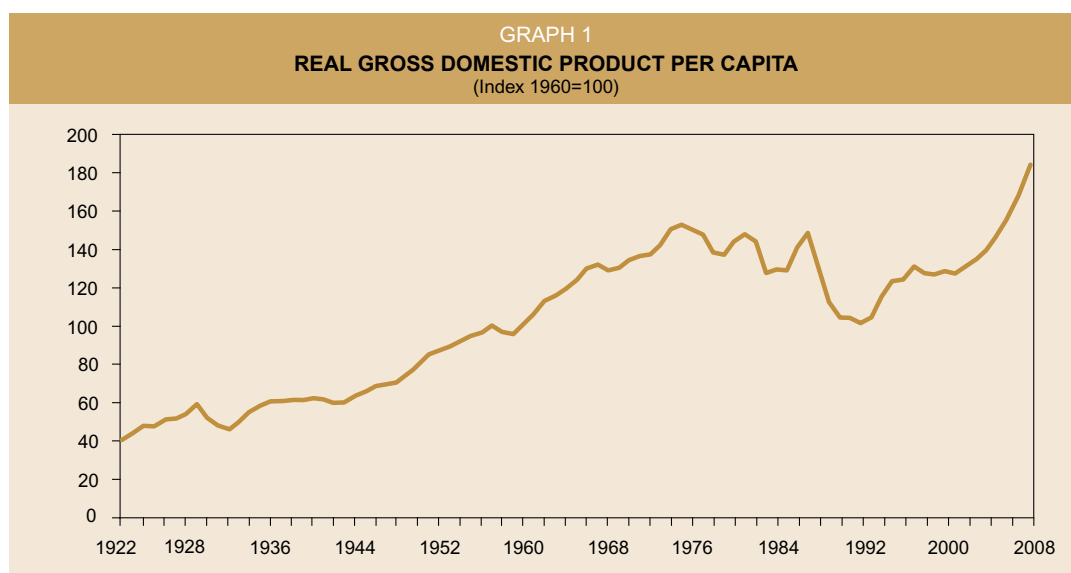


# I. Production and Employment

In 2008 the Peruvian economy grew 9.8 percent –the highest growth rate in 14 years–, as a result of which the country recorded ten years of consecutive growth, the longest cycle of economic expansion observed since the seventies. In contrast with previous cycles, this evolution took place in a context of a healthy economic equilibrium, both domestically and externally.

This higher growth has been achieved despite the difficult situation experienced by the rest of economies in the world after the financial crisis in the United States unfolded and rapidly affected both developed and emerging countries. Needless to say, Peru has not been immune to the crisis and the external demand for our products has declined. In fact, the country's economic growth in 2008 was mainly associated with the increase of domestic demand, which has been growing at higher rates than GDP over the past three years, reflecting the dynamism of private and public investment.

With this result, per capita GDP growth rate reached a new historical record that is 20 percent higher than the one observed in the mid-seventies and 80 percent higher than the one recorded 16 years ago.



## 1. Demand and supply

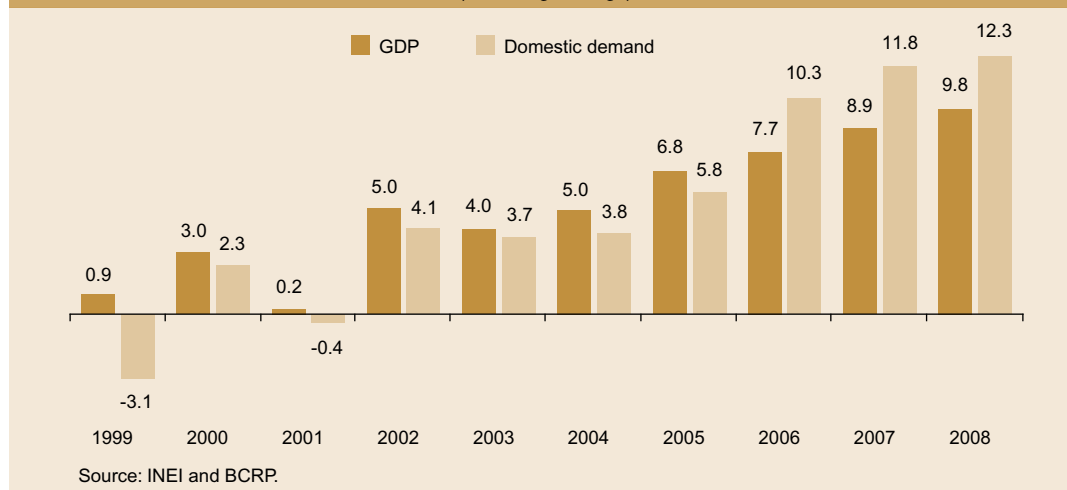
Driven by public and private investment, **domestic demand** grew **12.3 percent** in 2008, and thus accumulated three years of higher two-digit growth rates than the ones recorded by GDP. Moreover, exports grew at a faster pace than in 2007 due to the higher volumes of mining, textile, chemical and non-traditional farming products exported.

TABLE 1  
GROSS DOMESTIC PRODUCT BY TYPE OF EXPENDITURE  
(Real percentage change)

	2006	2007	2008
<b>Domestic Demand</b>	<b>10.3</b>	<b>11.8</b>	<b>12.3</b>
a. Private consumption	6.4	8.3	8.8
b. Public consumption	7.6	4.5	4.0
c. Gross domestic investment	18.9	22.6	28.0
- Private	20.1	23.4	25.6
- Public	12.8	18.2	41.9
Exports	0.8	6.2	8.2
Minus: Imports	13.1	21.3	19.9
<b>GDP</b>	<b>7.7</b>	<b>8.9</b>	<b>9.8</b>

Source: INEI and BCRP.

GRAPH 2  
GDP AND DOMESTIC DEMAND  
(Percentage change)



## 1.1 Consumption

**Private consumption** grew **8.8 percent** –the highest growth rate observed since 1995–, reflecting the expansion of the national disposable income (8.0 percent), consumer credit (21 percent), and urban employment (8.3 percent).

The national disposable income, which grew 8.0 percent, recorded a lower rate than in the past two years due to the decline of terms of trade (13 percent) and to lower remittances from abroad as a result of the weakening of the world economy. The deterioration of terms of trade was in part compensated by non-residents lower income.

TABLE 2  
**NATIONAL DISPOSABLE INCOME 1/**  
 (Percentage change)

	2006	2007	2008
<b>Gross domestic product</b>	<b>7.7</b>	<b>8.9</b>	<b>9.8</b>
Gross national product 2/	5.1	9.3	12.1
Gross national income 3/	10.7	9.8	8.2
<b>National disposable income 4/</b>	<b>10.9</b>	<b>9.7</b>	<b>8.0</b>

1/ Preliminary data.

2/ Excludes non-resident factor income from GDP.

3/ Includes losses and gains due to changes in terms of trade.

4/ Gross national income plus net transfers from non-residents.

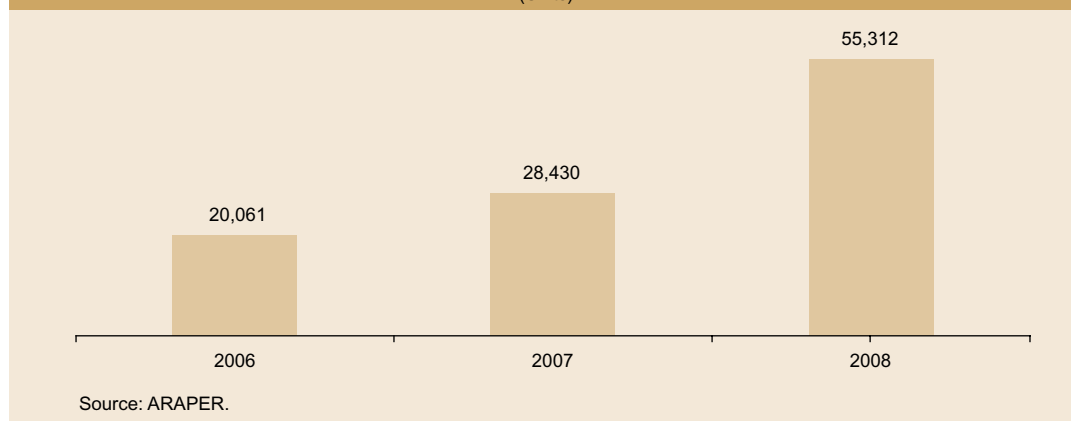
Source: INEI and BCRP.

Urban employment grew in general both in Lima (8.6 percent) and in the other cities of the country (7.6 percent). Driven mostly by the boom of agro-exports, the growth of employment was particularly noteworthy in Paita (19.7 percent), Huancayo (18.5 percent), Chincha (14.4 percent), Arequipa (12.5 percent) and Piura (11.2 percent).

The expansion of private consumption was reflected in a series of indicators such as the growth of the number of credit cards<sup>1</sup> (16 percent) and of the amounts traded through them (30 percent). This higher consumption was also evidenced in a 52 percent increase in the number of durable consumer goods and a 95 percent increase in the number of new family cars sold, the latter of which recorded an historical high of 55 thousand units during the year.

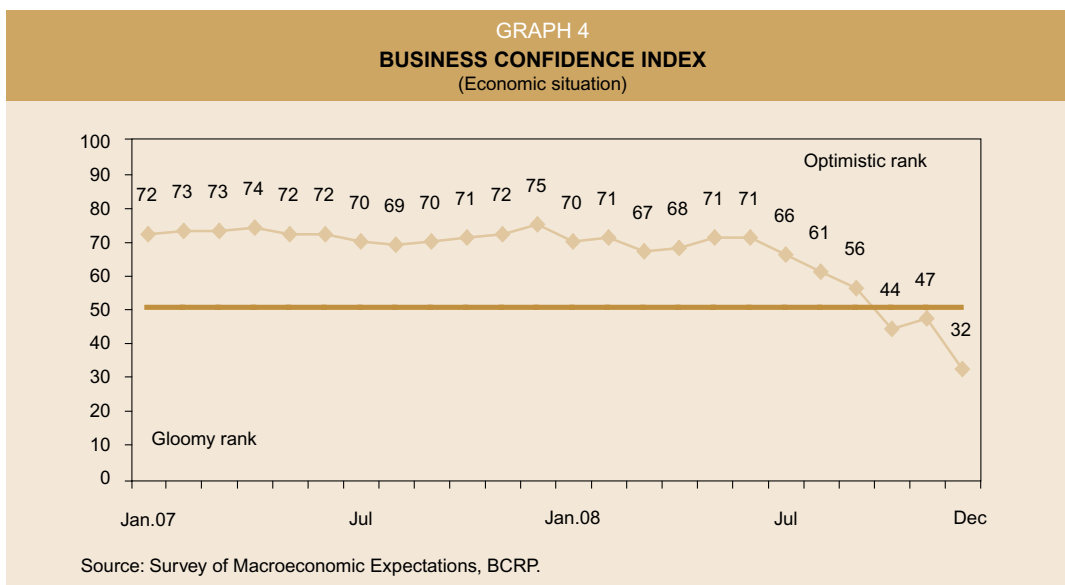
Moreover, this higher consumption was also evidenced in the greater number of malls and in the expansion of existing ones, both in the capital and in the rest of the country. Six malls, of which 3 are located in Lima, were opened in 2008.

GRAPH 3  
**SALES OF NEW FAMILY CARS**  
 (Units)



1 According to the Association of Banks, Asbanc, there were 6 million credit cards at December 2008 (the number of credit cards increased by 834 thousand units relative to December 2007).

The BCRP's new indicator of business confidence, calculated on the basis of the macroeconomic surveys on expectations regarding the economic conditions in the country in the next three months, fell on the optimistic side during most of the year. However, this indicator fell on the pessimistic segment in the last quarter as a result of the first reports on the international financial crisis and the rapid deterioration of our main trading partners' prospects for growth.



**BOX 1**  
**CONFIDENCE INDICES**

Confidence Indices are useful to analyze the current context and the dynamics of economic activity since they are based on surveys that capture economic agents' perceptions and expectations, particularly in regard to what they intend to do in terms of consumption and investment. Economic agents' current and future appreciations on the evolution of their economic situation may be periodically monitored through these indices.

In Peru, Ipsos Apoyo Opinión y Mercado S.A. has been conducting monthly surveys to households since 2003. Likewise, the Central Bank has been carrying out monthly surveys with a select group of firms representing each of the economic sectors since 2002.

With this information, the Central Bank has elaborated two confidence indices: the first one is a Consumer Confidence Index, which is based on the information collected by Ipsos Apoyo Opinión and Mercado S.A. on families' expectations about their current and future economic situation. The second index is a Business Confidence Index based on the Bank's Survey on Macroeconomic Expectations applied to businesses, which focuses specifically on expectations about the future economic situation in the country (in the next three months).

Confidence Indices (CI) have a tradition of decades. The pioneer one was the Consumer Confidence Index elaborated by the University of Michigan (UM), whose methodology is widely used today in several countries. This organization, which has calculated a consumer confidence index since the forties, has a very high credibility in the United States.

The UM's index consists of several questions associated with individuals' personal economic situation, the economy in general, and other questions. In each question, the option showing a better situation is considered a positive answer and the option showing a worse situation is considered a negative answer. The index on each question is based on the ratio of positive (P) and negative (N) answers relative to the total number of surveyed individuals.



