

## I.

## Output and employment

*In 2005, economic activity grew 6.4 percent –the highest rate recorded since 1997– as a result of the expansion of domestic demand, particularly during the second half of the year. This rate of growth was mainly boosted by private investment and consumption, stimulated in turn by positive economic prospects supported by macroeconomic stability, the greater expansion of lending in local currency, and the reduction of the interest rates on operations in nuevos soles. Another important factor was external demand, which brought about a significant growth of exports due to the rising demand for minerals and non-traditional products, especially textile and agricultural products. All of these factors contributed to a greater dynamism in the labor market that was reflected in the increase of formal employment, both in Metropolitan Lima and in the rest of the country.*

Economic activity continued to show a sustained growth during 2005, reaching a GDP growth of 6.4 percent, as a result of which economic expansion over the past three years averaged 5 percent. This evolution in 2005 was associated with the dynamism of domestic demand, as reflected in the 13.9 percent increase in private investment –the maximum level since

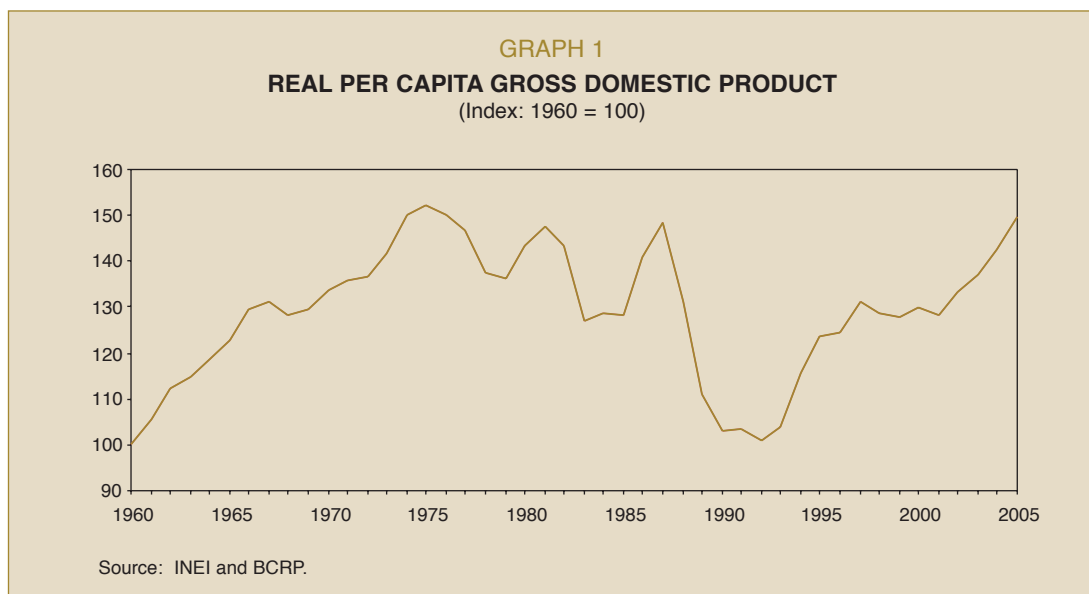
1997– and in the 4.4 percent increase in private consumption.

This higher private investment reflected the positive evolution of the construction sector and of imports of capital goods, which grew 8.4 percent and 29.6 percent respectively. The growth recorded in terms of private consumption, on the other hand, was

**TABLE 1**  
**CONTRIBUTION TO GROWTH BY EXPENDITURE**  
(Percentage points)

	2002	2003	2004	2005		
				I-semester	II-semester	Year
1. Domestic demand	4.4	3.4	4.3	4.8	5.9	5.3
Private sector	4.5	2.9	3.8	3.9	4.3	4.1
Public sector	-0.1	0.4	0.5	0.8	1.6	1.2
2. Net Exports	0.7	0.5	0.9	1.2	0.9	1.1
<b>GDP GROWTH (1+2)</b>	<b>5.2</b>	<b>3.9</b>	<b>5.2</b>	<b>6.0</b>	<b>6.8</b>	<b>6.4</b>

Source: BCRP.



associated with the positive performance of indicators such as the national disposable income –which rose 6.5 percent– and imports of consumer goods –which increased 16.2 percent.

In per capita terms, GDP growth in 2005 represented an improvement of 5.2 percent per inhabitant. It should be noted that this level of per capita GDP, together with a one-digit inflation level, had not been observed since the early sixties.

### 1. Global demand and supply

In 2005, domestic demand grew an average of 5.5 percent, although this indicator rose to over 6 percent in the second half of the year.

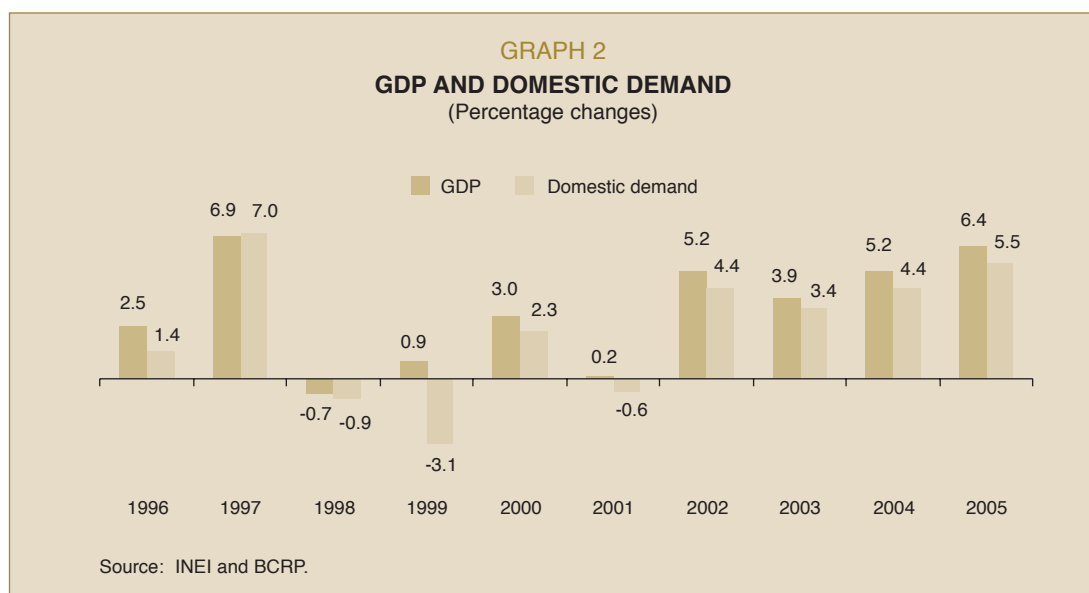
This level of increased domestic demand was logged in a context of better financial conditions, characterized by the expansion of total lending in soles at rates of over 30 percent; an increase of approximately 16 percent in the number of borrowers; the reduction of the active interest rate on local-currency denominated operations; and

