



Public Finances

In 2013, the non-financial public sector recorded an economic surplus of 0.9 percent of GDP, a lower balance than in 2012 (2.3 percent of GDP). Isolating from the economic balance the effects of the economic cycle as well as fluctuations in the prices of mining and hydrocarbons exports, we obtain the structural economic balance, which was negative by 0.3 percent of GDP in 2013. This balance is consistent with a countercyclical fiscal position with a fiscal stimulus of around 0.5 percent of GDP, in a context in which the prices of mineral exports dropped significantly relative to the previous year and the non-financial expenditure of the general government reached an all-time high in the last thirty-five years (20.5 percent of GDP).

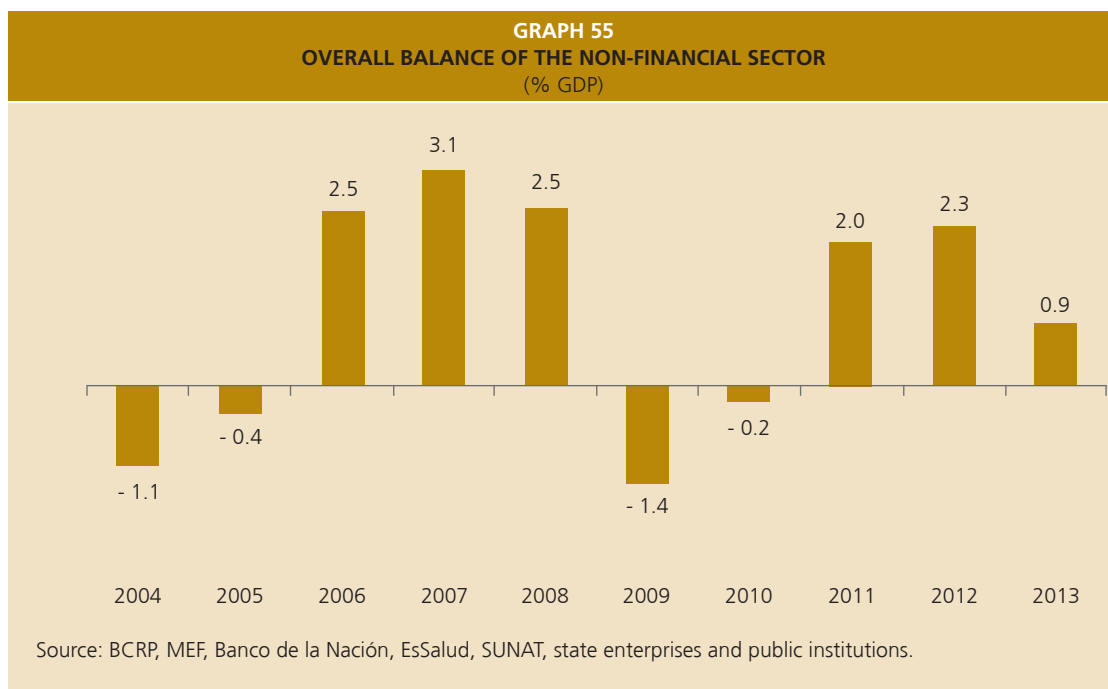


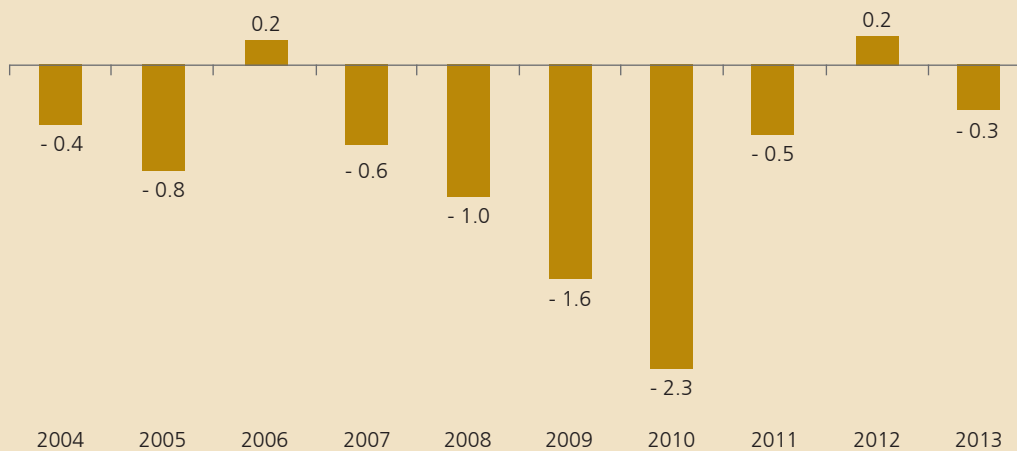


TABLE 48
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

	Million nuevos soles			% GDP		
	2011	2012	2013	2011	2012	2013
I. PRIMARY BALANCE	15,149	17,024	10,922	3.2	3.3	2.0
1. Of the General Government	14,902	15,895	10,051	3.2	3.1	1.8
a. Current revenue	102,134	113,528	121,065	21.7	22.3	22.1
i. Tax revenue	77,261	86,097	91,698	16.4	16.9	16.8
ii. Non-tax revenue	24,873	27,431	29,367	5.3	5.4	5.4
b. Non-financial expenditure	87,542	97,899	111,914	18.6	19.3	20.5
i. Current	63,191	68,948	78,398	13.4	13.6	14.3
ii. Capital	24,350	28,951	33,515	5.2	5.7	6.1
c. Capital revenue	310	267	901	0.1	0.1	0.2
2. Of Public Enterprises	247	1,129	870	0.1	0.2	0.2
II. INTERESTS	5,541	5,568	6,090	1.2	1.1	1.1
1. External debt	2,655	2,755	3,065	0.6	0.5	0.6
2. Domestic debt	2,886	2,813	3,025	0.6	0.6	0.6
III. OVERALL BALANCE (I-II)	9,608	11,456	4,832	2.0	2.3	0.9
1. Net external financing	748	- 1,388	- 4,388	0.2	- 0.3	- 0.8
(Million US\$)	\$ 277	- \$ 531	- \$ 1,689	0.2	- 0.3	- 0.8
a. Disbursements	\$ 990	\$ 948	\$ 348	0.6	0.5	0.2
b. Amortization	\$ 831	\$ 1,175	\$ 2,367	0.5	0.6	1.1
c. Others	\$ 118	- \$ 304	\$ 330	0.1	- 0.2	0.2
2. Net domestic financing	- 10,491	- 10,094	- 1,182	- 2.2	- 2.0	- 0.2
3. Privatization	135	26	737	0.0	0.0	0.1

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

GRAPH 56
STRUCTURAL OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR
(% GDP)



Source: BCRP.

In 2013 the fiscal surplus was lower than the resources required for the amortization of the public debt (S/. 7.86 billion). This gap was covered with external disbursements, with the placement of sovereign bonds, and with privatization revenues. The public sector continued to accumulate assets in the form of deposits.

TABLE 49
FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	Million nuevos soles			% GDP		
	2011	2012	2013	2011	2012	2013
1. Overall balance	9,608	11,456	4,832	2.0	2.3	0.9
2. Amortization	3,634	4,342	7,859	0.8	0.9	1.4
Redemption of recognition bonds	530	509	448	0.1	0.1	0.1
Domestic debt	813	729	1,188	0.2	0.1	0.2
External debt 1/	2,291	3,105	6,223	0.5	0.6	1.1
3. Financial requirements	- 5,974	- 7,114	3,028	- 1.3	- 1.4	0.6
External disbursements	2,717	2,520	954	0.6	0.5	0.2
Freely disposable funds	851	1,644	348	0.2	0.3	0.1
Investment projects	1,866	875	606	0.4	0.2	0.1
Domestic bonds 1/	1,221	2,940	4,025	0.3	0.6	0.7
Privatization	135	26	737	0.0	0.0	0.1
Others	- 10,047	- 12,599	- 2,689	- 2.1	- 2.5	- 0.5

1/ Amounts in 2013 include operations of managing of approved debt by D. S. N° 037-2013-EF.
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, state enterprises, and public institutions.

