VI.

Forecasts

In 2004, Peruvian economy is expected to grow at 4% , with an inflation rate within the target range of 2.5% plus or minus 1%, announced by the Central Bank. The balance of payments current account deficit is expected to decline to 1% of GDP, due to a third consecutive trade surplus while fiscal deficit is projected to come down to 1.5% of GDP.

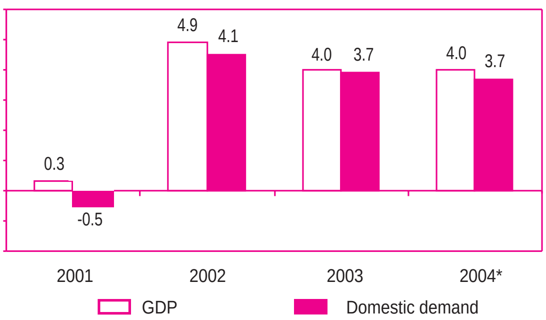
Economic Activity

The expectations of economic agents for 2004 as collected in the Central Bank survey to financial institutions and economic analysts show a growth of 4% for economic activity and 3.7% for domestic demand.

Private investment is expected to grow based on higher profits earned in 2003 by the private sector, the dynamism of the government housing program MiVivienda and the development of projects, such as the Camisea natural gas, for a total of US$ 732 million-including the export consortium Peru LNG investments-, Alto Chicama by Barrick Gold Corp. and Conga Mines by Yanacocha.

GRAPH 37

REAL GDP AND DOMESTIC DEMAND: 2001-2004
(Annual percent change)



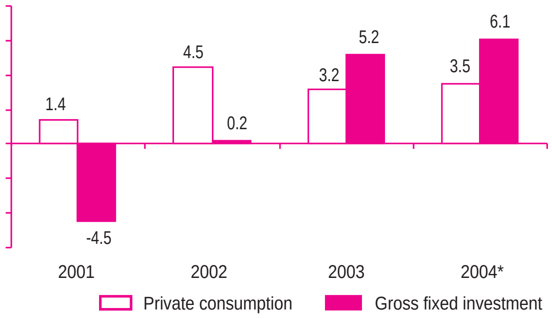
* Forecast. Inflation Report January 2004.

Public investment is projected to increase by 6.4% after growing 3.4% in 2003. Promotion for the concession of road construction and rehabilitation is under way. Tenders will be called for the auctioning off of the Lima Civic Center, to be made into a mall, and the building and operation of a tourist resort in El Chaco-La Puntilla, near the Paracas Nature Reservation, south of Lima.

Exports of goods and services are expected to grow by 6.1% in real terms,

GRAPH 38

REAL PRIVATE CONSUMPTION AND INVESTMENT: 2001 - 2004
(Annual percent change)



* Forecast. Inflation Report January 2004.

with higher rates for traditional exports, especially minerals, due to better terms of trade. Traditional exports are projected to rise by 10% and non-traditional exports 11%, particularly textiles.

Primary activities should improve by 5.1%, led by mining and fishing, while non-primary sector should grow by 3.7%.

National disposable income is expected to increase by 4.6%, more than GDP, due to an improvement of the terms of trade.

TABLE 22

REAL GROSS DOMESTIC PRODUCT
(Annual percent change)

	2002	2003	2004*
Agriculture & livestock	5.7	2.3	2.8
Fishing	5.7	-13.4	10.5
Mining & fuel	11.6	6.7	6.9
Manufacturing	4.2	2.1	4.0
Construction	7.9	4.0	5.0
Commerce	4.6	3.6	3.7
Services	3.8	4.4	3.7
GROSS VALUE ADDED	**5.0**	**3.7**	**4.0**
Taxes on products and import duties	3.9	6.3	4.0
GDP	**4.9**	**4.0**	**4.0**
Primary sectors gross value added	6.5	2.5	5.1
Non-primary sectors gross value added	4.5	4.0	3.7

* Forecast. Inflation Report January 2004.

