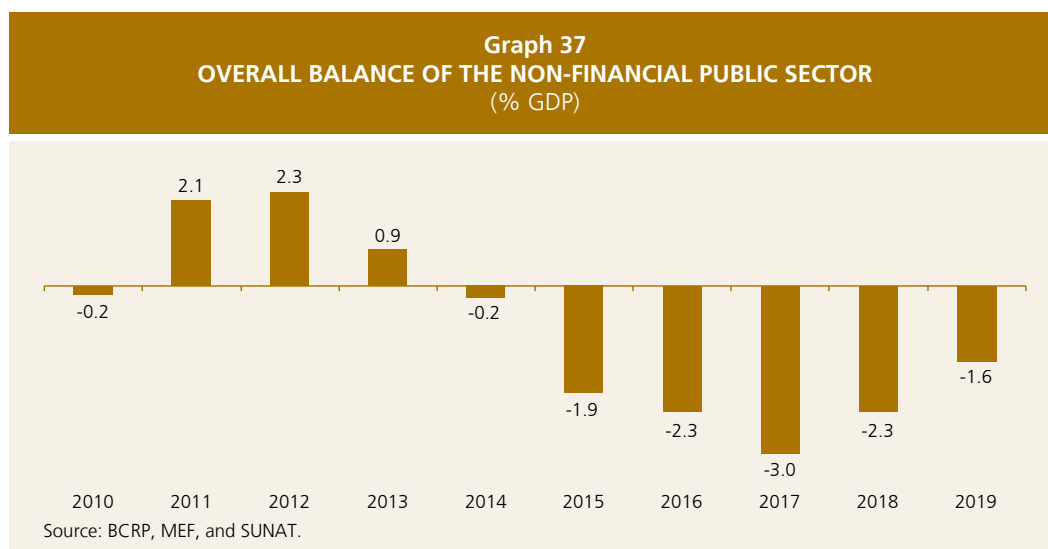


Falling for the second consecutive year, the deficit in the non-financial public sector in 2019 was 1.6 percent of GDP, 0.7 percentage points lower than in 2018.

This lower fiscal deficit in 2019 is explained mainly by the higher current revenue of the general government (up 0.4 percentage points of GDP) obtained from both tax revenues and non-tax revenues. Other factors that contributed to this outcome were the reduction of the non-financial expenditures of the general government by 0.1 percentage points of GDP –due to the lower gross capital formation– as well as the better primary balance recorded by the state-owned companies.



The increase in tax revenues by 0.3 percentage points of GDP is explained by higher revenues from most taxes, with increased revenues from the VAT, the excise tax, and the income tax standing out. This increase reflected the growth in domestic demand, together with changes in the tax rates and collection scheme of the excise tax in 2018 and 2019, SUNAT’s inspection actions, and extraordinary revenues. The increase in non-tax revenues by 0.2 percentage points of GDP is mainly explained by higher social contributions and transfers from public entities to the Public Treasury.

On the other hand, the reduction in general government expenditure was associated with lower gross capital formation in sub-national governments, especially at the level of local governments as a result of the change of administration in 2019. This reduction was in part offset by higher current expenditures, mainly as a result of salary increases in the Education and Health sectors as well as of higher spending on goods and services.

Table 39
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

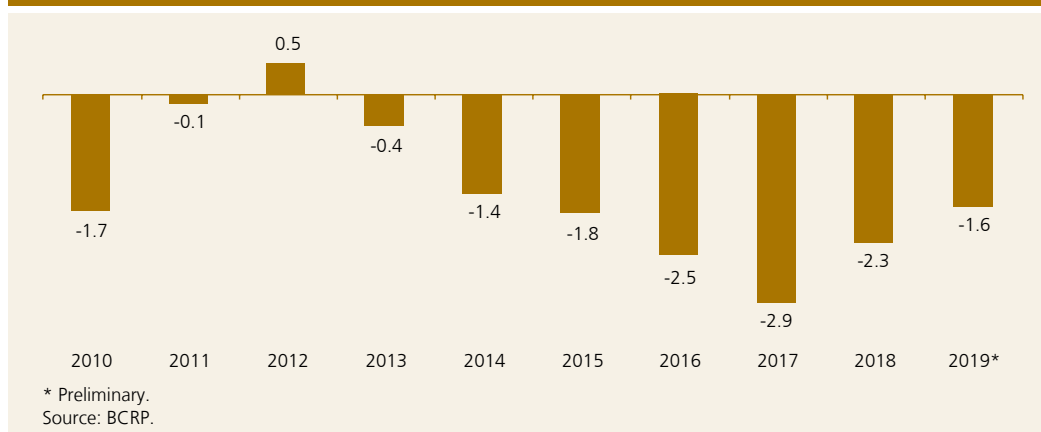
	Million soles			% GDP		
	2017	2018	2019	2017	2018	2019
1. Current revenues of the General Government	126,583	142,627	151,923	18.1	19.3	19.7
a. Tax revenue	93,400	107,358	113,769	13.4	14.5	14.8
b. Non-tax revenue	33,183	35,268	38,154	4.8	4.8	5.0
2. General Government non-financial expenditure	139,894	149,364	154,530	20.0	20.2	20.1
a. Current	106,847	113,145	119,382	15.3	15.3	15.5
b. Capital	33,047	36,219	35,148	4.7	4.9	4.6
- Gross capital formation	28,439	31,495	30,633	4.1	4.3	4.0
- Others	4,608	4,724	4,515	0.7	0.6	0.6
3. Others	682	-328	738	0.1	0.0	0.1
4. Primary balance (1-2+3)	-12,629	-7,065	-1,869	-1.8	-1.0	-0.2
5. Interests	8,340	10,013	10,662	1.2	1.4	1.4
a. External debt	3,181	3,499	3,404	0.5	0.5	0.4
b. Domestic debt	5,158	6,514	7,258	0.7	0.9	0.9
6. Overall Balance	-20,969	-17,078	-12,531	-3.0	-2.3	-1.6
7. Net financing	20,969	17,078	12,531	3.0	2.3	1.6
1. External	-10,363	-,598	4,679	-1.5	-0.1	0.6
(Million US\$) (a-b+c)	-\$3,194	-\$,169	\$1,399			
a. Disbursements	\$2,434	\$1,756	\$1,863	1.1	0.8	0.8
b. Amortization	\$4,175	\$1,265	\$1,358	1.9	0.6	0.6
c. Others 1/	-\$1,453	-\$,660	\$,893	-0.7	-0.3	0.4
2. Domestic	31,281	17,622	7,784	4.5	2.4	1.0
3. Privatization	51	54	69	0.0	0.0	0.0

1/ Includes exceptional financing and short-term financing.

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

The **structural economic balance** is an indicator of the public sector's economic balance that takes into account the main macroeconomic determinants that affect revenues in their trend or long-term values, such as economic activity or export prices. and therefore shows the effect of fiscal policy decisions on fiscal accounts isolating the effects of factors that are beyond government control. In 2019 the structural economic balance showed a deficit of 1.6 percent of GDP, a deficit 0.7 percent lower than the one recorded in 2018.

