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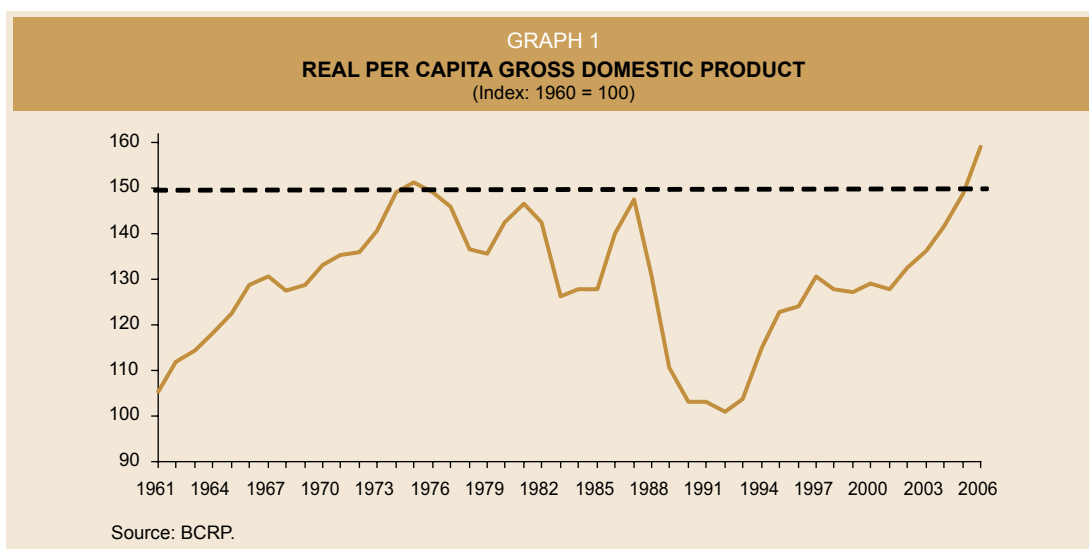
Output and employment

Economic activity has expanded at increasingly high rates over the past three years, growing from 5.2 percent in 2004 to 6.4 percent in 2005 and to 8.0 percent in 2006, the highest growth rate recorded since 1995. As in precedent years, growth in 2006 was characterized by a generalized increase in all domestic demand components, particularly private consumption and private investment. The magnitude of the growth observed in these variables indicates that the Peruvian economy is currently going through an expansionary stage in its economic cycle, as reflected in the per capita income which has reached even higher levels than the historical records achieved in the seventies.

In 2006 economic activity grew 8.0 percent in real terms, the highest growth rate seen over the past ten years. This strong economic growth occurred in a context characterized by a high level of consumer and business confidence, favored by price stability in the economy, a fiscal surplus, a greater dynamism of credit, and an international scenario with high rates of expansion and high prices for our main export products (in 2006 terms of trade showed the highest increase seen in the past 56 years).

This rate of growth was also associated with an improvement in the productivity of production factors which, together with greater investment, had a positive impact on the potential product. Factors contributing to this increased productivity included the renewal and upgrading of machinery and equipment, the growth of formal employment, the access of our exports to new markets and a better environment for business.

This context contributed to the growth of per capita income in the country, which increased





by 6.7 percent relative to the per capita income in 2005. Moreover, the per capita income in 2006 is 5.1 percent higher than the one observed in 1975, which was the highest income recorded since the decade of the fifties.

1. Overall demand and supply

Domestic demand grew 10.6 percent due to the greater dynamism it exhibited, particularly in the second half of 2006 when it grew 11.8 percent.

TABLE 1 GLOBAL DEMAND AND SUPPLY ^{1/} (Real percentage changes)			
	2004	2005	2006
I. Global Demand (1+2)	6.0	7.1	8.7
1. Domestic Demand ^{2/}	4.4	5.5	10.6
a. Private consumption	3.5	4.4	6.5
b. Public consumption	4.1	9.8	8.7
c. Gross domestic investment	8.0	7.4	26.5
Gross fixed investment	8.6	13.6	19.0
i. Private	9.1	13.9	20.2
ii. Public	5.7	12.2	12.7
2. Exports ^{3/}	14.7	14.9	0.3
II. Global Supply (3+4)	6.0	7.1	8.7
3. GDP	5.2	6.4	8.0
4. Imports ^{3/}	10.6	10.6	12.3

1/ Preliminary data.
2/ Includes change in inventories.
3/ Includes goods and non-financial services.
Source: INEI and BCRP.

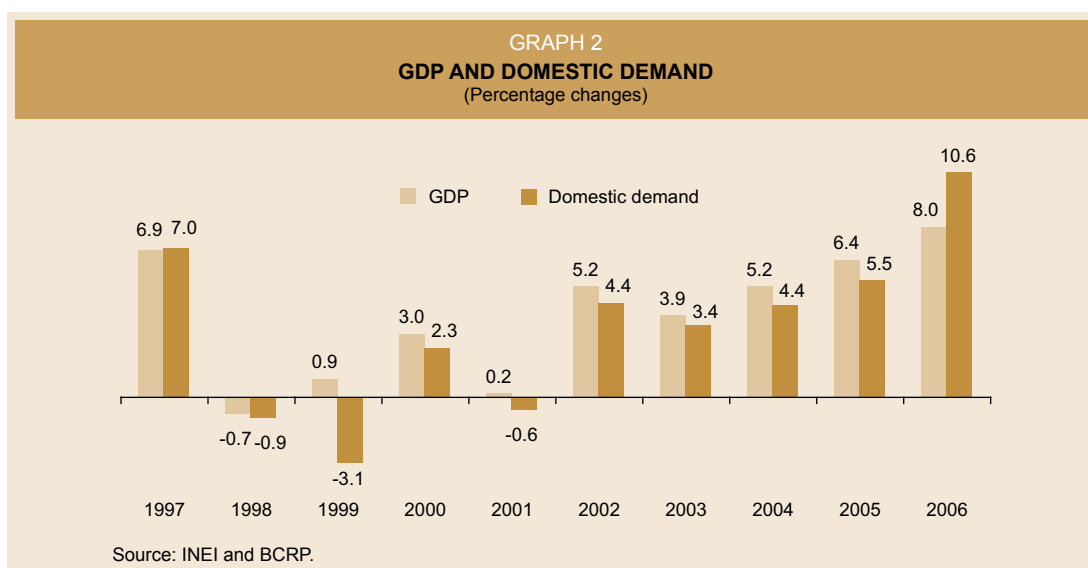
The high rates of growth of consumption and investment observed indicate that the economy is going through a stage of expansion with rates of growth exceeding the trend rates.

Consumption

Private consumption continued to show the positive trend observed since 2003. The 6.5 percent growth recorded in 2006 –the highest rate in the last 11 years– was due to an 11.9 percent increase in the national disposable income, the expansion of employment both in Lima and in the rest of the cities, a high level

TABLE 2 CONTRIBUTION TO GROWTH BY EXPENDITURE (Percentage points)			
	2004	2005	2006
Domestic demand	4.3	5.3	10.2
Private consumption	2.5	3.1	4.4
Public Consumption	0.4	0.9	0.8
Gross domestic investment	1.5	1.4	5.0
- Private investment ^{1/}	1.3	1.0	4.6
- Public investment	0.2	0.3	0.4
Net external demand	0.9	1.1	-2.2
Exports	2.7	3.0	0.1
Imports	-1.8	-1.9	-2.3
GDP growth rate	5.2	6.4	8.0

1/ Includes change in inventories.



of consumer confidence, and better conditions favoring access to credit.

The increase observed in the national disposable income reflected this higher economic growth, as well as the historical increase of terms of trade and current transfers from abroad, particularly due to higher remittances from abroad which amounted to an equivalent of 2.0 percent of GDP.

