MINISTRY OF ECONOMY AND FINANCE

ANNUAL PROGRAM OF PUBLIC INDEBTEDNESS AND DEBT MANAGEMENT

2009

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INTRODUCTION

During recent years, through the proactive management of the public debt, it has been possible, among other things, to change the structure of the Republic's obligations portfolio, obtain a relief in the payments to be made in the next few years, and develop the domestic capital market.

The consolidation of macroeconomic fundamentals, combined with the most important progress achieved in the reduction of the risks associated with the debt portfolio, have had a positive impact on the perception of the economic agents, making it possible that in 2008 two new risk rating agencies - Fitch Ratings and Standard & Poor's (S&P) -, to join the group granting an investment grade to Peru.

With the aim of continuing to offer transparency to the market, and contribute to a better understanding of the debt policy's orientation, the 2009 Annual Program of Indebtedness and Debt Management (PAEAD) is being published. This document contains the main lines for guiding the management of public debt, essentially aimed at minimizing costs assuming reasonable risk levels, as well as quantitative goals to be met, depending on market conditions.

Within a context of financial turbulence such as the current one, the PAEAD will try to provide to the economic agents an expanded scope about the policy presently being implemented, creating the right framework for decision making. With this object in mind, the document submitted below features the following sections:

In the first section there is a brief diagnosis of the debt obligations portfolio, pointing out the market and refinancing risks. In the second section there is an indication of the financial requirements to be covered via indebtedness in the year 2009, in accordance with the estimates of the 2009 — 2011 Revised Multi-Annual Macroeconomic Framework. In the third section, there is a list of the Program objectives, which configure the fundamental principles of the strategy to be followed, and in the fourth section, there is a brief analysis of the external and internal financial market context, defining the goals expected to be met by December 2009.

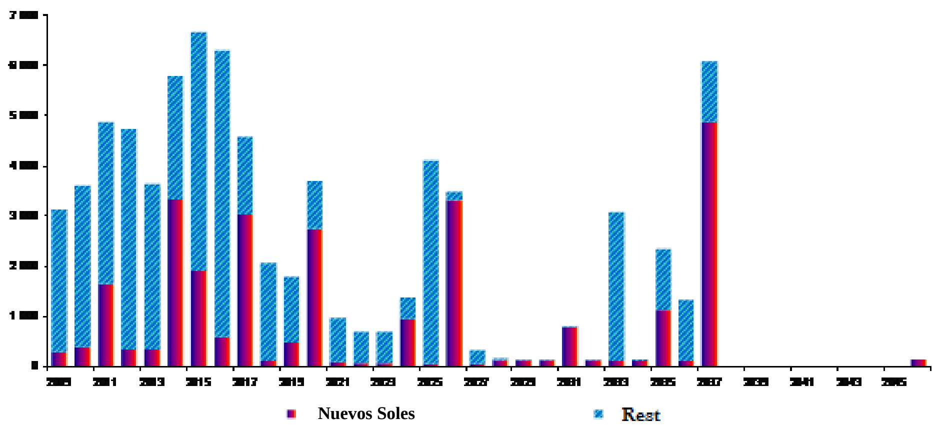
In the fifth section, an evaluation is made of the portfolio's refinancing and market risks for the year 2009; and the sixth section features the ratios and the sustainability index for the medium and long term public debt, as well as the dynamic debt's amortizations profile, as a result of the execution of the foreseen debt management transactions. Finally, a specific evaluation is made of accomplishments with regard to the goals set forth for the closing of the 2008 fiscal year.

1. PUBLIC DEBT RISKS

Refinancing Risk[1], measured through the average life index of the total public debt portfolio, as at September 30, 2008, is equivalent to 11,46 years[2] (9,42 years in the case of the foreign debt and 16,48 years the domestic debt). However, the maturity profile still shows a significant concentration between 2011 and 2017, where 47,4% of the total debt would be paid off (see Chart No. 1), thus, one should keep on adopting measures that will allow for a reduction of the payments pressure.

Monitoring this risk becomes more relevant when it involves the closest maturities, particularly those forming part of the estimates made within the 2009 — 2011 Revised Multi-Annual Macroeconomic Framework (MMM) for the next three years.