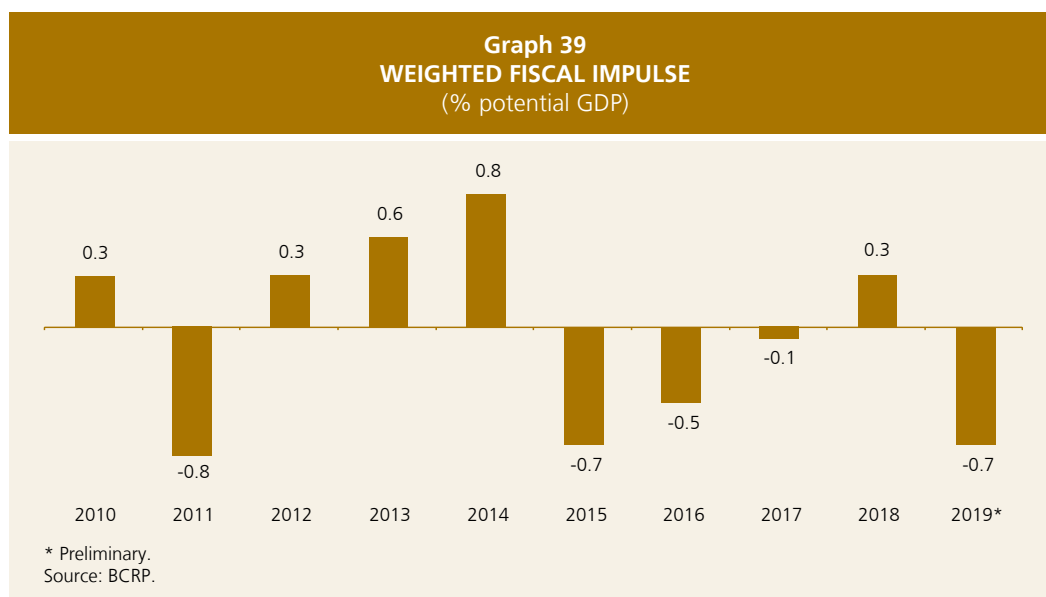
Graph 38
STRUCTURAL OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR
(% potential GDP)



The weighted fiscal impulse, indicator that reflects more accurately the fiscal position and considers the differentiated multiplier effect of the changes observed in government income and expenditure. In contrast with the expansionary impulse observed in 2018, the weighted fiscal impulse in 2019 was contractionary by 0.7 percent mainly as a result of lower capital expenditure.

Table 40 WEIGHTED FISCAL IMPULSE (% potential GDP)			
	2017*	2018*	2019*
1. Structural overall balance	-2.9	-2.3	-1.6
2. Fiscal impulse	0.2	-0.5	-1.0
3. Weighted effects	-0.3	0.8	0.3
4. Weighted impulse (2+3)	-0.1	0.3	-0.7

* Preliminary data.
Source: BCRP.



Financial requirements, an indicator that quantifies the resources needed by the non-financial public sector to cover the economic deficit and meet the amortization of the domestic and the external debts, amounted to S/ 32.02 billion, a figure equivalent to 4.2 percent of GDP. This ratio is 0.3 percentage points of GDP higher than in 2018.

This increase in financial requirements is explained by the higher debt amortization (0.9 percentage points of GDP), associated mainly with a higher amortizations of the domestic debt. Moreover, the financial requirements were mainly covered by the sovereign bonds placed through debt management operations (DMO) over the year.

Table 41
FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	Million soles			% GDP		
	2017	2018	2019	2017	2018	2019
1. Overall Balance	-20,969	-17,078	-12,531	-3.0	-2.3	-1.6
2. Amortization	17,695	11,488	19,491	2.5	1.6	2.5
Redemption of recognition bonds	818	1,171	622	0.1	0.2	0.1
Domestic debt	3,312	6,095	14,344	0.5	0.8	1.9
External debt 1/	13,566	4,222	4,524	1.9	0.6	0.6
3. Financial requirements	38,664	28,566	32,022	5.5	3.9	4.2
External disbursements	7,952	5,896	6,207	1.1	0.8	0.8
Freely disposable funds	0	0	2,498	0.0	0.0	0.3
Investment projects	7,952	5,896	3,709	1.1	0.8	0.5
Domestic bonds 1/	23,951	19,734	30,497	3.4	2.7	4.0
Privatization 2/	51	54	69	0.0	0.0	0.0
Others	6,710	2,882	-4,751	1.0	0.4	-0.6

1/ Amounts include operations of managing of approved debt.

2/ Includes change on deposits and floating, among other concepts.

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

1. Revenue of the General Government

Increasing for the second consecutive year and reversing the declining trend observed from 2015 to 2017, **the current revenue of the general government** in 2019 was equivalent to 19.7 percent of GDP, 0.4 percentage points of GDP higher than in 2018.

The three major sources of the increase seen in tax revenues were the domestic VAT, the income tax, and the excise tax, driven by the growth of domestic demand, the effect of the tax policy actions adopted in 2018 and 2019, the increase of formal workers' incomes, the control measures taken by SUNAT, and extraordinary incomes.

Graph 40
CURRENT REVENUE OF GENERAL GOVERNMENT
(% GDP)

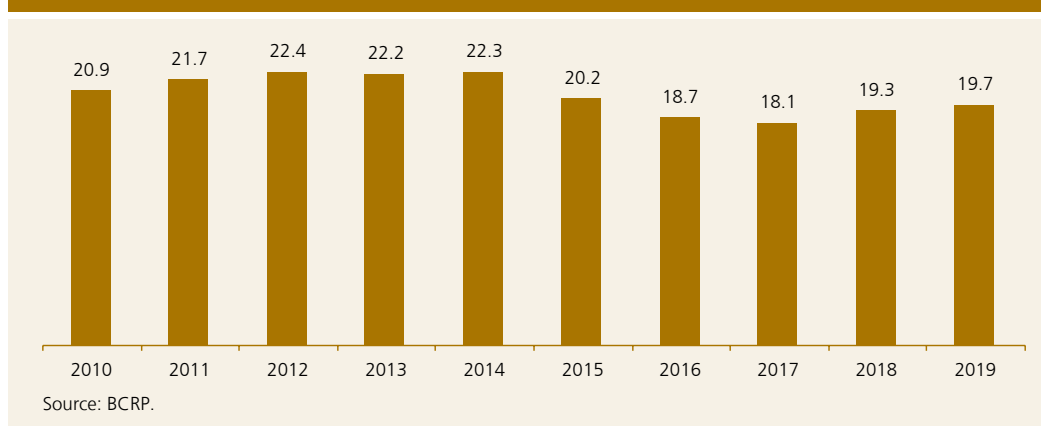


Table 42
GENERAL GOVERNMENT REVENUES

	Million soles			Real % chg.		% GDP		
	2017	2018	2019	2018	2019	2017	2018	2019
I. TAX REVENUE	93,400	107,358	113,769	13.5	3.7	13.4	14.5	14.8
1. Income tax	36,755	41,598	44,015	11.8	3.5	5.3	5.6	5.7
- Individuals	11,450	12,474	13,819	7.6	8.4	1.6	1.7	1.8
- Legal entities	20,421	22,756	23,834	10.0	2.6	2.9	3.1	3.1
- Tax regularization	4,884	6,368	6,363	29.5	-2.5	0.7	0.9	0.8
2. Import duties	1,448	1,455	1,424	-0.9	-4.1	0.2	0.2	0.2
3. Value-added tax (VAT)	54,643	60,666	63,504	9.6	2.5	7.8	8.2	8.2
- Domestic VAT	32,114	35,125	37,892	7.9	5.6	4.6	4.7	4.9
- VAT on imports	22,529	25,541	25,613	11.9	-1.8	3.2	3.4	3.3
4. Excise tax	6,315	6,860	8,216	7.2	17.3	0.9	0.9	1.1
- Fuels	2,604	2,565	3,212	-2.8	22.6	0.4	0.3	0.4
- Others	3,711	4,295	5,005	14.2	14.1	0.5	0.6	0.7
5. Other income tax	11,448	13,363	14,660	15.2	7.4	1.6	1.8	1.9
- National government	8,686	10,522	11,572	19.5	7.7	1.2	1.4	1.5
- Local government	2,762	2,841	3,088	1.6	6.4	0.4	0.4	0.4
6. Tax returns	-17,209	-16,583	-18,051	-4.9	6.6	-2.5	-2.2	-2.3
II. NON-TAX REVENUE	33,183	35,268	38,154	4.9	5.9	4.8	4.8	5.0
1. Contributions to Essalud and ONP	14,737	16,247	17,266	8.8	4.1	2.1	2.2	2.2
2. Oil, gas and mining royalty	2,486	3,035	2,741	20.5	-11.6	0.4	0.4	0.4
3. Oil and gas canon	1,533	2,090	1,687	34.5	-21.0	0.2	0.3	0.2
4. Others 1/	14,428	13,896	16,460	-4.9	15.9	2.1	1.9	2.1
III. TOTAL (I+ II)	126,583	142,627	151,923	11.2	4.3	18.1	19.3	19.7

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

Revenue from the **income tax** grew 3.5 percent in real terms and thus went from representing 5.6 percent of GDP in 2018 to representing 5.7 percent of GDP in 2019. This increase is mainly explained by the higher incomes of natural persons (8.4 percent), with revenues from the second and fifth categories of income tax standing out, as well as by higher income tax revenues from both domiciled and non-domiciled legal entities (2.6 percent).

