External Sector

IV.

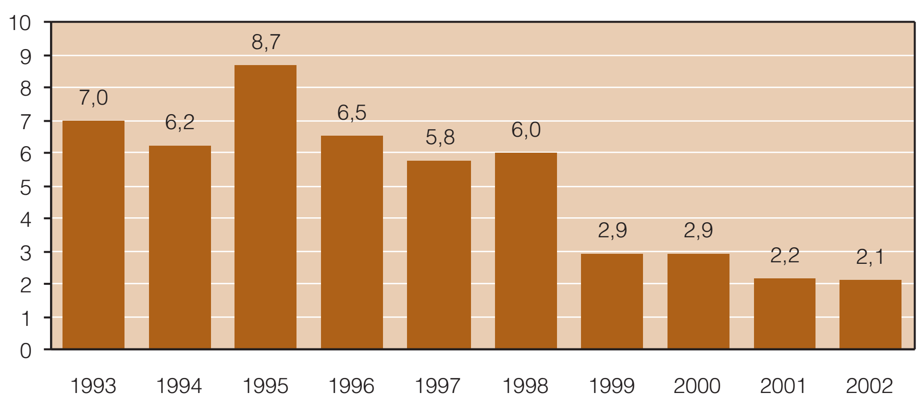
The **current account of the balance of payments** deficit decreased from 2,2 to 2,1 percent of GDP in 2002. In absolute terms, the deficit reached US$ 1 206 million, close to the US$ 1 184 million of 2001. The trade balance showed a positive result for the first time since 1990. The results for other components of the current account, with the exception of current transfers, were of a lower magnitude, in particular the investment income account.

The **trade balance** recorded a surplus of US$ 207 million in 2002 (compared to a US$ 267 million deficit in 2001) as the increase of exports (US$ 640 million) was higher than the growth of imports worth US$ 167 million. Increased exports are explained by the recovery of prices for gold and fishmeal as well as the impact of greater volume of copper and zinc from Antamina and larger gold production from the Yanacocha mine. Increased imports are a result of recovering consumer demand, a more dynamic domestic economy, increased oil prices and purchases for the Camisea project.

The **income** deficit grew to US$ 1 509 million in 2002, from US$ 1 123 million in 2001. Lower international interest rates influenced on the reduced interest payments of both government and private foreign debt, but had an even more significant impact on the lower yields from our international assets.

The **financial account** of the balance of payments recorded a positive US$ 1 980 million flow, US$ 430 million higher than a year before, due to the greater public

GRAPH 17
CURRENT ACCOUNT DEFICIT: 1993-2002
(Percentage of GDP)



Source: BCR.

and private capital inflows. Two sovereign bond issues worth US$ 1 886 million (US$ 1 391 million in February and US$ 495 million in December) were placed, of which US$ 902 million were used for a Brady bond swap.

Foreign direct investment rose from US$ 803 million in 2001 to US$ 2 205 million in 2002 mainly due to the acquisition of Backus corporation stocks by the Bavaria Group (Colombia) and the Cisneros and Polar groups (Venezuela) worth approximately US$ 660 million; as well as resources received by Banco Wiese (US$ 483 million), the Camisea project (US$ 582 million), Antamina (US$ 212 million), Tim Peru telephone company (US$ 199 million), Mine operator Tintaya (US$ 127 million) and Redesur (US$ 53 million) which offset lower inflows from the sale of public assets.

Total **long term private borrowing and direct investment** reached US$ 2 914 million, above the US$ 1 844 million recorded in 2001. This inflow exceeded the current account deficit of the balance of payments and the negative short-term capital inflow of US$ 794 million. Better

TABLE 24
BALANCE OF PAYMENTS: 2000-2002

	Millions of US dollars			Percentage of GDP		
	2000	2001	2002	2000	2001	2002
I. CURRRENT ACCOUNT BALANCE	**-1 557**	**-1 184**	**-1 206**	**-2,9**	**-2,2**	**-2,1**
1. Trade balance	- 456	- 267	207	- 0,9	- 0,5	0,4
a. Exports	6 951	7 007	7 647	13,0	12,9	13,4
b. Imports	-7 407	-7 273	-7 440	- 13,8	- 13,4	- 13,1
2. Services	- 691	- 835	- 948	- 1,3	- 1,5	- 1,7
a. Exports	1 604	1 510	1 545	3,0	2,8	2,7
b. Imports	-2 295	-2 345	-2 493	- 4,3	- 4,3	- 4,4
3. Investment income	-1 409	-1 123	-1 509	- 2,6	- 2,1	- 2,7
a. Private sector	- 896	- 550	- 761	- 1,7	- 1,0	- 1,3
b. Public sector	- 513	- 573	- 748	- 1,0	- 1,1	- 1,3
4. Current transfers	999	1 042	1 043	1,9	1,9	1,8
II. FINANCIAL ACCOUNT	**1 003**	**1 550**	**1 980**	**1,9**	**2,9**	**3,5**
1. Private sector	1 458	967	1 724	2,7	1,8	3,0
2. Public sector	280	394	1 051	0,5	0,7	1,8
3. Short-term capital	- 735	189	- 794	-1,4	0,3	-1,4
III. EXCEPTIONAL FINANCING	**- 58**	**31**	**51**	**-0,1**	**0,1**	**0,1**
IV. BCR NET INTERNATIONAL RESERVES (Increase with negative sign)	**190**	**- 448**	**- 832**	**0,4**	**-0,8**	**-1,5**
1. Change in Central Bank reserves	224	- 433	- 985	0,4	-0,8	-1,7
2. Valuation changes and monetization of gold	34	15	- 153	0,1	0,0	-0,3
V. NET ERRORS AND OMISSIONS	**423**	**51**	**7**	**0,8**	**0,1**	**0,0**

