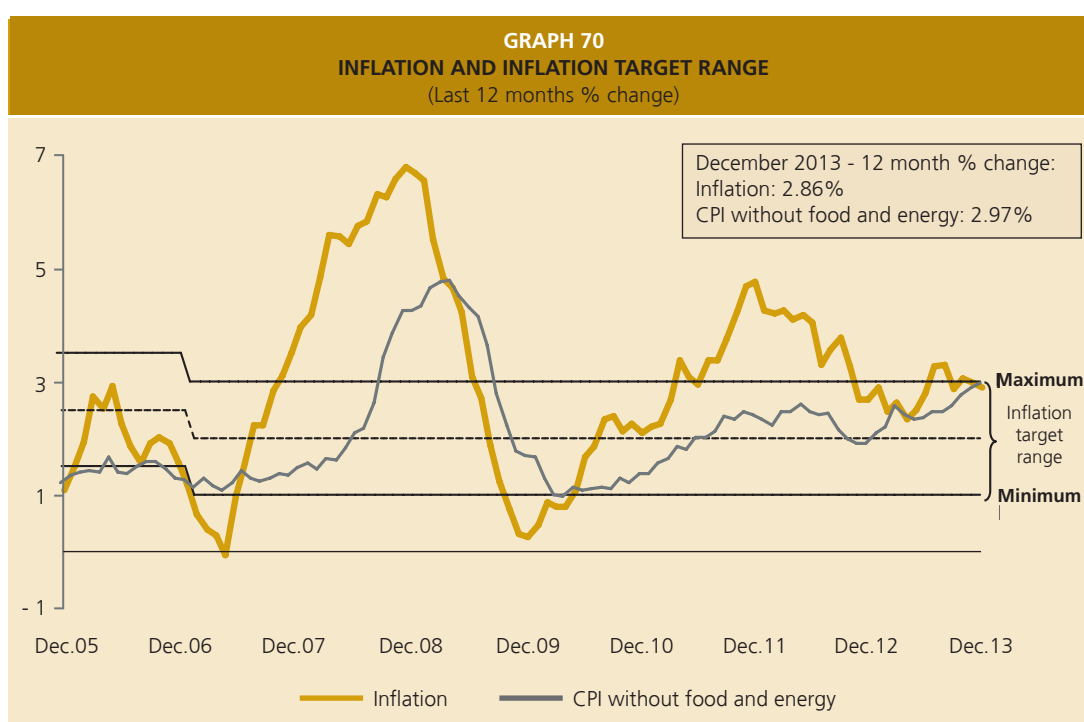


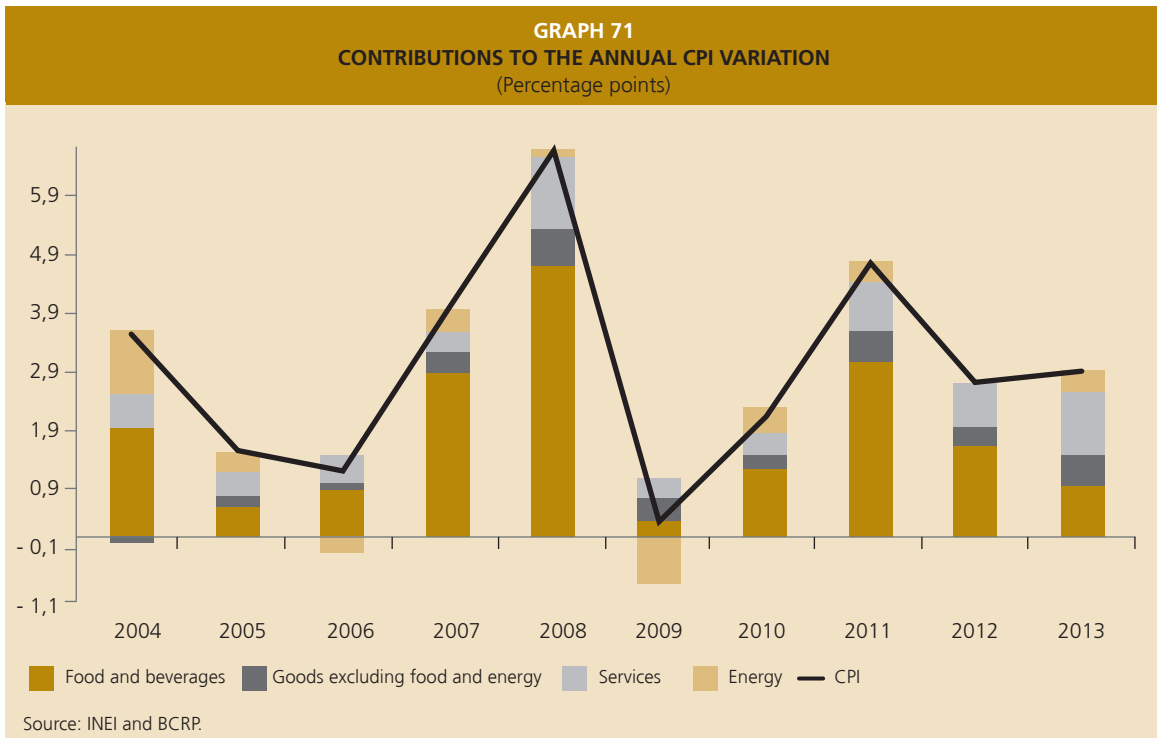
IV.

Inflation

In 2013, the rate of variation of the consumer price index (CPI) in Metropolitan Lima was 2.86 percent, slightly higher than in 2012 (2.65 percent). Inflation excluding food and energy rose from 1.91 to 2.97 percent in the same period.



The main rises were observed in meals outside the home, education costs, urban fares, and electricity rates, these four items explaining nearly 55 percent of the rate of inflation in the year.



The acceleration of inflation was also associated with the rise in the exchange rate. The likelihood that the U.S. Federal Reserve would start to withdraw its monetary stimulus generated high volatility in financial markets which caused episodes of depreciation of currencies in the emerging countries. In Peru, the dollar-nuevo sol exchange rate rose 9.1 percent between January and August, which had an impact on the price of vehicles, house rents, and airfare, among others. It is estimated that the depreciation of the nuevo sol had an impact of 0.25 percentage points on the inflation rate of the year.

