

PUBLIC FINANCES

In 2016 the operations of the Non-Financial Public Sector showed a deficit for the third consecutive year. Factors accounting for this deficit were the decrease of government revenues in a context of slowing domestic demand and falling imports as well as a significant increase in tax rebates to mining export companies. Another factor contributing to this was the lower performance of non-financial public enterprises. Non-financial expenditure, on the other hand, decreased during the year in part as a result of the fiscal consolidation measures implemented.

Thus, the 2016 deficit was equivalent to 2.6 percent of GDP, 0.5 percentage points higher than in 2015, as a result of lower ordinary revenues (1.5 percent) and the deterioration of the balances of the State-owned enterprises (0.3 percent), offset by lower non-financial expenditure (1.3 percent).

Despite the higher deficit, the public debt remained at sustainable levels of around 24 percent of the output along with a net debt equivalent to 8.0 percent of GDP.

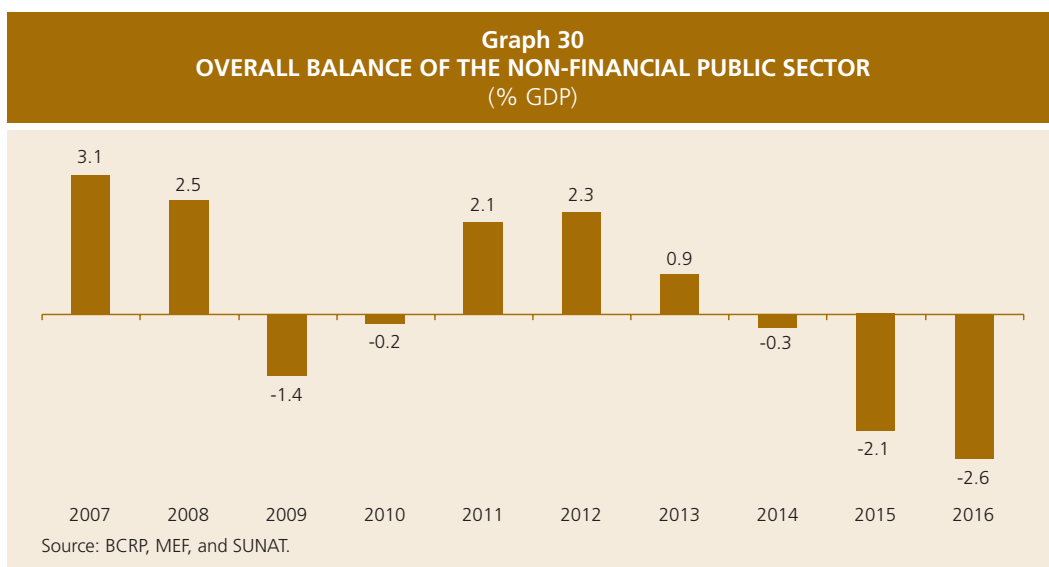


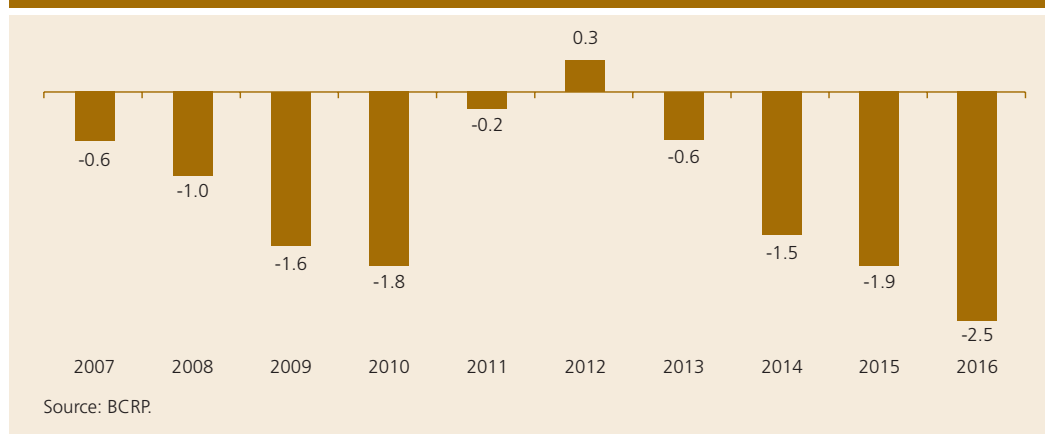
Table 40
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

	Million soles			% GDP		
	2014	2015	2016	2014	2015	2016
I. PRIMARY BALANCE	4,328	-6,170	-9,783	0.8	-1.0	-1.5
1. Of the General Government	4,536	-6,807	-8,500	0.8	-1.1	-1.3
a. Current revenue	127,721	122,789	122,044	22.2	20.0	18.5
i. Tax revenue	97,649	92,788	92,221	16.9	15.1	14.0
ii. Non-tax revenue	30,072	30,000	29,823	5.2	4.9	4.5
b. Non-financial expenditure	123,845	130,205	131,460	21.5	21.3	20.0
i. Current	89,433	96,995	100,659	15.5	15.8	15.3
ii. Capital	34,411	33,210	30,801	6.0	5.4	4.7
c. Capital revenue	660	609	917	0.1	0.1	0.1
2. Of public enterprises	-208	637	-1,284	0.0	0.1	-0.2
II. INTERESTS	6,206	6,475	7,137	1.1	1.1	1.1
1. External debt	2,909	2,664	3,004	0.5	0.4	0.5
2. Domestic debt	3,297	3,811	4,133	0.6	0.6	0.6
III. OVERALL BALANCE (I-II)	-1,878	-12,644	-16,920	-0.3	-2.1	-2.6
1. Net external financing (Million US\$)	-841	9,815	4,304	-0.1	1.6	0.7
a. Disbursements	\$1,428	\$4,354	\$1,999	0.7	2.3	1.0
b. Amortization	\$1,456	\$1,230	\$1,672	0.7	0.6	0.9
c. Others	-\$,256	-\$,150	\$,930	-0.1	-0.1	0.5
2. Net domestic financing	2,686	2,736	9,630	0.5	0.4	1.5
3. Privatization ^{1/}	34	94	2,987	0.0	0.0	0.5

^{1/} Includes concession of three blocks of the 698-800 MHz band in the country.

