INFLATION REPORT

April 2014

Recent trends and macroeconomic forecasts 2014-2015

BANCO CENTRAL DE RESERVA DEL PERÚ

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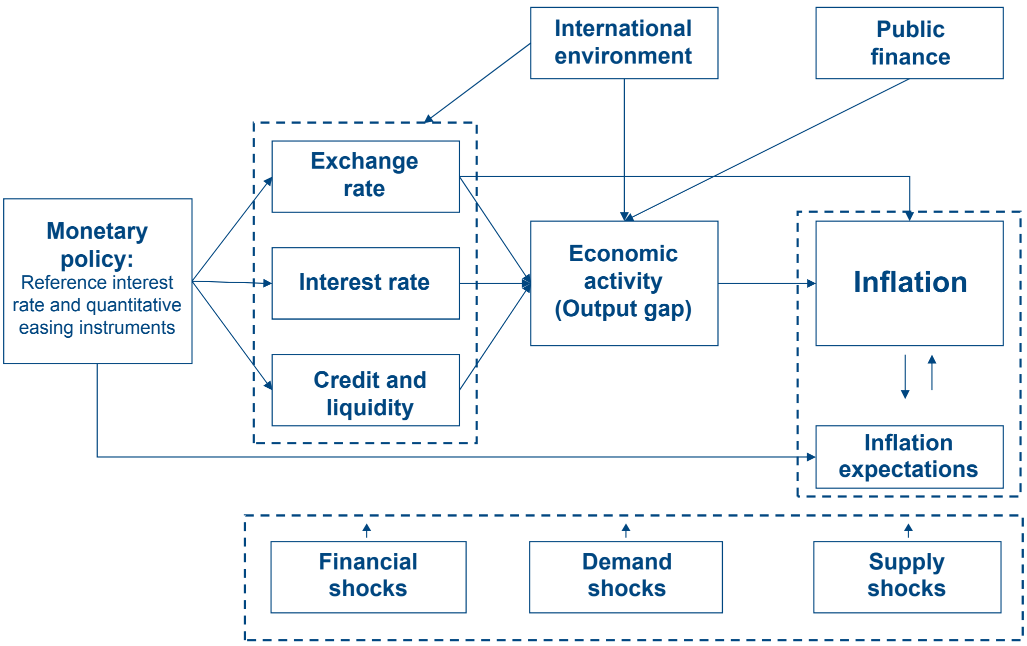

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CONTENT

BOXES

This ***Inflation Report*** was prepared with Balance of Payments and Gross Domestic Product data for 2013, and Non Financial Public Sector, monetary accounts, inflation, financial markets and exchange rate data to March 2014.

Foreword

- According to the Constitution of Peru, Banco Central de Reserva del Perú (BCRP) is an autonomous public entity, whose aim is to preserve monetary stability.

- To achieve this goal, BCRP executes its monetary policy by following an Explicit Inflation Targeting scheme. The inflation target is in a range between 1,0 percent and 3,0 percent. In this way, BCRP seeks to keep inflation in line with developed economies' and maintain currency stability.

- Monetary policy anticipates inflationary or deflationary pressures. Additionally, it is taken into account that inflation can be influenced by factors that are beyond the control of Banco Central's actions, such as internal supply shocks or imported goods price fluctuations. As a result, transitory deviations from the target may occur. Moreover, in its evaluations BCRP takes into account yearly adjusted monthly consumer price increases, and not only end-of-year figures.

- Following an announced agenda, the BCRP Board sets each month the benchmark interest rate for the inter-bank loan market. This interest rate is the monetary policy's operative goal that affects the inflation rate through lags and different channels. For this reason, this rate is fixed based on macroeconomic forecasts and simulations.

- Additionally, Banco Central adopts preventive measures to ensure financial stability and the monetary policy's transmission mechanisms. Through intervention on money circulation, Banco Central seeks to mitigate excess volatility of the exchange rate and to accumulate foreign currency reserves, to counter eventual adverse events in an economy that still exhibits high financial dollarization.

- This Inflation Report includes macroeconomic forecasts that support the monetary policy decisions of Banco Central, as well as the risk factors that can modify these forecasts.

Summary

i. The **global growth** forecasts have been revised slightly downwards, in line with the developments observed in emerging economies such as China, Brazil and Russia, that account for 20.5 percent of the global economy, expected to expand 3.4 percent in 2014, or lower than the initial 3.6 percent December forecast. For 2015, a global growth of 3.8 percent is expected, reflecting the recovery of developed economies.

ii. **GDP growth** forecast for 2014 has been revised downwards, 6.0 percent in the Inflation Report of December 2013 to 5.5 percent, mainly due to a revision of the growth forecast of primary activity from 5.2 percent to 3.1 percent. The most important revision regards the metal mining subsector, down from 9.1 percent to 1.9 percent due to lower copper grades. For 2015, the GDP has been revised upwards to reflect the beginning of operations of major metal mining projects.

iii. The **balance of payment's current account** this year should improve with a forecast deficit falling from US$10.1 billion forecast in the Inflation Report of December to US$9.0 billion in this Report, thanks to the tax effect of company sales between non-resident agents. The deficit in the balance of payment's current account, as a percentage of GDP, would fall from 4.3 percent in 2014 to 3.9 percent in 2015 thanks to larger exports that year, driven by certain new mining projects.

iv. For 2014, the **economic result for the non-financial public sector** forecast has risen from 0.1 percent to 0.3 percent of GDP, after the effect of windfall tax revenues that may increase the general government's current income from 21.6 percent in December's forecast to 22.5 percent of GDP. This improvement mainly includes revenues from income tax associated with the sale of shares of non-domiciled companies. The forecast of non-financial expenditure rose from 20.5 to 21.0 percent of GDP in line with the budget.

v. The Board decided to keep the **monetary policy benchmark interest rate** at 4.0 percent. This decision is based on inflation converging (3.38 percent in March) towards the goal range for 2014 total 2.0 percent in 2015. This forecast takes into account: (i) the reversion of supply shocks (principally for some perishable foods), (ii) a growth pace of economic activity slightly below its potential, and (iii) inflation expectations within the target range. BCRP also continued reducing its **reserves** in sols with the aim of providing more financing sources for domestic

currency credit. Credit in soles grew 25.0 percent in March, while credits in dollars only increased 1.4 percent. The last decrease in the soles reserve from 12.5 percent to 12.0 percent went in force in April.

vi. The **inflation rate** for the first quarter of 2014 was temporarily above the goal range, influenced by evolving supply factors that impacted prices, mainly of some foodstuffs. BCRP maintains its forecast of steadily falling inflation in the coming months to 2 percent for the horizon forecast of 2014-2015. This scenario excludes demand inflationary pressures in the forecast horizon and inflation expectations remaining in the target band.

vii. The main risks that could deviate the inflation rate from the main scenario forecast are similar to those contemplated in the December Inflation Report and are associated to lower global growth, a larger slowdown in domestic demand than contemplated in the main scenario, and to internal as well as external supply shocks. The **balance of these risks is neutral**, as upwards and downwards deviation probabilities would cancel each other.

FORECAST SUMMARY

	2012	2013	2014 1/		2015 1/	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
Real % change						
1. GDP	6.0	5.6	6.0	5.5	6.5	6.7
2. Domestic demand	8.0	6.8	6.0	5.4	6.1	6.1
a. Private consumption	6.1	5.3	5.2	5.1	5.4	5.4
b. Public consumption	8.1	6.7	6.3	6.1	4.2	4.7
c.,Private fixed investment	15.6	6.0	6.3	6.0	6.6	6.6
d. Public investment	19.1	12.5	15.5	15.5	14.6	12.5
3. Exports (goods and services)	3.7	-0.9	6.3	3.3	10.9	8.2
4. Imports (goods and services)	11.3	3.6	6.3	3.3	7.9	5.6
5. Economic growth in main trading partners	2.8	2.6	3.1	3.0	3.3	3.2
Memo:						
Output gap 2/ (%)	0.5	0.0	-0.5 ; +0.5	-0.5 ; +0.5	-0.5 ; +0.5	-0.5 ; +0.5
% change						
6. Inflation	2.6	2.9	1.5 - 2.5	2.5 - 3.0	1.5 - 2.5	1.5 - 2.5
7. Average price of crude oil	-1.0	4.0	-0.8	-0.4	-3.1	-8.3
8. Nominal exchange rate 3/	-4.8	8.5	2.0	2.3	0.4	0.9
9. Real multilateral exchange rate 3/	-7.2	0.7	1.7	-0.3	0.5	-0.2
10. Terms of trade	-2.1	-4.7	-2.2	-2.8	-0.1	0.3
a. Export price index	-2.2	-5.5	-4.5	-3.2	0.3	-0.1
b. Import price index	-0.2	-0.8	-2.4	-0.4	0.4	-0.5
Nominal % change						
11. Currency in circulation	18.3	9.3	12.7	10.6	11.9	14.5
12. Credit to the private sector 4/	15.4	13.3	13.5	14.2	12.0	14.7
% GDP						
13. Gross fixed investment rate	25.8	26.6	28.2	27.4	28.6	27.7
14. Current account of the balance of payments	-3.3	-4.6	-4.6	-4.3	-4.2	-3.9
15. Trade balance	2.7	0.0	0.0	-0.4	0.7	0.1
16. Gross external financing to the private sector 5/	10.8	9.5	6.4	7.4	6.2	6.3
17. Current revenue of the general government	22.3	22.2	21.6	22.5	21.7	22.0
18. Non-financial expenditure of the general government	19.3	20.5	20.5	21.0	20.7	21.3
19. Overall balance of the non-financial public sector	2.3	0.9	0.1	0.3	0.0	-0.3
20. Total public debt balance	20.4	19.6	17.2	19.0	16.4	18.3

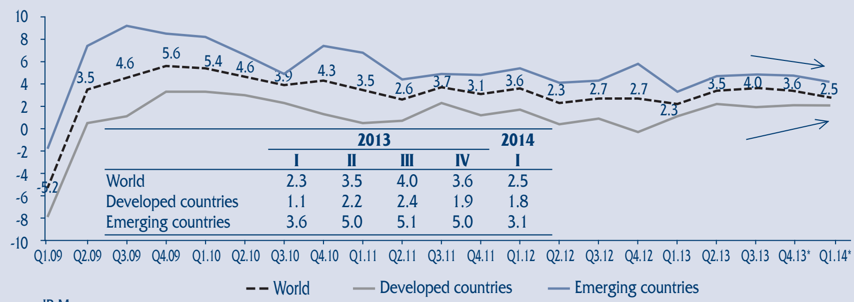
IR: Inflation Report.
1/ Forecast
2/ Differential between GDP and potential GDP (%).
3/ Survey on exchange rate expectations.
4/ Includes loans made by banks' branches abroad.
5/ Includes Foreign Direct Investment, portfolio investment, and private sector's long-term disbursement.

I. International environment

Ouput

1. Global economic activity indicators for Q1 2014 point to, on the one hand, an upward trend in developed economies and, on the other, signs of slower output growth rates in China, Brazil and Russia, mainly. Thus, the global GDP quarterly growth indicator would have evolved from 3.6 percent in Q4 2013 to 2.5 percent in Q1 this year, resulting in growth figures of 1.9 percent to 1.8 percent in developed economies and 5.0 percent to 3.1 percent in emerging economies over the same time period.

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



	2013				2014
	I	II	III	IV	I
World	2.3	3.5	4.0	3.6	2.5
Developed countries	1.1	2.2	2.4	1.9	1.8
Emerging countries	3.6	5.0	5.1	5.0	3.1

Source: JP Morgan.
* Forecast.

The recovery of the developed economies results from the application of stimulus policies, such as the progressive recovery of balance sheets of companies, households and governments, and gradual return of normal expenditure levels. However, the level of estimated output in the United States and the Eurozone for the current year is 10 and 15 percent below, respectively, than at the growth pace before the international financial crisis.

The slowdown in the average growth of the emerging economies is due in the first place to the adjustment of the Chinese economy to reach a more sustained sectorial and financial structure. Also, economies such India, Brazil and Russia have started enforcing different adjustment measures in an environment of lower international export prices and a reversal of capital flows.

2. The global growth projections have been revised slightly downwards, in line with the developments observed in emerging economies such as China, Brazil and Russia that account for 20.5 percent of the global economy. A global economy growth of 3.4 percent is forecast in 2014, or lower than the initial 3.6 percent December forecast. For 2015, global growth of 3.8 percent is expected, reflecting the recovery of developed economies.

Table 1
WORLD GDP GROWTH
(Annual % change)

	%	Executed		2014*		2015*	
	2012	2012	2013	IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
Developed countries	**50.4**	**1.4**	**1.3**	**2.1**	**2.2**	**2.3**	**2.4**
Of which							
1. United States	19.5	2.8	1.9	2.7	2.8	3.0	3.0
2. Eurozone	13.5	-0.7	-0.4	1.0	1.1	1.3	1.5
Germany	3.8	0.7	0.4	1.5	1.6	1.5	1.8
France	2.7	0.0	0.2	0.8	1.0	1.3	1.4
Italy	2.2	-2.4	-1.9	0.5	0.6	0.9	0.9
Spain	1.7	-1.6	-1.2	0.5	0.8	0.9	1.2
3. Japan	5.5	1.4	1.5	1.5	1.2	1.1	1.1
4. United Kingdom	2.8	0.3	1.7	2.4	2.7	2.4	2.6
Developing countries	**49.6**	**5.1**	**4.7**	**5.1**	**4.7**	**5.3**	**5.3**
Of which							
1. Developing Asia	25.1	6.8	6.6	6.7	6.5	6.9	6.8
China	14.7	7.7	7.7	7.6	7.3	7.6	7.4
India	5.7	5.0	4.7	5.4	5.4	6.3	6.3
2. Central and Eastern Europe	4.2	3.4	2.1	3.1	2.1	3.5	2.8
Russia	3.0	3.4	1.3	2.7	1.5	3.0	2.2
3. Latin America and the Caribbean	8.7	3.0	2.6	3.1	2.8	3.5	3.3
Brazil	2.8	1.0	2.3	2.4	2.0	3.0	2.4
World Economy	**100.0**	**3.2**	**2.9**	**3.6**	**3.4**	**3.8**	**3.8**
Memo:							
Peru´s trading partners 1/	64.1	2.8	2.6	3.1	3.0	3.3	3.2
BRICs 2/	26.3	5.9	5.7	6.0	5.6	6.3	6.0

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

Graph 2
GDP GROWTH

* Forecast.
Source: BCRP.

3. In the **United States**, economic fundamentals kept recovering during the last half of 2013. In Q4 2013, output grew 2.6 percent annually, driven by consumer demand and net exports; growth was 1.9 percent. During the first months of 2014, output slowed down slightly due to adverse weather, as recent consumer, manufacturing, real estate and labour market Indicators reveal.

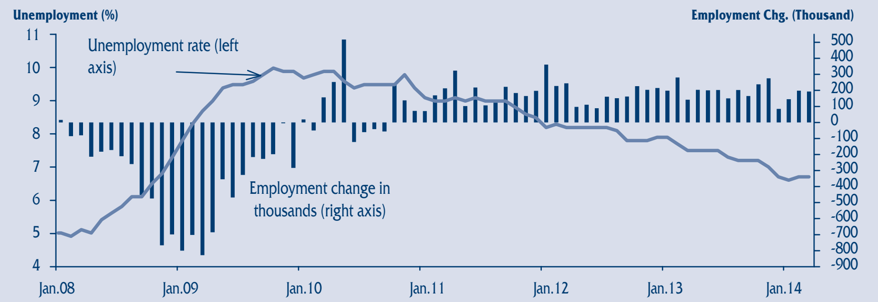
Consumer demand grew 3.3 percent during the fourth quarter. This recovery is driven by a positive wealth effect (thanks to higher prices for housing and stronger stock markets) and growing employment. Even if consumer demand slipped during the first months of the year due to weather factors, economic fundamentals remained on a positive trend. So far this year, employment has kept recovering: between January and March 2014, 533 thousand jobs were created, implying that in the January 2010-March 2014 period the jobs lost during the financial crisis were recovered.

Table 2
USA: GDP
(Seasonally adjusted annualized quarterly rates)

	2013				2014 *
	Q1	Q2	Q3	Q4	Q1
Private Consumption	2.3	1.8	2.0	3.3	1.7
Fixed Investment	-1.5	6.5	5.9	2.8	2.3
Change on inventories **	0.9	0.4	1.7	0.0	-1.0
Net exports **	-0.3	-0.1	0.1	1.0	-0.1
GDP	**1.1**	**2.5**	**4.1**	**2.6**	**1.0**
Memo					
Unemployment rate ***	7.5	7.5	7.2	6.7	6.7

* Forecast. ** Contribution to growth. *** End-of-period.
Source: BEA, BLS, and JPM.

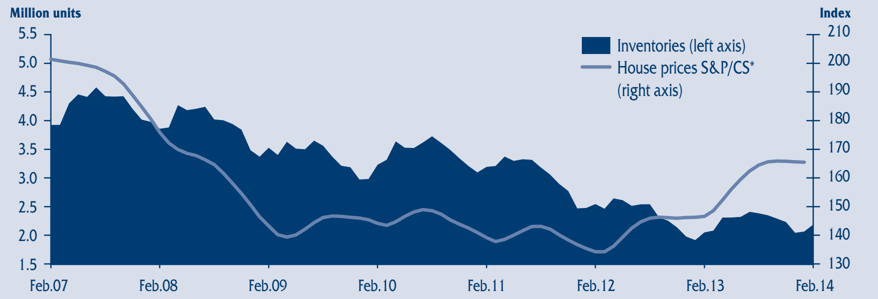
Graph 3
USA: EMPLOYMENT AND UNEMPLOYMENT RATE



Source: Bloomberg.

Investment improved in the fourth quarter after an increase in non residential investment driven by higher corporate profits, while residential investment fell due to higher mortgage interest rates, steeper real estate prices and tougher loan conditions. During the first quarter of 2014, the indicators of the real estate market and construction industry have slowed down due to adverse weather conditions.

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

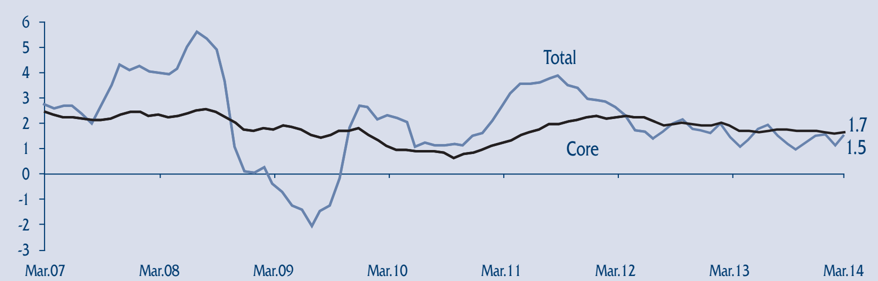


*S&P/CS: S&P/Case-Shiller Home Price Index.
Source: Bloomberg.

The 12-month inflation rate remained at 1.5 percent in March 2014 compared to December 2013, as core inflation –that excludes fuels and food– was at 1.7 percent during the same period of time, below the Fed's 2 percent long-term target, reflecting somewhat smaller aggregate supply. The Fed announced it would adhere to its an expansive position by supporting close to zero monetary policy interest rates and expanding its balance through purchases of US Treasury bonds and securities linked to mortgage loans.

From January 2014, the Fed started tapering the monthly purchase of these securities. The quantitative easing as an exceptional monetary enhancement scheme should end this year. Regarding the benchmark interest rate, the Fed reported most of its senior management expect it to grow gradually starting in 2015, toward the 4 percent long-term rate[1].

Graph 5
USA: CPI
(12 month % change)

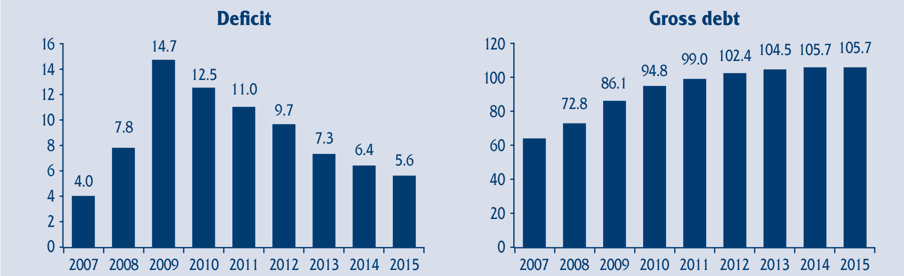


Source: Bloomberg.

1 Open Market Federal Committee, "Forecast Material", 18-19th March 2014.

It is estimated that the United States economy will grow 2.8 percent in 2014 and 3 percent in 2015. This forecast assumes a lower impact of the tax adjustment after the 2014-2015 budget was approved including lower automatic expense adjustments, and a temporary agreement for more flexible public debt limits. The main risk for this economic activity forecast is the possibility of a disorderly adjustment in financial markets as a consequence of monetary tapering.

Graph 6
EUA: DEFICIT AND PUBLIC DEBT
(% GDP)



Source: IMF, "Fiscal Monitor", April 2014.

4. The **Eurozone** economy started coming out from the crisis it entered in 2011 caused by the joint effect of the financial crisis and public debt of several of its members, in turn a legacy of the 2008-2009 international financial crisis. The recovery of Eurozone economies from Q2 2013 can be explained by lower risk premiums for financial debt, and lower tax adjustments.

Table 3
EUROZONE: GDP
(Seasonally adjusted annualized quarterly rates)

	2013				2014 *
	Q1	Q2	Q3	Q4	Q1
Private Consumption	-0.7	0.4	0.4	0.3	0.8
Fixed Investment	-6.8	0.6	2.1	4.3	3.0
Change on inventories **	0.2	-0.4	1.1	-1.4	1.0
Net exports **	0.4	1.6	-1.2	1.6	-0.5
GDP	**-0.9**	**1.3**	**0.6**	**0.9**	**1.2**
Memo:					
Unemployment rate ***	12.0	12.0	12.0	11.9	11.9

* Forecast.
** Contribution to growth.
*** End-of-period.
Source: Eurostat.

The economic activity's evolution among members of the Eurozone remains heterogeneous because the financial crisis and public debt have a differential impact within the monetary union.

Table 4
EUROPE: IMF ECONOMIC FORECAST

	GDP Growth (%)		Inflation (%)		Unemployment (%)		Gross Public Debt (% GDP)	
	2014	2015	2014	2015	2014	2015	2014	2015
Eurozone	1.2	1.5	0.9	1.2	11.9	11.6	95.6	94.5
Germany	1.7	1.6	1.4	1.4	5.2	5.2	74.6	70.8
France	1.0	1.5	1.0	1.2	11.0	10.7	95.8	96.1
Italy	0.6	1.1	0.7	1.0	12.4	11.9	134.5	133.1
Spain	0.9	1.0	0.3	0.8	25.5	24.9	98.8	102.0
Netherlands	0.8	1.6	0.8	1.0	7.3	7.1	75.0	74.4
Belgium	1.2	1.2	1.0	1.1	9.1	8.9	99.8	99.6
Portugal	1.2	1.5	0.7	1.2	15.7	15.0	126.7	124.8
Greece	0.6	2.9	-0.4	0.3	26.3	24.4	174.7	171.3
United Kingdom	2.9	2.5	1.9	1.9	6.9	6.6	91.5	92.7
Sweden	2.8	2.6	0.4	1.6	8.0	7.7	41.5	40.0
Switzerland	2.1	2.2	0.2	0.5	3.2	3.0	48.1	47.3
Norway	1.8	1.9	2.0	2.0	3.5	3.5	29.5	29.5

Source: IMF "World Economic Outlook" and "Fiscal Monitor", April 2014.

In line with these developments, the forecast for the Eurozone has been revised slightly upwards, from 1.0 to 1.1 percent in 2014 and from 1.3 to 1.5 percent in 2015. By country, the most important growth forecast revisions concern Germany, France and Spain.

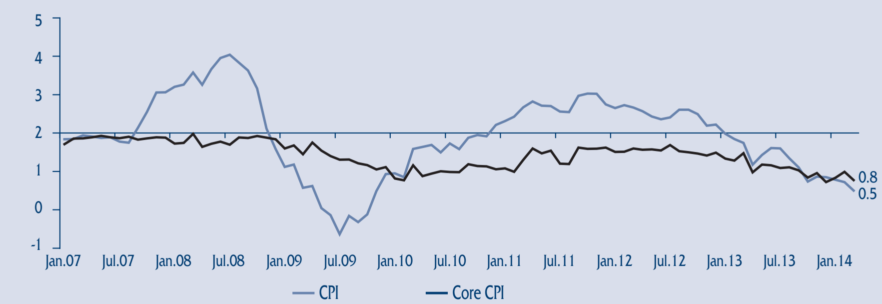
Despite these recoveries, the likelihood of a deflation scenario and subsisting financial fragmentation may require a downward revision. There is also a risk associated to slower growth in China and Russia, especially for Germany.

a. Eurozone's inflation has been on a sliding trend in the last two years. Since October 2013 it has been below 1 percent and in March 2014 it dropped to 0.5 percent, the lowest rate since November 2009. Inflation in Spain fell to -0,2 percent annually, becoming the fifth Eurozone country on negative ground. In Greece, inflation (-1,5 percent annually) has been on negative ground since February 2012.

   This evolution can be explained by high unemployment (that has remained at 11.9 percent since October 2013), a higher output gap (the GDP is still almost 3 percent below its pre-crisis level of 2008) and the lower imported inflation linked to low global inflation, the appreciation of the euro and slipping commodity prices.

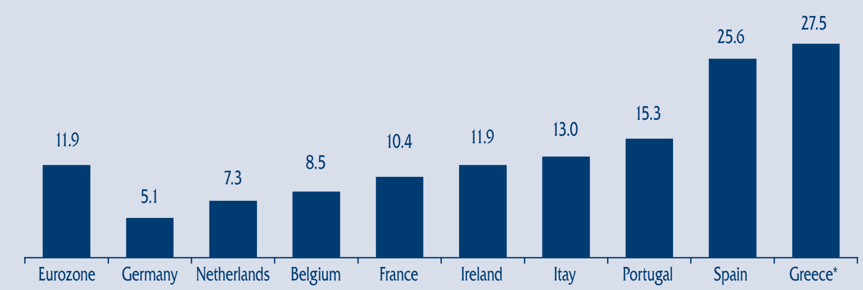
Deflation is a self-sustaining fall in prices that feedbacks itself as private consumer spending and investment are postponed. The European Central Bank might take exceptional measures and expand its balance to avoid this potential risk.

Graph 7
EUROZONE: CPI
(12 months % change)



Source: Bloomberg.

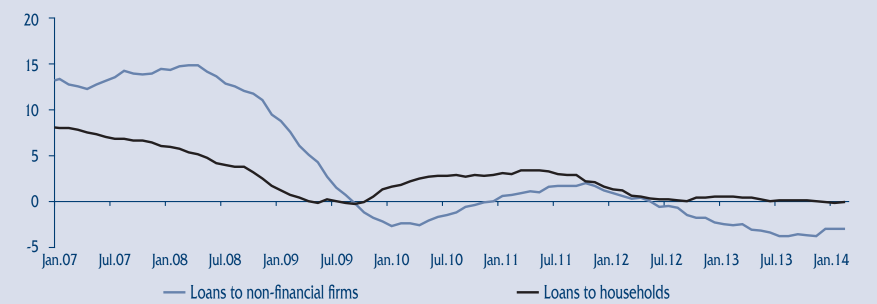
Graph 8
EUROZONE: UNEMPLOYMENT RATE (FEBRUARY 2014, %)



* To December 2013.
Source: Eurostat.

b. Financial fragmentation since the beginning of the crisis (2010-2011) has hampered the recovery of bank credit, particularly for the corporate sector. In February 2014, credits to non-financial corporations dropped 3.1 percent annually, while loans to households remained unaltered. This result has influenced to deleverage, and weak demand by households and non-financial corporations that face lower incomes and have been unable to cut debt. To assessment bank's asset by ECB, and the banking union moves forward, financial fragmentation should also gradually diminish in the medium term.

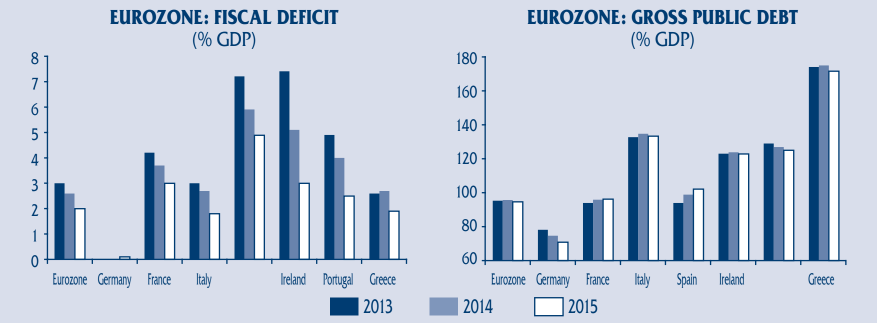
Graph 9
EUROZONE: BANKING LOANS TO NON-FINANCIAL FIRMS VS BANKING LOANS TO HOUSEHOLDS
(12 month % change)



Source: Bloomberg.

c. The fiscal adjustments in the Eurozone economies have stabilized the public debt burden through plans for tax reform in countries such as Spain and Greece, and better managed public expenditure in France and Italy. Government solvency requires fundamentally recovering the growth momentum of potential GDP through structural reforms in the goods and productive factors markets.

Graph 10



Source: IMF, FIscal Monitor, April 2014.

5. **Japan's** economy grew 0.7 percent in the fourth quarter, revealing a second consecutive quarterly growth slowdown, after growing 4.1 percent in the second quarter and 0.9 percent in the third quarter. This development reflects lower public investment and net exports, that hampered a moderate recovery of internal demand driven by moderate growth of private consumption, mainly in durable goods, and business investment by 1.6 percent and 3 percent, respectively. In 2013, the economy grew 1.5 percent.

   Recent indicators show that during the first quarter in 2014 net exports would also have a negative contribution while consumer demand would remain on an upward trend, in anticipation of increases in sales taxes in April (from 5 to 8 percent). Company expectations data shows bigger damage is expected in the economic conditions for the manufacturing sector following the tax hike. Inflation expectations would also move towards a positive zone, even if they still are below the Bank of Japan's target (2 percent for April 2015). Since the last Inflation Report, inflation -excluding foodstuffs- rose from 1.2 percent in November to 1.3 percent in February.

   In line with these developments, it is expected that the economy will grow by 1.2 percent in 2014 and 1.1 percent in 2015. This forecast may be challenged by the impact of the sales tax increase on consumption and the effectiveness of potential monetary and fiscal easing to prevent such slowdown. The government has announced that to mitigate this impact it will start spending 2014 budget providing earlier than scheduled, mainly on public investments. On the other hand, the market expects the Bank of Japan to step up its asset purchase program in July or October this year.

6. After growing by 7.7 percent in 2013, **China** shows signs of slowing down in 2014. The pace of industrial output growth and retail sales slowed down during the first two months of the year; and the manufacturing PMI for March remained around 50.3. Slower economic activity has contributed to reduce inflation and moderate real estate prices after the faster pace of 2013.

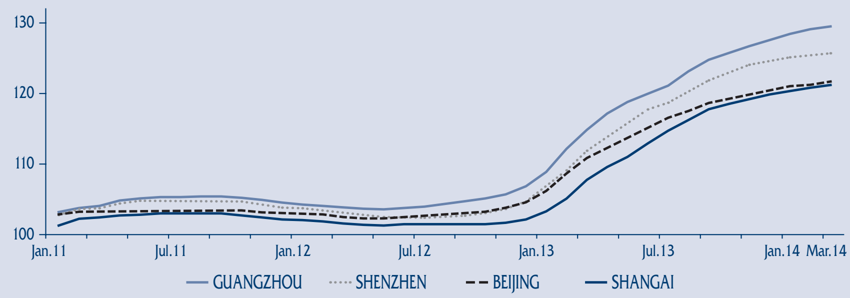
   This slower growth has gone hand in hand with financial market stress –particularly for the "shadow banks"– due to payment problems involving certain tools. The Chinese government has indicated that it will move forward faster with construction projects and take other measures to reach the growth target fixed recently at 7.5 percent. Against this backdrop, 7.3 percent growth is expected in 2014 and 7.4 percent in 2015.

Table 5
CHINA'S ECONOMIC INDICATORS

Indicators	2012 Dec.	2013 Mar.	2013 Jun.	2013 Sep.	2013 Dec.	2014 Feb.	2014 Mar.
Manufacturing PMI index (50 neutral level)	50.6	50.9	50.1	51.1	51.0	50.2	50.3
Non-manufacturing PMI index (50 neutral level)	56.1	55.6	53.9	55.4	54.6	55.0	54.5
Industrial Production (12 month % change)	10.3	8.9	8.9	10.2	9.7	8.6*	8.8
Investment in fixed assets (Accum. annual % change)	20.6	20.9	20.1	20.2	19.6	17.9*	17.6
Retail sales (12 month % change)	15.2	12.6	13.3	13.3	13.6	11.8*	12.2
Exports (12 month % change)	14.1	10.0	-3.1	-0.3	4.3	-18.1	-6.6
Imports (12 month % change)	6.0	14.1	-0.8	7.5	8.3	10.1	-11.3
New loans (Billion yuan)	455	1,063	863	787	483	645	1,050
New financing (Billion yuan)	1,628	2,550	1,038	1,411	1,232	939	2,070
Consumer Price Index (12 month % change)	2.5	2.1	2.7	3.1	2.5	2.0	2.4
Producer Price Index (12 month % change)	-1.9	-1.9	-2.7	-1.3	-1.4	-2.0	-2.3

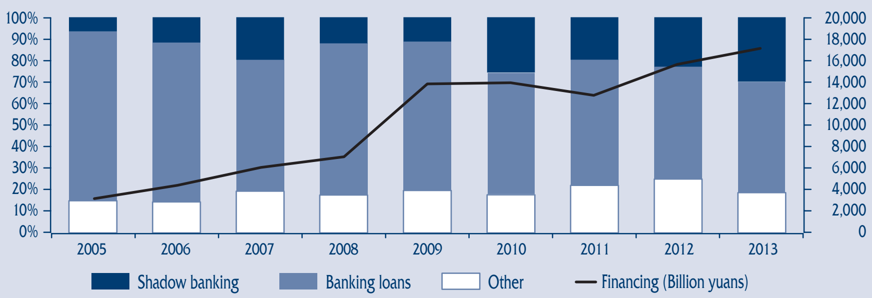
* January-February.
Source: Bloomberg.