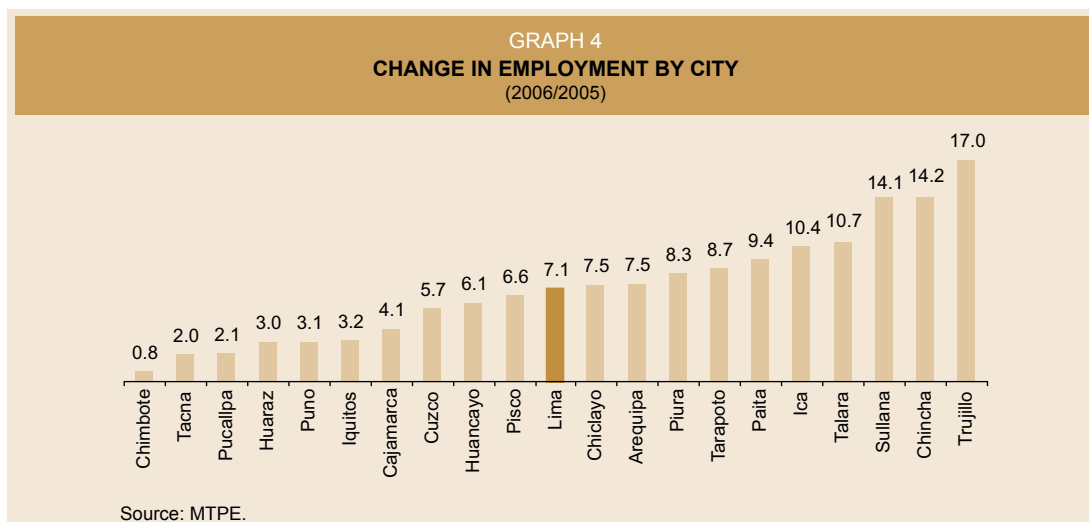
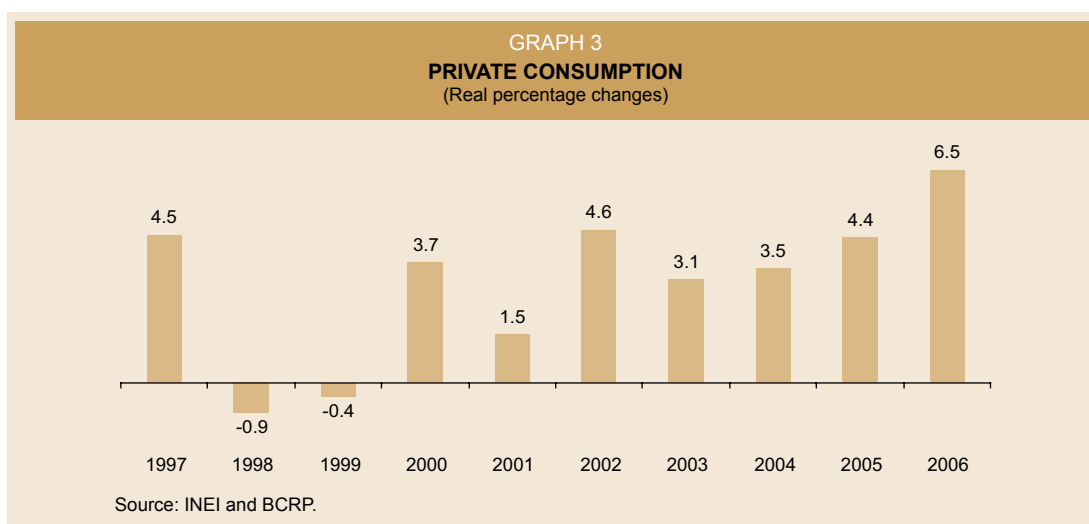
This increased private consumption also reflected the growth of employment. Between January and December 2006, employment in firms with 10 or more workers in urban areas grew 7.3 percent relative to the same period last

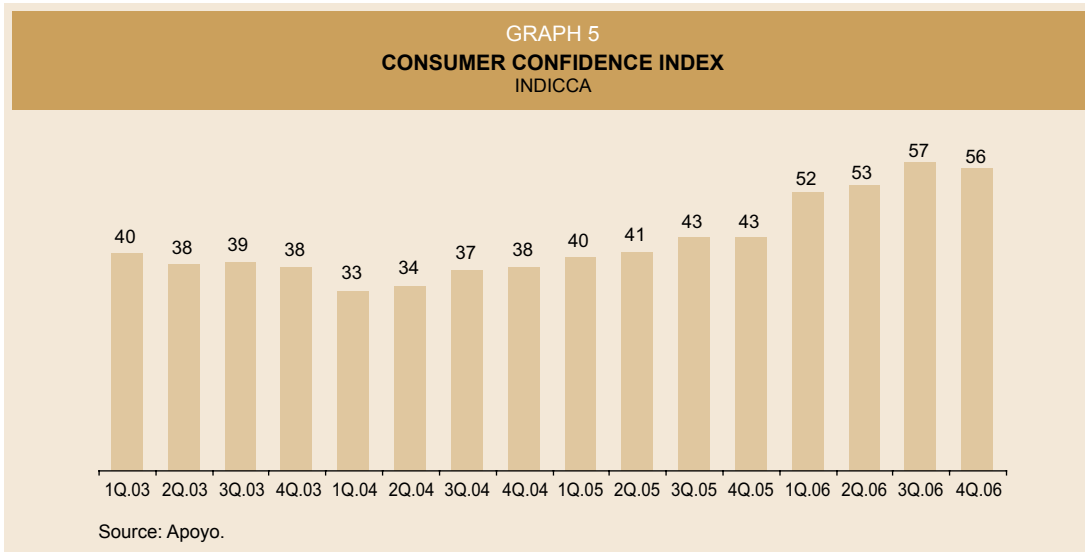
TABLE 3
NATIONAL DISPOSABLE INCOME
(Real percentage changes)

	2004	2005	2006
Gross domestic product (GDP)	5.2	6.4	8.0
National disposable income ^{1/}	5.5	6.5	11.9

1/ Includes factor income, losses and gains due to changes in terms of trade and net transfers from non-residents.
Source: INEI and BCRP.

year. It is worth pointing out that employment grew with greater dynamism in other cities of the country, such as Trujillo (17 percent), Sullana and Chincha (14 percent each), Talara





(11 percent) and Ica (10 percent), while employment in Lima grew 7.1 percent.

Another factor contributing to the growth of consumption was the improvement of consumer confidence, an indicator measured through Apoyo's confidence index (INDICCA). This indicator increased from a level of 43 points in the last quarter of 2005 to 56 points in the last quarter of 2006, remaining at levels of over 50 points throughout the year –the highest values recorded since this indicator was first used in 2003.

Additionally, private consumption was also boosted by consumer loans in a context of low interest rates and an increase of the number of clients participating in the financial system. This greater dynamism of consumption was also reflected in indicators such as the sale of

TABLE 4
PRODUCTION OF BROADLY USED PRODUCTS
WITH HIGHER GROWTH
(Percentage change)

	Year 2006
Juices and diverse beverages	66.0
Refrigerators	36.1
Floor wax	26.1
Bottle water	30.7
Detergent	34.7
Beer	20.8
Evaporated milk	11.2
Yogurt	14.9
Margarine	2.3