1. Revenue of the General Government

In 2013 the current revenue of the general government amounted to 22.1 percent of GDP, a figure 0.2 percentage points of GDP lower than in the previous year. However, in real terms, the current revenues of the general government show a growth rate of 3.7 percent. Tax revenues, excluding the taxes from the mining sector, grew 8.9 percent.

As a percentage of GDP, the central government tax collection was 16.3 percent, while the fiscal revenues of the central government reached 18.9 percent.

TABLE 50
FISCAL REVENUE RATIOS
(% GDP)

	2011	2012	2013
Central government tax burden	16.1	16.5	16.3
Central government fiscal burden 1/	18.8	19.1	18.9
Fiscal burden of the general government 2/	21.7	22.3	22.1

1/ The difference respect to tax burden is the inclusion of non-tax revenues.

2/ The difference between central and general government due to local governments and other institutions as EsSalud, ONP, and regulatory agencies of general government.

Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, ONP, charity societies, regulatory agencies and registry offices.

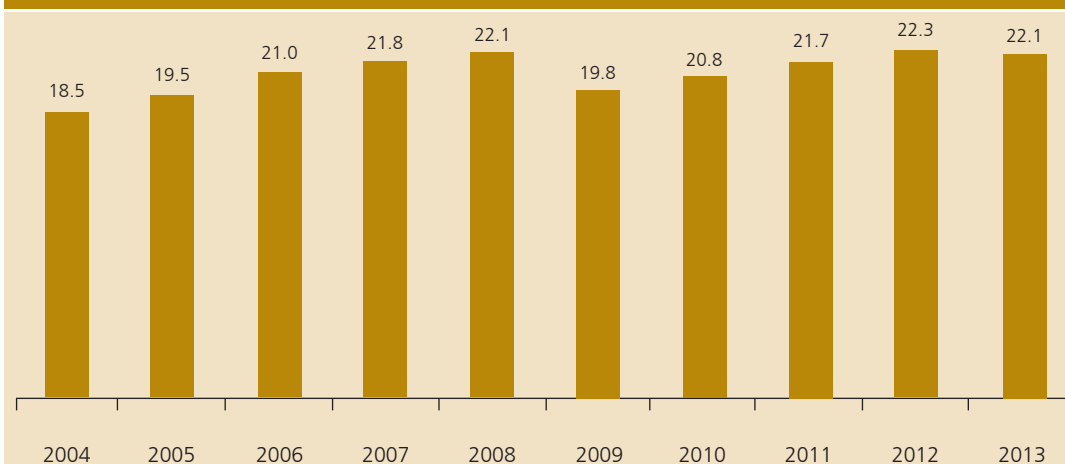


**TABLE 51
GENERAL GOVERNMENT REVENUES**

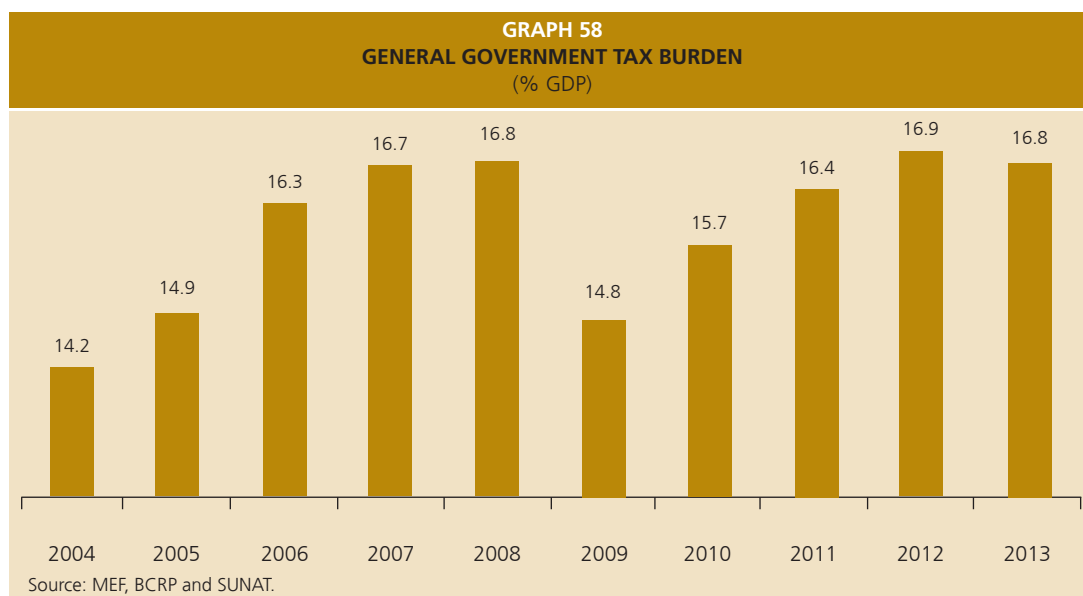
	Million nuevos soles			Real % change		% GDP		
	2011	2012	2013	2011	2012	2011	2012	2013
I. TAX REVENUE	77,261	86,097	91,698	7.5	3.6	16.4	16.9	16.8
1. Income tax	33,628	37,278	36,512	6.9	- 4.7	7.2	7.3	6.7
- Individuals	7,931	9,070	10,149	10.3	8.9	1.7	1.8	1.9
- Legal entities	21,432	23,429	22,914	5.5	- 4.9	4.6	4.6	4.2
- Tax regularization	4,265	4,779	3,450	7.7	- 29.7	0.9	0.9	0.6
2. Import duties	1,380	1,526	1,706	6.7	8.7	0.3	0.3	0.3
3. Value-added tax (VAT)	40,424	44,042	47,819	5.1	5.6	8.6	8.7	8.7
- Domestic VAT	22,029	24,543	27,164	7.5	7.6	4.7	4.8	5.0
- VAT on imports	18,395	19,499	20,655	2.3	3.0	3.9	3.8	3.8
4. Excise tax	4,718	4,918	5,480	0.5	8.4	1.0	1.0	1.0
- Fuels	2,231	2,149	2,501	- 7.2	13.3	0.5	0.4	0.5
- Others	2,487	2,769	2,979	7.4	4.6	0.5	0.5	0.5
5. Other income tax	6,818	8,920	11,444	26.2	24.7	1.5	1.8	2.1
- National government	5,098	6,902	9,069	30.7	27.7	1.1	1.4	1.7
- Local government	1,720	2,018	2,375	13.1	14.5	0.4	0.4	0.4
6. Tax returns	- 9,707	- 10,587	- 11,264	5.3	3.5	- 2.1	- 2.1	- 2.1
II. NON-TAX REVENUES	24,873	27,431	29,367	6.4	4.2	5.3	5.4	5.4
1. Contributions to Essalud and ONP	9,071	10,281	11,493	9.3	8.8	1.9	2.0	2.1
2. Oil, gas and mining royalty	3,756	2,850	2,875	- 28.9	- 4.2	0.8	0.6	0.5
3. Oil Canon	2,673	2,910	3,005	5.1	0.5	0.6	0.6	0.5
4. Others	9,373	11,391	11,993	15.7	2.8	2.0	2.2	2.2
III. TOTAL (I+ II)	102,134	113,528	121,065	7.2	3.7	21.7	22.3	22.1

Source: MEF, Banco de la Nación, BCRP, INEI, SUNAT, EsSalud, ONP, charity societies, regulatory agencies and registry offices.

