Peru

1. General trends

Favourable external conditions and a macroeconomic policy aimed at fostering economic growth fuelled GDP growth of 4.1% in 2003. This expansion, which was mainly driven by exports (especially from the mining sector), produced a large merchandise trade surplus and narrowed the balance-of-payments current account deficit to 1.7% of GDP. In a context of low inflation (2.5%) and exchange-rate stability, monetary policy was expansionary, while the fiscal deficit was cut to 1.8% of GDP in an effort to ensure the sustainability of the country's hefty public debt.

Growth had little impact on the labour market, however, as both unemployment and labour income remained flat. Robust growth in production geared to external markets thus stood in contrast to a weak expansion in domestic consumption. Against this backdrop, social pressures arose that contributed to a high degree of political instability which, in turn, prompted frequent changes in the cabinet. This did not, however, produce alterations in the country's macroeconomic indicators.

The main trends that had emerged in 2003 carried over into the early months of 2004, as extremely favourable external conditions allowed export growth to pack up even further. As a result, economic growth for 2004 as a whole is expected to be slightly higher than the preceding year's figure. Meanwhile, both exogenous and domestic factors led to a moderate rise in prices.

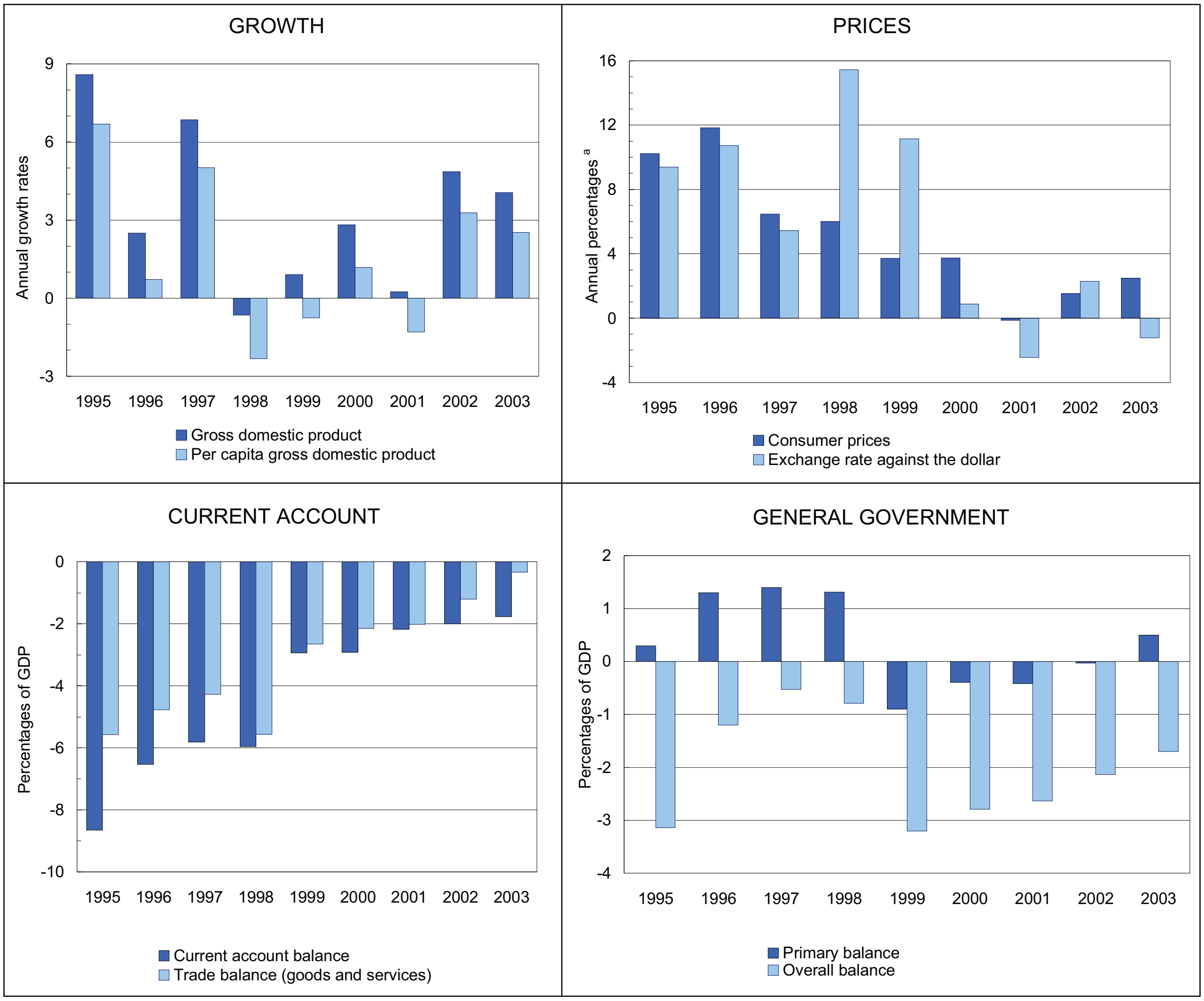
2. Economic policy

Macroeconomic policy guidelines for 2003 were set out in the country's three-year programme and in a standby arrangement it signed with the International Monetary Fund (IMF). The country's positive macroeconomic performance made it unnecessary to draw on the funds made available under that arrangement, however, and a new 26-month standby agreement was signed in June 2004.

(a) Fiscal policy

Peru is striving to ensure the sustainability of its public debt. As of late 2003, this debt amounted to 47.3% of GDP, of which 37.3 percentage points was held by foreign creditors. The Peruvian authorities have therefore adopted a medium-term fiscal policy aimed at steadily reducing the non-financial public-sector (NFPS)

Figure 1
PERU: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] December-December variation.

deficit and, as from 2003, generating a growing primary surplus, despite the fact that public service requirements and wage demands are putting upward pressure on expenditure levels.