results in the public and private financial account made it possible to increase foreign currency reserves by US$ 985 million, thus increasing the total balance at the end of 2002 to US$ 9 598 million. Such a level of foreign currency reserves further consolidates the indicators of the country's coverage against external factors.

Net international reserves (NIR) covered 15 month's worth of goods imports in 2002 compared to 14 months in 2001. The NIR balance was 2,1 times external debt due in one year, reflecting the country's greater capability to confront restrictive conditions in the international capital markets. The NIR to monetary base ratio remained at around 5, evidencing the country's prudent position to face shocks caused by extraordinary demand for foreign currency.

The **capability to pay short term debt** improved as the total foreign debt payment to current account revenue ratio fell from 33 percent in 2001 to 30 percent in 2002. The foreign debt to GDP ratio dropped from 50 to 49 percent, reflecting to the country's increased ability to pay its medium term debt, or the country's improved solvency.

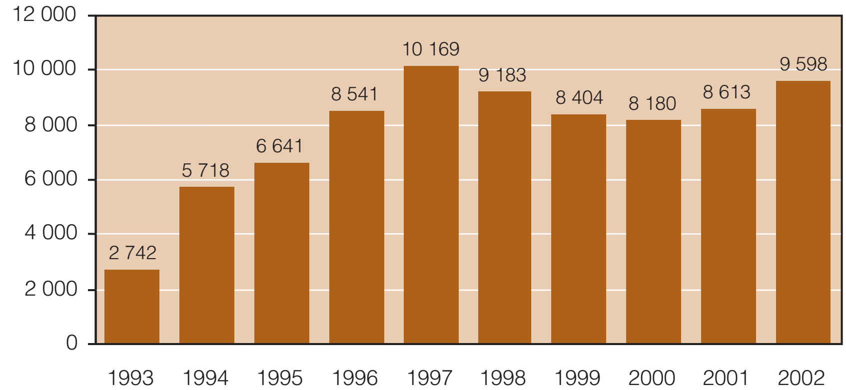
TABLE 25

EXTERNAL VULNERABILITY INDICATORS: 2000-2002

	2000	2001	2002
Current account deficit (% of GDP)	2,9	2,2	2,1
Exports concentration by product (%) 1/	50	49	51
Long-term private capital (% of current account balance) 2/	79	59	127
Gross external financing to the private sector (% of current account balance) 3/	159	156	242
Net international reserves (millions of US dollars)	8 180	8 613	9 598
NIR/ Debt due in one year (times) 4/	1,5	1,4	2,1
NIR (number of months of import of goods)	13	14	15
Total external debt (% GDP)	52	50	49
Total external debt / Current account revenues (times)	2,7	2,7	2,6
Total external debt services (% current account revenues) 5/	36,7	33,3	30,5

1/ Share of gold, copper, fishmeal and zinc in total exports.
2/ Private sector financial account, without privatization.
3/ Direct investment without privatization and disbursements of long term debt to private sector.
4/ Short term debt and medium and long term debt due in one year.
5/ Excluding debt swap transactions in 2002.
Source: BCR.

GRAPH 18
NET INTERNATIONAL RESERVE OF THE BCR: 1993 - 2002
(Millions of US dollars)



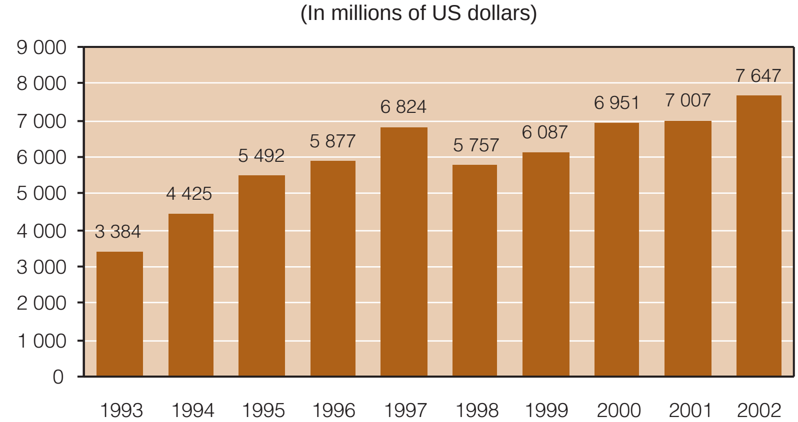
Source: BCR

1. Exports

Exports totaled US$ 7 647 million[1/], US$ 640 million higher (9 percent) than in 2001. This increase was explained by higher traditional exports worth US$ 571 million (12 percent) and non-traditional exports that grew US$ 77 million (4 percent).

