

Highlights of Peru

A wrap-up of 2009
and a forecast for 2010



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1 2009 In Review

Wrap Up 2009

During 2009, the negative results over the global economy continued, in response to the financial crisis that began in August 2007. However, several macroeconomic and financial indicators have just pointed that the global economy has started to show signs of recovery, especially during the last quarter of 2009.

To some extent, the brake on the economic downturn is the response of efforts by governments through various fiscal stimulus plans, liquidity provisions and reductions of interest rates.

In this scenario, economies in different regions of the world showed positive growth during the third quarter, especially in emerging countries.

Economic Performance

Gross Domestic Product

Discounting the effect of seasonality, the local economical activity showed a strong recovery in the third quarter in contrast to the contraction observed during the 1S09, showing that the effects of international financial crisis on the Peruvian economy have been mostly removed.

Thus, according to estimates by the Banco Central de Reserva del Peru (BCRP), GDP growth for 2009 was 1.1%, a result which was influenced by a falling domestic demand (estimated at -2.8%), a reduction of private investment (-15.3%) and by the contraction of external demand (-3%). On the other hand, private consumption grew 2.4%; and in regards to public investment growth this turned countercyclical.

Finally, one of the highlights in late 2009 was to obtain the Investment Grade given by Moody's (Dec, 16), amid a context of uncertainty. That way, Peru obtains this rating after that of the Fitch Ratings (Apr, 2) and that of Standard & Poor's (Jul, 8) did the same during 2008. Thus, Peru consolidated its position in international markets.

Performance by Sectors

In line with the results published by the Instituto Nacional de Estadística e Informática (INEI), the fall in private investment in 2009 discouraged the development of projects in the mining sector. Consequently, there was a reduction in mining projects of around U.S. \$ 3,300 million.

Furthermore, the manufacturing sector was the most affected by the contraction of external and internal demand. However, since July a slight recover has been observed.

With respect to the evolution of the agricultural sector during 2009, this showed an improvement, posting a cumulative variation of 2.3%, supported by the best performances in both the agricultural and the livestock subsectors.

In the same period, fishing activity decreased 7.7%, due to the lower landing of fish for direct human consumption (-8.1%).

Finally, the construction sector - one of the sectors that showed greatest dynamism in 2008 - grew by about 6.1% between January and November 2009, a situation which is apparent in the increase of domestic consumption of cement (+4.6%) and physical progress of works (+52.7%).

Labor

According to the INEI, employment has remained stable through 2009. In urban areas, the job growth had as its mainstay the performance of the companies belonging to the trade activity (+3.4%) and services (+3.3%). Nevertheless, in October the annual result was diminished by the poor performance of the manufacturing industry (-5.3%), and transport, storage and communication (-0.7%).

On the other hand, the unemployment rate in Lima, the capital city of Peru, reached approximately 7.91% as of December 2009.

International Trade

Financial markets began to stabilize in response to a reduction of risk aversion and investor confidence returning to pre-crisis levels. As a consequence, the volume of trade activity started to become more dynamic again.

Thus, in 2009, Peru showed a favorable trade balance, with an accumulated estimate of US\$ 5,426 millions, according to the BCRP.

It should be noted that, in 3Q09, the increase in international prices of metals resulted in an increase in the terms of trade and an improved current account. As for imports, volume decreased 21.8% in the first eleven months of 2009, reflecting the decline in all areas. One of the sectors that fell was that of iron and steel, after inventories' adjustment occurred in 4Q08.

Inflation and Foreign Exchange Rates

Inflation 2009 (0.25%) was below the target range (between 1% and 3%) in a context of falling inflation expectations and reversal of supply shocks in food prices, according to the BCRP .

Respect to the US Dollar, the Nuevo Sol has appreciated 7.98% during 2009, reaching an average exchange rate of 2.89 Nuevos Soles per Dollar. On the other hand, regarding the Nuevo Sol / Euro exchange rate, at the end of 2009 it reached an exchange rate of 4.15 Nuevos Soles per Euro, which represented an annual appreciation for the local currency of 5.45%.

2 Perspectives for 2010

Considering a return to an economic growth path, according to the BCRP, an estimated GDP growth for 2010 would be 5.5%, consistent with maintaining the economic stimulus plan, and the recovery in private spending and international trade dynamics.

Additionally, the monetary authority forecasts that the inflation rate would gradually increase in coming months to return to the target range by 2Q10, staying within that range for the remainder of the projection horizon (2010 - 2011).

