



economic activity

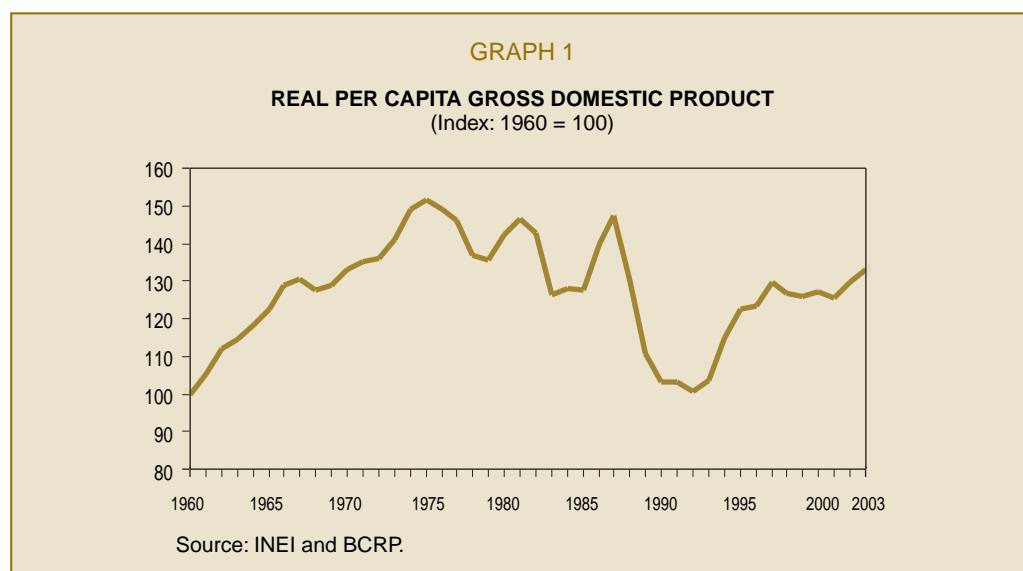
I.

Output and Employment

In 2003 real gross domestic product grew by 4.1 percent, one of the highest rates in the region, registering positive growth rates for 30 consecutive months. At the same time, urban employment rose over the same period by 1.7 percent.

This growth of GDP was mainly led by a 3.6 percent increase in domestic demand and a 5.8 percent increment in exports.

GDP per capita rose 2.5 percent in 2003 and, still remains at levels similar to those of the early seventies.



1. Global Demand and Supply

Domestic demand grew by 3.6 percent (with a 3.6 percentage point contribution to growth) driven by an increase in all its components, a pattern that has not been observed since 1997.

Private consumption contributed with 2.3 percentage points to the growth of domestic demand, whereas private investment contributed with 0.7 percentage points and public consumption with 0.4 percentage points.

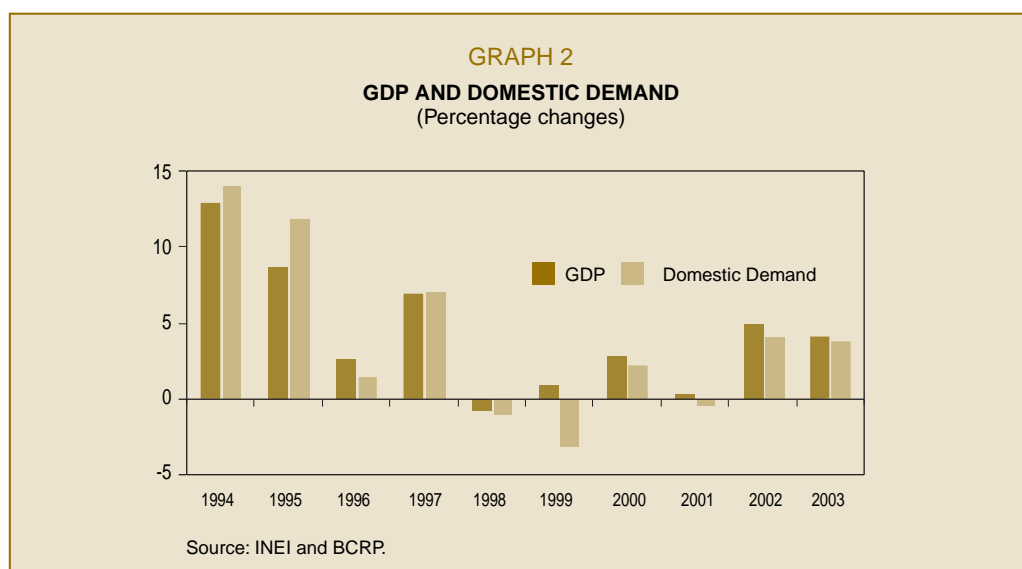


TABLE 1
GLOBAL DEMAND AND SUPPLY
(Real percentage changes)

	2001	2002	2003
I. GLOBAL DEMAND	0.6	4.5	3.9
1. Domestic demand	-0.5	4.1	3.6
a. Private consumption	1.4	4.5	3.2
b. Public consumption	0.1	1.6	4.5
c. Gross fixed investment	-8.2	-0.7	5.2
– Private	-4.7	0.1	5.3
– Public	-22.3	-4.8	5.0
2. Exports 1/	7.1	6.8	5.8
II. GLOBAL SUPPLY	0.6	4.5	3.9
1. GDP	0.3	4.9	4.1
2. Imports 1/	2.6	2.4	3.2

1/ Of non-financial goods and services.
Source: INEI and BCRP.

The 3.2 percent increase in private consumption was related to the 3.9 percent increment of national disposable income and was reflected in such indicators as consumption goods imports, which rose 5.5 percent, led by a 12.5

percent increase of durable consumption goods imports. Other indicators such as consumer credit of financial enterprises and new vehicles sales showed also a positive trend, growing 24.7 and 3.5 percent, respectively.

TABLE 2
PRIVATE CONSUMPTION INDICATORS

	Measurement unit	2002	2003	Percentage change
Consumption goods imports	Millions of US\$	1,754	1,851	5.5
Non-durable consumption goods	Millions of US\$	1,032	1,039	0.7
Durable consumption goods	Millions of US\$	722	812	12.5
New vehicles sales	Units	12,061	12,479	3.5

Source: BCRP, SUNAT and Araper.