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

Graph 31
STRUCTURAL OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR
(% potential GDP)



The structural economic balance, indicator that shows the effect of fiscal policy decisions isolating the effects of the business cycle and the impact of the prices of our minerals exports, showed a deficit and increased from 1.9 to 2.5 percent of GDP in 2016. However, since this outcome resulted mainly from a drop in fiscal revenue, the higher deficit was not anti-cyclical due to the lower multiplier impact

of revenue in comparison to expenditure. Thus, if we break down the fiscal impulse by income and expenditure and weigh each of these factors in terms of their multiplier effect on economic activity, we can see that fiscal policy had a contractionary impact of 0.6 percent of GDP in 2016 due to lower capital spending.

Table 41 FISCAL IMPULSE			
	2014	2015	2016
Fiscal impulse	0.6	0.6	0.9
By revenues	0.6	0.9	1.7
By expenditure	0.0	-0.3	-0.8
Weighted impulse	-0.1	-0.3	-0.6

Financial requirements, indicator that measures the resources needed by the public sector to cover the economic balance and cover the amortization of the domestic debt and the external debt, amounted to S/ 31.75 billion. These requirements were covered with external disbursements and with placements of sovereign bonds.

Table 42 FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR						
	Million soles			% GDP		
	2014	2015	2016	2014	2015	2016
1. Overall balance	-1,878	-12,644	-16,920	-0.3	-2.1	-2.6
2. Amortization	9,059	7,974	14,831	1.6	1.3	2.3
Redemption of recognition bonds	692	678	629	0.1	0.1	0.1
Domestic debt	4,160	3,437	8,566	0.7	0.6	1.3
External debt ^{1/}	4,207	3,859	5,637	0.7	0.6	0.9
3. Financial requirements	10,938	20,618	31,752	1.9	3.4	4.8
External disbursements	4,119	14,057	6,804	0.7	2.3	1.0
Freely disposable funds	2,162	13,046	3,922	0.4	2.1	0.6
Investment projects	1,957	1,010	2,882	0.3	0.2	0.4
Domestic bonds ^{1/}	11,537	7,095	22,431	2.0	1.2	3.4
Privatization ^{2/}	34	94	2,987	0.0	0.0	0.5
Others	-4,752	-628	-470	-0.8	-0.1	-0.1

1/ Amounts include operations of managing of approved debt.
2/ Includes concession of three blocks of the 698-800 MHz band in the country.
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state enterprises, and public institutions.

1. Revenue of the General Government

The current revenue of the general government was equivalent to 18.5 percent of GDP, 1.5 percentage points of GDP lower than in 2015 (down 4.1 percent in real terms for the second consecutive year). The decline in tax revenues, particularly the decline in the income tax, reflected mainly the slowdown registered in the domestic demand, the reduction of imports, and the increase of rebates of export-related taxes to historical high levels and the advanced rebate of the VAT. In addition to this, non-tax revenue associated with royalties and with the oil royalty also fell due to the lower average annual price of crude and to the lower production of hydrocarbons.

Table 43
FISCAL REVENUE RATIOS
(% GDP)

	2014	2015	2016
Central government tax burden	16.5	14.7	13.6
Central government fiscal burden ^{1/}	18.9	16.6	15.2
General government fiscal burden ^{2/}	22.2	20.0	18.5

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.

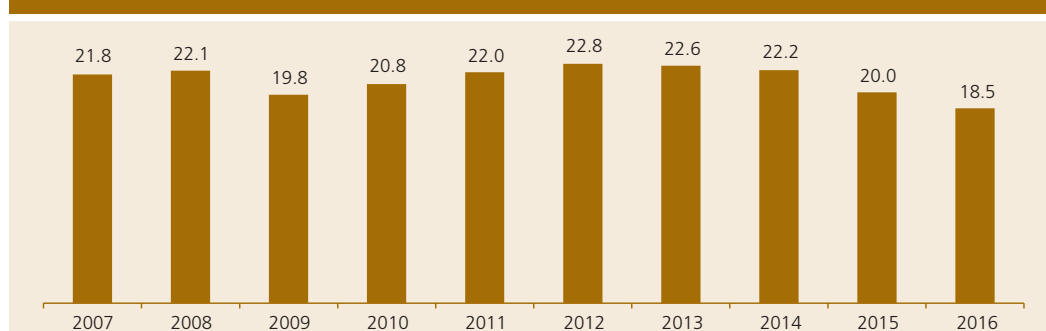
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, ONP, charity societies, regulatory agencies and registry offices.