The authorities are seeking to cut the NFPS deficit to 1.4% of GDP in 2004 (compared to 1.8% in 2003 and 2.3% in 2002) and raise the primary surplus from 0.4% to 0.8% of GDP. In order to reach these targets, a further increase in tax revenues –which rose from 12.1% of GDP in 2002 to 12.9% in 2003– will have to be achieved. This earlier improvement reflected a combination of strong economic growth, a one percentage-point rise in the general sales tax (19% as from August), the collection of income tax payments in advance, an increase in the highest rate of income tax applicable to private individuals (from 27% to 30%) and the adoption of administrative measures designed to improve tax coverage. The higher level of tax receipts expected in 2004 will also reflect the new tax on financial transactions, which took effect on 1 March at a rate of 0.1% for 2004, and an increase in the top corporate income tax rate from 27% to 30%. On the other hand, the special "solidarity tax", which is withheld as a payroll deduction, was lowered from 2.0% to 1.7%. These measures have thus far yielded the expected results, as the overall level of tax revenues rose by 11% in real terms in the first half of 2004, thanks to higher receipts from income taxes, the general sales tax and the additional tax on financial transactions.

Current expenditure grew slightly in relation to GDP in 2003, from 14.7% to 14.9%, while capital expenditure remained constant at 3.1% –well below the figure recorded in the mid-1990s– before contracting further in early 2004.

The government floated US$ 1.25 billion in sovereign bonds on international markets to help finance the 2003 fiscal deficit. These proceeds, together with funds from multilateral organizations, amounted to 1.4% of GDP and were sufficient to cover the bulk of the NFPS deficit in 2003. Most of the remainder of the deficit was financed through the placement of securities on the domestic market. A new bond issue was launched on international markets in April 2004, this time for US$ 500 million. The authorities are seeking to restructure the external debt, since the existing amortization schedule would require the country to make very high payments in the years to come.

An amendment to the 1999 Fiscal Prudence and Transparency Act was passed in May 2003 in order to set down explicit rules designed to control borrowing by regional and local governments. Regulations governing public spending and deficits –particularly those applicable to economic crisis situations and other emergencies– were also amended and made more specific.