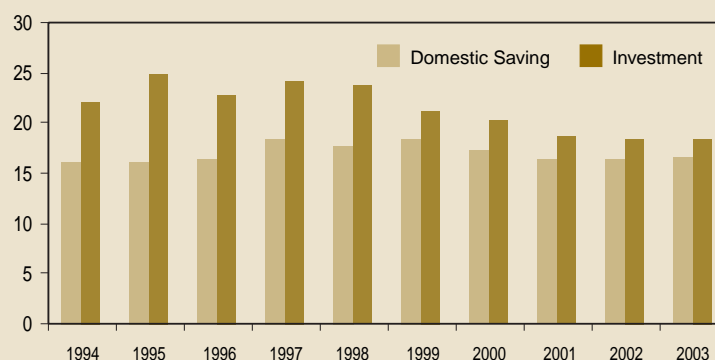
After falling between 1998 and 2001, private investment went up 5.3 percent, showing positive rates for two years in a row. Indicators such as domestic consumption of cement grew by 3.3 percent and larger capital goods imports, excluding building materials rose 13.6 percent. Excluding Camisea project imports increased 10.6 percent.

Main investment projects amounted to US\$ 2,086 million, of which the natural gas Camisea project, with an investment close to US\$ 688 million, was

the largest. Other important projects undertaken were those of Minera Yanacocha in exploration and development, Southern Peru Copper Corporation in environmental and investment projects and La Pampilla Refinery in plant modernization.

The main public investment projects during 2003 were, among others, the rehabilitation, construction and improvement of roads (S/. 1,052 million) carried out by the Ministry of Transportation and Communication and

GRAPH 3
DOMESTIC SAVING AND INVESTMENT
(Percentage of GDP)



Source: INEI and BCRP.



TABLE 3
SAVING AND INVESTMENT
(Percentage of GDP)

	2001	2002	2003
I. INVESTMENT (=II+III)	18.6	18.4	18.4
Public investment	3.1	2.8	2.9
Private investment 1/	15.5	15.6	15.5
II. DOMESTIC SAVINGS	16.4	16.4	16.7
Public sector	0.8	0.6	1.2
Private sector	15.6	15.8	15.5
III. EXTERNAL SAVINGS	2.2	2.0	1.7

1/ Includes inventories.

Source: INEI and BCRP.

the Regional Governments; energy distribution infrastructure (S/. 106 million) by the Ministry of Energy and Mining; water and sewage (S/. 78 million); emergency social productive project (S/. 155 million) by the Ministry of Labor.

Gross domestic investment accounted for 18.4 percent of GDP, similar to 2002. Private investment was 15.5 percent of GDP, while public investment' share rose from 2.8 to 2.9 percent of GDP.

Gross domestic investment was financed by increased domestic savings, which rose from 16.4 to 16.7 percent of GDP through a greater share of public savings. External savings fell from 2.0 to 1.7 percent of GDP.

Real exports expanded 5.8 percent due to the increase in traditional exports, particularly mining (gold,

silver and zinc) as well as non-traditional exports, mainly textile (clothing), agricultural (asparagus, citrus, mangos and grapes), chemical products and jewelry.

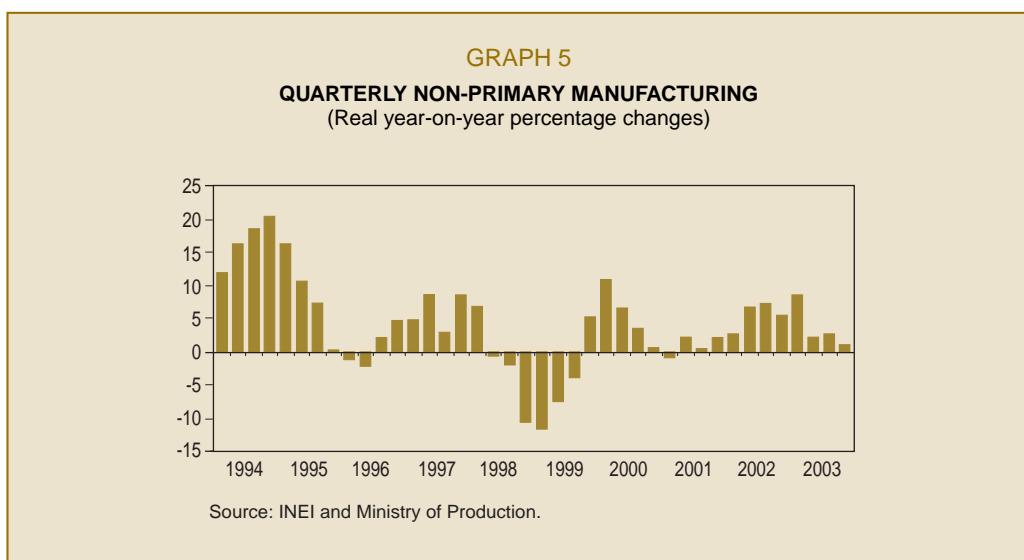
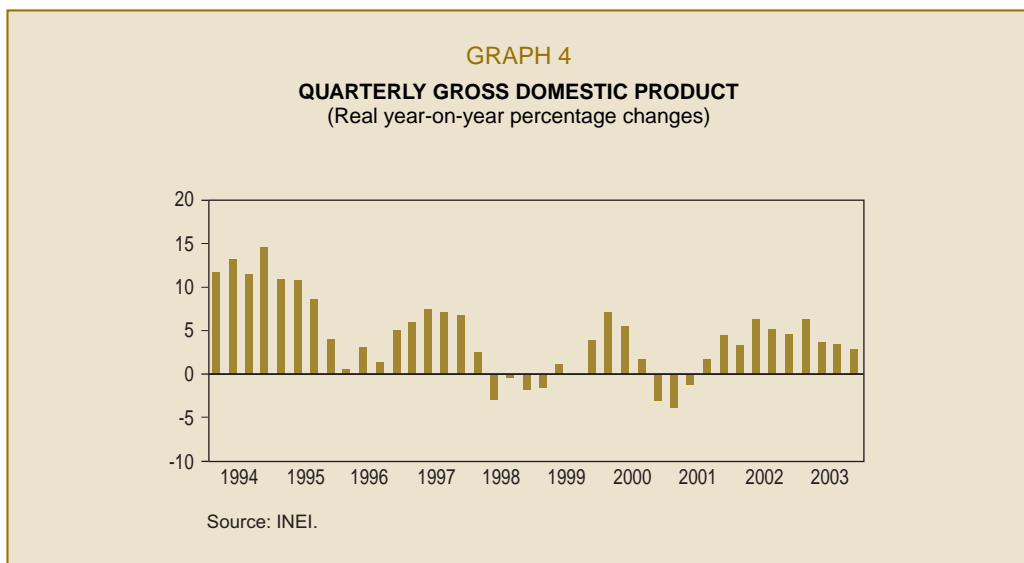
Real imports rose 3.2 percent, due to higher capital goods for industry (renovation of textile machinery, plastics, chemical and basic iron and steel industries), which grew by 16.0 percent in nominal terms, raw materials for industry, which increased 6.9 percent, and durable consumption goods (household appliances and automobiles), which rose 12.5 percent.

