



Republic of Peru

US\$1,000,000,000 5.625% U.S. Dollar-Denominated Global Bonds Due 2050

The Republic of Peru (“Peru”) will pay interest on the bonds on May 18 and November 18 of each year, beginning on May 18, 2011. The bonds will mature on November 18, 2050. The bonds are not redeemable prior to maturity.

The bonds will be direct, general, unconditional, unsubordinated and unsecured obligations of Peru. The bonds will rank equally, without any preference among themselves, with all of Peru’s other existing and future unsecured and unsubordinated obligations relating to external indebtedness of Peru, as described in “Description of the Securities—Debt Securities—Defined Terms” in the accompanying prospectus.

The bonds will contain provisions regarding acceleration and future modifications to their terms. Under these provisions, which are described in the sections entitled “Description of the Securities—Debt Securities—Collective Action Clauses; Default; Acceleration of Maturity” and “—Amendments and Waivers” in the accompanying prospectus, Peru may amend the payment provisions and certain other terms of a series of bonds with the consent of the holders of 75% of the aggregate principal amount of the outstanding bonds of that series.

We will apply to admit the bonds for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market.

	<u>Per Bond</u>	<u>Total</u>
Public offering price ⁽¹⁾	96.164%	US\$961,640,000
Underwriting fee	0.15%	US\$1,500,000
Proceeds to Peru (before expenses and excluding the underwriting fee) ⁽¹⁾	96.164%	US\$961,640,000

⁽¹⁾ Plus accrued interest from November 18, 2010, if any.

The underwriters are offering the bonds subject to various conditions. The underwriters expect to deliver the bonds to purchasers on or about November 18, 2010, through the book-entry facilities of The Depository Trust Company, or DTC, and its direct or indirect participants including Euroclear S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream.

Global Coordinators and Bookrunners

BOFA MERRILL LYNCH

MORGAN STANLEY

Co-Manager

SCOTIA CAPITAL

November 10, 2010.

TABLE OF CONTENTS

Prospectus Supplement	Page
About this Prospectus Supplement and the Accompanying Prospectus	S-ii
Forward-looking Statements	S-iv
Sovereign Immunity	S-v
Certain Legal Restrictions.....	S-vi
Summary.....	S-1
The Offering.....	S-3
Recent Developments	S-5
Use of Proceeds	S-36
Description of the Bonds.....	S-37
United States Federal Income Tax Considerations for United States Persons.....	S-41
Peru Taxation	S-43
Underwriting	S-44
Validity of the Bonds.....	S-47
General Information.....	S-47
Medium-and Long-Term External Public Indebtedness.....	A-1
 Prospectus	 <u>Page</u>
About the Prospectus	i
Defined Terms and Conventions	ii
Forward-looking Statements	iii
Data Dissemination.....	iv
Summary.....	1
Use of Proceeds	6
The Republic of Peru	7
The Economy	21
Balance of Payment and Foreign Trade	51
The Monetary System	65
Public Sector Finances	86
Public Sector Debt	99
Description of The Securities	113
Taxation	127
Plan of Distribution.....	132
Official Statements	133
Validity of the Securities.....	133
Authorized Representative	134
Where You Can Find More Information	134
Tables and Other Supplemental Information.....	A-1

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus, including the information incorporated by reference. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of its date. Our financial condition and prospects may have changed since that date.

ABOUT THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This prospectus supplement and the accompanying prospectus contain or incorporate by reference information you should consider when making your investment decision. You should rely only on the information provided or incorporated by reference in this prospectus supplement and the accompanying prospectus, which should be read together. References in this prospectus supplement to “we,” “us,” “our” and “Peru” are to the Republic of Peru.

We are furnishing this prospectus supplement and the accompanying prospectus solely for use by prospective investors in connection with their consideration of a purchase of bonds. After having made all reasonable queries, we confirm that:

- the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is true and correct in all material respects and is not misleading as of the date of this prospectus supplement or the accompanying prospectus;
- changes may occur in our affairs after the date of this prospectus supplement and the accompanying prospectus;
- certain statistical information included in this prospectus supplement and the accompanying prospectus reflects the most recent reliable data readily available to us as of the date hereof;
- we hold the opinions and intentions expressed in the accompanying prospectus, this prospectus supplement and any document incorporated by reference in this prospectus supplement and the accompanying prospectus, as superseded in this prospectus supplement;
- to the best of our knowledge and belief, we have not omitted other facts, the omission of which makes this prospectus supplement and the accompanying prospectus, as a whole, misleading; and
- we accept responsibility for the information we have provided or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Prospective investors should rely on the information provided in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. No person is authorized to make any representation or give any information not contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. Any such representation or information not contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement and the accompanying prospectus must not be relied upon as having been authorized by us or the underwriters. Please see “General Information—Where You Can Find More Information” for information on the documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus.

We are not offering to sell any securities other than the bonds offered under this prospectus supplement. We are not offering to sell the bonds in places where such offers are not permitted by applicable law. You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than their respective dates. Our economic, fiscal or political circumstances may have changed since such dates.

The bonds described in this prospectus supplement are debt securities of Peru being offered under registration statement no. 333-164617, filed with the SEC under the U.S. Securities Act of 1933, as amended, or the Securities Act. The accompanying prospectus is part of that registration statement. The accompanying prospectus provides you with a general description of the securities that we may offer, and this prospectus supplement contains specific information about the terms of the offering and the bonds. The prospectus supplement together with the accompanying prospectus may only be used for the purpose for which they have been published. Before you invest,

you should read this prospectus supplement and the accompanying prospectus, together with additional information described under “Where You Can Find More Information” in the accompanying prospectus.

As used in this prospectus supplement, the term “business day” means any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in New York City or Lima, Peru.

FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus supplement. Forward-looking statements are statements that are not historical facts. These statements are based on our current plans, estimates, assumptions and projections. Therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events.

Forward-looking statements involve inherent risks. We caution you that many factors could affect the future performance of the Peruvian economy. These factors include, but are not limited to:

- external factors, such as:
 - Ø interest rates in financial markets outside Peru;
 - Ø changes in Peru's credit ratings;
 - Ø changes in import tariffs and exchange rates;
 - Ø changes in international commodity prices;
 - Ø recession, low economic growth or economic contraction affecting Peru's trading partners;
 - Ø deterioration in the economic condition of Peru's neighboring countries;
 - Ø the recent extreme contraction of liquidity in the international financial markets and equity, debt and foreign exchange market volatility, which could lead to domestic volatility, declines in foreign direct and portfolio investment and potentially lower international reserves;
 - Ø international hostilities; and
 - Ø the decisions of international financial institutions, such as the International Monetary Fund, or IMF, the Inter-American Development Bank, or IADB, the International Bank for Reconstruction and Development, or IBRD, or World Bank, and the Andean Development Corporation, regarding the terms of their financial assistance to Peru; and
- internal factors, such as:
 - Ø deterioration in general economic and business conditions;
 - Ø social, political or military events in Peru;
 - Ø increase in crime rates;
 - Ø natural events, such as climatic changes, earthquakes and floods;
 - Ø reduction in foreign currency reserves;
 - Ø reduction in fiscal revenue;
 - Ø reduced levels of foreign direct investment;
 - Ø the ability of the government to enact key economic reforms;
 - Ø higher domestic debt;
 - Ø increased rates of domestic inflation;
 - Ø the level of foreign direct and portfolio investment in Peru; and
 - Ø the level of Peruvian domestic interest rates.

SOVEREIGN IMMUNITY

Peru is a sovereign state. Consequently, it may be difficult for you to obtain or realize upon judgments of courts in the United States against Peru. Among other requirements, the execution by Peruvian courts of any judgment ordering payment by Peru of any principal or interest arising from the bonds will be subject to availability of funds according to the statute passed by the Peruvian Congress setting forth the budget corresponding to the fiscal year on which such payment is to be due.

Limitations Imposed by Budget Laws to Satisfy Payments on the bonds

A final judgment against Peru ordering payment on the bonds is subject to Peruvian budget regulations. Pursuant to the Budget National System General Law (*Ley General del Sistema Nacional de Presupuesto*) and the Public Sector Budget Law for Fiscal Year 2010 (*Ley de Presupuesto del Sector Público para el Año Fiscal 2010*), payment of judgments, arbitral awards, conciliation minutes or direct treatment agreements is subject to the following process:

- up to 3% of the budget corresponding to the Ministry of Economy and Finance may be affected;
- payments must be made by each governmental entity (in our case, the Ministry of Economy and Finance) from its respective bank account, taking into account all mandatory priorities;
- in case the judgment payment orders exceed the 3% threshold, the Ministry of Economy and Finance would pay its creditors on a pro rata basis; and
- payment requirements in excess of the 3% threshold, must be included in the budgets approved for the following five fiscal years.

Enforceability of Judgments

If the payment of any judicial order is not honored by the Ministry of Economy and Finance, a proceeding for the execution of judicial resolutions may be initiated as provided for in article 688 *et. seq.* of the Peruvian Civil Procedure Code. Notwithstanding the foregoing, in accordance with section 73 of the Peruvian Political Constitution public domain assets destined for the public service and use are inalienable and are not ever subject to any interest due to possession (*prescripción adquisitiva*). Public domain assets are a special form of property that can only be set aside for the public use, a service to the community or national interest. As such, those assets as well as (i) property used by a diplomatic or consular mission of Peru; (ii) property of a military character and under the control of a military authority or defense agency of Peru; (iii) public property; (iv) shares of Peruvian public sector entities or shares of Peruvian private sector entities owned or controlled by Peru or by a Peruvian public sector entity, or revenues collected from the sale of such shares, to the extent such shares or revenues are exempt by Peruvian law from attachment or execution; or (v) funds deposited in Peru's accounts held in the Peruvian financial system that constitute public domain property, are neither subject to liens or encumbrances nor to a judicial attachment. Conversely, assets not set aside for the public domain are subject to the private domain of the Peruvian government (which includes, among others, the cash deposits of the Peruvian government abroad) and as such may be encumbered or attached.

For more information, see “Description of the Securities—Jurisdiction, Consent to Service and Enforceability” in the accompanying prospectus.

CERTAIN LEGAL RESTRICTIONS

The distribution of materials relating to the offering and the transactions contemplated by the offering may be restricted by law in certain jurisdictions. If materials relating to the offering come into your possession, you are required by Peru to inform yourself of and to observe all of these restrictions. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted. If a jurisdiction requires that the offering be made by a licensed broker or dealer and either the underwriters or any affiliate of the underwriters is a licensed broker or dealer in such jurisdiction, the offering shall be deemed to be made by such underwriter or such affiliate on behalf of Peru in such jurisdiction. For more information, see “Underwriting”.

SUMMARY

This summary highlights information presented in greater detail elsewhere in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference. This summary is not complete and does not contain all the information you should consider before investing in the Bonds. You should carefully read this entire prospectus supplement and the accompanying prospectus and in the documents incorporated by reference herein before investing, including “Risk Factors.”

Selected Economic Information (in millions of U.S. dollars, except as otherwise indicated)

	For the Year Ended December 31,					For the Six Months Ended June 30,	
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾	2009 ⁽¹⁾	2010 ⁽¹⁾
Domestic economy							
GDP (at current prices)	79,397	92,439	107,328	127,643	127,153	59,841	74,102
Real GDP (in millions of S/. at constant 1994 prices)	148,640	160,145	174,407	191,505	193,155	95,268	103,070
Real GDP growth rate (in %)	6.8	7.7	8.9	9.8	0.9	0.3	8.2
CPI (change for the period in %)	1.5	1.1	3.9	6.7	0.2	0.0	1.4
Unemployment rate (in %) ⁽²⁾⁽¹¹⁾	11.4	8.8	7.2	6.4	N/A	N/A	N/A
Underemployment rate (in %) ⁽³⁾⁽¹¹⁾	40.9	41.2	38.9	33.4	N/A	N/A	N/A
Unemployment rate (in %) ⁽²⁾⁽¹²⁾	9.6	8.2	8.4	8.4	N/A	N/A	N/A
Underemployment rate (in %) ⁽³⁾⁽¹²⁾	53.4	51.6	49.7	46.1	N/A	N/A	N/A
Balance of payments							
Total current account	1,148	2,872	1,363	(4,723)	247	(284)	(789)
Of which:							
Trade balance	5,286	8,986	8,287	3,090	5,873	1,847	3,087
Total capital account	141	348	8,400	8,674	1,012	(66)	3,707
Of which:							
Foreign direct investment	2,579	3,467	5,425	6,188	4,364	2,797	3,357
Errors and omissions ⁽⁴⁾	239	(495)	(175)	(838)	(250)	(15)	(102)
Overall balance of payments ⁽⁵⁾	1,528	2,726	9,588	3,112	1,008	(366)	2,816
Change in Central Bank net international reserves (period end in %)	11.6	22.5	60.3	12.7	6.2	(13.3)	14.8
Central Bank net international reserves (period end)	14,097	17,275	27,689	31,196	33,135	30,790	35,341
Public sector balance							
Central government revenue ⁽⁶⁾	12,438	16,106	19,450	23,306	20,022	9,945	13,374
As a % of GDP	15.7	17.4	18.1	18.2	15.8	16.6	18.0
Central government expenditure ⁽⁷⁾	13,111	14,901	17,647	20,517	22,806	9,212	11,138
As a % of GDP	16.5	16.1	16.4	16.1	17.9	15.4	15
Central government fiscal balance	(555)	1,315	1,925	2,924	(2,654)	788	2,389
As a % of GDP	(0.7)	1.5	1.8	2.2	(2.0)	1.3	3.2
Overall non-financial public sector fiscal balance ⁽⁸⁾	(240)	1,883	3,264	2,799	(2,828)	1,306	1,741
As a % of GDP	(0.3)	2.1	3.1	2.1	(2.1)	2.2	2.3
Public sector debt							
Public sector external debt	22,279	21,972	20,081	19,237	20,600	19,935	19,899
As a % of GDP	28.1	23.8	18.7	15.1	16.2	16.3	14.1
Public sector domestic debt ⁽⁹⁾	7,688	8,518	11,789	11,411	13,227	11,933	13,354
As a % of GDP	9.7	9.2	11.0	8.9	10.4	9.7	9.4
Total public sector debt	29,968	30,490	31,870	30,648	33,827	31,868	33,253
As a % of GDP	37.7	33.0	29.6	24.0	26.6	26.0	23.5
Public sector external debt service:							
Amortizations ⁽⁹⁾	3,621	1,198	5,466	2,580	1,847	455	2,402
Interest payments ⁽⁹⁾	1,289	1,339	1,411	1,156	1,078	494	567
Total external debt service	4,910	2,537	6,877	3,736	2,924	949	2,970
As a % of exports of goods and services ⁽¹⁰⁾	24.2	9.2	21.1	10.1	9.1	6.8	16
Exchange rate ⁽¹³⁾							
Exchange rate (end of period, S/. per US\$)	3.43	3.21	2.98	3.11	2.88	2.99	2.84
Exchange rate (average, S/. per US\$)	3.29	3.27	3.13	2.92	3.01	3.05	2.88

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- (1) Preliminary data.
 - (2) In Metropolitan Lima. Percentage of the working-age population (14 years old or older) that, in the week the employment survey was conducted, was seeking remunerated employment.
 - (3) In Metropolitan Lima. Percentage of the working-age population (14 years old or older) working part-time which would prefer to work more hours, plus the percentage of the working-age population that usually works full-time but which, in the week the employment survey was conducted, worked less than 35 hours per week as a result of economic constraints.
 - (4) Represents errors and omissions in compiling balance of payments accounts based on double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.
 - (5) Includes current account balance, capital account and balance errors and omissions.
 - (6) Excludes privatization receipts.
 - (7) Includes interest payments.
 - (8) Includes the non-financial public sector and the Central Bank.
 - (9) Excludes Central Bank debt.
 - (10) Includes exports of goods and services and investment income.
 - (11) Source: Ministry of Labour.
 - (12) Source: National Institute of Statistics.
 - (13) For your reference, on November 2, 2010, the average between the bid price (*compra*) and the offer price (*venta*) of the exchange rate published by the *Superintendencia de Banca, Seguros y AFP* in its web site (<http://www.sbs.gob.pe>), as adjusted for four decimals, was S/.2.7945 per US\$1.00.

N/A = Not Available.

THE OFFERING

This summary highlights information presented in greater detail elsewhere in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all the information you should consider before investing in the bonds. You should carefully read this entire prospectus supplement and the accompanying prospectus before investing.

Issuer	The Republic of Peru.
Securities	5.625% U.S. Dollar-Denominated Global Bonds due 2050, which we refer to as the “bonds”.
Issue Amount	US\$1,000,000,000 aggregate principal amount.
Issue Price	96.164%, plus accrued and unpaid interest from November 18, 2010, if any.
Final Maturity Date	November 18, 2050.
Interest Rate	5.625% per year, computed on the basis of a 360-day year of twelve 30-day months.
Interest Payment Dates	May 18 and November 18 of each year, commencing on May 18, 2011.
Redemption or Sinking Fund	The bonds will not benefit from any sinking fund. We may not redeem the bonds before maturity; we will redeem the bonds at par at maturity.
Use of Proceeds	The gross proceeds from the sale of the bonds will be US\$961,640,000. The underwriting fee of US\$1,500,000 will be paid separately by us, as described in “Underwriting”. We intend to use the proceeds of this offering to (i) reimburse to Peru’s Public Treasury (<i>Tesoro Público</i>) approximately US\$ 63 million in connection with the financing of the exchange and tender offer of certain global bonds that Peru consummated in April 2010, and (ii) to prefinance a portion of the general financial requirements for the year 2011. See “Recent Developments – Public Sector Debt”.
Collective Action Clauses	The bonds will contain provisions regarding acceleration and future modifications to their terms. These provisions, which are commonly referred to as “collective action clauses,” are described in the sections entitled “Description of the Securities—Debt Securities—Collective Action Clauses; Default; Acceleration of Maturity” and “—Amendments and Waivers” in the accompanying prospectus.
Negative Pledge	The bonds will contain certain covenants, including restrictions on the incurrence of liens. These covenants are subject to many exceptions.
Denominations	We will issue the bonds only in denominations of US\$1,000 and integral multiples of US\$1,000 in excess thereof.
Ranking	The bonds will constitute a single class of securities for all purposes, including, without limitation, for voting purposes under the fiscal agency agreement pursuant to which they will be or were issued. The bonds will be direct, general, unconditional, unsubordinated and unsecured obligations of Peru. The bonds will rank equally, without any preference among themselves, with all of our other existing and future unsecured and unsubordinated obligations relating to our external indebtedness as described in “Description of the Securities—Debt Securities—Defined

Terms” in the accompanying prospectus.

Additional Amounts	We will make payments of principal and interest in respect of the bonds without withholding or deduction for or on account of any present or future Peruvian taxes, duties, assessments or governmental charges of whatever nature except as described in “Description of the Bonds—Additional Amounts”.
Further Issues	Without the consent of holders of the bonds, we may issue additional debt securities with the same terms and conditions as the outstanding bonds, except for issue date, issue price and amount of first interest payment, and we may consolidate the additional bonds to form a single series with the outstanding bonds.
Form of Securities	We will issue the bonds in the form of one or more registered global notes without coupons. No bonds will be issued in bearer form. You will be required to make initial settlement for bonds issued pursuant to the offering in immediately available funds. As an owner of a beneficial interest in the global notes, you will generally not be entitled to have your bonds registered in your name, will not be entitled to receive certificates in your name evidencing the bonds and will not be considered the holder of any bonds under the fiscal agency agreement for the bonds.
Record Dates	The record date with respect to any interest and/or principal payment date will be the 15 th day prior to that interest and/or principal payment date, whether or not that record date is also a business day.
Governing Law	New York.
Fiscal Agent, Principal Paying Agent and Transfer Agent	The Bank of New York Mellon.
Luxembourg Paying Agent and Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Listing	We have applied to admit the bonds for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market.
Concurrent Bonos Soberanos offering	Concurrently with this offering of bonds, we are separately offering, only to qualified institutional buyers in the United States in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended, and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act, S/. 4,196,250,000 aggregate principal amount of 7.84% Nuevo Sol-Denominated <i>Bonos Soberanos</i> due 2020. The <i>Bonos Soberanos</i> offering is being made exclusively by a separate offering memorandum. The offering of the bonds and the <i>Bonos Soberanos</i> offering are not contingent on one another. There can be no assurance that the offering of our <i>Bonos Soberanos</i> will be completed. The <i>Bonos Soberanos</i> offering have not been registered under the Securities Act or any other securities laws and, unless so registered, may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

RECENT DEVELOPMENTS

The information included in this section supplements the information about us corresponding to the headings below contained in the accompanying prospectus. To the extent that the information included in this section differs from the information set forth in the accompanying prospectus, you should rely on the information in this section.

Year Ended December 31, 2009

The Economy

Overview

In 2009, Peru was affected by the contraction of liquidity in the international financial markets, equity, debt and foreign exchange market volatility, the volatility in commodity prices, and the contraction in growth in some of Peru's most important export markets. The deceleration in Gross Domestic Product (GDP) growth beginning in the second half of 2008 continued in 2009, with lower GDP growth in 2009 as compared to 2008. In addition, continuing market conditions also had adverse effects on the Peruvian economy, including:

- a decrease in exports and imports for 2009, when compared to levels recorded during 2008;
- a decrease in foreign direct investment inflows; and
- decreased commodity prices, leading to decreased export earnings, decreased external and fiscal accounts and a resulting decline in tax revenues in 2009.

Levels of economic activity recorded during 2009 show a growth in GDP of 0.9% when compared to 2008. The deceleration of economic growth was due primarily to weak private consumption and a decrease in private investment, which resulted in a 2.9% decline in domestic demand during 2009.

The following are economic results as of and for the year ended December 31, 2009, compared to results as of and for the year ended December 31, 2008:

- the current account surplus totaled U.S.\$0.2 billion, or 0.2% of GDP, compared to a current account deficit of U.S.\$4.7 billion, or 3.7% of GDP, in 2008;
- the non-financial public sector registered a deficit of U.S.\$2.6 billion, or 1.9% of GDP, compared to a surplus of U.S.\$2.8 billion, or 2.1% of GDP, for 2008;
- the balance of public sector external debt totaled U.S.\$20.6 billion, or 16.2% of GDP, compared to U.S.\$19.2 billion, or 15.1% of GDP, as of December 31, 2008;
- foreign direct investment was U.S.\$4.4 billion, compared to U.S.\$6.2 billion during 2008;
- exports decreased by 14.7%, to U.S.\$26.9 billion, compared to U.S.\$31.5 billion in 2008, primarily as a result of a decrease in exports of copper, hydrocarbons and agricultural and textile products;
- the balance of public sector domestic debt totaled U.S.\$13.2 billion, or 10.4% of GDP, compared to U.S.\$11.4 billion, or 8.9% of GDP, as of December 31, 2008;
- the inflation rate was 0.2%, compared to an inflation rate of 6.7% for 2008; and
- the net international reserves of the Central Bank increased by 6.2%, to U.S.\$33.1 billion as of December 31, 2009, compared to U.S.\$31.2 billion as of December 31, 2008.

The United States, China, Switzerland, Canada and Japan rank among Peru's most important export markets. In 2009, exports totaled U.S.\$26.9 billion, a 14.7% decrease compared to the U.S.\$31.5 billion recorded in

2008. Peru registered a trade surplus of U.S.\$5.9 billion in 2009, a significant increase compared to the U.S.\$3.1 billion registered in 2008.

Government Stimulus Package. In January 2009, the Government authorized a US\$3.7 billion stimulus package intended to mitigate the adverse impact on the economy of the international economic crisis. In September 30, 2009, the Government authorized an additional US\$700 million for the stimulus package, increasing the aggregate amount of the stimulus package to US\$4.4 billion, or 3.5% of GDP for 2009.

The principal objectives of the stimulus package were:

- To increase and accelerate expenditures on targeted social programs, which includes an increase in spending for the maintenance of educational institutions, maintenance of healthcare facilities and providing guarantees and subsidies for government housing programs, such as *Fondo MiVivienda*, *Mi Barrio* and *Techo Propio*.
- To support construction levels through an increase in public investment in infrastructure.
- To support small and medium-sized enterprises, through guarantee funds, the extension of credit lines and other mechanisms.
- To increase exports.
- To provide support to individuals seeking mortgages through the extension of credit lines.
- To reduce the Central Bank's reserve requirements for financial institutions and interest rates on available mortgages.
- To reduce fuel prices.
- To reduce the time required for private investment to receive governmental approval.

As of December 31, 2009, the Government had disbursed approximately 79% of the above mentioned amount of US\$4.4 billion provided for in the stimulus package.

Public Sector Debt. As of December 31, 2009, the outstanding public sector external debt amounted to approximately U.S.\$20.6 billion, equivalent to 16.2% of GDP for the year, an increase of U.S.\$1.4 billion compared to public sector external debt outstanding at December 31, 2008.

As of December 31, 2009, outstanding public sector domestic debt amounted to approximately U.S.\$13.2 billion, equivalent to 10.4% of GDP for the year, an increase of U.S.\$1.8 billion compared to public sector domestic debt outstanding at December 31, 2008.

Material Loan Agreements. In December 2009, Kreditanstalt für Wiederaufbau, or KfW, approved a U.S.\$50 million loan to fund the program entitled Water and Sewerage Systems Optimization: Sectorization, Network Rehabilitation and Land Registry Update – Area of Influence Huachipa Plant – Drainage Area Comas – Chillón – Lima. In December 2009, Peru entered into the Second Programmatic Environmental Development Policy Loan totaling U.S.\$50 million with the International Bank for Reconstruction and Development. In the same month, Peru also entered into a loan agreement with the Inter-American Development Bank totaling U.S.\$50 million to finance the Program of Social Sector Reform I; a loan agreement with International Bank for Reconstruction and Development, totaling U.S.\$150 million to “*Préstamo Programático Gestión Fiscal y Crecimiento Económico III*”; and a loan agreement with Inter-American Development Bank totaling US\$ 20 million to “*Programa de Reformas del Sector Saneamiento III*”.

Selected Economic Information
(in millions of U.S. dollars, except as otherwise indicated)

	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Domestic economy					
GDP (at current prices).....	79,397	92,439	107,328	127,643	127,153
Real GDP (in millions of S/. at constant 1994 prices).....	148,640	160,145	174,407	191,505	193,155
Real GDP growth rate (in %).....	6.8	7.7	8.9	9.8	0.9
CPI (change for the period in %).....	1.5	1.1	3.9	6.7	0.2
Unemployment rate (in %) ^{(2) (11)}	11.4	8.8	7.2	6.4	N/A
Underemployment rate (in %) ^{(3) (11)}	40.9	41.2	38.9	33.4	N/A
Unemployment rate (in %) ^{(2) (12)}	9.6	8.2	8.4	8.4	N/A
Underemployment rate (in %) ^{(3) (12)}	53.4	51.6	49.7	46.1	N/A
Balance of payments					
Total current account.....	1,148	2,872	1,363	(4,723)	247
Of which:.....					
Trade balance.....	5,286	8,986	8,287	3,090	5,873
Total capital account.....	141	348	8,400	8,674	1,012
Of which:					
Foreign direct investment.....	2,579	3,467	5,425	6,188	4,364
Errors and omissions ⁽⁴⁾	239	(495)	(175)	(838)	(250)
Overall balance of payments ⁽⁵⁾	1,528	2,726	9,588	3,112	1,008
Change in Central Bank net international reserves (period end in %).....	11.6	22.5	60.3	12.7	6.2
Central Bank net international reserves (period end)	14,097	17,275	27,689	31,196	33,135
Public sector balance					
Central government revenue ⁽⁶⁾	12,438	16,106	19,450	23,306	20,190
As a % of GDP.....	15.7	17.4	18.1	18.2	15.9
Central government expenditure ⁽⁷⁾	13,111	14,901	17,647	20,517	22,786
As a % of GDP.....	16.5	16.1	16.4	16.1	17.9
Central government fiscal balance.....	(555)	1,315	1,925	2,938	(2,466)
As a % of GDP.....	(0.7)	1.5	1.8	2.2	(1.8)
Overall non-financial public sector fiscal balance ⁽⁸⁾	(240)	1,883	3,264	2,813	(2,617)
As a % of GDP.....	(0.3)	2.1	3.1	2.1	(1.9)
Public sector debt					
Public sector external debt.....	22,279	21,972	20,081	19,237	20,600
As a % of GDP.....	28.1	23.8	18.7	15.1	16.2
Public sector domestic debt ⁽⁹⁾	7,688	8,518	11,789	11,411	13,227
As a % of GDP.....	9.7	9.2	11.0	8.9	10.4
Total public sector debt.....	29,968	30,490	31,870	30,648	33,827
As a % of GDP.....	37.7	33.0	29.6	24.0	26.6
Public sector external debt service:					
Amortizations ⁽⁹⁾	3,621	1,198	5,466	2,580	1,847
Interest payments ⁽⁹⁾	1,289	1,339	1,411	1,156	1,078
Total external debt service.....	4,910	2,537	6,877	3,736	2,924
As a % of exports of goods and services ⁽¹⁰⁾	24.2	9.2	21.1	10.1	9.1
Exchange rate (end of period, S/. per U.S.\$).....	3.43	3.21	2.98	3.11	2.88
Exchange rate (average, S/. per U.S.\$).....	3.29	3.27	3.13	2.92	3.01

(1) Preliminary data.

(2) In Metropolitan Lima. Percentage of the working-age population (14 years old or older) that, in the week the employment survey was conducted, was seeking remunerated employment.

(3) In Metropolitan Lima. Percentage of the working-age population (14 years old or older) working part-time which would prefer to work more hours, plus the percentage of the working-age population that usually works full-time but which, in the week the employment survey was conducted, worked less than 35 hours per week as a result of economic constraints.

(4) Represents errors and omissions in compiling balance of payments accounts based on double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.

(5) Includes current account balance, capital account balance and errors and omissions.

(6) Excludes privatization receipts.

(7) Includes interest payments.

(8) Includes the non-financial public sector and the Central Bank.

(9) Excludes Central Bank debt.

- (10) Includes exports of goods and services and investment income.
 (11) Source: Ministry of Labor.
 (12) Source: National Institute of Statistics.
 N.A. = Not Available.
 Source: Central Bank, unless otherwise indicated.

Gross Domestic Product and Structure of the Economy

In 2009, GDP grew by 0.9%, compared to 9.8% in 2008. The sectors that experienced the most significant growth in 2009 were construction, other services and agriculture and livestock. The 6.1% rate of growth in the construction sector during 2009 resulted from increased domestic consumption of cement and increased investment in infrastructure. The 3.1% expansion in the other services sector (including taxes on products and import duties) during 2009 was due to an increase in government services and financial and insurance services. The 2.3% expansion in the agriculture and livestock sector during 2009 resulted primarily from increased production of poultry, cattle, and sheep and, to a lesser extent, an increase in the production of eggs, and in part from expanded harvest areas for primary goods, attractive prices for primary goods, and favorable climate conditions that guaranteed adequate levels of water reserves in Peru's main reservoirs. Mining and fuel grew by 0.6% due to a decrease in metallic mining, which was offset by an increased rate of growth in hydrocarbon production.

During 2009 private consumption was US\$ 83.2 billion, a growth of 2.4% in real terms, as a result of slower increase in the national income. Private investment decreased 15.1% though a considerable number of projects were undertaken, primarily in the mining, hydrocarbons, electricity, transportation, telecommunications and manufacturing sectors. Total gross investment decreased 20.9% despite the fact that public investment by central government, local governments and government-owned companies increased compared to 2008.

The following tables set forth GDP by expenditure for the periods shown.

Gross Domestic Product by Expenditure (in millions of U.S. dollars, at current prices)

	For the year ended December 31,				
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Government consumption	7,980	8,811	9,654	11,411	13,194
Private consumption	52,511	57,082	66,076	81,303	83,177
Gross investment					
Public sector	2,266	2,623	3,326	5,378	6,790
Private sector	12,289	15,139	19,516	27,384	22,397
Change in inventories.....	(707)	515	1,802	1,319	(3,002)
Total gross investment	14,204	18,527	24,644	34,081	26,184
Exports of goods and services.....	19,920	26,373	31,037	35,171	30,539
Imports of goods and services.....	15,218	18,354	24,084	34,322	25,942
Net (exports)	4,702	8,019	6,954	849	4,598
GDP	<u>79,397</u>	<u>92,439</u>	<u>107,328</u>	<u>127,643</u>	<u>127,153</u>

⁽¹⁾ Preliminary data.

Source: Central Bank.

Gross Domestic Product by Expenditure (as a percentage of total GDP, at current prices)

	For the year ended December 31,				
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Government consumption	10.1	9.5	9.0	8.9	10.3
Private consumption	66.1	61.8	61.6	63.7	65.5
Gross investment					
Public sector	2.9	2.8	3.1	4.2	5.3
Private sector	15.5	16.4	18.2	21.5	17.7
Change in inventories.....	(0.9)	0.6	1.7	1.0	(2.4)

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Total gross investment	17.9	20.0	23.0	26.7	20.6
Exports of goods and services	25.1	28.5	28.9	27.6	24.0
Imports of goods and services	19.2	19.9	22.4	26.9	20.4
Net (exports)	5.9	8.7	6.5	0.7	3.6
GDP	100.0	100.0	100.0	100.0	100.0

⁽¹⁾ Preliminary data.

Source: Central Bank.

In 2009, domestic savings decreased to 20.8% of GDP from 23.0% of GDP in 2008, due to an increase in private consumption. In 2009, private savings represented 16.7% of GDP, compared to 16.6% of GDP in 2008. In 2009, public savings reached 4.1% of GDP, due primarily to the growth in tax revenues and delays in expenditures by regional and municipal governments.

Domestic investment as a percentage of GDP decreased from 26.7% in 2008 to 20.6% in 2009, showing an increase in private investment.

Investment and Savings (as a percentage of current GDP)

As of December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Domestic savings:					
Public savings	2.6	5.0	6.2	6.4	4.1
Private savings	16.7	18.2	18.0	16.6	16.7
Total domestic savings	17.9	20.0	23.0	26.7	20.6
External savings	(1.4)	(3.1)	(1.3)	3.7	(0.2)
Total savings	17.9	20.0	23.0	26.7	20.6
Domestic investment	17.9	20.0	23.0	26.7	20.6

⁽¹⁾ Preliminary data.

Source: Central Bank.

Per Capita GDP⁽¹⁾ (in U.S. dollars, at current prices)

For the year ended December 31,					
	2005	2006	2007 ⁽²⁾	2008 ⁽²⁾	2009 ⁽²⁾
Per capita GDP	2,903.4	3,327.5	3,803.2	4,452.4	4,364.7

⁽¹⁾ Without adjustment to reflect changes in purchasing power.

⁽²⁾ Preliminary data.

Source: Central Bank.

Principal Sectors of the Economy

The following table sets forth the distribution of GDP in the Peruvian economy, indicating for each sector its growth rate for the period indicated.

Gross Domestic Product by Sector (percentage change from previous year, at constant 1994 prices)

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary production:					
Agriculture and livestock ⁽²⁾	5.4	8.4	3.2	7.2	2.3
Fishing	3.2	2.4	6.9	6.3	(7.9)

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Mining and fuel ⁽³⁾	8.4	1.4	2.7	7.6	0.6
Total primary production	6.6	5.2	3.2	7.4	1.2
Secondary production:					
Manufacturing	7.5	7.5	11.1	9.1	(7.2)
Construction	8.4	14.8	16.6	16.5	6.1
Electricity and water	5.6	6.9	8.5	7.7	1.2
Total secondary production	7.5	9.0	12.1	10.7	(3.1)
Services:					
Wholesale and retail trade	6.2	11.7	9.7	13.0	(0.4)
Other services ⁽⁴⁾	6.8	6.8	9.0	9.1	3.1
Total services	6.7	7.9	9.1	10.0	2.3
Total GDP	6.8	7.7	8.9	9.8	0.9

(1) Memoria Banco Central de Reserva 2007.

(2) Includes forestry.

(3) Includes non-metallic mining.

(4) Includes taxes on products and import duties.

(5) Central Bank Nota Semanal No. 08-2010.

Source: Central Bank.

Gross Domestic Product by Sector
(as a percentage of GDP, at constant 1994 prices)

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary production:					
Agriculture and livestock ⁽²⁾	8.2	8.3	7.9	7.7	7.8
Fishing	0.5	0.5	0.5	0.5	0.4
Mining and hydrocarbons ⁽³⁾	6.6	6.2	5.8	5.7	5.7
Total primary production	15.4	15.0	14.2	13.9	14.0
Secondary production:					
Manufacturing	15.4	15.4	15.7	15.6	14.3
Construction	4.9	5.2	5.6	5.9	6.2
Electricity and water	2.1	2.1	2.1	2.0	2.0
Total secondary production	22.4	22.6	23.3	23.5	22.6
Services:					
Wholesale and retail trade	14.0	14.5	14.6	15.0	14.9
Other services ⁽⁴⁾	48.2	47.8	47.9	47.6	48.6
Total services	62.3	62.3	62.5	62.6	63.5
Total GDP	100.0	100.0	100.0	100.0	100.0

(1) Preliminary data.

(2) Includes forestry.

(3) Includes non-metallic mining.

(4) Includes taxes on products and import duties.

Source: Central Bank.

Primary Production

Agriculture and Livestock. In 2009, the agriculture and livestock sector grew by 2.3%. The agriculture and livestock sector grew more than GDP in 2009, increasing its contribution to GDP from 7.7% in 2008 to 7.8% in 2009.

The expansion in the agriculture and livestock sector during 2009 was the result of increased production of meat products, milk, and certain traditional agricultural products, including potatoes, rice, plantains, yucca, and corn, each of which recorded historic volumes of production in response to increased domestic demand.

Fishing. In 2009, the fishing sector declined by 7.9%, mainly due to a decrease in fish catch for frozen fish products (a non-traditional export), such as scad, snails, tuna, hake, and shellfish. In addition, there was a decrease in the fish catch for canned products (a non-traditional export) during 2009. These decreases were partially offset by an increase in the fish catch for fresh consumption, which resulted from the increased availability of squid, mackerel, hake, and other species. The capture of anchovies for industrial consumption (including the production of fishmeal and fish oil, both traditional exports) decreased compared to 2008, despite a longer fishing season in 2009 (98 days compared to 47 days in 2008), due to unfavorable changes in sea surface temperature.

Mining. Peru is a leading producer in Latin America of gold, silver, tin, copper, lead and zinc. Although mining constitutes a small part of the country's GDP, contributing on average 5.7% of GDP during 2009, mineral products are Peru's main exports, accounting for 60.9% of total exports by value. Gold and copper accounted for 25.3% and 22.1% of total exports by value, respectively, during 2009. In addition, gold accounted for 41.6% of total mining exports.

During 2009, the average price of copper steadily increased from an average of U.S.\$1.46 per pound in January 2009 to an average of U.S.\$3.17 per pound in December 2009. The 2010 forecast by the *Comisión Chilena del Cobre*, or the Chilean Copper Commission, estimates that the average price of copper will be U.S.\$3.10 per pound, compared to an average price of U.S.\$2.34 per pound for 2009. Peru's copper production increased by 0.38% during 2009 compared to 2008. The small increase in Peru's copper production during 2009 was primarily the result of price and demand readjustments, which were a result of the global economic crisis. The recent global economic crisis resulted in a decrease in exports, a decrease in production, the temporary suspension of work at certain mining projects, and a lack of liquidity in certain industries to finance the development and exploration of new projects, all of which have negatively impacted the mining sector.

Between 2004 and 2009, investment in the mining sector totaled approximately U.S.\$8.9 billion, with an average annual investment of approximately U.S.\$1.5 billion.

Certain mining companies, in particular those relating to zinc and lead materials, may continue to evaluate their expansion and development plans in light of market developments. In addition, the Government expects that the lower zinc and lead prices recently experienced will negatively affect the production, development and expansion plans of smaller mining companies in the coming months.

Hydrocarbons. The hydrocarbons subsector, which includes petroleum and natural gas production, currently constitutes a minor part of the Peruvian economy. The petroleum companies in Peru are oriented towards the exploration and development of oil fields located mainly in Peru's Amazon region. A major part of Peruvian production consists of heavy crude oil that is primarily exported and light crude oil that is used in local refineries. In 2009, the production of hydrocarbons increased by 16.1%, in large part as a result of continued production at existing projects and new projects starting production, including the increased production of liquid hydrocarbons by Pluspetrol Peru Corporation from the block 56 gas field, which began operations in September 2008, and the Cashiriari oil field located in block 88, which began production in July 2009.

Secondary Production

The Government expects a decline of growth in the secondary production sectors in 2010, mainly due to the current international economic environment. The Government expects that once the economies of Peru's major trading partners begin to recover, the construction and non-primary manufacturing sectors will be among the first secondary production sectors to experience increased activity.

Non-primary manufacturing. Non-primary manufacturing decreased 7.2% in 2009, when compared to 2008, mainly due to a decrease in the production of textiles, leather products and footwear, iron and steel production and equipment and metal products.

Construction. The construction sector grew by 6.1% in 2009, when compared to 2008, mainly due to continued public investment, mining projects and public work projects such as road construction, infrastructure reconstructions and the government sponsored social housing program, *Fondo MiVivienda*.

Electricity and Water. During 2009, the electricity and water production sector grew by 1.2%, compared to 7.7% for 2008. This reduced rate of growth was mainly due to a decrease in domestic demand.

Other Services. During 2009, the other services sector grew by 3.1%, compared to 9.1% for 2008. This reduced rate of growth was mainly due to a decrease in cargo transport due to the decrease in imports.

Employment and Labor

Formal Employment

The following table provides employment statistics in Metropolitan Lima from 2005 to 2009.

**Employment and Labor in Metropolitan Lima
(in percentages)**

	2005	2006	2007	2008	2009
Participation rate ⁽¹⁾	62.5	64.0	63.5	66.4	68.5
Underemployment rate ⁽²⁾	40.9	41.2	38.9	33.4	33.9
Unemployment rate ⁽³⁾	11.4	8.8	7.2	6.4	6.3

⁽¹⁾ Percentage of the working-age population (14 years old or older) that is in the labor force.

⁽²⁾ Percentage of the working-age population (14 years old or older) working part-time who would prefer to work more hours, plus the percentage of the working-age population that usually works full-time but who, in the week the employment survey was conducted, worked less than 35 hours per week as a result of economic constraints.

⁽³⁾ Percentage of the working-age population (14 years old or older) that, in the week the employment survey was taken, was seeking remunerated employment.

Source: Ministry of Labor. Figures for 2005-2009 are based on the Household Survey on Labor.

The following table provides information on employment by sector, as a percentage of total employment, in Metropolitan Lima from 2005 to 2009.

**Employment in Metropolitan Lima
(percentage by economic sector)**

	2005	2006	2007	2008	2009
Agriculture, livestock, fishing and forestry	0.7	0.8	0.9	0.8	0.9
Mining	0.3	0.5	0.4	0.6	0.4
Manufacturing	18.4	17.1	17.6	17.0	16.9
Construction	5.2	5.7	5.9	6.9	6.3
Electricity, gas and water	0.1	0.3	0.2	0.2	0.5
Transportation and telecommunications	9.9	9.9	10.3	11.1	10.7
Wholesale and retail trade	25.1	25.8	25.4	22.5	23.7
Services	35.8	35.1	34.3	36.0	35.1
Other ⁽¹⁾	4.6	5.0	5.0	5.1	5.6
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

⁽¹⁾ Includes households.

Source: Ministry of Labor. Figures are based on the Household Survey on Labor.

Informal Employment

The Peruvian economy has a significant “informal sector” that provides employment to the majority of the labor force, including a significant number of women. The term “informal sector” refers to economic activities that take place outside of the formal norms for economic transactions established by the state or developed through formal business practices. It generally involves production and exchange of legal goods and services without the appropriate business permits, without reporting tax liability, without complying with labor regulations and without legal guarantees for suppliers and end users. Because of the nature of this sector, it is difficult to obtain reliable statistics measuring its contribution to the Peruvian economy.

The Ministry of Labor estimates the size of the informal sector based on ILO criteria pursuant to which workers in the informal sector are those who work in micro enterprises (either as wage earners or micro entrepreneurs), who are non-professional self-employed, or who are domestic and unpaid family workers. According to this measurement, 59.8% of the workforce in Metropolitan Lima was employed in the informal sector during 2009.

Consistent with recent trends in underemployment, employment in the informal sector has also shown slight increase in the five-year period ended in 2009. According to the Ministry of Labor, informal employment has increased from 58.9% in 2005 to 59.8% in 2009.

Balance of Payments and Foreign Trade

Balance of Payments

The following table provides information, based on period-end exchange rates, regarding Peru's balance of payments for the periods shown.

Balance of Payments (in millions of U.S. dollars, at current prices)

	For the year ended December 31,				
	2005	2006	2007	2008	2009
Current account:					
Trade balance: ⁽¹⁾					
Exports (FOB).....	17,368	23,830	27,882	31,529	26,885
Imports (FOB).....	(12,082)	(14,844)	(19,595)	(28,439)	(21,011)
Trade balance	5,286	8,986	8,287	3,090	5,873
Services, net	(834)	(737)	(1,191)	(1,962)	(1,112)
Of which:					
Net income from tourism ⁽²⁾	557	772	749	924	960
Net income from transportation ⁽³⁾	(858)	(874)	(1,192)	(1,701)	(996)
Financial and investment income, net ⁽⁴⁾	(5,076)	(7,562)	(8,359)	(8,774)	(7,371)
Current transfers, net.....	1,772	2,185	2,626	2,923	2,856
Of which:					
Workers remittances	1,440	1,837	2,131	2,444	2,378
Current account balance	1,148	2,872	1,363	(4,723)	247
Capital account:					
Foreign direct investment	2,579	3,467	5,425	6,188	4,364
Portfolio investment	25	(45)	70	85	47
Other medium and long-term capital ⁽⁵⁾	(2,226)	(1,994)	840	1,833	(1,723)
Of which:					
Disbursements to the public sector	2,656	609	3,384	1,166	3,229
Other capital, including short-term capital	(236)	(1,079)	2,064	568	(1,675)
Capital account balance	141	348	8,400	8,674	1,012
Errors and omissions ⁽⁶⁾	239	(495)	(175)	(838)	(250)
Balance of payments	1,528	2,726	9,588	3,112	1,008
Financing:					
Change in gross Central Bank reserves ⁽⁷⁾	(1,628)	(2,753)	(9,654)	(3,169)	(1,045)
Use of IMF resources.....	0	0	0	0	0
Exceptional financing, net	100	27	67	57	36
Total financing	(1,528)	(2,726)	(9,588)	(3,112)	(1,008)
<i>Memorandum item:</i>					
Current account balance (deficit)					
(as % of GDP)	1.4	3.1	1.3	(3.7)	0.2

(1) Based on customs declarations, records of temporary admissions, free-trade zone imports, grants and other adjustments.

(2) Based on a survey of tourists. Income from tourism represents the total expenditure by a tourist multiplied by the total number of tourists.

(3) Includes freight services, passenger transportation and port expenses of ships and airplanes.

(4) Includes interest payments.

(5) Includes debt amortization payments.

(6) Represents errors and omissions from double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.

(7) Refers to changes in reserves used to finance balance of payments and corresponds to net international reserves excluding the use of IMF resources.

Source: Central Bank.

Trade Balance

In 2009, Peru's current account registered a surplus of U.S.\$0.2 billion, largely due to a higher trade surplus. In 2009, Peru registered a trade balance surplus of U.S.\$5.9 billion, an increase from the U.S.\$3.1 billion registered in 2008, mainly due to a decrease in imports, which helped offset a decrease in exports. The Government has assumed a trade balance surplus of U.S.\$874 million for 2010.

In 2009, Peru's exports consisted primarily of:

- traditional mineral exports, such as gold, silver, copper, zinc and lead, valued at US\$16.4 billion during 2009, representing 60.9% of the total exports in 2009;
- petroleum and derivative products valued at US\$1.9 billion during 2009, representing 7.0% of the total exports in 2009;
- traditional fishing exports, such as fishmeal and fish oil, valued at US\$1.7 billion during 2009, representing 6.3% of the total exports for 2009;
- non-traditional textile exports, such as textile fibers and cloth, valued at US\$1.5 billion during 2009, representing 5.6% of the total exports for 2009; and
- non-traditional agriculture and livestock exports valued at US\$1.8 billion during 2009, representing 6.8% of the total exports for 2009.

The following tables provide further information on exports for the periods shown.

Exports (in millions of U.S. dollars, at current prices)

	For the year ended December 31,				
	2005	2006	2007	2008	2009
Traditional:					
Fishing.....	1,303	1,335	1,460	1,791	1,683
Agricultural.....	331	574	460	685	633
Mineral.....	9,790	14,735	17,238	18,657	16,361
Petroleum and natural gas.....	<u>1,526</u>	<u>1,818</u>	<u>2,306</u>	<u>2,663</u>	<u>1,894</u>
Total traditional	12,950	18,461	21,464	23,796	20,571
Non-traditional:					
Agriculture and livestock.....	1,008	1,220	1,507	1,912	1,823
Fishing.....	323	433	499	622	517
Textiles.....	1,275	1,473	1,736	2,018	1,492
Timbers and papers, and manufactures.....	261	333	362	425	355
Chemical	538	602	805	1,041	837
Non-metallic minerals.....	118	135	165	176	148
Basic metal industries and jewelry.....	493	829	906	908	560
Fabricated metal products and machinery	191	164	217	324	357
Other products ⁽¹⁾	<u>70</u>	<u>89</u>	<u>107</u>	<u>118</u>	<u>93</u>
Total non-traditional.....	4,277	5,279	6,303	7,543	6,160
Other:					
Other products ⁽²⁾	141	91	114	190	154
Total exports	<u>17,368</u>	<u>23,830</u>	<u>27,882</u>	<u>31,529</u>	<u>26,885</u>

⁽¹⁾ Includes leather and handicrafts.

⁽²⁾ Includes the sale of fuel and food to foreign vessels and the repair of foreign vessels.

Source: Central Bank.

Exports
(as a percentage of total exports, at current prices)

	For the year ended December 31,				
	2005	2006(1)	2007(1)	2008(1)	2009(1)
Traditional:					
Fishing.....	7.5	5.6	5.2	5.7	6.3
Agricultural.....	1.9	2.4	1.7	2.2	2.4
Mineral.....	56.4	61.8	61.8	59.2	60.9
Petroleum and derivatives.....	8.8	7.6	8.3	8.4	7.0
Total traditional	74.6	77.5	77.0	75.5	76.5
Non-traditional:					
Agriculture and livestock.....	5.8	5.1	5.4	6.1	6.8
Fishing.....	1.9	1.8	1.8	2.0	1.9
Textiles.....	7.3	6.2	6.2	6.4	5.6
Timbers and papers, and manufactures.....	1.5	1.4	1.3	1.3	1.2
Chemical	3.1	2.5	2.9	3.3	3.1
Non-metallic minerals.....	0.7	0.6	0.6	0.6	0.5
Basic metal industries and jewelry.....	2.8	3.5	3.2	2.9	2.1
Fabricated metal products and machinery	1.1	0.7	0.8	1.0	1.3
Other products ⁽¹⁾	0.4	0.4	0.4	0.4	0.3
Total non-traditional.....	24.6	22.2	22.6	23.9	22.9
Other:					
Other products ⁽²⁾	0.8	0.4	0.4	0.6	0.6
Total exports	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

⁽²⁾ Includes leather and handcrafts.

⁽³⁾ Includes the sale of fuel and food to foreign vessels and the repair of foreign vessels.

Source: Central Bank.

In 2009, Peru's imports consisted primarily of:

- intermediate goods, such as fuels and raw materials for agricultural and industrial production, valued at US\$10.1 billion, representing 48.0% of the total imports for 2009;
- capital goods, such as transportation and building equipment, valued at US\$6.9 billion, representing 32.6% of the total imports for 2009; and
- consumer goods valued at US\$4.0 billion, representing 18.9% of the total imports for 2009.

The following tables provide further information regarding imports for the periods shown.

Imports
(in millions of US dollars, at current prices)

	For the year ended December 31,				
	2005	2006	2007	2008	2009
Consumer goods:					
Durable goods.....	970	1154	1,437	2,192	1,825
Non-durable goods	1338	1463	1,754	2,335	2,137
Total consumer goods	2,308	2,616	3,192	4,527	3,963
Intermediate goods:					
Petroleum products, lubricants.....	2,325	2,808	3,636	5215	2,929
Raw materials for agriculture	384	436	589	881	773
Raw materials for manufacturing	3,890	4,738	6,210	8,457	6,375
Total intermediate goods.....	6,600	7,981	10,435	14,553	10,077
Capital goods:					
Construction materials	305	470	590	1,305	854
For agriculture	37	31	51	91	72
For manufacturing	2,114	2,784	3,964	5,770	4,498

	For the year ended December 31,				
	2005	2006	2007	2008	2009
Transportation equipment	607	838	1,257	2,073	1,426
Total capital goods	3,064	4,123	5,861	9,239	6,850
Other ⁽¹⁾	110	123	107	120	122
Total imports	12,082	14,844	19,595	28,439	21,011
Memorandum items:					
Temporal admission imports ⁽²⁾	275	365	322	362	197
Imports into free trade zone ⁽³⁾	104	104	108	113	110

(1) Includes the donation of goods, the purchase of fuels and Peruvian foodstuffs and the repair of capital goods in the exterior such as other goods not falling into any one of the classifications used.

(2) Imports that must be processed and exported within a definite period of time and are not subject to tariffs.

(3) Imports through the Special Zone of Tacna, which is primarily dedicated to the assembly of motor vehicles. Peru has five free trade zones, but only the Tacna zone is economically active.

Source: Central Bank.

Imports (as a percentage of total imports, at current prices)

	For the year ended December 31,				
	2005	2006	2007	2008	2009
Consumer goods:					
Durable goods	8.0	7.8	7.3	7.7	8.7
Non-durable goods	11.1	9.9	9.0	8.2	10.2
Total consumer goods	19.1	17.6	16.3	15.9	18.9
Intermediate goods:					
Petroleum products, lubricants	19.2	18.9	18.6	18.3	13.9
Raw materials for agriculture	3.2	2.9	3.0	3.1	3.7
Raw materials for manufacturing	32.2	31.9	31.7	29.7	30.3
Total intermediate goods	54.6	53.8	53.3	51.2	48.0
Capital goods:					
Construction materials	2.5	3.2	3.0	4.6	4.1
For agriculture	0.3	0.2	0.3	0.3	0.3
For manufacturing	17.5	18.8	20.2	20.3	21.4
Transportation equipment	5.0	5.6	6.4	7.3	6.8
Total capital goods	25.4	27.8	29.9	32.5	32.6
Other ⁽¹⁾	0.9	0.8	0.5	0.4	0.6
Total imports	100.0	100.0	100.0	100.0	100.0
Memorandum items:					
Temporal admission imports ⁽²⁾	2.3	2.5	1.6	1.3	0.9
Imports into free trade zone ⁽³⁾	0.9	0.7	0.5	0.4	0.5

(1) Includes the donation of goods, the purchase of fuels and Peruvian foodstuffs and the repair of capital goods in the exterior such as other goods not falling into any one of the classifications used.

(2) Imports that must be processed and exported within a definite period of time and are not subject to tariffs.

(3) Imports through the Special Zone of Tacna, which is primarily dedicated to the assembly of motor vehicles. Peru has five free trade zones but only the Tacna zone is economically active.

Source: Central Bank.

Geographic Distribution of Exports (as a percentage of total exports, at current prices)

	For the year ended December 31,				
	2005	2006	2007	2008	2009
United States	31.0	24.5	19.6	19.1	17.5
Canada	6.0	6.8	6.6	6.2	8.7
Mexico	1.9	1.6	1.0	1.0	0.9
Total North America	38.9	32.9	27.2	26.3	27.1
Brazil	2.6	3.4	3.4	2.9	1.9
Colombia	2.0	2.1	2.2	2.2	2.4
Chile	6.6	6.0	6.1	5.9	2.8

	For the year ended December 31,				
	2005	2006	2007	2008	2009
Venezuela	1.7	1.7	2.8	3.4	2.3
Other	5.8	5.1	5.2	5.3	5.4
Total Latin America and the Caribbean.....	18.8	18.4	19.7	19.6	14.8
United Kingdom.....	1.4	1.4	0.9	1.3	0.9
Switzerland	4.6	7.1	8.4	10.9	14.9
Germany	3.0	3.4	3.3	3.3	3.9
Spain	3.3	3.2	3.5	3.3	2.8
Other	10.1	12.1	10.6	10.4	8.6
Total Europe	22.4	27.3	26.7	29.1	31.0
Japan	3.5	5.2	7.8	5.9	5.1
China	10.8	9.5	10.9	11.9	15.3
Other	4.8	6.0	6.5	6.2	5.6
Total Asia.....	19.1	20.7	25.2	24.1	26.0
Africa and others	0.8	0.7	1.2	0.8	1.0
Total exports	100.0	100.0	100.0	100.0	100.0

Source: Central Bank.

Geographic Distribution of Imports (as a percentage of total imports, at current prices)

	For the year ended December 31,				
	2005	2006	2007	2008	2009
United States	17.9	16.4	17.8	18.8	19.7
Canada	1.6	1.8	1.6	1.4	1.8
Mexico	3.5	3.5	4.2	4.1	3.4
Total North America	23.0	21.7	23.6	24.3	25.0
Brazil.....	8.0	10.5	9.1	8.1	7.6
Colombia	6.1	6.3	4.8	4.3	4.3
Chile	5.1	5.8	4.4	4.1	4.7
Venezuela	4.1	3.6	1.1	1.1	1.1
Other	15.1	15.0	15.6	14.7	12.7
Total Latin America and the Caribbean	38.4	41.2	34.9	32.3	30.5
United Kingdom.....	0.8	0.7	0.7	0.6	0.7
Switzerland	0.6	0.5	0.5	0.4	0.6
Germany	3.2	3.4	3.4	2.9	3.3
Spain	1.6	1.7	1.4	1.4	1.4
Other	7.8	6.8	7.1	8.1	6.7
Total Europe	14.1	13.1	13.1	13.4	12.7
Japan	3.5	3.6	3.7	4.1	4.1
China	8.6	10.2	12.0	13.5	15.0
Other	8.4	7.3	8.0	8.6	8.7
Total Asia.....	20.6	21.1	23.6	26.1	27.9
Africa and others	4.1	2.9	4.8	3.8	3.9
Total imports.....	100.0	100.0	100.0	100.0	100.0

Source: Central Bank.

The Monetary System

Monetary Policy

The inflation rate for 2009 was 0.2% (lower than the Central Bank's target annual inflation rate for 2009, which was 2%, plus or minus 1%). The Central Bank's target inflation rate for 2010 is 2.0%. The Central Bank continued to pursuing monetary policies aimed at ensuring that inflation remained within the targeted range.

Because of the reduction in inflationary pressure resulting from this more stable price environment, the Government believes that the inflation rate will converge to the target rate set by the Central Bank.

The following table provides information on interest rates applicable to commercial bank loans on the dates shown.

Interest Rates on Commercial Bank Loans
(annual percentage rates)

	As of December 31,	
	2008	2009
Domestic Currency:		
Interbank	6.5%	1.2%
Prime ⁽¹⁾	7.5	1.7
Average loan rate	23.0	19.9
Foreign currency:		
Interbank	1.0	0.2
Prime ⁽¹⁾	5.2	1.2
Average loan rate	10.5	8.6

(1) Beginning in 2000, it only considers the prime rate on loans to the corporate sector.
Source: Central Bank.

Liquidity and Credit Aggregates

The following table presents the composition of the monetary base and international reserves as of the dates shown.

Monetary Base and Central Bank's International Reserves
(in millions of U.S. dollars, at current prices)

	As of December 31,	
	2008	2009
Currency in circulation and cash in vaults at banks.....	6,805	7,974
Commercial bank deposits at the Central Bank	301	174
Monetary base	7,105	8,148
Gross international reserves	31,233	33,175
Net international reserves	31,196	33,135

Source: Central Bank.

Net international reserves increased from approximately U.S.\$31.2 billion as of December 31, 2008, to approximately U.S.\$33.1 billion as of December 31, 2009.

The following tables present liquidity and credit aggregates, and changes in selected monetary indicators as of the dates shown.

Liquidity and Credit
(in millions of U.S. dollars, at current prices)

	As of December 31, 2009
Monetary aggregates	
Currency in circulation	6,658
M1	11,435
M2	22,589
M3	39,040
Credit by sector⁽¹⁾	
Public sector (Net) ⁽²⁾	(13,128)
Private sector	36,959
Total credit aggregates	23,831
Deposits	
Local currency ⁽³⁾	15,674

	As of December 31, 2009
Foreign currency ⁽⁴⁾	<u>16,322</u>
Total deposits	<u>31,996</u>

- (1) Includes securities offerings and cash advances from checking accounts of depository corporations.
(2) Net claims on public sector of depository corporations.
(3) Includes sight deposits, saving deposits, time deposits and other certificates in domestic currency of depository corporations.
(4) Includes demand deposits, savings deposits and time deposits in foreign currency of depository corporations.
Source: Central Bank.

Public Sector Finances

Non-Financial Public Sector

In 2009, the non-financial public sector deficit was US\$2.6 billion, or 1.9% of GDP, compared to a US\$2.8 billion surplus, or 2.1% of GDP, for 2008. This deficit was mainly a result of lower tax revenue, related to reduced collections of income tax and value-added tax and higher than expected increase in capital expenditures, mainly in infrastructure.

The following tables provide information on the non-financial public sector accounts for the periods shown.

Consolidated Accounts of the Non-Financial Public Sector (NFPS) (in millions of U.S. dollars, at current prices)

	For the year ended December 31,				
	2005	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary balance					
Central government	898	2,970	3,691	4,692	(852)
Decentralized agencies	3	306	278	123	95
Local governments	226	82	1,137	41	(508)
State-owned enterprises	169	263	85	(30)	306
Primary NFPS	1,296	3,621	5,190	4,826	(959)
Interest payments					
External debt	1,266	1,327	1,372	1,143	1033
Domestic debt	270	413	554	870	625
Total interest payments	1,536	1,738	1,927	2,013	1,657
Overall NFPS	(240)	1,883	3,264	2,813	(2,617)
Financing:					
External	(1,167)	(658)	(2,085)	(1,205)	1,320
Domestic	1,351	(1,319)	(1,321)	(1,659)	1,262
Privatization	56	94	143	51	34
Total financing	240	(1,883)	(3,264)	(2,813)	2,617

⁽¹⁾ Preliminary data.
Source: Central Bank.

Consolidated Accounts of the Non-Financial Public Sector (NFPS) (as a percentage of GDP, at current prices)

	For the year ended December 31,				
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary balance:					
Central government	1.1	3.2	3.5	3.6	(0.6)
Decentralized agencies	0.0	0.3	0.3	0.1	0.1
Local governments	0.3	0.1	1.1	0.0	(0.4)
State-owned enterprises	0.2	0.3	0.1	0.0	0.3

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary NFPS	1.6	4.0	4.9	3.7	(0.6)
Interest payments					
External debt.....	1.6	1.4	1.3	0.9	0.8
Domestic debt.....	0.3	0.4	0.5	0.7	0.5
Total interest payments	1.9	1.9	1.8	1.6	1.3
Overall NFPS	(0.3)	2.1	3.1	2.1	(1.9)
Financing:					
External.....	(1.5)	(0.7)	(1.9)	(0.9)	1.1
Domestic.....	1.7	(1.5)	(1.4)	(1.2)	0.8
Privatization.....	0.1	0.1	0.1	0.0	0.0
Total financing	0.3	(2.1)	(3.1)	(2.1)	1.9

⁽¹⁾ Preliminary data.

Source: Central Bank.

Central Government

In 2009, compared to 2008, government revenues decreased 13.4% (from US\$23.5 billion, or 18.4% of GDP, as of December 31, 2008, to US\$20.3 billion, or 16.0% of GDP, as of December 31, 2009), tax revenues decreased 12.5%, and non-tax revenue decreased 13.4%.

During 2009 the central government's primary deficit was US\$852 million, or 0.6% of GDP, compared to a primary surplus of US\$4.7 billion in 2008, due to a decrease of 18.7% in income tax revenue, a decrease of 9.1% in general sales tax, and a decrease of 24.1% in import tariffs revenues.

The following tables provide information regarding government accounts for the periods shown.

Central Government Accounts (in millions of U.S. dollars, at current prices)

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Fiscal revenue:					
Current revenue:					
Tax revenue:					
Income Tax	3,390	5,623	7,296	8,301	6,749
Capital gains tax	0	0	0	0	0
Taxes on goods and services:	6,778	7,811	9,459	11,984	11,202
General Sales Tax.....	5,546	6,576	8,086	10,802	9,817
Excise taxes.....	1,232	1,235	1,373	1,182	1,385
Import tariffs.....	952	870	701	652	495
Other taxes.....	(336)	(407)	(683)	(957)	(969)
Total tax revenue	10,784	13,897	16,773	19,980	17,478
Non-tax revenue ⁽²⁾	1,654	2,209	2,676	3,340	2,712
Total current revenue	12,438	16,106	19,450	23,320	20,190
Capital revenue.....	117	110	123	135	129
Total fiscal revenue	<u>12,555</u>	<u>16,216</u>	<u>19,573</u>	<u>23,455</u>	<u>20,319</u>
Expenditures:					
Current non financial expenditures:					
Wages and salaries	3,513	3,838	4,167	4,741	5,051
Good and services	2,715	3,121	3,262	3,693	4,480
Current transfers.....	3,947	4,439	6,114	7,331	6,662
Total current non financial expenditures	10,175	11,398	13,543	15,765	16,193
Capital expenditures:					
Fixed investment	1,351	1,470	1,911	2,351	3,407

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Other.....	131	379	428	646	1,571
<i>Of which:</i>					
Capital transfers.....	92	308	409	589	1,069
Total capital expenditures.....	1,482	1,848	2,339	2,998	4,978
Total expenditures.....	11,657	13,246	15,882	18,762	21,172
Fiscal balance:					
Primary fiscal balance.....	898	2,970	3,691	4,693	(852)
Interest	1,454	1,655	1,765	1,754	(1,614)
Overall fiscal balance.....	(555)	1,315	1,925	2,938	(2,466)
Financing:					
Foreign financing.....	(955)	(554)	(2,229)	(1,441)	1,353
Domestic financing.....	1,454	(855)	161	(1,549)	1,079
Privatization.....	56	94	143	51	34
Total financing.....	555	(1,315)	(1,925)	(2,938)	2,466

⁽¹⁾ Preliminary data.

