



PUBLICS FINANCES

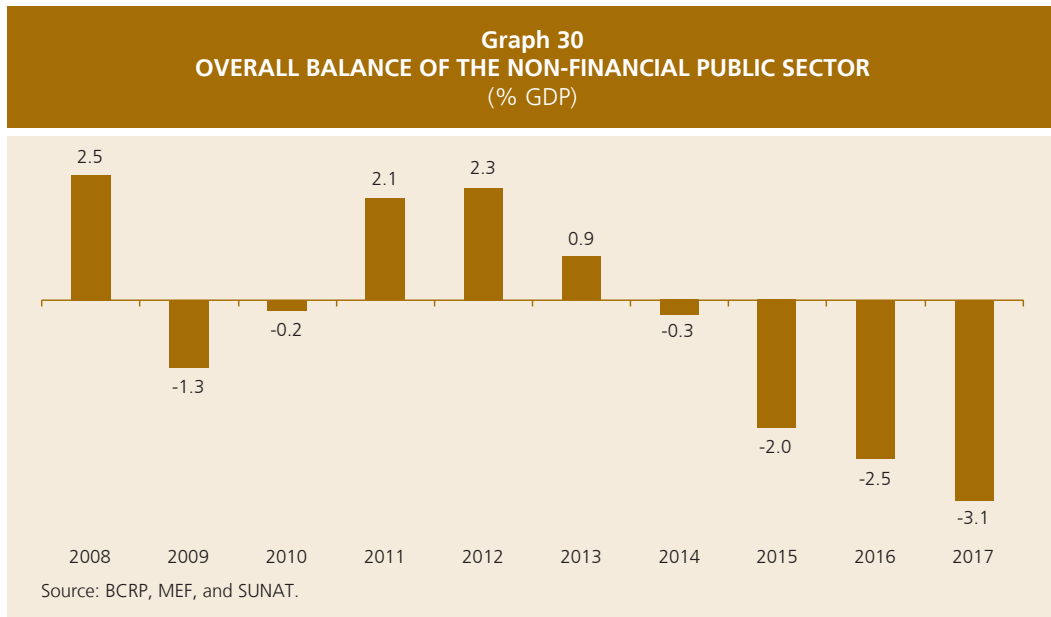
The operations of the non-financial public sector (NFPS) showed a deficit of 3.1 percent of GDP in 2017 (versus a deficit of 2.5 percent in 2016). Economic slowdown and the impact of some tax measures led to a decline of revenue equivalent to 0.6 percent of GDP. Since 2012, when the NFPS registered a surplus of 2.3 percent of GDP, the loss of income until 2017 is equal to 4.3 points of GDP. However, in spite of the higher deficit recorded in 2017, Peru's level of public debt is still one of the lowest in the region (24.8 percent of GDP).

Table 37
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

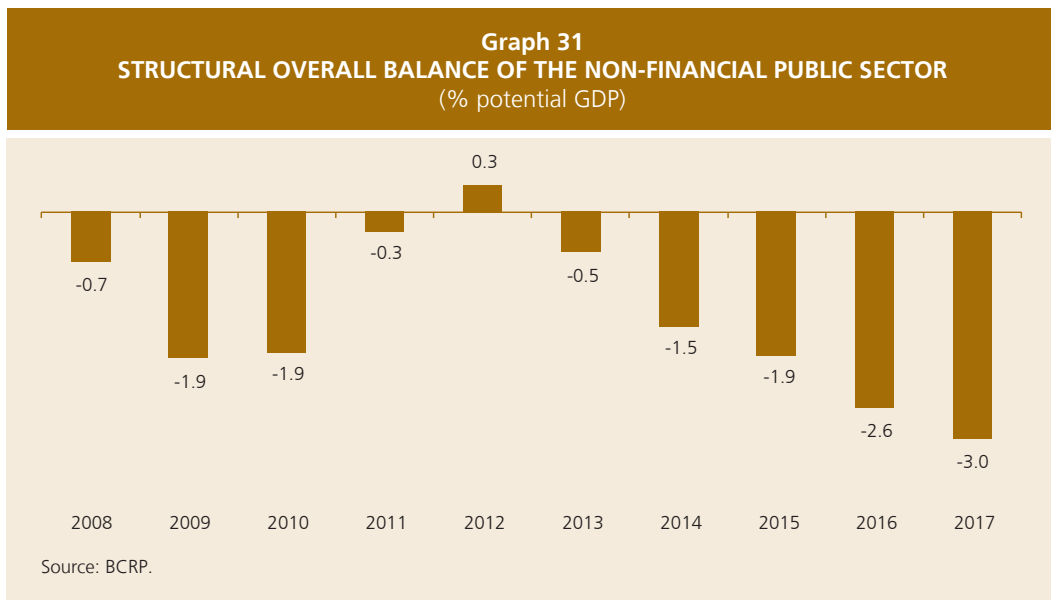
	Million soles			% GDP		
	2015	2016	2017	2015	2016	2017
I. PRIMARY BALANCE	-6,008	-9,221	-13,397	-1.0	-1.4	-1.9
1. Of the General Government	-6,645	-7,883	-12,690	-1.1	-1.2	-1.8
a. Current revenue	122,951	122,495	126,446	20.1	18.6	18.0
<i>i. Tax revenue</i>	92,788	92,221	93,475	15.1	14.0	13.3
<i>ii. Non-tax revenue</i>	30,163	30,275	32,971	4.9	4.6	4.7
b. Non-financial expenditure	130,205	131,295	140,512	21.3	19.9	20.0
<i>i. Current</i>	96,995	100,605	107,436	15.8	15.3	15.3
<i>ii. Capital</i>	33,210	30,690	33,076	5.4	4.7	4.7
c. Capital revenue	609	917	1,376	0.1	0.1	0.2
2. Of public enterprises	637	-1,338	-707	0.1	-0.2	-0.1
II. INTERESTS	6,475	7,178	8,336	1.1	1.1	1.2
1. External debt	2,664	3,005	3,181	0.4	0.5	0.5
2. Domestic debt	3,811	4,173	5,155	0.6	0.6	0.7
III. OVERALL BALANCE (I-II)	-12,482	-16,399	-21,733	-2.0	-2.5	-3.1
1. Net external financing	9,815	4,304	-10,363	1.6	0.7	-1.5
(Million US\$)	\$2,974	\$1,257	-\$3,194	1.6	0.7	-1.5
<i>a. Disbursements</i>	\$4,354	\$1,999	\$2,434	2.3	1.0	1.1
<i>b. Amortization</i>	\$1,230	\$1,672	\$4,175	0.6	0.9	1.9
<i>c. Others</i>	-\$1,150	\$,930	-\$1,453	-0.1	0.5	-0.7
2. Net domestic financing	2,573	9,109	32,045	0.4	1.4	4.6
3. Privatization 1/	94	2,987	51	0.0	0.5	0.0