During the second quarter, a certain growth deceleration began, as seen in the quarterly GDP and domestic demand graphs, which coincided with the rise in domestic prices due to higher international oil prices, which in turn caused higher

prices of fuels and urban fares, thus temporarily affecting consumption. Consumer confidence index (INDICCA), published by the private firm APOYO, decreased from 43 points between January and February, to 37 points between March and May, while non-primary manufacturing rate of growth decreased from 8.5 percent in the first quarter to an

average rate of 2.0 percent in the last three quarters.

Additionally, both public consumption and investment decelerated during the second and third quarter, but recovered in the last quarter, in a context of gradual reduction of the fiscal deficit.





BOX 1

THE 1998-2001 RECESSION

After growing at an annual average rate of more than 7.0 percent between 1993 and 1997, the Peruvian economy grew by 0.8 percent between 1998 and 2001. The growth during the 1993-1997 period occurred as a result of a combination of factors reflecting favorable external conditions, with a 14.7 percent rise in exports prices and larger foreign capital inflows. This scenario changed in 1998, a year in which three adverse shocks converged. The first was El Niño, with an intensity not registered since 1983. As in that year, it struck mainly agriculture, and livestock and fishing sectors¹, while affecting directly the manufacturing based on raw materials, which declined 10.6 percent.

As a second adverse shock, terms of trade fell 6.5 percent, a lagged consequence of lower exports demand following the Asian Crisis of mid 1997 and was reflected in the reduction of gold, copper and coffee prices, which, as a group, fell by 11.0 percent. In addition, the Russian Crisis provoked an 18.1 percent contraction of capital inflows to the region.

In this context, private banks faced a sudden reduction in their foreign credit facilities, causing a contraction in the banking credit to the private sector, in spite of the dollar monetary regulation credits granted by the Central Bank and the 4.5 percentage points decrease in the average reserve requirement rate during the last quarter of 1998. Credit to the private sector in foreign currency dropped at an average annual rate of 3.7 percent between September 1998 and December 2001, in contrast with the 33.3 percent increase between January 1994 and September 1998. This credit contraction, which initiated in September 1998, implied an abrupt reversion of private sector financing, which worsened the recessive impact of the afore mentioned external shocks.

The effect of these shocks lasted until 1999, when the Brazilian currency depreciated 52.9 percent and a new 8.2 percent drop in the terms of trade took place. Episodes of financial turbulence with important pressures on the exchange rate occurred over this period of adverse macroeconomic shocks. Throughout these episodes, monetary policy was oriented to avoid validating depreciatory expectations, which could have led to a depreciation-inflation spiral or strengthened negative impacts of the balance sheet effect. Therefore, control of banking liquidity in soles was maintained, which implied higher interbank interest rates.

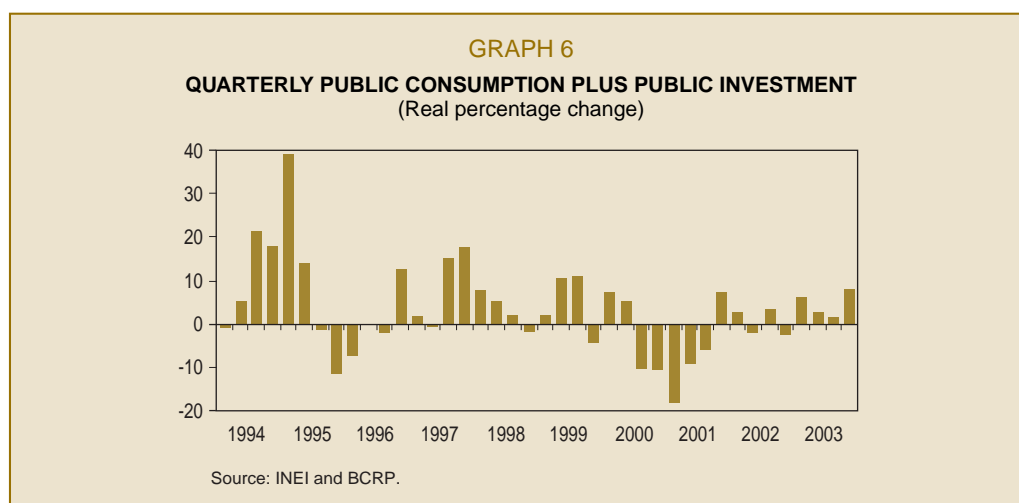
In the fourth quarter of 1999 a recovery began, with an increase of 4.2 and 1.3 percent in both consumption and investment, partially as a result of an expansionary fiscal policy, prior to the 2000 presidential elections, which led to an increase in the central government deficit from 1.1 to 3.2 percent of GDP.

This impulse in economic activity only lasted over the first two quarters of 2000, decreasing GDP by 1.8 percent in the third quarter and 3.0 percent in the fourth. The political events of September 2000, which led to the change of government, originated a fall of 11.0 percent in the consumers' confidence index and an 8.7 percent reduction in public expenditure (investment and consumption) between the last quarter of 2000 and the third of 2001, as an effect of a moderate fiscal adjustment.

Throughout the period 1998-2001 per capita GDP decreased 3.2 percent, while urban employment in companies with 10 or more workers fell 9.2 percent as measured by the Ministry of Labor and Employment Promotion. Net international reserves dropped by US\$ 1,556 millions (-15.3 percent); credit to the private sector in foreign currency –the largest component of credit- declined 1.5 percent; current revenues of the central government as percentage of GDP fell from 16.0 to 14.4 percent and total imports were reduced in US\$ 1,282 million (-15.1 percent).

