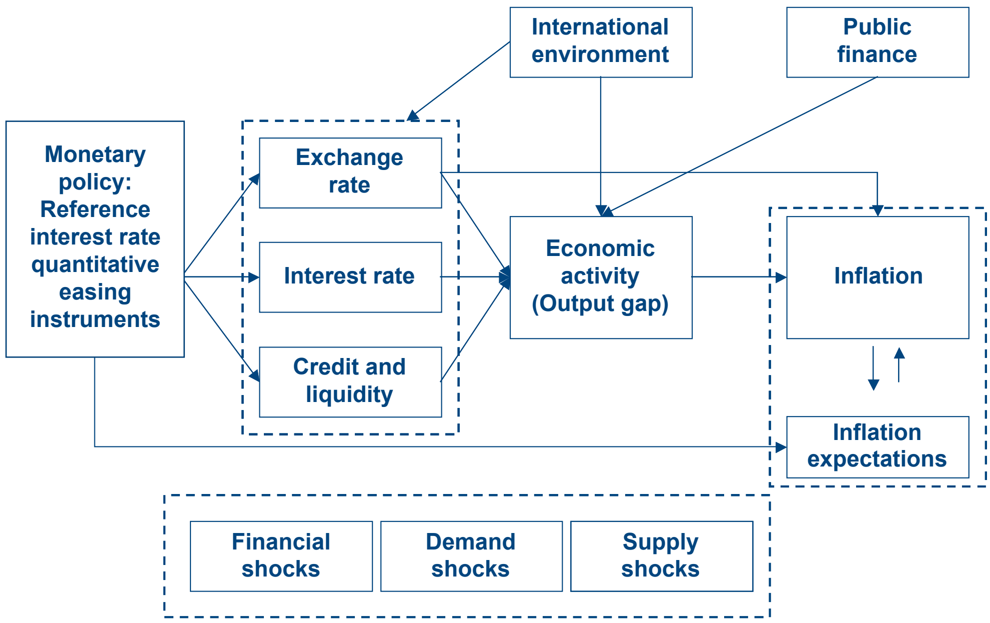
INFLATION REPORT:

Recent trends and macroeconomic forecasts 2010-2011

March 2010



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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 December 2009, and data on monetary accounts, inflation, exchange rate, and financial markets as of February 2010.

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. Additionally, the Central Bank manages other monetary policy instruments with which it can affect more directly the volumes of liquidity and credit, such as reserve requirements in domestic and foreign currency.

- 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 during 2009. The forecast scenario analyzed herein is consistent with monetary policy lags during the 2010-2011 macroeconomic horizon.

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

Summary

i. The Central Bank continued maintaining a loose monetary position, keeping the reference rate at historically minimum levels (1.25 percent) since August and using liquidity injection operations and the reduction of the maturity of its bonds to reinforce the expansionary impulse of monetary policy.

These monetary actions have also allowed reaching historical minimum interest rates in the financial system. As a result of this, credit has continued growing significantly, especially since October.

Additionally, in order to reduce foreign exchange volatility and prevent undesired effects in the financial position of economic agents, interventions in the exchange market for US$ 1,385 million were carried out between January and February of this year. These operations were sterilized thereafter through the placement of short-term Certificates of Deposit (CDBCRP), preserving in this way an expansionary monetary position.

As pointed out in the Monetary Policy Communiqué of March and given the preventive nature of monetary policy actions, the Central Bank will continue to oversee inflation forecasts and inflation determinants to adopt timely adjustments in the monetary stance in order to guarantee that inflation remains within the target range.

ii. As indicated in our Inflation Report of December, economic activity in 2009 was characterized by the correction of inventories and the re-profiling of private investment projects, which led GDP to grow 0.9 percent in real terms in the year. The more evident signals of recovery observed as from the second semester were reflected in a level of growth which in the last quarter, in deseasonalized terms, was higher than the one observed at the beginning of the crisis, determining that this cycle was one of the shortest economic cycles in the last 30 years, both in terms of the contraction stage and in the stage of recovery (4 quarters altogether).

In line with these developments, the Central Bank maintains the forecasts on growth in 2010 and 2011 considered in our Inflation Report of December and expects a growth rate of 5.5 percent in each year.

iii. To a great extent, the recovery cycle being observed in the global economy has been a response to the impulse generated by monetary and fiscal policies in the world. Having overcome the period of the cycle of global slowdown, the focus of monetary and fiscal policies has now shifted towards the most efficient way of gradually withdrawing monetary stimulus programs given that inflation expectations would have started to rise in some economies. In this context, some central banks have begun to deactivate some of the quantitative measures and to raise reserve requirements, while others have started to raise their policy interest rates to reverse to some degree their loose monetary stances.

Considering the recent evolution of global GDP, growth in 2010 and 2011 should be faster than previously estimated in our Report of December 2009. Thus, the global economy would grow 3.5 and 4.0 percent in the next 2 years (growth rates of 3.3 and 3.8 percent had been estimated for 2010 and 2011, respectively, in our previous Report).

iv. The fiscal deficit recorded in 2009, equivalent to 1.9 percent of GDP, is consistent with a higher fiscal deficit than the one considered in our Inflation Report of December (1.1 executed compared with the previously estimated 0.6 percent). It is considered that the Fiscal Stimulus Program will continue being implemented in the forecast horizon, converging gradually to a position implying a more neutral fiscal impulse. Therefore, the deficit of 1.6 percent considered for this year in our previous Report is maintained and the fiscal deficit projected for 2011 is reduced from 1.2 to 1.0 percent of GDP.

v. In line with the forecasts of previous Inflation Reports, in 2009 the rate of inflation fell transitorily below the target range in a context of a reduction of inflation expectations and of a reversal of the supply shocks that affected the prices of food products. The rate of accumulated inflation was 0.25 percent in the year and 0.8 percent as of February. The rates of inflation recorded during the first two months of 2010 reflect the rises observed in the prices of electricity and foodstuffs, the latter being associated mainly with seasonal factors.

Inflation is expected to gradually converge towards the target range. This projection is consistent with an output gap that would be closing throughout the forecast horizon together with inflation expectations in line with the inflation target.

vi. The main risks that could deviate inflation from the baseline scenario in the forecast horizon include the following:

- **A slower global recovery together with a lower growth of terms of trade.** As in our Inflation Report of December, the baseline scenario considers that global economic activity would continue showing signs of recovery during 2010. However, there is the possibility that this recovery will be slower than expected due to the withdrawal of monetary and fiscal stimulus in industrialized economies and to uncertainty about the fiscal sustainability of some European economies. Moreover, a lower global demand for commodities could affect the prices of primary exports and entail a slowdown of the domestic economy.

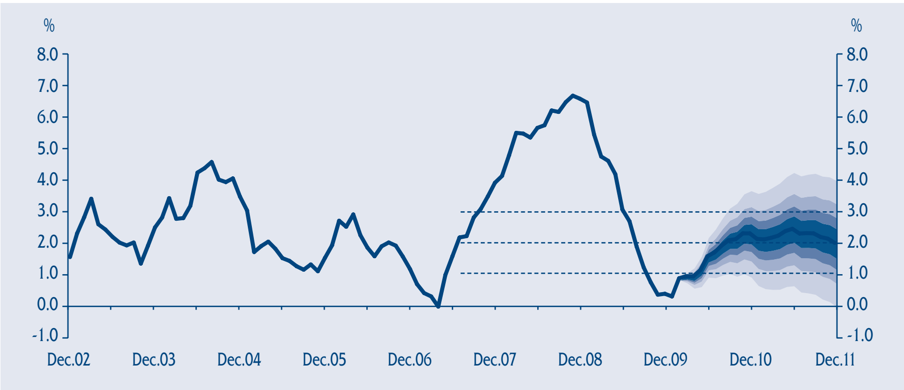
Should these risks materialize, monetary policy would maintain the position of monetary stimulus for a longer period of time.

- **Higher growth in the domestic economy.** The forecast scenario considers a context of recovery of domestic activity sustained mainly by the growth of private and public expenditure. However, if private consumer expenditure and public expenditure increase significantly, monetary stimulus would be reduced more rapidly.

- **Increase of food prices.** The occurrence of certain anomalous climatic conditions could affect domestic production and the prices of some foodstuffs, and extend, through them, to other products of the consumer basket. A rise in the international prices of foodstuffs due to a higher-than-expected increase of global demand could have an impact on domestic prices.

  A monetary policy response would be required in the case of an increase of prices only if this affects inflation expectations.

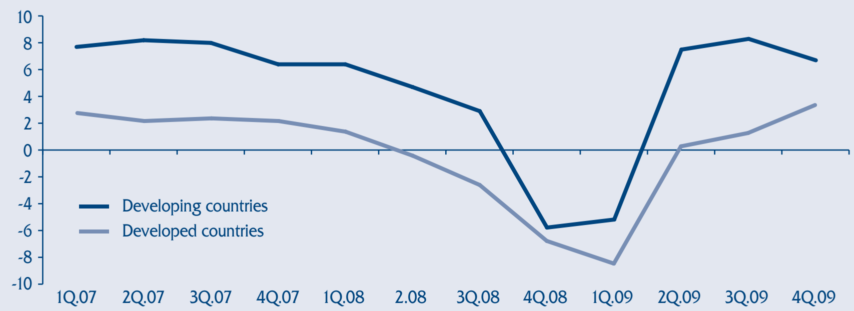
INFLATION FORECAST
(12-month % change)



I. International Environment

1. The evolution of the global economy continued showing a recovery in Q4-2009 after having recorded a substantial drop in Q1 of this year. This reversal of recessionary conditions was due to the significant impulse generated by expansionary fiscal and monetary policies, which added onto the recovery of inventories of end products and inputs. This evolution of international productive activity has been more important in developing countries, particularly China, as these economies were less exposed to the financial crisis of subprime mortgages in general terms.

Graph 1
GDP: SEASONALLY ADJUSTED QUARTERLY GROWTH RATE
(%)



Source: JPMorgan.

2. The forecasts of GDP growth in industrialized and developing countries in 2010 and 2011 have been revised upwards due to the recovery of the global economy. Global GDP is projected to grow 3.5 percent in 2010, a higher rate than the one considered in our Inflation Report of December. Particularly, the projected growth of GDP in the United States has been increased from 2.6 to 3.1 percent in 2010, and the projected growth of production of our main trading partners has also been revised upwards, from 3.0 to 3.3 percent.

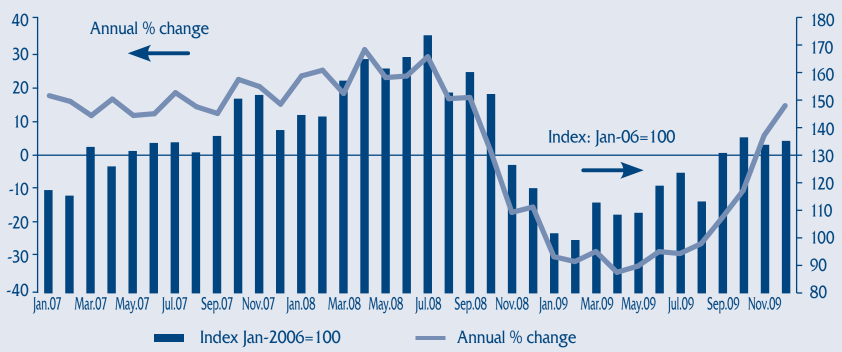
3. Some indicators that confirm the recovery of global productive activity are the growth of global exports in terms of volumes and prices and, in the same sense, the surveys of the purchasing managers in the sectors of manufacturing and services (PMI indices) in developed economies, which have fallen in the expansion area at Q4-2009.

TABLE 1
WORLD ECONOMIC GROWTH
(Annual % change)

	2008	2009	2010		2011	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
Developed countries	**0.5**	**-3.2**	**1.9**	**2.1**	**2.4**	**2.4**
1. USA	0.4	-2.4	2.6	3.1	2.9	2.9
2. Eurozone	0.6	-4.0	0.9	0.9	1.5	1.6
3. Japan	-1.2	-5.2	1.5	1.5	1.6	1.9
4. United Kingdom	0.5	-5.0	1.2	1.2	1.9	2.2
5. Canada	0.4	-2.5	2.1	2.4	3.3	3.4
6. Other developed countries	1.7	-1.1	2.9	3.3	3.5	3.4
Developing countries	**6.0**	**2.0**	**5.1**	**5.3**	**5.6**	**5.8**
1. Africa	5.2	1.9	4.0	4.0	5.2	5.3
2. Central and Eastern Europe	3.1	-4.1	1.7	1.7	3.8	3.9
3. Community of independent Countries	5.5	-6.8	2.4	2.9	3.9	4.0
Russia	5.6	-7.9	1.8	3.2	3.4	3.6
4. Developing Asia	7.6	6.5	7.3	7.6	7.3	7.7
China	9.0	8.7	9.0	9.2	9.0	9.2
India	7.5	6.0	6.0	6.5	6.0	6.5
5. Middle East	5.3	2.2	4.2	4.2	4.6	4.8
6. Latin America and the Caribbean	4.2	-1.8	3.3	3.5	3.7	3.7
Brazil	5.1	-0.2	4.5	4.8	3.5	3.5
World Economy	**3.0**	**-0.8**	**3.3**	**3.5**	**3.8**	**4.0**
Memo:						
BRICs 1/	**7.7**	**4.5**	**6.7**	**7.2**	**6.8**	**7.1**
Peru's trading partners 2/	**2.6**	**-1.2**	**3.0**	**3.3**	**3.5**	**3.5**

1/ Brazil, Russia, India and China.
2/ Basket of the main 20 Peru's trading partners.
RI Dec.09: Inflation Report December 2009.
RI Mar.10: Inflation Report March 2010.

Graph 2
WORLD EXPORTS
(Annual % change and index January 2006=100)



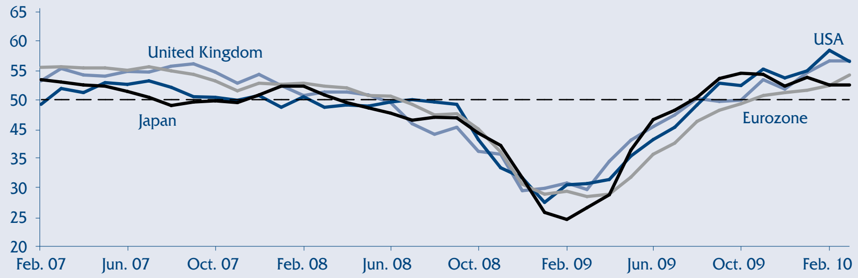
Source: OMC.

Graph 3
REUTERS COMMODITIES INDEX CRB
(CRB: Commodity Research Bureau)

Source: Bloomberg.

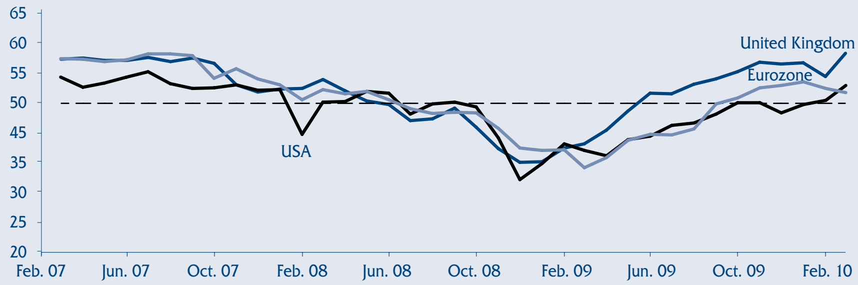
4. The recovery of developed economies is associated with the impact of expansionary macroeconomic policies, with re-stocking, especially in the United States, and with the growth of exports. In contrast, private consumption continued depressed due to the weakness of employment, the continuous credit constraint, and the upward trend of private saving.

Graph 4
DEVELOPING COUNTRIES
JPMorgan Manufacturing Purchasing Manager Index



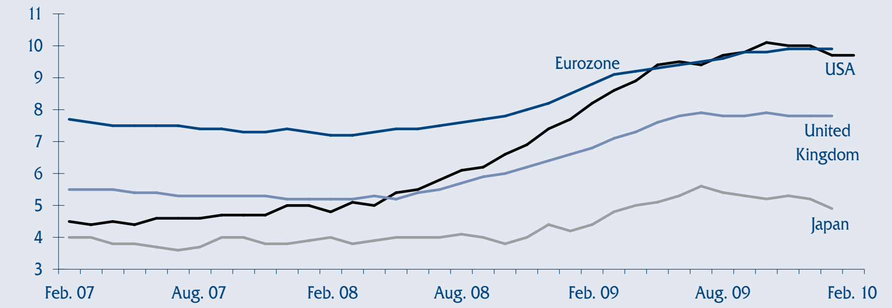
Source: Bloomberg.

Graph 5
DEVELOPED COUNTRIES
JPMorgan Services Purchasing Manager Index



Source: Bloomberg.

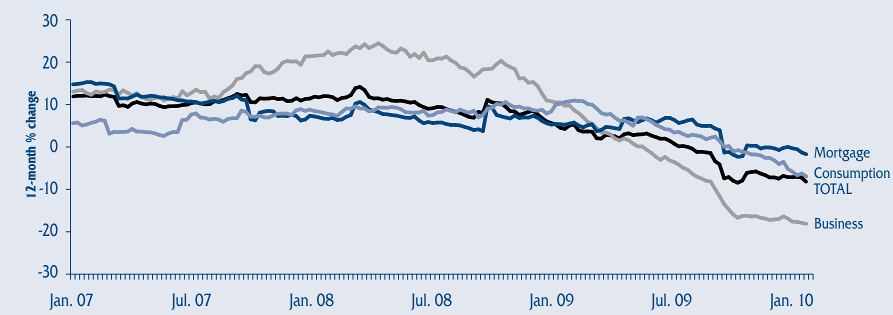
Graph 6
DEVELOPED COUNTRIES
Annual unemployment rate (%)



Source: Bloomberg.

5. The negative impact of the financial crisis on credit portfolios and on the capital base of financial entities in developed economies has implied a poor evolution of bank credit, particularly of business credit and consumer credit. In the United States, business credit and consumer credit fell by 16.4 and 3.5 percent, respectively, in 2009.

Graph 7
USA: BALANCE OF COMMERCIAL BANK LOANS



Source: FED.

6. The reversal of recessionary conditions in the global economy has been due to a significant expansion of public expenditure and to sustained expansionary monetary policies in terms of interest rates and direct injection of liquidity into financial markets. The expansionary fiscal position has been reflected in high fiscal deficits and therefore in a substantial increase of public debt in many countries. Fiscal solvency, defined as the capacity to serve the public debt in the current conditions, is threatened in the case of those countries which already had a high debt at the beginning of the crisis and in the case of those countries that have difficulties to reduce the fiscal deficit.

Speculations about the fiscal soundness of some economies, such as Greece, have generated this year a wave of volatility in several financial variables and a relative pessimism about the economic recovery of some countries of the Eurozone. At the time when this Inflation Report has been drawn up, there is uncertainty about the resolution of the program aimed to finance the public debt of Greece and about the fiscal adjustment program in this country.

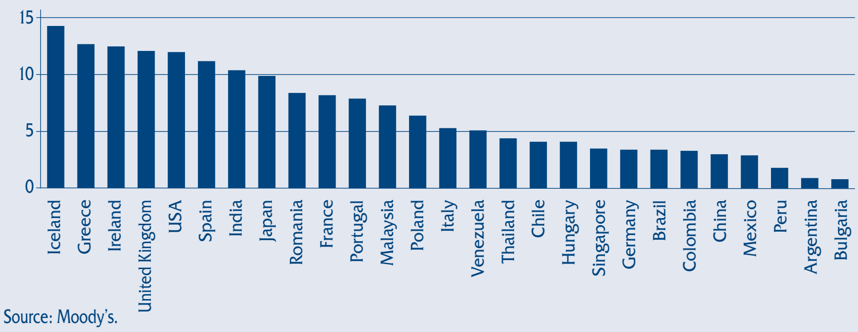
In a context of withdrawal of monetary stimulus in the economies more strongly affected by the subprime crisis, fiscal financing has become a source of risk for the recovery of global productive activity due to the renewal of risk aversion and the subsequent volatility in international financial markets. This risk could be offset through a coordinated management of macroeconomic policies by developed countries.

TABLE 2
MACROFINANCIAL INDICATORS GREECE, IRELAND, PORTUGAL AND SPAIN 2009

	Greece	Ireland	Portugal	Spain	Peru
1. GDP growth (chg%)	-2.0	-7.2	-2.7	-3.6	0.9
2. Unemployment rate (%)	9.5	11.6	9.5	18.0	8.4
3. Fiscal Deficit / GDP	-12.7	-12.5	-7.9	-11.2	-1.9
4. Public Debt / GDP	113	66	77	54	27
5. Balance of payment current account /GDP	-8.8	-3.1	-10.2	-5.4	0.2
6. Debt margin (Credit Default Swap in bps)	283.4	158.0	91.7	113.5	123.6
7. Debt rating in March 2010					
- Moody´s	A2	Aa1	Aa2	Aaa	Baa3
- S&P	BBB+	AA	A+	AA+	BBB-
- Fitch	BBB+	AA-	AA-	AAA	BBB-

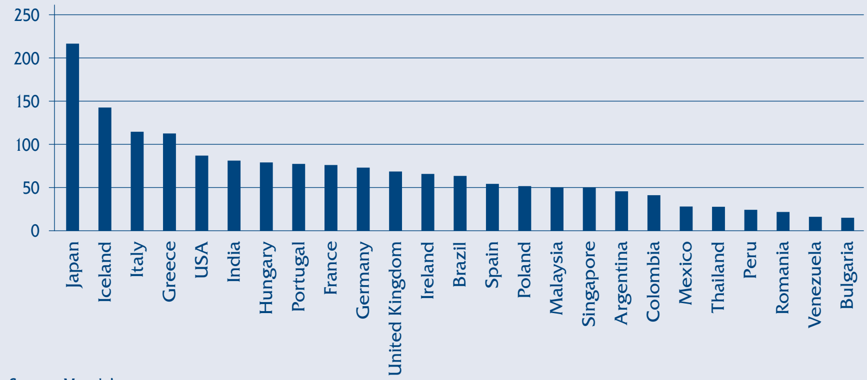
Source: Bloomberg and Moody's.

Graph 8
FISCAL DEFICIT IN DIVERSE COUNTRIES: 2009
(% of GDP)



Source: Moody's.

Graph 9
PUBLIC DEBT IN DIVERSE COUNTRIES: 2009
(% of GDP)

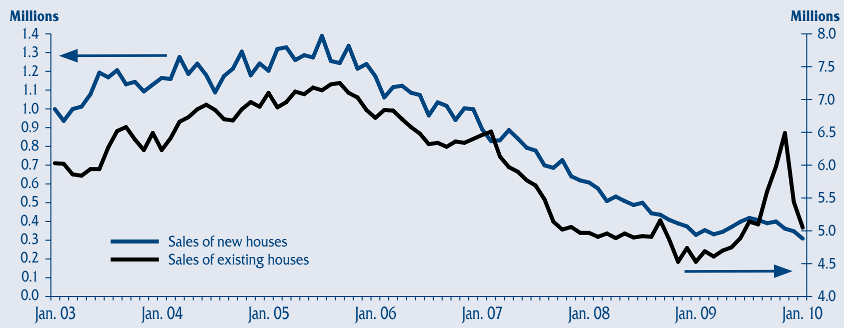


Source: Moody's.

7. The economy of the **United States** recorded a growth of 5.6 percent in Q4, and thus accumulated two consecutive quarters of expansion. Indicators showed an improvement in private investment, exports, and an increase of inventories, although the contribution of private consumption continues to be small.

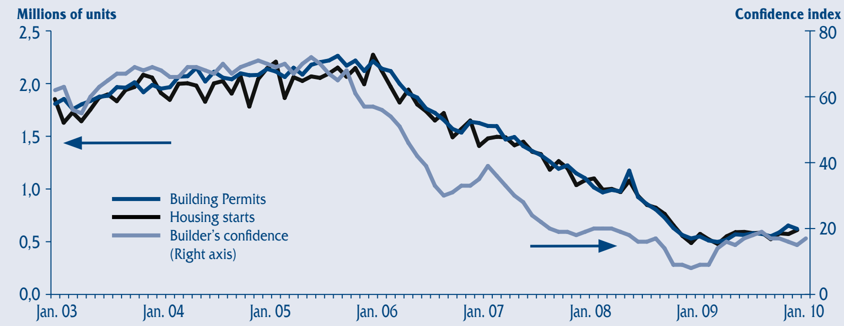
   The indicators of sales of existing and new houses showed significant drops in the months of December 2009 and January 2010 (16.2 and 3.9 in December and 7.2 and 11.2 in January, respectively), as well as in the prices of real estate (prices dropped 2 and 0.6 percent in December 2009 and in January 2010, respectively).

Graph 10
USA: HOUSING SALES
(Annual units)



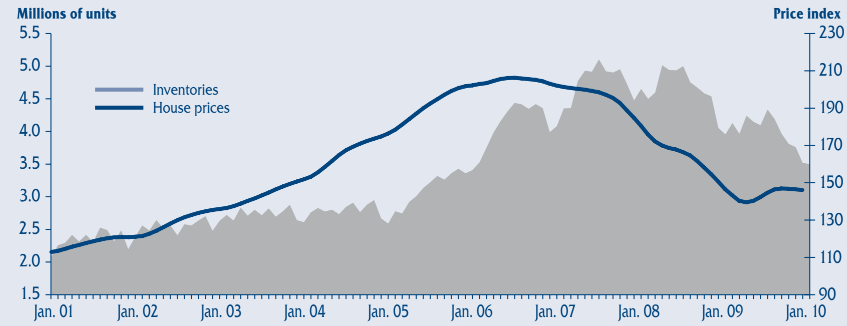
Source: Bloomberg.

Graph 11
RESIDENTIAL CONSTRUCTION



Source: Bloomberg.

Graph 12
REAL STATE MARKET: PRICE AND INVENTORIES



So far in 2010, other indicators show mixed trends. On the one hand, the reports of employment of February –the rate of unemployment fell from its highest level of 10.1 percent in October 2009 to 9.7 percent in February– and of activity in the sector of services –in the area of expansion for three consecutive months– have exceeded market expectations.

In line with these developments, it is estimated that the economy will grow 3.1 percent in 2010. This projection also considers a gradual normalization of credit conditions and the stabilization of the labor market, although still showing high unemployment rates.

8. Most economies in the **Eurozone** showed a recovery in Q3 and Q4, although with lower rates than the ones observed in the United States. On the side of expenditure, exports have been the most dynamic component, particularly in the case of Germany and France, while in terms of sectors, industrial activity has recovered.

A growth rate of 0.9 percent is forecast for 2010 in the Eurozone, after these economies contracted 4.0 percent in 2009. However, this projection does not reflect a uniform evolution. Positive growth rates are expected in the largest European countries, like Germany and France, while the peripheral economies, particularly those recently affected by uncertainty about their fiscal sustainability, would record growth rates close to zero and even negative rates of growth in 2010.

9. The economy of **Japan** has been showing a recovery. GDP recorded an annualized growth of 4.5 percent in Q4, driven by growth in the export sector. Additionally, the prospects for the growth of domestic demand have been favored by a better-than-expected evolution of consumption and investment. Consumption has been strengthened by tax incentives to the consumption of durable goods and by the normalization of conditions in the labor market (the rate of unemployment in February was 4.9 percent, one of the lowest rates in industrialized countries).

10. The **emerging economies** have shown, on average, a favorable evolution since the second semester of 2009 that has continued so far this year. It is estimated that the emerging economies grew 2 percent in 2009 –4 points below the growth rate observed in 2008– and that they would recover in 2010 growing at a rate of 5.3 percent.

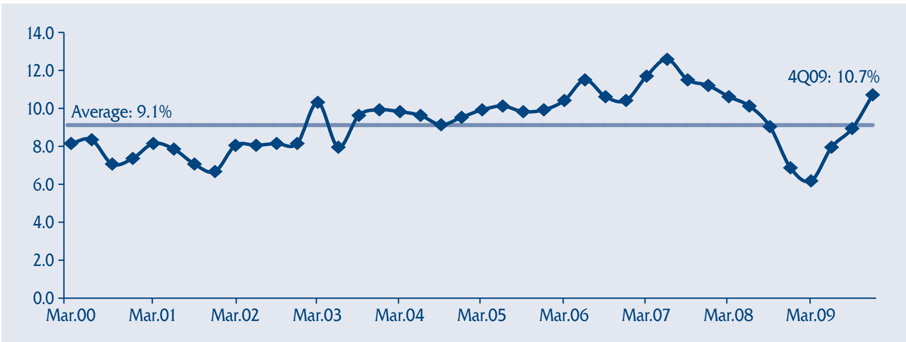
TABLE 3
GDP: QUARTERLY DATA
(Growth rate against the same quarter of the previous year)

	2008	2009			
	IV	I	II	III	IV
Emerging Asia					
China	6.8	6.1	7.9	8.9	10.7
Korea	-3.4	-4.2	-2.2	0.9	6.0
India	5.8	5.8	6.1	7.9	6.0
Latin America					
Brazil	0.8	-2.1	-1.6	-1.2	4.3
Chile	0.7	-2.1	-4.5	-1.4	2.1
Colombia	-1.0	-0.5	-0.3	-0.2	2.5
Mexico	-1.1	-7.9	-10.0	-6.1	-2.3
Peru	6.5	1.9	-1.2	-0.6	3.4
EMEA*					
Israel	1.3	0.7	0.0	-0.3	2.4
Russia	1.2	-9.8	-10.9	-8.9	-.-
Czech Republic	-0.1	-3.9	-5.2	-5.0	-2.8
South Africa	1.9	-0.7	-2.7	-2.2	-1.4

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

11. Among the main emerging economies, China continued growing at high rates. In Q4-2009, China grew 10.7 percent compared with Q4-2008, thus recording an annual growth of 8.7 percent. This is explained by the dynamism of investment, both public and private, and by the recovery of the export sector.

