II. External sector

1. International context

The global financial crisis, which unfolded when conditions in the U.S. subprime real estate market deteriorated, deepened significantly during 2008 and especially since September when the investment bank Lehman Brothers declared bankruptcy. The deepening of the crisis, which has become the most serious episode recorded since the Great Depression of 1930, was reflected not only in the tightening of the money and credit markets, but also in a severe economic slowdown that has largely exceeded market expectations and is hitting both developed and developing countries. In this context, the global inflationary pressures –mostly associated with the price rises of food and oil– that had been observed in the first half of the year started subsiding due to the strong reduction of global demand and the subsequent drop of the prices of the main commodities.

Credit conditions tightened and risk aversion increased in financial markets given that corporate unfavorable results and evidences of a recession in most developed economies affected stock markets. Global economic activity slowed down, coupled by a generalized decline of manufacturing activity, adjustments in the real estate market of several economies, and the deterioration of employment, all of which has affected consumer confidence. Emerging economies felt the impact of the tightening of global financial conditions and the reduction of external demand, which was coupled by the deterioration of terms of trade. In this unfavorable international environment, the spreads of emerging bonds increased significantly, stock markets dropped severely, and most currencies depreciated against the U.S. dollar.

2. Financial markets

Fears of insolvency in the main financial entities of industrialized economies grew during the year, significantly deteriorating liquidity and credit conditions and increasing risk aversion. In this context and in the face of a deep credit contraction and recession, the efforts of central banks as from the second half of the year concentrated in providing liquidity to the economy, improving financial entities' solvency and reducing their interest rates, thus reversing the trend of monetary policy which had been mainly oriented to controlling inflationary pressures during the first half of the year.

The government of the United States launched a rescue plan for the financial system (Troubled Asset Relief Program or TARP) whereby the Treasury would issue debt bonds for US$ 700 billion (approximately 5 percent of its GDP) to buy mortgages and other troubled securities from banks and to additionally inject capital to financial institutions. Similar measures were implemented in several developed economies (i.e. the United Kingdom and Eurozone countries).

Moreover, most banks reduced their interest rates in the second half of 2008. The most immediate response came from developed economies: the United Kingdom, Norway, Sweden, Canada, the Eurozone and the United States implemented significant interest rate cuts, and these rates recorded historical minimum levels in many countries. In emerging economies, increased domestic demand and the presence of inflationary pressures determined in many cases a certain lag in reducing interest rates.

Additionally, the main central banks announced measures to improve the injection of liquidity in dollars in the short run. At year-end, central banks opted for a direct intervention to normalize credit conditions. Among the most important, the Federal Reserve, the European Central Bank, the Bank of England and the Bank of Japan decided to intervene directly in the market of commercial papers, the corporate sector's main short-term financing instrument. Additionally, the Federal Reserve extended its participation in the market of asset-backed securities and the Bank of Japan showed signs that it would probably intervene in the market of corporate bonds.

In order to revert the financial crisis and investors' distrust, the governments of developed economies have decided to implement a series of measures in the frame of different plans of action with the aim of recapitalizing the system (with capital injections), granting guarantees, and definitively withdrawing from the financial system the so-called "toxic" assets.

These developments in the financial markets have also represented losses in the main stock markets, the increase of emerging economies and corporate bonds' spreads, and the reversal of the depreciation of the dollar against most of the currencies of emerging and developed countries. On the other hand, increased risk aversion has generated a higher demand for U.S. Treasury bonds and a drop of its yield.

3. Economic activity

In 2008 the global economy grew approximately 3.2 percent, recording a lower rate than in 2007 (5.2 percent) and the lowest since 2002. Developed economies showed a significant slowdown, posting negative growth rates, particularly in the last quarter of the year, affected by the financial crisis, the deterioration of the real estate market, and the drop of employment, among other factors. Advanced economies have faced this situation by implementing substantial interest rate cuts, measures to restore the functioning of money and credit markets, and fiscal stimulus packages.

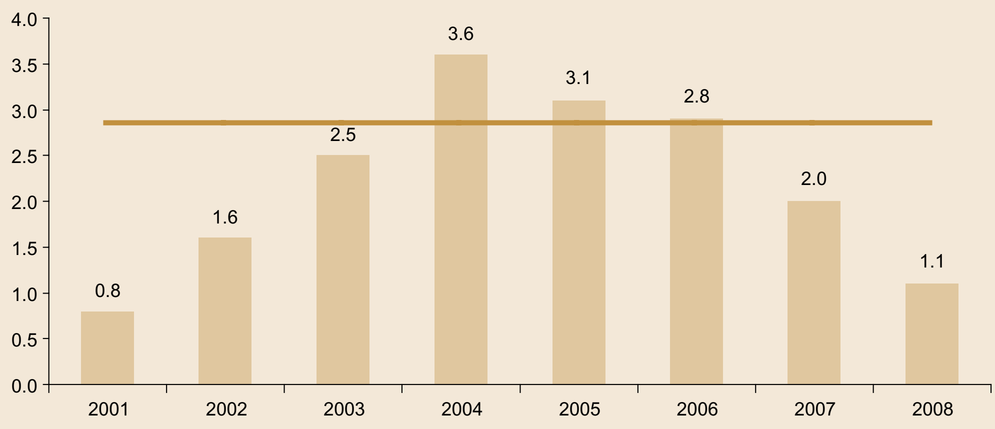
The U.S. economy went into recession. This situation deepened along the year due to the tightening of credit conditions, the continuous adjustment of house prices, the drop of the stock market, and the resulting deterioration of expectations. Thus, the U.S. economy grew 1.1 percent in 2008, after GDP contracted by 0.8 percent in Q4 compared to the same quarter in the previous year. Consumption –which represents about 70 percent of GDP– was affected by the drop of employment, stricter financial conditions, the decline of equity, and families' high levels of indebtedness.

TABLE 23
WORLD GROWTH

	2006	2007	2008
Developed countries			
1. United States of America	2,8	2,0	1,1
2. Eurozone	2,8	2,7	0,9
3. Japan	2,4	2,4	-0,6
4. United Kingdom	2,8	3,0	0,7
5. Canada	3,1	2,7	0,5
6. Other developed countries	4,5	4,7	1,6
Developing countries			
1. Africa	6,1	6,2	5,2
2. Eastern and central Europe	6,7	5,4	2,9
3. Community of Independent Countries	8,2	8,6	5,5
Russia	7,4	8,1	5,6
4. Developing Asia	9,8	10,6	7,7
China	11,6	13,0	9,0
5. Middle East	5,7	6,3	5,9
6. Latin America and The Caribbean	5,5	5,7	4,2
World Economy	**5,1**	**5,2**	**3,2**

Source: IMF (based on the Purchasing Power Parity).

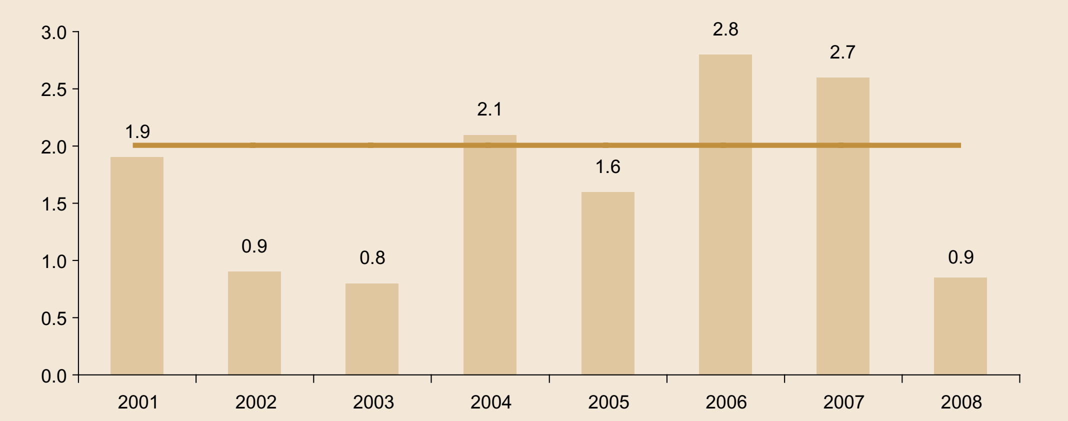
GRAPH 17
GDP ANNUAL PERCENTAGE CHANGE: USA



Likewise, European economies contracted in the last months of 2008, as a result of which GDP in the European Union grew only 0.7 percent in this year. Today, European countries face credit constraints, a correction of their real estate markets (United Kingdom, Spain, and Ireland), and a drop of their external demand (particularly in Germany).

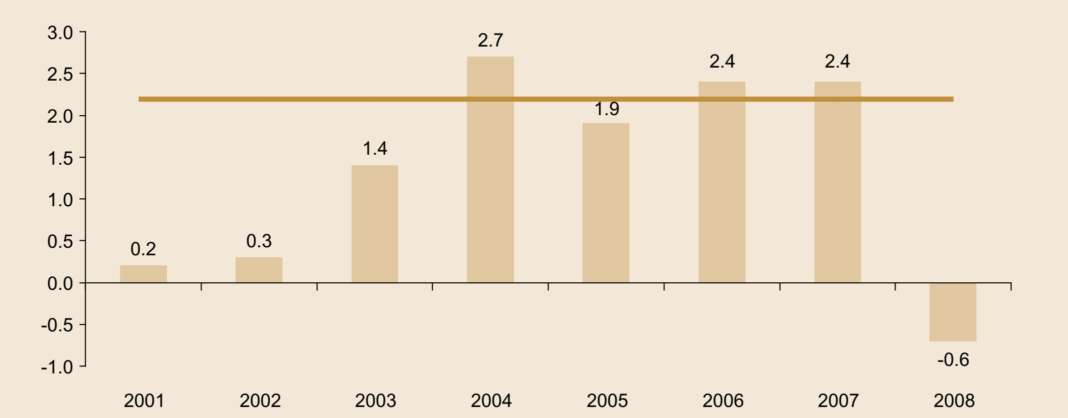
Falling for the third consecutive time in the year, GDP in the Eurozone dropped 1.5 percent in Q4, as a result of which GDP in these countries grew only 0.9 percent in 2008. The economies showing the highest contractions compared to the region's average were Germany (-2.1 percent) and Italy (-1.8 percent). In terms of expenditure, exports and investment showed the highest contraction due to the strong contraction recorded by the industry of durable goods following the increase of credit constraints observed since last September.

GRAPH 18
GDP ANNUAL PERCENTAGE CHANGE: EUROZONE



In Japan, GDP contracted 0.6 percent, affected by the drop of global demand and the strong appreciation of the yen. The latter has generated the contraction of its industrial sector and the deterioration of expectations.

