

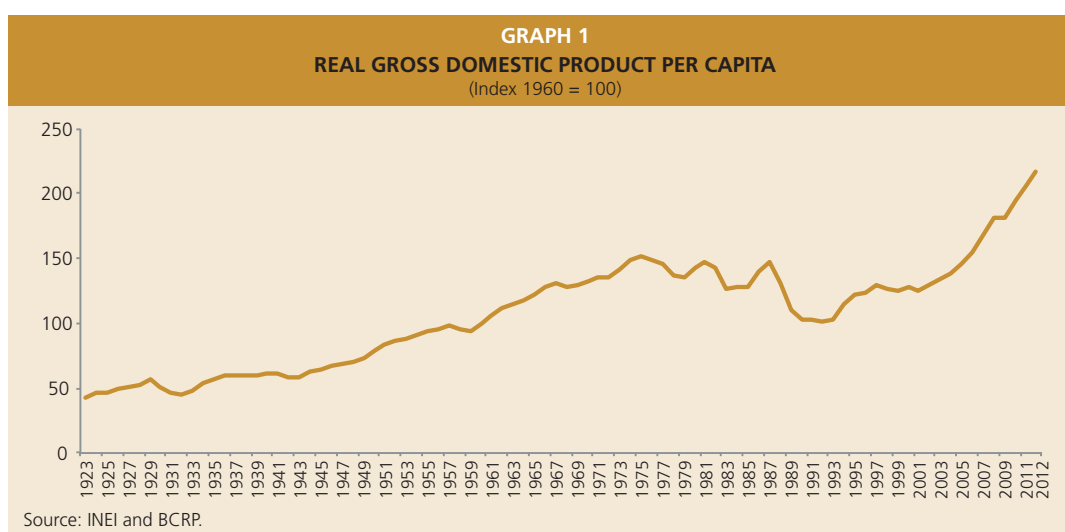
I.

Production and Employment

In 2012 the Peruvian economy grew 6.3 percent. This growth rate, which is lower than the one registered in 2011 (6.9 percent), but consistent with the economy's potential long-term rate of growth (around 6.5 percent), is mainly explained by the dynamism of domestic demand, which grew 7.4 percent, and particularly by the dynamism of public investment and private investment (which grew 13.6 percent and 20.8 percent, respectively). In a context of international uncertainty, this was partially offset by lower net exports.

A deceleration of growth was observed in both the primary and non-primary sectors. The primary GDP grew 1.7 percent (versus 4.8 percent in 2011), while the non-primary GDP grew 7.1 percent (versus 7.2 percent the previous year). In the case of the former, the lower rate of growth is explained mainly by the decline of activity in the fishing sector, while in the case of the latter the lower rate of growth is explained by a slowdown of activity in all the sectors, with the exception of construction. It is worth pointing out that much of the decline registered in non-primary manufacturing is explained by the drop of textile production for the external market.

Moreover, in 2012 per capita production registered a growth rate of 5.1 percent.





1. Domestic Demand

Showing a slightly higher growth rate than in 2011 (7.1 percent), domestic demand grew 7.4 percent in 2012. In terms of demand components, a moderation of growth was observed in private consumption, which declined from 6.4 percent in 2011 to 5.8 percent in 2012.

Private investment grew 13.6 percent –recording a higher rate than in the previous year (11.4 percent)–, mainly due to the dynamism of the construction sector which showed a remarkable recovery.

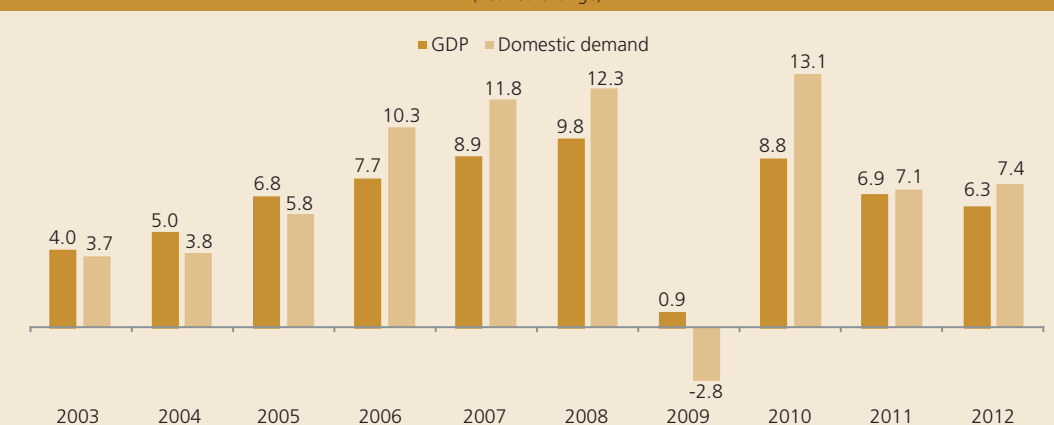
Public investment showed a significant growth compared to 2011, increasing from a drop of 18.0 percent to an increase of 20.8 percent due especially to the dynamism of investment expenditure in regional and local governments.

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

	2010	2011	2012	Average 2003-2012
Domestic Demand	13.1	7.1	7.4	7.2
a. Private consumption	6.0	6.4	5.8	5.5
b. Public consumption	9.7	6.1	10.5	7.3
c. Gross domestic investment	23.1	4.8	14.9	12.4
- Private	22.1	11.4	13.6	12.1
- Public	26.7	-18.0	20.8	13.9
d. Change of inventory (% of nominal GDP)	0.9	1.9	0.9	0.3
Exports	1.3	8.8	4.8	6.3
Minus:				
Imports	24.0	9.8	10.4	9.8
GDP	8.8	6.9	6.3	6.5
Note:				
Total public expenditure	15.9	-3.4	14.0	9.2

Source: INEI and BCRP.

GRAPH 2
GDP AND DOMESTIC DEMAND
(Real % change)



Source: INEI and BCRP.

1.1. Private Consumption

Showing a lower growth rate than in the previous year (6.4 percent), private consumption grew 5.8 percent in 2012. This moderation of growth in private consumption is consistent with the decline in the growth rates of the national disposable income (down from 7.2 percent in 2011 to 6.6 percent in 2012), urban employment (down from 5.4 to 4.0 percent in 2012), and consumer loans (down from 20.4 percent in December 2011 to 14.4 percent in December 2012). However, the pace of growth of private consumption remained stable at 5.8 percent since Q2-2012.

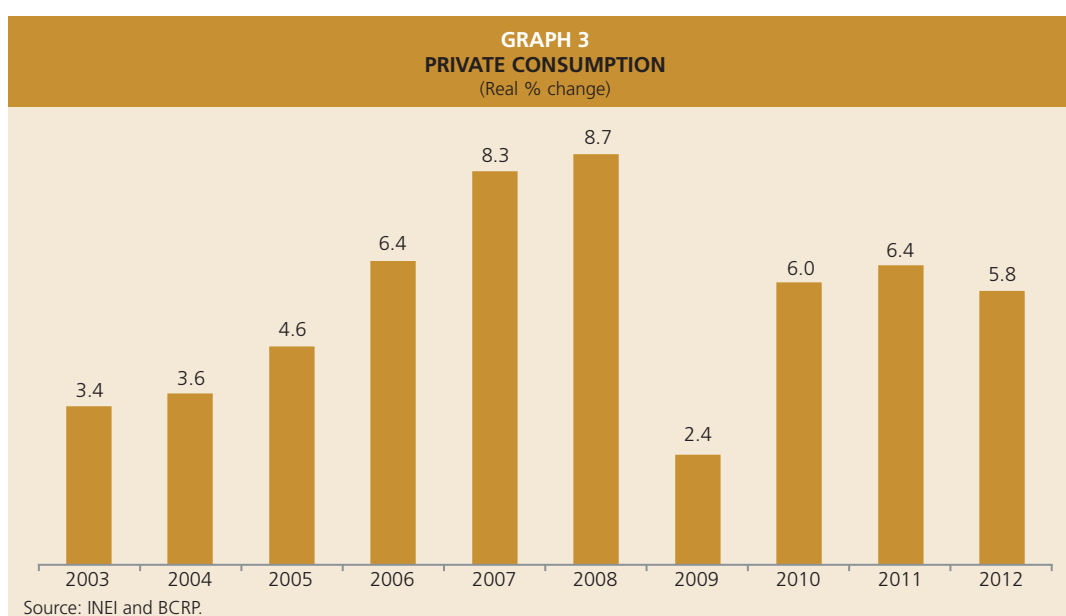
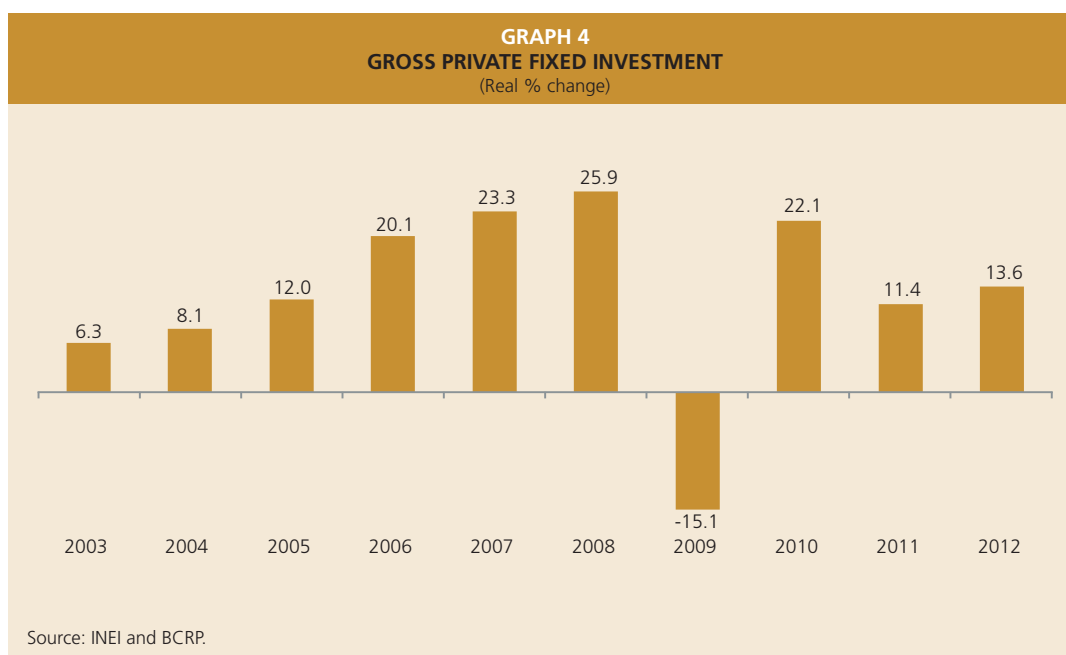


TABLE 2 NATIONAL DISPOSABLE INCOME 1/ (% change)				
	2010	2011	2012	Average 2003-2012
Gross domestic product	8.8	6.9	6.3	6.5
Gross national product 2/	7.6	6.1	8.2	6.0
Gross national income 3/	10.8	7.4	6.8	6.7
National disposable income 4/	10.5	7.2	6.6	6.7

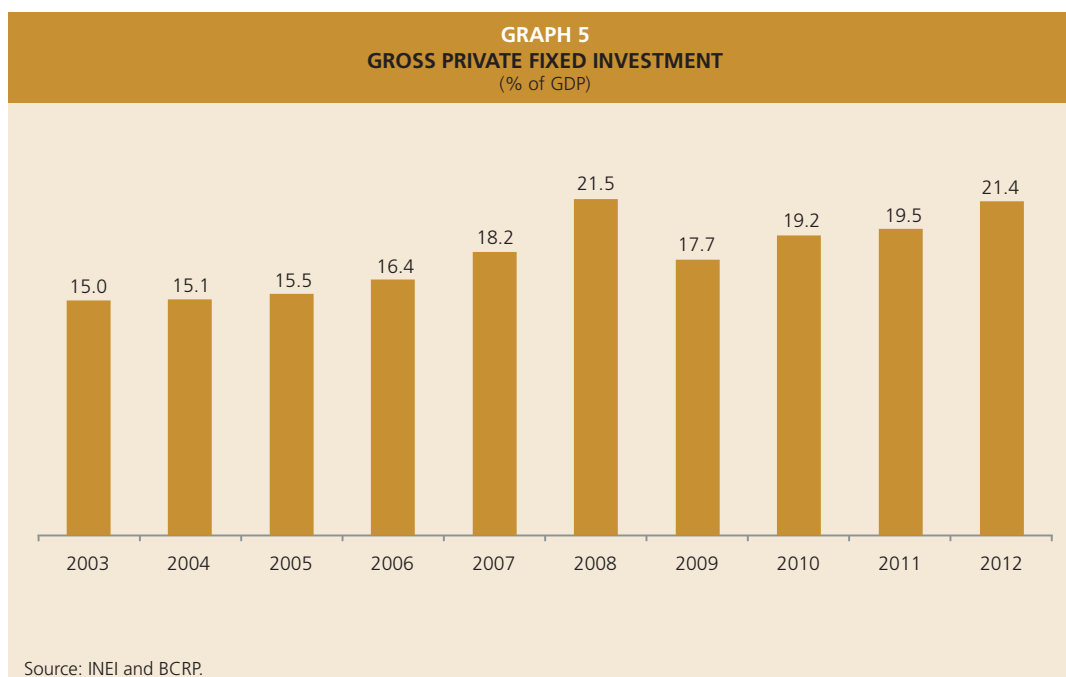
1/ Preliminary data.
2/ Excludes non-resident factor income from GDP.
3/ Includes losses and gains due to changes in terms of trade.
4/ Adds net transfers received by non residents to the gross national income.
Source: INEI and BCRP.

1.2 Private Investment

On the other hand, in 2012 private investment grew 13.6 percent. It should be pointed out that, except in 2009, private investment has been growing at two-digit rates since 2005 after having gone through an economic recovery based on the use of excess installed capacity in the previous years.



The growth of private investment in 2012 was higher than the growth of GDP for the third consecutive year, as a result of which the ratio of fixed gross investment to GDP rose from 19.5 percent in 2011 to 21.4 percent in 2012.



Significant investment was observed during the year in different sectors of the economy. Investments in the mining sector continued to be oriented to the development of new projects, as well as to the expansion and continuity of operations in existing projects. Chinalco Peru's Toromocho project and Xstrata's Las Bambas and Antapaccay projects are worth highlighting among the former, while Yanacocha, Antamina, and Cerro Verde stand out among the latter.

In the hydrocarbons sector, Pluspetrol Camisea continued with the expansion of the Malvinas and Pisco production plants, with an accumulated investment of US\$ 32 million in the year. Furthermore, Pluspetrol Lot 56 invested about US\$ 100 million in the construction of the pipeline connecting the area of Mipaya (Cusco) with the production plant and in the installation of compressors at the Pagoreni wells. These projects would be completed in Q1 and Q3 of 2013, respectively.

Investments worth pointing out in the manufacturing sector included the investment made by Gloria, which at December 2012 amounted to US\$ 65 million. This investment was in part used to improve the production plant of Huachipa and the yogurt plant in Arequipa. On the other hand, La Pampilla reported investments for a total of US\$ 10 million to develop the engineering details of the modernization of the refinery in order to adapt it to the new specifications of fuels, to complete the biological effluent treatment plant, to replace liquid fuels by natural gas, and to implement other minor maintenance operations. Quimpac also continued investing in the expansion of its plant in Callao and in the acquisition of equipment, with an investment of over US\$ 80 million in the year.

In the energy sector, Enersur invested over US\$ 30 million, of which a large part went to the thermal power plant of Chilca Uno to convert the plant which went into commercial operation in November 2012 into a combined cycle plant. On the other hand, Luz del Sur invested US\$ 130 million, of which US\$ 70 million was to improve the hydroelectric plant of Santa Teresa in Cusco.

Large real estate developments implemented during 2012 included the housing project "Ciudad Nueva" of Paz Centenario in Canta, Callao, as well as Graña y Montero's housing projects "Los Parques de Carabaylo", "Los Parques de El Agustino" and "Los Parques de Villa El Salvador" with a total of almost 3,000 apartments, and "Las Torres de Santa Clara" of Grupo Acuario with a total of 1,700 apartments.

Five new shopping malls –four of which are located in Metropolitan Lima– opened during the year, including Centro Comercial La Rambla San Borja and Mall Aventura Plaza Santa Anita (with investments of US\$ 100 million and US\$ 67 million, respectively). In addition to this, investments were also made to expand the Jockey Plaza's Boulevard, Plaza Norte at Independencia (Wong group), Real Plaza in Juliaca (Intercorp group), and Mall Aventura Plaza in Trujillo.



