

## IV.

# External sector

*The dynamism of global economic activity –boosted by the growth of some emerging economies, such as China–, together with the higher production of some developed countries –particularly in Europe– led to an expansion in the global demand of goods and services, including the market of commodities. Additionally, the presence of supply constraints that affected the production of some of these products, as well as inventories at levels below normal levels, contributed to generate an increase in our terms of trade of 27 percent, the highest increase observed since the fifties. Both the increased demand resulting from the evolution of our trading partners and high prices contributed to our posting a positive result in the current account of the balance of payments for the third consecutive year. The trade balance showed a record surplus of US\$ 8,934 million, while the current account exhibited a surplus of US\$ 2,589 million equivalent to 2.8 percent of GDP. This context allowed the BCRP to preventively accumulate international reserves for a total of US\$ 3,178 million, as a result of which the balance of the Central Bank’s international assets represented the equivalent of 3.7 times short-term public and private liabilities and 72 percent of total liquidity in the private sector.*

### 1. International context

After the stage of slow growth experienced by the global economy during the first years of this decade, global economic activity began to accelerate since 2004 as a result of increased growth rates in both emerging economies and developing countries. This dynamism continued throughout 2006, enabling our main trading partners to grow at rates of 4.7 percent. In this context, it is worth highlighting the expansion of China, which grew at rates of over 10 percent.

The **United States** grew 3.2 percent in 2006, posting a similar rate than the one observed in 2005. After growing at a rate of 5.6 percent in the first quarter, economic growth in this country declined to rates of 2.0 – 2.5 percent in the next quarters. This slowdown would be associated with the evolution of the real estate market as a result of the adjustments made in the

interest rates of the US Federal Reserve (FED) since June 2004 (fixed residential investment fell between 19 and 20 percent in the last two quarters of 2006, results not observed since 1990) and their impact on investment and consumption.

In this context, inflation began to slow down since mid-2006 due mainly to the reduction seen in the prices of oil and fuel. The core component of inflation –which excludes the prices of food products and energy– also started to show a lower growth since October and accumulated a 2.4 percent increase in the year, a level higher than the 2.0 percent considered as a comfortable rate by the FED. During the year, the communiqués and minutes of the FED’s Monetary Policy Committee continued to refer to possible inflationary pressures, and the monetary policy interest rates were moderately raised by 25 basis points on four occasions until it reached 5.25 percent in June.



TABLE 22  
GDP GROWTH AND INFLATION OF MAIN COMMERCIAL PARTNERS <sup>1/</sup>  
(Percentage)

	Trade	Real Growth			Inflation		
	2006	2004	2005	2006	2004	2005	2006
<b>Socios Comerciales <sup>2/</sup></b>	<b>100%</b>	<b>5,3</b>	<b>4,4</b>	<b>4,7</b>	<b>3,5</b>	<b>3,4</b>	<b>2,9</b>
<b>North America</b>	<b>29%</b>	<b>3.8</b>	<b>3.2</b>	<b>3.2</b>	<b>3.0</b>	<b>3.2</b>	<b>2.4</b>
USA	24%	3.9	3.2	3.3	3.3	3.4	2.5
Canada	5%	3.3	2.9	2.7	2.1	2.2	1.6
<b>Europe</b>	<b>20%</b>	<b>2.1</b>	<b>1.6</b>	<b>2.9</b>	<b>1.9</b>	<b>2.1</b>	<b>1.5</b>
Germany	4%	1.2	0.9	2.7	2.1	2.1	1.4
Belgium	2%	2.7	1.5	3.0	2.3	2.9	1.6
Spain	3%	3.2	3.5	3.9	3.2	3.7	2.7
Holland	2%	2.0	1.5	2.9	1.2	2.0	1.1
Italy	3%	1.2	0.1	1.9	2.0	2.0	1.9
United Kingdom	1%	3.3	1.9	2.8	1.6	1.9	3.0
Switzerland	5%	2.3	1.9	2.7	1.3	1.0	0.6
<b>Asia</b>	<b>21%</b>	<b>7.6</b>	<b>7.3</b>	<b>7.7</b>	<b>1.9</b>	<b>1.3</b>	<b>1.9</b>
China	11%	10.1	10.4	10.7	2.4	1.6	2.8
Korea	3%	4.7	4.2	5.0	3.0	2.6	2.1
Japan	5%	2.7	1.9	2.2	0.2	-0.4	0.3
Taiwan	2%	6.1	4.0	4.6	1.6	2.2	0.7
<b>Latin America</b>	<b>30%</b>	<b>7.5</b>	<b>5.5</b>	<b>5.5</b>	<b>6.1</b>	<b>6.0</b>	<b>4.9</b>
Argentina	2%	9.0	9.2	8.5	6.1	12.3	9.8
Brazil	7%	5.7	2.9	3.7	7.6	5.7	3.1
Chile	7%	6.0	5.7	4.0	2.4	3.7	2.6
Colombia	4%	4.9	5.3	6.8	5.5	4.9	4.5
Ecuador	4%	7.9	4.7	4.1	1.9	4.4	1.7
Mexico	3%	4.2	2.8	4.8	5.2	3.3	4.1
Venezuela	3%	18.3	10.3	10.3	19.2	14.4	17.0

1/ Data from IMF.

2/ Weighting according to trade of 2006.

**Europe** was one of the regions that contributed most heavily to global growth. Indicators show that Europe grew 2.9 percent in 2006 (1.6 percent in 2005). In general, the countries in the **Eurozone** grew at rates not observed since 2001. Within the Eurozone, **Germany** showed an important recovery associated with the dynamism of manufacturing oriented to exports and to increased investment, as a result of which growth in this country increased from 0.9 percent in 2005 to 2.7 percent in 2006. The growth shown by the **United Kingdom**, boosted by the evolution of domestic demand, was also noteworthy in Europe.

During 2006, inflation in the **Eurozone** declined from 2.1 percent in December 2005 to 1.5 percent in December 2006, below the 2.0 percent inflation target. This slowdown in the rate of inflation resulted from the firm decision of the European Central Bank (ECB) to maintain inflation under control, which is the reason why the ECB raised its interest rate even on 5 occasions, from 2.25 percent in December 2005 to 3.5 percent in December 2006. Likewise, the Bank of **England** (BOE) raised its interest rate by 25 basis points on two occasions during this year to 5 percent in order to reduce inflation, which was 3.0 percent

in 2006, above the announced target of 1.9 percent.

In the group of Asian countries, it is worth highlighting the growth of **China**, a country that increased its contribution to global output by almost 50 percent in the past six years (from 11 percent in 2000 to 15 percent in 2006), measured in terms of purchasing power parity. China's GDP grew 10.7 percent in 2006 –its highest growth rate since the mid-nineties–, boosted by an industrial production that increased by 17 percent. This increased economic activity was mainly based on a higher investment rate (investment in urban areas grew 28 percent on average) and on increased net exports (its trade balance in 2006 showed a surplus that was 74 percent higher than the one recorded in 2005).

