

III.

Public finances

Reflecting the country's economic growth and the higher prices of our main exports, the deficit of the non financial public sector in 2010 was lower than in 2009.

In 2010 the deficit recorded by the non financial public sector was equivalent to 0.5 percent of GDP, lower by 1.1 percentage points of GDP than the one registered in 2009, due to the positive impact of the recovery of economic activity and domestic demand on revenues.

The government continued implementing its fiscal stimulus program, initiated in 2009 with the Fiscal Stimulus Plan, particularly during the first half of the year. Expenditure control measures were approved during the second half of the year to slow down the rate of expansion of expenditure relative to the one observed in 2009. These measures, established by Emergency Decree 037-2010, set limits for expenditure in goods and services, postponed the implementation of unexecuted projects, established conditions for the use of contingency reserves, and suspended new debt transactions.

1. Fiscal policy indicators

1.1 Conventional Economic Balance

The public sector deficit was mainly associated with the operations of the general government, which declined from -1.9 to -0.4 percent of GDP due to higher current revenue (up 1.1 percentage points of GDP) and lower non financial expenditures (down 0.2 percentage points of GDP).

By government levels, local governments showed a deficit of 0.4 percent of GDP, while regional governments showed a deficit of 0.2 percent of GDP.

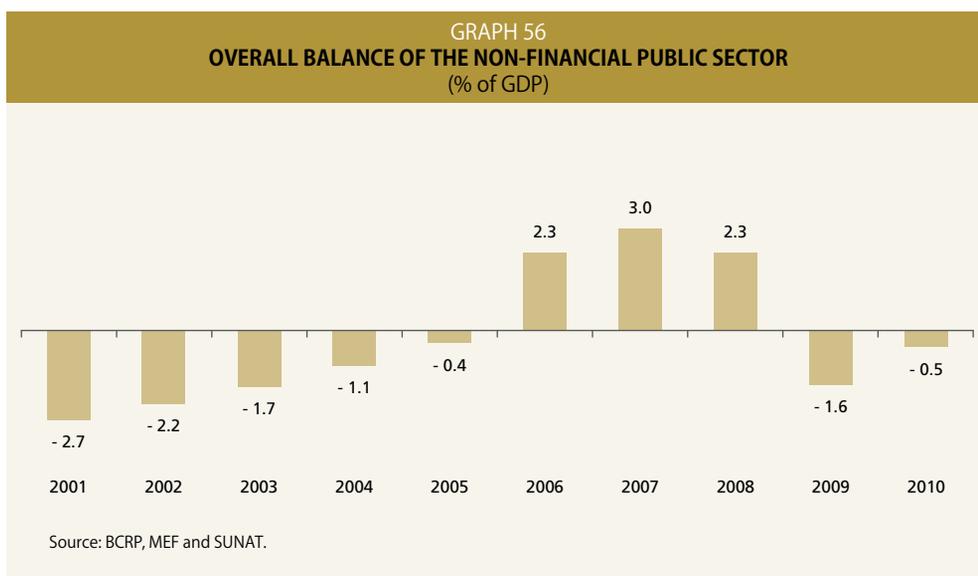


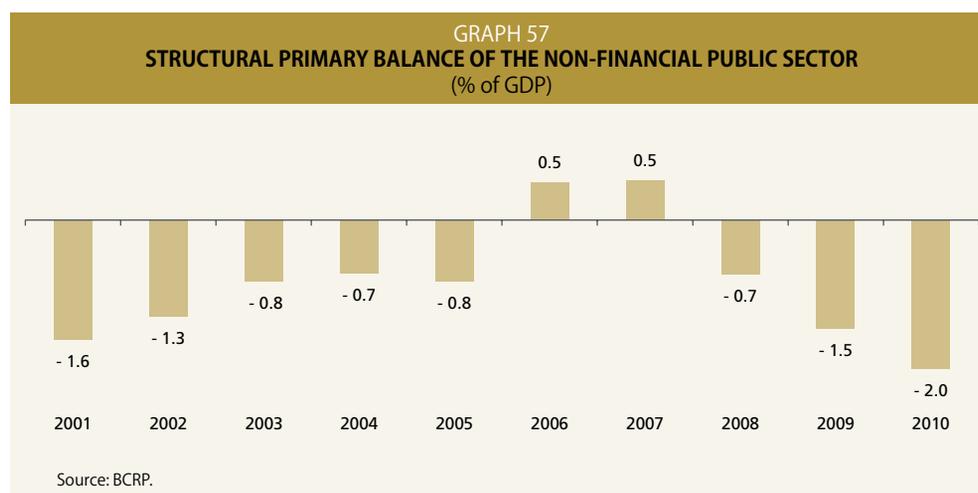
TABLE 44
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

	Millions of nuevos soles			% of GDP		
	2008	2009	2010	2008	2009	2010
I. Primary Balance	14,517	-1,170	2,877	3.9	-0.3	0.7
1. Of the General Government	14,578	-2,220	3,321	3.9	-0.6	0.8
a. Current revenue	78,126	71,625	86,085	21.1	18.7	19.8
i. Tax revenue	59,672	53,842	65,919	16.1	14.1	15.2
ii. Non-tax revenue	18,454	17,783	20,166	5.0	4.7	4.6
b. Non-financial expenditure	63,968	74,293	83,512	17.2	19.4	19.2
i. Current	48,400	52,797	57,277	13.0	13.8	13.2
ii. Capital	15,568	21,496	26,234	4.2	5.6	6.0
c. Capital revenue	420	448	747	0.1	0.1	0.2
2. Of State Enterprises	-61	1,049	-444	0.0	0.3	-0.1
II. Interests	5,884	5,011	5,085	1.6	1.3	1.2
1. External debt	3,350	3,101	2,927	0.9	0.8	0.7
2. Domestic debt	2,534	1,910	2,158	0.7	0.5	0.5
III. Overall Balance (I-II)	8,633	-6,181	-2,208	2.3	-1.6	-0.5
1. Net external financing	-3,472	4,069	-2,077	-0.9	1.1	-0.5
(Millions of US\$)	-\$1,205	\$1,317	-\$728	-0.9	1.1	-0.5
a. Disbursements	\$1,165	\$3,225	\$4,261	0.9	2.6	2.8
b. Amortization	\$2,604	\$1,843	\$5,184	2.0	1.4	3.4
c. Others	\$234	-\$65	\$195	0.2	-0.1	0.1
2. Net domestic financing	-5,317	2,011	3,866	-1.4	0.5	0.9
3. Privatization	156	102	419	0.0	0.0	0.1

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

1.2 Structural economic balance

The conventional economic balance is not necessarily a good indicator to evaluate fiscal policy decisions, given that it is influenced by variables that are exogenous to fiscal policy, such as the economic cycle and the prices of our main mineral exports. The structural economic balance showed a deficit of 2 percent of GDP –higher than the one recorded in 2009 (1.5 percent of GDP)–, which implied a positive fiscal impulse of 0.7 percent of GDP.



1.3 Non financial public sector financial requirements

Funding for a total of US\$ 7,049 million was required in 2010 to cover the deficit in the year, which amounted to S/. 2,208 million, and the amortization of the public debt, which amounted to US\$ 6,269 million. The amortization of both the external public debt (US\$ 5,184 million) and the domestic public debt (US\$ 1,084 million) was financed through debt management operations carried out in April, August, and November.

These operations, which sought to increase the mean life of the debt, as well as its components in domestic currency and at fixed rates, were favored by a propitious international environment in 2010.

TABLE 45
FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

				% of GDP		
	2008	2009	2010	2008	2009	2010
1. Overall balance (Millions of nuevos soles)	8,633	-6,181	-2,208	2.3	-1.6	-0.5
Millions of US\$	2,951	-2,054	-780			
2. Amortization (Millions of US\$)	-3,126	-2,401	-6,269	-2.5	-1.9	-4.1
Redemption of recognition bonds	-94	-91	-263	-0.1	-0.1	-0.2
Domestic debt	-428	-466	-821	-0.3	-0.4	-0.5
External debt	-2,604	-1,843	-5,184	-2.0	-1.4	-3.4
3. Financial requirements (Millions of US\$)	175	4,454	7,049	0.1	3.5	4.6
External disbursements	1,165	3,225	4,261	0.9	2.5	2.8
Freely disposable funds	883	2,613	3,539	0.7	2.1	2.3
Investment projects	282	612	2,732	0.2	0.5	1.8
Domestic bonds	473	1,004	3,452	0.4	0.8	2.2
Privatization	51	34	148	0.0	0.0	0.1
Others	-1,515	191	-813	-1.2	0.2	-0.5