TABLE 3
INVESTMENT IN MALLS IN 2012

ECONOMIC GROUP	COMMERCIAL PROJECT	LOCATION	AMOUNT OF INVESTMENT (MILLION US\$)	STATUS
Grupo Breca	Centro Comercial La Rambla San Borja	Lima	100	Inaugurated
Grupo Aventura Plaza 1/	Mall Aventura Plaza Santa Anita	Lima	67	Inaugurated
Parque Arauco	Mega Plaza Chimbote	Áncash	28	Inaugurated
Parque Arauco	Mega Express Villa El Salvador	Lima	13	Inaugurated
Cencosud	Cencosud Shopping Center Miraflores	Lima	16	Inaugurated
Grupo Intercorp	Real Plaza Salaverry	Lima	120	In construction
Grupo Intercorp	Real Plaza Cusco	Cusco	63	In construction
Grupo Intercorp	Real Plaza Huánuco	Huánuco	53	In construction
Grupo Intercorp	Real Plaza Cajamarca	Cajamarca	40	In construction
Grupo Ekimed	El Quinde Shopping Plaza	Ica	80	In construction
Grupo Estructura	Las Malvinas Plaza	Lima	23	In construction
Parque Arauco	Mega Express Chíncha	Ica	12	In construction
Parque Arauco	Mega Express Barranca	Lima	12	In construction
Parque Arauco	Mega Express Cañete	Lima	12	In construction
Grupo Breca	Paso Huánuco	Huánuco	10	In construction
Penta Realty Group	Penta Mall Mansiche	La Libertad	10	In construction

1/ New mall projects developed by Mall Plaza, Falabella y Ripley groups.
Source: Colliers International and news media.

Finally, investments in the hotel industry included the development of new projects such as the JW Marriott Cusco (US\$ 56 million), the Hilton Lima Miraflores (US\$ 45 million), and Palacio Nazarenas in Cusco by Orient Express (US\$ 16 million). Other hotel projects included the Decameron Punta Sal (US\$ 30 million) and hotel San Agustín in Paracas, which began operations in December 2012 (with an investment of US\$ 9 million), as well as the works carried out at Best Western's Premier Vista Pacífico Resort in Cañete, which would require a total investment of US 30 million, and Inkaterra Urubamba with a total investment of US\$ 4 million.

1.3 Public Expenditure

Reflecting the greater investment of the general government and state-owned enterprises which increased 20.9 and 40.9 percent, respectively, public spending grew 14.0 percent in 2012, coupled by a growth of public consumption of 10.5 percent. These results were in part associated with the publication of Law 29914 in September, which established public spending measures to encourage and improve the effectiveness of spending.

Increased current expenditure was registered in the following sectors:

- Defense (real growth of 13 percent). Increased funding was allocated to this sector for interventions in areas of the Valley of the Apurimac, Ene and Mantaro rivers (VRAEM), and for training, border surveillance, and units maintenance actions.
- Transport and Communications. Most of the sector's resources were used in road maintenance and repair.
- Health (real growth of 22 percent): Expenditure was increased to supervise the maintenance of health infrastructure facilities, the National comprehensive cancer health care program, and to improve access to health care for cancer and rare diseases.
- Education: About 60 percent of this increased spending was used to contract professional and technical services and to pay for administrative service contracts (CAS).
- Economy (Expenditure increased by a real 15 percent): Due mainly to the higher payments made by SUNAT to meet the tax pressure goal and the implementation of new offices to serve taxpayers.
- Justice, Judiciary, and Public Prosecutor's Office (growth of 10, 4, and 20 percent, respectively): Due to the higher costs associated with the implementation of the New Criminal Code.
- Presidency of the Council of Ministers (real growth of 33 percent): Due mainly to the cost of carrying out the IV Censo Nacional Agropecuario and collecting information through the Sistema de Focalización de Hogares (SISFOH).
- Interior (real growth of 9 percent): Due to higher spending in fuel and maintenance of police stations and vehicles.
- Agriculture (real growth of 7 percent): Due to increased funding allocated to pay professional services and administrative service contracts (CAS), as well as due to increased spending at Autoridad Nacional del Agua, Servicio Nacional de Sanidad y Calidad Agroalimentaria (SENASA), and the Ministry of agriculture.
- Housing (real growth of 12 percent): Due to the implementation of citizen service centers and the management of Programa de Apoyo al Hábitat Rural.

As for public investment, the sectors which recorded higher expenditure were:

- Transport: Due to road concession projects, the Electric Train project, and road rehabilitation projects.
- Education: Improvement of education infrastructure and educational quality.
- Health: Improvement and equipping of hospital emergency services.
- Agriculture: Improvement of irrigation infrastructure and preservation of natural resources.
- Electricity: Installation of small electricity systems in different villages.
- Justice: Improvement of the administration of justice services.
- Housing: National Drinking Water and Rural Sanitation Program.

1.4 Exports and Imports

In a context of deceleration in the growth of world trade, exports of goods and services grew 4.8 percent in 2012 (versus 8.8 percent in 2011). A weak evolution of exports was observed during the year due to lower shipments of traditional exports (0.2 percent), such as coffee and gold, while the non-traditional exports grew 9.0 percent in terms of volume.



Imports grew 10.4 percent as a result of increased imports of consumer goods and non-financial services, which recorded growth rates of 19.4 and 13.7 percent, respectively.

1.5 Savings and Investment

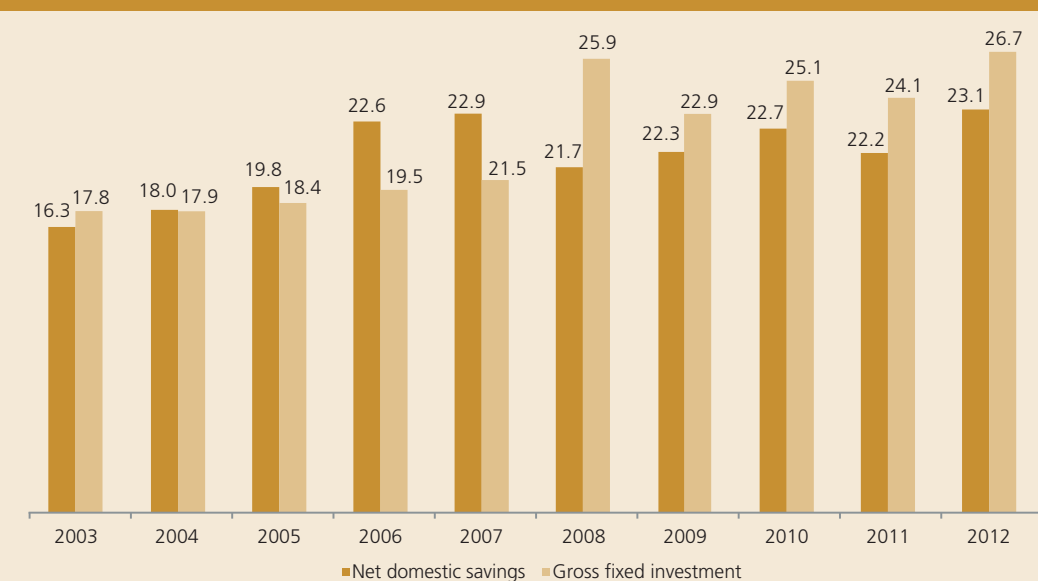
In 2012, favored by a good business climate and an optimistic outlook for the economy of both consumers and entrepreneurs, gross fixed investment increased from 24.1 to 26.7 percent of GDP, while net domestic savings increased from 22.2 to 23.1 percent of GDP. Given that the increase in investment was higher than that of domestic savings, the gap was covered with external savings (deficit in the current account of the balance of payments). Thus, foreign savings increased from a level of 1.9 percent of GDP in 2011 to 3.6 percent in 2012.

TABLE 4
SAVINGS AND INVESTMENT
(% of GDP)

	2010	2011	2012
I. Gross fixed investment	25.1	24.1	26.7
Public investment	5.9	4.5	5.2
Private investment	19.2	19.6	21.5
II. Net domestic savings 1/	22.7	22.2	23.1
Public sector	6.0	7.1	7.8
Private sector	16.7	15.1	15.3
III. External savings	2.4	1.9	3.6

1/ Excludes changes in inventories.
Source: BCRP.

GRAPH 6
SAVINGS AND INVESTMENT
(% of GDP)



2. Production Sectors

During 2012 non-primary sectors grew 7.1 percent –a result consistent with the dynamism of domestic demand–, while primary sectors registered a lower growth rate than in 2011 (1.7 versus 4.8 percent) due mainly to supply factors.

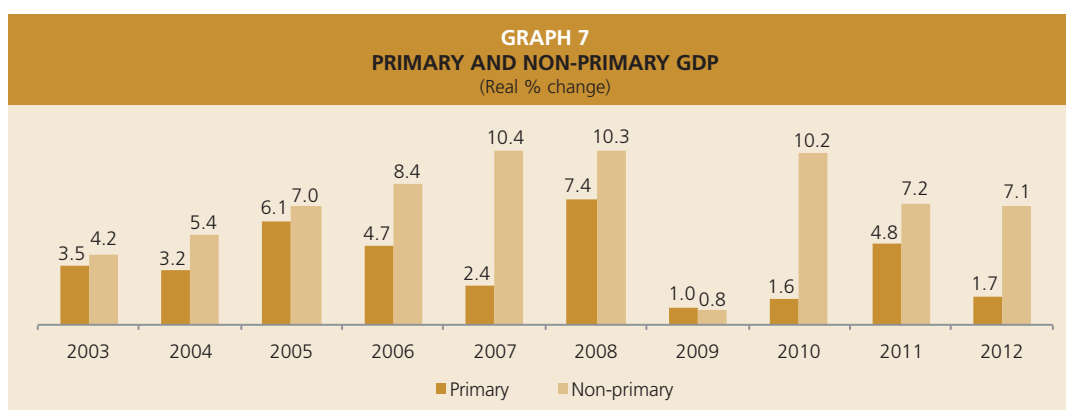


TABLE 5
GROSS DOMESTIC PRODUCT
(Real % change)

	Pond. 2011	2010	2011	2012	Average 2003-2012
Agriculture and livestock	7.2	4.9	4.2	5.1	4.2
Agriculture	4.3	5.3	3.2	5.2	3.6
Livestock	2.3	4.3	5.6	4.9	5.2
Fishing	0.4	-12.2	31.8	-11.9	2.8
Mining and hydrocarbons	4.9	-0.1	-0.2	2.2	3.3
Metallic mining	3.7	-4.8	-3.2	2.1	2.1
Hydrocarbons	0.7	29.5	18.1	2.3	11.0
Manufacturing	14.8	14.1	5.6	1.3	5.8
Manufacturing based on raw materials	2.6	-1.6	13.1	-6.5	2.8
Non-primary manufacturing	12.0	17.3	4.3	2.8	6.5
Electricity and water	2.0	7.7	7.4	5.2	5.8
Construction	6.5	17.4	3.0	15.2	10.6
Commerce	15.2	9.7	8.8	6.7	7.3
Other 1/	48.9	7.7	8.1	7.3	6.7
GLOBAL GDP	100.0	8.8	6.9	6.3	6.5
Primary	15.2	1.6	4.8	1.7	3.6
Non-Primary	84.8	10.2	7.2	7.1	7.1

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

2.1 Agriculture

The agriculture sector grew 5.1 percent in 2012, with export-oriented products showing a different conduct from that of agricultural products for the domestic market. The former showed a more moderate pace of growth than in the previous year, whereas the latter, including both agricultural and livestock products showed a stronger dynamism than the one observed in previous years.



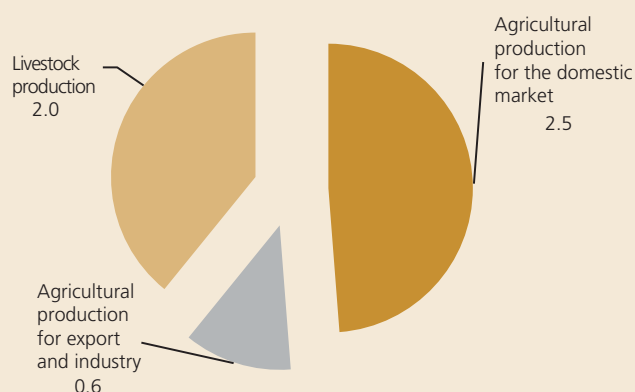
TABLE 6
AGRICULTURE AND LIVESTOCK PRODUCTION
(Real % change)

	2010	2011	2012	Average 2003-2012
Agricultural production	5.3	3.2	5.2	3.6
For the domestic market	2.2	0.8	6.1	3.2
Potato	1.1	7.0	9.8	3.1
Rice	-5.3	-7.3	14.3	3.6
Banana	7.5	-6.6	4.6	2.3
Cassava	6.4	-10.0	0.5	2.3
Amilaceous maize	-9.9	-0.7	9.3	1.0
Garlic	8.6	40.5	-7.2	2.7
Onion	19.5	0.4	6.7	5.3
Dry beans	-5.9	-5.3	4.2	3.9
Lemon	12.6	-3.6	3.9	-0.9
Mandarine	33.3	6.8	18.8	7.7
Orange	4.5	6.1	1.3	3.8
Tomato	1.5	-17.3	3.2	3.9
Other crops	2.7	1.8	3.7	3.4
For export and industry	13.5	9.2	3.4	4.4
Coffee	14.7	17.5	-7.3	3.6
Sugar cane	-0.8	0.3	4.9	2.1
Yellow maize	0.8	-1.8	10.8	3.0
Asparagus	6.8	17.0	6.0	8.5
Grapes	6.1	5.9	21.1	10.3
Olive	946.5	-2.6	26.6	11.0
Mango	172.0	-22.5	-52.4	-0.7
Cocoa	26.7	6.7	16.3	9.0
Avocado	17.1	15.9	17.1	10.3
Cotton	-33.6	91.4	-8.8	-2.3
Oil palm	8.8	23.3	44.1	11.6
Other crops	2.2	19.3	10.5	-1.4
Livestock production	4.3	5.6	4.9	5.2
Poultry	5.8	6.4	7.8	7.7
Beef	4.4	4.0	2.7	3.2
Milk	1.6	4.0	2.4	4.1
Other products	2.7	5.7	1.8	2.9
AGRICULTURE AND LIVESTOCK	4.9	4.2	5.1	4.2

Source : MINAG.

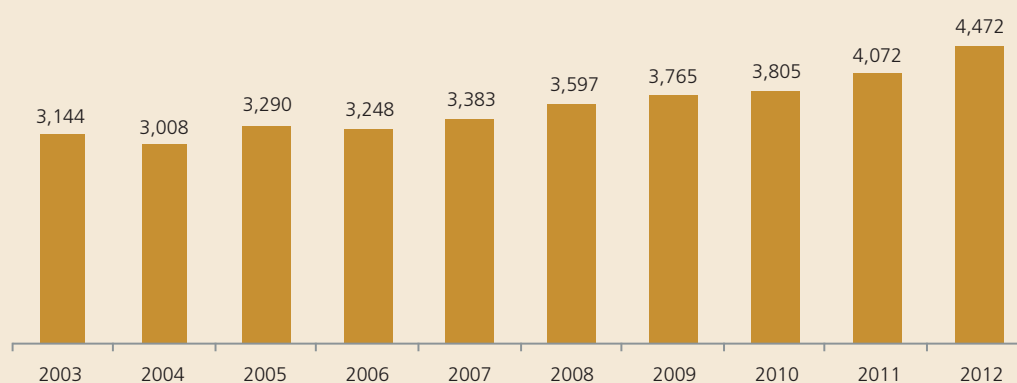
The agricultural production for the domestic market grew 6.1 percent in 2012. This growth was led by a higher production of potato and husk rice.

GRAPH 8
CONTRIBUTION TO THE GROWTH OF THE AGRICULTURE SECTOR
 (% points)



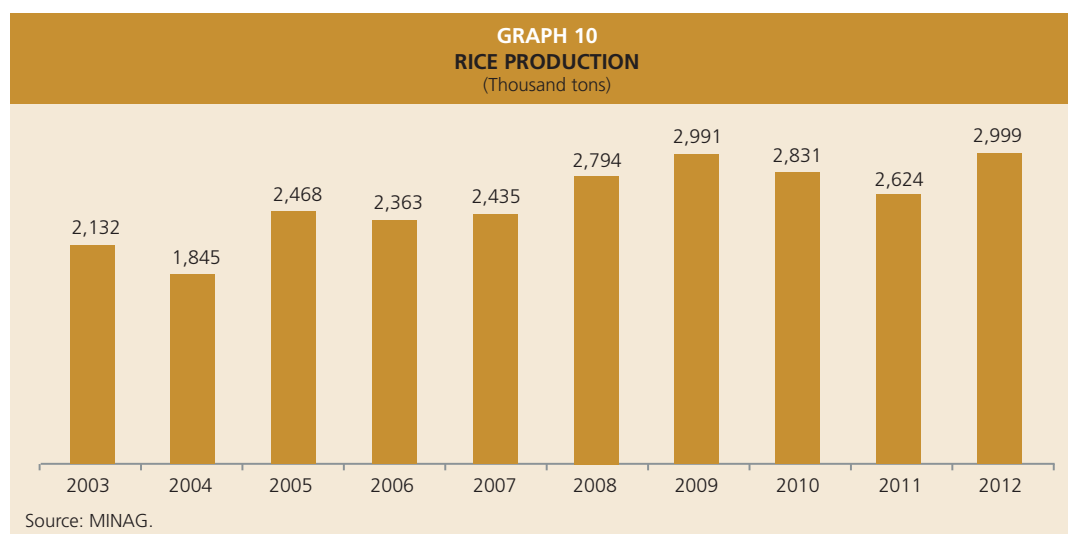
Potato production, which grew 9.8 percent, accumulated six consecutive years of growth and recorded a historic volume of 4.5 million tons harvested. This growth was basically observed in 17 of the country's 24 departments, mostly in the Sierra region, which harbors nearly 95 percent of potato- cultivated areas, and reflected an increase in both harvested areas and yields (about 4 percent).

