III.

External Sector

The favorable international context this year contributed to make it possible that a trade surplus be achieved for the fourth consecutive year and that our current account balance show positive results for the first time since 1979. The remarkable growth of our exports over the past few years is based both on the dynamic performance of our main trading partners and on the high prices of our raw materials. Together with a net capital inflow, these results allowed the country to accumulate international reserves for US$ 1,466 million this year.

1. International context

During 2005, global economic activity continued to grow at sustained levels and impacted on both our terms of trade and on the volumes of exports, particularly our traditional products. Our non-traditional exports also continued to increase, especially textile and agricultural products, due to the temporary benefits granted under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). These factors allowed not only recording a surplus in our trade balance, but also positive results in our current account balance for the first time since 1979.

Global economy's growth was boosted by favorable financial conditions and loose macroeconomic policies, in a context of rising energy costs. It is worth noting here, however, that while the world economy grew at a rate of 3.4 percent, our trade partners did so at a rate of 4.0 percent.

The **United States of America** posted an expansion of 3.5 percent –a rate lower than the 4.2 percent recorded in 2004–, a level that somewhat reflects the effect of the Federal Reserve's withdrawal of monetary stimulation, the damage caused by climatic phenomena, and the high prices of energy sources.

The economic growth of **China** stood out among Asian countries as it recorded an expansion of 9.9 percent –close to the previous year's 10.1 percent–, despite the measures implemented by the Chinese government to slow down the pace of growth. The Central Bank of China revalued its local currency by 2.1 percent, as a result of which the exchange rate moved from 8.3 to 8.1 yuan per dollar, and established a floating regime based on a basket of currencies within a narrow band.

Moreover, **Japan** logged a moderate growth of 2.7 percent, despite still being immersed in the deflationary process that has been affecting this country for some years now.

Meanwhile, the **Eurozone** countries exhibited a discrete growth associated with their low rates of expansion of domestic demand. Economic activity's slower pace in this region was influenced by the low growth

TABLE 20
GDP GROWTH AND INFLATION OF MAIN COMMERCIAL PARTNERS 1/
(Percentage)

	Trade	Real Growth			Inflation		
	2004	2003	2004	2005	2003	2004	2005
Commercial Partners 2/		**2.9**	**4.8**	**4.0**	**3.7**	**3.1**	**3.4**
North America	**35%**	**2.7**	**4.1**	**3.5**	**2.3**	**2.6**	**3.3**
USA	33%	2.7	4.2	3.5	2.3	2.7	3.4
Canada	2%	2.0	2.9	2.9	2.7	1.8	2.2
Europe	**26%**	**1.5**	**2.5**	**1.9**	**1.9**	**2.0**	**2.4**
Germany	3%	-0.2	1.6	0.9	1.0	1.8	1.9
Belgium	1%	0.9	2.4	1.5	1.7	1.9	2.5
Spain	8%	3.0	3.1	3.4	3.1	3.1	3.4
Holland	2%	-0.1	1.7	1.1	1.7	1.4	1.5
Italy	2%	0.1	0.9	0.1	2.8	2.3	2.3
United Kingdom	6%	2.5	3.1	1.8	1.4	1.3	2.1
Switzerland	3%	-0.3	2.1	1.8	0.6	0.8	1.2
Asia	**15%**	**6.4**	**7.1**	**6.8**	**1.0**	**2.7**	**1.5**
China	8%	10.0	10.1	9.9	1.2	3.9	1.8
Korea	2%	3.1	4.6	4.0	3.4	3.6	2.7
Japan	4%	1.8	2.3	2.7	-0.3	0.0	-0.3
Taiwan	2%	3.4	6.1	4.1	-0.1	1.6	2.3
Latin America	**23%**	**2.3**	**6.8**	**5.3**	**9.5**	**5.4**	**5.9**
Argentina	2%	8.8	9.0	9.2	13.4	4.4	9.6
Brazil	5%	0.5	4.9	2.3	14.8	6.6	6.9
Chile	7%	3.7	6.1	6.3	2.8	1.1	3.1
Colombia	4%	3.9	4.8	5.1	7.1	5.9	5.0
Ecuador	2%	3.6	7.6	3.9	6.1	1.9	4.4
Mexico	2%	1.4	4.2	3.0	4.5	4.7	4.0
Venezuela	2%	-7.7	17.9	9.3	31.1	21.7	15.9

1/ World Economic Outlook (WEO) and Concensus Forecast Data.
2/ Weighted values according to 2004 trade figures.

rates –with respect to 2004– of countries such as Germany and the United Kingdom. In Germany, the GDP grew 0.9 percent as a result of lower levels of exports, while the 1.8 percent GDP growth in the United Kingdom was connected to the deceleration of the real estate sector.

On the other hand, our main trading partners in **Latin America** together showed an overall expansion of 5.3 percent, which was mainly based on the economic recovery of Argentina and Venezuela, and on Chile's expansive cycle. The region as a whole also benefited from the high prices of raw materials, which favorably impacted on the external accounts of Latin American countries. Several of them logged current account surpluses after having recorded deficits for several decades.

Together with better macroeconomic fundamentals, the rise in the price of raw materials was also reflected in the positive trend of country risk indicators, which reached historic minimum levels in the countries of the region. This situation facilitated a better and greater access of Latin American countries to the international market of capitals, mainly through bond issuance and the early repayment of their external debts to improve the debt repayment profile and structure, as in the case of Argentina and Brazil.[1]

2. Terms of trade

The increased world demand for our main exports was instrumental to improve, for the fourth consecutive year, our *terms of trade*. In 2005, these rose by 5.2 percent as a result of a 16.3 percent increase produced in the price of our exports, which exceeded the 10.6 percent increase in the price of our imports.