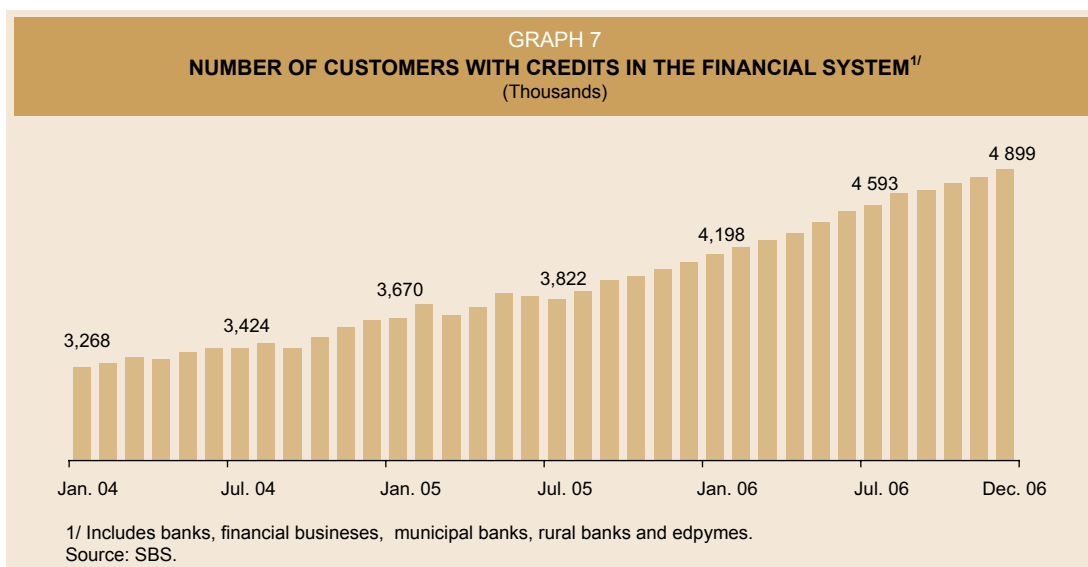
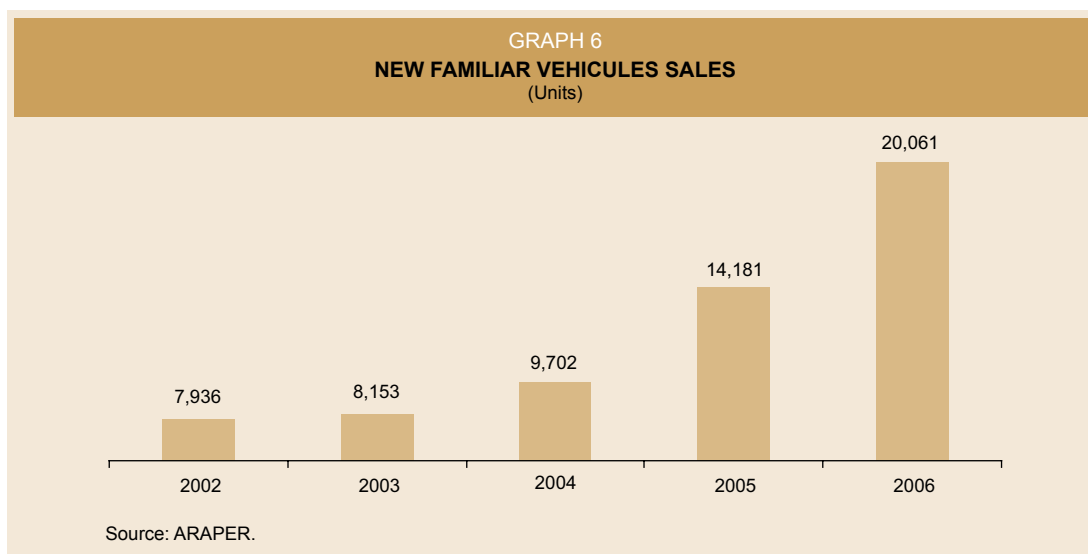
Source: PRODUCE.

new automobiles –which increased 41 percent– and imports of durable goods –which increased 19.0 percent–, as well as in the increase of

TABLE 5
PRIVATE CONSUMPTION INDICATORS
(Percentage changes)

	Measurement unit	2004	2005	2006	Chg. %
Consumption goods imports	Milions of US\$	1,995	2,318	2,613	12.7
Non-durable consumption goods	Milions of US\$	1,153	1,344	1,459	8.6
Durable consumption goods	Milions of US\$	842	974	1,154	18.5
New vehicles sales	Units	15,919	23,346	32,876	40.8

Source: BCRP, SUNAT and ARAPER.



mass consumption goods, as evidenced in the production of non-primary manufacture goods.

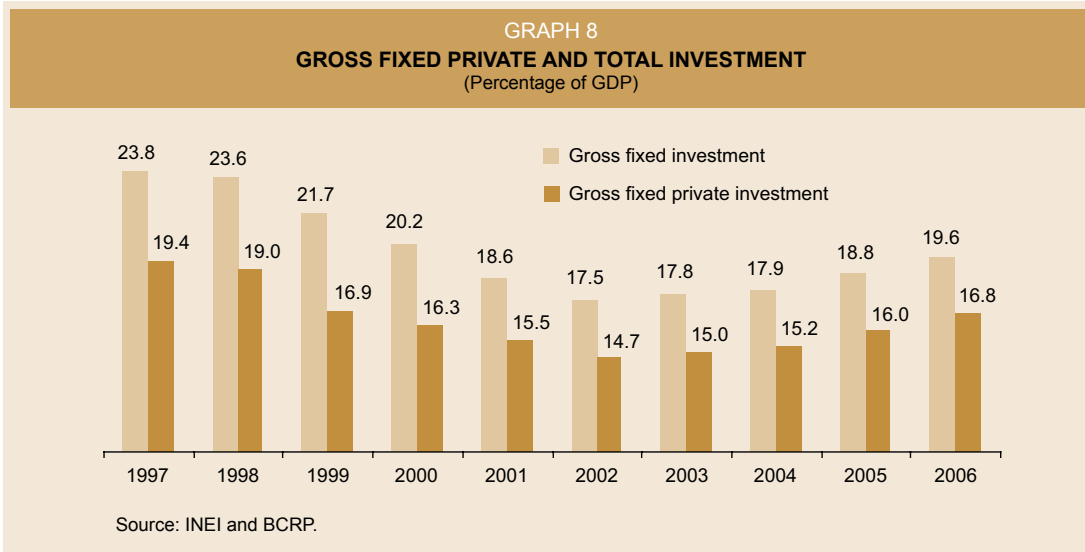
On the other hand, public consumption increased 8.7 percent, recording similar rates along the year. The evolution of this variable reflected the increase of salaries and the purchases of goods and services by the central government, as well as by local governments and EsSalud.

Investment

Private investment –the component of domestic demand showing the highest growth for four consecutive years– increased 20.2 percent. This

favorable climate for investment contributed to the development of several projects in sectors such as mining, energy and infrastructure. At the level of the projects implemented by companies, it is worth mentioning here those developed by Sociedad Minera Cerro Verde (US\$ 479 million), Newmont-Buenaventura (which invested US\$ 277 million in Yanacocha), Edegel (US\$ 225 million) and Odebrecht Perú (US\$ 172 million).

The growth of private investment was also reflected in the construction of new facilities, expansions of factory plants and infrastructure works, and was coupled by the dynamism of



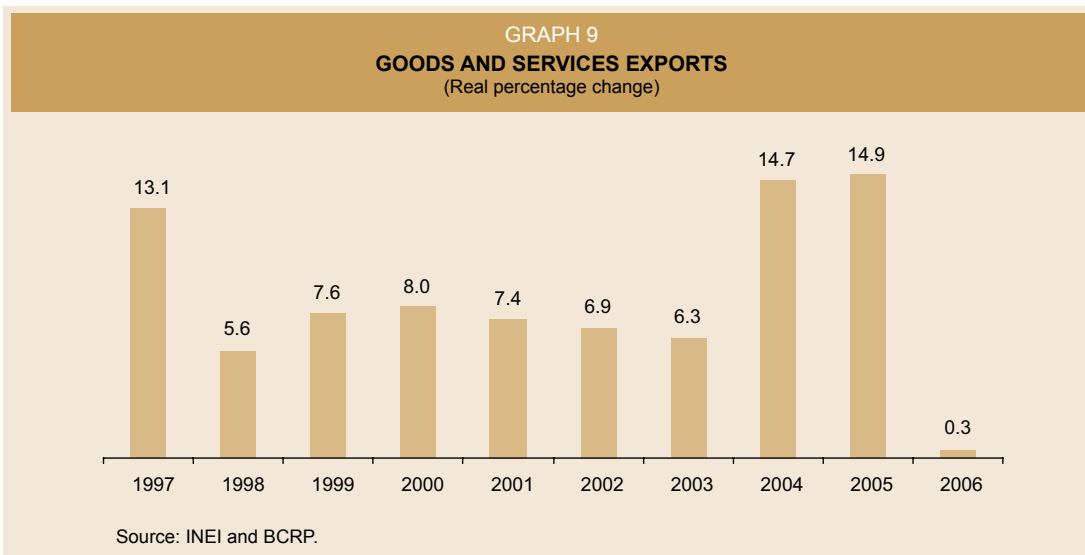
residential construction which was favored by the growth of the mortgage market and the construction of commercial facilities in several cities in the country. Together with a 35 percent increase in imports of capital goods, this contributed to expand installed capacity in several sectors.

