



**Lliclla**  
**Early Twentieth Century**  
**Cusco**  
**Central Reserve Bank of Peru**  
**Popular Peruvian Art, Exhibition Hall**

#### IV. PUBLIC FINANCE

The fiscal deficit amounted to 0.7 percent of GDP, and was determined by the evolution of the primary surplus, which

declined from 1.8 to 1.1 percent of GDP. The fiscal deficit was financed by privatization and foreign resources (0.4 and 0.3 percent of GDP, respectively).

TABLE 20  
NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE  
(Percentage of GDP)

	1996	1997	1998
<b>I. CURRENT SAVINGS</b>	<b>3.4</b>	<b>4.6</b>	<b>3.6</b>
<b>II. CAPITAL REVENUE 1/</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>
<b>III. CAPITAL EXPENDITURE</b>	<b>4.6</b>	<b>4.5</b>	<b>4.4</b>
<b>IV. OVERALL BALANCE</b>	<b>- 1.0</b>	<b>0.1</b>	<b>- 0.7</b>
<b>V. FINANCING</b>	<b>1.0</b>	<b>- 0.1</b>	<b>0.7</b>
1. External	0.7	- 0.5	0.3
a. Disbursements	2.1	0.6	1.6
b. Amortization	1.4	1.1	1.3
2. Privatization	3.5	0.9	0.4
3. Domestic	- 3.2	- 0.5	0.0
<b>Note:</b>			
<b>PRIMARY SURPLUS/DEFICIT</b>	<b>1.3</b>	<b>1.8</b>	<b>1.1</b>
<b>1/ Excluding privatization</b>			



The revenue shortfall due to the external shocks produced a reduction in the primary surplus of the Central Government from 0.7 to 0.5 percent of GDP. However, the main loss came from state-owned enterprises, as their primary surplus declined in 0.6 percentage points due to the deterioration of the balances of Petroperu (oil), Electroperu (electricity), Centromin (mining) and Banco de Materiales (housing fund). The rest of entities that make up the General Government had a primary surplus of 0.4 percent of GDP, similar to the previous year.

TABLE 21  
NON-FINANCIAL PUBLIC SECTOR  
PRIMARY BALANCE  
(Percentage of GDP)

	1996	1997	1998
Central Government	0.6	0.7	0.5
Rest of general government	0.2	0.4	0.4
State-owned companies	0.5	0.7	0.1
<b>TOTAL</b>	<b>1.3</b>	<b>1.8</b>	<b>1.1</b>

#### 1. Central Government

##### Central Government Expenditure

In 1998, Central Government expenditure amounted to 15.2 percentage points

of GDP, up by 0.1 percentage points over a year earlier. Non-financial expenditures remained at 13.5 percent of GDP. The increase in payroll and goods and services expenditures was compensated by a decrease in loans by Fonavi. It is worth noting that a fraction of non-financial expenditure (around 0.5 percentage

points) was applied to finance the Emergency and Rehabilitation and Reconstruction programs, intended to restore the damage caused by El Niño.

Financial expenditure amounted to 1.7 percentage of GDP, a 0.1 percentage point increase from 1997.

TABLE 22  
CENTRAL GOVERNMENT OPERATIONS  
(Percentage of GDP)

	1996	1997	1998
<b>I. CURRENT SAVINGS</b>	<b>1.6</b>	<b>2.3</b>	<b>1.7</b>
1. Revenue	14.3	14.2	14.0
2. Expenditures	12.7	11.9	12.2
a. Non-Financial	10.5	10.3	10.5
b. Interest	2.2	1.6	1.7
<b>II. CAPITAL REVENUE 1/</b>	<b>0.4</b>	<b>0.1</b>	<b>0.3</b>
<b>III. CAPITAL EXPENDITURE</b>	<b>3.3</b>	<b>3.2</b>	<b>3.0</b>
<b>IV. OVERALL SURPLUS / DEFICIT</b>	<b>-1.3</b>	<b>-0.8</b>	<b>-1.0</b>
<b>V. FINANCING</b>	<b>1.3</b>	<b>0.8</b>	<b>1.0</b>
1. External	0.7	-0.2	0.3
a. Disbursements	2.1	0.9	1.5
b. Amortization	1.4	1.1	1.2
2. Privatization	3.5	0.9	0.4
3. Domestic	-2.9	0.1	0.2
<b>Memo:</b>			
<b>PRIMARY SURPLUS/DEFICIT</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>
<b>1/ Excluding privatization.</b>			