(b) Monetary and exchange-rate policy

In 2004 the authorities have continued to apply the inflation-targeting regime established in 2002, setting a target of 2.5% with a one percentage point margin on either side. The main instruments used to keep inflation within this range are the lending and borrowing rates applied to the central bank's monetary transactions with commercial banks; the explicit operational goal in this respect is to maintain the interbank rate midway between these two rates. This objective was achieved throughout 2003 and again in the first half of 2004.

In 2003, the authorities cut interest rates on four separate occasions, bringing the interbank rate down from 3.8% in December 2002 to 2.5% a year later. Although inflation picked up somewhat in the first half of 2004, the authorities considered the uptick to be only temporary and kept the centre of the band at 2.5%. Accordingly, monetary policy continued on its expansionary track since, even though there were no further rate cuts, nominal and especially real interest rates remained at historically low levels.

Throughout 2003 and early 2004, consumer bank loans, mortgages and credit to microenterprises grew rapidly in real terms, while commercial credit continued to shrink. Factors contributing to this decline include the fact that it has become quite common for large corporations to turn to capital markets to obtain financing, the weakness of the domestic market and the limited borrowing capacity of many small and medium-sized enterprises. Although interest rates on various types of credit eased in 2003 in response to the expansionary monetary policy, an increase in the more expensive sorts of loans (loans to microenterprises, consumer credit) drove up the average interest rate for local-currency lending.

The year-on-year comparison shows that credit in the financial system decreased by 0.8% in nominal terms in December 2003 before rising by 2.8% in May 2004. Funds are increasingly being channelled into instruments transacted on the emerging capital market. This trend has been buoyed by the market makers' programme, which issues public securities and seeks to encourage the issuance of longer-term securities by the private sector. Over the past year, the stock of private-sector bonds grew by 21.3%, while public-sector securities expanded by 8.6%; both indicators continued to trend upward in early 2004.

The portfolio of the banking system continued to improve, with the delinquency rate falling from 7.6% in late 2002 to 5.8% twelve months later, and then to 5.5% in May 2004.

Although the Peruvian financial system is highly dollarized, the proportion of deposits and loans in local currency has been increasing gradually since the start of the decade. In April 2004, dollar-denominated credit accounted for 73.4% of the total, compared to 76.2% in December 2002. Midway through the year, however, this trend appeared to be coming to a halt. In order to control the risk associated with this level of dollarization, the authorities have sought to build up international reserves (and, indeed, reserves climbed from US$ 9.598 billion to US$ 10.855 billion between December 2002 and June 2004). High reserve requirements have also been set for dollar-denominated debts and steps have been taken to curb exchange-rate volatility.