Chart Nº 1
Public Debt: Amortizations flow by currency
(Nuevos Soles million)



Source: MEF – DNEP

In this period, emphasis should be placed on amortizations, which, as an annual average, amount to approximately US$ 1,3 billion, with the payments corresponding to 2011 being the largest. In addition, it must be pointed out that 83,1% relate to obligations, which, due to their nature, are more difficult to renegotiate through market mechanisms[3], and this represents an additional factor that increases the refinancing risk.

[1] The refinancing risk is caused by the possibility of refinancing debt maturities at high cost, or in extreme cases, by their not being able to be renewed. This risk increases inasmuch as there is a concentration of maturities in given periods and it gets worse because of their currency structure.

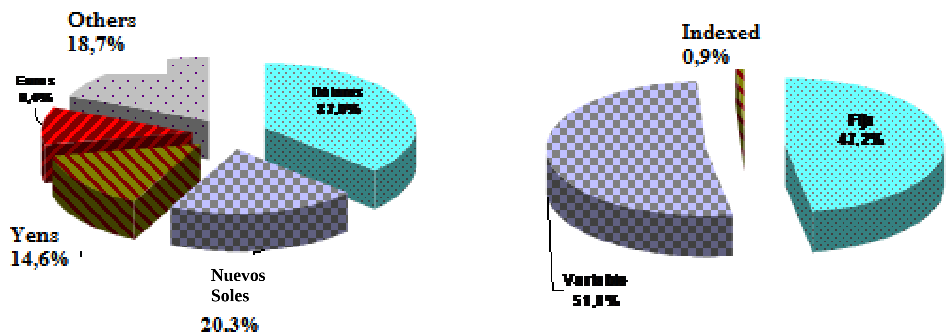
[2] Calculated based on public debt official data as of 30.09.08.

[3] 53,2% of maturities to be paid correspond to multilateral organizations, and 27,9% to the countries forming part of the Paris Club.

Concerning **market risk[4],** the amortizations by currency service for years 2009 to 2011, shows a great vulnerability to the exchange risk, given the fact that maturities in Nuevos Soles only represent 20,3% of the total[5] (see Chart No. 2). To this effect, efforts must be aimed at reducing the share of the contracted debt in foreign currency, through debt management transactions.

Pertaining to the interest rate risk for the same period, the variable rate debt is 51,8%[6]. Within this segment, there are variable rates that are not market rates, directly defined by the multilateral organizations, which, combined explain 54,4%, while the US Dollar Libor rate represents 38,0%.

Chart Nº 2
Public Debt: Maturities 2009-2011 by currency and interest rate



2. FINANCING FOR THE YEAR 2009

According to the financial requirements considered in the MMM, during 2009, financing relating to the public debt will equal US$ 1 623 billion, mainly originating from bilateral and multilateral credit sources, as well as from the capital market, primarily domestic (See Table No. 1).

These resources will be used to pay the amortization of debt, which distribution can be appreciated in Chart No. 3. In line with the still predominant proportion of the foreign public debt in the portfolio, the structure of maturities shows that the most relevant payments in year 2009's are those associated with foreign obligations, in particular those maintained with the Multilateral Organizations and the Paris Club, which combined represent 91% of the total payments to be made.

4 Market risk is defined as the exposure of the debt portfolio and the cost of its service, at market price variations, including interest rate and exchange rate.

5 For 2009, the percentage of Nuevos Soles denominated maturities is 9,3%.

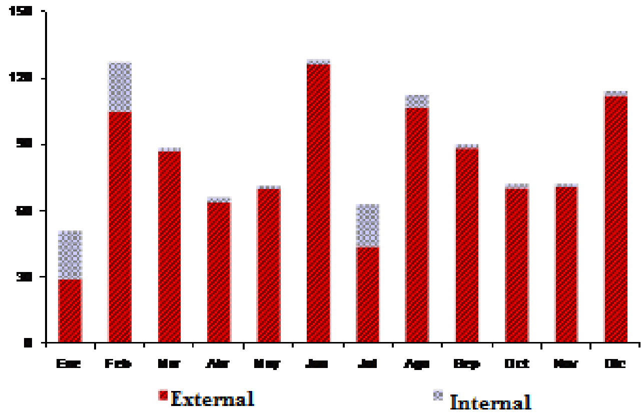
6 The obligations contracted at variable rate that must be paid in 2009 represent 63,2%.

