reserve Bank, excluding foreign-currency deposits of financial institutions</b>				
Unadjusted limits 5/ 6/	-260	44	336	350
<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/	751	1,237	1,608	2,636
<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/	1,500	1,500	1,500	1,500
(Consultation bands for the 12-month rate of inflation, in percent) 11/				
<b>Outer band (upper limit)</b>	5.5	5.5	5.5	5.5
Inner band (upper limit)	4.5	4.5	4.5	4.5
Central point	2.5	2.5	2.5	2.5
Inner band (lower limit)	0.5	0.5	0.5	0.5
<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 downwards by the amount central government revenues net of mandatory transfers exceed program estimates of S/. 10,489 million at end-March, up to a ceiling of S/. 250 million; S/. 23,359 million at end-June, up to a ceiling of S/. 500 million; S/. 32,807 million at end-September, up to a ceiling of S/. 750 million; and S/. 44,821 million at end-December, up to a total ceiling of S/. 1,000 million.

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

4/ 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.

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\$15 million at end-March, -US\$138 million at end-June, -US\$274 million at end-September, and -US\$148 million at end-December 2007. 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 2007.

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 2007.

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\$430 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.

Table 2. Peru: Structural Measures for 2007

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**Structural Benchmarks*****March 31***

Publication of the main recommendations of the CIAS on an anti-poverty strategy

Establishment of a unit at the Ministry of Finance to monitor the operations of subnational governments and assess their performance with respect to fiscal rules

Clarify the tax treatment of financial derivatives and securitized transactions

***June 30***

Submit to congress a legal framework for PPP operations

Ensure that most of new mortgage loans extended by banks with the guarantee of *MiVivienda* are denominated in nuevo soles

***December 31***

Full implementation of the Treasury Single Account (TSA) for the central government

2008 Budget prepared according to the modernized budget classification system and incorporated into the charts of accounts

Financial transactions tax rate reduced, effective January 1, 2008

Issue new regulations regarding new risk categories and provisions to address foreign currency risk.

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## TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

This technical memorandum sets out the understandings between the Peruvian authorities and the Fund relating to the monitoring of the program for 2007. It defines the concepts used to assess compliance with quantitative performance criteria specified in the letter of the Government of Peru dated January 3, 2007. It also sets the frequency of the data to be provided to the Fund for monitoring the program. For purposes of the program for 2007, operations in foreign currency will be converted into *Nuevos Soles* at the average program exchange rate of S/. 3.24 per U.S. dollar.

### I. DEFINITIONS OF CONCEPTS

1. The nonfinancial public sector (**NFPS**) includes the central government, the autonomous agencies, the local and regional governments, and the nonfinancial public enterprises.
2. **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 2007. 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 nonfinancial public sector, 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 nonfinancial public sector, excluding Peruvian Brady bonds and other bonds initially sold abroad; and (iii) the increase in the floating debt of the nonfinancial public sector due to expenditure operations and tax refund arrears; *less* (iv) the accumulation of stocks, bonds, or other domestic financial assets by the nonfinancial public sector and (v) the amortization of pension related bonds. In the case of enterprises that are divested after December 31, 2006, 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.

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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.

(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 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.

3. **The quarterly limits on the borrowing requirement of the combined public sector (PSBR) for 2007 will be reduced** by the amount to which revenues of the central government net of mandatory transfers exceed program estimates of S/.10,489 million at end-March, up to a ceiling of S/. 250 million; S/. 23,359 million at end-June, up to a ceiling of S/. 500 million; S/. 32,807 million at end-September, up to a ceiling of S/. 750 million; and S/. 44,821 million at end-December, up to a total ceiling of S/. 1,000 million. Mandatory transfers are earmarked central government expenditures that are linked to revenue. These include *canon and sobrecanon, fondo de Camisea, regalía minera, renta de aduanas, and Impuesto de Promoción Municipal (IPM)*.

4. **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 2.5 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 around the central point of 2.5 percent, the authorities will discuss with Fund staff on a 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.

5. **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) 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.

6. **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.

7. **BCRP’s silver holdings** will be included as net domestic assets and excluded from the net international reserves.