Average export prices increased 3,7 percent while average volume grew 5,0 percent. Higher average prices were explained by a rise in the prices for

GRAPH 19
TOTAL EXPORTS: 1993-2002
(In millions of US dollars)



Source: BCR, SUNAT and companies.

1/ Starting with this annual report and after a methodology review, giant squid extracted by foreign vessels (fishing permits) were excluded from the other items total of exports since they are not longer recorded in Peru's GDP. This change means that only the concession fee payment is recorded as an item in the current transfer line.

TABLE 26
EXPORTS: 2000-2002

	Millions of US dollars			Percent change	
	2000	2001	2002	2001	2002
I. TRADITIONAL PRODUCTS	**4 821**	**4 742**	**5 312**	**- 1,7**	**12,0**
FISHING	**955**	**926**	**892**	**- 3,0**	**- 3,7**
Fishmeal	874	835	823	- 4,5	- 1,4
Fish oil	81	91	69	13,0	- 24,1
AGRICULTURAL PRODUCTS	**249**	**207**	**216**	**- 16,7**	**4,2**
Coffee	223	181	188	- 19,2	4,2
Sugar	16	17	16	4,5	- 2,8
Cotton	5	5	2	- 4,8	- 51,0
Other agricultural products 1/	5	5	10	18,5	75,0
MINERAL PRODUCTS	**3 216**	**3 187**	**3 734**	**- 0,9**	**17,2**
Gold	1 145	1 166	1 479	1,9	26,8
Copper 2/	933	986	1 187	5,7	20,4
Zinc	496	419	429	- 15,4	2,3
Lead 2/	190	196	211	3,0	7,5
Silver (refined)	179	169	174	- 6,1	3,0
Tin	166	130	103	- 21,7	- 21,1
Iron	67	81	83	22,3	1,9
Other mineral products 3/	40	39	69	- 4,0	78,9
PETROLEUM AND DERIVATIVES	**402**	**422**	**469**	**5,0**	**11,4**
II. NON-TRADITIONAL PRODUCTS	**2 044**	**2 183**	**2 260**	**6,8**	**3,5**
Agriculture and livestock	394	437	554	10,8	26,9
Fishing	177	197	164	11,4	- 16,8
Textile	701	664	677	- 5,2	1,9
Timber and papers and its manufactures	123	142	177	15,5	24,6
Chemical	212	247	256	16,2	3,8
Non-metallic minerals	47	58	68	23,7	17,8
Basic metal industries and jewelry	265	242	222	- 8,5	- 8,3
Fabricated metal products and machinery	96	160	109	65,9	- 31,9
Other products 4/	29	36	33	24,3	- 8,2
III. OTHER PRODUCTS 5/	**86**	**82**	**75**	**- 4,1**	**- 9,2**
IV. TOTAL EXPORTS	**6 951**	**7 007**	**7 647**	**0,8**	**9,1**

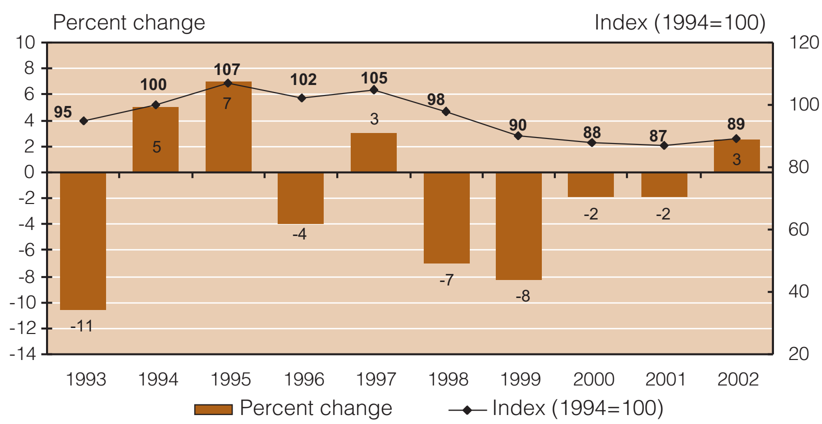
1/ Including coca leaves and derivatives, molasses, wools and furs.
2/ Including silver contents.
3/ Including molybdenum, bismuth and tungsten, mainly.
4/ Including furs, leathers and handicrafts.
5/ Fuel and food sold to foreign ships and aircrafts and repairs on capital goods.
Source: BCR, SUNAT and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

fishmeal and fish oil prices (26 and 49 percent, respectively), gold (15 percent) and petroleum and derivatives (14 percent higher), partially offset by falling zinc (17 percent down) and copper (4 percent down) prices. Average exports volume increased after Antamina started its operations: copper export increased 25 percent (173 thousand MT) while zinc volume grew 22 percent (207 thousand MT). In the case of zinc there was also the effect of medium size mines greater output. Likewise, gold volumes increased 11 percent or 456 thousand ounces mainly from increased output from Yanacocha.