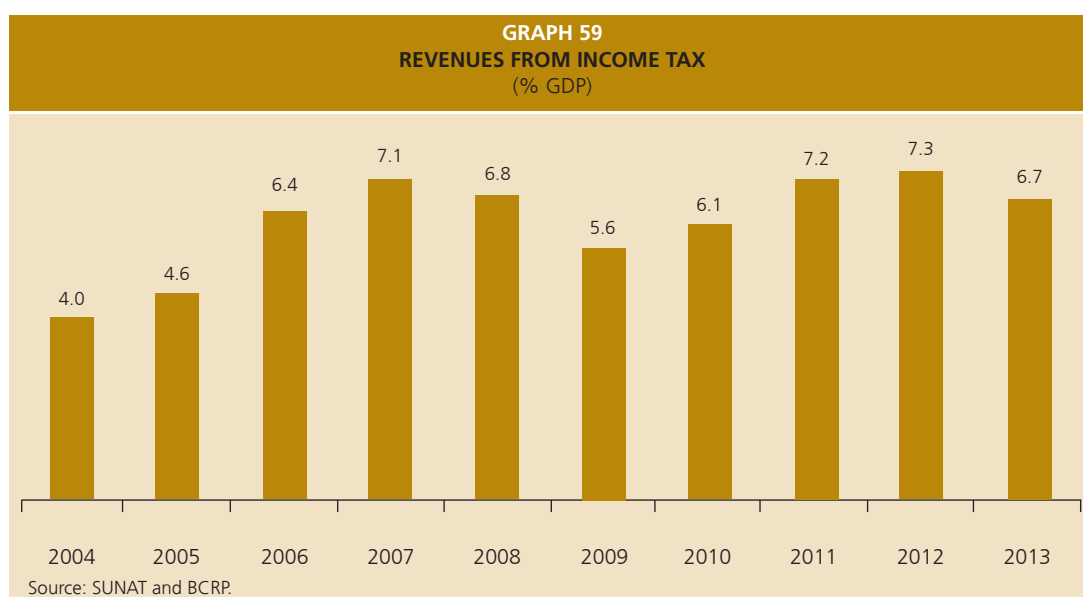
**GRAPH 57
GENERAL GOVERNMENT FISCAL BURDEN
(% GDP)**



Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, ONP, charity societies, regulatory agencies and registry offices.



Revenue from the **income tax** went from 7.3 to 6.7 percent in GDP terms, showing a reduction of 4.7 percent in real terms. This was mainly associated with the drop in mining exports as well as with the slower pace of growth in economic activity, which brought about a decline in revenue from income tax-third category of 7.9 percent in real terms. Thus, legal entities' payments on account of the income tax fell from 4.6 percentage points of GDP in 2012 to 4.2 percent of GDP in 2013, while the regularization payments fell by 0.3 percentage points of GDP.





The decrease of 7.9 percent in **payments on account of income tax-third category** is associated with the decline of tax revenue from the mining sector, which shrank by 47.3 percent in real terms over the year due to the lower prices of some of our major mining exports, such as gold and copper. On the other hand, tax revenue from the sectors related to domestic demand increased in real terms. Excluding the mining sector, the tax revenue from other sectors grew 5.9 percent in the year (revenue from sector of services increased 4.9 percent, while revenue from the sectors of trade and construction increased 13.1 percent and 19.2 percent, respectively). Taking the place of the mining sector, the sector of services showed for the second year the highest contribution in terms of income tax revenue.

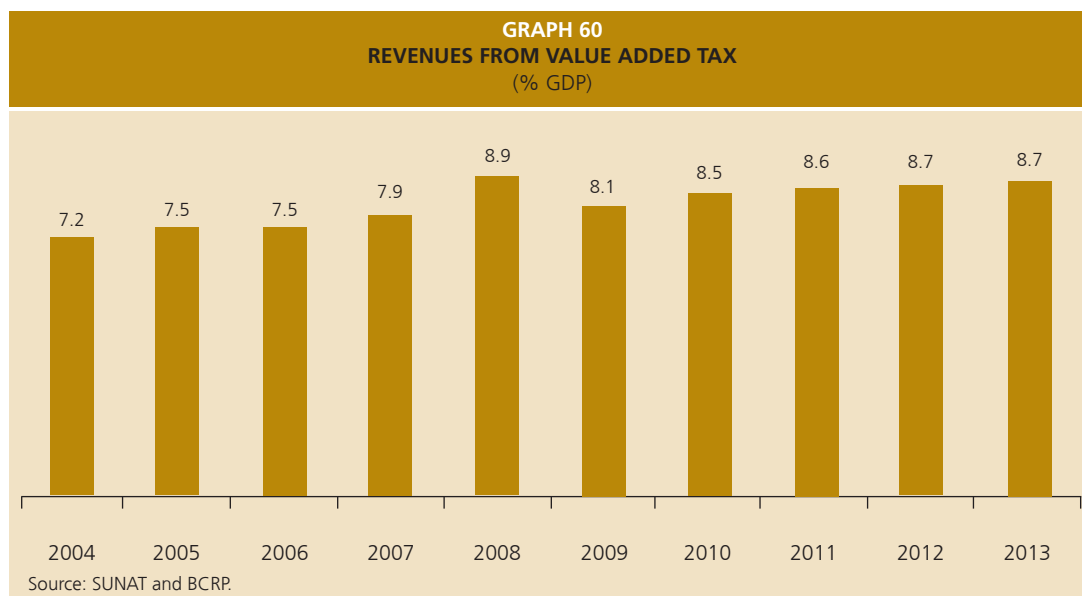
TABLE 52
REVENUES FROM CORPORATE TAX BY SECTORS: PAYMENTS ON ACCOUNT
(Million nuevos soles)

	2011	2012	2013	Real % change	
				2012	2013
Services 1/	5,716	6,967	7,507	17.6	4.9
Commerce	2,492	2,952	3,431	14.3	13.1
Mining	6,290	5,393	2,922	- 17.3	- 47.3
Manufacturing	2,505	2,683	2,706	3.4	- 1.9
Hydrocarbons	1,474	1,779	1,908	16.6	4.3
Construction	706	854	1,047	16.8	19.2
Agriculture and livestock	87	81	64	- 10.1	- 23.6
Fishing	50	35	48	- 32.6	33.2
Total	19,321	20,744	19,633	3.6	- 7.9

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

Revenue from **import duties** grew 8.7 percent in real terms and maintained a ratio of 0.3 percent in GDP terms. This increase is explained by the greater volume of imports, particularly of consumer goods, which are taxed with higher tariff rates as well as by the effect of the depreciation of the nuevo sol recorded during the year.

Holding at 8.7 percent of **GDP**, revenue from the value added tax (VAT) registered a growth rate of 5.6 percent in real terms. The growth of the domestic VAT reflects the dynamism of domestic demand as well as measures implemented to broaden the tax base. VAT revenues from the sectors of services and construction stand out with a real growth of 11.8 and 17.5 percent, respectively.



Furthermore, the revenue from the **excise tax** grew 8.4 percent in real terms and remained at 1.0 percent as a percentage of GDP. This growth was driven both by the increase of the excise tax on beer, liquors, and other goods (4.6 percent) and by the increase of the excise tax on fuels (13.3 percent).

Revenue from **other taxes** grew by a real 24.7 percent, from 1.8 to 2.1 percent of GDP. This growth is explained by an increase in most of its tax components, particularly the transfer of tax withholdings (142.3 percent) as a result of the greater number of taxpayers that have adopted this system to pay the VAT as well as of the stricter intervention of the tax agency. In addition, higher revenue was also obtained due to the positive evolution of the temporary tax on net assets (ITAN), which increased by 10.7 percent in real terms. The Special Tax on Mining contracted by 25.9 percent reflecting the lower operational profits of mining companies.

The **tax rebates**, which grew by a real 3.5 percent, were equivalent to 2.1 percent of GDP. This result is explained mainly by higher VAT refunds for exports (14.1 percent in real terms), offset in part by lower rebates for early recovery of the VAT.

Non-tax revenues grew by a real 4.2 percent due to the increase recorded in terms of contributions to EsSalud and ONP (8.8 percent), associated with the growth of formal employment and the increase in the average salary. In addition, own resources and transfers grew 10.7 percent in real terms. These increases were partially offset by a real decline in revenue from mining royalties and the Special Levy on Mining (down by 14.0 and 16.2 percent, respectively).



