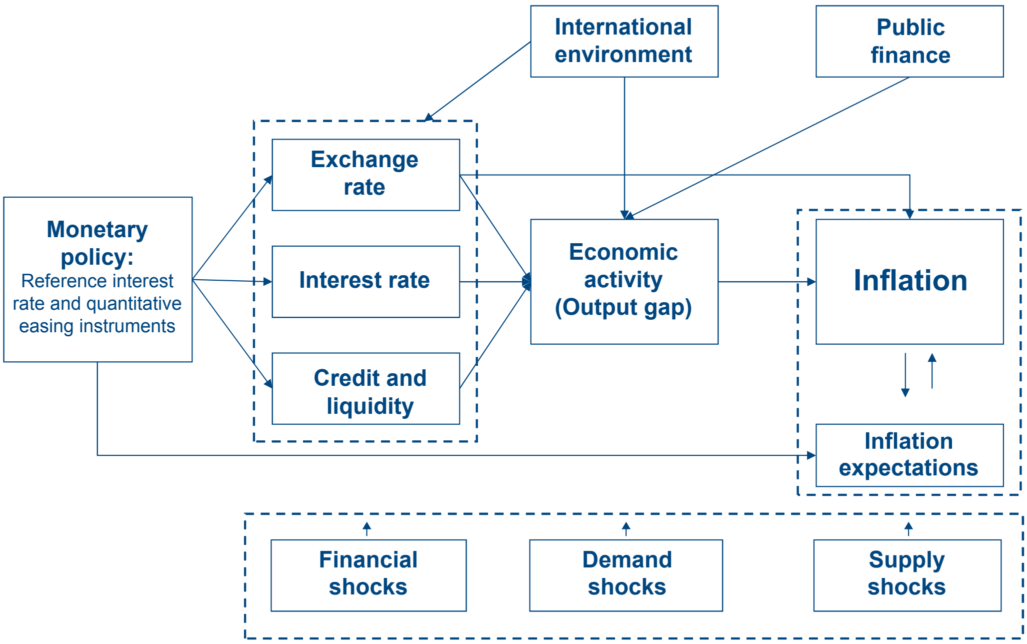
INFLATION REPORT:

Recent trends
and macroeconomic forecasts 2013 - 2015

September 2013



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CENTRAL RESERVE BANK OF PERU

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CONTENT

This ***Inflation Report*** was drawn up using data on the balance of payments as of the second quarter of 2013, data on the gross domestic product and monetary accounts as of July 2013, and data on the operations of the non-financial public sector, inflation, financial markets, and the foreign exchange rate as of August 2013.

Foreword

- In accordance with the Peruvian Constitution, the Central Reserve Bank of Peru (BCRP) is a public autonomous entity whose role is to preserve monetary stability.

- In order to consolidate this goal, the Bank's monetary policy is based on an inflation targeting scheme, with an inflation target of 2.0 percent, plus or minus one percentage point (between 1.0 and 3.0 percent). The Central Bank's inflation target is aimed at anchoring inflation expectations at a similar level to the inflation rate observed in developed economies and reflects the BCRP's permanent commitment with monetary stability.

- The nature of monetary policy is preventive and therefore aimed at anticipating inflationary or deflationary pressures, taking into account that inflation may be influenced by factors beyond the control of the Central Bank, such as supply shocks or the prices of imported products, which may result in transitory deviations of inflation from the target. The BCRP considers the annual increase in the consumer price index recorded each month and not only at year end.

- Each month, and according to a previously announced schedule, the Board of the BCRP approves a reference rate for the interbank lending market. This interest rate, which is the monetary operational target, affects the rate of inflation through several channels in different timeframes and, therefore, it is determined on the basis of macroeconomic forecasts and simulations.

- Additionally, the Central Bank implements preventive measures to preserve financial stability and monetary policy transmission mechanisms. Through interventions in the foreign exchange market, the Central Bank reduces excessive volatility in the exchange rate and accumulates international reserves, thus developing strengths to face negative events in an economy with still high levels of financial dollarization. The Central Bank also uses other monetary policy tools that affect the volume of liquidity and credit in a more direct manner, such as reserve requirements in domestic currency and in foreign currency.

- The forecasts on which monetary policy decisions are based are disseminated through the Inflation Report to show the consistency of the decisions adopted with the aim that economic agents' expectations take these forecasts into account. The Central Bank also disseminates the studies analyzing the risk factors that may cause deviations in the forecasts of the economic variables considered.

- The BCRP will publish its next Inflation Report in December 2013.

Summary

i. So far this year the **world economy** has shown a moderate pace of expansion, a growth rate of 3.4 percent being estimated for the second quarter and a similar rate for the third quarter. Although there is a better outlook for the developed countries, growth in the major emerging economies has slowed down relative to the forecasts discussed in our June Report.

   Economic activity in the United States has registered a positive evolution in recent months, supported by consumption –particularly by the consumption of durable goods– and, to a lesser extent, by residential investment. Factors accounting for evolution of consumption have been the recovery of the labor market and the wealth effect associated with higher house prices and the improvement of stock markets. A relatively better situation is also observed in the Eurozone, where fears of a possible financial crisis have dissipated amid signals of recovery in economic activity.

   The expectations of lower monetary stimulus from the FED have consolidated in the context of recovery of the US economy, although there is still uncertainty about the magnitude of the withdrawal of monetary stimulus and about when it will begin. As described in our June report, these expectations have resulted in a reduction of net capital flows to emerging economies, which has generated episodes of depreciation and a rise of sovereign risk in some of these economies.

   With this international outlook, the forecast of global growth has been revised down from 3.0 to 2.9 percent for 2013 and from 3.7 to 3.6 percent for 2014. The **terms of trade** have also been revised downwards, in line with the decline in commodity prices observed in recent months and the downward revision of growth in the major emerging economies. In 2013 and 2014 terms of trade are expected to fall by 4.5 and 1.6 percent, respectively, although the level of terms of trade will still be higher than the average level observed between 2003 and 2012.

ii. In the first semester of 2013, Peru's **gross domestic product** grew 5.2 percent, recording a higher growth rate in the second quarter of the year than in the first quarter. Domestic demand in Q2 showed for the fifth consecutive quarter a higher growth rate (6.5 percent) than GDP, although this rate was lower than the one observed in Q1 (8.1 percent). On the other hand, like in Q1, net exports continued to register a negative contribution to the GDP growth rate.

   The growth rate of GDP projected for 2013 has been revised down to 5.5 percent from the rate of 6.1 percent estimated in our June Report. This is explained by the lower rate of expansion observed in exports and the downward revision of the forecast of global growth. However, it should be pointed out that exports of both traditional as non-traditional products are expected to recover in the second semester.

The GDP growth rate estimated for 2014 has been revised down to 6.2 percent, in line with the growth of the potential output. On the other hand, a faster pace of growth would be observed in 2015 due to the onset of operations in some investment projects, mainly in the mining sector, which would result in a GDP growth rate of 6.7 percent.

iii. In the first half of the year, the **balance in the current account** of the balance of payments showed a deficit equivalent to 5.4 percent of GDP, higher than the one observed in the same period of 2012, in a context in which investment grew at a higher rate than domestic savings and terms of trade declined. In this period the deficit was financed by inflows of long-term capital (US$ 13.6 billion), which were higher than those recorded in the first half of 2012.

A current account deficit of 4.9 percent of GDP is projected for 2013 in the balance of payments. This higher deficit than the one estimated in June (4.4 percent of GDP) would result from lower exports in a context of lower international prices and slower global growth, offset by a slower growth of imports, in line with the downward revision of GDP growth.

The current account deficit projected for 2014 is still estimated at 4.6 percent of GDP, while in 2015 this deficit would be lower than anticipated in our previous report (4.1 percent of GDP instead of 4.3 percent of GDP). The declining path foreseen in the deficit considers the recovery of external demand and the onset of operations of several mining projects in 2014 and 2015 (Toromocho, Las Bambas, and Constancia).

iv. As anticipated in our report of June, slower global growth and lower export prices are expected to imply lower tax revenues which, coupled with a rate of expenditure of the general government growing at a higher rate than GDP over the forecast horizon, would translate into a declining path in the balance of the **non-financial public sector** as a result of which this balance would go from a surplus of 2.2 percent of GDP in 2012 to a nil balance in 2015.

v. The Board of the Central Bank has maintained the monetary policy **benchmark interest rate** at 4.25 percent, which is the level this rate has had since May 2011. The Board's decision is based on the fact that inflation is expected to remain within the target range and that the rate of inflation in the last 12 months is forecast to return to the target range as food supply conditions improve. Moreover, the domestic scenario is expected to be marked by an economic growth close to the economy's potential output while the international scenario will continue to be characterized by financial uncertainty associated with the size and timing of the possible withdrawal of monetary stimulus by the Fed.

In addition, since May 2013 the BCRP has loosened reserve requirement measures to ensure an orderly evolution of liquidity and credit in the financial system in order to preserve in this way financial conditions in a context of uncertainty in international financial markets.

In this context, the BCRP has made interventions in the foreign exchange market since May 24, when international financial volatility increased after the Fed announced that it could start reducing monetary stimulus in September 2013. The BCRP first intervened in the foreign exchange market placing certificates of deposit indexed to the exchange rate (CDRBCRP) for a total of US$ 1.77 billion between May and August and then, since July, the Central Bank also intervened in the foreign exchange market through direct sales of dollars, which amounted to US$ 2.99 billion in the same period.

vi. In August **inflation** in the last 12 months showed a rate of 3.28 percent, slightly above the target range. In the central forecast scenario, inflation is considered to have been recently affected by transitory factors and therefore that it would return to the target range in the last quarter of 2013 and converge thereafter to the midpoint of 2.0 percent in 2014. This scenario considers that there would be no major inflationary pressures associated with increases in the prices of food commodities nor to domestic demand and that monetary policy actions would maintain inflation expectations anchored within the target range.

vii. The balance of risks in this Inflation Report is **neutral** since the probability that inflation will be below the forecast considered in the baseline scenario is the same as the probability that inflation will be above the forecast level.

INFLATION FORECAST: 2013-2015
(Last 12 months % change)

viii. The **downward risks** in the inflation forecast are external factors associated with the possible deterioration of the world economy, including a stronger slowdown in the growth of the emerging economies, and internal factors associated with the dynamics of expectations of business confidence.

a. Slowdown of domestic demand

Business confidence is an important determinant of private investment, so if it deteriorated it would contribute to a lower dynamism in domestic demand, which would result in a lower output gap and consequently in lower inflation. The recent evolution of public expenditure and the implementation of public investment projects suggest that the fiscal impulse would in part offset the negative effects of the deterioration of business confidence in the forecast horizon.

Should these risks materialize, the Central Bank would respond easing monetary conditions to maintain inflation within the target range.

b. Deterioration of the international environment

The probabilities that the United States will go through a recession period or that the recession in Europe will deepen have declined compared to the probabilities considered in our last report. However, there are higher probabilities that the emerging economies may experience a greater slowdown. A deepening of these risk conditions would entail lower global dynamism and a weakening of external demand, which would affect the domestic economy through financial and trade channels.

The FED is expected to start gradually withdrawing monetary stimulus since the end of 2013. An earlier and less gradual withdrawal of quantitative easing could bring about a rapid and disorderly adjustment in the exchange rate and in the interest rates of Public Treasury bonds in our economy given the high participation of non-resident investors in these domestic securities.

Should these risks materialize, the Central Bank would use the significant amount of international reserves the country has and several liquidity injection mechanisms, both in national currency and in foreign currency, to offset the impact of these shocks on domestic financial conditions. The Central Bank would respond to such macroeconomic conditions by easing monetary conditions.

ix. On the other hand, the **upward risks** for inflation are associated with the dynamics of commodity prices and other prices sensitive to supply factors

c. Domestic and external shocks

The baseline scenario considers that commodity prices will remain relatively stable next year. In the external front, the risks considered include the risk of higher international prices of crude oil and oil derivatives given the political tensions associated with a possible military intervention in Syria. In the domestic front, on the other hand, the baseline scenario considers the risk that fisheries could have higher prices due to adverse weather conditions.

In this scenario, the Central Bank would adjust its monetary position only if these inflationary shocks were to affect and increase economic agents' expectations of inflation.

x. Because the effects of risk factors pushing inflation downwards are offset by the effects of risk factors pushing it upwards, the **balance of these risks** is neutral for the rate of inflation forecast for mid-2015.

SUMMARY OF INFLATION REPORT FORECASTS

	2012	2013 1/		2014 1/		2015 1/	
		IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
Real % change							
1. GDP	6.3	6.1	5.5	6.3	6.2	6.8	6.7
2. Domestic demand	7.4	7.0	6.5	6.6	6.1	6.5	6.3
a. Private consumption	5.8	5.5	5.2	5.5	5.3	5.5	5.4
b. Public consumption	9.4	11.8	7.6	4.0	4.0	4.2	4.2
c. Fixed private investment	13.5	8.8	7.7	8.2	7.7	7.9	7.9
d. Public investment	20.8	13.2	16.3	17.0	17.0	14.6	14.6
3. Exports (goods and services)	4.8	1.6	0.7	8.5	9.3	11.7	11.4
4. Imports (goods and services)	10.4	7.0	6.3	8.9	7.9	8.9	8.6
5. Economic growth in main trading partners	2.9	2.6	2.4	3.2	3.1	3.4	3.4
Memo:							
Output gap 2/ (%)	0.5	-0.5;+0.5	-1.0;+1.0	-0.5;+0.5	-0.5;+0.5	-0.5;+0.5	-0.5;+0.5
% change							
6. Inflation	2.6	1.5-2.5	2.5-3.5	1.5-2.5	1.5-2.5	1.5-2.5	1.5-2.5
7. Average price of crude oil	-0.9	-0.3	5.9	-0.7	-2.4	-2.3	-7.6
8. Nominal exchange rate 3/	-4.8	0.0	9.1	-0.3	0.8	-0.1	1.2
9. Real multilateral exchange rate 3/	-7.3	-2.1	6.1	-0.5	0.3	0.3	1.6
10. Terms of trade	-4.9	-2.3	-4.5	-1.2	-1.6	-0.7	0.1
a. Export price index	-3.3	-3.4	-6.2	-0.9	-1.9	0.5	0.9
b. Import price index	1.7	-1.2	-1.8	0.3	-0.3	1.2	0.8
Nominal % change							
11. Currency in circulation	18.3	16.0	15.7	13.4	13.2	13.0	11.9
12. Credit to the private sector 4/	15.5	14.0	12.2	13.0	12.4	11.5	12.0
% GDP							
13. Gross fixed investment	26.6	27.7	28.0	28.7	29.0	29.3	29.8
14. Current account of the balance of payments	-3.6	-4.4	-4.9	-4.6	-4.6	-4.3	-4.1
15. Trade balance	2.3	0.3	-0.3	0.0	0.1	0.7	1.0
16. Gross external financing to the private sector 5/	10.5	10.2	10.0	7.4	7.2	6.3	6.4
17. Current revenue of the general government	21.6	21.3	21.3	21.4	21.3	21.5	21.4
18. Non-financial expenditure of the general government	18.6	19.6	20.0	19.8	20.2	20.0	20.4
19. Overall balance of the non-financial public sector	2.2	0.7	0.4	0.6	0.1	0.5	0.0
20. Total public debt balance	19.7	17.7	18.1	16.9	17.4	15.8	16.5

IR: Inflation Report.
1/ Forecast
2/ Differential between GDP and potential GDP (%).
3/ Survey on exchange rate expectations.
4/ Includes loans made by banks' branches abroad.
5/ Includes net direct investment, portfolio investment and private sector's long term disbursement.

I. International Environment

1. The world economy has continued to grow at moderate rates. A global growth rate of 3.4 percent is estimated in Q2 and a similar rate is estimated for Q3. The economic outlook for the developed economies has improved, particularly for the Eurozone countries, whereas, on the other hand, the major emerging economies show signs of a slowdown and, in many cases, this slowdown would be greater than what was estimated in our previous Inflation Report. Because of this, the forecasts of global growth have been revised down from 3.0 to 2.9 percent for 2013 and from 3.7 to 3.6 percent for 2014.

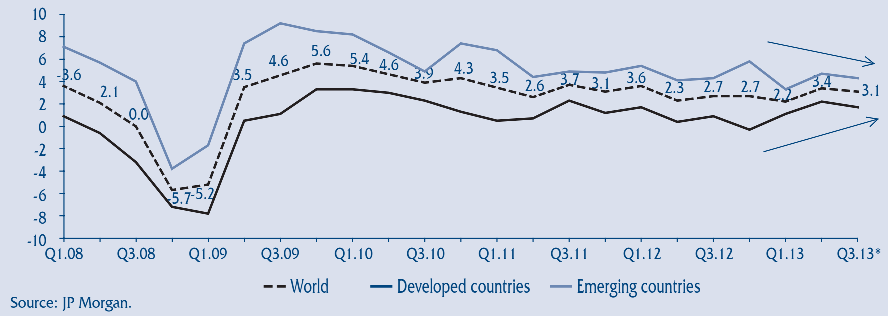
   Expectations that the Fed will reduce monetary stimulus have consolidated since the publication of our previous Inflation Report due to the positive evolution of employment and economic activity in the United States. As a result of this, net capital flows to emerging economies have declined and episodes of depreciation of the currencies of these economies have been observed, especially in the countries that have a high current account deficit. This situation has also generated a rise in bond yields in these economies and a fall in the prices of commodities, which were also affected by prospects of slower growth in China and other emerging economies. It is worth pointing out that the Fed decided not to reduce its asset purchase program at its meeting of September 17 and 18, so this trend has reversed in financial markets over the past few days.

   Although the downward trend in the price of commodities has stabilized, the terms of trade have been revised downwards, in line with the trends observed in recent months and with the lower growth projected in the major emerging economies. Thus, the terms of trade are expected to fall by 4.5 percent in 2013 and to register a further reduction of 1.6 percent in 2014.

Economic activity

2. In aggregate terms, economic activity has shown relative stability in recent months. It is estimated that the global economy grew 3.4 percent in Q2-2013, recording a higher rate than in the previous quarter (2.2 percent). The stabilization of growth in the Eurozone is worth pointing out after seven consecutive quarters of contraction. It is estimated that the world economy would grow at a similar rate in Q3.

Graph 1
GDP: SEASONALLY ADJUSTED QUARTERLY GROWTH
(% annualized rates)

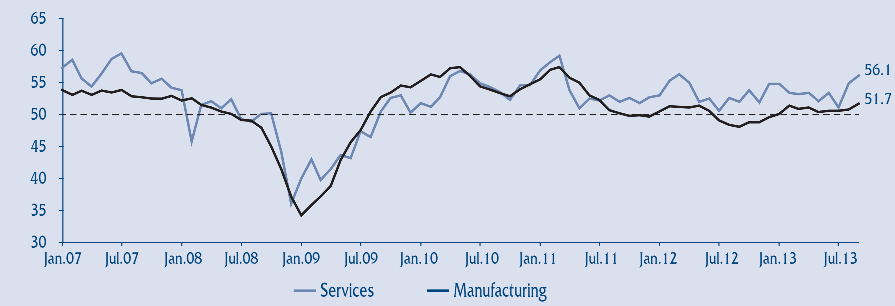


Source: JP Morgan.
*Forecast (September 13, 2013).

Other aggregate indicators also show signs of a recovery trend. The global manufacturing index –composite index of PMIs– has remained above 50 in the past nine months, indicating growth at moderate rates. The global indicator of the service sector –which reflects activity more directly associated with the evolution of domestic demand– showed a greater recovery in the past two months and recorded levels not seen since February 2012.

On the one hand, this result reflects a recovery in the developed economies, with the improvement of these indicators in the case of the United States and signs of recovery in Europe standing out. On the other hand, the emerging economies have been growing at lower rates than expected in a context of deteriorating international financial conditions (given the expected withdrawal of monetary stimulus by the Fed), lower commodity prices, a slowdown in domestic demand and, in several cases, inflationary pressures.

Graph 2
JP MORGAN GLOBAL PMI MANUFACTURING AND SERVICES
(January 2007- August 2013)



Source: JP Morgan.

It is estimated that the world economy will grow 2.9 percent in 2013, which implies a downward revision of our previous estimate (3.0 percent) due mainly to the downward revision of the growth forecast of the emerging economies. Because of this, the growth forecast for 2014 has been revised down from 3.7 percent to 3.6 percent.

As in our previous report, this forecast shows downside risks associated with a deterioration of conditions in the Eurozone, negotiations regarding the debt limit in the United States, a higher-than-expected slowdown in emerging economies, and a rise in the price of oil. The probability that a crisis will occur in the Eurozone has declined compared with our previous report, whereas the probability of occurrence of the former two events has increased, in line with recent data about the emerging economies and with geopolitical conflicts in the Middle East.

Table 1
WORLD GDP GROWTH
(Annual % change)

	2012	2013		2014		2015	
		IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
Developed countries	**1.4**	**1.2**	**1.1**	**2.0**	**2.0**	**2.3**	**2.3**
Of which:							
1. United States	2.8	1.9	1.6	2.4	2.5	3.0	3.0
2. Eurozone	-0.6	-0.6	-0.5	1.0	1.0	1.3	1.3
Germany	0.7	0.3	0.5	1.5	1.5	1.5	1.5
France	0.0	-0.4	0.0	1.0	1.0	1.2	1.2
Italy	-2.4	-1.6	-1.8	0.6	0.5	0.9	0.9
Spain	-1.6	-1.6	-1.5	0.4	0.4	0.9	0.9
3. Japan	2.0	1.5	1.9	1.4	1.4	1.1	1.1
4. United Kingdom	0.2	0.9	1.1	1.5	1.7	1.8	1.8
Developing countries	**5.1**	**5.0**	**4.7**	**5.5**	**5.2**	**5.7**	**5.6**
Of which:							
1. Developing Asia	6.9	6.9	6.5	7.3	6.8	7.3	7.2
China	7.8	7.7	7.5	8.0	7.6	8.0	8.0
India	5.0	6.0	5.0	6.9	6.0	6.9	6.5
2. Central and Eastern Europe	1.4	2.0	2.0	3.2	3.2	3.2	3.2
3. Latin America and the Caribbean	3.0	3.3	2.6	3.7	3.4	3.8	3.8
Brazil	0.9	2.9	2.2	3.6	2.7	4.0	4.0
World Economy	**3.2**	**3.0**	**2.9**	**3.7**	**3.6**	**4.0**	**3.9**
Memo:							
Peru's trading partners 1/ ,	2.9	2.6	2.4	3.2	3.1	3.4	3.4
BRICs 2/	5.9	6.2	5.8	6.7	6.2	6.8	6.7

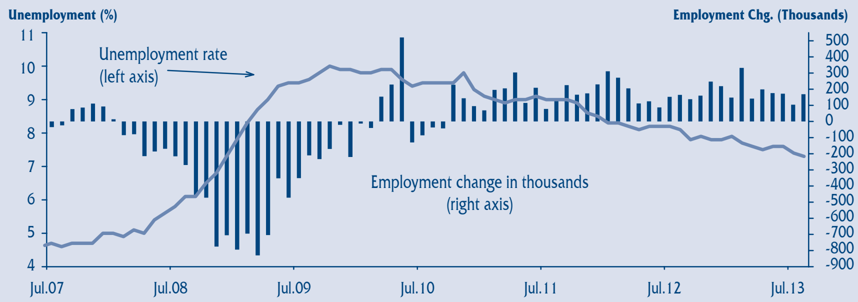
IR: Inflation Report.
1/ Basket of Peru's 20 main trading partners.
2/ Brazil, Russia, India, and China.
Source: Bloomberg, IMF, and Consensus Forecast.

3. The economy in the **United States** continues to show a moderate recovery. In Q2, GDP grew 2.5 percent in annualized terms and recent indicators of employment and manufacturing continued showing the positive trend observed over the past months.

   This favorable economic trend continues to be supported by consumption, particularly the consumption of durable goods –which has accumulated eight consecutive quarters of growth with an average rate of 7.8 percent– and, to a lesser extent, by residential investment. As discussed in previous reports, the determining factors of the evolution of consumption have been the recovery of the labor market and the wealth effect associated with higher housing prices and the improvement of stock markets.

   As regards employment, applications for unemployment benefits have shown a downward trend between June and August. A total of 445 thousand jobs have been created in this period. With this, 6.8 million jobs have been recovered since 2010 (that is, 81 percent of the jobs lost during the crisis). Moreover, the unemployment rate has dropped from 7.6 percent in June to 7.3 percent in August. However, this drop in unemployment is also associated to a decrease in the labor force –the smallest workforce observed since 1978–, which generates greater uncertainty about the strength of the labor market

Graph 3
USA: EMPLOYMENT AND UNEMPLOYMENT RATE

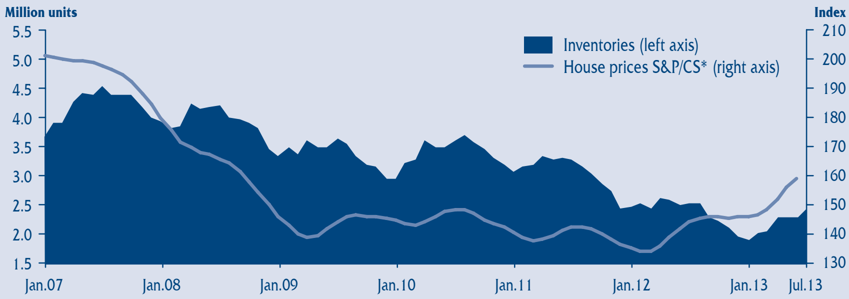


Source: Bloomberg.

4. As regards investment, a recovery was observed in non-residential investment in Q2, supported by the favorable evolution of corporate profits in recent quarters.

   On the other hand, residential investment continued to be driven by the increase in house prices. So far this year, the level of house prices has increased 9 percent yearly and house inventories have increased 24 percent. Recent indicators of sales of new homes and new constructions and construction permits would be showing some slowdown in the real estate business. However, the sector is still expected to continue showing a positive trend because the prices of homes, despite the recent rise, are still 23 percent below the peak levels reached between 2006 and 2007. Similarly, housing inventories represent only 54 percent of the level recorded before the financial crisis.

Graph 4
USA: PRICES OF HOUSE (S&P/CS*) AND INVENTORIES

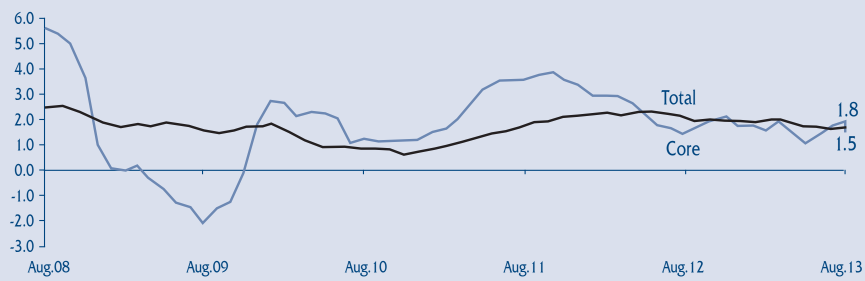


* S&P/CS: S&P/Case-Shiller Home Price Index.
Source: Bloomberg.

5. Inflation has increased from 1.1 percent in April (level unheard of since November 2010) to 1.5 percent in August. This upward trend is explained in part by an increase in the level of gas prices. However, core inflation –which excludes food and fuel prices– has remained stable (1.8 percent).

6. In this context of recovery with controlled inflation pressures and a downward trend in unemployment, the Fed has reaffirmed the announcement it made in May regarding the withdrawal of its asset purchase program, so it is expected to reduce the amount of purchases towards the end of the year and to withdraw monetary stimulus completely by mid-2014.

Graph 5
USA: CPI
(12 month % change)



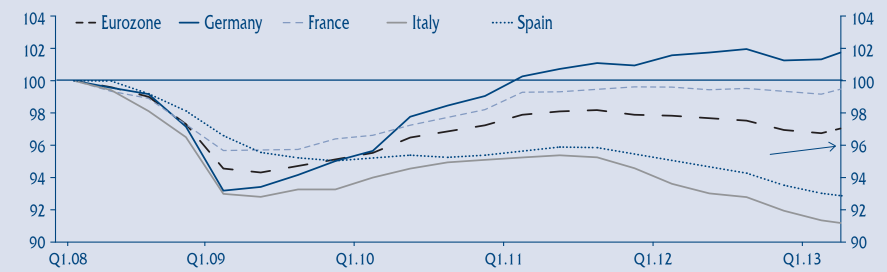
Source: Bloomberg.

7. The U.S. economy is estimated to grow 1.6 percent in 2013, 2.5 percent in 2014, and 3.0 percent in 2015. The risks of this forecast continue to be related to the fiscal issue. The Treasury has reported that the debt limit would be reached in mid-October, so there is the risk that the Government will go into a technical default if an increase in the limit is not negotiated. If no agreement is reached in this regard, consumer confidence may be compromised as occurred in the 2011episode, when Standard & Poor's lowered the credit rating of the U.S. long-term debt due to the lack of a stable fiscal consolidation program.

   The other risk is the one associated with the withdrawal of monetary stimulus, especially because of the impact it would have on long-term rates and, through this variable, on the recovery of the housing market and the consumption of durable goods such as automobiles. The interest rates on 30-year mortgage loans have increased in recent months, rising by 128 bps to 5.15 percent in mid-July from the minimum levels observed at the beginning of May, which has reflected in a decline in applications for mortgage loans and in sales of new homes in July.

8. Economic activity in the **Eurozone** has stabilized in Q2 and shows signs of some recovery in recent months. Germany continues to lead the region's growth and the prospects for the peripheral economies have improved. In line with this, the probability of a crisis in these economies has declined since the publication of our last Inflation Report.

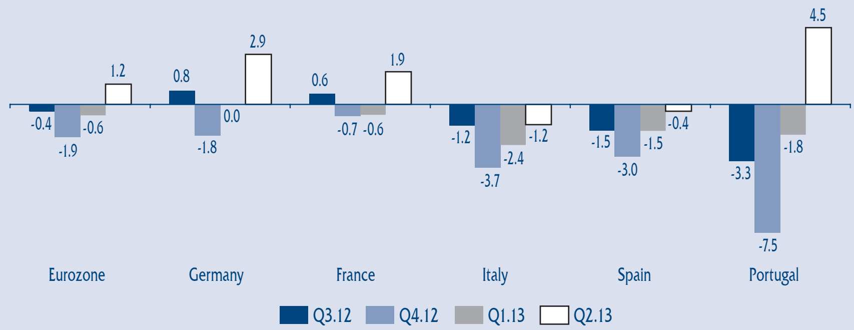
Graph 6
EUROZONE: GDP LEVEL
(Q1.08 = 100)



Source: Bloomberg.

After seven consecutive quarters of decline, the Eurozone's GDP grew 1.2 percent in annualized terms in Q2-2013. Moreover, all the components of spending registered a positive evolution. Private consumption and private investment were supported by the stabilization of employment, better credit conditions, and increased confidence, particularly in the major economies. Government spending also had a positive impact and the increase in net exports was decisive in improving the economies of the region's peripheral countries.

Graph 7
EUROZONE: QUARTERLY GROWTH
(Seasonally adjusted annualized quarterly rates)



Source: Bloomberg.

9. Recent indicators of activity show that the favorable trend in the Eurozone has become stronger in Q3. In July, the composite PMI Eurozone index –a variable that reflects quite closely the evolution of GDP–, bunched back to the expansion area for the first time in 17 months and showed a further improvement in August. This favorable trend is observed both in the indicator of manufacturing and in the indicator of services. Furthermore, confidence indicators in the region have shown an improvement and unemployment has stabilized around 12 percent.

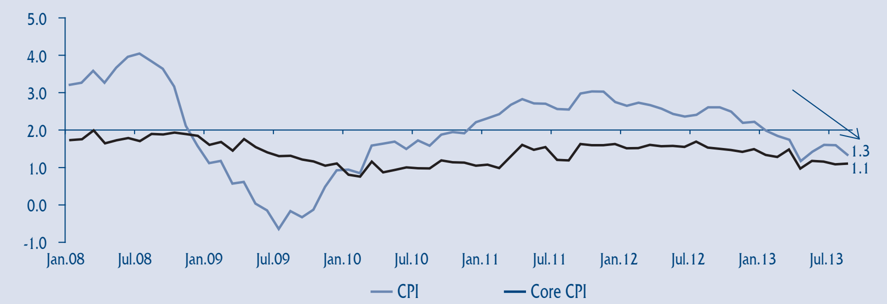
Table 2
EUROZONE: JP MORGAN PURCHASING MANAGERS INDEX

	Dec.10	Dec.11	Dec.12	Mar.13	Jun.13	Jul.13	Aug.13
Services							
Eurozone	**54.2**	**48.8**	**47.8**	**46.4**	**48.3**	**49.8**	**50.7**
Germany	59.2	52.4	52.0	50.9	50.4	51.3	52.8
France	54.9	50.3	45.2	41.3	47.2	48.6	48.9
Italy	50.2	44.5	45.6	45.5	45.8	48.7	48.8
Spain	46.2	42.1	44.3	45.3	47.8	48.5	50.4
Manufacturing							
Eurozone	**57.1**	**46.9**	**46.1**	**46.8**	**48.8**	**50.3**	**51.4**
Germany	60.7	48.4	46.0	49.0	48.6	50.7	51.8
France	57.2	48.9	44.6	44.0	48.4	49.7	49.7
Italy	54.7	44.3	46.7	44.5	49.1	50.4	51.3
Spain	51.5	43.7	44.6	44.2	50.0	49.8	51.1

Source: Bloomberg.

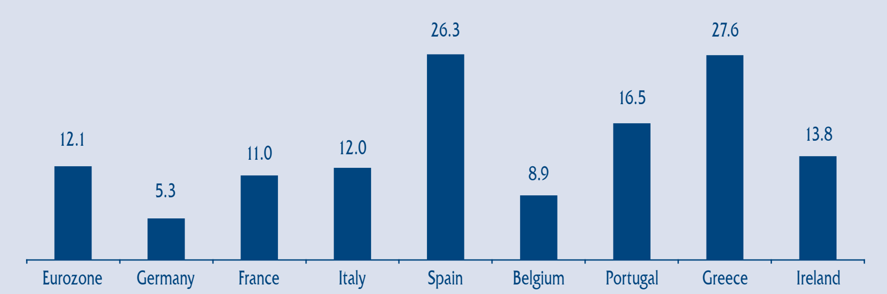
10. In this context of slight recovery and low inflation –the annual inflation rate was 1.3 percent in August–, the ECB has said that interest rates will remain low for a long period of time (or could be even lowered) in accordance with the policy decisions made in its last monetary policy meeting in the first week of September.

Graph 8
EUROZONE: CPI
(12 months % change)



Source: Bloomberg.

Graph 9
EUROZONE: UNEMPLOYMENT RATE (JULY 2013, %)



Source: Bloomberg.

11. In **Japan**, the economy grew 3.8 percent (annualized quarterly rate) in Q2 after having grown 4.1 percent in Q1. Despite the slowdown observed, consumption has grown 3.0 percent and exports have grown 12.4 percent.

Indicators of consumption – consumer confidence and retail sales– show some slowdown in recent months although this slowdown is mainly due to temporary climate factors. Exports, on the other hand, would be favored by the better outlook for the Eurozone, the stabilization of China, and the depreciation of the yen, which has reached 15 percent so far this year. In addition, investment is expected to recover as the recent increase in machinery orders would be indicating.

In line with these developments, the Japanese economy would grow 1.9 percent in 2013, while in 2014 and 2015 it is expected to grow 1.4 and 1.1 percent, respectively. This forecast assumes that the reversal of the deflationary process will consolidate –inflation in July registered 0.7 percent– and that the impact of raising the sales tax (a measure to be implemented in 2014 and 2015) on consumption would be offset by other measures.

12. In the emerging economies, growth in **China** shows signs of stabilization after the slowdown observed in Q2. In this period, GDP grew 7.5 percent relative to the same period of the previous year (7.7 percent in Q1), and data of domestic activity in July and August indicate a normalization of the pace of growth. The composite PMI for August has recovered and posted a level of 51.0 (50.3 in the previous month) basically as a result of the improvement observed in terms of the output and orders. This trend is also reflected in the pace of imports (which consist mainly of commodities that are used in industry and construction), while exports show some improvement in the context of a gradual recovery of the global economy. Inflation shows some volatility, although it is still below the target of 3.5 percent established for the year.

Table 3
CHINA'S ECONOMIC INDICATORS

	2011	2012				2013			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Jul.	Aug.
Manufacturing PMI index (50 neutral level)	50.3	53.1	50.2	49.8	50.6	50.9	50.1	50.3	51.0
Non-manufacturing PMI index (50 neutral level)	56.1	58.0	56.7	53.7	56.1	55.6	53.9	54.1	53.9
Industrial Production (12 month % change)	12.8	11.9	9.5	9.2	10.3	8.9	8.9	9.7	10.4
Investment in fixed assets (Annual % change)	23.8	20.9	20.4	20.5	20.6	20.9	20.1	20.1	20.3
Retail sales (12 month % change)	18.1	15.2	13.7	14.2	15.2	12.6	13.3	13.2	13.4
Exports(12 month % change)	13.4	8.9	11.3	9.9	14.1	10.0	-3.1	5.1	7.2
Imports (12 month % change)	11.8	5.3	6.3	2.4	6.0	14.1	-0.7	10.9	7.0
New loans (Billion yuan)	641	1,011	920	623	455	1,063	863	700	711
New aggregate financing (Billion yuan)	n.d.	1,870	1,780	1,646	1,628	2,550	1,037	809	1,570
CPI (12 month % change)	4.1	3.6	2.2	1.9	2.5	2.1	2.7	2.7	2.6

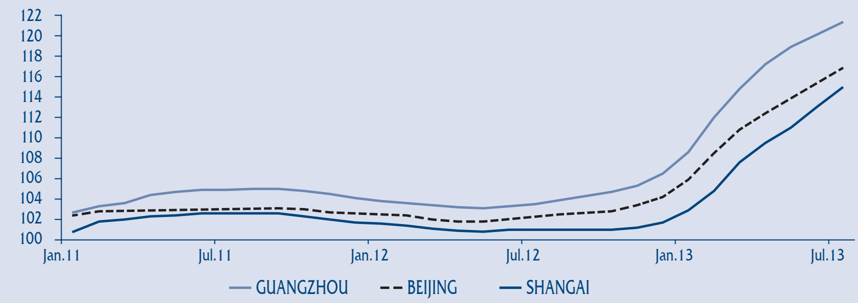
Source: Bloomberg.

In contrast with the stimulus measures implemented in previous years (especially during the international financial crisis), which were based on an expansionary monetary and credit policy, today the monetary authorities are trying to moderate the rate of growth of credit to sustainable levels while committing to provide adequate liquidity levels to ease the liquidity constraints faced by the financial system during the month of June. In order to support growth, the government has introduced target-specific measures, particularly a temporary suspension of taxes on small businesses, assistance to exporters in problems, and the acceleration of investment in urban infrastructure and railways.