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



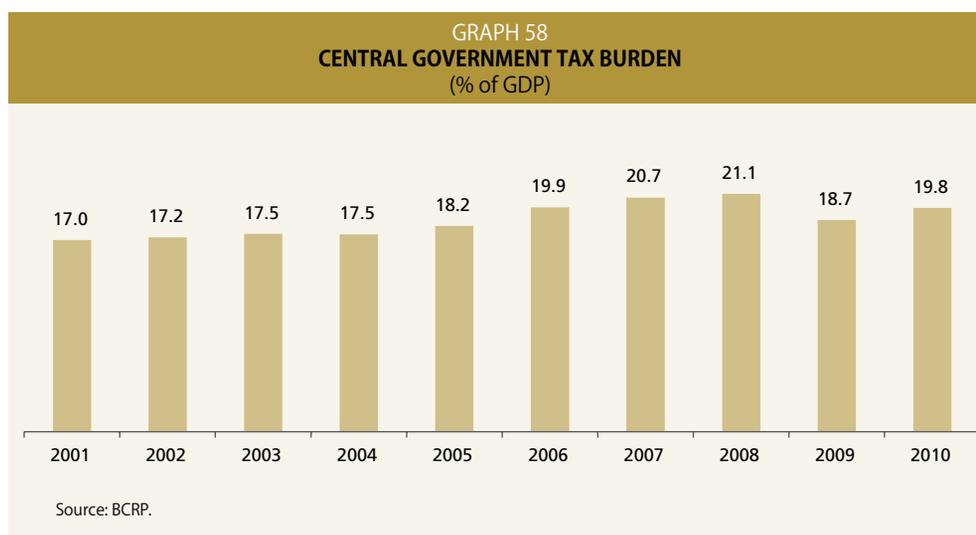
2. General government revenue

In 2010 the current revenues of the general government amounted to 19.8 percent of GDP, a figure higher by 1.1 percentage points of GDP than the one observed in the previous year, which represents a real growth of 18.4 percent. This growth in revenues resulted mainly from the higher tax component recorded by the national government due to the growth of economic activity and to the increase registered in the prices of our exports.

With this, the fiscal pressure in the general government –that is, the current revenue-to-GDP ratio– was 19.8 percent in 2010.

	2008	2009	2010
Central government tax burden 1/	15.7	13.7	14.8
Central government fiscal burden 2/	18.3	15.9	17.2
Fiscal burden of the general government 2/	21.1	18.7	19.8

1/ Central government tax revenues.
2/ Current revenues as a ratio of GDP.
Source: MEF, Banco de la Nación, BCRP and Sunat.



The growth of tax revenues is explained by higher revenues from the income tax, better international metal prices, higher revenues from the VAT associated with the growth of economic activity, and higher revenues from import duties.

TABLE 47
CENTRAL GOVERNMENT REVENUES

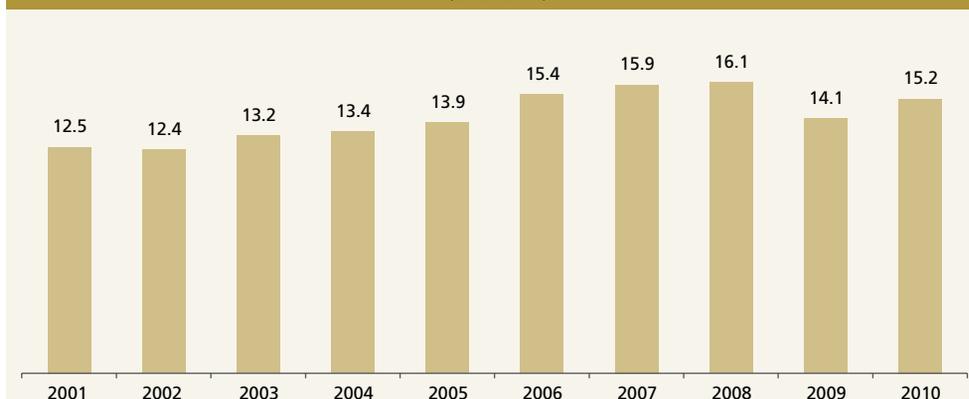
	Millions of nuevos soles			Real % change		% of GDP		
	2008	2009	2010	2009	2010	2008	2009	2010
I. TAX REVENUE	59,672	53,842	65,919	-12.3	20.6	16.1	14.1	15.2
1. Income tax	24,146	20,346	25,802	-18.1	24.9	6.5	5.3	5.9
- Individuals	5,353	5,608	6,283	1.8	10.4	1.4	1.5	1.4
- Legal entities	16,317	12,269	16,423	-27.0	31.8	4.4	3.2	3.8
- Tax regularization	2,476	2,470	3,096	-3.1	23.5	0.7	0.6	0.7
2. Import duties	1,911	1,493	1,803	-24.1	19.0	0.5	0.4	0.4
3. Value-added tax (VAT)	31,583	29,519	35,536	-9.2	18.6	8.5	7.7	8.2
- Domestic VAT	15,749	17,322	19,629	6.9	11.6	4.2	4.5	4.5
- VAT on imports	15,834	12,197	15,907	-25.2	28.5	4.3	3.2	3.7
4. Excise tax	3,461	4,146	4,670	16.4	10.9	0.9	1.1	1.1
- Fuels	1,457	2,255	2,410	50.4	5.3	0.4	0.6	0.6
- Others	2,004	1,891	2,260	-8.3	17.7	0.5	0.5	0.5
5. Other tax revenues ^{1/}	5,757	5,676	6,056	-4.2	5.1	1.6	1.5	1.4
6. Tax returns	-7,185	-7,339	-7,948	-0.8	6.7	-1.9	-1.9	-1.8
II. NON-TAX REVENUES 2/	18,454	17,783	20,166	-6.4	11.7	5.0	4.7	4.6
III. TOTAL	78,126	71,625	86,085	-10.9	18.4	21.1	18.7	19.8

1/ Includes municipal tax.

2/ Includes contributions to the ONP and EsSalud, royalties and fees, resources directly collected and others.

Source: SUNAT, EsSalud, ONP, charity societies, regulatory agencies and registry offices.

GRAPH 59
GENERAL GOVERNMENT TAX RATIO
(% of GDP)



Source: BCRP.



- Revenues from **income tax** increased from 5.3 to 5.9 percent in GDP terms due to the higher payments on account of the mining sector (real growth of 83.5 percent) given the rise in the international prices of metals and increased international demand.

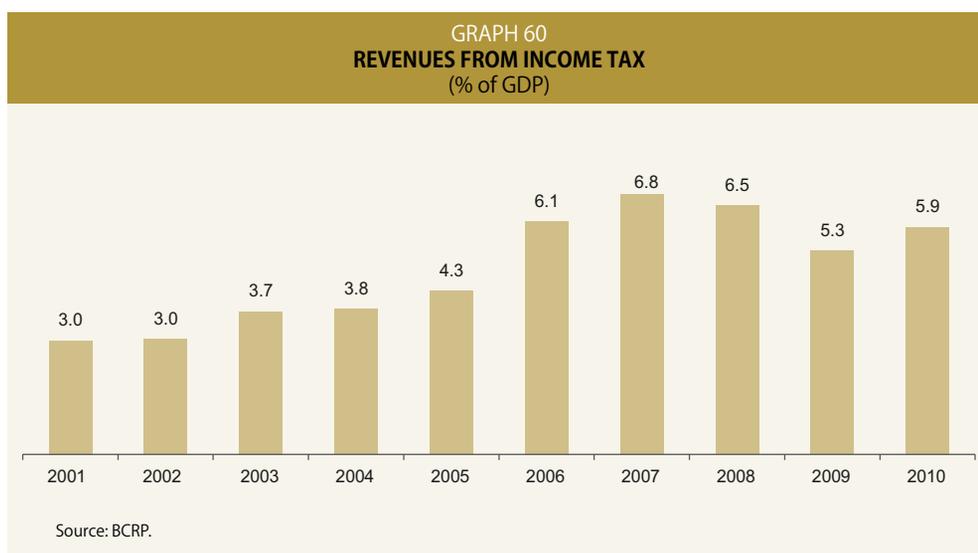


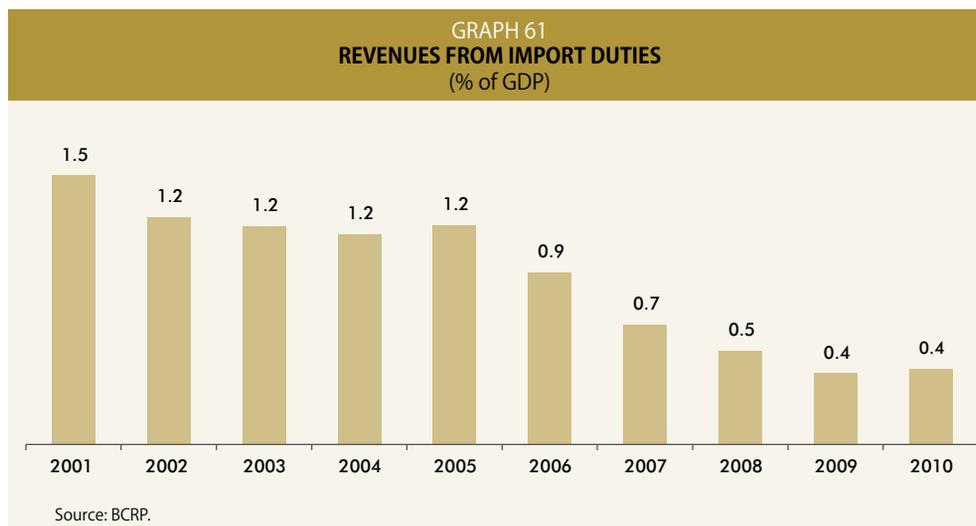
TABLE 48
REVENUES FROM CORPORATE TAX BY SECTORS
(Millions of nuevos soles)