Public investment from both the general government and public enterprises grew 13 percent during 2006. This greater dynamism was observed particularly in the second half of the year when a series of public works were implemented in sectors such as water and

sanitation, road rehabilitation and improvement, transport and communications.

Real exports and imports

Exports of goods and services grew 0.3 percent in real terms in 2006, after having increased at higher rates than GDP growth over the past 10 years. This was the result of a transitory slowdown in the exported volumes of traditional mining products, such as copper, gold and zinc, due to a reduction in the number of new projects that initiated operations during the year, to the maintenance and reconditions tasks

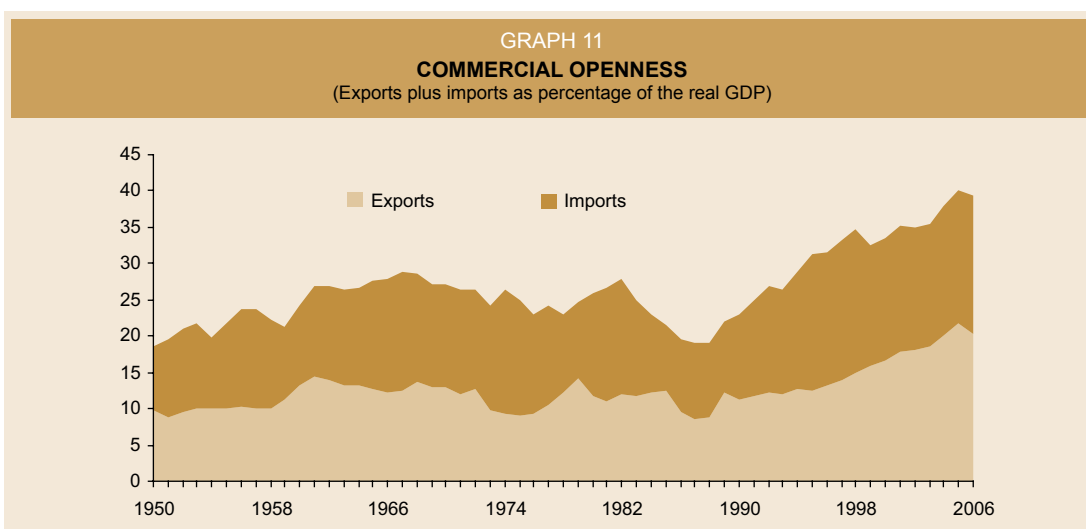
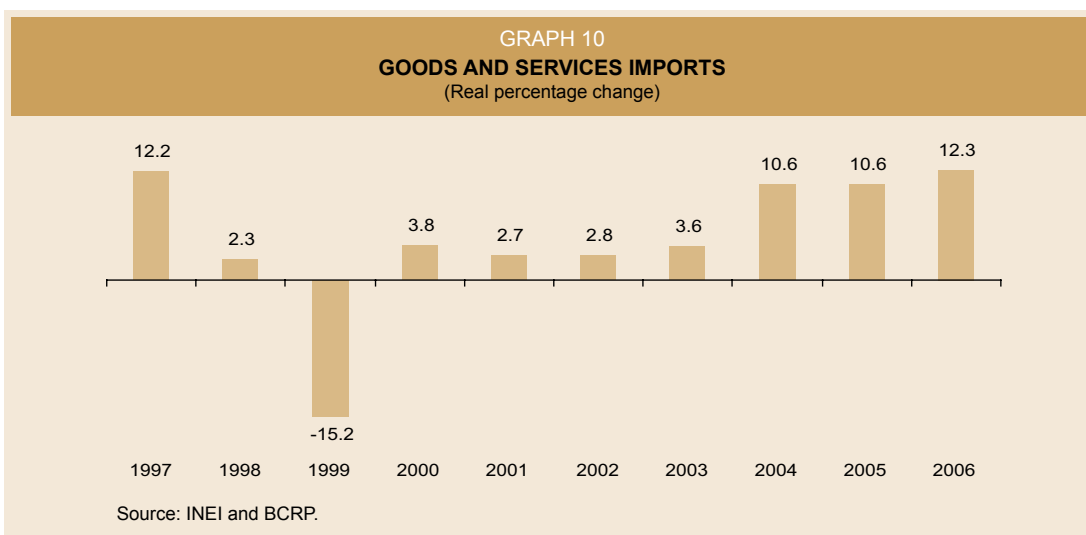


carried out at mining plants and to conflicts with local communities, which temporarily interrupted mining production. However, this lower dynamism in mining exports was offset by a faster pace of growth in exports of non-traditional products, which increased 23 percent in nominal terms, particularly due to increased exports of steel&metal products, jewelry, textiles, and agricultural and fishing products.

Imports of goods and services grew 12.3 percent during 2006, in line with the greater dynamism observed in investment and consumption. The higher purchases of construction materials (56 percent), transport equipment (38 percent) and capital goods for industry (32 percent) were noteworthy.

Peru's trade openness in recent years has reached unprecedented levels (39 percent of GDP in real terms, a ratio obtained by adding exports and imports of goods and services). By increasing the level of competition for local companies, this has increased both the need and the incentives for achieving greater competitiveness among a growing number of firms.

In nominal terms, this openness has been more evident over the past few years. This ratio increased from 30 percent in the early nineties to an average of 43 percent between 2004 and 2006, which is an important factor considering the increase observed in the productivity of the economy.





BOX 1

EVOLUTION OF COMPETITIVENESS IN PERU ^{1/}

In 2000-2006 Peru not only improved its level of competitiveness, but also stepped up in the global competitiveness ranking, according to the World Economic Forum. The country has particularly improved in terms of macroeconomic performance, in the provision of infrastructure, in the overall structure of energy supply, and in some institutional aspects. However, there are still some areas where important improvements could be made, including a further development of infrastructure, institutional strengthening, and the quality of public management.

In the microeconomic sphere, firms' productivity is a determinant factor of competitiveness, which in turn explains a firm's or industry's capacity to maintain comparative advantages that will enable it to reach, maintain or improve a specific position in the market.

Several indicators point to the fact that competitiveness would have improved in local firms between 2001 and 2006. Not only did labor productivity increase by 20 percent, but also the labor unit cost dropped by 6 percent. Moreover, according to the results of a survey conducted recently by the BCRP in 277 local companies, productivity would have increased by over 3 percent in 70 percent of these firms in the last two years.

Furthermore, the value of non-traditional exports grew 141 percent as a result of a 51 percent increase in the number of companies engaged in export activities and also as a result of a 59 percent increase in the average value exported by these firms.

In the last five years, the number of categories of non-traditional exports increased 13 percent, the average number of categories exported to each country grew 28 percent and the average number of countries of destination per category of product increased 30 percent, as shown in the table below:

DIVERSIFICATION OF NON-TRADITIONAL EXPORTS ^{1/}

Year	Product category	Categories by country	Countries by category
2001	1,970	82.9	6.6
2002	2,035	91.2	6.5
2003	2,087	90.0	7.2
2004	2,117	94.2	7.7
2005	2,196	105.0	8.4
2006	2,221	106.1	8.5
% Chg. 06 / 01	12,7	28,0	29,7

1/ Categories or groups of products are defined by the Uniform Classification of International Trade (CUCI).
Level of desagregation used (5 digits) groups all merchandises in 3,121 categories.
Source: SUNAT and BCRP.

Peru's entrance in new markets and the diversification of its exports account mostly for the strong growth observed in non-traditional exports over the past ten years (188 percent in real terms). About 56 percent of non-traditional exports in 2006 were either products that were not exported in 1996 (new products: 34 percent) or exports to countries to which no products were exported ten years ago (new countries: 22 percent).

