

II. OUTPUT AND EMPLOYMENT

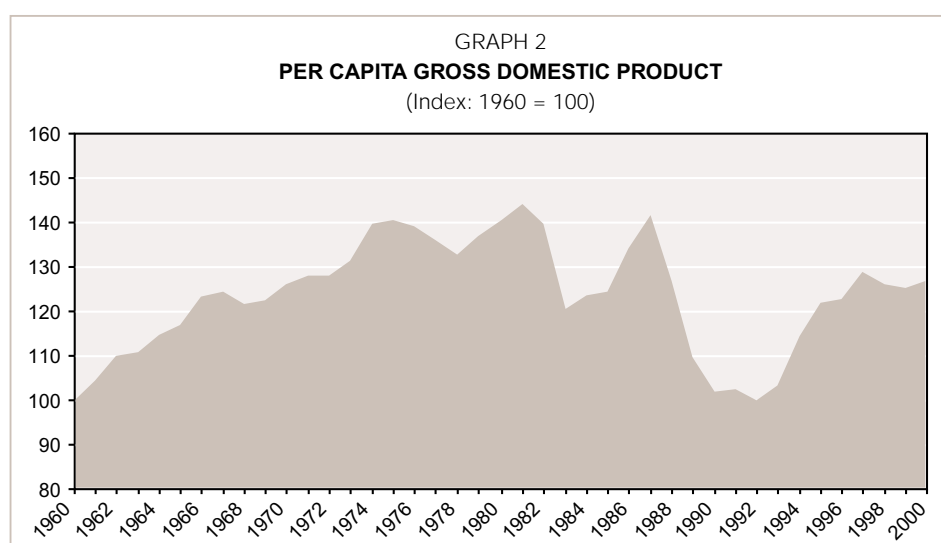
Real GDP grew 3,1 percent in the year 2000. After reaching a rate of growth above 5 percent in the first quarter, GDP decreased in the fourth quarter due to various external shocks. After an expansive phase initiated in the fourth quarter of 1999, the Peruvian economy weakened as private investment fell. This was the result of increasing political uncertainty and public expenditure restrictions due to financial limitations.

Economic activity continued to show the irregular pattern that began in the second quarter of 1998, which reflected the effect of adverse events such as the El Niño weather disturbance, a sharp drop in

commodity export prices, and the liquidity squeeze caused by the international crisis sparked off by the Russian debt default.

Several indicators can be used to describe this volatility in GDP performance:

- GDP and domestic demand: Both fell since the second quarter of 1998, with a temporary recovery lasting until the third quarter of 2000.
- Per capita GDP: This indicator fell since the second quarter of 1998, with a temporary recovery between the fourth quarter of 1999 and the third quarter of 2000.
- Potential GDP-GDP gap: Output has been below its potential level since



the second quarter of 1998, with a temporary recovery in the first half of 2000.

Per capita GDP grew by 1,4 percent in the year—with a decrease in the fourth quarter—to a level similar to the one registered in 1970.

1. Aggregate supply and demand

Aggregate demand for goods and services rose 3,2 percent due to a 7,9 percent increase in exports of goods and services.

Domestic demand growth —2,4 percent— reflected a 3,9 percent increase in private consumption and a 5,1 percent increase in public consumption, compensated by a 5,0

percent reduction in gross fixed investment—particularly in the fourth quarter, when investment fell by 13,2 percent. This behavior was associated with private-sector expectations of weaker economic growth and cash flow problems in firms with high debt-to-capital ratios.

Investment decreased as a percentage of GDP, from 21,5 percent in 1999 to 20,1 percent in 2000. Private and public investment decreased from 16,8 percent to 16,2 percent, and from 4,8 percent to 4,0 percent, respectively, over the same period. The fall in public investment reflected a more austere fiscal stance, especially since the fourth quarter of 2000.

