III.

External Sector

The external sector showed positive results in 2003. The current account deficit of the balance of payments dropped from 2.0 to 1.7 percent of GDP in 2003, reflecting the performance of the trade balance (US$ 731 million surplus in 2003 versus US$ 306 million surplus in 2002) and higher current transfers, partially offset by a larger investment income deficit.

In 2003 the current account deficit of the balance of payments dropped to US$ 1,061 million, compared to US$ 1,127 million registered a year earlier, while the terms of trade improved by 1.4 percent, basically due to the recovery of the world economy, particularly in the second semester of the year.

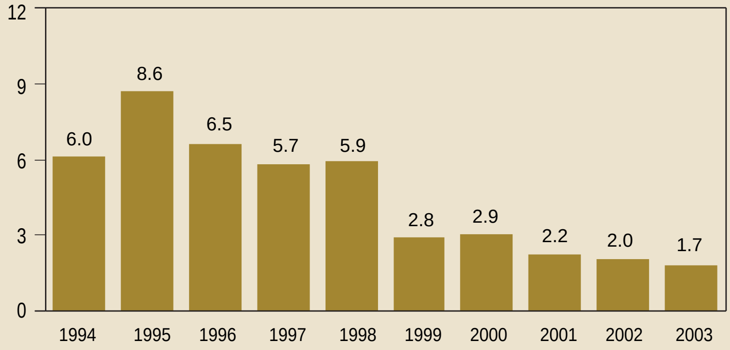
The trade balance surplus of US$ 731 million for 2003 was US$ 425 million higher than the 2002 surplus, due to the US$ 1,263 million exports increase (16 percent), which exceeded the increase in imports of US$ 838 million or 11 percent).

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

GRAPH 11

CURRENT ACCOUNT DEFICIT

(Percentage of GDP)



Source: BCRP.

Box 4
WORLD ECONOMY DEVELOPMENT

In 2003 the global economy showed slightly better results than those of 2002. According to Consensus Forecast estimates, global economic growth amounted to 2.5 percent in 2003, higher than the previous year (1.7 percent). A similar evolution was observed in our twenty main trade partners, whose economic activity grew from 1.6 percent in 2002 to 2.4 percent in 2003.

Nevertheless, world economic growth hasn't been homogeneous throughout the year. In the first half of the year, growth was negatively affected by geopolitical uncertainty and the SARS epidemic. After these problems were resolved, the concern centred on the twin deficit in United States (fiscal and external) as well as the labor market uncertainty. The biggest economies in Europe also showed a downward economic activity during Q1 2003.

Global Economic Growth
(Percentage change)

	2002	2003
World	**1.7**	**2.5**
Trade Partners	**1.6**	**2.4**
* North America	2.4	2.9
* Europe	1.2	1.2
* Asia	4.1	4.6
* Latin America	-1.1	1.0

Fuente: Consensus Forecast.

The global economy improved in the second half of the year, propelled by the United States economy. In Q3 2003 the United States economy increased 8.2 percent (annualized), the higher rate in almost 20 years. This improvement was driven by the dynamism in consumption, investment and productivity, and to a lesser extent by the exports, which benefited from the dollar depreciation against the currencies of its main trade partners (Europe and Asia). The unexpected recovery of the Japanese economy has required an upward revision of its initial growth projection. Other countries with strong economic growth are China, and to a lesser extent, Russia and India. These countries are important consumers of primary goods and main receptors of global foreign investment.

The greater demand from the developed economies and China has favoured the region. Thus, the price of copper increased to levels not observed since 1997, while gold prices reached record levels since 1990, helped by the dollar depreciation and the geopolitical uncertainty.

In 2003 the demand for emerging market bonds rose, thanks to a background of greater dynamism among foreign investors; low international interest rates; and the improvement of the credit risk of some of the main emerging economies (like Russia and Brazil). This greater demand reflected in higher bond prices and lower yields that reached minimum historical levels. Against this background, bond issues of emerging economies in international markets increased significantly. Peru placed three issues in 2003, totalling an amount of US$ 1,250 million, US$ 500 million of which were 30-year bonds.

