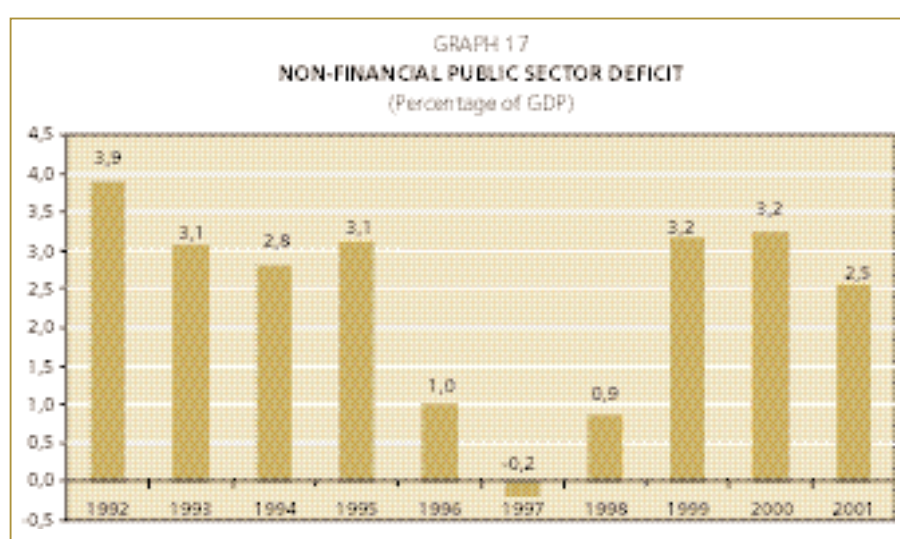

IV. PUBLIC FINANCE

The overall public sector deficit decreased from 3,2 percent of GDP in 2000 to 2,5 percent in 2001 due to the improvement of state-owned enterprises' balances. In 2001, the non-financial

central government expenditures fall from 15,5 percent to 14,9 percent and the central government current revenue fell from 14,7 percent of GDP in 2000 to 14,1 percent in 2001.



During 2001, fiscal policy was different in its two semesters. In the first one, the interim government of president Valentín Paniagua adopted a contractive fiscal policy on government expenditure together with an increase in revenues due to the exceptional high amount of annual clearing of income tax on profits generated in 2000. In this period the deficit was only 0,9 percent of GDP. In April the government reduced import taxes on 1 416 products from 12 to 4 percent, reducing the average tariff from 13,5 to 11,8 percent. In addition, in December 2000 the government

reduced the Income Tax rate from 30 to 20 percent only if profits were reinvested. Thus, the measure did not generate significant effects in 2001 but it could affect future tax income.

In the second semester, the new government launched an expansive fiscal policy to provide an impulse to domestic demand. In this context, salaries were raised by 9 percent for central government workers and public investment increased, starting the "A Trabajar" Program. Regarding revenues, the rate of the Special Solidarity Tax (IES)



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decreased from 5 to 2 percent in August, the reduction of the income tax was reverted, from 20 to 27 percent in December, effective in 2002, and a 4 percent tax on dividends was created. As a result of these policies, fiscal deficit increased to 4,2 percent of the GDP in the second semester.

The fiscal deficit amounted to S/. 4 833 millions (US\$ 1 377

millions) and it was financed with external sources by S/. 1 755 millions (US\$ 498 millions, disbursements, for US\$ 1 318 million and amortizations for US\$ 768 million), domestic resources for S/. 1 944 millions, which includes Government bonds for S/. 1 200 millions, and revenues from privatization for S/. 1 134 millions (US\$ 327 millions).