8. **BCRP’s gold holdings** will be accounted at US\$516.53 per troy ounce (the average book value as of June 30, 2006), SDRs at US\$1.429 per SDR, and foreign currency assets and liabilities of the BCRP in other currencies than US\$ at the exchange rate of June 30, 2006. 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-September 2006 level of net international reserves is shown in Table 3.

9. 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-September 2006] stock of short-term external debt of the NFPS is shown in Table 4.

10. **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 lending at concessional terms; and (iii) certificates (BCRPCD) 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 2007 that is not guaranteed by the central government.

11. **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.



12. 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-June 2007, the CIRRs published by the OECD in October 2006 will be used (see Table 5).

13. **The concessionalism 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 concessionalism 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.

14. **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 Mínimos 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-June 2007, the CIRRs published by the OECD in October 2006 will be used (Table 5).

15. **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-2005 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.

16. **Definitions used in Table 1 of the letter of intent dated January 3, 2007 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 4 of Table 1 attached to the letter of intent dated January 3, 2007 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

17. 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) Balance sheets of the consolidated financial system, consolidated banking system, BCRP, BN, commercial banks, *AgroBanco*, *MiVivienda* and development banks in liquidation.
- (b) Disaggregation of the net domestic assets of the BCRP and BN with details of the other net accounts.
- (c) Balance sheet of COFIDE and data on COFIDE guarantees.
- (d) Balance sheet of the private pension system.
- (e) Evolution of gross disbursements and cash amortizations of consumer loans under the "*Multired Program*" of *Banco de la Nación*.
- (f) The stock of government guarantees for housing support programs.

- (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) Operations of the Central Government, Central Government Current Revenue (SUNAT Format); Central Government Noninterest Expenditure; and Transfers from the Central Government to the Rest of the General Government.
  - (g) Fuel prices of *Petroperu* and *Relapasa*, and international prices of products commercialized by *Petroperu* including tariffs, indirect taxes and distribution margins (prices would be listed for all grades of gasoline, diesel fuel, kerosene and fuel oils).
  - (h) 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 of fiscal and external accounts, and public sector debt,** distinguishing between external and domestic total public sector debt and total NFPS.
- (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 2006**  
(In millions of nuevos soles)

	Stock as of Dec. 31 2005 1/	Stock as of Sep. 30 2006 1/	Flow Jan-Sep
<b>a. Net domestic financing of the nonfinancial public sector</b>	<b>4 470</b>	<b>-1 143</b>	<b>-5 612</b>
i. Net claims of the financial system (1+2+3)	-6 440	-10 513	-4 073
1. Net credit of the banking system on the NFPS, COFIDE and MiVivienda	-14 559	-20 817	-6 258
Credits	6 811	5 150	-1 661
Liabilities	21 370	25 968	4 597
2. Net credit of COFIDE and MiVivienda on the banking system	2 854	3 056	201
Credits	3 084	3 117	33
Liabilities	230	62	- 168
3. Net credit of nonbanking financial institutions on the NFPS	5 265	7 248	1 984
Credits	5 954	7 787	1 833
Liabilities	689	538	- 151
ii. Stock of NFPS bonds in circulation (excluding bonds held by NFPS and of the financial system)	11 496	10 760	- 736
1. Total	20 665	21 354	689
2. Less: holdings of the financial system (including COFIDE and MiVivienda)	8 662	10 271	1 609
3. Less: holdings of nonfinancial public sector entities	507	323	- 184
iii. Floating debt	2 810	2 173	- 637
iv. Less: Accumulation of stocks, bonds, or other domestic financial assets by the NFPS	2 444	2 513	70
v. Less: Issuance of pension recognition bonds in program period	952	1 049	96
<b>b. Net external financing</b> (Millions of US dollars)			<b>-2 454</b> -\$ 757
<b>c. Privatization</b> (Millions of US dollars)			<b>240</b> \$ 74
<b>d. Operating balance of the BCRP</b>			<b>402</b>
<b>PSBR (a+b+c-d)</b>			<b>-8 228</b>