The recessive features of this period also had a negative impact on the private sector financial performance, affecting both asset quality and profitability. While the ratio of non-performing loans to gross credits of the financial enterprises rose from 5.1 percent in December 1997 to 9.0 percent in December 2001, the net profit to equity ratio decreased from 15.4 to 4.5 percent. Simultaneously, the number of banks dropped from 25 to 15 in this period.

¹ Crops like cotton and sugar cane dropped 34.7 and 17.7 percent respectively, whereas the extraction of anchovy fell by 79.6 percent.



2. GDP by sector

In 2003, GDP showed positive results in all sectors, with the exception of the fishing sector. Non-primary activities grew by 4.2 percent, principally services

and manufacturing, while primary activities expanded by 2.5 percent, especially mining and agriculture and livestock. Mining recorded the highest growth for a second consecutive year, climbing 6.7 percent.

TABLE 4
GROSS DOMESTIC PRODUCT
(Real percentage changes)

	2001	2002	2003
I. PRIMARY GROSS AGGREGATED VALUE	2.8	6.5	2.5
Agriculture and livestock	0.5	5.7	2.2
<i>Agriculture</i>	-2.3	6.1	1.8
<i>Livestock</i>	4.6	5.3	3.0
Fishing	-11.1	5.7	-13.4
Mining and fuel	11.2	11.6	6.7
<i>Metallic mining</i>	13.6	12.3	7.8
<i>Fuel</i>	-2.0	0.6	-4.5
Manufacturing of primary resources	-2.3	-0.5	-2.8
II. NON-PRIMARY GROSS AGGREGATED VALUE	-0.2	4.5	4.2
Non-primary manufacturing	1.0	5.6	3.6
Construction	-6.7	7.9	4.8
Commerce	1.1	4.6	3.6
Other services	-0.2	3.8	4.5
III. GROSS AGGREGATED VALUE	0.4	5.0	3.8
Taxes on goods and import duties	-1.1	3.9	6.3
IV. GROSS DOMESTIC PRODUCT	0.3	4.9	4.1

Source: INEI, ministries of production and BCRP.



2.1 Primary sectors

Agriculture and livestock

Agriculture and livestock grew by 2.2 percent, driven by the

continuing dynamism of industrial crops (sugar cane and yellow corn), fruits (grape, tangerine and banana) and meat production (poultry and bovine).

TABLE 5
AGRICULTURAL AND LIVESTOCK PRODUCTION BY MAIN PRODUCTS
(Real percentage changes)

	2001	2002	2003
AGRICULTURE	-2.3	6.1	1.8
Potato	-18.1	23.1	-4.7
Rice	7.2	4.7	1.0
Coffee	1.0	5.9	-5.4
Sugar cane	3.5	14.0	5.0
Yellow corn	10.7	-2.4	5.8
Cotton	-12.8	-5.0	0.0
Other	-0.1	3.1	3.8
– Grape	19.1	6.5	7.2
– Mangerine	-1.7	2.9	21.0
– Mango	12.9	25.1	5.6
LIVESTOCK	4.6	5.3	3.0
Poultry	5.6	6.7	4.4
Beef	1.1	2.7	2.4
Milk	4.5	7.1	2.7
Eggs	3.3	19.1	0.2
TOTAL	0.5	5.7	2.2

Source: Ministry of Agriculture.

The 5.0 percent increase of sugar cane is explained by larger harvested areas (13 percent), which offset a 7.0 percent decrease in yield, caused by an early cut of the cane by some enterprises to ease their liquidity restrictions. Yellow corn production was 5.8 percent higher due to a 4.0 percent increase in harvested areas and a 2.0 percent rise in productivity. Favorable weather conditions influenced higher yields in rice production. Since 2000 rice production has grown by 13.0 percent,

avored by abundant hydraulic resources. Potato production diminished 4.7 percent due to lower harvests (-5.0 percent) which in turn were caused by a reduction in cultivated areas. Coffee production decreased 5.4 percent. The crop was affected by abrupt temperature variations, which reduced the flowering, and the presence of the broca plague. Notwithstanding, the export of the special coffee variety grew 21 percent reaching 20 thousand tons.

TABLE 6
MAIN SUGAR PRODUCERS: SUGAR PRODUCTION - SUGAR CANE YIELD

	Production					Yield				
	Thousands of tons			Percentage change		Ton / Hectare			Percentage change	
	1998	2002	2003	2003/02	2003/98	1998	2002	2003	2003/02	2003/98
COUNTRY TOTAL	450	878	957	9.0	112.8	108	110	116	5.7	7.0
With strategic partner	201	459	518	12.9	158.1	115	127	131	2.9	13.7
Cartavio	53	138	146	6.0	176.5	112	147	144	-2.1	28.3
Laredo	39	91	116	27.2	199.7	123	142	149	5.2	21.4
Paramonga	48	99	110	11.0	127.2	123	128	132	3.4	7.4
San Jacinto	33	77	77	0.1	130.8	118	121	129	6.3	9.5
Pucalá	27	54	69	28.5	151.3	101	99	102	2.6	0.8
Without strategic partner	226	406	424	4.4	87.3	109	119	112	-6.5	2.7
Casagrande	97	165	167	1.3	71.8	91	112	97	-13.0	6.4
Tumán	69	115	123	6.9	78.8	132	130	119	-8.2	-9.6
Andahuasi	36	68	73	6.0	99.1	126	144	153	6.5	21.7
Pomalca	24	58	62	6.6	155.6	86	92	77	-16.4	-10.3

Source: Ministry of Agriculture and Sugar Producers Association.

Grape production increased 7.0 percent, due to higher yields and an expansion in cultivated areas in Ica (south of Lima) since 1999; tangerine grew by 21.0 percent increase and banana 3.0 percent. Other products were: olive, marigold, mango, yellow onion and avocado.

Poultry production kept its rising trend (4.4 percent) due to an increase in competitiveness, offering products at lower prices than lamb and beef. Fresh milk has been growing since 1993, based on improvements in feeding and milking, which caused an increase of pasteurized milk, cheese and yogurt (11.0, 6.0 and 14.0 percent, respectively) and exports of dairy products (76.0 percent). Production of beef kept its growing trend (2.4 percent), due to improvements in the feeding system

with a greater use of natural products to supply domestic consumption.