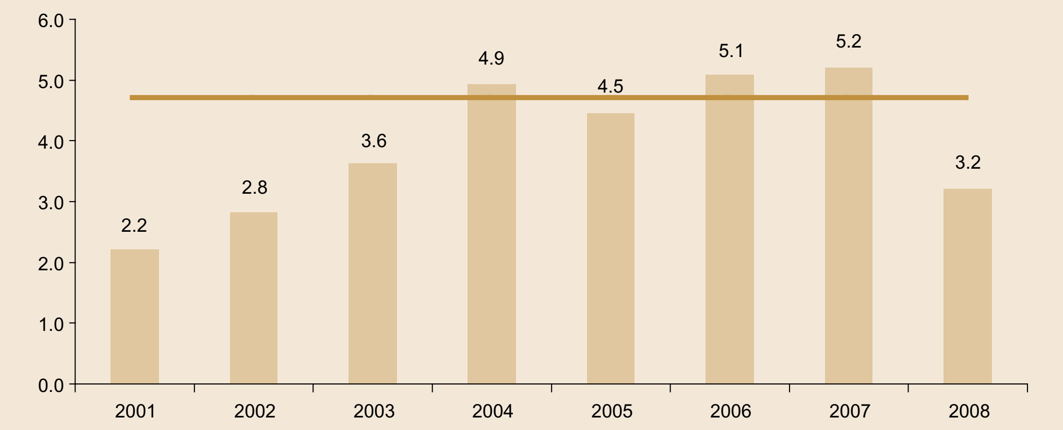
GRAPH 19
GDP ANNUAL PERCENTAGE CHANGE: JAPAN



The evolution of developed countries affected the growth of emerging economies, particularly in the second half of the year. The tightening of international financial conditions –that is, the increase of spreads and the depreciatory trends observed in local currencies– was the main channel of contagion.

Exports were affected through the trade channel due to the strong correction of commodity prices observed since the second half of the year, as well as due to the decline of external demand.

GRAPH 20
GDP ANNUAL PERCENTAGE CHANGE: WORLD



Economic activity in the four largest economies –referred to as BRICs (Brazil, Russia, India, and China)– slowed down significantly. Growth rates in these countries have gradually declined since the second half of 2007 and this negative trend has intensified during 2008. China's economy grew 9.1 percent in 2008, the lowest rate since 2001. After showing a growth rate of 10.6 percent in the first quarter of 2008, China grew only 6.8 percent in the fourth quarter, in line with the evolution of its exports, which have been falling since November.

In this context, China's government implemented a fiscal stimulus package –estimated at US$ 586 billion and equivalent to 14 percent of its GDP– and simultaneously, the central bank implemented monetary measures to dynamize domestic demand and compensate lower external demand.

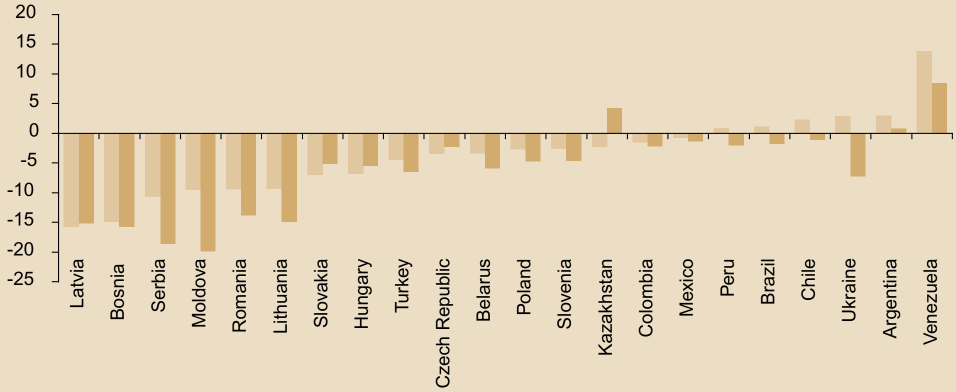
A similar trend was observed in Latin America, whose GDP grew 4.1 percent in 2008 –a lower rate than the maximum rate reached in 2007 (5.6 percent). Latin America was affected by the commercial impact of recession in developed countries, which was reflected in both the drop of international prices and international financial constraints.

BOX 5

IMPACT OF THE GLOBAL ECONOMIC CRISIS ON EMERGING ECONOMIES

The international financial crisis affects emerging economies in many ways, including the decline of external demand and the reversal of capital flows. Among other consequences, this implies a significant deterioration of the current account –due to the lower volumes and lower prices of exports– and constraints to external financing, due to lower flows and higher interest rates.

CURRENT ACCOUNT BALANCE
(Percentage of GDP)



Source: IMF.

In this new context, the most vulnerable economies are the ones that have shown high current account deficits during the last years, and which depended mostly depended on short-term capital flows for financing given that these resources are highly sensitive to said changes in the international environment.

This was the case, for example, of many European emerging economies which showed 5 percent deficits in their current account over the past five years (2003-2007) and where over 50 percent of their financing requirements depended on loans and portfolio investments. Moreover, this was also coupled by a strong expansion of domestic credit and by an accelerated growth of consumption.

CURRENT ACCOUNT AND FINANCING: 2003 - 2007

	Latin America	Emerging Europe
Current Account (% GDP)*	**0.9**	**-5.3**
Private capitals (Billion US$)**	318	539
Foreign Direct Investment	248	243
Portfolio	5	60
Other (liabilities)	67	236

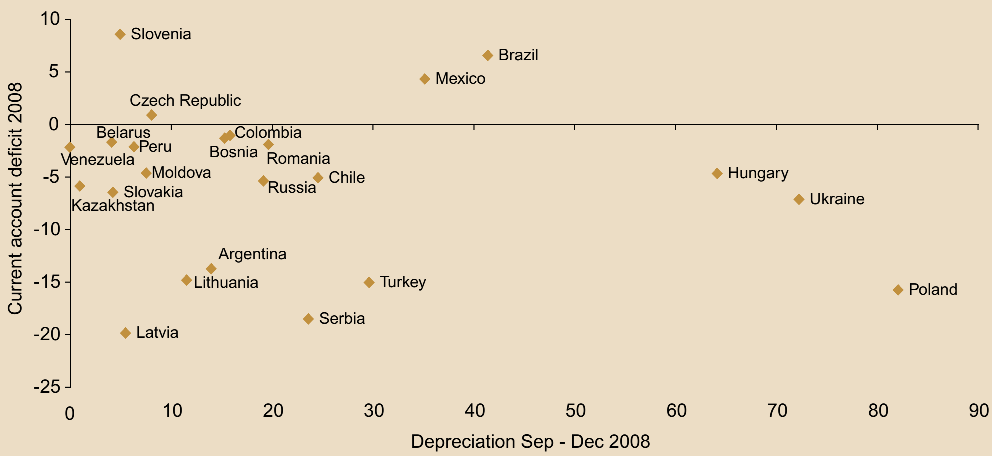
* Average period.
** Accumulated flows.
Source: World Economic Outlook (IMF).

With the drop of exports and the reversal of capital flows, these economies faced severe credit adjustments while their currencies experienced strong depreciatory pressures, the latter of which affected many agents that had generated debts in strong currencies, such as the Swiss franc or the euro. Other emerging economies also showed mismatches in companies that maintained liabilities in foreign currency associated with derivative financial products. In a context of depreciation of exchange, the agents with exposed positions generated pressures on the exchange market and aggravated the pressures on the exchange rates.

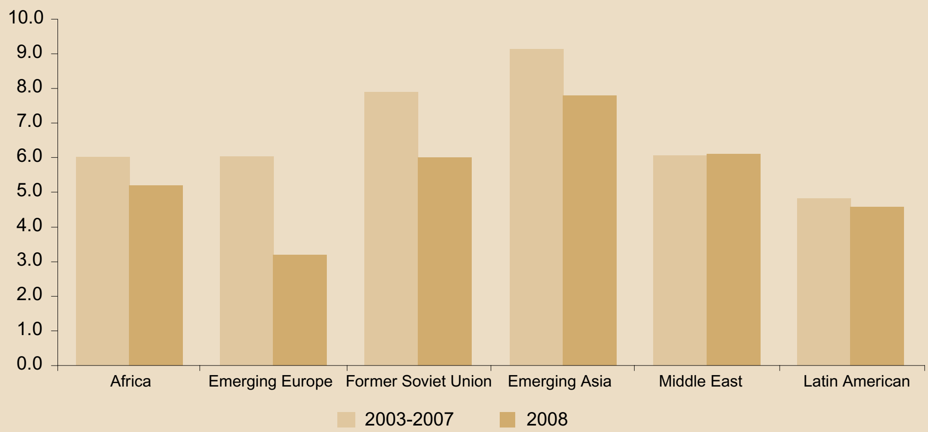
Many of the economies with strong macroeconomic maladjustments –i.e. the Baltic countries, Hungary, Serbia, Turkey, Ukraine, and Belarus– have resorted to the assistance of the International Monetary Fund to compensate the constraints of financial markets.

On the other hand, before the deepening of the crisis, many Latin American and Asian emerging economies experienced current account surpluses and capital inflows, a great many of which were direct foreign investment. This allowed them not only to improve their external asset position, but also, in many cases, to accumulate reserves that have reached higher levels than those of their external debt. This situation, which adds to a prudential management in terms of public finance and low inflation rates, has brought about greater space for the implementation of counter-cyclical policies allowing for the expansion of domestic demand and for compensating –at least partially– the decline of demand for exports. It should be pointed out that depreciatory pressures on the local currencies have been, in general terms, quite lower in these countries.

CURRENT ACCOUNT AND DEPRECIATION



REAL GDP GROWTH
(Annual percentage change)



Source: IMF.

4. Balance of payments

In 2008, Peru's balance of payments current account showed a deficit equivalent to 3.3 percent of GDP. The evolution of this indicator during the year was marked by the reduction of terms of trade, which deteriorated more drastically in Q4-2008 due to the deepening of the international financial crisis. Factors contributing to this included the rises of the prices of oil, food, and other imported inputs, such as plastics, iron and steel, and chemical products, in the first half of the year, as well as the prices of basic metals, which dropped in the last months of the year after having significantly increased in the first half of 2008.

TABLE 24
BALANCE OF PAYMENTS

	Millions of US$			Percentage of GDP		
	2006	2007	2008	2006	2007	2008
I. CURRENT ACCOUNT BALANCE	**2,854**	**1,220**	**- 4,180**	**3.1**	**1.1**	**- 3.3**
1. Trade balance	8,986	8,287	3,090	9.7	7.7	2.4
a. Exports	23,830	27,882	31,529	25.8	25.9	24.7
b. Imports	- 14,844	- 19,595	- 28,439	- 16.1	- 18.2	- 22.3
2. Services	- 737	- 1,187	- 1,929	- 0.8	- 1.1	- 1.5
a. Exports	2,660	3,159	3,637	2.9	2.9	2.8
b. Imports	- 3,397	- 4,346	- 5,566	- 3.7	- 4.0	- 4.4
3. Factor income	- 7,580	- 8,374	- 8,144	- 8.2	- 7.8	- 6.4
a. Private	- 6,901	- 7,941	- 8,257	- 7.5	- 7.4	- 6.5
b. Public	- 679	- 433	113	- 0.7	- 0.4	0.1
4. Current transfers	2,185	2,494	2,803	2.4	2.3	2.2
of which: Remittances	1,837	2,131	2,437	2.0	2.0	1.9
II. FINANCIAL ACCOUNT	**699**	**9,304**	**7,372**	**0.8**	**8.7**	**5.8**
1. Private sector	1,941	9,148	7,657	2.1	8.5	6.0
a. Assets	- 1,885	- 1 053	207	- 2.0	- 1.0	0.2
b. Liabilities	3,826	10,200	7,450	4.1	9.5	5.8
2. Public sector	- 738	- 2,473	- 1,404	- 0.8	- 2.3	- 1.1
a. Assets	- 125	- 166	65	- 0.1	- 0.2	0.1
b. Liabilities	- 614	- 2,307	- 1,469	- 0.7	- 2.1	- 1.1
3. Short-term capitals	- 503	2,630	1,118	- 0.5	2.4	0.9
a. Assets	- 340	- 250	1,221	- 0.4	- 0.2	1.0
b. Liabilities	- 164	2,880	- 103	- 0.2	2.7	- 0.1
III. EXCEPTIONAL FINANCING	**27**	**67**	**57**	**0.0**	**0.1**	**0.0**
IV. NET ERRORS AND OMISSIONS	**- 827**	**- 936**	**- 80**	**- 0.9**	**- 0.9**	**- 0.1**
V. BCRP NET RESERVE FLOWS (V = I + II + III + IV)	**2,753**	**9,654**	**3,169**	**3.0**	**9.0**	**2.5**
1. Change in the balance of NIRs	3,178	10,414	3,507	3.4	9.7	2.7
2. Effects of valuation and monetization of gold	425	760	338	0.5	0.7	0.3
Note:						
Flow of BCRP Reserve Assets	3,210	10,391	3,512	3.5	9.7	2.7

Source: BCRP, MEF, SBS, SUNAT, Ministry of Foreign Affairs, Cofide, ONP, FCR, Tacna Free Trade Zone, Banco de la Nación, Cavali S.A. ICLV, Proinversión, Bank of International Settlements (BIS), and companies.