TABLE 23

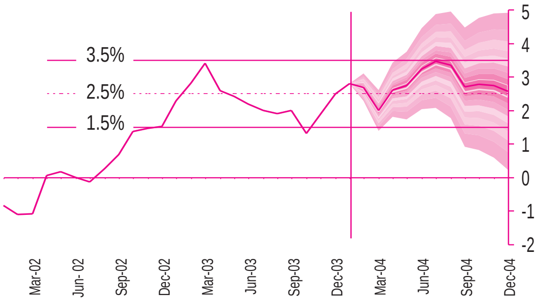
REAL NATIONAL DISPOSABLE INCOME
(Annual percent change)

	2002	2003	2004*
I. Gross domestic product (GDP)	4.9	4.0	4.0
II. Gross national product (GNP) 1/	4.2	3.2	3.3
III. Gross national income (GNI) 2/	4.3	3.9	4.8
IV. National disposable income (NDI) 3/	4.3	4.1	4.6

1/ Excludes investment income of non-residents from GDP.
2/ Both GDP and GNP are insulated from changes in the terms of trade.
3/ Equals GNI plus net transfers from non-residentes.
* Forecast. Inflation Report January 2004.

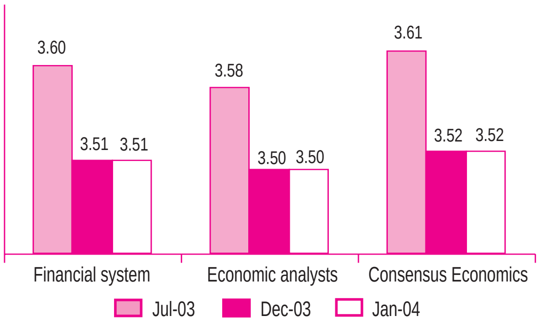
GRAPH 39

INFLATION FORECAST
(Acummulative 12 months change)



GRAPH 40

FOREIGN EXCHANGE: EXPECTATIONS FOR DECEMBER 2004



Source: BCRP survey and Consensus Economics.

Inflation and exchange rate

The inflation forecast for 2004 is placed at the target of 2.5% announced by the Central Bank, assuming that the current stance of monetary policy remains unchanged by year-end.

The results of the Central Bank Survey on Macroeconomic Expectations made in January 2004 reveal inflation expectations for 2004 in the range of 2.3% to 2.5%, in line with the Bank's forecasts.

Over 2004 a few transitory supply shocks are foreseen, especially food prices in the first quarter. Among these, the rise in international prices of soybeans and wheat are expected to have an impact on the domestic prices of edible oils and bread, respectively.

Devaluation expectations have been falling since July 2003 and the exchange rate is seen to fluctuate between 3.50 to 3.52 soles per dollar at 2004-end; consistent with the Central Bank last survey and the forecasts published in Consensus Economics.

In the scenario that exchange rate reaches S/. 3.51 per dollar at year-end, it would imply a nominal devaluation of 1.6% and a real devaluation of 0.5%, assuming that the currencies of most of Peru's trading partners would be slightly appreciated against the dollar.

External sector

2004 is expected to be a year of world economic recovery. The GDP of Peru's main trading partners should grow by 4.0% propelled by the US economic upsurge.

The upward trend of price levels of the main commodities, due to favorable world economic prospects should continue in 2004. Thus, the price of copper is expected to reach US$/lb. 1.00 and gold's to remain around US$ 400 per ounce at year-end.

TABLE 24

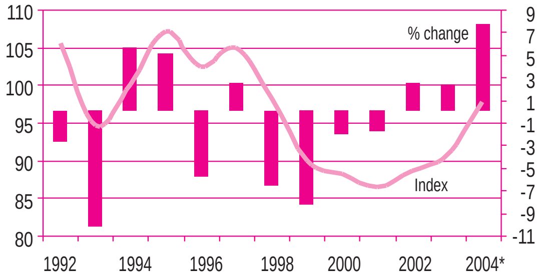
GDP FORECASTS
(Annual percent change)

	2002	2003	2004
World	**1.9**	**2.5**	**3.6**
Commercial partners	**1.6**	**2.4**	**4.0**
· North America	2.4	2.9	4.4
· Europe	1.2	1.2	2.3
· Asia	4.1	4.6	4.9
· Latin America	-1.1	1.0	4.3

Source: Consensus Forecasts, January 2004.