GRAPH 9
POTATO PRODUCTION
 (Thousand tons)

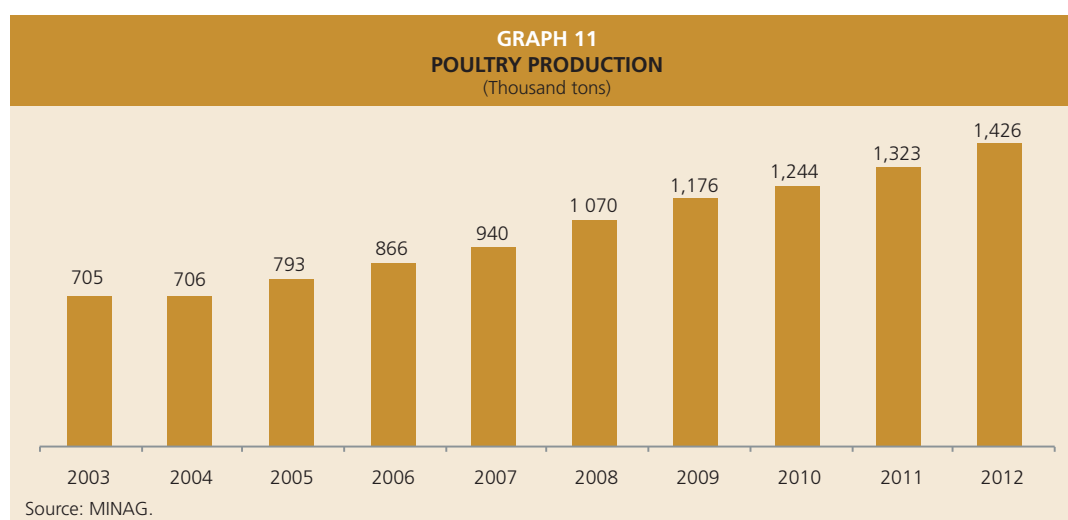


Source: MINAG.

Similarly, after having declined in the two previous years, rice production grew 14.3 percent in 2012. This result is derived from the fact that both the harvested areas and yields increased as a result of the normalization of the rain cycle in Piura, which had been altered in 2011 due to the occurrence of "La Niña" event. The harvested areas increased by 28.8 thousand hectares, with Piura accounting for 73.6 percent of this result, while the yield increased from 7.2 to 7.7 tons per hectare between 2011 and 2012.



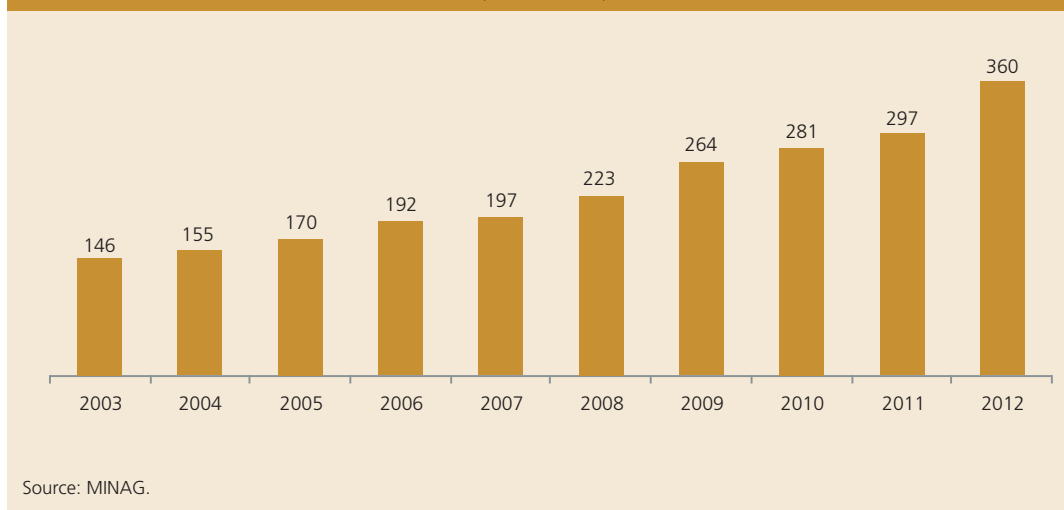
Livestock production, which grew 4.9 percent in 2012, accounts for 39 percent of the growth of the agriculture sector. The increase in livestock production is explained by a higher production of poultry meat, which grew 7.8 percent recording a rate close to its average annual growth rate in recent years due to the higher demand associated with the improvement of the population's purchasing power.



Finally, showing a significantly lower rate than the one registered in previous years, agricultural production for the external market and agro-industry grew 3.4 percent. This lower growth is associated with the fact that the higher production of grapes and hard yellow maize was offset by a lower production of coffee and mango.

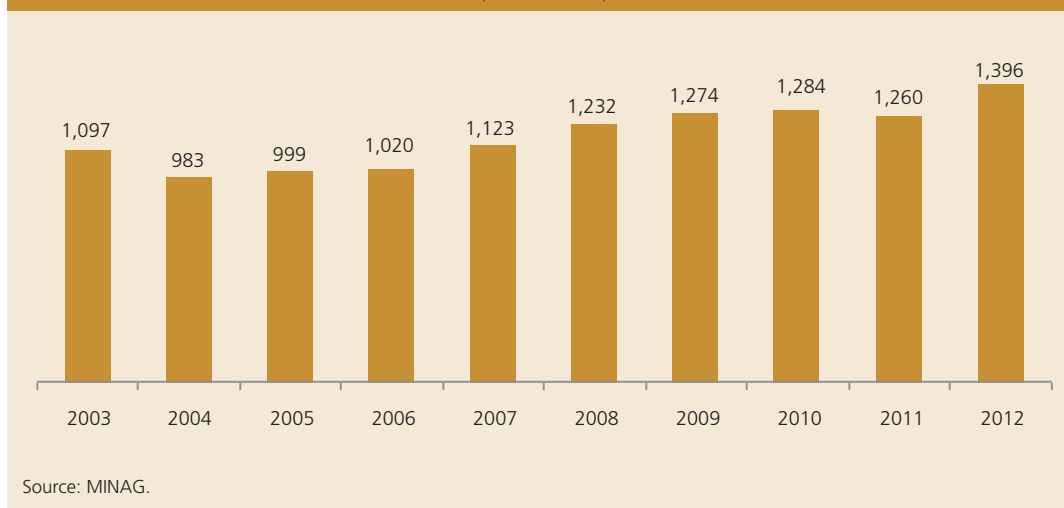
As a result of the consolidation of increased cultivated areas in Piura and Ica, the production of grapes grew 21.1 percent. Between 2008 and 2011 the number of hectares of land cultivated with grapes increased by nearly 4,500 hectares and the production of this land was added to this year's yield. Together with a much better yield than the world average yield (about 18 tons per hectare), this growth of cultivated areas promises good prospects for the development of this crop.

GRAPH 12
GRAPE PRODUCTION
(Thousand tons)

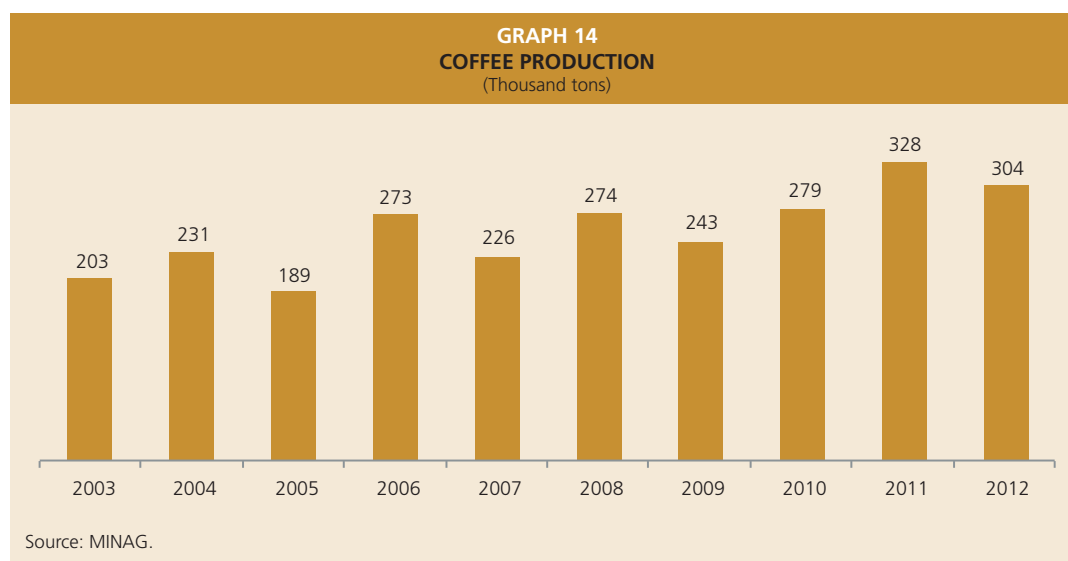


The production of hard yellow maize recorded an increase of 10.8 percent. This growth is associated with the development of poultry production since this product is a main input in bird breeding. The increased demand for hard yellow maize was concentrated in Lima, which is the largest poultry producer in the country.

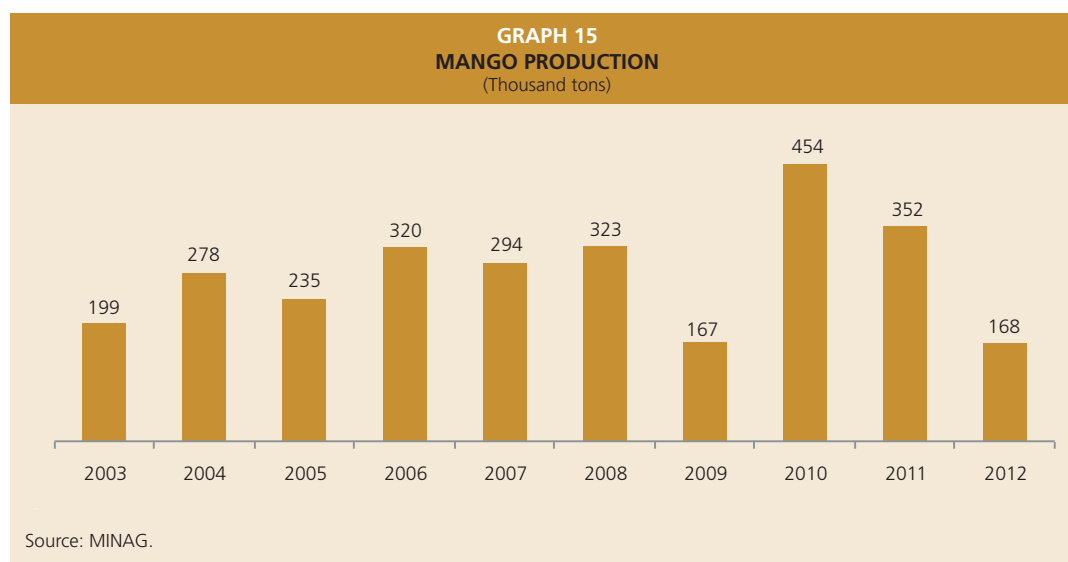
GRAPH 13
YELLOW MAIZE PRODUCTION
(Thousand tons)



After two years of growth, coffee production fell 7.3 percent in 2012 due to a yield reduction and to coffee's period of crop rotation following two crop years in which coffee recorded historical levels of production.



The fall in the production of mango (-52.4 percent) is explained by a statistical effect associated with the good production obtained in 2011. This is explained by the fact that the production of this fruit was favored by climate changes associated with “La Niña” event, which raises the yield of this crop.



2.2 Fishing Sector

In 2012, activity in the fishing industry showed a contraction of 11.9 percent due to a lower extraction of anchovy for industrial use during the second fishing season in the North-Central area. Despite this, a greater catch of species for human consumption, especially of species consumed as fresh fish, was observed in this period.

TABLE 7
FISH CATCH BY DESTINATION
(Real % change)

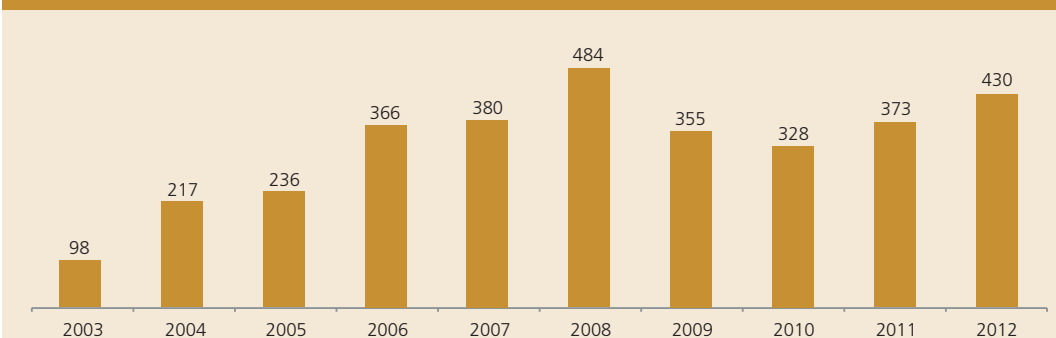
	2010	2011	2012	Average 2003-2012
Human consumption	-3.0	19.3	1.2	6.6
Canned	19.8	6.5	-39.9	1.7
Fresh	4.4	33.0	-5.3	13.6
Frozen	-16.2	0.4	26.9	1.8
Dry-salted	-3.0	5.9	-34.2	-7.4
Industrial consumption	-42.9	110.3	-48.4	-7.8
Anchovy	-42.9	110.2	-48.4	-7.7
FISHING SECTOR	-12.2	31.8	-11.9	2.8

Source: Ministry of Production.

Fishing for human consumption grew 1.2 percent, favored by the increased presence of species intended for consumption as fresh fish, such as bonito, mackerel, mullet, and mahi-mahi.

The catch of squid for the elaboration of frozen products which reached a volume of 430.1 thousand tons, showed the highest positive contribution to the growth of the sector (2.7 percent) during the year, higher than the previous three year. The lower catch of jack mackerel, mackerel and hake; as well as by a lower catch of species used for canned products (39.9 percent) was due to the reduced availability of jack mackerel, mackerel, and tuna.

GRAPH 16
CATCH OF GIANT SQUID TO PRODUCE FROZEN PRODUCTS
(Thousand tons)



Source: Ministry of Production.



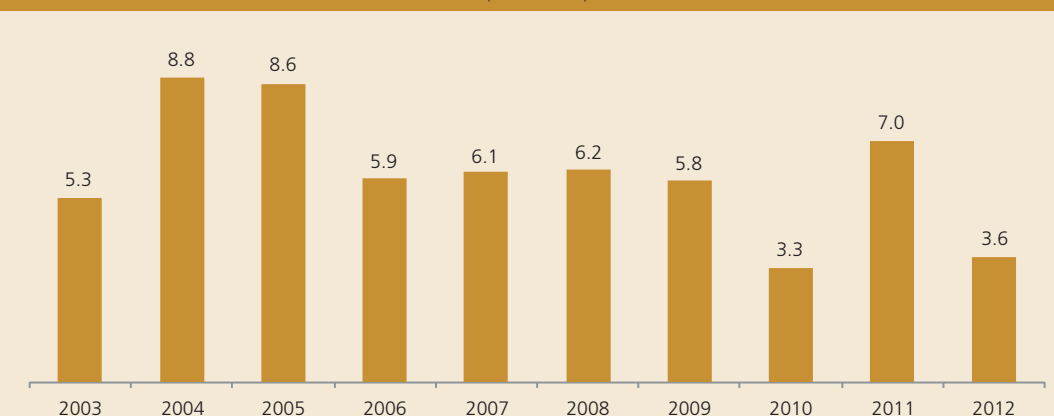
TABLE 8
FISH CATCH BY MAIN SPECIES
(Real % change)

Species	2010	2011	2012	Average 2003-2012
Anchovy	-42.9	110.2	-48.4	-7.7
Jack mackerel	-77.9	1,452.5	-29.0	1.8
Prawns	21.9	61.5	-9.0	19.4
Giant Squid	-7.8	13.9	15.2	15.9
Mackerel	-84.3	151.8	-54.3	-2.4
Hake	-13.0	-8.5	-22.1	-4.5
Scallops	137.3	48.1	-71.1	13.3
Other species	-7.2	-7.2	15.3	3.6

Source: Ministry of Production.