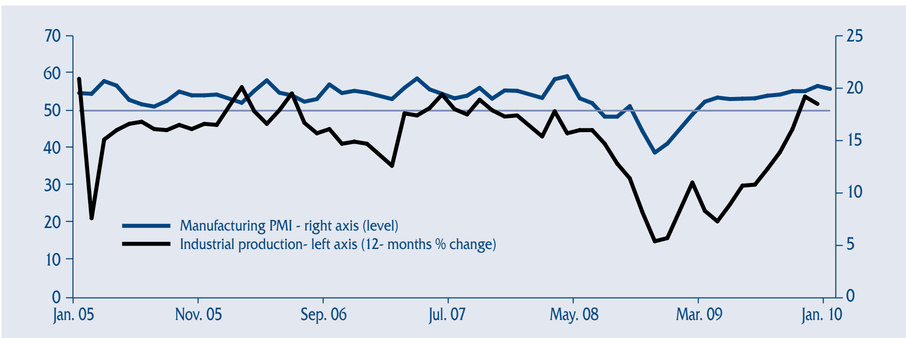
Graph 13
CHINA: QUARTERLY GDP
(12-month % change)



This high growth has generated concerns about an overheating of the economy. In a context of accelerated growth of credit (credit to the private sector grew 32 percent in 2009), there is the risk that this could generate of bubble of prices in the real estate sector or in the stock market, as well as pressures over prices.

So far in 2010, both the Central Bank of China and the regulating authorities of the financial system have adopted several measures to control liquidity: the Central Bank has increased reserve requirements on two occasions and the regulator of the banking system has announced monthly credit quotas and tightened credit conditions. These measures have coincided with a decline of the indices of the industrial sector and the PMI of the manufacturing sector in January and February. The export sector, on the other hand, maintains its dynamism: in February, exports recorded their highest monthly expansion in five years. It is estimated that this economy would grow 9.2 percent in 2010.

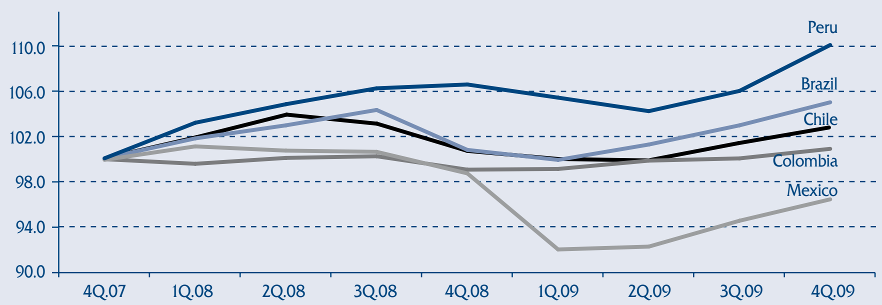
Graph 14
CHINA: MANUFACTURING PMI AND INDUSTRIAL PRODUCTION



12. The economies of **Latin America** closed 2009 with mixed results. According to executed data, countries like Peru and Argentina recorded positive growth rates, while Chile and Brazil showed moderate declines in their levels of activity. Mexico's GDP dropped 6.5 percent due to its exposition to the U.S. crisis and to the negative effects of the AH1N1 flu, particularly in the first semester of the year.

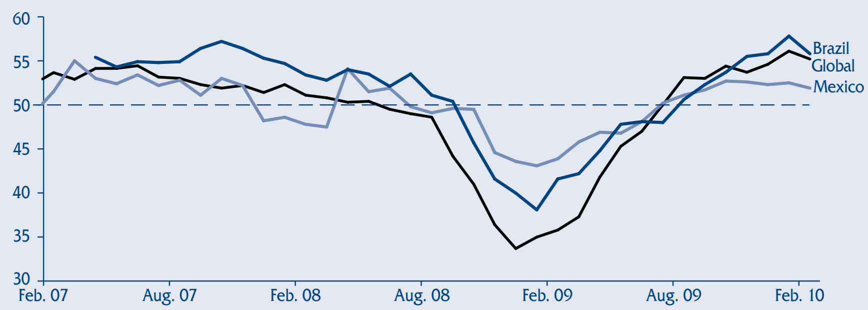
Prospects for 2010 are in general favorable due to the dynamism expected in terms of external demand and the reversal of the inventory effect. Indicators of industrial production, used capacity, and retail sales are showing a recovery for the time being, although with different levels in terms of countries. Likewise, the evolution of annual inflation has stabilized and in some cases, like Brazil, is reversing the downward trend of the previous year, which, together with the growth of demand, has been generating higher inflation expectations for the end of the year. In this context, in February the Central Bank of Brazil raised reserve requirements to withdraw the excess of liquidity in the market.

Graph 15
LATIN AMERICA GDP EVOLUTION
(Seasonally adjusted data, 4Q07=100)



Source: Central Banks and statistics institutes.

Graph 16
MANUFACTURING INDEX
(JP Morgan Purchasing Managers Index, Manufacturing PMI)



Source: Bloomberg.

Financial markets

13. Year-to-date, international financial markets have continued showing in general terms the favorable evolution observed in the last quarters. This reflects a decline of risk aversion, the recovery of investors' confidence, and better prospects for growth after the strong global recession that affected mostly developed economies.

    The money market has shown similar conditions to the ones observed prior to the crisis. Money markets also showed a positive evolution, but responded with higher volatility to some unfavorable events. In the bank credit market, on the other hand, the improvement has been slower and credit conditions are still tighter than the ones observed before the crisis.

14. The money markets continued showing the positive trend observed since Q2-2009, in line with the normalization of liquidity conditions. The most relevant indicators of these markets –such as the TED spread– show similar levels to those observed in September 2008.

Graph 17
TED SPREAD
(Percentage points)

Source: Bloomberg.

The TED measures the spread between the 3-month Libor and the yield on Treasuries.

15. Given the normalization of liquidity conditions in the main money markets and the subsequent lower demand for funds of financial institutions, central banks have continued deactivating some extraordinary credit lines established during the crisis (such as the special auctions), reducing the maturity terms of credit operations or modifying the rates of placements (from fixed to variable), among the main measures. So far this year, the FED has increased its rediscount rate by 25 bps. (to 0.75 percent) –the first increase since June 2006–, although it has announced that it will maintain the monetary policy rate at 0.25 percent for a long period of time.

It is worth pointing out that, so far this year, most of the central banks have not modified their interest rates in a context of uncertainty in international markets. On the other hand, Australia and India raised their rates in March since there was evidence of pressures on prices and of a strong economic recovery, while Iceland, Hungary and South Africa reduced their rates by 50 bps.

TABLE 4
MONETARY POLICY INTEREST RATE

	Date					Accumulated change (bps)		
	Sep. 08	Sep. 09	Dec. 09	Jan. 10	Mar. 10	Dec. 09	Sep. 09	Sep. 08
Pakistan	13.00	13.00	12.50	12.50	12.50	0	-50	-50
Iceland	15.50	12.00	10.00	9.50	9.50	-50	-250	-600
Brazil	13.75	8.75	8.75	8.75	8.75	0	0	-500
South Africa	12.00	7.00	7.00	7.00	6.50	-50	-50	-550
Indonesia	9.25	6.50	6.50	6.50	6.50	0	0	-275
Turkey	16.75	7.25	6.50	6.50	6.50	0	-75	-1,025
Hungary	8.50	7.50	6.25	6.00	5.75	-50	-175	-275
China	7.20	5.31	5.31	5.31	5.31	0	0	-189
India	9.00	4.75	4.75	4.75	5.00	25	25	-400
Mexico	8.25	4.50	4.50	4.50	4.50	0	0	-375
Australia	7.00	3.00	3.75	3.75	4.00	25	100	-300
Philippines	6.00	4.00	4.00	4.00	4.00	0	0	-200
Colombia	10.00	4.00	3.50	3.50	3.50	0	-50	-650
Poland	6.00	3.50	3.50	3.50	3.50	0	0	-250
Slovakia	4.25	2.50	2.50	2.50	2.50	0	0	-175
New Zealand	7.50	2.50	2.50	2.50	2.50	0	0	-500
South Korea	5.25	2.00	2.00	2.00	2.00	0	0	-325
Norway	5.75	1.25	1.75	1.75	1.75	0	50	-400
Israel	4.25	0.75	1.25	1.25	1.25	0	50	-300
Peru	6.50	1.25	1.25	1.25	1.25	0	0	-525
Thailand	3.75	1.25	1.25	1.25	1.25	0	0	-250
Taiwan	3.50	1.25	1.25	1.25	1.25	0	0	-225
ECB	4.25	1.00	1.00	1.00	1.00	0	0	-325
Czech Republic	3.50	1.25	1.00	1.00	1.00	0	-25	-250
Chile	8.25	0.50	0.50	0.50	0.50	0	0	-775
United Kingdom	5.00	0.50	0.50	0.50	0.50	0	0	-450
Canada	3.00	0.25	0.25	0.25	0.25	0	0	-275
Sweden	4.75	0.25	0.25	0.25	0.25	0	0	-450
USA	2.00	0.25	0.25	0.25	0.25	0	0	-175
Switzerland	2.75	0.25	0.25	0.25	0.25	0	0	-250
Japan	0.50	0.10	0.10	0.10	0.10	0	0	-40

Source: Reuters and Bloomberg.

16. As regards capital markets, a favorable evolution was observed in the fixed and variable income markets, but with temporary rises and higher volatility due initially to fears of a possible slowdown in industrialized countries and in China, and later on due to the fiscal crisis in Greece.

Both factors, and especially the fiscal crisis in Greece, generated a slight increase of credit spreads in the main fixed-income markets. This pessimism extended also to variable-income markets, where the main stock markets recorded slight downturns as a result of concerns about the effects of a debt crisis in some economies of the Eurozone (Portugal, Ireland, Italy, and Spain) on growth.

However, the initial over-reaction to these factors has subsided. At the time when this report was closed, the markets were showing a favorable evolution due to the optimism generated by the support that the EU would provide to Greece. The stock indices (measured by the MSCI stock index of stock markets in developed economies) have shown improvements so far this year, even though they are still below the levels observed in 2007. On the other hand, the indicator of volatility of the US stock indices (VIX) has returned to the level it had prior to the subprime financial crisis.

In this context, the spreads of emerging economies showed an upward trend during February, but recorded a correction thereafter. It is worth pointing out this rise was moderate in the case of Latin America, which would be reflecting that the events that affected the peripheral countries of the Eurozone did not have a significant impact on other regions.

Graph 18
EMERGING MARKETS BOND SPREAD: EMBIG

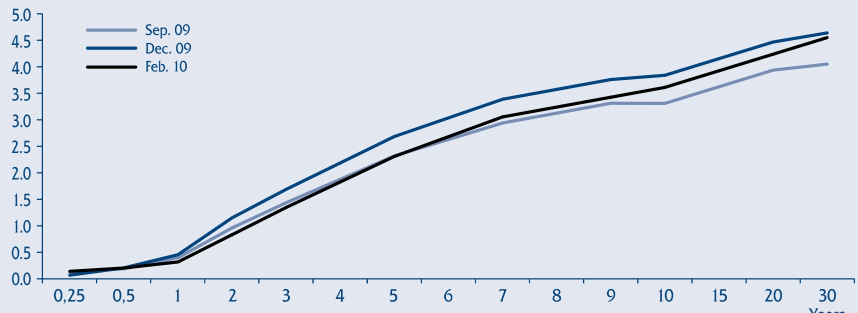
Source: Bloomberg.

Graph 19
VIX (S&P 500) AND DEVELOPED COUNTRIES STOCK INDEX (MSCI)

Source: Bloomberg.

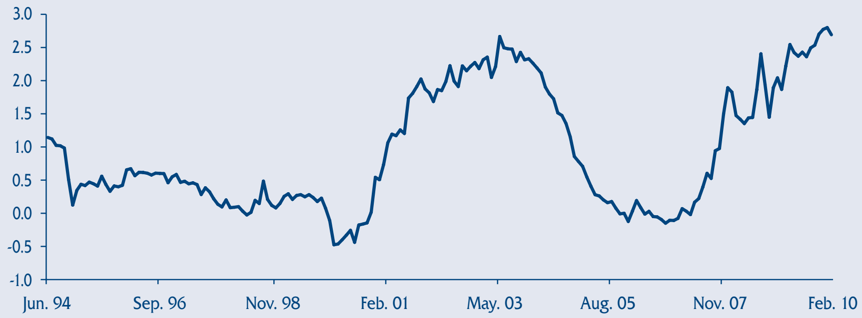
17. As regards the evolution of the yield on US Treasury bonds, it is worth mentioning that the signals of the FED about the fact that interest rates would remain low for a long period of time have influenced the steepening of the yield curve. The short tranche of the curve had contracted while the long tranche has expanded, revealing in part the future adjustment of rates and the strong issuance of Treasury bonds to finance the fiscal packages.

Graph 20
YIELD CURVE: US TREASURY BONDS
(End of period)



Source: Bloomberg.

Graph 21
US TREASURY SECURITIES: SPREAD BETWEEN 10 AND 2 YEARS



Source: Bloomberg.

Foreign exchange markets

18. Since April 2009, as a result of lower risk aversion and the persistence of expectations of low interest rates in the United States, the US dollar (measured through the index elaborated by the FED based on the basket of the U.S. main trading partners) showed a depreciatory trend. However, in the first seven months of the year the dollar reversed this trend against the currencies of European developed countries, such as the euro, given uncertainty about the situation of Greece.

In contrast, on the other hand, the dollar showed a depreciatory trend against the currencies of the region during most part of the year. The region's currencies were also supported by an improvement in the prices of commodities. In this context, several banks of the region have been activating mechanisms of intervention in the foreign exchange markets.

Graph 22
EXCHANGE RATE US DOLLAR CURRENCY BASKET (MU PER US$)

Source: FED.

TABLE 5
EXCHANGE RATES: MONETARY UNITS PER US$

	Dec.07 (1)	Dec.08 (2)	Dec.09 (3)	Mar.10 (4)	Accum. % change: Dec.09 (4)/(3)	Accum. % change: Dec.08 (4)/(2)
Real/US$	1.78	2.31	1.74	1.76	1.1	-23.8
Mexican Peso/US$	10.9	13.8	13.1	12.6	-3.9	-9.0
Chilean Peso/US$	498	636	507	519	2.4	-18.3
Colombian Peso/US$	2,017	2,246	2,039	1,893	-7.2	-15.7
PEN/US$	3.00	3.14	2.89	2.84	-1.7	-9.4
Euro/US$	0.69	0.72	0.70	0.73	4.7	2.1
Yen/US$	111.3	90.9	92.7	90.5	-2.3	-0.4

Source: Bloomberg.

Terms of trade and commodity prices

19. In 2009 commodity prices showed a sustained growth although without reaching the maximum levels observed in 2008, which meant that terms of trade dropped 5.5 percent on annual average terms during 2009.

It is estimated that in 2010 terms of trade would grow 12.9 percent. The prices of exports have continued recovering in the first months of this year, and therefore an annual increase of 17 percent is projected. This projection is based on the better outlook of the global economy, the higher dynamism of investors' demand, and on factors associated with the supply of metals.

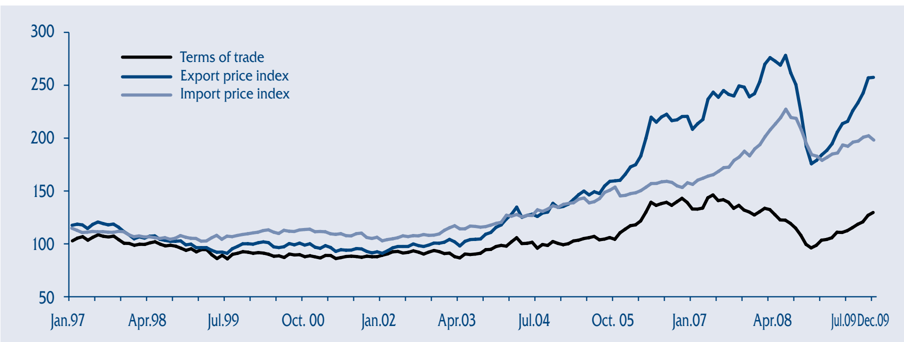
A similar trend would be observed in the prices of the main imports. The drop of the external price index, associated with the strengthening of the dollar, would be partially offsetting this impact.

TABLE 6
TERMS OF TRADE
(Period average data)

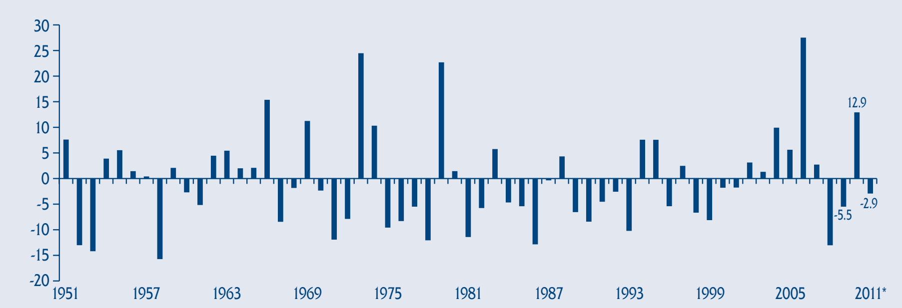
	Execution			2010*		2011*	
	2007	**2008**	**2009**	**RI Dec.09**	**RI Mar.10**	**RI Dec.09**	**RI Mar.10**
Terms of trade	**3.4**	**-13.0**	**-5.5**	**10.1**	**12.9**	**-2.6**	**-2.9**
Export prices	**14.4**	**5.1**	**-12.5**	**20.3**	**17.1**	**0.0**	**-0.3**
Copper(ctv per pound)	323	315	234	303	322	303	320
Zinc (ctv per pound)	147	85	75	100	102	100	101
Gold (US$ per ounce)	697	872	974	1,129	1,111	1,129	1,110
Import prices	**10.7**	**20.8**	**-7.4**	**9.2**	**3.8**	**2.7**	**2.6**
Oil (US$ per barrel)	72	100	62	82	80	86	83
Wheat(US$ per MT)	231	293	193	216	191	236	216
Maize (US$ per MT)	138	192	139	168	150	180	163
Soybean oil (US$ per MT)	768	1 092	729	918	850	937	903
Rice (US$ per MT)	337	685	561	523	537	491	530
Sugar(US$ per TM)	256	305	412	464	505	405	426

RI: Inflation Report.
* Forecast.

Graph 23
TERMS OF TRADE, EXPORT AND IMPORT PRICE INDICES
(1994=100)



Graph 24
TERMS OF TRADE
(% change)

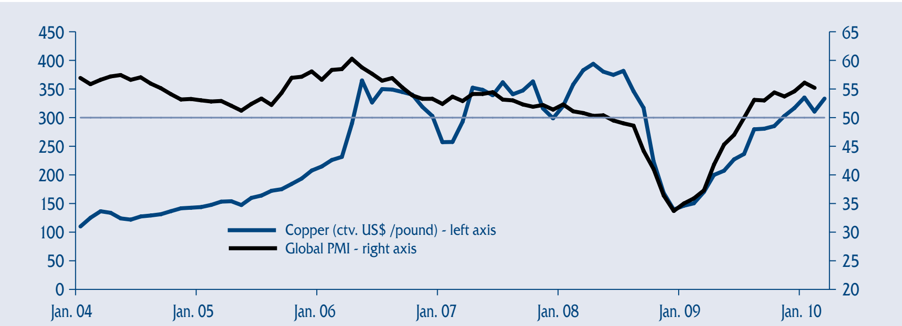


* Forecast.

Copper

20. The price of copper accumulated an increase of 127 percent in 2009, recording US$ 3.2 a pound (a similar level to the one observed in September 2008). The recovery of the price of copper was associated with better prospects for global demand and with supply factors. It is worth pointing out the important role that China's accumulation of inventories has played in this sense, as well as the recovery of construction and industry in several regions. In addition, all of this was driven by fiscal and monetary programs implemented in most countries to deal with the crisis. From the side of supply, several closings of mines and refineries (due to maintenance, technical problems, climatic problems, etc.) also contributed to this trend.

Graph 25
GLOBAL PMI AND COPPER PRICE



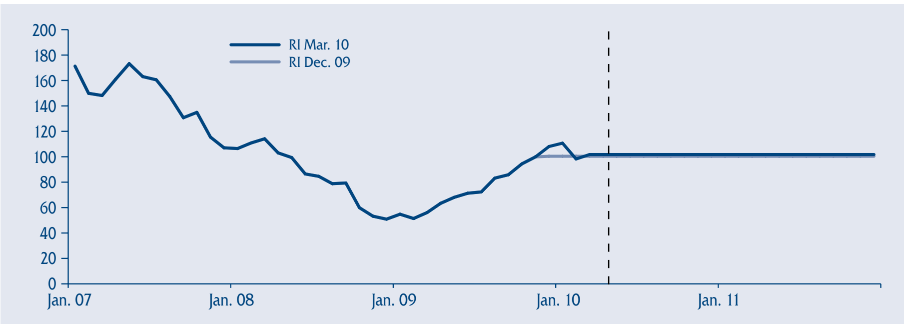
So far in 2010, this upward trend has moderated –mainly in February– due to fears of a delay in the recovery of global activity as a result of the uncertainty generated by fiscal situation of some European countries (Greece, Portugal, Italy, Spain, Ireland, Iceland, etc.) and to the temporary closure of China's market due to the beginning of the Chinese new year. After dropping below US$ 3.0 a pound, copper rebounded in March to levels of US$/pound 3.3, driven by the announcement of fiscal austerity measures in Greece under a European Union-endorsed plan and by the temporary closure of mines in Chile due to energy rationing after the earthquake.

Graph 26
COPPER
(ctv. US$/pound)

Zinc

21. In 2009, zinc accumulated an increase of 116 percent, closing the year at an average price of US$ 1.1/pound (similar levels to the ones observed in December 2007). The rise in the international price of zinc is mainly associated with the lower production of concentrates in mines of Australia, China, Peru, and the U.S. and with the lower production of refined zinc in Belgium, Brazil, Canada, and Germany. The growing price/marginal cost relation faced by firms at end 2008 led to the closure of production units. In addition, non-compliance with the environmental standards established by the Chinese government resulted in the closure of refineries in that country. The demand recovered over the year in line with the recovery of economic activity in several regions, also pushing the price upwards. So far in 2010, the price of zinc has fluctuated, as in the case of the price of copper, due to fears of lower global demand and to the re-initiation of operations in zinc refineries of China.

Graph 27
ZINC
(ctv. US$/pound.)

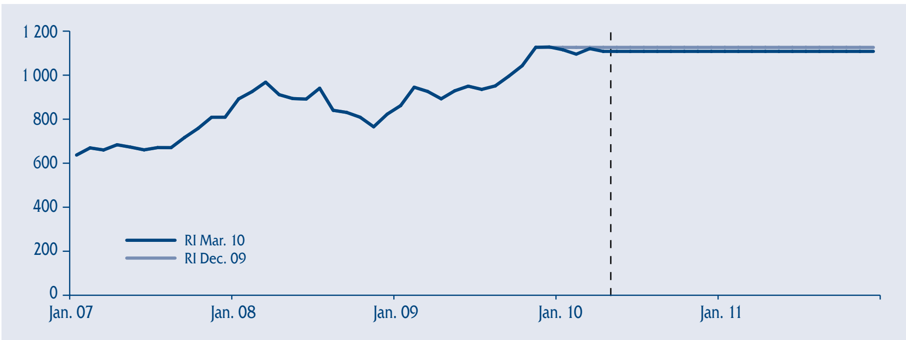


Gold

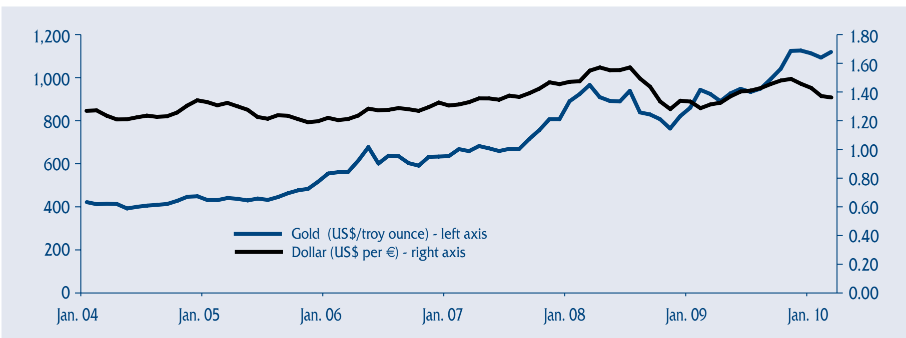
22. The price of gold maintained an upward trend throughout 2009, accumulating an increase of 38 percent and reaching an average price of US$ 1,130 in December (gold posted a record level of US$ 1,150 in the last two weeks of November). The evolution of this price was supported by the depreciatory trend of the US dollar, by investors' increased demand (gold as a hedge against risk, purchase of non-commercial positions and gold as alternative portfolio asset), as well as by fundamentals of the gold market (demand for jewelry, central banks' accumulation of reserves, and lower production in mines).

    Year-to-date, the price of gold has fallen in January and February (to US$ 1,118/ounce and to US$ 1,097/ounce) due to the appreciation of the dollar and to investors' profit-taking. On the side of supply, South Africa announced a drop of production in 2009 and prospects of a higher supply in 2010, while the IMF announced that it would sell its gold remnants (191 tons) in open market operations during 2010.

Graph 28
GOLD
(US$/troy ounce)



Graph 29
GOLD PRICE AND US DOLLAR EVOLUTION

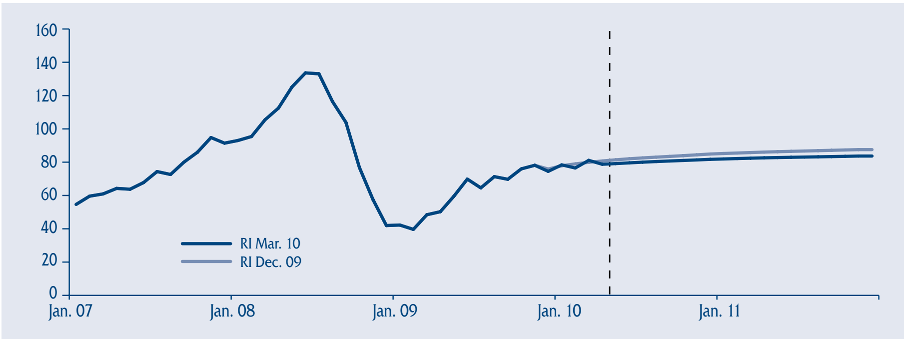


Oil

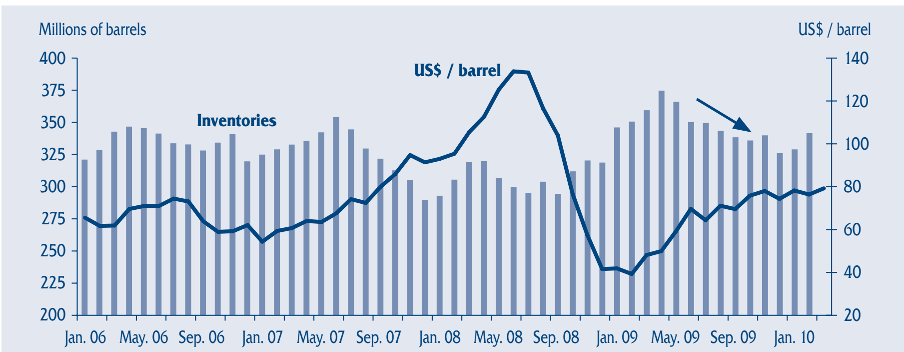
23. The price of crude accumulated an increase of 79 percent in 2009, closing the year at an average price of US$ 74 per barrel in December. The gradual recovery of global economic activity, constraints on the side of supply, and geopolitical problems in producing countries contributed to push the price upwards.

The higher demand for oil and oil derivatives affected the availability of inventories which, according to the US Energy Department, would have declined 13 percent between May and December 2009. On the side of supply, the temporary closures of refineries in the area of the Gulf of Mexico (due to hurricanes), geopolitical tensions in the Middle East, and social conflicts in Nigeria (the main supplier of crude of the United States) also contributed to this upward trend.

Graph 30
OIL
(US$/bl.)



Graph 31
OIL PRICE AND US INVENTORIES



Source: Bloomberg, US Department of Energy.

So far this year the price of crude has fluctuated between US$ 76 and US$ 80. The price of oil recorded a drop in February when fears that the recovery of global demand demand would be delayed due to the fiscal problems in Europe and to the measures implemented in China intensified. Since mid-February, the price of oil has been recovering, in line with the upward revision of the Energy Information Administration and the OPEC's projections of global demand for 2010 and 2011 and the renewal of geopolitical tensions in the Middle East (sanctions to Iran's nuclear program).

Wheat

24. The price of wheat accumulated a decline of 34.3 percent in 2009. Some concern was observed in the first half of the year about the climate and delays in the sowing period in the United States, but fear subsided when it was confirmed that the supply of this crop would be abundant. The US Department of Agriculture has gradually revised upwards its estimate of global production for the 2009/2010 crop year. So far this year, wheat maintains its downward trend, although showing a slight volatility affected by other commodity markets, such as the maize market.

Graph 32
WHEAT
(US$/MT.)

Maize

25. The price of maize recorded a drop of 27.5 percent in 2009, although upward pressures were observed in the first semester of the year, as in the case of wheat, due to excessive humidity in the U.S. which delayed cultivation. In spite of this, production estimations were not affected considerably. It should be pointed out that the US regulating agency, the Environmental Protection Agency, postponed its pronouncement on an increase of the percentage of the ethanol-gasoline mix, which would have prevented additional pressures on prices.

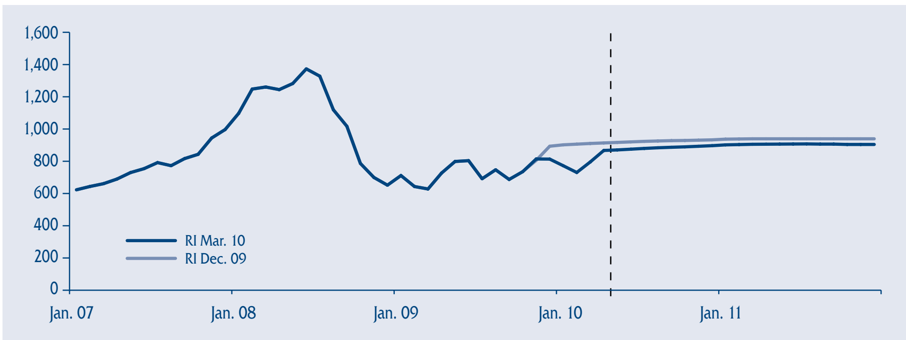
Between January and February of this year, the price of the ton of maize has declined from US$ 137.8 to US$ 125.7 on average. Although the outlook for this price is stable, the market remains volatile while awaiting possible corrections in production projections.

