

## IV.

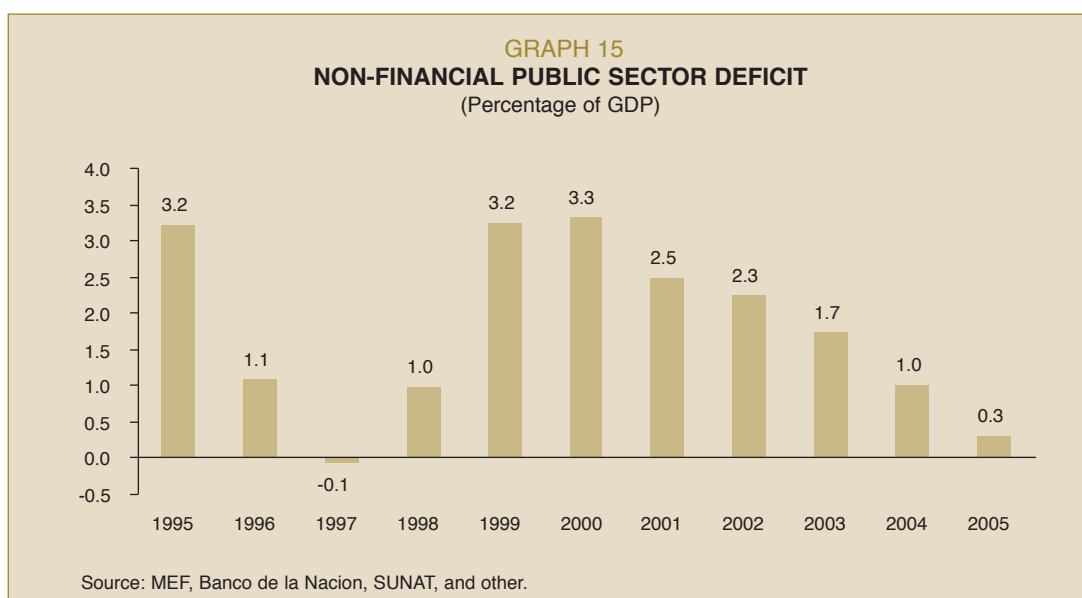
## Public finances

*During 2005, the economic deficit of the non-financial public sector (NFPS) was equivalent to 0.3 percent of GDP –a level not recorded since 1997, and in line with the provisions of the Fiscal Transparency and Responsibility Act. The improvement in Peru’s fiscal position was mainly explained by increased tax revenues, favored by economic growth and by high international quotations.*

The improvement of the country’s fiscal position in 2005 was basically associated with increased central government current revenues, particularly income tax; to local governments’ slower pace of spending; and to public debt lower maturity interests. Thus, the non-financial public sector recorded a primary balance with a surplus of 1.6 percent of GDP –higher than that of 2004– and expenditures for overall interests of 1.9 percent of the GDP, which

were slightly lower than in 2004. This allowed the non-financial public sector to post an economic deficit of 0.3 percent of the product, the lowest level ever recorded since 1997 when a 0.1 percent surplus of the GDP was achieved.

This result was in line with a deficit level under 1.0 percent, as provided by the Fiscal Transparency and Responsibility Act. Through Congress Law N° 28562, the





**TABLE 28**  
**NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE**

	Millions of nuevos soles			Percentage of GDP		
	2003	2004	2005	2003	2004	2005
<b>I. Primary balance</b>	<b>927</b>	<b>2,409</b>	<b>4,277</b>	<b>0.4</b>	<b>1.0</b>	<b>1.6</b>
<b>1. Central government primary balance</b>	<b>478</b>	<b>1,405</b>	<b>2,965</b>	<b>0.2</b>	<b>0.6</b>	<b>1.1</b>
a. Current revenues	31,568	35,381	41,046	14.8	14.9	15.7
i. Tax revenue	27,405	31,144	35,539	12.8	13.1	13.6
ii. Non-tax revenue	4,163	4,238	5,458	1.9	1.8	2.1
b. Non-financial expenditure	31,451	34,165	38,468	14.7	14.4	14.7
i. Current	27,371	29,870	33,577	12.8	12.6	12.8
ii. Capital	4,080	4,295	4,891	1.9	1.8	1.9
c. Capital revenues	361	189	386	0.2	0.1	0.1
<b>2. Primary balance of other entities</b>	<b>449</b>	<b>1,004</b>	<b>1,312</b>	<b>0.2</b>	<b>0.4</b>	<b>0.5</b>
<b>II. Interest payments</b>	<b>4,606</b>	<b>4,867</b>	<b>5,066</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>
1. External debt	3,763	3,951	4 175	1.8	1.7	1.6
2. Domestic debt	843	915	891	0.4	0.4	0.3
<b>III. Overall balance (I-II)</b>	<b>-3,679</b>	<b>-2,458</b>	<b>- 789</b>	<b>-1.7</b>	<b>-1.0</b>	<b>-0.3</b>
1. Net financing abroad (a+b+c) (Millions of US\$)	2,928	3,598	-3 813	1.4	1.5	-1.5
a. Disbursements	\$ 841	\$1,076	-\$1,167	1.4	1.5	-1.5
b. Amortization	\$2,101	\$2,474	\$2,628	3.4	3.5	3.3
c. Other	\$1,187	\$1,348	\$3,678	1.9	1.9	4.6
2. Net domestic financing	-\$ 73	-\$ 49	-\$ 117	-0.1	-0.1	-0.1
3. Privatization	570	-1,529	4,417	0.3	-0.6	1.7
	181	389	185	0.1	0.2	0.1

Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state-owned companies, and public institutions.