Due mainly to the lower quota of anchovy catch established in the second fishing season of 2012, the extraction of anchovy for industrial consumption amounted to 3.6 million tons (48.4 percent less than in 2011).

GRAPH 17
ANCHOVY EXTRACTION FOR INDUSTRIAL CONSUMPTION
(Million tons)



Source: Ministry of Production.

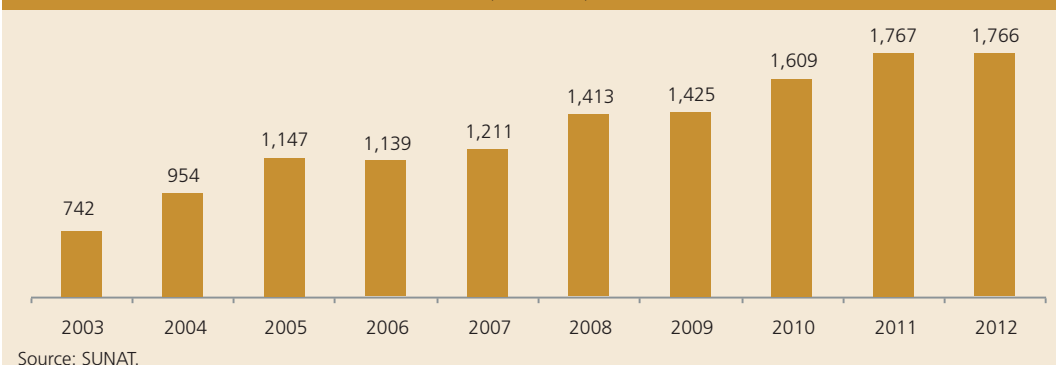
The first fishing season for anchovy in the North-Central area, which is the area with higher levels of anchovy catch and anchovy fishing quota, started on April 25 and finished in the end of July. The quota established in 2012 was 2.7 million tons, 1.0 million tons lower than the one registered in 2011. There a quota of only 810 thousand tons for the second fishing season in the North-Central.

TABLE 9
FISHING SEASONS
(Thousand tons)

	2011		2012	
	South	North-Central	South	North-Central
First season	400	3,675	400	2,700
Second season	400	2,500	0	810
Year	6,975		3,910	

Source: Ministry of Production.

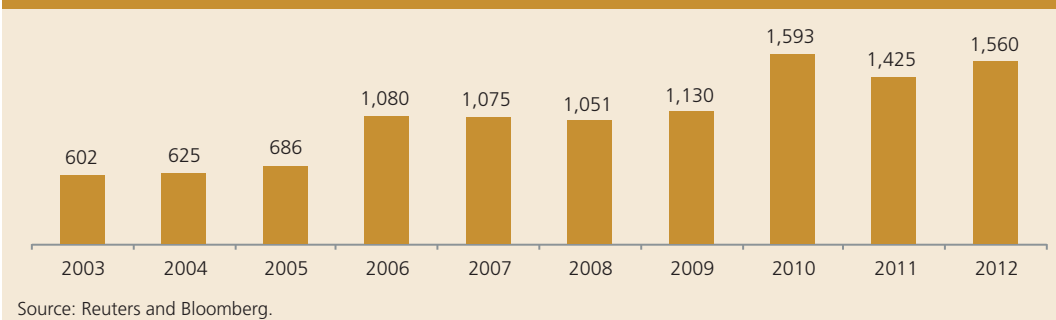
GRAPH 18
FISHMEAL EXPORTS
(Million US\$)



With similar levels to those observed in 2011 and moderating the growing trend of recent years, fishmeal exports amounted to US\$ 1.76 billion in 2012. Exports as well as production concentrated between the months of June and July and were mainly oriented to the Asian market.

On average the price of fishmeal increased compared to the price observed in 2011 due to the lower availability of anchovy, which is its main input of fishmeal. During the year, the price of fishmeal ranged from a maximum of US\$ 2,023/ton in December to a minimum of US\$ 1,229/ton in January.

GRAPH 19
AVERAGE PRICE OF FISHMEAL
(US\$ per ton)





2.3 Mining and hydrocarbons sector

Production in the mining and hydrocarbons sector registered a growth rate of 2.2 percent in 2012, a lower result than the average growth rates recorded in the past ten years (3.3 per cent). The declining trend observed in metal mining since 2009 due to the aging of deposits was reversed as a result of the implementation of expansion projects in some copper and multi-metal units, which contrasted with the lower production of gold resulting mainly from the measures implemented to reduce informal gold mining.

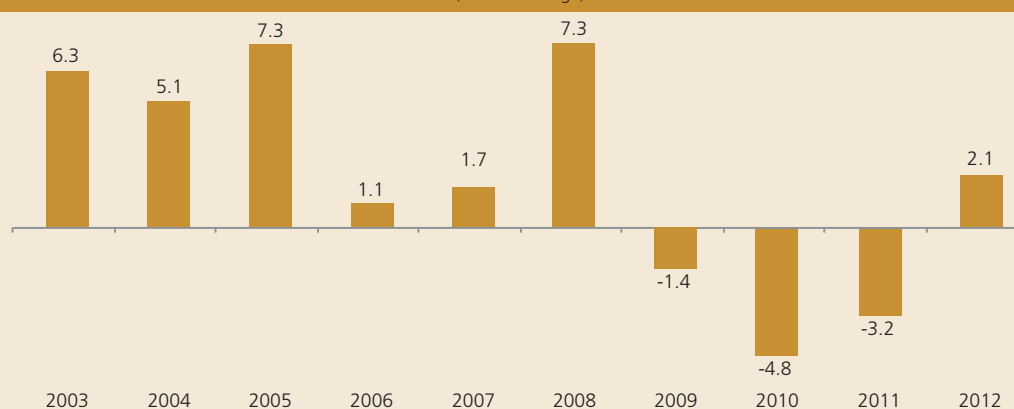
Higher production in metal mining (2.1 percent) was also coupled by the growth of the subsector of hydrocarbons (2.3 percent). However, in contrast with previous years when Camisea's increased production of natural gas for the external market accounted for the expansion of the sector, in 2012 the sector's growth was associated with the extraction of this resource for the domestic market.

TABLE 10
MINING AND HYDROCARBONS PRODUCTION
(Real % change)

	2010	2011	2012	Average 2003-2012
Metallic Mining	-4.8	-3.2	2.1	2.1
Gold	-10.8	0.1	-2.9	0.2
Copper	-1.7	0.1	9.4	5.7
Zinc	-2.8	-14.6	2.0	0.4
Silver	-7.2	-6.1	1.8	2.0
Lead	-13.4	-12.1	8.0	-2.0
Tin	-9.7	-14.7	-9.6	-3.9
Iron	36.7	16.0	-4.7	8.1
Molybdenum	37.9	12.8	-12.3	6.9
Hydrocarbons	29.5	18.1	2.3	11.0
Liquid hydrocarbons	8.2	-2.8	0.4	4.7
Natural gas	104.0	56.9	4.4	39.0
TOTAL	-0.1	-0.2	2.2	3.3

Source: INEI, Ministry of Energy and Mining and Perupetro.

GRAPH 20
PRODUCTION OF THE METALLIC MINING SUB SECTOR
(Real % change)

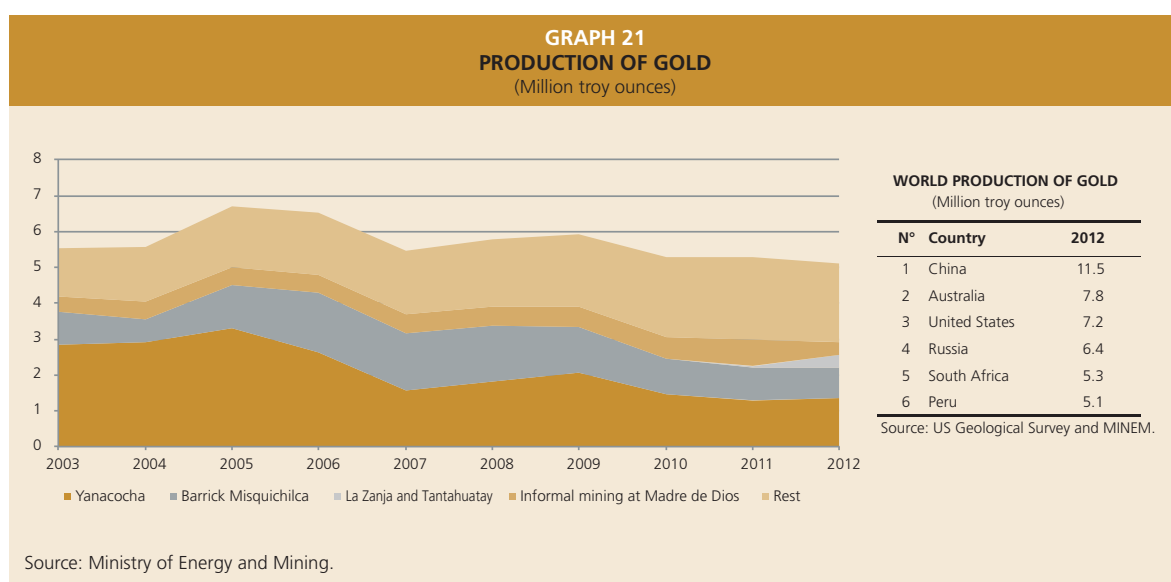


Source: Ministry of Energy and Mining.

The extraction of gold dropped 2.9 percent in 2012, declining from 5.3 to 5.1 million troy ounces. The production of this metal was affected mainly by lower recorded activity in Madre de Dios following the measures implemented by the government to formalize gold production¹. Barrick Misquichilca's production fell 5.5 percent, while Yanacocha's production remained at similar levels to those observed in 2011 (1.3 million ounces).

This result was partially offset by the onset of operations at project La Arena de Río Alto (La Libertad), which had a production of 200 thousand ounces, as well as by the contribution of Tantahuatay (139 thousand ounces).

Peru remained as the largest producer of gold in Latin America and as the sixth largest producer in the world, with a contribution of 6 percent to the world production of gold.

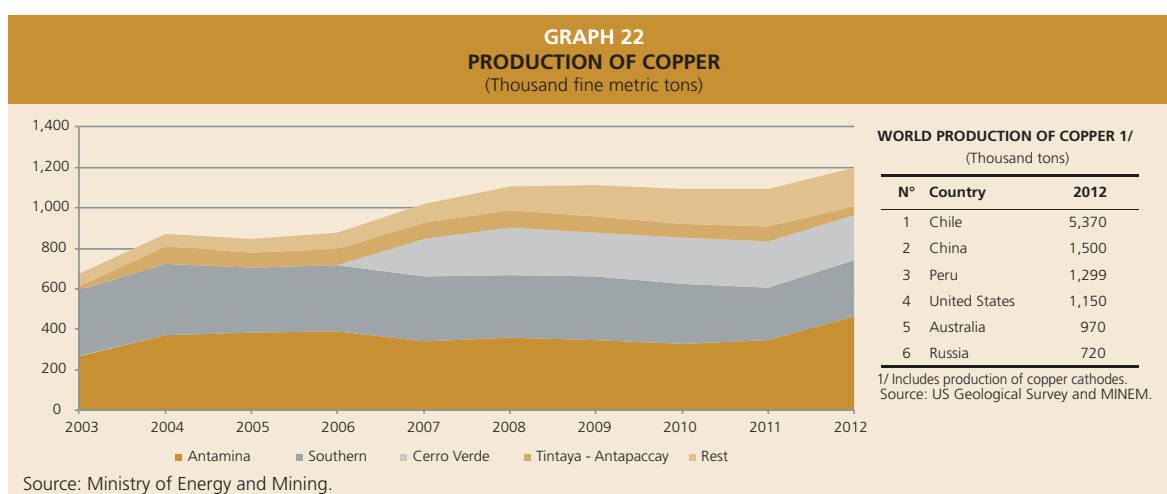


After showing two consecutive years of contraction, copper production grew 9.4 percent in 2012 with a production that reached 1.3 million fine metric tons (MFT) and contributed to the growth of the sector with 2.4 percentage points. This result was mainly favored by the start-up of Antamina's expansion project at the beginning of the year, which allowed this mining company to consolidate its position as the largest copper producer in the country with a production of 463 tons. For its part, Southern's production grew 7.1 percent mainly as a result of the investments made in its Cuajone unit with the aim of improving the fine mineral content² of extracted mineral ore. In contrast, Xstrata's production at Tintaya dropped from 74 thousand fine metric tons (FMT) in 2011 to 38 thousand FMT in 2012 due to the ageing of this mine, while Antapaccay initiated operations in November and obtained a production of 5 thousand FMT in the year.

Thus, Peru remained as the second largest producer of copper in Latin America, after Chile (5.4 million FMT), but was moved to the third place worldwide by China which reached a production of 1.5 million FMT.

¹ The informal production of gold in Madre de Dios registered by the Ministry of Energy and Mining declined from 723 thousand ounces in 2011 to 367 thousand ounces in 2012.

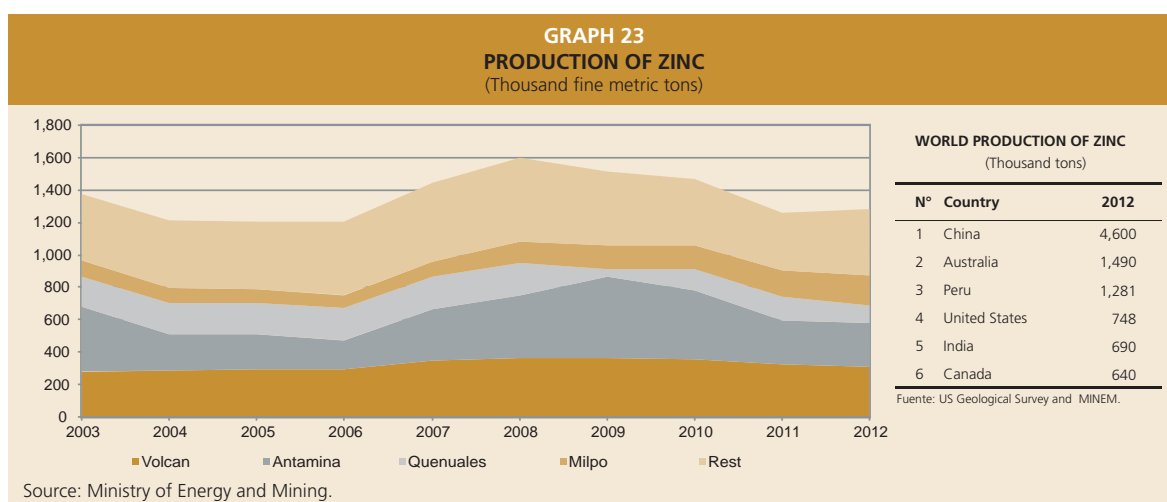
² Mineral with a fine content of mineral used in the concentration process.



The production of zinc grew 2.0 percent in 2012, from 1.26 million FMT in 2011 to 1.28 million FMT in 2012. This result reflects the performance of Milpo, whose production went from 161 thousand tons in 2011 to 186 thousand tons in 2012 (15.3 percent increase) due to the expansion of production capacity at its unit of Cerro Lindo (Ica) from 10 thousand tons per day (tpd) to 15 thousand tpd, as well as due to the expansion of production capacity at its unit El Porvenir (Pasco) from 5.1 to 5.6 thousand tpd.

On the other hand, despite having registered a greater volume of treated ore, Volcan's production of zinc dropped 6.5 percent due to the lower mineral content of processed ore, especially in the concentrator plants of Chungar and Cerro de Pasco. Nonetheless, Volcan remains the largest zinc producer in the country with 306 thousand FMT, followed by Antamina with 270 thousand tons.

