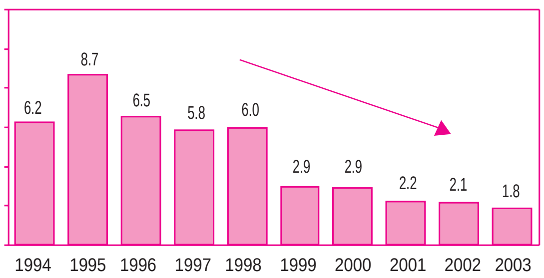
III.

External sector

In 2003, the current account deficit of the Balance of Payments dropped from 2.1% to 1.8% of GDP as shown in the graph below continuing its decreasing trend since 1999. The smaller deficit was highly attributable to the performance of trade balance, which reached a surplus for a second year.

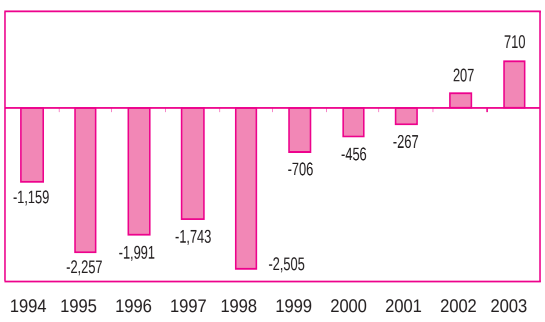
GRAPH 14

CURRENT ACCOUNT DEFICIT
(Percent of GDP)



GRAPH 15

TRADE BALANCE
(Millions of US$)



Larger exports than imports resulted in US$ 710 million surplus in the **Trade Balance** compared to US$ 207 million in 2002. Exports of goods grew by US$ 1,307 million (17%) over the previous year while imports increased US$ 805 million (11%).

Exports growth was mainly associated with better terms of trade, larger volumes of gold shipped and significantly higher values of non-traditional exports, particularly textiles, prompted by the Andean Trade Promotion and Drug Eradication Act (ATPDEA). On the imports side, the increase was explained by larger fuel purchases due to higher oil prices in the international market, larger imports of capital goods and intermediate goods for the manufacturing industry and durable consumer goods.

The deficit in **services** amounted to US$ 995 million, US$ 47 million higher than in 2002, from which US$ 23 million were mainly explained by higher payments abroad for the hiring of professional, technical and business services, particularly by petroleum and mining companies.

TABLE 8

BALANCE OF PAYMENTS
(Millions of US dollars)

	2001	2002	2003
I. CURRENT ACCOUNT BALANCE	**-1,184**	**-1,206**	**-1,116**
As percent of GDP	-2.2	-2.1	-1.8
1. Trade balance	- 267	207	710
a. Exports	7,007	7,647	8,954
b. Imports	-7,273	-7,440	-8,244
2. Services	- 835	- 948	- 995
3. Investment income	-1,123	-1,509	-2,073
4. Current transfers	1,042	1,043	1,243
II. FINANCIAL ACCOUNT	**1,550**	**1,980**	**931**
1. Private sector	967	1,724	98
2. Public sector	394	1,051	679
3. Short-term capital	189	-794	154
III. EXCEPTIONAL FINANCING	**31**	**51**	**59**
IV. BCR NET INTERNATIONAL RESERVES (1 - 2) (Increase with negative sign)	**- 448**	**- 832**	**- 479**
1. Change in Central Bank reserves	- 433	- 985	- 596
2. Valuation changes and monetization of gold	15	- 153	- 118
V. NET ERRORS AND OMISIONS	**51**	**7**	**605**

Source: BCRP, MEF, SUNAT and companies.

The deficit in **investment income** was US$ 2,073 million, compared to US$ 1,509 million of 2002. Despite lower international interest rates, which resulted in smaller payments on foreign loans, the effect of the dollar’s depreciation, higher amounts of interest on Government bonds (US$ 111 million), lower returns on foreign assets, and higher profits of foreign companies (US$ 511 million) increased the deficit.