The **terms of trade** improved 2,5 percent as a consequence of greater export prices (3,7 percent) compared to the increased import prices (1,2 percent). Terms of trade thus reverted the sliding trend observed the last 4 years.

GRAPH 20

TERMS OF TRADE: 1993 - 2002



Source: BCR, SUNAT, Zofratacna, Banco de la Nación and companies.

Traditional exports

Traditional exports evolved to a large extent under a negative environment created by lower prices for export metals, the impact of Antamina on exports and greater gold external sales. Considering total exports, annual price effect for the year was positive in US$ 365 million, in particular fishmeal exports (US$ 170 million), gold (US$ 189 million), and petroleum and derivatives (US$ 60 million). This positive impact was partially offset by the negative price effect on zinc (US$ 66 million) and copper (US$ 9 million).

Non-traditional exports

Non-traditional exports reached US$ 2 260 million. Growth was recorded on agriculture and livestock (US$ 118 million or 27 percent), timber and papers (US$ 35 million or 25 percent), textiles (US$ 12 million or 2 percent), non-metallic minerals (US$ 10 million or 18 percent) and chemical (US$ 9 million or 4 percent).

BOX 4

ANDEAN TRADE PREFERENCES AND DRUG ERADICATION ACT (ATPDEA)

The Andean Trade Preferences and Drug Eradication Act was enacted on August 6, 2002 and is the continuation of the Andean Trade Preferences Act and called to renew and expand the benefits previously granted by it. This law was enacted by the United States to support the struggle against drugs in the Andean Community countries (excepting Venezuela). The ATPDEA was approved on July 26, 2002 in the framework of the 2002 Trade Act and will remain in force until December 2006.

The new law renewed all the benefits granted by the ATPDEA and additionally includes the following products:

- Tariff-free access for garments manufactured using regional inputs up to the maximum level established by the quota that would increase from 2 percent of the imports (in square meters) of the United States by 0,75 points annually to reach 5 percent towards the end of 2006.
- Tariff-free access for garments manufactured with US inputs. No quota limitation is applied.
- Tariff-free access for garments manufactured with alpaca, llama and vicuña fine wool. No quota limitation is applied.
- Tariff-free access for vacuum canned tuna fish in flexible packages. No quota limitation is applied.

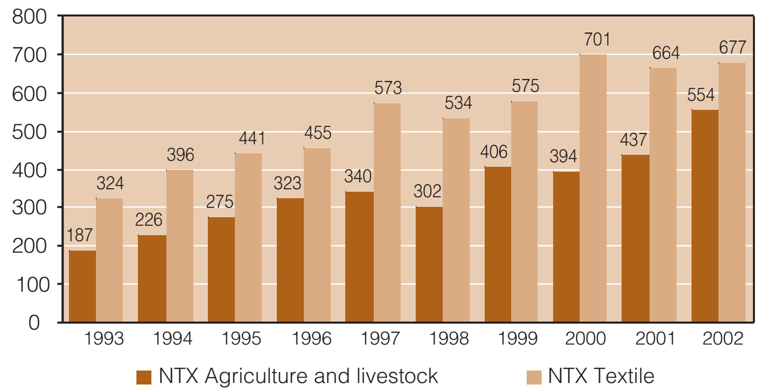
It also introduces the following exceptions and rules:

- The products included in the following list are subject to restrictions, but may be included by presidential order:
  - Footwear
  - Petroleum or any product derived from petroleum
  - Watches and watch parts
  - Handbags and some leather products

- It also excludes the following products from the zero-tariff treatment:
  - Textiles and apparel not eligible for the purposes of this title on January 1, 1994.
  - Rum and tafia classified under subtitle 220840 of the harmonized trade system.
  - Sugar, syrups and products containing sugar subject to quota.
  - Prepared and preserved tuna fish in air tight containers, excepting flexible packaging.

In 2001 and 2002 exports of apparel and other products reached US$ 507 million and US$ 532 million, respectively. Out of those exports, US$ 370 million and US$ 393 million were exported to the United States. Assuming that the present structure of the Andean countries exports is preserved and that the whole quota is filled, potential exports of Peruvian textiles may reach 33 percent annually on average.

GRAPH 21
NON-TRADITIONAL AGRICULTURE AND LIVESTOCK AND TEXTILE EXPORTS: 1993-2002
(Millions in US dollars)



Source: BCR and SUNAT.

Fabricated metal products and machinery fell (US$ 51 million or 32 percent) as well as fishing (US$ 33 million or 17 percent), basic metal industry and jewelry (US$ 20 million or 8 percent) and others (US$ 3 million or 8 percent).