2. General Government Expenditure

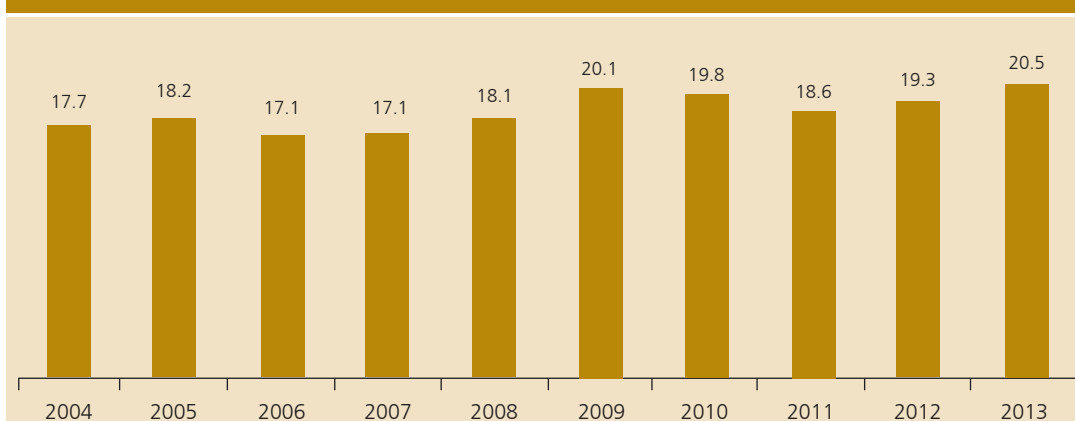
The non-financial expenditure of the general government was equivalent to 20.5 percent of GDP, a ratio 1.2 percentage points higher than in 2012 and the highest registered since 1970. The growth in the general government's non-financial expenditure in the year is explained by higher current expenditure in salaries and wages (up from 5.0 to 5.4 percent of GDP) and by higher capital spending (up from 5.7 to 6.1 percent of GDP).

TABLE 53
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE 1/

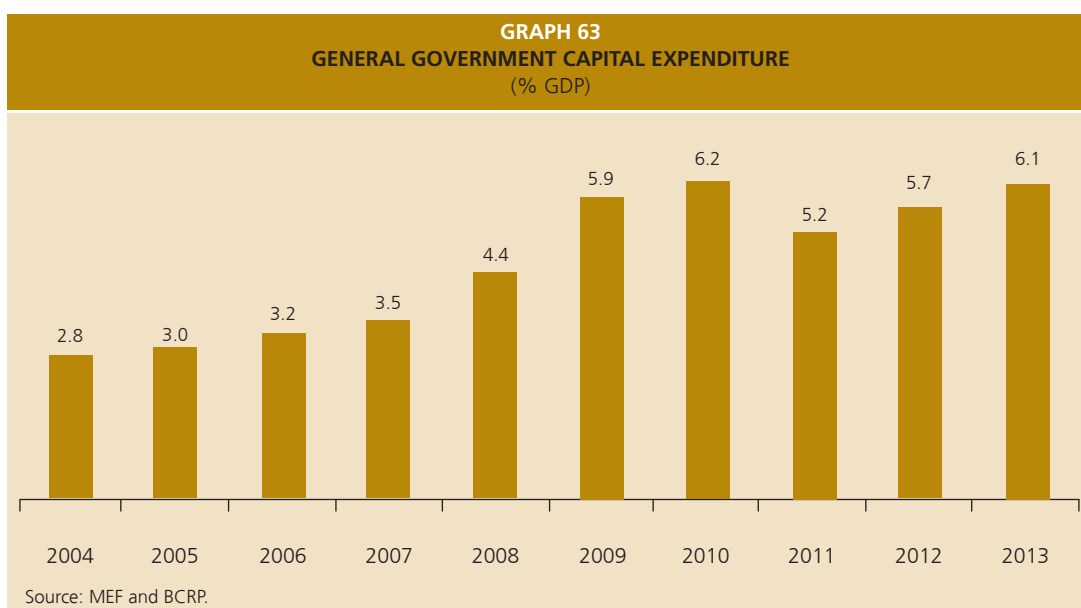
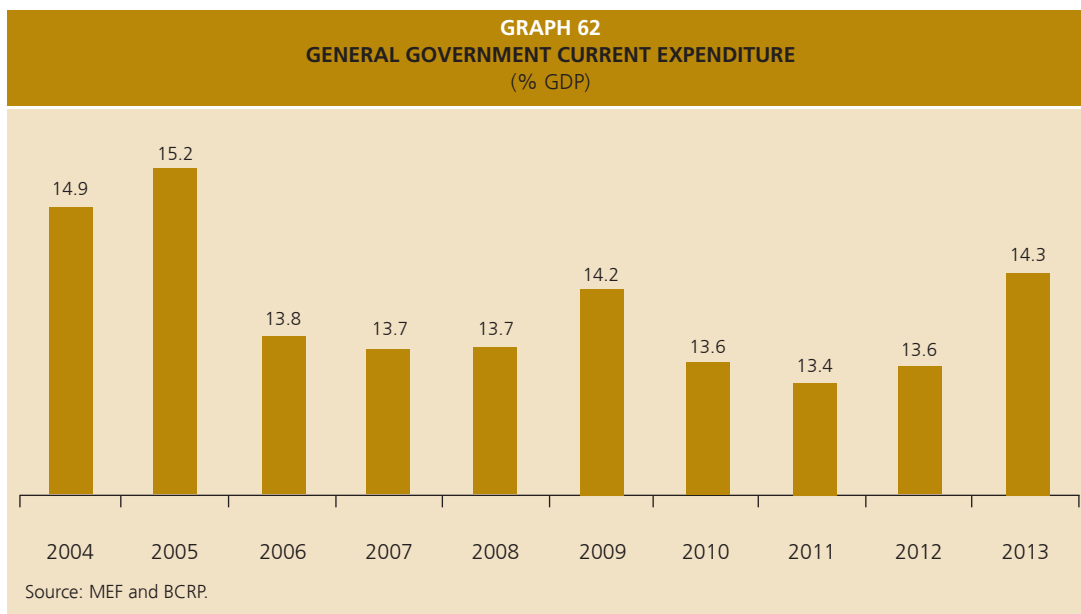
	Million nuevos soles			Real % change		% GDP		
	2011	2012	2013	2012	2013	2011	2012	2013
I. CURRENT EXPENDITURE	63,191	68,948	78,398	5.3	10.6	13.4	13.6	14.3
Wages and salaries	22,842	25,254	29,369	6.7	13.1	4.9	5.0	5.4
National government	13,364	15,215	17,993	9.8	15.1	2.8	3.0	3.3
Regional governments	7,533	8,248	9,453	5.7	11.5	1.6	1.6	1.7
Local governments	1,945	1,791	1,922	- 11.1	4.4	0.4	0.4	0.4
Goods and services	23,884	28,433	31,444	14.9	7.5	5.1	5.6	5.8
National government	16,609	18,542	20,921	7.7	9.7	3.5	3.6	3.8
Regional governments	2,304	3,306	3,570	38.7	5.1	0.5	0.7	0.7
Local governments	4,970	6,585	6,953	28.2	2.7	1.1	1.3	1.3
Transfers	16,466	15,261	17,586	- 10.6	12.0	3.5	3.0	3.2
National government	13,353	11,940	14,137	- 13.8	15.1	2.8	2.3	2.6
Regional governments	2,083	2,107	2,261	- 2.3	4.4	0.4	0.4	0.4
Local governments	1,030	1,214	1,188	13.8	- 4.7	0.2	0.2	0.2
II. CAPITAL EXPENDITURE	24,350	28,951	33,515	15.0	12.6	5.2	5.7	6.1
Gross Capital Formation	22,820	27,253	30,812	15.6	10.0	4.9	5.4	5.6
National government	9,666	8,370	9,544	- 16.5	11.0	2.1	1.6	1.7
Regional governments	4,662	6,653	7,145	38.2	4.5	1.0	1.3	1.3
Local governments	8,493	12,230	14,123	39.8	12.3	1.8	2.4	2.6
Other capital expenditure	1,530	1,698	2,703	7.0	54.7	0.3	0.3	0.5
III. NON-FINANCIAL EXPENDITURE (I + II)	87,542	97,899	111,914	8.0	11.2	18.6	19.3	20.5
National government	54,231	55,525	64,986	- 1.2	13.8	11.5	10.9	11.9
Regional governments	16,640	20,376	22,522	18.3	7.5	3.5	4.0	4.1
Local governments	16,670	21,998	4,406	27.8	7.9	3.5	4.3	4.5

1/ Net of commissions and intergovernmental transfers.
Source: MEF, BCRP, and INEI.

