II.

External Sector

1. International Environment

In 2013, the world economy showed a growth rate of 2.9 percent, a lower rate than in 2012 (3.2 percent) and the lowest since 2009. This decrease is explained by the economic trend observed in both the developed economies and the emerging market economies.

Growth in the developed economies was affected mainly by the adjustment of fiscal policy. However, activity indicators associated with consumption, private investment and exports showed –in most cases– a recovery relative to the previous years. In the United States, the evolution of employment, consumption, and the housing market increased expectations of a gradual reduction of monetary stimulus by the Federal Reserve (Fed), which took place by the end of the year.

In the emerging market economies, China's lower growth in Q1 generated fears of a sharp slowdown in the world's second-largest economy and the world's major consumer of commodities. These fears decreased significantly in the following months, in line with favorable indicators of activity. The emerging economies with external imbalances were particularly affected by expectations of a smaller stimulus from the Fed.

In this context, most of commodity prices registered a downward correction due in part to investors' liquidation of non-commercial positions. Terms of trade declined on average 4.7 percent: the drop in export prices (5.5 percent) was in part offset by a decrease of 0.8 percent in imports. Moreover, international financial markets were influenced by expectations of a slower pace in the Fed's asset-purchase program which led to a capital outflow from emerging economies and had an impact on currencies and the stock markets.

2. Economic Activity

The world economy showed a slowdown for the third consecutive year, the slower growth (2.9 percent) being explained both by the developed and the emerging economies this year.

The developed countries recorded an average growth rate of 1.3 percent (1.4 percent in 2012). This lower growth is mainly explained by the impact of fiscal consolidation, since isolating this effect, activity indicators (associated with domestic demand and foreign trade) were for the most part favorable. It is worth pointing out that some risk factors –such as the deterioration of the economic situation in European peripheral countries or the lack of agreement on fiscal issues in the United States– decreased over the year. Nonetheless, other risk factors, such as the risk of deflation in the Eurozone, have increased during the year.

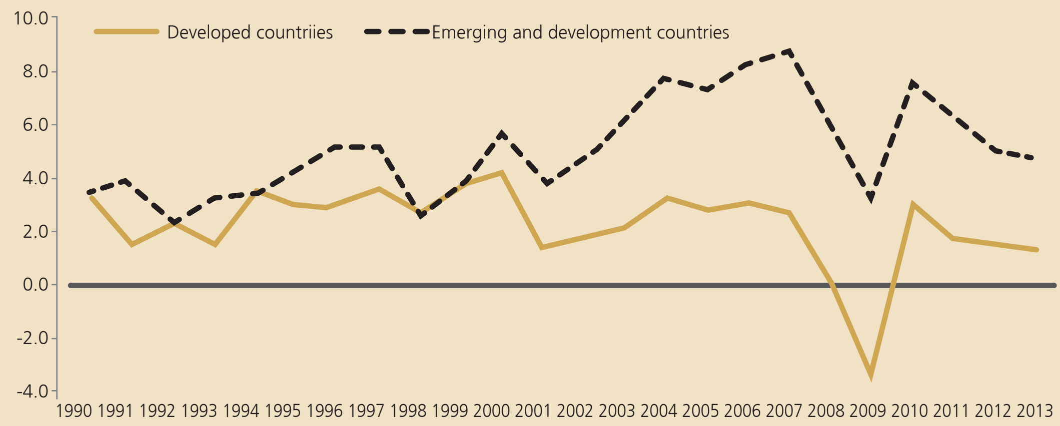
TABLE 14
GLOBAL GROWTH
(Anual % change)

	Structure PPP 2012	2011	2012	2013	Average 2004-2013
Development countries	**50.4**	**1.7**	**1.4**	**1.3**	**1.6**
Of which:					
1. United States	19.5	1.8	2.8	1.9	1.8
2. Eurozone	13.5	1.6	- 0.7	- 0.4	0.8
Germany	3.8	3.3	0.7	0.4	1.3
France	2.7	2.0	0.0	0.2	1.0
Italy	2.2	0.4	- 2.4	- 1.9	- 0.2
Spain	1.7	0.1	- 1.6	- 1.2	0.9
3. Japan	5.5	- 0.5	1.4	1.5	0.8
4. United Kingdom	2.8	1.1	0.3	1.7	1.1
Developing countries	**49.6**	**6.2**	**5.1**	**4.7**	**6.5**
Of which:					
1. Developing Asia	25.1	7.8	6.8	6.6	8.6
China	14.7	9.3	7.7	7.7	10.2
India	5.7	6.2	5.0	4.7	7.7
2. Latin America and the Caribbean	8.7	4.6	3.0	2.6	4.1
Brazil	2.8	2.7	1.0	2.3	3.7
World Economy	**100.0**	**3.9**	**3.2**	**2.9**	**3.8**
Memo:					
Trading partners 1/	26.3	3.7	2.8	2.6	3.5
BRICs 2/	64.1	7.3	5.9	5.7	8.1

1/ Peru's 20 main trading partners.
2/ Brazil, Russia, India and China.
Source: Bloomberg and IMF.

On the other hand, the emerging market economies also grew at lower rates than in the previous two years, the main factor affecting their growth being the adjustments in financial markets in anticipation of a reduction in the monetary stimulus programs of the Fed, particularly in those economies showing greater vulnerabilities in their external accounts.

GRAPH 38
GDP GROWTH RATES: 1990-2013



Source: IMF.

The U.S. economy expanded 1.9 percent in 2013. The output growth rate, which was lower than the average rate in the last three years (2.4 percent), was offset by fiscal adjustments. However, the expansion of consumption (2.0 percent) and residential investment (12.2 percent) shows a continued gradual recovery of domestic demand.

Consumption was favored by the sustained recovery of the labor market, with 194 thousand jobs on average being created each month (186 thousand in 2012). The increase of wealth associated with the increase in the prices of homes (13.4 percent) and financial assets (the Dow Jones index rose 26.5 percent in the year) also contributed to this.

Driven also by the recovery of the real estate market, residential investment grew for the second consecutive year at rates of over 12 percent. However, in recent months this pace of growth has been limited by the increase in mortgage rates, by stricter conditions to get credits, and by the increase in home prices.

Non-residential investment grew only 2.7 percent due to the unfavorable impact that uncertainty associated with the automatic expenditure cuts had on activity in Q1 (the cuts were finally effective since March), but it resumed its pace of growth in the following quarters due to better corporate results.

Inflation showed a rate of 1.5 percent in the year, a lower rate than the one recorded in 2012 (1.7 percent) and lower than the average rate in the last ten years (2.4 percent). Core inflation, which excludes energy and food, showed a rate of 1.7 percent.

In this context of moderate economic recovery supported by improvements in the labor market, the Fed announced in December that it would reduce its bond purchase program by US$ 10 billion each month as from 2014. The Fed's asset purchase program began in September 2012, with purchases at a pace of US$ 85 billion per month.

TABLE 15
USA: GROWTH
(Quarterly annualized rates)

	Q1.12	Q2.12	Q3.12	Q4.12	Q1.13	Q2.13	Q3.13	Q4.13	2013
GDP	**3.7**	**1.2**	**2.8**	**0.1**	**1.1**	**2.5**	**4.1**	**2.6**	**1.9**
Personal consumption	2.9	1.9	1.7	1.7	2.3	1.8	2.0	3.3	2.0
Durable	9.8	2.9	8.3	10.5	5.8	6.2	7.9	2.8	6.9
Non-Durable	2.2	1.8	1.6	0.6	2.7	1.6	2.9	2.9	2.0
Services	2.1	1.7	0.7	0.6	1.5	1.2	0.7	3.5	1.2
Gross investment	10.5	- 1.6	6.5	- 2.4	4.7	9.2	17.2	2.5	5.4
Fixed investment	8.6	4.7	2.7	11.6	- 1.5	6.5	5.9	2.8	4.5
Non-Residential	5.8	4.5	0.3	9.8	- 4.6	4.7	4.8	5.7	2.7
Residential	23.0	5.7	14.1	19.8	12.5	14.2	10.3	- 7.9	12.2
Exports	4.2	3.8	0.4	1.1	- 1.3	8.0	3.9	9.5	2.7
Imports	0.7	2.5	0.5	- 3.1	0.6	6.9	2.4	1.5	1.4
Government expenditure	- 1.4	0.3	3.5	- 6.5	- 4.2	- 0.4	0.4	- 5.2	- 2.2

Source: Bureau of Economic Analysis.

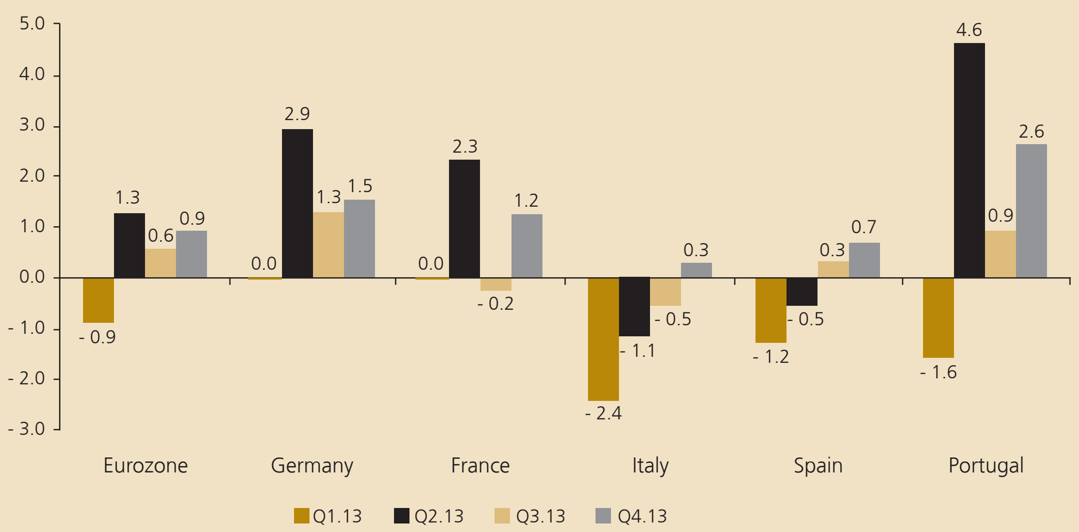
In response to the "Abenomics" program promoted by Prime Minister Abe –which included a program of structural reforms and fiscal and monetary impulses–, **Japan's** GDP grew 1.5 percent in 2013, showing an acceleration in the recovery in the first half of the year driven by consumption and stabilizing in the pace of growth in Q2. In April, the Bank of Japan (BoJ) announced its commitment to achieve an inflation target of 2 percent in 2016 and expanded its bond purchase program to an annual pace of 60 to 70 trillion yen. In 2013 inflation has increased to 1.6 percent (from -0.1 percent in 2012), the highest level since 2008. The exchange rate, on the other hand, has depreciated 21 percent in the year, while exports have grown less than expected in the same period.

The output in the **Eurozone** contracted 0.4 percent in 2013, but the contraction showed a slower pace than in 2012 (0.7 percent). In terms of expenditure, this has implied the recovery of domestic private demand (consumption and fixed investment) and external demand (exports), while public spending, imports and change in inventories have sapped percentage points to growth. Germany, the largest economy in the region, remained in expansion (0.4 percent) and the countries with debt problems in general recorded a better outcome, in contrast with 2012. Even though Portugal, Spain, and Italy contracted in the year, they managed to register positive growth rates since Q2 after showing 9 consecutive quarters of contraction (Spain and Italy) and 10 consecutive quarters of contraction (Portugal).

The factors that explain this recovery were mainly the recovery of business confidence, better financial conditions (observed since Q2-2012), the progress achieved in the fiscal consolidation programs (Greece reported for the first time a primary fiscal surplus and Ireland completed its EU/IMF rescue program successfully at the end of the year), and the progress made in correcting the external macroeconomic imbalances (Italy, Spain, Portugal and Greece showed small current-account surpluses for the first time since 2001).

Nonetheless, the recovery has been weak, the level of unemployment remains high (11.9 percent), inflation has been reduced to levels below 1 percent (which has raised fears of deflation), and bank lending remains stagnant in most of the countries with debt problems.

GRAPH 39
EUROZONE: QUARTERLY GDP GROWTH
(Seasonally adjusted annualized rates)



Source: Eurostat and Bloomberg.

In this context, the ECB cut its benchmark interest rate by 25 bps in its meetings of May and November, lowering it first from 0.75 to 0.50 percent and later to 0.25 percent. The ECB also maintained its deposit rate at 0 percent and reduced the rate of ECB emergency loans from 1.5 to 1.0 percent first and then to 0.75 percent, and extended the total allocation of regular short-term liquidity (MROs) until mid-2015 to offset any liquidity problems. In addition to this, the ECB has reiterated on several occasions that it will maintain its policy of low rates for an extended period of time and that it does not rule out the possibility of adopting other measures if they are necessary.

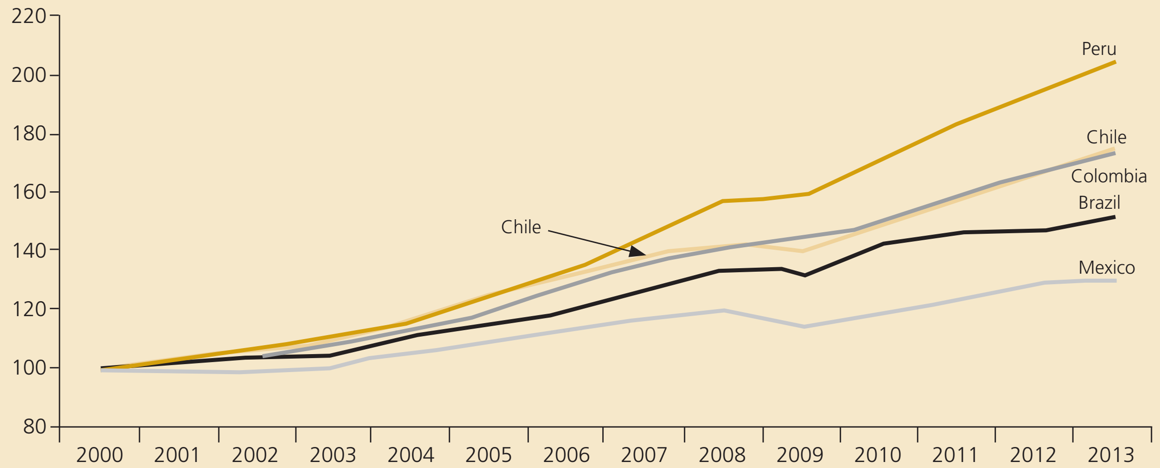
China maintained in 2013 the same growth rate it registered the previous year (7.7 percent). In Q1, the economy grew at a lower rate than expected due to a deceleration in the level of activity, especially in the pace of growth of industrial production and domestic sales, which increased fears of a sharp slowdown. However, these variables showed some recovery later. On the other hand, inflation remained below the 3.5 percent inflation target.