The nominal exchange rate scarcely varied at all in 2003, thanks to a growing merchandise trade surplus, sizeable capital flows, low inflation, a more buoyant external context than in previous years and a low level of perceived country-risk. As a result, the currency strengthened slightly in real terms against the dollar (1.8%), but the multilateral exchange rate weakened (6.2%) owing to the appreciation of the currencies of some countries in the region and the dollar's depreciation against the euro and yen. In the first half of 2004, the real bilateral exchange rate remained relatively stable in relation to its December 2003 value.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
	Annual growth rates [b]								
Gross domestic product	8.6	2.5	6.8	-0.6	0.9	2.8	0.3	4.9	4.1
Per capita gross domestic product	6.7	0.7	5.0	-2.3	-0.8	1.2	-1.3	3.3	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.5	4.5	5.0	-0.3	11.0	6.8	-0.2	5.7	1.3
Mining	4.2	5.1	9.0	3.7	13.1	2.4	11.2	11.6	6.7
Manufacturing	5.5	1.5	5.3	-3.5	-0.7	5.9	0.3	4.2	2.2
Electricity, gas and water	0.2	5.9	12.7	6.2	3.0	2.8	1.1	5.1	4.2
Construction	17.4	-2.3	14.9	0.6	-10.5	-6.1	-6.7	7.9	4.8
Wholesale and retail commerce, restaurants and hotels	11.1	0.9	7.8	-3.1	-1.0	4.9	1.2	4.6	3.6
Transport, storage and communications	11.5	5.6	5.6	-1.0	2.1	2.6	-0.3	4.5	...
Financial institutions, insurance, real estate and business services	11.8	5.3	8.1	0.4	-1.0	-0.7	-1.0	4.5	...
Community, social and personal services	3.8	2.1	2.8	0.4	3.9	1.6	-0.4	4.5	...
Gross domestic product, by type of expenditure									
Consumption	9.5	3.2	4.8	-0.6	0.0	3.5	1.3	4.1	3.4
General government	8.5	4.4	7.6	2.5	3.5	3.1	0.1	1.6	4.5
Private	0.0	3.1	4.5	-0.9	-0.4	3.5	1.4	4.5	3.2
Gross domestic investment	20.3	-4.9	14.9	-2.2	-13.5	-2.9	-7.6	3.7	4.5
Exports (goods and services)	5.5	8.9	13.1	5.6	7.6	7.9	7.1	6.8	5.8
Imports (goods and services)	27.1	0.1	12.2	2.3	-15.2	3.7	2.6	2.4	3.2
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	24.8	22.8	24.0	23.7	21.2	20.3	18.8	18.4	18.5
National saving	18.2	17.5	19.6	19.1	18.9	18.0	16.6	16.4	16.8
External saving	6.6	5.3	4.5	4.6	2.3	2.3	2.2	2.0	1.7
	Millions of dollars								
Balance of payments									
Current account balance	-4 640	-3 648	-3 428	-3 390	-1 518	-1 559	-1 159	-1 127	-1 061
Merchandise trade balance	-2 257	-1 991	-1 743	-2 505	-705	-411	-195	306	731
Exports, f.o.b.	5 492	5 877	6 824	5 757	6 088	6 955	7 026	7 723	8 986
Imports, f.o.b.	7 750	7 869	8 567	8 262	6 793	7 366	7 221	7 417	8 255
Services trade balance	-733	-671	-786	-657	-663	-738	-881	-986	-931
Income balance	-2 482	-1 900	-1 819	-1 205	-1 115	-1 410	-1 124	-1 491	-2 082
Net current transfers	832	914	920	977	966	999	1 042	1 043	1 221
Capital and financial balance [d]	4 050	4 528	5 483	2 149	650	1 417	1 583	2 095	1 585
Net foreign direct investment	2 549	3 488	2 054	1 582	1 812	810	1 070	2 156	1 317
Financial capital [e]	1 501	1 040	3 428	567	-1 162	608	513	-61	268
Overall balance	-590	880	2 055	-1 241	-868	-142	423	968	525
Variation in reserve assets [f]	-921	-1 784	-1 493	1 142	985	440	-275	-852	-516
Other financing [g]	1 512	904	-562	99	-117	-298	-148	-116	-9
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	92.6	91.4	91.3	93.1	101.8	100.0	98.0	97.6	101.2
Terms of trade for goods (index: 1997=100)	96.9	93.5	100.0	86.9	80.7	78.3	75.1	77.3	80.3
Net resource transfer (% of GDP)	5.7	6.3	5.3	1.8	-1.1	-0.5	0.6	0.9	-0.8
Total gross external debt (millions of dollars)	33 378	33 805	28 642	29 477	28 704	28 150	27 195	27 840	29 708
Total gross external debt (% of GDP)	62.2	60.6	48.5	51.9	55.6	52.6	50.9	49.3	49.5
Net profits and interest (% of exports) [i]	-37.5	-26.1	-21.7	-16.0	-14.5	-16.5	-13.2	-16.1	-19.5

Table 1 (concluded)