1/ Includes concessions in three blocks on Nationwide 698-806 MHz band in 2016.

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



The structural economic balance is an indicator that differs from the economic balance in that it isolates from the latter the transitory effects of the business cycle and the impact of the prices of the commodities that are relevant to our economy. In 2017 the structural economic balance showed a deficit of 3.1 percent of GDP, a higher deficit than the one recorded in 2016 (2.6 percent of GDP).



The fiscal impulse measures the impact of the tax policy on the level of economic activity, isolating the factors associated with the business cycle. In order to determine the fiscal stance more accurately, we weigh it according to the differentiated multiplier effect of changes in the treasury's revenues and expenditures. Taking this into account, in 2017 the weighted fiscal impulse was nil.

Table 38
FISCAL IMPULSE
(% GDP)

	2015	2016	2017
1. Structural overall balance	-1.9	-2.6	-3.0
2. Fiscal impulse (flow 1)	0.6	0.9	0.2
3. Weighted effects (a+b+c)	-0.8	-1.5	-0.2
a. By current revenues	-0.7	-1.2	-0.2
b. By current expenditure 1/	0.0	0.0	0.0
c. By capital expenditure	-0.2	-0.3	0.0
4. Weighted impulse (2+3) 2/	-0.2	-0.6	0.0

1/ Includes public enterprises.
2/ Weighted by fiscal multiplier. In boom periods: Revenues 0, current expenditure 0.28, and capital expenditure 0.73; and in slump periods: Revenues 0.25, current expenditure 0.93, and capital expenditure 1.42.
Source: BCRP.

Moreover, financial requirements, an indicator that quantifies the resources needed by the public sector to cover the economic balance and meet the amortization of the domestic and the external debt, amounted to S/ 39.43 billion, sum equivalent to 5.6 percent of GDP. This level of financial requirement is the highest level seen in the last 10 years.

Table 39
FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	Million soles			% GDP		
	2015	2016	2017	2015	2016	2017
1. Overall balance	-12,482	-16,399	-21,733	-2.0	-2.5	-3.1
2. Amortization	7,974	14,831	17,695	1.3	2.2	2.5
Redemption of recognition bonds	678	629	818	0.1	0.1	0.1
Domestic debt	3,437	8,566	3,312	0.6	1.3	0.5
External debt 1/	3,859	5,637	13,566	0.6	0.9	1.9
3. Financial requirements	20,618	31,752	39,428	3.4	4.8	5.6
External disbursements	14,057	6,804	7,952	2.3	1.0	1.1
Freely disposable funds	13,046	3,922	0	2.1	0.6	0.0
Investment projects	1,010	2,882	7,952	0.2	0.4	1.1
Domestic bonds 1/	7,095	22,431	23,951	1.2	3.4	3.4
Privatization 2/	94	2,987	51	0.0	0.5	0.0
Others	-628	-470	7,474	-0.1	-0.1	1.1

1/ Amounts include operations of managing of approved debt.
2/ Includes concessions in three blocks on Nationwide 698-806 MHz band in 2016.
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state enterprises, and public institutions.

1. Revenue of the General Government

Accumulating declines for five consecutive years, the current revenue of the general government was equivalent to 18.0 percent of GDP in 2017, 0.6 percentage points of GDP lower than in 2016. The fall in current income in the year reflected the decline in tax revenues, particularly revenue from the income tax and the VAT. On the one hand, revenue from the former was negatively affected by the slowdown of economic activity during the first two quarters of the year, as well as by the implementation of the

Tax Regime for Micro- and Small Enterprises (MSEs), which implies a lower payment on account of taxes for businesses under this regime. On the other hand, revenue from the VAT showed a contraction due to the slowdown of the domestic demand and to the implementation of the Fair VAT (*JGV Justo*), which allowed the extension of the payment of this tax to MSEs. In addition to this, tax refunds maintained their maximum historical levels due to the requirements of balances in favor of exporters. On the other hand, non-tax revenues increased due to higher extraordinary income.

Table 40
FISCAL REVENUE RATIOS
(% GDP)

	2015	2016	2017
Central government tax burden	14.7	13.5	12.9
Central government fiscal burden 1/	16.6	15.3	15.0
General government fiscal burden 2/	20.1	18.6	18.0