Graph 33
MAIZE
(US$/MT)

Soybean oil

26. The average price of soybean fell from US$ 1,092.2 to US$ 728.9 per ton in 2009, due to favorable prospects of production in Brazil and Argentina, although China's pace of imports generated slight upwards pressures. In the last month, this trend has reversed in line with the rise in the price of oil.

Graph 34
SOYBEAN OIL
(US$/MT)



Sugar

27. In 2009, the price of sugar increased 34.8 percent due to the deficit of supply as a result of lower production in India and Brazil. In the first case, the weak monsoon observed in the mid-year –the main source of irrigation in the country–

generated crop losses and a drastic reduction of production estimates, as a result of which India became a net importer of sugar for the second consecutive year. In Brazil, on the other hand, the excess of rainfall in the producing areas affected the content of saccharose of the crops and thus reduced the yields. Because of this, Brazil was not able to reach the production record that had been initially estimated.

After reaching its highest level in 29 years in January 2010, the price of sugar maintained a downward trend after some countries called off some tenders to acquire sugar due to its high prices.

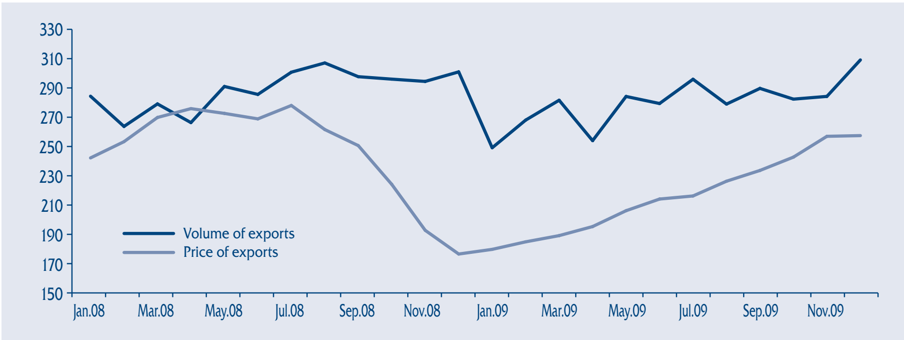
Rice

28. The price of rice dropped 18.0 percent in 2009 although upward pressures were recorded due to problems in the world supply of this product. The lack of rain during a considerably long period of the farming season in India also affected the cultivation of rice. Additionally, the Philippines also lost part of its crops as a result of a typhoon. With this, the demand for rice of Thailand –the first exporter of rice in the world– increased, generating temporary pressures on the price of this product. Between January and February 2010, the price of rice has declined from US$ 585.0 to US$ 541.0/ton on average.

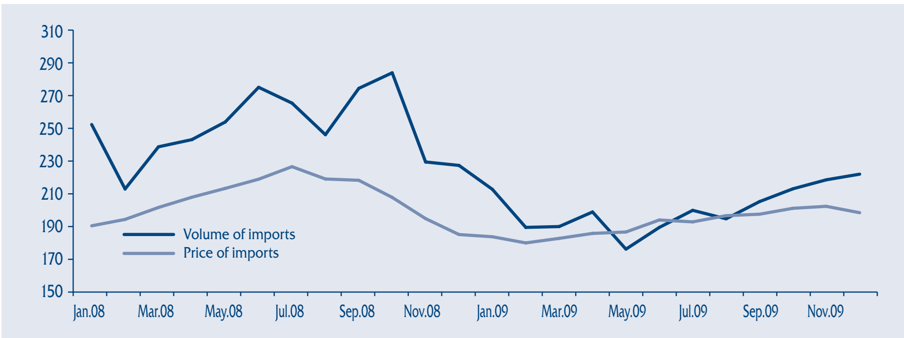
II. Balance of Payments

29. The recovery of global productive activity has favored the growth of exports in terms of volume and in terms of their international prices. In the same sense, imports have also been recovering due to the growth of domestic demand and to the increase of the prices of imported products.

Graph 35
VOLUME AND PRICE OF EXPORTS
(Index 1994 = 100)



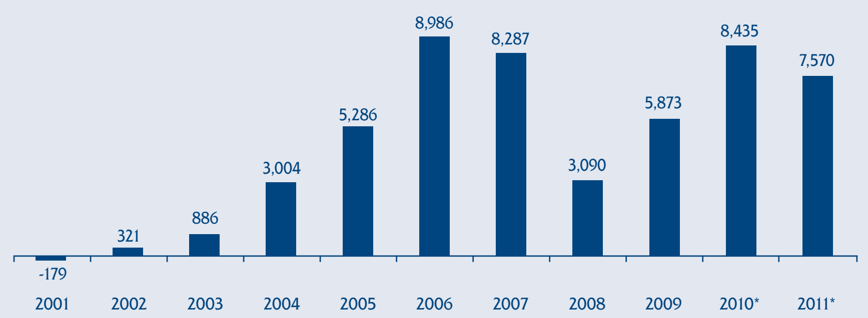
Graph 36
VOLUME AND PRICE OF IMPORTS
(Index 1994 = 100)



30. A surplus of US$ 8.4 billion –higher than the one recorded in 2009 (US$ 5.9 billion)– is expected in the trade balance in 2010, considering the recovery of external demand for our non-traditional exports as well as the better prices of our traditional exports. Both factors would be offset by a higher demand for imports of inputs and capital goods for several private investment projects. The surplus of the trade balance would decline to US$ 7.6 billion in 2011, mainly due

to higher imports. With this, the Peruvian economy would reach ten continuous years recording surpluses in the trade balance.

Graph 37
TRADE BALANCE
(Millions of US$)



* Forecast.

TABLE 7
TRADE BALANCE
(Millions of US$)

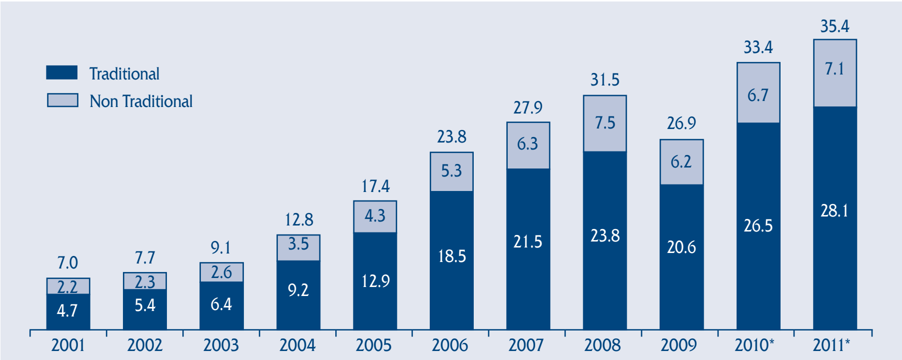
	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
EXPORTS	**31,529**	**26,885**	**33,068**	**33,409**	**35,403**	**35,392**
Of which:						
Traditional products	23,796	20,571	26,120	26,460	27,793	28,059
Non-traditional products	7,543	6,160	6,752	6,752	7,384	7,109
IMPORTS	**28,439**	**21,011**	**25,004**	**24,974**	**28,072**	**27,822**
Of which:						
Consumer goods	4,527	3,963	4,822	4,635	5,594	5,374
Inputs	14,553	10,077	12,242	12,089	13,460	13,304
Capital goods	9,239	6,850	7,888	8,206	8,957	9,094
TRADE BALANCE	**3,090**	**5,873**	**8,063**	**8,435**	**7,332**	**7,570**
Memo: Var.%						
Export volumes	8.1	-3.3	6.0	6.0	6.6	6.3
Import volumes	20.0	-20.0	9.2	15.2	9.3	8.7

RI: Inflation Report.
* Forecast.

31. After having fallen by US$ 4.6 billion in 2009, exports would increase to US$ 33.4 billion in 2010, reaching a higher level than the one observed in 2008 (US$ 31.5 billion). The increase would be more significant in traditional exports as a result of the improvement in the export prices of metals and the

onset of operations in Camisea II. A more gradually recovery would be seen in the case of non-traditional exports, in line with the expected evolution of global demand.

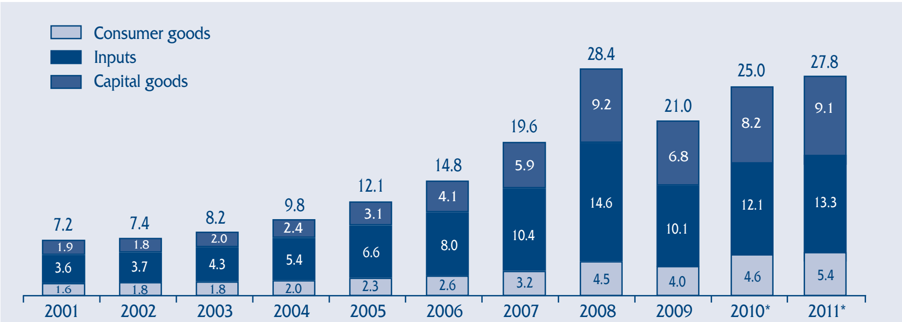
Graph 38
EXPORTS OF GOODS
(Billions of US$)



Memo: Total exports include other exports.
* Forecast.

In 2010, having culminated the process of firms' adjustments of inventories observed during 2009, the volume of imports is expected to increase considering the recovery of growth of private investment and its effect on imports of inputs and capital goods. In 2011, in line with the growth of the economy, imports would increase, reaching US$ 27.8 billion, as a result of the increased demand for capital goods oriented to the pre-operation stage of investment projects in several sectors.

Graph 39
IMPORTS OF GOODS
(Billions of US$)



Memo: Total imports includes other imports.
* Forecast.

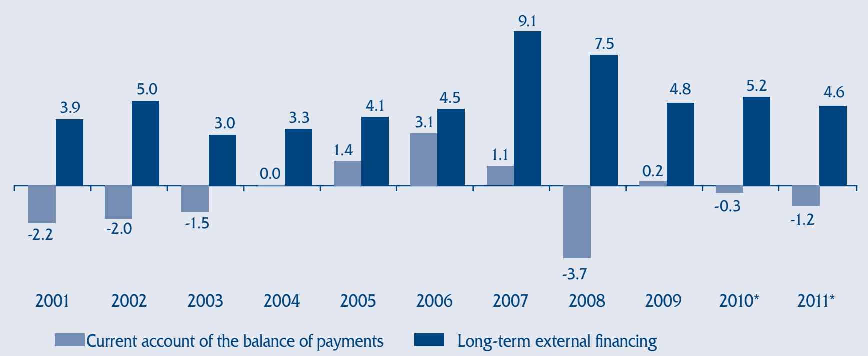
32. The result of the current account gradually improved over 2009 and went from a deficit of 1.4 percent of GDP in Q1 to a surplus of 0.8 percent in the last two quarters of the year. This was due to the improvement in the international prices of metals and their positive effect on exports, as well as due to the drop of imports associated with the lower impulse of economic activity. As a result of this, the current account of the balance of payments recorded a surplus of 0.2 percent of GDP in 2009 (versus a deficit of 3.7 percent in 2008).

33. Considering the better international scenario and the improvement of terms of trade observed, the projected deficit of the current account of the balance of payments in 2010 has been revised from 0.7 percent of GDP (previous Inflation Report) to 0.3 percent of GDP. This projection considers also a higher volume of imports associated with the recovery of domestic economic activity, as well as with the gradual onset of operations in Camisea's project of liquefied natural gas since the middle of the year.

Maintaining the projection of our Inflation Report of December, the current account deficit in 2011 would be equivalent to 1.2 percent of GDP. The growing trend of the deficit relative to 2010 would be explained by the increase of the demand for imports, mainly capital goods and inputs, but offset by the operation of projects, such as Camisea and Southern's expansion projects, though out the entire year.

The flows of long-term private capitals during the forecast horizon are considered to be around 5 percent of GDP, and would therefore contribute to the sustainability of the deficit of the current account.

Graph 40
CURRENT ACCOUNT AND LONG-TERM FINANCING
(% of GDP)



* Forecast.

TABLE 8
BALANCE OF PAYMENTS
(Millions of US$)

	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
I. CURRENT ACCOUNT BALANCE	**-4,723**	**247**	**-944**	**-473**	**-1,898**	**-1,822**
% of GDP	*-3.7%*	*0.2%*	*-0.7%*	*-0.3%*	*-1.2%*	*-1.2%*
1. Trade Balance	3,090	5,873	8,063	8,435	7,332	7,570
a. Export	31,529	26,885	33,068	33,409	35,403	35,392
b. Imports	-28,439	-21,011	-25,004	-24,974	-28,072	-27,822
2. Services	-1,962	-1,112	-1,595	-1,557	-1,824	-1,913
3. Investment Income	-8,774	-7,371	-10,261	-10,200	-10,506	-10,579
4. Current transfers	2,923	2,856	2,848	2,848	3,100	3,100
Of which: Remittances	2,444	2,378	2,494	2,494	2,716	2,716
II. FINANCIAL ACCOUNT	**8,230**	**1,694**	**1,944**	**3,973**	**3,298**	**3,322**
Of which:						
1. Private Sector	9,509	1,655	2,653	2,745	2,364	3,016
a. Assets	-652	-4,106	-3,701	-3,619	-3,179	-2,865
b. Liabilities	10,162	5,761	6,354	6,364	5,543	5,881
2. Public Sector	-1,404	1,032	-134	-134	619	619
a. Assets	65	-317	-126	-126	-123	-123
b. Liabilities	-1,469	1,349	-7	-7	742	742
3. Short-term capital	568	-1,675	-200	1,400	0	-300
a. Assets	416	-186	-200	-350	0	0
b. Liabilities	153	-1,489	0	1,750	0	-300
III. BALANCE OF PAYMENTS (=I+II)	**3,507**	**1,940**	**1,000**	**3,500**	**1,400**	**1,500**
Memo:						
1. Gross long-term external private financing						
Millions of US$	9,601	6,108	7,461	7,579	6,793	7,254
% of GDP	7.5%	4.8%	5.1%	5.2%	4.4%	4.6%
2. NIRs Balance end of period						
Millions of US$	31,196	33,136	34,696	36,636	36,096	38,136
% of GDP	24.4%	26.1%	23.9%	24.9%	23.3%	24.2%

RI: Inflation Report.
* Forecast.

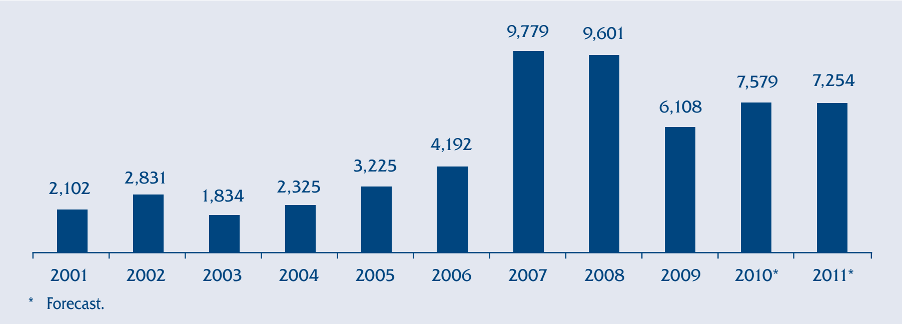
Financial account

34. The projections of the financial account for the next two years consider a more favorable context with a recovery of the global economy and increased dynamism in domestic economic activity. In this scenario, the projections consider the development of the investment projects to be implemented with external funding, but with a higher participation of domestic institutional investors. It is also considered that the latter would continue investing abroad. With this, the private financial account would show positive capitals flows of US$ 2,745 million and US$ 3,016 million in 2010 and 2011, respectively.

35. The greater availability of external resources in these years would reflect a recovery of external financing for projects compared with the last year: US$ 7.6 billion and US$ 7.3 billion in 2010 and 2011, respectively. However, a trend

with a lower relative share of external capitals is expected given that local institutional investors would have a greater participation in financing investment projects, which would otherwise be financed with external resources, through the acquisition of corporate bonds.

Graph 41
PRIVATE SECTOR EXTERNAL FINANCING
(Millions of US$)



36. In 2009, the long-term financial account of the private sector was US$ 1,655 million, lower than in 2008, due mainly to institutional agents' greater portfolio diversification in external assets, to lower foreign direct investment (FDI) in the country, and to lower long-term external indebtedness flows.

TABLE 9
PRIVATE SECTOR FINANCIAL ACCOUNT
(Millions of US$)

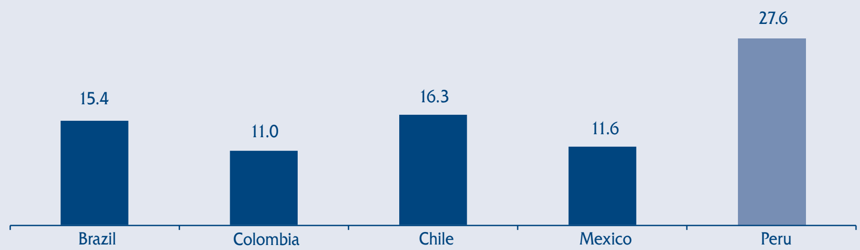
	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
1. ASSETS	**-652**	**-4,106**	**-3,701**	**-3,619**	**-3,179**	**-2,865**
Direct investment abroad	-736	-396	0	0	0	0
Portfolio investment abroad	83	-3,711	-3,701	-3,619	-3,179	-2,865
2. LIABILITIES	**10,162**	**5,761**	**6,354**	**6,364**	**5,543**	**5,881**
Foreign direct investment in the country	6,924	4,760	4,565	4,895	3,426	4,124
Of which: Reinvestment	3,287	4,902	3,343	3,573	2,091	2,156
Foreign portfolio investment in the country	599	55	0	38	0	-171
a. Capital participation	85	47	0	0	0	0
b. Other liabilities	514	9	0	38	0	-171
Long-term loans	2,640	946	1,789	1,431	2,117	1,929
a. Disbursements	3,413	1,744	2,896	2,684	3,368	3,130
b. Amortization	-774	-798	-1,107	-1,253	-1,250	-1,201
3. TOTAL	**9,509**	**1,655**	**2,653**	**2,745**	**2,364**	**3,016**

* Forecast.

On the other hand, the short-term account recorded a negative flow of US$ 1,675 million, due mainly to the amortization of short-term liabilities of non financial enterprises (Petroperú, La Pampilla, Siderperú, etc.), and to the reduction of BCRP Certificates of Deposit (CDBCRP) held by external investors at the beginning of 2009.

37. At the close of February, the level of net international reserves amounted to over US$ 35 billion, equivalent to over 27 percent of GDP, which provides the economy with an appropriate support in the case of eventual capital movements.

Graph 42
NET INTERNATIONAL RESERVES*
(% of GDP)



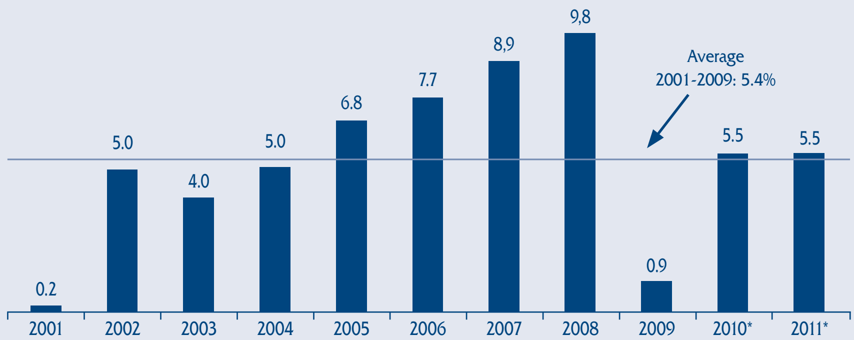
* NIR data as of February 2010 (only Colombia as of December 2009). GDP 2009 for all the countries.
Source: Central Banks and Consensus Forecast.

III. Economic Activity

38. In 2009 the Peruvian economy grew 0.9 percent in a context where the effects of the international crisis materialized in a lower demand for out exports, mainly during the first three quarters of the year, and in a strong contraction of private investment. A process of inventory correction which reverted gradually over the last quarter of the year was also observed.

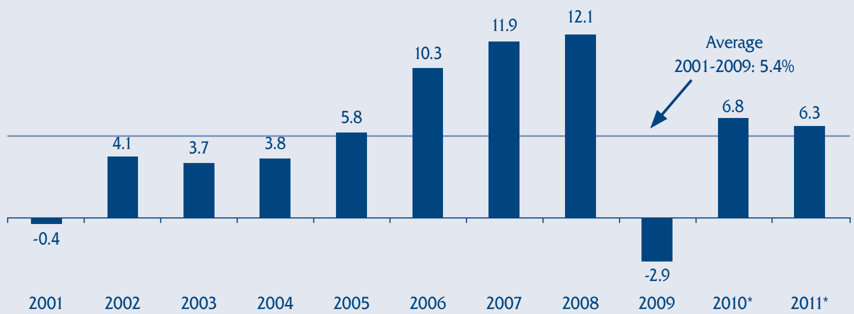
    The projection of economic growth in 2010 and 2011 remains at 5.5 percent, as in our Inflation Report of December. This projection is based on the recovery of domestic demand, particularly due to private investment in a context of higher terms of trade and improved expectations.

Graph 43
GDP GROWTH RATE
(Real % change)



* Forecast.

Graph 44
DOMESTIC DEMAND GROWTH RATE
(Real % change)



* Forecast.

39. A drastic contraction of global trade was observed in 2009 due to lower growth in developed economies, affecting especially the production sectors associated with non-traditional exports and the prices of our main commodities. The uncertainty generated about the end of global recession had a significant impact on economic agents' decisions of expenditure, causing a reduction of private investment and the flow of inventories. This was partially offset by the expansion of public expenditure and private consumption.

It should be pointed out that even though lower growth was recorded in the economy in a context of global recession, a climate of macroeconomic stability, favorable credit conditions, and a moderate expansion of employment prevailed internally.

TABLE 10
DOMESTIC DEMAND AND GDP
(Real % change)

	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
1. Domestic demand	**12.1**	**-2.9**	**6.2**	**6.8**	**6.1**	**6.3**
a. Private consumption	8.7	2.4	3.3	3.3	4.2	4.2
b. Public consumption	2.1	16.5	4.9	4.2	3.9	3.1
c. Private investment	25.8	-15.2	6.3	8.8	9.0	9.0
d. Public investment	42.8	25.9	22.0	19.8	9.8	6.0
e. Change in inventories (% GDP)	1.0	-2.4	0.0	-0.9	0.5	0.1
2. Exports	8.8	-2.5	5.5	5.5	5.7	5.7
3. Imports	19.8	-18.4	8.8	11.9	8.9	9.9
4. GDP	**9.8**	**0.9**	**5.5**	**5.5**	**5.5**	**5.5**
Memo:						
Public expending	13.4	19.8	11.2	9.9	6.3	4.2

RI: Inflation Report.
* Forecast

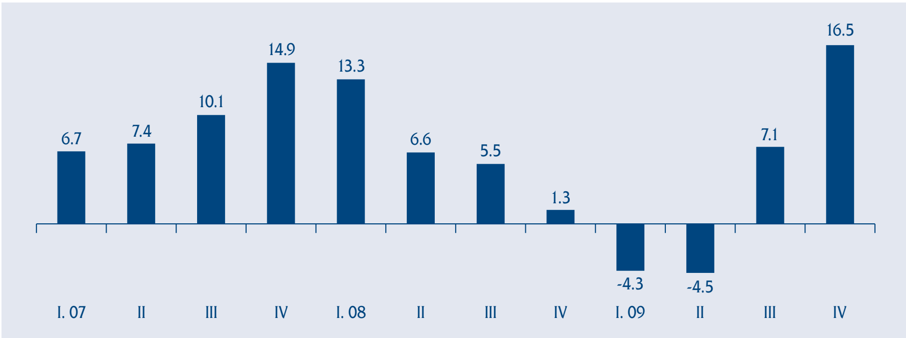
TABLE 11
CONTRIBUTION TO GDP GROWTH

	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
a. Private consumption	5.9	1.6	2.2	2.2	2.8	2.8
b. Public consumption	0.2	1.3	0.4	0.4	0.3	0.3
c. Private investment	5.1	-3.5	1.2	1.7	1.7	1.8
d. Public investment	1.4	1.1	1.1	1.1	0.6	0.4
e. Change in inventories	-0.4	-3.6	1.2	1.4	0.6	1.1
f. Exports	1.8	-0.5	1.0	1.1	1.1	1.1
g. Imports 1/	4.3	-4.3	1.7	2.3	1.7	2.0
GDP	**9.8**	**0.9**	**5.5**	**5.5**	**5.5**	**5.5**

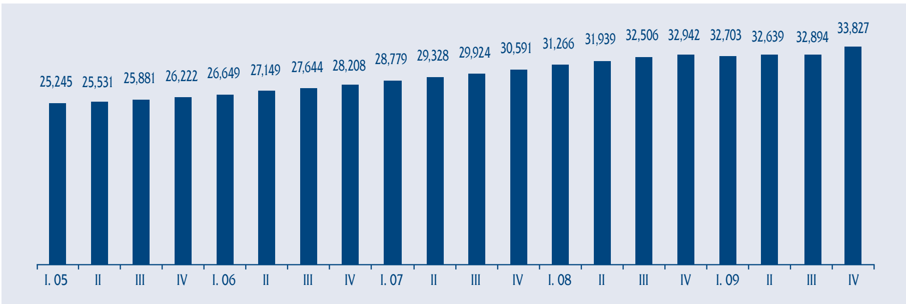
RI: Inflation Report.
* Forecast.
1/ (+) Indicates negative contribution, (-) Indicates positive contribution.

40. Excluding the effect of seasonality, economic activity has been showing a continuous recovery since Q3-2009, reaching in this quarter similar growth rates to the ones observed prior to the international financial crisis. This recovery is also being observed in private consumption and investment.

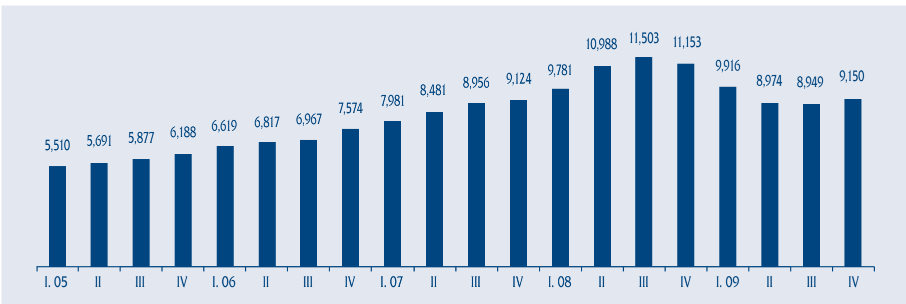
Graph 45
SEASONALLY ADJUSTED GDP
(Percentage change compared with the same quarter or the previous year)



Graph 46
SEASONALLY ADJUSTED PRIVATE CONSUMPTION
(Millions of nuevos soles of 1994)



Graph 47
SEASONALLY ADJUSTED PRIVATE INVESTMENT
(Millions of nuevos soles of 1994)

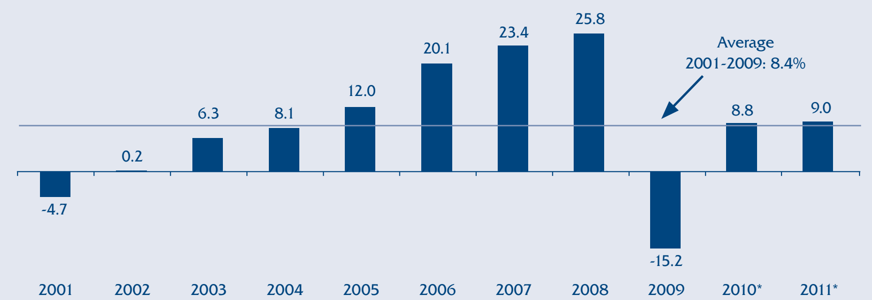


41. A recovery of GDP growth and domestic demand is considered for 2010 and 2011. The acceleration of domestic demand would be associated with the impulse of

private investment through the execution of investment projects, some of which had been postponed due to global recession, the lower international prices of export products, and the desired accumulation of inventories associated with better business expectations about the evolution of the economy.

42. Private investment tends to be one of the most volatile components of expenditure during the periods of expansion and contraction of the economic cycle, as pointed out by several studies (see, for example, the box analyzing the conduct of private investment during the economic cycles included in our Inflation Report of December). Moreover, private investment is also very sensitive to the evolution of terms of trade. In a context of high uncertainty, such as the one observed last year, the execution of some investment projects was postponed, causing private investment to drop 15.2 percent. This was coupled by a strong contraction of imports of capital goods (24 percent). Given that an important group of investment projects has been announced, that the Peruvian economy has sound economic fundamentals and optimistic business expectations, a rapid recovery of private investment may be foreseen: private investment would grow 8.8 and 9.0 percent in 2010 and 2011, respectively.

Graph 48
PRIVATE INVESTMENT GROWTH RATE
(Real percentage change)



* Forecast.

TABLE 12
NOTICE OF EXECUTION OF INVESTMENT PROJECTS: 2010 - 2011
(Millions of US$)

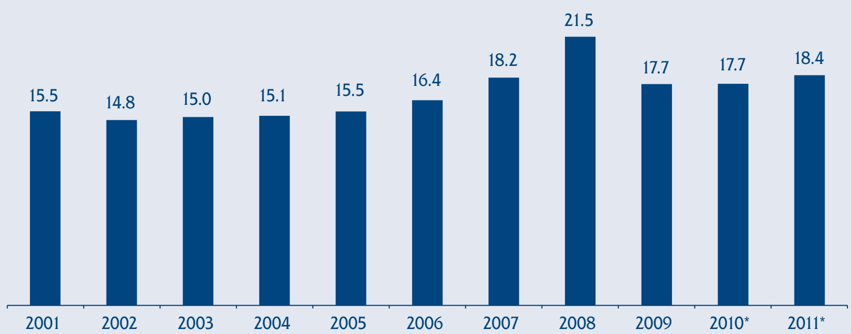
Sector	2010	2011	Total
Mining	2,850	5,815	8,665
Hydrocarbons	2,195	2,524	4,719
Electricity	754	1,090	1,844
Telecommunications	477	239	716
Industry	1,039	,954	1,993
Infrastructure	2,182	1,080	3,262
Other Sectors	994	413	1,407
Total	**10,491**	**12,115**	**22,606**

Source: Press media and companies information.