The new administration made explicit their decision of orienting actions to reaching a lower but more balanced sustainable growth, to completing the transition to a market economy and to facing systemic risks, particularly the high level of indebtedness of the private sector and local governments, the overheating of the housing market, and the growth of the shadow banking system (subject to less oversight). Thus, the government has proposed a wide range of reforms, including greater financial liberalization, improving the debt management in all government levels, opening protected industries (including finance and energy) to a greater participation of the private sector, and greater flexibility in the management of resources. The liquidity squeeze measures implemented at the end of the year reflect the government's intention to slow down the growth of the debt.

India is estimated to have grown 4.7 percent in 2013 (5.0 percent in the previous fiscal year). During the year, investors and consumers' confidence was affected by a combination of fiscal and external vulnerabilities and policy uncertainties. In this context, like in other emerging economies, expectations that the Fed would start reducing QE caused a sharp depreciation of the exchange rate in the second half of the year. The rupee tended to stabilize relative to the peak reached in late August thereafter thanks to the measures implemented to improve the current account –i.e. restrictions to gold imports– and the program of reforms of the financial system announced by the new governor of the central bank. In spite of this, the pace of economic activity remained weak during the year and the persistence of inflationary pressures offset the possibilities of implementing stimulus policies.

Showing a slower pace of expansion than in 2012 (3.0 percent), **Latin American** countries grew 2.6 percent in 2013 due both to a slowdown in domestic demand and a smaller external stimulus. Within the countries with inflation targeting, the highest growth rates were observed in Peru, Chile, and Colombia. On the other hand, growth in Mexico registered a significant slowdown due mainly to the deterioration of the country's industrial production associated with the contraction of construction. Favored by the recovery of investment which offset the slowdown in private and public consumption and the negative impact of net exports, Brazil grew at a higher rate than in 2012, but below its average rate of expansion in the past 3 years.

GRÁPH 40
REAL GDP
(2000 = 100)



Source: WEO (April 2014).

During the year, inflation in these countries recorded upward pressures due mainly to the depreciation of their currencies against the dollar.

3. Financial Markets

In 2013, international financial markets were influenced mainly by the onset of the Fed tapering, the negotiations to solve the tax issue in the United States, and signals of a slowing growth in the emerging economies, especially in China. These factors increased risk aversion and led investors to liquidate assets with greater relative risk.

Much of the volatility observed in the international financial markets was associated with events connected to fiscal and monetary policy in the United States. As regards monetary policy, in his presentation before the Congress in May, Bernanke said that the Fed would begin tapering towards the end of the year as long as favorable economic conditions were confirmed. As from this announcement, the markets were affected by uncertainty about when tapering would start and about the size of the reduction in bond purchases. Finally, in December 2013, the Fed announced the first cut of the bond purchase program and said that it would reduce purchases by US$ 10 billion per month to US$ 75 billion. The Fed also announced that since January 2014 monthly purchases of mortgage-backed securities would be reduced by US$ 5 billion to US$ 35 billion, while purchases of Treasury bonds would be reduced by US$ 5 billion to US$ 40 billion.

In the fiscal arena, a program of automatic spending cuts –or sequestration– started in March. A partial shutdown of the Federal Government that lasted 16 days took place in October –the beginning of fiscal year 2014– given the absence of agreement on how to provide funding for the federal agencies. Finally, in December the U.S. Congress proposed a budget deal for fiscal years 2014-2015 which reduced the automatic spending cuts and the proposal was approved in January 2014.

In contrast, events in the Eurozone and particularly in the peripheral countries were positive in general. Ireland completed successfully its rescue program with the troika (European Union/IMF/ECB) and Portugal concluded the ninth review of the program. Spain also carried out its bank restructuring process through its financial rescue program with the EU, whereas, on the other hand, the negotiations between the troika and Greece –associated with the review of goals in the last quarter and with the size of the financial gap– were deferred until Q1-2014. Finally, the crisis that unfolded in Cyprus in the first quarter of the year ended with the signing of the EU-IMF bailout program for a total of €10 billion.

Additionally, in the financial arena, some progress was observed in terms of the banking union. The BCE agreed to fund the European Stability Mechanism (ESM) with €60 billion to recapitalize troubled banks directly, and a Single Resolution Mechanism (SRM) was adopted and the Single Bank Resolution Fund (SBRF) was established. The ECB also announced that it will carry out a comprehensive assessment –asset quality review (AQR)– of the Eurozone banks' assets early in 2014, before starting its banking supervision function.

Money markets in the developed economies showed stability. In the United States, the 3-month Libor stood around 0.27 percent and its spread relative to the overnight rate in the wholesale market (OIS) remained around 0.16 percent in the year. In the Eurozone, the interest rates in money markets also showed stability except at the end of the year when there was a reduction of excess liquidity in the banking system due to banks' prepayments of the ECB 3 year-loans they had received in December 2011 and February 2012. Notwithstanding, these prepayments reflect a better financial position and better market credit conditions. It is worth mentioning that the ECB has tried to sterilize its balance of the sovereign bonds (€175.5 billion) it acquired under the previous asset purchase program (SMP) completely through auctions of 7-days deposits.

The **sovereign debt markets** of developed economies showed a mixed evolution. The major economies were affected by the onset of the Fed tapering and by better growth conditions. The yields on 10-year sovereign bonds of USA, the UK, and Germany rose significantly, whereas the yield on Japanese bonds fell slightly due to uncertainty about the effectiveness of *"Abenomics"*.

The economic trend of the Eurozone peripheral countries was favored by the improvement of economic conditions and by investors' search for higher yields. The *spreads* of 10-year sovereign debt and CDS spreads fell significantly, particularly in countries with EU/IMF programs such as Ireland, after they completed their program successfully at the end of the year.

TABLE 16
SOVEREIGN *SPREADS* OF DEVELOPED COUNTRIES

	End of period			Chg. in bps	
	Dec. 11 (3)	Dec. 12 (2)	Dec. 13 (1)	Dec. 12 (1)-(2)	Dec. 11 (1)-(3)
Treasury bond yields (10 year) (%)					
USA	1.88	1.76	3.03	127	115
Japan	0.99	0.79	0.74	- 5	- 25
United Kingdom	1.98	1.83	3.02	119	105
Eurozone:					
Germany	1.83	1.32	1.93	61	10
France	3.15	2.00	2.56	56	- 59
Italy	7.11	4.50	4.13	- 37	- 298
Spain	5.09	5.27	4.15	- 111	- 94
Portugal	13.36	7.01	6.13	- 88	- 723
Greece	34.96	11.90	8.42	- 348	- 2,654
Ireland	8.21	8.21	3.51	- 469	- 469
CDS-5 years (in pbs)					
US	49	38	28	- 10	- 21
Japan	143	82	40	- 42	- 103
United Kingdom	98	41	26	- 15	- 71
Germany	102	42	25	- 17	- 77
France	220	93	54	- 39	- 166
Spain	380	300	154	- 146	- 227
Italy	484	289	168	- 121	- 316
Greece	8,786	4,265	675	- 3,590	- 8,111
Portugal	1,082	443	352	- 91	- 730
Ireland	724	220	120	- 100	- 604

Source: Bloomberg.

The credit *spreads* of Latin American countries increased, except in Mexico, in line with expectations related to the beginning of tapering –which increased global risk aversion– and in line with a lower outlook for growth in the region.

TABLE 17
SOVEREIGN *SPREADS* OF LATIN AMERICA

	End of period			% Chg. Dec. 13 compared to:	
	Dec. 11 (3)	Dec. 12 (2)	Dec. 13 (1)	Dec. 12 (1)-(2)	Dec. 11 (1)-(3)
***Spreads* CDS (in pbs)**					
Argentina	938	1,401	1,638	237	701
Brazil	161	108	193	85	33
Chile	132	72	80	8	- 53
Colombia	191	96	118	22	- 73
Mexico	153	97	92	- 5	- 61
Peru	172	97	133	36	- 39

Source: Bloomberg.

Stock markets in the developed economies showed a positive trend due to improvements in conditions for growth. On the other hand, signals of slowing activity in the emerging economies like China, the onset of the Fed tapering, and uncertainty about its effect on the emerging market economies generated liquidations in the exchange markets of the major emerging economies.

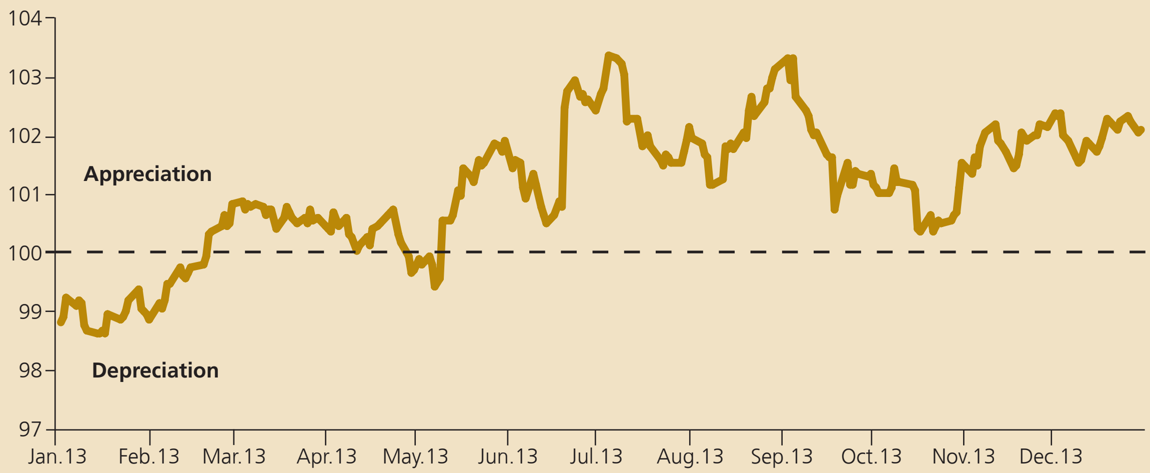
TABLE 18
STOCK MARKETS
(Main indices, end of period)

					% Chg. Dec. 13 compared to:	
		Dec. 11	Dec.12	Dec. 13	Dec.12	Dec. 11
VIX	S&P'500	23.4	18.0	13.7	- 4.3	- 9.7
USA	Dow Jones	12,218	13,104	16,577	26.5%	35.7%
BRAZIL	Bovespa	56,754	60,952	51,507	- 15.5%	- 9.2%
ARGENTINA	Merval	2,463	2,854	5,391	88.9%	118.9%
MEXICO	IPC	37,078	43,706	42,727	- 2.2%	15.2%
CHILE	IGP	20,130	21,070	18,227	- 13.5%	- 9.5%
COLOMBIA	IGBC	12,666	14,716	13,071	- 11.2%	3.2%
PERU	Ind. Gral.	19,473	20,629	15,754	- 23.6%	- 19.1%
UNITED KINGDOM	FTSE 100	5,572	5,898	6,749	14.4%	21.1%
GERMANY	DAX	5,898	7,612	9,552	25.5%	61.9%
FRANCE	CAC 40	3,160	3,641	4,296	18.0%	36.0%
SPAIN	IBEX 35	8,566	8,168	9,917	21.4%	15.8%
ITALY	FTSE MIB	15,090	16,273	18,968	16.6%	25.7%
CYPRUS	CYSMMAPA	296	115	103	- 10.1%	- 65.1%
RUSSIA	RTSI$ Index	1,382	1,527	1,443	- 5.5%	4.4%
UKRAINE	PFTS Index	534	329	301	- 8.6%	- 43.8%
TURKEY	XU100	51,267	78,208	67,802	- 13.3%	32.3%
SOUTH AFRICA	JSE	31,986	39,250	46,256	17.8%	44.6%
JAPAN	Nikkei 225	8,455	10,395	16,291	56.7%	92.7%
INDONESIA	JCI	3,822	4,317	4,274	- 1.0%	11.8%
INDIA	S&P CNX Nifty	4,624	5,905	6,304	6.8%	36.3%
CHINA	Shangai C.	2,199	2,269	2,116	- 6.7%	- 3.8%

Source: Bloomberg.

In **foreign exchange markets**, the dollar appreciated as a result of the beginning of the Fed tapering. According to the Fed currency basket index –which includes the currencies of USA's main trading partners with figures at period-end– the dollar appreciated 2.9 percent in the year due basically to the trend this currency registered since May because of expectations regarding the onset of *tapering.*

GRAPH 41
US DOLLAR BASKET INDEX *
(March 1973 = 100)



* A rise in the index represents an appreciation of the US dollar.
Source: FED.

The dollar depreciated against the euro and the pound reflecting better financial conditions in the countries with debt problems (Ireland, Portugal, Spain, and Italy, particularly) and European countries' better prospects for growth. Against the yen, the dollar appreciated significantly (21.4 percent). This also reflected the implementation of the *"Abenomics"* program, which includes purchases of bonds by the Bank of Japan for 60 to 70 trillion yen per year.

In Latin America, the dollar appreciated against most currencies given that expectations about the reduction of monetary stimulus by the Fed generated a liquidation of assets in the emerging economies. In Brazil, these pressures were intensified by the important current account deficit the country showed in the year. In Argentina, the depreciation of its currency reflected the gap between the official exchange rate and the rate in the parallel market, lower minor international reserves, and its current account deficit.

Other emerging economies also faced pressures on their currencies, particularly those countries that have higher current account deficits or are heavily dependent on short-term capital. Some of these economies responded to these pressures by raising the monetary policy rate, by selling dollars or by establishing restrictions.

TABLE 19
EXCHANGE RATE
(End of period)

	Dec. 11	Dec.12	Dec.13	% Chg. Dec. 13 compared to: Dec.12	Dec. 11
Canada	1.02	0.99	1.06	7.1	4.2
Japan	76.94	86.74	105.30	21.4	36.9
United Kingdom (US$/c.u.)	1.55	1.63	1.66	1.9	6.6
Eurozone (US$/c.u.)	1.30	1.32	1.37	4.2	6.2
Switzerland	0.94	0.92	0.89	- 2.5	- 4.8
Brazil	1.86	2.05	2.36	15.4	26.8
Chile	519	478	525	9.8	1.2
Colombia	1,936	1,766	1,929	9.2	- 0.4
Mexico	13.95	12.86	13.03	1.3	- 6.6
Argentina	4.30	4.92	6.52	32.6	51.5
Peru	2.697	2.552	2.80	9.7	3.8
Hungary	243	220	216	- 1.9	- 11.2
Poland	3.44	3.08	3.02	- 2.2	- 12.3
Russia	32.19	30.55	32.89	7.7	2.2
Turkey	1.88	1.78	2.15	20.4	13.9
China	6.29	6.23	6.05	- 2.8	- 3.8
India	53.01	54.99	61.80	12.4	16.6
Israel	3.81	3.73	3.47	- 7.0	- 9.0
South Africa	8.07	8.45	10.45	23.6	29.5
Fed basket	100.6	99.2	102.1	2.9	1.4

Source: Bloomberg and Reuters.