Table 43
INCOME TAX BY CATEGORY
(Million soles)

	2017	2018	2019	Real % chg.	
				2018	2019
First category	532	580	624	7.6	5.3
Second category	1,581	1,772	2,412	10.8	33.2
Third category	15,499	17,268	17,679	9.9	0.3
Fourth category	894	960	1,023	6.0	4.3
Fifth category	8,444	9,162	9,760	7.2	4.3
Non-domiciled	3,462	3,560	4,135	1.4	13.7
Regularization	4,884	6,368	6,363	29.5	-2.5
<i>Individuals</i>	1,558	1,125	926	-28.3	-19.7
<i>Legal entities</i>	3,327	5,244	5,438	56.6	1.2
Others	1,460	1,928	2,019	30.5	2.5
<i>Of which: regime for micro and small businesses (MYPE)</i>	904	1,334	1,409	45.7	3.5
Total	36,755	41,598	44,015	11.8	3.5

Source: SUNAT.

In the case of individuals, the increase in income from fifth category incomes (4.3 percent) was associated with the growth of formal workers' income (5.8 percent), both because of higher employment and because of higher income. On the other hand, the increase in second-category income (33.2 percent) was explained by higher dividend distributions in 2019.

As for income from domiciled legal entities, the increase in revenue is explained by income from the third category (0.3 percent), mainly from the sectors of financial intermediation, electricity and water, other services, and transport and construction, which offset lower revenues from the sectors of mining, manufacturing, and hydrocarbons. In addition to this, a higher tax collection was also observed as a result of the MYPE Tax regime (3.5 percent).

Moreover, higher revenues from non-domiciled taxpayers (13.7 percent) was mainly associated with SUNAT's inspection actions, Tax Court resolutions, and asset sale operations.

On the other hand, the lower income from tax regularization payments (2.5 percent) is mainly explained by the lower payments from individuals, due to the fact that income amounting to S/ 141 million was recorded in January 2018 under the Temporary and Substitute Income Tax Regime for Declaration, Repatriation and Investment of Undeclared Income. In the case of legal entities, the higher income associated with SUNAT's inspection actions was offset mainly by mining companies' lower payments for tax regularization payments for fiscal year 2018.

Table 44 REVENUES FROM CORPORATE TAX BY SECTORS: PAYMENTS ON ACCOUNT (Million soles)					
	2017	2018	2019	Real % chg.	
				2018	2019
Commerce	3,065	3,058	3,020	-1.5	-3.3
Others services 1/	2,493	2,562	2,813	1.3	7.5
Financial intermediation	1,717	2,184	2,778	25.4	24.6
Manufacturing	2,559	2,504	2,264	-3.4	-11.4
Mining	1,727	2,585	2,036	47.9	-22.9
Electricity and water	1,191	1,247	1,498	3.4	17.6
Transport	987	1,042	1,185	4.1	11.3
Construction	949	987	1,079	2.6	7.0
Hydrocarbons	723	1,022	898	39.5	-13.9
Fishing	56	40	89	-30.6	121.1
Agriculture and livestock	32	37	19	13.1	-49.6
Total	15,499	17,268	17,679	9.9	0.3

1/ Includes activities in real estate, business, leasing, telecommunications, health, social services, tourism and hotels, and others.
Source: SUNAT.

Revenue from the **value added tax (VAT)** increased by 2.5 percent in real terms and continued to represent 8.2 percent of GDP. This increase improvement was associated with increased revenues from the domestic VAT (5.6 percent), offset in part by the reduction of revenues from the external VAT or from the VAT on imports (1.8 percent).

The increase in revenue from the domestic VAT is explained by the growth of domestic demand (3.0 percent), by tax policy measures such as the increase in the drawdown rates and their coverage in April 2018, and by higher revenues associated with SUNAT's inspection actions and Tax Court resolutions. By sectors, most of them contributed to increase revenues from the domestic VAT

in 2019, the sectors of commerce, construction, transportation, manufacturing, and financial intermediation standing out. Only tax revenues from the sectors of mining, agriculture, and hydrocarbons decreased during the year.

On the other hand, lower revenues from the external VAT was associated with lower levels of imports, particularly imports of fuel and raw materials for industry.

Table 45					
DOMESTIC VAT BY SECTORS					
(Million soles)					
	2017	2018	2019	Real % chg.	
				2018	2019
Others services 1/	9,498	10,643	11,655	10.6	7.2
Commerce	6,334	6,879	7,558	7.2	7.6
Manufacturing	4,954	4,870	5,181	-3.0	4.1
Transport	2,667	2,922	3,233	8.1	8.3
Construction	2,428	2,486	2,807	1.0	10.6
Financial intermediation	2,005	2,176	2,462	7.2	10.9
Electricity and water	1,421	1,752	1,985	21.7	10.9
Hydrocarbons	851	1,291	1,228	49.5	-6.7
Mining	1,302	1,368	1,125	3.8	-19.6
Agriculture and livestock	519	616	515	17.0	-18.0
Fishing	133	122	143	-10.2	14.8
Total	32,114	35,125	37,893	7.9	5.6

1/ Includes activities in real estate, business, leasing, telecommunications, health, social services, tourism and hotels, and others.
Source: SUNAT.

Revenues from the **excise tax** increased by 17.3 percent in real terms, from 0.9 percent of GDP in 2018 to 1.1 percent in 2019. Moreover, revenues from the excise tax on fuels as well as revenues from other products subject to this tax registered two-digit increases.

In addition, revenues from the excise tax on fuels increased by 0.1 percentage points of GDP as a result of higher payments associated with domestic sales due to the lower use of credits by refineries compared to 2018. On the other hand, revenue from the excise tax on products other than fuels also increased by 0.1 percentage points of GDP due to the increase in rates adopted in May 2018 and to the fact that the payment scheme for the excise tax on beer was modified from a mixed regime to a specific regime in June 2019.

Revenues from **Import duties** decreased 4.1 percent in real terms and represented 0.2 percent of GDP. In addition to the reduction in imports, effective tariffs were also lower as a result of the trade agreements signed by Peru in previous years. This was in part offset by higher revenue from the rice price band mechanism.

Other tax revenues increased by 7.3 percent in real terms, from 1.8 percent of GDP in 2018 to 1.9 percent of GDP in 2019. This result is mainly explained by higher revenues from fines, from SUNAT inspection actions, and from Tax Court resolutions to companies in different sectors, particularly mining and communications, as well as from the payment of Odebrecht's tax debt. These higher revenues offset the lower revenues from the Special Tax on Mining, which was affected by the lower prices of metals.

Tax refunds increased by 6.5 percent in real terms, from 2.2 percent of GDP in 2018 to 2.3 percent of GDP in 2019, which is mainly explained by higher export refunds and the early refund of the VAT, offset in part by lower refunds for overpayments and drawback.