	2008	2009	2010	Real % chg.	
				2009	2010
Mining	6,743	3,018	5,618	- 56.7	83.5
Others Services 1 /	4,454	4,604	5,377	0.3	15.2
Manufacturing	2,235	2,004	2,307	- 13.1	13.5
Commerce	2,235	2,099	2,267	- 8.8	6.4
Hydrocarbons	996	543	1,056	- 47.1	91.7
Construction	395	548	715	34.4	28.8
Fishing	59	54	124	- 11.6	128.7
Agriculture and livestock	54	38	44	- 32.4	15.4
Total	17,169	12,907	17,507	- 27.2	33.8

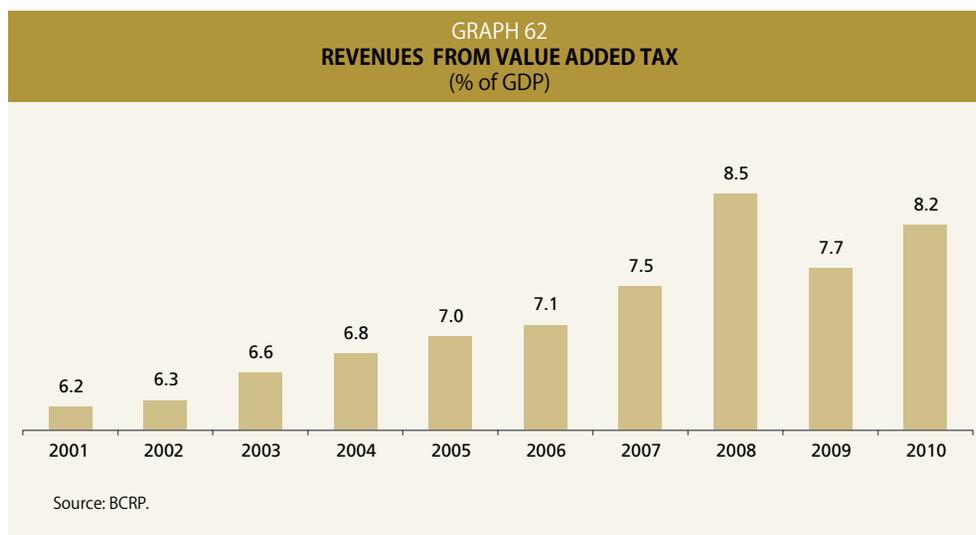
1/ Includes activities in real estate, business, leasing, telecommunications, financial intermediation, health, social services, tourism and hotels, electric generation, and water services.
Source: SUNAT.

- Revenues from the **income tax on individuals** grew by a real 10.4 percent due to the higher revenues from independent and dependent workers (7.8 and 7.0 percent, respectively). It is worth pointing out that these higher revenues were also associated with higher profit sharing, especially in the mining sector.

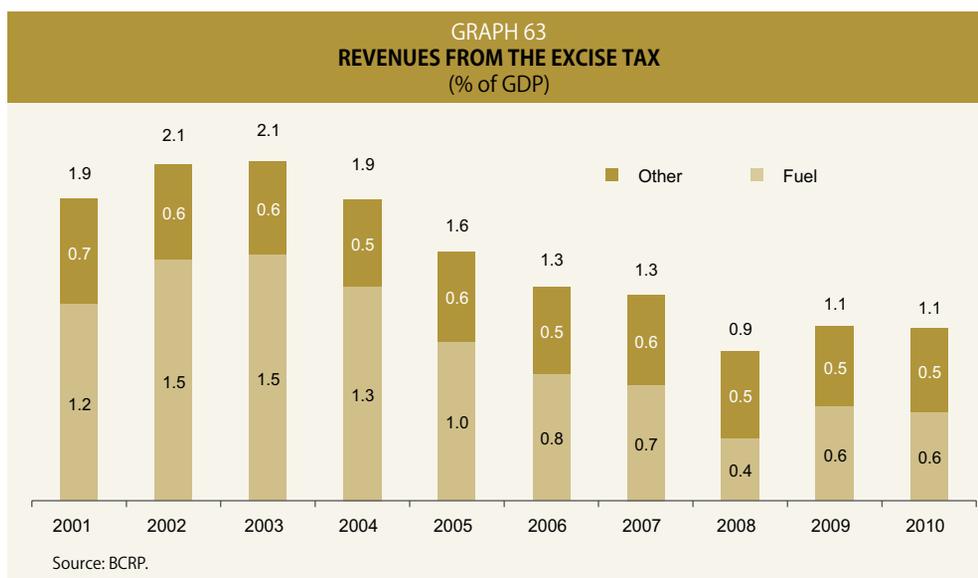
- Revenues from **import duties** grew 19.0 percent in real terms, remaining constant at 0.4 percent in GDP terms. This balance was influenced by the growth of imports (37.1 percent), and particularly by higher imports of consumer goods. The latter are subject to higher tariff rates than imports of capital goods and inputs, and grew 38.5 percent.



- Revenues from the **value added tax (VAT)** recorded a growth rate of 18.6 percent in real terms, increasing from an equivalent of 7.7 to 8.2 percent of GDP, due to increased taxed sales as a result of the growth of economic activity. The domestic VAT grew due to the greater dynamism of domestic demand, while the growth of the external VAT was associated with the growth of imports.



- On the other hand, revenues from the **excise tax** remained at 1.1 percent of GDP, but recording a real growth of 10.9 percent. This improvement resulted from higher revenues from both the excise tax on fuels –due to higher imports of fuels– and from the excise tax on other goods.



- Revenues from **other taxes** declined from 1.5 to 1.4 percent of GDP, in spite of showing a growth of 5.1 percent in real terms. The increase recorded in revenues from the car circulation tax (44.5 percent), the tax on casinos and slot machines (13.2 percent), fines (11.2 percent) and the Temporary Tax on Net Assets (2.2 percent) contrasted with the lower revenues from the Tax on Financial Transactions (down 2.5 percent), which reflected the reduction of the tax rate from 0.06 to 0.05 percent.
- **Tax refunds**, which were equivalent to 1.8 percent of GDP, grew 6.7 percent in real terms. This was due to higher refunds for exports, which recorded a rate of 28 percent in real terms, offsetting the 8.0 to 6.5 percent decline in the tariff refund rate (drawback).
- The higher international prices of minerals accounted for a real growth of 11.7 percent in **non tax revenues** given that revenues from royalties and oil and mining royalties (canon) grew 53.7 percent. Increased transfers to the Treasury due to the Central Bank's profits, which amounted to S/. 458 million in the year, also contributed to this growth rate.

Extraordinary transfers for a total of S/. 161 million were also recorded in compliance with the rules governing the right of workers to participate in companies' profit sharing. Transfers for profit remainders above 2,200 tax units (ITU) per year were made to regional governments. The difference between the 2,200 ITU and the total remaining has to be used exclusively to finance road infrastructure within the region that generated these resources.

TABLE 49
GENERAL GOVERNMENT NON TAX REVENUES

	Millions of nuevos soles			Variación % Real	
	2008	2009	2010	2009	2010
Contributions to Essalud and ONP	6,193	6,659	7,217	4.5	6.7
Own resources and transfers	4,540	4,444	4,533	- 4.9	0.5
Gas companies royalties 1 /	1,233	1,237	2,179	- 2.5	73.6
Oil Royalties 1 /	775	626	788	- 21.6	24.0
Petroleum Canon 2 /	1,633	1,241	1,840	- 26.2	46.0
Mining Royalties 1 /	454	338	645	- 27.8	88.1
Others	3,625	3,238	2,964	- 13.2	- 9.8
TOTAL	18,454	17,783	20,166	- 6.4	11.7

1/ Payment for the use of state property.

2/ % of the production value redistributed to the regions for the exploitation of natural resources.

Source: SUNAT, Perupetro and MEF.

BOX 4

TAX CHANGES - 2010

A series of tax changes were approved in December. These changes included the reduction of import tariffs, as well as changes in the income tax, the export of services, and the excise tax on fuel consumption.

TARIFFS

Supreme Decree 279-2010-EF, dated December 30, established a new general tariff reduction for 3,401 of the total 7,380 tariff items. This measure is aimed at improving efficiency and competitiveness in the domestic economy in the frame of trade opening policies implemented in the country.

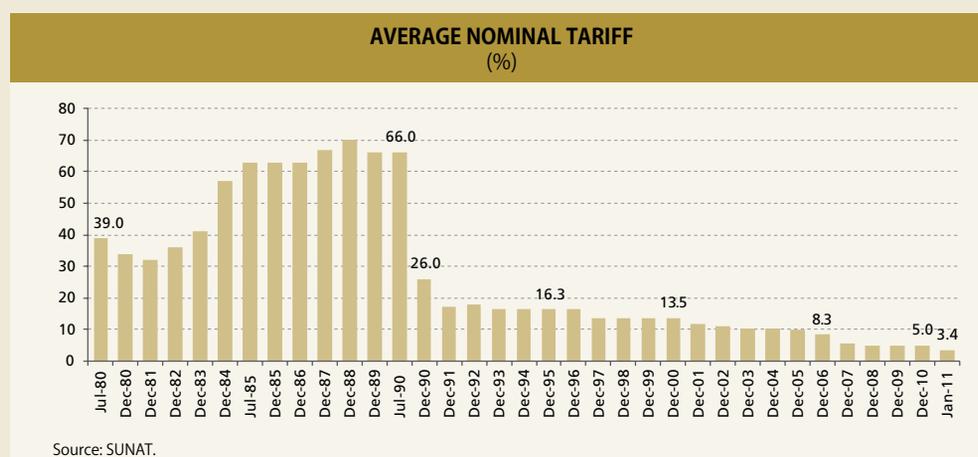
The tariff changes included:

- Reducing the maximum tariff rate from 17 percent to 13 percent for 792 tariff items that were subject to this rate.
- Reducing the 9 percent tariff rate for 2,489 of the 2,609 tariff items subject to this rate to 6 percent and reducing this rate to zero in the case of the other 120 tariff items.

