

CENTRAL RESERVE BANK OF PERU

WEEKLY REPORT

Nº 21 – May 21, 2004

QUARTERLY MACROECONOMIC INDICATORS

Private investment grew by 8% over the first quarter of 2004

Gross domestic product grew by 4,6% over the first quarter of this year, led by the 11,9% growth of exports that contributed to 2,1 percentage points of this period growth. It should be noted the 3,1%

expansion of private consumption (with a 2,3 percentage point contribution to growth) and the 8% increase of private investment, for a seventh quarter in a row and the highest since 1997.

GLOBAL DEMAND AND SUPPLY 1/
(Annual growth rates)

	2003					2004
	I	II	III	IV	YEAR	I
TOTAL DEMAND (1+2)	6.4	3.4	3.4	2.7	3.9	4.2
1. Domestic demand	6,2	2,6	3,7	2,2	3,6	2,8
a. Private consumption	4,5	3,0	2,9	2,6	3,2	3,1
b. Public consumption	6,4	3,0	2,1	6,7	4,5	0,3
c. Gross fixed investment	6,7	4,5	5,3	4,4	5,2	5,1
- Private	7,0	5,1	6,4	2,7	5,3	8,0
- Public	5,0	1,9	-0,5	11,7	5,0	-12,9
2. Exports 2/	7,6	8,2	2,1	5,7	5,8	11,9
TOTAL SUPPLY (3+4)	6.4	3.4	3.4	2.7	3.9	4.2
3. GDP	6,3	3,7	3,5	2,9	4,1	4,6
4. Imports 2/	6,9	1,4	3,1	1,8	3,2	1,9

1/ Preliminary.

2/ It includes goods and non-financial services.

Mining and oil related projects and construction have been determinant in **private investment** expansion. For instance, sales of cement increased 8,3%, whereas imports of capital goods excluding construction inputs, grew by 11,5%.

The 3,1% **private consumption** growth was reflected in indicators such as the 22% expansion of consumer credits, the 10% increase in car leasing and the growth of sales in malls and supermarkets (28,7 and 12,8%, respectively), coupled with the increase in urban employment in

enterprises with 10 or more workers (1,9%).

Public consumption was slightly higher than a year ago (0,3%), whereas the 12,9% drop in **public investment** is purely due to the delay in transfers from the central government to local instances.

The 11,9% expansion of **exports** was based in higher export volume of mining products such as copper (13,9%), gold (16%), lead (33,5%) and silver (2,4%). On the other hand, non-traditional export also recorded a positive record with an overall

increase of 30,8%; and 31,3% for garments, 31,6% for agriculture products and 56,1% for metal-based and jewelry. On the other hand, **imports** grew by 1,9%. Acquisitions of intermediate goods for industry were the most remarkable (10,7%).

Economic sectors

In the first quarter of 2004, the **primary sectors** grew 5,5 percent whereas the **non-primary sector** increased 4,6 percent. In this period there was a growth in all the sectors, situation that was not observed from the fourth quarter of 2002.

The primary sector was impelled by the growth of the metallic mining (14 percent) due to the higher production of gold, copper and iron; and of the fishing (6,5 percent) by the greater disembarkations of anchoveta. Within the non-primary activities they emphasized the construction sector (7,1 percent) associated to the impulse of the housing programs promoted by the State and the non-primary manufacture (6 percent) that reflects the increase of non-traditional exports, the development of mining projects and the higher production of consumer goods.

GROSS DOMESTIC PRODUCT
(Annual growth rates) 1/

ECONOMIC SECTORS	2003					2004
	I	II	III	IV	YEAR	I
Agriculture and livestock	2,1	3,7	2,3	-0,3	2,2	1,7
Agriculture	1,0	3,8	1,9	-1,8	1,8	0,6
Livestock	4,0	3,8	3,1	1,3	3,0	3,0
Fishing	-15,0	-15,8	-9,2	-11,4	-13,4	6,5
Mining and fuel	4,5	10,8	7,5	4,2	6,7	12,4
Metallic mining	5,6	12,0	9,0	4,8	7,8	14,0
Natural gas and oil	-6,2	-1,2	-7,3	-3,1	-4,5	-5,4
Manufacturing	6,4	1,1	2,0	-0,2	2,2	5,0
Based on raw materials	-2,2	-2,6	-0,9	-5,2	-2,8	0,5
Non-primary	8,5	2,2	2,8	1,2	3,6	6,0
Electricity and water	4,7	4,0	4,5	3,6	4,2	4,7
Construction	5,2	6,9	3,3	4,1	4,8	7,1
Commerce	8,0	2,7	3,2	0,7	3,6	2,2
Other services	6,1	3,9	3,2	4,9	4,5	4,8
GROSS AGGREGATED VALUE (VAB)	5,7	3,7	3,2	2,7	3,8	4,8
Taxes on products and import duties	11,9	4,3	5,8	4,1	6,3	2,6
GDP	6,3	3,7	3,5	2,9	4,1	4,6
Primary sector GAV	1,8	4,0	3,4	0,1	2,5	5,5
Non-primary sector GAV	6,8	3,6	3,2	3,4	4,2	4,6

1/ Preliminary.

