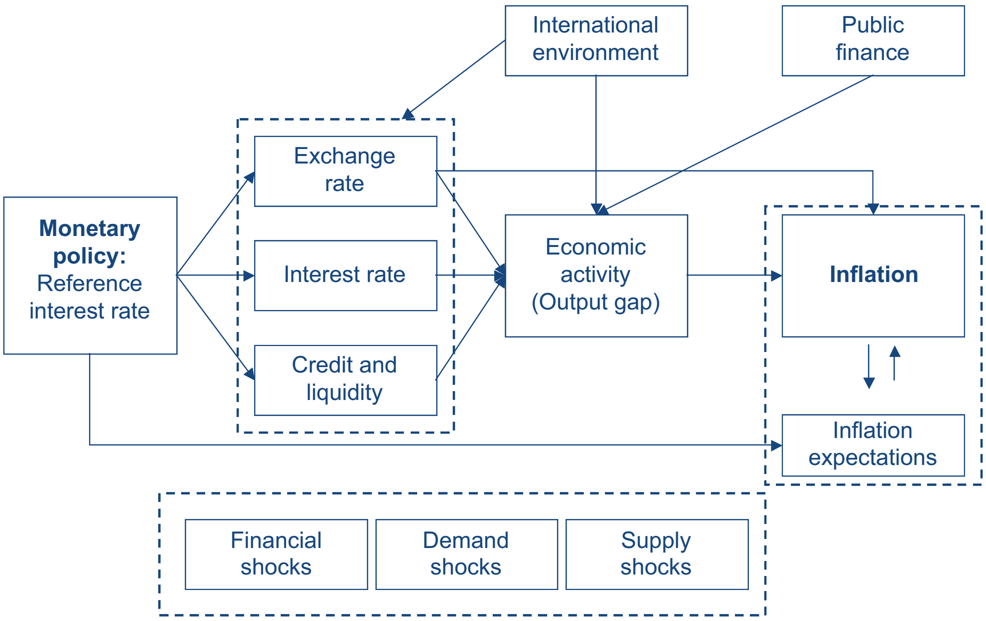
INFLATION REPORT:

Recent trends and macroeconomic forecasts 2009-2011

December 2009



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INFLATION REPORT
Recent trends and macroeconomic forecast

CENTRAL RESERVE BANK OF PERU

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CONTENT

This ***Inflation Report*** was drawn up using data on gross domestic product, balance of payments, and operations of the non-financial public sector as of October 2009, and data on monetary accounts, inflation, exchange rate, and financial markets as of November 2009.

Foreword

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

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

- Compliance with the inflation target is continuously evaluated; that is, the Central Bank considers the accumulated rate of inflation in each month and not only at year's end. In the event of any deviation of inflation from the target, the Central Bank implements the necessary measures to return inflation to the target considering monetary policy lags and the existence of supply shocks on prices that are beyond the control of monetary policy.

- Each month, and according to a previously announced schedule, the Board of the BCRP approves a reference rate for the interbank lending market. This interest rate affects the entire array of domestic economic variables and inflation through several channels in different timeframes and, therefore, this rate has to be determined on the basis of macroeconomic forecasts and simulations.

- The forecasts based on which monetary policy decisions are made are disseminated to generate the public's understanding of the consistency of the decisions adopted and to ensure that economic agents' expectations take these forecasts into account. The Central Bank also disseminates the studies analyzing the risk factors that may cause deviations in the forecasts of the economic variables considered.

- This Inflation Report analyzes the evolution of the main economic developments observed in the first ten months of 2009. The forecast scenario analyzed herein is consistent with monetary policy lags during the 2009-2011 macroeconomic horizon.

- The Central Bank will publish its next Inflation Report in March 2010.

Summary

i. As stated in our Inflation Report of September, several macroeconomic and financial indicators reflected that the global economy had started showing some signals of recovery. Since these favorable results continued to be observed during the fourth quarter of this year, the recovery phase of the economic cycle would have already started. Financial markets began to stabilize as risk aversion and investors' confidence returned to pre-crisis levels, and the volume of trade started growing again due to the increase of global demand and the higher prices observed in the commodities market. In this scenario, several economies in different regions of the world showed positive growth rates during the third quarter, although growth was more moderate in developed countries and more intense in emerging countries.

ii. The end of the recessive cycle and the beginning of recovery reflect, to a great extent, the efforts developed by governments through several fiscal stimuli, liquidity injection, and interest rate cut plans. Even though some risks associated with the recovery of employment and private consumption remain in developed countries, markets' attention would focus from now on how to start withdrawing fiscal and monetary stimulus. Most central banks have decided not to continue reducing reference interest rates and some have even decided to raise their rates in the last months.

iii. In this context, global GDP is expected to drop 1.0 percent and a faster recovery is projected in 2010 and 2011, with growth rates of 3.3 and 3.8 percent, respectively.

iv. Although several indicators of domestic economic activity started showing positive signals of recovery in Q3, growth in the first 9 months of the year was marked by the process of inventory adjustment and by the evolution of private investment, which was affected by the re-profiling of the implementation of several investment projects. Public investment, on the other hand, would grow at a lower rate than forecasted in our Inflation Report of September, while exports, especially non traditional exports, continued being affected by global trade which has started showing a stronger recovery in the last months of the year.

Considering these elements, the forecast on GDP growth in 2009 has been revised from 1.8 to 1.0 percent. Growth rates of 5.5 percent are projected for 2010 and 2011. This level of growth is consistent with the maintenance of the

Economic Stimulus Plan, a recovery of private spending, and the international environment.

v. As pointed out in the Inflation Report of September, last 12 month-inflation would continue below the target range until the first months of 2010 mainly due to the reversal of the transitory supply factors that affected the economy last year. Thus, accumulated last 12 month-inflation at November recorded 0.3 percent after having reached 6.7 percent at December 2008.

Inflation would continue gradually increasing in the next months, returning to the inflation target towards Q2-2010 and would remain around the central level of the target during the rest of the forecast horizon. This projection is consistent with the recovery path of economic activity in which the output gap would continue closing in the forecast horizon, with inflation expectations around the inflation target, with a lack of significant external inflationary pressures given the gradual recovery of the world economy, and with normal conditions of food supply considering a "moderate" El Niño event.

vi. The Central Bank has maintained a loose monetary policy stance, keeping its reference rate at historical minimum levels (1.25 percent) since August, and using liquidity injection operations and the reduction of maturity terms to reinforce the expansionary impulse of monetary policy.

These monetary actions have allowed the reduction of interest rates in the financial system, as well as the reduction of the rates of long term Treasury bonds and corporate bonds. As a result, credit has continued growing significantly, especially in the case of credit for micro businesses, commercial credit and mortgages.

As pointed out in the last communiqué on the Monetary Program, no new adjustments are foreseen in the reference rate unless important changes are observed in terms of inflation forecasts and inflation determinants.

vii. Because of the higher prices of export commodities and the drop of imports, the current account deficit of the balance of payments of 2009 has declined significantly compared to the one forecasted in our September Report. In these conditions, international reserves have increased from a balance of US$ 32,130 million at end August to a balance of US$ 33,428 million in November.

Considering the result of the first 9 months of the year, the forecasted current account deficit of the balance of payments has been revised downwards from 2.1 to 0.6 percent for 2009. Likewise, the forecasted current account deficits for

2010 and 2011 have also been revised downwards to 0.7 and 1.2 percent of GDP, respectively.

viii. In 2010 the public sector is expected to continue developing the fiscal stimulus plan in order to continue transitorily boosting domestic demand through an active spending policy. However, the evolution of public investment expenditure in the last months allows foreseeing that the estimate considered in the Multiannual Macroeconomic Framework (MMF) published in August will not be reached and that the fiscal impulse will be lower than the one considered in the Inflation Report of September. Therefore, the forecasted deficit for this year has been revised from 2.0 to 1.5 percent. The estimates for the next two years remain unchanged (1.6 and 1.2 percent in 2010 and 2011, respectively).

ix. Given the macroeconomic context, the forecasts are still subject to a high level of uncertainty, although slightly lower than in our last report. The main risks that could cause inflation to deviate from the central scenario include the following:

- **Deterioration of the world economy.** The baseline scenario considers that the global economy has started recovering. However, the probability that growth would be even slower or the risk of experiencing a downturn in the recovery still remains (the main risks are associated with a slow evolution of consumption in developed countries, with the strategy used to withdraw monetary and fiscal stimulus, and with a lower than expected growth in China, among other factors). This risk would imply lower rates of growth and inflation than the ones considered in the baseline scenario.

  In this risk scenario, monetary policy would maintain a monetary stimulus stance for a longer period of time.

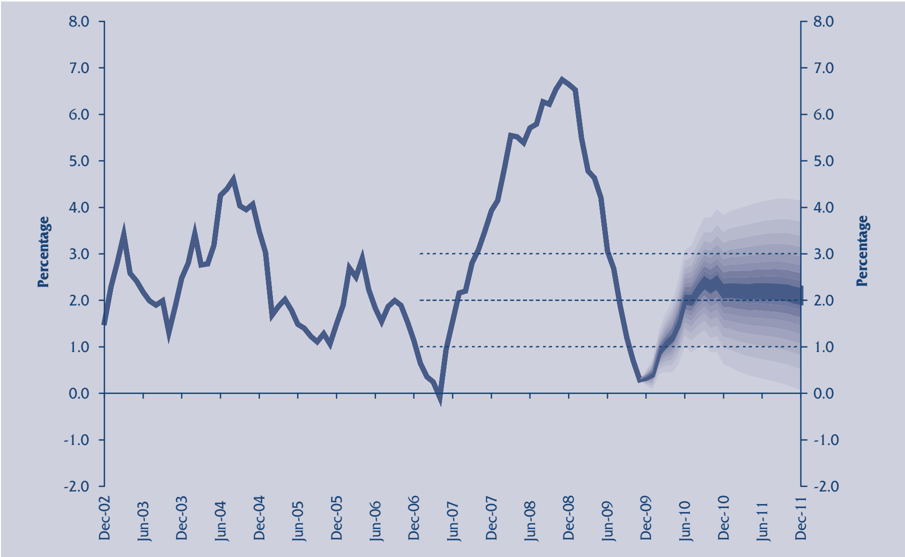
- **Greater impulse of domestic demand.** The forecast scenario considers a context of recovery in domestic activity, supported mainly by the growth of public and private spending. However, if private and public consumption expenditure increased significantly, monetary stimulus would be reduced faster.

- **Constraints in the supply of electricity:** the deceleration of demand for electricity and the expansion of the supply of electricity generation during the year have reduced upward pressures on electricity rates in the short term. However, there is a slight risk of having upward pressures in 2011 should adverse climatic factors (severe drought) occur given the expected recovery of growth if the effective increase of energy supply is delayed.

This factor would only imply changes in monetary policy if this affects inflation expectations.

x. The inflation forecast goes from a downward bias to a neutral balance.

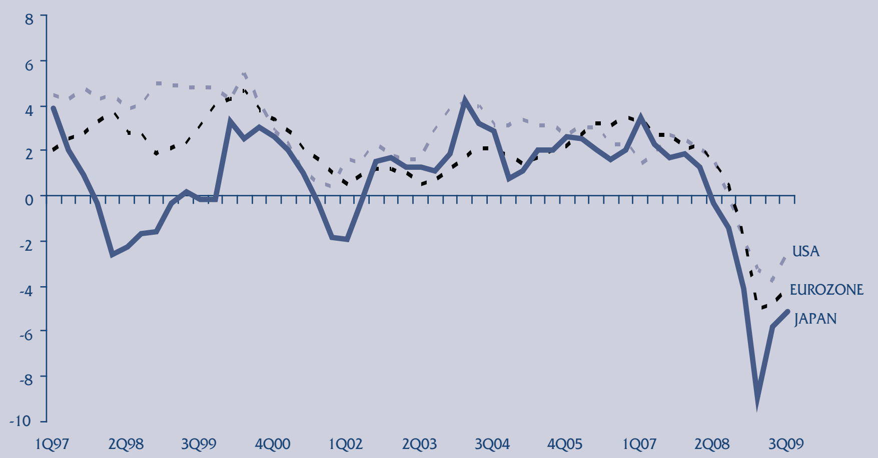
INFLATION FORECAST
(12-month % change)



I. International environment

1. Indicators of economic activity in industrialized economies at Q3-2009 confirm the recovery of growth and the possibility of positive growth rates in 2010. However, the pace of productive growth in these economies next year would be far from the one recorded in the years prior to the recent financial crisis. This characteristic of the recovery would be associated with the weak dynamism of credit resulting from the still affected position of financial entities' capital in developed countries, as well as with the poor performance of the labor market which will generate a lower impulse in consumption expenditure.

Graph 1
GDP ANNUAL GROWTH RATE



Source: Bloomberg.

Global growth

2. The forecast on global growth in 2009 has been revised upwards from -1.3 to -1.0 percent due to the better result expected in the United States (from -2.7 to -2.5 percent) and in developing countries (from 1.6 to 1.8 percent), particularly China.

   The outlook for global growth in 2010 and 2011 remains favorable, with growth rates revised also on the upside: from 3.0 to 3.3 percent in 2010 and from 3.7 to 3.8 percent in 2011.

TABLE 1
WORLD ECONOMIC GROWTH FORECAST
(Annual % change)

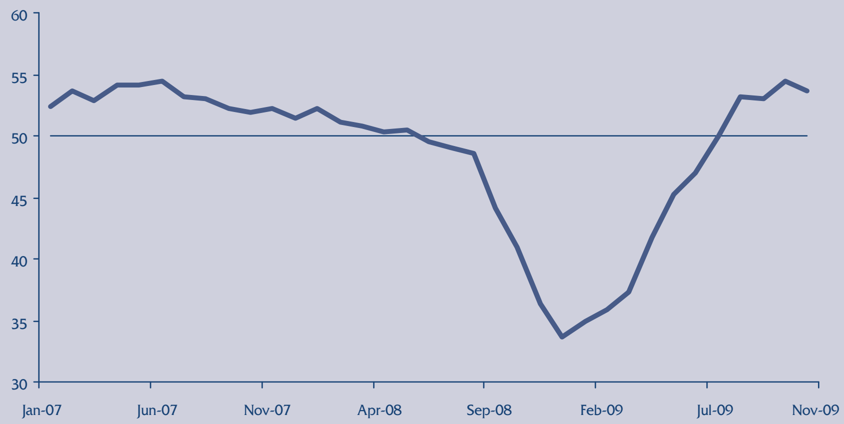
	2006	2007	2008	2009		2010		2011	
				IR.Sep.09	IR.Dec.09	IR.Sep.09	IR.Dec.09	IR.Sep.09	IR.Dec.09
Developed countries	**3.0**	**2.7**	**0.5**	**-3.4**	**-3.3**	**1.7**	**1.9**	**2.3**	**2.4**
1. USA	2.7	2.1	0.4	-2.7	-2.5	2.2	2.6	2.9	2.9
2. Eurozone	3.1	2.8	0.7	-3.9	-4.0	0.9	0.9	1.5	1.5
3. Japan	2.0	2.3	-0.7	-5.5	-5.7	1.5	1.5	1.6	1.6
4. United Kingdom	2.9	2.6	0.7	-4.4	-4.5	1.2	1.2	1.9	1.9
5. Canada	2.9	2.5	0.4	-2.3	-2.3	2.1	2.1	3.3	3.3
6. Other developed countries	4.6	4.7	1.6	-2.5	-1.9	2.3	2.9	3.0	3.5
Developing countries	**7.9**	**8.3**	**6.0**	**1.6**	**1.8**	**4.7**	**5.1**	**5.5**	**5.6**
1. Africa	6.1	6.3	5.2	1.6	1.7	4.1	4.0	5.2	5.2
2. Central and Eastern Europe	6.6	5.5	3.1	-4.2	-4.5	1.7	1.7	3.8	3.8
3. Community of Independent Countries	8.4	8.6	5.5	-6.4	-6.3	2.1	2.4	3.9	3.9
Russia	7.7	8.1	5.6	-7.2	-7.0	1.5	1.8	3.5	3.4
4. Developing Asia	9.8	10.6	7.6	5.9	6.2	6.9	7.3	7.3	7.3
China	11.6	13.0	9.0	8.0	8.3	8.5	9.0	9.0	9.0
India	9.8	9.4	7.5	5.8	5.8	6.0	6.0	6.0	6.0
5. Middle East	5.8	6.2	5.4	2.2	2.0	3.7	4.2	4.1	4.6
6. Latin America and the Caribbean	5.7	5.7	4.2	-2.5	-2.2	2.7	3.3	3.5	3.7
Brazil	4.0	5.7	5.1	-0.9	0.0	3.4	4.5	3.0	3.5
World Economy	**5.1**	**5.2**	**3.0**	**-1.3**	**-1.0**	**3.0**	**3.3**	**3.7**	**3.8**
Memo:									
BRICs	**9.6**	**10.5**	**7.7**	**4.1**	**4.4**	**6.2**	**6.7**	**6.7**	**6.8**
Peru's trading partners	**4.7**	**4.7**	**2.6**	**-1.7**	**-1.4**	**2.7**	**3.0**	**3.4**	**3.5**

Source: IMF. Consensus Forecast and investment banks.

3. Indicators reflecting the international economic recovery include the following:

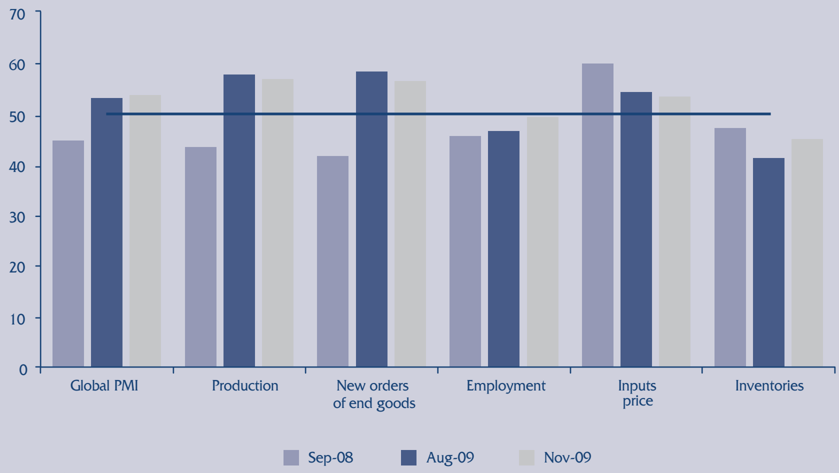
   a. The Purchasing Managers Index (PMI), the leading indicator of international manufacturing activity elaborated by JPMorgan, has followed the upward trend initiated at its lowest point in December 2008 (33.7 points, in a scale where an index of less than 50 points indicates a drop of activity). The PMI of international manufacturing reached 54.4 in October, falling in the growth tranche since August. The international PMI components recording the greatest recovery are those associated with the level of output and new orders, which have showed higher levels than the ones observed prior to the deepening of the crisis in September 2008.

Graph 2
GLOBAL MANUFACTURING PMI (*)
January 2007 - November 2009



(*) Purchasing Managers Index.
Source: Bloomberg.

Graph 3
GLOBAL PMI AND ITS COMPONENTS (*)



(*) Purchasing Managers Index
Source: JP Morgan

b. This better global scenario is also reflected in the recovery of world trade after the severe contraction observed in Q4-2008. Compared with the same month in the previous year, the drop of trade has declined from 33 percent in February 2009 to 18 percent in September 2009. Likewise, the prices of most commodities continued showing an upward trend.

Graph 4
WORLD EXPORTS

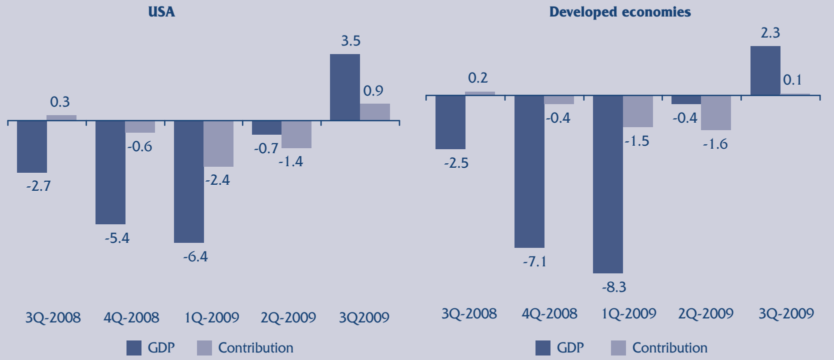
c. The commitment of maintaining significant fiscal and monetary policy stimuli and of coordinately implementing actions when it was necessary to revert them, has favored not only the reduction of risk aversion in markets, but also more favorable expectations on the recovery of activity.

4. Developed economies have been favored by the reversal of the inventory cycle, by some stabilization of consumption, and by better financial conditions associated with high liquidity. Economic activity in the **United States** grew at an annualized rate of 2.8 percent in Q3 (or -2.5 percent compared with Q3-2008), which constituted the first positive rate in six quarters. Private consumption, representing 70 percent of GDP, was the most dynamic component, although part of this result is explained by the program of incentives for car purchases, whose impact is estimated at 1 percentage point.

However, these positive results have been limited by the persistence of unfavorable conditions in the labor market and by the slow normalization of the credit market. The rate of unemployment has continued increasing and reached 10.0 percent –the highest rate in 26 years– and the number of lost jobs has accumulated 7.2 million between January 2008 and November 2009.

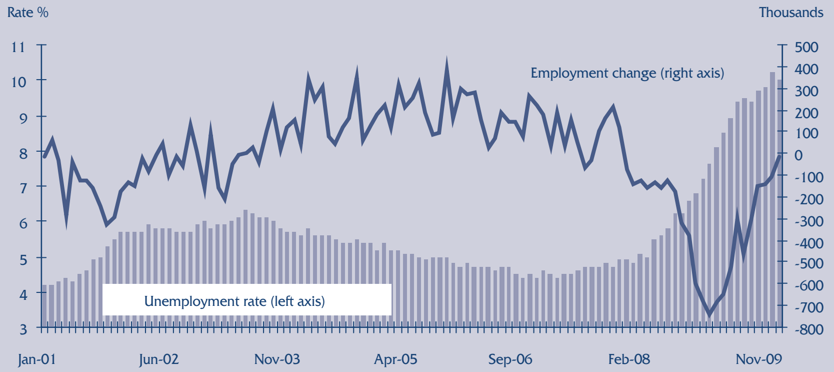
In line with this evolution, after recording a contraction of 2.5 percent in 2009, the U.S. economy is expected to grow 2.6 percent in 2010 and 2.9 percent in 2011.

Graph 5
CONTRIBUTION OF INVENTORY ADJUSTMENT TO GDP GROWTH
(%)



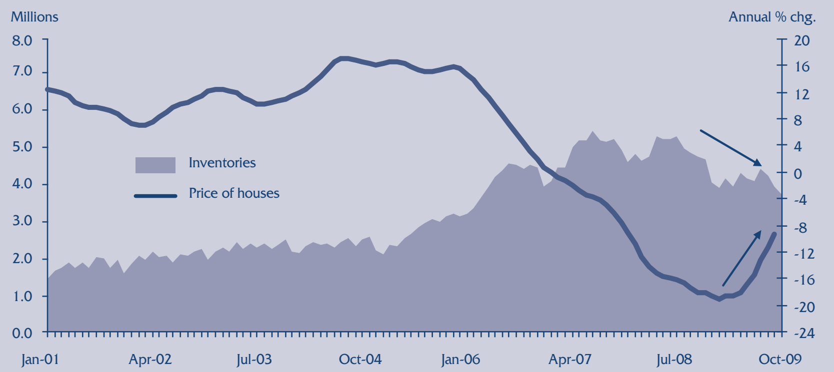
Source: JP Morgan.

Graph 6
USA: EMPLOYMENT (MONTHLY CHANGE IN THOUSANDS) AND UNEMPLOYMENT (%)



Source: Bloomberg.

Graph 7
USA REAL ESTATE MARKET: PRICE AND INVENTORIES



Source: Bloomberg.

The **Euroarea** also showed a favorable evolution since Q3 when GDP grew at an annualized rate of 1.6 percent (or -4.1 percent relative to Q3-2008). The largest economies were favored by the recovery of the export sector (particularly in Germany where it grew 2.8 percent) and by some improvement in consumption (in part explained by the car purchase program and by tax reductions). In sector terms, this improvement is reflected in the increase of industrial production. However, other economies in the Euroarea, particularly Spain, are still affected by high rates of unemployment and by the real estate crisis.

Because of these recent developments, the forecast on growth in the Euroarea has been revised from -3.9 to -4.0 percent compared with the previous Inflation Report (this revision considers a worse-than-expected execution in the first semester). A recovery of 0.9 and 1.5 percent is expected for 2010 and 2011, respectively.

Japan recorded an annualized growth of 1.3 percent (or -5.1 percent compared with Q3-2008) and is expected to maintain this evolution (although with lower rates) in the next quarters. The reversal of the destocking process and the recovery of consumption (favored by the low rates of unemployment in comparison with the rest of developed economies) are expected to continue contributing positively to growth. Other factors contributing to this include the recovery of the export sector (thanks to the impulse of other Asian economies) and of private fixed investment, even though the latter would recover at a slower pace.

TABLE 2
GDP: QUARTERLY EVOLUTION
(Growth rate against the same quarter of the previous year)

	2008	2009		
	IV	I	II	III
United States	-1.9	-3.3	-3.8	-2.5
Eurozone	-1.8	-5.0	-4.8	-4.1
Germany	-1.8	-6.7	-5.8	-4.8
France	-1.7	-3.5	-2.9	-2.4
United Kingdom	-2.0	-5.0	-5.5	-5.1
Japan	-4.1	-8.9	-5.8	-5.1

Source: Bloomberg.

5. **Emerging economies** also show better prospects. Among them, the evolution of China stands out. Its projected results have been progressively revised upwards in line with executed data: in Q3 GDP grew 8.9 percent, showing a similar rate to the average one achieved in the last decade. This growth is based on the fiscal stimulus package, and particularly on spending in infrastructure and the recovery of the export sector. China's economy would grow 8.3 percent in 2009 and 9 percent in the next two years.

The evolution of developed economies and China has had a positive impact on other emerging economies, particularly Asian and Latin American countries. Most of the **Asian emerging economies** are recovering from the drastic contraction of Q4. This is especially the case of those countries with more developed economies and intensive exports of manufactured products. Thus, the most developed and open economies of East Asia –Hong Kong, Korea, Singapore, and Taiwan– are recording high growth rates, favored also by the application of fiscal stimulus programs.

Graph 8
INDUSTRIAL PRODUCTION IN CHINA: 2007 - NOVEMBER 2009
(12-month % change)

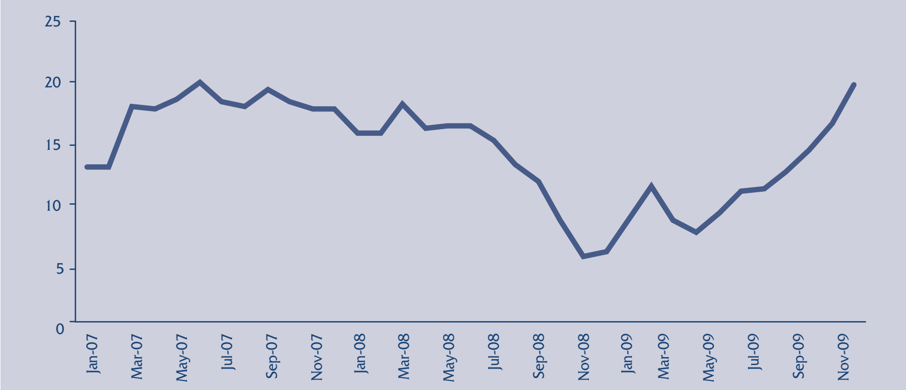


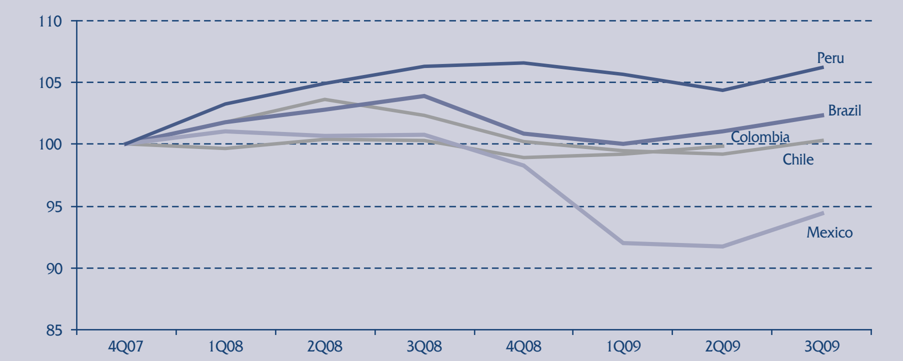
TABLE 3
GDP: EXECUTED QUARTERLY
(Growth rate against the same quarter of the previous year)

	2008	2009		
	IV	I	II	III
Emerging Asia				
China	6.8	6.1	7.9	8.9
Korea	-3.4	-4.2	-2.2	0.9
India	5.8	5.8	6.1	7.9
Latin America				
Brazil	0.8	-2.1	-1.6	-1.2
Chile	0.2	-2.4	-4.7	-1.6
Colombia	-1.1	-0.4	-0.5	-.-
Mexico	-1.6	-7.9	-10.1	-6.2
Peru	6.5	2.0	-1.1	-0.4
EMEA*				
Israel	1.3	0.8	0.0	-0.8
Russia	1.2	-9.8	-10.9	-8.9
Czech Republic	0.5	-4.2	-4.7	-4.1
South Africa	1.9	-0.8	-2.6	-2.1

*Emerging Europe, Middle East and Africa.
Source: Central banks and statistics institutes.

