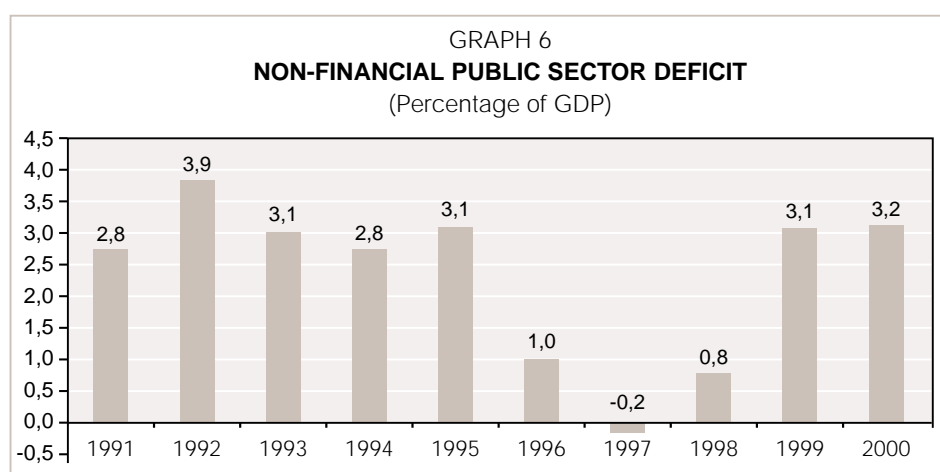


IV. PUBLIC FINANCE

The overall public sector deficit was 3,2 percent of GDP in 2000. The slight increase over the previous year —0,1 percent of GDP— was due mainly to the fall in Central Government tax revenues from 12,5 to 12,1 percent of GDP.

Public finances in 2000 went through two distinct periods. In the first semester, the overall balance deficit increased relative to the same period in 1999, due to an expansive stance

associated with the electoral cycle. In contrast, during the last part of the year a fiscal adjustment program in government expenditure was launched in order to avoid further expansion in the deficit. The limit on the deficit established by the Fiscal Responsibility and Transparency Law —2,0 percent of GDP— was not achieved. However, the limit on the rate of growth of non-financial expenditures —2 percent in real terms— was met.



The overall deficit was S/. 5 942 million (US\$ 1 700 million) in the year 2000. External financing of this deficit was US\$ 654 million (S/. 2 280 million), including debt disbursements amounting to US\$ 1 299 million and amortizations amounting to US\$ 635 million. Domestic financing (S/. 2 235 million equivalent US\$ 635 million), is

explained mainly by foreign-currency withdrawals from privatization accounts held by the Treasury at the Central Bank. Finally, revenues from privatization totaled S/. 1 427 million (US\$ 409 million). These comprised the sale of the government's share in Edegel and ElectroCahua and telephony concessions, among others.

The overall deficit involved a primary deficit of S/. 1 706 million, equivalent to 0,9 percent of GDP (similar to the 1999 primary deficit), as well as public debt interest payments amounting to S/. 4 236 million (2,3 percent of GDP). External debt interest were similar to the previous year (US\$ 1 026 million).

Domestic debt interest amounted to S/. 654 million—from S/. 338 million in 1999— as a consequence of the issuance of Treasury bonds associated with the 1999 repurchase of Brady Bonds and the financial system support program.