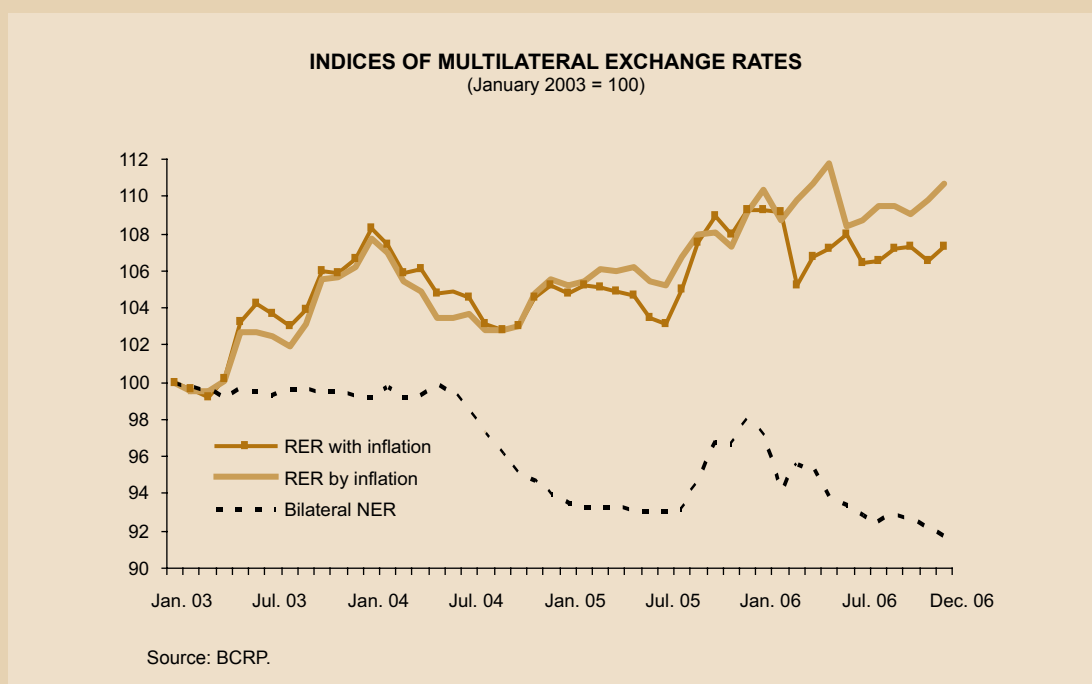
The determinants of competitiveness in the medium- and long-term are productivity and structural factors, which may be improved through economic, social and institutional policies (development of infrastructure, "stable game rules", etc.).

One of the elements that also contributes to the competitiveness of exports is real exchange, which is based on the relative evolution of prices and costs of our trading partners, as well as on the value of these countries' currencies (nominal exchange).

1/ Nota de Estudios del BCRP N° 15, March 16, 2007.

In order to measure the evolution of relative prices for the export sector, an indicator of cost-based real exchange rate –which considers the cost variations of the inputs used by companies– has been constructed.

The following graph shows the evolution of this indicator for 2003 -2006. The cost-based real exchange depreciated 9.4 percent in the last four years. This depreciation was higher than the one observed in the real exchange rate considering consumer prices (6.8 percent). This difference indicates that firms' costs have increased less than domestic inflation in the period of analysis, which represents a real drop in firms' costs.



Savings and investment

As in 2005, the higher prices of exports in 2006 translated into an important growth of private saving and public saving due to the increased disposable income in the private sector and to higher tax revenues respectively. Thus, domestic saving grew to 23.8 percent of GDP in 2006, while this growth was 20.0 percent in 2005. On the other hand, investment increased from 18.6 to 21.0 percent of GDP, due to the evolution of fixed private investment which increased by 0.8 percentage points of GDP. In this way, the fact that national saving was higher than investment was reflected in a surplus in the current account of the balance of payments for the second consecutive year in 2006.

TABLE 6
SAVINGS AND INVESTMENT
(Percentage of GDP)

	2004	2005	2006
I. Investment (=II+III)	18.9	18.6	21.0
Public investment	2.8	2.9	2.8
Private fixed investment	15.2	16.0	16.8
Inventories change	1.0	-0.2	1.3
II. Domestic savings	18.9	20.0	23.8
Public sector	1.8	2.6	4.9
Private sector	17.1	17.4	18.9
III. External savings	0.0	-1.4	-2.8
Memo:			
Gross fixed investment	17.9	18.8	19.6

Source: BCRP.



2. GDP by sectors

By sectors, the evolution of non-primary sectors –which is more associated with domestic demand– was noteworthy, while primary sectors slowed down as a result of the lower growth of metal mining. Non-primary sectors grew for the fourth consecutive year at a higher or similar rate than GDP, particularly in the case of non-primary manufacturing (which grew 7.7 percent), other services (8.2 percent) and construction (14.7 percent).

TABLE 7
GROSS DOMESTIC PRODUCT
(Real percentage changes)

	2004	2005	2006
I. PRIMARY SECTORS	4.6	5.4	4.0
Agriculture and livestock	1.7	4.8	7.2
Agriculture	-3.2	4.0	7.7
Livestock	2.0	6.6	6.6
Fishing	33.9	1.2	2.7
Mining and fuel	5.2	8.1	1.0
Metallic mining	5.1	7.0	0.6
Fuel	7.1	23.4	5.7
Manufacturing based on raw materials	7.3	2.1	2.1
II. NON-PRIMARY SECTORS	5.2	6.5	9.3
Non-primary manufacturing	7.4	7.7	7.7
Construction	4.7	8.4	14.7
Commerce	5.8	5.2	12.1
Electricity and water	4.6	5.3	6.9
Other services	4.4	6.3	8.2
III. GDP	5.2	6.4	8.0

Source: INEI and BCRP.

2.1 Primary sectors

The growth of primary sectors showed a differentiated conduct. On the one hand, agriculture posted a significant rate of growth for the second consecutive year and, on the other hand, the sectors of fishing and metal mining showed a slow pace of growth.

Agriculture and livestock sector

In 2006 production in the **agriculture and livestock sector** grew 7.2 percent –the highest growth rate since 1999– due to the dynamism of **production in the agriculture sub-sector** (7.7 percent), which in turn reflected an increase in terms of sown areas and crops, favorable weather conditions, a better management of land lots thanks to greater access to credit and technical assistance by both public and private entities, as well as more attractive prices for producers.

The production of coffee, sugar cane, asparagus, garlic, cassava, mango, grapes, onion, banana and alfalfa increased, while the production of rice, potato, olive, apple and peach declined in 2006.

The production of **coffee** increased by 51 percent, reaching a historical production record (264 thousand tons) as a result of larger sown areas and higher yields. It is worth pointing out the larger volumes achieved in Junin (main production area), where production increased by 150 percent due to a better use of fertilizers and plague control, as well as the 33 and 30 percent increase obtained in Cuzco and Cajamarca respectively due to new areas sown with this crop.

The production of **sugar cane** grew 15 percent, boosted both by larger sown areas in Casa Grande, Pucala and Laredo, and by increased yields as a result of the implementation of improvements in the irrigation system in a year favored by good climatic conditions.

The production of **asparagus** showed a growth of 20 percent due to favorable weather conditions and to the better technical management of crops grown with technified irrigation. The departments with the highest production increases were Ica (29 percent), Ancash (12 percent) and La Libertad (10 percent).

On the other hand, the **livestock sub-sector** grew 6.6 percent, as a result of a faster pace of growth

TABLE 8
AGRICULTURAL AND LIVESTOCK PRODUCTION BY
MAIN PRODUCTS
(Real percentage changes)

	2004	2005	2006
AGRICULTURE GDP	0.2	4.1	7.7
Cotton	48.8	10.5	2.9
Rice	-13.5	33.6	-4.4
Coffee	32.5	-22.1	50.7
Sugar cane	-21.6	-9.2	15.0
Dry bean	0.1	20.5	16.0
Yellow maize	-10.4	1.7	1.4
Amilaceous maize	-16.0	10.9	3.2
Potato	-4.6	9.4	-1.5
Wheat	-10.5	4.6	7.1
Other products			
Cacao	7.1	-2.4	19.7
Asparagus	0.4	9.7	19.6
Oil palm	15.6	-4.1	15.9
Mango	37.9	-13.8	36.3
LIVESTOCK GDP	4.1	6.5	6.6
Poultry	5.2	9.6	9.3
Eggs	-3.5	3.9	11.0
Milk	3.5	4.7	7.5
Pork	14.4	5.0	5.6
Beef	1.0	4.6	6.2
TOTAL	1.7	4.8	7.2

Source: MINAG.

of the production of poultry (9 percent) and beef (6 percent), as well as to increased volumes in the production of fresh milk (8 percent) and eggs (11 percent), in line with greater consumption this year.