Fishing

While oil and fishmeal fishing decreased sharply, because anchovy extraction diminished from 8.1 to 5.2 millions of tons (below the average of the last five years), extraction for human consumption rose slightly.

Adverse oceanographic conditions affected anchovy exploitation. Between March and June there was a cooling period that caused the dispersion of anchovy, causing a shorter effective fishing period. The reduction in fish catches at the end of each fishing period increased international prices of fishmeal, which rose in June, July, November and December.



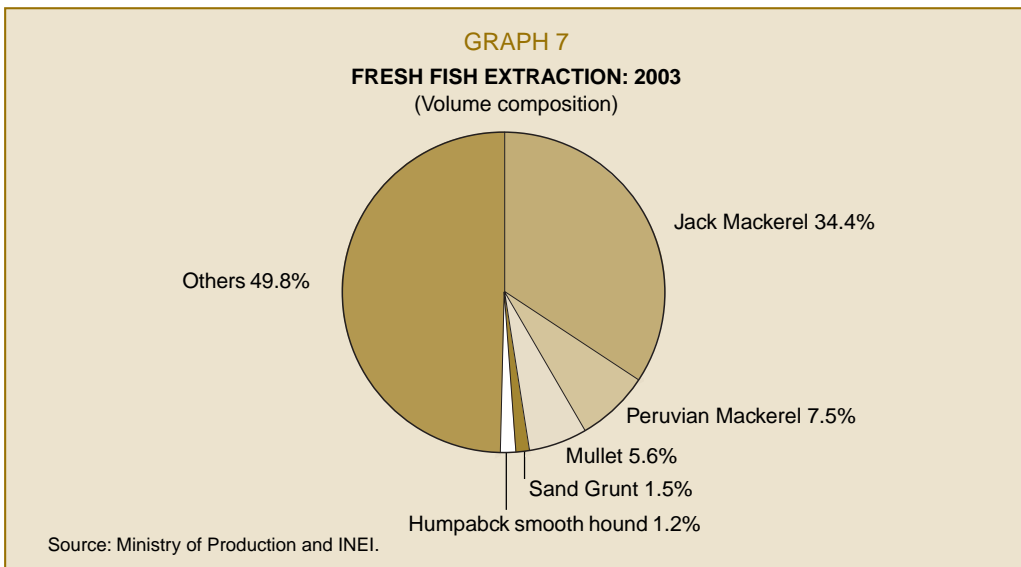
TABLE 7
FISHING PRODUCTION
(Real percentage changes)

	2001	2002	2003
INDUSTRIAL CONSUMPTION	-27.0	12.6	-36.7
Anchovy	-33.6	27.3	-36.2
Other species	143.6	-91.4	-85.3
DIRECT HUMAN CONSUMPTION	5.3	3.5	2.9
Frozen	11.8	42.0	-10.9
Canned	-9.8	-10.6	49.5
Fresh	4.6	-9.2	4.4
Dry-salted	11.7	13.6	8.8
TOTAL	-11.1	5.7	-13.4

Source: Ministry of Production and INEI.

Direct human consumption fishery rose in all items, except for frozen fish. Extraction for fresh fish consumption was sustained in the recovery of jack mackerel and Peruvian mackerel, which was partially offset by the reduction in other species like choicy ruff and Pacific menhaden. Canned fish experienced a strong expansion, especially in the first months of the year, due to a larger extraction of jack

mackerel and Peruvian mackerel, which were favored by moderately warm summer and spring. Regulations restricting these species for direct human consumption were in force during the whole year, while in 2002 this happened only in the last quarter. Canned fish industry diversification led to a greater use of other species like tuna, giant squid and anchovy.



Frozen fish decreased due to lower volumes of giant squid and hake, in a context of protection measures taken throughout the year to preserve hake species. These measures were lifted partially, authorizing fishing up to 5,000 tons in September. The contraction of giant squid is explained by the unusually high levels extracted last year, especially in the second half, and by the reduction in the number of fishing ships, particularly the foreign ones. Throughout the year fishing by industrial fleets concentrated just off Salaverry (La Libertad) and between Pisco (Ica) and Atico (Arequipa), whereas small-scale vessels fished mainly between Talara and Paita in the north, and off Matarani (Arequipa) in the south.

Mining and fuel

In 2003, mining and fuel grew by 6.7 percent as a consequence of larger volumes of metallic mining (7.8 percent), partially offset by the fall of fuel (-4.5 percent). Metallic mining growth was mainly led by gold and zinc and to a lesser extent by lead, silver and tin.

Main gold producers (Yanacocha and Barrick) as well as medium size mines exceeded their initial production goals in a context of high international prices. Zinc production was largely the result of Antamina's production volume, with greater grade of zinc and lower grade of copper. Hence, Antamina ended up in 2003 as the first producer of zinc and the second producer of copper.

TABLE 8
MINING AND FUEL BY MAIN PRODUCTS
(Real percentage changes)

	2001	2002	2003
METALLIC MINING	13.6	12.3	7.8
Copper	35.0	15.8	-2.7
Tin	2.1	1.7	3.6
Iron	10.5	0.6	12.2
Gold	4.1	13.5	13.6
Silver	14.3	4.3	3.3
Lead	11.2	2.6	3.4
Zinc	13.7	15.4	12.0
FUELS	-2.0	0.6	-4.5
Natural gas	7.4	19.3	18.5
Oil crude	-2.4	-0.2	-5.7
TOTAL	11.2	11.6	6.7

Source: Ministry of Energy and Mining.



During 2003, an increasing demand for basic metals used in construction and manufacturing in United States, China and other Asian countries brought about higher prices in basic metals (copper, lead, zinc and tin) while the depreciation of the American dollar, especially during the second semester, resulted in higher precious metals prices (gold and silver).

Gold production reached a new record of 5.6 million ounces, in large measure due to Yanacocha and the majority of medium-sized mining enterprises. Yanacocha increased its production levels largely as a result of

technological innovations in its gold recovery process. Higher international gold prices allowed medium-sized mines and small producers to exploit lower grade ores. Zinc production amounted to 1.17 million tons, a 12 percent growth propelled by higher grades in Antamina, which grew from 1.19 to 1.86.