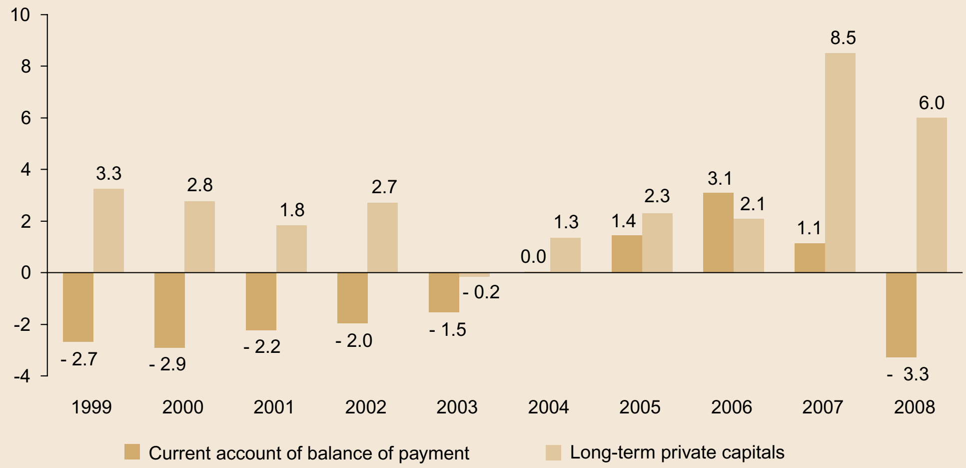
The pace of growth of domestic demand also contributed to the growth of imports of industrial inputs, which increased by nearly 60 percent. Moreover, the country's economy was also boosted by the onset of the construction of Perú LNG's project that will allow us to export natural gas. The acquisitions for manufacturing and transport accelerated imports of capital goods for industry, which grew at a monthly rate of 100 percent. These monthly rates had not been recorded since 1995.

However, the deficit in the current account was lower than long-term external financing to the private sector, which was equivalent to 6.0 percent of GDP in 2008. On the one hand, the high prices of metals in the first months of the year generated a high return which was, for the most part, reinvested. On the other hand, the bank sector received external financing to cover the demand for credit associated with the growth of the local economy. Additionally, the financing for the Perú LNG project and other credits to the mining and industrial sectors contributed to the flow of external long-term loans.

While international financial conditions deteriorated in Q4-2008, several operations carried out led the flow of direct investment in the country to be negative in US$ 515 million. These operations were associated with firms' decisions of distributing the profits corresponding to previous periods, as well as with financing operations with their parent companies, which are recorded as negative direct foreign investmest due to methodological reasons. Moreover, direct foreign investment abroad was US$ 598 million.

The flow of short-term capitals followed a similar evolution, increasing in the first half of the year due to the financing received by banks and by non-financial enterprises in the oil sector mainly, as well as due to non-residents acquisition of BCRP Certificates of Deposit. This evolution was different in the last months of the year due to the maturities of these securities and to the reduction of financial and non-financial firms' liabilities.

GRAPH 21
CURRENT ACCOUNT AND LONG-TERM CAPITALS
(Percentage of GDP)



Source: BCRP.

4.1 Current account balance

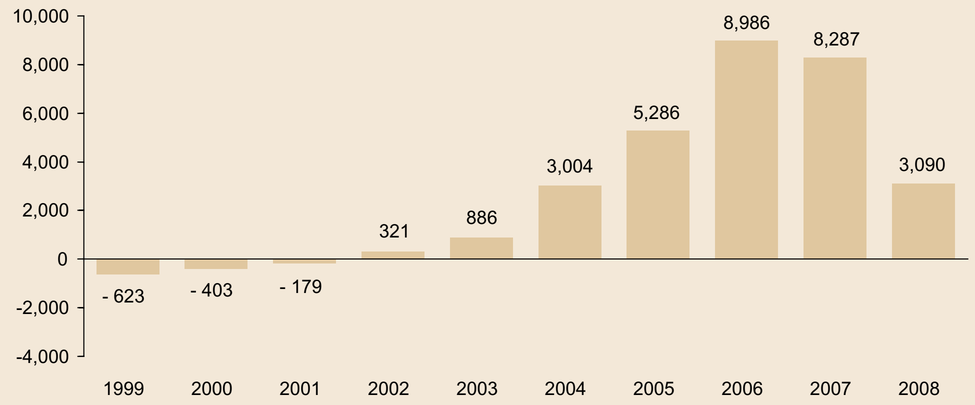
In 2008 the deficit in the current account amounted to US$ 4,180 million. The trade balance showed a surplus of US$ 3,090 million, lower than in 2007. A higher reduction of the surplus was observed along the year due, first, to the growth of imports and, then, due to the deceleration of metal prices. Moreover, the deficit for services was 63 percent higher than in 2007, while the factor income deficit –whose main component is the profits generated by firms with foreign share-holding– also showed a reduction associated with the evolution of the prices of basic metals and amounted to US$ 8,144 million.

Remittances from Peruvians living abroad increased by 14 percent, although showing declining quarterly growth rates in the year that reflected the deterioration of the world economy.

4.2 Trade balance

The reduction of terms of trade, particularly in Q4-2008, as well as the accelerated growth of domestic demand during most part of the year accounted for the lower trade surplus achieved (US$ 3,090 million versus US$ 8,287 million in 2007). However, exported volumes increased 8.1 percent in 2008 due to higher exports of traditional and non-traditional exports. Exported volumes only increased by 2.5 percent in 2007.

GRAPH 22
TRADE BALANCE
(Millions of US$)



Source: BCRP.

United States and China, which account for a third of our external trade, continued to be our main trading partners. The share of the United States in terms of our external trade practically remained unchanged, but China's share increased from 11.4 percent in 2007 to 12.7 percent in 2008. Other markets for our exports –i.e. China, Switzerland, Ecuador and Italy– also increased their participation relative to 2007. On the other hand, imported products from the United States, China, Japan, and Italy increased their share in terms of overall imports.

TABLE 25
TRADE BY MAIN COUNTRIES1/
(Percentage structure)

	Exports 2/			Imports 3/			X + M		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
United States of America	24.3	19.5	19.0	16.3	17.8	18.8	21.3	18.8	18.9
China	9.5	10.9	11.9	10.2	12.0	13.5	9.8	11.4	12.7
Switzerland	7.1	8.4	10.9	0.5	0.5	0.4	4.6	5.1	5.9
Brazil	3.4	3.4	2.9	10.5	9.1	8.1	6.1	5.7	5.3
Chile	6.0	6.1	5.9	5.8	4.4	4.1	5.9	5.4	5.0
Japan	5.2	7.8	5.9	3.6	3.7	4.1	4.5	6.1	5.0
Canada	6.8	6.6	6.2	1.8	1.6	1.4	4.9	4.5	3.9
Ecuador	1.4	1.4	1.6	7.4	7.6	6.1	3.7	3.9	3.8
Colombia	2.1	2.2	2.2	6.3	4.8	4.3	3.7	3.3	3.2
Germany	3.4	3.3	3.3	3.4	3.4	2.9	3.4	3.4	3.1
Italy	3.2	2.9	3.0	1.5	1.8	2.4	2.5	2.5	2.7
Argentina	0.3	0.4	0.4	4.9	5.1	4.9	2.1	2.3	2.6
Mexico	1.6	1.0	1.0	3.5	4.2	4.1	2.4	2.3	2.4
Other countries	25.6	26.0	25.9	24.2	24.2	24.9	25.1	25.3	25.4
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

X: Exports M: Imports
1/ Imports were grouped by country of origin.
2/ Exports exclude other goods sold and repairs of foreign ships and aircraft.
3/ Imports exclude defense equipment, other goods purchased, and repairs of ships and aircraft abroad.
Source: SUNAT.

In 2008 exports amounted to US$ 31,529 million, a sum representing an increase of 13.1 percent relative to 2007, as a result of both higher prices (5.1 percentage points) and volumes (8.0 percentage points). The volume of traditional exports increased 6.9 percent, while the volume of non-traditional exports increased 12.5 percent. Traditional exports showing higher volumes included products such as fishmeal, coffee, copper, zinc and gold, while non-traditional exports with higher volumes included agricultural, fishing, textile and chemical products.

GRAPH 23
EXPORTS PRICE AND VOLUME INDEX
(1994=100)

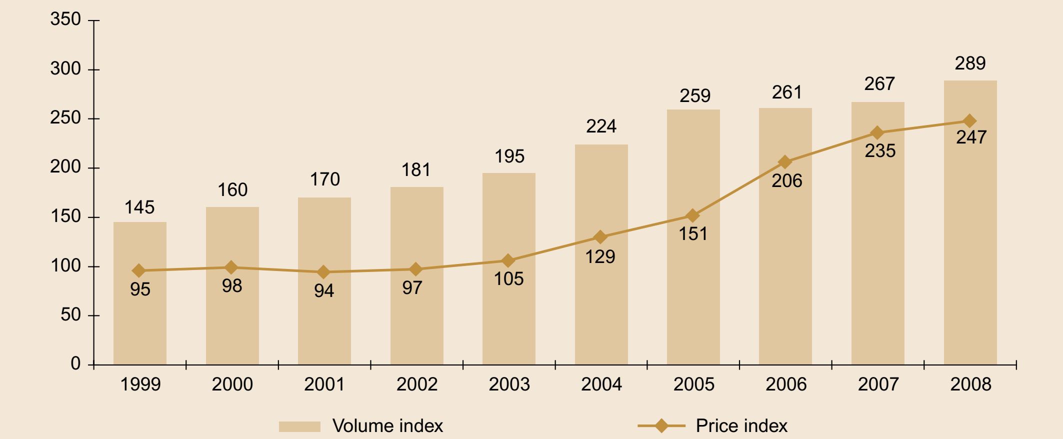


TABLE 26
FOB EXPORTS BY GROUP OF PRODUCTS

	Millions of US$			Percentage change	
	2006	2007	2008	2007	2008
I. TRADITIONAL PRODUCTS	**18,461**	**21,464**	**23,796**	**16.3**	**10.9**
FISHING	**1,335**	**1,460**	**1,791**	**9.3**	**22.7**
Fishmeal	1,139	1,210	1,413	6.3	16.7
Fish oil	196	249	379	27.1	52.0
AGRICULTURAL PRODUCTS	**574**	**460**	**685**	**- 19.7**	**48.8**
Coffee	515	427	644	- 17.1	50.9
Sugar	43	19	25	- 56.3	31.7
Cotton	7	3	2	- 54.0	- 28.6
Other agricultural products 1/	9	11	14	32.0	20.7
MINERAL PRODUCTS	**14,735**	**17,238**	**18,657**	**17.0**	**8.2**
Copper 2/	5,996	7 205	7,663	20.2	6.4
Gold	4,032	4,181	5,588	3.7	33.7
Zinc	1,991	2,539	1,467	27.5	- 42.2
Lead 2/	713	1,033	1,136	45.0	9.9
Molybdenum	834	982	1,079	17.7	10.0
Silver (refined)	480	538	595	12.2	10.6
Tin	409	423	695	3.3	64.3
Iron	256	286	385	11.6	34.8
Other mineral products 3/	24	51	48	109.7	- 5.1
PETROLEUM AND DERIVATIVES	**1,818**	**2,306**	**2,663**	**26.9**	**15.5**
II. NON-TRADITIONAL PRODUCTS	**5,279**	**6,303**	**7,543**	**19.4**	**19.7**
Textile	1,473	1,736	2,018	17.9	16.2
Agriculture and livestock	1,220	1,507	1,912	23.5	26.9
Basic metal industries and jewelry	829	906	908	9.3	0.2
Chemical	602	805	1,041	33.7	29.3
Fishing	433	499	622	15.2	24.6
Wood and paper, and related manufacturing	333	362	425	8.5	17.6
Metal-mechanic	164	217	324	32.0	49.3
Non-metallic minerals	135	165	176	21.8	6.5
Other 4/	89	107	118	20.3	9.7
III. OTHER 5/	**91**	**114**	**190**	**26.4**	**66.3**
IV. TOTAL EXPORTS	**23,830**	**27,882**	**31,529**	**17.0**	**13.1**