2. Imports

Imports reached US$ 7 440 million, US$ 167 million (2 percent) higher than that of 2001, linked to a more dynamic domestic demand and the economy's turnaround, in particular in the second half of the year. This increase is accounted for by larger purchases of consumer's goods (US$ 121 million) and inputs (US$ 155 million). Capital goods imports fell US$ 76 million despite purchases for the Camisea project (US$ 175 million) and a drop of import duties from 20 and 12 percent to 7 percent in March 2002. In addition, certain capital goods linked to exports under the ATPDEA benefited from a tariff drop to 4 percent in September.

3. Trade by country

The United States of America was Peru's main **commercial partner** with 27 percent in 2002 and 28 percent in 2001. The drop comes from the 3 percentage points reduction of our imports from that country in 2002. Our second largest trade partner was the United Kingdom, although its 6 percent share was also lower than in 2001 by 1 percentage point given the reduction of the relative importance of our country's exports to that country (2 percentage points). Peru's other major trade partners were Chile, Spain, the People's Republic of China and Switzerland, countries which together with the previous ones comprise 54 percent of our trade exchange.

Trade with NAFTA countries diminished 2 percent points due to the reduction of trade with the United States and Mexico. It remained unchanged with the European Union (drops were recorded with the United Kingdom and Spain, BOX 5

CHANGES TO THE TARIFF STRUCTURE

In 2002 a group of measures were enacted mainly aimed at reducing duties paid by capital goods. In March, by DS No. 047-2002.EF, import duties fell to 7 percent for 1 560 items classified as capital goods, equivalent approximately to one fourth of total imports. In April this list of items was modified through DS 063-2002-EF that added a temporary ad valorem surcharge of 5 percent for 312 items. Thus, the set of import items under 7 percent duty dropped to 1 248 types of goods.

Of these 1 248 items, a subset of 178 items, mainly linked to textile and agricultural exports benefiting from the promulgation of the *Andean Trade Preferences and Drug Eradication Act* (ATPDEA), achieved an additional reduction in September (D.S. 135-2002-EF). Duties from these items dropped from 7 to 4 percent.

Also in 2002, a duty was increased (from 12 to 20 percent) for three sugar items (D.S. 044-2002-EF) and for two cigarettes items (D.S. 119-2002-EF). These items were subject to an additional temporary 5 percent surcharge.

These modifications introduced a new 7 percent rate thus increasing the number of tariff levels (including the temporary 5 percent surcharge) from six to seven. In addition, the new customs tariff list book, published in December 2001, includes a zero percent duty applicable only to special treatment goods (luggage, household items and personal care goods). The average tariff dropped from 11,8 percent to 10,9 percent, while the weighted imports duty dropped from 11,8 to 10,7 percent.

TARIFF STRUCTURE [1/]

Tariff Level	December 2001			December 2002		
	Items		Imports 2001	Items		Imports 2001
	Number	%	%	Number	%	%
4 percent	1 436	20,5	15,6	1 614	23,1	17,7
7 percent	-.-	-.-	-.-	1 070	15,3	19,8
9 percent	1	0,0	0,0	1	0,0	0,0
12 percent	4 399	63,4	73,6	3 165	45,2	52,0
17 percent	50	0,7	0,7	47	0,7	0,7
20 percent	779	10,9	3,8	763	10,9	3,5
25 percent	326	4,7	6,2	331	4,7	6,3
Average Tariff		11,9	11,9		10,9	10,7

[1/] Excluding the zero percent tariff applicable only to 6 items with special treatment (luggage and household goods and personal care goods).

TABLE 27
IMPORTS : 2000-2002

		Millions of US dollars			Percentage change	
		2000	2001	2002	2001	2002
I.	**Consumer goods**	**1 498**	**1 649**	**1 770**	**10,1**	**7,3**
	Non-durable	892	994	1 036	11,5	4,2
	Durable	606	654	734	8,0	12,2
II.	**Raw materials and intermediate goods**	**3 645**	**3 592**	**3 747**	**- 1,5**	**4,3**
	Fuels	1 084	907	978	- 16,3	7,7
	For agriculture	214	232	249	8,5	7,5
	For industry	2 348	2 453	2 521	4,5	2,8
III.	**Capital goods**	**2 117**	**1 919**	**1 843**	**- 9,3**	**- 4,0**
	Building materials	212	169	272	- 20,1	60,6
	For agriculture	30	20	20	- 33,6	1,3
	For industry	1 433	1 358	1 226	- 5,3	- 9,7
	Transportation equipment	441	372	324	- 15,6	- 12,9
IV.	**Other goods 1/**	**147**	**114**	**80**	**- 22,7**	**- 29,6**
V.	**TOTAL IMPORTS**	**7 407**	**7 273**	**7 440**	**- 1,8**	**2,3**
Note:						
	Foodstuff 2/	**482**	**530**	**535**	**10,0**	**0,9**
	Wheat	151	179	175	18,7	- 2,3
	Corn or sorghum	80	81	92	1,7	13,5
	Rice	24	15	9	- 36,7	- 42,8
	Sugar 3/	41	50	30	23,9	- 40,7
	Dairy products	44	43	29	- 2,5	- 32,5
	Soybean	125	145	184	16,5	26,4
	Meat	18	16	17	- 9,6	4,2