**TABLE 2**  
**GLOBAL DEMAND AND SUPPLY 1/**  
(Real percentage changes)

	2003	2004	2005
<b>I. GLOBAL DEMAND (1+2)</b>	<b>3.9</b>	<b>6.0</b>	<b>7.1</b>
<b>1. Domestic demand 2/</b>	<b>3.4</b>	<b>4.4</b>	<b>5.5</b>
a. Private consumption	3.1	3.5	4.4
b. Public consumption	3.8	4.1	9.8
c. Private investment	6.9	9.1	13.9
d. Public investment	4.0	5.7	12.2
<b>2. Exports</b>	<b>6.3</b>	<b>14.7</b>	<b>14.9</b>
<b>II. GLOBAL SUPPLY (3+4)</b>	<b>3.9</b>	<b>6.0</b>	<b>7.1</b>
<b>3. GDP</b>	<b>3.9</b>	<b>5.2</b>	<b>6.4</b>
<b>4. Imports</b>	<b>3.6</b>	<b>10.6</b>	<b>10.6</b>

1/ Preliminary.  
2/ Includes change in inventories .  
Source: INEI and BCRP.

by a greater dynamism in the market of mortgage loans and commercial loans to businesses. It is worth mentioning here that the latter had exhibited low levels following the crisis that took place in the late nineties.



A favorable international context characterized by the sustained growth of the global economy –and particularly, by the expansion of our trade partners– and by the improvement of our terms of trade, also contributed to this evolution.

**Private consumption** continued to show the positive trend initiated in 2003, and logged a growth of 4.4 percent that was associated not only with a 6.5 percent increase in the national disposable income and a 4.5 percent growth of employment, but also with higher levels of consumer confidence and better credit conditions.

The **national disposable income** increased as a result of economic growth, and also as a result of better terms of trade and increased net transfers from non-residents, which grew by 7 percent and 17 percent respectively.

On the other hand, private consumption was favored by the **growth of employment**, which posted a 3.8 percent increase in companies with 10 and more workers in

**TABLE 3**  
**NATIONAL DISPOSABLE INCOME\***  
(Real percentage changes)

	2003	2004	2005
I. Gross domestic product (GDP)	3.9	5.2	6.4
II. Gross national product (GNP) 1/	2.9	3.2	5.0
III. Gross national income (GNI) 2/	3.4	5.4	6.3
IV. National disposable income 3/	3.6	5.4	6.5

\* Preliminary.

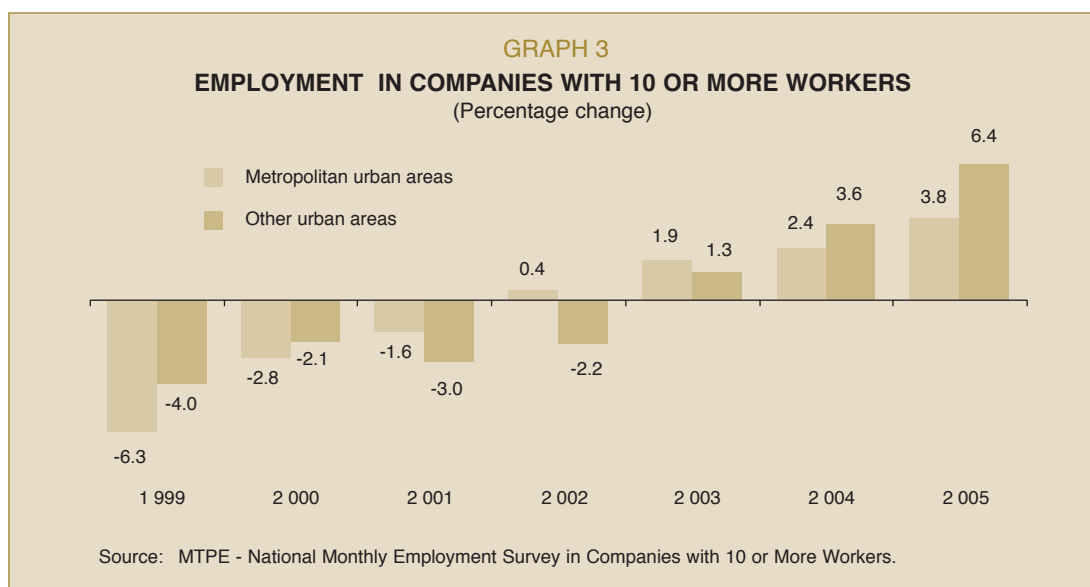
1/ Excludes from GDP the net income paid to non-resident productive factors.

2/ GDP and GNP are isolated from changes in foreign terms of trade.

3/ Net transfers from non-residents is added to GNI.

Source: INEI and BCRP.

Metropolitan Lima and a 6.4 percent increase in other cities. It is worth highlighting the cases of Sullana (23.3 percent), Talara (18.6 percent), and Ica (16.6 percent), where the growth of employment was mainly driven by increased activity in the hydrocarbon and agribusiness sectors.



**TABLE 4**  
**PRIVATE CONSUMPTION INDICATORS**  
(Percentage changes)

	Measure unit	2004	2005	Chg.%
Consumption goods imports	Millions of US\$	1,995	2,318	16.2
Non-durable consumption goods	Millions of US\$	1,153	1,344	16.6
Durable consumption goods	Millions of US\$	842	974	15.6
New vehicles sales	Units	15,919	23,346	46.7

Source: BCRP, SUNAT and Peruvian Car Dealers Association (ARAPER).