Latin American economies have been favored by the higher prices of commodities, stimulus packages, and the reversal of the inventory cycle. As illustrated in the graph below, after experiencing contractions in their activity levels since the last quarter of 2008, most economies have started recovering. It is estimated that the region would record a contraction of 2.2 percent, recovering thereafter and growing at rates of over 3 percent in the following years.

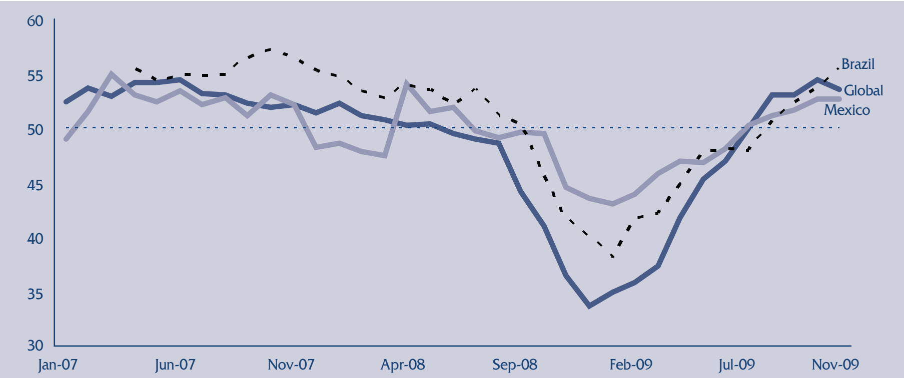
Graph 9
EVOLUTION OF LATIN AMERICA GDP
(Seasonally-adjusted data. Q4-07=100)



Source: Central banks and statistics institutes.

European emerging economies, on the other hand, show less favorable prospects than other regions. After recording their greatest contractions in 2009, these economies would show a slight recovery in 2010 since they would still be affected by the financial markets' constraints. Even though still low, growth would be positive in the economies strongly connected with Russia, and particularly in energy exporting countries, which would be favored by the recent evolution of international prices.

Graph 10
MANUFACTURING INDEX
(Purchasing Managers Index PMI)



Source: Bloomberg.

Graph 11
REUTERS COMMODITY INDEX
CRB: Commodity Research Bureau

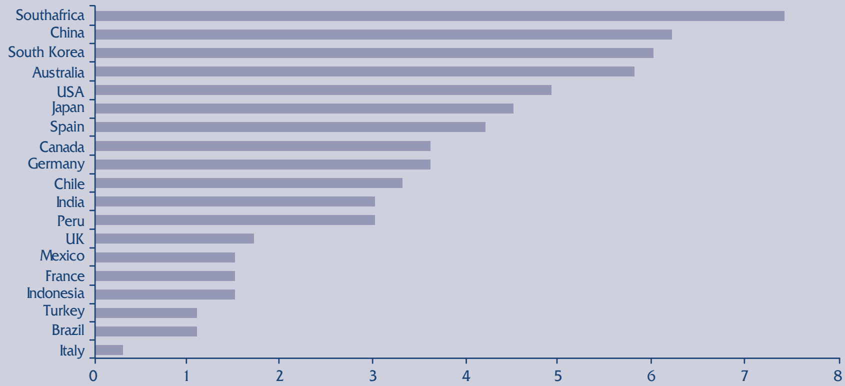
Source: Bloomberg.

Financial markets

6. The favorable results observed in terms of global economic activity have led to a change in the decisions of most central banks which reduced significantly their interest rates in the first half of the year. In the last months, most central banks have maintained their interest rates and some central banks –such as the central banks of Israel, Australia, and Norway– have even started to gradually withdraw their monetary stimulus.

   Simultaneously, fiscal policy has contributed, at the international level, to stimulate activity with the purpose of compensating the weakness of private demand for goods and services.

Graph 12
ANNOUNCED FISCAL STIMULUS 2008-2010
(% of GDP)



Source: FMI.

TABLE 4
MONETARY POLICY INTEREST RATES

Country	Date					Change relative to (in bps):		
	Dec. 07	Sep. 08	Dec. 08	Sep. 09	Dec. 09	Sep. 09	Dec. 08	Sep. 08
Australia	6.75	7.00	4.25	3.00	3.75	75	-50	-325
Eurozone	4.00	4.25	2.50	1.00	1.00	0	-150	-325
Brazil	11.25	13.75	13.75	8.75	8.75	0	-500	-500
Canada	4.25	3.00	1.50	0.25	0.25	0	-125	-275
Chile	6.00	8.25	8.25	0.50	0.50	0	-775	-775
China	7.47	7.20	5.31	5.31	5.31	0	0	-189
Colombia	9.50	10.00	9.50	4.50	3.50	-100	-600	-650
South Korea	5.00	5.25	3.00	2.00	2.00	0	-100	-325
Slovakia	4.25	4.25	2.50	2.50	2.50	0	0	-175
United States	4.25	2.00	0.25	0.25	0.25	0	0	-175
Philippines	5.25	6.00	5.50	4.00	4.00	0	-150	-200
Hungary	7.50	8.50	10.00	8.00	6.50	-150	-350	-200
Indonesia	8.00	9.25	9.25	6.50	6.50	0	-275	-275
Iceland	13.75	15.50	18.00	12.00	10.00	-200	-800	-550
Israel	4.25	4.25	1.75	0.75	1.00	25	-75	-325
Japan	0.50	0.50	0.10	0.10	0.10	0	0	-40
Malaysia	3.50	3.50	3.25	2.00	2.00	0	-125	-150
Mexico	7.50	8.25	8.25	4.50	4.50	0	-375	-375
Norway	5.25	5.75	3.00	1.25	1.75	50	-125	-400
New Zealand	8.25	7.50	5.00	2.50	2.50	0	-250	-500
Pakistan	10.00	13.00	15.00	13.00	12.50	-50	-250	-50
Peru	5.00	6.50	6.50	1.25	1.25	0	-525	-525
Poland	5.00	6.00	5.00	3.50	3.50	0	-150	-250
United Kingdom	5.50	5.00	2.00	0.50	0.50	0	-150	-450
Czech Republic	3.50	3.50	2.25	1.25	1.25	0	-100	-225
Romania	7.50	10.25	10.25	8.50	8.00	-50	-225	-225
South Africa	11.00	12.00	11.50	7.00	7.00	0	-450	-500
Sweden	4.00	4.75	2.00	0.25	0.25	0	-175	-450
Switzerland	2.75	2.75	0.50	0.25	0.25	0	-25	-250
Thailand	3.25	3.75	2.75	1.25	1.25	0	-150	-250
Taiwan	3.38	3.50	2.00	1.25	1.25	0	-75	-225
Turkey	15.75	16.75	15.00	7.25	6.50	-75	-850	-1025

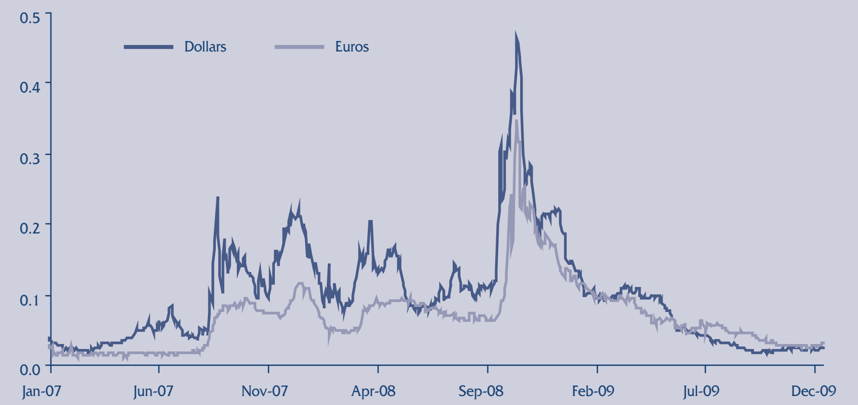
Source: Reuters and Bloomberg.

7. International financial markets continued improving significantly as a result of the series of measures implemented by the main central banks, the progressive reduction of risk aversion to levels similar to the ones observed prior to the crisis, and the recovery of investors' confidence.

The rapid improvement of the money market observed since Q2 added onto the recovery of the higher risk assets markets (such as stock and bond markets). The progress obtained by the assets purchase programs developed by the main central banks has also contributed to the recovery of the main credit markets and, in the particular case of the United States, to the reduction of long term rates (such as mortgage rates). However, despite these better financial conditions, the bank market has remained constrained and the recovery observed in the securitization and derivatives market has not been very significant in comparison with the conditions observed before the crisis.

8. The main bourses have shown significant rises since Q2. Fixed income markets (corporate bonds in developed economies and sovereign bonds in emerging economies) also showed a favorable evolution that reflected in the increase of placements and the reduction of credit spreads.

Graph 13
TED SPREAD (%)

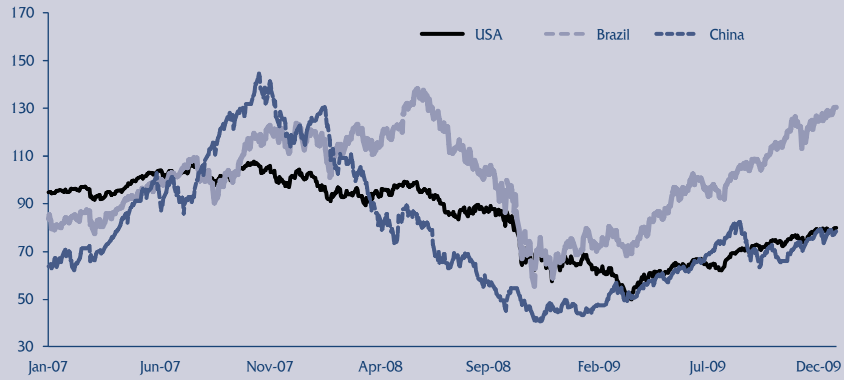


Source: Bloomberg.

Graph 14
EMERGING BONDS SPREAD: EMBIG (PBS)

Source: Bloomberg.

Graph 15
AVERAGE STOCK EXCHANGE INDEX (2007=100)



Source: Bloomberg.

9. A rapid recovery of liquidity in markets and the lower demand –and subsequent deactivation– for the extraordinary credit lines offered by the main developed central banks was observed since Q2. The progress achieved by the assets purchase programs –Quantitative Easing or QE– has contributed to prevent the rise of long term interest rates (and has influenced their reduction in some tranches), given that the purchases of central banks have been coupled by a strong issuance of bonds to finance fiscal stimulus and financial bailouts. The pace of purchases has been declining since mid-November and is expected to end in March 2010

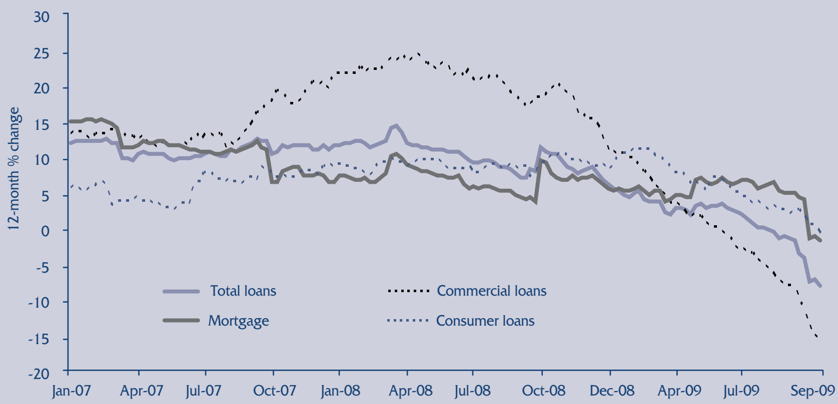
Graph 16
US TREASURY BOND YIELD (%)

Source: Bloomberg.

Thus, for example, the Federal Reserve (FED) culminated the program of purchases of Treasury bonds (US$ 300 billion) at end October and progress is being made with the program of purchases of mortgages and derivatives (US$ 175 billion and US$ 1.25 trillion, respectively) which would end at the close of Q1-2010. Among other progress made in this sense, it should be pointed out that the Bank of England (BoE) increased, in its November meeting, the purchases of British Treasury bonds by £ 25 billion (from £ 175 to 200 billion) for the following 3 months.

10. Nonetheless, in contrast with fixed and variable income markets, bank credit is still stagnated. Although the survey on bank credit conditions of the BoE, European Central Bank (ECB) and FED (at Q3 of the year) coincide in showing lower constraints in the credit standards required by banks (even though they are still higher than the levels prior to the crisis), the supply of bank credit is still stagnated in all the segments. The delay of the normalization of bank credit is generating risks to growth and increasing uncertainty about the dynamism that consumption will have after all the monetary and fiscal support programs are withdrawn.

Graph 17
USA: COMMERCIAL BANKS' LOANS



Source: FED.

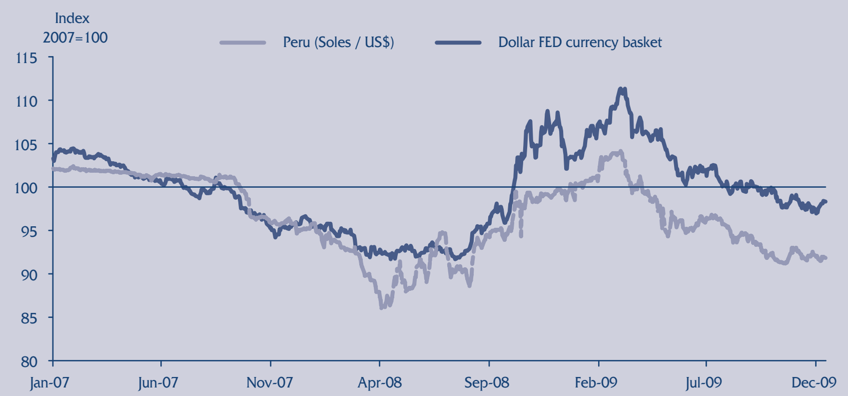
The slow progress of the bank restructuring plans would account for the lack of recovery of credit in developed countries. The permanence of toxic assets in banks' balance sheets influences the deleveraging of the institutions and prevents the reactivation of credit. This situation is still worse if one considers the potential credit losses that banks have still not acknowledged.

Foreign exchange markets: depreciation of the dollar

11. Lower risk aversion and the low interest rates in the United States have led the dollar to maintain a depreciatory trend. In end-period terms, between September and November 2009, the dollar depreciated 2.8 percent against

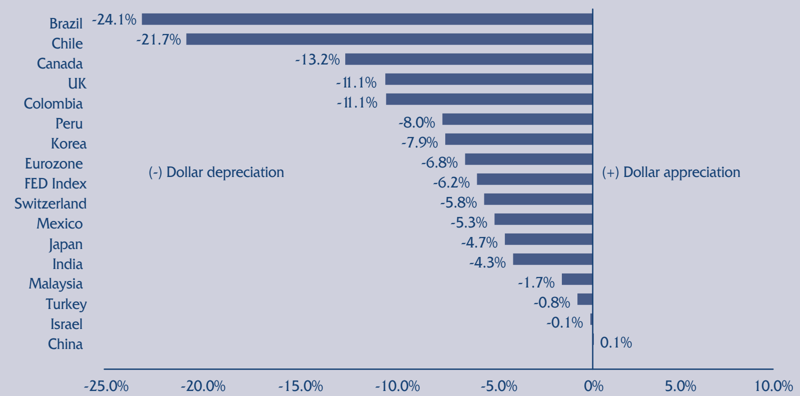
the euro and 2.3 percent against the yen. Compared with December 2008, the dollar accumulates a depreciation of 6.8 against the euro and 4.7 percent against the yen. Year-to-date, most of the currencies of emerging markets have appreciated between 1.7 percent (Malaysia) and 24 percent (Brazil) given the greater flow of capitals and the higher prices of main commodities.

Graph 18
US DOLLAR: FED CURRENCY BASKET (MONETARY UNITS PER US DOLLAR) 1/



1/ Currency basket of the main US commercial partners.
Source: Bloomberg and FED.

Graph 19
EXCHANGE RATE: ACCUMULATED EVOLUTION 2009 1/
(Monetary units per US dollar)



1/ Up to November 30.
Source: Bloomberg and FED.

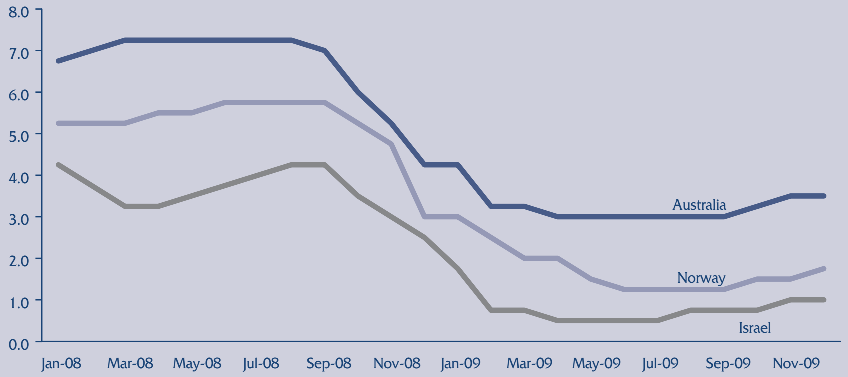
This trend which intensified during the last quarter has even led U.S. authorities and several organizations to pronounce themselves in favor of a greater flexibilization of exchange in Asia that would also promote a more balanced growth. For example, the IMF said it was necessary to implement a series of reforms in the countries more involved with global imbalances. Among other reforms, this would include currency strengthening, as in the case of the Chinese yuan. In this sense, the last quarterly monetary policy report of the Central Bank of China says that the exchange policy will take into account the current dynamism of capital flows, as well as the evolution of the main currencies of the world, although some official declarations do not show the same favorable position in terms of an appreciation of the yuan.

BOX 1

RISING INTEREST CYCLE BEGINS IN SOME COUNTRIES

After the generalized reductions of interest rates carried out to face global recession, some central banks have gradually started to withdraw monetary stimulus in their economies since August 2009. The first central bank to do so was the Bank of Israel, which raised its rate by 25 bps to 0.75 percent in August and then raised it again to 1.0 percent in November. Likewise, the Bank of Norway raised its policy rate by 25 bps on two occasions (to 1.75 percent) and the Bank of Australia raised its rate on three successive occasions by an accumulated increase of 75 bps (to 3.75 percent) between October and December.

REFERENCE RATE
(%)



Source: Bloomberg.

These policy decisions have been based on the recent evolution of economic activity and inflation, as well as on the trend of the prices of some assets.

More clear evidence of a moderation of the effects of global recession and of favorable prospects for recovery have been observed. After experiencing a moderate contraction in Q1-2009, Israel grew 1.0 percent in Q2 and 2.2 percent in Q3, hand in hand with the growth of all the components of aggregate demand. In Australia, the withdrawal of monetary stimulus is taking place in a favorable context for exports, mainly as a result of the growth of its main trade partners and after the ongoing recovery of both public and private investment. In the case of Norway, the low interest rates have favored the dynamism of consumption and it is estimated that families' indebtedness will continue recovering (improvement in credit conditions). It should be pointed out that recession in Norway has been slight in comparison with the recession experienced in Nordic countries and the European Union as a result of higher public investment and investment in the oil sector.

Growth projections in these countries are being revised on the upside by both official organizations and investment banks, in line with the surveys that show greater confidence in the economy and better indicators of activity (sales of durable goods, manufacturing PMI, retail sales, and exports) and installed capacity.

2010 GROWTH FORECAST
(Real % change)

Source: Consensus Forecast.

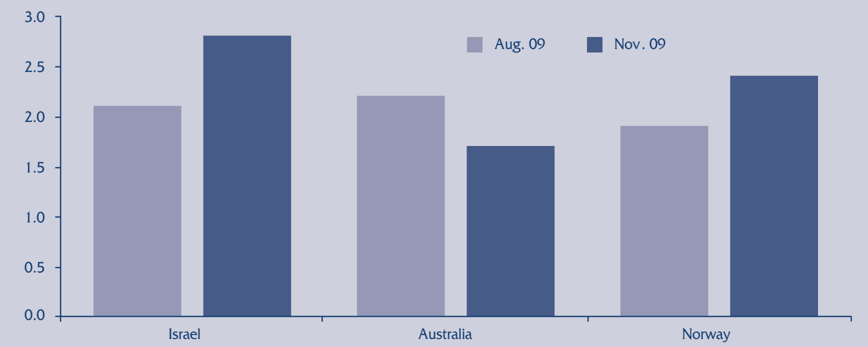
On the other hand, although still consistent with the respective targets, **prices** recorded upward pressures. In the case of Israel, 12-month inflation even posted 3.1 percent in August (a level higher than the 1-3 percent target range), moderating thereafter at 2.8 percent in September. In Australia, even though 12-month inflation has been declining, the core component still remains around 4 percent and inflation expectations have not subsided according to the monthly indicator of the Melbourne Institute. Norway also experienced a gradual increase in inflation's core component, which rose from 2.3 percent in August to 2.4 percent in September (above market expectations) and

1 Around 15 percent of Australia's exports go to China. Practically all this amount is for China's domestic market.

has just declined to 2.1 percent in October. Inflation forecasts have not been revised downwards yet since market expectations remain high.

Rises were also observed in the prices of some assets, particularly in the real estate sector in Australia and Norway. In the case of the former, the price of houses increased 4.2 percent in Q3 compared with Q2, and in Norway prices increased 2 percent. In the case of the latter, the prices of houses increased over 5 percent in Q2 of the year.

2010 INFLATION FORECAST
(12-month % change)



Source: Consensus Forecast.

BOX 2

GLOBAL IMBALANCE

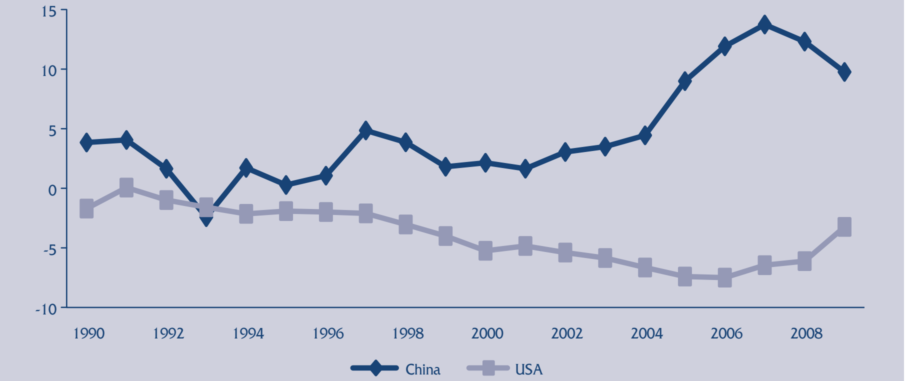
The recovery of global economic activity is highly correlated with the growth of consumption, saving, and investment in two of the largest economies of the world: the United States (the world's first economy, which has a nominal GDP of US$ 14 trillion at purchasing power parity terms) and China (the second largest economy, which has a nominal GDP close to US$ 9 trillion at purchasing power parity terms)[2].

On the one hand, the great imbalances in the level of indebtedness of the public sector and households in the United States prevent inferring that the recovery of the rates of domestic spending will allow private and public expenditure to guarantee rates of economic growth similar to the ones observed before 2008. On the other hand, China's high level of domestic saving constrains the probability of a greater expansion of consumer spending in this country. Therefore, the recovery of

2 The U.S. economy represents 20 percent of global GDP, while China's economy represents 12 percent..

the global economy should be characterized by higher consumption in China and higher saving in the United States.

CURRENT ACCOUNT: USA AND CHINA (% OF GDP)

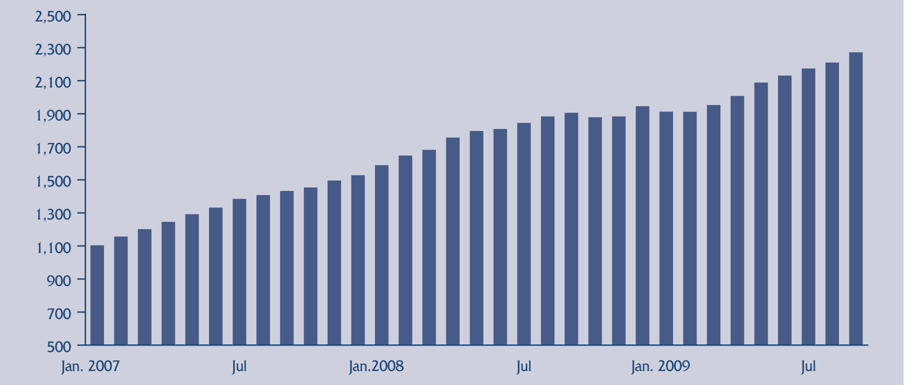


Source: FMI.

This necessary re-balance of the rates of saving and consumption between the United States and China would also imply a re-balance in the current account of the balance of payments of these countries. The United States would tend to reduce its external deficit and thus, its dependence on the use of other countries' saving, while China would tend to reduce its external surplus and its generation of saving for other countries.

The exchange rate of China's currency plays an essential role in this global re-balance. The renmimbi or Chinese yuan has had a fixed nominal parity of 6.84 yuan per dollar since July 2008 although the exchange rate of other currencies in the world against the dollar fluctuates. This fixed exchange rate and great global external surpluses have allowed the accumulation of significant international reserves which in turn create liquidity in international financial markets.

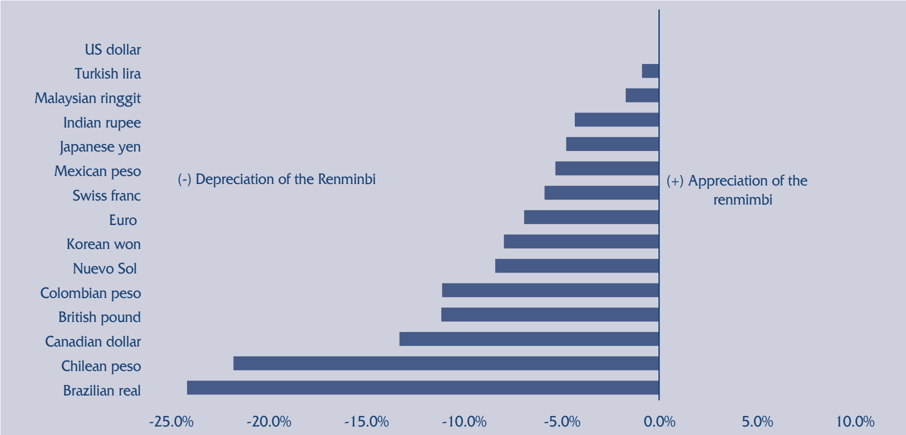
CHINA: INTERNATIONAL RESERVES
(Billions of US$)



Source: Bloomberg.

In a context of appreciation of other currencies against the dollar, this steady dollar-yuan exchange rate in China affects the process of global adjustment favoring China's competitive position vis-à-vis the rest of the world and sustaining its external surplus. This displacement of adjustment efforts to other countries has created pressures for compensatory measures in the economies affected.

ACUMMULATED EVOLUTION OF THE EXCHANGE RATE: JAN 1, 09 TO NOV 30, 09
(Monetary units per renmimbi)



Source: Bloomberg.

II. Economic activity

12. Between January and September of this year GDP grew 0.1 percent. This result was influenced by the drop of domestic demand by 3.9 percent –private investment dropped 14.9 percent– and by the drop of the flow of inventories –from 2.1 to -1.4 percent of GDP–, as well as by the reduction of external demand by 3.1 percent as a result of global recession. Private consumption grew 2.4 percent and, on the side of public spending, the growth of public investment played a counter cyclical role.

TABLE 5
DOMESTIC DEMAND AND GDP
(Real % change)

	2008		2009*			2010*		2011*	
	Jan-Sep.	Year	Jan-Sep.	IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec.09
1. Domestic demand	13.5	12.3	-3.9	-0.4	-2.8	5.9	6.2	5.7	6.1
a. Private consumption	8.9	8.7	2.4	2.5	2.2	3.3	3.3	4.2	4.2
b. Public consumption	3.0	1.8	8.3	9.5	9.5	4.0	4.9	3.0	3.9
c. Private investment	27.3	25.6	-14.9	-10.3	-15.3	4.2	6.3	9.2	9.0
d. Private investment	60.6	42.8	21.6	40.0	21.0	15.6	22.0	7.2	9.8
e. Change of inventories (% GDP)	2.1	1.2	-1.4	-0.9	-1.3	0.6	0.0	0.9	0.5
2. Exports	10.4	8.2	-3.1	-2.7	-3.0	4.7	5.5	6.1	5.7
3. Imports	22.1	19.9	-20.3	-11.6	-19.1	9.2	8.8	8.3	8.9
4. GDP	**11.0**	**9.8**	**0.1**	**1.8**	**1.0**	**5.0**	**5.5**	**5.2**	**5.5**

IR: Inflation Report.
* Forecast.

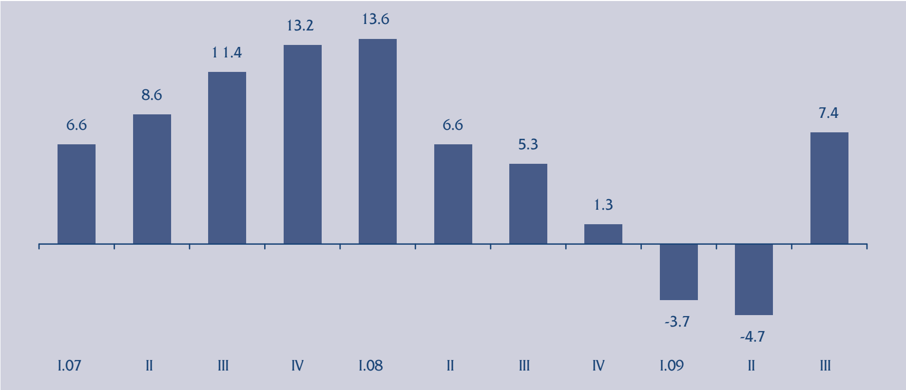
13. Excluding the effect of seasonality, economic activity showed a strong recovery in Q3 –in contrast with the contraction observed during the first half of the year– that shows that the effects of the international financial crisis on the Peruvian economy have dissipated. Moreover, employment and private consumption have remained stable throughout the year. In contrast, private investment has dropped continuously since Q3-2008.