The **financial account** recorded a positive US$ 931 million flow, down US$ 1,049 million from that registered in 2002 due to the sale of Backus brewery shares (US$ 657 million) during the previous year and investments done abroad by private pension funds and other financial institutions (US$ 1,186 million), which included the purchase of Peruvian Government bonds placed abroad as well as other financial assets. Three international bond placements took place during 2003 for a total of US$ 1,250 million in nominal values at maturities between 12 and 30 years and a US$ 200 million deposit placed abroad by the Consolidated Reserve Fund.

Foreign investment reached to US$ 1,322 million in 2003, explained by the Camisea natural gas project, Wiese-Sudameris Bank and TIM-Peru, capital contributions, partially offset by the US$ 81 million investment in a cement plant in the USA by Pacasmayo Cement.

Long-term loans and direct investment registered US$ 1,960 million exceeding the current account deficit, which added to larger short term capital flows increased in US$ 596 million the International Reserves reaching a level of US$ 10,194 million at the end of 2003.

The improvement in Peru's international liquidity position may be seen in the external vulnerability indicators which reflect a country's ability to respond to external shocks, derived from less access to international capital markets or an unexpected demand for foreign exchange. The country's ability to pay its foreign debt in the short run, measured by the ratio of total foreign debt service to current account income, improved from 30.5% to 26.8% between 2002 and 2003. At the same time the ratio of external debt to GDP kept constant at 49%.

TABLE 9

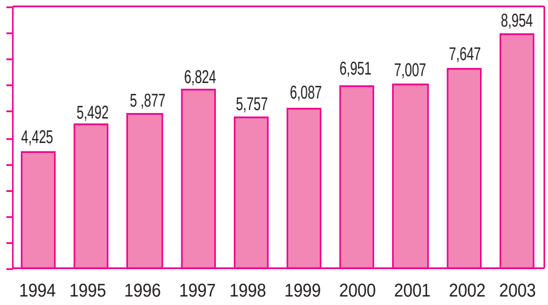
EXTERNAL VULNERABILITY INDICATORS

	2001	2002	2003
Current account deficit (% of GDP)	2.2	2.1	1.8
Exports concentration by product (%) 1/	49	51	51
Gross external financing to the private sector (% of the current account balance) 2/	156	242	176
Net international reserves NIR (Millions of US dollars)	8,613	9,598	10,194
NIR / Debt due in one year (times) 3/	1.4	2.1	2.3
NIR (number of goods of imports of goods)	14	15	15
Total external debt (% of GDP)	51	49	49
Total external debt / current account revenues (times)	2.7	2.6	2.5
External public debt (% of GDP)	35.4	36.7	37.3
Total external debt / current account revenues (times)	1.9	2.0	1.9
Total external debt service (% current account revenues) 4/	33.3	30.5	26.8
External public debt service (% current account revenues) 4/	19.7	19.0	19.2

1/ Share of gold, copper, fishmeal and zinc in total exports.
2/ Direct investment without privatization and long term disbursements to the private sector.
3/ Short term debt and medium and long term debt due in one year.
4/ Excludes debt swap transactions in 2002.
Source: BCRP.

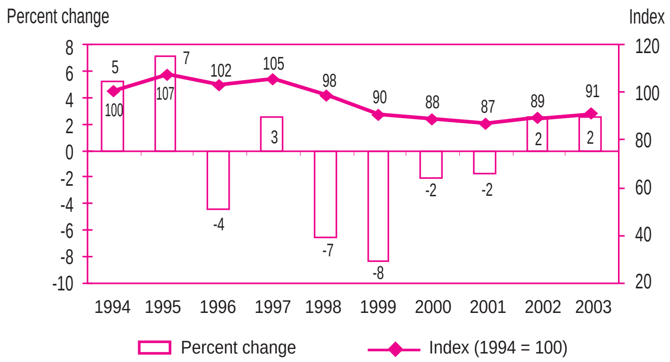
GRAPH 16

EXPORTS
(Millions of US$)



