

V. Public Finances

In 2007, the fiscal accounts showed a surplus for the second consecutive year. The non-financial public sector (NFPS) showed a surplus equivalent to 3.1 percent of GDP, a result 1 percentage point higher than the one observed in the previous year.

Public sector incomes improved significantly, especially in terms of tax collection due both to high economic growth and to firms' increased earnings due mainly to the high prices of minerals. The non-financial expenditure of the general government increased by a real 7 percent real in 2007, mainly due to increased investment (19 percent). Current expenditure increased 4.5 percent.

A series of debt exchange and debt repayment operations carried out during the year allowed reducing the weight of the external debt from 23.6 percent of GDP in 2006 to 18.4 percent of GDP in 2007. Moreover, the fiscal surplus obtained allowed reducing the balance of the public debt from 32.7 to 29.2 percent of GDP, while the net debt was reduced by the equivalent of 17.5 percent of GDP.

1. Fiscal policy indicators

Conventional economic outcome

The positive performance of public finance in 2007, reflected in a surplus of 3.1 percent of GDP, was associated to a great extent to the growth of the current revenues of the general government, which represented 20.4 percent of GDP (19.7 percent in 2006). Another factor contributing to this was the lower ratio of the non-financial expenditure of the general government, which fell from 16.2 to 15.7 percent of GDP, while state enterprises showed a primary result equivalent to 0.1 percent of GDP. As a result of this, the primary result in the public sector was 4.8 percent of GDP (versus 3.9 percent in 2006).

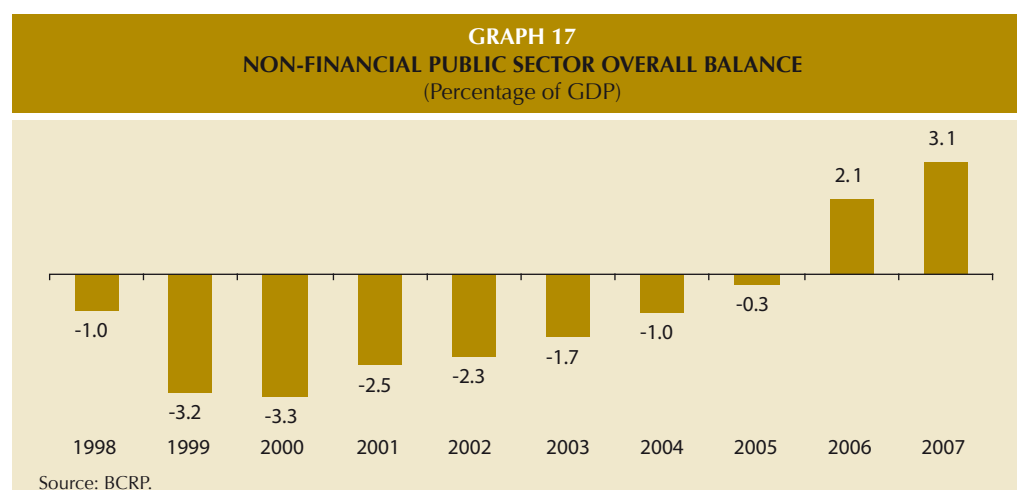


TABLE 33
NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE

	Millions of nuevos soles			Percentage of GDP		
	2005	2006	2007	2005	2006	2007
I. PRIMARY BALANCE	4,277	11,956	16,475	1.6	3.9	4.8
1. Central government primary balance	3,720	11,098	16,190	1.4	3.6	4.7
a. Current revenues	47,815	60,056	69,455	18.3	19.7	20.4
i. Tax-revenue	36,311	46,218	53,359	13.9	15.1	15.6
ii. Non-tax revenue	11,504	13,837	16,096	4.4	4.5	4.7
b. Non-financial expenditure	44,481	49,318	53,651	17.0	16.2	15.7
i. Current	37,320	40,833	43,407	14.2	13.4	12.7
ii. Capital	7,162	8,485	10,244	2.7	2.8	3.0
c. Capital revenues	386	361	386	0.1	0.1	0.1
2. Primary balance of public companies	557	858	285	0.2	0.3	0.1
II. INTERESTS	5,066	5,693	6,029	1.9	1.9	1.8
1. External debts	4,175	4,337	4,287	1.6	1.4	1.3
2. Internal debts	891	1,357	1,742	0.3	0.4	0.5
III. OVERALL BALANCE (I-II)	-789	6,263	10,446	-0.3	2.1	3.1
1. Net financing abroad (a+b+c)	-3,813	-2,175	-6,585	-1.5	-0.7	-1.9
(Millions of US\$)	-\$ 1,167	-\$ 658	-\$ 2,147	-1.5	-0.7	-1.9
a. Disbursements	\$ 2,628	\$ 609	\$ 3,384	3.3	0.6	3.1
b. Amortization	\$ 3,678	\$ 1,193	\$ 5,661	4.6	1.3	5.2
c. Other	-\$ 117	-\$ 74	\$ 131	-0.1	-0.1	0.1
2. Net domestic financing	4,417	-4,392	-4,310	1.7	-1.4	-1.3
3. Privatization	185	304	449	0.1	0.1	0.1

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

Structural overall balance

The structural overall balance seeks to isolate the effect of the economy's position in the economic cycle, as well as the impact of the higher prices of mineral exports on fiscal accounts.

Estimates show that the structural deficit has been gradually declining from levels of 3.3 percent of GDP in 2000 to a position of virtual balance in 2006 that continued in 2007.

GRAPH 18
CONVENTIONAL AND STRUCTURAL DEFICIT OF NFPS
(Percentage of GDP)



Source: BCRP.



2. Central government

In 2007 the central government posted its best economic outcome since the seventies, reaching a surplus of 1.8 percent of GDP – a result 0.4 of a percentage point higher than that of 2006. This improvement in the primary balance (3.4 percent of GDP) is mainly explained by the evolution of revenues in a context of increased tax collection due to the higher prices of commodities and growing domestic demand.