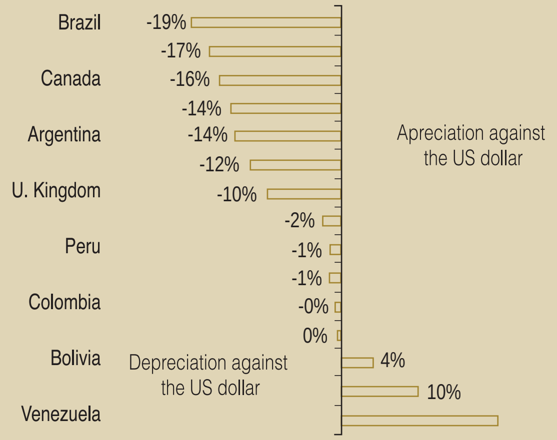
Dollar Evolution

During 2003, the dollar depreciated significantly against most currencies, particularly against the main currencies (Euro and Yen). The 17 percent depreciation with respect to the Euro set the dollar at a historical minimum. Part of this depreciatory pressure was originated in the interest rates spreads and the concern regarding the twin deficit of United States (fiscal and current account deficit). In 2003 the fiscal deficit was US$ 375 billion (US$ 150 billion in 2002) while the current account deficit was US$ 550 billion (US$ 475 billion in 2002).

In spite of strong interventions by the Bank of Japan to avoid an appreciation of the Yen that could hurt its exports, the dollar depreciated 12 percent against the Yen in 2003. In the region, the Brazilian real was the currency that appreciated the most against the dollar (19 percent), partially offsetting the almost 50 percent depreciation observed last year associated to the presidential elections. On the other hand, only the Bolivian, Venezuelan and Mexican currencies depreciated significantly against the dollar, the first two due to political crisis and the third due to being linked with the economic cycle of the United States.

It is worth highlighting that the depreciation pressures of the dollar in the international markets were partially offset by the demand for US Treasury bonds by governments and foreign institutions, particularly some Asian central banks (China and Japan).

Exchange rate: Monetary unit per US$
Main trade partners of Peru
Percentage change Dec. 03 - Dec. 02



United States of America Treasury Bond Holders
(Billions of US$)

	2000 IV Quarter	2003 III Quarter	Change
Japan	318	502	184
China	60	142	82
United Kingdom	50	114	64
NICs *	130	155	25
Others	644	515	-129
Total	**1,201**	**1,428**	**227**

* New Industrialized Countries.
Source: American Treasury and Deutsche Bank.

The deficit in investment income rose to US$ 2,082 million, mainly due to the effect of the dollar depreciation, higher bond interest outpayments, lower return of external assets and higher profits of enterprises with foreign capital. All of this was offset by low international interest rates, which meant lower public interests on foreign loans.

The financial account of the balance of payments registered a positive inflow of US$ 914 million, lower by US$ 926 million to that of the previous year. This development was explained by extraordinary operations registered in 2002 like the sale of Backus brewery shares, and because of the investments done abroad by financial sector enterprises through the acquisition of Peruvian government bonds issued abroad as well as other financial assets. Three international bond issues were placed during 2003 for a total of US$ 1,250 million with maturities between 12 and 30 years.

Foreign investment inflows fell from US$ 1,970 million in 2002 to US$ 1,307 million in 2003, mainly as a result of the sale of Backus shares to non residents in 2002 (US$ 657 million). Among the main foreign direct investments of the year are those of the Camisea project, Wiese Sudameris Bank and Tim Peru.

Long-term loans and direct investment totaled US$ 1,930 million, exceeding the current account deficit. This fact, added to higher short term capital inflows, allowed an increase in

TABLE 18

BALANCE OF PAYMENTS

	Millions of US$			Percentage of GDP		
	2001	2002	2003	2001	2002	2003
I. CURRENT ACCOUNT BALANCE	**-1,159**	**-1,127**	**-1,061**	**-2.2**	**-2.0**	**-1.7**
1. Trade balance	- 195	306	731	- 0.4	0.5	1.2
a. Exports	7,026	7,723	8,986	13.1	13.7	14.7
b. Imports	-7,221	-7,417	-8,255	- 13.5	- 13.1	- 13.5
2. Services	- 881	- 986	- 931	- 1.6	- 1.7	- 1.5
a. Exports	1,510	1,544	1,679	2.8	2.7	2.8
b. Imports	-2,391	-2,530	-2,609	- 4.5	- 4.5	- 4.3
3. Investment income	-1,124	-1,491	-2,082	- 2.1	- 2.6	- 3.4
a. Private sector	- 550	- 747	-1,213	- 1.0	- 1.3	- 2.0
b. Public sector	- 574	- 744	- 869	- 1.1	- 1.3	- 1.4
4. Current transfers	1,042	1,043	1,221	1.9	1.8	2.0
II. FINANCIAL ACCOUNT	**1,599**	**1,840**	**914**	**3.0**	**3.3**	**1.5**
1. Private sector	983	1,538	82	1.8	2.7	0.1
2. Public sector	427	1,096	685	0.8	1.9	1.1
3. Short-term capital	189	- 794	147	0.4	-1.4	0.2
III. EXCEPTIONAL FINANCING	**- 1**	**14**	**64**	**0.0**	**0.0**	**0.1**
IV. BCRP NET INTERNATIONAL RESERVES FLOW (1-2) (Increase with negative sign)	**- 448**	**- 832**	**- 479**	**-0.8**	**-1.5**	**-0.8**
1. Change in Central Bank reserves	- 433	- 985	- 596	-0.8	-1.7	-1.0
2. Valuation changes and monetization of gold	15	- 153	- 118	0.0	-0.3	-0.2
V. NET ERRORS AND OMISSIONS	**10**	**106**	**561**	**0.0**	**0.2**	**0.9**

