

III. Public finances

After three consecutive years of fiscal surpluses, the non financial public sector recorded a deficit of 1.9 percent of GDP in 2009 in a context of global economic slowdown that brought about the deterioration of terms of trade. Moreover, the lower pace of growth of domestic economic activity had a negative impact on the level of revenues.

Additionally, the expansionary fiscal measures implemented, especially in terms of investment, to offset the effects of the slowdown of domestic and external demand increased non financial expenditure by 13 percent, with capital expenditure increasing by 41 percent.

The Fuel Price Stabilization Fund (FPSF) continued to be used to face the high volatility of the international prices of petroleum. A total of S/. 1,100 million was transferred to the Fund by the Ministry of Energy and Mines to partially repay the Fund's debt with fuel refineries and fuels importers.

1. Fiscal policy indicators

1.1 Conventional economic result

The economic deficit of the non financial public sector was mainly associated with the operations of the central government (1.8 percent of GDP) given that current revenues were lower by 2.3 percentage points of GDP and non financial expenditure were higher by 1.8 percentage points of GDP.

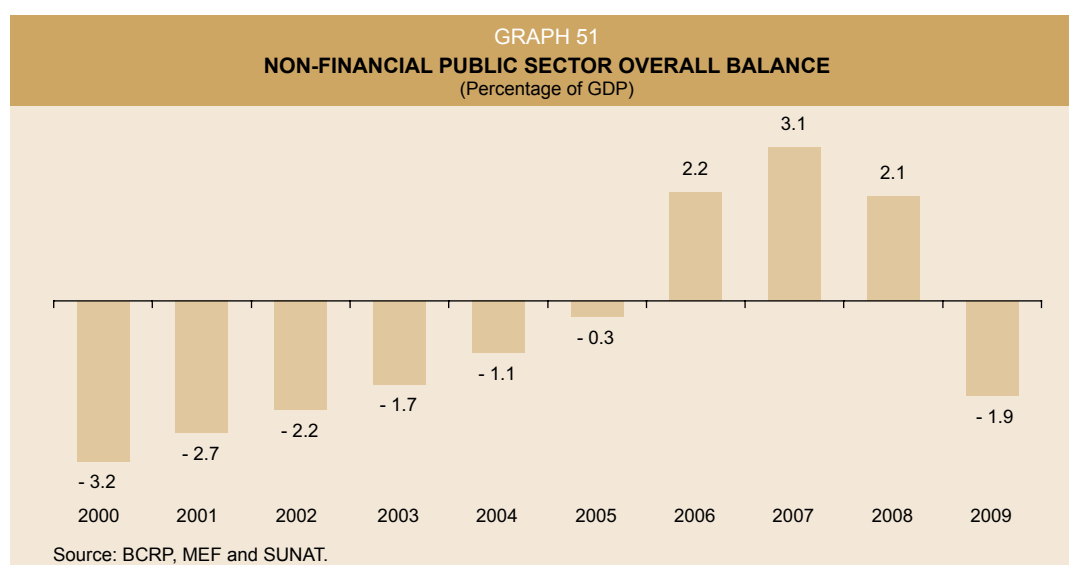


TABLE 27
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

	Millions of nuevos soles			Percentage of GDP		
	2007	2008	2009	2007	2008	2009
I. Primary Balance	16,408	13,722	- 2,302	4.9	3.7	- 0.6
1. Of the General Government	16,129	13,782	- 3,284	4.8	3.7	- 0.9
a. Current revenue	69,347	77,755	70,997	20.7	20.9	18.6
i. Tax-revenue	53,250	59,600	53,803	15.9	16.0	14.1
ii. Non-tax revenue	16,097	18,155	17,194	4.8	4.9	4.5
b. Non-financial expenditure	53,604	64,367	74,668	16.0	17.3	19.6
i. Current	43,504	49,204	52,869	13.0	13.2	13.9
ii. Capital	10,100	15,163	21,800	3.0	4.1	5.7
c. Capital revenue	386	395	388	0.1	0.1	0.1
2. Of State Enterprises	279	- 61	981	0.1	0.0	0.3
II. Interests	6,030	5,883	5,006	1.8	1.6	1.3
1. External debt	4,287	3,350	3,097	1.3	0.9	0.8
2. Domestic debt	1,743	2,533	1,909	0.5	0.7	0.5
III. Overall Balance (I-II)	10,378	7,839	- 7,309	3.1	2.1	- 1.9
1. Net external financing	- 6,398	- 3,472	4,078	- 1.9	- 0.9	1.1
(Millions of US\$)	- \$2,085	- \$1,205	\$1,320	- 1.9	- 0.9	1.1
a. Disbursements	\$3,384	\$1,165	\$3,225	3.2	0.9	2.6
b. Amortization	\$5,661	\$2,604	\$1,840	5.3	2.0	1.4
c. Other	\$193	\$234	- \$65	0.2	0.2	- 0.1
2. Net domestic financing	- 4,429	- 4,523	3,129	- 1.3	- 1.2	0.8
3. Privatization	449	156	102	0.1	0.0	0.0

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

1.2 Structural primary result

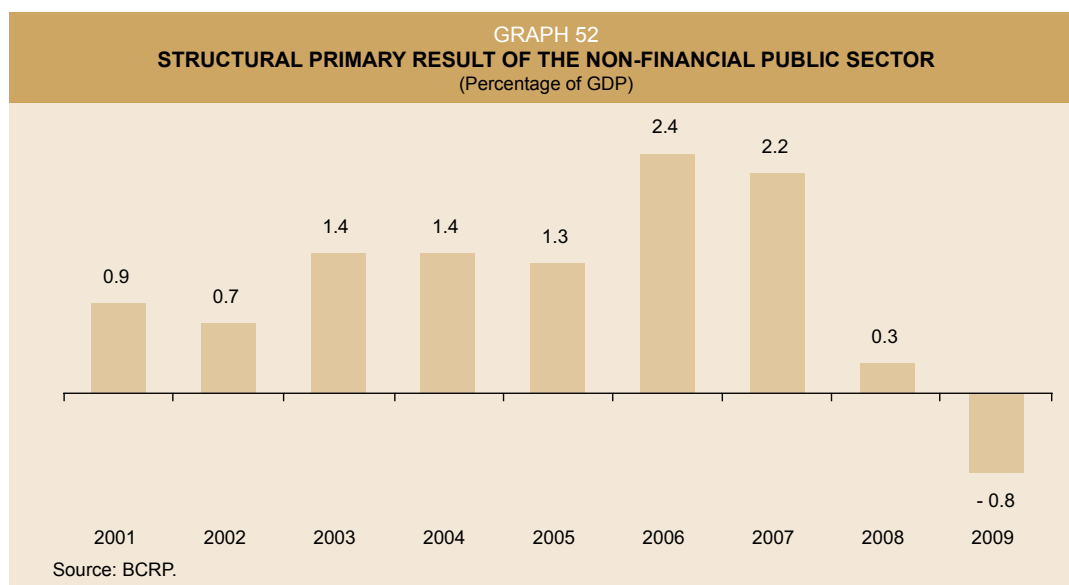
The structural primary result is an indicator that reflects fiscal policy decisions closely, because it deducts the effects of the economic cycle and the impacts of the prices of our main mining exports from the conventional primary result. In 2009 this indicator was negative by 0.8 percent of GDP as a result of the counter cyclical fiscal policy implemented to counter the effects of the international economic crisis.

No negative structural primary result was recorded in 2001-2008, as illustrated in the graph below.

1.3. Financial requirements of the Non Financial Public Sector

Financial requirements measure the financial resources required by the public sector to cover its economic result and the amortization of the domestic and external debt. Due to the deficit recorded in the year, financial requirements in 2009 amounted to US\$ 5,018 million, with the operations of amortization of





the external public debt accounting for US\$ 1,840 million. These operations, which concentrated in Q3 and Q4, amounted to US\$ 1,041 million and US\$ 332 million, respectively.

The public debt management operations carried out during 2009 were aimed at reducing the debt's component in foreign currency and at reprogramming the closest debt maturities and included the prepayment of the debt with country members of the Paris Club (US\$ 893 million), with was financed with the issuance of Global Bonds, as well as domestic debt management operations, which were carried out through partial swaps of Sovereign Bonds (S/. 975 million).

TABLE 28
FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	2007	2008	2009
1. Overall balance (Millions of nuevos soles)	10,378	7,839	- 7,309
(% of GDP)	3.1	2.1	- 1.9
Millions of US\$	3,230	2,814	- 2,620
2. Amortization (millions of US\$)	- 6,823	- 3,126	- 2,397
Redemption of recognition bonds	- 134	- 94	- 91
Domestic debt	- 1,028	- 428	- 466
External debt	- 5,661	- 2,604	- 1,840
3. Financial requirements (millions of US\$)	3,593	312	5,018
External disbursements	3,384	1,165	3,225
Freely disposable funds	3,090	883	2,613
Investment projects	294	282	612
Domestic bonds	3,305	473	1,004
Privatization	143	51	34
Others	- 3,238	- 1,378	755

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



2. Central government

In contrast with the surplus of 2.2 percent of GDP observed in 2008, the central government recorded an economic deficit of 1.8 percent of GDP due to lower current revenues (2.3 de percentage points of GDP) and to higher non financial expenditure (1.8 percentage points) resulting mainly from the real growth of capital expenditure (63 percent).

2.1 Revenues of the central government

- The **current revenue** of the central government was equivalent to 15.9 percent of GDP, a result 2.3 percentage points of GDP lower than the one recorded in 2008. This decline is explained by lower revenue from income tax due to the drop of the international prices of metals; to lower revenue from the value added tax (VAT) due to lower economic activity; and to lower revenue from import duties due to the decline of imports in 2009. On the other hand, revenue from excise tax grew by higher specific tax on fuels.

TABLE 29
CENTRAL GOVERNMENT REVENUES

	Percentage of GDP			Real % change		Percentage structure		
	2007	2008	2009	2008	2009	2007	2008	2009
I. TAX REVENUE	15.6	15.6	13.8	5.3	-12.4	86.2	85.7	86.6
1. Income tax	6.8	6.5	5.3	-0.1	-18.1	37.6	35.5	33.5
- Individuals	1.3	1.4	1.5	13.0	1.8	7.4	7.9	9.2
- Legal entities	4.3	4.4	3.2	7.3	-27.0	23.7	24.0	20.2
- Tax regularization 1/	1.2	0.7	0.6	-41.4	-3.1	6.6	3.6	4.1
2. Import duties	0.7	0.5	0.4	-17.8	-24.1	3.6	2.8	2.5
3. Value-added tax (VAT)	7.5	8.5	7.7	18.2	-9.2	41.6	46.4	48.6
- Domestic VAT	4.1	4.2	4.5	9.6	6.9	22.4	23.2	28.5
- VAT on imports	3.5	4.2	3.2	28.2	-25.2	19.2	23.3	20.1
4. Excise tax	1.3	0.9	1.1	-23.8	16.4	7.1	5.1	6.8
- Fuels	0.7	0.4	0.6	-43.1	50.4	4.0	2.1	3.7
- Other	0.6	0.5	0.5	1.2	-8.3	3.1	2.9	3.1
5. Other tax revenues	1.1	1.2	1.2	7.4	-2.2	6.3	6.4	7.2
- ITF	0.3	0.3	0.3	4.4	-17.4	1.7	1.7	1.6
- ITAN	0.4	0.5	0.5	12.5	-5.0	2.4	2.6	2.8
- IAE	0.0	0.0	0.0	-28.5	n.a.	0.0	0.0	0.0
- Break-up	0.2	0.1	0.2	-5.0	39.2	0.8	0.8	1.2
- Other	0.2	0.3	0.3	9.9	-0.7	1.3	1.4	1.6
6. Document authentication fees 2/	-1.8	-1.9	-1.9	11.4	-0.7	-10.0	-10.6	-12.1
II. NON-TAX REVENUES 3/	2.5	2.6	2.1	9.8	-18.5	13.8	14.3	13.4
III. TOTAL	18.1	18.2	15.9	5.9	-13.3	100.0	100.0	100.0

1/ Income tax generated in the previous year.