Sown areas in the 2005-2006 crop year increased by 0.7 percent relative to the previous crop year. The production of wheat grew, but was offset by lower sown areas of rice, potato, and cotton. The department that contributed most heavily to this result were Cajamarca, Cuzco, Huancavelica and Pasco.

Fishing sector

After the important expansion shown in 2004 (34 percent), the **fishing sector** grew at a slow pace for the second consecutive year (2.7 percent) due to the quotas for the catch of anchovy established

by the Ministry of Production to protect marine biomass, following the recommendations of the Instituto del Mar del Perú (Imarpe).

The catch of species for direct **human consumption** increased 26 percent. The capture of species, such as tuna, giant squid, prawn, yellow mackerel and Pacific chub mackerel for the production of frozen and canned products, as well as the capture of yellow mackerel for direct consumption of fresh fish were noteworthy. Fish extraction for **industrial consumption** reflected the lower catch of anchovy in 2006 which totaled 5.9 million tons –8.5 million tons in 2005 (31 percent drop). Imarpe informed that the total biomass of anchovy had decreased by 4.7 million tons, which is why lower fishing quotas were established and the prohibition period was extended to 318 days, 55 more days than in 2005.

TABLE 9
FISHING PRODUCTION
(Real percentage changes)

	2004	2005	2006
INDUSTRIAL CONSUMPTION	64.8	-3.1	-31.0
Anchovy	64.9	-2.9	-31.0
Other species	15.5	-99.2	3,208.0
DIRECT HUMAN CONSUMPTION	15.2	4.7	26.2
Frozen	47.3	12.8	36.0
Canned	-30.9	50.0	56.0
Fresh	3.5	-7.3	12.8
Dry-salted	-5.2	5.7	4.0
TOTAL	33.9	1.2	2.7

Source: PRODUCE and INEI.

Mining and hydrocarbon sector

After expanding at important rates over the past 5 years, the **mining and hydrocarbon sector** grew 1.0 percent in 2006. Mining grew 0.6 percent, while hydrocarbon production grew 5.7 percent, continuing with the upward trend started in 2004 when Camisea initiated its operations.



TABLE 10
MINING AND FUEL BY MAIN PRODUCTS
(Real percentage changes)

	2004	2005	2006
MINING ^{1/}	5.1	7.0	0.6
Copper	29.0	-2.8	3.6
Tin	3.5	1.3	-8.7
Iron	21.9	7.5	4.8
Molybdenum	48.6	21.6	-0.7
Gold	0.4	20.0	-2.3
Silver	4.8	4.4	8.3
Lead	-0.8	4.3	-1.9
Zinc	-11.9	-0.6	0.0
FUELS	7.1	23.4	5.7
Natural gas	64.2	76.5	17.0
Oil crude	3.3	17.9	3.9
TOTAL	5.2	8.1	1.0

1/ Metallic and non metallic.
Source: MINEM and INEI.

Metal mining production showed a strong deceleration in 2006 that was associated with a 2.3 percent decline in gold production. The production of other products, such as tin and lead also decreased (-9 percent and -2 percent respectively), while the production of zinc remained stable. On the other hand, the production of copper, silver and iron increased (4 percent, 8 percent and 5 percent respectively). This lower dynamism of mining production accounts for the reduced expansion of exports, since the export of minerals represents nearly two thirds of total exports of goods.

The production of **gold** contracted 2.3 percent during 2006 due to the lower production of Yanacocha (-21 percent) –in line with the forecast the company made at the beginning of the year due to the lower content of mineral, and also because of the partial interruption of production at this mine due to conflicts with neighboring communities in Cajamarca. Without

TABLA 11
GLOBAL RANKING OF PERUVIAN
MINING PRODUCTION

	World	Latin America
Copper	3	2
Gold	5	1
Zinc	3	1
Silver	1	1
Lead	4	1
Tin	3	1
Iron	17	5
Molybdenum	4	2

Source: Minem, USGS (United States Geological Survey).

considering the impact of gold production, the metal mining sub-sector is estimated to have grown 2.3 percent (instead of 0.5 percent).

Copper production grew 3.6 percent, as a result of increased operations at Antamina (2.0 percent), Southern Peru Copper Corporation (1.6 percent) and Tintaya (8.9 percent). A record volume of production was achieved this year due to the consolidation of activities at these companies.

The production of **silver** grew 8.3 percent, as a result of which Peru became the world's first producer of this metal. This expansion reflected greater activity at companies such as El Brocal (which increased production by 135 percent), Pan American Silver, (126 percent) and Volcan (19 percent).

Peru is one of the world's leading countries in terms of mining production. In Latin America, Peru ranks first in the production of gold, zinc, lead and tin, and ranks second in the production of copper and molybdenum.

The production of **hydrocarbons** continued to show an important dynamism, boosted by the extraction of natural gas, which grew 17.0 percent mainly as a result of Camisea, due to increased demand from both electricity generating plants

BOX 2

METAL MINING PRODUCTION

- In 2006, metal mining production showed similar levels to those produced in 2005. Except for the onset of operations at the Alto Chicama project in June 2005, no new projects initiated operations between this date and October 2006 since most of the big projects are in the stage of investment or exploration.
- The production of gold and copper, metals determining the evolution of the metal mining sub-sector as they represent approximately half of the production in this sub-sector, are analyzed in the table below. It should be pointed out that Yanacocha increased its gold production in 2005 and programmed a lower production for 2006.

MINING GROWTH AND NEW PROYECT ON GOLD AND COPPER
(Percentage change)

Year	Mining and Fuels	Mining	Gold	Copper	New projects
1993	10.2	10.9	25.1	-0.5	August 1993: Start operations of Yanacocha (Mine Carachugo)
1994	12.0	15.2	57.2	2.2	Yanacocha: Mine Maqui Maqui
1995	4.2	7.2	18.3	8.0	
1996	5.1	6.8	11.6	5.0	Yanacocha: Mine San José
1997	9.0	10.8	20.7	3.0	Yanacocha: Mine Cerro Yanacocha
1998	3.7	4.3	19.9	-6.0	Barrick: Mine Pierina started operations by the end of the year
1999	13.1	15.8	36.9	11.7	
2000	2.4	3.5	2.4	1.9	
2001	9.9	11.2	4.1	35.0	October 2001: Antamina, Yanacocha (Mine La Quinua)
2002	12.0	14.8	13.9	16.0	
2003	5.4	13.2	22.6	21.8	
2004	5.2	5.2	0.4	29.0	Southern: Extension of Toquepala. Restart of BHP Billiton operations.
2005	8.1	7.4	20.0	-2.8	June 2005: Barrick: Mine Alto Chicama
2006	1.0	0.6	-2.3	3.6	

- The lower rate of growth of mining production in 2006 was mainly associated with the lower contribution of Yanacocha, whose production declined by 21 percent relative to 2005 due to the fact that the exploitation of Cerro Quilish was cancelled as a result of problems with neighboring communities. In addition to this, oxide-rich zones have been exhausted and the zones the mining company is currently exploiting have a high content of sulfides, so Yanacocha will have to wait until the construction of the sulfide treatment plant is completed to process the mineral obtained.

and industry in general. Moreover, the production of liquid hydrocarbons grew 3.9 percent, also as a result of Camisea.

Investment in the mining sector amounted to US\$ 1,504 million, increasing by US\$ 314 million relative to 2005. This increase was mainly associated with the expansion of the copper plant at Cerro Verde in Arequipa, whose investment in terms of total investment in mining was 32 percent in 2006, a sum that was US\$ 242 million higher than in 2005. Moreover, the investment of the Southern Peru Copper Corporation also increased considerably with the modernization of the Ilo refinery. The share of this company in terms of total investment in mining was 21 percent, which represented a US\$ 69 million increase in investment in 2006.

TABLE 12
PRODUCTION OF FUELS

	2004	2005	2006
NATURAL GAS	82.9	146.2	171.8
Millions of cubic feet per day.			
Camisea	19.2	77.7	103.0
Aguaytía	36.1	41.7	37.9
Petrobras	8.4	10.0	10.1
Petrotech	11.2	9.6	14.1
Others	8.1	7.1	6.7
CRUDE OIL	94.1	111.3	115.6
Thousands of barrels per day.			
Pluspetrol 1/	51.0	45.0	45.0
Camisea	10.3	32.1	34.7
Petrobras	11.3	12.6	12.7
Petrotech	10.7	10.7	12.5
Others	10.8	10.9	10.7

1/ Pluspetrol operates blocks 1-AB y 8, both in the northern jungle.
Source: MINEM.