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

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

	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec
	Programmed	Programmed	Programmed	Programmed
i. Loan Disbursements	294	440	592	1000
-Projects	144	290	442	600
-Non Projects	150	150	150	400
ii. Bonds	0	0	0	0
iii. Cash payments on amortization	309	578	866	1148
- Loans	252	521	753	1035
- Bonds	56	56	113	113
- Prepayments	0	0	0	0
iv. Cash payments to settle arrears	0	0	0	0
v. Change in short term debt (increase+)	0	0	0	0
<b>A. NET FOREIGN BORROWING (i+ii-iii-iv+v)</b>	<b>-14</b>	<b>-138</b>	<b>-274</b>	<b>-148</b>
vi. Debt equity swaps	0	0	0	0
vii. Change in foreign assets held by the NFPS	3	6	8	11
viii. Investment project under the PIPP	0	0	0	0
<b>B. <u>NET EXTERNAL FINANCING (A-vi-vii+viii)</u></b>	<b><u>-17</u></b>	<b><u>-143</u></b>	<b><u>-282</u></b>	<b><u>-159</u></b>

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

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 as defined in the Technical Memorandum of Understanding (TMU)  
(In millions of US dollars)**

	Stocks as of September 30, 2006
<b>a. <u>Assets</u></b>	<b><u>14,755</u></b>
Deposits abroad	5,926
Securities	8,225
Gold 1/	576
Holdings of SDR 2/	9
Reciprocal credit agreement	9
Cash	10
Others	0
<b>b. <u>Liabilities</u></b>	<b><u>26</u></b>
Reciprocal credit agreement	2
Liabilities with international organizations	<b>23</b>
IMF 2/	0
IADB	23
FLAR	0
<b>c. <u>Foreign currency deposits of financial institutions at the Central Bank</u></b>	<b><u>3,693</u></b>
Banking enterprises	3,522
Banco de la Nación	75
COFIDE	18
Financial enterprises	78
<b>d. <u>Treasury bond repos</u></b>	<b><u>0</u></b>
<b>e. <u>Swaps</u></b>	<b><u>0</u></b>
<b>f. <u>Valuation US\$/other currencies</u></b>	<b><u>179</u></b>
<b>g. <u>Net international Reserves - Program definition (a-b-c+d-e-f)</u></b>	<b><u>10,858</u></b>
<b><u>Memorandum items:</u></b>	
1. Subscription to the IMF and FLAR	331
2. Pesos andinos	20
3. CAF bonds	0
4. Valuation change by BCRP's gold holdings	91
5. Valuation change by BCRP's SDR holdings	0
6. Net international reserves, official definition (g+c-d+e+f+1+2+3+4+5)	15,172

Source: Central Reserve Bank of Peru.

1/ Gold valued at US\$ 516,53330

2/ Valued at US\$ 1,42927 per SDR.

Table 4. Peru: Short-Term External Debt Owed by the Nonfinancial Public Sector  
as of September 30, 2006  
(In millions of US\$)

	Export Financing	Working Capital	Import Financing	Total
Total	0	0	73	73
Petroperu	0	0	73	73
Electroperu	0	0	0	0
General government	0	0	0	0
Memorandum item:				
Total of export financing plus working capital loans				0

Source: Central Reserve Bank of Peru and state companies.