TABLE 6
CONTRIBUTION TO GDP GROWTH

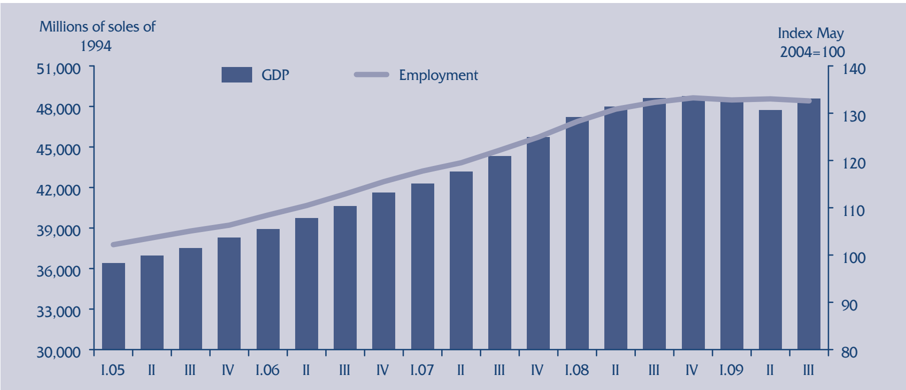
	2008		2009*			2010*		2011*	
	Jan-Sep.	Year	Jan-Sep.	IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09
a. Private consumption	6.2	5.9	1.6	1.7	1.5	2.2	2.2	2.8	2.8
b. Public consumption	0.2	0.2	0.6	0.8	0.8	0.4	0.4	0.3	0.3
c. Private investment	5.3	5.1	-3.3	-2.3	-3.5	0.8	1.2	1.8	1.7
d. Public investment	1.5	1.4	0.8	1.7	0.9	0.9	1.1	0.5	0.6
e. Change in inventories	0.4	-0.1	-3.7	-2.3	-2.6	1.6	1.2	0.4	0.6
f. Exports	2.1	1.6	-0.6	-0.5	-0.6	0.9	1.0	1.1	1.1
g. Imports1/	4.7	4.3	-4.7	-2.7	-4.5	1.9	1.7	1.8	1.7
GDP	**11.0**	**9.8**	**0.1**	**1.8**	**1.0**	**5.0**	**5.5**	**5.2**	**5.5**

IR: Inflation Report.
* Forecast.
1/ (+) Indicates negative contribution. (-) Indicates positive contribution.

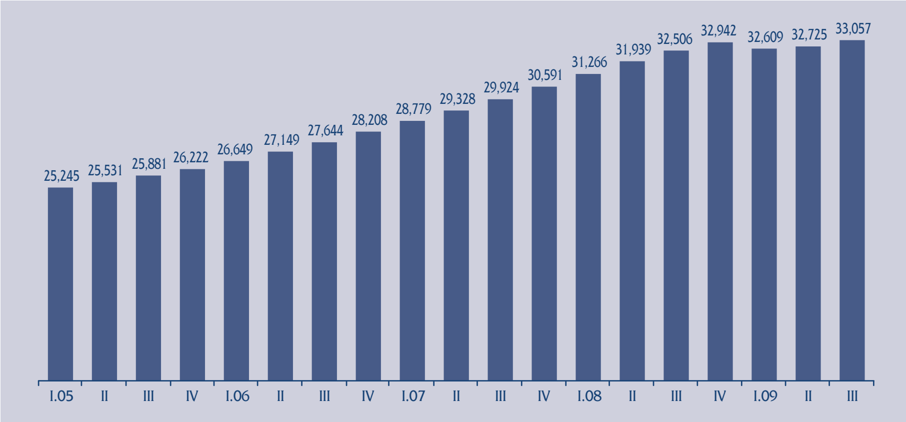
Graph 20
GDP: SEASONALLY ADJUSTED DATA
(Annualized % change relative to the same quarter one year earlier)



Graph 21
PRODUCTION AND EMPLOYMENT: SEASONALLY ADJUSTED DATA



Graph 22
PRIVATE CONSUMPTION: SEASONALLY ADJUSTED DATA
(Millions of nuevos soles of 1994)



Graph 23
PRIVATE INVESTMENT: SEASONALLY ADJUSTED DATA
(Millions of nuevos soles of 1994)

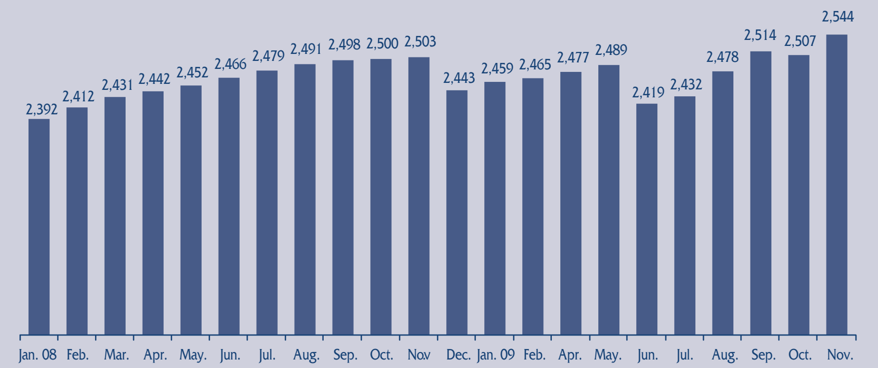
14. The forecast on GDP in 2009 has been lowered from 1.8 to 1.0 percent, mainly as a result of the effect of higher decline of private investment (from -10.3 to -15.3 percent), the lower growth of public investment (from 40.0 to 21.0 percent), and the higher drop of inventories.

15. Private investment in 2009 fell in a context of international recession which discouraged the development of projects in the mining sector. Compared with the investment amounts projected a year ago for this year, investment in mining projects has declined by US$ 3,300 million. Furthermore, destocking entailed a lower production and lower imports of end goods and inputs. This flow would represent 2.6 percentage points of the change of annual GDP.

16. Recent indicators of economic activity point to a recovery:

   a. In November the production of electricity recorded a monthly growth of 1.5 percent and an annual growth of 3.8 percent.

Graph 24
ELECTRICITY PRODUCTION: SEASONALLY ADJUSTED DATA
(In GWh)

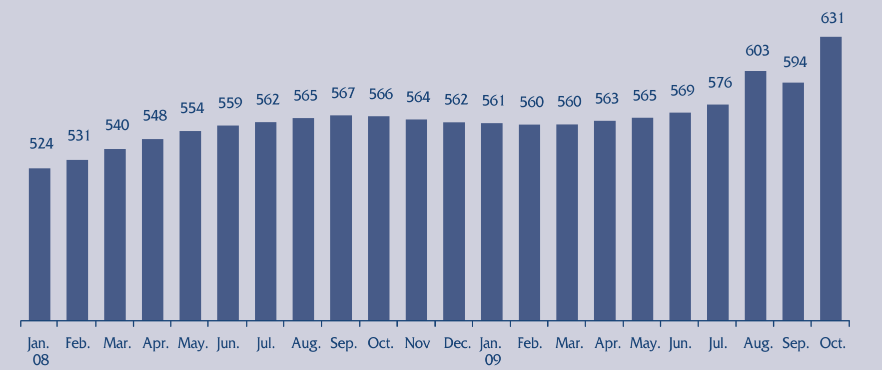


	Jan. 08	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. 09	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug	Sep.	Oct.	Nov.
Seasonally adjusted % chg.	0.9	0.9	0.8	0.4	0.4	0.6	0.5	0.5	0.3	0.1	0.1	-2.4	0.6	0.3	0.1	0.3	0.5	-2.8	0.5	1.9	1.5	-0.3	1.5
% change against the same period of the previous year.	9.0	14.3	8.1	10.9	7.6	9.7	7.1	9.3	10.8	8.2	4.6	2.9	3.3	-1.7	1.6	0.3	1.9	-2.8	-2.7	-0.4	0.2	-0.5	3.8

Source: COES

   b. Dispatches of cement grew 6.3 percent in October and 9.9 percent compared with the same month last year.

Graph 25
LOCAL DISPATCHES OF CEMENT: SEASONALLY ADJUSTED DATA
(In thousand Metric Tons)

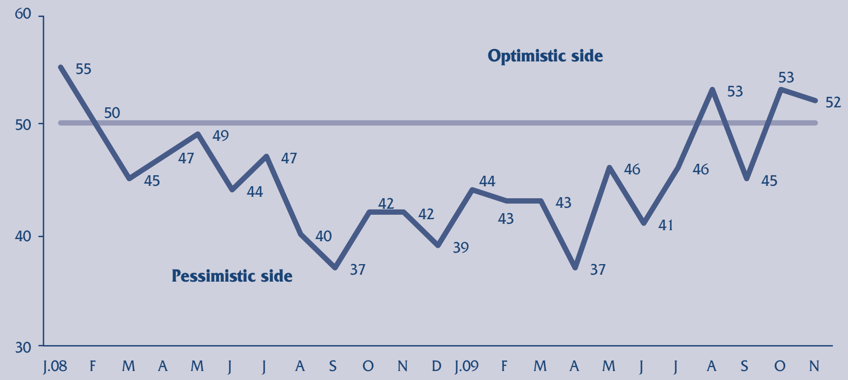


	Jan. 08	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. 09	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug	Sep.	Oct.
Seasonally adjusted % chg.	1.0	1.3	1.7	1.5	1.2	0.8	0.5	0.6	0.4	-0.1	-0.5	-0.4	-0.1	-0.2	0.0	0.5	0.4	0.7	1.2	4.7	-1.6	6.3
% change against the same period of the previous year	17.8	16.8	9.0	26.4	13.6	13.2	16.0	11.6	20.2	12.5	7.1	9.8	6.6	5.1	7.2	-0.7	-1.1	1.9	4.9	6.8	4.2	9.9

Source: Asocem

c. Consumers' confidence index fell outside the negative tranche since October.

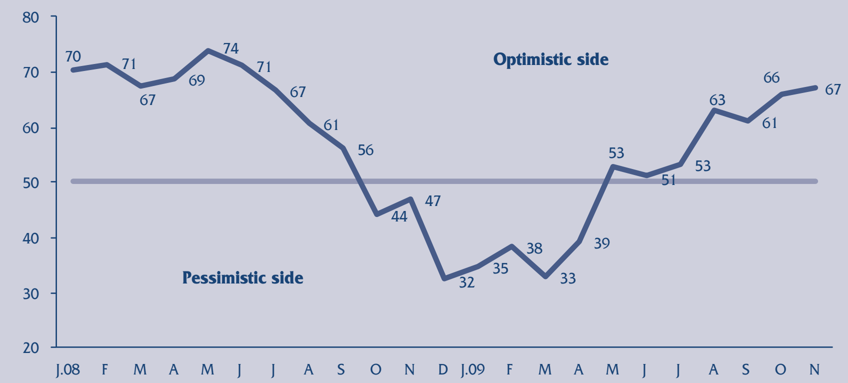
Graph 26
CONSUMER CONFIDENCE INDEX
Family's Economic Situation



Source: Ipsos APOYO.

d. Business confidence, which has fallen in the positive tranche since last May, recorded 67 points in November.

Graph 27
BUSINESS CONFIDENCE INDEX
Economic situation



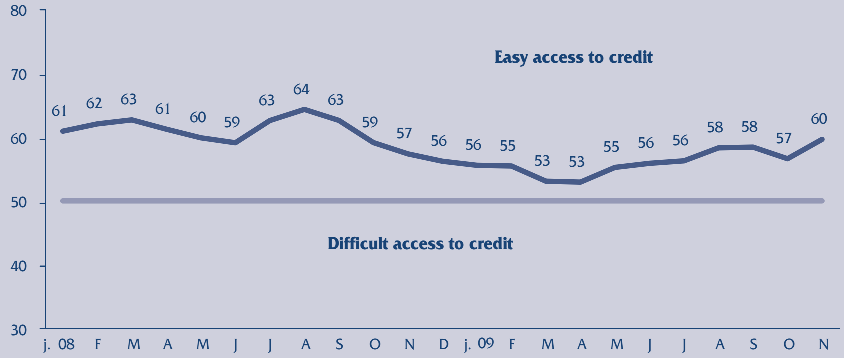
Source: BCRP Survey on Macroeconomic Expectations, November 2009.

e. Businesses show a positive financial situation, as reflected in the surveys on business expectations. An improvement is also perceived in the index of access to credit, although it should be pointed out that a negative perception was never perceived in terms of access to credit.

Graph 28
FINANCIAL SITUATION INDEX

Source: BCRP Survey on Macroeconomic Expectations, November 2009.

Graph 29
ACCESS TO CREDIT INDEX



Source: BCRP Survey on Macroeconomic Expectations, November 2009

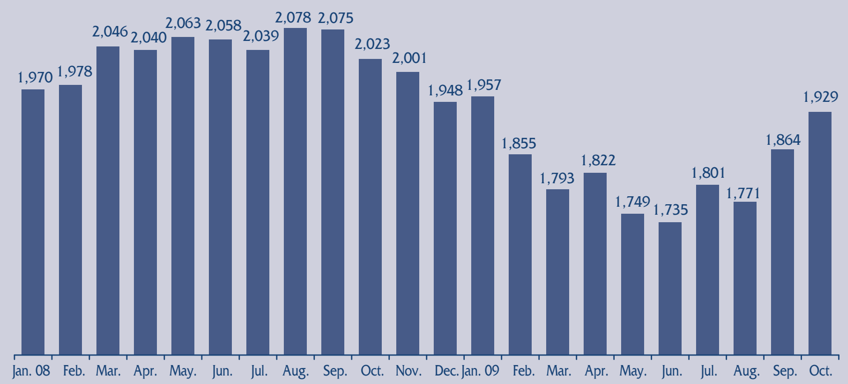
f. The macroeconomic projections of the private sector for 2009 consider a GDP growth of between 1.0 and 1.6 percent, while a growth of 4.0 percent is projected for 2010 and a growth of 5.0 percent is estimated for 2011.

TABLE 7
SURVEY ON MACROECONOMIC EXPECTATIONS: GDP GROWTH (%)

	September 2009	November 2009
FINANCIAL ENTITIES		
2009	2.0	1.1
2010	4.3	4.0
2011	5.2	5.0
ECONOMIC ANALYSTS		
2009	1.8	1.0
2010	4.0	4.0
2011	5.0	5.0
NON-FINANCIAL FIRMS		
2009	2.5	1.6
2010	4.0	4.0
2011	5.0	5.0

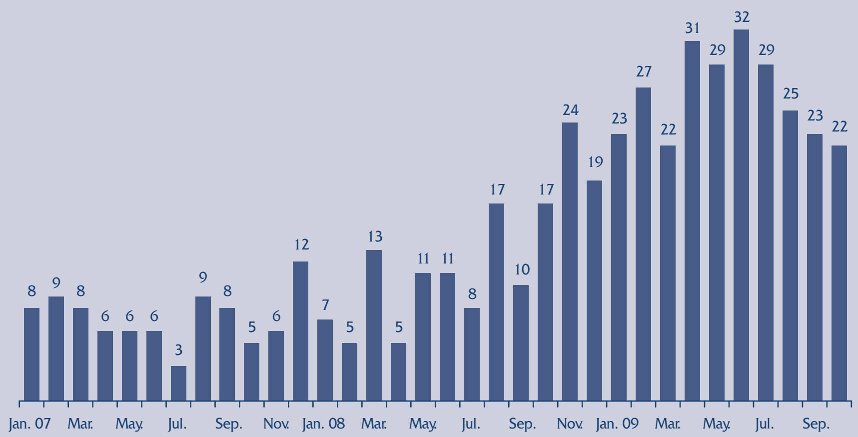
g. The manufacturing sector was the most affected sector by the reduction of external and domestic demand. However, a recovery has been observed in the deseasonalized monthly levels since July. Thus, manufacturing recorded a growth of 3.5 percent in October. Likewise, the number of manufacturing branches with lower production levels has decreased continuously.

Graph 30
NON-PRIMARY MANUFACTURING: SEASONALLY ADJUSTED DATA
(Millions of nuevos soles of 1994)



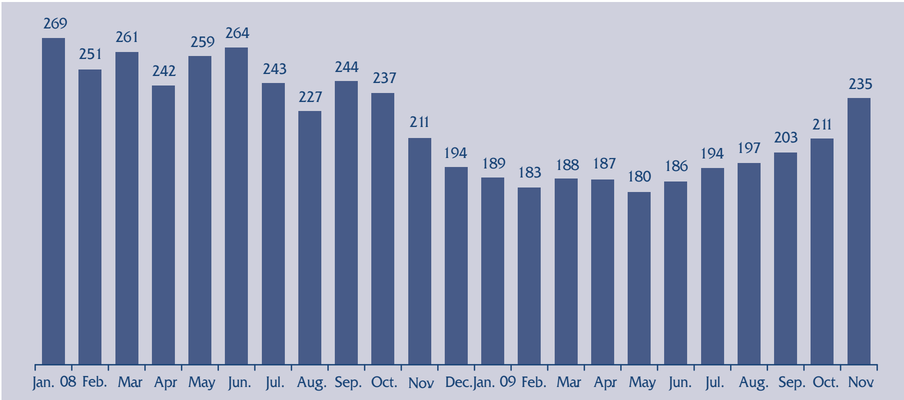
	Jan. 08	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. 09	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug	Sep.	Oct.
Seasonally adjusted % chg.against the previous month	1.9	0.4	3.4	-0.3	1.1	-0.2	-0.9	1.9	-0.1	-2.5	-1.1	-2.6	0.5	-5.2	-3.4	1.6	-4.0	-0.8	3.8	-1.7	5.3	3.5
Seasonally adjusted % chg.against the same period the previous year	11.1	14.2	5.9	18.8	9.2	9.6	10.0	10.7	12.6	3.1	0.8	2.8	-2.6	-8.6	-6.5	-14.7	-14.4	-14.9	-13.5	-13.9	-10.1	-5.5

Graph 31
NUMBER OF INDUSTRIAL BRANCHES WITH NEGATIVE VARIATIONS
(Out of a total of 38 branches)

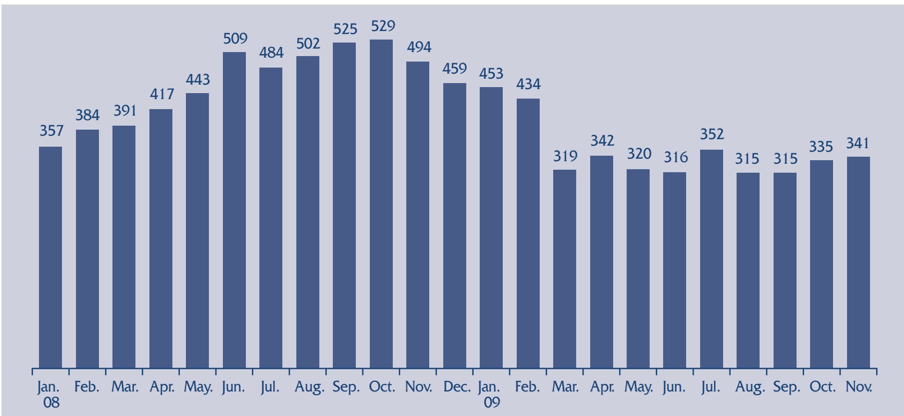


h. Real imports of inputs and capital goods have been showing a growing trend since August of this year.

Graph 32
MONTHLY INPUTS IMPORTS: SEASONALLY ADJUSTED DATA
(Volume index1994=100)

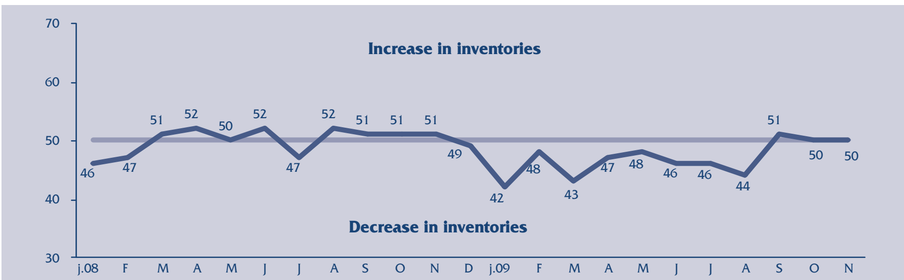


Graph 33
MONTHLY CAPITAL GOODS IMPORTS: SEASONALLY ADJUSTED DATA
(Volume index1994=100)



i. The levels of inventories, which declined continuously until Q3, have stabilized in the last months.

Graph 34
INVENTORY INDEX RELATIVE TO THE PREVIOUS MONTH



Source: BCRP Survey on Macroeconomic Expectations, November 2009.

17. GDP would grow 5.5 percent in 2010 and 2011 and domestic demand would grow 6.2 and 6.1 percent in 2010 and 2011, respectively. The recovery of the growth of private investment would be noteworthy: 6.3 percent in 2010 and 9.0 percent in 2011. In terms of production sectors, economic growth would be led by construction and manufacturing.

TABLE 8
GROSS DOMESTIC PRODUCT BY ECONOMIC SECTORS
(Real % change)

	2008		2009*			2010*		2011*	
	Jan-Sep.	Year	Jan-Sep.	IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09
Agriculture	**7.2**	**7.2**	**2.4**	**3.2**	**2.4**	**3.4**	**3.4**	**3.6**	**3.6**
Agriculture	7.9	7.4	1.3	2.6	1.2	2.9	2.9	3.5	3.5
Livestock	5.2	6.0	4.6	4.1	4.3	4.2	4.2	4.2	4.2
Fishing	**7.5**	**6.2**	**-6.9**	**-6.5**	**-6.8**	**0.1**	**5.5**	**0.4**	**0.4**
Mining and hydrocarbons	**7.9**	**7.6**	**1.4**	**0.2**	**0.7**	**5.7**	**5.1**	**6.9**	**3.8**
Metallic mining	8.2	7.3	-0.8	-1.6	-1.0	2.0	0.9	3.1	3.1
Hydrocarbons	5.8	10.3	21.5	16.4	16.0	35.8	36.2	13.1	8.1
Manufacture	**10.6**	**8.7**	**-9.1**	**-4.7**	**-6.7**	**5.0**	**5.9**	**5.5**	**5.3**
Raw materials	7.0	7.6	2.5	2.3	0.8	3.6	5.3	4.4	4.4
Non-primary industries	11.2	8.9	-11.1	-6.0	-8.1	5.7	6.0	5.5	5.5
Electricity and water	**8.8**	**7.7**	**0.4**	**0.8**	**1.2**	**4.6**	**4.2**	**5.5**	**5.5**
Construction	**18.7**	**16.5**	**3.0**	**7.4**	**5.3**	**8.4**	**10.6**	**8.9**	**9.5**
Commerce	**14.4**	**13.0**	**-1.2**	**0.5**	**-0.2**	**4.9**	**5.0**	**5.0**	**5.2**
Other services	**10.4**	**9.3**	**2.7**	**3.7**	**3.1**	**5.0**	**5.4**	**4.8**	**5.6**
GDP	**11.0**	**9.8**	**0.1**	**1.8**	**1.0**	**5.0**	**5.5**	**5.2**	**5.5**
Primary	**7.4**	**7.4**	**1.8**	**1.7**	**1.3**	**3.3**	**4.4**	**4.8**	**3.7**
Non-Primary	**11.8**	**10.3**	**-0.3**	**1.8**	**0.9**	**5.3**	**5.8**	**5.3**	**5.8**

IR: Inflation Report.
* Forecast.

18. Global economic recovery would boost the real growth of our exports of goods and services (5.5 percent in 2010 and 5.7 percent in 2011). The growth of the volume of traditional and non traditional exports in 2011 is worth highlighting (7.5 and 6.3 percent, respectively).

19. Better international conditions have also contributed to the recovery of export prices and therefore an increase of 19 percent is also projected in the prices of exports in 2010. This trend has favored investments, especially in the sectors of mining and energy.

TABLE 9

SECTOR	COMPANY	COUNTRY	PROJECT NAME	START OPERATIONS / PRODUCTION
Mining	Northern Peru Copper	China	Galeno	2013
	Anglo American	United Kingdom	Quellaveco	2014
	Minera Peru Copper S.A.	China	Toromocho	2013
	Antamina	Peru	Ampliación de Tajo	2012
	Shougang Group Hierro Perú	China	Marcona	2012
	Rio Tinto Minera Peru Limitada SAC	UK / Australia	La Granja	2014
	Southern Peru Copper	Mexico	Tía María	2012
	Xstrata Tintaya S.A.	Suiza	Antapaccay	2013
	Anglo American	United Kingdom	Michiquillay	2016
	Marcobre S.A.C.	Canada	Mina Justa	2012
	Southern Peru Copper	Mexico	Fundición y Refinería de Ilo - Toquepala - Cuajone	2012
	Norsemont Perú S.A.C.	Canada	Constancia	2011
	Mitsui Mining & Smelting Co. Ltda.	Japan	Quechua	2013
	Minera Yanacocha S.R.L.	USA	Chaquicocha / Tantahuatay	2011
	Compañía Minera Milpo	Peru	Pukaqaqa	2011
	Compañía Minera Milpo	Peru	Hilarión	2013
	Gold Fields La Cima	Southafrica	Cerro Corona	2011
	Sociedad Minera El Brocal S.A.	Peru	Colquijirca	2011
Electricity	ELECTROBRAS	Brazil	Poyectos hidroeléctricos	2014
	Kallpa Generación S.A.	Israel	Kallpa IV	2012
	Luz del Sur	Peru	Ampliación de Red y Desarrollo de Infraestructura	2012
	Compañía Minas Buenaventura	Peru	Central Hidroeléctrica Huanza	2013
	Interconexión Eléctrica (ISA)	Colombia	Línea de Transmisión Zapallal(Lima - Trujillo)	2012
	Iberoperuana Inversiones	Spain	Parque eólico en Paracas	2011
	Cementos Lima	Peru	El Platanal	2010
	Isonor Transmisión	Spain	Línea de Transmisión Mantaro - Caravelí - Montalvo	2012
	Abengoa Perú	Spain	Línea Trans.Vizcarra-Huallanca-Cajamarca-Carhuaquero	2010
	Kallpa Generación S.A.	Israel	Kallpa III	2010
Hydrocarbons	Perú LNG	USA	Camisea II	2010
	Perenco Peru Limited	France / UK	Lote 67	2013
	Petrobras - PetroPerú	Brazil	Exploración y Explotación de Petróleo y Gas	2013
	Kuntur Transportadora de Gas	USA	Gasoducto Andino del Sur	2012
	CF industries	USA	Planta Petroquímica	2013
	Cálidda Gas Natural del Perú	Italy / Peru	Ampliación de Red Principal	2013
	Transcogas Peru	Colombia	Gasoducto Andino del Sur	2011
Industry	Votorantim Metais - Cajamarquilla S.A.	Brazil	Refinería Cajamarquilla	2011
	Vale do Rio Doce (CVRD)	Brazil	Fosfatos de Bayóvar	2010
	Aceros Arequipa	Peru	Ampliaciones y modernización de planta	2010
	Cementos Pacasmayo	Peru	Fosfatos de Bayóvar	2014
	Backus & Johnston	United Kingdom	Ampliaciones de planta	2010
	Cementos Andino	Perú	Ampliación planta en Tarma.	2011
Infrastructure	Dubai Ports World Callao	Arab Emirates	Muelle Sur	2010
	Odebrecht	Brazil	IIRSA Sur y Norte	2010
	Chancay Port	Peru	Megapuerto Multipropósitos	2011
	Grupo Romero	Peru	Puerto en Ancón	2012
	Terminales Portuarios Euroandinos (TPE)	Portugal / Peru	Ampliación Puerto Paita	2011
	Odebrecht	Brazil	Trasvase Olmos	2011
	Operadora Portuaria S.A. (OPORSA)	Peru	Terminal Portuario Ventanilla	2011
	Ferrocarril Central Andino	Peru	Ampliación de capacidad de transporte	2012
Agro-Industry	Maple Etanol SRL	USA	Planta de Etanol	2010
Telecommunications	Telefónica del Perú	Spain	Ampliación de red móvil y banda ancha	2010
	CLARO Perú S.A.C.	Mexico	Obras en Telefonía Móvil	2010
	Consorsio BWDC Metsanco	RUS	Servicios de Internet y Telefonía Fija Inalámbrica	2010
	Operadores de telefonía móvil	Spain / Mexico / Peru	Implementación portabilidad numérica	2010

Source: Media and information from companies.

TABLE 10
MAIN INVESTMENT PROJECTS
(Million US$)

Sector	Total investments 2009	2010	2011	Total
Mining and Hydrocarbons	3,200	5,600	6,900	15,700
Electricity	700	1,000	1,200	2,900
Transport and Telecommunications	700	500	200	1,400
Industry	850	1,300	1,200	3,350
Other Sectors	2,400	2,000	800	5,200
Total	**7,850**	**10,400**	**10,300**	**28,550**

20. After growing 2.2 percent in 2009, private consumption would grow 3.3 percent in 2010 and 4.2 percent in 2011. This trend is associated with the improvement observed in the dynamism of national disposable income and with the maintenance of favorable conditions in the segment of financing of consumption.