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
					Average annual rates				
Employment									
Labour force participation rate [j]	62.4	60.3	63.3	65.4	66.9	64.4	66.7	68.4	67.4
Open unemployment rate [k]	8.2	8.0	9.2	8.5	9.2	8.5	9.3	9.4	9.4
Visible underemployment rate [k]	...	16.1	14.5	11.6	11.3	11.3	11.7	10.7	8.8
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	10.2	11.8	6.5	6.0	3.7	3.7	-0.1	1.5	2.5
Variation in wholesale prices	8.8	11.4	5.0	6.5	5.5	3.8	-2.2	1.7	2.0
Variation in nominal exchange rate (December-December)	9.4	10.7	5.4	15.4	11.1	0.9	-2.4	2.3	-1.2
Variation in average real wage	-8.4	-4.8	-0.7	-1.9	-2.2	0.8	-0.9	4.6	0.8
Nominal deposit rate [l]	...	...	10.3	11.4	11.8	9.8	7.5	3.5	3.1
Nominal lending rate [l]	...	...	31.0	33.9	35.1	30.0	25.0	20.8	21.0
					Percentages of GDP				
General government									
Current income	17.8	18.6	19.0	18.9	17.7	17.9	17.3	17.3	17.6
Current expenditure	16.2	15.6	15.0	15.7	16.9	17.3	17.0	16.8	16.6
Current balance	1.6	3.0	4.0	3.2	0.8	0.6	0.3	0.5	1.0
Net capital expenditure	4.7	4.1	4.5	4.0	4.1	3.4	2.9	2.6	2.5
Primary balance	0.3	1.3	1.4	1.3	-0.9	-0.4	-0.4	0.0	0.5
Overall balance	-3.1	-1.2	-0.5	-0.8	-3.2	-2.8	-2.6	-2.1	-1.7
Central government public debt	...	...	...	40.3	47.1	45.3	44.8	47.0	47.5
Domestic	...	...	...	5.9	9.3	9.4	9.4	10.3	10.1
External	47.8	45.1	31.8	34.4	37.8	35.9	35.3	36.7	37.3
Interest payments (% of current income)	18.9	13.4	10.5	11.1	13.0	13.4	12.8	12.1	11.9
Money and credit [m]									
Domestic credit [n]	13.0	16.1	20.3	25.4	27.7	27.1	26.4	25.0	22.3
To the public sector	-1.0	-1.9	-1.1	-0.5	-0.3	0.9	1.3	1.6	1.3
To the private sector	14.0	18.0	21.4	25.9	28.0	26.2	25.1	23.4	21.0
Liquidity (M3)	16.6	19.7	21.5	23.3	25.2	25.0	25.4	25.5	24.5
Money stock and local-currency deposits (M2)	6.1	6.7	7.0	7.6	7.4	7.3	7.7	8.5	8.8
Foreign-currency deposits	10.5	12.9	14.5	15.7	17.8	17.7	17.8	17.0	15.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Based on figures in local currency at constant 1994 prices. [c] Based on figures in local currency at current prices. [d] Includes errors and omissions. [e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. [f] A minus sign (-) denotes an increase in reserves. [g] Includes the use of IMF credit and loans and exceptional financing. [h] Annual average, weighted by the value of merchandise exports and imports. [i] Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. [j] Economically active population as a percentage of the working-age population, Lima metropolitan area; 1996-2000, urban total. [k] Refers to unemployment and underemployment as percentages of the economically active population, Lima metropolitan area. [l] Average rate. [m] The monetary figures are annual averages. [n] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

In order to curb volatility and the appreciation of the bilateral exchange rate, the central bank purchased over US$ 1.8 billion in dollars during 2003 and the first half of 2004. Part of this sum was sterilized by issuing certificates of deposit, whose aggregate value rose from 1.6 billion new soles in December 2002 to almost 6 billion by March 2004 before slipping back slightly. The increase in international reserves generated expansions of 10.1% and 19.2% in primary money creation in December 2003 and June 2004, respectively.