2.1 Central government revenues

The central government **current revenues** were equivalent to 17.9 percent of GDP, 0.6 of a percentage point of GDP higher than in 2006.

This growth of revenues is mainly explained by higher income tax revenues due to the growth of export prices, the expansion of economic activity, and to higher income tax ratios than the ones observed in the previous year.

TABLE 34
CENTRAL GOVERNMENT REVENUES

	Percentage of GDP			Real % change		Percent structure		
	2005	2006	2007	2006	2007	2005	2006	2007
I. TAX REVENUE	13.6	14.9	15.4	25.3	13.3	86.7	86.3	85.8
1. Income tax	4.3	6.0	6.7	61.4	21.9	27.3	34.9	37.4
-Individual	1.2	1.3	1.3	25.3	12.1	7.5	7.4	7.3
-Corporate	2.3	3.7	4.2	80.7	26.0	14.8	21.3	23.5
-Clearing ^{1/}	0.8	1.1	1.2	57.9	19.7	5.0	6.2	6.5
2. Import tax	1.2	0.9	0.6	-11.2	-24.1	7.7	5.4	3.6
3. Value-added tax	7.0	7.1	7.4	15.3	15.4	44.6	40.8	41.3
-Domestic	4.0	3.9	4.0	11.0	11.4	25.8	22.7	22.2
-Imports	2.9	3.1	3.4	21.2	20.3	18.8	18.1	19.1
4. Excise tax	1.6	1.3	1.3	-2.5	4.3	9.9	7.7	7.0
-Fuel	1.0	0.8	0.7	-9.8	-0.9	6.4	4.6	4.0
-Others	0.6	0.5	0.5	10.4	12.0	3.6	3.1	3.1
5. Other tax revenues	1.1	1.1	1.1	10.8	12.2	7.3	6.4	6.3
-ITF	0.3	0.3	0.3	17.1	20.1	1.7	1.6	1.7
-ITAN	0.4	0.4	0.4	13.3	17.2	2.6	2.4	2.4
-IAE	0.0	0.0	0.0	n.a.	n.a.	0.2	0.0	0.0
-IES	0.0	0.0	0.0	-30.2	-11.4	0.0	0.0	0.0
-Tax fractioning	0.2	0.2	0.1	27.2	-2.6	1.0	1.0	0.8
-Other	0.3	0.2	0.2	4.5	5.8	1.7	1.4	1.3
6. Tax refund ^{2/}	-1.6	-1.5	-1.8	12.7	25.1	-10.0	-8.9	-9.8
II. NON-TAX REVENUES^{3/}	2.1	2.4	2.5	29.9	17.7	13.3	13.7	14.2
III. TOTAL	15.7	17.3	17.9	25.9	13.9	100.0	100.0	100.0

1/ Represents the income tax generated the previous year.

2/ Includes current transfers of public enterprises.

3/ Represents the payments received in February of the current year to January of the following year, plus the regularization campaign on March and April of the following year.

Source: MEF, Banco de la Nación, BCRP and SUNAT.

Moreover, tariff reduction measures implemented during the year allowed reducing the average tariff from 8.3 to 5.7 percent. As a result of this, revenues for import duties declined.

These measures not only contributed to reduce the price of inputs and capital goods, thus encouraging investment and the use of new technologies, but also offset the impact of the higher prices of fuel and imported foodstuffs.

TABLE 35
FISCAL REVENUES COEFFICIENTS
(Percentage of GDP)

	2005	2006	2007
Tax burden of the central government ^{1/}	13.6	14.9	15.4
Fiscal burden of the central government	15.7	17.3	17.9
Fiscal burden of the consolidated central government ^{2/}	17.3	18.9	19.5
Fiscal burden of the general government ^{3/}	18.3	19.7	20.4

1/ Central government tax revenues.

2/ Including central government current revenues, contributions to the social security system and pension system, and own resources of the Consolidated Previsional Reserve Fund (FCR), Fonahpu, regulating and registration entities.

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

Source: MEF, Banco de la Nación, BCRP and SUNAT .

Income tax, which led the growth of tax revenues of the central government in 2007, increased from 6.0 to 6.7 percent in GDP terms. It is worth pointing out that the contribution of the mining sector grew by 48 percent, as a result of which the share of the mining sector in terms of income tax increased from 44 percent in 2006 to 51 percent in 2007.

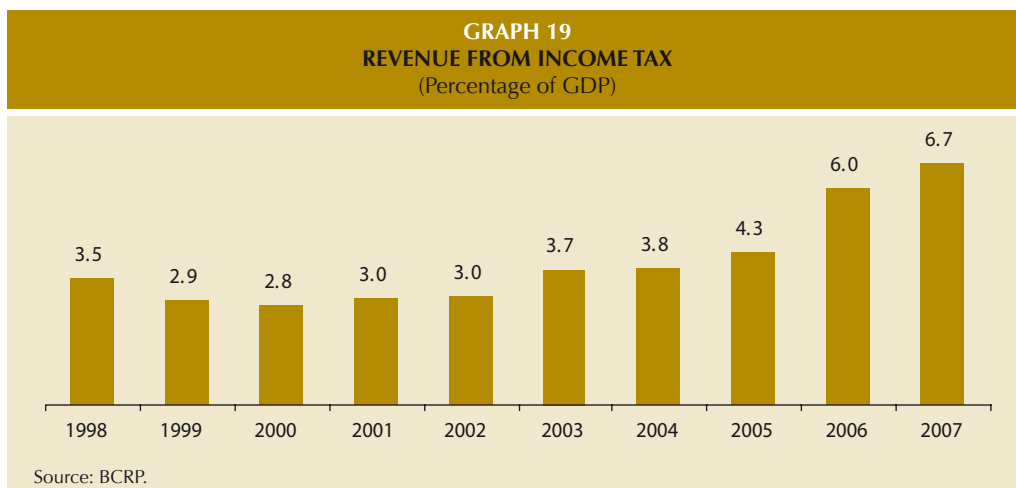
TABLE 36
CORPORATE TAX COLLECTION BY SECTORS
(Millions of nuevos soles)