TABLE 24
NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE

	Millions of nuevos soles			Percentage of GDP		
	1999	2000	2001	1999	2000	2001
I. PRIMARY BALANCE	-1 716	-1 807	- 607	-1,0	-1,0	-0,3
1. Primary Balance of the Central Government	-1 866	-1 045	-1 281	-1,1	-0,6	-0,7
a. Current revenues	25 292	27 414	26 747	14,5	14,7	14,1
i. Tax revenues	21 832	22 563	23 384	12,5	12,1	12,3
ii. Non-tax revenues	3 460	4 851	3 363	2,0	2,6	1,8
b. Non-financial expenditure	27 697	28 989	28 320	15,9	15,5	14,9
i. Current	21 797	23 757	23 853	12,5	12,7	12,6
ii. Capital	5 900	5 232	4 467	3,4	2,8	2,4
c. Capital revenues	539	530	291	0,3	0,3	0,2
2. Primary Balance of the Rest	150	- 762	674	0,1	-0,4	0,4
a. Rest of the Central Government	233	109	143	0,1	0,1	0,1
b. Local governments	- 134	42	154	-0,1	0,0	0,1
c. State-owned enterprises	51	- 913	377	0,0	-0,5	0,2
II. INTEREST PAYMENTS	3 813	4 237	4 226	2,2	2,3	2,2
1. External debt	3 477	3 582	3 663	2,0	1,9	1,9
2. Domestic debt	336	655	563	0,2	0,4	0,3
III. OVERALL BALANCE (I-II)	-5 529	-6 044	-4 833	-3,2	-3,2	-2,5
1. External financing (Millions of US\$)	- 109	2 286	1 755	-0,1	1,2	0,9
a. Disbursements	\$ 812	\$ 1 299	\$ 1 318	1,6	2,4	2,4
b. Amortization	\$ 884	\$ 633	\$ 768	1,7	1,2	1,4
c. Others	\$ 52	-\$ 10	-\$ 53	0,1	0,0	-0,1
2. Domestic financing	4 320	2 331	1 944	2,5	1,2	1,0
3. Privatization	1 318	1 427	1 134	0,8	0,8	0,6

The fiscal deficit resulted from a negative primary balance of S/. 607 million (0,3 percent of GDP), down 0,7 percent from 2000; and interest payments amounting to S/. 4 226 million (2,2 percent of GDP), down 0,1 percent from the previous year. Foreign debt interest totaled US\$ 1 046 million, down by US\$ 20 million from 2000, in compliance to the gradual reduction of interest rates initiated by mid-year.

1. Central Government Current Revenues

Central Government current revenues amounted to S/. 26 747 million (US\$ 7 620 million) and were equivalent to 14,1 percent of GDP. This result was lower in

0,6 percent of GDP from 2000 reflecting a 4,3 percent reduction in real terms, and it was explained mainly by lower transfers of state-owned enterprises (0,5 percent of GDP), which were substituted by the new Tax on Government Shares on state-owned enterprises (0,3 percent of GDP). In addition, there was a deterioration in Import Tax revenues (0,2 percent of GDP), Value-added Tax (payroll tax) -IGV- (0,2 percent of GDP) and the Special Solidarity Tax (payroll tax) - IES- (0,1 percent of GDP).

This negative performance was partially offset by the improvement observed in Income Tax revenue (0,3 percent of GDP) and in the Tax Amnesty Regime (0,1 percent of GDP).

TABLE 25
TAX REVENUE COEFFICIENTS
(Percentage of GDP)

	1999	2000	2001
Fiscal burden of the General Government ^{1/}	17,5	17,6	17,1
Fiscal burden of the Consolidated Central Government ^{2/}	16,6	16,7	16,1
Fiscal burden of the Central Government	14,5	14,7	14,1
Tax burden of the Central Government ^{3/}	12,5	12,1	12,3

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 Pension 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.