Graph 11
CHINA: REAL ESTATE
(Index, new residencial constructions)



Source: Bloomberg.

Graph 12
CHINA: FINANCING FLOWS
(2005-2013)

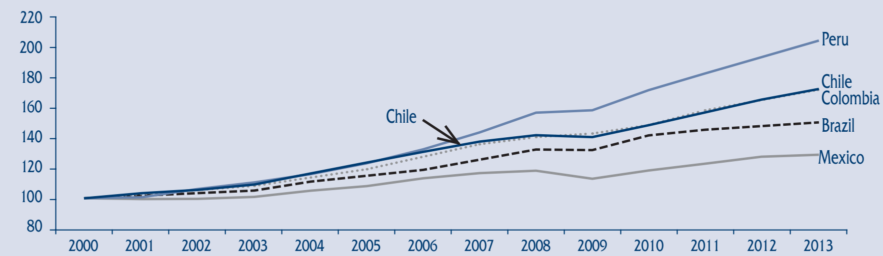


Source: BPCh.

7. In 2013, **Latin America** registered moderate 2.6 percent GDP growth in line with a less propitious international environment and slipping global demand. The lowest expansion rates were in Mexico (1.1 percent) and Brazil (2.3 percent) due to slower consumer demand and private investment. Chile grew 4.1 percent driven by household consumption that made up for negative investments. Colombia grew 4.3 percent through larger consumer demand, investment and exports.

   Latin America's 2.6 percent GDP growth in 2013 was lower regarding than the average in 2011-2013 (3.4 percent). Peru last year grew closer (5.6 percent) to its most recent 13-year average (5.8 percent).

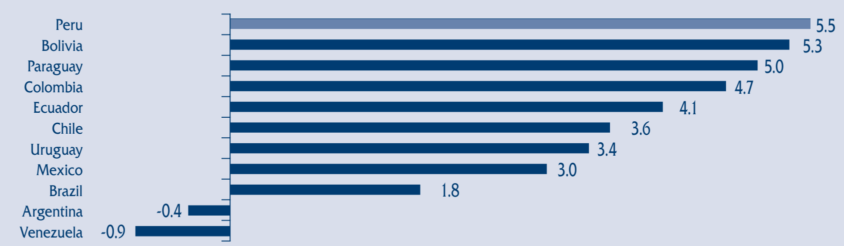
Graph 13
REAL GDP
(2000=100)



Source: WEO April 2014.

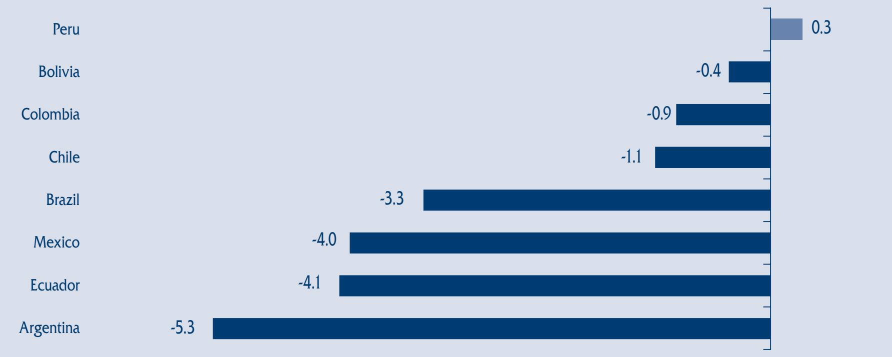
For 2014, varying GDP growth and inflation of Latin American economies are forecast, and lower positive results are expected in economies with larger fiscal imbalances and more vulnerable to capital outflows. In this context the growth forecast has been revised downwards for 2014, from 3.1 percent to 2.8 percent and for 2015, from 3.5 to 3.3 percent.

Graph 14
LATIN AMERICA: GDP GROWTH FORECAST 2014
(%)



Source: Latin America Consensus Forecast (March 2014) and BCRP (Peru).

Graph 15
LATIN AMERICA: ECONOMIC BALANCE FORECAST 2014
(% GDP)

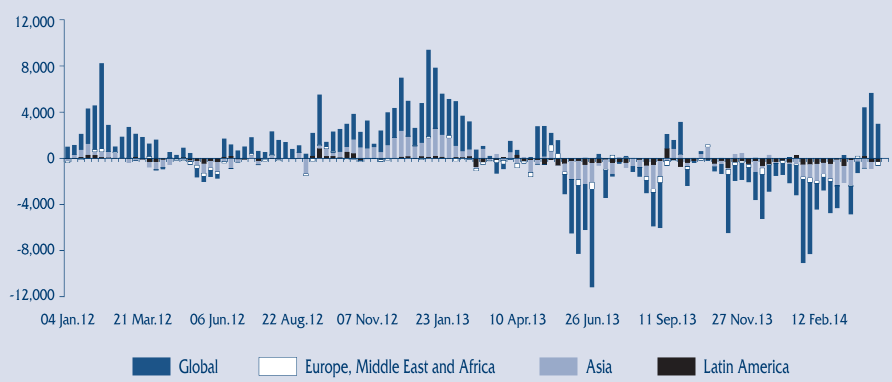


Source: Latin America Consensus Forecast (March 2014) and BCRP (Peru).

Financial markets

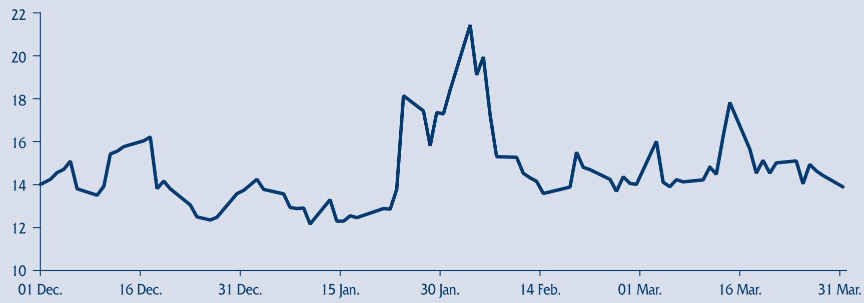
8. During Q1 2014, investors continued reducing their exposure in fixed income and equity markets in emerging economies, as they perceived a greater potential risk originating in the possible effects of higher interest rates in the United States and a Chinese slowdown. This phenomenon impacted commodity quotations as well. A slide in investors' exposure in emerging markets was observed until February, although it slowed down in March when the strength of emerging economies became again clear.

Graph 16
FLOWS OF INVESTMENT PORTFOLIO TO EMERGING COUNTRIES
(Weekly flows, Million US$)



Source: Emerging Portfolio Fund Research - EPFR.

Graph 17
RISK AVERSION COEFFICIENT: VIX (S&P'500)
(December 2013-March 2014)



Source: Bloomberg.

9. **Sovereign-debt markets** in developing economies fared well. Safe asset performance slowed though less than those of less-safe developed economies. With this, the increase observed until December, when there was much uncertainty about the Fed's tapering, was reverted. US Treasury 10-year bond's rates fell around 30 basis points between December 2013 and March 2014, as well as German, UK and Japanese sovereign securities.

   The 10-year performances and the credit spreads (CDS) of the economies in the periphery of the Eurozone showed remarkable decreases, as in Portugal, Greece, Italy and Spain. These developments can be explained by stronger economic activity and a better political, fiscal and financial environment. In line with these developments, the main financial rating agencies improved or confirmed some ratings for Greece, Portugal, Ireland and Spain.

   From a **fiscal perspective**, among countries under recovery programs, account in Greece and Portugal showed remarkable progress. Both countries achieved their 2013 fiscal deficit targets and Greece managed a primary surplus one year before expected. Portugal's eleventh program was approved and it is expected that it will be finalized in June 2014 without requiring a precautionary credit line, as happened with Ireland. Greece negotiated new adjustment measures with the Troika that were approved by its Parliament and received thus its next tranche of financial aid.

Table 6
DEVELOPED COUNTRIES: TREASURY YIELDS (10 YEARS) AND SOVEREIGN SPREADS (CDS)

	End of period				Difference in basis points	
	Dec.12	Mar.13	Dec.13	Mar.14	Mar.14-Dec.12	Mar.14-Dec.13
10 Year Treasury yields (%)						
USA	1.76	1.85	3.03	2.72	96	-31
Japan	0.79	0.55	0.74	0.64	-15	-10
United Kingdom	1.83	1.77	3.02	2.74	91	-29
Germany	1.32	1.29	1.93	1.57	25	-36
France	2.00	2.03	2.56	2.08	9	-47
Italy	4.50	4.76	4.13	3.29	-121	-83
Spain	5.27	5.06	4.15	3.23	-204	-92
Ireland	n.a.	4.22	3.51	3.02	n.a.	-50
Portugal	7.01	6.37	6.13	4.07	-294	-206
Greece	11.90	12.44	8.42	6.57	-533	-185
CDS - 5 Yeras (bps)						
USA	38	38	28	18	-20	-10
United Kingdom	41	45	26	23	-18	-3
Germany	42	37	25	23	-19	-3
France	93	83	54	49	-44	-5
Italy	289	306	168	132	-157	-36
Spain	300	302	154	103	-197	-51
Ireland	220	190	120	78	-142	-42
Portugal	443	418	352	185	-258	-167
Greece	4,265	3,890	675	482	-3,783	-193

Source: Bloomberg.

Latin American debt markets also evolved on positive ground. The bond performances in emerging economies and the spreads of the Credit Default Swap (CDS) showed an upward trend between the end of January and the beginning of February during the highest risk asset settlement period. However, this trend reverted in line with the Fed's clearer tapering signs.

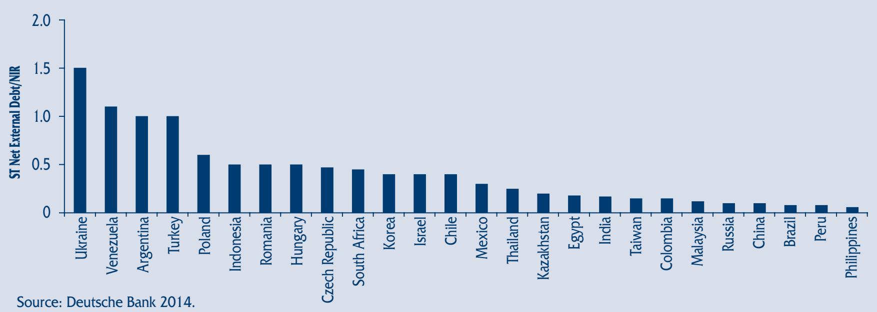
Table 7
EMERGING COUNTRIES: SOVEREIGN CDS- 5 YEARS

	Dec.12	Mar.13	Dec.13	Mar.14	Difference in basis points Mar.14-Dec.12	Difference in basis points Mar.14-Dec.13
CDS Spreads (in basis points)						
Brazil	108	137	193	171	63	-22
Chile	72	65	80	79	7	0
Colombia	96	99	118	109	13	-10
Mexico	97	97	92	89	-8	-3
Peru	97	97	133	112	15	-21
Hungary	278	390	260	234	-45	-26
Poland	78	99	79	68	-10	-12
Russia	135	166	166	216	81	51
Turkey	131	146	244	216	85	-28
China	66	74	80	91	24	11
Israel	135	126	103	89	-46	-13
South Africa	149	183	205	192	43	-13

Source: Bloomberg.

Markets have trended to revert the effect of the over-reaction created by the tapering announcement in May 2013, in consideration of the different strengths and vulnerabilities of various economies. Different financial vulnerability indicators in emerging economies reveal clear differences in the evolution of international reserves, weight of the public and private debt, and liability mixes by installment and currency, among others. For example, a Deustche Bank study shows the high dispersion of vulnerabilities, measured as a ratio of short-term foreign debt to foreign currency reserves; in this sample, Peru's vulnerability is low.

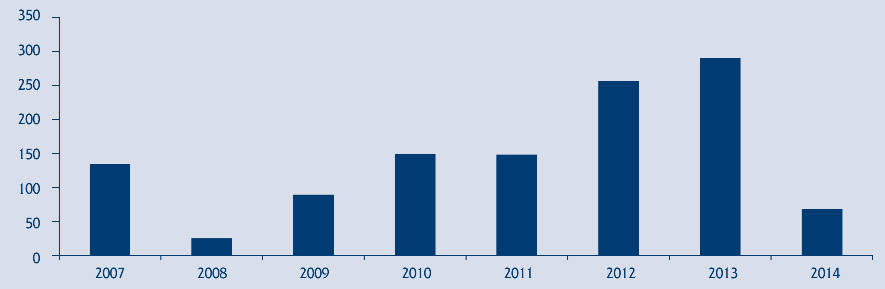
Graph 18
SHORT-TERM EXTERNAL DEBT
(As % of NIR)



Source: Deutsche Bank 2014.

10. It is worth mentioning the arising risk in emerging economies linked to the flow of international corporate debt using with foreign currency-denominated bonds, particularly towards companies with non-tradable activities, that would be affected by higher interest rates and depreciated currencies.

Graph 19
EMERGING COUNTRIES: BONDS ISSUED BY FINANCIAL FIRMS
(Billion US$)



Source: IMF, "Global Financial Stability Report", April 2014.

Currency rates

11. According to the Fed's index, the dollar appreciated 0.9 percent between December 2013 and March 2014. The dollar's depreciation vis-a-vis other currencies in developed countries was compensated by its appreciation in most emerging economies.

Graph 20
US DOLLAR INDEX*
(January 2008 - March 2014)

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

The Fed depreciated the value of most emerging currencies vis-a-vis regarding the dollar due to a higher perceived risk caused by the withdrawal of monetary easing. Most depreciation pressures came between end of January and beginning of February –at the time of higher risk asset settlement– that affected principally the economies with larger foreign imbalances. Since then, emerging currencies have been stabilizing partly thanks to a better discernment among investors between emerging economies that are more vulnerable to capital withdrawals, and economies with stronger macroeconomic fundamentals.

Table 8
EXCHANGE RATE

	End-of-period (US$/c.u.)				Mar.14 % chg. compared to:	
	Dec.12	Mar.13	Dec.13	Mar.14	Dec.12	Dec.13
Canada	0.99	1.02	1.06	1.10	11.4	4.0
Japan	86.74	94.19	105.30	103.19	19.0	-2.0
United Kingdom (US$/c.u.)	1.625	1.520	1.656	1.666	2.5	0.6
Eurozone (US$/c.u.)	1.319	1.282	1.375	1.377	4.4	0.2
Switzerland (US$/c.u.)	0.92	0.95	0.89	0.88	-3.4	-0.9
Brazil	2.05	2.02	2.36	2.27	10.9	-3.8
Chile	478	471	525	548	14.6	4.4
Colombia	1,766	1,819	1,929	1,971	11.6	2.2
Mexico	12.86	12.31	13.03	13.06	1.5	0.2
Argentina	4.92	5.12	6.52	8.00	62.8	22.8
Peru	2.55	2.59	2.80	2.81	10.1	0.3
Hungary	220	237	216	223	1.2	3.2
Poland	3.08	3.26	3.01	3.02	-2.0	0.4
Russia	30.55	31.07	32.89	35.03	14.7	6.5
Turkey	1.78	1.81	2.15	2.14	20.0	-0.3
China	6.23	6.21	6.05	6.22	-0.2	2.7
India	54.99	54.28	61.80	60.01	9.1	-2.9
Israel	3.73	3.65	3.47	3.49	-6.6	0.4
South Africa	8.45	9.22	10.45	10.52	24.5	0.7
FED basket	99.2	100.6	102.1	103.0	3.8	0.9

Source: Reuters and Bloomberg.

Central Bank decisions

12. In the last months, most central banks in developed economies maintained their interest rates. In emerging economies, as mentioned in the previous Inflation Report, the monetary policy responses differed.

    In some cases –including Turkey, Brazil and South Africa– increases were triggered by negative foreign financial conditions, particularly in January, during a massive settlement of higher risk securities (sell off) that hurt economies with larger current account deficits or were more heavily dependent on foreign financing. On the contrary, other emerging economies –such as Israel, Thailand, Romania, Hungary and Chile– cut their rates ever more deeply in a context of economic slowdown and repressed inflationary pressures.

Table 9
MONETARY POLICY INTEREST RATE

	Dec.12	Mar.13	Dec.13	Mar.14	Differences in basis points respect to Dec.13
Turkey	9.00	5.50	7.75	12.00	425
Brazil	7.25	7.25	10.00	10.75	75
South Africa	5.00	5.00	5.00	5.50	50
New Zealand	2.50	2.50	2.50	2.75	25
India	8.00	7.50	7.75	8.00	25
Pakistan	9.50	9.50	10.00	10.00	0
Serbia	11.25	11.75	9.50	9.50	0
Indonesia	5.75	5.75	7.50	7.50	0
Iceland	6.00	6.00	6.00	6.00	0
Peru	4.25	4.25	4.00	4.00	0
Mexico	4.50	4.00	3.50	3.50	0
Philippines	3.50	3.50	3.50	3.50	0
Colombia	4.25	3.25	3.25	3.25	0
Malaysia	3.00	3.00	3.00	3.00	0
Australia	3.00	3.00	2.50	2.50	0
Poland	4.25	3.25	2.50	2.50	0
South Korea	2.75	2.75	2.50	2.50	0
Norway	1.50	1.50	1.50	1.50	0
Canada	1.00	1.00	1.00	1.00	0
United Kingdom	0.50	0.50	0.50	0.50	0
USA	0.25	0.25	0.25	0.25	0
Eurozone	0.75	0.75	0.25	0.25	0
Switzerland	0.00	0.00	0.00	0.00	0
Taiwan	1.88	1.88	1.88	1.88	0
Sweden	1.00	1.00	0.75	0.75	0
China	6.00	6.00	6.00	6.00	0
Israel	2.00	1.75	1.00	0.75	-25
Thailand	2.75	2.75	2.25	2.00	-25
Hungary	5.75	5.00	3.00	2.60	-40
Romania	5.25	5.25	4.00	3.50	-50
Chile	5.00	5.00	4.50	4.00	-50

Source: Central banks and Bloomberg.

II. Economic activity

Sector GDP

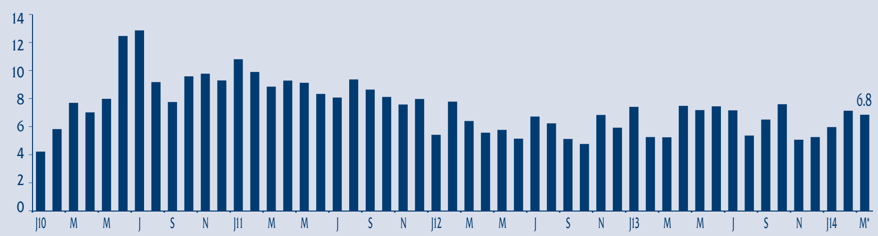
13. This Inflation Report includes the execution and projections of sector GDP and the expenditures component, starting on the new national accounts' base year of 2007. On the sector side, the greater weight of the mining and hydrocarbons industry stands out while on the expenditure side, foreign trade gains more importance.

Table 10
GDP STRUCTURE WITH DIFFERENT BASE: YEAR 2013
(% GDP)

GDP by production sectors	Base 1994	Base 2007	GDP on spending components	Base 1994	Base 2007
Agriculture and livestock	7.1	5.3	Domestic demand	106.0	102.2
Fishing	0.4	0.5	Private expenditure	90.3	85.3
Mining and hydrocarbons	4.6	12.0	Consumption	66.3	60.9
Manufacturing based on raw materials	2.4	3.3	Private fixed investment	23.5	22.7
Non-primary industries	11.2	11.7	Change on inventories	0.5	1.7
Electricity and water	2.0	1.7	Public expenditure	15.7	16.9
Construction	7.3	6.9	Consumption	9.7	11.2
Commerce	15.5	11.0	Investment	6.0	5.7
Other services	40.1	38.8	Net exports	-6.0	-2.2
Indirect taxes	9.5	8.8	Exports	17.2	25.3
			Imports	23.2	27.5
GDP	**100.0**	**100.0**	**GDP**	**100.0**	**100.0**

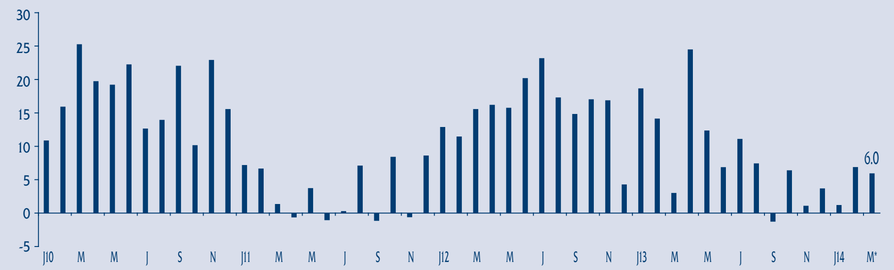
14. Present indicators and forecasts of economic activity show a sustained pace of activity in the first quarter of 2014, similar to Q4 last year. This happens for instance in electricity output, which grew 6.6 percent in the first quarter compared to a similar period in 2013, and internal demand for cement which grew 4.6 percent in the first quarter.

Graph 21
PRODUCTION OF ELECTRICITY: 2010-2014
(12 months % change)



* Preliminary.
Source: COES.

Graph 22
DOMESTIC CONSUMPTION OF CEMENT: 2010-2014
(12 months % change)

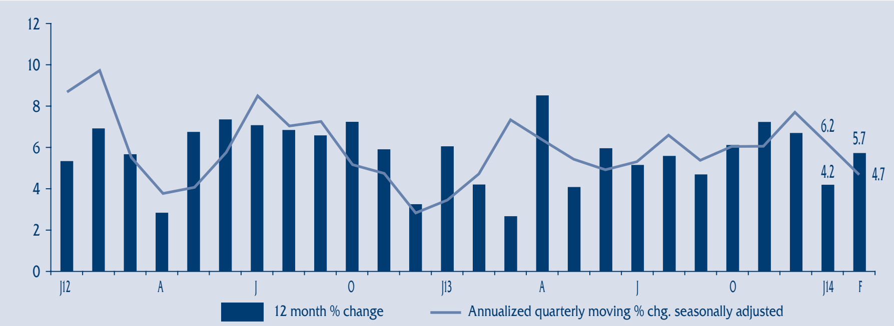


* Preliminary.
Source: ASOCEM and cement companies.

15. Cumulative GDP for January and February was 5.0 percent higher than a year earlier. Primary sectors' GDP grew 5.5 percent, while non-primary sectors expanded 4.8 percent. Metal mining, commerce, services and construction industries stood up exhibiting rates of 8.9, 5.0, 6.4 and 6.5 percent, respectively. In the mining industry, copper output grew 21.6 percent, accounted for by a smaller volume of extraction in the first months on 2013, a consequence of technical challenges experienced by some mines.

    The seasonally adjusted annual change of GDP reached 4.7 percent. Non-primary output changed 5.2 percent.

Graph 23
GDP
(Real % change)



Source: INEI.

16. The GDP's estimated growth for 2014 was revised downward, from 6.0 percent in the December 2013 Inflation Report to 5.5 percent, mainly resulting from a

revised growth estimate for primary activities, which was cut from 5.2 percent to 3.1 percent. The most important revision came in the metal mining sector, which fell from 9.1 percent to 1.9 percent due to lower extracted copper grades. For 2015, GDP growth has been revised upward, given the larger expected growth in metal mining after significant projects come in line, including Las Bambas and Minas Justa mining operations, as well as Constancia copper mine entering its first production year.

Table 11
GDP BY PRODUCTION SECTOR
(Real % change)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
Agriculture and livestock	**5.9**	**1.5**	**3.0**	**1.6**	**4.2**	**4.0**
Agriculture	8.7	0.7	2.6	0.7	4.0	4.2
Livestock	5.6	2.9	3.7	3.0	4.7	3.8
Fishing	**-32.2**	**18.1**	**6.6**	**6.4**	**3.3**	**2.5**
Mining and hydrocarbons	**2.8**	**4.3**	**9.4**	**2.8**	**13.3**	**13.4**
Metallic mining	2.5	3.6	9.1	1.9	13.0	15.6
Hydrocarbons	1.0	7.2	10.8	7.2	14.8	5.3
Manufacturing	**1.5**	**4.9**	**4.1**	**4.6**	**5.1**	**4.9**
Based on raw materials	-8.2	9.7	3.5	6.2	3.4	6.4
Non-primary industries	4.5	3.3	4.3	4.0	5.5	4.5
Electricity and water	**5.8**	**5.5**	**6.1**	**5.8**	**6.1**	**6.1**
Construction	**15.8**	**8.4**	**7.3**	**7.6**	**8.0**	**8.0**
Commerce	**7.2**	**5.9**	**5.9**	**6.1**	**6.3**	**5.7**
Other services	**7.3**	**6.0**	**6.2**	**6.3**	**6.5**	**6.1**
GDP	**6.0**	**5.6**	**6.0**	**5.5**	**6.5**	**6.7**
Memo:						
Primary GDP	**0.8**	**4.7**	**5.2**	**3.1**	**7.1**	**9.6**
Non-Primary GDP	**7.4**	**5.8**	**6.1**	**6.1**	**6.4**	**6.0**

* Forecast.
IR: Inflation Report.

a. The **agricultural sector's** growth was revised downward to 1.6 percent in real terms, after adverse climate impacts, mainly for rice and cotton. Coffee was also revised downward, after consideration of the lingering impact of yellow coffee rust.

In 2015, better weather should result in a recovery of the main crops, including rice, potatoes and coffee, and less impact of yellow rust after enforcement of plant health measures. Additionally, livestock output should increase after with livelier domestic demand.

b. Fishing sector growth was reviewed downward for 2014, to reflect lower expected extraction of "anchoveta" (Peruvian pilchard); this impact is however, made up by a higher growth of human consumption, which have remained on positive ground after experiencing 21.3 percent growth in 2013.

c. Metal mining's growth was revised downward from 9.1 percent to 1.9 percent. This lower projection takes into account of falling copper output resulting from lower main mineral grades and challenges in some large mines, and slower output at Toromocho, as reported by the mining company. A smaller gold output is also expected, mainly of "informal" gold, particularly in Madre de Dios region, as interdiction turns more severe and enforcement more effective. Towards year end 2014 and 2015, major mining projects, including Las Bambas and Minas Justa, should come in line. Similarly, the Constancia copper mine should start operating.

Table 12
MINING PRODUCTION
(%)

	2013	2014*	2015*
Gold	-6.2	-3.1	-3.0
Copper	7.4	4.8	23.4
Zinc	5.5	-3.4	4.8

* Forecast.

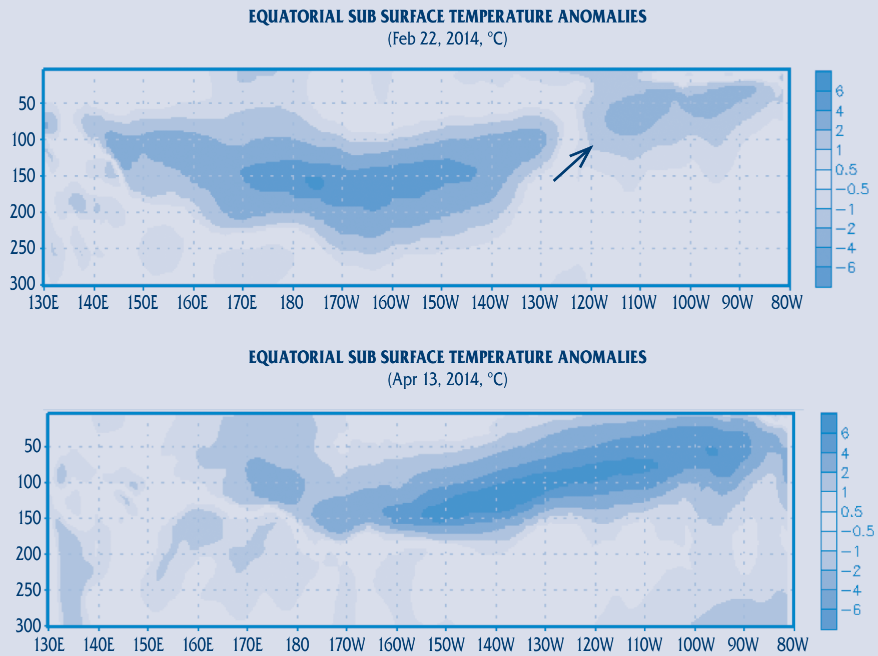
d. A higher growth of non-primary GDP is expected in 2014, compared to 2013, although still below average growth in recent years and in line with developments in domestic demand. A similar rate is projected for 2015, in line with expected growth in domestic demand and world economy. Construction should keep growing at rates close to 8.0 percent, driven by larger housing compound building, as well as shopping centers, roads and other public use infrastructure both in Lima and the interior.

17. A report prepared by the cross agency committee charged with the National El Niño Southern Oscillation Study (ENFEN is the Spanish acronym) from

April 15 kept its forecast of a likely weak to moderate El Niño event in mid-2014.

In mid-April, a mass of hot water continued to move from the west Pacific Ocean towards South America, a Kelvin wave, although no impacts were observed in Peruvian seas, because of the influence of southerly winds.

Graph 24

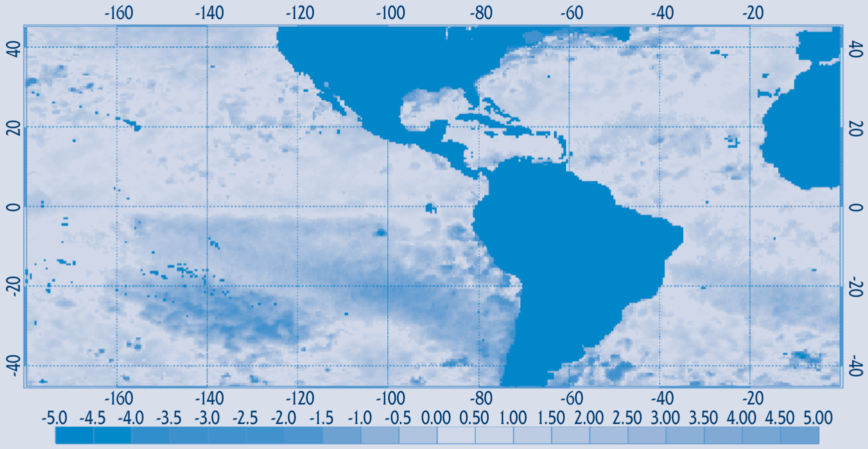


Memo: Graph shows sea sub surface temperature anomalies according to the depth (vertical axis) and meridians (horizontal axis). Blue and similar colors indicate a higher temperature while sky blue and similar shades indicate a negative anomaly. Based on this information, Graph indicates that the warm water mass observed on 22 February at the longitude 180°, has moved to the East and increased temperature.
Source: NOAA.

South and south east winds intensified, resulting in upwelling of cold water offshore Peru. As a result, sea surface temperatures anomalies showed negative values.

Altogether, while most Pacific Ocean shorelines show positive anomalies, South American shores still show cold surface anomalies. If winds become more intense, the impact of the Kelvin waves on sea surface temperatures will be lower than expected.

Graph 25
SEA SURFACE TEMPERATURES ANOMALIE
(Apr 21, 2014, °C)

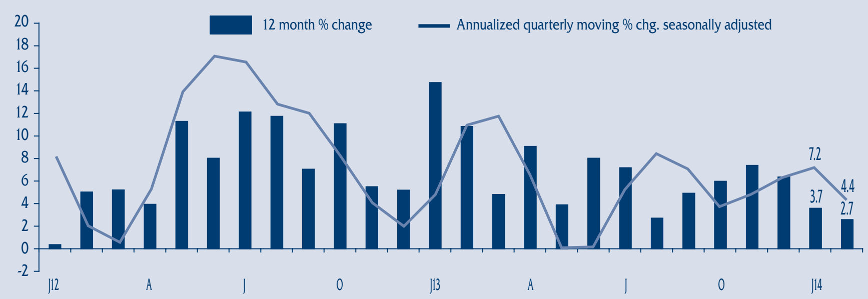


Memo: Graph shows sea surface temperature anomalies according to their location. Blue and similar colors indicate a higher temperature while sky blue and similar shades indicate a negative anomaly. Thus, it is seen that while the North Pacific Ocean shows a positive anomaly, in the coast of Peru (in the South Pacific Ocean) the anomaly still remains negative.
Source: NOAA.

Expenditure-side GDP

18. Based on production activity and volume of exports and imports of goods and services in January and February, annual domestic demand is expected to grow 3.2 percent between January and February this year. Seasonally adjusted annual growth for the sliding quarter ending in February should reach 4.4 percent.