Non-tax revenues increased by 5.7 percent in real terms, from 4.8 percent of GDP in 2018 to 5.0 percent in 2019, reflecting higher payments for social contributions (4.0 percent); higher profit transfers from public entities –such as Banco de la Nación, Banco Central de Reserva, and state-owned enterprises– to the national government, and higher income from own resources. This was in part offset by lower revenues from oil, gas, and mining royalties (10.3 percent) and from oil and gas fees (21 percent) as a result of the lower prices of minerals, oil, and natural gas.

2. General Government Expenditure

The non-financial expenditure of the general government represented 20.1 percent of GDP in 2019, 0.1 percentage point of GDP less than in 2018. By government levels, this decline is explained mostly by the local governments, while by expenditure categories, it is explained mostly by gross capital formation.

As for the general government's current expenditures, the category of salaries increased by 0.2 percentage points of GDP due to higher payroll payments in the sectors of Education, Health, and Justice as well as in the Public Ministry, the Ministry of Interior, and the Ministry of Defense. Moreover, expenditure in the category of goods and services increased by 0.2 percentage points of GDP, mainly due expenditure in services, among which the Administrative Service Contracts (CAS) and the hiring of professional and technical services stand out. On the other hand, expenditure in the current transfers category decreased by 0.1 percentage points of GDP due to lower transfers to the national government.

The general government expenditure in **gross capital formation** decreased by 0.3 percentage points of GDP between 2018 and 2019, due to lower spending by sub-national governments, particularly local governments, as a result of the transition period after new authorities take office at these levels of government. On the other hand, other capital expenditures remained relatively constant.

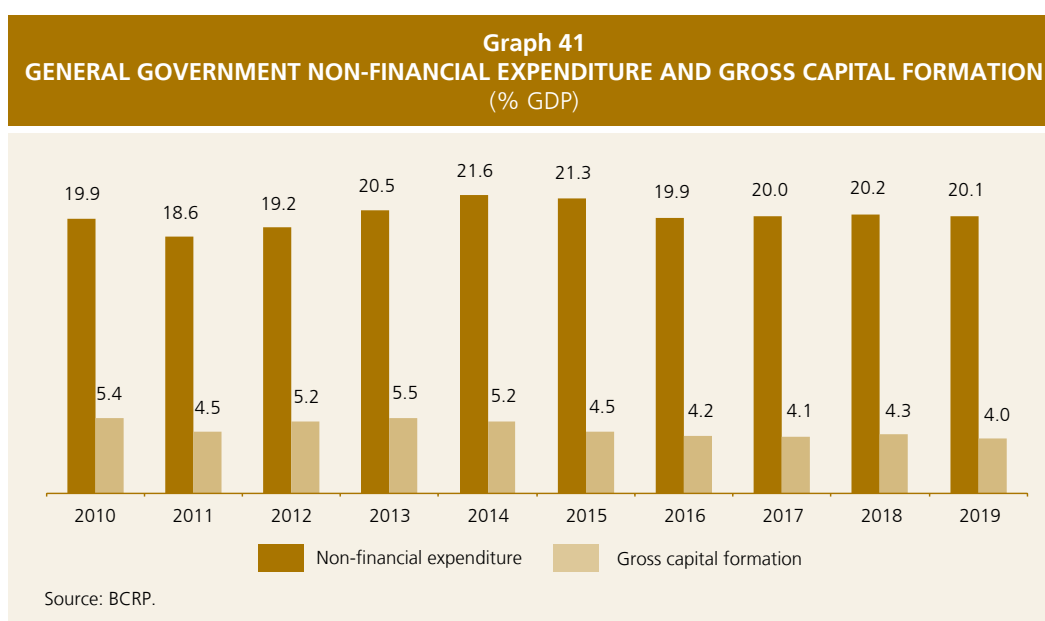


Table 46
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE 1/

	Million soles			Real % chg.		% GDP		
	2017	2018	2019	2018	2019	2017	2018	2019
I. CURRENT EXPENDITURE	106,847	113,145	119,382	4.5	3.3	15.3	15.3	15.5
Wages and salaries	42,667	46,186	49,165	6.8	4.2	6.1	6.2	6.4
National government	25,578	26,935	28,152	3.9	2.3	3.7	3.6	3.7
Regional governments	14,924	16,887	18,591	11.7	7.8	2.1	2.3	2.4
Local governments	2,166	2,365	2,422	7.7	0.3	0.3	0.3	0.3
Goods and services	41,664	42,297	45,289	0.1	4.8	6.0	5.7	5.9
National government	28,275	28,502	31,474	-0.6	8.1	4.0	3.8	4.1
Regional governments	5,266	5,220	5,191	-2.3	-2.6	0.8	0.7	0.7
Local governments	8,124	8,574	8,625	4.1	-1.6	1.2	1.2	1.1
Transfers	22,515	24,662	24,928	8.1	-1.0	3.2	3.3	3.2
National government	18,880	20,919	20,866	9.3	-2.3	2.7	2.8	2.7
Regional governments	2,672	2,849	3,092	5.2	6.3	0.4	0.4	0.4
Local governments	963	894	970	-8.3	6.0	0.1	0.1	0.1
II. CAPITAL EXPENDITURE	33,047	36,219	35,148	8.0	-4.9	4.7	4.9	4.6
Gross capital formation	28,439	31,495	30,633	9.1	-4.7	4.1	4.3	4.0
National government	10,132	11,352	11,728	10.4	1.2	1.5	1.5	1.5
Regional governments	5,827	6,257	6,228	5.8	-2.5	0.8	0.8	0.8
Local governments	12,480	13,885	12,677	9.6	-10.5	1.8	1.9	1.6
Other capital expenditure	4,608	4,724	4,515	0.9	-6.4	0.7	0.6	0.6
National government	4,407	3,509	4,678	-21.8	30.8	0.6	0.5	0.6
Regional governments	11	139	146	1,174.1	3.0	0.0	0.0	0.0
Local governments	191	1,076	-309	457.6	-128.2	0.0	0.1	0.0
III. NON FINANCIAL EXPENDITURE (I + II)	139,894	149,364	154,530	5.3	1.3	20.0	20.2	20.1
National government	87,271	91,218	96,897	3.1	4.0	12.5	12.3	12.6
Regional governments	28,699	31,352	33,248	7.7	3.8	4.1	4.2	4.3
Local governments	23,923	26,793	24,385	10.5	-10.9	3.4	3.6	3.2

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

National Government

The **non-financial expenditures of the national government** represented 12.6 percent of GDP, a ratio 0.3 percentage points of GDP higher than in 2018, due to higher current expenditure (up by 0.2 percentage points of GDP) due mainly to increased expenditure in the categories of goods and services. Capital expenditure remained relatively stable while other capital expenditure increased.

Expenditure in **wages and salaries** increased by 2.3 percent in real terms, mainly due to salary increases in the sectors of education (S.D. N°328-2019-EF) and health (S.D. N°022-2019-EF and S.D. N°324-2019-EF), as well as in the Judiciary System (S.D. N°404-2019-EF).

Expenditure on **goods and services** increased by 8.1 percent in real terms due to the higher resources allocated to road maintenance and conservation services (S/ 579 million), as well as to CAS (S/ 530 million) and professional and technical services, including consulting and advisory services for legal and natural persons, IT and data processing services, and services for hospitality and celebrations, among other services.

It is worth mentioning that holding the XVIII Pan American Games and VI Parapan American Games in Peru in the months of July and August implied greater spending in the services hired for these events (S/ 205 million). It is also worth pointing out that the category of goods and services includes expenses in the acquisition of non-financial assets by the sectors of Defense and Interior, and that expenditure in this item increased in 2019 (S/ 718 million).