Table 2
PERU: MAIN QUARTERLY INDICATORS

	2002				2003 [a]				2004 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.2	6.3	5.1	4.7	6.2	3.7	3.5	2.9	4.6	...
Merchandise exports, f.o.b. (millions of dollars)	1 578	1 985	2 133	1 982	2 023	2 188	2 320	2 454	2 687	...
Merchandise imports, c.i.f. (millions of dollars)	1 643	1 861	1 969	1 967	2 045	1 983	2 087	2 144	2 128	...
International reserves (millions of dollars)	8 786	9 126	9 857	9 598	10 443	9 997	9 755	10 194	10 411	10 855
Real effective exchange rate (index: 2000=100) [c]	96.0	96.0	99.5	98.8	98.6	100.8	101.5	103.8	104.7	103.3
Unemployment rate	10.6	9.9	8.5	8.7	10.0	9.3	9.0	9.4	10.6	9.5
Consumer prices (12-month percentage variation)	-1.1	0.0	0.7	1.5	3.4	2.2	2.0	2.5	2.8	4.3
Average nominal exchange rate (new soles per dollar)	3.5	3.5	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Average real wage (variation from same quarter of preceding year)	5.8	5.9	3.0	3.4	...	0.2	...	...	...	...
Nominal interest rates (annualized percentages)										
Deposit rate [d]	4.1	3.2	3.2	3.7	3.5	3.3	3.0	2.7	2.4	2.3
Lending rate [d]	22.1	19.9	20.0	21.1	20.2	20.2	21.5	22.2	24.1	24.3
Interbank interest rate	2.9	2.5	3.9	4.2	3.8	3.8	3.1	2.9	2.5	2.5
Sovereign bond spread (basis points)	418	622	874	606	480	504	357	348	344	435
Stock price index (in dollars, June 1997=100)	56.1	51.7	55.1	65.3	76.1	82.7	92.6	116.8	130.4	109.0
Domestic credit [e] (variation from same quarter of preceding year)	-0.6	-1.4	3.6	-1.0	-4.1	-5.6	-7.4	-5.1	-3.9	-3.6
Non-performing loans as a percentage of total loans (%) [f]	9.0	8.0	8.1	7.6	7.7	7.7	7.6	5.8	5.8	...

Source:Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Based on figures in local currency at constant 1994 prices. [c] Quarterly average, weighted by the value of merchandise exports and imports. [d] Average rates. [e] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. [f] Refers to total credit extended by full-service banks.

(c) Other policies

An economic complementarity agreement was signed with the MERCOSUR countries in 2003 as part of the authorities' strategy to reinforce Peru's trade links. In addition, Peru is interested in signing a free trade agreement with the United States in order to expand the range of products that can gain entry into the United States market under the Andean Trade Promotion and Drug Eradication Act, which is due to expire in 2006; the negotiations on such an agreement began in May 2004.

With a view to boosting private investment, the State sold its remaining stake in the La Pampilla S.A. refinery and awarded a concession for the operation of the Yuncán hydroelectric project.

3. The main variables

(a) Economic activity

Exports and private investment were the main engines of economic growth in 2003. Exports continued to display the buoyancy seen in previous years (5.8%), while, with a 5.3% expansion, private investment began to recover from its recent decline, although it remains far below its mid-1990 levels. Exports have continued to grow briskly since the start of 2004, and private investment has registered a further expansion, especially in mining, in the development of the Camisea natural gas field and, to a lesser degree, in the agricultural and industrial export sectors.

Public investment edged up from 2.8% to 2.9% of GDP in 2003; this percentage is quite low in historical terms but, given the existing fiscal constraints, it is expected to make no more than a modest recovery in 2004. Gross fixed capital formation amounted to just 17.8% of GDP in 2003, compared to an average of over 22% in the high-growth period of 1993-1998.

The growth of private consumption slackened to 3.2% owing to the sluggishness of labour income. Boosted by low interest rates, consumer credit was thus the most robust element in the financing of private consumption, and no major changes in this situation appeared to be on the horizon as of early 2004.

Although growth rates slipped in practically all branches of activity in 2003, some categories nonetheless remained quite buoyant, with a case in point being metallic minerals, where increases were seen in the output of gold, silver, iron and zinc. The mining sector continued to expand in 2004, with its growth being stimulated by the high prices brought by this industry's products, and the Camisea natural gas field's entry into production –scheduled for August– is expected to reverse the downturn in hydrocarbons production that began in the mid-1990s. The construction sector also expanded at a fairly brisk pace in 2003, thanks in part to housing programmes for low- and middle-income families, but the limited amount of public investment has prevented it from growing even faster.

Unlike the above-mentioned activities, growth rates in agriculture, fishing and manufacturing all dropped more sharply. The areas under cultivation were reduced for some crops because of weak prices, but a number of agroindustrial and export products remained buoyant. The growth outlook for the agricultural sector in 2004 is not very promising due to the drought that occurred in part of the country at the start of the year, since this hampered the planting of various crops, including rice. High-technology export and agroindustrial crops are expected to continue to expand, however.

