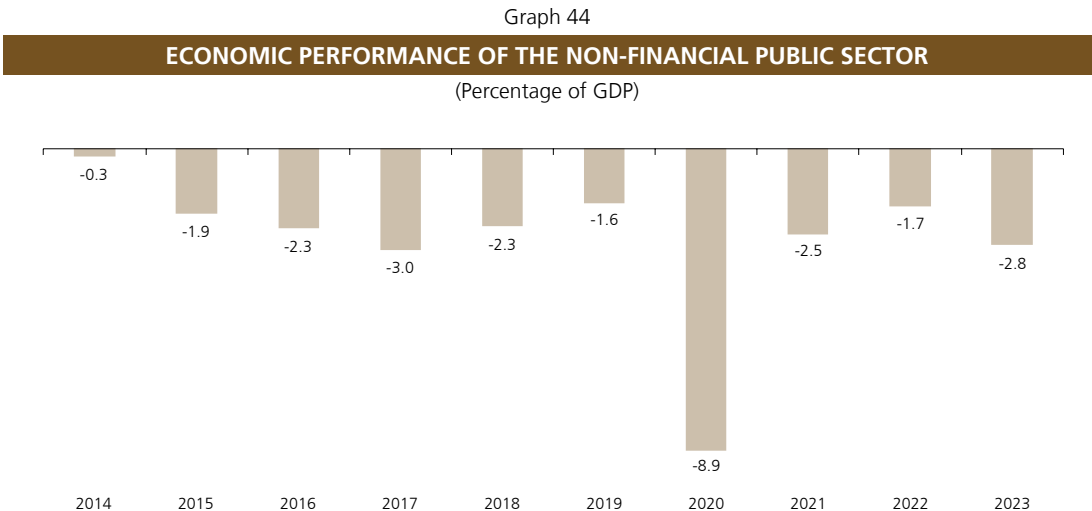


03. PUBLIC FINANCES

The fiscal deficit reached 2.8 percent of GDP in 2023, 1.1 percentage points higher than recorded in 2022. This increase is mainly attributed to the decline in economic activity, the fall in the value of imports and lower export prices, which resulted in a reduction in general government revenues. To a lesser extent, the higher interest payments on public debt, explained by the increase in indebtedness and interest rates, had a lesser influence.

This dynamic was partially mitigated by the reduction in Non-financial expenditure as a percentage of GDP due to the withdrawal of spending related to the health emergency, as well as lower current transfers for the stabilization of fuel prices and subsidies for the increase in food prices, and other capital expenditures, such as the support to Petroperu in the fourth quarter of 2022. In addition, a higher primary result of state-owned companies was observed, mainly explained by lower expenditures for current expenses.



Source: BCRP, MEF and Sunat.

General Government current income fell by 10.2 percent in real terms between 2022 and 2023, from 22.1 percent to 19.8 percent of GDP. This reduction was due to the lower level of economic activity, lower prices of export minerals and hydrocarbons, and the fall in the value of imports. In addition, this contraction was reinforced by the application of lower coefficients for payment on account of income tax and the use of credit balances in favor of the taxpayers. However, extraordinary revenues,

such as the advance of Banco de la Nación's profits to the Public Treasury, partially mitigated this contraction.

Non-financial expenditures of the General Government fell by 4.1 percent in real terms, from 22.0 to 21.0 percent of GDP. However, in nominal terms, this component increased by 1.5 percent due to higher spending on salaries, as a result of salary increases, in the acquisition of goods and services under the Con Punche Perú and La Niña event emergency programs, and in the National Government's gross capital formation, mainly. This dynamic was partially counterbalanced by the lower level of current transfers aimed at stabilizing fuel prices and subsidies for the increase in food prices, and other capital expenditures. Despite the slower pace of nonfinancial expenditure growth, the 2023 ratio over GDP continued to be higher than that recorded before the pandemic (19.9 percent in 2019).

Table 45

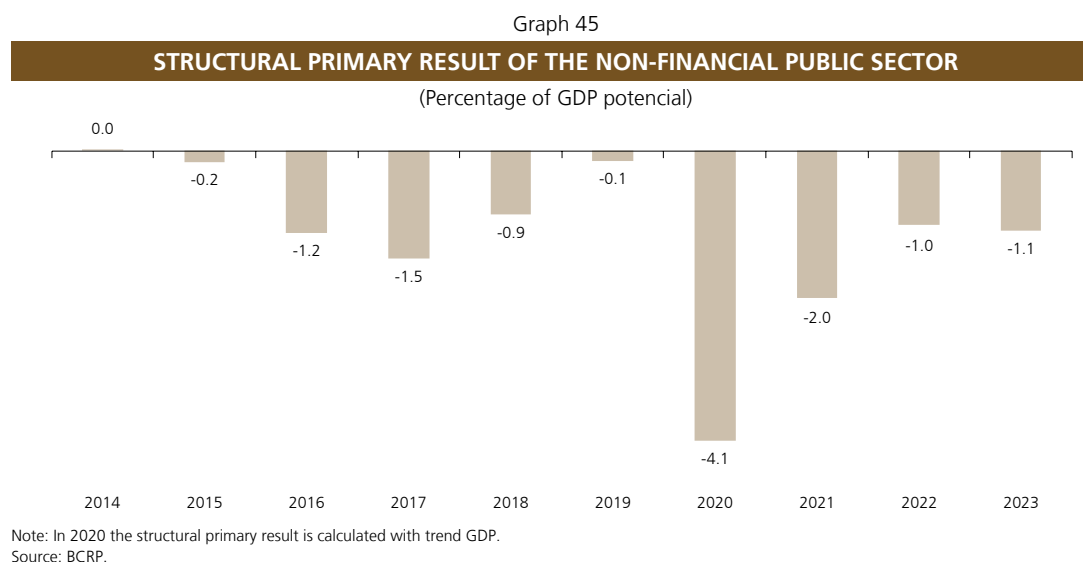
ECONOMIC PERFORMANCE OF THE NON-FINANCIAL PUBLIC SECTOR						
	Millions of soles			Percentage of GDP		
	2021	2022	2023	2021	2022	2023
1. Current income of the General Government	183,874	207,124	197,815	20.9	22.1	19.8
a. Tax revenues	143,147	161,242	150,985	16.3	17.2	15.1
b. Non-tax revenues	40,727	45,881	46,830	4.6	4.9	4.7
2. Non-financial expenditures of the General Government	194,200	206,522	209,589	22.1	22.0	21.0
a. Current Expenditure	150,235	149,625	156,416	17.1	16.0	15.7
b. Capital expenditures	43,965	56,897	53,173	5.0	6.1	5.3
- Gross capital formation	36,867	43,791	46,299	4.2	4.7	4.6
- Others	7,098	13,106	6,874	0.8	1.4	0.7
3. Others	1,360	-1,895	301	0.2	-0.2	0.0
4. Primary result (1-2+3)	-8,965	-1,293	-11,473	-1.0	-0.1	-1.1
5. Interests	13,200	14,686	16,701	1.5	1.6	1.7
a. External debt	4,729	5,838	7,339	0.5	0.6	0.7
b. Domestic debt	8,471	8,849	9,362	1.0	0.9	0.9
6. Economic result	-22,166	-15,980	-28,174	-2.5	-1.7	-2.8
7. Net financing	22,166	15,980	28,174	2.5	1.7	2.8
1. External	53,370	4,421	135	6.1	0.5	0.0
<i>In Millions of USD: (a-b+c)</i>	<i>13,705</i>	<i>1,153</i>	<i>21</i>			
a. Disbursements	13,961	1,838	1,993	6.2	0.8	0.7
b. Amortization	398	1,015	2,688	0.2	0.4	1.0
c. Others 1/	142	330	716	0.1	0.1	0.3
2. Internal	-31,332	11,453	27,960	-3.6	1.2	2.8
3. Privatization	127	106	78	0.0	0.0	0.0