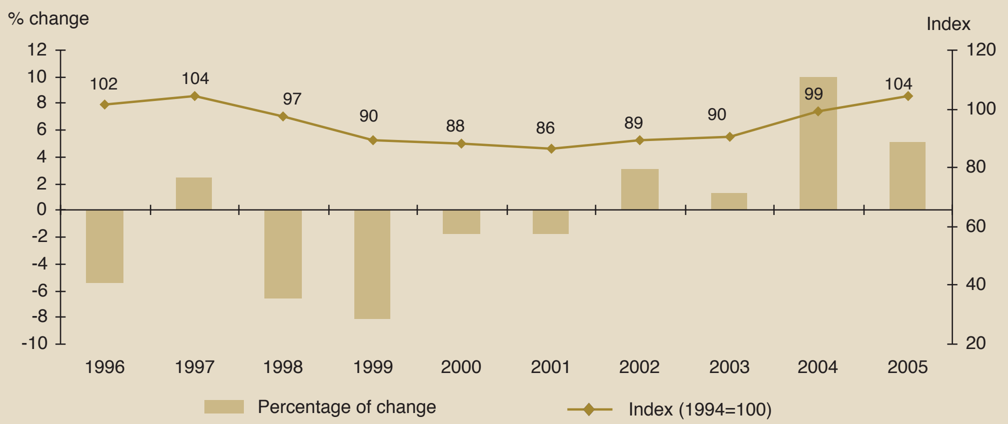
The higher quotations of copper (up 29.5 percent), gold (10.5 percent), zinc (32.6 percent), and molybdenum (65.4 percent) played an essential role in the price increase of our exports.

The rise in the international price of copper was associated both to increased demand for this product and to supply restrictions. A greater demand of copper for industrial purposes was observed particularly in China, and in some investment funds. On the supply side, there were several labor-related problems in some of the main producing areas of the United States and Chile, as well as technical-related problems in Zambia, Thailand, and India.

The quotation of gold continued to show the upward trend of the past 5 years and exceeded the price of US$ 500 per ounce. This increased demand was mainly related to the nature of this metal as a hedge against inflationary pressures originated by the rise in the price of oil, imbalances in the global

GRAPH 9

TERMS OF TRADE



Source: BCRP.

1/ These countries fully paid their obligations with the IMF, and Brazil also announced an early repayment to the Paris Club.

economy, risks of terrorist attacks, as well as to the higher demand for this precious metal by jewelry producers in China, India, and other Middle East countries.

Likewise, the price of zinc was propelled by the greater demand of countries such as China, India, and Korea.

The prices of imports, on the other hand, increased 10.6 percent on average. This evolution was mainly due to the 41 percent rise in the price of oil, but offset by the lower prices of wheat, maize, and soybean, which fell 10, 14, and 15 percent respectively.

3. Balance of payments

In 2005, the external accounts exhibited positive results, particularly a current account surplus.

Current account balance

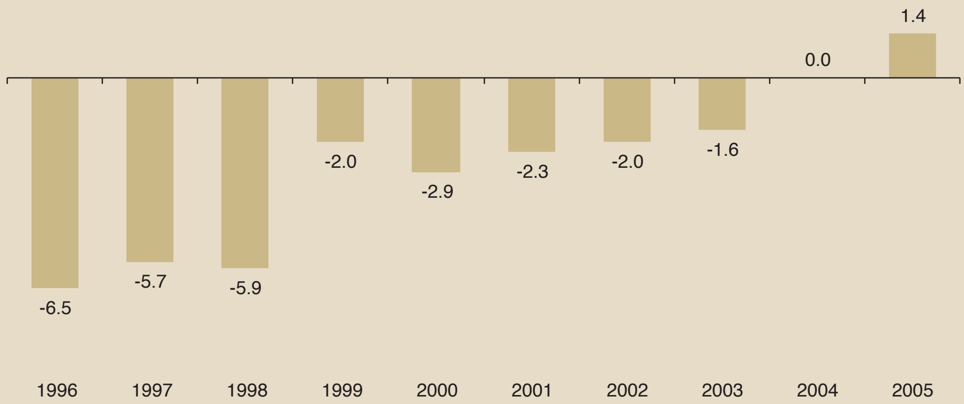
The factors that allowed the country to post a surplus in its balance of payments for the first time since 1979 included an outstanding growth of exports over the past few years, the improvement of our terms of trade, and the increasingly growing remittances of Peruvians working abroad.

TABLE 21
BALANCE OF PAYMENTS
(Millions of US$)