TABLE 4
GLOBAL DEMAND AND SUPPLY
(Real percentage change)

	1998	1999	2000
I. GLOBAL DEMAND	-0,1	-1,7	3,2
1. Domestic demand	-0,8	-3,1	2,4
a. Private consumption	-0,8	-0,4	3,9
b. Public consumption	2,5	3,5	5,1
c. Gross domestic investment	-2,0	-13,5	-3,7
<i>Gross fixed investment</i>	-1,4	-11,1	-5,0
<i>Private</i>	-2,4	-15,3	-2,0
<i>Public</i>	3,0	7,2	-15,4
2. Exports 1/	5,6	7,6	7,9
II. GLOBAL SUPPLY	-0,1	-1,7	3,2
1. GDP	-0,5	0,9	3,1
2. Imports 1/	2,3	-15,2	3,6

1/ Goods and non-financial services.

TABLE 5
INVESTMENT AND SAVINGS
 (Percentage of GDP)

	1998	1999	2000
I. INVESTMENT	23,6	21,5	20,1
Public sector	4,5	4,8	4,0
Private sector	19,1	16,7	16,1
II. DOMESTIC SAVINGS	17,2	17,8	17,1
Public sector	4,0	1,8	0,8
Private sector	13,2	16,0	16,3
III. EXTERNAL SAVINGS	6,4	3,7	3,0

Gross domestic investment was financed by domestic savings (17,1 percent of GDP) and external savings (3,0 percent of GDP). The 0,7-point decrease in domestic savings was due to public sector savings—which fell by 1,0 points of GDP—, whereas the private sector increased its participation from 16,0 in 1999 to 16,3 percent in 2000.

2. GDP by industry

The 3,1 percent rate of growth of GDP largely reflected the increase in agriculture and livestock (6,2 percent), fishing (9,1 percent), and manufacturing based on raw materials (8,6 percent)—which recovered after the El Niño events—, while construction and oil and gas decreased



TABLE 6
GROSS DOMESTIC PRODUCT
 (Real rates of growth)

	1998	1999	2000
AGRICULTURE AND LIVESTOCK	1,5	11,7	6,2
Agriculture	-1,1	13,9	6,7
Livestock	6,3	9,2	6,0
FISHING	-13,4	29,2	9,1
MINING AND FUEL	3,8	12,9	2,4
Mining	3,9	17,0	3,8
Oil and gas	-0,2	-6,9	-6,5
MANUFACTURING	-3,2	-0,5	6,7
Based on raw materials	-8,7	21,1	8,6
Non-primary manufacturing	-1,8	-5,8	6,1
CONSTRUCTION	0,6	-10,5	-4,3
COMMERCE	-3,2	-1,9	5,1
OTHER SERVICES	0,3	0,5	1,9
GDP	-0,5	0,9	3,1
Primary	-0,3	14,2	5,6
Non-primary	-0,6	-1,6	2,6

by 4,3 percent and 6,5 percent, respectively.

Primary and non-primary GDP growth —5,6 percent and 2,6 percent, respectively— showed different patterns: primary sectors grew 6,9 percent in the first quarter, while non-primary sectors fell in the fourth quarter.

Agriculture and livestock

The 6,2 percent rate of growth of agriculture and livestock in the year 2000 was associated with a 3 percent expansion of transitory cultivated land, as well as with weather conditions that allowed better yields per hectare.

Agriculture production increased by 6,7 percent, whereas livestock output grew by 6 percent. The former reflected an increase in the production of yellow corn (19 percent), cotton (14 percent), sugar cane (14 percent), coffee (9 percent) and potatoes (7 percent), whereas rice output decreased 3,2 percent. Livestock output growth was due to an increase in poultry (10 percent) and milk (5 percent).

Fishing

The recovery of fishing was due to the normalization of oceanographic conditions following the end of the El Niño phenomenon (1997-1998). At the beginning of the year, perspectives for anchovy extraction were favorable. The Ministry of Fishery continued applying the Provisional Program for Anchovy Extraction —based on the Peruvian Sea Institute's assessments—, which allowed continuous recovery in

1999 and 2000 by means of rational resource exploitation.