1/ Includes exceptional financing and short-term financing.

Source: MEF, Banco de la Nación, BCRP, Sunat, EsHealth, state-owned companies, Fondo Nacional de Financiamiento de la Actividad Empresarial of Estado (FONAFE) and public institutions.

The **structural primary balance** is an indicator that makes it possible to identify the effect of discretionary fiscal policy changes on public sector accounts. To this end, it seeks to exclude from the economic result factors beyond the authorities' control over tax collection, such as export prices or the economy's position in the cycle, as well as interest on public debt, which reflect past decisions on the government's liability position. In 2023, this indicator recorded a deficit of 1.1 percent of potential GDP, 0.1 percentage points higher than in 2022. This increase is credited to the fiscal stimulus implemented by the government to reactivate the economy.

Likewise, the structural primary outcome in 2023 remains more in deficit than that observed in the pre-pandemic year (2019). This indicates that the Fiscal Stance has remained expansionary compared to that period.



The **financial requirement** measures the amount of resources needed by the Non-Financial Public Sector to finance the economic deficit and meet the amortization of domestic and external debt. In 2023, the requirement amounted to S/ 53,593 million, an amount equivalent to 5.4 percent of GDP and 3.2 percentage points higher than in 2022, due to the early service of financial obligations under the debt management operation (OAD) carried out in the second quarter and the higher level of the fiscal deficit.

Resources came mainly from sovereign bond placements under the OAD (S/ 16,358 million), carried out between May and June 2023, and from the Market Maker program (S/ 12,917 million). In addition, deposits from the Public Treasury (S/ 15,962 million) were used, mainly to finance the fiscal deficit.

Table 46

FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	Millions of soles			Percentage of GDP		
	2021	2022	2023	2021	2022	2023
1. Economic result	-22,166	-15,980	-28,174	-2.5	-1.7	-2.8
2. Amortization	2,937	4,680	25,419	0.3	0.5	2.5
Redemption of recognition bonuses	627	553	596	0.1	0.1	0.1
Internal 1/	756	234	14,913	0.1	0.0	1.5
External 1/	1,554	3,893	9,910	0.2	0.4	1.0
3. Financial Requirement	25,103	20,660	53,593	2.9	2.2	5.4
External disbursements	54,169	7,066	7,402	6.2	0.8	0.7
Free availability	53,028	5,522	5,766	6.0	0.6	0.6
Investment projects	1,140	1,544	1,636	0.1	0.2	0.2
Domestic bonds 1/	4,970	7,908	30,480	0.6	0.8	3.1
Privatization	127	106	78	0.0	0.0	0.0
Others 2/	-34,164	5,580	15,633	-3.9	0.6	1.6

1/ Includes amounts corresponding to debt management operations.

2/ Includes variation in deposits and float, among other concepts.

Source: MEF, Banco de la Nación, BCRP, Sunat, EsHealth, state-owned companies, FONAFE and public institutions.

1. GOVERNMENT REVENUES GENERAL

General Government current income was equivalent to 19.8 percent of GDP in 2023, a ratio 2.3 percentage points lower than recorded in 2022. Most of this decrease is attributed to the tax component, which was negatively affected by the decline in the level of economic activity, the fall in imports, and the reduction in the prices of industrial metals (such as copper and zinc) and hydrocarbons (such as natural gas and oil). This evolution was accentuated by the application of lower coefficients for payment on account in taxable year 2023 and the use of balances in favor of income tax payers.

