

The main objective of the fiscal policy was the recovery of the domestic demand to revert the recessive trend observed over the last five years, without jeopardizing the fiscal sustainability.

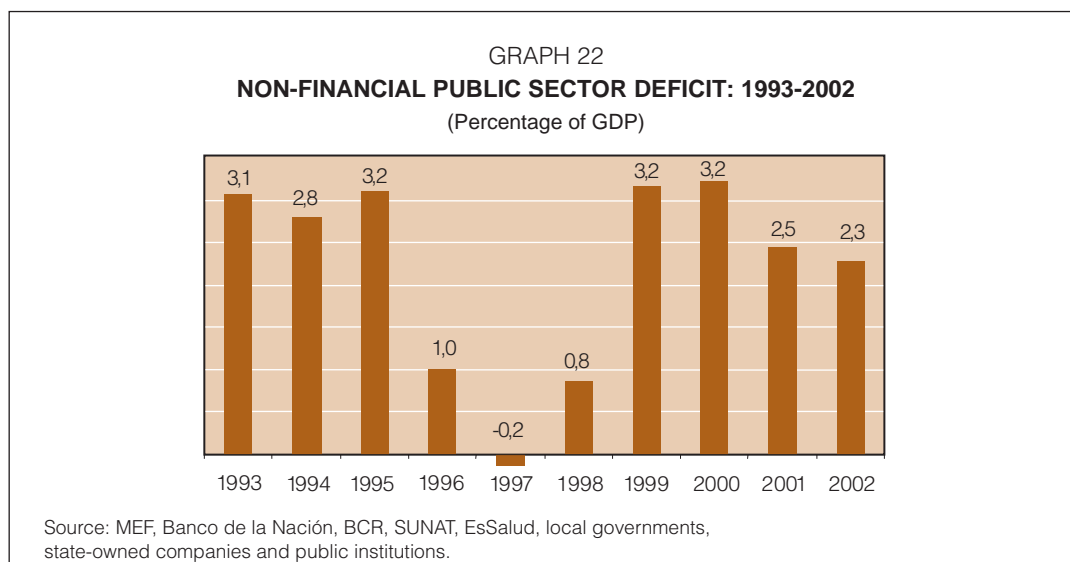
The **overall public sector deficit** fell to **2,3 percent of GDP** in 2002 from 2,5 percent of GDP in 2001. This reduction was due mainly to reduction of interest payments which fell from 2,3 to 2,1 percent of GDP as a consequence of lower international interest rates that reduced foreign debt payments to US\$ 1 002 million in 2002 from US\$ 1 046 million in 2001.

The **primary balance**, showing non-financial public sector transactions, was negative

in 0,3 percent of GDP, a ratio similar to that of 2001.

Central government current revenues were equivalent to 14,2 percent of GDP, 0,1 higher than the rate observed one year before. Increased economic activity and the enforcement of mechanisms for withholding, withdrawal and perception of the general sales tax (IGV) since mid-2002, reverted the sliding trend of the first half that resulted from the easing of refinancing over due taxes, and a smaller Extraordinary Solidarity Tax (payroll tax) as well as the reduction of import duties, which had been in effect from the third quarter of 2001.

The **central government non financial expenses** grew a moderate 2,0 percent in





real terms reflected in a 3,5 percent real term increase in current expenses offset by reduced capital expenses in 6,8 percent, also in real terms.

The evolution of central government accounts translated into a better primary result that reduced the deficit from 0,7 percent of GDP in 2001 to 0,2 percent in

2002, thus making up for the greater deficit generated in the remaining public sector, in particular for the declining balance of PETROPERU which came after the increase of oil prices.

Non financial public sector deficit financing reached S/. 4 675 million and was mostly covered from foreign sources

TABLE 33

NON-FINANCIAL PUBLIC SECTOR PRIMARY BALANCE

	Millions of nuevos soles			Percentage of GDP		
	2000	2001	2002	2000	2001	2002
I. Primary balance	-1 776	- 545	- 527	-1,0	-0,3	-0,3
1. Central government primary balance	-1 079	-1 253	- 411	-0,6	-0,7	-0,2
a. Current revenues	27 483	26 840	28 307	14,7	14,1	14,2
i. Tax revenue	22 771	23 543	24 048	12,2	12,4	12,0
ii. Non-tax revenue	4 712	3 297	4 258	2,5	1,7	2,1
b. Non-financial expenditure	29 097	28 385	29 030	15,6	14,9	14,5
i. Current	23 865	24 156	25 074	12,8	12,7	12,5
ii. Capital	5 232	4 229	3 956	2,8	2,2	2,0
c. Capital revenues	535	291	312	0,3	0,2	0,2
2. Primary balance of other entities	- 697	708	- 115	-0,4	0,4	-0,1
a. Rest of central government	109	142	- 55	0,1	0,1	-0,0
b. Local government	107	164	167	0,1	0,1	0,1
c. State-owned enterprises	- 913	402	- 237	-0,5	0,2	-0,1
II. Interest payments	4 283	4 274	4 148	2,3	2,3	2,1
1. External debt	3 582	3 663	3 526	1,9	1,9	1,8
2. Domestic debt	701	611	623	0,4	0,3	0,3
III. Overall balance (I-II)	-6 059	-4 819	-4 675	-3,2	-2,5	-2,3
1. Net foreign financing (Millions of US\$)	2 286	1 755	4 113	1,2	0,9	2,1
a. Disbursements	\$ 655	\$ 498	\$1 174	1,2	0,9	2,1
b. Amortization	\$1 299	\$1 318	\$2 862	2,4	2,4	5,0
c. Others	\$ 633	\$ 768	\$1 838	1,2	1,4	3,2
c. Others	-\$ 10	-\$ 53	\$ 150	-0,0	-0,1	0,3
2. Net domestic financing	2 346	1 930	- 941	1,3	1,0	-0,5
3. Privatization	1 427	1 134	1 503	0,8	0,6	0,8