2/ Includes refunds.

3/ Includes current transfers from state enterprises.

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



The tax revenues of the central government fell 12.4 percent reflecting negative results in all tax categories, except for the excise tax on fuels.

- Revenues from **income taxes** declined from 6.5 to 5.3 percent of GDP (18.1 percent in real terms), due to lower revenues from legal entities' payments on account of such, especially in the mining sector, as a result of the drop of the international prices of metals. In addition to this, the balances in favor of taxpayers associated with excess payments on account received in 2008 were also used.

TABLE 30
FISCAL REVENUE RATIOS
(Percentage of GDP)

	Percentage of GDP		
	2007	2008	2009
Central government tax burden 1/	15.6	15.6	13.8
Central government fiscal burden	18.1	18.2	15.9
Fiscal burden of the consolidated central government 2/	19.9	20.0	17.7
Fiscal burden of the general government 3/	20.7	20.9	18.6

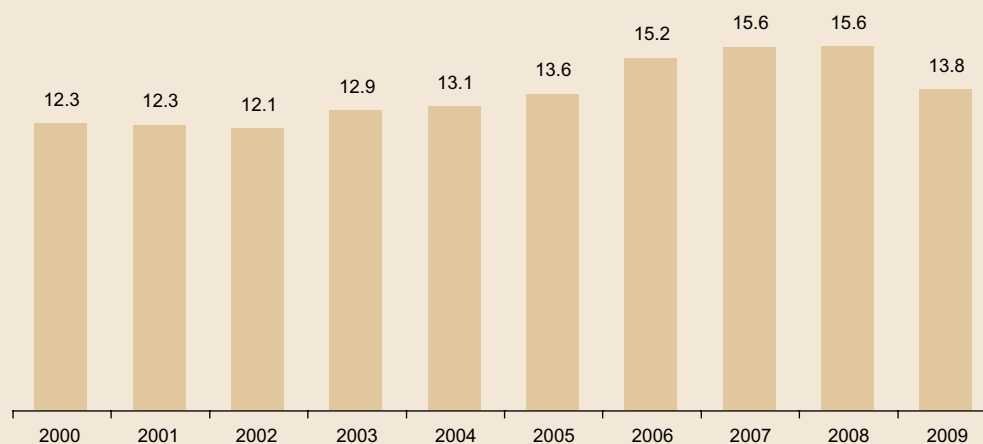
1/ Central government tax revenues.

2/ Includes central government current revenues; contributions to the social security and pension system; and own resources of Fondo Consolidado de Reservas Previsionales, Fonahpu, and regulating and registration entities.

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

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

GRAPH 53
CENTRAL GOVERNMENT TAX BURDEN
(Percentage of GDP)



Source: BCRP.

- It should be pointed out that the incomes of mining companies and, therefore, their payments of income tax, increased in the last months of the year due to the improvement of the international prices of metals and to higher demand. In summary, revenues from legal entities' payments on account of income tax declined by an average 21.9 percent in the first ten months of the year, but increased by 0.3 and 6.8 percent in the last two months of 2009, respectively.

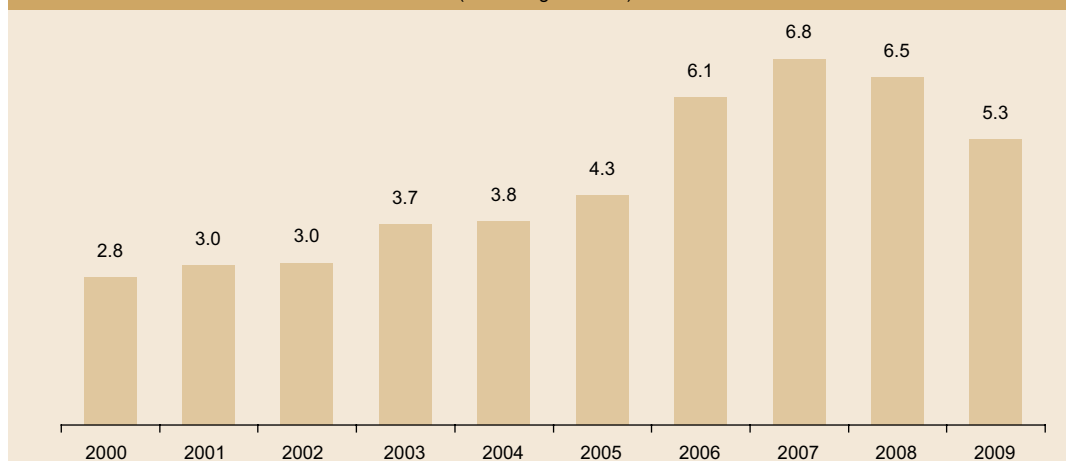
TABLE 31
REVENUES FROM CORPORATE TAX BY SECTORS
 (Millions of Nuevos Soles)

	2007	2008	2009	Real % Chg.	
				2008	2009
Mining	8,703	6,743	3,018	- 26.5	- 56.7
Other services 1/	3,541	4,454	4,604	18.8	0.3
Manufacturing	1,729	2,235	2,004	22.3	- 13.1
Commerce	1,602	2,235	2,099	31.9	- 8.8
Hydrocarbons	969	996	543	- 2.9	- 47.1
Construction	343	395	548	8.8	34.4
Fishing	114	59	54	- 51.5	- 11.6
Agriculture and livestock	86	54	38	- 41.0	- 32.4
TOTAL	17,087	17,169	12,907	- 4.9	- 27.2

1/ Includes activities in real estate, business, leasing, telecommunications, financial intermediation, health, social services, tourism and hotels, electric generation, and water services.

Source: SUNAT.

GRAPH 54
REVENUE FROM INCOME TAX
 (Percentage of GDP)

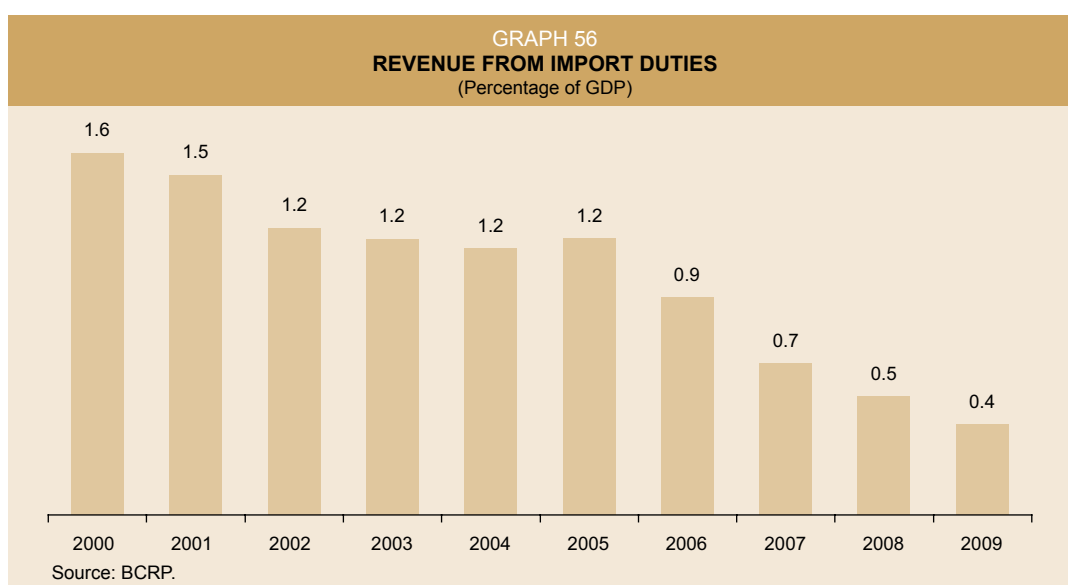
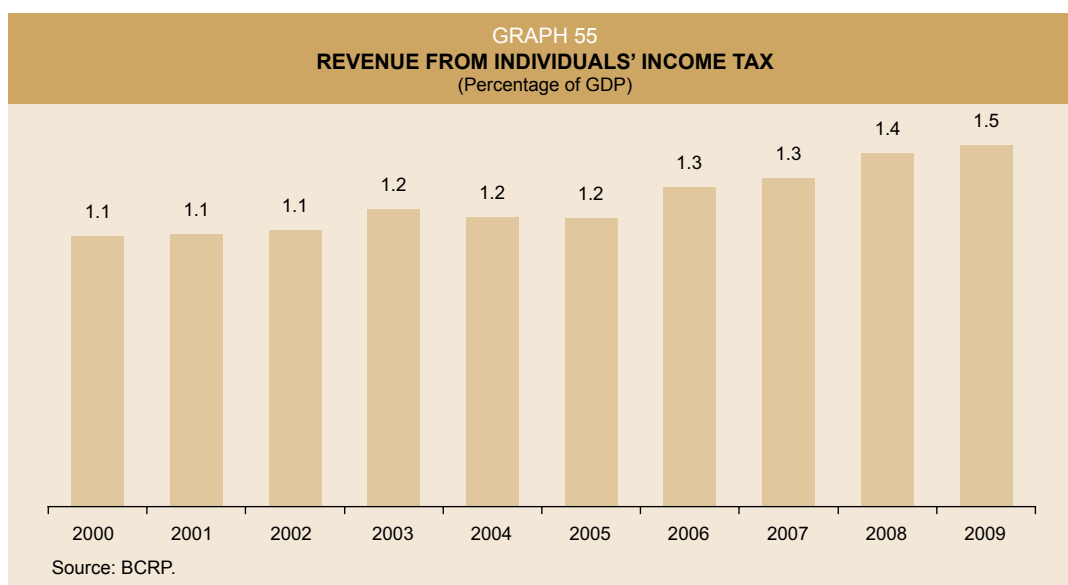


Source: BCRP.