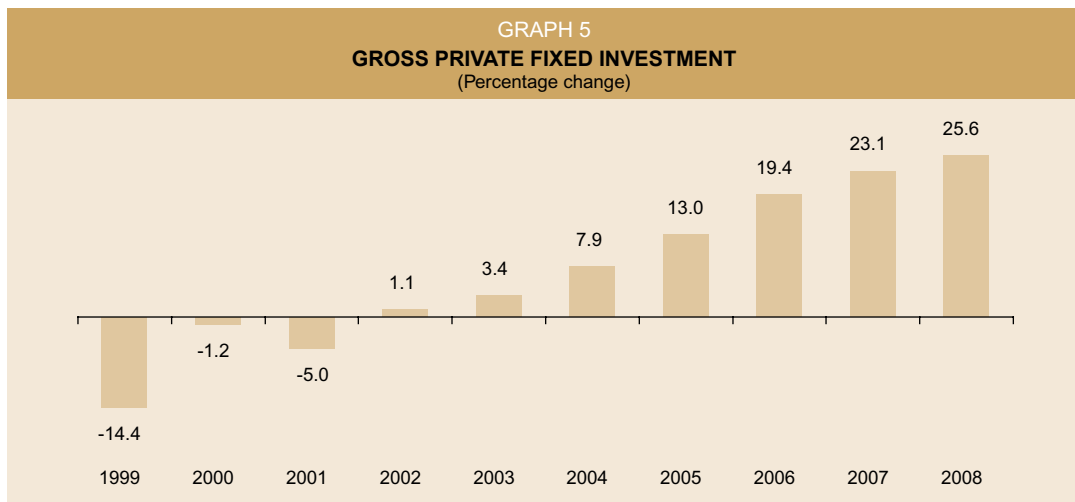
Thus, if all surveyed individuals provided positive answers, the index would be 100 and would indicate full consumers' confidence. Conversely, 0 would indicate nil confidence. In the same way, an index of 50 would be showing a neutral level of confidence.

$$ICI = 50 (P - N + 1)$$

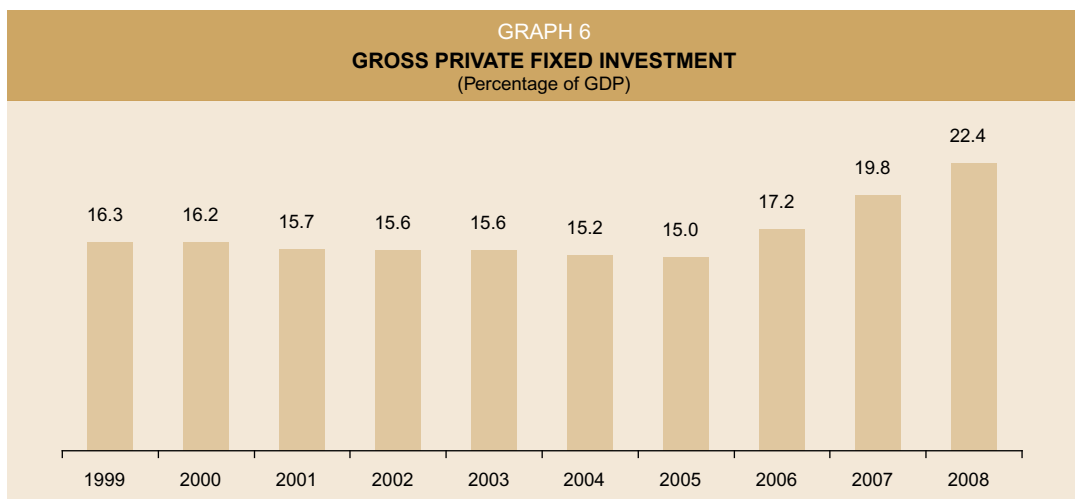
Once the ICI has been calculated for each question, these results are averaged to obtain the total CI in the period.

## 1.2 Investment

**Private investment** grew **25.6 percent** in 2008. This dynamism was reflected in the construction of new plants and in the expansion of existing plants in order to meet the population's increased demand associated with the process of economic growth. It is worth pointing out that private investment has been growing at two-digit rates since the second quarter of 2005.



This growth of investment in the last years has allowed this component of expenditure to represent 22 percentage points of GDP in 2008.



Among the most important private investments is Camisea II construction project, being implemented by Perú LNG, which is considered one of the major investments in the country. Mining investments worth pointing out because of their magnitude include Southern's projects such as Tía María and the expansions of Toquepala and Cuajone, as well as the investments made by Yanacocha, Shougang and Milpo in the expansion of mines and concentration plants. Milpo even started implementing the expansion of Cerro Lindo mine at end 2008, a semester before it was programmed to start. On the other hand, the investments made by BPZ Energy in gas exploitation and oil exploration in Piura and Tumbes stand out in terms of hydrocarbon projects.

**TABLE 3**  
**MAIN PRIVATE INVESTMENT PROJECTS 2008**  
(Millions of US\$)

Sector	Amount
Agriculture and livestock	293
Fishing	84
Mining and hydrocarbons	2,775
Manufacture	1,301
Electricity, gas and water	829
Construction	615
Commerce	517
Transport and communications	800
Services	60
<b>TOTAL</b>	<b>7,274</b>

Source: BCRP Survey on Macroeconomic Expectations; magazines and newspapers.

Noteworthy investments in the manufacturing sector include the expansion of cement and food plants, such as the construction of the factory of Cementos Interocéánicos in Puno, the expansion of Cementos Lima, and the expansion of Nestlé and Alicorp's productive capacity. Other projects that should be pointed out are those carried out by Aceros Arequipa, Refinería La Pampilla, Votorantim, and Vale do Rio Doce, as well as other investments in the glass, paper, plastic, and textile industries.

Investments worth highlighting in the electricity sector include Endesa's construction of its open cycle thermal electrical station Santa Rosa; El Silvernal thermal electrical station, which should start operating in 2009; Enersur's installation of a third turbine in Chilca Uno, and Edelnor's works in the electrical transmission sub-station of Chillón.

In the sector of transport and communications, investments in fixed and wireless telephony and Internet were led by Telefónica del Perú, Telmex, América Móvil and Nextel. Noteworthy investments in the construction of malls included the projects of Supermercados Peruanos, Saga Fallabela, Ace Home Center, especially the ones carried out in the provinces.

Moreover, together with Z Energy International, sugar enterprises such as Cayaltí and Pomalca have started developing projects in the field of biofuels. Investments in the fishing sector continued to be oriented to the construction and expansion of fish conserve and frozen fish plants, while investments

worth pointing out in hotels and tourism included the construction of Westin Libertador, as well as the projects implemented by the Blue Martin and Libertador Perú hotel chains, both in Lima and in other cities of the country.

Public investment grew 41.9 percent in real terms, mainly due to the investments made by the sub-national governments (investments by local governments grew 98.1 percent, while investments by regional governments grew 22.0 percent). Moreover, the investments made by state enterprises, particularly Sedapal and the regional electricity enterprises, also contributed to this growth of investment.

In the central government, the sectors that executed higher spending were the sectors of Transport (road improvement, rehabilitation, and construction: Tingo María – Aguaytía – Pucallpa highway; Tocache-Tocache highway; Saramiriza Eje Vial N° 4, among other projects), Agriculture (to support agricultural production), Education (improvement of infrastructure and educational quality), Electricity (implementation of small electric power systems in several towns), Housing (expansion and improvement of water and sanitation systems and housing programs).

Public consumption increased by 4.0 percent in 2008 due mainly to the higher purchases of goods and services of the sub-national governments (22.4 percent) and to higher remunerations in the local governments.

Exports of goods and services increased by a real 8.2 percent –a higher rate than the one recorded in 2007–, reflecting the higher exports of traditional products, such as copper (10.9 percent), gold (7.7 percent), zinc (14.1 percent), molybdenum (13.6 percent), fishmeal (24.1 percent), and coffee (29.5 percent), as well as the growth of non-traditional exports (12.5 percent in real terms), particularly textile, agricultural, and chemical products. Our main trading partner in terms of the destination of our exports continued to be the United States, although nominal exports to this market dropped 22 percent due to the financial crisis that mainly affected this country during the second half of the year.

Imports grew 19.9 percent, reflecting the higher imports of durable consumer goods, associated with higher domestic consumption, as well as the higher imports of inputs and capital goods, associated with increased private investment. It should be pointed out that imports of durable consumer goods grew 52.5 percent in 2008 –a rate two times higher than the one recorded in 2007 (24.5 percent)– while imports of capital goods for industry grew 45.6 percent in 2008 (versus 42.4 percent in 2007).

### 1.3 Saving and investment

Domestic investment increased by 3.7 percentage points of GDP in 2008 –from 22.9 percent of GDP to 26.6 percent of GDP– due to higher private investment, especially in the first quarters of the year, as well as to the positive evolution of public investment. On the other hand, domestic saving declined from 24.0 percent to 23.3 percent of GDP in 2008, influenced by the evolution of private consumption during the first quarters of the year. As a result of this, the current account of the balance of payments showed a deficit equivalent to 3.3 percent of GDP in 2008, a result contrasting with the 1.1 percent surplus recorded in 2007.

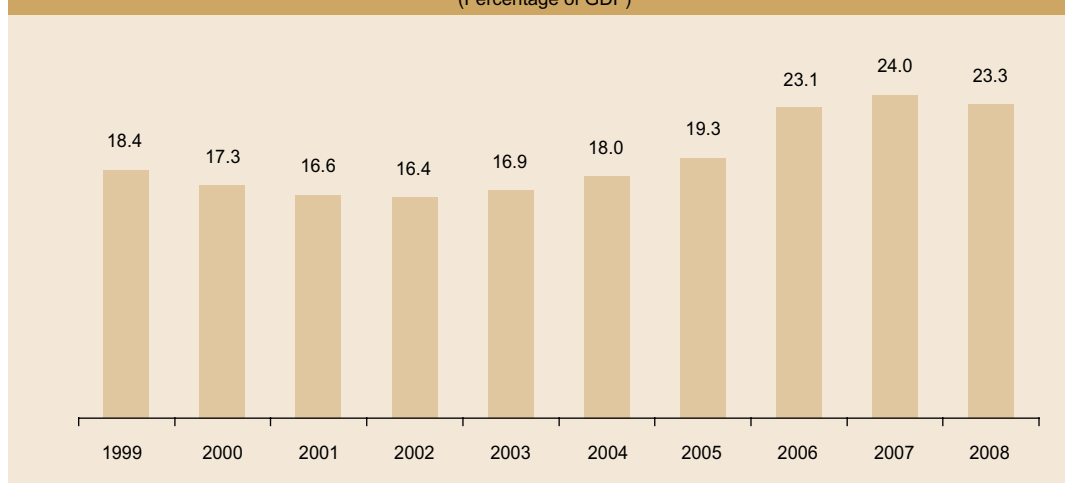


TABLE 4  
SAVING AND INVESTMENT  
(Percentage of GDP)

	2006	2007	2008
<b>I. Investment (=II+III)</b>	<b>20.0</b>	<b>22.9</b>	<b>26.6</b>
Public investment	2.8	3.1	4.2
Private fixed investment	16.4	18.2	21.4
Change on inventories	0.8	1.7	1.0
<b>II. Domestic savings</b>	<b>23.1</b>	<b>24.0</b>	<b>23.3</b>
Public sector	5.0	6.2	6.3
Private sector	18.1	17.8	17.0
<b>III. External savings</b>	<b>- 3.1</b>	<b>- 1.1</b>	<b>3.3</b>
Memo:			
Gross fixed investment	19.2	21.2	25.6

Source: BCRP.

GRAPH 7  
DOMESTIC SAVINGS  
(Percentage of GDP)



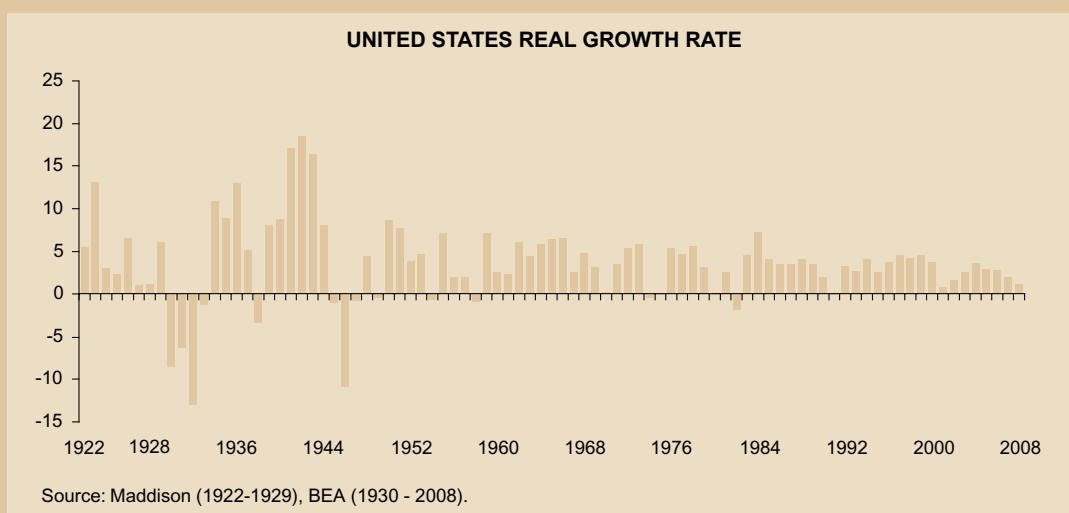
#### BOX 2

##### THE GREAT DEPRESSION AND THE CURRENT INTERNATIONAL CRISIS

The collapse of the New York's stock market in October 1929 marked the beginning of the global economic crisis of the following years, which is known as the "Great Depression". A phenomenon of similar characteristics has recently occurred as a result of the collapse of property prices in the United States and the crisis of high-risk (subprime) mortgage market, which spread onto other economies' financial systems.