TABLE 13
MAIN INVESTMENT PROJECTS: 2010 - 2011
(Millions of US$)

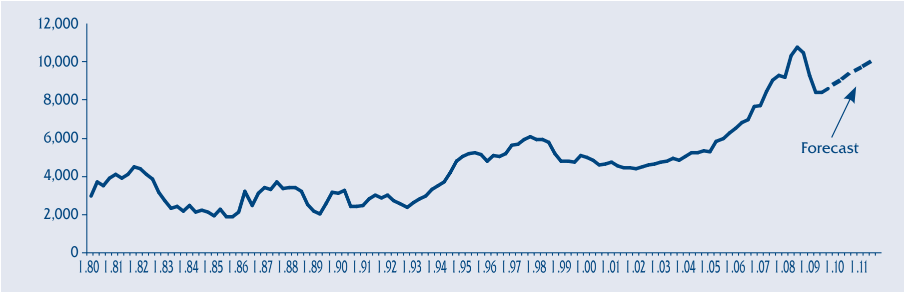
SECTOR	COMPANY	PROJECT NAME	PRODUCTION START DATE
Mining	Xstrata Tintaya	Antapaccay	2012
	Antamina	Expansion	2012
	Shougang Group Hierro Peru	Marcona	2012
	FreePort McMoRan Copper&Gold Inc (Cyprus Climax Metals Company)	Expansion: Cerro Verde	2012
	Southern Peru Copper	Tia Maria	2012
	Norsemont Peru	Constancia	2012
	Southern Peru Copper	Refinery and funding Ilo - Toquepala - Cuajone	2011
	Minera Yanacocha S.R.L.	Chaquicocha	2012
	Compañia Minera Milpo	Pukaqaqa	2012
Hydrocarbons	Peru LNG	Camisea II	2010
	Kuntur Transportadora de Gas	Andino del Sur pipeline	2012
	Calidda Gas Natural del Peru	Main road expansion	2012
	Transcogas Peru	Andino del Sur pipeline	2011
Electricity	Fenix Power Peru	Thermic Plant (natural gas combined cycle)	2012
	Kallpa Generacion	Kallpa IV	2012
	Luz del Sur	Expansion of lines and infrastructure development	2012
Telecommunications	CLARO Peru	Works in mobile phones	2010
	Telefonica del Peru	Expansion of mobile and broad band net	2010
Industry	Votorantim Metais - Cajamarquilla	Expansion of refinery Cajamarquilla	2011
	Vale do Rio Doce (CVRD)	Phosphates from Bayovar	2010
	Aceros Arequipa	Plant expansion and modernization	2010
Infrastructure	Dubai Ports World Callao	South pier	2010
	Terminales Portuarios Euroandinos (TPE)	Paita port expansion	2011
	Autopista del Norte	Road Nº 4	2011
	Grupo Romero	Ancon port	2012
	Chancay Port	Multipurpose Megaport	2011

Graph 49
FIXED PRIVATE INVESTMENT
(% of GDP)



* Forecast.

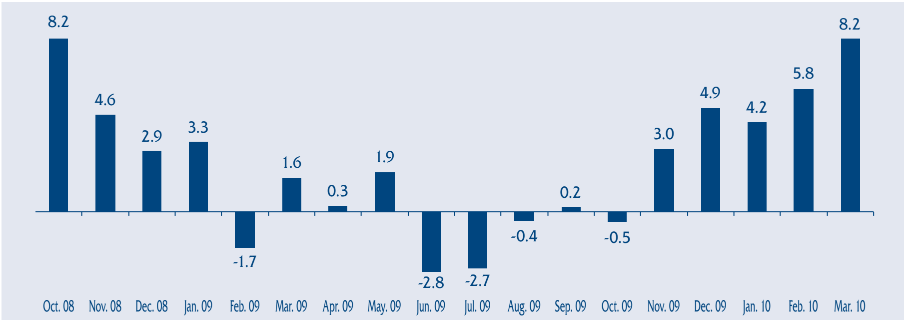
Graph 50
SEASONALLY ADJUSTED PRIVATE INVESTMENT
(Millions of nuevos soles of 1994)



43. Recent indicators of activity continue showing clear signs of recovery:

a. During March, the production of electricity would record a deseasonalized monthly growth of 2.0 percent and an annual growth of 8.2 percent.

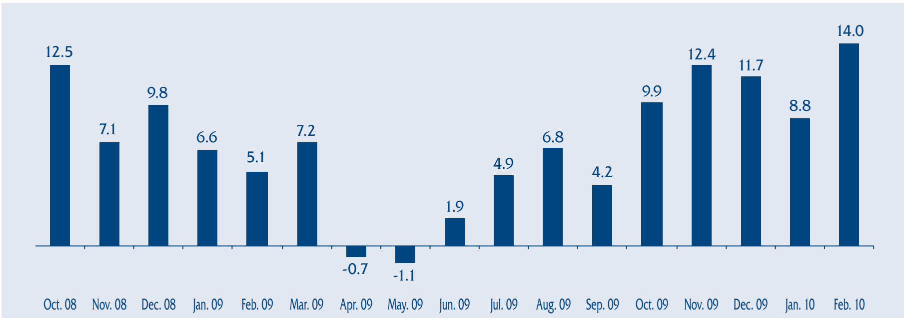
Graph 51
ELECTRICITY PRODUCTION
(Last 12-months % change)



Source: COES.

b. In February, the cement dispatches grew 3.5 percent compared to January and 14.0 percent compared with the same month of 2009..

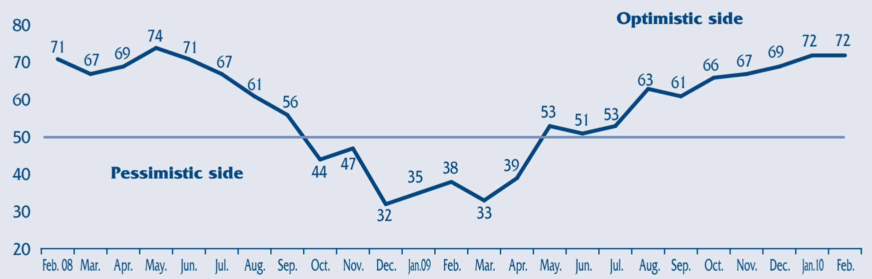
Graph 52
LOCAL DISPATCH OF CEMENT
(Last 12-months % change)



Source: Asocem.

c. The business confidence index has recovered completely, reaching similar levels to the ones observed prior to the international financial crisis.

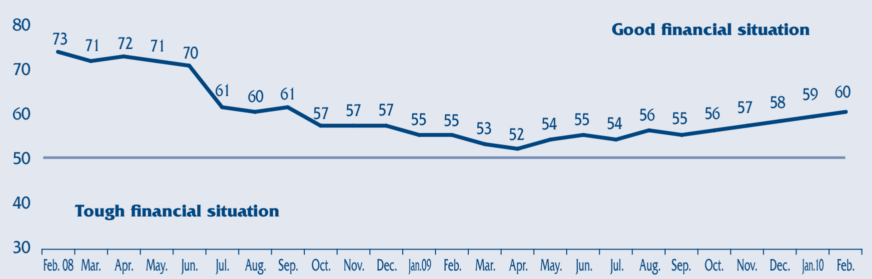
Graph 53
BUSINESS CONFIDENCE INDEX
Economic situation



Source: BCRP Survey on Macroeconomic Expectations February 2010.

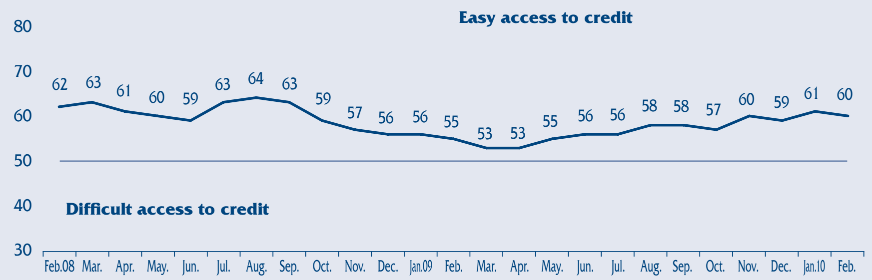
d. The good financial situation of the largest firms is continuously improving and there is an increasingly growing perception that access to credit is becoming easier.

Graph 54
FINANCIAL SITUATION INDEX



Source: BCRP Survey on Macroeconomic Expectations February 2010.

Graph 55
ACCESS TO CREDIT INDEX



Source: BCRP Survey on Macroeconomic Expectations February 2010.

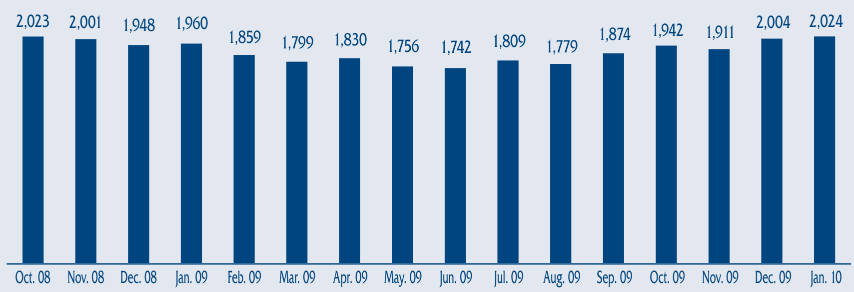
e. For 2010, financial entities of the financial system foresee a GDP growth rate of 5.0 percent, while economic analysts and non financial firms expect a rate of growth of 4.5 percent. Growth estimates for 2011 converge at 5.0 percent.

TABLE 14
SURVEY ON MACROECONOMIC EXPECTATIONS: GDP GROWTH (%)

	November 2009	February 2010
FINANCIAL ENTITIES		
2010	4.0	5.0
2011	5.0	5.0
ECONOMIC ANALYSTS		
2010	4.0	4.5
2011	5.0	5.0
NON-FINANCIAL FIRMS		
2010	4.0	4.5
2011	5.0	5.0

f. Even though manufacturing production declined 8.5 percent in 2009, reflecting the effects of the global recession on industry, it has been showing a continuous recovery in its monthly deseasonalized levels since July. An expansion of 1 percent was recorded in July, when manufacturing production reached similar levels to those observed prior to the international crisis.

Graph 56
SEASONALLY ADJUSTED NON-PRIMARY MANUFACTURING
(Millions of nuevos soles of 1994)

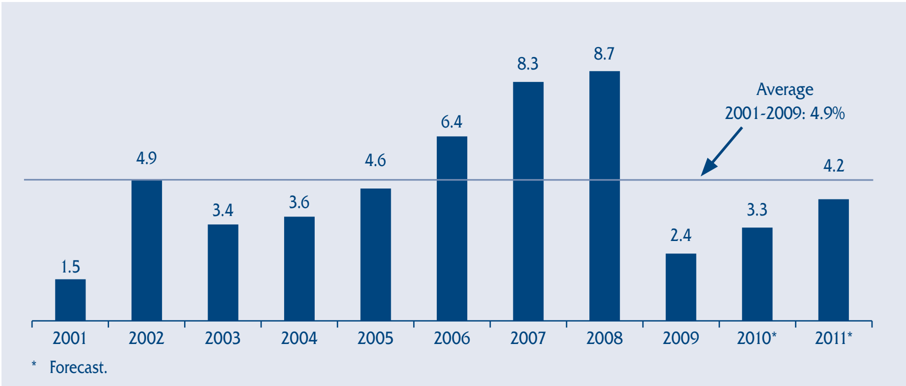


* Forecast.

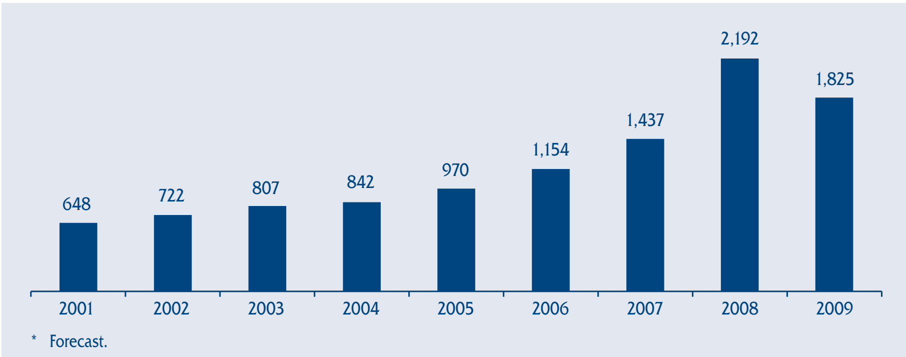
44. Private consumption grew 2.4 percent in 2009, a lower rate than the average rate of the last decade (4.9 percent). This evolution was associated with the low growth of national disposable income, which was partially offset by the moderate growth observed in employment and credit.

The low growth of private consumption was in turn reflected in lower imports of consumer goods, mainly durable goods, which contracted by 16.7 percent.

Graph 57
PRIVATE CONSUMPTION GROWTH RATE
(Real % change)



Graph 58
IMPORTS OF DURABLE GOODS
(Millions of US$)



45. In contrast with the concept of GDP, the concept of national disposable income also considers the effect of international prices and remittances from Peruvians residing abroad, and deducts the profits generated by foreign investments. Thus, this is a more accurate indicator on the economic transactions that generate income for the country. After declining to a growth rate of 0.9 percent in 2009, the national disposable income would recover and would grow to 6.0 and 5.4 percent in 2010 and 2011, respectively, mainly as a result of the expected evolution of GDP and terms of trade.

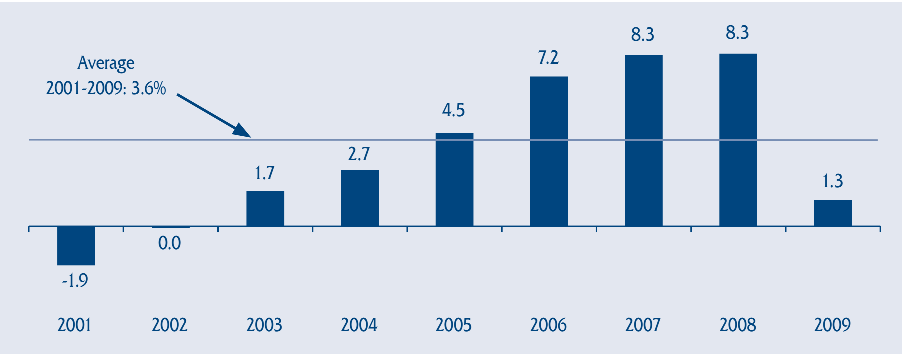
TABLE 15
NATIONAL DISPOSABLE INCOME
(Real % change)

	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
1. GDP	**9.8**	**0.9**	**5.5**	**5.5**	**5.5**	**5.5**
2. Gross national product	11.4	2.1	3.8	3.8	5.9	6.0
3. Gross national income	7.7	1.0	5.6	6.3	5.6	5.4
4. National disposable income 1/	**7.5**	**0.9**	**5.5**	**6.0**	**5.6**	**5.4**

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

46. The moderation of the pace of the growth of employment to 1.3 percent in 2009 influenced the growth of private consumption. Due to the timely adoption of appropriate macroeconomic policies, employment did not decline as it did in most countries, which would allow a faster recovery of our economy in the next years.

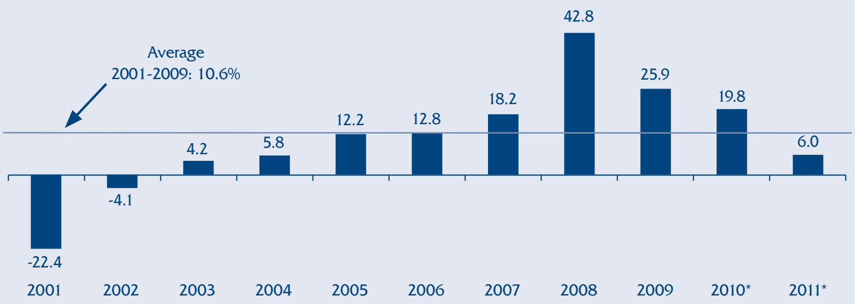
Graph 59
URBAN EMPLOYMENT
(% change)



The growth of private consumption is expected to increase from 2.4 percent in 2009 to 3.3 percent in 2010 and to 4.2 percent in 2011. This projection considers the expected recovery of terms of trade and its effect on national disposable income.

47. During 2009 public investment grew 25.9 percent driven mainly by expenditure in sub-national governments. A growth of 19.8 percent is expected for 2010 and a growth of 6 percent is projected for 2011.

Graph 60
PUBLIC INVESTMENT GROWTH RATE
(Real % change)



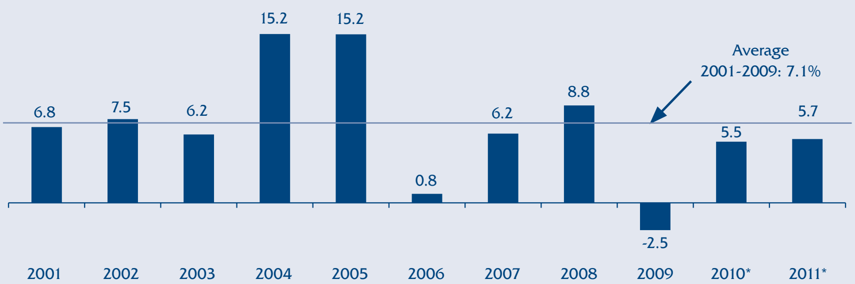
* Forecast.

TABLE 16
PUBLIC INVESTMENT

	Millions of Nuevos Soles				Nominal % change		
	2006	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
GENERAL GOVERNMENT	**7,880**	**9,435**	**14,370**	**18,324**	**19.7**	**52.3**	**27.5**
National government	3,380	3,936	4,586	5,036	16.4	16.5	9.8
Regional government	1,493	2,162	2,774	4,076	44.8	28.3	46.9
Local government	3,007	3,338	7,010	9,213	11.0	110.0	31.4
PUBLIC COMPANIES	**696**	**952**	**1,331**	**1,811**	**36.7**	**39.8**	**36.1**
TOTAL	**8 576**	**10 387**	**15 701**	**20 136**	**21,1**	**51,2**	**28,2**

48. Real exports of goods and services declined 2.5 percent in 2009 due to the lower volumes of both mining exports and non-traditional exports. The projection for 2010 and 2011 considers an improvement of the growth rate in a context of increased global demand, a situation that would be reinforced by an increased access to foreign markets through trade agreements and the full operation of hydrocarbon projects that would impulse traditional exports.

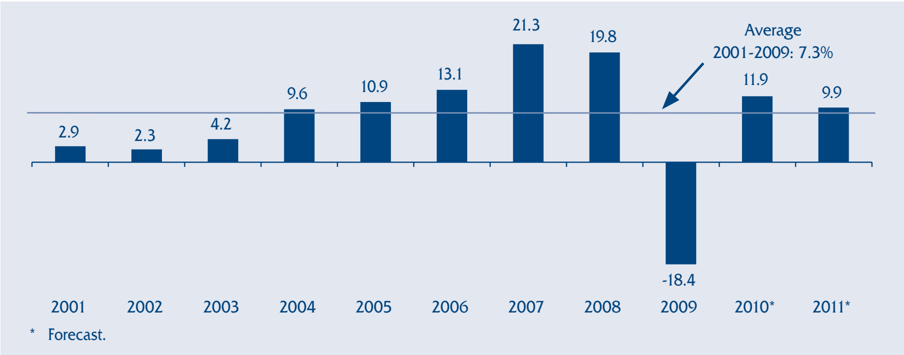
Graph 61
EXPORT GROWTH RATE OF GOODS AND SERVICES
(Real % change)



* Forecast.

49. Real imports of goods and services contracted 18.4 percent in 2009 due to the decline of domestic demand, particularly investment, which had a strong impact on the demand for imported capital goods. An acceleration of imports consistent with a scenario of recovery of the pace of growth of GDP, particularly private investment, is foreseen for 2010.

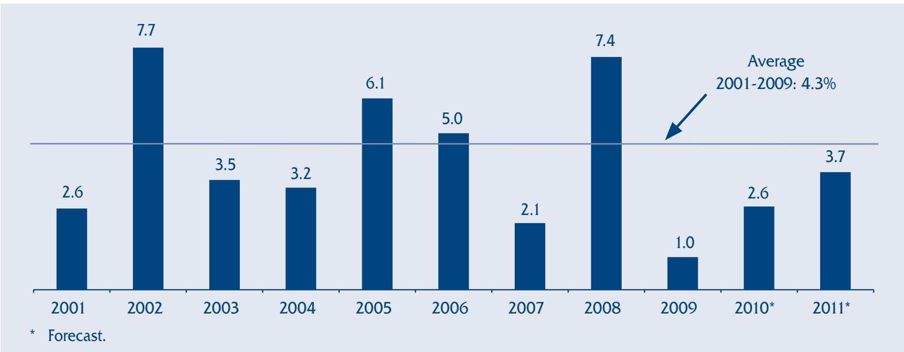
Graph 62
IMPORT GROWTH RATE OF GOODS AND SERVICES
(Real % change)



GDP by sectors

50. In 2009 the primary sectors of the economy grew slightly less than estimated in our Inflation Report of December 2009 due to the higher contraction of mining activity (1.4 percent versus 1.0 percent) associated with a lower production of copper and gold.

Graph 63
PRIMARY SECTORS GROWTH RATE
(Real % change)



The evolution of **non-primary sectors** reflected the significant slowdown of demand during 2009. The noteworthy decline of production in the sector of non-primary manufacturing was partially offset by the growth of construction associated with the execution of housing and road infrastructure projects. Construction, which recorded an expansion of 6.1 percent in the year, was the most dynamic activity in terms of sectors.

Graph 64
NON-PRIMARY SECTORS GROWTH RATE
(Real % change)

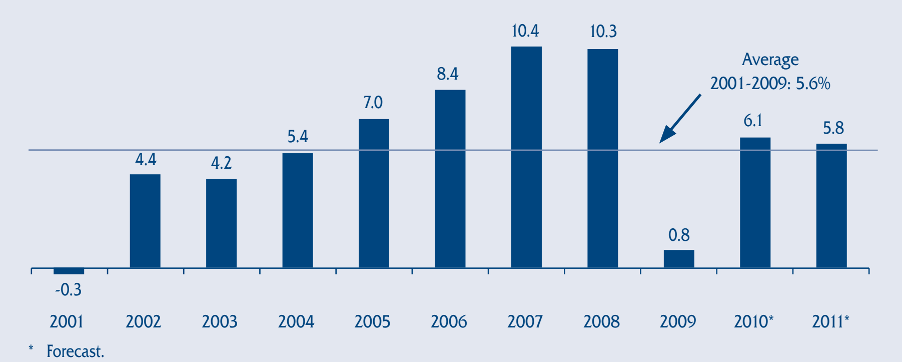


TABLE 17
GROSS DOMESTIC PRODUCT BY ECONOMIC SECTORS
(Real % change)

	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
Agriculture and livestock	**7.2**	**2.3**	**3.4**	**2.7**	**3.6**	**3.6**
Agriculture	7.4	0.9	2.9	1.4	3.5	3.5
Livestock	6.0	4.4	4.2	4.2	4.2	4.2
Fishing	**6.3**	**-7.9**	**5.5**	**0.3**	**0.4**	**0.4**
Mining and hydrocarbons	**7.6**	**0.6**	**5.1**	**2.8**	**3.8**	**3.8**
Metallic mining	7.3	-1.4	0.9	-0.7	3.1	3.1
Hydrocarbons	10.3	16.1	36.2	28.4	8.1	8.1
Manufacturing	**9.1**	**-7.2**	**5.9**	**6.5**	**5.3**	**5.3**
Raw materials	7.6	0.0	5.3	2.7	4.4	4.4
Non-primary industries	8.9	-8.5	6.0	7.3	5.5	5.5
Electricity and water	**7.7**	**1.2**	**4.2**	**4.9**	**5.5**	**5.5**
Construction	**16.5**	**6.1**	**10.6**	**12.5**	**9.5**	**9.5**
Commerce	**13.0**	**-0.4**	**5.0**	**5.1**	**5.2**	**5.2**
Other services	**9.1**	**3.1**	**5.4**	**5.4**	**5.6**	**5.6**
GDP	**9.8**	**0.9**	**5.5**	**5.5**	**5.5**	**5.5**
Primary	**7.4**	**1.0**	**4.4**	**2.6**	**3.7**	**3.7**
Non-Primary	**10.3**	**0.8**	**5.8**	**6.1**	**5.8**	**5.8**

RI: Inflation Report.
* Forecast.

51. As projected in our Inflation Report of December, GDP is expected to grow 5.5 percent in 2010, although some modifications are foreseen in terms of growth by sectors: non primary sectors would become more dynamic and would record a growth rate of 6.1 percent (instead of the 5.8 percent rate projected in our previous report) reflecting in turn the higher growth of domestic demand (6.8 percent instead of 6.2 percent). On the other hand, growth in the primary sectors

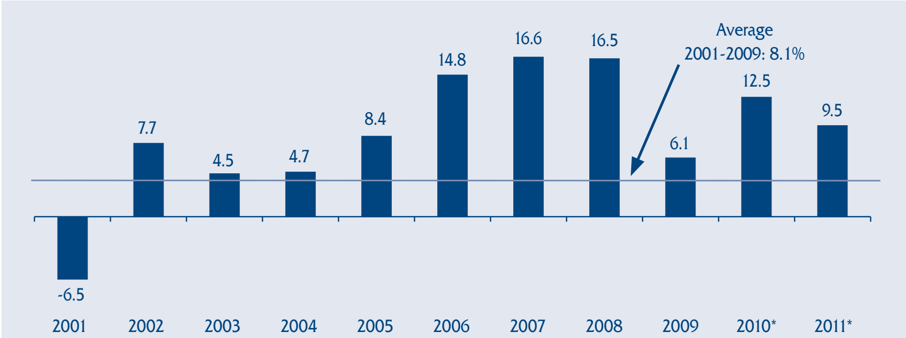
has been adjusted slightly downwards (from 4.4 to 2.6 percent) due to less favorable climatic conditions that negatively affected the yields of some crops, mainly Andean crops, and the availability of marine resources near the coast.

Moreover, the projections of mining companies indicate that similar levels to the ones reached in 2009 would be recorded in view of the growing prices observed for all metals. In the agriculture sector, the crops associated with agroindustry, such as sugar cane and yellow maize, would continue showing a considerable dynamism reflecting the strong investments made in previous periods. Agroexport products, such as asparagus, would resume growth due to demand factors as a result of the reactivation of orders from industrialized countries, while other products, such as mango and olive, would go into a phase of growth due to the effect of rotation, and other crops, such as grapes and avocado, would enter into new external markets as a result of trade agreements that will become effective.

Graph 65
NON-PRIMARY MANUFACTURING GROWTH RATE
(Real % change)

* Forecast.

Graph 66
GROWTH RATE OF THE CONSTRUCTION SECTOR
(Real % change)



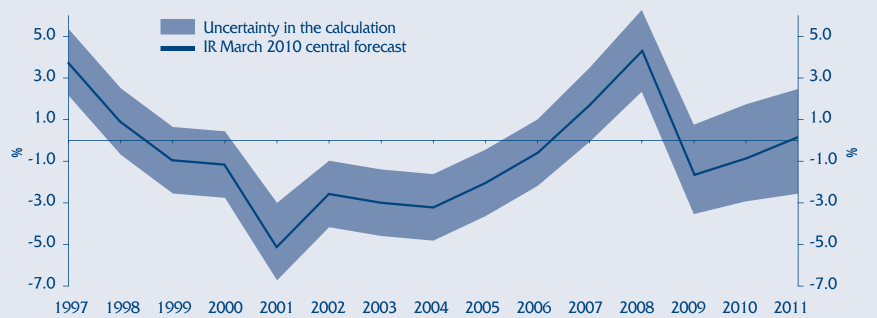
* Forecast.

Output gap

52. The output gap, which is the aggregate indicator of inflationary demand pressures, would fall in negative levels and would tend to record an equilibrium position in the next two years.

The slowdown of the economy during 2009 led the gap between the potential GDP and the recorded GDP to go from a level of 4.3 percentage points in 2008 to a negative level of 1.7 percent in 2009. This situation would revert gradually due to the recovery foreseen in productive activity. Thus, higher growth during 2010 would lead the output gap to decline to a negative level of 0.9 percent and to reach a positive level of 0.2 percent in 2011.

Graph 67
OUTPUT GAP
(% of the potential GDP)



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

BOX 1
INVESTMENT PROJECTS

The role of investment as an engine for economic growth is essential since it allows the productive capacity of the economy to grow. Studies on the relationship between investment and growth show a strong interdependence between both variables. Capital is a production factor and, therefore, when capital increases it necessarily leads to a higher growth of the product. At the same time, the growth of capital is determined by prospects of economic growth.

The pace of growth of investment will increase the economy's capital stock and its productivity, which will favor the growth of the potential output in the next years. In this sense, investment is closely linked to innovation, technological change, and the generation of more dynamic enterprises, all of which are essential factors to achieve sustainable growth.

It is estimated that the growth of capital stock will account for nearly half of the growth of GDP in the period 2006-2011.

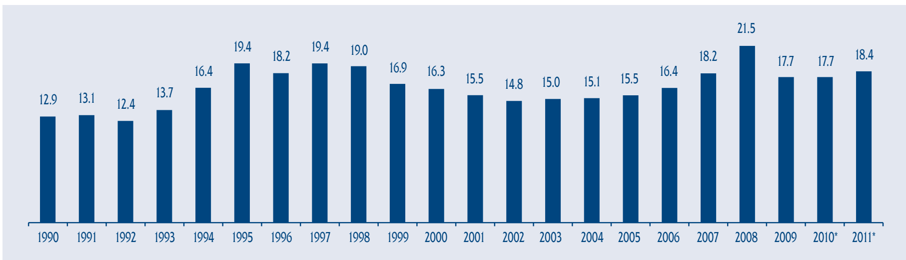
GROWTH ACCOUNTING
(% contribution)

	Capital	Labor	Productivity	GDP
1980-1989	1.4	1.6	-3.5	-0.5
1990-1999	1.2	1.5	1.5	4.1
2000-2005	1.0	1.5	1.5	4.0
2006-2011*	2.7	0.9	2.7	6.4

* Forecast.