Source: BCRP, MEF, SUNAT and companies.

net international reserves of US$ 596 million, resulting in an outstanding balance at the end of the year of US$ 10,194 million.

This level of international reserves represents 15 months of imports of goods and 2.3 times the external debt due in one year, which shows the country´s capability to face eventual restrictions in the international capital markets. Likewise, the NIR to base money ratio remains around 5 times, which demonstrates the country´s favorable position in order to withstand any unusually large demand of foreign exchange.

This favorable external position was reflected in the country´s ability to respond to external shocks, derived both from less access to the international capital markets and an unexpected demand of foreign exchange. Therefore, the ability of the country to pay its foreign debt in the short run, measured as the total foreign debt service to current account income ratio went from 29.2 percent in 2002 to 26.5 percent in 2003. The external debt to GDP ratio kept constant at 49 percent.

TABLE 19

EXTERNAL VULNERABILITY INDICATORS

	2001	2002	2003
Current account deficit (% of GDP)	2.2	2.0	1.7
Exports concentration by products (%) 1/	48	51	51
Long-term private capital (% of current account balance) 2/	62	120	7
Gross external financing to the private sector (% of current account balance) 3/	158	235	182
Net international reserves (NIR) (millions of US$)	8,613	9,598	10,194
NIR / Debt due in one year (times) 4/	1.5	2.2	2.3
NIR (number of months of import of goods)	14	16	15
Total external debt (% GDP)	51	49	49
Total external debt / Current account revenues (times)	2.7	2.6	2.4
Public sector external debt (% GDP)	35.4	36.7	37.3
Public sector external debt / Current account revenues (times)	1.9	1.9	1.9
Total external debt service (% current account revenues) 5/	32.8	29.2	26.5
Public sector external debt service (% current account revenues) 5/	19.4	18.4	19.1

1/ Share of gold, copper, fishmeal and zinc in total exports.
2/ Private sector financial account, without privatization.
3/ Direct investment without privatization and disbursements of long-term debt to private sector.
4/ Short-term debt and medium and long-term debt due in one year.
5/ Excluding debt swap transactions in 2002.

Source: BCRP.

1. Exports

Exports totaled US$ 8,986 million, US$ 1,263 million (16 percent) higher than in 2002. This increase is explained by both traditional (US$ 899 million or 17 percent) and non traditional exports (US$ 346 million or 15 percent).

Average prices of exports increased 7.1 percent, mainly explained by gold (15 percent), copper (16 percent) and zinc (18 percent). Volume increased 8.7 percent, explained by larger gold shipments (872 mil ounces or 18 percent), particularly by Yanacocha; and shipments of petroleum and derivatives (22 percent), due to the sale of stocks accumulated by Pluspetrol Norte. **Terms of trade** increased by 1.4 percent, due to the higher growth in export prices than that of import prices.

Traditional exports

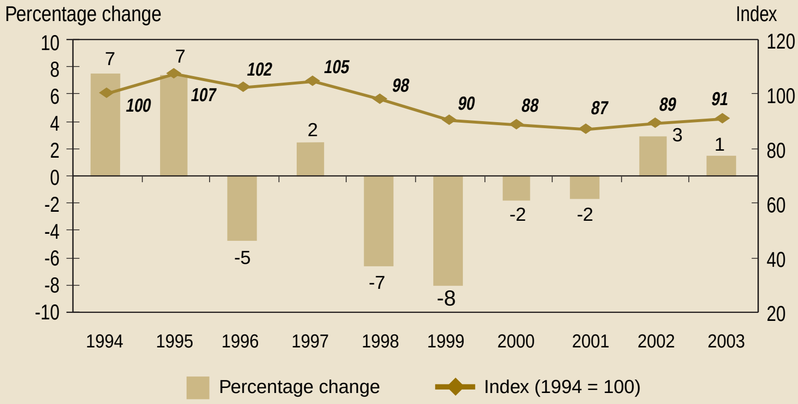
The growth of **traditional exports** during 2003 was favored by higher international prices of mining and petroleum products. Among metals, higher gold sales (36 percent) were due to higher exports by Minera Yanacocha (562 thousand ounces), as well as higher exports of zinc (23 percent) because of Antamina's higher sales (US$ 62 million). The positive results on these mining exports were partially offset by the decrease in foreign sales of fishmeal (10 percent) due to lesser anchovy catches.