The fishing sector's output contracted sharply owing to the lengthy closed seasons mandated by the authorities to prevent the depletion of certain species. This led to a decrease in primary manufacturing output as well. Fishing and fish processing activities did stage a recovery in early 2004, however. The growth of non-primary manufacturing was held back by the slump in private consumption, but even so it was up by over 3%, thanks in part to the expansion of construction and textile exports.

Economic growth in 2004 is expected to be slightly higher than in 2003, with exports and private investment once again being the main driving forces.

(b) Prices, wages and employment

During this reporting period the central bank set an inflation target of 2.5%, with the permissible range being one percentage point above or below that level. In early 2003, international tensions prompted a rise in fuel prices, which pushed the inflation rate to the top of the band. Nevertheless, by the end of the year the consumer price index (CPI) had fallen back to 2.5%, since the relative weakness of domestic demand prevented supply-side pressures from being fully transmitted to final prices.

The additional increase in inflation recorded in early 2004 was concentrated in fuels and food products (in the latter case, this was due to higher prices for a number of imported foodstuffs and the drought that affected several parts of the country). As a result, inflation climbed to 4.3% in June 2004, thereby breaching the upper limit of the band. Nonetheless, it is expected to be close to the upper limit by the end of the year and to thus be approaching the core inflation rate (2.7% in June) as the impact of the above-mentioned factors gradually dissipates.

Labour-market data for the Lima metropolitan area point to steep, simultaneous declines in the level of employment and in the labour-force participation rate for 2003, with the net outcome being that the unemployment rate remained unchanged. The decrease in employment was concentrated among self-employed workers and employees of small and medium-sized enterprises, while formal urban employment posted an average increase of 1.7% for the year. As a reflection of the moderate level of labour demand, average real labour income in Metropolitan Lima rose by 1.1% in 2003.

(c) The external sector

Export growth of 17%, attributable to price hikes for many products and to larger sales volumes, boosted the 2003 merchandise trade surplus to US$ 731 million (compared to US$ 306 million in 2002) and resulted in the smallest balance-of-payments current account deficit since 1989. Sales of mining products were up, especially in the cases of gold (where sales jumped by 38% to claim a 23% share of the total), copper (where stronger prices more than offset the fall-off in production) and zinc. Non-traditional products also surged (15%), thanks to strong sales of both agricultural products (fruits and vegetables) and manufactured goods (textiles, chemicals, iron and steel, and jewellery). In early 2004, the pace of expansion accelerated further, with exports growing by 33% in the first five months of the year. If this trend continues, the official export target of over US$ 10 billion will be surpassed, and the merchandise trade surplus will be higher than the year before.

Imports expanded at a more moderate pace in 2003 and were led by intermediate goods (especially fuels); imports of both capital goods and consumer goods grew much more slowly, with the latter component reflecting the sluggishness of private consumption. Owing to the deficit in non-factor services, the overall trade balance also continued to register a slight deficit (0.4% of GDP). Despite this more favourable balance, however, the current account deficit narrowed by less than US$ 100 million, since private-sector profit remittances doubled.

The overall balance of payments closed with a surplus of over US$ 400 million, even though the surplus on the financial account (including errors and omissions) shrank to US$ 1.5 billion. This contraction was basically attributable to a downswing in foreign direct investment, following the sharp increase generated by the purchase of a brewery the year before, and a net level of public-sector external borrowing that was slightly below the 2002 figure. One important factor in this regard was the sovereign bond issue mentioned earlier, which took advantage of the narrowing spread on Peruvian debt (down from 620 basis points in late 2002 to 318 points 12 months later). Political uncertainty and a more unstable external environment in early 2004 caused the spread to widen somewhat, however, and by the middle of the year it had climbed back to around 440 points.

In addition to the new bond issues, the depreciation of the Peruvian currency against the yen and the euro in 2003 drove up the country's public external debt from 36.7% to 37.3% of GDP. Nevertheless, since the private debt shrank, the total external debt continued on its downward trend, falling to 48.7% of GDP.