With these new tariff structure with rates of 0, 6 and 13 percent, the average tariff rate has declined from 5.0 to 3.4 percent and the rate dispersion has declined from 5.9 to 4.1 percentage points.

TARIFF STRUCTURE				
TARIFF (%)	BEFORE		AFTER	
	Subheadings	%	Subheadings	%
0	3,979	53.9	4,099	55.5
6			2,489	33.7
9	2,609	35.4		
13			792	10.7
17	792	10.7		
Total	7,380	100.0	7,380	100.0
Average tariff (%)	5.0		3.4	

Successive tariff reductions have been approved since December 1990. The average nominal tariff was reduced from 66 to 26 percent in that year. In line with the MEF's Tariff Policy Guidelines (Ministerial Resolution 005-2006-EF/15) aimed at reducing the rates and rate dispersion progressively.



**INCOME TAX**

Law 29645 was enacted on 31 December 2010 to standardize the payment of the tax on residents and non residents' capital gains at the Lima Stock Exchange (LSE). Thus, non-residents' capital earnings from stocks listed and traded at the LSE –or listed in foreign stock markets and traded in foreign centralized mechanisms with which integration agreements have been established– will be taxed at a rate of 5 percent and not according to the progressive scale of 15, 21 and 30 percent.

Clearing and Securities Settlement Institutions or other organizations performing similar functions have been included as withholding agents in the case of stock gains generated by individuals. This measure is intended at covering the loopholes of the tax on stock gains that prevented its proper application, since the obligation of paying this tax relied exclusively on individuals domiciled or not domiciled in the country.

	TYPE OF INCOME	RATE	
		BEFORE	NOW
Individuals	Interest, when paid or owed by a generator of third category income domiciled in the country.	30%	4.99%
Legal entities	Interest paid abroad by multiple operation companies established in Peru.	1%	4.99%
	Interest from bonds, other debt instruments and deposits.	30%	4.99%

Source: SUNAT.

The exemption of 5 tax units (ITU) from capital gains on equity is only applicable to second-category income, which in practice means that this benefit will only apply to incomes from Peruvian sources.

This law also homogenized the tax rates applicable to debt transactions with non resident individuals.

This rate homogenization implies, on the one hand, a higher tax on banks' external funding (up from 1 to 4.99 percent), which increases the cost of this funding, and on the other hand, a tax reduction (from 30 to 4.99 percent) for business funding sources –such as bonds purchased abroad–, which would lead to a reduction in the cost of funding under this system.

EXCISE TAX ON FUEL CONSUMPTION

A new scheme of the excise tax on fuels produced from crude was established in December. This measure reduced the excise tax on gasohol fuels –gasolines with 7.8 percent of ethanol– between S/. 0.12 and S/. 0.08 per gallon, the excise tax on 97 and 98 octane gasolines by S/. 0.03 per gallon and the excise tax on kerosene by S/. 0.01 per gallon, and established a differentiated excise tax on B5 Diesel with a sulfur content of 50 ppm.

3. General government expenditure

The non financial expenditure of the general government was equivalent to 19.2 percent of GDP, 0.2 percentage points of GDP lower than in 2009, but showing a real growth of 10.7 percent. The highest real growth in expenditure was observed in national government agencies and local governments (with 11.6 and 11.3 percent, respectively).

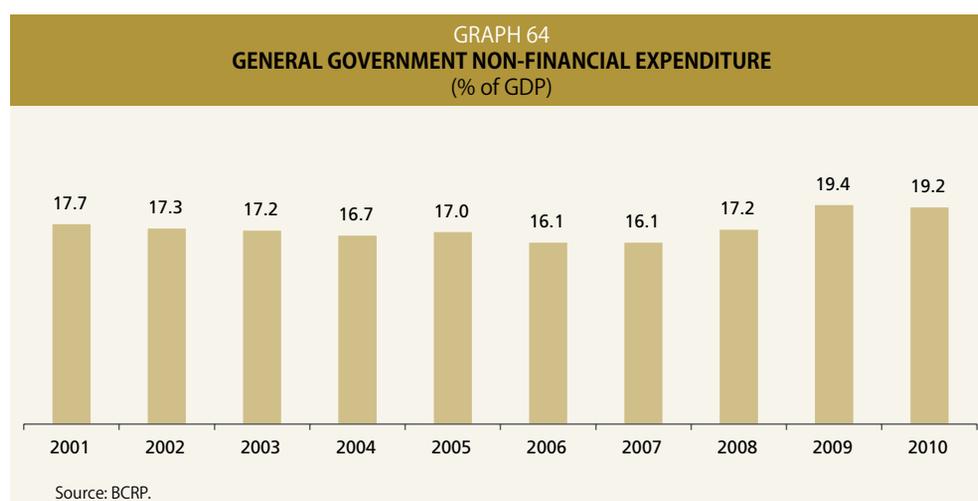
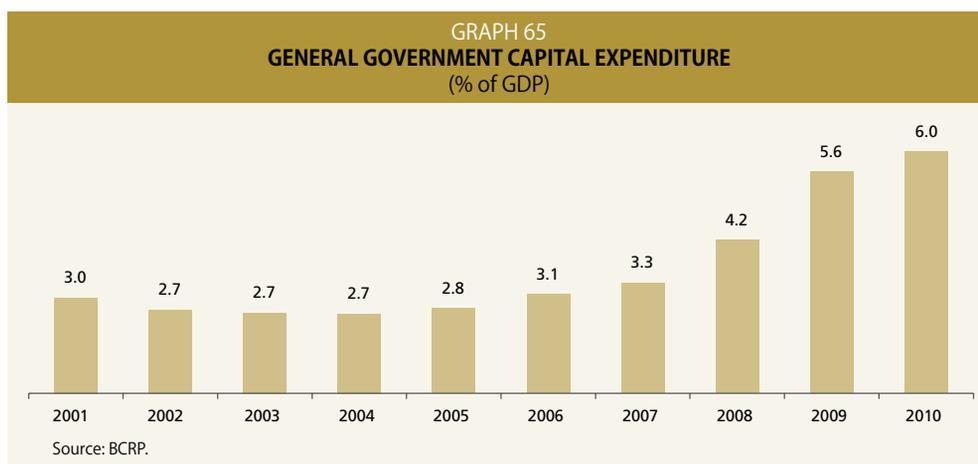


TABLE 50
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE 1/

	Millions of nuevos soles			Real % chg.		% of GDP		
	2008	2009	2010	(09/08)	(10/09)	2008	2009	2010
I. CURRENT EXPENDITURE	48,400	52,797	57,277	6.0	6.9	13.0	13.8	13.2
Wages and salaries	18,016	19,647	20,834	5.9	4.4	4.9	5.1	4.8
National government	10,312	11,347	12,181	6.9	5.7	2.8	3.0	2.8
Regional governments	6,299	6,758	6,804	4.2	-0.8	1.7	1.8	1.6
Local governments	1,405	1,542	1,849	6.6	18.1	0.4	0.4	0.4
Goods and services	16,267	19,067	22,316	13.9	15.3	4.4	5.0	5.1
National government	11,202	13,674	15,791	18.6	13.7	3.0	3.6	3.6
Regional governments	1,321	1,549	2,005	14.0	27.5	0.4	0.4	0.5
Local governments	3,745	3,844	4,520	-0.3	15.8	1.0	1.0	1.0
Transfers	14,117	14,083	14,128	-3.1	-1.2	3.8	3.7	3.3
National government	11,554	11,273	11,206	-5.2	-2.1	3.1	2.9	2.6
Regional governments	1,888	1,995	1,981	2.7	-2.2	0.5	0.5	0.5
Local governments	676	815	941	17.2	13.7	0.2	0.2	0.2
II. CAPITAL EXPENDITURE	15,568	21,496	26,234	34.1	20.2	4.2	5.6	6.0
Gross capital formation	14,890	19,584	24,025	27.8	20.8	4.0	5.1	5.5
National government	4,766	6,374	9,032	29.9	39.6	1.3	1.7	2.1
Regional governments	2,773	4,076	4,988	42.8	20.5	0.7	1.1	1.1
Local governments	7,350	9,134	10,005	20.7	7.9	2.0	2.4	2.3
Other capital expenditure	678	1,912	2,209	174.0	13.8	0.2	0.5	0.5
III. NON FINANCIAL EXPENDITURE (I+II)	63,968	74,293	83,512	12.8	10.7	17.2	19.4	19.2
National government	38,006	44,271	50,165	13.2	11.6	10.2	11.6	11.5
Regional governments	12,630	14,586	15,903	12.2	7.4	3.4	3.8	3.7
Local governments	13,332	15,436	17,444	12.5	11.3	3.6	4.0	4.0

1/ Preliminary data. Net of commissions and intergovernmental transfers.