Fisheries grew by 9,1 percent due to an increase in fishmeal and fish oil output (27 percent), partially offset by a decrease in catch rates of fish for direct human consumption (-3 percent).

Mining and Fuel

The 2,4 percent rise in mining and fuel production in 2000 was the result mainly of the increase in metallic mining output (3,4 percent), whereas oil and gas production decreased 6,5 percent.

In the metallic mining sector, silver and tin showed the most significant rates of growth (9 and 22 percent, respectively), whereas other metals showed no significant growth related to past years. Gold extraction grew by 3 percent, whereas copper and zinc extraction increased 2 and 1 percent, respectively.

The main investment projects operating in 2000 were the copper and zinc Antamina project (US\$ 862 million), the expansion of Yanacocha (US\$ 277 million), Southern Peru's Cuajone and Toquepala (US\$ 132 million), Volcán Compañía Minera (US\$ 54 million), Minera Barrick Misquichilca (US\$ 49 million), Doe Run Peru (US\$ 27 million) and Minsur (US\$ 12 million). Billiton Investment (UK) acquired the La Granja Copper project from Cambior Inc. (Canada).

Oil and gas production decreased 6,5 percent as a consequence of a decline

CENTRAL RESERVE BANK OF PERU

in natural gas and crude oil production (-17 and -6 percent, respectively). The decrease in natural gas production was a consequence of a greater use of hydroelectric power. Crude oil output decreased for the sixth consecutive year. Even though the number of oil wells drilled in 2000 was higher than in

the previous year (31 wells in 2000 versus 15 wells in 1999), it was significantly lower than in 1996, 1997 and 1998 (94, 93 and 50, respectively).

Contracts to develop the production, transportation and distribution operations of the Camisea gas project

TABLE 7
INVESTMENT BY MINING COMPANIES 1/
(Millions of US dollars)

Mining companies	Metals	Period		
		1998	1999	2000
Compañía Minera Antamina S.A.	Polymetallic	160,0	525,0	862,0
Minera Yanacocha S.R.L.	Gold	82,5	126,3	276,9
Southern Peru Copper Corporation Sucursal del Perú	Copper	258,7	250,3	131,7
Volcán Compañía Minera S.A.	Polymetallic	15,1	61,2	53,6
Minera Barrick Misquichilca – Pierina	Gold	248,0	32,0	49,0
Doe Run del Perú S.A. 2/	Polymetallic	10,9	23,3	27,2
BHP Tintaya S.A.	Copper	22,0	14,0	21,9
Empresa Minera Yauliyacu S.A. 3/	Polymetallic	20,0	30,2	20,0
Solitario Resources y otros - Bongará 3/	Exploration	2,5	7,5	17,5
Compañía Minera Atacocha S.A.	Polymetallic	7,3	7,8	13,3
Minsur S.A.	Tin	21,6	19,8	12,1
Empresa Minera Iscaycruz S.A.	Polymetallic	4,5	9,4	11,6
Refinería de Cajamarquilla S.A.	Zinc	37,1	21,8	10,8
Compañía Minera Huarón S.A. 4/	Polymetallic	1,0	0,1	10,0
Sociedad Minera El Brocal S.A.	Polymetallic	1,9	5,2	7,7
Compañía Minera San Ignacio de MGoldcocha S.A.	Polymetallic	6,6	4,4	7,7
Compañía de Minas Buenaventura S.A.	Silver	28,0	27,4	6,8
Compañía Minera Milpo S.A.	Polymetallic	20,3	5,0	6,7
Sociedad Minera CGoldna S.A.	Polymetallic	3,5	3,1	6,1
Sociedad Minera Cerro Verde S.A.	Copper	30,0	18,0	4,3
Compañía Minera Santa Luisa S.A.	Polymetallic	1,7	1,6	2,3
Compañía Minera Raura S.A.	Polymetallic	3,0	1,7	2,2
Compañía Minera Aurifera Santa Rosa S.A. 3/ 5/	Gold	9,0	4,0	1,8
Compañía Minera Condestable S.A. 4/	Copper	1,5	3,5	1,6
Pan American Silver (antes Corporación Minera Nor Perú S.A.) 4/	Silver	8,1	2,4	0,8
Minas de Arcata S.A.	Silver	2,4	3,0	0,6
Perubar S.A.	Polymetallic	0,8	0,8	0,4
Others		106,7	30,6	4,6
TOTAL		1114,7	1239,4	1571,2