Table 44
GENERAL GOVERNMENT REVENUES

	Million soles			Real % change		% GDP		
	2014	2015	2016	2015	2016	2014	2015	2016
I. TAX REVENUE	97,649	92,788	92,221	-8.2	-4.1	16.9	15.1	14.0
1. Income tax	40,157	34,745	37,214	-16.3	3.3	7.0	5.7	5.6
- Individuals	10,894	10,557	11,159	-6.3	2.0	1.9	1.7	1.7
- Legal entities	25,031	20,542	22,250	-20.7	4.4	4.3	3.4	3.4
- Tax regularization	4,232	3,646	3,805	-16.5	0.4	0.7	0.6	0.6
2. Import duties	1,790	1,775	1,606	-4.3	-12.6	0.3	0.3	0.2
3. Value-added tax (VAT)	50,352	51,668	52,692	-0.9	-1.6	8.7	8.4	8.0
- Domestic VAT	28,732	30,410	31,040	2.2	-1.5	5.0	5.0	4.7
- VAT on imports	21,620	21,258	21,652	-5.1	-1.7	3.8	3.5	3.3
4. Excise tax	5,135	5,495	5,902	3.3	3.7	0.9	0.9	0.9
- Fuels	2,041	2,210	2,423	4.5	5.9	0.4	0.4	0.4
- Others	3,094	3,284	3,479	2.5	2.2	0.5	0.5	0.5
5. Other income tax	10,924	10,782	11,163	-4.8	0.1	1.9	1.8	1.7
- National government	8,585	8,171	8,312	-8.3	-1.6	1.5	1.3	1.3
- Local government	2,338	2,611	2,851	7.9	5.3	0.4	0.4	0.4
6. Tax returns	-10,708	-11,676	-16,356	5.4	35.2	-1.9	-1.9	-2.5
II. NON-TAX REVENUES	30,072	30,000	29,823	-3.6	-4.1	5.2	4.9	4.5
1. Contributions to EsSalud and ONP	12,513	13,893	14,489	7.2	0.7	2.2	2.3	2.2
2. Oil, gas and mining royalty	2,649	1,633	1,591	-40.3	-4.7	0.5	0.3	0.2
3. Oil Canon	2,895	1,622	1,291	-45.9	-23.3	0.5	0.3	0.2
4. Others	12,015	12,853	12,452	1.8	-6.7	2.1	2.1	1.9
III. TOTAL (I+II)	127,721	122,789	122,044	-7.1	-4.1	22.2	20.0	18.5

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

Graph 32
GENERAL GOVERNMENT FISCAL BURDEN
(% GDP)



Source: BCRP.

Revenue from the **income tax** increased by 3.3 percent in real terms, but reduced 5.7 percent in GDP terms in 2015 to 5.6 percent in 2016. The increase in real terms is explained mainly by higher revenue from the income tax paid by non-domiciled taxpayers (54.4 percent) for the sale of assets which included assets of Línea Amarilla, Solgas, and companies linked to Enersur operations, among other transactions. Excluding this effect given its temporary nature, revenue from the income tax is estimated to have fallen by 1.9 percent.

Table 45 INCOME TAX BY CATEGORY (Million soles)					
	2014	2015	2016	Real % change	
				2015	2016
First category	374	443	504	14.5	9.8
Second category	1,214	1,287	1,536	2.5	15.1
Third category	18,536	16,817	16,496	-12.3	-5.4
Fourth category	834	783	871	-9.3	7.3
Fifth category	8,473	8,044	8,248	-8.2	-1.1
Non-domiciled	6,027	3,248	5,205	-47.8	54.4
Regularization	4,232	3,646	3,805	-16.5	0.4
Others	468	477	550	-1.4	11.1
Total	40,157	34,745	37,214	-16.3	3.3

Source: SUNAT.

By categories of income tax, revenue from third category-income tax –which represents approximately 46 percent of the revenue obtained from this tax in recent years– was the one that dropped the most (5.4 percent). Lower payments on account of this tax were observed in the sectors of hydrocarbons and mining (58.4 and 29.6 percent, respectively) due to lower volumes of extraction of crude oil as well as due to lower international prices. It should be pointed out that the higher growth recorded in mining GDP rates does not necessarily translate into higher tax revenue from this sector, because the mining companies that have contributed to the growth of the sector in the last year are included, for tax purposes, in the accelerated depreciation regime which reduces their net income when the income tax is determined.

Table 46 REVENUES FROM CORPORATE TAX BY SECTORS: PAYMENTS ON ACCOUNT (Million soles)					
	2014	2015	2016	Real % change	
				2015	2016
Services ^{1/}	7,612	8,223	8,192	4.4	-3.8
Commerce	3,220	3,034	3,316	-9.0	5.4
Manufacturing	2,517	2,143	2,388	-17.8	7.4
Hydrocarbons	1,903	913	394	-53.6	-58.4
Mining	1,881	1,051	770	-45.9	-29.6
Construction	1,283	1,361	1,334	2.5	-5.4
Agriculture and livestock	72	47	53	-37.3	11.2
Fishing	47	46	48	-6.3	1.9
Total	18,536	16,817	16,496	-12.3	-5.4

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

Revenue from **import duties** decreased 12.6 percent in real terms, which was equivalent to a decline from 0.3 to 0.2 percent in GDP terms in 2016. This decrease is in line with lower imports, especially lower imports of industrial inputs and capital goods.



Revenue from the **value added tax (VAT)** declined for the fourth consecutive year, falling from 8.4 percent in 2015 to 8.0 percent of GDP in 2016, which represents a fall of 1.6 percent in real terms. This decline, which is mostly explained by the lower dynamism of domestic demand and by the contraction of imports, affected both revenue from the domestic VAT (-1.5 percent) and revenue from the external VAT (-1.7 percent). By sectors, the higher declines in revenue from the domestic VAT were observed in the sectors of hydrocarbons (-23.8 percent), services (-4.3 percent), and construction (-0.4 percent).

On the other hand, the revenue from the **excise tax** grew 3.7 percent in real terms as a result of an increase in the excise tax on fuels (5.9 percent, applied in residual 6 and residual 500) and in the excise tax on other goods (2.2 percent).