Another factor that contributed to the acceleration of inflation in the period of January-to-August was the occurrence of climate anomalies that affected the prices of some products such as potatoes and fish. The prices of the products affected by these weather conditions grew about 11 percent on average between January and August only. These conditions tended to improve in the last months of the year, reversing the effects of price rises.

A rise in the international prices of some food inputs that affected the prices of products such as chicken meat and sugar was observed during 2012. The reversal of this shock was reflected in a decline in inflation.

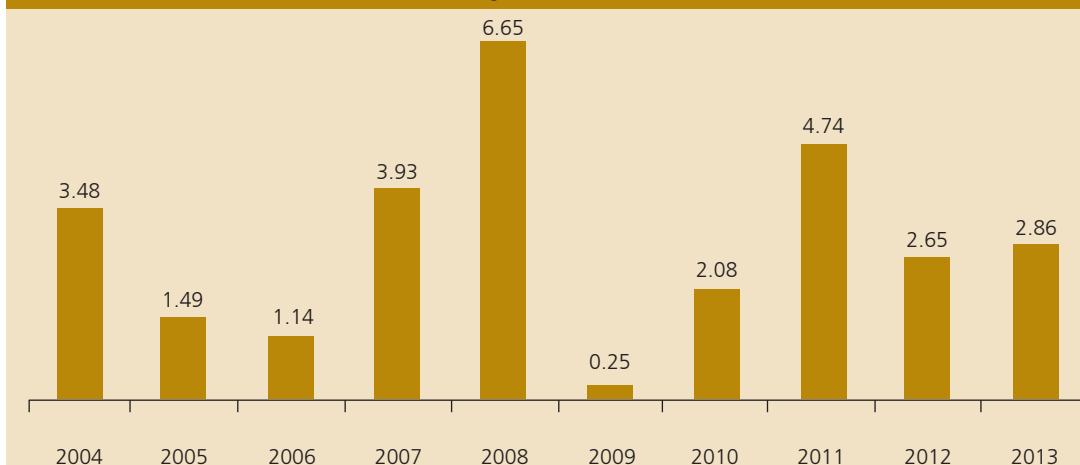
In general, the reversal of several factors contributed to the slowdown in the rate of inflation during the last months of the year and allowed the inflation rate to fall again within the monetary policy target. As a result of this, the average rate of inflation in Peru has been –and continues to be– the lowest in the region since 2001 (2.5 percent).