Non traditional exports

Non traditional exports amounted to US$ 2,602 million. This increase was due to higher exports of fishing products (25

GRAPH 12

TERMS OF TRADE



Source: BCRP and SUNAT.

percent), textiles (21 percent), chemical products (21 percent), basic metal products and jewelry (17 percent) and agriculture and livestock (13 percent). On the other hand, fabricated metal products and machinery exports decreased 12 percentage whereas timbers and paper manufactures were 3 percent lower than in 2002.

Textile exports totaled US$ 819 million, US$ 142 million (21 percent) higher than in 2002. The more dynamic item was clothes and other garments (US$ 122 million or 23 percent), whereas remaining items grew by US$ 20 million (average increase of 14 percent). With respect to the first item mentioned, the

TABLE 20

EXPORTS

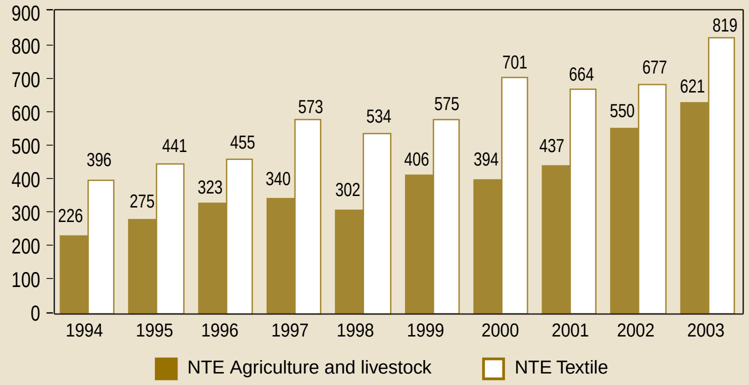
	Millions of US$			Percentage change	
	2001	2002	2003	2002	2003
I. TRADITIONAL PRODUCTS	**4,730**	**5,369**	**6,267**	**13.5**	**16.7**
FISHING	**926**	**892**	**821**	**- 3.7**	**- 8.0**
Fishmeal	835	823	742	- 1.4	- 9.8
Fish oil	91	69	79	- 24.1	14.3
AGRICULTURAL PRODUCTS	**207**	**216**	**223**	**4.2**	**3.2**
Coffee	181	188	181	4.2	- 3.7
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	**3,205**	**3,809**	**4,597**	**18.8**	**20.7**
Gold	1,166	1,501	2,045	28.7	36.2
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	150	155	175	3.9	12.8
Iron	81	83	94	1.9	13.4
Other mineral products 3/	39	69	102	80.4	46.1
PETROLEUM AND DERIVATIVES	**391**	**451**	**626**	**15.3**	**38.7**
II. NON-TRADITIONAL PRODUCTS	**2,183**	**2,256**	**2,602**	**3.4**	**15.3**
Agriculture and livestock	437	550	621	25.9	12.9
Fishing	197	164	204	- 16.8	24.6
Textile	664	677	819	1.9	21.0
Timbers and papers, and its manufactures	142	177	172	24.6	- 2.9
Chemical	247	256	311	3.8	21.4
Non-metallic minerals	58	68	73	17.8	7.7
Basic metal industries and jewelry	242	222	261	- 8.3	17.4
Fabricated metal products and machinery	160	110	97	- 31.5	- 11.9
Other products 4/	36	33	44	- 8.0	34.6
III. OTHER PRODUCTS 5/	**113**	**98**	**117**	**- 12.9**	**19.0**
IV. TOTAL EXPORTS	**7,026**	**7,723**	**8,986**	**9.9**	**16.4**

1/ Including coca leaves and derivatives, molasses, wools and furs.
2/ Including silver contents.
3/ Including molybdenum, bismuth and tungsten, mainly.
4/ Including furs, leathers and handicrafts, mainly.
5/ Fuel and food sold to foreign ships and aircrafts and repairs on capital goods.