1/ Include coca leaves and derivatives, molasses, wools and furs.
2/ Include silver contents.
3/ Include bismuth and wolfram, mainly.
4/ Mainly fur, leather and handcrafts.
5/ Fuel and food sold to foreign ships and aircrafts and repairs of capital goods.
Source: BCRP, SUNAT, and companies.

TABLE 27
EXPORTS INDEX 1/
(Percentage change relative to same period in the previous year)

	Price			Volume		
	2006	2007	2008	2006	2007	2008
Exports	**36.1**	**14.4**	**5.1**	**0.6**	**2.5**	**8.1**
Traditional	**47.8**	**16.0**	**4.8**	**- 3.7**	**0.4**	**6.9**
Of which:						
Fishmeal	52.3	8.0	- 6.5	- 33.0	- 5.9	24.1
Coffee	1.9	9.1	19.3	67.5	- 27.1	29.5
Copper	81.7	8.2	- 1.6	- 4.3	11.3	11.1
Gold	35.7	15.4	25.2	- 2.9	- 10.7	7.7
Zinc	147.4	12.8	- 48.0	- 3.1	17.0	14.0
Petroleum and derivatives	21.0	17.2	32.8	- 1.1	7.9	- 10.7
Non-traditional	**9.6**	**9.6**	**6.6**	**12.3**	**8.9**	**12.5**
Of which:						
Agriculture and livestock	- 1.0	10.1	- 2.3	21.8	11.9	30.3
Fishing	- 3.9	11.8	16.4	39.9	3.5	7.4
Textiles	5.7	11.2	11.2	9.3	5.3	5.3
Chemicals	15.7	10.1	15.7	- 3.6	21.5	12.0
Metal industry 2/	66.3	17.6	- 0.9	1.2	- 7.1	- 0.6

1/ Calculated on the basis of unit values (after dividing total value between total volume).
2/ Includes jewelry.

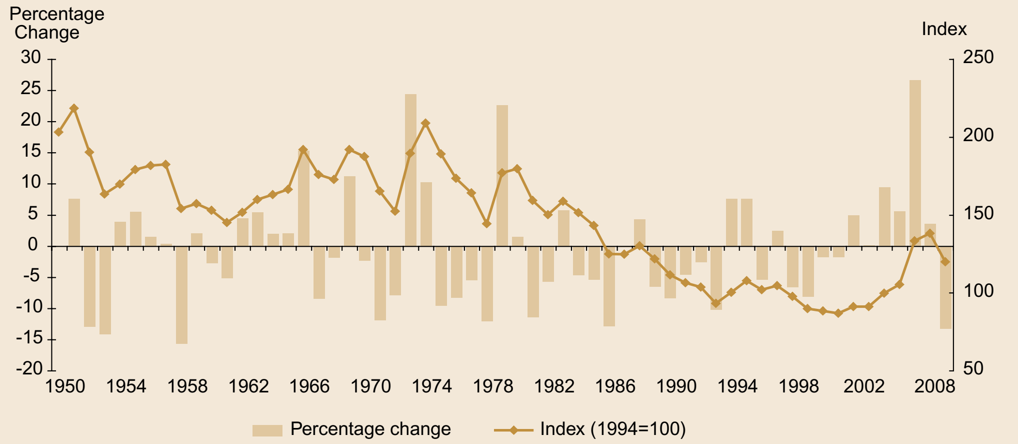
5. Terms of trade

Favored by a period of global economic expansion and particularly by the growth of China –the economy with the highest demand for commodities–, the prices of raw materials recorded maximum levels in the last two years. These higher prices were also favored by the fact that the supply of several products was quite lower than their demand. Geopolitical problems and natural phenomena contributed in some cases to aggravate the supply of some products. Other factors contributing to this included abundant liquidity –which allowed several investment funds to finance this higher demand, thus generating higher volatility in commodity markets–, and specific policies such as those promoting the use of biofuels.

Thus, during the first half of 2008, both the world economy and the Peruvian economy were affected by the higher prices of products, such as oil, food, fertilizers, chemical products, as well as by the higher prices of inputs, such as plastics, iron, and steel. For instance, the price of WTI oil reached an historical high of US$ 145.29 early in July.

During the first half of the year, the prices of our main export commodities –minerals– counterbalanced the price rises of our main imports (e.g. the price of copper in July reached levels of over US$ 4 by pound).

GRAPH 24
TERMS OF TRADE

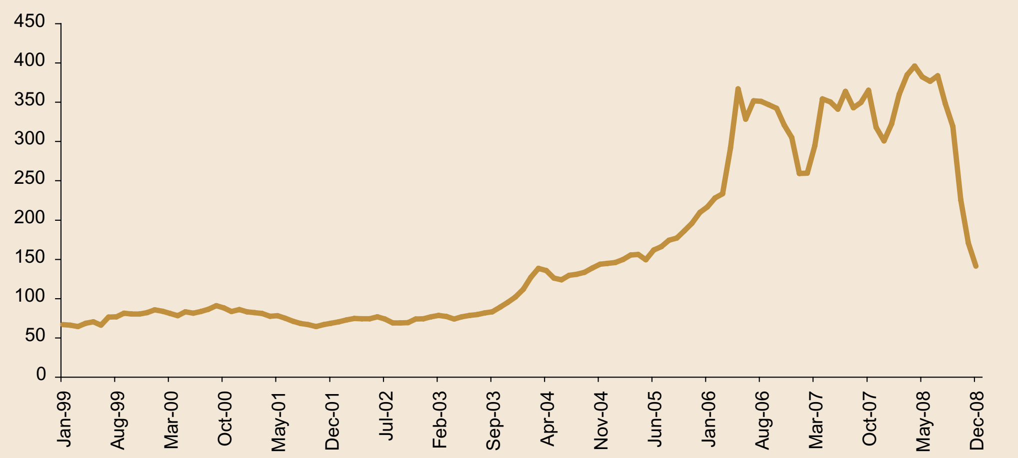


However, commodity prices –particularly the prices of metals and oil– dropped rapidly and significantly in the second half of the year due the slowdown of global growth associated with the deepening of the financial crisis.

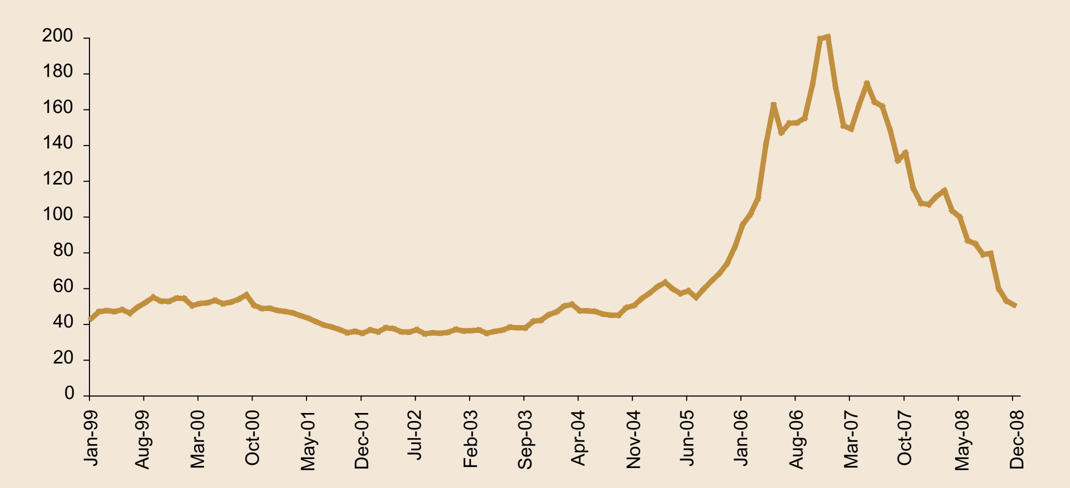
The price of **copper** declined rapidly, posting a minimum of US$ 1.25 by pound on December 25 –a level not recorded since October 2004. The reduction of prices observed since August was associated with lower global demand due to the contraction of the automobile and construction sectors in the United States, Europe, and Japan. This was also reflected in the increase of inventories in metal exchange markets, which reached similar levels to those observed in 2004.

The price of **zinc** fell 53.2 percent in 2008, reflecting a greater balance between the supply and the demand for this basic metal which, in turn, translated into an increase of inventories. The price of

GRAPH 25
COPPER PRICE
(US$/pound)



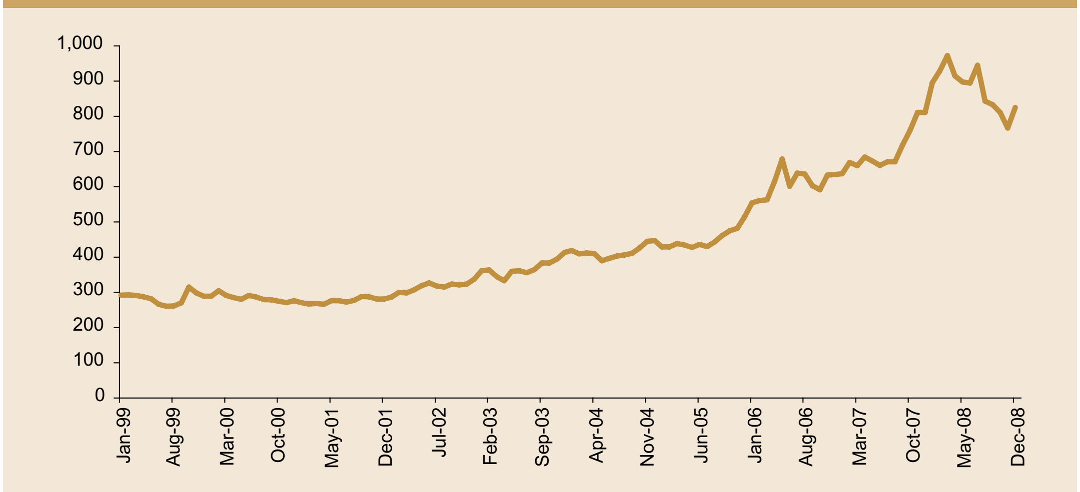
GRAPH 26
ZINC PRICE
(US$/pound.)