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

	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		
	02/15/06-08/14/06	1/96 - 12/05 1/	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		
Australian Dollar	6.51%	6.85%	12.15%	10.15%	9.28%	8.55%	7.98%	7.68%	7.48%	7.24%		
Austrian Schiling 2/	n.a.	5.45%	8.35%	7.73%	7.65%	7.43%	6.72%	6.34%	6.03%	5.76%		
Belgian Franc 2/	n.a.	5.68%	9.25%	8.60%	8.45%	8.13%	7.21%	6.80%	6.44%	6.07%		
Canadian Dollar > 8.5 years	5.22%	6.25%	9.83%	8.90%	6.07%	6.78%	7.41%	7.34%	7.05%	6.69%		
Danish Krone	4.71%	5.65%	10.37%	8.88%	8.33%	7.80%	7.29%	6.81%	6.37%	6.09%		
Finnish Markkaa 2/	n.a.	5.55%	10.64%	9.32%	9.15%	8.72%	7.56%	6.92%	6.43%	6.02%		
<b>French Franc 2/</b>	n.a.	5.51%	9.62%	8.42%	8.19%	7.82%	6.95%	6.50%	6.16%	5.89%		
<b>German Mark 2/</b>	n.a.	5.45%	7.91%	7.62%	7.54%	7.27%	6.58%	6.23%	5.96%	5.73%		
Irish Punt 2/	n.a.	5.70%	10.37%	7.59%	8.36%	8.44%	7.44%	6.97%	6.50%	6.16%		
Italian Lira 2/	n.a.	5.81%	11.50%	10.38%	10.06%	9.71%	8.30%	7.61%	6.94%	6.47%		
<b>Japanese Yen</b>	2.49%	2.08%	5.53%	4.65%	4.30%	3.75%	3.17%	2.77%	2.45%	2.24%		
Korean Won	6.10%	8.59%	n.a.	n.a.	n.a.	11.57%	10.74%	10.19%	9.55%	9.04%		
Netherlands Guilder >8.5 years	n.a.	5.74%	8.08%	5.24%	5.81%	6.52%	6.95%	6.75%	6.43%	6.11%		
New Zealand dollar	6.87%	7.46%	12.17%	9.62%	8.90%	8.33%	7.97%	7.94%	7.80%	7.68%		
Norwegian Krone	4.81%	6.36%	11.27%	8.93%	8.36%	7.94%	7.60%	7.28%	7.04%	6.74%		
Spanish Peseta 2/	n.a.	5.91%	12.99%	11.35%	10.89%	10.31%	8.65%	7.92%	7.20%	6.65%		
Swedish Krona	4.50%	5.98%	11.67%	10.10%	9.42%	8.61%	8.04%	7.52%	7.08%	6.67%		
Swiss Franc	3.40%	4.01%	6.68%	3.78%	5.97%	5.67%	5.26%	4.85%	4.55%	4.31%		
<b>U.K. Pound</b>	5.34%	6.53%	10.37%	9.53%	8.99%	8.38%	7.85%	7.41%	7.16%	6.91%		
<b>U.S. Dollar &gt; 8.5 years</b>	5.78%	6.09%	8.62%	7.93%	7.59%	7.35%	7.06%	6.85%	6.63%	6.36%		
<b>Euro (ECU for ten-year avg)</b>	4.62%	5.39%	8.56%	7.99%	7.82%	7.13%	6.79%	6.40%	6.07%	5.80%		
<b>Memorandum:</b>												
<b>SDR 3/</b>	4.97%	5.46%	8.22%	7.51%	7.21%	6.85%	6.49%	6.17%	5.90%	0.00%		

1/ Estimates based on actual CIRRs for 1/95 to 12/04.

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

**Previous six-month rates**

based on 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 8/14/2006	
	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	8/15/03- 2/14/04	2/15/04- 8/14/04	8/15/04- 2/14/05	2/15/05- 8/14/05	8/15/05- 2/14/06
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%
Austrian Schiling	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.
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.
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%
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%
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.
<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.
<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.
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.
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.
<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%	2.08%	1.87%	2.05%
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%
Netherlands Guilder >8.5 years	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.
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%
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%
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.
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%
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%
<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%
<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%
<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%
<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%



Table 6. Peru: Stock of Domestic Debt of the NFPS ( September-30-2006)

	Legal Norm	Gross placements		Stock (estimated) (Millions of Nuevos Soles)
		Currency	Amount	
<b>Credits from BN</b>				<b>2,584</b>
Credit to central government		US\$ / S/. / Y		2,554
Credit to local governments		US\$ / S/.		29
Net public treasury overdraft		S/.		0
<b>Bonds</b>				<b>12,075</b>
Capitalización BCRP	D.S.066-94-EF	S/.	614	0
Serie A			239	0
Serie B			375	0
Bonos TP - Financial system strengthening	D.U. 041-99	US\$	175	171
Bonos TP - Temporal suscription of stocks	D.U. 034-99	US\$	52	169
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	347
Bonos TP - RFA and FOPE programs	D.S. 059-2000-EF / D.U. 050-2002	US\$	109	383
Bonos TP - Financial system consolidation	D.U. 108-2000 / D.U. 099-2001	US\$	392	0
Bonos TP - Sovereign bonds 1/		S/.	11 481	11,005
Bonos TP - Caja de Pensiones Militar Policial Bonds	D.U. 030-2001	US\$	34	0
<b>Total</b>				<b>14,659</b>
Memorandum item:				
Pension Reform Bonds	D.S. 096-95-EF and DS 097-54-EF	S/.		9,002
Floating debt		S/.		1,402

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 2005), and 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)

Source: Central Reserve Bank of Peru