TABLE 60
WEIGHTED CONTRIBUTION TO THE INFLATION BY PERIODS

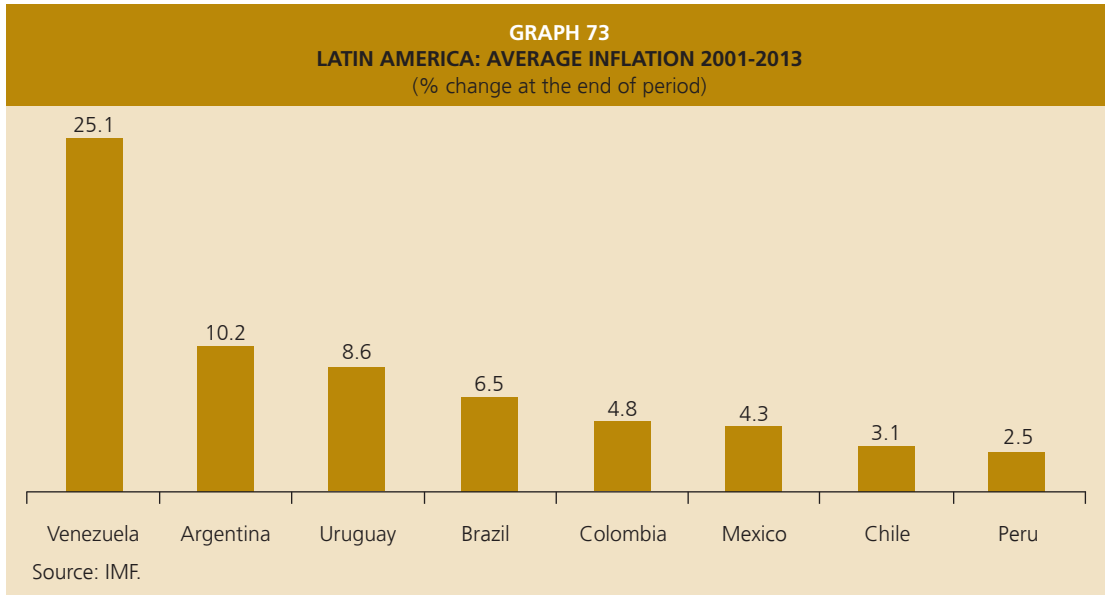
Item	Weigh	January-August		September-December		Year	
		% change	Weighted cont.	% change	Weighted cont.	% change	Weighted cont.
INFLATION	100.0	2.8	2.76	0.1	0.09	2.9	2.86
1. Foodstuffs	37.8	3.4	1.34	- 1.1	- 0.44	2.2	0.89
a. International price effects	10.0	- 0.4	- 0.04	- 1.1	- 0.11	- 1.5	- 0.15
<i>Of Which:</i>							
Chicken meat	3.0	1.7	0.05	- 5.3	- 0.16	- 3.6	- 0.11
Sugar	0.5	- 16.1	- 0.11	0.1	0.00	- 16.0	- 0.11
b. Domestic shocks	4.95	11.1	0.58	- 10.7	- 0.61	- 0.8	- 0.04
<i>Of Which:</i>							
Potato	0.9	17.0	0.17	- 19.6	- 0.22	- 6.0	- 0.06
Fresh and frozen fish	0.7	46.6	0.32	- 20.9	- 0.20	16.0	0.11
c. Meals outside the home	11.7	3.5	0.45	1.6	0.21	5.2	0.66
d. Other foodstuffs	11.1	3.1	0.35	0.5	0.06	3.6	0.41
2. Fuels, urban fares and energy	14.3	2.8	0.39	1.7	0.25	4.6	0.65
a. Fuels	2.8	4.6	0.14	1.3	0.04	6.0	0.18
b. Urban fares	8.5	1.2	0.10	2.3	0.19	3.5	0.30
c. Electricity	2.9	5.5	0.15	0.7	0.02	6.2	0.17
3. Related to exchange rate	4.5	5.9	0.23	0.5	0.02	6.5	0.25
<i>Of Which:</i>							
a. Purchases of vehicles	1.6	8.7	0.12	0.0	0.00	8.7	0.12
b. Housing rent	2.4	3.0	0.06	0.5	0.01	3.5	0.07
c. Airplane fare	0.4	12.5	0.04	2.6	0.01	15.4	0.05
4. Education	9.85	4.5	0.46	0.1	0.01	4.6	0.47
5. Rest	33.6	1.0	0.33	0.8	0.26	1.9	0.60