Even though the forecasts of the main official organizations and specialized media do not consider a scenario of global depression for this and the following years –although they do consider a scenario of severe recession–, there is no doubt that today's crisis is the most severe one observed since the end of the Great Depression because of its magnitude and global extent. Two questions arise in this sense: Which are the similarities of the two crises and how do they differ? What was the impact of the Great Depression on the Peruvian economy? These two aspects are discussed below.





#### Similarities and differences between the Great Depression and the current international crisis

The first similarity is that both crises emerged in the United States, where deficits in the current account of the balance of payments and public finance were being observed in both cases. The second similarity is that the crisis emerged in the financial markets and then spread into the real sector in both cases.

However, these two financial crises were different. The 1929 crash was associated with the burst of a speculative bubble generated by scarcely-backed loans used to buy stocks. The recent crisis, on the other hand, originated in investment funds and banks which traded at the international level mortgage packages resulting from house loans granted to risky users –with no incomes or jobs– at very high rates.

This difference also highlights a distinction in terms of the transmission channels of the financial crisis. Since August 2007, and more severely since September 2008, the current crisis spread very rapidly into the financial markets of other developed economies in a context of greater financial integration. In last century's episode, the U.S. banking crisis unfolded only in 1930 –several months after the stock market crash– and only then did its impacts start reflecting in the U.S. economy through a severe contraction of credit that affected consumption and investment, and subsequently international trade through this.

Although banks' problems of liquidity and funding played an important role in the transmission of both crises, the mechanism differs in each case due to the evolution of the structure of the financial system since 1930. During the Great Depression, liquidity and funding problems emerged due to the deposit runs generated amid banks' equity losses and due to the absence of a deposit insurance fund. Such problem does not exist in today's crisis. Funding problems stemmed from banks' significant exposure to risks associated with obtaining financing in the short-term money market, specifically mortgages and related derivatives. As overdue payments started increasing in the mortgage sector, fears about banks' equity soundness complicated their funding, especially after the Lehman Brothers bank went bankrupt.

As regards policy responses, there seems to be consensus regarding the fact that much more has been advanced in the field of economic sciences so as to have clearer ideas on the monetary and fiscal measures required to face the crisis. Today, the central banks' actions implemented to provide liquidity to their financial markets in order to prevent a credit crash seem appropriate. This did not happen in 1929. However, relative agreement also exists about the scarce space for action that monetary authorities have today in situations of low interest rates. In contrast with the thirties, when the Keynesian formula of increasing fiscal spending encountered a great deal of opposition, most governments today seem to be convinced of the advantage of adopting a counter-cyclical position in fiscal policy to deal with the current global recession. This would be the main reason why a depression is not expected in the current context.

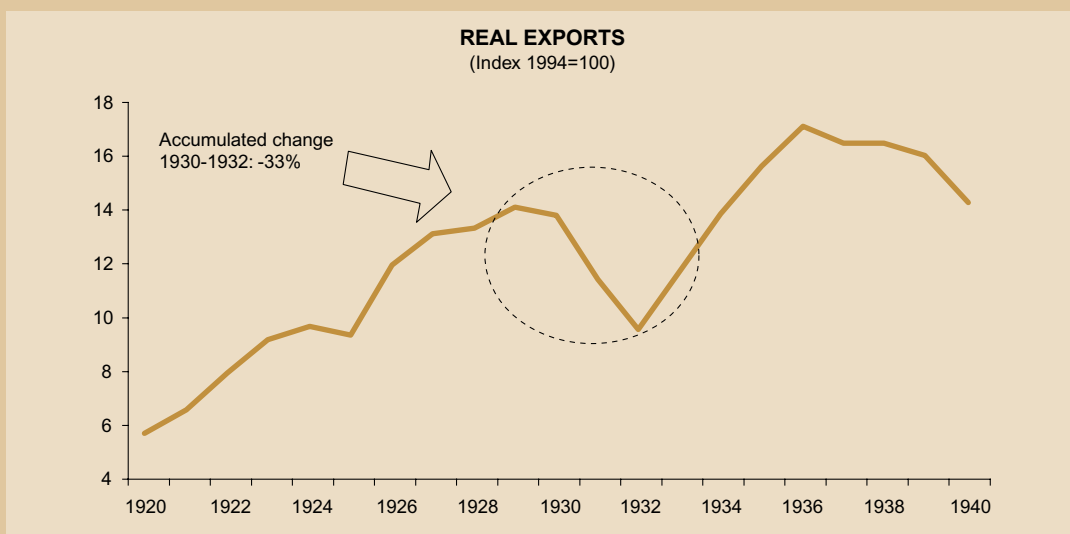
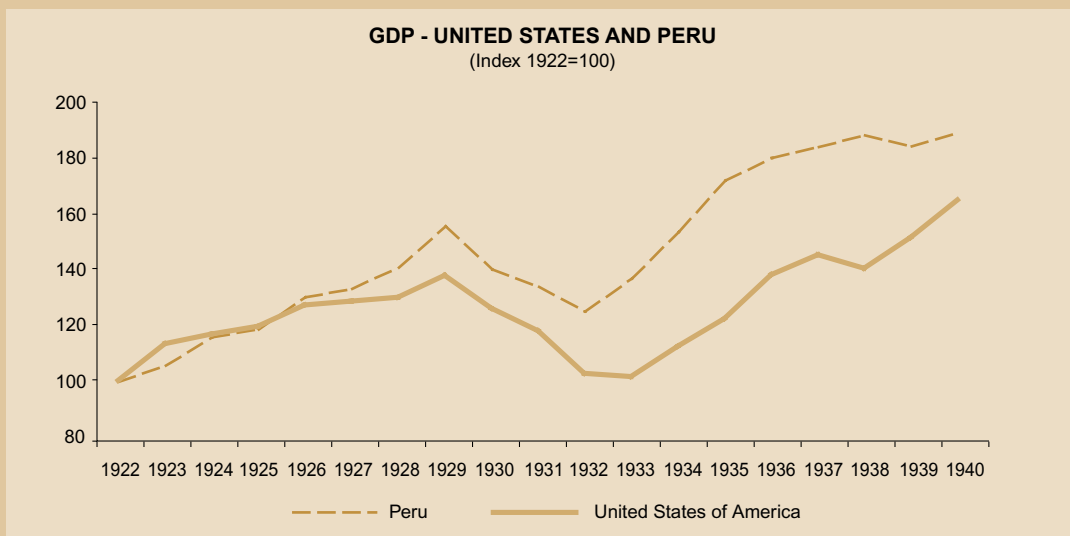
An additional element that enhanced the impacts of the Great Depression on developing economies –which is expected not to replicate today– was the protectionist wave that invaded the governments of developed countries. As these governments closed their economies, global trade declined, affecting the possibilities that less developed economies would find markets for their exports.

**Impacts of the Great Depression on the Peruvian Economy**

The Great Depression occurred in a context when Peruvian exports concentrated on four raw materials (oil, copper, cotton, and sugar) oriented mainly to the United States, which had largely replaced Great Britain as the main source of external financing. It is worth pointing out that many of the public projects implemented during the government of Augusto B. Leguía (1919-1930) were financed through external capitals.

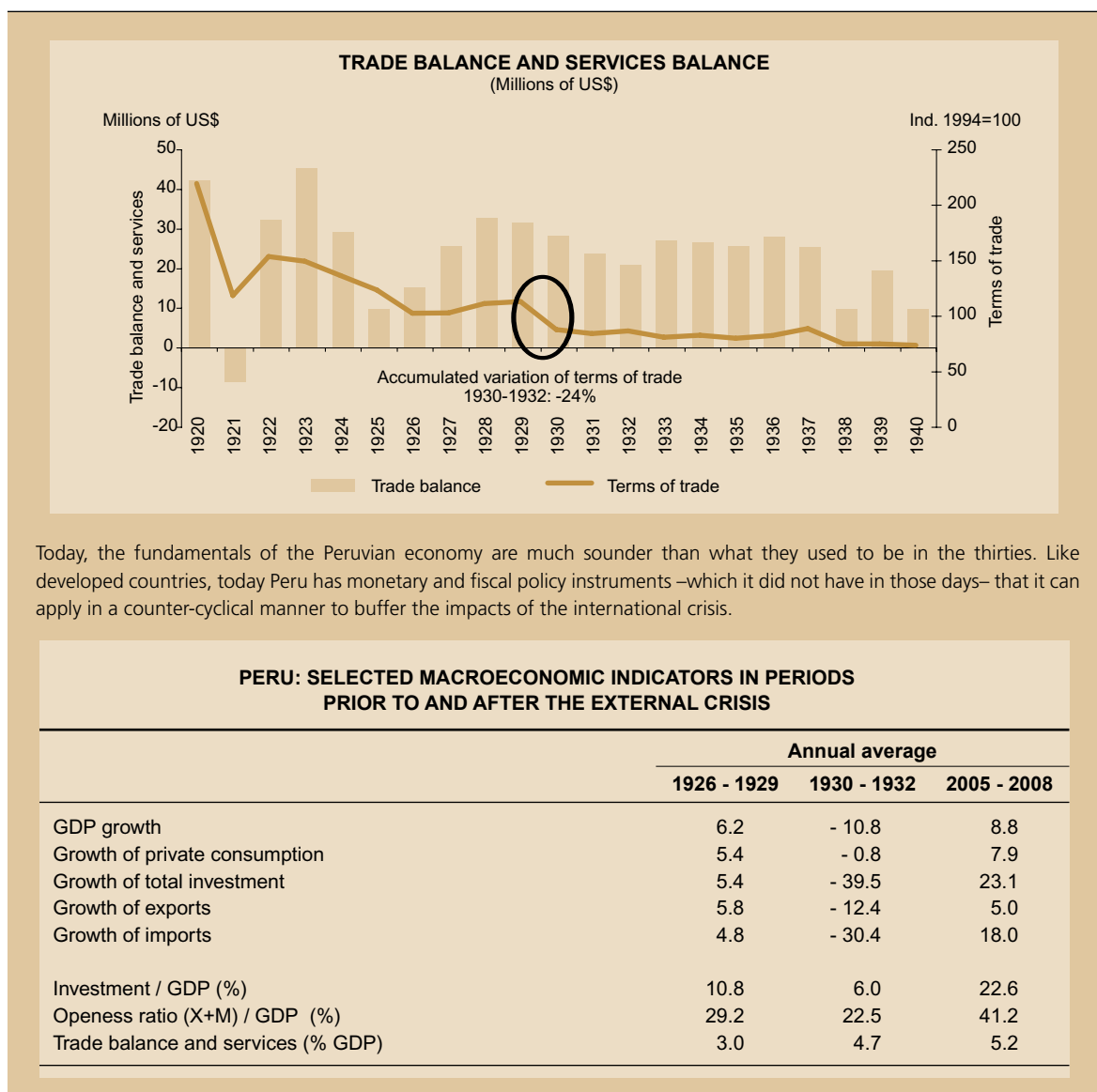
Thus, the Great Depression affected our economy via the typical transmission channels of international crises: lower external demand, the deterioration of terms of trade, and external financing constraints.

The graphs below illustrate the strong recessive impact that the Great Depression had on the Peruvian economy given that it generated lower exports and the drop of investment. This recession, which lasted approximately three years, was followed by a period of significant recovery.



Despite its strong negative impact on terms of trade and actual exports, the effect on this crisis on the trade balance was offset by a drastic drop of imports. It should be pointed out that the Peruvian trade balance was structurally positive until World War II.





## 2. Production sectors

Production grew in all the economic sectors in 2008. Like in the previous year, this growth was led by non-primary activities, which grew 10.4 percent during 2008, while primary activities –associated with the generation and/or extraction of raw materials– grew at a lower pace (7.2 percent).

### 2.1 Agriculture

The agricultural sector, which grew 6.7 percent in 2008, maintained a high dynamism due to the increase of farm prices and to the drive of external demand. The production of crops oriented to industry and export grew 13.8 percent in the year, mainly due to the contribution of the production of olives, coffee, and asparagus for exports, and to the production of sugar cane and hard yellow maize for the sugar and poultry industries, respectively.



TABLE 5  
GROSS DOMESTIC PRODUCT  
(Real percentage change )

	2006	2007	2008
<b>Agriculture and livestock</b>	<b>8.4</b>	<b>3.3</b>	<b>6.7</b>
Agriculture	8.4	2.0	6.6
Livestock	8.2	5.3	6.9
<b>Fishing</b>	<b>2.4</b>	<b>6.9</b>	<b>6.2</b>
<b>Mining and hydrocarbons</b>	<b>1.4</b>	<b>2.7</b>	<b>7.6</b>
Metallic mining	1.1	1.7	7.3
Hydrocarbons	5.7	6.5	10.3
<b>Manufacturing</b>	<b>7.5</b>	<b>10.8</b>	<b>8.5</b>
Manufacturing based on raw materials	4.1	0.7	7.6
Non-primary manufacturing	8.5	13.0	8.7
<b>Electricity and water</b>	<b>6.9</b>	<b>8.5</b>	<b>7.7</b>
<b>Construction</b>	<b>14.8</b>	<b>16.6</b>	<b>16.5</b>
<b>Commerce</b>	<b>11.7</b>	<b>9.7</b>	<b>12.8</b>
<b>Other services 1/</b>	<b>6.8</b>	<b>8.9</b>	<b>9.5</b>
<b>GDP</b>	<b>7.7</b>	<b>8.9</b>	<b>9.8</b>
<b>Primary</b>	<b>5.0</b>	<b>2.7</b>	<b>7.2</b>
<b>Non-Primary</b>	<b>8.4</b>	<b>10.2</b>	<b>10.4</b>

1/ Includes VAT, excise tax and import duties.  
Source: INEI and BCRP.