	Millions of US$			Percentage of GDP		
	2003	2004	2005	2003	2004	2005
I. CURRENT ACCOUNT BALANCE	**-958**	**19**	**1,105**	**-1.6**	**0.0**	**1.4**
1. Trade balance	853	3,004	5,260	1.4	4.3	6.6
a. Exports	9,091	12,809	17,336	14.8	18.4	21.8
b. Imports	-8,238	-9,805	-12,076	-13.4	-14.1	-15.2
2. Services	-900	-732	-834	-1.5	-1.1	-1.1
a. Exports	1,716	1,993	2,289	2.8	2.9	2.9
b. Imports	-2,616	-2,725	-3,123	-4.3	-3.9	-3.9
3. Investment income	-2,144	-3,686	-5,076	-3.5	-5.3	-6.4
a. Private sector	-1,275	-2,715	-4,211	-2.1	-3.9	-5.3
b. Public sector	-869	-970	-865	-1.4	-1.4	-1.1
4. Current transfers	1,233	1,433	1,755	2.0	2.1	2.2
of which: Workers' remittances	869	1,133	1,440	1.4	1.6	1.8
II. FINANCIAL ACCOUNT	**672**	**2,154**	**141**	**1.1**	**3.1**	**0.2**
1. Private sector	-105	937	1,818 1/	-0.2	1.3	2.3
2. Public sector	630	988	-1,441	1.0	1.4	-1.8
3. Short-term capital	147	230	-236	0.2	0.3	-0.3
III. EXCEPTIONAL FINANCING	**64**	**26**	**100**	**0.1**	**0.0**	**0.1**
IV. BCRP NET INTERNATIONAL RESERVES FLOW (1-2)	**-477**	**-2,351**	**-1,628**	**-0.8**	**-3.4**	**-2.1**
(Increase with negative sign)						
1. Change in Central Bank reserves	-596	-2,437	-1,466	-1.0	-3.5	-1.8
2. Valuation changes and monetization of gold	-119	-86	162	-0.2	-0.1	0.2
V. NET ERRORS AND OMISSIONS	**698**	**151**	**282**	**1.1**	**0.2**	**0.4**

1/ Includes US$ 853 millions corresponding to purchases of sovereign bonds by non residents.
Source: BCRP, MEF, Superintendency of Banking and Insurance (SBI), SUNAT, Ministry of Foreign Affairs, Cofide, ONP, FCR, Zofratacna, Banco de la Nacion, Cavali ICLV S.A., Proinversion, BIS, and companies.

GRAPH 10
CURRENT ACCOUNT DEFICIT
(% of GDP)



Source: BCRP.

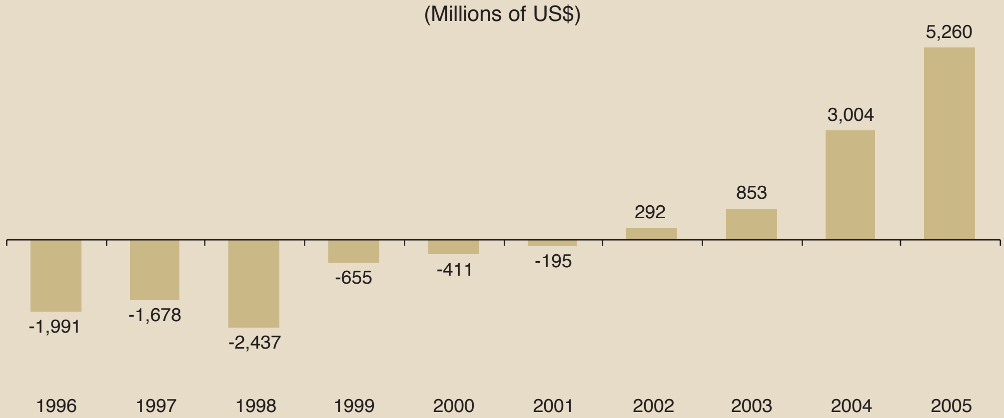
The current account surplus amounting to US$ 1,105 million –equivalent to 1.4 percentage points of the GDP– resulted from a trade surplus of US$ 5,260 million and current transfers of US$ 1,755 million, which compensated for the deficit in the balance of services and investment income account.

In summary, the current account surplus obtained this year is mainly explained by a 35.3 percent increase in our exports. Another factor also contributing to this surplus is the rise of current transfers, particularly remittances of Peruvians living abroad.

Trade balance

Growing exports have contributed to achieve commercial surpluses since 2002. In 2005, the trade surplus totaled US$ 5,260 million, that

GRAPH 11
TRADE BALANCE
(Millions of US$)



Source: BCRP.

TABLE 22
DIRECTION OF TRADE
(Percent of total)

	Exports 1/			Imports 2/			X + M		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
USA	26.8	32.1	31.4	19.3	20.0	18.3	25.0	26.5	26.0
China	7.5	10.9	11.0	8.0	7.9	8.5	8.3	9.5	10.0
Chile	4.6	5.6	6.7	5.3	5.2	5.1	5.3	5.4	6.0
Brazil	2.6	3.1	2.7	6.4	6.7	8.0	4.7	4.8	4.9
Canada	1.5	2.9	6.0	1.3	1.8	1.6	1.5	2.4	4.2
Ecuador	1.7	1.8	1.7	7.8	6.6	7.4	5.0	4.0	4.1
Colombia	2.1	2.3	2.0	5.8	7.6	6.1	4.2	4.7	3.7
Japan	4.3	4.8	3.5	4.4	3.6	3.6	4.7	4.3	3.5
Germany	2.8	3.4	3.0	2.9	2.7	3.2	3.1	3.1	3.1
Switzerland	7.5	2.5	4.6	0.7	0.6	0.6	4.6	1.6	3.0
Venezuela	1.2	1.7	1.8	3.6	6.7	4.2	2.5	4.0	2.8
Spain	3.4	3.8	3.4	2.0	2.1	1.6	2.9	3.0	2.6
Mexico	1.2	2.0	2.0	3.6	3.0	3.5	2.5	2.5	2.6
Other countries	32.6	23.2	20.1	28.8	25.2	28.1	25.7	24.1	23.4
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

X: Exports M: Imports.
1/ Exports exclude products classified as other exports, as well as repairs of foreign ships and aircrafts.
2/ Imports exclude defense material, products classified as other imports, and repairs of Peruvian ships and aircrafts abroad.
Source: SUNAT.

is, a figure US$ 2,256 million higher than the one of 2004, and representing 6.6 percentage points of the GDP. This trade surplus is explained by the higher increase of exports (35.3 percent) vis-à-vis that of imports (23.2 percent).