1/ Includes donated goods, capital good under leasing and other goods not included in this classifier.
2/ Excludes food donations.
3/ Includes non-refined sugar cane, classified as raw materials.
Source: BCR, SUNAT, Zofratacna, Banco de la Nación and other companies.

although trade increased with Germany and Switzerland) and decreased with the Andean Community (from 8 to 7 percent). The ALADI and MERCOSUR shares were 23 percent and 6 percent, respectively, as a year before.

4. Services

The **balance of services deficit** grew by US$ 113 million to a total US$ 948 million. This result is accounted for the smaller surplus from travel expenses

TABLE 28
DIRECTION OF TRADE: 2000-2002
(In percent of total)

	Exports 1/			Imports 2/			X + M		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
United States of America	28,1	25,4	26,1	29,2	29,9	27,0	28,6	27,7	26,5
United Kingdom	8,5	13,6	11,6	1,4	1,1	1,2	4,9	7,2	6,4
Spain	2,8	3,1	3,2	9,2	8,8	8,2	6,1	6,0	5,7
People's Republic of China	6,5	6,1	7,9	2,2	2,4	3,2	4,3	4,3	5,6
Chile	3,9	4,1	3,3	7,1	8,1	7,8	5,5	6,1	5,5
Switzerland	8,0	4,5	7,5	1,4	1,3	1,6	4,6	2,9	4,6
Japan	4,7	5,4	4,9	4,3	3,4	2,9	4,5	4,4	3,9
Brazil	3,2	3,3	2,6	4,4	3,8	4,6	3,8	3,6	3,6
Germany	3,1	3,0	3,3	3,1	3,3	3,4	3,1	3,2	3,4
Colombia	2,1	2,2	2,1	4,7	4,0	4,5	3,4	3,1	3,3
Venezuela	1,6	2,1	1,5	4,8	3,9	3,2	3,3	3,0	2,4
South Korea	2,0	1,6	2,2	2,6	2,8	2,5	2,3	2,2	2,4
Mexico	2,2	1,9	1,7	2,8	2,6	2,7	2,5	2,3	2,2
Others	23,3	23,7	22,1	22,7	24,6	27,2	23,0	24,1	24,6
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 and the repair of foreign vessels and aircrafts.
2/ Imports exclude products classified as other imports and the repair of Peruvian vessels and aircrafts abroad.
Source: SUNAT.

TABLE 29
COMMERCIAL TRADE BY MAIN ECONOMIC BLOCS: 2000-2002 1/
(In percent of total)

	2000			2001			2002		
	X	M	X + M	X	M	X + M	X	M	X + M
APEC 2/	54	54	54	52	55	53	52	51	51
NAFTA 3/	32	35	33	29	34	32	30	31	30
EU	21	21	21	27	20	23	26	19	23
Euro Zone	13	18	15	13	18	16	14	18	16
ALADI	17	30	23	17	30	24	15	31	23
ANDEAN COMMUNITY 4/	6	8	7	7	8	8	6	9	7
MERCOSUR	4	8	6	4	8	6	3	9	6
Note:									
ANDEAN COMMUNITY:									
Petroleum and derivatives	0	4	2	0	3	2	0	2	1

X: Exports M: Imports.
1/ Partial amounts do not add up 100 percent due to superposition of countries among commercial blocs.
2/ Asia-Pacific Economic Cooperation.
3/ North American Free Trade Agreement signed by the United States, Canada and Mexico in 1993.
4/ Excludes trade of petroleum and derivatives.
Source: SUNAT.

and increased deficits from insurance and other services.

5. Income

The **income deficit** reached US$ 1 509 million, US$ 386 million higher than in 2001 as a consequence of larger public (US$ 175 million) and private (US$ 211 million) deficit. The larger private sector deficit was mainly a consequence of increased **earnings** (US$ 363 million) that came after improved earnings among foreign investment companies in the last year. This was partially offset by smaller interest outflows (US$ 218 million) that resulted from lower international interest rates and a reduced debt.