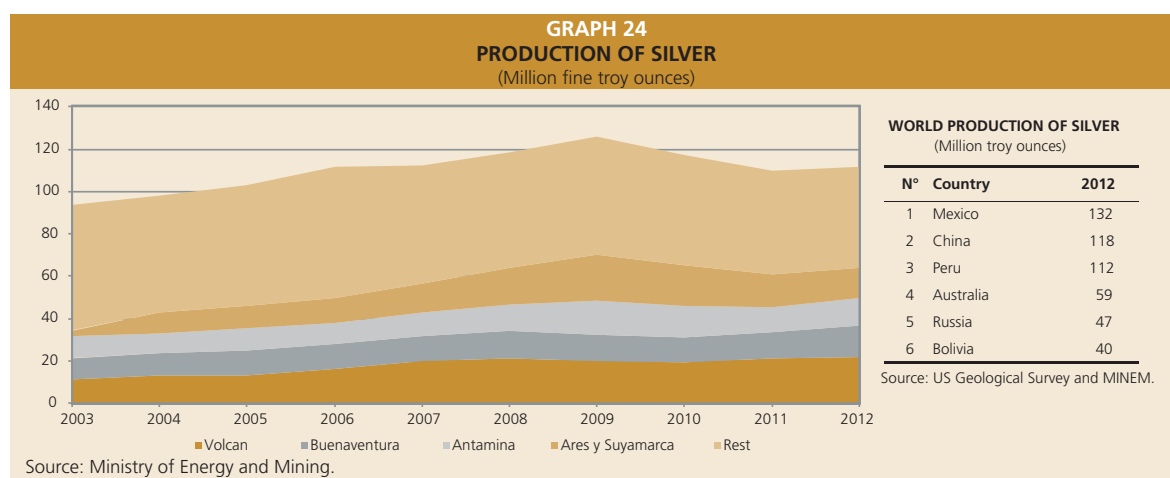
Peru remained as the largest producer of zinc in Latin America and third in the world, with a share of 10 percent in terms of the global output. China and Australia rank first and second in terms of global production, with a production of 4.6 million tons and 1.5 million tons, respectively.



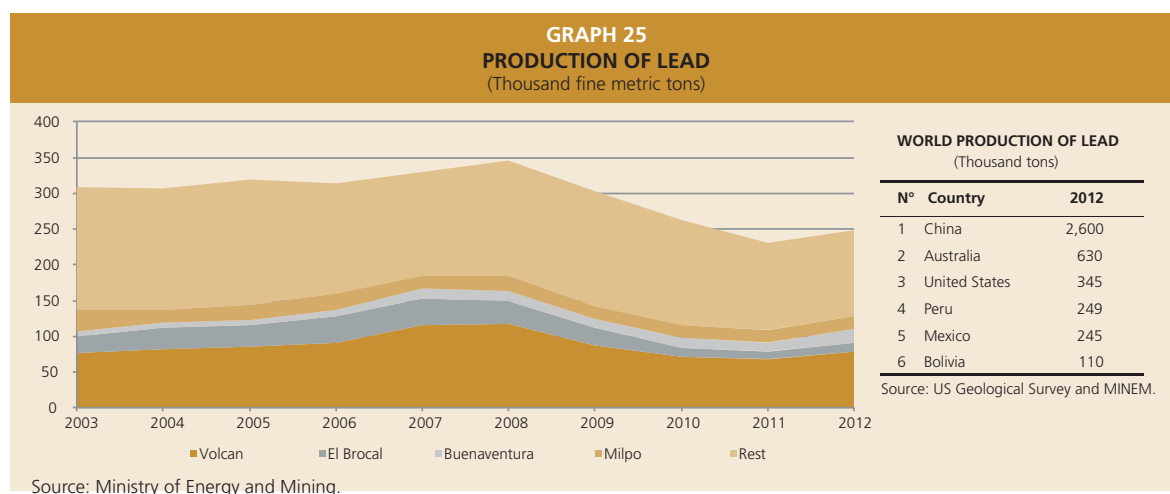
The production of silver grew 1.8 percent to 112 million ounces, favored by Buenaventura's increased activity in its units of Uchucchacua (Pasco), Mallay (Lima), and Breapampa (Ayacucho). It should be pointed out that the Mallay unit which began operations in May 2012 registered a production of 646 thousand

ounces, while Breapampa which started operations in December recorded a production of 14 thousand ounces. Other factors that contributed to this growth included the expansion carried out by Antamina in its concentrator plant, as well as the production of Tantahuatay unit (Cajamarca) which began operating in August 2011. This increased production contrasted with the lower production registered by Minera Ares and Minera Suyamarca in their units of Arcata (Arequipa) and Pallancata (Ayacucho), respectively.

With this level of production, Peru ranks third as world producer of silver after Mexico (132 million ounces) and China (118 million ounces).



Contrasting with the two-digit declines registered between 2009 and 2011, the production of lead grew 8.0 percent in 2012. This result reflects Volcan's increased production due to the greater mineral content of the ore and the higher tonnage treated as well as the onset of operations at Buenaventura's Mallay project, which obtained a production of 4.4 thousand tons. It should be pointed out that with the 249 thousand tons produced in 2012, Peru ranks fourth among the world's largest producers with a contribution of 5 percent to the world production, while China remained first with a contribution of 50 percent to total global production.



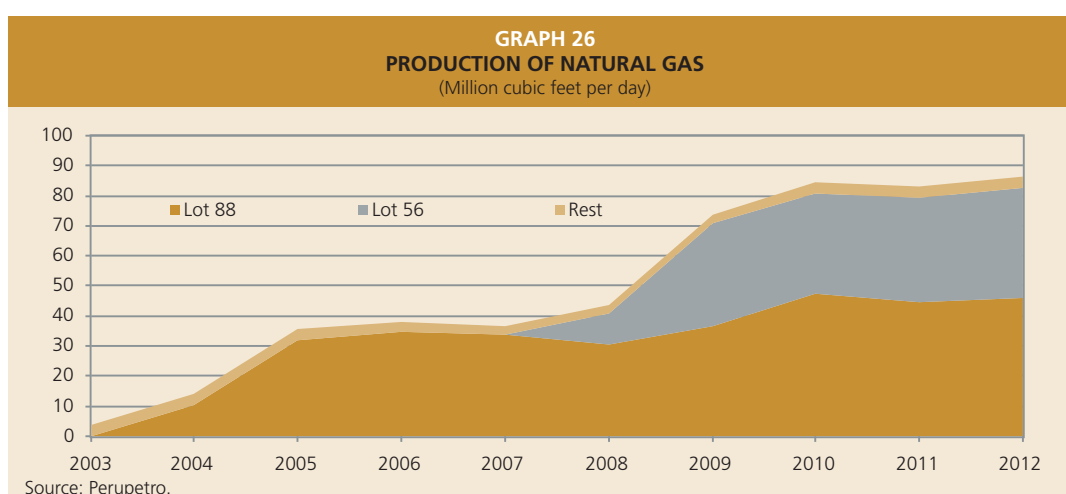
On the other hand, the production of tin shrank 9.6 percent as a result of the lower quality of ore treated by Minsur in its San Rafael unit. Moreover, the extraction of iron dropped 4.0 percent due to the lower



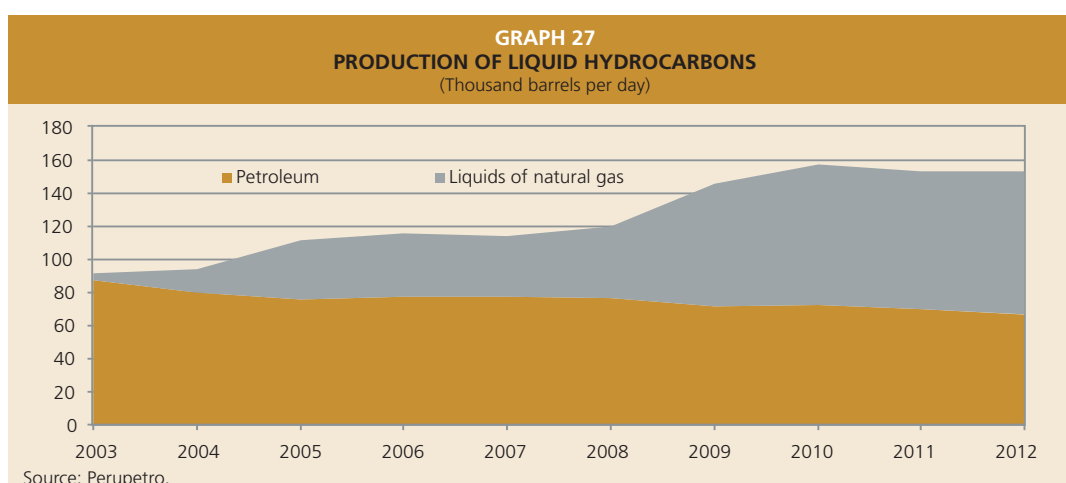
activity of Shougang, while the production of molybdenum fell 12.3 percent as a result of the lower content of this metal in ores processed by Southern and Cerro Verde.

Production in the subsector of hydrocarbons grew 2.3 percent mainly as a result of a higher exploitation of natural gas (4.4 percent), which reached a production of 1,144 million cubic feet per day (MMPDC). This increase reflects a greater production for the domestic market especially at Camisea's lot 88 (Cusco) and Aguaytia's lot 31 C (Ucayali).

On the other hand, production in Camisea's lot 56, which is oriented to the external market, shrank slightly (-0.4 percent).



The production of liquid hydrocarbons showed a slight growth (0.4 percent) since the increased extraction of natural gas liquids at Camisea offset the decline in oil production in Pluspetrol's lot I-AB and lot 8 produced as a result of the natural exhaustion of the oil wells.



2.4 Manufacturing Sector

Showing a slowdown compared to previous years, manufacturing recorded a growth rate of 1.3 percent in 2012. This rate reflects the contraction of manufacturing based on raw materials as well as slower growth

in non-primary manufacturing. The lower dynamism of this subsector can be explained by lower external demand associated with the global economic slowdown and with the deceleration of private consumption, in part offset by the dynamism observed in branches associated with construction given the significant upturn shown by this sector.

After growing at two-digit rates in 2011, manufacturing based on the processing of raw materials shrank 6.5 percent due basically to a lower processing of fishmeal and fish oil (-48.0 percent) as a result of lower anchovy catch and to a lower production of canned and frozen fish products as result of a lower catch of jack mackerel and mackerel. In addition to this, the refining of non-ferrous metals was affected by a lower production of copper cathodes at Cerro Verde due to a reduced availability of copper oxides for the mineral leaching process, while the refining of petroleum shrank 3.0 percent as a result of substituting imports of crude oil by oil derivatives.

On the other hand, meat products continued to grow at around the average rate of the past 10 years, reflecting mainly the increased demand for poultry meat observed.

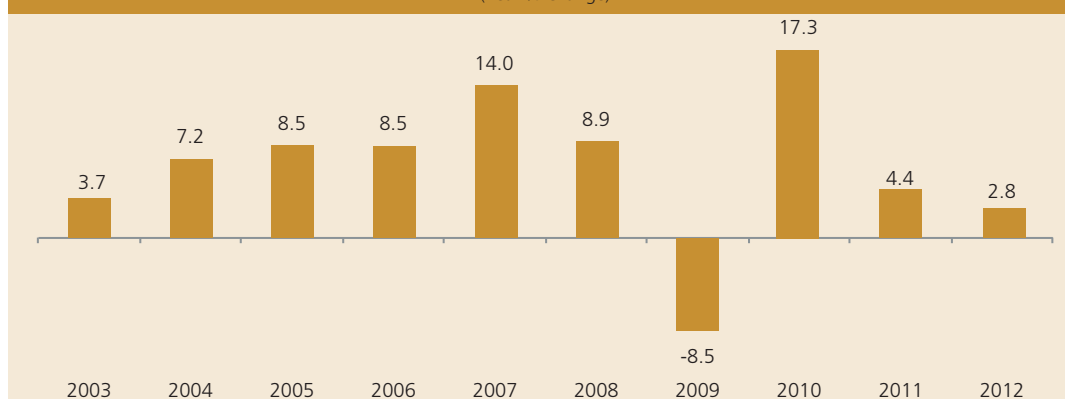
TABLE 11
MANUFACTURING BASED ON RAW MATERIALS BY MAIN INDUSTRIAL GROUPS
(Real % change)

	2010	2011	2012	Average 2003-2012
MANUFACTURING BASED ON RAW MATERIALS	-1.6	13.0	-6.5	2.8
Sugar	-2.3	3.5	2.0	1.1
Meat products	-4.9	5.5	6.0	6.2
Fishmeal and fish oil	-42.0	109.0	-48.1	-6.3
Canned and frozen fish products	-12.4	59.6	-5.3	13.7
Refining of non-ferrous metals	-6.1	7.4	-3.8	-1.3
Refining of crude	14.2	-4.5	-3.0	6.1

Source: Ministry of Production and INEI.

Non-primary manufacturing grew 2.8 percent showing a slowdown for the second consecutive year. This result is associated with the slower pace of global economic growth which had a negative impact on export-oriented branches such as the textile branch.

GRAPH 28
NON-PRIMARY MANUFACTURING
(Real % change)



Source: INEI and Ministry of Production.



TABLE 12
GROWTH OF NON-PRIMARY MANUFACTURING DUE TO DOMESTIC DEMAND
(%)

	2010	2011	2012	Average 2003-2012
Mass consumer products	15.1	3.0	0.9	5.0
Dairy products	13.1	3.6	6.7	8.1
Oils and fats	15.2	-2.2	7.5	1.9
Miscellaneous food products	13.2	5.6	12.7	4.3
Beer and malt	6.2	4.6	3.7	5.0
Soft drinks	7.1	7.8	4.1	8.7
Clothing	57.0	12.0	-13.2	6.3
Wood and furniture	15.8	2.3	5.8	2.8
Other paper and cardboard items	21.7	1.6	4.5	-3.0
Toiletries and cleaning products	6.9	5.8	0.8	6.4
Pharmaceutical products	-8.0	5.3	4.4	13.9
Miscellaneous items	3.0	-10.9	-3.1	8.0
Inputs	18.4	10.3	5.9	7.5
Paper and cardboard	18.1	13.5	0.2	5.6
Paper and cardboard containers	19.4	8.5	2.4	2.3
Publishing and printing	15.6	10.6	-0.1	3.5
Basic chemicals	12.5	4.8	-0.1	6.7
Explosives, chemical, and natural scents	17.3	15.6	27.6	8.1
Rubber	21.9	8.4	-4.0	8.3
Plastic	19.1	4.1	-0.9	5.9
Glass	29.6	21.9	9.7	10.5
Materials for construction	16.5	2.0	11.0	10.7
Paints, varnishes and lacquers	5.3	9.9	-0.3	9.8
Cement	14.0	2.2	15.9	9.2
Construction materials	22.3	-0.6	9.9	12.8
Abrasive products	23.9	11.1	2.2	6.9
Capital goods	20.9	6.2	9.5	8.4
Iron and steel industry	3.3	-4.6	6.0	4.1
Metal products	30.2	8.9	5.2	10.2
Machinery and equipment	5.7	62.3	11.7	2.9
Electric machinery	19.1	-4.4	28.6	6.4
Transport equipment	28.2	7.9	13.3	17.2
Goods for external markets	14.5	3.7	-6.5	3.7
Canned food, chocolate, and alcoholic beverages	10.1	11.3	-3.0	11.6
Synthetic fibers	7.4	-0.8	-16.4	0.0
Yarns, fabrics, and finished garments	22.0	5.6	-7.7	0.0
Knitted garments	14.9	-9.1	-10.1	0.3
TOTAL NON-PRIMARY MANUFACTURING	17.3	4.4	2.8	6.5

Source: Ministry of Production.

The production of mass consumer goods registered a mixed behavior. The manufacture of miscellaneous food products grew significantly due to the increased production of instant sauces, drinks and desserts, while the manufacturing of other garments recorded a negative performance due to a less-cold winter which had a negative impact on the sales of outerwear.

The production of inputs grew 5.9 percent, led by the production of explosives, glass, and chemical and natural essences. The increased production of explosives was associated with an increased demand of the mining sector, while the increase in the production of glass is explained by the high growth of construction and the higher demand for beer containers.

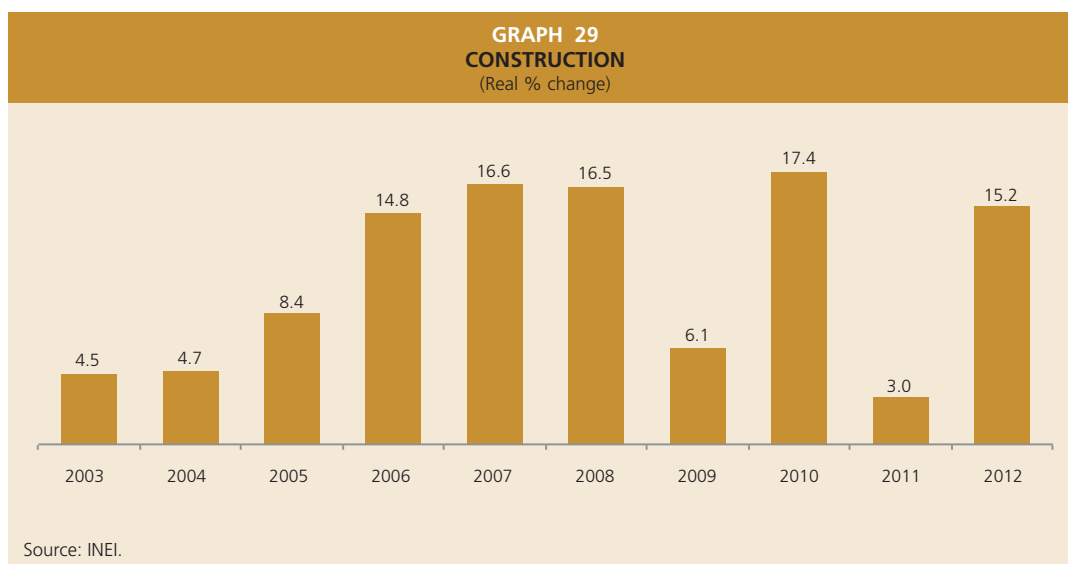
Moreover, construction-oriented branches showed a growth rate of 11.0 percent, which is consistent with the dynamism observed in the execution of public and private works.