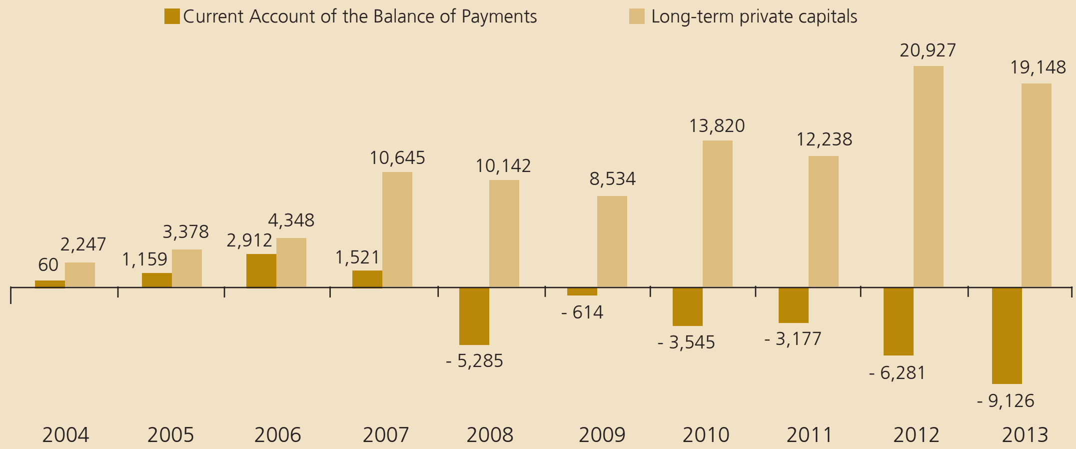
4. Balance of Payments

In 2013, in a context of declining international prices for our main export products, Peru's terms of trade recorded an average decrease of 4.7 percent. Together with the growth of domestic demand, this explains that the deficit in the current account of the balance of payments increased from 3.3 percent of GDP in 2012 to 4.5 percent in 2013.

The financial account registered a flow of US$ 11.41 billion –equivalent to 5.6 percent of GDP– resulting mainly from the long-term operations of the private sector (7.4 percent of GDP), whose flow includes the placement of bonds in external markets (by financial, oil, and manufacturing companies), foreign direct investment (of mining companies and companies providing non-financial services), and long-term loans (energy, mining and hydrocarbons companies).

The financial account of the public sector showed a negative flow of US$ 1.35 billion, while net short-term capital outflows totaled US$ 2.13 billion. This was mainly due to the decrease of banks' external liabilities, whose balancing entry could be found in the issuance of long-term bonds in international markets.

GRAPH 42
CURRENT ACCOUNT AND LONG TERM CAPITALS 1/
(Millions US$)



1/ Includes foreign direct investments, portfolio investment and long term disbursements.
Source: BCRP.

TABLE 20
BALANCE OF PAYMENTS

	Million US$			% GDP	
	2011	**2012**	**2013**	**2012**	**2013**
I. CURRENT ACCOUNT BALANCE	**- 3,177**	**- 6,281**	**- 9,126**	**- 3.3**	**- 4.5**
1. Trade Balance	9,224	5,232	- 40	2.7	0.0
a. FOB Exports	46,376	46,367	42,177	24.0	20.8
b. FOB Imports	- 37,152	- 41,135	- 42,217	- 21.3	- 20.9
2. Services	- 2,244	- 2,420	- 1,801	- 1.3	- 0.9
a. Exports	4,264	4,915	5,814	2.5	2.9
b. Imports	- 6,508	- 7,335	- 7,615	- 3.8	- 3.8
3. Investment Income	- 13,357	- 12,399	- 10,631	- 6.4	- 5.3
a. Private	- 12,821	- 11,670	- 9,773	- 6.0	- 4.8
b. Public	- 537	- 729	- 858	- 0.4	- 0.4
4. Current transfers	3,201	3,307	3,346	1.7	1.7
of which: Remittances	2,697	2,788	2,707	1.4	1.3
II. FINANCIAL ACCOUNT	**8,716**	**19,812**	**11,407**	**10.3**	**5.6**
1. Private sector	9,271	15,792	14,881	8.2	7.4
a. Assets	- 1,597	- 2,408	- 1,291	- 1.2	- 0.6
b. Liabilities	10,868	18,200	16,173	9.4	8.0
2. Public sector	662	1,447	- 1,350	0.8	- 0.7
a. Assets	- 273	- 457	113	- 0.2	0.1
b. Liabilities 1/	935	1,904	- 1,463	1.0	- 0.7
3. Short-term capital	- 1,217	2,572	- 2,125	1.3	- 1.1
a. Assets	- 1,258	0	356	0.0	0.2
b. Liabilities	42	2,572	- 2,481	1.3	- 1.2
III. EXCEPTIONAL FINANCING	**33**	**19**	**5**	**0.0**	**0.0**
IV. NET ERRORS AND OMISSIONS	**- 886**	**1,257**	**622**	**0.7**	**0.3**
V. BALANCE OF PAYMENT RESULT (V = I + II + III + IV) = (1-2)	**4,686**	**14,806**	**2,907**	**7.7**	**1.4**
1. Change in the balance of NIRs	4,711	15,176	1,672	7.9	0.8
2. Valuation effect	25	369	- 1,235	0.2	- 0.6

1/ Government bonds issued abroad and held by residents are excluded from the external liabilities of the public sector,and government bonds issued in the domestic market and held by non-residents are included in the external liabilities of the public sector.
Source: BCRP, MEF, SBS, SUNAT, MINCETUR, PROMPERU, Ministry of Foreign Affairs, COFIDE, ONP, FCR, Tacna Free Trade Zone, Banco de la Nación, Cavali S.A. ICLV, Proinversión, Bank for International Settlements (BIS), and businesses.

4.1 Trade Balance

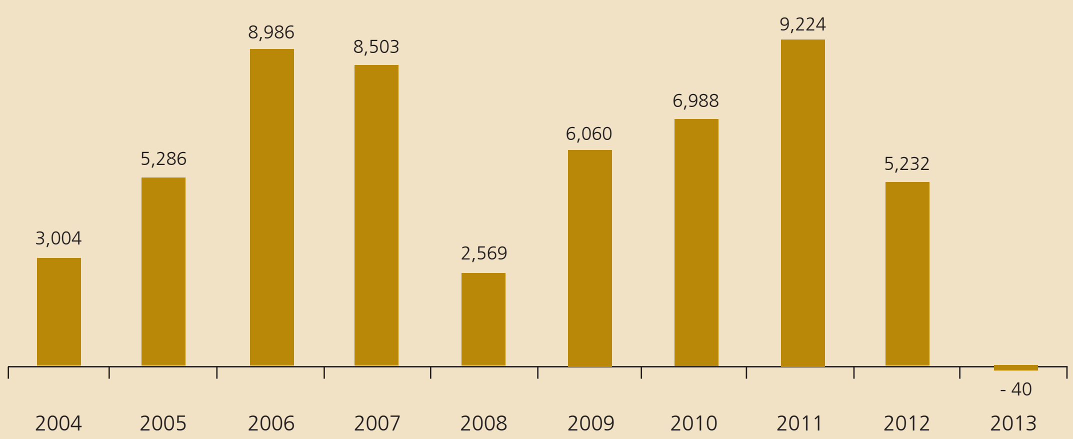
The trade balance recorded a deficit of US$ 40 million in 2013, which reflects the greater dynamism of imports in line with the evolution of domestic demand, the effect of lower terms of trade, and a negative growth rate in the volume of both traditional and non-traditional exports.

Exports, which totaled US$ 42.18 billion, were 9.0 percent lower than in the previous year due to the decline in the average prices of exports (5.5 percent), especially traditional exports (gold, copper, and coffee), as a result of a less favorable international environment. In terms of volume, fishmeal, coffee and gold were affected (exports of coffee dropped due to the strong impact of the yellow rust plague, while exports of gold declined due mainly to the lower exports of gold traders).

The volume of non-traditional exports recorded a decline of 1.5 percent. Exports of textiles, fishery products, and chemicals dropped 9.9, 2.0 and 3.7 percent, respectively. This decline was in part offset by an increase of farming products (6.2 percent) and steel and iron products (0.1 percent).

On the other hand, imports were 2.6 percent higher than in 2012 and amounted to US$ 42.22 billion. Reflecting the increased demand for consumer goods as well as the higher demand for capital goods associated with the growth of economic activity and the implementation of investment projects in the country, imports grew 3.5 percent in terms of volume, whereas imports in terms of prices fell 0.8 percent.

GRAPH 43
TRADE BALANCE
(Million US$)



Source: BCRP and SUNAT.

With this balance, the degree of openness in the economy –measured as the weight of foreign trade– reached a level equivalent to 41.7 percent of GDP, which makes the Peruvian economy one of the more open economies in the region as a result of the continued implementation of trade liberalization policies through the signing of free trade agreements (FTAs).

As in 2011 and 2012, Peru's major trading partners in 2013 were USA and China, which increased their participation in terms of Peru's total trade by 2.9 and 0.8 percentage points, respectively. The increase in exports of traditional products, particularly gold, to the United States is worth pointing out.

On the other hand, China continued buying minerals such as copper, iron and zinc, and fishmeal from Peru, while the latter bought mainly machinery, mobile phones, computer equipment, and cars from the Asian country.

Trade with the United States increased in terms of both traditional exports and non-traditional exports. The latter included greater exports of farming products, fisheries and textiles, with exports of grapes, asparagus, quinoa, t-shirts, and frozen fish products standing out. The U.S. market remains the market with the highest demand for our non-traditional products with a share of 24.1 percent of total exports.

At the level of regions, our exports of non-traditional products to South American countries were the only ones that decreased, which would be associated with quasi-tariff trade restrictions adopted recently by some countries. On the other hand, our exports to the European Union recorded a recovery of 6.1 percent relative to 2012, while the Asian and American markets continued increasing their demand for our products.

TABLE 21
TRADE BY MAIN COUNTRIES AND REGIONS 1/
(% structure)

	Exports 2/			Imports 3/			X + M		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
United States	13.1	13.7	18.0	19.3	18.7	20.0	15.8	16.1	19.0
China	15.1	17.1	17.5	16.4	18.2	19.2	15.7	17.6	18.4
Brazil	2.8	3.1	4.1	6.4	6.1	5.3	4.4	4.5	4.7
Japan	4.7	5.6	5.3	3.3	3.4	3.2	4.1	4.6	4.2
Canada	9.2	7.5	6.5	1.5	1.4	1.4	5.8	4.6	4.0
Switzerland	12.9	11.0	7.2	0.4	0.4	0.4	7.4	6.0	3.8
South Korea	3.7	3.4	3.7	3.8	3.8	3.5	3.7	3.5	3.6
Chile	4.2	4.4	4.0	3.8	3.1	3.1	4.0	3.8	3.6
Ecuador	1.8	2.0	2.3	5.1	4.9	4.6	3.3	3.4	3.4
Germany	4.2	4.1	2.8	3.0	3.2	3.2	3.6	3.7	3.0
Mexico	1.0	0.9	1.2	3.9	4.3	4.7	2.3	2.5	3.0
Spain	3.7	4.0	3.8	1.5	1.9	2.0	2.7	3.0	2.9
Colombia	2.3	2.0	2.0	3.9	3.7	3.4	3.0	2.8	2.7
Italy	2.8	2.2	2.4	1.5	1.6	1.6	2.2	1.9	2.0
Others	18.6	19.0	19.3	26.2	25.4	24.5	22.0	22.0	21.7
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Asia	26.5	29.1	30.2	30.4	32.2	33.0	28.2	30.5	31.7
North America	23.2	22.1	25.7	24.6	24.4	26.1	23.9	23.2	26.0
European Union	18.9	17.7	16.7	10.8	11.8	11.8	15.3	14.9	14.3
Andean countries 4/	11.3	12.3	11.6	14.6	13.9	12.7	12.8	13.1	12.1
Mercosur 5/	3.3	3.6	4.6	12.2	11.4	9.8	7.3	7.3	7.2
Others	16.7	15.2	11.2	7.3	6.3	6.5	12.6	11.1	8.7

X: Exports. M: Imports.
1/ Imports were grouped by country of origin.
2/ Exports exclude goods sold and repairs of foreign ships and aircrafts.
3/ Imports exclude defense material, other purchased goods, and ships and aircrafts abroad.
4/ Bolivia, Chile, Colombia, Ecuador, and Venezuela.
5/ Brazil, Argentina, Uruguay, and Paraguay.
Source: SUNAT.

Classification of exports by groups of economic activity

Peru's exports classified according to the type of economic activity where they originate are discussed in this section. This classification is based on a selection and grouping of the major tariff items which cover 98 percent of the FOB value of the goods exported in 2013, arranging them according to the International Standard Industrial Classification Revision 4 (ISIC Rev. 4).

All ISIC items were classified into four major groups: agriculture, fishing, mining and hydrocarbons, and manufacturing. In some cases, different ISIC groups have been combined to obtain a similar classification to the one used in statistics of economic activity. For example, ISIC groups 0121 to 0126, which refer to the cultivation of assorted fruits, have been combined into a single group called "Fruits", which includes fresh grapes, avocados, mangoes, bananas, mandarins, among other fruits. Thus, for instance, whether "traditional" or "non-traditional" exports, all mining concentrates, refined, or processed products are under the category of "mining and hydrocarbon exports".

In this way, we can say that exports of the agriculture sector amounted to US$ 3.47 billion in 2013, exports of the fishing sector to US$ 2.43 billion, mining and hydrocarbons exports to US$ 29.24 billion, and manufacturing exports to US$ 5.28 billion.

Exports of coffee (US$ 695 million) and fruits (US$ 1.04 billion) stand out in the group of agriculture products. It is worth mentioning that the rust plague reduced shipments of coffee by 32 percent compared to 2012, which explains the decline registered in agricultural exports. Excluding coffee, farming exports would show an increase of 12.8 percent.

Exports of fishmeal and canned fish and seafood (US$ 2.38 billion) are noteworthy in the fishing sector, while exports of non-ferrous minerals (US$ 10.65 billion) and primary products based on non-ferrous minerals (US$ 12.11 billion) stand out in the sector of mining and hydrocarbons. Finally, exports of textiles –fabrics, yarn, garments and synthetic fibers– which totaled US$ 1.58 billion stand out in the manufacturing group.

The graph below shows that the distribution of exports by sector has remained relatively stable between 2009 and 2013, with the exception of the fishing sector whose share declined from 7 to 6 percent and the share of the mining and hydrocarbons sector which increased from 69 to 70 percent in the same period.