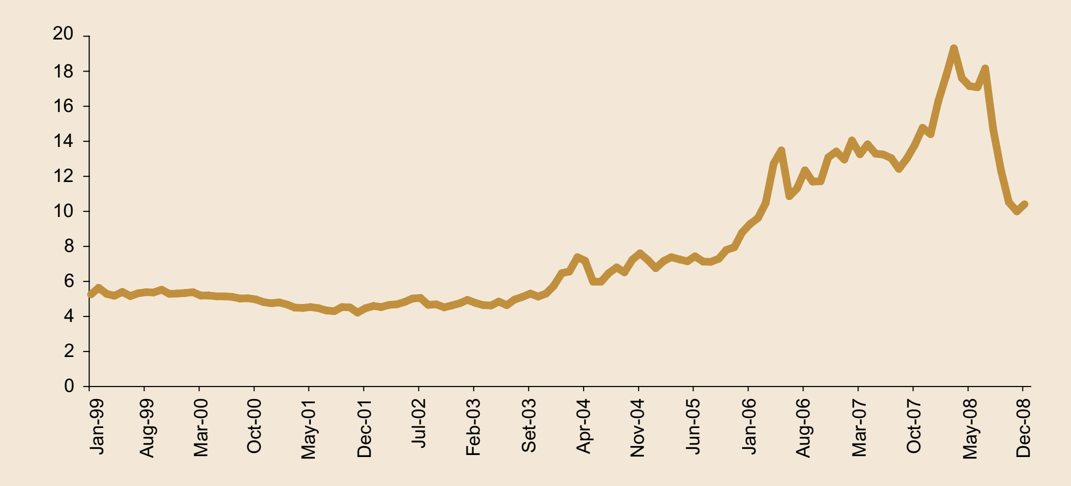
zinc was also affected by fears of global deceleration, particularly in the real estate and automobile sectors.

The price of the ounce of **gold** increased 1.8 percent during 2008, from US$ 806 in December 2007 to US$ 821 in December 2008, although on average terms the price increased 25.1 percent. The price of this metal remained high during the first seven months of the year, favored by a lower production of gold in South Africa, affected by severe energy constraints. The price of gold showed volatility thereafter, resuming its upward trend towards the end of the year. This evolution is explained by the higher demand for gold as a hedge asset, as well as by expectations that the dollar would weaken against the euro, which also contributed to increase the appeal of this metal as a hedge asset.

GRAPH 27
GOLD PRICE
(US$/OZ tr.)

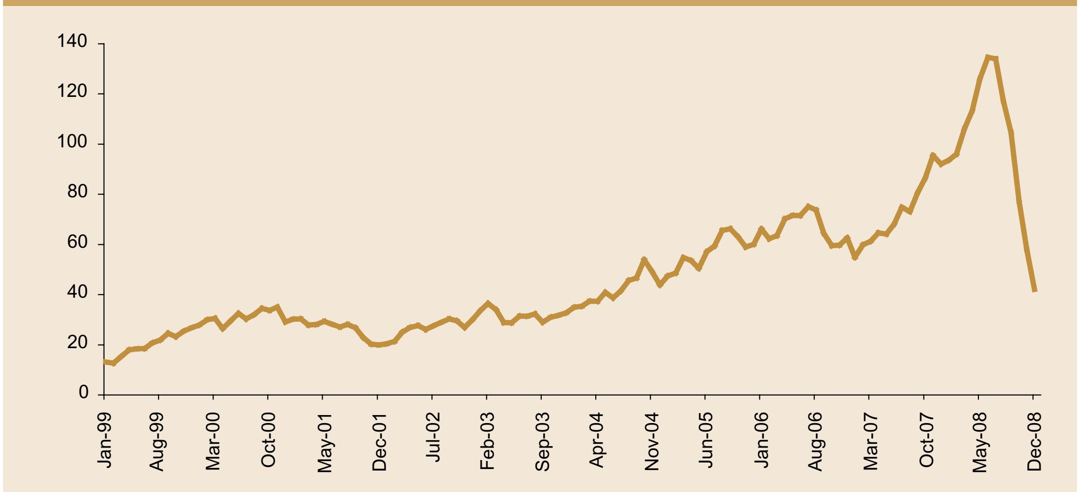


GRAPH 28
SILVER PRICE
(US$/OZ tr.)



On the other hand, after being affected by a drastic drop of demand and by the OPEC's late reaction in terms of reducing its quotas, the price of **crude** returned to levels that had not been observed since Q4-2004.

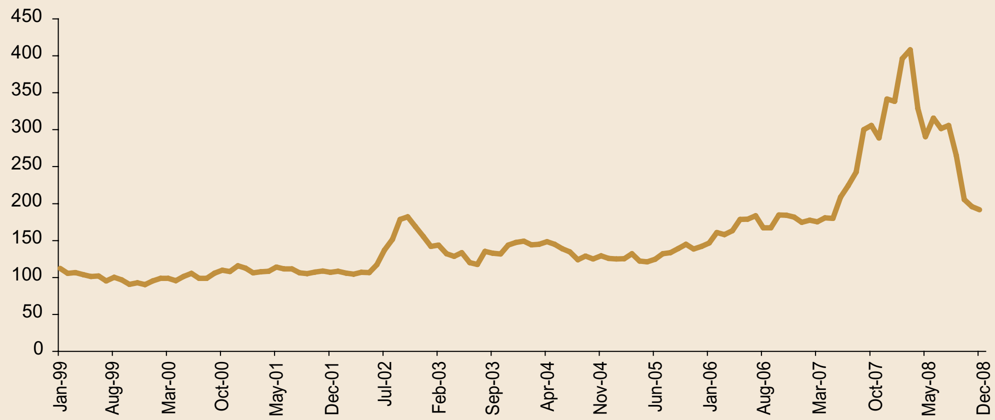
GRAPH 29
WTI OIL PRICE
(US$/barrel)



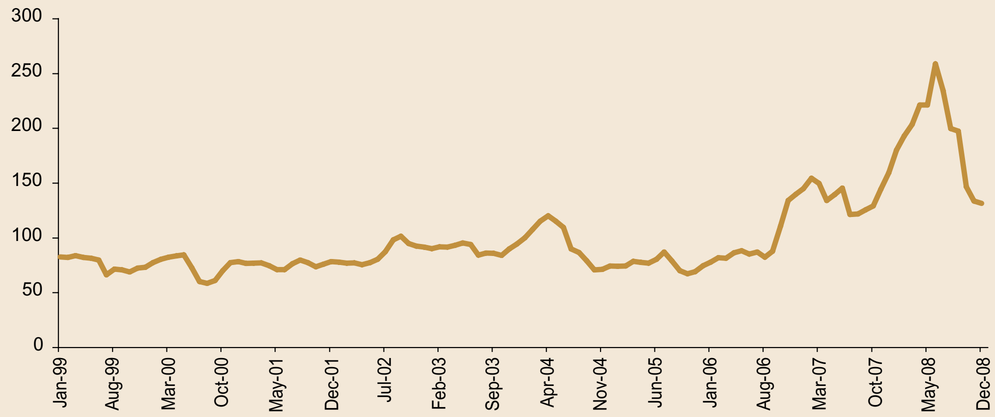
In contrast, and despite the strong reduction seen in the prices of crude and biofuels, food prices did not show such a significant decline. At end-2008, the price of wheat fell to the levels observed in May 2007; the price of maize returned to the levels of November 2007, and the price of soybean flour dropped to October 2007 levels.

Droughts in important producer countries (e.g. Argentina, Brazil, and Australia) and frosts in the United States prevented the prices of food products from dropping further.

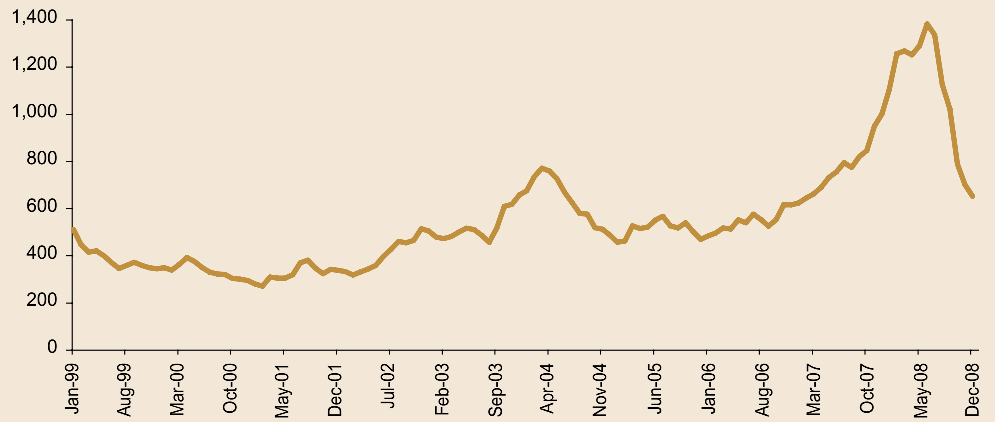
GRAPH 30
WHEAT PRICE
(US$/MT)



GRAPH 31
MAIZE PRICE
(US$/MT)



GRAPH 32
SOY OIL PRICE
(US$/MT)



Terms of trade fell 24.7 percent in Q4-2008. It should be pointed out that in a global context of inventory adjustments, the prices of many imported inputs, such as iron and steel and chemical products, did not decline at the same pace as commodity prices did.

Given this evolution of international prices in 2008, terms of trade fell 13.3 percent on average in 2008. The prices of exports increased by 5.1 percent on average, while the prices of imports increased by 21.2 percent.

Traditional exports amounted to US$ 23,796 million, which represented an increase of 10.9 percent compared to 2007. This rate includes the 25 percent reduction of these exports in Q4 which was associated with the downward evolution observed in international prices. In the last quarter, the average price of copper dropped 43 percent, the price of zinc fell 64 percent, the price of molybdenum fell 38 percent, and the price of silver declined 27 percent, while the price of gold increased 0.6 percent. Therefore, the average price of these exports in said period dropped 27 percent. United States, China, and Switzerland continued being our main markets in terms of the destination of traditional exports.

TABLE 28
TRADITIONAL EXPORTS BY MAIN DESTINATION*
Defined regime

	Millions of FOB US$			Weight %		
	2006	2007	2008	2006	2007	2008
United States of America	4,012	3,547	3,841	21.8	16.6	16.4
China	2,124	2,889	3,528	11.5	13.5	15.0
Switzerland	1,675	2,318	3,395	9.1	10.8	14.5
Canada	1,564	1,786	1,897	8.5	8.3	8.1
Japan	1,155	2,085	1,759	6.3	9.7	7.5
Chile	1,187	1,403	1,421	6.4	6.6	6.1
Germany	738	818	912	4.0	3.8	3.9
Italy	631	670	792	3.4	3.1	3.4
Brazil	656	809	682	3.6	3.8	2.9
Spain	468	601	613	2.5	2.8	2.6
Taiwan	379	360	565	2.1	1.7	2.4
South Korea	501	842	505	2.7	3.9	2.2
Netherlands	599	426	489	3.3	2.0	2.1
Belgium	450	510	360	2.4	2.4	1.5
India	96	200	277	0.5	0.9	1.2
Other countries	2,197	2,128	2,404	11.9	9.9	10.3
TOTAL	**18,433**	**21,392**	**23,440**	**100.0**	**100.0**	**100.0**
MEMO:						
North America	5,840	5,461	5,859	31.7	25.5	25.0
Asia	4,516	6,588	7,037	24.5	30.8	30.0
European Union	3,525	3,495	3,919	19.1	16.3	16.7

* Arranged according to the weight of exports in 2008.