TABLE 11
NATIONAL DISPOSABLE INCOME
(Real % change)

	2008		2009*			2010*		2011*	
	Jan-Sep.	Year	Jan-Sep.	IR Sep. 09	IR Dec. 09	RI Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09
1. GDP	**11.0**	**9.8**	**0.1**	**1.8**	**1.0**	**5.0**	**5.5**	**5.2**	**5.5**
2. Gross national product	12.1	12.1	2.8	2.5	1.6	4.3	3.8	5.8	5.9
3. Gross national income	9.3	8.3	-0.6	1.2	-0.1	5.2	5.6	5.6	5.6
4. National disposable income1/	**9.1**	**8.1**	**-0.7**	**1.0**	**-0.3**	**5.2**	**5.5**	**5.7**	**5.6**

IR: Inflation Report.
* Forecast.
1/ Includes factor income, net gains and losses due to changes in terms of trade and net transfers to non-residents.

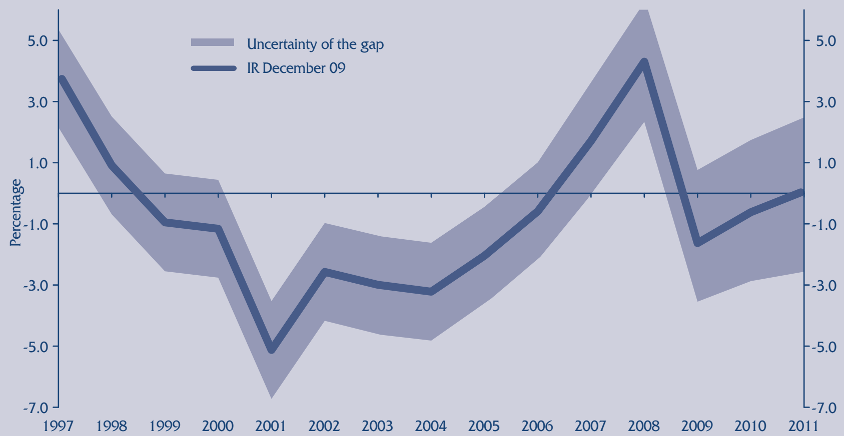
21. The lags in the execution of public investment during 2009 would reflect in a high rate of growth in 2010 (22 percent). In 2011 public investment would grow 9.8 percent, reaching a level equivalent to 6.1 percent of GDP. High dynamism in the execution of the investment of sub national governments is expected in 2010 as a result of the election cycle in regional and municipal governments. It is worth pointing out that public investment in 2010 would represent 5.8 percent of GDP, of which 1.7 percent of GDP would correspond to the national government, 1.2 percent to regional governments, 2.4 percent to municipal governments, and 0.5 percent to state enterprises.

Output gap

22. Because of the loss of productive dynamism in 2009, the gap between GDP and potential GDP went from a positive gap estimated at 4.3 points in 2008 to a negative gap of 1.6 points in the year. This situation should gradually revert in the next years; a gap of -0.6 points is projected for 2010 and a nil gap is projected for 2011.

    The output gap –as indicator of the pressure on the use of resources in the economy– shows a tendency to fall in a position of equilibrium in the next two years.

Graph 35
OUTPUT GAP
(% of the potential GDP))



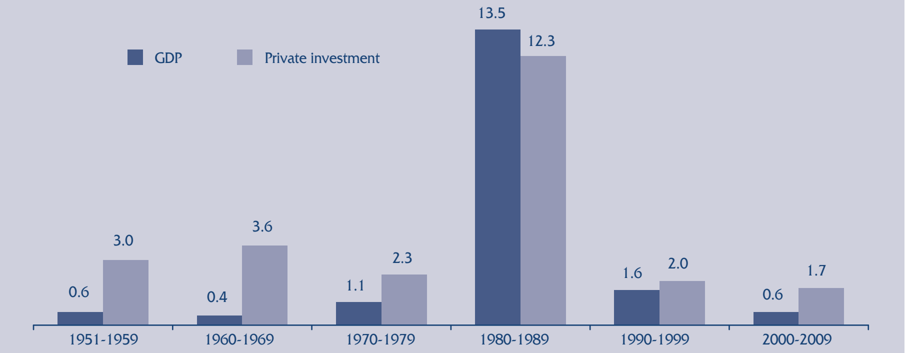
Memo: Output gap estimated with information as of September 2009. The shadowed area represents existing uncertainty in the calculation and forecast of the output gap plus/minus one standard deviation.

BOX 3
CONDUCT OF PRIVATE INVESTMENT DURING ECONOMIC CYCLES

Private investment is one of the main determinants of both GDP and aggregate demand. Investment represents the increase of capital stock and, therefore, it plays an essential role in economic growth. Its contribution to growth is directly associated with the degree of productivity and profitability of the projects that are developed in the different economic sectors. It is estimated that the variation of capital stock would explain fifty percent of the growth of GDP between 1951 and 2008 (1.9 percentage points of an average annual GDP growth rate of 3.8 percent).

Investment is one of the most volatile components of GDP because it depends on business expectations about the future evolution of the economy. Because of the country's greater macroeconomic stability, volatility in terms of both GDP and investment has moderated over time. The length of expansions and contractions in the period of 1980-2009 has been eight quarters on average. In periods of contraction, investment accounts on average for around a third of the drop of GDP, while in periods of expansion the average contribution of investment is nearly two thirds of GDP. It is worth pointing out that the contribution of investment to growth increased during the last episodes of expansionary economic cycles.

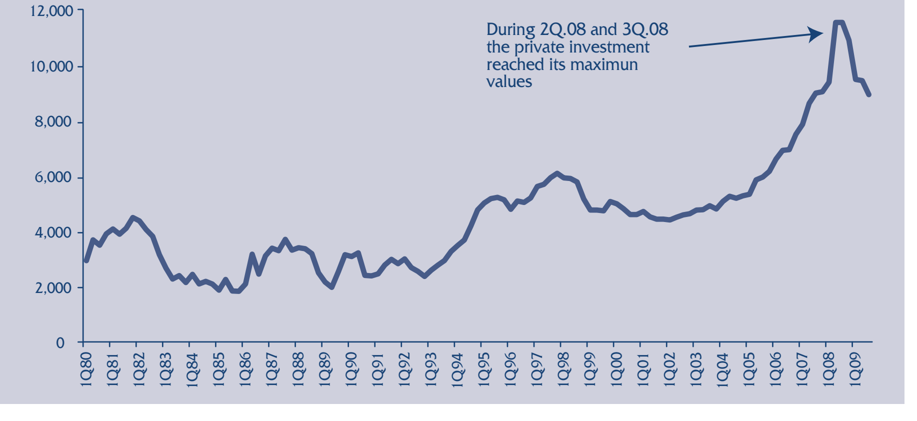
VOLATILITY OF ANNUAL GROWTH RATES OF GDP AND PRIVATE INVESTMENT[1/]



[1/] Calculated as the coefficiente of variability: the standard deviation of growth divided by average growth.

Private investment has maintained a growing trend during this decade. In absolute terms, current levels of investment are equivalent to over two times the levels of investment in 2000. In relative terms, the share of private investment in GDP has increased from 16 percent of GDP in 2000 to 21 percent in 2008, which translates into a higher capital stock and into a higher potential output. Private investment recorded its highest historical levels in Q2 and Q3 of 2008. This was associated with the implementation of projects and with favorable expectations on the future performance of the economy. With the deepening of the international financial crisis, private investment dropped rapidly and returned to the levels observed prior to the expansion recorded in mid-2008.

PRIVATE INVESTMENT: SEASONALLY ADJUSTED DATA
(Millions of nuevos soles of 1994)



Investment fluctuations are associated with oscillations in aggregate economic activity. Two alternative methods to analyze this relationship are discussed below.

a. Filter based analysis

A positive and contemporary relationship between the investment cycle and the product cycle is observed using quarterly data on the Peruvian economy since 1980[3]. The periods in which GDP is above its tendency are characterized by investment levels that are also above their tendency, and vice versa. Three big episodes of growth below the trend and four episodes of a significant magnitude above the trend are observed with this method.

In the episodes with strong drops, GDP declined by up to 9 percent below its tendency and investment fell by up to 26 percent. Fluctuations tend to have a lower magnitude during expansionary periods. During the expansions recorded since the nineties, GDP grew by up to 5 percent above its tendency and investment increased by up to 17 percent.

MAIN EXPANSIONS AND CONTRACTIONS OF GDP COMPARED WITH ITS GROWTH TREND

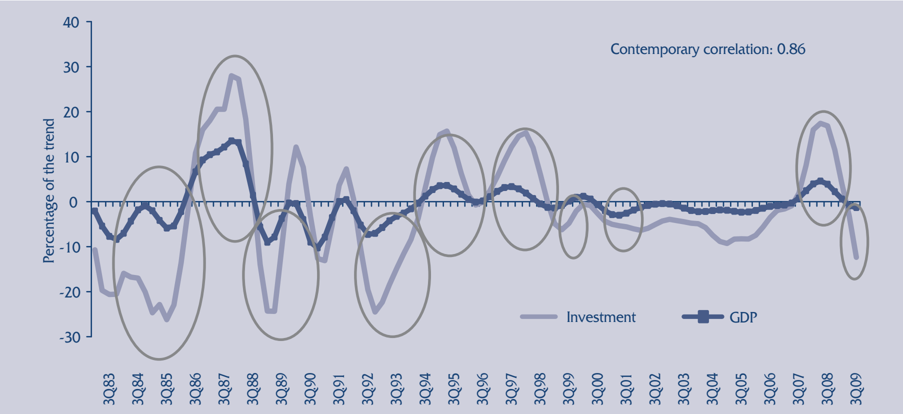
Period	Duration	Maximum Expansion/Fall (trend %)1/				(I/GDP) * Change in GDP/
	(Quarter)	GDP	Quarter	Private Investment	Quarter	Change in Private Investment (%)
Below the trend						
Q1-83 - Q1-86	13	-8	Q4-83	-26	Q3-85	42
Q4-88 - Q4-89	5	-9	Q1-89	-24	Q1-89	29
Q1-90 - Q2-91	6	-10	Q4-90	-13	Q1-91	5
Q1-92 - Q2-94	10	-7	Q3-92	-25	Q4-92	50
Q3-98 - Q2-99	4	-1	Q1-99	-6	Q2-99	22
Q3-00 - Q2-02	8	-3	Q2-01	-6	Q1-02	40
Q2-09 - Q3-09	2	-1	Q3-09	-12	Q3-09	132
Average 2/	**8**	**-6**		**-17**		**31**
Above the trend						
Q2-86 - Q3-88	10	14	Q4-87	28	Q4-87	22
Q3-94 - Q1-96	7	4	Q2-95	16	Q2-95	73
Q3-96 - Q2-98	8	3	Q3-97	15	Q1-98	89
Q3-07 - Q1-09	7	5	Q2-08	17	Q2-08	88
Average	**8**	**7**		**19**		**68**

1/ The trend, estimated using the Baxter and King filter, shows the magnitude of the maximum contraction or expansion observed during the period. For example. a drop of 8 percent means that the variable is located as much as 8 percent below its trend during the period considered.

2/ Year 2009 is not considered in this average.

3 The cycles have been calculated as the difference between the deseasonalized series and their trend. Three alternative methods, widely used in the literature, have been used to estimate the tendency: the Baxter and King filter, the Christiano and Fitzgerald filter, and the Hodrick – Prescott filter. All of the filters show similar results.

CYCLICAL COMPONENTS OF INVESTMENT AND GDP
BAXTER Y KING FILTER



b. Analysis using deseasonalized GDP

A period of weakness of economic activity is identified with this alternative method when deseasonalized GDP falls during two or more consecutive quarters. Each cycle is divided in two stages: a falling stage and a recovery stage. The drop goes from the maximum level (peak) of GDP just before contraction begins until the lowest level (bottom) of all the process. The recovery stage, on the other hand, goes from the moment GDP starts growing (a period after the bottom) until the moment when GDP reaches the level prior to the crisis (new peak), except if a drop meeting the indicated conditions is recorded during said period[4].

CONTRACTION AND RECOVERY CYCLE OF GDP AND PRIVATE INVESTMENT
(1Q:1980:- 3Q:2009)

CONCEPTS:
Contraction: When the seasonally adjusted variable records 2 consecutive quarters of decline.
Recovery phase: Number of quarters needed to reach the peak level prior to the contraction.
Peak: Level of the variable before the onset of contraction.
Bottom: Lowest level that reached by the variable during contraction.

GDP

TOTAL CYCLE LASTS (A+B)	Contraction phase: Period	Contraction phase: Number of quarters (A)	Contraction phase: Peak vs Bottom % Chg	Recovery phase: Period		Recovery phase: Number of quarters (B)	One year after the start of the recovery relative to: Peak	One year after the start of the recovery relative to: Bottom
12	Q2-1982 - Q4-1983	7	-12%	Q1-1984 - Q1-1985	*	5	-4%	10%
4	Q2-1985 - Q3-1985	2	-4%	Q4-1985 - Q1-1986		2	12%	16%
10	Q4-1987 - Q1-1989	6	-24%	Q2-1989 - Q1-1990	*	4	-18%	7%
15	Q2-1990 - Q3-1990	2	-17%	Q4-1990 - Q4-1993	*	13	-4%	16%
7	Q1-1998 - Q2-1998	2	-3%	Q3-1998 - Q3-1999		5	-2%	1%
7	Q2-2000 - Q4-2000	3	-3%	Q1-2001 - Q4-2001		4	1%	4%
2	Q1-2009 - Q2-2009	2	-2%					
Memo: AVERAGES								
8.1		**3.4**				**5.5**		

4 For example, during the recovery that culminated in Q1-1985, the level of GDP did not reach the level observed prior to the drop.

PRIVATE INVESTMENT								
TOTAL CYCLE LASTS (A+B)	Contraction phase			Recovery phase			One year after the start of the recovery relative to:	
	Period	Number of quarters (A)	Peak vs Bottom % Chg	Period		Number of quarters (B)	Peak	Bottom
11	Q1-1982 - Q2-1983	6	-49%	Q3-1983 - Q3-1984	*	5	-53%	-8%
3	Q4-1984 - Q1-1985	2	-15%	Q2-1985	*	1	-4%	12%
4	Q3-1985 - Q4-1985	2	-19%	Q1-1986 - Q2-1986		2	38%	70%
9	Q2-1988 - Q2-1989	5	-42%	Q3-1989 - Q2-1990	*	4	-5%	63%
7	Q3-1990 - Q4-1990	2	-26%	Q1-1991 - Q1-1992	*	5	-12%	18%
7	Q2-1992 - Q4-1992	3	-21%	Q1-1993 - Q4-1993	*	4	9%	38%
6	Q4-1995 - Q1-1996	2	-8%	Q2-1996 - Q1-1997		4	8%	17%
8	Q1-1998 - Q3-1999	7	-22%	Q4-1999	*	1	-24%	-3%
17	Q1-2000 - Q3-2001	7	-13%	Q4-2001 - Q1-2004		10	-10%	3%
4	Q4-2008 - Q3-2009	4	-23%					
Memo: Average								
7.6		**4.0**				**4.0**		

* The recovery on this period was interrupted by a new decline in the variable, which is considered a new cycle.

According to this approach, seven periods of weak economic activity are identified since 1980 to date: 1982-1983, 1985, 1987-1989, 1990, 1998, 2000, and 2009. The average length of the cycles is eight quarters, 3 quarters of contraction and 5 quarters of recovery. A similar result is obtained for investment cycles.

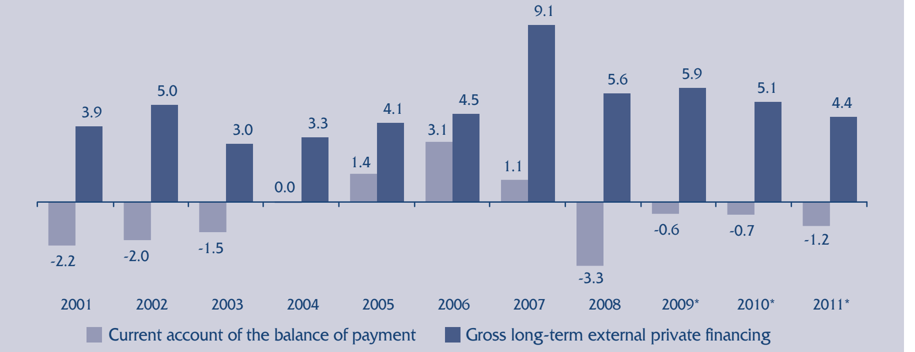
III. Balance of payments

23. In Q3-2009, terms of trade increased due to the rise of the international prices of metals and to the improvement of the current account. Increased exports and higher remittances from abroad, offset by the greater profits of firms with foreign shareholding, reflected in a current account that went from a deficit of 0.1 percent of GDP in Q2 to a surplus of 0.5 percent in Q3.

24. The forecast on the current account of the balance of payments has been revised towards a lower deficit during the entire forecast horizon considering the lower level of imports recorded in the last months compared with projected exports and the recovery observed in terms of trade since Q2-2009. The improvement of global growth projected for **2009** compared to the growth projected in September favors a lower decline of non traditional exports. Thus, the projected deficit in the current account in **2009** has been revised from 2.1 percent of GDP (Inflation Report of September) to 0.6 percent.

    The current account deficit in **2010** would be slightly higher than the one recorded in 2009 with a recovery of the volume of imports (due to the higher dynamism of the domestic economy). However, the latter would be offset by higher international prices, the recovery of external demand for non traditional exports, and the onset of exports of Camisea's liquefied natural gas.

Graph 36
CURRENT ACCOUNT
(Percentage of GDP)



* Forecast.

In **2011** the current account deficit would increase to 1.2 percent of GDP as a result of a higher demand for imports, especially capital goods, for important investment projects in the mining sector. This would be partially compensated by the onset of operations in mining projects (including Southern's expansion projects), as well as the statistical effect of a whole year's operation of Camisea's export project.

TABLE 12
BALANCE OF PAYMENTS
(Millions of US$)

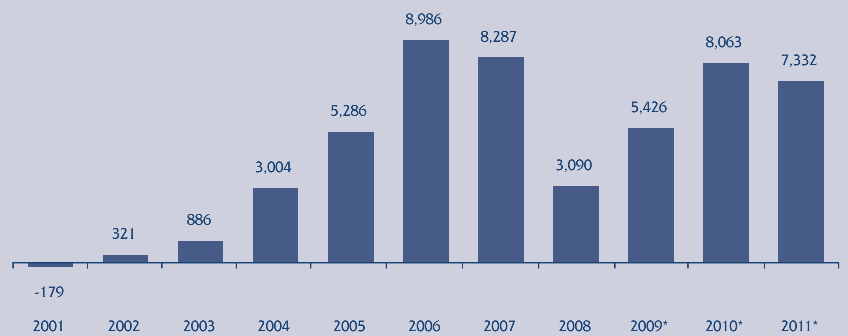
	2008		2009*			2010*		2011*	
	Jan.-Sep.	Year	Jan.-Sep.	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09
I. CURRENT ACCOUNT BALANCE	**-3,422**	**-4,180**	**-274**	**-2,634**	**-760**	**-3,356**	**-944**	**-3,710**	**-1,898**
Percentage of GDP	-3.5	-3.3	-0.3	-2.1	-0.6	-2.4	-0.7	-2.5	-1.2
1. Trade balance	3,264	3,090	3,581	3,723	5,426	4,376	8,063	3,951	7,332
a. Exports	25,055	31,529	18,615	26,025	26,397	30,057	33,068	32,422	35,403
b. Imports	-21,791	-28,439	-15,034	-22,302	-20,971	-25,680	-25,004	-28,471	-28,072
2. Services	-1,391	-1,929	-770	-1,510	-1,298	-1,789	-1,595	-2,092	-1,824
3. Factor income	-7,382	-8,144	-5,038	-7,441	-7,501	-8,764	-10,261	-8,640	-10,506
4. Current transfers	2,088	2,803	1,953	2,595	2,613	2,820	2,848	3,070	3,100
Remittances	1,816	2,437	1,691	2,251	2,275	2,468	2,494	2,689	2,716
II. FINANCIAL ACCOUNT	**10,765**	**7,686**	**1,208**	**3,934**	**3,260**	**4,256**	**1,944**	**5,110**	**3,298**
Of which:									
1. Private sector	7,991	7,657	1,800	3,802	2,700	3,899	2,653	3,633	2,364
a. Assets	387	207	-3,773	-2,951	-4,268	-1,724	-3,701	-2,172	-3,179
b. Liabilities	7,605	7,450	5,573	6,753	6,968	5,623	6,354	5,805	5,543
2. Public sector	-1,514	-1,404	829	2,344	1,322	706	-134	1,149	619
a. Assets	77	65	-125	-132	-161	-126	-126	-123	-123
b. Liabilities	-1,591	-1,469	954	2,477	1,483	832	-7	1,272	742
3. Short-term capital	3,331	1,118	-3,477	-2,874	-2,347	-100	-200	0	0
a. Assets	688	1,221	-1,282	-934	-152	-100	-200	0	0
b. Liabilities	2,643	-103	-2,195	-1,940	-2,195	0	0	0	0
III. BALANCE OF PAYMENTS (I+II)	**7,343**	**3,507**	**934**	**1,300**	**2,500**	**900**	**1,000**	**1,400**	**1,400**
Memo:									
1. Gross long-term external private financing									
Millions of US$	7,210	7,130	5,861	7,227	7,389	6,772	7,461	7,196	6,793
Percentage of GDP	7.4%	5.6%	6.4%	5.7%	5.9%	4.9%	5.1%	4.9%	4.4%
2. Balance of NIRs end of period									
Millions of US$	34,703	31,196	32,130	32,496	33,696	33,396	34,696	34,796	36,096
Percentage of GDP	27.3%	24.4%	26.3%	25.5%	26.7%	24.0%	23.9%	23.5%	23.3%

IR: Inflation Report.
* Forecast.

25. With the recovery of income, private saving is projected to show a growing trend in the next years which, together with the flows of external long term capitals, would contribute to finance domestic investment.

26. The trade balance would show a higher surplus in 2010 and would decline thereafter in 2011 (US$ 8.1 and US$ 7.3 billion, respectively). This projection considers that the recovery of non traditional exports and the better terms of trade would be offset by the impulse of the recovery of domestic demand on imports, mainly imports of capital goods and inputs.

Graph 37
TRADE BALANCE
(Millions of US$)



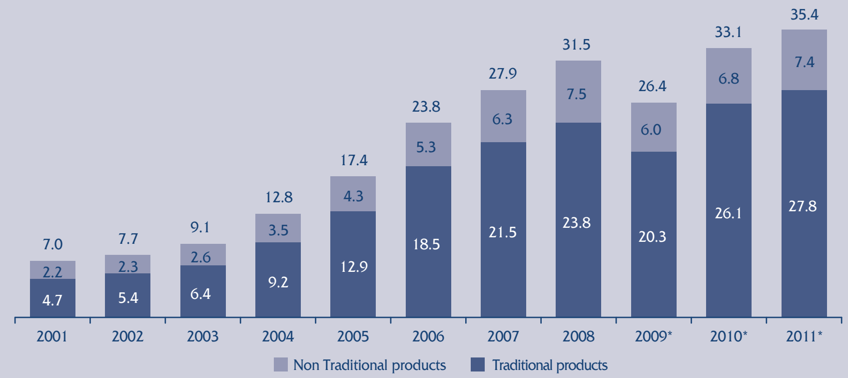
* Forecast.

TABLE 13
TRADE BALANCE
(Millions of US$)

	2008		2009*			2010*		2011*	
	Jan.-Sep.	Year	Jan.-Sep.	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09
EXPORTS	**25,055**	**31,529**	**18,615**	**26,025**	**26,397**	**30,057**	**33,068**	**32,422**	**35,403**
Of which:									
Traditional products	19,242	23,796	14,130	19,610	20,270	23,015	26,120	24,633	27,793
Non-traditional products	5,662	7,543	4,385	6,233	5,977	6,821	6,752	7,540	7,384
IMPORTS	**21,791**	**28,439**	**15,034**	**22,302**	**20,971**	**25,680**	**25,004**	**28,471**	**28,072**
Of which:									
Consumer goods	3,263	4,527	2,835	4,258	3,953	4,968	4,822	5,558	5,594
Raw materials	11,620	14,553	7,033	10,008	10,108	12,046	12,242	13,326	13,460
Capital goods	6,818	9,239	5,074	7,822	6,796	8,574	7,888	9,474	8,957
TRADE BALANCE	**3,264**	**3,090**	**3,581**	**3,723**	**5,426**	**4,376**	**8,063**	**3,951**	**7,332**
Memo: Chg.%									
Export volumes	10.7	8.1	-4.3	-4.2	-3.6	4.1	6.0	6.0	6.6
Import volumes	23.0	19.6	-22.9	-13.2	-20.6	9.2	9.2	8.1	9.3

IR: Inflation Report.
* Forecast.

Graph 38
EXPORTS OF GOODS
(Billions of US$)



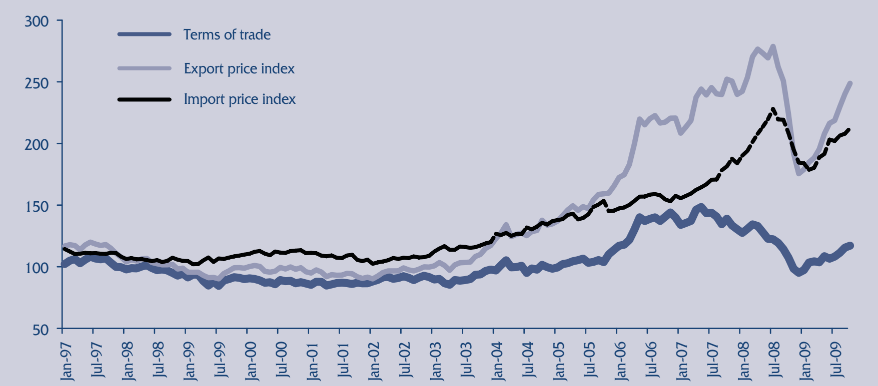
Note: Total exports include other exports.
* Forecast.

Terms of trade

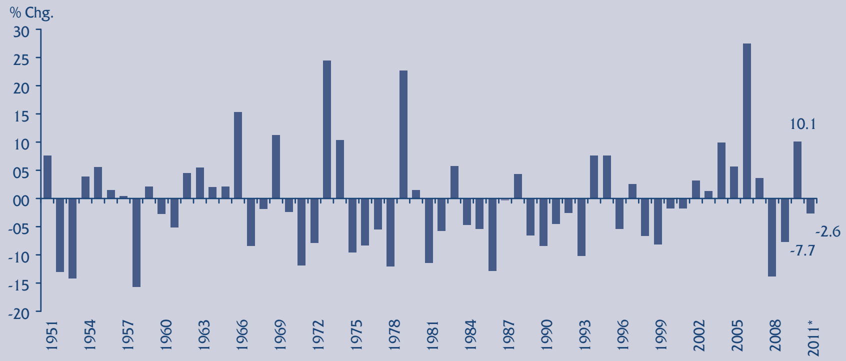
27. Terms of trade continued showing a gradual recovery in the last months reflecting the upward trend of the international prices of our export products. This is mainly explained by the better prospects of global demand, the depreciation of the dollar in international markets, the greater dynamism of investors' demand, and –to a lesser extent– to supply factors.

However, the current levels of terms of trade are lower than the ones observed in 2008. In line with this, terms of trade are projected to drop 7.7 percent on average in 2009 (our previous Report projected a drop of 8.4 percent) and to show a recovery of 10.1 percent in 2010.

Graph 39
EXPORT AND IMPORT PRICE INDICES AND TERMS OF TRADE
January 1997 - October 2009 ((1994=100))



Graph 40
TERMS OF TRADE
(% change)



(*) Forecast.

TABLE 14
TERMS OF TRADE
(Annual % change)

	Executed		2009*		2010*		2011*	
	2007	2008	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09
Terms of trade	**3.6**	**-13.8**	**-8.4**	**-7.7**	**4.9**	**10.1**	**-0.8**	**-2.6**
Export prices	**14.0**	**4.9**	**-13.9**	**-11.5**	**11.0**	**20.3**	**1.7**	**0.0**
Annual average prices								
Copper (US$ cents / pound)	323	315	228	232	280	303	280	303
Zinc (US$ cents / pound)	147	85	69	74	81	100	82	100
Gold (US$ / troy ounce)	697	872	933	973	956	1 129	971	1 129
Import prices	**10.0**	**21.7**	**-5.9**	**-4.1**	**8.9**	**9.2**	**2.6**	**2.7**
Annual average prices								
Petroleum (US$ / barrel)	72	100	60	62	75	82	78	86
Wheat (US$ / MT)	231	293	199	196	205	216	233	236
Maize (US$ / MT)	138	192	137	141	140	168	158	180
Soybean oil (US$ / MT)	768	1 092	744	735	833	918	828	937
Rice (US$ / MT)	337	685	532	552	475	523	471	491

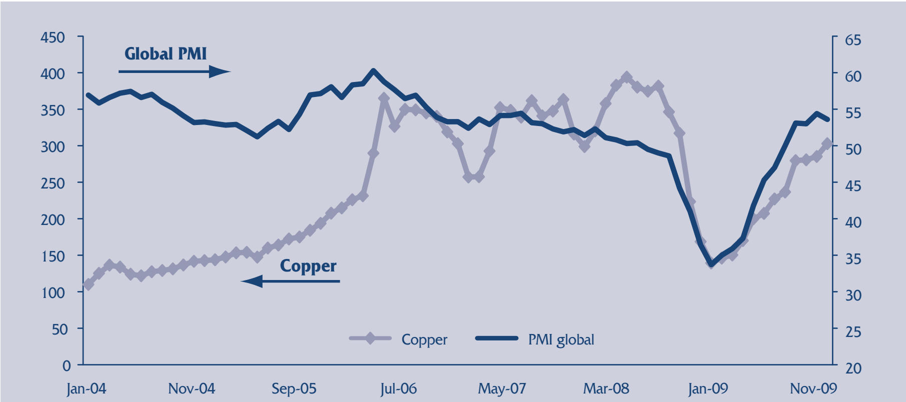
* Forecast.