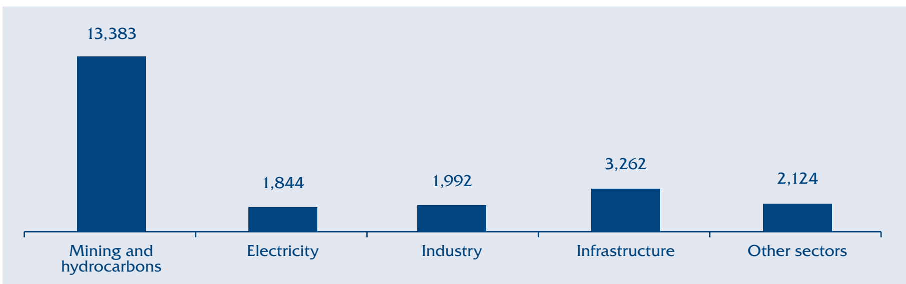
Private investment has maintained an upward trend during this decade. The share of private investment in terms of the product increased from 16.3 percent of GDP in 2000 to 21.5 percent in 2008. Even though a rapid decline of private investment was observed with the deepening of the international crisis, it is expected to return to the levels observed prior to the expansion recorded in mid-2008.

PRIVATE INVESTMENT
(% of GDP)



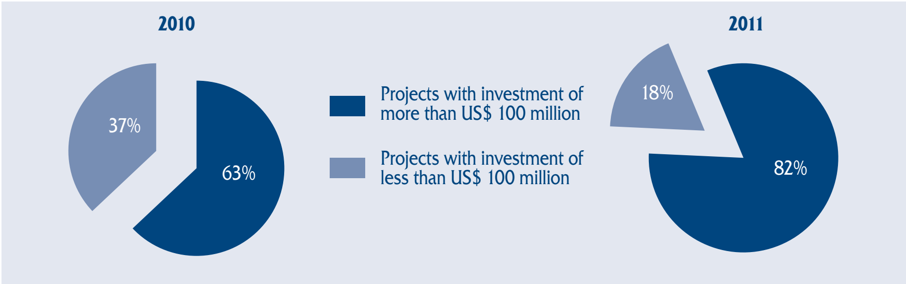
The growth of private investment has been associated with the execution of projects and with favorable expectations about the future performance of the economy. Better international conditions would favor investment in 2010 and 2011, especially in the mining and energy sectors. Investment projects amounting to a total of US$ 22.6 billion have been announced for the period 2010-2011.

CONFIRMED INVESTMENT PROJECTS: 2010 - 2011
(Millions of US$)



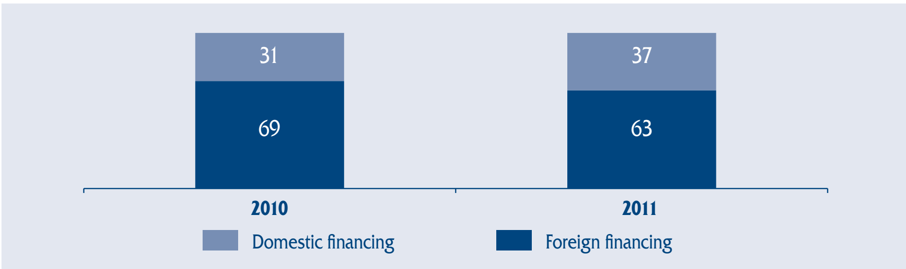
The investment projects involving an investment of over US$ 100 million represent 63 percent of the projects announced to be implemented in 2010 and 82 percent of the projects announced to be implemented in 2011.

INVESTMENT ANNOUNCEMENTS: 2010 - 2011



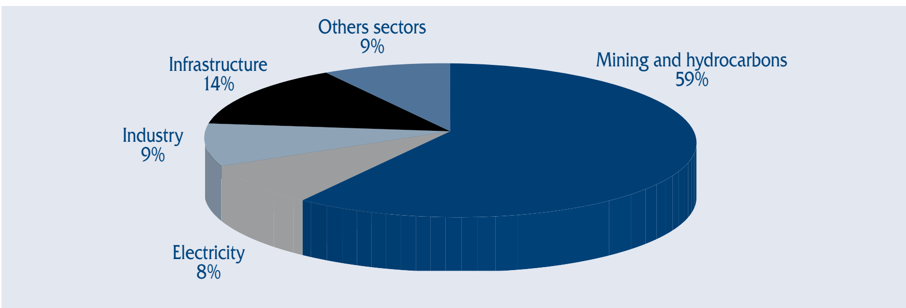
As regards the origin of the funding for the investment projects, 31 percent of the investment projects in 2010 would be financed with domestic sources and the participation of domestic financing would increase to 37 percent in 2011.

FINANCING OF INVESTMENT PROJECTS: 2010-2011
(Percentage contribution)



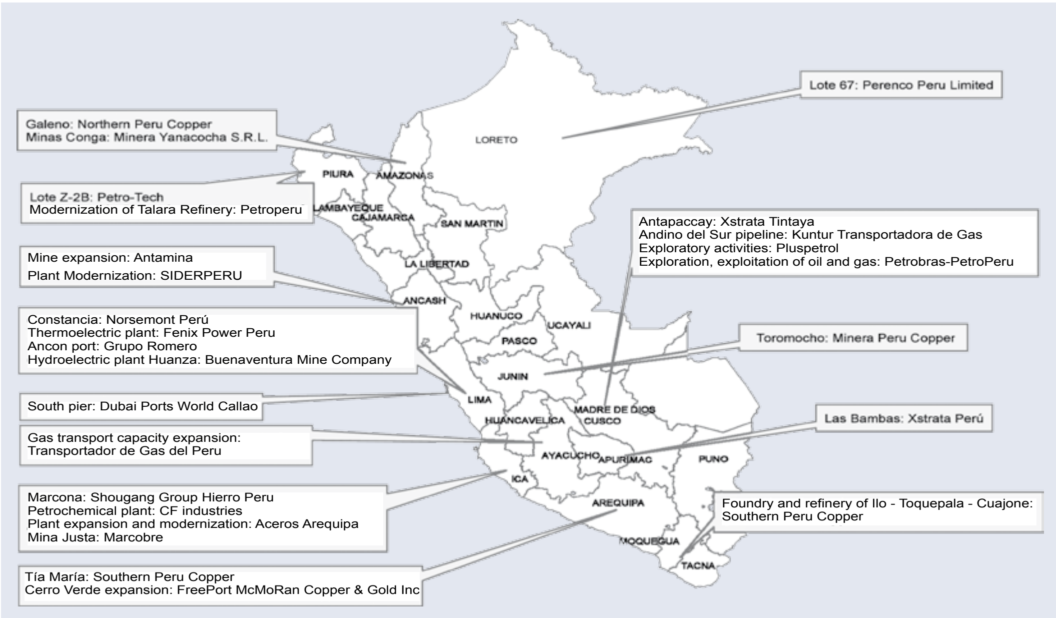
The confirmed investments projects for 2010 and 2011 are expected to be oriented not only to sectors associated with extractive activities, but also to non-primary sectors such as infrastructure, electricity, and industry and with an important participation.

CONFIRMED INVESTMENT PROJECTS: 2010-2011
(Percentage contribution)



A significant level of deconcentration in territorial terms is observed among the projects involving high investment. These investment projects will contribute to improve income distribution at the regional level since other sectors of the local economies (commerce, services, etc.) are also favored by these projects.

MAIN CONFIRMED INVESTMENT PROJECTS 2010-2011

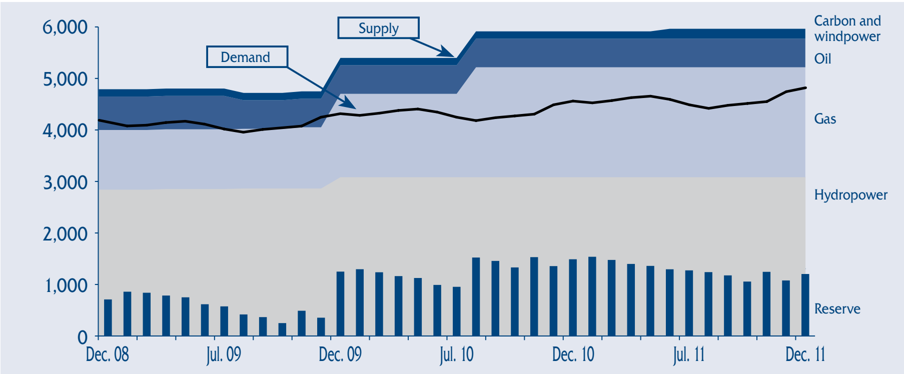


BOX 2
PROSPECTS FOR ELECTRICITY SUPPLY IN 2010 – 2030

In order to operate under appropriate parameters of safety and reliability maintaining reasonable and predictable operation costs, the national electricity system has to operate with a certain margin of reserve, or excess between power supply and peak grid demand. Thus, for the period 2009-2013, OSINERGMIN, the sector regulator, established a Grid Firm Reserve Margin Target (FRMT) of 32.7 percent, which among other conditions, provides for the operation of the system without rationing in the event of i) failure of the most important power generation plant, and ii) low hydrological conditions or fuel supply problems.

Year 2008 started with a 30 percent grid reserve margin that allowed coping with a severely low level of hydrological conditions and scarcity of natural gas, although episodes of service interruption were observed and the marginal cost of electricity production increased significantly. These episodes were not repeated in 2009 mainly due to the slowdown of the economy, even though the grid reserve margin was not only far from being optimal, but also declined to 5 percent in September.

MAXIMUN DEMAND AND EFECTIVE POWER SUPPLY



Even though it is estimated that the reserve margin will be lower than the FRMT of 32.7 percent in 2010 and 2011, no supply problems or service interruptions are foreseen for those years since the most likely conditions during the period include a growth of peak electricity demand of 5.5 percent in each year, normal hydrological conditions, and a regular supply of natural gas. Factors accounting for this include, on the one hand, the expansion of the generation system through the hydroelectrical power station of El Platanal with a power capacity of 220 MW and, on the other hand, the expansion of the natural gas pipeline and the partial use of the pipeline used to export gas, which would increase heat based power generation by an additional 900 MW.

MAIN PROJECTOS OF ELECTRICITY PRODUCTION
(Final concession and authorization, in works execution stage)

Project	Operation date 1/	Location	MW
Hydropower and other renewable energy (22)			**1,235**
CH Santa Rita	Dec. 2013	Ancash	255
CH Cheves	Dec. 2012	Lima	168
CH San Gaban I	Jun. 2011	Puno	150
CH Pucara	Sep. 2013	Cusco	130
CH Quitaracsa I	Oct. 2014	Ancash	109
CH Marañon	Feb. 2013	Huanuco	96
CH Huanza	Feb. 2013	Lima	86
CH La Virgen	Jun. 2011	Junin	64
CH Morro de Arica	Dec. 2008	Lima	50
CH Centauro I y III	Mar. 2009	Ancash	25
CH Pias I	Feb. 2012	La Libertad	11
Others (11)	n.a	n.a	91
Thermoelectric (5)			**1,343**
Chilca	Oct. 2011	Lima	597
Kallpa TG4 2/	Dec. 2012	Lima	293
Kallpa TG3	Mar. 2010	Lima	192
Las Flores	Aug. 2010	Lima	184
Pampa Melchorita	Dec. 2009	Lima	77
TOTAL (27)			**2,578**

1/ Start date of operation according to contract or schedule of work execution.
2/ Combined cycle.
Source: MINEM.

In the long term, it is estimated that the demand for electricity will increase three-fold towards 2030, implying a requirement of 13 thousand additional MW by then. Today, the power stations given in definite concession –in the case of hydroelectrical plants– or authorized –in the case of heat plants– can generate a total of 2,578 MW, which could cover the demand for power until 2016. For the next years, there is a deficit of investment that has to be covered.

Because of this, Peru and Brazil have been elaborating a bi-national energy integration project for the construction of 5 hydroelectrical plants that could generate a total power of 6,673 MW.

Other large energy projects that could generate over 22 thousand MW of electricity are currently under study. However, given that the pending agenda required to crystallize them is still vast, energy policy measures have to be promoted to prevent bottle-necks in the future. In this sense, in a context of limited certified gas resources, of a lower relative profitability for hydroelectric plants, and of imperfect market price formation, it is necessary to promote that the commercial value of additional reserves of natural gas is put into value, to promote higher investment in hydroelectric generation, and to facilitate the price formation of energy generation in line with market conditions.

IV. Public Finances

53. The possibility of implementing a counter cyclical fiscal policy in a context of less favorable external credit conditions was sustained by the government savings generated during the years of economic expansion. After three years of fiscal surpluses, a deficit equivalent to 1.9 percent of GDP was recorded in 2009. This is explained, on the one hand, by the drop of tax revenue resulting from lower activity and the deterioration of terms of trade and, on the other hand, by the government's decision to promote a policy of expenditure expansion, especially investment, in a context of weak domestic and external demand.

54. Deficits of 1.6 and 1.0 percent of GDP are projected for 2010 and 2011, respectively, which implies that a downward trend would be observed in the next years due to a gradual recovery of government revenue associated with better economic performance, the rise of the international prices of metals and hydrocarbons, and a gradual deceleration of expenditure in the frame of a progressive withdrawal of fiscal stimulus.

Graph 68
OVERALL BALANCE OF THE NON FINANCIAL PUBLIC SECTOR
(% of GDP)

* Forecast.

55. The current revenue of the general government in 2010 and 2011 would amount to 19.0 and 19.4 percent of GDP, respectively. These higher ratios than the ones observed in 2009 would be associated with the acceleration of growth of economic activity and with a positive evolution of the prices of our main exports in the following years. Non financial expenditures would amount to 19.4 and 19.3 percent of GDP in the same years, with the difference that capital expenditure would increase from 6.0 to 6.1 percent of GDP.

TABLE 18
NON-FINANCIAL PUBLIC SECTOR
(% of GDP)

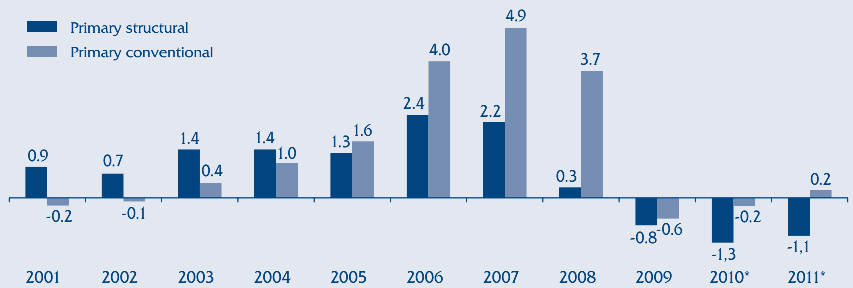
	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
1. General government current revenue	**20.9**	**18.6**	**18.9**	**19.0**	**19.3**	**19.4**
Real % change	*5.8*	*-11.3*	*9.0*	*10.1*	*7.9*	*7.1*
2. General government non-financial expenditure	**17.3**	**19.6**	**19.4**	**19.4**	**19.5**	**19.3**
Real % change	*13.5*	*12.7*	*9.5*	*7.1*	*5.6*	*4.3*
Of which:						
a. Current	13.2	13.9	13.5	13.4	13.4	13.3
Real % change	6.9	4.4	5.1	4.6	4.3	3.6
b. Gross capital formation 1/	3.9	5.2	5.5	5.5	5.7	5.7
Real % change	45.8	32.5	22.5	15.0	8.9	7.3
3. Others	**0.1**	**0.4**	**0.2**	**0.2**	**0.2**	**0.2**
4. Primary balance (1-2+3)	**3.7**	**-0.6**	**-0.3**	**-0.2**	**0.0**	**0.2**
5. Interests	**1.6**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**
6. Overall Balance	**2.1**	**-1.9**	**-1.6**	**-1.6**	**-1.2**	**-1.0**
Memo:						
Central government current revenues	18.2	15.9	16.3	16.4	16.7	16.7
Central government non-financial expenditure	14.8	16.6	16.3	16.4	16.4	16.3

1/ Gross capital formation of the general government need to be added the investment of public companies to obtained the public investment.
RI: Inflation Report.
* Forecast.

Structural economic result

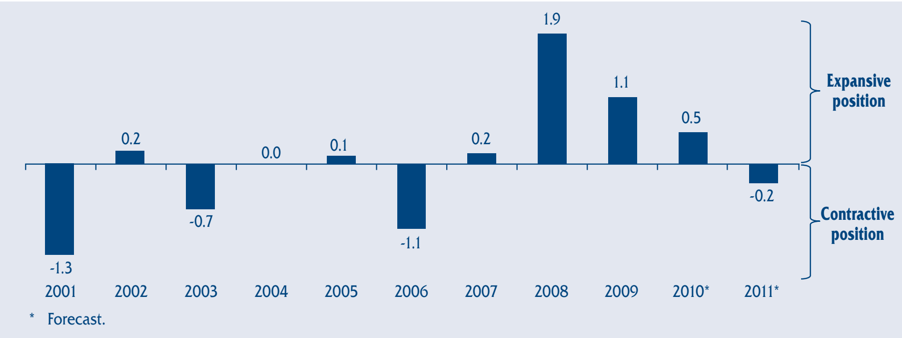
56. The structural economic result is the one obtained isolating the effect of the economic cycle and the higher prices of mining and hydrocarbon exports on the revenue of the general government. The change in the structural result determines fiscal impulse. This indicator shows the effect of fiscal policy on domestic demand isolating the effects of the economic cycle. In 2009 and 2010, when the Economic Stimulus Plan (ESP) is executed, the fiscal policy is expansionary. In 2011, the impulse would be close to zero due to the slowdown of the growth of public spending towards more sustainable long-term values.

Graph 69
PRIMARY STRUCTURAL BALANCE OF THE NON FINANCIAL PUBLIC SECTOR
(% of GDP)



* Forecast.

Graph 70
FISCAL IMPULSE
(% of GDP)



Evolution of fiscal revenues

57. In 2009 the current revenues of the general government amounted to 18.6 percent of GDP, which represented a decline of 11.3 percent in real terms compared to 2008. This decline was equivalent to a drop of 2.3 points in terms of the product. The components of fiscal revenues that mostly influenced this result were the income tax, import-related duties, and the canon and oil royalties.

The total VAT declined 9 percent, a result explained by the drop of the VAT on imports by 25 percent. In addition, the lower revenues from the oil and mining canon and royalties, with dropped by 26 and 37 percent in real terms, respectively, also contributed in this sense.

TABLE 19
INGRESOS TRIBUTARIOS DEL GOBIERNO CENTRAL
(En % del PBI)

	2001	2006	2008	2009	2010*	2011*
Income tax	3.0	6.1	6.5	5.3	5.6	5.6
Value added tax	6.2	7.1	8.5	7.7	7.8	8.0
Excise tax	1.9	1.3	0.9	1.1	1.1	1.1
Import fares	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 returns	-1.5	-1.6	-1.9	-1.9	-1.9	-1.9
Total	**12.4**	**15.0**	**15.6**	**13.8**	**14.2**	**14.5**

* Forecast.

The revenue from the income tax, which is strongly connected to the international prices of minerals, recorded a decline of 18 percent due to the drop of the revenue corresponding to payments on account of third category income tax (30 percent). Particularly, the sectors which registered higher drops in their payments on account of income taxes were the sectors of mining and hydrocarbons, which declined 58 and 51 percent in real terms.

TABLE 20
THIRD CATEGORY INCOME TAX
(Millions of nuevos soles)

	2004	2005	2006	2007	2008	2009	Real % chg 2009/2008
Advanced payments	**4,496**	**5,316**	**9,963**	**13,258**	**14,921**	**10,691**	**-30.4**
Agriculture	43	28	34	55	38	26	-34.0
Fishing	35	49	52	73	38	39	-1.6
Mining	586	1,288	4,335	6,439	6,056	2,609	-58.1
Hydrocarbons	273	366	666	792	921	464	-51.0
Manufacturing	807	878	1,269	1,450	1,856	1,593	-16.7
Financial Intermediation	615	316	580	646	1,011	1,097	5.4
Construction	142	129	189	232	295	383	26.3
Commerce	675	775	1,026	1,364	1,898	1,757	-10.1
Others	1,319	1,486	1,814	2,208	2,808	2,723	-5.8
Regularization	**890**	**1,908**	**3,137**	**3,829**	**2,248**	**2,216**	**-4.3**
TOTAL	**5,386**	**7,223**	**13,100**	**17,087**	**17,169**	**12,907**	**-27.0**

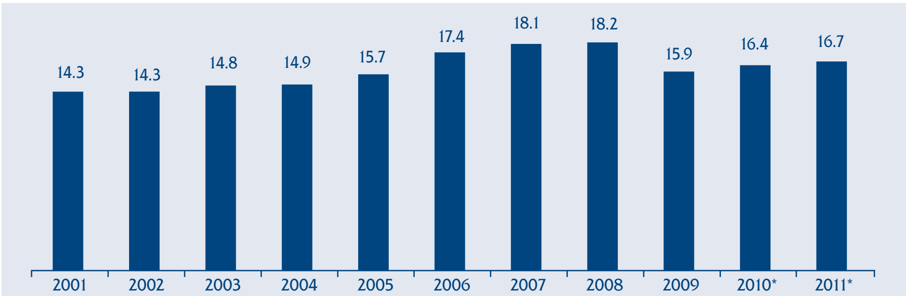
Source: Sunat.

58. In 2010 and 2011, the revenues of the general government are projected to amount to 19.0 and 19.4 percent of GDP, which would represent a real increase of 10 and 7 percent, respectively. These projected levels are consistent with the acceleration of growth of economic activity and with the international prices of our export products estimated for the next years. It should be pointed out that a recovery of the tax revenues of the general government, especially of the income tax and VAT, has already been observed since the last months of 2009 and in the first months of 2010, as a result of which positive real 12-month percentage change values have been recorded again since November.

Graph 71
GENERAL GOVERNMENT CURRENT REVENUE
(% of GDP)

* Forecast.

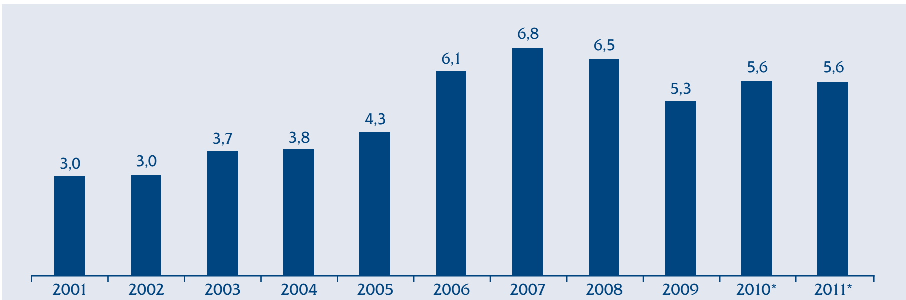
Graph 72
CENTRAL GOVERNMENT CURRENT REVENUE
(Percentage of GDP)



* Forecast.

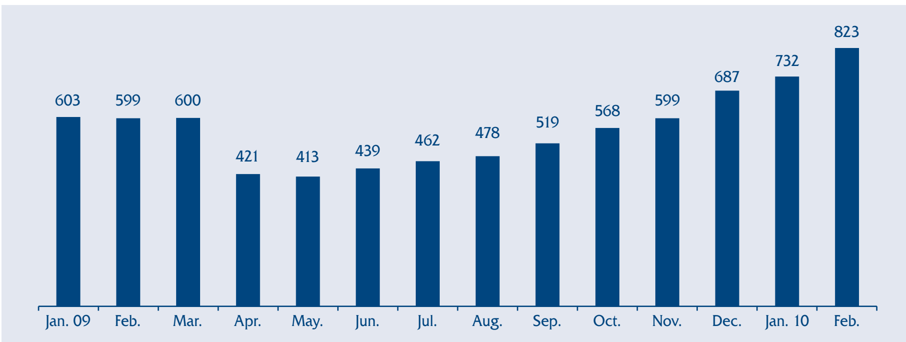
Revenue from income tax would show a recovery in 2010 due to higher payment on account of this tax from legal entities. This would be mainly associated with the progressive exhaustion of the balances in favor of firms, which were applied in most part of 2009, and with the recovery of the prices of minerals.

Graph 73
INCOME TAX
(% of GDP)



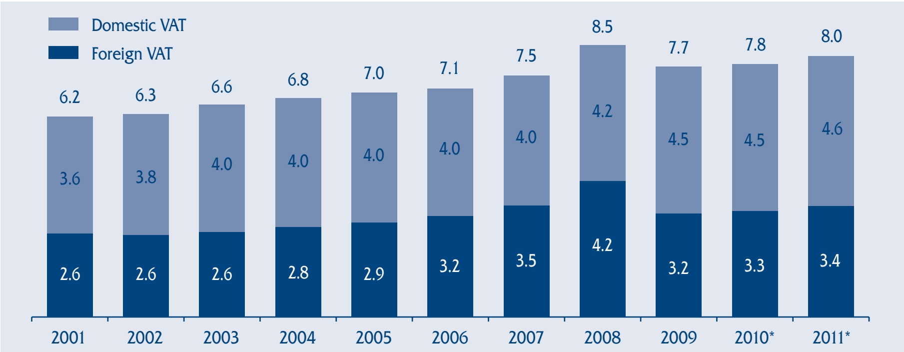
* Forecast.

Graph 74
INCOME TAX: COMPANIES
(Millions of nuevos soles of 1994 - seasonally adjusted series)



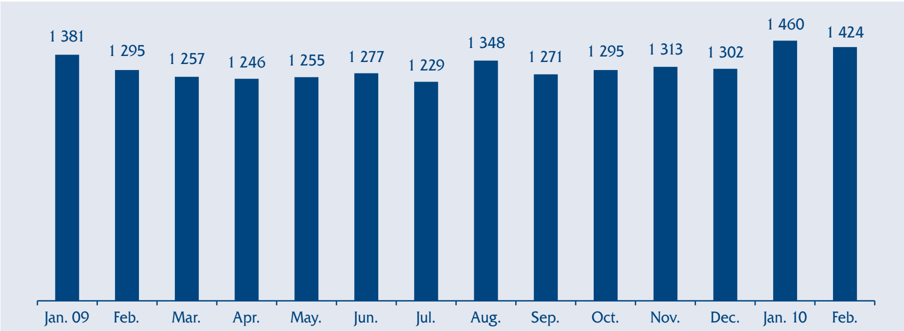
The value added tax (VAT), our main tax revenue, declined from 8.5 percent of GDP in 2008 to 7.7 percent in 2009, mainly as a result of the decline of the imported component which dropped by 1 point of GDP due to the decline of our imports. In 2010 and 2011, revenue from the VAT would increase drive both by domestic economic activity and by the growth of imports. Thus, external VAT would show similar levels to the ones observed in 2006 and 2007 (the VAT revenue in 2008 was exceptionally high due to the boom of imports).

Graph 75
VALUE ADDED TAX
(% of GDP)



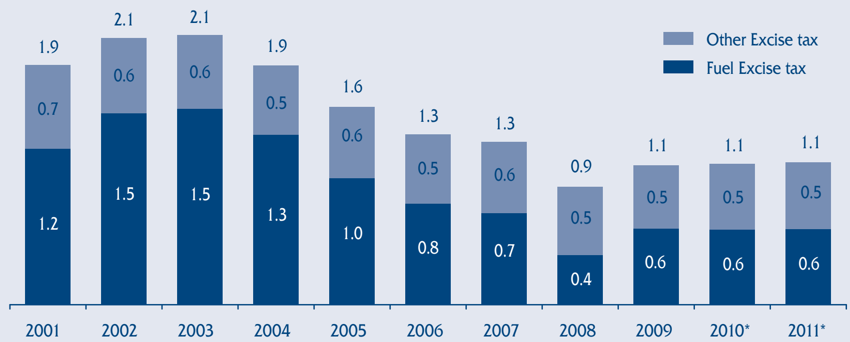
* Forecast.

Graph 76
VALUE ADDED TAX
(Millions of nuevos soles of 1994 - seasonally adjusted series)



The excise tax would maintain levels of 1.1 percent of GDP in this year and in the next one. This projection considers the statistical effect resulting from the change of the payment modality implemented in January 2009 (weekly payments were replaced by monthly payments) which led the revenue from the excise tax to be minimal in that month, reducing the comparison base. This projection also considers the modifications on the excise tax on diesel implemented in January, which reduced the rate from S/. 1.47 to S/. 1.27 per gallon, which represented an estimated cost of S/. 150 million.

Graph 77
EXCISE TAX
(% of GDP)



Memo: The sum of both components may not add to total due to problems of rounding.
* Forecast.

The revenue projections also consider the reduction of the tariff drawback in the second semester, as a result of which this revenue would decline from 8.0 to 6.5 percent. Additionally, the projections also consider the reduction of the rate of the Tax on Financial Transactions (ITF) from 0.06 percent in 2009 to 0.05 percent in 2010. The rest of taxes are expected to maintain the current tax structure in force.

Evolution of fiscal expenditure

59. In 2009 the non financial expenditure of the general government amounted to 19.6 percent of GDP, which represented a growth of expenditure of 13 percent in real terms. This growth was mostly associated with the execution of the Fiscal Stimulus Plan, especially with the public investment component. This has allowed the investment of regional governments to increase by 43 percent in real terms, the investment of the national government to increase by 34 percent, and the investment of local governments to increase by 28 percent.

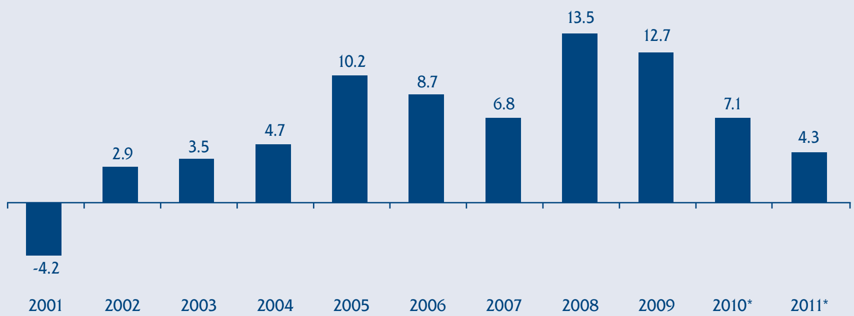
Real non financial expenditure would grow 7 percent in 2010. This rate considers that the investment of the general government would increase 15 percent. This also considers some adjustments in the salary policy considered in the budget, which includes some selective adjustments and increasing by S/.100 the school bonus and the bonus for *fiestas patrias* for public servants.

The non financial expenditure of the general government is expected to grow by a real 4 percent in 2011. The investment of the general government, which is projected to grow 7 percent that year, would continue to be the most dynamic component of expenditure.

Graph 78
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE
(% of GDP)

* Forecast.

Graph 79
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE
(Real % change)



* Forecast.

60. It is worth pointing out that the Program for Municipal Modernization (S/. 600 million) and the Incentive Plan for Municipal Modernization (S/. 700 million) have been implemented as of this year. These programs are aimed at improving the allocation of resources to local governments and require the latter to meet goals in terms of increasing tax collection, improving the provision of public services and infrastructure, and simplifying procedures. In the case that some municipalities do not meet the goals established, the resources will be reoriented to the local governments that have satisfactorily achieved them.