It should be pointed out that our main trading partners, the United States of America and China, together represented 36 percent of the total volumes exported abroad in 2005. Exports to the United States, accounting for nearly a third of total exports, grew by 43 percent due to the greater economic activity in this country, on the one hand, and on the other hand, to the temporary benefits granted under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which contributed particularly to the expansion of textile and agriculture & livestock exports.

On the other hand, exports to China grew 50 percent, boosted by the greater economic growth of this country, which brought about an increase in the demand of fishmeal and copper.

It is worth mentioning that, in 2005, the United Kingdom is no longer included among the thirteen main trading partners, given that the major exporters of gold sent their shipments to Switzerland and Canada.

- **Exports**

In 2005, **exports** totaled US$ 17,336 million, a figure higher by US$ 4,527 million than that of 2004. This 35.3 percent increase in exports was due both to higher prices of our exports (16.3 percent) and greater volumes exported (16.2 percent).

By category of product, traditional exports –which represent three fourths of our exportable supply– accounted for US$ 12,919 million, while non-traditional exports totaled US$ 4,277 million. These levels were respectively 40.4 and 22.9 percent higher than those of 2004.

Traditional exports recorded a more dynamic performance due mainly to the higher international prices of minerals.

Exports of **fisheries** increased from US$ 1,104 million in 2004 to US$ 1,303 million in 2005, particularly due to increased sales of fish meal, which grew by 20.2 percent as a result of both greater volumes of exports and better prices. The main markets for these products were China, Germany, and Japan.

Sales of **agricultural products** abroad totaled US$ 331 million, a sum slightly higher than the US$ 325 million of 2004. Exports of **coffee** reached US$ 306 million, a figure 5.6 percent higher than that of the previous year. The rise in the price of coffee compensated for the fall in terms of exported volumes, caused by unfavorable climatic phenomena that affected the southern areas of the country and seasonal problems.

In the case of **sugar**, the rise in the price of exports did not counterbalance the fall in the volume exported, as a result of which sales dropped 12.8 percent in 2005. On the other hand, exports of **cotton** were affected by a decline in both prices and volumes, thus generating that total sales abroad fell by 47.7 percent.

Two thirds of the total **minerals exported** were copper and gold. The greater value exported in the case of **copper** was due to a 29.5 percent increase in the export prices of this product, while 4.6 percent of the increase was due to higher volumes.

In the case of **gold**, the higher exports resulted mainly from the onset of the Alto Chicama project and the greater output of Yanacocha that contributed to increase the sales of this metal. The greater value exported during the year reflected a 18.2 percent increase in the volume of the metal exported, as well as a 10.5 percent increase in export prices of this precious metal.

In 2005, exports of **molybdenum** continued to grow significantly, consolidating the upward trend shown in the past two years. In terms of value, exports of molybdenum grew from US$ 95 million in 2003 to US$ 1,149 million, as a result of both price and volume increases. Molybdenum is highly demanded by the transistor industry and the construction sector, as well as for the production of alloys for construction materials, aircraft and vehicle parts, etc. given this metal's high resistance and tolerance to corrosion. Furthermore, molybdenum now ranks fourth in terms of our major traditional exports, after copper, gold, and oil, having even obtained a better positioning than fishmeal and zinc.

Lead exports totaled US$ 491 million, a figure outnumbering that of 2004 by 26.3 percent. On the other hand, **iron** exports posted a total of US$ 216 million, which represented a 67.4 percent increase with respect to the previous year. This was explained basically by a 51.9 percent rise in the price of the product, which was in turn boosted by the increased demand for iron ores by the steel industry, especially in China.

Likewise, sales of **zinc** abroad rose 39.6 percent as a result of the greater global demand propelled by Asian countries and by a 32.4 percent increase in its international quotation. Thus, exports of this metal grew US$ 228 million, mainly through the sales of mining companies such as Milpo, Volcan, and Yauliyacu.

Refined silver was also among the mining exports that grew in 2005. Exports of this metal totaled US$ 281 million, that is, 7.9 percent more than in 2004.

Our fourth major traditional export, **petroleum and derivatives**, exhibited an outstanding performance in 2005 with a total of US$ 1,526 million, a figure 136.2 percent higher than last year's. This growth resulted from both higher volumes, which increased