Current account deficit equivalent to 0,4% of GDP

Over the first quarter of 2004, the **current account** deficit amounted to US\$ 68 million, down US\$ 446 million from a year ago, thanks to the improvement in the trade balance (in US\$ 577 million) which in turn reflected the momentum in terms of trade (a 14,7% increase in annual terms). On the other hand, the income a service deficits

were higher than a year ago in US\$ 180 and 12 million, respectively. However, current transfers increased by US\$ 60 million. Compared with the previous quarter, the current deficit was US\$ 60 million lower.

In this quarter, the **financial account** was positive in US\$ 271 million, mainly due to higher private capitals (US\$ 217 million). The latter in turn reflects entries from direct private investment and net long term loans (US\$ 252 million), partially offset by financial system investment abroad. The

public sector financial account was negative in US\$ 34 million, whereas short term flows positive in US\$ 88 million.

As a result, net international reserves of the Central Bank increased US\$ 216 million over this quarter.

BALANCE OF PAYMENTS

(Millions of U.S. dólares)

	2003					2004
	I	II	III	IV	Year	I
I. CURRENT ACCOUNT BALANCE	- 514	- 193	- 226	- 128	- 1 061	- 68
<i>(as percentage of GDP)</i>	<i>-3,6</i>	<i>-1,2</i>	<i>-1,5</i>	<i>-0,8</i>	<i>-1,7</i>	<i>-0,4</i>
1. Trade balance	- 18	205	233	311	731	559
a. Exports	2 024	2 188	2 320	2 454	8 986	2 687
b. Imports	- 2 041	- 1 983	- 2 087	- 2 144	- 8 255	- 2 128
2. Services	- 250	- 234	- 239	- 208	- 931	- 262
a. Exports	381	397	457	444	1 679	416
b. Imports	- 631	- 631	- 696	- 651	- 2 609	- 679
3. Investment income	- 509	- 447	- 553	- 573	- 2 082	- 689
a. Private	- 321	- 238	- 298	- 356	- 1 213	- 425
b. Public	- 188	- 209	- 255	- 218	- 869	- 264
4. Current transfers	263	282	333	342	1 221	323
II. FINANCIAL ACCOUNT	1 015	- 405	- 233	537	914	271
1. Private sector	304	14	- 290	54	82	217
2. Public sector	597	- 320	- 154	562	685	- 34
3. Short-term capital	114	- 99	212	- 79	147	88
III. EXCEPTIONAL FINANCING	1	2	8	53	64	2
IV. BCR NET INTERNATIONAL RESERVE FLOW (1-2)	- 851	470	288	- 385	- 479	- 208
<i>(Increase with negative sign)</i>						
1. Change in Central Bank reserves	- 845	446	241	- 439	- 596	- 216
2. Valuation change and monetization of gold	6	- 23	- 46	- 54	- 118	- 8
V. NET ERRORS AND OMISSIONS	349	127	162	- 77	561	4
Note:						
Private sector gross external financing 1/	668	364	325	573	1 930	429

1/ Considers the direct investment without privatization plus the disbursements of long-term loans of the private sector.

Fiscal surplus of 0,7% of GDP over the first quarter

Over the first quarter, the **non-financial overall balance** was positive in 0,7 % of GDP, compared with an equivalent deficit a year ago, mainly due to the improvement in the NFPS **primary balance** in 1,6% of GDP, reflecting higher tax revenues, lower central government non-financial expenses and a state-owned enterprises' surpluses. NFPS's interests amounted to 2,6% of

GDP, up 0,2 percentage points from a year ago.

Over this period, **current revenue** totaled 14,8% of GDP, down 0,2 ppt from a year ago. However, in real terms revenue increased by 6%, reflecting the growth in tax collection (9%), that offset lower non-tax resources such as oil royalties and transfers among others.

Central government non-financial expenditure totaled 12,5% of GDP, down 1,1% from a year ago and 2,8% in real terms, due to lower transfers and investment outlays. However, the latter is due to the delay in transfers from the central government to local instances.

Payment of **interest** amounted to 2,2% of GDP, up 14,8% in real terms, mainly due to higher external debt service (from US\$ 252 million in IQ03 to US\$ 310 million this period).

In the first quarter, **net external financing** was negative in US\$ 37 million. Disbursements amounted to US\$ 259 million, including US\$ 51 million oriented to general government investment projects,

as well as US\$ 200 million from the Inter American Development Bank of free availability resources. **Domestic financing** was also negative in S/. 428 million, due to higher state-owned enterprises' deposits. It should be noted that in the first quarter of the year, the government placed bonds worth S/. 584 million, whereas amortization was S/. 210 million for bonds and S/. 200 million for Treasury bills.