On the other hand, the volumes of traditional products exported increased by 7 percent on average, especially due to higher exports of fishmeal (24 percent), coffee (30 percent), copper (11 percent), gold (8 percent), zinc (14 percent), and molybdenum (14 percent), which also reflects higher production in the respective sectors. In contrast, exports of crude and oil derivatives dropped 10.7 percent, reflecting increased pressure in terms of domestic demand. United States, Venezuela, and Colombia continued to be the main destination markets for these exports.

In 2008 non-traditional exports grew 20 percent due to higher sales in terms of most products. This growth was different along the year, in line with the evolution of the global economy and particularly of the United States, our main trading partner for this group of products. Non-traditional exports grew at a lower rate in Q4 (2.3 percent) due to the reduction of the prices of the main farming and iron and steel products, as well as to the lower shipments of textile and iron and steel products.

The volumes of non-traditional exports increased 12 percent on average, even though the growth of these exports was much higher in the first three quarters of the year. In Q4, the volume sold declined 0.8 percent due to lower external demand.

TABLE 29
NON-TRADITIONAL EXPORTS BY MAIN DESTINATIONS*

	Millions of US$ FOB			Weight %		
	2006	2007	2008	2006	2007	2008
United States of America	1,757	1,808	1,904	33.3	28.7	25.2
Venezuela	329	662	969	6.2	10.5	12.8
Colombia	396	517	601	7.5	8.2	8.0
Chile	233	291	417	4.4	4.6	5.5
Spain	299	382	402	5.7	6.1	5.3
Ecuador	229	285	390	4.3	4.5	5.2
Bolivia	180	213	334	3.4	3.4	4.4
Netherlands	149	205	270	2.8	3.3	3.6
Brazil	150	126	213	2.8	2.0	2.8
China	137	146	210	2.6	2.3	2.8
France	158	174	182	3.0	2.8	2.4
Mexico	127	142	178	2.4	2.2	2.4
Italy	126	148	135	2.4	2.3	1.8
United Kingdom	103	120	127	2.0	1.9	1.7
Germany	78	111	117	1.5	1.8	1.5
Other countries	828	974	1,096	15.7	15.5	14.5
TOTAL	**5,279**	**6,303**	**7,543**	**100.0**	**100.0**	**100.0**
MEMO:						
North America	1,927	1,998	2,134	36.5	31.7	28.3
Andean countries1/	1,366	1,968	2,710	25.9	31.2	35.9
European Union	1,036	1,277	1,369	19.6	20.3	18.1

* Arranged according to the weight of exports in 2008.
1/ Bolivia, Chile, Colombia, Ecuador and Venezuela.

The main agricultural exports included fresh and frozen asparagus, asparagus conserves, paprika, fresh grapes, artichokes and red peppers in conserves, organic bananas, as well as manufactured foodstuffs, such as evaporated milk, sweet biscuits, and shrimp feed. The main market for these products was the United States, with a share of 31 percent, followed by Spain (12 percent), and by the Netherlands (10 percent).

TABLE 30
MAIN DESTINATION OF AGRICULTURE AND LIVESTOCK EXPORTS*

	Millions of US$ FOB			Weight %		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
United States of America	425.5	486.8	587.7	34.9	32.3	30.7
Spain	162.0	209.2	233.9	13.3	13.9	12.2
Netherlands	97.9	134.6	195.6	8.0	8.9	10.2
Ecuador	54.4	62.7	84.3	4.5	4.2	4.4
France	61.9	77.5	82.4	5.1	5.1	4.3
United Kingdom	60.1	69.1	77.5	4.9	4.6	4.1
Colombia	37.0	42.8	75.7	3.0	2.8	4.0
Venezuela	19.7	30.7	46.8	1.6	2.0	2.4
Haiti	33.9	35.3	45.5	2.8	2.3	2.4
Germany	24.3	40.5	42.8	2.0	2.7	2.2
Mexico	14.3	19.8	37.6	1.2	1.3	2.0
Chile	20.9	27.4	36.2	1.7	1.8	1.9
Bolivia	17.5	18.6	30.4	1.4	1.2	1.6
Brazil	14.7	20.4	30.3	1.2	1.4	1.6
Belgium	15.9	19.7	26.5	1.3	1.3	1.4
Other countries	160.1	211.4	278.6	13.1	14.0	14.6
TOTAL	**1,220.1**	**1,506.6**	**1,912.0**	**100.0**	**100.0**	**100.0**
MEMO:						
North America	456.0	527.7	649.5	37.4	35.0	34.0
Andean countries 1/	149.5	182.1	273.5	12.3	12.1	14.3
European Union	451.5	587.4	704.9	37.0	39.0	36.9

* Arranged according to the weight of exports in 2008.
1/ Bolivia, Chile, Colombia, Ecuador and Venezuela.

TABLE 31
MAIN AGRICULTURE AND LIVESTOCK EXPORTS*
(Millions of US$)1/

	2006	**2007**	**2008**
Fresh or refrigerated asparagus	187.4	235.8	230.9
volume (Thousands MT)	92.8	96.3	109.6
price (US$ / Kg)	2.0	2.4	2.1
Prepared asparagus	104.5	156.0	183.7
volume (Thousands MT)	46.9	58.7	65.6
price (US$ / Kg)	2.2	2.7	2.8
Paprika	73.5	96.3	136.2
volume (Thousands MT)	49.9	43.7	59.0
price (US$ / Kg)	1.5	2.2	2.3
Evaporated milk	51.5	65.1	88.7
volume (Millions liters)	47.3	48.2	61.0
price (US$ / liter)	1.1	1.4	1.5
Fresh grapes	51.0	55.0	85.7
volume (Thousands MT)	27.9	26.1	43.6
price (US$ / Kg)	1.8	2.1	2.0
TOTAL	**1,220.1**	**1,506.6**	**1,912.0**

* Main products by 10-digit tariff headings.
1/ Average prices (obtained by dividing the total value of each category by total volume).

The main fishing exports were frozen giant squid products and conserves, frozen scallops, fish conserves, and frozen prawns, with the main destination markets including Spain (17 percent), China (15 percent), and the United States (14 percent).

TABLE 32
EXPORTS OF MAIN FISHING PRODUCTS*
(Millions of US$) 1/

	2006	2007	2008
Frozen giant squid	83.8	100.0	121.8
volume (Thousands MT)	137.0	142.3	167.0
Price (US$ / Kg)	0.6	0.7	0.7
Other canned invertebrates (i.e, giant squid)	56.2	55.2	100.3
volume (Thousands MT)	68.4	64.5	87.0
price (US$ / Kg)	0.8	0.9	1.2
Frozen scallops	37.3	34.8	43.1
volume (Thousands MT)	2.8	4.3	4.8
price (US$ / Kg)	13.4	8.1	9.0
Prawn tails with shell (frozen)	34.0	40.6	42.6
volume (Thousands MT)	5.8	7.3	7.0
price (US$ / Kg)	5.9	5.6	6.1
Other fish fillets (i.e, skinned perico)	27.8	37.6	36.3
volume (Thousands MT)	10.3	11.4	9.1
price (US$ / Kg)	2.7	3.3	4.0
TOTAL	**432.9**	**498.8**	**621.5**

* Main products by 10-digit tariff headings.
1/ Average prices (obtained by dividing the total value of each category by total volume).

As regards textile exports, the positive evolution of the following should be pointed out: knitted shirts for men and boys; blouses for women and girls; pullovers, sweaters, and vests; and pants, shorts, and similar items for men and boys. In 2008 the main market for these products was the United States, which accounted for 40 percent of these sales, while the second market was Venezuela, which accounted for 32 percent of these sales. Other markets for these products include Colombia, Chile, Italy, and Ecuador, which show similar rates.

Exports of chemical products also increased in 2008, mainly due to higher shipments of sulfuric acid, zinc oxide, dicalcium phosphate, caustic soda, washing preparations, and printed polyethilene sheets. The main markets for these products were Chile and Colombia (both with similar shares: 15 percent), followed by Ecuador and Bolivia, each with a share of 12 percent of these exports.

TABLE 33
MAIN DESTINATION- TEXTILE EXPORTS*

	Millions of US$ FOB			Weight %		
	2006	2007	2008	2006	2007	2008
United States of America	866.7	836.1	807.9	58.9	48.2	40.0
Venezuela	179.6	407.4	648.6	12.2	23.5	32.1
Colombia	41.4	52.1	68.3	2.8	3.0	3.4
Chile	46.9	50.6	50.1	3.2	2.9	2.5
Italy	36.2	49.8	50.0	2.5	2.9	2.5
Ecuador	35.5	35.4	45.4	2.4	2.0	2.2
Brazil	12.3	18.4	33.6	0.8	1.1	1.7
France	23.3	27.4	28.9	1.6	1.6	1.4
Germany	18.8	21.1	27.5	1.3	1.2	1.4
Mexico	20.7	19.3	24.2	1.4	1.1	1.2
United Kingdom	19.2	23.7	23.9	1.3	1.4	1.2
Spain	25.3	23.8	23.1	1.7	1.4	1.1
Bolivia	19.1	21.8	21.1	1.3	1.3	1.0
Argentina	3.2	7.9	19.2	0.2	0.5	1.0
Canada	16.7	15.3	14.3	1.1	0.9	0.7
Other countries	107.6	126.2	132.1	7.3	7.3	6.5
TOTAL	**1,472.6**	**1,736.2**	**2,018.1**	**100.0**	**100.0**	**100.0**
MEMO:						
North America	904.1	870.7	846.4	61.4	50.2	41.9
Andean Countries1/	322.5	567.3	833.4	21.9	32.7	41.3
European Union	142.0	169.9	184.3	9.6	9.8	9.1

* Arranged according to the weight of exports in 2008.
1/ Bolivia. Chile. Colombia. Ecuador and Venezuela.

TABLE 34
MAIN EXPORTS OF CHEMICAL PRODUCTS*
(Millions of US$) 1/

	2006	2007	2008
Flexible laminated wraps (bio-oriented)	50.7	92.7	103.5
volume (Thousands MT)	17.4	35.7	33.5
price (US$ / Kg)	2.9	2.6	3.1
Sulfuric Acid	2.8	22.3	67.5
volume (Thousands MT)	80.8	509.6	792.7
price (US$ / Kg)	3.44	4.38	8.5
Zinc Oxide	59.6	79.3	60.3
volume (Thousands MT)	21.9	25.0	28.3
price (¢US$ / Kg)	2.7	3.2	2.1
Dicalcium fosfate	14.3	19.8	60.0
volume (Thousands MT)	49.3	61.6	71.8
price (US$ / Kg)	0.3	0.3	0.8
PET Preforms and related	49.4	57.9	53.7
volume (Millions units)	682.3	804.7	725.2
price (US$ / unit)	0.1	0.1	0.1
TOTAL	**601.7**	**804.6**	**1,040.7**

* Main products by 10-digit tariff headings.
1/ Average prices (obtained by dividing the total value of each category by total volume).

Imports, which amounted to US$ 28 439 million in 2008, increased by 45.1 percent relative to the previous year due to the higher purchases of capital goods (57.6 percent) and inputs (39.5 percent).

Imports of consumer goods grew 41.8 percent. The prices of imports increased 22.3 percent, while volumes increased 18.5 percent. Higher volumes of imports were observed, especially in terms of capital goods and consumer goods. This high growth of imports was fueled by the growth of GDP, which recorded its highest rate in the last 14 years.