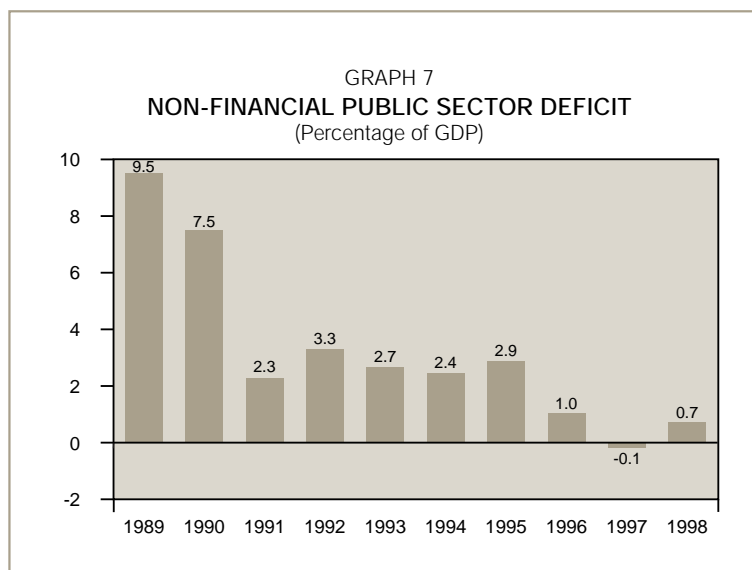
Payroll expenditure, which includes wages and salaries, pensions and social charges, was equivalent to 3.5 percent of GDP, up 0.1 percent over a year earlier. The rise reflected the 16.0 percent wage and salary increase granted to all Central Government active workers and pensioners in August 1997.

Goods-and-services expenditure amounted to 2.9 percent of GDP, a 0.2 percentage point increase from 1997, due to government help to the population affected by El Niño in the form of medicines, clothes, blankets and provisional housing.

Capital expenditure was 3.0 percent of GDP, down 0.2 percentage points from 1997.

Capital expenditure financed by external loans amounted to US\$ 523 million, up US\$ 33 million over the previous year. The main projects were the Road Rehabilitation and Improvement Program, the Rural Infrastructure Transportation Plan, the programs developed by The Compensation and Social Development Fund (FONCODES), the San Gaban Global Hydroelectric Project, and the Basic Sanitation Support Program.

The drop of 0.4 percentage points in the classification "Other Capital Expenditure", to 0.4 percent of GDP, was the result of the decrease in loans by Fonavi, which was eliminated in October 1998.



## Central Government Revenues

Central Government current revenue amounted to 14.0 percent of GDP, a drop of 0.2 percentage points from the previ-

ous year. The decline in tax collections was caused by lower revenues from income and excise taxes and the reduction of the Fonavi contribution rate, introduced in August 1997.



TABLE 23  
CENTRAL GOVERNMENT REVENUE

	Percentage of GDP			Real % change		Percentage structure		
	1996	1997	1998	97/96	98/97	1996	1997	1998
<b>I TAX REVENUE</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>7.3</b>	<b>-1.3</b>	<b>84.2</b>	<b>84.8</b>	<b>85.9</b>
1. Income Taxes	3.3	3.3	3.2	5.6	-4.3	23.4	23.2	22.8
-Payment on account	2.8	3.0	2.9	13.6	-3.6	19.6	20.9	20.7
-Clearing	0.5	0.3	0.3	-36.1	-0.7	3.8	2.3	2.1
2. Import taxes	1.5	1.3	1.3	-4.7	1.2	10.3	9.2	9.6
3. Value-added tax	5.6	5.8	5.9	11.1	-0.9	39.5	41.2	41.9
4. Excise tax	1.8	1.9	1.8	12.2	-5.1	12.9	13.5	13.2
-Fuel	1.1	1.1	1.1	11.3	-3.4	7.4	7.8	7.7
-Others	0.8	0.8	0.8	13.4	-7.4	5.4	5.8	5.5
5. Other tax revenue	0.3	0.5	0.7	87.2	33.4	2.2	3.8	5.2
6. Valued documents	-0.6	-0.9	-0.9	61.1	6.7	-4.0	-6.1	-6.7
<b>II NON-TAX REVENUE</b>	<b>2.3</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>	<b>-9.7</b>	<b>15.8</b>	<b>15.2</b>	<b>14.1</b>
1. Fonavi	0.9	0.8	0.6	-3.6	-33.2	6.4	5.8	4.0
2. Others	1.3	1.3	1.4	5.6	23.6	9.4	9.4	10.1
<b>III TOTAL CURRENT REVENUE (I+II)</b>	<b>14.3</b>	<b>14.2</b>	<b>14.0</b>	<b>6.5</b>	<b>-2.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Income Tax

Income tax collections dropped from 3.3 to 3.2 percent of GDP, due to the

application of credit from tax overpayment during the previous fiscal year, as well as the lower dynamism of economic activity during the year.