The central bank has also approved a scheme to loosen the interest rate, although no details have been published yet and it has ordered an audit of the public debt with the aim of controlling the risks associated with the high level of indebtedness, especially in local governments. This latter aspect has been identified by the authorities as one of the main sources of risk for the Chinese economy. Other risks of the Chinese economy are the growth of aggregate financing (which includes financial instruments on which there is less oversight) and the difficulty to control the growth of prices in the real estate market.

In this context, China is expected to grow 7.5 percent in 2013 (in line with the expectations of the authorities), 7.6 percent in 2014, and 8.0 percent in 2015.

Graph 10
CHINA: REAL STATE MARKET
(Index, new residencial constructions)

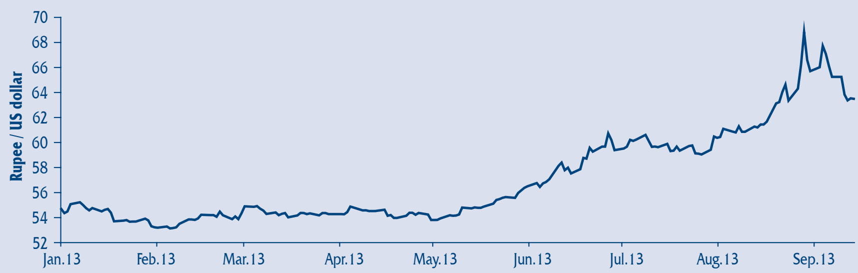


Source: Bloomberg.

13. **India** showed a marked slowdown in the level of economic activity in Q2. In this period, GDP grew 4.4 percent compared to the same period of the previous year, the lowest rate registered in several years, and economic activity is expected to continue being affected by the deterioration of international financial conditions. In August the HSBC/Markit composite PMI dropped below the threshold of 50 percent for the first time since March 2009.

India's economy in recent months has been characterized by a marked deterioration of the rupee. Despite the measures taken by the central bank, the exchange rate has dropped around 22 percent between late April and late August. The rupee has been particularly affected by the economy's vulnerabilities (problems in implementing structural reforms, the current account deficit, taxation, and inflationary pressures), which has damaged consumers and investors confidence and has led to capital outflows. The sharp depreciation of the rupee has also contributed to maintain inflation pressures through the higher costs of imports.

Graph 11
INDIA: EXCHANGE RATE



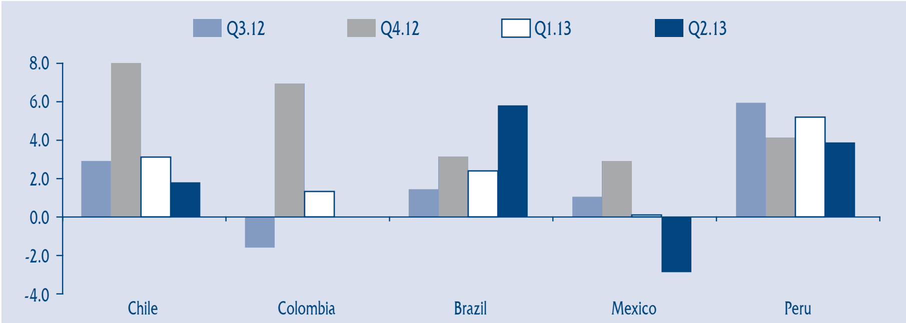
Source: Bloomberg.

In this context, the Indian economy is expected to grow 5.0 percent in 2013, 6.0 percent in 2014, and 6.5 percent in 2015. These rates are lower than the ones considered in our previous Inflation Report.

14. In Q2, most **Latin American countries** continued to show a slower pace of growth. This trend, which began at the end of 2012, is explained mainly by a moderation in the growth of domestic demand and, to a lesser extent, by a decrease of external stimulus.

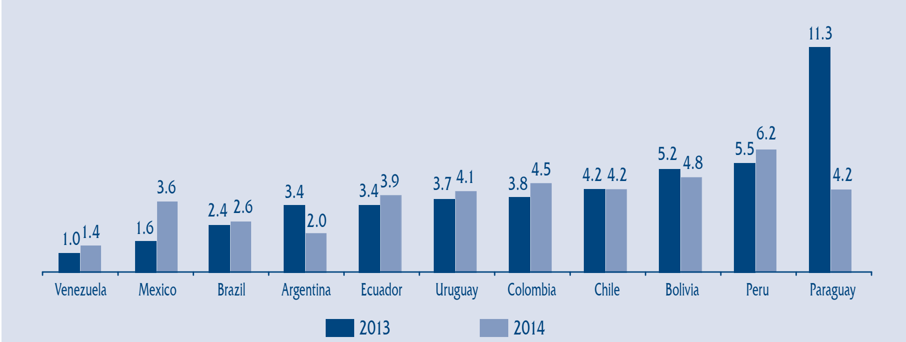
    Recent indicators confirm this trend in a context of deteriorating international financial conditions and prospects of slower growth in China. The region is expected to register a growth of 2.6 percent this year, a lower rate than the one recorded last year (3.0 percent), and to register a growth rate of 3.4 percent next year.

Graph 12
LATIN AMERICA: QUARTERLY GROWTH
(Seasonally adjusted annualized quarterly rates)



Source: Central banks and statistical institutes.

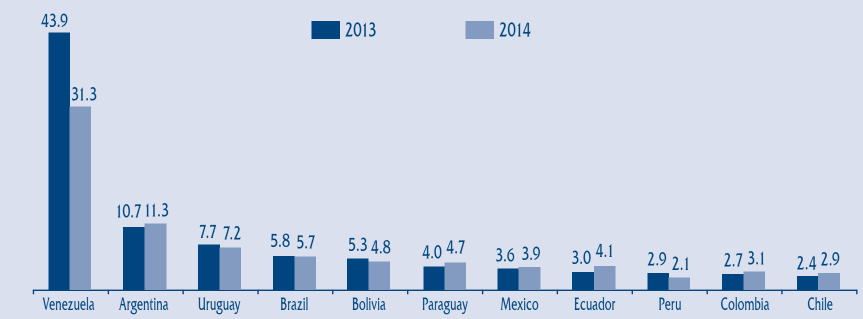
Graph 13
LATIN AMERICA: GDP GROWTH FORECAST



Source: Consensus Economics and BCRP (Peru).

Inflation has had a different evolution in each country over the past two months. In Brazil and Mexico, inflation declined and returned to the target range (4.5-6.5 percent in Brazil and 2.0-4.0 percent in Mexico) after showing levels above the upper band of the target during the last four months. In contrast, on the other hand, the annual rates of inflation in Chile and Colombia increased and showed levels slightly above the lower band of the target range (between 2.0 and 4.0 percent in both countries).

Graph 14
LATIN AMERICA: INFLATION FORECAST

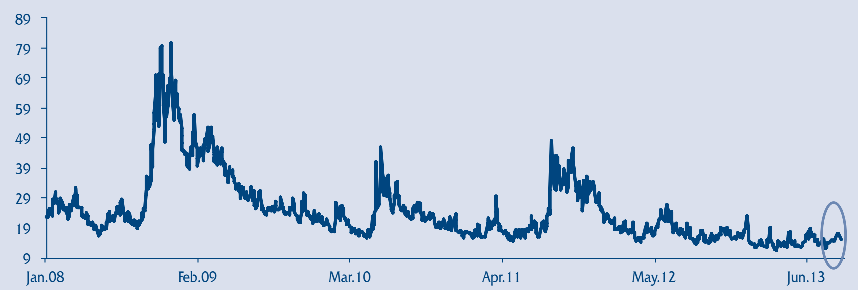


Source: Consensus Economics and BCRP (Peru).

Financial markets

15. Since the end of May, international financial markets have been affected by expectations that the Fed will begin to withdraw monetary stimulus after the Fed Chairman said that the asset purchase program, known as Quantitative Easing (QE), could start to be reduced this year if the economic projections for the United States are confirmed. This announcement increased risk aversion, which later intensified due to the geopolitical risks in the Middle East.

Graph 15
RISK AVERSION COEFFICIENT: VIX (S&P'500)
(March 2008 - September 2013)



Memo: VIX (Chicago Board Options Exchange Market Volatility Index):The index is derived from options market in the S&P'500 for a maturity (30 days) traded in the Chicago Stock Exchange. This ratio measures the short-term expectations (1 month) above volatility of stock markets. When there is a high (low) volatility in the market, VIX shows a higher (lower) risk aversion.
Source: Bloomberg.

However, a number of factors have contributed to reduce risk aversion, including, first of all, expectations that the withdrawal of QE announced by the Fed will be limited. Other factors have been the better political and economic situation that the Eurozone peripheral countries currently have; lower concerns about the possibility of an abrupt slowdown in China, and some positive indicators of activity in several developed economies. Last but not least, geopolitical tensions in the Middle East have declined after Russia proposed suggestions on how to deal with the conflict with Syria.

Graph 16
RISK AVERSION COEFFICIENT: VIX (S&P'500)
(June - September 2013)

Memo: VIX (Chicago Board Options Exchange Market Volatility Index):The index is derived from options market in the S&P'500 for a maturity (30 days) traded in the Chicago Stock Exchange. This ratio measures the short-term expectations (1 month) above volatility of stock markets. When there is a high (low) volatility in the market, VIX shows a higher (lower) risk aversion.
Source: Bloomberg.

16. **Sovereign debt markets in the Eurozone** were affected by periods of increased risk aversion. The most affected sovereign bonds were the ones issued by countries with debt problems (such as Greece, Portugal, Ireland, Spain, and Italy). However, since July, with the better evolution of the political and economic situation of the Eurozone peripheral economies, this trend has been offset and, in some cases (as in Spain, Italy, and Ireland) it has even reversed. In **Greece**, the Government reached an agreement with the Troika on the measures of adjustment and reforms to be implemented as pre-requirements for the disbursement of sections of the EU/IMF program, but uncertainty about how the 2014/15 financial gap will be financed when the current program ends has risen since August. In **Portugal**, the political crisis has subsided, but fears that the country would require greater financial support have increased since the end of August, making it more difficult for Portugal to return to the sovereign bond market in 2014 as was scheduled. In **Spain** and **Italy**, the political crisis has declined and positive indicators of activity are being observed, while in **Ireland** there is optimism due to the favorable indicators of activity registered and prospect of the country´s return to sovereign bond markets in the very near future given the likelihood that the European Stability Mechanism (ESM) will give this country a precautionary line of credit to support liquidity.

It is worth pointing out that at the end of June (during the Summit of the Eurozone leaders), the Eurogroup agreed to give €60 billion to the ESM to recapitalize troubled banks directly and agreed on the conditions for bank resolution.

Table 4
SOVEREIGN SPREADS OF DEVELOPED COUNTRIES

	End of period					Difference in basis points			
	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13	Sep.13/Dec.11	Sep.13/Dec.12	Sep.13/Mar.13	Sep.13/Jun.13
CDS (bps)									
USA	49	38	38	28	22	-27	-15	-15	-6
United Kingdom	98	41	45	50	34	-64	-8	-11	-16
Germany	102	42	37	32	25	-77	-17	-12	-7
France	220	93	83	80	65	-155	-28	-18	-15
Spain	380	300	302	284	240	-141	-60	-62	-45
Italy	484	289	306	284	254	-230	-35	-52	-29
Irlanda	724	220	190	166	143	-582	-77	-47	-24
Greece 1/	8,786	4,265	3,890	1,144	1,158	-7,629	-3,107	-2,732	14
Portugal	1 082	443	418	401	557	-524	115	140	156
10 Year Treasury yields (%)									
USA	1.87	1.76	1.85	2.49	2.88	101	113	104	40
United Kingdom	1.98	1.83	1.77	2.44	2.91	94	109	115	47
Germany	1.83	1.32	1.29	1.73	1.98	-110	-59	69	25
Japan	0.99	0.79	0.55	0.85	0.73	-99	-79	18	-13

1/ After the first proceed from the Greek debt restructuring, the Greek spread was reduced to a level of 5,730 basis points. In January 2013, with the Greek debt repurchasing the index fell again.
Source: Bloomberg. Data as of September 13, 2013.

17. The yields of **assets considered safe** showed a bullish trend explained basically by fears associated with the Fed's withdrawal of stimulus which would imply a lower demand for U.S. Treasury bonds. The yields on 10-year Treasuries have risen 40 bps since June (and 104 bps since March). The bonds of other developed economies, such as **Germany**, were also affected by positive indicators of activity in the Eurozone. In this context, the yield of the German 10-year bond reached its highest level since the end of March 2012 on September 11 (2.05 percent).

    The **debt markets of Latin American countries** showed a favorable evolution, in line with some positive data of global growth and signs of stabilization in China. Thus, the upward trend observed since March in the spread reversed as a result of fears that the Fed would reduce monetary stimulus. It is worth pointing out that the risk rating of the sovereign debt of some countries in the region –such as Uruguay and Peru– was upgraded in the last months.

Table 5
SOVEREIGN SPREADS OF LATIN AMERICA ECONOMIES

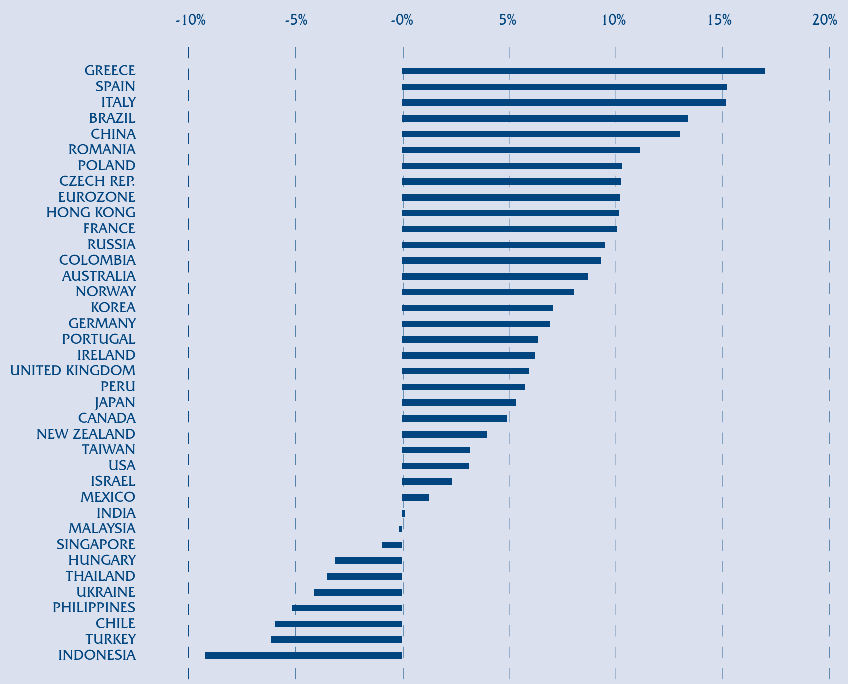
	End of period					Difference in basis points			
	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13	Sep.13/Dec.11	Sep.13/Dec.12	Sep.13/Mar.13	Sep.13/Jun.13
Spreads CDS (bps)									
Brazil	161	108	137	187	173	12	65	36	-14
Chile	132	72	65	100	91	-42	19	26	-9
Colombia	154	96	99	143	120	-34	24	21	-22
México	153	97	97	132	113	-40	16	16	-20
Perú	172	97	97	145	134	-38	36	37	-11

Source: Bloomberg. Data as of September 13, 2013.

Stock markets, particularly those of Asian emerging countries, were also affected by episodes of increased risk aversion. The stock markets of developed countries, particularly the European ones, have shown a better evolution than the one observed in the period discussed in our previous report.

In Latin America, with the exception of Chile, the main stock exchanges recorded a recovery between June and September. Despite this, all the stocks still show losses following the trend observed in most emerging economies given that they were affected by the liquidation of the more risky assets after the Fed declared that it could start withdrawing QE soon.

Graph 17
STOCK MARKETS
(End of period; % chg. Sep.13 respect to Jun.13)



Source: Bloomberg.

Foreign exchange rate

18. According to the Fed index, the dollar depreciated 0.5 percent between June and September. As regards the major European currencies, the dollar depreciated 2.2 percent against the euro and 4.4 percent against the pound. In both cases, this depreciation was basically associated with the better outlook for growth in Europe. On the other hand, the dollar showed a slight variation (+0.2 percent) against the yen.

Graph 18
US DOLLAR INDEX*
(January 2008 - September 2013)

*A rise in the index represents an appreciation of the US dollar.
Source: FED.

In the last two months, the **currencies in the region** have depreciated against the dollar, in a context of uncertainty associated with expectations about the onset of the Fed's withdrawal of stimulus. The Brazilian real, the Argentine peso and the Mexican peso stand out among the currencies that depreciated the most.

In Brazil, since the real accumulated a depreciation of 11.3 percent compared to end-2012, the Central Bank of Brazil announced that it would start an auction program which includes sales of currency for a total of US$ 500 million from Monday to Thursday and swaps for a total of US$ 1 billion on Fridays, and that this program would be carried out at least until the end of 2013. This measure is aimed at providing liquidity to the foreign currency market and at containing inflationary pressures.

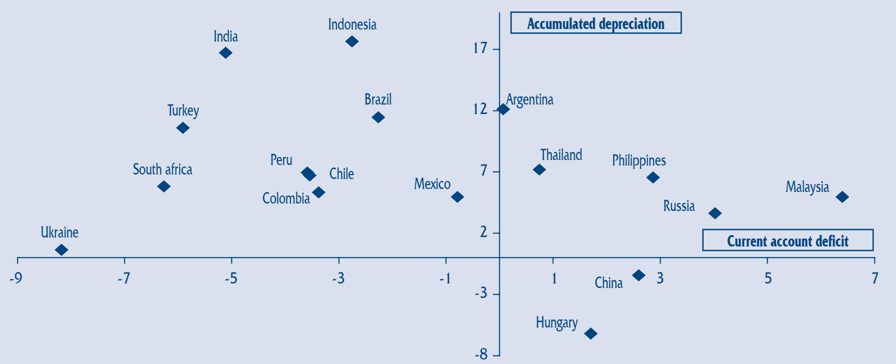
Table 6
EXCHANGE RATE

						Sep.13 % chg. compared to:			
	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13*	Dec.11	Dec.12	Mar.13	Jun.13
Canada	1.02	0.99	1.02	1.05	1.04	1.5	4.3	1.7	-1.6
Japan	76.94	86.74	94.19	99.12	99.34	29.1	14.5	5.5	0.2
United Kingdom (US$/c.u.)	1.55	1.63	1.52	1.52	1.59	2.2	-2.3	4.4	4.4
Eurozone (US$/c.u.)	1.30	1.32	1.28	1.30	1.33	2.6	0.7	3.7	2.2
Switzerland (US$/c.u.)	0.94	0.92	0.95	0.94	0.93	-0.8	1.6	-2.0	-1.6
Brazil	1.86	2.05	2.02	2.23	2.28	22.4	11.3	12.6	2.1
Chile	519	478	471	507	506	-2.6	5.7	7.3	-0.3
Colombia	1936	1766	1819	1920	1923	-0.7	8.9	5.7	0.1
Mexico	13.95	12.86	12.31	12.94	13.04	-6.5	1.3	5.9	0.8
Argentina	4.30	4.92	8.38	5.39	5.73	33.1	16.5	-31.7	6.3
Peru	2.697	2.552	2.591	2.781	2.77	2.8	8.7	7.0	-0.3
Hungary	243	220	237	227	226	-7.2	2.6	-4.6	-0.3
Poland	3.44	3.08	3.26	3.32	3.16	-8.2	2.4	-3.1	-5.0
Russia	32.19	30.55	31.07	32.83	32.46	0.8	6.2	4.5	-1.1
Turkey	1.88	1.78	1.81	1.92	2.03	7.5	13.9	12.1	5.4
China	6.29	6.23	6.21	6.14	6.12	-2.8	-1.8	-1.5	-0.3
India	53.01	54.99	54.28	59.52	63.37	19.5	15.2	16.7	6.5
Israel	3.81	3.73	3.64	3.64	3.55	-6.9	-4.8	-2.6	-2.4
FED basket	100.64	99.21	100.58	102.62	102.07	1.4	2.9	1.5	-0.5

* Data as of September 13, 2013. Source: Bloomberg and Reuters.

The trend registered in currency markets reinforces what was has been observed in recent months. Most of the currencies of the emerging economies have depreciated against the dollar compared to March, although the magnitude of the depreciation differs from country to country. As the graph below shows, the currencies which have depreciated the most in recent months are the currencies of those economies that have high current account deficits. Peru is considered a particular case since various investment houses consider its position to be one of the least vulnerable within the emerging economies in view of it fiscal position and its level of international liquidity, which, in terms of the debt held by non-residents or the country's short-term obligations in foreign currency, is one of the highest within the emerging economies.

Graph 19
DEPRECIATION RATE MARCH/ SEPTEMBER AND CURRENT ACCOUNT DEFICIT 2012
(% GDP)



Source: Bloomberg and WEO April 2013.

Interest rate decisions

19. Since June, most central banks have maintained their interest rates unchanged. In the developed economies, the decision of maintaining the rates, in many cases, at minimum levels, has been supported by the moderate recovery observed in economic activity and by contained inflationary pressures. In the USA, these developments have increased the probabilities that the Fed will start withdrawing non-conventional monetary stimulus –the asset purchase program– in the following months of this year.

In the emerging economies, the interest rates have been maintained unchanged in a context of economic slowdown and depreciatory pressures associated with expectations of the Fed's withdrawal of QE. Only Brazil, Indonesia, and Pakistan have raised their interest rates given the currency pressures and high inflation they faced. On the other hand, Australia, Poland, Mexico, and Hungary have lowered their rates in response to a lower dynamism in economic activity and lower inflationary pressures.

Table 7
MONETARY POLICY INTEREST RATE

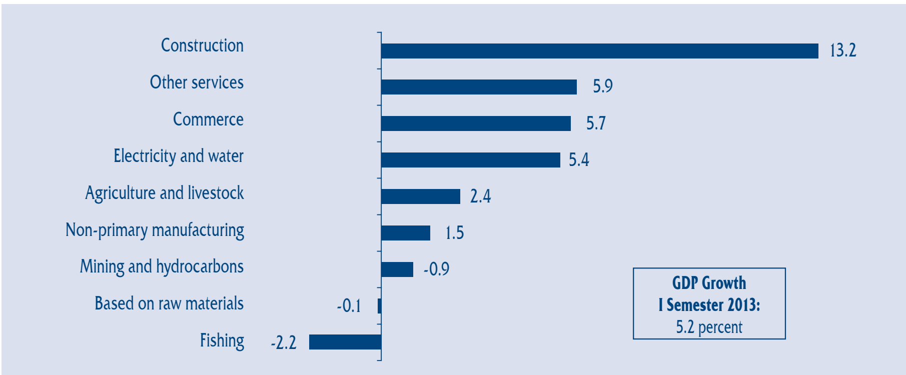
	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13	% Change Accum.2013
Brazil	11.00	7.25	7.25	8.00	9.00	175
Indonesia	6.00	5.75	5.75	6.00	7.00	125
Canada	1.00	1.00	1.00	1.00	1.00	0
Chile	5.25	5.00	5.00	5.00	5.00	0
China	6.56	6.00	6.00	6.00	6.00	0
USA	0.25	0.25	0.25	0.25	0.25	0
Philippines	4.50	3.50	3.50	3.50	3.50	0
Iceland	4.75	6.00	6.00	6.00	6.00	0
Malaysia	3.00	3.00	3.00	3.00	3.00	0
Norway	1.75	1.50	1.50	1.50	1.50	0
New Zealand	2.50	2.50	2.50	2.50	2.50	0
Peru	4.25	4.25	4.25	4.25	4.25	0
United Kingdom	0.50	0.50	0.50	0.50	0.50	0
South Africa	5.50	5.00	5.00	5.00	5.00	0
Sweden	1.75	1.00	1.00	1.00	1.00	0
Taiwan	1.88	1.88	1.88	1.88	1.88	0
Uruguay	8.75	9.25	9.25	9.25	9.25	0
Pakistan	12.00	9.50	9.50	9.00	9.50	0
European Central Bank	1.00	0.75	0.75	0.50	0.50	-25
South Korea	3.25	2.75	2.75	2.50	2.50	-25
Serbia	9.75	11.25	11.75	11.00	11.00	-25
Switzerland	0.25	0.25	0.00	0.00	0.00	-25
Thailand	3.50	2.75	2.75	2.50	2.50	-25
Australia	4.25	3.00	3.00	2.75	2.50	-50
Mexico	4.50	4.50	4.00	4.00	3.75	-75
India	8.50	8.00	7.50	7.25	7.25	-75
Israel	2.75	2.00	1.75	1.25	1.25	-75
Colombia	4.75	4.25	3.25	3.25	3.25	-100
Turkey	5.75	5.50	5.50	4.50	4.50	-100
Poland	4.50	4.25	3.25	2.75	2.50	-175
Hungary	7.00	5.75	5.00	4.25	3.80	-195

Source: Reuters and Bloomberg.

II. Economic Activity

20. In the first semester of the year, the GDP grew 5.2 percent showing a lower growth rate than the one registered in 2012. The composition of growth on the side of expenditure continued to be based on the dynamism of domestic demand, with a rate of 7.2 percent, while net exports continued to decline and recorded a negative contribution to GDP growth equivalent to 2.4 percentage points.

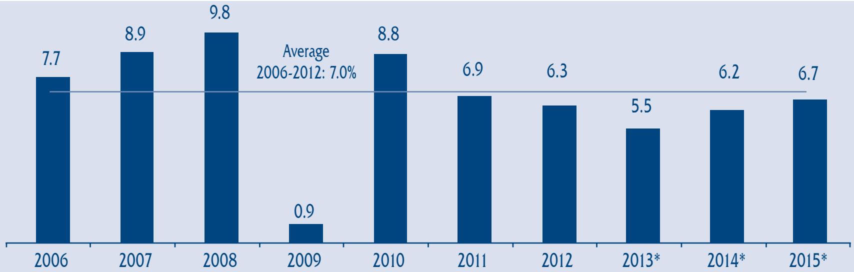
Graph 20
GROSS DOMESTIC PRODUCT BY ECONOMIC SECTORS: S1.13
(Real % change)



21. The rate of GDP growth forecast for **2013** has been revised down to 5.5 percent from the rate of 6.1 percent considered in our June report. This lower rate is estimated considering the lower dynamism of exports (0.7 percent versus 1.6 percent in the previous report), which takes into account the data of indicators at June 2013 and the downward revision of the estimated rate of global growth. A recovery of exports is expected in the second half of the year –after exports dropped by 3.1 percent in the first semester– as a result of increased exports of traditional products, such as copper, and non-traditional products, in line with the better evolution expected in the world economy.

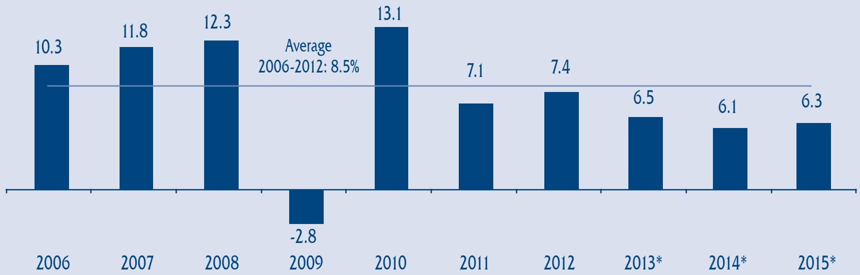
22. The expected GDP growth in 2014 is revised downwards to 6.2 percent, in line with growth rates close to the economy's potential output. In 2015, the country's GDP would show a faster pace of growth and register a rate of 6.7 percent due to the onset of operations of some investment projects, mainly in the mining sector.

Graph 21
GDP: 2006-2015
(Real % change)



* Forecast.

Graph 22
DOMESTIC DEMAND: 2006-2015
(Real % change)



* Forecast.

Forecast of expenditure components

23. In the first semester of the year, **domestic demand** grew 7.2 percent. This rate results mainly from the slowdown of this indicator in Q2 associated most of all with the moderation of private spending and offset by the acceleration of government spending. Private consumption declined from an average growth rate of 5.6 percent in the previous three quarters to a rate of 5.3 percent in Q2, while private investment continued showing a slowdown compared to the high quarterly rates recorded during 2012.

24. The growth of domestic demand in 2013 has been revised down from 7.0 percent to 6.5 percent given the lower forecast of private expenditure, although this would be offset by higher public investment which would increase 16.3 percent –more than anticipated in the previous report (13.2 percent)– in line with the trend observed in the first half of the year (22.4 percent). Domestic demand is expected to register more moderate growth rates in the following 2 years, while exports are expected to show higher rates of growth in that period, in line with the recovery of the global economy and the beginning of operations at several mining projects. In 2014 domestic demand would moderate its pace of growth,

both in terms of its private and its public components, and would show growth rates similar to the GDP growth rates.

Table 8
GDP AND DOMESTIC DEMAND
(Real % change)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
I. Domestic demand	**6.2**	**7.4**	**7.2**	**7.0**	**6.5**	**6.6**	**6.1**	**6.5**	**6.3**
a. Private expenditure	**5.5**	**6.5**	**6.5**	**6.1**	**5.8**	**6.2**	**5.5**	**6.2**	**6.0**
Consumption	5.9	5.8	5.3	5.5	5.2	5.5	5.3	5.5	5.4
Private fixed investment	13.5	13.5	8.7	8.8	7.7	8.2	7.7	7.9	7.9
b. Public expenditure	**12.1**	**13.3**	**12.4**	**12.3**	**10.8**	**9.0**	**9.0**	**8.4**	**8.4**
Consumption	3.6	9.4	7.4	11.8	7.6	4.0	4.0	4.2	4.2
Investment	34.1	20.8	22.4	13.2	16.3	17.0	17.0	14.6	14.6
II. Net exports	**-4.9**	**-34.6**	**-55.8**	**-25.0**	**-25.2**	**-10.0**	**-4.4**	**-1.3**	**-0.7**
Exports	8.9	4.8	-3.1	1.6	0.7	8.5	9.3	11.7	11.4
Imports	8.1	10.4	8.4	7.0	6.3	8.9	7.9	8.9	8.6
GDP (I+II)	**6.2**	**6.3**	**5.2**	**6.1**	**5.5**	**6.3**	**6.2**	**6.8**	**6.7**

IR: Inflation Report.
* Forecast.

Table 9
GDP AND DOMESTIC DEMAND
(Contributions to the real % change)

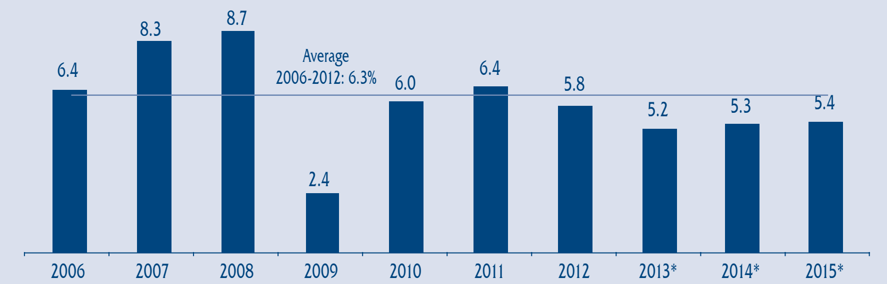
	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
I. Domestic demand	**6.5**	**7.7**	**7.5**	**7.4**	**6.8**	**7.0**	**6.4**	**6.9**	**6.7**
a. Private expenditure	**5.1**	**5.9**	**6.0**	**5.5**	**5.2**	**5.6**	**5.0**	**5.6**	**5.4**
Of which:									
Consumption	4.0	3.9	3.6	3.7	3.5	3.6	3.5	3.6	3.5
Private fixed investment	3.0	3.0	2.1	2.1	1.8	2.0	1.9	2.0	2.0
b. Public expenditure	**1.4**	**1.9**	**1.5**	**1.9**	**1.6**	**1.4**	**1.4**	**1.4**	**1.4**
Consumption	0.3	0.9	0.6	1.2	0.7	0.4	0.4	0.4	0.4
Investment	1.1	1.0	0.9	0.7	0.9	1.0	1.0	1.0	1.0
II. Net exports	**-0.2**	**-1.4**	**-2.4**	**-1.3**	**-1.3**	**-0.6**	**-0.3**	**-0.1**	**0.0**
Exports	1.5	0.9	-0.5	0.3	0.1	1.4	1.6	2.0	2.0
Imports	1.7	2.3	1.8	1.6	1.5	2.1	1.8	2.1	2.0
GDP (I+II)	**6.2**	**6.3**	**5.2**	**6.1**	**5.5**	**6.3**	**6.2**	**6.8**	**6.7**

IR: Inflation Report.
* Forecast.

25. Maintaining an expected lower dynamism than the one observed during 2012, **private consumption** grew 5.3 percent in the first semester of 2013. Several

indicators show a more moderate growth of consumption in the first half of the year: for example, the sale of new family vehicles grew 16.4 percent on average (39.2 percent during 2012) and consumer loans grew 13.0 percent on average (19.4 percent in the previous year).

Graph 23
PRIVATE CONSUMPTION: 2006-2015
(Real % change)

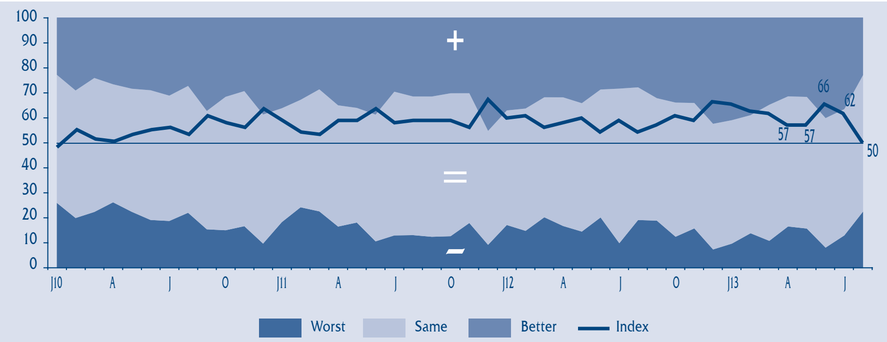


* Forecast.

Other indicators reflecting the recent evolution of private consumption are discussed below. Considering these indicators, the growth forecast of private consumption in 2013 has been revised from 5.5 percent to 5.2 percent. Slightly higher growth rates are estimated for the next years, in line with the acceleration of the national disposable income.

a. The Consumer Confidence Index registered a neutral level of 50 points in August. This indicator has maintained a level of 62 points on average during the first half of the year, a higher level than the one recorded in the second semester of 2012 (60 points).

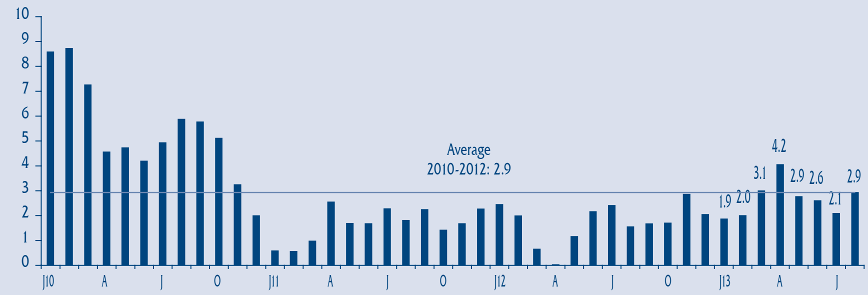
Graph 24
CONSUMER CONFIDENCE INDEX:
HOUSEHOLDS' ECONOMIC SITUATION



Source: Apoyo.

b. The labor force employed grew 2.9 percent in the moving quarter of June-August 2013, showing a higher growth level than in the same period of last year (1.6 percent) and a similar level to the one recorded in 2010-2012.

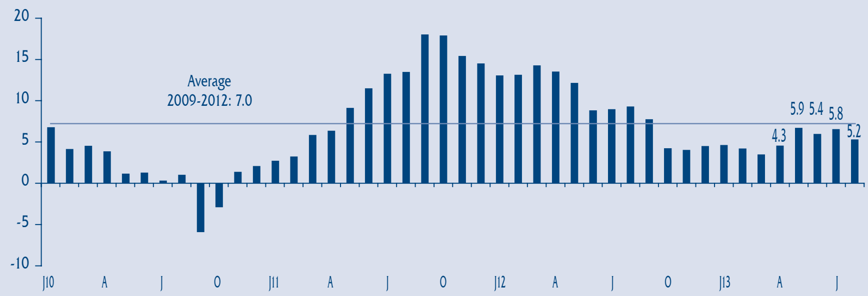
Graph 25
LABOR FORCE EMPLOYED: 2010-2013
(Quarterly moving 12 month % change)



Source: INEI.

c. The main income in Metropolitan Lima grew 5.2 percent in the quarter of June-August 2013, registering a lower growth level than the one observed in the same period last year (8.2 percent).

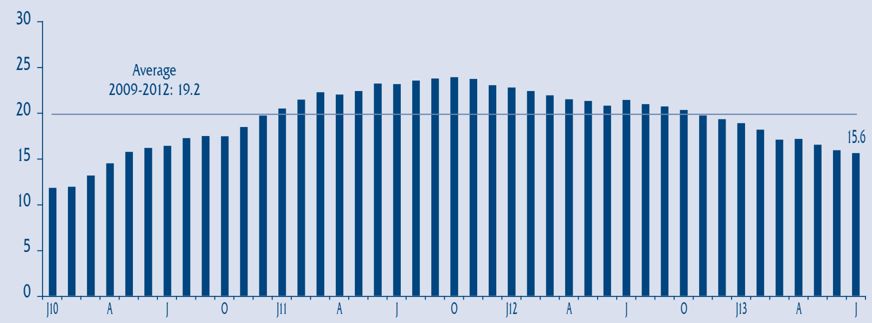
Graph 26
MAIN INCOME IN METROPOLITAN LIMA: 2010 - 2013
(Quarterly moving 12 month % change)



Source: INEI.

d. The growth of credit to individuals, which includes consumer loans and mortgages, has been moderating compared to the rates observed during 2012. This indicator grew 15.6 percent in July, lower than the average rate observed in the same period in 2012 (21.5 percent).

Graph 27
CREDIT TO INDIVIDUALS: 2010 - 2013
(12 months % change)



Source: BCRP.

e. In the first semester of 2013, the national disposable income grew at a rate two percentage points lower than during the same period in 2012. The national disposable income is projected to show a faster pace of growth in the next two years, in line with the expected evolution of the output.