Graph 26
DOMESTIC DEMAND
(Real % change)



19. Consumer and producer confidence indicators remained in optimistic ground in March, although they were lower than in December 2013, and will likely result in slower consumer demand and private investment.

20. Export volumes have moved faster in recent months, particular fishmeal, coffee, copper and non-traditional exports. Total exports grew 7.9 percent in February 2014 year over year, with a 5.5 percent increase for traditional exports and 13.7 percent for non-traditional exports.

Table 13
VOLUME OF EXPORTS
(%)

	2013							2014	
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Traditional products	**-7.5**	**-9.3**	**23.9**	**0.1**	**2.3**	**-7.7**	**5.0**	**-3.5**	**5.5**
Fishmeal	-59.9	-37.2	36.9	76.6	-33.6	-64.5	242.3	377.2	289.6
Coffe	0.3	-4.2	-11.0	-16.1	-8.7	7.9	8.9	32.6	97.8
Copper	11.8	-6.9	34.5	-9.4	5.3	6.8	-3.5	-12.4	28.1
Iron	-35.6	-28.2	68.6	-28.5	224.8	-2.1	-12.0	-4.4	63.9
Zinc	4.4	8.4	32.4	-6.7	20.8	13.2	-32.4	5.2	78.8
Gold	1.8	-8.1	17.1	-4.1	8.5	-19.0	13.2	-26.4	-52.6
Petroleum and derivatives	-9.9	-11.7	30.1	-6.5	-16.2	-16.7	19.8	-24.6	1.1
Non-traditional products	**-6.5**	**-4.2**	**-5.3**	**-1.3**	**-0.8**	**1.1**	**1.8**	**5.3**	**13.7**
Agriculture and livestock	-0.6	7.7	0.8	8.9	4.0	14.1	24.2	21.6	33.6
Fishing	-3.1	-3.6	16.1	27.3	-19.2	16.1	11.2	19.1	-1.2
Textile	-10.4	-23.0	-9.9	-8.6	-7.3	-12.7	-11.8	-7.6	1.3
Chemical	1.7	3.2	-3.7	5.8	13.3	-2.7	-6.6	-6.1	17.7
Basic metal industries and jewelry	-12.0	6.1	4.4	-6.9	0.9	-2.4	-18.9	-5.7	-1.9
Total exports	**-7.8**	**-8.2**	**16.0**	**-0.7**	**1.5**	**-4.6**	**4.4**	**-1.4**	**7.9**

21. Import data revealed slower and smaller volumes of capital goods, manufacturing inputs and consumer durables, likely pointing to slower domestic consumption and investment spending.

Table 14
VOLUME OF IMPORTS
(%)

	2013							2014	
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Consumer goods	**0.2**	**7.8**	**1.0**	**10.0**	**6.7**	**-3.9**	**1.8**	**-1.4**	**1.2**
Durable	-2.0	-1.3	3.9	1.4	4.3	-9.3	-9.4	-7.9	-9.4
Non-durable	2.9	17.1	-1.7	18.4	9.3	2.4	14.9	4.8	12.4
Raw materials and intermediate goods	**-3.9**	**-4.3**	**8.4**	**-0.3**	**-1.8**	**-6.5**	**11.3**	**0.1**	**-6.8**
Foodstuff	-9.7	37.9	29.0	26.5	-18.2	-2.6	-9.3	6.0	38.1
Petroleum and derivatives	-1.9	-8.9	14.5	-7.6	7.6	-2.9	44.6	7.8	-29.7
For industry	-3.3	-8.5	1.5	-0.8	-3.3	-9.0	2.8	-5.5	-2.9
Capital goods	**1.1**	**3.1**	**-0.8**	**-3.8**	**3.8**	**-0.6**	**-8.7**	**-2.2**	**-4.9**
Total imports	**-1.3**	**0.2**	**4.4**	**0.4**	**0.9**	**-4.2**	**2.6**	**-1.2**	**-4.5**

22. Domestic demand was revised downwards for 2014 from 6.0 to 5.4 percent , as consequence of slower private investment, falling from 6.3 to 6.0 percent.

Government consumption and investment is expected to grow 9.3 percent, making up for slower exports and private expenditure, and thus contributing 1.6 percent to the annual GDP growth rate.

Table 15
GDP AND DOMESTIC DEMAND
(Real % change)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
I. DOMESTIC DEMAND	**8.0**	**6.8**	**6.0**	**5.4**	**6.1**	**6.1**
1. Private expenditure	**7.4**	**6.4**	**5.3**	**4.6**	**5.7**	**5.8**
Consumption	6.1	5.3	5.2	5.1	5.4	5.4
Private fixed investment	15.6	6.0	6.3	6.0	6.6	6.6
2. Public expenditure	**11.5**	**8.6**	**9.9**	**9.3**	**8.5**	**7.5**
Consumption	8.1	6.7	6.3	6.1	4.2	4.7
Investment	19.1	12.5	15.5	15.5	14.6	12.5
II. Net external demand						
1. Exports	**3.7**	**-0.9**	**6.3**	**3.3**	**10.9**	**8.2**
2. Imports	**11.3**	**3.6**	**6.3**	**3.3**	**7.9**	**5.6**
III. GDP	**6.0**	**5.6**	**6.0**	**5.5**	**6.5**	**6.7**

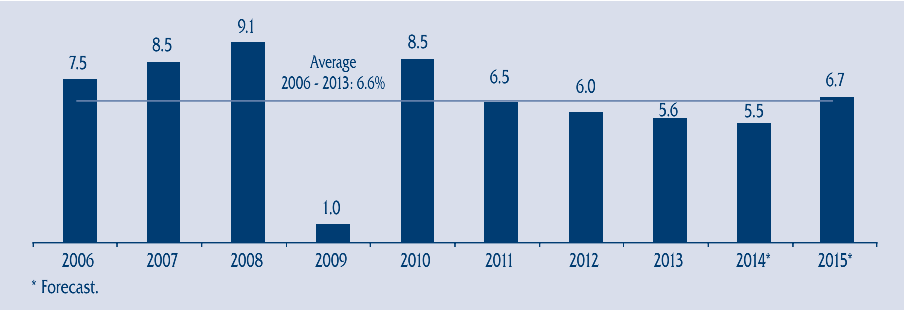
* Forecast.
IR: Inflation Report.

Table 16
GDP AND DOMESTIC DEMAND
(Contributions to the real % change)

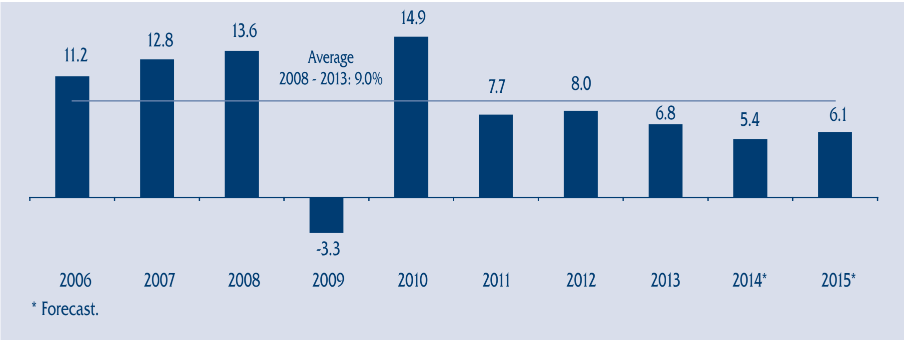
	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
I. DOMESTIC DEMAND	**7.9**	**6.8**	**6.3**	**5.5**	**6.5**	**6.2**
1. Private expenditure	**6.2**	**5.4**	**4.8**	**3.9**	**5.1**	**4.9**
Consumption	3.7	3.3	3.4	3.1	3.5	3.3
Private fixed investment	3.2	1.4	1.5	1.4	1.6	1.5
Change on inventories	-0.8	0.8	-0.1	-0.5	0.0	0.1
2. Public expenditure	**1.8**	**1.4**	**1.6**	**1.6**	**1.4**	**1.3**
Consumption	0.9	0.7	0.6	0.7	0.4	0.5
Investment	0.9	0.7	0.9	0.9	1.0	0.8
II. Net external demand						
1. Exports	**1.0**	**-0.2**	**1.1**	**0.8**	**1.9**	**2.0**
2. Imports	**3.0**	**1.0**	**1.5**	**0.9**	**1.8**	**1.5**
III. GDP	**6.0**	**5.6**	**6.0**	**5.5**	**6.5**	**6.7**

* Forecast.
IR: Inflation Report.

Graph 27
GDP: 2006-2015
(Real % change)

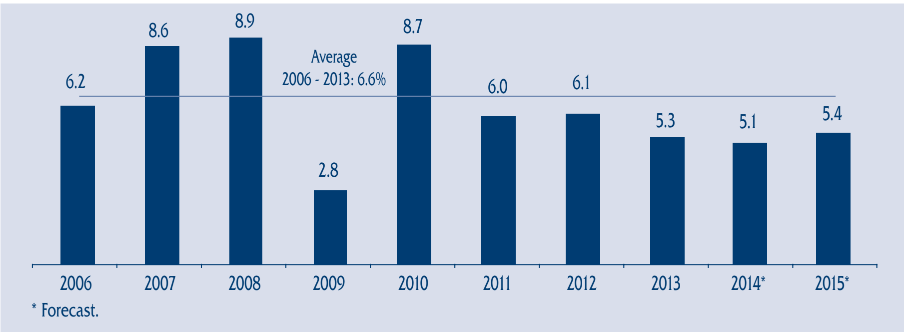


Graph 28
DOMESTIC DEMAND: 2006-2015
(Real % change)



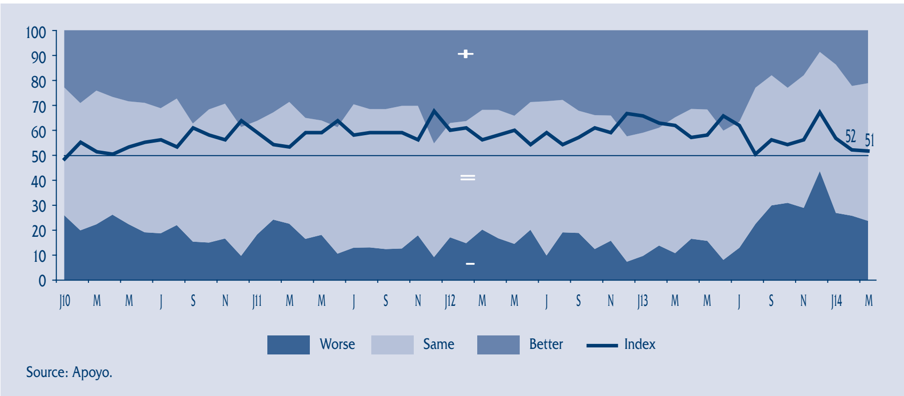
22. Private consumption may grow 5.1 percent in 2014 and 5.4 percent in 2015. Recent data revealed consumer confidence although lower remains within the optimistic range.

Graph 29
PRIVATE CONSUMPTION: 2006-2015
(Real % change)



a. The consumer confidence index in March reached an optimistic 51 point score. This indicator averaged 53 points in the first three months this year, lower than in the previous quarter.

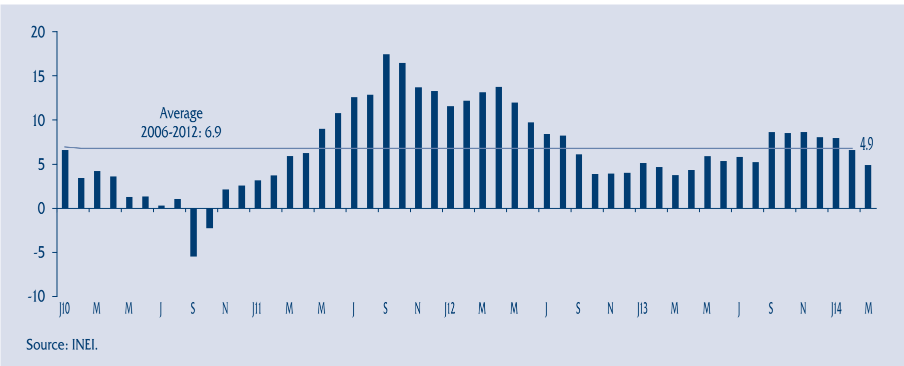
Graph 30
CONSUMER CONFIDENCE INDEX:
HOUSEHOLDS' ECONOMIC SITUATION?



Source: Apoyo.

b. Labor monthly income data shows 4.9 percent growth in the first quarter, lower than last quarter's 6.6 percent.

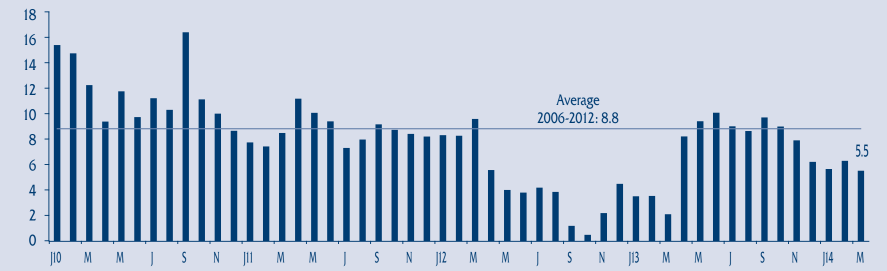
Graph 31
MAIN INCOME LABOR: JAN.10 - MAR.14
(Nominal quarterly moving 12 month % change)



Source: INEI.

c. Labor force employed grew 5.5 percent in the first quarter, lower than in the previous quarter (6.3 percent).

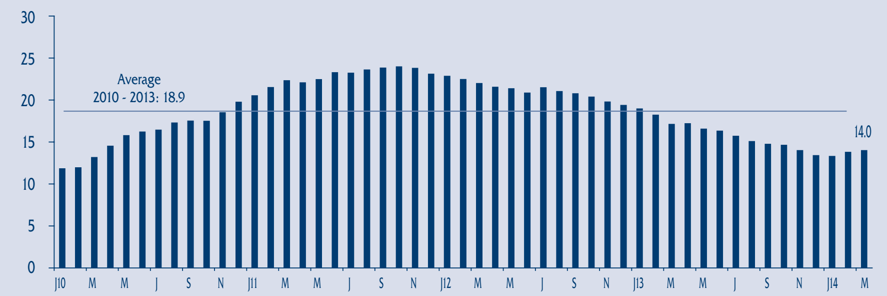
Graph 32
LABOR FORCE EMPLOYED: JAN.10-MAR14
(Nominal quarterly moving 12 month % change)



Memo: Labor force employed includes people working 35 hours or more per week and receives a salary above the minimum income benchmark.
Source: INEI.

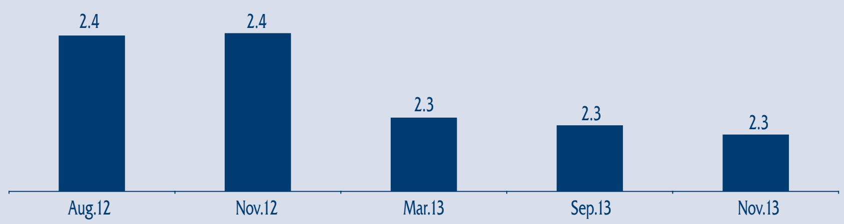
d. Loans to individuals, including consumer and mortgage credits, continued to slow down compared to 2013. This indicator grew 14.0 percent in March, below the last 4 years' average. Households' debt compared to revenues may restrict growth in consumer demand.

Graph 33
CREDIT TO INDIVIDUALS: JAN.10 - MAR.14
(12 months % change)



Source: BCRP.

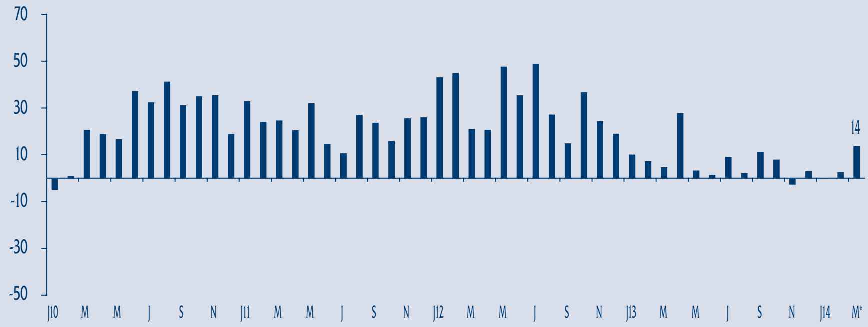
Graph 34
DEBT-INCOME RATIO 1/



1/ Debt equivalent income (Numer of time).
Source: BCRP.

e. Volume of imports of consumer goods grew 13.8 in March.

Graph 35
VOLUME OF IMPORTS OF CONSUMER GOODS: JAN. 10 - MAR.14
(12 months % change)



* Preliminary.
Source: SUNAT.

f. Sales of new family cars sales grew 0.9 percent in March.

Graph 36
SALE OF FAMILY VEHICLES: JAN.10 - MAR.14

Source: Araper.

g. In 2013, disposable national income growth slowed down to 5.7 percent, compared to 6.8 percent in 2012. Disposable national income growth rates are expected to pick up for the projected timeline, to reflect expected output evolution.

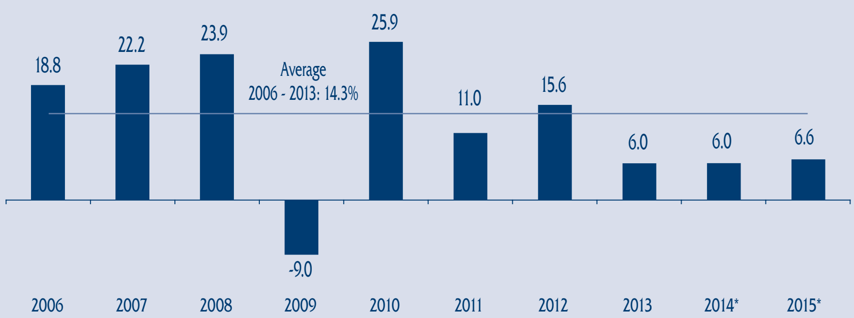
Table 17
NATIONAL DISPOSABLE INCOME
(Real % change)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
1. Gross Domestic Product	6.0	5.6	6.0	5.5	6.5	6.7
2. Gross National Product	7.7	7.0	6.3	5.8	6.3	7.0
3. Gross National Income	7.0	5.9	6.0	5.3	6.5	7.0
4. National Disposable Income 1/	**6.8**	**5.7**	**6.1**	**5.8**	**6.4**	**6.5**

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

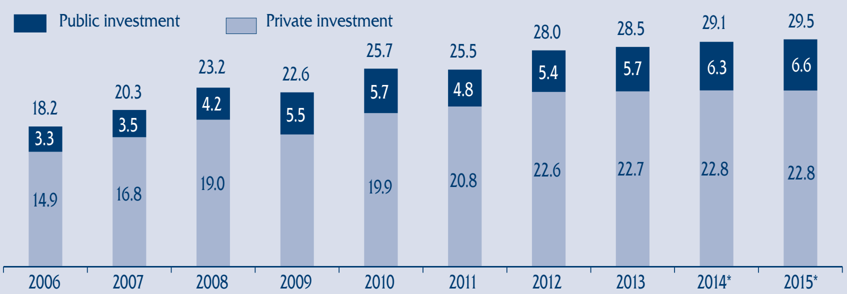
24. The private sector fixed investment growth projection was revised downwards from 6.3 to 6.0 percent for 2014, but the projected increase to 6.6 percent for 2015 remains unaltered. Consequently, the total gross fixed investment change rate, including government and industry, will rise from 28.5 percent in 2013 to 29.1 percent in 2014 and 29.5 percent in 2015.

Graph 37
PRIVATE INVESTMENT: 2006 - 2015
(Real % change)



* Forecast.

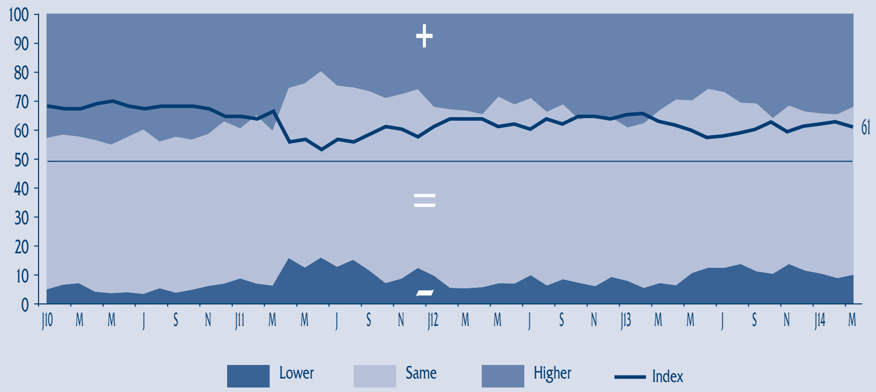
Graph 38
GROSS FIXED INVESTMENT: 2006 - 2015
(% GDP)



* Forecast.

a. Three-month demand expectations remain in the optimist tranche, having reached 61 points in March. They are lower than in the two prior months.

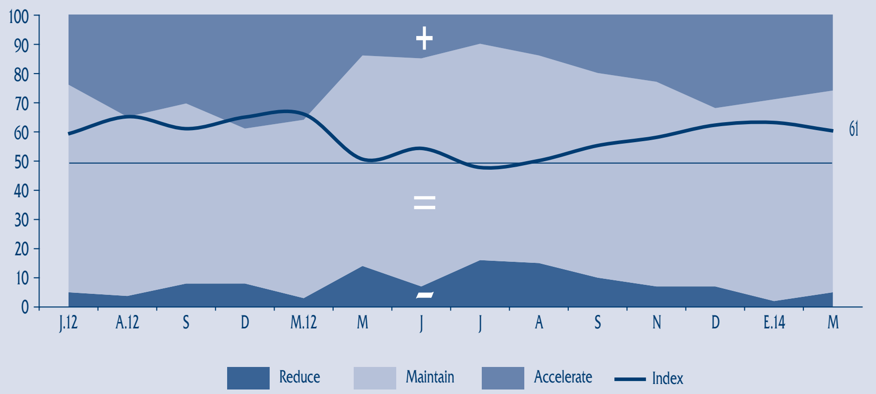
Graph 39
EXPECTATION ABOUT DEMAND IN THE THREE MONTHS AHEAD



Source: Survey of Macroeconomic Expectations, BCRP. Survey conducted during the second fortnight of March 2014.

b. The 6-month investment expectations indicator reached 61 points in March and remained in the optimistic tranche.

Graph 40
INVESTMENT EXPECTATIONS ON YOUR COMPANY IN THE SIX MONTHS AHEAD



Source: Apoyo.

c. Business expectations about the economy in the next three months fell to 54 points in March, but remained on optimistic ground.

Graph 41
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 March 2014.

d. The GDP growth expectations survey reveals a downward adjustment in 2014. In the financial system, the expected GDP growth rate was revised downward from 5.6 to 5.4 percent between December 2013 and March 2014. Economic analysts expectations fell from 5.7 to 5.4 percent, while non-financial companies revised their expectations downward from 5.5 to 5.2 percent.

Table 18
SURVEY ON MACROECONOMIC EXPECTATIONS: GDP GROWTH
(%)

	Expectations about:		
	IR Sep.13	IR Dec.13	IR Apr.14*
Financial entities			
2014	5.7	5.6	5.4
2015	5.9	5.9	5.5
Economic analysts			
2014	5.8	5.7	5.4
2015	6.0	6.0	5.7
Non-financial firms			
2014	5.6	5.5	5.2
2015	6.0	5.8	5.5

* Survey conducted during March 31, 2014.

24. Private investment project announcements for 2014 - 2015 reached US$ 31.5 billion or US$ 3 billion higher than in the December 2013 Inflation Report.

Table 19
PRIVATE INVESTMENT PROJECTS ANNOUNCEMENTS
(Million US$)

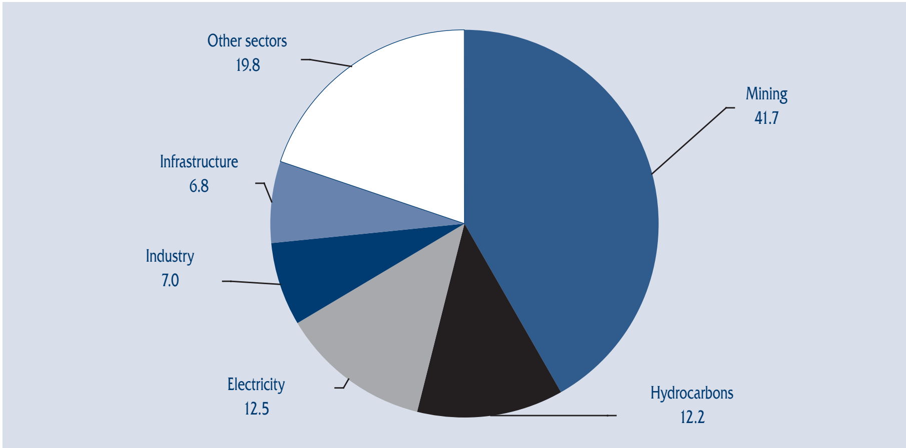
	2014 - 2015		
	IR Dec.13	**IR Apr.14**	**Difference**
Mining	14,110	13,159	-951
Hydrocarbons	4,036	3,843	-193
Electricity	3,293	3,948	655
Industry	1,991	2,192	201
Infrastructure	1,133	2,144	1,011
Other sectors	3,952	6,245	2,293
Total	**28,515**	**31,531**	**3,016**

IR: Inflation Report.

The mining and hydrocarbons industries accounted for 53.9 percent of total investment announcements for 2014-2015. A smaller flow of investments in the mining industry is a consequence of the end of the construction stage and imminent coming in line of major projects, including Toromocho and Constancia. Likewise, lower quotations and uncertainty about their future evolution have slowed down mining investments worldwide.

In the electricity industry, Enersur will undertake additional works in its Quitaracsa I hydropower project, expected to come in line in 2015. Consequently, the company has increased its investments by US$ 150 million. The Marañón hydropower project, underway by Motta Engil Perú and which entered its building stage in 2013, will require investing US$ 184 million, to generate 88 MW. In February, the Ministry of Energy and Mines approved the environmental assessment for the 600 MW Chadin II hydropower plant in the Marañón river basin. This project is underway in Cajamarca and Amazonas regions at an estimated total investment of US$ 819 million.

Graph 42
FORESEEN INVESTMENT PROJECTS: 2014-2015
(% share)

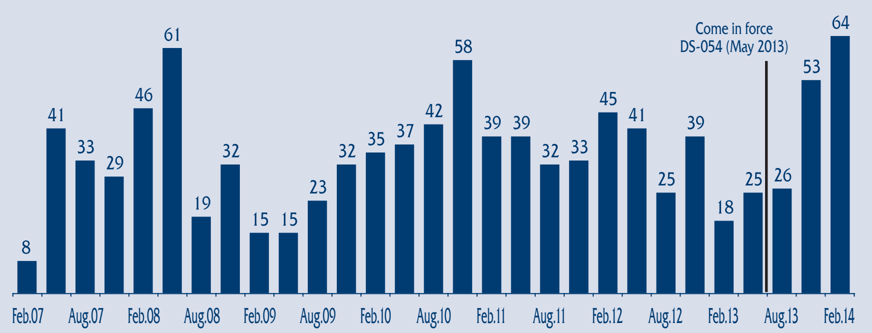


In the infrastructure sector, on March 28, Proinversión awarded the Consorcio Nuevo Metro de Lima -comprised of Cosapi S.A. (Perú), Impregilo S.A (Italy), Iridium Concesiones de Infraestructura S.A. (Spain), Vialia Sociedad Gestora de Concesiones de Infraestructura S.L. (Spain), Ansaldo Breda S.p.A. (Italy) and Ansaldo STS.p.a (Italy)- the concession of Line 2 and Branch Av. Faucett-Av. Gambetta of the Lima and Callao Underground Network. This project will include building an underground train along the east-west axis of Lima to connect Ate Vitarte, Santa Anita, San Luis, El Agustino, La Victoria, Breña, Jesús María, Downtown Lima, San Miguel, La Perla, Bellavista, Carmen de la Legua, Downtown and Callao districts. The concession was awarded for 35 years and the estimated investment reaches US$ 5.17 billion.

Other sectors where investments have been announced include Grupo Telefónica for US$ 1.8 billion, during 2014 - 2016, to build the infrastructure and gradually implement a 4G cellular phone service.

Between December and February 2014, the Ministry of Energy and Mines approved 64 new environmental impact assessments, compared to 18 in the same period a year earlier. This faster permitting pace is a result of Supreme Decrees 054 and 060 (May 2013) that enforced shorter deadlines and streamlined paperwork.

Graph 43
ENVIRONMENTAL IMPACT STUDIES APPROVED
(Number of studies approved in the last 3 months) 1/

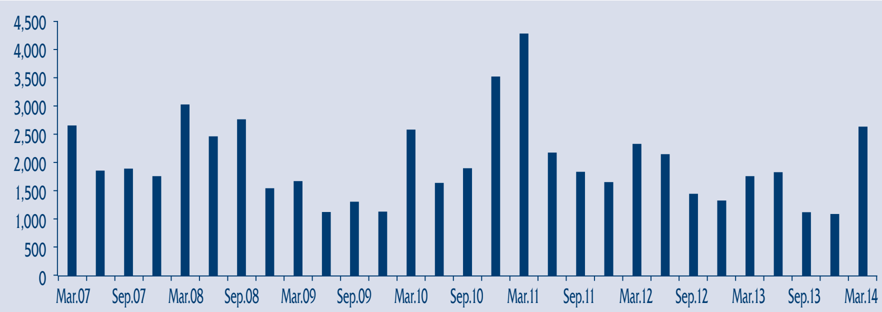


1/ Environmental Impact Statement for exploration, Environmental Impact Studies Semi-detailed for exploration and Environmental Impact Studies for exploitation.
DS-054 2013 PCM: Rule approving special provisions for the implementation of administrative procedures.
Source: MINEM.

In addition, in the first quarter of 2014, 2,633 mine development applications were submitted nationwide, or 49.8 percent more than a year earlier. These applications covered a total 1.4 million hectares, or 550,000 more than a year before.

Applications for mining prospecting and development concessions are filed with the Peruvian National Mining and Metallurgy Institute (INGEMMET) or the corresponding regional (State) government.

Graph 44
MINING CLAIMS APLICATION IN THE COUNTRY
(Number of applications, last 3 months)



Source: INGEMMET.

Table 20
MAIN INVESTMENT PROJECTS ANNOUNCED: 2014-2015

SECTOR	COMPANIES	PROJECT NAMES
Mining	Consorcio MMG, Guoxin International Investment Corporation Ltd, and CITIC Metal Co Ltd	Las Bambas
	Freeport-Macmoran Copper	Expansion of Cerro Verde
	Antares Minerals Inc.	Haquira
	Anglo American Plc.	Quellaveco
	Aluminium Corp of China Ltd. (Chinalco)	Expansion of Toromocho
	Hudbay Minerals Inc.	Constancia
	Grupo Milpo	Expansion of Cerro Lindo and El Porvenir
	Hochschild Mining S.A.	Inmaculada
	Shougang Corporation	Expansion of Marcona mine
	Compañía de Minas Buenaventura S.A.A.	Expansion of Colquijirca mine
	Minera IRL Limited (MIRL)	Ollachea
	Compañía de Minas Buenaventura S.A.A.	Tambomayo
	Hochschild Mining International Minerals Corporation	Crespo
	Sulliden Gold Corp.	Shahuindo
	Andean American Mining Corp.	Invicta
	Volcan Compañia Minera S.A.A.	Oxide-Stockpiles Pyrite-Alpamarca Stockpiles- Pallanga river
Hydrocarbons	Savia Perú S.A.	Lot Z-2B: Perforation, exploration and other investments
	Perenco	Pipeline
	Petrobras Energia Peru S.A; Repsol YPF S.A.	Exploration of Lot 39 (21 well)
	Enagas;Transportadora de Gas del Perú S.A. (TGP)	Expansion of gas and capacity of transportation
	Karoon Gas Autralia; Vietnam American	Exploration: Lot Z - 38 (20 well)
	Pluspetrol Perú Corp. S.A.	Exploration of Lots 88 and 56
	Calidda Gas Natural del Perú	Supply System of LNG for the domestic market
	Gran Tierra Energy; Petrolífera Petroleum	Exploration Oil, Well Bretaña Norte 95-2-1 XD (Lot 95)
	Sk Energy	Exploration of Lot z 46
	Interoil	Improvement Lots III and IV
	Consorcio Promigas Surtigas; Gas Natural Fenosa	Supply System of LNG for the domestic market (Northern and South Western)
	Olympic Perú	Hydrocarbons Project Implementation
Electricity	Energía Azul S.R.L.	Hydroelectric Power Plant of Santa María
	Odebrecht S.A.C.	Hydroelectric Power Plant of Cerro de Chaglla
	Enersur; Kallpa Generación	Electric Node in the South of Peru
	Quimpac S.A.; Inkia Energy	Hydroelectric Power Plant of Cerro del Águila
	Gdf Suez	Hydroelectric Power Plant of Quitaracsa I
	Inevarante	Hydroelectric Power Plant of Acco Pucará
	Odebrecht S.A.C.	Hydroelectric Power Plant of Chadin II
	Interconexión Eléctrica; Empresa de Energía de Bogotá	Mantaro – Marcona – Socabaya – Montalvo Transmission Line and Associated Sub-stations
	SN Power Perú S.A.	Hydroelectric Power Plant of Cheves
	Volcan Compañia Minera S.A.A.	Hydroelectric Power Plant of Belo Horizonte
	Norwind	Wind energy park Cerro Chocan
	Termochilca S.A.C.	Thermal power: Santo Domingo de Olleros - combined cycled
	Mota Engil	Hydroelectric Power Plant of Marañón
Infrastructure	Consorcio Nuevo Metro de Lima	Line 2 Network Metro Lima (Electric Train)
	Consorcio Consierra II	Longitudinal de la Sierra road project, Section 2
	OAS S.R.L.	Parque Rimac express way
	Callao Port Holding; Central Portuaria; APM Terminal	Modernization of North Pier
	Odebrecht S.A.C.	New highways in Lima
	Autopista del Norte SAC	Pativilca – Port of Salaverry Road Network No. 4
	Grupo Ronmero	Expansion of Matarani port
	Cosapi S.A.; Cobra Instalaciones y Servicios S.A.	Majes Siguas II
	Covisol	Trujillo-Sullana: Sol Highway
Industry	Repsol YPF S.A.	Expansion of La Pampilla plant
	Corporación JR Lindley	Expansion and new plants: Trujillo, Pucusana, Cusco, and Iquitos
	Grupo Hochschild	New cement plant in Piura
	Mitsubishi; Hochschild Mining S.A.	Phospates projects
	Grupo de Pilkington Limited	Manufacture plant of float glasses
	Siderperú	Modernization of plant
	Backus y Johnston S.A.A.	Investment 2012-2014
	Grupo Gloria	Investment 2011-2016
	Vale Do Rio Doce (CVRD)	Bayovar II (Expansion)
Other sectors	Grupo Falabella	Mall Aventura Plaza: 6 New malls
	Grupo Interbank	Expansion 2014-2015
	Graña y Montero Vivienda (GMV)	Real estate
	Grupo Roe; Holding Banmédica	Health center: San Felipe
	Ingenieros Civiles Asociados	Fleet and equipments
	Besalco S.A.	Real estate
	Ripley	Expansion and New stores
	Grupo Suma	Real estate: Nuevo Paracas
	Grupo Gloria	Casagrande, Cartavio and San Jacinto - Olmos project
	Camposol	Investment in Crops: Arándanno
	Grupo Telefónica	4G mobile phone service
	Tv Azteca - Tedai	National Fiber Optics Backbone

Source: Press media and business information.