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

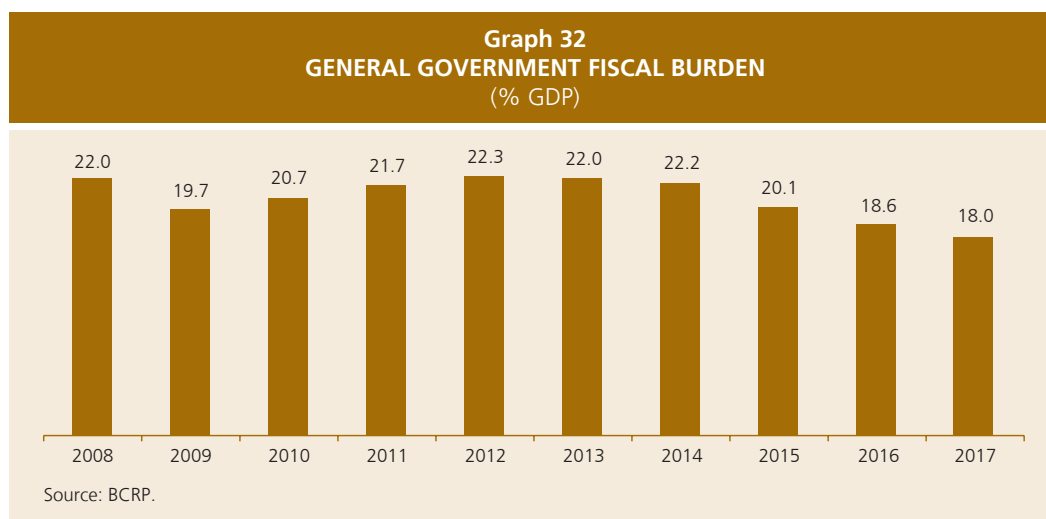
2/The difference between central and general government due to local governments and other institutions as EsSalud, ONP y regulatory agencies of general government.

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

Table 41
GENERAL GOVERNMENT REVENUES

	Million soles			Real % change		% GDP		
	2015	2016	2017	2016	2017	2015	2016	2017
I. TAX REVENUE	92,788	92,221	93,475	-4.1	-1.4	15.1	14.0	13.3
1. Income tax	34,745	37,214	36,755	3.3	-4.0	5.7	5.6	5.2
- <i>Individuals</i>	10,557	11,159	11,450	2.0	-0.3	1.7	1.7	1.6
- <i>Legal entities</i>	20,542	22,250	20,421	4.4	-10.7	3.4	3.4	2.9
- <i>Tax regularization</i>	3,646	3,805	4,884	0.4	24.0	0.6	0.6	0.7
2. Import duties	1,775	1,606	1,448	-12.6	-12.3	0.3	0.2	0.2
3. Value-added tax (VAT)	51,668	52,692	54,643	-1.6	0.9	8.4	8.0	7.8
- <i>Domestic VAT</i>	30,410	31,040	32,114	-1.5	0.6	5.0	4.7	4.6
- <i>VAT on imports</i>	21,258	21,652	22,529	-1.7	1.2	3.5	3.3	3.2
4. Excise tax	5,495	5,902	6,329	3.7	4.3	0.9	0.9	0.9
- <i>Fuels</i>	2,210	2,423	2,604	5.9	4.5	0.4	0.4	0.4
- <i>Others</i>	3,284	3,479	3,724	2.2	4.2	0.5	0.5	0.5
5. Other income tax	10,782	11,163	11,509	0.1	0.3	1.8	1.7	1.6
- <i>National government</i>	8,171	8,312	8,747	-1.6	2.4	1.3	1.3	1.2
- <i>Local government</i>	2,611	2,851	2,762	5.3	-5.8	0.4	0.4	0.4
6. Tax returns	-11,676	-16,356	-17,209	35.2	2.3	-1.9	-2.5	-2.5
II. NON-TAX REVENUES	30,163	30,275	32,971	-4.1	7.6	4.9	4.6	4.7
1. Contributions to EsSalud and ONP	13,893	14,489	14,770	0.7	-0.8	2.3	2.2	2.1
2. Oil, gas and mining royalty	1,663	1,737	2,486	-6.1	52.2	0.3	0.3	0.4
3. Oil Canon	1,622	1,291	1,533	-23.3	15.6	0.3	0.2	0.2
4. Others	12,985	12,758	14,183	-6.6	10.9	2.1	1.9	2.0
III. TOTAL (I+ II)	122,951	122,495	126,446	-4.1	0.8	20.1	18.6	18.0

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



Revenue from the **income tax** fell by 4.0 percent in real terms and thus declined from 5.6 percent in GDP terms in 2016 to 5.2 percent in GDP terms in 2017, the lowest level recorded in the last thirteen years. This reduction is explained mainly by the decrease in revenue from the corporate income tax (-8.6 percent) due to the slowdown in domestic demand and the application of the MSE Tax Regime, which implies a lower payment on account of taxes for businesses included under this regime. Another factor that contributed to the fall in revenues was the drop of tax revenues from non-domiciled taxpayers (35.1 percent in real terms) after exceptional income was reported in 2016 as a result of sales of shares of companies held by these taxpayers. This fall in income was in part offset in the fourth quarter of the year by a higher regularization of tax payments as a result of the payment of S/ 1.01 billion for the repatriation of capital¹.

Table 42
INCOME TAX BY CATEGORY
(Million soles)

	2015	2016	2017	Real % change	
				2016	2017
First category	443	504	532	9.8	2.7
Second category	1,287	1,536	1,581	15.1	0.0
Third category	16,817	16,496	15,499	-5.4	-8.6
Fourth category	783	871	894	7.3	-0.2
Fifth category	8,044	8,248	8,444	-1.1	-0.5
Non-domiciled	3,248	5,205	3,462	54.4	-35.1
Regularization	3,646	3,805	4,884	0.4	24.0
<i>Individuals</i>	581	601	1,558	-0.2	150.5
<i>Legal entities</i>	3,066	3,204	3,327	0.5	0.3
Others	477	550	1,460	11.1	158.1
<i>Of which: regime for micro and small businesses (MYPE)</i>	-	-	904	-	-
Total	34,745	37,214	36,755	3.3	-4.0

Source: SUNAT.

¹ 7 percent was paid if the income was declared and invested in the country and 10 percent if the income was only declared.