TABLE 22
NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE

	Millions of nuevos soles			Percentage of GDP		
	1998	1999	2000	1998	1999	2000
I. Primary Balance	1 946	-1 675	-1 706	1,2	-1,0	-0,9
1. Primary Balance of the Central Government	1 327	-1 825	- 944	0,8	-1,0	-0,5
a. Current revenues	26 174	25 334	27 515	15,7	14,5	14,7
i. Tax revenues	22 995	21 873	22 663	13,8	12,5	12,1
ii. Non-tax revenues	3 179	3 460	4 851	1,9	2,0	2,6
b. Non-financial expenditure	25 379	27 697	28 989	15,2	15,9	15,5
i. Current	19 756	21 797	23 757	11,9	12,5	12,7
ii. Capital	5 623	5 900	5 232	3,4	3,4	2,8
c. Others	533	539	530	0,3	0,3	0,3
2. Primary Balance of the Rest	618	150	- 762	0,4	0,1	-0,4
a. Rest of the Central Government	659	233	109	0,4	0,1	0,1
b. Local governments	117	- 134	42	0,1	-0,1	0,0
c. State-owned enterprises	- 158	51	- 913	-0,1	0,0	-0,5
II. Interest Payments	3 275	3 807	4 236	2,0	2,2	2,3
1. External debt	2 972	3 469	3 582	1,8	2,0	1,9
2. Domestic debt	302	338	654	0,2	0,2	0,4
III. Overall Balance (I-II)	-1 329	-5 482	-5 942	-0,8	-3,1	-3,2
1. External financing	642	- 111	2 280	0,4	-0,1	1,2
(Millions of US\$)	\$ 224	-\$ 21	\$ 654	0,4	-0,1	1,2
a. Disbursements	\$ 657	\$ 812	\$1 299	1,2	1,6	2,4
b. Amortization	\$ 799	\$ 883	\$ 635	1,4	1,7	1,2
c. Others	\$ 365	\$ 50	-\$ 10	0,6	0,1	0,0
2. Domestic financing	- 77	4 274	2 235	0,0	2,4	1,2
3. Privatization	764	1 318	1 427	0,5	0,8	0,8

Central Government Revenues

Central Government current revenues in 2000 totaled 14,7 percent of GDP, up 0,2 percent of GDP from the previous year. The improvement

was due to the evolution of non-tax revenues, which increased 0,6 percent of GDP relative to 1999, as a result of the sale of state-owned firms, while tax revenues decreased 0,4 percent of GDP (a 0,1-percent drop in real terms). The

decrease was mainly due to the fall in income and excise tax revenues, as well as to the increase in tax refunds. However, these were offset by greater value-added and import tax collections.

Income tax collections amounted to 2,7 percent of GDP, down 0,2 percent from 1999 (a 2,5-percent drop in real

terms). The fall was mainly due to the decrease in corporate payments from 1,6 to 1,4 percent of GDP, which was explained not only by the reduction in corporate results, but also by the elimination of the Extraordinary Corporate Tax on Net Assets (IEAN). Personal income tax collections in terms of GDP was similar to 1999.

TABLE 23
TAX REVENUE COEFFICIENTS
(Percentage of GDP)

	1998	1999	2000
Fiscal burden of the General Government 1/	18,8	17,5	17,7
Fiscal burden of the Consolidated Central Government 2/	17,8	16,6	16,8
Fiscal burden of the Central Government	15,7	14,5	14,7
Tax burden of the Central Government 3/	13,8	12,5	12,1

1/ Fiscal burden of the Consolidated Central Government and own resources of local governments
2/ Includes Central Government current revenues, contributions to the Social Security System and Pensions System, and own resources from the Consolidated Previsional Reserve Fund (FCR), the National Pension Savings Fund (Fonahpu), regulatory institutions and register offices.
3/ Central Government tax revenues



Income tax regularization payments totaled S/. 506 million (0,3 percent of GDP), S/. 112 million higher than in the previous year. It should be noted that in October several measures intended to reduce income tax evasion were introduced. Operations with low or null-taxation territories (tax havens) were regulated, and limits on expenditure deductions were introduced. These modifications will have an effect on tax collections in the year 2001.

Import-tax revenues reached 1,6 percent of GDP, the same level as in the previous year. This is explained by a decrease in foodstuff surtax

collections (23,6 percent decrease), which was partially offset by the average devaluation (3,2 percent) and by a 2,7-percent increase in real terms in ad-valorem tax collections. However, the latter was not proportional to the increase in overall imports, which reached 8,9 percent as a result of the Tariff Refund Regime. In October, this Regime was discontinued temporarily for oil imports.

Value-added tax collections (6,4 percent of GDP) increased 0,1 percentage of GDP relative to the previous year (a 4,8 percent increase in real terms, associated with a 4,0-percent growth in consumption).