Public Treasury was exempted from complying with the regulation restricting the general government's real non-financial expenditure, which increased by 8.8 percent, and from the corresponding accumulation of public debt in 2005.

In order to reduce the risk of maintaining a high share of the debt in foreign currency, sovereign bonds were issued in the domestic market, thus contributing to turn the capital market into a more profound market and to consolidate a benchmark yield curve for similar debt papers in the private sector.

### 1. NFPS financial requirements

In addition to the 0.3 percent deficit of the product, equivalent to US\$ 196 million, public sector financial requirements included US\$ 4,460 million of public debt amortization payments; as a result of which public sector financial requirements in 2005 amounted to US\$ 4,656 million.

The main component in terms of amortization of public debt was associated with the repayment of the foreign debt. In addition to the corresponding ordinary payments during the period, the amortization

TABLE 29  
FINANCING OF NON-FINANCIAL PUBLIC SECTOR

	2003	2004	2005
<b>1. Overall balance (millions of nuevos soles)</b>	<b>-3,679</b>	<b>-2,458</b>	<b>-789</b>
(% of GDP)	-1.7	-1.0	-0.3
Millions of US\$	-1,058	-752	-196
<b>2. Amortization (millions de US\$)</b>	<b>-1,743</b>	<b>-2,068</b>	<b>-4,460</b>
Pension Reform Bonds	-172	-215	-192
Domestic	-385	-505	-591
External	-1,187	-1,348	-3,678
<b>3. Financial requirements (millions of US\$)</b>	<b>2,801</b>	<b>2,820</b>	<b>4,656</b>
External disbursements	2,101	2,474	2,628
Free disposal	1,765	2,158	2,277
Investment projects	336	315	350
Domestic bonds	508	766	2,096
Privatization	52	114	56
Other	139	-534	-124

Source: MEF, Banco de la Nacion, BCRP, SUNAT, local governments, state-owned companies, and public institutions.

of external debt included two early repayment operations to the governments and official agencies of the Paris Club and to the Japanese company JAPECO.

The amortization of the internal debt included exchanging an equivalent of US\$ 388 million of Treasury bonds for the Financial System Consolidation Program by sovereign bonds denominated in local currency. This exchange was carried out as follows: an equivalent amount of US\$ 262 million was exchanged in May, US\$ 120 million in September, and finally, the remaining US\$ 7 million were amortized in December.

The total financial requirements in 2005 implied using external resources amounting to US\$ 2,628 million, US\$ 1,682 million of which corresponded to an issuance of global bonds. Likewise, bonds for a total of S/. 6,688 million (US\$ 2,096 million) were

placed in the domestic market, including bonds issued for the above-mentioned operations.

## 2. Central Government

The central government recorded an economic deficit of 0.7 percent of GDP, a level lower than the 1.3 percent of GDP deficit posted in 2004. This improvement reflected the better primary balance achieved, which rose from 0.6 to 1.1 percentage points of the GDP as a result of the increase produced in terms of current revenues.

### 2.1. Central government revenues

The growth of the economy, the high levels of mineral prices in the international markets, and the income tax increase established in 2004 played a fundamental role in the greater central government revenues obtained during 2005.



In real terms, central government current revenues grew by 14.2 percent and reached a level equivalent to 15.7 percent of the GDP, which represented an increase of 0.8 percentage points with respect to the previous year.

**Income tax** collection, which totaled S/. 11,188 million, increased from 3.8 to 4.3 percent in terms of the GDP between 2004

and 2005, accounting for nearly half of the greater central government tax revenues. In real terms, collection of this tax rose 21.9 percent. Tax collection from **corporate bodies** grew 14.4 percent in real terms, given both the greater economic activity and the higher profits obtained by companies in the previous fiscal year, as reflected in the higher ratios they used for the purpose of tax calculations. This growth was achieved

**TABLE 30**  
**FISCAL REVENUE COEFFICIENTS**  
(Porcentaje de GDP)

	Percentage of GDP		
	2003	2004	2005
Tax burden of the central government 1/	12.8	13.1	13.6
Fiscal burden of the central government	14.8	14.9	15.7
Fiscal burden of the consolidated central government 2/	16.5	16.5	17.4
Fiscal burden of the general government 3/	17.4	17.5	18.3