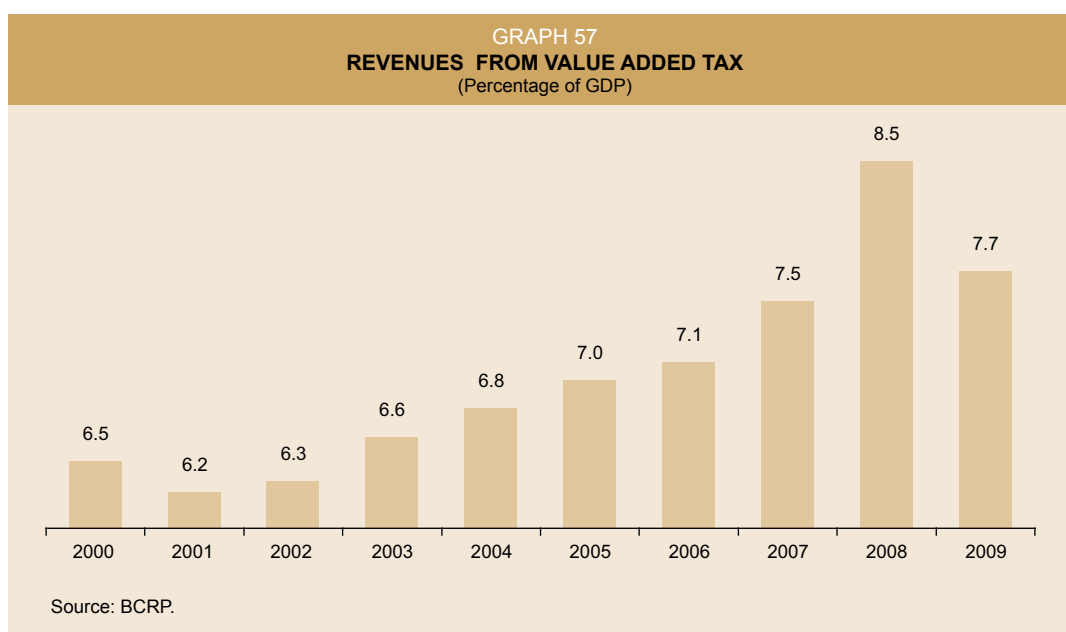
Despite the economic crisis, employment and income levels were stable. Thus, revenues from the income tax of individuals grew by a real 1.8 percent in real terms due to the improvement observed in terms of workers' earnings (5.2 percent in the case of independent workers and 6.2 percent in the case of dependent workers). This effect was offset by the lower distribution of profits to workers, especially in the mining sector.

- Revenues from **import duties** contracted 24.1 percent in real terms –from 0.5 to 0.4 percent of GDP– as a result of lower imports of raw materials and intermediate goods (30.8 percent), capital goods and construction materials (25.9 percent), and consumer goods (12.5 percent). It is worth mentioning that the Peru-United States Free Trade Agreement came into force in 2009 and implied lower revenues from tariffs.

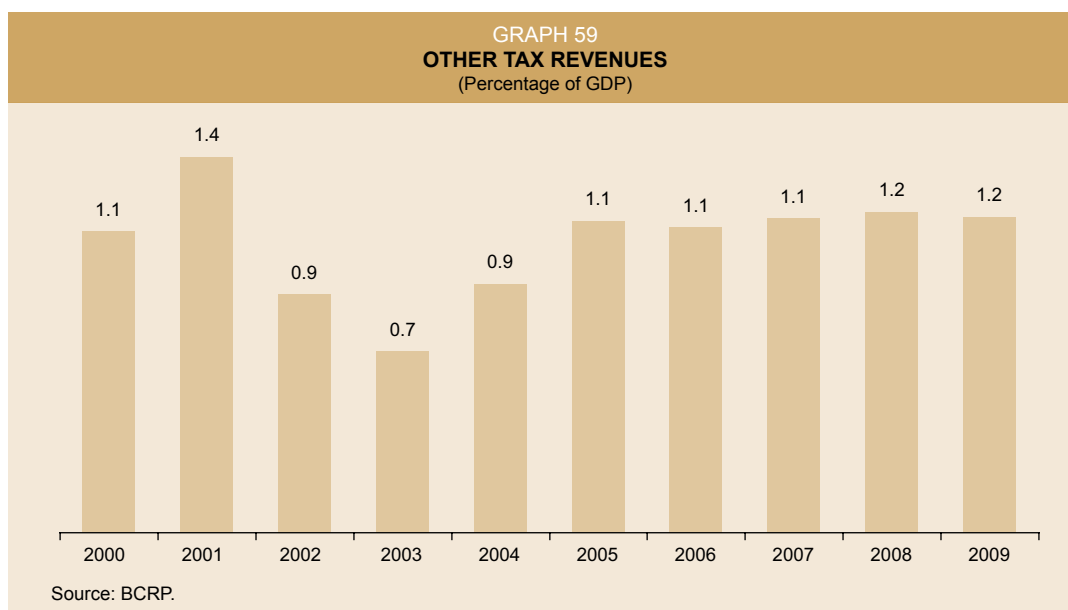
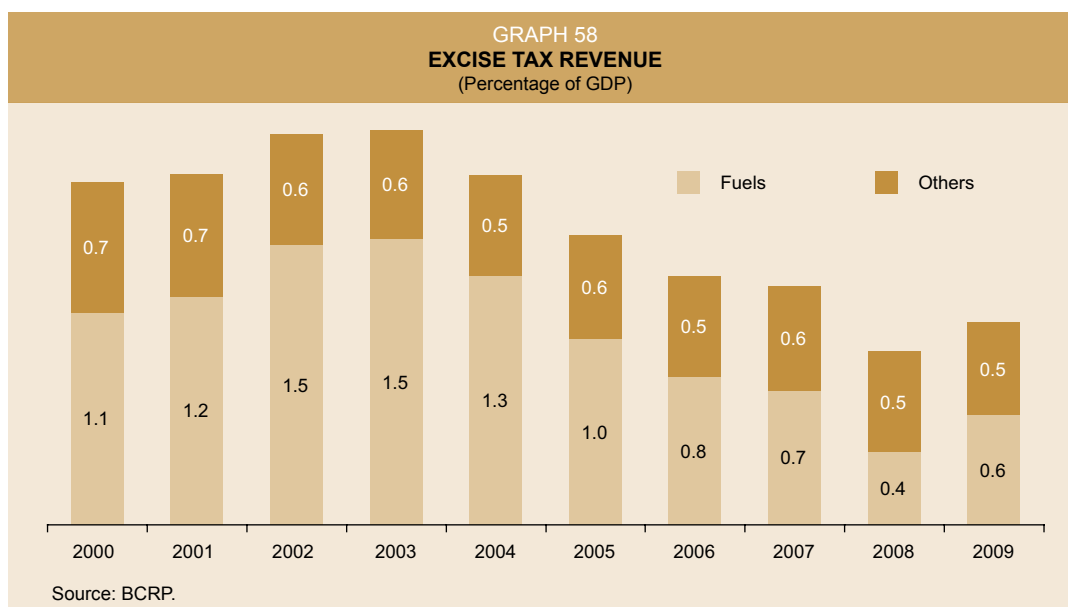


- Revenues from the **value added tax (VAT)** showed a decline of 9.2 percent in real terms –from 8.5 of GDP to 7.7 percent of GDP– due to the lower amount of taxable sales in the period (7.5 percent) as a result of the evolution of the level of economic activity.

The domestic VAT recorded an increase due to the lower fiscal credit resulting from lower taxable purchases in the period (13.7 percent). It is worth pointing out that the growth rate of the domestic VAT is determined by the taxable sales declared in the preceding month that is net of the effect of taxable purchases (including purchases abroad), which generates a fiscal credit against the domestic VAT. Thus, lower imports of inputs and capital goods, which implied lower fiscal credit, would have prevented the domestic VAT from declining. On the other hand, the external VAT fell as a result of the decline of imports during 2009.



- In 2009 revenues from the **excise tax (ISC)** increased from 0.9 to 1.1 percent of GDP, mainly due to the higher contribution of the excise tax on fuels. The revenues from the excise tax on items not associated with fuels showed a reduction of 8.3 percent in real terms due mostly to lower revenues from imported goods. The higher revenues from fuels were associated with the higher rate of excise tax established to compensate the reduction of the international prices of fuels in 2009.
- Incomes from **other tax revenues** remained at 1.2 percent of GDP, even though in real terms they declined 2.2 percent. It is worth highlighting that revenue from the Tax on Financial Transactions dropped 17.4 percent, which reflected the lower tax rate of this tax (0.07 percent in 2008 and 0.06 percent in 2009) and the lower revenues from the Temporary Tax on Net Assets (equivalent to 0.5 percentage points of GDP) also as a result of a lower tax rate (0.05 percent in 2008 and 0.04 percent in 2009).



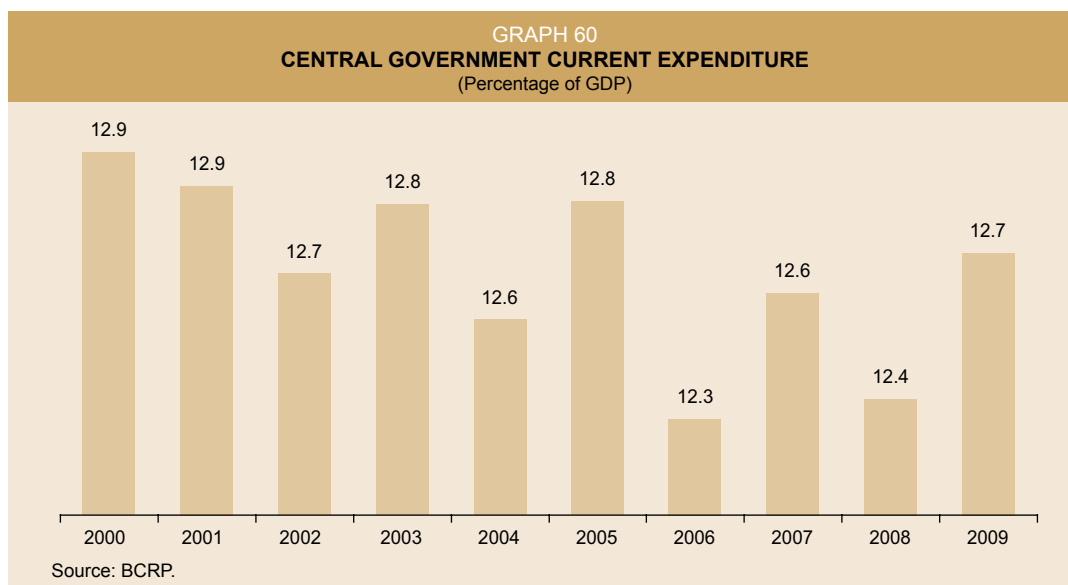
- **Tax refunds** were equivalent to 1.9 percent of GDP. Refunds for exports, VAT, and tax overpayments amounted to S/. 3,704 million, S/. 991 million, and S/. 732 million, respectively. Tax refunds declined 0.7 percent in real terms due to lower refunds for exports and advanced return of the VAT. The latter is used mainly by companies that have contracts with the State to exploit natural resources or to carry out public infrastructure projects.

- The decline of **non tax revenues** (18.5 percent in real terms) is mostly explained by the lower international prices of minerals and hydrocarbons which negatively affected the revenues from royalties and mining, gas, and oil royalties (canon) associated with activities in these sectors.