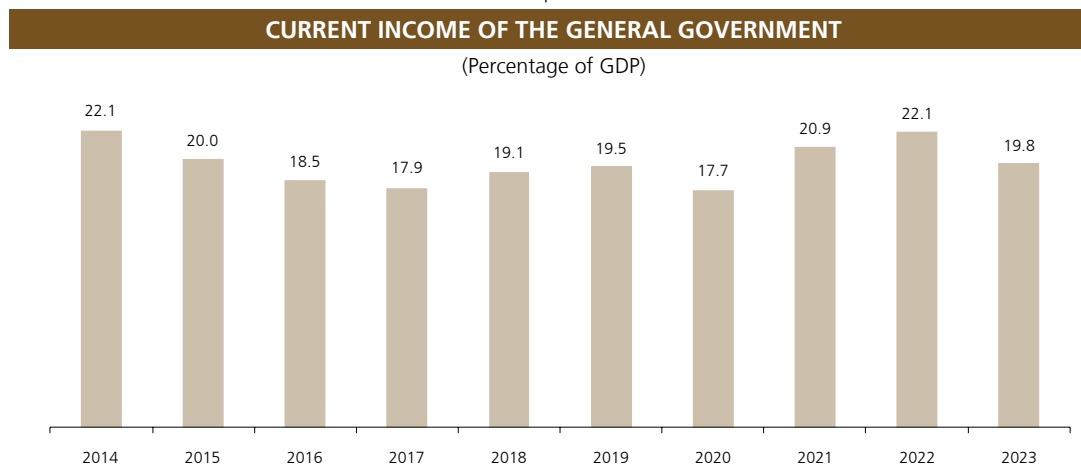
According to components, a lower income tax collection was recorded, mainly due to regularization payments for taxable year 2022 and, to a lesser extent, payments on account by domiciled legal entities. In addition, there was a drop in the general sales tax (IGV), particularly that applied to imports. Among non-tax revenues, there was a decrease in the collection of own resources, partly due to the application of DS 043-2022-EF (which reallocated a fraction of these resources as ordinary resources), as well as canon and oil and gas royalties. This evolution was partially offset by a lower level of tax refunds and higher revenues from transfers from public entities, including the advance of Banco de la Nación's profits to the Public Treasury in November 2023.

Table 47

CURRENT INCOME OF THE GENERAL GOVERNMENT								
	Millions of soles			Real % change		Percentage of GDP		
	2021	2022	2023	2022	2023	2021	2022	2023
I. TAX REVENUES	143,147	161,242	150,985	4.7	-12.0	16.3	17.2	15.1
1. Income taxes	54,877	69,922	62,809	18.6	-15.8	6.2	7.5	6.3
- Individuals	16,016	17,294	17,153	0.5	-7.0	1.8	1.8	1.7
- Legal Entities	29,822	37,605	36,164	17.1	-9.5	3.4	4.0	3.6
- Regularization	9,040	15,022	9,492	55.3	-41.4	1.0	1.6	0.9
2. Import taxes	1,465	1,806	1,547	14.6	-19.4	0.2	0.2	0.2
3. General Sales Tax (IGV)	78,098	88,305	83,444	5.0	-11.1	8.9	9.4	8.4
- Internal	42,608	47,375	48,052	3.2	-4.6	4.9	5.1	4.8
- Imports	35,490	40,930	35,393	7.1	-18.6	4.0	4.4	3.5
4. Selective Consumption Tax (ISC)	9,138	9,026	9,328	-8.3	-2.8	1.0	1.0	0.9
- Fuels	3,648	3,000	3,464	-23.8	8.6	0.4	0.3	0.3
- Others	5,490	6,026	5,864	1.9	-8.5	0.6	0.6	0.6
5. Other tax revenues	19,392	17,809	17,795	-14.7	-6.0	2.2	1.9	1.8
- National Government	16,106	14,253	13,960	-17.8	-7.7	1.8	1.5	1.4
- Local Governments	3,286	3,556	3,835	0.8	1.1	0.4	0.4	0.4
6. Tax refunds	-19,824	-25,625	-23,939	20.0	-12.2	-2.3	-2.7	-2.4
II. NON-TAX REVENUES	40,727	45,881	46,830	4.6	-4.0	4.6	4.9	4.7
1. EsHealth and ONP Contributions	18,054	18,770	19,628	-3.6	-1.6	2.1	2.0	2.0
2. Oil, gas and mining royalties	6,062	5,599	4,280	-13.6	-28.4	0.7	0.6	0.4
3. Petroleum Canon	2,600	3,959	2,754	42.5	-34.7	0.3	0.4	0.3
4. Other income 1/	14,011	17,554	20,167	16.1	8.1	1.6	1.9	2.0
III. TOTAL (I+ II)	183,874	207,124	197,815	4.7	-10.2	20.9	22.1	19.8

1/ Includes own resources, transfers from public entities, interest, income from regulatory, supervisory and registry agencies, among others.
Source: Sunat, MEF, Banco de la Nación, BCRP, EsHealth, ONP, regulatory agencies, registry offices and charitable societies.

Graph 46



Source: BCRP.

Income tax collection contracted by 15.8 percent in real terms and was equivalent to 6.3 percent of GDP in 2023, 1.2 percentage points lower than in 2022. This evolution is mainly explained by the reduction of the regularized balance of the 2022 taxable year and lower payments on account by domiciled legal entities.

Table 48

INCOME TAX BY CATEGORY					
	Millions of soles			Real % change	
	2021	2022	2023	2022	2023
Individuals	16,016	17,294	17,153	0.5	-7.0
First Category (rentals)	616	679	736	2.3	2.0
Second Category (dividends)	3,835	3,605	3,244	-11.8	-16.1
Fourth Category (dependents)	1,328	1,410	1,329	-1.4	-11.3
Quinta Category (dependientes)	10,237	11,600	11,844	5.3	-4.2
Legal Entities	29,822	37,605	36,164	17.1	-9.5
Domiciled	25,397	32,850	31,150	20.1	-10.7
Third Category (companies)	22,786	29,821	28,176	21.6	-11.0
Others	2,611	3,029	2,973	7.6	-7.5
Of which: MYPE Tax Regime	1,941	2,281	2,261	9.0	-6.5
Non-domiciled	4,425	4,755	5,014	0.0	-0.8
Regularization	9,040	15,022	9,492	55.3	-41.4
Individuals	749	1,030	722	28.1	-35.1
Legal Entities	8,291	13,992	8,770	57.8	-41.9
Total	54,877	69,922	62,809	18.6	-15.8

Source: Sunat.