TABLE 35
FOB IMPORTS, BY USE OR ECONOMIC DESTINATION

	Millions of US$			Percentage change	
	2006	2007	2008	2007	2008
I. CONSUMER GOODS	**2,616**	**3,192**	**4,527**	**22.0**	**41.8**
Non-durable	1,463	1,754	2,335	20.0	33.1
Durable	1,154	1,437	2,192	24.6	52.5
II. INPUTS	**7,981**	**10,435**	**14,553**	**30.7**	**39.5**
Fuel, lubricants and related	2,808	3,636	5,215	29.5	43.4
Raw materials for agriculture	436	589	881	35.0	49.7
Raw materials for industry	4,738	6,210	8,457	31.1	36.2
III. CAPITAL GOODS	**4,123**	**5,861**	**9,239**	**42.1**	**57.6**
Construction materials	470	590	1,305	25.4	121.1
For agriculture	31	51	91	63.0	79.1
For industry	2,784	3,964	5,770	42.4	45.6
Transport equipment	838	1,257	2,073	50.0	65.0
IV. OTHER GOODS 1/	**123**	**107**	**120**	**- 13.1**	**12.0**
V. TOTAL IMPORTS	**14,844**	**19,595**	**28,439**	**32.0**	**45.1**
Note:					
Main food products 2/	**880**	**1 203**	**1,703**	**36.7**	**41.6**
Wheat	224	345	489	53.9	41.6
Maize or sorgo	172	259	310	50.1	19.8
Rice	14	31	88	118.6	186.6
Sugar 3/	100	84	72	- 16.2	- 14.0
Dairy	46	61	77	31.7	27.5
Soybean	299	396	625	32.5	57.7
Meat	24	27	42	15.9	52.3

1/ Includes donations of goods, purchases of fuel and food by Peruvian ships, and repairs of capital goods in other countries, as well as other goods not considered by the classifier used.
2/ Excludes food donations.
3/ Includes unrefined sugar, classified as inputs.
Source: BCRP, SUNAT, Zofratacna, Banco de la Nación, and companies.

TABLE 36
IMPORT INDEX 1/
(Percentage change)

	Price			Volume		
	2006	2007	2008	2006	2007	2008
Imports	**7.5**	**10.4**	**21.2**	**14.4**	**19.3**	**19.6**
1. Consumer goods 2/	**5.4**	**8.9**	**10.2**	**7.8**	**12.4**	**29.4**
2. Inputs 2/ 3/	**3.4**	**8.2**	**21.0**	**14.9**	**22.5**	**15.9**
Of which:						
Plastics	4.2	7.6	15.1	12.0	26.8	12.4
Iron and steel	8.3	9.8	39.7	24.6	36.6	7.8
Textiles	-7.4	2.8	2.7	19.2	32.2	23.9
Papers	3.1	5.8	8.3	9.3	8.4	22.4
Chemical products	-1.9	5.2	7.4	21.2	18.6	27.5
Organic chemicals	3.6	7.9	17.1	11.4	17.9	23.2
3. Main food products	**13.6**	**30.4**	**47.6**	**3.8**	**4.6**	**-4.1**
4. Petroleum and derivatives	**17.4**	**15.3**	**38.9**	**4.2**	**12.6**	**0.9**
5. Capital goods	**3.1**	**6.5**	**9.5**	**30.4**	**33.4**	**44.1**

1/ Calculated on the basis of unit values (after dividing total value by total volume).
2/ Excluding food.
3/ Excluding crude and derivatives.

TABLE 37
IMPORT OF INPUTS 1/
(Percentage change)

	Price			Volume		
	2006	2007	2008	2006	2007	2008
Inputs 2/ 3/	**3.4**	**8.2**	**21.0**	**14.9**	**22.5**	**15.9**
Of which:						
Plastics	**4.2**	**7.6**	**15.1**	**12.0**	**26.8**	**12.4**
Polypropylene	11.9	5.0	25.8	12.3	49.6	12.7
Polyethylene with density < 0,94	4.9	8.3	21.3	9.2	22.0	15.8
Iron and steel	**8.3**	**9.8**	**39.7**	**24.6**	**36.6**	**7.8**
Rods of alloy steel	13.4	13.6	75.6	80.2	148.2	27.9
Flat laminates	1.5	- 2.0	20.2	24.1	11.5	0.4
Textiles	**- 7.4**	**2.8**	**2.7**	**19.2**	**32.2**	**23.9**
Textured polyester yarn	- 0.1	8.7	4.9	21.8	- 9.4	57.0
Denim	10.2	21.1	5.6	- 20.9	25.2	26.9
Papers	**3.1**	**5.8**	**8.3**	**9.3**	**8.4**	**22.4**
Cardboard and paper for writing, printing or other purpose	7.4	- 2.0	6.3	21.4	5.9	46.4
Newsprint in rolls or sheets	12.6	- 2.6	4.5	- 1.6	19.0	5.6
Chemical products	**- 1.9**	**5.2**	**7.4**	**21.2**	**18.6**	**27.5**
Dodecilbenceno	6.9	2.8	57.5	27.2	37.0	- 16.1
Detergents and dispersants	25.0	12.4	8.2	1.1	15.2	20.3
Organical chemicals	**3.6**	**7.9**	**17.1**	**11.4**	**17.9**	**23.2**
Acrylonitrile	16.4	35.8	8.4	- 62.8	146.8	175.3
Toluene diisocyanate	53.4	25.5	25.6	24.7	19.6	- 2.2

1/ Calculated on the basis of unit values (after dividing total value by total volume).
2/ Excluding food.
3/ Excluding crude and derivatives.

Higher imports of durable consumer goods were associated with imports of cars, television sets, electrical appliances, and motorcycles, with Japan, China, United States, and Mexico being the main suppliers of these products. On the other hand, higher imports of non-durable consumer goods resulted from the higher purchases of imported medicines, cosmetics and perfumes, shoewear, and food and prepared foodstuffs. These products came mainly from Colombia, Germany, China, and Brazil.

Moreover, in terms of imports of inputs for industry, imports of primary forms of plastics, iron and steel products, cereals, threads and yarns, paper and cardboard, organic chemicals, machinery parts and pieces, and oils and fats, were noteworthy. These imports increased both in terms of prices (21.0 percent on average) and volumes (15.9 percent), in line with the growth of production. China, Colombia, United States, Chile, and Mexico were the main countries supplying these products.

Imports worth highlighting in the group of capital goods for industry included civil engineering machinery and equipment, telecommunications equipments, data processing machines, pumps, compressors, fans and filter devices, heating and air-conditioning systems, etc. The main markets from which these products were imported were the United States, China, Brazil, Mexico, and Germany.

6. Services

The deficit for services, which amounted to US$ 1,929 million in 2008, was higher by US$ 742 million than in 2007. Incomes amounted to US$ 3,637 million and showed an increase of 15.1 percent. Higher incomes were observed in terms of travel, transportation, and other business services provided abroad. On the other hand, outlays for services amounted to US$ 5,566 million and increased 28.1 percent. Higher outlays were recorded in terms of transportation, other business services, travel, and insurances.

The deficit in terms of **transportation**-related services totaled US$ 1,701 million. Incomes increased 26.8 percent due to the higher prices of domestic carriers' airplane tickets abroad, while outlays grew 37.1 percent due to the higher cost of freight shipments associated with the higher prices of crude and increased imports during the year.

Travels showed a surplus of US$ 924 million, a sum 23.3 percent higher than in 2007. Incomes increased 15.6 percent due to the higher number of tourists that visited the country and to the higher average spending per head, whereas outlays associated with travel increased 9.6 percent due to the increased average spending of Peruvians visiting other countries.

Insurances and re-insurances recorded a negative balance of US$ 146 million, given that incomes dropped 23.5 percent as a result of the lower incomes for occurrences. On the other hand, outlays increased 20.7 percent due to the higher premiums paid abroad for the expansion of assets insured in the country.

The item **other services** showed a deficit of US$ 997 million. Incomes in this item increased 17.0 percent, particularly due to business services, which grew 21.9 percent. Outlays increased 31.8 percent as a result of the higher payments to other countries for the business, professional and technical services hired by foreign firms with direct foreign investment, especially oil, mining and transportation companies.

TABLE 38
SERVICES

	Millions of US$			Percentage change	
	2006	2007	2008	2007	2008
I. TRANSPORT	**- 874**	**- 1,192**	**- 1,701**	**- 36.4**	**- 42.7**
1. Credit	545	646	819	18.6	26.8
2. Debit	- 1,419	- 1,838	- 2,521	- 29.6	- 37.1
II. TRAVEL	**772**	**749**	**924**	**- 2.9**	**23.3**
1. Credit	1,570	1,723	1,991	9.7	15.6
2. Debit	- 798	- 973	- 1,067	- 21.9	- 9.6
III. COMMUNICATIONS	**- 27**	**- 21**	**- 8**	**22.2**	**60.7**
1. Credit	82	88	125	7.8	41.8
2. Debit	- 109	- 109	- 134	- 0.4	- 22.3
IV. INSURANCE AND REINSURANCE	**- 163**	**- 13**	**- 146**	**92.2**	**- 1 053.6**
1. Credit	103	297	227	189.5	- 23.5
2. Debit	- 265	- 309	- 374	- 16.8	- 20.7
V. OTHER 1/	**- 446**	**- 711**	**- 997**	**- 59.5**	**- 40.3**
1. Credit	361	405	474	12.4	17.0
2. Debit	- 806	- 1,116	- 1,471	- 38.4	- 31.8
VI. TOTAL SERVICES	**- 737**	**- 1,187**	**- 1,929**	**- 61.1**	**- 62.5**
1. Credit	2,660	3,159	3,637	18.8	15.1
2. Debit	- 3,397	- 4,346	- 5,566	- 27.9	- 28.1

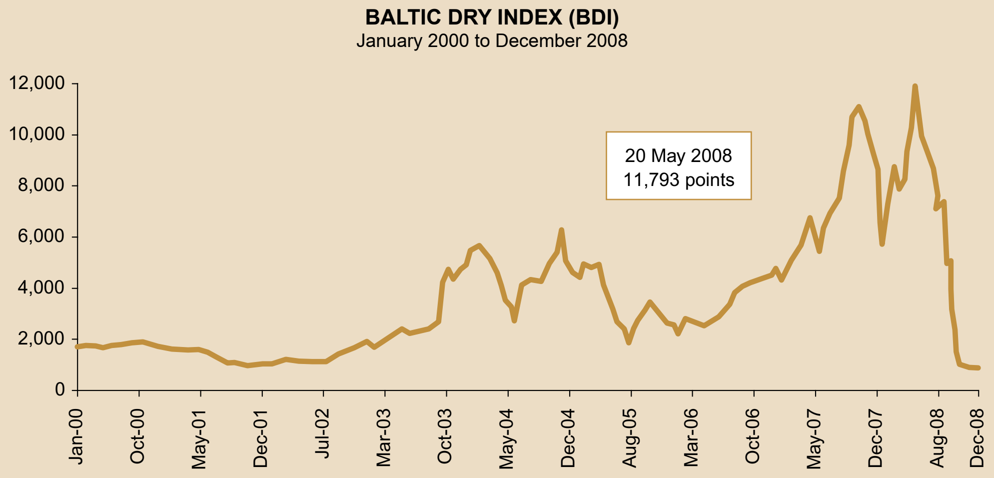
1/ Includes government, financial, information technology services, royalties, leasing of equipment and business services.
Source: BCRP, SUNAT, Ministry of of Trade Affairs and companies

BOX 6

RECENT EVOLUTION OF THE BALTIC DRY INDEX[4]

The Baltic Dry Index (BDI) declined significantly during 2008. After reaching a record level of 11,793 points on May 20, this index dropped to a minimum low of 663 points, a similar level to the one observed in 1986. This index accumulated a yearly percentage reduction of 92.5 percent in 2008, due to global economic slowdown, which translated into a lower demand for industrial minerals –e.g. copper, iron and steel– and, therefore, into lower amounts shipped by sea. Other factors contributing to this reduction of maritime costs included the interruption of credit lines given banks' reluctance to provide letters of credit, other financing mechanisms, or guarantees of payment for cargo (used in 90 percent of international trade transactions), and the drop of the average price of the barrel of crude.