TABLE 24
CENTRAL GOVERNMENT REVENUES

	Percentage of GDP			Real % change		% Structure		
	1998	1999	2000	1999	2000	1998	1999	2000
I. TAX REVENUE	13,8	12,5	12,1	-8,1	-0,1	87,9	86,3	82,4
1. Income Taxes	3,5	2,9	2,7	-16,4	-2,5	22,4	20,0	18,6
-Individual	1,1	1,1	1,1	2,5	1,3	7,0	7,7	7,5
-Corporate	2,1	1,6	1,4	-24,5	-9,0	13,3	10,8	9,4
-Clearing	0,3	0,2	0,3	-28,1	23,6	2,0	1,6	1,8
2. Import Taxes	1,7	1,6	1,6	-4,8	-1,4	11,0	11,2	10,6
3. Value-added Tax	6,6	6,3	6,4	-3,4	4,8	42,2	43,5	43,6
-Domestic	3,8	3,7	3,8	-2,1	4,3	24,4	25,5	25,5
-Imports	2,8	2,6	2,7	-5,4	5,5	17,8	18,0	18,1
4. Excise Tax	2,1	2,0	1,8	-2,8	-4,3	13,1	13,6	12,4
-Fuel	1,2	1,2	1,1	1,1	-2,4	7,6	8,3	7,7
-Others	0,9	0,8	0,7	-8,2	-7,3	5,4	5,3	4,7
5. Other tax revenue	0,9	0,9	1,0	-2,8	14,3	6,0	6,2	6,8
6. Tax refunds	-1,1	-1,2	-1,4	13,2	22,4	-6,9	-8,3	-9,7
II. NON-TAX REVENUE	1,9	2,0	2,6	5,2	35,1	12,1	13,7	17,6
III. TOTAL	15,7	14,5	14,7	-6,5	4,7	100,0	100,0	100,0

Excise tax collections dropped 0,2 percent of GDP relative to 1999 (a 4,3-percent decrease in real terms). This is explained mainly by lower collections on non-fuel goods (such as soft drinks, liquors, cigarettes and vehicles), which fell 7,3 percent in real terms, as well as on fuels, which fell 2,4 percent in real terms following a reduction in demand.

The excise tax rate on fuels was the same through the year and was only raised 5 percent in the last days of December.

The item "other tax revenues" rose 0,1 percent of GDP relative to 1999. The increase was explained by the Special Tax Amnesty Regime (enacted in September), which led to a collection increase of S/. 187 million in the fourth quarter of 2000. This program was introduced to facilitate payment of past due tax obligations by eliminating fines, surcharges and/or readjustments, and by refinancing obligations at a smaller interest rate.

TABLE 25
FUEL EXCISE TAX EVOLUTION
 (Nuevos soles per gallon)

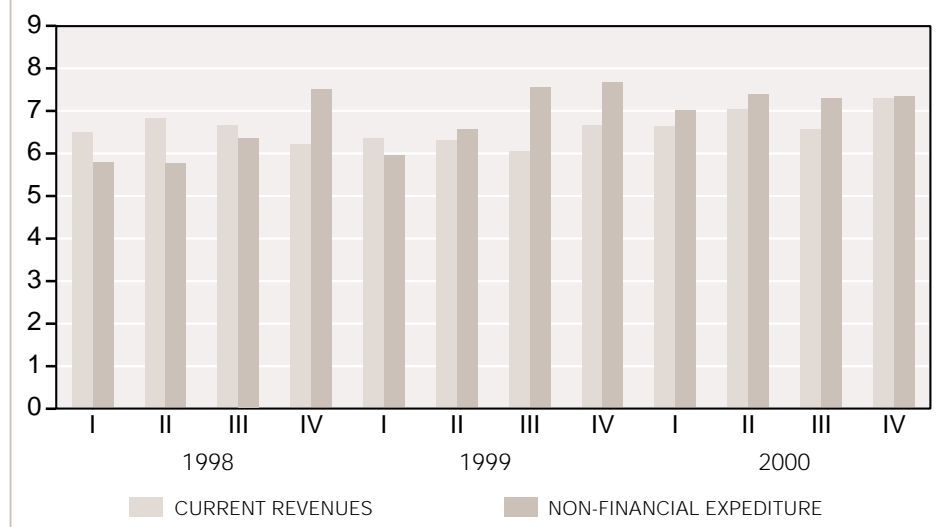
	1999		2000
	Apr - 6	sep - 27	Dec - 22
- Gasoline (84 octanes)	1,87	2,05	2,15
- Gasoline (90 octanes)	2,45	2,68	2,81
- Gasoline (95 octanes)	2,69	2,95	3,10
- Gasoline (97 octanes)	2,97	3,25	3,41
- Kerosene	0,52	0,47	0,49
- Diesel 2	1,24	1,31	1,38
- LPG	0,52	0,47	0,49
AVERAGE	1,04	1,10	1,15