Another factor contributing to the expansion of private consumption was the higher consumer confidence exhibited this year. INDICCA, the consumer trust index elaborated by Apoyo, recorded a level of 48 points in December –its highest level ever since this index was first elaborated in February 2003. Likewise, this index also showed a decrease in the number of people that expected their economic situation to worsen over the next 12 months.

Private consumption was also favored by the performance of **consumer loans**, which

increased as a result of lower interest rates and a higher number of borrowers. The number of new agents with access to credit rose from 245 thousand in 2004 to 291 thousand in 2005.

Other indicators of the greater private consumption included a 47 percent increase in the **sale of new vehicles** and a 16 percent growth of **imports of durable consumer goods**. Moreover, the **demand for mass consumer products** also expanded, including products such as margarine (41 percent), pisco (39 percent), juices and

soft drinks (33 percent), floor wax (20 percent), and beer (15 percent), among others.

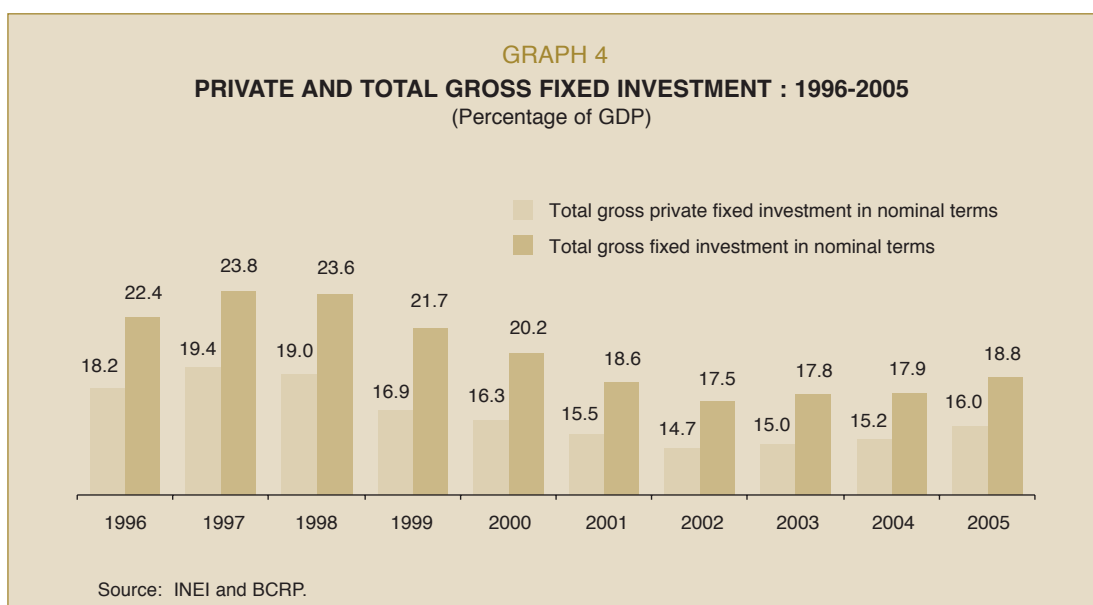
**Private investment** rose 13.9 percent and was the component of domestic demand that posted the higher growth. Private investment had a dynamic performance influenced by a positive economic environment characterized by price stability, the reinforcement of public finances, better financing conditions, higher business profits, and the expansion of external markets.

These factors contributed to build a climate of confidence among investors that was reflected in the implementation of projects in various sectors, including mining and fuels, telecommunications, construction, and manufacture. In terms of the projects developed by companies, it is worth highlighting the ones carried out by Sociedad Minera Cerro Verde (US\$ 237 million), Southern Peru Copper Corporation (US\$ 280 million), Minera Yanacocha (US\$ 238 million), Minera Barrick Misquichilca (US\$ 172 million), and Telefónica (US\$ 166 million).

Moreover, investment in the construction sector was evidenced in the construction of new factory facilities and expansions, and especially in housing construction driven by the growth of bank mortgage loans, particularly of those associated with the State-sponsored program Mivivienda. The 30 percent expansion in capital goods imports was also noteworthy.

**Public investment** of both the general government and public enterprises grew 12.2 percent during 2005, and reflected mainly the central government's increased spending in sectors such as sanitation, road improvement and maintenance, transportation and communications, as well as the public works carried out by Sedapal, Enapu, and Petroperu.

In terms of the concession process, the implementation of several infrastructure projects was given in concession during 2005, including IIRSA's Amazon multimodal hub; the Southern Interoceanic Road corridor, sections 2, 3, and 4; the road network No. 6





or the Pucusana – Cerro Azul – Chinchá – Pisco – Ica stretch of the Panamericana highway; and water and sanitation works in EMFAPA, Tumbes. All of these concessions will represent investments in the next years for a total of approximately S/. 8 billion.

**Public consumption** increased 9.8 percent, and was influenced by higher salaries and wages for education and health personnel, as well as by the acquisition of goods and services made by the central government, local governments, and EsSalud.

The savings-investment gap measures the capacity of an economy to finance its investment requirements with its own domestic savings. When the latter is insufficient, external saving is required. In 2005, domestic savings was higher than gross domestic investment. The improvement in domestic savings reflects that the disposable income had grown more than consumption, increasing by 1.1 percentage points to 20 percent of the GDP. In these conditions, **total gross fixed investment** increased 0.9

percentage points to 18.8 percent in 2005 due to the increased participation of the private sector's gross fixed investment, which rose from 15.2 to 16.0 percent of the GDP between 2004 and 2005.

**Exports of goods and services** grew 14.9 percent in real terms, logging a similar growth to that of 2004 (14.7 percent). Some factors contributing to this result included the expansive cycle of the economies of our main trade partners, particularly the United States of America and China, the greater access to external markets, and the improvement –for the fourth consecutive year– of our terms of trade.