	2005	2006	2007	Real % change	
				2006/2005	2007/2006
Mining	2,168	5,767	8,703	160.8	48.3
Fuel	413	970	969	130.1	-1.9
Financial System	372	814	712	114.2	-14.0
Manufacture	1,110	1,597	1,729	41.1	6.3
Telecommunications	559	717	579	25.8	-20.7
Others	2,601	3,234	4,395	21.9	33.5
TOTAL	7,223	13,100	17,087	77.8	28.2

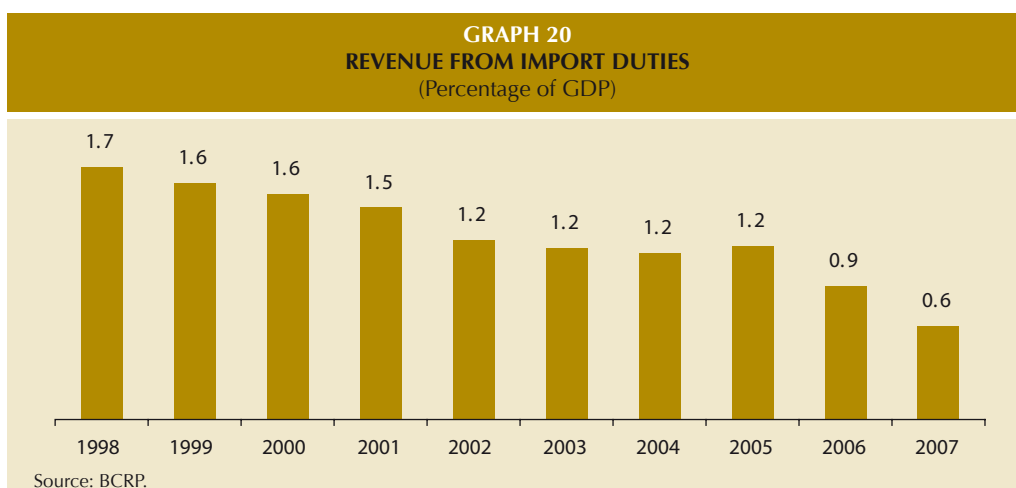
Source: SUNAT.

Revenues from the individual income tax also increased by a real 12 percent due to higher disposable income, higher employment levels, and earning distribution to employees, especially in the mining sector. These revenues increased despite the lower contribution of independent workers associated with amendments to adjust the suspension of tax withholding, in force since January 2007, in order to avoid reimbursements for overpayments.

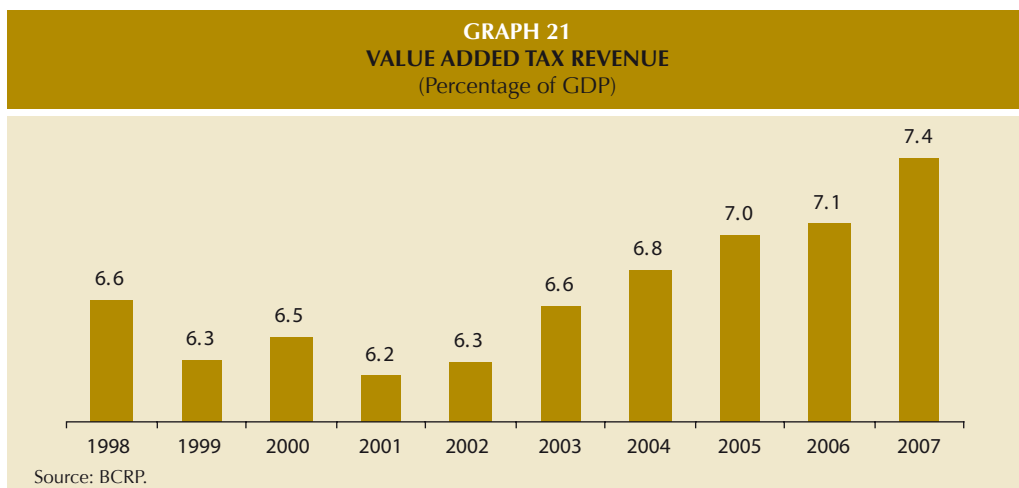




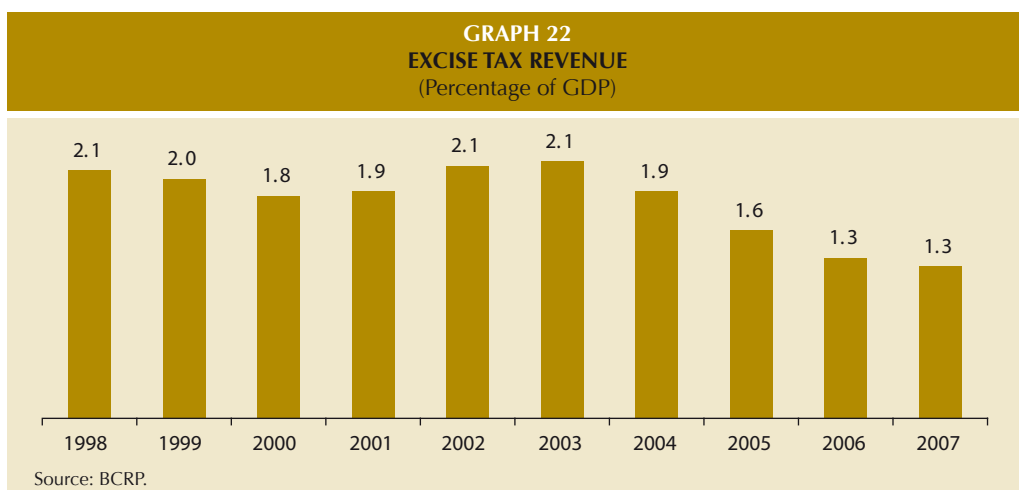
Revenues from **import duties**, which amounted to the equivalent of 0.6 percent of GDP, fell 24 percent in real terms. This result is mainly explained by the reduction of tariffs implemented in the year that led the average tariff rate to decline from 8.3 percent in 2006 to 5.7 percent. These tariff reductions were partially compensated by increased imports during this period (34 percent).