Tax refunds reached 1,4 percent of GDP (S/. 2 669 million), up 0,2 percent of GDP from the previous year. The increase was explained mainly by the use by companies of the anticipated value-added tax refund benefit, which reached S/. 511 million

(the figure for 1999 was S/. 178 million). It must be mentioned that starting from this Annual Report, tax refunds will be recorded on an accrued basis, that is, in the period in which liabilities were originated.



GRAPH 7
CURRENT REVENUES AND NON-FINANCIAL EXPEDITURE OF THE CENTRAL GOVERNMENT
 (Billions of nuevos soles)



Non-tax revenues increased 0,6 percent of GDP, reflecting mainly the increase in current transfers from state-owned enterprises, from S/. 152 million to S/. 1 142 million, as well as the increase in oil royalties from S/. 233 million to S/. 491 million.

It must be noted that the increase in transfers from state-owned firms reflect a reallocation of public resources intended to reduce the financial cost of overdrafts in Treasury accounts, thus reducing the pressure on the fiscal deficit. On the other hand, the improvement of non-tax revenues from oil royalties was due to the increase in the international prices of fuels.

Central Government Non-Financial Expenditures

Government expenditure policy in the year 2000 was different in the first and second semesters. In the first semester, government expenditure continued the expansive stance of the previous years, which was aimed at compensating the fall in domestic demand through greater fiscal impulse. Further growth resulted from to additional expenditure demands associated with the electoral process. Therefore, during the first semester of the year 2000, non-financial central government expenditure increased 11,6 percent in real terms relative to the same period of 1999.

However, during the second semester of the year, the scarcity of financing made it necessary to pursue important reductions in government expenditure. In August, several

measures were launched to halt the expansion of government expenditure. Thus, non-financial expenditure in the second semester was reduced by S/. 590 million. Additionally, administrative measures were introduced to rationalize and reduce government expenditures. As a consequence, central government non-financial expenditure decreased 7,8 percent in real terms (especially capital expenditure) during the last six months of the year 2000.

Thus, non-financial expenditures reached 15,5 percent of GDP in 2000, down 0,4 percent from the previous year, even though in real terms there was a slight expansion (0,9 percent).

Expenditure on wages and salaries was equivalent to 4,4 percent of GDP (similar to the previous year). It must be stressed that in 2000 there were no general raises in public sector wages, while Schooling, Christmas and National Holiday bonuses totaled S/. 910 million (similar to the 1999 figure).

Expenditure in goods and services during the year 2000 increased 0,2 percent of GDP due to the acquisition of patrol vehicles and fuel by the Defense and Interior Ministries, as well as to expenditures associated with the electoral process. However, these were originated mainly in the first semester, while a rationalization of government expenditure was implemented in the second half of the year. Thus, during the first semester there was a 26,7 percent increase in real terms, while during the second semester a 4,0 percent fall took place.

TABLE 26
NON-FINANCIAL CENTRAL GOVERNMENT EXPENDITURES

	Percentage of GDP			Real % change		% Structure		
	1998	1999	2000	1999	2000	1998	1999	2000
I. CURRENT EXPENDITURE	11,9	12,5	12,7	6,6	5,0	77,8	78,7	82,0
Wages	4,2	4,4	4,4	7,7	1,4	27,5	28,1	28,2
Goods and services	3,6	3,6	3,8	-0,3	9,7	23,7	22,4	24,4
Transfers	4,1	4,5	4,6	11,8	5,0	26,6	28,2	29,3
- Pensions	1,7	1,9	1,8	9,5	0,4	11,4	11,8	11,8
- Rest	2,3	2,6	2,7	13,4	8,3	15,2	16,4	17,6
II. CAPITAL EXPENDITURE	3,4	3,4	2,8	1,4	-14,5	22,2	21,3	18,0
III. TOTAL (I+ II)	15,2	15,9	15,5	5,5	0,9	100,0	100,0	100,0

Expenditure in current transfers reached 4,6 percent of GDP, up 0,1 percent of GDP from 1999. The National Pensions Office (ONP) received transfers amounting to S/. 1 203 million (up S/. 234 million from 1999) for the attention of pension payments.