Expenditure for **current transfers** declined by 2.3 percent in real terms, but remained relatively constant as a percentage of GDP. Fewer transfers were made in 2019 to international organizations for the Pan American and Parapan American Games, to the Fuel Price Stabilization Fund, to fund higher education scholarships and loans, to Programa Nacional de Apoyo Directo a los más Pobres (Juntos), and to subsidy fund for burial expenses of SIS beneficiaries, among others.

Expenditure in **gross capital formation** increased by 1.2 percent in real terms. Projects and activities standing out included the ones implemented by the Ministry of Transport and Communications, the Ministry of Agriculture and Irrigation, the Ministry of Education, Universities, and the Ministry of Energy and Mines in road infrastructure, education, drinking water and sewerage systems, wastewater treatment, and prisons, among other projects and activities.

In the framework of the Reconstruction with Changes Program, the national government executed projects for S/ 475 million, which represents 27 percent of the annual Modified Institutional Budget (MIB). On the other hand, expenditure on gross capital formation of sports infrastructure for the Pan American and Parapan American Games decreased (S/ 859 million in 2019 versus S/ 927 million in 2018) due to the fact that most of the investment was concentrated in 2018.

Table 47			
GROSS CAPITAL FORMATION OF THE GENERAL GOVERNMENT			
<i>(Million soles)</i>			
	2018	2019	% chg.
National government	11,352	11,728	3.3
Reconstruction with Changes	224	475	112.1
Rest	11,128	11,253	1.1
<i>Of which: Pan American Games</i>	927	859	-7.4
Regional governments	6,257	6,228	-0.5
Reconstruction with Changes	274	433	58.2
Rest	5,983	5,794	-3.2
Local Government	13,885	12,677	-8.7
Reconstruction with Changes	365	1,658	354.3
Rest	13,520	11,019	-18.5
<i>Of which: Pan American Games</i>	200	642	220.9
TOTAL	31,495	30,633	-2.7
Reconstruction with Changes	863	2,567	197.4
Rest	30,632	28,066	-8.4
<i>Of which: Pan American Games</i>	1,127	1,500	33.1

Source: MEF.

Other **capital expenditures** increased by 30.8 percent in real terms, mainly reflecting higher transfers for the Bono Familiar Habitacional (S/ 53 million) and Bono del Buen Pagador (S/ 75 million), as well as transfers for the improvement and expansion of educational services.



Table 48
MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT: 2019
(Million soles)

PROJECTS	Amount
ROAD INFRASTRUCTURE 1/	4,708
Oyón - Ambo Highway, Huánuco - Lima - Pasco	301
Line 2, Metropolitan Lima and Callao	183
Rehabilitation of Eje Vial N ° 01 Piura - Guayaquil, Peru - Ecuador	176
Huánuco - Conococha Highway, Huánuco	156
Juanjuí - Tocache Highway, San Martín	134
Bellavista - El Estrecho Highway, Loreto	113
Lima - Canta - La Viuda - Unish Highway	113
Checca - Mazocruz Highway, Puno	106
Dv. Aplao - Marán Highway, Arequipa - Ayacucho	97
Red Vial Departamental Moquegua - Arequipa	84
Line 1, Metropolitan Lima and Callao	82
Pallasca - Santiago de Chuco Highway, Áncash - La Libertad	79
Rest	3,084
EDUCATION	1,743
Installed capacity for response to emergencies and disasters	122
Educational institutions with conditions for compliance with standard teaching hours	105
Adequate infrastructure and equipment	63
Rest	1,453
AGRICULTURE	1,006
Technical files, pre-investment studies and other studies for Reconstruction projects	89
Improvement of public services for sustainable territorial development in the VRAEM	67
Improvement of strategic agricultural innovation services	60
Integrated management of water resources in ten basins	50
Rest	741
SANITATION	931
Water and sanitation systems in Chorrillos, Lima	134
Water and sanitation systems in Huarochiri, Lima	98
Water and sanitation systems in San Juan de Lurigancho, Lima	57
Wastewater Treatment Plant for Sullana and Bellavista, Piura	50
Water and sanitation systems in Challhuahuacho, Apurímac	28
Urban road for the Nueva Ciudad de Olmos, Lambayeque	27
Water and sanitation systems in San Juan de Lurigancho, Lima	27
Water and sanitation systems in San Juan de Amancaes	24
Technical files, pre-investment studies and other studies for Reconstruction projects	
Rest	467
PAN AMERICAN GAMES	859
National Sports Village, San Luis	226
Andrés Bello Caceres Sports Complex, Villa María del Triunfo	114
Park Yahuar Huaca, Callao	104
Pan American Village, Villa El Salvador	100
Gymnastics sports center, Villa El Salvador	71
Club de Tiro, Surco	71
BMX cycling, skating and others, San Miguel	49
Equestrian Club, La Molina	34
High Performance Surf Center, Punta Negra	32
Rest	57
Others	2,481
TOTAL	11,728

1/ Payments for works carried out in previous years under the concession scheme, payments for expropriations and land releases and advances of works identifications. And advances are included for work and rolling stock on the basis of an approximate scheme of progress of work.
Source: MEF.

Regional Governments

The **non-financial expenditures of regional governments** in 2019 was equivalent to 4.3 percent of GDP, 0.1 percentage point higher than in 2018. This increase is explained by the higher level of current expenditure, which also increased by 0.1 percentage, mainly due to higher expenditure on salaries. On the other hand, capital expenditures decreased by 0.1 percentage points of GDP.

Expenditure on **salaries** increased by 7.8 percent in real terms, mainly as a result of the above-mentioned increases in salaries in Education and Health. It is worth mentioning that regional

governments account for 71.9 percent and 25.4 percent of the general government's budgetary spending on salaries in the sectors of Education and Health, respectively.

Accrual for **goods and services** decreased by 2.6 percent in real terms, while spending on **current transfers** increased by 6.3 percent in real terms, basically for the payment of judgments and arbitration awards.

Regional governments' **gross capital formation** decreased by 2.5 percent in real terms. In 2019, this expenditure decreased in 13 of the 25 departments, particularly in Piura, Ancash, Ayacucho, Arequipa, Amazonas, and Cusco. In contrast, expenditure increased mainly in Ucayali, Lima, Ica, Loreto, Junín and San Martín. By areas, it declined in the North and South areas of the country, and to a lesser extent in the East, and increased in the Centre.

It is worth mentioning that, after reaching a maximum level of S/ 7.1 billion in 2013, the annual investment of regional governments has remained at a level between S/ 5.7 billion and S/ 6.4 billion in the period 2014-2019, which has influenced the interruption of projects such as Chavimochic-Stage III in La Libertad, Majes-Siguas Stage II in Arequipa, and the project Improvement of Irrigation and Hydroelectric Generation in Alto Piura, for example.

In the framework of the Reconstruction with Changes Program, regional governments have executed projects for S/ 433 million, which represents 29 percent of the annual Modified Institutional Budget (MIB).

Table 49
INVESTMENT OF REGIONAL GOVERNMENTS
(Million soles)

	2018	2019	Change	
			Flow	%
La Libertad	166	149	-16	-10
Lambayeque	143	138	-6	-4
Piura	674	451	-223	-33
Tumbes	80	55	-25	-31
Cajamarca	218	176	-42	-19
TOTAL NORTH	1,280	969	-311	-24
Áncash	387	207	-180	-47
Callao	62	34	-28	-45
Huancavelica	152	190	38	25
Huánuco	253	273	20	8
Ica	60	124	65	108
Junín	293	354	60	21
Lima	192	335	143	74
Pasco	194	247	53	27
TOTAL CENTRAL	1,592	1,764	172	11
Apurímac	214	253	40	19
Arequipa	566	473	-93	-16
Ayacucho	375	279	-96	-26
Cusco	456	403	-53	-12
Moquegua	141	133	-9	-6
Puno	304	259	-45	-15
Tacna	139	182	43	31
TOTAL SOUTH	2,195	1,981	-214	-10
Amazonas	274	200	-74	-27
Loreto	283	346	62	22
Madre De Dios	135	173	38	28
San Martín	242	295	53	22
Ucayali	256	500	244	95
TOTAL EASTERN	1,190	1,514	323	27
TOTAL	6,257	6,228	-29	-0.5

Source: MEF and BCRP.