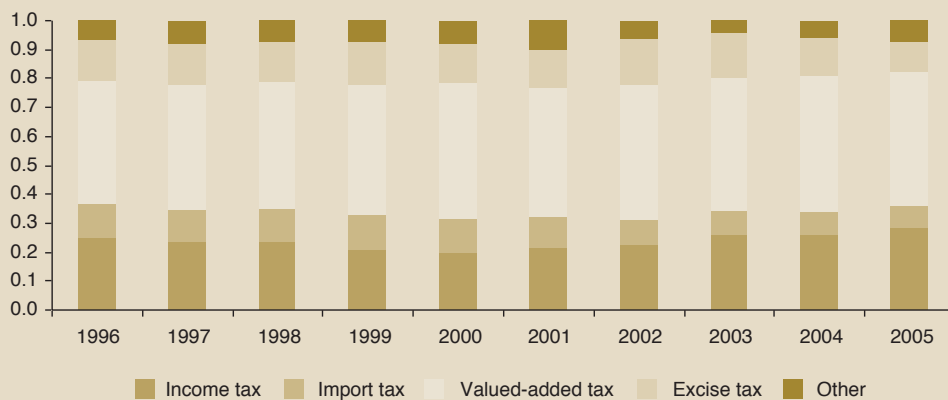
1/ Central government tax revenues.

2/ Including central government current revenues, contributions to the social security system and pension system, and own resources of the Consolidated Previsional Reserve Fund (FCR), the National Pension Savings Fund (Fonahpu), regulatory institutions, and register offices.

3/ Fiscal burden of the consolidated central government and own resources of local government.

Source: MEF, Banco de la Nación, BCRP and SUNAT.

**GRAPH 16**  
**CURRENT REVENUES OF THE CENTRAL GOVERNMENT**  
(Percentage of GDP)



Source: BCRP.

despite the fact that, since 2005, the income tax no longer includes the resources obtained from the Income Tax Advance Payment scheme, which was declared anti-constitutional in October 2004.

Payments on account of **regularization of Income Tax** totaled S/. 2,038 million, a sum equivalent to 0.8 percent of the GDP that represented a 100 percent increase in real terms with respect to 2004. This result was influenced by companies' greater profits due to the higher international prices of minerals and to the delayed impact of the 27-30 percent increase of corporate income tax.

Meanwhile, revenues generated by natural person income tax grew 7.9 percent in real terms due to the improvement of national disposable income and to employment expansion nationwide, among other reasons.

Revenues from **import duties** recorded a real growth of 12.8 percent and represented 1.2 percent in GDP terms. This result was related to a wider tax base of approximately 24 percent, which was in turn associated with a greater flow of goods and services from external markets, but partially offset by the appreciation of local currency and, to a lesser extent, by a reduction in average tariffs during 2005

TABLE 31  
CENTRAL GOVERNMENT REVENUES

	Percentage of GDP			Real % change		Percent structure		
	2003	2004	2005	2004	2005	2003	2004	2005
<b>I. TAX REVENUE</b>	<b>12.8</b>	<b>13.1</b>	<b>13.6</b>	<b>9.6</b>	<b>12.4</b>	<b>86.8</b>	<b>88.0</b>	<b>86.7</b>
1. Income tax	3.7	3.8	4.3	9.3	21.9	25.3	25.5	27.3
- Individual	1.2	1.2	1.2	4.5	7.9	8.2	7.9	7.5
- Corporate	2.0	2.2	2.3	17.4	14.4	13.6	14.8	14.8
- Clearing	0.5	0.4	0.8	-10.9	100.2	3.4	2.8	5.0
2. Import tax	1.2	1.2	1.2	3.8	12.8	8.1	7.8	7.7
3. Value-added tax (IGV)	6.6	6.8	7.0	10.8	11.1	44.7	45.8	44.6
- Domestic	4.0	4.0	4.0	8.6	9.4	26.8	26.9	25.8
- Imports	2.6	2.8	2.9	14.0	13.6	17.9	18.9	18.8
4. Excise tax (ISC)	2.1	1.9	1.6	-4.7	-10.4	14.3	12.6	9.9
- Fuel	1.5	1.3	1.0	-6.7	-19.2	10.4	9.0	6.4
- Other	0.6	0.5	0.6	0.5	11.2	3.9	3.7	3.6
5. Other tax revenues	0.7	0.9	1.1	47.3	35.7	4.5	6.1	7.3
- Exceptional solidarity tax (IES)	0.2	0.2	0.0	-8.6	-96.7	1.3	1.1	0.0
- Government stocks tax (IAE)	0.0	0.0	0.0	124.7	-9.8	0.1	0.2	0.2
- Other	0.5	0.7	1.1	69.4	70.8	3.0	4.7	7.0
6. Tax refund	-1.5	-1.5	-1.6	5.4	16.2	-10.0	-9.8	-10.0
<b>II. NON-TAX REVENUE 1/</b>	<b>1.9</b>	<b>1.8</b>	<b>2.1</b>	<b>-1.9</b>	<b>26.8</b>	<b>13.2</b>	<b>12.0</b>	<b>13.3</b>
<b>III. TOTAL REVENUE</b>	<b>14.8</b>	<b>14.9</b>	<b>15.7</b>	<b>8.1</b>	<b>14.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1/ Includes current transfers of public enterprises.

Source: MEF, Banco de la Nación, BCRP, and SUNAT.