During 2014 Proinversión expected to be awarded investment projects as concessions for US$ 10.2 billion. In this way, projects for US$ 5.8 billion have been awarded, which include Line 2 and Faucett Ave. - Gambetta Ave. of the Basic Network of the Metro of Lima and Callao (US$ 5.2 billion) and International Airport of Chinchero - Cusco (AICC) (US$ 658 million). This last project was awarded to the Consorcio Kuntur Wasi, comprised of Corporación América (Argentina) and Andino Investment Holding (Peru)

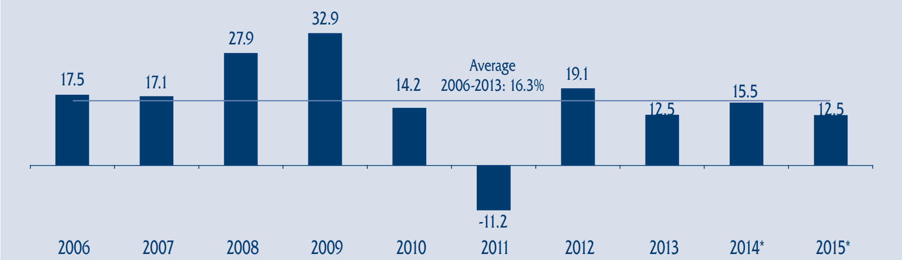
Table 21
MAIN PROJECTS TO BE IMPLEMENTED THROUGH CONCESSION ARRANGEMENTS IN 2014
(Million US$)

	Estimated Investment
A. To be Called	
Line 2 and Faucett Ave. - Gambetta Ave. of the Basic Network of the Metro of Lima and Callao	5,701
International Airport of Chinchero - Cusco (AICC)	659
B. Called	
Improvements of the National Energy Security and development of the South Peruvian Pipeline	3,000
220 Kv Moyobamba - Iquitos Transmission Line and associated substations	434
Main works and conduction of drinkable water supply for Lima	400
LNG Supply System for the Domestic Market	250
General San Martín (Pisco) Port Terminal	103
220 Kv Azangaro - Juliaca Transmission Line and associated substations	
Amazonía waterway	74
220 kV La Planicie - Industriales Transmission Line and Associated Substations	57
Choquequirao Cable car	55
Chillon river water supply works	45
220 kV Friaspata - Mollepata Transmission Line and Orcotuna Substation 220/60 kV	103
First stage substations Carapongo and associated line	103
Cable cars to Kuelap	17
Provision of Technological Security Services in Prisons	4
C. Tota (A) + (B)	**10,215**

Source: Proinversión.

26. **Government investment** grew 12.5 percent in 2013 mainly accounted for by larger local and central goverments' investments. Larger central governments investments include rehabilitation and improvement of roads and the Lima-Callao "Tren Eléctrico" (Light Train) system. In line with budget execution at the beginning of the year, public investment should continue to grow in 2014 and 2015, above the average GDP growth rates.

Graph 45
PUBLIC INVESTMENT: 2006-2015
(Real % change)

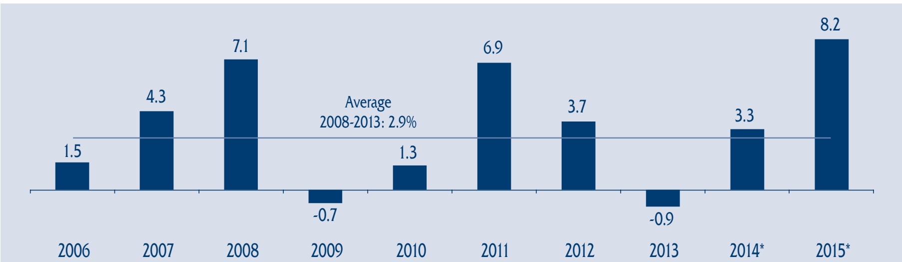


* Forecast.

27. **Real exports** of goods and services fell slightly by 0.9 percent in 2013, due to sliding exports of traditional products, including coffee and gold, while non-traditional exports also dropped 0.8 percent, mainly in textile goods.

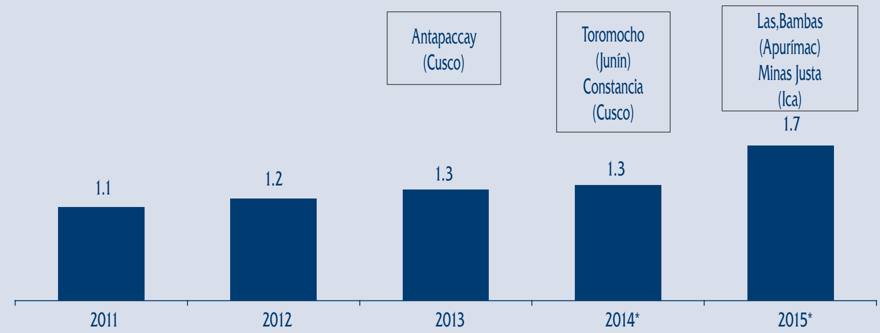
Exports are expected to increase in 2014, after a moderate increase in traditional exports, in line with expected evolution of mining output and larger Peruvian pilchard (anchoveta) extraction for fishmeal manufacturing. In 2015, exports are expected to bound back, mainly after increased output copper from the Toromocho project, which has already started operating, and the coming into operation of Las Bambas and Constancia copper projects. To the above should be added the recovery of world demand for non-traditional products.

Graph 46
EXPORTS OF GOODS AND SERVICES : 2006-2015
(Real % change)



* Forecast.

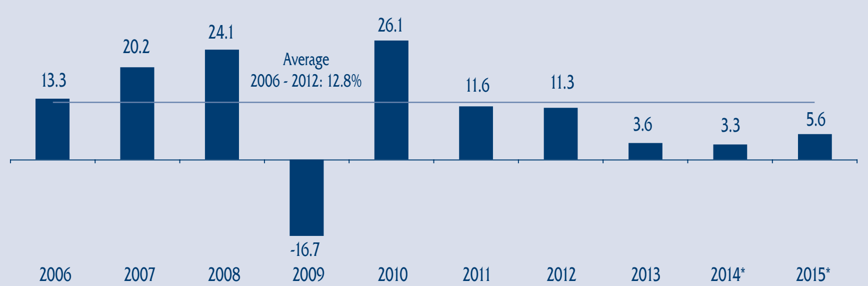
Graph 47
COPPER PRODUCTION
(Million FMT)



* Forecast.

28. **Imports** of goods and services grew 3.6 percent in 2013, or 8 percent points slower compared to growth in 2012, mainly resulting from slower imports of capital goods as a consequence of also slower private investment. In 2014, a moderate 3.3 percent increase of imports is expected further recovery in 2015, in line with projected GDP growth.

Graph 48
IMPORTS OF GOODS AND SERVICES: 2006-2015
(Real % change)



* Forecast.

Box 1

PROJECTIONS AND CHANGE OF BASE YEAR FOR NATIONAL ACCOUNTS

The National Statistics and Informatics Institute (INEI) published last March its national accounts with a new 2007 base year. Published figures evidenced certain major changes in the sector by sector structure of Peru’s economy compared to the estimated structure with the 1994 base year. In particular, the share of mining increases from 4.7 to 14.4 percent in line with developments in international metal quotations and mining output growth in the last decade. On the other hand, commerce, services and agriculture reduced their share.

Among the nine large economic subdivisions, mining showed the largest share change in GDP, compared to 1994 base year. Commerce followed, and dropped from 14.6 percent share of GDP in 1994 to 10.2 percent with the new base year. In the construction industry, a new methodology increased the weight of advance in public use infrastructure, now measured with the budget accruals method.

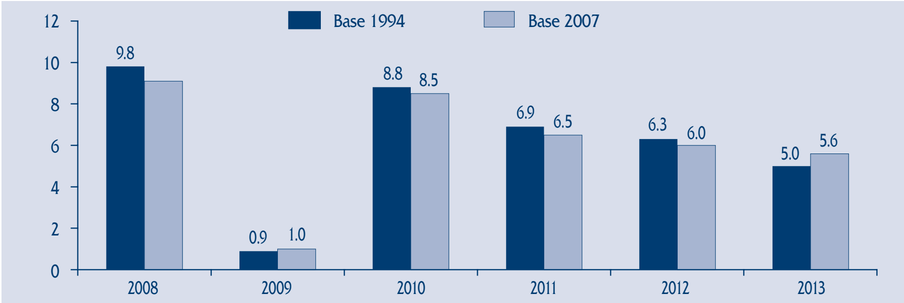
GDP
(% structure)

	Base 1994	Base 2007
Agriculture and livestock	7.6	6.0
Fishing	0.7	0.7
Mining and hydrocarbons	4.7	14.4
Manufacturing	16.0	16.5
Electricity and water	1.9	1.7
Construction	5.6	5.1
Commerce	14.6	10.2
Other services	39.3	37.1
Import duties and other taxes	9.7	8.3
Global GDP	**100.0**	**100.0**

Source: INEI.

The GDP growth pace with 2007 base year is slightly slower that computed with base year 1994 through 2012. On the other hand, in 2013 growth measured with a 2007 basis is 0.6 percentage points higher. The observed difference in growth rates is due to the capturing of new products by changing the base year, the growth or decline of some industries and the evolution of relative prices.

GDP GROWTH
(2007-2013)



GDP
(Annual average growth 2008-2013)

	Base 1994	Base 2007
Agriculture and livestock	4.4	4.2
Fishing	1.7	-0.4
Mining and hydrocarbons	2.1	3.0
Manufacturing	3.9	4.4
Electricity and water	5.8	6.0
Construction	11.0	11.4
Commerce	7.2	7.4
Other services	6.8	6.8
Import duties and other taxes	5.8	7.1
Global GDP	**6.2**	**6.1**

Source: INEI.

The larger share of mining implies in coming years GDP growth will be more closely related to this industry. On the one hand, larger installed capacity and the beginning of operations of certain large Greenfield projects will have an even larger positive impact on GDP growth. However, project delays and operational issues that might adversely impact output from existing mines may have a material adverse effect on GDP.

In 2007, GDP measured with 1994 base year reached S/. 335.5 billion. With the new base year, GDP that year reached S/. 319.7 billion. In other words, nominal GDP in soles for year 2007 was 4.7 percent lower. That difference in GDP series narrows as we move towards a more recent period. For instance, in 2013, the difference in estimated GDP between both base years drops to 2.5 percent.

In US dollar terms, in 2013 the value of GDP dropped from US$ 206.7 billion with 1994 year base, to US$ 202 billion with 2007 year base. This implies a small drop in the estimated per capita GDP from US$ 6,800 to US$ 6,600 in 2013.

Measuring GDP from the expenditure side also results in certain differences. For instance, the investment to GDP ratio drops from 27.3 percent in 2013 to a new estimated 26.6 percent. Likewise, private demand's share dropped from 63.0 percent in 2013 to 61.5 percent. On the other hand, public demand increased its share of product.

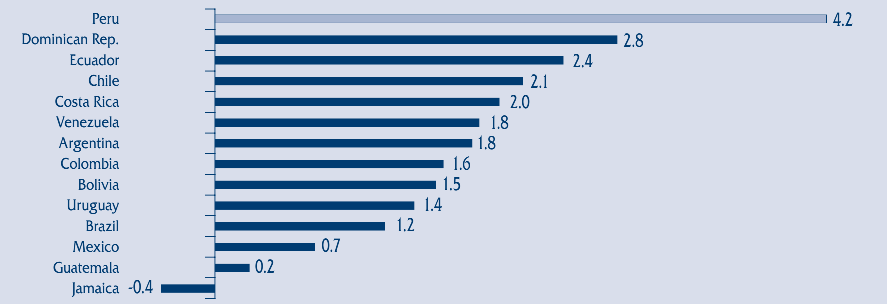
Box 2

LABOR PRODUCTIVITY: PERU FROM A GLOBAL AND REGIONAL PERSPECTIVE

Labor productivity's growth, measured as the percent change of output per worker, is an indicator of progress in each worker's average contribution to GDP.

Available international evidence for the most recent decades shows Peru ranks among the top 20 countries worldwide for labor productivity growth (20th position among 122 countries), and was also the Latin American economy with the fastest growing output per worker rate in 2003-2013.

LABOR PRODUCTIVITY
(12 month % change, 2003-2013)



Memo: Labor productivity measures the Real Gross Domestic Product (expressed in 2013 US$, converted by Purchasing Power Parities) / Labor force employed. The graph shows countries with over 2 million people.
Source: The Conference Board Total Economy Database, 2014.

Among other factors, this positive evolution of labour productivity in Peru is accounted for by an environment characterized by gradual improvements in the business climate, more open trade and diversified markets, significant imports of capital goods, larger Direct Foreign Investments, and moderate improvements in human capital (increased number of schooling years among the Labor Force Employed, principally).

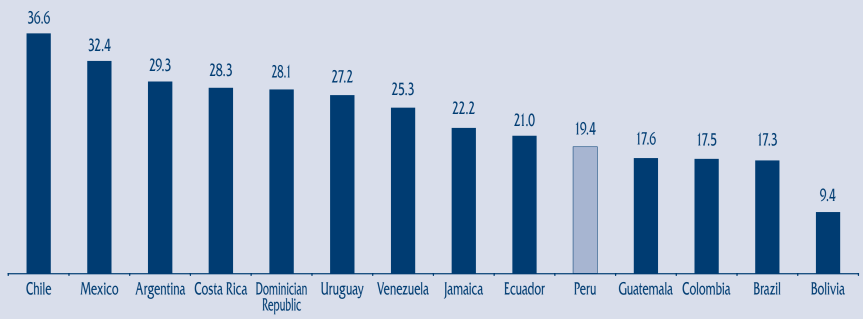
However, despite recent advances, worker productivity[2] in Peru is still relatively low by international standards, suggesting a large potential to further increase labor productivity in Peru.

In 2013, international evidence showed Peru ranks 77th among 122 countries worldwide in terms of labor productivity. Within the region, Peru ranks 10th among 14 economies, in terms of output per worker in 2013.

2 Labor productivity is computed as the average worker output, a relevant indicator for international comparisons for an economy's productivity. Nevertheless, this indicator: i) does not provide information about the increases in labor supply to GDP (marginal labour product); ii) does not provide information about heterogeneous labor supply and iii) is not exclusively accounted for the quality of human capital but also by the level and quality of physical capital and the efficiency of technological processes (Total Factor Productivity, TFP).

Consequently, there is still ample room for improvements, in particular in the quality of education at all levels. More information about markets' demand for labour and the quality of education would contribute to improving human capital.

LABOR PRODUCTIVITY
(% labor productivity, United States. 2013)



Memo: Labor productivity measured as real GDP (PPP, US$ 2013) / Labor force employed. If labor productivity were measured using available national source for employment and product (non-adjusted PPI GDP), the ratio (Labor productivity in Peru/ Labour productivity in US) would be 11.5 (2012). The graph shows countries with over 2 million people.
Source: The Conference Board Total Economy Database, 2014.

Despite recent productivity improvements, domestic and regional evidence suggests complying with labor regulations in Peru is relatively expensive, for the existing level of average labor productivity. Consequently, the difficulties companies face (in particular, smaller ones) to meet the cost of existing labour regulations result in a large grey economy. Peru ranks in 129th among 148 economies for hiring and dismissal flexibility, as reported by the Global Competitiveness Index for 2013-14 published by the World Economic Forum. Some of the factors that account for such high degree of rigidity in our labor regulations are as follows:

- Peru's minimum legal wage ("salario mínimo legal," RMV is the Spanish acronym) measured as a percent of output per worker) exceeds by 63 percent the international average. Despite a relatively more flexible special labor regime for SMEs, 68 percent of micro-business workers (1.8 million) earn less than the RMV, reflecting their low productivity which displaces them to the underground economy.

- The non-wage cost of labor (dismissal compensation, paid vacations and others) paid by medium-size and large companies has been estimated at 57 percent of wages. IDB figures (2010) reveal non-wage labor costs in Peru are the highest regionwide.

- For medium-size and large companies, dismissal compensation is 1.5 salaries for each year of service to a maximum of one year's worth of wages per worker. Such compensation is lower in 94 percent of countries worldwide.

- Labor regulations forbid hiring workers on a fixed term contract to perform permanent tasks: 59 percent of countries worldwide allow it.

- Large companies must meet occupational safety and health standards costing more than S/. 400.000/ year. In addition, these regulations provide criminal sanctions for offending employers of up to 10 years of effective jail time, a measure out of proportion with the punishment for other more serious crimes or when compared with regulations elsewhere.

Such strict labor regulations, when seen against the backdrop of low relative labor productivity (position 77 among 122 countries), partially explain why, according to ILO, labor informality in Peru is close to 69 percent, significantly higher than the 48 percent regional average.

As a consequence, evidence suggests increasing labour formality and country competitiveness requires more flexible labor regulations, including hiring and dismissal practices in line with international standards, and a review of the rules that may be hampering increased formality (for instance, the Occupational Safety and Health Act).

III. Balance of payments

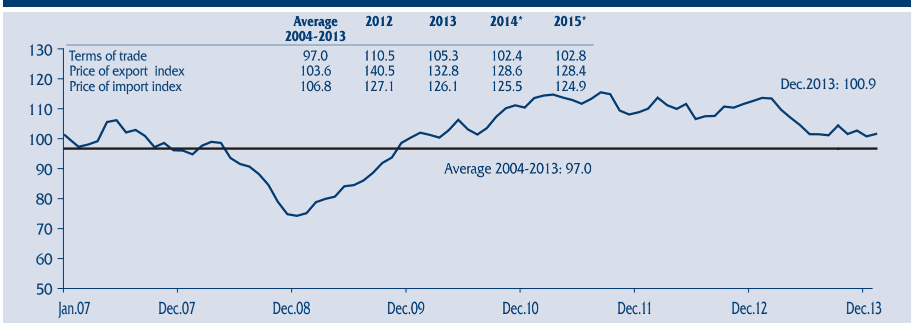
Terms of trade

29. Between January and February this year, the terms of trade indicator reached an average 101.7 or 10.6 percent lower than in the first two months of 2013, although 4.9 percent more than the 2004-2013 average. The exports goods' price indicator dropped 12.9 percent, while the imports' indicator slipped 2.6 percent from a year earlier. Export products showing the greatest price slips were copper and gold, hurt by expectations of a slowdown of Chinese growth, and US tapering.

    Starting with this Inflation Report, the method used to figure out exports and imports price indicators included in the terms of trade will be an annual chain-linked Laspeyres index to replace the prior monthly chain-linked Fisher index. This change allows to weight products and sectors from the previous year and annually updating the structure of foreign trade, without introducing instability due to monthly chain-linking.

30. For 2014, we reviewed the projected changes in terms of trade from -2.2 percent to -2.8 percent and, in contrast, we estimate a 0.3 percent increase in 2015. The estimated average copper price in 2014 was revised downward, from US$ 3.30 to US$ 3.09 per pound, in line with downward trends reported in Q1 2014. Meanwhile, gold prices were revised upward from US$ 1,250 to US$ 1,310 per ounce, given higher risk aversion stemming from recent geopolitical developments.

Graph 49
TERMS OF TRADE INDEX: JAN.01 - DEC.15
(2007=100)



* Forecast.

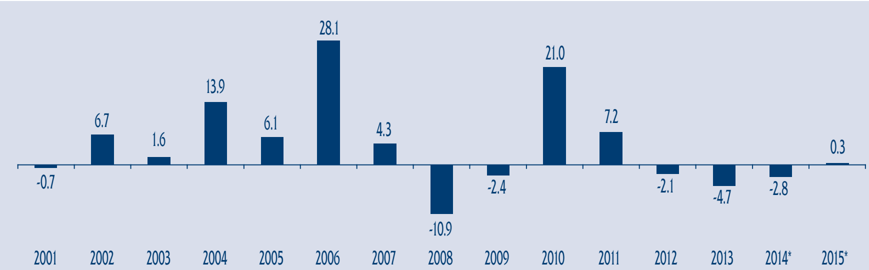
International prices may on average fall 0.4 percent, as a consequence of lower quotations for corn and soy oil, and a stable crude price.

Table 22
TERMS OF TRADE: 2011 - 2015
(Annual average data)

	2011	2012	2013	2014*		2015*	
	Year	Year	Year	IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
Terms of trade	**7.2**	**-2.1**	**-4.7**	**-2.2**	**-2.8**	**-0.1**	**0.3**
Price of exports	**21.5**	**-2.2**	**-5.5**	**-4.5**	**-3.2**	**0.3**	**-0.1**
Copper (US$ cents per pound)	400	361	332	330	309	330	308
Zinc (US$ cents per pound)	100	88	87	90	92	90	93
Lead (US$ cents per pound)	109	94	97	97	95	99	96
Gold (US$ per ounce)	1,570	1,670	1,411	1,250	1,310	1,250	1,300
Price of imports	**13.3**	**-0.2**	**-0.8**	**-2.4**	**-0.4**	**0.4**	**-0.5**
Oil (US$ per barrel)	95	94	98	93	98	89	89
Wheat (US$ per ton)	280	276	266	258	276	262	278
Maize (US$ per ton)	262	273	235	174	187	180	194
Soybean oil (US$ per ton)	1,191	1,125	992	920	877	933	883

* Forecast.

Graph 50
TERMS OF TRADE: 2001 - 2015
(%)



* Forecast.

Copper

31. **Copper** prices dropped 7.4 percent in the first quarter of 2014, to close March at an average monthly quotation reaching US$ 3.02 per pound. Copper slipped quickly starting in the first half of March and reached a minimum US$ 2.92 per pound on Thursday, March 20.

    The observed copper slide in March is basically accounted for by concerns for slacking Chinese demand, following slower manufacturing, drops of Chinese metal imports, slower investment in power generation infrastructure, and fears of interrupted new financing schemes (and even closing older ones) used as collateral, mainly relating to copper.

Simultaneously, a perception of a global copper glut was strengthened after an upward review of forecasts by several private observers. CRU metal research consultancy increased its projected copper supply surplus 4 times its January estimate. The International Copper Studies Group rose its projected supply surplus to 405,000 metric tons in 2014 and 595,000 metric tons in 2015. Freeport McMoRan Copper & Gold reached an agreement with the Indonesian government to recommend its concentrate exports, interrupted since January.

Table 23
WORLD REFINED COPPER USAGE AND SUPPLY
(Thousand metric tons)

	2009	2010	2011	2012	2013	2014*	2015*
World mine production	15,934	16,054	16,079	16,700	18,059	18,904	20,283
World refined production (Primary+Secondary)	18,248	18,981	19,595	20,127	20,991	22,362	23,335
World refined usage	17,893	19,125	19,696	20,393	21,273	21,957	22,740
Refined balance 1/	355	-144	-101	-266	-282	405	595

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

Chinese demand is expected to recover partially after gradual government stimulus measures to foster infrastructure investments. However, even with a stimulus package, Chinese demand would remain weak, against a backdrop of large copper supplies. In line with these developments, the price of copper has been revised downward within the projection's horizon.

Graph 51
COPPER: JANUARY 2007 - DECEMBER 2015
(ctv. US$/pd.)

Gold

32. **Gold** quotations increased 9.3 percent in Q1 2014. March closed with an average monthly quotation of US$ 1,336 per troy ounce. Recent behavior results from increased demand for safe assets given the higher aversion to risk stemming from geopolitical events in Ukraine and prospects of slower growth in the Chinese and other emerging economies.

The rising trend however reverted towards the end of March. The Fed's announcement of increased rates before expected, led to a US dollar appreciation and slowed down increases in gold prices. This factor may remain over the projection's horizon and limit gold price rises.

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

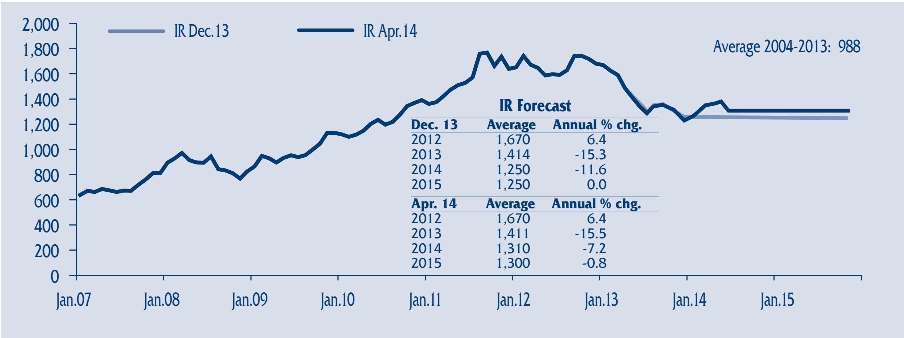
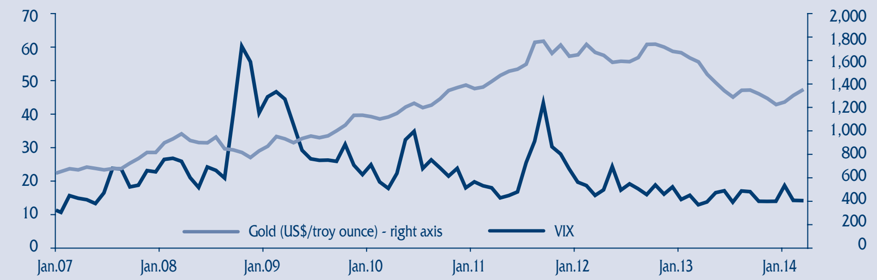


Table 24
GOLD: SUPPLY AND DEMAND
(Tons)

	2011	2012	2013
World mine production	2,849	2,824	2,969
Gold recycling	1,649	1,591	1,371
Total supply	**4,498**	**4,415**	**4,340**
Jewellry	1,975	1,951	2,198
Technology	452	408	405
Investment	1,699	1,568	773
Central banks 1/	457	544	369
Gold demand	**4,582**	**4,470**	**3,745**
OTC investments and stock flows 2/	-84	-55	595
Total demand	**4,498**	**4,415**	**4,340**
Market balance	**0**	**0**	**0**

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

Graph 53
GOLD PRICE AND VIX INDEX S&P-500
(January 2007 - March 2014)



Source: Bloomberg.

Zinc

33. Average **zinc** prices rose 2.5 percent in Q1 2014, to a monthly average quotation of US$ 0.92 per pound in March 2014. However, gold quotations that month slipped 0.6 percent, partially reverting the rising trend this year so far.

Higher prices were driven by expectations of an increasing supply deficit after planned mine closures over the next 5 years. Against a backdrop of moderate demand growth, such events would explain the expected price rises for the projected horizon. However, mine supply response this year may partially make up for price increases.

Zinc market fundamentals still point to a slightly tighter market in the short term. A similar prospect is observed for the medium term: refined zinc output is not expected to recover at the same pace as increasing demand, thus creating upward pressures. Consequently, international zinc quotations within the projection's horizon are expected to rise slightly above estimates in the December Inflation Report.

Graph 54
ZINC: JANUARY 2007 - DECEMBER 2015
(ctv. US$/pd.)

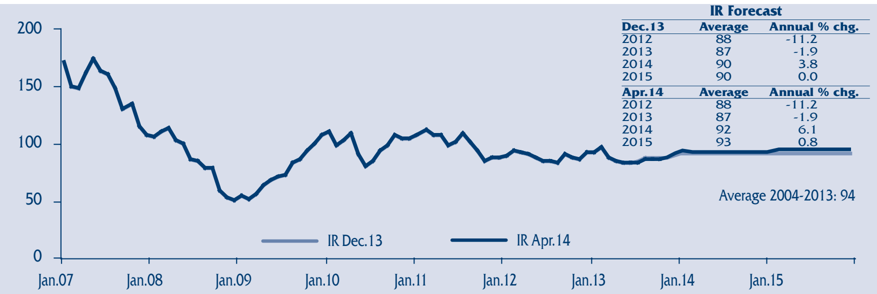


Table 25
REFINED ZINC: SUPPLY AND DEMAND
(Million metric tons)

	2007	2008	2009	2010	2011	2012	2013	2014*
World mine production	11.20	11.88	11.62	12.39	12.67	13.15	13.29	13.57
World refined production	11.35	11.77	11.28	12.90	13.08	12.53	13.14	13.46
World refined usage	11.23	11.57	10.92	12.65	12.71	12.29	13.20	13.58
Refined balance (thousand)	116	198	366	247	374	236	-60	-117

* Forecast.
Source: ILZSG.

Trade balance

34. Between January and February this year, the trade balance was in deficit reaching US$ 620 million, higher than one year earlier, as a consequence of 10.3 percent lower exports made up for by 5.4 percent smaller imports. Lower prices of exports were the predominant factor, while volume increased 3.4 percent.

35. For 2014, the projected trade balance was revised to show a US$ 0.9 billion deficit, as a consequence of lower exports (2.6 percent compared to the December estimate) made up for by lower imports (by 0.3 percent compared to the December estimate). The main factor accounting for the downward revision of the trade balance is the lower volume of traditional products exports, which, in December, were projected to increase by 9.4 percent. Now, the projection is of a 1.9 percent increase. Smaller copper shipments compared to estimates in the December Inflation Report result from lower extracted copper grades and a slower pace of production at Toromocho mine, as reported by the company.

Table 26
TRADE BALANCE
(Million US$)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
Exports	**46,367**	**42,177**	**43,114**	**42,006**	**48,427**	**45,446**
Of which:						
Traditional products	34,825	30,954	31,653	30,050	35,997	32,569
Non-traditional products	11,197	10,985	11,204	11,700	12,154	12,598
Imports	**41,135**	**42,217**	**43,074**	**42,952**	**46,727**	**45,183**
Of which:						
Consumer goods	8,252	8,837	9,287	9,084	10,681	9,646
Inputs	19,273	19,512	18,584	18,953	20,059	19,699
Capital goods	13,347	13,654	14,159	13,980	14,918	14,703
TRADE BALANCE	**5,232**	**-40**	**40**	**-945**	**1,700**	**263**

* Forecast.
IR: Inflation Report.

Table 27
TRADE BALANCE
(% change)

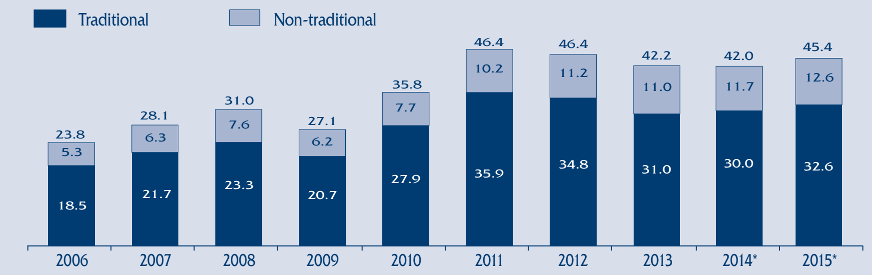
	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
1. Value:						
Exports	0.0	-9.0	3.2	-0.4	12.3	8.2
Traditional products	-3.0	-11.1	2.8	-2.9	13.7	8.4
Non-traditional products	10.0	-1.9	4.4	6.5	8.5	7.7
Imports	10.7	2.6	2.1	1.7	8.5	5.2
2. Volume:						
Exports	2.2	-3.8	8.0	2.9	12.0	8.3
Traditional products	1.0	-4.4	9.4	1.9	14.5	9.2
Non-traditional products	5.6	-1.5	3.2	6.0	6.2	6.0
Imports	10.9	3.5	4.6	2.2	8.1	5.7
3. Price:						
Exports	-2.2	-5.5	-4.5	-3.2	0.3	-0.1
Traditional products	-4.0	-7.0	-6.1	-4.7	-0.7	-0.8
Non-traditional products	4.2	-0.4	1.2	0.5	2.1	1.6
Imports	-0.2	-0.8	-2.4	-0.4	0.4	-0.5

* Forecast.
IR: Inflation Report.