Privatization receipts reached US\$ 71 million, US\$ 68 million from the sale of RELAPASA share and US\$ 2 million from former operation payments. In the first quarter of the year, privatization and concession records amounted to US\$ 276 million, including the leasing of Yuncan hydroelectric plant by US\$ 205 million.

NON-FINANCIAL PUBLIC SECTOR OPERATIONS
(Percentage of GDP)

	2003					2004
	I	II	III	IV	Year	I
1. Central government current revenues	15,0	14,1	15,1	15,4	14,9	14,8
Tax revenues	13,0	12,4	12,9	13,3	12,9	13,3
Non-tax revenues	2,0	1,6	2,2	2,1	2,0	1,6
2. Central government non-financial expenditures	13,6	13,5	15,1	17,0	14,8	12,4
Current expenditure	12,1	11,9	13,4	14,2	12,9	11,5
Capital expenditure	1,4	1,7	1,7	2,9	1,9	0,9
3. Others	0,4	0,5	0,4	0,3	0,4	0,8
4. Primary balance	1,7	1,0	0,4	-1,3	0,4	3,3
5. Interest payments	2,4	1,8	2,5	2,1	2,2	2,6
6. Overall balance	-0,7	-0,8	-2,1	-3,4	-1,8	0,7
7. Net financing	0,7	0,8	2,1	3,4	1,8	-0,7
- External	4,3	-1,8	-0,9	4,2	1,4	-0,4
- Domestic	-3,7	2,6	2,9	-1,0	0,3	-0,8
- Privatization	0,0	0,0	0,1	0,2	0,1	0,5

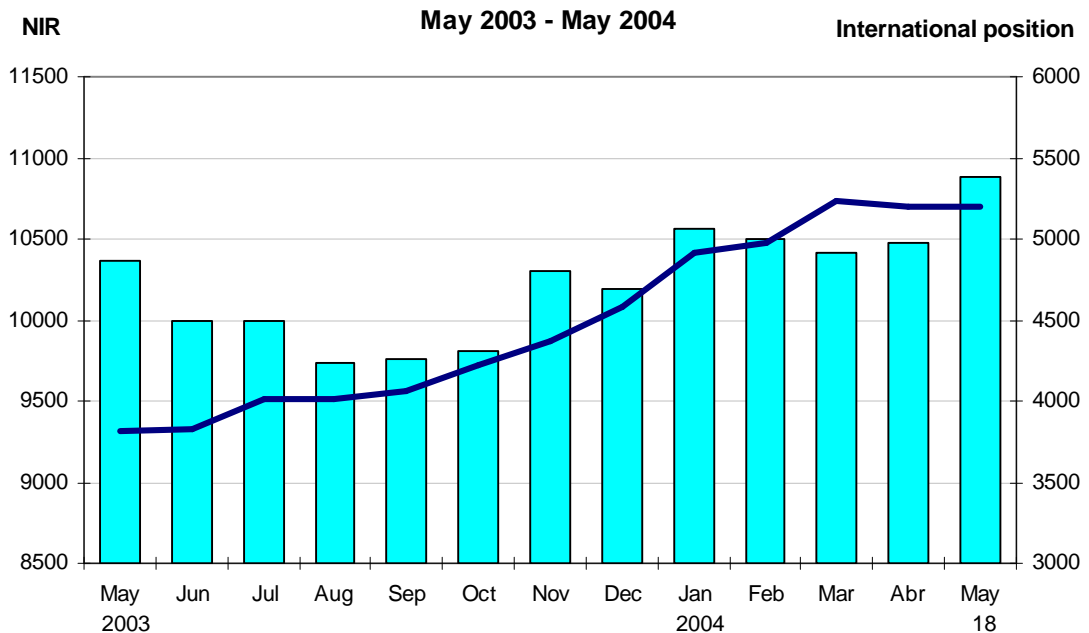
Net international reserves at US\$ 10 886 million

As of **May 18**, net international reserves (NIR) reached US\$ 10 886 million, up US\$ 415 million from end-April. This increase mainly comes from higher public sector deposits (US\$ 425 million), the capitalization of FLAR quota (US\$ 7 million) and interest earned (US\$ 6 million), which were partially offset by a negative

valuation effect (US\$ 14 million) and lower financial system deposits (US\$ 8 million).

In the year, NIR have increased US\$ 691 million. On the other hand, **Central Bank international position** amounted to US\$ 5 194 million, up US\$ 611 million from end-2003.