Local Governments

The non-financial expenditure of local governments was equivalent to 3.2 percent of GDP, 0.4 percentage points lower than in 2018, mainly as a result of lower expenditure in gross capital formation in a period in which new municipal authorities took office.

As regards current expenditure, spending on salaries increased by 0.3 percent in real terms, mainly due to salary increases for municipal workers, while transfers increased by 6.0 percent due to higher purchases of food for social programs (canteens, school breakfasts and the Vaso de Leche Program).

Table 50
INVESTMENT OF LOCAL GOVERNMENTS
(Million soles)

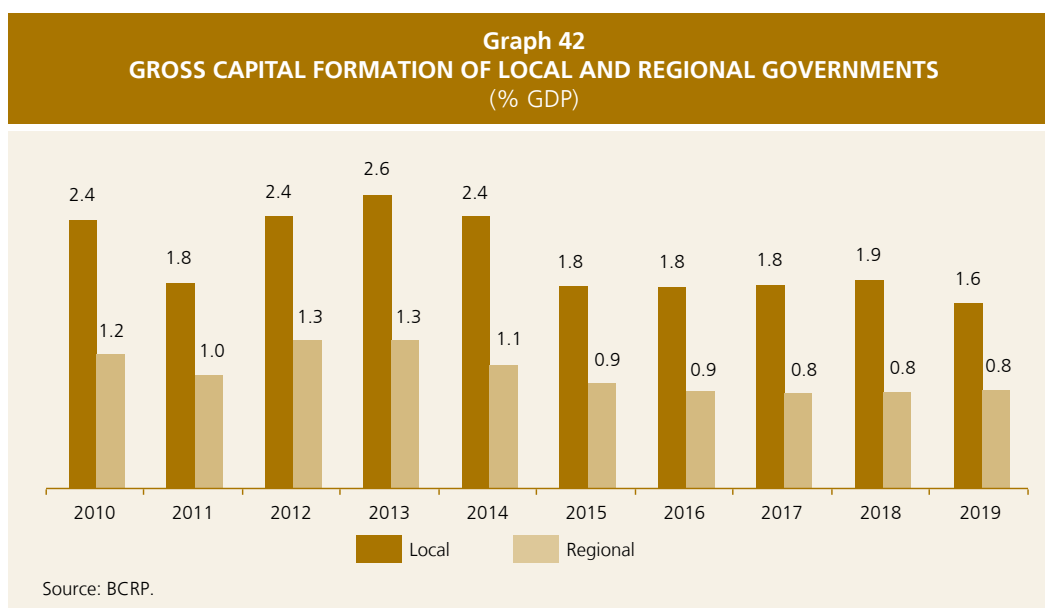
	2018	2019	Change	
			Flow	%
La Libertad	758	970	212	28
RCC	60	440	380	629
Rest	698	530	-168	-24
Lambayeque	311	217	-94	-30
Piura	769	959	191	25
RCC	137	515	378	275
Rest	631	444	-187	-30
Tumbes	100	76	-24	-24
Cajamarca	789	750	-39	-5
RCC	34	157	123	360
Rest	755	592	-162	-22
TOTAL NORTH	2,727	2,972	245	9
Áncash	894	779	-115	-13
RCC	26	82	56	211
Rest	868	697	-170	-20
Callao	94	101	7	8
Huancavelica	442	343	-98	-22
Huánuco	534	392	-142	-27
Ica	311	249	-62	-20
Junín	589	470	-119	-20
Lima	1,761	1,777	16	1
Pasco	149	165	16	11
TOTAL CENTRAL	4,774	4,276	-498	-10
Apurímac	616	446	-170	-28
Arequipa	929	664	-265	-29
Ayacucho	638	675	37	6
RCC	12	138	126	1,029
Rest	626	537	-88	-14
Cusco	1,747	1,588	-159	-9
Moquegua	193	197	4	2
Puno	607	523	-84	-14
Tacna	221	145	-76	-34
TOTAL SOUTH	4,951	4,237	-714	-14
Amazonas	305	230	-75	-25
Loreto	357	290	-67	-19
Madre De Dios	52	41	-11	-21
San Martín	504	400	-103	-21
Ucayali	215	231	16	7
TOTAL EASTERN	1,433	1,192	-240	-17
TOTAL	13,885	12,677	-1,208	-8.7

Source: MEF and BCRP.

Local governments' expenditure in **gross capital formation** decreased by 10.5 percent in real terms in 2019. This decrease was observed in 18 of the 25 departments, especially in those located in the Central and Southern areas of the country, and to a lesser extent, in the departments located

in the East. In contrast, it increased in the North, mainly in La Libertad and Piura, due to the implementation of projects in the framework of the Reconstruction Program. It could be said in this regard that, at the level of the sub-national governments, there has been a substitution between the execution of projects in the area of Reconstruction and the rest of the projects, particularly in the local governments of the North departments.

Moreover, in the framework of Reconstruction with Changes, local governments executed projects for S/ 1.66 billion, this amount representing 58 percent of the annual Modified Institutional Budget (MIB).



3. State-Owned Enterprises

In 2019, the deficit of the State-owned enterprises was S/ 1.68 billion –equivalent to 0.2 percent of GDP–, lower than in the previous year (S/ 2.30 billion, equivalent to 0.3 percent of GDP).

This lower deficit is explained mainly by Petroperú's lower deficit. On the other hand, the deficit of ElectroPerú and the other State-owned companies increased, while the regional electricity companies and Sedapal showed smaller surpluses.

Table 51
OVERALL BALANCE OF STATE ENTERPRISES

	Million soles			% GDP		
	2017	2018	2019	2017	2018	2019
PetroPeru	-1,465	-3,083	-1,876	-0.2	-0.4	-0.2
ElectroPeru	131	168	-184	0.0	0.0	0.0
Regional Electricity Companies	597	624	579	0.1	0.1	0.1
Sedapal	25	77	36	0.0	0.0	0.0
Others	-426	-86	-232	-0.1	0.0	0.0
TOTAL	-1,137	-2,301	-1,677	-0.2	-0.3	-0.2

Source: State enterprises, FONAFE, and MEF.



PetroPerú recorded a deficit of S/ 1.88 billion, S/ 3.08 billion less than in 2018 as a result of lower current expenses, mainly in goods and services (S/ 2.75 billion). On the other hand, it registered lower current revenues, mainly from sales (S/ 478 million), and higher spending in gross capital formation (S/ 951 million) associated mainly with higher spending execution in the new Talara refinery.

Moreover, lower payments were registered for purchases of diesel 2 ULS, biodiesel B100, liquefied petroleum gas, and imported crude oil, mainly due to lower volumes and lower prices. On the other hand, revenues for sales also decreased, although to a lesser extent, especially in the case of sales of B5 S-50 diesel, liquefied petroleum gas, industrial oils, and turbo A1 mainly as a result of lower volumes of these fuels and industrial oil. Other revenue was also lower mainly because of lower net compensations from the Fuel Price Stabilization Fund, offset in part by higher tax refunds to the company.

Regarding the new Talara refinery, at the end of 2019 a global physical advance of 85.3 percent. The Process Units, in charge of Técnicas Reunidas, presented an advance of 93.3 per hundred; and the Auxiliary Units, in charge of the Cobra consortium, presented an advance of 55.8 percent.