Source: BCRP and SUNAT.

GRAPH 13

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



Source: BCRP and SUNAT.

highest growth sales occurred in t-shirts (US$ 43 million), shirts (US$ 42 million) and blouses (US$ 14 million), because of the low levels registered in 2002 and the benefits generated by the subscription of the ATPDEA.

Exports of **agricultural products** reached US$ 621 million, higher by US$ 71 million (13 percent) than that registered in 2002. This result was explained mainly by higher sales of fresh asparagus (US$ 26 million), avocados (US$ 11 million) and artichoke (US$ 5 million).

2. Imports

Imports amounted to US$ 8,255 million, higher by US$ 838 million (11 percent) to those of 2002, partially due to the increase in international prices of petroleum and to higher acquisitions of durable consumer goods and goods for industry, raw materials and capital goods. Thus, imports of raw material were US$ 604 million higher (16 percent), capital goods increased by US$ 142 million (8 percent) as did consumer goods, which rose by US$ 97 million (6 percent).

With respect to fuel imports, the acquisitions of petroleum stand out, with a total of US$ 1,315 million, 43 percent higher than in 2002. Average prices of imports increased 18 percent, and volumes, 21 percent. It is worth mentioning that international prices of crude reached an average of US$ 31 in 2003 (an increase of 19 percent), due to the uncertainty generated by the war in Iraq during the first months of the year and the effect of the low winter temperatures in the northern hemisphere.

3. Trade by country

The United States of America was the **main trading partner** of Peru, with

TABLE 21

IMPORTS

	Millions of US$			Percentage change	
	2001	2002	2003	2002	2003
I. CONSUMER GOODS	**1,635**	**1,754**	**1,851**	**7.3**	**5.5**
Non-durable	987	1,032	1,039	4.6	0.7
Durable	648	722	812	11.4	12.5
II. RAW MATERIALS AND INTERMEDIATE GOODS	**3,551**	**3,740**	**4,344**	**5.3**	**16.1**
Fuels	908	975	1,377	7.4	41.2
For agriculture	229	249	278	8.7	11.9
For industry	2,414	2,516	2,689	4.2	6.9
III. CAPITAL GOODS	**1,921**	**1,842**	**1,984**	**- 4.1**	**7.7**
Building materials	168	272	199	61.5	- 26.7
For agriculture	21	20	17	- 2.4	- 16.4
For industry	1,361	1,227	1,423	- 9.8	16.0
Transportation equipment	371	323	345	- 13.0	6.7
IV. OTHER GOODS 1/	**114**	**80**	**75**	**- 29.6**	**- 6.0**
V. TOTAL IMPORTS	**7,221**	**7,417**	**8,255**	**2.7**	**11.3**
Note:					
Foodstuff 2/	**504**	**546**	**564**	**8.4**	**3.4**
Wheat	168	171	186	1.8	8.4
Corn and/or sorghum	80	92	100	15.3	8.2
Rice	15	9	4	- 42.7	- 49.0
Sugar 3/	50	30	3	- 40.0	- 91.2
Dairy products	43	31	23	- 26.7	- 25.9
Soybean	131	195	227	48.8	16.1
Meat	16	17	22	4.1	28.4

1/ Includes donated goods, capital goods under leasing and other goods not included in this classifier.
2/ Excludes food donations.
3/ Includes non-refined sugar cane, classified as raw materials.

Source: BCRP, SUNAT, Zofratacna and Banco de la Nación.

28 percent of total trade in 2003 (26 percent in 2002). The increase respect to 2002 was mainly due to a greater participation in Peruvian imports during the last year. The second trading partner was United Kingdom, that accounted for 7 percent of total trade and whose participation increased due to the higher Peruvian exports to that country (increase of 1 percent). Other important trading partners are Spain, Chile, the People´s Republic of China and Switzerland. All these account for 58 percent of our commercial trade.

Trade with countries of the NAFTA increased by one percentage point, due to the increase of commerce with the United States. Trade with the European Union remained unchanged and commerce with the Andean Community maintained its share (7 percent). The participation of ALADI countries and MERCOSUR were 22 and 6 percent, respectively in 2003.