Net international reserve and international position of the Central Reserve Bank

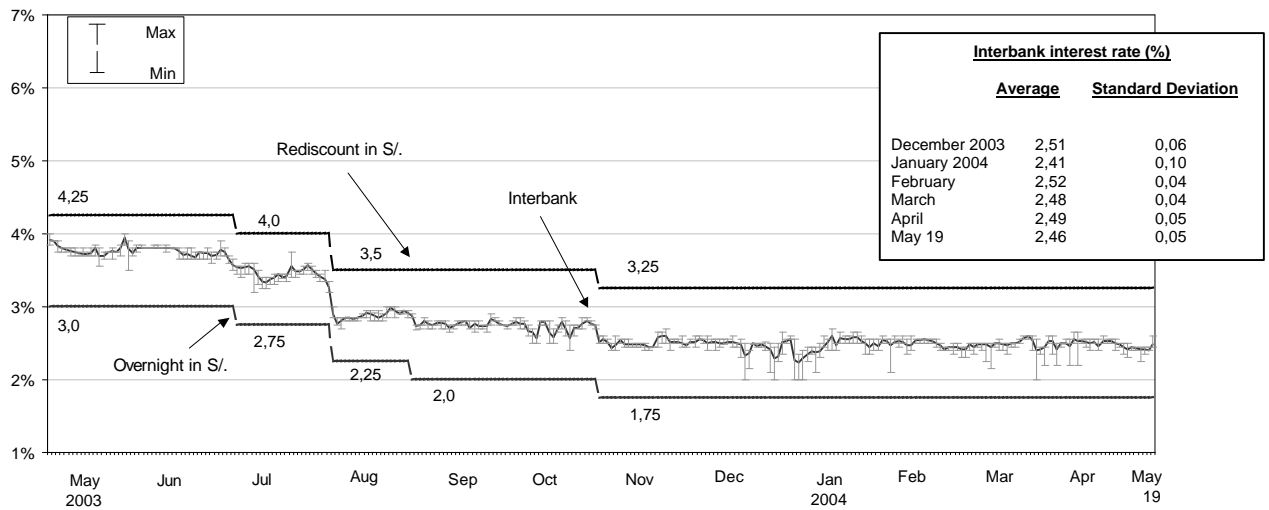


Interbank interest rate at 2,46%

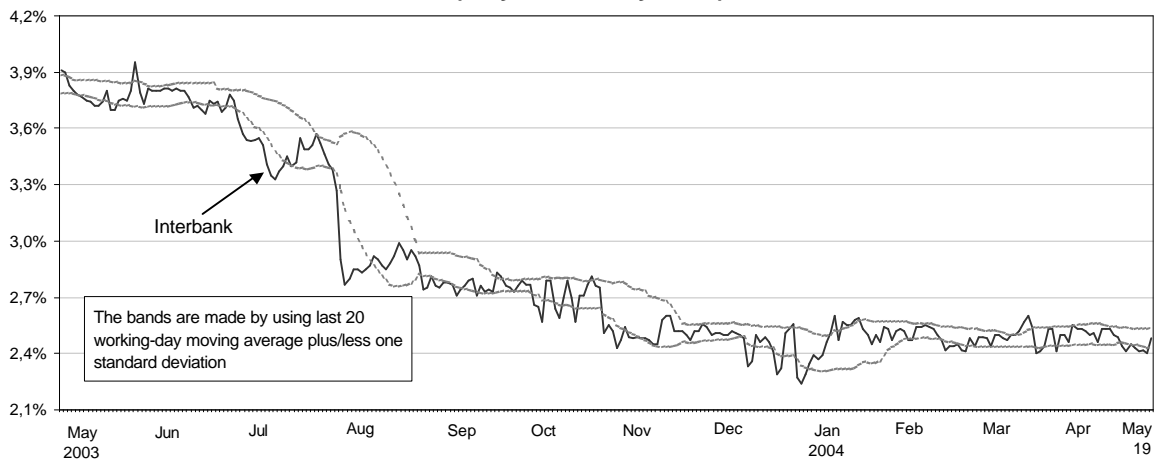
Between **May 1 to 19**, the average interbank interest rate in domestic currency

was 2,46%, lower than that recorded in April (2,49%).

Interest rates in domestic currency (May 2003 - May 2004)



Interbank interest rate in domestic currency (May 2003 - May 2004)