TABLE 23
EXPORTS

	Millions of US$			Percentage change	
	2003	2004	2005	2004	2005
I. TRADITIONAL PRODUCTS	**6,356**	**9,199**	**12,919**	**44.7**	**40.4**
FISHING	**821**	**1,104**	**1,303**	**34.4**	**18.1**
Fishmeal	742	954	1,147	28.6	20.2
Fish oil	79	149	156	88.7	4.2
AGRICULTURAL PRODUCTS	**224**	**325**	**331**	**45.1**	**1.7**
Coffee	181	290	306	60.0	5.6
Sugar	19	15	13	- 24.0	- 12.8
Cotton	6	6	3	10.1	- 47.7
Other agricultural products 1/	18	14	8	- 20.6	- 41.4
MINERAL PRODUCTS	**4,690**	**7,124**	**9,759**	**51.9**	**37.0**
Copper 2/	1,261	2,481	3,360	96.8	35.5
Gold	2,102	2,424	3,165	15.4	30.6
Molybdenum	95	506	1,149	434.9	127.2
Zinc	529	577	805	9.1	39.6
Lead 2/	201	389	491	93.2	26.3
Silver (refined)	191	260	281	36.2	7.9
Tin	211	346	270	63.8	- 21.9
Iron	94	129	216	37.2	67.4
Other mineral products 3/	7	12	21	74.5	75.3
PETROLEUM AND DERIVATIVES	**621**	**646**	**1,526**	**4.0**	**136.2**
II. NON-TRADITIONAL PRODUCTS	**2,620**	**3,479**	**4,277**	**32.8**	**22.9**
Agriculture and livestock	624	801	1,009	28.4	26.0
Fishing	205	277	323	35.2	16.4
Textile	823	1,092	1,275	32.7	16.7
Timbers and papers, and related manufactures	172	214	261	24.3	21.9
Chemical	316	415	538	31.2	29.5
Non-metallic minerals	74	94	118	28.5	25.0
Basic metal industries and jewelry	262	391	493	49.3	26.1
Fabricated metal products and machinery	99	136	190	37.0	39.6
Other products 4/	45	58	70	28.9	20.6
III. OTHER PRODUCTS 5/	**114**	**131**	**141**	**15.3**	**7.3**
IV. TOTAL EXPORTS	**9,091**	**12,809**	**17,336**	**40.9**	**35.3**

1/ Including coca leaves and derivatives, molasses, wools and furs.
2/ Including silver contents.
3/ Including bismuth and tungsten, mainly.
4/ Including furs, leathers and handicrafts, mainly.
5/ Including fuel and food sold to foreign ships, and aircrafts and repairs of capital goods.
Source: BCRP and SUNAT.

by 62.5 percent, and better prices, which did so in 45.4 percent. This result was also influenced by Camisea's greater exports, which represented 21 percent of the total exports of derivatives.

Non-traditional exports grew by 22.9 percent, due to greater investments in the agriculture & livestock sector, increased textile exports, and better international prices for steel & metallurgical products and jewelry.

Textiles, the major non-traditional export in terms of value, grew from US$ 1,092 to US$ 1,275 million. Like in 2004, this increase was explained by higher sales of garments favored by the benefits generated under the ATPDEA. The main markets for these products were the United States of America (63 percent) and, at a regional level, Venezuela and Chile (both of which accounted for 13 percent). Another factor contributing to this result was the imposition of quotas on Chinese textile products by the United States and the European Union.

Sales of **agricultural products** reached US$ 1,009 million, a sum equivalent to a 26.0 percent increase resulting from higher volumes of exports (up 28 percent), since the average prices showed almost no change. In this sector, it is worth highlighting the 54.5 percent increase recorded in exports under the heading of tea, coffee, cocoa, and essences.

Exports of **fishing products** grew by 16.4 percent, although showing a different performance by type of product. Sales of frozen fish, dry fish, and frozen shellfish rose, whereas processed & prepared fish products and conserves declined.

Similarly, exports of **chemicals** increased 29.5 percent, reaching a total of US$ 538 million. This increase was particularly noteworthy in the case of organic and inorganic chemical products, as well as in the case of manufactured plastic products for the markets of the United States, Colombia and Ecuador.

Finally, exports of **non-metallic minerals** grew 25.0 percent, particularly with a 34.5 percent increase in the sales of cement and construction materials. Exports of **steel & iron and jewelry** increased 26.1 percent, especially due to increased exports of lead and silver products, which grew by 77.4 and 54.5 percent respectively. Likewise, sales of **metal mechanic** products rose 39.6 percent, reflecting particularly the higher exports of manufactured steel & iron products (141.5 percent), machinery and power generators (119.2 percent) and equipment for domestic purposes (78.9 percent).

- **Imports**

On the other hand, imports recorded a growth of 23.2 percent during 2005 that was associated with an increased demand for raw materials and capital goods, as well as with the greater purchase of consumer goods influenced by people's improved incomes. Imports of consumer goods increased 16.2 percent, posting a 15.6 and a 16.6 percent increase in imports of durable and non-durable goods respectively.

Purchases of **raw materials** rose in a similar proportion than total imports did, increasing by US$ 1,239 million, or 23.1 percent, basically due to increased imports of raw materials for industrial purposes (US$ 634 million), and to greater purchases of fuels (US$ 569 million), affected by the higher international prices of oil.

TABLE 24
IMPORTS

	Millions of US$			Percentage change	
	2003	2004	2005	2004	2005
I. CONSUMER GOODS	**1,841**	**1,995**	**2,318**	**8.4**	**16.2**
Non-durable	1,035	1,153	1,344	11.4	16.6
Durable	807	842	974	4.4	15.6
II. RAW MATERIALS AND INTERMEDIATE GOODS	**4,340**	**5,364**	**6,603**	**23.6**	**23.1**
Fuels	1,376	1,754	2,323	27.4	32.5
For agriculture	278	349	384	25.4	10.2
For industry	2,686	3,261	3,896	21.4	19.4
III. CAPITAL GOODS	**1,974**	**2,361**	**3,060**	**19.6**	**29.6**
Building materials	199	192	305	-3.7	59.2
For agriculture	17	29	37	69.9	27.8
For industry	1,422	1,661	2,111	16.8	27.1
Transportation equipment	336	480	607	42.8	26.6
IV. OTHER GOODS 1/	**82**	**85**	**95**	**3.2**	**11.7**
V. TOTAL IMPORTS	**8,238**	**9,805**	**12,076**	**19.0**	**23.2**
Note:					
Foodstuff 2/	**560**	**722**	**752**	**28.8**	**4.2**
Wheat	185	220	211	18.5	-4.1
Corn and/or sorghum	99	119	123	20.6	3.3
Rice	4	26	43	494.0	61.6
Sugar 3/	3	45	68	1,587.0	53.0
Dairy products	23	36	34	54.2	-3.5
Soybean	224	255	251	13.9	-1.9
Meat	22	21	23	-3.7	8.9