Copper

28. Year to date, the price of copper has increased 135 percent, posting US$ 3.1 a pound at the close of November. After reaching its minimum low in the year in January (US$ 1.4 a pound), copper has been recovering following the evolution of global economic activity and in line with better prospects for demand. Additionally, other factors on the side of supply, such as the close of mines and refineries, have pushed the price upwards.

On the side of demand, the price of copper was sustained by the recovery of the global economy, reflected in the favorable evolution of the main indicators of economic activity and in the growth of China's demand as a result of its accumulation of strategic reserves and public spending policies. On the side of supply, several stoppages in mines and refineries (due to strikes and technical closings or due to maintenance) in the main copper producing countries (Chile, China, Peru, Canada, among other countries) maintained the upward trend in the price of this metal. In addition to this, the production of refined copper was paralyzed in different regions of China due to snow storms.

Graph 41
GLOBAL PMI AND PRICE OF COPPER
(US$ cents / pound)



Zinc

29. At November 2009, the price of zinc accumulated an increase close to 100 percent and recorded US$ 1.01 a pound at the close of the month. After reaching its minimum low in the year (US$ 0.48 a pound in February), zinc also showed an upward trend throughout 2009, but did not post higher levels than the ones observed in the first half of 2008.

    The rise in the international price of zinc is mainly associated with the lower production of zinc concentrates in the mines of Australia, China, Peru, and the U.S. and with the lower production of refined zinc in Belgium, Brazil, Canada, and Germany. These producer countries faced closures due to the drop of the international prices of this metal at end 2008. On the side of supply, China ordered the temporary closure of several zinc and lead refineries because they did not meet the required environmental regulations and standards.

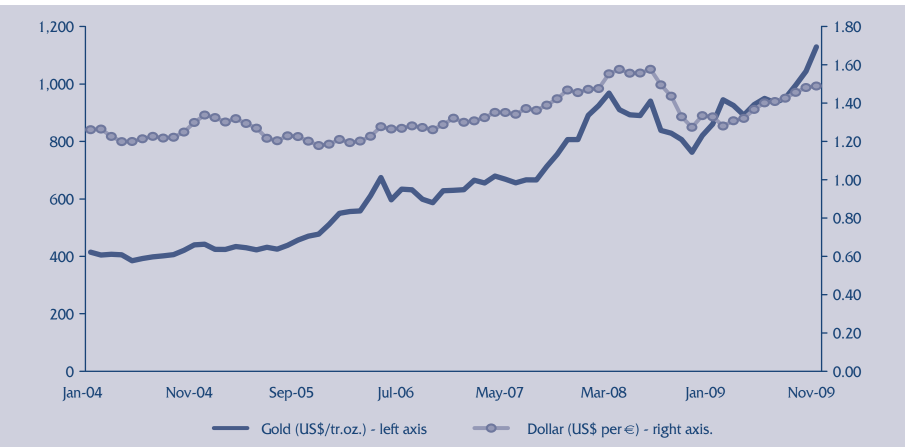
Gold

30. The upward trend exhibited by the price of gold continued in the second part of the year. After dropping to US$ 749/troy ounce in December 2008, the

price of gold climbed to over US$ 1,000/troy ounce in September 2009 and has been recording new maximum levels since then (US$ 1,183/troy ounce on November 26). This tendency is sustained by the weakness of the dollar, the dynamism of investors' demand (risk coverage and purchases of non commercial positions), as well as by factors associated with the fundamentals of the gold market (increased demand for jewelry, central banks' accumulation of reserves, and lower production in mines).

The demand for gold as a hedge asset (against the risk of higher inflation) and the demand for gold as an investment asset (substituting other financial assets) have shown greater dynamism so far in 2009. Following the monetary stimulus cycle in most countries, inflation indicators have shown some rebound, which has increased the demand for gold as a hedge asset. Moreover, the depreciatory pressure of the dollar has increased the demand for gold as an alternative financial asset. Furthermore, the level of non commercial positions (speculative investment) has also been increasing over the year.

Graph 42
PRICE OF GOLD AND EVOLUTION OF US DOLLAR



Oil

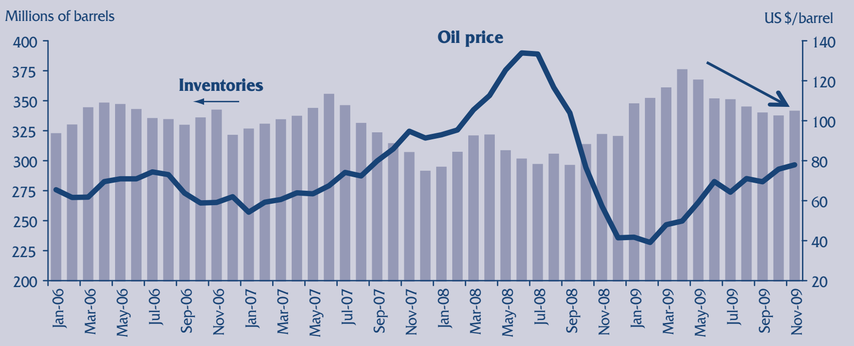
31. The average price of WTI oil has increased 90 percent so far this year. After recording a minimum low of US$/pound 39 in February, the price has sustainedly increased and stabilized in the range of US$/pound 75-80 at November 30. Both the better outlook for global demand –due to the recovery of economic activity– and several constraints on the side of supply have favored the gradual recovery of the price of oil.

The demand for oil increased following the evolution of global economic activity, as reflected in the lower availability of crude in the U.S. (according to the U.S. Department of Energy, crude inventories declined 10 percent between April and

November). In this context, specialized agencies –e.g. the U.S. Department of Energy (DOE), the Energy International Agency (EIA), the American Petroleum Institute (API), the OPEC, etc.– continued revising upwards their forecasts on global demand for oil and derivatives in 2009 and 2010.

On the side of supply, the temporary closures of refineries in the Gulf of Mexico (due to the hurricane season) and geopolitical tensions in the Middle East contributed to the upward trend observed in the price of crude.

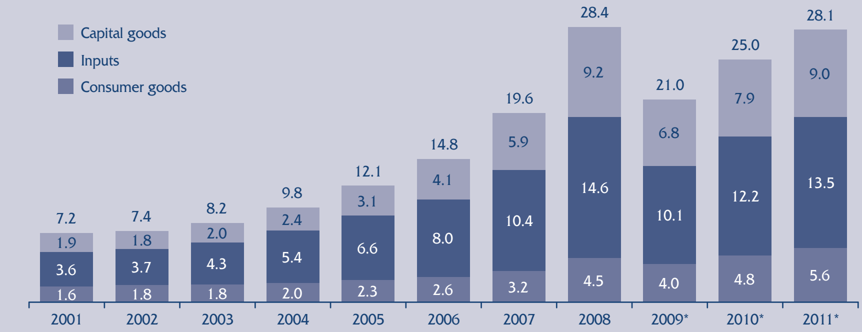
Graph 43
OIL PRICE AND OIL INVENTORIES IN THE U.S.
January 2006 - November 2009



Source: Bloomberg and US Department of Energy.

32. A recovery in the volume of imports is expected in **2010** based on the projections of the recovery of dynamism in the economy, especially private investment and its effect on imports of consumer goods and capital goods. In **2011** imports would maintain their growing trend as a result of higher consumption demand, investment and intermediate goods for the development of important investment projects in the mining sector.

Graph 44
IMPORTS OF GOODS
(Billions of US$)



Note: Total imports includes other imports.
* Forecast.

Financial account

33. Between **January and September**, the financial account of the private sector recorded a surplus of US$ 1,800 million. Inflows of external capitals worth pointing out include foreign direct investment (FDI) for US$ 4,619 million and long term net disbursements for US$ 957 million. On the other hand, outflows for portfolio investments amounted to US$ 3,408 million.

34. Most of the FDI recorded in this period was profit reinvestment which amounted to US$ 4,034 million, with mining investments being noteworthy (US$ 2,340 million). The other forms of FDI (capital contributions and loans from parent companies) amounted to US$ 585 million.

On the other hand, in terms of total portfolio investments abroad, it is worth highlighting the acquisition of assets abroad (mainly shares and mutual funds) by private administrators of pensions funds (AFPs), which represented a capital outflow of US$ 3.3 billion. Direct investments of Peruvian capitals abroad also included an operation carried out by the enterprises of the Brescia Group in Chile for US$ 343 million.

TABLE 15
PRIVATE SECTOR FINANCIAL ACCOUNT
(Millions of US$)

	2008	2009*			2010*		2011*	
	Year	Jan.-Sep.	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09
1. ASSETS	**207**	**-3,773**	**-2,951**	**-4,268**	**-1,724**	**-3,701**	**-2,172**	**-3,179**
Direct investment	-729	-365	-674	-365	0	0	0	0
Portfolio investment abroad	936	-3,408	-2,277	-3,903	-1,724	-3,701	-2,172	-3,179
2. LIABILITIES	**7,450**	**5,573**	**6,753**	**6,968**	**5,623**	**6,354**	**5,805**	**5,543**
Direct investment in the country	4,808	4,619	4,870	5,750	3,366	4,565	3,834	3,426
Of which: Reinvestment	2,884	4,034	3,576	5,352	1,846	3,343	2,113	2,091
Foreign direct investment in the country	241	-2	-210	105	0	0	0	0
a. Capital participation	85	-65	-71	-65	0	0	0	0
b. Other liabilities	156	63	-139	170	0	0	0	0
Long-term loans	2,401	957	2,093	1,113	2,257	1,789	1,971	2,117
a. Disbursements	3,051	1,606	3,030	2,003	3,406	2,896	3,362	3,368
b. Amortization	-650	-649	-937	-889	-1,149	-1,107	-1,391	-1,250
TOTAL	7,657	1,800	3,802	2,700	3,899	2,653	3,633	2,364
Memo:								
Net foreign direct investment	4,079	4,254	4,196	5,386	3,366	4,565	3,834	3,426

* Forecast.

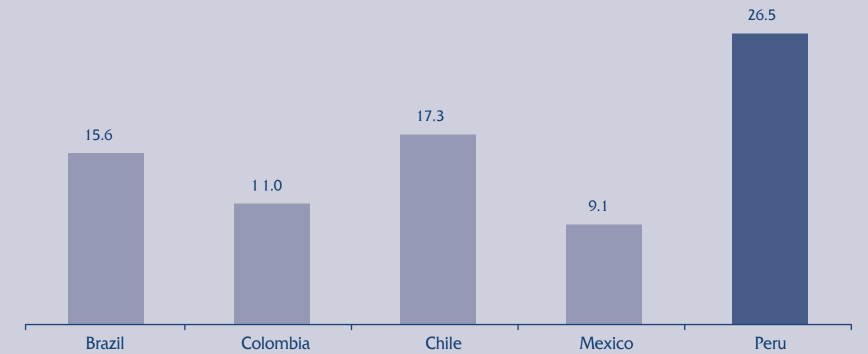
The short term account recorded a negative capital flow of US$ 3,477 million, a result mainly explained by the higher deposits of mining companies abroad (US$ 1,192 million), the reduction by over US$ 600 million of BCRP Certificates of Deposit held by non residents –this reduction concentrated in the first quarter of the year–, and the reduction of short term net external assets of banking entities which represented a net capital outflow of US$ 526 million.

In 2009 the financial account would register a net capital inflow of US$ 2,700 million –a lower result than the one projected in our previous report (US$ 3,802 million)–, due mainly to the faster pace with which private administrators of pension funds restructured their portfolio orienting it towards external assets during Q3.

35. The net capital flow would be positive in 2010 and 2011 by US$ 2,653 million and US$ 2,364 million, respectively. These projections consider an external financing of projects of US$ 4,565 million and US$ 3,426 million, respectively, which would consist mainly of new investments given that lower levels of reinvestment are expected in those years in comparison with the levels recorded in 2009. It is also considered that AFPs would increase both their investments in assets and their participation in financing private investment projects through the acquisition of local corporate bonds.

36. The level of net international reserves at the close of November recorded US$ 33.4 billion –a sum equivalent to 27 percent of GDP–, which is an appropriate level of reserves at a moment when the worst part of the world crisis appears to be over.

Graph 45
RATIO OF NET INTERNATIONAL RESERVES
(% of GDP)



Source: Central Banks, WEO and IMF.

IV. Public finances

37. The deterioration of the global economic situation that affected domestic economic activity has also had an impact on public finances due to the deceleration of economic growth and to the strong drop of the international prices of minerals and hydrocarbons. In order to mitigate the impact of world recession on growth in the economy, fiscal policy has played a counter cyclical role in the last months. This has been possible due to the sound fiscal accounts that generated savings in the years prior to the crisis and as a result of which it has been currently possible to finance greater public spending without compromising future fiscal sustainability.

TABLE 16
NON-FINANCIAL PUBLIC SECTOR
(% of GDP)

	2008	2009 *			2010 *		2011 *	
		Jan.-Sep.	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09
1. General government current revenue	**20.8**	**18.8**	**18.4**	**18.6**	**19.0**	**18.9**	**19.3**	**19.3**
Real % change	5.8	-14.8	-11.4	-12.1	9.1	9.0	7.0	7.9
2. General government non-financial expenditure	**17.3**	**17.6**	**19.3**	**19.0**	**19.2**	**19.4**	**19.1**	**19.5**
Real % change	13.5	6.7	11.9	8.7	5.4	9.5	4.6	5.6
Of which:								
a. Current	13.2	13.3	13.5	13.8	12.9	13.5	12.7	13.4
Real % change	6.9	0.9	2.4	3.0	1.7	5.1	3.3	4.3
b. Gross capital formation 1/	3.9	3.9	5.5	4.8	6.0	5.5	6.1	5.7
Real % change	45.8	23.1	41.5	21.8	15.7	22.5	6.5	8.9
3. Others	**0.1**	**0.4**	**0.2**	**0.2**	**0.1**	**0.2**	**0.0**	**0.2**
4. Primary balance (1-2+3)	**3.7**	**1.6**	**-0.6**	**-0.2**	**-0.2**	**-0.3**	**0.2**	**0.0**
5. Interests	**1.6**	**1.4**	**1.4**	**1.3**	**1.4**	**1.3**	**1.4**	**1.3**
6. Overall Balance	**2.1**	**0.1**	**-2.0**	**-1.5**	**-1.6**	**-1.6**	**-1.2**	**-1.2**
Memo:								
Central government current revenues	18.2	15.9	15.7	15.8	16.4	16.3	16.7	16.7
Central government non-financial expenditure	14.7	15.5	16.2	16.2	16.0	16.3	15.9	16.4

1/ The public sector investment is obtained adding the investment of public companies to gross capital formation.
* Forecast.

38. In the period of January-September, the result of the Non Financial Public Sector (NFPS) was equivalent to 0.1 percent of GDP –a lower ratio than the one recorded in the same period in 2008 (3.7 percent)–, which is explained, on the one hand, by the contraction of tax revenue, and, on the other hand, by the increase of the general government's non financial expenditure. By levels of government, the organizations of the national government recorded a deficit

of 0.9 percent of GDP (in contrast with the 2.6 percent registered in the period of January-September 2008), while local and regional governments recorded a surplus of 0.6 and 0.2 percent, respectively.

Graph 46
OVERALL BALANCE OF THE NON FINANCIAL PUBLIC SECTOR
(% of GDP)

* Forecast.

39. The deficit of the public sector in 2009 would amount to 1.5 percent of GDP –a lower result than the one projected in our previous Report (2.0 percent)–, basically due to lower expenditure at year-end. A similar result to the one recorded in 2009 (a deficit of 1.6 percent) is projected for 2010, while in 2011 the deficit should resume a downward path (1.2 percent), as projected in our previous report. The deficit's downward trend would be associated with a gradual recovery of the revenue of the general government as a result of the better performance of economic activity, the rise of the international prices of metals and hydrocarbons, and the withdrawal of fiscal stimulus.

40. It worth remembering that the regulation published at the end of May established new caps for the macro fiscal rules of 2009 and 2010. According to this, the annual deficit of the NFPS shall not be higher than 2 percent of GDP (previously 1 percent) and the annual increase of the central government's spending in consumption shall not be higher than 10 and 8 percent, respectively (previously 4 percent). Moreover, some amendments to the fiscal rules for local and regional governments in 2009 and 2010 were established in November. These modifications include having changed the rule on non financial expenditure for a rule regulating consumption. Previously, financial expenditure could not increase more than 3 percent. The approved modification establishes that consumption –understood as the addition of expenditure in remunerations, pensions, and goods and services– shall be lower than 4 percent. Therefore, the new rule excludes investment expenditure. Both measures were adopted in a context of global recession that required developing a counter cyclical strategy and fostering the execution of investment projects to buffer the negative effects of the international financial crisis on economic activity.

Structural economic result

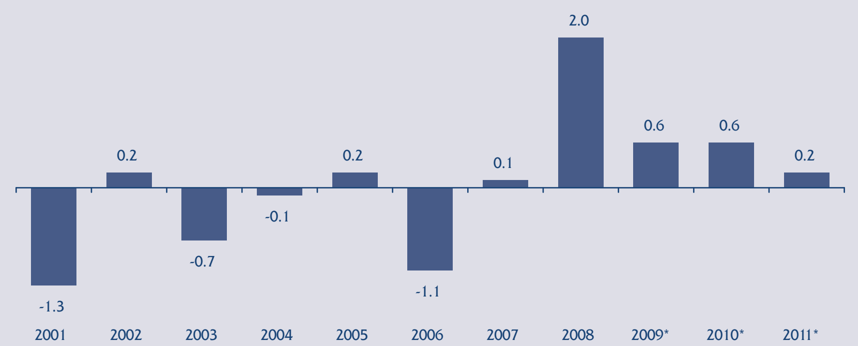
41. The structural economic result, indicator isolating the effect of the economic cycle on the incomes of the general government and the impact of the higher prices of exports of minerals and hydrocarbons on the fiscal account, shows deficits both in this year and in the next two years.

Graph 47
PRIMARY STRUCTURAL BALANCE OF THE NON FINANCIAL PUBLIC SECTOR
(% of GDP)

* Forecast.

42. Fiscal impulse, indicator that allows seeing the net effect of fiscal policy on domestic demand, suggests that fiscal policy plays an expansionary role in the years when the Economic Stimulus Plan is implemented (2009 and 2010). Even though its effect would still be expansionary, this impulse would be lower in 2011 due to the deceleration of public expenditure towards more sustainable long term values.

Graph 48
FISCAL IMPULSE
(% of GDP)



* Forecast.

Evolution of fiscal revenue

43. The current revenue of the general government in the January-September 2009 period amounted to 18.8 percent of GDP, which represented a reduction of 14.8 percent in real terms compared with the result recorded in the same period in 2008. Current revenue in this period was mostly influenced by income tax, import-related taxes, and oil *canon* and royalties, all of which were affected by the lower dynamism of economic activity and by the lower international prices of crude and minerals.

TABLE 17
THIRD CATEGORY INCOME TAX
(Millions of nuevos soles)

	2008		Jan. - Sep. 09	
	Jan.-Sep.	Year	Mill. S/.	Real % chg.
Advanced payments	**11,734**	**14,921**	**7,630**	**-37.4**
Mining	5,233	6,056	1,614	-70.3
Commerce	1,371	1,898	1,314	-7.7
Manufacturing	1,390	1,856	1,173	-18.7
Financial Intermediation	770	1,011	840	5.1
Hydrocarbons	720	921	338	-54.8
Other services	1,975	2,808	2,021	-1.4
Other payments	274	371	329	15.8
Regularization	**2,097**	**2,248**	**2,163**	**-0.7**
Total	**13,831**	**17,169**	**9,793**	**-31.8**

Source: Sunat.

44. Revenue from income tax, which is strongly connected with the international prices of minerals, recorded a reduction of 22 percent, a result explained mainly by the drop of revenue from payments on account for "third category income tax" or corporate tax (37 percent). This reduction was mainly observed since April due to the higher compensation of balances in favor of taxpayers, as well as due to the lower ratios applied to determine this tax since that month. The drop of payments in account for this tax was particularly noteworthy in the sectors of mining and hydrocarbons, which recorded a reduction of 70 and 55 percent in real terms. Revenue from total VAT fell 11 percent due to the drop of the VAT on imports, which declined by 27 percent. Revenue was also affected by the lower contributions from oil and mining *canon* and royalties, which fell by 35 and 48 percent in real terms, respectively.

TABLE 18
CENTRAL GOVERNMENT TAX REVENUES
(Percentage of GDP)

	2001	2006	2008	2009*	2010*	2011*
Income tax	3.0	6.1	6.5	5.3	5.5	5.5
Value Added Tax	6.2	7.1	8.5	7.8	7.9	8.1
Excise Tax	1.9	1.3	0.9	1.1	1.2	1.2
Import tax	1.5	0.9	0.5	0.4	0.4	0.4
Other tax revenues	1.4	1.1	1.2	1.2	1.1	1.1
Tax devolutions	-1.5	-1.6	-1.9	-2.1	-2.0	-2.0
Total	**12.4**	**15.0**	**15.6**	**13.7**	**14.1**	**14.4**

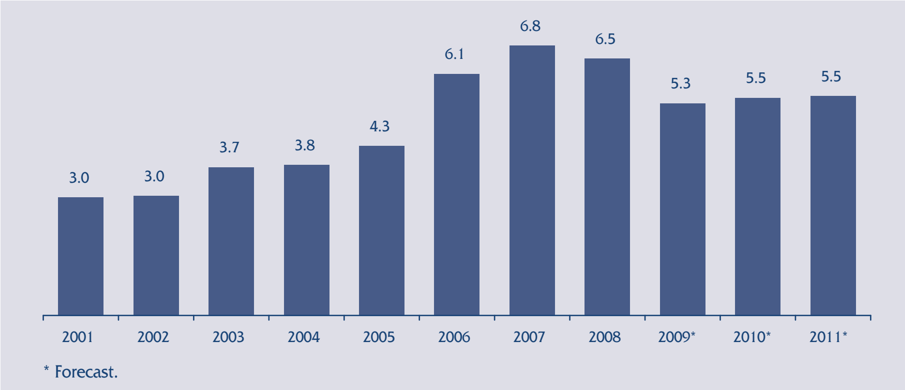
* Forecast.

Graph 49
GENERAL GOVERNMENT CURRENT REVENUE
(Percentage of GDP)

* Forecast.

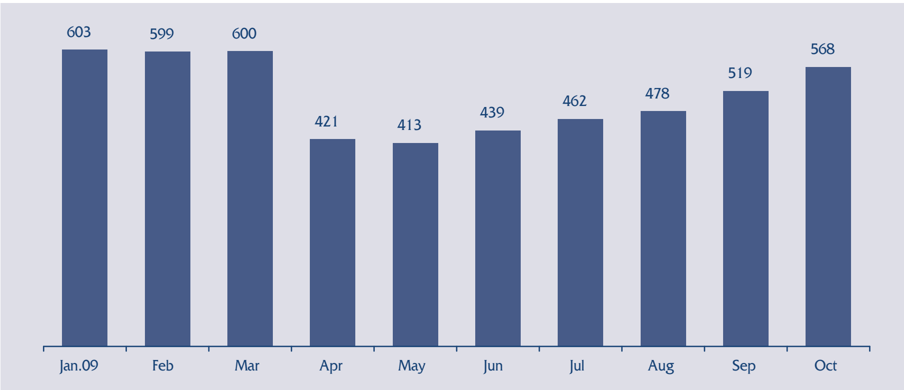
45. In 2009 the revenue of the general government, which would register a real decline of 12 percent compared with the previous year, should be equivalent to 18.6 percent of GDP. This level of revenue is associated with the impact of the international financial crisis, which reflected in the weakness of the dynamism of domestic economic activity during the year and the lower prices of our products in international markets compared with 2008 and especially with the ones recorded before the crisis. However, it is worth pointing out that a recovery is being observed in the tax revenue of the central government and that this revenue has even recorded a positive 12-month change in real terms in November, a result that was not observed since December 2008.

Graph 50
INCOME TAX
(Percentage of GDP)



46. Revenue from income tax, which in 2007 showed a record level of 6.8 percent of GDP, would decline to 5.3 percent of GDP in 2009. Among other aspects, this reflects the lower payments on account made by businesses during the year as a result of the lower ratios resulting from the 2008 budget year[5]. However, given that the balances in favor of business are being exhausted and that the prices of minerals are recovering, revenue from this tax has been increasing over the last months.

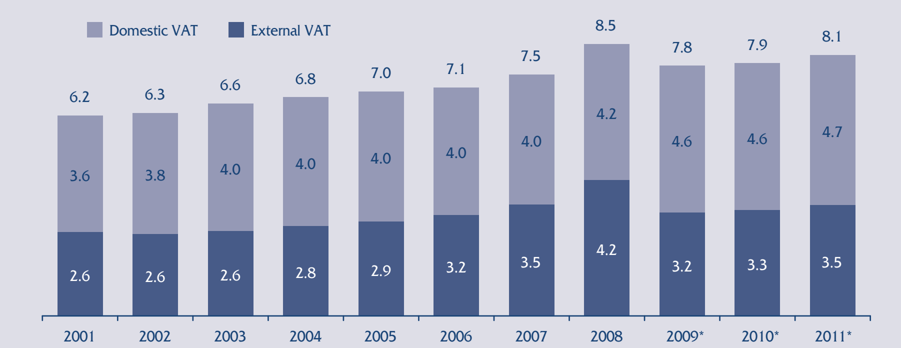
Graph 51
INCOME TAX: LEGAL ENTITIES
(Millions of nuevos soles of 1994 - seasonally adjusted series



5 The monthly payments paid by businesses as payments on account of “third category income tax” are determined on the basis of a ratio applied to the net incomes obtained in the month. The ratio, in this case, is obtained by dividing the tax for the FY 2008 by the total of net income obtained during said period.

47. Revenue from the VAT –our main tax revenue– would decline from 8.5 percent of GDP in 2008 to 7.8 percent this year, mainly due to the import component which would fall from 4.2 to 3.2 percent of GDP as a result of the strong drop of our imports.

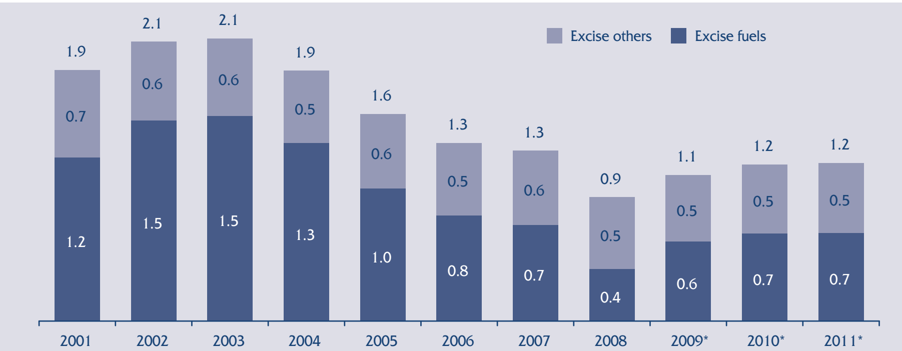
Graph 52
VALUE ADDED TAX
(Percentage of GDP)



* Forecast.
Memo: The sum of both components may not add up to the total figures due to round-up differences.

48. Revenue from the excise tax (ISC), which was favored by the increases in the rates of the excise tax of fuels implemented in Q4-2008, would grow in GDP terms. This revenue would increase from 0.9 to 1.1 percent of GDP given that the excise tax on fuels has been increased from 0.4 to 0.6 percent of GDP.

Graph 53
EXCISE TAX
(Percentage of GDP)



* Forecast.
Memo: The sum of both components may not add up to the total figures due to round-up differences.

49. Projections for 2010 and 2011 consider current revenue of 18.9 and 19.3 percent of GDP, respectively. These levels are consistent with the acceleration of growth of economic activity and with the projected international prices of our main export products in the next years.

Evolution of fiscal revenue

50. In the January-September period, the non financial expenditure of the general government recorded 17.6 percent of GDP, which represents an increase of 6.7 percent in real terms. This variation is mainly explained by the increase of the investment of the general government (23 percent) as a result of stimulus programs and of the regulations established to speed up investment, especially in the case of sub national governments. As a result of this, the investment of regional governments has increased 51 percent in real terms, the investment of the national government has increased 20 percent, and the investment of local governments has increased 16 percent. It should be pointed out that investment in the case of local governments increased nearly 100 percent in 2008.

Graph 54
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE
(% of GDP)

* Forecast.

On the other hand, the current expenditure of the general government recorded an increase of 0.9 percent in real terms. However, this change increases to 4.5 percent if the effect of transfers to the Fuel Price Stabilization Fund for both this year (S/. 1,000 million) and for last year (S/. 2,150 million) are not considered.

51. Year 2009 would close with a real increase of non financial expenditure of 8.7 percent, including the counter cyclical measures implemented by the government. This variation includes an increase of expenditure for public investment of 22 percent, a lower increase than the one projected in our Report of September given that some of the constraints that would hinder reaching the growth goal projected in the revised Multiannual Macroeconomic Framework of August (40 percent) still remain.

Graph 55
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE
(Real % change)

* Forecast.

52. The non financial expenditure of the general government would grow by a real 10 and 6 percent in **2010 and 2011**, respectively. Public investment, which continues to be the most dynamic component of expenditure, is projected to grow by 22.0 and 9.8 percent in 2010 and 2011, respectively.

Financing requirements

53. The financing requirements for the public sector in 2009 would decline from the initially projected US$ 3,799 million to US$ 3,203 million, which mainly reflects the revision of the projected fiscal deficit from 2.0 percent of GDP to 1.5 percent. A financial requirement of US$ 3,643 million and US$ 3,405 million is projected for 2010 and 2011, respectively. These requirements will be covered through external and domestic sources.