Monetary operations

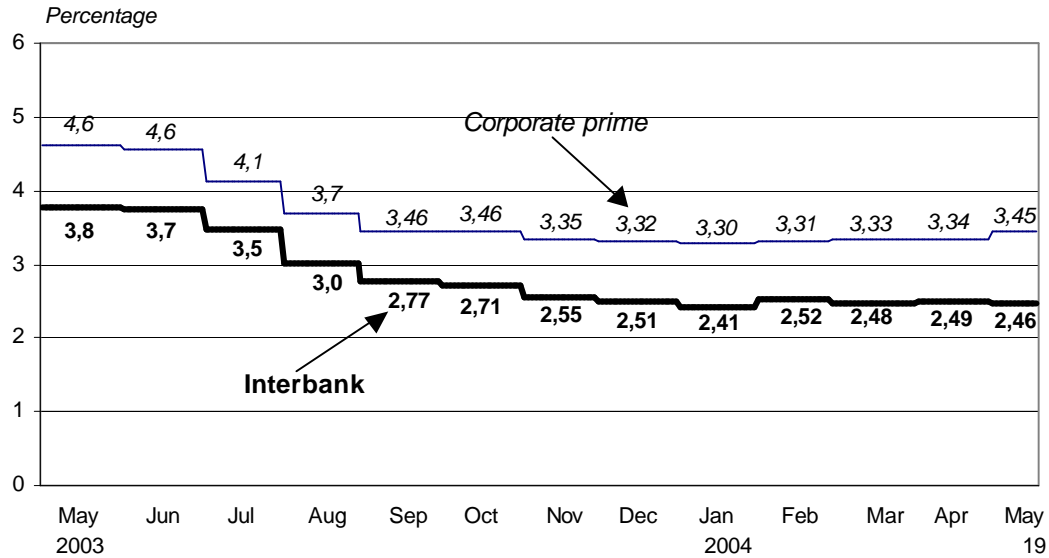
As of **May 19**, the daily average balance of banks' liquidity at the Central Bank was S/. 228 million. Between **May 13 to 19**, the Central Bank made the following operations:

- Auctions of CDBCRP with a 7-day maturity amounting to S/. 174 million at an average interest rates of 2,57%.
- Auctions of temporary purchase of CDBCRP and BTP with i) 1-day maturity by S/. 55 and 40 million at average interest rates of 2,47 and 2,48%, respectively and ii) 3-day by S/. 30 million at 2,47%.
- Overnight deposits on May 17 and 18 by S/. 20 and 17 million, respectively.

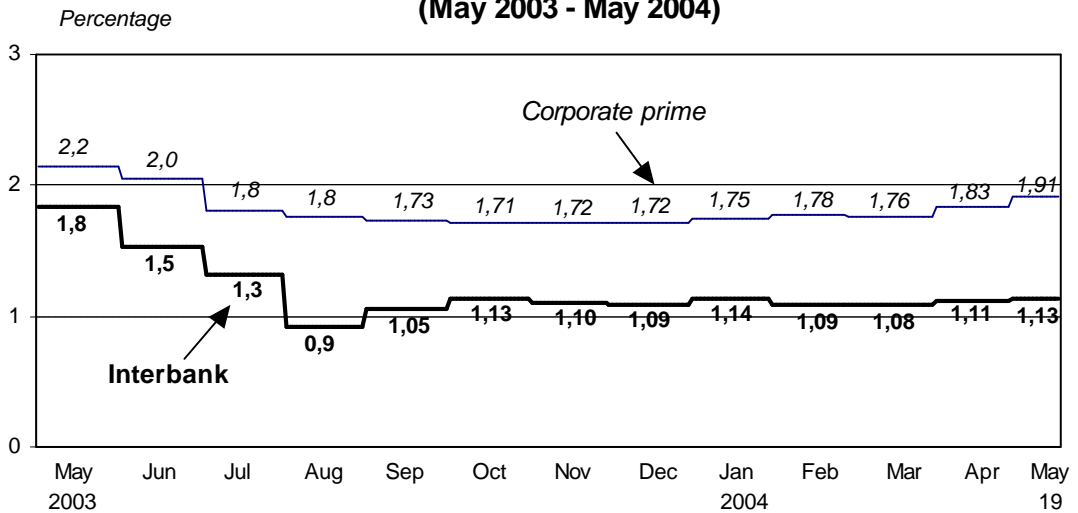
Corporate prime interest rate at 3,45%

As of **May 19**, the 90-day average corporate prime interest rate in domestic currency rose from 3,34 to 3,45%, whereas the rate in dollars passed from 1,83 to 1,91%.

**Monthly average interest rates in domestic currency
(May 2003 - May 2004)**



**Monthly average interest rates in foreign currency
(May 2003 - May 2004)**



Exchange rate: S/. 3,484

Between **May 12 and 19**, the exchange rate decreased from S/. 3,487 to S/. 3,484 due to higher domestic cash requirement during the tax season.

As of May 19, the **balance of net forward sales** dropped US\$ 17 million against end-April, whereas the **banks' exchange position** increased US\$ 57 million during the same period.

BANKS' EXCHANGE POSITION
(Millions of US\$)

	December 2002	December 2003	April	May 19
a. Net sales to the public (i-ii)	905	607	553	536
i. Forward sales to the public	1 141	834	1 059	1 025
ii. Forward purchases to the public	236	227	505	489
b. Banks' exchange position	642	530	488	545

Monetary base as of May 15, 2004

The **monetary base** balance as of May 15 was S/. 7 530 million, up 2,2% (S/. 161 million) from end-April. In average terms, the year on year growth of the monetary base was 19,0% compared with 17,5% in April.

The operations that expanded the monetary base were the withdrawal of public sector deposits (S/. 335 million) and the redemption of CDBCRP (S/. 230 million). These operations were partially offset by the redemption of temporary purchases of securities (S/. 410 million).