1/ Information based on the enterprises' audited financial statements.
2/ Years ended on October 31st were recorded.
3/ Investment bound to tax stability contracts and profit reinvestments (Ministry of Energy and Mining).
4/ In 1999 the period January-November was recorded.
5/ In 2000 the investment based on enterprises' audited financial statements was recorded.



were signed in 2000. A consortium formed by Techint (Argentina), Gas Natural (Spain), Sonatrach (Algeria), Graña y Montero (Peru), Pluspetrol (Argentina), Hunt Oil (U.S.) and SK (Korea) won the bid for the transportation and distribution contract. Additionally, Pluspetrol, Hunt Oil and SK became the consortium in charge of production operations. Estimated investment exceeds US\$ 3 billion, to be carried out in an eleven-year period. During the first year of operation, Camisea will produce 120 million cubic feet of natural gas daily.

Manufacturing

Between end-1999 and the first half of 2000, manufacturing production showed a temporary recovery, followed by a slowdown in the second half. In the year, manufacturing output grew by 6,7 percent. Raw-material processing activities increased by 9 percent, whereas non-primary industries grew by 6 percent.

The performance of raw-material industries reflected increases in fishmeal and fish oil (22 percent),

canned and frozen fish products (26 percent), sugar (19 percent), meat products (7 percent) and, to a lesser extent, refined non-ferrous metals (3 percent).

Non-primary industries registered a 6 percent rate of growth. The significant contraction in domestic demand that occurred in 1999 was followed by a 12 percent recovery in the first quarter of 2000. In the fourth quarter, non-primary industries decreased slightly.

Non-primary exports amounted to US\$ 2 billion, up 9 percent from 1999. It should be noted that in 2000 several companies ventured into the foreign market as a result of the contraction of domestic demand.

Construction

In the year 2000 the construction sector decreased 4,3 percent from the previous year, as a result of demand contraction and the end of several highway construction projects. Cement consumption, a proxy for construction sector performance, amounted to 3 662 thousand tons (a 3 percent annual decline, from a 12 percent fall in 1999).

BOX 1

Non-primary Manufacturing Industry

In 1992–2000 manufacturing industry grew by 45,5 percent—an annual average rate of 4,8 percent—similar to the accumulated 45,4-percent rate of growth of GDP in this period. The accumulated increase in primary and non-primary industry was 49,8 and 43,7 percent, respectively (annual average rates were 5,2 and 4,6).

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By industrial activity, paper, plastic and structural metallic products registered 15 to 20 percent annual rates of growth, whereas chemicals, jewelry, textiles, iron and steel processing, pottery and non-metallic minerals grew at rates from 10 to 14 percent. On the other hand, activities such as fertilizers, soft drinks, glass, hygiene and cleaning products, rubber, metallic products, dairy and milk products grew between 6 to 9 percent on an annual basis.

Dynamism experienced by the industrial sector was a consequence of equipment modernization, process restructuring and compliance with international competitiveness standards adopted by Peruvian companies, which created the necessary conditions for investment growth.

Non-traditional exports grew from US\$ 966 million in 1992 to US\$ 2 047 million in 2000. The most remarkable growth rates were achieved in textiles (9,3 percent), chemicals (14 percent), non-metallic minerals (9,3 percent) and metal-based industries (7 percent).