In 2007 revenues from the **value added tax (IGV)** grew 15 percent in real terms, reaching a level equivalent to 7.4 percentage points of GDP. This increase was explained by higher domestic demand, control actions developed by the tax agency, and the reinforcement of tax collection systems in the case of the internal VAT, and by higher imports in the case of the external VAT.



Revenues from the **excise tax** (ISC) during 2007 remained at 1.3 percentage points of GDP and grew 4 percent in real terms. This increase was due to the higher collection of excise tax from items not associated with fuels (12 percent), such as soft drinks, mineral water, and beer as a result of increased sales, as well as by higher imports of goods subject to this tax. On the other hand, the excise tax on fuels was reduced only once, on December 24, to connect it with the Fuel Price Stabilization Fund.



Revenues from **other tax revenues** remained at 1.1 percent of GDP and grew 12 percent in real terms, particularly due to the higher collection resulting from the ITF or Tax on Financial Transactions (20 percent), which is explained by increased bank transactions given that the tax rate remained at 0.08 percent during 2007. Revenues from the Temporary Tax on Net Assets (equivalent to 0.4 percentage points of GDP) grew 17 percent due to the increase seen in the taxable base.

TABLE 37
EVOLUTION OF FUEL EXCISE TAX^{1/}
 (Nuevos soles per galon)

	2005			2006				2007
	Jul. 02	Aug. 02	Sep. 10	Jan. 01	Apr. 13	Apr. 25	Aug. 15	Dec. 24
84-octane gasoline	2.90	2.90	2.60	2.60	2.35	2.25	2.05	1.85
90-octane gasoline	3.71	3.61	3.31	3.31	3.06	2.96	2.66	2.46
95-octane gasoline	4.02	3.92	3.62	3.62	3.32	3.22	2.92	2.92
97-octane gasoline	4.35	4.15	3.85	3.85	3.55	3.45	3.15	3.15
Kerosene	2.07	2.07	1.77	2.21	2.21	2.11	2.11	1.94
Diesel 2	1.70	1.60	1.40	1.84	1.84	1.74	1.54	1.39
AVERAGE^{2/}	1.78	1.71	1.51	1.80	1.75	1.66	1.50	1.37

1/ Liquefied petroleum gas was excluded from the list of products affected by the excise tax fuel since July 02, 2005 (DS 081-2005-EF).

2/ Weighted average based on the domestic sales of fuels in 2004.

Source: Official daily "El Peruano" (Legislation).

2.2 Central government expenditures

Total central government expenditures amounted to 16.3 percent of GDP, which represented a real increase of 12 percent compared to 2006. This increase is mainly explained by higher transfers to subnational governments (especially mining royalties). Excluding these transfers, the central government non-financial expenditure increased by a real 6.7 percent, particularly as a result of a 20.2 percent increase in capital expenditure.

Expenditure in salaries and wages increased 2 percent in real terms, mainly due to the rises for public university faculty members approved in the frame of the Programa de Homologación de la Docencia Universitaria (D.U. 033-2005). The participation of salaries and wages declined from 4.1 to 3.8 percent of GDP due to austerity measures adopted in terms of current expenditure.

Spending in goods and services increased by a real 6 percent, reflecting the higher expenditure of the Ministries of Defense and Interior in replacing equipments and in official operations, as well as higher expenditure in the Ministry of Health (health care), the Ministry of Transport and Communications (road maintenance and conservation), the Ministry of Education (to improve educational quality and train teachers), etc. In GDP terms, spending in good and services decreased from 3.3 to 3.2 percent between 2006 and 2007.

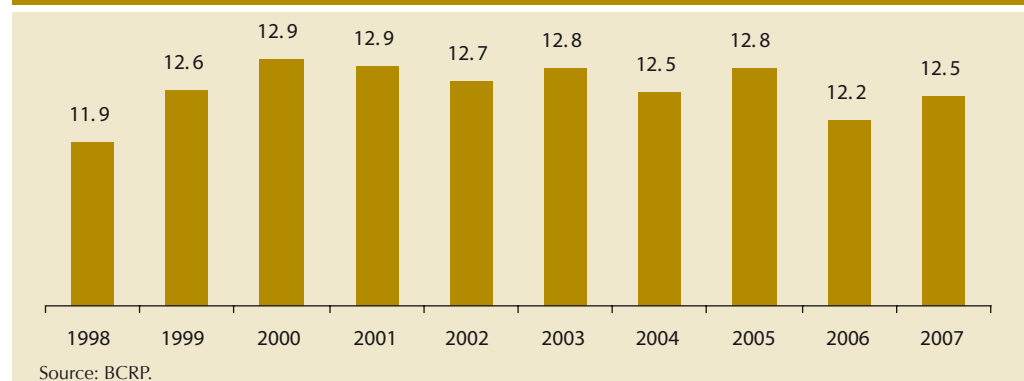
Expenditure for transfers, which amounted to S/. 18,599 million, increased by a real 26 percent due mainly to the higher transfers of mining royalties to local governments (S/. 2,558 million), which increased from 0.7 to 1.4 percent of GDP.