⁽²⁾ Includes transfers from state-owned enterprises and royalties from petroleum companies.

Source: Central Bank.

Central Government Accounts (as a percentage of GDP, at current prices)

For the year ended December 31,					
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Fiscal revenue:					
Current revenue:					
Tax revenue:					
Income Tax.....	4.3	6.1	6.8	6.5	5.3
Capital gains tax.....	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services:	8.5	8.5	8.8	9.4	8.8
General Sales Tax.....	7.0	7.1	7.5	8.5	7.7
Excise taxes.....	1.6	1.3	1.3	0.9	1.1
Import tariffs.....	1.2	0.9	0.7	0.5	0.4
Other taxes.....	(0.4)	(0.4)	(0.6)	(0.8)	(0.8)
Total tax revenue	13.6	15.0	15.6	15.6	13.8
Non-tax revenue ⁽²⁾	2.1	2.4	2.5	2.6	2.1
Total current revenue	15.7	17.4	18.1	18.2	15.9
Capital revenue.....	0.1	0.1	0.1	0.1	0.1
Total fiscal revenue	15.8	17.6	18.3	18.4	16.0
Expenditures:					
Current non financial expenditures:					
Wages and salaries.....	4.4	4.2	3.9	3.7	4.0
Good and services	3.4	3.4	3.0	2.9	3.5
Current transfers	5.0	4.8	5.7	5.7	5.2
Total current non financial expenditures	12.8	12.3	12.6	12.4	12.7
Capital expenditures:					
Fixed investment	1.7	1.6	1.8	1.9	2.6
Other.....	0.2	0.4	0.4	0.5	1.2
<i>Of which:</i>					
Capital transfers.....	0.1	0.3	0.4	0.5	0.8
Total capital expenditures.....	1.9	2.0	2.1	2.4	3.9
Total expenditures	14.7	14.3	14.8	14.8	16.6
Fiscal balance:					
Primary fiscal balance.....	1.1	3.2	3.5	3.6	(0.6)
Interest	1.8	1.8	1.6	1.4	1.3
Overall fiscal balance.....	(0.7)	1.5	1.8	2.2	(1.8)

	For the year ended December 31,				
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Financing:					
Foreign financing	(1.2)	(0.6)	(2.0)	(1.1)	1.1
Domestic financing	1.8	(1.0)	0.1	(1.2)	0.7
Privatization	0.1	0.1	0.1	0.0	0.0
Total financing	0.7	(1.5)	(1.8)	(2.2)	1.8

⁽¹⁾ Preliminary data.

⁽²⁾ Includes transfers from state-owned enterprises and royalties from petroleum companies.

Source: Central Bank.

Tax Regime

The following table presents the composition of Peru's tax revenues for the periods shown.

Tax Revenue of the Republic (Central Government) (as a percentage of total tax revenue)

	For the year ended December 31,				
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Income Tax					
Individual	8.6	8.6	8.5	9.2	10.7
Corporate	17.1	24.6	27.4	28.0	23.3
Clearing	5.7	7.2	7.6	4.2	4.7
Total	31.4	40.5	43.6	41.4	38.7
Taxes on goods and services					
Value Added Tax	51.4	47.3	48.2	54.2	56.2
Excise Tax					
Fuel tax	7.3	5.3	4.6	2.5	4.3
Other	4.1	3.6	3.6	3.4	3.6
Total Excise Tax	11.4	8.9	8.2	5.9	7.9
Total taxes on goods and services	62.9	56.2	56.3	60.1	64.0
Import tariffs	8.8	6.3	4.2	3.3	2.8
Other taxes	8.4	7.4	7.3	7.5	8.4
Tax refund	(11.5)	(10.3)	(11.4)	(12.3)	(14.0)
Total	100.0	100.0	100.0	100.0	100.0

⁽¹⁾ Reflects adjustments to reconcile estimated income tax withheld with actual income tax liabilities.

Source: Central Bank.

Public Sector Debt

External Debt

As of December 31, 2009, almost all of Peru's public sector external debt consisted of foreign currency denominated debt. Taking account of swap agreements, 9.4% of public external debt consisted of nuevos soles as of December 31, 2009. As of December 31, 2009, public external debt totaled US\$ 20.6 billion, or 16.2% of GDP, compared to US\$ 19.2 billion, or 15.1% of GDP, as of December 31, 2008.

The following tables provide further information on public sector external debt as of the dates shown.

Public Sector External Debt
(in millions of U.S. dollars, except for percentages)

	As of December 31,				
	2005	2006	2007	2008	2009
Official reserves liabilities.....	–	–	–	–	–
Official non-reserves liabilities:					
Public sector	22,279	21,972	20,081	19,237	20,600
Total official non-reserves liabilities	22,279	21,972	20,081	19,237	20,600
Total official liabilities.....	22,279	21,972	20,081	19,237	20,600
Total public sector external debt as % of GDP ⁽¹⁾	28.1	23.8	18.7	15.1	16.2
Total public sector external debt as % of total exports ⁽¹⁾	128.3	92.2	72.0	61.0	76.6

(1) Peru does not include IMF credit use in reports of total public sector external debt. Debt ratios are calculated on the basis of the Peru's total official non-reserve liabilities.

N.A.= Not Available.

Source: Central Bank.

As of December 31, 2009, outstanding public sector external debt amounted to approximately US\$ 20.6 billion equivalent to 16.2% of GDP, an increase of US\$ 1.4 billion compared to debt outstanding at December 31, 2008. This increase resulted primarily from the net effect of new disbursements minus amortizations for a net increase of US\$1.3 billion. The depreciation of the dollar against the yen and the euro during 2009 caused an increase of US\$153.4 million in the balance of outstanding public sector external debt.

During year ended December 31, 2009, disbursements included US\$ 612.0 million for infrastructure projects and US\$ 579.6 million for freely available payments (*i.e.* funds available for debt service) and US\$ 1.0 billion for year 2010 prefinancing.

The following tables summarize public sector external debt by creditor for the periods indicated.

Public Sector External Debt by Creditor⁽¹⁾
(in millions of U.S. dollars, at current prices)

	As of December 31,				
	2005	2006	2007	2008	2009
Official creditors:					
Multilateral debt:					
IADB	3,468	3,679	3,870	3,995	4,073
World Bank.....	2,816	2,633	2,649	2,712	2,846
IFAD ⁽²⁾	24	29	32	32	33
IMF.....	57	20	–	–	0
OPEC ⁽³⁾	9	8	7	6	5
Other.....	1,609	1,474	1,294	1,182	1,357
Total multilateral debt	7,983	7,843	7,851	7,926	8,311
Bilateral debt:					
Paris Club.....	5,696	5,629	3,883	4,170	3,183
United States.....	–	–	–	–	–
Latin America.....	32	25	20	15	11
East Europe countries and China	16	9	5	3	2
Japan.....	–	–	–	–	0
Other countries	–	–	–	–	0
Total bilateral debt.....	5,743	5,662	3,908	4,189	3,146
Total official debt	13,726	13,506	11,759	12,115	11,457
Private creditors:					
Banking.....	1	1	1	186	186

	As of December 31,				
	2005	2006	2007	2008	2009
Suppliers	159	73	60	56	51
Total private sector debt	160	74	61	242	237
Bonds:					
Brady + Global Bonds	8,394	8,392	8,262	6,880	8,906
Total bonds	8,394	8,392	8,262	6,880	8,906
Total public sector external debt	<u>22,279</u>	<u>21,972</u>	<u>20,081</u>	<u>19,237</u>	<u>20,600</u>

(1) Medium- and long-term debt, excluding IMF financing.

(2) Refers to the International Fund for Agricultural Development.

(3) Refers to the Organization of Petroleum Exporting Countries.

Source: Ministry of Economy (Office of Public Credit).

Public Sector External Debt by Creditor⁽¹⁾
(as a percentage of total public sector external debt)

	As of December 31,				
	2005	2006	2007	2008	2009
Official creditors:					
Multilateral debt:					
IADB	15.6	16.7	19.3	20.8	19.8
World Bank	12.6	12.0	13.2	14.1	13.8
IFAD ⁽²⁾	0.1	0.1	0.2	0.2	0.2
IMF	0.3	0.1	—	—	0.0
OPEC ⁽³⁾	—	—	—	—	0.0
Other	7.2	6.7	6.4	6.1	6.6
Total multilateral debt	35.8	35.7	39.1	41.2	40.3
Bilateral debt:					
Paris Club	25.6	25.6	19.3	21.7	15.2
United States	—	—	—	—	0.0
Latin America	0.1	0.1	0.1	0.1	0.1
East Europe countries and China	0.1	—	—	—	0.0
Japan	—	—	—	—	0.0
Other countries	—	—	—	—	0.0
Total bilateral debt	25.8	25.8	19.5	21.8	15.3
Total official debt	61.6	61.5	58.6	63.0	55.6
Private creditors:					
Banking	—	—	—	1.0	0.9
Suppliers	0.7	0.3	0.3	0.3	0.2
Total private sector debt	0.7	0.3	0.3	1.3	1.1
Bonds:					
Brady + Global Bonds	37.7	38.2	41.1	35.8	43.2
Total bonds	37.7	38.2	41.1	35.8	43.2
Total public sector external debt	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(1) Medium- and long-term debt, excluding IMF financing.

(2) Refers to the International Fund for Agricultural Development.

(3) Refers to the Organization of Petroleum Exporting Countries.

Source: Ministry of Economy (Office of Public Credit).

Public Sector External Debt Structure by Maturity Term
(in millions of U.S. dollars and as a percentage of total public sector external debt)⁽¹⁾

	As of December 31,				
	2005	2006	2007	2008	2009
Short-term debt.....	23	54	921	736	124
Medium- and long-term debt.....	<u>22,279</u>	<u>21,971</u>	<u>20,081</u>	<u>19,237</u>	<u>20,600</u>
Total	<u>22,302</u>	<u>22,025</u>	<u>21,002</u>	<u>19,973</u>	<u>20,724</u>
Short-term debt (as a % of total public sector external debt)	0.1	0.2	4.4	3.7	0.6
Medium- and long-term debt (as a % of total public sector external debt) ..	99.9	99.8	95.6	96.3	99.4

⁽¹⁾ Includes Central Bank debt.
Source: Central Bank.

The following table provides public sector external debt by currency as of December 31, 2009.

Summary of Public Sector External Debt by Currency⁽¹⁾⁽²⁾
(in thousands of U.S. dollars, except for percentages)

Currency	As of December 31, 2009	
	US\$	%
U.S. Dollar	16,001,379	77.68
Japanese yen	2,471,583	12.0
Special Drawing Rights (SDR)	32,726	0.16
Single currency pool (SCP) ⁽³⁾	485,779	2.36
English pound.....	299	0.0
Canadian dollar	104	0.0
Euro.....	1,473,489	7.15
Swiss franc	156	0.0
Nuevo sol ⁽⁴⁾	<u>134,744</u>	<u>0.65</u>
Total.....	<u>20,600,260</u>	<u>100.0</u>

⁽¹⁾ Exchange rate as of December 31, 2009.

⁽²⁾ Includes outstanding Cofide US\$210.74 million non-republic guarantee loans.

⁽³⁾ World Bank unit of account, based on a basket of national currencies.

⁽⁴⁾ IADB loans converted to nuevos soles.

Source: Ministry of Economy (Dirección General de Crédito Público (Office of Public Credit)).

The following table provides information regarding Peru's public sector external debt service as of the dates shown.

Public Sector External Debt Service⁽¹⁾
(in millions of U.S. dollars, except for percentages)

	As of December 31,				
	2005	2006	2007	2008	2009
(A) Interest payments	1,289	1,339	1,411	1,156	1,078
Amortization.....	<u>3,621</u>	<u>1,198</u>	<u>5,466</u>	<u>2,580</u>	<u>1,847</u>
(B)..... Total public sector external debt service	<u>4,910</u>	<u>2,537</u>	<u>6,877</u>	<u>3,736</u>	<u>2,924</u>
As % of total exports ⁽²⁾	24.2	9.2	21.1	10.1	9.1
As % of total exports and workers' remittances	22.6	8.6	19.8	9.5	8.5
As % of GDP	6.2	2.7	6.5	2.9	2.3
As % of total fiscal revenue..	39.1	15.6	35.1	15.9	14.4

⁽¹⁾ Medium and long-term debt service; excludes Central Bank debt and excludes extraordinary financing and refinancing.

⁽²⁾ Includes exports of goods and services and investment income.

Source: Central Bank.

The following table provides estimated medium- and long-term public sector external debt service through 2014.

Estimated Public Sector Debt Service by Debtor⁽¹⁾⁽²⁾
2010 - 2014
(in millions of U.S. dollars)

	For the six-month period ended December 31, 2010			For the year ended December 31,											
				2011			2012			2013			2014		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Non-financial public sector:	490	494	984	956	969	1,924	1,318	929	2,247	1,053	931	1,984	1,236	906	2,142
Central government.....	463	488	951	900	956	1,856	1,260	918	2,178	993	920	1,913	1,180	896	2,076
Public enterprises	27	6	33	56	12	68	58	11	69	60	11	71	56	10	66
Financial public sector	19	5	24	35	10	45	37	9	46	177	8	185	38	6	44
Total public sector.....	509	499	1,008	991	978	1,969	1,355	938	2,293	1,229	939	2,168	1,274	912	2,186

⁽¹⁾ Disbursements Preliminary estimates, as of June 30, 2010.

⁽²⁾ Includes loans to COFIDE not guaranteed by Peru.

Source: Central Bank and Ministry of Economy (Office of Public Credit).

Domestic Debt

The following table provides total public sector domestic debt, excluding intra-governmental debt, as of the dates shown.

Total Public Sector Domestic Debt (in millions of U.S. dollars, at current prices)

	As of December 31,				
	2005	2006	2007	2008	2009
Long-term debt:					
<i>Banco de la Nación</i>	890	774	19	39	198
Treasury bonds	5,954	6,757	10,343	10,068	11,414
Other	52	72	78	77	79
Total long-term debt	6,896	7,603	10,440	10,184	11,691
Short-term debt	793	915	1,349	1,227	1,536
Total	<u>7,689</u>	<u>8,518</u>	<u>11,789</u>	<u>11,411</u>	<u>13,227</u>
Total public sector domestic debt, as % of GDP	9.7	9.2	11.0	8.9	10.4

Source: Central Bank.

The following table provides a list of Peru's outstanding domestic public sector bonds as of the dates shown.

Public Sector Domestic Bonds⁽¹⁾ (in millions of U.S. dollars, at current prices)

	Principal Amount Outstanding as of December 31, 2008	Principal Amount Outstanding as of December 31, 2009
Central Bank Capitalization bonds	0	0
Financial system support bonds	139	122
Debt exchange bonds	769	793
Pension recognition bonds	2964	3,124
Bonos Soberanos	6,196	7,376
Other bonds	48	51
Total	<u>10,116</u>	<u>11,464</u>

As of December 31, 2009, Peru's total outstanding debt with the Paris Club amounted to US\$ 3.1 billion, representing approximately 15.2% of Peru's total public external debt. Peru's Paris Club creditors are governmental institutions located in 8 countries. A significant portion of Peru's Paris Club debt has been subject to rescheduling agreements under the umbrella of the Paris Club. As of December 31, 2009, Peru's rescheduled Paris Club debt amounted to US\$ 378.4 million. Of the rescheduled Paris Club debt, 100% is subject to government-granted Official Development Assistance (ODA, government-granted) interest rates, which are lower than the non-ODA rates. Peru's Paris Club debt is denominated in Japanese yen, euro and U.S. dollars, which represent 79%, 17% and 4%, respectively, of the total debt. 99.9% of Peru's Paris Club debt has fixed interest rates, with the remainder having variable interest rates.

Six Months Ended June 30, 2010 and Recent Developments

The Economy

Overview

After the deceleration of growth in 2009 primarily due to the global economic and financial crisis, Peru's economy experienced a significant recovery. In the six months ended June 30, 2010, GDP growth was 8.2% as

compared to the 0.3% GDP growth in the same period in 2009. Improved market conditions have also had positive effects on the Peruvian economy, including:

- an increase in exports and imports for the six month ended June 30, 2010, when compared to levels recorded during 2009;
- an increase in foreign direct investment inflows; and
- increased commodity prices, leading to increased export earnings, increased external and fiscal accounts and a resulting improvement in tax revenues in the six months ended June 30, 2010 as compared to the same period in 2009.

As of January 2010, the Government authorized additional funds for the stimulus package, increasing the aggregate amount of the stimulus package to U.S.\$4.8 billion. As of July 2010, it had allocated or disbursed approximately 94% of such aggregate amounts.

Levels of economic activity recorded during the six months ended June 30, 2010 show a growth in GDP of 8.2% when compared to the same period in 2009. The significant economic growth was due primarily to strong private and public investment and an increase in public consumption which resulted in an 11.1% growth in domestic demand during the first six months of 2010.

The following are economic results as of and for the six months ended June 30, 2010, compared to results as of and for the six months ended June 30, 2009:

- the current account deficit totaled US\$ 789 million, or 1.1% of annualized GDP, compared to a current account deficit of US\$284 million, or 0.5% of annualized GDP, in the first six months of 2009;
- the non-financial public sector registered a surplus of US\$1.7 billion, or 2.3% of annualized GDP, compared to a surplus of US\$1.3 billion, or 2.2% of annualized GDP, for the first six months of 2009;
- the balance of public sector external debt totaled US\$19.9 billion, or 14.1% of annualized GDP, compared to US\$19.9 billion, or 16.3% of annualized GDP, as of June 30, 2009;
- foreign direct investment was US\$3.4 billion, compared to US\$2.8 billion the first six months of 2009;
- exports increased by 38.7%, to US\$16.0 billion, compared to US\$11.6 billion in the first six months of 2009, primarily as a result of an increase in exports of copper, gold, hydrocarbons and agricultural and chemical products;
- the balance of public sector domestic debt totaled US\$13.4 billion, or 9.4% of annualized GDP, compared to US\$11.9 billion, or 9.7% of annualized GDP, as of June 30, 2009;
- the inflation rate was 1.4%, compared to an inflation rate of 0.0% for the first six months of 2009; and
- the net international reserves of the Central Bank increased by 14.8%, to US\$35.3 billion as of June 30, 2010, compared to US\$30.8 billion as of June 30, 2009.

The United States, China, Switzerland, Canada, Japan and Chile rank among Peru's most important export markets. In the first six months 2010, exports totaled US\$16.0 billion, a 38.7% increase compared to the US\$11.6 billion in the same period in 2009. Peru registered a trade surplus of US\$3.1 billion in the first six months of 2010, a significant increase compared to the US\$1.8 billion surplus registered in the same period in 2009.

Public Sector Debt. As of June 30, 2010, the outstanding public sector external debt amounted to approximately US\$19.9 billion, equivalent to 14.1% of annualized GDP as of December 31, 2010, a decrease of US\$36.0 million compared to public sector external debt outstanding as of December 31, 2009.

As of June 30, 2010, outstanding public sector domestic debt amounted to approximately US\$13.4 billion, equivalent to 9.4% of annualized GDP for the six months ended June 30, 2010, an increase of US\$1.4 billion compared to public sector domestic debt outstanding at June 30, 2009.

In February 2010, Peru received authorization to issue public sector debt in the domestic market as part of the Market Makers' Program, in an amount up to approximately US\$700 million.

In April 2010, Peru launched an exchange and tender offer of certain global bonds for a total amount of US\$3.4 billion. As a result of this exchange and tender offer the total outstanding debt was reduced by US\$ 45.4 million due to the difference in price between the tendered and exchanged bonds and the new bonds issued.

In August 2010, Peru launched an exchange offer of certain local bonds for an authorized total amount of S/.3,200 million. As a result of this exchange offer, the total outstanding debt was reduced by S/. 22 million due to the difference in price between the exchanged bonds and the new bond issued.

Material Loan Agreements. In March 2010, Peru entered into a loan agreement with the Japan International Cooperation Agency, or JICA, in an aggregate amount of ¥9.3 billion (or approximately US\$113 million) to fund the Lima Marginal Areas Sanitary Improvement Project.

In March 2010, Peru entered into a loan agreement with the Andean Development Corporation, or CFA, in an aggregate amount of US\$300 million to fund the Lima and Callao Electric Mass Transportation System Project. In May 2010, Peru entered into a loan agreement with the CFA, in an aggregate amount of US\$300 million to refinance contingent liabilities of Peru.

In June 2010, Peru authorized the entering into loan agreements with the CFA, the Inter-American Development Bank, KfW and the International Fund for Agricultural Development, in an aggregate amount of approximately US\$97 million to fund improvement projects. These agreements have not been executed yet.

Free Trade Agreements. In January 2010, Peru and Japan completed the fifth round of negotiations for the Japan-Peru Economic Partnership. In March 2010, the free trade agreement between Peru and the Republic of China became effective. In July 2010, Peru and the European Free Trade Association, or EFTA, entered into a free trade agreement.

Gross Domestic Product and Structure of the Economy

In the six months ended June 30, 2010, GDP grew by 8.2%, compared to 0.3% in the same period in 2009. The sectors that experienced the most significant growth in the first six months of 2010 were construction, manufacture and commerce. The rate of growth in the construction sector during the six months ended June 30, 2010 of 19.2% resulted from increased investment in private and public infrastructure, mainly for homes, offices and commercial malls. Manufacture activity grew 15.8% in the first six months of 2010, as compared to the same period in 2009, mainly due to an increase in consumption related industries, such as clothing and construction. The expansion in commerce was explained by an increase in car sales and maintenance services, an increase in machinery and equipment sales and an increase in sales of supermarkets and department stores. The expansion in the electricity and water sector during the six months ended June 30, 2010 resulted primarily from increased demand of electricity by the private sector (transportation and industry), accompanied by an increase in electricity generation due to higher natural gas production.

Principal Sectors of the Economy

The following table sets forth the distribution of GDP in the Peruvian economy, indicating for each sector its growth rate for the period indicated.

Gross Domestic Product by Sector
(as a percentage of GDP, at constant 1994 prices)

	For the six months ended June 30,	
	2009 ⁽¹⁾	2010 ⁽¹⁾
Primary production:		
Agriculture and livestock ⁽²⁾	8.7%	8.5%
Fishing.....	0.5%	0.4%
Mining and fuel ⁽³⁾	5.6%	4.2%
Total primary production.....	14.9%	14.1%
Secondary production:		
Manufacturing.....	14.3%	14.8%
Construction.....	5.7%	6.3%
Electricity and water.....	2.0%	2.0%
Total secondary production.....	22.0%	23.1%
Services:		
Wholesale and retail trade.....	15.4%	15.6%
Other services ⁽⁴⁾	47.7%	47.2%
Total services	63.1%	62.8%
Total GDP	100.0%	100.0%

(1) Memoria Banco Central de Reserva.

(2) Includes forestry.

(3) Includes non-metallic mining.

(4) Includes taxes on products and import duties.

Source: Central Bank.

Primary Production

Agriculture and Livestock. In the six months ended June 30, 2010, the agriculture and livestock sector grew by 4.6%. The expansion in the agriculture and livestock sector during the six months ended June 30, 2010 was the result of increased production of traditional export products, such as coffee, cacao and asparagus, an increased production of agricultural products for internal consumption, including wheat, onion, banana and lemon and an increased production in the poultry sector due to consumer preference.

Fishing. In the six months ended June 30, 2010, the fishing sector declined by 11.2%, mainly due to a decrease in fish catch for indirect human consumption due to a lower fishing quota for the first fishing season of the year, which was set at 2.5 million tons for 2010, as compared to 3.5 million tons for 2009; and a late fishing season start in 2010 (May 13th as compared to April 20th for the 2009 season). This decrease was partially offset by an increase in the fish catch for direct human consumption, which resulted from the increased demand for canned food including anchovies and increased extraction of giant squid to be used in frozen fish products.

Mining. Peru is a leading producer in Latin America of gold, silver, tin, lead and zinc. Although mining constitutes a small part of the country's GDP, contributing on average 4.2% of GDP during the first six months of 2010, mineral products are Peru's main exports, accounting for 62.7% of total exports by value. During the six months ended June 30, 2010, mining activity decreased 0.4% as a percentage of GDP in comparison to the same period in 2009, primarily due to a decrease in gold and silver extraction, partially offset by a higher production of zinc explained by the start of operations of the Yzcaycruz unit of Minera Los Quenuales. Gold and copper accounted for 23.9% and 25.1% of total exports by value, respectively, during the six months ended June 30, 2010. In addition, copper accounted for 40.0% of total mining exports during such period.

During the first six months of 2010, the average price of copper steadily decreased from an average of US\$3.20 per pound in January 2010 to an average of US\$2.89 per pound in June 2010. The 2011 forecast by the *Comisión Chilena del Cobre*, or the Chilean Copper Commission, estimates that the average price of copper will be US\$2.90 per pound, compared to an average price of US\$2.34 per pound for 2009. Peru's copper production decreased by 2.4% during the first six months of 2010 compared to the same period in 2009. The decrease in Peru's copper production during the six months ended June 30, 2010 was primarily the result of low production volumes in

the first quarter of 2010, which were increased in the second quarter of 2010 amid the recovery of Antamina and Cerro Verde projects production levels.

Between 2005 and 2009, investment in the mining sector totaled approximately US\$8.5 billion, with an average annual investment of approximately US\$1.7 billion. In the six months ended June 30, 2010, investment in the mining sector totaled approximately US\$1.7 billion.

During the six months ended June 30, 2010, the production of zinc increased due to a higher extraction by large and medium sized mining companies, with Volcán Compañía Minera S.A.A., being one of the most representatives. The production of molybdenum increased due to higher extraction by Antamina and Southern Peru Copper and the production of iron also increased due to higher extraction by Shougang Hierro Peru S.A.A.

Hydrocarbons. The hydrocarbons subsector, which includes petroleum and natural gas production, currently constitutes a minor part of the Peruvian economy. The petroleum companies in Peru are oriented towards the exploration and development of oil fields located mainly in Peru's Amazon region. A major part of Peruvian production consists of heavy crude oil that is primarily exported and light crude oil that is used in local refineries. In the six months ended June 30, 2010, the production of hydrocarbons increased by 16.4%, in large part as a result of continued production at existing projects and new projects starting production, including the increased production of liquid hydrocarbons by Pluspetrol Peru Corporation from the block 56 gas field, which began operations in September 2008 in order to supply Peru LNG's liquefaction plant in Pampa Melchorita, and the Cashiriari oil field located in block 88, which began production in July 2009.

Secondary Production

Non-primary manufacturing. Non-primary manufacturing increased 12.2% in the six months ended June 30, 2010, when compared to the same period in 2009, mainly due to an increase in the production of textiles, leather products, rubber and plastic products, iron and steel production, machinery and equipment, metal products, non-metallic chemicals and paper products.

Construction. The construction sector grew by 19.2% in the six months ended June 30, 2010, when compared to the same period in 2009, mainly due to continued public and private investment in housing projects, commercial malls and offices, as well as private and public infrastructure.

Electricity and Water. During the six months ended June 30, 2010, the water and electricity production sector grew by 7.5%, compared to 0.7% for the same period in 2009. This increased rate of growth was explained by an increase of 1.8% and 8.2 % in the water and electricity subsectors, respectively, due to an increase in domestic demand.

Other Services. During the six months ended June 30, 2010, the other services sector grew by 7.0%, compared to 2.7% for the same period in 2009. This increased rate of growth is due to an increase in the transportation, financial and real estate brokerage services, as well as higher levels of activity in the machinery and equipment leasing services, information technology sector and tourism.

Balance of Payments and Foreign Trade

Balance of Payments

The following table provides information, based on period-end exchange rates, regarding Peru's balance of payments for the periods shown.

Balance of Payments
(in millions of U.S. dollars, at current prices)

	For the six months ended June 30,	
	2009	2010
Current account:		
Trade balance: ⁽¹⁾		
Exports (FOB)	11,557	16,031
Imports (FOB)	(9,710)	(12,944)
Trade balance	1,847	3,087
Services, net	(554)	(707)
Of which:		
Net income from tourism ⁽²⁾	440	563
Net income from transportation ⁽³⁾	(489)	(685)
Financial and investment income, net ⁽⁴⁾	(2,937)	(4,609)
Current transfers, net	1,360	1,440
Of which:		
Workers remittances	1,119	1,200
Current account balance	(284)	(789)
Capital account:		
Foreign direct investment	2,797	3,357
Portfolio investment	(71)	3
Other medium and long-term capital ⁽⁵⁾	(334)	180
Of which:		
Disbursements to the public sector	1,278	2,080
Other capital, including short-term capital	(2,458)	167
Capital account balance	(66)	3,707
Errors and omissions ⁽⁶⁾	(15)	(102)
Balance of payments	(366)	2,816
Financing:		
Change in gross Central Bank reserves ⁽⁷⁾	336	(2,819)
Use of IMF resources	0	0
Exceptional financing, net	30	3
Total financing	366	(2,816)
Memorandum item:		
Current account balance (deficit)	(0.5)%	(1.1)%
(as % of GDP)		

(1) Based on customs declarations, records of temporary admissions, free-trade zone imports, grants and other adjustments.

(2) Based on a survey of tourists. Income from tourism represents the total expenditure by a tourist multiplied by the total number of tourists.

(3) Includes freight services, passenger transportation and port expenses of ships and airplanes.

(4) Includes interest payments.

(5) Includes debt amortization payments.

(6) Represents errors and omissions from double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.

(7) Refers to changes in reserves used to finance balance of payments and corresponds to net international reserves excluding the use of IMF resources.

Source: Central Bank.

Trade Balance

In the six months ended June 30, 2010, Peru's current account registered a deficit of US\$0.8 billion, due to higher demand of product and services in response to an increase in economic activity, despite a higher trade surplus and increased remittances from abroad. In the six months ended June 30, 2010, Peru registered a trade balance surplus of US\$3.1 billion, an increase from the US\$1.8 billion registered in the same period in 2009, mainly due to a higher increase in exports than in imports. The government has assumed a trade balance surplus of US\$5.8 billion for 2010.

Public Sector Debt

Domestic Debt

The following table provides a list of Peru's outstanding domestic public sector bonds as of the dates shown:

Public Sector Domestic Bonds⁽¹⁾
(in millions of U.S. dollars, at current prices)

	Principal Amount Outstanding as of December 31, 2009	Principal Amount Outstanding as of June 30, 2010
Central Bank Capitalization bonds	0	0
Financial system support bonds	122	122
Debt exchange bonds	793	690
Pension recognition bonds	3,124	3145
Bonos Soberanos	7,376	8216
Other Bonds	51	45
Total	<u>11,464</u>	<u>12,218</u>

⁽¹⁾ Excludes intra-government debt issued in the form of bonds.
Source: Central Bank.

The Monetary System

Monetary Policy

The inflation rate for the six months ended June 30, 2010 was 1.4% (lower than the Central Bank's target annual inflation rate for the period, which was set between 2.0% and 2.5%). As of September 30, 2010, the inflation rate was 2.03%. The Central Bank's target inflation rate for 2010 is between 2.5% and 3.0%. The Central Bank continues to pursue monetary policies aimed at ensuring that actual inflation remains within the target range. Because of the reduction in inflationary pressure resulting from this more stable price environment, the government believes that the inflation rate will converge to the target rate set by the Central Bank.

During 2010, the Central Bank increased the reference rate up to 3% as of September 30, 2010.

In September 2010, the Central Bank raised the reserve requirements for financial institutions to 8.5%, which as of June 2010 was 6.0% on deposits in both Nuevos Soles and U.S. Dollars.

The following table provides information on interest rates applicable to commercial bank loans on the dates shown.

Interest Rates on Commercial Bank Loans
(annual percentage rates)

	As of December 31 2009	As of June 30, 2010
Domestic Currency:		
Interbank	1.2%	1.6%
Prime ⁽¹⁾	1.7%	2.3%
Average loan rate	19.9%	19.1%
Foreign currency:		
Interbank	0.2%	0.4%
Prime ⁽¹⁾	1.2%	1.6%
Average loan rate	8.6%	8.0%

(1) Considers only the prime rate on loans to the corporate sector.
Source: Central Bank.

Liquidity and Credit Aggregates

The following table presents the composition of the monetary base and international reserves as of the dates shown.

Monetary Base and Central Bank's International Reserves (in millions of U.S. dollars, at current prices)

	As of December 31, 2009	As of June 30, 2010
Currency in circulation and cash in vaults at banks	7,794	8,193
Commercial bank deposits at the Central Bank	174	163
Monetary base	8,148	8,356
Gross international reserves	33,175	35,382
Net international reserves	33,135	35,341

Source: Central Bank.

Net international reserves increased from approximately US\$30.8 billion as of June 30, 2009, to approximately US\$35.3 billion as of June 30, 2010.

The following tables present liquidity and credit aggregates, and changes in selected monetary indicators as of the dates shown.

Liquidity and Credit (in millions of U.S. dollars, at current prices)

	As of June 30, 2010
Monetary aggregates	
Currency in circulation	6,926
M1	12,873
M2	25,232
M3	42,340
Credit by sector⁽¹⁾	
Public sector (Net) ⁽²⁾	(14,394)
Private sector	40,927
Total credit aggregates	26,533
Deposits	
Local currency ⁽³⁾	18,096
Foreign currency ⁽⁴⁾	17,030
Total deposits	35,126

(1) Includes securities offerings and cash advances from checking accounts of depository corporations.

(2) Net claims on public sector of depository corporations.

(3) Includes sight deposits, saving deposits, time deposits and other certificates in domestic currency of depository corporations.

(4) Includes demand deposits, savings deposits and time deposits in foreign currency of depository corporations.

Source: Central Bank.

The 2011 Budget

The 2011 budget was submitted to the Congress of the Republic of Peru on August 30, 2010 and it is expected to be approved in November 2010. The following table summarizes the principal assumptions on which the 2011 budget is based.

Principal Budgetary Assumptions for 2011

Projected real GDP growth.....	5.0%
Projected (cumulative) inflation	2.0%
Projected average exchange rate.....	S/.2.80 per dollar

Source: Ministry of Economy and Finance.

Based on these assumptions, the 2011 budget proposal projects the following:

- fiscal revenues of S/.88.5 billion, or approximately US\$31.6 billion;
- public expenditures of S/.78.5 billion, or approximately US\$28.0 billion; and
- an overall non-financial public sector deficit of US\$4.4 billion, or 1.0% of the projected GDP.

USE OF PROCEEDS

The gross proceeds from the sale of the bonds will be US\$961,640,000. The underwriting fee of US\$1,500,000 will be paid separately by us, as described in “Underwriting”. We intend to use the proceeds of this offering to (i) reimburse to Peru’s Public Treasury (*Tesoro Público*) approximately US\$ 63 million in connection with the financing of the exchange and tender offer of certain global bonds that Peru consummated in April 2010, and (ii) to prefinance a portion of the general financial requirements for the year 2011. See “Recent Developments – Public Sector Debt”.

This offering is not conditioned on the completion of our *Bonos Soberanos* offering. There can be no assurance that the offering of our *Bonos Soberanos* will be completed.

DESCRIPTION OF THE BONDS

We will issue the bonds under Supreme Decree No. 223-2010-EF, or the Supreme Decree, issued in compliance with the requirements set forth in Law No. 28563, as amended (Ley General del Sistema Nacional de Endeudamiento). This prospectus supplement describes the terms of the bonds in greater detail than does the accompanying prospectus and may provide information that adds, updates or changes information contained in the accompanying prospectus. If the information in this prospectus supplement differs from that in the accompanying prospectus, you should rely on the information in this prospectus supplement.

General

We will issue the bonds under a fiscal agency agreement, dated as of February 6, 2003, as amended as of November 21, 2003 and as of October 14, 2004, between us and J.P. Morgan Chase Bank, N.A. (now The Bank of New York Mellon), as fiscal agent, principal paying agent and registrar. The bonds will constitute a single class of securities for all purposes, including, without limitation, for voting purposes under the fiscal agency agreement pursuant to which they will be issued. Unless otherwise specified, references in this section to the “bonds” mean the US\$1,000,000,000 we are offering hereby. The information contained in this section and in the accompanying prospectus summarizes the material terms of the bonds and the fiscal agency agreement. Because this is a summary, it does not contain all of the information that may be important to you as a potential investor in the bonds. Therefore, you should read the fiscal agency agreement and the form of the bonds before making your investment decision. We have filed copies of these documents with the SEC and at the office of the fiscal agent in New York City. Copies of the fiscal agency agreement and the form of the bonds will also be available from the Luxembourg paying agent at its address included on the inside back cover page.

Terms of the Bonds

The bonds will:

- mature at par on November 18, 2050;
- bear interest at 5.625% per year, computed on the basis of a 360-day year of twelve 30-day months;
- pay interest semiannually in arrears in equal installments on May 18 and November 18 of each year, commencing on May 18, 2011;
- not be redeemable before maturity and not be entitled to the benefit of any sinking fund;
- be issued in fully registered form, without coupons, registered in the names of investors or their nominees in denominations of US\$1,000 and integral multiples of US\$1,000 in excess thereof;
- be our direct, general, unconditional, unsubordinated and unsecured external indebtedness and rank equal in right of payment with all of our other existing and future unsecured and unsubordinated external indebtedness;
- be represented by one or more global notes in fully registered form only, without coupons, registered in the name of a nominee of DTC. Beneficial ownership interests will be recorded only on, and transferred only through, the records maintained by DTC and its direct and indirect participants, including the depositaries for Euroclear and Clearstream; and
- be available in definitive form only under certain limited circumstances.

The bonds will contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers that differ from those applicable to much of our outstanding public external indebtedness. Under these provisions, which are commonly referred to as “collective action clauses,” we may, among other things, amend certain key terms of a series of the bonds, including the maturity date, interest rate and other payment terms, with the consent of the holders of not less than 75% of the aggregate principal amount of the outstanding bonds of

that series. Additionally, if an event of default has occurred and is continuing with respect to a series of bonds, the bonds of that series may be declared to be due and payable immediately by holders of not less than 25% of the aggregate principal amount of the outstanding bonds of that series. Those provisions are described in the sections entitled “Description of the Securities—Debt Securities—Collective Action Clauses; Default; Acceleration of Maturity” and “—Amendments and Waivers” in the accompanying prospectus.

Payments of Principal and Interest

We will pay on each bond:

- principal and interest payable on any maturity date in U.S. dollars in immediately available funds to the person in whose name each bond is registered on its maturity date, upon presentation and surrender of the bond at the corporate trust office of the fiscal agent or, subject to applicable laws and regulations, at the office of any paying agent; and
- interest (other than interest payable on any maturity date), to the person in whose name the bond is registered at the close of business on the record date for the relevant interest payment date.

Because each bond will be represented by one or more global notes and beneficial interests in the bonds may not be exchanged for bonds in physically-certificated form except in limited circumstances, we will make payments of principal and interest on each bond by directing the fiscal agent to make a wire transfer of U.S. dollars to DTC or its nominee as the registered owner of the bonds, which will receive the funds for distribution to the beneficial owners. Upon receipt of any payment of principal of or interest on the bonds, DTC will credit the appropriate DTC participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such bonds as shown on the records of DTC. Payments by DTC participants to owners of beneficial interests in bonds held through such participants will be the responsibility of such participants. Each beneficial owner should contact the institution through which it intends to hold its beneficial interest in the bonds to determine how payments of principal or interest on those bonds will be credited to its account.

Neither we, the fiscal agent nor any paying agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

If we do not pay interest by wire transfer for any reason, we will, subject to applicable laws and regulations, mail, or direct the fiscal agent to mail, a check to the holder of the affected bonds, on or before the due date for the payment at the address that appears on the security register maintained by the fiscal agent on the applicable record date.

The record date with respect to any interest payment date will be the 15th day prior to that interest payment date, whether or not that record date is also a business day.

Any payment of principal or interest required to be made on a payment date that is not a business day may be made on the next business day with the same force and effect as if made on that payment date, and no interest will accrue with respect to the payment for the period from and after that payment date.

Pending payment of principal or interest on the bonds that becomes due, the fiscal agent shall hold in trust, for the benefit of the beneficial owners of the bonds, the amounts transferred by us to the fiscal agent for such purpose. Any moneys held by the fiscal agent in respect of the bonds, and remaining unclaimed for two years after such amounts shall have become due and payable must be returned by the fiscal agent to us, and the holders of such bonds, shall thereafter look only to us for any payment to which such holders may be entitled.

We may acquire any of the bonds, in any manner and at any price, and may hold them, resell them, or surrender them to the fiscal agent for cancellation. The bonds we acquire may be re-issued or resold only in compliance with the Securities Act and other applicable laws.

Paying Agent and Transfer Agent

Until the bonds are paid, we will maintain a paying agent and a registrar in New York City. The Bank of New York Mellon will act as our paying agent.

We have applied to admit the bonds for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market. In addition, we will maintain a paying agent and a transfer agent in Luxembourg so long as the bonds are admitted to trading on the Euro MTF Market, and the rules of the Luxembourg Stock Exchange so require. We have initially appointed The Bank of New York Mellon (Luxembourg) S.A. to serve as our Luxembourg paying agent and transfer agent.

We may at any time appoint additional or replacement paying agents, transfer agents and registrars. We will promptly provide notice, as described under “Description of the Bonds—Notices” below, of the termination or appointment of, or of any change in the office of, any paying agent or transfer agent.

You may contact the paying agents or the transfer agents at the addresses listed on the inside back cover page of this prospectus supplement.

Additional Amounts

We will pay all principal and interest on the bonds without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed by Peru, or by any political subdivision of or any taxing authority in Peru. If we are required by law to make any such withholding or deduction, we will pay such additional amounts as may be necessary to ensure that the net amounts you receive after such withholding or deduction shall equal the amount that you would have received in the absence of such withholding or deduction. We will not, however, pay any additional amounts if you are subject to such withholding or deduction due to one of the following reasons:

- you have some connection with Peru other than merely holding bonds or receiving principal or interest on the bonds;
- you have not complied with any reasonable certification, identification or other reporting requirements concerning your nationality, residence, identity or connection with us, or any political subdivision of or taxing authority in Peru, if compliance is required by Peru, or any political subdivision of or taxing authority in Peru, under applicable law or any international treaty in effect, as a precondition to exemption from the deduction or withholding; or
- you have not presented your bonds for payment within 30 days after we first made a principal or interest payment available on that bond, except to the extent that you would have been entitled to such additional amounts on presenting such bond for payment on the last day of such period of 30 days.

Further Issues

Without your consent, we may issue additional debt securities with the same terms and conditions as the outstanding bonds, except for the issue date, issue price and amount of first interest payment, and we may consolidate the additional debt securities to form a single series with the outstanding bonds.

Notices

Notices will be mailed to holders at their registered addresses and will be deemed to have been given on the date of mailing. All notices to holders will be published, if and so long as the bonds are admitted for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market of the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require, in a daily newspaper of general circulation in Luxembourg or on the website of the Luxembourg Stock Exchange (www.bourse.lu). We expect that we will initially make such publication in the Luxemburger Wort. If publication is not practicable, notices will be validly given if in accordance with the rules of the Luxembourg Stock Exchange.

Book-Entry, Delivery and Form

The certificates representing the bonds will be issued in the form of one or more global notes, which we refer to in this prospectus supplement as the “global notes”. Each global note will be deposited with or on behalf of DTC and registered in the name of DTC or its nominee. Except as described below, a global note may be transferred in whole and not in part and only to DTC or its other nominees.

Ownership of beneficial interests in the global notes will be limited to “participants” who have accounts with DTC or persons who hold interests through participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee with respect to interests of participants and the records of participants with respect to interests of persons other than participants.

So long as DTC, or its nominee, is the registered owner or holder of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the bonds represented by the global notes for all purposes under the fiscal agency agreement and the bonds. No beneficial owner of an interest in any global note may transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the fiscal agency agreement and, if applicable, those of Euroclear and Clearstream. Payments of the principal of, and interest on, the global notes will be made to DTC or its nominee, as the case may be, as the registered owner of the global notes.

Definitive Securities

We will issue bonds in definitive form in exchange for global notes only if:

- we notify the depositary that it will no longer be the depositary for the bonds, the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary or is ineligible to act as depositary, and, if the depositary is located in the United States, we do not appoint a successor depositary within 90 days;
- the depositary is located outside the United States and such depositary closes for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- we determine not to have any of the bonds represented by a global note.

If we issue definitive securities, they will have the same terms and authorized denominations as the global note. You may present definitive securities for transfer or exchange at the corporate trust office of the fiscal agent in New York City, or at the office of any paying agent, according to the procedures in the fiscal agency agreement. When you surrender a definitive security for transfer or exchange, the fiscal agent will authenticate and deliver to you a security or securities of the appropriate form and denomination and of the same aggregate principal amount as the security you are surrendering.

If any definitive security becomes mutilated, destroyed, lost or stolen you can have it replaced by delivering the security or the evidence of its loss, theft or destruction to the fiscal agent or the Luxembourg paying and transfer agent. You will be required to indemnify the fiscal agent and us before any replacement definitive security will be issued. All expenses, including our and the fiscal agent’s reasonable legal fees and expenses, associated with obtaining such indemnity and in issuing the new definitive security will be borne by the owner of the mutilated, destroyed, lost or stolen, definitive security. Upon satisfaction of the foregoing conditions, you will receive from the fiscal agent or the Luxembourg transfer agent a replacement definitive security.

The fiscal agent may require you to pay a fee sufficient to cover any stamp or other tax or governmental charge required to be paid with any transfer, exchange or negotiation.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR UNITED STATES PERSONS

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of the bonds as of the date hereof. Except where noted, this summary deals only with bonds that are held as capital assets (generally, held for investment) by a U.S. Holder (as defined below) who acquired the bonds upon original issuance at their initial offering price.

A “U.S. Holder” means a beneficial owner of the bonds that is for United States federal income tax purposes any of the following:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions all as in effect on the date hereof. Those authorities may be changed, perhaps retroactively, or subject to different interpretation, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of United States federal income taxes and does not deal with foreign, state, or local or other tax considerations that may be relevant to U.S. Holders in light of their personal circumstances. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for United States federal income tax purposes, tax-exempt entities or insurance companies;
- tax consequences to persons holding the bonds as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to holders of the bonds whose “functional currency” is not the United States dollar; or
- alternative minimum, estate or gift tax consequences, if any.

If a partnership (or other entity or arrangement treated as a partnership for United States federal income tax purposes) holds the bonds, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the bonds, you should consult your own independent tax advisors.

If you are considering the purchase of the bonds, you should consult your own independent tax advisors concerning the particular United States federal tax consequences to you of the ownership of the bonds, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

Payments of Interest

Interest (including additional amounts, if any) on a bond will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. Interest income on a bond (including any additional amounts) generally will constitute foreign source income and for purposes of the U.S. foreign tax credit, generally will be considered “passive category income.” You may be entitled to deduct or credit any foreign income taxes withheld from the interest payments you receive, subject to certain limitations (including that the election to deduct or credit foreign income taxes applies to all of your foreign income taxes for a particular tax year). You will generally be denied a foreign tax credit for any foreign income taxes imposed with respect to the bonds where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange, Retirement or other Taxable Disposition of Bonds

Upon the sale, exchange, retirement or other taxable disposition of a bond, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other taxable disposition of the bond (less an amount equal to any accrued and unpaid interest, which will be taxable as interest income to the extent not previously included in income) and your tax basis in the bond. Your tax basis in a bond will, in general, be your U.S. dollar cost for that bond. Your gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other taxable disposition, you have held the bond for more than one year. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by you on the sale, exchange, retirement or other taxable disposition of a bond would generally be treated as U.S. source gain or loss.

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments we make to you and the proceeds from a sale of a bond paid to you, unless you are an exempt recipient. Additionally, if you fail to provide your taxpayer identification number, or in the case of interest payments, fail either to report in full dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

EU Directive on the Taxation of Savings Income

Under Council Directive 2003/48/EC (the “Directive”) on the taxation of savings income in the form of interest payments, each member state of the EU (each an “**EU Member State**”) is required to provide to the tax or other relevant authorities of another EU Member State details of payments of interest or other similar income made by a person within its jurisdiction to an individual or certain other types of person resident in that other EU Member State; however, for a transitional period, Austria and Luxembourg have instead opted to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%, unless during that period they elect otherwise. The transitional period is to terminate following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries, and certain dependent or associated territories of certain EU Member States, have agreed to adopt similar measures (either provision of information or transitional withholding).

The European Commission has published proposals for amendments to the Directive, which, if implemented, would amend and broaden the scope of the requirements above.

PERU TAXATION

The following is a general summary of the material consequences under Peruvian tax law, as currently in effect, of an investment by a “foreign holder” in debt securities issued by Peru. For this purpose, “foreign holder” means either: (i) an individual who is neither a resident nor domiciled in Peru or (ii) a legal entity that is not incorporated under the laws of Peru, unless the debt securities are assigned to a branch, agent, representative or permanent establishment of an entity in Peru. For purposes of Peruvian taxation, an individual holder is deemed a resident of Peru if he or she has remained in Peru for more than 183 days within any 12-month period.

Peruvian income tax law establishes that a foreign holder is subject to income tax only on income from Peruvian sources. For this purpose, income from a Peruvian source means: (i) earnings from capital, interest, commissions, bonuses and other additional sums to the agreed interest for loans, credits or other financial operations, when capital is located or economically used in Peru, or when the payer is domiciled in Peru; (ii) earnings obtained by the sale, redemption or recovery of bonds, when the issuing entity is organized or established in Peru; and (iii) interest from debentures, when the issuing entity is organized in Peru, regardless of the location of the issuance or the security for such debentures. A foreign holder of debt securities generally will not be liable for estate, gift, inheritance or similar taxes with respect to such debt securities.

Under Peruvian income tax law, as of January 1, 2010, interest and capital gains from bonds issued by the Republic of Peru either (i) under Supreme Decree 007-2002-EF; or (ii) under the Market Makers Program or under any substitute mechanism that may replace it; or (iii) in the international market from 2002 onwards will not be subject to any withholding tax or income tax.

According to the paragraph above, under Peruvian income tax law, interest and capital gains from the bonds will not be subject to any withholding tax or income tax.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated are acting as underwriters of the offering.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of bonds set forth opposite the underwriter's name.

Underwriter	Principal Amount of Bonds
Merrill Lynch, Pierce, Fenner & Smith Incorporated	US\$500,000,000
Morgan Stanley & Co. Incorporated	<u>US\$500,000,000</u>
Total.....	US\$1,000,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the bonds included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the bonds if they purchase any of the bonds.

The underwriters have advised Peru that they propose to first offer the bonds to the public at the public offering price set forth on the cover page of this prospectus supplement. After this first public offering, the public offering price may be changed.

The following table shows the underwriting fee that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the bonds).

	Paid by Peru
Per bond	<u>0.15%</u>

In connection with the offering, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated may purchase and sell bonds in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of bonds in excess of the principal amount of bonds to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the bonds in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of bonds made for the purpose of preventing or retarding a decline in the market price of the bonds while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, in covering syndicate short positions or making stabilizing purchases, repurchase bonds originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the bonds. They may also cause the price of the bonds to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

In the underwriting agreement we have agreed to reimburse the underwriters for certain of their out-of-pocket expenses incurred on our behalf in connection with the offering, if any. We estimate that our share of the total expenses of the offering, excluding underwriting fee, will be approximately US\$200,000.

In the underwriting agreement we have also agreed, from the date of this prospectus supplement through the period ending 15 days after the settlement date, to ensure that no other of our dollar-denominated debt securities

(other than debt securities with a maturity of one year or less) are placed or sold in the international capital markets, directly or indirectly on our behalf, in any manner which might, in the reasonable opinion of the underwriters, have a detrimental effect on the successful offering and distribution of the bonds offered hereby, unless the underwriters otherwise agree in writing.

The underwriters and their affiliates have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities, as further described in the underwriting agreement.

European Economic Area

This prospectus supplement has been prepared on the basis that all offers of bonds will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the European Economic Area (“EEA”), from the requirement to produce a prospectus for offers of securities. Accordingly any person making or intending to make any offer within the EEA of bonds which are the subject of the placement contemplated in this prospectus supplement should only do so in circumstances in which no obligation arises for Peru or any of the underwriters to produce a prospectus for such offer. Neither Peru nor the underwriters have authorized, nor do they authorize, the making of any offer of bonds through any financial intermediary, other than offers made by underwriters which constitute the final placement of bonds contemplated in this prospectus supplement.

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a “Relevant Member State”), an offer to the public of any bonds may not be made in that Relevant Member State except under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining prior consent of the relevant representatives of any such offer; or
- in any other circumstances which do not require the publication by Peru of a prospectus pursuant to Article 3(2) of the Prospectus Directive.

For the purposes of this section, the expression an “offer of bonds to the public” in relation to any bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the bonds to be offered so as to enable an investor to decide to purchase or subscribe to the bonds, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Peru

The offer of the bonds, this prospectus supplement and the bonds have not been, and will not be, registered with the *Comisión Nacional Supervisora de Empresas y Valores* (the Peruvian Securities and Exchange Commission). The offer of the bonds in Peru is not considered a public offering and will not be launched in Peru except in circumstances which do not constitute a public offering or distribution under Peruvian laws and regulations. This notice is for informative purposes and it does not constitute a public offering of any kind.

United Kingdom

This prospectus supplement is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any bonds may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This prospectus supplement is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus supplement relates is available only to relevant persons and will be engaged in only with relevant persons.

Each underwriter has represented, warranted and agreed that:

- it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activities (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) received by it in connection with the issue or sale of bonds in circumstances in which Peru is not subject to the provisions of Section 21(1) of the FSMA; and
- it has complied and will comply with all applicable FSMA provisions with respect to anything done by it in relation to the bonds in or from the United Kingdom or otherwise involving the United Kingdom.

VALIDITY OF THE BONDS

Hernández & Cía Abogados, Peruvian counsel to Peru, and Simpson Thacher & Bartlett LLP, New York, United States counsel to Peru will pass upon the validity of the bonds for Peru. Shearman & Sterling LLP, New York, United States counsel to the underwriters, will pass upon certain United States legal matters for the underwriters and Rubio Leguía Normand, Peruvian counsel to the underwriters, will pass upon certain Peruvian legal matters for the underwriters.

As to all matters of Peruvian law, Simpson Thacher & Bartlett LLP may rely on the opinion of Hernández & Cía Abogados. As to all matters of United States and New York law, Hernández & Cía Abogados may rely on the opinion of Simpson Thacher & Bartlett LLP. As to all matters of Peruvian law, Shearman & Sterling LLP may rely on the opinion of Rubio Leguía Normand. As to all matters of United States and New York law, Rubio Leguía Normand may rely on the opinion of Shearman & Sterling LLP.

GENERAL INFORMATION

Authorization

We have obtained, or will obtain before the issue date, all consents and authorizations that are necessary under Peruvian law for:

- the issuance of the bonds; and
- the performance of our obligations under the bonds and the fiscal agency agreement.

In particular, we have obtained the Supreme Decree No. 223-2010-EF authorizing the issuance of the bonds, published on November 7, 2010 and the Ministerial Resolution No. 579-2010-EF/75 authorizing this prospectus supplement and certain agreements relating to the issuance of the bonds, published on November 7, 2010.

Clearing

We have applied to have the bonds accepted into DTC's book-entry settlement system. Euroclear and Clearstream have accepted the bonds for clearance through their clearance systems. The clearing reference codes for the bonds are:

CUSIP	ISIN	Common Code
715638 BM3	US715638BM30	055999333

Luxembourg

This prospectus supplement, the accompanying prospectus, the fiscal agency agreement and the form of the bonds will be available, free of charge, from the Luxembourg paying agent at its address included on the inside back cover page to this prospectus supplement.

Where You Can Find More Information

We have filed with the SEC a registration statement under the Securities Act covering the bonds. This prospectus supplement and the accompanying prospectus do not contain all of the information included in the registration statement. Any statement made in this prospectus supplement or the accompanying prospectus concerning the contents of any contract, agreement or other document is not necessarily complete. If we have filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

You may read and copy the registration statement, including its various exhibits, and any reports, statements or other information that we have filed at the SEC's public reference room in Washington, D.C. You can request copies of these documents, upon payment of a duplicating fee, by writing the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our filings with the SEC are also available through the SEC's Internet site at <http://www.sec.gov>.

Except as disclosed in this prospectus supplement, since June 30, 2010, there has been no material adverse change in the revenues or expenditures, or financial position, of Peru.