Minsur S.A., the only tin producer in Peru, attained a production level of 35 thousand tons, setting a new record after incorporating new equipment (automatic metering of reagents and new flotation cells), which elevated the tin contents of the concentrates. In spite of

TABLE 9
INVESTMENT BY MINING COMPANY 1/
(Millions of US\$)

Companies	Metals	2001	2002	2003
Minera Yanacocha S.R.L.	Gold	276.9	146.2	194.2
Southern Peru Copper Corporation Sucursal del Perú	Copper	114.0	77.0	50.0
Compañía Minera Antamina S.A.	Polymetallic	530.0	49.7	39.0
Volcan Compañía Minera S.A.A. 2/	Polymetallic	54.8	29.7	32.1
Compañía de Minas Buenaventura S.A.A.	Silver	31.5	17.7	21.8
Empresa Minera Los Quenuales S.A. 3/	Polymetallic	11.6	9.4	20.0
Shougang Hierro Perú S.A.A.	Iron	9.6	2.8	18.5
Minera Barrick Misquichilca S.A. – Pierina	Gold	12.0	5.0	17.0
Compañía Minera Milpo S.A.	Polymetallic	12.6	13.5	14.1
Perubar S.A.- Rosaura	Polymetallic	7.4	6.0	12.7
Minsur S.A.	Tin	8.8	10.5	10.7
Compañía Minera Atacocha S.A.	Polymetallic	10.3	7.4	10.5
Sociedad Minera Cerro Verde S.A.	Copper	14.2	7.3	5.1
Compañía Minera Condestable S.A. A.	Copper	0.9	0.7	4.3
Refinería de Cajamarquilla S.A.	Zinc	13.2	6.4	2.7
Compañía Minera Santa Luisa S.A.	Polymetallic	1.7	0.8	1.7
Sociedad Minera Corona S.A.	Polymetallic	11.5	7.7	1.5
Sociedad Minera El Brocal S.A.	Polymetallic	5.8	1.5	1.0
Others 4/		18.8	20.9	5.0
TOTAL		1,145.5	420.3	462.0

1/ Prepared using financial statements and corporate data.

2/ Includes the investment in Empresa Administradora Chungar S.A.C., a Volcan Compañía Minera S.A.A. subsidiary.

3/ Jointly owned by Empresa Minera Iscaycruz y Empresa Minera Yauliyacu.

4/ Investments of Arcata, Huarón, Raura, Castrovirreyna y Pan American Silver, among others.

Source: Corporations.

a 15 days production halt in Shougang Hierro Peru, due to road blockades, iron production increased 12.2 percent, driven by higher demand from China and other Asian countries, amounting to 3.48 million tons, the highest since 1996.

Despite an increase in Southern Peru's production, the resumption of operations by BHP Billiton in October, and the increase in capacity of the medium size company Condestable, copper production amounted to 625 thousand tons, a 2.7 percent drop, due to lower grades of copper in Antamina, which declined from 1.37 to 1.18.

During the year, the number of mining rights applications increased 57 percent, involving 2.25 million additional hectares of mining concessions, a 53 percent annual growth. Of all the departments, La Libertad registered the

largest amount of concessions (2,422), followed by Arequipa and Lima, with 2,254 and 2,225, respectively.

Fuel production dropped 4.5 percent, due to lower extraction of crude, particularly Pluspetrol Norte (Block 1-AB and block 8), partially offset by higher natural gas production. Natural well depletion, low level of investment and lack of new discoveries, explained the decreasing crude oil production trend since 1994. In order to attract new investments, the government approved new exploration royalties, thus improving fiscal competitiveness compared to other countries.

In the second half of 2003 fewer showers took place in the mountains so hydroelectric energy was substituted by natural and propane gas, increasing gas production significantly.

TABLE 10
PRODUCTION OF FUELS
(Thousands of recovered units)

	2001	2002	2003
NATURAL GAS 1/	35.8	42.7	52.6
Aguaytía	14.9	24.2	29.5
Petrobras	8.1	6.4	7.1
Petrotech	9.2	7.6	9.1
Others	3.6	4.5	6.9
CRUDE OIL 2/	97.1	96.9	91.4
Pluspetrol 3/	60.8	62.5	57.6
Petrobras	11.5	11.2	11.5
Petrotech	13.1	12.4	11.6
Other contractors	11.7	10.7	10.7

1/ Millions of cubic feet per day.

2/ Thousands of barrels per day.

3/ Pluspetrol operates blocks 1-AB y 8, both in the northern jungle.

Source: Ministry of Energy and Mining.



Primary industries

Lower levels of activity in the primary industries are explained by the reduced availability of resources for fishmeal and, to a lesser extent, by the contraction in oil refining. These reductions were partially offset by the increase in canned and frozen fish production and sugar refining.

The 8.9 percent growth in sugar was related to the increase in sugar cane production and the rise in productivity. The reduction from 1.8 million to 1.2 million in fishmeal was caused by the fall in the extraction of anchovy, due to adverse oceanographic conditions. The production of canned and frozen fish grew based on higher catches of jack mackerel and Peruvian mackerel. Refining of non-ferrous metals increased due to the higher activity of the Cajamarquilla Refinery in a context of higher zinc prices.

2.2 Non-primary sectors

Non-primary manufacturing

Non-primary manufacturing grew by 3.6 percent. This is explained by the 14.9 percent increase in non traditional exports. Such sectors as textiles faced increasing demand due to the renewal of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), in force since 31 October 2002. The sector was also favored by the dynamism of construction industry (3.4 percent) and the demand for consumption goods stimulated by marketing campaigns of the main companies.

The groups that contributed the most were textiles, leather and footwear (0.7 percentage points), food, beverages and tobacco (0.5 percentage points), non-metallic minerals (0.5 percentage points), paper and printing (0.4 percentage points) and chemical products, rubber and plastics (0.3 percentage points).

TABLE 11
MANUFACTURING OF RAW MATERIALS BY MAIN INDUSTRIAL GROUPS
(Real percentage changes)

	2001	2002	2003
MANUFACTURING OF RAW MATERIALS	-2.3	-0.5	-2.8
Sugar	-0.6	15.3	8.9
Meat products	4.3	0.6	3.6
Fishmeal	-29.6	7.6	-32.6
Canned and frozen fish	21.0	-15.3	22.7
Non-ferrous metals refining	3.4	-1.9	2.2
Oil refining	1.5	-4.2	-2.2

Source: Ministries of production and INEI.