2/ Transfers from the Fuel Price Stabilization Fund (FEPC) to public and private oil companies.
Source: MEF.



3.1 National Government

The non financial expenditure of the national government was equivalent to 11.5 percent of GDP, which implied a real growth of 11.6 percent compared to 2009. This growth of expenditure was mainly observed in gross capital formation (39.6 percent in real terms) and in purchases of goods and services (13.7 percent in real terms).

- **Expenditure in remunerations** recorded a real growth of 5.7 percent, which resulted mainly from the payment of salaries of teachers included in the Public Educator program (Carrera Pública Magisterial) and from an extraordinary allocation of funds for the Armed Forces and the National Police of Peru, which amounted to S/. 150 million (Compensación por Defensa, Seguridad Nacional and Orden Interno, D.U. 014-2010).

Moreover, S/. 50 was paid in April and August to the administrative staff of primary, alternative and special education centers and public universities as education incentives through the Comités de Administración de los Fondos de Asistencia and Estímulo (CAFAE). This incentive was also given to active and retired military and police personnel (D.S. 105-2010-EF).

TABLE 51
NATIONAL GOVERNMENT NON FINANCIAL EXPENDITURES 1/

	Millions of nuevos soles			Real % chg.		% of GDP		
	2008	2009	2010	(09/08)	(10/09)	2008	2009	2010
I. CURRENT EXPENDITURE	33,068	36,294	39,178	6.6	6.3	8.9	9.5	9.0
Wages and salaries	10,312	11,347	12,181	6.9	5.7	2.8	3.0	2.8
Goods and services	11,202	13,674	15,791	18.6	13.7	3.0	3.6	3.6
Transfers	11,554	11,273	11,206	-5.2	-2.1	3.1	2.9	2.6
II. CAPITAL EXPENDITURE	4,938	7,977	10,987	56.9	35.7	1.3	2.1	2.5
III. TOTAL (I+II)	38,006	44,271	50,165	13.2	11.6	10.2	11.6	11.5

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

- **Expenditure in goods and services** amounted to 3.6 percent of GDP, which implied a real growth of 13.7 percent in real terms, due to higher allocations of funds to the ministries of Transports and Communications, Defense and Interior, Education, Agriculture, and Labor, as well as to organizations such as the Oficina Nacional de Procesos Electorales (ONPE), Jurado Nacional de Elecciones, and Registro Nacional de Identificación and Estado Civil (RENIEC).
- **Expenditure for current transfers** declined from 2.9 percent of GDP in 2009 to 2.6 percent of GDP in 2010 (2.1 percent in real terms). These transfers include pensions, the payments of the Fuel Price Stabilization Fund (FPSF) to refineries and fuel importers, and other transfers to the private sector (e.g. programs such as Juntos and Seguro Integral de Salud).

The effectiveness of the FPSF was extended in April and changes were approved (Emergency Decree 027-2010) to prevent that the Fund's accumulated liabilities with fuel producers and/or importers might jeopardize the balance of public finances, as well as to focus the Fund's intervention on the more vulnerable sectors in the economy.

TABLE 52
MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT
(Millions of nuevos soles)

ECONOMIC SECTOR	2009	2010	Flujo
TRANSPORT	3,308	5,131	1,823
Road Concessions-IRSA Sur and Norte	1,680	2,146	467
Special Project Tren Eléctrico	254	803	549
Airport Concessions - Jorge Chavez and regional airports	156	489	333
Rehabilitation and improvement of the Ayacucho - Abancay highway	25	340	315
Rehabilitation and improvement of the Chongoyape - Cochabamba - Cajamarca highway	34	129	95
Rehabilitation and improvement of the Casma - Yaután - Huaraz highway	55	123	68
Rehabilitation and improvement of Tingo Maria - Aguaytía - Pucallpa highway	185	120	- 65
Rehabilitation of rural roads	149	112	- 37
Construction and improvement of the Camaná-Matarani-Ilo-Tacna highway	1	90	89
Conservation and improvement of the national road network	67	81	15
Construction and improvement of the Cusco - Quillabamba highway	0	73	73
Improvement and expansion of the entrance to Callao port terminal entrance	0	47	47
Rehabilitation and improvement of the road-Tocache Tocache	132	46	- 87
Construction of overpasses in Ramiro Priale highway	0	44	44
Rehabilitation and improvement of the pavements of Airport of Cusco	14	37	24
Rehabilitation and improvement of the road Lunahuaná - Detour Yauyos - Chupaca	48	37	- 11
Improvement and construction of the rest Saramirza Eje Vial No. 4 highway	61	35	- 25
Improvement and rehabilitation of the Sullana The Alamor Eje Vial No. 2 highway	13	20	7
Rehabilitation. improvement of the Churín - Oyón highway	0	20	20
Comprehensive rehabilitation of Huancayo - Huancavelica railway	3	1	- 2
Other projects	431	337	- 94
HEALTH	372	394	23
Improvement and equipment of hospitals emergency services	345	365	21
Support to Health Sector Reform PAR-Salud	8	6	- 2
Other projects	19	23	4
ELECTRICITY	351	548	197
Installation of small power systems in several towns	316	529	214
Improvement of transmission lines	16	4	- 12
Other projects	19	14	- 5
AGRICULTURE AND LIVESTOCK	544	445	- 100
Support agriculture	245	167	- 78
Irrigation infrastructure	145	145	- 1
Eradication of fruit fly <i>Ceratitis capitata</i> from the coast of Peru	40	41	1
Other projects	114	92	- 22
HOUSING	204	195	- 9
National Rural Water Supply and Sanitation project	116	130	14
Rights of real property	32	27	- 5
Housing sector	25	4	- 21
Other projects	31	34	4
ECONOMY	96	143	47
Support for government reform and improving the customs system	50	56	6
Promotion of private investment	29	69	40
Other projects	17	18	1
JUSTICE	135	118	- 16
Improvement of administration of justice	105	85	- 20
Other projects	29	33	4
EDUCATION	684	1,018	335
Improvement of education infrastructure	600	891	291
Other projects	84	127	44
OTHERS	679	1,039	360
Operation and maintenance of operations of agricultural production	24	27	2
Emergencia Social Productiva (PESP) project	28	32	4
Other projects	627	980	354
TOTAL	6,374	9,032	2,659

Source: MEF.



- **Capital expenditure** grew 35.7 percent in real terms, from 2.1 percent of GDP in 2009 to 2.5 percent in 2010, reflecting mainly the real growth observed in gross capital formation (39.6 percent).

The sectors with higher expenditure were: Transports (S/. 5,131 million, in road rehabilitation and improvement); Education (S/. 1,018 million, in improvement of education infrastructure and quality of education); Electricity (S/. 548 million, in rural electrification projects); Agriculture (S/. 445 million, in irrigation projects and conservation of natural resources); Health (S/. 394 million, in improvement and equipment in hospital emergency services), and Housing (S/. 195 million, in Proyecto Nacional de Agua Potable and Saneamiento Rural).

The main investment projects of the general government included the IIRSA Sur and Norte projects (S/. 2,146 million), Tren Eléctrico (S/. 803 million), airport concessions (S/. 489 million), and the Ayacucho-Abancay highway (S/. 340 million), which concentrated 16 percent of total investment executed by the general government in 2010. These four projects are part of the national government Transport sector.

3.2 Regional governments

The non financial expenditure of regional governments increased 7.4 percent in real terms, even though it declined from 3.8 to 3.7 percent in GDP terms. The largest increases in real terms were recorded in investments (20.5 percent) in road and education infrastructure, and in the procurement of goods and services (27.5 percent).

TABLE 53
REGIONAL GOVERNMENTS NON FINANCIAL EXPENDITURE

	Millions of nuevos soles			Real % chg.		% of GDP		
	2008	2009	2010	09/08	10/09	2008	2009	2010
I. CURRENT EXPENDITURE	9,507	10,302	10,791	5.3	3.2	2.6	2.7	2.5
Wages and salaries	6,299	6,758	6,804	4.2	-0.8	1.7	1.8	1.6
Goods and services	1,321	1,549	2,005	14.0	27.5	0.4	0.4	0.5
Transfers	1,888	1,995	1,981	2.7	-2.2	0.5	0.5	0.5
II. CAPITAL EXPENDITURE	3,123	4,283	5,112	33.2	17.6	0.8	1.1	1.2
III. TOTAL (I+II)	12,630	14,586	15,903	12.2	7.4	3.4	3.8	3.7

Source: MEF.

3.3 Local governments

In 2010, the non financial expenditure of local governments grew by a real 11.3 percent compared to the previous year. The highest growth rate was recorded in gross capital formation (S/. 871 million), which showed a real growth of 7.9 percent.