Source: MEF, Banco de la Nación, BCR, SUNAT, EsSalud, local governments, state-owned companies and public institutions.

for a total S/. 4 113 million (US\$ 1 174 million), and revenues from sales of public government assets by S/. 1 503 million (US\$ 421 million), which allowed to accumulate deposits worth S/. 941 million.

1. Central government revenues

Central government **current revenues** increased 5,2 percent in real terms compared to 2001, to a total of S/. 28 307 million, equivalent to 14,2 percent of GDP. Improvement recorded in non-tax revenues (0,4 percent points of GDP) which increased from 1,7 to 2,1 percent of GDP, compensated the drop in tax revenues (0,4 percent point lower of GDP) as a result of lower tariff rates, a lower Extraordinary Solidarity Tax (IES) rate and reduced proceeds from the Special tax Amnesty Regime.

Evolution of tax revenues reached a break point in mid-2002 due to larger collections of general sales and income taxes after the tax measures enforced

during the second half of the year as well as to the economic expansion. Regarding the former, administrative measures, mainly related to the general sales tax were enforced like the withholdings system which had an approximate net effect of S/. 416 million; the withdrawal regime for certain agricultural products, which contributed S/. 45 million and the perception system enforced on fuel sales that contributed S/. 8 million.

2. Central government non-financial expenditure

Non-financial expenditure of the central government was equivalent to 14,5 percent of GDP lower in 0,4 percent than 2001, increasing 2,0 percent in real terms. The fall came from capital expense, which fell 0,2 percent of GDP (6,8 percent in real terms), mostly in the second half of the year.

The administration also introduced measures to restructure government expenses (DU 030-2002) including cuts in mobile telephone, fuels and publications'

TABLE 34
FISCAL REVENUE COEFFICIENTS
(Percentage of GDP)

	2000	2001	2002
Fiscal burden of the general government 1/	17,7	17,1	17,0
Fiscal burden of the consolidated central government 2/	16,7	16,1	16,0
Fiscal burden of the central government	14,7	14,1	14,2
Tax burden of the central government 3/	12,2	12,4	12,0

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

2/ Including central government current revenues, contributions to the social security system and pension system, and own resources from the Consolidated Previsional Reserve Fund (FCR), the National Pension Savings Fund (Fonahpu), regulatory institutions and register offices.

3/ Central government tax revenues. Since 2001, includes the Extraordinary Tax on State Assets (0,25 percent of GDP).

Source: MEF, Banco de la Nación, BCR, SUNAT and Petroperu.

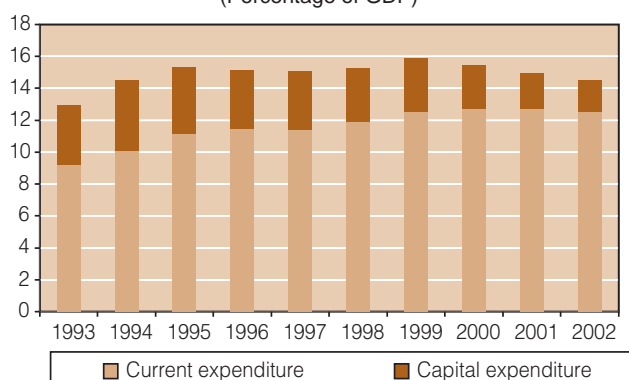


expenses as well as other measures related to the wage purchase of goods and services, scales, foreign and domestic travel and financial administration. In addition, government employees were sent on anticipated holidays in December 2002 (DS 121-2002-PCM).

3. Private Investment Promotion Process

Privatization and concession proceeds amounted US\$ 358 million, and created investment projects worth US\$ 80 million. Privatizations included concession of

GRAPH 23
CENTRAL GOVERNMENT NON-FINANCIAL EXPENDITURES: 1993-2002
(Percentage of GDP)



Source: MEF and Banco de la Nación.