    Another aspect that will contribute to dynamize the expenditure of subnational governments, in this case regional governments, would be the placement of bonds to finance infrastructure projects. Nearly the total of the S/. 2,600 million considered in the program have so far been authorized. These bonds may be placed until year 2011, given that some public investment projects will be completed in that year.

61. It should be pointed out that the Economic Stimulus Plan being implemented since 2009 finally amounts to S/. 15,091 million (3.9 percent of GDP). The plan, which has an emphasis on infrastructure (57 percent of the total), will be driving the growth of investment from 2009-on. At March, the percentage of progress of the Plan is approximately 45 percent.

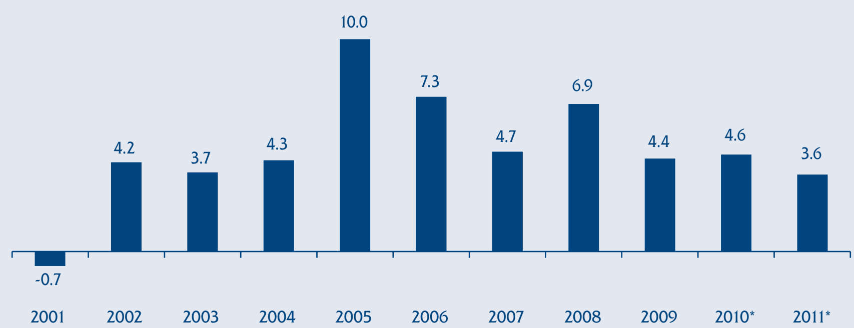
TABLE 21
ECONOMIC STIMULUS PLAN
(Millions of nuevos soles)

Item	Cost	% Total	% GDP
1. Economic activity impulse	2,610	17%	0.7%
2. Infrastructure	8,635	57%	2.2%
3. Social Protection	3,137	21%	0.8%
4. Others	709	5%	0.2%
TOTAL	**15,091**	**100%**	**3.9%**

Source: MEF.

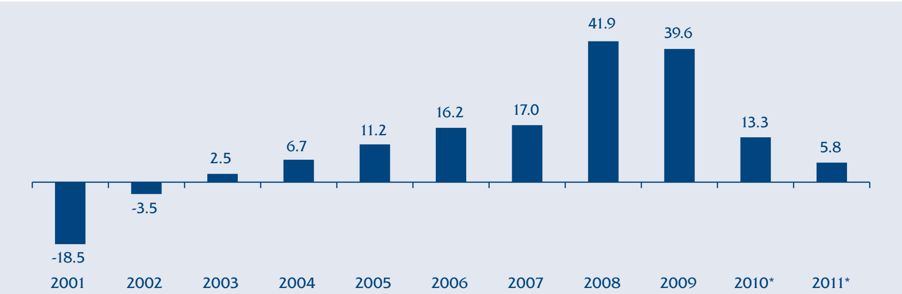
62. it is also worth highlighting that the capital expenditure of the general government has been growing more than current expenditure since end-2004, and particularly in 2008 and 2009, when the rate of growth of capital expenditure (41 percent on average) exceeded by far the average rate of growth of current expenditure in those years (6 percent on average). This situation is being reproduced in the forecast horizon, where the growth of capital expenditure is again favored over the growth of current expenditure.

Graph 80
GENERAL GOVERNMENT CURRENT EXPENDITURE
(Real % change)



* Forecast.

Graph 81
GENERAL GOVERNMENT CAPITAL EXPENDITURE
(Real % change)



* Forecast.

Financing requirements

63. The financing requirement for the public sector amounted to US$ 3,838 million in 2009, which reflected mainly the fiscal deficit of 1.9 percent of GDP. Lower financing pressures are foreseen for 2010 and 2011 as the economy is projected to continue recovering. The financial requirement for those years would be of US$ 3,560 million and US$ 3,138 million, respectively, which may be covered with external and domestic sources.

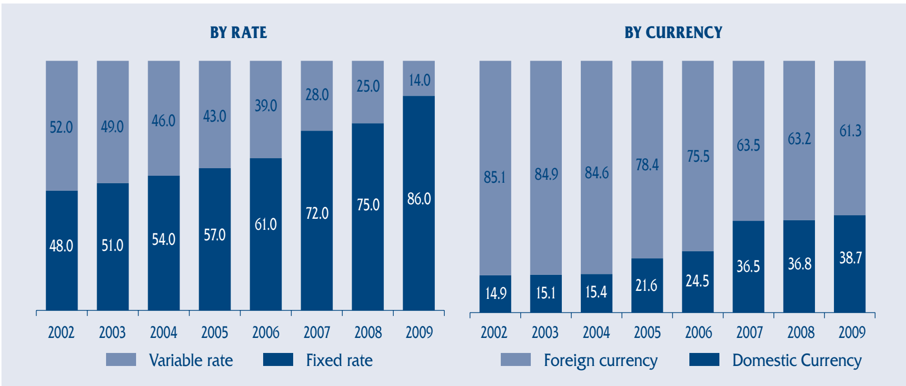
TABLE 22
FINANCIAL REQUIREMENTS OF THE NON-FINANCIAL PUBLIC SECTOR 1/
(Millions of US$)

	2008	2009	2010*		2011*	
			RI Dec.09	RI Mar.10	RI Dec.09	RI Mar.10
I. Uses	**-827**	**3,838**	**3,643**	**3,560**	**3,405**	**3,138**
1. Amortization	1,971	1,218	1,260	1,274	1,475	1,479
a. External	1,449	950	950	944	962	962
b. Domestic	522	268	310	330	512	517
Of which: Pension bonds	94	91	176	189	149	150
2. Overall balance (negative sign indicates surplus)	-2,798	2,620	2,383	2,286	1,930	1,658
II. Sources	**-827**	**3 838**	**3 643**	**3 560**	**3 405**	**3 138**
1. External	1,100	1,127	1,062	1,061	1,342	1,342
2. Bonds 2/	473	1,854	947	974	1,097	1,105
3. Internal 3/	-2,400	857	1,633	1,525	966	691
Memo:						
Balance of gross public debt						
Millions of US$	30,648	33,827	34,595	34,414	35,565	35,553
As percentage of GDP	24.0	26.6	23.8	23.4	23.4	22.5
Balance of net public debt 4/						
Millions of US$	15,701	17,370	19,233	19,191	20,883	20,555
As percentage of GDP	12.3	13.7	13.3	13.1	13.7	13.0

RI: 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/ 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.

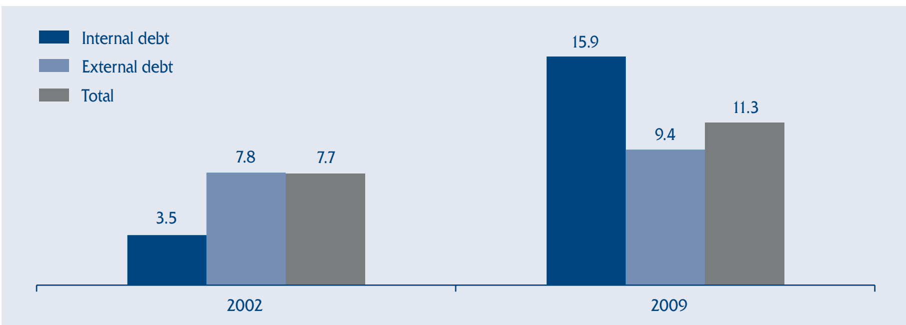
64. The government's management of the debt has given priority to minimizing the risks associated with refinancing the debt –given the possibility that the debt is renewed at high costs after its maturity– and with market risks –due to the debt's portfolio and debt service exposure to interest rate and exchange fluctuations. In this sense, the percentage of debt contracted in foreign currency has been reduced by approximately 24 percent and the percentage of debt contracted at a variable rate has been reduced by 38 percent over the decade.

Graph 82
PUBLIC DEBT
(% of total)



65. Moreover, the maturity of the total debt has been extended through market mechanisms such as debt swaps, among other mechanism, thereby extending the average life of the debt from 7.7 years in 2002 to 11.3 years in 2009, reducing in this way the risk of the renewal of the debt.

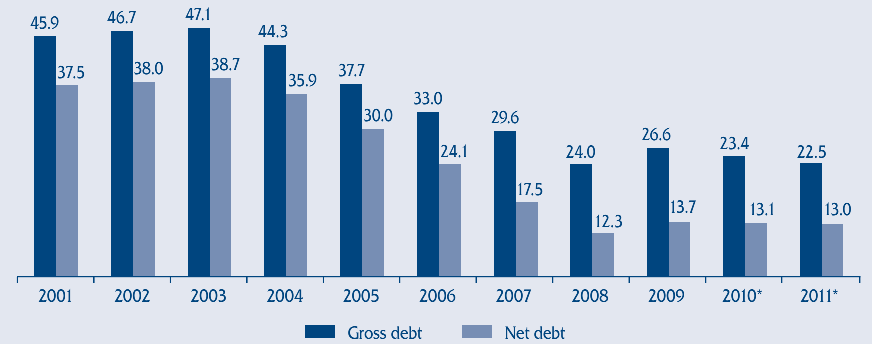
Graph 83
AVERAGE MATURITY OF PUBLIC DEBT
(Years)



66. As regards the total gross debt and the net debt, both have increased in 2009 due to the global issuance of bonds for US$ 1 billion made by the government as a precautionary measure to refinance the debt, as well as due to the effects of

the international financial crisis on the economy's growth. The ratios of the gross debt and the net debt are expected to decline to levels around 22.5 percent and 13.0 percent, respectively, for 2011.

Graph 84
PUBLIC DEBT
(% of GDP)



* Forecast.

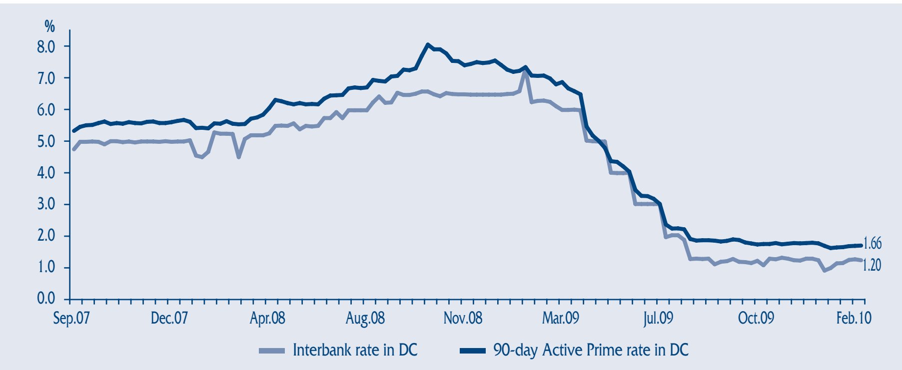
V. Monetary Policy

67. In order to maintain dynamism in the credit market in the context of the severe international financial crisis that deepened in September 2008, the BCRP displayed a combination of measures aimed at directly injecting liquidity in foreign currency and domestic currency in a first stage, and in a second stage, when financial markets started showing signals of stability, at reducing the level of the reference interest rate. Thus, from February to August 2009, the BCRP reduced the reference interest rate by 525 basis points, from 6.5 to 1.25 percent.

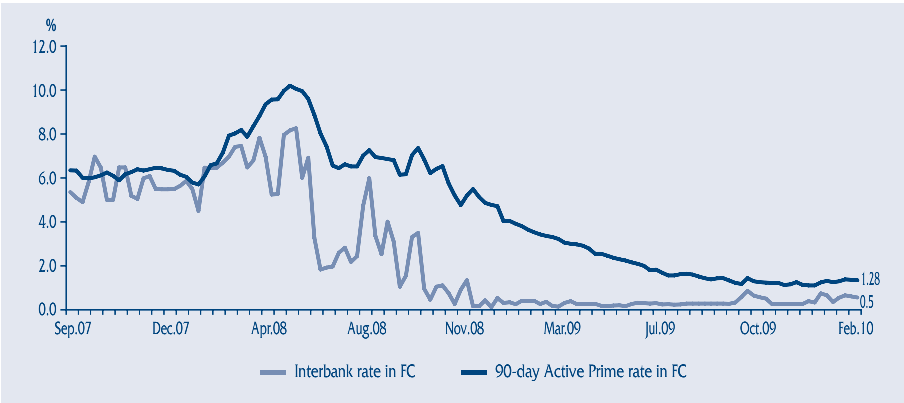
Graph 85
BCRP INTEREST REFERENCE RATE
(%)

68. In response to the Central Bank's monetary stimulus, the corporate prime rate in domestic currency continue declining and fell from 1.75 to 1.66 percent between December 2009 and February of this year. On the other hand, the interbank interest rate in FC and the rates on prime loans have continued showing minimum historical levels, in line with the evolution of international markets.

Graph 86
INTERBANK AND CORPORATE PRIME INTEREST RATES IN DOMESC CURRENCY

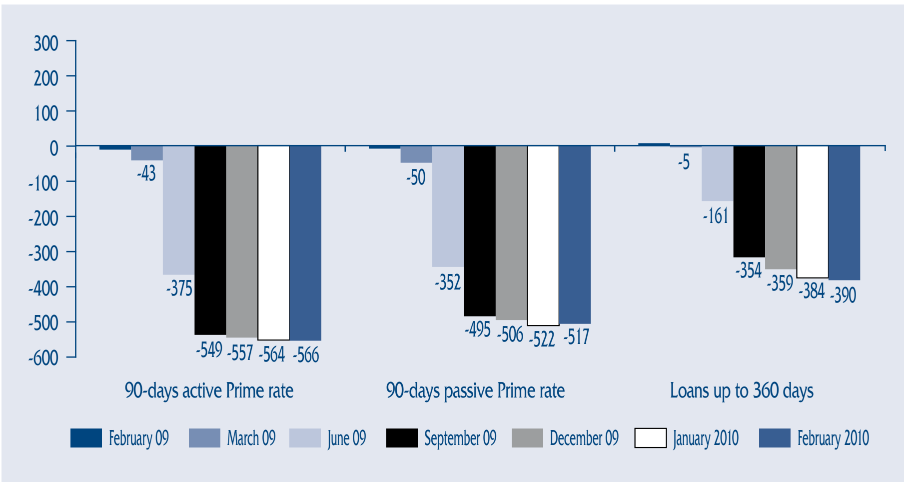


Graph 87
INTERBANK AND CORPORATE PRIME INTEREST RATES IN FOREIGN CURRENCY



69. The average rates on bank credit operations (FTAMN) remained low in February (19.0 percent). The corporate rates continued declining although at an increasingly slower pace. On the other hand, the rates on commercial loans continued declining in part due to the lag of the reduction of the reference rate.

Graph 88
ACCUMULATED DECREASE IN THE ACTIVE INTEREST RATES
(Change since February 2009, in basis points)



The reduction of the interest rates on consumer loans and loans to microbusinesses –whose evolution is more closely connected to credit risk– has been lower, in part due to the increase observed in the levels of delinquency in these segments.

TABLE 23
NON-PERFORMING LOANS IN BANKS BY TYPE OF CREDIT 1/
(%)

	Commercial	Microbusiness	Consumption	Mortgages
Mar-08	0.90	3.32	2.68	0.87
Jun-08	0.74	3.11	2.53	0.80
Set-08	0.76	3.14	2.40	0.72
Dic-08	0.82	3.34	2.74	0.74
Mar-09	1.00	3.77	2.85	0.78
Jun-09	1.18	4.70	3.08	0.85
Set-09	1.05	5.17	3.05	0.87
Dic-09	1.00	5.50	3.02	0.88
Ene-10	1.10	5.63	3.23	0.92
Feb-10	1.12	5.78	3.17	0.89

1/ The non-performing loans is the addition delayed loans of and legal collection.
Source: SBS.

In the case of passive interest rates, the rates on 181 to 360-day deposits declined from 3.6 to 2.9 percent. The rates on these deposits in FC also declined from 2.4 to 2.0 percent.

TABLE 24
INTEREST RATES IN NUEVOS SOLES AND IN DOLLARS
(%)

	Nuevos Soles		Dollars		Difference (pbs)(Dec-Feb)	
	Dec.09	Feb.10	Dec.09	Feb.10	Nuevos Soles	Dollars
1. Deposits up to 30 days	1.2	1.2	0.4	0.7	1	32
2. Rate on 31-day to 180-day	1.8	1.8	1.1	1.1	-5	-4
3. Rate on 181-day to 360-day term deposits	3.6	2.9	2.4	2.0	-66	-38
4. Corporate prime rate	1.7	1.6	1.2	1.3	-9	12
5. Average rate on loans up to 360 days	11.1	11.0	6.4	6.2	-17	-23
6. TAMN /TAMEX	19.9	19.8	8.6	8.4	-18	-21
7. Average lending rate constant structure	15.0	14.6	8.6	8.4	-33	-22
8. Active commercial average	8.5	8.0	7.3	7,1	-44	-13

70. A slight increase was observed in the active rates of municipal and rural deposit banks between December 2009 and February 2010, especially in the rates on commercial loans (which increased from 25.9 to 27.0 percent in the case of municipal deposit banks and from 21.2 to 23.7 percent in the case of rural deposit banks). This increase would be explained by the perception that credit risk in these segments had increased in connection with higher delinquency in the segment of small businesses.

TABLE 25
INTEREST RATES BY TYPE OF CREDIT IN NATIONL CURRENCY 1/
(%)

	MUNICIPAL CREDIT BANKS				RURAL CREDIT BANKS			
	Commercial	Microbusiness	Consumption	Mortgage	Commercial	Microbusiness	Consumption	Mortgage
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
Dec-09	25.9	40.5	26.7	13.1	21.2	40.6	27.2	17.9
Jan-10	27.3	40.7	27.6	13.1	23.1	40.6	26.9	18.1
Feb-10	27.0	40.6	27.2	14.4	23.7	40.7	26.5	19.4

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

TABLE 26
NON-PERFORMING LOANS OF THE MUNICIPAL BANKS BY TYPE OF CREDIT 1/
(%)

	Commercial	Microbusiness	Consumption	Mortgage
Mar-08	5.06	6.42	2.09	1.75
Jun-08	4.47	5.90	2.30	1.81
Sep-08	4.02	5.59	2.36	1.72
Dec-08	4.09	5.11	2.38	1.67
Mar-09	5.08	5.83	2.60	1.85
Jun-09	5.67	6.39	2.87	1.85
Sep-09	5.71	6.69	2.91	1.59
Dec-09	5.72	6.57	2.91	1.39
Jan-10	7.44	7.47	3.11	1.46
Feb-10	7.76	7.74	3.14	1.36

1/ The non-performing loans is the addition delayed loans of and legal collection.
Source: SBS.

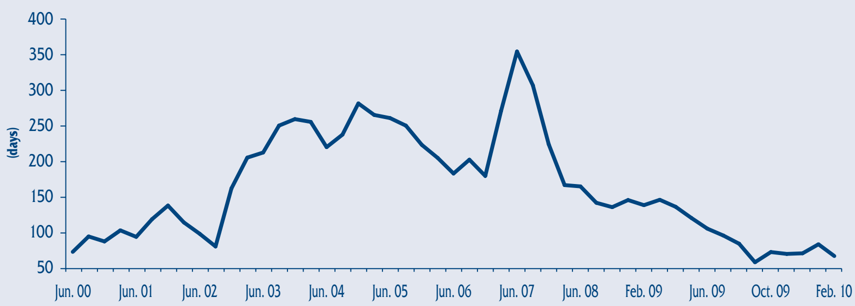
71. The Central Bank's monetary policy actions were oriented at guaranteeing the maintenance of appropriate levels of liquidity in the financial system, thereby reinforcing the impact of the reduction of the reference rate on the rest of interest rates. In line with this, the Central Bank placed mainly short term

BCRP Certificates of Deposit (CDBCRP), with a higher proportion of overnight deposits.

In December, the BCRP continued carrying out 1-year swaps through weekly auctions that involved the participation of micro-finance entities. These operations are aimed at providing financial entities with liquidity in DC at longer terms. However, an absence of demand for these operations was observed since January and February, which reflects an appropriate liquidity position in banks, financial, and micro-finance entities. At the close of February, swap operations accumulated a balance of S/. 260 million, with a maturity term of 192 days and an average rate of 1.93 percent.

The residual maturity of BCRP certificates declined from 71 to 68 days between end November 2009 and February 2010, with a higher volume of placements concentrating in certificates maturing in less than 3 months and overnight. This is consistent with financial entities' interest in maintaining liquid positions in the short term and with the BCRP's aim of maintaining liquidity in the financial system and thus sustain the flows of credit and money in the system.

Graph 89
MONTHLY EVOLUTION OF THE BALANCE OF CDBCRP 1/
(Maturity in days)



1/ CD BCRP and CD BCRP-NR.

72. The higher seasonal demand for currency of December 2009 reversed between January and February 2010. In terms of the BCRP operations, the negative flow of currency would be explained by a higher reduction of its net internal assets in comparison with the increase of its foreign exchange position.

The latter reflects the Central Bank's purchase of US$ 1,385 million through front-desk operations, while the former is mainly due to higher sterilization operations (S/. 5,617 million) that reflect increased net placements of certificates of deposit (S/. 5,937 million). The higher amount of certificates is associated with sterilized purchases of FC in the foreign exchange market, while the rest of placements were made with the purpose of meeting the lower demand for reserve requirements and overnight deposits at the Central Bank. In contrast with 2009, so far this year the Central Bank has not had to issue adjustable certificates of deposit, certificates with restricted negotiation, or make repo operations.

TABLE 27
MONETARY OPERATIONS AND CURRENCY FLOW
(Millions of nuevos soles)

	Flows		Balance	
	2009 Jan.-Dec.	**2010 Jan.-Feb.**	**2009 Dec.**	**2010 Feb.**
1. CURRENCY (2 + 3)	1,905	-722	19,241	18,519
12-month % change			11.0%	12.9%
2. NET INTERNATIONAL POSITION	4,381	3,685	66,436	69,199
(Millions of US$)	**1,623**	**1,292**	**22,988**	**24,280**
A. Foreign Exchange Operations	**-48**	**1 373**		
a. Over the counter operations	108	1 385		
b. Net swap auctions in FC	102	-13		
c. Public Sector	-261	0		
d. Others	3	1		
B. Rest of operations	**1,671**	**-81**		
3. NET INTERNAL ASSETS 1/	-2,476	-4,407	-47,195	-50,680
A. Monetary operations	**1,023**	**-5,617**	**-36,323**	**-41,940**
a. Sterilization	**6,436**	**-5,617**	**-36,323**	**-41,940**
i. BCRP Readjustable Certificates of Deposit (CDRBCRP)	4 425	0	0	0
ii. BCRP Certificates of Deposit (CDBCRP)	-6,399	-5,937	-14,121	-20,058
iii. CD BCRP with Restricted Negotiation	6,483	0	0	0
iv. Overnight Deposits	-819	678	-842	-165
v. Public Sector Deposits in soles	2,561	-301	-21,006	-21,307
vi. Other operations	185	-57	-354	-411
b. Injection	**-5,412**	**0**	**0**	**0**
B. Reserve Requirements in DC	**668**	**856**	**-4 307**	**-3 451**
C. Rest	**-4,167**	**355**		

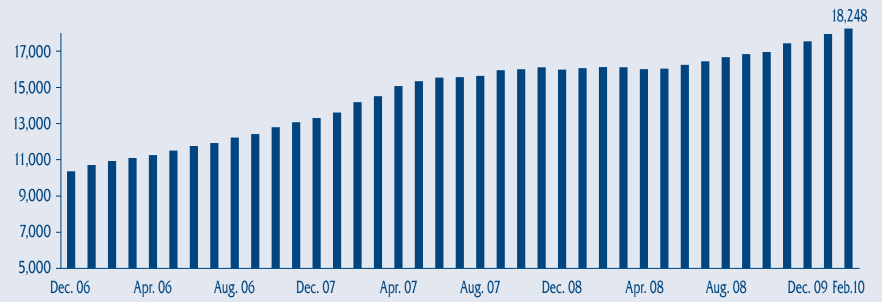
1/ Negative sign indicates sterilization.

Monetary aggregates

73. The monetary aggregates continued growing reflecting the increased dynamism and recovery of the growth of economic activity since November 2009 and the loosening of monetary and credit conditions due to the impulse of monetary

policy. Thus, between December and January, deseasonalized currency grew at an average monthly rate of 1.5 percent, as a result of which it recorded a rate of growth of 13.2 percent in the last 12 months, which reflects economic agents' increased demand for transactions.

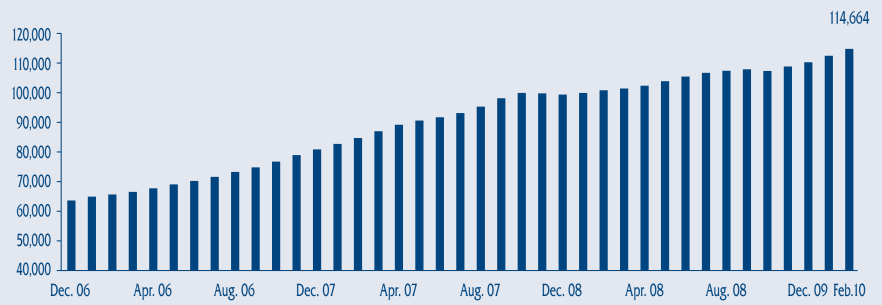
Graph 90
SEASONALLY ADJUSTED AVERAGE CURRENCY
(Millions of nuevos soles)



Currency	Dec-07	Die-08	Jun-09	Jul-09	Aug-09	Sep-09	Nov-09	Dec-09	Jan-10	Feb-10
Balance in millions of soles	13,308	15,979	16,246	16,433	16,664	16,838	17,430	17,540	17,952	18,248
Monthly flow in millions of soles	244	-121	213	187	231	175	472	110	412	297
12-month % change	28.5%	20.1%	4.6%	5.6%	6.6%	5.6%	8.3%	9.8%	11.8%	13.2%
Monthly % change	1.9%	-0.8%	1.3%	1.1%	1.4%	1.0%	2.8%	0.6%	2.3%	1.7%

74. Total deseasonalized liquidity showed a similar conduct, growing at an average monthly rate of 2.1 percent between November and February.

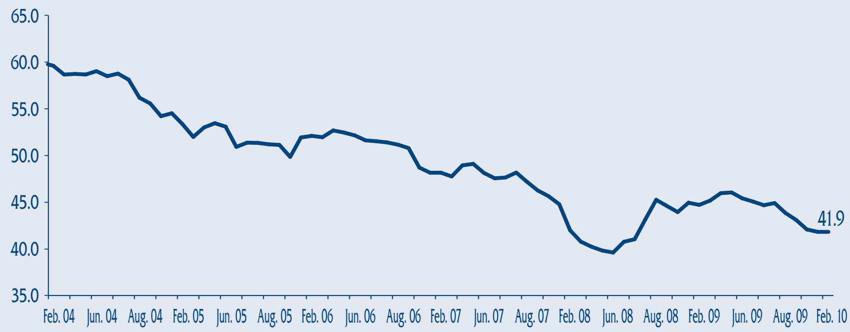
Graph 91
SEASONALLY ADJUSTED TOTAL LIQUIDITY
(Millions of nuevos soles)



LIQUIDITY	Dec-07	Die-08	Jun-09	Jul-09	Aug-09	Sep-09	Nov-09	Dec-09	Jan-10	Feb-10
Balance in millions of soles	80,866	99,296	105,356	106,606	107,302	107,794	108,738	110,161	112,352	114,664
Monthly flow in millions of soles	1,908	-412	1,558	1,249	696	492	1,497	1,423	2,191	2,312
12-month % change	27.0%	22.8%	14.9%	14.5%	12.7%	9.9%	9.1%	10.9%	12.5%	13.8%
Monthly % change	2.4%	-0.4%	1.5%	1.2%	0.7%	0.5%	1.4%	1.3%	2.0%	2.1%

75. With the normalization of financial and monetary conditions, the process of financial dedollarization continued. Thus, the ratio of dedollarization of liquidity recorded 41.9 percent in February 2010 after having registered 43.2 percent at the close of November 2009.

Graph 92
DOLLARIZATION OF LIQUIDITY
(%)



1/ Dollarization ratio at constant exchange rates.

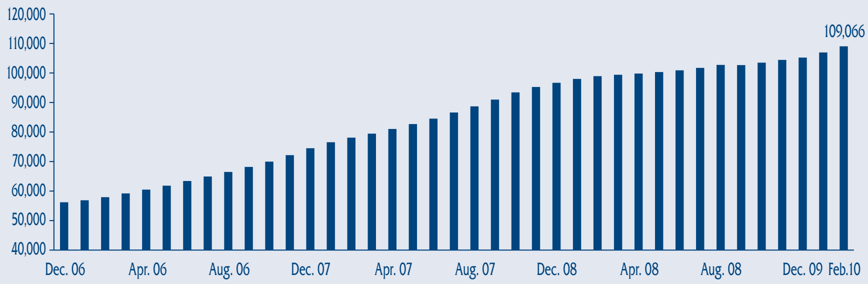
76. Credit to the private sector has consolidated its growth path. Between November 2009 and February 2010, credit to the private sector grew at an average monthly rate of 1.3 percent and at an annualized rate of 10.2 percent. By type of credit, the segments of microbusinesses and mortgages registered the highest growth rates (22.1 and 17.8 percent, respectively).

TABLE 28
CREDIT TO THE PRIVATE SECTOR BY TYPE OF LOAN 1/
(12-month % change)

	Dec. 08	Dec. 09	Jan. 10	Feb. 10
1. Corporate	28.7	5.2	5.3	7.4
a. Foreign trade	15.7	-29.6	-25.7	-19.7
b. Domestic activities	31.1	10.8	10.1	11.4
2. Microbusinesses	52.9	23.5	22.5	22.1
3. Consumption	27.1	8.2	8.0	8.0
4. Microbusinesses	23.4	17.2	17.7	17.8
Total	**29.9**	**9.0**	**9.0**	**10.2**

1/ Constant exchange rate.