The capital goods industry showed an expansion of 9.5 percent due to the increased production of electrical machinery, especially electrical distribution boards and insulated cables, and machinery and equipment associated with a higher demand in the mining sector, and of transport equipment due to the increased production of accessories and spare parts.

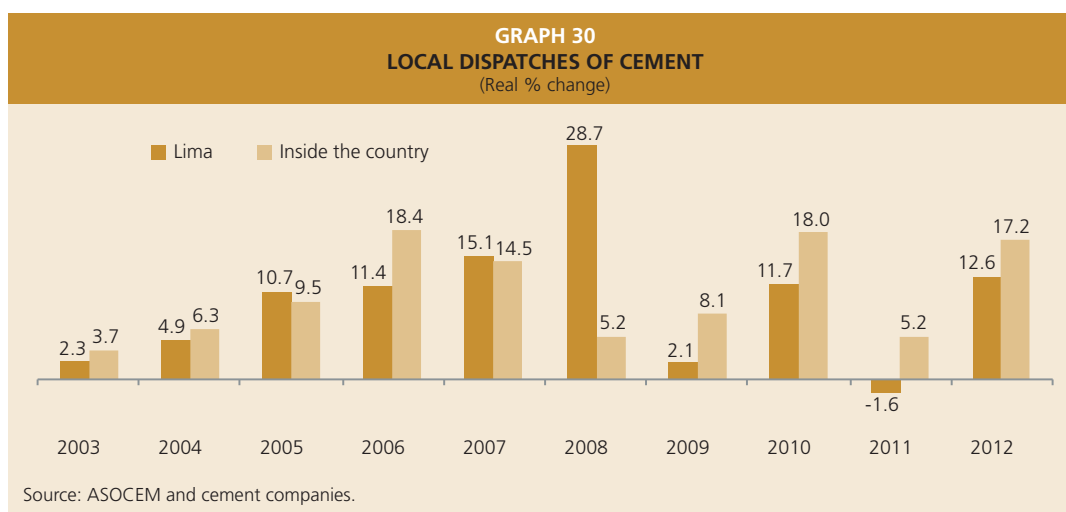
Finally, the external market-oriented production dropped 6.5 percent mainly as a result of a lower demand for textile products in Europe and the United States associated with weak growth in these economies.

2.5 Construction

Construction, which grew 15.2 percent in 2012, was the sector that registered the highest growth in the year. This growth in construction contrasts with the sector's performance in 2011 (when it only grew 3.0 percent) and reflects the upturn in public-sector capital spending as well as the implementation of important private investment projects.



Local dispatches of cement recorded a growth of 15.9 percent, increasing from 8.4 to 9.7 million metric tons. By geographic areas, a faster growth was observed in the interior of the country (17.2 percent) associated mainly with the dynamism observed in the construction of new shopping centers.



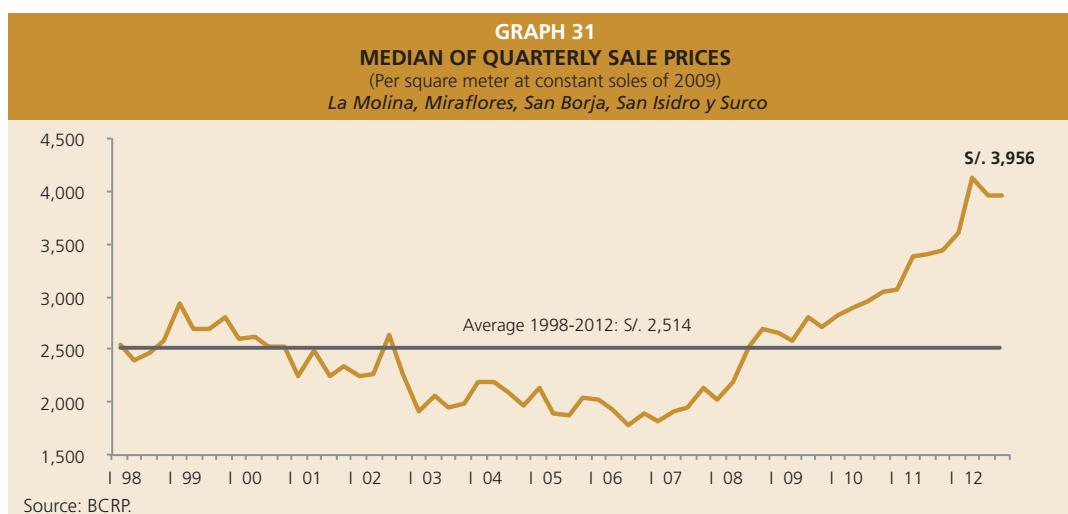
As for the residential real estate market, the latest study on the market of apartment buildings in Metropolitan Lima and Callao published by CAPECO, the Peruvian Chamber of Construction, reports an increase of 10.2 percent in the number of apartments sold in the period July 2011-June 2012 compared to the previous twelve months. This result is mostly explained by the improvement in households' income and by the lower interest rates on bank loans. However, just as in the figures reported by the real estate consultant TINSA, a slowdown is observed in the number of sold apartments when this is compared with the number of sold departments in 2011. Moreover, the decline in the average area of the new home acquired (from 105 m² to 100 m²) would be explained by the increase of prices per square meter.

CUADRO 13 REAL ESTATE SECTOR: EVOLUTION OF MAIN VARIABLES			
INDICATOR	2010	2011	2012
Apartments: Unit sold - CAPECO 1/ % Change	13,184 13.7	18,736 42.1	20,648 10.2
Apartments: Unit sold- TINSA 2/ % Change	15,643 16.9	21,550 37.8	24,143 12.0
Average area of sold houses - CAPECO 1/	103	105	100
Unmet demand - CAPECO 1/ % Change	399,952 29.8	391,434 -2.1	396,566 1.3
New mortgages 3/ % Change	29,388 43.2	34,487 17.4	38,141 10.6
New loans Mi Vivienda 4/ % Change	6,449 265.6	8,888 37.8	9,945 11.9
Number of debtors of current mortgage borrowers 3/ % Change	137,105 10.8	155,052 13.1	172,796 11.4
Mortgages disbursed in S/. (mills.) 3/ % Change	2,979 46.1	3,612 21.3	4,874 34.9
Mortgages disbursed in US\$ (mills.) 3/ % Change	558 25.1	466 -16.6	562 20.7
Average interest rate of mortgages in S/. 5/	9.3	9.4	8.8
Average interest rate of mortgages in US\$ 5/	8.1	8.2	8.0

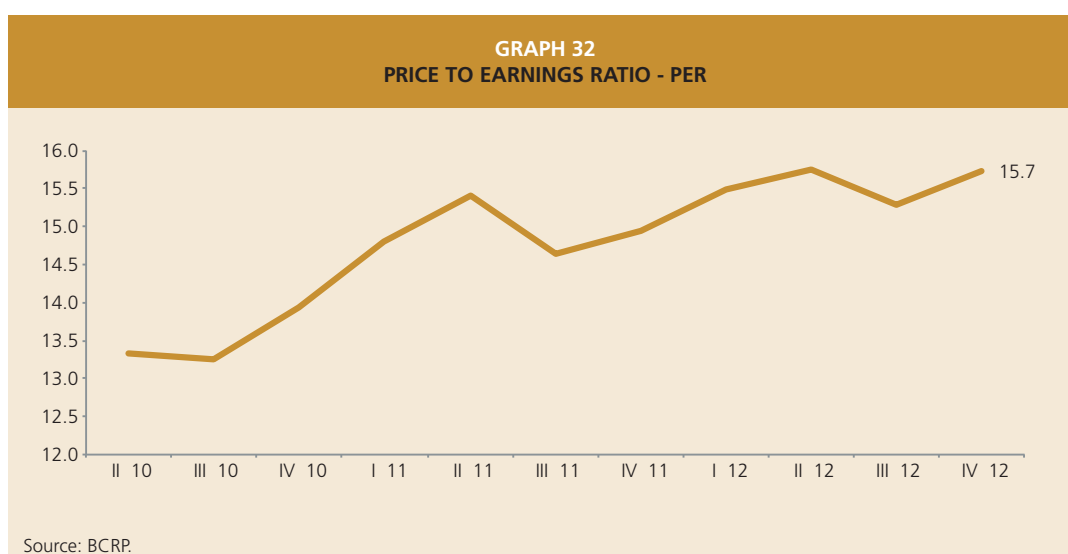
1/ El Mercado de Edificaciones Urbanas en Lima Metropolitana y el Callao, CAPECO. A one-year period is considered (from June to July in the next year).
2/ Informe de Coyuntura Inmobiliaria, TINSA PERU SAC.
3/ Commercial banks. Source: SBS.
4/ "Nuevo Crédito Mi Vivienda". Source: Fondo Mi Vivienda.
5/ Average lending interest rates by commercial banks. Source: SBS.

As regards credit for this segment, new mortgage loans grew 10.6 percent, while the new placements of the housing program Mi Vivienda grew 11.9 percent. An increase was also observed in borrowers of mortgage loans in force (up from 155 thousand in 2011 to 173 thousand in 2012).

During 2012, the price index of sales in constant sales per square meter continued showing the rising trend observed since mid-2006. Thus, the prices per square meter in five districts (La Molina, Miraflores, San Borja, San Isidro, and Surco) rose 15 percent on average relative to 2011, in line with the growth of the demand for mortgage-financed homes.



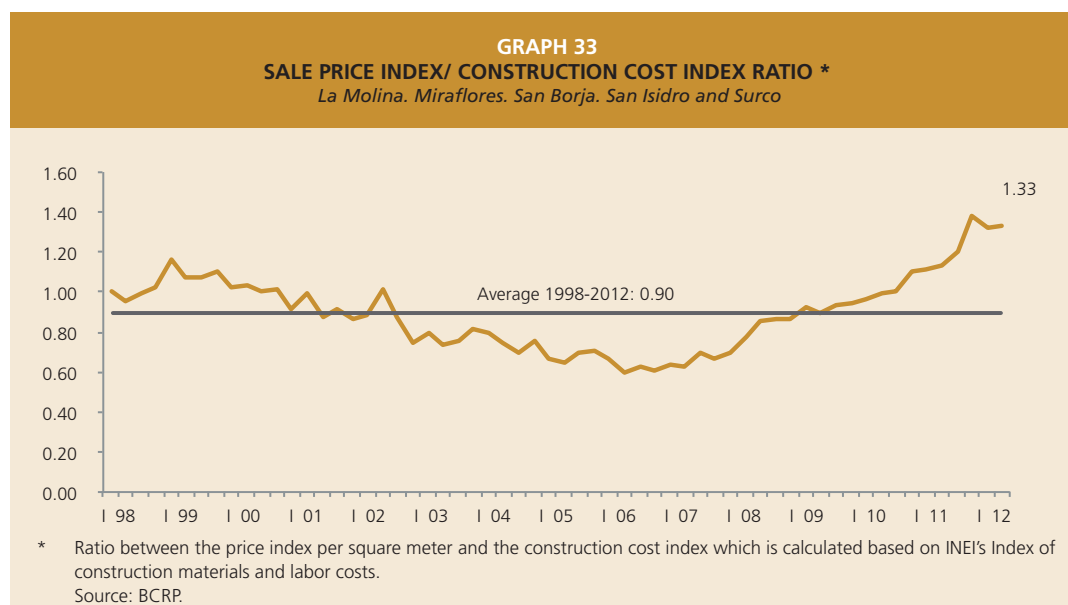
Moreover, the price-to-earnings ratio (PER) –or sale price-to-earning from annual rent ratio– which shows the number of years that a property would have to be rented to recover the purchase value³ of the property, showed an average of 16 years of rent in Q4-2012.



³ According to the PER index, Global Property Guide classifies real estate prices as undervalued (5.0-12.5 years), normal (12.5-25.0 years), and overvalued (25.0-50.0 years).



The sale price/construction cost index showed a level of 1.33 in Q4-2012. It is worth pointing out that this measurement excludes the cost of the land.

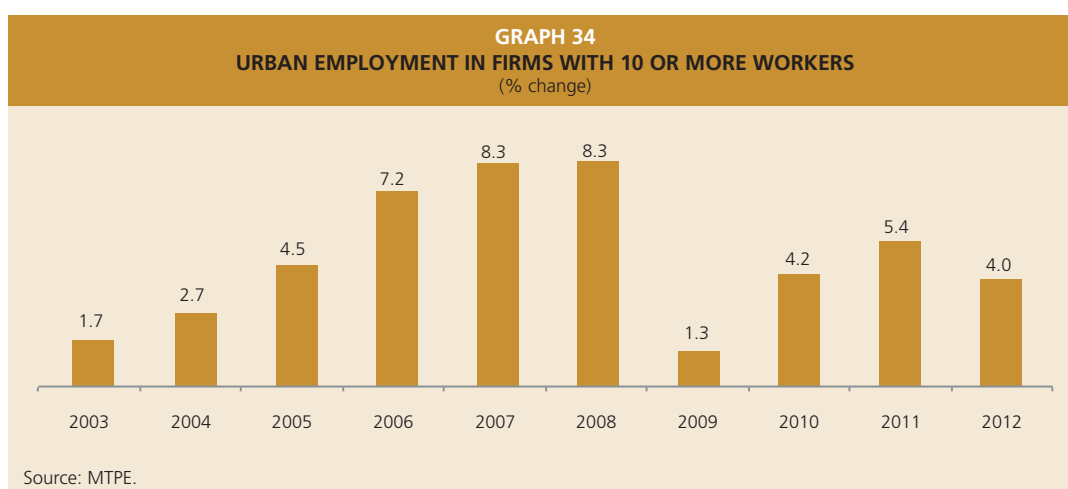


The prime office market has maintained a high demand in recent years. Thus, the indicator of net absorption, which shows the behavior of the market demand, has remained high and even exceeded the new supply of prime offices. According to Colliers International, nine office buildings, of which six belong to prime segment prime (Omega, Arona EC, Umayuq and Torre Altavista in San Isidro, and Gerens and Link Tower in Surco), entered the market this year. Even though 52.1 thousand m² entered the market, the net absorption was 57.1 thousand m²; in other words, every available office was taken or rented. A decline is observed in the number of available spaces today since current availability is 7,000 m², which is equivalent to 1.4 percent of the inventory (versus 2.4 percent in Q3-2012) even though an upward trend is being observed in the average price per square meter of prime offices in Lima.

According to Colliers International's latest report, the rate of vacancy in malls in Lima fell to 4.9 percent in Q4-2012 (5.7 percent in Q3-2011). In the next years the vacancy rate is expected to increase as a result of the construction of shopping centers that would start operating in 2013 and that altogether represent an investment of over US\$ 400 million. Projects outside of Metropolitan Lima worth pointing out include the Real Plaza Cusco, Huánuco and Cajamarca, El Quinde Shopping Plaza Ica of the Ekimed Group and the Mega Express Malls of Chíncha, Barranca and Cañete.

3. Employment

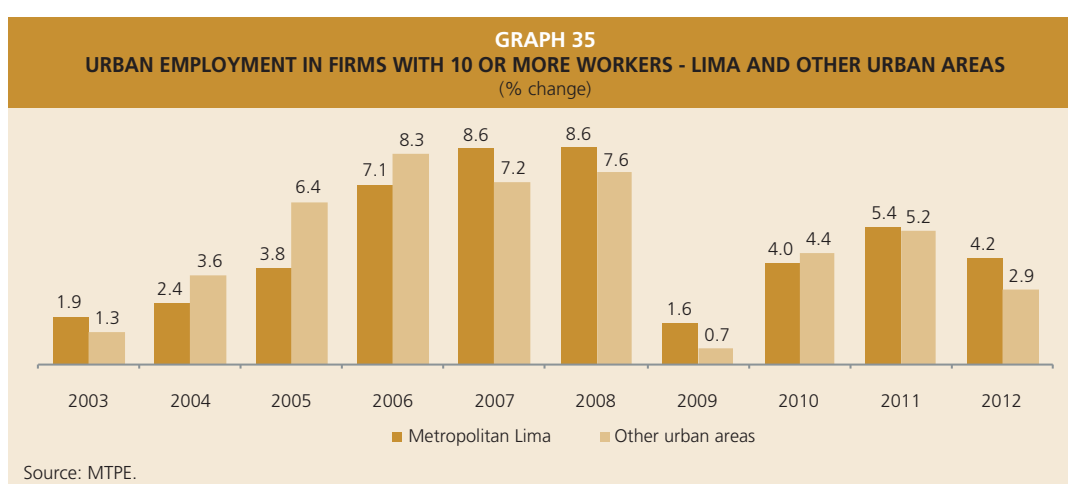
According to the Ministry of Labor and the Promotion of Employment, employment in formal enterprises with 10 and more employees in urban areas grew 4.0 percent in 2012.