This greater impulse led inflation to increase from 1.6 percent in 2005 to 2.8 percent in December 2006. In response to this, the Central Bank of China adopted a series of measures aimed at moderating the pace of growth in the economy. Thus, a greater flexibilization in terms of exchange of the yuan was allowed, as a result of which the yuan revalued by 3.1 percent by December, and the interest rate on loans and reserve requirements were increased. Moreover, a series of improvements were introduced in terms of the credit evaluation of financial entities.

On the other hand, **Japan** grew 2.2 percent in 2006 (versus 1.9 percent in 2005). Japan showed signs of recovery in the first quarter of 2006 when it posted a growth rate of 2.7 percent. However, economic activity during the next quarters recorded again lower growth rates (2.0 percent on average in the rest of the year), consistent with the evolution of indicators showing a reduction in the growth of investment, thus contributing to maintain concerns of a deflationary process in this economy. Although inflation showed positive rates since May 2006 and accumulated an annual rate of 0.3 percent by December, core inflation was negative throughout the year and decreased by 0.5 percent on average.

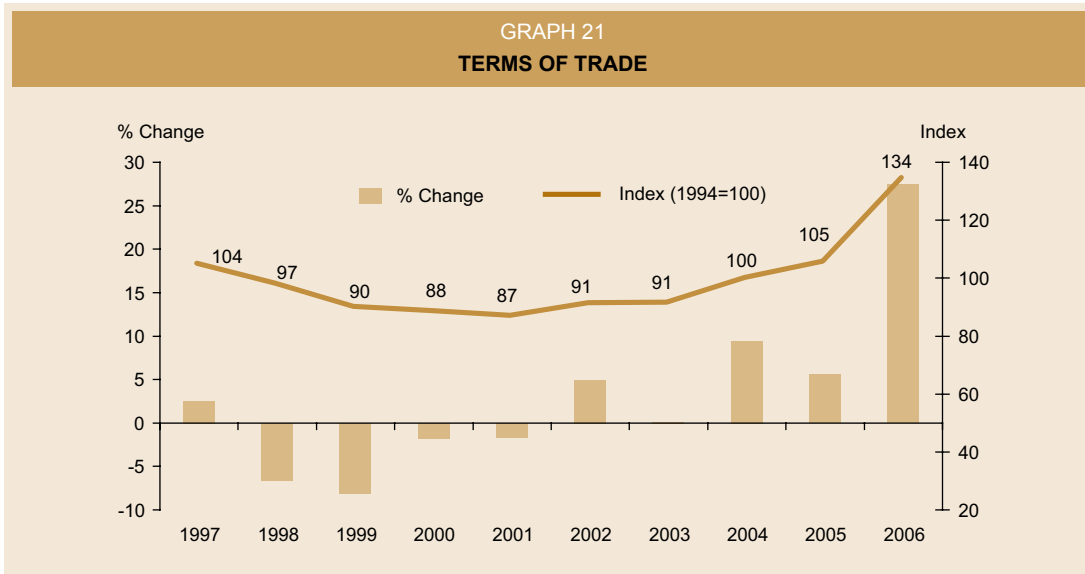
In March 2006, the Bank of Japan announced that its monetary policy would change and that it would be based on interest rates instead of on monetary aggregates from thereon.

Favored by a positive international environment, **Latin American countries** maintained the drive shown in 2005. Our main trading partners posted a growth of 5.5 percent, a result explained in part by the impulse of developed economies and by emerging economies such as China, whose demand partially generated a rise in the prices of commodities. As in 2005, growth in Latin America was led by economies such as Argentina, which grew 8.5 percent, and Venezuela, which grew 10.3 percent. However, the boom exhibited by some countries was also coupled in some cases by high inflation rates, reflecting in part the greater dynamism of domestic expenditure given increased incomes from abroad. The countries experiencing higher inflation rates were Venezuela and Argentina, with rates of 17.0 and 9.8 percent respectively.

## 2. Terms of trade

The recovery of growth in developed economies and the impulse generated by the faster pace of growth in China, the main country in terms of the demand for commodities, as well as constraints in the supply of some of these products, caused greater volatility and unprecedented rises in the prices of the markets of these products. As a result of this, our terms of trade saw the highest growth rate over the past 55 years, increasing by 27 percent due basically to the fact that the increase observed in the price of exports (37 percent) was higher than the one observed in imports (7 percent).

The increase in the prices of exports was mainly due to the higher prices of metals (53 percent), fueled by increases in the prices of copper (83 percent), gold (36 percent) and zinc (137 percent). The evolution in the prices of these metals was associated with unbalances in global supply and demand, which led some of these metals to reach historical levels during the



first half of the year. However, a differentiated conduct was observed in these products since the second half of the year. While the prices of gold and copper decreased relative to their prices in the first half of 2006, the prices of the other basic metals (zinc, tin and lead) increased significantly during the last months of the year.

The price of **copper** reached its maximum level in the last 36 years when a price of US\$ 3.99 per pound was recorded in May. This was associated with supply constraints, in a context in which demand conditions, particularly in the case of China, also played a role. This price level was slowly corrected during the rest of the year, as a result of which the average price during 2006 was US\$ 3.05 per pound.

The quotation of **gold** saw its historical peak in May when it reached a price of US\$ 721 per troy ounce. On average, the price of gold rose from US\$ 445 per troy ounce in 2005 to US\$ 605 per troy ounce during 2006. This increase was associated with a lower global supply, particularly, from South Africa, and with lower sales of gold by central banks, on the one hand, and with an increased demand for this metal, considered by investors as a hedging asset, on the other hand.

The average price of **zinc** rose from average levels of US\$ 63 per pound in 2005 to US\$ 149 per pound in 2006 (a 137 percent increase). The quotation of zinc maintained an upward trend in most part of the year, propelled by the demand of the galvanized steel industry in both the automobile and construction sectors.

During the first half of 2006, the price of **petroleum** maintained an upward trend and reached a price of US\$ 77 per barrel in July, decreasing thereafter in the second half of the year and closing at end-2006 at US\$ 62 per barrel. On average, the price of oil rose 17 percent during the year.

The price of **fishmeal** increased 58 percent, with an average price of US\$ 1,080 per MT during 2006 (versus US\$ 686 per MT in 2005). This increase was due in part to constraints observed in the supply of this product, particularly in terms of the two world's main suppliers of fishmeal, Peru and Chile, due to the lower availability of the raw material, as well as to the growing demand associated with China's aquaculture industry.

Similarly, the quotation of **wheat** rose during 2006 due to supply-related constraints, particularly in countries such as Australia,

Argentina and Brazil. During the year, global production decreased by approximately 9 million MT and inventories declined from 151 to 147 million MT, as a result of which the average quotation rose from US\$ 130 to US\$ 169 per MT, which represented a 30 percent increase.

### 3. Balance of payments

In 2006, the external accounts exhibited positive results, particularly a current account surplus of 2.8 percent of GDP.