54. On November 23, 2009 the government carried out a domestic debt management operation whereby S/. 833 million of sovereign bonds maturing in 2011 (SB 2011) were exchanged by S/. 9 million of sovereign bonds maturing in 2017 (SB 2017) and S/. 797 million of sovereign bonds maturing in 2026 (SB 2026). The traded amount represents 59 percent of the total SB 2011 (S/. 1,417 million), the maximum amount of the bonds offered.

    This operation allowed increasing the average life of the domestic debt as bonds with an average life of 1.7 years were swapped by bonds with a weighted average life of 16.6 years. Additionally, this operation also allowed greater liquidity with longer maturity bonds in the yield curve, which reflects investors' confidence on the fundamentals of the economy.

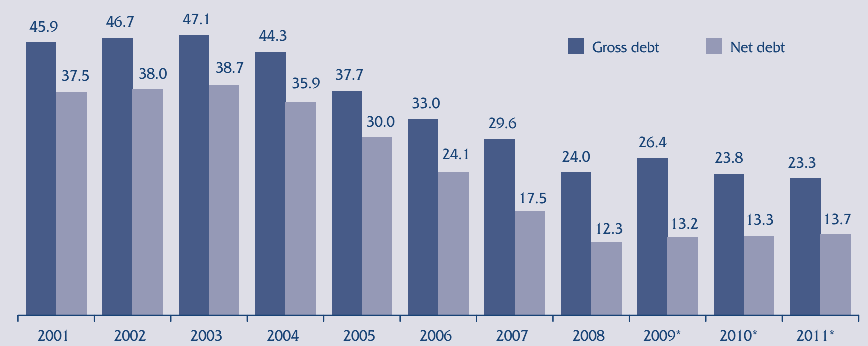
TABLE 19
FINANCIAL REQUIREMENTS OF THE NON-FINANCIAL PUBLIC SECTOR 1/
(Millions of US$)

	2008	2009 *			2010 *		2011 *	
		Jan. - Sep.	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09	IR Sep.09	IR Dec.09
I. Uses	**-827**	**718**	**3,799**	**3,203**	**3,440**	**3,643**	**3,491**	**3,405**
1. Amortization	1,971	791	1,184	1,109	1,249	1,260	1,733	1,475
a. External	1,449	615	927	876	950	950	962	962
b. Internal	522	176	257	233	299	310	771	512
Of which: Pension bonds	94	65	131	105	169	176	142	149
2. Overall balance (negative sign indicates surplus)	-2,798	-73	2,615	2,094	2,191	2,383	1,758	1,930
II. Sources	**-827**	**718**	**3,799**	**3,203**	**3,440**	**3,643**	**3,491**	**3,405**
1. External	1,100	294	1,458	1,194	1 904	1 062	1 777	1 342
2. Bonds 2/	473	1,659	1,956	1,840	907	947	1 400	1 097
3. Internal 3/	-2,400	-1,235	384	168	630	1 633	314	966
Memo:								
Balance of gross public debt								
Millions of US$	30,648	32,757	33,199	33,523	35,258	34,595	36,598	35,565
As % of GDP	24.0	26.8	26.0	26.4	25.3	23.8	24.8	23.3
Balance of net public debt 4/								
Millions of US$	15,701	15,681	17,503	16,764	20,104	19,233	21,611	20,883
As % of GDP	12.3	12.8	13.7	13.2	14.4	13.3	14.6	13.7

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

55. As a result of these financing operations, the gross debt at end 2009 is projected to amount to 26.4 percent of GDP, while the net debt would amount to 13.2 percent of GDP. In 2011, the gross debt is expected to decline to 23.3 percent.

Graph 56
PUBLIC DEBT
(Percentage of GDP)



* Forecast.

V. Monetary policy

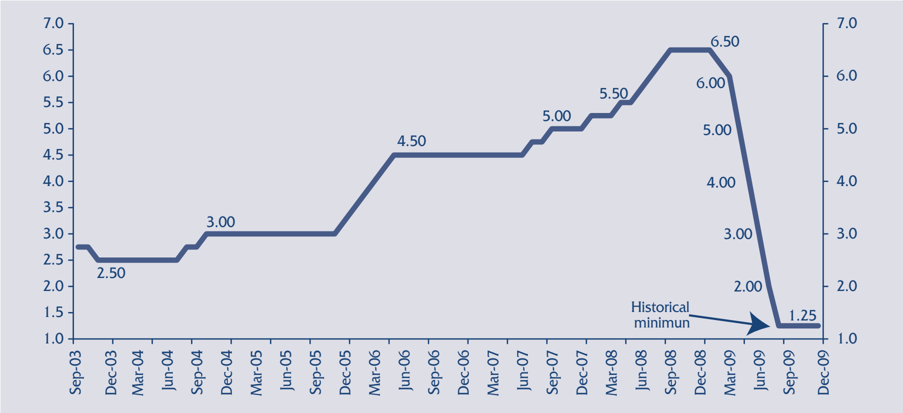
56. The forecasts of our Inflation Report of September are materializing and indicate that the current level of monetary stimulus (reference rate at 1.25 percent) is compatible with the inflation target in the forecast horizon. In this way, the Central Bank continues fostering more flexible credit conditions that contribute to promote domestic financial and economic transactions considering that the recovery of the global economy will be a slow process that will not be free of risks. Moreover, the BCRP continued using liquidity injection operations, swaps, and shortening the term of its CDBCRP to induce a greater flattening of the 1-year yield curve, thus reinforcing the expansionary stance of monetary policy.

57. Since October 2009, inflation has fallen below the Central Bank's tolerance range, as foreseen in the Inflation Report of September. This evolution was associated with the reversal of the supply shocks, both domestic and external, observed last year. Core inflation, which isolates transitory effects, has fallen within the tolerance range. Clear signs of increased dynamism are observed in terms of domestic demand, but in a context of a recovery of the global economy which is foreseen to be slow. In this context, the BCRP decided to maintain its monetary stimulus invariable, maintaining the reference rate at 1.25 percent in October, November, and December (this is the historical minimum level of this rate).

58. Because the expansionary monetary position has favored the continuous growth of credit far above nominal GDP, the process of financial deepening in the economy continues. The interest rates of financial entities, especially shorter term and lower risk rates, continue showing a downward trend, in line with the reductions of the reference rate. On the other hand, the interest rates on credit for micro businesses and mortgages in domestic currency continue declining, responding with some lag to monetary stimulus.

59. In the capital market, longer term rates continue showing a downward trend, which is being translated into lower costs of credit in the economy, as well as into lower rates for the long term funding of financial entities, particularly for mortgages, which have grown strongly over the last months in line with the growth of construction. These better conditions of access to the capital market are dynamizing the issuance of corporate bonds which, in November, recorded a total of over S/. 1,200 million soles, the highest amount observed since January 2007.

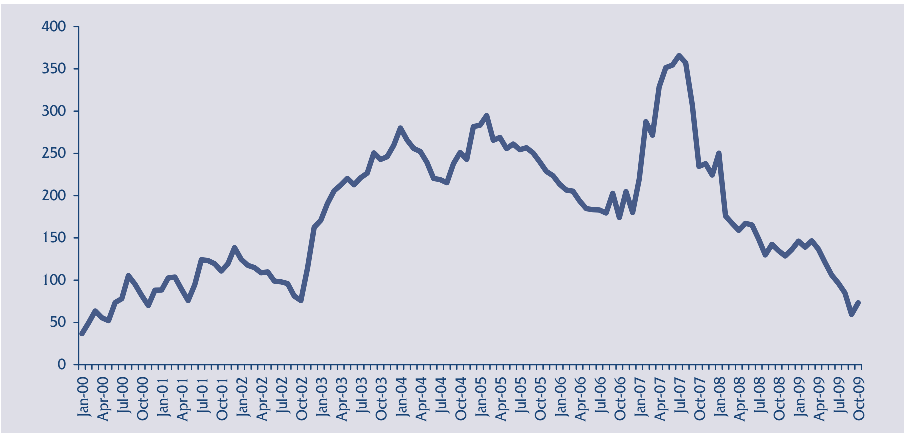
Graph 57
REFERENCE RATE
(%)



60. The Central Bank continued reinforcing the impact of the reduction of its reference rate on the rest of interest rates through auctions of 1-year swaps and the reduction of the average term of placements of CDBCRP. In both cases, monetary policy actions are aimed at maintaining high levels of liquidity in banks with the purpose of flattening the yield curve for up to 1-year securities and complement the expansionary position of monetary policy through this.

Between September and November the Central Bank continued carrying out weekly 1-year swap operations, which to date accumulate a balance of S/. 293.5 million. The average rate of these operations is 1.98 percent. Municipal and rural credit banks, which hold S/. 46 million of the total balance participated actively in these operations.

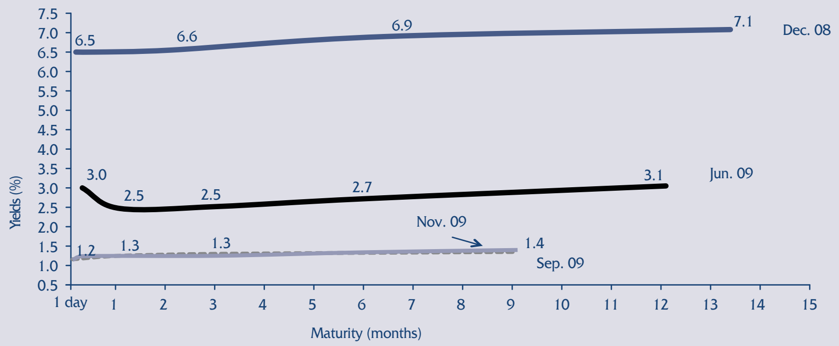
Graph 58
MONTHLY EVOLUTION OF THE BALANCE OF CDBCRP
(Number of days)



The residual term of Central Bank's CD declined from 86 days in August to 71 days in November, with a higher volume of placements concentrating in terms of less than 3 months. Shorter term placements have allowed maintaining liquidity in the financial system and reinforcing the reduction of interest rates. This is consistent with the BCRP's decision of preserving the dynamism of money and credit flows and with banks' desire to maintain liquid positions.

61. Interest rates on 1-year operations have decreased and the slope of the yield curve would be indicating that, in the short term, agents expect the reference rate to remain unchanged.

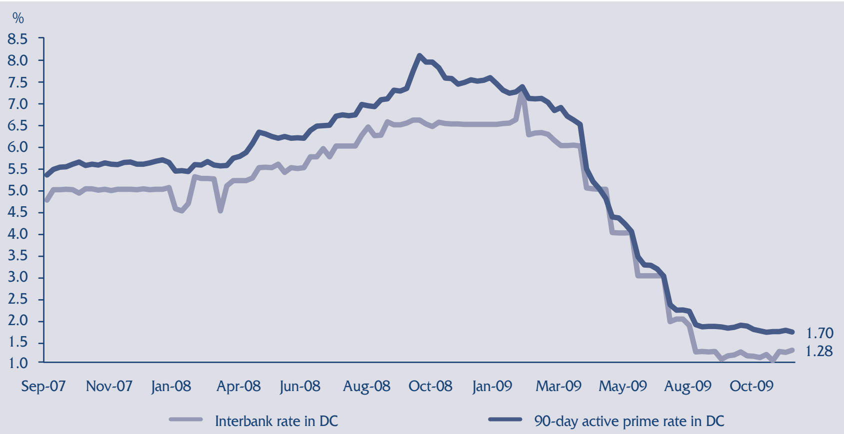
Graph 59
YIELD CURVE OF BCRP SECURITIES 1/



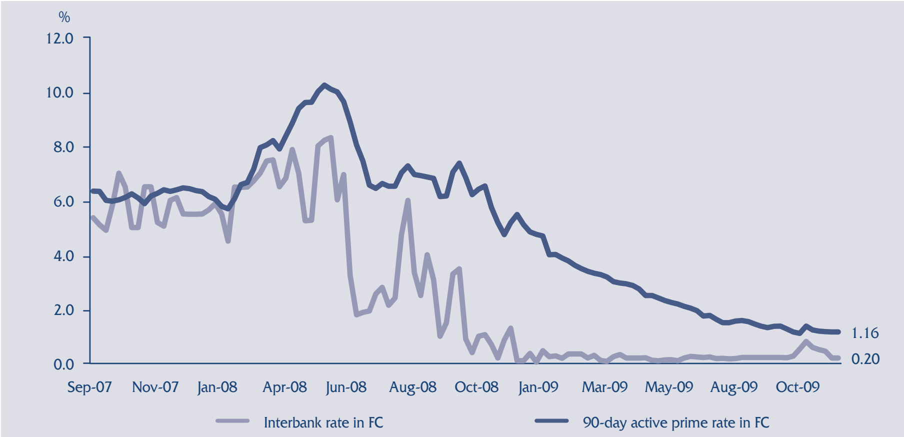
1/ CDBCRP and CDBCRP-NR yields.

62. In response to the Central Bank's monetary stimulus, the corporate prime rate in domestic currency declined from 1.86 to 1.74 percent between September and November in line with the reduction of the reference rate.

Graph 60
INTERBANK OVERNIGHT AND 90-DAY CORPORATE PRIME INTEREST RATES IN DOMESCTIC CURRENCY

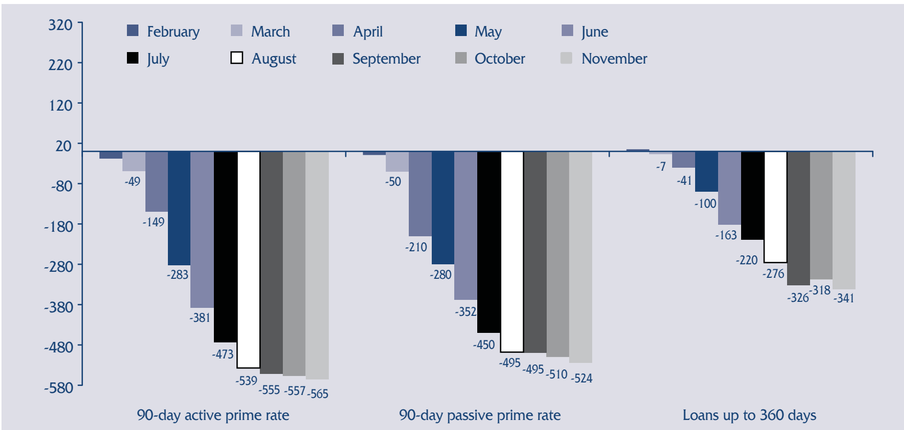


Graph 61
INTERBANK OVERNIGHT AND 90-DAY CORPORATE PRIME INTEREST RATES IN FOREIGN CURRENCY



63. The average rates on bank credit operations (FTAMN) remained low in November (19.8 percent) and declined by 304 bps compared with February 2009 (23.0 percent). The reduction of active interest rates slowed down since September due to expectations that the historical minimum of the reference rate (1.25 percent) recorded in August would remain over the next months.

Graph 62
ACCUMULATED DECREASE IN THE INTEREST RATES
(change February-November 2009. in basis points)



64. As regards passive interest rates, the rates on 31-to-180 day deposits and on 181-to-360 day deposits declined from 2.8 to 2.0 percent and from 5.0 to 3.9 percent, respectively. Likewise, the rate on 181-to-360 day deposits in foreign currency declined from 3.4 to 2.6 percent.

TABLE 20
INTEREST RATES IN NUEVOS SOLES AND IN DOLLARS
(%)

	Nuevos Soles		Dollars		Dif. (bps) (Sep.-Nov.)	
	Sep-09	Nov-09	Sep-09	Nov-09	Nuevos Soles	Dollars
1. Deposits up to 30 days	1.2	1.2	0.3	0.5	-5	15
2. Rate on 31-day to 180-day deposits	2.8	2.0	1.5	1.3	-76	-20
3. Rate on 181-day to 360-day term deposits	5.0	3.9	3.4	2.6	-114	-76
4. Corporate prime rate	1.8	1.7	1.4	1.2	-10	-18
5. Average rate on loans up to 360 days	11.3	11.3	7.2	6.7	-8	-43
6. Average lending rate. constant structure	15.5	15.0	9.0	8.8	-49	-24
7. Average active commercial rate	9.0	8.4	9.0	8.4	-58	-58

65. Between September and November 2009, the active interest rates of municipal and rural credit banks have declined especially in the case of credit for microbusinesses (from 41.6 to 40.3 percent in municipal credit banks and from 40.4 to 38.7 percent in rural credit banks) and for consumption (from 28.5 to 27.4 percent in municipal credit banks and from 26.9 to 26.5 percent in rural credit banks) due to the lagged effect of the reduction of the reference rate in this segment of the financial market. These declines have been higher than the ones observed in previous months, despite the increase of delinquency in municipal credit banks which would be reflecting greater competition in this market segment.

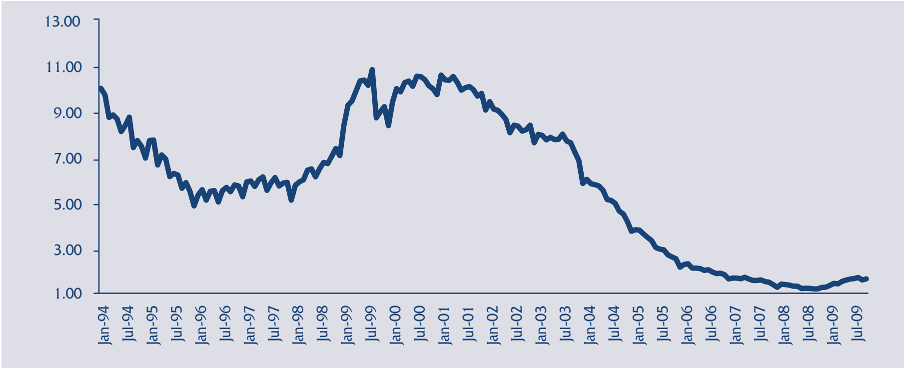
TABLE 21
INTEREST RATES BY TYPES OF CREDIT IN DOMESTIC CURRENCY1/
(%)

	MUNICIPAL CREDIT BANKS				RURAL CREDIT BANKS			
	Commercial	Microbusiness	Consumption	Mortgage	Commercial	Microbusiness	Consumption	Mortgage
Sep-08	22.5	40.6	28.7	14.1	22.4	42.4	30.2	13.2
Dec-08	25.3	41.5	28.8	13.7	20.6	42.0	29.4	23.9
Jan-09	28.5	42.0	29.1	13.5	21.4	42.3	28.4	16.1
Feb-09	25.6	42.2	29.5	13.4	21.7	41.8	29.4	24.4
Mar-09	27.4	42.1	29.9	13.5	23.0	41.8	28.9	-
Apr-09	26.9	41.6	29.7	14.2	23.3	42.2	28.2	15.3
May-09	26.2	41.8	29.4	13.6	23.8	42.1	27.9	23.9
Jun-09	26.5	42.0	29.3	13.8	23.5	42.6	27.7	18.7
Jul-09	26.4	41.4	29.1	13.2	23.1	42.0	27.8	26.8
Aug-09	27.0	41.8	28.3	13.7	23.5	41.3	27.8	21.3
Sep-09	26.3	41.6	28.5	14.0	23.7	40.4	26.9	16.6
Oct-09	26.5	40.7	27.6	13.7	22.5	38.5	26.8	17.4
Nov-09	26.0	40.3	27.4	13.9	21.8	38.7	26.5	19.9

1/ Annualized active interest rates of the operations carried out in the last 30- working days.
Source: SBS.

66. On the other hand, delinquency in terms of the other types of credit offered by banks remains low, although a slight increase has been observed in this period. This would influenced the increase of interest rates in some financial entities.

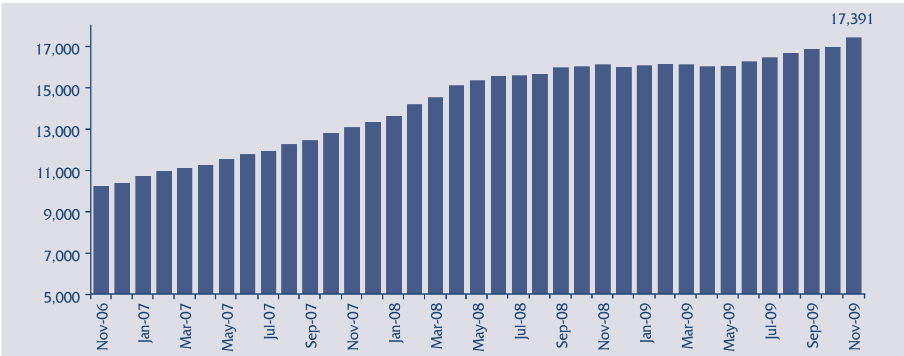
Graph 63
EVOLUTION OF THE BANKS' LOAN DELINQUENCY RATIO
(%)



Liquidity and credit

67. Monetary aggregates have grown in this period, which reflects the higher dynamism of economic activity observed since July and the easing of monetary and credit conditions resulting from the impulse of monetary policy. Thus, deseasonalized currency in circulation grew at an average monthly rate of 1.4 percent between August and November, recording a last-12 month growth rate of 8.0 percent.

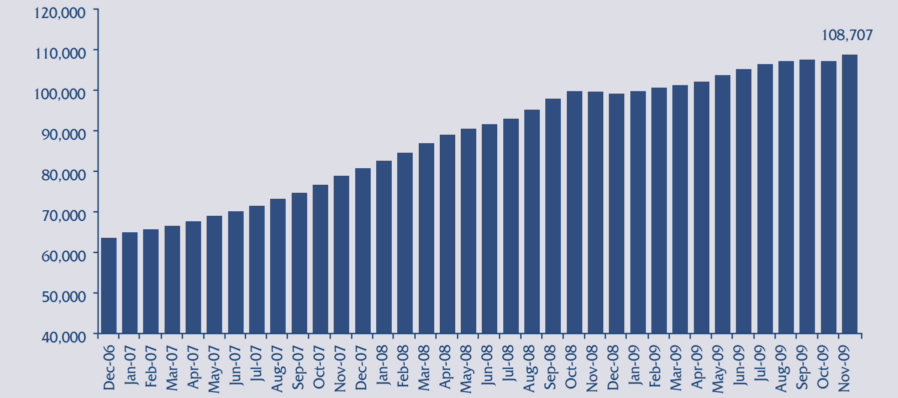
Graph 64
AVERAGE CURRENCY IN CIRCULATION: SEASONALLY ADJUSTED DATA
(Balance in millions of nuevos soles)



CURRENCY	Dec-07	Sep-08	Nov-08	Dec-08	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Balance in millions of soles	13,308	15,944	16,100	15,979	16,246	16,433	16,664	16,840	16,954	17,391
Monthly flow in millions of soles	244	306	105	-121	213	187	231	177	113	437
12-month % change	28.5%	28.4%	23.2%	20.1%	4.6%	5.6%	6.6%	5.6%	6.0%	8.0%
Monthly % change	1.9%	2.0%	0.7%	-0.8%	1.3%	1.1%	1.4%	1.1%	0.7%	2.6%

Showing a similar conduct, total deseasonalized liquidity grew 0.5 percent on average during this period.

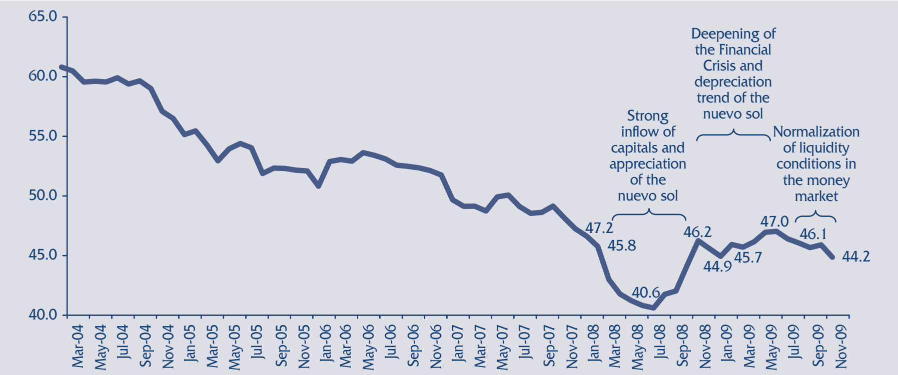
Graph 65
TOTAL LIQUIDITY: SEASONALLY ADJUSTED DATA
(Millions of nuevos soles)



LIQUIDITY	Dec-07	Sep-08	Oct-08	Dec-08	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Balance in millions of soles	80,738	97,915	99,700	99,145	105,191	106,439	107,136	107,489	107,079	108,707
Monthly flow in millions of soles	1,907	2,805	1,785	-409	1,558	1,249	696	353	-410	1,629
12-month % change	27.0%	31.1%	30.1%	22.8%	14.9%	14.5%	12.6%	9.8%	7.4%	9.2%
Monthly % change	2.4%	2.9%	1.8%	-0.4%	1.5%	1.2%	0.7%	0.3%	-0.4%	1.5%

68. With the normalization of financial and monetary conditions observed since July and since lower uncertainty was perceived, economic agents have resumed the process of financial dedollarization observed in the periods prior to the global crisis. The ratio of dollarization of liquidity continued declining and fell from 46.1 to 44.2 percent between July and November.

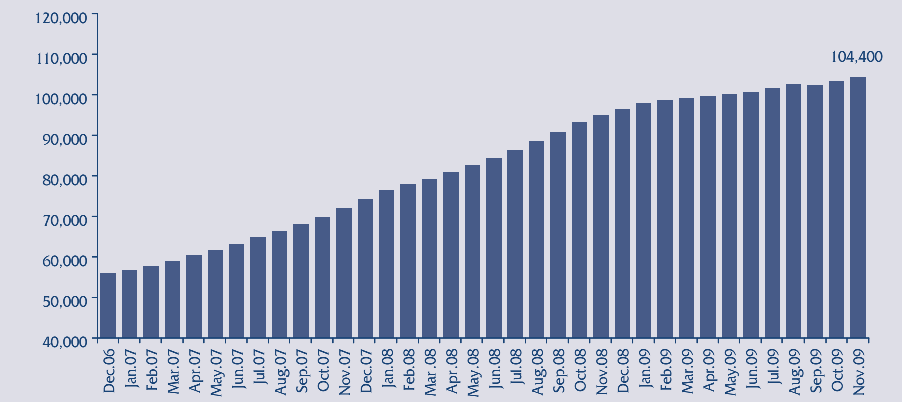
Graph 66
DOLLARIZATION OF LIQUIDITY 1/
(%)



1/ Dollarization ratio at constant exchange rates.

69. Credit to the private sector has remained in the path of sustained growth. Between August and November, credit to the private sector grew at an average monthly rate of 0.7 percent.

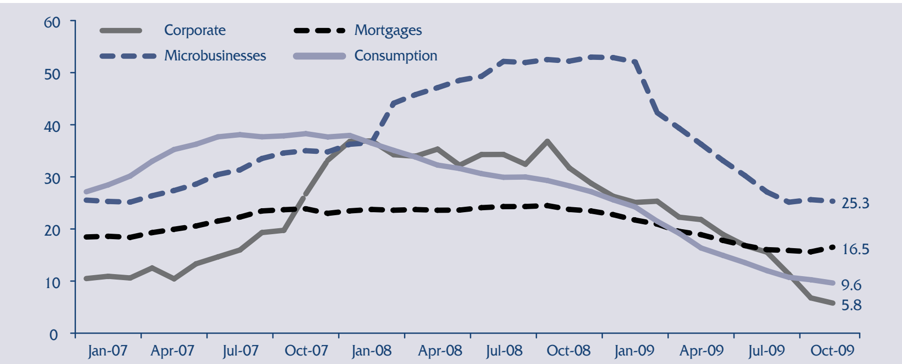
Graph 67
CREDIT TO THE PRIVATE SECTOR: SEASONALLY ADJUSTED DATA
(Millions of nuevos soles)



CREDIT	Dec-07	Sep-08	Nov-08	Dec-08	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Balance in millions of soles	74,355	90,828	95,111	96,520	100 ,752	101,580	102,591	102,451	103,357	104,400
Monthly flow in millions of soles	2,339	2,289	1,838	1,409	583	829	1,010	-140	906	1,043
12-month % change	32.6%	33.5%	32.1%	29.8%	19.4%	17.5%	15.9%	12.8%	10.8%	9.8%
Monthly % change	3.2%	2.6%	2.0%	1.5%	0.6%	0.8%	1.0%	-0.1%	0.9%	1.0%

70. By type of credit, credit for micro businesses, which grew 25.3 percent in November, continues to show the greater dynamism. Consumption loans and mortgage loans have grown moderately, recording growth rates of 9.6 and 16.5 percent, respectively.

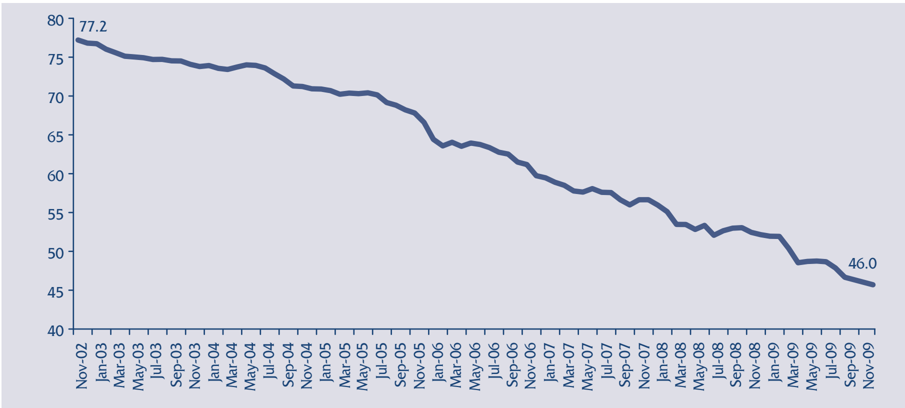
Graph 68
CREDIT TO THE PRIVATE SECTOR BY TYPE OF LOAN
(Annual % change)



1/ Constant exchange rate at November 2009.