Capital expenditure totaled 2,8 percent of GDP, down 0,6 percent of GDP from 1999 (a 14,5-percent decrease in real terms). Lower dynamism in central government investment reflected the fiscal austerity measures implemented since August 2000. The sectors most affected by investment contraction were transportation and communications, agriculture, and Foncodes —the National Social Compensation and Development Fund— among others.

Gross capital formation financed by external sources reached US\$ 454 million, down US\$ 155 million from 1999. The Ministry of Transportation and Communications destined US\$ 127 million from external disbursements to finance rehabilitation projects and

improvement of highways and rural roads. The Ministry of the Presidency channeled US\$ 55 million to the Sewage System Program in the south area of Lima, as well as to other sanitation programs.

Ministry of Agriculture investment financed by external sources reached US\$ 53 million, which were destined to natural resources projects and poverty relief and irrigation projects. The Ministry of Finance channeled US\$ 46 million to the El Niño Support Program and Foncodes employed a similar amount in social programs.

The Ministry of Education spent US\$ 43 million mainly on programs geared to improve primary education and education quality. The Ministry of Energy and Mining used US\$ 35 million in the San Gabán and Yuncán hydroelectric plants, and in the Program for the Expansion of the Electrical Frontier. Other ministries spent US\$ 49 million on investment projects, including irrigation projects in charge of the National Development Institute (Inade).



Expenditure on capital transfers reached 0,1 percent of GDP due to the implementation of the Municipal Basic Equipment Program, which implied transfers to local governments amounting to S/. 254 million.

Resources destined to extreme poverty relief programs totaled S/. 1 615 million, equivalent to 0,9 percent of GDP. This amount was channeled to programs undertaken by Foncodes (S/. 482 million), the National Food Assistance Program (Pronaa) (S/. 314 million) and basic nourishment programs (S/. 325 million), among others.

State-Owned Enterprises

During the year 2000, state-owned enterprises registered an overall deficit of S/. 1 028 million, reflecting a S/. 1 001-million deterioration relative to the previous year. This is explained basically by transfers made by these enterprises to the Central Government, which amounted to S/. 1 374 million (S/. 354 million were capital transfers and S/. 1 020 million were current transfers). Excluding transfers to the Central Government, the operations of the state-owned enterprises showed a deterioration (S/. 76 million), mainly as a result of the balances of Centromín (due to privatization of its mineral unit

Paragsha) and Petroperú (due to the sluggish response of its internal price policy compared to the evolution of international quotes).

Privatization

During the year, the 12 privatizations and concessions accomplished provided revenues amounting to US\$ 315 million and investment commitments amounting to US\$ 4 439 million. Privatizations include the sale of the government's shares in Edegel and ElectroCahua, and the main concessions granted were the transfer of Camisea Gas Project (development, transportation and distribution), Jorge Chávez International Airport, the PCS System (mobile and wireless telephony) and the Río Chillón project.

The sale of the government's share in Edegel and ElectroCahua was made through public auction at the Lima Stock Exchange, for a total amount of US\$ 93 million. The sale of 17,6 percent of Edegel's total capital, which took place in January, involved S/. 291 million (US\$ 84 million). Regarding the ElectroCahua privatization, the government sold its 30-percent participation (US\$ 9 million) to the consortium Skanska Bot AB-Nordick Power Invest AB in March.