#### Current account balance

The current account of the balance of payments showed a surplus for the third consecutive year, a result influenced by the high international prices

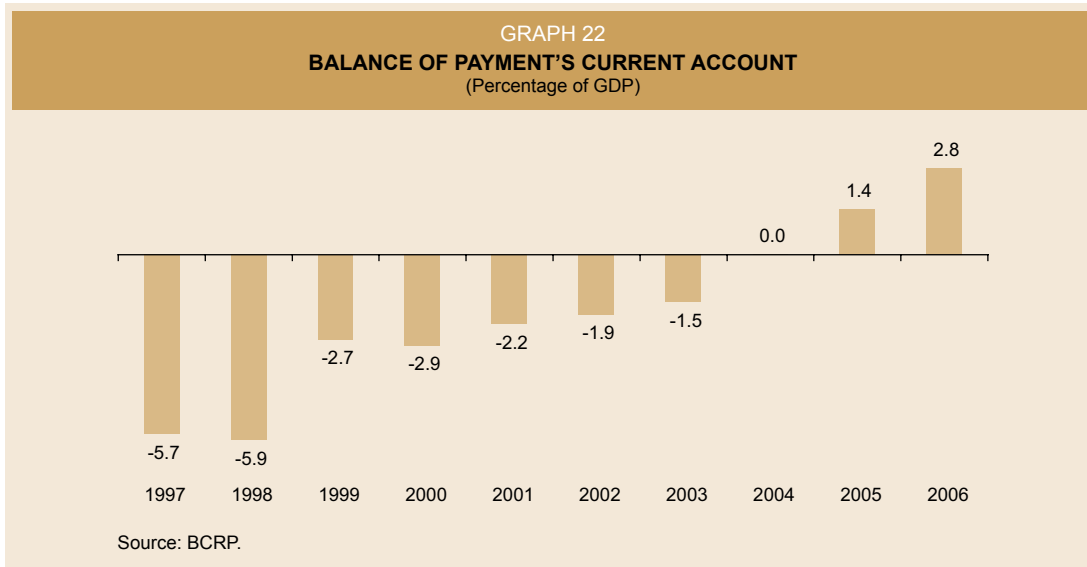
of our commodities due to global imbalances between the supply and the demand for these products, by the higher amounts of non-traditional exports, and by increased remittances from Peruvians living abroad. In a context in which economic activity and particularly domestic demand showed high growth rates, the result of the current account reflected an important increase in national saving, even in a context of a strong increase of domestic investment, which reduced the need of financing projects via external saving, thus contributing to the sustainability of the balance of payments in the medium-term.

The current account surplus amounted to US\$ 2,589 million, equivalent to 2.8 percentage points of GDP—the second highest rate observed since the fifties, which was only exceeded by

TABLE 23  
BALANCE OF PAYMENTS  
(Millions of US\$)

	Millions of US\$			Percentage of GDP		
	2004	2005	2006	2004	2005	2006
<b>I. CURRENT ACCOUNT BALANCE</b>	<b>19</b>	<b>1,148</b>	<b>2,589</b>	<b>0.0</b>	<b>1.4</b>	<b>2.8</b>
1. Trade balance	3,004	5,286	8,934	4.3	6.7	9.6
a. Exports	12,809	17,368	23,800	18.4	21.9	25.5
b. Imports	-9,805	-12,082	-14,866	-14.1	-15.2	-15.9
2. Services	-732	-834	-949	-1.1	-1.1	-1.0
a. Exports	1,993	2,289	2,451	2.9	2.9	2.6
b. Imports	-2,725	-3,123	-3,400	-3.9	-3.9	-3.6
3. Investment income	-3,686	-5,076	-7,581	-5.3	-6.4	-8.1
a. Private	-2,715	-4,211	-6,901	-3.9	-5.3	-7.4
b. Public	-970	-865	-679	-1.4	-1.1	-0.7
4. Current transfers	1,433	1,772	2,185	2.1	2.2	2.3
of which: Worker's remittances	1,133	1,440	1,837	1.6	1.8	2.0
<b>II. FINANCIAL ACCOUNT</b>	<b>2,154</b>	<b>141</b>	<b>708</b>	<b>3.1</b>	<b>0.2</b>	<b>0.8</b>
1. Private sector	937	1,818	2,075	1.3	2.3	2.2
2. Public sector	988	-1,441	-738	1.4	-1.8	-0.8
3. Short-term capital	230	-236	-628	0.3	-0.3	-0.7
<b>III. EXCEPTIONAL FINANCING</b>	<b>26</b>	<b>100</b>	<b>27</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>
<b>IV. NET ERRORS AND OMISSIONS (I+II+III-IV)</b>	<b>151</b>	<b>239</b>	<b>-571</b>	<b>0.2</b>	<b>0.3</b>	<b>-0.6</b>
<b>V. BCRP NET RESERVES FLOWS (1-2)</b>	<b>2,351</b>	<b>1,628</b>	<b>2,753</b>	<b>3.4</b>	<b>2.1</b>	<b>2.9</b>
1. Change in NIRs balance	2,437	1,466	3,178	3.5	1.8	3.4
2. Valuation changes and monetization of gold	86	-162	425	0.1	-0.2	0.5

Source: BCRP, MEF, SBS, SUNAT, Ministry of Trade Affairs, Cofide, ONP, FCR, Zofratacna, Banco de la Nacion, Cavali ICLV S.A., Proinversion, BIS and companies.



the surplus of 1979, which was equivalent to 6.9 percent of GDP. The surplus obtained in 2006 resulted from a trade surplus amounting to US\$ 8,934 million and from current transfers for a total of US\$ 2,185 million, whose main component was the remittances of Peruvians living abroad which compensated by far the deficit in the balance of services and factor income.

### 3.1 Trade balance

The high prices of our commodities in international markets throughout the year and the higher volumes of non-traditional exports

were key factors for the record trade surplus of US\$ 8,934 million achieved this year. This surplus was US\$ 3,648 million higher than in 2005, and represented a historical record as it was equivalent to 9.6 percent of GDP. Thus, while exports grew 37 percent, imports increased 23 percent. It is worth pointing out the 35 percent increase observed in imports of capital goods, given the positive impact that these type of goods have on the level of investment and on the improvement of productivity.