At the sector level, the largest reduction in payments on account of the corporate income tax was observed in the sectors of construction, agriculture, and services, which were the sectors affected by the weakness of domestic demand during the first half of the year as well as by the impact associated with El Niño Costero. On the other hand, it is worth highlighting the increase observed the mining sector's payments on account of taxes due to higher revenues associated with the favorable evolution of the prices and volume of metal exports.

Table 43 REVENUES FROM CORPORATE TAX BY SECTORS: PAYMENTS ON ACCOUNT (Million soles)					
	2015	2016	2017	Real % change	
				2016	2017
Services 1/	8,223	8,192	6,388	-3.8	-24.2
Commerce	3,034	3,316	3,065	5.4	-10.1
Manufacturing	2,143	2,388	2,559	7.4	4.2
Hydrocarbons	913	394	723	-58.4	78.5
Mining	1,051	770	1,727	-29.6	117.9
Construction	1,361	1,334	949	-5.4	-30.8
Agriculture and livestock	46	48	32	1.9	-35.4
Fishing	47	53	56	11.2	2.3
Total	16,817	16,496	15,499	-5.4	-8.6

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 12.3 percent in real terms, equivalent to 0.2 percent of GDP. This decrease is explained essentially by the price band system or tariff surcharges due to the higher prices of imports, as well as by lower effective tariffs as a result of the agreements signed with our main trading partners.

Revenue from the **value added tax (VAT)** increased by 0.9 percent in real terms, although in GDP terms it went from representing 8.0 percent of GDP in 2016 to representing 7.8 percent of GDP in 2017, the lowest level recorded over the past 10 years. This decline is explained by the slowdown of domestic demand in the first two quarters of the year and by the application of the Fair VAT, which allowed MSEs to extend the payment of this tax. By sectors, the higher declines in revenue from the domestic VAT were observed in the sectors of construction (-13.5 percent) and commerce (-4.4 percent).

Revenue from the **excise tax** increased 4.3 percent in real terms and remained at 0.9 percent of GDP. This result is mainly due to the increase in fuel demand and the increase in the excise tax on diesel in November 2016 (8 percent for diesel fuels with lower contents of sulfur and 14 percent for fuels with high contents).

Revenue from **other taxes** grew 0.3 percent in real terms due mainly to increased revenue from the Special Tax on Mining (163.3 percent) and the ITAN (3.8 percent), offset by lower transfer of tax withholdings (-36.2 percent).

Tax refunds remained at 2.5 percent of GDP. The most important category in 2017 was refunds for exports, which accounted for 71 percent of total tax refunds, followed by refunds for undue payments or payments in excess (15 percent) and drawback (5 percent).

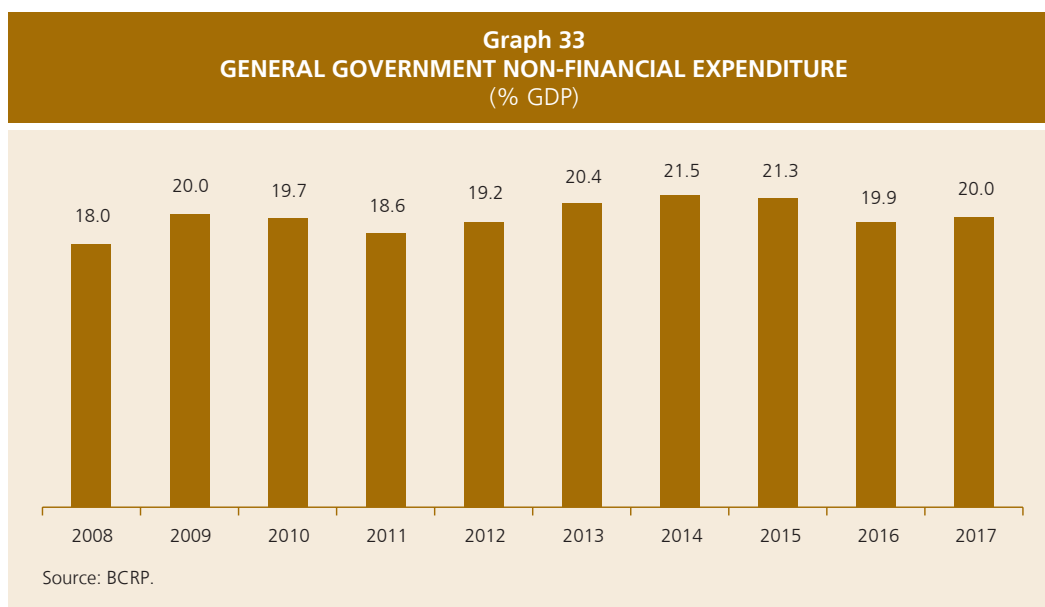
Non-tax revenues increased by 7.6 percent in real terms, which represented an increase of 0.1 percentage point of GDP compared to 2016. This increase reflected higher extraordinary revenue, with the transfer of profits of Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado - FONAFE and the enforcement of the performance bond of consortium Gasoducto Sur Peruano standing out.

2. General Government Expenditure

In 2017 the non-financial expenditure of the general government was equivalent to 20.0 percent of GDP, a ratio 0.1 percentage point higher than in 2016. This increase is explained mostly by higher current expenditure in wages and salaries. It is worth pointing out that gross capital formation remained at similar levels as those observed in 2016 due to the recovery it showed in the second half of 2017 after having fallen for four consecutive quarters.