The decrease in **personal income** tax payments (-7.0 percent) was mainly due to the reduction in second category income tax revenues (-16.1 percent), explained by a lower amount of dividends distributed in 2023. For its part, the decrease in the level of government payments to personnel under Administrative Service Contracts (CAS) contributed to a reduction in fourth category income tax revenues (-11.3 percent).

The contraction in the **income of domiciled legal entities** (-10.7 percent) was the result of the downturn in economic activity and lower mineral and hydrocarbon export prices. These factors were compounded by the application of lower payment on account coefficients (due to the decrease in the level of profits in 2022) and the use of balances in favor of taxpayers, which was reflected in the reduction of income from the general or third category regime, particularly in the mining, commerce, hydrocarbons and manufacturing sectors. In addition, since August 2023, requests for reduction of the coefficients of payment on account were filed. **Income collection from non-domiciled legal entities** was reduced by 0.8 percent in real terms with respect to 2022.

The contraction in **income tax regularization** revenues (-41.4 percent) is related to the lower regularized balance of the 2022 taxable year, due to the high payments on account made in that year. The higher payments on account in 2022 are attributed to the favorable context of export prices and the recovery of economic activity during 2021 and early 2022, which generated higher revenues and profits for companies and, consequently, high payment on account ratios in 2022.

Table 49

THIRD CATEGORY INCOME TAX BY SECTOR: PAYMENTS ON ACCOUNT

	Millions of soles			Real % change	
	2021	2022	2023	2022	2023
Trade	4,528	6,059	5,290	24.2	-17.7
Mining	5,220	6,081	4,313	8.9	-33.3
Other services 1/	2,954	4,049	4,268	26.9	-0.5
Manufacturing	2,932	3,861	3,192	22.1	-22.0
Financial Services	1,788	1,723	2,991	-10.6	61.9
Hydrocarbons	1,231	3,104	2,421	134.7	-26.4
Electric power and water	1,536	1,842	2,345	11.0	19.9
Transportation	1,322	1,648	1,861	15.5	6.4
Construction	1,107	1,189	1,290	-0.2	1.9
Agriculture sector	64	131	138	90.5	-1.0
Fishing	103	134	67	21.3	-52.4
Total	22,786	29,821	28,176	21.6	-11.0

1/ Includes real estate, business and rental activities, telecommunications, health, social services, tourism and hospitality, and others.
Source: Sunat.

GST collection recorded a real decrease of 11.1 percent and accounted for 8.4 percent of output, 1.0 percentage points lower than in 2022. By component, the reduction was largely due to the IGV applied to imports (-18.6 percent), and to a lesser extent to domestic IGV (-4.6 percent).

IGV revenues from **imports** declined due to the moderation of economic activity and domestic demand, which had a negative impact on the volume of imports of raw materials for industry, fuels, lubricants and related products, as well as consumer and capital goods. This factor was compounded by the lower prices of oil and its derivatives, as well as the appreciation of the Sol.

The real contraction in **domestic VAT** collection was due to the moderation of economic activity and the reduction in gas prices. It is worth mentioning that the fall was partially offset by a statistical

effect derived from the exoneration of the IGV for a group of foods in 2022 (Law 31452), effective between May 1 and July 31, 2022).

Table 50

INTERNAL IGV BY SECTOR					
	Millions of soles			Real % change	
	2021	2022	2023	2022	2023
Other services 1/	12,363	15,128	15,578	13.4	-2.9
Trade	8,676	8,190	8,630	-12.3	-1.1
Manufacturing	5,837	5,927	6,300	-6.0	0.1
Transportation	3,123	3,886	4,099	15.4	-0.6
Financial Services	2,660	2,843	3,184	-0.7	5.0
Construction	2,909	2,880	2,866	-8.2	-6.3
Electric power and water	2,120	2,389	2,522	4.5	-0.7
Hydrocarbons	1,745	3,462	2,039	85.9	-44.8
Mining	2,249	1,776	1,790	-26.3	-5.5
Agriculture sector	741	709	935	-10.8	23.6
Fishing	185	185	109	-7.2	-44.3
Total	42,608	47,375	48,052	3.2	-4.6

1/ Includes real estate, business and rental activities, telecommunications, health, social services, tourism and hospitality, and others.

Source: Sunat.

ISC revenue decreased by 2.8 percent in real terms and represented 0.9 percent of GDP in 2023, 0.1 percentage points lower than in 2022. This real reduction corresponded to lower revenues from soft drinks, beer and imported goods. In contrast, the ISC applied to fuels increased (8.6 percent), mainly from domestic sales, which mainly reflects the effect of the temporary exclusion of gasoline, gasohol and diesel 2 from the scope of application of the ISC between April and June 2022.

Import tax revenues recorded a real contraction of 19.4 percent and represented 0.2 percent of GDP in 2023, a similar level to the previous year. This result was influenced by the lower value of imports (lower import volume and prices) and the appreciation of the Sol.

Other tax revenues recorded a real contraction of 6.0 percent and represented 1.8 percent of GDP, 0.1 percentage points lower than in 2022. This decrease is mainly explained by a lower operating profit of mining companies, due to a context of lower export metal prices and the appreciation of the Sol, which resulted in a lower collection of the special mining tax. Likewise, there was a decrease in revenues from fines and road tax (affected by lower gasohol prices).

Tax refunds fell by 12.2 percent in real terms and represented 2.4 percent of GDP in 2023, 0.3 percentage points lower than in the previous year. This decrease was mainly observed in export refunds and, to a lesser extent, in early recovery of IGV, excess or undue payments and *drawback*.

