Peru

The Peruvian economy was strong in 2010, driven by growing domestic demand. GDP growth for the year as a whole is estimated at about 8.5%, in a context of low inflation, a falling fiscal deficit and a balance-of-payments current account surplus. The 2011 outlook is for GDP growth of about 6%.

In view of the dynamism of the domestic economy, the authorities began to withdraw fiscal and monetary stimuli to economic activity in the first half of 2010. In May 2010, the government used an emergency decree to announce measures to rein in fiscal spending, including a cap on 2010 spending growth set at 3% of the 2009 nominal expenditure total, a curb on implementation of public investment projects and limitations on the use of funds from the contingency reserve.

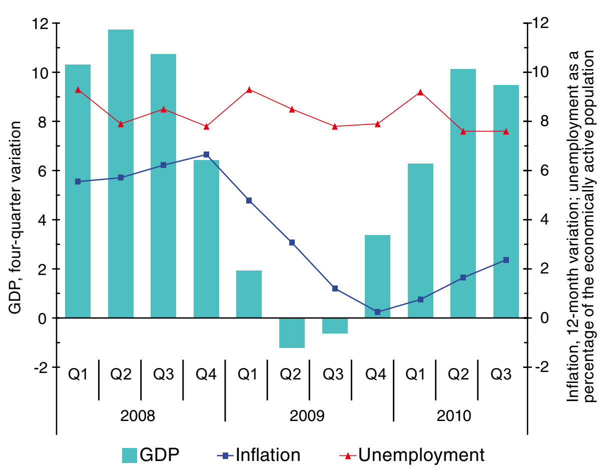
Despite all this, fiscal policy maintained an expansionary stance over the course of 2010. In the first nine months of the year, central government non-financial spending increased by 12.7% (11.1% in real terms) over the same period in 2009, driven by higher capital spending (up 37.8%), particularly on road infrastructure projects. A 3.2% rise in financial expenditure was mainly due to higher domestic debt-related costs. In turn, current revenues rose by 23.5% in the period. Tax revenues were up by 23.9% because of a higher take from the general sales tax (19.7%) and income tax (28.1%), and non-tax revenues increased by 21.1%. For 2010 as a whole, an economic deficit of 0.7% and 1.5% is estimated for central government and the non-financial public sector, respectively (as against 1.8% and 1.9% of GDP in 2009).

In 2010, a cut in the financial transactions tax rate (from 0.06% to 0.05%) came into force, as in the second half did a reduction in the customs duties drawback rate, from 8% to 6.5%.

During 2010, the authorities carried out public debt administration operations with a view to reducing the total and to improving its maturity profile and amortization schedule. In February, the government issued 550 million new soles' worth of 32-year sovereign bonds at a rate of 6.85%. In April it carried out partial buyback or conversion operations on global dollar bonds 2012, 2015 and 2016 and global euro bond 2014 for an amount of US$ 1.8 billion. In August it carried out a sovereign bond exchange on the domestic market, swapping global bonds 2011, 2012, 2016 and 2017 for sovereign bonds maturing in 2020 to the amount of US$ 1.494 billion. Lastly, in November it issued global bond 2050 for an amount of US$ 1 billion maturing in 2050, at a rate of 5.625%, and sovereign bond 2020 was reopened for an amount of 4.196 billion new soles.

On the monetary policy front in May 2010 the Central Reserve Bank of Peru (BCRP) raised its benchmark rate from 1.25% to 1.5% as a precautionary measure in view of the increased dynamism in the economy. The rate was progressively raised until October, when it stabilized at 3%. In consequence, between December 2009 and October 2010 the local currency-denominated prime corporate lending rate rose from 1.7% to 3.8% (from 1.2% to 2.3% in foreign currency) and 30-day deposit

PERU: GDP, INFLATION AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

rates from 1.2% to 2.5% (from 0.4% to 1.2% in foreign currency). In the same period, however, deposit rates for terms longer than a year fell, both in local currency (from 6.4% to 5.5%) and in foreign currency (from 3.4% to 2.1%). In the 12 months to September 2010 total financial system credit increased by 17.5%. The dollarization ratio of the financial system maintained its downward trend to stand at 44% in October 2010 (down from 46% in December 2009).