Gross domestic product grew by 5,5% in March

In March 2004, the **GDP** grew by 5,5% for 33 consecutive months. Growth was generalized in all sectors but agriculture. The expansion in primary sectors was 3,2%, lead by fishing and mining, whereas non-primary sectors grew by 6,9% due to

the dynamism of non-primary industry and construction.

Over the period April 2003 – March 2004, GDP grew by 3,7 % against the period April 2002 – March 2003. Metallic mining and construction stood out.

GROSS DOMESTIC PRODUCT
(Annual growth rates)

	March		Cumulative last 12-month	
	2003	2004	To february 2004	To march 2004
Agriculture and livestock	-0,1	-0,1	2,1	2,1
Agriculture	-2,3	-1,8	1,6	1,7
Livestock	3,7	2,2	2,9	2,8
Fishing	-25,4	14,0	-12,0	-9,4
Mining and fuel	1,4	8,6	8,0	8,6
Metallic mining	2,0	10,2	9,2	9,8
Natural gas and oil	-4,0	-8,7	-3,9	-4,3
Manufacturing	6,7	7,8	1,8	1,9
Based on raw materials	-4,3	0,1	-2,6	-2,2
Non-primary	9,6	9,6	3,0	3,0
Electricity and water	4,0	4,4	4,1	4,2
Construction	13,0	9,8	5,5	5,3
Commerce	9,3	3,2	2,7	2,2
Other services	5,8	7,3	4,1	4,2
<u>GROSS AGGREGATED VALUE (GAV)</u>	<u>5,7</u>	<u>6,2</u>	<u>3,6</u>	<u>3,6</u>
Taxes on products and import duties	16,0	-0,7	5,5	4,2
<u>GDP</u>	<u>6,6</u>	<u>5,5</u>	<u>3,7</u>	<u>3,7</u>
Primary sector GAV	-0,9	3,2	3,0	3,3
Non primary sectors GAV	7,6	6,9	3,7	3,7
Memo:				
Domestic demand indicator	9,5	3,4	3,3	2,8

The **agriculture & livestock** sector decline 0,1% in March due to the drop in agriculture output, partially offset by the increase in livestock, mainly of poultry. The former reflected the contraction in sugarcane, hard yellow corn and potato, due to droughts in the highlands.

Fishing expanded 14%, due to the growth of industrial fishing in the Southern coastal area. However, fishing for human consumption fell for a third consecutive month.

The 8,6% expansion in **mining and oil** was based in the higher production of copper and gold. The former due to the

resume of BHP Billinton Tintaya operations and the latter for the contribution of medium and small mining. On the other hand, oil output declined.

Manufacturing output grew by 2,8% thanks to the remarkable growth of **non-primary industry** (9,6%), whereas **based on raw material activities** remained steady, since the higher output of fish meal and fish oil was offset by a lower production of canned and frozen fish and processing of sugar and oil. The expansion of non-primary industries was mainly recorded in electric machinery, furniture and wood, printing, construction materials and chemical and natural essences.

**Industries with higher increases
March 2004**

CIIU	Var. %	
	Year	Contrib. % 1/
Electricity distribution and control apparatus	867,6	1,5
Furniture	44,5	1,1
Structural metal products	28,1	0,7
Explosives, natural and quimical essences	28,1	0,7
Cement	18,5	0,7
Pharmaceutical products	26,7	0,5
Miscellaneous manufacturing products	14,0	0,4
Articles of concrete	64,1	0,4
Yarns, threads and finished textiles	9,0	0,4
Toilet and cleaning products	12,8	0,3
Other articles of paper and paperboard	17,3	0,3
Tiles	10,1	0,3
Rubber	32,2	0,3
Paints, varnishes and lacquers	31,7	0,3

1/ Percent contribution to non primary manufacturing

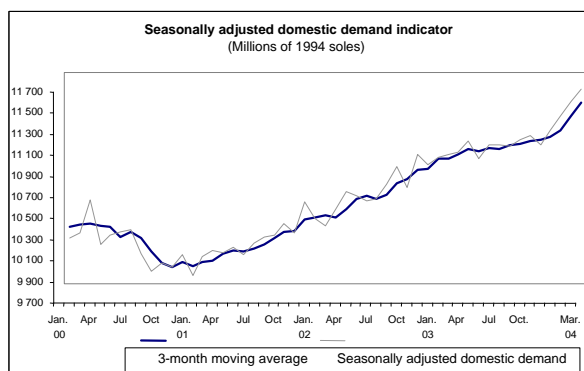
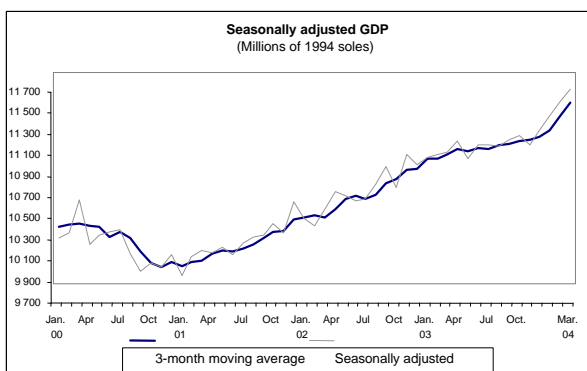
**Industries with higher decreases
March 2004**