6. Private sector financial account [2/]

A positive inflow of US$ 1 724 million was recorded in the **private sector financial account**. This is explained by the financial account, excluding privatization, of

TABLE 30
INVESTMENT INCOME: 2000-2002

	Millions of US dollars			Percentage of GDP		
	2000	2001	2002	2000	2001	2002
I. CREDITS	**737**	**647**	**337**	**1,4**	**1,2**	**0,6**
1. Private sector	145	125	58	0,3	0,2	0,1
2. Public sector	592	523	279	1,1	1,0	0,5
II. DEBITS	**2 146**	**1 771**	**1 846**	**4,0**	**3,3**	**3,2**
1. Private sector	1 041	675	819	1,9	1,2	1,4
Profits 1/	344	131	494	0,6	0,2	0,9
Interests	697	544	326	1,3	1,0	0,6
· Long term loans	332	313	197	0,6	0,6	0,3
· Bond	34	29	9	0,1	0,1	0,0
· Short-term 2/	331	202	120	0,6	0,4	0,2
2. Public sector interest	1 105	1 096	1 026	2,1	2,0	1,8
Long-term loans	915	915	818	1,7	1,7	1,4
Bonds	160	161	196	0,3	0,3	0,3
BCR 3/	30	21	13	0,1	0,0	0,0
Short-term 4/	0	0	0	0,0	0,0	0,0
III. BALANCE (I-II)	**-1 409**	**-1 123**	**-1 509**	**- 2,6**	**- 2,1**	**- 2,7**
1. Private sector	- 896	- 550	- 761	- 1,7	- 1,0	- 1,3
2. Public sector	- 513	- 573	- 748	- 1,0	- 1,1	- 1,3

1/ Accrued earnings or losses for the period. Includes distributed income and non-distributed earnings.
2/ Includes interests of non-financial public enterprises.
3/ Includes interests for short and long term debt.
4/ Includes interests of Banco de la Nación.

Source: BCR, MEF and companies.

2/ The private sector financial account was reviewed due to recent information about financial conditions. It was made changes on the statistics on the maturity of the loans and the classification between loans and direct investment.

US$ 1 537 million and direct investment from privatizations of US$ 186 million. The total recorded flow was US$ 757 million higher than that recorded in 2001, basically due to flows aimed at strengthening the financial and industrial sectors equity holdings.

Foreign direct investment, excluding privatization, (US$ 2 205 million) were basically accounted for by purchases of Backus corporation by foreign investors for approximately US$ 660 million. Also by direct and indirect capital contributions to Banco Wiese Sudameris (US$ 483 million), BHP Tintaya (US$ 127 million) and Tim Peru (US$ 199 million). A highlight in the hydrocarbon industry was the Camisea Project that received US$ 582 million for its various stages of development including exploitation, transport and distribution.

7. Public sector financial account

The **public sector financial account** recorded a positive balance of US$ 1 051 million, US$ 657 million higher than the year before. This result was determined by incoming resources of US$ 2 902 million that were partially offset by an outflow of US$ 1 888 million. Both accounts include

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PRIVATE SECTOR LONG-TERM CAPITAL FLOWS: 2000-2002

	Millions of US dollars			Percentage of GDP		
	2000	**2001**	**2002**	**2000**	**2001**	**2002**
I. LONG-TERM CAPITAL FLOWS EXCLUDING PRIVATIZATION (1+2+3+4+5)	**1 229**	**700**	**1 537**	**2,3**	**1,3**	**2,7**
1. DIRECT INVESTMENT WITHOUT PRIVATIZATION	581	803	2 205	1,1	1,5	3,9
2. LONG-TERM LOANS	962	197	- 173	1,8	0,4	-0,3
Disbursements	1 900	1 041	709	3,6	1,9	1,2
Amortization	- 938	- 844	- 882	-1,8	-1,6	-1,6
3. BONDS (NET) 1/	- 48	- 97	- 153	-0,1	-0,2	-0,3
4. STOCK MARKET AND ADR's 2/	123	43	- 9	0,2	0,1	0,0
5. OTHER EXTERNAL ASSETS 3/	- 389	- 246	- 333	-0,7	-0,5	-0,6
II. PRIVATIZATION	**229**	**267**	**186**	**0,4**	**0,5**	**0,3**
III. TOTAL	**1 458**	**967**	**1 724**	**2,7**	**1,8**	**3,0**

1/ In net terms, bonds issued minus bonds redeemed. Includes notes and securitization, among others.
2/ Considers the net acquistion of financial assets by non residents through the Lima Stock Exchange registered in Cavali (compensation and liquidation of securities institution). Includes the acquistion of American Depositary Receipts (ADR's).
3/ Includes mainly equities and other financial assets from abroad acquired by the financial and non financial sector.

Source: BCR, Cavali ICLV S.A., Proinversión and companies.

US$ 902 millions of a Brady bond swap for global bonds. The net foreign asset account reflected an increase of US$ 37 million in international assets. This result is a consequence of payments for subscription payments made by the government and Cofide to multilateral organizations worth US$ 42 million and a drop in Banco de la Nación's foreign assets totaling US$ 7 million. In addition, collateral Brady bonds were released for US$ 72 million as a result of the Brady debt swap for global bonds.