TABLE 13
EXPLORATION CONTRACTS SIGNED IN 2006

BLOCK	REGION	COMPANIES	CONTRACT DATE
XX	Tumbes	Petrolera Monterrico	January 19, 2006
76	Madre de Dios	Hunt Oil Company of Peru	May 2, 2006
XXI	Sechura	Gold Oil Peru S.A.C.	May 4, 2006
118	Ucayali	Amerada Hess	May 4, 2006
119	Ucayali	Amerada Hess	May 4, 2006
120	Ucayali	Amerada Hess	May 4, 2006
117	Marañon	Petrobras Energia Peru S.A.	May 16, 2006
121	Marañon	Barret Resoucers Peru Corp	July 14, 2006
114	Ucayali	Panadean Resource PLC	July 14, 2006
Z-36	Salaverry	Petrotech Peruana	July 14, 2006
122	Marañon	Gran Tierra Eenergy INC.	November 3, 2006
123	Marañon	Burlington Resources	September 29, 2006
124	Marañon	Burlington Resources	September 29, 2006
116	Mantiago	Hocol Peru S.A.C.	December 12, 2006
125	Huallaga	Barret Resoucers Peru Corp	December 12, 2006
128	Marañon	Gran Tierra Energy INC.	December 12, 2006

Source: Perú Petro S.A.

TABLE 14
INVESTMENTS EXECUTED BY MINING COMPANIES ^{1/}
(Millions of US\$)

Companies	Metals	2004	2005	2006
Minera Yanacocha S.R.L. 2/	Gold	231.9	238.0	277.0
Minera Barrick Misquichilca S.A. 3/	Gold	190.0	172.0	63.0
Southern Peru Copper Corporation Sucursal del Peru 2/	Copper	172.0	253.0	322.0
Volcan Compañía Minera S.A.A. 4/	Polimetallic	56.7	49.8	43.0
Compañía Minera Antamina S.A. 2/	Polimetallic	29.5	52.0	47.3
Empresa Minera Los Quenuales S.A. 5/	Polimetallic	22.7	37.3	57.0
Compañía de Minas Buenaventura S.A.A.	Gold and Silver	20.1	45.0	70.0
Compañía Minera Atacocha S.A. 2/	Polimetallic	19.3	27.3	31.3
Sociedad Minera Cerro Verde S.A.	Copper	16.8	237.0	479.0
Shougang Hierro Peru S.A.A.	Iron	16.1	40.0	42.0
Minsur S.A.	Tin	14.1	8.0	12.0
Compañía Minera Condestable S.A. A. 2/	Copper	5.7	3.6	12.7
Sociedad Minera El Brocal S.A.2/	Polimetallic	3.7	7.0	21.5
Sociedad Minera Corona S.A.	Polimetallic	3.7	0.6	0.5
Compañía Minera Santa Luisa S.A.	Polimetallic	1.5	7.6	3.8
Otros 6/		15.0	11.6	22.0
TOTAL		828.1	1,189.7	1,504.0

1/ Elaborated over financial statements and information given by the companies.

2/ Information reported directly by the companies.

3/ Includes investment in Pierina y the building of their new mine Alto Chicama.

4/ Includes the investment in Empresa Administradora Chungar S.A.C., subsidiary company of Volcan Compañía Minera S.A.A.

5/ Includes the companies Empresa Minera Iscaycruz and Empresa Minera Yauliyacu.

6/ Includes the investments of Raura, Huaron, Castrovirreyna, Pan American Silver, Poderosa, Milpo, Perubar and the Refinería de Zinc de Cajamarquilla, and others.

Source: Companies

These increased investments were offset by the lower investment made by the mining company Barrick Misquichilca relative to previous years (US\$ 109 million less than in 2005) due to the impact of the completion

of the Alto Chicama project, which initiated operations in 2005. In general, investments in other mining companies were oriented to maintenance operations and to replace reserves.

Primary manufacturing sector

Manufacturing based on raw materials grew at a rate of 2.1 percent in 2006, in line with the lower dynamism showed by the sectors of fishing and mining. However, it is worth pointing out the performance shown by sugar refining within this sub-sector, which increased 15.8 percent, and by non-ferrous metals, which increased 2.0 percent.

Conversely, petroleum refining contracted 2.2 percent. This activity was affected by the variability observed in the prices of fuel which induced a lower volume of exports. On the other hand, fishmeal and fish oil-related manufacturing decreased 28.3 percent due to the lower availability of raw material.

TABLE 15 MANUFACTURING BASED ON RAW MATERIALS BY MAIN INDUSTRIAL GROUPS (Real percentage changes)			
	2004	2005	2006
MANUFACTURING BASED ON RAW MATERIALS	7.3	2.1	2.1
Sugar	-29.4	-7.2	15.8
Meat products	4.7	4.6	7.2
Fishmeal and fish oil	55.7	-4.9	-28.3
Canned and frozen fish products	6.8	-8.5	56.2
Non-ferrous metals refining	1.3	-2.2	2.0
Petroleum refining	8.6	16.3	-2.2

Source: PRODUCE and INEI.

2.2 Non-primary sectors

In 2006, the overall production of non-primary sectors grew 9.3 percent –rate higher than that of GDP growth– in a context marked by the expansion of domestic demand.

Non-primary manufacturing grew 7.7 percent –a similar rate to that posted in 2005– as a result of the dynamic performance of both domestic and external demand. The branches that recorded the highest increases were: soaps, detergents, toilette and cleaning products (22.6 percent), and wood and furniture (12.5 percent), in line with increased activity in housing construction.

Other branches that also contributed to the dynamism of this sub-sector were the branches associated with the production of inputs and capital goods, such as products made of metal (26.9 percent), non-refractory clay and ceramic products (20.8 percent), the cement, lime and gypsum industry (13.4 percent), and chemical products (15.5 percent), among others.

It should be pointed out that the growth of non-primary manufacturing in 2006 was based on the expansion of production for the domestic market, which accounted for 87 percent of total sales, in contrast with previous years when the

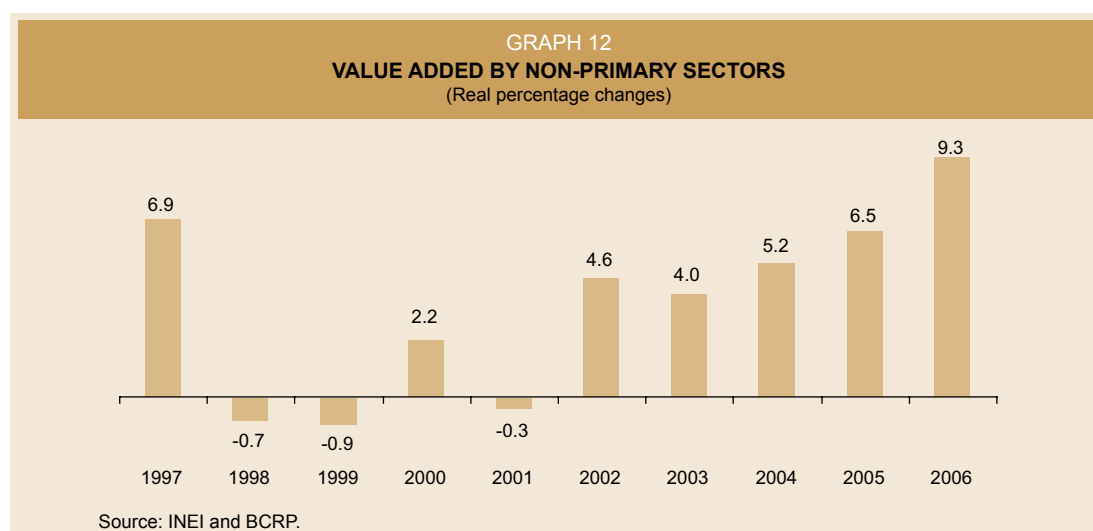




TABLE 16
NON-PRIMARY MANUFACTURE:
PERCENT CONTRIBUTION TO GROWTH
BY MARKET OF DESTINATION
 (Percentage points)

	Domestic	External	Total
2002	6.0	0.3	6.3
2003	2.5	0.8	3.3
2004	4.5	2.9	7.4
2005	5.5	2.2	7.7
2006	6.7	1.0	7.7
Food, beverage and tobacco	1.7	0.2	1.9
Textiles, leather and footwear	-0.8	0.4	-0.4
Wood and furniture	0.1	0.1	0.3
Paper and printing industry	0.5	0.1	0.6
Chemical, rubber and plastics products	1.6	0.2	1.8
Non metallic minerals	1.2	0.0	1.2
Iron and steel industry	0.5	0.0	0.5
Metalic products, machinery and equipment	1.7	-0.1	1.6
Miscellaneous manufactures	0.1	0.0	0.1

Source: BCRP.

domestic market represented a lower growth of this sub-sector (71 and 61 percent in 2005 and 2004 respectively).