GRAPH 44
COMPOSITION OF EXPORTS BY SECTORS

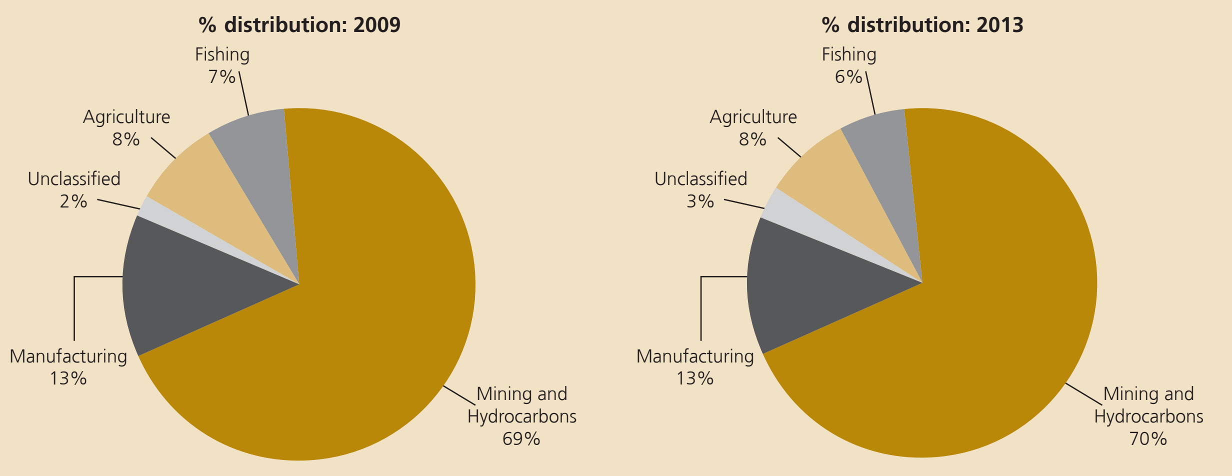


TABLE 22
EXPORTS BY GROUP OF ECONOMIC ACTIVITY 1/
(Million US$)

CIIU	Sector	2009	2010	2011	2012	2013
	Agricultural Products	**2,087**	**2,695**	**3,891**	**3,480**	**3,466**
0111	Cereals, legumes and oilseeds, except rice	90	115	139	161	211
	Of which:					
	Quinoa	7	13	25	32	79
	Tara powder	13	27	30	32	32
	Black Eye Bean	14	17	17	18	20
0113	Vegetables, tubers and roots	296	356	368	445	525
	Of which:					
	Fresh Asparagus	251	291	294	343	412
	Fresh onions	28	42	43	54	63
0121 - 0126	Fruits	403	513	779	844	1,039
	Of which:					
	Grapes	136	180	288	366	450
	Avocados	64	85	161	136	185
	Mangos	71	89	115	117	133
	Organic bananas	51	49	65	82	89
0127	Coffee	584	887	1,597	1,023	695
0128	Spices and medicinal and aromatic plants	120	121	160	142	131
	Of which:					
	Whole paprika	68	66	87	65	49
	Ground paprika	14	15	24	30	22
1030	Canned fruits and vegetables	472	557	703	693	679
1072	Sugar cane	39	68	51	43	56
	Others	84	78	95	129	131
	Fishing	**1,952**	**2,268**	**2,846**	**2,811**	**2,428**
0311	Fresh or frozen products	13	24	23	29	41
1020	Fishmeal and canned fish, and sea food	1,935	2,239	2,820	2,778	2,383
	Others	3	5	4	4	4
	Mining and Hydrocarbons	**18,688**	**25,559**	**32,996**	**32,633**	**29,241**
0610	Crude oil	353	505	577	582	540
0620	Natural gas	0	284	1,284	1,331	1,372
0710	Iron	298	523	1,030	845	857
0729	Non-ferrous minerals	6,471	9,738	12,135	12,530	10,653
0891	Phosphates, sulphates and other	10	70	254	449	440
1920	Oil refining products	1,562	2,239	2,681	3,046	3,214
2420	Primary products of precious metals and non-ferrous metals	9,955	12,152	14,975	13,778	12,107
	Others	39	47	60	73	58
	Manufacturing	**3,615**	**4,316**	**5,375**	**5,768**	**5,280**
1040	Oils and fats of vegetable and animal origin	263	285	353	571	391
1050	Milk products	62	84	103	119	112
1061, 1071, 1074	Milling and Bakery	89	112	151	146	147
1073	Cocoa and chocolate and confectionery products	83	97	125	123	152
1079	Other foodstuffs	36	47	56	72	82
1080	Prepared animal food	63	79	104	123	122
1311 - 1430, 2030	Textiles (yarn, tissues, garments and fibers)	1,340	1,383	1,716	1,773	1,582
1610	Wood	120	132	116	112	104
1709	Paper and cardboard items	75	75	89	108	121
1811	Brochures, books and other printed materials	62	59	75	87	76
2011	Basic chemicals	248	497	720	570	464
2012	Fertilizers	67	56	58	58	58
2013	Supplies of plastics and synthetic rubber	30	48	66	58	57
2023	Toiletries and cleaning products	98	110	129	196	183
2029	Others chemicals	49	53	71	79	63
2211	Tires and inner tubes	36	56	79	76	84
2220	Plastic products	221	296	389	453	435
2392	Building materials	49	71	80	82	109
2410, 2431	Iron and steel industry	110	144	146	185	175
2432	Smelting of non-ferrous metals	92	154	185	189	185
2710	Electric motors, generators, transformers and distribution equipment	19	37	24	29	32
2732	Other electric and electronic cables	24	15	24	31	10
2822 - 2824	Machinery and equipment	34	50	49	47	45
3211 - 3290	Miscellaneous articles	80	91	100	109	112
	Others	268	289	376	821	818
	Unclassified	**575**	**711**	**965**	**1,330**	**1,222**
	Total	**26,918**	**35,549**	**46,072**	**46,022**	**41,637**

1/ Only definitive exports are included.

Traditional Exports

In 2013 traditional exports amounted to US$ 30.95 billion, 11.1 percent less than in 2012, this decline reflecting mainly the lower prices of basic metals as well as the lower prices of fishmeal and coffee.

The volume of traditional products exported fell 4.4 percent compared to 2012 as a result of lower shipments of gold, fishmeal, coffee –due to lower production because of the yellow rust plague– and crude oil, due to lower extraction.

TABLE 23
EXPORTS
(% change)

	Volume			Price		
	2011	**2012**	**2013**	**2011**	**2012**	**2013**
TRADITIONAL EXPORTS	**4.4**	**1.0**	**- 4.4**	**23.4**	**- 4.0**	**- 7.0**
Of which:						
Fish meal	20.1	2.4	- 36.1	- 7.9	- 2.9	20.6
Coffee	28.8	- 10.1	- 10.9	39.5	- 28.7	- 23.7
Copper	0.3	11.0	- 0.2	20.3	- 9.9	- 8.3
Gold	2.5	- 10.6	- 1.4	29.0	6.0	- 15.7
Zinc	- 20.0	1.6	7.4	12.2	- 12.6	- 2.7
Crude oil	- 13.9	- 4.1	- 6.1	32.0	5.1	- 1.0
Derivatives	- 11.9	13.6	11.6	33.8	0.3	- 4.3
NON-TRADITIONAL EXPORTS	**15.2**	**5.6**	**- 1.5**	**14.7**	**4.2**	**- 0.4**
Of which:						
Agricultural exports	16.3	2.5	6.2	10.6	6.1	4.9
Fisheries	34.4	- 5.1	- 2.0	21.4	2.1	3.2
Textiles	8.6	7.1	- 9.9	17.4	2.2	- 1.8
Chemicals	17.6	- 7.6	- 3.7	14.5	7.1	- 4.6
Iron, steel and jewelry	2.8	26.8	0.1	15.7	- 9.1	- 3.4
TOTAL	**6.6**	**2.2**	**- 3.8**	**21.5**	**- 2.2**	**- 5.5**

Source: BCRP and SUNAT.

The value of exports of fisheries amounted to US$ 1.71 billion –down 26.2 percent relative to the previous year– due basically to lower volumes of exports of fishmeal and fish oil.

In terms of value, mining exports in 2013 (US$ 23.26 billion) were 12.0 percent lower than in 2012. This result reflects both the lower international prices of basic metals and the lower volume of exports of gold. It should be pointed out that the volume of exports of copper –our main export product– remained stable relative to 2012 with a total of 1,402 thousand fine metric tons of copper exported.

Peru's sales of crude oil and natural gas to other countries amounted to US$ 5.21 billion, which represents an increase of 4.2 percent compared to the previous year. This outcome reflects an increase in the volumes of exports of oil derivatives (11.6 percent) and natural gas (9.4 percent).

TABLE 24
TRADITIONAL EXPORTS

	Million US$			% change		
	2011	2012	2013	2011	2012	2013
FISHING	**2,114**	**2,312**	**1,707**	**12.2**	**9.4**	**- 26.2**
Of which:						
Fishmeal	1,780	1,770	1,364	10.6	- 0.6	- 22.9
Fish oil	333	542	343	21.6	62.5	- 36.7
AGRICULTURAL PRODUCTS	**1,689**	**1,095**	**785**	**73.3**	**- 35.2**	**- 28.3**
Of which:						
Cotton	8	4	2	608.9	- 43.5	- 61.2
Sugar	48	6	14	- 26.5	- 87.8	139.1
Coffee	1,597	1,024	696	79.8	- 35.9	- 32.0
MINING	**27,526**	**26,423**	**23,257**	**26.7**	**- 4.0**	**- 12.0**
Of which:						
Copper	10,721	10,731	9,813	20.9	0.1	- 8.6
Iron	1,030	845	857	96.9	- 18.0	1.4
Lead 1/	2,427	2,575	1,759	53.7	6.1	- 31.7
Zinc	1,523	1,352	1,413	- 10.0	- 11.2	4.5
Refined silver	219	210	479	85.6	- 4.5	128.7
Gold	10,235	9,702	8,061	32.0	- 5.2	- 16.9
OIL AND NATURAL GAS	**4,568**	**4,996**	**5,205**	**47.9**	**9.4**	**4.2**
TOTAL	**35,896**	**34,825**	**30,954**	**29.7**	**- 3.0**	**- 11.1**

1/ Includes silver content.
Source: BCRP and SUNAT.

Non-Traditional Exports

Non-traditional exports amounted to US$ 10.99 billion, 1.9 percent less than in 2012. The volume of non-traditional exports decreased slightly (1.5 percent) affected by the global economic slowdown.

In the last ten years exports of non-traditional products have increased 12.2 percent on average. This increase is explained mainly by higher volumes of exports –up 6.4 percent on average in annual terms–, especially in the case of farming products (10.7 percent), chemicals (9.1 percent), fishing products (6.4 percent), and steel&iron products (6.0 percent).

The main markets of destination of our non-traditional products were United States, with US$ 2.65 billion, followed by Venezuela and Chile, with US$ 769 and US$ 747 million, respectively. However, in terms of economic blocs, exports to the Andean countries amounted to US$ 3.50 billion, a figure higher by US$ 459 million than the value of exports to North America.

As regards Peru’s exports to the United States, the top sellers were t-shirts (US$ 249 million), fresh asparagus (US$ 254 million), calcium phosphates (US$ 115 million) and fresh grapes (US$ 98 million), but non-traditional exports to the American market have increased in general.

GRAPH 45
NON-TRADITIONAL EXPORTS
(Index 2007 = 100)

Source: BCRP and SUNAT.

TABLE 25
MAIN DESTINATION: NON-TRADITIONAL EXPORTS
(Million US$)

	2011	2012	2013	% Change 2013/2012
United States	2,338	2,613	2,650	1.4
Venezuela	895	1,179	769	- 34.8
Chile	602	708	747	5.5
Ecuador	620	739	733	- 0.9
Colombia	828	767	714	- 7.0
Netherlands	433	454	562	23.9
Bolivia	436	531	537	1.2
Spain	488	433	415	- 4.2
Brazil	354	409	411	0.5
China	337	331	364	10.0
Mexico	219	244	257	5.3
United Kingdom	172	178	232	30.5
Germany	178	170	187	10.4
France	236	184	187	1.7
Italy	188	221	176	- 20.2
Others	1,853	2,036	2,044	0.4
Total	**10,176**	**11,197**	**10,985**	**- 1.9**
Memo:				
Andean countries 1/	3,380	3,925	3,499	- 10.8
North America	2,653	2,965	3,040	2.5
European Union	1,981	1,897	2,013	6.1
Asia	870	970	1,060	9.3
Mercosur 2/	519	585	558	- 4.7

1/ Bolivia, Chile, Colombia, Ecuador, and Venezuela.
2/ Argentina, Brazil, Paraguay, and Uruguay.
Source: SUNAT and BCRP.

TABLE 26
NON-TRADITIONAL EXPORTS

	Million US$			% change		
	2011	**2012**	**2013**	**2011**	**2012**	**2013**
Agricultural products	2,836	3,083	3,434	28.7	8.7	11.4
Fishing products	1,049	1,017	1,028	63.0	- 3.1	1.1
Textiles	1,990	2,177	1,926	27.5	9.4	- 11.5
Wood and paper manufacturing	402	438	426	11.8	9.1	- 2.8
Chemicals	1,655	1,636	1,503	34.7	- 1.1	- 8.2
Non-metallic minerals	492	722	720	95.5	46.8	- 0.3
Iron and steel, and jewelry	1,130	1,301	1,258	19.0	15.2	- 3.3
Metal mechanic products	476	545	534	21.1	14.6	- 2.1
Others 1/	147	277	156	33.7	88.6	- 43.7
TOTAL	**10,176**	**11,197**	**10,985**	**32.2**	**10.0**	**- 1.9**

1/ Includes furs, leather, and handcrafts, mainly.
Source: BCRP and SUNAT.

Exports of agricultural products amounted to US$ 3.43 billion, with shipments of fresh grapes, asparagus and fresh avocados standing out. It is worth mentioning that a greater dynamism was observed in the demand for Peruvian products from different countries of destination, such as United States, Netherlands, China and Chile.

In terms of economic blocks, the main destinations were the European Union (avocadoes, asparagus, fresh grapes, fresh mangoes, organic bananas, canned artichokes, and cocoa beans), North America (asparagus, fresh grapes, canned artichokes, paprika, fresh onions, fresh mangoes, and quinoa), and the Andean countries (food for shrimps and prawns, noodles, milled white rice, and hatching eggs).

In the last ten years, exports of agricultural products have grown at an average annual rate of 18.6 percent. Thus, the value of exports in 2013 was approximately 5.5 times the value of exports in 2004. Exports of fresh grapes, fresh avocado, organic banana, cocoa beans, and quinoa, which has seen an exponential growth in the past year, stand out in terms of export values.