Revenue from other tax revenue fell for the third consecutive year in GDP terms (down from 1.8 to 1.7 percent of GDP), but represented a real increase of 0.1 percent. This is explained by increased revenue from the ITAN (12.5 percent) and from payments of tax installments (12.0 percent, offset in part by lower transfers of tax withholdings (-44.5 percent) and revenues from fines (-19.2 percent).

Tax refunds were equivalent to 2.5 percent of GDP and showed a historical record with a real increase of 35.2 percent. This significant increase is explained by greater tax refunds for mining exports (35.8 percent) to mining companies such as Las Bambas, Cerro Verde, and Glencore Perú, as well as by increased refunds for early payments of the VAT (149.4 percent).

Non-tax revenues fell 4.1 percent in real terms due to the lower revenue from the oil and gas *canon* (royalty) and from oil and gas royalties, which dropped by 23.3 and 22.9 percent, respectively, in line with the lower extraction of crude recorded during the year, associated in part with the rupture of the pipeline (Oleoducto Norperuano), and in line with the lower average price of crude oil.

2. General Government Spending

In 2016 the non-financial expenditure of the general government was equivalent to 20.0 percent of GDP, a ratio 1.3 percentage points lower than in 2015. This lower ratio is explained by both lower current expenditure, which dropped from 15.8 to 15.3 percent of GDP, and by lower capital expenditure, which fell by 0.7 percentage points in this period. By government levels, lower current expenditure at the level of the national government stands out (down from 11.1 to 10.5 percent of GDP).

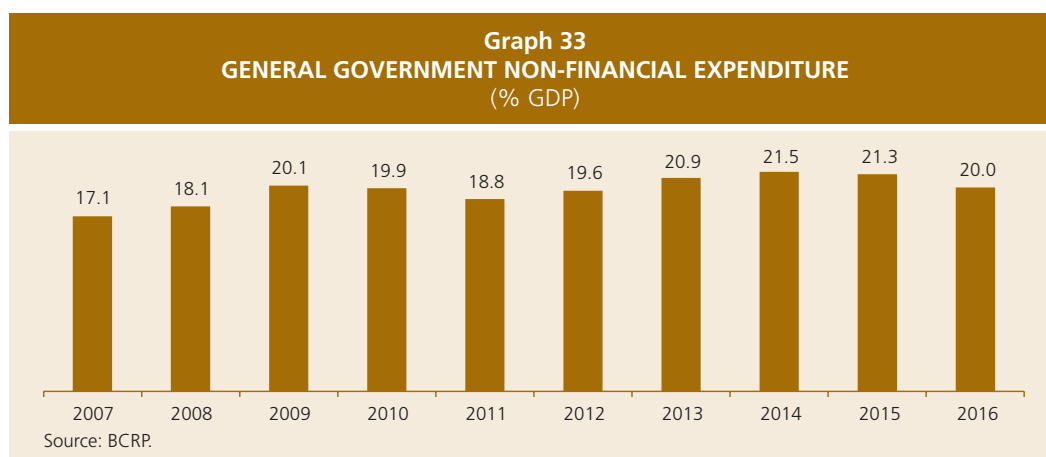


Table 47
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE^{1/}

	Million soles			Real % change		% GDP		
	2014	2015	2016	2015	2016	2014	2015	2016
I. CURRENT EXPENDITURE	89,433	96,995	100,659	4.7	0.3	15.5	15.8	15.3
Wages and salaries	34,072	35,455	39,081	0.5	6.4	5.9	5.8	5.9
National government	20,926	21,858	23,974	0.9	5.9	3.6	3.6	3.6
Regional governments	11,074	11,536	12,959	0.6	8.5	1.9	1.9	2.0
Local government	2,072	2,061	2,148	-4.0	0.7	0.4	0.3	0.3
Goods and services	34,985	40,572	40,640	11.8	-3.1	6.1	6.6	6.2
National government	24,046	28,916	28,015	16.0	-6.2	4.2	4.7	4.3
Regional governments	3,717	4,602	4,891	19.2	2.9	0.6	0.8	0.7
Local government	7,222	7,055	7,735	-5.8	6.0	1.3	1.2	1.2
Transfers	20,376	20,968	20,938	-0.6	-3.5	3.5	3.4	3.2
National government	16,668	17,466	17,334	1.2	-4.1	2.9	2.9	2.6
Regional governments	2,562	2,346	2,459	-11.6	1.2	0.4	0.4	0.4
Local government	1,146	1,155	1,145	-2.7	-4.3	0.2	0.2	0.2
II. CAPITAL EXPENDITURE	34,411	33,210	30,801	-7.0	-10.3	6.0	5.4	4.7
Gross Capital Formation	30,293	26,829	26,865	-14.7	-3.1	5.3	4.4	4.1
National government	10,212	10,484	9,421	-0.9	-13.1	1.8	1.7	1.4
Regional governments	6,262	5,687	5,727	-12.7	-2.5	1.1	0.9	0.9
Local government	13,819	10,658	11,717	-25.8	6.4	2.4	1.7	1.8
Other capital expenditure	4,118	6,381	3,936	49.5	-40.2	0.7	1.0	0.6
III. NON FINANCIAL EXPENDITURE (I + II)	123,845	130,205	131,460	1.4	-2.4	21.5	21.3	20.0
National government	75,769	84,790	82,546	8.0	-5.9	13.1	13.8	12.5
Regional governments	23,663	24,363	26,053	-0.7	3.4	4.1	4.0	4.0
Local government	24,412	21,052	22,861	-16.9	5.1	4.2	3.4	3.5

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

National Government

The **non-financial expenditure of the national government** was equivalent to 12.5 percent of GDP, which represents a decrease of 5.9 percent in real terms relative to 2015. This decrease is explained mainly by lower spending in goods and services (6.2 percent) and by lower gross capital formation (13.1 percent).