In 2005, revenue from **value added tax** (IGV) recorded real growth of 11.1 percent, or 7.0 percentage points of GDP. This increase can be explained by the greater dynamism of economic activity and growth of imports, as well as by SUNAT's efforts to expand the tax base by means of a series of administrative measures established since 2002.

The tax-withholding regime for suppliers of large buyers generated around S/. 1,370 million. Moreover, nearly S/. 2,400 million were collected thanks to a system of deductions designed in order that the producers and suppliers of some products and services withhold part of the tax. The list of goods and services included in this regime, which applies to nearly 56 thousand taxpayers, was enhanced in April and then again in August. Finally, some other S/. 630 million were also collected through another withholding system. The list of goods and services included in this regime –involving 833 thousand clients– was also enlarged during the year. According to SUNAT, at least 642 thousand of these economic agents purchased goods and services without including their taxpayer code number (RUC), thus hindering oversight and contributing to tax evasion.

Revenue from **excise tax** generate incomes equivalent to 1.6 percentage points of GDP, a level 0.3 percentage points lower than in 2004, which represented a decrease of 10.4 percent in real terms. This lower collection was explained by a series of reductions of the excise tax on fuels implemented in 2004 and in July, August, and September 2005 to mitigate the impact of higher world oil prices on consumers. All of these reductions represented a loss of S/. 780 million in terms of tax collection.

Moreover, on December 31, 2005, the excise tax on diesel and kerosene was increased in order to offset, at least partially, the loss in tax collection due to tariff reduction of petroleum and derivatives within the frame of the Andean Community of Nations. The impact of this measure will be reflected in 2006.

Revenue from **other taxes** rose to 1.1 percent of GDP –a growth of 35.7 percent in real terms with respect to 2004–, due mainly to the Temporary Tax on Net Assets (ITAN), which accounted for approximately S/. 1,073 million, or 0.4 percentage points of GDP.

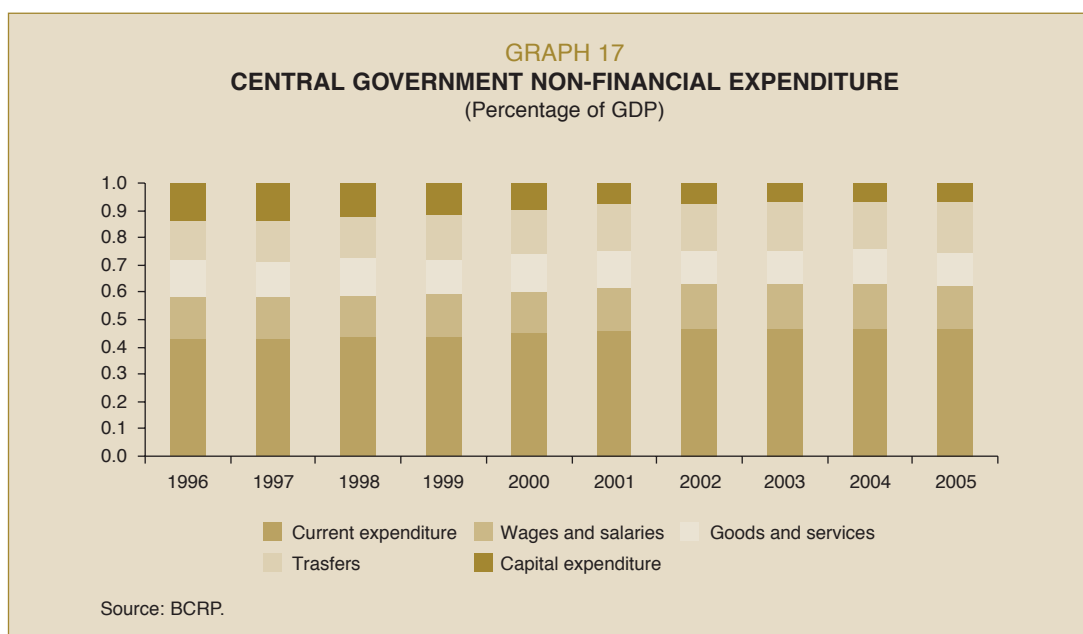
Finally, non-tax income increased 26.8 percent in real terms, a level equivalent to 2.1 percent of GDP. This better result is explained by higher incomes on account of royalties and mining, oil and gas royalties, as well as by the higher own resources obtained by public sector entities.

## 2.2. Central government expenditures

Central government **total expenditures** amounted to S/. 43.3 billion, a figure 10.5 percent higher than in 2004 in real terms. In GDP terms, central government expenditure rose from 16.2 to 16.5 percent, mainly because non-financial expenditure increased by 0.3 percentage points.

**Non-financial expenditure** grew 10.8 percent in real terms during 2005 to reach 14.7 percent of GDP. The increase occurred principally due to increased current transfers and capital expenditure.