Table N° 1
2009 Financial Requirements indebtedness sources
(US$ million)

Sources	Amounts
External	**700**
Freee availability	100
Investment projects	600
Internal	**923**
Bonds	500
Credits	423
Total	**1 623**

Source: MEF-DGAES (MMM)

Chart N° 3
Public Debt:
2009 Monthly amortizations flow
(US$ million)



3. DEBT STRATEGY

In accordance with good international practices, the chief aim of public debt management will continue to be to minimize costs, assuming reasonable levels of risk.

The international financial crisis will undoubtedly have important repercussions on the possibilities and conditions to access the resources from the domestic and international capital markets. Nonetheless, we feel that the strength displayed by the Peruvian economy through its indices and the measures adopted to cushion the potential impact of the crisis, will make it possible to implement the debt strategy guidelines defined for the year 2009.

The main three guidelines to steer the debt strategy will be:

- To keep increasing the share of the Nuevos Soles debt, preferably at fixed rates. (Indices: share of Nuevos Soles in the total debt, percentage of the fixed rate debt and average life to re-establish the interest rate (VMR[7])).
- Reduce debt service concentration in the next three years, (Index: public debt service annual amortization concentration rate[8], average life[9], VMR).

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7 This index states the average term for which, a new rate will be fixed for the debt portfolio. If the debt is agreed at fixed rate, the VMR is equal to the average life; however, if the debt has been contracted at a variable rate, the VMR is equal to one divided by the number of times interest is paid each year. If this index is calculated combined, for fixed rate debt and at variable rate, it is defined as a weighted average of the corresponding VMRs. Clearly, this index rises whenever interest rate hedging operations are conducted, and/or if there is a debt prepayment at variable rate using fixed rate debt.

8 This measures the deviation over the maximum predetermined levels of the portfolio amortization service. This index which helps evaluate the payments level (refinancing risk) and therefore, a policy on the terms of the new debt to be contracted, weighs the differences, with respect to the maximum levels, based on the term when the maturities occur. A higher weight is given to figures with the closest maturities.

9

- Boost the development of the domestic capital market, through the consolidation of the public debt market (Index: percentage of financing with local currency bonds[10]).

Some of the actions that will contribute to the realization of these guidelines are as follows:

- Finance the fiscal requirements prescribed in the MMM, through bilateral, multilateral and market related sources. Efforts will be made for the resources gathered, via the bonds source to that effect, as well as those obtained to finance debt management transactions, to primarily originate from the issuance of sovereign bonds in Nuevo Soles at a fixed rate. In the event that the local market conditions were adverse, global bonds will be issued in foreign currency in the foreign market.

- Contribute to the improvement of the debt's cost-risk ratio, by carrying out debt management transactions, mainly focusing on the reduction of the maturities in the closest years. In the case of hedge transactions, an evaluation will be made of the most convenient conditions to carry them out, trying to minimize the counterparty risk as well.

- Enhance the use of the financial products currently being offered by the multilateral organizations, as well as cause them to design new instruments that will adapt to the borrowers' needs to mitigate public debt risks.

- Consolidate benchmark bonds by reopening the existing titles, and if possible, through exchange transactions, ensuring sufficient debt levels that will guarantee the secondary market's liquidity: Priority will be given to the issuance of Bond 2031. Only in the event that the maturities' level for the next three years is reduced, then a new benchmark could be created during this term, with a significant issue amount.

- Publish a placements schedule with potential minimum amounts by quarter, specifying the benchmark titles to be issued, based on prior coordination with the market.

- Amend the Market Makers Program Regulations and the Regulations Governing the Issuance and Placement of Sovereign Bonds in the Domestic Market, so as to adapt them to the current context and to promote greater competitiveness in the participating institutions.

- Coordinate with the corresponding bodies in order to identify the necessary actions at the operational and/or legal level to make the use of some of the instruments feasible, including the issuance of strips, a greater coverage of the use of the Delivery versus Payment method (DVP)[11], and other matters, which will help increase sovereign bonds' liquidity and the development of the capital market as a whole.

This states the weighted average term (in years) when the borrower must reimburse its creditors the amortizations, in nominal terms, of the loans received.

10 Considering the financing of fiscal requirements and debt management transactions.

11 This is currently only used by the banks, but its use by other market agents should be encouraged.

- Continue strengthening communication channels with respect to the risk rating agencies and investors, so as to keep them informed about debt index patterns and the actions or transactions being planned.