Table 44									
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE 1/									
	Million soles			Real % change		% GDP			
	2015	2016	2017	2016	2017	2015	2016	2017	
I. CURRENT EXPENDITURE	96,995	100,605	107,436	0.3	3.9	15.8	15.3	15.3	
Wages and salaries	35,455	39,054	42,669	6.4	6.3	5.8	5.9	6.1	
National government	21,858	23,967	25,579	5.9	3.8	3.6	3.6	3.6	
Regional governments	11,536	12,935	14,924	8.5	12.1	1.9	2.0	2.1	
Local governments	2,061	2,152	2,166	0.7	-1.9	0.3	0.3	0.3	
Goods and services	40,572	40,617	41,915	-3.1	0.4	6.6	6.2	6.0	
National government	28,916	27,990	28,525	-6.2	-0.9	4.7	4.2	4.1	
Regional governments	4,602	4,883	5,266	2.9	4.9	0.8	0.7	0.8	
Local governments	7,055	7,744	8,124	6.0	2.2	1.2	1.2	1.2	
Transfers	20,968	20,933	22,853	-3.5	6.2	3.4	3.2	3.3	
National government	17,466	17,329	19,218	-4.1	7.9	2.9	2.6	2.7	
Regional governments	2,346	2,458	2,672	1.2	5.7	0.4	0.4	0.4	
Local governments	1,155	1,145	963	-4.3	-18.1	0.2	0.2	0.1	
II. CAPITAL EXPENDITURE	33,210	30,690	33,076	-10.3	4.7	5.4	4.7	4.7	
Gross Capital Formation	26,829	26,752	27,888	-3.1	1.2	4.4	4.1	4.0	
National government	10,484	9,411	9,581	-13.1	-0.9	1.7	1.4	1.4	
Regional governments	5,687	5,669	5,827	-2.5	-0.8	0.9	0.9	0.8	
Local governments	10,658	11,671	12,480	6.4	3.9	1.7	1.8	1.8	
Other capital expenditure	6,381	3,938	5,188	-40.2	28.4	1.0	0.6	0.7	
National government	6,067	3,802	4,986	-39.3	27.8	1.0	0.6	0.7	
Regional governments	192	18	11	-91.3	-39.9	0.0	0.0	0.0	
Local governments	123	119	191	-7.4	58.6	0.0	0.0	0.0	
III. NON FINANCIAL EXPENDITURE (I + II)	130,205	131,295	140,512	-2.4	4.1	21.3	19.9	20.0	
National government	84,790	82,499	87,890	-5.9	3.7	13.8	12.5	12.5	
Regional governments	24,363	25,964	28,699	3.4	7.3	4.0	3.9	4.1	
Local governments	21,052	22,832	23,923	5.1	1.9	3.4	3.5	3.4	

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



National Government

Like in 2016, the **non-financial expenditure of the national government** was equivalent to 12.5 percent of GDP. This outcome was reflected in current expenditure and capital expenditure, which showed similar levels in GDP terms to those recorded in the previous year.

Expenditure in **wages and salaries** registered a rate of 3.8 percent in real terms, a result explained by the wage policy implemented mainly in the sectors of Education, Health, Defense and Interior. In the Education sector, the greater resources disbursed reflect the increases in the Monthly Full Remuneration awarded to appointed and contracted teachers of all teacher levels. In the Interior sector, a greater payment of payroll was made to members of the National Police of Peru and higher resources were assigned for High Police Officers. Finally, there were also wage increases in the sectors of Health and Defense.

Expenditure on **goods and services** decreased by a real 0.9 percent compared to 2016. The more significant reduction of this category of expenditure was observed in Oficina Nacional de Procesos Electorales (ONPE) after the transitory increase of spending authorized in this entity for the general elections process of 2016. This reduction of expenditure was offset as of the third quarter of the year by increased resources allocated to the maintenance of channels, drainage systems, and physical security structures to face disaster hazards as part of the onset of the Reconstruction with Changes Plan.

Expenditure for **transfers** grew 7.9 percent in real terms, which represented an increase of 0.1 percentage points of GDP with respect to 2016. This increase resulted from higher pension obligations, as well as from increased spending in the different social programs, including Programa Nacional de Alimentación Escolar Qali Warma, Cuna Más, Apoyo al Hábitat Rural, and Haku Wiñay (access of rural households with subsistence economies to local markets).

The national government expenditure in **gross capital formation** remained at 1.4 percent of GDP. It should be pointed out that this indicator dropped during the first half of the year, but recovered thereafter mainly due to the expansion and improvement of drinking water and sewage systems as well as due to the implementation of road infrastructure and education projects.

Other capital expenditure of the national government grew 27.8 percent in real terms compared to 2016. This increase is mainly explained by the transfer of S/ 1.06 billion to Petroperú to finance the increase of its social capital to carry out the project Modernization of the Talara Refinery.

Table 45
MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT: 2017
(Million soles)

PROJECTS	Amount
TRANSPORT 1/	4,417
Construction of line 2 network	675
Restoration and improvement of Road Puerto Bermúdez-San Alejandro	454
Road integration Tacna-La Paz	226
Restoration and improvement of Road Juanjui - Tocache, San Martín	191
Carretera Longitudinal de la Sierra Norte, Cajamarca	127
Highway Puno - Juliaca	119
Restoration and improvement of Road Dv. Negromayo - Occoruro - Pallpata - Dv. Yauri, Cusco	101
Restoration and improvement of Road Andamayo - Viraco - Dv. Machahuay - Andagua - Ayo - Huambo - Cabanaconde - Chivay - Vizcachane	99
Restoration and improvement of Road Camaná - Dv. Quilca - Matarani - Ilo - Tacna	83
Restoration and improvement of Road Huancavelica - Lircay	80
Road Network in regions Moquegua and Arequipa	76
Restoration and improvement of Road Mazamari - Pangoa - Cubantia	75
Rest	2,111
EDUCATION	1,963
Improvement of learning opportunities with Information Technological and Communications in 603 complete high school with longer school day.	48
Rest	1,915
SANITATION	597
Headworks and Conduction for the drinking water supply and sanitation in Nueva ciudad de Olmos	122
Improvement of treatment plant for wastewater in Piura	44
Drinking water supply and sanitation Program in the rural area in the Amazon region	14
Rest	417
Others	2,604
TOTAL	9,581