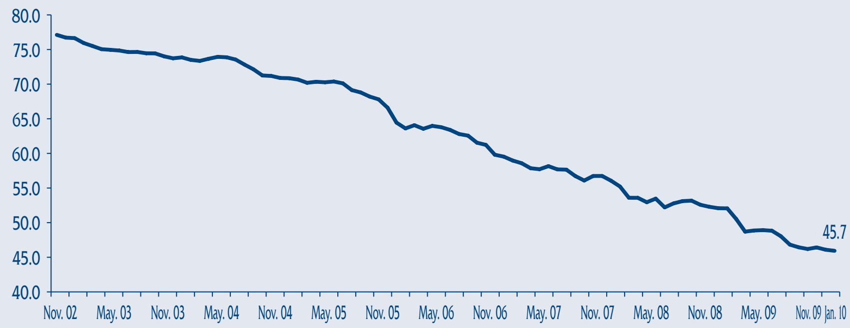
Graph 93
SEASONALLY ADJUSTED CREDIT TO THE PRIVATE SECTOR
(Millions of nuevos soles)



CREDIT	Dec-07	Die-08	Jun-09	Jul-09	Aug-09	Sep-09	Nov-09	Dec-09	Jan-10	Feb-10
Balance in millions of soles	74,499	96,688	100,919	101,749	102,759	102,692	104,455	105,241	106,979	109,066
Monthly,flow,in,millions,of,soles	2,344	1,410	584	830	1,010	-67	933	786	1,738	2,087
12-month % change	32.6%	29.8%	19.4%	17.5%	15.9%	12.9%	9.6%	8.8%	9.1%	10.2%
Monthly % change	3.2%	1.5%	0.6%	0.8%	1.0%	-0.1%	0.9%	0.8%	1.7%	2.0%

77. The evolution of credit conditions in both nuevos soles and in dollars has been coupled by a reduction of the ratio of dollarization of credit to the private sector, which declined from 46.0 percent in November 2009 to 45.7 percent in February 2010.

Graph 94
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR
(%)



1/ Constant exchange rate.

78. By type of financial institution, microfinance entities showed a dedollarization ratio that fell from 13.8 to 13.3 percent between November 2009 and February 2010. By type of credit, the highest dedollarization ratio was observed in mortgages, where this ratio dropped from 59.9 to 57.3 percent in the same period.

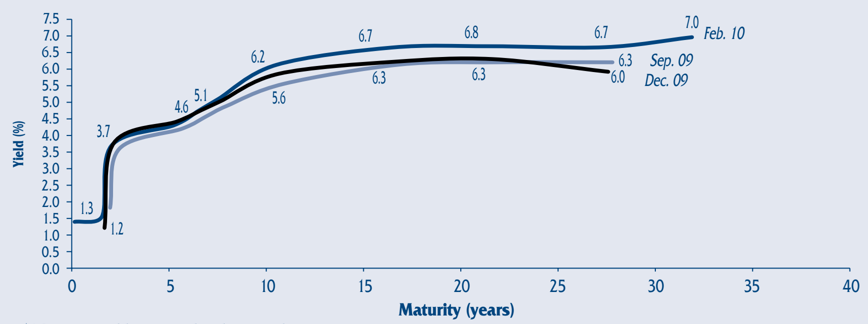
TABLE 29
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR
(%)

	Dec.07	Dec.08	Nov.09	Mar.09	Jun.09	Sep.09	Nov.09	Dec.09	Jan.10	Feb.10
By type of loan										
Corporate	72.6	68.9	63.7	66.7	65.7	63.9	63.7	64.4	64.2	64.2
Microbusiness	21.2	13.2	10.2	12.2	11.3	10.8	10.2	10.0	9.7	9.5
Consumption	18.1	16.6	13.9	16.1	15.0	14.2	13.9	13.6	13.3	13.2
Mortgage	79.4	70.2	59.9	68.6	65.2	61.6	59.9	59.4	58.5	57.3
By type of institution										
Banks	61.9	56.7	52.0	55.5	54.4	52.3	52.0	52.4	52.0	51.9
State-owned Banks	1.5	1.8	1.5	1.8	1.7	1.6	1.5	1.5	1.4	1.4
Microfinance institutions	26.6	20.4	13.8	17.6	15.3	14.4	13.8	13.7	13.5	13.3
TOTAL	**56.6**	**52.2**	**46.0**	**50.4**	**48.8**	**46.6**	**46.0**	**46.2**	**45.9**	**45.7**

79. The conditions of access to capital markets continue improving, showing stable long term interest rates and an enlargement of the yield curve in nuevos soles for bonds maturing up to 32 years due to the issuance of S/. 550 million of sovereign bonds maturing in 2042 and placed at a rate of 6.85 percent. This is the first time that a fixed rate bond in nuevos soles is issued in the Peruvian market with this maturity term. Moreover, this is the sovereign bond in DC with the longest maturity term in the region[1].

Given that the enhancement of the maturities of sovereign bonds in DC contributes to form the yield curve for private issuances with similar maturities, this will contribute to generate very long term credit conditions, particularly in the segment of mortgages, which is a segment that is still scarcely developed and has a great potential for growing.

Graph 95
SECONDARY MARKET OF PUBLIC TREASURY SOVEREIGN BOND /



1/ Average yield auctioned in the period.

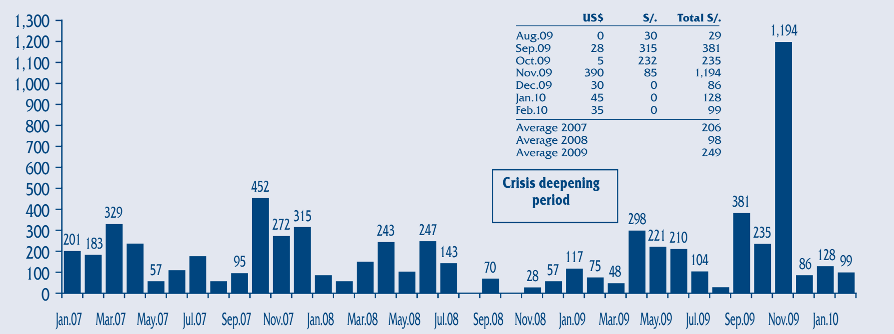
The interest rates of sovereign bonds show increases in the medium and long tranches of the yield curve (longer than 3 years), while the rates for the shortest

1 Mexico is the only country that has a 30-year bond with these characteristics.

maturities remain low and therefore the slope of the yield curve is high is the short tranche. This would be in part reflecting expectations. The steepening of the curve responds to a recomposition of the portfolio towards shorter positions due to expectations of improvement of economic activity and to the onset of a cycle of rises of interest rates due to the gradual withdrawal of the Central Bank's monetary stimulus.

80. The private bond issuances of non financial firms in the first two months of 2010 still remain below the average levels reached in 2009. However, they are expected to increase in line with the bond placements authorized by CONASEV.

Graph 96
BONDS ISSUED BY NON-FINANCIAL COMPANIES
(Millions of nuevos soles)



* Primary public offers in dollars are valued at last month exchange rate. Includes titulization bonds.

81. Private pension funds have recovered during 2009 after showing unfavorable results associated with the international financial crisis, in line with the evolution of the Peruvian and global bond markets. At December 2009, these funds had reached S/. 68,595 million, a higher sum than the maximum value recorded in May 2008. Likewise, a substantial recovery of the equity administered by mutual funds –which were affected both in terms of their profitability and liquidation– has been observed.

Exchange rate

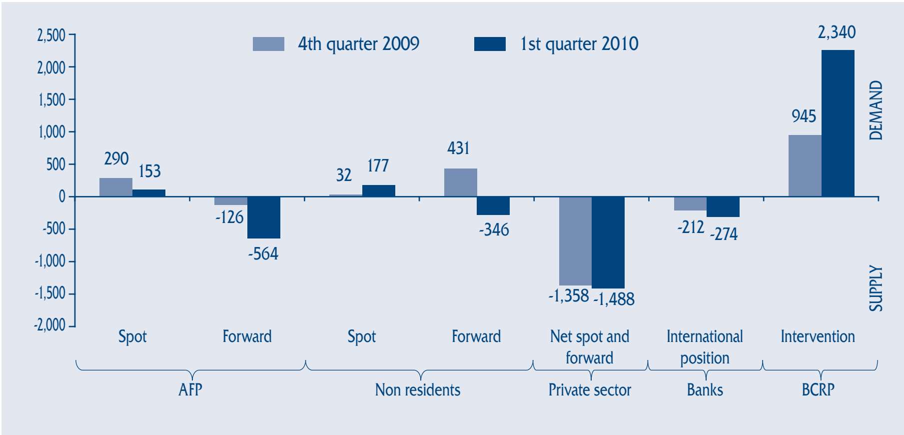
82. Between December 2009 and February 2010, the average nominal exchange rate appreciated 0.8 percent reflecting the evolution of emerging markets, where the dollar remains weak, and portfolio movements of non resident and institutional investors.

In the first quarter[2] of 2010, mutual funds, mining companies, and non resident investors, among other groups, generated a net supply of US$ 1,657 million

2 At March 24, 2010.

in the spot and forward exchange market, while banks decided to reduce their exchange position generating an additional supply of US$ 274 million. Additionally, the private administrators of pension funds (AFP) offered US$ 564 million in the forward market during the same period, generating a downward pressure of US$ 2,340 million. This was buffered by the Central Bank through front-desk purchases of FC.

Graph 97
EXCHANGE RATE MARKET FLOWS
(Millions of US$)

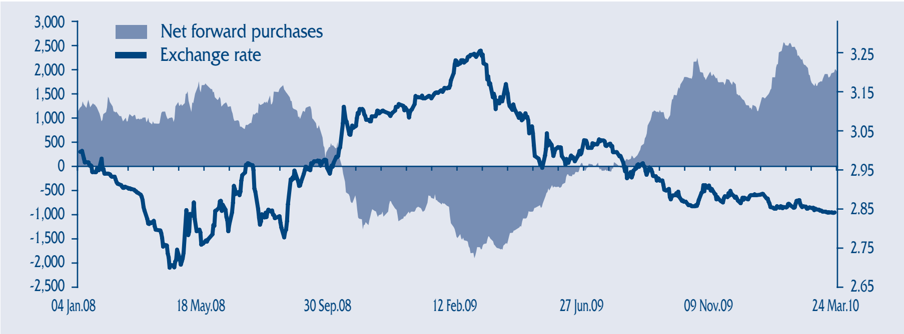


83. Between late November and December 2009, total net forward sales declined from US$ 1,689 million to US$ 1,395 million. This reduction was coupled by a stable conduct of the exchange rate which remained around S/. 2.878 per dollar. However, since January 2010 the balance of net forward purchases has increased reflecting appreciatory pressures on the nuevo sol, mainly from the AFP (US$ 711 million) and non resident investors (US$ 476 million).

The balance of net forward purchases reached a record level of US$ 2,552 million on January 20. The publication of the new regulations of the income tax on the earnings of non residents for their forward operations (applicable since January 21), the modification of reserve requirements on short term liabilities (published on January 22), and increased risk aversion due to the developments observed in Europe contributed to revert the appreciatory trend of the nuevo sol in the last week of January and during the rest of February.

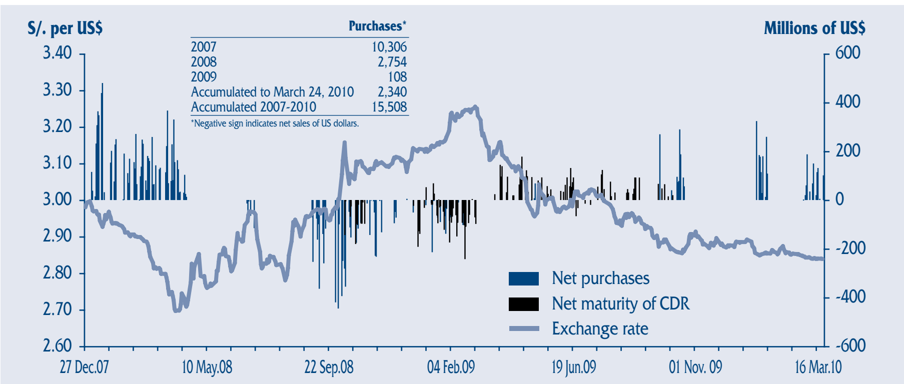
It should be pointed out that, as from 2010, the results of operations with financial derivatives carried out by non-domiciled agents whose core is referred to the exchange rate of the local currency against a foreign currency are levied by an income tax of 30 percent whenever the effective maturity is of less than 60 calendar dates (SD 011-2010-EF). As a result of this, equal treatment is given to non-residents and residents. On the other hand, this reduces the expected profitability of speculative investments carried out by non-domiciled agents, which in turn contributes to reduce the volatility of exchange.

Graph 98
BCRP NET FORWARD PURCHASES AND EXCHANGE RATE
(Exchange rate S/. per US$ and purchases in millions of US$)



84. Between January 8 and 20, the BCRP intervened in the foreign exchange market in order to reduce the excessive volatility of the exchange rate by purchasing US$ 1,385 million through front-desk operations. The Central Bank did not intervene in the exchange market from January 21 to end-February due to the relative stability that prevailed during this period. However, because the greater weakening of the dollar observed since the beginning of March caused a higher volatility of the exchange rate, the BCRP intervened again in the exchange market between March 1 and 24 purchasing US$ 956 million.

Graph 99
BCRP NET PURCHASES, EXCHANGE RATE AND NET MATURITY OF CDR
(Exchange rate S/. per US$ and purchases in millions of US$)



85. Between December and February, expectations about the exchange rate in 2010 and 2011 have declined, as reflected in the evolution of the dollar in the foreign exchange market. Economic analysts and financial entities estimate an exchange

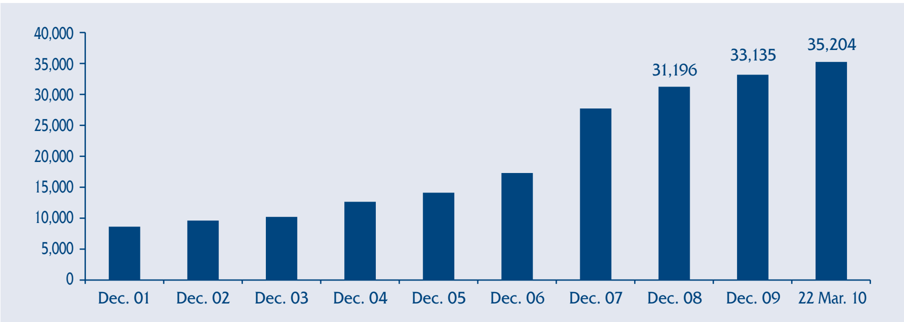
rate of S/. 2.85 and S/. 2.80 per dollar, respectively, at the end of 2010, and an exchange rate of S/. 2.82 per dollar –lower than the expected exchange rate in December– at the end of 2011.

TABLE 30
SURVEY ON MACROECONOMIC EXPECTATIONS: EXCHANGE RATE
(Nuevos soles per US dollar)

	Dec.09	Jan.10	Feb.10
FINANCIAL ENTITIES			
2010	2.89	2.85	2.80
2011	2.90	2.80	2.82
ECONOMIC ANALYSTS			
2010	2.87	2.80	2.85
2011	2.85	2.85	2.82
NON-FINANCIAL FIRMS			
2010	2.95	2.90	2.90
2011	3.00	3.00	2.95

86. Moreover, as a result of the purchases of FC carried out in the exchange market and of the deposits of financial entities, the Central Bank continued preventively accumulating international reserves (US$ 2,284 million between November 2009 and March 22, 2010), thus increasing the balance of reserves to US$ 35,204 million.

Graph 100
NET INTERNATIONAL RESERVES
(Millions of US$)



BOX 3
RECENT MONETARY POLICY MEASURES: January – March 2010

January: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 1.25 percent.

This decision is based on the sustained reduction of annual inflation and on the continuous reduction of inflation expectations.

Advanced indicators of economic activity show clear signs of a recovery of the dynamism of production, but no signals of inflationary pressures in the short term. Unless important changes were to be observed in inflation forecasts and in inflation determinants, no new adjustments of the reference rate are foreseen.

February: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 1.25 percent.

This decision has been made considering that the recent evolution of inflation does not show demand pressures, but rather the transitory impact of supply shocks.

Advanced indicators of economic activity show clear signs of recovery of dynamism, but no signals of inflationary pressures in the short term.

The Board keeps a close watch on inflation forecasts and inflation determinants and, if required, will adopt preventive adjustments in the monetary policy stance to guarantee that inflation falls within the target range.

March: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 1.25 percent.

The decision of maintaining monetary stimulus is made considering that the recent evolution of inflation does not show demand pressures, but rather the transitory impact of supply shocks.

Advanced indicators of economic activity show clear signs of recovery of dynamism, but no signals of inflationary pressures in the short term.

The Board keeps a close watch on inflation forecasts and inflation determinants to adopt preventive adjustments in the monetary policy stance in order to guarantee that inflation falls within the target range.

Private Administrators of Pension Funds (AFP) - January: Circular 004-2010-BCRP establishes that the limit for AFPs' investments abroad has been raised from 22 to 24 percent.

Reserve requirements - February: Circular N°003-2010-BCRP establishes that new and renewed foreign loans with maturities of less than 2 years are subject to a rate of reserve requirements of 35 percent. This measure seeks to incentivize higher external financing with long-terms resources, promoting in this way a more stable financing structure.

Reserve requirements - March: Circular N°007-2010-BCRP establishes the schedule for the gradual reduction of the amount (S/. 100 thousand) that may be deduced from the liabilities subject to the general regime.

SCHEDULE OF REDUCTION OF EXONATIONS		
Validity (2010)	**Amount lower than**	
April	S/. 75 millions	12.5% TOSE previous month
May	S/. 50 millions	8.3% TOSE previous month
June	S/. 25 millions	4.2% TOSE previous month
Since July	0	0

This exemption was approved in March 2009 by Circular N°006-2009-BCRP to allow smaller-size financial entities, such as microfinance entities, to have a greater availability of liquidity. The reduction of this exemption is aimed at gradually homogenizing reserve requirements in DC to a rate of 6 percent for all financial entities.

BOX 4
NEW LIMITS TO BANKS' FOREIGN EXCHANGE POSITION

Foreign exchange movements can generate direct and indirect losses in terms of the soundness of financial entities. Direct losses (Exchange Risk) are generated when banks have mismatches in the active, passive, and out-of-balance positions of the currencies they operate with.

Indirect losses occur when those who borrow money from financial entities do not meet their payment obligations due to a mismatch in their FC exposures (Exchange Credit Risk – ECR) and when there is a mismatch between the maturity of banks' assets and liabilities in FC (Liquidity Risk).

Additionally, in periods of turbulence –such as the ones observed since end 2008 until the first months of 2009– and in the context of a partially dollarized economy like the Peruvian economy, abrupt changes in banks' currency portfolios may introduce significant volatility in the evolution of the exchange rate, with the subsequent risk this generates in terms of firms' equity position, including the equity position of financial entities themselves.

Because of this, the Superintendencia de Banca, Seguros y AFP – SBS (Superintendency of Banks, Insurance Companies, and Private Administrators of Pension Funds) has regulated the administration of exchange riks establishing prudential measures, such as capital requirements, and regulatory limits. As regards the latter, the SBS has recently modified the limits of the global FC position of the multiple-operation firms operating in the financial system, raising the maximum limit of the global oversale position (long position in nuevos soles) from 10 to 15 percent of banks' effective equity, and reducing the maximum limit of the global overpurchase position (long position in dollars) from 100 to 75 percent of banks' effective equity (SBS Resolution N° 1593-

2010, dated February 13, 2010). It should be pointed out that no financial entity exceeds today the limit established.

This measure has improved the regulatory system of the financial system since it reduces the limit asymmetry of financial entities' long and short positions, which would limit their margin of action to manage exchange risks in scenarios of appreciation of the DC and could exacerbate the evolution of the exchange rate in scenarios of depreciation. This measure would also bring us closer to the international limits established in the area of prudential regulation in terms of exchange-related aspects.

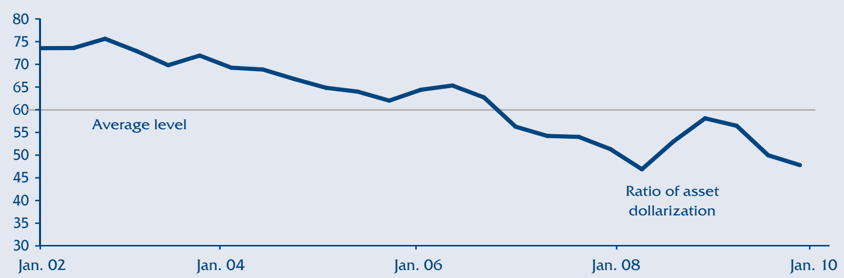
LIMITS TO THE INTERNATIONAL POSITION IN LATIN AMERICA

Country	Long	Short
Brazil	30%	30%
Chile	20%	20%
Colombia	20%	5%
Mexico	15%	15%
Peru	75%	15%

Source: Banco de Brasil and Canta, M (2006)[3].

However, there is still a significant margin to reduce the risk of exchange volatility resulting from a too broad margin of overpurchase, especially when we consider that the effect of exchange variations on bank's equity is nil when the level of dollarization of assets coincides with the global position-to-equity ratio. Thus, considering the current ratio of dollarization of financial entities, regulation should tend to establish a limit of 50 percent of equity for the global position of the overpurchase of FC. This limit could be periodically revised by the SBS according to the change observed in the ratio of financial dollarization.

EVOLUTION OF THE ASSETS OF THE DOLLARIZATION OF MULTIPLE BANKING
(%)



Source: SBS.

3 Canta, Michel; Collazos, Paul y Shiva, Marco. "Límites a las pocisiones de cambio como mecanismo de mitigación del riesgo cambiario". Revista de Temas Financieros. SBS.

BOX 5
PENSIONES IN NUEVOS SOLES: EXPANDING PENSION OPTIONS FOR RETIREES

A characteristic of the pensions administered by the Private Pension System (PPS) in the last decade has been the increasing dollarization of pensions. The percentage of retirees receiving pensions in dollars has increased from 12 percent in 2001 to 44 percent in December 2009, even though financial dollarization and prices have significantly declined in the Peruvian economy. The ratio of dollarization of retirement pensions has remained around 96 percent during these years, while the ratio of dollarization of pensions due to invalidity and disability has shown a sustained increase since regulations allowed in 2003 that these pensions may be granted not only in nuevos soles VAC –(valor adquisitivo constante or index of constant purchasing value)–, but also in dollars.

Two problems stem from the dollarization of pensions: on the one hand, retirees are negatively affected and receive lower pensions when the nuevo sol appreciates, and on the other hand, this fosters dollarization. Thus, for example, retirees with pensions in dollars have seen their pensions decline by 18 percent between 2003 and 2009 due to the appreciation of the nuevo sol in this period. If the effect of inflation is added onto this, the real value of pensions in dollars would have declined 30 percent in this period.

Moreover, inflation-indexed life pensions in nuevos soles are practically non-existent because the capital market does not offer indexed papers for insurance companies to invest in so that they can match these liabilities.

Despite the better performance of the value of the nuevo sol against the dollar over the last years and despite the fact that the rate of inflation in Peru is similar to the rate of inflation in developed countries, current laws do not allow life rents in current nuevos soles (with a constant nominal value or with a fixed readjustment). Only the programmed retirement plan offered by the AFPs is in nuevos soles.

PENSION ARRANGEMENTS AND CURRENCY CHOSEN

Arrangement	Currency
Scheduled rent	Nuevos soles.
Family Lifetime rent	Nuevos soles indexed to inflacion.
Temporary rent with deffered lifetime rent	Nuevos soles for the temporary rent, and indexed to inflation nuevos soles for diferred lifetime rent.
Mixed Rent	Nuevos soles for scheduled rent, and dollars for family lifetime rent.
Bi-currency Lifetime rent	Indexed to inflation nuevos soles and US dollars.

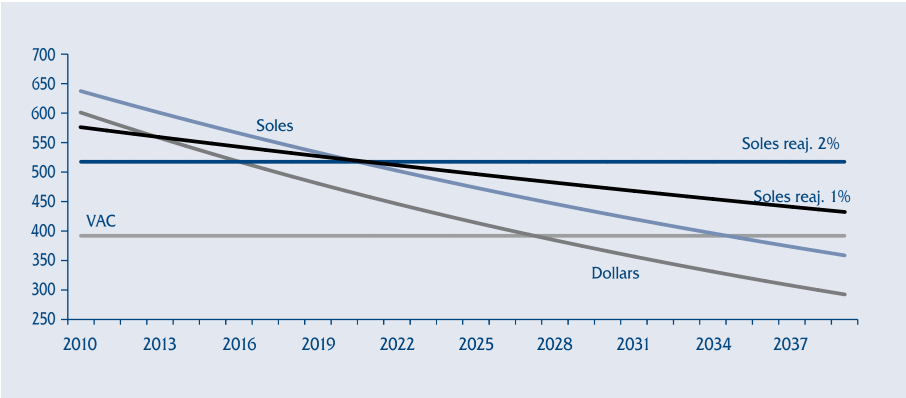
Source: SBS.

The SBS has recently introduced the modalities of Mixed Allowances and Life Allowance in two currencies, but allowances in dollars still prevail in these payments. Therefore, there is still margin to improve the regulations to provide retirees with new pension modalities in nuevos soles though which they can prevent loses in the value of their pensions, including for example the following: i) life pensions in current nuevos soles, and ii) adjustable life pensions in nominal nuevos soles.

The pension allowance in the case of the former could be initially higher than pensions in dollars if one considers, for example, that the current yield of the 30-year sovereign bond in nuevos soles (6.58 percent) is higher than the yield of the global bond in dollars (6.02 percent). On the other hand, adjustable pension allowances in nominal nuevos soles would have a gradual increase so that their nominal value increases every year. This increase could coincide with the rate of expected inflation (2 percent yearly), which would result in a nil loss of pensions' purchasing power, while also allowing insurance companies certainty of the temporary profile of their liabilities in nuevos soles.

The graph below compares these two options with the existing modalities in the case that the current projections regarding the global economy would crystallize and an annual depreciation of the dollar of, for example, 0.5 percent should occur. The graph clearly shows that pensions in nuevos soles adjusted to 2 would maintain their initial purchasing power, while pensions in dollar would gradually lose value in real terms.

PENSION EVOLUTION AT REAL VALUES WITH DOLLAR DEPRECIATION
LIFETIME RETIREMENT PENSIONS: 2010
Sovereign risk - 30 years forecast range- S/. 100 000 fund

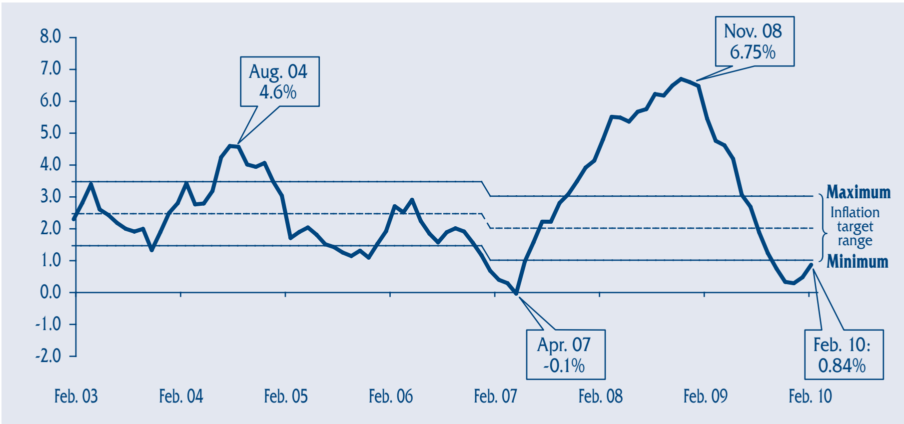


The possibility of choosing the pension modality would reflect pensioners' preferences over their flow of allowances while also allowing a greater number of retirees to prevent losses in the purchasing power of their pension in the event of a depreciation of the dollar.

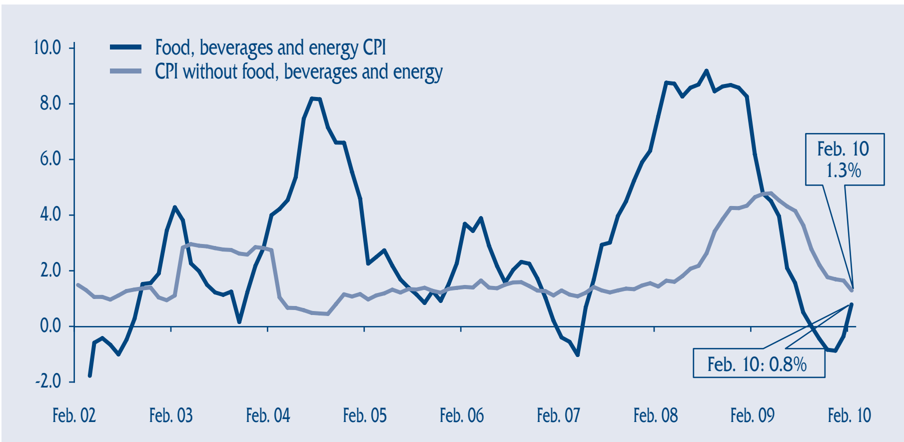
VI. Inflation

87. In 2009 inflation fell below the target range due to the reversal of the supply shocks that affected the prices of food, recording a rate of 0.25 percent at December. A reversal of the declining trend of inflation was observed as from January, although inflation still remained below the target range. Annualized inflation at February 2010 was 0.8 percent, a rate explained by the higher prices of some foodstuffs and fuels.

Graph 101
INFLATION AND TARGET RANGE
(12 month % change)

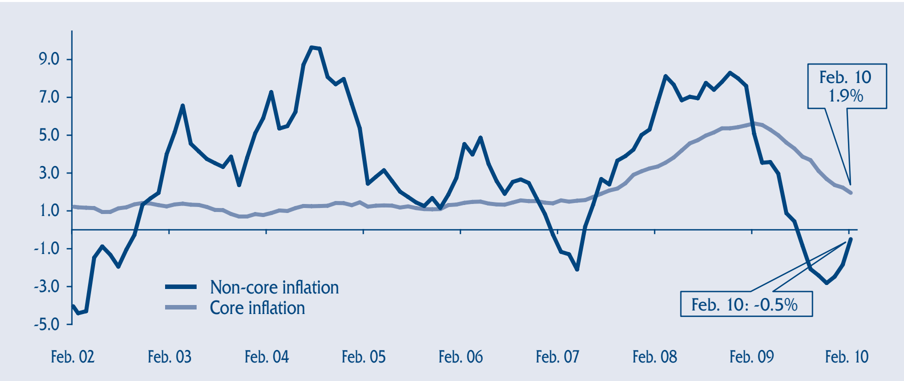


Graph 102
FOOD, BEVERAGES AND ENERGY CPI
OVERALL CONSUMER PRICE INDEX AND FOOD AND BEVERAGES CPI



88. Accumulated core inflation in the last 12 months recorded 1.9 percent at February 2010, continuing with its downward trend. Non-core inflation, which includes the prices of perishable foodstuffs and fuels, went from -2.5 percent in December to -0.5 percent in February.