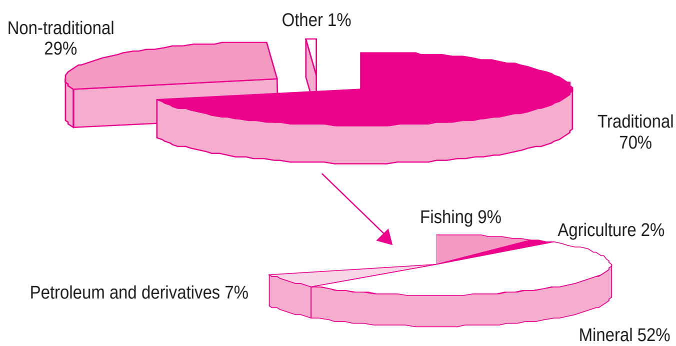
GRAPH 17

TERMS OF TRADE



GRAPH 18

EXPORTS STRUCTURE



Exports growth was explained by larger sales of traditional and non-traditional goods

Peruvian exports totaled US$ 8,954 million, 17% or US$ 1,307 million more than in 2002. This increase is explained by both traditional (US$ 969 million, i.e. 18%) and non-traditional exports (US$ 336 million, i.e. 15%).

Exports' average prices went up by 8,1% from which gold rose 17%, copper 16% and zinc 17%, whereas volume increased by 8,4%, including larger gold shipments of 872,000 ounces or 18 increase, particularly by Minera Yanacocha and of petroleum and derivatives by 23%.

Terms of trade improved by 2.5%, growing 8.1% exports prices and 5.5% import prices.

Better prices favored traditional exports

Higher international prices had a favorable impact on traditional exports particularly in mining and petroleum products. Among minerals gold shipments increased by 38%, due to Minera Yanacocha with US$ 324 million, and zinc 23%, because of Antamina's growing sales with US$ 62 million on 111 thousand metric tons. Pluspetrol Norte sold off stocks of oil and derivates for US$ 196 million, partially offset by a reduction of 8% in fishmeal exports because of lesser anchovy catches.

Larger textile sales contributed to non-traditional exports growth

Non-traditional exports totaled US$ 2,596 million, explained by larger sales of fishing by 24%, textiles by 21%, chemicals 21%, iron metallurgy and jewelry 14% and agricultural products 12%.

TABLE 10

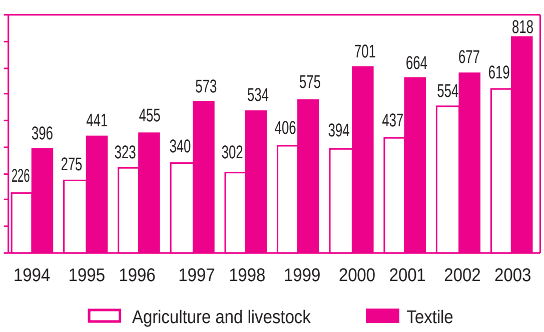
EXPORTS

	Millions of US dollars			Percent change	
	2001	2002	2003	2002	2003
I. TRADITIONAL PRODUCTS	**4,742**	**5,312**	**6,281**	**12.0**	**18.2**
FISHING	926	892	821	- 3.7	- 8.0
Fishmeal	835	823	742	- 1.4	- 9.9
Fish oil	91	69	79	- 24.1	14.3
AGRICULTURAL PRODUCTS	**207**	**216**	**222**	**4.2**	**2.6**
Coffee	181	188	180	4.2	- 4.4
Sugar	17	16	19	- 2.8	17.9
Cotton	5	2	5	- 51.0	104.9
Other agricultural products 1/	5	10	18	75.0	89.7
MINERAL PRODUCTS	**3,187**	**3,734**	**4,573**	**17.2**	**22.5**
Gold	1,166	1,479	2,045	26.8	38.3
Copper 2/	986	1,187	1,261	20.4	6.2
Zinc	419	429	529	2.3	23.3
Lead 2/	196	211	201	7.5	- 4.5
Silver (refined)	169	174	191	3.0	10.0
Tin	130	103	151	- 21.1	47.3
Iron	81	83	94	1.9	13.4
Other mineral products 3/	39	69	102	78.9	46.3
PETROLEUM AND DERIVATIVES	**422**	**469**	**665**	**11.4**	**41.6**
II. NON-TRADITIONAL PRODUCTS	**2,183**	**2,260**	**2,596**	**3.5**	**14.9**
Agriculture and livestock	437	554	619	26.9	11.6
Fishing	197	164	204	- 16.8	24.4
Textiles	664	677	818	1.9	20.8
Timber and papers, and its manufactures	142	177	172	24.6	- 3.0
Chemical	247	256	310	3.8	21.1
Non-metallic minerals	58	68	72	17.8	6.4
Basic metal industries and jewelry	242	222	261	- 8.3	17.3
Fabricated metal products and machinery	160	109	96	- 31.9	- 11.8
Other products 4/	36	33	44	- 8.2	34.8
III. OTHER PRODUCTS 5/	**82**	**75**	**78**	**- 9.2**	**3.9**
IV. TOTAL EXPORTS	**7,007**	**7,647**	**8,954**	**9.1**	**17.1**