Table 10
NATIONAL DISPOSABLE INCOME
(Real % change)

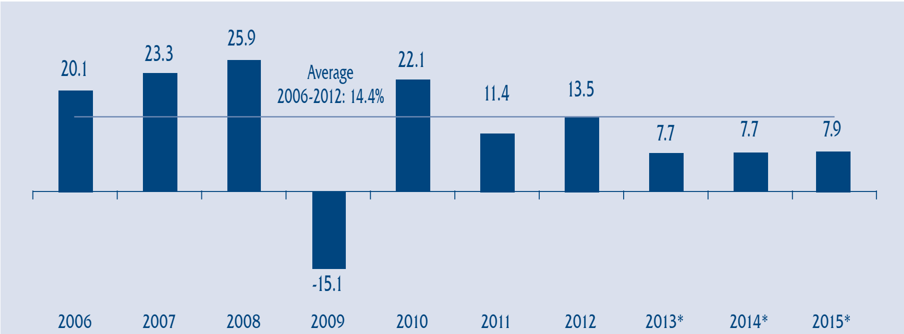
	2012		2013*		2014*	2015*
	S1	Year	S1	Year		
1. Gross Domestic Product	6.2	6.3	5.2	5.5	6.2	6.7
2. Gross National Product	8.8	7.6	6.5	7.3	6.2	6.5
3. Gross National Income	7.6	6.1	5.5	6.0	6.1	6.7
4. National Disposable Income 1/	**7.4**	**5.9**	**5.3**	**5.8**	**6.2**	**6.6**

* Forecast.
1/ Including factor income, net profits by terms of trade, and net transfers received for non-residents.

26. **Private investment** grew 8.7 percent in the first half of the year. The growth of this indicator shows a greater dynamism than GDP, even though it continues to slow down compared with the quarterly growth rates recorded during 2012.

Based on the moderation of growth of private investment observed in the first half of the year (8.7 percent versus 13.5 percent in the same period of 2012), the growth forecast of private investment is revised down from 8.8 percent (Inflation Report of June) to 7.7 percent. Growth rates between 7 and 8 percent are projected for 2014 and 2015 considering the portfolio of investment projects announced and expectations of growth of the economy. Thus, the ratio of private investment to GDP would reach 23 percent in 2015, a level unheard of since the 1950's.

Graph 28
PRIVATE INVESTMENT: 2006 - 2015
(Real % change)

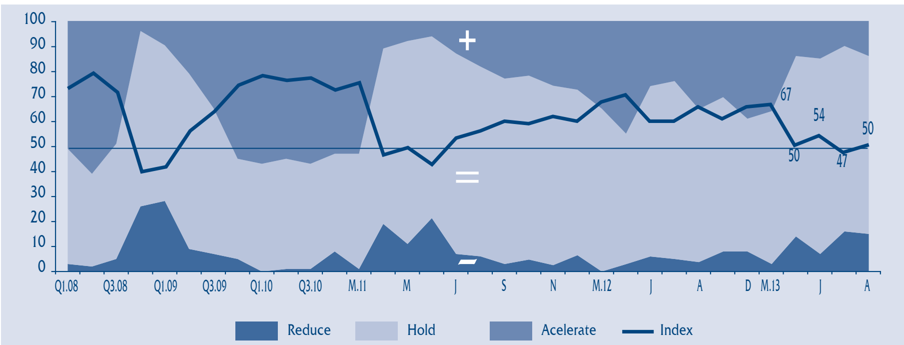


* Forecast.

Several indicators reflect the evolution of private investment:

a. Apoyo Consultoría's indicator of expected investment in the 6 months ahead showed a recovery in August. The average level of this indicator in the period January-August 2013 was 54 points, lower than the one recorded in the same period of 2012 (65 points).

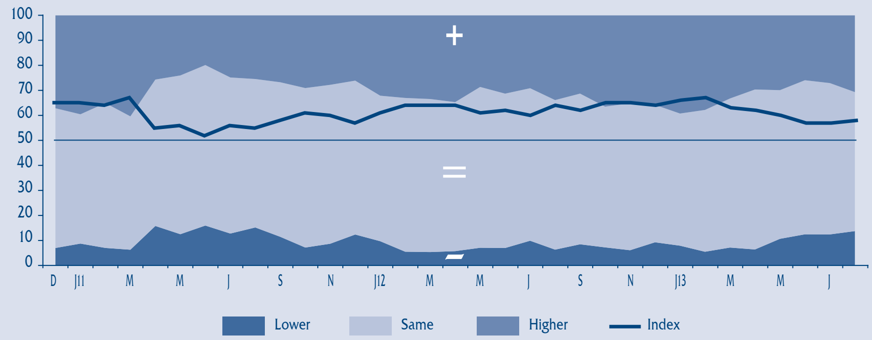
Graph 29
APOYO CONSULTORÍA'S INDICATOR OF EXPECTED INVESTMENT IN THE 6 MONTHS AHEAD



Source: Apoyo Consultoría.

b. Recovering from the decline registered in the previous two months, the expectations about demand in the three months ahead continue to be on the optimistic segment with a level of 58 points in August. The average level of this indicator in January-August 2013 is 58 points, two points lower than the average recorded in the same period in 2012 (60 points).

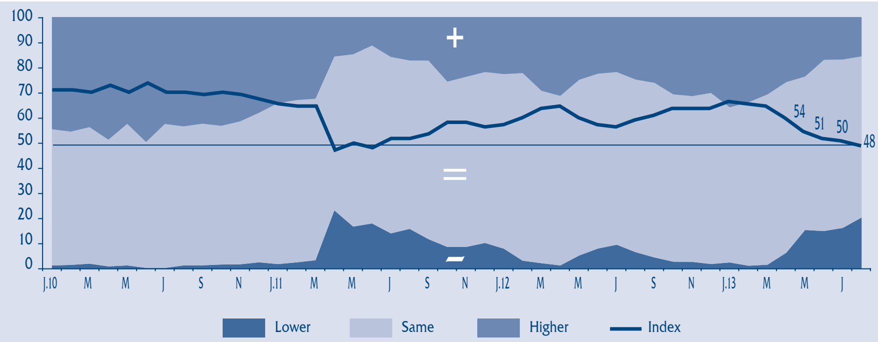
Graph 30
EXPECTATION ABOUT DEMAND IN THE THREE MONTHS AHEAD



Source: Survey of Macroeconomic Expectations, BCRP. Survey conducted during the second fortnight of August 2013.

c. Business expectations on the situation of the economy in the three months ahead declined to 48 points in August.

Graph 31
BUSINESS EXPECTATIONS ON THE SITUATION OF THE ECONOMY IN THE THREE MONTHS AHEAD



Source: Survey of Macroeconomic Expectations, BCRP. Survey conducted during the second fortnight of August 2013.

d. Even though economic agents have revised down their expectations about GDP growth, GDP is expected to recover and grow at a rate of 6 percent in the next years.

Table 11 **SURVEY ON MACROECONOMIC EXPECTATIONS : GDP GROWTH** (%)			
	Expectations about:		
	IR Mar.13	**IR Jun.13**	**IR Sep.13***
Financial entities			
2013	6.3	6.0	5.5
2014	6.1	6.0	5.7
2015	-.-	6.0	5.9
Economic analysts			
2013	6.3	6.0	5.5
2014	6.5	6.1	5.8
2015	-.-	6.0	6.0
Non-financial firms			
2013	6.1	6.0	5.5
2014	6.0	6.0	5.6
2015	-.-	6.0	6.0

IR: Inflation Report.
* Survey conducted during the second fortnight of August 2013.

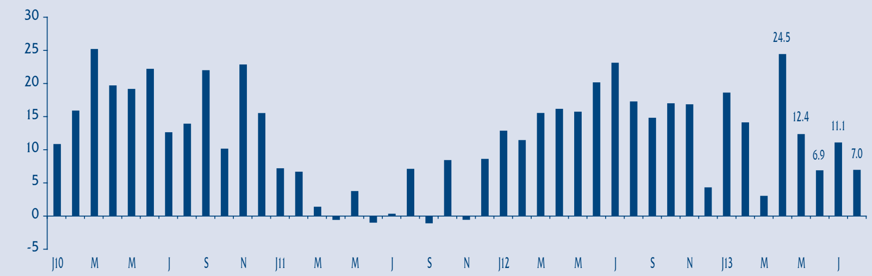
e. The volume of imports of capital goods, indicator of investment demand, showed a rate of 5.8 percent in the period of January-August, a lower rate than the one registered in the same period last year (6 percent).

Graph 32
VOLUME OF IMPORTS OF CAPITAL GOODS: 2009-2013
(12 months % change)

Source: SUNAT.

f. The domestic consumption of cement continued growing at two-digit rates in the January-August period (12.2 percent), although showing a lower rate than the one observed in the same period last year (16.6 percent).

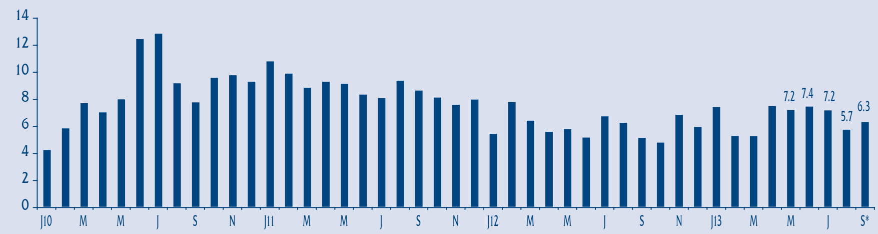
Graph 33
DOMESTIC CONSUMPTION OF CEMENT: 2010-2013
(12 months % change)



Source: ASOCEM and cement companies.

g. The production of electricity continues showing a considerable dynamism with an average growth rate of 6.6 percent in the period January-September (6.0 percent in the same period in 2012).

Graph 34
PRODUCTION OF ELECTRICITY: 2010-2013
(12 months % change)



* Preliminary.
Source: COES.

27. The private investment projects announced to be implemented in 2013-2015 amount to US$ 45.6 billion, a figure US$ 3.61 billion higher than that of the announced private investment projects considered in our previous report.

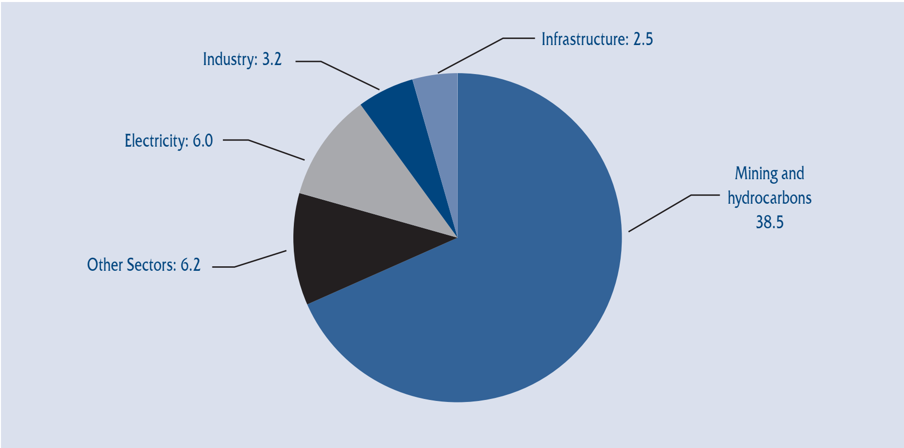
Table 12
PRIVATE INVESTMENT PROJECTS ANNOUNCED
(Million US$)

	2013-2015		
	IR Jun.13	**IR Sep.13**	**Differences**
Mining	20,346	21,221	875
Hydrocarbons	6,182	6,782	600
Electricity	4,804	5,265	461
Industry	2,347	2,722	375
Infrastructure	2,186	2,306	120
Other sectors	6,116	7,299	1,183
Total	**41,981**	**45,595**	**3,614**

IR: Inflation Report.

Projects in the sectors of mining and hydrocarbons account for 61.4 percent of the total number of investment projects announced for the period 2013-2015. At the month of June, projects including Las Bambas, Toromocho, the expansion of Cerro Verde, and closure operations at mine Tintaya registered a total investment of around US$ 5.7 billion, according to the Ministry of Energy and Mines. It should be pointed out that one year after having started operations, the mining project Toromocho has already programmed starting some expansion works that will allow the company to increase production by 20 percent per year (up to 330 thousand MT per year) in about four years and that this would require an additional investment of US$ 1.3 billion.

Graph 35
FORESEEN INVESTMENT PROJECTS: 2013-2015
(% share)



Announcements of investment projects in the hydrocarbons sector include the ones made by Repsol and Karoon Gas Australia, consisting of the exploration of 21 wells in Lot 29 and 20 wells in Lot Z – 38, respectively.

In the electricity sector, Colombian company Interconexión Eléctrica (ISA) was awarded the concession of the 500 Kv Mantaro - Marcona - Socabaya - Montalvo and Associated Sub-Power Plants, which implies an associated investment of US$ 278.4 million.

The sectors associated with construction, such as the real estate sector, the hotel sector and the health sector continue making important announcements about the implementation of new projects and the expansion and remodeling of already existing projects, both in Lima and in other cities of the country.

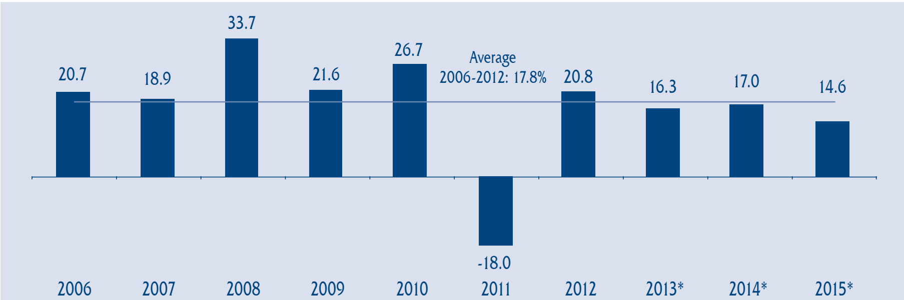
ANNOUNCED MAIN INVESTMENT PROJECTS: 2013-2015

SECTOR	COMPANIES	PROJECT NAMES
Mining	Xstrata Copper	Las Bambas
	Freeport-Macmoran Copper	Expansion of Cerro Verde
	Anglo American Plc.	Quellaveco
	Antares Minerals Inc.	Haquira
	China Minmetals Corporation y Jiangxi Copper Company Limited	El Galeno
	Aluminium Corp of China Ltd. (Chinalco)	Toromocho
	Norsemont Mining Inc., HudBay Minerals Inc.	Constancia
	Aluminium Corp of China Ltd. (Chinalco)	Expansion of Toromocho
	Cumbres Andinas, Korea Resources Corp.	Mina Justa
	Bear Creek Mining Corporation	Corani
	Grupo Milpo	Expansion of Cerro Lindo and El Porvenir
	Pan Pacific Copper Corporation	Quechua
	Hochschild Mining International Minerals Corporation (“IMZ”)	Inmaculada
	Grupo Buenaventura	Expansion of Colquijirca
	Grupo México S.A.B. de C.V.	Expansion of Cuajone
Hydrocarbons	Savia Perú S.A.	Lot Z-2B: Perforation, exploration and other investments
	Conduit Capital Partners - Odebrecht	Andino del Sur Gas pipeline
	Repsol YPF	Exploration of Lot 39 (21 well)
	Perenco	Exploration of Lot 67 and pipeline
	Transportadora de Gas del Perú S.A.	Expansion of gas and capacity of transportation
	Pacific Rubiales Energy	Lots: Z1-135 - 137 - 116 - 138
	Cálidda Gas Natural del Perú	Expansion of the use of natural gas nationwide
	Karoon Gas Australia-Vietnam American Petroleum	Exploitation: Lot Z - 38 (20 well)
Electricity	Odebrecht S.A.	Hydroelectric Power Plant of Cerro de Chaglla
	Inkia Energy-Quimpac S.A.”	Hydroelectric Power Plant of Cerro del Águila
	Energía Azul S.R.L.	Hydroelectric Power Plant of Santa María
	Norwind	Wind energy park Cerro Chocan
	Inevarante	Hydroelectric Power Plant of Acco Pucará
	SN Power Perú S.A.	Hydroelectric Power Plant of Cheves
	Fénix Power Perú S.A.	Plant (combined cycled natural gas)
	GDF Suez	Hydroelectric Power Plant of Quitaracsa I
	Volcan Compañia Minera S.A.A.	Hydroelectric Power Plant of Belo Horizonte
	Interconexión Eléctrica S.A. (ISA)	Mantaro – Marcona – Socabaya – Montalvo Transmission Line (500 kV)
		and Associated Sub-stations
	Corsan Corviam, Engevix y Enex	Hydroelectric Power Plant of Molloco
	Cobra	Carhuaquero-Cajamarca Norte-Cáclic-Moyobamba Transmission Line
	GCZ Energía y Latin American Power	Hydroelectric Power Plant of Runatullo II and Runatullo II
	GDF Suez Empresa Eléctrica de Piura S.A.”	Cold Power Generation Reserve - Talara
	Enhol y Peruana de Energía	Hydroelectric Power Plant of La virgen
	Interconexión Eléctrica ISA Perú S.A.	Trujillo - Chiclayo Transmission Line
	Grupo Económico Endesa	Expansion of Malacas thermal plant
	Repsol YPF	
Industry	Hochschild Mining (Perú) S.A., Mitsubishi	Expansion of La Pampilla plant
	Cementos Pacasmayo”	Phospates projects
	Siderperú	Modernization of plant
	SAB Miller, Backus y Johnston S.A.A	Investment 2012-2014
	Grupo de Pilkington Limited	Manufacture plant of float glasses
	Corporación JR Lindley	Expansion and new plants: Trujillo,Pucusana, Cusco, and Iquitos
	Bío Bío-Votorantim-Ipsa-World Cement Group.”	Cement plant
	Grupo Hochschild	New cemen plant in Piura
	Grupo ETEX	New plant (Marca Gyplac) and industrial plant
	Grupo Gloria	2 production lines, hydroelectric plant and other projects
Infrastructure	OAS S.R.L.	Parque Rimac express way
	APM Terminal , Callao Port Holding y Central Portuaria (Perú)	Modernization of North Pier
	Covisol	Trujillo-Sullana: Sol Highway
	Autopista del Norte SAC	Pativilca – Port of Salaverry Road Network No. 4
	Odebrecht	New highways in Lima
	Consorcio La Chira	La Chira Residual Waters Treatment
	Consorcio Transportadora Callao	Minerals Pier
	Graña y Montero	Vía Expresa Sur highway
Other sectors	Grupo Falabella	Mall Aventura: 6 new malls
	Graña yMontero Vivienda	Real state
	Holding Banmédica-Grupo Roe-Accionariado difundido	Health center: San Felipe
	Besalco S.A.	Real state
	Inmobiliari S.A	Residential, commercial and office center in Surco
	Grupo Fierro	Real State Rimac
	Maestro Perú	Investment and expansion 2012-2014
	Ripley	Expansion and new malls
		(Huancayo,Chimbote, Sta Anita, Lima, Huancayo, Cusco,Tacna, and Puno)
	Inversiones Maje y Grupo Lander	Project Panorama Plaza de negocios
	Grupo Brescia	Expansion of Clínica Internacional and other health centers
	Corporación EW-holding del Grupo Wong	Malls and ground transportation terminal
	Credicorp - Pacífico EPS	Network health risk management
	Pontificia Universidad Católica del Perú	Expansion: University infrastructure and CC Plaza San Miguel
	Grupo Hochschild - TECSUP	UTEC university
	San Fernando	Optimize supply chain
	Grupo Gloria	Casagrande,Cartavio and San Jacinto - Olmos project
	Grupo Telefónica	Expansion and fiber optics in andean mountain
	América Móvil S.A.B. de C.V. y Telmex Perú S.A.	Expansion of infrastructure, capacity and technological innovation
	Americatel Perú y Movistar	Broadband expansion

Source: Press media and business information.

28. **Public investment** in the first half of 2013 grew 22.4 percent, showing acceleration in Q2 explained mainly by the higher investment of the national government (25.1 percent) and State-owned enterprises (46.5 percent). The most important investments of the national government were associated with road rehabilitation and road improvement and with the project of the Electric Train for Lima and Callao. In line with the investment carried out, the growth forecast of public investment in 2013 has been revised upwards. As a result of this, the rate of public investment would rise from 5.2 percent of GDP in 2012 to 6.8 percent of GDP in 2015.

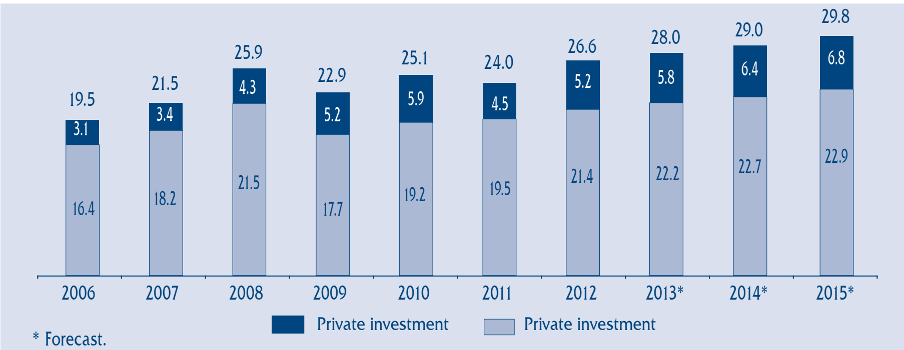
Graph 36
PUBLIC INVESTMENT: 2006-2015
(Real % change)



* Forecast.

29. Given the evolution of private investment and public investment, the gross investment-to-GDP ratio would be over 28 percent in the forecast horizon. The ratio of fixed gross investment-to-GDP was 22.0 percent on average between 2003 and 2012, which is 3.4 times the growth of the average GDP in this period (6.5 percent). The average investment-to-GDP ratio in the forecast horizon is 28.9 percent, which is equivalent to 4.7 times the average GDP growth forecast (6.1 percent).

Graph 37
GROSS FIXED INVESTMENT: 2006 - 2015
(% GDP)



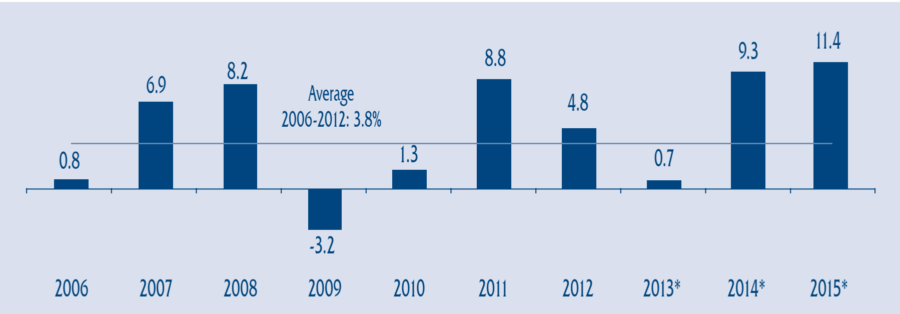
* Forecast.

30. In the first semester of 2013, **exports** of goods and services dropped 3.1 percent, due mainly to the negative performance of both exports of traditional products

such as gold, copper, and fishmeal, and exports of non-traditional products such as textiles and chemicals[1]. A recovery of traditional exports such as zinc and crude oil and derivatives began to be seen towards Q2, although this was offset by a fall in the volume of exported fishmeal. Moreover, non-traditional exports continued showing a decline, the lower volumes of exports of textile products standing out.

Based on this evolution and on the lower global growth forecast, the growth of exports in 2013 has been revised down from 1.6 percent (Inflation Report of June) to 0.7 percent. In line with the trend foreseen in our previous report, the current forecast considers that the growth of exports will show a recovery path in 2014 and 2015 both as a result of the beginning of operations in mining projects such as Toromocho, Las Bambas, and Constancia and of the recovery foreseen in the global demand for non-traditional products.

Graph 38
EXPORTS OF GOODS AND SERVICES: 2006-2015
(Real % change)

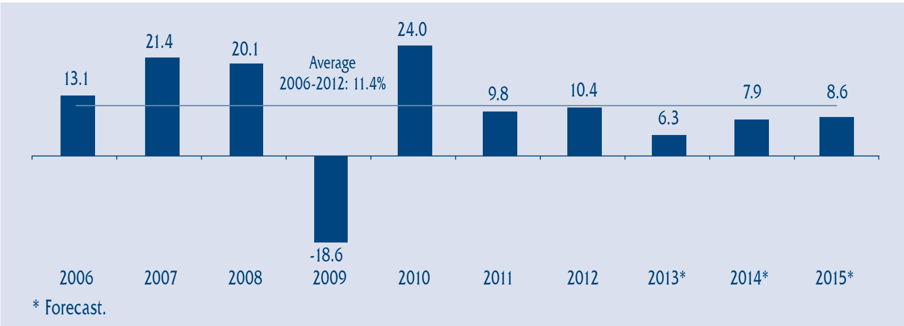


* Forecast.

31. On the other hand, showing a lower growth rate than in Q1 (8.7 percent), **imports** of goods and services grew 8.2 percent in Q2 due to the decline registered in imports of capital goods and non-financial services. The estimated growth of imports in 2013 has been revised downwards with respect to our previous report (7.0 percent) due mainly to the moderation of GDP growth and are now expected to grow 6.3 percent. Moreover, in the forecast horizon imports are expected to grow at lower rates than the average rate registered in the last six years, in line with the moderation in the growth of domestic demand. The growth rates forecast for 2014 and 2015 imply a recovery compared with the rate estimated for 2013 and consider a higher-than-expected rate of GDP growth in those years.

1 Traditional exports were affected by lower exports of copper due to technical problems in Antamina, by lower volumes of exports of fishmeal associated with the evolution of the anchovy biomass in the first months of the year, and by lower exports of coffee, as this crop was affected by the coffee rust plague.

Graph 39
IMPORTS OF GOODS AND SERVICES: 2006-2015
(Real % change)



GDP by production sectors

32. The GDP recorded a growth rate of 5.2 percent in the first half of 2013. This result reflects the higher growth of non-primary sectors, such as construction, trade, and services, which showed rates between 5.7 and 13.2 percent. This growth was offset by the decline of fishing and industries based on the processing of raw materials as well as by a more moderate growth in other primary sectors, especially in agriculture and in the sector of mining and hydrocarbons. Despite the recovery of non-primary manufacturing in Q2, some non-traditional exports such as textiles and chemicals associated with this sector still show lower growth levels.

Table 13
GROSS DOMESTIC PRODUCT BY ECONOMIC SECTORS
(Real % change)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
Agriculture and livestock	**6.3**	**5.8**	**2.4**	**3.3**	**2.4**	**4.2**	**4.2**	**4.2**	**4.2**
Agriculture	7.0	6.2	1.9	3.2	1.7	4.0	4.0	4.0	4.0
Livestock	5.1	5.1	3.3	3.6	3.3	4.4	4.4	4.7	4.7
Fishing	**-10.7**	**-11.7**	**-2.2**	**1.1**	**5.0**	**3.3**	**3.0**	**3.3**	**3.3**
Mining and hydrocarbons	**3.9**	**2.2**	**0.9**	**3.3**	**3.1**	**14.1**	**11.4**	**16.2**	**13.4**
Metallic mining	4.2	2.2	-0.8	2.0	2.0	13.5	11.6	16.3	13.0
Hydrocarbons	2.4	2.3	8.7	8.2	8.5	16.7	10.5	15.8	15.2
Manufacturing	**1.1**	**2.0**	**1.5**	**3.4**	**2.9**	**5.0**	**4.6**	**5.6**	**5.5**
Based on raw materials	-7.5	-6.4	-0.1	3.0	4.7	3.5	3.0	3.3	3.3
Non-primary industries	1.2	2.8	1.7	3.4	2.5	5.2	4.9	6.0	6.0
Electricity and water	**5.6**	**5.2**	**5.4**	**5.9**	**5.7**	**6.1**	**6.1**	**6.1**	**6.1**
Construction	**14.6**	**14.8**	**13.2**	**11.6**	**11.0**	**8.2**	**8.3**	**8.0**	**8.0**
Commerce	**7.1**	**6.7**	**5.7**	**6.4**	**5.7**	**6.0**	**5.9**	**6.4**	**6.4**
Other services	**7.0**	**7.0**	**5.9**	**6.6**	**6.0**	**6.2**	**6.2**	**6.6**	**6.6**
GDP	**6.2**	**6.3**	**5.2**	**6.1**	**5.5**	**6.3**	**6.2**	**6.8**	**6.7**
Memo:									
Primary GDP	**2.7**	**2.0**	**1.4**	**3.2**	**3.1**	**7.0**	**6.3**	**8.1**	**7.1**
Non-Primary GDP	**6.9**	**7.1**	**5.9**	**6.5**	**5.9**	**6.2**	**6.1**	**6.6**	**6.6**

IR: Inflation Report.
* Forecast.

33. The forecast on the growth rate of primary GDP in 2013 has been revised down from 3.2 percent (Inflation Report of June) to 3.1 percent due mainly to the lower growth rate expected in the sector of agriculture. In the next years the **primary GDP** would show higher growth rates, but in line with the higher growth rates foreseen in the mining sector as a result of the onset of operations of new mining projects.

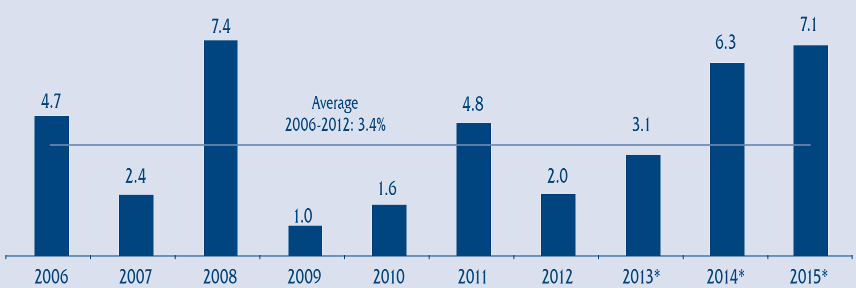
    In 2013 the **agriculture sector** would show a growth rate of 2.4 percent, a slightly lower rate than the one forecast in our June Report due to the evolution of the sector registered in the first semester and to the lower production of agro export products, such as asparagus and coffee, the latter of which has been affected by the coffee rust plague.

    The growth forecast for the **fishing sector** in 2013 has been revised up from 1.1 percent in our previous report to 5.0 percent due mainly to the increase observed in the sector's data in the first semester, especially in terms of fish catch for human consumption and in terms of the increase foreseen in anchovy catch (from 3.5 to 4.2 million tons) as a result of the recovery of the anchovy biomass.

    During the first half of the year, the output in the **metal mining sector** dropped 0.8 percent due to a lower extraction of gold (down 11.7 percent). The growth forecast for this sector in 2013 is maintained at 2.0 percent. Production increases are expected in 2014 and 2015 due especially to the increased production of copper foreseen as a result of the onset of operations of important projects such as Toromocho, Constancia, and Las Bambas.

    The **hydrocarbons sector** grew 8.7 percent in the first semester of the year due to the higher extraction of liquid hydrocarbons of natural gas (16.9 percent) obtained at Las Malvinas separation plant, where the natural gas of Pluspetrol's Lot 88 and Lot 56 is processed. Based on the data recorded in the first semester, this subsector is forecast to grow 8.5 percent in 2013, after which the subsector's output would rise in 2014 due to the higher production of Savia Perú foreseen in Lot Z-2B in Piura. Moreover, the effect of the expansion of Camisea's "South loop" vent on the production of gas liquids is considered for 2015, as well as the additional impact that Camisea's compressor plant would have on the production of natural gas that year.

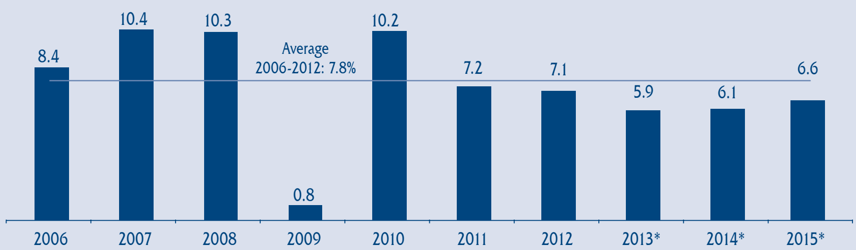
Graph 40
PRODUCTION IN PRIMARY SECTORS: 2006-2015
(Real % change)



* Forecast.

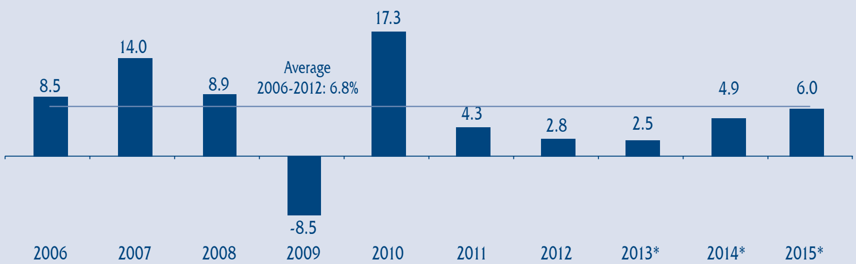
34. In 2013 the **non-primary GDP** is expected to grow at a lower rate, in line with the expected lower growth of domestic demand. The growth rates forecast for 2014 and 2015 are similar to those foreseen in our previous report. The evolution of non-primary manufacturing would also be associated with the growth of non-traditional exports, which in turn depend on global demand. The latter is expected to recover in 2014 although at a slightly lower rate than estimated in our previous Report. On the other hand, the construction sector would continue to grow, although showing more moderate rates after having recovered in 2012 as a result of the increased construction of homes, malls, and the implementation of road and public infrastructure construction projects, both in Lima and in other cities of the country.

Graph 41
PRODUCTION IN NON-PRIMARY SECTORS: 2006-2015
(Real % change)



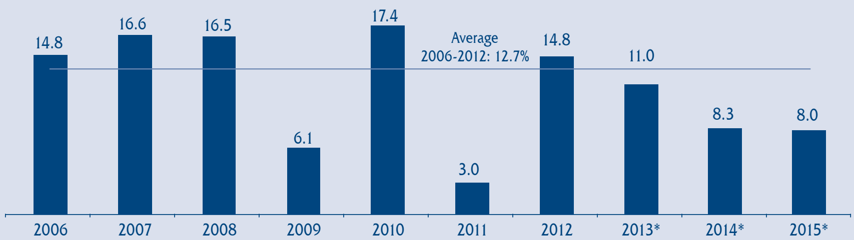
* Forecast.

Graph 42
NON-PRIMARY MANUFACTURING: 2006-2015
(Real % change)



* Forecast.

Graph 43
CONSTRUCTION: 2006-2015
(Real % change)

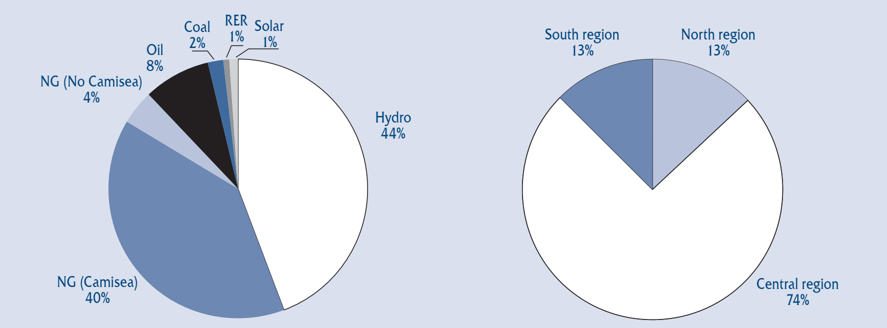


* Forecast.

Box 1
SUPPLY-DEMAND BALANCE OF THE ELECTRICITY SECTOR AT 2018

The 7.4 thousand MW effective capacity of the National Electricity Interconnected System (Sistema Eléctrico Interconectado Nacional - SEIN) is characterized by its concentration in terms of energy supply, since 40 percent of this supply is generated with natural gas from Camisea and 74 percent comes from the country's central region[2].

SEIN: EFFECTIVE POWER OF ELECTRICITY
(July 2013: 7.4 thousand MW, by energy source and geographical ubication, % share)



Memo: RER includes in this graphs a energy sources by thermal plants with the exception of wind and solar power stations.
Source: COES.

The **effective power** is not exactly equivalent to the available supply of power generation, which is the effective power adjusted to supply constraints. Among other reasons, the available supply is lower than the effective power due to: i) weather conditions that cause a lower hydroelectric supply due to the lack of rainfall (dry season: May - November); (ii) constraints in the capacity to transport natural gas; (iii) power disruptions due to scheduled maintenance of power stations; and (iv) variability of the production capacity of wind and solar power stations.

Therefore, because of the restrictions faced by every power generation park, the updated projections of the supply-demand balance of SEIN (Sistema Eléctrico Interconectado Nacional) are a necessary tool to design the policies required to preserve an excess available supply of not less than 10 percent of maximum demand[3] and use this reserve to cover eventual generation or transmission failures.

The **baseline scenario** considers that the power generation system in 2018 will have a capacity of 11.6 thousand MW, which means that the available supply would register an average growth rate of 9.7 percent yearly in the period 2013-2018, in line with the current generation expansion program and projects aimed to offset supply restrictions (such as, for example, the limited capacity to transport natural gas, which would be offset by an expansion of the main pipeline of the network in December 2015). This projected growth of supply is explained mainly by the construction of 57 new plants that will generate an additional power output of 4.6 thousand MW,

2 The Central region comprises the departments of Huánuco, Ucayali, Lima, Pasco, Junín, Ica, Huancavelica, and Ayacucho. The South region is integrated by Apurímac, Cusco, Arequipa, Puno, Moquegua, and Tacna, and the North region by Tumbes, Piura, Lambayeque, Cajamarca, La Libertad, and Ancash.

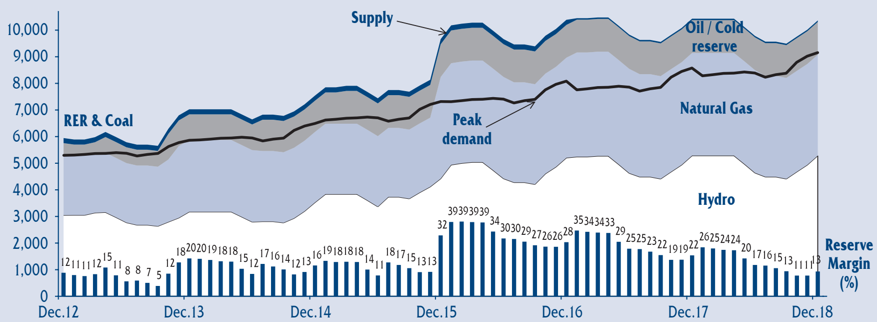
3 Maximum power requirements in a period determined by residential, commercial, and industrial consumption.

concentrated in hydroelectric generation, and in the central region (accounting respectively for 50 and 55 percent of the new supply in 2018). So far, however, the number of power generation projects given in concession which are expected to start operating commercially as from 2017 is limited.