Finally, the estimated growth of world output for 2010 would be slightly more favorable, with the recovery seen during last months of 2009 persisting and that the risk scenarios are properly faced.

3 Main Tax and Legal Changes

Major changes in tax and commercial legislation passed during 2009 as well as changes effective as of 2010 are summarized below.

Changes enacted during 2009

1. The Financial Transaction Tax (FTT) rate was reduced to 0.06% until December 31st, 2009.
2. The Tax Unit for 2009 was raised to S/.3,550 (US\$ 1,246*).
3. The rate of the Temporary Net Assets Tax was reduced from 0.5% to 0.4%, applicable to net assets in excess of S/.1,000.000 (US\$ 259,740*).
4. The new Customs' Law and its Regulations became partially effective.
5. Activities exempted from the Income Tax included in article 19 of the Income Tax Law will remain in force until December 31st, 2011.
6. The Free Trade Agreements with the United States of America, Chile, Canada and Singapore entered into force in 2009.
7. Domiciled individuals' income arising from leases, interest, royalties as well as capital gains derived from the sale of real estate, were subject to an effective income tax rate of 5%.

Changes effective as of 2010

1. The FTT rate has been reduced to 0.05% as of January 1st, 2010.
2. The Tax Unit for 2010 will be S/.3,600 (US\$ 1,263*).
3. A new capital gain tax regime has been enacted and is in force as of 2010. The most significant changes are, among others, the following:
 - (i) The exemption from capital gains' base derived from the sale on stock is no longer in force.
 - (ii) Individuals are exempted for the first five tax units of capital gains derived from the sale of securities performed within Peruvian territory each year, until December 31st, 2011.
 - (iii) Income Tax on capital gains derived from the sale of securities performed by non-domiciled, individuals and companies, within Peruvian territory is levied with a 5% tax rate. If the sale is performed abroad, income tax rate would be 30%.
4. Interest derived from bank deposits earned by legal persons are levied with a 30% tax rate as of 2010.
5. The Tax Treaty with Brazil entered into force on January 1st, 2010.
6. The Income Tax exemption on mandatory bonuses paid for national holidays and Christmas will remain in force until December 31st, 2010.
7. A special regime of 20% straight-line depreciation for buildings and constructions as of January 1st, 2010, provided certain conditions are met was established.
8. A ten-year tax benefit for individuals and companies located in the highlands region as of December 20th, 2009 was established.

* At an exchange rate of 2.85 Nuevos Soles per US Dollar.

Principal Economic Indicators

	2005	2006	2007	2008	2009
GDP (current US\$ Billions)	79,405.60	92,448.48	107,506.26	127,709.84	139,400.00
GDP real (inflation indexed) growth (% per year)	6.74	7.56	8.86	9.91	1.12
Unemployment rate (% of labor force)	9.60	8.20	8.40	8.40	7.91*
General price index - IPM (% year end)	3.60	1.33	5.24	8.79	-5.05
Consumer price index - IPC (% year end)	1.49	1.14	3.93	6.65	0.25
Exchange rate - year end (S/. / US\$)	3.43	3.20	3.00	3.14	2.89
Exchange rate - year end (S/. / ¢)	4.00	4.19	4.35	4.38	4.15
Devaluation rate (% per year - US\$)	4.51	-6.80	-6.21	4.77	-7.98
Devaluation rate (% per year - ¢)	-10.62	4.76	3.95	0.77	-5.45
Average short - term interest rate - TAMN (% Avg. Per year - local currency)	25.53	23.93	22.85	23.67	21.04
Public sector surplus (deficit) as % of GDP	-0.30	2.07	3.12	2.09	-2.20
Total public sector debt (as % of GDP) internal and external	37.74	32.98	29.65	24.00	26.40*
In US\$ Millions					
Exports	17,367.68	23,830.15	27,881.63	31,529.39	26,397*
Imports	12,081.61	14,844.08	19,595.08	28,438.94	20,971*
Trade balance	5,286.08	8,986.07	8,286.55	3,090.45	5,426*
Current account balance	1,147.61	2,854.39	1,219.56	-4,179.62	-2,634*
Net Interest Reserves	14,097.00	17,275.00	27,689.00	31,195.89	33,135.01
Foreign Direct Investment (Flow)	2,578.72	3,466.53	5,490.96	4,808.42	4,618.6**
Total Public Debt	29,967.67	30,489.51	31,870.23	30,647.81	33,523*

* Estimated

** Up to 3Q2009

Sources: BCRP - INEI