Non-tax revenues decreased by 4.0 percent in real terms and accounted for 4.7 percent of GDP, 0.2 percentage points lower than in 2022. This result is was mainly due to lower revenues from own

resources, as well as canon and oil and gas royalties due to the fall in hydrocarbon prices, particularly natural gas and oil. This dynamic was mitigated by the extraordinary transfer of profits from Banco de la Nación to the Public Treasury for S/ 1 billion, ordered at the end of November 2023 (DU 039-2023), as well as higher interest income from Public Treasury deposits.

2. GOVERNMENT EXPENDITURES GENERAL

Non-financial expenditures of the General Government fell by 4.1 percent in real terms and represented 21.0 percent of GDP, a ratio 1.0 percentage point of output lower than in 2022. This reflects the withdrawal of spending related to COVID-19 (health emergency and reactivation), as well as the lower level of current transfers for the stabilization of fuel prices and subsidies for the increase in food prices (food bonus and subsidies to beneficiaries of social programs), and other capital expenditures, due to the capital contribution to Petroperú for S/ 4 billion in October and November 2022 and the lower level of honoring state credit guarantees.

Table 51

NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT 1/								
	Millions of soles			Real % change		Percentage of GDP		
	2021	2022	2023	2022	2023	2021	2022	2023
I. CURRENT EXPENDITURES	150,235	149,625	156,416	-7.7	-1.4	17.1	16.0	15.7
Remunerations	54,226	55,563	62,618	-5.0	6.2	6.2	5.9	6.3
National Government	29,635	30,922	33,421	-3.3	1.8	3.4	3.3	3.3
Regional Governments	21,964	21,643	26,028	-8.5	13.3	2.5	2.3	2.6
Local Governments	2,628	2,997	3,169	5.6	-0.4	0.3	0.3	0.3
Goods and Services	59,414	60,343	62,807	-5.9	-1.8	6.8	6.4	6.3
National Government	39,316	38,949	40,290	-8.2	-2.4	4.5	4.2	4.0
Regional Governments	7,648	8,682	9,160	5.1	-0.3	0.9	0.9	0.9
Local Governments	12,451	12,712	13,357	-5.4	-0.9	1.4	1.4	1.3
Transfers	36,595	33,719	30,990	-14.5	-13.3	4.2	3.6	3.1
National Government	32,394	29,584	26,689	-15.3	-14.9	3.7	3.2	2.7
Regional Governments	3,356	3,118	3,315	-13.6	0.1	0.4	0.3	0.3
Local Governments	845	1,018	986	11.5	-8.7	0.1	0.1	0.1
II. CAPITAL EXPENDITURE	43,965	56,897	53,173	19.4	-11.4	5.0	6.1	5.3
Gross capital formation	36,867	43,791	46,299	9.6	0.2	4.2	4.7	4.6
National Government	14,084	14,280	17,481	-6.3	15.8	1.6	1.5	1.7
Regional Governments	7,081	9,081	10,723	18.3	11.9	0.8	1.0	1.1
Local Governments	15,703	20,430	18,095	20.0	-16.0	1.8	2.2	1.8
Other capital expenditures	7,098	13,106	6,874	70.1	-49.9	0.8	1.4	0.7
National Government	6,817	12,477	6,256	68.6	-52.0	0.8	1.3	0.6
Regional Governments	162	459	443	164.2	-9.6	0.0	0.0	0.0
Local Governments	119	169	175	30.8	-3.0	0.0	0.0	0.0
III. TOTAL NONFINANCIAL EXPENDITURE (I + II)	194,200	206,522	209,589	-1.5	-4.1	22.1	22.0	21.0
National Government	122,246	126,213	124,137	-4.4	-7.1	13.9	13.5	12.4
Regional Governments	40,209	42,983	49,670	-0.9	9.1	4.6	4.6	5.0
Local Governments	31,745	37,326	35,782	8.6	-9.3	3.6	4.0	3.6

1/ Net of commissions and intergovernmental transfers.

Source: MEF.

It is estimated that the General Government's non-financial spending to face the health and reactivation emergency represented 0.4 percent of GDP in 2023, a lower ratio than in 2022 (1.4 percent). This reduction corresponded mainly to lower spending on goods and services (purchases of medical supplies and payments for CAS personnel), and on other capital expenditures (honoring government loan guarantees, from S/ 3,885 million in 2022 to S/ 1,163 million in 2023). However, this decrease in transitorily spending was counterbalanced by the increase in spending for the Con Punche Peru and Emergencia-FEN programs, which accounted for 1.1 percent of GDP in 2023.

General Government current expenditures decreased by 1.4 percent in real terms, from 16.0 to 15.7 percent of GDP between 2022 and 2023. This reduction is mainly explained by lower current transfers.

The **compensation** component increased by 6.2 percent in real terms between 2022 and 2023 due to salary increases granted to personnel in the education and health sectors in 2022 and 2023, as well as to the different public sector labor regimes at the end of 2022. This dynamic was reinforced by higher payments for court rulings, mainly to personnel in the Education sector of the Regional Governments.

Spending on **goods and services** decreased by 1.8 percent in real terms, as a result of the higher inflation recorded in 2023. In nominal terms, this item increased by 4.1 percent, especially in the National Government. This nominal increase is explained by the recovery of non-COVID-19 spending (health emergency and reactivation), including expenditures under the Con Punche Perú and Emergencia-FEN programs, mainly in CAS payments, professional and technical services, and service rentals. There was also higher spending on non-financial assets in the Defense sector (strengthening of the naval industry).

Transfers contracted by 13.3 percent in real terms, mainly at the National Government level, due to the lower level of resources allocated to the Fuel Price Stabilization Fund (FEPC), and for the granting of subsidies to the population (food bonus for the increase in food prices and bonus to agriculture and livestock producers for the purchase of fertilizers).