This context accounts for the significant dynamism observed not only in terms of our exports of traditional goods, especially mining products, but also in terms of our non-traditional exports, including textiles, fruits, agribusiness and chemical products. In GDP terms, this evolution has allowed exports of goods and services to continue showing an upward trend, and to post a record rate of 24.2 percent in 2005 that was 3.5 percentage points higher than that of the previous year. Moreover, this level doubled the one recorded 10 years ago.

On the other hand, **imports of goods and services** increased 10.6 percent in 2005, showing an upward trend in line with greater economic activity. This evolution reflected increased acquisitions of capital goods and raw materials, especially construction materials and industrial inputs. In GDP terms, this variable represented 18.8 percentage points, a level 0.9 percent higher than that of 2004.

The dynamic expansion of exports over the past two years, which have grown at a faster

**TABLE 5**  
**SAVINGS AND INVESTMENT**  
(Percentage of GDP)

	2003	2004	2005
<b>I. INVESTMENT (II+III)</b>	<b>18.8</b>	<b>18.9</b>	<b>18.6</b>
Public investment	2.8	2.8	2.9
Private investment	15.0	15.2	16.0
Change in inventories	1.0	1.0	-0.2
<b>II. DOMESTIC SAVINGS</b>	<b>17.2</b>	<b>18.9</b>	<b>20.0</b>
Public sector	1.2	1.8	2.6
Private sector	16.0	17.1	17.4
<b>III. EXTERNAL SAVINGS</b>	<b>1.6</b>	<b>0.0</b>	<b>-1.4</b>
Memo:			
Gross fixed investment	17.8	17.9	18.8

Source: BCRP.

pace than the GDP, was also reflected in a higher trade openness ratio that reached 44 percent of the GDP in 2005, after remaining at levels around 30 - 35 percent of the product for some time.

## 2. GDP by sector

GDP growth by sectors was marked by a 6.5 percent increase in non-primary sectors, an evolution associated in particular with domestic spending. Non-primary sectors grew for the third consecutive year at a similar or higher rate than the total product, mainly due to the dynamic performance of non-primary manufacturing and construction, which grew 7.7 and 8.4 percent respectively.

Primary sectors expanded 5.4 percent, driven by the mining and hydrocarbon sector, which grew 8.1 percent, and the agriculture and livestock sector, which grew 4.8 percent.

### 2.1 Primary sectors

In 2005, growth in the primary sectors was influenced by better climatic conditions, larger prohibition periods for anchovy catch, and by the onset of several mining projects.

#### Agriculture and livestock sector

Production in the **agriculture and livestock sector** exhibited a faster pace of growth and reached 4.8 percent, after having recorded only 1.7 percent in 2004 due to a considerably severe drought that negatively affected this sector. This growth reflected the production recovery of rice and potato due to better hydrologic conditions, as well as a greater dynamism in poultry production given a context of lower prices of the main inputs required for this activity.

TABLE 6 ANNUAL GROSS DOMESTIC PRODUCT (Real percentage changes)			
	2003	2004	2005
<b>I. PRIMARY SECTORS</b>	<b>2.9</b>	<b>4.6</b>	<b>5.4</b>
Agriculture and livestock	1.9	1.7	4.8
Agriculture	1.5	0.2	4.1
Livestock	3.5	4.1	6.5
Fishing	-12.5	33.9	1.2
Mining and fuel	5.4	5.2	8.1
Metallic mining	6.2	5.1	7.0
Fuel	-4.3	7.1	23.4
Manufacturing based on raw materials	2.9	7.3	2.1
<b>II. NON-PRIMARY SECTORS</b>	<b>4.0</b>	<b>5.2</b>	<b>6.5</b>
Non-primary manufacturing	3.3	7.4	7.7
Construction	4.3	4.7	8.4
Commerce	2.9	5.8	5.2
Electricity and water	4.2	4.6	5.3
Other services	4.5	4.4	6.3
<b>III. GROSS VALUE ADDED (I+II)</b>	<b>3.8</b>	<b>5.1</b>	<b>6.2</b>
<b>IV. TAXES ON GOODS AND IMPORT DUTIES</b>	<b>5.2</b>	<b>6.4</b>	<b>8.5</b>
<b>V. GROSS DOMESTIC PRODUCT</b>	<b>3.9</b>	<b>5.2</b>	<b>6.4</b>

Source: INEI and BCRP.

The **agriculture sub-sector** showed a recovery of 4.1 percent due to the greater availability of water. As a result, sown areas increased by 113 thousand hectares in the 2004-05 agricultural campaign, particularly in the case of rice and other crops, such as hard yellow maize, amilaceous maize, potato, wheat, and cotton. The departments with the higher sown areas were Lambayeque, Cajamarca, and San Martín.

The production of hulled **rice** increased 33.4 percent during the year, logging a historic record that accounted for 1.4 points of the 4.1 percentage points this sector grew during 2005. The August 2004-July 2005 rice



campaign reached a maximum level of 352 thousand sown hectares. It is worth mentioning that the previous record had been posted in the August 1998-July 1999 campaign.

Another crop that contributed importantly to this year's results was **potato**, which accounted for 0.7 points of the 4.1 percent increase in this sector. The annual production of potato grew 9.4 percent, as a result of larger sown areas in the highlands, especially in the departments of Cuzco, Huancavelica, Cajamarca, Ancash, and Pasco. This compensated the lower production of the coastal central areas

(Lima and Ica) where this crop is being replaced by other more profitable agro-export products, particularly artichoke, paprika, and asparagus.

On the other hand, the production of **sugar cane** fell 9.2 percent during the year –partly due to increased imports of sugar and lower prices for this product– and emphasized the downward trend observed during the previous year as a result of the drought in the coastal valleys.

Likewise, **coffee** production dropped 22.1 percent, mainly due to variations in the rainfall cycle.

On the other hand, **livestock** production increased by 6.5 percent, boosted by **poultry** production that grew 9.6 percent as consumption increased due to lower relative prices. Lower production costs –principally of hard yellow maize and sorghum– contributed to this evolution.

### Fishing sector

**Fishing** recorded a slight expansion of 1.2 percent after the impressive increase observed in the previous year. The growth in 2005 was associated with lower catch of anchovy for the elaboration of fishmeal and fish oil, as well as with a longer close season, which reduced the number of days available for this activity.