TABLE 26
CENTRAL GOVERNMENT CURRENT REVENUES

	Percentage of GDP			Real % change		% Structure		
	1999	2000	2001	2000	2001	1999	2000	2001
I. TAX REVENUE	12,5	12,1	12,3	-0,4	1,6	86,3	82,3	87,4
1. Income Tax	2,9	2,7	3,0	-2,6	7,5	20,1	18,7	21,0
- Individual	1,1	1,1	1,1	1,3	0,3	7,7	7,5	7,8
- Corporate	1,6	1,4	1,5	-9,1	6,1	10,8	9,4	10,4
- Clearing	0,2	0,3	0,4	23,7	44,1	1,6	1,8	2,8
2. Import Taxes	1,6	1,6	1,4	-1,4	-7,7	11,3	10,6	10,2
3. Value-added Tax	6,3	6,4	6,2	4,9	-3,5	43,6	43,8	44,1
- Domestic	3,7	3,8	3,6	4,4	-3,9	25,6	25,5	25,7
- Imports	2,6	2,7	2,6	5,6	-2,9	18,0	18,2	18,5
4. Excise Tax	2,0	1,8	1,9	-4,3	1,2	13,6	12,5	13,2
- Fuel	1,2	1,1	1,2	-2,3	7,3	8,3	7,7	8,7
- Others	0,8	0,7	0,6	-7,3	-8,6	5,4	4,8	4,5
5. Other tax revenue	0,9	1,0	1,3	14,3	31,4	6,2	6,8	9,4
- Special Solidarity	0,6	0,5	0,4	0,5	-20,6	3,8	3,7	3,1
- Tax on government share	0,0	0,0	0,3	n.a.	n.a.	0,0	0,0	2,2
- Others	0,3	0,5	0,6	36,3	26,2	2,4	3,1	4,1
6. Tax refund	-1,2	-1,5	-1,5	24,9	0,3	-8,5	-10,1	-10,6
II. NON-TAX REVENUE	2,0	2,6	1,8	35,2	-31,9	13,7	17,7	12,6
III. TOTAL	14,5	14,7	14,1	4,5	-4,3	100,0	100,0	100,0

2. Central Government Non-Financial Expenditures

Non-financial expenditures reached 14,9 percent of GDP, down by 0,6 percent from year 2000, reflecting a 4,2 percent reduction in real terms. During 2001, expenditure policy exhibited a

different behavior between the first and the second semester. In the first half of the year, austerity and rationalization measures on expenditures of the previous semester continued, resulting in a reduction in current expenditure and investment projects. During the second semester, fiscal measures such as

a rise in public sector salaries in September, an increase in the expenditure devoted to social programs

and investment projects, changed the tendency of expenditures observed during the first semester of 2000.