TABLE 27
MAIN NON-TRADITIONAL AGRICULTURAL PRODUCTS
(Million US$)

Most popular products	**2003**	**2013**	**Average % change 2004-2013**
Fresh grapes	23	450	34.5
Fresh asparagus	108	412	14.3
Fresh avocados	16	185	28.0
Asparagus prepared	82	150	6.2
Fresh mangoes	31	133	15.7
Shrimp feed	14	109	22.8
Evaporated milk	18	104	18.9
Other vegetables prepared	21	99	16.6
Paprika	22	91	15.1
Organic bananas	7	89	29.3
Canned artichokes	7	87	28.4
Cocoa beans	1	83	51.2
Quinoa	0	79	70.5
Fresh onions	11	63	18.7
Subtotal	364	2,133	19.4
Total	**624**	**3,434**	**18.6**

Source: BCRP and SUNAT.

Exports of fish products totaled US$ 1.03 billion and reflected higher sales of canned and frozen squid and other frozen products. The main markets for these products were United States (US$ 226 million), China (US$ 128 million), and Spain (US$ 114 million). In the last ten years, fishing exports grew at an annual average rate of 17.5 percent.

TABLE 28
MAIN NON-TRADITIONAL FISHING PRODUCTS
(Million US$)

Most popular products	2003	2013	Average % change 2004-2013
Frozen giant squid	63	262	15.3
Frozen scallops	15	159	26.5
Canned giant squid	8	136	32.9
Frozen prawns tails with shell	10	82	24.0
Frozen fillets	17	47	10.9
Frozen fish (anchovy)	4	46	29.1
Canned anchovies	2	30	33.4
Whole frozen shrimps	5	26	17.4
Frozen prawns tails without shell	2	21	29.6
Giant Squid meal	2	18	27.6
Other canned fish (anchovy)	18	17	- 0.3
Other fillet fish	5	17	12.6
Subtotal	149	862	19.2
Total	**205**	**1,028**	**17.5**

Source: BCRP and SUNAT.

TABLE 29
MAIN COUNTRIES OF DESTINATION OF TEXTILE PRODUCTS
(Million US$)

	Year			% Change
	2011	2012	2013	2013/2012
United States	740	645	654	1.5
Venezuela	399	708	422	- 40.4
Ecuador	81	100	115	15.8
Brazil	103	102	104	1.1
Colombia	108	94	94	0.6
Chile	76	81	88	8.7
Italy	73	58	59	1.7
Mexico	26	35	44	25.8
Germany	40	35	40	13.7
Bolivia	40	45	39	- 13.0
Argentina	53	41	32	- 22.0
Canada	20	24	24	2.9
China	21	20	23	17.9
United Kingdom	31	21	19	- 12.4
Japan	18	18	18	- 4.1
Other	160	150	151	0.2
Total	**1,990**	**2,177**	**1,926**	**- 11.5**
Memo:				
North America	786	703	722	2.7
Andean Countries 1/	705	1,027	759	- 26.1
Andean Countries excluding Venezuela	306	319	337	5.5
European Union	203	160	167	4.1
Mercosur 2/	166	153	141	- 7.9
Asia	69	72	78	8.5

1/ Bolivia, Chile, Colombia, Ecuador and Venezuela.
2/ Argentina, Brazil, Paraguay and Uruguay.
Source: BCRP and SUNAT.

Exports of textiles totaled US$ 1.93 billion in 2013 (down 11.5 percent from the previous year). These exports showed a decline of 9.9 percent in terms of volume and a decline of 1.8 percent in terms of average prices. The contraction of the volume of textile products was associated with lower sales to the Venezuelan market, which was tempered by the recovery of shipments to the United States, Europe, and other Andean countries.

TABLE 30
MAIN COUNTRIES OF DESTINATION OF CHEMICAL PRODUCTS
(Million US$)

	Year			% Change
	2011	2012	2013	2013/2012
Chile	210	276	252	- 8.7
Colombia	204	232	220	- 5.0
Ecuador	162	195	202	3.4
Bolivia	151	181	173	- 4.5
Netherlands	35	49	82	66.1
Venezuela	226	161	72	- 55.0
Brazil	83	79	63	- 20.6
United States	74	55	56	0.6
Mexico	33	36	45	27.4
China	40	31	32	4.2
Guatemala	27	30	27	- 9.6
United Kingdom	24	17	23	38.2
Argentina	28	19	21	9.8
Germany	49	26	20	- 22.4
Panama	20	28	19	- 31.0
Other	290	221	194	- 12.2
Total	**1,655**	**1,636**	**1,503**	**- 8.2**
Memo:				
Andean countries 1/	955	1 045	919	- 12.0
European Union	230	156	171	9.1
Mercosur 2/	115	103	91	- 11.5
North America	108	94	109	15.4
Asia	81	68	60	- 11.4

1/ Bolivia, Chile, Colombia, Ecuador and Venezuela.
2/ Argentina, Brazil, Paraguay and Uruguay.
Source: BCRP and SUNAT.

Exports of chemical products totaled US$ 1.50 billion, 8.2 percent less than in 2012. This decline resulted mainly from lower sale prices for these products (4.5 percent) as well as from a reduction in the volume of shipments of sulfuric acid, copper rod, and PET-preforms. The main markets for chemical products in 2013 were Chile (US$ 252 million), Colombia (US$ 220 million) and Ecuador (US$ 202 million).

Diversification of Exports

A significant growth has been observed in terms of the value of our exports in the last decade. This growth has been coupled by a greater diversification of export products, especially of non-traditional exports.

The number of non-traditional exports[6] has increased from 3,743 products in 2003 to 4,480 in 2013, that is, by 737 new products. Moreover, the number of markets of destination for Peru's non-traditional exports has increased from 166 countries in 2003 to 182 in 2013, while the number of exporting companies has increased by 2,923 between 2003 and 2013.

6 Measured by the number of tariff items.

Imports

The dynamism of the demand for imported goods continued to be driven by domestic demand. Thus, imports in 2013 amounted to US$ 42.22 billion, which represents an expansion of 2.6 percent compared to 2012.

TABLE 31
FOB IMPORTS BY USE OR DESTINATION
(FOB value in million US$)

	FOB Value: Million US$			% Change		
	2011	**2012**	**2013**	**2012**	**2013**	**Average 2004-2013**
1. CONSUMER GOODS	**6,734**	**8,252**	**8,837**	**22.5**	**7.1**	**17.0**
Non-durable goods	3,489	4,082	4,499	17.0	10.2	15.8
Main food products	409	568	381	39.0	- 32.9	22.0
Rest	3,080	3,514	4,118	14.1	17.2	15.4
Durable goods	3,245	4,170	4,338	28.5	4.0	18.3
2. INPUTS	**18,332**	**19,273**	**19,512**	**5.1**	**1.2**	**16.2**
Fuel, oils and related	5,752	5,885	6,453	2.3	9.6	16.7
Raw materials for agriculture	1,092	1,292	1,244	18.2	- 3.7	16.2
Raw materials for industry	11,488	12,096	11,815	5.3	- 2.3	16.0
3. CAPITAL GOODS	**11,730**	**13,347**	**13,654**	**13.8**	**2.3**	**21.3**
Construction materials	1,449	1,488	1,443	2.7	- 3.0	21.9
For agriculture	111	137	130	24.0	- 4.9	22.6
For industry	7,345	8,168	8,319	11.2	1.9	19.3
Transportation equipment	2,825	3,554	3,762	25.8	5.8	27.3
4. OTHER GOODS	**356**	**262**	**213**	**- 26.2**	**- 18.8**	**15.7**
5. TOTAL IMPORTS	**37,152**	**41,135**	**42,217**	**10.7**	**2.6**	**17.8**
Memo:						
Main food products	**2,304**	**2,528**	**2,372**	**9.7**	**- 6.2**	**15.5**
Wheat	536	516	569	- 3.7	10.1	11.9
Maize and/or sorgum	564	507	502	- 10.1	- 1.1	17.7
Rice	118	149	110	26.1	- 26.5	37.8
Sugar	138	188	78	36.4	- 58.5	40.3
Dairy products	98	167	127	70.9	- 23.5	18.6
Soybean	795	936	920	17.7	- 1.7	15.2
Meat	55	64	66	16.7	2.8	11.7

Memo: Classification used in CUODE.
Source: SUNAT, Tacna Free Trade Zone, and Banco de la Nación.

The average price of imports in 2013 fell 0.8 percent relative to the previous year, with the prices of iron and steel products falling 9.8 percent and the prices of textile products falling 6.8 percent. On the other hand, an increase was observed in the prices of non-durable consumer goods (2.1 percent) and plastics (3.1 percent).

The components of imports that showed greater dynamism were consumer goods and inputs, which registered growth rates of 7.1 and 1.2 percent in terms of value, respectively. The increase in imports of durable consumer goods is explained by larger purchases of cars from Asia by companies such as Toyota del Peru, KIA, and the Ministry of the Interior (the Ministry of the Interior bought police cars as part of the "intelligent vehicles" campaign).

TABLE 32
IMPORTS
(% change)

	Volumen			Price		
	2011	2012	2013	2011	2012	2013
CONSUMER GOODS	**13.3**	**21.0**	**5.4**	**8.3**	**1.2**	**1.6**
Durable goods	12.4	26.7	2.9	7.8	1.4	1.1
Non-durable goods	14.2	15.7	7.9	8.8	1.1	2.1
INPUTS	**6.4**	**6.1**	**3.7**	**22.8**	**- 0.9**	**- 2.4**
Main food products	- 1.4	3.4	3.6	35.4	0.0	- 1.9
Crude oil and derivatives	1.7	- 1.3	10.6	40.1	3.7	- 3.1
Industrial inputs	10.7	10.8	0.3	12.8	- 3.5	- 2.0
Of which:						
Plásticos	3.5	10.7	1.7	17.8	- 9.6	3.1
Iron and steel	- 7.3	19.6	0.8	13.3	- 8.2	- 9.8
Textiles	0.5	8.1	2.2	33.9	- 10.3	- 6.8
Papers	9.0	5.3	1.0	7.9	- 1.4	- 1.8
Chemicals	38.8	5.4	0.2	12.7	- 0.8	0.0
Organic chemicals	6.1	18.9	2.2	11.9	- 7.4	- 0.8
CAPITAL GOODS	**27.1**	**13.5**	**2.4**	**1.7**	**0.2**	**- 0.1**
Building materials	31.1	2.5	- 3.0	1.7	0.2	- 0.1
Rest1/	26.5	15.1	3.0	1.7	0.2	- 0.1
TOTAL	**13.8**	**10.9**	**3.5**	**13.3**	**- 0.2**	**- 0.8**

1/ Excludes building materials.
Source: BCRP and SUNAT.

Private consumption also influenced a greater demand for imports of television sets and other household appliances. Imports of television sets, which increased by 6.4 percent, amounted to US$ 531 million. The main countries of origin of these products were Mexico and China.

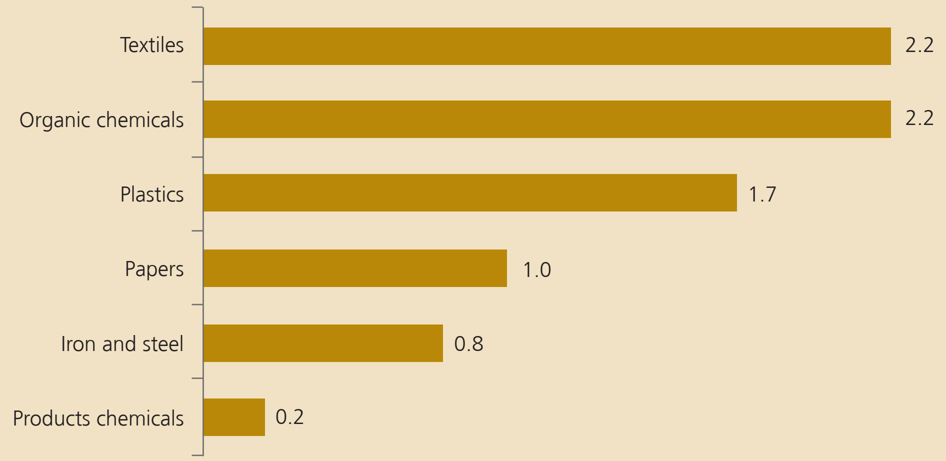
Imports of durable consumer products which showed a major expansion include furniture, plastic items and household appliances, while perfumes, cosmetics, clothing and footwear were the products that grew the most among imports of non-durable consumer goods.

Moreover, imports of inputs amounted to US$ 19.51 billion, which represents 46.2 percent of the country's total imports. In terms of value, imports of inputs grew 1.2 percent relative to 2012, in line with the increased volume of imports of these products. However, in terms of imports of oil and derivatives, a decline was observed in the volume of imports of crude oil (7.0 percent) whereas an expansion was observed in the volume of imports of derivatives (39.2 percent).

In the case of industrial inputs, there was an expansion of 0.3 percent in terms of volume associated with higher imports of plastics, organic chemicals, and textiles, with higher imports of polypropylene and polyethylene tereftalato (input used to manufacture plastic bottles), biodiesel, dodecyl (input for the production of detergents), and uncarded cotton and yarn standing out.

Imports of inputs in the group of iron and steel products also contributed to this increase, the greater acquisitions of iron billets and rods of steel alloyed by Sider, Aceros Arequipa and Acero Cassado being worth pointing out. The countries of origin of these iron and steel products were Brazil, Turkey, and China.

GRAPH 46
VOLUME OF INDUSTRIAL INPUTS WITH HIGHER GROWTH IN 2013
(% change)



Source: BCRP and SUNAT.

Imports of capital goods in the year showed a nominal increase of 2.3 percent and a growth of 2.4 percent in real terms. However, if construction materials are excluded, imports of capital goods show a real growth of 3.0 percent. In terms of economic sectors, increased imports in the electricity sector (US$ 41 million) associated to increased purchases of companies such as Energía Eólica (generators), ENERSUR (parts of gas turbines) and Parque Eólico Marcona (parts of windmills to generate wind power) should be pointed out.