CIIU	Var. %	
	Year	Contrib. % 1/
Other fabricated metal products	-10,9	-0,5
Other general purpose machinery	-89,6	-0,4
Cutlery, hand tools and general hardware	-39,2	-0,3
Tobacco	-42,6	-0,1
Paper and paperboard containers	-11,4	-0,1

1/ Percent contribution to non primary manufacturing

Construction increased 9,8%, whereas local cement sales grew by 9%, due to the dynamism of government lead housing programs.

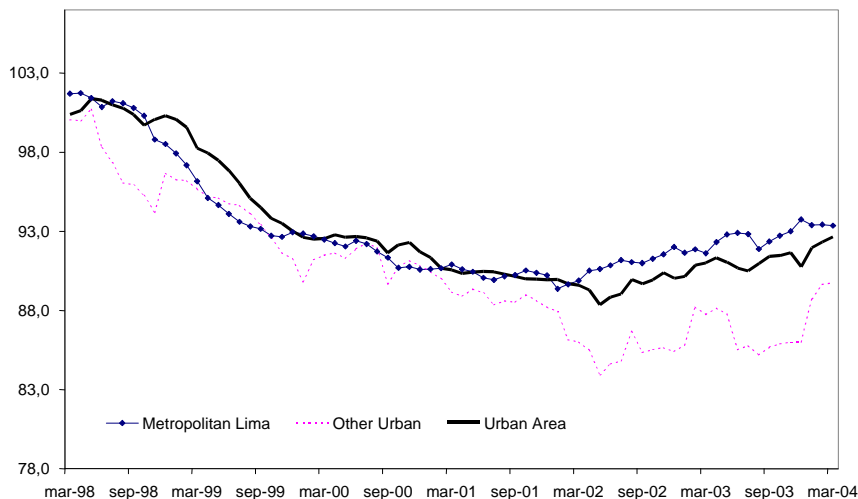
Seasonally adjusted GDP grew by 1% in March against February, for a fourth consecutive month.



In March, **employment** in enterprises with 10 or more workers in urban areas grew by 1,9%. According to the Ministry of Labor, employment in Metropolitan Lima

increased in the same amount, with records of 2,4% for manufacturing, 2,6% for services and 2,2% for transport.

**Urban employment in enterprises with 10 and more workers
(Seasonally adjusted indices, October 1997 =100)**



In other urban areas, employment grew by 2,3%. By cities, it should be noted the

growth in Paita (27%), Ica (15,3%) and Trujillo (5%).

**URBAN EMPLOYMENT BY MAIN CITIES IN
ENTERPRISES WITH 10 AND MORE WORKERS
(Annual percentage change)**

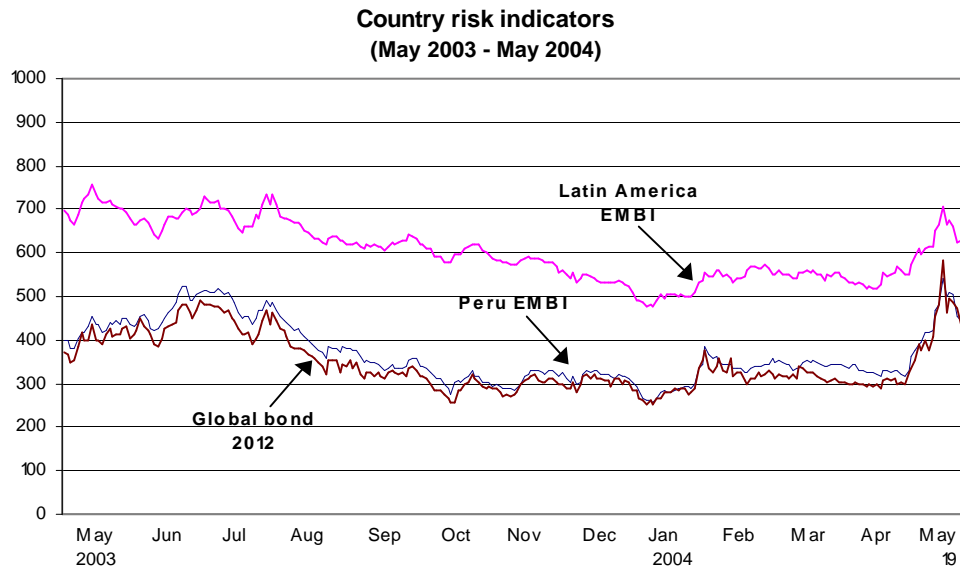
	March 2004/ March 2004	Jan. - Mar 2004/ Jan. - Mar. 2003
Urban Peru	1,9	1,9
Metropolitan Lima	1,9	1,8
Other Urban	2,3	2,5
Arequipa	1,9	1,8
Cajamarca	2,7	-0,1
Chiclayo	-0,3	-0,7
Chimbote	-2,2	3,0
Chincha	1,7	3,5
Cusco	-1,1	-3,1
Huancayo	4,1	-0,2
Ica	15,3	10,9
Iquitos	0,7	1,4
Paita	26,9	9,5
Pisco	-2,7	-2,3
Piura	6,8	5,1
Pucallpa	-4,1	-1,6
Puno	-4,0	-6,4
Tacna	-2,1	-5,9
Tarapoto	0,7	-1,6
Trujillo	5,0	8,2