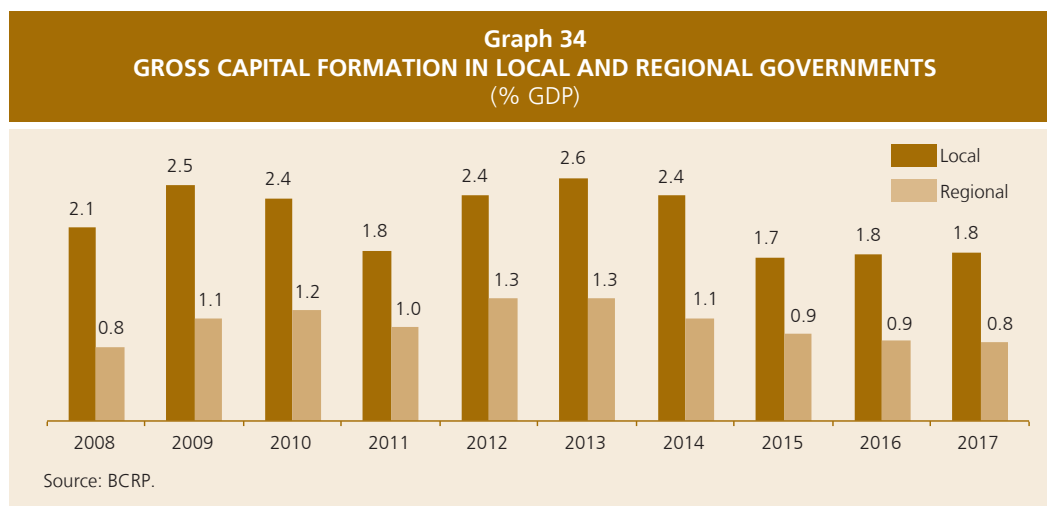
1/ Payments for works carried out in previous years under the concessions scheme, payments for expropriations and land releases and advances of identified works are excluded.
Source: MEF.

Regional Governments

In 2017, the non-financial expenditure of regional governments was equivalent to 4.1 percent of GDP, which represented an increase of 7.3 percent in real terms. This result is basically explained by the higher expenses in wages and salaries (12.1 percent), especially in the sectors of Education and Health, as well as in goods and services (4.9 percent) and transfers (5.7 percent).

Local Governments

The non-financial expenses of local governments registered an increase of 1.9 percent in real terms with respect to the previous year, reflecting the 3.9 percent increase in gross capital formation, mainly due to the greater execution of sanitation projects.



3. State-Owned Enterprises

In 2017, the State-owned enterprises showed a negative economic balance of S/ 1.24 billion, a lower deficit than in the previous year (S/ 1.61 billion). This result is explained mainly by Petroperú's deficit (S/ 1.47 billion) and offset in part by the surplus recorded by the regional electricity companies, Electroperú, and Sedapal.

Petroperú's deficit of S/ 1.47 billion in 2017 was lower than the deficit recorded in 2016 (S/ 2.40 billion), this reduction resulting from the Public Treasury's transfer of S/ 1.06 billion to the company to finance the execution of the Modernization of the Talara Refinery. At year end, this project showed a physical advance of 66.6 percent.

In contrast to the deficit of S/ 3 million recorded in 2016, **Electroperú** showed a surplus of S/ 131 million in 2017. This reversal is explained by an increase of S / 642 million in the company's sales of energy to hydroelectric power plants.

The **regional electricity companies** showed a joint surplus of S/ 654 million, a balance S/ 103 million higher than in the previous year, as a result of the higher capital income and lower investment expenses of this group of companies.

Contrasting with the deficit of S/ 45 million it recorded in 2016, **Sedapal** registered a surplus of S/ 25 million in 2017. This balance is largely explained by the S/ 149 million increase in the company's revenues resulting from a greater volume of potable water and sewage services as well as from the programmed increase of the average rates.

Finally, **other State-owned companies** showed a deficit of S/ 583 million, mainly due to the transfer of profits of Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado – FONAFE to the Public Treasury (S/ 747 million).

Table 46
OVERALL BALANCE OF STATE ENTERPRISES

	Million soles			% GDP		
	2015	2016	2017	2015	2016	2017
PetroPeru	-760	-2,402	-1,465	-0.1	-0.4	-0.2
ElectroPeru	97	-3	131	0.0	0.0	0.0
Regional Electricity Companies	498	551	654	0.1	0.1	0.1
Sedapal	443	-45	25	0.1	0.0	0.0
Others	189	288	-583	0.0	0.0	-0.1
TOTAL	466	-1,611	-1,238	0.1	-0.2	-0.2

Source: State enterprises and FONAFE.

4. Promotion of Private Investment

In 2017, investment projects given in concession involved investment commitments amounting to US\$ 696 million. Five of the six concession contracts awarded, which involved investment for a total of US\$ 600 million, are projects in the telecommunications sector. The aim of three of these projects is the design, financing, construction, operation, and maintenance of transmission lines, while the aim of the other two is the expansion of the Broadband Transport Networks.

Moreover, it is also worth mentioning the concession of the Amazon Waterway project, whose objective is the improvement and maintenance of navigability conditions in the Huallaga, Marañón, Ucayali, and Amazonas rivers to ensure the transportation of merchandise and passengers throughout the year. The estimated investment for this project is US\$ 95 million.