Food, beverages and tobacco production grew by 1.6 percent, especially during the second half, because during the first half the effect of the rise in bread prices in September and October of 2002 had prevailed. Oil production grew by 3.7 percent, partially as a consequence of the diminution of imports from Argentina. In the dairy industry, the main producers Gloria and Laive, continued introducing a majority of new products at lower prices. As in the previous case, the higher production in the soft drink industry was a consequence of marketing and diversification in Jose R. Lindley Corporation, Embotelladora Latinoamericana and Industrias Añños, in a context of a sustained rise in the per capita consumption. The rise in canned food, chocolates and alcoholic beverages was explained by the expansion of Kraft Foods, Molitalia and Good Foods, and by the increment in wine and rum production.

The textile, leather and footwear group increased 3.8 percent, led by knitted fabrics and associated to the expansion of exports, mainly to the U.S. The rest of the clothing industry showed a positive evolution during the first half of the year, but was later affected by the competition of Asian products, which also had an impact on yarns, threads and finished textiles industry. Safeguards on imports of Chinese articles of clothing were imposed in December.

The paper and paper products industry increased by 4.7 percent. New catalogues, newspapers and advertising brochures of supermarkets and department stores determined the expansion in publishing and printing. Investments in Kimberly Clark and Productos Tissue and an increasing demand from the dairy and cement industries faced by Forsac, explained the dynamism of paper, paperboard and paper container industries, respectively.

TABLE 12
NON-PRIMARY MANUFACTURING BY MAIN INDUSTRIAL GROUPS
(Real percentage changes)

	2001	2002	2003
NON-PRIMARY MANUFACTURING	1.0	5.6	3.6
Food, beverages and tobacco	3.8	5.4	1.6
Textile, leather and footwear	-1.1	1.2	3.8
Wood and furniture	-3.9	16.5	0.0
Paper and printing industry	-1.1	22.7	4.7
Chemical, rubber and plastic products	3.7	7.0	2.9
Non-metallic minerals	-1.3	11.9	5.2
Iron and steel	0.7	-5.5	6.6
Metallic products, machinery and equipment	-0.4	-4.0	3.2
Miscellaneous manufacturing	3.1	0.6	-9.7

Source: Ministry of Production and INEI.



Chemical products, rubber and plastics rose 2.9 percent, as a result of the 10.3 percent expansion in basic chemicals and the 5.4 percent growth in explosives, natural and chemical essences, partially offset by the reduction of 1.6 percent in pharmaceutical products and 5.7 percent in rubber.

Non-metallic minerals group grew by 5.2 percent, reflecting higher production of concrete items in Unión de Concreteras and Firth, driven by a larger construction demand, and higher exports of Cerámica Lima and Cementos Lima.

Iron and steel industries rose 6.6 percent, explained by the plant expansion of Aceros Arequipa Corporation that led an increase in exports, mainly to Bolivia, and by Metalúrgica Peruana which supplied steel balls to the Chilean company Codelco.

Metallic products, machinery and equipment group increased 3.2 percent. EXSA larger exports and higher demand for tin plate containers in the fishing industry led the increase in metallic products. The production drop in machinery and equipment production is explained by Faminco, company which closed at the end of year due to financial problems, while the electric machinery fall was caused by household appliances reduced production by BSH Electrodomésticos, which faced increased competition of imported products.

Construction

After falling between 1999 and 2001, construction grew by 4.0 percent in 2003 for a second consecutive year. Among the factors explaining this growth are: an increase in the mortgage credit, state promoted housing programs like Mivivienda and Techo Propio, the development of natural gas Camisea project and Yuncan hydroelectric power station as well as the construction of malls and higher expenditure in road programs.

Residential construction was led by Mivivienda program, which continued growing since 2002. Mivivienda Fund approved 6,842 loans amounting to S/. 470 million, compared to 3,608 loans for S/. 253 million in 2002.

Domestic consumption of cement amounted to 3,821 thousand tons, a 3.3 percent increase, decomposed by a 3.1 percent rise in local sales and a 22.8 jump in cement imports. Seasonally adjusted local sales of cement showed a stable behavior during the year, after experiencing an important growth in the first quarter of 2003.

Public expenditure in road infrastructure rehabilitation and construction increased 6.5 percent, particularly in programs run by Provias Nacional and Provias Rural. The longer sections were built in Olmos-Corral Quemado and Rioja-Tarapoto highways, while the South Inter Oceanic Corridor (Ilo-Desaguadero highway) was continued.

3. Employment

Urban employment, estimated according to the National Survey on Employment Monthly Change in firms with 10 or more workers carried out by Ministry of Labor and Employment Promotion, rose 1.7 percent during 2003, increasing 1.9 percent in Metropolitan Lima and 1.2 percent in the other urban areas. Seasonally adjusted urban employment displayed a rising trend throughout 2003, which begun in the second quarter of 2002.

The urban employment increase in firms with 10 or more workers during 2003 was linked to higher levels of output. Within the country, employment growth took place in Trujillo, Pucallpa, Ica, Iquitos and Metropolitan Lima; while a decrease was reported in Paita, Tacna, Puno and Cusco.

In 2003, labor force in Metropolitan Lima, estimated through the Permanent Employment Survey of the National Institute of Statistics and Informatics (INEI), was 4 million persons, a 0.2 percent increase over the previous year;

TABLE 13
URBAN EMPLOYMENT IN COMPANIES WITH 10 OR MORE WORKERS

	Indices (october 1997 = 100) 1/			Percentage change
	2001	2002	2003	2003/2002
URBAN PERU	89.1	89.1	90.6	1.7
Metropolitan Lima	89.7	90.0	91.7	1.9
Other urban	86.4	84.5	85.5	1.2
Arequipa	81.6	81.2	82.9	2.1
Cajamarca 2/	127.9	117.9	116.1	-1.6
Chiclayo	80.9	81.9	84.1	2.7
Chimbote	78.9	71.4	70.3	-1.5
Cusco	85.5	81.3	79.6	-2.1
Huancayo	85.6	90.0	91.5	1.7
Ica	92.2	92.4	101.1	9.4
Iquitos	85.1	70.6	74.4	5.4
Paita 3/	111.2	119.2	78.6	-34.0
Piura	82.3	81.9	82.1	0.2
Pucallpa	83.5	82.4	88.8	7.8
Puno	85.7	84.0	81.6	-2.8
Tacna 4/	81.1	78.2	72.5	-7.3
Tarapoto	89.6	91.1	91.7	0.7
Trujillo	93.9	98.5	108.6	10.2

1/ Annual average.