CENTRAL RESERVE BANK OF PERU

TABLE 27
PRIVATIZATIONS AND CONCESSIONS 2000
(Millions of US\$)

	Date	Buyer	Value	Investment
1. Rio Chillón Project Concession	Jan 11	Acea SpA-Impregilo SpA-Fisia Utalimpianti SpA-Castalia SpA-Cosapi	--	80
2. Quicay gold project	Jan 14	Chancadora Centauro S.A.C.	--	11
3. Sale of government's share in Edegel (17,6%)	Jan 27	ENDESA, AFP's, and other	84	--
4. Camisea Gas Project (Development)	Feb 16	PlusPetrol Corp.-Hunt Oil Company-SK	--	1 600
5. Sale of government's share in Cahua (30%)	Mar 10	Skanska Bot AB-Nordick Power Invest AB	9	--
6. Sale of lands in Chavimochic (227 hectares)	Mar 16	Various	1	--
7. PCS System Concession (mobile telephony)	Mar 29	Stet Mobile Holding N.V.	180	70
8. Fixed Wireless Telephony Concession (2 bands)	Jun 20	Millicom Peru-Telefonica del Peru	20	--
9. Camisea Gas Project (transport and distribution)	Oct 20	PlusPetrol-Hunt Oil Company SK-GyM-Sonatrach	--	1 449
10. Jorge Chavez Airport Concession	Nov 15	Lima Airport Partners	--	1 214
11. La Granja Project Transfer	Nov 27	Billiton	--	15
12. Fixed Wireless Telephony Concession (1 band)	Dec 12	Orbitel Peru	10	--
Other privatizations			11	--
TOTAL			315	4 439

Source: Commission to Promote Private Investment (COPRI).



The concession of the Natural Gas Project of Camisea was accomplished in two stages. The Development stage, which was granted in February for a 40-year period, involves US\$ 1 600 million in investment commitments. The winning consortium PlusPetrol Corp.-Hunt Oil Company-SK offered 37,2 percent of the income generated by extraction operations. The transportation and distribution stages were awarded in October for a 33-year period to the only bidder, the consortium PlusPetrol-Hunt Oil Company-SK-GyM-Sonatrach, which offered an investment commitment of US\$ 1 449 million. This investment ensures a reduction of gas transportation tariffs amounting to US\$ 0,90 per million of BTU (British Thermal Unit) in the case of electrical use, and to US\$ 1,2 per million of BTU for other uses.

Another important concession contract settled in the year 2000 involved Jorge Chavez International Airport, which was granted in November to the consortium Lima Airport Partners (Flughafen Frankfurt Main AG, Bechtel Enterprises International Ltd. and Cosapi S. A.). In this operation the government will receive 46,5 percent of gross income obtained during the 30-year period concession (US\$ 5 328 million in accumulated revenues). Furthermore, the consortium's investment commitments amount to US\$ 1 214 million, which will be used to improve the airport's category from IATA E to IATA B by the beginning of the 8th year and to add a second landing strip by the 11th year.

In the telecommunications sector, the most important transfer contract was the concession of the PCS System (mobile telephony at the domestic level). The winning company Stet Mobile Holding N.V. made a US\$ 180 million payment for the license and

acquired investment commitments amounting US\$ 70 million associated with infrastructure and network installation. Another two concession contracts involved the wireless fixed telephony system (US\$ 20 million).

TABLE 28
NET PRIVATIZATIONS RECEIPTS
(Millions of US\$)

Company	Amount
PCS System (mobile telephony)	175
Sale of government's share in Edegel	80
Fixed Wireless Telephony (2 bands)	19
Sale of government's share in Cahua (30%)	9
ElectroCahua (quote)	26
Paragsha Mining Company (quote)	20
Petromar (quote)	10
Other (quotes and other sales)	70
TOTAL	409

Source: Commission to Promote Private Investment (COPRI).

In January, the Rio Chillón Water Plant was granted in concession for the next 27 years to the winning consortium Acea SpA - Impregilo SpA - Fisia Utalimpianti SpA - Castalia SpA - Cosapi, which offered to invest US\$ 80 million in a water-treatment plant within the first 2 years (water supplied by the plant to the Sedapal network will be distributed in the north area of Lima).

During the year 2000, Central

Government cash revenues —after deducing transaction costs— amounted to US\$ 409 million, of which US\$ 283 million were associated with year-2000 sales, and US\$ 126 million were quotas from previous privatizations and other small sales. Resources were deposited in several accounts: the Treasury (US\$ 223 million), the National Pension Fund-Fonahpu (US\$ 89 million) and the Fiscal Stabilization Fund (US\$ 97 million).