1/ Includes donated goods, fuel and food bought by Peruvian ships, and aircrafts and repairs of capital goods, as well as other goods not included in this category.
2/ Excludes food donations.
3/ Includes non-refined sugar cane, classified as raw materials.
Source: BCRP, SUNAT, Zofratacna, Banco de la Nacion, and companies.

Finally, imports of capital goods rose 29.6 percent –equivalent to US$ 699 million en 2005–, as a result of higher purchases of capital goods for industry, which amounted to US$ 450 million, and transport equipment and construction materials, which together totaled US$ 241 million.

Other Current Accounts

The **balance of services** in 2005 was negative in US$ 834 million –a deficit US$ 102 million higher than the one in the previous year– and reflected the greater outlays of transportation, mainly freight

TABLE 25
SERVICES

	Millions of US$			Percentage change	
	2003	2004	2005	2004	2005
I. TRANSPORTATION	**- 621**	**- 726**	**- 858**	**16.9**	**18.1**
1. Credit	310	360	440	16.0	22.4
2. Debit	- 931	-1,086	-1,298	16.6	19.5
II. TRAVEL	**322**	**499**	**557**	**55.1**	**11.6**
1. Credit	963	1,142	1,308	18.6	14.6
2. Debit	- 641	- 643	- 752	0.3	16.9
III. COMMUNICATIONS	**- 34**	**- 21**	**- 28**	**- 38.0**	**31.5**
1. Credit	46	60	69	29.2	14.8
2. Debit	- 80	- 81	- 96	0.7	19.2
IV. INSURANCE AND REINSURANCE	**- 178**	**- 127**	**- 115**	**- 28.8**	**- 9.7**
1. Credit	89	82	118	- 8.0	44.5
2. Debit	- 267	- 209	- 233	- 21.8	11.6
V. OTHER 1/	**- 388**	**- 357**	**- 391**	**- 8.1**	**9.6**
1. Credit	307	350	354	13.9	1.1
2. Debit	- 695	- 706	- 744	1.6	5.4
VI. TOTAL SERVICES	**- 900**	**- 732**	**- 834**	**- 18.7**	**14.0**
1. Credit	1,716	1,993	2,289	16.2	14.8
2. Debit	-2,616	-2,725	-3,123	4.2	14.6

1/ Including government services, financial and computer services, royalties, equipment rentals and services provided by companies, etc.
Source: BCRP and companies.

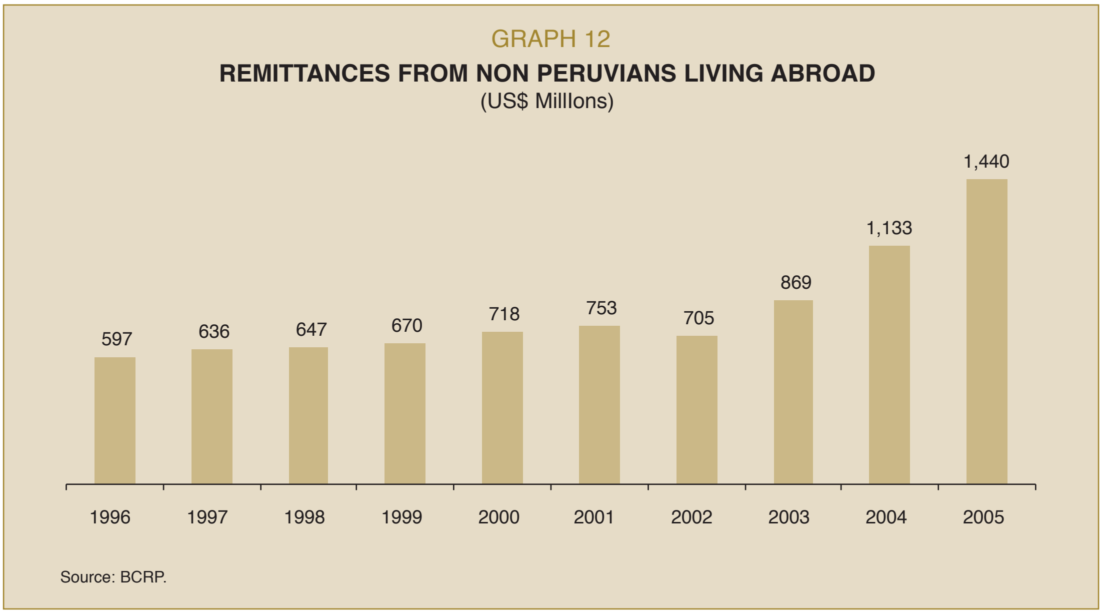
costs. However, this deficit was partially offset by greater incomes due to improvements in the travel category.

In the **investment income** account, the deficit rose by US$ 1,390 million, due principally to higher profits generated by companies with foreign shareholding, particularly in the mining sector.