On the other hand, the demand would reach 9.2 thousand MW in 2018, registering an average growth rate of 9.6 percent yearly in 2013-2018. These estimates are consistent with the growth projections of the non-mining GDP and the demand for power from large projects to be implemented until 2018, the rate being similar to the growth rate of available supply. This growth of demand is explained mainly by 36 large investment projects to be developed mainly in the sectors of mining and non-primary manufacturing, which would demand a power of 2.3 thousand MW and would concentrate mainly in the South region of the country (and account for 57 percent of the demand from major projects developed until 2018).

The results of the baseline scenario show that there is no major risk of power rationing in the country in 2018 if the scheduled programs of power generation and power transmission works and expansion of the transportation capacity of Camisea natural gas are met.

SEIN: BASELINE SCENARIO
(Reserve (In %), Maximum demand and supply by energy source (In MW)



Elaboration: BCRP.

However, since the margins of available reserve are estimated to be in the range of 10 percent or less in different months of the baseline scenario, there is a moderate risk of disruption of the electricity supply due to generation or transmission failures during the dry seasons in the period 2013-2018.

The following actions would reduce the risk of supply disruptions and power rationing during this period:

a) Implementation of the scheduled programs of generation and transmission works.
b) Ensure the continuous operation and the implementation of the expansion works of the Camisea gas pipeline.
c) Give in concession the following projects: i) Gasoducto Sur Peruano; II) Energy Node in the South region; and (iii) Supply of LNG for the domestic market.
d) Initiate the commercial operation of gas lots other than Camisea (such as lots 57 and 58) at market prices.
e) Give in concession major hydroelectric power stations in order that they start operating as from 2018.

III. Balance of Payments

35. During the first half of this year, the balance on current account recorded a deficit equivalent to 5.4 percent of GDP –2.7 points higher than the one recorded in the same period of 2012– in a context in which domestic demand grew at higher rates than the output and the terms of trade registered a decline. The deficit in this period was financed by inflows of long-term capital for a total of US$ 13.6 billion –a higher amount than the one observed in the first semester of 2012– in a context of high international liquidity.

Table 14
BALANCE OF PAYMENTS
(Million US$)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
I. CURRENT ACCOUNT BALANCE	**-2,598**	**-7,136**	**-5,717**	**-9,601**	**-10,249**	**-11,036**	**-10,317**	**-11,160**	**-10,134**
% GDP	*-2.7*	*-3.6*	*-5.4*	*-4.4*	*-4.9*	*-4.6*	*-4.6*	*-4.3*	*-4.1*
1. Trade Balance	2,986	4,527	-684	675	-666	68	310	1,744	2,149
a. Exports	22,560	45,639	20,066	44,049	41,877	47,465	45,732	54,103	51,977
b. Imports	-19,574	-41,113	-20,750	-43,375	-42,543	-47,398	-45,422	-52,360	-49,828
2. Services	-974	-2,258	-968	-2,242	-2,375	-2,738	-3,162	-3,233	-3,613
3. Investment income	-6,233	-12,701	-5,651	-11,151	-10,334	-11,881	-10,993	-13,328	-12,339
4. Current transfers	1,624	3,296	1,586	3,117	3,126	3,516	3,528	3,657	3,669
Of which: Remittances	1,367	2,788	1,326	2,651	2,651	2,991	2,991	3,105	3,106
II. FINANCIAL ACCOUNT	**11,320**	**21,963**	**10,117**	**18,601**	**13,958**	**14,036**	**11,817**	**13,160**	**11,634**
Of which:									
1. Private Sector	9,470	20,277	11,111	18,655	14,376	13,917	11,269	12,902	10,917
a. Long term	8,180	16,236	10,976	16,799	15,383	12,106	10,744	11,397	10,916
b. Short term 1/	1,291	4,042	135	1,856	-1,007	1,811	525	1,505	0
2. Public Sector 2/	1,849	1,685	-994	-54	-418	118	548	258	718
III. BALANCE OF PAYMENTS (=I+II)	**8,722**	**14,827**	**4,400**	**9,000**	**3,709**	**3,000**	**1,500**	**2,000**	**1,500**
Memo:									
Long-term private capital inflow 3/	9,561	20,914	13,616	22,349	20,982	17,620	16,150	16,260	15,578
GDP (Billions US$)	97	200	105	219	209	238	224	260	244

1/ Includes erros and omissions.
2/ Includes exceptional financing.
3/ Includes net foreign investments, portfolio investment and private sector's long-term disbursement.
IR:Inflation Report.
* Forecast.

36. The increase in the current account deficit of 2013 is explained by the growth of investment contributing to the growth of capital stock in the economy, which was partially funded by higher domestic savings. The increase in domestic savings was complemented by greater foreign savings.

Table 15
SAVINGS - INVESTMENT GAP
(% GDP)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
1. GROSS FIXED INVESTMENT	**26.1**	**26.6**	**27.9**	**27.7**	**28.0**	**28.7**	**29.0**	**29.3**	**29.8**
a. Private	22.2	21.4	23.4	22.1	22.2	22.5	22.7	22.8	22.9
b. Public	3.9	5.2	4.6	5.6	5.8	6.2	6.4	6.6	6.8
2. NET DOMESTIC SAVINGS 1/	**23.4**	**23.0**	**22.5**	**23.3**	**23.1**	**24.0**	**24.4**	**25.1**	**25.6**
3. EXTERNAL SAVINGS	**2.7**	**3.6**	**5.4**	**4.4**	**4.9**	**4.6**	**4.6**	**4.3**	**4.1**

1/ Excluding inventory variations.
IR: inflation report.
*Forecast.

Graph 44
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS: 2006-2015
(% GDP)

* Forecast.

37. The deficit forecast for 2014 is still estimated at 4.6 percent of GDP, whereas the deficit in 2015 is projected to be lower than anticipated in our previous report and would be equivalent to 4.1 percent of GDP (instead of 4.3 percent of GDP). The deficit is expected to show a declining path as a result of the recovery of external demand and the onset of operations of several mining projects in 2014 and 2015 (Toromocho, Las Bambas, and Constancia).

Graph 45
TRADE BALANCE: 2006-2015
(Million US$)

* Forecast.

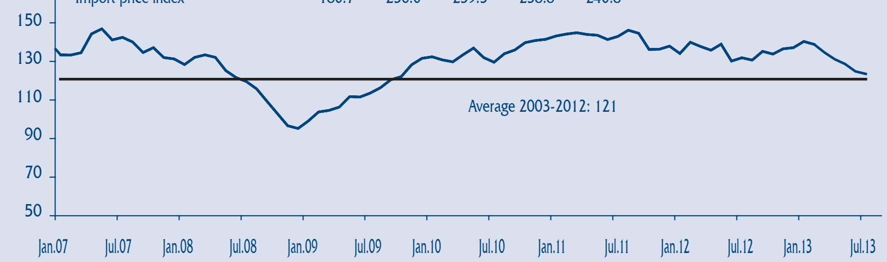
Terms of trade and commodity prices

38. Year-to-date, the terms of trade accumulate a decline of 2.8 percent due mainly to the decrease of export prices, the prices of basic metals and gold showing the stronger decreases. The fall in these prices was partially offset by lower import prices, associated with a correction in the international prices of food products.

    In general terms, commodity prices were affected by fears that the Fed would start reducing the pace of asset purchases and by prospects of a slower pace of growth in China. This trend reversed partially in August after reports with more favorable economic data were released. It is estimated that in 2013 the terms of trade will decline 4.5 percent relative to the level recorded last year and that in 2014 they will show a lower decline, stabilizing thereafter in the next years.

Graph 46
TERMS OF TRADE: JANUARY 2007 - JULY 2013
(1994=100)

	Average 2003-2012	July 2013	2013*	2014*	2015*
Terms of trade	121.1	123.5	129.2	127.2	127.2
Export price index	224.5	291.6	309.6	303.7	306.3
Import price index	180.7	236.0	239.5	238.8	240.8



* Forecast.

Table 16
TERMS OF TRADE: 2011-2015
(Annual average data)

	2011	2012		2013*			2014*		2015*	
	Year	Jan.-Jul.	Year	Jan.-Jul.	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
Terms of trade	**5.4**	**-5.5**	**-4.9**	**-2.8**	**-2.3**	**-4.5**	**-1.2**	**-1.6**	**-0.7**	**0.1**
Price of exports	**20.0**	**-3.7**	**-3.3**	**-4.6**	**-3.4**	**-6.2**	**-0.9**	**-1.9**	**0.5**	**0.9**
Copper (US$ cents per pound)	400	364	361	338	336	333	330	330	327	330
Zinc (US$ cents per pound)	100	89	88	87	87	87	90	89	91	92
Lead (US$ cents per pound)	109	91	94	98	96	98	97	99	99	101
Gold (US$ per ounce)	1,570	1,644	1,670	1,489	1,467	1,420	1,400	1,330	1,400	1,330
Coffee (US$ per quintal)	236	181	177	136	146	131	152	123	153	123
Price of imports	**13.8**	**2.0**	**1.7**	**-1.8**	**-1.2**	**-1.8**	**0.3**	**-0.3**	**1.2**	**0.8**
Oil (US$ per barrel)	95	98	94	96	94	100	93	97	91	90
Wheat (US$ per ton)	280	249	276	270	275	265	280	245	275	246
Maize (US$ per ton)	262	256	273	272	253	241	222	195	224	198
Soybean oil (US$ per ton)	1,191	1,143	1,125	1,066	1,082	1,015	1,074	967	1,068	972

* Forecast.
IR: Inflation Report.

Graph 47
TERMS OF TRADE: 2001-2015
(% change)

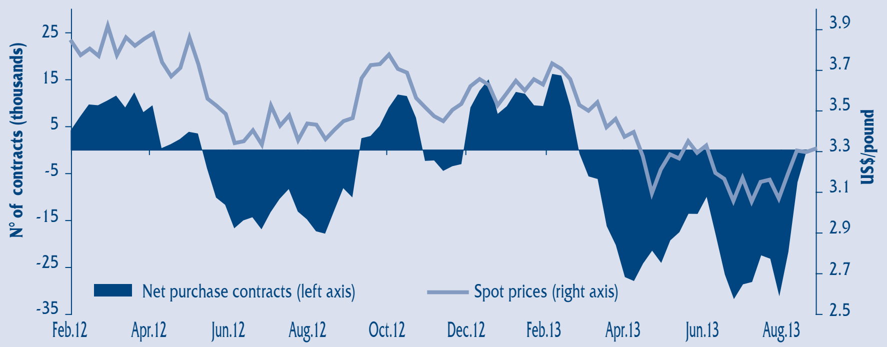
* Forecast.

Copper

39. In the month of August, the price of **copper** rose 4.2 percent and closed with a monthly average level of US$ 3.26 per pound, recovering in part from the drop it had recorded since March of this year. Despite this recovery, the price of copper registers a drop of 9.6 percent in the first eight months of the year.

The recent recovery in the price of copper is explained by the better global economic outlook associated with indicators confirming the recovery of Chinese manufacturing in recent months, economic growth in the Eurozone in Q2, and the upward revision of GDP growth in the United States in Q2. In addition, this new outlook has also been coupled by projections that the copper market will be tighter than expected earlier[4] due to a higher-than-expected demand, especially in China. An indicator that reflects this increased demand is the reduction of inventories of copper at the Shanghai warehouses by about 70 percent since the beginning of the year[5]. Moreover, the manufacturing sector in China has registered a better output in July and August.

Graph 48
COPPER: NON-COMMERCIAL CONTRACTS



Source: Bloomberg.

However, the recovery of the copper price is estimated to be offset by expectations of a greater supply. According to the latest Bloomberg survey, several analysts estimate a supply surplus in 2014 as a result of a strong increase in the production of copper concentrates associated with the operations of new mines and the expansion of existing mines to be implemented between 2013 and 2015[6]. The growth rate in the supply of copper concentrates would be significantly higher than the ones recorded during the previous 5 years (annual rates of 1.5 percent on average). In addition to this, investors' non-commercial net positions in copper would have reached some equilibrium during the month of August after the liquidations observed in the previous months.

4 The International Copper Study Group (ICSG) reported that the global market of copper recorded an unexpected deficit in May after seven months of surplus. Recent indicators show that this market has remained tight between June and August due to China's increased demand.

5 Glencore Xstrata estimates that inventories kept at customs warehouses would have dropped from over 1 million tons early in the year to about 300 thousand tons in August. The Wall Street Journal estimates that inventories at the Shanghai warehouses would have fallen from 1 million tons to 400 thousand tons. Moreover, Barclays estimates that China's consumption of copper will expand 10 percent this year, a higher rate than the conservative rates estimated early this year.

6 After adjusting their estimates for possible operation disruptions, the ICSG estimates that mine production would grow at annual rates of 5.5 percent in 2013 and 2014.

Table 17
WORLD REFINED COPPER USAGE AND SUPPLY
(Thousand metric tons)

	2008	2009	2010	2011	2012	2013*	2014*
World mine production	15,569	15,943	16,053	16,076	16,700	17,561	18,541
World refined production (Primary+Secondary)	18,214	18,248	18,981	19,596	20,114	20,983	22,046
World refined usage	18,053	18,070	19,346	19,830	20,512	20,566	21,366
Refined balance 1/	161	178	-365	-234	-397	417	681
Stock inventories	378	697	573	552	593	-	-
Consumption days	7.6	14.1	10.8	10.2	10.6	-	-

* Forecast.
1/ Not includes unreported inventories for China apparent usage.
Source: ICSG.

In line with these developments in the supply of copper, it is estimated that prices will not recover to the levels seen at the beginning of the year and that they would remain around their current levels in the forecast horizon. However, unexpected supply cuts and the economic recovery of the United States could give some support to the price in the short and medium term, respectively.

Graph 49
COPPER: JANUARY 2007 - DECEMBER 2015
(ctv. US$/pd.)

Zinc

40. In the last three months, the price of **zinc** recovered, reversing in part the decline recorded in the previous months. In August the average price of this metal recovered 3.2 percent and reached an average monthly price of US$. 0.86 per pound. However, year-to-day this price accumulates a decrease of 7.1 percent.

The recovery of zinc prices was associated with the tighter conditions observed in the zinc world market in recent months. The International Zinc and Lead Study Group (ILZSG) reported a lower-than-expected supply surplus and a reduction in global inventories during the first semester of 2013[7]. The main reason accounting for the tightening of this market was the increase in China's demand, especially from the transport industry, as well as the higher demand for zinc from the United States and Europe. Furthermore, fears about the future supply of zinc have emerged due to expectations of a slowdown in the mining production associated with a decline in the mineral content of zinc ores.

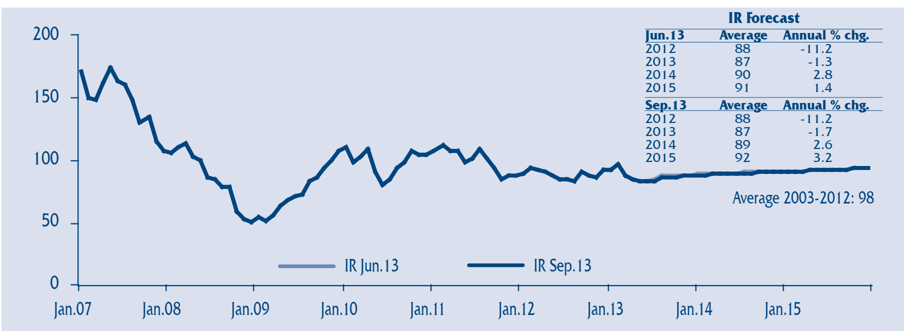
Table 18
WORLD REFINED ZINC SUPPLY AND USAGE
(Million metric tons)

	2007	2008	2009	2010	2011	2012	2013*
World mine production	11.20	11.88	11.61	12.49	12.95	13.60	13.99
World refined production	11.35	11.77	11.28	12.89	13.12	12.66	13.25
World refined usage	11.23	11.57	10.92	12.64	12.75	12.40	12.98
Refined balance (thousands)	116	198	362	248	366	265	270

* Forecast.
Source: ILZSG.

However, the price rise was offset by the high level of global inventories. Recent projections show that the global market of refined zinc would show al surplus for the seventh consecutive year in 2013[8]. These results are consistent with the increase seen in the production of refined zinc, particularly in China[9]. In line with this, the international price of zinc is expected to remain in the forecast horizon in the levels estimated in our previous report.

Graph 50
ZINC: JANUARY 2007 - DECEMBER 2015
(ctv. US$/pd.)



7 The International Study Group Lead and Zinc reported a global surplus of 44 thousand tons and a lower inventories of 123 thousand tons in the first half of 2013.

8 ILZG forecast for 2013.

9 Barclays reported an acceleration in the growth of refined production in China (23 percent in anual terms).

Gold

41. In the last three months, the monthly average price of **gold** continued showing the downward trend observed since November 2012 –except in the month of August– and accumulated a drop of 20.0 percent in the year, closing with an average monthly price of US$ 1,347 per troy ounce in August. In the last month, the price of gold increased 4.7 percent, driven by speculative demand associated with the possibility of an armed conflict in Syria. Comex gold non-commercial positions recovered from their lowest level since December 2008, while gold exchange-traded products (ETPs) reduced their net liquidation of gold, which contrasted with the high net sales of this metal that these funds made during the first seven months of 2013[10].

42. A similar price to the current levels and below the price level reported in our previous Inflation Report is estimated for the forecast horizon. This projection considers a scenario of lower geopolitical risk, lower demand in the emerging economies (especially in India), and a strengthening of the dollar associated with the Fed's withdrawal of stimulus. Some factors offsetting a downward correction in the price of this metal include a lower supply from mines, high production costs, and a decline in the supply of recycled gold.

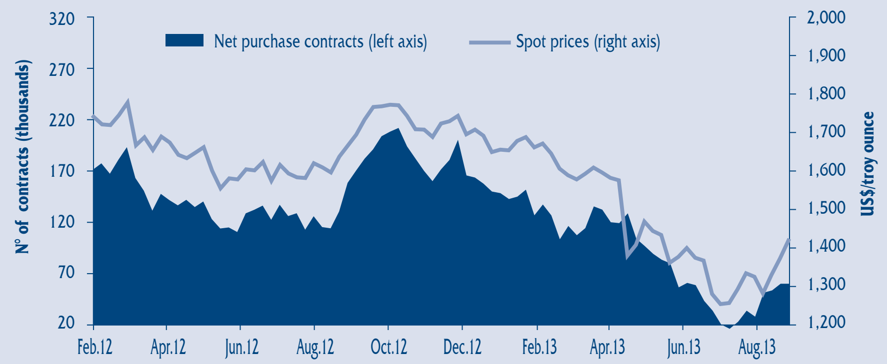
Table 19
WORLD GOLD SUPPLY AND USAGE
(Tons)

	2011	2012	Q2.12	Q2.13
World mine production	2,849.6	2,822.3	699.0	717.2
Gold recycling	1,649.4	1,590.7	389.0	308.3
Total supply	**4,499.0**	**4,413.0**	**1,087.9**	**1,025.5**
Jewelry	1,975.1	1,896.1	423.2	593.1
Technology	451.7	407.5	103.4	104.3
Investment	1,703.8	1,534.7	285.9	105.4
Central banks 1/	456.8	544.4	164.5	71.1
Gold demand	**4,587.4**	**4,382.7**	**977.0**	**874.0**
OTC investments and stock flows 2/	-88.4	30.3	110.9	151.5
Total demand	**4,499.0**	**4,413.0**	**1,087.9**	**1,025.5**
Market balance	**0.0**	**0.0**	**0.0**	**0.0**

1/ Net purchases.
2/ OTC- Over The Counter.
Fuente: World Gold Council.

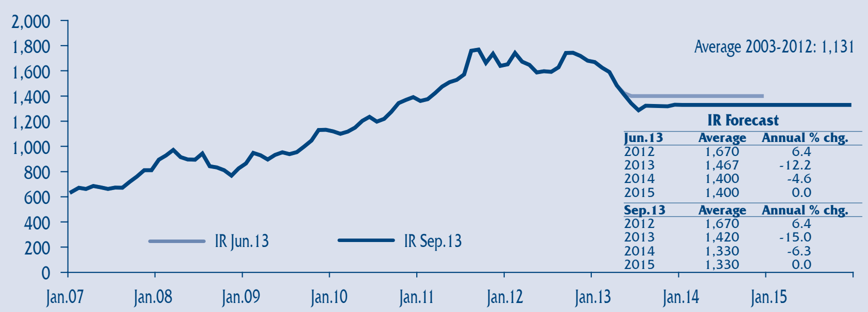
10 According to Barclays, the ETPs made net sales of gold for a total of 669 tons between January and August 2013, of which only 16.6 tons were liquidated in August. Net purchases of gold for a total of 0.8 tons were recorded during the last week of August.

Graph 51
GOLD: NON-COMMERCIAL CONTRACTS



Source: Bloomberg.

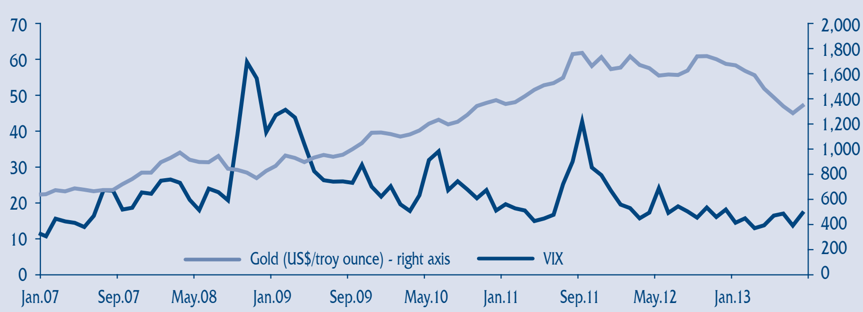
Graph 52
GOLD: JANUARY 2007 - DECEMBER 2015
(US$/tr.oz.)



IR Forecast

Jun.13	Average	Annual % chg.
2012	1,670	6.4
2013	1,467	-12.2
2014	1,400	-4.6
2015	1,400	0.0
Sep.13	**Average**	**Annual % chg.**
2012	1,670	6.4
2013	1,420	-15.0
2014	1,330	-6.3
2015	1,330	0.0

Graph 53
GOLD QUOTATION AND VIX INDEXS&P-500
(January 2007-August 2013)



Source: Bloomberg.

Trade balance

43. Given the higher deficit recorded in the first semester of the year and the lower terms of trade foreseen for this year with respect to our previous report, the **trade balance** for 2013 has been revised downwards from a surplus of US$ 675 million (Inflation Report of June) to a deficit of US$ 666 million in this report.

A trade surplus of US$ 310 million is projected for 2014 –a surplus of US$ 68 million was estimated in the previous report– due mainly to the higher growth foreseen in traditional exports, although this would be in part offset by an upward revision in imports of consumer goods and inputs mainly. The trade surplus in 2015 would increase to US$ 2.15 billion as a result of a slower growth in the volume and price of imports and the onset of mining projects.

Table 20
TRADE BALANCE
(Million US$)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
EXPORTS	**22,560**	**45,639**	**20,066**	**44,049**	**41,877**	**47,465**	**45,732**	**54,103**	**51,977**
Of which:									
Traditional products	17,081	34,247	14,829	32,605	30,699	35,115	33,674	40,499	38,739
Non-traditional products	5,298	11,047	5,091	11,095	10,860	11,989	11,726	13,214	12,879
Imports	**19,574**	**41,113**	**20,750**	**43,375**	**42,543**	**47,398**	**45,422**	**52,360**	**49,828**
Of which:									
Consumer goods	3,783	8,247	4,164	8,863	8,778	10,093	9,719	11,679	11,220
Inputs	9,146	19,256	9,595	20,123	19,583	21,541	20,249	23,567	21,882
Capital goods	6,519	13,356	6,907	14,158	13,958	15,392	15,095	16,731	16,355
TRADE BALANCE	**2,986**	**4,527**	**-684**	**675**	**-666**	**68**	**310**	**1,744**	**2,149**

IR: Inflation Report.
* Forecast.

44. In the first semester of 2013, exports dropped 11.1 percent compared to the same period in 2012, which is explained mainly by a decline in the level of export prices and lower volumes of exports of traditional products. However, the volume of exports showed signs of recovery in Q2 relative to Q1 mainly as a result of an increase in the volumes of exports of mining products, especially gold.

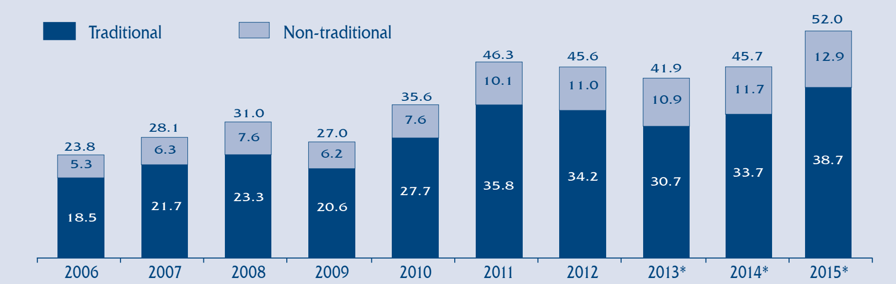
The projection of **exports** in 2013 has been revised downwards to around US$ 42 billion, which represents a reduction of 8.2 percent compared to 2012. This revision on the downside compared to our previous estimate reflects mainly the slower growth foreseen in the volume of exports due to lower shipments of traditional products, mainly fishmeal and gold, and also due to lower prices, especially in the case of exports of traditional products.

Table 21
TRADE BALANCE
(% change)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
1. Value:									
Exports	3.2	-1.4	-11.1	-3.5	-8.2	7.8	9.2	14.0	13.7
Traditional products	0.0	-4.4	-13.2	-4.8	-10.4	7.7	9.7	15.3	15.0
Non-traditional products	14.6	9.1	-3.9	0.4	-1.7	8.1	8.0	10.2	9.8
Imports	10.2	11.2	6.0	5.5	3.5	9.3	6.8	10.5	9.7
2. Volume:									
Exports	6.1	2.2	-7.3	-0.1	-2.2	8.7	11.3	13.4	12.7
Traditional products	4.7	0.4	-8.9	-0.9	-2.4	10.1	14.3	15.8	15.5
Non-traditional products	11.3	9.0	-2.1	2.2	-1.2	5.6	5.7	7.1	6.6
Imports	7.3	9.5	8.0	6.7	5.4	8.9	7.1	9.2	8.8
3. Price:									
Exports	-2.7	-3.3	-4.0	-3.4	-6.2	-0.9	-1.9	0.5	0.9
Traditional products	-4.4	-4.6	-4.7	-4.0	-8.2	-2.2	-4.0	-0.4	-0.4
Non-traditional products	3.0	0.3	-2.0	-1.7	-0.5	2.3	2.1	2.9	3.1
Imports	2.6	1.7	-1.8	-1.2	-1.8	0.3	-0.3	1.2	0.8

IR: Inflation Report.
* Forecast.

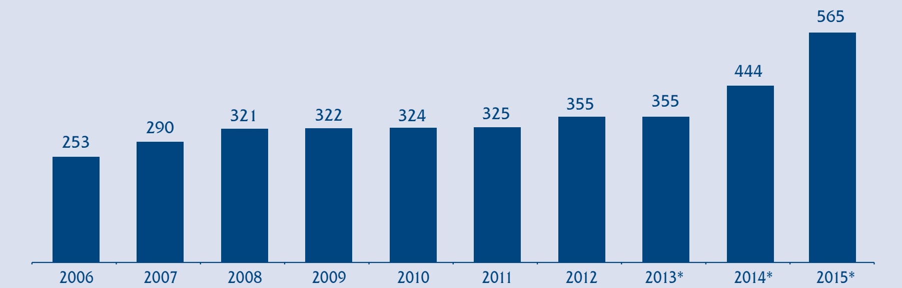
Graph 54
EXPORTS OF GOODS: 2006-2015
(Billion US$)



Memo:Total exports also includes other exports.
* Forecast.

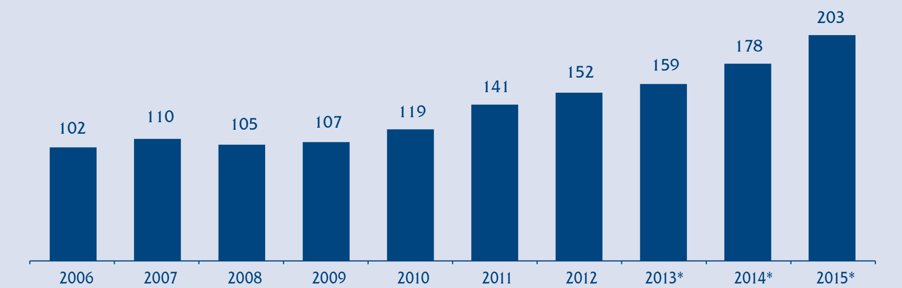
Exports in 2014 would amount to nearly US$ 46 billion –less than estimated in our June report– due to the lower prices of exports of traditional products. In 2015 exports would amount to US$ 52 billion, which would represent a nominal growth of 13.7 percent relative to 2014 mainly as a result of the effect of the new mining projects that would initiate operations (Toromocho, Las Bambas, and Constancia).

Graph 55
VOLUME OF COPPER EXPORTS: 2006-2015
(Index 1994=100)



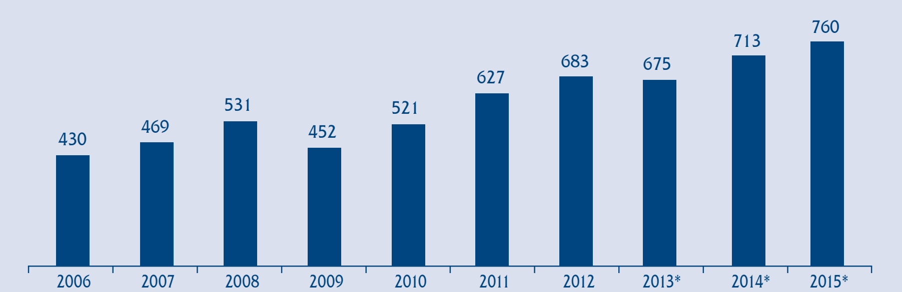
* Forecast.

Graph 56
VOLUME OF IRON EXPORTS: 2006-2015
(Index 1994=100)



* Forecast.

Graph 57
NON-TRADITIONAL EXPORTS VOLUME
(Index 1994=100)



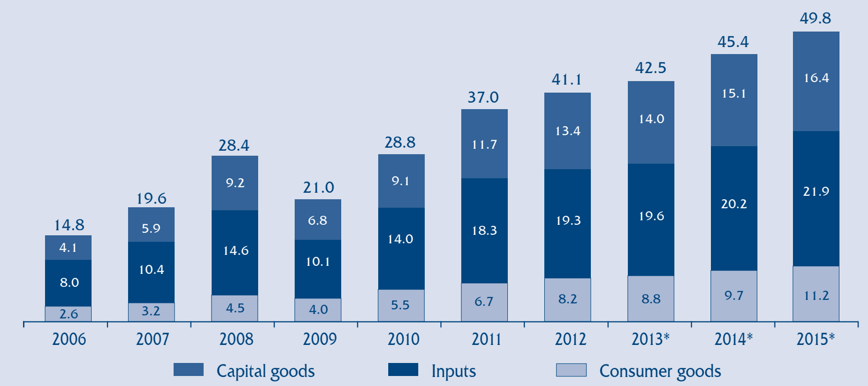
* Forecast.

45. On the other hand, the forecast of **imports** in 2013 has been revised down to around US$ 42 billion, which would represent an increase of 3.5 percent relative to 2012. The lower value of imports considered for this year compared to our previous Report results in a lower growth of the output and lower import prices.

Imports of goods would grow 5.4 percent in terms of volume in 2013 –a lower rate than the one considered in our previous Report (6.7 percent)– given that the volume of imports of inputs, consumer goods, and capital goods is foreseen to grow at a slower pace, in line with the evolution of manufacturing activity, and the revision of private consumption and private investment, respectively.

The level of imports in 2014 is projected to reach US$ 45 billion and US$ 50 billion in 2015. The volumes of imports in the forecast horizon would continue showing high growth rates (7.1 percent in 2014 and 8.8 percent in 2015), in line with the evolution of economic activity.

Graph 58
IMPORTS OF GOODS: 2006-2015
(Billion US$)



Memo: Total imports also includes other imports.
* Forecast.

Financial account

46. In Q2-2013 the **long-term financial account of the private sector** amounted to US$ 5.4 billion, which represents a flow equivalent to 10.0 percent of GDP. This amount was higher than the one registered in Q2 of the previous year due mainly to the financing operations associated with the issuance of bonds and to greater flows of direct investment. With this, the long term financial account of the private sector accumulated a flow US$ 11.0 billion of in the first half of the year.

Table 22
LONG-TERM FINANCIAL ACCOUNT OF THE PRIVATE SECTOR
(Million US$)

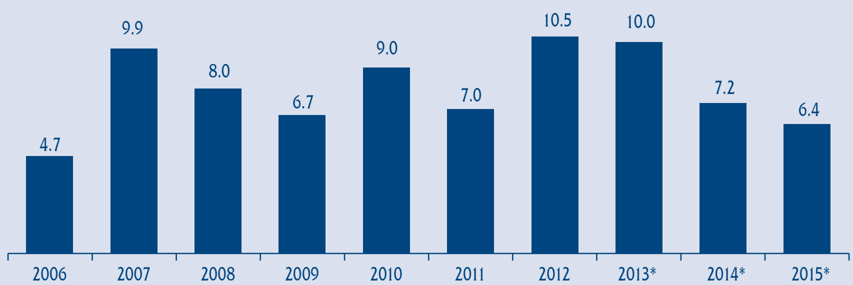
	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
1. ASSETS	**-614**	**-2,477**	**-751**	**-4,209**	**-3,067**	**-4,459**	**-4,352**	**-3,778**	**-3,577**
2. LIABILITIES	**8,794**	**18,712**	**11,727**	**21,008**	**18,451**	**16,566**	**15,096**	**15,175**	**14,493**
Foreign direct investment in the country	5,427	12,240	6,872	11,108	12,003	9,400	9,392	9,435	9,332
Non-financial sector	2,007	3,598	3,564	6,708	4,561	5,666	4,704	5,340	3,962
Long-term loans	*1,190*	*2,023*	*-97*	*1,904*	*518*	*2,026*	*2,022*	*1,828*	*1,601*
Portfolio investment	*818*	*1,575*	*3,661*	*4,804*	*4,043*	*3,640*	*2,682*	*3,513*	*2,361*
Financial sector	1,359	2,875	1,291	3,192	1,886	1,500	1,000	400	1,200
Long-term loans	*1,427*	*2,092*	*-237*	*1,692*	*208*	*892*	*424*	*200*	*1,000*
Portfolio investment	*-67*	*783*	*1,528*	*1,500*	*1,678*	*608*	*576*	*200*	*200*
3. NET FLOW	**8,180**	**16,236**	**10,976**	**16,799**	**15,383**	**12,106**	**10,744**	**11,397**	**10,916**
% GDP	*8.4*	*8.1*	*10.5*	*7.7*	*7.4*	*5.1*	*4.8*	*4.4*	*4.5*

IR: Inflation Report.
* Forecast.

In **2013** the long-term financial account of the private sector would be lower than estimated in our Report of June and would amount to US$ 15.3 thousand million. This lower estimate considers a lower external financing of the nonfinancial sector both in terms of loans and in terms of bonds issued abroad in a context of uncertainty in international financial markets and a possible increase in the cost of funding. These flows would be offset by lower capital outflows from local institutional investors.

Positive flows of US$ 10.7 billion and US$ 10.9 billion, equivalent to 4.8 and 4.5 percent of GDP, are projected for **2014** and **2015**, respectively. The downward revision is consistent with a lower external financing from the non-financial sector, which would continue to be seen until 2015. In addition, a moderation of the flows of foreign direct investment would also be observed during this period since the construction stage of some large investment projects would be completed in this period.

Graph 59
LONG-TERM EXTERNAL FINANCING OF THE PRIVATE SECTOR: 2006-2015 1/
(% GDP)



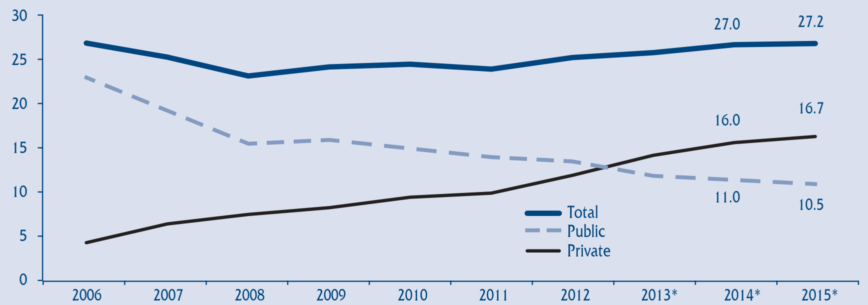
1/ Includes net foreign investments, portfolio investment and private sector's long-term disbursement.
* Forecast.

47. On the other hand, in Q2-2013 the **financial account of the public sector** showed a negative flow of US$ 1.42 billion. This balance is explained mostly by the amortization of the public debt (US$ 1.69 billion), which included the prepayment of US$ 1.23 billion to the Inter-American Development Bank (IDB). These operations were in part offset by transactions in the secondary market of bonds and resulted in a positive net flow of US$ 285 million.

A negative flow of US$ 422 million is foreseen for 2013. This amount would be higher than the one estimated in our Report of June due to resident agents' higher holdings of global bonds.

48. Thus, the balance of the medium- and long-term external debt would go from 25.2 percent of GDP in 2012 to 25.9 percent in 2013. The external indebtedness of the private sector would continue to show a rising trend in the forecast horizon, as a result of which for the first time the private debt would be higher than the public debt, since the latter would continue showing a downward path during 2014 and 2015. The external public debt, including local bonds held by non-residents, would decline from 13.2 percent of GDP in 2012 to 11.0 and 10.5 percent of GDP in 2014 and 2015, respectively.

Graph 60
MEDIUM- AND LONG-TERM EXTERNAL DEBT STOCK: 2006-2015
(% GDP)



* Forecast.

49. In Q2-2013, **short-term foreign capital flows** recorded a negative flow of US$ 191 million, which contrasted with the strong capital inflow (US$ 1.08 billion) observed in the same period in 2012. A negative flow of nearly US$ 1.4 billion is forecast for this year (capital inflows of US$ 1 billion were estimated in our previous report for the year).

50. In order to prevent excessive volatility in the foreign exchange market and continue reducing the economy's vulnerability to abrupt reductions of external financing, the Central Bank intervened in the foreign exchange market purchasing foreign currency for a total of US$ 840 million in Q2. Thus, international reserves at the end of August amounted to US$ 66.63 billion. This level of reserves represents

32.1 percent of GDP, covers approximately 7 times the amount of the short-term external debt, and backs up 96.9 percent of the financial system's total obligations with the private sector (total liquidity).