Medium- and Long-Term External Public Indebtedness
As of June 30, 2010⁽¹⁾
(in thousands of US\$)

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	13,672	6 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	6,443	6 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	454	2 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	2,188	4 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,719	6 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	2,665	6 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	774	6 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	516	6 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	3,048	7 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	4,954	3 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,362	10 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	4,902	24 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	10,161	14 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	6,723	14 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	11,908	5 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	5,006	25 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	4,092	15 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	15,481	15 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	2,659	26 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	21,730	27 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	21,640	17 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	5,818	28 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,741	20 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.10	10,667	8 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.10	11,576	9 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	5,741	29 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	2,746	19 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	8,491	29 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	7,852	19 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	8,394	19 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	11,565	19 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	3,927	20 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	9,273	20 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	10,913	30 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	6,095	20 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	4,456	21 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,313	23 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	5,451	23 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	6,252	25 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	1,363	25 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	2,211	25 Y
Paris Club	Germany	KFW	US\$	Fixed	0.00	5.20	14,153	8 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,323	27 Y
Paris Club	Germany	KFW	US\$	Fixed	0.00	5.25	15,313	9 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	617	27 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,627	27 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	417	28 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.64	47,685	13 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.38	18,341	14 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.77	18,341	12 Y
Paris Club	Belgium	Belgium	EURO	Fixed	2.00	0.00	31	1 Y
Paris Club	Belgium	Belgium	EURO	Fixed	2.00	0.00	18	1 Y
Paris Club	Belgium	Belgium	EURO	Fixed	2.00	0.00	73	1 Y
Paris Club	Belgium	Belgium	EURO	Fixed	2.00	0.00	24	1 Y
Paris Club	Belgium	Belgium	EURO	Fixed	2.00	0.00	300	3 Y
Paris Club	Belgium	Belgium	EURO	Fixed	2.00	0.00	155	3 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
Paris Club	Belgium	Belgium	EURO	0.00%	0.00	0.00	1,541	5 Y
Paris Club	Belgium	Belgium	EURO	0.00%	0.00	0.00	2,225	8 Y
Paris Club	Belgium	Belgium	EURO	0.00%	0.00	0.00	1,876	9 Y
Paris Club	Spain	Instituto de Crédito Oficial de España (ICO)	US\$	Fixed	0.00	2.65	15,169	4 Y
Paris Club	United States	Agency for International Development	US\$	Fixed	0.00	3.00	716	4 Y
Paris Club	United States	Agency for International Development	US\$	Fixed	0.00	3.00	730	4 Y
Paris Club	United States	Paine Webber	US\$	26-week U.S. Treasury bond rate	0.35	Variable	3,081	5 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	1,176	10 M
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	1,854	2 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	2,788	3 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	3.26	7,375	8 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	3.26	4,058	9 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	7,261	19 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	2.50	3,365	21 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	8,205	22 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	8,527	23 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	5,736	25 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	8,930	27 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	184	4 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	2,365	5 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	5,640	6 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	3.26	8,572	5 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	3,607	4 Y
Paris Club	France	Banco Bilbao Vizcaya Argentaria S.A.	EURO	Commercial Interest Reference Rate	0.00	Variable	3,620	10 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	6,011	5 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	1,741	5 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	6,055	8 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	3,526	8 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	18,828	9 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.50	0	9 M
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.50	3	1 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.50	5	2 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.50	5	3 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	4.00	2,837	7 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.00	207	15 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.00	7,490	15 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.40	2,893	11 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
Paris Club	France	French Treasury	EURO	Fixed	0.00	3.40	2,622	10 Y
Paris Club	France	French Treasury	EURO	Fixed	0.00	0.80	6,274	23 Y
Paris Club	Italy	Artigiancassa Spa	EURO	Fixed	0.00	1.50	608	2 Y
Paris Club	Italy	Artigiancassa Spa	EURO	Fixed	0.00	1.50	2,250	3 Y
Paris Club	Italy	Artigiancassa Spa	EURO	Fixed	0.00	1.50	4,343	3 Y
Paris Club	Japan	Government of Japan	¥	Fixed	0.00	3.00	584	7 M
Paris Club	Japan	Government of Japan	¥	Fixed	0.00	0.17	21,369	8 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	5.60	14,174	5 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	3.50	6,183	5 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	3.50	46,746	5 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	5.60	23,321	8 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	5.60	92,506	9 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.20	37,526	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.15	9,417	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	9,852	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.30	4,843	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.95	5,981	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	3,996	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.55	9,948	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	9,896	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.70	9,146	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.80	9,827	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	9,724	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.50	7,255	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.50	11,778	10 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.10	180,910	7 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	346,544	12 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	87,515	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	4.10	27,121	5 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	17,153	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	6,194	17 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	74,329	17 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.50	74,974	12 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.10	9,293	12 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	181,096	12 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	28,449	12 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	105,718	12 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	9,156	12 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	39,003	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	3,326	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.50	22,189	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	22,109	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.50	22,330	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	58,067	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	12,105	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	4.10	32,545	8 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	4.10	70,245	9 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	21,452	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	2,007	30 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	39,706	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	49,425	30 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	16,698	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.20	48,199	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	8,168	30 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.20	110,256	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	29,456	30 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	38,742	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	2,793	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	21,967	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	6,286	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	852	32 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	320	32 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	174,845	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	37,211	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.20	63,234	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	628	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.50	22,961	22 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.01	5,525	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.01	4,153	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.01	479	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.01	3,075	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.01	3,799	25 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.40	105,023	26 Y
Paris Club	The Netherlands	Nederlandse Investeringsbank Voor Ontwikkelingslande (NIO)	EURO	Fixed	0.00	0.75	1,209	19 Y
Paris Club	The Netherlands	Nederlandse Investeringsbank Voor Ontwikkelingslande (NIO)	EURO	Fixed	0.00	0.75	4,205	17 Y
Paris Club	The Netherlands	Nederlandse Investeringsbank Voor Ontwikkelingslande (NIO)	EURO	Fixed	0.00	2.50	2,533	8 Y
International Organizations	1.8061	European Investment Bank	US\$	Fixed	0.00	6.73	15,334	6 Y
International Organizations	1.8061	European Investment Bank	US\$	Fixed	0.00	7.06	964	6 Y
International Organizations	5-CD-PE	Inter-American Development Bank	CAN\$	No interest	0.00	0.00	28	9 Y
International Organizations	852-2-OC-PE	Inter-American Development Bank	US\$	6-month Libor for US\$	0.00	Variable	3,575	6 Y
International Organizations	958-SF-PE	Inter-American Development Bank	US\$	Fixed	0.00	2.00	16,848	16 Y
International Organizations	1128-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	18,409	14 Y
International Organizations	1137-OC-PE	Inter-American Development Bank	US\$	6-month Libor for US\$	0.00	Variable	114,796	10 Y
International Organizations	1421-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	66,397	18 Y
International Organizations	1461-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	36,141	19 Y
International Organizations	1461-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	6,809	19 Y
International Organizations	1449-OC-PE/PPF	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	375	3 Y
International Organizations	1437-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	9,117	14 Y
International Organizations	1437-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	4,766	14 Y
International Organizations	1482-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	1,140	14 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
International Organizations	1501-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	38,703	20 Y
International Organizations	1534-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	14,443	19 Y
International Organizations	1539-OC-PE/PPF	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	343	8 M
International Organizations	1591-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	6,382	15 Y
International Organizations	1586-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	9,646	15 Y
International Organizations	1601-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	4,638	15 Y
International Organizations	1647-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	14,531	16 Y
International Organizations	1696-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	2,151	16 Y
International Organizations	1657-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	9,716	17 Y
International Organizations	1663-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	14,576	22 Y
International Organizations	1805-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	35,000	17 Y
International Organizations	1805-OC-PE	Inter-American Development Bank	S/.	Local currency facility	0.95	6.48	52,635	10 Y
International Organizations	1805-OC-PE	Inter-American Development Bank	S/.	Local currency facility	0.95	6.69	85,159	10 Y
International Organizations	1805-OC-PE	Inter-American Development Bank	S/.	Local currency facility	0.95	6.14	30,096	10 Y
International Organizations	1810-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	36,652	18 Y
International Organizations	1827-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	20,600	18 Y
International Organizations	1899-OC-PE/PPF	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	539	2 Y
International Organizations	1836-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	839	18 Y
International Organizations	1915-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.50	Variable	47,735	24 Y
International Organizations	2045-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	2,500	19 Y
International Organizations	1442/OC-PE-1	Inter-American Development Bank	US\$	Fixed	0.95	4.59	1,273,434	18 Y
International Organizations	906/OC-PE-1	Inter-American Development Bank	US\$	Fixed	0.95	4.03	451,301	11 Y
International Organizations	1878/OC-PE-1	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	1,265,000	19 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
International Organizations	720/SF-PE-1	Inter-American Development Bank	US\$	Fixed	0.00	2.00	2,701	4 Y
International Organizations	720/SF-PE-1	Inter-American Development Bank	US\$	Fixed	0.00	2.00	2,335	4 Y
International Organizations	720/SF-PE-1	Inter-American Development Bank	¥	Fixed	0.00	2.00	745	3 Y
International Organizations	720/SF-PE-1	Inter-American Development Bank	£	Fixed	0.00	2.00	141	10 M
International Organizations	720/SF-PE-1	Inter-American Development Bank	EURO	Fixed	0.00	2.00	1,018	4 Y
International Organizations	720/SF-PE-1	Inter-American Development Bank	SFR	Fixed	0.00	2.00	128	4 Y
International Organizations	720/SF-PE-1	Inter-American Development Bank	CAN\$	Fixed	0.00	2.00	36	10 M
International Organizations	2157-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	10,000	20 Y
International Organizations	2160-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	20,000	20 Y
International Organizations	2092-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	750	20 Y
International Organizations	2118-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	150,000	20 Y
International Organizations	2218-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	20,000	20 Y
International Organizations	2234-OC-PE	Inter-American Development Bank	US\$	Single currency facility-adjustable rate	0.95	Variable	50,000	20 Y
International Organizations	CFA-1408	Andean Development Corporation	US\$	6-month Libor for US\$	3.10	Variable	15,625	11 M
International Organizations	CFA-1593	Andean Development Corporation	US\$	6-month Libor for US\$	3.50	Variable	100,000	4 Y
International Organizations	CFA-1902	Andean Development Corporation	US\$	6-month Libor for US\$	3.75	Variable	76,190	5 Y
International Organizations	CFA-3014-15-16	Andean Development Corporation	US\$	6-month Libor for US\$	3.25	Variable	173,040	8 Y
International Organizations	CFA-3241	Andean Development Corporation	US\$	6-month Libor for US\$	2.90	Variable	77,000	11 Y
International Organizations	CFA-3525	Andean Development Corporation	US\$	6-month Libor for US\$	1.50	Variable	9,228	9 Y
International Organizations	CFA-3572	Andean Development Corporation	US\$	6-month Libor for US\$	0.60	Variable	14,532	12 Y
International Organizations	CFA-3804	Andean Development Corporation	US\$	6-month Libor for US\$	1.00	Variable	830	6 Y
International Organizations	CFA-004495/4496	Andean Development Corporation	US\$	6-month Libor for US\$	0.20	Variable	250,000	16 Y
International Organizations	CFA-4579/4580	Andean Development Corporation	US\$	6-month Libor for US\$	0.20	Variable	150,000	17 Y
International Organizations	CFA-5094/5096	Andean Development Corporation	US\$	6-month Libor for US\$	1.90	Variable	149,681	17 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
International Organizations	CFA-05129	Andean Development Corporation	US\$	6-month Libor for US\$	1.35	Variable	297,152	16 Y
International Organizations	CFA-6141	Andean Development Corporation	US\$	6-month Libor for US\$	2.40	Variable	77,783	19 Y
International Organizations	3540-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	5,674	4 Y
International Organizations	3437-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	85,474	4 Y
International Organizations	3489-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	110,918	4 Y
International Organizations	3452-S PE	International Bank For Reconstruction and Development	S/POOL	Single currency basket rate	0.50	Variable	72,524	3 Y
International Organizations	3595-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	39,975	4 Y
International Organizations	3610-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	2,971	4 Y
International Organizations	3684-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	29,251	4 Y
International Organizations	3717-A PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	28,809	5 Y
International Organizations	3717-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.92	25,116	5 Y
International Organizations	3701-A PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	8,808	5 Y
International Organizations	3701-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.92	3,550	5 Y
International Organizations	3810-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.92	35,732	5 Y
International Organizations	3811-A PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	53,454	5 Y
International Organizations	3811-S PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.92	7,863	5 Y
International Organizations	3962-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	18,047	3 Y
International Organizations	3826-A PE	International Bank For Reconstruction and Development	S/POOL	6-month Libor for US\$	0.50	Variable	18,718	3 Y
International Organizations	3826-S PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	2.49	1,309	3 Y
International Organizations	4068-A PE	International Bank For Reconstruction and Development	S/POOL	6-month Libor for US\$	0.50	Variable	31,063	4 Y
International Organizations	4068-S PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	2.49	5,021	4 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
International Organizations	4076-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	29,167	4 Y
International Organizations	4133-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	61,000	5 Y
International Organizations	4130-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	17,914	5 Y
International Organizations	4250-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	27,673	6 Y
International Organizations	4384-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.01	Variable	16,515	6 Y
International Organizations	4497-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	150,000	7 Y
International Organizations	4519-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	4,699	8 Y
International Organizations	4536-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	546	8 Y
International Organizations	4527-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	15,750	8 Y
International Organizations	4615-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	70,845	9 Y
International Organizations	4614-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	33,972	9 Y
International Organizations	7142-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	31,537	7 Y
International Organizations	4678-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	79,175	10 Y
International Organizations	7177-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	17,860	8 Y
International Organizations	7176-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	28,980	8 Y
International Organizations	7200-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.11	150,000	8 Y
International Organizations	7203-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.13	150,000	8 Y
International Organizations	7209-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	36,116	14 Y
International Organizations	7160-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	18,000	10 Y
International Organizations	7219-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	11,772	9 Y
International Organizations	7267-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.14	100,000	9 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
International Organizations	7255-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	6,102	9 Y
International Organizations	7266-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.13	100,000	9 Y
International Organizations	7254-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	6,633	9 Y
International Organizations	7257-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	2,058	9 Y
International Organizations	7257-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	400	9 Y
International Organizations	7285-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	23,449	10 Y
International Organizations	7308-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	10,241	10 Y
International Organizations	7345-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	150,000	8 Y
International Organizations	7322-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	10,132	10 Y
International Organizations	7366-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	39,430	8 Y
International Organizations	7368-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	13,285	8 Y
International Organizations	7423-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	37,302	9 Y
International Organizations	7419-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	200,000	9 Y
International Organizations	7443-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	3,000	9 Y
International Organizations	7455-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.50	Variable	150,000	14 Y
International Organizations	7588-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	70,000	20 Y
International Organizations	7588-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	1.05	Variable	150,000	20 Y
International Organizations	7674-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	20,000	21 Y
International Organizations	7668-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	20,000	21 Y
International Organizations	7799-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	150,000	21 Y
International Organizations	7810-O PE	International Bank For Reconstruction and Development	US\$	6-month Libor for US\$	0.75	Variable	50,000	20 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate	Outstanding Amount as of June 30, 2010	Maturity
International Organizations	297-PE	International Fund For Agricultural Development	DEG	Fixed	0.00	4.00	2,297	3 Y
International Organizations	386-PE	International Fund For Agricultural Development	DEG	IFAD rate	0.50	Variable	4,473	6 Y
International Organizations	467-PE	International Fund For Agricultural Development	DEG	IFAD rate	0.50	Variable	9,488	7 Y
International Organizations	602-PE	International Fund For Agricultural Development	DEG	IFAD rate	0.50	Variable	12,910	10 Y
International Organizations	744-PE	International Fund For Agricultural Development	DEG	IFAD rate	0.50	Variable	1,419	7 Y
International Organizations		Nordic Investment Bank	US\$	6-month Libor for US\$	0.85	Variable	10,000	7 Y
International Organizations	630-PE	The Opec Fund For International Development	US\$	Fixed	0.00	3.75	625	2 Y
International Organizations	696-PE	The Opec Fund For International Development	US\$	Fixed	0.00	4.00	1,667	5 Y
International Organizations	755-PE	The Opec Fund For International Development	US\$	Fixed	0.00	4.00	1,833	6 Y
Latin American Countries	Venezuela	Banco de Desarrollo Económico y Social de Venezuela	US\$	6-month Libor for US\$	0.75	Variable	8,306	7 Y
Latin American Countries	Chile	Corporación de Fomento de la Producción	US\$	Fixed	0.00	4.25	1,114	5 Y
East Europe and China	China	China Development Bank	US\$	6-month Libor for US\$	0.461	Variable	10,000	5 Y
East Europe and China	China	Government of China	US\$	Sin Intereses	0.00	0.00	630	1 Y
East Europe and China	China	Government of China	US\$	Sin Intereses	0.00	0.00	1,000	7 M
Commercial Banks		Standard Chartered Bank	US\$	6-month Libor for US\$	1.75	Variable	135,000	4 Y
Suppliers	Italia	Ansaldo Energia S.p.a.	US\$	6-month Libor for US\$	2.00	Variable	3,206	8 Y
Suppliers	Italia	Armamenti e Aerospazio S.P.A.	US\$	Fixed	0.00	5.0268275	19,982	11 Y
Suppliers	Italia	Armamenti e Aerospazio S.P.A.	US\$	Fixed	0.00	5.0268275	12,203	11 Y
Bonds		Par Bonds	US\$	Multiple rate	0.00	Variable	53,674	18 Y
Bonds		Global Bonds 2012	US\$	Fixed	0.00	9.125	312,172	3 Y
Bonds		Global Bonds 2015	US\$	Fixed	0.00	9.875	28,392	6 Y
Bonds		Global Bonds 2015	US\$	Fixed	0.00	9.875	250,000	6 Y
Bonds		Global Bonds 2033	US\$	Fixed	0.00	8.750	500,000	24 Y
Bonds		Global Bonds 2016	US\$	Fixed	0.00	8.375	500,000	7 Y
Bonds		Global Bonds 2014	EURO	Fixed	0.00	7.500	355,466	5 Y
Bonds		Global Bonds 2033	US\$	Fixed	0.00	8.750	400,000	24 Y
Bonds		Global Bonds 2025	US\$	Fixed	0.00	7.350	750,000	16 Y
Bonds		Global Bonds 2025	US\$	Fixed	0.00	7.350	500,000	16 Y
Bonds		Global Bonds 2016	US\$	Fixed	0.00	8.375	81,211	7 Y
Bonds		Global Bonds 2033	US\$	Fixed	0.00	8.750	84,636	24 Y
Bonds		Global Bonds 2037	US\$	Fixed	0.00	6.550	1,201,667	28 Y
Bonds		Global Bonds 2019	US\$	Fixed	0.00	7.125	1,000,000	10 Y
Bonds		Global Bonds 2025	US\$	Fixed	0.00	7.350	1,000,000	16 Y
Bonds		Global Bonds 2033	US\$	Fixed	0.00	8.750	1,260,803	24 Y

Abbreviations and symbols:

CAN\$	= Canadian dollar
DEG	= Special Drawing Rights (<i>Derechos Especiales de Giro</i>)
£	= English pound
SFR	= Swiss franc
S/POOL	= Single currency pool (World Bank unit of account, based on a basket of national currencies)
S/.	= Peruvian nuevo sol
US\$	= United States dollar
¥	= Japanese Yen
(1)	Includes COFIDE loans not guaranteed by Peru

PROSPECTUS



The Republic of Peru

Debt Securities Warrants Units

Peru may from time to time offer and sell its debt securities, warrants and units in amounts, at prices and on terms to be determined at the time of sale and provided in one or more supplements to this prospectus. Peru may offer securities with an aggregate principal amount of up to US\$5,000,000,000 (or its equivalent in other currencies). The debt securities will be direct, general, unconditional, unsubordinated and unsecured obligations of Peru. Peru has pledged its full faith and credit to make all payments on the debt securities when due. The debt securities will rank equally, without any preference among themselves, with all other existing and future unsecured and unsubordinated external indebtedness of Peru.

Peru will provide specific terms of the securities in one or more supplements to this prospectus. This prospectus may not be used to make offers or sales of securities unless accompanied by a prospectus supplement.

Peru may sell the securities directly, through agents designated from time to time or through underwriters or dealers. The names of any agents or underwriters will be provided in the applicable prospectus supplement.

You should read this prospectus and any prospectus supplements carefully before you invest. You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. Peru has not authorized anyone to provide you with different or additional information. You should not assume that the information in this prospectus, any prospectus supplement or any document incorporated by reference in them is accurate as of any date other than the date on the front of those documents.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 9, 2010.

You should rely only on the information contained in this prospectus or the information to which Peru has referred you. Peru has not authorized anyone to provide you with different information. Peru is not making an offer of these securities in any jurisdiction where the offer is not permitted. This prospectus may be used only where it is legal to sell these securities. The information in this document may be accurate only on the date of this document.

TABLE OF CONTENTS

About this Prospectus	i
Defined Terms and Conventions	ii
Forward-Looking Statements	iii
Data Dissemination	iv
Summary	1
Use of Proceeds	9
The Republic of Peru	10
The Economy	24
Balance of Payments and Foreign Trade	54
The Monetary System	69
Public Sector Finances	90
Public Sector Debt	102
Description of the Securities	117
Taxation	132
Plan of Distribution	138
Official Statements	140
Validity of the Securities	140
Authorized Representative	140
Where You Can Find More Information	140
Tables and Other Supplemental Information	A-1

ABOUT THIS PROSPECTUS

This prospectus provides you with a general description of the securities that Peru may offer under the “shelf” registration statement it has filed with the SEC. Each time Peru sells some of the securities pursuant to that registration statement, it will provide a prospectus supplement that will contain specific information about the terms of that offering. A prospectus supplement may also add, update or change information contained in this prospectus. If the information in this prospectus differs from that in any prospectus supplement, you should rely on the updated information in the prospectus supplement. You should read both this prospectus and the accompanying prospectus supplement, together with additional information described under the heading “Where You Can Find More Information”.

DEFINED TERMS AND CONVENTIONS

Defined Terms

References in this prospectus to “we,” “us,” “our” and “Peru” are to the Republic of Peru. All references in this prospectus to the “government” are to the central government of Peru and its authorized representatives.

The terms described below have the following meanings for the purposes of this prospectus:

- Gross domestic product, or GDP, is a measure of the total value of final products and services produced in a country in a specific year. Nominal GDP measures the total value of final production in current prices. Real GDP measures the total value of final production in constant prices of a particular year, allowing historical GDP comparisons that exclude the effects of inflation. In this prospectus, real GDP figures are based on constant 1994 prices, the year used by the *Banco Central de Reserva del Perú*, or the Central Bank, for purposes of maintaining real GDP statistics. GDP growth rates and growth rates for the various sectors of Peru’s economy are based on constant 1994 prices.
- For balance of payments purposes, imports and exports are calculated based upon statistics reported to Peru’s customs upon the entry of goods into and the departure of goods from Peru on a free-on-board, or FOB, basis at a given point of departure. Import data include data on imports through the Tacna Special Processing Area, the only one of Peru’s five free trade zones that is currently active, purchases of goods abroad by resident transport companies and ship repairs by non-residents. Export data include the gross value of marine resource catches by non-resident vessels operating with fishing licenses and the value of goods sold to non-resident transport companies.
- The inflation rate provides an aggregate measure of the rate of change in the prices of goods and services in the economy. Peru measures the inflation rate by the percentage change in the Peruvian consumer price index, or CPI, between two periods. The CPI is based on a basket of goods and services identified by the *Instituto Nacional de Estadística e Informática*, or INEI. The price for each good and service that constitutes the basket is weighted according to its relative importance in order to calculate the CPI. The annual percentage change in the CPI is calculated by comparing the index as of a specific December against the index for the immediately preceding December. The average annual percentage change in the CPI is calculated by comparing the average index for a 12-month period against the average index for the immediately preceding 12-month period. INEI also compiles statistics to calculate the wholesale price index, which is used to measure the evolution in prices of a representative group of goods sold in the wholesale market in 25 cities.

Currency of Presentation and Exchange Rate

Unless otherwise specified, references to “U.S. dollars” and “US\$” are to United States dollars, references to “*nuevos soles*” and “S/.” are to Peruvian *nuevos soles*, and references to “SDR” are to International Monetary Fund special drawing rights. Unless otherwise indicated, we have made translations of *nuevos soles* into U.S. dollars and U.S. dollars, or any other currency, into *nuevos soles* for each year at the year’s average exchange rate and for the nine-month period ended September 30, 2009 at such period’s average exchange rate, calculated by taking an average of the exchange rates for each calendar day of the year or the nine-month period, respectively. Currency translations are included for convenient reference only and you should not construe these conversions as a representation that the amounts in question have been, could have been or could be, converted into any particular denomination, at any particular rate or at all.

For the nine-month period ended September 30, 2009, the average *nuevo sol*/U.S. dollar exchange rate, as reported by the Central Bank, was S/3.07 per US\$1.00. For more information, see “The Monetary System—Foreign Exchange and International Reserves—Foreign Exchange” below.

Presentation of Financial Information

All annual information in this prospectus is based upon January 1 to December 31 periods, unless otherwise indicated. Totals in some tables in this prospectus may differ from the sum of the individual items in those tables due to rounding.

Some statistical information included in this prospectus is preliminary in nature and reflects the most recent reliable data readily available to Peru. The Central Bank regularly reviews Peru’s current and historical official financial and economic statistics. Accordingly, some financial and economic information presented in this prospectus may be adjusted or revised subsequent to the date of this prospectus to reflect new or more accurate data or in accordance with Peru’s ongoing maintenance of its economic data. In particular, some information and data contained in this prospectus for 2005, 2006, 2007, 2008 and for the nine-month periods ended September 30, 2008 and 2009, are preliminary and subject to routine revisions by the Central Bank and other institutions to ensure their accuracy. Peru will make available any revised data in accordance with its normal practices for releasing data. The Government believes that this review process is substantially similar to the practices of many industrialized nations. The Government does not expect any revisions of the data contained in this prospectus to be material, although it cannot assure you that material revisions will not be made.

FORWARD-LOOKING STATEMENTS

This prospectus and any prospectus supplements relating to the securities offered by this prospectus may contain forward-looking statements. Forward-looking statements are statements that are not historical facts. These statements are based on Peru’s current plans, estimates, assumptions and projections. Therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and Peru undertakes no obligation to update them in light of new information or future events.

Forward-looking statements involve inherent risks. Peru cautions you that many factors could adversely affect the future performance of the Peruvian economy. These factors include, but are not limited to:

- external factors, such as:
 - higher interest rates in financial markets outside Peru;
 - changes in Peru’s credit ratings;
 - changes in import tariffs and exchange rates;
 - changes in international commodity prices;
 - recession, low economic growth or economic contraction affecting Peru’s trading partners;
 - deterioration in the economic condition of Peru’s neighboring countries;
 - international hostilities;
 - the decisions of international financial institutions, such as the International Monetary Fund, or IMF, the Inter-American Development Bank, or IADB, the International Bank for Reconstruction and Development, or World Bank, and the Andean Development Corporation, or CAF, regarding the terms of their financial assistance to Peru; and

- internal factors, such as:
 - deterioration in general economic and business conditions;
 - social, political or military events in Peru;
 - increase in crime rates;
 - natural events, such as climate changes, earthquakes and floods;
 - reduction in foreign currency reserves;
 - reduction in fiscal revenue;
 - reduced levels of foreign direct investment;
 - the ability of the government to enact key economic reforms;
 - higher domestic debt;
 - increased rates of domestic inflation;
 - the level of foreign direct and portfolio investment in Peru; and
 - the level of Peruvian domestic interest rates.

DATA DISSEMINATION

Peru subscribes to the International Monetary Fund's Special Data Dissemination Standard, or SDDS, which is designed to improve the timeliness and quality of information of subscribing member countries. The SDDS requires subscriber countries to provide schedules indicating the date on which data will be released, referred to as the "Advance Release Calendar." Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standards Bulletin Board. The Internet website is located at <http://dsbb.imf.org/Applications/web/sddscountrylist/>. Neither Peru nor any agents or underwriters acting on behalf of Peru accept any responsibility for information included on that website, and its contents are not intended to be incorporated by reference into this prospectus or any prospectus supplement.

SUMMARY

This summary highlights certain information contained elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making a decision to invest in any securities, you should carefully read this entire prospectus and the related prospectus supplement.

Republic of Peru

Overview

Peru is a representative democracy located in western South America, with an estimated population, as of October 2007, of approximately 28 million. Peru's population is multi-racial and multi-cultural, and the official languages are Spanish, Quechua and Aymara. The World Bank classifies Peru as an upper-middle-income developing country.

In November 2000, Peru emerged from more than a decade of rule by President Alberto Fujimori, whose years in office were characterized by a reduction in domestic terrorism perpetrated by armed guerrilla forces, by economic reforms that led Peru to a free market economy with low inflation and high growth rates, and by nearly dictatorial powers concentrated in the executive branch. Political instability, coupled with a series of external shocks, resulted in a reduction in economic activity during the final years of President Fujimori's last administration, which led to higher rates of unemployment, underemployment and poverty, and a reduction in access to basic healthcare and public services. In November 2000, President Fujimori resigned the Presidency. In the aftermath of President Fujimori's sudden resignation and political and bribery scandals, Valentín Paniagua assumed the role of President and his interim administration was in office from November 2000 to July 2001.

In June 2001, Alejandro Toledo Manrique was elected President based on a platform of reform that recognized the value of an open economic system and reform away from President Fujimori's legacy of political coercion and financial misdealings. During the administration of President Toledo, Peru had one of the best performing economies in Latin America, with GDP growth of 6.8% in both 2005 and the six-month period ended June 30, 2006, compared to the comparable period in 2005, mainly attributable to the growth in the mining and export sectors that was fueled by higher international commodities prices for these exports.

In June 2006, Alan García was elected President to a five-year term. President García had served as president in the period 1985-1990, and his first administration faced many challenges and confronted many crises that ended with political instability. The first García administration was followed by the administration of President Fujimori. The current García administration, which was inaugurated on July 28, 2006, was elected on a platform that seeks to implement social and political reforms and continuity to the macro-economic stability of recent years, as well as solidifying Peru's relationships with its international partners. During his time in office, President García has responsibly managed public finances, while strengthening the decentralization process and promoting free trade agreements with Peru's trading partners. During this period, Peru's economy has been among the best performing economies in Latin America, with GDP growth rates of 7.7% during 2006, 8.9% during 2007, 9.8% during 2008 and 0.1% for the nine-month period ended September 30, 2009, compared to the comparable period in 2008.

Recent Developments

Beginning in the second half of 2007, short-term lending in the United States encountered several issues, leading to liquidity disruptions in various markets throughout the world. In particular, subprime mortgage loans in the United States faced increased rates of delinquency, foreclosure and loss. These and other related events have had a significant adverse impact on the international economic environment, including the global credit, commodities and financial markets as a whole and have resulted in bankruptcy filings by, and the acquisition, restructuring and nationalization of, certain financial institutions. Regulators in the United States,

Europe and Latin America have taken steps in response to these unprecedented conditions. Although Peru has comparably limited exposure to subprime assets and financial institutions generally are stable, the country has been affected by the contraction of liquidity in the international financial markets, equity, debt and foreign exchange market volatility, the volatility in commodity prices, and the contraction in some of Peru's most important export markets. GDP growth for 2008, while ultimately exceeding levels recorded during 2007, decelerated in the fourth quarter of 2008 as compared to GDP growth rates for prior periods in 2008. The deceleration in GDP growth persisted in the first nine months of 2009 with lower GDP growth as compared to the first nine months of 2008. In addition, market conditions have also had adverse effects on the Peruvian economy, including:

- decreases in exports, imports and domestic demand for the first nine months of 2009, compared to levels recorded during first nine months of 2008;
- a decrease in exports and foreign direct investment inflows;
- lower commodity prices in the international markets, resulting in decreased export earnings, decreased external and fiscal accounts and a resulting decline in tax revenues in the fourth quarter of 2008 and in the first nine months of 2009;
- an increase in inflation in 2008 and the first nine months of 2009 as compared to 2007;
- depreciation of the *nuevo sol* against the U.S. dollar from S/.2.97 as of June 30, 2008, to S/.3.14 as of December 31, 2008, S/.3.16 as of March 31, 2009, and appreciation to S/.2.88 as of September 30, 2009;
- an increase in the average U.S. dollar/*nuevo sol* exchange rate, calculated from January 1, 2008 through the last day of the relevant month, from S/.2.85 through June 30, 2008 to S/.2.93 for full-year 2008. The average U.S. dollar/*nuevo sol* exchange rate was S/.3.07 per US\$1.00 for the period from January 1, 2009 through September 30, 2009;
- a decrease in availability of credit as financial intermediaries adopted more restrictive lending policies and access to foreign capital decreases; and
- significant decreases in the main Peruvian stock exchange indices.

On August 28, 2009, the Government revised certain budgeted macroeconomic indicators through 2012. This updated macroeconomic scenario takes into consideration the effects of the global economic downturn and the stimulus package approved and implemented by the Government in 2010, as described below. The Government has used the following assumptions in its budget for 2010:

- estimated real GDP growth in 2010 has been maintained at 5%;
- estimated total public investment has been reduced from 15.9% to 15.6% of GDP;
- estimated total foreign investment and foreign long-term loans in 2010 has been increased from US\$5.6 billion to US\$6.4 billion;
- estimated foreign direct investment in 2010 has been increased from US\$3.4 billion to US\$4.6 billion and the assumption relating to estimated foreign long-term loans in 2010 has been reduced from US\$2.3 billion to US\$1.8 billion;
- trade balance assumptions were revised from an estimated deficit of US\$237 million to a surplus of US\$874 million; and
- public debt as a percentage of GDP is now was revised to 25%.

Peru's macroeconomic indicators used for budget purposes are prepared by the Government based on estimates and assumptions that are inherently subject to significant uncertainties, many of which are beyond Peru's control. See "Forward-looking Statements". Peru can provide no assurance that such estimates and assumptions will not change.

A significant portion of Peru's economy is related to commodity exports. The recent fall in export commodity prices (mainly minerals) in the international markets is expected to adversely impact external and fiscal accounts, and is expected to reduce export earnings and tax revenues and result in slower economic growth in 2010. The Government estimates a current account deficit of approximately 3.0% of GDP in 2010, which it currently expects will be financed principally through foreign direct investment and long-term capital inflows. International reserves doubled since 2006 and surpassed US\$31.0 billion in 2008. As of September 30, 2009, net international reserves were US\$31.2 billion and the fiscal deficit was US\$849 billion, after three consecutive years of fiscal surplus.

Furthermore, the Government has taken preventive fiscal and monetary actions in response to the current adverse international economic environment. In January 2009, the Government authorized an economic stimulus package, which represents approximately 3.4% of GDP. The primary purpose of the stimulus package is to sustain economic growth through a substantial increase in public investment and by providing liquidity to the financial system in order to prevent a decrease in the availability of credit. According to the Banking, Insurance and AFP Superintendency, or SBS, financial credit increased 33.7% in 2008 compared with 2007. In addition, as of September 2009, preliminary data available from SBS signaled that banking credit was registering growth of approximately 9.3% compared to the first nine months of 2008.

On December 22, 2009, Mr. Luis Carranza resigned as Minister of the Economy and Finance of Peru. On the same date, Mrs. Mercedes Aráoz was appointed Minister of the Economy and Finance of Peru. Mrs. Aráoz previously served as Minister of Production.

On December 16, 2009, Moody's upgraded Peru's the foreign currency rating from Ba1 to Baa3, the lowest investment grade category, matching ratings made by Standard & Poor's and Fitch Ratings in 2008.

Government Stimulus Package. In January 2009, the Government authorized a US\$3.7 billion stimulus package intended to mitigate the adverse impact on the economy of the international economic crisis. As of September 30, 2009, the Government authorized an additional US\$700 million for the stimulus package, increasing the aggregate amount of the stimulus package to US\$4.4 billion, or 3.3% of estimated GDP for 2009.

The principal objectives of the stimulus package are:

- To increase and accelerate expenditures on targeted social programs, which includes an increase in spending for the maintenance of educational institutions, maintenance of healthcare facilities and providing guarantees and subsidies for government housing programs, such as Fondo MiVivienda, Mi Barrio and Techo Propio.
- To support construction levels through an increase in public investment in infrastructure. This includes the allocation of additional resources for regional investment and infrastructure projects throughout the country in the 2009 budget, as well as bringing forward unused investment resources from the 2008 budget and the assignment of additional funds from the *Fondo de Promoción a la Inversión Pública Regional y Local* (Fund for the Promotion of Regional and Local Public Investment).
- To support small and medium-sized enterprises, through guarantee funds, the extension of credit lines and other mechanisms.
- To increase exports.

- To provide support to individuals seeking mortgages through the extension of credit lines.
- To reduce the Central Bank's reserve requirements for financial institutions and interest rates on available mortgages.
- To reduce fuel prices.
- To reduce the time required for private investment to receive governmental approval.

The Government expects the full US\$4.4 billion provided for in the stimulus package to be spent during 2009 and 2010. In addition, the Government has announced the possibility of additional stimulus spending outlays in the future, if the Government determines such outlays are necessary.

As of November 2009, the Government had allocated or disbursed approximately 60% of the US\$4.4 billion provided for in the stimulus package.

In June 2009, as a result of the fiscal stimulus package, the Peruvian Congress approved Law No. 29368, which increased the maximum amount of non-financial public sector deficit permitted from 1% to 2% of GDP, increased the maximum amount of consumption expense the government may incur in each of 2009 and 2010, and increased the maximum amount of consumption expense from 4% to 10% of GDP for 2009 and to 8% of GDP for 2010. This increase in the permitted amount of consumption expense is intended principally to pay for additional maintenance expenditures related to new infrastructure projects, such as roads.

Recent Economic Indicators. In 2008, the Peruvian economy expanded by 9.8% compared to 2007. Levels of economic activity recorded during the nine months ended September 30, 2008 (11.0% GDP growth, compared to the comparable period of 2007) improved further during the nine months ended September 30, 2009 (0.1% GDP growth, compared to the comparable period of 2008). The high level of economic activity was due primarily to strong government consumption and an increase in public investments which were partially offset by decreased private consumption during the nine months ended September 30, 2009.

The following are preliminary economic results as of or for the nine-month period ended September 30, 2009:

- the inflation rate was (0.1)%, compared to an inflation rate of 5.3% for the first nine months of 2008;
- the current account deficit totaled US\$274 million, or 0.3% of GDP, compared to a current account deficit of US\$3.4 billion, or 3.5% of GDP, for the nine months ended September 30, 2008;
- net international reserves of the Central Bank decreased 7.5% to US\$32.1 billion, compared to US\$34.7 billion at September 30, 2008;
- the non-financial public sector registered a surplus of US\$72 million, or 0.2% of GDP, compared to a surplus of US\$3.6 billion, or 3.7% of GDP, for the nine months ended September 30, 2008;
- public sector external debt totaled US\$20.3 billion, or 16.6% of GDP, compared to US\$18.5 billion, or 14.6% of GDP, as of September 30, 2008;
- foreign direct investment was US\$4.2 billion, compared to US\$5.2 billion during the nine months ended September 30, 2008; and
- exports decreased by 25.7% to US\$18.6 billion, compared to US\$25.0 billion in the nine months ended September 30, 2008.

The United States, China, Switzerland, Canada, Japan and Chile rank among Peru's most important export markets. The García administration estimates that exports totaled approximately US\$26.4 billion in 2009, a 16.3% increase compared to the US\$31.5 billion in 2008, and that the trade surplus stood at approximately US\$5.4 billion.

Free Trade Agreements. In October 2008, the United States extended the Andean Trade Promotion and Drug Eradication Act, or ATPDEA, as it applies to Peru for a period of one year, thereby extending Peru's benefits under ATPDEA until December 31, 2009. In addition, the free trade agreement between the United States and Peru, or the Peru Trade Promotion Agreement, became effective on February 1, 2009.

As part of regulatory reforms undertaken by the Government in relation to the Peru Trade Promotion Agreement, President Alan García issued two decrees in 2009 which opened significant parts of the Amazon jungle to private investment. The decrees allow companies to request permits for petroleum, biofuel, forestry and hydroelectric projects in the Amazon jungle. These decrees resulted in protests and roadblocks by indigenous groups. Subsequently, Peru's Congress overturned the two decrees, easing tensions with the indigenous groups. As these events have occurred recently and continue to develop, their effects on the Peru Trade Promotion Agreement, if any, cannot be foreseen.

In November 2008, Peru and Japan signed a treaty designed to promote investment in Peru. In January 2009, Peru concluded negotiations with EFTA regarding three commercial agreements. In March 2009, a free trade agreement between Chile and Peru, or the Economic Association Agreement, entered into force. The Economic Association Agreement was originally signed in 2006. In April 2009, Peru signed a free trade agreement with the Republic of China. In October 2009, Peru and Japan completed four rounds of negotiations for the Japan-Peru Economic Partnership.

Finally, in January 2009, free trade agreements with Canada and Singapore became effective. We expect to start bilateral commercial negotiations with South Korea, Australia, Central America, Russia, India, South Africa and New Zealand in the future. We currently have commercial agreements in force with the Andean Community of Nations (CAN), Chile, Southern Common Market (MERCOSUR), México and Cuba, and we expect to ratify a free trade agreement with Thailand.

IMF Stand-By Arrangement. On January 26, 2007, the IMF approved a Stand-By Agreement with Peru for an aggregate amount of SDR172 million (approximately US\$257 million) to support the economic programs of the Peruvian government for a 25-month period ended on February 28, 2009.

Material Loan Agreements. As of December 31, 2008, outstanding public sector external debt amounted to approximately US\$19.2 billion equivalent to 15.1% of GDP for the year, a decrease of US\$844 million compared to debt outstanding at December 31, 2007. This reduction resulted primarily from the net effect of amortizations minus new disbursements for a net reduction of US\$1.4 billion. The depreciation of the dollar against the yen and the euro during 2008 caused a US\$451.5 million increase in the balance of outstanding public sector external debt.

In 2008, disbursements included US\$282.3 million for infrastructure projects and US\$584.3 million for freely available payments.

During 2008, Peru entered into two loan agreements with the International Bank for Reconstruction and Development, or IBRD, in an aggregate amount of US\$170 million to finance the Support Program for Productive Rural Alliances in the Highlands of Peru and the Program for Social Reforms, and a separate US\$100 million loan agreement with the IADB to finance the Program to Reform Sewage Treatment I. Also in 2008, the IADB approved loans totaling approximately US\$210 million to finance various programs, including the Program for the Improvement of the Quality of Management and Public Expense III, Water for Everyone Program, Program to Reform Sewage Treatment III and Development of Agrarian Health and Safety of Agrarian Food Products Program.

In December 2008, Peru entered into a ¥6.66 billion (US\$69.4 million) loan agreement with the Japan International Cooperation Agency, or JICA, to fund the Iquitos Sewage Improvement and Expansion Project.

In December 2008, Peru entered into a US\$150 million credit agreement with CAF, to finance the Social Investment and Infrastructure Against Poverty Program.

As of September 30, 2009, outstanding public sector external debt amounted to approximately US\$20.3 billion equivalent to 16.6% of GDP, an increase of US\$1.8 billion compared to debt outstanding at September 30, 2008. This increase resulted primarily from the net effect of new disbursements minus amortizations, which totaled US\$950 million for the period.

During the first nine months of 2009, disbursements included US\$404 million for infrastructure projects and US\$53.5 million for freely available payments.

In January 2009, IBRD approved a US\$70 million loan to finance the Fiscal Management and Economic Growth II Programmatic Loan. In addition, KfW, or KfW Bankengruppe, approved a €30 million loan to fund the Fiscal Management and Economic Growth II Programmatic Loan and the Program to Reform Sewage Treatment II. IBRD approved two contingent deferred drawdown operation financing programs totaling US\$630 million, which can be drawn upon the occurrence of a natural disaster.

In January 2009, Peru entered into a US\$300 million credit agreement with CAF, to fund the remaining public work of sections 2, 3 and 4 of the Peru-Brazil inter-oceanic highway, not included in the concessions previously awarded.

In March 2009, Peru approved three loan agreements with JICA, in an aggregate amount of ¥9.9 billion, to fund energy and sewage improvement programs.

In October 2009, Peru entered into a US\$150 million loan agreement with IADB to finance a program to develop a sustainable energy grid. Finally, in December 2009, Peru entered into a US\$150 million fiscal management and economic growth programmatic loan with IBRD.

Privatizations and concessions. During 2008 and the first nine months of 2009, Peru completed 21 privatizations and concession grants which generated US\$2.0 billion in projected investments. For a description of Peru's privatization efforts, see "The Economy—Privatization and the Role of the State in the Economy—Privatizations and Concessions."

During 2010 and based on Peru's current plan on future privatization initiatives, the concessions program is expected to generate US\$4.3 billion in investments in different economic sectors such as ports, airports, highways, telecommunications, irrigation and sanitation.

Investor Considerations

In the past, Peru has experienced economic and political instability and terrorist insurgency. At present, Peru is a stable democracy having completed a peaceful transition from the administration of President Toledo to President Alan García in July of 2006. Peru's growth, low inflation, and both fiscal and external surpluses reflect, in part, the strength of Peru's economic fundamentals. The government cannot assure you that Peru will not face political, economic or social problems in the future or that these problems will not interfere with Peru's ability to service its indebtedness, including the securities offered by this prospectus and by any prospectus supplement. In addition, the world economic crisis that began in the second half of 2008 and developments in other emerging countries in Latin America, such as Argentina, Bolivia, Brazil, Ecuador and Venezuela, in addition to Peru's principal trading partners, may have an adverse effect on other countries in the region, including Peru. Moreover, fluctuations in the international prices of commodities like copper and other minerals of which Peru is a major exporter could have an adverse effect on our economy and the overall level of economic activity.

Selected Economic Information
(in millions of U.S. dollars, except as otherwise indicated)

	For the 12 months ended and as of December 31,					For the nine months ended and as of September 30,	
	2004	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Domestic economy							
GDP (at current prices)	69,763	79,397	92,439	107,504	127,707	97,680	92,018
Real GDP (in millions of S/. at constant 1994 prices)	139,141	148,640	160,145	174,329	191,477	142,600	142,750
Real GDP growth rate (in %)	5.0	6.8	7.7	8.9	9.8	11.0	0.1
CPI (change for the period in %)	3.5	1.5	1.1	3.9	6.7	N.A.	N.A.
Unemployment rate (in %) ⁽²⁾⁽¹¹⁾	10.5	11.4	8.8	7.2	6.4	N.A.	N.A.
Underemployment rate (in %) ⁽³⁾⁽¹¹⁾	42.8	40.9	41.2	38.9	33.4	N.A.	N.A.
Unemployment rate (in %) ⁽²⁾⁽¹²⁾	9.4	9.6	8.2	8.4	8.4	N.A.	N.A.
Underemployment rate (in %) ⁽³⁾⁽¹²⁾	5.7	53.4	51.6	49.7	46.1	N.A.	N.A.
Balance of payments							
Total current account	19	1,148	2,854	1,220	(4,180)	(3,422)	(274)
Of which:							
Trade balance	3,004	5,286	8,986	8,887	3,090	3,264	3,580
Total capital account	2,154	141	699	9,304	7,372	9,808	(847)
Of which:							
Foreign direct investment	1,599	2,579	3,467	5,425	4,079	5,192	4,254
Errors and omissions ⁽⁴⁾	151	239	(827)	(936)	(80)	719	965
Overall balance of payments ⁽⁵⁾	2,325	1,528	2,726	9,588	3,112	7,104	(156)
Change in Central Bank net international reserves (period end in %)	23.9	11.6	22.5	60.3	12.7	52.0	(7.4)
Central Bank net international reserves (period end)	12,631	14,097	17,275	27,689	31,196	34,702	32,130
Public sector balance							
Central government revenue ⁽⁶⁾	10,363	12,438	16,106	19,450	23,306	18,204	14,674
As a % of GDP	14.9	15.7	17.4	18.1	18.3	18.6	16.0
Central government expenditure ⁽⁷⁾	11,292	13,111	14,901	17,647	20,517	15,189	15,588
As a % of GDP	16.2	16.5	16.1	16.4	16.1	15.6	16.9
Central government fiscal balance	(873)	(555)	1,315	1,925	2,924	3,124	(849)
As a % of GDP	(1.3)	(0.7)	1.5	1.8	2.2	3.2	(0.8)
Overall non-financial public sector fiscal balance ⁽⁸⁾	(721)	(240)	1,883	3,264	2,799	3,611	72
As a % of GDP	(1.0)	(0.3)	2.1	3.1	2.1	3.7	0.2
Public sector debt							
Public sector external debt	24,466	22,279	21,972	20,081	19,237	18,529	20,308
As a % of GDP	35.1	28.1	23.8	18.7	15.1	14.6	16.6
Public sector domestic debt ⁽⁹⁾	6,439	7,688	8,518	11,789	11,411	11,760	12,449
As a % of GDP	9.2	9.7	9.2	11.0	8.9	9.2	10.2
Total public sector debt	30,905	29,968	30,490	31,870	30,648	30,289	32,757
As a % of GDP	44.3	37.7	33.0	29.6	24	23.8	26.8
Public sector external debt service:							
Amortizations ⁽⁹⁾	1,363	3,621	1,198	5,466	2,580	2,189	1,507
Interest payments ⁽⁹⁾	1,166	1,289	1,339	1,411	1,156	837	779
Total external debt service	2,529	4,910	2,537	6,877	3,736	3,027	2,286
As a % of exports of goods and services ⁽¹⁰⁾	16.7	24.2	9.2	21.1	10.1	10.4	10.2
Exchange rate (end of period, S/. per US\$)	3.28	3.43	3.21	2.98	3.11	2.97	2.91
Exchange rate (average, S/. per US\$)	3.41	3.30	3.27	3.13	2.93	2.90	3.07

⁽¹⁾ Preliminary data.

- (2) In Metropolitan Lima. Percentage of the working-age population (14 years old or older) that, in the week the employment survey was conducted, was seeking remunerated employment.
- (3) In Metropolitan Lima. Percentage of the working-age population (14 years old or older) working part-time which would prefer to work more hours, plus the percentage of the working-age population that usually works full-time but which, in the week the employment survey was conducted, worked less than 35 hours per week as a result of economic constraints.
- (4) Represents errors and omissions in compiling balance of payments accounts based on double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.
- (5) Includes current account balance, financial account and errors and omissions.
- (6) Excludes privatization receipts.
- (7) Includes interest payments.
- (8) Includes the non-financial public sector and the Central Bank.
- (9) Excludes Central Bank debt.
- (10) Includes exports of goods and services and investment income.
- (11) Source: Ministry of Labour
- (12) Source: National Institute of Statistics

N.A. = *Not Available*.

Source: Central Bank, unless otherwise indicated.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, Peru will use the net proceeds from the sale of securities offered by this prospectus for the general purposes of the government, including, but not limited to, financial investment and the refinancing, repurchasing or retiring of its domestic and external indebtedness. Peru may also issue securities offered by this prospectus in exchange for any of its outstanding securities.

THE REPUBLIC OF PERU

Territory and Population

The Republic of Peru is located in western South America. It shares its borders with Ecuador and Colombia to the north, Brazil and Bolivia to the east and Chile to the south. Its territory covers an area of approximately 496,222 square miles, including a 1,500 mile-long Pacific Ocean coastline and a 200 mile-wide maritime zone. Peru's major cities are Lima, the nation's capital, Arequipa, Trujillo, Chiclayo, Iquitos, Piura, Chimbote and Cuzco.

Peru is divided by the Andes Mountains into three geographic regions—a narrow strip of desert along the western coast, a central region of high mountains that form part of the Andes and a large, heavily forested area leading to the Amazonian plains in the east. Peru's climate varies significantly by region, from tropical rain forests in the east and a dry desert in the west, to temperate and frigid regions in the mountainous central part of the country. The Andes rise over 20,000 feet and contain large plateaus and extensive valleys. Lima and other major cities, such as Trujillo and Chiclayo, are located along the coast.

Peru's central coast is occasionally affected by an atmospheric phenomenon known as *El Niño*, which raises the temperature of the superficial coastal waters, causing an increase in air temperature, a decrease in atmospheric pressure along the coast and an increase in the sea level along the Peruvian coastline. These conditions produce increased rainfall in the northern coast, which may result in severe flooding and mudslides. In 1998, the warm waters caused by *El Niño* disrupted Peru's fishing and agricultural industries as marine life migrated to deeper, colder waters, crops were destroyed by flooding and elevated temperatures along the coast gave rise to new crop pests and plagues. The flooding caused approximately US\$1.2 billion in damage to Peru's infrastructure. *El Niño* recurs on average every six years; however, the timing of each recurrence, its length and its severity cannot be predicted.

Peru's southern region is located on seismic faults, which make the area susceptible to earthquakes. In June and July 2001, two earthquakes of 8.4 and 7.6 magnitude on the Richter scale, respectively, struck along the coast of south-central Peru, causing an estimated US\$300 million in damage. The same area was hit with an 8.0 magnitude on the Richter scale earthquake in August 2007, which killed approximately 600 people, injured approximately 1,800 people, destroyed approximately 76,000 houses and caused damages estimated at over US\$230 million.

Peru's population, estimated at October 2007 to be approximately 28 million, is multi-racial and multi-cultural. Approximately 45.0% of the population is native, 37.0% is Mestizo, or mixed native and Caucasian, 15.0% is Caucasian, 2.0% is of African descent and 1.0% is of Asian descent. Spanish, Quechua and Aymara are Peru's official languages. Approximately 99.0% of Peru's population speaks Spanish and approximately 28.0% resides in rural areas. The population grew at an estimated average rate of approximately 1.6% per year in the period from 1993 to 2007.

In 2007, Peru's adult literacy rate was approximately 92.6%. Approximately 89.2% of Peruvian adult women are literate and approximately 96.1% of Peruvian adult men are literate. In 2007, approximately 94.9% of children aged 6 to 11 attended school, while approximately 88.3% of children ages 12 to 16 attended school. In the same year, 21.6% of the population had higher education. As of 2005, there were approximately 559,149 students in Peru's 86 universities, of which 38.0% are public and the remainder private. There were 24 private universities and seven national universities in Lima in 2005, including the *Universidad Nacional Mayor de San Marcos*, or National University of San Marcos, which was founded in 1551 and is the oldest university in South America. There are also public universities in the cities of Arequipa, Cuzco and Trujillo.

The World Bank classifies Peru as an upper-middle-income developing country. The following table provides comparative per capita GDP figures and other selected comparative statistics as of the years indicated.

	<u>Bolivia</u>	<u>Ecuador</u>	<u>Peru</u>	<u>Colombia</u>	<u>Brazil</u>	<u>Venezuela</u>	<u>Argentina</u>	<u>Chile</u>	<u>United States</u>
Per capita GDP ⁽¹⁾	US\$ 4,206	US\$7,449	US\$7,836	US\$8,587	US\$9,567	US\$12,156	US\$13,238	US\$13,880	US\$45,592
United Nations index of human development (world ranking)	113	80	78	77	75	58	49	44	13
Life expectancy at birth (in years)	65.4	75	73	72.7	72.2	73.6	75.2	78.5	79.1
Infant mortality (per 1,000 live births) ⁽²⁾	52	22	23	17	31	18	15	8	7
Adult illiteracy rate ⁽³⁾	9.3%	9.0%	10.4%	7.3%	10%	4.8%	2.4%	3.5%	N.A.
Population below the poverty line ⁽⁴⁾	42.2%	40.8%	30.6%	17.8%	21.2%	40.1%	17.4%	5.6%	N.A.

(1) 2009 data. Adjusted for purchasing power parity.

(2) 2008 data.

(3) 2009 data. Adults are aged 15 years and older.

(4) 2008 data. The poverty line is defined as the population living on a daily per capita income of US\$2 or less, adjusted for purchasing power parity. Data refer to most recent year between 1990 and 2005, when available.

N.A. = Not Available.

Source: World Bank, United Nations Development Program, *Human Development Report 2009* and *Human Development Report 2007 2008*.

History, Government and Political Parties

History

Beginning in the ninth millennium B.C., several developed cultures began to settle in Peru, including the Chavín, Sechín, Chimú, Mochica, Paracas, Nazca, Tiahuanaco and Wari. In the 12th century A.D., the Quechua-speaking Inca settled around the Cuzco Valley. By the time the Spanish arrived in 1531, the Inca had created an empire that encompassed areas of modern Peru, Ecuador, Bolivia and Colombia. In 1533, the Spanish captured the Inca capital at Cuzco and by 1542 had consolidated their control over the entire Inca territory. In 1542, the Spanish established the viceroyalty of Lima, which governed vast portions of Spanish territorial possessions in South America.

Peru remained under Spanish rule until 1821, when José de San Martín proclaimed Peru's independence, although the Spanish were not defeated until 1824. In the first two decades of the post-independence era, political fragmentation and political instability plagued Peru and it was ruled by at least 24 regimes between 1821 and 1845. During this period, Peru's constitution was rewritten six times. In the 1840s, Peru initiated a period of extraordinary economic growth driven by the exportation of *guano*, a form of fertilizer obtained from the droppings of birds in the Chincha Islands.

In 1879, Peru allied itself with Bolivia to fight an unsuccessful war against Chile over the disputed nitrate-rich Atacama Desert. This war, known as the War of the Pacific, ended in 1883 with the signing of the Treaty of Ancón, in which Peru ceded to Chile in perpetuity the nitrate-rich province of Tarapacá and relinquished, for a period of ten years, the provinces of Tacna and Arica. Tensions over these two provinces continued until 1929, when the United States brokered a deal that returned the province of Tacna to Peru but allowed Chile to retain control over the province of Arica.

From 1895 to 1914, Peru experienced political stability and economic growth. In 1914, Colonel Oscar R. Benavides (1914-15, 1933-39) orchestrated a military coup that ended almost two decades of uninterrupted civilian rule. In the early stages of World War I, Peru experienced a recession as the war temporarily isolated Peru from its export markets. When overseas trade resumed, demand for Peru's export products increased dramatically and Peru suffered through a period of sustained inflation. This inflation had a particularly negative impact on Lima's working classes and led to a wave of labor strikes in 1918 and 1919.

In 1919, Augusto B. Leguía (1908-12, 1919-30) began an 11-year rule known as the *oncenio* and created a new, progressive constitution, adopted in 1920, that enhanced the power of the state to carry out a number of popular social and economic reforms. The regime weathered a brief postwar recession and then

generated considerable economic growth by opening Peru to foreign loans and investment. Leguía's popularity waned, however, as a result of a border dispute with Colombia involving territory in the rubber-tapping region between the Río Caquetá and the northern watershed of the Río Napo. Under the U.S.-brokered Salomón-Lozano Treaty of March 1922, the Río Putumayo was established as the boundary between Colombia and Peru.

During the 1930s, a popular movement, with origins in Mexico, known as the *Alianza Popular Revolucionaria Americana*, or American Popular Revolutionary Alliance, or APRA, spread to Peru under the leadership of Víctor Raúl Haya de la Torre. This continent-wide popular alliance quickly became a prominent center-left political party in Peru and a strong antagonist to Peru's armed forces. In the presidential election of 1931, Luis Sánchez-Cerro (1931-33) defeated APRA's Haya de la Torre, who accused Sánchez-Cerro of fraud.

Despite the political turmoil, Peru's economy was one of the least affected by the Great Depression because of Peru's relatively diversified range of exports, led by cotton, lead and zinc. Unlike many other Latin American countries that adopted import-substitution industrialization measures to counteract the effects of the Great Depression, Peru made relatively few alterations to its long-term model of export-oriented growth.

In 1939, Manuel Prado y Ugarteche (1939-45), a Lima banker from a prominent family and son of a former president, was elected president. He was soon confronted with a border conflict with Ecuador that led to a brief war in 1941. The conflict dated back to the post-independence period. Following independence, Ecuador had been left without access to either the Amazon River or the Río Marañón, the region's other major waterway, and thus without direct access to the Atlantic Ocean. In an effort to assert its territorial claims in a region near the Río Marañón in the Amazon Basin, Ecuador's military occupied the town of Zarumilla along its southwestern border with Peru. The Peruvian army responded and defeated the Ecuadorian army. For a discussion of Peru's relations with Ecuador, see "—Foreign Policy and Membership in International and Regional Organizations—Relations with Ecuador."

During the 1950s and 1960s, Peru experienced export-led growth and increased national and foreign investment. During this time, many peasants migrated to the coast, the center of Peru's economic growth. As a result of heavy migration, the population of metropolitan Lima increased from 100,000 in 1940 to over 1.6 million in 1961.

In 1968, Peru returned to military rule when General Juan Velasco Alvarado (1968-1975) overthrew elected President Fernando Belaúnde Terry of *Acción Popular*, or AP. Velasco implemented an extensive program of agrarian reform and nationalized the fishmeal and oil industries, several banks and petroleum and mining companies. General Francisco Morales-Bermúdez Cerruti replaced Velasco in 1975. He presided over the transition to civilian rule and the adoption of a new constitution in 1979.

In 1980, voters reelected Belaúnde in the first popular elections since 1968. Belaúnde attempted to cut spending and dismantle many of the military government's populist reforms. Soaring inflation and unemployment, however, made it difficult to curb public spending. At the same time, Belaúnde's government was destabilized by the rise of subversive movements.

The *Sendero Luminoso*, or the Shining Path, was founded in 1970 as an offshoot of the Peruvian Communist Party. The group espoused a Maoist ideology and initiated terrorist activities in 1980 as a means of overthrowing the government. The *Movimiento Revolucionario Túpac Amaru*, or Tupac Amaru, was founded in 1984 as a radical leftist organization that promoted communal ownership of property and advocated an armed struggle against capitalism. These two groups took advantage of mounting social unrest produced by 12 years of military rule and growing class consciousness among indigenous communities to recruit members. They raised funds by establishing a financial alliance with drug traffickers and protecting expanding coca fields. Drawing on these funds, the Shining Path and Tupac Amaru waged a guerilla war against the government and engaged in rural terrorism.

Alan García Pérez of the APRA party was elected president in 1985. The first García administration was plagued by terrorist activity from the Shining Path and Tupac Amaru and by allegations of corruption. President

García pursued a populist agenda, financed by substantial increases in government spending that led to a record 7,650% inflation rate in 1990. President García attempted to nationalize the banking system and limited Peru's debt service payments to no more than 10% of total exports. In response, international creditors refused to extend new credit to Peru. During the first García administration, GDP contracted by 20% from levels in the early 1980s.

In 1990, voters elected Alberto Fujimori of the *Cambio 90* party as president. Fujimori implemented a comprehensive neo-liberal economic program based on fiscal discipline, a stable monetary policy and aggressive privatization of state-owned industries. These initiatives succeeded in curbing inflation, reducing public external debt and fostering economic growth. For a discussion of Fujimori's economic policies, see "The Economy—History and Background" below.

President Fujimori also launched a successful campaign against the terrorist activities of the Shining Path and Tupac Amaru. In September 1992, the police captured the Shining Path's founder, Abimael Guzmán, and its other principal leaders. In 1997, Peruvian armed forces killed several Tupac Amaru leaders, including its principal leader, Néstor Cerpa Cartolini, in a rescue operation to free hostages being held by Tupac Amaru at the Japanese Embassy in Lima.

In 1995, Peru and Ecuador fought a brief war over a disputed area on their border. This dispute dated to the *Protocolo de Río de Janeiro of 1942*, or Río de Janeiro Protocol, a treaty between Peru and Ecuador signed after the brief war these countries fought in 1941. The dispute was finally settled in 1998. For a description of this dispute and Peru's relations with Ecuador, see "—Foreign Policy and Membership in International and Regional Organizations—Relations with Ecuador" below.

Fujimori's harsh governing style created significant congressional opposition. On April 5, 1992, Fujimori dissolved Congress and, in November 1992, called for the election of a constitutional congress, which adopted a new constitution in 1993. The new 1993 Constitution gave the President authority to issue emergency decrees relating to economic and financial matters, if those decrees are in the national interest and do not relate to tax matters. Emergency decrees have the force of law and do not require previous legislative approval, although Congress may subsequently modify or derogate those decrees. Under the 1993 Constitution, Congress may censure or obtain a no-confidence resolution against the President's *Consejo de Ministros*, or Council of Ministers, forcing their removal. The 1993 Constitution bars the President from dissolving Congress during the last year of the President's term in office. In addition, the 1993 Constitution allowed sitting presidents to stand for re-election to two consecutive terms, which was prohibited under the 1979 Constitution. President Fujimori was reelected for a second term in 1995 by a wide margin.

Following the dissolution of Congress in 1992 and the adoption of the 1993 Constitution, President Fujimori centralized power in the executive branch, thus undermining legal mechanisms of accountability, strengthening the powers of the military and intelligence service and compromising the autonomy of the legislative and judicial branches, and curtailing freedom of the press. These measures debilitated Peru's political system, fostered widespread political corruption, and, in the later years of President Fujimori's administration, undermined the success of his economic program.

Although the 1993 Constitution allowed presidents to serve for only two consecutive terms, in August 1996 Congress passed an interpretative law clarifying that this limit applied only to presidential terms beginning after 1993. In December 1996, the Constitutional Tribunal, with the vote of three members, with four justices abstaining, ruled that the 1996 interpretative law did not apply to President Fujimori. In May 1997, Congress removed the three justices who voted in favor of this ruling on the basis that they had exceeded their authority by attempting to issue a binding opinion with the vote of only a minority of the Constitutional Tribunal's members. The president of the Constitutional Tribunal later resigned in protest over Congress' action. On July 28, 2000, Fujimori began a controversial third term as president amid allegations of electoral fraud.

In September 2000, a bribery scandal involving Vladimiro Montesinos, a former army captain and lawyer who became an advisor to Peru's intelligence agency and a close ally of President Fujimori, prompted charges of political corruption within the Fujimori administration. President Fujimori responded to the increased criticism and mounting protests by calling for new presidential elections to be held in April 2001. He also announced that he would not seek reelection. Weeks later, however, the growing investigation into corruption charges and condemnation of Montesinos and his ties to the President led President Fujimori to resign while on an international presidential trip but the Peruvian Congress refused to accept Fujimori's resignation. Rather, Congress removed President Fujimori from office, declared the post of Chief of State vacant due to moral incapacity and barred him from holding any Peruvian public office for ten years.

Fearing prosecution and claiming that he could not be tried in Peru because of his Japanese citizenship, President Fujimori refused to return to Peru. Under the 1993 Constitution, the First Vice President was next in line for the presidency, but Peru's First Vice President had resigned in October 2000 in protest of Montesinos' influence within the Fujimori administration. The Second Vice President also resigned following President Fujimori's removal as a result of his connection to Fujimori and pressure by opposition congressmen. Under the 1993 Constitution, executive authority shifted to Valentín Paniagua Corazao, the president of Congress, who became president on November 22, 2000.

Presidential and congressional elections were held on April 8, 2001. In the presidential contest, Alejandro Toledo Manrique of the *Perú Posible* party obtained 36.5% of the vote, former President Alan García Pérez of the APRA obtained 25.8% of the vote and Lourdes Flores Nano of the *Unidad Nacional* party, or UN, obtained 24.3% of the vote. In June 2001, Toledo won the presidency in a runoff election against Alan García, receiving 53.1% of the vote to García's 46.9% of the vote.

On August 27, 2001, Congress voted to remove President Fujimori's presidential immunity. On September 5, 2001, Peru's Attorney General formally charged Fujimori with the murder of 15 people in 1991 and the forced disappearance and murder of nine students and a professor in 1992. Since 2000, Congress has, at seven different times, approved charges against President Fujimori, including embezzlement and murder. In July 2003, the government presented a formal extradition request to the Japanese government for President Fujimori, based on criminal charges. The Japanese government rejected the request because Peru and Japan do not have an extradition treaty and President Fujimori, the son of Japanese immigrants, is protected from extradition by virtue of his Japanese citizenship. On October 15, 2004, Peru made a second request for extradition based on forgery and embezzlement charges. Japan tabled its consideration of this request. By March 2005, the extradition request to the Japanese government had stalled. On November 6, 2005, President Fujimori arrived in Chile, where he was arrested and subject to an extradition process petitioned by the Peruvian government. After 34 months in Chile, President Fujimori was extradited to Peru in September 2007 to face criminal charges in seven separate trials. In December 2008 he was sentenced to a 6-year term in prison for the illegal search and seizure of his former intelligence advisor's home. The sentence is currently under review by an appellate court. There are six trials pending sentencing against President Fujimori.

In June 2001, Alejandro Toledo Manrique was elected president based on a platform that recognized the value of an open economic system and rejected Fujimori's legacy of political coercion and financial misdealings. Despite the economic achievements between 1990 and 2000, poverty remains a persistent problem in Peru. More than half of the population lives below the poverty line, as defined by the World Bank, adjusted to reflect differences in purchasing power. A significant number of Peruvians live on a monthly per capita income of less than US\$30.

President Toledo implemented a number of proposals to stimulate Peru's economy, including privatization and fiscal austerity programs. Toledo's policies spurred sustained economic growth since the fourth quarter of 2001. Despite this economic growth, the Toledo administration fell in political polls and faced ongoing social protests and unrest spurred by disappointment that President Toledo's policies had not immediately led to a significant reduction in the high rates of unemployment, underemployment and poverty, and political scandals.

Under President Toledo, Peru had one of the best performing economies in Latin America attributable to the growth in the mining and export sectors; however, major challenges remained as the government faced strong social pressures to reduce poverty and unemployment levels.

Presidential elections were last held on April 9, 2006. In the first round of elections, Ollanta Humala obtained 3.78 million votes (30.6%), Alan García obtained 3.0 million votes (24.3%), Lourdes Flores of the Unidad Nacional coalition obtained 2.9 million votes (23.8%), Martha Chávez of the pro-Fujimori alliance or *Alianza Por El Futuro* party obtained 912,000 votes (7.4%) and Valentín Paniagua obtained 706,000 (5.8%). Keiko Fujimori, President Fujimori's daughter obtained the highest number of votes for congress. Since no single presidential candidate obtained a majority of the votes, a run-off election was held on June 4, 2006 between Humala and García, in which Alan García was elected to a five-year term, sixteen years after his first administration (1985-90). On July 28, 2006, Alan García was sworn in as the new president of Peru after winning approximately 53% of the nationwide vote in the run-off election held on June 4, 2006.

As was the case with the Toledo administration, the approval ratings as measured by various polls of the García administration declined in the months following inauguration. Since then the approval ratings have remained low, but have not generated any social unrest. Similar low approval ratings during the Toledo administration did not affect its ability to govern and are not expected to have a material adverse impact with respect to the García administration. Despite the low approval ratings, the government has had, during 2008 and the first nine months of 2009, a stable political environment.

Government

Regional Governments. Peru is a representative democracy that is geographically and administratively divided into 25 regional governments. Prior to January 1, 2003, Peru was divided into 24 Temporary Regional Administration Councils, or "regional councils." The regional councils were divided into 193 provinces and the constitutional province of Callao, Peru's principal port, adjacent to Lima, and 1,828 districts. Each regional council was governed by an administrative official appointed by the President and formed part of the government. Provinces and districts have their own civil governments, which are independent of the national government.

As of January 1, 2003, Peru's regional councils were replaced by 25 new regional governments, each governed by elected officials and independent of the government. Elections were last held in November 2006 for the presidents, vice presidents and members of local councils for each of the regional governments. The elected officials will serve five-year terms. The APRA won three of the 25 regional presidencies and *Unión Por el Perú*, or UPP, won one. The 21 other regional presidencies were won by independents and smaller parties.

On November 8, 2002, Congress passed the law establishing the framework under which the regional governments operate. The law grants to the regional governments the authority to borrow money and issue debt domestically or internationally, so long as, in the latter case, the debt is guaranteed by the national government. In addition, the law grants to the regional governments the power to propose the creation or elimination of regional taxes. Under the 1993 Constitution, only Congress and the Executive Branch, pursuant to legislative authority delegated by Congress, may create, amend or eliminate taxes.

On January 1, 2003, Congress granted to the national government the exclusive power to determine, conduct and manage national and regional policies in accordance with national and regional needs. As of 2003 the national budget has been distributed among the national government, the regional governments and the municipal governments in accordance with the new governmental structure. A portion of the national budgets that are earmarked for the regional governments are to be funded from privatization proceeds.

National Government. The 1993 Constitution provides for a presidential system of government in which national powers are divided among independent executive, legislative and judicial branches.

Executive power is exercised by the President, who appoints ministers, enacts the laws passed by the legislative branch and is the commander-in-chief of the armed forces. The President may enter into treaties without prior congressional approval, except for treaties relating to human rights, Peru's sovereignty, national defense, financial obligations to be assumed by the government and treaties that create, modify, or repeal taxes or overrule existing laws. The President is directly elected for a five-year term. The 1993 Constitution abrogated the ban on presidential reelection and provided that a President may be reelected only to one consecutive term. The 1993 Constitution was amended in November 2000, reinstating the ban on consecutive presidential terms. Former presidents may seek the presidency again after a presidential term has elapsed.

The 1993 Constitution provides for two electoral rounds. If the first round does not yield a majority vote for any one presidential candidate, a majority in the first round being 50% plus one of the total votes cast, a second round is held between the two presidential candidates who obtained the greatest number of votes in the first round. The 1993 Constitution introduced the positions of First and Second Vice President. These officials are popularly elected but have no constitutional functions unless the President is unable to discharge his duties. If the President cannot discharge his duties, the First Vice President assumes the presidency. The Second Vice President assumes the presidency if the First Vice President is unable to discharge his duties.

After the President, executive authority is vested in the Council of Ministers, which is headed by the President of the Council of Ministers, who is appointed by the President. The Council of Ministers oversees and coordinates the activities of Peru's various ministries and approves all legislative proposals sent by the President to Congress. However, the Council of Ministers may not approve laws without the President's approval. Each member of the Council of Ministers may approve ministerial resolutions without the President's consent, but these are regulations that do not have the force of laws approved by Congress and are superseded by laws proposed by the Council of Ministers and approved by the President.

The legislative branch consists of a unicameral congress composed of 120 members who are elected for a five-year term, with all seats subject to reelection at the end of each five-year period. There are 25 electoral districts and the number of members elected by each district is proportional to the district's population. Lima, the most populous district, elects 35 members. The next congressional elections are scheduled for April 2011.