According to the Budget Law for the Public Sector for FY 2007 (Law N° 28927), the mining royalty is now transferred to regional governments, universities, and local governments in

TABLE 38
CENTRAL GOVERNMENT EXPENDITURES

	Percentage of GDP			Real % change		Percent structure		
	2005	2006	2007	2006	2007	2005	2006	2007
I. NON-FINANCIAL EXPENDITURE	14.7	14.2	14.6	10.2	13.5	88.9	88.9	90.0
1. CURRENT EXPENDITURE	12.8	12.2	12.5	8.8	12.4	77.6	76.5	76.8
a. Wages and salaries	4.4	4.1	3.8	6.2	1.9	26.8	25.8	23.5
b. Goods and services	3.4	3.3	3.2	11.5	6.0	20.7	20.9	19.8
c. Transfers	5.0	4.8	5.5	9.2	26.0	30.1	29.8	33.5
- Pensions	1.5	1.3	1.2	-1.6	-0.5	9.3	8.3	7.3
- ONP-Fonahpu	1.0	0.8	0.8	-6.6	1.5	6.2	5.3	4.8
- Foncomun	0.8	0.8	0.8	16.3	14.4	4.7	5.0	5.1
- Royalties	0.5	0.7	1.4	59.1	126.8	3.0	4.3	8.8
- Other	1.1	1.1	1.2	11.3	21.4	6.9	7.0	7.5
2. CAPITAL EXPENDITURE	1.9	2.0	2.2	20.4	20.2	11.3	12.3	13.2
a. Gross capital formation	1.7	1.6	1.8	5.1	23.4	10.3	9.8	10.8
b. Other	0.2	0.4	0.4	178.4	7.9	1.0	2.5	2.4
II. INTEREST PAYMENTS	1.8	1.8	1.6	10.7	0.3	11.1	11.1	10.0
1. Domestic debt	0.3	0.4	0.4	66.7	12.5	1.5	2.3	2.3
2. External debt	1.6	1.4	1.2	1.8	-2.9	9.6	8.8	7.7
III. TOTAL (I+ II)	16.5	16.0	16.3	10.3	12.0	100.0	100.0	100.0
Memo:								
Non financial Expenditures excluding transfers^{1/}	11.6	10.8	10.5	5.9	6.7	70.5	67.7	64.5
1/ Does not include Central government transfers to the rest of public entities. Source: MEF, Banco de la Nación and BCRP.								

GRAPH 23
CENTRAL GOVERNMENT CURRENT EXPENDITURE
(Percentage of GDP)



a single transfer, instead of by monthly transfers as it used to be. Hence, a total of S/. 4,042 million was transferred to local and regional governments in June 2007, accumulating S/. 4,899 million in the year (S/. 1,659 million in 2006).



Capital expenses grew 20 percent in real terms, increasing from 2.0 percent of GDP in 2006 to 2.2 percent in 2007. This increase is mainly explained by a real growth in gross capital formation (23 percent), with higher expenses recorded in the sectors of: Transport (S/. 1,318 million) as a result of road maintenance and improvement; Agriculture and livestock (S/. 506 million), to support production (improvement of irrigation infrastructure, preservation of natural resources); Education (S/. 382 million), to improve education infrastructure and educational quality; Housing (S/. 338 million), to improve and maintain sidewalks, avenues and parks; to improve water and sanitation, and to implement the National Water and Sanitation Project in rural areas; Electricity (S/. 158 million), basically to install small power systems in several villages; and Health (S/. 100 million), to equip hospitals.

TABLE 39
INVESTMENT PROJECTS OF THE CENTRAL GOVERNMENT BY SECTORS
(Thousand nuevos soles)

MAIN PROYECTS	2006	2007	Nominal Chg. %
Transport	1,152,939	1,317,914	14.3
Health	69,843	100,479	43.9
Electricity	67,472	158,087	134.3
Agriculture and livestock	446,259	506,278	13.4
Housing	229,340	337,716	47.3
Economy	45,960	63,361	37.9
Justice	28,203	79,546	182.0
Education	390,915	382,190	-2.2
Infrastructure	66,048	49,321	-25.3
Other	2,282,256	3,004,718	31.7
Total	4,779,235	5,999,610	25.5

Source: MEF -SIAF.

Financial expenditure fell by 0.2 of a percentage point of GDP compared to 2006 (1.6 percent of GDP), of which 1.2 percent of GDP was the service of interests of the external debt and 0.4 of a percentage point was interests of the internal debt.

3. Rest of central government

Entities in the rest of the central government showed a surplus of S/. 650 million in 2007, a sum lower by S/. 263 million than the one recorded in 2006. This lower result in 2007 is mainly explained by operations in the Consolidated Reserve Fund (FCR), and compensated by operations in the Oficina de Normalización Previsional (ONP) and EsSalud.

In contrast with the surplus of S/. 356 million obtained in 2006, the result of the FCR was negative by S/. 286 million due mainly to the S/. 324 million transferred by the central government in 2006 for the redemption of Recognition Bonds given in 2006 and for the higher interests generated by these bonds in 2007.



The ONP showed a surplus of S/. 309 million –higher by S/. 269 million than the one recorded in 2006– due to current revenues from contributions and higher current transfers from the Public Treasury to pay pensions.

EsSalud posted a surplus of S/. 240 million –S/. 79 million higher than in 2006–, due mainly to increased current revenues from contributions and current transfers to cover the debt generated by the valuation of the balance of the National Pension System reserve.

4. Local governments

Local governments recorded a surplus of S/. 3,595 million, equivalent to 1.1 percent of GDP, and S/. 3,406 million higher than in 2006. This result is explained by higher transfers of mining royalties (canon), which increased from S/.1,309 million in 2006 to S/. 3,867 million in 2007. The balance of local government deposits in the financial system by December 2007 amounted to S/. 5,157 million (S/.1,476 million in 2006).

5. Promotion of private investment

The revenue from privatizations and concessions amounted to US\$ 534.9 million in 2007 and included the Michiquillay Mining Project (Anglo American Services), the sale of Cemento Andino S.A. at the Lima Stock Exchange, and the concession of stretches 1 and 5 of the Interoceanic Highway among the most relevant.

6. Public debt

The balance of the public debt in GDP terms fell from 32.7 to 29.2 percent between 2006 and 2007, showing a decrease of 3.5 percentage points of GDP due to the expansion of economic activity and to the fact that a primary surplus (4.8 percent of GDP) was generated.