Our main trading partners continued to be the United States and China, which accounted for

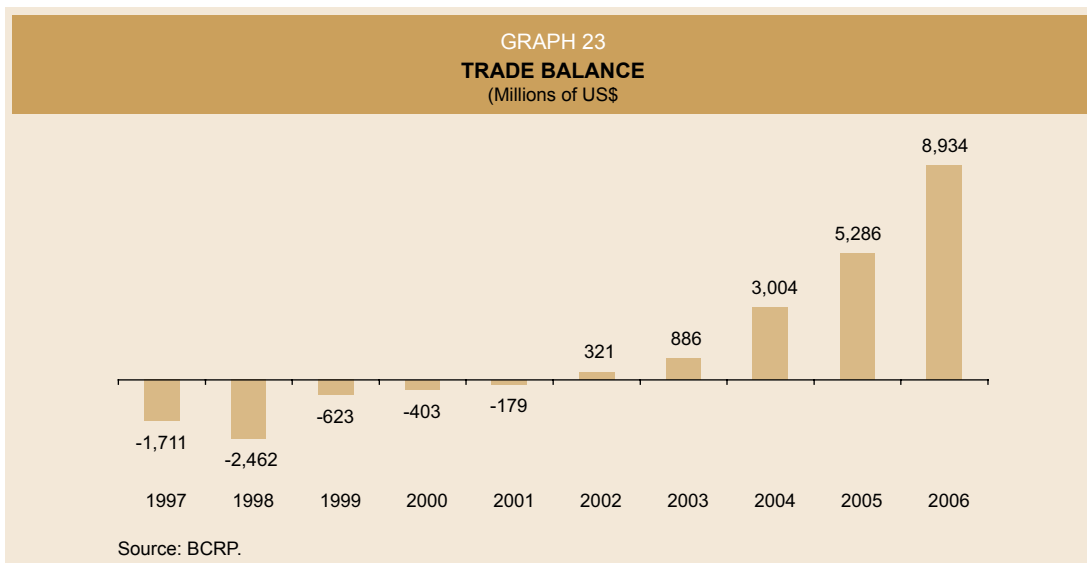


TABLE 24  
DIRECTION OF TRADE  
(Percentage structure)

	Exports <sup>1/</sup>			Imports <sup>2/</sup>			X + M		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
USA	29.3	31.0	24.0	19.7	17.9	16.5	25.1	25.6	21.1
China	9.8	10.9	9.6	7.9	8.6	10.3	9.0	10.0	9.9
Brasil	2.8	2.7	3.4	6.6	8.0	10.3	4.5	4.8	6.0
Chile	5.7	6.3	6.0	5.2	5.1	5.8	5.4	5.8	5.9
Canada	2.6	6.0	6.8	1.8	1.6	1.7	2.3	4.2	4.8
Switzerland	2.2	4.6	7.1	0.6	0.6	0.5	1.5	3.0	4.6
Japan	4.3	3.5	5.2	3.6	3.5	3.5	4.0	3.5	4.5
Colombia	2.1	2.0	2.1	7.6	6.1	6.1	4.5	3.7	3.7
Ecuador	1.6	1.7	1.4	6.6	7.4	7.2	3.8	4.0	3.6
Germany	3.0	3.0	3.4	2.7	3.2	3.3	2.9	3.1	3.4
Spain	3.3	3.2	3.3	2.1	1.6	1.6	2.8	2.6	2.6
Italy	2.3	2.3	3.2	1.7	1.6	1.5	2.0	2.0	2.6
Mexico	1.8	1.9	1.7	3.0	3.5	4.0	2.3	2.6	2.6
Other countries	29.2	20.8	22.8	30.8	31.4	27.6	29.9	25.1	24.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

X: Exports M: Imports

1/ Exports exclude products classified as other exports as well as repairs of foreign ships and aircrafts.

2/ Imports exclude defense material, products classified as other imports and repairs of Peruvian ships and aircrafts abroad.

Source: SUNAT.

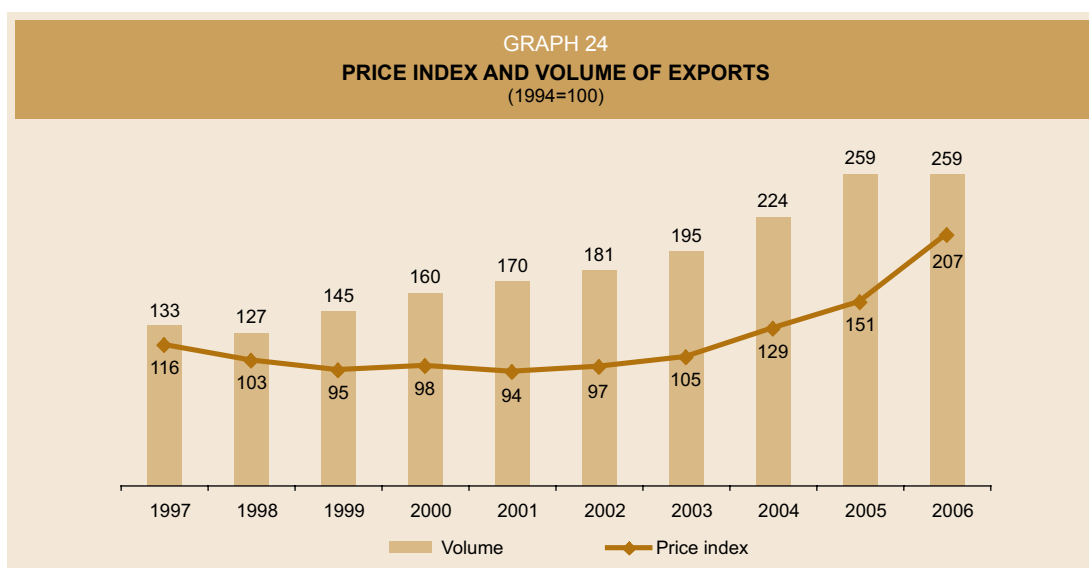
nearly one third of our trade of goods with the rest of the world. It is worth mentioning here the progress made in terms of the process of economic openness, especially in terms of the placement of our products abroad, which entails a reduction in the importance of the United States market for our trade and an increase in the participation of other countries or regions,

such as Switzerland, Brazil and Japan, with which trade relationships increased between 1 and 1.6 percentage points of GDP.

### Exports

Total exports amounted to a record level of US\$ 23,800 million, a sum US\$ 6,432 million

GRAPH 24  
PRICE INDEX AND VOLUME OF EXPORTS  
(1994=100)





higher than in 2005, driven by the high prices of commodities in the case of traditional exports and by a larger volume of exports in the case of non-traditional products. On average, the index of export prices increased by 37 percent, while the volume fell by 0.1 percent.

The growth of **traditional exports** was mainly explained by the effect of the high levels of the

international prices of our commodities, which increased 42 percent during the year. This contrasted with the evolution of the volume exported, which decreased 5 percent.