In addition to passing laws, Congress is empowered to approve the government's budget and to approve treaties. Congress may delegate to the executive branch, for defined periods of time, legislative authority over specific matters.

The highest courts in Peru are the 18-member Supreme Court of Justice and the seven-member Constitutional Tribunal. The Peruvian judicial system is also composed of:

- justices of the peace, who preside over district court proceedings related to alimony, landlord-tenant, personal debt and real and personal property disputes and who function as arbiters but cannot issue legally-binding decisions;
- courts of first instance, which include civil, penal and special-chamber courts having jurisdiction over all cases not under the express jurisdiction of other courts, and a series of specialized courts dealing with matters such as drug-related cases, and which were established to reduce the backlog of cases pending final action in the other courts of first instance;
- military courts, which adjudicate charges of criminal conduct brought against members of the armed forces and the police while discharging their duties and charges of national treason and terrorism brought against civilians; and
- superior courts, which review judgments rendered by all lower courts, except military courts.

All judges in the Peruvian judicial system, with the exception of justices of the peace, who are elected by popular vote, and members of the Constitutional Tribunal, who are elected by Congress, are appointed and

may be removed only by the *Consejo Nacional de la Magistratura*, or Judiciary Council. This independent body is composed of seven members who are elected for five-year terms by several national entities, through secret votes, as follows:

- one member is elected by the Supreme Court of Justice;
- one member is elected by the *Junta de Fiscales Supremos*, or Board of Supreme Prosecutors;
- one member is elected by the members of the bar associations;
- one member is elected by the presidents of the national universities;
- one member is elected by the presidents of the private universities; and
- two members are elected by Peru's other collegiate associations of professionals.

In addition, the Judiciary Council may elect two additional members. The Judiciary Council reviews and ratifies all judges every seven years, including the members of the Supreme Court of Justice and justices of the peace.

The Supreme Court of Justice has ultimate jurisdiction over all matters adjudicated by the superior courts and over all military court rulings in which the death penalty is imposed. Its members must be over age 45 and must retire by age 70. The Judiciary Council may refuse to ratify or may remove a member of the Supreme Court of Justice only because of physical or mental incapacity, or for engaging in conduct incompatible with his or her duties.

The Constitutional Tribunal is the final arbiter of the Constitution. Its members are appointed by Congress for five-year terms, are not subject to reelection and cannot be removed before their term expires, unless Congress determines that a magistrate has:

- become physically incapacitated or morally unfit;
- engaged in conduct incompatible with his or her duties; or
- been found guilty of a crime.

Political Parties

With the exception of the APRA and AP, Peru's political parties do not have deep historical roots and often change, merge or dissolve. Currently, the principal political parties in Peru are APRA, UPP, UN, *Alianza por el Futuro*, *Perú Posible* and *Restauración Nacional*.

APRA (Alianza Popular Revolucionaria Americana). Initially left wing in its outlook, the APRA became a conservative force during the 1950s and is now a center-left party. President Alan García, a member of the APRA, first became president in 1985. In the 2001 presidential election, García obtained significant support, forcing a runoff in which Alejandro Toledo prevailed. On June 4, 2006, García won a run-off vote having campaigned on promises to tackle poverty and boost economic growth.

UPP (Unión por el Perú). The UPP was founded by Javier Pérez de Cuellar in 1995, when he unsuccessfully challenged Fujimori for the presidency. Originally UPP was a center-left party with socially-oriented ideologies, but since its 2006 alliance with the Nationalist Party of Peru it has transformed into a radical left wing party with strong influence from the Venezuelan president Hugo Chavez. In the 2006 elections, under

the leadership of nationalist Ollanta Humala, UPP obtained the highest congressional vote although less than the majority of the seats in Congress. As of 2006 several UPP congressmen have left the party to join other parties or become independents.

UN (Unidad Nacional). The UN is an electoral alliance formed by the traditional party *Partido Popular Cristiano* and independent congressmen. *Solidaridad Nacional* and *Avancemos*, two parties which were part of the alliance left it in 2008, effectively terminating it. The UN supports socially oriented market policies with a focus on promoting Christian values. Lourdes Flores Nano ran as the UN's presidential candidate in 2006.

Alianza por el Futuro. The *Alianza por el Futuro* party is a political alliance formed by pro-Fujimori parties Change 90 (*Cambio 90*) and New Majority (*Nueva Mayoría*) for the 2006 national elections. Its presidential candidate was former president of Congress Martha Chávez Cossio. Keiko Fujimori, the daughter of former President Fujimori and a candidate for congress, obtained the highest number of votes for congress in the 2006 elections.

Perú Posible. *Perú Posible* seeks to promote economic growth through a liberal economic program designed to foster domestic and foreign investment and fiscal and macroeconomic stability, while investing in social programs designed to alleviate poverty and create employment. Peru's former president, Alejandro Toledo, founded the party in 1994.

Restauración Nacional. The *Restauración Nacional* party is a Peruvian religious political party controlled by evangelical Christian groups. In the 2006 elections, it won 4% of the popular vote.

AP (Acción Popular). The AP supports a moderate reform program that emphasizes modernization and development through an activist public sector. Fernando Belaúnde, who served as President from 1963 to 1968 and from 1980 to 1985, founded the AP in 1956. The AP's membership included Valentín Paniagua, who became President during the transition government that followed Fujimori's removal in 2000. In the 2006 elections AP ran as part of the now dissolved *Frente de Centro* political alliance.

The following table provides congressional representation of each of the political parties as of the most recent election in 2006.

	Congress	
	Seats	%
UPP	45	37.5
APRA	36	30.0
UN	17	14.2
<i>Alianza por el Futuro</i>	13	10.8
<i>Frente de Centro</i>	5	4.1
<i>Perú Posible</i>	2	1.7
<i>Restauración Nacional</i>	2	1.7
Total	120	100.0

Source: Ministry of Economy and Finance.

Foreign Policy and Membership in International and Regional Organizations

Peru has not been involved in any significant international conflicts since the end of its border dispute with Ecuador in 1998. A brief diplomatic dispute erupted in 2001 between Peru and Venezuela in connection with the capture of the former advisor to Peru's intelligence agency, Vladimiro Montesinos, in Venezuela. Peru alleged that Venezuela had temporarily hidden and protected Montesinos after formal charges had been brought against him in Peru, a claim that Venezuela denied. Venezuela temporarily severed relations with Peru between

June 28 and July 28, 2001, but relations between the two countries were restored. President Alan García has expressed his intention to strengthen good relations with Venezuela as long as Venezuela does not interfere with Peruvian internal matters.

In July 2003, Peru presented a formal extradition request to the Japanese government for Alberto Fujimori based on criminal charges. The request was rejected by the Japanese government due to Fujimori's Japanese citizenship. On October 15, 2004, Peru made a second request for extradition based on forgery and embezzlement charges, but the extradition process stalled. Peru's commercial and other ties with Japan were not adversely affected by the dispute. On November 6, 2005, police in Chile arrested Fujimori after he began a surprise visit to Chile. Peruvian authorities presented numerous formal requests for Fujimori's extradition. On September 21, 2007, Fujimori's extradition was granted by the Chilean Supreme Court and he was extradited to Peru that same day.

Despite Peru's and Chile's dispute concerning the maritime boundary allegedly delineated in the 19th century War of the Pacific, the two countries enjoy good relations. On November 4, 2004, the foreign ministers of Peru and Chile signed a joint statement expressing an intent to forge closer ties and further develop bilateral relations and in August 2006 an economic complementation agreement was signed among both countries. However, the enactment of a declaration of maritime borders by Peru's Congress on November 15, 2005 created a dispute among Peru and Chile countries over the maritime delimitation of their border. In order to settle the maritime delimitation dispute through established international law channels, Peru instituted on January 16, 2008 proceedings against Chile before the International Court of Justice, or ICJ. The court has fixed March 20, 2009 as the time-limit for the filing of a Memorial by Peru and March 9, 2010 as the time-limit for the filing of a Counter-Memorial by Chile. These proceedings have not damaged relations between Peru and Chile and economic relations among both countries have continued to strengthen.

Peru maintains diplomatic relations with 167 countries and is a member of 162 regional and international organizations and forums, including:

- the United Nations;
- the Organization of American States;
- the Community of Andean Nations, formerly known as the Andean Pact;
- the World Trade Organization, or WTO;
- the Latin American Integration Association;
- the IADB;
- the IMF;
- the World Bank;
- International Finance Corporation;
- the CAF;
- the Asia-Pacific Economic Cooperation;
- the Free Trade Area of the Americas;
- the TPA; and
- the Mercosur (as an associate member).

Peru joined the General Agreement on Tariffs and Trade in 1951 and is a founding member of the WTO, which was established in January 1995. In addition, Peru participates in several regional initiatives designed to promote trade and foreign investment. The most significant of these initiatives are the following:

- Since 1980, Peru has been a member of the Latin America Integration Association, which promotes and coordinates bilateral trade agreements between its member countries. Under the auspices of this association, Peru has signed preferential tariff agreements with Argentina, Brazil, Cuba, Mexico, Paraguay and Uruguay.
- Since 1990, Peru has been a member of the Community of Andean Nations, which also includes Bolivia, Colombia and Ecuador. This organization seeks to promote economic integration and cooperation. As of December 31, 2005, a free trade zone between the members of the Community of Andean Nations was effectively created. The common market provides for the free trade of goods, services, capital and people between its member countries. In April 1998, the Community of Andean Nations signed a framework agreement with the Common Market of the South, or Mercosur, whose members are Argentina, Brazil, Paraguay and Uruguay, to create a free trade zone between the two economic blocs. The Community of Andean Nations has also reached bilateral agreements with Brazil and Argentina as a first step towards the creation of free trade arrangements with these countries. On December 16, 2003, the Community of Andean Nations reached a trade pact with Mercosur.
- Since 1990, Peru has been a beneficiary of the General System of Preferences for the Andean Countries, a program of unilateral trade preferences granted by the European Union that is intended to promote economic development in the Andean region. Under the program, the European Union sets zero tariffs for fishing, agriculture and textile products from Peru. This program was scheduled to expire on December 31, 2001, but was automatically extended for three years on December 10, 2001. In June 2005, a new General System of Preferences was adopted in accordance with the new rules set forth by the WTO, and the program was extended until December 2008.
- Since 1991, Peru has been, together with Bolivia, Ecuador and Colombia, a beneficiary of the U.S. ATPDEA, a program of unilateral trade preferences granted by the United States to promote export diversification and broad-based economic development as an alternative to drug-crop production in the Andean region. The United States has repeatedly renewed ATPDEA with the last renewal set to expire on December 31, 2009.
- In 1994, Peru participated in the Summit of the Americas in Miami, which led to the establishment of the Free Trade Agreement of the Americas. This agreement seeks to create a free trade zone in the Western Hemisphere, which, if implemented, would grant preferential treatment to Peruvian goods and services exported to other member countries.
- Since November 1998, Peru has been a member of the Asia-Pacific Economic Cooperation, which seeks to achieve free trade in the Asia-Pacific region through a progressive reduction in the tariffs of its member countries. This organization establishes trade rules in areas of foreign investments, rules of origin, customs procedures, technical barriers to trade, unfair trade practices, promotion of competition, intellectual property and dispute resolution.
- In August 2003, Peru signed an agreement with Brazil to become an associate member of Mercosur. On December 16, 2003, Peru was accepted as an associate member of Mercosur. Mercosur, formed by Argentina, Brazil, Paraguay and Uruguay, also includes associate members Bolivia, Chile, Colombia, Ecuador and Venezuela, which will become a member. Mercosur seeks to create a full common market in goods, services and factors of production among its members and to establish common external tariffs for trade with non-members. Peru expects to eliminate gradually its trade barriers with the members of Mercosur, with a goal of barrier-free trade with Paraguay and Uruguay in 13 years and with Argentina and Brazil in 15 years.

- On December 8, 2004, Peru, together with Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Suriname, Uruguay and Venezuela, signed an agreement to create the South American Community of Nations, envisioned as an economic and political block similar to the European Union that ultimately will have a single currency.
- On December 9, 2004, Peru and Brazil signed an agreement to build a 1,200 km transoceanic roadway from the Brazilian city of Assis, in the state of Acre, to three Peruvian ports, Matarani, Ilo, and Marcona, on Peru's Pacific coast. Peru has granted a concession to private interests to build the portion of this road that is in its territory.
- On November 19, 2005, Peru and Thailand signed a Protocol to Accelerate the Liberalization of Trade in Goods and Trade Facilitation in order to strengthen and enhance economic partnership between the two countries.
- On November 30, 2005, Peru signed an Economic Complementation Agreement with Argentina, Brazil, Paraguay and Uruguay, members of Mercosur.
- In April 2006, Peru signed the TPA with the United States. In June 2006 and November 2007, the Congress of Peru and the U.S. Congress approved the Peru Trade Promotion Agreement, and the U.S. Senate approved it in December 2007. The TPA shall become effective in January 2009 upon fulfillment of certain conditions. To fulfill such conditions Peru has enacted 99 Legislative Decrees, some of which are pending approval of their regulations to become effective.
- In June 2006, Peru held a sixth round of negotiations with Mexico in order to extend the Economic Complementation Agreement signed in March 1987.
- In August 2006, Peru signed a free trade agreement with Chile to expand the Economic Complementation Agreement of June 1998. This new free trade agreement gradually eliminates all customs duties between the two countries, provides for a substantial reduction in tariffs over a ten-year period and establishes a framework for cooperation in foreign investment, customs procedures, tourism, services trade, dispute resolution and sanitary requirements.
- In May 2008, Peru signed a free trade agreement with Canada.
- In May 2008, Peru signed a free trade agreement with Singapore.
- In November 2008, Peru and Japan signed a treaty to encourage investment in Peru.
- In January 2009, Peru concluded negotiations with EFTA regarding three commercial agreements.
- In March 2009, a free trade agreement between Chile and Peru, or the Economic Association Agreement, entered into force. The Economic Association Agreement was originally signed in 2006.
- In April 2009, Peru signed a free trade agreement with the Republic of China.
- In October 2009, Peru and Japan completed four rounds of negotiations for the Japan-Peru Economic Partnership.

Relations with Ecuador

Peru has had several territorial disputes with Ecuador dating back to colonial times. A significant military clash occurred in 1941, which came to an end in 1942 with the signing of the Rio de Janeiro Protocol. This settlement, sponsored by Argentina, Brazil, Chile and the United States, established territorial limits

between Peru and Ecuador but failed to delineate clearly their border in a 78-kilometer section of the Andean foothills. Further disputes over the border in this region led to additional clashes in 1981 and 1995. In the latest clash, thousands of soldiers from each country fought an intense but localized war in the disputed territory of the upper Cenepa valley.

A peace agreement brokered in February 1995 by the four sponsors of the Rio de Janeiro Protocol led to the cessation of hostilities and established the Military Observers Mission to Ecuador-Peru to monitor activities in the disputed area. In 1996, Peru and Ecuador began a series of meetings that led to the 1998 Brasilia Agreement, which defined the border in the disputed area. The border agreed upon tracks the peaks of the *Cordillera del Cóndor* mountain range. The 1998 Brasilia Agreement granted Ecuador private ownership of a hill known as Tiwinza, but it was agreed that the hill would remain under Peruvian sovereignty. In May 1999, a complete demarcation of the border was completed. The 1998 Brasilia Agreement also established terms of bilateral trade and navigational understandings between the two nations and created the Bi-National Commission for Border Integration. This commission led to the launch of a US\$3.0 billion regional development program to improve social and economic conditions along the border.

Peru currently maintains strong political and economic relations with Ecuador. The two governments have signed further agreements on border development, navigation, security and trade.

Narco-terrorism and Delinquency

In the 1980s and early 1990s, the Shining Path and Tupac Amaru conducted indiscriminate bombings and selective assassinations in Peru. The government estimates that from 1980 to 1995, the Shining Path's terrorist activities led to the deaths of approximately 31,300 people. The capture in 1992 of the Shining Path's founder, Abimael Guzmán, his subsequent life sentence and the jailing of most of the Shining Path's central committee, considerably weakened the Shining Path. Although the Shining Path is no longer as powerful as it was during the 1980s and early 1990s, members still operate in remote regions in central and southern Peru, where military patrols have decreased due to cuts in military spending. During the last years there have been sporadic subversive actions in rural areas, especially in the jungle, which have been attributed to the Shining Path.

Shining Path members have formed alliances with coca farmers and drug traffickers in drug-growing areas of the Upper Huallaga and Apurímac valleys to provide armed protection against the government's interdiction efforts. In response to this activity, security forces in Peru continue to monitor subversive activities and have maintained their efforts to prevent the resurgence of a significant terrorist threat, including by reactivating anti-terrorist bases in the valleys, training farmers in areas where the Shining Path operates to assist the military and heightening security in Lima.

The limited state presence in large portions of the interior challenges the Peruvian government's ability to ensure broad-based development for all Peruvians. Peru's tropical forests are increasingly threatened by shifting migration patterns, unsustainable exploitation of the forest, and the destructive impact of illicit coca production and processing. The lack of government presence in these areas allows drug trafficking, illegal logging, terrorism and other criminal practices to flourish, creating a corrupt, violent and conflictive environment that limits economic opportunities and prevents sustainable economic growth and development.

During 2008 there was a slight increase in the production of coca from 53,700 hectares in 2007 to 56,100 hectares in 2008. The Peruvian government reported the eradication of 10,143 hectares of coca fields in 2008, 1,929 hectares less than in 2007.

In addition to Peru's coca crop, production of poppies, the source of heroin, has decreased in Peru since 2007. In 2008 and the first nine months of 2009, the Peruvian government eradicated 23 and 19.5 hectares of poppies, respectively.

The Peruvian government has also implemented measures to prevent money laundering of funds from drug trafficking and other illegal activities. Peru requires financial institutions to conduct employee training in preventive methods, obtain basic knowledge about their clients and adhere to a code of conduct. Moreover financial institutions are required to report to the *Unidad de Inteligencia Financiera* (Financial Intelligence Bureau) any suspicious activity which may be related to money laundering or financing of terrorism.

Legal Proceedings

On October 6, 2003, Duke Energy International Peru Investments No. 1 Ltd., or Duke Energy, filed a request for arbitration before the *Centro Internacional de Arreglo de Diferencias Relativas a Inversiones*, or CIADI (the International Center for Settlement of Investment Disputes), alleging that Peru breached the Legal Stability Agreement between Duke Energy and Peru by imposing a US\$48.0 million tax assessment on Duke Energy's affiliate, Duke Energy International Egenor S. en C. por A. for underpayment of taxes due, interest, fines and penalties. Duke Energy sought compensation for any increased tax costs or effects arising out of the assessment, amounts paid to the Peruvian government in connection with the tax assessment and costs of the arbitration proceedings. On August 18, 2008, the CIADI tribunal decided in favor of Duke Energy on one of the pleadings and dismissed the other. The award has found Peru liable to Duke Energy for damages of approximately US\$18.4 million plus interest. In November 2009, Peru filed an appeal seeking annulment of the award and Duke Energy filed a response. The status of the annulment proceeding is pending.

On July 17, 2006, Aguaytía Energy LLC, or Aguaytía Energy, filed a request for arbitration before the CIADI, alleging that Peru violated the legal stability agreement between Aguaytía Energy and Peru by the inappropriate classification of the transmission facilities of their wholly owned subsidiaries Eteselva S.R.L. and Termoselva S.R.L. Aguaytía Energy seeks compensation for US\$140.6 million. On November 28, 2008, CIADI denied the claim of Aguaytía Energy and ruled in favor of Peru, stating that the wording of the stability agreement did not convey a most-favored-investor status to the claimant.

On September 29, 2006, Mr. Tza Yap Shum and TSG Perú S.A.C., filed a request for arbitration before the CIADI, alleging that Peru had violated its international obligations under the bilateral investments promotion and protection agreement, or BIT, with the People's Republic of China. Mr. Tza Yap Shum and TSG Perú S.A.C., are seeking US\$20 million compensation. Peru raised a number of objections to the CIADI tribunal's jurisdiction. On June 19, 2009, the tribunal issued a decision that found it had jurisdiction over the claim. It also concluded that many of Mr. Tza's claims were beyond the scope of the Peru-China BIT's dispute settlement provisions, and thus had to be dismissed. However, the tribunal found that it had jurisdiction over the expropriation claim, which it allowed to proceed on the merits. This case is still pending.

On January 16, 2008, Peru instituted proceedings against Chile before the ICJ concerning a dispute in relation to the delimitation of the boundary between the maritime zones of both countries in the Pacific Ocean and the recognition in favor of Peru of a maritime zone lying within 200 nautical miles of Peru's coast, which Chile considers to be part of the high seas. Peru has requested the ICJ to determine the course of the boundary between the maritime zones of Peru and Chile and to adjudge and declare that Peru possesses exclusive sovereign rights in the maritime area in question which is beyond Chile's exclusive economic zone or continental shelf. On March, 19, 2009, Peru submitted its initial pleading concerning the maritime delimitation dispute with Chile to ICJ. The ICJ has set March 9, 2010 as the time-limit for the filing of a response by Chile.

THE ECONOMY

History and Background

Between 1930 and the mid-1960s, Peru had one of the most successful economies in Latin America. During this time, Peru generally deviated from the import-substitution model adopted by other countries in the region. Peru adhered, except for brief intervening periods, to laissez-faire, non-interventionist economic policies. The government encouraged foreign investment through tax incentives and legislation guaranteeing equal treatment of foreign and domestic investors. Aided by its main exports, consisting of fish, fish products, copper, petroleum and agricultural products, Peru's economy grew steadily during this period.

Beginning in the mid-1960s, the Peruvian economy sustained a series of setbacks. Public sentiment began to turn resolutely against foreign investment. Pressure for change in economic policies increased as a result of:

- class and social conflicts, characterized by populist resentment against the economic elite that ruled Peru and against the presence of foreign companies in industries related to Peru's national resources, such as petroleum and mining, and in other prominent sectors of the economy;
- an economic slowdown brought about by a reduction in production and exports due principally to a sudden drop in fish catch and reduced mining and metal processing following the exhaustion of a number of the principal copper and other mines; and
- the increased cost of living brought about by higher domestic food prices.

In 1968, the military government headed by General Juan Velasco Alvarado nationalized numerous private enterprises and conducted a campaign against foreign participation in the Peruvian economy. In 1969, the Velasco administration enacted *Ley de Reforma Agraria*, or the Agrarian Reform Law, which confiscated large estates from wealthy owners, turning the estates into cooperatives run by the former workers of the estates, and adopted high tariffs to shield local industry and manufacturing from foreign competition.

Peru's currency became overvalued, making exports less competitive, and its debt grew sharply during the 1970s. Peru experienced large current account deficits and the Velasco administration borrowed abroad to finance these deficits rather than change its policies. Many cooperative farms, operated by people with little management experience, went bankrupt and agricultural production suffered.

In 1975, General Francisco Morales-Bermúdez Cerruti implemented an economic austerity program to correct the economic disequilibrium reflected in Peru's fiscal and current account deficits and high external debt burden. The government implemented fiscal and monetary restraints and devalued the currency. These measures coincided with increases in world prices of Peru's main exports. The fiscal deficit narrowed and by 1979 Peru had achieved a significant current account surplus.

In 1980, the civilian government led by Fernando Belaúnde reinstituted high spending and borrowing but was forced to adopt more restrained spending policies in later years. Alan García Pérez, who assumed the presidency in 1985, brought Peru to a deepening economic crisis. García increased spending, declared a debt moratorium and attempted to nationalize the banking system and other key industries. Private investment collapsed, the public sector deficit increased and exports dwindled. By 1990, the annual inflation rate had increased to 7,650%, net international reserves had been completely depleted and the economy had entered its third year of recession. The García administration was also beset by the terrorist activities of the Shining Path and Tupac Amaru.

In 1990, Alberto Fujimori, a university professor, won the presidential election on a campaign platform that emphasized his "outsider" status and his opposition to "traditional" politicians. President Fujimori inherited an economy beset by recession, hyperinflation and high levels of external debt. President Fujimori immediately moved to cut public spending, increase taxes, tame inflation and open domestic markets to foreign investment.

Within the first few years of his presidency, President Fujimori dismantled protectionist and interventionist laws and policies to create a liberal economy dominated by private sector and market forces. In order to encourage foreign investment, the Fujimori administration undertook an ambitious privatization program, strengthened and simplified Peru's tax system, opened Peru to foreign investment and lifted exchange controls and restrictions on remittances of profits, dividends and royalties. Although the Fujimori administration successfully privatized many state entities, the privatization program waned in the later years of the administration because of adverse market conditions and Fujimori's adoption of a more populist stance prior to the 2000 elections.

As time went on, the Fujimori administration became increasingly authoritarian, as evidenced by the dissolution of Congress in 1992, his consolidation of power in the executive branch following adoption of the 1993 Constitution and his alliance with Vladimiro Montesinos, an intelligence advisor. President Fujimori's authoritarianism exacted a price on Peru's political system, although it had little effect on the successes of his economic program.

On November 20, 2000, Congress removed President Fujimori from office and Valentín Paniagua assumed the presidency on a provisional basis. The Paniagua administration adopted fiscal policies to reduce spending, restore confidence, reform the tax system and stabilize the economy.

In June 2001, Alejandro Toledo Manrique was elected president based on a platform that recognized the value of an open economic system and rejected Fujimori's legacy of political authoritarianism. President Toledo vowed to restore democracy, fiscal discipline and transparency to the government. He pledged to increase the living standards of the poor and disadvantaged, who constitute a majority of Peru's population, through improvements in education, health and employment opportunities. He also promised to continue the economic reforms and privatization program first advanced by the Fujimori administration.

President Toledo assumed the presidency in July 2001 against a backdrop of high unemployment and underemployment, economic recession and social need more severe than the Fujimori administration had acknowledged. Despite the economic achievements between 1990 and 2000, poverty remained a persistent problem in Peru. More than half of the population lived below the poverty line, as defined by the World Bank, adjusted to reflect differences in purchasing power. A significant number of Peruvians lived on a monthly per capita income of less than US\$30.

President Toledo implemented a number of proposals to stimulate Peru's economy, including privatization and fiscal austerity programs. President Toledo's policies spurred sustained economic growth since the fourth quarter of 2001. Despite this economic growth, the Toledo administration fell in the polls and faced ongoing social protests and unrest spurred by disappointment that President Toledo's policies did not immediately lead to a significant reduction in the high rates of unemployment, underemployment and poverty.

On June 4, 2006, President García was elected to a five-year term after winning approximately 53% of the nationwide vote. The García administration was elected on a platform that seeks to implement social and political reforms and to provide continuity to the macro-economic stability of recent years, as well as solidifying Peru's relationships with its international partners. President García has pledged to turn away from policies that tend to isolate Peru from the United States and other developed economies, seeking instead to consolidate the existing relationships and sign trade agreements with these countries. President García has also pledged to seek economic development for all Peruvians while ensuring economic and political stability. During his term in office, Peru has signed free trade agreements with the United States, Canada, Singapore, China and Chile, and has continued with market oriented policies that have spurred economic growth to rates not seen since President Fujimori's government.

Developments from 2004 to September 30, 2009

Introduction

From 2004 to 2008 and the first nine months of 2009, Peru experienced a period of general economic expansion. The economy expanded by 5.0% in 2004, 6.8% in 2005, 7.7% in 2006, 8.9% in 2007, 9.8% in 2008 and 0.1% in the first nine months of 2009, the latter compared to the comparable period of 2008. Provided below is a discussion of the trends and events affecting the economic results during this period.

2004

Sustained economic expansion, which started in mid-2001, continued throughout 2004. During 2004, GDP expanded by 5.0% compared to 2003, primarily as a result of an increase in exports of goods (40.9%) and higher domestic demand (3.8%) driven by private consumption (3.6%) and private investment (8.1%). In per capita terms, production grew 3.3%, compared to 2.4% in 2003.

The current account showed a small surplus of US\$19 million in 2004, mainly attributed to the significant trade surplus and the increase in current transfers. This was the first surplus since 1979.

The following were the key economic results for 2004:

- the non-financial public sector fiscal deficit as of December 31, 2004 was 1.0% of GDP, compared to 1.7% of GDP as of December 31, 2003;
- the inflation rate was 3.5% compared to 2.5% in 2003; and
- the net international reserves of the Central Bank as of December 31, 2004 increased to US\$12.6 billion, compared to US\$10.2 billion as of December 31, 2003.

2005

In 2005, GDP expanded by 6.8% compared to 2004. This growth was mainly attributable to domestic consumption and private sector investment. Exports grew 35.6% to US\$17.4 billion in 2005, compared to growth of 40.9% in 2004. For the second year in a row, the current account recorded a surplus equivalent to 1.4% of GDP.

The following were the key economic results for 2005:

- the non-financial public sector fiscal deficit as of December 31, 2005 was 0.3% of GDP, compared to 1.0% of GDP as of December 31, 2004;
- the inflation rate was 1.5% compared to 3.5% in 2004; and
- the net international reserves of the Central Bank as of December 31, 2005 increased to US\$14.1 billion, compared to US\$12.6 billion as of December 31, 2004.

2006

In 2006, GDP expanded by 7.7% compared to 2005. This growth was mainly attributable to a general increase in all sectors that make up domestic demand, especially private consumption and private investment. Exports grew 37.2% to US\$23.8 billion in 2006, compared to growth of 35.6% in 2005. The current account posted, for the third year in a row, a surplus equivalent to 3.1% of GDP. For the first time since 1997 the non-financial public sector recorded a fiscal surplus of 2.1% of GDP.

The following were the key economic results for 2006:

- the non-financial public sector fiscal surplus as of December 31, 2006 was 2.1% of GDP, compared to a 0.3% deficit of GDP as of December 31, 2005;
- the inflation rate was 1.1% compared to 1.5% in 2005; and
- the net international reserves of the Central Bank as of December 31, 2006 were US\$17.3 billion, compared to US\$14.1 billion as of December 31, 2005.

2007

In 2007, GDP expanded by 8.9% compared to 2006. This growth was mainly attributable to an increase in domestic demand, the result of economic stability, employment growth and increased consumer confidence. Exports grew 17.0% to US\$27.9 billion in 2007, compared to 37.2% in 2006. For the fourth year in a row, the current account posted a surplus equivalent to 1.1% of GDP. The surplus of the non-financial public sector increased to 3.1% of GDP.

The following were the key economic results for 2007:

- the non-financial public sector fiscal surplus as of December 31, 2007 was 3.1% of GDP, compared to 2.1% of GDP as of December 31, 2006;
- the inflation rate was 3.9% compared to 1.1% in 2006; and
- the net international reserves of the Central Bank as of December 31, 2007 increased to US\$27.7 billion, compared to US\$17.3 billion as of December 31, 2006.

2008

In 2008, GDP expanded by 9.8% compared to 2007, the highest growth rate since 1997. This growth was mainly attributable to an increase in domestic demand, the result of economic stability, employment growth and increased consumer confidence. Exports grew 13.1% to US\$31.5 billion in 2008, compared to growth of 17.0% in 2007. The current account posted a deficit equivalent to 3.3% of GDP. The surplus of the non-financial public sector decreased to 2.1% of GDP.

The following were the key economic results for 2008:

- the surplus of the non-financial public sector as of December 31, 2008 was 2.1% of GDP, compared to 3.1% of GDP as of December 31, 2007;
- the inflation rate was 6.7% compared to 3.9% in 2006; and
- the net international reserves of the Central Bank as of December 31, 2008 increased to US\$31.2 billion, compared to US\$27.7 billion as of December 31, 2007.

Nine Months Ended September 30, 2009

During the nine-month period ended September 30, 2009, GDP grew by 0.1%, compared to the comparable period in 2008. The sectors that experienced growth were agriculture and livestock, hydrocarbons, construction, utilities and other services. The expansion in the hydrocarbons sector (21.5%) was due to increased activity in liquid hydrocarbons; the latter due to increased production of crude oil from block 56 and block 28

fields. The expansion in the utilities sector was due to increased drinking water production. Growth in the construction sector resulted from increased public and private infrastructure projects activity. Finally, livestock and agriculture sector grew driven by increased activity in the avicole and cattle sub-sectors.

The following were the key economic results during the nine months ended September 30, 2009:

- the current account registered a deficit equal to 0.3% of GDP;
- exports decreased 25.7%, from US\$25.0 billion to \$18.6 billion, compared to an increase of 25.6% during the first nine months of 2008;
- the overall balance of the non-financial public sector registered a surplus of US\$72 million, or 0.2% of GDP, compared to a surplus of US\$3.6 billion, or 3.7% of GDP, for the nine-month period ended September 30, 2008;
- inflation decreased by 0.1% during the period, compared to an inflation rate of 5.3% for the nine-month period ended September 30, 2008; and
- the net international reserves of the Central Bank decreased to US\$32.1 billion as of September 30, 2009 compared to US\$34.7 billion as of September 30, 2008.

Developments in Argentina, Bolivia, Brazil, Colombia, Ecuador and Venezuela

On October 28, 2007, Cristina Fernández took office as new president of Argentina, succeeding her husband, president Néstor Kirchner. President Fernández is member of the same parties' alliance as president Kirchner, *Frente para la Victoria*, which has a leftist ideology. Her first months in office have been marked by economic and political unrest, as well as high inflation rates and power outages and shortages. In March 2008 the Federal government introduced a new tariff regime, which effectively sets a maximum price for their crops. This sparked widespread strikes and protests by farmers, including a 21-day strike in which, among other things, roadblocks were set up throughout the country, triggering Argentina's most significant political crisis in five years. As a consequence of the protests and the subsequent lack of support in the Senate for the tariff, the federal government abrogated the regime of sliding-scale export tariffs. In December 2008, the Argentine government transferred the approximately US\$29.3 billion in assets held by the country's ten private pension fund management companies (*Administradoras de Fondos de Jubilaciones y Pensiones*, or AFJPs) to the government-run social security agency, or ANSES. AFJPs were the largest participants in the country's local capital market. With the nationalization of their assets, the local capital market in Argentina is expected to diminish in size and be substantially concentrated in the hands of the government. In addition, the government will become a significant shareholder in many of the country's private companies. As a result, access to liquidity may be further limited, funding costs may rise and the government may have greater influence over the operations of private companies. The nationalization of the AFJPs has also adversely affected investor confidence in Argentina.

In Brazil, Luiz Inácio Lula da Silva was elected president on October 27, 2002 and reelected for a second four-year term on October 1, 2006. Brazil has shown strong growth and low inflation during the last few years, which has led to a decrease in unemployment and an improvement in the trade balance.

Under Bolivian president Evo Morales' oil, gas and strategic sectors nationalization plan, Bolivia has expropriated foreign energy companies, mining companies, private pension funds and telecommunications companies' interests in Bolivia or forced renegotiation under unfavorable terms. During late 2007 and 2008 President Morales experienced strong opposition from the rich producing provinces of the west of Bolivia, which forced a referendum to vacate his presidency. Even though president Morales won by a comfortable margin, the unstable political situation and struggle with the opposition provinces has continued. President Morales is also currently involved in a legal battle to call a referendum for a new constitution. President Morales is a strong ally of president Chávez.

Rafael Correa, an ally of president Chávez, was elected president of Ecuador in November 2006. His policies have been similar to those of Bolivia and Venezuela, having expropriated or forced the renegotiation under unfavorable terms of interests of foreign companies in the oil sector. In September 28, 2008 a constitutional reform promoted by president Correa was approved, increasing his powers and giving greater control of Ecuador's resources to the state.

In Colombia president Alvaro Uribe, who was reelected in 2006, has continued with market-oriented policies and a strong drive to defeat the guerillas. During 2008 Colombia's army has seen several successes in its war against the FARC guerilla, including the release through a military operation of prominent hostages, the death of its leader and increased rates of desertion amongst FARC members. President Uribe has tightened commercial and military ties with the United States and has signed a free trade agreement with the latter, which has not yet been approved by the U.S. Congress and Senate.

In Venezuela, the administration of President Hugo Chávez has promoted a model of increased state participation in the economy through exchange and price controls, state-owned companies, welfare programs, worker co-management and cooperatives and social production companies through which the Venezuelan government provides financial and training support. President Chávez has expropriated foreign companies' interests, or forced sale under unfavorable terms, in several sectors of the economy, including steel, cement, energy, oil, media and telecommunications. President Chávez's foreign policy has included intensive regional and international diplomacy intended to influence regional economic integration and diversify commercial relationships for the region. His foreign policy has opposed to United States interests in Latin America, which has included increased ties with countries such Russia, China and Iran. So far, windfall oil revenues have allowed an increase in domestic spending programs.

Negative investor reaction to developments in any of these countries could adversely affect the market for securities issued by Latin and South American countries, cause foreign investors to withhold capital from the region and cause uncertainty about plans for further integration of the region's economies. Any of these events could adversely and materially affect Peru.

The Economic Policies of the García Administration

President García has promised to create more employment through the increase of national and foreign investments in projects such as the expansion and modernization of the Port of Callao and the inter-oceanic highway, as well as to create new opportunities in the agriculture, fishing, mining and hydrocarbons. President García has also proposed government investment in infrastructure with funds from austerity policies, contributions from mining companies and loans from multilateral financial institutions.

Gross Domestic Product and Structure of the Economy

In the five-year period ended December 31, 2008, Peru's economy grew at an annual compound rate of 7.6% in real terms. The rate of growth was more pronounced in the period from 2007 to 2009, when GDP grew on average 9.3% in real terms, and specifically in 2008, when the rate of GDP growth was 9.8%. The economic expansion during this period has been based on solid economic fundamentals resulting from strong private investment, price stability, the improvement in public finances and lower external public debt. Since 2004 external factors, associated with favorable terms of trade and higher external demand, have been an additional factor, while private investment has continued to grow. However, since 2006 domestic demand (private investment and consumption) has been the main source of growth, with an 11.5% average increase in real terms between 2006 and 2008. In 2008, Peru's economy expanded 9.8% in real terms based on GDP growth. Domestic demand grew driven by an increase in public and private investment and private consumption. In the first nine months of 2009, Peru's economy grew 0.1% in real terms, compared to the comparable period in 2008. That compares to an 11.0% growth in real terms during the first nine months of 2008, compared to the comparable period in 2007.

In the five year period ended December 31, 2008, private consumption experienced an annual average increase of 6.3% in real terms, with an average annual increase of 7.8% during the last three years and 8.7% in 2008. As of 2008 gross private investment has been increasing gradually, with strong growth in the last three years (23.0% annual average in real terms). During the first nine months of 2009 private consumption decreased on 14.9%, compared to the comparable period in 2008.

During 2004, private consumption increased to US\$47.7 billion, an increase of 3.6% in real terms, due to the increase in national disposable income and employment. Gross investment increased during 2004 to US\$12.5 billion, due to higher company profits, factory expansions to meet increased local and export demand, greater investor confidence and higher demand for family housing.

During 2005, private consumption increased to US\$52.5 billion, an increase of 4.6% in real terms, due to employment and income growth, as well as higher levels of consumer confidence and better credit conditions. Gross investment increased during 2005 to US\$14.2 billion, due to greater investor confidence, influenced by a positive economic environment. Investments in housing construction were driven by the growth of bank mortgage loans, particularly of those associated with the Peruvian government-sponsored program *Mivivienda*.

During 2006, private consumption increased to US\$57.1 billion, an increase of 6.4% in real terms, as a result of higher national disposable income and employment, as well as good credit conditions. Total gross investment increased 26.5% due to high confidence levels and credit conditions.

In 2007, demand was mainly driven by the rapid expansion in private consumption and private investment. Private consumption was US\$66.1 billion, an increase of 8.3% in real terms compared to 2006, as a consequence of continued growth in employment across major cities, higher average incomes and increased access to and better terms of credit. Decentralized growth of employment has taken place in activities such as agriculture, commerce, transport and services –the principal sources of employment outside the capital city– with a positive impact on household spending. During 2007, gross investment increased to US\$24.6 billion, a 26.1% increase in real terms, in the same period due to better terms of trade, increased sales and profits, and a positive evolution of business expectations, which encouraged companies to implement projects of technological renovation and plant expansion in order to respond to higher levels of demand. Private investment has been the principal factor that has increased demand during the recent economic expansion.

In 2008, private consumption increased to US\$81.3 billion, compared to US\$66.1 billion during 2007, an increase of 8.7% in real terms, as a result of greater consumer confidence, national income, access to credit from financial institutions and urban employment. Total gross investment increased 25.9% during 2008, compared to 2007, due to increased private investment in construction projects and increased public investment by local governments and government-owned companies.

During the first nine months of 2009 private consumption was US\$61.5 billion, a growth of 2.4% in real terms, as a result of slower increase in the national income. Private investment decreased 14.9% though a considerable number of projects is being conducted, primarily in the mining, hydrocarbons, electricity, transportation, telecommunications and manufacturing sectors. Total gross investment decreased 22.2% despite the fact that public investment by central government, local governments and government-owned companies increased compared to the same period of 2008.

The following tables set forth GDP by expenditure for the periods shown.

Gross Domestic Product by Expenditure
(in millions of U.S. dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Government consumption	6,961	7,968	8,819	9,833	11,328	8,051	8,516
Private consumption	47,719	52,544	57,051	66,075	81,307	61,647	61,502
Gross investment							
Public sector	1,934	2,252	2,634	3,326	5,379	3,303	3,919
Private sector	10,558	12,282	15,140	19,515	27,360	20,979	16,789
Change in inventories	29	(339)	752	1,802	1,554	2,077	(1,313)
Total gross investment	12,521	14,195	18,526	24,644	34,293	26,360	19,395
Exports of goods and services	14,985	19,897	26,398	31,036	35,043	27,776	21,159
Imports of goods and services	12,434	15,209	18,355	24,083	34,264	26,153	18,603
Net (exports)	2,551	4,688	8,043	6,953	779	1,623	2,556
GDP	69,763	79,397	92,439	107,504	127,707	97,680	92,018

(1) Preliminary data.

Source: Central Bank.

Gross Domestic Product by Expenditure
(in millions of *nuevos soles*, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Government consumption	12,401	13,529	14,559	15,220	15,486	10,912	11,822
Private consumption	98,313	102,857	109,483	118,618	128,961	96,789	99,073
Gross investment							
Public sector	3,895	4,371	4,931	5,829	8,324	5,080	6,175
Private sector	20,829	23,332	28,010	34,561	43,415	31,997	27,239
Change in inventories	89	(678)	1,237	2,701	2,516	3,230	(2,058)
Total gross investment	24,814	27,025	34,178	43,091	54,255	40,307	31,356
Exports of goods and services	28,221	32,512	32,772	34,816	37,655	27,962	27,107
Imports of goods and services	24,607	27,282	30,846	37,416	44,879	33,370	26,607
Net (exports)	3,614	5,230	1,926	(2,599)	(7,224)	(5,408)	500
GDP	139,141	148,640	160,145	174,329	191,477	142,600	142,750

(1) Preliminary data.

Source: Central Bank.

From 2004 to 2008, domestic savings in Peru increased from 18.0% to 23.6% of GDP, due to an increase in both private and public savings, reflecting improvement in economic factors discussed above. In 2008, domestic savings decreased to 23.6% of GDP from 24.1% of GDP in 2007, due to an increase in private consumption. In 2008, private savings represented 17.2% of GDP, compared to 17.8% of GDP in 2007. From 2004 to 2008, public savings increased due to increased tax collections. In 2008, public savings reached 6.4% of GDP, due primarily to the growth in tax revenues and delays in expenditures by regional and municipal governments. During the first nine months of 2009 domestic savings in Peru were 20.9% of GDP, a decrease compared to the 23.5% for the comparable period of 2008.

External savings, as a percentage of GDP, increased from 0% in 2004 to 3.3% in 2008, reflecting the current account deficit, due to the growth in imports and a reduction in prices of metal commodities that resulted in a lower trade balance and due to a growth in services deficit.

Domestic investment as a percentage of GDP increased from 18% in 2004 to 26.9% in 2008, showing an increase in private investment, which flowed mainly into mining projects, the Camisea gas project, the construction of new plants and the expansion of existing ones in the cement, food, electricity and hotel industries. This dynamism was the result of the natural increase of supply as domestic demand increased driven by economic growth.

Gross Domestic Product by Expenditure
(as a percentage of total GDP, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Government consumption	10.0	10.1	9.5	9.1	8.9	8.2	9.2
Private consumption	68.4	66.1	61.8	61.5	63.7	63.1	66.8
Gross investment							
Public sector	2.8	2.9	2.8	3.1	4.2	3.4	4.2
Private sector	15.1	15.5	16.4	18.2	21.4	21.5	18.4
Change in inventories	0.1	(0.4)	0.8	1.7	1.2	2.1	(1.4)
Total gross investment	18.0	17.9	20.0	22.9	26.9	27.0	21.2
Exports of goods and services	21.5	25.1	28.5	28.9	27.4	28.5	23.1
Imports of goods and services	17.8	19.2	19.9	22.4	26.8	26.8	20.3
Net (exports)	3.6	5.9	8.7	6.5	0.6	1.7	2.8
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Preliminary data.

Source: Central Bank.

Gross Domestic Product by Expenditure
(percentage change from previous period, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Government consumption	4.1	9.1	7.6	4.5	1.8	3.0	8.3
Private consumption	3.6	4.6	6.4	8.3	8.7	8.9	2.4
Gross investment							
Public sector	5.8	12.2	12.8	18.2	42.8	60.6	21.6
Private sector	8.1	12.0	20.1	23.4	25.6	27.3	(14.9)
Change in inventories	(88.8)	(862.9)	282.4	118.4	(6.8)	18.9	(163.7)
Total gross investment	4.5	8.9	26.5	26.1	25.9	30.0	(22.2)
Exports of goods and services	15.2	15.2	0.8	6.2	8.2	10.4	(3.1)
Imports of goods and services	9.6	10.9	13.1	21.3	19.9	22.1	(20.3)
Net (exports)	78.0	44.7	(63.2)	(235.0)	(177.9)	(169.2)	109.2
GDP	5.0	6.8	7.7	8.9	9.8	11.0	0.1

(1) Preliminary data.

Source: Central Bank.

As indicated in the table “Per Capita GDP”, the standard of living of the Peruvian population continually increased from 2004 to 2008. Per capita GDP rose from US\$2,540 in 2004 to US\$ 4,454 in 2008 due to increased commercial activity and greater access to employment, reflected in the growth of exports, and continued increases in domestic demand. During 2008, per capita GDP increased 17.0% due primarily to the expansion of private consumption and private investment.

Investment and Savings
(as a percentage of current GDP)

	As of December 31,					As of September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Domestic savings:							
Public savings	1.8	2.6	5.0	6.2	6.4	7.1	4.8
Private savings	16.2	16.7	18.2	17.8	17.2	16.4	16.1
Total domestic savings	18.0	19.3	23.1	24.1	23.6	23.5	20.8
External savings	0.0	(1.4)	(3.1)	(1.1)	3.3	3.5	0.3
Total savings	18.0	17.9	20.0	22.9	26.9	27.0	21.2
Domestic investment	18.0	17.9	20.0	22.9	26.9	27.0	21.2

(1) Preliminary data.

Source: Central Bank.

Per Capita GDP⁽¹⁾
(in U.S. dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006 ⁽²⁾	2007 ⁽²⁾	2008 ⁽²⁾	2008 ⁽²⁾	2009 ⁽²⁾
Per capita GDP	2,540.5	2,854.9	3,283.6	3,809.4	4,454.6	4,615.0	4,283.2

(1) Without adjustment to reflect changes in purchasing power.

(2) Preliminary data.

Source: Central Bank.

Principal Sectors of the Economy

The principal economic activities in Peru are services (including wholesale and retail trade, transportation and tourism), manufacturing, agriculture and livestock, and mining and hydrocarbons.

Gross Domestic Product by Sector (in millions of *nuevos soles*, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary production:							
Agriculture and livestock ⁽²⁾	11,630	12,259	13,286	13,723	14,712	11,525	11,808
Fishing	779	804	823	879	933	701	652
Mining and hydrocarbons ⁽³⁾	9,031	9,790	9,926	10,195	10,968	8,065	8,181
Total primary production	21,440	22,853	24,035	24,797	26,614	20,291	20,642
Secondary production:							
Manufacturing	21,300	22,887	24,607	27,265	29,625	22,120	20,115
Construction	6,712	7,276	8,350	9,737	11,340	8,309	8,559
Electricity and water	2,931	3,094	3,307	3,588	3,865	2,891	2,903
Total secondary production	30,943	33,257	36,264	40,590	44,829	33,320	31,577
Services:							
Wholesale and retail trade	19,604	20,821	23,248	25,495	28,808	21,875	21,609
Other services ⁽⁴⁾	67,155	71,708	76,599	83,447	91,226	67,113	68,922
Total services	86,759	92,530	99,847	108,943	120,034	88,989	90,532
Total GDP	139,141	148,640	160,145	174,329	191,477	142,600	142,750

(1) Preliminary data.

(2) Includes forestry.

(3) Includes non-metallic mining.

(4) Includes taxes on products and import duties.

Source: Central Bank.

The following tables show the distribution of GDP in the Peruvian economy, indicating the percentage contribution to GDP and the growth rate for the periods shown for each sector, in each case compared to the previous corresponding period.

Gross Domestic Product by Sector
(as a percentage of GDP, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary production:							
Agriculture and livestock ⁽²⁾	8.4	8.2	8.3	7.9	7.7	8.1	8.3
Fishing	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Mining and hydrocarbons ⁽³⁾	6.5	6.6	6.2	5.8	5.7	5.7	5.7
Total primary production	15.4	15.4	15.0	14.2	13.9	14.2	14.5
Secondary production:							
Manufacturing	15.3	15.4	15.4	15.6	15.5	15.5	14.1
Construction	4.8	4.9	5.2	5.6	5.9	5.8	6.0
Electricity and water	2.1	2.1	2.1	2.1	2.0	2.0	2.0
Total secondary production	22.2	22.4	22.6	23.3	23.4	23.4	22.1
Services:							
Wholesale and retail trade	14.1	14.0	14.5	14.6	15.0	15.3	15.1
Other services ⁽⁴⁾	48.3	48.2	47.8	47.9	47.6	47.1	48.3
Total services	62.4	62.3	62.3	62.5	62.7	62.4	63.4
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Preliminary data.

(2) Includes forestry.

(3) Includes non-metallic mining.

(4) Includes taxes on products and import duties.

Source: Central Bank.

Gross Domestic Product by Sector
(percentage change from previous period, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary production:							
Agriculture and livestock ⁽²⁾	(1.4)	5.4	8.4	3.3	7.2	7.2	2.5
Fishing	30.7	3.2	2.4	6.9	6.2	7.5	(6.9)
Mining and hydrocarbons ⁽³⁾	5.3	8.4	1.4	2.7	7.6	7.9	1.4
Total primary production	2.2	6.6	5.2	3.2	7.3	7.5	1.7
Secondary production:							
Manufacturing	7.4	7.5	7.5	10.8	8.7	10.6	(9.1)
Construction	4.7	8.4	14.8	16.6	16.5	18.7	3.0
Electricity and water	4.5	5.6	6.9	8.5	7.7	8.8	0.4
Total secondary production	6.5	7.5	9.0	11.9	10.4	12.3	(5.2)
Services:							
Wholesale and retail trade	6.2	6.2	11.7	9.7	13.0	14.4	(1.2)
Other services ⁽⁴⁾	4.4	6.4	7.0	8.9	9.3	8.5	2.7
Total services	5.1	6.7	7.9	9.1	10.2	11.4	1.7
Total GDP	5.0	6.8	7.7	8.9	9.8	11.0	0.1

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- (1) Preliminary data.
 - (2) Includes forestry.
 - (3) Includes non-metallic mining.
 - (4) Includes taxes on products and import duties.

Source: Central Bank.

During 2008, GDP grew 9.8%, compared to an 8.9% growth during 2007. Productive activity during the year was led by non-primary sectors, which grew 10.4% during 2008. Meanwhile, primary sectors related to the generation and extraction of raw materials grew 7.3% during 2008. The sectors of the economy that experienced the highest growth rates during the year were construction (16.5%), due to higher construction in housing, commercial and industrial sectors, in addition to several private and public infrastructure projects and wholesale and retail trade (13%), due to an increase in governmental service activity, transportation and telecommunications. Demand-related sector growth is a consequence of the increase in private consumption, which occurred as the benefits from the sustained economic expansion began to trickle down to the lower income classes.

In the first nine months of 2009, GDP grew 0.1%, compared to the comparable period of 2008, due to decreased activity in the non-primary sectors, principally non-primary manufacture and commerce.

Primary Production

In 2008, primary production grew 7.2%, due to mining growth notwithstanding lower international commodity prices compared to 2007, agriculture sector growth driven by an increase in prices and domestic demand and a 6.2% expansion in the fishing sector, completing five years of consistent growth. During the first nine months of 2009, primary production grew 1.7%, 5.8 percentage points less than during the first nine months of 2008 (7.5%), due to lower production related to the agro-industry and external demand.

Primary production in Peru comprises agriculture, livestock, forestry, fishing, mining and hydrocarbon extraction. Of these, the most important activities in terms of their contribution to GDP are agriculture and livestock, which, together with forestry, accounted for 7.7% of GDP in 2008. In total, the primary sector contributed 13.9% to GDP in 2008.

The following table presents the production of selected primary goods for the periods shown.

Selected Primary Goods Production
(in million of *nuevos soles*, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Agriculture:							
Cotton	301	332	342	345	268	263	150
Rice	664	888	851	876	1,005	810	892
Coffee	742	604	875	724	877	869	838
Sugar cane	472	428	492	559	638	454	493
Corn	713	726	744	771	835	677	733
Potato	1,214	1,327	1,311	1,365	1,451	1,207	1,262
Wheat	173	187	191	182	196	182	210
Vegetables	849	867	1,037	1,119	1,183	866	842
Fruits	1,293	1,297	1,409	1,406	1,470	1,108	1,085
Tubers	433	450	504	511	517	384	419
Other agricultural ⁽²⁾	2,315	2,444	2,600	2,703	2,893	2,312	2,287
Total crops	9,168	9,551	10,354	10,561	11,335	9,131	9,212
Livestock:							
Poultry	2,203	2,476	2,705	2,933	3,339	2,437	2,613
Eggs	425	435	515	541	560	418	420
Milk	644	674	752	801	794	605	642
Lamb	411	411	413	413	407	318	319
Pork	452	475	501	528	531	387	384
Beef	1,269	1,328	1,410	1,416	1,416	1,078	1,098
Other ⁽²⁾	418	428	443	463	472	349	364
Total Livestock	5,821	6,226	6,739	7,094	7,519	5,592	5,840
Fishing	779	804	823	879	933	701	652

(1) Preliminary data.

(2) Includes secondary production.

Source: Production Ministry.

Agriculture and Livestock

The Peruvian agriculture and livestock sector is dominated by small-scale producers. The sector represented 8.3% of total exports in 2008. Approximately 3.0% of Peru's land area is devoted to arable production and permanent crops. Subsistence farming predominates and productivity is low due to drainage and salinity problems, although productivity increased during the 1990s. The agriculture and livestock sector grew less than GDP in recent years, decreasing its contribution to GDP from 8.4% in 2004 to 7.7% in 2008.

Peru's main agricultural products are potatoes, corn, rice and coffee, which together accounted for approximately 36.8% of Peru's agricultural production in 2008. Peru's traditional agricultural products include cotton, sugar, coffee and rice. Agricultural production has increasingly focused on non-traditional export products destined primarily for the winter markets of Europe and the United States. The northern coast of Peru is the main area for cultivation of non-traditional export crops such as asparagus, mangos, passion fruit and oranges. Animal husbandry –sheep, poultry and cattle– is predominant in the south.

Peru's main agricultural export products are coffee, asparagus, paprika, milk and grapes, which together accounted for approximately 52.7% of agricultural exports in 2008. Other important export crops include cochineal, cocoa, carmine and marigold flour. In recent years, production of fruit, particularly mangos and grapes, for the export market has increased. Cotton, rice and sugar are produced for both the domestic and the export markets.

The following table provides the annual percentage change in the production of selected primary goods for the periods shown.

Selected Primary Goods Production
(percentage change from previous period, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Agriculture:							
Cotton	35.4	10.5	2.9	1.0	(22.3)	(23.9)	(35.7)
Rice	(13.5)	33.8	(4.2)	3.0	14.7	13.5	6.5
Coffee	13.9	(18.5)	44.9	(17.3)	21.1	18.6	(2.9)
Sugar cane	(21.6)	(9.2)	14.9	13.6	14.2	15.7	9.6
Corn	(10.9)	1.8	2.4	3.7	8.4	8.4	9.1
Potato	(4.3)	9.4	(1.3)	4.1	6.3	9.2	3.9
Wheat	(9.7)	8.2	2.3	(4.9)	8.0	(11.4)	13.4
Vegetables	(2.8)	2.2	19.5	8.0	5.6	11.4	(2.7)
Fruits	6.8	0.2	8.7	(0.2)	4.6	5.5	(1.6)
Tubers	3.1	3.9	11.9	1.4	1.3	(2.8)	9.1
Other agricultural ⁽²⁾	(0.7)	5.6	6.3	4.0	7.0	7.5	0.1
Total crops	<u>(1.8)</u>	<u>4.2</u>	<u>8.4</u>	<u>2.0</u>	<u>7.3</u>	<u>7.9</u>	<u>0.9</u>
Livestock:							
Poultry	0.1	12.4	9.2	8.4	13.9	11.8	7.3
Eggs	2.3	2.3	18.5	5.0	3.5	2.7	0.5
Milk	3.7	4.7	11.6	6.5	(0.9)	(0.4)	6.1
Lamb	5.5	0.0	0.6	(0.2)	(1.4)	(1.5)	0.1
Pork	5.6	5.0	5.6	5.4	0.6	0.3	(0.8)
Beef	5.9	4.6	6.2	0.4	0.1	0.7	1.8
Other	5.3	2.5	3.4	4.6	1.9	1.7	4.3
Total Livestock ⁽²⁾	<u>3.0</u>	<u>6.9</u>	<u>8.2</u>	<u>5.3</u>	<u>6.0</u>	<u>5.2</u>	<u>4.4</u>
Fishing	30.7	3.2	2.4	6.9	6.2	5.1	(7.5)

(1) Preliminary data.

(2) Includes secondary production.

Source: Ministry of Production and MINAG.

In 2004 the sector decreased by 1.4%, due to a lower production of five of the several crops as a consequence of drought, including rice, sugar cane, hard yellow maize, potatoes, and amilaceous maize. In 2005 and 2006 the agriculture and livestock sector grew by 5.4% and 8.4%, respectively, as a result of improved hydrologic conditions, reflected in the increase of sown areas, particularly in the case of coffee and other crops, such as wheat and cotton. In 2007 the sector grew 3.3% due to moderate growth in the agricultural sector as a consequence of favorable climate conditions. The exception was the jungle, where unfavorable climate affected coffee production. Livestock production also contributed to growth in this sector, favored by increases in poultry, pork and milk production.

In recent years, the government has supported an agricultural development program that eliminated the tariff on agricultural machinery, equipment and raw materials in 2007, from 12.0% in 2005. Accordingly, in December 2006 tariffs on all capital goods, including agricultural machinery, were reduced by different degrees, which resulted in a decrease in the average tariff from 10.1% to 8.3%. In October 2007, the government announced further tariff reductions, which resulted in a 5.0% average tariff and a 2.1% effective tariff.

The García administration seeks to improve the income of the rural population by providing more access to credit and funds for technical support and to promote reforestation and the processing of agricultural products, among other measures.

During 2008, the agriculture and livestock sector grew at a rate of 7.2%, compared to 3.3% in 2007, due primarily to increased prices and higher external demand which produced growth in production oriented to industry and export. The highest growth was observed in production of olives, coffee and asparagus for export and production of sugar cane and corn to supply the sugar and aviculture industries, respectively.

During the first nine months of 2009 the agriculture and livestock sector grew 2.5% compared to the first nine months of 2008 due to an increase in production oriented to internal demand, which contrasts with lower production for industry and external demand. In addition, livestock activity grew due to an increase in production of eggs and chicken for internal consumption.

Fishing

Fishing is a small part of the Peruvian economy, contributing 0.5% to GDP in 2008. Fish products, however, are Peru's second leading export after mining, accounting for 7.7% of exports in 2007, considering both traditional (fish meal and fish oil) and non-traditional exports (frozen crustaceans and mollusks, frozen fish, and preparations and canned food).

In the late 1960s, Peru was the world's leading fishing nation. Its importance as a leading exporter of fishmeal declined during the 1970s and early 1980s due to ecological factors and over-fishing. Peru has since recovered its position as one of the world's leading fishmeal producers and exporters.

Peru's fish-processing industry consists primarily of the processing of anchovies into fishmeal. The industry has suffered frequently from the destruction of fish stocks caused by changes in oceanographic conditions. The government, from time to time, imposes seasonal fishing bans based on factors such as marine wildlife conditions and fish processing capacity. Although these bans limit fishing extraction, their adverse impact on fishing production is outweighed by the increased stock of protected species.

During 2004, the fishing sector grew 30.7% due to higher anchovy catches as a result of more days available for fishing and permission for the industrial fleet to operate temporarily in the area reserved for artisanal (non-industrial) fishing on the south coast. During 2005, the sector grew 3.2% due to the increase in fish catch for canned and frozen fish products. During 2006, the fishing sector grew at a slow pace for the second consecutive year (2.4%) due to set quotas for fishing of anchovies. These quotas were established by the Ministry of Production to protect marine biomass, following the recommendations of the *Instituto del Mar del Perú* (Imarpe). During 2007, the fishing sector grew 6.9%. Activity in the fishing sector increased mainly as a result of industrial fishing of anchovy. However, unusually low temperatures were observed (anomalies included temperature drops of up to -2°C in Ilo in the third quarter of the year), which dispersed fish away from their traditional areas, thus lowering fishing yield.

During 2008, the fishing sector grew 6.2% due to an increase in production fishing products for human consumption, primarily in species alternative to mackerel (*jurel*) such as *bonito*, white mullet (*liza*) and *perico* and industrial fishing of anchovies to produce fishmeal. Fishing activity for frozen and canned food increased due to higher catches of giant squid and anchovies, respectively. In 2008, giant squid catches reached the maximum level ever registered in Peru.

In June 2008 the fishing sector regulatory structure was changed from a global quota system to an individual fishing quotas system, in order to allow efficient investing in the sector.

During the first nine months of 2009, fishing production decreased 6.9%, compared to the same period in 2008, due to a lower level of activity for frozen food caused by a decrease in giant squid catches that resulted from lower prices and reduced external demand. Anchovy catches for fishmeal decreased after the Ministry of Production imposed a longer seasonal fishing ban than during the comparable period of 2008. Fishing activity for human consumption also decreased due to lower catches of species used to produce frozen food, such as tuna, *caballa*, *bonito* and *abalón*.

Mining and Hydrocarbons

The mining and hydrocarbons sector grew 8.4% in 2005, compared to 5.3% growth in 2004, as a result of growth in the production of metals, primarily due to high international commodities prices. Antamina, the world's largest copper and zinc mining project that began its production phase in July 2001, contributed to the growth in the volume of copper, zinc and silver extracts. Yanacocha's lower gold production affected the growth rate of the sector in 2006 (1.4%) and that of 2007 (2.7%). However, Cerro Verde's copper mine expansion reduced the effect of lower gold output in 2007. In 2008, the sector grew 7.6% mainly due to operations from the copper mine Cerro Verde. During the first nine months of 2009, the mining and hydrocarbons sector grew 1.4% compared to the comparable period of 2008 due to increased production of hydrocarbons that was offset by reduced production of metals.

Mining. Peru is a leading producer in Latin America of gold, lead and zinc. Although mining constitutes a small part of the country's GDP, contributing on average 5.2% of GDP in 2008, it is Peru's leading export sector, accounting for 59.2% of Peru's total export earnings in 2008. Gold and copper alone accounted for 17.7% and 24.3% of total export earnings in 2008, respectively.

Between 2004 and 2008, investment in the mining sub-sector totaled approximately US\$6.0 billion, with an average annual investment of US\$1.2 billion. Investments during 2004, 2005, 2006, 2007 and 2008 were US\$828.1 million, US\$1.2 billion, US\$1.5 billion, US\$1.6 billion, and US\$1.7 billion respectively. The most important projects in the 2004 through 2008 period were:

- the Antamina copper and zinc project, with investments of US\$29.5 million in 2004, US\$52.0 million in 2005, US\$47.3 million in 2006, US\$40.0 million in 2007 and US\$45.7 million in 2008;
- development of the Alto Chicama gold mine with investments of US\$190.0 million in 2004, US\$172.0 million in 2005, US\$63.0 million in 2006, US\$53.2 million in 2007 and US\$25.7 million in 2008. This mine produced between 500,000 and 600,000 ounces of gold in 2005;
- the expansion of the Cuajone and Toquepala copper projects, with investments of US\$172.0 million in 2004, US\$253.0 million in 2005, US\$322.0 million in 2006, US\$275.8 million in 2007 and US\$302.5 million in 2008;
- the expansion of the Yanacocha gold project, with investments of US\$231.9 million in 2004, US\$238.0 million in 2005, US\$277.0 million in 2006, US\$290.0 million in 2007 and US\$248.3 million in 2008; and
- the expansion of Cerro Verde copper mine, with investments of over US\$906.8 million from 2004 to 2008. The project started commercial production in June 2007.

Low growth in 2007 in the mining and hydrocarbons sector was due to a lower extraction of gold, mainly as a result of the lower output from Yanacocha that has been operating in deposits with lower mineral contents. This decrease was in part offset by a higher production of zinc, due to the recovery of Antamina, copper, due to the expansion of Cerro Verde, and hydrocarbons, due to the good performance of the Camisea gas field.