TABLE 6  
AGRICULTURE AND LIVESTOCK PRODUCTION  
(Real percentage change )

	Part. % 1/	2006	2007	2008
<b>Agriculture and livestock</b>	<b>100.0</b>	<b>8.4</b>	<b>3.3</b>	<b>6.7</b>
<b>Agriculture production</b>	<b>59.8</b>	<b>8.4</b>	<b>2.0</b>	<b>6.6</b>
- For the domestic market	42.5	4.6	3.0	3.7
Potato	7.7	- 1.3	4.1	6.1
Rice	5.0	- 4.2	3.0	14.3
Onion	0.9	16.9	10.0	0.8
Cassava	2.2	13.4	1.7	- 0.4
- For export and industry	17.3	18.5	- 0.5	13.8
Coffee	4.1	44.9	- 17.3	18.0
Sugar cane	3.2	14.9	13.6	13.6
Yellow maize	2.6	2.1	10.1	9.4
Asparagus	1.9	26.2	9.3	11.7
Mango	0.7	36.1	- 8.1	9.7
Olive	0.7	- 3.9	- 0.1	118.0
<b>Livestock production</b>	<b>40.2</b>	<b>8.2</b>	<b>5.3</b>	<b>6.9</b>
Poultry	16.6	9.2	8.4	13.6
Beef	8.0	6.2	0.4	0.1
Milk	4.5	11.6	6.5	8.0
Eggs	3.1	18.5	5.0	3.5

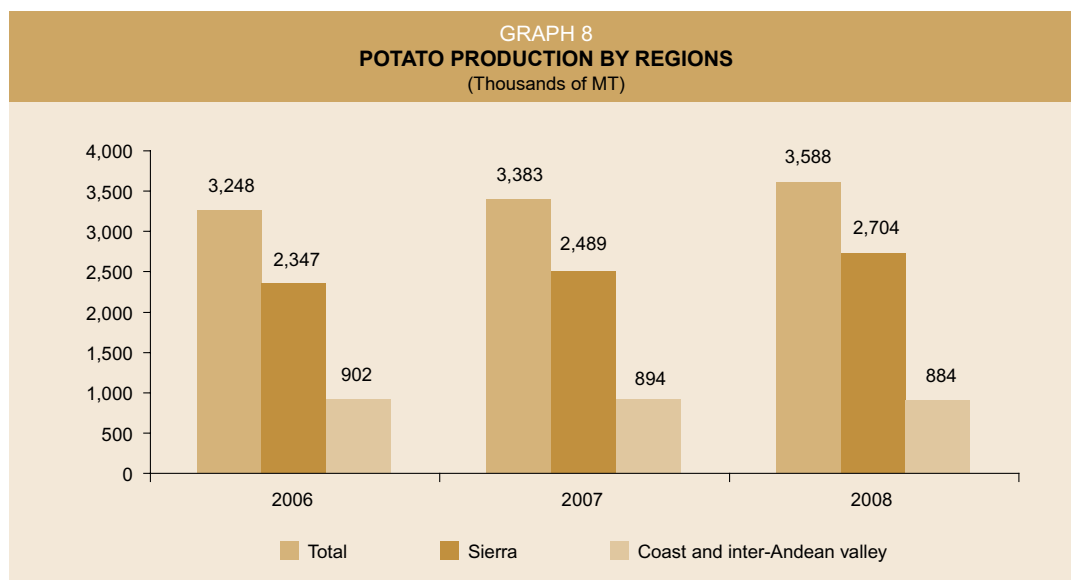
1/ Until 2007.  
Source: Ministry of Agriculture.

It is worth highlighting that historical volumes were obtained in the production of potatoes, rice, hard yellow maize, sugar cane, mango, asparagus, and olives in 2008. On the other hand, activity in the **livestock sub-sector** increased 6.9 percent due to the higher domestic demand for poultry, milk, and eggs observed during the year.

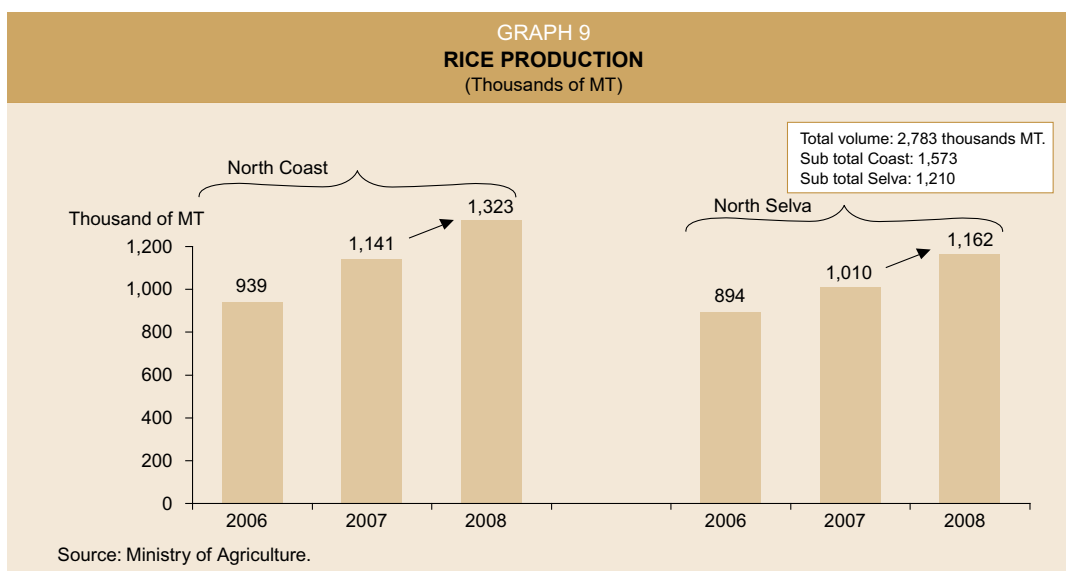
Production in the agricultural sub-sector increased 6.6 percent in 2008 as a result of better climatic conditions and of producers' efforts, which translated into higher harvested areas (asparagus, rice, potato, hard yellow maize), as well as in better yields (sugar cane, hard maize, mango, potato, rice and olives).

Favorable climatic conditions contributed to achieving higher yields in crops with short vegetative periods (potato, rice and maize), while the higher investments of earlier periods propelled the production of agro-industry and agro-export products, which recorded historical yields.

The absence of strong frosts in the Sierra and the high number of sown areas –the second highest in the last year– allowed the production of potato to recover in this region (2,704 thousand tons). Together with the production of potato in the Coast and inter-Andean valleys, this resulted in a historical production of 3,588 thousand tons. A better supply of potato from the Sierra was observed during January-August, given that the production of this crop grew 8.6 percent in this region, but there was also a lower production of potato in the Coast and inter-Andean valleys in the four last months of the year –production declined 1.7 percent– due to adverse climatic conditions.



Due to the recovery of the volume of rainfall in the Selva region, the production of rice and hard yellow maize was significant in this region and added to the abundant production of these cereals obtained in the Coast thanks to the good availability of water stored in the reservoirs of the northern departments. Thus, historical records were achieved in the production of rice (2,783 thousand tons) and hard yellow maize (1,229 thousand tons), which reflected both the increase in harvested areas with these crops (12.3 and 5.3 percent, respectively) and the improvement of farming yields (2.0 and 4.1 percent, respectively).



The favorable results of this sector not only allowed a good domestic supply of the main products of the family basket (potato, rice, vegetables, and fruits), but also fueled the production of primary manufacturing foodstuffs –sugar, meat products and charcuterie– and the production of non-primary manufacturing goods –dairy, rice, asparagus conserves, frozen asparagus, tomato paste, vegetable oil, balanced foodstuffs, and the elaboration of wines, pisco, and ethyl alcohol. This also improved the provision for the external market given that the volumes of both traditional farming exports (coffee and sugar) and non-traditional farming exports (olives, mango, asparagus, cocoa, mandarins, avocados, bananas and grapes) increased.

The factor determining the historical production of sugar cane was its high yield (136.1 tons/hectare). The Peruvian sugar industry has enjoyed a productive efficiency for many years now and the highest national average yield of sugar cane was 176 tons/hectare in 1972. The sugar industry has recovered its world leadership in terms of sugar cane yields in recent years due to a continuous investment process. According to the Food and Agriculture Organization (FAO), Peru ranks first in terms of yield in sugar cane, followed by Egypt and Tanzania (both of which have yields of 119.6 tons/hectare). An example illustrating this is the yield obtained by the Gloria group at its sugar enterprise Casa Grande (158 tons/hectare, the highest yield in the sector, and 31.3 percent higher than in the previous year).

The higher production of coffee, our main traditional export product, is explained by greater harvested areas given that cultivated areas in the Selva increased from 239 to 321 thousand hectares between 1999 and 2008. Furthermore, important efforts were made in this region to obtain world quality products (special types of coffee and organic coffee).

In the case of non-traditional exports like mango, harvested areas have increased from 11 thousand hectares in 1998 to 23 thousand hectares in 2008. Mango production has concentrated in Piura (with 15 thousand hectares of harvested areas), where a significant yield was obtained due to abundant floration resulting from appropriate cold conditions (around 15°C) in the crop’s productive stage (June-July of 2007).

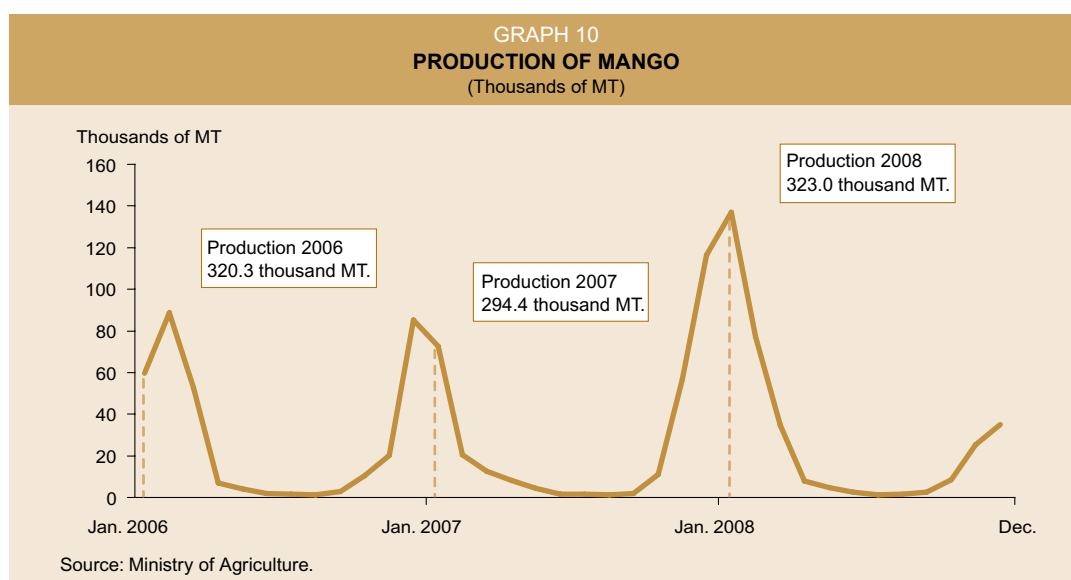


**TABLE 7**  
**PRODUCTION OF SUGAR CANE BY COMPANIES**  
(Thousands of Tons)

	Production		Harvest		Yield	
	2008	% Chg.	2008	% Chg.	2008	% Chg.
Pomalca	725	18.2	6	-5.2	132	24.6
Tuman	1,012	13.4	8	-5.9	126	20.5
Pucala	902	64.0	7	44.4	139	13.5
Casa Grande	1,860	25.5	12	-4.8	158	31.7
Cartavio	1,396	14.5	10	15.2	135	-0.6
Laredo	1,095	3.4	8	4.4	134	-1.0
San Jacinto	628	2.3	6	6.6	105	-4.0
Chucarapi	91	-21.9	1	17.4	100	-33.5
Other	1,638	-2.7	11	-15.6	143	15.4
<b>TOTAL</b>	<b>9,346</b>	<b>13.6</b>	<b>69</b>	<b>1.0</b>	<b>136</b>	<b>12.4</b>

Source: BCRP Regional Branches and Ministry of Agriculture.

**GRAPH 10**  
**PRODUCTION OF MANGO**  
(Thousands of MT)



Source: Ministry of Agriculture.

A higher production volume of asparagus was obtained in a growing cultivated area (30 thousand hectares) that has increased by a yearly average of 19.0 percent in the last three years. With high yields (10.7 tons/hectare)<sup>2</sup>, this area is favorable for the production of this crop and for its industrial processing and subsequent export as a fresh produce, conserves, and as frozen products.

The production of olives, which requires a winter season before its floration period, was favored by the cold weather seen in the Peruvian Coast in 2007 which stimulated floration in this plant sensitive to heat variations. A historical production of olives was obtained in 2008 as a result of these climatic conditions and of the expansion of production areas, especially in Tacna and Arequipa, where this activity concentrates (cultivated areas have increased from 3.9 thousand hectares in 1999 to 10.0 thousand hectares in 2008).

2 According to the FAO, Peru ranks third in the world in terms of yields in asparagus, after the Philippines and Iran (whose yields are 14.5 and 14.3 tons/hectare, respectively).