Graph 103
CORE INFLATION AND NON-CORE INFLATION
(12 month % change)



Accumulated inflation between January and February was 0.62 percent, due mainly to the higher prices of non-core foodstuffs (1.9 percent) and fuels (3.5 percent). Accumulated core inflation between January and February was 0.38 percent, mainly as a result of the higher prices of meals outside the home (0.7 percent) and carbonated beverages (5.8 percent).

TABLE 31
INFLATION

	Weight		Jan.-Feb. 2009		Jan.-Feb. 2010	
	Dec. 01 = 100	2009=100*	% Chg	Contribution	% Chg	Contribution
I. CPI	**100.0**	**100.0**	**0.03**	**0.03**	**0.62**	**0.62**
II. CORE INFLATION	**60.6**	**65.2**	**0.81**	**0.46**	**0.38**	**0.25**
Goods	34.0	32.9	0.90	0.28	0.50	0.16
Services	26.6	32.2	0.69	0.18	0.27	0.09
III. NON-CORE INFLATION	**39.4**	**34.8**	**-0.98**	**-0.42**	**1.06**	**0.37**
Food	22.5	14.8	1.29	0.32	1.92	0.28
Fuel	3.9	2.8	-13.54	-0.72	3.50	0.10
Transportation	8.4	8.9	-0.56	-0.05	-0.60	-0.05
Public services	4.6	8.4	0.61	0.03	0.52	0.04

* Since January 2010 the INEI change the CPI base.

Graph 104
CORE INFLATION
(Annualized quarterly change)

*Jan. - Feb.

TABLE 32
INFLATION
(% change)

	Weight		2002	2003	2004	2005	2006	2007	2008	2009	2010	
	Dec.01=100	2009=100*									Jan.-Feb.	12 months
I. INFLATION	**100,0**	**100,0**	**1,52**	**2,48**	**3,48**	**1,49**	**1,14**	**3,93**	**6,65**	**0,25**	**0,62**	**0,84**
II. CORE												
INFLATION	**60,6**	**65,2**	**1,23**	**0,73**	**1,23**	**1,23**	**1,37**	**3,11**	**5,56**	**2,35**	**0,38**	**1,91**
Goods	34,0	32,9	0,96	0,10	0,81	0,80	0,97	3,30	5,32	2,17	0,50	1,76
Services	26,6	32,2	1,57	1,53	1,75	1,77	1,85	2,88	5,86	2,56	0,27	2,13
III. NON-CORE												
INFLATION	**39,4**	**34,8**	**1,96**	**5,16**	**6,75**	**1,87**	**0,83**	**5,07**	**8,11**	**-2,54**	**1,06**	**-0,52**
Food	22,5	14,8	0,28	3,73	5,82	1,62	2,06	7,25	10,97	-1,41	1,92	-0,80
Fuel	3,9	2,8	15,60	8,94	17,77	6,89	-1,50	6,45	-0,04	-12,66	3,50	4,55
Transportation	8,4	8,9	0,11	10,99	3,49	1,29	1,12	0,82	5,86	0,19	-0,60	0,33
Public services	4,6	8,4	1,96	-1,98	6,19	-1,72	-3,22	0,24	7,48	-4,56	0,52	-2,41

* Since January 2010 the INEI change the CPI base.

89. The items that contributed most heavily to increase inflation between January and February were fresh legumes, other vegetables, meals outside the home, carbonated beverages, fish, and gasoline. On the other hand, the items that contributed most heavily to reduce inflation were national transport prices, citrus fruits, grapes, corn, poultry, and avocado.

TABLE 33
WEIGHTED CONTRIBUTION TO INFLATION: JANUARY - FEBRUARY 2010
(Percentage points)

Positive	Weight	% Chg.	Contribution	Negative	Weight	% Chg.	Contribution
Fresh vegetables	0.2	49.7	0.12	National Transportation	0.3	-9.2	-0.04
Other vegetables	0.4	25.6	0.09	Citrus fruits	0.5	-5.9	-0.03
Meals outside the home	11.7	0.7	0.08	Grape	0.1	-24.6	-0.03
Soda	1.3	5.8	0.08	Corn	0.1	-18.4	-0.03
Fresh and frozen fish	0.7	8.4	0.06	Chicken meat	3.0	-0.8	-0.02
Gasoline and oil	1.3	4.8	0.06	Avocado	0.1	-16.9	-0.02
Sugar	0.5	6.8	0.04	Urban fares	8.5	-0.2	-0.02
Electricity	2.9	1.5	0.04	Onion	0.4	-5.4	-0.01
Spices and seasoners	0.5	6.2	0.04	Canned milk	1.6	-0.8	-0.01
Gas	1.4	2.4	0.03	Judicial expenditure	0.4	-3.2	-0.01
Total			**0,64**	**Total**			**-0,22**

90. During the months of January and February the supply of some foodstuffs to Lima was affected by the rains observed in the producer areas of the central and southern sierra, especially Huánuco, Junín, and Huancavelica. The impact this had on prices is estimated at 0.2 percentage points –nearly a third of accumulated inflation during those months–, with the highest prices rises being recorded in the prices of fresh legumes and other vegetables (American green pea, cucumber, lettuce and broccoli in January, and leek and lettuce in February).

Moreover, in February, rains also affected the transport of produce, such as potato, to Lima, generating prices rises in some varieties, such as white potato (7.1 percent) and yellow potato (6.1 percent).

Imported inflation

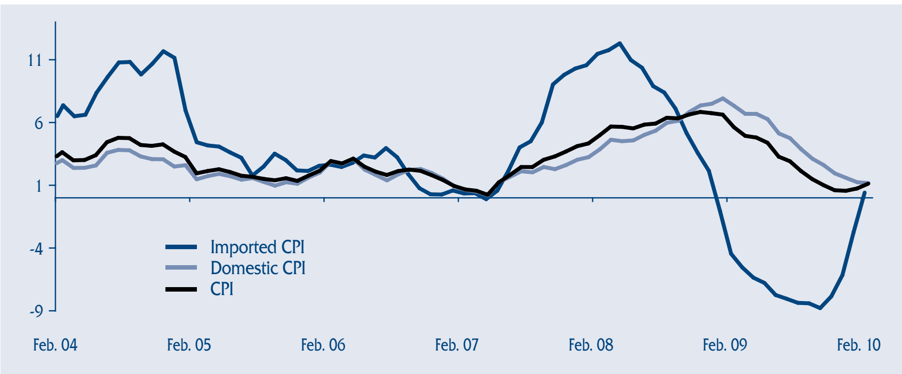
91. Imported inflation registered an accumulated growth of -6.2 in 2009 and of 1.1 percent between January and February of this year. The latter reflected the evolution of fuel components (3.5 percent) and of imported foodstuffs (0.5 percent).

TABLE 34
DOMESTIC AND IMPORTED INFLATION
(Accumulated % change)

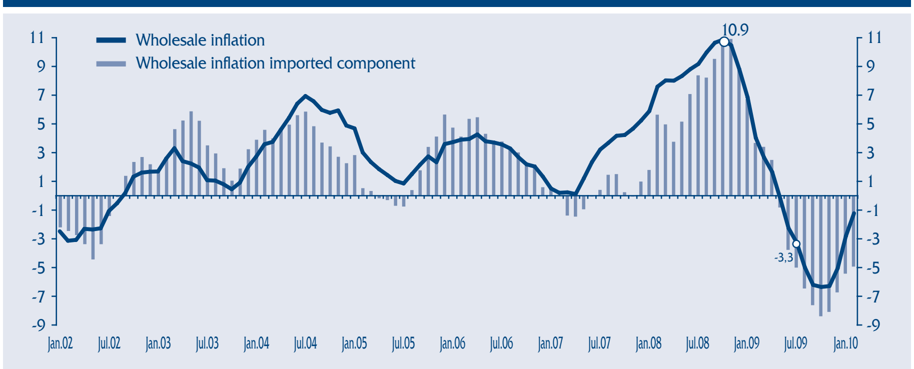
	Weight		2006	2007	2008	2009	2010	
	Dec.01=100	2009=100*					Jan.-Feb.	12 months
I. IMPORTED CPI	**12.1**	**10.8**	**0.27**	**10.46**	**2.20**	**-6.25**	**1.07**	**0.43**
Food	5.4	3.0	2.08	18.83	4.75	-3.07	0.46	-1.13
Fuels	3.9	2.8	-1.50	6.45	-0.04	-12.66	3.50	4.55
Electric appliances	1.0	1.3	-1.29	-1.50	-0.06	-2.39	-0.03	-2.07
Others	1.8	3.7	0.64	0.47	0.46	-0.34	0.08	-0.74
II. DOMESTIC CPI	**87.9**	**89.2**	**1.28**	**2.84**	**7.44**	**1.35**	**0.57**	**0.92**
III. CPI	**100.0**	**100.0**	**1.14**	**3.93**	**6.65**	**0.25**	**0.62**	**0.84**
Exchange rate			**-6.40**	**-7.00**	**4.47**	**-7.59**	**-0.82**	**-11.80**
Imported CPI excluding food		6.7	-1.02	4.31	0.06	-9.04	1.31	1.57
Food and beverage domestic CPI		42.1	1.72	4.14	10.53	1.14	1.42	0.93
Domestic CPI excluding food		45.8	0.89	1.64	4.53	1.55	0.02	1.20

* Since January 2010 the INEI change the CPI base

Graph 105
DOMESTIC AND IMPORTED INFLATION
(Percentage change last 12-months)



Graph 106
WHOLESALE PRICE INDEX
(Last 12-month % change)



Inflation expectations

92. Financial system and non-financial companies' expectations of inflation for 2010 have remained unchanged since the information presented in the December Report. For 2010 and 2011, in general, the surveyed agents placed their expectations of inflation for these years within the target range (between 2.0 and 3.0 percent).

TABLE 35
SURVEY ON MACROECONOMIC EXPECTATIONS: INFLATION
(%)

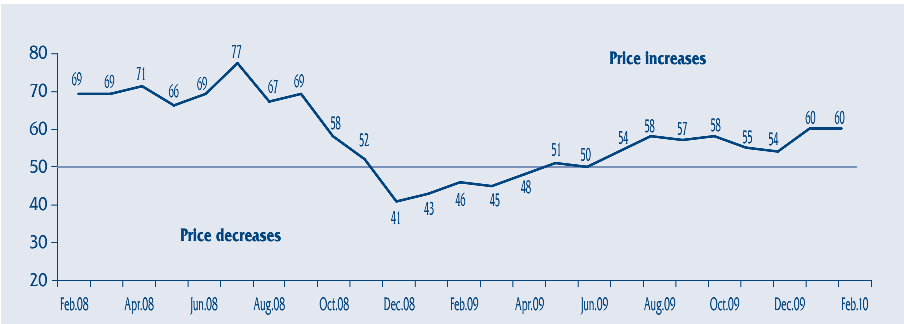
	Dec.09	Feb.10
FINANCIAL ENTITIES		
2010	2.13	2.11
2011	2.50	2.50
ECONOMIC ANALYSTS		
2010	2.05	2.20
2011	2.16	2.50
NON-FINANCIAL FIRMS		
2010	2.00	2.00
2011	2.50	2.50

93. Regarding to the average inputs and sale prices for the next 3 to 4 months, the expectancy index of average input price rises from 54 in the December Report to 59 in this Report, due to a reduction in the number of companies expecting an input prices decrease. Similarly, the average sales price expectation index has increased from 54 to 60 since the last Report.

Graph 107
AVERAGE INPUT PRICE INDEX: Next 3 - 4 months
Manufacturing sector

Source: BCRP Survey on Macroeconomic Expectations, February 2009.

Graph 108
AVERAGE SALE PRICE INDEX: Next 3 - 4 months
Manufacturing sector



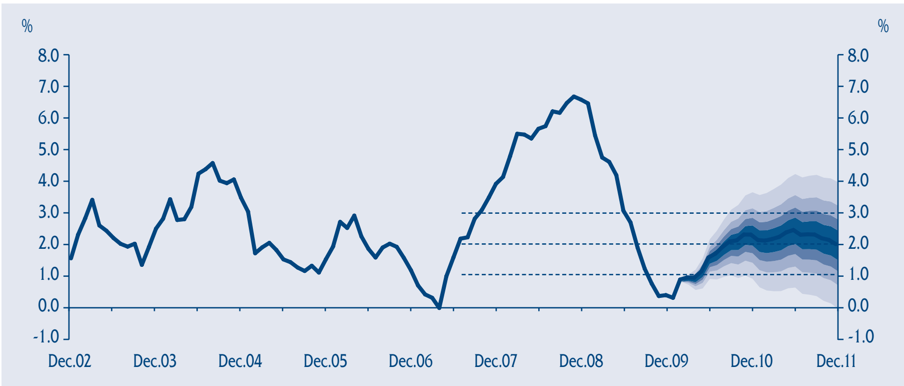
Source: BCRP Survey on Macroeconomic Expectations. February 2009.

Inflation forecasts

94. Inflation results observed since our last Inflation Report of December 2009 have been in line with the forecasts contained in that Report. Moreover, the update of data on the main factors that would affect the rate of inflation during 2010 and 2011 has generated lower changes in the central forecast scenario than the one considered in our last Report.

95. Therefore, the central inflation forecast for 2010 and 2011 remains quite similar to the one considered in our Inflation Report of December 2009. Inflation would return to the target range during the beginning of the second quarter of 2010 basically as a result of a higher output gap, of inflation expectations in line with the inflation target, and of the reversal of shocks that affected inflation during 2009, remaining thereafter between 1 and 3 percent during the second half of 2010.

Graph 109
INFLATION FORECAST
(Last 12-months % change)

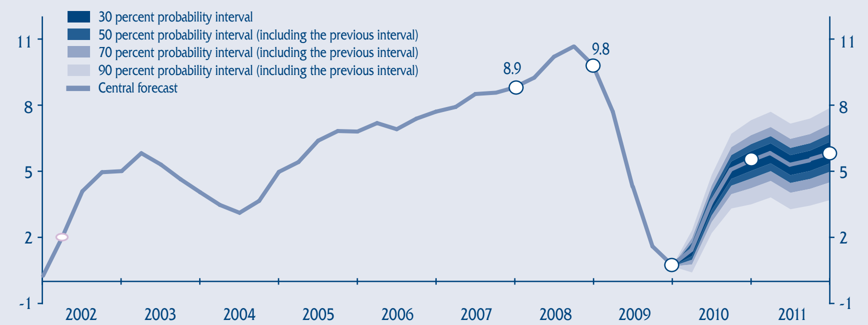


96. The inflation forecast is compatible with the following scenario: considering the signals of recovery of the level of economic activity observed since the second semester of 2009, the Central Bank maintains the projections of growth for 2010 and 2011 of our Inflation Report of December and foresees a growth rate of 5.5 percent in each year. Additionally, considering the better prospects in terms of international prices and global growth, the projected deficit in the current account of the balance of payments has been revised downwards from 0.7 to 0.3 percent for 2010 and the projected deficit for 2011 remains at 1.2 percent of the product.

It is foreseen that the Fiscal Stimulus Program will continue to be implemented and this will gradually lead to converge towards a position implying a more neutral fiscal impulse. Therefore, the deficit of 1.6 percent projected in out previous Report is maintained for this year and the projected fiscal deficit in 2011 is revised downwards from 1.2 to 1.0 percent of GDP.

The baseline forecast scenario considers that the monetary stimulus adopted since September 2008, together with the fiscal impulse, has contributed to recover the dynamism of economic activity in 2010 with an annual growth rate of around 5.5 percent.

Graph 110
GDP GROWTH FORECAST: 2010 - 2011
(Annual % change of GDP in each quarter)



Note: 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.

TABLE 36
APPENDIX

	2008	2009	2010 1/		2011 1/	
			RI Dec.09	RI Mar. 10	RI Dec.09	RI Mar. 10
Real % change						
1. GDP	9.8	0.9	5.5	5.5	5.5	5.5
2. Domestic demand	12.1	-2.9	6.2	6.8	6.1	6.3
a. Private consumption	*8.7*	*2.4*	*3.3*	*3.3*	*4.2*	*4.2*
b. Public consumption	*2.1*	*16.5*	*4.9*	*4.2*	*3.9*	*3.1*
c. Private fixed investment	*25.8*	*-15.2*	*6.3*	*8.8*	*9.0*	*9.0*
d. Public investment	*42.8*	*25.9*	*22.0*	*19.8*	*9.8*	*6.0*
3. Exports (goods and services)	8.8	-2.5	5.5	5.5	5.7	5.7
4. Imports (goods and services)	19.8	-18.4	8.8	11.9	8.9	9.9
5. Main trade partners' economic growth	2.6	-1.2	3.0	3.3	3.5	3.5
Memo:						
Output gap 2/ (%)	4.3	-2.0 . -1.0	-1 . 0	-1 . 0	-0.5 . +0.5	-0.5 . +0.5
% change						
6. Forecast inflation	6.7	0.2	1.5-2.5	1.5-2.5	1.5-2.5	1.5-2.5
7. Average price of crude oil	38.5	-38.2	32.3	29.2	4.9	3.9
8. Average price of crude oil 3/	4.5	-8.0	1.4	-1.0	-0.3	0.5
9. Average price of crude oil 3/	-4.8	0.9	1.4	0.0	-0.3	0.8
10. Average price of crude oil	-13.0	-5.5	10.1	12.9	-2.6	-2.9
a. Export price index	*5.1*	*-12.5*	*20.3*	*17.2*	*0.0*	*-0.3*
b. Export price index	*20.8*	*-7.4*	*9.2*	*3.8*	*2.7*	*2.6*
Var.% nominal						
11. Currency in circulation	16.7	11.0	12.5	18.0	14.0	18.0
12. Credit to the private sector 4/	29.9	9.0	11.0	15.0	11.5	15.5
% del PBI						
13. Domestic investment rate	26.7	20.6	22.5	22.6	24.1	24.4
14. Current account of the balance of payments	-3.7	0.2	-0.7	-0.3	-1.2	-1.2
15. Trade balance	2.4	4.6	5.6	5.7	4.7	4.8
16. Gross external financing to the private sector 5/	7.5	4.8	5.1	5.2	4.4	4.6
17. Current revenue of the general government	20.9	18.6	18.9	19.0	19.3	19.4
18. Non-financial expenditure of the general government	17.3	19.6	19.4	19.4	19.5	19.3
19. Non-financial public sector overall balance	2.1	-1.9	-1.6	-1.6	-1.2	-1.0
20. Total public debt balance	24.0	26.6	23.8	23.4	23.3	22.5

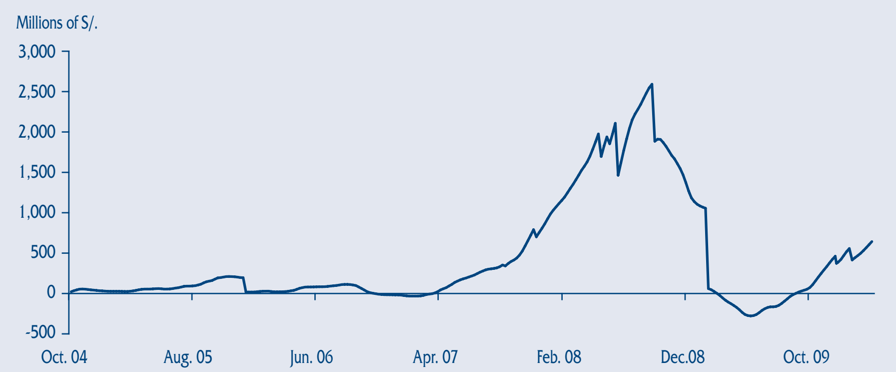
RI: Inflation Report
1/ Forecast.
2/ Differential between GDP and potential GDP (percentage).
3/ Expectations of economic agents about the exchange rate expectations according to the survey on macroeconomic expectations.
4/ Constant exchange rate.
5/ Includes foreign direct investments and private sector's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

BOX 6
FUEL PRICE STABILIZATION FUND

The Fuel Price Stabilization Fund (FPSF) has been operating since October 2004 with the purpose of preventing the impact of the high volatility of the international price of crude on the domestic prices of petroleum derivatives (liquefied petroleum gas –LPG–, gasoline, kerosene, diesel, and residual fuels).

This mechanism, implemented on a weekly basis, consists of providing local producers and importers with a compensation when the "reference price" of fuels (calculated on the basis of the import parity price, except in the case of LPG for which an ad-hoc parity price is used) is above the upper band of the "price band" established by the Ministry of Energy and Mines. Likewise, producers will contribute sums to the Fund when the price of fuels is below the lower level of the price band.

BALANCE[1/] OF THE OIL PRICE STABILIZATION FUND 2004-2010
(Millones de nuevos soles)



1/ Net of government payments.

The Fund's equity is made up of the accumulated value of contributions net of compensations made by refineries and importers. In this scheme, the Treasury resources provided to the Fund are a contingent contribution to be used in the event that the Fund would show a negative equity balance when the Fund closes, which would imply a Fund's debt with refineries and importers.

Current situation and outlook

At March 23, the Fund's compensations are estimated to amount weekly to S/. 38.4 million due to the lag of domestic prices (at refinery levels) relative to the international reference price. The price lag is 15 percent on average, with the prices of lower octane gasolines and LPG showing higher price lags (32 and 25 percent in the case of the former and 25 percent in the case of the latter).

FUEL PRICES AND BAND: FROM MARCH 23 TO 30, 2010
(Soles per gallon)

	Refinery	Current Band		Reference	Compensation		Delays		Final Price		
	Price	Bottom	Top	Price	S/. X Gl.	Mill. S/.	Gross	With OPEF	Current	without OPEF	% Chg
Gasoline 84	4.90	4.60	4.90	6.45	1.55	6.1	-32%	0%	9.40	11.39	21%
Gasoline 90	5.41	5.11	5.41	6.74	1.33	4.3	-25%	0%	10.52	12.23	16%
Gasoline 95	6.13	5.73	6.13	7.07	0.94	0.5	-15%	0%	13.09	14.30	9%
Gasoline 97	6.17	5.77	6.17	7.16	0.99	0.5	-16%	0%	13.67	14.94	9%
Kerosene	5.97	5.62	5.97	6.60	0.63	0.1	-11%	0%	10.90	11.65	7%
Diesel B2	5.97	5.67	5.97	6.64	0.67	12.4	-11%	0%	9.77	10.56	8%
Diesel B2 / 50 ppm	6.37	5.67	5.97	6.71	0.67	4.0	-5%	5%	10.01	10.80	8%
Residual 6	4.77	4.47	4.77	5.32	0.55	1.1	-12%	0%	6.30	6.95	10%
Residual 500	4.75	4.45	4.75	5.23	0.48	2.0	-10%	0%	6.25	6.82	9%
Liquefied	3.22	3.10	3.22	4.04	0.82	7.3	-25%	0%	6.28	7.26	15%
Average	**5.25**	**4.93**	**5.20**	**6.03**	**0.82**	**38.4**	**-15%**	**1%**	**8.96**	**9.96**	**11%**

If the FPSF did not exist, the end-prices of fuels would increase 11 percent , the higher variations being observed in the prices of 84 and 90-octane gasolines (21 and 16 percent, respectively) and LPG (15 percent).

BOX 7
CHANGE OF BASE YEAR OF THE CONSUMER PRICE INDEX OF METROPOLITAN LIMA

As from January 2010, the INEI calculates the CPI of Metropolitan Lima with a new weight structure that uses year 2009 as the base year. This new structure of the consumer basket is based on the results of the National Survey on Household Budgets (Encuesta Nacional de Presupuestos Familiares - ENAPREF) carried out between May 2008 and April 2009.

The new consumer basket includes services and currently consumed items such as internet and mobile telephony services. Moreover, taking into account the new energy matrix, the new consumer basket also includes LPG and NGV for vehicles, and excludes kerosene.

The most outstanding characteristics of the new basket are the lower weight of expenditure in food and beverages and the higher weight of the product groups of Transport and Communications, and Leisure and Culture.

The lower weight of bread, chicken, and white potato and the higher weight of grilled chicken are worth mentioning in the group of Foodstuffs, while the higher weight of petroleum and the lower

METROPOLITAN LIMA: MAIN CONSUMPTION GROUPS WEIGHT			
	ENAPROM 1994	**ENAPREF 2009**	**Difference**
Food and beverage	47.55	37.82	-9.7
Clothing and Footwear	7.49	5.38	-2.1
Rent. fuel and electricity	8.85	9.29	0.4
Furniture. fittings and home maintenance	4.95	5.75	0.8
Health care and medical services	2.90	3.69	0.8
Transport and Communications	12.41	16.45	4.0
Leisure. culture and entertainment	8.82	14.93	6.1
Other goods and services	7.04	6.69	-0.4

Source: INEI.
ENAPROM: National Survey of Multiple Purposes.
ENAPREF: National Survey of Family Budgets.

weight of gasoline are worth highlighting in the group of Transport. Finally, the higher weight of expenditure in higher education tuition (including both university and non-university higher education), computers, cable and the internet are worth mentioning in the group of Education.

The new consumer basket includes 170 items and 532 Fifteen new items have been included in terms of item groups and 8 have been excluded. Most of the new item groups are associated with services.

COMPARISON OF ITEMS FOR BASKETS	
NEW ITEMS	**EXCLUDED ITEMS**
Grain processed (shelled, rolling)	Dried meat
Prepared food	Beans floor
Ice cream and edible ice	Vacuum cleaners and polishers
Instant refreshments	Property Taxes
Store objects furniture	Recreational associations
Natural products manufactured	Other fats
Contraceptive Devices	Liquid Fuel (Kerosene)
Teaching in diverse areas	International transport
Repair of various items	
Expenditures on school sports, music and dancing	
Pet Products & Services	
Expenditure on housing ownership	
Other fuels	
Natural gas consumption for housing	
Internet and other	

The new structure of the basket implies that the weight given to core inflation has increased, mainly due to the higher weight of services. In the case of core inflation, the lower weight of foodstuffs is partially compensated by a higher weight of public services (mobile telephones, internet).

CORE AND NON-CORE CLASSIFICATION
Weight

	2009	Dec. 2001	Difference
Core	**65.16**	**60.57**	**4.59**
Goods	**32.92**	**33.98**	**-1.06**
Food and beverage	11.25	12.97	-1.72
Clothing and Footwear	5.51	7.56	-2.05
Electric appliances	1.29	0.99	0.30
Other industrial products	14.86	12.46	2.40
Services	**32.24**	**26.59**	**5.66**
Meals outside home	11.74	12.05	-0.31
Education	9.12	5.12	4.00
Rent	2.41	2.26	0.15
Health	1.08	1.28	-0.21
Other services	7.90	5.87	2.03
Non core	**34.85**	**39.43**	**-4.59**
Food	**14.83**	**22.53**	**-7.69**
Fuels	**2.79**	**3.93**	**-1.14**
Transportation	**8.87**	**8.36**	**0.51**
Public Services	**8.35**	**4.61**	**3.74**

Source: INEI.

VII. Balance of Risks

97. The main risks that could deviate inflation from the baseline scenario in the forecast horizon include the following:

- A slower global recovery together with a lower growth of terms of trade. As in our Inflation Report of December, the baseline scenario considers that global economic activity would continue showing signs of recovery during 2010. However, there is the possibility that this recovery will be slower than expected due to the withdrawal of monetary and fiscal stimulus in industrialized economies and to uncertainty about the fiscal sustainability of some European economies. Moreover, a lower global demand for commodities could affect the prices of primary exports and entail a slowdown of the domestic economy.

  Should these risks crystallize, monetary policy would maintain the position of monetary stimulus for a longer period of time.

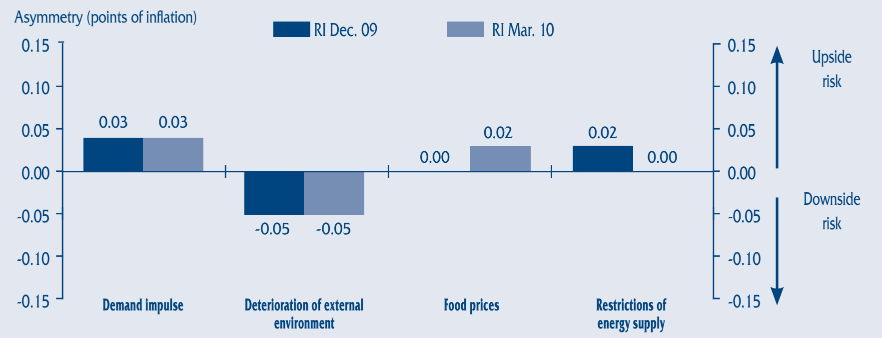
- Higher growth in the domestic economy. The forecast scenario considers a context of recovery of domestic activity sustained mainly by the growth of private and public expenditure. However, if private consumer expenditure and public expenditure increase significantly, monetary stimulus would be reduced more rapidly.

- Increase of food prices. The occurrence of certain anomalous climatic conditions could affect domestic production and the prices of some foodstuffs, and extend, through them, to other products of the consumer basket. A rise in the international prices of foodstuffs due to a higher-than-expected increase of global demand could have an impact on domestic prices.

  A monetary policy response would be required in the case of an increase of prices only if this affects inflation expectations.

98. This balance of risks considers that the risk of constraints in the supply of electricity considered in the Inflation Report of December would not be significative given recent information about the expansion of energy supply, which would meet the higher demand for energy associated with the higher growth forecasted. Some investment projects in the sector of electricity generation and distribution would have crystallized in the last quarter of 2009 and the first quarter of 2010.

Graph 111
INFLATION FORECAST: BALANCE OF RISKS
(2 year-ahead inflation deviations in % points)



Memo: 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.

CONCLUSION

99. Inflation has reversed its downward in the last months and is expected to return to the target range towards the second quarter of this year. The determinants on which this projection is based are: an output gap that would gradually close from its current negative level due to the higher dynamism of economic activity; the reversal of the supply shocks that affected the prices of imported products, and inflation expectations anchored to the target range.

100. Advanced indicators of economic activity show clear signs of a recovery of growth and no signals of inflationary pressures are so far foreseen in the short term.

The Central Bank continues to closely oversee the projection of inflation and its determinants to implement preventive adjustments in the monetary stance in order to ensure that inflation falls within the target range.