**Wage and salary expenditure** rose 8.6 percent in real terms due to salary increases granted in 2004 and 2005, especially to staff



**TABLE 32**  
**CENTRAL GOVERNMENT NON-FINANCIAL EXPENDITURES**

	Percentage of GDP			Real % change		Percent structure		
	2003	2004	2005	2004	2005	2003	2004	2005
<b>I. NON-FINANCIAL EXPENDITURE</b>	<b>14.7</b>	<b>14.4</b>	<b>14.7</b>	<b>4.7</b>	<b>10.8</b>	<b>88.2</b>	<b>88.6</b>	<b>88.9</b>
<b>1. CURRENT EXPENDITURE</b>	<b>12.8</b>	<b>12.6</b>	<b>12.8</b>	<b>5.2</b>	<b>10.6</b>	<b>76.8</b>	<b>77.5</b>	<b>77.6</b>
a. Wages and salaries	4.5	4.4	4.4	4.8	8.6	27.1	27.3	26.8
b. Goods and services	3.4	3.5	3.4	8.0	7.3	20.6	21.3	20.7
c. Transfers	4.8	4.7	5.0	3.6	15.0	29.1	28.9	30.1
- Pensions	1.7	1.6	1.5	-2.1	6.2	10.3	9.6	9.3
- ONP-Fonahpu	1.0	1.0	1.0	9.7	7.2	6.1	6.4	6.2
- To Foncomun	0.8	0.8	0.8	7.2	11.5	4.5	4.7	4.7
- Royalties	0.2	0.3	0.5	36.5	72.7	1.5	1.9	3.0
- Other	1.1	1.0	1.1	-2.6	21.4	6.7	6.3	6.9
<b>2. CAPITAL EXPENDITURE</b>	<b>1.9</b>	<b>1.8</b>	<b>1.9</b>	<b>1.3</b>	<b>12.2</b>	<b>11.4</b>	<b>11.1</b>	<b>11.3</b>
a. Gross capital formation	1.6	1.6	1.7	4.8	14.9	9.9	9.9	10.3
b. Other	0.3	0.2	0.2	-19.8	-9.7	1.6	1.2	1.0
<b>II. INTEREST PAYMENTS</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>	<b>0.8</b>	<b>7.7</b>	<b>11.8</b>	<b>11.4</b>	<b>11.1</b>
1. Domestic debt	0.2	0.2	0.3	-5.1	40.3	1.3	1.2	1.5
2. External debt	1.7	1.6	1.6	1.6	3.9	10.4	10.2	9.6
<b>III. TOTAL (I + II)</b>	<b>16.7</b>	<b>16.2</b>	<b>16.5</b>	<b>4.3</b>	<b>10.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: MEF, Banco de la Nacion, and BCRP.



of the education and health sectors. In the education sector, teachers contracted by the Ministry of Education received a special allowance for effective teaching (SD N° 050-2005-EF, published on April the 23rd, 2005) in two parts, the first of which was paid from May-on, while the second was effective from September-on. Likewise, a salary increase was granted to the medical surgeons working for the Ministry of Health, both in the decentralized offices and in the regional health agencies (SD N° 047-2005-EF, published on April the 22nd, 2005) in three parts: the first two, in March and September 2005, and the last part, from January 2006-on.

**Spending on goods and services** decreased from 3.5 percent in 2004 to 3.4 percent in 2005 in GDP terms, although they increased by 7.3 percent in real terms. The Ministries of the Interior and Defense used additional resources to cover their greater spending on fuels and lubricants. Likewise, regional governments and the Ministry of Health increased their spending, while allocations to the National Food Program also grew due to increased nutrition- and assistance-related actions.

Spending on account of **current transfers** grew 15.0 percent in real terms, mainly as a result of the higher transfers to local governments because of higher revenue from municipal promotion fund (Foncomun) and the mining, hydroelectricity and oil royalties. From 2005, local governments also received resources for mining royalties for a total of S/. 167 million.

Furthermore, greater transfers for a total of S/. 219 million were made in 2005 to the

Pensions Department (ONP) to pay pensions, while another S/. 297 million were also spent for pensions depending directly on the central government. Finally, resources were also allocated to pay the obligations generated by the “Fuel Price Stabilization Fund”.

Capital spending grew 12.2 percent in real terms, rising from 1.8 percent of GDP in 2004 to 1.9 in 2005. This increase is partly explained by the higher spending of regional governments in gross capital formation, which implied real growth of 31.2 percent due mainly to the following projects: support activities in education; construction and maintenance of road infrastructure; support to agriculture and livestock production; and project management. It is worth highlighting the Special Program to Improve Education Quality in Primary School, and the Program to Improve Water and Sanitation in Chimbote in the sectors of Education and Housing respectively.

**Financial spending** increased 7.7 percent in real terms, and reached a level of 1.8 percentage points of GDP, of which 1.6 points corresponded to interest due on external debt, while the rest corresponded to interest due on internal debt.

### 3. Private investment promotion process

During 2005, incomes generated by the private investment promotion process amounted to US\$ 56 million, US\$ 29 million of which were generated by new processes while US\$ 27 million were generated by agreements established in past processes.