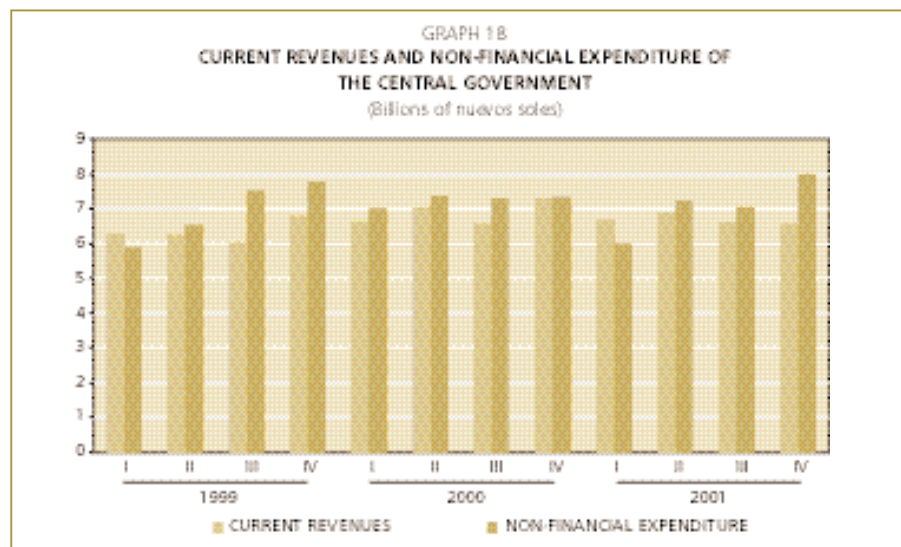


TABLE 27
CENTRAL GOVERNMENT NON-FINANCIAL EXPENDITURES

	Percentage of GDP			Real % change		% Structure		
	1999	2000	2001	2000	2001	1999	2000	2001
I. CURRENT EXPENDITURE	12,5	12,7	12,6	5,1	-1,5	78,7	82,0	84,2
Wages	4,4	4,4	4,4	1,5	0,5	28,1	28,2	29,6
Goods and services	3,6	3,8	3,7	9,8	-1,9	22,4	24,4	25,0
Transfers	4,5	4,6	4,4	5,0	-3,2	28,2	29,3	29,7
- Pensions	1,9	1,8	1,8	0,5	-1,5	11,8	11,8	12,1
- Others	2,6	2,7	2,6	8,3	-4,3	16,4	17,6	17,5
II. CAPITAL EXPENDITURE	3,4	2,8	2,4	-14,4	-16,2	21,3	18,0	15,8
Gross capital formation	3,2	2,5	2,1	-18,9	-19,5	20,4	16,4	13,8
Other capital expenditure	0,1	0,3	0,3	87,8	15,6	0,9	1,7	2,0
III. TOTAL (I+ II)	15,9	15,5	14,9	1,0	-4,2	100,0	100,0	100,0



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3. Privatization

In 2001, 14 privatizations and concession processes were accomplished with a total value of US\$ 255 million, with investment commitments for US\$ 97 million. Privatizations included the sale of Los Andes Electricity Company

(Electroandes); 25 percent of government's share in Iscaycruz; and, the warehouses of Centromin Imex Callao. Concessions included the construction, maintenance and operation of the electricity transmission lines Oroya-Paragsha-Antamina and Aguaytía-Pucallpa; and, land and several mining prospects, among others.

TABLE 28
PRIVATIZATIONS AND CONCESSIONS 2001
(Millions of US dollars)

	Date	Buyer	Value	Investment
1. Alto Chicama Project (Transfer option)	Jan 15	Barrik Misquichilca S.A. (Canada)	--	1,0
2. Sale of lands in Chavimochic (6 blocks: 1 219 has.)	Jan 29	Several buyers	0,2	1,3
3. Mining Prospects (10 prospects)	Feb 14	Several buyers	0,2	--
4. La Oroya-Paragsha-Antamina Electrical Transmission Line Aguaytia-Pucallpa Electrical Transmission Line	Feb 16	Interconexión Eléctrica S.A. (Colombia)	--	65,4
5. Sale of government's share in Iscaycruz (25%)	Mar 22	Several buyers	18,5	--
6. Sale of land in Piura (1 block: 400 has.)	Apr 18	Ostriches del Peru S.A. (Peru)	0,0	0,2
7. Sale of government's share in Tecsur S.A.A. (30%)	Jun 19	Inversiones en Servicios Eléctricos (Peru)	0,4	--
8. Sale of land in Lambayeque (1 block: 174 has.)	Jul 11	Miguel Angel Blanco	0,0	0,1
9. Electroandes	Jul 20	PSEG Global Inc. (USA)	227,1	17,5
10. Imex Callao	Aug 20	Consorcio Minero S.A. (Peru-Holanda)	1,0	--
11. Sales of land in Olmos (1 200 has.)	Oct 16	Consorcio Tecnoinvest (Peru)	0,3	3,0
12. Sale of land in Chavimochic (3 blocks: 4 698 has.)	Oct 25	Manuelita (Colombia), El Rocio y Arena Verde (Peru)	0,8	5,0
13. Sale of Electrolima's building	Dec 6	Derrama Magisterial (Peru)	2,0	--
14. Yauricocha Mining Company (Concession)	Dec 20	Sociedad Minera Corona (Peru)	4,0	3,0
TOTAL			254,5	96,5

Source: Commission to Promote Private Investment (COPRI).

The auction of the government's share in Electroandes electricity generation company, was carried out on July 20. It was awarded to the American company Global PSEG Inc. for US\$ 227 million, including investment commitments for US\$ 18

million and debt assumption for US\$ 19 million.