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## **Customs Duties**

Revenues from customs duties were equivalent to 1.3 percent of GDP, similar to the previous year. During 1998 the import tariff structure—with an average tariff rate of 13.5 percent—was left unmodified.

## **Value Added Tax (IGV)**

Value Added Tax collections in 1998, which amounted to 5.9 percent of GDP, rose 0.1 percent of GDP. The tax administration continued its efforts to increase the tax base and reduce tax evasion. A process of monthly depuration of the registered taxpayer roll was launched; the Major Taxpayers list grew from 7,400 to 18,400; and acquisitions by public sector entities were included in the invoice crosscheck program, geared to detect evasion in sales and purchases from suppliers.

## **Excise Taxes (ISC)**

ISC revenues declined by 0.1 percent of GDP from one year earlier, due mainly to lower collections from ISC on alcoholic drinks, beer, cigarettes and automobiles. Revenues decreased as a consequence of the El Niño phenomenon—which hindered the normal distribution of these products—and the reduction of domestic demand in the last quarter of the year.

## **Other Tax Revenues**

Collections rose 0.2 percentage points of GDP over the previous year, to 0.7

percent, due mainly to the creation of the Extraordinary Solidarity Tax (0.1 percentage point), which replaced the Fonavi Contribution since October.

## **Tax Refunds**

Tax refunds paid by the National Tax Superintendency (Sunat) and customs amounted to 0.9 percent of GDP. Cash refunds for IGV and customs duties grew 6.7 percent in real terms to S/. 1,640 million in 1998.

## **Non-tax Revenues**

Non-tax revenues declined by 0.2 percentage points, reflecting mainly the lower contributions to Fonavi due to the rate reduction from 7.0 to 5.0 percent in August 1997, as well as its replacement by the Extraordinary Solidarity Tax.

## **2. State-Owned Enterprises**

Non-financial state-owned enterprises registered an overall deficit of S/. 262 million, equivalent to 0.1 percent of GDP, in contrast with the S/. 957 million surplus achieved in 1997 (0.6 percent of GDP). The decline was due to the results obtained by Electroperu, Petroperu, Centromin and Banco de Materiales.

The deficit of state-owned enterprises is explained by three factors: the drop in commodity prices in world markets, the increase in capital transfers to the Central Government and the use of balances disbursed the previous year to Banco de Materiales.

### 3. Privatization

Twenty-nine privatization processes were carried out during 1998, generating US\$ 292 million in Treasury income and US\$ 221 million in investment commitments. Cash proceeds to the Treasury during the year amounted to US\$ 263 million. The main transactions were the sale of the state's 30 percent stake in regional electric companies and its remaining Banco Continental stock and the Rioja cement plant; and the con-

cessions of the Mantaro-Socabaya Electric Transmission Line, the B-band in cellular telephony outside Lima, and the Machu Picchu cable railway.

The auction of the state's 30 percent stake in regional electric companies (Electro Norte Medio, Electro Centro, Electro Nor Oeste and Electro Norte) took place in November, and yielded a total value of US\$ 146 million. The concession of the Mantaro-Socabaya Electric Transmission Line was carried out in January, and involves building of a

TABLE 24  
PRIVATIZATIONS: 1998  
(Millions of US\$)