In 2008, mining activity grew 7.3% compared to growth of 1.1% in 2006 and 1.7% in 2007, notwithstanding the adverse impact of lower international commodity prices and the world economic crisis. Growth in metal mining was driven by an increase of zinc, copper and gold production. During 2008, the mining sector received the highest levels of investment, led by Southern Peru Copper Corporation's investment in the Tía María project and expansion of the Cuajone and Toquepala projects.

During the first nine months of 2009, the mining sector decreased 0.8% due to the contraction of metals mining activity affected by lower production of zinc after the work stoppage at of Minera los Quenuales' Iscaycruz mine; reduced iron production by Shougang Hierro Peru; reduced molybdenum production caused by a reduction of Minera Cerro Verde's activity; and reduced copper production resulting from lower international prices. Notwithstanding these decreases, metal mining is still Peru's leading export sector, accounting for 59.9% of total export earnings in the first nine months of 2009. Gold and copper alone accounted for 19.5% and 15.3%, respectively, of total export earnings in the period. During the first nine months of 2009, the mining sector received US\$1.9 billion in investments.

Hydrocarbons. The hydrocarbons sub-sector, which encompasses petroleum and natural gas production, currently constitutes a minor part of the Peruvian economy. The petroleum companies in Peru are oriented towards the exploration and development of oil fields located mainly in the Amazon jungle. A major part of Peruvian production consists of heavy crude oil that is primarily exported and light crude oil that is used in local refineries. Petroleum products for industrial and residential use are supplemented with imports. Between 2004 and 2008, petroleum production increased due to an increase in drilling of exploration wells that was triggered in part by a rise in the international prices of petroleum. In 2006 the production of hydrocarbons continued to show an important dynamism, boosted by the extraction of natural gas, which grew 17%. This was due mainly to increased demand from both electricity generating plants and industry in general for gas extracted from the Camisea gas field. Moreover, the production of liquid hydrocarbons grew 3.9%, also as a result of the Camisea gas field.

As of December 31, 2008, Peru had approximately 17.4 trillion cubic feet of natural gas proven reserves, of which approximately 146.4 billion cubic feet have been developed. In the period from 2004 through 2008, natural gas production increased approximately 295.2%, from 82.9 million cubic feet per day in 2004 to 327.6 million cubic feet per day in 2008. This increase was due mainly to the Camisea gas field, which started production in mid-2004.

Peru's natural gas reserves are concentrated in the Camisea gas field, which is located approximately 300 miles east of Lima. In February 2000, the Peruvian government granted a 40-year operating concession over the Camisea gas field to the private consortium Pluspetrol-Hunt Oil-SK Corporation. Under the concession, the government receives royalties equal to 37.2% of the profits generated. In October 2000, the Peruvian government granted concessions over the distribution and transportation of Camisea's natural gas to a private consortium led by the Argentine company Techint. The Camisea natural gas project officially went online in the first week of August 2004.

Development of the Camisea gas field contributed, directly and indirectly, an average of approximately 0.8% annually to GDP for the years 2005, 2006 and 2007. The Camisea project, which includes drilling, transporting, processing and selling of natural gas, contributed 73.2% of the natural gas production and 29.1% of the liquid hydrocarbon output in 2007. The Camisea project increased Peru's production of natural gas by 83.6%, or 189.1 million cubic feet per day by the end of 2007. The government is anticipating that the increase in the production of natural gas from the successful development of the Camisea gas field will provide Peru with a low cost and abundant source of energy, making Peru a net exporter of hydrocarbons by 2010.

On September 7, 2004, Perupetro, Peru's state-owned hydrocarbons investment company, signed an agreement with a consortium including the members of the Camisea consortium (Pluspetrol-Hunt Oil-SK Corporation), Tecpetrol and Sonatrach, for a US\$500 million investment in the development of Peru's block 56

gas field, located northeast of the Camisea development in the Amazon region in central Peru. The block 56 field, called Pagoreni or Camisea-2, has 3.4 trillion cubic feet of proven gas reserves and 227 million barrels of natural gas liquids. Development of the Pagoreni gas field commenced in June 2005 and when fully operative production is expected to reach 600 million cubic feet of gas per day, which will be directed to the liquid natural gas plant described below for export to North America. In October 2008 the Pagoreni gas field started production with a total investment of approximately US\$872 million.

On 2003 the project to build and operate a US\$3.8 billion liquid natural gas plant, marine loading terminal and gas supply pipeline was granted to Peru LNG, a special purpose vehicle owned by Hunt Oil Company, with a majority stake and who is also the operator, SK Energy, Repsol YPF and Marubeni. Once completed the project will produce liquified natural gas, or LNG, from natural gas produced at Camisea blocks 56 and 88. The LNG will then be exported to Mexico, with the first shipment expected for May 2010. It is projected that revenues from exports will be over US\$1.4 billion a year up to 2027.

In 2008 the hydrocarbons sector grew 10.3% compared to 2007, due to high international energy prices and increased production of natural gas (27%) from the Camisea block 88 gas field, as a consequence of increased demand from thermal power plants. Production of liquid hydrocarbons grew 5.7% during 2008, primarily due to the starting of operations at Pluspetrol block 56 gas field, which as of September 2008 produced 17.2 thousand barrels per day (Kbpd). As of December 2008, production of Pluspetrol block 56 gas field reached 34.6 Kbpd.

During the first nine months of 2009, the hydrocarbons sector grew 21.5% compared to the same period of 2008, mainly due to the launch of exploitation activities at the Pluspetrol block 56 gas field in late 2008.

Secondary Production

Manufacturing

The principal components of the manufacturing sector are:

- primary manufacturing, consisting principally of:
 - processing sugar;
 - processing meat products;
 - producing fishmeal, fish oil and other fish products;
 - refining non-ferrous metals; and
 - refining petroleum; and
- non-primary manufacturing, consisting principally of:
 - producing food, drinks and tobacco;
 - producing textiles, leather products and footwear;
 - producing paper products;
 - producing chemical, rubber and plastic products;
 - refining non-metallic minerals;

- producing iron and steel; and
- manufacturing machinery, equipment and metal products.

The manufacturing sector grew 7.4% in 2004, 7.5% in 2005, 7.5% in 2006, 10.8% in 2007 and 8.7% in 2008, primarily as a result of the expansion of both internal and external demand. During the first nine months of 2009 the sector contracted 9.1%, due to lower domestic and external demand.

Primary manufacturing. Primary manufacturing production grew 8.0% in 2004, primarily due to larger stock of Peruvian anchovy and other fish, which resulted in increased production of fishmeal. In 2005, this sub-sector grew 3.9% as a result of higher production of meat products and oil refining. In 2006, primary manufacturing grew 4.1% due to higher production of sugar. In 2007, the sector practically did not grow (0.7%) due to a decrease of 11.0% in production of metals, which was offset by a strong increase in sugar (13.1%) and meat products (6.4%). In 2008, the sector grew 7.6% primarily due to the recovery of the non-ferrous metals refining industry, which grew 9.1% compared to a decrease of 11.0% in 2007. In addition, increased demand for sausages and aviculture products resulted in an expansion of 9.2% in production of meat products. Canned and frozen food production maintained prior levels of activity, mainly due to an increase in availability of giant squid. Sugar production grew 10.7% driven by an increase in sugar cane supply. Production of fishmeal and oil registered moderated growth of 0.2% due to an increase in anchovy catches as a consequence of favorable climate conditions and an increase in oil refining.

During the first nine months of 2009, the primary manufacturing sector grew 2.5%, reflecting the reduction in canned and frozen food manufacturing and sustained activity in the non-ferrous metal refining industry that was offset by increased oil refining at the Pluspetrol block 56 gas field.

The following table provides information regarding primary manufacturing production for the periods shown.

Primary Manufacturing Production
(percentage change from previous period, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Sugar	(29.8)	(11.7)	15.6	13.1	10.7	18.6	7.8
Meat products	5.5	7.2	7.8	6.4	9.2	6.9	4.7
Fishmeal and fish oil	56.0	(2.1)	(24.5)	4.9	0.2	(1.0)	7.1
Canned and frozen fish products	13.7	2.7	54.4	9.0	10.7	7.2	(17.4)
Refining of non-ferrous metals	1.3	(2.2)	2.5	(11.0)	9.1	20.9	(16.6)
Petroleum refining	8.6	16.3	(1.7)	4.2	4.9	0.2	33.9
Overall change	8.0	3.9	4.1	0.7	7.6	8.6	2.5

⁽¹⁾ Preliminary data.

Source: *INEI* and Central Bank.

Non-primary manufacturing. In 2004, non-primary manufacturing grew 7.2%, mainly due to low interest rates, an increase in the terms of trade and tariff reductions enacted in December 2003 and February 2004, which enabled companies to acquire capital goods and raw materials not produced in Peru at lower costs. In 2005, the sub-sector increased 8.5% as a result of increased domestic demand associated with a recovery of incomes and expansion of employment. During 2006 the sub-sector continued its strong results, posting an 8.5% growth, primarily due to increases in chemical, rubber and plastic products, non-metallic minerals, iron and steel, and equipment and metal products production. In 2007, non-primary manufacturing increased 13.0%, primarily

as a result of higher private consumption. Strong growth was prevalent in the period in the industrial groups related to massive consumption products, as well as those directed to the construction, mining and agro-export sectors. In 2008, non-primary manufacturing grew 8.9%, consistent with 2007 but at a slower rate than was the case in the fourth quarter of 2008 primarily due to a policy of inventory reduction adopted by a number of companies in reaction to the global financial crisis.

In the first nine months of 2009, non-primary manufacturing contracted 11.1% compared to the same period of 2008 due to reduced domestic and external demand as a consequence of the global economic crisis and inventory reductions. Notwithstanding the contraction, the sub-sector showed signs of recovery during the third quarter of 2009.

The following table provides information regarding primary manufacturing production for the periods shown.

Non-Primary Manufacturing Production
(percentage change from previous period, at constant 1994 prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Food, drinks and tobacco	2.7	7.8	9.3	9.4	8.2	12.5	0.0
Textiles, leather products and footwear	10.0	2.1	(2.0)	6.8	(6.5)	(3.2)	(28.0)
Paper products	15.6	16.7	7.9	11.6	24.3	15.2	(11.5)
Chemical, rubber and plastic products	5.2	8.2	11.9	12.8	6.9	10.3	(11.8)
Non-metallic minerals	11.0	12.8	13.0	16.0	20.5	23.7	(2.5)
Iron and steel production	9.8	19.1	12.3	8.1	8.2	35.5	(30.5)
Equipment and metal products	3.4	8.7	17.1	21.2	18.1	26.0	(17.6)
Other	5.2	9.9	5.8	31.7	(1.0)	4.0	(2.2)
Overall change	7.2	8.5	8.5	13.0	8.9	11.3	(11.1)

⁽¹⁾ Preliminary data.

Source: *INEI* and Central Bank.

Construction

The construction sector grew 4.7% in 2004, 8.4% in 2005, 14.8% in 2006, 16.6% in 2007 and 16.5 in 2008. In 2008 the sector contributed 5.9% to GDP. The growth in construction during the last five years is associated with increases in private investment and the housing, mining and manufacturing sectors, as well as in public work projects such as road construction, infrastructure reconstruction and the government sponsored programs *Mivivienda* and *Techo Propio*.

During the first nine months of 2009, the construction sector grew 3.0% mainly due to a lower local consumption of cement as a consequence of a reduction in local production and imports of cement. Likewise, highway construction and maintenance projects increased during the period.

Electricity and Water

From 2004 to 2008, the electricity and water sector contributed annually 2.1% in average to GDP.

Electricity. The electricity sub-sector in Peru was traditionally under control of the public sector until Peru deregulated and privatized the industry in the early 1990s. The deregulation and privatization of the electricity sub-sector included dividing it into production, distribution and transmission segments. The

government initially focused most of its deregulation and privatization efforts in energy production and distribution segments, but gave open access to Peru's transmission grid. The government also granted concessions of its transmission lines with the concession of the *Mantaro-Socabaya* transmission line in 1998 and of its Southern Power Grid in 1999. In 2001, concessions for the construction, maintenance and operation of power lines were granted to *La Oroya-Paragsha-Antamina* and *Aguaytia-Pucallpa*. Growth in the electricity sub-sector has resulted primarily from the expansion of the power grid, lower fuel prices and the introduction of more efficient centers to the system.

During 2008 and the first nine months of 2009, the electricity sub-sector has shown signs of reaching its maximum capacity, due to higher electricity consumption than expected, a longer than usual period of drought and having reached the maximum capacity of the natural gas pipelines. In order to avoid power outages the government has granted incentives for electricity generation projects and has approved the increase of the gas pipelines capacity.

The following table provides information regarding the development of the electricity sub-sector for the years shown.

Principal Economic Indicators for the Electricity Sector

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Production of electricity sector (in GW/hr):							
Thermal	5,498	6,224	6,433	9,030	11,947	8,773	8,432
Hydroelectric	17,068	17,532	19,126	19,080	18,562	14,024	14,427
Total generation (in GW/hr)	22,566	23,756	25,559	28,110	30,508	22,797	22,858
Losses, transmission and distribution (in GW/hr)	2,111	2,245	2,466	2,434	2,593	1,945	1,914
Energy production (in millions of US\$)	1,171	1,304	1,740	1,067	976	775	754
Energy sale income (in millions of US\$)	1,384	1,576	1,691	1,831	2,212	1,634	1,657
Consumption by economic sector (in GW/hr):							
Residential	4,665	4,929	5,305	5,760	6,251	4,663	4,885
Industrial	10,992	11,405	12,180	13,650	14,877	11,144	10,888
Government	601	632	644	656	676	509	517
Commercial	3,395	3,728	4,172	4,651	5,199	3,883	3,913
Total consumption	19,653	20,693	22,300	24,717	27,003	20,198	20,203

(1) Preliminary data.

Source: OSINERGMIN.

Water. The government is responsible for water and sanitation services in Lima while Peru's various municipalities are responsible for providing water and sanitation services in the urban and suburban areas of their respective jurisdictions. The central and municipal governments designate special service companies, which may be private, government-owned or mixed ownership, to provide water and sanitation services. In rural areas, communal administrative commissions are in charge of providing water supply and sanitation services. The provision of sanitation water services is regulated by the *Superintendencia Nacional de Servicios de Saneamiento*, or National Superintendence for Sanitary Services.

Services

Wholesale and Retail Trade

Wholesale and retail trade grew 6.2% in 2004, 6.2% in 2005, 11.7% in 2006, 9.7% in 2007 and 13.0% in 2008. The growth during the last five years is primarily due to increases in domestic demand caused by an improvement in the economic situation of consumers. During the five-year period from 2004 through 2008, this sector contributed on average 14.4% annually to GDP, making it the third most important sector of the Peruvian economy.

During 2008, the wholesale and retail trade sector grew 13%, a rate higher than GDP growth, due to increased domestic and imported products sales, primarily manufactured, agriculture and mining products. As a result, the contribution of wholesale to GDP rose from 14.6% by the end of 2007 to 15.0% by the end of 2008. During the first nine months of 2009, wholesale and retail trade decreased 1.2% due to a reduction in sales of manufactured, mining and fishing products as a consequence of a decrease in perishable goods sales, bulk sales of metals and minerals, and lower automobile and machinery sales.

Other Services

The private sector in Peru offers a variety of services constituting the “Other Services” sector of Peru’s GDP that in aggregate are an important part of the Peruvian economy. The “Other Services” sector includes services to companies, government services, transportation and communication services, health services and education services, tourism services and financial services. In the aggregate, these services grew, 4.8% in 2004, 6.8% in 2005, 6.8% in 2006, 8.9% in 2007 and 9.3% in 2008. For a description of the evolution of the financial services sub-sector between 2004 and 2008 see “The Monetary System—Financial Sector” below.

In the current period of economic expansion, this sector has grown at a rate similar to that of GDP. In 2008, the “Other Services” sector grew 9.3% compared to 9.8% of growth of GDP. As a result, the “Other Services” sector accounted for 47.6% of GDP by the end of 2008, a similar level to that of the previous year. During the first nine months of 2009 this sector grew 2.7%.

Transportation and Telecommunications

The transportation and telecommunications sub-sector has grown each year since 2004 due to increased domestic demand for telephone services. In the five-year period ended in 2008, a large portion of Peru’s telecommunication investment has been directed to the mobile telephone market where subscribers increased to approximately 20 million at December 31, 2008. The number of subscribers grew to approximately 23.5 million at September 30, 2009.

Telecommunications. The following table provides information on the evolution of the telecommunications sector.

Summary of Telecommunications Sector

	As of December 31,					As of September 30,	
	2004	2005	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Fixed wire lines in							
service	1,839,165	2,049,822	2,250,921	2,400,512	2,878,106	2,812,314	2,980,651
Cellular phones	2,930,343	4,092,558	5,583,356	8,772,479	20,951,834	19,572,603	23,480,447
Public phones	129,416	139,923	147,746	158,314	196,659	190,184	201,002

⁽¹⁾ Preliminary data.

Sources: America Móvil Perú S.A.C., Americatel Perú S.A., Convergía Perú S.A., Gamacom, Gilat to Home Perú S.A., Impsat Perú S.A., Infoductos y Telecomunicaciones del Perú S.A., Nextel del Perú, Perusat S.A., Rural Telecom S.A.C., Telefónica del Perú S.A.A., Telefónica Móviles S.A., Telmex Perú S.A. and Valtron E.I.R.L.

Tourism

See “Balance of Payments and Foreign Trade—Services Trade” below for information on the tourism sub-sector.

Public Administration

Based on an audit undertaken of the public sector, the total amount of public employees at December 2009 was 1,564,716, of which 45.8% are active workers, 49.3% are pensioners and 4.9% are non personal service workers. Most public employees are placed in regional governments, economy and finance and education ministries.

Privatization and the Role of the State in the Economy

Privatizations and Concessions

In 1991, Peru initiated an ambitious privatization program beginning with the enactment of various laws for the promotion of private investment. In 1991, in order to stimulate private investment, the Executive Branch enacted Legislative Decree No. 662, *Ley de Promoción de la Inversión Extranjera*, or the Foreign Investment Promotion Act, which authorized the government to enter into legal stability agreements with foreign and domestic investors that invest at least US\$5 million, or US\$10 million in the case of mining and hydrocarbon sectors, within two years of the agreement. In 1991, the Executive Branch also enacted *Ley Marco para el Crecimiento de la Inversión Privada*, or the Private Investment Growth Framework Act. These investment laws provide for equal treatment of both national and foreign investors; automatic authorization of foreign investments, which must then be registered with Proinversión; the protection of the property rights of foreign investors; the free repatriation of property, dividends and profits; and the elimination of restrictions on the participation of foreigners in banks and insurance companies.

Since 1991, the government has privatized most of its assets in the finance, fishing and telecommunications sectors. The government has also made significant progress in privatizing the mining and hydrocarbons, manufacturing, electricity and agriculture sectors. The more than 239 privatizations and 36 concessions that have been completed in Peru since 1991 have generated revenues of approximately US\$10.5 billion.

The pace of privatizations began to slow after 1996, when privatization proceeds reached record levels. This decline resulted in part from a shrinking supply of state-owned enterprises, President Fujimori's retreat from unpopular privatization initiatives to gain support for his presidential bid and the political turmoil that accompanied President Fujimori's reelection in 2000.

Upon taking office in July 2001, the Toledo administration sought to revitalize Peru's privatization agenda by charging two special privatization committees to develop privatization programs for projects including highway networks, ports, airports and tourism, corrections facilities, mining and agricultural development. The privatization program was viewed unfavorably by Peruvians, fearful they would lose their jobs with privatizations and opposed to the sale of well-known state assets to non-Peruvians. This opposition forced the government to back down from the privatization of the Egasa and Egesur electric plants in Arequipa in 2002. In order to quell opposition, the government sought in 2002 to reach agreements with presidents of the regional governments regarding resumption of the privatization process. The first of these agreements was reached on

June 16, 2003 with the regional government of Pasco to proceed with the privatization of a 30-year concession for the *Yuncan* hydroelectric plant. Following negotiations with affected regional governments, the central government resumed in 2004 the privatization program.

In the letter of intent negotiated with the IMF in January 2002 to establish a stand-by credit facility for 2002 to 2004, privatizations and concessions were considered “an essential element to generate confidence among investors and to help finance fiscal deficits in 2002 and 2003.” The government’s aim, as agreed with the IMF as part of a two-year program, was to generate income of at least US\$700 million through the sale of concessions and of state assets. After the government placed the privatization process on hold in 2002, the IMF agreed to adjust both the 2002 and 2003 targets for Peru’s consolidated public sector deficit to 2.3% of GDP for 2002 and 1.9% of GDP for 2003. The 2004-2006 stand-by agreement with the IMF also emphasized the promotion of private investment, including the implementation of concessions or public-private partnerships for the construction and maintenance of at least two major roads. The stand-by agreement with the IMF expired on August 16, 2006. The government achieved all the goals and implemented all of the structural changes required by that agreement.

On January 26, 2007, the IMF approved a new Stand-By Agreement with Peru for an aggregate amount of approximately US\$257 million to support the economic programs of the Peruvian government for a 25-month period ending on February 26, 2009.

In 2005, privatizations and concessions totaled US\$58.9 million. In terms of value, the most important privatizations were the La Granja copper project awarded to the Río Tinto Corporation (US\$22 million); the concession of the fourth band of mobile telephones to Sercotel S.A. for 20 years (US\$21 million); and the transfer of 15% of the shares of Red Eléctrica del Sur S.A. to the *Fondo de Inversión en Infraestructura, Servicios Públicos y Recursos Naturales*, or Investment Fund in Infrastructure, Public Services and Natural Resources (US\$4.0 million). Concessions were also granted to public-private associations, or PPAs, which are expected to contribute a significant flow of investment resources in the future. Concessions awarded to PPAs include the concession of sections 2, 3 and 4 of the Peru-Brazil inter-oceanic highway for a period of 25 years. Section 2 was awarded to the consortium Interoceánica Urcos-Inambari; section 3 was awarded to the consortium Interoceánica Inambari- Iñapari; and section 4 was awarded to the consortium Intersur.

Upon taking office in July 2006, President Alan García announced an investment program in order to expand drinkable water, rural electricity, roads, infrastructure for schools and hospitals, and small irrigations and canals, with the aim of creating employment in rural zones. During 2006 privatizations and concessions contributed approximately US\$113.4 million to the Peruvian government’s revenues.

In 2007, concessions and privatizations in Peru reached US\$534.9 million. Of special importance were the privatization of the *Minero Michiquilla* Project for an aggregate amount of US\$403.0 million, which was awarded to the English company Anglo American Services, and the sale of 23% of the outstanding stock of *Cemento Andino* for an aggregate amount of US\$63.9 million. In relation with concessions, during 2007 the Nextel was awarded for a 20-year period the bands D and E concessions for personal communication services for an aggregate amount of US\$27.0 million. Similarly, *América Móvil del Perú* was awarded for a 20-year period the band B concession for public cellular phone services for an aggregate amount of US\$22.2 million.

In 2008, investments from concessions totaled US\$881.8 million. Noteworthy, Isonor Transmisión S.A.C. was granted the electric transmission lines concession over the *Mantaro–Caravelí–Montalvo* and *Macchu Picchu–Cotaruse* routes for a 30-year period for an aggregate amount of US\$181.0 million, and Abengoa Perú S.A. was granted the electric transmission lines concession over the *Carhuamayo–Paragsha–Conococha–Huallanca–Cajamarca–Cerro Corona–Carhuaquero* route for a 30-year period for an aggregate amount of US\$106.1 million. Likewise, a joint venture between Colombian companies *Empresa Energía de Bogotá* and *Transportadora de Gas del Interior* won the bidding process for a gas distribution through pipelines contract for the Ica department for a 20-year period for a minimum investment of US\$60.0 million. In sanitation,

Constructora OAS Ltda. was granted a concession over the *Huascacocha-Lima* drinking water supply project for Lima for a 20-year period and an investment of US\$76.9 million. Finally, the Spanish company OHL Concesiones, S.L. was granted a concession over the *Pativilca-Trujillo* part of *Red Vial 4* highway project, for an aggregate amount of US\$350.0 million.

In the first nine months of 2009, concessions and privatizations reached US\$1.0 billion. Of special importance were the maritime port terminal concession over the *Paila* port terminal, for an aggregate amount of US\$231.8 million, the highway concession over the *Trujillo-Sullana* part of the *Autopista del Sol* highway project, for an investment of US\$365.0 million and the sanitary concession over the *Taboada* sewage processing plant, for an aggregate amount of US\$212.5 million

Role of the State in the Economy

As a result of the privatization program undertaken by the Fujimori administration during the 1990s, and continued during the Paniagua, Toledo and García administrations, the public sector currently plays a more limited role in the Peruvian economy than it did in previous decades. The García administration supports the privatization and deregulation process, based on the view that sustainable economic growth is driven primarily by private investment.

Employment and Labor

Employment

Formal Employment

A significant portion of the Peruvian population lacks regular full-time employment. Despite periods of economic expansion in recent years, unemployment and underemployment remain one of Peru's most entrenched problems. The García Administration has announced the creation of employment through the private sector as one of its most important goals.

The government discontinued nationwide employment surveys after 2001. However, these statistics can be calculated using the National Household Survey.

Unemployment decreased from 10.5% in 2004 to 6.4% in 2008, due primarily to an improvement in the economy, and specially in labor intensive industries, such as agriculture, manufacturing and construction. Regarding regional statistics as of 2008, the urban unemployment rate of 8.3% in Peru compares to the rate in Argentina (8.0%), Brazil (7.9%), Chile (7.7%), Colombia (11.5%), Ecuador (6.9%) and Venezuela (7.4%). Despite relatively favorable unemployment performance, underemployment remains high, and is considered the most important problem in the Peruvian labor market. However, underemployment has been reduced in the last five years from 42.8% in 2004 to 33.4% in 2008.

The continuously high levels of unemployment and underemployment have fueled social tensions and protests against privatizations and large industrial projects. In 2005, Peru experienced continuous incidents of labor unrest including 65 strikes with the participation of 19,022 workers, which amounted to 478,738 lost labor hours, mainly due to causes such as the non-payment of salaries and bonuses, failures by the government to comply with agreements and changes in economic politics, among others. The economic sectors that faced the major number of strikes were sanitation, gas and electricity (21.5%), followed by mining (18.5%), social and health services (13.9%), and manufacturing, transportation and communications (10.8%).

The following table provides employment statistics in Metropolitan Lima from 2004 to 2008.

**Employment and Labor in Metropolitan Lima
(in percentages)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Participation rate ⁽¹⁾	62.3	62.5	64.0	63.5	66.4
Underemployment rate ⁽²⁾	42.8	40.9	41.2	38.9	33.4
Unemployment rate ⁽³⁾	10.5	11.4	8.8	7.2	6.4

(1) Percentage of the working-age population (14 years old or older) that is in the labor force.

(2) Percentage of the working-age population (14 years old or older) working part-time who would prefer to work more hours, plus the percentage of the working-age population that usually works full-time but who, in the week the employment survey was conducted, worked less than 35 hours per week as a result of economic constraints.

(3) Percentage of the working-age population (14 years old or older) that, in the week the employment survey was taken, was seeking remunerated employment.

Source: Ministry of Labor. Figures for 2004-2008 are based on the Household Survey on Labor.

The following table provides information on employment by sector, as a percentage of total employment, in Metropolitan Lima from 2003 to 2007.

**Employment in Metropolitan Lima
(percentage by economic sector)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Agriculture, livestock, fishing and forestry	0.8	0.7	0.8	0.9	0.8
Mining	0.2	0.3	0.5	0.4	0.6
Manufacturing	15.8	18.4	17.1	17.6	17.0
Construction	5.9	5.2	5.7	5.9	6.9
Electricity, gas and water	0.3	0.1	0.3	0.2	0.2
Transportation and telecommunications	10.3	9.9	9.9	10.3	11.1
Wholesale and retail trade	26.1	25.1	25.8	25.4	22.5
Services	35.2	35.8	35.1	34.3	36.0
Other ⁽¹⁾	5.5	4.6	5.0	5.0	5.1
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(1) Includes households.

Source: Ministry of Labor. Figures are based on the Household Survey on Labor.

Informal Employment

The Peruvian economy has a significant “informal sector” that provides employment to the majority of the labor force, including a significant number of women. The term “informal sector” refers to economic activities that take place outside of the formal norms for economic transactions established by the state or developed through formal business practices. It generally involves production and exchange of legal goods and services without the appropriate business permits, without reporting tax liability, without complying with labor regulations and without legal guarantees for suppliers and end users. Because of the nature of this sector, it is difficult to obtain reliable statistics measuring its contribution to the Peruvian economy.

The Ministry of Labor estimates the size of the informal sector based on ILO criteria pursuant to which workers in the informal sector are those who work in micro enterprises (either as wage earners or micro entrepreneurs), who are non-professional self-employed, or who are domestic and unpaid family workers. According to this measurement, 55.8% of the workforce in Metropolitan Lima was employed in the informal sector during 2008. Other methodologies define informal employment based on compliance with labor regulations (contracts, contributions to health and pension systems, etc.). Official estimates are that 25.5% of the labor force in Metropolitan Lima was self-employed during 2008. Irrespective of the measurement criteria, informal employment levels in Metropolitan Lima remain high, close to 60%. It is likely that the informal sector in rural areas, which is difficult to measure, is significantly higher than in Lima.

Consistent with recent trends in underemployment, employment in the informal sector has also shown slight reductions in the five-year period ended in 2008. According to the Ministry of Labor, informal employment has decreased from 62.3% in 2004 to 55.8% in 2008.

**Metropolitan Lima: Distribution of formal and informal employment
(in percentages)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Formal Sector					
Public sector workers	7.8	7.6	8.1	7.7	7.5
Private sector workers	27.1	30.5	30.5	31.0	33.6
Small Enterprises	13.4	13.4	13.2	14.1	13.1
Medium and large enterprises	13.7	17.1	17.3	16.9	20.5
Professional self-employed	2.8	3.1	2.7	2.4	3.1
Total	37.7	41.2	41.2	41.1	44.2
Informal Sector					
Micro enterprises	20.0	21.4	20.7	21.1	21.4
Non-professional self-employed	32.0	28.7	28.7	29.9	25.5
Unpaid family worker	4.6	3.9	4.0	2.7	3.4
Other	5.8	4.9	5.5	5.2	5.5
Total	62.3	58.9	58.8	58.9	55.8

Source: Ministry of Labor. Figures are based on the Household Survey on Labor.

Wages and Labor Productivity

The Ministry of Labor sets a single minimum wage for all sectors of the economy based on macroeconomic indicators such as GDP growth and the inflation rate. The minimum wage was last adjusted in January 2008 and is currently S/.550 per month, equivalent to approximately US\$179.2 per month at the average exchange rate for the nine-month period ended September 30, 2009.

Peru does not currently compile statistics on labor productivity.

Poverty and Income Distribution

Peru classifies households with a monthly per capita income of less than US\$60 as falling below the poverty line. According to the most recent data, using this standard, the percentage of the population living below the poverty line decreased from approximately 52.0% in 2003 to approximately 39.3% in 2007. A significant number of Peruvians have a monthly per capita income of less than US\$30. However, the degree of extreme poverty, that is, the percentage of households whose per-capita expenditure does not allow them to buy a basic food basket, defined by INEI, has decreased in recent years. The extreme poverty rate decreased from 17.1% in 2004 to 13.7% in 2007.

Income distribution data shows that the poorest 40% of the population earned 13.1% of the national income in 2007, compared to 14.0% in 2004, while the share of the national income earned by the wealthiest 10% increased from 33.7% in 2004 to 35.4% in 2007. The following table provides information regarding income distribution for the years shown.

**Evolution of Income Distribution
(percentage of total national income)**

<u>Income group</u>	<u>1998</u>	<u>2001</u>	<u>2004</u>	<u>2007⁽¹⁾</u>
Lowest 40%	13.9	14.1	14.0	13.1
Next 20%	13.9	14.2	14.4	13.9
Next 20%	21.4	21.7	21.5	21.3
Highest 20%	50.9	49.9	50.2	51.6
Of which the highest 10%	34.6	33.9	33.7	35.4

⁽¹⁾ Preliminary data.

Source: INEI – *Encuesta Nacional de Hogares 1998 – 2007*.

High poverty rates negatively affect social and political stability, causing social unrest, road blocks and strikes. With this in mind, the García Administration has declared that raising the standard of living of the Peruvian population and remedying poverty will be among its most important goals. The administration intends to achieve these goals through sustainable economic growth and by improving the efficiency and quality of social spending programs with a goal to reduce poverty below 30% of the total population and to reduce the rate of malnutrition below 24% by the end of President García's term.

Poverty in Peru has been attributed to unemployment and underemployment and the increasing disparity in income between skilled, educated workers and unskilled and relatively less educated workers. The educational system has suffered from a lack of resources and inadequate teacher training. For this reason, the most recent budgets have consistently increased universal education spending. The 2008 budget increased it by 20.0%, compared to the 2007 budget, the 2009 budget has increased it by 1.6%, compared to the 2008 budget and the 2010 budget has increased it by 16.4%, compared to the 2009 budget. The García administration's plan to improve education includes the allocation of the budget by measuring the educational achievements of the population.

One of the aspects of the government's anti-poverty plan was the establishment of a social program known as "*A Trabajar Urbano*" (Let's Work — Urban), currently called "*Construyendo Perú*" (Building Peru). *Construyendo Perú* is an urban program that places unemployed workers in public sector jobs in the development and maintenance of infrastructure for up to six months. The program also invests in job training and technical assistance to small businesses and in the improvement of the municipal governments' capacities and public sector agencies to get effective actions in formulation, coordination and monitoring of social initiatives. Additionally, the program has an anti-cyclical component in the development of its projects. As of November 30, 2009, the *Construyendo Perú* program had generated an estimated 284,250 jobs in urban areas at a cost of S/.656.8 million, or approximately US\$213.9 million.

The García Administration's social policies seek to adopt programs and projects for the development of the productivity of the Peruvian population (by strengthening nutrition, health and education), the promotion of employment and generation of new economic opportunities for the lower income classes (through social and productive investment programs intended to create permanent employment conditions), and the creation of a social protection network for the low-income population (such as temporary employment and medical and food assistance). As part of these programs, the Peruvian government intends to continue with the programs such as *Juntos* (Together), which is designed to make direct payments to poor households where families are required to send their children to school and to receive immunizations, *Agua Para Todos* (Water for Everyone), which is designed to deliver potable water and sewage systems to areas lacking these services and the Fund for Equality, recently created as a result of the Peruvian government's austerity policies.

Environment

The most serious environmental problems confronting Peru are:

- scarcity and quality of the water supply;
- soil erosion;
- air pollution;
- deforestation; and
- inadequate waste management in urban centers.

The Peruvian government seeks to address these environmental problems through greater supervision, regulation and community and private sector awareness and involvement. To better address these problems the Ministry of the Environment was created in May 2008. Its objectives are the design, implementation, execution and supervision of the environmental policy at a national level and for each relevant sector. The Ministry of the Environment is currently being implemented and will merge with the National Council for the Environment in the short term. Its budget for 2009 was S/.35.8 million, or approximately US\$11.7 million.

The government requests environmental impact studies before authorizing any public or private construction project. Each regulatory agency within each sector of the economy issues regulations to protect the environment and imposes its own sanctions for the violation of those rules. The Ministry of Energy and Mines has designed an effective environmental program that is viewed as a model for other governmental agencies. The Ministry's *Programa para Ahorro de Energía*, or Energy Conservation Program, actively promotes energy savings and fuel-efficient energy alternatives. The Ministry also developed and implemented an environmental curriculum for public schools that emphasizes conservation. Once established and in operation the Ministry of the Environment will assume some of the abovementioned powers.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The balance of payments accounts are used to record the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is composed of:

- the current account, which comprises:
 - net exports of goods and services;
 - net financial and investment income;
 - net transfers; and
- the capital account, which is the difference between financial capital inflows and financial capital outflows.
- The following table provides information, based on period-end exchange rates, regarding Peru's balance of payments for the periods shown.

Balance of Payments (in millions of U.S. dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
Current account:							
Trade balance:							
Exports (FOB) ⁽¹⁾	12,809	17,368	23,830	27,882	31,529	25,055	18,615
Imports (FOB) ⁽¹⁾	(9,805)	(12,082)	(14,844)	(19,595)	(28,439)	(21,791)	(15,035)
Trade balance	3,004	5,286	8,986	8,287	3,090	3,264	3,580
Services, net	(732)	(834)	(737)	(1187)	(1929)	(1391)	(770)
Of which:							
Net income from tourism ⁽²⁾	499	557	772	749	924	715	725
Net income from transportation ⁽³⁾	(726)	(858)	(874)	(1,192)	(1,701)	(1,292)	(712)
Financial and investment income, net ⁽⁴⁾	(3,686)	(5,076)	(7,580)	(8,374)	(8,144)	(7,382)	(5,038)
Current transfers, net	1,433	1,772	2,185	2,494	2,803	2,088	1,955
Of which:							
Workers remittances	1,133	1,440	1,837	2,131	2,437	1,816	1,691
Current account balance	19	1,148	2,854	1,220	(4,180)	(3,422)	(274)
Capital account:							
Foreign direct investment	1,599	2,579	3,467	5,425	4,079	5,192	4,254
Portfolio investment	(74)	25	(45)	70	85	177	(65)
Other medium and long-term capital ⁽⁵⁾	399	(2,226)	(2,219)	1,179	2,089	1,107	(1,559)
Of which:							
Disbursements to the public sector	2,535	2,656	609	3,384	1,166	634	2,491
Other capital, including short-term capital	230	(236)	(503)	2,630	1,118	3,331	(3,477)
Capital account balance	2,154	141	699	9,304	7,372	9,808	(847)
Errors and omissions ⁽⁶⁾	151	239	(827)	(936)	(80)	719	965
Balance of payments	2,325	1,528	2,726	9,588	3,112	7,104	(156)
Financing:							
Change in gross Central Bank reserves ⁽⁷⁾	(2,351)	(1,628)	(2,753)	(9,654)	(3,169)	(7,141)	123
Use of IMF resources	0	0	0	0	0	0	0
Exceptional financing, net	26	100	27	67	57	37	32
Total financing	(2,325)	(1,528)	(2,726)	(9,588)	(3,112)	(7,104)	156
Memorandum item:							
Current account balance (deficit) (as a % of GDP)	0.0	1.4	3.1	1.1	(3.3)	(3.5)	(0.3)

-
- (1) Based on customs declarations, records of temporary admissions, free-trade zone imports, grants and other adjustments.
 - (2) Based on a survey of tourists. Income from tourism represents the total expenditure by a tourist multiplied by the total number of tourists.
 - (3) Includes freight services, passenger transportation and port expenses of ships and airplanes.
 - (4) Includes interest payments.
 - (5) Includes debt amortization payments.
 - (6) Represents errors and omissions from double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.
 - (7) Refers to changes in reserve used to finance balance of payments and corresponds to net international reserves excluding the use of IMF resources.

Source: Central Bank.

Current Account

One of the most important aspects of the current account is the trade balance. The four primary factors that impact the trade balance are the following:

- The relative rate of economic growth of a country compared to that of its trading partners. Generally, if a country's economy grows faster than that of its trading partners, its relative level of consumption of goods and services will tend to rise and its level of imports will tend to increase more rapidly than its level of exports.
- The relative level of domestic prices against foreign prices, as reflected by the real exchange rate. Generally, if a country's domestic prices rise relative to those of its trading partners, there is a tendency for the country's exports to decrease and for its level of imports to increase.
- Changes in production costs, technology and worker skills. More efficient production will tend to lower production costs, which in turn will tend to lower prices. As prices fall, there is a tendency for the country's exports to increase.
- Changes in consumer tastes, which may affect the demand for a country's goods and services abroad and the demand for foreign products in the domestic market.

In 2004 and 2005, Peru's current account registered a surplus of US\$19.0 million and US\$1.1 billion, respectively. This increase was attributable to accelerated growth in exports, improvement of terms of trade and growing remittances from Peruvians living and working abroad.

In 2006, Peru's current account registered a surplus of US\$2.8 billion, or 3.1% of GDP. The 2006 result reflected an unprecedented surplus in the trade balance as well as increased remittances from abroad.

In 2007, Peru's current account decreased to a surplus of US\$1.2 billion, or 1.1% of GDP, largely due to a lower trade surplus (US\$8.3 billion in 2007 compared to US\$9.0 billion in 2006).

In 2008, Peru's current account decreased to a deficit of US\$4.1 billion, or 3.3% of GDP, largely due to a lower trade surplus, which was US\$3.1 billion in 2008 compared to US\$8.3 billion in 2007.

During the first nine months of 2009, Peru's current account registered a deficit of US\$274 million, or 0.3% of GDP that compares favorably to the deficit recorded for the comparable period of 2008. The results in the first nine months of 2009 were primarily due to a lower net financial and investment deficit, US\$ (5.0 billion) in the first nine months of 2009 compared to US\$ (7.4 billion) in the first nine months of 2008.

Services Trade

Peru's services trade consists primarily of tourism, telecommunications, freight services and financial services. Of these, the most important is tourism. Tourism is also the most important individual source of foreign currency earnings. The commerce, restaurant, hotel, construction and real estate services sub-sectors depend significantly on tourism.

From 2004 to 2008, net income from tourism increased from US\$499 million in 2004 to US\$924 million in 2008. Net income from tourism increased from US\$715 million, for the nine-month period ended September 30, 2008, to US\$725 million, for the nine-month period ended September 30, 2009.

Tourism Statistics

	For the 12 months ended and as of December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
Foreign non-resident arrivals ⁽¹⁾	1,276,639	1,486,502	1,634,745	1,812,384	1,948,660	1,504,048	1,494,622
Average length of stay (number of nights) ⁽²⁾ ..	N.A.	13.0	13.0	12.0	12.0	N.A.	N.A.
Hotel activity:							
Number of rooms available	141,907	150,707	158,151	166,255	176,422	175,317	182,131
Occupancy rate by total number of rooms available (in %)	23.3	23.7	24.2	26.1	27.6	27.7	27.1
Aggregate value of hotels and restaurants ⁽³⁾ (as a % of GDP)	3.9	3.7	3.5	3.5	3.6	N.A.	N.A.
Income from tourism ⁽⁴⁾ (in millions of US\$)	1,232	1,438	1,775	2,007	2,395	1,807	1,833
Expenses from tourism (in millions of US\$) ⁽⁴⁾	(852)	(969)	(1,047)	(1,248)	(1,353)	(1,002)	(1,017)
Balance (income less expenses, in millions of US\$)	380	469	728	759	1,042	805	816

(1) Preliminary data for the years 2005 through 2008.

(2) Calculated from a survey of arriving foreign non-residents.

(3) Preliminary data for 2007 and 2008 estimate.

(4) Preliminary data from Central Bank. Includes trips and transportation.

N.A. = Not Available.

Sources: *INEI*, Central Bank, *DIGEMIN* and *MINCETUR-OGIE-OGIFT*.

Trade Balance

In 2004, Peru registered a trade surplus of US\$3.0 billion, a 239.1% increase from 2003, primarily attributable to an increase in exports (due to higher volumes and better export prices) which was higher than the increase in imports. In 2005, the trade surplus increased to US\$5.3 billion, a 76.0% increase from 2004, primarily attributable to an increase in exports (due to higher volumes and better export prices) which was higher than the increase in imports. In 2006, the trade surplus increased to US\$8.9 billion, a 69.0% increase from 2005, primarily

attributable to an increase in exports (due to higher volumes and better export prices) which was higher than the increase in imports. In 2007, the trade surplus decreased to US\$8.3 billion, a 7.8% decrease from 2006, primarily attributable to a higher increase in imports of capital assets and construction materials. In 2008, the trade surplus decreased to US\$3.1 billion, a 62.7% decrease from 2007, primarily attributable to a higher increase in imports of capital assets. Total exports increased from US\$12.8 billion in 2004 to US\$31.5 billion in 2008, reflecting a compound annual growth rate of 28.2% for the five-year period ended December 31, 2008. Total imports increased from US\$9.8 billion in 2004 to US\$28.4 billion in 2008, with a compound annual growth rate of 28.2% for the five-year period ended December 31, 2008.

In 2006 the trade balance registered an unprecedented surplus. Exports increased 37%, propelled both by the growth of traditional exports (42%) and by non-traditional exports (23%). On the other hand, imports grew 23%, mainly due to increased imports of capital goods (35%) and raw materials (21%). That surplus decreased 6.5% in 2007 due to a higher increase in imports (31.8%), primarily as a result of an increase in purchases of primary materials for industrial use, than exports (17.5%). The increase in exports was driven by higher commodity prices and higher export volumes of gold, lead, and coffee, as well as an important growth in non-traditional exports. In 2008, lower mineral prices and a reduction of external demand resulted in a decrease of exports while imports of capital assets increased. During the first nine months of 2009, imports decreased primarily due to a reduction in imports of raw materials, intermediate products and capital assets (US\$15.0 billion during the first nine months of 2009 compared to US\$21.7 billion during the same period of 2008).

Peru maintains close commercial ties with the United States, its principal trading partner. The United States has granted Peru temporary benefits under ATPDEA, which contributed particularly to the expansion of textile, agriculture and livestock exports. In 2006, approximately 24.1% of Peru's total exports were bound for the United States, while 16.5% of Peru's total imports originated from ports in the United States. In 2007, the United States was the destination for 19.8% of Peru's total exports and the source of 17.8% of Peru's total imports. In 2008, 19.1% of Peru's total exports were bound for the United States, while 18.8% of Peru's total imports originated in the United States. In October 2008, the United States extended the ATPDEA, as it applies to Peru, for one year, thereby extending Peru's benefits under ATPDEA until December 31, 2010.

In April 2006, Peru signed a free trade agreement with the United States, or Trade Promotion Agreement, or TPA. The TPA was approved by the Peruvian Congress in June 2006 and by the U.S. Congress and Senate in November and December 2007, respectively. The TPA with the United States entered into effect in January 2009. In compliance with obligations set by the TPA, the Peruvian government enacted more than a hundred legislative decrees in 2008. On February 1, 2009, the Peru Trade Promotion Agreement, entered into force.

As part of regulatory reforms undertaken by the Government in relation to the Peru Trade Promotion Agreement, President Alan García issued two decrees in 2009 which opened significant parts of the Amazon jungle to private investment. The decrees allow companies to request permits for petroleum, biofuel, forestry and hydroelectric projects in the Amazon jungle. These decrees resulted in protests and roadblocks by indigenous groups. Subsequently, Peru's Congress overturned the two decrees, easing tensions with the indigenous groups. As these events have occurred recently and continue to develop, their effects on the Peru Trade Promotion Agreement, if any, cannot be foreseen.

In November 2008, Peru and Japan signed a treaty designed to promote investment in Peru. In January 2009, Peru concluded negotiations with EFTA regarding three commercial agreements. In March 2009, a free trade agreement between Chile and Peru, or the Economic Association Agreement, entered into force. The Economic Association Agreement was originally signed in 2006. In April 2009, Peru signed a free trade agreement with the Republic of China. In October 2009, Peru and Japan completed four rounds of negotiations for the Japan-Peru Economic Partnership.

Finally, in January 2009, free trade agreements with Canada and Singapore became effective. We expect to start bilateral commercial negotiations with South Korea, Australia, Central America, Russia, India, South

Africa and New Zealand in the future. We currently have commercial agreements in force with the Andean Community of Nations (CAN), Chile, Southern Common Market (MERCOSUR), México and Cuba, and we expect to ratify a free trade agreement with Thailand.

Peru classifies its non-free trade zone exports as traditional and non-traditional exports. Traditional exports consist of goods that historically have constituted a greater share of Peru's exports and include mostly raw materials. Non-traditional exports include goods that historically have not been exported in significant quantities and traditional export goods that have been transformed through manufacturing or other processing.

In 2008 and during the first nine months of 2009, Peru's exports consisted primarily of:

- traditional mineral exports, such as gold, silver, copper, zinc and lead, valued at US\$18.6 billion during 2008, representing 59.2% of the total exports in 2008, and valued at US\$11.2 billion during the first nine months of 2009, representing 60.0% of the total exports, for the first nine months of 2009;
- petroleum and derivative products valued at US\$2.7 billion during 2008, representing 8.4% of the total exports in 2008, and valued at US\$1.2 billion during the first nine months of 2009, representing 6.4% of the total exports, for the first nine months of 2009;
- traditional fishing exports, such as fishmeal and fish oil, valued at US\$1.8 billion during 2008, representing 5.7% of the total exports for 2008, and valued at US\$1.4 billion during the first nine months of 2009, representing 7.5% of the total exports, for the first nine months of 2009;
- non-traditional textile exports, such as textile fibers and cloth, valued at US\$2.0 billion during 2008, representing 6.4% of the total exports for 2008, and valued at US\$1.1 billion during the first nine months of 2009, representing 6.0% of the total exports, for the first nine months of 2009; and
- non-traditional agriculture and livestock exports valued at US\$1.9 billion during 2008, representing 6.1% of the total exports for 2008, and valued at US\$1.2 billion during the first nine months of 2009, representing 6.6% of the total exports, for the first nine months of 2009.

The following tables provide further information on exports for the periods shown.

Exports
(in millions of U.S. dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
Traditional:							
Fishing	1,104	1,303	1,335	1,460	1,791	1,530	1,394
Agricultural	325	331	574	460	685	429	384
Mineral	7,124	9,790	14,735	17,238	18,657	15,008	11,164
Petroleum and derivatives	646	1,526	1,818	2,306	2,663	2,275	11,188
Total traditional	9,199	12,950	18,461	21,464	23,796	19,242	14,130
Non-traditional:							
Agriculture and livestock	801	1,008	1,220	1,507	1,912	1,397	1,237
Fishing	277	323	433	499	622	482	396
Textiles	1,092	1,275	1,473	1,736	2,018	1,474	1,108
Timbers and papers, and manufactures	214	261	333	362	425	314	233
Chemical	415	538	602	805	1,041	783	603
Non-metallic minerals	94	118	135	165	176	129	105
Basic metal industries and jewelry	391	493	829	906	908	761	386
Fabricated metal products and machinery	136	191	164	217	324	232	259
Other products ⁽¹⁾	58	70	89	107	118	89	67
Total non-traditional	3,479	4,277	5,279	6,303	7,543	5,662	4,385
Other:							
Other products ⁽²⁾	131	141	91	114	190	152	99
Total exports	12,809	17,368	23,830	27,882	31,529	25,055	18,615

(1) Includes leather and handcrafts.

(2) Includes the sale of fuel and food to foreign vessels and the repair of foreign vessels.

Source: Central Bank.

Exports
(as a percentage of total exports, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Traditional:							
Fishing	8.6	7.5	5.6	5.2	5.7	6.1	7.5
Agricultural	2.5	1.9	2.4	1.7	2.2	1.7	2.1
Mineral	55.6	56.4	61.8	61.8	59.2	59.9	60.0
Petroleum and derivatives	5.0	8.8	7.6	8.3	8.4	9.1	6.4
Total traditional	71.8	74.6	77.5	77.0	75.5	76.8	75.9
Non-traditional:							
Agriculture and livestock	6.3	5.8	5.1	5.4	6.1	5.6	6.6
Fishing	2.2	1.9	1.8	1.8	2.0	1.9	2.1
Textiles	8.5	7.3	6.2	6.2	6.4	5.9	6.0
Timbers and papers, and manufactures	1.7	1.5	1.4	1.3	1.3	1.3	1.3

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Chemical	3.2	3.1	2.5	2.9	3.3	3.1	3.2
Non-metallic minerals	0.7	0.7	0.6	0.6	0.6	0.5	0.6
Basic metal industries and jewelry	3.1	2.8	3.5	3.2	2.9	3.0	2.1
Fabricated metal products and machinery	1.1	1.1	0.7	0.8	1.0	0.9	1.3
Other products ⁽¹⁾	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Total non-traditional	27.2	24.6	22.2	22.6	23.9	22.6	23.6
Other:							
Other products ⁽²⁾	1.0	0.8	0.4	0.4	0.6	0.6	0.5
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0

⁽²⁾ Includes leather and handicrafts.

⁽³⁾ Includes the sale of fuel and food to foreign vessels and the repair of foreign vessels.

Source: Central Bank.

In 2008 and during the first nine months of 2009, Peru's imports consisted primarily of:

- intermediate goods, such as fuels and raw materials for agricultural and industrial production, valued at US\$14.5 billion, representing 51.2% of the total imports for 2008, and valued at US\$7.0 billion, representing 46.7% of the total imports for the first nine months of 2009;
- capital goods, such as transportation and building equipment, valued at US\$9.2 billion, representing 32.5% of the total imports for 2008, and valued at US\$5.1 billion, representing 33.7% of total imports for the first nine months of 2009; and
- consumer goods valued at US\$4.5 billion, representing 15.9% of the total imports for 2008, and valued at US\$2.8 billion, representing 18.9% of the total imports for the first nine months of 2009.

The following tables provide further information regarding imports for the periods shown.

Imports
(in millions of US dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
Consumer goods:							
Durable goods	842	970	1,154	1,437	2,192	1,555	1,286
Non-durable goods	1,153	1,338	1,463	1,754	2,335	1,708	1,557
Total consumer goods	1,995	2,308	2,616	3,192	4,527	3,263	2,843
Intermediate goods:							
Petroleum products, lubricants	1,754	2,325	2,808	3,636	5,215	4,419	1,938
Raw materials for agriculture	349	384	436	589	881	722	553
Raw materials for manufacturing	3,261	3,890	4,738	6,210	8,457	6,480	4,536
Total intermediate goods	5,364	6,600	7,981	10,435	14,553	11,620	7,027
Capital goods:							
Construction materials	192	305	470	590	1,305	987	647
For agriculture	29	37	31	51	91	67	56
For manufacturing	1,661	2,114	2,784	3,964	5,770	4,256	3,392
Transportation equipment	480	607	838	1,257	2,073	1,508	979
Total capital goods	2,361	3,064	4,123	5,861	9,239	6,818	5,073
Other⁽¹⁾:	85	110	123	107	120	90	91
Total imports	<u>9,805</u>	<u>12,082</u>	<u>14,844</u>	<u>19,595</u>	<u>28,439</u>	<u>21,791</u>	<u>15,035</u>
Memorandum items:							
Temporal admission imports ⁽²⁾	214	275	365	322	362	264	150
Imports into free trade zone ⁽³⁾	99	104	104	108	113	87	76

(1) Includes the donation of goods, the purchase of fuels and Peruvian foodstuffs and the repair of capital goods in the exterior such as other goods not falling into any one of the classifications used.

(2) Imports that must be processed and exported within a definite period of time and are not subject to tariffs.

(3) Imports through the Special Zone of Tacna, which is primarily dedicated to the assembly of motor vehicles. Peru has five free trade zones, but only the Tacna zone is economically active.

Source: Central Bank.

Imports
(as a percentage of total imports, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
Consumer goods:							
Durable goods	8.6	8.0	7.8	7.3	7.7	7.1	8.6
Non-durable goods	11.8	11.1	9.9	9.0	8.2	7.8	10.4
Total consumer goods	20.3	19.1	17.6	16.3	15.9	15.0	18.9
Intermediate goods:							
Petroleum products, lubricants	17.9	19.2	18.9	18.6	18.3	20.3	12.9
Raw materials for agriculture	3.6	3.2	2.9	3.0	3.1	3.3	3.7
Raw materials for manufacturing	33.3	32.2	31.9	31.7	29.7	29.7	30.2
Total intermediate goods	54.7	54.6	53.8	53.3	51.2	53.3	46.7
Capital goods:							
Construction materials	2.0	2.5	3.2	3.0	4.6	4.5	4.3
For agriculture	0.3	0.3	0.2	0.3	0.3	0.3	0.4
For manufacturing	16.9	17.5	18.8	20.2	20.3	19.5	22.6
Transportation equipment	4.9	5.0	5.6	6.4	7.3	6.9	6.5
Total capital goods	24.1	25.4	27.8	29.9	32.5	31.3	33.7
Other⁽¹⁾:	0.9	0.9	0.8	0.5	0.4	0.4	0.6
Total imports	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Memorandum items:							
Temporal admission imports ⁽²⁾	2.2	2.3	2.5	1.6	1.3	1.2	1.0
Imports into free trade zone ⁽³⁾	1.0	0.9	0.7	0.5	0.4	0.4	0.5

(1) Includes the donation of goods, the purchase of fuels and Peruvian foodstuffs and the repair of capital goods in the exterior such as other goods not falling into any one of the classifications used.

(2) Imports that must be processed and exported within a definite period of time and are not subject to tariffs.

(3) Imports through the Special Zone of Tacna, which is primarily dedicated to the assembly of motor vehicles. Peru has five free trade zones but only the Tacna zone is economically active.

Source: Central Bank.

Capital Account

The capital account reflects foreign direct investment and monetary flows into and out of a nation's financial markets.

In 2004, the capital account surplus grew 220.5% to US\$2.1 billion, compared to a surplus of US\$672.0 million in 2003. The increase in the capital account surplus in 2004 was attributable to higher cash flows into the private sector resulting from foreign direct investment. In 2005, the capital account surplus fell 93.5% to US\$141.0 million, compared to a surplus of US\$2.1 billion in 2004. The decrease in capital account surplus in 2005 was primarily due to a greater flow of capital from the private sector, associated with an increase in direct foreign investment. In 2006, the capital account surplus grew 396.1% to US\$699 million, compared to a surplus of US\$141.0 million in 2005. The increase in capital account surplus in 2006 was primarily due to an increase in direct foreign investment.

In 2007, the capital account surplus grew 1,230.6% to US\$9.3 billion. This increase was due to a larger flow of capital to the private sector, mainly associated with an increase in foreign direct investment. In 2008, the capital account surplus decreased 20.8% to US\$7.4 billion, compared to a surplus of US\$9.3 billion in 2007. This increase was due to a greater flow of capital from the private sector.

During the first nine months of 2009, the capital account balance decreased 109% to a deficit of US\$847 million, compared to a surplus of US\$9.8 billion in the first nine months of 2008. This decrease was primarily due to an outflow of capital resulting from increased volatility related to the global financial crisis.

Geographic Distribution of Exports
(as a percentage of total exports, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
United States	29.4	31.0	24.5	19.6	19.1	19.1	16.9
Canada	2.6	6.0	6.8	6.6	6.2	6.0	8.6
Mexico	1.8	1.9	1.6	1.0	1.0	1.0	1.0
Total North America	33.8	38.9	32.9	27.2	26.3	26.2	26.4
Brazil	2.8	2.6	3.4	3.4	2.9	3.0	1.8
Colombia	2.1	2.0	2.1	2.2	2.2	2.2	2.6
Chile	5.7	6.6	6.0	6.1	5.9	6.0	2.9
Venezuela	1.5	1.7	1.7	2.8	3.4	2.9	2.5
Other	5.8	5.8	5.1	5.2	5.3	5.1	5.6
Total Latin America and the Caribbean	17.9	18.8	18.4	19.7	19.6	19.2	15.2
United Kingdom	9.1	1.4	1.4	0.9	1.3	1.4	1.1
Switzerland	2.2	4.6	7.1	8.4	10.9	10.3	16.6
Germany	3.0	3.0	3.4	3.3	3.3	3.2	3.7
Spain	3.3	3.3	3.2	3.5	3.3	3.5	3.0
Other	10.0	10.1	12.1	10.6	10.4	10.2	8.1
Total Europe	27.6	22.4	27.3	26.7	29.1	28.5	32.4
Japan	4.3	3.5	5.2	7.8	5.9	6.0	4.5
China	9.8	10.8	9.5	10.9	11.9	12.7	15.1
Other	5.5	4.8	6.0	6.5	6.2	6.5	5.6
Total Asia	19.7	19.1	20.7	25.2	24.1	25.2	25.1
Africa and others	0.9	0.8	0.7	1.2	0.8	0.9	0.7
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank.

Geographic Distribution of Imports
(as a percentage of total imports, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
United States	19.8	17.9	16.4	17.8	18.8	19.2	20.5
Canada	1.8	1.6	1.8	1.6	1.4	1.4	2.1
Mexico	3.0	3.5	3.5	4.2	4.1	4.0	3.4
Total North America	24.6	23.0	21.7	23.6	24.3	24.6	26.0
Brazil	6.6	8.0	10.5	9.1	8.1	7.7	7.3
Colombia	7.6	6.1	6.3	4.8	4.3	4.3	4.3
Chile	5.2	5.1	5.8	4.4	4.1	4.1	4.7
Venezuela	6.6	4.1	3.6	1.1	1.1	0.9	1.6
Other	14.5	15.1	15.0	15.6	14.7	15.7	11.8
Total Latin America and the Caribbean	40.5	38.4	41.2	34.9	32.3	32.7	29.6
United Kingdom	0.9	0.8	0.7	0.7	0.6	0.6	0.7
Switzerland	0.6	0.6	0.5	0.5	0.4	0.4	0.5
Germany	2.7	3.2	3.4	3.4	2.9	2.8	3.6
Spain	2.1	1.6	1.7	1.4	1.4	1.5	1.6
Other	7.3	7.8	6.8	7.1	8.1	8.1	7.0
Total Europe	13.6	14.1	13.1	13.1	13.4	13.3	13.4
Japan	3.6	3.5	3.6	3.7	4.1	3.8	4.3
China	7.9	8.6	10.2	12.0	13.5	12.7	14.5
Other	8.4	8.4	7.3	8.0	8.6	8.4	8.2
Total Asia	19.9	20.6	21.1	23.6	26.1	24.9	27.0
Africa and others	1.5	4.1	2.9	4.8	3.8	4.5	4.0
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank.

Foreign Direct Investment

Peru has an open investment regime and a legal framework that generally promotes and protects foreign investment. The basis of this open investment regime was established in 1991 through the Foreign Investment Promotion Law and the Private Investment Growth Framework Law, as amended. This framework allows both foreign and domestic investors to enter into legal stability agreements with the government. For a description of these measures, see “The Economy—Privatization and Role of the State in the Economy” above.

Peru attracted more than US\$17.1 billion in foreign direct investment directly invested in the Peruvian economy between 2004 and 2008. Of this amount US\$13.7 billion were for reinvestments and US\$3.0 billion for capital contributions. In 2004 foreign direct investment increased to US\$1.6 billion compared to US\$1.3 billion in 2003, due to retained earnings in mining companies owned by foreign corporations and new investments, especially in the hydrocarbons sector (Camisea). In 2005 foreign direct investment increased to US\$2.6 billion compared to US\$1.6 billion in 2004. This increase was mainly due to retained earnings generated by companies with foreign investors (primarily in the mining sector), and the non-resident investments in local assets. In 2006 foreign direct investment increased to US\$3.5 billion compared to US\$2.6 billion in 2005, due to earnings reinvestment, investments by non-residents in domestic securities and capital contributions by foreign corporations such as SAB Miller, Scotiabank and Xstrata to their Peruvian subsidiaries. In 2007 foreign direct investment increased to US\$5.4 billion compared to US\$3.5 billion in 2006, due to earnings reinvestment, capital

contributions and privatizations in the mining and hydrocarbons sectors. In 2008, foreign direct investment decreased to US\$4.1 billion compared to US\$5.4 billion in 2007, due to a decrease of investment from non-residents resulting from the financial global crisis.

During 2006, 2007 and 2008, foreign direct investment amounted to US\$13 billion which was 69.7% more than what was achieved during the three-year period ended December 31, 2006. This is primarily due to large scale reinvestments in mining companies, as a result of the earnings from the constant price surge in metals. The industrial fishing and financial sectors have had important movements of capital. In the industrial sector SAB Miller acquired Unión de Cervecerías Peruanas Backus y Johnston. In the fishing sector Carmela acquired Pesquera Exclamar, and China Fishery Group acquired Pesquera Alexandra. In January 2008, Cencosud, a retailer with operations in Chile, Argentina and Brazil, acquired GSW S.A., owner of the largest food retailer in Peru, for approximately US\$500 million. Other important investments for an aggregate amount of US\$1.0 billion have been made during 2008 by the Endesa of Spain, HSBC, Deutsche Bank, Pan Pacific Copper SN Power, DP World, among others, in energy, finance, mining and transportation projects.

During the first nine months of 2009, foreign direct investment amounted to US\$4.2 billion which was 18.1% less than what was achieved during the nine months ended September 30, 2008. This was primarily due to a reduction in capital contributions and net loans by foreign parent companies to their Peruvian subsidiaries, which was partially offset by a higher level of reinvestment.

In the financial sector, the last years have seen increased activity by foreign investors. Favorable macroeconomic conditions have attracted new participants, such as HSBC Holdings PLC, Scotiabank (expanding in Peru through its acquisition of several banking institutions, including most recently Banco del Trabajo in July 2008 and Profuturo AFP in June 2008), Banco Santander, S.A., Banco Azteca and Deutsche Bank AG. In addition, Financiera CMR S.A. and Financiera Cordillera, two major Peruvian non-deposit lending institutions controlled by retailers S.A.C.I. Falabella and Ripley Corp S.A. were converted into banks in June 2007 and January 2008, respectively, under the names of Banco Falabella Peru S.A. and Banco Ripley.

During 2007, Peru completed 14 privatizations and concession grants for US\$534.9 million, with US\$1.0 billion in projected investments. During 2008, Peru completed 13 privatizations and concession grants for US\$46.3 million, with US\$881.8 million in projected investments. For a description of these transactions see “Privatizations and Concessions” above. During the first nine months of 2009, the concessions program generated US\$1.0 billion in projected investments.

During 2010 and based on Peru’s current plan on future privatization initiatives, the concessions program is expected to generate US\$4.3 billion in investments in different economic sectors such as ports, airports, highways, telecommunications, irrigation and sanitation.

The main recipients of foreign direct investment in recent years have been the telecommunications, mining, hydrocarbon, energy, industry and finance sectors.

Portfolio Investment

Flows of portfolio capital into and out of Peru fluctuated between 2004 and 2008.