2/ Index January 2000= 100.

3/ Index January 2001= 100.

4/ Index March 1998 = 100.

Source: MTPE. Monthly Change in Employment in Companies with 10 or More Workers National Survey.



employed labor force grew by 0.2 percent while unemployed labor force rose 0.3 percent.

Employment occurred mainly among non-wage earners (independents, household, non-remunerated family workers, etc.) where the increase was 0.6 percent, while in the wage earners (white and blue-collar workers) sector it grew

by 0.2 percent. According to economic sector, employment increased in the services sector, and by firm size, employment grew in firms with 50 or more workers. The number of employed people that worked more than 20 hours a week increased 1.3 percent, while the number of wage-earners that worked more than 20 hours a week rose 0.2 percent.

TABLE 14
LABOR FORCE BY EMPLOYMENT LEVELS METROPOLITAN LIMA 1/
(Thousands of people)

	2002	2003	Variation 2003/2002	
			In thousands	In percent
I. LABOR FORCE: 1 + 2	3,984	3,993	8.8	0.2
1. EMPLOYED LABOR FORCE	3,609	3,617	7.6	0.2
<u>By economic activity</u>				
Manufacturing	577	542	-34.9	-6.1
Construction	191	189	-1.6	-0.8
Commerce	919	901	-17.9	-1.9
Services	1,872	1,935	63.4	3.4
Others	51	50	-1.5	-2.9
<u>By occupational category</u>				
Wage earners	1,815	1,811	-3.7	-0.2
Non-wage earners	1,794	1,806	11.2	0.6
<u>By size of employer</u>				
1 to 10 workers	2,508	2,503	-4.8	-0.2
11 to 50 workers	327	312	-14.9	-4.6
51 and more	772	801	28.6	3.7
<u>By hours worked in a week</u>				
Workers employed more than 20 hours a week	3,093	3,133	40.5	1.3
Wage earners employed more than 20 hours a week	1,636	1,640	3.9	0.2
2. UNEMPLOYED LABOR FORCE	375	376	1.3	0.3
II. INACTIVE POPULATION	1,836	1,932	95.7	5.2
III. POPULATION IN WORKING AGE (PWE): I + II	5,821	5,925	104.5	1.8
RATES (in percentage)				
Activity rate (Labor Force / PWE)	68.5	67.4		
Ratio Labor Force Employed / PWE	62.0	61.0		
Unemployment (Unemployed Labor Force / Labor Force)	9.4	9.4		
Underemployment rate by hours	18.7	17.2		

1/ Annual average.

Source: INEI-Permanent Employment Survey.

Unemployed labor force was estimated at 376 thousand persons, 1.3 thousand more than the previous year. Unemployment rate remained constant at 9.4 percent. By gender, unemployment increased among men (from 8.3 to 8.5 percent), while it diminished among

women from 10.8 to 10.6 percent. By age groups, unemployment fell for persons between 14 and 24 years, and 45 and more years, while rising for those between 25 and 44 years.

National minimum wage increased from S/. 410 to S/. 460 in September 2003, a 1.2 percent real average annual rise over the previous year.

	2002	2003
TOTAL	9.4	9.4
By gender		
Male	8.3	8.5
Females	10.8	10.6
By age		
14-24 years	15.2	14.8
25-44 years	7.2	7.7
45 and over	8.0	7.5

1/ Annual average.
Source: INEI - Permanent Employment Survey.

	S/.	Real Index (1994 = 100)
2001	410	223.1
2002	410	222.6
2003	425	225.4
Percentage change 2003/2002	3.6	1.2

Source: MTPE

BOX 2

EMPLOYMENT STATISTICS IN PERU

There are two sources of information for short run employment indicators in the Peruvian labor market:

- Permanent Employment Survey (EPE) of the National Institute of Statistics and Informatics (INEI), performed at household level provides monthly indicators of Metropolitan Lima labor market, especially for the employed and unemployed population.
- National Survey on Employment Monthly Change in firms with 10 or more workers (ENVME) of the Ministry of Labor and Employment Promotion (MTPE), performed at firm level of Metropolitan Lima and 20 other main cities, provides information about formal employment in urban areas.

Both surveys attempt to measure employment, though they differ in technical characteristics and geographical coverage. The sample size of the INEI's survey is 4,800 households per quarter in Metropolitan Lima, of which 1,600 are interviewed each month. The sample size of the Ministry of Labor is 5,134 firms with 10 or more workers: 2,266 in Metropolitan Lima and 2,868 in other cities (excluding the construction sector). In this source of information, firms with less than 50 workers are selected through sampling, while for firms with 50 or more workers a census is made.

Both surveys allow the estimation of employment in firms with 10 or more workers in Metropolitan Lima. Comparing* results, it can be observed that data reported by INEI—especially employment in firms with 11 to 50 workers—show high variability, whereas the figures estimated by the MTPE are stable and show a better correlation with the economic activity.

* Both surveys are not strictly comparable. The unit of analysis of the EPE is the household, and in the case of the ENVME, the firms. Additionally the EPE covers public and private employment, while the ENVME covers private only. Notwithstanding, the comparison is made, because public employment measured by the EPE is concentrated in units with 50 or more workers and this type of employment is virtually constant from one month to the other.

**Employment in companies with 10 or more workers
(Annual percentage change)**

	Companies with 11 to 50 workers		Companies with 51 and more workers	
	INEI	MTPS 1/	INEI	MTPS 2/
2001/2002				
II quarter	-2.7	-2.2	-7.8	1.6
III quarter	2.9	-0.9	-1.2	2.1
IV quarter	14.8	0.2	2.0	1.9
2002/2003	-4.6	0.6	3.7	2.4
I quarter	4.0	1.5	11.3	2.5
II quarter	-6.4	0.9	4.3	2.8
III quarter	-2.5	-0.1	1.9	2.1
IV quarter	-12.2	0.1	-2.2	2.4

1/ Considers companies with 10 to 49 workers.

2/ Considers companies with 50 or more workers.

Source: INEI and MTPE.