TABLE 33
IMPORTS OF CAPITAL GOODS BY ECONOMIC SECTORS

SECTOR	FOB Value: Million US$			% Change		
	2011	2012	2013	2012	2013	Average 2004-2013
Agriculture	39	55	50	39.2	- 9.8	28.2
Fishing	11	13	9	16.7	- 26.4	2.9
Hydrocarbons	443	413	276	- 6.9	- 33.2	4.9
Mining	1,214	1,628	1,526	34.1	- 6.3	25.2
Manufacturing	1,166	1,183	1,236	1.5	4.5	16.1
Construction	570	681	676	19.3	- 0.7	29.3
Electricity	436	300	341	- 31.1	13.6	30.5
Transportation	1,786	2,247	2,372	25.8	5.6	34.1
Telecommunications	790	843	953	6.7	13.0	16.8
Traders of Capital Goods	3,002	3,382	3,282	12.6	- 2.9	20.4
IT Equipment	626	755	793	20.6	5.1	17.2
Machinery and diverse equipments	601	741	682	23.2	- 8.0	24.8
Medicine and surgery instruments	94	102	127	9.2	24.3	20.0
Office equipments	224	156	147	- 30.2	- 6.3	19.9
Financial services	633	639	446	0.8	- 30.2	18.7
Other traders	824	988	1,087	20.0	10.0	22.0
Unclassified	2,271	2,603	2,935	14.6	12.7	21.0
Memo:						
Mobile phones	529	553	761	4.5	37.7	20.4
Total	**11,730**	**13,347**	**13,654**	**13.8**	**2.3**	**21.3**

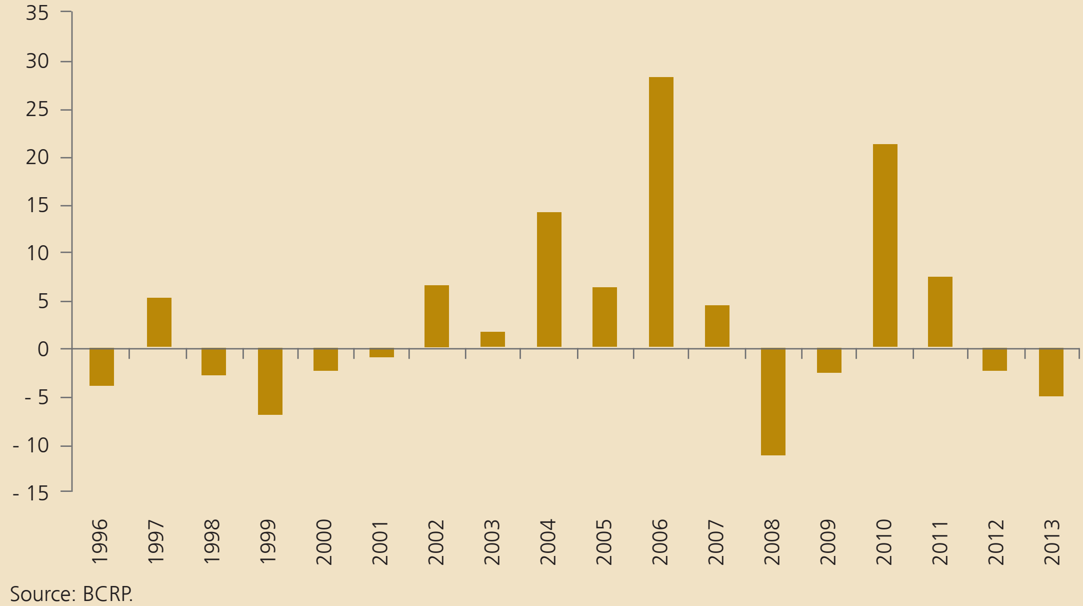
In the telecommunications sector, increased imports of mobile telephony equipment by América Móvil and Telefónica stand out, while in the sector of transportation the increase in purchases of railcars for railways by companies such as GYM Ferrovias and imports of pick-up trucks by Toyota del Peru are worth mentioning.

4.2. Terms of Trade[7]

In 2013, the terms of trade showed an average decrease of 4.7 percent. The decline of 5.5 percent in export prices was partially offset by a 0.8 percent drop in import prices.

In general terms, commodity prices were affected by the Fed's announcement of an upcoming reduction of monetary stimulus on May 22, as well as by fears of a slowdown in China's level of economic activity. The international prices of food commodities were pushed downwards by the abundant supply of grains due to increased cultivation encouraged by high prices in the period of drought in the USA in 2012.

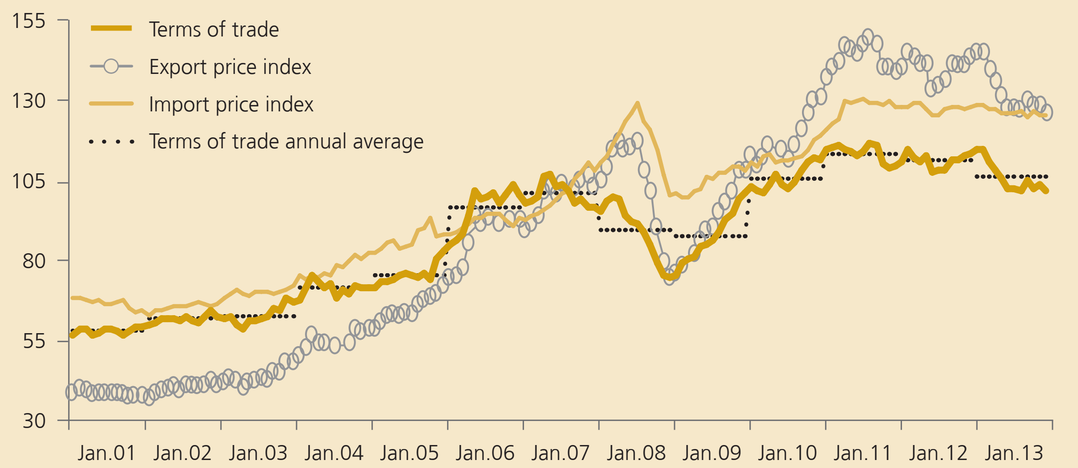
GRAPH 47
TERMS OF TRADE: 1996-2013
(% change)



Source: BCRP.

7 As from this Report, the method used to calculate exports and imports price indicators included in the terms of trade will be an annual chain-linked Laspeyres index which will replace the prior monthly chain-linked Fisher index. This change allows us to weight products and sectors of the previous year and therefore to annually update the structure of foreign trade without introducing instability due to monthly chain-linking.

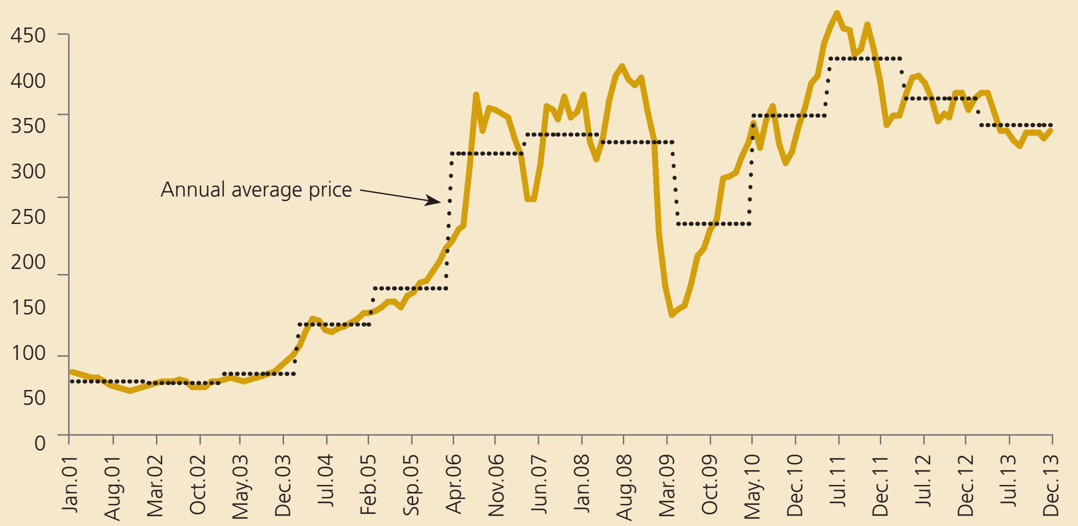
GRAPH 48
TERMS OF TRADE, EXPORT AND IMPORT PRICE INDICES: JANUARY 2001 - DECEMBER 2013
(2007 = 100)



Source: BCRP.

The average price of **copper** recorded a decline of 8 percent in 2013. The price of copper dropped to a minimum low of US$ 313 cents per pound in the month of July, then partially recovered and closed at US$ 327 cents per pound in December. The initial fall in the price of copper was associated with the liquidation of speculative positions due to expectations of a Fed reduction of monetary stimulus and a strong increase in the global supply of copper as well as to fear about of lower demand from China. However, the price of copper recovered partially as a result of a global production deficit due to the unexpected growth of demand from China and to the lower secondary supply of copper.

GRAPH 49
PRICE OF COPPER: 2001-2013
(Monthly average, US$ cents per pound)

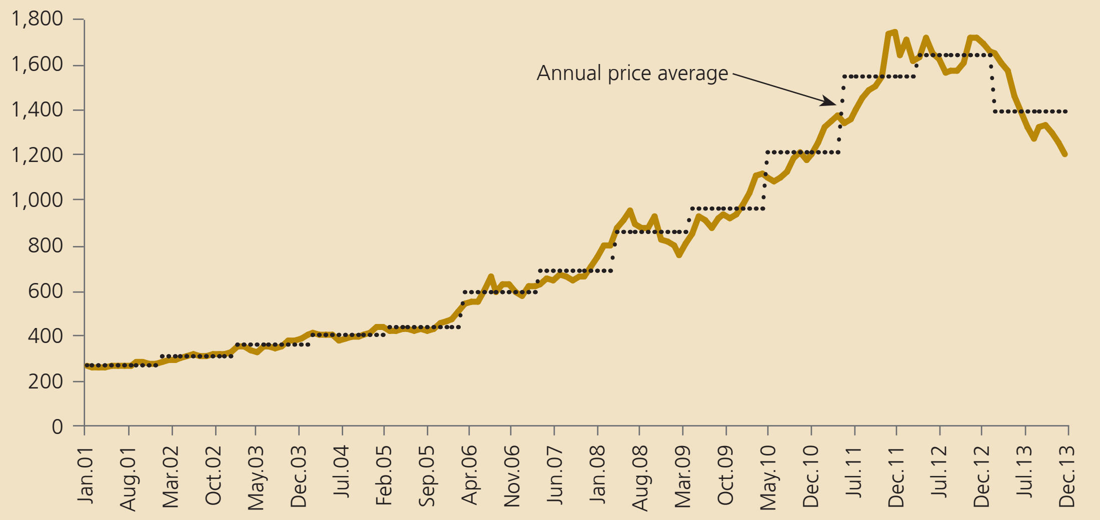


Source: Bloomberg.

The average price of gold declined 16 percent, closing the year with an average level of US$ 1,411 per ounce in 2013. This decline was influenced by the liquidations of Exchange Trade Funds (ETFs) which generated a net record supply this year, as well as by the reduction of noncommercial net long positions in gold on metals exchanges and lower purchases from central banks.

This strong decline in investment demand was caused by the restructuring of investors' portfolio in response to expectations that the Fed would withdraw monetary stimulus and to the low rates of inflation in the advanced economies. The price drop was offset by an increased consumer demand after demand for jewelry reached its pre-recession levels and demand for small bars, coins and medals registered a new historic record.

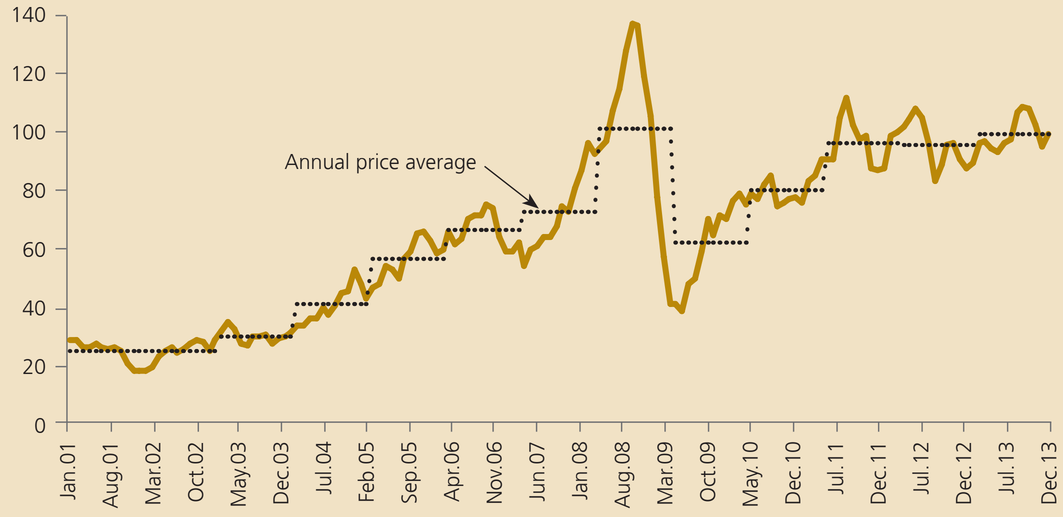
GRAPH 50
PRICE OF GOLD: 2001-2013
(Monthly average US$/tr.oz)



Source: Bloomberg.

The average price of **crude** increased 4 percent, showing an average price of US$ 98 per barrel in 2013. This increase was associated with supply disruptions in periods of high seasonal demand due mainly to the sanctions imposed on Iran, to social problems in Libya and, to a lesser extent, to production cuts in Iraq, Nigeria, Venezuela, Syria, and Sudan. In this context, the International Energy Agency (IEA) reported that oil inventories in OECD countries had fallen below the average levels of the past 10 years. The price rise was offset by the increase in the U.S. production of crude oil, which continued to exceed expectations reaching levels not seen since 1989 and was reflected in the increase of crude inventories in this country.

GRAPH 51
PRICE OF WTI OIL: 2001-2013
(Monthly average, US$ per barrel)



Box 2

METHODOLOGICAL CHANGE IN ESTIMATING FOREIGN TRADE PRICE INDICES

As from this report, the terms of trade are calculated using Laspeyres formula of price indices with annual chain-linking and weightings taking into account relatively stable trading patterns in a period.

Since 2001, the terms of trade have been estimated using Fisher's monthly chain-linked price indices, both for exports and for imports. These indices measure price changes in a period according to a geometric average of the Laspeyres index (which compares weighted prices with a basket of goods of the previous month) and the Paasche index (which compares weighted prices with a basket of goods in the current month).

While it is true that monthly chain-linking allows updating the weight structure frequently in accordance to the evolution of the trade structure, it can introduce volatility and price underestimation problems. In line with the latest recommendations of the IMF, annual weights from the previous year (T-1), estimated with the Laspeyres method will be used as from this Report:

$$P^{L}_{T-1,t} = \sum_{i=1}^{n} \omega_{i,T-1} \cdot \left(\frac{p_{i,t}}{p_{i,T-1}}\right)$$

where $p_{i,t}$ is the price in the current month (t) of good i, $p_{i,T-1}$ is its average price in the previous year and $\omega_{i,T-1}$ is its nominal participation in the previous year. It should be pointed out that $p_{i,t}$ corresponds to an implicit price based on customs data (FOB value divided by volume) in the case of all exports and imports of inputs.

Filters are used for the prices of non-traditional products as well as for the prices of imports of inputs –excluding food and crude– to reduce problems related to atypical observations, product seasonality, and very small transactions.

Using this method, the terms of trade are estimated to have increased 5.5. percent on average per year between 2004 and 2013, whereas using the prior method the increase would have been 3.6 percent.