TABLE 22

DIRECTION OF TRADE
(In percent of total)

	Exports 1/			Imports 2/			X + M		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
United States of America	25.3	26.0	26.8	29.6	26.9	28.5	27.5	26.4	27.6
United Kingdom	13.6	11.8	12.4	1.1	1.1	0.9	7.2	6.6	6.9
Spain	3.1	3.2	3.4	8.8	8.2	10.0	6.0	5.6	6.6
Chile	4.1	3.3	4.7	9.0	7.8	7.5	6.6	5.5	6.0
People's Republic of China	6.1	7.8	7.7	1.8	3.2	3.5	3.9	5.5	5.7
Switzerland	4.5	7.4	7.6	1.3	1.6	2.7	2.9	4.6	5.2
Brazil	3.3	2.5	2.6	3.8	4.6	5.1	3.6	3.6	3.8
Japan	5.4	4.9	4.4	3.3	2.9	2.1	4.3	3.9	3.3
Colombia	2.2	2.1	2.1	4.0	4.5	4.5	3.1	3.2	3.3
Germany	3.0	3.3	2.9	3.4	3.4	3.4	3.2	3.3	3.1
South Korea	1.6	2.2	2.0	2.8	2.5	2.6	2.2	2.3	2.3
Italy	2.0	2.3	2.1	1.7	1.8	1.9	1.8	2.0	2.0
Ecuador	1.8	1.8	1.8	2.4	2.0	2.0	2.1	1.9	1.9
Others	24.1	21.4	19.4	27.0	29.4	25.5	25.6	25.4	22.3
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

X: Exports, M: Imports.
1/ Exports exclude products classified as other exports and the repair of foreign vessels and aircrafts.
2/ Imports exclude defense products, products classified as other imports and the repair of Peruvian vessels and aircrafts abroad.

Source: SUNAT.

TABLE 23

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

	2001			2002			2003		
	X	M	X + M	X	M	X + M	X	M	X + M
APEC 2/	52	54	53	52	51	51	52	51	52
NAFTA 3/	29	34	32	30	31	30	30	32	31
EU	27	20	23	26	19	23	26	21	23
Euro Zone	13	18	16	14	18	16	13	19	16
ALADI	17	31	24	15	31	22	15	29	22
ANDEAN COMMUNITY 4/	7	8	8	6	8	7	6	7	7
MERCOSUR	4	8	6	3	9	6	3	9	6
Note:									
ANDEAN COMMUNITY:									
Petroleum and derivatives	0	3	2	0	3	1	0	2	1

X: Exports, M: Imports.
1/ Partial amounts do not add up 100 percent due to 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.

4. Services

The **deficit for services** was US$ 931 million, US$ 55 million lower (6 percent) to that of 2002. This decrease is mainly due to a higher surplus in travel (US$ 119 million) associated to income growth due to receptive tourism. That was partially offset by higher debits insurance and reinsurance (US$ 26 million), transportation (US$ 25 million) and a higher deficit for other services (US$ 14 million).

5. Investment income

The **deficit for investment income** was US$ 2,082 million, US$ 591 million higher to that of 2002. Low international interest rates favored lower interests for external loans to the public and private sectors. Nevertheless, that was offset mainly by the effect of the dollar depreciation, higher interest expenses on Government bonds (US$ 111 million), lower returns on foreign assets and greater profits of enterprises with

TABLE 24

INVESTMENT INCOME

	Millions of US$			Percentage of GDP		
	2001	2002	2003	2001	2002	2003
I. CREDITS	**647**	**337**	**282**	**1.2**	**0.6**	**0.5**
1. Private sector	125	58	52	0.2	0.1	0.1
2. Public sector	523	279	230	1.0	0.5	0.4
II. DEBITS	**1,771**	**1,827**	**2,364**	**3.3**	**3.2**	**3.9**
1. Private sector	675	805	1,265	1.3	1.4	2.1
Profits 1/	131	479	1,007	0.2	0.8	1.7
Interest obligations	544	326	258	1.0	0.6	0.4
· Long-term loans	313	198	166	0.6	0.4	0.3
· Bonds	29	9	8	0.1	0.0	0.0
· Short-term 2/	202	120	84	0.4	0.2	0.1
2. Public sector	1,096	1,022	1,099	2.0	1.8	1.8
Long-term loans	915	815	785	1.7	1.4	1.3
Bonds	161	196	307	0.3	0.3	0.5
BCRP 3/	21	11	8	0.0	0.0	0.0
Short-term 4/	0	0	0	0.0	0.0	0.0
III. INCOME BALANCE (I-II)	**-1,124**	**-1,491**	**-2,082**	**- 2.1**	**- 2.6**	**- 3.4**
1. Private sector	- 550	- 747	-1,213	- 1.0	- 1.3	- 2.0
2. Public sector	- 574	- 744	- 869	- 1.1	- 1.3	- 1.4

1/ Accrued earnings or losses for the period. Includes distributed income and non-distributed earnings.
2/ Includes interests of non-financial public enterprises.
3/ Includes interests for short and long-term debt.
4/ Includes interests of Banco de la Nación and of government debt.