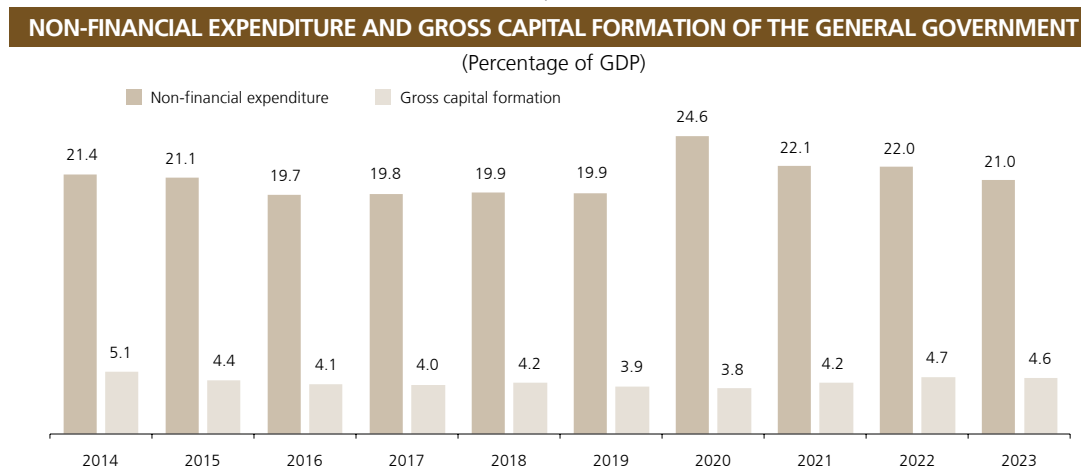
General Government **gross capital formation** increased slightly by 0.2 percent in real terms between 2022 and 2023, consistent with the higher level of spending by the National and Regional Governments. The increase recorded in the National Government was due to the "rest" group²⁸ of projects and activities, including Line 2 of the Lima and Callao Metro and the Bicentennial Schools project, as well as the Reconstruction group, under the Government-to-Government agreement with the United Kingdom, among others. Likewise, the earlier availability of resources and the support and training actions carried out by the MEF contributed to this evolution, especially in the Regional Governments, despite the fact that it was their first year of management.

Other capital expenditures decreased by 49.9 percent in real terms, mainly due to the following factors by a higher basis of comparison due to the capital contribution of the Public Treasury to

28 Reconstruction Group, includes the projects and activities under the Comprehensive Plan for the Reconstruction with Changes, which are executed within the framework of the Government to Government Agreement with the United Kingdom, under the responsibility of the PCM, and by the rest of the National Government entities, Regional Governments and Local Governments; response to COVID-19 (for example, acquisition of medical equipment to face the health emergency and devices such as tablets for the continuity of educational services); Reactivation (Arranca Perú, projects and activities oriented to the generation of employment and income, mainly in the functions of Sanitation, Housing and Urban Development, and Transportation); and "rest" (those that do not belong to the previous groups)

Petroperu by S/ 4,000 million in October and November 2022 (DU 023-2022), as well as a lower honoring of state credit guarantees, especially from the Reactiva Perú program.

Graph 47



Source: BCRP.

Table 52

GENERAL GOVERNMENT GROSS CAPITAL FORMATION					
	Millions of soles			Real % change	
	2021	2022	2023	2022	2023
National Government	14,084	14,280	17,481	-6.3	15.8
Reconstruction	2,835	3,832	4,315	25.0	6.3
Government to Government	2,001	3,299	3,956	52.4	13.2
Rest	834	533	360	-40.9	-36.3
Covid-19	866	203	13	-78.1	-94.2
Reactivation	4	0	0	-98.7	n.a.
Rest	10,378	10,245	13,153	-8.8	21.6
Regional Governments	7,081	9,081	10,723	18.3	11.9
Reconstruction	619	330	311	-50.7	-10.9
Covid-19	288	139	67	-55.9	-53.6
Reactivation	75	37	44	-55.1	13.0
Rest	6,099	8,576	10,301	29.7	13.8
Local Governments	15,703	20,430	18,095	20.0	-16.0
Reconstruction	2,764	2,295	1,480	-23.2	-38.9
Covid-19	26	8	2	-71.7	-81.9
Reactivation	1,742	312	105	-83.5	-68.2
Rest	11,171	17,815	16,508	47.1	-12.1
TOTAL	36,867	43,791	46,299	9.6	0.2
Reconstruction	6,218	6,458	6,107	-3.9	-10.6
Covid-19	1,180	349	81	-72.5	-78.1
Reactivation	1,821	348	149	-82.3	-59.7
Rest	27,648	36,636	39,962	22.3	3.4

Source: MEF.

National Government

Non-financial expenditures of the National Government accounted for 12.4 percent of GDP, 1.1 percentage point lower than recorded in 2022. In real terms, spending decreased by 7.1 percent, mainly due to lower spending on other capital expenditures and current transfers.

Compensation spending increased by 1.8 percent in real terms, remaining constant with respect to GDP between 2022 and 2023 (3.3 percent). In nominal terms, this component grew by 8.1 percent, due to higher salaries in the Education and Health sectors, and the different labor regimes of public sector workers.

Expenditure on **goods and services** decreased by 2.4 percent in real terms, from 4.2 to 4.0 percent of GDP between 2022 and 2023. In nominal terms, it increased by 3.4 percent, with the increase in nonCOVID-19 spending in most items, particularly the acquisition of non-financial assets of the Defense and Interior sectors, and Emergency spending - El Niño event and Con Punche Perú, were offset in part by the withdrawal of spending for the health emergency, particularly on medical supplies and vaccines, and personnel payments, especially for the CAS system.

Spending on **current transfers** contracted by 14.9 percent in real terms, from 3.2 to 2.7 percent of Expenditure-side GDP between 2022 and 2023. This decrease is mainly explained by the lower level of transfers for fuel price stabilization and subsidies for the increase in food prices (food vouchers and subsidies to beneficiaries of social programs), in addition to the withdrawal of spending for the health emergency. This was partially offset by transfers made through Con Punche Perú (e.g., programs from the farm to the pot, food delivery to vulnerable families, purchases from MYPE through FONCODES, among others).