Source: INEI and BCRP.

GRAPH 72
INFLATION
(Average 2004-2013: 2.9%)



Source: INEI.



a. Inflation Excluding Food and Energy

The annual rate of inflation without food and energy increased from 1.91 to 2.97 percent between December 2012 and December 2013. The prices of goods increased from 1.6 percent in 2012 to 2.6 percent in 2013, while the prices of services increased from 2.1 to 3.2 percent in the same period.

The evolution of the prices of goods was influenced by the rise registered in the foreign exchange rate during the year. The depreciation affected mainly the price of tradable goods, such as the price of vehicles, which rose 8.7 percent and the price of medicines, which rose 4.1 percent.

As for services, the largest increases were observed in education (4.8 percent), urban fares (3.5 percent), house rents (3.5 percent), and health (5.0 percent).

Growing at a similar rate to the one observed in 2012 (4.7 percent), education costs (tuition and fees) increased 4.8 percent, the highest increase being recorded at the beginning of the school year although some price adjustments were also observed throughout the year in the tuition charge of higher education institutes. The rise of urban fares (3.5 percent), associated mainly with the increase in the prices of fuel and, to a lesser extent, with the increase of road tolls, stands out in terms of transportation costs. On the other hand, house rents increased 3.5 percent after having shown negative variations that reflected in part the rise in the foreign exchange rate in the past four years.

The reduction in telephone rates (-2.9 percent) was associated with the application of the productivity factor, whereas on the other hand, the water supply rates increased 2.9 percent, in line with the rises approved by the Sunass. In addition to this, an increase of 1.7 percent was established in July to cover the costs of La Chira project.

GRAPH 74
CPI GOODS AND SERVICES WITHOUT FOOD AND ENERGY
 (Last 12 months % change)