During 2005, fishing for **human consumption** grew 4.7 percent, influenced by the increase in fish catch for industrial processing, namely canned and frozen fish products. The rise in the production of fish conserves this year reverted the fall of 2004 and reflected higher catches of species such as tuna, jack mackerel, Pacific menhaden,

**TABLE 7**  
**AGRICULTURAL AND LIVESTOCK**  
**PRODUCTION BY MAIN PRODUCTS**  
(Real percentage changes)

	2003	2004	2005
<b>AGRICULTURE</b>	<b>1.5</b>	<b>0.2</b>	<b>4.1</b>
Cotton	-1.0	48.8	6.2
Rice	0.5	-13.5	33.4
Coffee	0.1	32.5	-22.1
Sugar cane	5.3	-21.6	-9.2
Dry bean	-5.0	0.1	20.2
Yellow maize	5.8	-10.4	1.7
Amilaceous maize	2.6	-16.0	11.4
Potato	-4.5	-4.6	9.4
Wheat	2.3	-10.5	5.2
Other products			
Grape	7.3	0.4	9.6
Tangerine	21.0	8.8	-2.5
Mango	9.2	37.9	-14.1
<b>LIVESTOCK</b>	<b>3.5</b>	<b>4.1</b>	<b>6.5</b>
Poultry	-7.4	5.2	9.6
Eggs	-9.0	-3.5	3.9
Milk	2.7	3.5	4.7
Pork	-23.4	14.4	5.0
Beef	2.4	1.0	4.6
<b>TOTAL</b>	<b>1.9</b>	<b>1.7</b>	<b>4.8</b>

Source: Ministry of Agriculture.



**TABLE 8**  
**FISHING PRODUCTION**  
(Real percentage changes)

	2003	2004	2005
<b>INDUSTRIAL CONSUMPTION</b>	<b>-34.5</b>	<b>64.8</b>	<b>-3.0</b>
Anchovy	-34.0	64.9	-2.9
Other species	-85.7	15.5	-99.5
<b>HUMAN CONSUMPTION</b>	<b>6.2</b>	<b>15.2</b>	<b>4.7</b>
Frozen	16.2	47.3	12.8
Canned	36.7	-30.9	50.0
Fresh	-1.4	3.5	-7.3
Dry-salted	-4.6	-5.2	5.7
<b>TOTAL</b>	<b>-12.5</b>	<b>33.9</b>	<b>1.2</b>

Source: Ministry of Production and INEI.

and other fish and shellfish. The production of frozen products, on the other hand, grew due a greater catch of prawn and shellfish.

However, in terms of **industrial processing**, this activity decreased 3.0 percent, as a result of lower landings of anchovy that totaled 8.5 million MT. Contrasting with the 8.8 million recorded in 2004 –the highest figure since 2000, when fishing for industrial processing reached 9.6 million MT–, this level also evidenced a better management of marine resources by IMARPE.

### Mining and fuel sector

In 2005, **mining and fuels** grew by 8.1 percent as a consequence of larger volumes of metallic mining (7.0 percent increase) and of fuels (23.4 percent).

Metallic mining growth was mainly led by an increased production of molybdenum, gold,

iron, silver and lead, which offset the lower production of copper and zinc.

**Gold** output grew 20.0 percent, reflecting Barrick's start of operations at Alto Chicama, as well as the larger production of Yanacocha, Southern and Consorcio Minero Horizonte and, to a lesser extent, Buenaventura's operations at a larger scale in Arequipa (Chipmo).

In contrast, **copper** production fell 2.8 percent after having exhibited a significant growth of 29.0 percent in 2004. This fall was influenced by lower economic activity in BHP Billinton Tintaya –affected by problems with the neighboring communities– and Southern Copper Corporation, but offset by increased production in Antamina, Condestable, and Doe Run.

**Zinc** production posted a –0.6 percent change due especially to the lower output of Antamina, San Ignacio de Morococha, and Milpo, which the larger volumes produced by companies such as El Brocal, Chungar, Volcan, Santa Luisa and Los Quenales were not able to compensate.

**Silver** production grew 4.4 percent in 2005, evolution associated mainly with increased production in Antamina, Yanacocha and Volcan, but offset with lower volumes of this metal obtained in particular by mining companies Los Quenales and Pan America Silver. Moreover, **iron** production increased 7.5 percent due to the higher extraction of this metal by Shougang Hierro Peru, which was associated with the increased demand for iron by the steel industry –for construction materials– and by the external sector, as steel balls. It should be pointed out, however, that this pace of production was affected in June by problems with the workers' union.



**TABLE 9**  
**MINING AND FUEL BY MAIN PRODUCTS**  
(Real percentage changes)

	2003	2004	2005
<b>NON-METALLIC AND METALLIC MINING</b>	<b>6.2</b>	<b>5.1</b>	<b>7.0</b>
Copper	-2.2	29.0	-2.8
Tin	3.6	3.5	1.3
Iron	14.0	21.9	7.5
Molybdenum	11.3	48.6	21.6
Gold	9.7	0.4	20.0
Silver	1.8	4.8	4.4
Lead	1.2	-0.8	4.3
Zinc	11.3	-11.9	-0.6
<b>FUELS</b>	<b>-4.3</b>	<b>7.1</b>	<b>23.4</b>
Natural gas	18.5	64.2	76.5
Oil crude	-5.7	3.3	17.9
<b>TOTAL</b>	<b>5.4</b>	<b>5.2</b>	<b>8.1</b>

Source: Ministry of Energy and Mines and INEI.

The growth of **lead** production was 4.3 percent during the year, which represented a considerable improvement with respect to previous years and to 2004, when the production of this metal declined by 0.8 percent. Companies Volcan, Raura, and Chungar were the ones that mainly generated the greater production of lead in 2005.

**Molybdenum** production reached 16.6 thousand MT, recording a 21.6 percent expansion that resulted mainly from increased activity in Antamina, whose production grew 87.5 percent. This increase compensated the almost nil variation of Southern's production in 2005 with respect to the previous year, which almost totaled 10 thousand MT. The highest production of molybdenum was associated with the highest content of this metal in the overall amount of minerals extracted. The highest global demand generated by the steel industry also contributed to higher volumes exported.