Source: BCRP, MEF and companies.

foreign capital (US$ 528 million). Thus, the deficit of the public sector increased US$ 125 million (17 percent) while the deficit of the private sector was higher by US$ 466 million (62 percent).

Total external long term public debt interests due reached US$ 1,091 million (1.8 percent of GDP), US$ 80 million up from one year earlier. The main interest payments were for the Paris Club member countries (US$ 380 million), multilateral organisms (US$ 346 million) and the international bondholders (US$ 307 million).

6. Financial account of the private sector

The **financial account of the private sector** registered an inflow of US$ 82 million, which contrasts with the one observed in 2002 (US$ 1,538 million). This is partly the result of the exceptional financial inflow registered in 2002, particularly due to the sale of Backus brewery shares to non residents by a total of US$ 657 million. On the other hand, in 2003 there was an inflow of US$ 1,930 million, due to gross external financing (foreign direct investment and disbursements of long term loans), that

TABLE 25

PRIVATE SECTOR LONG-TERM CAPITAL FLOWS

	Millions of US$			Percentage of GDP		
	2001	2002	2003	2001	2002	2003
I. LONG-TERM CAPITAL FLOWS EXCLUDING PRIVATIZATION (1+2+3+4+5)	**716**	**1,352**	**72**	**1.3**	**2.4**	**0.1**
1. DIRECT INVESTMENT WITHOUT PRIVATIZATION	803	1,970	1,307	1.5	3.5	2.1
2. LONG-TERM LOANS	204	- 146	- 21	0.4	-0.3	0.0
Disbursements	1,032	675	623	1.9	1.2	1.0
Amortization	- 828	- 821	- 644	-1.5	-1.5	-1.1
3. BONDS (NET) 1/	- 97	- 153	- 36	-0.2	-0.3	-0.1
4. STOCK MARKET AND ADR's 2/	43	- 9	1	0.1	0.0	0.0
5. OTHER EXTERNAL ASSETS 3/	- 237	- 310	-1,179	-0.4	-0.5	-1.9
II. PRIVATIZATION	**267**	**186**	**10**	**0.5**	**0.3**	**0.0**
III. TOTAL	**983**	**1,538**	**82**	**1.8**	**2.7**	**0.1**

1/ In net terms, bonds issued minus bonds redeemed. Includes notes and securitization, among others.
2/ Considers the net acquisition of financial assets by non-residents through the Lima Stock Exchange registered in Cavali (securities clearing and settlement institution). Includes the acquisition of American Depositary Receipts (ADR's).
3/ Includes mainly equities and other financial assets from abroad acquired by the financial and non-financial sector.

Source: BCRP, Cavali ICLV S.A., Proinversión and companies.

was offset by overseas investments of private pension funds and other financial institutions, which totaled US$ 1,179 million.

Foreign direct investment, excluding privatization, totaled US$ 1,307 million in 2003, US$ 663 million lower than 2002, due to Backus's share offering in 2002. Among the main foreign direct investments of the year are the Camisea project, Wiese-Sudameris Bank and Tim Peru. It is worth mentioning that in this period there was a foreign direct investment outflow related to the investment of Cementos Pacasmayo in a plant in United States (US$ 81 million).

The net flow of **bonds** was negative by US$ 36 million, mainly because of the payments of the mining sector, while the net acquisitions of shares by foreign investors amounted to US$ 1 million, US$ 10 million higher than the previous year.

7. Public sector financial account

The public sector account recorded a positive balance of US$ 685 million, down US$ 411 million from the previous year, as a result of incoming resources of US$ 2,161 million due to disbursements, which were partially offset by an outflow of US$ 1,228 million of principal falling due and US$ 248 million of net flows from the item bonds and others.

The latter was related to the capital subscriptions payments of US$ 55 million made by the government and COFIDE to multilateral organizations, the foreign deposit of US$ 200 million of the Consolidated Fund of Reserves (FCR) and a negative net flow of US$ 7 million from the Banco de la Nación.