- Monitor short-term debt transactions carried out by public entities, subnational governments and non-financial companies.

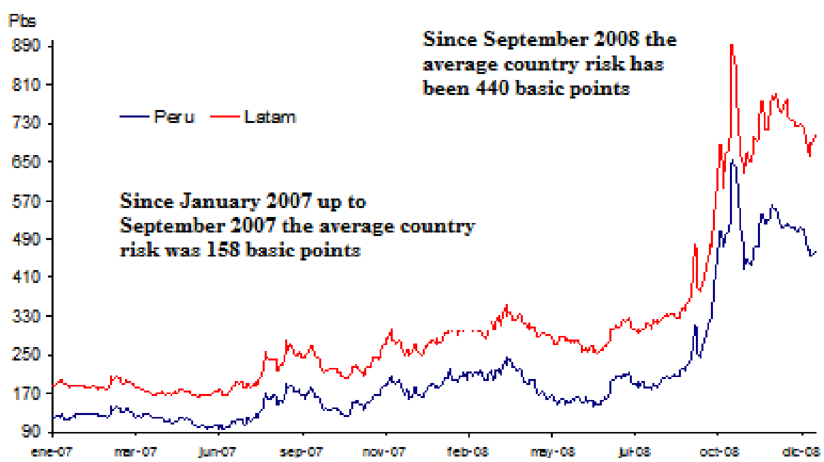
4. DEBT STRATEGY'S QUANTITATIVE GOALS

CURRENT CONTEXT AND PERSPECTIVES

The current international financial crisis has produced a well-accented deceleration of growth the world over, causing the main economies[12] to declare themselves in recession. The magnitude of the crisis and uncertainty over the time it will last[13], have been pressing central banks to take actions to reduce the impact of economic deceleration by way of significant interest rate cuts.

However, given the uncertain economic panorama, the financial cost of the bonds of the emerging countries, such as Peru, has significantly increased, reflecting the increase of the aversion to risk by the investors, translating into an important increase in the country risk indices. An additional factor contributing to the escalating cost of debt papers from countries such as ours is the falling price of raw materials, a main component of foreign currency income.

Chart Nº 4
Country Risk Evolution
(January 2007- December 2008)



During 2009, with the potential worsening of economic deceleration, it is expected that the central banks will continue to cut down on the interest rates or maintaining them low all over the world. This scenario would also imply lower

12 The United States, Euro zone countries and Japan.

13 Many analysts believe the crisis will go beyond 2009.

levels in the market rates, which would contribute to reducing interest payments on debts contracted at variable rates[14] and would create a climate that would lend itself for the evaluation of the undertaking of fixed rate hedge transactions. Concerning the costs to be faced by emerging economies to access new financing in foreign capital markets, it is possible that the current levels will persist as long as risk aversion and low raw material prices remain.

Concerning the trend of currencies, from the beginning of the financial crisis, the US Dollar has gained strength versus the Euro, while it lost ground versus the Yen, becoming for many investors the main haven as far as currency is concerned, given the current crisis; however, with the new measures issued by the Federal Reserve[15], the lower US Dollar interest rates would take away the attractiveness of the American currency; and eventually, they would cause its depreciation versus a currency basket. The appreciation of the Euro and the Yen[16] versus the US Dollar, would increase servicing the US Dollar equivalent debt to be paid, notwithstanding taking into consideration that most of our foreign obligations are US Dollar denominated[17], a scenario where the Nuevo Sol appreciates significantly, would easily offset that potential negative effect, providing, in net terms, the possibility to reduce local currency resources destined to paying the debt during the year.

With reference to the domestic scene, it is expected that inflation pressure will continue to gradually give in during the year 2009, because of the effect of the lower prices of oil and other commodities, making room for the Central Bank to be able to start being flexible in its monetary policy. The strength of the domestic demand will have an influence on the inflation deceleration rate.

Thus, nominal interest rates in Nuevos Soles will tend to drop along the performance curve, contributing to reduce the Republic's gathering costs in the domestic market, a situation which could change as a result of the unfavorable currency exchange variations. The Nuevo Sol's tendency to appreciate versus the US Dollar has been reversed in recent months, due to investor's higher aversion to risk from investing in currencies of emerging countries. While exchange rate movement will be closely related to the behavior of the trade balance and its influence factors (exchange terms, as well as export and import volumes), it is expected that the current differences between US Dollar interest rates and Nuevos Soles interest rates, will support the strengthening of the local currency.