71. The overall evolution of credit in soles and dollars has been coupled by a reduction of the ratio of dollarization of credit to the private sector, which fell from 48.7 percent in July to 46.0 percent in November.

Graph 69
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR
(%)

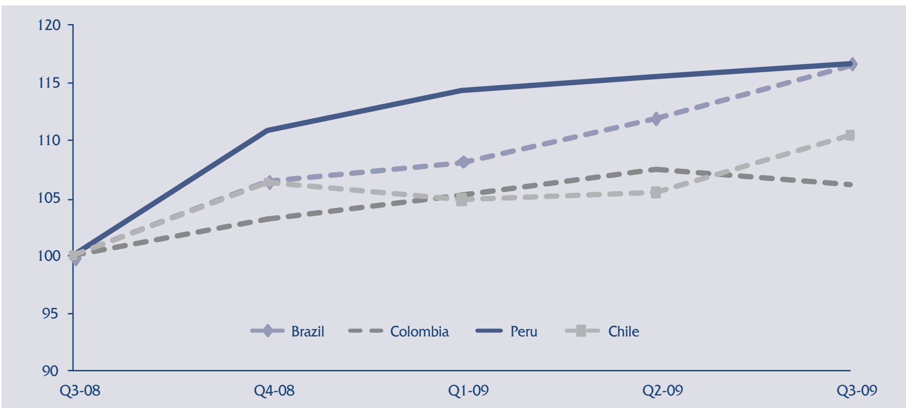


BOX 4

INTERNATIONAL CREDIT CRUNCH AND CREDIT IN PERU

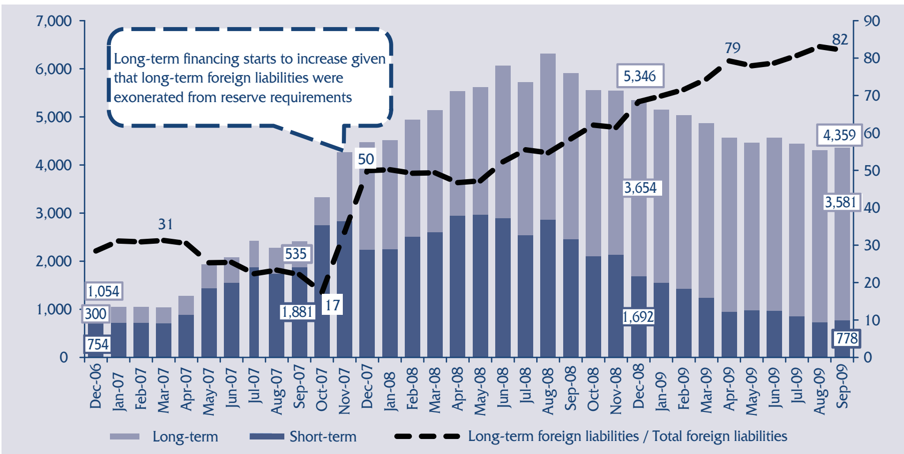
The timely monetary policy response to the international financial crisis implemented through a series of measures that included not only the reduction of the rates of reserve requirements, but also a comprehensive activation of liquidity injection procedures, allowed credit to the private sector in Peru to continue growing during 2009

REAL CREDIT TO THE PRIVATE SECTOR BY COUNTRIES
(Index Q3-2008=100)



One of these measures, which strengthened local banks' capacity of response to the international credit crunch and that, therefore, contributed to sustain the flow of credit to the private sector was changing the regime of reserve requirements for foreign liabilities. In September 2007, the BCRP exonerated foreign credits to banks with 2-year or longer terms from the 30 percent reserve requirements, thus incentivizing the substitution of banks' financial sources from short term to long term credits. This immediately reflected in a significant impulse to the share of long term liabilities, which increased from 17 to 50 percent between October and December 2007. As a result of this measure, the share of long term liabilities in terms of banks' total foreign financing increased from 22 percent in September 2007 to 58 percent in September 2008 and to 82 percent in September 2009.

BANKS' EXTERNAL LIABILITIES
(Balance in millions of US$ and % ratio)



The external long term credit granted to banks between 2007 and 2008, before international financial conditions tightened drastically worldwide with the bankruptcy of Lehman Brothers in September 2008, amounted to around US$ 3,000 million, a sum equivalent to 3 percent of GDP. Thus, the larger weight of long term funding was in this period a stabilizing factor of the financing sources of credit to the private sector.

Credit also maintained its dedollarization tendency. Today, the share of credits in soles in terms of total credit is 53 percent (versus 36 percent 3 years ago and 25 percent 5 years ago). The deceleration of the growth of credit in dollars, which went from 17 percent in 2008 to 1 percent since the deepening of the international financial crisis, reflects the lower demand for credits associated with the drop of nearly 40 percent observed in world trade in the last year, which translated into a decline of imports and exports of approximately US$ 12,000 million in our country. Banks' balance of credit in foreign currency for foreign trade purposes fell from US$ 2,359 million in September 2008 to US$ 1,535 million in September 2009, while the balance of credit for the rest of sectors increased from US$ 13,285 million to US$ 14,330 million in the same period. As the table below shows, excluding the drop of demand for credit associated with foreign trade, credit to the private sector in domestic currency grew by US $ 1,042 million. Moreover, if financing through the bond market is considered, total financing in foreign currency for firms increased by US $ 1,311 million.

CREDIT IN FOREIGN CURRENCY

	Flows		
	Oct.06-Sep.07	Oct.07-Sep.08	Oct.08-Oct.09 1/
Credit in foreign currency (millions of US$)			
Foreign trade	387	593	-845
Other sources	1,294	2,760	1,042
Total	1,681	3,353	197
Foreign currency financing			
Other sources	1,294	2,760	1,042
Bonds (millions of US$)	481	222	269
Total	1,776	2,982	1,311

1/ Flows are calculated between the months of September. except 2009 which is calculated using the latest available data.

This lower demand of firms for credit in dollars and the high availability of liquidity in foreign currency in banks' reduced the demand of financial entities for foreign funding. When credit supply factors account for the deceleration of credit, interest rates increase because funding becomes scarce, and they do not decrease, as in this case, when the average interbank interest rate in dollars fell from 4.85 percent in August 2008 to 2.62 percent in September 2008 and to 0.2 percent today. In this way, the flow of credit in the economy was maintained with the higher dynamism of credit in soles.

72. By type of financial institution, banks showed the fastest pace of dedollarization between July and November (the ratio of dedollarization declined from 54.3 to 52.0 percent). By type of credit, mortgages recorded the highest ratio of dedollarization (down form 64.2 percent to 59.9 percent).

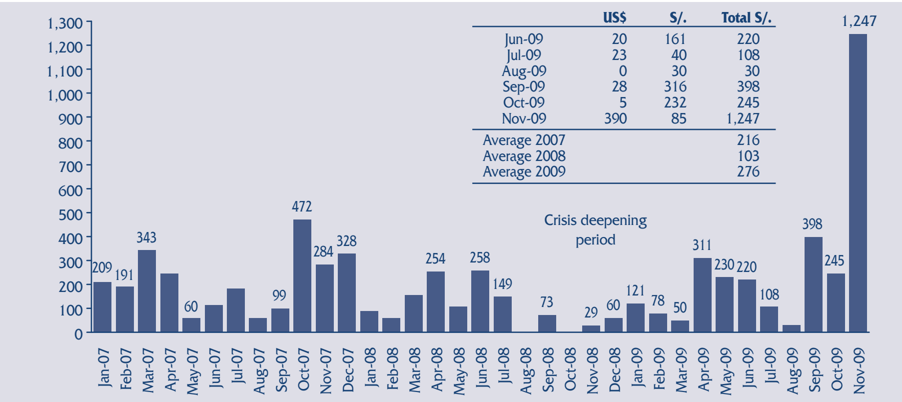
TABLE 22
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR

	Jul.08	Dec.08	Jul.09	Aug.09	Sep.09	Oct.09	Nov.09
By type of loan							
Corporate	69.1	68.9	65.6	65.0	63.9	63.7	63.6
Microbusiness	15.0	13.2	11.2	11.0	10.8	10.6	10.2
Consumption	16.4	16.6	14.9	14.6	14.2	14.2	13.9
Mortgage	72.3	70.2	64.2	63.0	61.6	60.8	59.9
By type of institution							
Banks	57.5	57.3	54.3	53.5	52.3	52.1	52.0
State-owned banks	1.5	1.8	1.8	1.7	1.6	1.6	1.5
Microfinance institutions	19.7	19.0	15.1	14.8	14.3	14.2	13.7
TOTAL	**52.1**	**52.2**	**48.7**	**47.9**	**46.7**	**46.2**	**46.0**

Bond market

73. Private issuances of non financial firms have been very dynamic during 2009 and have widely exceeded the ones made in 2008, reaching similar levels to the ones observed in 2007, before the international financial crisis unfolded. Thus, in November, these issuances amounted to over S/. 1,200 million. Moreover, the interest rates of corporate bonds have declined significantly, reaching similar levels to the ones observed during 2007.

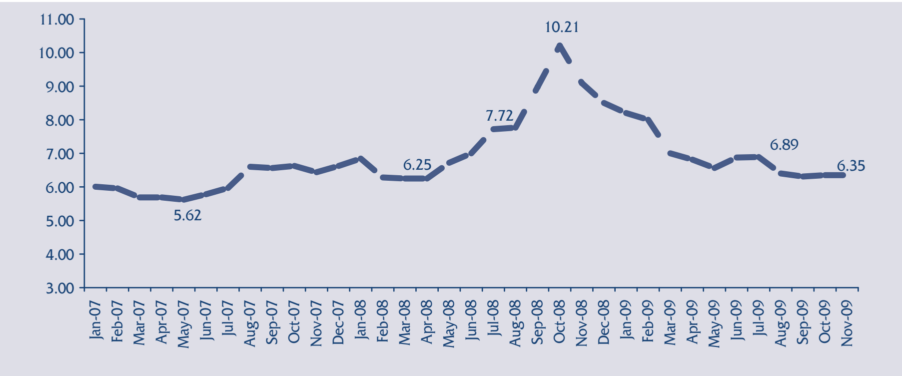
Graph 70
BONDS ISSUED BY NON-FINANCIAL COMPANIES
(Millions of nuevos soles)



* Primary public offers are valued in dollars at constant exchange rate at November 2009. Includes securitization bonds.

74. Coupled by lower uncertainty and lower risks, the recovery of growth in financial and capital markets has translated into a lower cost of credit for the private sector, particularly in terms of the cost of issuances of corporate bonds whose interest rates have declined significantly: from 10.2 percent in October 2008 to 6.9 in July 2009 and to 6.4 percent in November.

Graph 71
YIELD ON AAA CORPORATE BONDS (5 YEARS)



75. Private pension funds have recovered during 2009 following basically the evolution of the Peruvian and global securities markets, reaching a total of S/. 66,327 million at November 2009 (a higher level than the maximum value recorded in May 2008). Likewise, a substantial recovery of the equity administered by pension funds –which were affected both in terms of their profitability and liquidation by the deepening of the global crisis in Q3-2008– has been observed, even though it still remains below the maximum level reached in June 2008.

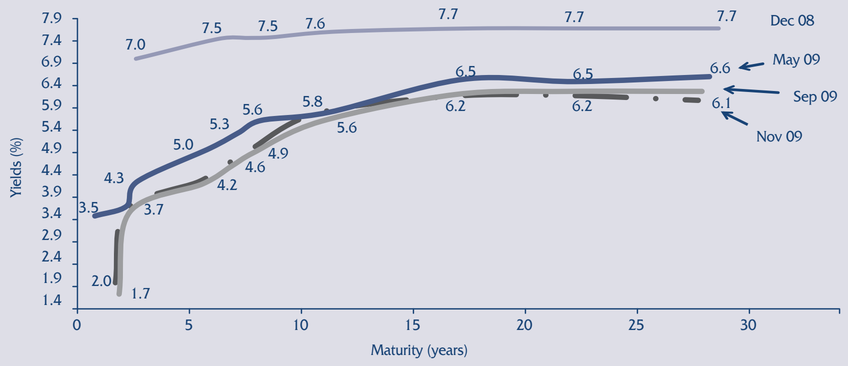
TABLE 23
PRIVATE PENSION SYSTEM
(Millions of soles)

	Sep07/ Dec06	Sep08/ Sep07	Sep09/ Sep08	By years 2007	2008	2009
Fund value (Balance)	61 954	52 944	66 277	60 406	49 380	66 277
Balance variation	16 406	-9 010	13 333	14 859	-11 026	16 897
Contributions	4 117	4 775	4 751	5 223	4 807	3 613
Recognition bond	320	283	223	417	248	162
Others	11 969	-14 068	8 359	9 219	-16 081	13 122

Source: SBS.

76. The yield curve of sovereign bonds remained rather stable in November, but showing historical low levels, particularly in the short tranche of the curve, reflecting economic agents' perceptions about the flexibilization of conditions in the money market and lower expectations of inflation in the forecast horizon.

Graph 72
SECONDARY MARKET OF SOVEREIGN BONDS 1/



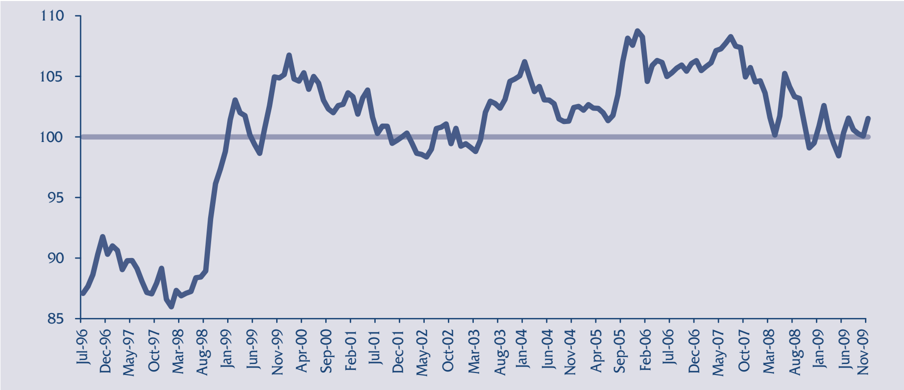
1/ Yields negotiated at the end of each month.

Exchange rate

77. Between September and November, the average nominal exchange rate appreciated by 0.08 percent reflecting the weakness of the dollar in international

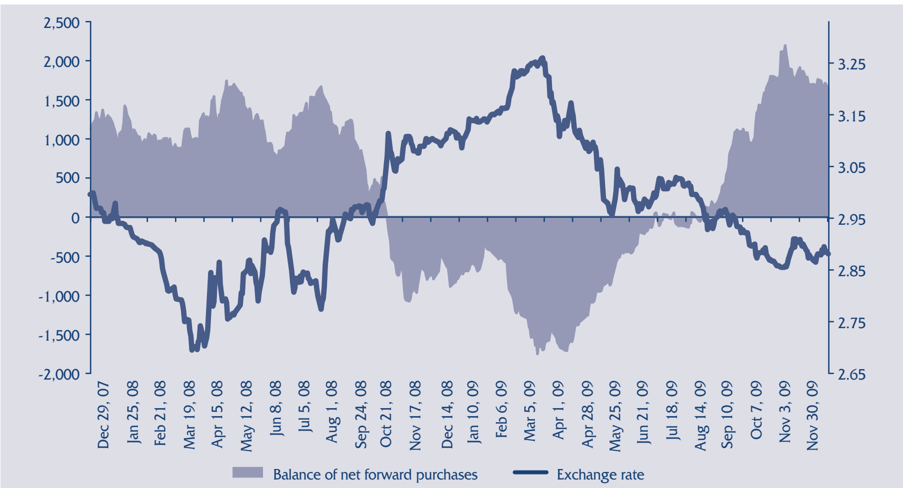
markets and portfolio movements of local agents, mainly AFPs, which reduced their long positions in foreign currency in response to the decline of risk aversion in international financial markets. In real terms, the exchange rate has recorded a similar level to the one observed at the beginning of the year, which is also similar to the average level in the last 10 years.

Graph 73
REAL MULTILATERAL EXCHANGE RATE INDEX
(Dec.01 = 100)



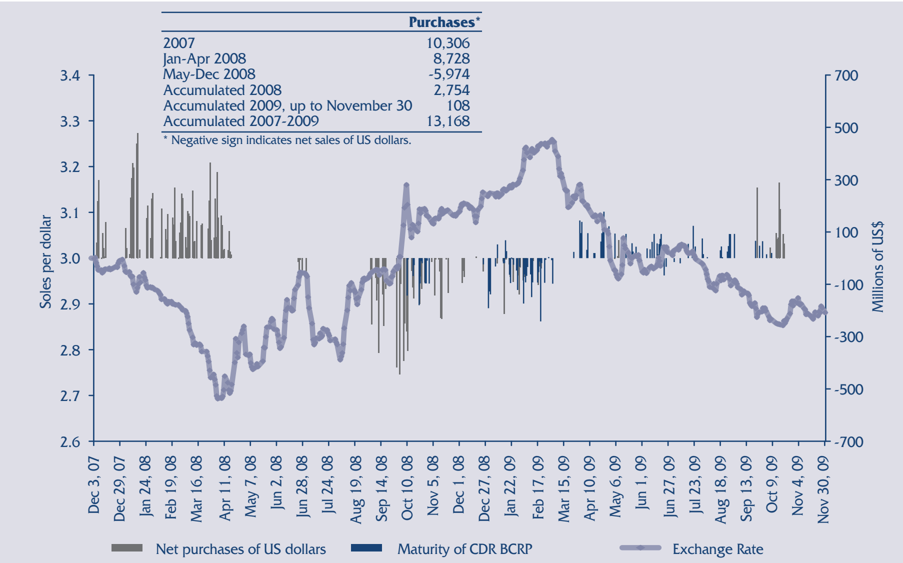
78. The balance of net forward purchases began to increase since the second half of August 2009, reflecting appreciatory pressures on the exchange rate. This balance reached a record level of US$ 2,196 million at end October. In November, pressures in the forex market declined significantly and the balance of net purchases reached a level of US$ 1,654 million at the close of this month.

Graph 74
NET FORWARD PURCHASES AND EXCHANGE RATE
(Exchange rate S/. per US$ and purchases in millions of US$)



79. Between September and November, the BCRP purchased foreign currency for a total of US$ 1,179 million to reduce the volatility of exchange generated by a reversal of domestic institutional investors' long positions in foreign currency.

Graph 75
EXCHANGE RATE, NET PURCHASES OF FC AND NET MATURITY OF CDR
(Exchange rate S/. per US, purchases and CDRs in millions of US$)



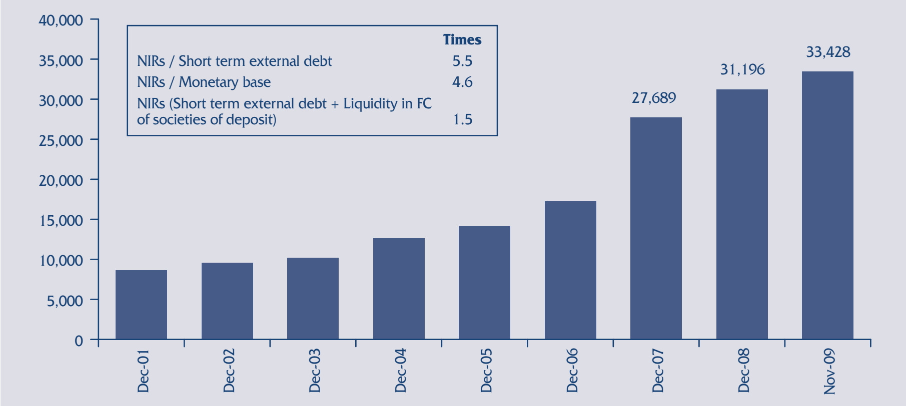
80. In the same period, expectations about the exchange rate in 2010 and 2011 declined, reflecting the market conditions observed at the time. Thus, economic analysts and financial entities expected the exchange rate in 2010 to close at S/. 2.90 and S/. 2.88 per dollar, respectively. In 2011, analysts expect the exchange rate to close at S/. 2.85, a lower rate than the one expected in September (S/. 2.91 per dollar).

TABLE 24
SURVEY ON MACROECONOMIC EXPECTATIONS: EXCHANGE RATE
(Nuevos soles per US$)

	Sep.09	Oct.09	Nov.09
FINANCIAL ENTITIES			
2010	2.90	2.90	2.88
2011	2.90	3.00	2.90
ECONOMIC ANALYSTS			
2010	3.00	2.91	2.90
2011	2.91	2.87	2.85
NON-FINANCIAL FIRMS			
2010	3.00	3.00	3.00
2011	3.10	3.05	3.00

81. In Q4-2009, the Central Bank continued preventively accumulating international reserves and purchased US$ 1,336 million in the forex market, as a result of which the balance of reserves increased to US$ 33,428 million in November 2009.

Graph 76
NET INTERNATIONAL RESERVES
(Millions of US$)



BOX 5

ADVANTAGES FOR EMERGING COUNTRIES OF ACCUMULATING INTERNATIONAL RESERVES

In the years prior to the crisis, in a context of significant growth of liquidity and high economic growth worldwide, many emerging countries strengthened their economic policy framework and reduced their vulnerabilities, which reflected in an almost inexistent need to finance their balance of payments. The economies that showed lower ratios of external vulnerabilities before the deepening of the crisis are the ones that today record lower drops in their growth rates. Peru was one of the countries that underwent this process, reflected in a significant reduction of its public debt and its external debt. The former declined from 47 to 30 percent of GDP and the latter declined from 48 to 31 percent of GDP between 2003 and 2007.

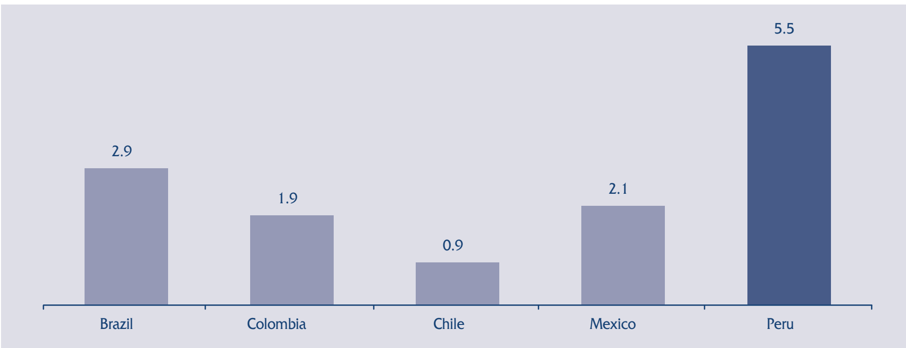
In that context, many emerging economies began to implement preventive measures to face eventual needs of financing their balance of payments, such as establishing reserve pools and intra regional financing agreements; contingent financing from multilateral organizations, as the recently established flexible credit lines of the IMF; bilateral swap agreements of liquidity in foreign currency, among other measures. However, these instruments have two important constraints: i) They are not immediately available since the approval of an external entity is required to have access to these funds, and ii) they may be insufficient in contexts of systemic liquidity needs affecting an entire region.

The preventive accumulation of reserves in such a context is a crucial mechanism to face crises, particularly for small emerging countries. The accumulation of international reserves allows offsetting the constraints associated with the imperfect access to international financial markets and makes the implementation of counter cyclical monetary policies more feasible for emerging economies, and therefore reduces the need of making drastic adjustments in aggregate spending in negative external scenarios. With an appropriate level of international reserves, economies can offset the negative impact of transitory drops of their revenues from exports or of outflows of short term capitals through several mechanisms. On the one hand, the Central Bank can use international reserves to reduce the pressures on the availability of liquidity in FC in the financial system, for example, reducing the rate of reserve requirements. Thus, financial entities are not forced to reduce their supply of credit to face a reduction of foreign short term financing.

On the other hand, the Central Bank can also contain an abrupt depreciation of the local currency, selling FC directly and reducing in this way the negative effect of the outflow of capitals on the exchange rate and, through this channel, on firms' financial position. In dollarized economies such as the Peruvian economy, international reserves also allow the Central Bank to play its role of last-resort lender as they allow the Central Bank to provide liquidity in FC to banks in episodes of deposit runs or segmentation of the money market in dollars. This contributes to maintain stable interest rates and credit, even in periods of high uncertainty in financial markets.

The recent experience has evidenced that maintaining a high level of international reserves eases the access of emerging economies to international financial markets. By reducing the risk of a lack of international liquidity and the need of adopting abrupt macroeconomic adjustments, international reserves generate greater stability in the economic cycle which, in turn, leads to a lower perception of country risk. The latter has allowed economies like Peru to issue nearly US$ 2,000 million in global bonds at rates close to 7 percent and with maturities of over 20 years during 2009, that is, in the midst of the international financial crisis.

NIRS / SHORT-TERM EXTERNAL LIABILITIES
(Number of times)



A preventive policy of accumulation of international reserves has the additional advantage that it is not incompatible with a floating exchange rate system as it can be complemented with monetary sterilization operations, consistent with the operational target of the reference interest rate. A floating exchange regime with occasional interventions to reduce the volatility of the exchange rate does not generate the imbalances or the potential instability that fixed rate regimes have. On the contrary, it contributes to preserve the stability of the financial system since it strengthens the international liquidity position and, therefore, allows the Central Bank greater capacity to provide liquidity in FC to the financial system in episodes of financial stress.

BOX 6

THE INTERNATIONAL EXPERIENCE OF COVERED BONDS

The country's market of mortgage credits is still small compared with other economies of the region: in Peru this type of credits is equivalent to 3 percent of GDP, while in Chile, Mexico and Colombia it represents 15 percent, 11 percent, and 5 percent, respectively.[6] Thus, there is a wide margin for the development of the financial mortgage market in Peru. An alternative to this is covered bonds, collateral-backed debt papers, which can constitute an important source of resources to finance mortgage loans.

In countries with developed mortgage markets, the so-called financial mortgage instruments (papers backed by mortgage loans) have played an important role in sustaining house loans in the medium term as they allow to channel resources from the capital market (managed by pension funds, mutual funds, and insurance companies, for instance) to finance mortgages.

Models of issuance of financial mortgage instruments

Economic literature has identified two models of issuance of financial mortgage instruments: the model of covered bonds and the securitization or the "originate to distribute" model.

The instruments classified in the model of covered bonds are issued directly by the institution originating the assets that constitute the guarantee, which usually consist of mortgage credits and other high quality assets. The main feature of this model is that the credit risk remains in the bank's balance. As regards its use and dissemination, this model is currently followed by most European countries.

6 Morris, Felipe, Estudio sobre programas de vivienda: caso Peru, IDB, 2009.

On the other hand, the instruments classified in the securitization model are issued by a special purpose vehicle (securitizing company) which buys a set of mortgage credits originated by financial entities that will serve to back their issuance. This model has been mainly used by financial entities in the United States.

In the case of the second model, the credits that serve to back the issuance are taken out the originating bank's balance and exchanged by non-risk asset (cash), which could be used to grant additional loans. Through these operations, the banks that are close to the legal leverage limit immediately reduce their ratio of risk-weighted assets to equity, which allows them to use the financing obtained to give new loans, as a result of which new risks are incorporated to their balance.

The international experience of covered bonds

In the case of covered bonds, the fact that the assets remain in the bank's balance allows a better alignment between the incentives of investors and those of financial institutions because now the latter are also exposed to the quality of credits they give. Moreover, typically the set of high quality assets that back covered bonds is actively managed, so "bad" assets are replaced by "good" ones all the time.[7]

MAIN ISSUERS OF COVERED BONDS 2007
(Billions of Euros)

Source: European Covered Bond Fact Book 2008.

It is worth pointing out that in the current context of international financial crisis, even though covered bonds have also been adversely affected, they have recorded a better performance in terms of prices compared with alternative instruments, such as mortgage backed securities (MBS).

7 D. Hancock and W. Passmore, *"Three Mortgage Innovations for Enhancing the American Mortgage Market and Promoting Financial Stability"*, Federal Reserve System, preliminary version, October 2008.

Additionally, the development of these bonds offers several advantages, including: (i) a better match of terms between the assets (the new loans) and the liabilities (the mortgage instrument) of financial intermediaries' operations; (ii) access to new low cost financing sources for issuer entities; (iii) access to higher sources of financing for those that want a house, as a result of which access to housing is promoted; (iv) a greater diversification and depth of the local capital market, since financial papers that could be demanded by private pension funds and other institutional investors are provided, and (v) the appearance of a new instrument in soles that could be used as the collateral in the monetary operations of the BCRP.

However, the countries that have been able to benefit from the advantages of covered bonds generally have laws and regulations that establish a series of requirements to ensure the predictability of the procedures to be followed when the conditions of the issuer, the bond, and its collaterals change. The following aspects are frequently foreseen by regulations: (i) the requirement of explicitly identifying the loans backing the issuance; (ii) the minimum value of the loan relative to the value of the mortgaged house; (iii) the procedures to substitute a fraction of the portfolio serving as the collateral of the issuance in the case of a prepayment or credit deterioration of the loans; (iv) the minimum levels of over collateralization; (v) the use of liquidity flows resulting from the regular service of the credits used as collaterals; (vi) the entities responsible for overseeing the appropriate identification of the loans, the substitution and use of resources, as well as their choice; and (vii) the destination of collaterals in the case of liquidation of the issuer company.

All of these characteristics allow bonds to have simple and standardized structures, which makes them easily comparable within this category of instruments. This is essential to provide liquidity to their negotiation and to their use for alternative ends, such as the temporary supply of liquidity.

Bonds and mortgage credits in Peru

In Peru, the balance of mortgage credits granted by the financial system at March 2009 amounted to S/. 12,387 million (3 percent of GDP), of which only 2 percent (S/. 247 million) was financed through mortgage instruments and 18 percent by resources of Fondo MiVivienda (FMV). The rest is financed with deposits of the financial system, the longer term loans being the ones granted with funds of Compensation for Time of Service (CTS) and the funds of institutional investors, particularly pension funds, which have a quite high volatility. The term mismatch could be avoided with the development of mortgage instruments.