**TABLE 10**  
**PRODUCTION OF FUELS**

	2003	2004	2005
<b>NATURAL GAS</b>	<b>52.6</b>	<b>82.9</b>	<b>146.2</b>
Millions of cubic feet per day.			
Camisea	--	19.2	77.7
Aguaytia	29.5	36.1	41.7
Petrobras	7.1	8.4	10.0
Petrotech	9.1	11.2	9.6
Other	6.9	8.1	7.1
<b>OIL CRUDE</b>	<b>91.4</b>	<b>94.1</b>	<b>111.3</b>
Thousands of barrels per day			
Pluspetrol 1/	57.6	51.0	45.0
Camisea	--	10.3	32.1
Petrobras	11.5	11.3	12.6
Petrotech	11.6	10.7	10.7
Other	10.7	10.8	10.9

1/ Pluspetrol operates blocks 1-AB and 8, both in the northern jungle.  
Source: Ministry of Energy and Mines.

The **hydrocarbons** sub-sector increased by 23.4 percent over the year, basically due to the greater extraction of natural gas that grew 76.5 percent. A remarkable increase in the average production of gas was observed between 2004 and 2005, when it rose from 2,500 to 4,400 million cubic feet as a result of the larger volumes produced at Camisea and, to a lesser degree, at Aguaytia.

Oil crude production grew by 17.9 percent. Fifteen new oil exploration and extraction contracts were signed during 2005 –the highest number of contracts entered into in 30 years. As a result of this, the number of contacts signed reached a total of 28 contracts. It is worth pointing out that 14 contracts had been signed in 2001.

### Primary industries

**The raw material processing industry** tends generally to show a similar dynamism

TABLE 11  
EXPLORATION CONTRACTS SIGNED IN 2005

BLOCK	REGION	COMPANIES	CONTRACT DATE
95	MARAÑON	HARKEN DEL PERU	April 7, 2005.
104	MARAÑON	BURLINGTON RESOURCES	April 28, 2005.
106	MARAÑON	PETROLIFERA PETROLEUM	July 12, 2005.
58	UCAYALI	PETROBRAS ENERGIA PERU	July 12, 2005.
107	MARAÑON	PETROLIFERA PETROLEUM	September 01, 2005.
Z-35	SALAVERRY	PETROTECH PERUANA	September 20, 2005
111	MADRE DE DIOS	SAPET	December 07, 2005
113	MADRE DE DIOS	SAPET DEVELOPMENT	December 07, 2005
108	ENE	PLUSPETROL E&P S.A.	December 13, 2005
102	MARAÑON	RAMSHORN/SHONA/ ANDEAN	December 13, 2005
105	TITICACA	SIBOIL del PERU S.A.	December 13, 2005
110	UCAYALI	PETROBRAS ENERGIA PERU	December 13, 2005
112	MARAÑON	PETROBRAS ENERGIA PERU	December 13, 2005
115	MARAÑON	PLUSPETROL E&P S.A.	December 13, 2005
109	MARAÑON	REPSOL EXPLORACION PERU	December 16, 2005

Source: Peru Petro S.A.

to that of the agricultural, fishing, and mining sectors since processing of raw materials is directly related to the higher or lower production of these sectors.

In 2005, this subsector grew 2.1 percent, reflecting the higher production of meat

products and oil refining, which offset the falls in the production of sugar, fishmeal and fish oil, and refining of non-ferrous metals.

## 2.2 Non-primary sectors

Non-primary sectors generally have a higher added value component and a greater impact on employment generation than primary industries. In 2005, the overall output of non-primary sectors grew 6.5 percent –recording a higher growth rate than the GDP–, particularly due to the dynamic performance of non-primary manufacturing and construction.

**Non-primary manufacturing** posted a 7.7 percent growth rate during 2005 due to the expansion of both internal and external demand, the latter of which was propelled by the consolidation of some external markets and by access to new markets abroad.

TABLE 12  
MANUFACTURING BASED ON  
RAW MATERIALS BY MAIN  
INDUSTRIAL GROUPS  
(Real percentage changes)

	2003	2004	2005
<b>MANUFACTURING BASED ON RAW MATERIALS</b>	<b>2.9</b>	<b>7.3</b>	<b>2.1</b>
Sugar	14.5	-29.4	-7.2
Meat products	3.8	4.7	4.6
Fishmeal and fish oil	-28.5	55.7	-4.9
Canned and frozen fish products	35.3	6.8	-8.5
Non-ferrous metals refining	11.7	1.3	-2.2
Petroleum refining	-0.5	8.6	16.3

Source: Ministry of Production and INEI.



**TABLE 13**  
**NON-PRIMARY MANUFACTURING:**  
**CONTRIBUTION TO GROWTH BY**  
**DESTINATION MARKET**  
 (Percentage points)

	Domestic	External	Total
<b>2001</b>	<b>0.3</b>	<b>1.1</b>	<b>1.4</b>
<b>2002</b>	<b>4.8</b>	<b>0.3</b>	<b>6.3</b>
<b>2003</b>	<b>2.3</b>	<b>0.8</b>	<b>3.3</b>
<b>2004</b>	<b>3.9</b>	<b>2.9</b>	<b>7.4</b>
<b>2005</b>	<b>5.3</b>	<b>2.3</b>	<b>7.7</b>
Food, beverages and tobacco	1.5	0.3	1.9
Textile, leather, and footwear	-0.2	0.4	0.2
Wood and furniture	-0.2	0.1	-0.1
Paper and printing industry	1.6	0.0	1.7
Chemical, rubber and plastic products	0.4	1.1	1.5
Non-metallic minerals	1.2	0.0	1.3
Iron and steel	0.2	0.1	0.3
Metallic products, machinery and equipment	0.5	0.2	0.7
Miscellaneous manufacturing	0.2	0.1	0.3

Source: BCRP.

The branches oriented towards the domestic market accounted for 5.3 points of the sector’s annual growth, supported by an increased domestic demand that was associated with a recovery of incomes and expansion of employment. External market-oriented branches, on the other hand, accounted for 2.3 percentage points of the growth in non-primary manufacturing.