Moreover, most of the farm prices increased, thus offsetting the effect of the higher costs of fertilizers on the margins of olive production.

TABLE 8  
FARM PRICES  
(S/. per Kg.)

	Prices				% Chg.
	2005	2006	2007	2008	2008
For the domestic market					
Lemon	0.38	0.44	0.45	0.71	55.7
Potato	0.37	0.50	0.44	0.63	41.8
Rice	0.65	0.58	0.81	1.07	32.5
Amylaceous maize	1.04	0.95	1.16	1.50	29.2
Tomato	0.67	0.67	0.70	0.90	27.9
Dry bean	1.90	2.01	2.03	2.61	28.4
Papaya	0.38	0.34	0.29	0.36	26.7
Cassava	0.28	0.30	0.34	0.42	25.2
Sweet potato	0.28	0.36	0.47	0.54	15.1
Orange	0.41	0.39	0.40	0.46	14.9
Onion	0.50	0.46	0.52	0.53	3.0
For export and industry					
Avocado	0.89	1.01	1.13	1.45	28.4
Wheat	0.71	0.73	0.90	1.15	27.3
Yellow maize	0.49	0.53	0.66	0.74	12.6
Cotton	2.11	2.08	2.26	2.50	10.7
Coffee	4.64	3.98	4.71	4.74	0.8
Asparagus	2.89	2.59	3.12	1.95	- 37.6

Source: Ministry of Agriculture.

TABLE 9  
IMPORTS OF MAIN FERTILIZERS  
(Millions of US\$) 1/ 2/

	2006	2007	2008	% Chg.
Urea	60.8	101.4	127.8	26.1
Price (US\$ / Kg.)	0.2	0.3	0.5	67.2
Potassium sulfate	10.8	19.0	36.2	90.1
Price (US\$ / Kg.)	0.3	0.3	1.0	192.3
Ammonium sulfate	5.6	12.3	27.2	120.1
Price (US\$ / Kg.)	0.1	0.1	0.2	82.7

1/ Main products by 10-digit tariff headings.

2/ Average prices (obtained by dividing the total value of each category by total volume).

## 2.2 Fishing sector

The **fishing sector**, which recorded a growth rate of 6.2 percent in 2008, posted five consecutive years of growth. This result reflects the positive performance obtained in all the sector's components oriented to human consumption during 2008, especially in the case of species other than yellow mackerel, and in the catch of anchovy to produce fishmeal.





TABLE 10  
FISH CATCH, BY DESTINATION  
(Real percentage change)

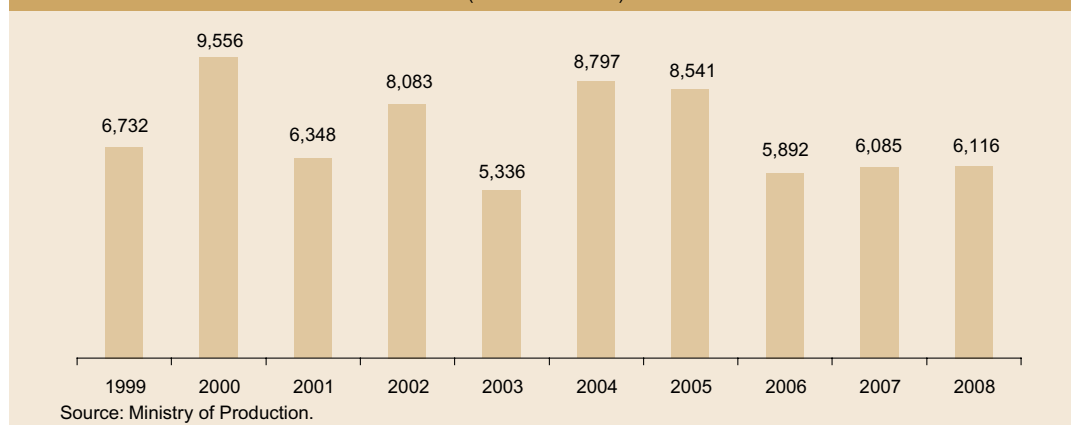
	2006	2007	2008
<b>For human consumption</b>	<b>26.1</b>	<b>7.3</b>	<b>9.2</b>
Canned fish	57.1	- 22.3	9.3
Fresh fish	10.3	2.4	11.9
Frozen fish	40.0	14.9	7.1
Dry-salted fish	- 19.0	21.3	18.3
<b>For industrial consumption</b>	<b>- 31.0</b>	<b>3.2</b>	<b>0.6</b>
Anchovy	- 31.0	3.3	0.5
Other species	3,208.0	- 64.5	631.0
<b>Fishing Sector</b>	<b>2.4</b>	<b>6.9</b>	<b>6.2</b>

Source: Ministry of Production.

The higher result observed in this sector in terms of fresh fish for **human consumption** (9.2 percent) was associated with a greater catch of bonito, striped mullet, and common dolphin fish (*perico*), whose greater abundance offset the scarce presence of yellow mackerel, especially in the second half of the year. On the other hand, the growth of fishing activity to produce frozen fish products and conserves was based on a higher catch of giant squid and anchovy, respectively. It is worth pointing out that landings of giant squid reached a volume of 446.3 thousand tons –the highest historical level recorded– due to the greater presence of this resource in the coasts of Piura, as well as to increased external demand for this species.

On the other hand, the catch of anchovy, a species mainly used to produce fishmeal and fish oil, has been increasing to produce conserves. Among the advantages of this species we should mention its greater bio-mass (in comparison with those of yellow mackerel and Pacific chub mackerel) and its growing domestic and external demand (particularly in Europe given this species' similarities with sardines). Thus, in 2008 anchovy catch to elaborate conserves grew 24.4 percent and represented 39 percent of total landings for this industry.

GRAPH 11  
ANCHOVY EXTRACTION  
(Thousands of MT)



Anchovy catch in 2008, which totaled 6.2 million tons (32 thousand tons more than in 2007), was associated with a better distribution of this species in the fishing areas of the Peruvian Coast. Fishing of anchovy concentrates in the ports of Chimbote, Chicama, Pisco, Ilo, Callao, Chancay, Tambo de Mora, and Coishco, which accounted for 68.8 percent of total landings of this resource. The fishing quota of anchovy in both 2007 and 2008 was 5.5 million tons in the northern coastal area, which had prohibition periods of 318 days in each year. The higher catch of anchovy was also reflected in higher exports, which grew 24.1 percent in terms of volume. It is worth pointing out that the law establishing individual quotas for anchovy fishing, effective as from 2009, was approved in 2008 with the purpose of organizing and regulating industrial fishing.

### 2.3 Mining and hydrocarbon sector

This sector grew 7.6 percent in 2008 as a result of increased activity in the areas of metallic mining and hydrocarbon production. In this way, mining production showed a faster pace of growth than in 2006 and 2007, when it only increased 1.1 and 1.7 percent, respectively, due to the drop of gold production as a result of the problems that affected Yanacocha. However, in the last quarter the impacts of the financial crisis and the decline of international prices affected the sector's performance, generating a significant drop of the prices of our main products (copper, silver, tin, and zinc) that led enterprises to initiate cost-reducing programs to offset these lower prices.

TABLE 11  
MINING AND HYDROCARBONS PRODUCTION BY MAIN PRODUCTS  
(Real percentage change)

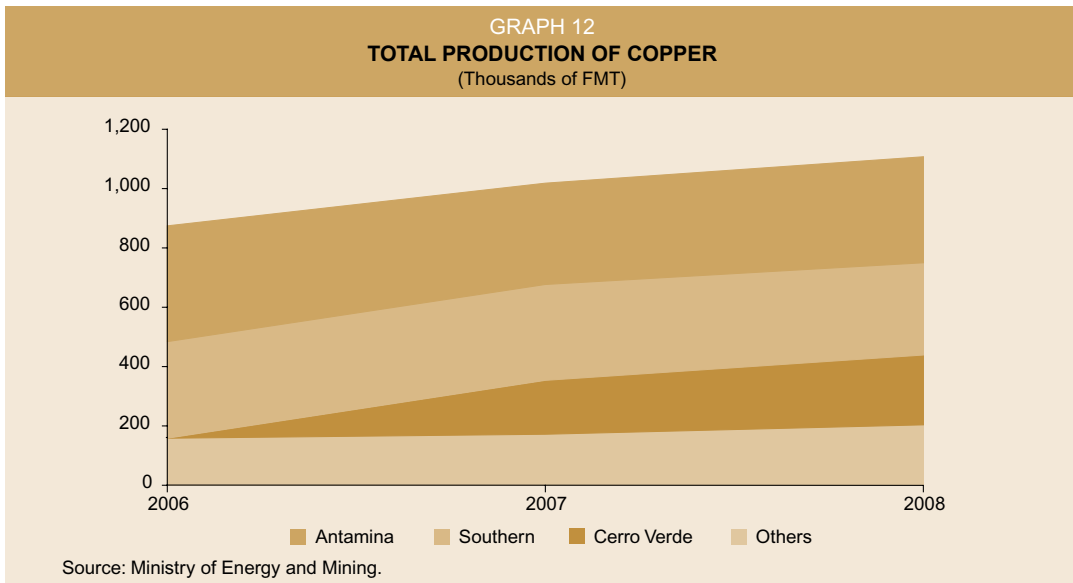
	2006	2007	2008
<b>METALLIC MINING</b>	<b>1,1</b>	<b>1,7</b>	<b>7,3</b>
Gold	- 2,4	- 16,1	5,7
Copper	3,6	16,4	8,8
Zinc	0,1	20,0	11,0
Silver	8,3	0,9	5,3
Lead	- 1,7	5,0	4,8
Tin	- 8,7	1,4	0,0
Iron	4,8	6,7	1,1
Molybdenum	- 0,7	- 2,8	- 0,3
<b>HYDROCARBONS</b>	<b>5,7</b>	<b>6,5</b>	<b>10,3</b>
Crude oil	3,9	- 1,5	5,7
Natural gas	17,0	50,7	27,0
<b>TOTAL</b>	<b>1,4</b>	<b>2,7</b>	<b>7,6</b>

Source: Ministry of Energy and Mining.

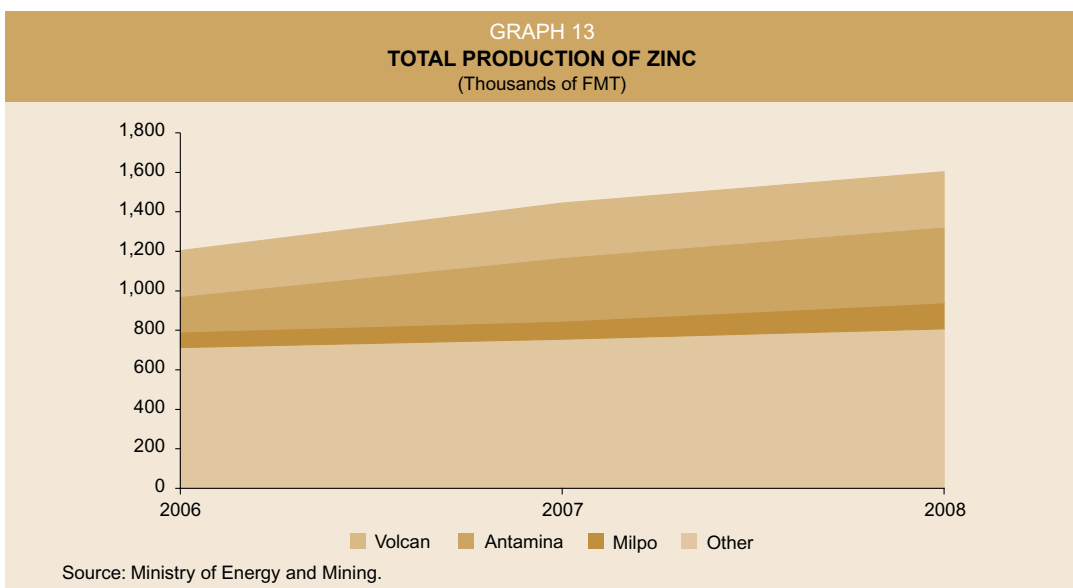
The growth of metallic mining (7.3 percent) was mainly led by a higher production of zinc, copper and gold, which together accounted for 6.0 percentage points of the sector's growth.



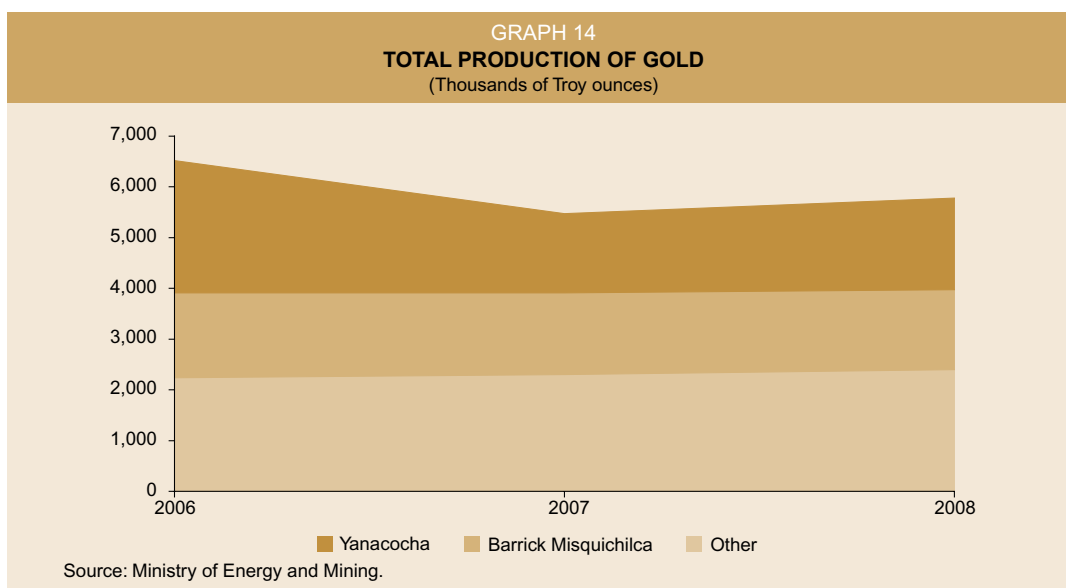
The production of **copper** was over one million fine metric tons (1,107,789 FMT), which represented an increase of 8.8 percent. This is mainly explained by the onset of operations at the primary sulphide plant of Cerro Verde in Arequipa since the second half of 2007; by higher production in Antamina (4.9 percent), which increased its processing capacity by 10 percent, and by the start of operations at Gold Fields La Cima’s Cerro Corona mine in September.