Expenditure in **wages and salaries** grew by a real 5.9 percent compared with 2015, which is explained among other factors by salary increases for the personnel of the Ministries of Interior, Defense, the Judiciary Sector, and the Public Prosecutor's Office. The salary increase in the Ministries of Interior and Defense is explained by the fourth and fifth payment of a bonus for the police and the military approved by Legislative Decree No. 1132, while the salary increase in the two latter cases is explained by higher resources allocated to these institutions to cover new positions of magistrates and prosecutors that will be working in the implementation of the new Criminal Procedure Code.

Expenditure on **goods and services** amounted to 4.3 percent of GDP, which represents a decline of 6.2 percent in real terms. The more significant reduction of spending was recorded in the Ministry of Defense due to the lower allocation of resources for the acquisition of vehicles, furniture, computer equipment, and devices for defense and security. This was offset by increased spending in contracts for services (CAS) in several ministries, as well as by increased spending allocated to the acquisition of school materials and supplies and for the purchase of medical supplies.

Spending for current **transfers** amounted to 2.6 percent of GDP, which represented a decrease of 4.1 percent in real terms. Lower transfers made during the year that stand out included the transfers to



Program Juntos (Programa Nacional de Apoyo Directo a los más Pobres) (S/ 850 million, versus S/ 941 million in 2015), as well as the lower transfers made by Fondo de Cooperación para el Desarrollo Social (Foncodes), which amounted to S/ 99 million. On the other hand, higher resources were allocated to Pensión 65 (Programa Nacional de Asistencia Solidaria) (S/ 42 million), Programa Nacional Cuna Más (S/ 25 million), and Programa Nacional de Alimentación Escolar Qaliwarma (S/ 218 million), among other programs.

The national government expenditure in **gross capital formation**, which was equivalent to 1.4 percent of GDP, was concentrated mainly in the sector of Transportation, which represented 66 percent of the investment of the national government. It is worth pointing out that increased spending was made in road concession projects and works, in other works associated with the construction of Lima's Metro Line 2 and section Avenida Faucett–Gambeta of Lima's Metro project, and in the repair and improvement of the Puerto Bermúdez – San Alejandro highway, among other projects.

Other capital expenditure of the national government (S/ 3.80 billion) dropped by 39.3 percent, which is mainly explained by the lower costs incurred for Bono Familiar Habitacional (down from S/ 1.46 billion to S/ 724 million) and for lower transfers to international organizations for the implementation of investment projects which represented a decline of spending of S/ 1.02 billion.

Table 48
MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT: 2016
(Million soles)

PROJECTS	Amount
TRANSPORT	4,436
Construction of line 2 network and section Av. Faucett-Gambetta in Metropolitan Lima and Callao ^{1/}	727
Restoration and improvement of Road Puerto Bermúdez-San Alejandro	331
Road integration Tacna-La Paz	279
Maintenance of national highway	222
Restoration and improvement of Road Lima-Canta-La Viuda-Unish	206
Restoration and improvement of Road Huancavelica-Lircay	199
Construction of Road section Vía Evitamiento de Piura	171
Improvement of Road Néstor Gambetta - Callao	157
Construction and improvement of Road Camaná-Quilca-Matarani-Ilo-Tacna	152
Restoration and improvement of Road Desvío Negromayo-Occoruro-Palpatá-Desvío Yauri	140
Restoration and improvement of Road longitudinal de la sierra Cochabamba-Cutervo-Santo Domingo	131
Restoration and improvement of Road Huaura - Sayán - Churín	93
Construction of Road section 2 Piura-Paita	89
Restoration and improvement of Road Imperial-Pampas	81
Restoration and improvement of Road Andahuaylas-Pampachiri-Negromayo	72
Rest	1,387
EDUCATION	1,819
Educational institutions for fulfillment of class hours normed	191
Health services with complementary skills for emergencies and disasters	115
Improvement of learning opportunities	71
Educational institutions managed with sufficient conditions for care	56
Students of regular basic education have educational materials necessary for the achievement of learning standards	52
Rest	1,333
Others	3,167
TOTAL	9,421

1/ No includes spending in sanitation areas nor rolling material.
Source: MEF.

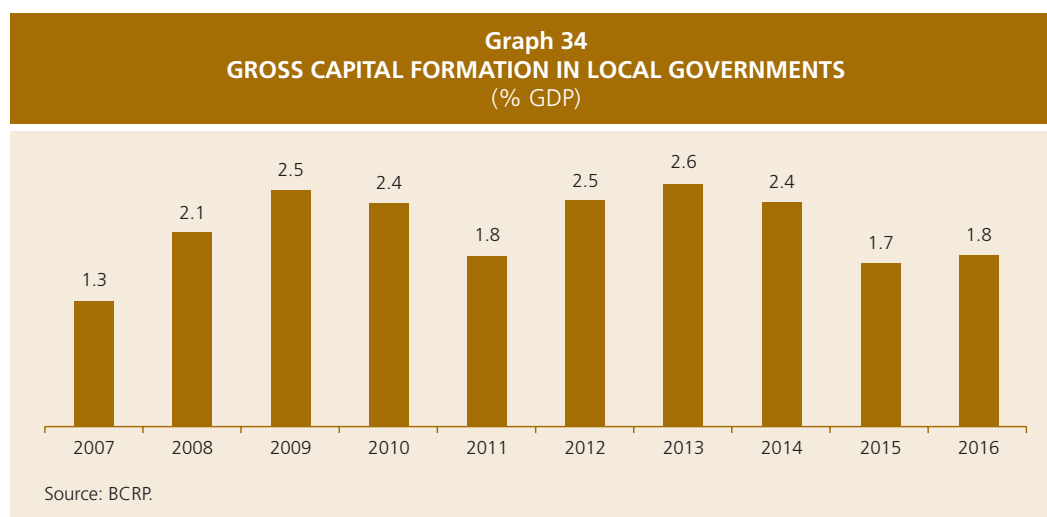
Regional Governments

The non-financial expenditure of regional governments, which was equivalent to 4.0 percent of GDP, increased 3.4 percent in real terms. This result is basically explained by the increase registered in

salaries and wages (8.5 percent), in contrast with the decline observed in gross capital formation (2.5 percent).