Source: MTPE, Monthly Statistical Report.

Spread of Global bond 2012 at 4,67%

As of **May 19**, the spread of the **Peruvian Global bond 2012** was 4,67%, higher than in April (3,74%), whereas the spread of the

Peruvian sovereign bond increased from 3,93% to 4,58%.



International markets

Between **May 12 and 19**, the **gold** quotation increased 0,8% to US\$ 383 per Troy ounce due to the weakening of the US dollar and

the higher demand after the terrorist attacks in the Middle East.



The **copper** quotation dropped 3,3% to US\$ 1,20 per pound. Last week, the Bank of China reported that inflation peaked 3,8%, the highest in 7 years, and therefore

decided to restrict credits to sectors such as printing and garments. However, LME inventories declined once more, though a lower pace, from 147 to 144 thousand MT.

Copper quotation



In the week under analysis, the **zinc** quotation increased 0,7% to US\$ 0,46 per pound, following the higher demand of

institutional investors. LME inventories decreased from 751 to 739 thousand MT.

Zinc quotation



The **WTI oil** price soared 1,8% to a peak of US\$ 41,6 per barrel, due to the lower

US fuel inventories.

WTI oil quotation



The **US dollar** depreciated 0,9% against the **euro** and appreciated 0,1% against the **yen**. The former due to the dynamism of Eurozone economy in the first quarter (a GDP growth of 1,3%, the highest in 3

years). On the other hand, the US dollar appreciated against the yen despite the 5,6% economic growth of Japanese economy, above market previsions.

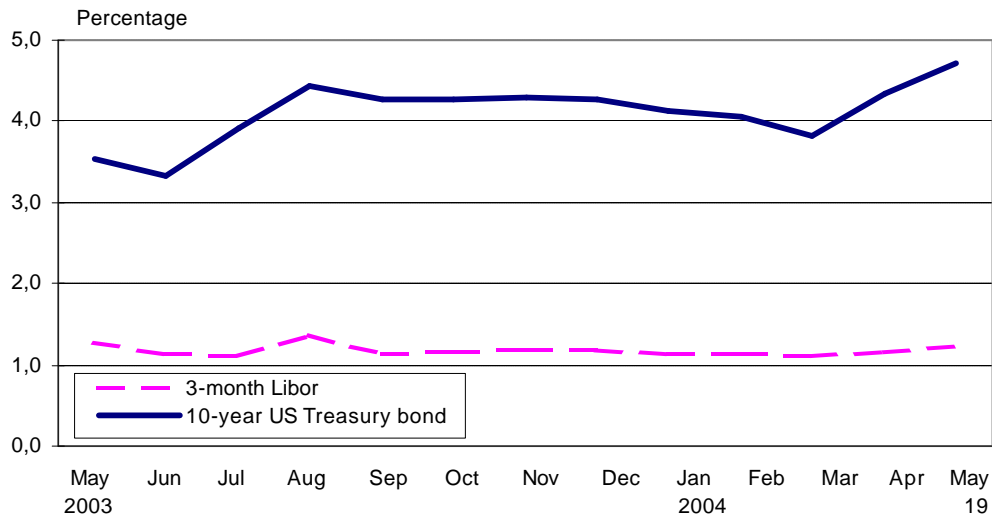
Yen and euro



The **3-month Libor** passed from 1,24% to 1,27%, whereas the **yield of US Treasury bonds with a 10 year maturity** soared from 4,81 to 4,77%. The increase of US treasury

values is a consequence of a lower than expected inflation, the fall of stock markets and a higher demand after the terrorist attacks in Iraq and Turkey.

Libor and yield of 10-year matured US Treasury bond
(May 2003 - May 2004)



Lima Stock Exchange (LSE)

As of **May 19**, the LSE recorded a drop of 1,6% for the **General Index** and 3,0% for the **Blue Chip Index**, in line with other regional stocks due to the expected rise in

Fed's interest rates and lower mineral quotations. However, in the year these indices record cumulative increases of 14,3% and 15,1%.

LSE indicators
(May 2003 - May 2004)