By components, exports of **fishing products** totaled US\$ 1,334 million, which represented an increase of US\$ 31 million (2.3 percent relative to 2005). This result was characterized

TABLE 25  
EXPORTS BY GROUP OF PRODUCTS

	Millions of US\$			Percentage change	
	2004	2005	2006	2005	2006
<b>I. TRADITIONAL PRODUCTS</b>	<b>9,199</b>	<b>12,950</b>	<b>18,374</b>	<b>40.8</b>	<b>41.9</b>
<b>FISHING</b>	<b>1,104</b>	<b>1,303</b>	<b>1,334</b>	<b>18.1</b>	<b>2.3</b>
Fishmeal	954	1,147	1,137	20.2	- 0.9
Fish oil	149	156	196	4.2	26.1
<b>AGRICULTURAL PRODUCTS</b>	<b>325</b>	<b>331</b>	<b>573</b>	<b>1.8</b>	<b>73.2</b>
Coffee	290	307	515	5.8	67.8
Sugar	15	13	43	- 12.8	238.0
Cotton	6	3	7	- 47.7	112.5
Other agricultural products <sup>1/</sup>	14	8	9	- 41.4	3.2
<b>MINERAL PRODUCTS</b>	<b>7,124</b>	<b>9,790</b>	<b>14,707</b>	<b>37.4</b>	<b>50.2</b>
Copper <sup>2/</sup>	2,481	3,472	6,054	40.0	74.4
Gold	2,424	3,095	4,004	27.7	29.4
Molybdenum	506	1,107	840	118.8	- 24.1
Zinc	577	805	1,991	39.6	147.3
Lead <sup>2/</sup>	389	491	713	26.3	45.0
Silver (refined)	260	281	480	7.9	70.9
Tin	346	301	346	- 12.8	14.7
Iron	129	216	256	67.4	18.5
Other mineral products <sup>3/</sup>	12	21	24	75.3	13.6
<b>PETROLEUM AND DERIVATIVES</b>	<b>646</b>	<b>1,526</b>	<b>1,760</b>	<b>136.2</b>	<b>15.4</b>
<b>II. NON-TRADITIONAL PRODUCTS</b>	<b>3,479</b>	<b>4,277</b>	<b>5,271</b>	<b>22.9</b>	<b>23.2</b>
Agriculture and livestock	801	1,008	1,216	25.9	20.6
Fishing	277	323	433	16.4	34.1
Textile	1,092	1,275	1,471	16.7	15.4
Timbers and papers, and related manufactures	214	261	333	22.0	27.4
Chemical	415	538	601	29.6	11.9
Non-metallic minerals	94	118	135	25.1	14.6
Basic metal industries and jewelry	391	493	829	26.2	68.0
Fabricated metal products and machinery	136	191	163	40.2	- 14.5
Other products <sup>4/</sup>	58	70	89	20.7	27.4
<b>III. OTHER PRODUCTS <sup>5/</sup></b>	<b>131</b>	<b>141</b>	<b>156</b>	<b>7.3</b>	<b>10.3</b>
<b>IV. TOTAL EXPORTS</b>	<b>12,809</b>	<b>17,368</b>	<b>23,800</b>	<b>35.6</b>	<b>37.0</b>

1/ Including coca leaves and derivatives, molasses, wools and furs.

2/ Including silver contents.

3/ Including bismuth and tungsten, mainly.

4/ Including furs, leathers and handicrafts, mainly.

5/ Fuel and food sold to foreign ships and aircrafts and repairs of capital goods.

Source: BCRP and SUNAT.

by a strong increase in the prices of these products: 48 percent in the case of fishmeal and 21 percent in the case of fish oil. However, supply constraints given the lower availability of anchovy in both Peru and Chile, the main producers of these goods, generated a considerable reduction in the volumes exported. Thus, the exported volume of fishmeal declined 33 percent, as a result of which total exports of this product amounted to only US\$ 1,137 million, a sum US\$ 10 million lower than in the precedent year, despite the increase observed in prices. The sales of fish oil contributed to increase this kind of exports, as they grew by US\$ 41 million.

Exports of **agricultural products** amounted to US\$ 573 million, a figure US\$ 242 million higher than in 2005. This result was mostly based on increased sales of **coffee** which totaled US\$ 515 million (US\$ 208 million higher than in 2005), mainly as a result of a 68 percent increase in the volume exported. In turn, this was associated with a recovery in coffee production, which grew by 67 percent due to better climatic conditions that had a positive impact on the harvests of this product. Likewise, the sales of **sugar** abroad increased by US\$ 30 million as a result of a higher volume of exports (238 percent) associated with a 15 percent increase of production, after having experienced a drop due to climatic problems.

Exports of **minerals** grew to US\$ 14,707 million, which represented a 50 percent increase relative to the previous year. **Copper** accounted for 48 percent of this increase as a result of increased sales amounting to US\$ 2,582 million (74 percent). This was explained by an 83 percent increase in the average price of copper due to the high demand for this metal in the electricity and construction sectors. The volume exported decreased 0.4 percent (approximately 4 thousand MT) due to the lower shipments of refined copper made by the Southern Peru Copper Corporation, but was partially offset by higher sales of copper concentrate by Antamina and of refined copper by Doe Run.

**Zinc** exports totaled US\$ 1,991 million, increasing by 147 percent relative to 2005. This was basically the result of a price effect, which rose 137 percent on average due to the increased demand of the galvanized steel industry for the automobile and construction sectors of countries like China. On the other hand, exported volumes decreased 2 percent due to lower shipments of concentrate and refined zinc made by companies such as Antamina, Volcán and Atacocha. Total volumes of zinc exports in 2006 are estimated to have decreased by approximately 27 thousand MT.

The US\$ 909 million increase seen in **gold** exports reflects the effect of a 36 percent rise in the price of this metal. Exported volumes declined 4 percent in the year due to problems associated with the lower content of the mineral which affected production levels. The lower volume of gold exports (248 thousand ounces) is explained mainly by the lower sales of Minera Yanacocha and Minas Buenaventura, which could not be offset by the higher sales made by Barrick Misquichilca.

In contrast with the minerals mentioned above, silver and lead were the only metals which grew both in terms of their prices and in terms of the volumes exported. The higher exports of **silver** (increasing by US\$ 199 million, or 71 percent) are explained by a higher average price (58 percent) and by a 9 percent increase in the volume exported. Likewise, the increase in the sales of **lead** (US\$ 221 million) is explained by an increase in the price (32 percent) and in the volume exported (17 percent) of this product.

Molybdenum dropped both in terms of prices and in terms of production volumes. Prices fell by 21 percent, while the drop in the volumes exported reflected the lower shipments made by Southern (1 thousand MT), in line with a production reduction caused by the lower content of this mineral at the mine.