Industries with rates of growth above average

	Percentage changes			Percentage changes	
	Cumulative	Annual average		Cumulative	Annual average
Paper and paperboard containers	321,0	19,7	Other chemical products	107,1	9,5
Other paper and paperboard products	309,3	19,3	Other non-metallic products	103,2	9,3
Paper and paperboard products	265,5	17,6	Glass	98,5	8,9
Plastics	244,7	16,7	Distribution and control equipment	95,4	8,7
Structural metal use products	197,0	14,6	Prepared animal food	88,3	8,2
Basic chemicals	172,5	13,3	Tools and hardware	86,3	8,1
Insulated wire and cables	154,9	12,4	Rubber tyres	81,0	7,7
Structural non-refractory ceramic ware	152,8	12,3	Hygiene and cleaning products	78,0	7,5
Non-structural non-refractory ceramic ware	139,1	11,5	Cement, lime and plaster	76,1	7,3
Woven, knit and crochet articles	129,6	10,9	Dairy products	74,7	7,2
Iron and steel	124,4	10,6	Concrete, cement and plaster articles	72,3	7,0
Cords and nets	123,2	10,6	Canned fruits and vegetables	66,0	6,5
Jewelry	120,6	10,4	Woodwork	62,3	6,2
Soft drinks	117,3	10,2	Other food products	59,1	6,0
Pesticides	109,4	9,7	Miscellaneous machinery	52,5	5,4



The assembly industry (measurement equipment, vehicle chassis systems, electric appliances, motorcycles, motor vehicles and bicycles), as well as other products such as cacao, leather, fertilizers and rubber, registered the most significant decline rates.

In particular, domestic production of cement was 3 603 thousand tons, whereas imports reached 60 thousand tons (versus 3 738 and 37 thousand tons in 1999, respectively).

The 38 percent fall in road rehabilitation and expansion works reflected lower activity in several projects, such as the Inter-Ocean Corridor and rural roads. This is associated with the end of construction stages, the deferral of projects and the rescheduling of tasks due to limited public financing, in particular in the second half of the year.

3. Employment and social developments

In 2000 the urban labor force decreased by 1,8 percent, relative to the previous year, to 7,7 million people. The level of employed population also decreased, albeit slightly, by 1,1 percent, to 7,1 million. The decrease in the economically active population may be associated with a lower participation in the labor market, particularly among women, whose presence decreased by 8 percent. The activity rate —people who have a job or are seeking one, relative to working-age population (14 years or more)— diminished from 66,9 to 64,4

TABLE 8
URBAN UNEMPLOYMENT AND UNDEREMPLOYMENT 1/
(In percentages)

	1998	1999	2000
Unemployed	7,8	8,0	7,4
By gender			
Male	6,5	7,5	7,3
Female	9,3	8,6	7,5
By age group			
14-24 years	13,5	12,4	13,4
25-44 years	5,9	6,6	5,5
45-54 years	4,3	5,3	4,6
55 years and more	6,5	6,3	6,2
By geographic area			
Metropolitan Lima	6,9	9,4	7,8
Coast	9,4	7,8	7,6
Sierra	8,7	6,1	7,1
Jungle	4,9	5,1	4,7
Underemployment	44,3	43,5	43,0
By hours worked	14,6	13,6	13,3
By income	29,7	29,9	29,7

1/ Third quarter of each year.

Source: National Institute of Statistics and Data Processing (INEI), Ministry of Labor

percent, due to the deterioration of job expectations.

The **urban unemployment rate**—calculated using information collected through household surveys—decreased to 7,4 percent in urban areas. Unemployment decreased for both men and women (from 8,6 to 7,5 percent for women, and from 7,5 to 7,3 percent for men).

By geographic area, the situation was diverse. Unemployment decreased in Metropolitan Lima, the urban jungle and the rest of the coast areas, and increased in the sierra (highlands).

Urban underemployment fell during the year from 43,5 to 43,0 percent of total urban labor force. This moderate decrease suggests a slightly positive

evolution of incomes and the number of hours worked.