Table 23
NIR INDICATORS

	August		
	2003	**2008**	**2013**
Net International Reserves (NIR, million US$)	9 755	34,917	66,635
BCRP International Position (Million US$)	4,015	26,747	43,750
NIR / GDP (%) 1/	16.6	28.8	32.1
NIR / Short-term external debt (# of times) 2/	2.1	2.9	6.9
NIR / Total liquidity (%)	78.2	107.1	96.9

1/ Accumulated at the previous quarter.
2/ Includes short-term debt balance and amortizations in the next four quarters.

Graph 61
NET INTERNATIONAL RESERVES: 2006 - AUG.2013
(Million US$)

IV. Public Finances

51. The economic balance in the first half of 2013 shows a lower surplus than the one registered in the same period in 2012 (4.9 of GDP vs. 7.0 percent of GDP), which reflects the lower current revenues of the general government (down 0.8 percentage point) in a context of lower terms of trade and a slower growth of economic activity and higher non-financial expenditure (up 1.9 percentage points), especially current non-financial expenditure. As a result, the surplus of the last four quarters as of June amounted to 1.3 percent of GDP, a lower balance than the one recorded at end-2012 (2.2 percent of GDP).

Table 24
NON FINANCIAL PUBLIC SECTOR
(% GDP)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
1. General government current revenues 1/	**22.5**	**21.6**	**22.1**	**21.3**	**21.3**	**21.4**	**21.3**	**21.5**	**21.4**
Real % change	*6.2*	*7.2*	*1.8*	*3.5*	*2.4*	*6.8*	*6.6*	*7.5*	*7.5*
2. General government non-financial expenditure 2/	**15.0**	**18.6**	**16.3**	**19.6**	**20.0**	**19.8**	**20.2**	**20.0**	**20.4**
Real % change	*2.2*	*8.1*	*12.8*	*10.4*	*11.5*	*7.5*	*7.6*	*8.2*	*8.1*
Of which:									
Current	11.3	13.1	12.1	13.7	13.9	13.5	13.6	13.3	13.4
Real % change	*-0.7*	*5.4*	*10.5*	*9.9*	*10.1*	*4.5*	*4.3*	*5.2*	*5.1*
Gross capital formation	3.5	5.2	4.0	5.4	5.7	5.7	6.0	6.2	6.4
Real % change	*16.1*	*15.9*	*19.1*	*9.5*	*13.5*	*12.3*	*12.2*	*15.4*	*15.4*
3. Others	**0.5**	**0.3**	**0.3**	**0.0**	**0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
4. Primary balance (1-2+3)	**8.0**	**3.2**	**6.1**	**1.7**	**1.4**	**1.5**	**1.0**	**1.3**	**0.9**
5. Interests	**1.0**	**1.1**	**1.1**	**1.0**	**1.0**	**0.9**	**0.9**	**0.8**	**0.9**
6. Overall Balance	**7.0**	**2.2**	**4.9**	**0.7**	**0.4**	**0.6**	**0.1**	**0.5**	**0.0**
Memo: (billion S/.):									
1. General government current revenues	58	114	61	120	119	131	131	144	143
2. General government non-financial expenditure	39	98	45	111	112	122	124	134	136
3. Nominal GDP	259	526	275	565	562	614	613	671	669

1/ The central government includes the ministries, national universities, public agencies and regional governments. The general government has a wider coverage that includes the central government, social security, regulators and supervisors, government charity organizations and local governments.
2/ Includes accrued payments by Net payments of the Fuel Price Stabilization Fund.
* Forecast.
IR: Inflation Report.

The fiscal surplus has been revised down in the forecast horizon and is estimated to converge to a nil economic balance in 2015, in line with the scenario foreseen in the Revised Multiannual Macroeconomic Framework for 2013-2016.

The economic balance of 0.7 percent of GDP estimated for **2013** in our June Report has been revised down to 0.4 percent of GDP given that a lower growth of real revenue is expected due to the downward revision of GDP growth and the lower export prices foreseen, as well as due to the strong dynamism of investment in the general government.

Although the forecasts on the growth of revenue and expenditure in the general government for **2014** and **2015** are in line with the forecasts of our previous report, as a percentage of GDP these variables have been revised down from 0.6 to 0.1 percent of GDP and from 0.5 to 0 percent of GDP, respectively.

It is worth pointing out that the Financial Equilibrium Law passed this year establishes that the economic balance should show no deficit, which replaces the macro fiscal rules of the Fiscal Transparency and Accountability Act that established that the fiscal deficit should be lower than 1 percent of GDP and that the maximum increase in real expenditure in consumption was 4 percent.

Graph 62
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2006-2015
(% GDP)

Evolution of tax revenues

52. In **the first half of 2013 the current revenues of the general government** amounted to 22.1 percent of GDP, a figure 0.4 percentage points lower than the revenues obtained in the same period in 2012, which represents a real growth of 1.8 percent in these revenues. This balance results from a slight growth of tax revenues in real terms (0.6 percent) as a result of which tax revenues went from representing 17 percent of GDP in the first half of 2012 to representing 16.6 percent of GDP in the first half of 2013. In contrast, as a percentage of GDP, non-tax revenues increased from 5.4 percent of GDP in the first half of 2012 to 5.6 percent of GDP in 2013. The increase registered in social security contributions with a real growth of 12.3 percent stands out, offset by a real contraction of revenues from oil royalties, mining royalties, and the Special Mining Levy.

Table 25
CURRENT REVENUES OF THE GENERAL GOVERNMENT
(% GDP)

	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
TAX REVENUES	**17.0**	**16.4**	**16.6**	**16.1**	**16.1**	**16.2**	**16.3**	**16.3**	**16.3**
Income tax	8.1	7.1	7.2	6.7	6.5	6.7	6.5	6.7	6.5
Value added tax	8.3	8.4	8.4	8.4	8.5	8.4	8.6	8.5	8.6
Excise tax	0.9	0.9	1.0	1.0	1.0	1.0	1.0	0.9	1.0
Import duties	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other tax revenues	1.6	1.7	1.8	1.7	1.8	1.8	1.8	1.7	1.8
Tax returns	-2.1	-2.0	-2.1	-1.9	-2.0	-1.9	-2.0	-1.8	-1.9
NON-TAX REVENUES	**5.4**	**5.2**	**5.6**	**5.2**	**5.1**	**5.2**	**5.0**	**5.2**	**5.1**
TOTAL	**22.5**	**21.6**	**22.1**	**21.3**	**21.3**	**21.4**	**21.3**	**21.5**	**21.4**

* Forecast.
IR: Inflation Report.

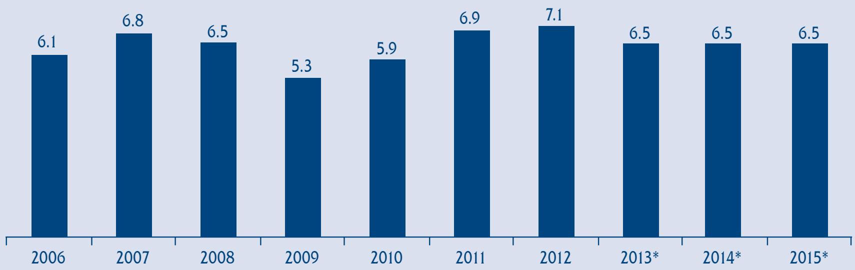
The real growth of the current revenues of the general government in **2013** has been revised downwards from 3.5 percent in our previous report to 2.4 percent in this report, which is mainly explained by the lower revenues expected from the income tax, especially from legal entities, in line with lower payments on account of income taxes from mining companies as a result of the lower international prices of metals. In spite of this, the ratio of current revenues-to-GDP remains at 21.3 percent of GDP. This aggregate has been revised downward by 0.1 percentage points for **2014** and **2015**, although it is expected to maintain a rising trend in the forecast horizon.

Graph 63
CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2006-2015
(% GDP)

53. Revenues from the **income tax** in the first half of 2013 amounted to 7.2 percent of GDP, 0.9 percentage points lower than the level recorded in the first half of 2012. Revenues from the income tax in the forecast horizon would amount to 6.5 percent of GDP, less than estimated in June, with lower revenues from the mining sector explaining this due to the lower prices of minerals, although this would be partially offset in the forecast horizon by higher

income taxes in a context in which a greater growth of formal employment is expected.

Graph 64
INCOME TAX: 2006-2015
(% GDP)

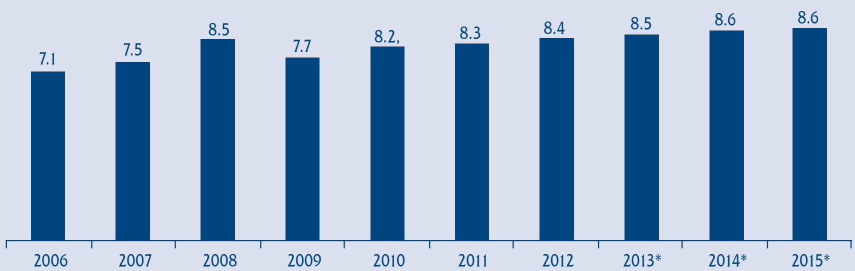


* Forecast.

54. On the other hand, in the first half of 2013, revenues from the **value-added tax** (VAT) increased 4.7 percent in real terms as a result of a 7.6 percent increase in revenues from the domestic VAT and a 1.0 percent increase in revenues from the external VAT.

In **2013** revenues from the VAT are expected to increase to 8.5 points of GDP, which represents a growth of 5.2 percent in real terms. In the period **2014-2015** these revenues are expected to increase by 0.1 percentage points of GDP, which considers the effect of measures implemented to broaden the tax base.

Graph 65
VALUE ADDED TAX: 2006-2015
(% GDP)



* Forecast.

55. In the first semester of 2013, revenues from the **excise tax** (ISC) recorded a positive growth rate of 11.5 percent in real terms. This increase was driven primarily by the growth of the excise tax on fuels (25.0 percent in real terms), while the excise tax on other items showed an increase of 1.8 percent in real terms.

In **2013**, the revenues from the excise tax would show a growth of 9.0 percent in real terms and reach a level of 1.0 percent of GDP as a result of higher revenues resulting from modifications in the rates applicable to alcoholic beverages, among other factors. In 2014 and 2015 the revenues from this tax would remain at 1.0 percent of GDP.

Evolution of government expenditure

56. In the **first half of 2013** the non-financial expenditure of the general government was equivalent to 16.3 percent of GDP, which represented an increase of 1.3 percentage points compared to the level of the non-financial expenditure of the general government in the same period of 2012. This result reflects the faster pace of non-financial expenditure observed in Q2 (real growth of 16.8 percent), especially in terms of capital spending (real growth of 26.7 percent).

Table 26
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT
(Real % change)

	2012					2013	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
CURRENT EXPENDITURE	**-2.9**	**1.5**	**2.7**	**16.9**	**5.4**	**7.6**	**13.2**
National government	-11.5	-3.9	-2.3	21.1	1.8	6.2	15.1
Regional governments	10.8	11.7	9.9	10.7	10.7	11.5	13.4
Local governments	34.6	15.7	19.0	6.3	16.7	8.2	4.7
CAPITAL EXPENDITURE	**34.2**	**1.1**	**26.4**	**11.9**	**15.3**	**10.3**	**26.7**
National government	-31.8	-39.6	2.4	8.2	-13.0	20.0	21.2
Regional governments	44.0	41.9	43.4	33.0	38.3	15.3	36.2
Local governments	213.1	74.3	44.0	5.1	38.3	2.0	26.4
TOTAL EXPENDITURE	**3.3**	**1.4**	**8.6**	**15.1**	**8.1**	**8.2**	**16.8**
National government	-14.4	-12.4	-1.5	18.0	-1.2	7.7	16.1
Regional governments	17.0	19.0	18.7	19.0	18.5	12.4	20.0
Local governments	87.1	39.2	31.6	5.5	28.0	5.1	15.6

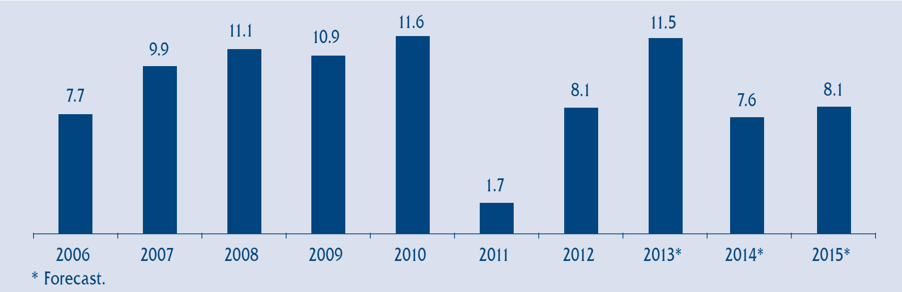
57. In **2013** the non-financial expenditure of the general government is estimated to grow by a real 11.5 percent, higher than foreseen in our June report (10.4 percent), as a result of the expenditure associated with the salary increases approved in the 2013 Budget, as well as of greater public investment aimed at boosting economic activity. Thus, in 2013 this variable would show a level equivalent to 20.0 percent of GDP, a higher ratio than the one recorded in 2012 (18.6 percent). As a percentage of GDP, this aggregate is expected to follow a rising path in the forecast horizon and to reach a level of 20.4 percent of GDP in 2015 as a result of the increase in capital spending, especially in the national government.

Table 27
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT
(% GDP)

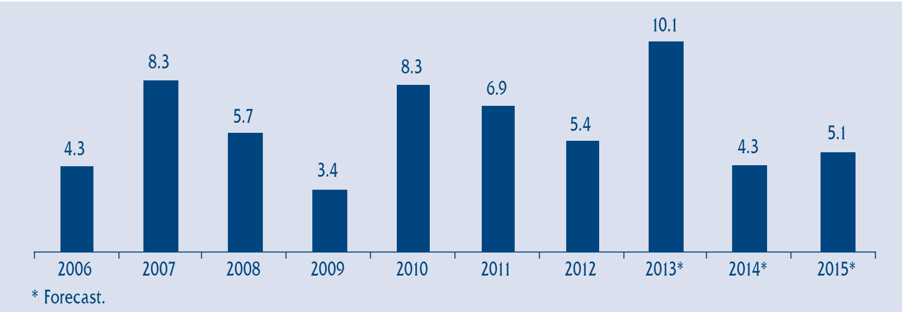
	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
CURRENT EXPENDITURE	**11.3**	**13.1**	**12.1**	**13.7**	**13.9**	**13.5**	**13.6**	**13.3**	**13.4**
National government	7.4	8.7	7.9	9.1	9.3	8.9	9.1	8.8	8.9
Regional governments	2.3	2.6	2.5	2.7	2.7	2.7	2.7	2.7	2.7
Local governments	1.6	1.8	1.7	1.9	1.9	1.9	1.8	1.8	1.7
CAPITAL EXPENDITURE	**3.6**	**5.5**	**4.2**	**5.9**	**6.1**	**6.3**	**6.6**	**6.8**	**7.0**
National government	1.2	1.9	1.4	1.9	2.2	2.2	2.5	2.3	2.6
Regional governments	0.8	1.3	1.0	1.4	1.4	1.5	1.5	1.6	1.6
Local governments	1.6	2.4	1.8	2.5	2.5	2.7	2.6	2.9	2.8
TOTAL EXPENDITURE	**15.0**	**18.6**	**16.3**	**19.6**	**20.0**	**19.8**	**20.2**	**20.0**	**20.4**
National government	8.6	10.6	9.4	11.1	11.5	11.1	11.5	11.1	11.5
Regional governments	3.1	3.9	3.5	4.1	4.2	4.2	4.2	4.3	4.3
Local governments	3.2	4.2	3.5	4.4	4.4	4.5	4.4	4.7	4.5

* Forecast.
IR: Inflation Report.

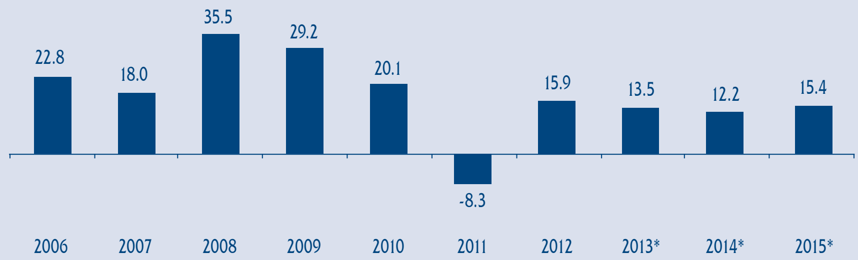
Graph 66
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2006-2015
(Real % change)



Graph 67
NON-FINANCIAL CURRENT EXPENDITURE OF THE GENERAL GOVERNMENT: 2006-2015
(Real % change)



Graph 68
GROSS CAPITAL FORMATION OF THE GENERAL GOVERNMENT: 2006-2015
(Real % change)

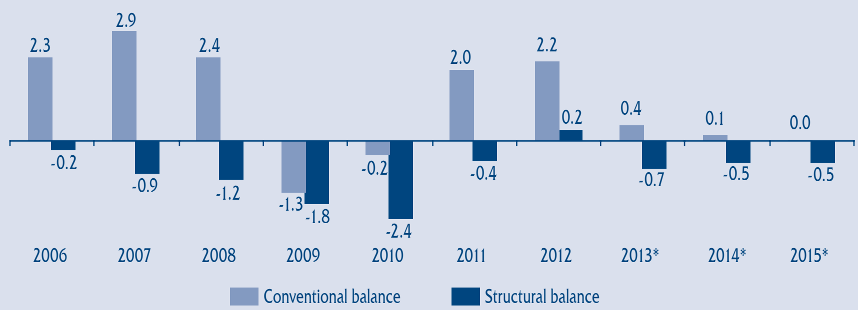


* Forecast.

Structural economic balance and fiscal impulse

58. In **2013** the **structural economic balance**, indicator of the long-term fiscal position that isolates the effects of the business cycle and the price effects of the major mining exports from the conventional economic balance, would show a rate of -0.7 percent of GDP, associated with higher spending in the general government. In 2014 and 2015 the structural deficit would decline by -0.5 percent of GDP.

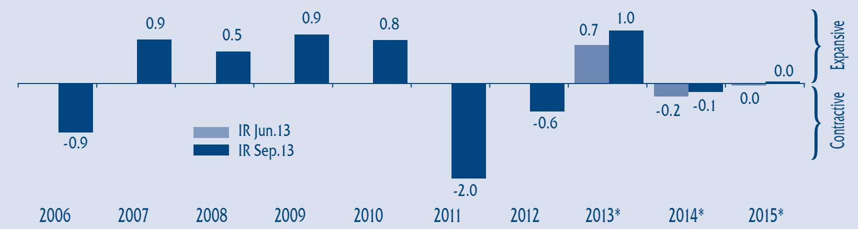
Graph 69
CONVENTIONAL AND STRUCTURAL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2006-2015
(% GDP)



* Forecast.

59. The variation in the structural balance determines the **fiscal impulse**. This indicator allows us to identify changes in the fiscal position isolating the effects of the economic cycle. In 2013 the fiscal impulse would be 1.0 percent (expansionary position), in line with higher government investment and with the salary increases that would be observed in the year, while in 2014 the fiscal impulse would be -0.1 percent of GDP, slightly lower than forecast in our June report, and would converge thereafter to zero in 2015.

Graph 70
FISCAL IMPULSE 1/: 2006-2015
(% GDP)



1/ The fiscal impulse is the change in the structural balance, which is an indicator of how the fiscal position affects the economic cycle.
* Forecast.

Financial requirements and the non-financial debt of the public sector

60. The lower surplus estimated in the forecast horizon would reduce the available sources of resources for the government, which would result in a lower accumulation of deposits than the one considered in the Inflation Report of June.

Table 28
FINANCIAL REQUIREMENTS OF THE NON-FINANCIAL PUBLIC SECTOR AND ITS FINANCING 1/
(Million S/.)

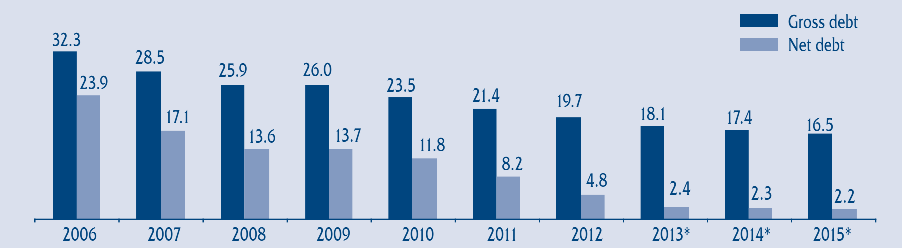
	2012		2013*			2014*		2015*	
	S1	Year	S1	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13	IR Jun.13	IR Sep.13
I. USES	**-15,354**	**-6,968**	**-12,258**	**-780**	**1,180**	**-398**	**2,884**	**2,337**	**6,215**
1. Amortization	2,673	4,342	1,286	3,038	3,221	3,327	3,782	5,697	6,289
a. External debt	1,917	3,105	809	1,825	1,707	2,643	2,724	2,352	2,433
b. Internal debt	756	1,237	477	1,213	1,513	683	1,058	3,346	3,856
Of which:									
Recognition bonds	234	509	16	190	206	168	376	168	386
2. Overall balance (negative sign indicates surplus)	-18,027	-11,310	-13,544	-3,818	-2,041	-3,724	-898	-3,360	-74
II. SOURCES	**-15,354**	**-6,968**	**-12,258**	**-780**	**1,180**	**-398**	**2,884**	**2,337**	**6,215**
1. External	365	1,175	235	2,303	2,033	2,633	3,062	3,655	4,909
2. Bonds 2/	3,409	4,378	592	1,081	2,048	1,762	2,925	1,674	2,477
3. Internal 3/	-19,128	-12,521	-13,084	-4,163	-2,901	-4,793	-3,103	-2,992	-1,171
Memo:									
NFPS gross debt									
Billion S/.	99.3	103.8	99.2	100.1	101.7	103.7	106.4	105.8	110.3
% GDP	19.5	19.7	18.3	17.7	18.1	16.9	17.4	15.8	16.5
NFPS net debt 4/									
Billion S/.	20.4	25.4	11.4	13.4	13.3	11.8	14.2	8.7	14.4
% GDP	4.0	4.8	2.1	2.4	2.4	1.9	2.3	1.3	2.2

1/ The effect of exchanging treasury bonds for longer-maturity bonds, as well as the effect of placements made for the prepayment of both internal and external operations has been isolated in the case of amortization and disbursements.
2/ Includes domestic and external bonds.
3/ A positive sign indicates a withdrawal or overdraft and a negative sign indicates higher deposits.
4/ Defined as the difference between gross public debt and NFPS deposits.
* Forecast.
IR: Inflation Report.

It is worth pointing out that the debt management operations programmed to be carried out in 2013, which comprise the prepayment of external debt for a total of US$ 1.68 billion and the issuance of sovereign bonds for a total of S/. 3.09 billion are not included in these financial requirements.

The gross debt and the net debt of the non-financial public sector at June 2013 amounted to 18.3 percent and 2.1 percent of GDP, respectively. Given the positive balances in public finances, the expected increase of economic activity and the increase in public sector deposits will determine whether the gross debt and the net debt will continue to decline and thus represent 16.5 percent and 2.2 percent of GDP, respectively, in 2015.

Graph 71
NON-FINANCIAL DEBT OF THE PUBLIC SECTOR: 2006-2015
(% GDP)



* Forecast.

V. Monetary Policy

61. The BCRP has maintained the monetary policy interest rate at 4.25 percent since May 2011. However, as from May 2013 the BCRP has loosened reserve requirements to ensure an orderly evolution of liquidity and credit in the financial system and to preserve in this way financial conditions amid a context of greater uncertainty about the magnitude and the beginning of the withdrawal of quantitative easing (QE) by the U.S. Federal Reserve through the reduction of its asset purchase program.

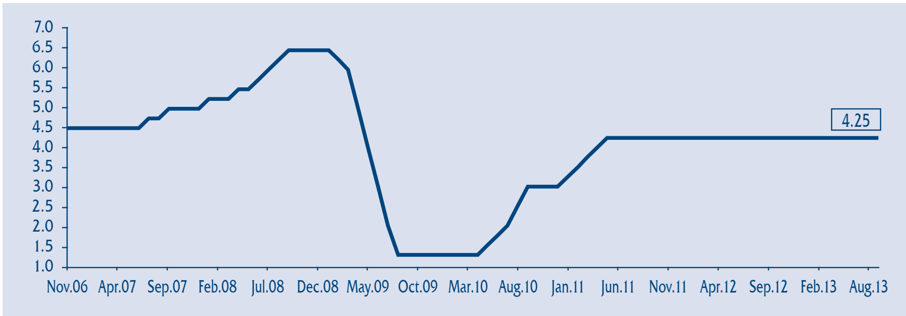
    Like in other emerging economies, a lower inflow of capital and higher expectations of a strengthening of the dollar were observed since mid-May due to the possibility of a gradual reduction of QE by the Federal Reserve. These events generated increased risk perception in the private sector about debts in dollars, which brought about an increase in the demand for credit in soles and favored a more rapid process of de-dollarization of credit.

    At the same time, however, a greater preference for saving in dollars has been observed, particularly in the case of legal entities, which has reflected in a rapid slowdown of the growth of deposits in soles and thus in a lower availability of sources for the expansion of credit in this currency.

    In this context, the Central Bank has been adopting measures to loosen reserve requirements in national currency to provide banks with liquidity in soles in order to finance the expansion of credit in this currency. Lowering the mean rate of reserve requirements provides additional sources for the growth of credit and allows accommodating this increased demand for credit without generating upward pressures on interest rates in soles.

    In recent months the policy communiqués of the Board of the Central Bank have highlighted that expectations of inflation are within the target range and that the 12-month inflation rate will return to the target range in the coming months as food supply conditions improve, as well as that the domestic context is characterized by an economic growth close to the economy's potential and that uncertainty persists in the international financial scenario.

Graph 72
BCRP REFERENCE INTEREST RATE
(%)



SUMMARY OF BCRP MONETARY POLICY COMMUNIQUÉS

June: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference rate at 4.25 percent.

This decision is based on the fact that the rate of inflation is within the target range in a context of economic growth close to the economy's potential level of growth. The Board oversees the inflation forecasts and inflation determinants to consider future adjustments in monetary policy instruments.

July: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference rate at 4.25 percent.

This decision is based on the fact that the rate of inflation is within the target range in a context of economic growth close to the economy's potential level of growth and international financial uncertainty. The Board oversees the inflation forecasts and inflation determinants to consider future adjustments in monetary policy instruments.

August: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference rate at 4.25 percent.

This decision is based on that economic growth in the country is close to the economy's potential level of growth, inflation expectations remain anchored within the target range, uncertainty about international financial conditions persists, and the rate of inflation has been affected by temporary factors on the side of supply. The Board oversees the inflation forecasts and inflation determinants to consider future adjustments in monetary policy instruments.

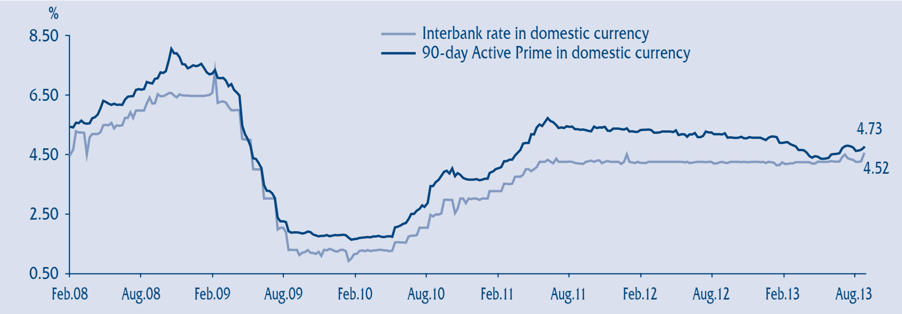
September: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference rate at 4.25 percent.

This decision is based on that economic growth in the country is close to the economy's potential level of growth, inflation expectations remain anchored within the target range, the rate of inflation has been affected by temporary factors on the side of supply, and international financial conditions are still uncertain, even though some positive signals have been observed in the developed economies. The Board oversees the inflation forecasts and inflation determinants to consider future adjustments in monetary policy instruments.

Interest rates in domestic currency

62. The interest rates on operations in domestic currency declined slightly compared to end-2012. Thus, the 90-day corporate prime rate in soles registered a rate of 4.73 percent in August.

Graph 73
90-DAY CORPORATE PRIME RATE VERSUS INTERBANK OVERNIGHT RATE IN DOMESTIC CURRENCY: FEB.08 - AUG.13



63. The lending rates in domestic currency showed lower levels than at end-2012: in August the interest rate for corporate loans was 5.7 percent, the interest rate for loans to large businesses was 7.0 percent, the rate for loans to medium-sized companies was 10.8 percent, and the rate for loans to small companies was 21.4 percent. Moreover, the rate for consumer loans was 41.8 percent and the rate for mortgage loans was 9.3 percent.

Table 29
INTEREST RATE BY TYPE OF LOANS 1/
(%)

	Domestic currency					
	Corporate	Large Companies	Medium-sized enterprises	Small businesses	Consumer	Mortgages
Dec.10	4.6	5.9	10.3	23.3	40.7	9.3
Dec.11	6.0	7.4	11.2	23.2	38.5	9.4
Mar.12	6.1	7.0	11.2	23.4	35.6	9.4
Jun.12	6.0	7.3	11.2	23.1	34.9	9.3
Sep.12	5.7	7.5	11.1	22.9	38.0	8.9
Dec.12	5.8	7.4	11.0	22.5	41.2	8.8
Mar.13	5.8	7.4	10.8	22.0	39.3	9.2
Apr.13	5.4	7.2	10.7	21.9	40.7	9.1
May.13	5.4	7.2	10.8	21.7	41.9	9.0
Jun.13	5.3	7.2	10.6	21.2	41.3	9.1
Jul.13	5.4	7.1	10.5	21.0	42.0	9.2
Aug.13	5.7	7.0	10.8	21.4	41.8	9.3
	Accumulated change (bps)					
Aug.13-Jun.13	39	-18	23	21	49	23
Aug.13-Mar.13	-10	-40	1	-63	256	11
Aug.13-Dec.12	-9	-33	-13	-104	67	58

1/ Annual active interest rates on the operations carried out in the last 30 working days.
Source: SBS.

64. The deposit rates in domestic currency showed a mixed conduct. The rate on 30-day deposits maintained the same level it had at the close of 2012, whereas the rate on 181-day to 360-day deposits decreased.

Table 30
INTEREST RATES IN NUEVOS SOLES
(%)

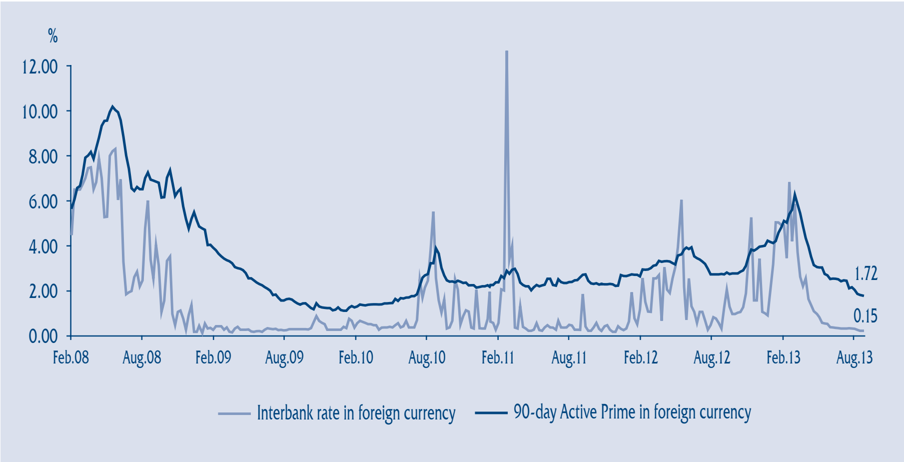
	Deposits up to 30 days	Rate on 31 to 180-day term deposits	Rate on 181 to 360-day term deposits
Dec.10	2.2	2.9	3.8
Dec.11	3.9	4.1	4.7
Mar.12	3.7	3.9	4.5
Jun.12	3.7	3.9	4.3
Sep.12	3.6	3.8	4.2
Dec.12	3.6	3.8	4.2
Mar.13	3.1	3.6	4.1
Apr.13	3.1	3.5	4.0
May.13	3.2	3.4	3.9
Jun.13	3.3	3.4	3.9
Jul.13	3.6	3.4	3.9
Aug.13	3.6	3.4	3.8
Accumulated change (bps)			
Aug.13-Jun.13	25	2	-5
Aug.13-Mar.13	47	-18	-25
Aug.13-Dec.12	-3	-35	-34

This evolution of the interest rates in domestic currency shows that monetary conditions in soles remain stable, as foreseen in our Inflation Report of June 2013. The recent reserve requirement measures that provide liquidity to banks should also contribute to maintain the interest rates in soles at levels compatible with the monetary policy reference rate and thereby contribute to maintain accommodative monetary conditions in soles.

Interest rates in foreign currency

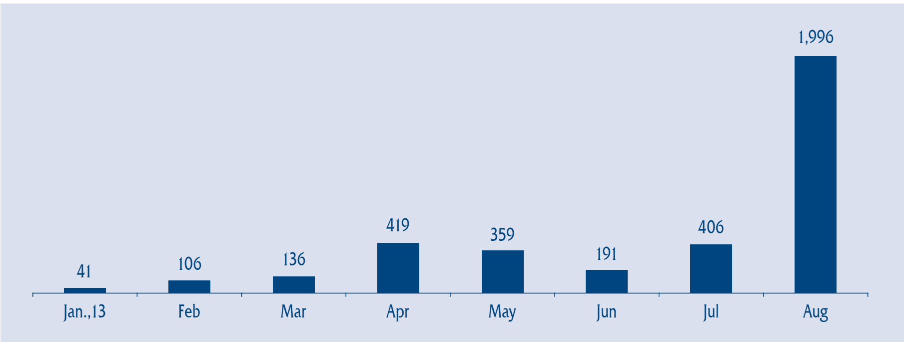
65. On the other hand, the interest rates on operations in foreign currency have declined in most cases, reflecting banks' greater availability of liquidity in foreign currency associated with banks' increased purchases of dollars this quarter (US$ 2.99 billion). Thus, the corporate prime interest rate declined 74 basis points since June to a level of 1.72 percent. Moreover, the interbank interest rate in foreign currency registered an average level of 0.15 percent in August, a level lower by 12 basis points than the average level observed at the end of Q2.

Graph 74
90-DAY CORPORATE PRIME RATE VERSUS INTERBANK OVERNIGHT RATE IN FOREIGN CURRENCY: FEB.08 - AUG.13



This greater availability of liquidity in foreign currency that banks have has allowed them to reduce their short-term liabilities by US$ 535 million and to accumulate average overnight deposits at the Central Bank for a total of US$ 2.00 billion in August.

Graph 75
OVERNIGHT DEPOSITS IN MILLION US$
(Period average)



66. Compared with end-2012, the lending interest rates for operations in foreign currency show mixed trends. The rates for consumer loans and mortgages have registered substantial increases, which reflect the macro prudential measures adopted by the SBS and the BCRP, whereas the interest rates for corporate loans have shown a downward trend.

Table 31
MACROPRUDENTIAL MEASURES ADOPTED BY THE SBS AND THE BCRP

Superintendence of Banks, Insurance Companies, and Administrators of Private Pension Funds	
Nov.12	Modify capital requirements according to the type of credit – consumer, mortgage, and vehicle loans-. The capital requirement for mortgage loans are higher since a threshold (credit respect to property value), for mortgage loans in US dollars this threshold are lower.
Central Reserve Bank of Peru	
Jan.13	Increase in the rate of reserve requirements in dollars in 75 basis points.
Feb.13	Increase in the rate of reserve requirements in dollars in 100 basis points.
Mar.13	Increase by 75 (150) bps the rate of reserve requirements in dollars if the balance of the mortgage loan and the car loan in this currency exceeds by 1.1 (1.2) times the balance as of February 2013, or 20% (25%) of the regulatory capital at end-2012, whichever amount is higher.
Mar.13	Increase in the rate of reserve requirements in dollars in 50 basis points.
Apr.13	Increase in the rate of reserve requirements in dollars in 25 basis points.

Table 32
INTEREST RATE BY TYPE OF LOANS 1/
(%)

	Foreign currency					
	Corporate	Large Companies	Medium-sized enterprises	Small businesses	Consumer	Mortgages
Dec.10	3.3	5.5	8.6	14.2	19.4	8.1
Dec.11	3.0	5.4	8.9	15.0	22.0	8.2
Mar.12	3.8	5.7	8.9	16.4	23.0	8.2
Jun.12	4.0	6.1	8.7	15.2	22.9	8.0
Sep.12	3.8	5.8	9.2	15.6	23.6	8.0
Dec.12	4.1	6.4	9.0	15.5	22.4	8.0
Mar.13	4.6	7.5	10.1	14.8	24.1	8.2
Apr.13	4.1	7.0	9.2	14.4	24.1	8.3
May.13	3.5	6.3	9.2	14.5	24.3	8.3
Jun.13	2.9	6.2	9.2	14.0	25.1	8.6
Jul.13	3.2	6.2	8.9	13.8	25.3	8.5
Aug.13	3.2	6.1	8.6	13.6	25.7	8.4
Accumulated change (bps)						
Aug.13-Jun.13	30	-14	-62	-35	58	-18
Aug.13-Mar.13	-140	-141	-151	-115	156	21
Aug.13-Dec.12	-88	-31	-40	-188	330	40

1/ Annual active interest rates on the operations carried out in the last 30 working days.
Source: SBS.

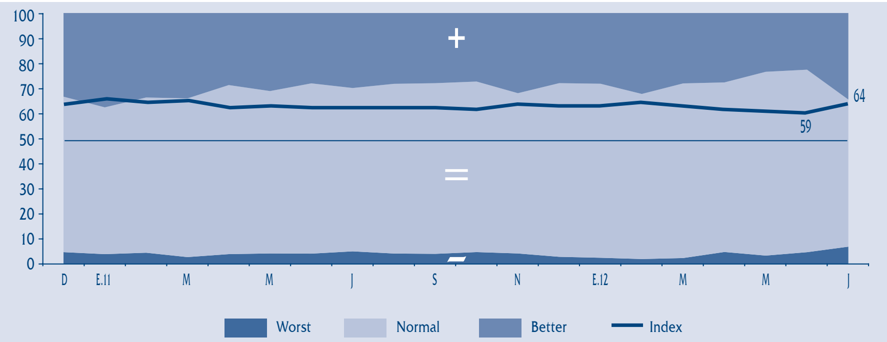
Compared with the close of Q2, a reduction of between 3 and 17 basis points is observed in all the deposit interest rates in foreign currency.