**TABLE 33**  
**PRIVATIZATIONS AND CONCESSIONS: 2005**  
(Millions of US\$)

	Date	Buyer	Sale Value	Investment Projects	
<b>PRIVATIZATIONS</b>			<b>37.8</b>	<b>1,061.1</b>	
1	Proyecto Cuprifero La Granja	16-Dec	Río Tinto	22.0	760.0
2	Bayovar Project	15-Mar	Companhia Vale Do Río Doce	3.0	300.0
3	Interconexión Eléctrica ISA Perú S.A.	1-Jul	Investment fund in Infrastructure, Public services and Natural Resources.	4.5	0.0
4	Red Eléctrica del Sur S.A. REDESUR	21-Jan	Investment fund in Infrastructure, Public services and Natural Resources.	4.4	0.0
5	Real Properties	Jan-Dec	Several buyers	1.8	0.0
6	Compañía Agraria Azucarera Andahuasi S.A.	20-Jan	Workers, pensioners, company	1.8	0.0
7	Other		stock market brokers- workers, pensioners, Real state agency	0.4	1.1
<b>CONCESSIONS</b>			<b>21.1</b>	<b>1,268.5</b>	
1	Red Interoceánica Sur: section 2, 3 and 4.	23-Jun	Consortio Concesionaria Eje Vial Norte Consortio INTERSUR	0.0	810.0
2	IIRSA's Multimodal Amazon North	5-May	Consortio Concesionaria Eje Vial Norte	0.0	223.0
3	Road network 6	20-Jul	Consortio Binacional Andino	0.0	192.0
4	EMFAPA Tumbes	23-Jul	Consortio Latinagua-Concyssa	0.0	31.5
5	Servicio comunicaciones Personales SCP (band c)	30-Mar	Sercotel S.A.	21.1	12.0
<b>TOTAL</b>			<b>58.9</b>	<b>2,329.5</b>	

Source: Proinversion.

On the other hand, privatizations and concessions implemented during 2005 totaled US\$ 58.9 million. In terms of value, the most important processes included awarding La Granja copper project to the corporation Río Tinto (US\$ 22 million), the concession of the fourth band of mobile telephones to Sercotel S.A. for 20 years (US\$ 21 million), and transferring 15 percent of the shares of Red Eléctrica del Sur S.A. (REDESUR) to the *Fondo de Inversión en Infraestructura, Servicios Públicos y Recursos Naturales* (US\$ 4 million).

Moreover, concessions were made to Public-Private Associations (PPA) which,

although they did not generate incomes in 2005, will allow an important flow of investment resources in the near future. Concessions awarded under this modality include the concession of the Peru-Brazil inter-oceanic highway, sections 2, 3, and 4 for a period of 25 years: section 2 was awarded to the consortium Interoceánica Urcos-Inambari; section 3 to the consortium Interoceánica Inambari-Iñapari; and section 4 to the consortium Intersur.

Other processes included the concession of IIRSA's North Amazon multimodal hub for 25 years; Road Network 6, and water and sanitation services in Tumbes for 5 years.



#### 4. Public debt

At the close of 2005, the public debt amounted to US\$ 29,968 million, of which US\$ 22,279 million –approximately 75 percent– corresponded to the external debt and the remaining US\$ 7,688 million to the internal debt.

The total public debt decreased by US\$ 937 million with respect to 2004. This reduction was explained principally by external debt management operations, which contributed to reduce the debt by US\$ 2,187 million, an amount partially offset by a higher internal debt (US\$ 1,249 million).

**TABLE 34**  
**PUBLIC DEBT STOCK 1/**

	Millions of US\$			Percentage of GDP		
	2003	2004	2005	2003	2004	2005
<b>PUBLIC DEBT</b>	<b>28,896</b>	<b>30,905</b>	<b>29,968</b>	<b>47.5</b>	<b>44.4</b>	<b>37.7</b>
<b>I. FOREIGN PUBLIC DEBT 2/</b>	<b>22,768</b>	<b>24,466</b>	<b>22,279</b>	<b>37.5</b>	<b>35.1</b>	<b>28.1</b>
CREDITS	17,138	17,522	13,886	28.2	25.1	17.5
Multilateral Organizations	7,359	7,875	7,983	12.1	11.3	10.1
Paris Club	8,658	8,508	5,696	14.2	12.2	7.2
Suppliers	1,034	1,070	158	1.7	1.5	0.2
Commercial Banks	5	4	1	0.0	0.0	0.0
Latin America	50	42	33	0.1	0.1	0.0
Eastern European Countries 3/	32	23	16	0.1	0.0	0.0
BONDS	5,630	6,944	8,393	9.3	10.0	10.6
<b>II. DOMESTIC PUBLIC DEBT</b>	<b>6,128</b>	<b>6,439</b>	<b>7,688</b>	<b>10.1</b>	<b>9.2</b>	<b>9.7</b>
<b>1. LONG TERM</b>	<b>5,511</b>	<b>5,812</b>	<b>6,896</b>	<b>9.1</b>	<b>8.3</b>	<b>8.7</b>
CREDITS FROM BANCO DE LA NACION	968	929	890	1.6	1.3	1.1
1. Central Government	895	871	857	1.5	1.2	1.1
2. Local Government	73	58	33	0.1	0.1	0.0
TREASURY BONDS	4,542	4,884	6,006	7.5	7.0	7.6
1. BCRP Capitalization Bonds	65	12	0	0.1	0.0	0.0
2. Financial System Support Bonds	682	637	222	1.1	0.9	0.3
3. Debt Exchange Bonds 4/	183	152	122	0.3	0.2	0.2
4. Sovereign Bonds	768	1,149	2,951	1.3	1.6	3.7
5. Caja de Pensiones Militar-Policial Bonds	34	34	34	0.1	0.0	0.0
6. Pension Recognition Bonds	2,810	2,899	2,677	4.6	4.2	3.4
<b>2. SHORT TERM</b>	<b>618</b>	<b>627</b>	<b>793</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>
TREASURY BILLS	58	0	0	0.1	0.0	0.0
CREDITS FROM BANCO DE LA NACION 5/	196	265	139	0.3	0.4	0.2
FLOATING DEBT	364	362	654	0.6	0.5	0.8