Nonetheless, the slowdown compared to 2011 reflects the lower dynamism observed in the recruitment of staff in industry (0.1 percent) associated with the lower growth of non-primary manufacturing during 2012.

In terms of production sectors, the highest growth of employment was observed in the sector of services (6.1 percent), where employment grew more than in 2011 (5.2 percent) due to the greater demand for workers at education institutions, restaurants and financial institutions (AFPs, Edpymes, and insurance companies), as well as to the greater demand for business consulting services.

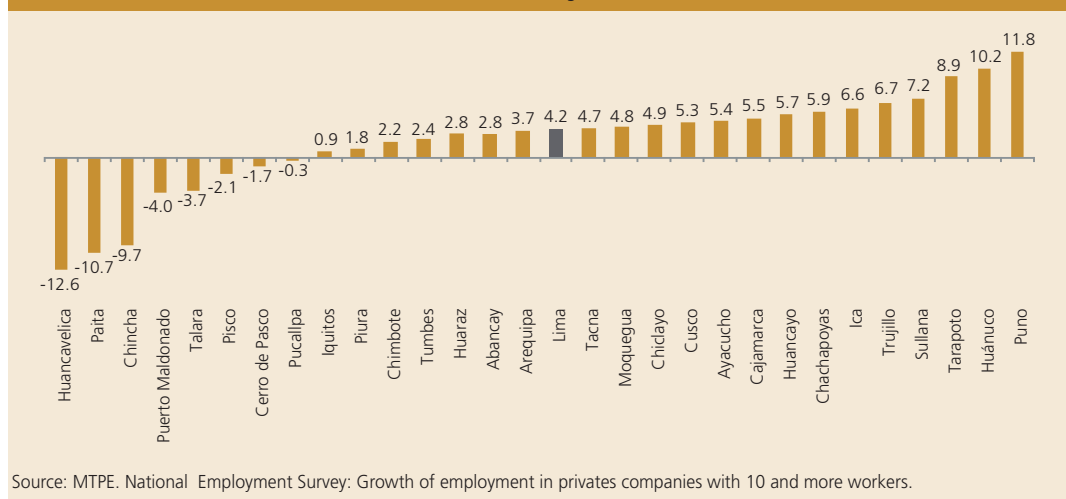
By geographical areas, employment showed a lower rate of growth than in 2011 in both Metropolitan Lima, where it declined from a growth rate of 5.4 to 4.2 percent, and in the rest of urban areas, where it fell from 5.2 to 2.9 percent.



By departments, employment showed a positive trend in most of the 30 cities considered in the sample of the Ministry of Labor, contractions being registered only in eight cities. Employment recorded the highest growth rates in Puno (11.8 percent) and Huánuco (10.2 percent), where this growth was associated with the growth of the branches of services, especially in teaching and financial institutions, as well as with the growth of transport, storage and communications. In contrast, employment dropped in Huancaavelica (- 12.6 percent), particularly in the sector of services.



GRAPH 36
EMPLOYMENT BY CITY
(% change)



According to INEI's survey on employment, during 2012 employment in Metropolitan Lima continued showing a positive trend. The employed population grew at a similar rate than in 2011 –1.7 percent in 2012 and 1.9 percent in 2011– increasing from 4.4 million in 2011 to 4.5 million in 2012. By production sectors, employment grew the most in the construction sector (3.2 percent), which was followed by services (1.9 percent). By size of firms, the highest growth of employment was observed in companies with 51 or more workers (7.3 percent), and by level of education, the growth of employment of workers with higher education stands out with a rate of 8.4 percent.

In 2012 the improvement in the quality of employment was reflected in the increase observed in the number of adequately employed population (4.7 percent), which increased from 2.5 million in 2011 to 2.7 million in 2012. As a result, the rate of underemployment in terms of hours dropped 2.5 percent –from 11.2 to 11.4 percent–, while the rate of unemployment, which measures the part of the economically active population (EAP) who is actively searching for employment and is unable to find work, declined for the third consecutive year, falling from 7.7 percent in 2011 to 6.8 percent in 2012.

GRAPH 37
UNEMPLOYMENT AND PART-TIME UNEMPLOYMENT IN METROPOLITAN LIMA
(%)

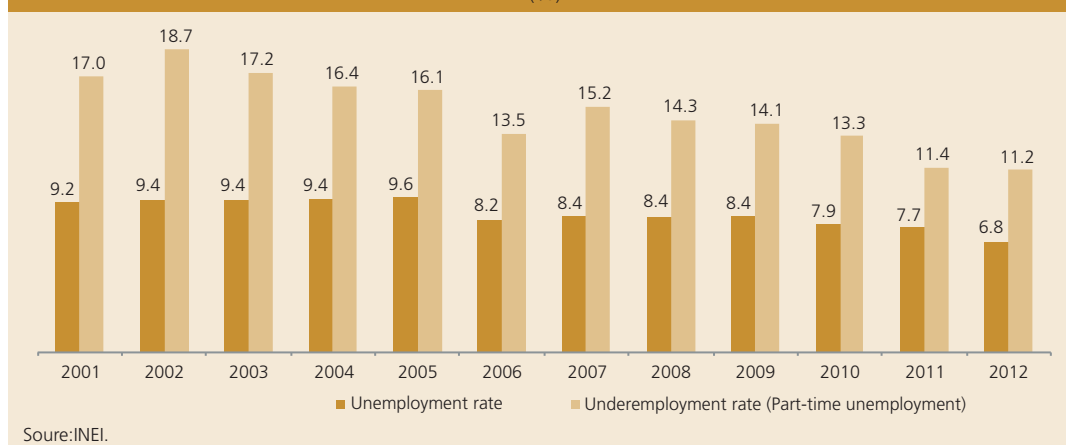


TABLE 14
WORKFORCE BY LEVELS OF EMPLOYMENT IN METROPOLITAN LIMA 1/
 (Thousand persons)

	2010	2011	2012
I. ECONOMICALLY ACTIVE POPULATION (EAP): 1 + 4	4,704	4,786	4,816
1. EMPLOYED	4,332	4,415	4,489
By economic activity			
Manufacturing	729	737	737
Construction	309	311	321
Commerce	943	948	951
Services	2,293	2,363	2,408
Others	59	57	71
By educational level			
Primary school 2/	443	445	413
Complete high school 3/	2,282	2,252	2,246
Higher education	746	773	805
University higher education	861	944	1,023
By occupation			
Salaried workers 4/	2,606	2,712	2,841
Non-salaried workers	1,726	1,704	1,647
By size of business			
Independent 5/	1,496	1,478	1,449
2 to 10 workers	1,236	1,233	1,233
11 to 50 workers	442	471	483
51 and more workers	1,158	1,233	1,323
By number of hours worked per week			
Employed workers working 20 or more hours	3,902	3,983	4,013
Salaried workers working 20 or more hours	2,424	2,536	2,619
2. UNDEREMPLOYED	1,999	1,874	1,828
Visible underemployment (by hours) 6/	628	547	542
Invisible underemployment (by income) 7/	1,371	1,328	1,286
3. PROPERLY EMPLOYED	2,333	2,541	2,661
4. UNEMPLOYED	372	370	328
II. INACTIVE POPULATION	2,012	2,057	2,150
III. WORKING-AGE POPULATION (PWA)	6,715	6,842	6,967
RATES (%)			
Activity rate (EAP / PWA)	70.0	69.9	69.1
Employment/population (Employed EAP/PWA)	64.5	64.5	64.4
Unemployment rate (Unemployed EAP/EAP)	7.9	7.7	6.8
Underemployment by hours	13.3	11.4	11.2

1/ Annual average.

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

3/ Incomplete and complete secondary school.

4/ Includes employees, workers and housekeepers.

5/ Working alone or in partnership, having no salaried workers.

6/ Includes workers unwillingly working less than 35 hours per week

7/ Workers working 35 or more hours a week who learn less than the minimum salary estimated as benchmark by INEI.

Source: INEI. Encuesta Permanente de Empleo.

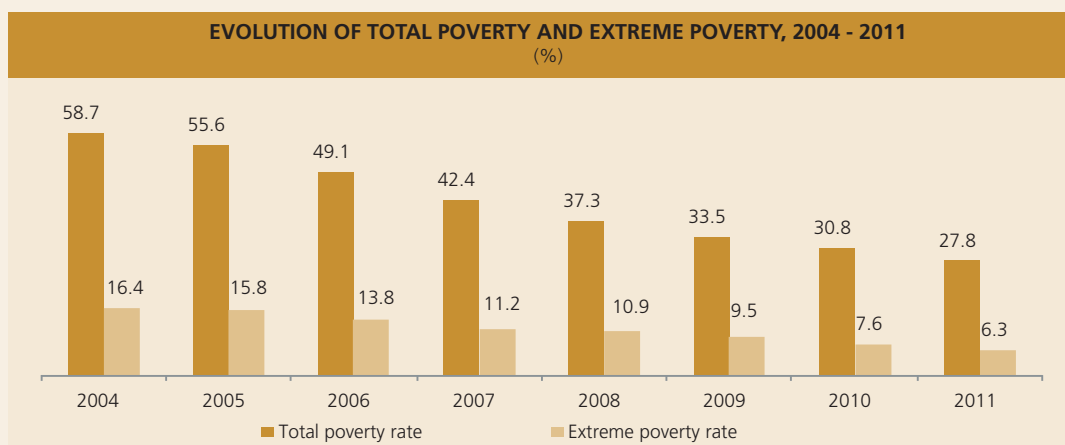


BOX 1

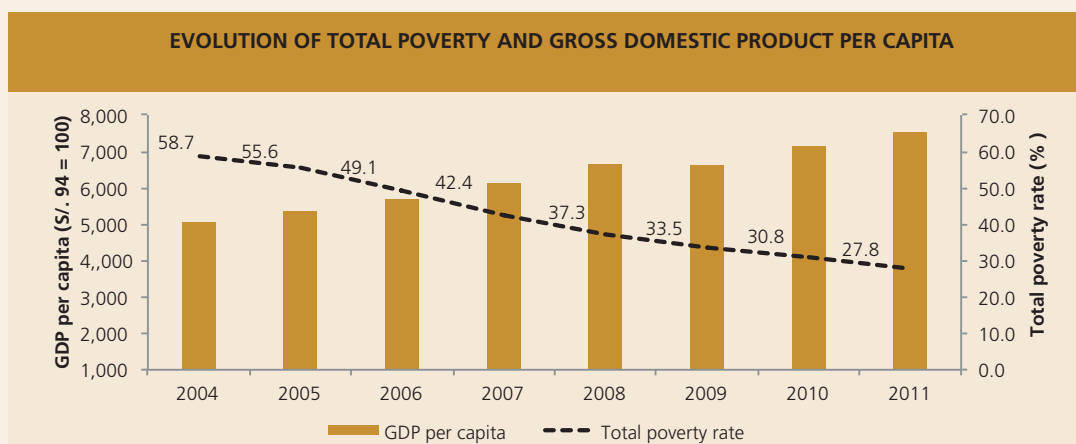
INCIDENCE OF TOTAL POVERTY 2011⁴

The incidence of poverty in Peru declined to 27.8 percent of the country's population in 2011; that is; the poverty rate fell by 3.0 percentage points compared to the previous year (30.8 percent in 2010). The INEI estimates that about 791 thousand people would have emerged from poverty between 2010 and 2011.

In the same period, extreme poverty declined from 7.6 percent to 6.3 percent (1.3 percentage points), which implies that about 362 thousand people stopped being poor. Between 2004 and 2011, total and extreme poverty dropped by 30.9 and 10.1 percentage points, respectively.



The impact of the sustained growth of GDP over the past seven years would have been so significant that it has implied a reduction of poverty.



⁴ This indicator of monetary poverty summarizes people's well-being in terms of the food and non-food basic needs expressed in the so-called poverty line. People living in conditions of extreme poverty are defined as people whose spending in consumption is below the monthly value of a basket of staple food (S/. 143 per person in 2011) while people living in conditions of non-extreme poverty include those who can meet their food needs but cannot cover the value of a basket of staple products (S/. 272 per person in 2011).

The magnitude of the impact of economic growth in reducing poverty may be quantified using the methodologies of Datt and Ravallion (1991)⁵ and Maasoumi and Mahmoudi (2004)⁶, which allow us to break down such a reduction in growth and redistribution factors.

Thus, it is estimated that of the total poverty reduction of 30.9 percentage points observed between 2004 and 2011, economic growth accounts for between 78 and 82 percent of this reduction (24 to 25.4 percentage points), whereas net improvements in the distribution of resources among the population account for between 11 and 18 percent of this reduction (3.4 to 5.5 percentage points).

BREAK DOWN OF CHANGE IN TOTAL POVERTY RATE 2004-2011
(Percentage points)

Methodologies	Total	Growth	Redistribución	Residual
Datt y Ravallion	-30.9	-24.0	-3.4	-3.4
Maasoumi and Mahmoudi	-30.9	-25.4	-5.5	-

Source: INEI, ENAHO 2010, and 2011.

Incidence of total poverty by geographical areas

As the following table shows, the rates of total poverty remain lower in urban areas (18 percent), particularly in Metropolitan Lima (15.6 percent), as well as in the urban areas of the Sierra and Selva regions (18.7 and 26 percent, respectively). The poverty rate in rural areas is 56.1 percent. A higher incidence of poverty is observed in the rural areas of the Sierra and Selva (62.3 and 47 percent, respectively) than in the rural Coast (37.1 percent).

Despite this difference, in 2010-2011 poverty declined more in rural areas (-4.9 percentage points) than in urban areas (-2 percentage points). Moreover, in the period analyzed, poverty dropped more in the following domains: rural Selva areas (-8.5 percent), the urban Coast (-4.8 percent), and the rural Sierra (-4.4 percentage points).

INCIDENCE OF TOTAL POVERTY BY GEOGRAPHICAL AREAS 2004 - 2011
(%)

	2004	2005	2006	2007	2008	2009	2010	2011	Diferencia 2010-2011	Diferencia 2004-2011
	Porcentaje points									
National	58.7	55.6	49.1	42.4	37.3	33.5	30.8	27.8	-3.0	-30.9
Urban areas	48.2	44.5	37.0	30.1	25.4	21.3	20.0	18.0	-2.0	-30.2
Rural areas	83.4	82.5	79.3	74.0	68.8	66.7	61.0	56.1	-4.9	-27.3
Domains										
Urban coast	50.8	43.2	37.6	31.7	27.4	23.7	23.0	18.2	-4.8	-32.6
Rural coast	69.3	66.9	62.3	53.8	46.6	46.5	38.3	37.1	-1.2	-32.2
Urban Sierra area	46.9	44.0	37.1	31.8	26.7	23.2	21.0	18.7	-2.3	-28.2
Rural Sierra area	86.7	85.4	83.1	79.2	74.9	71.0	66.7	62.3	-4.4	-24.4
Urban Selva area	59.4	58.4	54.6	44.0	32.7	32.7	27.2	26.0	-1.2	-33.4
Rural Selva area	81.5	82.4	77.3	69.2	62.5	64.4	55.5	47.0	-8.5	-34.5
Metropolitan Lima	44.6	42.4	32.7	25.1	21.7	16.1	15.8	15.6	-0.2	-29.0

Source: INEI, Informe Técnico, Evolución de la Pobreza 2007-2011, May 2012. Informe Técnico, Evolución de la Pobreza 2004-2010, March 2012.

⁵ Ravallion, M. and Datt, G., 1991. "Growth and Redistribution Components of Changes in Poverty Measures," Papers 83, World Bank - Living Standards Measurement.

⁶ Maasoumi, E. and V. Mahmoudi, 2004, "Decomposition of Change in Poverty by Growth and Redistribution Components".



Incidence of total poverty by department

Economic growth, together with the use of mechanisms of targeting social expenditure towards the poorest sectors, has had a positive impact on reducing regional poverty. Although there are still significant gaps to close, significant changes in the levels of poverty have been observed in the last seven years (see map). Only five of the 17 departments with poverty rates higher than 50 percent in 2004 remained in those levels in 2011. Moreover, only one department showed a poverty rate below 30 percent in 2004 while in 2011 twelve departments had poverty rates of less than 30 percent.

Since 2011, the INEI provides data on regional poverty by groups. This methodological change has been adopted due to the necessary statistical accuracy required as a result of the size of the sample and the heterogeneous features that each department has.