TABLE 35
CENTRAL GOVERNMENT NON-FINANCIAL EXPENDITURES

	Percentage of GDP			Real % change		Percent structure		
	2000	2001	2002	2001	2002	2000	2001	2002
I. CURRENT EXPENDITURE	12,8	12,7	12,5	-0,7	3,5	82,0	85,1	86,4
Wages	4,4	4,3	4,5	-1,5	8,2	28,1	29,0	30,7
Goods and services	3,8	3,9	3,4	1,9	-7,9	24,6	26,2	23,6
Transfers	4,6	4,5	4,6	-2,2	9,0	29,3	30,0	32,0
- Pensions	1,8	1,8	1,8	-2,5	4,7	11,7	12,0	12,3
- Rest	2,7	2,7	2,9	-2,0	11,9	17,6	18,0	19,7
II. CAPITAL EXPENDITURE	2,8	2,2	2,0	-20,7	-6,8	18,0	14,9	13,6
Gross capital formation	2,5	1,9	1,7	-23,7	-6,2	16,3	13,0	12,0
Other	0,3	0,3	0,2	8,8	-11,0	1,7	1,9	1,7
III. TOTAL (I+II)	15,6	14,9	14,5	-4,3	2,0	100,0	100,0	100,0

Source: MEF and Banco de la Nación.

ETECEN and ETESUR electric transmission network, the sale of 37 percent of EDELNOR S.A. shares owned by the government, and the Ancón-Huacho-Pativilca highway concession.

In March, 9,36 percent of EDELNOR S.A. shares were sold, collecting US\$ 24 million. A similar transaction was carried in May, selling the remaining state-owned shares (27 percent of EDELNOR S.A.) by US\$ 70 million. Proceeds from both transactions were transferred to Fonahpu.

At the end of May, the 25-year **Ancón-Huacho-Pativilca highway**

concession was awarded to the Peruvian companies Graña y Montero and JJC Contratistas, which offered to pay a rent equivalent to 5,5 percent of toll revenues and invest US\$ 61 million in construction, repairs and maintenance of the road network.

The **ETECEN** and **ETESUR** concession was awarded in June to the Colombian company Interconexión Eléctrica (ISA) for 30 years, after payment of US\$ 259 million, including the sale of inventory, spares and other assets worth US\$ 17 million as well as debt for US\$ 44 million. Investment commitments from this concession totaled US\$ 11 million.

TABLE 36
PRIVATIZATIONS AND CONCESSIONS: 2002
(Millions of US dollars)

	Date	Buyer	Sale value	Investment projects
1. MEF – Cofide loan portfolio (Atral laboratories)	29 Jan.	INTERFIP Sociedad Agente de Bolsa	0,2	--
2. Compañía de Seguros de Crédito y Garantías – SECREX	30 Jan.	Sale at Lima's Stock Exchange	0,4	--
3. Edelnor – remaining shares (first trench 9.36%)	25 Mar.	Public sale offer	24,2	--
4. Logística Integral Callao S.A. and Yauricocha S.A.	12 Apr.	Consorcio Ingeniería y Construcciones Alfa Ltda/Discovery SA	0,8	--
5. Edelnor – remaining shares (second trench 27%)	22 May.	Public sale offer	69,7	--
6. Ancón-Huacho-Pativilca highway	24 May.	Consorcio Vial	--	61,4
7. Etecen . Etesur	5 Jun.	Interconexión Eléctrica SA (ISA)	258,9	10,5
8. Centro Ecológico Recreacional de Huachipa	16 Jul.	Consorcio Eodatina	--	5,2
9. Centromín – Alto Chicama Project	2 Dec.	Minería Barrick Misquichilca SA	2,0	3,0
10. Sale of real properties		Several buyers	1,1	--
11. Sale of minor assets		Several buyers	0,4	--
TOTAL			357,7	80,1

Source: Investment Promotion Agency – Proinversion

Other sales of government-owned assets include the sale of real state and other State properties for a total US\$ 5 million including the land property of Alto Chicama Project (US\$ 2 million), the Logística Integral Callao and Yauricocha SA companies (US\$ 1 million) and the sale at the Lima's Stock Exchange of Seguros de Créditos a la Exportación

(Secrex) company as well as the sale of the MEF-Cofide loan portfolio.

The income in cash of the government after deducing the costs of the process, prompted to US\$ 421 million, amount higher than the US\$ 327 million obtained in 2001. From this amount, US\$ 344 million came from privatizations and



concessions made in year 2002 and US\$ 77 million from the payment of quotas by privatizations of previous years. These resources were deposited in the accounts

of the Public Treasury (US\$ 205 million), in the account of the Fiscal Stabilization Fund (US\$ 126 million) and in the pension fund (Fonahpu) account (US\$ 90 million).

TABLE 37
TREASURY CASH REVENUES
(Millions of US dollars)

Company	Amount
Etecen – Etesur	253,7
Edelnor (36,36% of stock)	90,3
Siderperu (installments)	22,4
Petroperu terminals (installments)	10,1
Petromar (installments)	10,0
Loan portfolio transfer	8,9
Miscellaneous assets and other installments	25,9
TOTAL	421,3

Source: Investment Promotion Agency – Proinversion and MEF