GRAPH 61
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE
(% GDP)



Source: MEF and BCRP.



National Government

The **non-financial expenditure of the national government** was equivalent to 11.9 percent of GDP, which represents an increase of 13.8 percent in real terms compared to 2012. This is explained mainly by increased spending in transfers (15.1 percent) and in wages and salaries (15.1 percent).

Expenditure in **wages and salaries** grew by a real 15.1 percent, which is explained mainly by the higher salary levels approved in the sectors of Defense and Interior for the armed forces and Policía Nacional del Perú since December 2012 (Decree-Law 1132) as part of a new salary structure. In addition to this, higher spending in salaries was also observed in the sector of Economy and Finance (Ley de Fortalecimiento de



la Sunat) and Education, as a result of the new salary structure approved in the framework of the public teaching career (Law 29944).

Spending in **goods and services** amounted to 3.8 percent of GDP – higher by 9.7 percent in real terms than in 2012–, due mainly to higher spending in the sectors of Education, Health, Economy and Finance, and Agriculture (service contracts (CAS), contracts with service companies to enhance the provision of some services, and purchases of insecticides and fungicides to combat the rust plague).

Expenditure for **current transfers** rose from 2.3 percent of GDP in 2012 to 2.6 percent of GDP in 2013 (15.1 percent in real terms) due mainly to increased transfers to cover payments associated with the National Pension System, Fondo Complementario de Jubilación Minera, Metalúrgica y Siderúrgica, and Caja Militar-Policial as well as increased allocations to the programs Juntos, Pensión 65, and Qali-Warma.

Capital expenditure increased by 18.1 percent in real terms, from 1.9 percent of GDP in 2012 to 2.2 percent in 2013, due mainly to higher gross capital formation (increase of 11.0 percent) and to the increase in other capital expenditure (up from 0.3 percent to 0.4 percent of GDP in 2013).

The national government expenditure in **gross capital formation** was concentrated mainly in the sector of Transportation (S/. 5.43 billion), which represented 57 percent of the investment of the national government. It is worth pointing out that increased spending was made in road concession projects and works associated with the following projects: Iniciativa para la Integración de la Infraestructura Regional Sudamericana (IIRSA) Sur and Norte, Ayacucho-Abancay highway, Proyecto Especial Sistema Eléctrico de Transporte Masivo de Lima y Callao, and the construction and improvement of Camaná-Quilca-Matarani-Ilo-Tacna highway.

Regional Governments

The non-financial expenditure of the regional governments increased by 7.5 percent in real terms and from 4.0 to 4.1 percent in GDP terms between 2012 and 2013. The highest expenditure increase in real terms was observed in salaries (11.5 percent) and in gross capital formation (4.5 percent). The increase in the former is explained by the higher salaries paid to teachers, contracts to new teachers, and by higher spending in the health sector given that medic staff was hired to provide health care in new hospitals such as the hospitals of Ica and Lambayeque.

The regional governments with higher investment in investment projects are the governments of Cusco, Arequipa, and Piura. In addition to this, the improvement of Avenida Néstor Gambetta in Callao stands out among the projects developed by regional governments in 2013.

TABLE 54
MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT
(Million nuevos soles)

	2012	2013	Flow
TRANSPORT	5,117	5,433	316
Road Concessions-IIRSA South and North	1,371	1,612	241
Rehabilitation and improvement of the Ayacucho - Abancay highway	385	543	158
Special Project Tren Eléctrico	1,283	396	- 887
Construction and improvement of the Camaná-Quilca-Matarani-Ilo-Tacna highway	15	320	306
Rehabilitation and improvement of the Huaura - Sayán - Churín highway	0	183	183
Improvement of the Satipo - Mazamari - Pangoa - Puerto Ocopa highway	0	173	173
Rehabilitation and improvement of the Cajamarca Celendin Balzas highway	125	156	31
Rehabilitation and improvement of the Trujillo - Shiran - Huamachuco highway	54	120	65
Improvement of the San Marcos - Cajabamba - Sausacocha highway	1	112	111
Rehabilitation and improvement of the Panamericana Norte highway - Tranche III	0	82	82
Rehabilitation and improvement of the Yauri - Negromayo - Oscollo - Imata highway	0	74	74
Railways concessions	41	66	25
Rehabilitation of the road Las Vegas - Tarma highway	20	51	31
Rehabilitation and improvement of the Río Seco - El Ahorcado highway	14	45	32
Construction and improvement of the Huamachuco - Puente Pallar - Juanjuí highway	2	41	40
Rehabilitation and improvement of the Tingo Maria-Aguaytia-Pucallpa highway	1	40	39
Rehabilitation and improvement of the Cañete - Lunahuaná highway	0	38	38
Improvement of the Mala - Calango - La Capilla highway	25	37	12
Construction and expansion second level Pucallpa airport - Cementery	0	33	33
Rehabilitation and improvement of the Imperial - Mayocc - Ayacucho highway	0	20	20
Rehabilitation and improvement of the Antigua Panamericana Sur, Mamacona - Arica highway	0	14	14
Others	1,779	1,276	- 503
EDUCATION	893	1,070	177
Improvement of education infrastructure	854	1,021	167
Others	39	49	10
AGRICULTURE AND LIVESTOCK	421	611	190
Irrigation infrastructure	146	289	143
Support agriculture	166	151	- 15
Eradication of fruit fly <i>Ceratitis capitata</i> from the coast of Peru	63	95	32
Others	46	76	30
HEALTH	485	439	- 46
Improvement and equipment of hospitals emergency services	467	416	- 51
Support to Health Sector Reform PAR-Salud	16	18	2
Others	2	5	3
HOUSING	188	392	204
National Rural Water Supply and Sanitation project	96	184	88
Urban development	29	154	125
Housing sector support	41	37	- 4
Others	22	17	- 5
ELECTRICITY	280	232	- 48
Installation of small power systems in several towns	265	219	- 46
Others	15	13	- 2
OTHERS	986	1,367	381
TOTAL	8,370	9,544	1,174

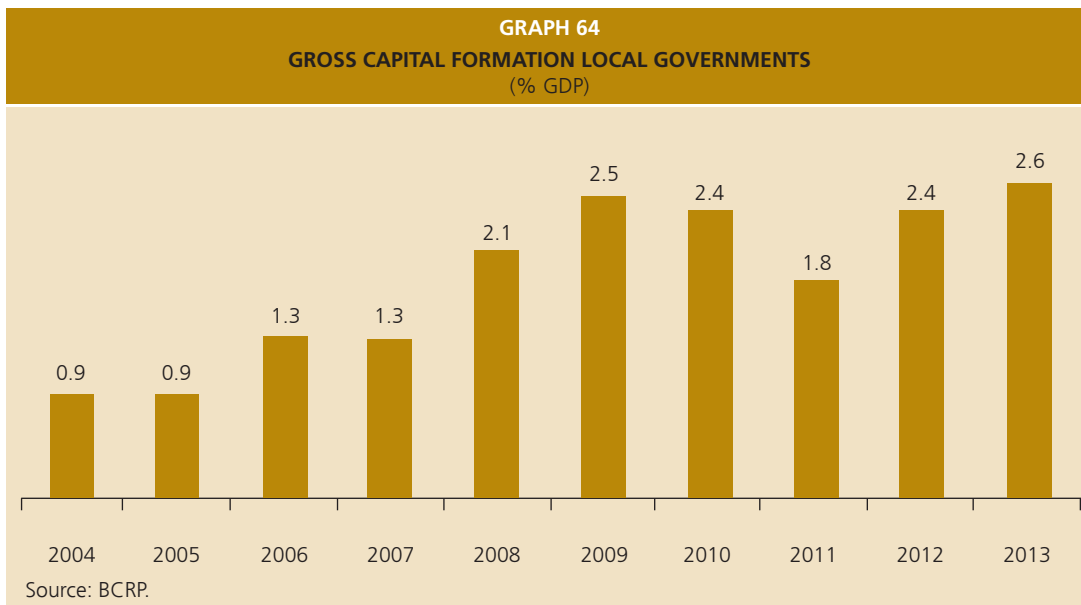
Source: MEF.