1/ Including coca leaf and derivatives, molasses, wools and furs.
2/ Including silver content.
3/ Including molybdenum, bismuth and tungsten, mainly.
4/ Including fur and leathers and handicrafts.
5/ Fuel and food sold to foreign ships and aircraft and repairs on capital goods.
Source: BCRP and SUNAT.

GRAPH 19

NON-TRADITIONAL AGRICULTURE, LIVESTOCK AND TEXTILE EXPORTS
(Millions of US$)



Increase in imports partly due to higher oil prices

Total imports amounted to US$ 8,244 million, 11 percent more or US$ 805 million than in 2002, due to higher international oil prices and larger imports of capital and intermediate goods for the manufacturing industry. Total intermediate goods went up by US$ 590 million or 16%, total capital goods increased by US$ 139 million or 8% while consumer goods rose US$ 80 million or 5%.

TABLE 11

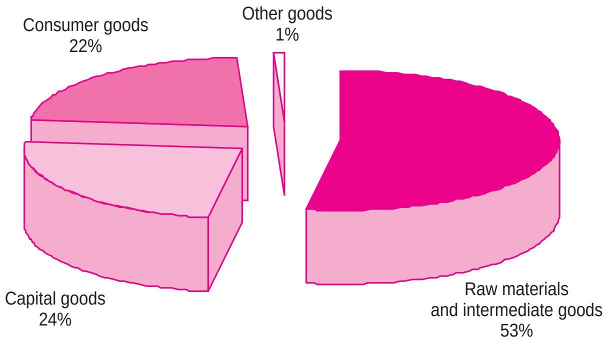
IMPORTS

	Millions of US dollars 2001	2002	2003	Percent change 2002	2003
I. CONSUMER GOODS	**1,649**	**1,770**	**1,850**	**7.3**	**4.5**
Non-durable	994	1,036	1,039	4.2	0.3
Durable	654	734	811	12.2	10.4
II. RAW MATERIALS AND INTERMEDIATE GOODS	**3,592**	**3,747**	**4,337**	**4.3**	**15.7**
Fuels	907	978	1,368	7.7	39.9
For agriculture	232	249	278	7.5	11.6
For industry	2,453	2,521	2,691	2.8	6.8
III. CAPITAL GOODS	**1,919**	**1,843**	**1,982**	**- 4.0**	**7.6**
Building materials	169	272	198	60.6	- 27.0
For agriculture	20	20	17	1.3	- 16.3
For industry	1,358	1,226	1,422	- 9.7	15.9
Transportation equipment	372	324	345	- 12.9	6.4
IV. OTHER GOODS 1/	**114**	**80**	**75**	**- 29.6**	**- 6.0**
V. TOTAL IMPORTS	**7,273**	**7,440**	**8,244**	**2.3**	**10.8**
Note:					
Foodstuff 2/	**530**	**535**	**544**	**0.9**	**1.7**

1/ Includes donated goods, capital goods under leasing and other goods not included in other categories.
2/ Mainly soybean, wheat and corn or sorghum. Excludes food donation.
Source: BCR, SUNAT, Zofratacna and Banco de la Nación.