Local Governments

The non-financial expenditure of the local governments increased by a real 5.1 percent compared to 2015, reflecting higher spending in gross capital formation which increased by 6.4 percent.



3. State-Owned Enterprises

In contrast with the positive balance they recorded in 2015 (surplus of S/ 466 million), the State-owned enterprises recorded a negative economic balance of S/ 1.52 billion in 2016. This balance is explained mainly by the deficit registered by Petroperú (S/ 2.40 billion), offset in part by the surplus recorded by regional electricity companies.

In 2016 **Petroperú** showed a deficit of S/ 2.40 billion –a deficit S/ 1.64 billion higher than the one recorded in 2015–, explained mostly by investment expenditure associated with the modernization of the Talara Refinery. The expenditure associated with this project in 2016 totaled S/ 2.87 billion (vs. S/ 1.64 billion in 2015). As of December 31, 2016, this project shows a level of implementation of 52 percent.

Sedapal showed a deficit of S/ 45 million in 2016, this balance contrasting with the surplus of S/ 443 million recorded in 2015. The enterprise's deficit is explained in part by its increased investment expenditure in 2016 (up from S/ 255 million in 2015 to S/ 387 million in 2016), which included the expansion and modernization of the systems of drinking water and sewage carried out mainly in Pachacútec (Ventanilla), Independencia, and Cajamarquilla, among others. Another factor that contributed to this lower balance was the lower capital transfers received from the Ministry of Housing, Construction and Sanitation (S/ 30 million vs. S/ 197 million in 2015).

Electroperú recorded a deficit of S/ 3 million, a balance S/ 100 million lower than the positive result it showed in 2015 (S/ 97 million), which is explained mainly by higher operation expenses. It is worth mentioning that Electroperú sells energy to electricity distribution companies and provides power distribution to free clients located in different areas of the country.

Increasing their 2015 balance by S/ 53 million, the **regional electricity companies** registered an overall surplus of S/ 551 million in 2016. This performance is explained by increased revenue due to sales of energy, as well as by transfers of funds from the Ministry of Energy and Mines for the implementation of rural electrification programs. The electricity companies that recorded higher capital spending were the companies of Distriluz group (Hidrandina, Electrocentro, Electronoroeste, and Electronorte) and Electrosureste which are developing projects aimed at renewing, expanding, and modernizing their distribution grids and transmission systems. On the other hand, the companies that showed the higher surpluses were Electrocentro, Hidrandina, Egasa, and Egemsa.

Table 49
OVERALL BALANCE OF STATE ENTERPRISES

	Million soles			% GDP		
	2014	2015	2016	2014	2015	2016
PetroPeru	-1,450	-760	-2,402	-0.3	-0.1	-0.4
ElectroPeru	135	97	-3	0.0	0.0	0.0
Regional Electricity Companies	213	498	551	0.0	0.1	0.1
Sedapal	413	443	-45	0.1	0.1	0.0
Others	323	189	384	0.1	0.0	0.1
TOTAL	-365	466	-1,515	-0.1	0.1	-0.2

Source: State enterprises and FONAFE.

4. Promotion of Private Investment

Investment projects given in concession during 2016 involved investment commitments for a total of US\$ 2.06 billion. Among the projects standing out, it is worth mentioning a concession in the telecommunications sector for the Provision of Public Telecommunications Services and the assignation of three blocks of the 698-806 MHz band in the country, with an investment commitment of US\$ 1.68 billion. The blocks were assigned to América Móvil Perú SAC (Block B), Telefónica del Perú S.A.A. (Block C), and Entel Perú S.A. (Block A). The concession contracts for each of the three band blocks were signed on July 20.

Among other projects, the concession of the implementation of the power plant of San Gabán III to Hydro Global Perú S.A.C., with a projected investment of US\$ 371.2 million, is also worth highlighting.

Table 50
PRIVATIZATIONS AND CONCESSIONS: 2016
(Million US\$)

Concessions and projects	Date	Awarded to	Investment
Electronic surveillance services through the use of electronic devices	January 19	Consorcio Global Seguridad (Global Circuit Ltda., Global Seguridad del Perú E.I.R.L. e Infopyme Comunicaciones S.L.)	9.2
Hydroelectric Power Plant San Gabán III	March 22	Hydro Global Perú S.A.C	371.2
Nationwide 698-806 MHz band	May 26	América Móvil Perú S.A.C.	1,680.0
TOTAL			2,060.4

Source: Proinversión.

5. Public Debt

In 2016 the public debt totaled S/ 156.82 billion. This debt amount, equivalent to 23.8 percent of GDP, is 0.5 percentage points higher than the debt amount recorded in 2015. The debt with international banks was amortized and global bond swaps were carried out during the year, as a result of which the balance of external debt fell from 11.1 percent of GDP in 2015 to 10.3 percent of GDP in 2016. On the other hand, the balance of the domestic public debt increased from 12.2 to 13.5 percent of GDP due to the issuance of sovereign bonds.