4 Taking in the main shipping routes measured on a timecharter and voyage basis, the BDI –reference value for sea shipping rates– covers capesize, panamax and handy dry bulk carriers carrying a range of commodities (e.g. coal, iron ore, and grains). The index is made up of an average of the Baltic Supramax, Panamax and Capesize indices.



Source: The Baltic Exchange.

7. Factor income

The net flow of factor income was negative by US$ 8,144 million in 2008, a result explained mainly by the private sector income, which showed a negative flow of US$ 8,257 million.

Private income amounted to US$ 448 million, of which US$ 352 million corresponded to banks' interests on deposits and investment yields. On the other hand, private outlays amounted to US$ 8,705 million, of which US$ 7,687 million were profits generated by companies with foreign shareholding. The mining sector ranked first in terms of profits generated, followed by the hydrocarbon and the service sectors.

Income in the public sector showed a surplus of US$ 113 million. Income amounted to US$ 1,366 million, a result mostly explained by yield on the BCRP international reserves (US 1,321 million), in line with the Central Bank's higher level of reserves. Outlays for interests amounted to US$ 1,253 million.

Current transfers

In 2008 current transfers totaled US$ 2,803 million, of which remittances from Peruvians residing abroad amounted to US$ 2,437 million, which represented an increase of 14.4 percent. However, remittances decelerated in Q4, increasing only 2.9 percent compared to the same quarter in 2007. The remittances that most heavily declined were the ones from the United States.

TABLE 39
FACTOR INCOME

	Millions of US$			Percentage change	
	2006	2007	2008	2007	2008
I. INCOME	**1,041**	**1,566**	**1,814**	**50.4**	**15.8**
1. Private	375	593	448	58.0	- 24.5
2. Public	666	973	1,366	46.2	40.4
II. EXPENSES	**8,621**	**9,940**	**9,958**	**15.3**	**0.2**
1. Private	7,276	8,534	8,705	17.3	2.0
Profits 1/	6,741	7,788	7,687	15.5	- 1.3
Interests	535	747	1,018	39.5	36.3
- Long-term loans	218	307	448	40.9	45.9
- Bonds	98	138	201	40.9	45.5
- Short-term loans 2/	219	301	369	37.4	22.3
2. Public	1,345	1,406	1,253	4.5	- 10.9
Interests for long term loans	695	716	559	3.0	- 21.9
Interests for bonds	645	670	598	3.9	- 10.7
Interests for BCRP papers 3/	5	20	95	306.5	383.6
Interests for by short term loans 4/	0	0	0	0.0	0.0
III. BALANCE (I-II)	**- 7,580**	**- 8,374**	**- 8,144**	**- 10.5**	**2.7**
1. Private	- 6,901	- 7,941	- 8,257	- 15.1	- 4.0
2. Public	- 679	- 433	113	36.3	126.2

1/ Profits or losses accrued in the period. Includes profits and dividends sent abroad plus undistributed gains.
2/ IIncludes interests of non-financial public enterprises.
3/ Includes interests of short-term and long-term loans.
4/ Includes interests of the Banco de la Nación and of government debt.
Source: BCRP, MEF, Cofide, ONP and companies.

BOX 7

REMITTANCES FROM PERUVIANS LIVING ABROAD

Remittances from other countries have become increasingly important in the world due to both their economic impact and their size. In Peru, remittances have increased by three-fold over the last decade. Thus, in line with higher migration flows, remittances increased from 1.3 percent of GDP in 2000 to 1.9 percent of GDP today, after having reached 2.0 percent of GDP during 2007. Despite this, the pace of growth of remittances has declined in the last two years due to the slowdown of the U.S. economy, the main source of remittances to the country.

After having increased 16.0 percent in 2007, remittances from Peruvians living abroad increased 14.4 percent in 2008. Remittances from the United States grew 5.3 percent in 2008, showing a lower rate than in 2007 (10.1 percent).

The international crisis reduced the rates of growth of remittances in Q4-2008. Thus, remittances from the United States fell 1.2 percent in said quarter, while overall remittances grew only 2.9 percent.

However, other countries with a higher concentration of remittances in terms of their country of origin have been more affected since earlier periods. One of the most important characteristics of the remittances that Peru receives –which also differentiates Peru from other recipient countries– is the diversity of countries where remittances originate. United States currently accounts for 40.7 percent of overall remittances, while Spain accounts for 15 percent, and Japan for 9 percent.

REMITTANCES
(Percentage of GDP)

Año	Millions of US$	% GDP
2000	718	1,3
2001	753	1,4
2002	705	1,2
2003	869	1,4
2004	1,133	1,6
2005	1,440	1,8
2006	1,837	2,0
2007	2,131	2,0
2008	2,437	1,9

REMITTANCES - BALANCE OF PAYMENTS

	Millions of US$			Percentage change		
	2006	2007	2008	2006	2007	2008
1. United States of America	**854**	**941**	**991**	**32.7**	**10.1**	**5.3**
FTCs 1/	439	475	455	18.0	8.3	-4.2
Banks	416	466	536	52.8	12.1	15.0
2. Other countries	**623**	**817**	**999**	**32.1**	**31.2**	**22.2**
FTCs 1/	434	512	582	24.2	17.9	13.7
Banks	189	305	417	54.4	61.4	36.4
3. Other countries	355	372	448	9.4	4.8	20.2
TOTAL REMITTANCES BP (1+2+3)	**1,837**	**2,131**	**2,437**	**27.5**	**16.0**	**14.4**
FTC	873	987	1,037	21.0	13.1	5.1
Banks	605	771	953	53.3	27.5	23.5
Other contries	355	372	448	9.4	4.8	20.2

1/ Fund Transfer Companies.

Moreover, remittances from other South American countries have increased their share in terms of overall remittances from Peruvians living abroad. Thus, for example, remittances from Argentina, Chile, Venezuela, and Uruguay represent 9 percent of the overall remittances of Peruvian citizens residing abroad.

In contrast, about 80 percent of Mexican and Central American emigrants are concentrated in the United States. As a result of this, the slowdown of the U.S. economy has strongly affected the growth of remittances to said countries in 2007 and during 2008.

REMITTANCES: PARTICIPATION BY COUNTRY
(In percentage)

	2006	2007	2008
United States of America	46,0	44,1	40,8
Spain	13,4	15,1	15,3
Japan	11,4	9,7	9,4
Italy	5,1	6,0	6,2
Chile	3,3	3,8	4,3
Argentina	2,6	3,1	3,5
Venezuela	0,3	0,6	0,7
Uruguay	0,2	0,2	0,7
Other countries 1/	17,7	17,3	19,1
TOTAL	**100,0**	**100,0**	**100,0**

1/ Includes remittances not classified by countries (informal remittances).

Similarly, other country members of the Andean Community with important groups of migrants concentrated in specific countries have also been affected: remittances to Colombia have declined by 11.6 percent and remittances to Ecuador, by 8.6 percent. The former remittances come mainly from Spain (37 percent), United States (36 percent) and Venezuela (9 percent), while the latter come from the United States (46 percent), Spain (41 percent), and Italy (7 percent).

An additional characteristic of Peru's emigrants is associated with the types of activities they carry out abroad. According to information on the Peruvian Community living in the United States, collected by Peruvian Ministry of Foreign Affairs through a survey conducted in 2007, most of the Peruvians included in the survey work in the sectors of services (38.3 percent) and commerce (11.2 percent), or provide professional services (19.5 percent). This characteristic distinguishes Peruvians from Mexicans residing in the United States, since the latter are mainly engaged in activities in the construction and manufacturing sectors, which are the sectors most heavily affected today.

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8. Private sector financial account

The long-term financial account of the private sector amounted to US$ 7,657 million, with assets abroad accounting for US$ 207 million and liabilities with other countries accounting for US$ 7,450 million.

As regards assets, Peru's direct investment abroad amounted to US$ 729 million, a sum resulting from investments made by Peruvian firms in Brazil, Colombia, Venezuela, and the United States, mainly in the last quarter of the year. This was compensated by a US$ 936 million reduction of portfolio assets abroad, carried out mainly by non-banking financial firms.

On the other hand, liabilities increased by US$ 7,450 million in 2008. Direct foreign investment in the country, which amounted to US$ 4,808 million in the year, consisted of profit re-investments (US$ 2,884 million), capital contributions and other capital operations (US$ 1,760 million), and net loans with parent companies (US$ 164 million). It should be pointed out that direct foreign investment in the country in Q4-2008 was negative by US$ 515 million due to mining companies' loans to parent companies (US$ 820 million), which was in part offset by capital contributions (US$ 326 million).

TABLE 40
PRIVATE SECTOR FINANCIAL ACCOUNT
(Millions of US$)

	Millions of US$			Percentage change	
	2006	2007	2008	2007	2008
1. Assets	**- 1,885**	**- 1,053**	**207**	**44.1**	**119.7**
Direct Investment abroad	0	- 66	- 729	n.a.	- 1,011.2
Portfolio Investment abroad 1/	- 1,885	- 987	936	47.6	194.8
2. Liabilities	**3,826**	**10,200**	**7,450**	**166.6**	**- 27.0**
Foreign Direct Investment	3,467	5,491	4,808	58.4	- 12.4
Reinvestment	2,353	3,835	2,884	63.0	- 24.8
Capital inflows and other transactions	874	733	1,760	- 16.1	140.3
Net lending with headquarters	240	924	164	285.4	- 82.2
Portfolio Foreign Investment	155	1,386	241	792.0	- 82.6
Capital participation 2/	- 45	70	85	254.8	21.6
Other Liabilities 3/	200	1,316	156	556.9	- 88.1
Long-term loans	204	3,324	2,401	1,528.0	- 27.8
Disbursements	725	4,354	3,051	500.3	- 29.9
Amortization	- 521	- 1,030	- 650	- 97.7	37.0
3. TOTAL	**1,941**	**9,148**	**7,657**	**371.2**	**- 16.3**

1/ Mainly shares and other assets of the financial and non-financial sectors. The negative sign indicates an increase of assets.
2/ Considering non-residents net purchases of shares listed at Cavali S.A. and traded at the LSE (security compensation and settlement).
3/ Including bonds, credit notes and securitizations in net terms (issue-redemption).
Source: BCRP, Cavali S.A. ICLV, Agencia of Promocion of la Investment Private (Proinvestment) and companies.

Foreign portfolio investments in the country amounted to US$ 241 million, of which US$ 85 million was purchases of securities at the Lima Stock Exchange and US$ 156 million was investment in other papers issued in the country.

The net flow of long-term loans amounted to US$ 2,401 million. Among other loans to the mining, oil, industrial and service sectors, the IADB's financing to Peru LNG is worth pointing out.

Similarly, the flow of short-term capitals amounted to US$ 1,118 million in 2008, reflecting the evolution observed in the first half of the year. The flow of net external financing in Q4 was negative by US$ 2,213 million. Of this amount, US$ 856 million was non-residents' reduction of holdings of BCRP Certificates of Deposit.