- In 2004, Peru registered portfolio capital outflows of US\$74 million, primarily due to an increase in deposits and sale of sovereign bonds.
- In 2005, Peru experienced portfolio capital inflows of US\$25 million, primarily due to investments by non-residents in local Peruvian securities.
- In 2006, Peru experienced portfolio capital outflows of US\$45 million, primarily due to investments outside Peru by financial entities and private pension funds.

- In 2007, Peru experienced portfolio capital inflows of US\$70 million, primarily due to the purchase of sovereign bonds by non-residents.
- In 2008, Peru experienced portfolio capital inflows of US\$85 million, primarily due to an increase in investments by non-residents in local Peruvian securities.
- In the nine-month period ended September 30, 2009, Peru experienced portfolio capital outflows of US\$65 million, primarily due to the sale of local Peruvian securities by non-resident investors.

The following table provides information, by sector, on the stock of foreign direct investment registered with Proinversión as of the dates indicated, which does not include loans or reinvestments. The stock of foreign direct investment refers to the level of foreign funds directly invested in the Peruvian economy as of the dates indicated and does not reflect investment flows.

Registered Stock of Foreign Direct Investment by Sector
(in millions of U.S. dollars at current prices)

	As of December 31,					As of September 30, 2009 ⁽¹⁾
	2004	2005	2006	2007	2008	
Agriculture	44.40	44.40	44.40	44.40	44.75	44.75
Commerce	667.26	665.27	701.31	710.40	725.68	726.02
Telecommunications	4,310.29	3,687.84	3,679.62	3,747.32	3,646.89	3,675.00
Construction	83.32	92.46	118.50	155.40	179.32	191.93
Energy	1,647.77	1,647.77	1,664.24	1,672.99	2,512.50	2,538.28
Finance	1,967.49	2,300.31	2,498.62	2,564.55	2,753.55	2,806.60
Industry	2,373.03	2,295.33	2,728.68	2,739.51	2,831.74	2,832.78
Mining	2,103.68	2,381.89	2,997.96	3,064.25	3,520.49	3,744.49
Fishing	9.98	14.50	133.00	163.00	163.00	163.00
Petroleum	207.93	207.93	207.93	208.22	356.22	356.22
Services	373.24	384.93	395.68	420.73	444.86	446.79
Forestry	1.24	1.24	1.24	1.24	1.24	1.24
Transportation	248.45	248.45	248.45	248.45	288.46	295.36
Tourism	62.10	63.24	63.37	63.54	63.54	63.54
Housing	24.84	25.14	25.72	25.72	525.83	525.83
Total	<u>14,125.03</u>	<u>14,060.71</u>	<u>15,508.72</u>	<u>15,829.73</u>	<u>18,058.09</u>	<u>18,411.84</u>

⁽¹⁾ Preliminary data.

Source: Proinversión.

The following table provides information on the stock of foreign direct investment by country of origin in dollars, and as a percentage of total foreign direct investment, as registered with Proinversión or its predecessor agency, as of the dates shown.

Registered Stock of Foreign Direct Investment by Country of Origin
(in millions of U.S. dollars, at current prices)

	As of December 31,					As of September 30, 2009 ⁽¹⁾
	2004	2005	2006	2007	2008	
Argentina	28.55	28.55	29.77	29.77	29.77	29.77
Australia	6.92	6.92	6.92	6.92	6.92	6.92
Austria	4.96	4.96	5.90	5.90	5.90	5.90
Bahamas	25.89	25.89	197.88	198.53	155.53	155.53
Belgium	109.28	109.28	109.28	79.28	79.28	79.28
Bolivia	4.68	4.68	4.68	4.69	4.75	4.75
Brazil	257.41	258.62	332.92	337.42	342.17	487.17
Canada	161.94	162.33	274.59	274.59	323.27	323.27
Chile	477.71	393.74	465.80	471.99	1,109.02	1,178.08
China	122.16	122.16	122.16	122.16	122.16	122.16
Colombia	619.33	623.96	666.39	730.97	731.02	731.02
Denmark	0.72	0.72	0.72	0.72	0.72	0.72
Ecuador	49.22	53.47	53.47	56.57	68.11	69.13
Finland	0.13	1.34	1.34	1.34	1.34	1.34
France	52.96	52.98	52.98	52.98	200.99	204.95
Germany	103.35	104.03	105.67	107.16	162.03	162.03
Italy	269.60	269.60	140.32	119.50	119.50	119.50
Japan	105.73	106.57	116.79	116.79	168.39	187.39
Korea	44.82	44.82	44.82	44.82	40.68	40.68
Liechtenstein	20.37	20.37	19.15	19.33	19.33	19.33
Luxembourg	24.24	23.55	22.04	50.52	47.51	47.51
Mexico	21.79	437.16	439.17	447.67	454.67	454.67
Netherlands	1,480.25	1,370.76	1,405.07	1,404.38	1,403.68	1,403.68
New Zealand	6.85	6.85	6.85	6.85	6.85	6.85
Panama	1,070.27	811.27	839.85	887.70	928.22	928.95
Portugal	37.29	37.29	37.29	37.29	37.29	37.29
Russia	1.07	2.51	2.51	2.51	2.63	2.63
Singapore	20.00	20.00	123.50	123.50	399.43	399.43
Spain	4,097.76	3,783.61	3,682.00	3,733.72	4,197.71	4,225.99
Sweden	55.46	53.98	53.98	53.98	64.18	64.18
Switzerland	262.95	270.53	270.95	274.22	282.01	282.86
United Kingdom	2,250.14	2,251.36	2,907.46	3,047.33	3,560.19	3,606.20
United States	2,109.26	2,371.69	2,736.65	2,741.85	2,743.18	2,745.15
Uruguay	169.00	172.21	176.86	183.75	186.59	224.44
Venezuela	7.96	7.96	7.96	7.96	7.96	7.96
Other	45.02	45.02	45.03	45.08	45.11	45.14
Total	<u>14,125.03</u>	<u>14,060.71</u>	<u>15,508.72</u>	<u>15,829.73</u>	<u>18,058.09</u>	<u>18,411.84</u>

(1) Preliminary data.

Source: Proinversión.

Registered Stock of Foreign Direct Investment by Country of Origin
(as a percentage of total direct investment, at current prices)

	As of December 31,					As of
	2004	2005	2006	2007	2008	September 30, 2009 ⁽¹⁾
Argentina	0.20	0.20	0.19	0.19	0.16	0.16
Australia	0.05	0.05	0.04	0.04	0.04	0.04
Austria	0.04	0.04	0.04	0.04	0.03	0.03
Bahamas	0.18	0.18	1.28	1.25	0.86	0.84
Belgium	0.77	0.78	0.70	0.50	0.44	0.43
Bolivia	0.03	0.03	0.03	0.03	0.03	0.03
Brazil	1.82	1.84	2.15	2.13	1.89	2.65
Canada	1.15	1.15	1.77	1.73	1.79	1.76
Chile	3.38	2.80	3.00	2.98	6.14	6.40
China	0.86	0.87	0.79	0.77	0.68	0.66
Colombia	4.38	4.44	4.30	4.62	4.05	3.97
Denmark	0.01	0.01	0.00	0.00	0.00	0.00
Ecuador	0.35	0.38	0.34	0.36	0.38	0.38
Finland	0.00	0.01	0.01	0.01	0.01	0.01
France	0.37	0.38	0.34	0.33	1.11	1.11
Germany	0.73	0.74	0.68	0.68	0.90	0.88
Italy	1.91	1.92	0.90	0.75	0.66	0.65
Japan	0.75	0.76	0.75	0.74	0.93	1.02
Korea	0.32	0.32	0.29	0.28	0.23	0.22
Liechtenstein	0.14	0.14	0.12	0.12	0.11	0.10
Luxembourg	0.17	0.17	0.14	0.32	0.26	0.26
Mexico	0.15	3.11	2.83	2.83	2.52	2.47
Netherlands	10.48	9.75	9.06	8.87	7.77	7.62
New Zealand	0.05	0.05	0.04	0.04	0.04	0.04
Panama	7.58	5.77	5.42	5.61	5.14	5.05
Portugal	0.26	0.27	0.24	0.24	0.21	0.20
Russia	0.01	0.02	0.02	0.02	0.01	0.01
Singapore	0.14	0.14	0.80	0.78	2.21	2.17
Spain	29.01	26.91	23.74	23.59	23.25	22.95
Sweden	0.39	0.38	0.35	0.34	0.36	0.35
Switzerland	1.86	1.92	1.75	1.73	1.56	1.54
United Kingdom	15.93	16.01	18.75	19.25	19.72	19.59
United States	14.93	16.87	17.65	17.32	15.19	14.91
Uruguay	1.20	1.22	1.14	1.16	1.03	1.22
Venezuela	0.06	0.06	0.05	0.05	0.04	0.04
Other	0.32	0.32	0.29	0.28	0.25	0.25
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

(1) Preliminary data.

Source: Proinversión.

The principal sources of direct investment in Peru are Spain, the United States and the United Kingdom. Together they represent 58.2% of total foreign direct investment in 2008, compared to 59.9% in 2004. The principal countries to invest in Peru during the first nine months of 2009 have been Chile and Brazil.

THE MONETARY SYSTEM

THE MONETARY SYSTEM

Central Bank

Established in 1922, the Central Bank serves as Peru's monetary authority. The Central Bank exists and operates under Chapter V of the 1993 Constitution and *Ley Orgánica del Banco Central de Reserva del Perú*, or the Central Bank's charter, enacted that same year. The 1993 Constitution and the Central Bank's charter establish that the goal of the Central Bank is to maintain price stability. Congress vested the Central Bank with the authority to regulate Peru's monetary base, manage Peru's international reserves and gather and publish data on Peru's finances. The Central Bank is also the sole issuer of Peruvian currency.

The Central Bank is headed by a board of directors composed of seven members who each serve five-year terms that are coterminous with the Peruvian President's term. Congress appoints three of the Central Bank's directors, and the Executive Branch appoints four, including the president of the Central Bank's board. Appointment of the president of the Central Bank's board is subject to ratification by Congress. The Central Bank's charter requires directors of the Central Bank to have extensive experience in and knowledge of economics and finance. The responsibility of the Central Bank's board is to formulate a monetary program consistent with the Central Bank's mandate to maintain price stability.

The Central Bank's daily operations are under the supervision of its General Manager and the Money and Foreign Exchange Committee. This committee meets daily to make decisions regarding monetary operations, such as the amount of U.S. dollars to be purchased in the foreign exchange market, whether to auction Central Bank certificates of deposit and the interest rate that the Central Bank will charge on short-term credits, which is generally known as the discount rate.

Reform of the Central Bank and of Peru's monetary policy has been a centerpiece of the economic program Peru began in the early 1990s. These reforms were based on the following two key elements that were promulgated under the 1993 Constitution and the Central Bank's charter:

- the Central Bank's principal purpose is to maintain price stability by preserving the value of the currency; and
- the Central Bank possesses full autonomy.

These reforms were implemented to address the high rates of inflation that Peru, along with other South American countries, experienced during the 1980s and early 1990s. The premise underlying these reforms was that the Central Bank could contribute most effectively to economic prosperity by focusing its activities on achieving price stability. Prior to these reforms, the Central Bank operated under a much broader mandate that made it directly responsible for fueling growth and for establishing credit and exchange rate conditions. Pursuit of these broader and occasionally incompatible objectives resulted in erratic policy choices that exacerbated adverse economic conditions and contributed to the hyperinflation experienced in the late 1980s and early 1990s.

The Central Bank was granted autonomy based on the belief that, to operate effectively, the Central Bank must be immune from political pressures. In the past, the Central Bank had often been required to pursue ill-advised policies, such as printing currency in order to finance public spending, as a result of government intervention. Since the reforms were implemented, technical rather than political management of Peru's monetary policy has built confidence in the government's ability to formulate and implement a sound and stable monetary policy.

The 1993 Constitution and the Central Bank's charter guarantee the autonomy of the Central Bank by prohibiting it from:

- providing financing to the public sector, except indirectly through limited purchases of treasury bonds;
- issuing guarantee certificates, surety bonds or any other kind of guarantees, using any other form of indirect financing, or providing insurance of any kind;
- imposing sector or regional ratios on the composition of the loan portfolios of financial institutions; and
- establishing multiple currency exchange regimes.

The reform of the Central Bank's role has been instrumental in the sharp decline in inflation experienced during the 1990s. Between 1994 and 2000, the Central Bank met or slightly exceeded its annual inflation targets. Since 2001, the Central Bank has maintained a restrictive monetary policy that produced a marked deceleration in the growth rate of the CPI, which was 2.5% in 2003, 3.5% in 2004, 1.5% in 2005, 1.1% in 2006, 3.9% in 2007 and 6.7% in 2008. This relatively stable rate of inflation has fostered confidence in the stability of the Peruvian currency.

Monetary Policy

The Central Bank's primary goal is to maintain a stable monetary environment. To conduct monetary policy, the Central Bank has established a target inflation rate and has announced this target rate in order to shape market expectations. The Central Bank's target annual inflation rate for 2009 is 2%, plus or minus 1%.

Decisions on monetary policy are translated into changes in an operational target chosen by the Central Bank. Since 2001, the Central Bank has gradually changed its monetary policy from a monetary base growth control scheme to an interbank interest rate control scheme. As a result, the volatility of the interbank interest rate has diminished continuously. The reduction in the volatility of the interbank interest rate has significantly reinforced the influence of this rate over the other banks' interest rates. Even during the 2001–2002 years, while monetary policy targeted the amount of demand deposits held by commercial banks at the Central Bank, it was announced the reference interbank interest rate range. The upper limit of the reference interbank interest rate range is the interest rate for direct repos and the rediscount rate and the lower limit corresponds to the interest rate for overnight deposits by commercial banks at the Central Bank.

Under the Central Bank's charter, interest rates float freely in the Peruvian economy and are determined by market conditions. Only in exceptional circumstances may the Central Bank establish minimum and maximum interest rates. Since January 2003, the Central Bank has released its monetary policy decisions regarding the Central Bank's interest rates for discount window operations and deposit facilities with commercial banks. These interest rates are intended to establish a reference rate for the interbank market.

The following table provides information on interest rates applicable to commercial bank loans as of the dates shown.

Interest Rates on Commercial Bank Loans
(annual percentage rates)

	As of December 31,					As of September 30,
	2004	2005	2006	2007	2008	2009
Domestic currency:						
Interbank	3.0	3.3	4.5	5.0	6.5	1.2
Prime ⁽¹⁾	3.8	4.4	5.2	5.6	7.5	1.8
Average loan rate	25.4	23.6	23.1	22.3	23.0	20.2
Foreign currency:						
Interbank	2.2	4.2	5.4	5.9	1.0	0.2
Prime ⁽¹⁾	2.6	5.5	6.1	6.4	5.2	1.4
Average loan rate	9.2	10.4	10.8	10.5	10.5	9.0

⁽¹⁾ Considers only the prime rate on loans to the corporate sector.

Source: Central Bank.

The increase in interest rates on domestic currency loans since June 30, 2003 was a result of the restructuring of domestic currency loans in favor of the loans with the highest interest rates. At the end of 2006, the average interest rate on domestic and foreign currency loans was 23.1% and 10.8%, respectively. At the end of 2007, the average interest rate on domestic currency loans and foreign currency loans was 22.3% and 10.5%, respectively. As of December 31, 2008, the average interest rate on domestic currency loans and foreign currency loans was 23.0% and 10.5%, respectively. In the first nine months of 2009 the average interest rate on domestic currency loans decreased to 20.2%, while the rate on foreign currency loans decreased to 9.0%.

The following table provides information on interest rates applicable to deposits as of the dates shown.

Interest Rates on Deposits Paid by Commercial Bank
(annual percentage rates)

	As of December 31,					As of September 30,
	2004	2005	2006	2007	2008	2009
Domestic currency:						
Saving deposits	1.3	1.2	1.4	1.5	1.4	0.8
Time deposits ⁽¹⁾	3.2	3.6	4.8	5.3	6.4	2.8
Average deposits rate ⁽²⁾	2.5	2.6	3.2	3.3	3.8	2.1
Foreign currency:						
Saving deposits	0.6	0.6	0.7	0.8	0.8	0.4
Time deposits ⁽¹⁾	1.7	2.9	3.4	3.8	4.0	1.5
Average deposits rate ⁽²⁾	1.2	1.8	2.2	2.5	1.9	1.2

⁽¹⁾ Time deposits for 31 to 179 days.

⁽²⁾ The average of the TIPMN rate published daily by SBS. The TIPMN is the average deposit rate in domestic currency expressed in annual effective terms.

Source: Central Bank.

In 2007, the average interest rate on domestic currency deposits and foreign currency deposits was 3.3% and 2.5%, respectively. As of December 31, 2008, the average interest rate on domestic currency deposits and foreign currency deposits was 3.83% and 1.9%, respectively. By September 30, 2009, they were 2.1% and 1.2%.

The Central Bank employs several tools to implement its monetary operations. These tools fall into the following three major categories:

- open market operations, which include:
 - auctions to financial institutions of Central Bank certificates of deposit (CDBCRP) and indexed certificates of deposit (CDR) (indexed to the exchange rate);
 - temporary purchases of Central Bank certificates of deposits and of treasury bonds;
 - purchases and sales of foreign currencies in the interbank market;
- discount-window transactions, which include:
 - monetary regulation loans, generally known as rediscounts, which consist of short-term loans made directly by the Central Bank to financial institutions to cover their short-term liquidity needs;
 - direct repos;
 - overnight foreign currency swaps that allow the Central Bank to provide financial institutions with short-term liquidity;
 - remunerated overnight deposits in the Central Bank, in both domestic and foreign currencies, which allow the Central Bank to remove excess liquidity from the banking system; and
- minimum reserve requirements.

As of September 2009, the minimum reserve requirement for local and foreign currency deposits was 6.0%. Foreign currency deposits were subject to a 30% marginal rate. On average, 6% of local currency deposits and 32.9% of total foreign currency deposits were kept as reserves. Financial institutions may satisfy the minimum reserve requirements with funds that they hold in vaults or that they have deposited in their accounts at the Central Bank. Financial institution also must maintain at least 1% of local and foreign currency deposited in the Central Bank.

The Central Bank relies primarily on open market operations to regulate the liquidity of the banking system and promotes the perception of the Central Bank as a lender of last resort by imposing above-market rates and commissions on discount-window transactions.

The significant volatility of short term capital flows has been a destabilizing factor in Peru's monetary system since 1998 when large capital outflows occurred following the Russian financial crisis. Between 1999 and 2004, short-term capital fluctuated between a high of US\$230 million of inflows in 2004 to US\$1.5 billion of outflows in 1999. The short-term capital outflow was US\$236 million in 2005 and US\$563 million in 2006. However, the short-term capital inflow was US\$2.0 billion during 2007. To confront the volatility of short-term capital flows, the Central Bank generally requires high foreign currency reserve requirements that discourage significant capital outflows and promote holdings of local currency. Since January 2008, the issuance of BCRP certificates of deposit with restricted negotiation in order to avoid speculation against the dollar in the local market, began. This type of certificate can only be purchased by domestic financial institutions in primary placements.

Despite the positive impact that it may have on reducing cross-border transaction costs and preserving purchasing power, the high level of dollarization has also increased the vulnerability of the economy (currency risk and liquidity risk). Dollarization generally refers to the degree to which the U.S. dollar has displaced Peru's

domestic currency in the economy. Dollarization began during the 1980s as inflation rates started to rise. As inflation reached triple-digit rates between 1983 and 1985, foreign currency-denominated assets were increasingly used to store value. By 1990, when the annual inflation rate had reached 7,650%, 47% of total deposits in the domestic financial system, and 76% of total deposits held by Peruvians domestically and abroad, were denominated in U.S. dollars. Since the 1990s, the Peruvian economy has remained highly dollarized, but in the last years the ratio of dollarization has followed a diminishing trend.

As of December 31, 2008, U.S. dollar-denominated deposits equaled 50.5% of domestic broad money (one year ago, they represented 49.4% and at the end of 2006, they were 55.4%). At the same time, U.S. dollar-denominated credits in the private sector decreased to 53.2% of the total credits in the financial system (57.0% at the end of 2007 and 60.3% in 2006). The continued demand for local currency in the vast majority of transactions that take place in the Peruvian economy has preserved the local currency as the main channel through which the Central Bank can affect aggregate demand and thus control inflation. The Central Bank expects that as it continues to meet its inflation targets, confidence in the value of the local currency will grow, gradually restoring the *nuevo sol* as the principal means of savings.

The following table provides the bank credit to the private sector for the periods shown.

Bank Credit to the Private Sector
(as percentage of total credit)

	Private Commercial Banks		Public Sector Banks	
	<u>S/.</u>	<u>Foreign Currency</u>	<u>S/.</u>	<u>Foreign Currency</u>
2004	22.4	73.4	2.9	1.4
2005	26.4	69.4	3.0	1.3
2006	33.4	62.8	2.8	1.0
	Private Commercial Banks		Public Sector Banks	
	<u>S/.</u>	<u>Foreign Currency</u>	<u>S/.</u>	<u>Foreign Currency</u>
2007	36.6	59.1	3.6	0.7
2008	42.0	54.9	2.6	0.6
2009 (through September 30)	46.4	50.5	2.6	0.6

Source: Central Bank.

The Banking Law and the charter of the SBS, as defined below, provide that financial companies may freely establish interest rates and the commissions they charge on loans, deposits and other services they provide.

Supervision of the Financial System

Established in 1931, the *Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones*, or Banking, Insurance and AFP Superintendency, or SBS, is responsible for regulating and supervising the financial, insurance and private social security systems in Peru. Since 1979, the SBS has had institutional autonomy from the Ministry of Economy and Finance. In 1981, the first *Ley Orgánica de la Superintendencia de Banca y Seguros*, or Banking and Insurance Superintendency Charter and Banking and Insurance Law, was adopted, which outlined in greater detail the powers and functions of the SBS. The role of the SBS was expanded in 2000 when it was given jurisdiction over the private social security system. In September 2007, the Financial Intelligence Unit, a specialized unit in charge of preventing money laundering and the financing of terrorism, was incorporated to the SBS.

The overarching goal of the SBS is to protect the interests of customers, depositors and beneficiaries of the financial, insurance and private social security systems, by ensuring the solvency and integrity of the companies that operate in these sectors. In recent years, the SBS has pursued this goal from a free-market

perspective, stepping away from the interventionist model that characterized the financial industry until the early 1990s. Accordingly, the SBS has sought to create incentives for financial institutions to manage adequately their levels of risk, while imposing minimum standards to ensure that the integrity and solvency of the industry are not jeopardized.

Under current banking law, and the regulatory norms and guidelines adopted by the SBS, financial institutions are subject to the following three basic kinds of regulations:

- Market-entry requirements designed to ensure that the regulated entities have minimal capital levels to conduct their business and are otherwise reliable financial agents. In particular, the SBS requires that commercial banks have a minimum capital base of no less than S/.23.9 million, or approximately US\$7.8 million, for the third quarter of 2009 (readjusted quarterly based on the wholesale price index), and be managed by competent teams composed of persons of high integrity, aptitude and expertise in their particular fields.
- Prudential standards designed to ensure that the quality of the financial system's loan portfolio meets minimum levels. These prudential standards include the following requirements:
 - *Strict limits on credit concentration.* Financial institutions may not lend an amount equal to or greater than 10% of their capital to any single person or entity. This limit may be raised to 30% depending on the kind of guarantee or security offered. Additionally, financial institutions may not lend more than 5% of their capital to any single person or entity residing abroad. This limit may be raised to 10% depending on the kind of guarantee or security offered. The 1996 Banking Law also prescribes special limits for particular kinds of credits, such as loans to affiliates and other foreign and domestic financial institutions.
 - *Capital adequacy ratios.* The risk-weighted assets of financial institutions may not exceed 11 times their net worth, which is stricter than the Basel Accord guidelines.
 - *Loan-loss reserve requirements.* These requirements, which are strictly enforced, range from a minimum 0.5% reserve for loans with normal risk levels, to a maximum 100% reserve for loans classified as a loss.
- Disclosure requirements designed to regulators, economic agents in other sectors of the economy and the public, with sufficient information to evaluate the activities of financial institutions. The principal requirements include the following:
 - Banks must register their shares on the *Bolsa de Valores de Lima*, or Lima Stock Exchange, or BVL, and thereby become subject to the disclosure guidelines established by the *Comisión Nacional Supervisora de Empresas y Valores*, or National Supervisory Commission of Companies and Securities, or CONASEV.
 - Banks must publish their quarterly financial statements in major newspapers.
 - Banks must have two credit rating agencies assess their credit risk and publish these ratings in major newspapers semiannually.

With respect to loan-loss reserve requirements, current regulations risk classification of commercial loans taking into consideration primarily a cash flow analysis of the company, how long payments are overdue and the classification of the debtor by other financial entities. The debtor's cash flow is based on the level of solvency, economic trends in the debtor's line of business and the quality of the debtor's management and control systems. In the case of consumer, small-business and mortgage loans the risk classification is only based

on the number of days payments for a particular loan are overdue. For commercial loans, a bank may also consider the debtor's level of solvency, economic trends in the debtor's line of business and the quality of the debtor's management and control systems. Additionally, guarantees or collateral may affect the specific level of reserves that must be maintained with respect to a particular loan.

The following table provides the risk-classification scheme mandated by the SBS.

<u>Risk Category</u>	<u>Criteria</u>
Normal:	
Commercial loans	0 days past due, high solvency, growing economic sector and adequate management and control systems.
Consumer loans ⁽¹⁾	Up to 8 days past due.
Mortgage loans	Up to 30 days past due.
Potential problems:	
Commercial loans	Based on cash flow analysis the company is able to fulfill all of its financial obligations, exhibits moderate solvency and adequate management and control systems, but is part of a temporarily destabilized economic sector.
Consumer loans ⁽¹⁾	9 to 30 days past due.
Mortgage loans	31 to 90 days past due.
Deficient:	
Commercial loans	60 to 120 days past due, moderate to low solvency, unclear tendency in economic sector and inadequate management and control systems.
Consumer loans ⁽¹⁾	31 to 60 days past due.
Mortgage loans	91 to 120 days past due.
Doubtful:	
Commercial loans	121 to 365 days past due, low solvency, falling revenues in economic sector and inadequate management and control systems.
Consumer loans ⁽¹⁾	61 to 120 days past due.
Mortgage loans	121 to 365 days past due.
Loss:	
Commercial loans	More than 365 days past due, debtor insolvent, structural problems in economic sector and inadequate management and control systems.
Consumer loans ⁽¹⁾	More than 120 days past due.
Mortgage loans	More than 365 days past due.

⁽¹⁾ Consumer loans include consumer and microfinance loans.

Source: SBS.

The following table presents the required loan-loss reserves by risk category.

**Required Loan-Loss Reserves by Risk Category and Type of Loan
(as a percentage of total portfolio as of September 30, 2009)**

<u>Type of Loan</u>	<u>Loan-loss reserves for Normal Loans</u>	
	<u>Rate</u>	<u>Procyclical component⁽¹⁾</u>
Commercial	0.70	0.40
Micro-Credit	1.00	0.50
Consumption	1.00	1 or 1.5 ⁽²⁾
Mortgage	0.70	0.40

	Loan-loss reserves for Loans other than Normal Loans ⁽³⁾		
	With liquid guarantee	With other guarantee	Without guarantee
Potential problems	1.25	2.50	5.00
Deficient	6.25	12.50	25.00
Doubtful	15.00	30.00	60.00
Loss	30.00	60.00	100.00

- (1) The procyclical component has a direct relationship to fluctuations in GDP. The procyclical rule activates when GDP has a significant and constant growth and deactivates when it does not.
- (2) For non-revolving consumption loans the rate is 1% and for revolving loans the rate is 1.5%.
- (3) The required loan-loss reserves for loans guaranteed with highly liquid guarantees is 1%. Consumption loans are deemed as loans without guarantees. Loans of debtors classified as doubtful for more than 36 months or loss for more than 24 months must be treated as loans without guarantees.

Source: SBS.

The following tables provide information regarding loans of the financial system by risk category and type of institution and loans issued by commercial banks by risk category and type of loan.

Risk Classification of Aggregate Assets of the Financial System by Type of Institution
(as a percentage of total loans, as of September 30, 2009)

Risk category	Commercial banks	Non-deposit lending institutions	Savings and loans associations		Small-business development banks	Financial leasing companies	Total
			Municipal	Rural			
Normal	93.30	84.47	86.23	86.42	86.05	88.17	92.50
Potential problems	3.22	5.45	5.52	5.45	5.79	7.43	3.57
Deficient	1.21	3.04	2.20	2.90	2.49	3.83	1.35
Doubtful	1.31	4.00	2.18	2.13	2.64	0.57	1.45
Loss	0.86	3.04	3.87	3.10	3.04	0.00	1.13
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: SBS.

Risk Classification of Aggregate Assets of Commercial Banks by Type of Loan
(as a percentage of total loans, as of September 30, 2009)

Risk category	Commercial loans	Small-business loans	Consumer loans	Mortgage loans
Normal	94.87	89.98	86.40	94.64
Potential problems	3.20	3.37	4.47	2.49
Deficient	0.76	2.17	3.07	0.93
Doubtful	0.69	2.38	3.97	1.00
Loss	0.48	2.11	2.09	0.94
Total	100.00	100.00	100.00	100.00

Source: SBS.

The following table provides the status of loans in the financial system.

Status of Loans in the Financial System
(as a percentage of total loans, as of September 30, 2009)

Type of institution	Current loans		Refinanced and restructured loans	Loans past due	Loans subject to judicial process
	Short-term	Long-term			
Commercial banks	41.5	55.8	1.1	1.2	0.4
Non-deposit lending institutions	38.7	55.4	1.4	4.2	0.4
Savings and loans associations:					
Municipal	31.9	61.5	1.6	2.7	2.4
Rural	32.6	61.0	2.2	2.7	1.6
Small-business development banks	47.4	46.0	1.4	3.5	1.8
Financial leasing companies	16.9	79.7	1.9	1.5	0.0
Total	40.6	56.3	1.2	1.4	0.5

Source: SBS.

The SBS performs its supervisory role in the following two principal manners:

- Supervision of regulated entities through on-site and off-site inspections. The SBS systematically reviews and analyzes the information that financial companies are required to disseminate through the media and CONASEV. Off-site inspections look to information disclosed by the supervised companies to insure that the companies observe the rules, to review the management of the supervised companies and to identify risks factors which might indicate potential future problems. The SBS also conducts on-site inspections through site visits conducted at least once a year, during which visit the SBS may conduct either a general evaluation of the company or a review of specific issues.
- Assessments made by third parties. The SBS regularly reviews the analyses of regulated entities conducted by auditors, foreign and domestic credit-rating agencies and other foreign and domestic supervisory agencies. These reviews allow the SBS to gain a broader perspective of the activities and performance of the Peruvian financial sector and to identify areas of concern.

In 1991, Peru introduced the *Fondo de Seguros de Depósitos*, or Deposit Insurance Fund, which, for the three-month period ended February 28, 2010, insures deposits in the financial system up to S/.82,073, or approximately US\$26,733 at the average exchange rate for the nine-month period ended September 30, 2009 (readjusted quarterly based on the wholesale price index), per person, for each company member of the Deposit Insurance Fund. The introduction of the Deposit Insurance Fund eased some of the burdens created by several closures of deficient banks that resulted from the banking reforms undertaken by Peru.

Financial Sector

Prior to 1990, Peru's regulation of the financial system was characterized by interventionist measures that limited and directed the activities of banks, restricted foreign competition and prevented profit remittances and credit payments abroad. This regulatory environment undermined competition in the financial industry and limited the supply of medium- and long-term credit.

As part of its economic program, the Fujimori administration undertook to overhaul Peru's financial system. Its first measures included liberalizing interest rates and eliminating exchange rate controls. In 1996, Congress passed *Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la Superintendencia de Banca y Seguros*, or the Banking Law, which:

- adopted a policy of nondiscrimination among foreign and national banks, and state and private banks;

- opened the financial market to foreign banks and insurance companies;
- liberalized market-entry barriers for domestic banks; and
- tightened prudential standards and disclosure requirements.

As of September 30, 2009, the Peruvian financial system was composed of 80 financial institutions, including:

- 15 full service commercial banks;
- 13 municipal and 10 rural savings and loan associations;
- 11 small-business development non-bank institutions;
- Six non-deposit lending institutions (*empresas financieras*);
- Four leasing companies;
- 13 insurance companies;
- Four private pension fund managers; and
- Four state-owned banks (not including the Central Bank), *Banco de la Nación*, the *Corporación Financiera de Desarrollo*, or COFIDE, *Banco Agropecuario* and *Fondo MiVivienda*.

Of the 15 full service commercial banks in operation, 13 were partly foreign-owned and in 10 of these, foreign owners held a majority equity stake. As of September 30, 2009, other institutions supervised by the SBS included 11 money transfer companies, three general deposit warehouses, one trust company, one surety and bonding house and two cash transportation, custody and management companies.

Established in 1966, *Banco de la Nación* is a state-owned bank that offers a variety of services to the public sector, including regional governments and local governments. These services include:

- collecting taxes on behalf of various governmental agencies;
- making payments and transfers on behalf of the government;
- serving as paying and centralized collection agent for Peru's internal indebtedness and its medium- and long-term external indebtedness; and
- providing banking and foreign exchange services for the government's foreign trade transactions.

Established in 1971, COFIDE is a state-owned development bank that specializes in providing credit to the financial sector. Through these credits, COFIDE is expected to promote private sector credit for the various sectors of the economy.

Established in 2001, *Banco Agropecuario* is a state-owned bank that provides credit services to the agriculture, cattle-ranch and aquaculture sectors, and to the activities of transformation and commercialization of products of the farming and aquaculture sectors.

Established in 2006, Fondo MiVivienda is a state-owned enterprise that provides financing to financial intermediaries, such as full service commercial banks, with the objective to promote the development of housing projects and to facilitate access to mortgage loans.

During 2006, 2007 and 2008 the Peruvian financial system experienced several important events. In May 2006 Scotiabank Perú S.A. was created as a result of the merger of Banco Sudamericano and Banco Wiese Sudameris. In October 2006, October 2007, January 2008 and June 2008, HSBC Bank Perú S.A., Santander Perú S.A., Banco Azteca del Perú S.A. and Deutsche Bank (Perú) S.A., respectively, were authorized to start operations as full service commercial banks in Peru. In addition, two non-deposit lending institutions related to retailers were authorized to start operating as full service banks in June 2007 and January 2008.

The following table presents the percentage of loans and deposits corresponding to each category of financial institution as of September 30, 2009.

Loans and Deposits
(as a percentage of total loans and total deposits)

Type of Institution	As of September 30, 2009			
	Loans		Deposits	
	S/.	US\$	S/.	US\$
Rural savings and loans	2.0	0.3	1.4	0.3
Municipal savings and loans	10.5	1.5	7.2	1.8
Financial leasing companies	0.2	1.2	—	—
Non-deposit lending institutions	5.6	0.4	1.7	0.4
Commercial banks	75.7	94.5	68.8	87.6
Small business development banks	1.2	0.2	—	—
State-owned banks	4.8	2.0	20.8	9.9
Total	100.0	100.0	100.0	100.0

Source: SBS.

The following table presents the number of financial institutions and the percentage interest in total assets of the financial system held by each category of financial institution as of the dates shown.

Number of Financial Institutions
and Share of Total Assets of the Financial System

Type of Institution	Number of Institutions as of December 31,					Share of Total Assets (%) as of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Rural savings and loans	12	12	12	12	10	0.7	0.9
Municipal savings and loans	14	14	13	13	13	3.8	4.5
Financial leasing companies	6	6	5	5	5	1.0	0.4
Non-deposit lending institutions	4	4	4	3	3	0.5	2.1
Commercial banks	14	12	11	13	16	78.0	76.2
Small business development banks	14	14	13	14	13	0.7	0.5
State-owned banks	3	3	4	4	4	15.3	15.4
Total	67	65	62	64	64	100.0	100.0

Source: SBS.

Total assets of the Peruvian financial system decreased 1.6% in 2003, primarily as a result of the acquisition of Banco Santander Central Hispano's loan portfolio by Banco de Crédito. Total assets of the Peruvian financial system increased 10.3% and 18.5% in 2004 and 2005, respectively. These increases were due primarily to the economic growth of Peru during those years. In 2006 total assets of the Peruvian financial system increased by 14.5%, due primarily to the significant financial and economic growth experienced during

that year. In 2007 total assets of the Peruvian financial system increased by 37.8%, due primarily to continued economic growth and stability. In 2008, total assets of the Peruvian financial system increased by 28.3% due primarily to the growth in the loan portfolio. As of September 30, 2009, total assets of the Peruvian financial system increased by 6.6%, compared to September 30, 2008, due primarily to the level of liquidity of the financial and banking system.

The following table provides the total gross assets of the Peruvian financial system as of the dates shown.

Total Gross Assets of the Peruvian Financial System
(in millions of U.S. dollars and percentage change from previous year)

	<u>Financial system⁽¹⁾</u>		<u>Commercial banks</u>	
	<u>US\$</u>	<u>Growth rate (%)</u>	<u>US\$</u>	<u>Growth rate (%)</u>
As of December 31,				
2004	21,272	10.3	19,276	10.0
2005	25,204	18.5	22,795	18.3
2006	28,848	14.5	25,830	13.3
2007	39,756	37.8	36,164	40.0
2008	51,007	28.3	47,036	30.1
As of September 30,				
2008	49,487	40.8	45,588	43.0
2009	52,764	6.6	47,526	4.3

(1) Does not include state-owned banks.

Source: SBS.

The financial system is the primary source of private sector financing. As of December 31, 2005, the sectors with largest borrowings were manufacturing (20.9% of total loans) and wholesale and retail trade (15.8% of total loans). As of December 31, 2006, the sectors with largest borrowings were manufacturing (19.6% of total loans) and wholesale and retail trade (16.1% of total loans).

As of December 31, 2007 and 2008, the above trend continued with the manufacturing sector having the largest share of loans, with 20.4% and 18.3% of total loans, respectively. The wholesale and retail sector was second in total share of loans with 15.8% of total loans as of December 31, 2007 and 17.1% of total loans as of December 31, 2008. During the first nine months of 2009, the sectors with largest borrowings were again the manufacturing sector with 16.8% of the total loans and the wholesale and retail sector with 16.1% of the total loans as of September 30, 2009.

The following tables provide information regarding the allocation of loans to each sector of the economy as of the dates shown.

Loans of the Financial System by Sector⁽¹⁾
(in millions of U.S. dollars, at current prices)

Sector	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Agriculture and livestock	380	425	468	620	925	854	1,098
Fishing	306	375	432	454	418	396	366
Mining	516	624	604	995	1,416	1,293	1,300
Manufacturing	2,923	2,974	3,486	5,037	5,865	5,630	5,824
Electricity, gas and water	380	458	634	795	1,057	944	1,362
Construction	207	243	276	482	674	701	628
Wholesale and retail trade	1,750	2,251	2,859	3,918	5,489	5,012	5,606
Hotels and restaurants	139	142	177	297	400	372	538
Transportation, warehousing and telecommunications	483	582	819	1,247	2,005	1,742	2,243
Financial intermediation	281	333	575	759	728	692	822
Real estate	588	709	905	1,299	1,712	1,592	1,799
Public administration and defense	61	64	75	108	102	107	100
Education	100	119	133	171	244	223	273
Health and social services	38	45	57	86	99	94	112
Other ⁽²⁾	4,052	4,889	6,278	8,466	10,987	10,654	12,660
Total loans	<u>12,202</u>	<u>14,231</u>	<u>17,781</u>	<u>24,734</u>	<u>32,112</u>	<u>30,306</u>	<u>34,732</u>

(1) Does not include state-owned banks and financial leasing companies.

(2) Includes consumer loans and mortgage loans.

Source: SBS.

Loans of the Financial System by Sector⁽¹⁾
(as a percentage of total loans)

Sector	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Agriculture and livestock	3.1	3.0	2.6	2.5	2.9	2.8	3.2
Fishing	2.5	2.6	2.4	1.8	1.3	1.3	1.1
Mining	4.2	4.4	3.4	4.0	4.4	4.3	3.7
Manufacturing	24.0	20.9	19.6	20.4	18.3	18.6	16.8
Electricity, gas and water	3.1	3.2	3.6	3.2	3.3	3.1	3.9
Construction	1.7	1.7	1.6	1.9	2.1	2.3	1.8
Wholesale and retail trade	14.3	15.8	16.1	15.8	17.1	16.5	16.1
Hotels and restaurants	1.1	1.0	1.0	1.2	1.2	1.2	1.5
Transportation, warehousing and telecommunications	4.0	4.1	4.6	5.0	6.2	5.7	6.5
Financial intermediation	2.3	2.3	3.2	3.1	2.3	2.3	2.4
Real estate	4.8	5.0	5.1	5.3	5.3	5.3	5.2
Public administration and defense	0.5	0.4	0.4	0.4	0.3	0.4	0.3
Education	0.8	0.8	0.7	0.7	0.8	0.7	0.8
Health and social services	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other ⁽²⁾	<u>33.2</u>	<u>34.4</u>	<u>35.3</u>	<u>34.2</u>	<u>34.2</u>	<u>35.2</u>	<u>36.5</u>
Total loans	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(1) Does not include state-owned banks or financial leasing companies.

(2) Includes consumer loans and mortgage loans.

Source: SBS.

Liquidity and Credit Aggregates

The most significant money supply measures in Peru are M1, M2 and M3, which consist generally of the following:

- M1 consists of currency in circulation plus demand and savings deposits in domestic currency held in private sector banks;
- M2 consists of M1 plus time deposits in domestic currency held in private banks and mortgage certificates and other certificates, in domestic currency, issued by private banks; and
- M3, or “broad money,” consists of M2 plus foreign currency in circulation.

During the five-year period ended December 31, 2008, Peru’s monetary base grew 149.9%, from US\$2.8 billion as of December 31, 2004 to US\$7.1 billion as of December 31, 2008. For the five-year period ended December 31, 2008, M1 grew at a compound annual rate of 27.8%, M2 at a compound annual rate of 30.9% and M3 at a compound annual rate of 20.8%.

The following table shows changes in selected monetary indicators as of the stated dates.

Selected Monetary Indicators
(percentage change from previous year)⁽¹⁾

	As of December 31,					As of
	2004	2005	2006	2007	2008	September 30,
						2009
M1	24.8	29.5	17.3	29.7	30.7	10.7
M2	19.2	34.6	17.9	31.5	42.4	13.4
M3	6.1	14.7	15.8	18.6	25.5	20.8

⁽¹⁾ Average indicators of the period.

Source: Central Bank.

The following table presents the composition of the monetary base and international reserves as of the dates shown.

Monetary Base and Central Bank’s International Reserves
(in millions of U.S. dollars, at current prices)

	As of December 31,					As of
	2004	2005	2006	2007	2008	September 30,
						2009
Currency in circulation and cash in vaults at						
banks	2,780	3,396	4,304	5,860	6,805	6,890
Commercial bank deposits at the Central Bank	64	22	28	66	301	140
Monetary base	2,844	3,418	4,332	5,926	7,105	7,030
Gross international reserves	12,649	14,120	17,329	27,720	31,233	32,163
Net international reserves	12,631	14,097	17,275	27,689	31,196	32,130

Source: Central Bank.

As of December 31, 2008, the ratio of gross international reserves at the Central Bank to the monetary base was approximately 4.4 to 1, and as of September 30, 2009, this ratio was 4.6 to 1. As of December 31, 2008,

total credit aggregate was equal to US\$20.0 billion and total deposits were equal to US\$27.6 billion. For the five-year period ended December 31, 2008, private-sector credit increased at a compound annual growth rate of 19.0%, to US\$32.5 billion at the end of such period. For the same period total deposits increased at a compound annual growth rate of 20.3%, to US\$27.6 billion at the end of such period. For the five-year period ended December 31, 2008, foreign currency denominated deposits increased at a compound annual growth rate of 13.4%, to US\$15.3 billion at the end of such period. During the same period local currency denominated deposits had a compound annual growth rate of 34.4%, totaling US\$12.3 billion at December 31, 2008.

As of December 31, 2008, Peru's monetary base was US\$7.1 billion. From December 31, 2007 to December 31, 2008, both gross and net international reserves increased 12.7%, to US\$31.2 billion at the end of such period. These increases were primarily a result of greater foreign currency deposits by commercial banks at the Central Bank. By September 30, 2009, both gross and net international reserves were US\$32.1 billion.

The following tables present liquidity and credit aggregates, and changes in selected monetary indicators as of the dates shown.

Liquidity and Credit
(in millions of U.S. dollars, at current prices)

	As of December 31,					As of September 30,
	2004	2005	2006	2007	2008	2009
Monetary aggregates						
Currency in circulation	2,433	2,926	3,652	4,952	5,521	5,779
M1	3,787	4,516	5,912	8,251	9,189	9,941
M2	6,567	8,299	10,492	15,002	18,071	20,343
M3	15,394	18,104	21,541	28,070	33,507	36,968
Credit by sector⁽¹⁾						
Public sector (Net) ⁽²⁾	(4,017)	(4,212)	(5,793)	(10,419)	(12,493)	(13,797)
Private sector	14,471	16,210	18,774	25,642	32,502	35,295
Total credit aggregates	10,454	11,998	12,981	15,223	20,009	21,498
Deposits						
Local currency ⁽³⁾	4,029	5,204	6,627	9,851	12,322	14,338
Foreign currency ⁽⁴⁾	8,658	9,668	10,929	12,982	15,306	16,439
Total deposits	12,687	14,872	17,556	22,833	27,628	30,777

(1) Includes securities offerings and cash advances from checking accounts of depository corporations.

(2) Net claims on public sector of depository corporations.

(3) Includes sight deposits, saving deposits, time deposits and other certificates in domestic currency of depository corporations.

(4) Includes demand deposits, savings deposits and time deposits in foreign currency of depository corporations.

Source: Central Bank.

Inflation

The economic and monetary program that the government implemented during the early 1990s resulted in a sharp decline in inflation. Peru experienced hyperinflation during the late 1980s and 1990, but by 1999 inflation had declined to a rate of 3.5% per year. During the five-year period ended December 31, 2008, inflation has been relatively stable at rates of 3.5% in 2004, 1.5% in 2005, 1.1% in 2006, 3.9% in 2007 and 6.7% in 2008. Inflation for the nine-month period ended September 30, 2009, was (0.1)%, mainly due to the reversion of supply shocks on food prices, appreciation of the *nuevo sol* versus the U.S. dollar and the contraction of domestic demand, which caused the reduction of prices for services and goods.

In 2003, the CPI increased by 2.5%, exactly at the Central Bank's midpoint target for 2003, due in part to a rise in prices for commodities, particularly oil and wheat. In 2004 the CPI increased by 3.5%, principally as a result of the rise in oil prices. In 2005 the CPI increased by 1.5%, a decrease in the rate compared to 2004. This decrease in inflation was mainly attributable to the reversal of the supply shocks of 2004. During 2005 the rise in the international price of oil was offset by compensatory fiscal measures, including the Fuels From Oil Price Stabilization Fund (*Fondo Para la Estabilización de Precios de los Combustibles Derivados del Petróleo*) created in the last quarter of 2004 and funded by the government. In 2006 the CPI increased by 1.1%, mainly as a result in the increase in the price of commodities, particularly sugar, chicken and potatoes. In 2007, the inflation rate increased to 3.9%, despite increases in the price of food and international prices of wheat and oil. In 2008, the inflation rate increased to 6.7%, due to increased international prices of food products such as corn, wheat and soy resulting from increased demand from emerging countries. During the first nine months of 2008 the rate of inflation was (0.1)%, compared to 5.3% for the comparable period in 2008.

The following table shows changes in the CPI for the periods shown.

**Consumer Price Index
(percentage change)**

	<u>End of period⁽¹⁾</u>	<u>Average⁽²⁾</u>
2004	3.5	3.7
2005	1.5	1.6
2006	1.1	2.0
2007	3.9	1.8
2008	6.7	5.8
September 30, 2008	5.3	5.0
September 30, 2009	(0.1)	4.5

(1) Accumulated during the 12-month period.

(2) 12-month average.

Foreign Exchange and International Reserves

Foreign Exchange

Prior to 1991, Peru exercised control over the foreign exchange markets by imposing multiple exchange rates and placing restrictions on the possession and use of foreign currencies. In 1991, the Fujimori administration eliminated all foreign exchange controls and the exchange rates were unified. Currently, foreign exchange rates are determined by market conditions, with regular operations by the Central Bank in the foreign exchange market in order to reduce volatility in the value of Peru's currency against the U.S. dollar.

The following table shows the *nuevo sol*/U.S. dollar exchange rates for the periods shown.

	<u>Exchange Rates⁽¹⁾ (S/. per US\$)</u>	
	<u>End of period⁽²⁾</u>	<u>Average</u>
2004	3.28	3.41
2005	3.43	3.30
2006	3.20	3.28
2007	3.00	3.13
2008	3.14	2.93
September 30, 2008	2.98	2.87 ⁽³⁾
September 30, 2009	2.88	3.06 ⁽⁴⁾

(1) Formal rates offered by banks.

(2) As of the last day of the year or month.

(3) Average from January 1, 2008 to the last day of the month.

(4) Average from January 1, 2009 to the last day of the month.

International Reserves

Under Article 72 of the Central Bank's charter, the international reserves administered by the Central Bank may consist of:

- gold and silver reserves;
- foreign currencies and notes generally accepted as a means of payment in the international markets;
- negotiable bank acceptances with terms of less than 90 days from the date of acquisition by the Central Bank;
- Special Drawing Rights, or SDRs, or any other gold substitute included in the Articles of Agreement of the IMF, corresponding to Peru;
- reciprocal credit agreements between the Central Bank and similar entities;
- contributions in gold, foreign currencies and SDRs to international monetary organizations; and
- in the discretion of the Central Bank's board:
 - foreign currency deposits of less than 90 days;
 - certificates of deposits of less than 90 days issued by banks; and
 - highly-liquid investment-grade securities issued by international organizations or public foreign entities.

During the 1990s, the Central Bank maintained a policy of accumulating international reserves. International reserves help Peru to maintain economic and financial stability by ensuring the availability of foreign currency in extraordinary situations. These situations can include sudden, significant withdrawals of foreign currency deposits from the banking system and sharp downturns in exports and economic activity.

The policy of the Central Bank to manage its international reserves generally emphasizes capital preservation and liquidity. Nevertheless, once the international reserves have reached certain threshold levels, the policy of the Central Bank is to balance capital preservation with adequate returns on reserves.

In order to guide the optimal investment distribution of its reserves, the Central Bank uses a model benchmark portfolio that reflects the risk-return combination chosen by the Central Bank's board to accomplish the general principals of capital preservation, liquidity and return. This portfolio is designed in light of actual market conditions to ensure that it provides feasible goals and shuns speculative assumptions. The Central Bank adjusts the value of its investment portfolio daily on the basis of market prices.

The Central Bank considers and actively manages the following four kinds of risks in investing its international reserves:

- *Liquidity risk.* The Central Bank manages liquidity risk by distributing its investments among three kinds of assets, following the guidelines of its benchmark portfolio:
 - highly-liquid, short-term assets to cover unexpected contingencies;
 - liquid assets with maturities not exceeding one year, which include bank time deposits with maturities not exceeding three months and staggered maturity dates, and highly-liquid fixed-income securities; and

- assets with maturities exceeding one year, generally consisting of bonds that offer a relatively higher return because of the longer maturity. To ensure an adequate level of liquidity, these bonds must have been issued in minimum amounts as prescribed by the Central Bank.
- *Credit risk.* To minimize risks that may arise because of the insolvency of the creditor, the Central Bank does not invest in debt or equity issued by private entities and diversifies its investments among:
 - deposits in foreign banks that are rated in the three highest categories of Standard & Poor's (a division of the McGraw-Hill Companies), Moody's Investor Service and Fitch Ratings; and
 - fixed-income securities or securities guaranteed by international organizations, foreign governments or their agencies, which are rated in the three highest categories by Standard & Poor's, Moody's Investor Service and Fitch Ratings.
- *Foreign exchange risk.* Fluctuations in the foreign exchange markets can pose a significant risk to the level of reserves at the Central Bank because the Central Bank accounts for its reserves in U.S. dollars and because of the significant U.S. dollar-denominated liabilities of the Peruvian banking system. Moreover, the majority of Peru's foreign trade and capital flows are also denominated in U.S. dollars, which can also exert significant pressure on the Central Bank's international reserves. To safeguard its international reserves from fluctuations in the foreign exchange markets, the Central Bank invests primarily in U.S. dollar-denominated assets.
- *Market risk.* To mitigate market risk, the Central Bank tries to match the average maturity of its assets to that of its liabilities. The average duration, or length of time required to receive the present value of future payments, of the Central Bank's portfolio does not exceed one year, which protects it significantly from market fluctuations. Additionally, the Central Bank imposes limits on the maximum term of its portfolio securities.

The Central Bank's net international reserves increased from US\$12.6 billion in 2004 to US\$31.2 billion in 2008:

- In 2004, net international reserves increased 23.9% from 2003 to US\$12.6 billion. This increase was primarily due to OTC purchases of foreign currency.
- In 2005, net international reserves increased 11.6% from 2004 to US\$14.1 billion. This increase was mainly attributable to OTC purchases of foreign currency and deposits of commercial banks.
- In 2006, the Central Bank's net international reserves totaled US\$17.3 billion, representing a 22.5% increase over the level as of December 31, 2005.
- In 2007, net international reserves increased 60.3% from 2006 to US\$27.7 billion. This increase was mainly attributable to OTC purchases of foreign currency and deposits of commercial banks.
- In 2008, net international reserves increased 12.7% from 2007 to US\$31.2 billion. This increase was mainly attributable to OTC purchases of foreign currency, deposits of commercial banks at the Central Bank and the performance of the investment portfolio.
- In the first nine months of 2009, net international reserves increased 3.0% to US\$32.1 billion. This increase was mainly attributable to growth of the Central Bank's net international position and deposits of the public sector.

From 2004 to 2008, the total gross reserves of the Peruvian banking system (in months of total imports) fluctuated between 16.2% in 2004 and 13.9% in 2008.

The following table sets the composition of the international reserves of Peru's banking system.

Net International Reserves of the Banking System
(in millions of U.S. dollars, at period end, at current prices)

	As of December 31,					As of September 30,
	2004	2005	2006	2007	2008	2009
Central Bank						
Assets	12,649	14,120	17,329	27,720	31,233	32,163
Liabilities	18	23	54	31	37	33
Total (assets less liabilities)	12,631	14,097	17,275	27,689	31,196	32,130
Banco de la Nacion and Development banks						
Assets	26	64	119	74	31	55
Liabilities	—	—	—	—	—	—
Total (assets less liabilities)	26	64	119	74	31	55
Private banks						
Assets	547	796	878	822	1,641	1,244
Liabilities	733	1,085	754	2,238	1,692	778
Total (assets less liabilities)	(186)	(289)	124	(1,416)	(51)	465
Net international reserves	<u>12,471</u>	<u>13,872</u>	<u>17,518</u>	<u>26,347</u>	<u>31,176</u>	<u>32,650</u>
Memorandum items:						
Gross reserves of the Central Bank	12,649	14,120	17,329	27,720	31,233	32,163
Gross reserves of the banking system	13,222	14,980	18,327	28,616	32,904	33,461
Gross reserves of the Central Bank (in months of total imports)	15.5	14.0	14.0	17.0	13.2	17.8
Gross reserves of the banking system (in months of total imports)	16.2	14.9	14.8	17.5	13.9	18.5

Source: Central Bank.

Securities Markets

The securities markets in Peru are regulated by CONASEV. CONASEV's purpose is to protect investors and promote the efficient operations of securities markets. In particular, CONASEV's functions include:

- supervising the activities and management of the various market participants, including the BVL, brokerage firms, issuing companies, mutual and other investment fund and credit-rating agencies, and
- promoting market transparency through disclosure requirements.

Peru's capital markets underwent significant changes during the 1990s as a result of various reform initiatives undertaken by the government. These reforms began in 1991 with passage of the *Ley del Mercado de Valores*, or the Securities market Law of 1991. This Law implemented a comprehensive set of measures that liberalized and modernized the operations of Peruvian capital markets. These measures included:

- requirements for securities exchange and broker dealers, such as the introduction of special fund these entities must provide in order to guarantee the proper execution of trades;

- market transparency and disclosure requirements, particularly through the creation of the *Registro Público de Valores e Intermediarios*, or Public Registry of Securities and Broker Dealers, a public record of all the participants in the Peruvian capital markets, including issuers, broker-dealers and credit-rating agencies;
- a regulatory framework for new institutions that were authorized to operate in the Peruvian capital markets and which would play an increasingly important role (these new institutions included mutual funds and credit-rating agencies); and
- requirements for the operation of primary and secondary markets, including guidelines for the settlement of securities transactions, dealer commissions, dispute resolution and asset securitization.

In 1996, a new *Ley del Mercado de Valores*, or Securities Market Law of 1996, was introduced. This Law preserved the basis market structure adopted under the Securities Market Law of 1991, but introduced changes to streamline the operations of the Peruvian capital markets, making them more compatible with international standards. These changes included:

- vesting with the BVL self-regulatory authority;
- creating CAVALI ICLV S.A., a private securities clearing and depositary agency independent of the BVL;
- liberalizing the brokerage business by introducing less stringent minimum capital requirements and broadening the range of transactions in which brokerage firms may participate; and
- restricting insider trading.

To stimulate the growth of Peru's capital markets, the government also encouraged greater participation in the markets through economic incentives. In 1993, Peru adopted tax exemptions for both capital earnings generated through stock exchange trading and interest income obtained from any kind of bond. These tax exemptions, which are scheduled to expire in 2010, have played a pivotal role in funneling funds toward Peruvian capital markets.

Another significant factor in the development of the Peruvian capital markets was the introduction in 1993 of private pension funds, which have become important for institutional investors. *Administradoras Privadas de Fondos de Pensiones*, or private pension fund managers, or AFPs, were created under Decree Law No. 25897, or the Private Pension System Law of 1992. These AFPs were introduced not only to improve Peru's social security system, but also to channel funds towards the capital markets. For a description of Peru's private pension system see "Public Sector Finance—Social Security" below.

From 2004 to 2008, membership in these funds increased at an average annual rate of approximately 6.1%. As of September 30, 2009, there were four AFPs with 12 funds in operation, with approximately 4.4 million members and approximately US\$ 23.0 billion in assets under management. These funds invest in equity securities, representing approximately 39.3% of their portfolios, fixed-income securities, representing approximately 40.5% of their portfolios, and bank time-deposits, representing approximately 3.2% of their portfolios.

Mutual funds entered the market as a result of the Securities Market Law of 1991, which established a regulatory framework for their operations. As of September 30, 2009, there were six mutual fund companies in operation that administer 51 mutual funds. As of September 30, 2009, these mutual fund companies managed approximately US\$4.1 billion in assets for approximately 230,592 investors. These mutual funds invest primarily in fixed-income securities, representing approximately 38.8% of their portfolios, bank time-deposits, representing approximately 49.4% of their portfolios, and equities securities, representing approximately 7.7% of their portfolios.

The Peruvian capital markets grew significantly during the 1990s as a result of the reforms implemented by the government during that period. Despite this growth, the Peruvian capital markets remain relatively small and illiquid. Accordingly, most businesses, particularly small-and medium-size businesses, raise capital through the local banking system. Large businesses also benefit from limited access to foreign credit.

Founded in 1971, the BVL is the only securities exchange operating in Peru. The BVL was privatized as part of the capital-market reforms implemented by the Government in 1991 and currently operates as an entity with regulatory and enforcement power under the supervision of CONASEV. Cash operations with equity securities accounted for approximately 68.1% of the total traded volume in the BVL for the first nine months of 2009, while fixed income securities accounted for 19.3% of such amount.

As of December 31, 2008, 257 companies had their equity securities listed on the BVL, of which 30 were foreign companies. This number does not include companies which only have bond listings on the BVL, market capitalization of domestic companies has increased from US\$20.1 billion as of December 31, 2004, to US\$102.9 billion as of September 30, 2009. Likewise, the annual traded amount has increased from US\$2.5 billion during 2004 to US\$ 7.9 billion during 2008, at a compound annual growth rate of 28.4%. The total transaction volume for the nine-month period ended September 30, 2009, was US\$3.3 billion, compared to US\$5.8 billion for the comparable period of 2008.

Peru's Capital Markets
Transaction Volume and Market Capitalization⁽¹⁾
(in millions of U.S. dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
Equities:							
Stocks	1,164.6	2,038.4	4,501.0	9,112.1	4,892.1	3,675.5	2,074.7
Other	49.6	92.0	151.4	193.0	213.3	175.9	148.0
Total	1,214.2	2,130.4	4,652.5	9,305.0	5,105.3	3,851.5	2,222.7
Fixed Income Securities:							
Auctions	—	—	—	—	—	—	—
Continued Trading	305.2	206.8	174.9	257.6	40.7	12.8	138.8
Bonds-money market ...	588.7	741.3	566.1	833.0	1,346.9	669.2	480.5
Mortgage bills	—	—	—	—	—	—	—
Certificate of deposit	4.2	22.9	18.0	5.9	32.7	29.9	6.9
Other	4.1	13.0	11.4	14.1	25.2	18.7	2.7
Total	902.1	984.1	770.4	1,100.7	1,445.5	730.5	628.9
Report Transactions							
Equities	346.1	506.4	837.0	1,953.2	1,304.4	1,190.0	407.0
Debt instruments	7.8	9.8	55.5	24.9	19.2	12.8	4.6
Total	353.9	516.2	892.5	1,978.1	1,323.6	1,202.8	411.6
Securities Lending	—	0.5	—	—	—	—	—
Non-massive issued instruments	0.2	—	—	—	—	—	—
Total Transaction Volume ..	<u>2,470.4</u>	<u>3,631.2</u>	<u>6,315.4</u>	<u>12,383.8</u>	<u>7,874.4</u>	<u>5,784.8</u>	<u>3,263.2</u>
Market capitalization	20,107.9	36,159.9	60,020.0	108,219.7	57,231.4	73,936.9	102,918.8

(1) BVL.

Source: CONASEV and BVL.

PUBLIC SECTOR FINANCES

Non-Financial Public Sector

Peru's non-financial public sector consists of:

- the government;
- the government's various decentralized administrative and regulatory agencies, such as:
 - ESSALUD; and
 - the National Superintendency for Tax Administration, or SUNAT;
- the local governments;
- non-financial state-owned enterprises, such as Petroleos del Perú S.A., or Petroperu; and Empresa de Electricidad del Perú S.A., or Electroperu.

The non-financial public sector has registered an increasing overall balance from 2004 through 2008, from a high deficit of US\$721 million in 2004, or 1.0% of GDP, to a high surplus of US\$ 2.8 billion in 2008, or 2.1% of GDP. For a description of the government's fiscal accounts see "—Central Government" below.

The Fiscal Restraint Act was approved in December 1999 to foster fiscal stability by establishing specific guidelines concerning non-financial public sector deficits, government spending growth and public sector debt growth. In May 2003, Congress amended the Fiscal Restraint Act by changing its name to *Ley de Responsabilidad y Transparencia Fiscal*, or the Fiscal Responsibility and Transparency Act, and adapting the law to the recently-established regional governments. The Fiscal Responsibility and Transparency Act targeted a non-financial public sector deficit of 2.0% of GDP for 2003, 1.5% of GDP for 2004 and 1.0% in 2005. It has also limited any increase of non-financial expenses for 2003 to 3.0% in real terms. In July 2003, however, Congress suspended enforcement of the limit on non-financial expenses for 2003 due to additional expenses generated by the decision to grant wage increases for teachers and health workers following labor strikes earlier in the year.

In 2004, the non-financial public sector deficit fell to US\$721 million, or 1.0% of GDP. This decrease resulted primarily from greater tax revenue related to higher economic activity, mainly explained by the increase in the international prices of raw materials.

In 2005, the non-financial public sector deficit fell to US\$240 million, or 0.3% of GDP. This decrease is mainly attributed to the higher tax revenue resulting from economic growth and higher commodity prices, which were partially offset by an increase in non-financial expenditure resulting from greater current and capital expenditures.

The non-financial public sector registered a surplus of US\$1.9 billion in 2006, or 2.1% of GDP. These better balances are mainly explained by higher tax revenue (associated with the greater collection of income tax and value-added tax) and by the relatively lower increase of non-financial expenditures.

In 2007, the non-financial public sector registered a surplus of US\$3.3 billion, or 3.1% of GDP. This surplus is mainly explained by higher tax revenue (associated with the greater collection of income tax and value-added tax), partially offset by a reduction in tariffs in December 2006, and by the relatively lower increase of non-financial expenditure.

In 2008, the non-financial public sector registered a surplus of US\$2.8 billion, or 2.1% of GDP, mainly attributable to increased tax revenue, resulting from higher collection of income tax and value-added tax.

In the first nine months of 2009, the non-financial public sector surplus was US\$72 million, or 0.2% of GDP, compared to a US\$3.6 billion surplus, or 3.7% of GDP, for the comparable period of 2008. This lower surplus is mainly a result of lower tax revenue, related to reduced collections of income tax and value-added tax and higher than expected increase in capital expenditures.

The following tables provide information on the non-financial public sector accounts for the periods shown.