Exports of **petroleum crude and derivatives** grew by US\$ 234 million, reflecting essentially



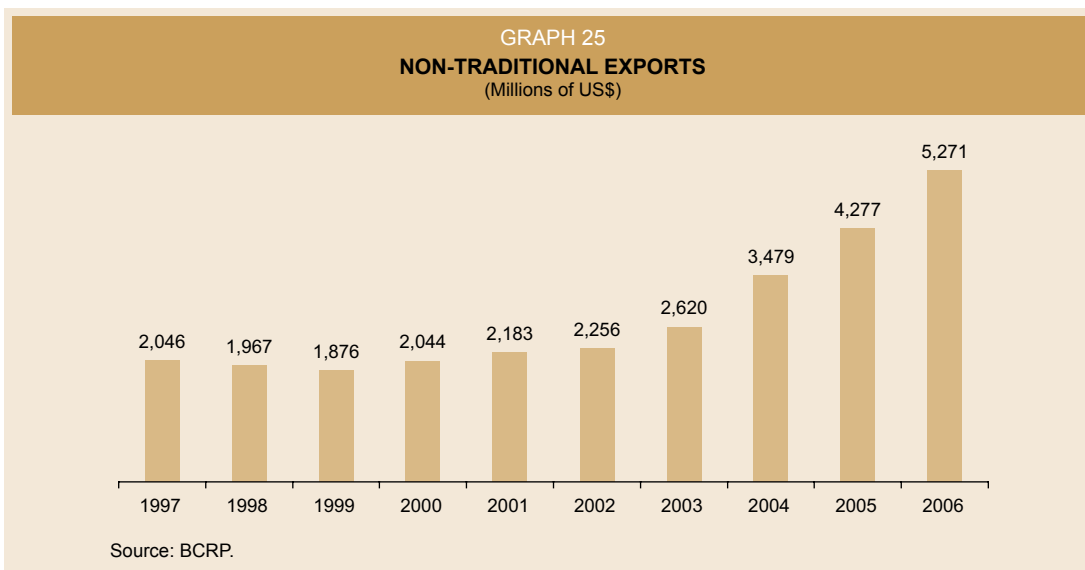
the effect of a 19 percent price rise, since the volume exported fell by 3 percent. The price increase was influenced by a series of events in the international context that generated a rise in the international price of crude, including geopolitical tensions arising from conflicts in the Middle East, a lower production in Nigeria due to domestic conflicts, the temporary interruption of supply via Russia's Oil Pipeline, and lower production in Alaska. By components, the lower volume was mainly associated with a 5 percent drop of exports of **oil derivatives**, which represent 72 percent of the exports of petroleum, due to a lower global demand for these fuels for furnace use and gasoline for engines, as well as for petroleum liquefied gas and gas oils. In contrast, the exported volume of **petroleum crude** increased by 161 percent.

Furthermore, in a context characterized by a greater number of participants engaged in export activities, by a greater diversification of

export products and by the temporary benefits associated with the Andean Trade Promotion and Drug Eradication Act (ATPDEA), **non-traditional exports** grew 23 percent, 11 percentage points of which are explained by an increase in the exported volumes.

Exports of **steel&metal products and jewelry** accounted for nearly one third of the increase of non-traditional exports. These exports increased by US\$ 335 million, amounting to US\$ 829 million in 2006 (68 percent increase).

Sales of **agricultural products** abroad totaled US\$ 1,216 million, which represents an annual increase of US\$ 208 million (21 percent). This result is mainly explained by a 21 percent increase in the volume exported, since prices declined 1 percent on average.



**TABLE 26**  
**NON-TRADITIONAL EXPORTS**

	Price index		Volume index		Value	
	Index	% Change	Index	% Change	Millios of US\$	% Change
2004	85.3	6.4	334.6	24.8	3,479	32.8
2005	89.4	4.8	392.9	17.4	4,277	22.9
2006	98.4	10.1	438.6	11.6	5,271	23.2

Source: BCRP.

Exports of **textiles** rose from US\$ 1,275 million in 2005 to US\$ 1,471 million in 2006, increasing by US\$ 196 million (15 percent). This higher level of exports reflects both an increase in the prices and in the volume (6 and 9 percent respectively), favored by the tariff benefits generated within the frame of the ATPDEA agreement.

Exports of **fisheries** grew 34 percent due to a 42 percent increase in the volume of these exports, as prices declined 5 percent on average. Thus, sales of fishing products abroad totaled US\$ 433 million, increasing by US\$ 110 million relative to 2005.

Exports of **chemical products** totaled US\$ 601 million, which represented an annual increase of 12 percent. This increase reflected mainly the effect of higher prices for these products in external markets (prices rose 15 percent, while the volume decreased 3 percent). It is worth highlighting here the exports of chemical products to the markets of Colombia, Chile and Ecuador.

An increase of 27 percent (US\$ 72 million) was also observed in the year in the exports of **wood, paper and related products**, with the United States being the main destination market (28 percent of total exports). However, due to China's recent growth, exports to this country increased from 6 to 13 percent, as a result of which China became the second most important destination for this category of exports. Moreover, exports of **non-metal minerals** grew 15 percent. It is worth pointing out here the 25 percent increase observed in sales of cement and construction materials. In contrast with the rest of non-traditional exports, the sales of **metal mechanic** products decreased 15 percent, a result explained by a 24 percent drop in the exports of iron or steel manufactured goods.

### Imports

The greater dynamism of economic activity was reflected in general in an increased

demand for imported goods, which grew from US\$ 12,082 million in 2005 to US\$ 14,866 million in 2006. This represented a 23 percent increase, of which 15 percent was due to a higher volume of imports. In this context of strong economic growth, it is worth highlighting the evolution of imports of capital goods, which increased by 35 percent, generating an important positive impact on the level of potential GDP.

Imports of **consumer goods** grew 13 percent, at a lower rate than in 2005 (16 percent). However, by components, durable goods maintained the dynamism showed in the previous year – particularly in the case of automobiles, television sets, and household appliances–, growing at a rate of 19 percent, while non-durable goods grew by 9 percent.

Imports of **raw materials** accounted for nearly 50 percent of the goods purchased abroad, led by the higher imports of inputs for industry (up 22 percent) and followed by imports of fuel (up 21 percent).

The increase seen in imports for industrial activity was almost general, which reflected the strong dynamism of manufacturing activity in 2006. The volume of imports of fuel increased 4 percent, although Petroperu reduced the purchases of oil derivatives by 25 percent. This was offset by an 8 percent increase in the volume of imports of crude. As a result of this, the petroleum net balance by the end of the year was US\$ 265 million more negative than in 2005, which represented a deficit of US\$ 983 million.

Furthermore, imports of **capital goods** grew US\$ 1,082 million, increasing from US\$ 3,064 million in 2005 to US\$ 4,145 million in 2006 (up 35 percent). This evolution was mainly due to increased purchases of goods for industry (US\$ 686 million), followed by transport equipments and construction materials, all of which amounted to US\$ 402 million.