Local Governments

The non-financial expenditure of the local governments grew by a real 7.9 percent relative to 2012, reflecting a greater dynamism in investment expenditure which increased 12.3 percent.

In terms of departments, the investment of local governments was led by the local governments of Cusco, Lima, Ancash, and La Libertad, while in terms of municipalities, the greater amounts of investment were recorded in the District Municipality of Echarate in Cusco, the Metropolitan Municipality of Lima, the District Municipality of San Marcos, Ancash, the Province Municipality of Trujillo, and the District Municipality Quimbiri in Cusco. The most significant project developed by local governments due to the amount involved was Programa de Transporte Urbano de Lima Metropolitana, Subsistema Norte Sur.



3. State Enterprises

The State-owned enterprises showed a positive economic balance with a surplus of S/. 739 million. This balance, which is lower by S/. 279 million than the one registered in 2012, is explained mainly by the surpluses recorded by the regional electricity companies, Sedapal and Electroperu, partially offset by the cash deficit recorded by Petroperú.

The regional electricity companies recorded an overall surplus of S/. 203 million, a balance S/. 85 million lower than in 2012, justified by higher capital expenditure in rural electrification investment projects in a year during which increased revenues were obtained from these companies' sale of energy. Egasa, San Gabán, and Seal stand out among the regional energy companies that contributed to this surplus.

Electroperu recorded a cash surplus of S/. 297 million. This balance, which is higher by S/. 186 million than the one registered in 2012, is explained mainly by lower operation costs and by higher revenues from sales of goods and services. It is worth mentioning that Electroperu sells energy to electricity distribution companies and free clients that supply energy in different areas of the country.

Sedapal showed a surplus of S/. 374 million, a balance S/. 25 million higher than in 2012 (S/. 349 million). Capital transfers to this Enterprise from Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE) totaled S/. 407 million and were used to finance government investment projects in the field of urban water and sanitation Works, such as Proyecto de Mejoramiento Sanitario de las Áreas Marginales de Lima (Promesal), Proyectos de Ampliación de la Cobertura, as well as Rehabilitación y Reposición de Redes Primarias y Secundarias de Agua Potable y Alcantarillado.

In 2013, **Petroperu** recorded a deficit of S/. 615 million. Nonetheless, it had a higher production of gasoline, gasohol and industrial crude oil due to increased demand. Petroperu sales of fuels in the domestic market remained above those recorded in the previous year, particularly in the case of liquefied petroleum gas due to a greater market share; low sulfur diesel B5, due to increased sales associated with the legal rule on the maximum sulfur content, and gasoline, due to higher sales to wholesale clients and independent gas stations.

TABLE 55
OVERALL BALANCE OF STATE ENTERPRISES

	Million nuevos soles			% GDP		
	2011	2012	2013	2011	2012	2013
Petroperú	- 174	96	- 615	0.0	0.0	- 0.1
Electroperú	99	186	297	0.0	0.0	0.1
Regional Electricity Companies	165	288	203	0.0	0.1	0.0
Sedapal	13	349	374	0.0	0.1	0.1
Others	31	100	480	0.0	0.0	0.1
TOTAL	134	1,018	739	0.0	0.2	0.1

Source: State enterprises and FONAFE.

4. Promotion of Private Investment

In 2013, a total of US\$ 4.55 billion was obtained through private investment promotion processes. Of this total, US\$ 4.32 billion was committed investment for concessions granted and US\$ 231 million was proceeds from privatization processes. The sectors involved in these transactions have been mainly the sectors of electricity and telecommunications, which account for 70 percent of the operations carried out.

In terms of the investment amounts committed, the concessions outlined below are worth pointing out:



1. Provision of telecommunication services and use of the 1710-1770 MHz and 2110-2170 MHz bands (Blocks A and B) at the national level: The concession of Block A was awarded to Telefónica Móviles S.A. and the concession of Block B was awarded to Americatel Peru S.A. on July 22, 2013. The transaction, which amounted to US\$ 1.02 billion, includes US\$ 218 million as proceeds for the operation and US\$ 800 million in investment. High speed connection to mobile internet – commercially known as 4G worldwide– will be available to users as a result of this concession.
2. South Peru Energy Node: the concession of Power Station 1 (in the Arequipa Region) was awarded to Samay I S.A., while Power Station 2 (in Moquegua) was awarded to Enersur S.A. on November 29, 2013. The estimated investment amount is US\$ 700 million.
3. Hydroelectrical power stations (CH Molloco): The concession of this project was awarded on March 21, 2013, to Consorcio CEE, integrated by Corsan Corviam, Engevix, and Enex (companies with Spanish and Brazilian capital). The project is located in the provinces of Caylloma and Castilla in Arequipa. The power plant is designed to take advantage of the water resources of the Molloco River basin and part of the resources of River Palca to generate electricity.
4. Chavimochic Project - Third Stage: The concession of this project was awarded to Consorcio Río Santa – Chavimochic, integrated by Odebrecht Participações e Investimentos S.A., Constructora Norberto Odebrecht S.A. and Graña y Montero S.A.A. on December 18. The concession period is 25 years and the estimated investment amount is US\$ 574 million.

TABLE 56
PRIVATIZATIONS AND CONCESSIONS 2013
(Million US\$)

SALE OF STOCKS, ASSETS AND CONCESSIONS	DATE	AWARDED TO	Transaction or Investment
Former Tourist Hotels Monterrey, Huaraz and Ica	January 11	Hoteles Cadena Real	12.2
Transmission Line Machupicchu - Quencoro-Onocora-Tintaya 220 Kv and Associated Substations	February 21	Abengoa Perú S.A.	114.3
Energy from Hydroelectric power stations (Molloco HPS)	March 21	Consorcio CEE (Corsan Corviam, Engevix y Enex)	600.0
Iquitos Energy Supply	May 16	Genrent do Brasil Ltda	100.0
500 kV Transmission Line Mantaro-Marcona-Montalvo Socabaya and Associated Substations	July 18	Interconexión Eléctrica S.A. E.S.P. – ISA	278.4
Telecommunications services in channels 1710 - 1770 MHz and 2110 - 2170 MHz Bands (Blocks A and B) - Nationwide	July 22	Telefónica Móviles S.A. and Americatel Perú S.A.	1,018.4
Mass Use of Natural Gas Nationwide	July 25	Gas Natural Internacional SDG S.A.	205.0
Sale of Share: Telefónica S.A. and Telefónica del Perú S.A.A.	August 8 and 13	Various	0.1
National Energy node in the South Peruvian pipeline	November 29	Samay I S.A and Enersur S.A.	700.0
Provision of Sanitation Services in the Southern Districts of Lima	December 17	Técnicas de Desalinización de Aguas S.A.	100.0
Chavimochic project- III stage	December 18	Consorcio Río Santa – Chavimochic	573.7
Amazon Integration Loreto-San Martín to Terrestrial Telecommunications Network	December 18	Gilat to Home Perú S.A.,	25.3
Longitudinal of the Sierra road project - Section 2: Ciudad de Dios - Cajamarca - Chiple, Cajamarca - Trujillo and Dv. Chilete - Empalme PE-3N	December 19	Consorcio Consierra Tramo II	552.0
National Fiber Optic Dorsal Network (Universal South, Center and North Coverage)	December 23	Consorcio TV Azteca – Tendai	273.7
TOTAL			4,553.1

Source: Proinversión.