Extraordinary transfers (S/. 414 million) in accordance with the regulations on workers’ rights to participate in firms’ profits were also made to the regional governments with remnants exceeding 2,200 tax units per year (2200 UIT). As established by Law 28464 (20-12-2004), the difference between the 2200 UIT and the total remnant shall be executed exclusively to finance road infrastructure projects in the region that generated the resources.

2.2 Central government expenditure

The **expenditure** of the central government (17.9 percent of GDP) was 10.1 percent higher in real terms than the one recorded in the previous year. This higher expenditure is mostly explained by higher capital expenditure (up 1.5 percentage points relative to 2008). Without considering transfers to other entities of the non financial public sector, the central government non financial expenditure increased 13.2 percent in real terms.



- **Expenditure on salaries** increased from 3.7 percent of GDP to 4.0 percent of GDP (up 6.2 percent in real terms) due to the higher wage bill of ministries as a result of the payment of the Asignación Extraordinaria por Trabajo Asistencial (AETA) y Productividad to the staff of the Ministry of Health, the incorporation of members into the Police Forces, the hiring of university faculty, and better salary scales for teachers. This increase is also explained by the extraordinary bonuses of Fiestas Patrias and Christmas which implied a total cost of S/. 494 million.

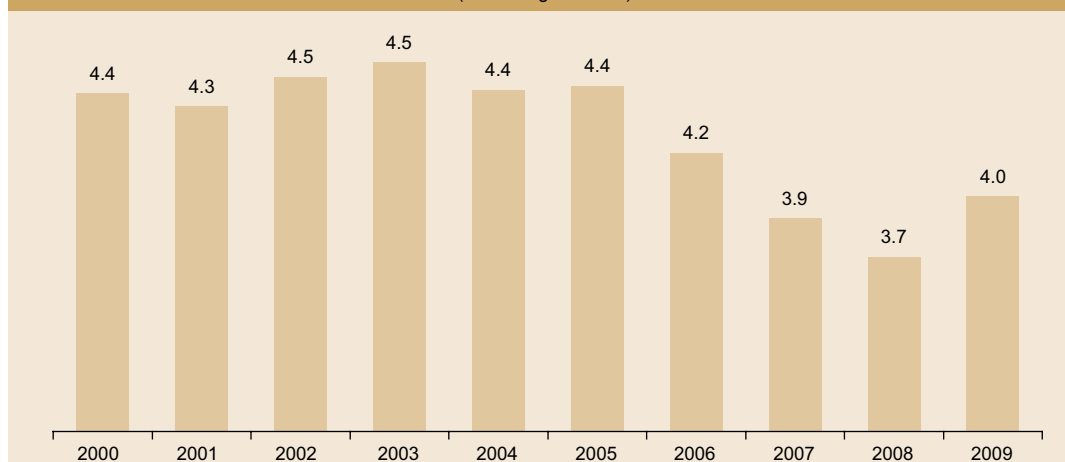


TABLE 32
CENTRAL GOVERNMENT EXPENDITURES

	Percentage of GDP			Real % change		Percentage structure		
	2007	2008	2009	2008	2009	2007	2008	2009
I. NON-FINANCIAL EXPENDITURE	14.8	14.8	16.6	5.0	11.8	90.0	91.5	92.9
1. CURRENT EXPENDITURE	12.6	12.4	12.7	3.0	2.2	76.9	76.7	71.2
a. Wages and salaries	3.9	3.7	4.0	0.7	6.2	23.7	23.1	22.3
b. Goods and services	3.0	2.9	3.5	1.3	19.6	18.4	18.1	19.6
c. Transfers	5.7	5.7	5.2	5.5	- 9.2	34.8	35.6	29.3
- Pensions	1.2	1.1	1.1	- 5.1	2.1	7.4	6.8	6.3
- ONP-Fonahpu	0.8	0.6	0.6	- 18.4	- 5.3	4.8	3.8	3.3
- Foncomun	0.8	0.9	0.8	9.9	- 10.3	5.1	5.4	4.4
- Royalties	1.5	1.2	1.0	- 10.5	- 23.6	8.9	7.7	5.3
- Other	1.4	1.9	1.8	41.9	- 7.0	8.6	11.8	10.0
2. CAPITAL EXPENDITURE	2.1	2.4	3.9	16.5	61.5	13.1	14.8	21.7
a. Gross capital formation	1.8	1.9	2.6	12.0	40.4	10.7	11.6	14.8
b. Other	0.4	0.5	1.2	36.4	138.1	2.4	3.2	6.9
II. FINANCIAL EXPENDITURE	1.6	1.4	1.3	- 12.3	- 7.9	10.0	8.5	7.1
1. Domestic	0.4	0.5	0.5	34.1	- 3.5	2.3	3.0	2.6
2. External	1.3	0.9	0.8	- 26.2	- 10.2	7.7	5.5	4.5
III. TOTAL (I+ II)	16.4	16.1	17.9	3.3	10.1	100.0	100.0	100.0
Memo:								
Non-financial expenditures excluding transfers 1/	10.4	10.6	12.0	7.1	13.2	63.2	65.6	67.4

1/ Does not include central government transfers to the rest of public entities.
Source: MEF, Banco de la Nación and BCRP.

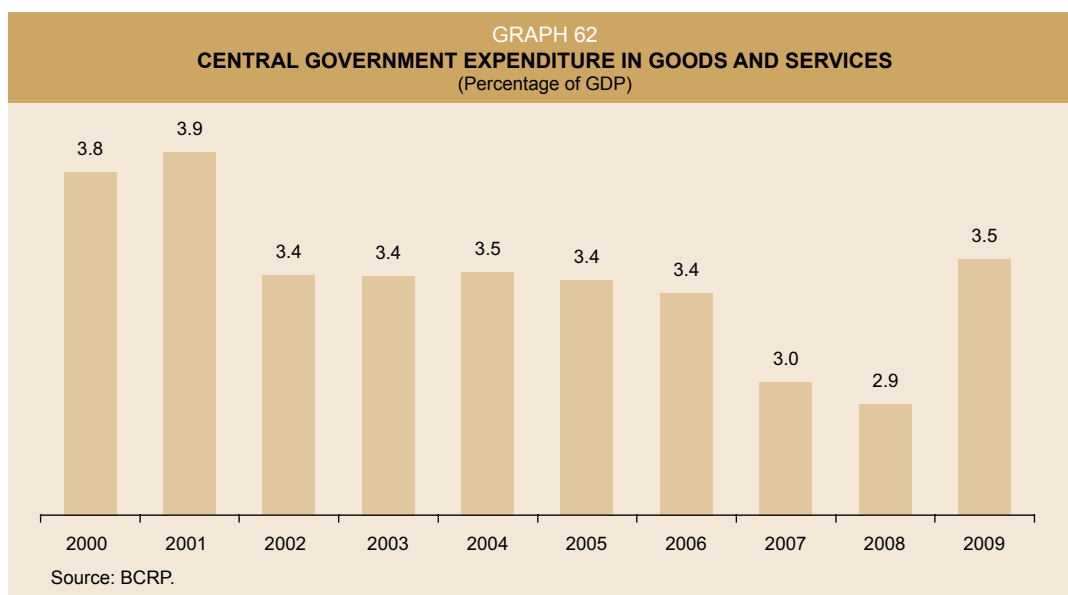
GRAPH 61
CENTRAL GOVERNMENT EXPENDITURE IN WAGES AND SALARIES
(Percentage of GDP)



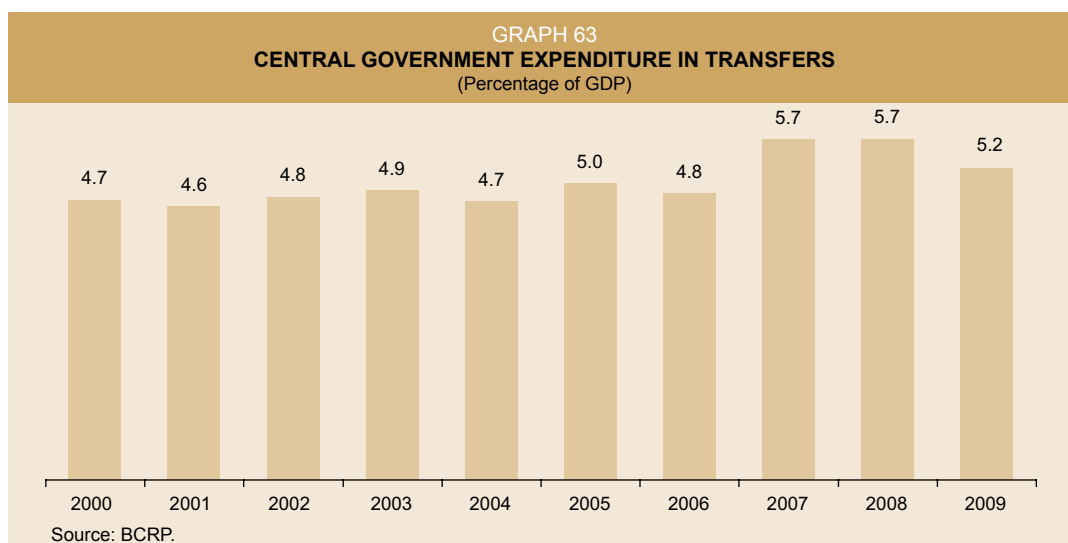
Source: BCRP.

- **Expenditure in goods and services** increased by a real 19.6 percent, reflecting higher fund allocations to:
 - The Ministries of Defense and Interior, for the maintenance and recovery of operational capacity;
 - Ministry of Health, for the acquisition of vaccines and medication for medical care of children under 36 months and comprehensive health care of the elderly, as well as for regular immunization activities for children older than 5 years;
 - Ministry of Transport and Communications, for road maintenance, rehabilitation, and repair;
 - Regional governments, for the acquisition of consumer goods, for contracting services with service companies, and for the maintenance of infrastructure;
 - Ministry of Education, for the training of primary and secondary education teachers and for the literacy process;
 - Ministry of Agriculture, for the promotion of productive chains and formalization of commerce;

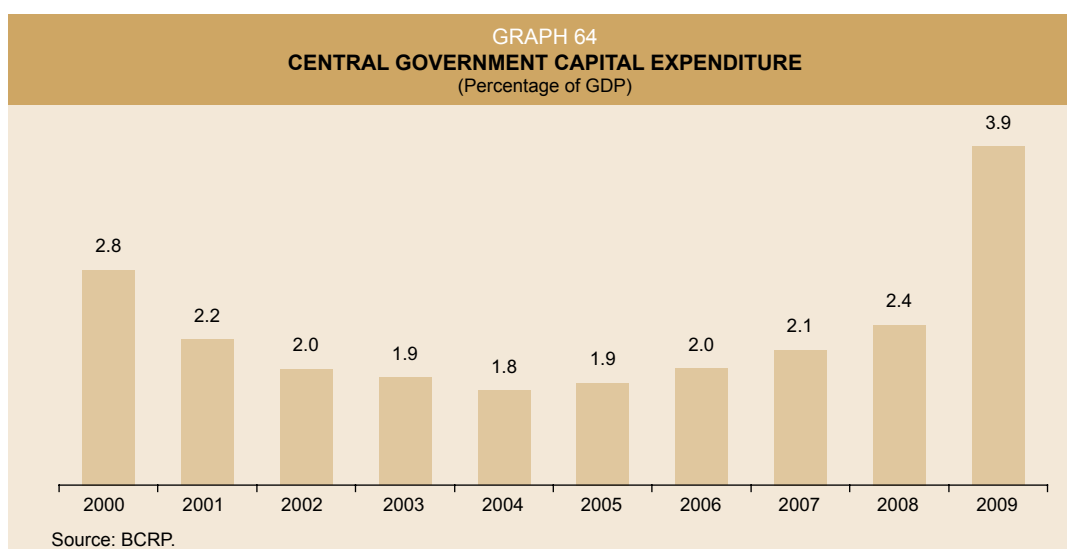
It is worth pointing out that expenditure in goods and services in GDP terms increased from 2.9 to 3.5 percent between 2008 and 2009.