36. In **2014** and **2015**, exports may reach US$ 42 billion and US$ 45.4 billion, respectively. Both amounts are below forecasts in the December Inflation Report (US$ 43.1 and US$ 48.4 billion, respectively). This downward review is a result of lower mining exports in both periods. In particular, lower projected copper and gold quotations would partially account for the expected contraction. In addition, projections take into account of lower gold and copper output as a consequence of lower mineral grades in some major mines already in operation. Nevertheless, copper output and exports are expected to grow steadily from the Toromocho project (Junín), and the coming in line of Las Bambas (Apurímac) and Constancia (Cusco) projects in 2015, which altogether would add 450,000 fine metric tons of copper once they start operating at full capacity.

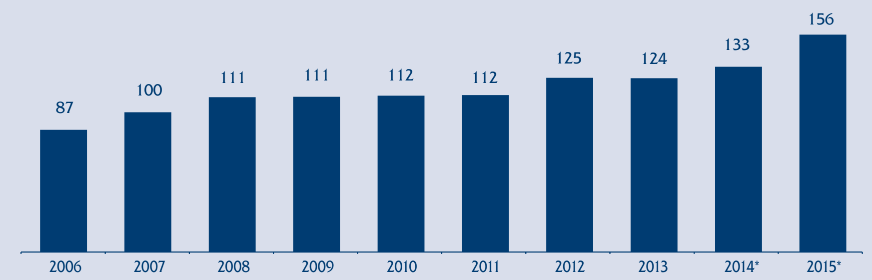
Non-traditional exports totaled US$ 11 billion in 2013, or lower than in 2012, as a consequence of 1.5 percent lower export volumes in a downgraded international environment. In **2014** and **2015**, positive growth rates should resume, reflecting larger exports of agricultural and textile products responding to the expected recovery of foreign demand.

Graph 55
EXPORTS OF GOODS: 2006-2015
(Billion US$)



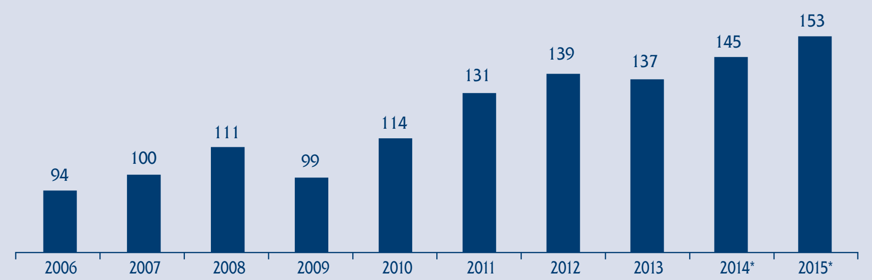
Memo: Total exports also include other exports.
* Forecast.

Graph 56
VOLUME OF COPPER EXPORTS
(Index 2007=100)



* Forecast.

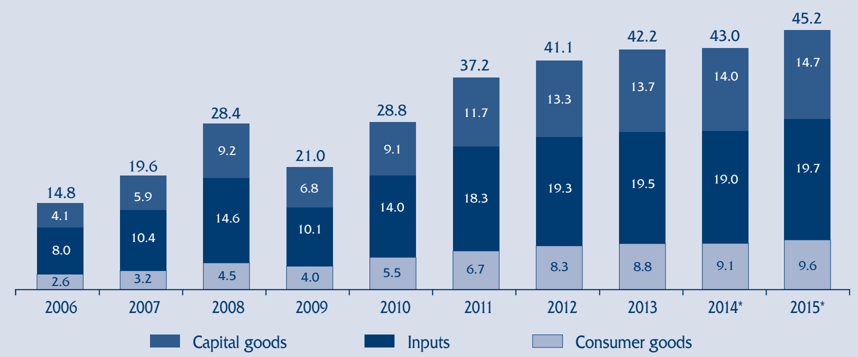
Graph 57
NON-TRADITIONAL EXPORTS VOLUME
(Index 2007=100)



* Forecast.

37. In **2014** imports should total US$ 43 billion, or a 2.2 percent increase compared to 2013. Such growth will be lower than forecast in December, as a result of slower growth of consumer and capital goods' imports, responding to slower growth of domestic demand. This slower growth may be partially made up for a lower expected drop in import prices this year. In 2015, imports worth US$ 45.2 billion are expected, in line with 5.7 percent volume growth, though lower than forecast in the December report, due to slower growth of industrial inputs' imports linked to lower projections for non-primary manufacturing.

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



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

Current account balance and financing

38. Balance of payments' projected current account this year shows improvements from a projected US$ 10.1 billion deficit forecast in the December Inflation Report, to US$ 9.0 billion in this Report, as a result of the tax impact of corporate sales among non-domiciled agents. This outcome is despite a lower US$ 1 billion trade balance deficit and is explained by higher tax collection resulting from sales of participations in companies owned by non-residents, such as the sale of shares in Petrobras, Las Bambas and Transportadora de Gas del Perú. Those transactions resulted in tax revenues totaling approximately US$ 0.7 billion. In addition, a smaller services' balance deficit is projected in line with the lower deficit already observed in 2013, simultaneously

with better-than-expected results in transportation and travel services, as evidenced by economic activity indicators.

Consequently, the balance of payment's current account deficit, as a percentage of GDP, may fall to 4.3 percent in 2014 and 3.9 percent in 2015, driven by larger exports that year and linked to the coming in line of various mining projects, including Las Bambas, Mina Justa and Constancia.

39. The current account deficit, reflecting use of foreign savings, mainly results from larger investments, which rose from 26.6 percent of GDP in 2013 to 27.4 percent in 2014 and 27.7 percent in 2015. This investment effort is mainly financed by government and private domestic savings which altogether accounted for 22.0 percent of GDP in 2013; and should reach 23.1 percent in 2014 and 23.8 percent in 2015.

Table 28
SAVINGS-INVESTMENT GAP
(% GDP)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
1. GROSS FIXED INVESTMENT	25.8	26.6	28.2	27.4	28.6	27.7
2. NET DOMESTIC SAVINGS 1/	22.6	22.0	23.6	23.1	24.5	23.8
3. EXTERNAL SAVINGS	3.3	4.6	4.6	4.3	4.2	3.9

1/ Excluding change on inventories.
* Forecast.

40. Long term financing from private sources will continue to exceed the current account gap for years 2014 and 2015, reflecting the fast pace of investments in export industries.

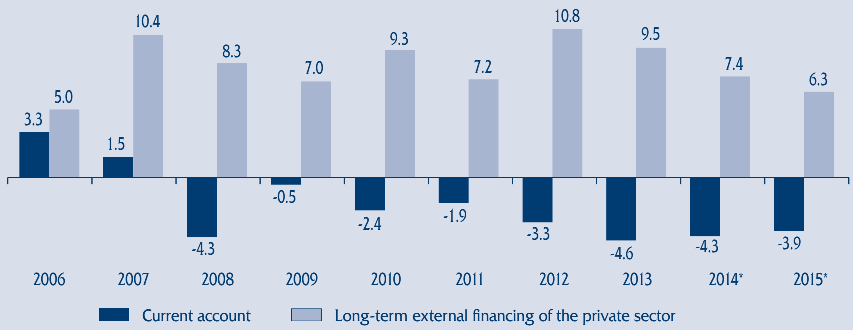
41. When reviewing the sustainability of the payment balance and if a current account deficit is found it is worthwhile taking into account that the use of foreign savings should not substitute for domestic savings efforts for investment financing, as that would signal excessive local consumer demand. Secondly, the external deficit results from a major inflow of investments to develop export projects, i.e. foreign currency-earners. Finally, the current account deficit is financed mainly by long-term sources, including foreign direct investments, which are more stable than short term flows.

Table 29
BALANCE OF PAYMENTS
(Million US$)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
I. CURRENT ACCOUNT BALANCE	**-6,281**	**-9,231**	**-10,126**	**-9,021**	**-10,080**	**-8,920**
% GDP	*-3.3*	*-4.6*	*-4.6*	*-4.3*	*-4.2*	*-3.9*
1. Trade balance	5,232	-40	40	-945	1,700	263
a. Exports	46,367	42,177	43,114	42,006	48,427	45,446
b. Imports	-41,135	-42,217	-43,074	-42,952	-46,727	-45,183
2. Services	-2,420	-1,801	-2,977	-1,966	-3,318	-1,971
3. Investment income	-12,399	-10,631	-10,752	-10,430	-12,118	-10,893
4. Current transfers	3,307	3,241	3,563	4,321	3,656	3,681
Of which: Remittances	2,788	2,707	2,993	3,031	3,094	3,125
II. FINANCIAL ACCOUNT	**21,087**	**12,137**	**11,126**	**10,021**	**11,580**	**11,420**
Of which:						
1. Private sector	19,621	13,483	10,935	9,498	10,873	10,146
a. Long term	15,792	14,881	10,410	10,260	10,873	10,124
b. Short term 1/	3,829	-1,399	525	-762	0	22
2. Public sector 2/	1,466	-1,345	191	523	707	1,274
III. BALANCE OF PAYMENTS (=I+II)	**14,806**	**2,907**	**1,000**	**1,000**	**1,500**	**2,500**
Memo:						
Long-term external financing of the private sector (% GDP) 3/	10.8	9.5	6.4	7.4	6.2	6.3
GDP (Billions US$)	192.9	202.0	222.0	211.1	241.2	229.6

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

Graph 59
CURRENT ACCOUNT AND 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.

42. Net long-term private foreign financing may reach US$ 10.3 billion in 2014, including a total US$ 3.2 billion worth of residents' investments abroad, mainly accounted for portfolio investments by pension fund management companies and investments in Peru by non-residents totaling US$ 13.5 billion. Outstanding in this inflow is the largest projected influence of bonds in international markets by local companies, in line with greater foreign financing in the first quarter.

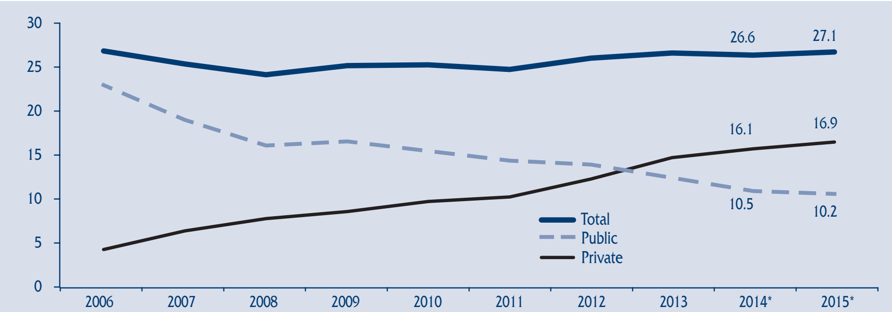
Table 30
LONG-TERM FINANCIAL ACCOUNT OF THE PRIVATE SECTOR
(Million US$)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
1. ASSETS	**-2,408**	**-1,291**	**-2,842**	**-3,197**	**-2,962**	**-2,895**
2. LIABILITIES	**18,200**	**16,173**	**13,252**	**13,457**	**13,835**	**13,042**
Foreign direct investment in the country	11,918	9,298	9,954	9,638	9,438	8,029
Non-financial sector	3,410	5,582	3,298	3,586	3,197	3,813
Long-term loans	1,944	1,211	1,838	985	1,566	1,421
Portfolio investment	1,467	4,371	1,460	2,601	1,632	2,391
Financial sector	2,872	1,293	0	232	1,200	1,200
Long-term loans	2,092	-212	-549	-738	1,000	400
Portfolio investment	780	1,505	549	970	200	800
3. NET FLOW (1+2)	**15,792**	**14,881**	**10,410**	**10,260**	**10,873**	**10,146**
% GDP	8.2	7.4	4.7	4.9	4.5	4.4

* Forecast.
IR: Inflation Report.

43. The medium- and long-term foreign debt balance rose from 26.1 percent of GDP in 2012 to 26.9 percent in 2013. For the first time, private sector foreign debt exceeded the public sector's foreign credits. This trend is expected to remain unaltered in the projection's time horizon. Public foreign debt, including domestic bonds held by non-residents might drop from 11.9 percent of GDP in 2013 to 10.5 and 10.2 percent of GDP in 2014 and 2015, respectively.

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



* Forecast.

44. The strength of the balance of payments vis-à-vis adverse world economic events may be evaluated by examining the position in foreign currency reserves compared to the short-term foreign debt balance, or the sum of such liabilities and the current account deficit. These indicators reveal a strong foreign currency reserves position compared to other regional countries.

Table 31
NIR INDICATORS

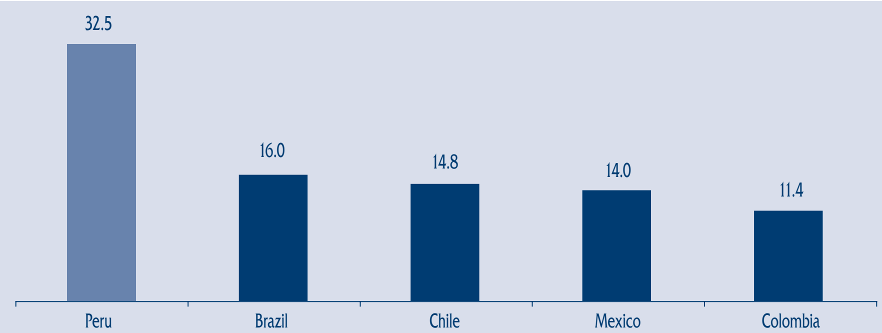
	2004	2009	2014*
NIR / GDP (%)	18.1	27.2	31.6
NIR (% Short-term external debt)	158.7	292.2	832.2
NIR (% Short-term external debt plus Current account deficit)	159.9	274.7	391.4

* Forecast.

Graph 61
NET INTERNATIONAL RESERVES
(Million US$)

* Forecast.

Graph 62
NIR: LATIN AMERICA
(% GDP, 2013)



Source: Bloomberg and IMF.

IV. Public finances

Economic results

45. Government finance data to Q1 2014 shows economic results for the last 12 months ending in March remained at 0.9 percent of GDP. The higher amount of expenditures, reaching 20.7 percent, is fully made up by increased general government revenues, totaling 22.3 percent of GDP.

Graph 63
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR
(Accumulate last 4 quarters - % GDP)

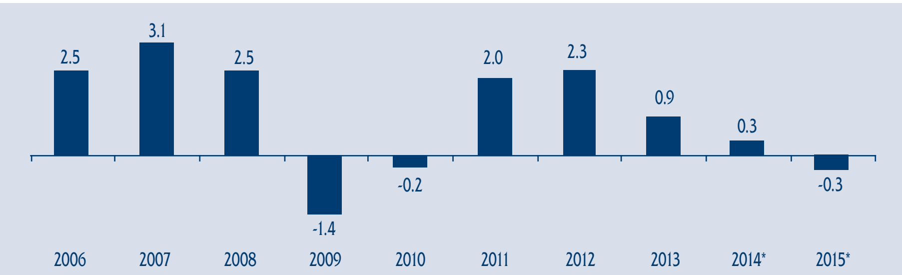
Graph 64
CURRENT REVENUES OF THE GENERAL GOVERNMENT
(Accumulate last 4 quarters - % GDP)

Graph 65
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT
(Accumulate last 4 quarters - % GDP)

General government's current revenues grew 5.9 percent in Q1 2014, thanks to faster income tax (8.8 percent) and value added tax ("Impuesto general a las ventas"- IGV, at 8.5 percent) revenues. Income tax grew significantly in March as a consequence of stock sales by certain natural resource development companies and larger-than-expected annual backtax payments. In addition, general government's non-financial expenditures increased 11.6 percent in real terms, with rises in both the current (11.9 percent) and capital (10.8 percent) components.

46. For 2014, the projected non-financial economic sector's results were revised upward from 0.1 to 0.3 percent of GDP as a result of windfall government revenues that would increase the amount of general government's current revenues from 21.6 percent of GDP in the December projection to 22.5 percent. Such improvement includes mainly collections of income tax linked to the sales of company participations held by non-domiciled agents. Additionally, the projection of non-financial expenditure was revised upward from 20.5 percent to 21.0 percent of GDP, in line with budget forecasts.

Graph 66
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2006-2015
(% GDP)



* Forecast.

Table 32
NON-FINANCIAL PUBLIC SECTOR
(% GDP)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
1. General government current revenues 1/	**22.3**	**22.2**	**21.6**	**22.5**	**21.7**	**22.0**
Real % change	*7.2*	*3.7*	*5.5*	*6.5*	*7.4*	*4.1*
2. General government non-financial expenditure 2/	**19.3**	**20.5**	**20.5**	**21.0**	**20.7**	**21.3**
Real % change	*8.0*	*11.2*	*8.0*	*7.8*	*8.0*	*7.7*
Of which:						
Current	**13.6**	**14.4**	**13.9**	**14.3**	**13.6**	**14.2**
Real % change	*5.3*	*10.6*	*5.5*	*4.2*	*4.9*	*6.1*
Gross capital formation	**5.4**	**5.6**	**6.0**	**6.1**	**6.5**	**6.4**
Real % change	*15.6*	*10.0*	*10.7*	*13.6*	*15.5*	*11.9*
3. Others	**0.3**	**0.3**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
4. Primary balance (1-2+3)	**3.4**	**2.0**	**1.0**	**1.3**	**0.9**	**0.6**
5. Interests	**1.1**	**1.1**	**0.9**	**1.0**	**0.9**	**1.0**
6. Overall Balance	**2.3**	**0.9**	**0.1**	**0.3**	**0.0**	**-0.3**
Memo: (billion S/.):						
1. General government current revenues	114	121	131	132	144	140
2. General government non-financial expenditure	98	112	125	124	137	136
3. Nominal GDP	508	546	608	588	661	639

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.

47. The Government Responsibility and Transparency Law (Law N° 30099 dated October 31, 2013) provides that in **2014** the non-financial public sector results may not be in deficit. Consequently, for **2015** the ex ante guidance for the structural government results should reach a 1 percent of GDP deficit. Government projections included in this report are consistent with these rules.

Government revenues

48. Current revenues may grow 6.5 percent in real terms in **2014**. This change reflects the impact of windfall government revenues from sales of stock holdings that would result in capital benefits for certain companies. Consequently, a 22.5

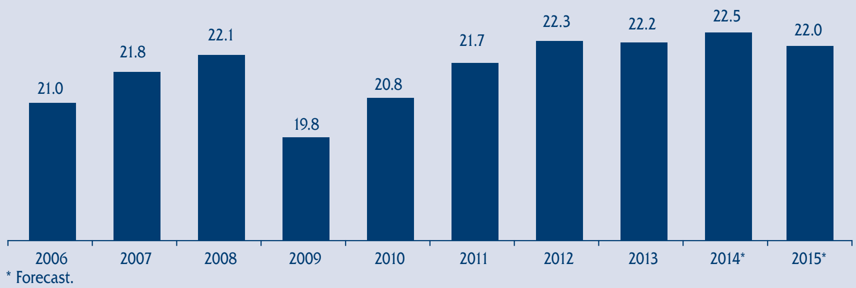
percent ratio would be reached in 2014. In **2015**, this ratio would fall again to 22.0 percent as no windfall revenues are expected.

Table 33
CURRENT REVENUES OF THE GENERAL GOVERNMENT
(% GDP)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
TAX REVENUES	**16.9**	**16.8**	**16.4**	**17.2**	**16.5**	**16.8**
Income tax	7.3	6.7	6.6	7.0	6.6	6.5
Value added tax	8.7	8.8	8.5	8.8	8.6	9.0
Excise tax	1.0	1.0	1.0	1.0	1.0	1.0
Import duties	0.3	0.3	0.3	0.3	0.3	0.3
Other tax revenues	1.8	2.1	2.0	2.0	1.9	2.0
Tax returns	-2.1	-2.1	-1.9	-2.0	-1.9	-1.9
NON-TAX REVENUES	**5.4**	**5.4**	**5.2**	**5.4**	**5.2**	**5.2**
TOTAL	**22.3**	**22.2**	**21.6**	**22.5**	**21.7**	**22.0**

* Forecast.
IR: Inflation Report.

Graph 67
CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2006-2015
(% GDP)



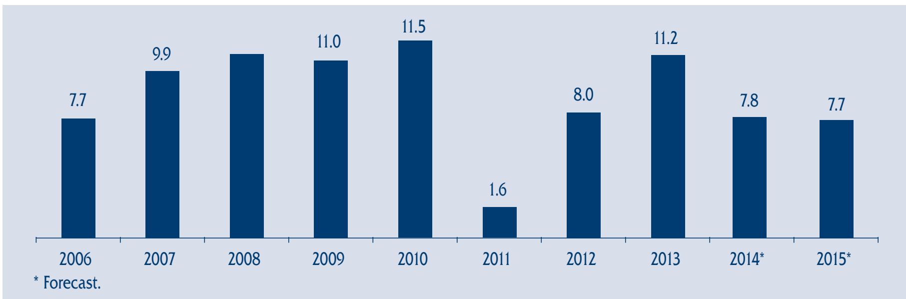
Within the projection's time horizon, income tax collection would increase to 7.0 percent of GDP in **2014**, as a consequence of certain windfall revenues. For **2014**, IGV-tax collection is expected to remain at 8.8 percent of GDP, while in **2015**, revenues from this source would rise slightly to 9.0 percent in product terms, reflecting a slight upward trend during the projection's horizon.

It is also worthwhile underscoring collection of **other tax revenues** increased significantly in 2013, mainly through "detracciones" (tax withholding) which totaled S/. 2.9 billion, due to the larger number of tax payers under the VAT withholdings scheme, as well as more strict tax administration. Growth of other tax revenues will slow down starting in 2014, as the "advance" VAT payment relaxes and payment of government tax-related fines also falls, as provided for in Supreme Resolution 375-dated February 2014.

Evolution of government expenditures

49. Within the projection's time, non-financial expenditures will increase faster than the overall economy. Consequently, a real 7.8 percent growth of non-financial expenditures is expected, slightly below forecasts in the December Report (8.0 percent) in a year of subnational government elections. Expenditures in 2014 include wage increases already provided for in the Budget Act (Law N° 30114) to move forward in wage reforms for the education, health, internal affairs and defense ministers[3]. Likewise, capital expenditure projections, including earmarked funds for government projects, comprises projects to be executed as public-private partnerships, such as the III stage of the Chavimochic irrigation project, the second segment of the Andean Longitudinal Highway and the second line of the Lima Light Rail. In view of such considerations, the general government's non-financial expenditures in **2014** would reach 21.0 percent of GDP, while this aggregate should rise to 21.3 percent of GDP in **2015**. This outcome is mainly accounted for by increased capital expenditures, the share of which would rise from 6.1 percent of GDP in 2013 to 7.1 percent in 2015.

Graph 68
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2006-2015
(Real % change)



3 The Government Responsibility and Transparency Law (Law N° 30099 dated October 31, 2013) provides that from 2015 on "national governments' non-financial expenditures for permanent or temporary personnel payrolls, regardless of their hiring and pension schemes… cannot exceed the threshold to be determined by applying the potential nominal GDP growth rate to the estimated maximum amount of non-financial expenditures on government employees' wages and pensions from the previous year."

Table 34
NATIONAL GOVERNMENT: MAIN INVESTMENT PROJECTS IN 2013
(Millions S/.)

Main projects	Amount
TRANSPORT	**5,433**
Northern Interoceanic (IIRSA NORTH)	1,612
Rehabilitation and Improvement of the Ayacucho-Abancay Road	543
Special Project Electric Train for Lima and Callao	396
Construction and Improvement of the Camaná - Quilca - Matarani - Ilo - Tacna road	320
Rehabilitation and Improvement of the Chongoyape-Cochabamba Road - Cajamarca	249
Rehabilitation and Improvement of the Huaura - Sayán - Churín road	183
Improvement of the Satipo - Mazamari - Pangoa - Puerto Ocopa road	173
Rehabilitation and Improvement of the Quinua - San Francisco road	160
Rehabilitation and Improvement of the Celendín - Balzas road - Cajamarca	156
Rehabilitation and Improvement of the Chamaya - Jaén - San Ignacio - Río Canchis Road	145
Rehabilitation and Improvement of the Juanjui-Tocache Road	143
Rehabilitation and Improvement of the Trujillo - Shiran - Huamachuco Road	120
Improvement of the San Marcos - Cajabamba - Sausacocha Road	112
Rehabilitation and Improvement of the Lima - Canta - La Viuda - Unish Road	103
Rehabilitation of rural roads and bridges	96
Rehabilitation and Improvement of the Panamericana Norte - Section III road	82
Rehabilitation and Improvement of the Yauri - Negromayo - Oscollo - Imata road	74
Railways concessions	66
Airport concessions	55
Rehabilitation and Improvement of the desvio Las Vegas - Tarma road	51
Maintenance of national roads	48
Rehabilitation and Improvement of the Ollantaytambo - Quillabamba road	46
Rehabilitation and Improvement of the Río Seco - El Ahorcado road	45
Construction and Improvement of the Huamachuco - Puente Pallar - Juanjuí road	41
Rehabilitation and Improvement of the Tingo María - Aguaytía road - Pucallpa	40
Other	373
EDUCATION	**1,070**
Improving educational infrastructure	1,021
Other	49
AGRICULTURE AND LIVESTOCK	**611**
Irrigation infrastructure	289
Support agriculture sector	151
Eradication of fruit fly Ceratitis-capitata on the Peruvian Coast	95
Other	76
HEALTH	**439**
Improvement equipment of Health Services Hospital	416
Program to support the health sector reform	18
Other	5
REAL ESTATE	**392**
National Project for Rural Drinking Water works and Sanitation	184
Urban development	154
Support housing sector	37
Other	17
ELECTRICITY	**232**
Installation of small electrical systems in several villages	219
Other	13
OTHERS	**1,367**
TOTAL	**9,544**

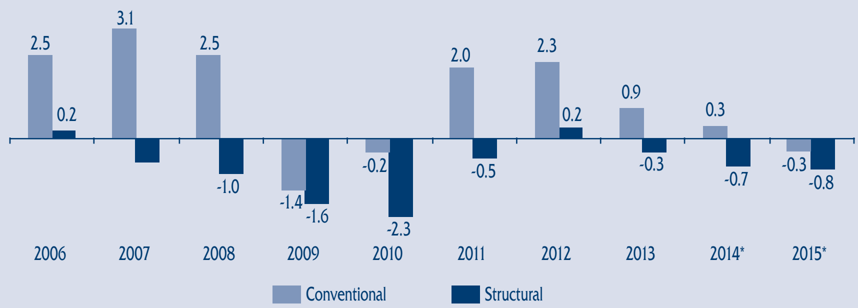
Source: MEF.

Fiscal impulse

50. The **structural economic result** is different from the conventional economic result because it subtracts from the latter the effects related to the economic cycle and the price effect of commodities of economic importance. The structural economic result was 0.3 percent of GDP deficit in 2013, while for 2014 and 2015, structural deficits of 0.75 and 0.8 percent, respectively, are expected. This fiscal position might compensate weaker private expenditure in a scenario of global economic uncertainty.

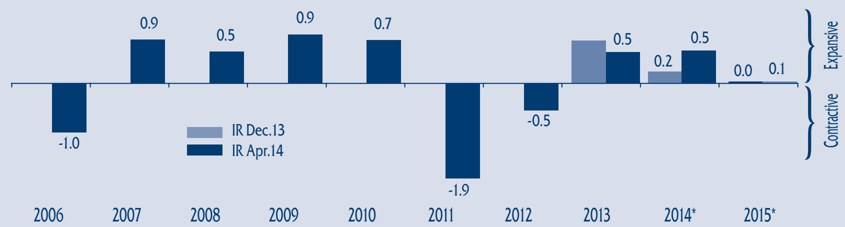
    Fiscal impulse is measured as the change in structural primary results. It is the result of the fiscal policy's anti-cyclical position adopted in 2013. A similar position is projected for 2014 and 2015.

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



* Forecast.

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



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

Public debt

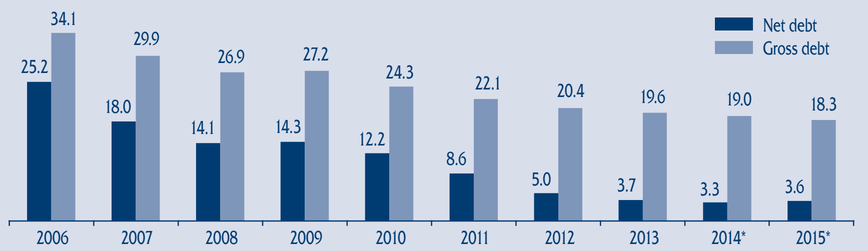
51. The upward review of the economic result for 2013 leads to lower need for financing from S/. 3.3 billion in the December Inflation Report's projection to S/.2.0 billion. Such financing is sufficiently covered by the nation's financial position. Thus, it is expected the non-financial public sector's net debt balance (debt less deposits) will drop from 3.7 percent GDP in 2013 to 3.3 percent in 2014, one of the lowest rates regionwide.

Table 35
FINANCIAL REQUIREMENTS OF THE NON-FINANCIAL PUBLIC SECTOR AND ITS FUNDING
(Millions S/.)

	2012	2013	2014*		2015*	
			IR Dec.13	IR Apr.14	IR Dec.13	IR Apr.14
I. USES	**-7,114**	**3,028**	**3,275**	**2,029**	**6,301**	**8,146**
1. Amortization	4,342	7,859	3,875	4,053	6,390	5,916
2. Overall balance (negative sign indicates surplus)	-11,456	-4,832	-600	-2,023	-89	2,229
II. SOURCES	**-7,114**	**3,028**	**3,275**	**2,029**	**6,301**	**8,146**
1. External	1,175	954	3,062	3,040	4,909	5,681
2. Bonds 1/	4,285	4,025	1,925	2,404	2,377	2,350
3. Internal 2/	-12,573	-1,952	-1,712	-3,415	-984	115
Memo:						
NFPS gross debt						
Billions S/.	103.8	107.0	104.8	111.6	108.6	116.8
% GDP	20.4	19.6	17.2	19.0	16.4	18.3
NFPS net debt 3/						
Billions S/.	25.4	20.4	12.9	19.5	11.8	22.8
% GDP	5.0	3.7	2.1	3.3	1.8	3.6

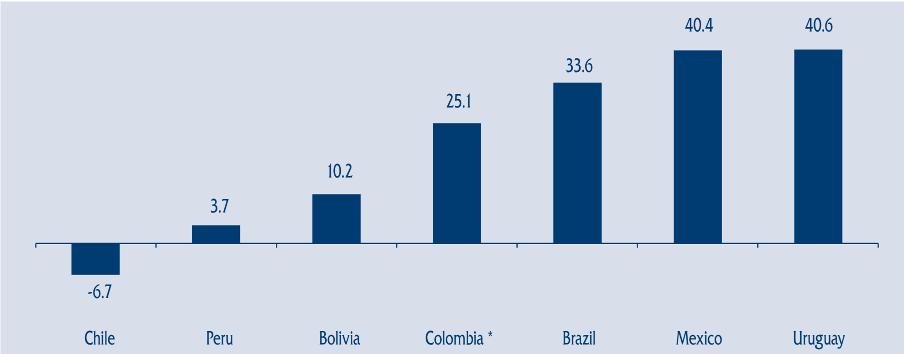
1/ Includes domestic and external bonds.
2/ A positive sign indicates a withdrawal or overdraft and a negative sign indicates higher deposit
3/ Defined as the difference between gross public debt and NFPS deposits.
* Forecast.
IR: Inflation Report.

Graph 71
PUBLIC DEBT
(% GDP)



* Forecast.

Graph 72
LATIN AMERICA: NET DEBT 2013
(% GDP)



* Forecast at December 2013
Source: World Economic Outlook (IMF) and BCRP (Peru).

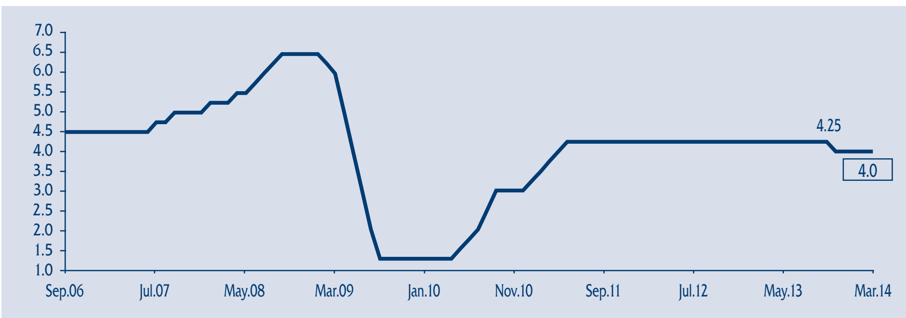
V. Monetary policy

52. Since the last Inflation Report, the Central Bank's Board has kept the monetary policy benchmark interest rate at 4.0 percent. This interest rate is consistent with inflation converging toward the 2014 inflation target range and 2.0 percent in 2015. The projection takes into account: (i) the reversal of supply shocks (principally some perishable goods), (ii) the pace of economic activity slightly below its potential and (iii) keeping inflation within range.