GOALS RANGE QUANTIFICATION SCENARIOS

On the basis of the context in place in the markets, the objectives of debt management, the estimates of the behavior of macroeconomic variables, the financing needs stipulated in the MMM, as well as the possibility to carry out debt management transactions, three scenarios have been defined in order to

14 Approximately 20% of the obligations to be paid during the next three years have been contracted at 6-month LIBOR.

15 On December 16, 2008, the FED cut down its reference interest rate to a 0% - 0,25% range.

16 The obligations contracted in these currencies represent approximately 12% of the total debt.

17 43% of the portfolio has been contracted in US Dollars.

establish the minimum and maximum values of a goal differences range for the various risk indices, which will be aimed at, based on the conditions of the market at the closing of 2009.

The Base Scenario (E-1) considers the financing of the scheduled fiscal requirements and the undertaking of certain liability management transactions. The macroeconomic and market conditions in which this scenario would develop are conservative, but they are in line with what the economic agents expect under the present circumstances, considering that the responsible management of the fiscal and monetary policies of recent years will be maintained. No substantial changes in the markets' current context are foreseen.

The Second Scenario is optimist (E-2), as it assumes an important improvement of the macroeconomic variables (including greater GDP growth, better primary results) and market variables (lower interest rates, appreciation of the Nuevo Sol, among others), which make it possible to cover financial requirements, as well as carry out a higher number of debt management transactions under more favorable conditions in terms of cost and risk.

The Third Scenario is pessimist (E-3), where, in addition to obtaining the resources estimated for the year's financing, a low number of liability management transactions is carried out, in an adverse context in the development of macroeconomic and market variables.

The following table shows ranges of reference goals for the various indices associated with the follow up on the risks of the public liabilities portfolio for 2009, which are consistent with the debt strategy mainly oriented to reduce exposure to exchange risk and debt refinancing.

Table Nº 2
Reference Quantitative Goals as of the Closing of 2009

Item	December 2008 1_/	December 2009
Percentage of Nuevos Soles in the portfolio	41,5%	37% - 43%
Percentage of fixed rate debt in the portfolio	67,1%	67% - 70%
Average life (years)	11,4	11 - 13
VMR (Average Life to fix a new rate for the debt) (years)	9,8	10 - 11
Public debt annual amortization service concentration rate 2_/	66,0%	36% - 14%
Percentage of financing with local currency bonds 3_/	26,8%	35% - 50%

1_/ Preliminary figure determined on the basis of September 2008 data, plus the effect of transactions carried out as of December 2008 and net indebtedness (disbursements less amortizations) for the fourth quarter of the year.
2_/ Measures the deviation of the portfolio's amortizations service over and above predetermined maximum levels. This index allows for an evaluation of the payments pressure (refinancing risk), representing an additional element to define policy over the terms for the new debt to be contracted.
3/ Includes the financing of the debt management transactions.

It should be noted that meeting the objectives will depend on the conditions prevailing in the market, the feasibility of implementing certain debt management transactions, the continuity of the domestic macroeconomic stability and the international context situation.

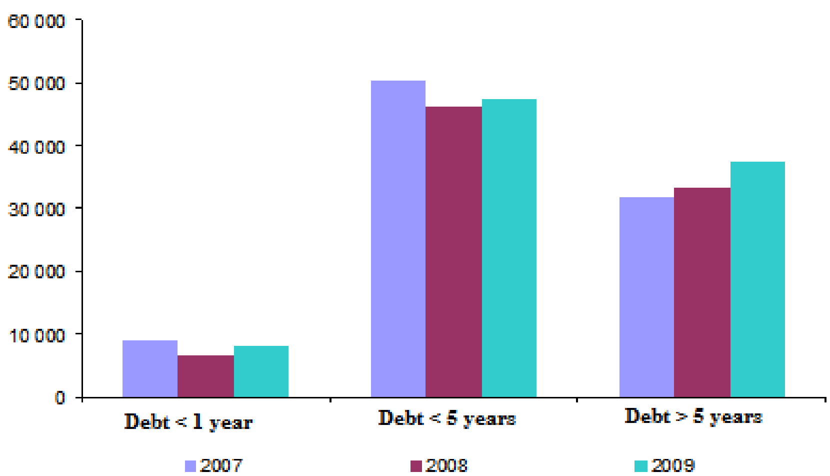
5. QUANTIFICATION OF THE PORTFOLIO'S RISKS FOR THE YEAR 2009

In order to analyze the risks to which the debt portfolio would be exposed at the end of 2009, a reference parameter has been taken in the form of the conservative position represented by the Base Scenario (E-1).