**Construction** logged a growth of 8.4 percent, showing 2-digit rates of expansion throughout the second semester of 2005. This evolution reflected increased activity in terms of auto-construction, edification of malls, infrastructure works, and the mortgage market. It is worth mentioning here that mortgage lending increased in a context of banks’ lower interest rates; by December, the

interest rate was 13.0 percent and 10.1 percent in domestic and foreign currency respectively. This dynamism was observed in connection to the state-sponsored program Mivivienda as well as in other financing schemes.

Other infrastructure works that are worth highlighting include some works developed in the southern areas of the country, such as improving the smelting plant in Ilo, the construction of the dam Pillones, the expansion Cerro Verde’s plant for the processing of primary sulfide ores, as well as other infrastructure projects implemented by regional governments.

### 3. Employment

In 2005, **urban employment** in private companies with 10 or more workers increased 4.5 percent, after having grown 2.7

**TABLE 14**  
**URBAN EMPLOYMENT IN COMPANIES**  
**WITH 10 OR MORE WORKERS**

	Percentage change		
	2003	2004	2005
<b>URBAN PERU</b>	<b>1.7</b>	<b>2.7</b>	<b>4.5</b>
Metropolitan Lima	1.9	2.4	3.8
<b>Other urban areas</b>	<b>1.3</b>	<b>3.6</b>	<b>6.4</b>
Ica	9.4	8.8	16.5
Chincha	n.a.	4.8	15.5
Iquitos	5.5	6.5	9.1
Piura	0.2	8.9	8.5
Tarapoto	0.7	-0.9	7.3
Cusco	-2.1	0.5	6.4
Pisco	n.a.	2.1	6.1
Trujillo	10.3	5.8	5.6
Puno	-2.8	-4.4	5.5
Arequipa	2.1	2.6	4.2
Huancayo	1.7	2.6	3.8
Cajamarca	-1.6	1.4	3.6
Chiclayo	2.8	-1.3	3.5
Pucallpa	7.8	0.4	2.9
Tacna	-7.3	-3.7	2.4
Chimbote	-1.6	2.6	0.4
Paita	-34.0	8.1	-4.6

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

percent in 2004. Thus, national urban employment reached its highest level since October 1997, and consolidated the growing trend observed since May 2002.

At the regional level, urban employment in Metropolitan Lima grew 3.8 percent, firming

up the pace of growth exhibited since the second quarter of 2005. The increase reported in dependent employment (3.1 percent) played a role in terms of the dynamism observed in the urban labor market, although this was offset by a 2.2 percent decrease in independent

**TABLE 15**  
**LABOR FORCE BY EMPLOYMENT LEVELS IN**  
**METROPOLITAN LIMA 1/**  
(Thousands of people)

	2003	2004	2005	2005/2004 Variation	
				Thousands	Percent
<b>I. LABOR FORCE: 1 + 2</b>	<b>3,993</b>	<b>4,104</b>	<b>4,120</b>	<b>15.7</b>	<b>0.4</b>
<b>1. EMPLOYED LABOR FORCE</b>	<b>3,617</b>	<b>3,717</b>	<b>3,725</b>	<b>8.1</b>	<b>0.2</b>
<b><u>By economic activity</u></b>					
Manufacturing	540	565	583	18.1	3.2
Construction	189	195	224	28.3	14.5
Commerce	901	895	895	-0.2	0.0
Services	1,937	2,010	1,978	-31.9	-1.6
Other activities	50	52	46	-6.2	-11.9
<b><u>By education</u></b>					
Elementary 2/	495	466	466	-0.6	-0.1
High School 3/	1,895	1,951	1,948	-2.9	-0.1
Technical	582	583	610	26.9	4.6
University	645	717	701	-15.3	-2.1
<b><u>By occupational category</u></b>					
Wage earners	1,811	1,915	1,973	58.9	3.1
Non-wage earners	1,806	1,803	1,752	-50.8	-2.8
<b><u>By size of employer</u></b>					
1 to 10 workers	2,503	2,512	2,480	-32.2	-1.3
11 to 50 workers	312	343	357	13.4	3.9
51 and more	801	862	889	26.9	3.1
<b>By hours worked in a week</b>					
Workers employed over 20 hours a week	3,133	3,283	3,292	9.4	0.3
Wage earners employed over 20 hours a week	1,640	1,759	1,811	51.9	3.0
<b>2. UNEMPLOYED LABOR FORCE</b>	<b>376</b>	<b>387</b>	<b>395</b>	<b>7.6</b>	<b>2.0</b>
<b>II. INACTIVE POPULATION</b>	<b>1,932</b>	<b>1,929</b>	<b>2,022</b>	<b>93.8</b>	<b>4.9</b>
<b>III. POPULATION IN WORKING AGE (PWE): I + II</b>	<b>5,925</b>	<b>6,033</b>	<b>6,142</b>	<b>109.5</b>	<b>1.8</b>
<b>RATES (percentage)</b>					
Activity rate (Labor Force / PWE)	67.4	68.0	67.1		
Employed Labor Force / PWE Ratio	61.0	61.6	60.6		
Unemployment (Unemployed Labor Force / Labor Force)	9.4	9.4	9.6		
Underemployment rate by hours	17.2	16.4	16.1		

1/ Annual average.

2/ Excludes kinder.

3/ Complete and incomplete high school.

Source: INEI - Permanent Employment Survey.



employment. This may be interpreted as an improvement in the quality of employment, given the fact that dependent employment has been growing at a faster pace particularly in the largest companies. In terms of productive sectors, those requiring more labor included services, commerce, and manufacturing.

Urban employment in cities outside the capital grew 6.4 percent and, for the second consecutive year, showed greater dynamism than in Metropolitan Lima. This growth outside Lima was associated with greater activity in the primary sectors, agriculture,

and mining, as well as with export-oriented agribusiness and services.

A new methodology was implemented to do the 10th population census and the 5th housing survey, which involved two stages: a) a short questionnaire with questions on population, education, and housing was administered in the months of July and August, and b) from 2006-on, a continuous survey with more in-depth questions on demographic and socio-economic variables will be administered for a term of 10 years. The box below shows the results of the first stage of the continuous census.