The reduction of the public debt in GDP terms was mainly reflected in the lower component of the external debt, whose ratio declined from 23.6 to 18.4 percent of GDP. This was in part offset by a higher ratio of internal debt, which increased from 9.1 to 10.8 percent of GDP.

The evolution of the public debt reflected important debt management operations carried out during 2007 in order to reduce the foreign currency component of the debt and reprogram maturities, including the following:

- A total of US\$ 1,793 million was prepaid to the Paris Club in October 2007. This operation was mainly financed through the issue of internal debt (30-year sovereign bonds).



TABLE 40
PRIVATIZATIONS AND CONCESSIONS 2007
(Millions of US\$)

Privatizations and Concessions	Date	Buyer	Sale Value	Investment Project
PRIVATIZATION			484.44	707.69
1. Tourist Complex El Chaco - La Puntilla	Feb. 07	Albergue Turístico San Agustín S.A.C.	0.04	0.99
2. Land lots	Feb.- Dec.	Several	10.85	
3. Mining Project Michiquillay	Apr. 30	Anglo American Services	403.00	700.00
4. Buildings	May - Dec	Several	6.23	
5. Tourist Complex El Chaco - La Puntilla	Jul. 20	Peruvian Tours Agency		6.70
6. Cemento Andino S. A.	Aug. 27	Stocks sale	63.86	
7. Project Bayobar (Second Fase) ^{1/}	Aug. 29	Several	0.46	
CONCESSIONS			50.46	323.20
1. Rural Telecommunication program "Internet Rural"	Jun. 14	Teléfono del Perú		11.50
2. Rural Broadband	Jul. 26	Several		17.00
3. Mobile Public Service in Band B	Jul. 27	América Movil SAC	22.22	
4. Private Communication Service in Bands D and E	Jul. 27	Nextel del Perú S.A.	27.00	
5. Project Centro Cívico de Lima ^{2/}	Aug. 24	Urbi Propiedades	1.24	12.40
6. Corredor Vial Interoceánica Sur ^{3/} Stretch 1 San Juan de Marcona -Urcos	Aug. 29	Diverse consortium Consortio Interoceánico San Juan de Marcona - Urcos		282.30 98.90
Tramo 5 Matarani - Azangaro - Ilo - Juliaca		Consortio del Sur Puerto Matarani - Juliaca /Puerto Ilo-Juliaca Azángaro		183.40
7. Public Telecommunication Service in Band 900 MHZ ^{4/}	Dec. 28	Teléfono Móviles S. A.		
TOTAL			534.90	1.030.89

1/ Additionally, a bi-annual deferred compensation based on the volume of material extracted from each deposit has been committed (US\$ 5.1 per ton of lime, US\$ 1.5 per ton of diatomite, and US\$ 0.60 per ton of gypsum).

2/ Additionally 15% of revenues from the economic exploitation of infrastructure shall be delivered to the state.

3/ The State guarantees concessionaires an annual payment for works carried out (PAO) and an annual payment for maintenance operations (PAMO).

4/ The result was a monthly retribution of S / . 30 lower than the established base price and a of one-time installation cost of S / . 170 lower than the established rate.

Source: PROINVERSIÓN.

- An operation was made in January 2007 to substitute credit to the Banco de la Nación (US\$ 827 million) in foreign currency by 30-year Treasury Bonds in domestic currency.
- Exchanging public debt with the amortization of Brady and Global 2012 bonds through the issue of Global bonds with longer maturities (US\$ 2,262 million) in March 2007. No other bonds were placed abroad during 2007, which contributed to reduce the debt component in foreign currency and to reduce exchange risks associated with the debt.

The total nominal public debt in US dollars at end 2007 amounted to US\$ 31,870 million (US\$ 1,381 million higher than in 2006). In nominal terms, the external debt amounted to US\$ 20,081 million (down US\$ 1,890 million), while the internal debt amounted to US\$ 11,789 million (up US\$ 3,271 million), reflecting the debt management operations



carried out to reduce the weight of the external debt and increase the weight of the internal debt in terms of the overall debt. As a result of these operations, the weight of the external debt declined from 72.1 to 63.0 percent between December 2006 and December 2007.

This reduction of the external public debt (US\$ 1,890 million) is explained by higher amortizations (US\$ 5,691 million) relative to disbursements received (US\$ 3,384 million) and by the effect of the higher valuation of other currencies, especially the yen and the euro, against the dollar (US\$ 417 million). The strong amortizations and disbursements include the above-mentioned exchange operations of Brady and Global 2012 Bonds and the prepayment made to the Paris Club.

The balance of domestic debt increased by S/. 8,096 million due to an increase of Treasury bonds by S/. 9,226 million (S/. 7,105 million in sovereign bonds, S/. 2,352 million in debt

TABLE 41
PUBLIC DEBT AS OF DECEMBER 2007^{1/}
(Millions of US\$)

	2005 Dec.	2006 Dec.	2007 Dec.	Differential 07-06
PUBLIC DEBT	29,968	30,490	31,870	1,381
(% of GDP)	37.7	32.7	29.2	-3.5
I. FOREIGN PUBLIC DEBT	22,279	21,972	20,081	-1,890
(% of GDP)	28.1	23.6	18.4	-5.2
CREDITS	13,886	13,580	11,820	-1,760
Multilateral Organizations	7,983	7,843	7,851	8
Paris Club	5,696	5,629	3,883	-1,746
Others	207	107	86	-22
BONDS	8,393	8,392	8,262	-130
II. DOMESTIC PUBLIC DEBT	7,688	8,518	11,789	3,271
(% of GDP)	9.7	8.2	9.6	1.4
1. LONG TERM	6,896	7,603	10,440	2,838
BANK LOANS	890	780	52	-728
TREASURY BONDS	6,006	6,809	10,343	3,534
1. Debt exchange bonds	122	91	883	791
2. Sovereign bonds	2,951	3,699	6,318	2,619
3. Recognition bonds	2,677	2,795	2,986	191
4. Others bonds	255	224	157	-67
LIMA MUNICIPALITY BONDS	0	14	45	31
2. SHORT TERM	793	915	1 349	433
FLOATING DEBT	654	915	1 349	433
Memo:				
Liabilities from Public-private partnership (PPP) ^{2/}	0	69	659	590

1/ The bonds are classified according to the market where they were issued. Therefore, the Brady and Global Bonds issued abroad are part of the external public debt, including those purchased by residents.