1/ Preliminary.

2/ The external debt includes medium and long term debt of COFIDE, excludes loans to balance of payments.

3/ Includes East Europe countries and the People's Republic of China.

4/ D.U. N° 068-99.

5/ Includes Public Treasury overdrafts in the Banco de la Nacion and credit to the Instituto Nacional de Defensa Civil.

Source: MEF, Banco de la Nacion, ONP, and COFIDE.

In GDP terms, the public debt fell 6.7 percentage points from 44.4 percent in 2004 to 37.7 percent in 2005. It should be pointed out that the strengthening of the dollar against other currencies, namely the yen and euro, had a favorable impact on the reduction of the public debt.

### External debt

External public debt amounted to US\$ 22,279 million –or 28.1 percent of GDP–, a figure US\$ 2,187 million lower than in 2004. This reduction is explained by the amortizations made during the year (US\$ 3,719 million), which were offset by new disbursements totaling US\$ 2,656 million. In addition, the appreciation of the dollar against the yen and the euro contributed to reduce the external debt by US\$ 1,124 million.

This year disbursements included US\$ 379 million for investment projects and US\$ 2,277 million for freely available

payments. Disbursements on account of investment projects were channeled through the central government and public enterprises, of which a total of US\$ 207 million was obtained from international organizations.

The projects consuming most borrowing included the Program on Economic Infrastructure and Social Development, and the rebuilding of the Rioja-Tarapoto highway, both of which were financed by the Andean Corporation of Development (CAF). The Inter American Development Bank (IADB) and the World Bank financed the program aimed at improving the quality of education, the rebuilding and maintenance of highways, and the national Mother-Child Insurance Program.

The Paris Club provided US\$ 172 million and financed, among other projects, the Hydro-electric Station of Yuncan,

**TABLE 35**  
**GLOBAL BONDS FINANCIAL SPECIFICATIONS**

	Date	Maturity date	Term	Amount (in millions)	Coupon	Price	Yield	Spread
Global 2012	6-Feb-02	21-Feb-12	10 years	US\$ 1,422,983	9.125%	97.732%	9.481%	455
Global 2008	25-Nov-02	15-Jan-08	5 years	US\$ 500,000	9.125%	99.073%	9.350%	612
Global 2015 (I)	30-Jan-03	6-Feb-15	12 years	US\$ 500,000	9.875%	98.455%	10.100%	610
Global 2015 (II)	3-Mar-03	6-Feb-15	12 years	US\$ 250,000	9.875%	103.125%	9.430%	547
Global 2033 (I)	14-Nov-03	21-Nov-33	30 years	US\$ 500,000	8.750%	99.099%	8.836%	375
Global 2016	26-Apr-04	3-May-16	12 years	US\$ 500,000	8.375%	99.813%	8.400%	395
Global 2014	6-Oct-04	14-Oct-14	10 years	EU 650,000	7.500%	99.658%	7.550%	355
Global 2033 (II)	27-Jan-05	21-Nov-33	28 years	US\$ 400,000	8.750%	106.750%	8.137%	346
Global 2025	13-Jul-05	21-Jul-25	20 years	US\$ 750,000	7.350%	100.000%	7.350%	295
Global 2025 (II)	12-Dec-05	21-Jul-25	19.5 years	US\$ 500,000	7.350%	101.027%	7.250%	252



expansion of electrification, improvement of the water drainage system in Piura, and the rebuilding of roads damaged by El Niño.

Of the total US\$ 581 million freely available disbursements granted by international organizations, some US\$ 350 million disbursed by the IADB were used to finance the Poverty Eradication & Development of Human Capital and the Quality Improvement & Management of Public Spending programs.

Furthermore, the World Bank financed with US\$ 150 million the loan to implement the Decentralization and Competitiveness III (DECSAL) program, while the CAF financed three projects, including the one on Economic Infrastructure and Social Development.

Another of the sources of freely available disbursements was the German financial institution KfW, member of the Paris Club, which co-financed the DECSAL project with the World Bank through a contribution of US\$ 14 million.

The main source used to finance the external debt was global bond issues in the international market, valued at US\$ 1,682 million (nominal value US\$ 1,650 million). Three bond issues were made: on January 27, bonds worth US\$ 400 million were issued that corresponded to the reopening of a bond with a 30-year maturity issued in 2003 (Global 2033 II) that had an 8.75 percent coupon and a spread of 346 basis points.