REFINANCING RISK

It is expected for the public debt maturities profile to continue making progress materializing in a gradual reduction in the payments to be made in upcoming years, thus bringing down the pressure existing over the treasury. (See Chart No. 5). Thus, in Scenario E-1, as of December 2009, the percentage of debt maturities over 5 years is projected to be approximately 48%, and this would imply a 9% increase over the December 2007 position, when the said percentage was about 39%.

Chart Nº 5
Debt portfolio maturity term
(Nuevos Soles million)



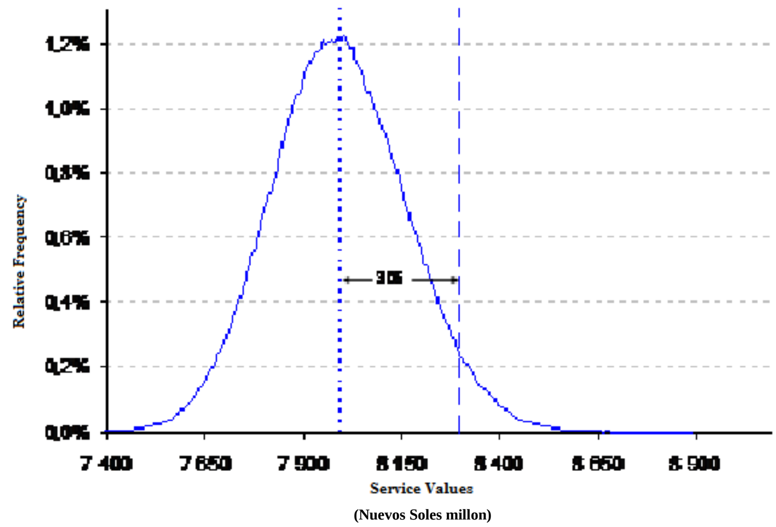
Furthermore, in spite of the fact that the portfolio's average life shrinks by inertia each year, the ever growing gathering of long term resources as well as the execution of debt management transactions, helped this index have values above 11 years in the past two years, with an estimate that at the end of 2009, it could be around 12,0 years.

On the other hand, a risk service analysis (SeR[18]) reports that the debt service estimated for the year 2009, with a 95% confidence level, would be equivalent to an amount of approximately *S/.* 8 298 billion. The risk attributed to interest rate and exchange rate fluctuations, which could imply an additional expense

18 This model assumes that each of the interest rate and exchange rate variables follows a Brown Geometrical Process variable, and that they are inter-related. Based on these premises, an adequate number of Monte Carlo simulations is generated of possible combined paths of these variables, which are used to build a distribution of the accumulated debt service in the selected period.

compared to the projection (measured by the difference between 95% and the average), would be equivalent to S/. 306 million (see Chart No. 6).

Chart Nº 6
Debt service risk for the year 2009

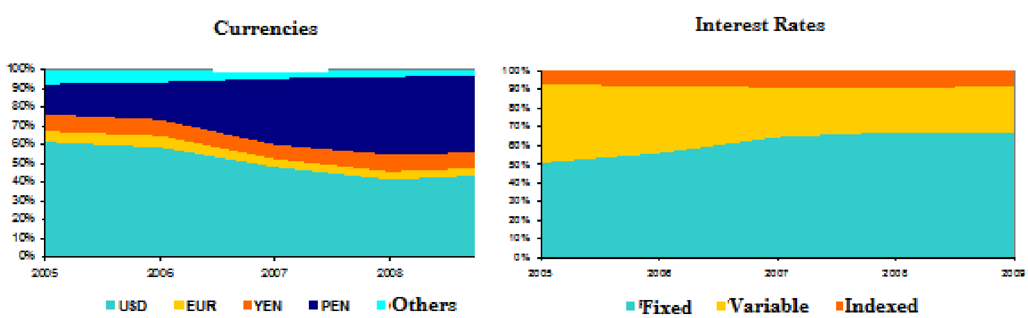


MARKET RISK

In accordance with the progressive modification of the portfolio's composition, during recent years, it has been possible to get a sustained reduction in the vulnerability of the debt to the market risk, deriving from interest rate and exchange rate fluctuations. The projection for 2009 is to consolidate the Nuevos Soles share in the total obligations, reaching levels over and above 40% as of December 2009, a figure which is significantly higher than the 16,4% it represented in the year 2005 (see Chart No. 7). Similarly, it is expected for the fixed rate percentage to be at 67% by the end of December 2009, 16% more than in 2005.