The higher production of **zinc** (11.0 percent) was associated mainly with activity at Antamina, which contributed with 4.2 percentage points to this result; Compañía Minera Milpo, which contributed with 3.0 percentage points, and with Volcan Compañía Minera, which contributed with 0.2 points to this result.



The production of **gold** reached 5.8 million troy ounces, showing a growth of 5.7 percent compared with 2007, due to the higher volumes of gold obtained at Yanacocha (15.5 percent) which initiated the commercial exploitation of its Gold Mill in April. The onset of operations at the Corihuarmi mine of Minera IRL also contributed to this result. In contrast, production at Minera Barrick’s Misquichilca mine dropped due to the natural exhaustion of mine Pierina, which started producing at end 1998.



In 2008 the production of **silver** grew 5.3 percent, thus accumulating ten years of expansion. This result is explained by increased production at Minera Buenaventura, Minera Yanacocha, Antamina and Volcan, which together contributed with 4.4 percent to growth in this sector. On the other hand, the production of **lead** (which grew 4.8 percent) was mainly associated with higher production at Volcan (6.4 percent) and at Sociedad Minera Cerro Corona, which started operations at its new oxide plant in Yauricocha.

Moreover, mining was one of the activities with higher investment in 2008, including Southern’s investments in its Cuajone and Toquepala units and in its Tía María project in Arequipa. Other investments worth highlighting include Yanacocha’s new gold mill (US\$ 227 million), Volcan’s investments to increase production levels, and final works to start operations at Gold Fields’ Cerro Corona mine, among other projects.

The production of **hydrocarbons** grew 10.3 percent due to the significant increase recorded in the production of natural gas (27.0 percent) resulting mainly from the high level of sales of Pluspetrol’s lot 88 (Camisea) to meet the demand of power stations. On the other hand, the production of liquid hydrocarbons increased 5.7 percent, basically due to the onset of operations at Pluspetrol’s Lot 56, which in September started producing natural gas liquids (17.2 mbd). In December, the production of Lot 56 reached 34.6 mbd.



TABLE 12  
**INVESTMENT EXECUTED BY MINING COMPANIES 1/**  
 (Millions of US\$)

Companies	Metals	2006	2007	2008
Minera Yanacocha S.R.L. 2/	Gold	277.0	290.0	248.3
Minera Barrick Misquichilca S.A. 3/	Gold	63.0	53.2	25.7
Southern Peru Copper Corporation Sucursal del Perú 2/	Copper	322.0	275.8	302.5
Volcan Compañía Minera S.A.A. 4/	Polimetallic	79.6	167.0	238.9
Compañía Minera Antamina S.A. 2/	Polimetallic	47.3	40.0	45.7
Empresa Minera Los Quenuales S.A. 5/	Polimetallic	57.0	53.1	63.6
Compañía of Minas Buenaventura S.A.A.	Gold and silver	70.0	65.0	266.8
Compañía Minera Atacocha S.A. 2/	Polimetallic	31.3	68.0	42.2
Sociedad Minera Cerro Verde S.A.	Copper	479.0	100.0	74.0
Shougang Hierro Perú S.A.A.	Iron	42.0	50.6	26.0
Minsur S.A.	Tin	12.0	6.0	12.2
Compañía Minera Condestable S.A.A. 2/	Copper	12.7	7.6	11.1
Sociedad Minera El Brocal S.A.2/	Polimetallic	21.5	17.0	16.0
Sociedad Minera Corona S.A. / Gold Fields	Polimetallic	0.5	320.0	96.2
Compañía Minera Santa Luisa S.A.	Polimetallic	3.8	15.0	39.3
Other companies 6/		22.0	43.9	214.7
<b>TOTAL</b>		<b>1,504.0</b>	<b>1,572.3</b>	<b>1,723.1</b>

1/ Based on the financial statements and information given by the companies.

2/ Information reported directly by companies.

3/ Includes investment in mine Pierina and the construction of new mine Alto Chicama.

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

5/ Includes 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, among others.

Source: Companies, CONASEV and Ministry of Energy and Mining.

TABLE 13  
**PRODUCTION OF HYDROCARBONS**

	2006	2007	2008
<b>NATURAL GAS (Millions of daily cubic feet)</b>	<b>171.5</b>	<b>258.5</b>	<b>327.6</b>
Camisea	102.8	188.7	254.3
Aguaytia	37.9	38.3	40.7
Petrotech	14.1	14.1	14.1
Petrobras	10.1	10.1	10.9
Other	6.6	7.3	7.7
<b>CRUDE OIL AND NATURAL GAS LIQUIDS (Thousands of daily barrels)</b>	<b>115.6</b>	<b>113.9</b>	<b>120.4</b>
Pluspetrol 1/	45.0	43.1	48.0
Petrobras	12.7	13.4	14.1
Petrotech	12.5	12.1	11.0
Camisea	34.7	34.2	30.8
Other	10.7	11.2	16.5

1/ Pluspetrol operates blocks 1-AB and 8, both in the northern Selva, as well as Lot 56 in Cusco since September 2008.

Source: Ministry of Energy and Mining.



## 2.4 Manufacturing

Activity in primary manufacturing grew 7.6 percent in 2008, mainly due to the recovery of production levels in the refining of non-ferrous metals industry, which increased 9.4 percent after having dropped by 11.2 percent in 2007. It should be pointed out that the technical problems faced by Southern during most of 2007 affected its production of copper anodes. On the other hand, the production of meat products continued to grow due to increased demand for sausages and poultry. The manufacturing of conserves and frozen products also maintained its dynamism, stimulated by the greater availability of giant squid. Likewise, higher sugar production was associated with an increased supply of sugar cane, while the production of fishmeal and fish oil increased slightly due to a higher catch of anchovy associated with favorable climatic conditions. Finally, the higher production of refined oil products, particularly of diesel and liquefied gas at Pluspetrol, is explained by the onset of operations at Lot 56 in September, while the higher volume of gasoline and kerosene was associated with Petroperú's increased activity.

TABLE 14  
**MANUFACTURING BASED ON RAW MATERIALS, BY  
 MAIN INDUSTRIAL GROUPS**  
 (Real percentage change)

	2006	2007	2008
<b>MANUFACTURING BASED ON RAW MATERIALS</b>	<b>4.1</b>	<b>0.7</b>	<b>7.6</b>
Sugar	15.6	13.1	10.4
Meat products	7.8	6.4	9.0
Fishmeal and fish oil	- 24.5	4.9	0.2
Canned and frozen fish products	54.4	9.0	10.6
Refining of non-ferrous metals	2.5	- 11.2	9.4
Refining of crude	- 1.7	4.2	4.9

Source: Ministry of Production and INEI.

### 2.4.1 Non-primary manufacturing

Non-primary manufacturing recorded a growth of 8.7 percent in 2008, showing a lower rate than in the previous year (13.0 percent), but higher than the average one observed in the last six years (7.8 percent). This growth was associated with higher private consumption, which was reflected in an increased production of massive consumption goods and in increased demand in the groups associated with the construction sector and with inputs for mining and agro-exports.

It should be pointed out that the pace of growth of non-primary manufacturing declined in the last months of the year due, in part, to the disaccumulation of inventories policy implemented by some businesses.

Continuing with the growing trend observed in earlier years, in 2008 the branches producing massive consumption goods grew 9.9 percent, while those producing chemicals, plastics and paper products grew 13.0 percent. Likewise, the branches producing construction materials and finishes grew 15.2 percent, and the branches producing capital goods grew 15.4 percent.



In terms of **destination market**, higher production in this sub-sector was mainly oriented to the domestic market, which accounted for 84 percent of total sales, a percentage similar to that of 2007 (87 percent).

The production of foodstuffs for the domestic market recorded a higher production of dairy, beer, and soft drinks, which was offset by a lower production of edible oils and fats. The manufacturing of textiles for the domestic market declined in terms of the production achieved by the group manufacturing "other garments", which was affected by the competition of imported products.

TABLE 15  
GROWTH OF NON-PRIMARY MANUFACTURING DUE TO DOMESTIC DEMAND

	2006	2007	2008
<b>Mass consumption products</b>	<b>7.9</b>	<b>12.5</b>	<b>9.9</b>
Dairy	9.4	8.1	11.2
Oils and fats	9.8	3.1	- 5.2
Miscellaneous food products	3.4	15.3	5.1
Beer and malt	20.6	10.6	15.8
Sodas	9.5	3.2	14.9
Garments	- 2.5	9.0	- 2.4
Toilette and furniture	4.3	12.7	15.7
Other paper and cardboard items	11.7	15.1	47.7
Toilette and cleaning products	23.1	20.1	9.4
Pharmaceutical products	27.8	12.8	9.1
Miscellaneous items 1/	5.8	31.7	- 1.0
<b>Inputs</b>	<b>5.3</b>	<b>12.3</b>	<b>13.0</b>
Paper and cardboard	9.1	16.2	7.5
Paper and cardboard containers	18.1	7.8	2.5
Printing and editing activities	3.9	8.2	16.7
Basic chemicals	- 4.6	19.1	2.1
Explosives, natural and chemical essences	14.4	8.2	8.2
Rubber	7.0	5.8	- 2.6
Plastics	6.3	10.9	7.0
Glass	0.0	26.3	52.6
<b>For construction</b>	<b>15.6</b>	<b>15.1</b>	<b>15.2</b>
Paint, varnishes and lacquers	15.6	22.4	21.7
Cement	13.5	6.7	10.7
Construction materials	18.3	22.6	17.9
Abrasive products	8.3	13.1	15.7
<b>Metal mechanics, machinery and equipment</b>	<b>15.6</b>	<b>17.2</b>	<b>15.4</b>
Iron and steel industry	12.3	8.1	8.2
Metallic products	19.1	15.8	20.8
Machinery and equipment	9.4	24.9	- 7.3
Electric machinery	17.6	24.9	3.0
Transport material	11.9	40.7	47.3

1/ Mainly bijouterie and office items.

Higher production in the wood and furniture group was associated with increased demand for wood furniture as a result of promotions in the domestic market, while increased activity in the paper and publishing group was mainly associated with the production of paper and cardboard items for the domestic market and with printing and publishing activities due to the higher demand of big warehouses for these items.



Activity in terms of chemical products, rubber and plastics for the domestic market showed a higher production of toilette and cleaning products, pharmaceutical products and explosives, and natural and chemical scents. The production of basic chemical substances grew somewhat less since it was affected by a lower production of industrial gases for the iron and steel industry in the last months of the year.

On the other hand, the higher production of non-metal minerals resulted from the increased demand stemming from the construction sector. The elaboration of paints, varnishes, and lacquers, construction materials (majolica tiles and pre-mixed concrete), and cement was noteworthy. Likewise, higher production in the iron and steel industry was also associated with increased demand in the construction sector, despite the decline recorded in the last months of the year due to stock accumulation.

The higher production of metal products (metal structures and containers) and transport equipment (assembly of buses and spare parts for automobiles) is worth pointing out in terms of the manufacturing of metal products, although this positive evolution was offset by a lower production of machinery and equipment.

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

	Domestic	Foreign	Total
<b>2004</b>	<b>4.3</b>	<b>2.9</b>	<b>7.2</b>
<b>2005</b>	<b>6.3</b>	<b>2.2</b>	<b>8.5</b>
<b>2006</b>	<b>7.6</b>	<b>0.9</b>	<b>8.5</b>
<b>2007</b>	<b>11.4</b>	<b>1.6</b>	<b>13.0</b>
<b>2008</b>	<b>7.3</b>	<b>1.4</b>	<b>8.7</b>
Food, beverages and tobacco	1.4	0.3	1.7
Textiles, leather, and foot wear	- 1.4	0.3	- 1.1
Wood and furniture	0.6	0.0	0.6
Paper and printing industry	2.1	0.2	2.2
Chemical, rubber, and plastic products	0.5	0.5	1.0
Non-metallic minerals	2.1	0.0	2.1
Iron and steel industry	0.3	0.0	0.3
Metallic products, machinery and equipment	1.6	0.2	1.8
Miscellaneous manufactures	0.1	- 0.1	0.0

Source: Ministry of Production.

The industrial groups that contributed more to the growth of non-primary manufacturing were the paper and printing industry, non-metal minerals, metal products, machinery and equipment, and foodstuffs and beverages.

Production in the **foodstuffs and beverages** group, which grew 8.1 percent, contributed to the growth of non-primary manufacturing with 1.7 percentage points. Of this total, 1.5 points are explained by a higher production of food conserves, sodas, beer and dairy products for the domestic market.



