

COUNTRY PROFILE:**REPUBLIC OF PERU**

IES/02: ATTACHMENT A

DATED:**OCTOBER 2008****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No restrictions

Recent Political Highlights

- President Alan Garcia took office in July 2006 for a five-year term. Former President Alejandro Toledo said he would rise again in democracy if his successor, President Alan Garcia, sells indigenous-owned land in the country's Amazon region. For the past few months, Toledo has repeatedly questioned Garcia's economic management of Peru and challenged the administration's lauding report published by the National Statistics Institute in May purporting to show Peru's poverty rate dropping by 5% in 2007. Toledo's return to the political spotlight is widely viewed as a signal he plans to run for re-election in 2011.
- The World Bank endorsed figures that indicate that overall poverty levels fell from 44% in 2006 to 39% in 2007. However the main gains have been in urban areas and average incomes in many rural areas remain below \$US1 a day. President Alan Garcia's ratings are falling because the poor say their lives are not getting better. Inequality is greater than before. Unemployment is down, but underemployment remains rampant, at about 40% of the population. Many say the government is not giving attention to real reforms, including justice, health, education and security.

Recent Economic Highlights

- Peru is experiencing its seventh straight year of strong economic expansion and has been among the top performers in Latin America with an average of 6% GDP growth between 2001 and 2007. GDP growth was 8.9% in 2007 and is forecast at 7% in 2008 and 2009. Inflation went up from 1.1% in 2006 to 3.9% in 2007, driven by higher costs for oil and imported foodstuffs. The government budget projects inflation at 3.5% in 2009.
- GDP growth for the first six months of the year averaged 10.3%. The services, telecommunications, transportation and government service sectors, which accounted for 39% of GDP rose 9.8% in the first half of the year. Inflation for the first eight months averaged 4.7%, well above the central bank's target of 2%.
- Peru's coffee exports are expected to increase by 41% this year on a record harvest and rising prices. Global sales of Peruvian coffee are set to rise to \$600 million this year from \$425 million in 2007. Peru's coffee production, with exports to 40 countries led by Germany, Belgium and the US, has doubled during the past decade as plantations grew to 320,000 hectares. The country's harvest may rise 51% to 5.9 million bags this year from 3.9 million bags in 2007, which would make it the world's fifth-ranked producer.
- Brazilian Steel Company, Gerdau SA will invest \$1.4bn in its Peruvian subsidiary, in an effort to transform Peru into a regional steel powerhouse that can profit from Brazil's building boom. The investment will boost yearly production at Gerdau's Siderperu unit more than six-fold to 3 million metric tons by 2013, enabling it to increase exports across Latin America and ultimately to Asia. The expansion will also enable Siderperu to meet Peru's entire domestic demand as it currently imports half of the steel it needs.
- The Peruvian government announced the auctioning of 17 blocks for petroleum prospecting, which could involve \$800 million in exploration investments. Peru is actively encouraging foreign companies to invest in oil and gas projects in a quest to become energy self-sufficient.

Latest Trade Developments

- The introduction of zero-rate import tariffs on capital goods in December 2007 should lead to further investment in infrastructure. Construction is booming with a growth of 17% in 2007, while telecoms, with 43% growth, was the fastest-growing sector last year.
- Main exports: gold, copper, fishmeal, petroleum, zinc, textiles, apparel, asparagus and coffee.
- Main imports: machinery, vehicles, processed food, petroleum and steel.
- Major trade partners: US, China, EU, Chile, Canada, Switzerland, Spain, Netherlands, Brazil, Ecuador, Colombia and Japan.
- SA exports to Peru totalled R163.5m in 2006 and R531.4m in 2007 and R60.8m in the year-to March 2008. South African exports to Peru consist mainly of base metals and articles of base metals, paper making material, paper, and paper making board, capital equipment (mining equipment, mining services and ammonia nitrate for mining purposes).
- The US Congress ratified the Free Trade Agreement (FTA) with Peru during 2007 and the FTA will come into force in January 2009.