Chart Nº 7

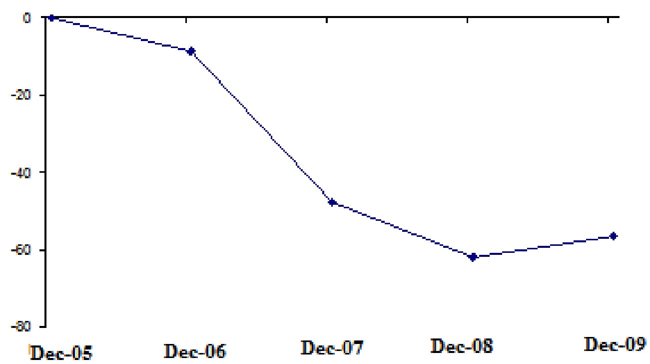
Debt service risk for the year 2009, by currency and interest rate



* Indexed debt includes Sovereign Bonds (2,9%) and OPN Bonds (7,1%).

A measurement of the exchange risk of the public debt stock[19], reports that this risk has dropped significantly with respect to 2005, consistently with the gradual increase in the Nuevos Soles share in the portfolio. In the Base Scenario, for the end of 2009, what is expected is a fall sharper than that of 2007, although slightly lower than that of the closing of 2008 (see Chart No. 8).

Chart Nº 8
Exchange risk variation in the debt stock
(US$ million)



6. DEBT RATIOS, SUSTAINABILITY INDEX AND AMORTIZATIONS PROFILE

Table No. 3 shows the ratios of the total medium and long term debt, of the service (amortization and interest) and of the interest flow from the dynamic debt for Scenario E-1.

Table Nº 3
Ratios of the medium and long term public debt
(In GDP porcentage)

	2008	2009	2010	2011
Medium and long term debt/GDP	22,64%	22,14%	20,41%	18,65%
Medium and long term service/GDP	0,60%	2,03%	2,03%	2,07%
Medium and long term interest/GDP	0,30%	1,21%	1,18%	1,12%

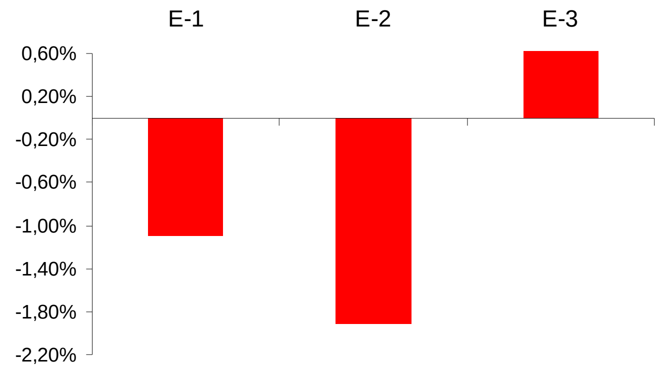
The index of sustainability[20], was used to evaluate the performance of the **medium and long term public debt** ratio. From the analysis of the scenarios taken into consideration, one gathers that the medium and long term public debt is sustainable in Scenarios E-1 and E-2. In the Adverse Scenario (E-3) with a

19 In 2005, to quantify this risk a reference parameter was taken into account, in the form of the composition of the public debt by currency. Supposing that this composition is constant, a calculation is made of the variations of currency percentages in the portfolios of the following years, compared to 2005, also assuming a 1% appreciation of the US Dollar, the Yen and the Euro, compared to the Nuevo Sol, in order to obtain the differences between the two positions.

20 This index is defined as the difference between the primary equilibrium surplus and the weighted average of the projected primary surpluses, as GDP ratios. The equilibrium surplus is that which ensures that the debt ratio is constant through time. If the index has a negative sign, then the medium and long term public debt is sustainable.