5. Public Debt

In 2013 the public debt amounted to S/. 107.04 billion. This debt amount, which is equivalent to 19.6 percent of GDP, is higher by S/. 3.23 billion than the debt amount recorded in 2012. The main debt indicators continued showing a favorable trend during the year: a greater part of the debt is domestic debt, a greater part is in domestic currency, and a greater part has been established at a fixed rate, all of which has contributed to reduce market risks.

TABLE 57
DEBT BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR 1/

	Million nuevos soles			% GDP		
	2011	2012	2013	2011	2012	2013
PUBLIC DEBT (I + II)	103,856	103,811	107,044	22.1	20.4	19.6
I. EXTERNAL PUBLIC DEBT	53,514	49,888	48,084	11.4	9.8	8.8
Loans	28,444	25,637	21,463	6.1	5.0	3.9
International organizations	21,227	19,369	15,912	4.5	3.8	2.9
Paris Club	7,119	6,189	5,478	1.5	1.2	1.0
Suppliers	81	67	63	0.0	0.0	0.0
Latin America	17	12	10	0.0	0.0	0.0
Global bonds	25,071	24,251	26,621	5.3	4.8	4.9
II. DOMESTIC PUBLIC DEBT	50,341	53,923	58,961	10.7	10.6	10.8
1. LONG TERM	42,469	45,114	49,626	9.0	8.9	9.1
Bank loans	3,284	3,404	4,587	0.7	0.7	0.8
Treasury bonds	39,133	41,705	45,039	8.3	8.2	8.3
1. Bonds to support the financial system	328	311	341	0.1	0.1	0.1
2. Debt swap bonds	1,890	1,746	1,543	0.4	0.3	0.3
3. Sovereign bonds	29,239	32,244	35,866	6.2	6.3	6.6
4. Recognition bonds	7,676	7,405	7,290	1.6	1.5	1.3
Municipality of Lima Bonds	52	5	0	0.0	0.0	0.0
2. SHORT TERM	7,872	8,809	9,335	1.7	1.7	1.7
Memo:						
Liabilities of Private-Public Partnerships	4,340	3,968	4,117	0.9	0.8	0.8
FEPCs	240	214	295	0.1	0.0	0.1
External debt from COFIDE and Mivivienda Fund	955	2,135	4,294	0.2	0.4	0.8
Bond holdings	54,310	56,495	62,487	11.6	11.1	11.4
Residents	18,379	16,759	21,178	3.9	3.3	3.9
Non-residents	35,931	39,736	41,309	7.6	7.8	7.6
Sovereign bonds	29,239	32,244	35,866	6.2	6.3	6.6
Residents	16,139	14,371	17,546	3.4	2.8	3.2
Non-residents	13,100	17,873	18,320	2.8	3.5	3.4
Global bonds	25,071	24,251	26,621	5.3	4.8	4.9
Residents	2,240	2,388	3,632	0.5	0.5	0.7
Non-residents	22,831	21,863	22,989	4.9	4.3	4.2

1/ Includes national government debt, regional and locals, and public enterprises. Excludes debt from COFIDE, Banco de la Nación, BCRP, and MiVivienda Fund.

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



5.1 External Debt

In 2013 the external debt, which accounts for 45 percent of the total debt of the non-financial public sector (NFPS), amounted to US\$ 17.20 billion (or S/. 48.08 billion). This amount represents a decrease of US\$ 2.36 billion in the debt amount compared to 2012 and includes the prepayment of US\$ 1.35 billion to the Inter American Development Bank (IDB) and the prepayment of US\$ 423 million to the International Bank for Reconstruction and Development (IBRD). These prepayment operations were carried out as public debt management operations with the purpose of reducing debt exposure to foreign exchange risk. However, the debt reduction was offset by the increase in the external debt valued in soles derived from the depreciation of the domestic currency in recent months. This prepayment operation was financed through the issuance of sovereign bonds.

External disbursements for the NFPS in 2013 amounted to US\$ 348 million and included funding for several investment projects of the general government (US\$ 195 million) and non-financial government enterprises (US\$ 27 million), as well as funds for the payment of external debt obligations (US\$ 125 million).

Disbursements were made mainly to the sector of Transport and Communications (US\$ 102 million) to finance investment projects, such as the second stage of Lima's Electric Train (US\$ 49 million) and to improve the national road network (US\$ 20 million). Other sectors that received external resources were the Ministry of Housing, Construction and Sanitation (US\$ 47 million), the Ministry of Agriculture (US\$ 26 million), and the Ministry of Economy and Finance (US\$ 16 million). As regards unrestricted loans, the IDB provided US\$ 80 million and the IBRD provided US\$ 45 million.

The NFPS amortization of the external debt amounted to US\$ 2.37 billion, which included the prepayment of debt to international agencies and writing-off a debt of US\$ 4 million by the government of the United States.

5.2 Domestic Debt

The domestic public debt showed a balance of S/. 58.96 billion at end-2013, which represents an increase of S/. 5.04 billion compared to the debt amount at end-2012. This increase is mostly explained by the issuance of sovereign bonds, whose balance increased to S/. 35.87 billion. Moreover, 51 percent of these sovereign bonds is held by non-residents.

Two debt management operations were carried out by the Ministry of Economy and Finance (MEF) with the issuance of sovereign bonds in February and in April of this year. A total of S/. 2.22 billion and S/. 1.40 billion was obtained with these two operations, respectively. The resources obtained were used to prepay the debt obligations with the IDB and the IBRD.

In addition to this, issuances of sovereign bonds for a total of S/. 879 million were approved in the second half of the year as part of a strategy of global management of public sector assets and liabilities. The government also approved the periodic issuance of 90-day to 360-day Treasury Bills and placed bills for a total of S/. 323 million during the year.

5.3 Net Debt ⁸

In 2013 the net debt amounted to S/. 20.36 billion, a sum equivalent to 3.7 percent of GDP. This debt balance, which is lower by S/. 4.99 billion than the one registered at end 2012, is mainly explained by the increase in public financial assets (S/. 8.23 billion), offset by the growth of the public debt (S/. 3.23 billion).

TABLE 58
NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR

Year (December)	Million nuevos soles			% GDP		
	Assets	Liabilities	Debt net	Assets	Liabilities	Debt net
2004	18,808	101,389	82,581	8.4	45.2	36.8
2005	20,792	102,938	82,146	8.5	42.1	33.6
2006	25,435	97,586	72,151	8.9	34.1	25.2
2007	38,061	95,604	57,543	11.9	29.9	18.0
2008	45,649	95,674	50,025	12.8	26.9	14.1
2009	47,003	99,215	52,212	12.9	27.2	14.3
2010	50,852	102,150	51,298	12.1	24.3	12.2
2011 1/	63,531	103,856	40,325	13.5	22.1	8.6
2012 1/	78,455	103,811	25,356	15.4	20.4	5.0
2013 1/	86,683	107,044	20,361	15.9	19.6	3.7

1/ Preliminary data.
Source: BCRP, MEF, and ONP.

GRAPH 65
GROSS AND NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR
(% GDP)



⁸ The net public debt is defined as the difference between the public sector liabilities (total public debt) and the public sector financial assets (total deposits in the domestic and external financial systems).