Sovereign bonds issued in the domestic market include those acquired by non-residents.

2/ Value of principal for the issue of Certificates of Recognition of Rights for the Annual Payment of works carried out (PAO). Source: MEF, Banco de la Nación, ONP and COFIDE.

swap with the Banco de la Nación, and S/. 1,115 million in floating debt). Sovereign Bonds for a total of S/. 7,247 million were placed in 2007, of which S/. 4,750 million were issued in July to finance the prepayment of the debt to the countries member of the Paris Club (D.S. 092-2007-EF).

Internal bank credits and external debt (credits and bonds) were substituted by internal and external bonds with longer maturities, as a result of which the ratio of public debt in foreign currency relative to the overall debt declined from 75.5 to 63.5 percent between end 2006 and end 2007.

Net debt

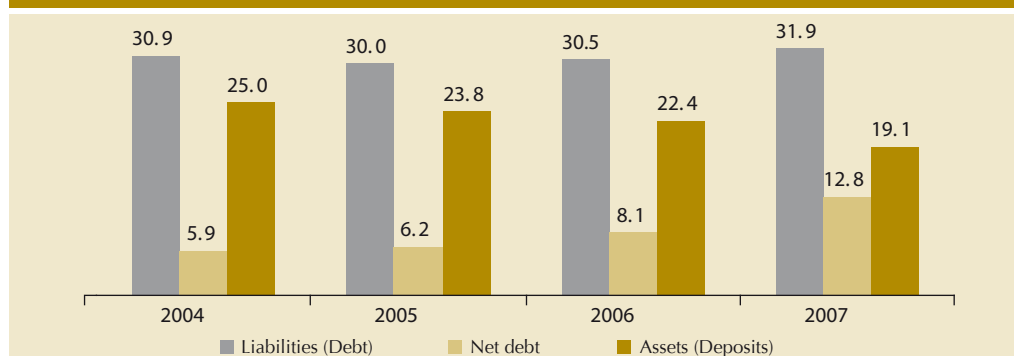
The net public debt, measured as the difference between public sector assets –defined as total deposits– and liabilities –defined as total public debt– continued to decline mainly as a result of the surpluses recorded in the last two years. The net debt fell from US\$ 22,424 million to US\$ 19,061 million between end 2006 and end 2007, showing a reduction of US\$ 3,363 million (decreasing from 24.0 to 17.5 percent in GDP terms). This result is mainly explained by the higher deposits made in the NFPS in 2007, which increased by US\$ 4,744 million compared to 2006.

TABLE 42
NET PUBLIC DEBT
(In millions of US\$)

Years	Assets (Deposits)	Liabilities (Debt)	Net Debt	% GDP		
				Assets	Liabilities	Net Debt
2004	5,857	30,905	25,048	8.4	44.3	35.9
2005	6,172	29,968	23,796	7.8	37.7	30.0
2006	8,065	30,490	22,424	8.6	32.7	24.0
2007	12,809	31,870	19,061	11.7	29.2	17.5

Source: BCRP and MEF.

GRAPH 24
NET PUBLIC DEBT
(Billions of US\$)



Source: BCRP and MEF.

TABLE 43
BALANCE OF PUBLIC DEBT^{1/ 2/}

	Millions of US\$			Percentage of GDP		
	2005	2006	2007	2005	2006	2007
PUBLIC DEBT	29,968	30,490	31,870	37.7	32.7	29.2
I. FOREIGN PUBLIC DEBT^{3/}	22,279	21,972	20,081	28.0	23.6	18.4
CREDITS	13,886	13,580	11,820	17.5	14.6	10.8
Multilateral Organizations	7,983	7,843	7,851	10.1	8.4	7.2
Paris Club	5,696	5,629	3,883	7.2	6.0	3.6
Suppliers	158	73	60	0.2	0.1	0.1
Commercial Banks	1	1	1	0.0	0.0	0.0
Latin America	33	25	20	0.0	0.0	0.0
Other bilateral loans ^{4/}	16	9	5	0.0	0.0	0.0
BONDS	8,393	8,392	8,262	10.6	9.0	7.6
II. DOMESTIC PUBLIC DEBT	7,688	8,518	11,789	9.7	9.1	10.8
1. LONG TERM	6,896	7,603	10,440	8.7	8.2	9.6
CREDITS FROM BANKS	890	780	52	1.1	0.8	0.0
CREDITS FROM BANCO DE LA NACIÓN	890	774	19	1.1	0.8	0.0
OTHER BANKS	0	6	33	0.0	0.0	0.0
TREASURY BONDS	6,006	6,809	10,343	7.6	7.3	9.5
1. Financial System Support Bonds	222	224	157	0.3	0.2	0.1
2. Debt exchange bonds ^{5/}	122	91	883	0.2	0.1	0.8
3. Sovereign Bonds	2,951	3,699	6,318	3.7	4.0	5.8
4. Caja de Pensiones Militar-Policial Bonds	34	0	0	0.0	0.0	0.0
5. Pension Recognition Bonds	2,677	2,795	2,986	3.4	3.0	2.7
LIMA MUNICIPALITY BONDS	0	14	45	0.0	0.0	0.0
2. SHORT TERM	793	915	1,349	1.0	1.0	1.2
CREDITS FROM BANCO DE LA NACIÓN ^{6/}	139	0	0	0.2	0.0	0.0
FLOATING DEBT	654	915	1,349	0.8	1.0	1.2
Memo:						
Obligations by public-private associations ^{7/}	0	69	659	0.0	0.1	0.6

1/ Preliminary.