Table 51
DEBT BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR^{1/}

	Million soles			% GDP		
	2014	2015	2016	2014	2015	2016
PUBLIC DEBT (I + II)	115,788	142,831	156,817	20.1	23.3	23.8
I. EXTERNAL PUBLIC DEBT	50,373	68,006	67,976	8.7	11.1	10.3
Credits	23,188	28,670	28,910	4.0	4.7	4.4
International organizations	16,789	21,861	22,564	2.9	3.6	3.4
Paris Club	4,848	5,048	4,909	0.8	0.8	0.7
Suppliers	56	52	39	0.0	0.0	0.0
International banks	1,490	1,706	1,398	0.3	0.3	0.2
Latin America	6	2	0	0.0	0.0	0.0
Global bonds	27,184	39,336	39,066	4.7	6.4	5.9
II. DOMESTIC PUBLIC DEBT	65,415	74,825	88,841	11.3	12.2	13.5
1. LONG TERM	58,113	65,035	81,127	10.1	10.6	12.3
Bank loans	5,470	7,729	8,821	0.9	1.3	1.3
Treasury bonds	52,643	57,306	72,307	9.1	9.4	11.0
1. Bonds (BCRP)	205	921	704	0.0	0.2	0.1
2. Bonds to support the financial system	363	0	0	0.1	0.0	0.0
3. Debt swap bonds	1,371	1,166	1,020	0.2	0.2	0.2
4. Sovereign bonds	43,749	48,509	64,116	7.6	7.9	9.7
5. Recognition bonds	6,955	6,709	6,467	1.2	1.1	1.0
2. SHORT TERM	7,303	9,790	7,714	1.3	1.6	1.2
Memo:						
Liabilities of Private-Public Partnerships	4,166	4,460	4,044	0.7	0.7	0.6
FEPCs	170	0	93	0.0	0.0	0.0
External debt from COFIDE and Mivivienda Fund	8,508	12,631	11,768	1.5	2.1	1.8
Bonds holding	70,934	87,845	103,182	12.3	14.3	15.7
Residents	31,277	37,998	44,444	5.4	6.2	6.7
Non-residents	39,656	49,847	58,738	6.9	8.1	8.9
Sovereign bonds	43,749	48,509	64,116	7.6	7.9	9.7
Residents	27,225	31,341	40,363	4.7	5.1	6.1
Non-residents	16,524	17,169	23,753	2.9	2.8	3.6
Global bonds	27,184	39,336	39,066	4.7	6.4	5.9
Residents	4,052	6,658	4,081	0.7	1.1	0.6
Non-residents	23,132	32,678	34,985	4.0	5.3	5.3

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

The external public debt, which represents 43 percent of the total debt of the non-financial public sector, amounted to S/ 67.98 billion in 2016. It should be pointed out that 14-year global bonds (Bono Perú 30) for a total of US\$ 1.19 billion (€ 1 billion) were placed in the international market in March, with a coupon rate of 3.75 percent and a yield of 3.77 percent. The placement of these bonds will cover financing needs and will also extend the life of the debt portfolio.

In addition to these placements of bonds, external disbursements were received to finance investment projects in the non-financial public sector (US\$ 849 million). The amortization of the debt during the year amounted to US\$ 1.67 million, which includes US\$ 611 million of a debt management operation.

5.2 Domestic Debt

The domestic public debt showed a balance of S/ 88.84 billion at the end of 2016, which represented an increase of S/ 14.02 billion of the debt compared to December 2015. This increase is explained mainly by a higher issuance of sovereign bonds, whose balance increased to S/ 64.12 billion, of which 37 percent is held by non-residents.

On September 28, 2016, the Ministry of Economy and Finance (MEF) carried out debt swap and repurchase operations for a total of S/ 10.25 billion through the issuance of 12-year global bonds (maturing in 2018). Moreover, S/ 7.05 billion in sovereign bonds, as well as US\$ 611 million of the total of global bonds were swapped, reducing in this way the ratio of debt in foreign currency.

The government also approved the periodic issuance of 90-day to 360-day Treasury Bills and placed Bills for a total of S/. 3.19 billion in the year.

5.3 Net Debt⁷

In 2016 the net debt amounted to S/. 52.54 billion, a sum equivalent to 8.0 percent of GDP. This debt balance, which is higher by S/. 12.38 billion than the one recorded at end 2015, is mainly explained by the increase in the public debt (up by S/. 13.99 billion), offset in part by the growth of public government financial assets (up by S/. 1.61 billion).

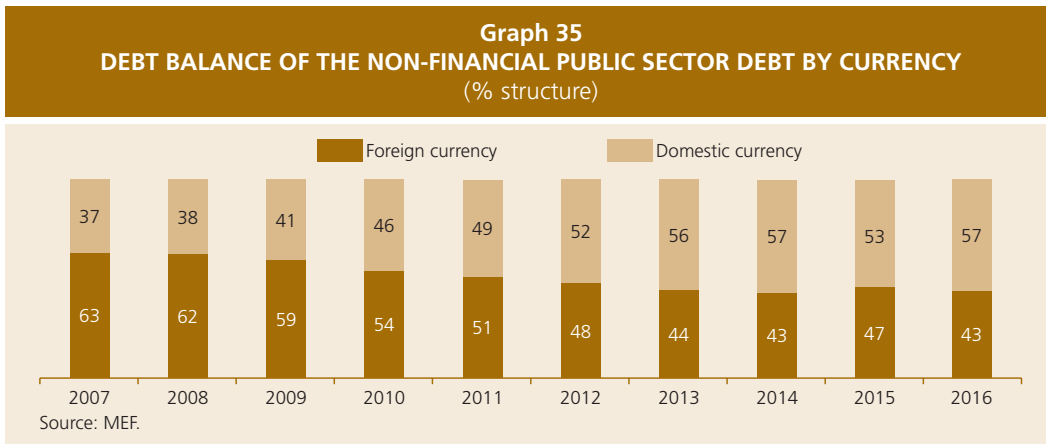
Table 52 NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR						
Years (December)	Million soles			% GDP		
	Assets	Liabilities	Debt net	Assets	Liabilities	Debt net
2007	38,210	95,604	57,393	12.0	29.9	18.0
2008	45,682	95,674	49,992	12.8	26.9	14.1
2009	47,156	99,215	52,060	12.9	27.2	14.3
2010	50,879	102,150	51,272	12.2	24.4	12.3
2011	63,636	103,856	40,219	13.7	22.3	8.7
2012	78,790	103,810	25,020	15.8	20.8	5.0
2013	86,638	107,044	20,406	16.2	20.0	3.8
2014	92,663	115,788	23,125	16.1	20.1	4.0
2015	102,670	142,831	40,161	16.8	23.3	6.6
2016	104,279	156,817	52,538	15.8	23.8	8.0

Source: BCRP and MEF.