Pivatization	Date	Buyer	Value	Investment
1 Mantaro Socabaya Electrical Transmission Line	JAN 15	Hydro Quebec and, Graña and Montero Corp.	1/	179.0
2 Ucayali Cattle Regional Company	JAN 20	Serger Corp.	0.8	-
3 Rioja Cement plant	FEB 06	Pacasmayo Consortium	15.2	2.0
4 Jaqui/Huarangayoc/Jarahuali/Wit Prosp.(Centromin)	MAR 04	Several	0.2	-
5 Pisco North Plant (Pescaperú)	MAR 30	Fishing Colonial Corp.	2.4	-
6 Lands of Pasto Grande (Estuquiña Pampas)	APR 06	Estuquiña Consortium	0.1	0.1
7 Puquio/Yauyurco/Orchid Prosp.(Centromin)	APR 28	Several	0.7	-
8 B-Band of cellular telephony outside of Lima	MAY 07	Bell South (Tele 2000)	35.1	-
9 Machu Picchu Cable Railway	MAY 12	Tourism Peru and Peru operators of Tourism	1/	10.0
10 Lands of Pasto Grande (Pampas of Palo)	JUL 02	ENESUR	0.5	10.0
11 Cobriza Mining Company Corp.(Centromin)	JUL 10	The Doe Run Resources Corporation	7.5	-
12 Lands of Chincas	JUL 15	Several	1.7	1.1
13 Continental Bank Assets (19.12 %)	JULY	Several	65.7	-
14 Inifom (Minero Peru)	AUG 07	Lar Coal Home Corp.	1.0	-
15 Lands of Chavimochic	AUG 26	Several	1.6	2.2
16 Lands of Majes -Sihuas	SEP 01	Pencils and Related Corp.	1.0	1.8
17 Agroindustrial Complex of Chao	OCT 28	Maturin Agricultural Corp.	2.9	1.4
18 Lands of Jequetepeque-Zaña	NOV 05	Alhido Corp.	0.0	0.1
19 Electro Norte Medio (Hidrandina) (30 %)	NOV 25	José Rodríguez Banda Corp.	67.9	-
20 Electro Centro (30 %)	NOV 25	José Rodríguez Banda Corp.	32.7	-
21 Electro Nor Oeste (30 %)	NOV 25	José Rodríguez Banda Corp.	22.9	-
22 Electro Norte (30 %)	NOV 25	José Rodríguez Banda Corp.	22.1	-
23 Cementos Norte Pacasmayo (1.6 %)	NOV 25	Several	3.0	-
24 Erial lands	NOV 26	Several	0.4	2.4
25 Cañariaco/Masterful Prosp.	NOV 30	Billinton/Inca Pacific Resources	1.1	7.6
26 Lands of Chavimochic	DEC 02	Several	2.1	2.2
27 Dairy Plant of Cusco	DEC 09	Incasur	0.5	-
28 Lands of Pasto Grande	DEC 10	Several	0.3	0.8
29 Various assets		Several	2.9	-
<b>TOTAL</b>			<b>292.2</b>	<b>220.6</b>

1/ Concession



transmission line of 700 km, linking the Center-North and South Interconnected Systems. The winner of the bid was Hydro-Quebec International Inc., which offered to undertake the project at a total cost of US\$ 179 million.

In July, the remaining stock holdings at the Banco Continental (19 percent) were sold for a total value of US\$ 66 million.

TABLE 25  
NET PRIVATIZATION RECEIPTS  
(Millions of US\$)

Company	Amount
1 Continental Bank	56.5
2 Cellular telephony B-band concession	34.4
3 Telefónica del Peru PPC (quotas)	22.2
4 Petromar (quotas)	20.2
5 Luz del Sur PPC (quotas)	15.1
6 Sider Peru (quota)	11.7
7 Electrical Regional companies	11.1
8 Terminals (Petroperu)	8.1
9 Cajamarquilla Refinery (quotas)	7.4
10 Cemento Sur	6.1
11 Pescaperu (various plants)	4.7
12 Cahua Electrical Company Corp.	3.0
13 EMSAL	2.9
14 Cementos Norte Pacasmayo (1,6 %)	2.8
15 Other	57.4
<b>TOTAL</b>	<b>263.4</b>

## BOX 1

## REGULATORY PUBLIC SERVICE ENTITIES

As part of the reform process carried out in the last years, many changes have taken place within the public sector. In some cases, certain public organizations have strengthened their role, but in others it was necessary to create new public entities in order to meet the State's regulatory duties. By transferring to the private sector certain activities in which it participated as provider of services, the state takes on the role of establishing general rules, supervising the provision of services and allowing the private sector to engage in productive activities.

## Main Regulatory Entities

Organization (Law)	Main Functions
<b>OSIPTEL</b> Supervisory Organization for Private Investment in Telecommunications (Leg Dec. 702, 1991-11-08)	<ul style="list-style-type: none"> <li>Promote the development of telecommunication services, guaranteeing free competition and consumers' rights.</li> <li>Establish tariff limits in telecommunications services.</li> </ul>
<b>CTE</b> Electricity Tariffs Commission (Law 23406, 1982-05-29)	<ul style="list-style-type: none"> <li>Establish, check and modify electricity tariffs.</li> </ul>
<b>SUNASS</b> National Superintendency of Sanitation Services (Law Dec. 25965, 1992-12-19)	<ul style="list-style-type: none"> <li>Fix water tariffs and guarantee the quality of repair services.</li> </ul>
<b>OSINERG</b> Supervisory Organization of Investment in Energy (Law 26734, 1996-12-31)	<ul style="list-style-type: none"> <li>Supervise the fulfillment of legal and technical arrangements related to the electricity and hydrocarbon subsectors, and to the preservation and protection of the environment.</li> </ul>
<b>OSITRAN</b> Supervisory Organization for Infrastructure Investment in Public Transportation (Law 26917, 1998-01-23)	<ul style="list-style-type: none"> <li>Regulate the development of transportation infrastructure for public use. Administer, investigate and supervise concession contracts.</li> </ul>