The following bond issues were aimed at refinancing external debt repurchase operations. In order to finance part of the prepayment to the Paris Club, Global

bonds 2025 worth US\$ 750 million were issued having a maturity of 20 years and earning interest at 7.35 percent with a spread of 295 basis points.

Likewise, the US\$ 500 million reopening of Global bond 2025, which reached a lower spread of 252 basis points, was used to finance a prepayment to Japeco.

The amortization of public debt amounted to US\$ 3,719 million, sum including US\$ 98 million of debt forgiveness: US\$ 71 million by the German government, US\$ 24 million by Italy, and US\$ 2 million by France; as well as extraordinary debt prepayments with the Paris Club and Japeco for US\$ 2,312 million.

### Internal Debt

Internal debt amounted to US\$ 7,688 million, of which US\$ 1,207 million was issued in dollars and US\$ 6,482 million (equivalent to S/. 22,232 million) was issued in soles. This debt was US\$ 1,249 million higher than in 2004, basically due to public sector issue of net liabilities, given that there was practically no exchange risk involved. This result is mainly explained by the net increase in issues of sovereign bonds, which flow grew from a level of S/. 1,090 million in 2004 to S/. 6,343 million in 2005. By the close of 2005, these liabilities totaled S/. 10,122 million.

During 2005 and in contrast with previous years, internal debt has been managed by focusing on financing demand especially through the domestic market. This debt strategy, used both in terms of frequency and volumes, has allowed the government to extend the average maturity of the debt denominated in sovereign bonds, which

BOX 4  
**PREPAYMENT OF EXTERNAL DEBT  
 TO PARIS CLUB AND JAPECO**

During 2005, the Peruvian government made two external debt prepayment operations. The first was made on August 15 with the Paris Club for a total of US\$ 1,555 million, and the second, on December 28, with JAPECO for US\$ 757 million, or S/. 3,043 million.

The sum paid to the Paris Club corresponded to commercial debt amortizations due for the September-December 2005 period. In the case of JAPECO, on the other hand, this prepayment cancelled 90 percent of the debt with this organization. Both operations were financed by placements of global bonds for a total of US\$ 1,250 million in the international markets and a total of US\$ 1,043 million in the domestic market.

**EXTERNAL DEBT PREPAYMENT**  
 (Millions of US\$)

	PARIS CLUB	JAPECO
<b>Debt prepayment</b>	<b>1,555</b>	<b>757</b>
<b>Source:</b>		
Placement of external bonds (to 20 years)	750	500
Placement of domestic bonds (S/. 1,500 millions to 12 years)	462	0
Placement of domestic bonds (S/. 1,861 millions to 15 years)	323	237
Placement of domestic bonds (S/. 69 millions to 11 years)	21	0
Own resources	0	20

As a result of these transactions, public debt maturities were extended from 3,2 years to an average of 11 years in the case of the Paris Club and from 5,6 to 10,7 years in the case of JAPECO.

In both cases, issues of sovereign bonds in the internal and external markets financed these transactions, as a result of which the external debt was partially replaced by internal debt, thus involving a lower exchange risk.

extended from 4.5 years in 2004 to 9.1 years in 2005.

It is worth mentioning that the government had the opportunity of issuing bonds with a 30-year maturity and that over 65 percent of the total issues are securities with maturities of more than 12 years. It should be also pointed out that the demand for these securities –which totaled S/. 10,287 million– exceeded by over 50 percent the S/. 6,688 million flow of bonds issued, thus contributing to reduce the coupons offered in terms of other issues with similar maturities in other years.

Another measure implemented during this period was the exchange of debt bonds, a process started in 2004. In 2005, 98 percent of the total Bonds for the Restructuring of the Financial System (BRSF) maturing in December 2005 were exchanged for new sovereign bonds valued at S/. 1,244 million. These bond exchange operations were conducted in two stages. In the first one, carried out on May 5, BRSF bonds were exchanged for sovereign bonds worth S/. 851 million: S/. 787 million with a 10-year maturity and S/. 64 million with a 6-year maturity. In the second stage, conducted on September 8, BRSF bonds were exchanged



for 20-year sovereign bonds valued at S/. 393 million.

With respect to the other components of internal public debt, it should be said that placements of Pension Reform Bonds (*Bonos de Reconocimiento*) amounted to S/. 9,183 million, that is, S/. 325 million less than in the previous year.

The balance in dollars of other Treasury bonds decreased from US\$ 836 million in 2004 to US\$ 377 million in 2005, a reduction explained mostly by the exchange of

US\$ 389 million worth of BRSF for new sovereign bonds.

Finally, the balance of Banco de la Nación loans fell from US\$ 929 million by the close of 2004 to US\$ 890 million by the close of 2005, due mainly to local governments' amortization of loans associated with the program aimed at providing municipalities with basic equipments (*Programa de Equipamiento Básico Municipal*), as well as with the loans granted to the Ministries of Defense and the Interior and to the Banco de Materiales.