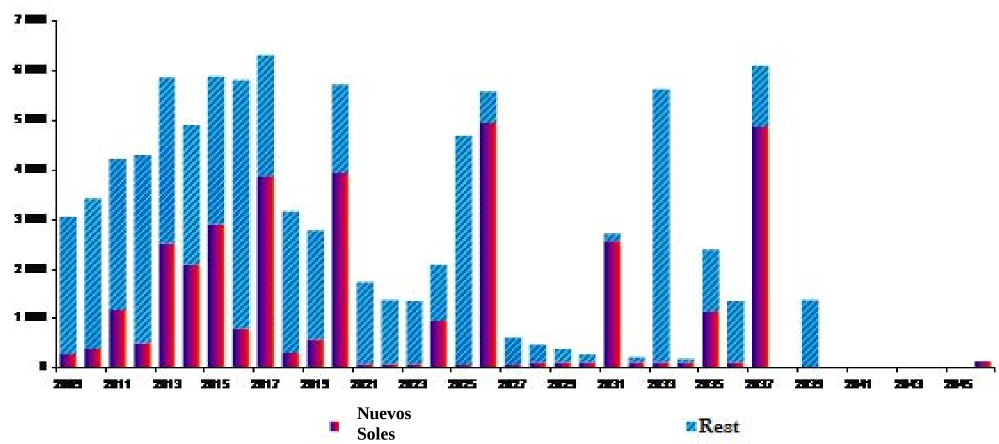
lower GDP growth than expected and under negative conditions in the prices of financial variables in the future, the debt would not be sustainable (see Chart Nº 9).

Chart Nº 9
Sustainablity index for medium and long term public debt
(GDP Percentage)



Finally, the debt's dynamic profile incorporating the debt management transactions anticipated for the year 2009, shows a significant deconcentration of maturities in the upcoming years, compared to the liability debt shown in Chart Nº 1.

Chart Nº 10
Projection of dynamic public debt service
(Nuevos Soles million)



7. EVALUATION OF 2008 DEBT STRATEGY

The impairment of the capital markets due to the effect of the international financial crisis observed during recent months, reduced the confidence of investors the world over, and it particularly increased their aversion to the risk of taking positions in emerging countries. The retraction in the financial markets' liquidity levels significantly increased the cost of the conditions to access the market's resources, impeding the execution of some of the debt management transactions prescribed in the 2008 Annual Program of Indebtedness and Debt Management (PAEAD 2008).

Nevertheless, during the early months of the year, some of these transactions were carried out, and they helped make progress in the attainment of the main goals set forth in the PAEAD 2008. Accordingly, not only has exposure to market risk and to the portfolio's refinancing risk have been minimized, but also, contributions are still being made to the reinforcement of compliance with the goals imposed by government upon itself as far as economic matters are concerned.

Table No. 4 summarizes the level of debt indices obtained as of December 2008 versus the goals outlined in the PAEAD 2008. These results evidence the efforts deployed in spite of the not so favorable context of the international and local markets.

In general, the indicators of Nuevos Soles and interest rate shares in the debt portfolio, as well as average life and VMR, are at a level very close to the upper limits of the range considered in the PAEAD 2008, while the rate of amortizations variation and the percentage of financing in local currency, closed with values which are not in line with the forecast, essentially due to the fact that the new conditions prevailing in the market prevented the undertaking of certain debt management transactions planned.

Table Nº 4
Evaluation of reference quantitative goals
considered in the 2008 PAEAD as of the Closing of 2008

Item	December 2008 PAEAD goal	Deimber 2008 1_/
Percentage of Nuevos Soles in the total portfolio 2_/	35% - 42%	41,5%
Percentage of fixed rate debt in the portfolio 2_/	63% - 69%	67,1%
Average Life (years)	11 - 12	11,4
VMR (Average Life to fix a new rate for the debt) (years)	9 - 10	9,8
Annual amortization variation rate 3_/	63% - 58%	66,0%
Percentage of financing in local currency	44% - 49%	26,8%

Source: DNEP – MEF
1_/ Preliminary figure determined on the basis of September 2008 data, plus the effect of transactions carried out as of December 2008 and net indebtedness (disbursements less amortizations) for the fourth quarter of the year.
2_/ Includes the debt corresponding to the Pension Regularization Office (ONP).
3_/ Methodology used to calculate this index has changed for the year 2009.