    BCRP has, in addition, reduced legal reserve requirements in Peruvian Nuevos Soles to provide larger financing for loans in local currency, which continued to grow up to 25.0 percent in March. Contrary to loans in foreign currency which expanded only 1.4 percent. The latest reduction in local currency reserve requirements from 12.5 percent to 12.0 percent went into force in April.

    Monetary policy reports in recent months underscored inflation expectations are within range and the 12-month inflation rate will return to range in coming months, as food supply improves, against a backdrop of a persisting risk world economic scenario.

Graph 73
BCRP REFERENCE INTEREST RATE
(%)



Interest rates and money operations

53. Compared to December, money market interest rates showed a mixed behavior. On the one hand, the interbank rate fell 14 basis points, reflecting

the impact of lower reserve measures to provide immediate liquidity to financial entities. In addition, the 90-day corporate prime rate increased 54 basis points to 5.0 percent impacted by the greater need of bank funding in view of lower Sol-denominated deposits in January and February, reflecting greater preference for foreign currency-denominated savings, mainly among company and institutional investors, driven by exchange rate uncertainty. In March, BCRP started repurchase commitments buying transactions in dollars over 18 months, totaling S/. 600 million, to help banking system's asset and liability term matching and alleviated pressures on nuevo sol-denominated interest rates observed in the first two months this year.

Table 36
INTEREST RATE BY TYPE OF LOANS 1/
(%)

	Domestic currency						
	Corporate	Large Companies	Medium-sized enterprises	Small businesses	Microbusinesses	Consumer	Mortgage
Dec.10	5.1	6.1	10.1	23.7	31.5	37.8	9.5
Dec.11	6.0	7.4	11.2	23.2	33.0	38.5	9.4
Mar.12	6.1	7.0	11.2	23.4	32.9	35.6	9.4
Jun.12	6.0	7.3	11.2	23.1	33.0	34.9	9.3
Sep.12	5.7	7.5	11.1	22.9	33.2	38.0	8.9
Dec.12	5.8	7.4	11.0	22.5	33.2	41.2	8.8
Mar.13	5.8	7.4	10.8	22.0	31.4	39.3	9.2
Apr.13	5.4	7.2	10.7	21.9	29.9	40.7	9.1
May.13	5.4	7.2	10.8	21.7	30.3	41.9	9.0
Jun.13	5.3	7.2	10.6	21.2	31.6	41.3	9.1
Jul.13	5.4	7.1	10.6	21.1	32.0	42.1	9.2
Aug.13	5.7	7.0	10.9	21.4	31.6	41.7	9.3
Sep.13	5.5	7.1	10.9	21.5	31.6	41.7	9.3
Oct.13	5.7	7.2	11.0	21.3	32.5	41.4	9.2
Nov.13	5.4	7.2	10.3	20.9	32.7	41.8	9.2
Dec.13	5.4	7.1	10.1	21.0	33.1	42.3	9.0
Jan.14	6.0	7.1	10.8	21.6	32.8	42.9	9.2
Feb.14	6.0	7.0	11.1	21.7	32.7	42.2	9.1
Mar.14	5.8	7.0	10.8	21.2	32.5	42.9	9.2
	Accumulated change (bps)						
Apr.14-Dec.13	41	-9	66	18	-60	67	17
Mar.14-Mar.13	0	0	0	-1	1	4	0

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

Compared to December 2013, consumer loans lending interest rates in local currency increased from 42.3 percent to 42.9 percent; from 10.1 percent to 10.8 percent (66 basis points) for medium-sized enterprises loans; and from 5.4 percent to 5,8 percent (41 basis points) for corporate credits. However, since March, a reduction in almost credit segments was observed, compared to prior February levels.

Borrowing interest rates in local currency also increased compared to December by 32, 12 and 16 basis points, for 30-day savings rates between 31 and 180 days, and between 181 and 360 days, respectively.

In coming months, interest rates in nuevos soles are expected to return to their December 2013 levels, to the extent term-liquidity increase operations by BCRP and larger deposits in nuevos soles will contribute to greater availability of funding for banks.

Table 37
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
Sep.13	3.7	3.5	3.8
Oct.13	3.7	3.5	3.9
Nov.13	3.5	3.5	3.9
Dec.13	3.8	3.5	3.9
Jan.14	3.9	3.5	3.9
Feb.14	4.0	3.6	3.9
Mar.14	4.1	3.6	3.9
Accumulated change (bps)			
Mar.14-Dec.13	32	12	6
Mar.14-Mar.13	1	0	0

54. Liquidity in foreign currency remained appropriate in Q1 2014, as a consequence of lower demand for dollar denominated credit and increased preference for savings in dollars, in particular, institutional investors. The greater liquidity in foreign currency was reflected by the sliding trend of dollar denominated lending and borrowing interest rates. Thus, the corporate prime rate to 90 days dropped 30 basis points, compared to December to 0.63 percent, while the interbank market interest rates remained at 0.15 percent throughout Q1.

Table 38
INTEREST RATE BY TYPE OF LOANS 1/
(%)

	Corporate	Large companies	Medium-sized enterprises	Small businesses	Consumer	Mortgage
	Foreign currency					
Dec.10	3.3	5.5	8.5	14.2	19.3	8.1
Dec.11	3.0	5.4	8.9	16.0	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	3.5	6.1	8.9	13.8	25.3	8.4
Aug.13	3.2	6.1	8.6	13.7	25.7	8.4
Sep.13	3.0	6.0	8.8	13.7	25.5	8.8
Oct.13	3.3	5.9	8.8	13.6	25.8	8.6
Nov.13	2.9	5.3	8.7	13.4	26.2	8.5
Dec.13	2.4	5.5	8.3	13.2	26.1	8.5
Jan.14	2.9	5.5	8.5	14.2	26.7	8.5
Feb.14	3.2	5.5	8.7	13.8	26.9	8.6
Mar.14	2.3	5.2	8.6	13.3	26.7	8.5
	Accumulated change (bps)					
Mar.14-Dec.13	-10	-27	29	13	61	6
Mar.14-Mar.13	-2	-2	-2	-1	3	0

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

Loan rates dropped for the corporate (10 basis points) and large companies (27 basis points) segments. By contrast, consumer rates continued to increase, reflecting dollar-denominated legal reserve provisions linked to growth in those sectors and prudential measures recently adopted by SBS. Mortgage loan rates also increased slightly.

Foreign currency-denominated deposit rates fell for all terms by 5 to 21 basis points compared to December 2013.

Table 39
INTEREST RATES IN US DOLLARS
(%)

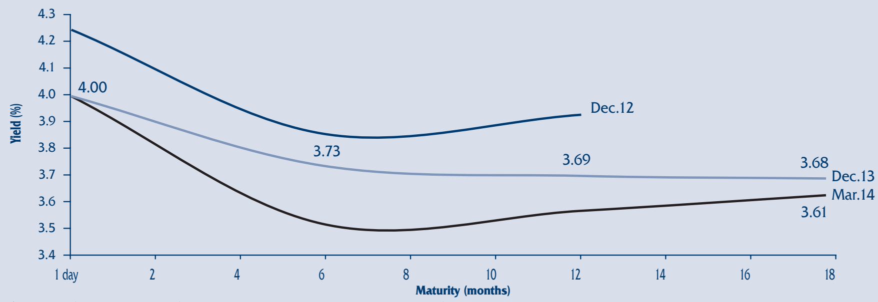
	Deposits up to 30 days	Rate on 31 to 180-day term deposits	Rate on 181 to 360-day term deposits
Dec.10	0.9	1.2	1.7
Dec.11	0.7	1.0	1.6
Mar.12	1.3	1.2	1.6
Jun.12	1.7	1.2	1.6
Sep.12	0.8	1.2	1.6
Dec.12	1.8	1.3	1.7
Mar.13	2.6	1.3	1.7
Sep.13	0.2	1.0	1.5
Oct.13	0.2	0.8	1.4
Nov.13	0.2	0.8	1.4
Dec.13	0.2	0.7	1.3
Jan.14	0.1	0.7	1.2
Feb.14	0.1	0.6	1.2
Mar.14	0.1	0.5	1.1
Accumulated change (bps)			
Mar.14-Dec.13	-5	-20	-21
Mar.14-Mar.13	-2	-1	-1

55. Central Bank operations were mainly aimed at preserving appropriate levels of liquidity and ensuring smooth operations in the money market against a backdrop of lower liquidity in local currency at financial entities, resulting from increased dollar purchases by banks in January to March (US$ 1,470 million). With this goal in mind, the pace of deposit certificates and term deposits placements was slowed down, while one week overnight Repos were forwarded at an average S/. 1,122 million in January, S/. 855 million in February and S/. 800 million in March.

Likewise, BCRP engaged in two dollar-purchase transactions with a repurchase commitment of a total S/. 600 million (two S/. 300 million auctions) at 18 months. These are liquidity injection operations through which BCRP makes available to banks a certain amount of local currency and takes dollars as collateral at a pre-established exchange rate. These operations do not have an impact on banks' exchange rate position and consequently are not foreign currency operations but rather liquidity injection transactions. Likewise, to the extent these are longer term transactions, they allow banks to better match their assets and liabilities' terms, by facilitating banks' liquidity management as they presently hold excess liquidity in dollars but require larger liquidity in local currency. Previously, BCRP has resorted to these operations in 2009 under terms of up to 12 months.

The CDBCRP's yield curve for March 2014, compared to December 2013 slipped on average 14 basis points for 6 and 18 months terms.

Graph 74
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 the above described transactions, the share of BCRP-issued instruments in Central Bank's total liabilities dropped, from 13.7 percent of total foreign currency reserves in 2013 to 12.3 percent in March 2014. The share of the legal reserve fell from 31.0 percent to 30.1 percent, mainly through the smaller reserve requirement in local currency, same which saw its share drop in the BCRP balance from 9.1 percent to 6.9 percent of total foreign currency reserves. Government deposits remain the main source of sterilization, with a 38.4 percent share of total BCRP liabilities.

Table 40
SIMPLIFIED BALANCE SHEET OF THE BCRP
(As % of Net International Reserves)

	Dec.13	Mar.14
Net assets		
I. Net International Reserves	100% (US$ 65,663 mill.)	100% (US$ 64,950 mill.)
Net liabilities		
II. Total public sector deposits	**36.3%**	**38.4%**
In domestic currency	19.9%	22.4%
In foreign currency (Million US$)	16.4%	16.1%
III. Total reserve requirements	**31.0%**	**30.1%**
In domestic currency	9.1%	6.9%
In foreign currency (Million US$)	21.9%	23.2%
IV. BCRP Instruments	**13.7%**	**12.3%**
CD BCRP	10.3%	8.0%
CDR BCRP	1.7%	2.1%
Overnight deposits	1.7%	2.2%
Term deposits	0.0%	0.0%
V. Currency	**19.2%**	**18.6%**
VI. Other	**-0.2%**	**0.6%**

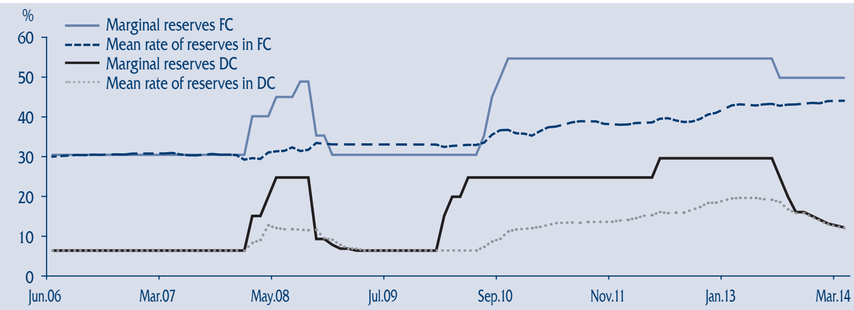
Reserve requirements

56. BCRP has introduced a more flexible domestic currency reserve requirement since May 2013, by fixing maximum average reserve requirements rates that were gradually reduced from 20 to 12 percent in April 2014, thus releasing liquidity by about S/. 8.5 billion. This has provided financing to meet demand for credits in domestic currency against a backdrop of domestic currency deposits. Consequently, in January the maximum domestic currency average reserve was cut from 15.0 percent to 14.0 percent; in February from 14.0 percent to 13.0 percent; in March from 13.0 percent to 12.5 percent and finally in April the reserve requirement rate fell from 12.5 percent to 12.0 percent.

To attenuate the impact of increasing long term interest rates in dollar and higher sovereign risk relating to dollar-denominated interest rates, in February, although effective in March, BCRP increased the caps for debts and long-term bonds enjoying a reserve exception from 2.5 to 3.5 times effective equity to December 2012, or S/. 400 million, whichever is higher, provided the financial organization's total liabilities, as published in the SBS webpage, did not exceed four times its actual equity. Additionally, reserve requirements for foreign trade credit lines under 2 years was gradually cut from 20 percent to 14 percent in January, from 14 to 13 percent in February and presently are reserve-exempt up to an amount equivalent to 35 percent of equity, effective March.

Through these measures, the local currency average reserves requirement fell from 20 percent in May to 12.0 percent in April. Meanwhile, the currency average reserve requirement rose from 43.2 percent in May to an estimated 44.5 percent in April.

Graph 75
RATES OF RESERVE REQUIREMENTS IN DOMESTIC AND FOREIGN CURRENCY 1/
(As % of total obligations subject to legal requeriments)



1/ Preliminary February 2014 and forecast March 2014.

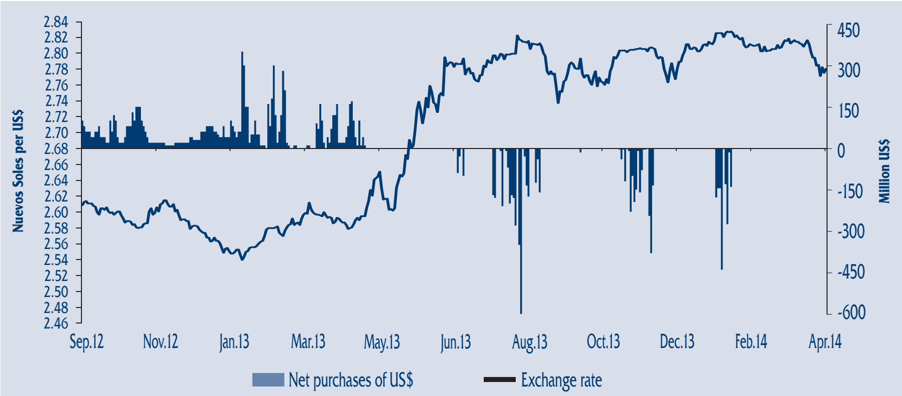
Table 41
RESERVE REQUIREMENTS MEASURES

	Domestic currency				Foreign currency			
					General Regime			External liabilities
	Legal minimum reserve requirement	Marginal reserve requirement on depósitos	Increase in the mean reserve requirement	Maximum of mean reserve requirement	Marginal reserve requirement on depósitos	Increase in the mean reserve requirement	Maximum of mean reserve requirement	Short-term
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%	55%	-.-		60%
Aug.13	9%	25%	-.-	19%	50%	-.-	45%	50%
Sep.13	9%	20%	-.-	17%	50%	-.-	45%	50%
Oct.13	9%	16%	-.-	16%	50%	-.-	45%	50%
Dec.13	9%	15%	-.-	15%	50%	-.-	45%	50%
Jan.14	9%	14%	-.-	14%	50%	-.-	45%	50%
Feb.14	9%	13%	-.-	13%	50%	-.-	45%	50%
Mar.14	9%	12.5%	-.-	12.5%	50%	-.-	45%	50%
Apr.14	9%	12%	-.-	12%	50%	-.-	45%	50%

Foreign exchange rates and exchange interventions

57. After the beginning of the Federal Reserve's tapering in December 2013 and increased observed global risk aversion in January, due to expected lower growth in China, the exchange rate fell 0.8 percent that month. Against this backdrop, BCRP sold dollars in the spot foreign currency market for a total US$ 1.04 billion and placed net CDRBCRPs worth US$ 824 million to mitigate exchange rate volatility.

Graph 76
INTERVENTION IN THE FOREIGN EXCHANGE MARKET AND EXCHANGE RATE



However, in subsequent months, such greater volatility has dissipated leading to a Nuevo Sol 0.8 percent appreciation in February and an accumulated 0.8 percent appreciation so far this year (to April 21, 2014). Under such circumstances, in March and so far in April (April 21) BCRP has allowed its CDR-BCRPs to become due to a total equivalent of US$ 593 million and has not intervened in the spot market since February 5, 2014.

Over the last 10 years, the nuevo sol has shown similar volatility to that of other currencies throughout the region, including Chile and Mexico. The nominal exchange rate fluctuation coefficient, computed as the standard deviation from the average, reached 9 percent.

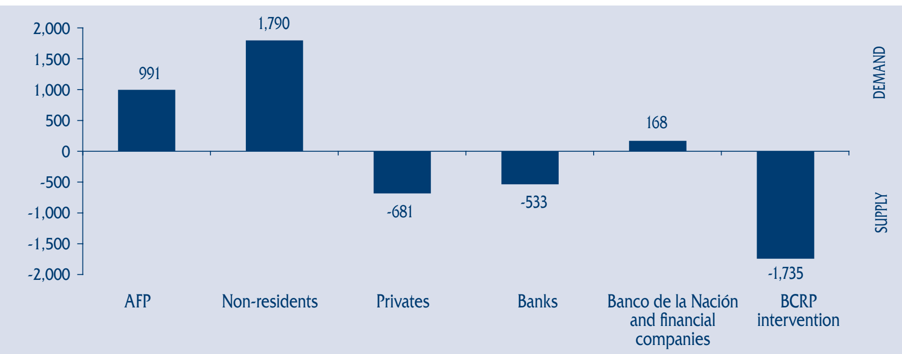
Table 42
EXCHANGE RATE: LATIN AMERICA
(End-of-period (US$/c.u.)

Country	Level		% change	Variation coeffcient 1/
	March 2004	March 2014	last 10 years	last 10 years
Brazil	2.9	2.27	-21.5	18%
Chile	611	548.2	-10.3	9%
Colombia	2,676	1,971.4	-26.3	13%
Mexico	11.1	13.1	17.4	9%
Peru	3.5	2.81	-18.8	9%

1/ Calculated as standard deviation devided by average.
Source: Reuters.

In Q1 2014, demand for foreign currency originated mainly in AFPs and non-resident agents, while supply came from the private sector, principally mining companies selling dollars to pay income tax and from BCRP's sales in the spot market totaling US$ 1.5 billion and CDR-BCRP placements for US$ 266 million.

Graph 77
FOREX MARKET FLOWS - SPOT AND FORWARD: Q1.14
(Million US$)



58. The exchange rate expectations survey showed all economic agents expect moderate Nuevo Sol depreciation this year and next. Economic analysts reduced their exchange rates expectations for 2014 to S/. 2.90 per dollar in December to S/. 2.85 per dollar at the end of March, in line with lower observed volatility in the foreign currency market in recent months.

Table 43
SURVEY ON MACROECONOMIC EXPECTATIONS: EXCHANGE RATE
(Nuevos Soles per US$)

	Expectations about:		
	IR Sep.13	IR Dec.13	IR Apr.14*
Financial entities			
2014	2.80	2.85	2.85
2015	2.82	2.85	2.85
Economic analysts			
2014	2.85	2.90	2.85
2015	2.85	2.90	2.90
Non-financial firms			
2014	2.82	2.82	2.85
2015	2.90	2.85	2.88
Average			
2014	2.82	2.86	2.85
2015	2.86	2.87	2.88

*Survey conducted during the second fortnight of March 2014.
IR: Inflation Report.

59. Between December 2013 and March 2014 The multilateral real-term exchange rate index remained unchanged, at around 95. The nuevo sol recorded a real-term 5.8 percent loss in the last 12 months.

Graph 78
MULTILATERAL RER 1/
(Index 2009=100)

1/ Calculated with trade weighted 2013.

Liquidity and credit

60. Average currency grew more slowly between December 2013 and March 2014, dropping from 9.3 percent to 8.6 percent annually, and reflecting a slower economy and the recent increase in deposits' dollarization, mainly among companies and institutional investors. In coming months, currency demand is expected to increase to levels closer to 11 percent this year, reflecting both a faster economy and a reversion of deposits' dollarization, in response to lower foreign currency market volatility.

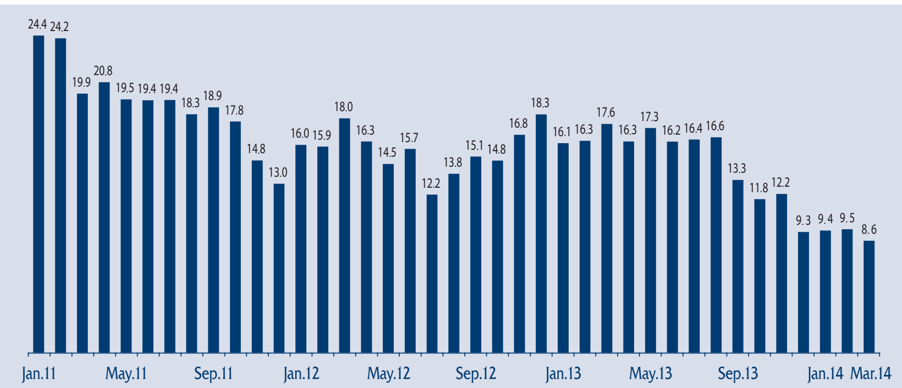
The expansion of domestic currency liquidity continued to slow down, mainly resulting from lower demand for sol-denominated deposits, in view of increased preference of companies and institutional investors for foreign currency savers.

Table 44
MONETARY ACCOUNTS (END-OF-PERIOD)
(12 months % change)

	Dec.09	Dec.10	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13	Dec.13	Jan.14	Feb.14	Mar.14
1. Currency in circulation	11.0	25.4	13.0	18.3	17.6	16.2	13.3	9.3	9.4	9.5	8.6
2. Deposits in domestic currency	16.3	32.4	17.8	24.7	23.9	21.7	13.8	10.8	7.4	4.3	4.0
3. Broad money in domestic currency	14.4	30.7	16.6	23.1	22.7	20.3	14.1	10.8	8.6	6.1	5.7
4. Broad money 1/	10.9	23.2	16.8	14.1	13.9	13.8	13.8	11.3	11.7	10.8	10.1
5. Credit to the private sector in domestic currency	17.9	21.2	20.4	16.0	15.9	17.6	20.3	22.5	23.6	24.8	25.0
6. Credit to the private sector	8.9	21.2	19.4	15.4	14.1	12.8	12.8	13.2	14.0	14.3	14.5

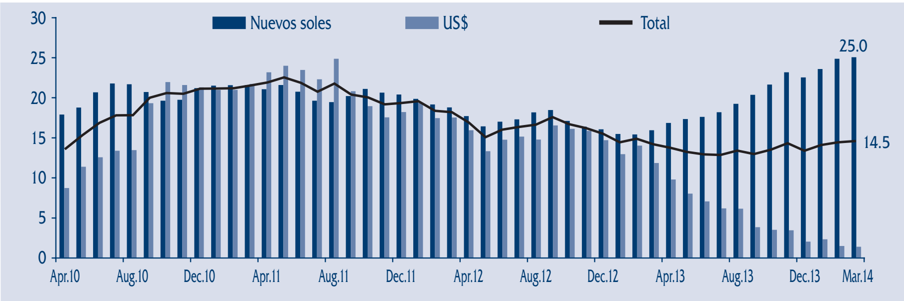
1/ Includes foreign currency.

Graph 79
CURRENCY IN CIRCULATION
(% change respect to the similar period of previous year)



61. So far in Q1, credits to the private sector remain agile, expanding at an annual 14.5 percent rate. However, credits in local currency continued to move faster while they slowed down in foreign currency. In March 2014, Sol-denominated credits grew 25.0 percent, compared to 22.5 percent growth in December, a slide made up for by lower dollar-denominated loans which retrenched from 2.0 percent in December 2013 to 1.4 percent in March. The faster growth rates of loans in local currency (credit de-dollarization) strengths the financial system as it helps to mitigate risks relating to foreign currency mismatches in the economic agents' balance sheets.

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



A similar behavior in loans is also observed for different types of placements. For instance, in March, mortgages in Soles grew 35.6 percent making up for slower credits' growth in dollars (-7.5 percent in March). Credits to companies grew 14.8 percent (29.3 percent in soles and 3.1 percent in dollars) higher than the 2013-year-end 13.2 percent rate; meanwhile, consumer credit grew 12.6 percent in March.

Table 45
CREDIT TO THE PRIVATE SECTOR
(12 months % change)

	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13	Dec.13	Mar.14
Businesses	**17.6**	**13.3**	**12.5**	**10.9**	**11.9**	**13.2**	**14.8**
Corporate and big companies	9.7	8.5	8.8	10.6	17.2	21.6	22.4
Medium-sized enterprises	27.6	18.4	18.4	11.7	9.2	10.4	15.6
Small business	23.6	16.7	12.8	10.6	5.8	2.3	1.7
Individuals	**23.0**	**19.4**	**17.1**	**16.2**	**14.5**	**13.4**	**14.0**
Consumer	**20.3**	**15.3**	**12.8**	**12.1**	**11.3**	**11.4**	**12.6**
Car loans	18.5	25.2	26.8	23.2	18.7	14.5	10.6
Credit cards	24.0	13.4	8.9	7.5	8.2	8.2	10.2
Mortgage	**27.3**	**25.7**	**23.5**	**22.3**	**19.0**	**16.2**	**15.9**
TOTAL	19.4	15.4	14.1	12.8	12.8	13.2	14.5

Credits to small and micro companies slowed down in 2013 and also so far in 2014, the total credits' 12-month growth rate from this segment dropped from 16.7 percent in December 2012 to 10.2 percent in May 2013 and is now at 1.7 percent.

The main financial companies having cut their credits to this segment are banking entities, which slipped from a 12-month 15.6 percent growth rate in December 2012 to 7.4 percent in March 2014. Bank credits to this segment dropped both in domestic and foreign currency, with the latter exhibiting a steeper drop.

Table 46
LOANS TO SMALL BUSINESSES
(12 months % change)

	Domestic currency (Mill. S/.)			Foreign currency (Mill. US$)			Both currencies		
	Banks	Saving banks and non-banking financial	Total	Banks	Saving banks and non-banking financial	Total	Banks	Saving banks and non-banking financial	Total
Jan.12	29.3	23.6	26.3	6.5	9.1	10.6	22.8	22.5	23.3
Jun.12	28.1	19.6	23.7	16.8	13.4	18.5	25.1	19.2	22.8
Dec.12	19.2	17.2	18.6	4.5	18.4	7.5	15.6	17.3	16.7
May.13	12.2	13.3	13.4	-9.4	0.9	-5.5	7.0	12.6	10.2
Dec.13	1.1	10.5	6.6	-23.8	-24.4	-20.8	-4.4	8.3	2.3
Mar.14	-2.1	11.5	5.7	-26.9	-17.9	-20.6	-7.4	9.8	1.7

Smaller bank loans to small and micro companies are related to the bank's heightened credit risk perception for this portfolio, as reflected in higher delinquency rates, which climbed from 5.3 percent in December 2013 to 8.3 percent in March 2014, after fast growth in 2012. Credits provided by Savings and Loans and financial entities to small and micro companies also slowed down, although they still grow at around 10 percent. The greatest reduction in credits to this segment was observed in dollar-denominated loans which might also reflect both smaller demand by these agents as well as the heightened credit risk perception linked to an exchange risk, against the backdrop of increased volatility of financial markets.

Graph 81
CREDITS: DELINQUENCY RATES
(As % of portfolio)

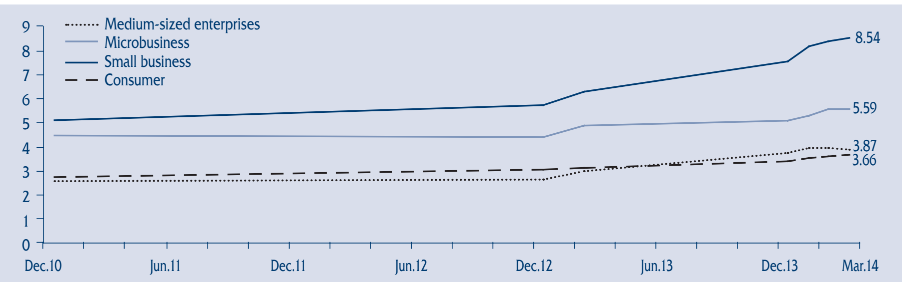


Table 47
CREDITS: DELINQUENCY RATES
(%)

	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13	Dec.13	Mar.14
Business	**1.88**	**2.28**	**2.65**	**2.81**	**2.90**	**2.81**	**3.10**
Corporate	0.04	0.00	0.00	0.01	0.00	0.00	0.02
Big companies	0.21	0.40	0.43	0.37	0.39	0.38	0.54
Medium-sized enterprises	2.18	2.60	3.02	3.40	3.64	3.72	3.87
Smal business	5.05	5.75	6.71	7.14	7.73	7.56	8.54
Microbusiness	4.00	4.36	5.05	5.27	5.52	5.08	5.59
Individuals	**1.89**	**2.08**	**2.20**	**2.21**	**2.24**	**2.32**	**2.52**
Consumer	**2.64**	**3.05**	**3.24**	**3.28**	**3.30**	**3.39**	**3.66**
Car loans	2.84	2.79	2.93	2.97	3.25	3.37	3.76
Credit cards	3.40	4.10	4.43	4.42	4.39	4.71	5.07
Mortgage	**0.85**	**0.83**	**0.90**	**0.92**	**0.98**	**1.04**	**1.16**
Average	**1.84**	**2.16**	**2.44**	**2.54**	**2.60**	**2.57**	**2.82**

62. For 2014, credits is expected to grow 14.2 percent mainly driven by credits in local currency that is expected to preserve its dynamic growth rate. This evolution of credits is consistent with a 5.5 percent GDP expected growth in 2014, and the forecasts of less direct foreign financing by corporations in 2013. Should deposits in Soles continue to slow, BCRP may continue cutting the Sol-denominated legal reserves rate to provide a more stable source for expanding credits in Soles, so as to prevent adversely impacting the financial system's interest rates for local currency loans.

Graph 82
RATIO:CREDIT/GDP
(%)

63. Credit dollarization dropped from 40.8 percent in December 2013 to 39.6 percent in March 2014, linked to greater demand for credits in Soles, given the perceived higher risk of dollar-denominated debt. On the contrary, liquidity's dollarization rose from 33.0 to 34.2 percent over the same period.

By type of credit, mortgage loans, de-dollarized faster (from 38.5 percent to 36.6 percent between December 2013 and March 2014), while credits to companies de-dollarized from 51.2 percent to 49.8 percent over the same period.

Graph 83
DOLLARIZATION RATIO: 2002 - 2013
(%)

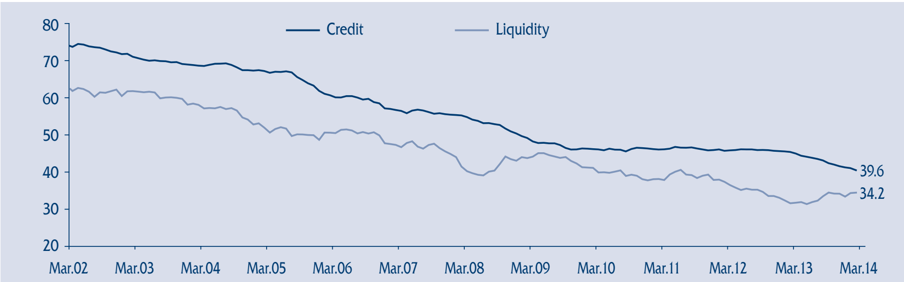


Table 48
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR
(%)

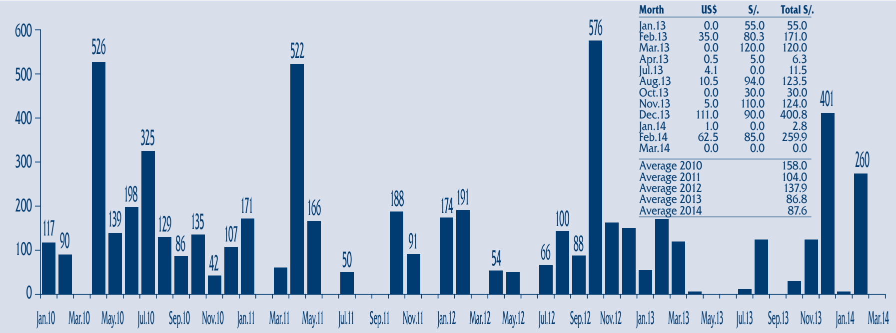
	Dec.11	Dec.12	Mar.13	Jun.13	Sep.13	Dec.13	Mar.14
Business	**55.0**	**53.8**	**53.5**	**54.0**	**52.2**	**51.2**	**49.8**
Corporate and big companies	70.6	72.4	71.6	72.1	67.3	65.8	62.9
Medium-sized enterprises	68.0	65.9	65.6	65.4	63.8	62.3	61.0
Small business	16.6	14.6	14.1	13.7	13.4	12.2	11.8
Individuals	**25.1**	**23.9**	**23.9**	**24.3**	**23.1**	**22.0**	**21.1**
Consumer	**9.8**	**9.7**	**9.9**	**10.5**	**10.0**	**9.8**	**9.7**
Car loans	69.7	76.5	77.2	78.4	76.9	74.8	72.9
Credit cards	6.3	6.4	6.7	7.3	7.1	6.8	6.8
Mortgage	**49.2**	**44.8**	**43.8**	**43.4**	**40.9**	**38.5**	**36.6**
TOTAL	**44.7**	**43.0**	**42.7**	**43.3**	**41.8**	**40.8**	**39.6**

Capital markets

64. Between December 2013 and March 2014, non-financial companies issued securities worth S/. 664 million, of which 74 percent were foreign currency-denominated.