Consolidated Accounts of the Non-Financial Public Sector (NFPS)
(in millions of U.S. dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary balance							
Central government	411	898	2,970	3,691	4,679	4,512	412
Decentralized agencies	102	3	306	278	123	207	80
Local governments	95	226	82	1,137	41	605	591
State-owned enterprises	96	169	263	85	(30)	(122)	286
Primary NFPS	705	1,296	3,621	5,190	4,812	5,202	1,368
Interest payments							
External debt	1,159	1,266	1,327	1,372	1,143	829	738
Domestic debt	268	270	413	554	870	762	558
Total interest payments	1,427	1,536	1,738	1,927	2,013	1,591	1,296
						0	0
Overall NFPS	(721)	(240)	1,883	3,264	2,799	3,611	72
Financing:							
External	1,076	(1,167)	(658)	(2,085)	(1,205)	(1,051)	1,824
Domestic	(469)	1,351	(1,319)	(1,321)	(1,645)	(2,569)	(925)
Privatization	114	56	94	143	51	9	33
Total financing	721	240	(1,883)	(3,264)	(2,799)	(3,611)	(72)

⁽¹⁾ Preliminary data.

Source: Central Bank.

Consolidated Accounts of the Non-Financial Public Sector (NFPS)
(as a percentage of GDP, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004 ⁽¹⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary balance:							
Central government	0.6	1.1	3.2	3.5	3.6	4.6	0.5
Decentralized agencies	0.1	—	0.3	0.3	0.1	0.2	0.1
Local governments	0.1	0.3	0.1	1.1	0.0	0.6	0.6
State-owned enterprises	0.1	0.2	0.3	0.1	0.0	(0.1)	0.3
Primary NFPS	1.0	1.6	4.0	4.9	3.7	5.3	1.6
Interest payments							
External debt	1.7	1.6	1.4	1.3	0.9	0.9	0.8
Domestic debt	0.4	0.3	0.4	0.5	0.7	0.8	0.6
Total interest payments	2.0	1.9	1.9	1.8	1.6	1.7	1.4
Overall NFPS	(1.0)	(0.3)	2.1	3.1	2.1	3.7	0.2
Financing:							
External	1.5	(1.5)	(0.7)	(1.9)	(0.9)	(1.2)	1.0
Domestic	(0.6)	1.7	(1.5)	(1.4)	(1.2)	(2.5)	(1.2)
Privatization	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Total financing	1.0	0.3	(2.1)	(3.1)	(2.1)	(3.7)	(0.2)

⁽¹⁾ Preliminary data.

Source: Central Bank.

Central Government

Peru's central government comprises the executive branch, including its ministries and other centralized agencies. Prior to January 1, 2003, the central government also included Peru's 24 regional councils, whose representatives were appointed by the President and public universities. As of January 1, 2003, the regional councils were replaced by 25 regional governments governed by elected officials. See "The Republic of Peru—History, Government and Political Parties—Government—Regional Governments" above.

The government derives its revenues primarily from:

- tax collections;
- import tariffs;
- non-tax revenues, such as fees, interest income and royalties from mining and hydrocarbon production; and
- dividends from state-owned companies.

Between 2004 and 2008, total government revenues fluctuated from a low US\$10.4 billion, or 15.0% of GDP, in 2004, to a high of US\$23.4 billion, or 18.3% of GDP, in 2008. During this period, tax revenues fluctuated from a low US\$9.1 billion in 2004, or 13.1% of GDP, to a high US\$20.0 billion, or 15.6% of GDP, in 2008. Compared to the levels registered in 2007, in 2008 total government revenues increased 19.8%, tax revenues increased 19.0%, and non-tax revenue increased 19.8% (to US\$3.3 billion, or 2.6% of GDP, as of December 31, 2008).

In the first nine months of 2009, compared to the comparable period in 2008, government revenues decreased 19.5% (from US\$18.3 billion, or 18.7% of GDP, as of September 30, 2008, to US\$14.7 billion, or 16.0% of GDP, as of September 30, 2009), tax revenues decreased 18.6%, and non-tax revenue decreased 24.0%.

Government expenditures consist primarily of:

- wages of public sector employees;
- transfers to public sector entities;
- interest payments on debt;
- public investments in infrastructure; and
- pension expenditures.

Between 2004 and 2008, total government expenditures, excluding interest payments on the government's debt, fluctuated between a low of US\$10 billion, or 14.4% of GDP, in 2004, to a high of US\$18.8 billion, or 14.7% of GDP, in 2008. In 2008, total government expenditures, excluding interest payments on the government's debt, increased 18.1% compared to those in 2007. By September 30, 2009, total government expenditures increased 3.8%, compared to those for the comparable period of 2008.

Between 2004 and 2008, the central government registered increasing overall fiscal balances that ranged from a high deficit of US\$873 million, or (1.3)% of GDP, in 2003, to a high surplus of US\$2.9 billion, or 2.2% of GDP, in 2008. This was primarily due to an increase in tax collection that totaled US\$20.0 billion, a sum equivalent to 15.6% of GDP, which represents a 19.0% increase in nominal terms with respect to 2007. The result was also due to higher profits obtained by companies due to the higher international prices of minerals and greater economic activity.

In 2004 the central government registered a primary surplus of US\$411 million, or 0.6% of GDP. In 2005 the central government registered a primary surplus of US\$898 million, or 1.1% of GDP. The surpluses in 2004 and 2005 were due to higher tax revenues resulting from increased economic activity. In 2006 the central government registered a primary surplus of US\$3.0 billion, or 3.2% of GDP, due to higher tax revenues resulting from increased economic activity. During 2007 the central government registered a primary surplus of US\$3.7 billion, or 3.5% of GDP, a 24.3% increase over the primary surplus registered in 2006. The increase was due to an increase in income tax revenues of 29.8% and in general sales tax revenues of 23.0%. In 2008, the central government registered a primary surplus of US\$4.7 billion, or 3.6% of GDP, a 26.8% increase over the primary surplus registered in 2007. The increase was due to greater income tax revenues of 13.8% and increase in value-added taxes revenues of 33.6%.

During the first nine months of 2009 the central government's primary surplus was US\$412 million, or 0.5% of GDP, lower in 90.9% to the amount registered during that same period in 2008, due to a decrease of 24.1% in income tax revenue and a decrease of 22.6% in import tariffs revenues.

The following tables provide information regarding government accounts for the periods shown.

Central Government Accounts
(in millions of U.S. dollars, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008	2008 ⁽¹⁾	2009 ⁽¹⁾
Fiscal revenue:							
Current revenue:							
Tax revenue:							
Income Tax	2,644	3,390	5,623	7,296	8,301	6659	5055
Capital gains tax	—	—	—	—	—	—	—
Taxes on goods and services:	6,055	6,778	7,811	9,459	11,984	9044	8078
General Sales Tax	4,747	5,546	6,576	8,086	10,802	8172	7107
Excise taxes	1,309	1,232	1,235	1,373	1,182	872	972
Import tariffs	804	952	870	701	652	475	367
Other taxes	(381)	(336)	(407)	(683)	(971)	(670)	(874)
Total tax revenue	9,122	10,784	13,897	16,773	19,966	15508	12627
Non-tax revenue ⁽²⁾	1,241	1,654	2,209	2,676	3,340	2696	2047
Total current revenue	10,363	12,438	16,106	19,450	23,306	18204	14674
Capital revenue	55	117	110	123	135	109	64
Total fiscal revenue	10,418	12,555	16,216	19,573	23,441	18313	14738
Expenditures:							
Current non financial expenditures:							
Wages and salaries	3,078	3,513	3,838	4,167	4,741	3559	3633
Good and services	2,407	2,715	3,121	3,262	3,693	2512	2834
Current transfers	3,264	3,947	4,439	6,114	7,331	5995	4975
Total current non financial expenditures	8,749	10,175	11,398	13,543	15,765	12067	11442
Capital expenditures:							
Fixed investment	1,120	1,351	1,470	1,911	2,351	1347	1727
Other	138	131	379	428	646	386	1157
Of which:							
Capital transfers	83	92	308	409	589	339	876
Total capital expenditures	1,258	1,482	1,848	2,339	2,998	1733	2884
Total expenditures	10,007	11,657	13,246	15,882	18,762	13800	14326
Fiscal balance:							
Primary fiscal balance	411	898	2,970	3,691	4,679	4512	412
Interest	1,285	1,454	1,655	1,765	1,754	1388	1261
Overall fiscal balance	(873)	(555)	1,315	1,925	2,924	3124	(849)
Financing:							
Foreign financing	1,144	(955)	(554)	(2,229)	(1,441)	(1561)	970
Domestic financing	(384)	1,454	(855)	161	(1,535)	(1573)	(154)
Privatization	114	56	94	143	51	9	33
Total financing	873	555	(1,315)	(1,925)	(2,924)	(3124)	849

⁽¹⁾ Preliminary data.

(2) Includes transfers from state-owned enterprises and royalties from petroleum companies.

Source: Central Bank.

Central Government Accounts
(as a percentage of GDP, at current prices)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Fiscal revenue:							
Current revenue:							
Tax revenue:							
Income Tax	3.8	4.3	6.1	6.8	6.5	6.8	5.5
Capital gains tax	—	—	—	—	—	—	—
Taxes on goods and services:	8.7	8.5	8.5	8.8	9.4	9.3	8.8
General Sales Tax	6.8	7.0	7.1	7.5	8.5	8.4	7.7
Excise taxes	1.9	1.6	1.3	1.3	0.9	0.9	1.0
Import tariffs	1.2	1.2	0.9	0.7	0.5	0.5	0.4
Other taxes	(0.5)	(0.4)	(0.4)	(0.6)	(0.8)	(0.7)	(1.0)
Total tax revenue	13.1	13.6	15.0	15.6	15.6	15.9	13.7
Non-tax revenue ⁽²⁾	1.8	2.1	2.4	2.5	2.6	2.8	2.2
Total current revenue	14.9	15.7	17.4	18.1	18.2	18.6	16.0
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total fiscal revenue	15.0	15.8	17.6	18.2	18.3	18.7	16.0
Expenditures:							
Current non financial expenditures:							
Wages and salaries	4.4	4.4	4.2	3.9	3.7	3.7	4.0
Good and services	3.5	3.4	3.4	3.0	2.9	2.6	3.1
Current transfers	4.7	5.0	4.8	5.7	5.7	6.1	5.4
Total current non financial expenditures	12.6	12.8	12.3	12.6	12.4	12.4	12.4
Capital expenditures:							
Fixed investment	1.6	1.7	1.6	1.8	1.9	1.4	1.9
Other	0.2	0.2	0.4	0.4	0.5	0.4	1.2
Of which:							
Capital transfers	0.1	0.1	0.3	0.4	0.5	0.3	0.9
Total capital expenditures	1.8	1.9	2.0	2.1	2.4	1.8	3.1
Total expenditures	14.4	14.7	14.3	14.7	14.7	14.1	15.5
Fiscal balance:							
Primary fiscal balance	0.6	1.1	3.2	3.5	3.6	4.6	0.5
Interest	1.8	1.8	1.8	1.6	1.4	1.4	1.4
Overall fiscal balance	(1.3)	(0.7)	1.5	1.8	2.2	3.2	(0.8)
Financing:							
Foreign financing	1.6	(1.2)	(0.6)	(2.0)	(1.1)	(1.7)	1.2
Domestic financing	(0.5)	1.8	(1.0)	0.1	(1.2)	(1.5)	(0.4)
Privatization	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Total financing	1.3	0.7	(1.5)	(1.8)	(2.2)	(3.2)	0.8

(1) Preliminary data.

(2) Includes transfers from state-owned enterprises and royalties from petroleum companies.

Source: Central Bank.

One of the García administration's highest priorities is maintaining fiscal discipline while reorienting public spending towards important social objectives. To achieve fiscal balance, the García administration has proposed to follow the provisions set forth under the Fiscal Responsibility and Transparency Act. Some of the most important provisions are the macroeconomic fiscal rules, which limit fiscal deficit, growth in consumption expenditure and public debt.

The García administration seeks to decentralize public spending and increase the amount and quality of social spending and investments.

Tax Regime

All government taxes in Peru are collected by the *Superintendencia Nacional de Administración Tributaria*, or SUNAT. SUNAT's budget is determined primarily through a percentage-based funding mechanism that provides the agency with 1.6% of its domestic tax collections and with 1.5% of import tariffs.

The following table presents the composition of Peru's tax revenues for the periods shown.

Tax Revenue of the Republic (Central Government) (as a percentage of total tax revenue)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Income Tax							
Individual	9.0	8.6	8.6	8.5	9.2	9.0	11.0
Corporate	16.8	17.1	24.6	27.4	28.0	28.7	22.9
Clearing	3.2	5.7	7.2	7.6	4.3	5.0	6.1
Total	29.0	31.4	40.5	43.6	41.5	42.8	40.0
Taxes on goods and services							
<i>Value Added Tax</i>	52.0	51.4	47.3	48.2	54.2	52.9	56.4
Excise Tax							
Fuel tax	10.2	7.3	5.3	4.6	2.5	2.4	4.1
Other	4.1	4.1	3.6	3.6	3.4	3.3	3.6
Total Excise Tax	14.3	11.4	8.9	8.2	5.9	5.7	7.7
Total taxes on goods and services	66.4	62.9	56.2	56.3	60.2	58.6	64.0
Import tariffs	8.8	8.8	6.3	4.2	3.3	3.1	2.9
Other taxes	6.9	8.4	7.4	7.3	7.5	7.0	8.1
Tax refund	(11.1)	(11.5)	(10.3)	(11.4)	(12.4)	(11.5)	(15.0)
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Reflects adjustments to reconcile estimated income tax withheld with actual income tax liabilities.

Source: Central Bank.

Income Taxes

The current income tax law is structured over the basis of five income categories. First and Second category income comprise income from capital gains, Fourth and Fifth category income comprise income from labor, and Third category income is related to corporate income.

Income from capital gains is subject to a rate of 6.25% applied over the net income. In order to attain the net income, a fixed deduction of 20% from the gross income is allowed. First category income is the one received by individuals from the lease of movable and fixed property located within Peru; meanwhile Second category income is the result of capital gains.

Employment income (which may result from independent or dependent work) is subject to the following tax rates for 2010:

Personal Annual Income (in UIT⁽¹⁾)	2010 (%)
Between 0 - 27	15
Between 27 - 54	21
Greater than 54	30

(1) UIT is an annual reference index used for tax purposes. For 2010 the UIT is equivalent to S/.3,600, or approximately US\$1,172.6.

Source: Ministry of Economy and Finance.

Despite dividends are capital gains, they are taxed separately. Their tax rate is 4.1%. Peru treats capital gains as ordinary income for tax purposes.

The income tax rate for enterprises legally regarded as located in Peru is 30%, which applies to net worldwide income. Companies also paid the Temporary Net Asset Tax (ITAN) which is applied on assets exceeding S/.1 million, or approximately US\$325,732, with a tax rate of 0.4%.

Some forms of income are exempt from the corporate income tax until December 31, 2011:

- income of religious and nonprofit institutions;
- interest payment on development loans granted by international organizations or foreign governments;
- interest payment collected or paid by savings and loans cooperatives.

Furthermore, there are other specific exemptions that apply to certain industries and regions.

Capital Gains Tax

Peru treats all capital gains as ordinary income for tax purposes. In the past, an important proportion of capital incomes were exempt from the tax base

As of 2010, the following sources of income will not be exempt:

- capital gains from the transfer of equities, shares, corporative bonds and other securities;
- interests generated from securities as corporative bonds, certificates of deposits and mortgage values;
- yields from participations in mutual funds and investment funds;
- interests perceived by corporate from deposits in financial system;
- yields from voluntary contributions to pension funds.

Nevertheless, some exemptions remain effective; for instance, interests perceived by individuals from their deposits in financial system; yields from mandatory contributions to Pension Funds Administrators. Also, interests and capital gains from instruments derived from Treasury Bonds and Central Bank's monetary regulation instruments (Overnight Deposits and Certificates of Deposits) remain exempt.

Value-Added Tax

Peru currently imposes a 19.0% of *Impuesto General a las Ventas*, or Value-Added Tax, or IGV, that is applicable to:

- the sale or import of movable personal property within Peru;
- the rendering or use of services in Peru;
- construction agreements; and
- the first transfer of real estate by a builder.

Each part in the chain of production generally collects the tax from its customer and pays SUNAT the difference between the tax paid to its suppliers and the tax collected from its customers. For imports of goods, the taxable base is the cost, insurance and freight price plus customs duties, surcharges and excise tax paid on those goods.

Some products and services are exempt from the IGV, including fishmeal, various agricultural products, including potatoes, tomatoes, beans, coffee, tea, cocoa and wheat, urban public and cargo transport, financial services, live entertainment and some medicines for cancer, HIV/AIDS and diabetes treatment. Peru also applies a special exemption for purchases made as part of the development of natural resources.

The IGV does not apply to the export of goods or services or construction contracts performed abroad. Exporters are reimbursed any portion of the IGV they pay on the purchase of goods and services they export and can apply those refunds as credits to offset the IGV or income tax liabilities.

A 2% of *Impuesto de Promoción Municipal*, or Municipal Development Tax, is also imposed, which is included in the IGV.

Excise Tax

Peru applies an excise tax on selected goods and on gambling activities. The following table shows the tax rates applicable to selected goods as of September 30, 2009.

<u>Product</u>	<u>Rate (%)</u>
Soda	17.0
Gambling	10.0
New cars	10.0
Used cars	30.0
Wines, vermouths, ciders, whiskey, rum, gin	20.0
Cigarettes	30.0
Horse races	2.0
Beer	27.8

Source: Ministry of Economy and Finance.

In the case of Pisco, an alcoholic beverage, the applicable tax is S/.1.50, or approximately US\$0.49, per liter.

Peru also imposes an excise tax on fuel products. The tax is levied on the volume sold or imported, expressed in units of measurement established by the Ministry of Economy and Finance. The following table shows the tax rates currently applicable to selected fuel products.

<u>Fuel</u>	<u>S/. per gallon⁽¹⁾</u>
Gasoline:	
less than 84 octane	1.36
from 84 - 89 octane	1.36
from 90 - 94 octane	1.78
from 95 - 97 octane	2.07
greater than 97 octane	2.30
Kerosene	1.94
Gas oil	1.47
Diesel B2	1.44
Residual 6	0.52

(1) As of September 30, 2009.

Source: Ministry of Economy and Finance.

Financial Transactions Tax

On March 1, 2004, a financial services transaction tax, or ITF, became effective. The ITF is a levy applicable to almost all banking transactions, including transfers and foreign exchange transactions, as well as certain non-banking transactions such as transfers made by fund transfer companies. Although the ITF was initially set at 0.15%, the government proposed in early March 2004 to decrease the rate. On March 25, 2004, Congress approved the government proposal, effective March 27, 2004, to set the rate at 0.10% through the end of 2004, decreasing to 0.08% during 2005. In late 2006 the Government established a schedule to decrease the rate to 0.07% during 2008, 0.06% during 2009 and 0.05% in 2010.

Royalty

In June 2004, Congress passed legislation instituting a royalty on mining output effective as of that month, with payments commencing in January 2005. The royalty rate ranges from 1% to 3%, depending on the paying company's annual concentrated mineral value. The proceeds are distributed in the regions where the mines are located.

In addition, there is a royalty on hydrocarbons which is calculated according to the value of the hydrocarbon produced and is established on each exploration and production contract.

Tax Amnesty

There have been no tax amnesties in the five-year period ended December 31, 2008, and the nine-month period ended September 30, 2009. However, Congress recently passed Law #29,482 in order to exempt from income tax those economic activities performed between 2,500 and 3,200 meters above sea level. The exemption will last 10 years and it excludes mining activities and those activities performed in capital cities.

International tax treaties

Peru has entered into tax treaties in order to avoid double taxation with Chile, Canada, Brazil and the Andean Community (Ecuador, Colombia and Bolivia).

The 2009 Budget

Pursuant to the Constitution and Ley General del Sistema Nacional de Presupuesto, or General Law of the National Budget System, published on December 8, 2004, and effective as of January 1, 2005, the Ministry of Economy and Finance, acting through the *Dirección Nacional del Presupuesto Público*, or Public Budget Administration Office, is responsible for preparing Peru's annual budget.

The annual budget is prepared on the basis of:

- proposals submitted by the various public entities;
- matching revenue estimates with goals and priorities established for each entity; and
- coordinating balances for previous fiscal years and estimates for future fiscal years.

The Public Budget Administration Office submits its proposed budget to the Council of Ministers for approval. If the Council of Ministers approves the proposed budget, it is submitted by the President to Congress by August 30 of each year. Upon congressional approval, the proposed budget becomes the Annual Law of the Public Sector Budget. Under the Constitution, if by November 30 of any year Congress has not submitted to the executive branch an official document commenting on or approving the budget, the budgetary proposal submitted by the President is automatically adopted as the Annual Law of the Public Sector Budget.

The 2008 budget was approved on November 30, 2008.

The following table summarizes the principal assumptions on which the 2008 budget was based.

Principal Budgetary Assumptions for 2009

Projected real GDP growth	7.0%
Projected (cumulative) inflation	3.5%
Projected average exchange rate	S/.2.87 per dollar

Source: Ministry of Economy and Finance.

The 2009 budget projects fiscal revenues of S/.72.4 billion, or approximately US\$23.6 billion, and non-financial public expenditures of S/.63.1 billion, or approximately US\$20.6 billion. The 2009 budget projects an overall non-financial public sector surplus of US\$3.4 billion or 2.3% of the projected GDP.

The following table summarizes the government's principal economic targets for 2009.

Principal Economic Targets for 2009

Non-financial public sector deficit (as a percentage of GDP)	2.3%
Central public sector expenditures (excluding interest payments) (as a percentage of GDP)	13.6%
Gross public sector debt denominated in foreign currency (in millions of US\$)	US\$31,822

Source: Ministry of Economy and Finance.

The figures set forth above represent Peru's forecast with respect to the Peruvian economy for 2009. While the government believes that these assumptions and targets were reasonable when made, some are beyond the control or significant influence of the government, and actual outcomes will depend on future events. Accordingly, no assurance can be given that actual economic results will not differ materially from the figures set forth above. See "Forward-Looking Statements" above.

The 2010 Budget

The 2010 budget was approved by Congress on November 27, 2009. The following table summarizes the principal assumptions on which the 2010 budget was based.

Principal Budgetary Assumptions for 2010

Projected real GDP growth	5.0%
Projected (cumulative) inflation	2.0%
Projected average exchange rate	S/.2.95 per dollar

Source: Ministry of Economy and Finance.

Based on these assumptions, the 2010 budget proposal projects the following:

- fiscal revenues of S/.81.9 billion, or approximately US\$26.7 billion;
- public expenditures of S/.71.3 billion, or approximately US\$23.2 billion; and
- an overall non-financial public sector surplus of US\$2.3 billion, or 1.6% of the projected GDP.

Social Security

Peru has a two-tier pension system. The public pension system is a pay-as-you-go system by which current social security contributions are used to pay benefits currently provided by the government. This system requires that the government contribute to finance pension payments. In 1992, the government created the private pension system, through the licensing of AFPs, as an alternative to the public pension system.

The public pension system has two components:

- the general pay-as-you-go-system, which applies to the general population and is administered by the *Oficina de Normalización Previsional*, or Office of Pension Regularization; and
- the special public sector regimes for the military, police, teachers, various judges and magistrates, other special segments of the population and other public servants.

The public sector has two pension reserve funds funded by privatization receipts:

- the *Fondo Consolidado de Reservas Previsionales*, or Consolidated Reserve Fund, an autonomous fund with resources earmarked to meet public pension obligations falling due over the medium and long term; and
- the *Fondo Nacional de Ahorro Público*, or National Public Savings Fund, the objective of which is to provide supplemental pensions to all low-income pensioners in the public pension system.

As of September 30, 2009 there were four AFPs in the private pension system. New entrants to the labor market are automatically enrolled in an AFP unless they elect to enroll in the public pension system within 10 days of employment. Workers may leave the public pension system for an AFP at any time, but once they leave they cannot re-enroll in the public pension system, except as described below. To compensate individuals who switch to the AFPs for pension rights they had accumulated while participating in the public pension system, the government has authorized the issuance of recognition bonds. Recognition bonds are transferable, zero-coupon bonds indexed to the CPI and redeemable at retirement.

To provide an incentive for individuals to join AFPs and to discourage participation in the public pension system, the government increased the public pension system contribution rate from 3.0% to 11.0% at 1995 and 13% at 1997. In 2002, Congress approved an increase of the minimum monthly pension in the public pension system from S/.300 to S/.415, or approximately from US\$97.7 to US\$135.2. As of December 31, 2008, the private pension system contribution rate was 12.7%. Workers are eligible to receive benefits at age 65.

In November 2004, Congress enacted a constitutional reform to unify the administration of public pensions, reduce the financial deficits of the pension funds and improve its distributions to different economic classes. The indexed pension scheme that allowed certain retired government employees to receive a life pension equal to the salary of a worker currently serving in the retiree's former post or one equivalent to it was eliminated and pension caps were established.

The Ministry of Economy and Finance is attempting to address the potential conflicts between the private pension system and the public system and to consolidate the achievements made in the private pension system while attempting to overcome the challenges facing the public pension system.

In March 2007 Congress enacted a law to reform the affiliation and return to the public pension system process, with the aim that people that left the public pension system for an AFP, or chose an AFP from the start, and would as a consequence receive a lower pension, were allowed to return or transfer to the public pension system. Accordingly, this law regulates the conditions under which a person may choose to return or transfer to the public pension system and provides mechanisms for making that an informed decision. The estimated cost of the this reform for Peru is approximately US \$2,1 billion in actuarial present value. This amount was calculated for 410,000 people and considers greater social security costs to the public pension system due to people that return or transfer to it from the private pension system, the payment of additional pensions and the financial costs of advancing recognition bonds under the exceptional regime of early retirement.

PUBLIC SECTOR DEBT

Peru's total public sector debt consists of foreign currency-denominated debt and *nuevo sol*-denominated debt. Peru's total public external debt consists of loans from foreign creditors to the government, the Central Bank and public sector entities.

External Debt

As of September 30, 2009, almost all of Peru's public sector external debt consisted of foreign currency denominated debt. Taking account of swap agreements, 6.2% of public external debt consisted of *nuevos soles* as of September 30, 2009. As of December 31, 2008, public external debt totaled US\$19.2 billion, or 15.1% of GDP, compared to US\$20.1 billion, or 18.7% of GDP, as of December 31, 2007. As of September 30, 2009, public sector external debt totaled US\$20.3 billion, or 16.6% of GDP.

The following tables provide further information on public sector external debt as of the dates shown.

Public Sector External Debt (in millions of U.S. dollars, except for percentages)

	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Official reserves liabilities	—	—	—	—	—	—	—
Official non-reserves liabilities:							
Public sector	24,466	22,279	21,972	20,081	19,237	18,529	20,308
Total official non-reserves liabilities	24,466	22,279	21,972	20,081	19,237	18,529	20,308
Total official liabilities	24,466	22,279	21,972	20,081	19,237	18,529	20,308
Total public sector external debt as % of							
GDP ⁽¹⁾	35.1	28.1	23.8	18.7	15.1	14.6	16.6
Total public sector external debt as % of total							
exports ⁽¹⁾	191.0	128.3	92.2	72.0	61.0	N.A.	N.A.

⁽¹⁾ Peru does not include IMF credit use in reports of total public sector external debt. Debt ratios are calculated on the basis of the Peru's total official non-reserve liabilities.

N.A.= Not Available.

Source: Central Bank.

Public Sector External Debt, Net of Reserves (in millions of U.S. dollars, at current prices)

	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Public sector external debt ⁽¹⁾	24,466	(22,279)	(21,972)	20,081	19,237	18,529	20,308
Gross international reserves of the Central Bank	(12,649)	(14,120)	(17,329)	(27,720)	(31,233)	(34,732)	(32,163)
Public sector external debt, net of reserves	11,817	8,159	4,643	(7,639)	(11,996)	(16,203)	(11,855)

⁽¹⁾ Peru does not include IMF credit use in reports of total public sector external debt.

Source: Central Bank.

Peru's credit ratings are as follows:

- Fitch: long-term issuer default rating of BBB- (Outlook Stable);
- Standard & Poor's: long-term foreign currency credit rating of BBB- (Outlook Stable); and
- Moody's: long-term foreign currency bonds rating of Baa3 (Outlook Stable).

A Fitch "BBB-" rating indicates that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category. Securities rated in this category are investment grade. A Fitch outlook indicates the direction in which a rating is likely to move over a one to two-year period. Outlooks may be "Positive," "Stable" or "Negative." A Positive or Negative outlook does not imply a rating change is inevitable. Similarly, a rating for which outlook is "Stable" could be upgraded or downgraded before an outlook moves to Positive or Negative if circumstances warrant such an action. On April 2, 2008, Fitch upgraded Peru's long term foreign currency debt rating from BB+ to BBB- with an outlook of Stable.

A Standard & Poor's "BBB-" rating indicates that an obligor exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. Securities rated in this category are investment grade. A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term. In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. A Standard & Poor's outlook of "positive" means that a rating may be raised; however, an outlook is not necessarily a precursor of a rating change. On July 14, 2008, Standard & Poor's upgraded Peru's long-term foreign currency debt rating from BB+ to BBB- with an outlook of Stable.

For Moody's, obligations rated "Baa3" are judged to be subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification. This is the lowest investment grade category. Securities rated in this category are investment grade. The modifier 1 indicates a high-range ranking in the Baa generic rating classification. Moody's rating outlook is an opinion regarding the likely direction of a rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive, Negative, Stable and Developing (contingent upon an event). On December 16, 2009, Moody's upgraded Peru's the foreign currency rating from Ba1 to Baa3 with an outlook of Stable.

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. Peru's current ratings and the rating outlooks currently assigned to Peru are dependent upon economic conditions and other factors affecting credit risk that are outside the control of Peru. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies. The information above was obtained from information available on the websites of the rating agencies.

During the period from 2004 to 2008 multilateral debt represented, on average, 35.7% of Peru's public sector external debt. Peru's principal multilateral creditors are the World Bank, representing, on average, 34.6% of outstanding multilateral debt each year from 2004 to 2008, and the IADB, representing, on average, 46.4% of outstanding multilateral debt each year from 2004 to 2008. Loans from the World Bank have funded projects relating to irrigation, agriculture, poverty reduction, education, health reform and transportation. Loans from the IADB have funded projects relating to poverty reduction, education, financial-sector reform and state modernization.

The following table provides information on capital flows from multilateral lenders for the periods shown.

Capital Flows from Multilateral Lenders
(in millions of U.S. dollars)

	For the 12 months ended December 31,					For the nine months ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
World Bank:							
Disbursements minus principal amortizations	45.8	(19.7)	(182.5)	15.3	63.4	27.8	(123.7)
Disbursements minus principal, interests and commissions	(46.4)	(124.6)	(319.2)	(134.8)	(72.4)	(78.8)	(209.6)
IADB:							
Disbursements minus principal amortizations	232.2	246.5	191.6	160.6	93.5	(73.7)	(91.8)
Disbursements minus principal, interests and commissions	96.8	99.5	26.5	(30.0)	(78.5)	(208.1)	(184.5)

Source: Ministry of Economy (*Dirección Nacional del Endeudamiento Público*, or Office of Public Debt).

On June 9, 2004, the Executive Board of the IMF approved a 26-month stand-by arrangement to help support Peru's economic program through mid-2006. The total amount available to Peru under the stand-by arrangement was SDR287.3 million (approximately US\$422.8 million) with immediate access to a first drawing of SDR80 million (approximately US\$118 million). On November 22, 2004, the IMF completed its first review under the 2004 stand-by arrangement. The completion of the review made available for drawing an additional SDR126.06 million (approximately US\$191.2 million). The 26-month Stand-By Arrangement expired on August 16, 2006. The government achieved all the goals and implemented all of the structural changes required by that agreement. On January 26, 2007, the IMF approved a new Stand-By Agreement with Peru for an aggregate amount of SDR172 million (approximately US\$257 million) to support the economic programs of the Peruvian government for a 25-month period ending on February 26, 2009.

On December 3, 2004, Peru signed an agreement with the CAF for a US\$80 million loan maturing in 2017. The proceeds of this loan were used to improve the general competitiveness of Peru by increasing fiscal discipline, enhancing the relations between the private sector and the government and reducing administrative barriers.

On December 16, 2004, Peru signed four loan agreements with the World Bank, each with a 14-year repayment period and an eight-year grace period. The proceeds of the first loan, for US\$100 million, were used to support actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty through social reforms, such as, among others, improving education and health-care and promoting efficient management and transparency of government programs. The proceeds of the second loan, also for US\$100 million, were used to aid the government in actions, objectives and policies designed to achieve decentralization and competitiveness reforms, such as, among others, strengthening certain accounting and reporting processes, improving institutional management, increasing the levels and competitiveness of Peruvian exports and generally encouraging the development of a business environment more conducive to internal and external private investment. The proceeds of the third loan, for US\$7.8 million, were used to improve the quality and delivery of social policies programs in the context of decentralization. Finally, the proceeds of the fourth loan, for US\$8.8 million, were used to support fiscal sustainability, quality of service delivery and enhancement of competitiveness in the context of decentralization.

On December 15, 2004, Peru signed a loan agreement with the IADB for a US\$300 million loan that has a repayment period of 20 years. The proceeds of the loan will be used to support improvements in the quality and

efficiency of Peru's social spending and the strengthening of Peru's social safety network during the decentralization process, including, among others, developing systems to monitor the efficacy of public expenditures and governmental transfers and reconfiguring the *A Trabajar* temporary employment program to focus on job creation in periods of economic downturn.

In 2005, disbursements included US\$379 million for infrastructure projects and US\$2.3 billion for freely available payments. The projects consuming most borrowing included the Program on Economic Infrastructure and Social Development, and the rebuilding of the Rioja-Tarapoto highway, both of which were financed by loans from CAF. The IADB and the World Bank financed a program aimed at improving the quality of education, the rebuilding and maintenance of highways, and the national Mother-Child Insurance Program. The Paris Club provided disbursements on loans of US\$172 million used to finance, among other projects, the hydro-electric station of Yuncan, expansion of electrification and improvement of the water drainage system in Piura, and the rebuilding of damaged roads. Of the total US\$581 million freely available disbursements granted by international organizations, some US\$350 million disbursed by the IADB was used to finance the Poverty Eradication and Development of Human Capital and the Quality Improvement and Management of Public Spending programs. Furthermore, the World Bank financed a US\$150 million loan to implement the Decentralization and Competitiveness III (DECSAL) program, while the CAF financed three projects.

In 2006 Peru entered into two credit agreements with CAF for a total amount of US\$24.9 million, which were used for the environmental and social management program for the indirect impact of the inter-oceanic highway in the south (*"Programa para la gestión ambiental y social de los impactos indirectos del corredor vial Interoceánico Sur"*) (US\$10.0 million), and the full restoration of the Huancayo-Huancavelica railway (US\$14.9 million); in addition, two credit transactions were undertaken with the IADB for a total amount of US\$75.0 million to fund the science and technology program (US\$25.0 million) and the program for the development of the streamlining sector (US\$50.0 million). Additionally two loan agreements for a total amount of US\$75.0 million were entered with the World Bank to fund the rural electricity program (US\$50.0 million) and the consolidation of real estate rights (US\$25.0 million). Lastly, US\$14.9 million were borrowed from KFW to fund the municipal plan of basic services and an agreement with the United States government was reached, in the amount of US\$10.0 million, for the acquisition of *Torta de Soya* under the PL-480 Program. In addition, two guarantees were granted for a total liability of US\$88.0 million in order to secure the partial risk guarantee with the CAF granted in connection with the concession of *Proyecto Olmos* (US\$28.0 million) and for the partial credit guarantee with the IADB to secure the annual payment of the works resulting from the concession of the roadway *Eje Multimodal del Amazonas Norte* (US\$60 million).

In 2007 Peru entered into an agreement with the CAF to finance the Social and Infrastructure Investment Against Poverty Program for a total amount of US\$400 million. Additionally, two loan agreements for a total amount of US\$250 million were entered into with IBRD to finance the Decentralized Rural Transportation Program and the Fiscal Management and Economic Growth Programmatic Loan. As well, Peru entered into two loans with the IADB for a total amount of US\$300 million to finance the Program for the Improvement of the National Road Network and the Water Resources Reform Program.

In December 2007 and February 2008 Peru prepaid US\$261.6 and US\$ 166.7, respectively, of its outstanding debt with the CAF with proceeds from the Treasury. The main benefits of this prepayment were that it lowered the refinancing risk, reduced the financial cost of the outstanding debt with the CAF and restructured debt payments during 2008 through 2016.

During 2008, Peru entered into two loan agreements with the International Bank for Reconstruction and Development, or IBRD, in an aggregate amount of US\$170 million to finance the Support Program for Productive Rural Alliances in the Highlands of Peru and the Program for Social Reforms, and a separate US\$100 million loan agreement with IADB to finance the Program to Reform Sewage Treatment I. Also in 2008, the IADB approved loans totaling approximately US\$280 million to finance various programs, including the Program for the Improvement of the Quality of Management and Public Expense III, Water for Everyone Program, Program to Reform Sewage Treatment III and Development of Agrarian Health and Safety of Agrarian Food Products Program.

In December 2008, Peru entered into a ¥6.66 billion (US\$69.4 million) loan agreement with the Japan International Cooperation Agency, or JICA, to fund the Iquitos Sewage Improvement and Expansion Project.

In December 2008, Peru entered into a US\$150 million credit agreement with CAF, to finance the Social Investment and Infrastructure Against Poverty Program.

As of September 30, 2009, outstanding public sector external debt amounted to approximately US\$20.3 billion equivalent to 16.6% of GDP, an increase of US\$1.8 billion compared to debt outstanding at September 30, 2008. This increase resulted primarily from the net effect of new disbursements minus amortizations, which totaled US\$950 million for the period.

During the first nine months of 2009, disbursements included US\$404 million for infrastructure projects and US\$53.5 million for freely available payments.

In January 2009, IBRD approved a US\$70 million loan to finance the Fiscal Management and Economic Growth II Programmatic Loan. In addition, KfW, or KfW Bankengruppe, approved a €30 million loan to fund the Fiscal Management and Economic Growth II Programmatic Loan and the Program to Reform Sewage Treatment II. IBRD approved two contingent deferred drawdown operation financing programs totaling US\$630 million, which can be drawn upon the occurrence of a natural disaster.

In January 2009, Peru entered into a US\$300 million credit agreement with CAF, to fund the remaining public work of sections 2, 3 and 4 of the Peru-Brazil inter-oceanic highway, not included in the concessions previously awarded.

In March 2009, Peru approved three loan agreements with JICA, in an aggregate amount of ¥9.9 billion, to fund energy and sewage improvement programs.

In October 2009, Peru entered into a US\$150 million loan agreement with IADB to finance a program to develop a sustainable energy grid. Finally, in December 2009, Peru entered into a US\$150 million fiscal management and economic growth programmatic loan with IBRD.

The following tables summarize public sector external debt by creditor for the periods indicated.

Public Sector External Debt by Creditor⁽¹⁾
(in millions of U.S. dollars, at current prices)

	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Official creditors:							
Multilateral debt:							
IADB	3,292	3,468	3,679	3,870	3,995	3,803	3,907
World Bank	2,836	2,816	2,633	2,649	2,712	2,676	2,588
IFAD ⁽²⁾	25	24	29	32	32	33	30
IMF	104	57	20	—	—	—	—
OPEC ⁽³⁾	11	9	8	7	6	6	5
Other	1,608	1,609	1,474	1,294	1,182	1,202	1,318
Total multilateral debt	7,875	7,983	7,843	7,851	7,926	7,719	7,848
Bilateral debt:							
Paris Club	8,508	5,696	5,629	3,883	4,170	3,841	3,279
United States	—	—	—	—	—	0	0
Latin America	40	32	25	20	15	18	13
East Europe countries and China	23	16	9	5	3	4	2
Japan	—	—	—	—	—	—	—
Other countries	—	—	—	—	—	—	—
Total bilateral debt	8,571	5,743	5,662	3,908	4,189	3,862	3,294
Total official debt	16,446	13,726	13,506	11,759	12,115	11,582	11,141
Private creditors:							
Banking	4	1	1	1	186	1	186
Suppliers	1,072	159	73	60	56	58	55
Total private sector debt	1,075	160	74	61	242	59	241
Bonds:							
Brady + Global Bonds	6,944	8,394	8,392	8,262	6,880	6,889	8,926
Total bonds	6,944	8,394	8,392	8,262	6,880	6,889	8,926
Total public sector external debt	24,466	22,279	21,972	20,081	19,237	18,529	20,308

(1) Medium- and long-term debt, excluding IMF financing.

(2) Refers to the International Fund for Agricultural Development.

(3) Refers to the Organization of Petroleum Exporting Countries.

Source: Ministry of Economy (Office of Public Credit).

Public Sector External Debt by Creditor⁽¹⁾
(as a percentage of total public sector external debt)

	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Official creditors:							
Multilateral debt:							
IADB	13.5	15.6	16.7	19.3	20.8	20.5	19.2
World Bank	11.6	12.6	12.0	13.2	14.1	14.4	12.7
IFAD ⁽²⁾	0.1	0.1	0.1	0.2	0.2	0.2	0.1
IMF	0.4	0.3	0.1	—	—	—	—
OPEC ⁽³⁾	—	—	—	—	—	—	—
Other	6.6	7.2	6.7	6.4	6.1	6.5	6.5
Total multilateral debt	32.2	35.8	35.7	39.1	41.2	41.7	38.6
Bilateral debt:							
Paris Club	34.8	25.6	25.6	19.3	21.7	20.7	16.1
United States	—	—	—	—	—	0.0	0.0
Latin America	0.2	0.1	0.1	0.1	0.1	0.1	0.1
East Europe countries and China	0.1	0.1	—	—	—	—	—
Japan	—	—	—	—	—	—	—
Other countries	—	—	—	—	—	—	—
Total bilateral debt	35.0	25.8	25.8	19.5	21.8	20.8	16.2
Total official debt	67.2	61.6	61.5	58.6	63.0	62.5	54.9
Private creditors:							
Banking	—	—	—	—	1.0	—	0.9
Suppliers	4.4	0.7	0.3	0.3	0.3	0.3	0.3
Total private sector debt	4.4	0.7	0.3	0.3	1.3	0.3	1.2
Bonds:							
Brady + Global Bonds	28.4	37.7	38.2	41.1	35.8	37.2	44.0
Total bonds	28.4	37.7	38.2	41.1	35.8	37.2	44.0
Total public sector external debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Medium- and long-term debt, excluding IMF financing.

(2) Refers to the International Fund for Agricultural Development.

(3) Refers to the Organization of Petroleum Exporting Countries.

Source: Ministry of Economy (Office of Public Credit).

Public Sector External Debt Structure by Maturity Term
(in millions of U.S. dollars and as a percentage of total public sector external debt)⁽¹⁾

	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Short-term debt	18	23	54	921	736	1,632	108
Medium- and long-term debt	24,466	22,279	21,971	20,081	19,237	18,529	20,308
Total	24,484	22,302	22,025	21,002	19,973	20,161	20,416
Short-term debt (as a % of total public sector external debt)	0.1	0.1	0.2	4.4	3.7	8.1	0.5
Medium- and long-term debt (as a % of total public sector external debt)	99.9	99.9	99.8	95.6	96.3	91.9	99.5

(1) Includes Central Bank debt.

Source: Central Bank.

The following table provides public sector external debt by currency as of September 30, 2009.

Summary of Public Sector External Debt by Currency⁽¹⁾⁽²⁾
(in millions of U.S. dollars, except for percentages)

<u>Currency</u>	<u>As of September 30, 2009</u>	
	<u>US\$</u>	<u>%</u>
U.S. Dollar	15,536	76.5
Japanese yen	2,575	12.7
Special Drawing Rights (SDR) . . .	30	0.1
Single currency pool (SCP) ⁽³⁾	508	2.5
English pound	—	—
Canadian dollar	—	—
Euro	1,523	7.5
Swiss franc	—	0.0
<i>Nuevo sol</i> ⁽⁴⁾	135	0.7
Total	<u>20,308</u>	<u>100.0</u>

(1) Exchange rate as of September 30, 2009.

(2) Includes outstanding Cofide US\$216.67 million non-republic guarantee loans.

(3) World Bank unit of account, based on a basket of national currencies.

(4) IADB loans converted to nuevos soles.

Source: Ministry of Economy (Dirección General de Crédito Público (Office of Public Credit)).

During the period from 2004 to 2008, total public sector external debt service decreased, as a percentage of total fiscal revenue, from 24.3% in 2004 to 15.9% in 2008, including the Paris Club I and II prepayments, the Japeco prepayment and the Brady Bonds and Global 2012 Tender and Exchange. Public sector external debt service measured as a percentage of total exports of goods and services decreased from 16.7% in 2004 to 10.1% in 2008. As a percentage of GDP, public sector external debt service decreased from 3.6% in 2004 to 2.9% in 2008. The amortization shown in 2005 includes Paris Club I and Japeco prepayments. The amortization shown for 2007 includes Paris Club II prepayment and the Brady Bonds and Global 2012 Tender and Exchange. The amortization amount shown for 2008 includes the redemption of Brady Bonds and the prepayment of outstanding debt with CAF. The amortization amount shown for the first nine months of 2009 includes total prepayment to Paris Club creditors, including those that were not included in the 2007 prepayment.

The following table provides information regarding Peru's public sector external debt service as of the dates shown.

Public Sector External Debt Service⁽¹⁾
(in millions of U.S. dollars, except for percentages)

	<u>As of December 31,</u>					<u>As of September 30,</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
Interest payments	1,166	1,289	1,339	1,411	1,156	837	779
Amortization	<u>1,363</u>	<u>3,621</u>	<u>1,198</u>	<u>5,466</u>	<u>2,580</u>	<u>2,189</u>	<u>1,507</u>
Total public sector external debt service	<u>2,529</u>	<u>4,910</u>	<u>2,537</u>	<u>6,877</u>	<u>3,736</u>	<u>3,027</u>	<u>2,287</u>
As % of total exports ⁽²⁾	16.7	24.2	9.2	21.1	10.1	10.4	10.2
As % of total exports and workers' remittances	15.5	22.6	8.6	19.8	9.5	9.8	9.5
As % of GDP	3.6	6.2	2.7	6.5	2.9	2.4	1.9
As % of total fiscal revenue	24.3	39.1	15.6	35.1	15.9	16.5	15.5

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- (1) Medium and long-term debt service; excludes Central Bank debt and excludes extraordinary financing and refinancing.
- (2) Includes exports of goods and services and investment income.

Source: Central Bank.

In 2005, interest payments on the public sector external debt were US\$1.3 billion, or 1.6% of GDP, compared to US\$1.2 billion or 1.7% of GDP, in 2004. In 2005, Peru paid US\$318.1 million in interest to Paris Club creditors, US\$357.9 million to multilateral creditors, US\$111.3 million to holders of Brady Bonds, US\$442.1 million to holders of sovereign bonds and US\$59.5 million to other creditors.

In 2006, interest payments on the public sector external debt were US\$1.3 billion, or 1.4% of GDP, compared to US\$1.3 billion or 1.6% of GDP, in 2005. In 2006, Peru paid US\$247.4 million in interest to Paris Club creditors, US\$433.5 million to multilateral creditors, US\$113.3 million to holders of Brady Bonds, US\$531.8 million to holders of sovereign bonds and US\$8.3 million to other creditors.

In 2007, interest payments on the public sector external debt were US\$1.4 billion, or 1.3% of GDP, compared to US\$1.3 billion or 1.4% of GDP, in 2006. In 2007, Peru paid US\$229.3 million in interest to Paris Club creditors, US\$479.3 million to multilateral creditors, US\$85.1 million to holders of Brady Bonds, US\$613.0 million to holders of sovereign bonds and US\$4.3 million to other creditors.

In 2008, interest payments on the public sector external debt were US\$1.1 billion, or 0.9% of GDP, compared to US\$1.4 billion or 1.3% of GDP, in 2007. In 2008, Peru paid US\$145.8 million in interest to Paris Club creditors, US\$404.5 million to multilateral creditors, US\$28.9 million to holders of Brady Bonds, US\$569.5 million to holders of sovereign bonds and US\$8.7 million to other creditors.

As of September 30, 2009, interest payments on public sector external debt were US\$779 million, or 0.6% of GDP, compared to US\$837 million or 0.7% of GDP, during the first nine months of 2008. As of September 30, 2009, Peru paid US\$96 million in interest to Paris Club creditors, US\$219.1 million to multilateral creditors, US\$1.7 million to holders of Brady Bonds, US\$456.8 million to holders of sovereign bonds, and US\$5.8 million to other creditors.

The following table provides estimated medium- and long-term public sector external debt service through 2013.

Estimated Public Sector Debt Service by Debtor⁽¹⁾⁽²⁾
2008 - 2013
(in millions of U.S. dollars)

	For the 3 months ended December 31,						For the 12 months ended December 31,								
	2009			2010			2011			2012			2013		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Non-financial public															
sector:	327	293	620	967	1,031	1,998	954	1,028	1,982	1,403	1,022	2,425	1,040	970	2,009
Central government	314	288	602	913	1,019	1,932	898	1,017	1,915	1,345	1,012	2,357	982	961	1,943
Public enterprises	13	5	18	54	11	66	56	11	67	57	10	68	58	9	67
Financial public sector	8	3	11	158	11	169	96	8	104	35	7	42	37	7	44
Total public															
sector	336	296	631	1,125	1,042	2,167	1,050	1,036	2,086	1,437	1,030	2,467	1,077	977	2,053

⁽¹⁾ Disbursements Preliminary estimates, as of September 30, 2009.

⁽²⁾ Includes Loans to COFIDE not guaranteed by Peru.

Source: Central Bank and Ministry of Economy (Office of Public Credit).

Peru issued public sector external bonds in connection with the Brady restructuring. As of September 30, 2009 approximately US\$53.6 million principal amount remained outstanding on the Brady Bonds. For a description of the Brady restructuring, see “—Debt Management and Restructuring” below.

Domestic Debt

The following table provides total public sector domestic debt, excluding intra-governmental debt, as of the dates shown.

Total Public Sector Domestic Debt (in millions of U.S. dollars, at current prices)

	As of December 31,					As of September 30,	
	2004	2005	2006	2007	2008	2008	2009
Long-term debt:							
<i>Banco de la Nación</i>	929	890	774	19	39	36	131
Treasury bonds	4,832	5,954	6,757	10,343	10,068	10,589	11,300
Other	52	52	72	78	77	86	86
Total long-term debt	5,813	6,896	7,603	10,440	10,184	10,711	11,517
Short-term debt	627	793	915	1,349	1,227	1,049	932
Total	6,440	7,689	8,518	11,789	11,411	11,760	12,449
Total public sector domestic debt, as % of							
GDP	9.2	9.7	9.2	11.0	8.9	9.2	10.2

Source: Central Bank.

The following table provides a list of Peru’s outstanding domestic public sector bonds as of the dates shown.

Public Sector Domestic Bonds⁽¹⁾ (in millions of U.S. dollars, at current prices)

	Principal Amount Outstanding as of September 30, 2008	Principal Amount Outstanding as of September 30, 2009
Central Bank Capitalization bonds	—	—
Financial system support bonds	140	122
Debt exchange bonds	811	794
Pension recognition bonds	3,113	3,150
Sovereign bonds	6,525	7,235
Other bonds	54	56
Total	10,643	11,356

⁽¹⁾ Excludes intra-government debt issued in the form of bonds.

Source: Central Bank.

In March 2001, the government established a public auction system for bonds issued in *soles*. This system has increased the availability of investment instruments in the domestic capital markets and reduced Peru’s exposure to currency exchange risk. In 2003 Peru launched the Market Makers’ Program to create a domestic market for Peru’s *nuevo sol*-denominated public sector debt. Since 2003 Peru has issued its public sector debt through this program. The Market Makers’ Program has also helped increase the depth and liquidity of the domestic market for public sector debt.

Pursuant to the Market Maker's Program, Peru issued *nuevo sol*-denominated bonds for an equivalent of US\$492.1 million in 2003, US\$559.3 million in 2004, US\$614.4 million in 2005, US\$655.2 million in 2006, US\$719.2 million in 2007 and US\$439.3 million in 2008.

During the first nine months of 2009, Peru issued *nuevo sol*-denominated bonds for an equivalent of US\$370.1 million pursuant to the Market Maker's Program and Decree No. 032-2009, which authorized a maximum aggregate amount of US\$500 million. In addition, Peru issued *nuevo sol*-denominated bonds for an equivalent of US\$117.5 million pursuant to the stimulus package authorized by the Government in early 2009, intended to finance regional government's public investment projects.

Debt Management and Restructuring

The regional debt crisis, which started in 1982, resulted in a growing unwillingness of foreign commercial banks to lend to Peru. At the same time, a sharp decrease in the export prices of mining products and the 1982-1983 *El Niño* phenomenon led to a deterioration in Peru's balance of payments and fiscal accounts, which made it difficult for Peru to service its debt. Faced with an unsustainable debt burden, the Peruvian government suspended payment on its external commercial bank debt in 1984. By the end of 1984, Peru had failed to make scheduled payments of US\$1.0 billion in principal and interest on its commercial bank debt.

In 1985, the first García administration declared that service of the public sector external debt would not exceed 10% of total exports. In 1986, the IMF declared Peru ineligible for additional funds, and, in 1987, the World Bank suspended loan disbursements to Peru. Despite a decline in new loans, Peru's total public sector debt increased from US\$10.9 billion to US\$18.9 billion from 1985 to 1990, as unpaid interest continued to accrue.

In 1991, the Fujimori administration began a series of negotiations that led to a normalization of relations with multilateral creditors. In September 1991, Peru paid all amounts in arrears owed to the IADB. In March 1993, Peru paid a total of US\$1.8 billion in arrears owed to the IMF and the World Bank. Since 1993, the IMF has approved the following credit facilities:

- in 1993, the IMF approved a US\$1.5 billion Extended Fund Facility for the period from 1993 to 1995;
- in 1996, the IMF approved a US\$358 million Extended Fund Facility for the period from 1996 to 1998;
- in 1999, the IMF approved a US\$512 million Extended Fund Facility for the period from 1999 to 2000;
- in 2002, the IMF approved a US\$316 million stand-by credit facility for the period from 2002 to 2004; and
- in 2004, the IMF approved a US\$423 million stand-by credit facility for the period from 2004 to mid-2006.
- in 2007, the IMF approved a US\$257 million stand-by credit facility for the period from 2007 to February 2009.

Except for the 2007 stand-by credit facility on which Peru does not intend to draw and the 2002 and 2004 stand-by credit facilities on which Peru did not draw, these credit facilities were primarily intended to help Peru overcome its fiscal deficits.

The Fujimori administration also negotiated substantial reductions in Peru's short-term external debt with its principal bilateral creditors. During the 1990s, Peru conducted the following three rounds of negotiations with the Paris Club:

- in September 1991, Peru rescheduled US\$4.7 billion of its Paris Club debt maturing between October 1991 and December 1992;
- in May 1993, Peru rescheduled an additional US\$1.9 billion of its Paris Club debt maturing between March 1993 and March 1996; and
- in July 1996, Peru rescheduled an additional US\$6.8 billion of its Paris Club debt maturing between April 1996 and December 1998.

As a result of this restructuring, Peru obtained the following extensions with respect to credits maturing in the relevant period:

- a 20-year extension for concessionary credits, with a ten-year grace period; and
- a 14-year extension for commercial credits, representing the majority of Peru's Paris Club debt, with a seven-year grace period.

Additionally, as a result of the 1996 restructuring, Peru obtained the following reductions in its debt:

- a reduction in debt payments from US\$970 million per year to approximately US\$530 million per year for indebtedness maturing between April 1996 and December 1998; and
- a reduction in debt payments from US\$1.2 billion per year to approximately US\$1.0 billion per year for indebtedness maturing between 1999 and 2006.

In 1997, Peru renegotiated its debt with international commercial banks under the Brady restructuring. The Brady restructuring reduced Peru's international commercial bank debt from US\$10.6 billion to US\$4.9 billion, US\$2.4 billion of which were Past-Due Interest Bonds, US\$1.7 billion were Front-Loaded Interest Reduction Bonds, US\$572 million were Floating Rate, or Discount, Bonds and US\$183 million were Fixed Rate, or Par, Bonds. The Past-Due Interest Bonds and Front-Loaded Interest Reduction Bonds each have a 20-year term. The Discount Bonds and the Par Bonds each have a 30-year term and are collateralized by zero-coupon U.S. Treasury bonds.

In February 2002, Peru launched its first international bond offering in 74 years. Peru issued US\$500 million principal amount of global bonds. At the same time, Peru retired US\$1.2 billion principal amount of its outstanding Brady Bonds in exchange for a further US\$923 million principal amount of global bonds. The exchange lowered Peru's debt by US\$111 million and released US\$50 million in collateral backing the Brady Bonds. After issuing the global bonds and taking into account amortization of the Past-Due Interest Bonds in March 2002, the current amounts outstanding are US\$1.1 billion of Past-Due Interest Bonds, US\$1.2 billion of Front-Loaded Interest Reduction Bonds, US\$198 million of Discount Bonds and US\$64 million of Par Bonds.

Since the February 2002 international bond offering, Peru has issued the following additional series of bonds in the international markets:

- In December 2002, Peru issued US\$500 million principal amount of its 9.125% debt securities due 2008.
- In February 2003, Peru issued US\$500 million principal amount of its 9.875% debt securities due 2015.

- In March 2003, Peru issued US\$250 million principal amount of its 9.875% debt securities due 2015. This offering was a reopening of the February 2003 offering.
- On November 21, 2003, Peru issued US\$500 million of its 8.750% debt securities due 2033.
- On May 3, 2004, Peru issued US\$500 million of its 8.375% debt securities due 2016.
- On October 7, 2004, Peru issued €650 million of its 7.50% debt securities due 2014.
- In January 2005, Peru issued US\$400 million principal amount of its 8.75% debt securities due 2033. This offering was a reopening of the November 2003 offering.
- On July 19, 2005, Peru issued an aggregate principal amount of US\$750 million of its 7.35% debt securities due 2025. The proceeds of this transaction were used to prepay Paris Club creditors.
- In December 2005, Peru issued US\$500 million principal amount of its 7.35% debt securities maturing in 2025. This offering was a reopening of the July 2005 offering. The proceeds of this transaction were used to prepay the Japan Peru Oil Co. loans.
- In January 2007, Peru made an invitation to holders of its 9.125% U.S. Dollar-Denominated Global Bonds due 2012, or the 2012 Bonds, to submit offers to exchange their bonds for 8.375% U.S. Dollar-Denominated Global Bonds due 2016 or 8.75% U.S. Dollar-Denominated Global Bonds due 2033, or tender their bonds for cash. In addition, Peru made an invitation to holders of its Past-Due Interest Bonds due March 2017, Front-Loaded Interest Reduction Bonds due March 2017, Floating Rate Bonds due 2027 and the Fixed Rate Bonds due 2027, or collectively the Brady Bonds, to submit offers to exchange their bonds for U.S. Dollar-Denominated Global Bonds due 2037 or tender their bonds for cash. The exchange and tender offers by holders of 2012 Bonds and Brady Bonds were settled in March with approximately US\$2.3 billion tendered bonds and US\$2.2 issued bonds. This transaction reduced amount of outstanding debt, freed collateral from the Brady Bonds and restructured payments for approximately US\$1.1 billion in year 2012.
- In March 2009, Peru issued US\$1.0 billion principal amount of its 7.125% debt securities maturing in 2019. The proceeds of this transaction were used to prefinance a portion of the general financial requirements of Peru for the year 2010.
- In July 2009, Peru issued US\$1.0 billion principal amount of its 7.35% debt securities maturing in 2025. This offering was a reopening of the July 2005 offering. The proceeds of this transaction were used to prepay Paris Club lenders that did not participate in the 2007 prepayment transaction.

Peru has used the proceeds from these international bond offerings to repay existing debt, to increase international reserves, and for the general purposes of the government, including financial investment and the refinancing, repurchasing and retiring of domestic and external indebtedness.

On May 23, 2007, the Paris Club creditors and Peru signed a multilateral agreement in which the Paris Club accepted Peru's proposal to prepay, at par and by voluntary participation of each creditor, up to US\$2.5 billion (after payment of the June 30, 2007 and August 15, 2007 installments) of the commercial debt, to be paid up to 2015. The multilateral agreement set out the basic terms of the prepayment operation and established the framework under which Peru would engage in bilateral prepayment agreements with participating creditors. Under this multilateral agreement the Peruvian government will prepay each participating creditor the capital requested for prepayment at par on October 1, 2007, and the interest accruing on the capital requested for prepayment up to October 1, 2007 under each rescheduling agreement. On July 2, 2007, Peru announced the individual Paris Club creditor countries that had accepted the prepayment offer.

In October 2007 the prepayment described above was finalized for a total aggregate amount of US\$1.7 billion, representing approximately 32% of the total outstanding principal amount of Peru's Paris Club debt. As a

result of the prepayment, Peru reduced its Paris Club commercial debt amortization payments by approximately US\$33 million for 2007, US\$100 million for each of 2008 and 2009, and US\$260 million for each year from 2010 through 2015. Funding for the prepayment came from the proceeds of a 30-year sovereign bond issuance in local currency for S/.4,750 million (approximately US\$1,503 million), and approximately US\$290 million from the Treasury.

Peru believes that other likely benefits of the Paris Club prepayment will be increased financial flexibility and reduced refinancing risk by replacing debt currently held by Paris Club creditors with debt held by investors in the capital markets. Also, the prepayment of its Paris Club commercial debt is expected to reduce foreign exchange exposure, since Peru expects to mainly use debt denominated in its own currency to prepay a portion of its outstanding Paris Club commercial debt.

In March 2008 Peru exercised its redemption right over the Brady Bonds, redeeming Brady Bonds for an amount equal to approximately US\$816 million. In December 2008, Peru prepaid outstanding debt with CAF for an aggregate amount of US\$150 million.

As of September 30, 2009, Peru's total outstanding debt with the Paris Club amounted to US\$3.3 billion, representing approximately 16.1% of Peru's total public external debt. Peru's Paris Club creditors are governmental institutions located in 15 countries. A significant portion of Peru's Paris Club debt has been subject to rescheduling agreements under the umbrella of the Paris Club. As of September 30, 2009, Peru's rescheduled Paris Club debt amounted to US\$399.2 million. Of the rescheduled Paris Club debt, 100% is subject to government-granted Official Development Assistance (ODA, government-granted) interest rates, which are lower than the non-ODA rates. Peru's Paris Club debt is denominated in Japanese yen-denominated debt, euro-denominated debt and U.S. dollar-denominated debt, which represent 79%, 17% and 4%, respectively, of the total debt. 99.5% of Peru's Paris Club debt has fixed interest rates, with the remainder having variable interest rates.

Debt Record

Since the Brady restructuring in 1997, Peru has, except as described below, timely serviced its external debt without default.

Upon completion of the Brady restructuring, Peru ceased paying principal and interest to lenders who did not participate in the restructuring. These lenders included Elliot Associates, L.P., a private investment firm that acquired US\$20 million in Peruvian debt. Elliot Associates obtained a US\$55.7 million judgment against Peru for non-payment of interest and an attachment of Peru's funds held at Chase Manhattan Bank of New York that Peru had allocated for interest payments on its Brady Bonds. As a result of the attachment, on September 7, 2000, Peru failed to make a required interest payment of US\$80 million on the Brady Bonds, even though it had deposited in its account at Chase sufficient funds to make the payment.

On September 26, 2000, Elliot Associates obtained an injunction against the Euroclear System clearing agency that prevented it from receiving or distributing funds provided by Peru to pay interest on the Brady Bonds. The Elliot Associates litigation was settled following the issuance of the injunction against the Euroclear System, and Peru made interest payments on the Brady Bonds on October 4, 2000, within the applicable 30-day grace period. Peru has made all its debt payments to Elliot Associates in accordance with the terms of the settlement.

Other creditors also failed to participate in the Brady restructuring for reasons that included failure to provide the required documentation and failure to identify the actual holder of the debt to be exchanged. Since the Brady restructuring, Peru has been in default on payments to these creditors. As of September 30, 2009, these payments totaled US\$12.6 million in principal and interest. There are no further scheduled amortizations or interest payments on these debts. None of these creditors has submitted claims against Peru for overdue amounts.

As of the date of this prospectus, Peru is unaware of any other claims filed against it, in Peru or abroad, for overdue debt payments and Peru is not involved in any disputes with its internal or external creditors.

DESCRIPTION OF THE SECURITIES

This prospectus provides a general description of the debt securities, warrants and units that Peru may offer. Each time Peru offers securities, Peru will provide a prospectus supplement that will contain specific information about the terms of that offering. A prospectus supplement may also add, update or change information contained in this prospectus. If the information in this prospectus differs from that in any prospectus supplement, you should rely on the updated information in the prospectus supplement.

Debt Securities

Peru will issue the debt securities under a fiscal agency agreement, dated as of February 6, 2003, as amended by Amendment No. 1, dated November 21, 2003, and Amendment No. 2, dated October 14, 2004, to the fiscal agency agreement, between Peru and JPMorgan Chase Bank, as fiscal agent, principal paying agent and registrar, or another fiscal agency agreement in a substantially similar form. The fiscal agency agreement, as amended by Amendment No. 1 and Amendment No. 2, and it may be further amended from time to time, is referred to herein as the fiscal agency agreement. Peru has filed the fiscal agency agreement with the SEC and at the office of the fiscal agent in New York. You should read the fiscal agency agreement, the form of debt securities attached at the end of the fiscal agency agreement and the applicable prospectus supplement before making your decision whether to invest in the debt securities.

In this description of the debt securities, you will see some capitalized terms. These terms have particular legal meanings, which you can find under “—Defined Terms” below.