GRAPH 41

TERMS OF TRADE



* Forecast. Inflation Report January 2004.

In the case of petroleum, a gradual price decrease is expected, reaching 7.6% at year-end, once the higher demand for the winter low temperatures in the Northern Hemisphere is over. An increase is also foreseen in other imported products. The terms of trade should improve by 7.2% as export prices increase by 9.2% and import prices by 1.9%. This would be the third consecutive year of improvements in the terms of trade, which in turn reinforces expectations for continuing the dynamism in economic activity.

Trade balance

Considering world economic prospects and the positive evolution in the terms of trade, the trade balance should have its third consecutive surplus, reaching US$ 1,758 million.

Exports are expected to grow 17%, mainly because of larger volumes and higher prices especially copper, gold, fishmeal and zinc, and due to the benefits of the ATPDEA on the textile industry. Exports should total US$ 10,491 million with traditional exports reaching US$ 7,524 million (19.8%) and non-traditional exports at US$ 2,885 million (11.2%). Copper exports will increase by US$ 418 million due to better prices and the reopening of the Tintaya sulfur plant. Gold exports will improve by US$ 231 million because of higher prices. Zinc exports will grow by US$ 199 million taken into account the recovery of production by Volcan Mines; and, fishmeal exports will add US$ 112 million because of the anchovy population recovery.

TABLE 25

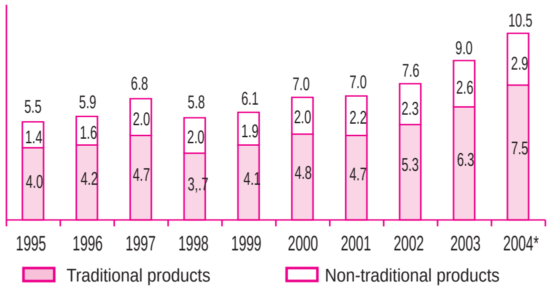
TRADE BALANCE
(Millions of US$)

	2002	2003	2004 *	Percent change 2003	Percent change 2004 *
1. EXPORTS	**7,647**	**8,954**	**10,491**	**17.1**	**17.2**
Traditional products	5,312	6,281	7,524	18.2	19.8
Non-traditional products	2,260	2,596	2,885	14.9	11.2
Other	75	78	81	3.9	4.7
2. IMPORTS	**7,440**	**8,244**	**8,733**	**10.8**	**5.9**
Consumer goods	1,770	1,850	1,996	4.5	7.9
Raw materials and intermediate goods	3,747	4,337	4,425	15.7	2.0
Capital goods	1,843	1,982	2,205	7.6	11.2
Other	80	75	107	-6.1	41.7
3. TRADE BALANCE	**207**	**710**	**1,758**		

* Forecast. Inflation Report January 2004.

GRAPH 42

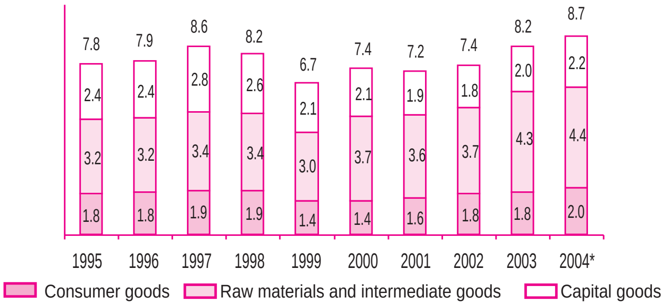
EXPORTS
(Billions of US$)



* Forecast. Inflation Report January 2004.
Note: Total exports includes the item other exports.

GRAPH 43

IMPORTS
(Billions of US$)



* Forecast. Inflation Report January 2004.
Note: Total imports includes the item other imports.

An increase of 6% is expected for imports over 2004, compatible with the 4% GDP growth forecasted and the recovery of private investment and consumption. Imports should total US$ 8,733 million, led by capital and intermediate goods for industry (11% in both cases), offset by smaller fuel purchases (18%). The latter is associated with the import substitution effect of Camisea natural gas production over the second half of 2004 and the forecast of lower prices.