TABLE 27  
IMPORTS BY USE OR ECONOMIC DESTINATION

	Millions of US\$			Percentage change	
	2004	2005	2006	2005	2006
<b>I. CONSUMER GOODS</b>	<b>1,995</b>	<b>2,308</b>	<b>2,611</b>	<b>15.7</b>	<b>13.2</b>
Non-durable	1,153	1,338	1,457	16.1	8.9
Durable	842	970	1,154	15.1	19.0
<b>II. RAW MATERIALS AND INTERMEDIATE GOODS</b>	<b>5,364</b>	<b>6,600</b>	<b>7,987</b>	<b>23.0</b>	<b>21.0</b>
Fuels	1,754	2,325	2,808	32.6	20.8
For agriculture	349	384	437	10.2	13.7
For industry	3,261	3,890	4,742	19.3	21.9
<b>III. CAPITAL GOODS</b>	<b>2,361</b>	<b>3,064</b>	<b>4,145</b>	<b>29.8</b>	<b>35.3</b>
Building materials	192	305	475	59.3	55.8
For agriculture	29	37	31	27.9	-16.0
For industry	1,661	2,114	2,800	27.3	32.4
Transportation equipment	480	607	839	26.5	38.2
<b>IV. OTHER GOODS <sup>1/</sup></b>	<b>85</b>	<b>110</b>	<b>122</b>	<b>29.8</b>	<b>10.8</b>
<b>V. TOTAL IMPORTS</b>	<b>9,805</b>	<b>12,082</b>	<b>14,866</b>	<b>23.2</b>	<b>23.0</b>
Note:					
<b>Foodstuff <sup>2/</sup></b>	<b>722</b>	<b>746</b>	<b>880</b>	<b>3.4</b>	<b>17.9</b>
Wheat	220	209	224	-4.6	7.2
Corn and/or sorghum	119	123	172	3.3	40.2
Rice	26	43	14	61.3	-67.1
Sugar <sup>3/</sup>	45	68	100	52.9	47.2
Dairy products	36	34	46	-3.5	33.9
Soybean	255	246	299	-3.6	21.6
Meat	21	23	24	8.9	3.7

1/ Includes donated goods, fuel and food bought by Peruvian ships and aircrafts and repairs of capital goods, as well as other goods not included in this category.

2/ Excludes food donations.

3/ Includes non-refined sugar cane, classified as raw materials.

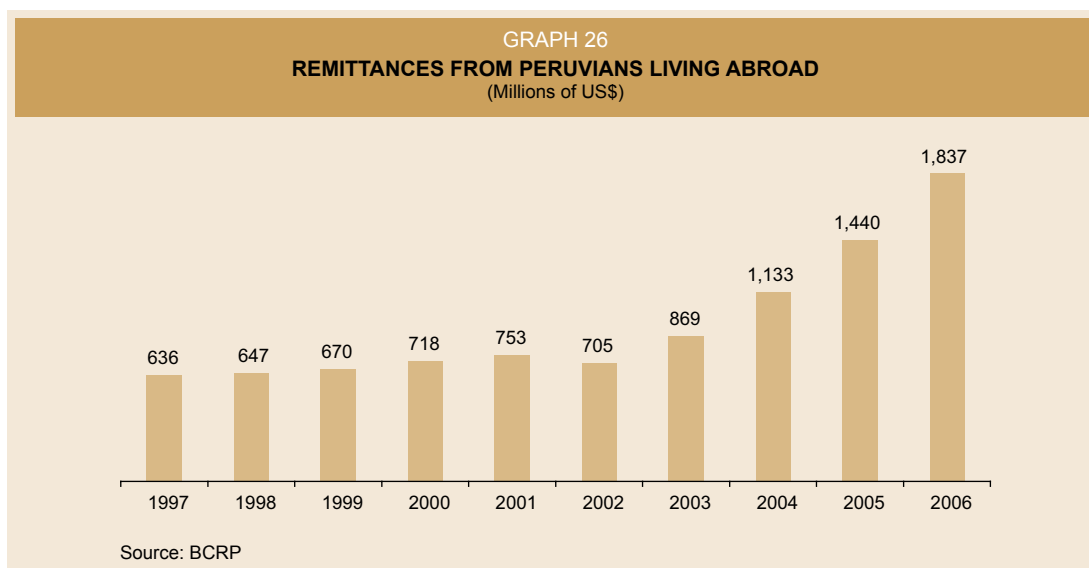
Source: BCRP, SUNAT, Zofraticna, Banco de la Nacion and companies.

### 3.2 Balance of services, factor income, and current transfers

The **balance of services** was negative by US\$ 949 million –a deficit that was US\$ 115 million higher than in 2005–, reflecting increased expenditures for transport services given the higher demand for imports and increased payments for insurance and reinsurance. This was partially offset by the higher flow of travelers to the country, which increased from

1.9 million in 2005 to 2.2 million in 2006, and implied higher incomes due to sales of travel tickets and travelers' spending in the country.

**Current transfers** amounted to US\$ 2,185 million, a sum US\$ 413 million higher than in 2005, due to increased remittances from abroad (US\$ 397 million), particularly from the United States, Japan, Spain and Argentina. Remittances totaled US\$ 1,837 million, amount equivalent to 2.0 percentage points of GDP, which represented



an increase of 28 percent relative to remittances in the previous year.

**Factor income** showed a deficit of US\$ 7,581 million –a sum US\$ 2,504 million higher than in 2005. This result was mainly explained by the increased earnings generated by firms with foreign shareholding (US\$ 2,711 million), especially those related to the mining sector, due to the higher prices of metals during 2006. A higher payment of interests on both the public and the private debt was also observed in the year as a result of both increased placements of bonds abroad and of the higher interest rates seen in the international market. The increase of Net International Reserves allowed to partially compensate these outlays since higher earnings were obtained for the placement of these assets abroad.

### Financial account

In 2006, the financial account was positive by US\$ 708 million, both as a result of a higher inflow of private long-term capitals and of lower outlays in the public sector financial account. A net outflow of short-term capitals was also observed during the year, mainly as a result of a US\$ 331 million reduction of banks' liabilities abroad and of an increase of US\$ 82 million in their assets.

The greater flow of private sector capitals resulted from an increase in direct foreign investment (US\$ 3,388 million during the year), a result explained mostly by reinvestment of profits. The capital contributions of companies such as SAB Miller, Scotiabank and Xstrata were noteworthy. This evolution was partially compensated by other assets and liabilities with other countries that showed a negative financing of US\$ 1,495 million, given the investments made by non-financial entities, administrators of private pension funds, insurance companies and mutual funds. An increase in the investments of non-residents in local securities listed at CAVALI was also observed. CAVALI's participation in the bond market increased from 11.4 percent in 2005 to 12.3 percent in 2006 due to the acquisition of both sovereign bonds in domestic currency and bonds issued by private companies. This conduct was associated with greater certainty and with the Peruvian economy's improvement in terms of country risk indicators.

The public sector's capital account reduced its deficit from US\$ 1,441 million in 2005 to US\$ 738 million in 2006. This result was associated with lower payments for amortizations in 2006, as prepayment operations were carried out with both the Paris Club and with Japan Peru Oil Co. Ltd. (JAPECO) in 2005. A prepayment for a total of US\$ 86 million was also made in 2006 in order to restructure the external debt.



#### 4. International assets and liabilities position

The international assets and liabilities position showed a decline in external debt from US\$ 28,657 to US\$ 28,300 million in 2006, reflecting mainly a decrease in the balance of the short-term public debt and private debt.

In GDP terms, total external debt, both private and public, decreased from 36.1 to 30.3 percent of GDP between end-2005 and end-2006. The total external debt of the private sector declined from 28.1 to 23.5 percent and the total external debt of the private sector declined from 4.0 to 3.5 percent.