Between December 2009 and October 2010, the new sol appreciated by 3.8% in nominal terms against the dollar, while the real multilateral exchange rate appreciated to a lesser extent (2.7%). The BCRP intervened in the currency market throughout 2010 to dampen the volatility of the exchange rate. In January and March 2010, the central bank made dollar purchases worth a total of US$ 2.34 billion, going on to purchase a further US$ 5.082 billion dollars between June and September. With a view to encouraging greater external financing with long-term funding from financial institutions, in 2010 reserve requirements were brought in for external credits (both new lending and renewals) with maturities of less than two years, as were taxes on profits from non-residents' transactions with financial derivatives.

The free trade agreement with China came into effect on 1 March 2010, and in May a trade accord was signed with the European Union.

Between January and September 2010, cumulative GDP growth from the same period in 2009 was 8.7%, driven by activity in non-primary sectors, particularly non-primary manufacturing industry (14.3%), construction (18.2%) and commerce (9.6%). Activity in primary sectors rose by 1%, spurred by stronger activity in the hydrocarbons sector. The domestic demand indicator registered an expansion of 12.4% during this time compared to the same period in 2009.

Gross fixed investment rose by 22.9% in the first three quarters of 2010, driven by increases in both public and private investment. Total consumption grew by 6.5% thanks to a strong rise in government consumption (19.9%). Strong growth in domestic demand (12.6%) was reflected in the volume of goods and services imports, which expanded by 23.1% over the period. By contrast, the volume of goods and services exports rose by just 2.6%.

The inflation rate as measured by the Lima consumer price index was a cumulative 1.9% in the first 10 months of 2010 (2.1% over twelve months), partly driven by rising food prices (a cumulative 3.4% in the first 10 months of 2010).

PERU: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	9.8	0.9	8.6
Per capita gross domestic product	8.5	-0.3	7.4
Consumer prices	6.7	0.2	2.2 [b]
Average real wage	2.2	0.3 [c]	...
Money (M1)	16.5	14.4	28.7 [d]
Real effective exchange rate [e]	-3.7	-1.4	-4.1 [f]
Terms of trade	-13.3	-5.5	17.6
	Annual average percentages		
Urban unemployment rate	8.4	8.4	8.0 [g]
Central government overall balance / GDP	2.2	-1.8	-0.7
Nominal deposit rate	3.3	2.8	1.8 [h]
Nominal lending rate	16.7	16.0	14.5 [i]
	Millions of dollars		
Exports of goods and services	35 179	30 538	39 139
Imports of goods and services	34 050	25 777	34 373
Current account	-4 723	247	-2 351
Capital and financial account [j]	7 836	762	12 351
Overall balance	3 112	1 008	10 000

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2010.
[c] Figure for June.
[d] Twelve-month variation to October 2010.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year variation, January to October average.
[g] Estimate based on data from January to October.
[h] Average from January to November.
[i] Average from January to June.
[j] Includes errors and omissions.

The average unemployment rate from January to September 2010 was 8.2%, compared to an average of 8.5% in 2009. This decline was due to lower female unemployment, since the male unemployment rate remained constant. The average employment rate registered a value of 64.5% and average occupational incomes remained at levels similar to those of 2009. Urban employment in firms with more than 10 workers increased by 3.3% in the January-July 2010 period compared to the same period in 2009.

Goods exports rose by 35.3% in the first nine months of 2010 (33.2% in price and 1.9% in volume), while goods imports grew by 38% (10.1% in price and 25.3% in volume). The outcome was a trade surplus of US$ 4.565 billion in this period. Natural gas from the Camisea field began to be exported to Mexico in July 2010.

In the first nine months of the year, the average terms of trade were up by 16.1% on the average 2009 value. In the second half of 2010, the external debt stood at 25.4% of GDP (as compared to 28% in December 2009). Net international reserves were US$ 42.956 billion in October 2010, up from US$ 33.135 billion in December 2009.