- **Expenditure on current transfers** declined from 5.7 percent of GDP in 2008 to 5.2 percent of GDP in 2009 (down 9.0 percent in real terms). Lower transfers to local governments were recorded in terms of mining, oil, hydroenergy, fishing, and forestry royalties (S/. 989 million) and in terms of the Fondo de Compensación Municipal –FONCOMUN– (S/. 249 million). This lower level of current transfers also reflected the lower repayment of the debt of the Fuel Price Stabilization Fund (S/. 1,050 million) made by the Ministry of Energy and Mines compared to the previous year.



- Capital expenditure** increased by a real 61.5 percent –from 2.4 percent of GDP in 2008 to 3.9 percent in 2009– due mainly to the real growth of gross capital formation (40.4 percent). The sectors that executed higher expenditure were the sectors of Transport (S/. 4,571 million), in road rehabilitation and improvement; Education (S/. 1,526 million), in the improvement of infrastructure and education quality; Agriculture (S/. 994 million), in the improvement of irrigation infrastructure and preservation of natural resources; Housing (S/. 685 million), in the improvement and rehabilitation of sidewalks, streets and parks, potable water and wastewater systems, and in the National Potable Water and Rural Sanitation Project; and Electricity (S/. 473 million), in the installation of small power systems in several towns.



- Financial expenditure**, which was equivalent to 1.3 percent of GDP, was 0.1 percentage points of GDP lower than in 2008 due mainly to the lower interests on the external debt repaid (down from 0.9 to 0.8 percent of GDP). The service of interests on the domestic debt remained at 0.5 percent of GDP.

TABLE 33
MAIN INVESTMENT PROJECTS OF THE CENTRAL GOVERNMENT
(Millions of nuevos soles)

ECONOMIC SECTORS	2008	2009	Flow
TRANSPORT	2,008	4,571	2,563
Road concessions	292	1,680	1,388
Rehabilitation of local and rural roads	176	791	615
Rehabilitation of highways	145	392	247
Special Project of Electrical Mass Transportation in Lima and Callao	0	253	253
Rehabilitation and improvement of Tingo María - Aguaytía - Pucallpa highway	138	185	47
Airport concessions	134	156	23
Rehabilitation and improvement of the DesvíoTocache-Tocache highway	119	132	13
Rehabilitation of the Casma-Huaraz highway	21	92	71
Construction and reinforcement of bridges	46	80	35
Rehabilitation of the Tarapoto-Juanjui highway	124	65	- 59
Improvement and construction of Saramirza Eje Vial 4 highway	49	61	12
Rehabilitation, improvement and construction of Eje Vial 01 Piura Guayaquil	44	42	- 2
Rehabilitation and improvement of Lunahuaná-Desvío Yauyos-Chupaca highway	0	35	34
Rehabilitation and improvement of the Lima-Canta-La Viuda-Unish highway	0	28	28
Rehabilitation and improvement of Chongoyape-Cochambamba-Cajamarca highway	0	27	27
Rehabilitation and improvement of Ayacucho-Abancay highway	8	23	15
Rehabilitation of Huancayo-Huancavelica railway	22	19	- 3
Rehabilitation and improvement of the Trujillo-Shirán-Huamachuco highway	43	13	- 31
Rehabilitation and improvement of the Ingenio-Chachapoyas highway	26	11	- 15
Port concessions	9	9	0
Improvement and Rehabilitation of the Salas-Salas highway	3	9	6
Maintenance and improvement of highways	258	6	- 252
Others	349	462	113
ELECTRICITY	317	473	156
Installation of small electrical systems in several towns	265	433	168
Improvement of transmission lines	21	16	- 5
Other projects	30	23	- 7
AGRICULTURE AND LIVESTOCK	955	994	39
Irrigation infrastructure	244	374	130
Support to agriculture and livestock production	262	317	55
Preservation of natural resources	88	66	- 22
Eradication of Ceratitis Capitata (fruit fly) from the Peruvian coast	38	39	1
Other projects	323	198	- 125
HOUSING	510	685	175
National Water and Sanitation Program for Rural Areas	339	489	150
Property rights and real estate	27	27	1
Support to housing sector	44	25	- 19
Other projects	100	143	43
ECONOMY	97	96	- 1
Private investment promotion	58	27	- 31
Technical assistance	9	20	11
Other projects	31	50	19
JUSTICE	86	144	58
Improvement of justice administration services	64	110	46
Other projects	22	34	12
EDUCATION	712	1,526	814
Improvement of educational infrastructure	618	1,043	426
Other projects	94	482	388
HEALTH	306	519	213
Improvement of healthcare benefits	182	214	32
Construction and equipping of hospitals and health care centers	77	110	33
Equipping of health centers	10	26	16
Other projects	38	169	132
OTHERS	1,976	1,060	- 916
TOTAL	6,968	10,068	3,100

Source: SIAF - MEF.



BOX 8

GOVERNMENT EXPENDITURE EXECUTED IN PARTNERSHIP WITH THE PRIVATE SECTOR**Public-Private Associations**

Public-Private Associations (PPAs) are a partnership modality that involves the participation of the private sector in the provision of infrastructure and public services. PPAs are formalized through concession contracts which distribute the risks of projects between the State (grantor) and a private organization (grantee) according to which party can better manage these risks.

Typically, the State assumes some financial liabilities and/or guarantees which reduce the economic risk of projects. These liabilities can be definite or contingent. The former include the Annual Payment for Works (PAO), which compensates the private party for the investment made, and the Annual Payment for O&M (PAMO), which is the compensation for the operation and maintenance of the infrastructure. Contingent liabilities, whose occurrence is uncertain, are covered by the State only in the case of contingencies considered in the contracts.

The definite and contingent liabilities that are executed are recorded in the fiscal accounts as government expenditure.

PUBLIC EXPENDITURE AS PRIVATE-PUBLIC PARTNERSHIP
(Millions of nuevos soles)

	2007	2008	2009
TOTAL	196	484	2,189
1. ROAD CONCESSIONS	88	292	1,680
PAO - ANNUAL PAYMENTS FOR CONSTRUCTION WORKS	0	181	463
IIRSA SOUTH Stretch 2	0	50	140
IIRSA SOUTH Stretch 3	0	52	164
IIRSA SOUTH Stretch 4	0	38	66
IIRSA NORTH	0	41	90
Coast Sierra: Joint 1B-Buenos Aires	0	0	3
ACCESSORY, ADDITIONAL AND MISSING BUILDING WORKS	0	0	1,176
IIRSA SOUTH Stretch 1	0	0	0
IIRSA SOUTH Stretch 2	0	0	580
IIRSA SOUTH Stretch 3	0	0	385
IIRSA SOUTH Stretch 4	0	0	66
IIRSA NORTH	0	0	145
OTHERS	88	110	41
2. ROAD MAINTENANCE	108	193	310
PAMO - COFINANCED ROAD CONCESSIONS	60	160	274
ITM - IIRSA NORTH	18	73	167
IIRSA NORTH	42	46	51
IIRSA SOUTH Stretch 1	0	32	42
IIRSA SOUTH Stretch 5	0	10	14
TRACTABLE IIRSA SOUTH	48	32	36
IIRSA SOUTH Stretch 2	14	11	9
IIRSA SOUTH Stretch 3	18	8	19
IIRSA SOUTH Stretch 4	16	13	9
3. PORT CONCESSIONS	0	0	11
Supervision and construction works - South port	0	0	11
4. AIRPORT CONCESSIONS	0	0	189
PAO - ANNUAL PAYMENTS FOR CONSTRUCTION WORK -First airport group	0	0	15
PAMO - First group of regional airports	0	0	29
OTHERS	0	0	145
Legal and physical sanitation - First group of airports	0	0	1
Direction and management - First group of airports	0	0	2
Expropriation and compensation - Jorge Chavez Airport	0	0	141

Source: MEF.



Government expenditure in PPAs

The highest public spending executed through this modality is associated with concessions of transport infrastructure, especially concessions of road projects (IIRSA Sur, IIRSA Norte, and Programa Costa Sierra), port concessions (Muelle Sur del Callao), and airport concessions (first group of regional airports and International Airport Jorge Chávez), which were for the most part co-financed.

In 2009, the national government recorded expenditure for S/. 2,189 million (0.6 percent of GDP) in road concessions, including S/. 1,176 million for additional works to the ones initially considered in the IIRSA contracts, S/. 463 million for annual payment for works to the concessionary, S/. 310 million for road maintenance, and S/. 41 million for other expenses.

Expenditure in airport concessions included S/. 141 million for the expropriation of the land adjacent to Airport Jorge Chávez to construct the second airstrip of this terminal.

The Annual Payment for Works, as well as complementary, additional, and pending works (in addition to the ones specified in the contracts) and land expropriations and compensations are recorded as investment expenditure in the fiscal accounts. Annual Payments for O&M and road transiability are considered current expenditure.

Private investment commitments

As regards private investment, the various concessions in road infrastructure involve investment commitments for a total of S/. 4,944 million (S/. 2,994 million in roads, S/. 1,100 million in airports, and S/. 850 million in ports), of which S/. 2,125 million (43 percent) has been executed as of 2009.

3. Rest of the central government

Entities in the rest of the central government showed an economic surplus of S/. 304 million in 2009 –a result that contrasts with the deficit of S/. 255 million recorded in 2008– mainly as a result of the operations of the National Pension System (Oficina de Normalización Previsional –ONP). This was offset by the negative result of the National Health Care System (EsSalud).

TABLE 34
OPERATIONS OF OTHER CENTRAL GOVERNMENT ENTITIES

	Millions of nuevos soles			Percentage of GDP		
	2007	2008	2009	2007	2008	2009
I. Current revenue	10,511	10,824	11,605	3.1	2.9	3.0
1. Contributions to EsSalud and ONP	5,191	6,193	6,659	1.5	1.7	1.7
2. Other	5,320	4,631	4,946	1.6	1.2	1.3
II. Non-financial expenditure	9,628	10,489	11,306	2.9	2.8	3.0
1. Current	9,380	9,896	10,705	2.8	2.7	2.8
2. Capital	248	593	601	0.1	0.2	0.2
III. Capital revenue	1	1	1	0.0	0.0	0.0
IV. Primary Result (I-II+III)	884	336	301	0.3	0.1	0.1
V. Interests	360	590	- 3	0.1	0.2	0.0
VI. Overall balance	524	- 255	304	0.2	- 0.1	0.1
1. EsSalud	240	- 15	- 33	0.1	0.0	0.0
2. ONP	309	387	166	0.1	0.1	0.0
3. FCR 1/	- 286	- 729	8	- 0.1	- 0.2	0.0
4. Other	261	102	163	0.1	0.0	0.0

1/ As established by law N° 27617 (01-01-02), all Fonahpu funds are included in the FCR.
Source: MEF, SUNAT, EsSalud and regulating organizations.