Contrasting with the surpluses recorded in the previous two years, Electroperú showed a deficit of S/ 184 million in 2019. This balance was in part influenced by the early transfer of profits made in October to the Consolidated Fund of Reserves (FCR) and to FONAFE –the National Fund for Financing the State’s Entrepreneurial Activity– (S/ 198 million, which was included under other current expenses. It had already transferred S/ 361 million in April 2019). In addition, Electroperú also recorded higher expenditure for the income tax and social contributions, for goods and services, as well as higher other capital expenses as a result of the purchase of an energy sale option from electricity distribution companies.

On the other hand, expenditure in gross capital formation decreased for the second consecutive year, while higher revenue was obtained from sales to distribution companies and sales to the spot market. Other revenues for refunds following arbitration awards and judicial resolutions also increased.

The regional electricity companies recorded a joint surplus of S/ 579 million, a balance S/ 44 million lower than in 2018. This lower surplus is mainly explained by the increase of all current expenditure items (S/ 437 million) and by a lower increase in current income (S/ 418 million). There was also a decrease in capital income due to the reduction of FONAFE contributions and capital transfers for rural electrification projects. On the other hand, expenditure in gross capital formation decreased, while other capital expenditures increased because the capital transfers balance was returned to the Ministry of Energy and Mines.

Sedapal’s surplus of S/ 36 million was S/ 41 million lower than in 2018. The higher sales revenues are explained by the increase in the average rates (up from S/ 3.50 in 2018 to S/ 3.56 in 2019, which represents an increase of 2.57 percent) and by the higher volume of sales of drinking water (1.24 percent), mainly for domestic use. This was in part offset by lower other revenues and higher current expenditure in salaries, taxes, and other expenses.

Lower gross capital formation was seen in projects aimed to expand and improve drinking water and sewerage systems, although this was in part offset by higher other capital expenditure resulting from returning capital transfer balances to the Ministry of Housing and Construction. It is worth mentioning that the debt interest service increased by S/ 24 million between 2018 and 2019 due to higher interests due to external loans from the IBRD and IDB.

The **other State-owned companies**¹² showed a deficit of S/ 232 million, S/ 146 million lower than the deficit in 2018. This deficit is mainly explained by lower other revenues, both current and capital,

¹² This category excludes Electroperú, Sedapal, and the regional electricity companies, and includes the companies that are under the scope of FONAFE: FONAFE itself, municipal companies, and decentralized public bodies.

associated with lower capital transfers from the Treasury to Activos Mineros, ADINELSA, CORPAC, and ENAPU, as well as by higher capital expenditure due to higher gross capital formation in municipal sanitation companies and also by higher tax and remuneration payments. The deficit in the operations of these companies was offset partially by the increase in their sale revenues and their lower spending on goods and services, especially in the case of municipal companies and decentralized public agencies.

4. Non-Financial Public Sector Debt

At end 2019 the **debt of the Non-Financial Public Sector** totaled S/ 206.4 billion. This debt amount, equivalent to 26.8 percent of GDP, represents an increase of 1 percentage point of GDP in comparison with the debt ratio recorded at the end of 2018. This increase is explained by higher long-term domestic debt resulting from increased sovereign bond placements under the Market Makers Program and through the two debt management operations (DMOs) conducted on the Euroclear platform in June and November 2019.

Table 52 DEBT BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR 1/						
	Million soles			% GDP		
	2017	2018	2019	2017	2018	2019
PUBLIC DEBT (I + II)	173,976	190,741	206,411	24.9	25.8	26.8
I. EXTERNAL PUBLIC DEBT	61,163	65,505	65,659	8.8	8.8	8.5
Loans	15,987	19,260	20,527	2.3	2.6	2.7
International organizations	12,510	11,525	12,702	1.8	1.6	1.6
Paris Club	3,451	3,550	3,726	0.5	0.5	0.5
Suppliers	26	16	5	0.0	0.0	0.0
International banks	0	4,168	4,094	0.0	0.6	0.5
Latin America	0	0	0	0.0	0.0	0.0
Other bilaterals	0	0	0	0.0	0.0	0.0
Bonds	45,176	46,246	45,132	6.5	6.2	5.9
Global bonds	38,696	39,506	38,512	5.5	5.3	5.0
Non financial public entreprise bonds	6,480	6,740	6,620	0.9	0.9	0.9
II. DOMESTIC PUBLIC DEBT	112,813	125,236	140,752	16.2	16.9	18.3
1. LONG TERM	98,530	112,209	128,251	14.1	15.2	16.7
Bank loans	3,640	3,902	1,701	0.5	0.5	0.2
Treasury bonds	94,890	108,307	126,550	13.6	14.6	16.4
Bonds (BCRP)	645	645	394	0.1	0.1	0.1
Financial System Support Bonds	0	0	0	0.0	0.0	0.0
Debt swap bonds	770	543	295	0.1	0.1	0.0
Sovereign bonds	87,506	102,009	121,612	12.5	13.8	15.8
Recognition bonds	5,970	5,109	4,249	0.9	0.7	0.6
2. SHORT TERM 2/	14,283	13,027	12,501	2.0	1.8	1.6
Memo:						
Liabilities of Private-Public Partnerships 3/	3,549	3,278	2,768	0.5	0.4	0.4
FEPCs	441	270	-106	0.1	0.0	0.0
External debt from COFIDE and Mivivienda Fund	12,419	11,927	8,993	1.8	1.6	1.2
Bond holdings	126 201	141 515	160,123	18.1	19.1	20.8
Residents	54 315	61 789	66,248	7.8	8.3	8.6
Non-residents	71 886	79 726	93,875	10.3	10.8	12.2
Sovereign bonds	87 506	102 009	121,612	12.5	13.8	15.8
Residents	48 910	57 229	62,946	7.0	7.7	8.2
Non-residents	38 596	44 780	58,666	5.5	6.0	7.6
Global bonds	38 696	39 506	38,512	5.5	5.3	5.0
Residents	5 406	4 560	3,302	0.8	0.6	0.4
Non-residents	33 290	34 946	35,209	4.8	4.7	4.6
1/ Includes national government debt, regional and locals, and public enterprises. Excludes debt from COFIDE, Banco de la Nación, BCRP, and Mivivienda Fund.						
2/ Includes the debt recognized with FONAVI, Law 29625.						
3/ Estimation. Nominal value of the CRPAO issued between May 2006 and March 2012, net of the amortizations made.						
Source: MEF, Banco de la Nación, MTC, ONP, and COFIDE.						



The purpose of the first DMO was to exchange and repurchase US\$ global bonds maturing in 2025, 2027, 2033, and 2037, and euro global bonds maturing in 2026 and 2030, as well as the sovereign bond maturing in 2023. This operation was financed through the issuance of a new sovereign bond maturing in 2040 and a new global bond maturing in 2030.

The second DMO was aimed at exchanging and repurchasing the balance of global bonds in US\$ maturing in 2025 and 2027 and sovereign bonds maturing in 2023 and 2024, as well as pre-paying loans with Corporación Andina de Fomento (CAF). This operation was financed through the issuance of a new sovereign bond maturing in 2034 and by reopening the sovereign bond maturing in 2040.

4.1 External public debt

At the end of 2019, the external debt of the non-financial public sector amounted to S/ 65.7 billion, which represents 8.5 percent of GDP, this ratio being 0.3 percentage points of GDP lower than that recorded at the end of 2018.

DMOs during the year included the issuance of a new global bond maturing in 2030 in the June DMO (US\$ 750 million), redeeming the global bond maturing in March 2019 (US\$ 149 million), withdrawing global bonds in US dollars and euros with different maturity terms in the June DMO (US\$ 411 million) as well as global bonds (US\$ 153 million) and the prepayment of CAF loans (US\$ 82 million) in the November DMO.

Another factor that contributed to the reduction of the foreign debt expressed in soles was the appreciation of the PEN registered between December 2018 and 2019.