Gross capital formation grew by 15.8 percent in real terms, from 1.5 to 1.7 percent between 2022 and 2023. During the year, higher spending was recorded for the Public Order and Security and Education functions, and to a lesser extent Agriculture, Transportation and Sanitation, mainly, highlighting the execution of projects and activities included in the “rest” and Reconstruction groups within the framework of the Government to Government Agreement with the United Kingdom. In the “rest” group, progress was made in transportation infrastructure projects, including Line 2 of the Lima and Callao Metro, and educational infrastructure, particularly the special Bicentennial Schools project. For its part, the expenditure accrued for reconstruction under the Government to Government Agreement with the United Kingdom corresponded mainly to integral solutions projects, and to a lesser extent, the construction of health facilities and educational facilities.

The National Government’s **other capital expenditures** decreased by 52.0 percent in real terms, from 1.3 to 0.6 percent of GDP between 2022 and 2023, due to the recording of a capital contribution to Petroperu (S/. 4 billion in 2022) and the lower honoring of government credit guarantees, mainly from the Reactiva Peru program (S/. 3,885 million in 2022 compared to S/. 1,163 million in 2023).

Table 53

MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT: 2023 1/

(Millions of soles)

MAJOR PROJECTS	Amount
TRANSPORTATION 2/	4,384
Lima and Callao Subway Line	2,953
Huanuco - Conococha Highway, Huanuco	252
Chinchero International Airport, Cusco	213
Santa Maria Highway - Machu Picchu Hydroelectric Bridge, Cusco	146
Via Expresa Santa Rosa, Callao	122
Lima - Canta - La Viuda - Unish Highway	92
Emp Pe-3Sm Highway (Dv. Lirio) - Acoria, Huancavelica	84
New Central Highway	82
Acquisition of assets for the Dirección de Gestión Vial de Proviás Nacional (Road Management Directorate of Proviás Nacional)	78
Chuquicara Highway - Pallasca, Ancash	77
Dv. Chiguirip Highway - El Chirimoyo Crossroads, Cajamarca	62
Longitudinal Highway of the Northern Highlands, Cajamarca	61
Chimbote - Tocache Highway, San Martín	60
Highway Dv. Salcabamba - Pichiu, Huancavelica	57
Broadband, Amazonas	56
Broadband, Huanuco	56
Broadband, Junín	55
Pisac - Nuevo Eden Highway, Cusco	52
Rest	1,824
RECONSTRUCTION - GOVERNMENT-TO-GOVERNMENT AGREEMENT WITH THE UNITED KINGDOM	3,956
Flood protection in La Esperanza and Huanchaco, La Libertad	373
Support Hospital of Sullana, Piura	266
Protection against flooding in the Chico and Matagente river sections, Ica	207
Pomabamba Support Hospital, Ancash	143
Support Hospital of Recuay, Ancash	143
Flood protection on the Casma, Sechin and Grande rivers, Ancash	141
Protection of the banks of the Lacramarca River, Ancash	115
Flood protection on both banks of the Huarmey River, Ancash	115
Flood protection of the Cañete River, Lima	114
San Juan de Matucana Hospital, Lima	107
Support Hospital of Casma, Ancash	97
Support Hospital of Yungay, Ancash	86
San Juan de Dios Hospital, Caraz, Ancash	80
Flood protection services in Porvenir, Trujillo and Larco Herrera, La Libertad	77
Provincial Hospital of Cascas, La Libertad	77
Protection of the banks of the Huara River, Lima	76
Storm drainage in the urban areas of 4 districts in Lambayeque	70
Flood protection on both banks of the Chicama River, La Libertad	54
Rest	1,615
EDUCATION	3,211
Bicentennial Schools	1,258
Installed capacity for preparedness and response to emergencies and disasters	59
San Agustín National University Applied Research Center and Laboratories	59
Management of University and Technological Higher Education Services at the national level	51
Rest	1,783
AGRICULTURE	1,401
Fruit fly eradication in Piura, Tumbes, Cusco and others	92
Public Services for Local Productive Development	56
Water recharge and rainwater harvesting in 14 departments	54
Food safety in agriculture sector food production and processing	49
Riverine defense of the Zarumilla River, Tumbes	45
Flood and overflow control of the Pisco River, Ica	40
Rest	1,067
SANITATION	965
Drinking water and sewerage of Huarmey, Ancash	94
Drinking water in Calana, Tacna	40
Drinking water and sewerage in Huarochirí, Lima	25
Rest	805
HEALTH	801
Huari Health Establishment, Ancash	99
Antonio Lorena Hospital, Cusco	94
Improvement of health services at Huarmey hospital, Ancash	83
Uta Health Establishment, Huamán, Huánuco	62
Hospital of Tambopata, Cotabambas, Apurímac	27
Hospital de Bambamarca, Hualgayoc, Cajamarca	25
Rest	411
OTHER	2,763
TOTAL	17,481

1/ The projects listed under each function or item are those with the highest accruals for the year.

2/ Excludes payments for works carried out in previous years under the concession scheme, payments for expropriations and land releases, and advances on identified works.

Source: MEF.

Regional Governments

Non-financial expenditures by Regional Governments represented 5.0 percent of GDP, 0.4 percentage points higher than in 2022. In real terms, spending increased 9.1 percent, due to higher spending on salaries and gross capital formation.

Spending on **salaries** increased by 13.3 percent in real terms, from 2.3 to 2.6 percent of Expenditureside GDP between 2022 and 2023. This development is explained by the increase granted to teachers and health personnel, mainly, as well as by a higher payment of sentences and arbitration awards, particularly to personnel in the education sector. Expenditure on **goods and services** decreased by 0.3 percent in real terms, and remained constant with respect to GDP (0.9 percent), while expenditure on **current transfers** increased by 0.1 percent in real terms, maintaining the ratio with respect to GDP (0.3 percent of GDP).