The National Pension System recorded an economic surplus of S/. 166 million –S/. 221 million lower than in 2008– due to higher current non financial expenditure (S/. 291 million) associated with higher accruals (S/. 246 million). It is worth mentioning that these accruals are generated by the time between the moment when the process for obtaining a pension starts and the moment when the right to the pension is recognized. It is also worth mentioning that S.D. 077-2009-EF, dated March 28, 2009 authorized the payment of accruals to pensioners considered in Law 19990, benefiting over 95,000 pensioners.

EsSalud's deficit (S/. 33 million) was S/. 18 million higher than the one recorded in 2008. This result stems mainly from higher non financial current expenditure (S/. 496 million) due to increased requirements of staff, medicines, and inputs to improve the provision of health care services.

4. Local governments

Local governments recorded a deficit of S/. 1,440 million (0.4 percent of GDP), a result lower by S/. 1,443 million to the one registered in 2008. This result is mainly explained by gross capital formation, which increased from 1.9 to 2.4 percent of GDP (27.7 percent in real terms). Lower income on current transfers, which dropped 14.3 percent in real terms, contributed also to this result.

TABLE 35
OPERATIONS OF LOCAL GOVERNMENTS

	Millions of nuevos soles			Percentage of GDP		
	2007	2008	2009	2007	2008	2009
I. Current revenue	11,672	12,365	11,320	3.5	3.3	3.0
II. Non-financial expenditure	8,796	13,745	15,601	2.6	3.7	4.1
1. Current	5,380	6,644	6,287	1.6	1.8	1.6
2. Capital	3,416	7,101	9,314	1.0	1.9	2.4
III. Capital revenue	769	1,414	2,879	0.2	0.4	0.8
IV. Primary Result (I-II+III)	3,645	34	- 1,402	1.1	0.0	- 0.4
V. Interests	50	31	38	0.0	0.0	0.0
VI. Overall balance	3,595	3	- 1,440	1.1	0.0	- 0.4

Source: Local governments, SIAF/GL, Contaduría Pública de la Nación.

5. State enterprises

According to the definition of fiscal accounts, in 2009 state enterprises reached an economic surplus of S/. 873 million (equivalent to 0.2 percent of GDP), a result that contrasted with the deficit of S/. 195 million recorded in 2008. This surplus was mainly due to the positive result achieved by Petroperú, the regional electricity enterprises and Electroperú, but was partially offset by the lower result recorded by Sedapal.



After closing the previous year with a deficit of S/. 784 million, **Petroperú** registered an economic surplus of S/. 587 million in 2009. Factors contributing to this included a lower acquisition of goods and services, mainly due to the lower volumes of crude and other inputs purchased, as well as to replacement and maintenance costs.

According to Petroperú's financial statement, a net profit of S/. 279 million was recorded in the year, in contrast with the net loss of S/. 457 million registered in the previous year. This result is mainly explained by the favorable position obtained in the balance of inventories during the first semester, by earnings due to exchange rate differences, and by positive operational margins.

TABLE 36
OVERALL BALANCE OF STATE ENTERPRISES

	Millions of nuevos soles			Percentage of GDP		
	2007	2008	2009	2007	2008	2009
I. CURRENT REVENUE	16,476	20,808	19,316	4.9	5.6	5.1
1. Petroperú	9,725	13,231	10,860	2.9	3.6	2.8
2. Electroperú	1,406	1,498	1,486	0.4	0.4	0.4
3. Regional Electricity Companies	2,310	2,467	2,844	0.7	0.7	0.7
4. Sedapal	892	986	1,112	0.3	0.3	0.3
5. Other	2,142	2,625	3,014	0.6	0.7	0.8
II. NON-FINANCIAL CURRENT EXPENDITURE	15,502	19,748	16,771	4.6	5.3	4.4
1. Petroperú	9,994	13,858	10,148	3.0	3.7	2.7
2. Electroperú	1,498	1,202	1,213	0.4	0.3	0.3
3. Regional Electricity Companies	1,804	2,002	2,377	0.5	0.5	0.6
4. Sedapal	547	616	696	0.2	0.2	0.2
5. Other	1,659	2,070	2,337	0.5	0.6	0.6
III. CAPITAL EXPENDITURE	1,252	1,465	2,014	0.4	0.4	0.5
1. Petroperú	78	99	90	0.0	0.0	0.0
2. Electroperú	138	116	202	0.0	0.0	0.1
3. Regional Electricity Companies	435	438	686	0.1	0.1	0.2
4. Sedapal	352	530	664	0.1	0.1	0.2
5. Other	248	282	372	0.1	0.1	0.1
IV. CAPITAL REVENUE	558	344	451	0.2	0.1	0.1
V. PRIMARY RESULT (I-II-III+IV)	279	- 61	981	0.1	0.0	0.3
VI. INTERESTS	96	134	109	0.0	0.0	0.0
VII. OVERALL BALANCE	183	- 195	873	0.1	- 0.1	0.2
1. Petroperú	- 363	- 784	587	- 0.1	- 0.2	0.2
2. Electroperú	- 230	180	71	- 0.1	0.0	0.0
3. Regional Electricity Companies	300	119	194	0.1	0.0	0.1
4. Sedapal	30	97	- 228	0.0	0.0	- 0.1
5. Other	447	193	248	0.1	0.1	0.1

Source: State enterprises and Fonafe.



During 2009, Petroperú received a total of S/. 401 million from the Fuel Price Stabilization Fund, as a result of which the Fund's debt with this enterprise at December 2009 amounted to S/. 187 million.

The **Regional Electricity enterprises** showed an overall surplus of S/. 194 million –a result S/. 75 million higher than in 2008– due to increased sales and higher electricity rates. Moreover, Empresas de Generación Eléctrica de Machupicchu S.A. (EGEMSA), Empresas de Generación Eléctrica del Centro S.A. (EGECEN), Electro Sur Este, Empresas de Transmisión Eléctrica Centro Norte S.A. (ETECEN), and Electro Ucayali also showed higher incomes due to the capital contributions of the Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE). Transfers from the Ministry of Economy and the Ministry of Energy and Mines were also recorded for the repayment of EGECEN's debt with Japan Bank for International Cooperation (JBIC) in the months of March and September of 2009, as well as for rural electrification projects.

Electroperú recorded an economic surplus of S/. 71 million in 2009. This surplus, which was S/. 109 million lower than the one recorded in 2008, is explained by higher non financial expenditure (S/. 96 million), mainly as a result of capital expenditure (amortization of S/. 89 million of the long term debt assumed by the Ministry of Economy and Finances). Lower revenues for sales to energy distribution companies and end customers (lower demand due to the economic crisis) also contributed to this result.

In contrast, **Sedapal** showed an economic deficit of S/. 228 million due to the decline of capital income (S/. 241 million). Other factors accounting for this result included the greater implementation of investment projects, including the project Mejoramiento Sanitario de las Áreas Marginales de Lima, the program Agua para Todos, and projects to improve the potable water and wastewater systems. This was offset by higher current revenues as a result of higher volumes of sales and higher rates, which represented an increase of 11.8 percent on average.

6. Promotion of private investment

Concession contracts involving investment commitments for a total of US\$ 1,416 million were signed in the sectors of Transport and Communications, Housing (sanitation and sewerage), and Electricity in 2009.

Among others, these included the concession of Autopista del Sol (Trujillo – Sullana stretch) to Consorcio Vías del Sol, with an investment commitment of US\$ 365 million, and the concession of energy supply of new hydroelectrical power stations to Empresa de Generación Eléctrica Cheves S.A., with investment commitments for a total of US\$ 300 million.

The concession of the Port Terminal of Paita to Consorcio Terminales Portuarios Euroandinos; the concession of Taboada Wastewater Treatment Plant to ACS Servicios, Comunicaciones y Energía, and the concession of the Zapallal-Trujillo transmission line (500kv) to Empresa Colombiana Interconexión Eléctrica are also worth highlighting.



TABLE 37
PRIVATIZATION AND CONCESSIONS 2009
(Millions of US\$)

Sale of stocks, assets and concessions	Date	Buyer	Forecast Investment
1. Costa Sierra Program: Nuevo Mocupe - Cayaltí - Oyotún	Jan 26	Obras de Ingeniería (Obrainsa)	17
2. Broadband for isolated towns program- BAS	Feb 12	Telefónica del Perú	49
3. Residual Water Treatment Plant "Taboada"	Feb 26	ACS Servicios, Comunicaciones y Energía	213
4. Concession of Paíta Port	Mar 31	Consorcio Terminales Portuarios Euroandinos	251
5. Band 821-824 Mhz and 866-869 Mhz	Jun 08	Nextel del Perú	50
6. Concession of El Sol highway Trujillo - Sullana stretch	Jun 19	Consorcio Vías del Sol	365
7. Concession of WiMax band (2 668-2 2692 MHz y 2 668-2 690 MHz)	Aug 06	BWDC-METSANCO	4
8. Concession of energy supply to new hydroelectric plants	Oct 12	Empresa de Generación Eléctrica Cheves S.A.	300
9. Transmission Line Zapallal-Trujillo 500Kv	Nov 06	Empresa Colombiana Interconexión Eléctrica	168
TOTAL			1,416

Source: PROINVERSIÓN.

7. Public debt

The balance of the public debt increased from 24.0 to 26.6 percent of GDP between 2008 and 2009 due to higher placements of bonds and global bonds during 2009. The domestic debt increased from 8.9 to 10.4 percent of GDP and the external debt increased from 15.1 to 16.2 percent of GDP.

The external public debt increase (US\$ 1,363 million) in 2009 is explained by higher placements of Global Bonds (US\$ 2 026 million) –US\$ 995 million in March and US\$ 1,038 million in July–. A part of these placements was used for the prepayment of the debt with country members of the Paris Club (US\$ 893 million), which was carried out in August.

On December 16, 2009, the Peruvian debt in foreign currency was assigned an investment grade rating by the international agency Moody's. Until then, the Peruvian debt had only been assigned a rating of "Ba1", which is considered to be a speculative-grade debt, but this rating was later raised to "Baa3", which is an investment grade involving a moderate risk.

The decision of raising the rating assigned to the Peruvian debt reflected evidence that the Peruvian economy had improved its capacity of absorbing external shocks and implicitly confirmed the good performance of the economy in the context of the recent financial crisis and economic recession.

7.1 Net debt

The net public debt, measured as the difference between public sector assets and liabilities –i.e. the difference between total public deposits and the total public debt– increased from US\$ 15,701 million at end 2008 to US\$ 17,369 million at end 2009. This increase (US\$ 1,668 million) represented a 12.3 to 13.7 percent increase in GDP terms.