TABLE 54
LOCAL GOVERNMENTS NON FINANCIAL EXPENDITURE

	Millions of nuevos soles			Real % chg.		% of GDP		
	2008	2009	2010	09/08	10/09	2008	2009	2010
I. CURRENT EXPENDITURE	5,826	6,201	7,309	3.4	16.1	1.6	1.6	1.7
Wages and salaries	1,405	1,542	1,849	6.6	18.1	0.4	0.4	0.4
Goods and services	3,745	3,844	4,520	-0.3	15.8	1.0	1.0	1.0
Transfers	676	815	941	17.2	13.7	0.2	0.2	0.2
II. CAPITAL EXPENDITURE	7,507	9,235	10,134	19.5	8.1	2.0	2.4	2.3
III. TOTAL (I+II)	13,332	15,436	17,444	12.5	11.3	3.6	4.0	4.0

Source: MEF.

As a result of fiscal decentralization and the increase recorded in the prices of minerals and hydrocarbons, the resources of local governments have increased significantly, which has led to budget increases and to higher municipal expenditure, especially in the last three years. The increase in expenditure has been particularly noteworthy in the investments account.

The most significant investments in 2010 included the Metropolitano (*Programa de Transporte Urbano de Lima Metropolitana – Metropolitano*), the Santa Rosa Tunnel interconnecting the districts of Rimac and San Juan de Lurigancho, the *intercambio vial Panamericana Norte-Carlos Izaguirre*, and *intercambio vial Primavera-Caminos del Inca*, all of them developed in Metropolitan Lima.

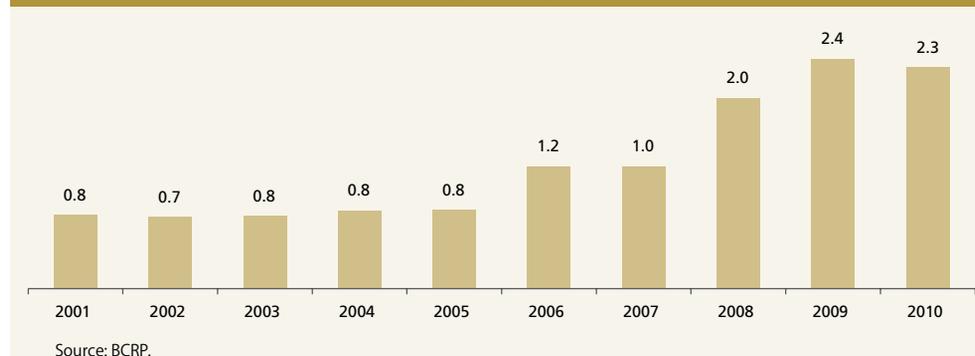
The local governments with the largest investments included the municipalities of Metropolitan Lima (S/. 743 million), the District Municipality of Echarate (S/. 158 million), San Marcos (S/. 155 million), the Municipality of the Province of Santa (S/. 136 million), and Ilabaya (S/. 101 million). These five local governments concentrate 13 percent of total municipal investments (S/. 10,005 million).

TABLE 55
MUNICIPAL INVESTMENTS
(Millions of nuevos soles)

Municipality	Departament	Accrued
1. Municipality of Lima	Lima	743
2. District Municipality of Echarate	Cusco	158
3. District Municipality of San Marcos	Ancash	155
4. Provincial Municipality of Santa - Chimbote	Ancash	136
5. District Municipality of Ilabaya	Tacna	101
6. Provincial Municipality of Cajamarca	Cajamarca	91
7. Provincial Municipality of Mariscal Nieto - Moquegua	Moquegua	85
8. District Municipality of Ite	Tacna	84
9. Municipal District of Col. Gregorio Albarracin Lanchipa	Tacna	74
10. District Municipality of Independencia	Ancash	73
11. Provincial Municipality of Jorge Basadre - Locumba	Tacna	67
12. District Municipality of Torata	Moquegua	62
13. Provincial Municipality of Cusco	Cusco	59
14. District Municipality of Cerro Colorado	Arequipa	56
15. Provincial Municipality of Espinar	Cusco	55
16. Provincial Municipality of Coronel Portillo	Ucayali	54
17. District Municipality of Quimbiri	Cusco	52
18. District Municipality of Vilcabamba	Cusco	51
19. Provincial Municipality of Lambayeque	Lambayeque	48
20. Provincial Municipality of Pisco	Ica	45
Others		7,758
TOTAL		10,005

Source: MEF.

GRAPH 66
GROSS CAPITAL FORMATION IN LOCAL GOVERNMENTS
(% of GDP)



Source: BCRP.



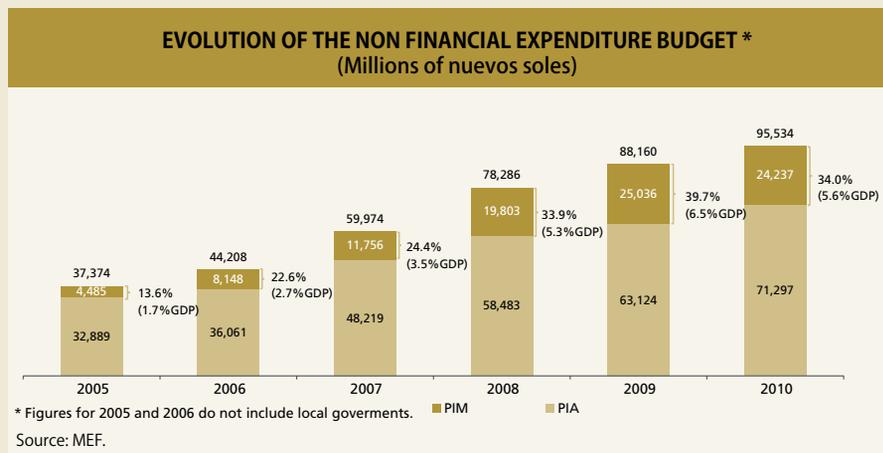
BOX 5

BUDGET EXECUTION AND SUPPLEMENTARY CREDITS

Peruvian government agencies initiate the phase of budget execution on the first of January of each year with an initial budget denominated Institutional Opening Budget (*Presupuesto Institucional de Apertura* - PIA). This budget is usually amended over the year through the approval of supplementary credits and transfers to budget items. Since supplementary credits increase the PIA, it is thereafter called Institutional Amended Budget (*Presupuesto Institucional Modificado* - PIM).

These budget extensions may be approved by law or by emergency decrees. In the case of ministries, supplementary credits of government funds administered by a ministry are approved by the respective minister.

Between 2007 and 2010, budget extensions have increased the PIA by over a third of the initial budget, which represents 5.2 percent of the average annual GDP.



Not all the extended budget is executed. The ratio of budget execution in recent years has been about 80 percent. Lower levels of executed expenditure are observed in sub-national governments, particularly in municipalities, which execute approximately 70 percent of their budgets.

	PIA						PIM						% Change PIM/PIA					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
National	25.2	27.0	31.4	36.2	38.5	48.8	27.7	32.8	34.9	42.4	46.1	53.2	10.1	21.4	11.1	17.1	19.7	9.0
Local	--	--	8.4	10.6	12.1	9.5	--	--	11.0	19.6	23.4	22.3	--	--	30.5	84.9	93.2	134.9
Regional	7.7	9.0	8.4	11.7	12.5	13.0	9.7	11.4	14.2	16.3	18.7	20.1	25.2	26.1	67.7	39.6	49.3	54.3
TOTAL	32.9	36.1	48.2	58.5	63.1	71.3	37.4	44.2	60.0	78.3	88.2	95.5	13.6	22.6	24.4	33.9	39.7	34.0

Source: MEF.

NON FINANCIAL EXPENDITURE BUDGET (Billions of nuevos soles)																		
	ACCRUED EXPENDITURE						ACCRUED EXPENDITURE % /PIA						ACCRUED EXPENDITURE % /PIM					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
National	25.7	29.4	29.7	35.0	40.9	45.9	102.1	109.0	94.7	96.8	106.4	94.0	92.7	89.8	85.3	82.7	88.9	86.3
Local	--	--	6.7	12.9	15.6	17.4	--	--	79.9	122.0	128.5	183.9	--	--	61.2	66.0	66.5	78.3
Regional	9.0	9.9	11.6	12.8	14.8	16.2	115.9	109.8	137.0	109.7	118.0	124.6	92.6	87.1	81.7	78.6	79.0	80.7
TOTAL	34.6	39.4	48.0	60.8	71.3	79.5	105.3	109.2	99.6	104.0	112.9	111.5	92.7	89.1	80.1	77.7	80.8	83.2

* Local governments' accrued expenditure is recorded in the SIAF since 2007. 100% of municipalities reported data from 2008.
Source: MEF.

The usefulness of the budget as a tool for programming the use of public resources becomes relative if the rate of approved supplementary credits is high. The amended budget is usually oversized since the expenditure executed is generally well below the budget and often ends up being closer to the amount considered in the opening budget rather than the one considered in the amended budget.

4. State enterprises

In contrast with the surplus of S/. 941 million recorded in 2009, the economic balance of state enterprises –defined as the cash flow of these enterprises– showed a deficit of S/. 537 million (equivalent to 0.1 percent of GDP) in 2010 due to the balances registered by Electroperú, Sedapal and Petroperú.

After having registered a surplus of S/. 71 million in 2009, **Electroperú** recorded a deficit of S/. 391 million in 2010. This balance was due to lower sales of electricity to energy distributors at the regulated rate and to lower revenues from payments for additional energy generation costs associated with the temporary export of power to Ecuador in 2009, as well as to higher expenses as a result of the transfer of S/.80 million to Fonaphu and the prepayment of a long-term debt with the MEF, which amounted to S/.347 million.