The concession for the construction, maintenance and operation of the electricity transmission lines Oroya-Paragsha-Antamina and Aguaytía-

TABLE 29
NET PRIVATIZATION RECEIPTS
(Millions of US dollars)

Company	Amount
Electroandes	218
Sale of government's share in Iscaycruz (25 %)	18
Sale of government's financial claims	16
Fixed Wireless Telephony (sold in Dec. 2000)	10
Sider Perú (installment)	12
Petroperu terminals (installments)	11
Petromar (installment)	10
Several assests and other installments	32
TOTAL	327

Source: Comission to Promote Private Investment (COPRI).

Pucallpa, was carried out in February 16, and the Colombian company Interconnection Electric (ISA) won that concession involving investment commitments for US\$ 65 million. The auction was awarded to the company offering the smallest costs of construction of the lines, to ensure the lowest electricity rates in the areas.

The transfer to the private sector of 7 500 hectares of lands in Chavimochic and Olmos projects generated revenues

for approximately US\$ 2 million and investment commitments for US\$ 10 million.

During 2001 the Central Government's cash revenues -after deducting the costs of the process- amounted US\$ 327 million. This amount includes US\$ 256 million corresponding to sales carried out in 2001 and US\$ 71 million from quotas of previous privatizations and other smaller sales.

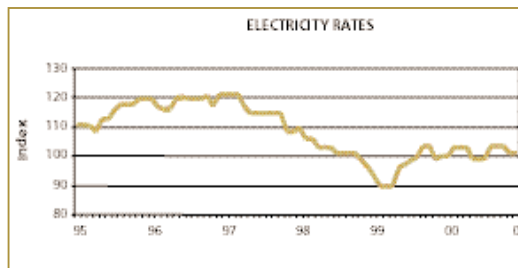
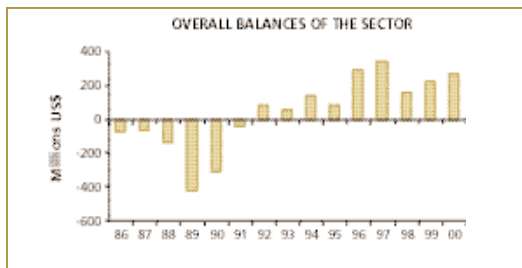
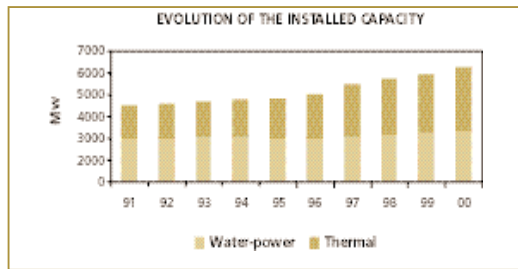
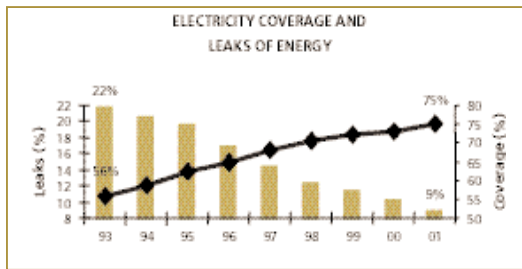


BOX 1

INDICATORS OF PRIVATIZED PUBLIC SERVICES

Electricity sector

- Increase of electrification coefficient from 56% in 1993 to 75% in 2001.
- Reduction of leaks of energy from 22% in 1993 to 9% in 2001.
- Overall balance surpluses in the companies of the sector.
- Increase of the installed capacity from 4 289 to 6 070 Mega watts over the 1993 - 2000 period.
- Electricity rates reduction since 1997 when the objective level was reached.
- Privatized enterprises investment: US\$ 1 200 million over the 1994 - 2000 period.



Telecommunications

- Increase of telephone density (fixed and cellular) per 100 inhabitants from 3,3 in 1993 to 12,7 in 2001.
- Introduction of digital service and decreasing failure rate reports.
- The waiting period for a new line was reduced from 118 months in 1993 to 15 days in 2000.
- The connection cost was reduced from US\$ 1 500 in 1993 to US\$ 158 in 2000.
- After reaching its objective level rates, are being reduced according with the productivity factor since September 2001.
- Investment made by Telefónica totaled US\$ 3 300 million during the 1994 - 2000 period.