Apurímac, Ayacucho, Cajamarca, Huancavelica and Huánuco make up Group 1 which concentrated the greatest levels of poverty in 2011 and showed lower levels of poverty than in 2010. Madre de Dios is the department with lower poverty levels (Group 6) with total poverty rates of between 2 to 6.3 percent.

DEPARTMENT GROUPS BY POVERTY RATES, 2010 AND 2011

Year	Group	Departments	Poverty rate (%)	
			Confidence interval at 95%	
			lower limit	Upper limit
2010	Group 1	Apurímac, Huancavelica	62.0	63.0
	Group 2	Amazonas, Ayacucho, Cajamarca, Cusco, Huánuco, Loreto, Piura, Puno	42.7	55.2
	Group 3	Lambayeque, Pasco, San Martín	36.3	38.2
	Group 4	Áncash, Junín, La Libertad, Ucayali	21.7	31.4
	Group 5	Arequipa, Ica, Lima 1/, Moquegua, Tacna, Tumbes,	12.4	19.7
	Group 6	Madre de Dios	2.8	7.2
2011	Group 1	Apurímac, Ayacucho, Cajamarca, Huancavelica, Huánuco	52.7	57.0
	Group 2	Amazonas, Loreto, Pasco, Piura, Puno	35.2	48.1
	Group 3	Áncash, Cusco, Junín, La Libertad, Lambayeque, San Martín	24.1	31.0
	Group 4	Lima 1/, Tacna	15.8	16.6
	Group 5	Arequipa, Ica, Moquegua, Tumbes, Ucayali	10.9	13.9
	Group 6	Madre de Dios	2.0	6.3

1/ Includes the Province Callao.

Source: INEI. Informe Técnico, Evolución de la Pobreza 2004-2011. May 2012.

Economic growth has brought about new mechanisms that connect the departments with the internal and external markets, which has resulted in an improvement of local revenues according to the productive diversity of each department and, in that sense, in the reduction of poverty.

An analysis of the evolution of incomes may be carried out for nine of the departments where poverty reduction has been statistically significant in this period. The table below shows a growth of the actual total income between 2010 and 2011 due mainly to the increase in earned income (income earned from work, which makes up more than 80 percent of total income) and in some departments, such as Amazonas, San Martín, Huancavelica and Tumbes, due to government and

private donations. If the income sources are sustainable, the increasing importance of earned income would generate a lower reliance on donations and transfers over time, given that a characteristic of donations and transfers is that they are temporary.

POVERTY REDUCTION AND REAL INCOME BY SOURCE, 2010 AND 2011

	Reduction of poverty 2010-2011 1/	% change 2010 - 2011					% contribution to total income			
		Earned income	Government donation	Private donation	Others 2/	Total income	Earned income	Government donation	Private donation	Others 2/
Amazonas	-5.9	14.2	16.1	16.4	21.5	15.0	12.1	0.5	0.6	1.8
Cusco	-13.0	10.9	-15.7	11.2	6.5	9.6	9.4	-0.5	0.2	0.5
Huancavelica	-8.3	11.4	22.1	35.9	-4.8	11.1	9.7	0.9	0.9	-0.4
Lambayeque	-7.8	1.3	6.1	-4.1	10.7	2.1	1.1	0.2	-0.2	1.0
Piura	-9.0	5.0	-6.9	8.5	3.8	4.6	4.2	-0.3	0.4	0.3
Puno	-9.5	4.7	-17.2	-6.4	13.5	4.7	4.2	-0.4	-0.1	1.0
San Martín	-5.9	6.9	-8.5	20.8	-0.1	6.1	5.8	-0.3	0.6	0.0
Tumbes	-5.8	6.3	15.4	21.5	11.6	7.6	5.3	0.4	0.9	1.0
Ucayali	-8.2	4.7	-10.7	9.0	-8.2	3.0	3.9	-0.3	0.3	-0.9

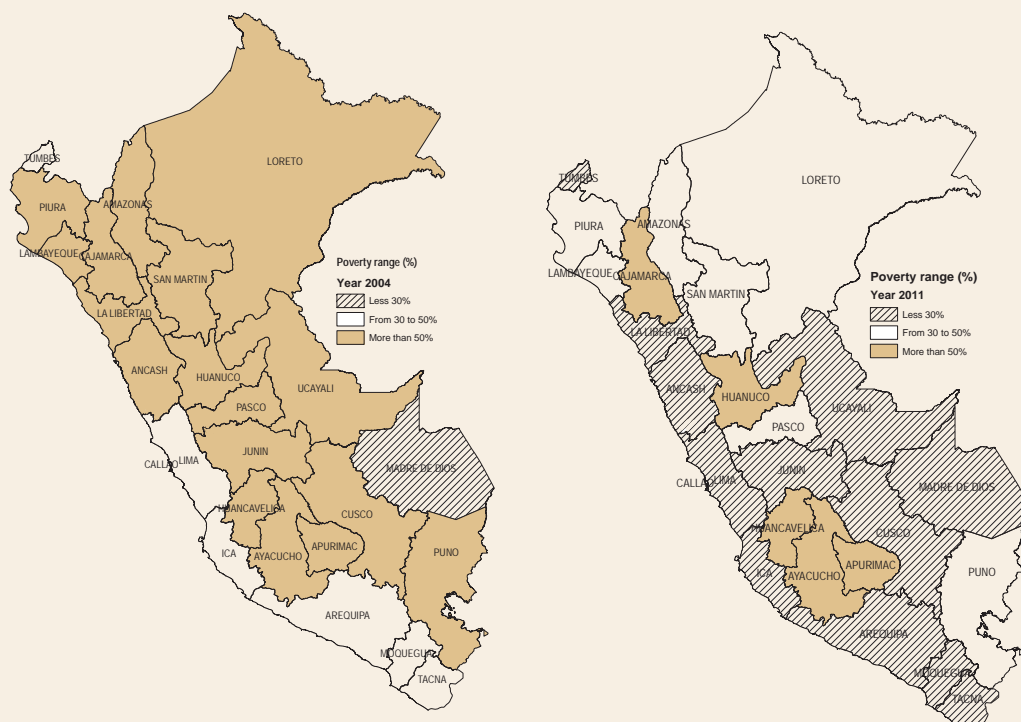
1/ Percentage points.

2/ Rents.

Source: INEI, ENAHO 2010 and 2011.

MAP

DEPARTMENTS BY POVERTY RANGES, 2004 AND 2011





BOX 2

LIVING CONDITIONS IN PERU

The INEI has elaborated a report on living conditions in Peru at Q4-2012 on the basis of the results obtained by the National Survey of Households (ENAH0). The Survey results in terms of various indicators, such as education, health care, social programs, access to basic services, and participation in economic activity, are discussed below.

I. Education

Improvements in school attendance indicators concentrated in secondary education, where the net rate of school attendance at the national level recorded an increase of 2.2 percentage points in Q4-2012 compared to the same period of the previous year. By geographic area, attendance in urban areas grew by 2.6 percentage points, while in rural areas it grew by 0.7 percentage points during the same period. It is worth highlighting that the net rate of school attendance at the level of initial education in rural areas increased by 3.7 percentage points nationwide.

NET RATE OF SCHOOL ATTENDANCE , BY GEOGRAPHICAL AREA

(% relative to total population by education level)

	Early Childhood Education			Primary School			Secondary school		
	Q1 2011	Q4 2012	Absolute change	Q1 2011	Q4 2012	Absolute change	Q1 2011	Q4 2012	Absolute change
National	66.7	64.7	-2.0	92.5	90.7	-1.8	77.1	79.3	2.2
Urban	71.0	66.7	-4.3	92.5	90.8	-1.7	83.3	85.9	2.6
Rural	56.3	60.0	3.7	92.7	90.5	-2.2	64.5	65.2	0.7

Source: INEI.

II. Health Care

An increase in the number of people with health problems that sought some kind of health care was observed: in Q4-2012, 51.8 percent of the people said they had sought health care for some chronic and non-chronic health issue.

PEOPLE WITH HEALTH PROBLEMS , BY HEALTH CARE CONSULTATION CENTERS

(%)

	Q4 2011	Q4 2012	Absolute change
Sough kind of health care	50.0	51.8	1.8
MINSa 1/	16.9	16.9	0.0
EsSalud 2/	6.4	6.3	-0.1
MINSa and EsSalud	0.1	0.1	0.0
FFAA and/or National Police	0.3	0.6	0.3
Particular 3/	7.8	9.0	1.2
Pharmacy	17.6	17.9	0.3
Home	0.1	0.2	0.1
Others 4/	0.9	0.8	-0.1

1/ Includes health care centers in MINSa, CLASS and hospitals in MINSa.

2/ Includes some centers and hospitals in EsSalud.

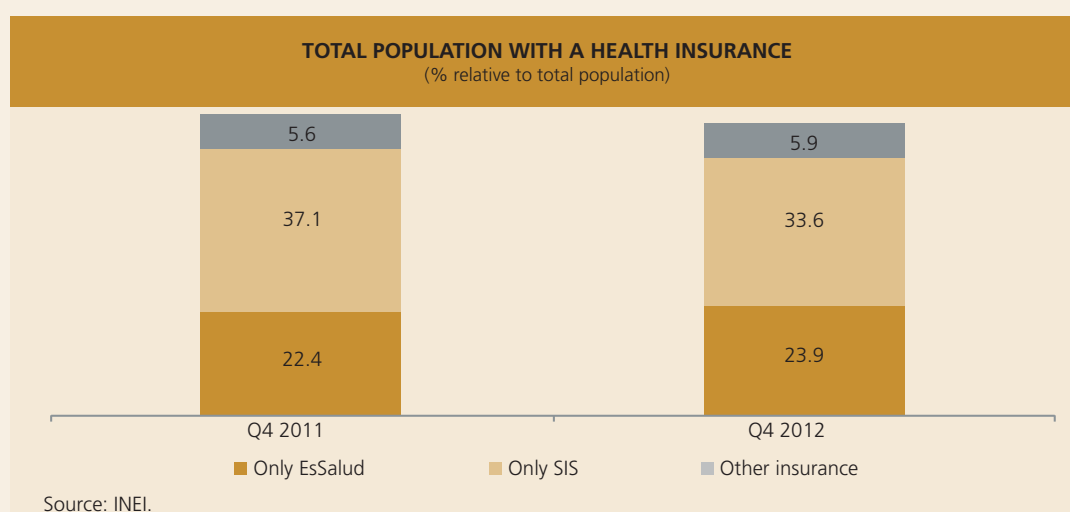
3/ Includes hospitals and doctor's offices.

4/ Includes informal houses.

Source: INEI

The most important health care consultation centers continued to be drug stores and the establishments of the Ministry of Health (16.9 percent), even though consultations in private centers (hospitals and doctors' offices) increased by 1.2 percent to 9 percent.

Furthermore, 63.4 percent of the country's population had a health insurance in Q4-2012. The SIS, Seguro Integral de Salud, continued to be the most commonly used insurance (33.6 percent) although the number of users has declined by 3.5 percentage points, followed by EsSalud (23.9 percent) and by other insurances (5.9 percent).



III. Social Programs

Rural families continued to be the major beneficiaries of food programs. A total of 50.4 percent of rural households has a member who has been benefited from these programs, whereas in urban areas the percentage of beneficiary families is 22.3 percent. By age groups, children under the age of 18 years are the ones who benefitted the most from these food programs⁷ (32.6 percent), followed by older adults (6.8 percent).

IV. Acces to basic services

In Q4-2012, the number of households in the country with access to the water supply system was 83.2 percent of total households, which represents an increase of 5.5 percent compared to the same period of 2011. The highest increase was observed in rural areas (18.6 percentage points). Moreover, in Q4-2012 the number of households with connections to the public sewage system in rural areas increased slightly to 41.2 percent, while the percentage in urban areas was 84.3 percent. Furthermore, 65.4 percent of rural households already have electric lighting –up by 4.5 percentage points compared to Q4-2011, while the percentage of households with electric lighting has reached 90.3 percent at the national level and 98.7 percent in urban areas.

⁷ Including programs such as Vaso de Leche, Comedores Populares, Programa Nutricional Integral; health care for children under three years of age, and pregnant and nursing mothers; breakfast, snack or school lunch; food service, and Wawa Wasi/ Cuna Más, among other programs.



V. Participation in Economic Activity

During the last four months of 2012, 72.5 percent of the working age population was economically active. In other words, they were part of the labor force. By people's area of residence, the

percentage of the economically active population in rural areas was higher than in urban areas, and by level of education, people with higher education participated in economic activities the most.

This increased participation of the working age population with higher education levels is a phenomenon observed both in Metropolitan Lima and in urban and rural areas. A slight increase of 0.5 percentage points has also been observed in the participation of groups with a primary education level in urban areas compared to Q4-2011, while the participation of the economically active population with secondary education has increased by 1 percentage point in the case of rural areas.

ACTIVITY RATE BY EDUCATION LEVELS AND AREA OF RESIDENCE
(% of total population aged 14 and older in each education level and area of residence)

	Primary 1/			Secondary School			Higher education		
	Q4 2011	Q4 2012	Absolute change	Q4 2011	Q4 2012	Absolute change	Q4 2011	Q4 2012	Absolute change
National level	74.9	73.5	-1.4	68.7	67.4	-1.3	80.3	79.5	-0.8
Metropolitan Lima	60.0	56.1	-3.9	68.0	66.5	-1.5	80.0	80.2	0.2
Urban areas 2/	67.6	68.1	0.5	67.8	65.7	-2.1	80.6	78.9	-1.7
Rural areas	85.4	83.6	-1.8	72.3	73.3	1.0	80.1	78.8	-1.3

1/ Includes initial and non education.

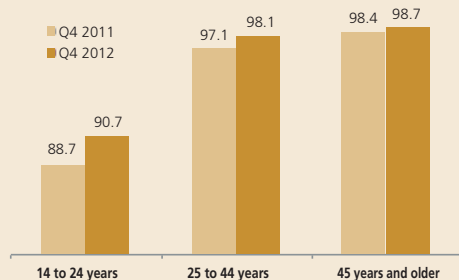
2/ Not includes Metropolitan Lima.

Source: INEI.

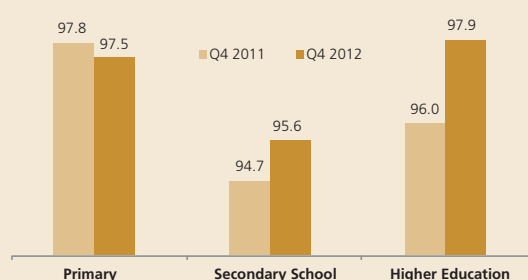
In Q4-2012, 96.8 percent of the urban economically active population of the country had a job. Compared to Q4-2011, the employed EAP increased by 1.1 percentage points.

By age groups, between Q4-2011 and Q4-2012, the rate of employment of the urban EAP increased mainly in the segment of youths aged 14 to 24 years (2 percentage points).

URBAN AREAS: RATE OF EMPLOYED POPULATION BY AGE GROUPS
(% of the total urban EAP in the segment of youths aged 14 or older by age groups)



URBAN AREAS: RATE OF EMPLOYED POPULATION BY EDUCATIONAL LEVEL
(% of the total urban EAP in the segment of youths aged 14 or older by educational level)



By educational level, the EAP with higher education increased by 1.9 percentage points while the EAP with secondary education increased 0.9 percentage points.

By branch of activity, the sectors other services and commerce employed 38.5 percent and 22.5 percent of the total urban employed labor force, respectively.

URBAN AREAS: DISTRIBUTION OF OCCUPIED EAP BY BRANCH OF ACTIVITY
(%)

	Q4 2011	Q4 2012	Absolute change
National	100.0	100.0	
Agriculture / Fishing/ Mining	10.0	8.9	-1.1
Manufacturing	13.3	13.1	-0.2
Construction	6.6	7.1	0.5
Commerce	20.5	22.5	2.0
Transportation and communications	10.4	9.9	-0.5
Other services 1/	39.2	38.5	-0.7

1/ Includes financial statement, real estate, business and rent, education, electricity, hotels and restaurants, social and health services.
Source: INEI.

As for unemployment, the population group of youths aged 14 to 24 showed the highest decline in the rate of unemployment in Q4.

Finally, in Q4-2012, the monthly average income of urban workers increased by 99.7 nuevos soles (8 percent) compared to Q4-2011 and reached 1,341.9 new soles in current terms. The main income increase was observed in the group of employed labor force with a higher education level, who saw their average monthly income increase by 10.1 percent in the period.

URBAN AREAS: AVERAGE MONTHLY INCOME OF WORKERS BY EDUCATIONAL LEVEL
(Nuevos soles)

	Q4 2011	Q4 2012	Absolute change (Nuevos soles)	% change
Total	1,242.2	1,341.9	99.7	8.0
Primary School 1/	699.9	735.3	35.4	5.1
Secondary School	1,027.7	1,066.9	39.2	3.8
Higher Education 2/	1,707.6	1,879.9	172.3	10.1

1/ Includes no education.
2/ Includes non-university and university higher education.
Source: INEI.