Table 33
INTEREST RATES IN US DOLLARS
(%)

	Deposits up to 30 days	Rate on 31 to 180-day term deposits	Rate on 181 to 360-day term deposits
Dec.10	0.9	1.2	1.7
Dec.11	0.7	1.0	1.6
Mar.12	1.3	1.2	1.6
Jun.12	1.7	1.2	1.6
Sep.12	0.8	1.2	1.6
Dec.12	1.8	1.3	1.7
Mar.13	2.6	1.3	1.7
Apr.13	1.4	1.4	1.7
May.13	0.7	1.5	1.7
Jun.13	0.4	1.3	1.7
Jul.13	0.4	1.1	1.7
Aug.13	0.4	1.1	1.6
Accumulated change (bps)			
Aug.13-Jun.13	-3	-17	-3
Aug.13-Mar.13	-224	-21	-2
Aug.13-Dec.12	-141	-18	-1

The reduction of the lending interest rates for corporate loans has reflected in an improvement of the perception about access to credit in August in comparison with the previous months.

Graph 76
PERCEPTION ABOUT ACCESS TO CREDIT

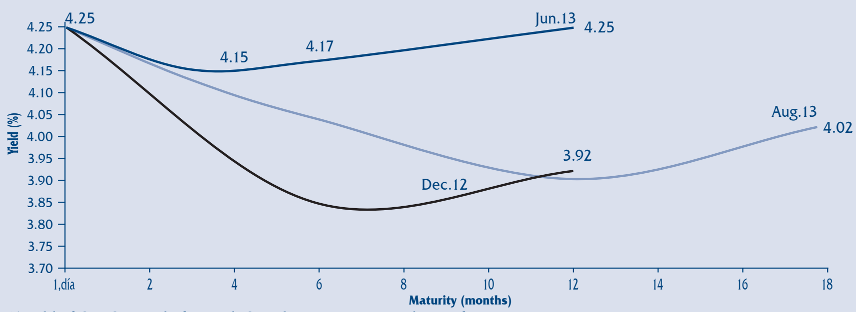


Monetary operations

67. The operations of the Central Bank were aimed mainly at maintaining adequate levels of liquidity and at ensuring the flow of operations in the money market, in a context of lower availability of liquidity in banks, especially in soles, due to the increased demand for credit in this currency. With this aim, the Central Bank made auctions of 1-day repos to inject liquidity to the banking system and reduced the pace of placements of certificates of deposit. Between June and August 2013, the BCRP allowed Certificates of Deposit (CDBCRP) for a net total

of S/. 4.24 billion to mature. These operations were carried out mainly in August (S/. 2.39 billion). The yield curve of CDBCRP continued reflecting lower interest rates than the policy interest rate for maturities of 6 to 18 months.

Graph 77
YIELD CURVE OF CENTRAL BANK SECURITIES 1/



1/ Yield of CDBCRP end of period. One day rate corresponds to reference rate.

As a result of these operations, the share of BCRP instruments relative to its total liabilities decreased. The share of BCRP monetary instruments declined from representing 20.0 percent of the international reserves in June to representing 13.7 percent in August 2013, while the share of required reserves increased from 28.1 to 29.4 percent, due mainly to banks' higher deposits in domestic currency, which increased from 16.4 to 20.0 percent of international reserves. Public sector deposits continued to be the main source of sterilization of foreign exchange interventions, with a share of 36.2 percent of the total liabilities of the BCRP.

Table 34
SIMPLIFIED BALANCE SHEET OF THE BCRP
(As % of Net International Reserves)

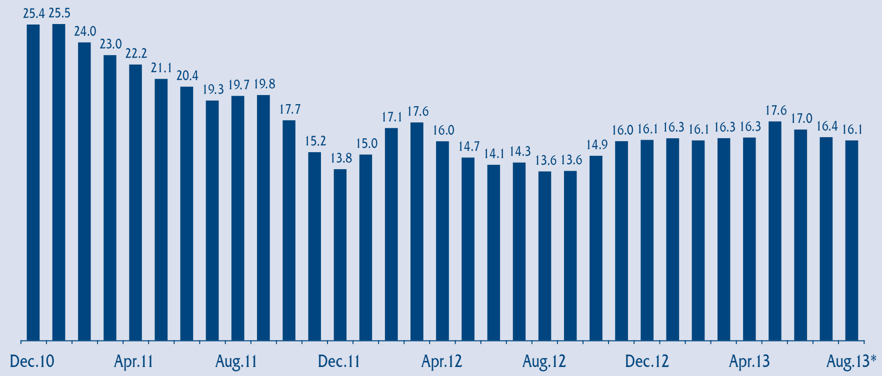
Net assets	**Dec.12**	**Jun.13**	**Aug.13**
I. Net International Reserves	100% (US$ 63,991 mills.)	100% (US$ 66,683 mills.)	100% (US$ 66,635 mills.)
Net liabilities			
II. Total public sector deposits	**36.4%**	**36.7%**	**36.2%**
In domestic currency	23.6%	22.4%	21.0%
In foreign currency	12.8%	14.3%	15.2%
III. Total reserve requirements	**27.8%**	**28.1%**	**29.4%**
In domestic currency	12.1%	11.7%	9.4%
In foreign currency 1/	15.7%	16.4%	20.0%
IV. BCRP Instruments	**17.7%**	**20.0%**	**13.7%**
CD BCRP	12.3%	15.1%	12.3%
CDR BCRP	0.0%	1.3%	1.4%
Term deposits	5.5%	3.6%	0.0%
V. Currency	**19.0%**	**17.5%**	**17.5%**
VI. Others	**-0.9%**	**-2.2%**	**3.2%**

1/ Includes banks' overnight deposits at the Central Bank.

Currency in circulation

68. Between June and August 2013, the mean currency grew at an annual rate of 16.2 percent, in line with the evolution of economic activity in the country. Currency in circulation in Q3 and Q4 is expected to grow at similar rates as in the previous quarters, reflecting the evolution foreseen in economic activity.

Graph 78
AVERAGE CURRENCY IN CIRCULATION
(% change respect to the similar period of previous year)



* Preliminary.

Reserve requirements

69. Since mid-May, the United States Federal Reserve has been showing signs that it could start reducing monetary stimulus by tapering its asset purchase program. The greater financial volatility this has generated has mainly affected the emerging economies, which show a widespread weakening of their currencies, a lower demand for assets in domestic currency, and a fall in the prices of their main raw materials.

In the Peruvian economy, these higher expectations of depreciation have led economic agents –especially local agents– to restructure their portfolio of net assets in order to minimize exchange rate risks. As a result, the preference for deposits in dollars has increased –total obligations subject to required reserves grew 5.3 percent in August and 4.1 percent in July– and there has been a greater demand for credit in domestic currency (the latter grew 1.9 percent in July while credit in foreign currency grew 0.5 percent in the same month). In response to this situation, the Central Bank has been lowering reserve requirements in domestic currency to preserve the dynamism of the credit market and also to contribute to the process of financial de-dollarization.

Thus, effective as from May 2013, the BCRP increased the limit of external liabilities and bonds with maturities of over 3 years not subject to reserve requirements from 2.2 to 2.3 times the regulatory capital in order to promote an adequate level of funding and lead banks to use greater long-term financing in soles and support in this way long term credit in soles.

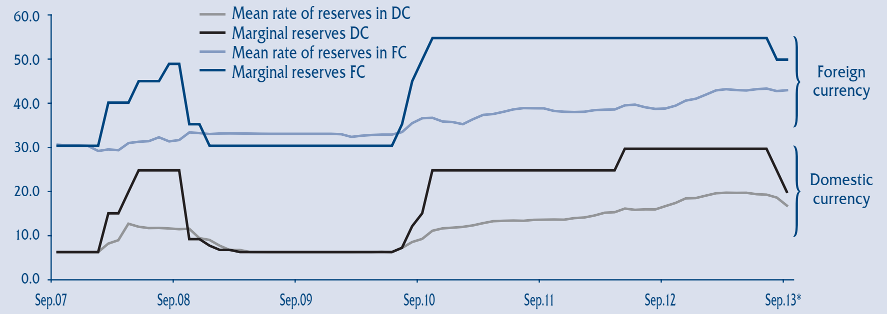
With the aim of preserving financing conditions in soles, the BCRP established since June a mean maximum rate of reserve requirements of 20 percent in national currency as a result of which liquidity for nearly S/. 500 million soles was provided to the financial system. In addition, effective as from August, the BCRP reduced the mean maximum rate of reserve requirements in national currency to 19 percent and marginal reserve requirements from 30 to 25 percent, which allowed to release liquidity for around S/. 1 billion.

As from September, the BCRP continued implementing measures aimed at releasing reserve requirements funds in domestic currency: the mean maximum rate of reserve requirements was lowered from 19 to 17 percent and the rate of marginal reserves in soles was lowered from 25 to 20 percent, which allowed the Central Bank to inject S/. 2 billion more into the financial system.

As regards reserves in foreign currency, as from June the mean maximum rate of reserves was set at 45 percent and the rate of marginal reserves was lowered from 55 to 50 percent, which allowed releasing reserve funds for a total of US$ 150 million. Additionally, the rate of required reserves for liabilities and short-term bonds was lowered from 60 to 50 percent, the rate of required reserves for foreign trade liabilities was lowered from 25 to 20 percent, and the limit of foreign trade obligations subject to a lower rate was increased, all of which would release funds for a total of US$ 170 million. The latter measures would reduce banks' cost of external financing.

With these measures, the mean rate of required reserves in national currency declined from 20.0 to 17.0 percent in September. Moreover, the mean rate of required reserves in foreign currency, which in June was 43.4 percent, is expected to decline to 43.2 percent in September.

Graph 79
DOMESTIC AND FOREIGN CURRENCY RESERVE RATIOS
(As percentage of total obligations subject to legal requeriments)



* Preliminary.

It is worth pointing out that reserve requirement measures help banks to maintain adequate levels of liquidity, promoting an orderly evolution of credit and reducing the financial system's vulnerability to potential scenarios of foreign capital outflows. In addition, since they reduce (increase) the cost of financial intermediation, reserve requirements also contribute to decrease (increase) the interest rates of credit.

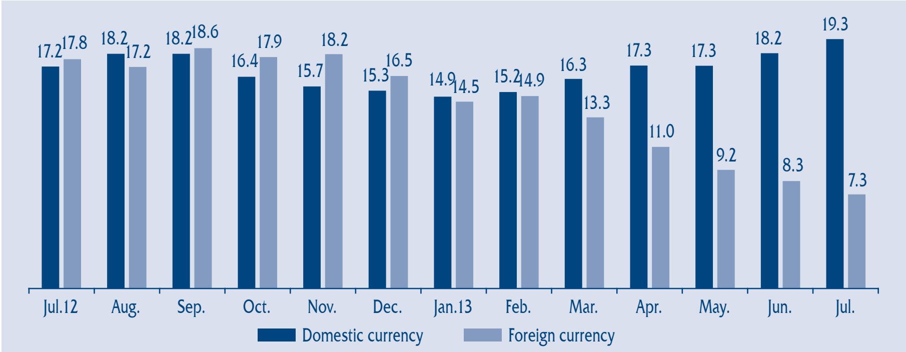
Table 35
RESERVE REQUIREMENTS MEASURES

	Legal minimum reserve requirement	Domestic Currency			Foreign currency			
					General regime			Foreign liabilities
		Marginal reserve requirement on deposits	Increase in the mean reserve requirement	Maximum of mean reserve requirement	Marginal reserve requirement on deposits	Increase in the mean reserve requirement	Maximum of mean reserve requirement	Short-term
Aug.10	8%	12%			45%	0.10%		50%
Sep.10	8.5%	15%			50%	0.20%		65%
Oct.10	9%	25%			55%	0.20%		75%
Nov.10	9%	25%			55%			75%
Dec.10	9%	25%			55%			75%
Jan.11	9%	25%			55%			60%
Feb.11	9%	25%	0.25%		55%	0.25%		60%
Mar.11	9%	25%	0.25%		55%	0.25%		60%
Apr.11	9%	25%	0.50%		55%	0.50%		60%
May.12	9%	30%	0.50%		55%	0.50%		60%
Sep.12	9%	30%	0.50%		55%	0.50%		60%
Oct.12	9%	30%	0.50%		55%	0.50%		60%
Nov.12	9%	30%	0.75%		55%	0.75%		60%
Jan.13	9%	30%	0.25%		55%	0.75%		60%
Feb.13	9%	30%	-.-		55%	1.00%		60%
Mar.13	9%	30%	-.-		55%	0.50%		60%
Apr.13	9%	30%	-.-		55%	0.25%		60%
May.13	9%	30%	-.-		55%	-.-		60%
Jun.13	9%	30%	-.-	20.0%	55%	-.-		60%
Jul.13	9%	30%	-.-	-.-	55%	-.-		60%
Aug.13	9%	25%	-.-	19.0%	50%	-.-	45.0%	50%
Sep.13	9%	20%	-.-	17.0%	50%	-.-	-.-	50%

70. The current international context associated with a possible gradual withdrawal of quantitative easing (QE) by the U.S. Federal Reserve has generated a lower capital inflow to the emerging economies as well as expectations of a strengthening of the dollar.

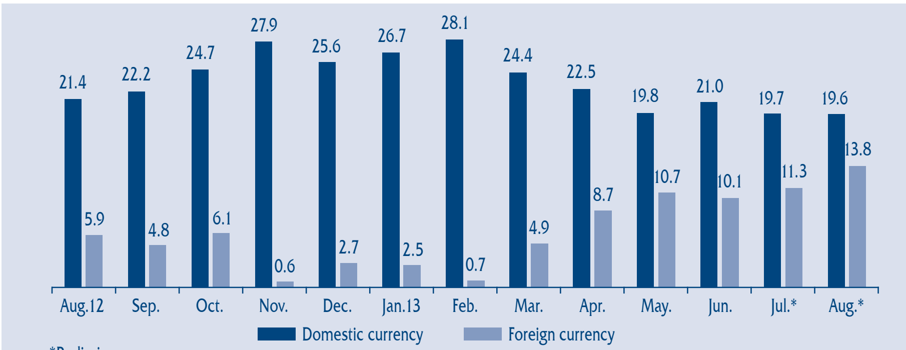
In the Peruvian economy, the strengthening of the dollar has reflected in a higher perception of risk associated with undertaking debts in dollars and, consequently, in an increased demand for credit in soles. Thus, the growth of bank credit to the private sector in dollars has slowed to 7.3 percent in July from 11.0 percent in April, while credit in soles has shown a faster pace of growth and risen from 17.3 to 19.3 percent in the same period.

Graph 80
BANKS: CREDIT TO THE PRIVATE SECTOR
(12 months % change)



Furthermore, economic agents, particularly legal entities, have shown a greater preference for saving in dollars. This is reflected in the fact that total obligations subject to reserve requirements in dollars have been accelerating since March 2013, while deposits in soles have been slowing down at the same time. The annual growth rate of total obligations subject to reserve requirements in soles has declined from 28.1 percent in February 2013 to 19.6 percent in July 2013, while total obligations subject to reserve requirements in dollars have increased since February 2013.

Graph 81
TOTAL OBLIGATIONS SUBJECT TO RESERVE REQUIREMENTS
(12 months % change)



*Preliminary.

In this scenario, between May and July 2013 credit in soles increased by nearly S/. 4 billion, whereas banks' domestic deposits increased only by S/. 800 million. Credit in dollars between May and July 2013 increased by nearly US$ 500 million, whereas domestic deposits in foreign currency increased by US$ 2.6 billion.

With the aim of promoting stable domestic financial conditions, the BCRP has acted proactively providing liquidity to financial institutions. Since May 2013, the BCRP has implemented reserve requirement measures as a result of which liquidity for over S/. 3 billion has been injected to the market, mitigating in this way the effects of the lower availability of funding in soles on credit.

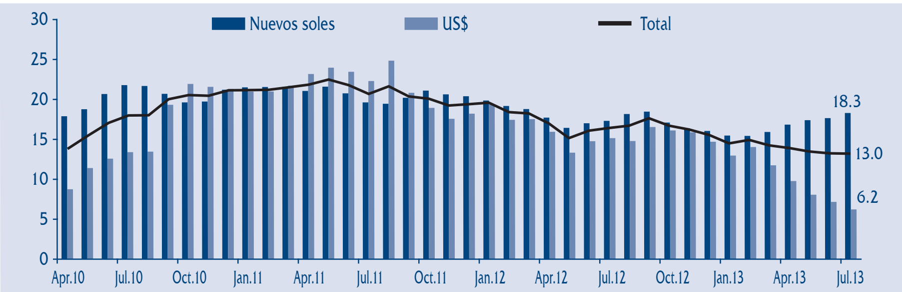
It is worth highlighting that with these measures, the BCRP is establishing the conditions required to have a more sustainable growth of credit, which contributes to the stability of the financial system and thereby to monetary stability.

Credit to the private sector

71. So far in Q3, credit to the private sector in nuevos soles continues to show a faster pace of growth with a rate of 18.3 percent in July (versus 15.9 percent in March and 16.0 percent in 2012). This has contributed to offset the lower growth of credit in dollars, which declined from 11.7 percent in March to 6.2 percent in July. The growth of credit in domestic currency results from the higher demand for this type of credit of both households and businesses as a result of an increase in risk perception of contracting debts in dollars as well as from the reserve requirement measures implemented recently by the Central Bank. A faster pace in the dedollarization of credit is important because it contributes to strengthen the financial system since it reduces the risks associated with foreign exchange mismatches in the balance sheet of both households and businesses.

Graph 82
RATIO: CREDIT / GDP
(%)

Graph 83
CREDIT TO THE PRIVATE SECTOR
(12 months % change)

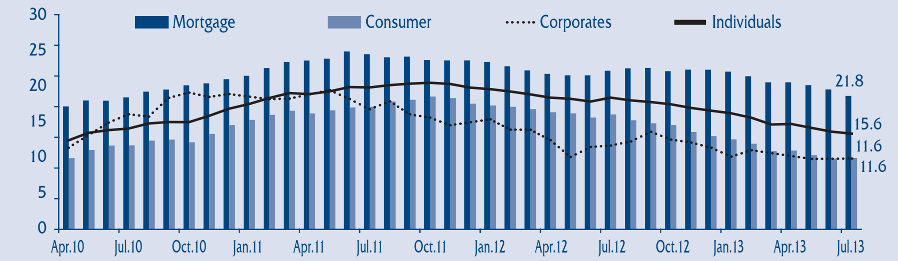


Credit		Dec.09	Dec.10	Dec.11	Dec.12	Mar.13	Apr.13	May.13	Jun.13	Jul.13
Nuevos soles	Monthly flows (Million S/.)	569	514	1,669	1,664	1,729	1,737	1,429	2,318	2,007
	Monthly % change	1.0	2.2	2.1	1.8	1.8	1.8	1.4	2.3	1.9
	Annual % change	17.9	21.2	20.4	16.0	15.9	16.8	17.4	17.6	18.3
US$	Monthly flows (Million S/.)	343	368	570	368	-43	-154	61	322	135
	Monthly % change	2.0	1.8	2.3	1.3	-0.2	-0.5	0.2	1.1	0.5
	Annual % change	-0.1	21.3	18.2	14.7	11.7	9.8	8.0	7.2	6.2
Total	Monthly flows (Million S/.)	1,444	2,451	3,121	2,602	1,619	1,344	1,584	3,139	2,350
	Monthly % change	1.4	2.0	2.2	1.6	1.0	0.8	0.9	1.8	1.3
	Annual % change	9.3	21.2	19.4	15.4	14.1	13.8	13.3	13.1	13.0

The increased demand for credit in soles amid a context of greater preference for deposits in dollars has led banks to reduce the level of their liquid assets in domestic currency, especially their CDBCRP and term deposits at the BCRP, in order to meet this increased demand for credit in soles. The reduction of the rates of reserve requirements in domestic currency established by the BCRP since early May are contributing to reinforce this process of de-dollarization of credit.

A greater rate of growth of credit in soles is also observed by type of loans. For example, mortgage loans in soles grew 37.0 percent, while mortgage loans in dollars grew 4.7 percent. The aggregate growth of credit remains at levels above 20 percent.

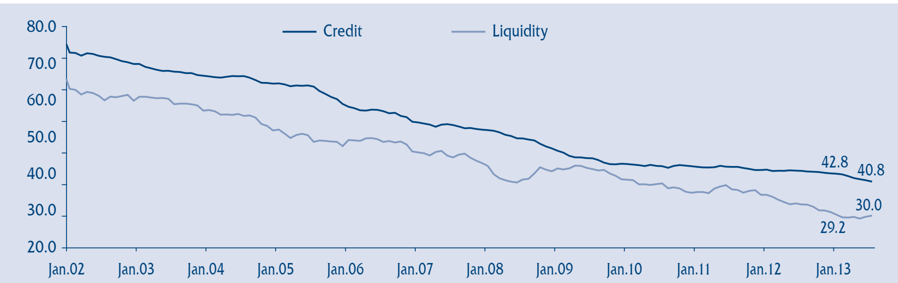
Graph 84
CREDIT BY TYPE OF LOANS: JANUARY 2010 - JULY 2013
(12 months % change)



Credit		Dec.09	Dec.10	Dec.11	Dec.12	Mar.13	Apr.13	May.13	Jun.13	Jul.13
Corporate	Monthly flows (Million S/.)	965	1,478	2,162	1,673	1,176	533	626	2,384	1,869
	Monthly % change	1.5	1.9	2.3	1.6	1.1	0.5	0.6	2.2	1.7
	Annual % change	8.0	22.0	17.5	13.3	12.4	11.9	11.5	11.5	11.6
Individuals	Monthly flows (Million S/.)	479	973	959	929	443	811	958	755	481
	Monthly % change	1.4	2.4	1.9	1.5	0.7	1.3	1.5	1.2	0.7
	Annual % change	11.8	19.7	23.1	19.4	17.1	17.2	16.6	16.0	15.6
Consumer	Monthly flows (Million S/.)	314	687	593	471	52	367	514	365	175
	Monthly % change	1.4	2.7	1.9	1.3	0.1	1.0	1.4	1.0	0.5
	Annual % change	9.3	17.0	20.5	15.2	12.8	12.8	12.1	11.5	11.6
Mortgage	Monthly flows (Million S/.)	165	287	366	458	391	444	444	390	306
	Monthly % change	1.4	1.9	1.9	1.9	1.5	1.7	1.7	1.5	1.1
	Annual % change	16.8	24.5	27.5	26.0	24.0	24.0	23.5	22.8	21.8

72. This evolution of credit and its components has favored a faster process of de-dollarization of credit, as a result of which the dollarization of credit has declined from 42.3 percent in March to 40.8 percent in July. On the other hand, the dollarization of liquidity has increased slightly and risen from 29.2 to 30.0 percent in the same period.

Graph 85
DOLLARIZATION RATIO: 2002 - 2013
(%)



By type of loans, mortgage loans show a higher rate of de-dollarization –the dollarization ratio of mortgages fell from 43.4 to 40.6 percent between March and July–, while this indicator in the case of corporate loans has declined from 53.1 percent in March to 51.3 percent in July.

Table 36
RATIO OF DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR 1/

	Dec.12	Jan.13	Feb.13	Mar.13	Apr.13	May.13	Jun.13	Jul.13
Corporate credit	53.8	53.9	53.8	53.1	52.4	52.2	51.8	51.3
Individual credit	23.9	23.8	23.7	23.6	23.4	23.1	22.8	22.5
Consumer loans	9.7	9.8	9.8	9.8	9.8	9.8	9.7	9.6
Car loans	76.5	76.8	77.0	76.9	76.8	76.6	76.9	76.5
Credit cards	6.4	6.5	6.6	6.6	6.7	6.8	6.7	6.7
Mortgage loans	44.8	44.3	43.9	43.4	42.7	41.9	41.3	40.6
TOTAL	**43.0**	**42.9**	**42.8**	**42.3**	**41.7**	**41.4**	**41.2**	**40.8**

1/ Includes banks' branches from abroad.

The flow of credit by type of loans provides additional information that confirms the faster pace of the process of de-dollarization of credit to the private sector. The ratio of dollarization of the annual flow of corporate loans and credit to large companies has declined from 100.0 percent to 35.4 percent between December 2012 and July 2013. A similar behavior is observed in the dollarization ratio of the annual flow of mortgages, where this ratio fell from 33.4 to 10.2 percent between December 2012 and July 2013. The annual flow of credit to medium-sized enterprises also shows a dollarization ratio significantly lower, since it has fallen from 61 to 45.2 percent between December 2012 and July 2013.

Thus, the ratio of dollarization in the annual flow of corporate loans has declined from 55.2 percent in December 2012 to 28.4 percent in July 2013 and the ratio of dollarization in the annual flow of personal loans has dropped from 23 percent in December 2012 to 10.5 percent in July 2013.

It should be pointed out that the dollarization ratios of the annual flow of credit are still measures that have a high inertial component. The accumulated flow of credit in local currency to small and micro enterprises between December 2012 and July 2013 was S/. 719 million, while credit in dollars recorded a negative flow of US$ 164 million. This would be indicating that banks no longer place loans in foreign currency in this segment and that no efforts have been made to renew existing ones. A similar behavior is observed in the accumulated flow of mortgage loans, which registered a total of S/. 2.55 billion in mortgages in local currency and a negative flow of US$ 8 million in mortgages in foreign currency.

Table 37
CREDIT ACCORDING TO CURRENCY

	Balance in Million S/.			Annual flows			Accumulated flows	Growth rate (%)		
	Dec.12	Jun.13	Jul.13	Dec.12	Jun.13	Jul.13	Jul.13/Dec.12	Jun.13/Jun.12	Jul.13/Jul.12	Jul.13/Jun.13
Corporate and large companies	48,632	51,255	53,492	3,771	4,910	5,401	4,861	10.6	11.2	4.4
D.C.	13,443	15,853	17,325	-191	2,546	3,489	3,883	19.1	25.2	9.3
F.C. (Million US$)	13,800	13,883	14,183	1,554	927	750	384	7.2	5.6	2.2
Dolarization (%)	72.4	70.9	69.5	100.0	48.2	35.4	20.1			
Medium-sized enterprises	27,991	29,467	29,099	4,475	4,060	3,978	1,108	16.0	15.8	-1.3
D.C.	9,637	10,787	10,727	1,744	2,418	2,179	1,090	28.9	25.5	-0.6
F.C. (Million US$)	7,197	7,325	7,205	1,071	644	706	7	9.6	10.9	-1.6
Dolarization (%)	65.6	65.4	65.2	61.0	40.4	45.2	1.7			
Small businesses	31,159	31,458	31,458	4,436	2,573	2,454	300	8.9	8.5	0.0
D.C.	26,715	27,394	27,434	4,125	2,944	2,810	719	12.0	11.4	0.1
F.C. (Million US$)	1,743	1,594	1,578	122	-145	-140	-164	-8.4	-8.1	-1.0
Dolarization (%)	14.3	13.9	13.8	7.0	0.0	0.0	0.0			
TOTAL CREDIT TO BUSINESSES	**107,781**	**112,180**	**114,049**	**12,681**	**11,543**	**11,833**	**6,268**	**11.5**	**11.6**	**1.7**
D.C.	49,795	54,034	55,486	5,678	7,907	8,478	5,691	17.1	18.0	2.7
F.C. (Million US$)	22,740	22,803	22,966	2,746	1,426	1,316	226	6.7	6.1	0.7
Dolarization (%)	53.8	51.8	51.3	55.2	31.5	28.4	9.2			
Consumer	36,423	38,048	38,223	4,815	3,933	3,986	1,801	11.5	11.6	0.5
D.C.	32,893	34,364	34,538	4,237	3,444	3,552	1,645	11.1	11.5	0.5
F.C. (Million US$)	1,384	1,445	1,445	227	192	170	61	15.3	13.3	0.0
Dolarization (%)	9.7	9.7	9.6	12.0	12.4	10.9	8.6			
Mortgages	24,747	26,974	27,280	5,111	5,012	4,875	2,533	22.8	21.8	1.1
D.C.	13,662	15,836	16,217	3,402	4,266	4,377	2,554	36.9	37.0	2.4
F.C. (Million US$)	4,347	4,368	4,339	670	292	195	-8	7.2	4.7	-0.7
Dolarization (%)	44.8	41.3	40.6	33.4	14.9	10.2	0.0			
Car loans	1,797	1,965	1,952	351	363	336	155	22.7	20.8	-0.7
D.C.	422	454	460	-34	0	20	37	0.1	4.5	1.3
F.C. (Million US$)	539	593	585	151	142	124	46	31.6	26.9	-1.3
Dolarization (%)	76.5	76.9	76.5	100.0	99.9	94.1	76.0			
TOTAL CREDIT TO INDIVIDUALS	**61,169**	**65,022**	**65,503**	**9,926**	**8,945**	**8,861**	**4,334**	**16.0**	**15.6**	**0.7**
D.C.	46,555	50,200	50,755	7,638	7,710	7,929	4,200	18.1	18.5	1.1
F.C. (Million US$)	5,731	5,813	5,784	897	484	366	53	9.1	6.7	-0.5
Dolarization (%)	23.9	22.8	22.5	23.0	13.8	10.5	3.1			
TOTAL	**168,950**	**177,203**	**179,553**	**22,607**	**20,488**	**20,694**	**10,602**	**13.1**	**13.0**	**1.3**
D.C.	96,350	104,234	106,240	13,316	15,618	16,407	9,891	17.6	18.3	1.9
F.C. (Million US$)	28,471	28,615	28,750	3,644	1,910	1,681	279	7.2	6.2	0.5
Dolarization (%)	43.0	41.2	40.8	41.1	23.8	20.7	6.7			
Memo:										
Foreign trade	**9,260**	**9,919**	**10,133**	**876**	**1,460**	**711**	**874**	**17.3**	**7.5**	**2.2**
D.C.	342	430	578	-16	95	182	236	28.4	46.0	34.5
F.C. (Million US$)	3,497	3,721	3,747	350	535	207	250	16.8	5.9	0.7
Dolarization (%)	96.3	95.7	94.3	100.0	93.5	74.4	73.0			
Rest	**98,521**	**102,261**	**103,916**	**11,806**	**10,083**	**11,122**	**5,395**	**10.9**	**12.0**	**1.6**
D.C.	49,452	53,604	54,907	5,694	7,812	8,296	5,455	17.1	17.8	2.4
F.C. (Million US$)	19,243	19,081	19,219	2,397	890	1,108	-24	4.9	6.1	0.7
Dolarization (%)	49.8	47.6	47.2	51.8	22.5	25.4	0.0			

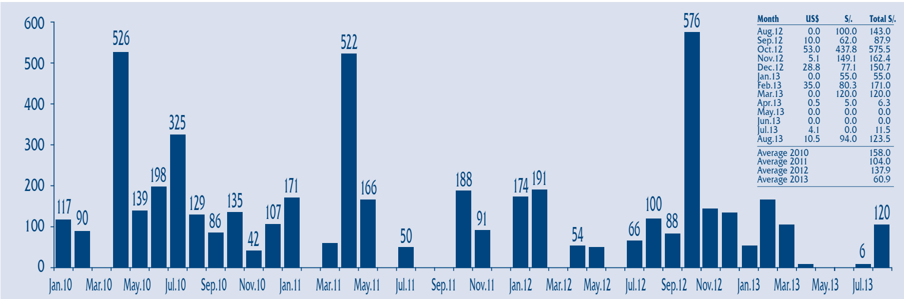
Moreover, it is worth pointing out that the greater rate of de-dollarization of credit is associated both with demand and with supply factors. On the supply side, financial institutions have fewer incentives to offer loans in foreign currency. In February 2013, the Central Bank established additional reserve requirements for the financial institutions whose personal credits in dollars registers a fast pace of growth. In addition to this, the BCRP recently increased the amount of liabilities and bonds in domestic currency that banks may issue and are not subject to reserve requirements, which allows them to attract long-term funds in nuevos soles at a lower cost.

On the side of demand, an improvement has been observed in terms of families' habits of borrowing since households now show a greater preference for borrowing in the currency in which they receive their income. In this regard, it is worth pointing out again that the pace of growth of mortgage loans in domestic currency outweighs the pace of growth of mortgages in dollar since mid-2012.

Capital Market

73. After the reduction observed in the amounts of bonds issued by non-financial firms in the local capital market until June, a recovery has been observed so far in Q3 and the issuance of bonds by non-financial firms in this market has reached the levels observed in March 2013 (S/. 123 million). In August placements of bonds issued by non-financial firms amounted to S/. 124 million, while financial entities placed bonds for a total of S/. 142 million.

Graph 86
ISSUED BONDS BY NON-FINANCIAL FIRMS*
(Million S/.)



Month	US$	S/.	Total S/.
Aug.12	0.0	100.0	143.0
Sep.12	10.0	62.0	87.9
Oct.12	53.0	437.8	575.5
Nov.12	5.1	149.1	162.4
Dec.12	28.8	77.1	150.7
Jan.13	0.0	55.0	55.0
Feb.13	35.0	80.3	171.0
Mar.13	0.0	120.0	120.0
Apr.13	0.5	5.0	6.3
May.13	0.0	0.0	0.0
Jun.13	0.0	0.0	0.0
Jul.13	4.1	0.0	11.5
Aug.13	10.5	94.0	123.5
Average 2010			158.0
Average 2011			104.0
Average 2012			137.9
Average 2013			60.9

* Emissions are measured in dollars at the rate of change of last month. Includes titulization bonds.

The greater dynamism observed in bond issuances in the local market in the last quarter contrasts with the evolution of bonds issued by non-financial companies in the international market. Thus, until April 2013, bonds for a total of US$ 3.56 billion have been issued by non-financial companies, bonds for a total of US$ 2.02 billion have been issued by financial entities, and no new issuances of securities have been registered since then.

Additional bond issuances amounting to US$ 780 million have been announced for 2013, the bond issuances of Nexus Capital Partner II and Andino Investment Holding standing out.

Table 38
BONDS ISSUANCE IN THE INTERNATIONAL MARKET

Company	Amount (Million US$)	Maturity (years)	Rate
Year 2012	**2,960**		
Non-financial sector	**1,810**		
Volcan	600	10	5.38%
Camposol	125	5	9.88%
Terminales Portuarios Euroandinos	110	25	8.13%
Ajecorp	450	10	6.50%
Coazucar (Grupo Gloria)	325	10	6.38%
Maestro	200	7	6.75%
Financial sector	**1,150**		
BBVA Banco Continental	500	10	5.00%
Interbank	250	8	4.80%
Scotiabank Perú	400	15	4.50%
Year 2013	**6 351**		
Non-financial sector	**3,555**		
Copeinca	75	5	9.00%
Exalmar	200	7	7.38%
Cementos Pacasmayo	300	10	4.63%
Alicorp	450	10	3.88%
Gas Natural de Lima y Callao - Cálidda	320	10	4.38%
Compañía Minera Milpo	350	10	4.63%
Corporacion Lindley	260	10	4.63%
Ferreyrcorp	300	7	4.88%
Transportadora de Gas del Perú	850	15	4.25%
Consorcio Transmantaro	450	10	4.38%
Financial sector	**2,016**		
BBVA Banco Continental	300	4	2.31%
Fondo MiVivienda	500	10	3.50%
BBVA Banco Continental	500	5	3.38%
Banco de Crédito	716	10	4.25%
Announced issuances	**780**		
Chinalco	130		
Andino Investment Holding	150		
Nexus Capital Partner II	500		

The yields in the markets of sovereign bonds continued showing the upward trend observed since mid-May, in line with the yields on US Treasury bonds –the yield on the 10-year Treasury bond increased by 109 basis points– and with the higher premium for country risk. Between April and August, the yields on sovereign bonds increased by 200 basis points on average, in a context of increased supply of non-resident investors and AFPs. The rates of return in the short section of the curve (less than 5 years) continue to be below the Central

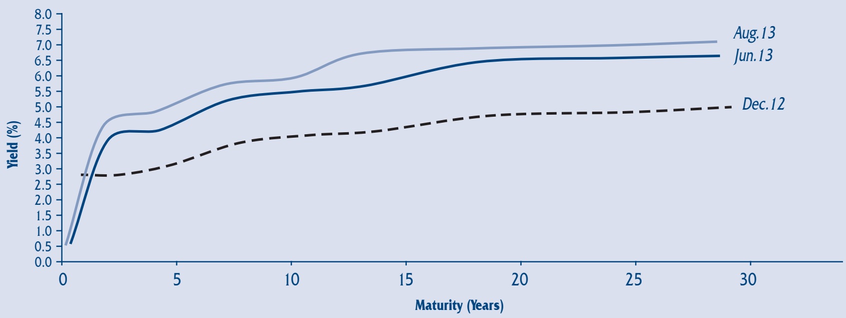
Bank's benchmark rate. The yield on PERU 2037 sovereign bonds has increased by 212 basis points from April to August 2013, while the yield on PERU 2037 global bond has increased by 162 basis points in the same period.

Table 39
PERU GLOBAL AND SOVEREIGN BOND YIELDS AND US TREASURY BONDS BY MATURITY
(At the end of period, in percentage points)

	Dec.12 (3)	Apr.13 (2)	Aug.13 (1)	Variation (In bps) Aug.13/Apr.13 (1)-(2)	Variation (In bps) Aug.13/Dec.12 (1)-(3)
Sovereign bonds (S/.)					
PERU 2013	2.70	1.40	3.21	181	51
PERU 2015	2.71	1.70	4.00	230	129
PERU 2017	3.05	2.80	4.85	205	180
PERU 2020	3.80	3.87	5.70	183	190
PERU 2023	4.09	4.13	5.96	183	187
PERU 2026	4.24	4.28	6.05	177	181
PERU 2031	4.79	4.83	7.00	217	221
PERU 2037	4.90	4.92	7.04	212	214
PERU 2042	5.10	5.04	7.15	211	205
Global bonds (US$)					
PERU 2015	0.82	0.19	0.71	52	-11
PERU 2016	1.10	1.07	2.25	118	115
PERU 2019	1.84	1.76	3.22	147	138
PERU 2025	3.00	3.06	4.64	159	165
PERU 2033	3.64	3.75	5.52	177	188
PERU 2037	3.70	3.97	5.59	162	189
US Treasury					
2 Years Bond	0.25	0.21	0.40	19	15
3 Years Bond	0.35	0.31	0.77	46	42
5 Years Bond	0.71	0.68	1.61	94	90
10 Years Bond	1.70	1.67	2.76	109	106
30 Years Bond	2.87	2.88	3.72	84	85

Source: Bloomberg.

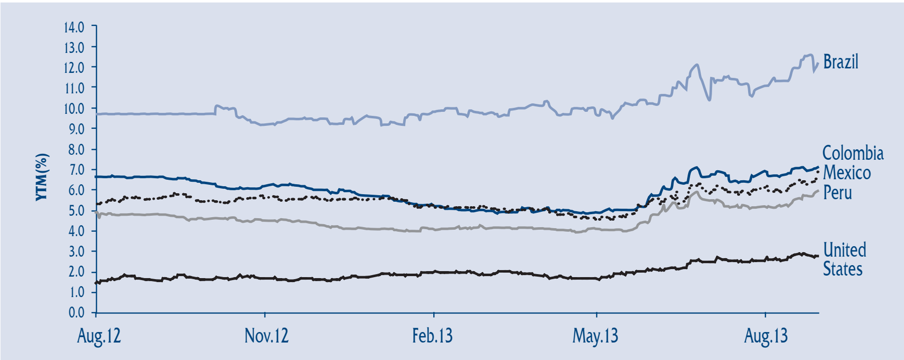
Graph 87
SECONDARY MARKET OF SOVEREIGN BONDS 1/



1/ End of month yield.