Sedapal showed a deficit of S/. 233 million –a deficit slightly higher than in 2009– due to the lower income received in the year in comparison with 2009, when this enterprise received transfers from the treasury for the implementation of the program Agua para Todos. This lower income was offset by a lower fund execution in Sedapal's main investment projects: Water and Sanitation Improvement in Marginal Areas of Lima, the program Agua para Todos, and Improvement of Water and Sanitation Works.

Petroperú registered a deficit of S/. 109 million –after having recorded a surplus of S/. 654 million in 2009– due to higher purchases of goods and services and due to the Modernization of Talara Refinery project.

During 2010, Petroperú received a total of S/. 573 million from the Fuel Price Stabilization Fund, as a result of which the Fund's debt balance with this enterprise at December 2010 amounted to S/. 59 million.

The **Regional Electricity Companies** showed an overall surplus of S/. 34 million –a balance S/. 160 million lower than in 2009–, mainly due to lower capital transfers for the rural electrification programs.



TABLE 56
OVERALL BALANCE OF STATE ENTERPRISES

	Millions of nuevos soles			% of GDP		
	2008	2009	2010	2008	2009	2010
Petroperú	- 784	654	- 109	- 0.2	0.2	0.0
Electroperú	180	71	- 391	0.0	0.0	- 0.1
Regional Electricity Companie	119	194	34	0.0	0.1	0.0
Sedapal	97	- 228	- 233	0.0	- 0.1	- 0.1
Others	193	249	163	0.1	0.1	0.0
TOTAL	- 195	941	- 537	- 0.1	0.2	- 0.1

Source: State enterprises and Fonafe.

5. Promotion of private investment

Concession contracts representing a total investment of US\$ 2,833 million were established with the private sector in the sectors of Transport and Communications, Housing (water and sanitation projects) and Electricity in 2010.

Empresa Inmobiliaria Milenia S.A. was also privatized through the sale of 98.2 percent of the State-owned shares in the Lima Stock Exchange (US\$ 112 million).

The main projects or facilities given in concession in 2010, which involved investment commitments by the concessionaires and not cash income, included the following:

- Cold Reserve Generation Program. These power generation projects, aimed at increasing the generation capacity through the construction of thermo plants, were given in concession to Enersur (400 MW capacity to be added in Ilo) and Electro Piura (200 MW capacity to be added in Talara). The winners offered a price/power of US\$ 7,190/MW-month (Ilo plant) and US\$ 7,815/MW-month (Talara plant). Additional projects will be given in concession to increase the generation capacity by 400 MW.
- Majes-Siguas Stage II project. This irrigation project, which also includes the recovery and irrigation of 38 thousand hectares in Siguas, 8 thousand hectares in Majes, agricultural support in the 46 thousand hectares, and the construction of power plants in Llota and Lluclla, was awarded to Consorcio Angostura-Siguas. This concession involves investments for US\$ 136 million by the consortium and US\$ 208 million by the State, the latter to be recovered by the sale of the land to be improved.

The second group of regional airports, which includes the terminals of Apurímac, Ayacucho, Puno, Madre de Dios, Arequipa and Tacna, was given in concession to Consorcio Aeropuertos Andinos del Perú for a period of 25 years. The government will contribute with US\$ 76 million by annual payment for maintenance and operation and payment for compulsory works.

- The Olmos Irrigation Project was awarded to H2Olmos S.A.
- The 90 MW Hydroelectrical Plant of Santa Teresa was given in concession to Luz del Sur. Moreover, 15 percent of the energy produced by this new power plant will go to Egemsa.
- The Terminal for Mineral Concentrates in the port of Callao was awarded by a private initiative to Consorcio Transportadora Callao (integrated by Perubar, Cormin, Chinalco, El Brocal, and Santa Sofía Puertos). The concession is granted for 20 years, the works including the design, financing, construction and operation of the mineral pier and the conveyor belt.

- IIRSA-Amazonas Centro: This road infrastructure project was awarded to Consorcio Desarrollo Vidal for a period of 25 years. The project includes road construction and rehabilitation, as well as road operation and maintenance of 370 km (Puente Ricardo Palma–La Oroya–Huancayo and La Oroya–Cerro de Pasco). The consortium offered to develop ten additional projects to the ones considered in the tender conditions, as well as an additional contribution of over US\$ 26 million.
- Other 10 projects involving investment commitments for a total of US\$ 230 million (3 electricity projects, 6 telecommunications projects, and 1 water and sanitation project, with investments of US\$ 120 million, US\$ 85 million, and US\$ 24 million, respectively).

Furthermore, hydrocarbon exploration and exploitation projects with investment commitments amounting to US\$ 700 million were also given in concession in 2010 to different companies, which have offered royalties of 26 percent on average.

TABLE 57
PRIVATIZATION AND CONCESSIONS 2010
(Millions of US\$)

SALE OF STOCKS, ASSETS AND CONCESSIONS	DATE	WINNING BIDDER	TRANSACTION OR INVESTMENT
1. Chilca - Marcona - Montalvo transmission line- 500kv	Apr 30	ASA Iberoamérica	291.0
2. Olmos Irrigation Project	Jun 11	H2Olmos S.A. of Grupo Odebrecht	240.0
3. Socabaya Tintaya transmission line and associated substations	Jul 08	Consorcio REI-AC Capitales	43.6
4. Talara - Piura transmission line	Jul 08	Interconexión Eléctrica S.A. E.S.P.	14.6
5. Santa Teresa Hydroelectric power plant	Jul 13	Luz del Sur	150.0
6. IIRSA Eje Amazonas: Stretch 2	Jul 27	Consorcio Desarrollo Vidal	100.0
7. Callao Terminal for shipping mineral concentrates	Aug 05	Consorcio Transportadora Callao	120.3
8. San Gaban - Puerto Maldonado Rural wide band Service	Sep 07	América Movil Perú S.A.C.	8.9
9. Second Group of Regional Airports	Sep 07	Consorcio Aeropuertos Andinos del Perú	257.0
10. Majes - Siguas II	Sep 13	Consorcio Angostura - Siguas	344.0
11. Exploration and Exploitation of Hydrocarbons	Oct 14	Several companies (average royalty of 26%)	700.0
12. Buenos Aires-Canchaque integrated Telecommunications service	Oct 29	Winner Systems S.A.C.	15.9
13. Machupicchu - Abancay - Cotaruse transmission line	Nov 18	Empresa Interconexión Eléctrica S.A. E.S.P.	62.5
14. La Chira Wastewater Treatment Plant	Nov 18	Consorcio La Chira	24.2
15. Cold reserve Generation Project (800MW)	Nov 25	Enersur S.A. y Empresa Eléctrica de Piura S.A	400.0
16. Sale of state owned shares (98.2%) in Millennia Real Estate SA	Dec 21	Several companies	112.0
17. Integration of Rural Areas and places of communities to the Network of Mobile Service - North Central	Dec 28	América Movil Perú S.A.C.	17.2
- South Central	Dec 28	América Movil Perú S.A.C.	15.0
- Selva	Dec 29	América Movil Perú S.A.C.	14.0
18. Broadband for the development of the Apurimac - Ene River Valley and for the development of Camisea communities	Dec 29	Gilat To Home Perú S.A.	14.5
TOTAL			2,944.7

Source: Proinversión, Perupetro, Regional government of Lambayeque.



6. Public debt

The balance of the public debt at December 2010 was US\$ 36,197 million, which implies that the debt balance in GDP terms declined from 27.2 to 23.5 percent compared to the debt balance in 2009. This is mainly explained by the decline of the external debt (from 16.2 to 12.9 percent of GDP) due to a series of debt management operations made by the Peruvian government and, to a lesser extent, by the decline in the domestic debt (from 11.0 to 10.6 percent of GDP).

TABLE 58
PUBLIC DEBT BALANCE 1/ 2/

	Millions of US\$				% of GDP			
	2007	2008	2009	2010	2007	2008	2009	2010
PUBLIC DEBT	31,870	30,648	34,598	36,197	29.7	24.1	27.2	23.5
I. EXTERNAL PUBLIC DEBT 3/	20,081	19,237	20,600	19,905	18.7	15.1	16.2	12.9
Loans	11,820	12,357	11,694	10,597	11.0	9.7	9.2	6.9
International organizations	7,851	7,926	8,311	7,810	7.3	6.2	6.5	5.1
Paris Club	3,883	4,170	3,133	2,548	3.6	3.3	2.5	1.7
Suppliers	60	56	51	40	0.1	0.0	0.0	0.0
International banks	1	186	186	181	0.0	0.1	0.1	0.1
Latin America	20	15	11	9	0.0	0.0	0.0	0.0
Others bilateral organizations 4/	5	3	2	10	0.0	0.0	0.0	0.0
BONDS	8,262	6,880	8,906	9,308	7.7	5.4	7.0	6.0
II. DOMESTIC PUBLIC DEBT	11,789	11,411	13,998	16,292	11.0	9.0	11.0	10.6
1. LONG TERM	10,440	10,183	11,691	14,390	9.7	8.0	9.2	9.3
BANK LOANS	52	68	226	374	0.0	0.1	0.2	0.2
TREASURY BONDS	10,343	10,068	11,414	13,981	9.6	7.9	9.0	9.1
1. Bonds to support the financial system	157	139	122	122	0.1	0.1	0.1	0.1
2. Debt swap bonds 5/	883	769	792	694	0.8	0.6	0.6	0.5
3. Sovereign bonds	6,318	6,196	7,376	10,150	5.9	4.9	5.8	6.6
4. Recognition bonds	2,986	2,964	3,124	3,015	2.8	2.3	2.5	2.0
MUNICIPALITY OF LIMA BONDS	45	48	51	35	0.0	0.0	0.0	0.0
2. SHORT TERM 6/	1,349	1,227	2,307	1,902	1.3	1.0	1.8	1.2
Memo:								
Liabilities of Private-Public Partnerships 7/	698	1,117	1,465	1,635	0.6	0.9	1.2	1.1

1/ Preliminary data.