Table 47
PRIVATIZATIONS AND CONCESSIONS: 2017

Concessions and projects	Date	Awarded to	Investment
Aguaytía-Pucallpa 138 kV Electric Transmission Line	May 19	TERNA PLUS S.R.L	8.8
Second Public Auction of Amazon waterway	July 6	Consorcio Hidrovías II (Sinohydro Corporation Ltd.; Construction and Administración S.A.)	95.0
500kV Mantaro - Nueva Yanango -Carapongo Connection and associated sub stations* , and *500 kV Nueva Yanango - Nueva Huanuco connection and associated sub stations	October 30	Interconexión Eléctrica S.A. E.S.P.	272.0
220 Kv Tintaya - Azangaro Transmission Line	November 30	Red Eléctrica del Sur S.A. – REDESUR	12.1
Broadband for Comprehensive Connectivity and Social Development for Amazonas, Ica and Lima regions	December 18	Amazonas e Ica: Consorcio GMC CONECTA (GMC Engineering Solutions S.A.C.; Satel Telecommunications and Datos S.A.C.; and Yangtze Optical Fibre and Cable Company -Hong Kong-Lited).	139.5
Broadband for Comprehensive Connectivity and Social Development: Moquegua, Tacna, Puno and Junin regions	December 18	Lima: América Móvil Peru S.A.C. Consorcio Telecommunications Rurales del Peru (Eléctricas de Medellín Peru S.A.; Amitel Peru Telecommunications S.A.A.; and Tuensa International Corporation).	168.0
TOTAL			695.5

Source: Proinversión.

5. Public Debt or Debt of the Non-Financial Public Sector

In 2017 the debt of the Non-Financial Public Sector totaled S/ 173.91 billion. This debt amount, equivalent to 24.8 percent of GDP, is 1.1 percentage points higher than the debt amount recorded in 2016. The amortization of the external debt carried out as part of a debt management operation stands out in the year given that the debt balance decreased from 10.3 percent of GDP in 2016 to 8.7 percent of GDP in 2017. However, this decrease was offset by the issuance of sovereign bonds, as a result of which the domestic debt increased from 13.4 to 16.1 percent of GDP.

Table 48 DEBT BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR 1/						
	Million soles			% GDP		
	2015	2016	2017	2015	2016	2017
PUBLIC DEBT (I + II)	142,192	156,609	173,912	23.2	23.7	24.8
I. EXTERNAL PUBLIC DEBT	67,956	68,057	61,163	11.1	10.3	8.7
Credits	28,649	28,944	15,987	4.7	4.4	2.3
<i>International organizations</i>	21,845	22,591	12,510	3.6	3.4	1.8
<i>Paris Club</i>	5,044	4,914	3,451	0.8	0.7	0.5
<i>Suppliers</i>	52	39	26	0.0	0.0	0.0
<i>International banks</i>	1,705	1,400	0	0.3	0.2	0.0
<i>Latin America</i>	2	0	0	0.0	0.0	0.0
Bonds	39,307	39,113	45,176	6.4	5.9	6.4
II. DOMESTIC PUBLIC DEBT	74,236	88,552	112,749	12.1	13.4	16.1
1. LONG TERM	62,825	77,690	98,466	10.3	11.8	14.0
Bank loans	5,518	5,383	3,640	0.9	0.8	0.5
Treasury bonds	57,306	72,307	94,826	9.4	11.0	13.5
1. <i>Bonds (BCRP)</i>	921	704	645	0.2	0.1	0.1
2. <i>Bonds to support the financial system</i>	0	0	0	0.0	0.0	0.0
3. <i>Debt swap bonds</i>	1,166	1,020	770	0.2	0.2	0.1
4. <i>Sovereign bonds</i>	48,509	64,116	87,506	7.9	9.7	12.5
5. <i>Recognition bonds</i>	6,709	6,467	5,906	1.1	1.0	0.8
2. SHORT TERM	11,412	10,862	14,283	1.9	1.6	2.0
Memo:						
Liabilities of Private-Public Partnerships	4,456	4,049	3,549	0.7	0.6	0.5
FEPCs	0	93	441	0.0	0.0	0.1
External debt from COFIDE and Mivivienda Fund	12,622	11,782	12,419	2.1	1.8	1.8
Bond holdings	87,817	103,228	132,681	14.3	15.6	18.9
Residents	37,993	44,471	54,315	6.2	6.7	7.7
Non-residents	49,823	58,758	78,366	8.1	8.9	11.2
Sovereign bonds	48,509	64,116	87,506	7.9	9.7	12.5
Residents	31,341	40,363	48,910	5.1	6.1	7.0
Non-residents	17,169	23,753	38,596	2.8	3.6	5.5
Global bonds	39,307	39,113	45,176	6.4	5.9	6.4
Residents	6,653	4,108	5,406	1.1	0.6	0.8
Non-residents	32,654	35,005	39,770	5.3	5.3	5.7
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 35.2 percent of the total debt of the non-financial public sector, amounted to S/ 61.16 billion in 2017. The amortization of international organizations' credits as a result of debt management operations stood out in the year. It is also worth pointing out that Petroperu's Corporate Bonds for a total of US\$ 2.00 billion were placed in the international market to finance the Modernization of the Refinery of Talara.

5.2 Domestic Debt

The domestic public debt showed a balance of S/ 112.75 billion in 2017, which represented an increase of S/ 24.19 billion of the debt compared to the debt balance in 2016. This increase is explained mainly by a higher issuance of sovereign bonds, whose balance increased to S/ 87.51 billion, of which 44.1 percent was held by non-residents.

On July 17, 2017, the Ministry of Economy and Finance (MEF) carried out a debt management operation issuing in the international market a total of PEN 10 billion in sovereign bonds due 2032 at a coupon rate of 6.15 percent. As a result of this operation, MEF amortized external debt with international organizations and the Paris Club, increasing in this way the ratio of debt in domestic currency in the debt portfolio.

5.3 Net Debt²

The net debt increased from S/ 44.96 billion in 2016 to S/ 66.50 billion in 2017, a sum equivalent to 9.5 percent of GDP at end 2017. This debt balance is explained mainly by the reduction in the assets of the non-financial public sector (1.6 percentage points of GDP) and by the increase in the gross public debt (1.1 percentage points of GDP).