TABLE 28  
INTERNATIONAL INVESTMENT POSITION  
( End of period Levels )

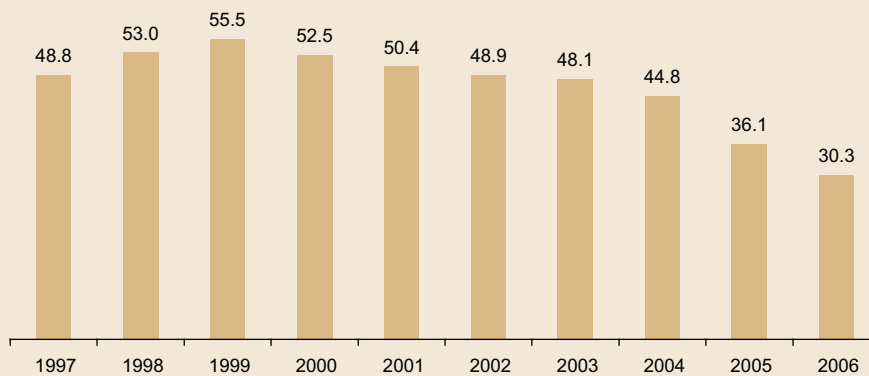
	Millions of US\$			Percentage of GDP		
	2004	2005	2006	2004	2005	2006
<b>I. ASSETS</b>	<b>21,214</b>	<b>24,971</b>	<b>31,823</b>	<b>30.4</b>	<b>31.5</b>	<b>34.0</b>
1. Reserve assets of the BCRP	12,649	14,120	17,329	18.1	17.8	18.5
2. Financial system assets (excluding BCRP)	4,834	6,398	9,184	6.9	8.1	9.8
3. Other assets	3,731	4,454	5,310	5.4	5.6	5.7
<b>II. LIABILITIES</b>	<b>48,483</b>	<b>51,250</b>	<b>56,699</b>	<b>69.6</b>	<b>64.6</b>	<b>60.7</b>
<b>1. Bonds and private and public external debt</b>	<b>31,244</b>	<b>28,657</b>	<b>28,300</b>	<b>44.8</b>	<b>36.1</b>	<b>30.3</b>
a. Medium and long-term	28,475	25,449	25,289	40.9	32.1	27.1
Private sector <sup>1/</sup>	4,009	3,170	3,318	5.8	4.0	3.5
Public sector	24,466	22,279	21,972	35.1	28.1	23.5
b. Short-term	2,769	3,208	3,011	4.0	4.0	3.2
Financial system (excluding BCRP)	834	1,178	856	1.2	1.5	0.9
BCRP	18	23	54	0.0	0.0	0.1
Other <sup>2/</sup>	1,917	2,007	2,101	2.7	2.5	2.2
<b>2. Direct investment</b>	<b>13,310</b>	<b>15,889</b>	<b>19,356</b>	<b>19.1</b>	<b>20.0</b>	<b>20.7</b>
<b>3. Stock market and ADR's</b>	<b>3,928</b>	<b>6,705</b>	<b>9,043</b>	<b>5.6</b>	<b>8.5</b>	<b>9.7</b>

1/ Includes bonds.

2/ Includes mainly short-term debt from private sector non-financial entities.

Source: BCRP, MEF, Cavali ICLV S.A., Proinversion and BIS.

GRAPH 27  
TOTAL EXTERNAL DEBT  
(Percentage of GDP)



Source: BCRP.

The position of direct foreign investment increased from US\$ 15,889 million (equivalent to 20.0 percent of GDP) to US\$ 19,356 million (20.7 percent del GDP), while the share of capital increased to US\$ 9,043 million, that is, to 9.7 percent of GDP. In this way, total liabilities with other countries amounted to US\$ 56,699 million (equivalent to 60.7 percent of GDP).

Assets amounted to US\$ 31,823 million, and consisted mainly of BCRP reserve assets amounting to US\$ 17,329 million. These

assets showed an increase of US\$ 3,210 million.

The balance of net international reserves (NIRs) at end-2006 was US\$ 17,275 million, an amount equivalent to 3.7 times 12-month debt maturities, 14 months of imports of goods and 72 percent of banks' total liquidity. These indicators showed the soundness of the Peruvian economy to face an eventual tightness of financing in international markets and favored a reduction of investors' perception of risks in our economy.

TABLE 29  
INDICATORS OF EXTERNAL VULNERABILITY

	2004	2005	2006
1 Current account deficit (% of GDP)	0.0	1.4	2.8
2 Exports concentration by products (%) <sup>1/</sup>	50	49	55
3 Net international reserves (NIR) (millions of US\$)	12,631	14,097	17,275
4 NIR / Debt due in one year (number of times) <sup>2/</sup>	2.0	2.8	3.7
5 NIR (number of months of imports of goods)	15	14	14
6 Total external debt (% of GDP)	44.8	36.1	30.3
7 Total external debt / Current account revenues (number of times)	1.9	1.3	1.0
8 Public sector external debt (% of GDP)	35.1	28.1	23.5
9 Public sector external debt / Current account revenues (number of times)	1.5	1.0	0.8
10 Total external debt service (% current account revenues) <sup>3/</sup>	23.7	32.7	12.8
11 Public sector external debt service (% current account revenues) <sup>3/</sup>	15.8	23.3	9.0

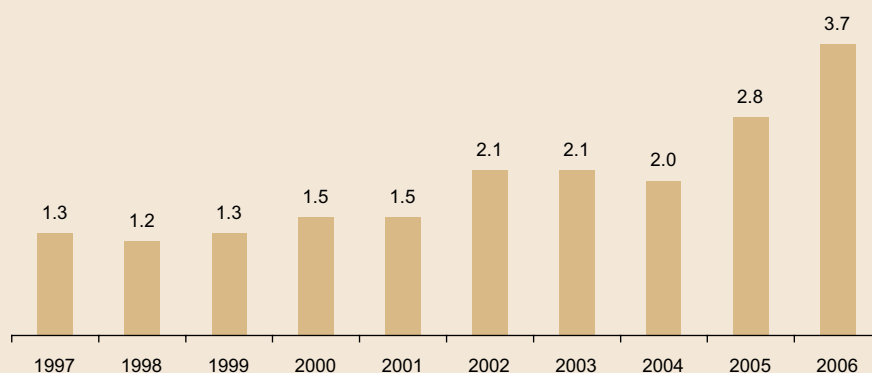
1/ Share of gold, copper, fishmeal and zinc in total exports.

2/ Short-term debt and medium and long-term debt due in one year. The 2004 ratio does not include early repayments of debt in 2005

3/ In 2005, includes early public debt repayment for US\$ 2,312 millions and US\$ 86 millions in 2006

Source: BCRP.

GRAPH 28  
NIR / Debt due in one year  
(Times)



Source: BCRP.