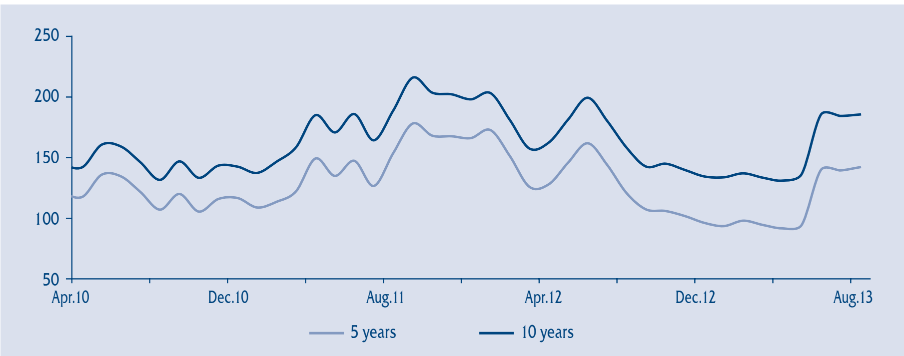
It should be pointed out that the yields on Peruvian Treasury Bonds (BTP) is one of the lowest yields in the region and also one of the yields that has increased less during the period of strong volatility observed recently. Thus, the yield on Peru's 10-year bond has increased by 187 basis points, while the yields on the Sovereign Bonds of Brazil, Colombia, and Mexico have increased by 246, 218, and 229 basis points, respectively. Despite the increase observed recently, the levels of the yields on these bonds are similar to the ones registered in mid- 2011.

Graph 88
LATAM YIELD CURVE OF 10 YEARS SOVEREIGN BOND



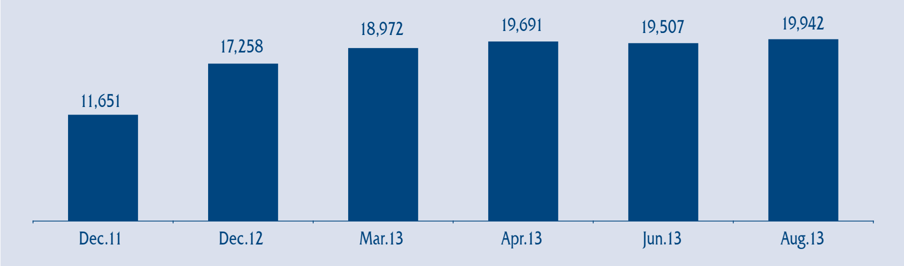
74. Since May 2013, the spreads of Peru's 5-year to 10-year sovereign debt, measured by the credit default swaps (CDS), have registered an upward trend which seems to have stabilized in the last month. Thus, between June and August, the 10-year CDS has remained stable, but since late April this indicator has increased by 56 basis points.

Graph 89
CREDIT DEFAULT SWAPS OF SOVEREIGN PUBLIC DEBT
(Basis points)



However, this rise in the yield of sovereign bonds is not associated with a sale of bonds by non-resident investors. On the contrary, non-residents' holdings of sovereign bonds have increased from S/. 19.51 billion in June 2013 to S/. 19.94 billion in August.

Graph 90
NON-RESIDENTS' HOLDINGS OF SOVEREIGN BONDS
(Million S/.)



75. The administrators of private pension funds (AFPs) have increased their investments abroad by US$ 1.74 billion compared to the end of Q1-2013 and by US$ 4.89 billion compared to December 2012. With this, the percentage of AFPs' investment abroad has risen from 29.4 percent in December 2012 to 35.1 percent in June 2013 and to 34.4 percent in July. The rest of their investments in dollars have increased by US$ 980 million between June and July 2013. This evolution of the AFPs' portfolio would allow AFPs a higher degree of diversification in their investments, which has a positive impact on their risk and return profiles.

Table 40
CONSOLIDATED PORTFOLIOS MANAGED BY FINANCIAL INSTRUMENTS AND AFP
(Million S/.)

	Dec.11		Dec.12		Jul.13	
	Ammount	%	Ammount	%	Ammount	%
I. DOMESTIC INVESTMENT	**58,185**	**71.1**	**68,055**	**70.3**	**64,447**	**66.4**
1. Government	**13,915**	**17.0**	**16,939**	**17.5**	**14,643**	**15.1**
Certificates and term deposits of BCRP (1)	886	1.1	2,830	2.9	3,087	3.2
Bonds of Central Government	13,029	15.9	14,109	14.6	11,557	11.9
2. Financial system	**14,333**	**17.5**	**16,268**	**16.8**	**19,696**	**20.3**
Shares and Securitised Shares	5,294	6.5	5,572	5.8	4,034	4.2
3. Non-financial firms	**23,175**	**28.3**	**26,058**	**26.9**	**20,911**	**21.6**
Shares and Securitised Shares	16,881	20.6	19,272	19.9	14,469	14.9
4. Fund managers	**3,000**	**3.7**	**3,680**	**3.8**	**3,871**	**4.0**
5. Securitization companies	**3,763**	**4.6**	**5,111**	**5.3**	**5,325**	**5.5**
II. FOREIGN INVESTMENTS	**23,437**	**28.6**	**28,512**	**29.4**	**33,408**	**34.4**
1. Government	**949**	**1.2**	**1,705**	**1.8**	**1,335**	**1.4**
2. Financial entities	**2,738**	**3.3**	**2,640**	**2.7**	**3,359**	**3.5**
3. Non-financial firms	**8,220**	**10.0**	**6,249**	**6.5**	**5,757**	**5.9**
4. Fund managers	**11,529**	**14.1**	**17,918**	**18.5**	**22,957**	**23.7**
5. Securitization companies	**-**	**-**	**-**	**-**	**-**	**-**
III. OPERATIONS IN TRANSIT	**260**	**0.3**	**286**	**0.3**	**(837)**	**-0.9**
TOTAL	**81,881**	**100.0**	**96,853**	**100.0**	**97,017**	**100.0**
Foreign investment / Portfolio managed	**28.6%**		**29.4%**		**34.4%**	

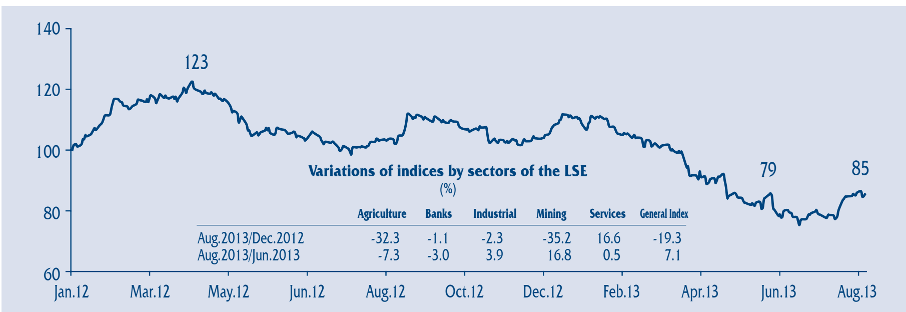
1/ Includes Overnight deposits and BCRP Certificates of Deposit with Restricted Negotiation (CDBCRP-NR).
Source: SBS.

Table 41
AFP: INVESTMENT
(Million US$)

Date	Total	
	Abroad	In US$
Dec.12	11,184	16,656
Jan.13	11,698	16,868
Feb.13	11,821	16,711
Mar.13	12,111	16,865
Apr.13	12,872	16,714
May.13	12,715	16,843
Jun.13	12,093	16,565
Jul.13	11,965	17,418

76. In the variable-income market, the General Index of the Lima Stock Exchange (IGBVL) increased 7.5 percent in August relative to June, in line with the evolution observed in the main global exchange indices. By sectors, the adverse international scenario affected mainly the shares of agriculture companies and banks. On the other hand, the stocks of mining companies, industrial companies, and companies in the sector of services increased in the last quarter, following the recovery of the international prices of copper, gold, and silver which have increased by 6.8, 18.1, and 22.9 percent, respectively, since the end of June.

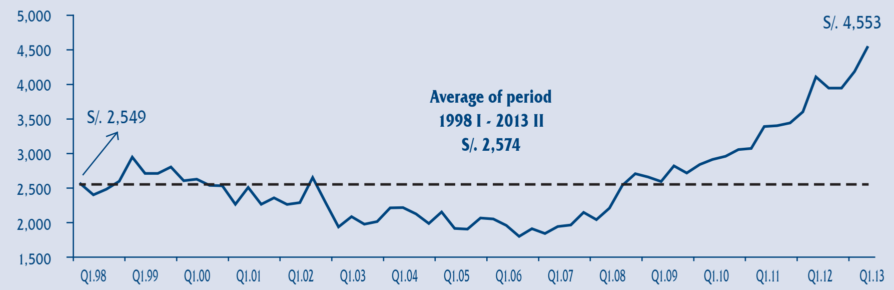
Graph 91
LSE: GENERAL INDEX
(January 2, 2012=100)



Real estate market

77. In Q1-2013, the prices in constant soles per square meter of property in the five districts of the sample increased 10.5 percent compared to Q2-2012 and 8.5 percent compared to the previous quarter, in line with the growth of the demand for houses financed with mortgage loans. The graph below shows the evolution of median quarterly sale prices of apartments per square meter in constant soles of 2009.

Graph 92
MEDIANS OF QUARTERLY SALE PRICES PER SQUARE METER OF APARTMENTS
(La Molina, Miraflores, San Borja, San Isidro and Surco)
(Base 2009=100)



Sale price-to-income for annual rent ratio (price to earnings ratio - PER).

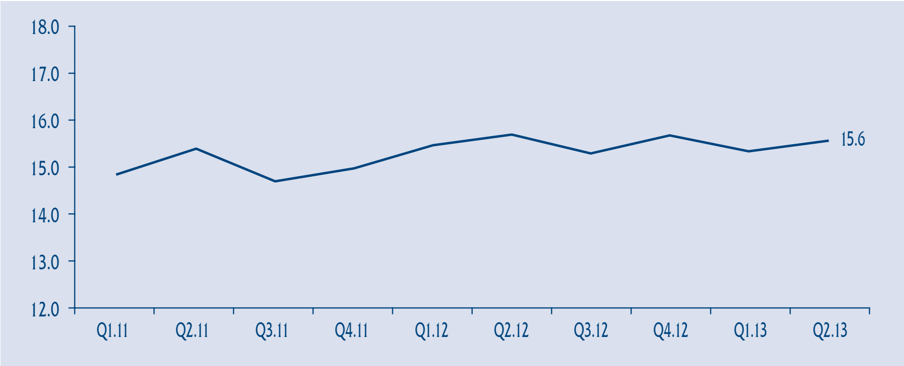
The price-to-earnings ratio (PER), which shows the number of years of rent required to recover the purchasing value of a property, has shown stable values of 15 and 16 over the last years and has remained within the ranges considered as normal, according to the criteria taken into account by Global Property Guide.

Table 42
PER: PRICE TO EARNING RATIO

	2011-Q1	2011-Q2	2011-Q3	2011-Q4	2012-Q1	2012-Q2	2012-Q3	2012-Q4	2013-Q1	2013-Q2
Jesús María	12.6	13.1	12.9	13.0	13.0	15.7	15.5	14.9	15.0	15.6
La Molina	16.5	17.2	15.2	15.8	12.7	10.7	12.4	11.6	13.7	14.7
Lince	14.3	15.6	16.5	14.1	13.9	14.2	14.2	16.4	14.1	14.6
Magdalena	11.6	13.7	12.7	12.5	14.5	14.1	13.1	16.0	14.0	14.5
Miraflores	12.9	14.0	15.6	15.7	19.0	17.0	15.3	15.0	14.8	16.5
Pueblo Libre	15.6	15.6	15.0	15.3	15.4	16.5	15.2	16.0	14.1	14.3
San Borja	15.3	17.2	16.6	17.2	15.3	19.5	16.8	18.2	18.6	17.5
San Isidro	15.6	15.9	14.9	16.7	19.7	17.7	17.2	18.4	18.0	17.2
San Miguel	17.7	15.9	13.7	12.8	14.8	15.3	16.1	15.6	14.4	14.8
Surco	15.9	15.8	13.3	16.3	16.6	16.7	17.1	15.0	16.8	16.3
Aggregated										
Average	14.8	15.4	14.6	14.9	15.5	15.7	15.3	15.7	15.3	15.6

1/ Rates have been calculated using the sale price median and rent of each district.
According to the PER index, Global Property Guide classifies the real estate market in properties with Undervalued Prices (5.0-12.5), Normal Prices (12.5-25.0), and Overvalued Prices (25.0-50.0).
Source: BCRP.

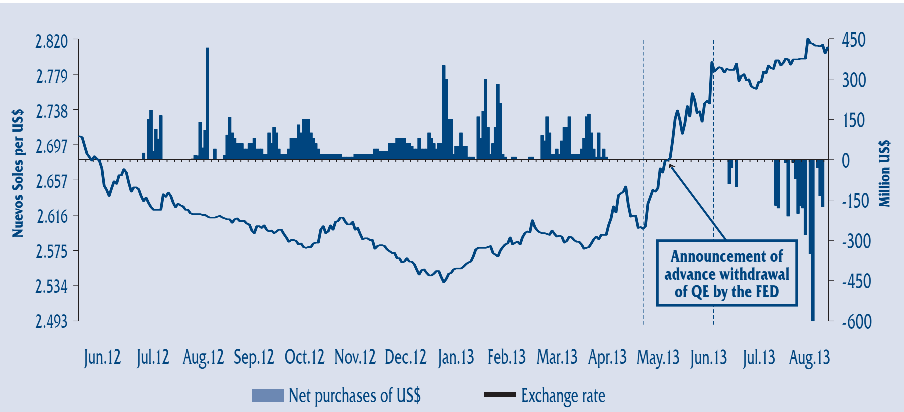
Graph 93
PER: PRICE TO EARNING RATIO



Foreign exchange rate

78. The depreciation trend of the nuevo sol became more moderate since June. Thus, so far, the Peruvian currency has depreciated 1.04 percent in Q3 (vs. 7.33 percent in Q2) and 10.11 percent year-to-date. This depreciation of the nuevo sol is in line with the weakening of the currencies of emerging economies against the dollar which has been observed since April, associated with expectations that the US Federal Reserve will start reducing QE measures. It is worth mentioning, however, that the nuevo sol is the currency that has depreciated the least in comparison with the currencies of other emerging economies: Brazil (17.9 percent), Mexico (9.6 percent), Chile (8.3 percent), Turkey (13.2 percent), India (24.0 percent), for example.

Graph 94
INTERVENTION IN THE FOREIGN EXCHANGE MARKET AND EXCHANGE RATE



*QE: Quantitative easing.

In this context, the Central Reserve Bank has intervened in the foreign exchange market since May 24, when international financial volatility began to increase after the Fed announced that it could start reducing monetary stimulus in September 2013. The BCRP first intervened in the foreign exchange market placing certificates of deposits indexed to the exchange rate (CDRBCRP) for a total of US$ 1.77 billion between May and August. As from July, the Central Bank also began to intervene in this market with direct sales of dollars, which amounted to US$ 2.99 billion in the same period.

It is worth mentioning that the upward pressure on the exchange rate was associated mainly with a re-composition of portfolio that domestic agents (pension funds, banks, and corporate enterprises) did to minimize the risks associated with a further decline of the nuevo sol. Thus, between May and August the demand for dollars came mainly from the AFPs (US$ 2.18 billion), private investors (US$ 1.48 billion), and banks (US$ 292 million).

The depreciation of the nuevo sol has had a negative impact on corporate earnings, especially in the industries associated with trade and manufacturing. It is estimated that foreign exchange losses due to the depreciation of the sol amounted to US$ 1.5 billion during the first half of the year. This result, calculated on the basis of the companies listed in the stock market, would be indicating that depreciation would account for about 55 percent of the lower profits obtained by companies in this period.

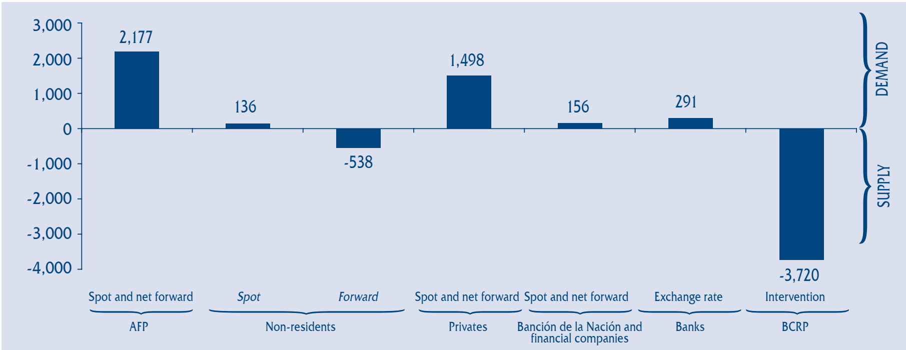
Table 43
DIFERENCES OF EXCHANGE RATE: S1
(Million S/.)

	2012	2013
Agriculture and Fishing	2	-66
Mining and hydrocarbons	-31	-212
Manufacturing	56	-643
Electricity and water	125	-16
Construction	2	-4
Commerce	15	-340
Services	26	-146
TOTAL	**194**	**-1,426**
Net results	8,315	5,798

Source: Economática.

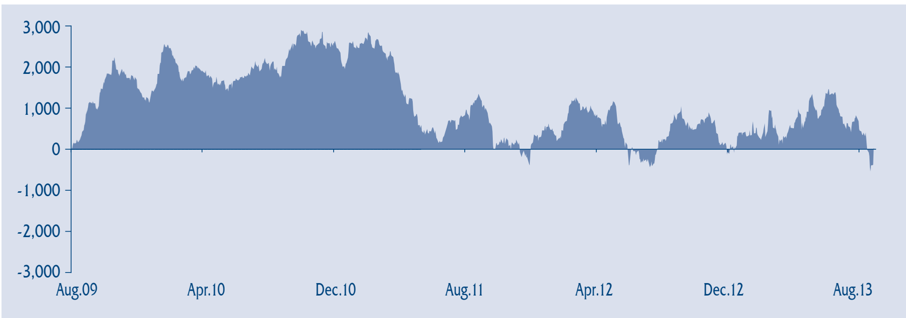
An increase of S/. 251 million in non-residents' holdings of Peru's Treasury bonds, as well as an accumulation of banks' average overnight deposits in dollars of up to US$ 2.0 billion and interest rates in dollars that reached their minimum levels was observed in this period. All of these indicators reflect excess liquidity in dollars in banks, which is not a situation consistent with a scenario of capital outflows.

Graph 95
FOREX MARKET FLOWS: JUNE-AUGUST
(Million US$)



In the forward market, net purchases of dollars registered a significant decline (the balance of transactions at the end of August was lower by US$ 793 million than the one recorded at the end of Q2), which reflects increased expectations of a depreciation.

Graph 96
BALANCE OF FORWARD NET PURCHASES
(Million US$)



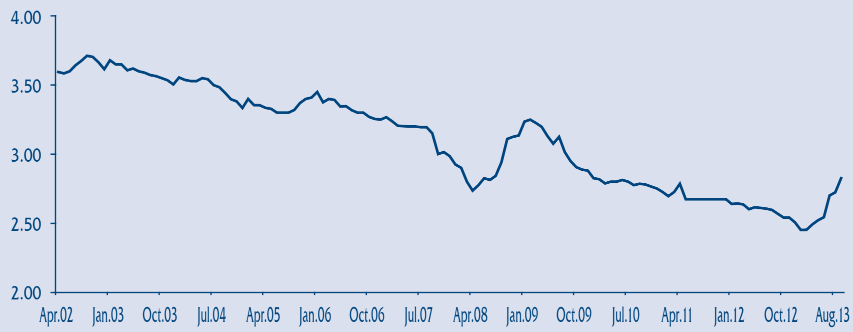
79. The BCRP survey on macroeconomic expectations shows that all the economic agents have reversed their expectations due to uncertainty about the global economic outlook and due to the possibility that monetary stimulus will start to be withdrawn in the United States.

Table 44
SURVEY ON MACROECONOMIC EXPECTATIONS: EXCHANGE RATE
(Nuevos Soles per US$)

	Expectations about:		
	IR Mar.13	**IR Jun.13**	**IR Sep.13***
Financial entities			
2013	2.50	2.56	2.80
2014	2.45	2.54	2.80
2015	-.-	2.55	2.82
Economic analysts			
2013	2.50	2.55	2.80
2014	2.45	2.55	2.85
2015	-.-	2.50	2.85
Non-financial firms			
2013	2.55	2.60	2.80
2014	2.55	2.60	2.82
2015	-.-	2.63	2.90
Average			
2013	2.52	2.57	2.80
2014	2.48	2.56	2.82
2015	-.-	2.56	2.86

* Survey conducted during the second fortnight of August 2013.
IR: Inflation Report.

Graph 97
EXCHANGE RATE EXPECTATIONS FOR THE NEXT YEAR*
(Nuevos Soles per US dollar)



* Corresponds to the average of the expectations of the financial system and economic analysts.

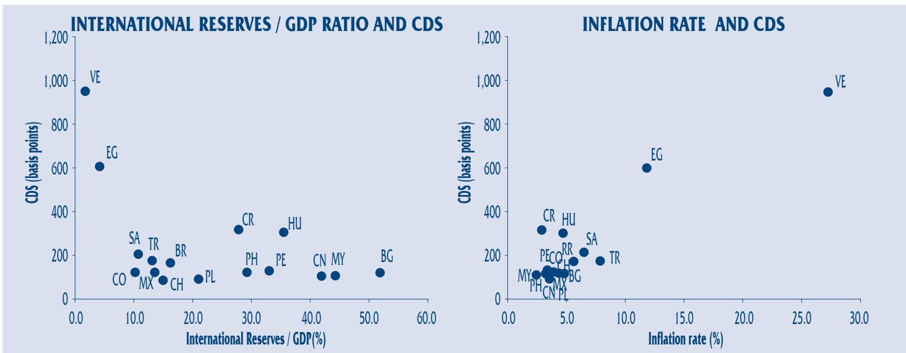
80. The multilateral real exchange rate index rose from 92.2 to 93.0 between June and August 2013, which represents a real depreciation of 0.83 percent in this period. This real depreciation results from an increase of 1.50 percent in the nominal exchange rate relative to the basket of currencies of Peru's major trading partners, offset in part by a higher inflation differential. Since April, the real exchange rate has depreciated 5.7 percent.

Graph 98
MULTILATERAL RER
(Index 2009=100)

Box 2
MACROECONOMIC FUNDAMENTALS AND SOVEREIGN RISK

Since May, sovereign risk in emerging countries has experienced episodes of turbulence motivated mainly by the higher yields observed in the markets of global bonds due to the possibility that the US Federal Reserve would initiate the withdrawal of quantitative easing (QE). However, the impact of this financial turbulence has been different in each economy and it has been particularly lower in the economies with better macroeconomic fundamentals.

The graph below illustrates this comparing data on CDS and average inflation in a series of EMEs during the latest episode of turbulence (May to July). As the graph shows, the yields increased more in economies with a high level of inflation; that is, in the economies that had less space to respond to the shock using monetary policy tools. A similar argument may be elaborated with the ratio of international reserves to GDP: higher reserves increase the capacity of response of central banks to significant capital outflows.



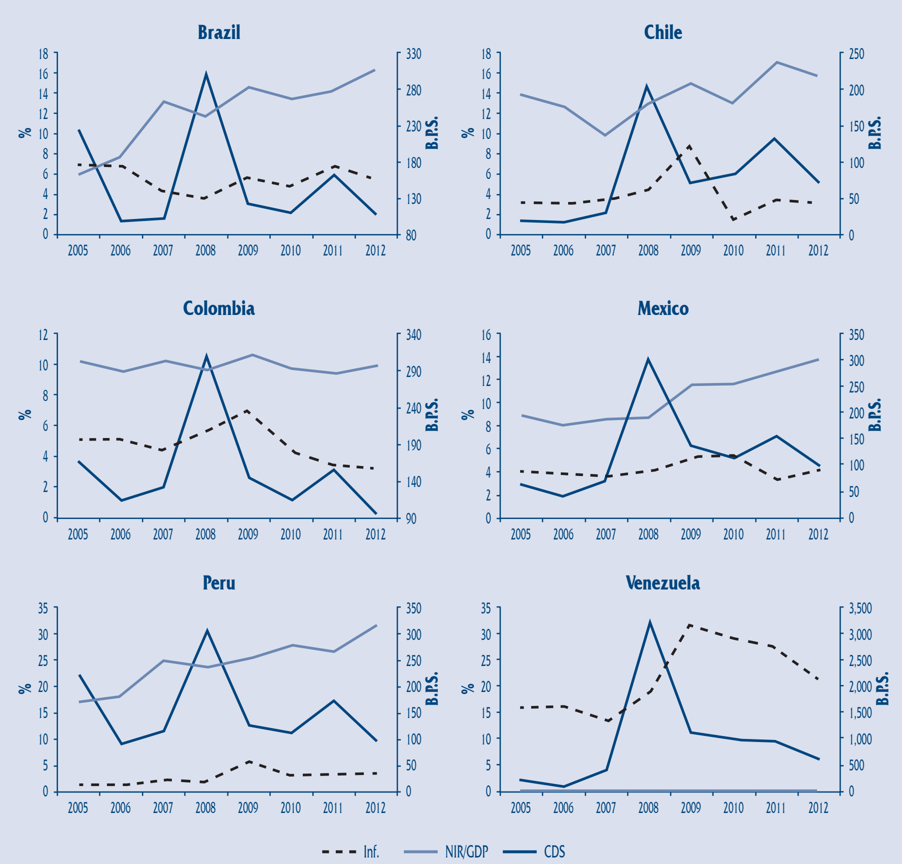
Source: Bloomberg and central banks.

Analyzing the evolution of CDS and inflation between 2005 and 2012 with end-of-period data for countries in the region, we find again a direct relationship with a high ratio of reserves and an indirect relationship with inflation rates, the former being more clear in the periods prior to the subprime financial crisis (2008-2009).

These outcomes are consistent with the results reported by Aizenmann, Jinjarak, and Park (2013), who conclude that external factors were predominant in determining sovereign risk before the crisis, but that internal factors associated with the capacity to respond to adverse shocks, such as the ratio of external debt-to-GDP and inflation, gained importance during and after the recent global financial crisis.

The channels through which an increase in sovereign risk may affect the economy are diverse and depend largely on the characteristics of each economy, such as the importance of the public debt markets, the soundness of fiscal accounts, and the level of international reserves. In Peru, because dollarization prevails in the financial system, the channels with the greater potential impact on the economy are associated with a potential capital outflow or a sudden change in domestic investors' portfolio, which could lead to a sharp depreciation of the local currency and cause potential negative effects on the financial position of companies and families with currency mismatches.

EVOLUTION OF MACRO FUNDAMENTS AND CDS



Source: Bloomberg and central banks.

However, the high level of international reserves accumulated by the BCRP coupled by prudential measures, such as reserve requirements on banks' short-term liabilities or reserve requirements on a very rapid growth of credit to individuals in dollars have increased not only the BCRP capacity of response to these shocks, but also the financial system's resilience to face them. International reserves allow the BCRP to intervene in the foreign exchange market to minimize volatility in the exchange rate in response to episodes of turbulence and therefore a smooth transition to equilibrium with lower capital flows. International reserves at August 2013 amounted to US$ 68 billion, a sum equivalent to nearly 32 percent of Peru's GDP.

Box 3

DOLLARIZATION OF CONTRACTS WITH SUPPLIERS

Empirical evidence shows a progressive reduction in the level of financial dollarization over the last years –down from 82 percent in 1999 to 43 percent today–, as well as a reduction in the use of foreign currency for certain operations (real and payments dollarization). In spite of this, in the business arena, many commercial transactions are still denominated and paid in foreign currency, which imposes additional costs to intermediate consumers (as they have to buy foreign currency to settle their obligations), affects the efficiency of monetary policy, and generates greater macroeconomic vulnerability.

The dollarization of the transactions that companies have with their suppliers largely reflects inertia for decisions made in the past and problems of coordinating how to change this way of operating simultaneously.

According to the BCRP Survey of Macroeconomic Expectations of December 2012, 58 percent of the value of inputs or supplies are denominated in foreign currency. Even though it is normally high, the percentage of inputs denominated in dollars varies according to the economic sector in which a company operates. The sectors of trade and mining show the highest percentage of inputs expressed in dollars (80 and 75 percent, respectively). Moreover, the percentage of inputs or supplies paid in dollars is similar.

VALUE OF INPUTS AND INPUTS PAIDS IN FOREIGN CURRENCY
(% average)

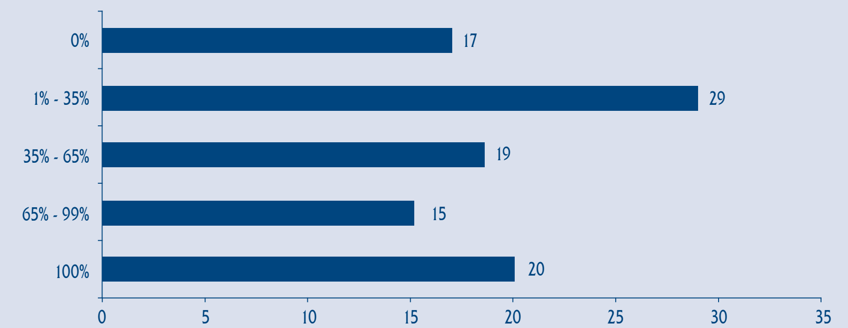
Sector	Value of inputs in US$ (%)	Inputs paid in US$ (%)
Agriculture and livestock	40	40
Fishing	74	66
Mining and hydrocarbons	75	67
Manufacturing	64	64
Electricity, water, and gas	48	42
Construction	38	30
Commerce	80	77
Services	45	46
Total	**58**	**54**

Source: BCRP Survey of Macroeconomic Expectations of December 2012.

The significant degree of dollarization of transactions at the level of intermediate consumption relations suggests that the information of prices in national currency and the power that buyers have in the market to make payments in national currency are limited in the case of commercial transactions between companies.

This behavior of companies reflects mostly inertia and coordination problems. According to SAE survey carried out by Apoyo Consultoría in March 2013, 54 percent of the surveyed companies said that over 35 percent of their sales to other companies are expressed in dollars.

PERCENTAGE OF SALES BETWEEN COMPANIES EXPRESSED IN DOLLARS
(% of surveyed companies)



Source: SAE survey carried out by Apoyo Consultoría.

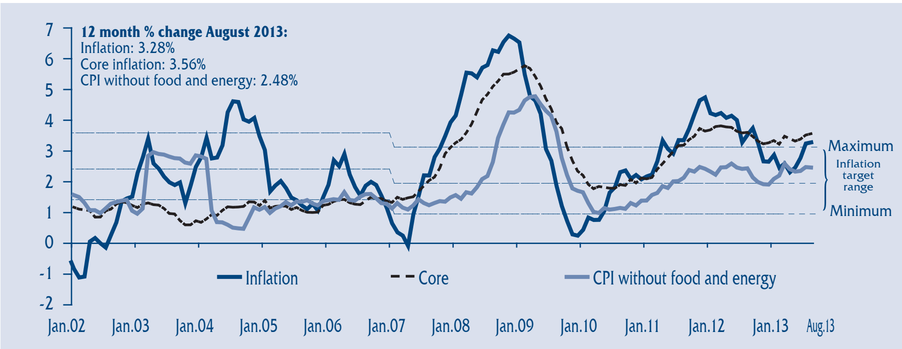
The main reasons why local companies express their sales in dollars include the following:

1) The cost of the transaction to change the terms of the contracts between companies and their suppliers.
2) Inertia or habit. The habit of making transactions in dollars can also be explained by the learning costs that changing from operating in dollars to operating in soles would imply.
3) Financial dollarization. Debts in foreign currency lead companies to make transactions in dollars as well.

VI. Inflation

81. The rate of inflation in the last twelve months increased from 2.65 percent in December 2012 to 3.28 percent in August. The factors determining this result included domestic supply shocks –which involved rises in the prices of non-core food products, such as fish, chicken, and potatoes–, the increase in administered prices (electricity and gas), the depreciation of the nuevo sol (purchase of vehicles and house rents), and increases in some core services, such as meals outside the home and education.

Graph 99
INFLATION AND INFLATION TARGET
(12 months % change)



82. Inflation in the period January - August was 2.8 percent higher than in the same period of 2012 (2.1 percent). The higher inflation accumulated –0.62 percentage points difference– is explained by domestic supply shocks associated with weather factors. The rises in the prices of fish (46.6 percent versus -2.7 percent in January-August 2012), chicken (1.7 percent versus -2.7 percent in January-August 2012), and potatoes (17.0 percent versus -0.7 percent in January-August 2012) contributed to this difference with 0.65 percentage points.

Table 45
INFLATION JANUARY-AUGUST 2013
(% change)

	Weight	2012	2013			Weighted contribution to the difference between Jan-Aug 2013 and Jan-Aug 2012
		Jan.-Aug.	Jan.-Jun.	Jul.-Aug.	Jan.-Aug.	
INFLATION	**100.0**	**2.1**	**1.7**	**1.1**	**2.8**	**0.62**
Domestic supply shock	**4.5**	**-2.3**	**3.2**	**7.8**	**11.3**	**0.65**
Fresh and canned fish	0.7	-2.7	27.0	15.4	46.6	0.34
Poultry meat	3.0	-2.7	2.0	-0.3	1.7	0.13
Potato	0.9	-0.9	-9.4	29.1	17.0	0.18
Rest	**95.5**	**2.4**	**1.6**	**0.8**	**2.4**	**-0.03**

83. The annual rate of core inflation, which excludes the most volatile items from the calculation of the CPI index, was 3.6 percent at the month of August (higher than the rate of 3.3 percent recorded in December). Inflation without food and energy rose from 1.9 percent in December to 2.5 percent in August, reflecting increases in the prices of services, particularly meals outside the home and education.

84. The non-core component of inflation increased from an annual rate of 1.5 percent in December 2012 to a rate of 2.8 percent in August 2013. The rise in the prices of gasoline, which increased from -5.0 percent in December 2012 to 4.7 percent in August 2013, contributed to the rise of non-core inflation.

Table 46
DOMESTIC AND IMPORTED INFLATION: 2006 - 2013
(% change)

	Weight 2009=100	2010	2011	2012	2013 Jan.-Aug.	2013 12 months
I. IMPORTED CPI	**10.8**	**3.78**	**4.87**	**0.41**	**2.74**	**2.61**
Food	3.0	0.76	9.59	1.99	0.02	0.83
Fuels	2.8	12.21	7.54	-1.48	4.64	4.12
Electric appliances	1.3	-0.58	-1.13	-2.44	-0.98	-1.73
Others	3.7	1.20	0.83	1.73	4.65	4.23
II. DOMESTIC CPI	**89.2**	**1.87**	**4.72**	**2.92**	**2.77**	**3.36**
III. CPI	**100.0**	**2.08**	**4.74**	**2.65**	**2.76**	**3.28**
Exchange rate		**-2.15**	**-4.24**	**-4.80**	**9.15**	**7.11**
Imported without foods	6.7	4.93	3.15	-0.20	3.82	3.31
Domestic food and beberages	42.1	2.55	7.83	4.23	3.67	4.52
Domestic without foods	45.8	1.44	2.70	2.03	2.14	2.55

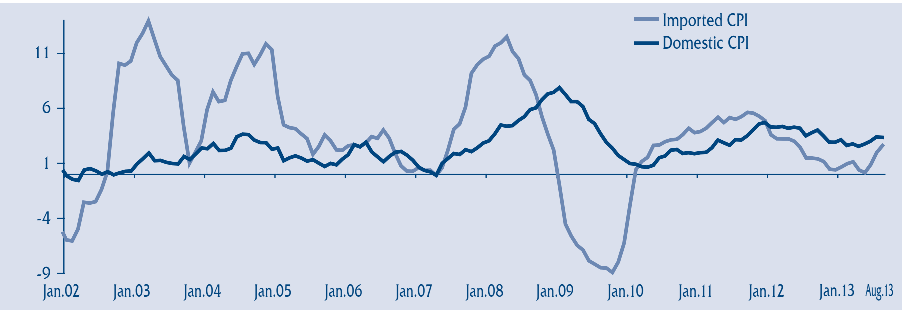
Table 47
INFLATION
(% change)

	Weight 2009=100	2010	2011	2012	2013 Jan.-Aug.	2013 12 months
I. INFLATION	**100.0**	**2.08**	**4.74**	**2.65**	**2.76**	**3.28**
II. CPI WITHOUTH FOOD AND ENERGY	**56.4**	**1.38**	**2.42**	**1.91**	**2.06**	**2.46**
III. CORE INFLATION	**65.2**	**2.12**	**3.65**	**3.27**	**2.84**	**3.56**
Goods	32.9	1.53	3.17	2.56	2.25	2.97
Services	32.2	2.72	4.13	3.97	3.41	4.14
IV. NON-CORE INFLATION	**34.8**	**2.00**	**6.79**	**1.52**	**2.63**	**2.76**
Foods	14.8	1.18	11.50	2.36	3.44	2.92
Fuels	2.8	12.21	7.54	-1.48	4.64	4.12
Transportation	8.9	1.94	3.61	1.99	0.86	3.22
Utilities	8.4	0.01	1.50	0.54	2.20	1.38
Foodstuffs	**37.8**	**2.4**	**8.0**	**4.1**	**3.4**	**4.2**

Table 48
INFLATION
(Weighted contribution)

	Weight 2009=100	2010	2011	2012	2013 Jan.-Aug.	2013 12 months
I. CPI	100.0	2.08	4.74	2.65	2.76	3.28
II. CPI WITHOUTH FOOD AND ENERGY	56.4	0.78	1.36	1.05	1.12	1.34
III. CORE INFLATION	65.2	1.38	2.38	2.11	1.85	2.31
Goods	32.9	0.50	1.04	0.82	0.73	0.96
Services	32.2	0.88	1.34	1.29	1.12	1.35
IV. NON-CORE INFLATION	34.8	0.69	2.36	0.54	0.92	0.97
Foods	14.8	0.17	1.68	0.37	0.53	0.46
Fuels	2.8	0.34	0.23	-0.05	0.14	0.13
Transportation	8.9	0.17	0.32	0.18	0.08	0.28
Utilities	8.4	0.00	0.12	0.04	0.17	0.11
Foods	37.8	0.91	3.03	1.59	1.34	1.68

Graph 100
DOMESTIC AND IMPORTED INFLATION
(Last 12 month % change)



85. At August, imported inflation recorded a growth rate of 2.6 percent in the last twelve months, a higher rate than that observed in December 2012 (0.4 percent). Price rises standing out included the rise in the prices of fuels, whose annual variation went from -1.5 percent in December 2012 to 4.1 percent in August 2013, and the rise in the prices of vehicles, since the annual variation of vehicle purchases rose from 0.7 percent in December to 6.4 percent in August. This was associated with changes in the exchange rate, which at August recorded an annual variation of 7.1 percent.