Current transfers totaled US$ 1,755 million, increasing by US$ 323 million with respect to 2004, due to greater remittances from Peruvians living abroad, especially in the United States of America, Japan, Spain, and Argentina. It is worth highlighting that remittances in this period were estimated at US$ 1,440 million, an amount equivalent to 1.8 percentage points of GDP, which represented a 27.1 percent increase with respect to last year remittances.

Financial account

A positive financial account of US$ 141 million was posted in 2005. This result reflected a greater flow of capitals from the private sector, associated with an increase in direct foreign investment –due mainly to retained profits– and with non-residents'



investments in local securities. The flow of private capitals was counterbalanced with negative flows of public and short-term capitals.

Public capitals recorded a negative flow of US$ 1,441 million due to an early repayment of US$ 1,555 million to the Paris Club in August and of US$ 757 million to Japan Peru Oil Co Ltd. (JAPECO) by the close of the year.

This evolution by the current and financial accounts contributed to an increase in net international reserves of US$ 1,466 million.

4. International assets and liabilities position

The international assets and liabilities position showed that the total foreign debt (public and private) had declined from US$ 31,244 to US$ 28,657 million in 2005, as a result of the previously mentioned early prepayments made by the public sector, as well as by the private sector which, in the case of mining companies, was favored by their greater cash flow due to the higher international quotations of minerals.

In GDP terms, the total external debt, public and private, fell from 44.8 to 36.1 percent between 2004 and 2005. The public sector's total foreign debt was reduced from 35.1 to 28.1 percent, while the private sector's (medium- and long-term) did so from 5.8 to 4.0 percent.

This improvement in our foreign liabilities no only reduced the vulnerability of our external accounts, but also decreased debt-related risks due to fluctuations in the exchange rate.

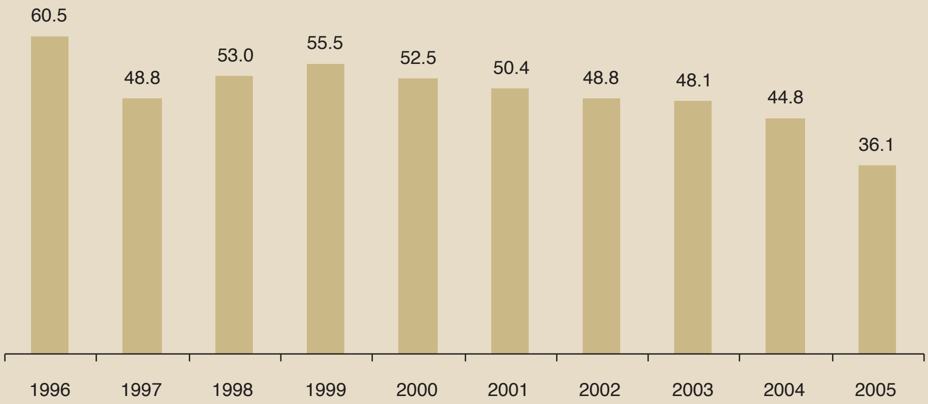
Moreover, direct foreign investment in Peru rose from US$ 13,310 million (equivalent to 19.1 percent of GDP) to US$ 15, 889 million (equivalent to 20.0 percent of GDP), while capital share increased to US$ 6,717 million, that is, 8.5 percent of GDP. Thus, total liabilities abroad amounted to US$ 51,263 million, or 64.6 percent of GDP.

TABLE 26
INTERNATIONAL INVESTMENT POSITION
(End of period Levels)

	Millions of US$			Percentage of GDP		
	2003	2004	2005	2003	2004	2005
I. ASSETS	**18,038**	**21,214**	**24,971**	**29.7**	**30.4**	**31.4**
1. Reserve assets of the BCRP	10,206	12,649	14,120	16.8	18.1	17.8
2. Financial system assets (excluding BCRP)	4,404	4,834	6,398	7.2	6.9	8.1
3. Other assets	3,428	3,731	4,454	5.6	5.3	5.6
II. LIABILITIES	**46,308**	**48,483**	**51,263**	**76.2**	**69.5**	**64.5**
1. Bonds and private and public external debt	**29,587**	**31,244**	**28,657**	**48.7**	**44.8**	**36.1**
a. Medium and long-term	27,062	28,475	25,449	44.5	40.8	32.0
Private sector 1/	4 294	4,009	3,170	7.1	5.7	4.0
BCRP	0	0	0	0.0	0.0	0.0
Public sector	22,768	24,466	22,279	37.5	35.1	28.1
b. Short-term	2,525	2,769	3,208	4.2	4.0	4.0
Financial system (excluding BCRP)	732	834	1,178	1.2	1.2	1.5
BCRP	12	18	23	0.0	0.0	0.0
Other 2/	1,782	1,917	2,007	2.9	2.7	2.5
2. Direct investment	**12,876**	**13,310**	**15,889**	**21.2**	**19.1**	**20.0**
3. Stock market and ADR's	**3,845**	**3,928**	**6,717**	**6.3**	**5.6**	**8.5**

1/ Including bonds.
2/ Includes mainly short-term debt from private sector non-financial entities.
Source: BCRP, MEF, Cavali ICLV S.A., Proinversion, and BIS.

GRAPH 13
BONDS AND TOTAL EXTERNAL DEBT
(As Percentage of GDP)



Source: BCRP.