BOX 1

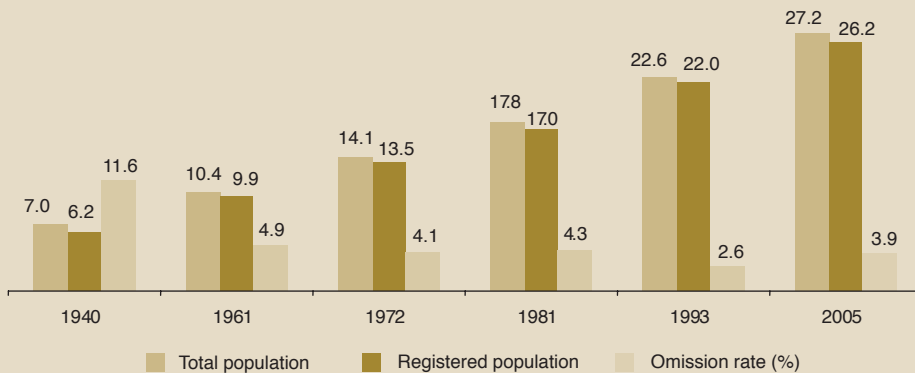
MAIN RESULTS OF THE 2005 CONTINUOUS 10TH POPULATION CENSUS AND 5TH HOUSING CENSUS

Peru's total population increased from 7,023,211 to 27,219,264 inhabitants between 1940 and 2005. Over the past 12 years, the total population grew at an average rate of 1.5 percent, a pace considerably lower than that experienced in the previous decades (2.2 percent between 1940 and 1993). The nominally registered population was 26,152,265 people, and the ratio of population omitted from the register was 3.92 percent. Adding the nominally registered population and the population omitted from the register makes up the total population of the country.

The departments with the highest demographic growth (in terms of the nominally registered population) have been Madre de Dios (2.7 percent), Ucayali and Loreto (annual growth of 2.1 percent), Tacna and Ayacucho (1.9 percent), followed by Tumbes, Moquegua and Arequipa (1.8 percent) and Lima (1.7 percent).

The population's distribution in geographical terms continues to be quite heterogeneous, with six of the most populated departments (Piura, La Libertad, Arequipa, Cajamarca, Puno, and Cuzco) harboring an overall population equivalent to that of Metropolitan Lima, which represents approximately 30 percent of the total population of the country.

TOTAL AND NOMINALLY REGISTERED POPULATION 1940 - 2005 (Millions of people)



Changes are observed in terms of the population's age structure. The number of children aged 0-7 have decreased by 368 thousand with respect to 1993, and so have the number of people under 25 years of age with respect to the nominally registered population; this figure fell from 57.4 percent of the population in 1993 to 50.7 percent in 2005. The rate of people aged 15-64 years –representing the potential labor force– has also increased, as a result of which the rate of dependence decreased from 71.4 percent in 1993 to 59.5 percent in 2005. This figure is the ratio between the number of people aged 0-14 and/or over 65, on the one hand, and the number of people of working age (between 15 and 64 years of age), on the other hand.

Illiteracy in people older than 15 years has dropped from 12.8 percent in 1993 to 8.1 percent in 2005, but continues to concentrate in the poorest departments (with an average of 18.1 percent) and in women (12.0 percent), particularly in women over 40 years of age. Metropolitan Lima exhibits the lowest rate of illiteracy in the country (2.1 percent).

School attendance has had a positive evolution. The percentage of children between the ages of 6 and 11 years old that regularly attend primary school has increased from 87.3 percent in 1993 to 94.5 percent in 2005, while those between the ages of 12 and 17 years old that go to secondary school rose from 74.1 percent to 83.7 percent in the same period. However, there are still problems in terms of the adequate educational levels children should accomplish according to their age. For instance, 18.3 percent of the youths aged 12-17 years old have not completed their primary education, although they should already be studying at a secondary school grade.

Basic housing services, on the other hand, have improved according to both surveys, particularly in terms of water and energy. Between 1993 and 2005, for example, both the public water supply and the electricity grid providing energy to households in the country increased by 17 percentage points each, while homes with connection to the public sewage system increased 13 percentage points.

However, households in the poorest departments of Peru still lack access to basic public utilities, despite the significant progress achieved with respect to 1993. The percentage of homes with access to drinking water rose from 26.5 percent in 1993 to 47.0 percent in 2005, and from 34.3 percent to 55.6 percent in the case of electricity. In 2005, homes with earth floor still predominate in these departments and water and sanitation is still a problem given that only 27.8 percent of these households have sewage systems, despite the 10 percent increase with respect to 1993.

#### HOUSEHOLDS WITH BASIC SERVICES AND INFRASTRUCTURE, 1993 AND 2005

	1993			
	Water	Water-drainage	Electricity	Earth floor
<b>Peru</b>	<b>43.1</b>	<b>35.7</b>	<b>54.9</b>	<b>49.6</b>
Department of Lima	63.6	60.2	82.1	22.3
Metropolitan Lima	66.6	63.8	85.0	19.5
Poorest Departments 1/	26.5	17.9	34.3	69.1
Less poor Departments 2/	53.5	42.1	64.8	42.6
	2005			
<b>Peru</b>	<b>60.4</b>	<b>48.5</b>	<b>72.2</b>	<b>41.5</b>
Department of Lima	75.7	74.1	93.0	15.1
Metropolitan Lima	77.5	77.7	95.1	12.2
Poorest Departments 1/	47.0	27.8	55.6	62.1
Less poor Departments 2/	67.3	55.6	77.2	37.0

1/ Departments with rates of poverty over 50 percent: Junin, Ancash, Ucayali, San Martin, Cusco, Piura, Amazonas, Pasco, Loreto, Ayacucho, Apurimac, Cajamarca, Huanuco, Puno y Huancavelica.

2/ Departments with rates of poverty under 50 percent: Madre de Dios, Tumbes, Tacna, Ica, Lima, Moquegua, Arequipa, Lambayeque y La Libertad.

Source: INEI, Census of Population and Households 1993 and 2005.