This result is explained by the increase of the domestic public debt. The latter was compensated by the growth of the deposits of the non financial public sector, which increased by US\$ 1,511 million compared to 2008.



TABLE 38
NET PUBLIC DEBT

Years	In millions of US\$			Percentage of GDP		
	Assets	Liabilities	Net debt	Assets	Liabilities	Net debt
2005	6,172	29,968	23,796	7.8	37.7	30.0
2006	8,065	30,490	22,424	8.7	33.0	24.3
2007	12,857	31,870	19,013	12.0	29.7	17.7
2008	14,946	30,648	15,701	11.7	24.0	12.3
2009	16,458	33,827	17,369	12.9	26.6	13.7

Source: BCRP and MEF.

TABLE 39
PUBLIC DEBT BALANCE 1/ 2/

	Millions of US\$			Percentage of GDP		
	2007	2008	2009	2007	2008	2009
PUBLIC DEBT	31,870	30,648	33,827	29.7	24.0	26.6
I. EXTERNAL PUBLIC DEBT 3/	20,081	19,237	20,600	18.7	15.1	16.2
LOANS	11,820	12,357	11,694	11.0	9.7	9.2
International organizations	7,851	7,926	8,311	7.3	6.2	6.5
Paris Club	3,883	4,170	3,133	3.6	3.3	2.5
Suppliers	60	56	51	0.1	0.0	0.0
International Banks	1	186	186	0.0	0.1	0.1
Latin America	20	15	11	0.0	0.0	0.0
Other bilateral organizations 4/	5	3	2	0.0	0.0	0.0
BONDS	8,262	6,880	8,906	7.7	5.4	7.0
II. DOMESTIC PUBLIC DEBT	11,789	11,411	13,227	11.0	8.9	10.4
1. LONG TERM	10,440	10,183	11,691	9.7	8.0	9.2
BANK LOANS	52	68	226	0.0	0.1	0.2
TREASURY BONDS	10,343	10,068	11,414	9.6	7.9	9.0
1. Financial system support bonds	157	139	122	0.1	0.1	0.1
2. Debt swap bonds 5/	883	769	792	0.8	0.6	0.6
3. Sovereign bonds	6,318	6,196	7,376	5.9	4.9	5.8
4. Recognition bonds	2,986	2,964	3,124	2.8	2.3	2.5
MUNICIPALITY OF LIMA BONDS	45	48	51	0.0	0.0	0.0
2. SHORT TERM 6/	1,349	1,227	1,536	1.3	1.0	1.2
Memo:						
Liabilities of Private-Public Partnerships 7/	698	1,117	1,376	0.7	0.9	1.1

1/ Preliminary data.

2/ The bonds are classified according to the market where they were issued. Therefore, the Brady and Global Bonds issued abroad are part of the external public debt, including those purchased by residents. Sovereign bonds issued in the domestic market include those acquired by non-residents.

3/ The external debt includes COFIDE's medium and long term debt and excludes loans to support the balance of payments.

4/ Debt with Eastern Europe countries, the former Soviet Union countries and the People's Republic of China.

5/ D.U. N° 068-99 D.S. N° 002-2007-EF.

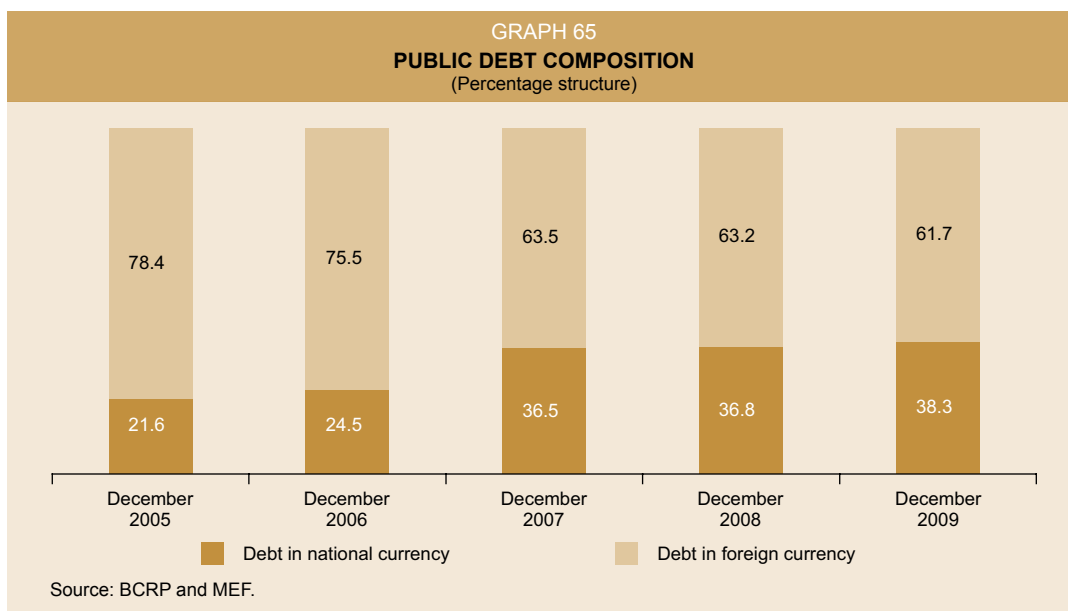
6/ Includes Public Treasury overdrafts in the Banco de la Nación and credit to the Instituto Nacional de Defensa Civil.

7/ Updated value of the principal for the issue of Certificates of Recognition of Rights for the Annual Payment of works carried out (PAO).

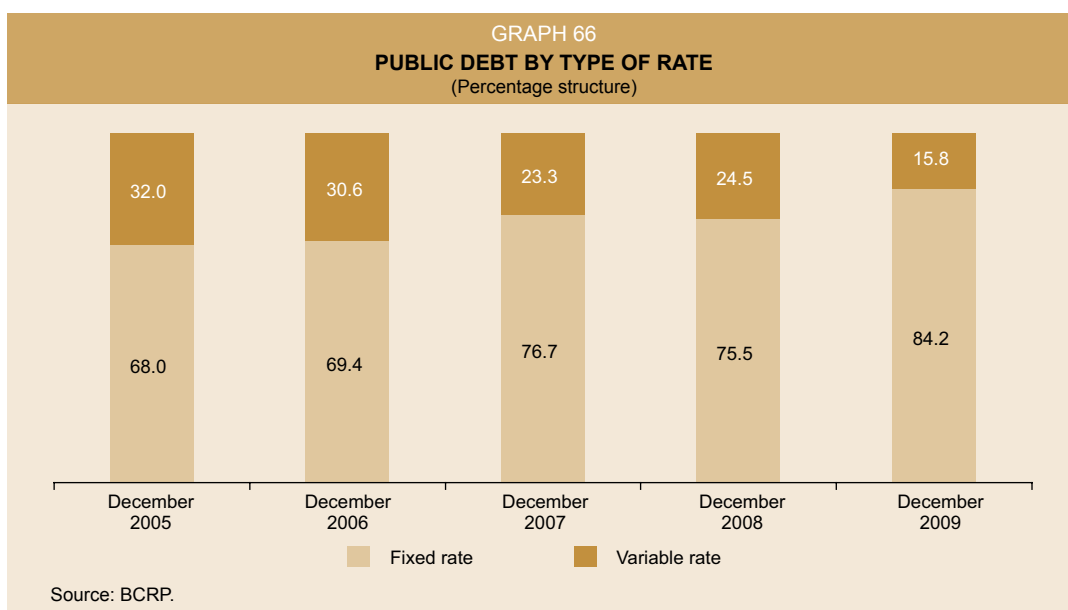
Source: MEF, Banco de la Nación, ONP, and COFIDE.



In 2009, the percentage of the public debt in foreign currency declined from 63.2 to 61.7 percent due to the increase of domestic debt in domestic currency as a result of the issuance of sovereign bonds.



The increase recorded in the domestic public debt (US\$ 1,816 million) reflected higher placements of Sovereign Bonds.



It is worth pointing out that the ratio of fixed-rate public debt has increased by 16.3 percentage points in the last five years as a result of an active debt management policy that allowed obtaining loans with better loan rates and placing fixed-rate bonds in domestic currency, such as the Sovereign bonds.



7.2 External public debt

The balance of the external public debt amounted to US\$ 20,600 million. **Disbursements** in 2009 amounted to US\$ 3,229 million, of which US\$ 616 million was allocated to investment projects, US\$ 580 million was freely-disposable funds, and US\$ 2,033 was placements of Global Bonds. The resources for investment projects were provided by international organizations (US\$ 501 million) and the Paris Club (US\$ 115 million). 85 percent of these resources was channeled through the central government and the remaining 15 percent was destined for state enterprises.

The projects that made greater use of resources were the project of the Peru-Brazil Southern Interoceanic Highway (IIRSA SUR), which received US\$ 260 million; the project Improvement of Potable Water and Wastewater Systems in Marginal Areas of Lima (US\$ 52 million), the Decentralized Rural Road Program (US\$ 50 million), the Program Agua para Todos (US\$ 36 million), the Urban Transport Program for Metropolitan Lima (US\$ 28 million), and the Program of Improvement and Expansion of Water and Wastewater Systems of Piura-Castilla and Chimbote (US\$ 18 million).

Freely-disposable funds were mainly provided by the International Bank for Reconstruction and Development –IBRD– (US\$ 290 million), the Inter-American Development Bank –IADB– (US\$ 150 million), and the Kreditanstalt für Wiederaufbau (US\$ 19 million).

The **amortization** of the external public debt amounted to US\$ 1,879 million, including the prepayment of US\$ 893 million to country members of the Paris Club.

7.3 Domestic debt

The domestic debt amounted to US\$ 13,227 million. Moreover, 97.9 percent of this debt is in soles (S/. 37,436 million).

The evolution of the domestic debt during 2009 was characterized by an increase in the placements of Sovereign Bonds. Thus, domestic indebtedness operations through Sovereign Bonds for up to S/. 2,600 million were authorized (DU 040-2009-EF), of which S/. 550 million were placed in 2009. Proceeds from the remaining placements, which will be executed in 2010, will be used to finance regional governments' investment projects in the areas of sanitation, irrigation, health, transport, energy, and education.

Another of the actions implemented in terms of the management of the domestic debt during this period was Sovereign Bond swaps, carried out in the month of November. Sovereign Bonds SB10AGO11 for a total of S/. 975 million were swapped for S/. 964 million of bonds SB12AGO26, maturing on August 12 of 2026 and S/. 11 million of bonds SB12AGO17, maturing on August 12 of 2017, as a result of which the balance of the debt for sovereign bonds was reduced by S/. 27 million. In addition to this, the average life of the domestic debt was increased by swapping bonds with an average life of 1.7 years by bonds with an average life of 16.6 years.

As regards the other components of the domestic debt, it is worth mentioning that the balance of Recognition Bonds amounted to S/. 9,026 million; that is, a sum S/. 281 million lower than the

one observed in the previous year. The balance of the liabilities between the MEF and Banco de la Nación, associated with SD 002-2007-EF, amounted to S/. 2,289 million, of which S/. 125 million was amortized in January 2009.