Overview

The prospectus supplement relating to any series of debt securities offered will include specific terms relating to that series of debt securities. Those terms will include some or all of the following:

- the title;
- any limit on the aggregate principal amount;
- the issue price;
- if that series of debt securities will bear interest, the interest rate, which may be fixed or floating, the date from which interest will accrue, and the interest payment dates and the record dates for these interest payment dates;
- the maturity date;
- a description of any index Peru will use to determine the amount of principal, premium or interest payments;
- the places where and the manner in which principal, interest and other payments will be made;
- the form of debt security, and, in the case of global securities, the depositary;
- if that series of debt securities will be guaranteed, the guarantor and whether the guarantee will be partial or full;
- any mandatory or optional sinking fund provisions;
- any provisions that will allow Peru to redeem that series of debt securities at its option;

- any provisions that entitle the holders to early repayment at their option;
- the currency in which that series of debt securities is denominated and in which Peru will make payments;
- if other than the law of the State of New York, the law of the governing jurisdiction;
- the authorized denominations;
- any additional agreements of Peru and any additional events that give holders of that series of debt securities the right to accelerate the maturity of the debt securities;
- any terms upon which holders of that series of debt securities may exchange or convert the debt securities;
- whether that series of debt securities will be listed and, if listed, the stock exchanges on which it will be listed; and
- any other terms of that series of debt securities.

Peru may issue debt securities in exchange for other debt securities or that are convertible into new debt securities. The specific terms of the exchange or conversion of any debt security and the debt security for which it will be exchangeable or into which it will be converted will be described in the prospectus supplement relating to that exchangeable or convertible debt security.

Peru may issue debt securities at a discount below their stated principal amount, bearing no interest or interest at a rate that, at the time of issuance, is below market rates. Peru may also issue floating-rate debt securities that are exchangeable for fixed-rate debt securities. Peru will describe the applicable U.S. federal income tax consequences in the prospectus supplements for these offerings.

Peru is not required to issue all of its debt securities under the fiscal agency agreement and this prospectus, but instead may issue debt securities other than those described in this prospectus under other fiscal agency agreements and documentation. That documentation may contain terms different from those included in the fiscal agency agreement and described in this prospectus.

Status

The debt securities will be direct, general, unconditional, unsubordinated and unsecured obligations of Peru. Peru has pledged its full faith and credit to make all payments on the debt securities when due. The debt securities will rank equally, without any preference among themselves, with all of Peru's other existing and future unsecured and unsubordinated External Indebtedness.

Form and Denomination

Unless otherwise provided in the prospectus supplement for an offering, Peru will issue debt securities:

- denominated in U.S. dollars;
- in fully registered book-entry form;
- without coupons; and
- in denominations of US\$1,000 and integral multiples of US\$1,000.

Debt securities in book-entry form will be represented by one or more global securities registered in the name of a nominee of The Depository Trust Company, or DTC. Beneficial ownership interests in a global security will only be recorded on, and transferred through, the records maintained by DTC and its participants, including the depositaries for Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking *société anonyme*, or Clearstream, Luxembourg.

Payments

Unless otherwise provided in the prospectus supplement for an offering, Peru will pay principal and interest payable on any maturity date in U.S. dollars in immediately available funds to the person in whose name each debt security is registered on its maturity date, upon presentation and surrender of the debt security at the corporate trust office of the fiscal agent or, subject to applicable laws and regulations, at the office of any paying agent. Peru will pay interest on each debt security, other than interest payable on any maturity date, to the person in whose name the debt security is registered at the close of business on the record date for the relevant interest payment date.

Because each debt security will be represented by one or more global notes and beneficial interests in the debt securities may not be exchanged for debt securities in physically-certificated form, except in limited circumstances, Peru will make payments of principal and interest on each debt security by directing the fiscal agent to make a wire transfer of U.S. dollars to DTC or its nominee as the registered owner of the debt securities, which will receive the funds for distribution to the beneficial owners. Upon receipt of any payment of principal of or interest on any debt securities, DTC will credit the appropriate DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the debt securities as shown on the records of DTC. Payments by DTC participants to owners of beneficial interests in debt securities held through those DTC participants will be the responsibility of those DTC participants. A beneficial owner should contact the institution through which it intends to hold its beneficial interest in debt securities to determine how payments of principal of or interest on those debt securities will be credited to its accounts.

Peru, the fiscal agent and any paying agent will have no responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the debt securities or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

If Peru does not pay interest by wire transfer for any reason, it will, subject to applicable laws and regulations, mail, or direct the fiscal agent to mail, a check to the holder of the affected debt security on or before the due date for the payment at the address that appears on the security register maintained by the fiscal agent on the applicable record date.

The record date with respect to any interest payment date will be the 15th day prior to that interest payment date, whether or not that record date is also a business day.

Any payment of principal or interest required to be made on a payment date that is not a business day may be made on the next business day with the same force and effect as if made on that payment date, and no interest will accrue with respect to the payment for the period from and after that payment date.

The fiscal agent will hold in trust, for the benefit of the beneficial owners of the debt securities, any funds transferred by Peru to the fiscal agent pending the application of those funds to pay principal and interest on the debt securities. If any funds that Peru transfers to the fiscal agent to make payments on the debt securities is unclaimed at the end of two years after the applicable payment was due and payable, the fiscal agent will return those funds to Peru and the relevant holders of the debt securities may look only to Peru for any payment to which the holders are entitled.

Paying Agents; Transfer Agents; Registrar

With respect to any series of debt securities, Peru may appoint paying agents, transfer agents and registrars that will be listed at the back of the applicable prospectus supplement. Peru may at any time appoint additional or replacement paying agents, transfer agents and registrars. Peru will, however, maintain a paying agent and a registrar in The City of New York until the debt securities are paid.

In addition, so long as required by the rules of the Luxembourg Stock Exchange, Peru will maintain a paying agent and a transfer agent in Luxembourg with respect to any series of debt securities listed on the Luxembourg Stock Exchange. Peru will promptly provide notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with a series of the debt securities.

Redemption, Repurchase and Early Repayment

Unless otherwise provided in the prospectus supplement for an offering, the debt securities will not be redeemable before maturity at the option of Peru or repayable before maturity at the option of the holder. Nevertheless, Peru may at any time purchase any of the debt securities at any price in the open market or otherwise. Peru may hold or resell any debt securities it purchases or it may surrender them to the fiscal agent for cancellation. Any debt securities Peru purchases may not be re-issued or resold except in compliance with the Securities Act of 1933, as amended, and other applicable laws.

Replacement, Exchange and Transfer of Debt Securities

Beneficial interests in any global security representing debt securities may be exchanged for physical debt securities only in the circumstances described under “Book Entry; Delivery and Form” below. If Peru issues physical debt securities, holders may present their debt securities for exchange with debt securities of a different authorized denomination, together with a written request for an exchange, at the office of the fiscal agent in The City of New York, or at the office of any paying agent. In addition, holders may transfer their physical debt securities in whole or in part by surrendering them, together with an executed instrument of transfer, at any of those offices. Peru will not charge holders for the costs and expenses for the exchange, transfer or registration of transfer of the debt securities. Peru may, however, charge holders for applicable stamp duty, tax or other governmental charges.

If a physical debt security becomes mutilated, defaced, destroyed, lost or stolen, Peru may issue, and the fiscal agent will authenticate and deliver, a substitute debt security in replacement. In each case, the affected holder will be required to furnish to Peru, the fiscal agent and any other parties Peru specifies an indemnity under which the affected holder agrees to pay Peru, the fiscal agent and the other specified parties for any losses they may suffer relating to the debt security that was mutilated, defaced, destroyed, lost or stolen. Peru and the fiscal agent may also require that the affected holder present other documents and proof. The affected holder will be required to pay all expenses and reasonable charges for the replacement of the mutilated, defaced, destroyed, lost or stolen debt security.

Additional Amounts

Peru will pay all principal and interest on the debt securities without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed by Peru or by any political subdivision of or taxing authority in Peru. If Peru is required by law to make any such withholding or deduction, it will pay such additional amounts as may be necessary to ensure that the net amounts receivable by the holders of the affected debt securities after such withholding or deduction shall equal the amount that would have been receivable in respect of such debt securities in the absence of such withholding or deduction.

Peru will not, however, pay any additional amounts if a holder is subject to withholding or deduction due to one of the following reasons:

- that holder has some connection with Peru other than merely holding the debt security or receiving principal or interest on any debt security;
- that holder has not complied with any reasonable certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with Peru, or any political subdivision of or taxing authority in Peru, of the holder of the debt security or any interest in or rights in respect of the debt security, if compliance is required by Peru, or any political subdivision of or taxing authority in Peru, under applicable law of any international treaty in effect, as a precondition to exemption from the deduction or withholding; or
- the holder has not presented its debt security for payment within 30 days after Peru first made a principal or interest payment available on that debt security.

Defined Terms

The following definitions are used in the debt securities:

- “External Indebtedness” means obligations of, or guaranteed, whether by contract, statute or otherwise, by Peru for borrowed money or represented by bonds, debentures, notes or similar instruments denominated or payable, or which, at the option of the holder, may be payable in a currency other than the currency of Peru or by reference to a currency other than the currency of Peru, other than any such obligations originally issued or incurred within Peru.
- “Public External Indebtedness” means any External Indebtedness that (a) is in the form of, or represented by, bonds, notes or other securities that are, or were intended at the time of issuance to be, quoted, listed or traded on any securities exchange or other securities market, including, without limitation, securities for resale under Rule 144A under the Securities Act, or any successor law or regulation of similar effect, and (b) has an original maturity of more than one year or is combined with a commitment so that the original maturity of one year or less may be extended at the option of Peru to a period in excess of one year.
- “Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any project if the person or persons providing that financing expressly agree to limit their recourse to the project financed and the revenues derived from that project as the principal source of repayment for the funds advanced.
- “Security Interest” means any security interest, including, without limitation, any lien, pledge, mortgage, deed of trust or charge, or any encumbrance or preferential arrangement that has the practical effect of constituting a security interest.

Negative Pledge

While any of the debt securities are outstanding, Peru will not create or allow any Security Interest to be placed on or any part of its present or future revenues or assets to secure Public External Indebtedness, unless Peru creates or allows a Security Interest on the same terms for its obligations under the debt securities. Peru may, however, create or allow:

- Security Interests created prior to February 7, 2002;

- Security Interests securing Public External Indebtedness incurred in connection with a Project Financing, provided that the Security Interest is solely in assets or revenues of the project for which the Project Financing was incurred;
- Security Interests securing Public External Indebtedness Peru incurred or assumed to finance or refinance the acquisition of the assets in which those Security Interests have been created or allowed and any Security Interests existing on those assets at the time of their acquisition;
- Security Interests securing Public External Indebtedness arising in the ordinary course to finance export, import or other trade transactions, and in which Public External Indebtedness matures, after giving effect to all renewals and refinancing thereof, not more than one year after the date on which that Public External Indebtedness was originally incurred;
- Security Interests securing Public External Indebtedness that, together with all other Public External Indebtedness secured by Security Interests, excluding Public External Indebtedness secured by other permitted Security Interests, does not exceed US\$25,000,000 aggregate principal amount, or its equivalent in other currencies;
- Security Interests arising by operation of a currently existing law in connection with Public External Indebtedness, including, without limitation, any right of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property held by financial institutions, in each case deposited with or delivered to those financial institutions in the ordinary course of the depositor's activities;
- Security Interests created in connection with the transactions contemplated by Peru's financing plan dated June 5, 1996, and its implementing documentation, including Security Interests to secure obligations under the collateralized bonds issued under that financing plan (the Par Bonds, Discount Bonds and Front-Loaded Interest Reduction Bonds) and any Security Interest securing obligations of Peru outstanding as of June 5, 1996, to the extent required to be equally and ratably secured with any such bonds;
- Security Interests issued upon surrender or cancellation of the Par Bonds, Discount Bonds or Front-Loaded Interest Reduction Bonds, or the principal amount of any Public External Indebtedness outstanding as of June 5, 1996, in each case, to the extent that Security Interest is created to secure Public External Indebtedness on a basis comparable to the Par Bonds, Discount Bonds and Front-Loaded Interest Reduction Bonds;
- Security Interests on shares of, or other assets of, any present or former Peruvian public sector entity created or granted by Peru in connection with, or in anticipation of, the privatization of that entity; and
- any renewal or extension of any of the Security Interests stated above.

Collective Action Clauses

Any series of debt securities issued under this prospectus will contain provisions regarding acceleration and voting on amendments, modifications and waivers that differ from the provisions governing the series of debt securities issued by Peru in the past. The provisions described in this prospectus will govern any series of debt securities Peru will issue under this prospectus. These provisions are commonly referred to as "collective action clauses." Under these provisions, Peru may amend certain key terms of the debt securities of a series, including the maturity date, amounts payable and other payment terms, with the consent of fewer than all the holders of debt securities of the relevant series. These collective action clauses are described below.

Default; Acceleration of Maturity

Unless otherwise specified in the prospectus supplement for an offering, each of the following events is an event of default under any series of debt securities:

(1) *Non-Payment*:

- Peru fails to pay for 30 days principal on that series of debt securities when due; or
- Peru fails to pay for 30 days interest on that series of debt securities when due; or

(2) *Breach of Other Obligations*: Peru fails to perform any other obligation under that series of debt securities and that failure is incapable of remedy or is unremedied within 60 days after the fiscal agent has given written notice to Peru; or

(3) *Cross Default*: Peru fails to make any payment when due in respect of:

- External Indebtedness outstanding as of February 21, 2002; and
- Public External Indebtedness;

in an aggregate principal amount in excess of US\$25,000,000, or its equivalent in any other currency, and that failure continues beyond the applicable grace period; or

(4) *Cross Acceleration*: an acceleration of the maturity of:

- External Indebtedness outstanding as of February 21, 2002; and
- Public External Indebtedness;

in an aggregate principal amount in excess of US\$25,000,000, or its equivalent in any other currency; or

(5) *Moratorium*: Peru declares a general suspension of payments or a moratorium on payment of all or a portion of its External Indebtedness; or

(6) *Validity*:

- Peru contests the validity of, or its obligations under, that series of debt securities or, to the extent adversely affecting that series of debt securities, the fiscal agency agreement; or
- Peru denies any of its obligations under that series of debt securities or, to the extent adversely affecting that series of debt securities, the fiscal agency agreement; or
- any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Peru, or any final decision by any court in Peru having jurisdiction, renders it unlawful for Peru to pay any amount due on that series of debt securities or to perform any of its obligations under that series of debt securities or, to the extent adversely affecting that series of debt securities, the fiscal agency agreement; or

(7) *Judgments*: any writ, execution, attachment or similar process is levied against all or any substantial part of Peru's assets in connection with any judgment for the payment of money exceeding US\$25,000,000, or its equivalent in any other currency, and Peru fails to satisfy or discharge that judgment, or adequately bond, contest in good faith or receive a stay or execution or continuance in respect of that judgment, within a period of 120 days; or

(8) *Membership in the IMF*: Peru fails to maintain its membership in, and its eligibility to use the general resources of, the IMF.

If any of the events of default described above occurs and is continuing, the holders of at least 25% of the aggregate principal amount of all debt securities of that series outstanding (as defined below) may, by written notice given to Peru, with a copy to the fiscal agent, declare all the debt securities of that series to be immediately due and payable. Upon any declaration of acceleration, the principal, interest and all other amounts payable on that series of debt securities will become immediately due and payable on the date that the written notice is received at the offices of the fiscal agent, unless Peru has remedied the event or events of default prior to receiving the notice.

The holders of more than 50% of the aggregate principal amount of the outstanding debt securities of any series may waive any existing defaults, and rescind or annul a declaration of acceleration on behalf of all holders of debt securities of that series if:

- following the declaration that the debt securities of that series are immediately due and payable, Peru deposits with the fiscal agent a sum sufficient to pay all overdue installments of principal, interest and other amounts in respect of the debt securities of that series, as well as the reasonable fees and compensation of the fiscal agent; and
- all other events of default have been remedied.

Fiscal Agent

The fiscal agency agreement establishes:

- the obligations of the fiscal agent;
- the right to indemnification of the fiscal agent;
- the liability and responsibility, including limitations on liability and responsibility, for actions that the fiscal agent takes; and
- that the fiscal agent may enter into business transactions with Peru as freely as if it were not the fiscal agent.

Peru may replace the fiscal agent at any time, subject to the appointment of a replacement fiscal agent. In addition, Peru may appoint different fiscal agents for different series of debt securities. The fiscal agent is not a trustee for the holders of debt securities and does not have the same responsibilities to act for the holders as would a trustee. Peru may maintain deposit accounts and conduct other banking and financial transactions with the fiscal agent.

Amendments and Waivers

Peru and the fiscal agent may, with the consent of the holders of at least 66 2/3% in aggregate principal amount of the then outstanding debt securities of any series, modify and amend the provisions of that series of debt securities or the fiscal agency agreement.

However, the holders of not less than 75% of the aggregate principal amount of the outstanding debt securities of any series, voting at a meeting or by written consent, must consent to any amendment, modification, change or waiver with respect to the debt securities of the relevant series that would:

- change the due dates for the payment of principal of or any installment of interest on that series of debt securities;

- reduce any amounts payable on that series of debt securities;
- reduce the amount of principal payable upon acceleration of the maturity of that series of debt securities;
- change the payment currency or places of payment for that series of debt securities;
- permit early redemption of that series of debt securities or, if early redemption is already permitted, set a redemption date earlier than the date previously specified or reduce the redemption price;
- reduce the percentage of holders of that series of debt securities whose vote or consent is needed to amend, supplement or modify the fiscal agency agreement (as it relates to that series of debt securities) or the terms and conditions of that series of debt securities or to take any other action with respect to that series of debt securities or change the definition of “outstanding” with respect to that series of debt securities;
- change Peru’s obligation to pay any additional amounts;
- change the governing law provision of that series of debt securities;
- change the courts to the jurisdiction of which Peru has submitted Peru’s obligation to appoint and maintain an agent for service of process with an office in New York, or Peru’s waiver of immunity, in respect of actions or proceedings brought by any holder based upon that series of debt securities, as described in this prospectus;
- in connection with an exchange offer for the debt securities of that series, amend any event of default under the debt securities of that series; or
- change the status of the debt securities of a series, as described under “—Status” above.

We refer to the above subjects as “reserved matters.” A change to a reserved matter, including the payment terms of the debt securities of a series, can be made without your consent, as long as a supermajority of the holders of that series (that is, the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of that series) agrees to the change.

No consent of the holders of debt securities is or will be required for any modification or amendment requested by Peru or by the fiscal agent or with the consent of Peru to:

- add to Peru’s covenants for the benefit of the holders of any series of debt securities;
- surrender any right or power of Peru in respect of any series of debt securities or the fiscal agency agreement;
- provide security or collateral for any series of debt securities;
- cure any ambiguity in any provision, or correct any defective provision, of any series of debt securities; or
- change the terms and conditions of any series of debt securities or the fiscal agency agreement in any manner that Peru and the fiscal agent deem to be necessary or desirable if that change does not, and will not, adversely affect the rights or interests of any holder.

For purposes of determining whether the required percentage of holders of any series of debt securities has approved any amendment, modification or change to, or waiver of, the debt securities of that series or the

fiscal agency agreement, or whether the required percentage of holders has delivered a notice of acceleration of the debt securities of that series, debt securities of that series owned, directly or indirectly, by Peru or any public sector instrumentality of Peru will be disregarded and deemed not to be outstanding, except that in determining whether the fiscal agent shall be protected in relying upon any amendment, modification, change or waiver, or any notice from holders, only debt securities of that series that the fiscal agent knows to be so owned shall be so disregarded. As used in this paragraph, “public sector instrumentality” means the Central Bank, any department, ministry or agency of the government of Peru or any corporation, trust, financial institution or other entity owned or controlled by the government of Peru or any of the foregoing, and “control” means the power, directly or indirectly, through the ownership of the voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors or a corporation, trust, financial institution or other entity.

Peru may at any time ask for written consents from or call a meeting of the holders of any series of debt securities to obtain their approval of the modification of, amendment to, or waiver of, any provision of that series of debt securities. This meeting will be held at the time and place determined by Peru and specified in a notice of the meeting provided to the affected holders. This notice must be given at least 30 days and not more than 60 days prior to the meeting.

If at any time the holders of at least 10% in principal amount for any then outstanding debt securities of any series request the fiscal agent to call a meeting of the holders of that series of debt securities for any purpose, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the fiscal agent will call the meeting for that purpose. This meeting will be held at the time and place determined by the fiscal agent, after consultation with Peru, and specified in a notice of the meeting provided to the affected security holders. This notice must be given at least 30 days and not more than 60 days prior to the meeting.

Holders who hold a majority in principal amount of the then outstanding debt securities of that series will constitute a quorum at a securityholders’ meeting. In the absence of a quorum, a meeting may be adjourned for a period of at least 20 days. At the reconvening of a meeting adjourned for lack of quorum, holders of 25% in principal amount of the then outstanding debt securities of that series shall constitute a quorum. Notice of the reconvening of any meeting may be given only once, but must be given at least ten days and not more than 15 days prior to the meeting.

At any meeting when there is a quorum present, holders of at least 66 2/3% in principal amount of a series of debt securities represented and voting at the meeting may approve the modification or amendment of, or a waiver of compliance for, any provision of that series of debt securities, except for the reserved matters, which require the consent of not less than 75% of the aggregate principal amount of the outstanding debt securities of any series. Modifications, amendments or waivers made at any such meeting will be binding on all current and future holders of any debt securities of that series.

Notices

Notices will be mailed to holders at their registered addresses and will be deemed to have been given on the date of mailing. All notices to holders will be published, if and so long as the debt securities are listed on the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require, in a daily newspaper of general circulation in Luxembourg. If publication is not practicable, notice will be validly given if made in accordance with the rules of the Luxembourg Stock Exchange.

Further Issues

Without the consent of the holders of the debt securities, Peru may issue additional debt securities with the same terms and conditions as an outstanding series of debt securities, except for the issue date, issue price and amount of first interest payment, and Peru may consolidate the additional debt securities to form a single series with an outstanding series of debt securities.

Warrants

If Peru issues warrants, it will describe their specific terms in a prospectus supplement, and Peru will file a warrant agreement or amendment to the fiscal agency agreement and form of warrant with the SEC. The following description summarizes some of the general terms that apply to warrants. You should read the applicable prospectus supplement, warrant agreement and form of warrant before making your investment decision.

Peru may issue warrants or other similar securities, either separately or together with any debt securities, that would entitle the holder to purchase debt securities or obligate Peru to repurchase or exchange debt securities. If Peru issues any warrants, each issue of warrants will be issued under a warrant agreement between Peru and a bank or trust company, which may be the fiscal agent, as warrant agent. The warrant agent will act solely as the agent of Peru in connection with the warrants of an issue and will not assume any obligation or relationship of agency for or with the holders or beneficial owners of warrants. The applicable prospectus supplement will include some or all of the following terms relating to an issue of warrants or other similar securities:

- the initial offering price;
- the currency required to purchase the warrants;
- the title and terms of the debt securities or other consideration that the holders will receive on exercise of their warrants;
- the principal amount of debt securities or amount of other consideration that the holders will receive on exercise of their warrants;
- the principal amount and kind of debt securities that the holders may obligate Peru to purchase or exchange if the holders exercise their warrants and the purchase price of those debt securities;
- the exercise price or ratio;
- the procedures of, and conditions to, exercise of the warrants and the dates on which the holders can exercise their warrants;
- whether and under what conditions Peru may cancel the warrants;
- the title and terms of any debt securities issued with the warrants, and the amount of debt securities issued with each warrant;
- the date, if any, on and after which the warrants and any debt securities issued with the warrants will trade separately;
- the form of the warrants (global or certificated and registered or bearer), whether they will be exchangeable for another form and, if registered, where they may be transferred and exchanged;
- the identity of the warrant agent;
- any special U.S. federal income tax considerations; and
- any other terms of the warrants.

The warrants will be direct, unconditional and unsecured obligations of Peru and will not constitute indebtedness of Peru.

Units

Peru may issue units comprised of one or more of the other securities described in this prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each security comprising that unit. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time or at any time before a specified date.

The prospectus supplement relating to a particular issue of units will describe:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;
- any provisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities comprising the units; and
- whether the units will be issued in fully registered or global form.

The preceding description does not, and any description of units in the applicable prospectus supplement will not, purport to be complete and they are subject to and are qualified in their entirety by reference to the unit agreement and, if applicable, collateral arrangements and depositary arrangements relating to those units.

Jurisdiction, Consent to Service and Enforceability

Peru is a foreign sovereign state. Consequently, it may be difficult for you to obtain or realize judgments of the courts of the United States or elsewhere against Peru. Furthermore, it may be difficult for you to enforce, in the United States or elsewhere, the judgments of United States or foreign courts against Peru.

In connection with any legal action against Peru or its properties, assets or revenues arising out of or relating to the fiscal agency agreement or any debt securities or warrants, to which we refer in this prospectus as a “related proceeding,” Peru will:

- submit to the exclusive jurisdiction of any New York State or U.S. federal court sitting in New York City, and any appellate court thereof;
- agree that all claims in respect of any related proceeding may be heard and determined in such New York State or U.S. federal court;
- agree that any judgment obtained in such New York State or U.S. federal court arising out of a related proceeding may be enforced or executed in any other court of competent jurisdiction;
- agree that any judgment obtained in any such other court as a result of such enforcement or execution may be enforced or executed in any such other court of competent jurisdiction by means of a suit on the judgment or in any other manner provided by law;
- consent to and waive, to the fullest extent permitted by law, any objection that it may have to the laying of venue of any related proceeding brought in such New York State or U.S. federal court or to the laying of venue of any legal action brought solely for the purpose of enforcing or executing a related judgment in such New York State or U.S. federal court or any other courts;
- waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of a related proceeding or any such legal action in any such court; and
- appoint CT Corporation System, presently located at 111 Eighth Avenue, 13th Floor, New York, New York, as its process agent and maintain at all times an agent with offices in New York to act as its process agent.

In order to enforce or execute any judgment ordering any payment by Peru, Peruvian courts will require that payment to be included in the corresponding annual budget laws.

The process agent will receive on behalf of Peru and its property service of all writs, process and summonses in any related proceeding or any suit, action or proceeding to enforce or execute any related judgment brought against it in any New York State or U.S. federal courts sitting in New York City. Failure of the process agent to give any notice to Peru of any such service of process shall not impair or affect the validity of that service or of any judgment based thereon. Nothing in the fiscal agency agreement shall in any way be deemed to limit the ability to serve any such writs, process or summonses in any other manner permitted by applicable law.

To the extent that Peru or any of its revenues, assets or properties may be entitled to any sovereign or other immunity under any law, Peru will not claim and will waive that immunity to the fullest extent permitted by the laws of such jurisdiction. This waiver covers Peru's sovereign immunity and immunity from prejudgment attachment, post-judgment attachment and attachment in aid, but does not extend to the attachment of revenues, assets and property of Peru located in Peru, unless permitted under Peruvian law. Additionally, under Peruvian law, Peru's waiver of immunity will not extend to property that is:

- used by a diplomatic or consular mission of Peru;
- of a military character and under the control of a military authority or defense agency of Peru;
- public property;
- shares of Peruvian public sector entities or shares of Peruvian private sector entities owned or controlled by Peru or by a Peruvian public sector entity, or revenues collected from the sale of those shares, to the extent those shares or revenues are exempt by Peruvian law from attachment or execution; or
- funds deposited in Peru's accounts held in the Peruvian financial system.

Peru, however, reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under U.S. federal securities laws or any state securities law. Without an effective waiver of immunity by Peru with respect to those actions, it would be impossible to obtain a U.S. judgment in such an action against Peru unless a court were to determine that Peru is not entitled under the Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to that action. In addition, even if a U.S. judgment could be obtained in action under the Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in Peru a judgment based on that U.S. judgment.

Generally, Peru will also consent for the purposes of the State Immunity Act of 1978 of the United Kingdom to the giving of any relief or the issue of any process.

Governing Law

The fiscal agency agreement and, unless otherwise provided in the prospectus supplement for an offering, any warrant agreement, as well as any debt securities, warrants or units, will be governed by and must be interpreted in accordance with the laws of the State of New York, except that all matters governing authorization and execution by Peru will be governed by the laws of Peru.

Book-Entry; Delivery and Form

Unless otherwise provided in the prospectus supplement for an offering, the certificates representing the debt securities will be issued in the form of one or more global notes, to which we refer in this prospectus as

“global notes.” Each global note will be deposited with or on behalf of DTC and registered in the name of DTC or its nominee. Except as described below, a global note may be transferred in whole and not in part and only to DTC or its other nominees.

Ownership of beneficial interests in the global notes will be limited to “participants” who have accounts with DTC or persons who hold interests through participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee with respect to interests of participants and the records of participants with respect to interests of persons other than participants.

Peru understands that DTC is:

- a limited purpose trust company organized under the laws of the State of New York;
- a “banking organization” within the meaning of the New York Banking Law;
- a member of the Federal Reserve System;
- a “clearing corporation” within the meaning of the Uniform Commercial Code; and
- a “clearing agency” registered under the provisions of Section 17A of the Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for the physical movement of certificates. Indirect access to the DTC system is available to “indirect participants,” such as banks, brokers, dealers and trust companies and other organizations, that clear through or maintain, either directly or indirectly, a custodial relationship with a participant.

So long as DTC or its nominee is the registered owner or holder of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the debt securities represented by the global notes for all purposes under the fiscal agency agreement and the debt securities. No beneficial owner of an interest in any global note may transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the fiscal agency agreement and, if applicable, those of Euroclear and Clearstream, Luxembourg.

Payments of the principal of, and interest on, the global notes will be made to DTC or its nominee, as the case may be, as the registered owner of the global notes. Peru, the fiscal agent and any paying agent will not have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

Peru expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of the global notes, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global notes as shown on the records of DTC or its nominee. Peru also expects that payments by participants to owners of beneficial interests in the global notes held through those participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for those customers. These payments will be the responsibility of those participants.

Peru expects that DTC will take any action permitted to be taken by a holder of any debt security, including the presentation of that debt security for exchange, only at the direction of one or more participants to whose account the DTC interests in the global note is credited and only in respect of that portion of the aggregate

principal amount of that debt security for which that participant has or those participants have given such direction. If, however, there is an event of default under any series of debt securities, DTC will exchange the applicable global notes for registered certificated notes, which it will distribute to its participants.

Peru will issue debt securities in definitive form in exchange for global notes only if:

- Peru notifies the depositary that it will no longer be the depositary for the global notes, the depositary notifies Peru that it is unwilling, unable or no longer qualified to continue as depositary or is eligible to act as depositary, and, if the depositary is located in the United States, Peru does not appoint a successor depositary within 90 days;
- the depositary is located outside the United States and such depositary closes for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- Peru determines not to have any of the debt securities represented by a global note.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC's rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance, if any, with the transfer restrictions applicable to the debt securities, cross-market transfers between participants in DTC, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depositary. Any cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in that system in accordance with the rules and procedures and within the established deadlines (Brussels time) of that system. Euroclear or Clearstream Luxembourg, as the case may be, will, if the transaction meets its respective settlement requirements, deliver instructions to its respective depositary to effect final settlement on its behalf by delivering or receiving interests in the global notes to DTC, and making or receiving payments in accordance with normal procedures for same-day fund settlement applicable to DTC. Euroclear accountholders and Clearstream, Luxembourg participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream, Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg accountholder purchasing an interest in any global note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream, Luxembourg accountholder, during the securities settlement processing day, which must be a business day for Euroclear and Clearstream, Luxembourg immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in any global note by or through a Euroclear or Clearstream, Luxembourg accountholder to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day for Euroclear or Clearstream, Luxembourg following DTC's settlement date.

Although DTC, Euroclear and Clearstream, Luxembourg are expected to follow the foregoing procedures in order to facilitate transfers of interests in the global notes among the participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform those procedures, and those procedures may be discontinued at any time. Peru and the fiscal agent will not have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

TAXATION

Peru Taxation

The following is a general summary of the material consequences under Peruvian tax law, as currently in effect, of an investment by a “foreign holder” in debt securities issued by Peru. For this purpose, “foreign holder” means either: (i) an individual who is neither a resident nor domiciled in Peru or (ii) a legal entity that is not incorporated under the laws of Peru, unless the debt securities are assigned to a branch, agent, representative or permanent establishment of an entity in Peru. For purposes of Peruvian taxation, an individual holder is deemed a resident of Peru if he or she has remained in Peru for more than 183 days within any 12-month period.

Peruvian income tax law establishes that a foreign holder is subject to income tax only on income from Peruvian sources. For this purpose, income from a Peruvian source means: (i) earnings from capital, interest, commissions, bonuses and other additional sums to the agreed interest for loans, credits or other financial operations, when capital is located or economically used in Peru, or when the payer is domiciled in Peru; (ii) earnings obtained by the sale, redemption or recovery of bonds, when the issuing entity is organized or established in Peru; and (iii) interest from debentures, when the issuing entity is organized in Peru, regardless of the location of the issuance or the security for such debentures. A foreign holder of debt securities generally will not be liable for estate, gift, inheritance or similar taxes with respect to such debt securities.

Notwithstanding the discussion above, under Peruvian income tax law, up to December 31, 2009 payments of interest made by Peru to a foreign holder of its debt securities are exempt from any withholding tax and capital gains realized on the sale or other disposition by a foreign holder of the debt securities are exempt from Peruvian income tax. As of January 1, 2010, interest and capital gains from bonds issued by the Republic of Peru in the international market from 2002 onwards will not be subject to any withholding tax or income tax.

United States Federal Income Tax Considerations For United States Persons

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of debt securities as of the date hereof. Except where noted, this summary deals only with debt securities that are held as capital assets by a U.S. holder.

A “U.S. holder” means a beneficial owner of a debt security that is for United States federal income tax purposes any of the following:

- individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of United States federal income taxes and does

not deal with foreign, state, or local or other tax considerations that may be relevant to U.S. holders in light of their personal circumstances. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for United States federal income tax purposes, tax-exempt entities or insurance companies;
- tax consequences to persons holding the debt securities as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to holders of the debt securities whose “functional currency” is not the United States dollar;
- alternative minimum tax consequences, if any; or
- any state, local or foreign tax consequences.

If a partnership holds our debt securities, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our debt securities, you should consult your tax advisors.

If you are considering the purchase of debt securities, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the debt securities, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

The discussion below assumes that all debt securities issued will be classified for United States federal income tax purposes as our indebtedness and you should note that in the event of an alternative characterization, the tax consequences would differ from those discussed below. The specific terms of an offering of debt securities may raise United States federal income tax considerations in addition to those described below. For example, this discussion does not describe the tax treatment of convertible debt securities or debt securities denominated in or determined by reference to a currency other than the U.S. dollar. A description of any such considerations, or certain United States federal income tax considerations related to the offering of warrants or units, will be provided in the applicable prospectus supplement.

Payments of Interest

Except as set forth below, interest on a debt security will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. In addition to interest on the debt securities (which includes any Peruvian tax withheld from the interest payments you receive), you will be required to include in income any additional amounts paid in respect of such Peruvian tax withheld. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including any additional amounts) on a debt security generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered passive category income. You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the debt securities where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Original Issue Discount

If you own debt securities issued with original issue discount (“OID”), you will be subject to special tax accounting rules, as described in greater detail below. In that case, you should be aware that you generally must include OID in gross income in advance of the receipt of cash attributable to that income. However, you generally will not be required to include separately in income cash payments received on the debt securities, even if denominated as interest, to the extent those payments do not constitute “qualified stated interest,” as defined below. Notice will be given in the applicable prospectus supplement when we determine that a particular debt security will be an original issue discount debt security.

A debt security with an “issue price” that is less than the stated redemption price at maturity (the sum of all payments to be made on the debt security other than “qualified stated interest”) generally will be issued with OID if that difference is at least 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity. The “issue price” of each debt security in a particular offering will be the first price at which a substantial amount of that particular offering is sold to the public. The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property, other than debt instruments of the issuer, and meets all of the following conditions:

- it is payable at least once per year;
- it is payable over the entire term of the debt security; and
- it is payable at a single fixed rate or, subject to certain conditions, based on one or more interest indices.

We will give you notice in the applicable prospectus supplement when we determine that a particular debt instrument will bear interest that is not qualified stated interest.

If you own a debt instrument issued with de minimis OID, which is discount that is not OID because it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity, you generally must include the de minimis OID in income at the time principal payments on the debt securities are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

Certain of the debt securities may contain provisions permitting them to be redeemed prior to their stated maturity at our option and/or at your option. Original issue discount debt securities containing those features may be subject to rules that differ from the general rules discussed herein. If you are considering the purchase of original issue discount debt securities with those features, you should carefully examine the applicable prospectus supplement and should consult your own tax advisors with respect to those features since the tax consequences to you with respect to OID will depend, in part, on the particular terms and features of the debt securities.

If you own original issue discount debt securities with a maturity upon issuance of more than one year, you generally must include OID in income in advance of the receipt of some or all of the related cash payments using the “constant yield method” described in the following paragraphs.

The amount of OID that you must include in income if you are the initial U.S. holder of an original issue discount debt security is the sum of the “daily portions” of OID with respect to the debt security for each day during the taxable year or portion of the taxable year in which you held that debt security (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. The “accrual period” for an original issue discount debt security may be of any length and may vary in length over the term of the debt security, provided that each accrual period is no longer

than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of:

- the debt security's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over
- the aggregate of all qualified stated interest allocable to the accrual period.

OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a debt security at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period, determined without regard to the amortization of any acquisition or bond premium, as described below, and reduced by any payments made on the debt security (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods. We are required to provide information returns stating the amount of OID accrued on debt securities held of record by persons other than corporations and other exempt holders.

Floating rate debt securities are subject to special OID rules. In the case of an original issue discount debt security that is a floating rate debt security, both the "yield to maturity" and "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the debt security will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the debt security on its date of issue or, in the case of certain floating rate debt securities, the rate that reflects the yield to maturity that is reasonably expected for the debt security. Additional rules may apply if either:

- the interest on a floating rate debt security is based on more than one interest index; or
- the principal amount of the debt security is indexed in any manner.

The discussion above generally does not address debt securities providing for contingent payments. You should carefully examine the applicable prospectus supplement regarding the United States federal income tax consequences of the holding and disposition of any debt securities providing for contingent payments.

You may elect to treat all interest on any debt security as OID and calculate the amount includible in gross income under the constant yield method described above. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. You should consult with your own tax advisors about this election.

Short-Term Debt Securities

In the case of debt securities having a term of one year or less, all payments, including all stated interest, will be included in the stated redemption price at maturity and will not be qualified stated interest. As a result, you will generally be taxed on the discount instead of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term debt security, unless you elect to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. holders of short-term debt securities are not required to include accrued discount in their income currently unless they elect to do so, but may be required to include stated interest in income as the income is received. U.S. holders that report income for United States federal income tax purposes on the accrual method and certain other U.S. holders are required to accrue discount on short-term debt securities (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily

compounding. If you are not required, and do not elect, to include discount in income currently, any gain you realize on the sale, exchange or retirement of a short-term debt security will generally be ordinary income to you to the extent of the discount accrued by you through the date of sale, exchange or retirement. In addition, if you do not elect to currently include accrued discount in income you may be required to defer deductions for a portion of your interest expense with respect to any indebtedness attributable to the short-term debt securities.

Market Discount

If you purchase a debt security for an amount that is less than its stated redemption price at maturity (or, in the case of an original issue discount debt security, its adjusted issue price), the amount of the difference will be treated as “market discount” for United States federal income tax purposes, unless that difference is less than a specified de minimis amount. Under the market discount rules, you will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a debt security as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the debt security at the time of its payment or disposition.

In addition, you may be required to defer, until the maturity of the debt security or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the debt security. You may elect, on a security-by-security basis, to deduct the deferred interest expense in a tax year prior to the year of disposition. You should consult your own tax advisors before making this election.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the debt security, unless you elect to accrue on a constant interest method. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply.

Acquisition Premium, Amortizable Bond Premium

If you purchase an original issue discount debt security for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the debt security after the purchase date other than payments of qualified stated interest, you will be considered to have purchased that debt security at an “acquisition premium.” Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to the debt security for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If you purchase a debt security (including an original issue discount debt security) for an amount in excess of the sum of all amounts payable on the debt security after the purchase date other than qualified stated interest, you will be considered to have purchased the debt security at a “premium” and, if it is an original issue discount debt security, you will not be required to include any OID in income. You generally may elect to amortize the premium over the remaining term of the debt security on a constant yield method as an offset to interest when includible in income under your regular accounting method. If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the debt security.

Sale, Exchange and Retirement of Debt securities

Your tax basis in a debt security will, in general, be your cost for that debt security, increased by OID, market discount or any discount with respect to a short-term debt security that you previously included in income, and reduced by any amortized premium and any cash payments on the debt security other than qualified stated interest. Upon the sale, exchange, retirement or other disposition of a debt security, you will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued qualified stated interest that you did not previously include in

income, which will be taxable as interest income) and the adjusted tax basis of the debt security. Except as described above with respect to certain short-term debt securities or with respect to market discount, and with respect to contingent payment debt instruments, which this summary generally does not discuss, such gain or loss will be capital gain or loss. Gain or loss realized by you on the sale, exchange or retirement of a debt security will generally be treated as United States source gain or loss. Capital gains of individuals derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting

In General, information reporting requirements will apply to certain payments of principal, interest (including OID) and premium paid on debt securities and to the proceeds of sale of a debt security paid to you (unless you are an exempt recipient such as a corporation). Additionally, if you fail to provide your taxpayer identification number, or in the case of interest payments, fail either to report in full dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the IRS.

PLAN OF DISTRIBUTION

Overview

Peru may sell the securities in any of three ways:

- through underwriters or dealers;
- directly to one or more purchasers; or
- through agents.

Each prospectus supplement for an offering will describe the following:

- the names of any underwriters or agents;
- the purchase price of the securities;
- the net proceeds to Peru from the sale of the securities;
- any underwriting discounts and other items constituting underwriters' compensation;
- any agents' commissions and other items constituting agents' compensation;
- any initial public offering price of the securities;
- any discounts or concessions allowed or reallocated or paid to dealers; and
- any securities exchanges on which those securities may be listed.

If Peru uses underwriters or dealers in a sale, they will acquire the securities for their own accounts and may resell them in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Peru may offer the securities to the public either through underwriting syndicates represented by managing underwriters or directly through underwriters. The obligations of the underwriters to purchase a particular offering of securities may be subject to conditions. The underwriters may change the initial public offering price or any concessions allowed or reallocated or paid to dealers.

In compliance with guidelines of the National Association of Securities Dealers, Inc., the maximum commission or discount to be received by any NASD member or independent broker dealer may not exceed 8% of the aggregate amount of the securities offered by this prospectus and any applicable prospectus supplement; however, it is anticipated that the maximum commission or discount to be received in any particular offering of securities will be significantly less than this amount.

Peru may also sell the securities directly to the public or through agents. Unless otherwise specified in the applicable prospectus supplement, any agent will act on a reasonable best efforts basis for the period of its appointment.

Peru may authorize agents, underwriters or dealers to solicit offers by some institutions to purchase a particular offering of securities at the public offering price using delayed delivery contracts. These contracts provide for payment and delivery on a specified date in the future. The applicable prospectus supplement will describe the commission payable for solicitation and the terms and conditions of these contracts.

Peru may offer the securities to holders of other securities issued or guaranteed by Peru in payment for Peru's purchase or exchange of the other securities, including as part of a reprofiling of Peru's public debt. Peru may conduct such an offer either (a) through a publicly announced tender or exchange offer for the other securities or (b) through privately negotiated transactions. This kind of offer may be in addition to sales of the same securities using the methods described above.

Peru may agree to indemnify any agents and underwriters against some liabilities, including liabilities under the Securities Act. The agents and underwriters may also be entitled to contribution from Peru for payments they may make relating to these liabilities. Agents and underwriters may engage in transactions with or perform services for Peru in the ordinary course of business.

Non-U.S. Offerings

Peru will generally not register under the Securities Act the securities that it will offer and sell outside the United States. Thus, subject to some exceptions, Peru cannot offer, sell or deliver these securities within the United States or to U.S. persons. When Peru offers or sells securities outside the United States, each underwriter, dealer or agent will acknowledge that the securities:

- have not been and will not be registered under the Securities Act; and
- may not be offered or sold within the United States except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each underwriter, dealer or agent will agree that:

- it has not offered or sold or solicited offers to purchase, and will not offer or sell or solicit offers to purchase, any of these unregistered securities within the United States, except under Rule 903 of Regulation S under the Securities Act; and
- neither it nor its affiliates nor any persons acting on it or their behalf have engaged or will engage in any directed selling efforts regarding these securities.

OFFICIAL STATEMENTS

Information in this prospectus whose source is identified as a publication of Peru or one of its agencies or instrumentalities relies on the authority of that publication as a public official document of Peru. All other information in this prospectus, other than that included in “Plan of Distribution” above, is included as a public official statement made on the authority of Peru.

VALIDITY OF THE SECURITIES

The following persons, whose addresses will appear on the inside back cover of the applicable prospectus supplement, will provide opinions regarding the validity of the securities:

- For Peru:
 - Simpson Thacher & Bartlett LLP, special New York counsel to Peru, and
 - General Counsel of the Ministry of Economy and Finance or such other Peruvian counsel to Peru named in the applicable prospectus supplement.

As to all matters of Peruvian law, Simpson Thacher & Bartlett LLP may rely on the opinion of Peruvian counsel to Peru named in the applicable prospectus supplement. As to all matters of United States law, Peruvian counsel to Peru named in the applicable prospectus supplement may rely on the opinion of Simpson Thacher & Bartlett LLP.

- For the underwriters, if any:
 - United States counsel to the underwriters named in the applicable prospectus supplement, and
 - Peruvian counsel to the underwriters named the applicable prospectus supplement.

As to all matters of Peruvian law, United States counsel to the underwriters may rely on the opinion of Peruvian counsel to the underwriters named in the applicable prospectus supplement. As to all matters of United States law, Peruvian counsel to the underwriters named in the applicable prospectus supplement may rely on the opinion of the United States counsel to the underwriters.

AUTHORIZED REPRESENTATIVE

The authorized representative of Peru in the United States is José Augusto Tenorio Benavides of the Consulate General of Peru, whose address is 241 East 49th Street, New York, New York 10017.

WHERE YOU CAN FIND MORE INFORMATION

Peru has filed with the SEC under the Securities Act a registration statement, of which this prospectus forms a part, covering the securities. This prospectus does not contain all of the information included in the registration statement. Any statement made in this prospectus concerning the contents of any contract, agreement or other document is not necessarily complete. If Peru has filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

You may read and copy the registration statement, including its various exhibits, and any reports, statements or other information that Peru has filed, at the SEC’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549-1004. You can obtain copies of these documents, upon payment of a duplicating fee, by writing the SEC. Please call the SEC at 1-800-SEC-0330 for further information. Peru’s SEC filings are also available to the public from the SEC’s website at <http://www.sec.gov>.

ANNEX A
REPUBLIC OF PERU: GLOBAL PUBLIC SECTOR EXTERNAL DEBT

TABLES AND OTHER SUPPLEMENTAL INFORMATION

as of September 30, 2009 ⁽¹⁾

(in thousands of U.S. dollars, at current prices)

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,096	2 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	19,342	7 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	9,116	7 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	329	2 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	66	2 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	918	3 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	3,368	5 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	2,432	7 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	3,770	7 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	1,095	7 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	730	7 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	4,210	8 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	8,300	4 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,813	11 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	6,117	25 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	13,065	15 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	8,644	15 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	15,839	6 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	6,241	26 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	4,488	18 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	19,809	18 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	3,307	27 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	26,994	28 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	27,474	18 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	7,297	29 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	2,193	21 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.10	14,472	9 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.10	14,673	10 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	7,118	29 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	3,469	19 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	10,528	30 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	9,920	19 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	10,590	20 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	14,593	20 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	5,075	21 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	11,830	21 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	0.75	13,285	31 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	7,484	21 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	4,754	22 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	1,572	24 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	6,473	24 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	7,484	26 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	1,171	26 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	2,646	26 Y
Paris Club	Germany	KFW	US\$	Fixed	0.00	5.20	14,153	9 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	2.00	432	28 Y
Paris Club	Germany	KFW	US\$	Fixed	0.00	5.25	15,313	10 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.00	738	28 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.64	57,084	14 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.38	21,956	15 Y
Paris Club	Germany	KFW	EURO	Fixed	0.00	3.77	21,956	13 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	91	1 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	45	1 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	74	2 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	42	2 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	174	2 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	58	2 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	479	4 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	Fixed	2.00	0.00	247	4 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	No interests	0.00	0.00	2,213	6 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	No interests	0.00	0.00	3,019	9 Y
Paris Club	Belgium	Government of the Kingdom of Belgium	EURO	No interests	0.00	0.00	2,378	10 Y
Paris Club	Spain	Instituto de Crédito Oficial de España (ICO)	US\$	Fixed	0.00	1.00	2,713	1 Y
Paris Club	Spain	Instituto de Crédito Oficial de España (ICO)	US\$	Fixed	0.00	2.65	18,962	5 Y
Paris Club	United States	Agency for International Development	US\$	Fixed	0.00	3.00	829	5 Y
Paris Club	United States	Agency for International Development	US\$	Fixed	0.00	3.00	846	5 Y
Paris Club	United States	Agency for International Development	US\$	Fixed	0.00	3.00	9	1 Y
Paris Club	United States	Paine Webber	US\$	Rate of 26 week U.S.Treasury Bonds – US\$	0.35	Variable	3,851	6 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	896	1 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	2,352	2 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	2,780	3 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	3,718	4 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	3.26	8,359	9 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	3.26	4,297	10 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	7,643	20 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	2.50	3,526	22 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	8,578	23 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	8,898	24 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	5,965	26 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
Paris Club	United States	PL 480	US\$	Fixed	0.00	1.00	8,930	28 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	230	5 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	2,365	6 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	6,580	7 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	3.26	9,525	6 Y
Paris Club	United States	PL 480	US\$	Fixed	0.00	4.00	4,509	5 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	7,995	6 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	2,316	6 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	8,214	9 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	4,784	9 Y
Paris Club	France	Banque de France	EURO	Fixed	0.00	3.50	23,865	10 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	0	1 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	5	2 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	3	1 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	61	2 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	44	2 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	21	2 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	79	3 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	69	4 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.50	49	2 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	4.00	3,888	8 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.00	264	16 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.00	9,443	16 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.40	3,806	12 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	3.40	3,440	11 Y
Paris Club	France	Treasury of France	EURO	Fixed	0.00	0.80	7,271	24 Y
Paris Club	Italy	Artigiancassa Spa	EURO	Fixed	0.00	1.50	176	1 Y
Paris Club	Italy	Artigiancassa Spa	EURO	Fixed	0.00	1.50	1,455	3 Y
Paris Club	Italy	Artigiancassa Spa	EURO	Fixed	0.00	1.50	3,772	4 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
Paris Club	Italy	Artigiancassa Spa	EURO	Fixed	0.00	1.50	7,278	4 Y
Paris Club	Japan	Government of Japan	¥	Fixed	0.00	3.00	575	2 Y
Paris Club	Japan	Government of Japan	¥	Fixed	0.00	0.17	24,437	9 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	5.60	15,514	6 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	3.50	6,852	6 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	3.50	57,560	6 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	5.60	26,035	9 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	5.60	96,484	10 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.70	58	1 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.70	494	1 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.20	39,019	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.15	9,792	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	10,244	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.30	5,036	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.95	6,219	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	4,155	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.55	10,344	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	10,290	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.70	9,510	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.80	10,218	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.60	10,111	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.50	7,543	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	1.50	12,247	11 Y
Paris Club	Japan	Japan Bank for International Cooperation	¥	Fixed	0.00	2.10	207,908	8 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	371,050	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	93,103	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	4.10	29,684	6 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	18,104	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	6,292	18 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	3.00	75,506	18 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.50	77,064	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.10	9,552	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	186,146	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	29,242	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	108,666	13 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	9,411	13 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	41,494	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	3,538	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.50	23,606	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	23,520	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.50	23,756	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.70	61,775	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.30	12,878	14 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	4.10	36,333	9 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	4.10	73,266	10 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	22,641	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	2,045	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	34,815	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	42,708	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	17,623	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.20	50,870	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	8,323	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.20	116,366	16 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	30,017	31 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	36,764	17 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	2,439	32 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	22,604	17 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	5,790	32 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.70	173,414	17 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	33,489	32 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	2.20	64,299	17 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.75	619	32 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	1.50	8,173	23 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.01	4,146	15 Y
Paris Club	Japan	Japan International Cooperation Agency	¥	Fixed	0.00	0.01	1,953	16 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
Paris Club	The Netherlands	Nederlandse Investiringsbank Voor Ontwikellingslande (NIO)	EURO	Fixed	0.00	0.75	1,447	20 Y
Paris Club	The Netherlands	Nederlandse Investiringsbank Voor Ontwikellingslande (NIO)	EURO	Fixed	0.00	0.75	5,034	18 Y
Paris Club	The Netherlands	Nederlandse Investiringsbank Voor Ontwikellingslande (NIO)	EURO	Fixed	0.00	2.50	3,466	9 Y
International Organizations	1.8061	European Investment Bank	US\$	Fixed	0.00	6.73	16,471	7 Y
International Organizations	1.8061	European Investment Bank	US\$	Fixed	0.00	7.06	1,034	7 Y
International Organizations	5-CD-PE	Inter-American Development Bank	CAN\$	No Interest	0.00	0.00	30	10 Y
International Organizations	852-2-OC-PE	Inter-American Development Bank	US\$	Variable	0.00	Variable	4,290	7 Y
International Organizations	958-SF-PE	Inter-American Development Bank	US\$	Fixed	0.00	2.00	17,935	17 Y
International Organizations	1128-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	19,773	15 Y
International Organizations	1137-OC-PE	Inter-American Development Bank	US\$	Variable	0.00	Variable	121,174	11 Y
International Organizations	1421-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	70,343	19 Y
International Organizations	1461-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	38,148	20 Y
International Organizations	1449-OC-PE/PPF	Inter-American Development Bank	US\$	Variable	0.50	Variable	450	4 Y
International Organizations	1437-OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	9,819	15 Y
International Organizations	1482-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	775	16 Y
International Organizations	1501-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	32,677	21 Y
International Organizations	1534-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	10,461	21 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
International Organizations	1539-OC-PE/PPF	Inter-American Development Bank	US\$	Variable	0.50	Variable	258	2 Y
International Organizations	1591-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	5,996	17 Y
International Organizations	1586-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	7,199	17 Y
International Organizations	1601-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	4,020	16 Y
International Organizations	1647-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	15,000	17 Y
International Organizations	1696-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	1,067	17 Y
International Organizations	1657-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	6,043	18 Y
International Organizations	1663-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	8,986	23 Y
International Organizations	1805-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	65,000	18 Y
International Organizations	1805-OC-PE	Inter-American Development Bank	S/.	Variable	0.95	6.48	51,577	11 Y
International Organizations	1805-OC-PE	Inter-American Development Bank	S/.	Variable	0.95	6.69	83,447	11 Y
International Organizations	1810-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	23,779	19 Y
International Organizations	1827-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	5,600	19 Y
International Organizations	1899-OC-PE/PPF	Inter-American Development Bank	US\$	Variable	0.50	Variable	303	2 Y
International Organizations	1836-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	165	20 Y
International Organizations	1915-OC-PE	Inter-American Development Bank	US\$	Variable	0.50	Variable	10,022	25 Y
International Organizations	1442/OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.59	1,398,596	19 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
International Organizations	906/OC-PE	Inter-American Development Bank	US\$	Fixed	0.95	4.03	583,505	12 Y
International Organizations	1878/OC-PE	Inter-American Development Bank	US\$	Variable	0.95	Variable	1,285,000	21 Y
International Organizations	720/SF-PE	Inter-American Development Bank	US\$	Fixed	0.00	2.00	6,025	5 Y
International Organizations	720/SF-PE	Inter-American Development Bank	US\$	Fixed	0.00	2.00	5,173	5 Y
International Organizations	720/SF-PE	Inter-American Development Bank	¥	Fixed	0.00	2.00	1,694	5 Y
International Organizations	720/SF-PE	Inter-American Development Bank	£ .	Fixed	0.00	2.00	464	2 Y
International Organizations	720/SF-PE	Inter-American Development Bank	EURO	Fixed	0.00	2.00	2,034	5 Y
International Organizations	720/SF-PE	Inter-American Development Bank	SFR	Fixed	0.00	2.00	178	5 Y
International Organizations	720/SF-PE	Inter-American Development Bank	CAN\$	Fixed	0.00	2.00	108	2 Y
International Organizations	2157-OC-PE	Inter-American Development Bank	US\$	Variable	0.95	Variable	10,000	22 Y
International Organizations	CFA-1408	Andean Development Corporation	US\$	Variable	3.10	Variable	46,875	2 Y
International Organizations	CFA-1593	Andean Development Corporation	US\$	Variable	3.50	Variable	128,571	5 Y
International Organizations	CFA-1902	Andean Development Corporation	US\$	Variable	3.75	Variable	95,238	6 Y
International Organizations	CFA-3014-15-16	Andean Development Corporation	US\$	Variable	3.25	Variable	185,400	9 Y
International Organizations	CFA-3241	Andean Development Corporation	US\$	Variable	2.90	Variable	75,000	12 Y
International Organizations	CFA-3525	Andean Development Corporation	US\$	Variable	1.50	Variable	8,896	10 Y
International Organizations	CFA-3572	Andean Development Corporation	US\$	Variable	0.60	Variable	13,232	13 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
International Organizations	CFA-3804	Andean Development Corporation	US\$	Variable	1.00	Variable	1,042	7 Y
International Organizations	CFA-004495/4496	Andean Development Corporation	US\$	Variable	0.20	Variable	250,000	17 Y
International Organizations	CFA-4579/4580	Andean Development Corporation	US\$	Variable	0.20	Variable	150,000	18 Y
International Organizations	CFA-5094/5096	Andean Development Corporation	US\$	Variable	1.90	Variable	149,681	18 Y
International Organizations	CFA-05129	Andean Development Corporation	US\$	Variable	1.35	Variable	186,152	17 Y
International Organizations	3540-S-PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	6,503	5 Y
International Organizations	3437-S-PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	97,951	5 Y
International Organizations	3489-S-PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	127,106	5 Y
International Organizations	3452-S-PE	International Bank For Reconstruction and Development	S/POOL	Variable	0.50	Variable	97,951	4 Y
International Organizations	3595-S-PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	45,828	5 Y
International Organizations	3610-S-PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	3,335	5 Y
International Organizations	3684-S-PE	International Bank For Reconstruction and Development	S/POOL	Fixed	0.00	2.49	36,323	5 Y
International Organizations	3717-A-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	34,816	6 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
International Organizations	3717-S-PE	International Bank For Reconstruction and Development	S/ POOL	Fixed	0.00	2.92	30,353	6 Y
International Organizations	3701-A-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	9,737	6 Y
International Organizations	3701-S-PE	International Bank For Reconstruction and Development	S/ POOL	Fixed	0.00	2.92	3,925	6 Y
International Organizations	3810-S-PE	International Bank For Reconstruction and Development	S/ POOL	Fixed	0.00	2.92	42,260	6 Y
International Organizations	3811-A-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	63,219	6 Y
International Organizations	3811-S-PE	International Bank For Reconstruction and Development	S/ POOL	Fixed	0.00	2.92	9,300	6 Y
International Organizations	3962-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	25,266	4 Y
International Organizations	3826-A-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	23,397	4 Y
International Organizations	3826-S-PE	International Bank For Reconstruction and Development	S/ POOL	Fixed	0.00	2.49	1,637	4 Y
International Organizations	4068-A-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	35,501	5 Y
International Organizations	4068-S-PE	International Bank For Reconstruction and Development	S/ POOL	Fixed	0.00	2.49	5,739	5 Y
International Organizations	4076-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	32,877	5 Y
International Organizations	4133-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	76,250	6 Y
International Organizations	4130-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	19,869	6 Y
International Organizations	4250-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	30,440	7 Y
International Organizations	4384-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.01	Variable	18,020	7 Y
International Organizations	4497-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	175,000	8 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
International Organizations	4519-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	5,034	9 Y
International Organizations	4536-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	585	9 Y
International Organizations	4527-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	16,875	9 Y
International Organizations	4615-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	75,010	10 Y
International Organizations	4614-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	35,973	10 Y
International Organizations	7142-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	27,259	8 Y
International Organizations	4678-O-PE	International Bank For Reconstruction and Development	US\$	Variable	0.75	Variable	87,505	11 Y
International Organizations	7177-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	17,860	9 Y
International Organizations	7176-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	28,980	9 Y
International Organizations	7200-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.11	150,000	9 Y
International Organizations	7203-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.13	150,000	9 Y
International Organizations	7209-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	33,847	15 Y
International Organizations	7160-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	19,000	11 Y
International Organizations	7219-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	11,559	10 Y
International Organizations	7267-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.14	100,000	10 Y
International Organizations	7255-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	4,414	10 Y
International Organizations	7266-O PE	International Bank For Reconstruction and Development	US\$	Fixed	0.00	5.13	100,000	10 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
International Organizations	7254-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	5,304	10 Y
International Organizations	7257-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	1,907	10 Y
International Organizations	7257-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	250	10 Y
International Organizations	7285-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	20,186	11 Y
International Organizations	7308-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	9,845	11 Y
International Organizations	7345-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	150,000	9 Y
International Organizations	7322-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	6,140	11 Y
International Organizations	7366-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	25,500	9 Y
International Organizations	7368-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	8,726	9 Y
International Organizations	7423-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	22,163	10 Y
International Organizations	7419-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	200,000	10 Y
International Organizations	7443-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	1,500	10 Y
International Organizations	7455-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.50	Variable	150,000	15 Y
International Organizations	7588-O PE	International Bank For Reconstruction and Development	US\$	Variable	0.30	Variable	70,000	21 Y
International Organizations	297-PE	International Fund For Agricultural Development	DEG	Fixed	0.00	4.00	3,076	4 Y
International Organizations	386-PE	International Fund For Agricultural Development	DEG	Variable	0.00	Variable	5,228	7 Y
International Organizations	467-PE	International Fund For Agricultural Development	DEG	Variable	0.00	Variable	11,011	8 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
International Organizations	602-PE	International Fund For Agricultural Development	DEG	Variable	0.00	Variable	10,549	8 Y
International Organizations		Nordic Investment Bank	US\$	Variable	0.85	Variable	10,000	8 Y
International Organizations	630-PE	The Opec Fund For International Development	US\$	Fixed	0.00	3.75	833	3 Y
International Organizations	696-PE	The Opec Fund For International Development	US\$	Fixed	0.00	4.00	1,875	6 Y
International Organizations	755-PE	The Opec Fund For International Development	US\$	Fixed	0.00	4.00	2,167	7 Y
Latin America	Venezuela	Banco de Desarrollo Económico y Social de Venezuela	US\$	Variable	0.75	Variable	9,690	8 Y
Latin America	Brazil	Federal Republic of Brazil	US\$	Fixed	0.00	7.875	3,332	2 Y
Eastern Europe and People's Republic of China	People's Republic of China	Government of the People's Republic of China	US\$	No Interest	0.00	0.00	1,260	2 Y
Eastern Europe and People's Republic of China	People's Republic of China	Government of the People's Republic of China	US\$	No Interest	0.00	0.00	1,000	2 Y
Unsecured suppliers	Italy	Ansaldo Energia S.p.a.	US\$	Variable	2.00	Variable	3,664	9 Y
Unsecured suppliers	Italy	Armamenti e Aerospazio S.P.A.	US\$	Fixed	0.00	5.0268275	21,981	12 Y
Unsecured suppliers	Italy	Armamenti e Aerospazio S.P.A.	US\$	Fixed	0.00	5.0268275	13,423	12 Y
External Debt Bonds		Par Bonds	US\$	Variable	0.00	Variable	53,674	19 Y
External Debt Bonds		Global Bonds 2012	US\$	Fixed	0.00	9.125	401,562	4 Y
External Debt Bonds		Global Bonds 2015	US\$	Fixed	0.00	9.875	500,000	7 Y
External Debt Bonds		Global Bonds 2015	US\$	Fixed	0.00	9.875	250,000	7 Y

Type of Lender	Country	Lender	Currency	Type of Interest Rate	Spread (%)	Interest Rate (%)	Outstanding Amount as of June 30, 2008 (in thousands of US\$)	Period to Maturity
External Debt Bonds		Global Bonds 2033	US\$	Fixed	0.00	8.750	500,000	25 Y
External Debt Bonds		Global Bonds 2016	US\$	Fixed	0.00	8.375	500,000	8 Y
External Debt Bonds		Global Bonds 2014	EURO	Fixed	0.00	7.500	951,405	6 Y
External Debt Bonds		Global Bonds 2033	US\$	Fixed	0.00	8.750	400,000	25 Y
External Debt Bonds		Global Bonds 2025	US\$	Fixed	0.00	7.350	750,000	17 Y
External Debt Bonds		Global Bonds 2025	US\$	Fixed	0.00	7.350	500,000	17 Y
External Debt Bonds		Global Bonds 2016	US\$	Fixed	0.00	8.375	832,895	8 Y
External Debt Bonds		Global Bonds 2033	US\$	Fixed	0.00	8.750	84,636	25 Y
External Debt Bonds		Global Bonds 2037	US\$	Fixed	0.00	6.550	1,201,667	29 Y
External Debt Bonds		Global Bonds 2019	US\$	Fixed	0.00	7.125	1,000,000	11 Y
External Debt Bonds		Global Bonds 2025	US\$	Fixed	0.00	7.350	1,000,000	17 Y

Abbreviations and symbols:

CAN\$ = Canadian dollar

DEG = Special Drawing Rights (*Derechos Especiales de Giro*)

£ = English pound

M = Months

SFR = Swiss Franc

S/POOL = Single currency pool (World Bank unit of account, based on a basket of national currencies)

US\$ = United States dollar

¥ = Japanese Yen

Y = Years

⁽¹⁾ Includes COFIDE loans not guaranteed by Peru.

Source: Ministry of Economy and Finance.

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