Wages and earnings in firms with more than 10 workers in the urban area had a positive evolution during the year. Executives and white-collar workers' salaries were 3,4 and 4 percent higher than in the previous year, while blue-collar workers' wages increased less, by 1,4 percent. There is a similar trend in the metropolitan area while, in urban areas other than Lima, blue-collar workers' wages showed a more favorable trend.

The minimum wage was modified during the year: it was raised from S/. 345 to S/. 410 in March, and remained at that level for the rest of the year. In real terms, this led to an 11 percent increase relative to 1999 on average.



TABLE 9
WAGES AND SALARIES - URBAN AREAS

	In nuevos soles			Growth in real terms %	
	1998	1999	2000	1999	2000
Country					
Executives	8 218	8 887	9 521	4,7	3,4
White-collar workers	1 728	1 859	2 003	4,1	4,0
Blue-collar workers	772	788	827	-1,3	1,4
Metropolitan Lima					
Executives	9 102	9 821	10 522	4,4	3,4
White-collar workers	1 851	2 009	2 178	5,1	4,7
Blue-collar workers	802	812	848	-2,0	0,8
Other urban areas					
Executives	3 795	4 026	4 295	2,7	3,0
White-collar workers	1 276	1 333	1 404	1,1	1,7
Blue-collar workers	695	724	772	0,9	2,9

Source: Ministry of Labor, INEI

BOX 2

POVERTY AND SOCIAL INDICATORS

Continuing with the trend of past years, social indicators improved during the period 1997-2000. School attendance rates increased, except for people aged 18 to 24 in Metropolitan Lima (poor economic performance may have forced some of them to drop out of their studies). The rise in ambulatory health treatments can be attributed, particularly in the public sector, to extended and improved health services resulting from health reform achievements and increased access to the School Insurance Program.

Access to basic housing services has also improved. In rural areas, the increase in the percentage of houses with access to safe water, sanitation and electricity was higher than in Metropolitan Lima.

SOCIAL INDICATORS			
	1994	1997	2000
Education			
School attendance by age group (in percentages)			
Metropolitan Lima			
6 - 12 years	99,8	96,6	98,9
13 - 17	87,7	86,6	87,3
18 - 24	34,5	36,8	32,0
Rural			
6 - 12 years	96,9	96,4	98,0
13 - 17	75,5	72,4	80,6
18 - 24	21,7	21,5	22,2
Health			
Ambulatory care treatment for disease (in percentages) 1/			
Metropolitan Lima	66,8	58,8	67,2
Rural	30,1	43,6	50,7
Housing			
Metropolitan Lima			
houses with concrete, wood or tile roof	84,0	86,8	91,0
access to safe water by public network 2/	89,0	94,0	93,6
access to sanitation by public network	88,9	91,3	93,9
access to electricity	96,9	99,5	97,8
Rural			
houses with concrete, wood or tile roof	73,5	74,8	85,3
access to safe water by public network 2/	33,8	49,3	58,0
access to sanitation by public network	15,5	18,3	24,4
access to electricity	24,3	29,3	43,8
1/ Includes persons disabled by disease for three or more days			
2/ Public (Inside and outside dwelling), well.			
Source: LSMS 1997, 2000, Cuánto Institute.			

Total poverty has increased in all geographical areas and at the country level, although severe poverty has remained constant in spite of the economic crisis. The increase in total and severe poverty was concentrated in Metropolitan Lima, while severe poverty decreased in rural areas. Compared with 1997, total poverty in Metropolitan Lima increased by 9,7 percentage points, and severe poverty doubled to 4,7 percent of Lima's population.

POVERTY INDICATORS, 1994 - 2000 (Percentages of population)			
	Poverty rate		
	1994	1997	2000
Severe poverty			
Country	19,0	14,7	14,8
Metropolitan Lima	5,5	2,4	4,7
Rural areas	36,2	31,9	30,1
Total poverty			
Country	53,4	50,7	54,1
Metropolitan Lima	42,4	35,5	45,2
Rural areas	65,6	64,8	66,1

Source: LSMS 1994, 1997 and 2000, Cuánto Institute.