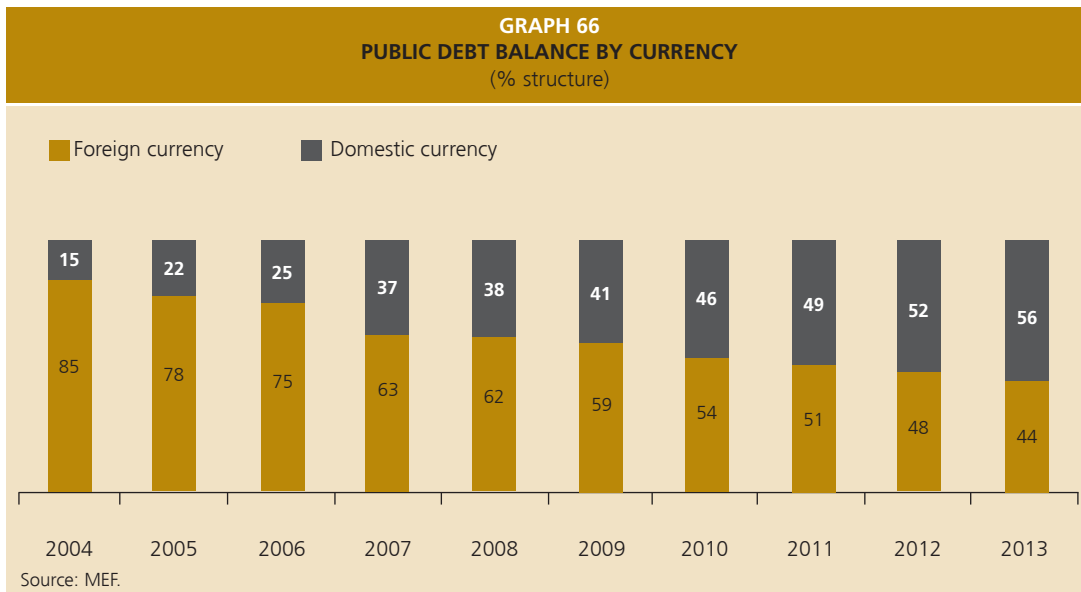
5.4 Debt by Currencies

The ratio of the debt in nuevos soles to the total public debt has been increased to reduce the debt's exposure to foreign exchange risk. Thus, between 2004 and 2013 the share of the debt in domestic currency has increased from 15 percent to 56 percent of the gross public debt. The increase in 2013 is explained mainly by the debt management operation carried out in the first months of the year through which part of the external debt was prepaid with the placement of sovereign bonds in domestic currency.

TABLE 59
DEBT BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR BY CURRENCY
(Million nuevos soles)

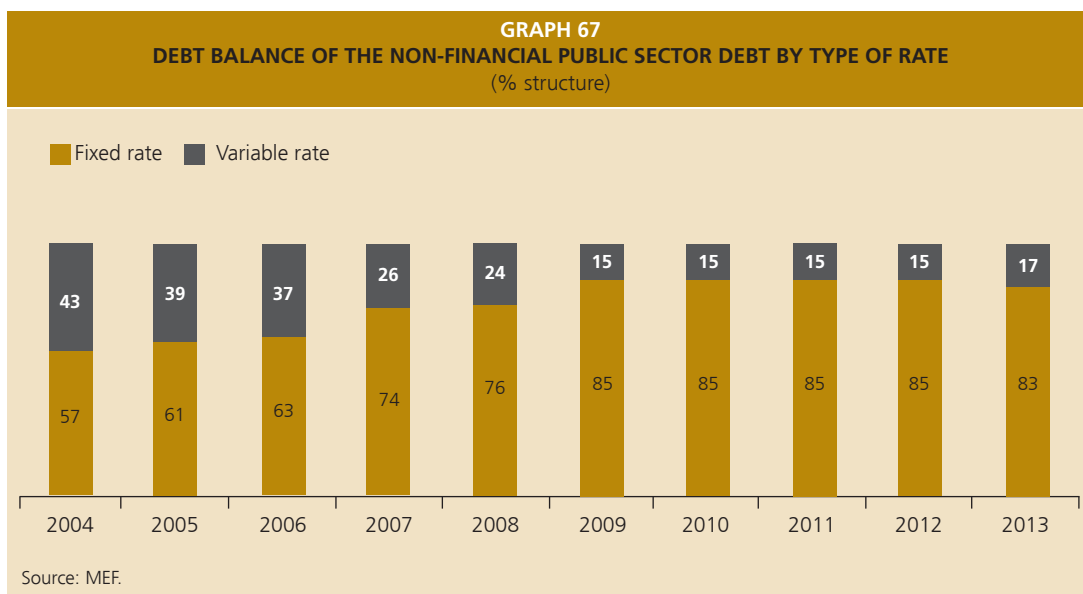
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Foreign currency	85,729	80,534	73,615	60,402	59,768	58,878	55,100	53,132	49,487	47,588
Domestic currency	15,660	22,404	23,970	35,202	35,906	40,337	47,050	50,724	54,324	59,457
TOTAL	101,389	102,938	97,586	95,604	95,674	99,215	102,150	103,856	103,811	107,044

Source: MEF.



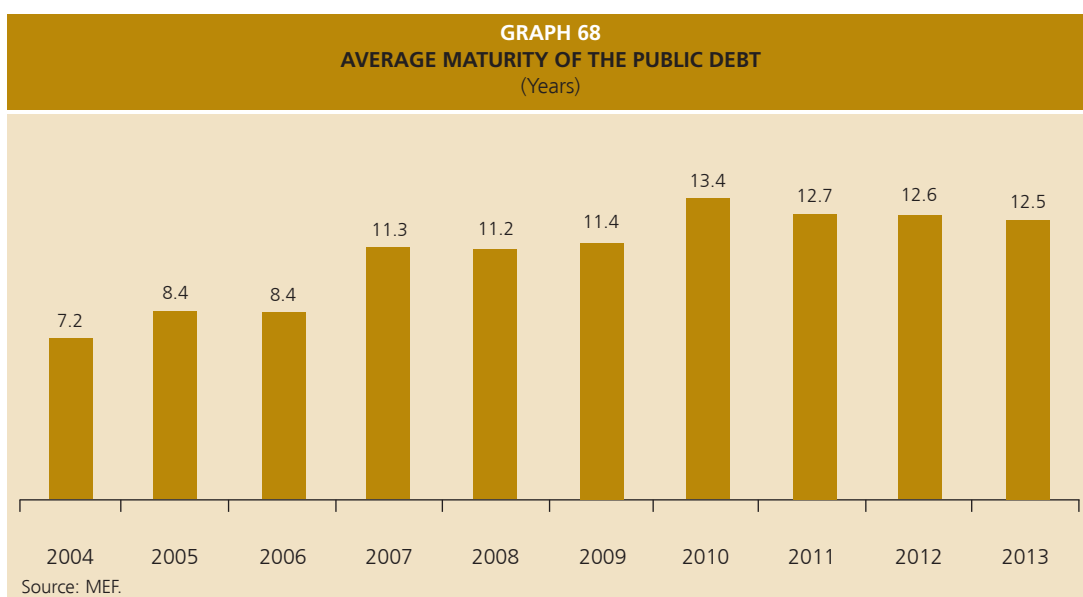
5.5 Debt by Type of Interest Rate

The ratio of fixed-rate debt has been reduced from 85 to 83 percent in 2013. However, when we look at the debt from a longer-term perspective, we see that the ratio of debt contracted at fixed rates has increased from 57 percent in 2004 to 83 percent in 2013. This has been done with the purpose of increasing the predictability regarding the debt service and minimizing the risks that a rise in international interest rates would entail.



5.6 Average Life of the Debt

Because the average life of the debt has been increased, greater margin has been achieved to meet maturity terms and prevent in this way periods in which a large volume of debt payments concentrate. The average life of the debt has increased from 7.2 to 12.5 years between 2004 and 2013. The slight decrease observed in this indicator in recent years is explained by the increase in the short-term floating debt (unpaid accrued expenses).





The average life of the **domestic public debt** (13.2 years) is longer than the average life of the **external public debt** (11.9 years). It should be pointed out that a re-distribution has been achieved in terms of the debt contracted with multilateral and bilateral sources and the debt in the capital market, the obligations generated by the latter representing 58 percent of the debt and a growing trend being observed in recent years.