In Q1 2014, placements by Peruvian companies in the international market grew faster, compared to the last quarter of 2013, in line with the greater stability of the global markets. From January to March, they issued US$ 1.6 billion worth of securities at coupon rates between 3.38 and 7.75 percent, and at between 5 and 15 years.

Graph 84
BONDS ISSUED BY NON-FINANCIAL FIRMS*
(Million S/.)



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

Table 49
BONDS ISSUED IN THE INTERNATIONAL MARKET

Business	Amount (Million US$)	Maturity (years)	Rate
Year 2013	**6,389**		
Non-financial sector	**4,038**		
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%
Inkia Energy	150	8	8.38%
San Miguel Industrias	200	7	7.75%
Planta de Reserva Fría de Generación de Eten	133	20	7.65%
Financial sector	**2,351**		
BBVA Banco Continental	300	4	2.31%
Fondo MiVivienda	500	10	3.50%
BBVA Banco Continental (abril)	500	5	3.25%
Banco de Crédito (marzo)	716	10	4.25%
Banco de Crédito (abril)	170	14	6.13%
Andino Investment Holding	115	7	11.00%
Interbank	50	10	7.50%
Year 2014	**1,600**		
Non-financial sector	**800**		
Compañía Minera Ares	350	7	7.75%
Minsur	450	10	6.25%
Financial sector	**800**		
Banco de Crédito	200	13	6.13%
Interbank	300	15	6.63%
Fondo MiVivienda	300	5	3.38%

65. Sovereign bond yields increased on average 6 basis points while US Treasury bond yields and Peruvian global bonds slipped. Consequently, between December 2013 and March 2014, US treasury bonds yield rates dropped on average 9 basis points, while global bonds' rates dropped 21 basis points. Peruvian Treasury Bond (BTP) yields exhibited mixed patterns, while the short term BTP (PERU 2015) slipped 25 basis points and remained below BCRP's benchmark rate, in the intermediate (between 5 and 10 years) tranche. BTP 2020 and BTP 2013 increased their yields. For the longer term, PERU 2037 sovereign bonds' yields slipped 4 basis points, while the yield of PERU 2037 global bonds showed the sharpest reduction (38 basis points).

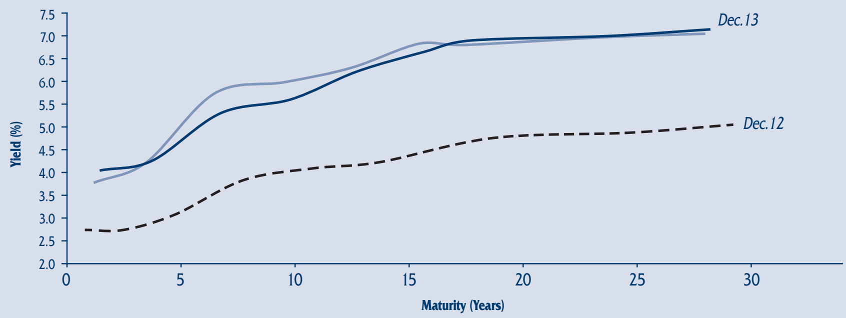
Table 50
PERU GLOBAL AND SOVEREIGN BOND YIELDS AND US TREASURY BONDS BY MATURITY
(At the end of period, %)

	Dec.12 (3)	Dec.13 (2)	Mar.14 (1)	Variation (In bps) Mar.14 / Dec.13 (1)-(2)	Variation (In bps) Mar.14 / Dec.12 (1)-(3)
Sovereign bonds (S/.)					
PERU 2013	2.61				
PERU 2015	2.75	4.00	3.75	-25	100
PERU 2017	3.05	4.22	4.20	-2	115
PERU 2020	3.83	5.29	5.74	45	191
PERU 2023	4.10	5.60	5.99	39	189
PERU 2026	4.24	6.23	6.31	8	207
PERU 2029		6.68	6.85	17	
PERU 2031	4.79	6.93	6.82	-11	203
PERU 2037	4.91	7.03	6.99	-4	208
PERU 2042	5.09	7.18	7.07	-11	198
Global bonds (US$)					
PERU 2015	0.82	0.67	0.74	7	-8
PERU 2016	1.10	1.32	1.23	-9	13
PERU 2019	1.84	2.76	2.56	-19	72
PERU 2025	3.00	4.41	4.09	-32	109
PERU 2033	3.64	5.26	4.93	-33	129
PERU 2037	3.70	5.37	4.99	-38	129
US Treasury					
2 Years bond	0.25	0.38	0.42	4	17
3 Years bond	0.35	0.76	0.87	11	52
5 Years bond	0.71	1.71	1.72	1	101
10 Years bond	1.70	2.97	2.72	-25	102
30 Years bond	2.87	3.90	3.56	-34	69

Source: Bloomberg.

66. Consequently, the yield curve at the end of March 2014 compared to 2013 became steeper up to 20 years' term and flattened out for bonds between 21 and 30 years' maturity.

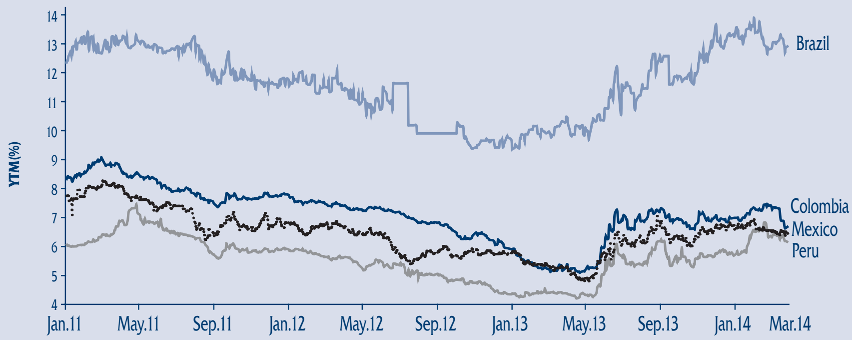
Graph 85
YIELD CURVE OF SOVEREIGN BONDS IN THE SECONDARY MARKET 1/



1/ End of month yield.

67. Among all sovereign bonds yield rates throughout the region, Peru still shows the lower rates. Thus, the 10-year Peruvian bond's yield stood at 5.99 percent while Brazilian, Colombian and Mexican sovereign bonds' yields for the same terms reached 12.81, 6.49 and 6.27 percent, respectively.

Graph 86
LATAM YIELD CURVE OF 10 YEAR SOVEREIGN BOND

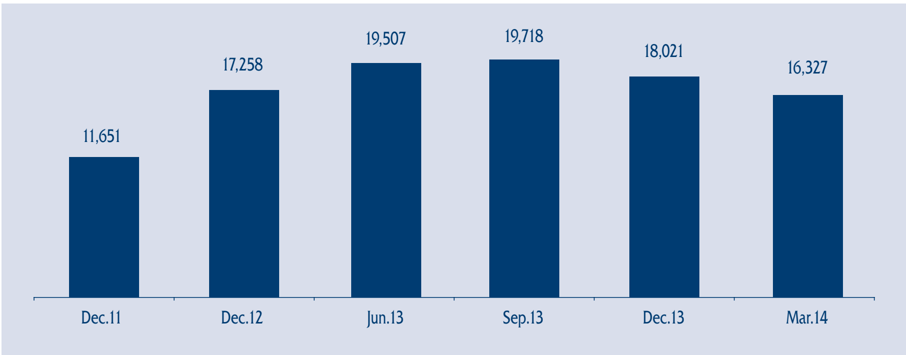


68. The credit default swap (CDS) fell in Q1 2014. Peru's 5 and 10-year sovereign debt spreads slipped 18 and 14 basis points, respectively. It's worthwhile noticing CDS levels are at their lowest since May 2013, when the United States Federal Reserve announced the beginning of its tapering program.

Graph 87
CREDIT DEFAULT SWAPS OF SOVEREIGN PUBLIC DEBT
(Basis points)

69. Sovereign bonds held by non-residents dropped from S/. 18.02 billion in December to S/. 16.3 billion in March, in line with reduced investment flows to the region. BTP holdings by non-resident investors dropped from 50 to 46 percent of the total balance.

Graph 88
NON-RESIDENTS' HOLDINGS OF SOVEREIGN BONDS
(Million S/.)



70. In the first two months of 2014, pension funds grew S/. 102.08 billion to S/. 102.64 billion. Over that period, pension fund management companies increased their foreign investments by S/. 965 million compared to year-end 2013 and by S/. 8.37 billion to December 2012. As a result, AFPs' foreign investments rose from 29.4 percent in December 2012 to 35.2 percent in December 2013 and 35.9 percent in February 2014, while the limit fixed by BCRP increased from 36.5 percent to 38.0 percent.

Table 51
PORTFOLIOS MANAGED BY FINANCIAL INSTRUMENTS AND AFP
(Million S/.)

	Dec.12		Dec.13		Feb.14	
	Amount	%	Amount	%	Amount	%
I. DOMESTIC INVESTMENT	**68,055**	**70.3**	**66,461**	**65.1**	**65,746**	**64.1**
1. Government	**16,939**	**17.5**	**13,746**	**13.5**	**13,090**	**12.8**
Certificates and term deposits of BCRP /1	2,830	2.9	2,191	2.1	1,199	1.2
Bonds of Central Government	14,109	14.6	11,555	11.3	11,890	11.6
2. Financial entities	**16,268**	**16.8**	**22,672**	**22.2**	**23,021**	**22.4**
Of which:						
Shares and Securitised Shares	5,572	5.8	2,934	2.9	2,711	2.6
3. Non-financial firms	**26,058**	**26.9**	**20,207**	**19.8**	**19,774**	**19.3**
Of which:						
Shares and Securitised Shares	19,272	19.9	13,965	13.7	13,256	12.9
4. Fund managers	**3,680**	**3.8**	**4,308**	**4.2**	**4,290**	**4.2**
5. Securitization companies	**5,111**	**5.3**	**5,528**	**5.4**	**5,571**	**5.4**
II. FOREIGN INVESTMENTS	**28,512**	**29.4**	**35,920**	**35.2**	**36,885**	**35.9**
1. Government	**1,705**	**1.8**	**1,341**	**1.3**	**1,192**	**1.2**
2. Financial entities	**2,640**	**2.7**	**2,732**	**2.7**	**3,084**	**3.0**
3. Non-financial firms	**6,249**	**6.5**	**6,752**	**6.6**	**5,664**	**5.5**
4. Fund managers	**17,918**	**18.5**	**25,095**	**24.6**	**26,945**	**26.3**
5. Securitization companies	**-**	**-**	**-**	**-**	**-**	**-**
III. OPERATIONS IN TRANSIT	**286**	**0.3**	**-304**	**-0.3**	**13**	**0.0**
TOTAL	**96,853**	**100.0**	**102,077**	**100.0**	**102,644**	**100.0**

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

Also during this period, AFPs continued to increase their investments in dollars, and consequently the dollarization ratio rose from 54.4 percent in December 2013 to 58.9 percent in February 2014.

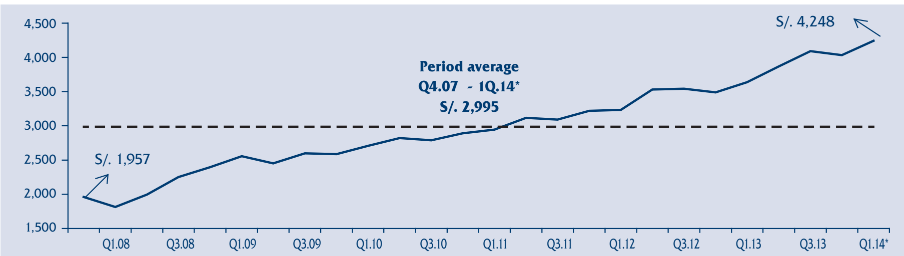
Table 52
AFP INVESTMENT
(Million US$)

Date	Total			
	Abroad		In US$	
	Amount	% Portfolio	Amount	% Portfolio
Dec.12	11,177	29.4	19,646	51.7
Jan.13	11,814	30.6	20,113	52.1
Feb.13	11,937	31.1	19,979	52.0
Mar.13	12,230	31.6	20,684	53.4
Apr.13	12,891	33.9	20,784	54.7
May.13	12,689	35.4	20,473	57.0
Jun.13	12,091	35.2	19,841	57.6
Jul.13	12,080	34.6	20,626	59.0
Aug.13	11,594	33.8	20,013	58.3
Sep.13	11,874	33.7	20,478	58.1
Oct.13	12,661	34.8	21,226	58.4
Nov.13	12,474	34.8	21,476	59.9
Dec.13	12,852	35.2	19,872	54.4
Jan.14	12,442	34.8	20,174	56.4
Feb.14	13,173	35.9	21,591	58.9

Real estate market

71. In Q1 2014, prices per square meter in the ten sampled districts (La Molina, Miraflores, San Borja, San Isidro, Surco, Jesús María, Lince, Magdalena, Pueblo Libre and San Miguel), in constant nuevos soles, increased 5.2 percent compared to the prior quarter, reverting the correction from the fourth quarter last year. The graph shows the evolution of the median quarterly selling prices in constant 2009 nuevos soles per square meter of condominium property.

Graph 89
MEDIANS OF QUARTERLY SALE PRICES PER SQUARE METER OF APARTMENTS
(Base 2009=100)



* Preliminary.

The price to earning ratio showing the number of years a property needs to be rented to recover the purchase value has evolved steadily in recent years within normal ranges, according to criteria listed in the Global Property Guide[4].

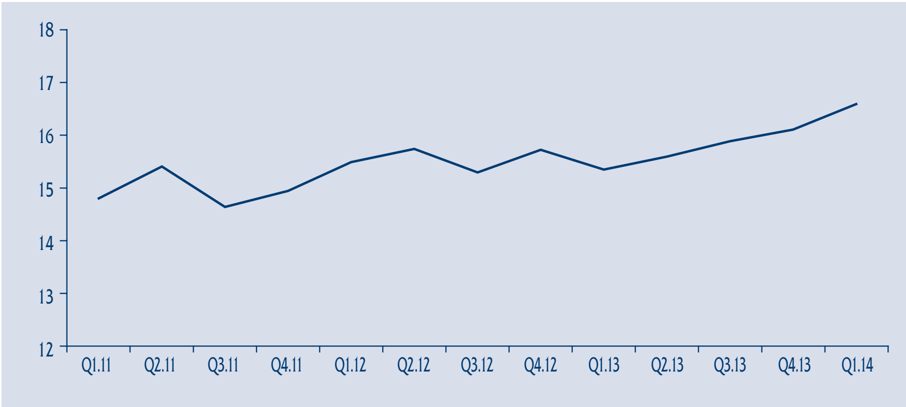
Table 53
PER: PRICE TO EARNING RATIO 1/

	Q3.11	Q4.11	Q1.12	Q2.12	Q3.12	Q4.12	Q1.13	Q2.13	Q3.13	Q4.13	Q1.14*
Jesús María	12.9	13.0	13.0	15.7	15.5	14.9	15.0	15.6	15.7	16.2	16.9
La Molina	15.2	15.8	12.7	10.7	12.4	11.6	13.7	14.7	15.5	16.4	17.2
Lince	16.5	14.1	13.9	14.2	14.2	16.4	14.1	14.6	15.4	15.5	16.2
Magdalena	12.7	12.5	14.5	14.1	13.1	16.0	14.0	14.5	15.1	15.0	15.0
Miraflores	15.6	15.7	19.0	17.0	15.3	15.0	14.8	16.5	16.3	15.9	16.8
Pueblo Libre	15.0	15.3	15.4	16.5	15.2	16.0	14.1	14.3	15.3	16.1	16.3
San Borja	16.6	17.2	15.3	19.5	16.8	18.2	18.6	17.5	17.1	16.7	17.2
San Isidro	14.9	16.7	19.7	17.7	17.2	18.4	18.0	17.2	17.3	17.7	17.8
San Miguel	13.7	12.8	14.8	15.3	16.1	15.6	14.4	14.8	14.7	15.0	15.5
Surco	13.3	16.3	16.6	16.7	17.1	15.0	16.8	16.3	16.5	16.6	17.0
Aggregated											
Average	14.6	14.9	15.5	15.7	15.3	15.7	15.3	15.6	15.9	16.1	16.6

1/ Rates have been calculated using the sale price median and rent of each district.
* Preliminary.
Source: BCRP.

4 The Global Property Guide ranks the real estate market following the PER Index as Undervalued (5.0-12.5), Normal (12.5-25.0) and Overvalued (25,0-50,0).

Graph 90
PER: PRICE TO EARNING RATIO



Box 3

PURCHASES UNDER FOREIGN CURRENCY REPURCHASE COMMITMENT

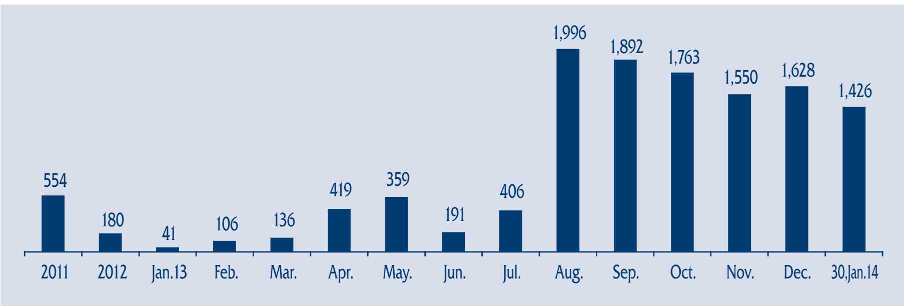
In March, BCRP again started its purchase with dollar commitment repurchase operations to inject liquidity in domestic currency to make up for lower sol-denominated reserve requirements and with a view at preserving the orderly evolution of credits. In these transactions, BCRP places soles in financial entities, which in turn, offer dollars. When the operation becomes, BCRP receives the amount of Soles it lent plus interest, while the financial entity receives the dollar amount plus the opportunity cost BCRP acknowledges for such fund. To date, two such operations have been carried to a total of S/. 600 million at 18-month term and rates between 4.28 and 4.43 percent, with an opportunity cost equivalent to 28 pbs for the dollar guarantee.

Because these operations are longer than 1 year, they allow banks to better match their assets and liabilities by type of currency and release reserve funds, consequently banks increase their sol-denominated liquidity to meet growing demand for credits in soles, which have continued to evolve at a lively pace. Additionally, these have paved the way for a quick de-dollarization of credits.

It is important to underscore these transactions are monetary and not foreign currency exchange operations. Because of their nature, they do not have an impact on banks' global exchange positions, because they are accounted for as a dollars' sale in the spot market, accompanied by simultaneous purchase of dollar futures and therefore, do not have a direct impact on the exchange market, as would be BCRP- CDR or BCRP –CDLD placements.

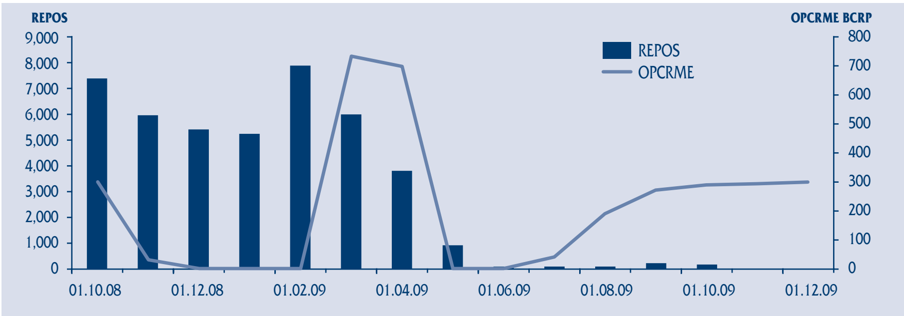
In addition, to the extent at present banks hold a large surplus of dollars, these operations allow them a more efficient management of their liquid assets. As shown in the following graph, in recent months, banks have willingly and increasingly accumulated one-day deposits.

ONE-DAY DEPOSITS IN US$
(Period's average daily balance)



Purchases with a foreign currency repurchase commitment (OPCRME is the Spanish acronym) and term repos were used during the international financial crisis of 2008-2009 to inject liquidity to the financial system and prevent pressuring domestic interest rates. During that period also, demands for dollars increased, mainly from the corporate sector and AFPs, which not only increased their deposits in dollars and contracted their deposits in Peruvian nuevos soles, but also shortened their deposits' terms. Under such circumstances, BCRP started auctioning these term instruments to provide soles liquidity and provide easier term matching between banks' assets and liabilities. Thus, the balance of repos operations reached a maximum of S/. 7.88 billion in February 2009 while OPCRME topped S/. 735 million in March 2009.

OPCRME AND BCRP REPOS: END OF PERIOD BALANCE
(Million S/.)



The following table shows the term distribution of repos and OPCRME placements. A total S/. 670 million were between October 2008 and December 2009 for 6 months and 1 year terms, of which S/. 369 million in repos and S/. 300 million in OPCRME. The main sources of demand for term OPCRMEs were micro finance institutions that during the financial crisis had their domestic currency liquidity under pressure.

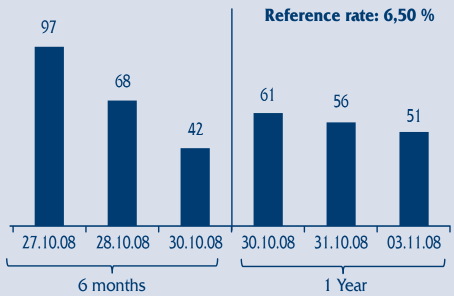
REPOS IN S/.
(Million S/.)

	Daily average placements			Total placements for period				
	O/N	1 week	2 weeks	1 month	2 months	3 months	6 months	1 year
Oct.08	764	1,325	730	1,014	-	1,000	260	59
Nov.08	820	1,360	657	-	900	20	-	50
Dec.08	835	1,050	334	600	-	-	-	-
Jan.09	1,126	1,173	455	-	-	-	-	-
Feb.09	1,558	683	334	2,708	-	800	-	-
Mar.09	1,678	475	300	1,950	-	620	-	-
Apr.09	612	473	500	500	-	-	-	-
May.09	573	500	200	-	-	-	-	-
Jun.09	250	-	-	-	-	-	-	-
Jul.09	200	-	-	-	-	-	-	-
Aug.09	350	-	-	-	-	-	-	-
Sep.09	130	-	-	-	-	-	-	-
Oct.09	75	-	-	-	-	-	-	-
Nov.09	250	-	-	-	-	-	-	-
Dec.09	-	-	-	-	-	-	-	-
Oct.08-Dec.09 (Average)	**1,119**	**784**	**494**	**322**	**300**	**244**	**87**	**36**

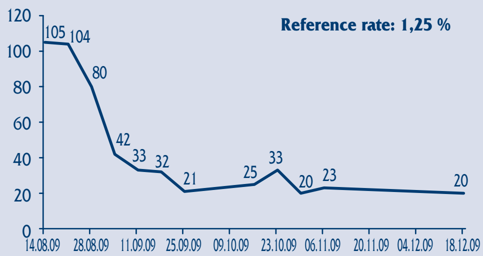
OPCRME IN S/. (Million S/.)						
	Daily average placements			Total placements for period		
	O/N	1 week	2 weeks	1 month	6 months	1 year
Oct.08	159	-	-	-	-	-
Nov.08	185	-	-	-	-	-
Dec.08	69	-	-	-	-	-
Jan.09	-	-	-	-	-	-
Feb.09	-	-	-	-	-	-
Mar.09	-	128	68	300	-	-
Apr.09	133	177	-	-	-	-
May.09	460	500	-	-	-	-
Jun.09	-	-	-	-	-	-
Jul.09	-	-	-	-	40	-
Aug.09	-	-	-	-	-	150
Sep.09	-	-	-	-	-	82
Oct.09	-	-	-	-	-	18
Nov.09	-	-	-	-	-	4
Dec.09	-	-	-	-	-	6
Total	**199**	**170**	**68**	**300**	**40**	**260**

Interest rates for these instruments were slightly above the benchmark rate then current. These instruments were between 20 and 105 base points for 12-month OPCRMEs and between 42 and 97 basis points for 6- and 12-month repos.

6-MONTH AND 1 YEAR BCRP REPO
(Differential in pbs. compared to reference rate)



1 YEAR OPCRME
(Differential in pbs. compared to reference rate)



Box 4

CURRENCY DENOMINATION IN INFRASTRUCTURE CONCESSION CONTRACTS

Peru has made significant progress in reducing the share of US dollars in its economy and financial system. This is the so called “de-dollarization”. For instance, the share of foreign currency in savings unions’ loans dropped from 75 percent in December 2001 to less than 40 percent in March 2014. For deposits, de-dollarization meant a drop from 74 percent to 42 percent share of foreign currency over the same period.

As regards transactions in the general economy, de-dollarization benefitted from Law 28300 from 2014 that determined all suppliers should include the price of the goods and services they offer in markets in nuevos soles. If the price in foreign currency is also announced, the price in nuevos soles should also be advertised using the same font and drafting.

However, there is still margin to increase the use of local currency in ordinary transactions. For instance, a significant portion of the terms and conditions included in infrastructure concession contracts signed in Peru are still denominated in US dollars.

In the last two decades Peruvian economy’s infrastructure needs are increasingly provided for through Public-Private Partnerships (PPPs) that encourage private investment as an alternative source of financing, and for the construction and operation of projects to provide public services or build public infrastructure over the long term. Consequently, from 1993 until March 2014, a total 96 projects were awarded, creating investment commitments for a total US$ 23.9 billion (before VAT), in particular the March 28, 2014 award of the Lima Light Rail Line 2 for a total US$ 5.6 billion (before VAT).

INVESTMENT COMMITMENTS: 1993 - MAR.2014
(Million US$)

	Projects	1993-1999	2000-Mar.2014	TOTAL
Transport	**27**	**170**	**12,286**	**12,456**
Land	16	157	8,927	9,084
Ports	6	8	1,736	1,743
Airport	5	6	1,623	1,628
Electricity	**25**	**253**	**5,598**	**5,852**
Hydrocarbons 1/	**4**	**-.-**	**1,435**	**1,435**
Telecommunications 2/	**21**	**-.-**	**2,087**	**2,087**
Sanitation	**6**	**-.-**	**744**	**744**
Agriculture	**6**	**-.-**	**1,114**	**1,114**
Others 3/	**7**	**7**	**180**	**186**
Total	**96**	**431**	**23,443**	**23,873**

1/. Camisea gas transport. 2/. Includes FITEL projects. 3/. Tourism and real estate.
Source: PROINVERSIÓN.

Denomination of concession contracts

These infrastructure concession contracts use mainly the US dollar as the currency denomination for certain key variables, including investments, fees and adjustments, warrant bonds, penalties, indemnifications and insurance. Only in some cases are rates adjusted to reflect local inflation.

This practice is not usual in countries throughout the region. A review of road concession contracts awarded in the main Latin American countries (Argentina, Chile, Colombia and Mexico)[5] shows all of them specify concession terms in their respective local currencies.

CURRENCY DENOMINATION IN ROAD CONCESSION CONTRACTS

Variable	Argentina	Chile	Colombia	Mexico	Peru
Investment amount	Local currency	Local currency	Local currency	Local currency	US dollars
Toll rates	Local currency	Local currency	Local currency	Local currency	US dollars
Toll rates adjustments	Local CPI and exchange rate	Local CPI	Local CPI	Local CPI	Local CPI and US$ CPI
Performance bond	Local currency	Local currency	Local currency	Local currency	US dollars
Penalties	Local currency	Local currency	Local currency	Local currency	US dollars
Indemnification	Local currency	Local currency	Local currency	Local currency	US dollars
Insurance	Local currency	Local currency	Local currency	Local currency	US dollars

Local currencies in contracts may be established in either nominal values or constant purchasing power units. In this latter case, the variables are adjusted to reflect each country's consumer price index changes. Generally, contract documents determine monetary values included in the economic and technical packages, among others, in nominal local currency or at constant value. In addition, if the proposal is denominated in US dollars, it shall also be expressed in the local currency, with the exchange risk accepted by the bidder or concession holder.

For other types of non-road concessions, the Latin American countries reviewed here also preferably establish contract terms in local currencies, excepting in those activities directly related to foreign trade, such as port management, where rates and fees are typically denominated in a foreign currency. In the particular case of the Santiago de Chile International Airport, although its activities are related to foreign trade, the local currency was used for all purposes.

Adjustment of utility rates in Peru

The criteria to determine rates in three state-regulated industries, namely potable water, telecommunications and transport were reviewed to show the scope of local inflation pegging[6] or

5 In these countries, and also in Peru, both foreign and local bidders can tender in these competitive awards.

6 Changes to the consumer price index or the whole sale price index.

foreign inflation pegging in price formation. Only potable water, telecommunications and Lima's Light Rail Line 1 rates are fixed in Peruvian Nuevos Soles.

As shown in the table below, all road and railroad networks, as well as the recent concession award for the Lima Light Rail's Line 2, fix their rates and adjustments in dollars, although these are services for the internal market and which, consequently, are more closely related to local costs and revenues.

UTILITY RATE INDEXATION

Sectors under review	Base currency	Productivity factor	Domestic inflation	Foreign inflation
Potable water	**S/.**		**WPI**	
Telecommunications	**S/.**	**Applicable**	**WPI**	
Transport				
Jorge Chavéz International Airport	US$	Applicable		CPI USA
Province airports- first batch	US$		50% CPI	50% CPI
Matarani Port	US$	Applicable		CPI USA
South and North port docks	US$	Applicable		CPI USA
Highway networks (all)	US$		50% CPI	50% CPI
Railroad networks	US$			CPI of NY USA
Lima Light Rail Line 1 1/	S/.			
Lima Light rail Line 2 (to be delivered) 1/ 2/	US$			

1/ The rate may be changed by the Ministry of Transport and Communications, the franchisor.
2/ Adjusted to the exchange rate on February 1 every year.
Source: Concession contracts - PROINVERSIÓN.

Consequences of dollarization of concession contracts

From the standpoint of macroeconomic stability, fixing utility revenues in dollars is not justified because of its non-tradable nature. Dollarization creates significant economic rates because of exchange rate mismatches, in particular for agents with obligations in foreign currency but revenues in local currency. This might jeopardize meeting contract terms and firms' solvency. The various types of economic dollarization interact to increase the persistence of such behavior. Price dollarization (real dollarization) creates incentives for financial dollarization (savings and loans) because a trend emerges to save in the currency in which the transactions are determined and carried out.

Widespread dollarization of contracts seems to reflect an inertial behavior lingering from a hyperinflation experience from over 15 years ago. Additionally, it may reflect the attempt to make projects more attractive to foreign concession bidders that can access international financing.

However, this does not happen in neighboring countries where the local currency is used to determine rates and fees. In addition, fixing rates in dollars does not cancel the foreign concession holder's exchange risk, who have access to dollar's denominate financing since a significant percent of the investment and operations costs (which determine their profits) will be denominated in the local currency. One such example will be the road networks where rates are dollar-denominated and pegged to the United States CPI.

Local currency-denominated concession contracts

Concession contracts, the terms of which are Peruvian Nuevos Soles-denominated and are indexed to inflation may be financed by issuing VAC bonds, without risk of mismatch as revenues might be pegged to the CPI.

The Bank and Insurance Companies Superintendent (SBS) in February 2014 reported Pension Fund Management Companies (AFPs), which altogether count 5.5 million affiliates, are a major source of domestic financing, with funds totaling S/. 102.6 billion (or 17.6 percent of GDP), of which 64 percent are held in securities issued locally and from across various economic sectors.

Nevertheless AFPs' share of infrastructure financing has fallen from 15.5 percent of the total fund in December 2007 to 9.9 percent in February 2014.

EVOLUTION OF AFPS' INVESTMENTS IN INFRASTRUCTURE
(Million S/.)

	Infrastructure investment	% Pension Fund	Pension Fund
Dec.07	9,440	15.5	61,051
Dec.08	8,172	16.4	49,881
Dec.09	8,947	12.9	69,287
Dec.10	9,645	11.0	87,296
Dec.11	9,164	11.2	81,881
Dec.12	10,355	10.7	96,853
Dec.13	10,032	9.8	102,077
Feb.14	10,114	9.9	102,644

Source: SBS.

As a consequence, there is still room to create demand for Sol-denominated securities for concessions, principally by resorting to AFPs' funds. If needed, the risk rating of infrastructure bonds may be improved through warrant policies issued by international insurance companies (as in Chile). Thus, a wider range of quality securities for placing pension funds would increase their return rates and allow financing the infrastructure needed to improve competitiveness.

If the local market is not able to absorb a major bond issuance, concession holders may place bonds abroad and hedge their exchange risk through hedging operations.

Box 5

IMPACT OF THE OUTPUT GAP ON INFLATION: THE PHILLIPS CURVE

A determining factor on inflation is the output gap because it reflects increases in economic activities as a consequence of demand pressures. In economies of high macroeconomic volatility (where aggregate shocks are very frequent), the link between the output gap and inflation is stronger, whereas in more stable economies, such as apparently Peru's, the transmission is closer to 0.2.