5.4 Debt by Currencies

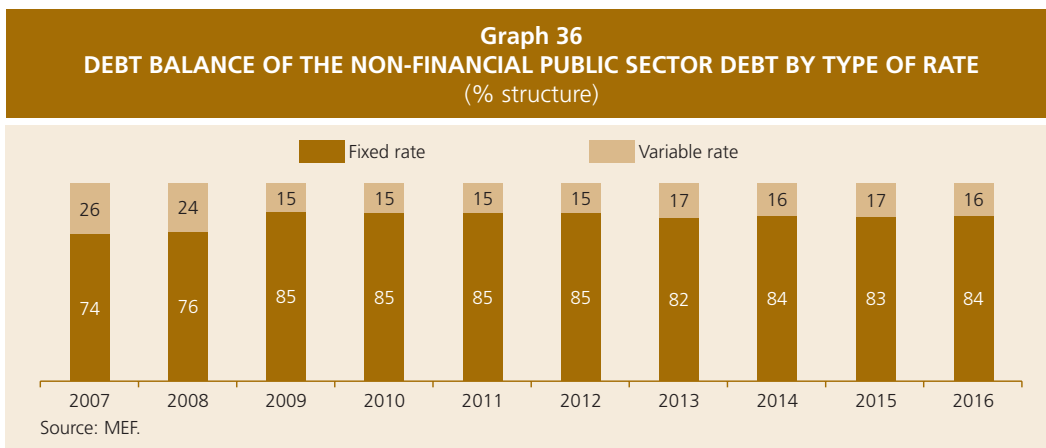
The ratio of the debt in nuevos soles to the total public debt has been increased over the past 10 years in order to reduce exposure to foreign exchange risks. Thus, between 2007 and 2016, the ratio of the debt in domestic currency has increased from 37 percent to 57 percent of the gross public debt.

⁷ 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).



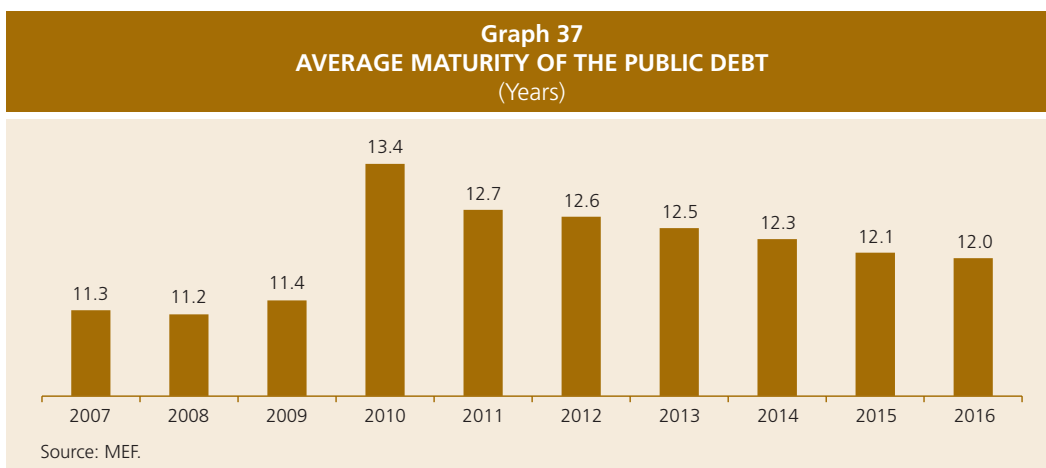
5.5 Debt by type of interest rates

The percentage of fixed-rate debt rose from 83 to 84 percent between 2015 and 2016. This trend is also observed in a longer-term perspective since the ratio of debt at a fixed rate has increased from 74 percent in 2007 to 84 percent in 2016.



5.6 Average life of the debt

The average life of the **domestic public debt** is slightly longer (12.5 years) than the average life of the **external public debt** (11.6 years). Between 2007 and 2016, this aggregate indicator increased from 11.3 to 12.0 years.



Box 3
METHODOLOGICAL CHANGES: FISCAL SECTOR

From now on, the accounts of the general government will include two methodological adjustments: the first one is that the accounts of Caja de Pensiones Militar-Policial (Pension fund of the Military and the Police) have been included in the accounts the general government as part of the accounts of social security agencies. As a result this, the economic balance shows an increase of S/ 380 million in 2016.

The second methodological adjustment is that accrued expenditure not corresponding to works carried out in the current period have been reclassified as other capital expenses. This expenditure category includes payments for works made in previous years under concession contracts, or payments for land expropriations and land clearances, or advances for certain works specified. For example, this includes the annual payments for the works carried out under concession contracts by IIRSA Sur and IIRSA Norte, regional airports, Line 1 of the Metro of Lima and Callao, the Olmos project, and the works carried out in some highways under co-financed concession schemes (the Buenos Aires-Canchaque road, the Chancay-Huaral-Acos road, and the new Mocupe-Cayalti-Oyotún road), among other payments.