TABLE 17  
**GROWTH OF NON-PRIMARY MANUFACTURING BY INDUSTRIAL GROUP**  
 (Real percentage change)

	2006	2007	2008
<b>NON-PRIMARY MANUFACTURING GDP</b>	<b>8.5</b>	<b>13.0</b>	<b>8.7</b>
Food, beverages and tobacco	9.3	8.8	8.1
Textiles, leather and foot wear	- 2.0	6.8	- 6.7
Wood and furniture	4.3	12.7	15.7
Paper and printing industry	7.9	11.6	24.0
Chemical, rubber, and plastic products	11.9	12.8	6.6
Non-metallic minerals	13.0	16.0	20.5
Iron and steel industry	12.3	8.1	8.2
Metallic products, machinery and equipment	17.1	21.2	18.2
Miscellaneous manufactures	5.8	31.7	- 1.0

Source: Ministry of Production and INEI.

Production in the **textiles, leather, and shoe wear** group declined 6.7 percent, affected by lower external demand, particularly in the last quarter of the year.

Moreover, the production of knitted garments dropped 19.2 percent due to lower external demand, particularly from the United States since April, while the manufacturing of threads, yarns, and knitted items fell 3.6 percent, affected by the competition of imported products and by lower orders from exporters.

The **paper and printing** industry grew 24.0 percent due to the higher production recorded in the branch of other paper and cardboard items (47.7 percent), which was associated with the higher installed capacity implemented to meet increased domestic and external demand for diapers and other paper items (i.e. napkins, towel paper) as a result of families' higher purchasing capacity.

Higher production in publishing and printing activities (8.0 percent) was associated with an increase of exports of catalogues and publicity leaflets, as well as with increased demand for leaflets from big warehouses, super markets and department stores.

The branch of paper and cardboard industries grew 7.5 percent as a result of the expansion of installed capacity to meet the demand for other paper items and containers for agro-export products.

The production of **chemical, rubber, and plastic** products increased 6.6 percent, mainly due to a higher production of paints, varnishes, and lacquers to meet the increased demand of the construction sector. Moreover, growth in the group of toilette and cleaning products (9.4 percent) was driven by increased domestic demand and by product diversification in the main firms.

The group of **non-metal minerals** recorded a growth of 20.5 percent due to the higher production of glass associated with increased demand for beer bottles, and to the higher production of construction materials (majolica tiles and concrete items).

The production of cement increased 10.5 percent due to the higher demand of the construction sector.

TABLE 18  
PRODUCTION OF CEMENT  
(Thousands of TM)

COMPANIES	2006	2007	2008	Percentage change		
				2006	2007	2008
Cementos Lima	2,579	2,577	2,971	5.6	- 0.1	15.3
Cemento Pacasmayo	1,021	1,217	1,326	22.1	19.2	8.9
Cementos Selva	101	143	154	- 18.9	41.5	7.9
Cemento Andino	1,122	1,221	1,253	18.7	8.8	2.6
Cemento Yura	838	964	1,038	28.5	15.1	7.6
Cemento Sur	122	86	120	11.8	- 29.3	39.0
<b>TOTAL</b>	<b>5,782</b>	<b>6,208</b>	<b>6,862</b>	<b>13.2</b>	<b>7.4</b>	<b>10.5</b>

Source: ASOCEM.

Production in the **steel and iron** industry grew 8.2 percent in 2008, due to greater activity in the main enterprises of this group as a result of the expansion of installed capacity and of increased demand in construction. It should be pointed out that this industry was affected by stock accumulation in the last months of the year.

The group manufacturing **metal products, machinery, and equipment** grew 18.2 percent, mainly due to the higher demand for metal structures for the construction sector.

TABLE 19  
INDUSTRIES RELATED TO THE CONSTRUCTION SECTOR

	2006		2007		2008	
	% Chg.	Contrib.1/	% Chg.	Contrib.1/	% Chg.	Contrib.1/
Paints, varnishes, and lacquers	15.6	0.2	22.4	0.3	21.7	0.3
Non-refractory ceramics for non-structural purposes	9.9	0.1	28.5	0.2	10.6	0.1
Non-refractory ceramics for structural purposes	21.1	0.5	18.7	0.5	9.8	0.2
Cement	13.5	0.6	6.7	0.3	10.7	0.4
Concrete, cement, gypsum articles	19.1	0.2	26.9	0.3	41.9	0.4
Abrasive products	8.3	0.0	13.1	0.0	15.7	0.0
Basic iron and steel industry	12.3	0.5	8.1	0.3	8.2	0.3
Metal structures	13.2	0.3	31.4	0.7	31.4	0.8
<b>SUBTOTAL</b>	<b>14.4</b>	<b>2.3</b>	<b>15.2</b>	<b>2.6</b>	<b>16.2</b>	<b>2.6</b>
<b>Total</b>	<b>8.5</b>		<b>13.0</b>		<b>8.7</b>	

1/ Percentage contribution to growth relative to non-primary manufacturing.  
Source: Ministry of Production.



## 2.5 Construction

The **construction sector** grew 16.5 percent in 2008, thus maintaining the positive trend initiated in 2002 and recording a two-digit growth for the third consecutive year. This dynamism was reflected in the increased construction of homes, commercial and industrial facilities, as well as in the implementation of several public and private infrastructure projects.

The construction of residential buildings increased due to the growth of housing demand which was driven by families' higher purchasing capacity and by the better credit conditions in terms of mortgage loans (lower interest rates and longer terms), as evidenced, in turn, by the dynamism of local dispatches of cement, which grew 14.8 percent.

TABLE 20  
HOUSING CONSTRUCTION IN METROPOLITAN LIMA AND CALLAO  
(Thousands of units)

Concept	2006	2007	2008	% Chg. 2007/06	% Chg. 2008/07
Housing supply	14.1	14.4	13.9	2.3	- 3.7
Sold buildings	8.9	10.6	13.2	19.4	24.7
Non-negotiable buildings	3.6	4.3	3.2	19.7	- 25.7
<b>Total buildings</b>	<b>26.5</b>	<b>29.3</b>	<b>30.3</b>	<b>10.4</b>	<b>3.3</b>

Source: CAPECO.

Another aspect reflecting this higher demand for houses is the number of individuals with mortgage loans, which increased by 17.3 percent on average. In this sense, loans in domestic currency increased by 93.4 percent on average. Moreover, banks' interest rates on mortgage loans in soles declined from 10 to 9.8 percent between 2007 and 2008, while interest rates in foreign currency declined from 9.8 to 9.6 percent in the same period.

The construction of hotels was noteworthy in 2008. Casa Andina inaugurated "Casa Andina Classic" (the former Ceasar's hotel) in Lima with a US\$ 15 million investment; Orient Express-"Private Collection" opened "Casitas del Colca" in Arequipa with an investment of US\$ 7 million, and the Libertador hotel chain initiated works at Hotel Westin Libertador in San Isidro (which will require an investment of US\$ 100 million) and at Hotel Libertador Paracas (US\$ 25 million). Furthermore, the French chain of Accor hotels started constructing its four-star Novotel in San Isidro, with an investment of US\$ 15 million, and the Acqua Hotel Resort Spa chain is building a 5-star hotel in Urubamba, which will require an investment of US\$ 10 million.

Another aspect worth pointing out is the growth of malls, both in Lima and in the provinces. Six new malls, of which 3 are located in the provinces, opened in 2008. The Interbank group invested US\$ 40 million in the construction of Real Plaza Pro in Lima (US\$ 10 million) and Real Plaza Huancayo (US\$ 30 million). Likewise, Peru Malls invested US\$ 46 million in the implementation of Open Plaza Canta Callao (US\$ 20 million) and Los Jardines Open Plaza in Trujillo (US\$ 26 million). The Romero group inaugurated

the Centro Comercial Plaza del Sol in Ica, which required an investment of US\$ 29 million, and Aventura Malls invested US\$ 80 million in the Aventura Mall Plaza Bellavista.

Finally, in 2008 the Ministry of Transport and Communications carried out several projects through its National Program Provías, including the rehabilitation and improvement of the Tingo María-Aguaytía-Pucallpa highways, the rehabilitation of the Tarapoto-Juanjuí highway, and the improvement and rehabilitation of the Tocache-Tocache highway, among other projects. It is worth highlighting that the physical progress carried out in terms of these works increased by 18.2 percent during 2008.

## BOX 3

## PROSPECTS FOR COMMERCIAL PROJECTS

Construction in the country has increased significantly. In 2008, this activity grew 16.5 percent relative to last year. Part of this growth has been influenced by the expansion of malls, since sales in these commercial centers increased by 15 percent in 2008, as reported by Colliers International<sup>3</sup>.

The expansion of malls –especially in Peruvian provinces– has been fueled not only by the sustained growth of the economy, and especially of domestic demand, but also by the share of penetration of these sale venues in the Peruvian market, which is low compared with other countries.

Six malls, of which three are located in Lima, opened in Peru in 2008. The most recently inaugurated commercial center was the Mall Aventura Plaza del Callao, which required an investment of US\$ 80 million.

## COMMERCIAL PROJECTS EXECUTED IN 2008

Name	Location	Developer / Group	Amount of Investment (thousand US\$)
<b>Shopping Malls</b>			
Aventura Plaza Bellavista Mall	Lima	Mall Aventura Plaza	80
Open Plaza Canta Callao	Lima	Malls Peru	20
Real Plaza Pro	Lima	Grupo Interbank	10
Real Plaza Huancayo 1/	Huancayo	Grupo Interbank	30
Centro Comercial Plaza del Sol	Ica	Grupo Romero	29
Los Jardines Open Plaza	Trujillo	Malls Peru	26
<b>Supermarkets</b>			
Plaza Vea 2/	Lima	Grupo Interbank	23
Hipermercado Tottus 3/	Lima	Grupo Interbank	30.5
Hipermercados Metro Independencia	Lima	Cencosud	15
<b>Total Amount Invested</b>			<b>263.5</b>

1/ First stage of mall.

2/ Includes the Plaza Vea supermarkets located in Independencia, Puente Piedra, Los Olivos and downtown Lima.

3/ Includes the Tottus supermarkets located in Puente Piedra, El Agustino, downtown Lima and Villa María.

Source: Colliers International, Andina, El Comercio, Diario Gestión.

3 The Knowledge Report Retail. Colliers International, Fourth Quarter 2008.

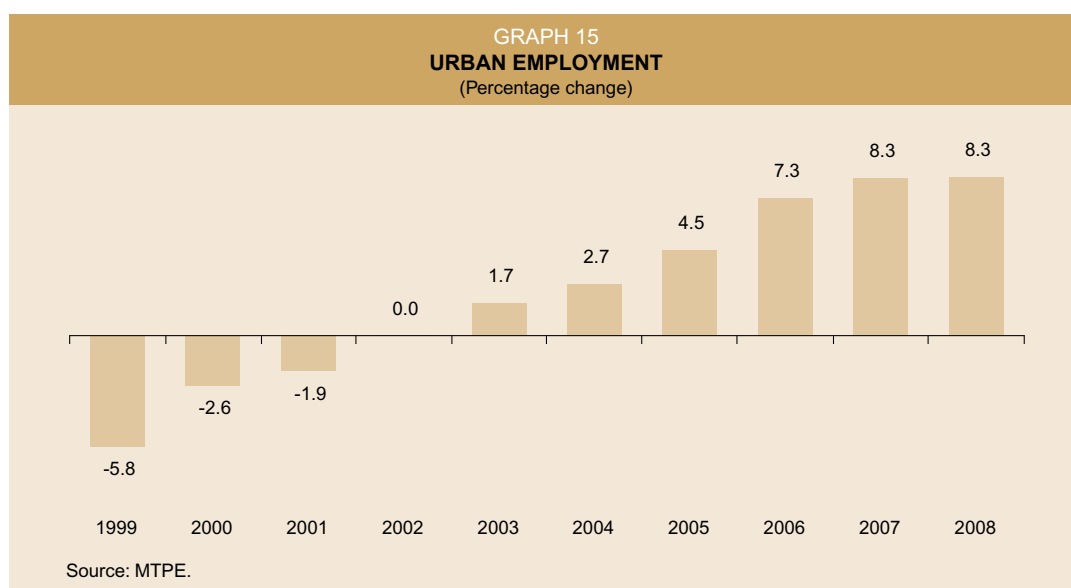


### 3. Employment

Considering formal firms with 10 and more workers, employment in urban areas in Peru increased by 8.3 percent in 2008, consolidating the positive trend observed since May 2002.

By production sectors, and in contrast with 2007 when manufacturing activity showed the highest dynamism (9.3 percent), in 2008 employment was mostly driven by commerce (14.5 percent), followed by the service sector (9.2 percent) and by primary activities (7.0 percent). The growth of employment in manufacturing declined from 9.3 percent in 2007 to 4.3 percent in 2008 due to the fall of employment in the textile sector as a result of lower external demand.

In terms of geographical areas, like in 2007, the highest dynamism of employment was observed in Metropolitan Lima, where employment grew 8.6 percent, while employment in the rest of urban areas grew 7.6 percent.



In Metropolitan Lima, the highest variations were observed in the commerce sector, particularly in the firms selling construction materials and finishes, warehouse items, pharmaceutical products, vehicles, and massive consumption goods like food and beverages. Commerce was followed by the service sector, favored by increased demand for labor in education centers, restaurants, and financial organizations (AFPs, Edpymes and insurance companies), as well as in marketing and business advisory firms.