BOX 5

INTERNATIONAL SOVEREIGN BOND ISSUES

Continuing with the debt administration program started in 2002, the Peruvian government issued three international sovereign bonds during 2003, which amounted US$ 1,250 million. The first issue took place in January the 30th and was authorized by the D.S. 007-2003-EF, dated January 28, 2003. These bullet type twelve-year global bonds, called "Peru Global 15", were issued at a 9.875 percent interest rate. The bond price was 98.455 percent, the yield increased to 10.100 percent and the spread to 610 basis points (bps).

The second issue corresponded to a reopening of the Peru Global 15 by US$ 250 million and was launched in March 3, 2003. The financial conditions of the bond were identical to the original ones. The investors demand exceeded twice the bond supply, increasing the price to 103.125 percent. The yield went up to 9.430 percent and the spread to 547 bps. This reopening was authorized by the D.S. 027-2003-EF of March 3, 2003.

With the last US$ 500 million bond external issue on November 21, 2003, the government met its target of extending the debt duration. For the first time, the Peruvian Government issued a 30 year bullet-type global bond called "Peru Global 33", within an unusual context of low international interest rates and very low Latin American bonds spreads. Under these circumstances, the government was able to issue this bond at an interest rate of 8.750 percent, 1 percent less than the Peru Global 15 issue. The bond price went up to 99.099 percent, the yield reached 8.836 percent and the spread 375 bps. It is important to point out that demand has exceeded supply by 50 percent. This transaction was authorized on November 14, 2003 by the D.S. 165-2003-EF and on November 15, 2003 by the R.M. 662-2003-EF/75. These bonds included a collective clause action that allows a qualified majority of bondholders (75 percent) to limit the minority's capability to undertake legal claims following a debt default, thus giving the debtor and the qualified majority more time to find a joint solution.

8. International Investment Position

The position of international assets and liabilities shows a total of financial assets of US$ 17,723 million, made up mainly of reserve assets of the Central Bank that amount to US$ 10,206 million. Total assets were higher by US$ 2,268 million, due to greater assets of the Central Bank (US$ 516 million), the financial system (US$ 1,414 million) and other assets (US$ 340 million).

Total liabilities were US$ 46,276 million, made up mainly of total medium and long term debt of the public sector (US$ 22,768 million), the stock of direct investment (US$ 12,745 million) and medium and long term debt of the private sector (US$ 4,439 million).

Medium and long term external debt, including bonds, reached US$ 29,732 million at the end of 2003 (48,8 percent of GDP), US$ 1,860 million higher than 2002. **Medium and long term public debt** was higher by US$ 2,053 million than the previous year and is equivalent to 37.3 percent of GDP, slightly above 2002. The difference is accounted by the net debt of US$ 933 million and an increase of US$ 1,120 million resulting mainly from the dollar depreciation to the Euro and the Yen.

TABLE 26

INTERNATIONAL INVESTMENT POSITION

(End of period levels)

	Millions of US$			Percentage of GDP		
	2001	2002	2003	2001	2002	2003
I. ASSETS	**14,198**	**15,455**	**17,723**	**26.5**	**27.4**	**29.1**
1. Reserve assets of the BCRP	8,837	9,690	10,206	16.5	17.2	16.7
2. Financial system (excluding BCRP)	2,682	2,990	4,404	5.0	5.3	7.2
3. Other assets	2,679	2,774	3,114	5.0	4.9	5.1
II. LIABILITIES	**41,456**	**43,322**	**46,276**	**77.3**	**76.8**	**75.9**
1. Bonds and private and public external debt	**27,195**	**27,872**	**29,732**	**50.7**	**49.4**	**48.8**
a. Medium and long-term	23,963	25,283	27,207	44.7	44.8	44.6
Private sector 1/	4,795	4,496	4,439	8.9	8.0	7.3
BCRP	202	73	0	0.4	0.1	0.0
Public sector	18,967	20,715	22,768	35.4	36.7	37.3
b. Short-term	3,232	2,589	2,525	6.0	4.6	4.1
Financial system (excluding BCRP)	1,321	817	732	2.5	1.4	1.2
BCRP	23	19	12	0.0	0.0	0.0
Other 2/	1,888	1,753	1,782	3.5	3.1	2.9
2. Direct investment	**11,835**	**12,460**	**12,745**	**22.1**	**22.1**	**20.9**
3. Stock market and ADR's	**2,427**	**2,990**	**3,799**	**4.5**	**5.3**	**6.2**

1/ Including bonds.
2/ Mainly non-financial private sector short term debt is mainly accounted.

Source: BCRP, MEF, Cavali ICLV S.A., Proinversión and BIS.