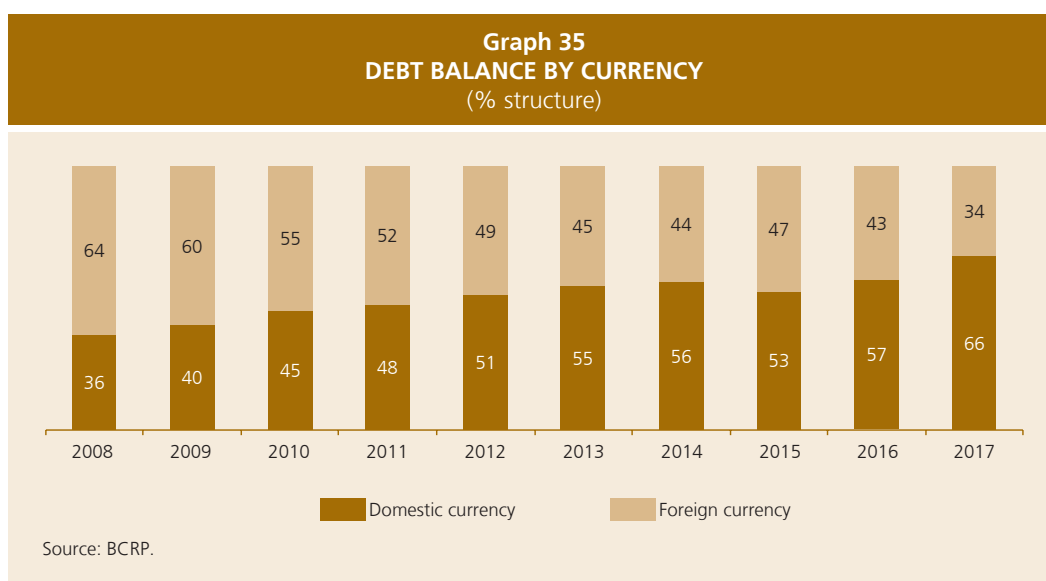
Table 49 NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR						
Years	Million soles			% GDP		
	Assets	Liabilities	Debt net	Assets	Liabilities	Debt net
2008	45,682	94,076	48,394	12.8	26.3	13.5
2009	49,189	97,773	48,585	13.4	26.6	13.2
2010	52,734	100,111	47,376	12.5	23.7	11.2
2011	65,824	101,638	35,814	14.0	21.5	7.6
2012	81,130	101,166	20,035	15.9	19.8	3.9
2013	90,041	105,057	15,016	16.4	19.2	2.7
2014	96,994	114,392	17,399	16.8	19.8	3.0
2015	109,033	142,192	33,160	17.8	23.2	5.4
2016	111,649	156,609	44,960	16.9	23.7	6.8
2017	107,414	173,912	66,497	15.3	24.8	9.5

Source: BCRP and MEF.

2 The net public debt is defined as the difference between the non-financial public sector liabilities (total public debt) and its financial assets (total deposits in the domestic and external financial systems and other assets, such as corporate bonds and investment funds).

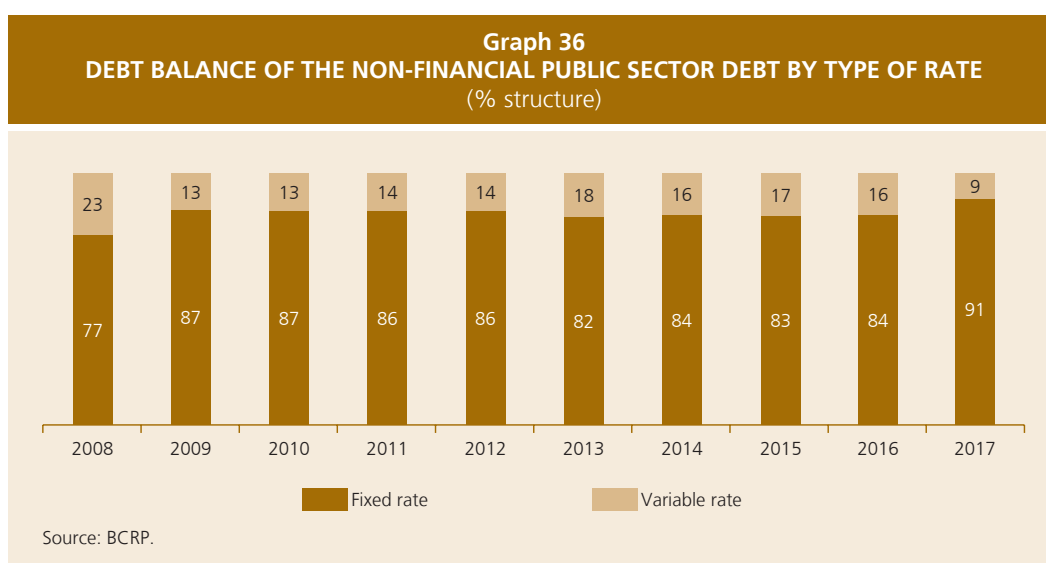
5.4 Debt by Currencies

During the last 10 years, the ratio of the debt in domestic currency to the total public debt has been increased to reduce exposure to foreign exchange risks. Thus, between 2008 and 2017, the ratio of the debt in domestic currency has increased from 36 percent to 66 percent of the gross public debt. It is worth highlighting that the ratio of the debt in soles was increased by 9 percentage points in the year mainly due to the debt management operation carried out in July.



5.5 Debt by Type of Interest Rates

The percentage of fixed-rate debt rose from 84 percent in 2016 to 91 percent in 2017. This trend is also observed in a longer-term perspective since the ratio of debt at a fixed rate has increased 14 percentage points in the last nine years.



5.6 Average Life of the Debt

According to the Ministry of Economy and Finance (MEF), the average life of the medium- and long-term total public debt increased to 12.3 years in 2017, as a result of which the government has extended the room for maneuver in order to increase the period of time between the payments due. At a disaggregated level, the **external public debt** has a slightly longer average life (12.5 years) than the **domestic public debt** (12.1 years).