At the regional level, employment grew particularly in Paita, driven by the fishmeal, fish oil and frozen fish industry, the latter of which was favored by a greater availability of giant squid and Pacific chub mackerel. Employment in Huancayo showed a significant dynamism in education and commercial activities given the opening of several malls. Chincha ranked third due to the development of agro-export activities, associated mainly with the cultivation of grapes, and to the growth of the industry of fish conserves. On the other hand, employment in Sullana was affected by a lower availability of

farming products, such as lemon and banana, as well as by lower external demand.

According to the Permanent Survey on Employment, in 2008 the workforce in Metropolitan Lima was estimated at 4.4 million, a figure slightly higher than in 2007, while unemployment, on the other hand, remained at 8.4 percent. It is worth pointing out the positive evolution of adequately employed labor, which grew 9.4 percent, while under-employment declined 6.2 percent.

By economic sectors, the dynamism of employment in construction was noteworthy, whereas employment in manufacturing dropped due to the decline of employment in the textile industries. By size of firms, employment grew particularly in firms with 51 and more workers.

**TABLE 21**  
**URBAN EMPLOYMENT IN COMPANIES WITH 10 OR MORE WORKERS**  
(Percentage change)

	2006	2007	2008
<b>URBAN PERU</b>	<b>7.3</b>	<b>8.3</b>	<b>8.3</b>
Metropolitan Lima	7.1	8.6	8.6
<b>Other urban areas</b>	<b>8.3</b>	<b>7.2</b>	<b>7.6</b>
Arequipa	7.5	11.2	12.5
Cajamarca	4.1	1.8	2.4
Chiclayo	7.5	4.2	12.0
Chimbote	0.8	- 1.7	- 0.2
Chincha	14.2	6.0	14.4
Cuzco	5.7	9.0	8.2
Huancayo	6.1	5.3	18.5
Huaraz	3.0	1.2	9.0
Ica	10.4	5.6	4.5
Iquitos	3.2	1.9	4.9
Paita	9.4	3.7	19.7
Pisco	6.6	6.7	4.1
Piura	8.3	11.1	11.2
Pucallpa	2.1	9.3	9.8
Puno	3.1	6.2	10.6
Sullana	14.1	13.2	- 13.4
Tacna	2.0	7.2	10.8
Talara	10.7	10.1	- 0.2
Tarapoto	8.7	7.9	10.7
Trujillo	17.0	12.7	3.9

Source: MTPE

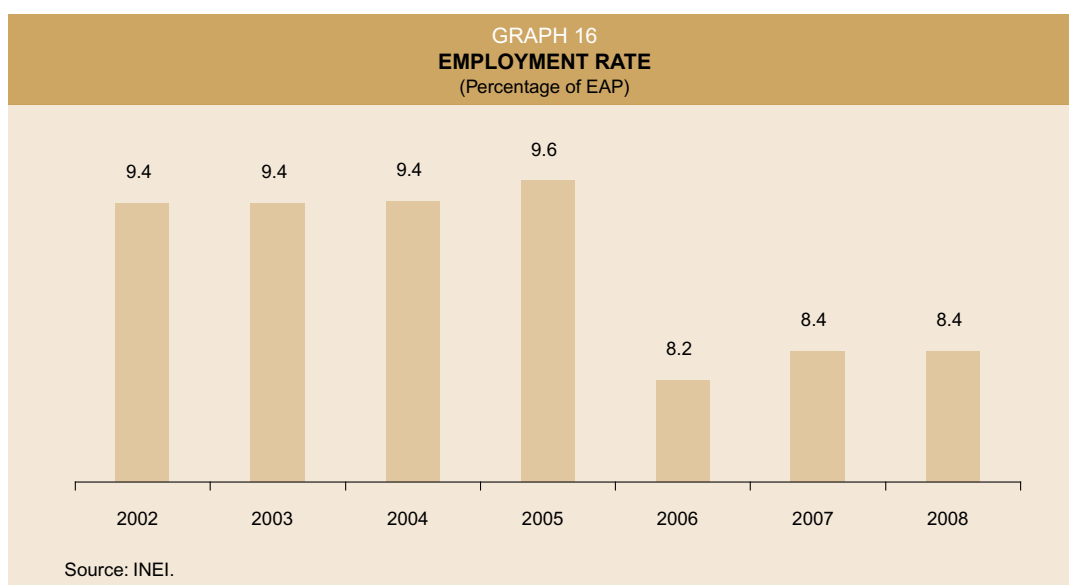


TABLE 22  
**WORKFORCE BY LEVELS OF EMPLOYMENT**  
**METROPOLITAN LIMA 1/**  
 (Thousands of individuals)

	2006 2/	2007	2008
<b>I. ECONOMICALLY ACTIVE POPULATION (EAP): 1 + 2</b>	<b>4,228</b>	<b>4,385</b>	<b>4,410</b>
<b>1. EMPLOYED</b>	<b>3,882</b>	<b>4,017</b>	<b>4,041</b>
<b>By economic activity</b>			
Manufacturing	670	688	674
Construction	208	249	262
Commerce	933	882	892
Services	2,018	2,132	2,152
Other	53	65	60
<b>By educational level</b>			
Primary school 3/	441	457	427
Complete highschool 4/	1,922	2,091	2,050
Higher non-university	708	715	745
Higher university	811	754	819
<b>By occupation</b>			
Salaried workers 5/	2,349	2,438	2,507
Non-salaried workers	1,533	1,579	1,534
<b>By size of business 6/</b>			
1 to 10 workers	2,439	2,589	2,490
11 to 50 workers	437	409	421
51 and more workers	986	1 018	1 130
<b>By number of hours worked per week</b>			
Employed workers working 20 or more hours	3,453	3,556	3,604
Salaried workers working 20 or more hours	2,187	2,251	2,316
<b>1.1 UNDEREMPLOYMENT</b>	<b>2,198</b>	<b>2,268</b>	<b>2,127</b>
Visible underemployment (by hours)	570	665	631
Invisible underemployment (by income)	1,628	1,603	1,496
<b>1.2 ADEQUATELY EMPLOYED</b>	<b>1,684</b>	<b>1,749</b>	<b>1,914</b>
<b>2. NON-EMPLOYED</b>	<b>346</b>	<b>368</b>	<b>370</b>
<b>II. INACTIVE POPULATION</b>	<b>2,021</b>	<b>1,978</b>	<b>2,068</b>
<b>III. POPULATION IN WORKING AGE (PWA)</b>	<b>6,249</b>	<b>6,363</b>	<b>6,478</b>
<b>RATES (Percentage)</b>			
Activity rate (EAP / PWA)	67.7	68.9	68.1
Employment/population ratio (Employed EAP/PWA)	62.1	63.1	62.4
Unemployment rate (Non-employed EAP/EAP)	8.2	8.4	8.4
Underemployment rate by hours	13.5	15.2	14.3

1/ Average annual.

2/ Change of sample framework.

3/ Includes individuals with no education or with elementary school.

4/ Incomplete and complete secondary school.

5/ Includes employees, workers and housekeepers.

6/ The fact that all surveyed individuals answered the questions accounts for the difference between the total number of workers by size of business and EAP (approximately 21,000 individuals).

Source: INEI.



## BOX 4

## PERU'S POVERTY MAP, BY PROVINCES AND DISTRICTS - 2007

The "2007 Peru: Poverty Map, by Provinces and Districts", elaborated by the National Statistics Institute (INEI) and the Inter American Development Bank (IADB) is a tool that allows identifying the living conditions of the country's population even at the district level. This Map also develops two other indicators: Unmet Basic Needs or UBN (which provides information on variables, such as the characteristics of households, school attendance, and economic dependence) and the indicator on monetary poverty (overall and extreme).

Since the national census does not provide information on families' spending (which is required to estimate monetary poverty), a forecast model has been used to estimate per capita expenditure combining the information provided by the 2007 National Household Survey (ENAHO) and the 2007 Population and Housing Census. Estimated spending has been compared with the poverty divides calculated by the INEI to determine the level of overall poverty and extreme poverty in 1,834 districts.

The map results also show the great dispersion of the population in small districts, as well as a strong inequality in terms of access to basic services and social infrastructure between departments, provinces, and districts, as illustrated in the Table below:

## POPULATION LIVING IN CONDITIONS OF MONETARY AND NON-MONETARY POVERTY\*

Poverty ranges	Montary poverty 1/				UBN poverty 2/			
	Population		Districts		Population		Districts	
	Percentage	Number	Percentage		Percentage	Number	Percentage	
< 25 percent	1,812	16.8	190	10.4	1,159	10.5	85	4.6
25 to 49 percent	2,929	27.2	459	25.1	4,102	37.2	464	25.3
50 to 74 percent	3,133	29.1	639	34.9	3,535	32.1	773	42.2
75 percent and more	2,898	26.9	544	29.7	2,218	20.1	511	27.9
<b>TOTAL</b>	<b>10,771</b>	<b>100.0</b>	<b>1,832</b>	<b>100.0</b>	<b>11,015</b>	<b>100.0</b>	<b>1,833</b>	<b>100.0</b>

\* Peru has 1,834 districts. Differences in terms of the number of districts are explained by the fact that information is not available for all of them.

1/ Population with lower percapita income than the one required to buy the basket of basic products.

2/ Population with one or more Unmet Basic Needs.

Source: INEI. Sistema de Consulta de Indicadores de Pobreza a Nivel de Distrito, 2007.

Moreover, nearly 11 million Peruvians are estimated to live in conditions of monetary and non-monetary poverty. Poverty rates and UBN rates higher than 50 percent are observed in over 1,000 districts (with a population of 6 million people).

Poverty indicators allow detecting regions where the population's monetary incomes may have improved, but still show low standards of living due to the lack of social infrastructure in said regions. For instance, poverty in monetary terms in Madre de Dios shows a rate of 15.6 percent, but 53.4 percent of individuals show one or more UBNs. In Tumbes, these rates are 18.1 and 47.9 percent, respectively.

As the following table shows, the incidence of overall poverty affects over 90 percent of the 40 thousand people living in the 10 poorest districts of the country, while over 80 percent are affected by extreme poverty. Among the latter, the people that have one UBN range between 60 and 100 percent of the population.

Although the capital of the Department of Lima concentrates the districts with less poverty (with poverty and UBN rates of less than 4 percent), Lima is also one of the departments where more poor people live.

The poverty map also provides information on other relevant social indicators that allow identifying the needs of each jurisdiction, based on which focus tools may be elaborated in order to achieve a more efficient allocation of resources in poverty relief programs.

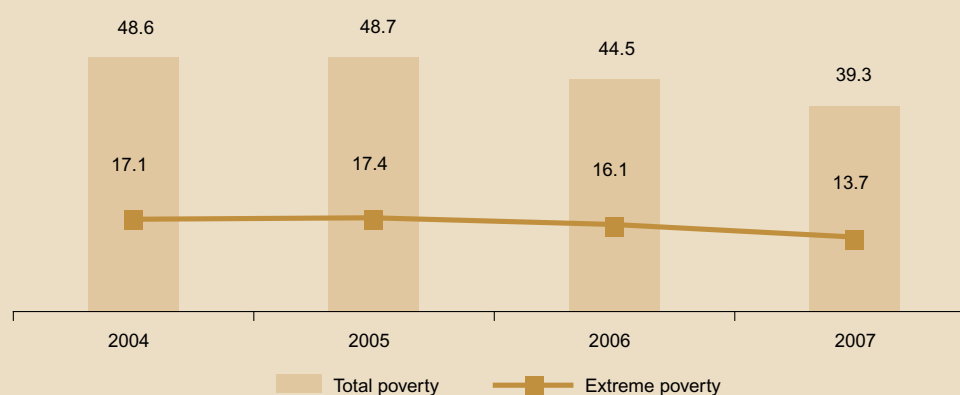


## 10 POOREST DISTRICTS IN THE COUNTRY

	Poverty ranking	Population census (Thousands)	Monetary poverty		Unmet Basic Needs	
			Total	Extreme	One or more	Two or more
<b>La Libertad</b>		<b>1,617</b>	<b>37.3</b>	<b>12.4</b>	<b>34.0</b>	<b>10.8</b>
Province of Pataz		78	73.2	33.0	72.0	32.0
Ongon	1°	2	99.7	97.2	100.0	65.3
Province of Bolivar		17	77.6	47.0	59.0	28.1
Bambamarca	2°	4	98.7	92.4	80.1	46.3
Condormarca	4°	2	97.5	83.3	59.5	26.6
<b>Huancavelica</b>		<b>455</b>	<b>85.7</b>	<b>68.7</b>	<b>71.4</b>	<b>27.5</b>
Province of Angaraes		56	87.6	69.5	72.1	32.3
Anchonga	7°	7	96.1	86.0	67.4	23.2
S. Antonio Antaparco	3°	3	97.9	91.7	67.5	20.1
Province of Tayacaja		105	89.2	70.3	68.1	26.2
Salcahuasi	6°	4	96.5	87.1	81.9	26.7
Surcubamba	9°	5	95.8	86.1	92.4	29.5
Tintay Puncu	5°	9	97.0	92.3	99.0	72.8
Province of Huancavelica		143	78.1	58.0	70.2	24.1
Yauli	10°	28	94.9	83.6	89.1	38.3
<b>Puno</b>		<b>1,268</b>	<b>67.2</b>	<b>29.9</b>	<b>52.9</b>	<b>18.4</b>
Province of Sandia		62	68.2	31.7	72.8	38.4
Patambuco	8°	4	95.9	73.7	94.6	53.3

Source: INEI.

PERU: EVOLUTION OF TOTAL AND EXTREME POVERTY (Percentages)



Source: INEI, Enaho 2004-2007.