86. The analysis of the correlations between the depreciation of the nuevo sol and inflation between September 2011 and August 2013 shows that the sale of vehicles and house rents are the items that show the highest correlation, with levels of over 60 percent. Between June and August, period during which the exchange rate increased 5.9 percent, the prices of vehicles rose 5.3 percent and rents rose 1.7 percent. Together, these two items contributed with 0.11 percentage points to the rate of inflation of 1.36 percent registered in the last three months.

Table 49
ITEMS OF HIGHEST CORRELATION WITH EXCHANGE RATE

	Weight	Maximum correlation 1/	Correlation Sep.11-Aug.13
Goods			
Electric appliances	1.3	0.96	0.24
Recreation and culture items	0.9	0.93	0.30
Jewelry	0.1	0.92	-0.21
Purchases of vehicles	1.6	0.89	0.62
recreational item	0.7	0.86	-0.08
Car replacement part	0.2	0.69	0.11
Services			
House rent	2.4	0.99	0.97
Hotel expensives	0.1	0.74	0.28
Airplane fare	0.4	0.71	0.28

1/ Highest correlation taking moving windows of 24 months since January 1995 to August 2013.

87. The items that contributed the most to the rise of inflation between January and August were meals outside the home, education costs (tuition and fees), fish, potatoes, and electricity. On the other hand, the items that contributed to moderate inflation in the first eight months of 2013 were sugar, onions, citrus fruits, papaya, and telephone rates.

Table 50
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION: JANUARY - AUGUST 2013

Positive	Weight	% Chg.	Contribution	Negative	Weight	% Chg.	Contribution
Meals outside the home	11.7	3.5	0.45	Sugar	0.5	-16.1	-0.11
Education (fees and tuition)	8.8	4.8	0.44	Onion	0.4	-12.5	-0.04
Fresh and frozen fish	0.7	46.6	0.32	Citric fruits	0.5	-6.1	-0.04
Potato	0.9	17.0	0.17	Papaya	0.2	-17.4	-0.04
Electricity rates	2.9	5.5	0.15	Telephone rates	2.9	-1.4	-0.03
Purchases of vehicles	1.6	8.7	0.12	National transportation	0.3	-6.4	-0.02
Gasoline and oil	1.3	7.4	0.11	Pepper	0.1	-29.6	-0.02
Urban fares	8.5	1.2	0.10	Avocado	0.1	-16.9	-0.02
Eggs	0.6	18.0	0.10	Olluco and alike	0.1	-18.1	-0.02
House rent	2.4	3.0	0.06	Judicial expenditure	0.4	-3.8	-0.01
Total			**2.02**	**Total**			**-0.35**

Table 51
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION: SEPTEMBER 2012 - AUGUST 2013

Positive	Weight	% Chg.	Contribution	Negative	Weight	% Chg.	Contribution
Meals outside the home	11.7	5.3	0.66	Onion	0.4	-54.1	-0.34
Education (fees and tuition)	8.8	5.0	0.46	Sugar	0.5	-24.3	-0.18
Poultry meat	3.0	14.2	0.40	Citrics	0.5	-13.0	-0.09
Potato	0.9	41.4	0.34	Telephone rates	2.9	-3.1	-0.07
Urban fares	8.5	3.3	0.27	Papaya	0.2	-27.1	-0.06
Fresh and frozen fish	0.7	30.8	0.24	Corn	0.1	-13.3	-0.03
Electricity rates	2.9	4.6	0.13	Rice	1.9	-1.2	-0.02
Purchases of vehicles	1.6	7.0	0.10	Judicial expenditure	0.4	-3.8	-0.01
Spices and seasonings	0.5	16.6	0.09	Avocado	0.1	-9.6	-0.01
Gasoline and oil	1.3	4.7	0.07	TV set	0.5	-2.8	-0.01
Total			**2.76**	**Total**			**-0.82**

Inflation components at August 2013

88. In the period January-August, **meals outside the home** accumulated a variation of 3.5 percent, which was associated with the rise in the price of food (3.3 percent in the case of food and beverages consumed at home). The variation in the last twelve months was 5.3 percent, higher than the total variation of food and beverages consumed in the household (3.8 percent) and higher than the general price index (3.3 percent), which would be reflecting the dynamism of domestic demand.

    Education costs (tuition and fees) recorded a growth rate of 4.8 percent in the period of January-August. The greatest variation was observed in March (4 percent) due to the beginning of the school year. Increases in the cost of education in private schools and universities were observed in the other months.

    The **price of fresh and frozen fish** increased 46.6 percent due to the presence of anomalous waves and below-normal sea temperatures, which confirmed the occurrence of an episode of La Niña at the beginning of August and resulted in a lower availability of fish species. Price rises worth highlighting included the rise in the price of bonito (87.9 percent) and perico (86.9 percent). On the other hand, the price of mackerel rose 25.7 percent because climate alterations hindered fishing and prevented the industrial fleet from reaching the fishing quota established for this species.

    The price of **potatoes** increased 17.0 percent in January-August, reflecting rises in the months of July and August (18.7 and 8.8 percent, respectively) as a result of the culmination of the large crop season in the central highlands and the lower production obtained in some regions (Huancavelica, Pasco, and Ayacucho) which were affected by heavy rains at the beginning of the year. The production of white potatoes was also affected by the delay of cultivation in the coast region due mainly to climate anomalies. The greatest price rise (19.0 percent) was observed in August in the variety of yellow potatoes that comes mostly from Huánuco due to lower yields associated with adverse weather conditions, as well as due to the higher cost of labor and the strong demand for this crop.

    Electricity rates rose 5.5 percent. The highest increases were observed in the months of February (2.3 percent), June (2.1 percent), and August (2.6 percent), as a result of price adjustments decreed by Osinergmin to update the costs of the main components of this rate (generation, transmission, and distribution). The implementation of new transmission lines also influenced these rate increases.

    The item **purchases of vehicles** increased 8.7 percent. This increase was associated with the depreciation of the exchange rate (9.2 percent in the first eight months of the year).

    The prices of **fuels and lubricants** increased 7.4 percent, reflecting the higher international price of WTI oil which rose from US$ 88.2 in December 2012 to US$ 106.6 in August (20.8 percent).

The price of **sugar** dropped 16.1 percent as a result of a higher level of supply and the lower international prices of sugar –the price of contract 5 sugar declined from US$ 574 in August 2012 to US$ 516 per ton in December 2012 and to US$ 490 per ton in August 2013). In the period of January-May, the production of sugar cane was favored by appropriate climate conditions and increased 12.1 percent from January to July compared with the same period of 2012.

The price of **onions** decreased 12.5 percent. Price rises were observed in the months of April and May (4.7 and 7.9 percent, respectively) due to seasonal factors and to climate alterations that affected production in Arequipa, Lima's main supplier of onions. The price fell in June (-8.6 percent) due to the lower quality of the crops and then in July (-2.4 percent) and August (-5.1 percent), after which the supply coming from Arequipa started recovering due to better yields obtained as a result of seasonal factors and the absence of pests.

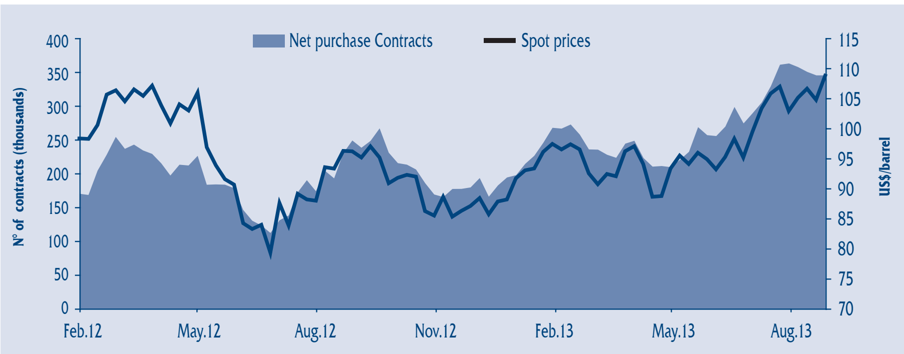
Fuel and food prices

a. Fuels

89. During the past three months, the monthly average price of WTI **oil** continued to grow and accumulated an increase of 20.7 percent, reaching an average price of US$ 106.5 per barrel in August.

The increase in the price of oil was associated with the deepening of geopolitical risks in the Middle East and North Africa, in a context of limited available capacity to face production cuts by the OPEC countries. The impact of production cuts in Iraq, Libya, and Nigeria, as well as fears that the Syrian conflict might spread and involve other countries in the region, and concerns that the situation in Egypt could lead to closing the Suez Canal has generated an increase in speculative demand. Net non-commercial positions of oil reported by the Commodity Future Trading Commission increased 77 percent in the first eight months of the year and 34 percent in the last three months.

Graph 101
OIL: NON-COMMERCIAL CONTRACTS



However, the impact of reported unusually high production cuts on the prices of crude oil has been offset by a demand which still shows weak growth. Additionally, the production of the United States, which has been unexpectedly higher than projected initially, is estimated to account for around 80 percent of the growth of supply in countries not members of the OPEC.

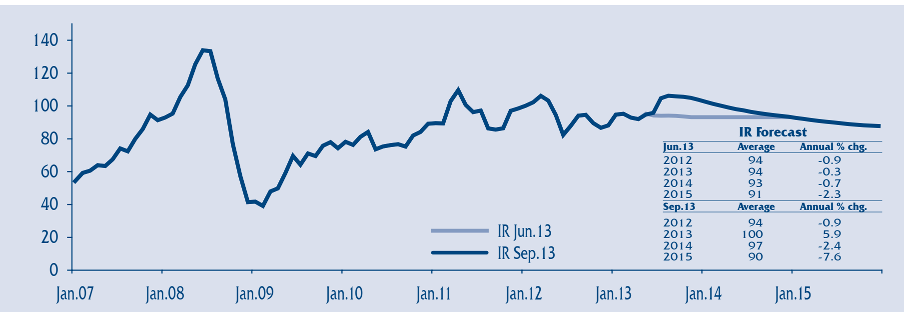
Table 52
OIL AND LIQUID FUELS SUPPLY AND DEMAND
(Million barrels per day)

	2012	2013*	2014*
Supply	89.15	89.73	91.56
OPEP	36.41	35.88	35.94
Non-OPEP	52.74	53.85	55.62
Consumption	89.05	89.93	91.14
OECD	45.90	45.47	45.27
Non-OECD	43.15	44.46	45.87
Market balance	0.10	-0.20	0.42
Inventories at the end of period (million barrels)			
Inventories in USA	1,111	1,094	1,095
Inventories OECD	2,648	2,648	2,705

* Forecast.
Source: Short Term Energy Outlook, August 2013.

This scenario considers that the price of WTI oil will show levels slightly higher than those estimated in our previous Inflation Report. However, both upward and downward risk factors remain high. The probability of price increases remains high due to the recurrent political tensions in the Middle East. The potential threat of further cuts in production in a context of the OPEC's limited flexibility to counter the fall in supply will push the price upwards, both this year and in 2014. On the other hand, the probability that prices may decrease is associated with a higher-than-expected production of crude oil in the United States and with a prompt settlement of the conflicts in the Middle East.

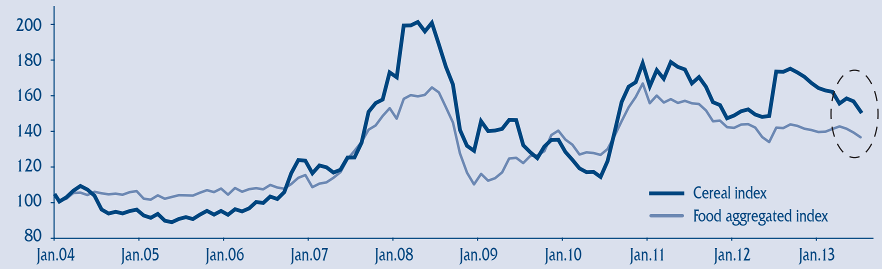
Graph 102
WTI OIL: JANUARY 2007 - DECEMBER 2015
(US$/bl)



b. Imported food products

90. Year-to-date, FAO's real price index has declined 3.0 percent, falling for the third straight month in August due to the decline in the prices of cereals, dairy products, and oils and fats.

Graph 103
FAO REAL FOOD PRICE INDEX*
(Base 2002 - 2004 = 100)



* The real price index is the index of nominal prices deflated by the unit value of manufactures of the World Bank.

According to the U.S. Department of Agriculture's World Agricultural Supply and Demand Estimates report of August 2013, the global production of most food products will increase in the new 2013/14 crop year compared to production in the 2012/13 crop year as a result of harvests that would reach near-record levels in South American and European producer countries and in the United States. Based on estimates of global final inventories, less tight conditions would be expected for maize this year, but tighter conditions are foreseen for wheat and soybean oil.

Table 53
USDA: BALANCE OF GLOBAL SUPPLY AND DEMAND
(Million tons)

	2011/12	2012/13	2013/14	% change	
	(3)	(2)	(1)	(2)/(3)	(1)/(2)
MAIZE					
Initial stock	128.3	132.4	123.1	3.2	-7.0
Production	883.3	858.8	957.2	-2.8	11.5
Global supply	**1,011.6**	**991.2**	**1,080.3**	**-2.0**	**9.0**
Total consumption	879.2	868.1	930.1	-1.3	7.1
Final stock	132.4	123.1	150.2	-7.0	22.0
WHEAT					
Initial stock	199.2	199.6	174.4	0.2	-12.6
Production	697.2	655.3	705.4	-6.0	7.6
Global supply	**896.3**	**854.8**	**879.8**	**-4.6**	**2.9**
Total consumption	696.8	680.4	706.8	-2.3	3.9
Final stock	199.6	174.4	173.0	-12.6	-0.8
SOYBEAN OIL					
Initial stock	3.7	3.9	3.8	4.0	-2.8
Production	42.6	42.7	44.3	0.4	3.8
Global supply	**46.3**	**46.6**	**48.1**	**0.6**	**3.2**
Total consumption	41.9	42.5	44.2	1.3	4.0
Final stock	3.9	3.8	3.6	-2.8	-3.7

Source: USDA - WASDE August 2013.

Maize

91. The average international price of **maize** in August was US$ 235/metric ton, 16.5 percent lower than the average price at the close of December 2012. This variation reflects mainly the drop in the average price registered in the months of July and August (-5.3 percent and -9.2 percent compared to the previous month, respectively), which reflected expectations of increased production in the USA as a result of better crop yields associated with favorable weather conditions.

    Even though the U.S. Department of Agriculture (USDA) revised down the estimated world production of maize in July and August for the 2013/2014 crop year, the projected production is still higher than the one obtained in the 2012/2013 crop year. Moreover, global demand has also been revised down by 2.3 million tons due to the lower consumption of maize both as forage and food in the USA, although this has been in part offset by the increase in the estimated consumption of Egypt, Ukraine and South Korea. Together with forecasts of favorable weather conditions, these aspects would continue pushing down the price of maize. Because of the above, the price of maize is estimated to show lower levels than the ones considered in our previous report.

Graph 104
MAIZE: JANUARY 2007 - DECEMBER 2015
(US$/MT)

Wheat

92. At August, the international price of **wheat** has accumulated a decline of 14.3 percent, closing August with an average level of US$ 259/ton. This accumulated decline reflects the price drops recorded in the months of June and July (3.3 and 3.5 percent compared to the previous month, respectively), associated with expectations of a higher yield as a result of favorable climate conditions in the USA and Canada mainly. During the month of August, the price recorded a slight

average increase relative to the previous month, associated with the hot dry weather registered in the second half of the month, which generated concerns that this could affect the cereal yield.

The USDA revised upwards the estimated world production of wheat in July and August. The increase in wheat production would be driven by greater harvests in the European Union (Spain, France, and Germany), Kazakhstan –where abundant rain in summer and spring have favored greater yield of this cereal–, and Ukraine, given the high production obtained in the last harvest.

The USDA has also revised upwards the estimated world production of wheat in the previous two months. This increase is due to the higher use of wheat as food and as fodder, especially in the Eurozone and China. Considering the record harvest levels obtained in Canada and the USA and considering that favorable climate conditions will continue, the price of wheat is expected to register lower levels than the ones foreseen in our previous report.

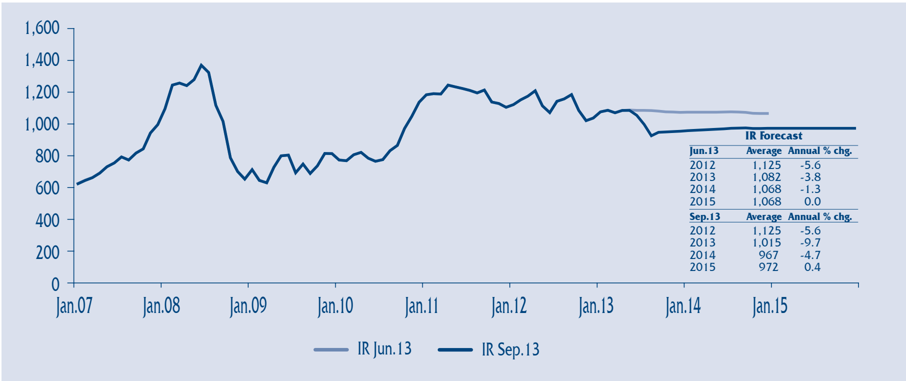
Graph 105
WHEAT: JANUARY 2007 - DECEMBER 2015
(US$/MT)

Soybean oil

93. The average price of **soybean oil** was US$ 933/ton in August, 10.1 percent lower than the average price at end-2012. This price declined in the past three months at a rising pace: 3.0 percent, 5.5 percent, and 6.3 percent in June, July, and August, respectively. This steady decline in the price of soybean oil is due to the favorable climate conditions for these crops in the USA, as well as to reports of the USDA indicating better expected yields than in the previous year.

A higher production than in 2012 is also expected in Canada, Brazil, and Argentina and cultivated areas with soybean in the USA have also been estimated to be higher. Considering these factors, it is estimated that the price of soybean oil will register lower levels than those considered in the previous Inflation Report.

Graph 106
SOYBEAN: JANUARY 2007 - DECEMBER 2015
(US$/MT)



Jun.13	Average	Annual % chg.
2012	1,125	-5.6
2013	1,082	-3.8
2014	1,068	-1.3
2015	1,068	0.0
Sep.13	**Average**	**Annual % chg.**
2012	1,125	-5.6
2013	1,015	-9.7
2014	967	-4.7
2015	972	0.4

c. **Perishable food products**

94. **Perishable farming food products** would accumulate this year an increase of 1 percent (versus 5 percent in 2012). This is mainly explained by the reversal of shocks in products such as onions, which contributed to a slower pace of growth in the prices of these products in the first 8 months of the year compared to last year (3.2 percent versus 9.6 percent, respectively). In the rest of the year, the price of potatoes is expected to decline due to the increased supply foreseen from areas such as Huánuco, Ica, and the provinces of Lima, whose crops have shown some delay.

Fish is another food products whose price is expected to fall as the supply normalizes once sea temperatures return to their normal ranges. An improvement in bonito fishing is already being observed in the North Coast areas. In addition, the industrial fishing of mackerel would be authorized in these days as well.

Expectations of inflation

95. Economic agents' expected levels of inflation for this year continue to be within the target range, a slight rise in the forecasts being observed.

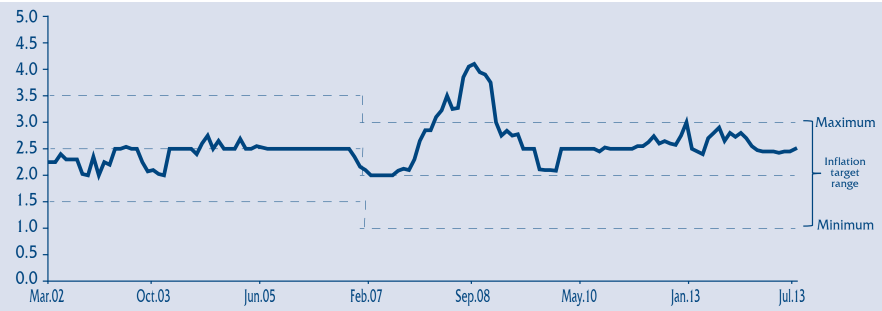
Table 54
SURVEY ON MACROECONOMIC EXPECTATION: INFLATION END OF PERIOD
(%)

	Expectations about:		
	IR Mar.13	IR Jun.13	IR Sep.13*
Financial entities			
2013	2.7	2.5	2.8
2014	2.5	2.5	2.5
2015	-.-	2.5	2.5
Economic analysts			
2013	2.5	2.5	2.7
2014	2.4	2.4	2.5
2015	-.-	2.3	2.4
Non-financial firms			
2013	3.0	2.7	3.0
2014	3.0	2.8	3.0
2015	-.-	2.8	3.0

Source: Survey conducted during the second fortnight of August 2013.
IR: Inflation Report.

According to the BCRP survey on macroeconomic expectations, inflation expectations for next year have also been stable in recent months and remain within the target range.

Graph 107
INFLATION EXPECTATIONS FOR THE NEXT YEAR: 2012-2013*
(%)



* Corresponds to the average of the expectations of the financial system and economic analysts.

Forecast

96. In August, inflation in the last 12 months recorded a rate of 3.28 percent, slightly above the upper band of the target range. The central forecast scenario considers that inflation has been recently affected by transitory factors and is therefore expected to return to the target range in the last quarter of the year and to converge towards the middle point of 2.0 percent in 2014. No major inflationary pressures associated with increases in the prices of food commodities or with

domestic demand are foreseen in this scenario, and monetary policy actions are expected to maintain inflation expectations anchored within the target range. The rate of inflation in the period of 2013 to 2015 is forecast to be within the range of 1.5 – 2.5 percent.

Table 55
INFLATION 2009-2013
(Last 12 month % change)

	Weight	2009	2010	2011	2012	2013*		
						August	IR Jun.13	IR Sep.13
CPI	**100.0**	**0.2**	**2.1**	**4.7**	**2.6**	**3.3**	**2.3**	**2.9**
Food and energy	**43.6**	**-0.9**	**3.0**	**7.7**	**3.6**	**4.3**	**2.6**	**3.3**
a. Food	37.8	0.6	2.4	8.0	4.1	4.2	2.4	2.8
b. Energy	5.7	-10.4	6.8	6.0	0.2	4.4	4.3	6.8
CPI withouth food and energy	**56.4**	**1.7**	**1.4**	**2.4**	**1.9**	**2.5**	**2.1**	**2.6**

IR: Inflation Report.
* Forecast.

Non-core inflation is estimated to be lower than 2 percent in 2013 as a result of better climate conditions and a favorable evolution in the international prices of food products. This rate would revert to the middle point of the target range as from 2014.

The main factors affecting the path of **core inflation** are the output gap, imported inflation, and expectations of inflation. The central scenario considers that the output would grow at similar levels to those of the potential output in the 2013-2015 forecast horizon, which would be confirming a neutral economic cycle. Therefore, no major demand inflationary pressures are expected in this period. Moreover, the component of imported inflation is expected to normalize in the central forecast horizon and have a positive effect on core inflation. Finally, inflation expectations are expected to remain anchored within the target range and gradually converge to the middle point of the target range, as has been reflected in the survey on macroeconomic expectations so far this year.

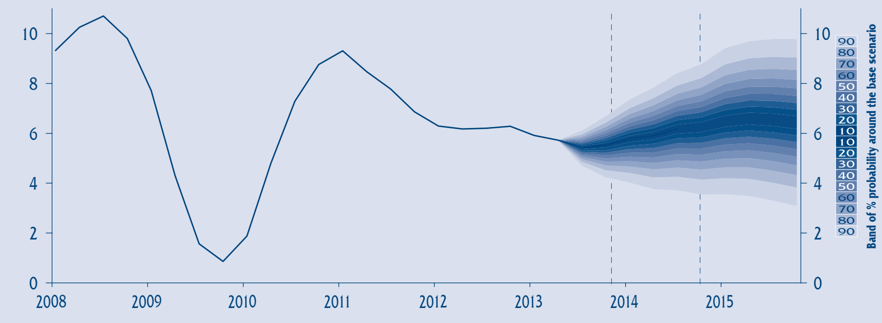
The central forecast scenario for 2013 considers that the Peruvian economy would grow 5.5 percent, registering a lower growth rate than the one forecast in our Report of June (6.1 percent). This downward revision is explained by the slowdown of private economic activity observed during the first semester of the year, together with a deterioration of terms of trade and business confidence, partially offset by a more dynamic government spending. The central forecast scenario considers that these factors are transitory and therefore GDP in 2014 is forecast to grow within a range of 6.1 and 6.5 percentage points (the same range forecast in our Report of June).

Every forecast is subject to the occurrence of unanticipated events that may divert it from its central scenario. In this context of uncertainty, the materialization of some risks could imply a different rate of growth of GDP than the one projected originally. The risk scenarios considered in this report are described in the chapter of Balance of Risks.

A scenario of domestic risks could include adverse demand shocks associated with delays that hinder private investment, as well as possible difficulties in implementing public spending as programmed, which would negatively affect business confidence. In this scenario, the decline in business confidence is more persistent than in the baseline scenario. Furthermore, uncertainty remains high about whether the evolution of the global economy will contribute to deteriorate macroeconomic conditions or not. The withdrawal of monetary stimulus in developed countries could promote the outflow of foreign capital, which could have a negative impact on credit to the private sector and ultimately on economic growth.

The balance of risks for GDP growth is low. In other words, the probability that the growth of GDP will divert below the forecast in the baseline scenario is higher than the probability that it will divert above this forecast.

Graph 108
FORECAST OF GDP GROWTH 1/, 2013 - 2015
(Interanual % change)



Memo: The graph shows the probability of occurrence of GDP growth forecasts in the future, the values of which were established combining statistical analysis (using data as of April 2013) and the subjective perception of the BCRP. Thus, in each period of the forecast horizon, each pair of bands with the same shade concentrates a probability of 10%.
1/ GDP growth is defi ned as the percentage change of the moving average in four quarters compared to the same quarter of the previous year. Thus, the figure in Q4 coincides with the GDP growth rate in the year.

97. The **output gap** reflects cyclical fluctuations in economic activity that become inflationary pressures on the demand side. This gap is affected by various kinds

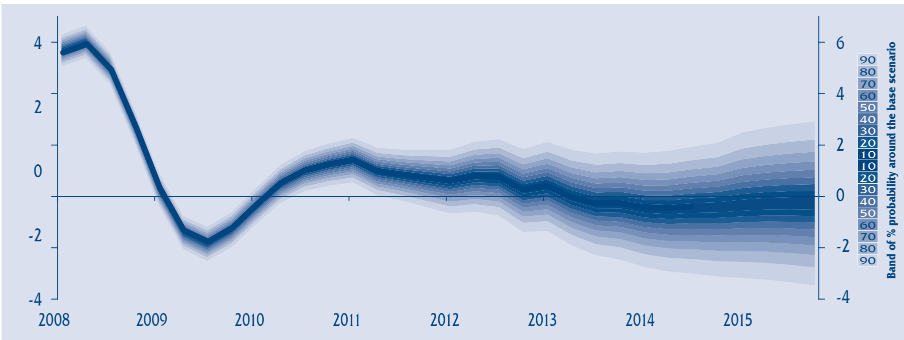
of impulses: the external impulse, the fiscal impulse, the private impulse, and the monetary impulse.

On the external front, the external impulse is expected to be lower due to the downward revision of the projected growth rate of our commercial partners and the corresponding reduction in terms of trade. In addition, this forecast scenario also considers a negative fiscal impulse of 1.1 percent in 2013, in line with a higher growth of public expenditure. Thus, in 2013 the negative contribution of the external impulse on the output gap would be offset by the fiscal impulse. In 2015, both the fiscal impulse and the external impulse would be close to zero.

The baseline scenario also considers that the reduction of business confidence observed during the first months of the year is transitory and that business confidence would improve as from 2014. Therefore, both private investment and private consumption are expected to maintain their dynamism, which would translate into a neutral private impulse in the forecast horizon.

Finally, the baseline forecast scenario considers a monetary policy position which would not be substantially different in the short term from the one observed today. A suitable monetary policy position contributes to maintain inflation expectations anchored, especially in the context of persistent significant shocks that affect sensitive products of the CPI basket and indicators of economic activity.

Graph 109
OUTPUT GAP: 2008 - 2015
(% potential GDP)



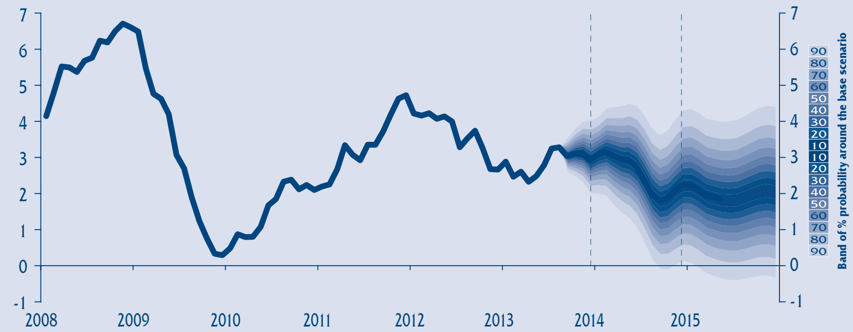
The Central Bank will continue to pay careful attention to developments in the world economy and in the domestic economy to adjust, if required, its monetary stance to ensure that inflation remains within the target range.

98. The evolution of the variables described above affect the path of inflation in the baseline scenario. However, due to uncertainty about future developments in the domestic economy and in the global economy, other scenarios that incorporate alternative projection assumptions –in which inflation diverts from the path in the baseline scenario– are also evaluated.

This is shown in the graph illustrating the inflation forecast. The darker bands contain the path of inflation in the baseline scenario, which shows a probability of occurrence of about 70 percent. The alternative forecast scenarios, which are described in the section of Balance of Risks, have a total probability of occurrence of 30 percent.

Based on data available at August 2013, the probability that inflation will be within the target range in 2013 and 2014 is approximately 60 percent, while the probability that it will be below 3 percent is 70 percent.

Graph 110
INFLATION FORECAST: 2013-2015
(Last 12 months % change)



Memo: The graph shows the probability of occurrence of inflation values in the future: These values were established combining statistical analysis and the balance of risk of BCRP. Thus, in each period of the forecast horizon, each pair of bands with the same shade concentrates a probability of 10%. This can be interpreted as that 10 of every 100 possible future values of inflation are expected to fall within the darkest bands (located in the center), that contain the baseline scenario trajectory.

Box 4

EXCHANGE RATE-TO-INFLATION PASS-THROUGH

In an open economy, changes in the nominal exchange rate tend to affect the behavior of inflation. This phenomenon is known as the "pass-through effect" and having an idea of its magnitude and duration is crucial for a central bank, as the channel of monetary policy transmission depends on this phenomenon. When the pass-through effect is high, a change in the exchange rate only affects inflation and is not reflected in the real exchange rate. On the other hand, when the pass-through effect is low, movements in the nominal exchange rate are reflected in the real exchange rate and therefore this variable facilitates the economy's adjustment to external shocks.

At the **microeconomic** level, the pass-through effect depends on importers and producers' capability to transfer higher costs to the consumer. In turn, this capability is determined by the degree of substitution between goods and by market competition. Thus, for example, greater trade openness can reduce the pass-through effect over time. In addition to this, at the macroeconomic level, the magnitude of the pass-through effect depends on importers and producers' perception of the nature of the exchange rate shock –whether it is perceived as a transitory or a permanent shock–, as well as on the credibility of the Central Bank's monetary policy to maintain inflation at low and stable levels. When the shock is temporary, agents expect a rapid reversal of the exchange rate and prefer to temporarily reduce their profits given that a price adjustment is comparatively more expensive. Conversely, when the shock is permanent, the price adjustment is almost immediate. Likewise, when a central bank has credibility, the pass-through effect is low.

In the case of Peru, recent empirical evidence indicates that the magnitude of the pass-through effect is low and that it is around 10 percent (Winkelried, 2012). This implies that an increase in the exchange rate in Peru generates a one-time increase in inflation associated with a change in relative prices and that, therefore, it does not generate persistent increases in inflation. However, the pass-through effect can also be non-linear. Winkelried (2003) found that the pass-through effect depends on a series of variables, including the magnitude itself of the depreciation of the nominal exchange rate, the economic cycle, the misalignment of the real exchange rate, the inflationary context, and the dollarization of the economy. For example, in periods of economic boom, if there is a strong nominal depreciation, a context with high inflation and a high degree of dollarization, the pass-through effect is stronger, whereas on the other hand, in periods of recession, if there is a moderate or mild nominal depreciation, stable inflation, and a low degree of dollarization, the pass-through effect is weaker.

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VII. Balance of Risks

99. The baseline scenario for the inflation forecast takes into account relevant data on macroeconomic and financial variables as well as information on the domestic and international environment that is complemented with qualitative information not necessarily included in statistical data.

Given that the forecast process is not free from uncertainty about future developments in the domestic and in the global economies, other scenarios including alternative forecast assumptions that, in the long run, divert inflation from the baseline scenario are also evaluated in the balance of risks.

The balance of risks results from assessing the relative significance that each of the risk factors has on the inflation forecast. The expected impact of a risk factor on inflation depends on two components: first, the magnitude of deviation of the inflation forecast in the risk scenario compared to the baseline scenario, and second, the probability of occurrence assigned to each risk scenario. Together, these two factors determine the bias of the inflation forecast in the balance of risks.

As in our Report of June, the main risks that could divert the rate of inflation from the baseline scenario in the forecast horizon are associated with uncertainty about the evolution of the global economy and the international flow of capitals, the impact of commodity prices in international markets, and a higher imported inflation in soles. The balance of these risks today is neutral.

The **downward risks** in the inflation forecast are external factors associated with the possible deterioration of the world economy, including a stronger slowdown in the growth of the emerging economies, and internal factors associated with the dynamics of expectations of business confidence.

a. Slowdown of domestic demand

Business confidence is an important determinant of private investment, so if it deteriorated it would contribute to a lower dynamism in domestic demand, which would result in a lower output gap and consequently in lower inflation. The recent evolution of public expenditure and the implementation of public investment projects suggest that the fiscal impulse would in part offset the negative effects of the deterioration of business confidence in the forecast horizon.

Should these risks materialize, the Central Bank would respond easing monetary conditions to maintain inflation within the target range.

b. Deterioration of the international environment

The probabilities that the United States will go through a recession period or that the recession in Europe will deepen have declined compared to the probabilities considered in our last report. However, there are higher probabilities that the emerging economies may experience a greater slowdown. A deepening of these risk conditions would entail lower global dynamism and a weakening of external demand, which would affect the domestic economy through financial and trade channels.

The FED is expected to start gradually withdrawing monetary stimulus as from the end of 2013. An earlier and less gradual withdrawal of quantitative easing could bring about a rapid and disorderly adjustment in the exchange rate and in the interest rates of Public Treasury bonds in our economy given the high participation of non-resident investors in these domestic securities.

Should these risks materialize, the Central Bank would use the significant amount of international reserves the country has and several liquidity injection mechanisms, both in national currency and in foreign currency, to offset the impact of these shocks on domestic financial conditions. The Central Bank would respond to such macroeconomic conditions by easing monetary conditions.

On the other hand, the **upward risks** for inflation are associated with the dynamics of commodity prices and other prices sensitive to supply factors

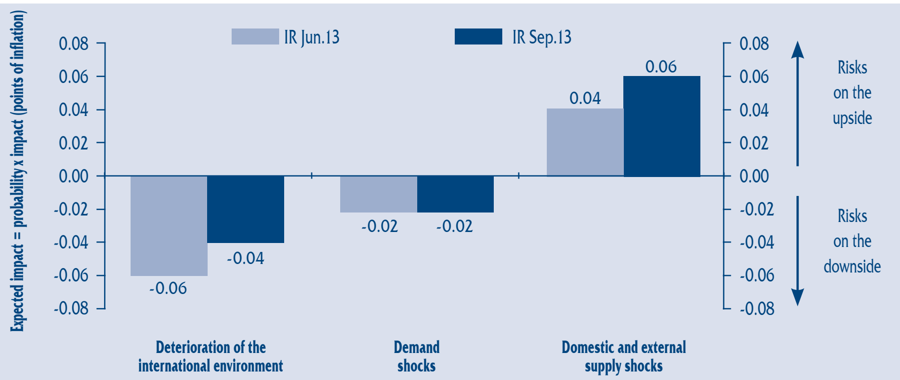
c. Domestic and external shocks

The baseline scenario considers that commodity prices will remain relatively stable next year. In the external front, the risks considered include the risk of higher international prices of crude oil and oil derivatives given the political tensions associated with a possible military intervention in Syria. In the domestic front, on the other hand, the baseline scenario considers the risk that fisheries could have higher prices due to adverse weather conditions.

In this scenario, the Central Bank would adjust its monetary position only if these inflationary shocks were to affect and increase economic agents' expectations of inflation.

Because the effects of risk factors pushing inflation downwards are offset by the effects of risk factors pushing it upwards, **the balance of these risks is neutral** for the rate of inflation forecast for mid-2015.

Graph 111
BALANCE OF RISKS AGAINST THE BASE SCENARIO



Memo: The risk assessment describes how exogenous factors would affect the rate of inflation forecast for 2 years ahead if such risks materialized. Each bar in the graph illustrates the magnitude and direction of the effect of these factors, i.e., the expected impact in alternative forecast scenarios. This impact is calculated as the difference between the inflation forecast in the baseline scenario and inflation projections in several scenarios considering different assumptions, multiplying this difference by the probability of occurrence assigned to such alternative assumptions. The sum of the bars –the risk balance– indicates how these risk factors as a whole would divert inflation from the baseline scenario in the medium term.

Conclusion

100. Because the faster pace of inflation observed recently is associated with transitory factors, inflation is expected to converge to the target range when these factors disappear. The path of inflation during the 1013-2015 horizon would remain within the target range. The balance of risks is neutral.

Even though the estimated rate of GDP growth has been revised down, GDP will continue to grow at rates not too distant from the economy's potential level of growth, with a dynamic evolution in domestic demand and with a recovery of net exports in the next years.

The Central Bank will continue to pay careful attention to developments in the world economy and in the domestic economy, as well as in expectations of inflation and stands ready to adjust its monetary stance if it is necessary to ensure that inflation remains within the target range.