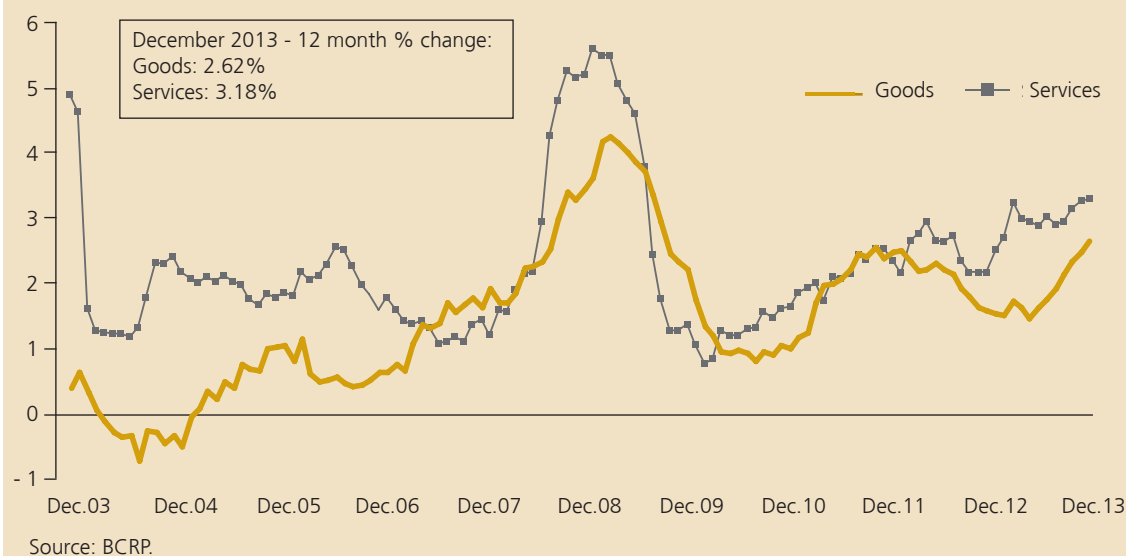


TABLE 61
INFLATION
 (% change)

	Weight	2011	2012	2013	% change 2001-2013
CPI	100.0	4.74	2.65	2.86	2.53
1. CPI without food and energy	56.4	2.42	1.91	2.97	1.95
a. Goods	21.7	2.37	1.60	2.62	1.56
Textiles and footwear	5.5	4.73	3.05	2.30	2.26
Domestic appliances	1.3	-1.13	-2.44	-0.08	-0.95
Other industrial products	14.9	1.76	1.37	2.97	1.41
b. Services	34.8	2.45	2.10	3.18	2.25
<i>Of which:</i>					
Education	9.1	4.19	4.69	4.76	3.81
Rent	2.4	-0.70	-0.33	3.46	0.02
Health	1.1	1.91	2.63	4.99	2.60
Transportation	8.9	3.61	1.99	3.54	2.66
Telephone and water	5.4	0.02	-0.37	-0.39	0.29
2. Food and energy	43.6	7.70	3.55	2.73	3.15
a. Food and beverages	37.8	7.97	4.06	2.24	3.19
<i>Of which:</i>					
Chicken meat	3.0	16.52	9.28	-3.63	2.29
Bread	1.9	7.55	2.76	0.77	4.45
Rice	1.9	10.84	-1.84	0.50	1.53
Sugar	0.5	1.87	-11.82	-15.99	1.14
Noodles	0.5	5.32	2.19	3.70	2.19
Oils	0.5	22.22	-0.87	-1.02	3.72
Potato	0.9	2.44	19.85	-6.02	3.75
Fresh and frozen fish	0.7	-1.07	-13.22	15.96	4.06
Meals outside the home	11.7	6.77	5.96	5.23	3.45
b. Fuels, electricity	5.7	6.01	0.22	6.09	2.70
Fuels	2.8	7.54	-1.48	5.95	3.62
Oil and lubricants	1.3	14.34	-5.02	6.91	3.70
Gas	1.4	0.98	2.21	4.98	1.58
Electricity	2.9	4.30	2.19	6.23	1.13