The **construction sector** posted the highest growth rate seen in the last 9 years (14.7 percent), as also reflected in a 15.6 percent increase in the domestic consumption of

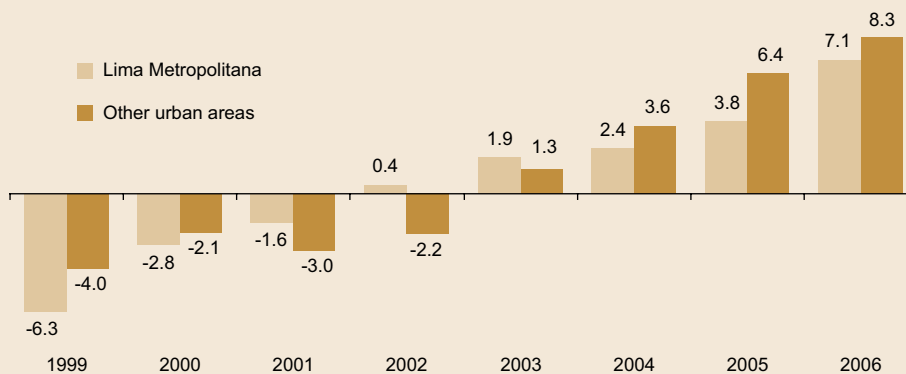
cement. This expansion was based on increased demand in both the private sector –construction of houses and malls– and in the public sector– which included works such as the “Proyecto Ecologico de la Faja Atocongo-Conchan”, the Grau Avenue Express Way, and several other road infrastructure projects in the capital city, to mention a few.

3. Employment

In 2006, employment in companies with 10 and more workers in urban areas grew 7.3 percent. It is worth highlighting that employment increased more in other cities of the country (8.3 percent) than in Metropolitan Lima (7.1 percent), thus consolidating the positive trend observed in terms of employment since May 2002.

At a regional level, the cities that exhibited a greater dynamism were Trujillo (17.0 percent), Chincha (14.2 percent), Sullana (14.1 percent), Talara (10.7 percent) and Ica (10.4 percent). In contrast, the cities where employment grew the least included Chimbote and Tacna, where employment grew 0.8 and 2.0 percent respectively. Chimbote was affected by a lower availability of anchovy and consequently, by a lower production of fishmeal.

GRAPH 13
EMPLOYMENT IN COMPANIES WITH 10 OR MORE WORKERS
 (Percentage change)



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

TABLE 17
URBAN EMPLOYMENT IN COMPANIES
WITH 10 OR MORE WORKERS

	Percentage change		
	2004	2005	2006
URBAN PERU	2.7	4.5	7.3
Lima Metropolitana	2.4	3.8	7.1
Other urban areas	3.6	6.4	8.3
Trujillo	5.8	5.6	17.0
Chincha	4.7	15.5	14.2
Sullana	-2.7	23.3	14.1
Talara	9.4	18.7	10.7
Ica	8.8	16.5	10.4
Paita	6.8	-4.6	9.4
Tarapoto	-0.9	7.3	8.7
Piura	8.9	8.5	8.3
Arequipa	2.6	4.2	7.5
Chiclayo	-1.3	3.5	7.5
Pisco	1.3	6.1	6.6
Huancayo	2.6	3.8	6.1
Cuzco	0.6	6.4	5.7
Cajamarca	1.4	3.6	4.1
Iquitos	6.6	9.1	3.2
Puno	-4.4	5.5	3.1
Huaraz	9.7	-7.4	3.0
Pucallpa	0.4	2.9	2.1
Tacna	-3.7	2.4	2.0
Chimbote	2.6	0.4	0.8

Source: MTPE.

Among the productive activities generating more employment, it is worth mentioning those associated with agroindustry, such as the cultivation and processing of asparagus and artichoke, the packing of bananas, and the production of fruit juices.

In November 2006, the Central Bank conducted a survey among 270 firms operating in different sectors in 14 regions of the country. According to this survey, 16 percent of the firms declared that they had had difficulties finding skilled

labor. In the agricultural sector, 29 percent of these firms perceived that it was difficult to find skilled labor in areas such as management of organic crops, production of dairy products, and technified irrigation, as in the case of Cajamarca and La Libertad. In the manufacturing sector, 22 percent of the surveyed firms perceived difficulties in terms of the availability of skilled labor.

In 2006, the economically active population in Metropolitan Lima was 4.2 million –2.6 percent larger than in 2005– according to the Permanent Survey on Employment. Employed population increased by 4.2 percent and totaled 3.9 million people, while the unemployed economically active population decreased by 12.4 percent.

By economic sectors, employment grew in all the branches –except in construction– and particularly in firms with 11 and more workers. By educational level, the highest increases were observed in the higher educational levels (non-university and university higher education), while employment declined in the lower educational levels (primary and secondary education).

An increase in the employed economically active population was observed both in terms of wage earners (employees and workers) and in terms of non-wage earners (independent workers, housekeepers, non-wage earning family workers, etc.) with growth rates of 5.3 and 2.6 percent respectively. Furthermore, the number of employed workers who work 20 hours or more increased 4.9 percent, while the number of wage-earners working 20 hours or more increased 7.3 percent.



TABLE 18
**LABOR FORCE BY EMPLOYMENT LEVELS IN
 LIMA METROPOLITAN ^{1/}**
 (Thousands of people)

	2004	2005	2006 ^{2/}
I. LABOR FORCE: 1 + 4	4,104	4,120	4,228
1. EMPLOYED LABOR FORCE	3,717	3,725	3,882
By economic activity			
Manufacturing	565	583	670
Construction	195	224	208
Commerce	895	895	933
Services	2,010	1,978	2,018
Other activities	52	46	53
By education			
Elementary ^{3/}	466	466	441
High School ^{4/}	1,951	1,948	1,922
Technical	583	610	708
University	717	701	811
By occupational category			
Wage earners ^{5/}	2,165	2,231	2,349
Non-wage earners	1,552	1,494	1,533
By size of employer ^{6/}			
1 to 10 workers	2,512	2,480	2,439
11 to 50 workers	343	357	437
51 and more	862	889	986
By hours worked in a week			
Workers employed over 20 hours a week	3,283	3,292	3,453
Wage earners employed over 20 hours a week	1,980	2,038	2,187
2. UNDEREMPLOYED	2,296	2,261	2,283
Visible underemployment (in hours)	674	665	645
Invisible underemployment (by income)	1,621	1,596	1,638
3. APPROPRIATELY EMPLOYED	1,422	1,464	1,599
4. UNEMPLOYED	387	395	346
II. INACTIVE POPULATION	1,929	2,022	2,021
III. POPULATION IN WORKING AGE (PWE): I + II	6,033	6,142	6,249
RATES (in percentage)			
Activity rate (Labor Force / PWE)	68.0	67.1	67.7
Employed Labor Force / PWE Ratio	61.6	60.6	62.1
Unemployment (Unemployed Labor Force / Labor Force)	9.4	9.6	8.2
Underemployment rate by hours	16.4	16.1	15.3

1/ Annual average.

2/ Change in simple framework.

3/ Includes without level and kinder

4/ Complete and incomplete high school.

5/ Includes employees, builders and housekeepers.

6/ In 2006 the difference between the total workers and the total employees by company size and the labor force (about 21 thousand people) is explained on an absence on answering in the survey question.

Source: INEI - Permanent Employment Survey.