BOX 9

ECONOMIC CONTRIBUTIONS OF THE MINING SECTOR

The monetary contributions of the mining sector to the economy can be classified as voluntary contributions and obligatory payments. The former, which are the result of agreements established between the state and mining companies, were started in 2007 and will continue until 2011, while the latter depend on the regulations in force.

I. VOLUNTARY MINING CONTRIBUTIONS

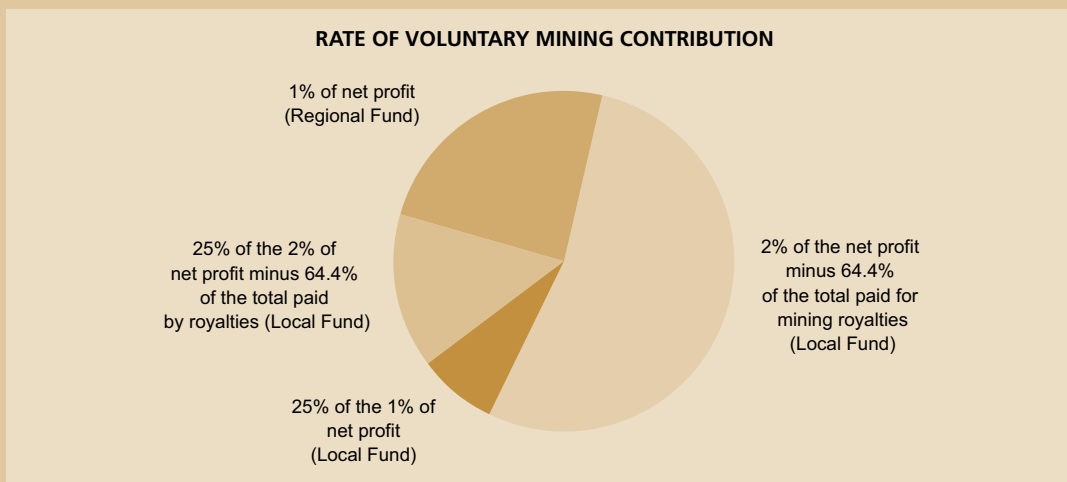
In December 2006 the State and mining companies signed an agreement according to which the latter would voluntarily contribute with a percentage of their annual profits as from 2007. This contribution, which was agreed to be a retribution for the high prices of metals observed in the previous years, was established due to the inconvenience of modifying the tax structure given that most of the large mining companies benefit from tax stability agreements.

Supreme decrees 071-2006-EM and 033-2007-EM standardized the terms and characteristics of the agreements that mining companies and the State signed to crystallize these contributions through the program denominated Mining Solidarity with the People –Programa Minero de Solidaridad con el Pueblo (PMSP).

Mining contributions are voluntary, extraordinary, and temporary. They also depend on that the international prices of metals remain above the reference levels agreed between the State and mining companies. These contributions are to be made for 5 years, from 2007 to 2011. The resources, which are credited to Private Funds and therefore are not recorded in the fiscal accounts, are used for social investment projects in the areas of influence of mining operations.

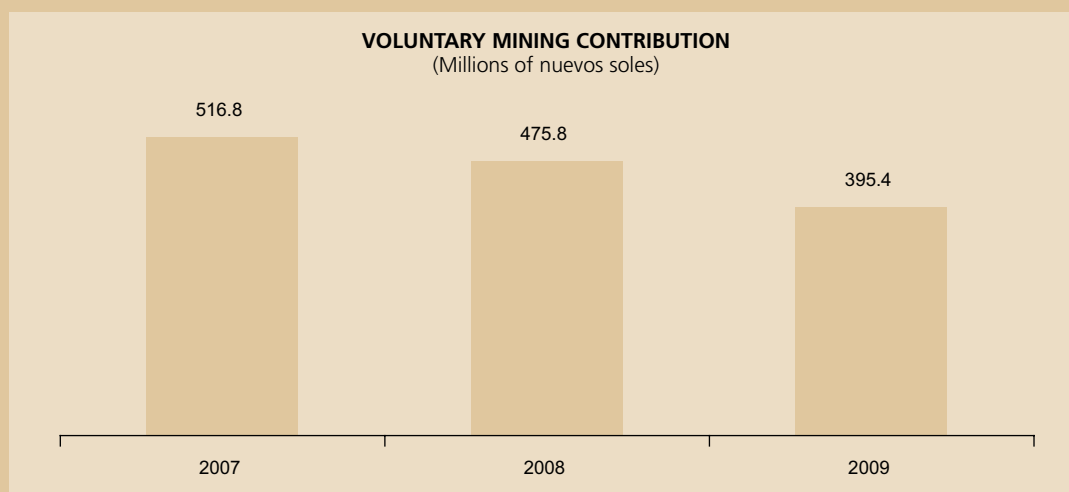
Contribution rate

Each contribution amounts to up to a maximum of 3.75 percent of the net profit of the company after the income tax is paid and before dividends are distributed. A Local Mining Fund and a Regional Mining Fund are established with each contribution. Up to 4 percent of the resources of the Regional Fund are used to finance the activities and projects that the State requests to support as part of the Collective Compensations established in the report of the Truth and Reconciliation Commission, which does not imply that mining companies are liable for the use of these resources nor for the actions deriving from this use.



Contributions made

Contributions for a total of S/. 1,388 million were made between 2007 and 2009. Local governments received S/. 864 million, regional governments received S/. 512 million, and the Presidency of the Council of Ministers received S/. 12 million for the collective compensations provided to the victims of political violence.



Use of resources

Of the S/. 1,376 million transferred by mining companies to regional and local funds, S/. 1,075 million (77 percent) have been committed to 1,532 projects (926 local projects and 606 regional projects). A total of S/. 726 million of this amount has been executed. Executed expenditure at 2009 represents 68 percent of the funds committed and 52 percent of the funds available at that time.

Most of the expenditure committed concentrates in basic infrastructure projects, which represent 38 percent of total expenditure. Committed funds for education, health and nutrition projects represent 40 percent, a higher percentage than the minimum established in the regulations on the Mining Contribution (30 percent).

The resources are distributed among 18 departments of the country. Ancash, the most benefited department, accounts for 45 percent of the expenditure committed. Together, Ancash, Arequipa, and Cajamarca concentrate 70 percent of the total funds committed until 2009. In addition to Tumbes and Piura, five departments of the Selva region (Loreto, Ucayali, Madre de Dios, San Martín, and Amazonas) do not benefit from these contributions.

As of December 2009, a total of 39 mining companies had established contribution agreements with the State. The most significant transfers were made by Compañía Minera Antamina (S/. 493 million), Cerro Verde (S/. 226 million), Yanacocha (S/. 150 million), Southern (S/. 140 million), and Tintaya (S/. 111 million). The contributions of these 4 companies represent 81 percent of total contributions.

II. Social Funds

Law 28401 establishes that part of the resources resulting from the sale of state assets shall be used for social programs in the areas of influence of the projects promoted. These programs are to be carried out by trust funds, with the state being represented by PROINVERSION. By early 2009, 7 trust funds had been established. However, in March 2008 it was decided that these trustfunds would be replaced by Social Funds (Legislative Decree 996), which would be managed by non-profit legal entities governed by the regulations of private law.

At the close of 2009, there are 8 social funds and 2 trust funds. Total committed contributions amount to around US \$ 350 million. The resources accumulated in the funds may be used for (i) the development of human capacities and the provision of basic services, and (ii) to generate productive employment. At least 60 percent of the resources of social funds have to be used to develop human capacities and basic services.



COMMITMENT TO PROVIDE CONTRIBUTIONS TO SOCIAL FUNDS

(Millions of US\$)

FUND	COMPANY	DEPARTAMENT	COMMITMENT
TOTAL			348.5
Social fund			346.5
Las Bambas	Xstrata	Apurímac	59.0
Yuncán	EnerSur	Pasco	15.0
La Granja	Río Tinto	Cajamarca	11.0
Alto Chicama	Barrick Misquichilca	La Libertad	60.0
Michiquillay	Anglo American	Cajamarca	201.5
Magistral	Inca Pacific Resources	Ancash	-
Bayóvar	Miski Mayo, Cementos Pacasmayo and others	Piura	-
Paita	Terminales Portuarios Euroandinos	Piura	-
Trusts			2.0
Toromocho	Chinalco	Junín	1.0
Bayovar	Vale do Rio Doce	Piura	1.0

Source: MINEM and Rural Municipality network.

Elaboration: BCRP.

III. TAXES AND OTHER PAYMENTS

Mining contributes to fiscal resources through the taxes (including the mining royalty or canon), royalties¹¹, and operation rights that mining companies pay.¹²

Mining is the sector that most heavily contributes to Peru's fiscal resources. In 2009, the domestic taxes paid by the mining sector were equivalent to 1.3 percent of GDP, and tax refunds amounted to 0.2 percent of GDP. Ancash, which concentrates 25 percent of total contributions for mining royalties (canon), is the department with the highest contribution.

MINING TAXES AND OTHER PAYMENTS - 2009

REVENUES FROM	Mill. S/.	% GDP
Mining royalty (canon)	3,681	1.0
Mining royalties	339	0.1
Exploitation rights	114	0.0
Domestic taxes	4,859	1.3
<i>of which:</i>		
VAT	632	0.2
Income tax	3,018	0.8
Tax refunds	- 905	- 0.2

Source: MEF, SUNAT.

Elaboration: BCRP.

11. Economic compensation paid by mining concessionaires to the State for resource exploitation rights. It is calculated as a percentage of the value of the mineral concentrate extracted (1 percent up to US\$ 60 million, 2 percent for the excess up to US\$ 120 million, and 3 percent for the excess over US\$ 120 million).

12. Annual payment paid by mining concessionaires as from the year when a mining claim is granted or requested. It is calculated as a fixed-amount-per-hectare of the land involved (US\$ 3 for medium-size and large mining operations, US\$ 1 for small mining operations, and US\$ 0.5 for artisan mining).



Most of the mining royalties are paid by the department of Moquegua, which concentrates 18 percent of the country's total. As regards operation rights, Arequipa and Cajamarca concentrate most of the mining claims. Moreover, 75 percent of these resources go the local governments of the departments where the concession is located.

MINING CONTRIBUTIONS BY DEPARTMENT - 2009
(Millions of nuevos soles)

	MINING CANON	MINING ROYALTIES	EXPLOITATION RIGHTS
TOTAL	3,681	339	114
Ancash	931	2	7
Arequipa	559	41	13
Moquegua	398	63	5
La Libertad	383	28	10
Tacna	347	48	3
Puno	263	42	7
Cajamarca	236	15	13
Cusco	148	0	8
Pasco	132	35	4
Ica	115	9	3
Lima	76	18	8
Junín	45	23	4
Huancavelica	19	8	5
Apurímac	13	1	5
Ayacucho	12	6	5
Huánuco	3	1	1
San Martín	1	0	1
Lambayeque	0	0	1
Amazonas	0	0	3
Madre of Dios	0	0	2
Piura	0	0	5
Callao	0	0	0
Loreto	0	0	0
Tumbes	0	0	0
Ucayali	0	0	0

Source: MEF and MINEM.