Mortgage loans are mainly granted by banks, which concentrate 95.8 percent of the total, and represent 13 percent of total bank placements. Moreover, mortgages still show a high level of dollarization, although this ratio has been declining in the last three years. Thus, in 2008 the flow of new loans in soles has been over twofold higher than the flow of loans in dollars, which has generated that the ratio of dollarization drop from 80 percent in 2007 to 60 percent in October

2009. In Peru, the issuance of mortgage bonds in soles could also contribute to the dedollarization of credit, which would benefit banks' clients through the reduction of the risks associated with the depreciation of the sol.

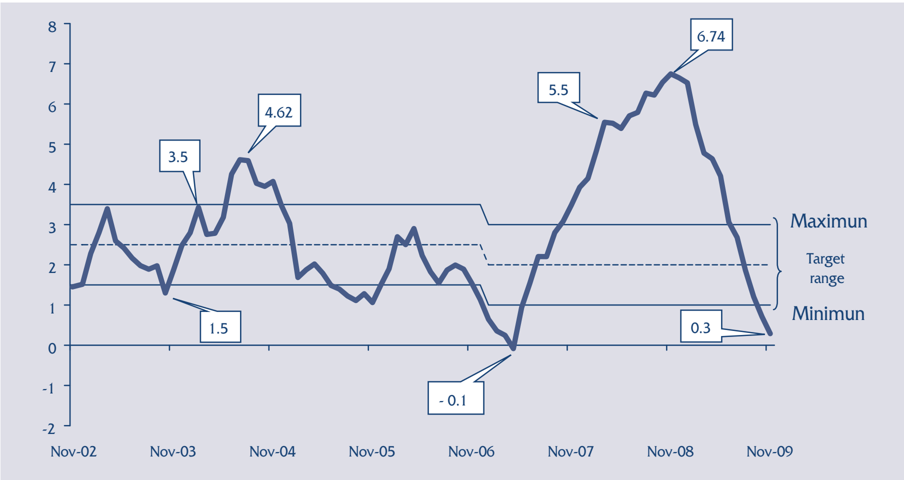
Therefore, a more precise regulation of the structuring of covered bonds, including the requirements established in the countries where its use has been intensified, would allow both the financial system and families, in general, to benefit from the issuance of these instruments.

VI. Inflation

82. Inflation fell below the target range in a context of lower inflation expectations and a reversal of the supply shocks that affected the prices of foodstuffs. At November 2009, the rate of accumulated inflation in the last 12 months was 0.3 percent. Inflation had recorded a rate of 6.65 percent at December 2008. The reversal of the rises observed in the prices of commodities in a context of international crisis, the appreciation of exchange, and the contraction of domestic demand allowed the reduction of the domestic prices of fuels and some foodstuffs.

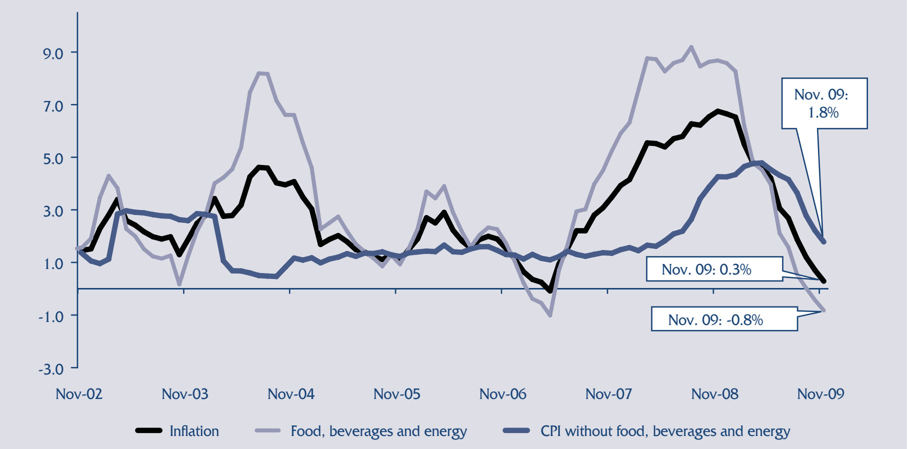
Despite the recovery registered in the last months, the average price of crude in November 2009 was 22 percent lower than the average price recorded in 2008. This reflected in the prices of fuels, which went from last 12-month change of -0.04 percent in December 2008 to -17.0 percent in November 2009.

Graph 77
INFLATION AND TARGET RANGE
(12 month % change)



The reduction of the prices of the main food inputs (wheat, maize, and soy bean) in 2009 compared with the average prices of 2008 contributed to lower the prices of foodstuffs. The variation in the prices of foodstuffs in the last 12 months went from 9.7 percent in December 2008 to 1.1 percent in November 2009.

Graph 78
OVERALL CONSUMER PRICE INDEX AND FOOD AND BEVERAGES CPI
(Last 12-month % change)



83. Core inflation has declined from annualized rates of over 6 percent in Q4-2008 to rates close to the lower band of the target range in November 2009, reflecting the reduction of the output gap and inflation expectations. The non-core component of inflation accounts for two thirds of the drop of overall inflation.

TABLE 25
INFLATION

	Weight	2008		January - November 2009		Difference
		% chg.	Contribution (A)	% chg.	Contribution (B)	(B)-(A)
I. CPI	**100.0**	**6.65**	**6.65**	**-0.07**	**-0.07**	**-6.72**
II. CORE INFLATION	**60.6**	**5.6**	**3.2**	**2.3**	**1.3**	**-1.9**
Goods	34.0	5.3	1.7	2.1	0.7	-1.0
Services	26.6	5.9	1.5	2.5	0.6	-0.9
III. NON-CORE INFLATION	**39.4**	**8.1**	**3.4**	**-3.2**	**-1.4**	**-4.8**
Food	22.5	11.0	2.6	-1.8	-0.4	-3.1
Fuel	3.9	0.0	0.0	-14.6	-0.8	-0.8
Transport	8.4	5.9	0.5	-1.0	-0.1	-0.6
Public services	4.6	7.5	0.3	-1.4	-0.1	-0.4

Graph 79
CORE INFLATION
(3-month annualized moving average change)

84. Accumulated inflation between January and November showed a rate of -0.07 percent. The items that most contributed to accumulated inflation in this period included meals outside the home, sugar, fish, cleaning items, and education (tuition and fees). On the other hand, the items with the highest negative contribution to inflation were potato, eggs, rice, kerosene and gasoline, and lubricants.

TABLE 26
INFLATION

	Weight	2006	2007	2008	2009	
					Jan.-Nov.	12-month
Inflation	**100.0**	**1.14**	**3.93**	**6.65**	**-0.07**	**0.29**
1. Food and beverages	47.5	1.76	6.02	9.70	0.36	1.13
2. Rest of components	52.5	0.61	2.02	3.86	-0.50	-0.51
a. Fuels and electricity	6.2	-3.16	5.21	1.65	-11.45	-13.52
Fuels	3.9	-1.50	6.45	-0.04	-14.64	-17.01
Electricity	2.2	-7.30	1.92	6.31	-3.20	-4.30
b. Transport	8.4	1.12	0.82	5.86	-0.95	-0.14
c. Public services	2.4	1.22	-1.44	8.68	0.33	0.39
d. Other goods and services	35.5	1.28	1.89	3.51	2.06	2.34
Memo						
Core inflation	60.6	1.37	3.11	5.56	2.27	2.68
Core inflation excluding f&b	35.5	1.28	1.89	3.51	2.06	2.34

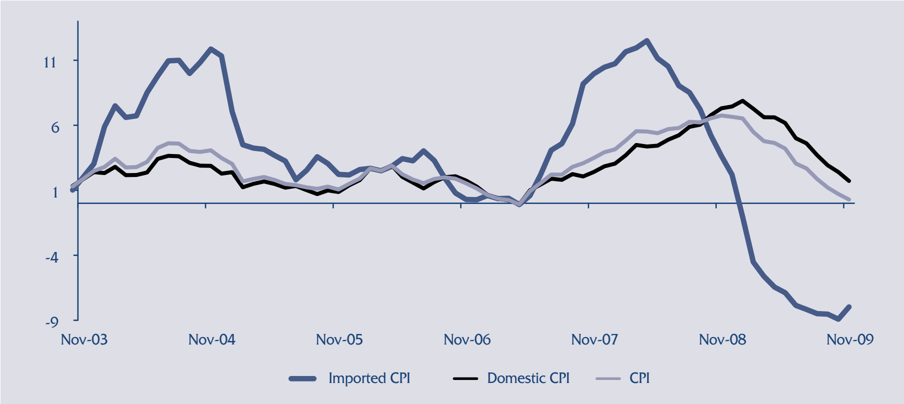
TABLE 27 WEIGHTED CONTRIBUTION TO INFLATION: JANUARY - NOVEMBER 2009							
Positive	Weight	% Chg.	Contribution	Negative	Weight	% Chg.	Contribution
Meals outside the home	12.0	3.2	0.37	Potato	1.5	-22.5	-0.49
Sugar	1.4	30.5	0.34	Kerosene	1.2	-17.5	-0.37
Education tuition and fees	5.1	4.5	0.24	Gasoline and lubricants	1.5	-18.8	-0.36
Fresh and frozen fish	1.1	12.0	0.13	Rice	2.3	-13.5	-0.34
Cleaning articles	1.4	7.5	0.11	Eggs	0.7	-18.4	-0.19
Total			**1.19**	**Total**			**-1.75**

Imported inflation

85. Imported inflation recorded an accumulated change of -6.9 percent at November. This drop is explained by the evolution of the fuel component (-14.6 percent), imported foodstuffs (-2.9 percent), and electrical appliances (-2.3 percent).

TABLE 28 DOMESTIC AND IMPORTED INFLATION: 2006 - 2009 (Accumulated % change)						
	Weight	2006	2007	2008	2009	
					Jan.-Nov.	12-month
I. IMPORTED CPI	**12.1**	**0.27**	**10.46**	**2.20**	**-6.88**	**-7.97**
Food	5.4	2.08	18.83	4.75	-2.90	-3.22
Fuels	3.9	-1.50	6.45	-0.04	-14.64	-17.01
Electric appliances	1.0	-1.29	-1.50	-0.06	-2.30	-2.16
Other items	1.8	0.64	0.47	0.46	-0.23	-0.08
II. DOMESTIC CPI	**87.9**	**1.28**	**2.84**	**7.44**	**1.08**	**1.72**
III. CPI	**100.0**	**1.14**	**3.93**	**6.65**	**-0.07**	**0.29**
Exchange rate		**-6.40**	**-7.00**	**4.47**	**-7.36**	**-6.70**
Imported CPI excluding food	6.7	-1.02	4.31	0.06	-10.37	-12.07
Food and beverage domestic CPI	42.1	1.72	4.14	10.53	0.88	1.83
Domestic CPI excluding food	45.8	0.89	1.64	4.53	1.29	1.60

Graph 80
DOMESTIC AND IMPORTED INFLATION
(Last 12-month % change)



Inflation expectations

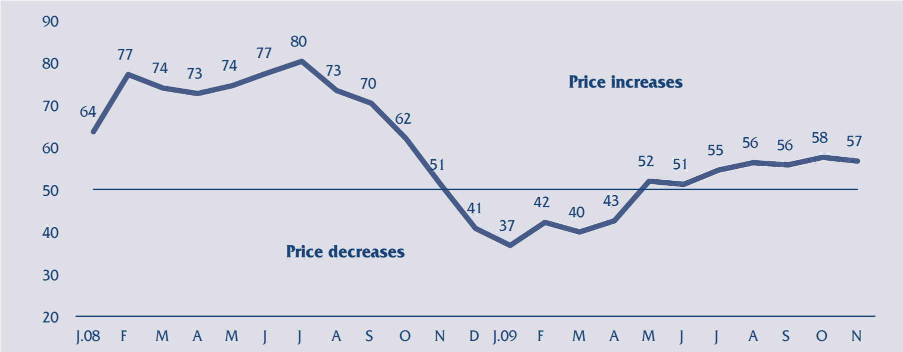
86. Economic agents' expectations of inflation in 2009 have declined compared with the information discussed in our Report of September. In general, the surveyed groups expect inflation in 2010 and 2011 to fall within the target range (between 2.0 and 3.0 percent).

TABLE 29
SURVEY ON MACROECONOMIC EXPECTATIONS: INFLATION (%)

	September 2009	November 2009
FINANCIAL ENTITIES		
2010	2.5	2.2
2011	2.9	2.5
ECONOMIC ANALYSTS		
2010	2.5	2.0
2011	2.8	2.0
NON-FINANCIAL FIRMS		
2010	3.0	2.5
2011	3.0	2.5

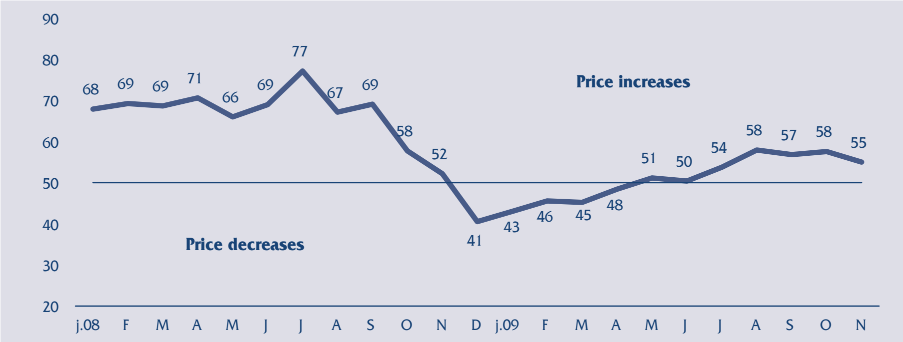
87. As regards the average prices of inputs and sale prices in the next 3-4 months, the index of expected average price of inputs rises from 56 in the September Report to 57 in this Report because a lower percentage of firms expect, the index of expected average sale prices has declined from 58 to 55 since our September Report was published.

Graph 81
AVERAGE INPUT PRICE INDEX: NEXT 3 - 4 MONTHS
Manufacturing sector



Source: BCRP Survey on Macroeconomic Expectations, November 2009.

Graph 82
AVERAGE SALE PRICE INDEX: NEXT 3 - 4 MONTHS
Manufacturing sector



Source: BCRP Survey on Macroeconomic Expectations. November 2009.

Inflation forecasts

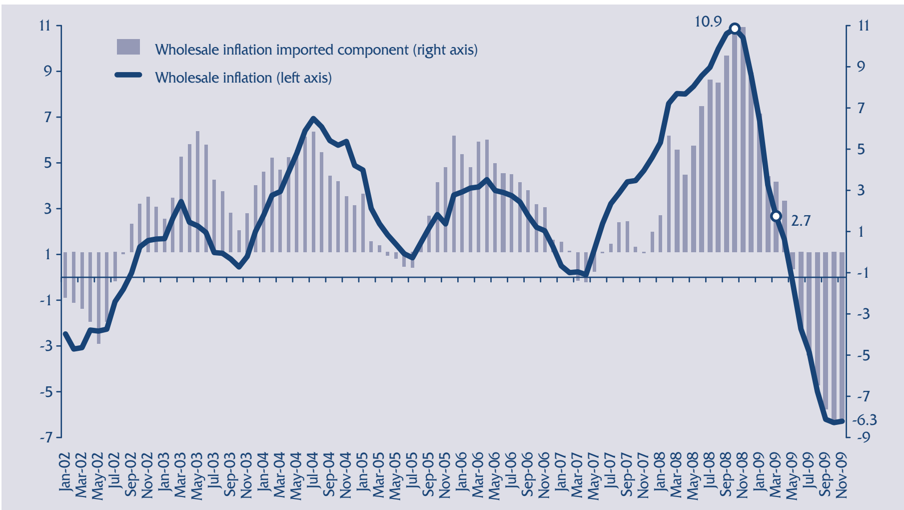
88. Projected inflation in 2009 is revised slightly downwards compared with the Inflation Report of September due to the lower growth of economic activity and due to the fact that lower inflation is expected. Inflation returned to the target since July 2009. As from October, it has transitorily fallen below the lower band of the target range, as forecasted in our Inflation Report of September. In 2010, it should return to the target range in the beginning of Q2

89. The downward trend shown by inflation during 2009 resulted from the reversal of the supply shocks affecting the prices of imported food and from the reduction of inflation expectations to levels close to the target. Last 12-month inflation has declined from 6.5 percent in January 2009 to 1.9 percent in August and to 0.3 percent in November of this year.

90. In line with the information discussed in our Inflation Report of September, the severe deterioration of global economic conditions has affected the dynamism of domestic economic activity. This impact has been enhanced by a strong inventory adjustment. In this sense, the slowdown of GDP growth in the first nine months of 2009 was greater than the one foreseen in the baseline scenario of our Inflation Report of September. This lower initial point has had a downward effect on the growth path of GDP in 2009.

91. The lower initial point observed in Q4-2009 is associated with a lower level of imported inflation, which was even lower than the one forecasted in our previous report. This was due to the negative effects of the international recession, which was coupled by the slow reactivation of leading economies and its effects on the prices of imported inputs, such as oil derivatives, food, and construction inputs. The impact of these two factors is reflected in the recent downward evolution of the retail price index and its imported component.

Graph 83
WHOLESALE PRICE INDEX
(Last 12-month % change)



92. A gradual upward correction is projected in the price of commodities, in line with the gradual recovery of the world economy in 2010 and 2011. In this sense, a moderate upward contribution of imported inflation on overall inflation is expected.

93. The grain futures market considers a price rise in line with the recovery of the global economy, as has been observed in the last two months. It is estimated that these higher costs of imported food inputs would be domestically absorbed through margins, which on average are currently higher than the levels recorded

in previous years. The baseline scenario also considers a reduction of the current gap between the international price of fuel and domestic prices through the increase of the latter.

94. The projected decline of terms of trade has been revised slightly downwards, from -8.4 to -7.7 percent in 2009, since the lower drop of the prices of exports (from -13.9 to -11.5 percent) has been compensated by the lower drop of the prices of imports (from -5.9 to -4.1 percent). This is associated with better forecasts of growth in India and China, the largest developing countries. China, in particular, recorded higher-than-expected growth rates in Q2 and Q3 of 2009. Because of this, the forecast on global growth has also been slightly increased, from -1.3 percent in our last report to -1.0 percent. Moreover, a gradual improvement of the global economic outlook is expected as from 2010.

95. The baseline forecast scenario considers that the loosening of monetary policy and the execution of higher public spending associated with the Economic Stimulus Plan will contribute to sustain economic growth throughout the forecast horizon, especially in Q4 of 2009 when GDP should record a positive growth rate. Growth would continue throughout 2010.

    All together, the external and domestic determinants of economic activity imply a gradual improvement of the output gap (measured as the deviation of GDP from the potential output), especially in 2010. The forecast on GDP growth is revised from 1.8 to 1.0 percent for 2009. A growth rate of around 5.5 percent is estimated for 2010 and 2011.

VII. Balance of risks

96. The risk factor foreseen in our previous report that materialized was the risk of higher domestic food prices.

97. Given the macroeconomic context, the forecasts are still subject to a high level of uncertainty, although slightly lower than in our last report. The main risks that could cause inflation to deviate from the central scenario include the following::

- **Deterioration of the world economy.** The baseline scenario considers that the global economy has started recovering. However, the probability that growth would be even slower or the risk of experiencing a downturn in the recovery still remains (the main risks are associated with a slow evolution of consumption in developed countries, with the strategy used to withdraw monetary and fiscal stimulus, and with a lower-than-expected growth in China, among other factors). This risk would imply lower rates of growth and inflation than the ones considered in the baseline scenario.

  In this risk scenario, monetary policy would maintain a monetary stimulus position for a longer period of time.

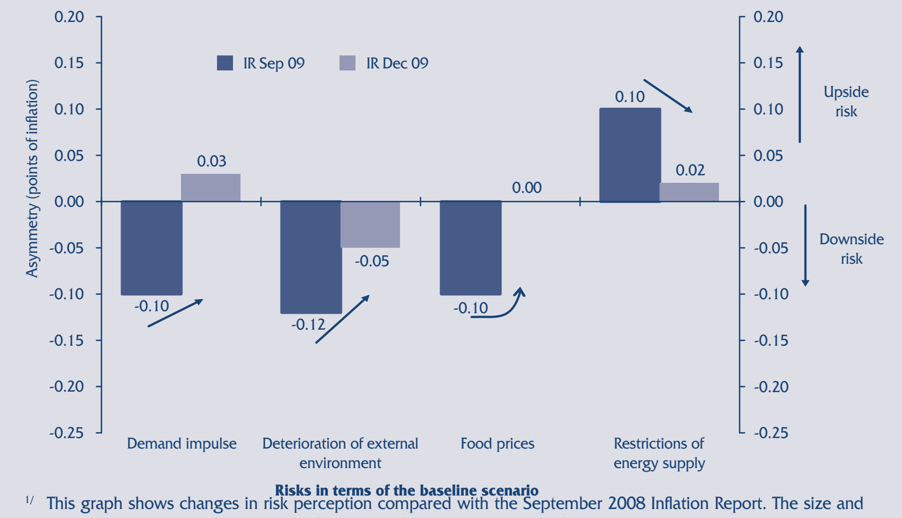
- **Greater impulse of domestic demand.** The forecast scenario considers a context of recovery in domestic activity, supported mainly by the growth of public and private spending. However, if private and public consumption expenditure increased significantly, monetary stimulus would be reduced faster.

- **Constraints in the supply of electricity:** the deceleration of demand for electricity and the expansion of the supply of electricity generation during the year have reduced upward pressures on electricity rates in the short term. However, given the expected recovery of growth, there is a slight risk of having upward pressures in 2011 should adverse climatic factors (severe drought) occur if the effective increase of energy supply is delayed.

  This factor would only imply changes in monetary policy if this affects inflation expectations.

98. The inflation forecast goes from a downward bias to a neutral balance.

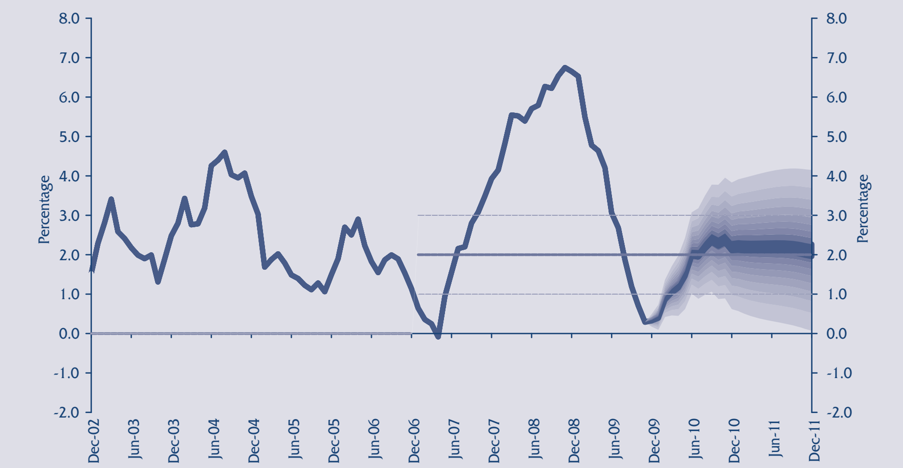
Graph 84
INFLATION FORECAST: BALANCE OF RISKS 1/
(Deviations 2 year-ahead inflation in % points)



1/ This graph shows changes in risk perception compared with the September 2008 Inflation Report. The size and sign of bars show the asymmetry of each risk factor in the inflation forecast distribution. In contrast with the previous report. added total effects generated a slightly downward asymmetry in the inflation forecast.

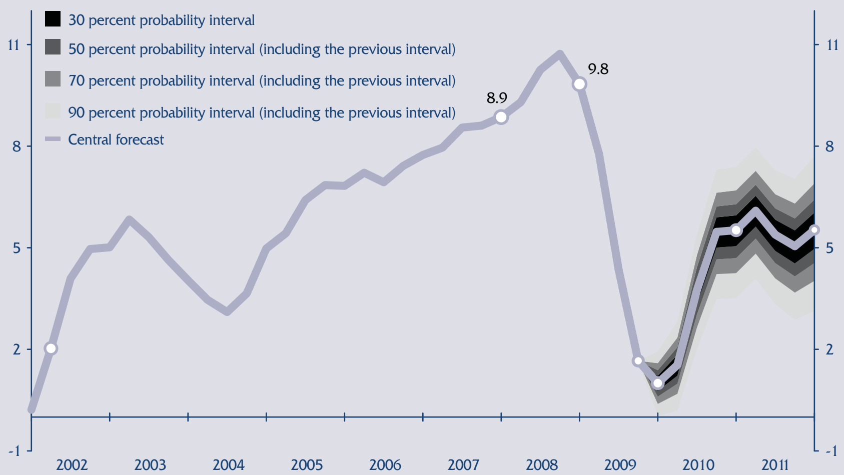
99. This leads to project a symmetric density for inflation, which means that there is the same probability that inflation will fall below or above the level considered in the baseline scenario throughout the forecast horizon. The balance of risks in terms of GDP growth is also considered neutral.

Graph 85
INFLATION FORECAST
(12-month % change)



Memo: The graph shows the inflation prediction bands along the forecast horizon. The darkest band around the central forecast represents a 10 percent probability of occurrence, while all the other bands represent a 90 percent probability of occurrence.

Graph 86
GDP GROWTH FORECAST
(% change of GDP moving average of the last 4 quarters compared with the same period of the previous year)



Memo: The graph shows the inflation forecast bands along the forecast horizon. The darkest band around the central forecast has a 30 percent probability of occurrence, while all the bands together have a 90 percent probability of occurrence.

CONCLUSIÓN

100. Inflation in the last months continued showing a downward trend associated mainly with the reversal of the supply shocks observed last year. As a result of this, the rate of inflation in the last 12 months has transitorily fallen below the target range, but is projected to converge towards the target at the beginning of Q2-2010. The determinants of the inflation forecast are: a recovery in the economy that allows closing the current negative output gap, inflation expectations anchored at the level of the target, relatively low imported inflation, and normal conditions of food supply with a "moderate" El Niño event.

APPENDIX
SUMMARY OF THE INFLATION REPORT FORECAST

	2007	2008	2009 1/		2010 1/		2011 1/	
			IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09	IR Sep. 09	IR Dec. 09
Real % change								
1. GDP	8.9	9.8	1.8	1.0	5.0	5.5	5.2	5.5
2. Domestic demand	11.8	12.3	-0.4	-2.8	5.9	6.2	5.7	6.1
a. Private consumption	8.3	8.7	2.5	2.2	3.3	3.3	4.2	4.2
b. Public consumption	4.5	1.8	9.5	9.5	4.0	4.9	3.0	3.9
c. Private fixed investment	23.4	25.6	-10.3	-15.3	4.2	6.3	9.2	9.0
d. Public investment	18.4	42.8	40.0	21.0	15.6	22.0	7.2	9.8
3. Exports (goods and services)	6.2	8.2	-2.7	-3.0	4.7	5.5	6.1	5.7
4. Imports (goods and services)	21.3	19.9	-11.6	-19.1	9.2	8.8	8.3	8.9
5. Main trade partners' economic growth	4.7	2.6	-1.7	-1.4	2.7	3.0	3.4	3.5
Memo:								
Output gap 2/ (%)	1.7	3.8	-1 . 0	-2 . -1	-1 . +1	-1 . 0	-1. +1	-0.5 . +0.5
% change								
6. Forecast inflation	3.9	6.7	0.0 - 1.0	0.0 - 0.5	1.5-2.5	1.5-2.5	1.5-2.5	1.5-2.5
7. Average price of crude oil	9.4	38.5	-39.7	-38.1	24.8	32.3	4.3	4.9
8. Nominal exchange rate 3/	-7.0	4.5	-4.2	-7.3	2.0	1.4	0.8	-0.3
9. Real Multilateral exchange rate 3/	-1.7	-4.8	-3.4	1.5	1.6	1.4	0.5	-0.3
10. Terms of trade	3.6	-13.8	-8.4	-7.7	4.9	10.1	-0.8	-2.6
a. Export price index	14.0	4.9	-13.9	-11.5	11.0	20.3	1.7	0.0
b. Import price index	10.0	21.7	-5.9	-4.1	5.8	9.2	2.6	2.7
Nominal % change								
11. Currency in circulation	27.1	16.7	10.0	10.5	12.5	12.5	14.0	14.0
12. Credit to the private sector 4/	33.0	29.6	7.0	10.0	10.5	11.0	11.5	11.5
% of GDP								
13. Domestic savings rate	22.9	26.9	23.6	21.0	25.4	22.5	26.7	24.1
14. Current account of the balance of payments	1.1	-3.3	-2.1	-0.6	-2.4	-0.7	-2.5	-1.2
15. Trade balance	7.7	2.4	2.9	4.3	3.1	5.6	2.7	4.7
16. Gross external financing to the private sector 5/	9.1	5.6	5.7	5.9	4.9	5.1	4.9	4.4
17. Current revenue of the general government	20.7	20.8	18.4	18.6	19.0	18.9	19.3	19.3
18. Non-financial expenditure of the general government	16.0	17.3	19.3	19.0	19.2	19.4	19.1	19.5
19. General government overall balance	3.1	2.1	-2.0	-1.5	-1.6	-1.6	-1.2	-1.2
20. Total public debt balance	29.6	24.0	26.0	26.4	25.3	23.8	24.8	23.3

IR: Inflation Report
1/ Forecast.
2/ Differential between GDP and potential GDP (percentage).
3/ Expectations of economic agents regarding the evolution of the exchange rate according to the survey on macroeconomic expectations.
4/ Constant exchange rate.
5/ Includes foreign direct investments and private sector's long term disbursements.