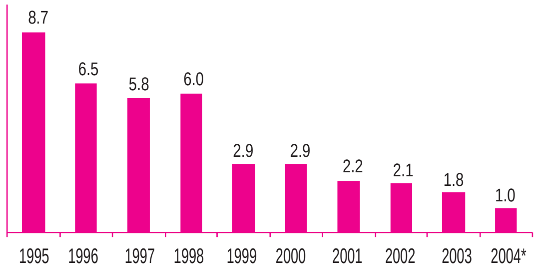
Balance of payments current account and capital flows

For 2004, the balance of payments current account deficit is estimated at US$ 623 million, equivalent to 1% of GDP, improving over the previous year because of the expected positive evolution in the terms of trade.

The capital account is expected to include long-term private gross disbursements of US$ 2,100 million, and important investment flows from financial institutions abroad (US$ 836 million). Capital flows

GRAPH 44

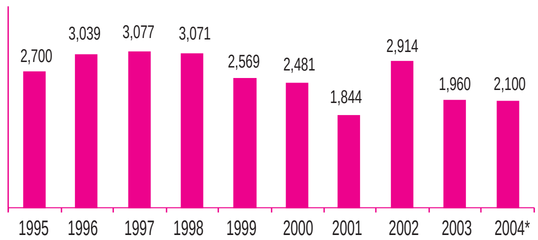
BALANCE OF PAYMENTS' CURRENT ACCOUNT DEFICIT
(Percent of GDP)



* Forecast. Inflation Report January 2004.

GRAPH 45

PRIVATE SECTOR LONG-TERM CAPITAL FLOWS 1/
(Millions of US$)



* Forecast. Inflation Report January 2004.
1/ Includes foreign direct investment and long term disbursements.

would come from projects like Alto Chicama (US$ 100 million), and Camisea I and II (US$ 732 million). Public sources should account for US$ 448 million net. A gain of US$ 300 million is estimated for international reserves.

Fiscal accounts

It is expected that the fiscal deficit will be reduced to 1.5% of GDP by year-end, as it has been announced in the Multi Annual Macroeconomic Framework for 2004-2006. The primary balance would rise from 0.1% to 0.6% of GDP, mainly because of a real improvement of 7.5% in fiscal revenue compared to an increase of 4.0% in non-financial expenditure.

Central government current revenue at 15.1% of GDP are consistent with a 0.6% of GDP primary balance and a 4.0% in real growth estimated for non-financial expenditure.

In 2004, the decline in the fiscal deficit would decrease public sector financial requirements from US$ 2,752 million to US$ 2,686 million. These requirements would be financed by US$ 1,796 million in

TABLE 26

NON-FINANCIAL PUBLIC SECTOR
(Percent of GDP)

	2002	2003	2004*
1. Central government current revenues	14.3	14.8	15.1
2. Non-financial expenditure	-14.6	-14.7	-14.5
3. Other	0.1	0.1	0.0
4. Primary Balance	-0.3	0.1	0.6
5. Interests	-2.1	-2.0	-2.1
6. Overall Balance	-2.3	-1.9	-1.5

* Forecast. Inflation Report January 2004.

new foreign debt -including US$ 500 million in sovereign bonds-, are US$ 1,296 million in disbursements from multilateral agencies for investment projects and multisectorial loans. Additionally, the equivalent of US$ 560 million in local currency-denominated bonds should be placed in the local market. In late 2003 a US$ 500 million issuance was placed locally to pre-finance the 2004 budget.

TABLE 27

NON-FINANCIAL PUBLIC SECTOR FINANCING
(Millions of US$)

	2002	2003	2004*
1. Overall Balance	**- 1,319**	**- 1,179**	**- 1,005**
(% of GDP)	-2.3	-1.9	-1.5
2. Amortization	**- 1,074**	**- 1,573**	**- 1,681**
Domestic	- 138	- 385	- 356
Foreign	- 936	- 1,188	- 1,326
3. Gross Financial requirements	**2,393**	**2,752**	**2,686**
External financing	1,960	2,101	1,796
- Multilaterals	976	855	1 296
- Bonds	984	1,246	500
Domestic bonds	213	508	560
Privatization	421	52	20
Others	- 201	91	310

* Forecast. Inflation Report January 2004.