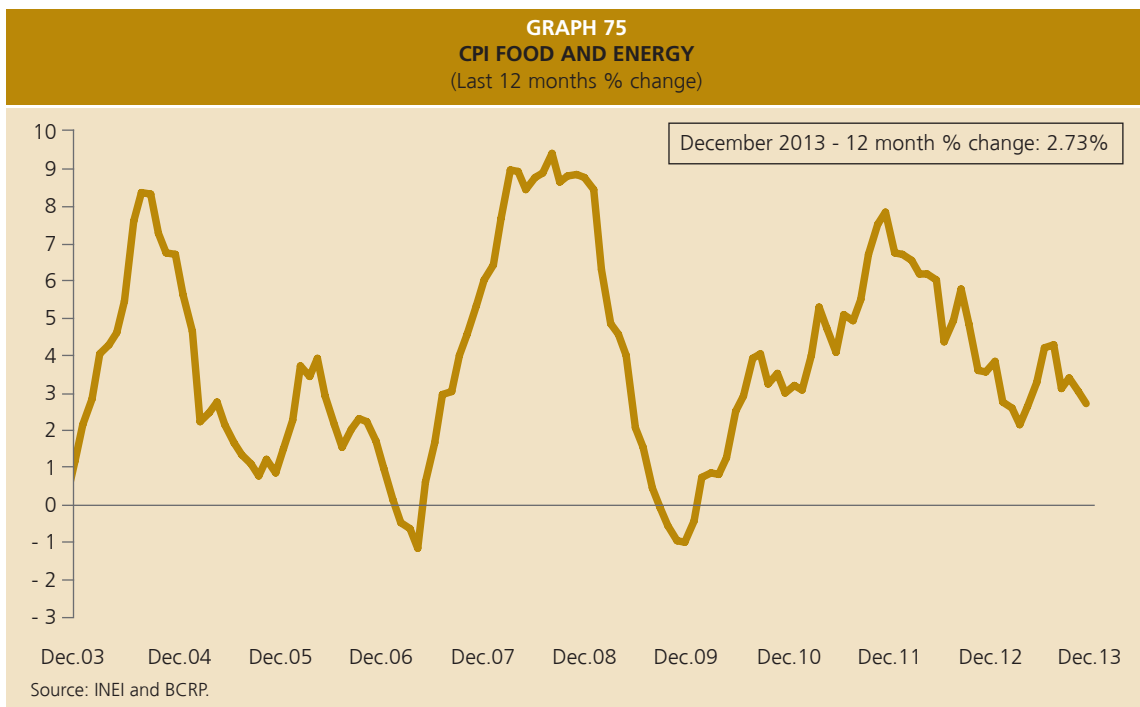
Source: INEI and BCRP.



b. Food, Energy and Fuel Prices

The rise in the prices of food and energy declined from 3.6 percent at the end of 2012 to 2.7 percent at December 2013, mainly as a result of a lower increase in the prices of food –down from 4.1 percent in 2012 to 2.2 percent in 2013–, which reflected declines in the prices of chicken, sugar, and potatoes.

On the other hand, fuel prices increased 6.0 percent while electricity rates increased 6.2 percent.



Impact of International Prices on Food Prices

After remaining relatively stable in the first half of 2013, the international prices of grains, particularly soybean and maize, registered a fall in the second half of the year while wheat showed a decline especially since the last quarter of the year. In general terms, the decline in the prices of these grains resulted from an improvement in supply and an increase in the levels of global stocks.

The falls in the prices of corn and soybean influenced the prices of food products such as chicken (-4.5 percent) and oil (-1.0 percent).

TABLE 62
FOOD: INTERNATIONAL PRICES OF INPUTS
AND CONSUMER PRICE
 (Annual % change)

	2011	2012	2013
Gutted chicken (S/. per kg)	17.2	9.5	- 4.5
Maize (US\$ per ton)	5.7	20.5	- 42.9
Soybean tart (US\$ per ton)	- 16.4	60.4	5.3
Bread (Pan francés) (S/. per kg)	5.8	2.7	1.0
Noodles (S/. per kg)	7.0	2.1	4.1
Wheat (US\$ per ton)	- 14.0	27.8	- 18.7
Bottled vegetable oil (S/. per liter)	22.2	- 0.9	- 1.0
Soybean oil (US\$ per ton)	- 2.9	- 6.2	- 20.2