BOX 6

INTERNATIONAL SOVEREIGN BOND PLACEMENT

The liability policy has become a very important aspect within the fiscal administration and is targeted to improve the government financial management and reduce its fiscal deficit. Government debt usually implies substantial resources, consequently, its proper administration allows government to reduce potential risks and costs, as well as country's vulnerability. Liability management ensures that government financing needs and debt repayment will be made at the lowest possible cost and risk in the medium term. With this purpose transactions involving old for new debt swaps, external for domestic debt exchanges, buybacks, bond issues among others are made to seek debt and debt service restructure considering the government cash flow risks and costs.

In this context, in 2002, the Government of Peru started the debt administration program to restructure and diversify public debt, to increase maturity terms and reduce debt. After 74 years away from international capital markets, Peru placed a sovereign bond issue. DS 021-2002-EF dated January 29, 2002, authorized the placement of up to US$ 500 million in debt to meet the government financial needs as well as a Brady bond swap for global bonds of up to US$ 1 billion.

On February 2, 2002, the Government of Peru placed in New York an issue of a 10 year bullet-type global Bond (Peru Global 12) for ten years at 9,125 percent interest rate. The issue totaled US$ 1 423 million of which US$ 500 million were core flow and US$ 923 million were exchanged for a total US$ 1 204 million worth of Brady bonds. With a bond price of 97,732 percent, the yield increased to 9,481 percent and the spread to 455 basis points. In turn, this debt swap allowed to reduce Brady bond nominal debt by US$ 281 million and released collateral worth US$ 72 million.

On November 23, 2002, DS 182-2002-EF approved a second international placement of sovereign bonds for US$ 500 million. Bullet-type five global bonds year called "Peru Global 08" were issued at a 9,125 percent interest rate. The price of the issue was 99,073 percent with yields of 9,350 percent and a spread of 612 basis points.

GLOBAL BONDS FINANCIAL CONDITIONS

	Date	Amount in millions of US$	Coupon	Price	Yield	Spread
Global 2012	6-feb-02	US$ 1 423	9,125%	97,732%	9,481%	455
Global 2008	25-nov-02	US$ 500	9,125%	99,073%	9,350%	612

8. International Investment Position

The international investment shows total of financial assets worth US$ 15 449 million mainly comprised of reserves assets at the Central Bank totaling US$ 9 690 million. Total assets were US$ 1 251 million higher because of the increase of assets at the Central Bank (US$ 853 million), the financial system (US$ 304 million) and other assets (US$ 93 million).

Total liabilities reached US$ 42 545 million mainly comprised of medium and long term government debt (US$ 20 715 million), direct investment balances (US$ 11 715) and medium and long term private debt (US$ 4 463 million).

The **medium and long term private external debt** including bonds was US$ 332 million lower than in 2001 and is equivalent to 7,8 percent of GDP. **Medium and long term public debt** at the end of 2002 reached US$ 20 715 million, or US$ 1 748 million higher than a year before. This item was equivalent to 36,4 percent of GDP, slightly above 2001. The difference is accounted for net debt US$ 1 014 million higher than during that year and increased US$ 734 million resulting from the US$ depreciation compared to the euro and yen, principally.

Total debt including public and private bonds is equivalent to 49,0 percent of GDP (but lower than the 50,2 percent of GDP recorded in 2001) and is a 2,6 multiple of current account revenues (roughly similar to the 2,7 multiple of 2001).

TABLE 32
INTERNATIONAL INVESTMENT POSITION: 2000-2002
(Levels at the end of period)

	Millions in US dollars			Percentage of GDP		
	2000	2001	2002	2000	2001	2002
I. ASSETS	**14 191**	**14 198**	**15 449**	**26,5**	**26,2**	**27,2**
1. Reserve assets of the BCR	8 562	8 837	9 690	16,0	16,3	17,0
2. Financial system (excludes BCR)	2 420	2 682	2 986	4,5	5,0	5,3
3. Other assets	3 209	2 679	2 772	6,0	4,9	4,9
II. LIABILITIES	**40 568**	**40 699**	**42 545**	**75,8**	**75,2**	**74,8**
1. External bonds and debts						
Total private and government bonds and foreign debt	**27 981**	**27 195**	**27 840**	**52,3**	**50,2**	**49,0**
a. Medium and long term	24 241	23 963	25 251	45,3	44,3	44,4
Private sector 1/	4 687	4 795	4 463	8,8	8,9	7,8
BCR	349	202	73	0,7	0,4	0,1
Public sector	19 205	18 967	20 715	35,9	35,0	36,4
b. Short term	3 740	3 232	2 589	7,0	6,0	4,6
Financial system (excluding BCR)	1 723	1 321	817	3,2	2,4	1,4
BCR	34	23	20	0,1	0,0	0,0
Otros 2/	1 983	1 888	1 753	3,7	3,5	3,1
2. Direct investment	**10 310**	**11 078**	**11 715**	**19,3**	**20,4**	**20,6**
3. Stock market and ADR's	**2 278**	**2 427**	**2 990**	**4,3**	**4,5**	**5,3**

1/ Including bonds.
2/ Non financial private sector short term debt is mainly accounted.
Source: BCR, MEF, Cavali ICLV S.A., BVL, Proinversión and BIS.