GRAPH 20

IMPORTS STRUCTURE



Peru’s main trading partners

The United States of America remained Peru’s main trading partner, with 28% of total trade in 2003, while second partner was the United Kingdom, with 7%, followed by Spain, Chile, the People’s Republic of China and Switzerland all with for more than 5%. These countries account for 58% of all trade with Peru.

In 2003, trade with the Andean Community increased from 7% to 8% while ALADI and MERCOSUR countries’ share were 22% and 6%, respectively.

TABLE 12

COMMERCIAL TRADE BY MAIN ECONOMIC BLOCS 1/
(In percent of total)

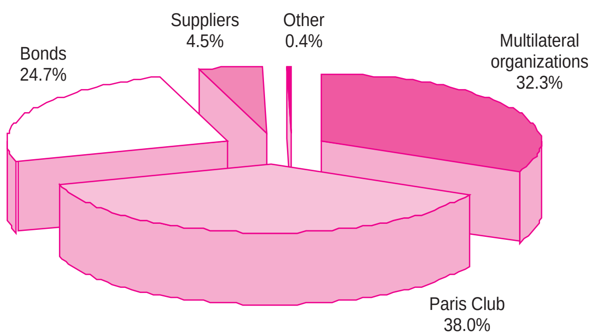
	2003		
	X	M	X + M
APEC 2/	52	51	52
NAFTA 3/	30	32	31
EU	26	21	23
EURO ZONE	13	19	16
ALADI	15	29	22
ANDEAN COMMUNITY 4/	6	7	6
MERCOSUR	3	9	6
Note:			
ANDEAN COMMUNITY: Petroleum and derivatives	0 3	1	

X: Exports M: Imports.
1/ Partial amounts do not add up 100 percent due to the superposition of countries among commercial blocs.
2/ Asia-Pacific Economic Cooperation.
3/ North American Free Trade Agreement signed by the United States, Canada and Mexico in 1993.
4/ Excludes trade of petroleum and derivatives.

Source: SUNAT.

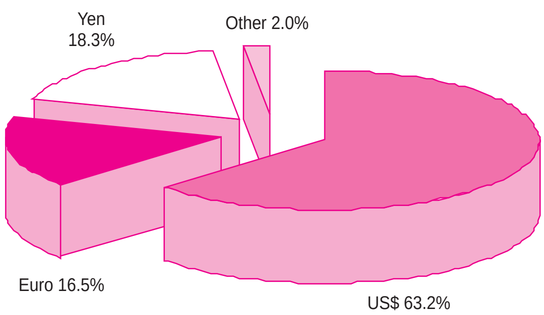
GRAPH 21

TOTAL PUBLIC EXTERNAL DEBT BY FINANCIAL SOURCE



GRAPH 22

TOTAL PUBLIC EXTERNAL DEBT BY CURRENCIES



International Investment Position

External assets totaled US$ 17,722 million at the end of 2003 mainly comprised of reserves assets at the Central Bank totaling US$ 10,206 million. Total assets were US$ 2,273 million higher accounted for increased assets at the Central Bank (US$ 516 million), the financial system (US$ 1,416 million) and other assets (US$ 342 million).

Liabilities were US$ 45,986 million, of which public sector medium and long-term debt was US$ 22,768 million, direct investment US$ 12,479 million and private sector medium and long-term debt US$ 4 ,414 million.

Medium and long-term external debt, including bonds, totaled US$ 29,708 million or 48.7% of GDP, an increase of US$ 1,868 million over 2002. Public sector medium and long-term debt went up by

US$ 2,053 million compared to 2002, of which US$ 927 million is due to a net increase of indebtedness and US$ 1,126 million to the depreciation of the dollar, mainly against the yen and the euro.

Of total public debt, Paris Club members hold 38%, international organizations 32% and bondholders 25%. By type of currency, 63% of public external debt is in dollars, 18% in yens and 17% in euros.