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 COFIDE's medium and long term debt and excludes loans to support the balance of payments.

4/ Debt with Eastern Europe countries, the former Soviet Union countries and the People's Republic of China.

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

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

7/ Updated value of the 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

6.1 External public debt

The external debt showed a balance of US\$ 19,905 million, a sum US\$ 695 million lower than the one recorded in 2009 as a result of two debt management operations that generated a net exchange of external debt with domestic debt. The first operation, carried out in April, traded global bonds for US\$ 1,790 million. The second operation, made in December, prepaid external debt for US\$ 2,021 million. Global bond holders and international organizations remained Peru's major creditors.

External disbursements amounted to US\$ 4,261 million, of which US\$ 2,664 million was obtained from placements of global bonds, US\$ 875 million was freely available loans, and US\$ 722 million was funds for investment projects.

The two external debt management operations carried out in the year involved issuances of global bonds for a total of US\$ 2,261 million, while capital earnings amounted to US\$ 403 million.

The freely available loans were mainly obtained from the International Bank for Reconstruction and Development –IBRD– (US\$ 325 million), the Inter American Development Bank –IADB– (US\$ 250 million), and the Corporación Andina de Fomento –CAF– (US\$ 300 million). Moreover, disbursements for investment projects amounting to US\$ 469 million and US\$ 253 million was obtained from international organizations and governments, respectively.

The major investment projects to which these funds were destined included the optimization and construction projects of the water purification plant in Huachipa and Ramal Norte (US\$ 120 million in total), Lima' Tren Urbano (US\$ 216 million), the Peru-Brazil Interoceanic Highway, IIRSA Sur (US\$ 38 million), the Sewerage System and the Installation of the Wastewater Treatment Plant in Iquitos (US\$ 38 million), Transit Improvements in the National Road Network (US\$ 22 million), the Program for the Improvement of Water and Sewerage Systems in Cajamarca (US\$ 21 million), the Project for the Improvement of Water and Sewerage Systems in Lima and Callao (US\$ 19 million), and Metropolitan Lima' Urban Transport Program (US\$ 12 million).

The **amortization** of the external public debt amounted to US\$ 5,268 million. This amount included the debt prepayment operations carried out in December (US\$ 2,021 million) and the debt swap operations carried out in April (US\$ 1,790 million).

6.2 Internal debt

The internal public debt recorded a balance of US\$ 16,292 million, an amount that represented an increase of US\$ 2,294 million. It is worth pointing out that 99.3 percent of this balance is debt issued in domestic currency (S/. 45,422 million). Most of the increase resulted from issuances of sovereign bonds, whose balance increased by S/. 7,199 million.

Sovereign bonds for a total of S/. 6,638 million were issued as part of debt management operations, bonds for a total of S/. 1,140 million were issued to finance the national treasury, and bonds for a total of S/. 1,055 million were issued to finance investments in the regions.

The amortization of the internal public debt amounted to S/. 2,129 million, most of which was sovereign bond maturities (S/. 1,694 million).

6.3 Net debt

The net public debt is the difference between government's assets, defined as total deposits in the financial system, and the respective liabilities, defined as the total public debt. Between 2009 and 2010, this indicator declined from US\$ 18,174 million to US\$ 17,943 million. In GDP terms, the net debt dropped from 14.3 to 11.7 percent.

TABLE 59
NET PUBLIC DEBT

YEAR (December)	Millions of US\$			% of GDP		
	Assets	Liabilities	Net debt	Assets	Liabilities	Net debt
2006	7,958	30,490	22,531	8.6	33.0	24.4
2007	12,736	31,870	19,134	11.9	29.7	17.8
2008	14,803	30,648	15,845	11.6	24.1	12.5
2009	16,424	34,598	18,174	12.9	27.2	14.3
2010	18,254	36,197	17,943	11.9	23.5	11.7

Source: BCRP and MEF.

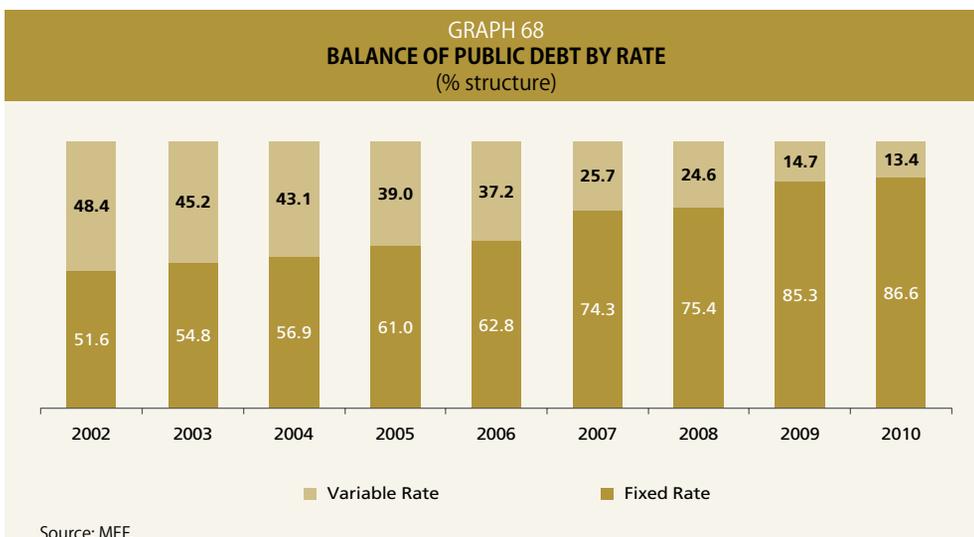
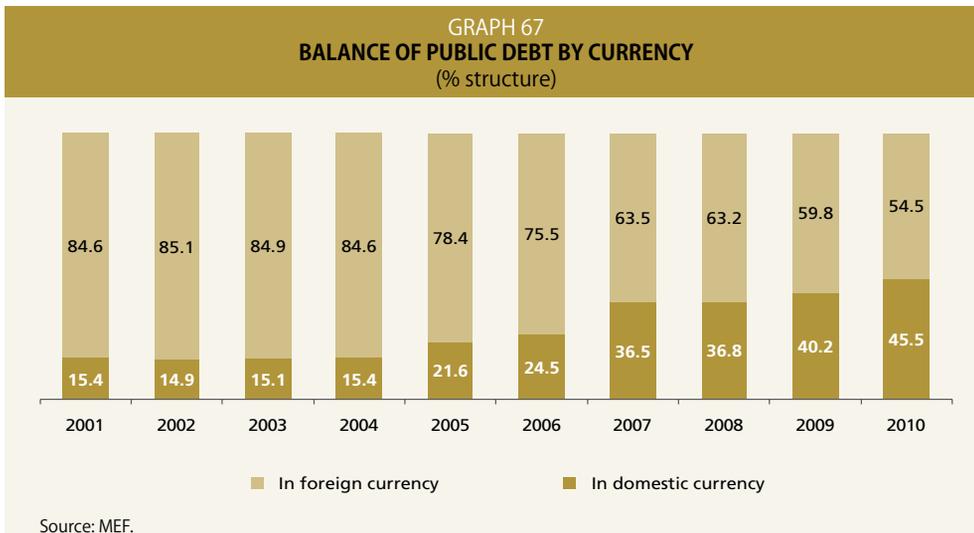


By components, both total assets and total liabilities showed increases. The former increased by US\$ 1,831 million, due to the higher deposits of the national treasury in the financial system (US\$ 1,663 million), while the latter increased by US\$ 1,598 million reflecting the higher debt amount associated with sovereign bonds.

6.4 Other public debt indicators

The debt structure by currency and by type of interest rate are indicators of public liabilities' exposure to risks of volatility in international markets. The risks will be lower if a small part of the debt is contracted in foreign currency, since this reduces the cost of unexpected increases in the exchange rate, and if only a small part of the debt is contracted at variable interest rates, since this prevents higher costs if global rates increase.

These indicators showed favorable paths in the last decade due to debt management operations that have allowed the part of the debt in foreign currency to decline from 84.6 percent at end 2001 to 54.5 percent at end 2010. Moreover, the part of the debt contracted at a variable interest rate has decreased from 48.4 percent in 2002 to 13.4 percent in 2010.



The average life of the debt –indicator of the average period before the service of a debt is scheduled to be paid– reflects the period during which the resources required must be obtained to meet debt maturities. Between 2001 and 2010, this indicator increased from 8 to 13.4 years.