TERMS OF TRADE
(% change)

	Fisher (1994=100)			Laspeyres (2007=100)		
	XP	MP	ToT	XP	MP	ToT
2004	22.7	12.1	9.4	26.4	11.0	13.9
2005	16.8	10.6	5.6	18.5	11.6	6.1
2006	36.1	7.5	26.7	36.3	6.4	28.1
2007	14.4	10.6	3.4	14.1	9.4	4.3
2008	3.5	21.0	- 14.4	3.8	16.5	- 10.9
2009	- 10.0	- 7.4	- 2.8	- 12.7	- 10.6	- 2.4
2010	29.9	10.1	17.9	30.4	7.8	21.0
2011	20.0	13.8	5.4	21.5	13.3	7.2
2012	- 3.3	1.7	- 4.9	- 2.2	- 0.2	- 2.1
2013	- 7.3	- 2.7	- 4.7	- 5.5	- 0.8	- 4.7
Annual average % change						
2004-2013	11.3	7.4	3.6	12.0	6.2	5.5

4.3. Services

The trade deficit in services amounted to US$ 1.80 billion, US$ 619 million lower than in 2012. Revenues increased by US$ 899 million (18.3 percent) relative to the previous year, with higher revenues for travel, transport, and insurance and reinsurance services. On the other hand, outflows amounted to US$ 7.62 billion, up by US$ 280 million (3.8 percent) due to higher expenditure in travel abroad, passenger services, payments of premiums overseas, and communications.

The transport deficit totaled US$ 1.37 billion, US$ 261 million lower than in 2012. Revenue increased by US$ 301 million (24.7 percent) as a result of domestic airlines' higher sales of tickets overseas (45.3 percent) and to a lesser extent by higher income from foreign ships in the country. Expenses increased by US$ 41 million due to the increase in foreign airlines' sale of international travel tickets in the country (1.3 percent), in part offset by the lower expenses of national airlines abroad (4.1 percent) and by lower freight payments (0.3 percent).

TABLE 34
SERVICES

	Million US$			% change	
	2011	2012	2013	2012	2013
I. TRANSPORTATION	**- 1,531**	**- 1,628**	**- 1,367**	**6.3**	**- 16.0**
1. Credit	994	1,223	1,524	23.1	24.7
2. Debit	- 2,524	- 2 850	- 2 891	12.9	1.4
II. TRAVEL	**906**	**- 1,004**	**- 1,408**	**10.8**	**40.3**
1. Credit	2,262	2,443	3,009	8.0	23.2
2. Debit	- 1,356	- 1,439	- 1,601	6.1	11.2
III. COMMUNICATIONS	**- 47**	**- 74**	**- 146**	**59.0**	**96.5**
1. Credit	132	147	131	11.5	- 10.5
2. Debit	- 179	- 221	- 278	23.9	25.5
IV. INSURANCE AND REINSURANCE	**- 359**	**- 366**	**- 404**	**2.2**	**10.2**
1. Credit	230	361	400	57.2	10.6
2. Debit	- 588	- 728	- 803	23.7	10.4
V. OTHERS 1/	**- 1,214**	**- 1,355**	**- 1,293**	**11.6**	**- 4.6**
1. Credit	646	742	749	14.7	1.0
2. Debit	- 1,861	- 2,097	- 2,042	12.7	- 2.6
VI. TOTAL SERVICES	**- 2,244**	**- 2,420**	**- 1,801**	**7.8**	**- 25.6**
1. Credit	4,264	4,915	5,814	15.3	18.3
2. Debit	- 6,508	- 7,335	- 7,615	12.7	3.8

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

TABLE 35
OTHER SERVICES

	Million US$			% change	
	2011	2012	2013	2012	2013
Balance of Other Services	**- 1,214**	**- 1,355**	**- 1,293**	**11.6**	**- 4.6**
Revenue	**646**	**742**	**749**	**14.7**	**1.0**
Government Services	143	146	149	1.8	2.2
Others services	503	596	601	18.4	0.8
Other Business Services 1/	399	479	482	20.2	0.6
Financial Services	67	59	68	- 11.7	14.4
Computer and Information Services	26	36	33	36.8	- 7.2
Personal, Cultural, and Recreational Services	5	10	9	89.4	- 14.3
Royalties and License Rights	5	12	8	114.5	- 26.3
Expenditures	**1,861**	**2,097**	**2,042**	**12.7**	**-2.6**
Government Services	153	157	161	2.5	2.8
Other services	1,708	1,940	1,881	13.6	- 3.1
Other Business Services 1/	1,108	1,378	1,339	24.4	- 2.9
Computer and Information Services	196	180	201	- 8.3	11.5
Royalties and License Rights	216	229	210	6.3	- 8.6
Financial Services	52	86	101	64.6	17.8
Construction Services	115	42	9	- 63.3	- 78.1
Personal Services, Cultural and Recreational	21	24	21	13.6	- 11.2

1/ Includes mainly sale-purchase services, commissions, leasing of ships and unmanned aircraft and business, professional and various (legal, accounting, management consulting and public relations; advertising, research of public opinion polls markets; research and development and engineering, among others).
Source: Ministry of Trade Affairs and businesses.

The travel surplus amounted to US$ 1.41 billion. Revenue grew 23.2 percent due to an increase in the number of visitors who came to the country (10.1 percent), mainly through International Airport Jorge Chavez (13.3 percent), and to the higher average spending of visitors (11.9 percent). Expenses rose 11.2 percent due mainly to the higher average spending (7.2 percent) and the larger number of Peruvians who visited other countries (4.0 percent).

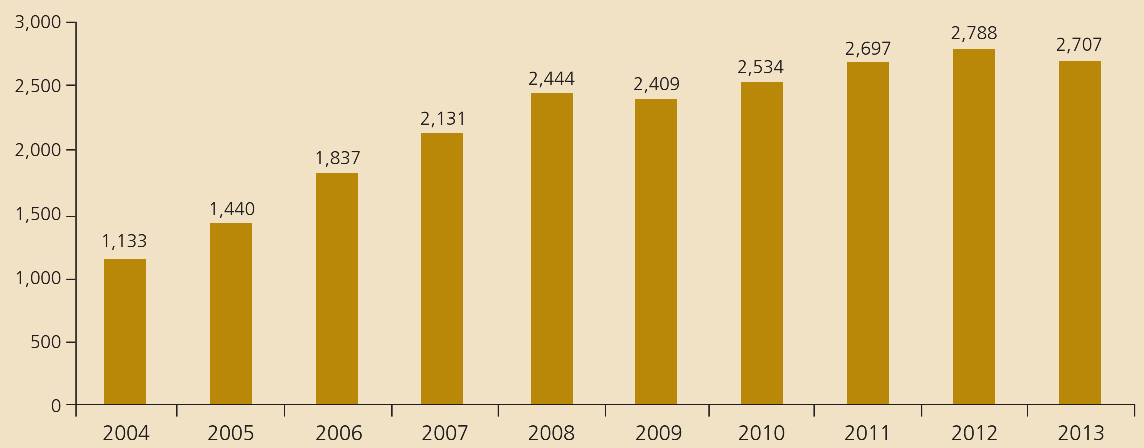
The heading other services showed a deficit of US$ 1,29 billion. Revenues increased by 1.0 percent, mainly as a result of other business services and financial services. On the other hand, expenses declined by US$ 55 million (-2.6 percent) due to the lower payments made for other business services.

4.4. Current Transfers

Current transfers, whose most important component is remittances from Peruvians residing abroad (81 percent), totaled US$ 3.35 billion in 2013. Remittances in the year were 2.9 percent lower than in 2012 and amounted to US$ 2.71 billion.

This decline of remittances reflects the impacts of the international crisis and the slow recovery of the Eurozone. Thus, in 2013, the United States and Spain accounted for 46.1 percent of total remittances to the country, whereas in 2012 these countries accounted for 47.9 percent of total remittances. This generated a reduction of 0.1 percentage points in the share of remitttances in GDP terms to 1.3 percent of GDP, a lower ratio than in 2012 which is also the lowest ratio recorded in the last ten years.

GRAPH 52
REMITTANCES FROM ABROAD
(Million US$)



Source: SBS, banks and businesses.

TABLE 36
REMITTANCES FROM ABROAD

Year	Million US$	% change	% GDP
2004	1,133	30.4	1.7
2005	1,440	27.1	1.9
2006	1,837	27.6	2.1
2007	2,131	16.0	2.1
2008	2,444	14.7	2.0
2009	2,409	- 1.4	2.0
2010	2,534	5.2	1.7
2011	2,697	6.4	1.6
2012	2,788	3.4	1.4
2013	2,707	- 2.9	1.3

Source: SBS, banks and businesses.

Like in 2012, USA continued to be the major country of origin of remittances even though remittances from this country declined by 1.8 percent. A similar situation was observed in the case of Spain, where still weak economic activity and high levels of unemployment continue to affect the Peruvians living there. Although remittances from Spain decreased 18 percent in 2013, this country is still the second source of these transfers.

Remittances from Japan also reduced their share in terms of total remittances. These fund transfers fell from representing 9.3 percent of total remittances in 2012 to 8.4 percent in 2013, this significant decline being explained by a drop in remittances of 11.8 percent after having grown 4.2 percent in 2012.

A similar situation was observed in South America, whose share in terms of total remittances decreased slightly after having shown a rising trend for eight consecutive years. Thus, the region's share fell from 16.5 percent in 2012 to 16.4 percent in 2013 as a result of a reduction of 3.9 percent in these fund transfers. However, within the region, Chile, which has a significantly large Peruvian colony and accounted for 7.0 percent of total remittances in 2012, increased its share in total remittances to 8.5 percent in 2013.

TABLE 37
REMITTANCES BY COUNTRIES
(% share)

	2011	2012	2013
United States	33.5	34.0	34.4
Spain	15.9	13.9	11.8
Japan	9.2	9.3	8.4
Italy	8.2	7.6	7.7
Chile	6.0	7.0	8.5
Argentina	5.5	5.8	4.7
Other countries1/	21.7	22.5	24.6
Total	**100.0**	**100.0**	**100.0**

1/ Includes estimated remittances not classified by country (informal channels).
Source: SBS, banks and businesses.

Banks, which intermediated 43.6 percent of total remittances, continued to be the main source used to transfer these funds even though their share declined by nearly 3 points. On the other hand, money transfer companies (ETFs) and other media registered a share of 44.4 percent in the intermediation of these funds.

TABLE 38
REMITTANCES FROM ABROAD BY SOURCE
(% share)

	2011	2012	2013
Banks	47.2	46.4	43.6
FTCs - Other channels 1/	40.6	41.6	44.4
Informal channels	12.2	12.0	12.0
Total	**100.0**	**100.0**	**100.0**

1/ Fund transfer companies (FTCs) and other means.
Source: SBS, banks, and businesses.

The average remittance amount was US$ 303 per transfer, slightly higher than in 2012. The average remittances that increased the most were the ones transferred from Chile (3.8 percent), the United States (3.3 percent), and Italy (1.1 percent). As regards the number of transfers made, a strong decline was observed in transactions from Argentina (-21 percent) and Spain (-13.4 percent).

TABLE 39
AVERAGE REMITTANCES BY COUNTRIES 1/
(Average per delivery in US$)

Countries	2011	2012	2013
United States	241	255	263
Spain	364	395	375
Japan	624	610	560
Italy	314	314	318
Chile	205	224	232
Argentina	195	227	226
Other countries 1/	357	388	387
Average remittance	**285**	**302**	**303**

1/ Excludes estimated remittances not classified by country (informal channels).
Source: SBS, banks, and businesses.

TABLE 40
NUMBER OF REMITTANCES BY COUNTRIES 1/
(Thousand)

Countries	2011	2012	2013
United States	3,746	3,716	3,532
Spain	1,181	983	851
Japan	396	423	407
Italy	704	673	653
Chile	786	870	996
Argentina	760	711	562
Other countries	719	752	862
Total	**8,292**	**8,129**	**7,863**

1/ Excludes estimated remittances not classified by country (informal chanels).
Source: SBS, banks, and businesses.

4.5. Factor Income

Factor income showed a deficit of US$ 10.63 billion, a balance lower by US$ 1.77 billion than the one recorded the previous year due mainly to lower outflows for profits in the mining and hydrocarbons sectors. On the other hand, the private sector income, consisting of interests on deposits and the yields of financial and non-financial investments, amounted to US$ 460 million.

The public sector deficit amounted to US$ 858 million, a figure US$ 129 million higher than the one recorded the previous year due to the higher outflows for interests on bonds of the external public debt.

TABLE 41
FACTOR INCOME

	Million US$			% change	
	2011	**2012**	**2013**	**2012**	**2013**
I. REVENUE	**1,111**	**1,152**	**1,222**	**3.7**	6.1
1. Private	339	409	460	20.6	12.3
2. Public	772	742	762	- 3.8	2.7
II. EXPENDITURE	**14,468**	**13,551**	**11,853**	**- 6.3**	**- 12.5**
1. Private	13,160	12,080	10,232	- 8.2	- 15.3
Profits 1/	12,511	11,402	9,301	- 8.9	- 18.4
Interests	649	677	932	4.3	37.6
- Long-term loans	458	421	445	- 8.0	5.6
- Bonds	54	140	368	161.1	163.2
- Short-term loans 2/	137	116	119	- 15.7	2.4
2. Government	1,309	1,472	1,621	12.5	10.2
Interests on long-term loans	289	286	421	- 1.1	47.2
Interests on bonds	1,019	1,185	1,199	16.3	1.2
Interests on BCRP securities 3/	0	0	0	- 88.5	- 25.3
III. BALANCE (I-II)	**- 13,357**	**- 12,399**	**- 10,631**	**- 7.2**	**- 14.3**
1. Private	- 12,821	- 11,670	- 9,773	- 9.0	- 16.3
2. Public	- 537	- 729	- 858	35.9	17.7

1/ Profits or losses accrued in the period. Includes profits and dividends sent abroad plus undistributed profits.
2/ Includes interests of non-financial public enterprises.
3/ Includes interests of short-term and long-term loans.
Source: BCRP, MEF, Cofide, ONP and businesses.

4.6. Financial Account

In 2013 the private sector financial account registered a balance of US$ 14.88 billion, a balance US$ 911 million lower than in 2012 due mainly to lower foreign direct investment (FDI) in the country. The decline in FDI is associated with lower profit generation and with lower profit reinvestment in the sectors of mining and hydrocarbons.

The flow of liabilities in 2013 amounted to US$ 16.17 billion, FDI accounting for 57 percent of this total (of which 60 percent was contributions and loans from parent companies and 40 percent was withheld profits, mainly in the form of reinvested profits). FDI, which accumulated a flow of US$ 9.30 billion, concentrated mainly in the sectors of mining (US$ 4.56 billion) and non-financial services (US$ 2.51 billion), accounted for 76 percent of the total flow.