2/ The bonds are classified according to the market where they were issued. Therefore, the Brady and Global Bonds issued abroad are part of the external public debt, including those purchased by residents.

Sovereign bonds issued in the domestic market include those acquired by non-residents.

3/ The external debt includes medium and long term debt of COFIDE and excludes loans to balance of payments.

4/ Former Soviet Union countries. Includes the People's Republic of China.

5/ D.U. N° 068-99, D.S. N° 002-2007-EF.

6/ Includes Public Treasury overdrafts in the Banco de la Nación and credit to the Instituto Nacional de Defensa Civil.

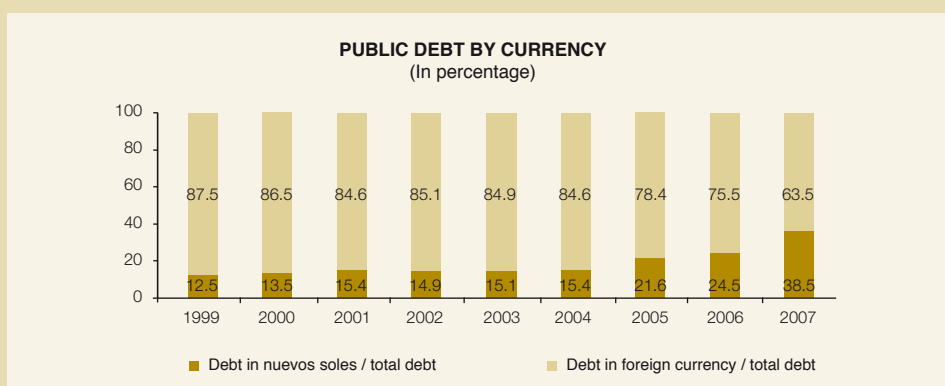
7/ Value of principal for the issue of Certificates of Recognition of the Rights of the Annual Payment for works (CRPAO's).

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

BOX 4

PUBLIC DEBT MANAGEMENT

The management of the public debt has been oriented to improving the State's assets and liabilities. Several market mechanisms have been used to reduce the dollarization of the debt, including the prepayment to countries member of the Paris Club and exchange and interest rate risk coverage. The graph below shows that public debt in foreign currency declined from 87.5 percent in 1999 to 63.5 percent in 2007, while the share of domestic currency-denominated instruments within the public debt portfolio increased from 12.5 percent to 36.5 percent in this period.



It should be pointed out that as a result of the implementation of these risk coverage mechanisms called Cross Currency Swap Extinguible, in 2007 the debt subject to fixed rates was 77 percent.

This mechanism has allowed Peru to reduce the cost of swap through the lower interest rate paid for this. This lower cost derives from the possibility that in the event that Peru should not comply with its obligations in soles, the swap commitments are no longer in force, as a result of which the hedging operation is void and Peru maintains its liabilities in dollars.

In 2007, these operations were carried out with the Deutsche Bank AG, exchanging thereby a total of US\$ 201 million of external debt –at fixed rates in both US dollars and soles– with the IBRD (International Bank for Development and Reconstruction), the KFW¹ (Kreditanstalt für Wiederaufbau), and the US Government.

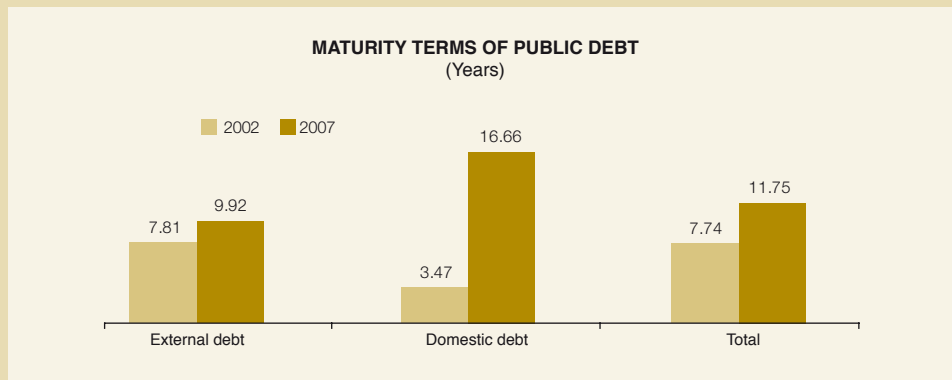
Additionally, a similar operation was carried out with the JPMorgan Chase Bank, USA, to exchange external debt (denominated in US dollars at a variable rate and in soles at a fixed rate) with the IBRD for a total of US\$ 150 million.

Moreover, another operation was made with Credit Suisse International to exchange a total of US\$ 109 million, € 29 million and ¥ 6,175 million of the external debt in US dollars, euros, yens, and soles at fixed rates contracted with AID (Agency for International Development), the OECF (The Overseas Economic Cooperation Fund), and the IADB.

As regards the debt maturity, using 2002 as the reference year we see that the average term of the debt has been extended from 7.74 years in 2002 to 11.75 years in 2007. Although the maturity term for the overall debt has increased by 4 years, it should be pointed out that a domestic capital market

1/ The Kreditanstalt für Wiederaufbau (KFW) is a German bank whose functions are those of a promotional bank for the German economy and a development bank for the developing countries.

has been developed, thus contributing to generate a yield curve of nearly 40 years, as evidenced in the extension of the domestic debt maturity from 3.47 years in 2002 to 16.66 years in 2007.



In addition to the operations aimed at readjusting the debt profile and debt exchange operations in terms of both external and domestic debt, this greater extension of the overall debt has been possible due to a higher concentration of new debt in commercial instruments, such as bonds, as well as to an increasingly lower concentration of debt in other financial sources, such as banks' credits. Thus, the share of bonds in terms of total debt increased from 33.0 percent in 2002 to 58.5 percent in 2007. This was based on an increase of external bond issues, which represented an increase of 25.5 percentage points in public financing through global bonds between 2002 and 2007.