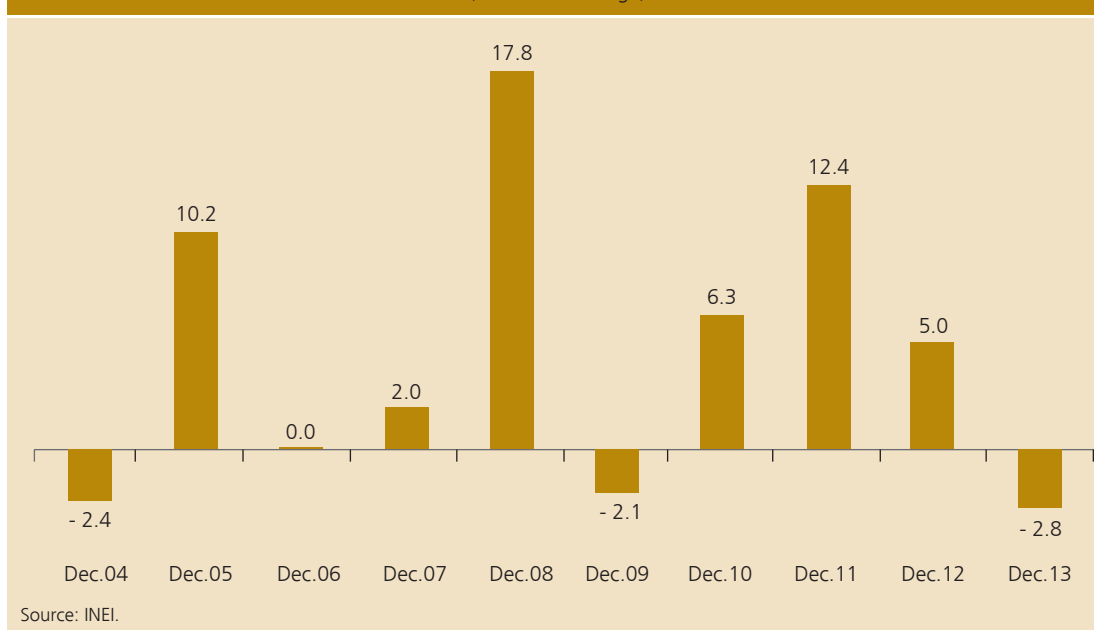
Source: INEI.

Food Products Affected by Climate Anomalies

Changes in weather conditions affected differently the evolution of perishable foodstuffs. For example, the availability of most fish species was affected by anomalous waves and variable weather conditions, which reduced the supply of these products and caused the price of fish to rise by 16 percent during the year.

On the other hand, the production of agricultural products was favored by the normalization of weather conditions in different producing areas and brought about a fall in the prices of farming foodstuffs of 2.8 percent on average. For example, the price of onions dropped 24 percent, while the price of potatoes fell 6 percent, corn fell 21 percent, and papaya fell 15 percent.

GRAPH 76
PRICES OF PERISHABLE AGRICULTURAL FOOD PRODUCTS
 (Annual % change)





Energy

Electricity rates increased by 6.2 percent, a higher rate than in 2012 (2.2 percent), due mainly to the rate adjustments established by Osinergmin in order to update the costs of energy generation associated with higher fuel prices and a higher foreign exchange rate. A rise was also approved in the tolls of the electricity transmission system due to the onset of operation of new transmission lines.

Fuels

The prices of gasoline and lubricants increased 6.9 percent, reflecting the rise in the international price of crude. The conflicts in the Middle East resulted in increases in the price of WTI oil, which rose from US\$ 88.2 the barrel in December 2012 to US\$ 97.8 in December 2013, with a maximum price of US\$ 106.6 being recorded in August 2013.

TABLE 63				
FUEL PRICES				
(Annual % change)				
	2011	2012	2013	Average 2004-2013
Fuels	7.5	- 1.5	6.0	3.8
Gasoline	14.3	- 5.0	6.9	3.6
Gas	1.0	2.2	5.0	1.9
Price of WTI oil, end of period 1/				
US Dollars	98.5	88.2	97.8	
Nuevos soles	265.6	226.4	272.5	
1/ West Texas Intermediate Source: INEI and Bloomberg.				