4.2 Domestic Debt

At the end of 2019, the balance of the domestic debt of the non-financial public sector was S/ 140.7 billion –equivalent to 18.3 percent of GDP–, which implied an increase of 1.4 percentage points of GDP with respect to the debt ratio at the end of 2018.

This increase is mainly explained by increased sovereign bond placements under the Market Makers Program and by the DMOs mentioned above. As a result, the balance of sovereign bonds reached S/ 121.6 billion, of which 48.2 percent is held by non-residents (43.9 percent in 2018).

Sovereign bond placements under the Market Makers Program amounted to S/ 11.25 billion, while bond placements carried out as part of DMOs amounted to S/ 19.25 billion.

In addition to this, other operations carried out within the framework of the aforementioned DMOs included the placement of a new sovereign bond maturing in 2034 (S/ 5.85 billion) in the June DMO, as well as the placement of a new sovereign bond maturing in 2040 (S/ 8.26 billion) and the reopening of the sovereign bond maturing in 2034 (S/ 1.84 billion) in the November DMO. Moreover, these DMOs allowed to repurchase S/ 4.11 billion of sovereign bonds in June and S/ 5.27 billion of bonds in November. As a result of these DMOs, resources for a total of S/ 2.25 billion and S/ 3.35 billion were obtained in June and in November, respectively, to pre-finance public sector operations for 2020.

In addition to this, two sovereign bond buy-back and exchange operations were carried out, the first of which was financed with bonds issued in March-April (S/ 1.04 billion) and July (S/ 82 million), and two debt refinancing operations were carried out with Banco de la Nación in January (S/ 1.90 billion) and July (S/ 299 million).

4.3 Net Debt¹³

The net debt of the non-financial public sector increased from S/ 83.6 billion in 2018 to S/ 100.4 billion in 2019, representing 13.1 percent of GDP at the end of the year. This result is explained both by an increase of 1.0 percentage point of GDP in the gross debt and by a reduction of 0.7 percentage points of GDP in financial assets of the non-financial public sector.

Table 53
NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR

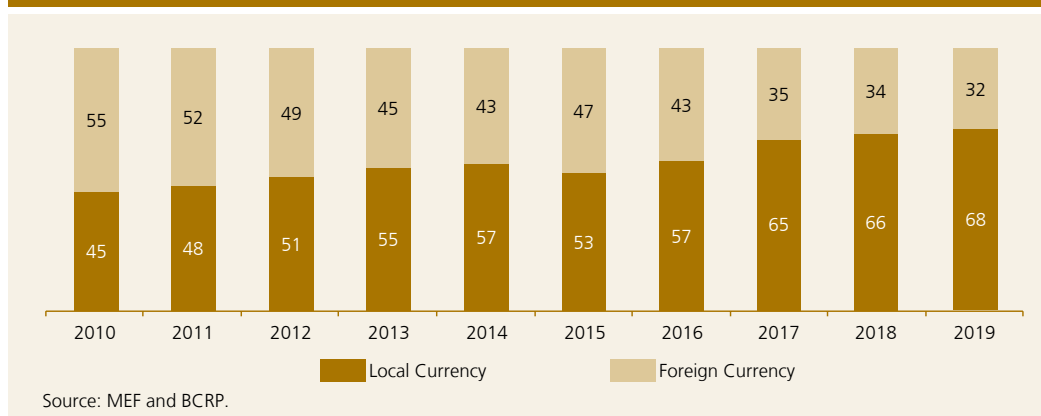
Year (December)	Million soles			% GDP		
	Assets	Liabilities	Debt net	Assets	Liabilities	Debt net
2010	52 734	100 157	47 422	12.5	23.8	11.3
2011	65 824	101 737	35 914	14.0	21.6	7.6
2012	81 130	101 225	20 094	15.9	19.9	4.0
2013	90 041	105 087	15 046	16.5	19.2	2.8
2014	96 994	114 432	17 438	16.9	19.9	3.0
2015	109 033	142 241	33 208	17.9	23.3	5.4
2016	111 649	156 663	45 014	17.0	23.9	6.9
2017	107 407	173 976	66 569	15.4	24.9	9.5
2018	107 185	190 741	83 556	14.5	25.8	11.3
2019	106,019	206,411	100,392	13.8	26.8	13.0

Source: Fuente: MEF, BCRP, Banco de la Nación, Petroperú, ONP, EsSalud, ElectroPerú y FONAFE.

4.4 Debt by Currencies

The ratio of the debt in foreign currency decreased from 34 to 32 percent of the total debt as a result of the sovereign bond placements carried out in the framework of the Market Makers Program, and as a result of the DMOs carried out in June and November-December ADOs that allowed the buy-back of global bonds, thus reducing the debt for such instruments, and the pre-payment of CAF loans. Other factors contributing to this debt decrease in 2019 was the maturity of the 2019 global bond and the effect of the appreciation of the PEN.

Graph 43
DEBT BALANCE OF NON-FINANCIAL PUBLIC SECTOR BY CURRENCY
(Percentage structure)

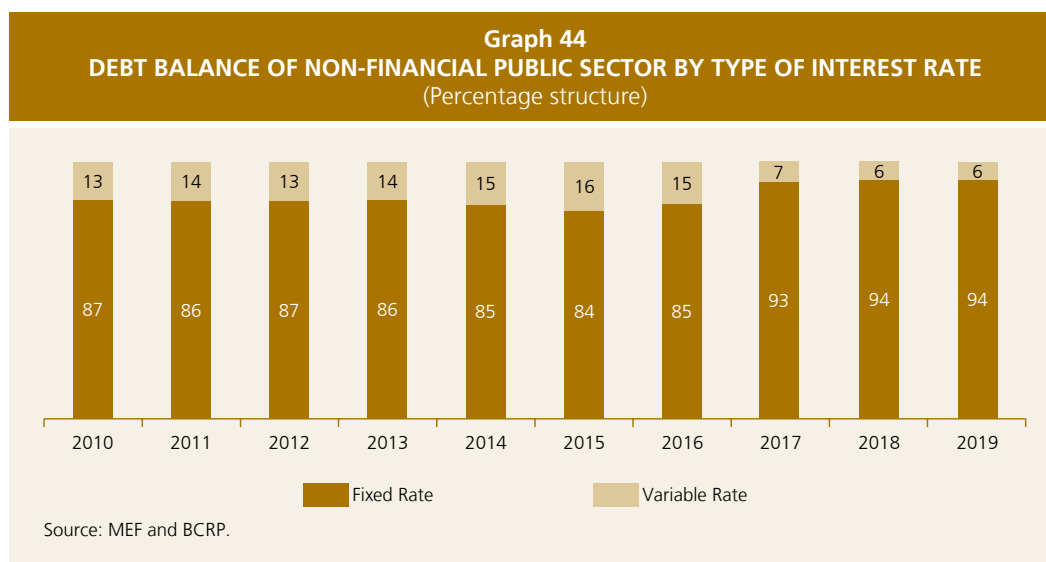


¹³ The net public debt is defined as the difference between the public sector liabilities (total public debt) and the public sector financial assets (total deposits in the domestic and external financial systems and other assets, such as corporate bonds and investment funds).

This was in part offset by the issuance of a new global 2030 bond at the DMO of June and by the disbursement of contingent loans by multilateral agencies.

4.5 Debt by Type of Interest Rates

At end-2019, the fixed-rate debt of the non-financial public sector represented 94 percent of the total debt, a similar ratio to the one recorded in 2018. Moreover, the ratio of fixed-rate debt has increased by 7 percentage points over the past ten years.



4.6 Average Life of the Debt

At the end of 2019, the average life of the medium- and long-term total public debt was 12.17 years, higher than at the end of 2018 (11.67 years). The average maturity of the domestic public debt was 12.57 years (up by 0.77 years compared to the average debt life at the end of 2018), while the average maturity of the external public debt was 11.52 years (down by 0.24 years compared to the average debt life at the end of 2018).