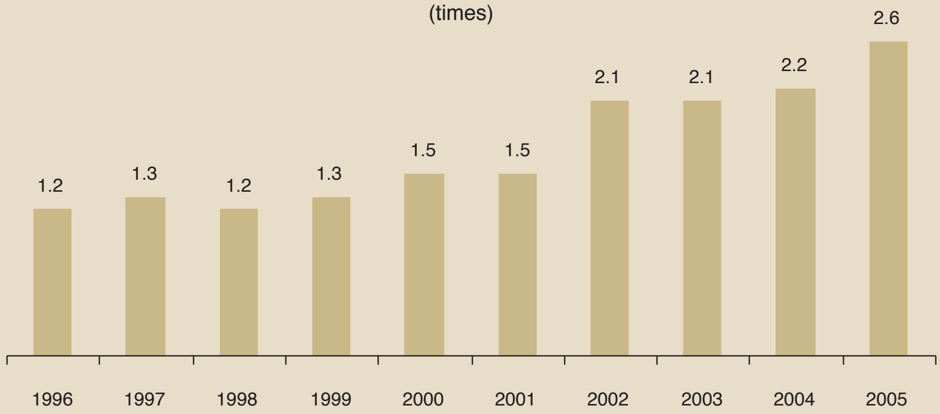
Assets amounted to US$ 24,971 million, made up mainly of Central Bank assets (US$ 14,120 million), which rose by US$ 1,471 million. As a result of this, Net International Reserves (NIRs) by December 31, 2005 reached a total of US$ 14,097 million, equivalent to 2.6 times the foreign debt maturing in one year, 14 months' goods imports, and 72 percent of banks' total liquidity.

TABLE 27
INDICATORS OF EXTERNAL VULNERABILITY

		2003	2004	2005
1	Current account deficit (% of GDP)	- 1.6	0.0	1.4
2	Exports concentration by products (%) 1/	51	50	49
3	Net international reserves (NIR) (millions of US$)	10,194	12,631	14,097
4	NIR / Debt due in one year (number of times) 2/	2.1	2.2	2.6
5	NIR (number of months of imports of goods)	15	15	14
6	Total external debt (% of GDP)	49	45	36
7	Total external debt / Current account revenues (number of times)	2.4	1.9	1.3
8	Public sector external debt (% of GDP)	37.5	35.1	28.1
9	Public sector external debt / Current account revenues (number of times)	1.8	1.5	1.0
10	Total external debt service (% current account revenues) 3/	26.8	23.2	31.8
11	Public sector external debt service (% current account revenues) 3/	18.8	15.5	22.7

1/ Share of gold, copper, fishmeal and zinc in total exports.
2/ Short-term debt and medium and long-term debt due in one year. The 2004 ratio does not include early repayments of debt in 2005.
3/ In 2005, includes early public debt repayment for US$ 2,312 millions.
Source: BCRP.

GRAPH 14
VULNERABILITY INDICATORS
NIR / Debt in one year
(times)



Source: BCRP.

These indicators show that, in 2005, Peru increased its ability to respond to any tightening of the international capital market, and that this has contributed to improve considerably the perception of country risk, thus improving the perception of investors of our economy.

BOX 3

REMMITANCES FROM ABROAD

In 2005, remittances from Peruvians living abroad were estimated in US$ 1,440 million, a figure 27 percent higher than in 2004. Fifty percent of this total was intermediated by money transfer agencies (MTAs), 28 percent by banks, and the remaining 22 percent by other means. Most of the remittances intermediated by MTAs came principally from the United States of America, Spain, Italy, Chile, and Argentina. Other means used to intermediate money include cooperatives –particularly from Japan–, businesses whose main activity is not the transfer of money, and individual “carriers”.

This estimate was obtained from the differential between remittances reported through formal means and those resulting from a methodology that was used to calculate remittances up to year 2003. This methodology considered a number of Peruvians living abroad as potential remitters and also an average total remittance (both of which had been calculated by GRADE and updated with information provided by the Peruvian Migrations Office and the economic movements of some countries). This estimate is consistent with the level of remittances calculated for other countries: the IADB, for example, estimates an 8 percent in the case of Mexico, 9 percent for Guatemala, 14 percent for Ecuador, and 5 percent for Brazil, while Colombia estimates its level of remittances in 4 percent.

It should be pointed out here that the IADB has published that remittances in Peru amounted to US$ 2,495 million in 2005. This figure was obtained on the basis of a survey-questionnaire administered to a sample of 1,612 people in five cities of Peru (Lima, Arequipa, Huancayo, Piura, and Cuzco) between June and July 2005. According to the results of this study, 42 percent of total remittances would enter the country through informal channels, although the main weakness of the study is that there is no universe of households receiving remittances that may be used as an adequate sample for corroboration of the study.

It is also worth pointing out that if similar income levels as those published by the IADB are considered, this would be reflected in permanent negative levels in the errors and omissions account for over 1,000 million annually, excluding net operations on account of narcotics & drug-trafficking and smuggling, not recorded in the past 15 years.

REMITTANCE BY MONEY TRANSFER AGENCIES (MTA)

Paises	2004		2005	
	Mill. US$	%	Mill. US$	%
United States of America	333	54	372	52
Spain	97	16	101	14
Italy	47	8	73	10
Argentina	30	5	37	5
Chile	23	4	32	4
Ecuador	12	2	17	2
Germany	9	2	9	1
Japan	0	0	0	0
Other	63	10	79	11
Total	**616**	**100**	**721**	**100**

REMMITANCE BY INTERMEDIARY
(Millions of US$)

Sources	2004	2005	Change
MTAs	616	721	17.1%
Banks	227	397	75.0%
Other	290	322	11.0%
Remmitances BP	**1,133**	**1,440**	**27.1%**