TABLE 42
PRIVATE SECTOR FINANCIAL ACCOUNT
(Million US$)

	2011	2012	2013
1. ASSETS	**- 1,597**	**- 2,408**	**- 1,291**
2. LIABILITIES	**10,868**	**18,200**	**16,173**
Foreign direct investment	7,665	11,918	9,298
Non-financial sector	1,396	3,410	5,582
Long-term loans	1,176	1,944	1,211
Portfolio investment	220	1,467	4,371
Financial sector	1,807	2,872	1,293
Long-term loans	1,810	2,092	- 212
Portfolio investment	- 2	780	1,505
3. NET FLOW	**9,271**	**15,792**	**14,881**
% GDP	5.4	8.2	7.4

Source: BCRP, Cavali S.A. ICLV, Proinversion, and businesses.

TABLE 43
FOREIGN DIRECT INVESTMENT IN COUNTRY
BY DESTINATION SECTOR *
(Million US$)

	2011	2012	2013
Hydrocarbons	586	1,228	844
Mining	4,861	7,112	4,555
Financial sector	889	1,420	915
Non-financial services	815	1,037	2,505
Manufacturing	1	422	65
Energy and others	513	698	414
TOTAL	**7,665**	**11,918**	**9,298**

(*) Includes contributes and other net capital operations, net loans abroad and reinvestment (current profits).
Source: Businesses.

On the other hand, the balance of net loans from abroad, which totaled US$ 998 million, declined significantly compared to the previous year. Nonetheless, this decline was offset by bond placements in foreign markets for a total of US$ 6.39 billion, the highest amount of bonds placed by private companies ever registered (this placement of securities was even higher than the record level registered in 2012). This figure is included in the portfolio investment account under other liabilities.

This placement of securities allowed the private sector to extend the term of its debt. Moreover, in the banking sector, this effect was reinforced by the decrease of short-term international liabilities (debt replacement). Banks' reduction of their international liabilities was also associated with excess liquidity in dollars in the domestic market, which reflected in the reduction of interest rates in dollars and in the substitution of external funding for greater domestic funding in foreign currency. As regards interest rates on bonds, bonds issued by a local company were placed during the year in the international market at historically low rates due to the high demand for these securities.

TABLE 44
BONDS ISSUED BY FIRMS IN THE EXTERNAL MARKET 2011 - 2013*

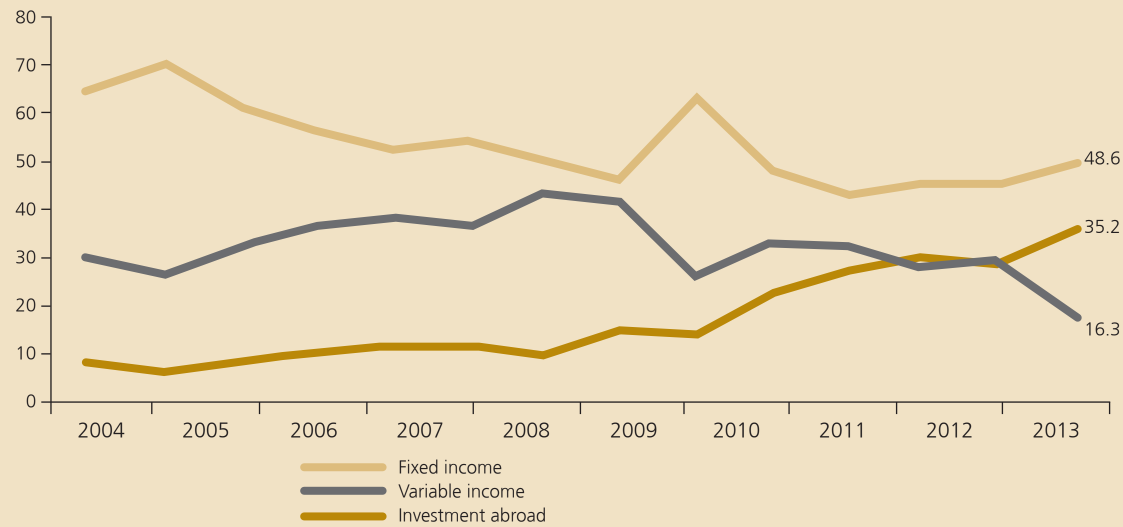
Date	Business	Amount (Millions US$)	Maturity (Years)	Yields
I. Total Year 2011		**1,855**		
a. Financial Sector		**1,535**		
March 16	BCP (Suc. Panamá)	700	5	4.750%
September 16	BCP (Suc. Panamá) - Bonos subordinados - Híbrido	350	15	
November 7	Patrimonio fideicometido Interproperties (IFH)	185	12	8.750%
November 14	Intercorp Retail Trust - IFH (Panamá)	300	7	8.875%
b. Non-financial sector		320		
November 25	Lindley	320	10	6.750%
II. Total Year 2012		**3,825**		
a. Financial sector		**2,465**		
January 27	Cofide	400	10	4.950%
April 19	BCP (Suc. Panamá) - Bonos subordinados - Híbrido	350	15	
July 6	BCP - Titulización de Remesas del Exterior	465	10	5.370%
August 23	BBVA	500	10	5.000%
September 21	Interbank	250	8	4.800%
November 26	Cofide	100	10	3.320%
December 6	Scotiabank Perú SAA	400	15	
b. Non-financial sector		**1,360**		
January 26	Volcan	600	10	5.375%
February 2	Camposol	125	5	9.875%
April 12	Terminales Portuarios Euroandinos - Paita	110	25	8.125%
July 26	Coazúcar (Grupo Gloria)	325	10	6.375%
September 21	Maestro Perú	200	7	6.750%
III. Total Year 2013		**6,389**		
a. Financial Sector		**2,236**		
January 22	BBVA Banco Continental	300	3,5	2.314%
January 24	Fondo MiVivienda	500	10	3.500%
April 1	Banco de Crédito	716	10	4.250%
April 5	Banco de Crédito	170	14	6.125%
April 8	BBVA Banco Continental	500	5	3.250%
December 13	Interbank	50	10	7.500%
b. Non-financial sector		**4,153**		
January 10	Copeinca	75	5	9.000%
January 25	Exalmar	200	7	7.380%
January 10	Cementos Pacasmayo	300	10	4.630%
March 15	Alicorp	450	10	3.880%
March 21	Gas Natural de Lima y Callao - Cálidda	320	10	4.380%
March 21	Compañía Minera Milpo	350	10	4.630%
April 9	Corporación Lindley	260	10	4.630%
April 19	Ferreycorp	300	7	4.880%
April 23	Transportadora de Gas del Perú	850	15	4.250%
April 30	Consorcio Transmantaro	450	10	4.380%
September 9	Inkia Energy	150	8	8.375%
November 6	San Miguel Industrias	200	7	7.750%
November 7	Andino Investment Holding	115	7	11.000%
December 5	Planta de Reserva Fría de Generación de Eten	133	20	7.650%

Fuente: Bloomberg.

As for investment in securities issued by non-residents which represent at the same time external assets of the local economy, this investment increased by US$ 1.29 billion, US$ 1.18 billion less than in the previous year. This is explained the lower amount of external assets purchased by private pension funds (AFPs), mutual funds, and insurance companies.

The limit for AFPs' investment abroad at December 2013 was 36.5 percent. It is worth pointing out that the extension of this limit by one percentage point is equal to US$ 365 million.

GRAPH 53
AFP: INVESTMENT
(%)



Source: SBS and BCRP.

Public Sector Financial Account

Contrasting with the positive flow of US$ 1.45 billion recorded in 2012, in 2013 the financial account of the public sector showed a negative balance of US$ 1.35 billion. This difference is explained mainly by non-residents' lower acquisition of sovereign bonds and by the greater amortization made in 2013 associated mainly with the prepayment of external public debt to IBRD and the IADB (US$ 1.62 billion).

TABLE 45
PUBLIC SECTOR FINANCIAL ACCOUNT 1/

	Million US$			% change	
	2011	2012	2013	2012	2013
I. DISBURSEMENTS	**990**	**1,448**	**1,277**	**458**	**- 171**
Investment projects	679	333	652	- 346	319
Central government	616	317	195	- 299	- 122
Public enterprises	63	16	457	- 46	441
Financial	0	0	430	0	430
Non-financial	63	16	27	- 46	11
Free disposable loans	311	115	125	- 196	10
Global bonds 2/	0	1,000	500	1,000	- 500
II. AMORTIZATION	**- 868**	**- 1,215**	**- 2,618**	**- 347**	**- 1,404**
III. NET EXTERNAL ASSETS	**- 273**	**- 457**	**113**	**- 184**	**570**
IV. OTHER OPERATION WITH DEBT SECURITIES (a-b)	**813**	**1,671**	**- 122**	**859**	**- 1,793**
a. Sovereign bonds purchased by non residents	360	1,797	219	1,437	- 1,578
b. Global bonds purchased by residents	- 452	126	341	579	215
V. TOTAL	**662**	**1,447**	**- 1,350**	**786**	**- 2,797**

1/ Medium- and long-term accounts; excludes loans to BCRP to support the balance of payments.
2/ Bonds are classified according to the market where they are issued. Includes US$ 500 millions issued by Cofide.
Source: BCRP, MEF, Cofide, and FCR.

Short-Term Capital Flows

The net flow of short-term capital went from a capital inflow of US$ 2.57 billion in 2012 to an outflow of US$ 2.13 billion in 2013, strongly concentrated in the banking sector and associated with the greater dynamism of placements of long-term external bonds (variation in the structure of banks' external liabilities by maturity terms). This capital inflow resulted in a balance equivalent to 3.2 percent of GDP, of which 1 percentage point was debt of the financial sector.

TABLE 46
SHORT-TERM CAPITAL FINANCIAL ACCOUNT
(Million US$)

	2011	2012	2013
1. BANKS	**- 912**	**2,123**	**- 2,329**
Assets 1/	- 180	- 24	- 360
Liabilities 2/	- 732	2,147	- 1,969
2. BCRP 3/	**0**	**0**	**0**
3. BANCO DE LA NACION	**- 4**	**- 51**	**66**
Assets 1/	- 4	- 51	66
Liabilities 2/	0	0	0
4. NON-BANK FINANCIAL	**9**	**50**	**- 53**
Assets 1/	2	- 16	- 46
Liabilities 2/	7	67	- 7
5. NON-FINANCIAL SECTOR 4/	**- 310**	**450**	**192**
Assets 1/	- 1,077	92	696
Liabilities 2/	767	358	- 505
6. TOTAL SHORT-TERM CAPITAL	**- 1,217**	**2,572**	**- 2,125**
Assets 1/	- 1,258	0	356
Liabilities 2/	42	2,572	- 2,481

1/ The negative sign indicates an increase of assets.
2/ A positive sign indicates an increase of liabilities
3/ Obligations in national currency to non residents for Certificates of Deposit issued by the Central Bank.
4/ Net flow of assets with other countries. The negative sign indicates an increase in net assets.
Source: BCRP, Bank for International Settlements (BIS) and businesses.

International Investment Position

The international assets at December 2013 amounted to US$ 102.09 billion, a figure 1.9 percent higher than at end 2012. The BCRP international reserves, which increased by US$ 1.66 billion, are equivalent to 32.5 percent of GDP. This amount covers 5.0 times short term external liabilities (including the amortization of medium and long term loans to one year) and 93 percent of private banks' total obligations. Moreover, this high level of reserves reflects the soundness of the Peruvian economy.

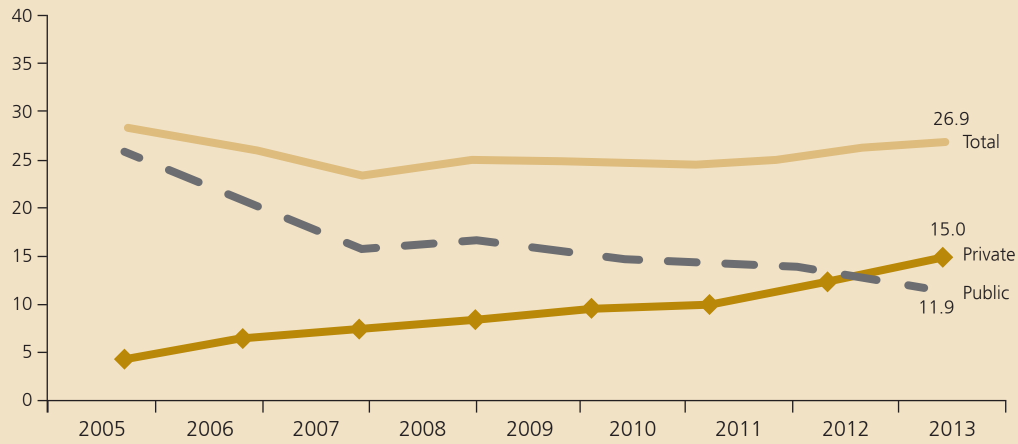
On the side of liabilities, the increase in the balance of FDI stands out. This increase results from the contribution, loans, and withheld profit of foreign companies in Peru and to a lesser extent, by the higher balance of medium- and long-term public and private debt.

TABLE 47
NET INTERNATIONAL INVESTMENT POSITION
(End of period levels)

	Million US$			% GDP	
	2011	**2012**	**2013**	**2012**	**2013**
I. ASSETS	**79,984**	**100,222**	**102,092**	**52.0**	**50.5**
1. BCRP reserve assets	48,859	64,049	65,710	33.2	32.5
2. Assets of financial sector (excluding BCRP)	18,757	22,823	23,778	11.8	11.8
3. Others assets	12,368	13,350	12,604	6.9	6.2
II. LIABILITIES	**120,571**	**146,084**	**154,701**	**75.7**	**76.5**
1. Bonds and total private and public external debt 1/	**48,090**	**59,376**	**60,823**	**30.8**	**30.1**
a. Medium and long term debt	41,736	50,435	54,373	26.1	26.9
Private sector 2/	17,504	23,982	30,341	12.4	15.0
Public sector (i - ii + iii) 3/	24,232	26,452	24,032	13.7	11.9
i. External public debt	20,204	20,402	18,778	10.6	9.3
ii. Public debt issued abroad purchased by residents	831	957	1,298	0.5	0.6
iii. Public debt issued locally purchased by non-residents	4,859	7,008	6,552	3.6	3.2
b. Short-term debt	6,354	8,941	6,450	4.6	3.2
Financial sector (excluding BCRP)	1,789	4,003	2,026	2.1	1.0
BCRP	43	57	47	0.0	0.0
Others 4/	4,523	4,881	4,376	2.5	2.2
2. Direct investment	**50,641**	**62,559**	**71,857**	**32.4**	**35.5**
3. Capital participation	**21,840**	**24,149**	**22,021**	**12.5**	**10.9**

1/ External public debt includes the debt of the Central Government and public enterprises.
2/ Includes bonds.
3/ Government bonds issued abroad and in the hands of residents are excluded from foreign liabilities of the public sector. Government bonds issued locally, in the hands of non-residents, are included foreign liabilities of this sector.
4/ Includes mainly short-term debt of the non-financial private sector.
Source: BCRP, MEF, Cavali SA ICLV, Proinversión, and BIS.

GRAPH 54
MEDIUM AND LONG-TERM EXTERNAL DEBT
(% GDP)



Source: BCRP.