The Phillips curve originally intended to relate inflation and unemployment. Later, it was extended to provide an explanation for the relationship between inflation and the output gap. The simplest version of the Neo-Keynesian Phillips curve in a closed economy may be expressed as follows:

$$\pi_t = \kappa\, y_t + \beta E_t(\pi_{t+1}) + (1-\beta)\ (\pi_{t-1}) \quad (1)$$

where π_t and y_t are inflation and the output gap for period t, respectively; E_t is the conditional expectation in period t; and, κ and β are the inflation's sensitivity to the output gap and expected inflation, respectively.

In theoretical terms, κ's interpretation principally reflects price rigidity in the economy, while β measures the consideration agents give to expected future inflation when fixing prices today. A parameter close to one reflects agents who are significantly responding to inflation expectations when fixing prices. On the contrary, when this parameter is small, it points that when taking account of persistent inflation when determining prices, agents take into account past inflation instead, for instance, as happens when inflation pegged mechanisms are in place.

In empirical terms, β is close to 1 (generally between 0.95 and 0.99) while κ is a free estimated parameter. Vega et al. (2009) and Salas (2011) estimate this value to be between 0.10 and 0.20 for the Peruvian economy. Pincheira and Rubio (2010) estimated that value at 0.23 for Chile, while estimates for Colombia by Nigrinis (2003) and Acuña-Roa and Parra-Polonia (2013) suggest a value lower than 0.10.

BCRP's Quarterly Projection Model (MPT)[7] takes into account of the imported inflation transmission effect on domestic inflation and the inertial component in inflation's behavior, together with an expectation component. Consequently, the following Phillips curve specification is used for a small opened economy:

$$\pi_t = a_s \pi_t^s + (1-a_s)\pi_t^{ns} \quad (2)$$

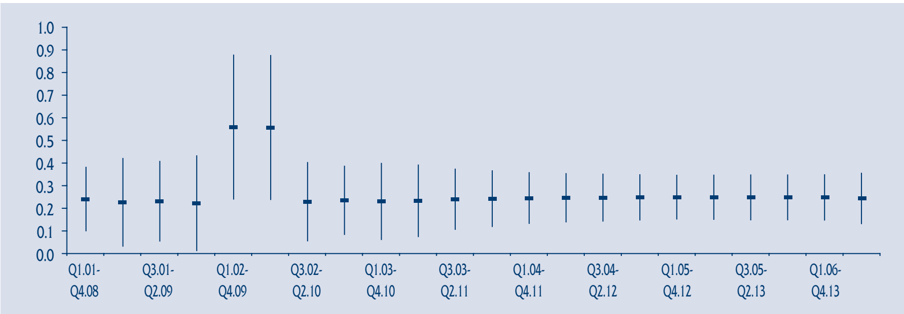
$$\pi_t^s = b_m \pi_t^m + (1-b_m)[b_\pi \pi_{t-1}^s + (1-b_\pi)\pi_t^e] + b_y y_{t-1} + \varepsilon_t \quad (3)$$

7 A detailed explanation of how this model was derived and estimated is show in Winkelried (2013), "Modelo de Proyección Trimestral del BCRP: Actualización y Novedades" Revista de Estudios Económicos N° 26.

where π_t^s, π_t^{ns}, π_t^m and π_t^e are the underlie, not underlie, imported and expected inflations, respectively and, y_t is the output gap.

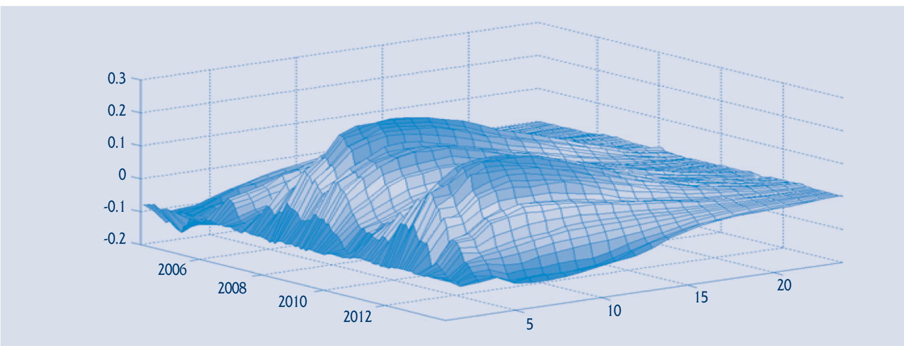
As mentioned earlier, b_t might range between 0.10 and 0.20. To verify this parameter's stability, recursive estimates were run using several simple window (rolling window estimation). As shown in Figure 1, this parameter has remained relatively stable for various sample sizes, with an average estimated value of 0.24.

ESTIMATION FOR b_y FOR SEVERAL SAMPLE SIZES



An autoregressive vector system (VAR) using sliding parameters examines the response of inflation to output growth shock[8]. This system incorporates real GDP, Metropolitan Lima CPI, monetary base, interbank interest rates and real exchange rate index. The sample comprises monthly data from 2006 until 2013. As shown in graph 2, the maximum inflation response is 0.30, in line with prior studies for Peru and other regional countries.

INFLATION RESPONSE TO A 1% OUTPUT GROWTH SHOCK



8 See Cogley y Sbordone (2008), "Trend inflation, indexation, and inflation persistence in the New Keynesian Phillips Curve". American Economic Review 98:5, 2101–2126.

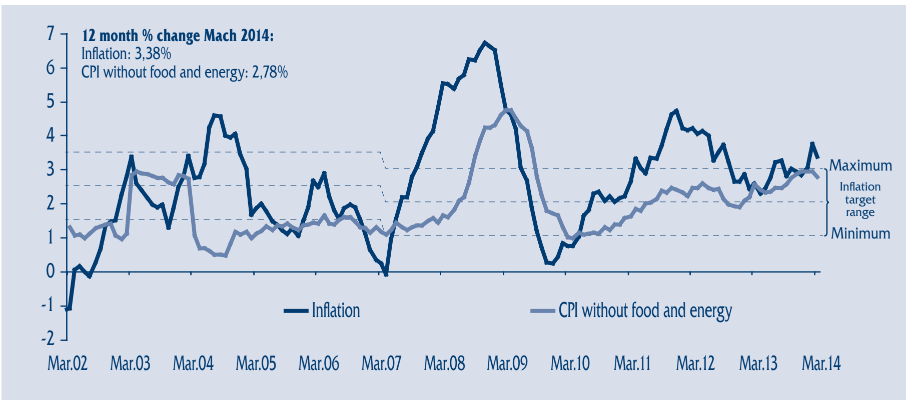
VI. Inflation

Report to March

72. The inflation rate for the last twelve months rose from 2.86 percent in December 2013 to 3.38 percent in March 2014, after the impact of adverse weather conditions. The goods that were principally hurt by these shocks were perishable foods, in particular onions and vegetables. The price rise resulting from these types of supply shocks account for the entire increase of inflation (0.5 percent points).

    Inflation without food and energy remained within the target range during the first quarter, with an annual 2.8 percent increase to March compared to 3.0 percent to December 2013. The evolution of this inflation trend indicator is mainly accounted for by the higher 8.2 percent exchange rate for the 12 months ending in March.

Graph 91
INFLATION AND INFLATION TARGET
(12 months % change)



73. The **food and energy** component rose from an annual 2.7 percent rate in December 2013 to 4.1 percent in March 2014. Highlights included higher food prices (from 2.2 percent in December 2013 to 3.7 percent in March 2014), electricity rates (from 6.2 percent in December 2013 to 6.7 percent in March 2014) and fuels (from 6.0 percent in December 2013 to 6.7 percent in March 2014).

Table 54
INFLATION
(%)

	Weight	2007	2008	2009	2010	2011	2012	2013	2014 March	2014 12 months
INFLATION	**100.0**	**3.93**	**6.65**	**0.25**	**2.08**	**4.74**	**2.65**	**2.86**	**0.52**	**3.38**
1. **CPI without food and energy**	**56.4**	**1.49**	**4.25**	**1.71**	**1.38**	**2.42**	**1.91**	**2.97**	**0.78**	**2.78**
a. Goods	21.7	1.79	3.21	2.31	1.07	2.37	1.60	2.62	0.26	2.84
b. Services	34.8	1.33	4.97	1.24	1.58	2.45	2.10	3.18	1.10	2.75
2. **Food and energy**	**43.6**	**5.91**	**8.58**	**-0.86**	**2.98**	**7.70**	**3.55**	**2.73**	**0.21**	**4.10**
a. Food and beverages	37.8	6.02	9.70	0.57	2.41	7.97	4.06	2.24	0.07	3.70
b. Fuel and electricity	5.7	5.21	1.65	-10.40	6.80	6.01	0.22	6.09	1.15	6.69
Fuel	2.8	6.45	-0.04	-12.66	12.21	7.54	-1.48	5.95	1.66	6.65
Electricity	2.9	1.92	6.31	-4.56	1.36	4.30	2.19	6.23	0.58	6.74

Table 55
INFLATION
(Weighted contribution)

	Weight	2007	2008	2009	2010	2011	2012	2013	2014 March	2014 12 months
INFLATION	**100.0**	**3.93**	**6.65**	**0.25**	**2.08**	**4.74**	**2.65**	**2.86**	**0.52**	**3.38**
1. **CPI withouth food and energy**	**56.4**	**0.67**	**1.88**	**0.74**	**0.78**	**1.36**	**1.45**	**1.56**	**0.28**	**1.85**
a. Goods	21.7	0.35	0.62	0.43	0.23	0.51	0.56	0.60	0.11	0.70
b. Services	34.8	0.34	1.24	0.30	0.55	0.85	0.90	0.97	0.17	1.15
2. **Food and energy**	**43.6**	**3.24**	**4.80**	**-0.49**	**1.30**	**3.38**	**1.20**	**1.30**	**0.24**	**1.53**
a. Food and beverages	37.8	2.84	4.67	0.28	0.91	3.03	1.04	1.12	0.21	1.33
b. Fuel and electricity	5.7	0.40	0.13	-0.77	0.38	0.35	0.16	0.17	0.03	0.20
Fuel	2.8	0.36	0.00	-0.68	0.34	0.23	0.08	0.09	0.02	0.11
Electricity	2.9	0.04	0.13	-0.09	0.04	0.12	0.07	0.08	0.02	0.10

74. From January to March, the items that made the greatest contribution to inflation were school registration and tuition, out-of-home meals, onions and electricity.

The **school registration and tuition** item rose 4.2 percent, as a consequence of increases in public and private school registration fees at the beginning of the school year, as well as higher tuition at private schools, universities and vocational schools.

The **out-of-home meals** item accumulated a 1.6 percent increase, higher than the general price index increase 1.4 percent. Over the last 12 months, this item has expanded 5.1 percent, above the “at home” meals item (3.1 percent).

Another highlight was the increase of farm prices, including **onions** (50.4 percent), **fresh legumes** (36.4 percent) and **carrots** (36.8 percent). Scarce rains hurt the onion harvest in Arequipa, while low farm-gate prices discouraged planting of green peas in Junín and Huancavelica (-10 and 4 percent, respectively, for the August-December period, compared to the previous season). Likewise, carrot crops in Junin fell 15 percent over the same period, due to higher costs resulting from plant pests.

Electricity rates rose 3.9 percent, reflecting an increase authorized by energy regulator Osinergmin in February (5.1 percent). This increase was explained by the higher cost of adding a new transmission line, as well as adjustment of generation prices. These latter include a higher price for natural gas, as well as the quarterly settlement required by the compensation mechanism among regulated users.

Gasoline and lubricants prices increased 5.5 percent, reflecting the higher benchmark prices published by Osinergmin. These prices follow price trends along North American coasts, hit by higher winter fuel demand. Likewise, the WTI international oil quotation rose from US$ 92.9 per barrel in March 2013 to US$ 97.8 in December and US$100.6 in March 2014.

In addition, other items with significant negative impacts on inflation included local transportation, potatoes and chicken.

National transportation fares fell on average 11.5 percent mainly due to prices returning to normal level after the year-end holidays.

The price of **potatoes** fell 4.6 percent after lower prices for “white” and “color” varieties’ prices. Contributing to this outcome were larger crops in Huanuco and Lima (4 and 17 percent, respectively, during the July-November period, compared to the previous season).

The **poultry meat** fell 1.3 percent on average. Increases occurred in January (4.8 percent) and February (1.9 percent) as supply fell following the Christmas Holidays and higher prices for some substitute goods, including bonito, cojinova and mai mai fish. This evolution was reverted in March (-7.5 percent) after more fowl reach market that month (6 percent compared to March 2013), in addition to increased supply of mackerel and bonito. Over the last 12 months, prices fell

2.0 percent against the backdrop of larger supply and lower international prices for imported heart yellow corn, the birds' main feed. Heart yellow corn prices fell from US$ 285.6 MT in March 2013 to US$180.4 per MT in March 2014.

Another product recording a significant increase over the last 12 months was **fresh and frozen fish** with prices accumulating a 15.3 percent change over the last 12 months. Variable weather and anomalous sea waves has an impact on the availability of most species.

Table 56
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION:
JANUARY - MARCH 2014

Positive	Weight	% Chg.	Contribution	Negative	Weight	% Chg.	Contribution
Education (fees and tuition)	8.8	4.2	0.39	National transportation	0.3	-11.5	-0.04
Meals outside the home	11.7	1.6	0.21	Potato	0.9	-4.6	-0.04
Onion	0.4	50.4	0.12	Poultry meat	3.0	-1.3	-0.04
Electricity rates	2.9	3.9	0.11	Grapes	0.1	-22.0	-0.03
Gasoline and oil	1.3	5.5	0.09	Avocado	0.1	-16.0	-0.02
Fresh legumes	0.2	36.4	0.08	Airplane fares	0.4	-5.3	-0.02
Eggs	0.6	11.7	0.06	Tomato	0.2	-6.8	-0.01
Other vegetables	0.4	9.4	0.04	Peach	0.1	-7.5	-0.01
Carrots	0.1	36.8	0.04	Corn	0.1	-4.1	-0.01
Other fresh fruits	0.4	9.9	0.04	Olluco and alike	0.1	-5.8	0.00
Total			**1.18**	**Total**			**-0.22**

Table 57
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION:
APRIL 2013 - MARCH 2014

Positive	Weight	% Chg.	Contribution	Negative	Weight	% Chg.	Contribution
Meals outside the home	11.7	5.1	0.65	Telephone rates	2.9	-2.9	-0.07
Education (fees and tuition)	8.8	4.9	0.46	Poultry meat	3.0	-2.0	-0.06
Urban fares	8.5	2.9	0.25	Sugar	0.5	-6.7	-0.04
Electricity rates	2.9	6.7	0.19	Potato	0.9	-4.1	-0.04
Purchases of vehicles	1.6	9.0	0.13	National transportation	0.3	-8.4	-0.03
Gasoline and oil	1.3	6.5	0.10	Other vegetables	0.4	-3.8	-0.02
Fresh and frozen fish	0.7	15.3	0.10	Papaya	0.2	-6.7	-0.01
Gas	1.4	6.8	0.10	Judicial expenditure	0.4	-3.5	-0.01
Medicinal products	2.1	4.6	0.09	Bean	0.1	-4.4	-0.01
Eggs	0.6	15.7	0.08	Icecream and edible ice	0.3	-2.8	-0.01
Total			**2.15**	**Total**			**-0.30**

International price outlook

The price of oil is expected to fall during the projection period to reach an average US$ 98 per barrel in 2014 against a backdrop of increased crude supplies. In turn, this will contribute to a stable price of soil oil, to which we should add the impact of slower Chinese growth.

In addition, the prices of corn and wheat were revised upward. World demand for corn is expected to increase, while whether in the United States and restricted exports from Russia and Ukraine, resulting from tensions among these countries should have an impact on wheat supply and prices.

a. Energy

The **WTI** quotation for oil rose 2.8 percent in Q1 2014 to an average monthly quotation of US$ 100.6 per barrel in March. The rising trend observed during most of the period was related to a colder than usual winter in the United States, concern between the crisis between Russia and Ukraine, the sudden drop in oil inventories in OCED countries and cuts in global supplies, particularly from Libya.

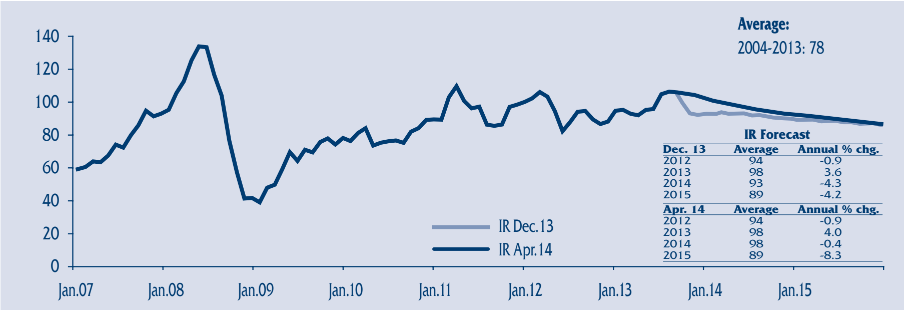
Table 58
OIL AND LIQUID FUELS: SUPPLY AND DEMAND
(Million barrels per day)

	2010	2011	2012	2013	2014
Supply	87.38	88.65	90.94	91.52	92.75
OPEP	34.74	35.81	37.58	36.85	36.30
Non-OPEP	52.64	52.84	53.36	54.68	56.45
Consumption	88.46	89.05	90.06	91.33	92.68
OECD	47.02	46.47	45.97	46.05	46.01
Non-OECD	41.44	42.58	44.09	45.28	46.68
Market balance	-1.08	-0.39	0.88	0.19	0.06
Inventories at the end of period (million barrels)					
Inventories USA	1,062	1,026	1,055	1,094	1,095
Inventories OECD	2,679	2,606	2,664	2,564	2,551

Source: Oil Market Report, March 14, 2014; IEA, Estatistics EIA.

However, this situation should prove temporary. Various organizations have estimated crude supply should grow. Output in the United States should continue to increase as well as some OPEC countries' output, including Iran and Iraq should fall back to normal. Against this backdrop, the WTI oil quotation should drop during the projection period, although corrected upwards compared to estimates including in the December Inflation Report. Increased risk factors remain, both on the upward and downward sides. The likelihood of higher prices is still high due to recurring political tensions in the middle east. On the contrary, the likely drop of prices is linked to larger than expected United States output.

Graph 92
WTI OIL: JANUARY 2007 - DECEMBER 2015
(US$/bl)

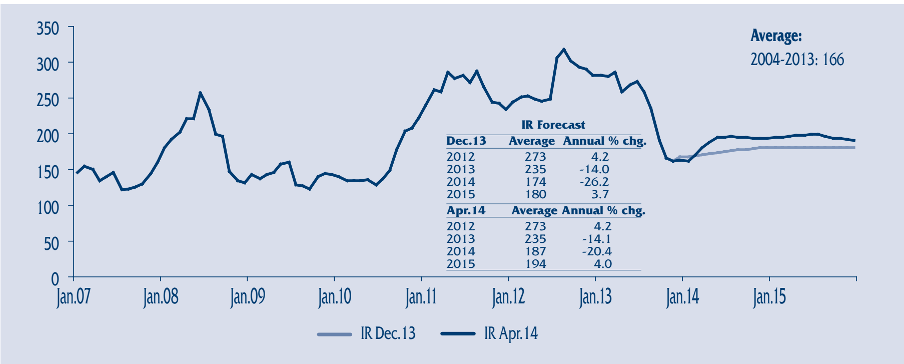


b. Corn

International average corn price reached US$/MT 180, 11.8 percent higher than the average closing price in December 2013. This change reflects mainly increases in February and March (5.3 percent and 7.1 percent compared to a month earlier, respectively). The rising trend in cereal prices was driven by the cold wave in the United States in January and February and geopolitical tensions in Ukraine (a major corn exporter) in March. Larger cereal exports and droughts in the United States cropping regions increased upward pressures.

Between December and March, the United States Department of Agriculture revised downward its final global inventories for the 2013 / 2014 corn season, from 162.5 million MT in December to 158.5 million MT in March after increased world demand. In view of the above, corn prices are estimated to rise above those estimated in the previous Inflation Report.

Graph 93
MAIZE: JANUARY 2007 - DECEMBER 2015
(US$/MT)



c. Wheat

To March, international **wheat** prices had accumulated a 12.2 percent increase, to close at an average US$/MT 276. This higher increase reflects increases in February and March (5.6 percent and 13.5 percent compared to a month earlier) after lower prices recorded in January (-6.4 percent).

Wheat prices fell in the first month this year after an upward review of final wheat inventories by USDA reflecting higher exports and output. However, this impact dissipated after the agency reduced the estimates in the next 2 months. These cuts were linked to fears polar climate in the United States might damage the winter crop and insufficient humidity in the Plains areas. In addition, tensions between Russia and Ukraine (two of the largest wheat exporters) put greater upward pressure on wheat prices as such conditions created expectations of export restrictions. In view of the above, wheat is expected to quote higher than estimated in the previous Inflation Report.

Graph 94
WHEAT: JANUARY 2007 - DECEMBER 2015
(US$/MT)

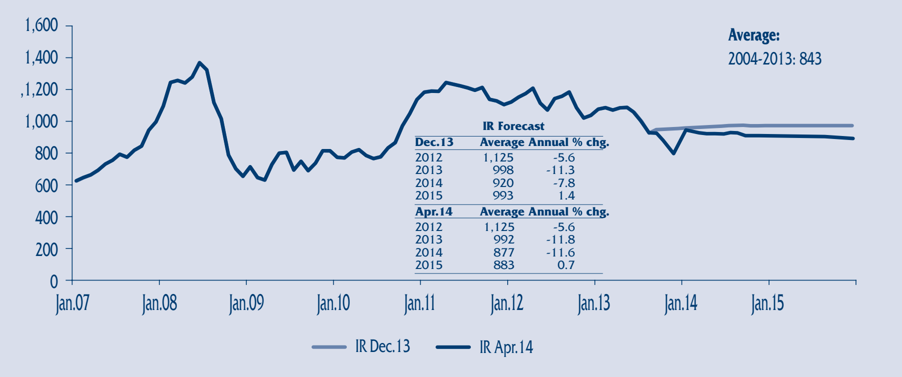
d. Soybean oil

The average March soybean oil quotation reached US$/MT 900, 8.6 percent above the average of the last month in 2013. The average quotation fell 7.0 percent in January but rose again in the next 2 months (6.2 percent in February and 10.0 percent in March).

Higher soybean oil prices are accounted for by higher demand for US soy after the South American harvest fell due to extreme weather in Argentina and Brazil. This evolution was reflected in lower inventories.

However, in the projection's time horizon, prices are expected to stabilize in line with lower Chinese growth and falling oil prices.

Graph 95
SOYBEAN OIL: JANUARY 2007 - DECEMBER 2015
(US$/TM)

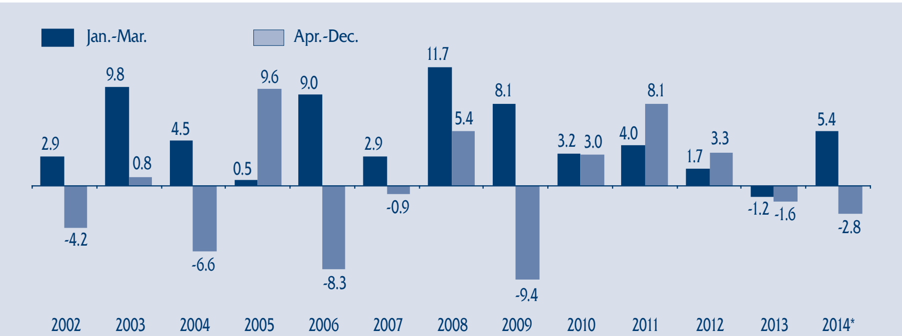


Inflation outlook

75. Food and energy prices are expected to increase 3.3 percent in 2014, compared to 3.0 percent in the earlier projection. On the one hand, food supplies are expected to fall back to normal so prices should slow down from 3.7 percent to 2.8 percent between March and December. On the other hand, energy prices should trend upward from 6.7 percent to 6.9 percent in March, reflecting renewals of electricity generation contracts.

Prices of perishable food products are expected to fall between April and December due to seasonal impacts and reversal of internal shocks.

Graph 96
PERISHABLE FOOD PRODUCTS
(%)



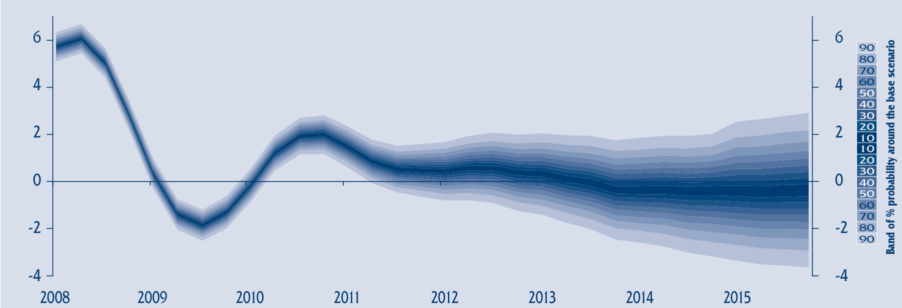
* Forecast.

76. The **output gap** is another inflation determinant of inflation reflecting demand-side inflationary pressures. This gap has been impacted by several drivers, including external, fiscal, private and monetary. The base projection scenario foresees a neutral economic cycle where the output gap will remain slightly negative in 2014 and closer to 0 in 2015.

On the external front, a weaker drive than forecast in the December Inflation Report is expected after a downward review of growth figures among our main trade partners (in particular more moderate growth in China) and a steeper than expected slide in terms of trade. In addition, this projected scenario includes a positive fiscal stimulus in 2014, which would partially alleviate the negative contribution of the foreign driver to the output gap and consumers and companies' confidence remaining in the optimist tranche.

Finally, the base projection scenario reflects expected flexible monetary conditions. An appropriate monetary policy position will contribute to preserve well-anchored inflation expectations, in particular against the backdrop of persisting and important shocks in CPI basket sensitive products.

Graph 97
OUTPUT GAP: 2008 - 2015
(% potential GDP)



Memo: Output gap is not an observable variable and has to be estimated. Because of this, the graph shows uncertainty about its value, inclusive for periods with information of GDP (until December 2013). As in the case of the output gap, each pair of bands concentrate a probability of occurrence of 10% and total bands represent a probability of occurrence of 90%. The risk scenario to the output gap forecast is in the chapter of balance of risk and are used for the inflation forecast.

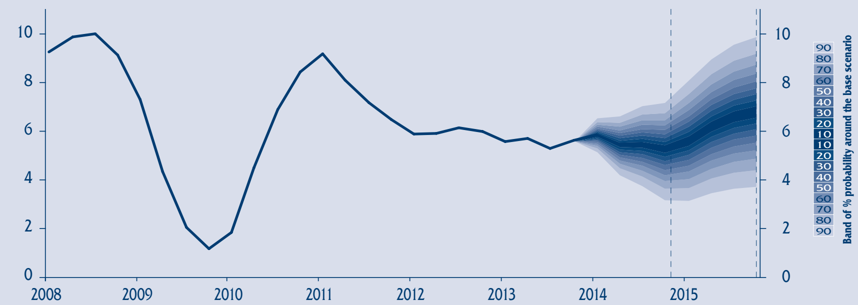
77. As mentioned earlier, in the base projection scenario Peru's economy should grow at 5.5 percent, lower than projected in the December Report (6.0 percent). This revision is accounted for by a slower growth of private economic activity, a slightly negative economic output gap and lower productivity in the primary sector, which should revert in 2015, to the extent, large scale mining project, mainly in the mining industry, will be executed within deadlines. In 2015, GDP should grow at around 6.7 percent.

All GDP growth projections are subject to the occurrence of non-anticipated likely events that might lead away from the main scenario. In an uncertain context, should some of those risks actually occur, GDP may grow differently than originally projected.

In a scenario of domestic-originated risk, some adverse demand shocks may occur, related to obstacles hampering private investment, as well as difficulties in the scheduled execution of public expenditures, which might have a negative impact on business confidence. Uncertainty about how the world economy might evolve is also significant and might contribute to deteriorating macroeconomic conditions. In particular, recent signals pointing to a slower growth of emerging economies, especially China and a faster-than-scheduled slowdown in the Federal Reserve's asset purchases.

As regards GDP growth, GDP growth faces relatively low risk. In other words, the likelihood that GDP growth might fall below the base scenario projection is slightly higher than the likelihood it might exceed such estimates.

Graph 98
FORECAST OF GDP GROWTH 1/, 2014 - 2015
(Interanual % change)

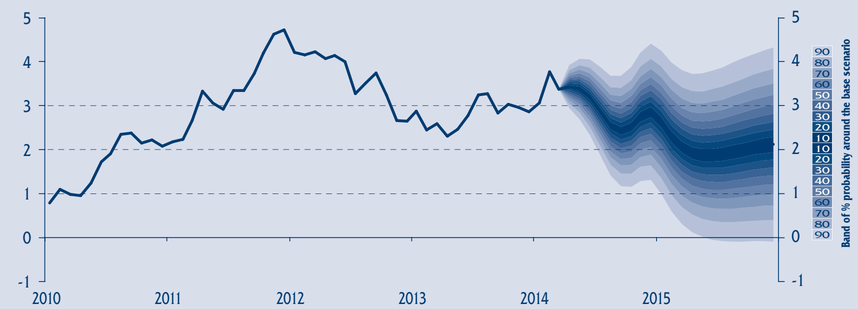


Memo: The graph shows the probability of occurrence of GDP growth forecasts in the future, the values of which were established combining statistical analysis (using data as of December 2013) and the risk balance of the BCRP. Thus, in each period of the forecast horizon, each pair of bands with the same shade concentrates a probability of 10%. This can be interpreted as that 10 of every 100 possible future values of GDP growth are expected to fall within the darkest bands (located in the center), that contain the baseline scenario trajectory.
1/ GDP growth is defined 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.

78. In Q1 2014, inflation was temporarily above the target range, impacted by evolving supply conditions, which led to price increases mainly food stuffs. Our forecast for steadily falling inflation in coming months to 2 percent in the 2014-2015 projection horizon remains unchanged. this scenario does not include demand

inflation pressures during the projection horizon and inflation expectations to remain within the target range.

Graph 99
INFLATION FORECAST: 2014-2015
(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.

VII. Balance of risks

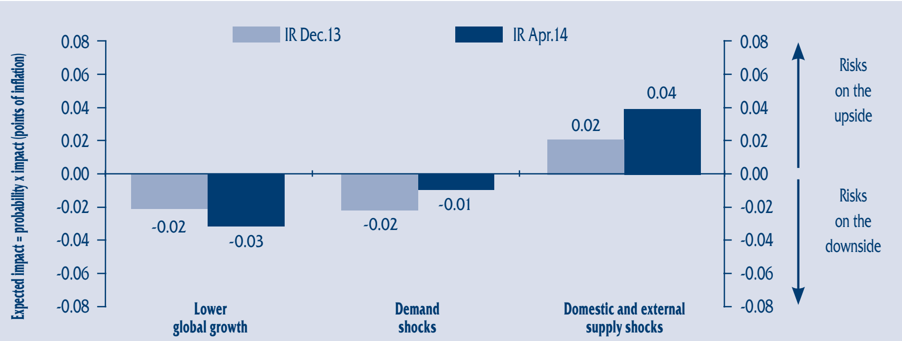
79. The projection process is not exempt from some uncertainty about future developments in both the domestic and global economies. Consequently, in addition to the base scenario, we evaluate other scenarios including alternative projection assumptions, which in the longer term, would move the inflation path away from its benchmark base scenario.

The risk balance is the consequence of evaluating the relative importance of each of such risk factors over inflation projections. The expected impact of a risk factor on inflation depends on two components. First, the magnitude of the deviation of the projected inflation in the risk scenario vis-á-vis the best scenario's projection; and, secondly, the likelihood of occurrence allocated to each risk scenario. These factors together determine bias of the inflation projection's risk balance.

The main risks that could derail the base scenario's inflation rate are similar to those included in the December Inflation Report and are linked to slower world growth, a likely slow down of internal demand, higher than included in the base scenario and the occurrence of supply shock, both internal and external.

The impact on inflation of risk factors exerting a downward pressure on such rate are attenuated by the effects of risk factors exerting an upward pressure. Consequently, the **final balance of these risks is neutral** for the projected inflation over the projection's horizon. The likelihood such projections might increase is equivalent to the likelihood of downward deviations.

Graph 100
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.
The balance of these risks is neutral for the projection of inflation: The probability that inflation will be below the forecast considered in the baseline scenario is the same than the probability that inflation will be above the forecast level.

The impact of the above described risks on the inflation projection for the 2014-2015 horizon, using information available to March 2014, reveals the likelihood inflation might fall within the target range in 2015 is 56 percent, while the likelihood it might fall below 3 percent is 78 percent.

Conclusions

80. We maintain our forecast inflation will converge toward the target range in 2014, and the influence of temporary factors that accelerated inflation's rhythm in Q1 will dissipate in coming months. The risk balance is neutral and consistent with GDP growth at rates not very different from their potential under the influence of lower than expected external demand, a positive fiscal stimulus and flexible monetary conditions.

    The Central Bank will remain attentive to the evolution of the world's and local economies and also to inflation expectations to adapt, should it become necessary, its monetary policy position, with a view at ensuring the conversion of inflation toward the target range.