Gross capital formation grew by 11.9 percent in real terms, from 1.0 to 1.1 percent of GDP between 2022 and 2023. According to functions, the increase was generalized, highlighting the higher execution in projects and activities in Education, Transportation, Agriculture, Health and Public Order and Security; and according to groups, it corresponded to the “rest” group, highlighting the water consolidation projects of the Grande-Santa Cruz river account in Ica, departmental road JU-108 Palian-Pariahuanca in Junín and hospital Santiago Apóstol de Utcubamba in Amazonas. The increase was recorded in 17 of 25 departments, particularly in Cajamarca, Ica, Ucayali, Junín, Amazonas, Huánuco, La Libertad, Piura, Tumbes, Ayacucho, Cusco and Arequipa; and by sources of financing, it was mainly supported by the Regional Compensation Fund (FONCOR), and to a lesser extent by ordinary resources. Between 2022 and 2023, both the number of projects and activities and the average accrued expenditure increased.

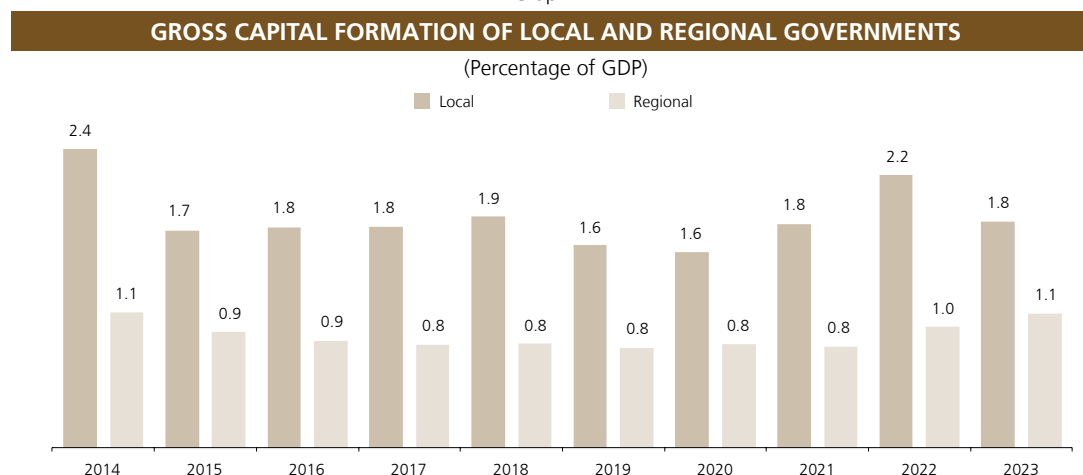
Local Governments

Non-financial expenditures of Local Governments accounted for 3.6 percent of GDP in 2023, 0.4 percentage points of output lower than in 2022. In real terms, Non-financial expenditures of this level of government contracted by 9.3 percent, mainly due to the lower level of gross capital formation.

The components of current expenditure, remunerations, goods and services, and transfers, decreased in real terms (-0.4, -0.9 and -8.7 percent, respectively), while the ratios remained constant with respect to GDP, with the exception of the acquisition of goods and services, which went from 1.4 to 1.3 percent. The latter recorded a nominal increase, mainly due to the rental of services, professional and technical services, and rents, offset in part by lower spending on maintenance services, particularly in the context of Arranca Perú.

For its part, **gross capital formation** contracted by 16.0 percent in real terms, from 2.2 to 1.8 percent of GDP between 2022 and 2023, in the first year of management of the new municipal authorities. According to groups of projects and activities, the drop was recorded mainly in the “rest” and Reconstruction groups, and to a lesser extent reactivation (Arranca Perú), due to the withdrawal of spending for the Covid-19 pandemic. According to functions, the decrease was generalized, recorded particularly in the Transport, Education, Culture and Sports, Housing and Urban Development and Sanitation functions; and according to regions, in the municipalities of 22 out of 25 departments, particularly in Lima, Ancash, La Libertad, Apurímac, Cajamarca, Huanuco and Arequipa. Between 2022 and 2023, the number of projects and activities decreased, while the average accrued expenditure increased.

Graph 48



Source: BCRP.

3. STATE-OWNED COMPANIES

In 2023, the economic surplus on a cash basis of state-owned companies amounted to S/ 184 million, an amount that contrasts with the deficit recorded in 2022 (-S/ 2,566 million). This is explained by Petroperu's lower deficit and the surplus recorded by the "rest" of the companies, which contrasts with the deficit recorded in 2022 by this group of companies. On the other hand, Sedapal and Electroperu recorded a larger deficit, while the regional electricity companies recorded a smaller surplus.

Table 54

ECONOMIC RESULT ON CASH BASIS OF STATE-OWNED COMPANIES 1/						
	Millions of soles			Percentage of GDP		
	2021	2022	2023	2021	2022	2023
Petroperú	-1,107	-2,846	-1,313	-0.1	-0.3	-0.1
Electroperú	324	-219	-277	0.0	0.0	0.0
Regional Electricity	1,131	870	810	0.1	0.1	0.1
Sedapal	133	-180	-296	0.0	0.0	0.0
Other companies	-331	-192	1,259	0.0	0.0	0.1
TOTAL	150	-2,566	184	0.0	-0.3	0.0

1/ The economic result on to cash basis does not refer to the company's income statement.

Source: SOEs, FONAFE and MEF

In 2023, Petroperú recorded a deficit economic result of S/ 1,313 million, lower than that registered in 2022 (-S/ 2,846 million), which is mainly explained by lower expenses for expenses on goods and services (in S/ 12,049 million), which were partially offset by lower sales income (-S/ 6,129 million) and capital income (-S/ 4,000 million).

The drop in expenses from purchases of goods and services is explained by the reduction in the volumes of crude oil and products (-16 percent) and purchase prices (-21 percent), to which is added the rescheduling of payments for purchases of imported products and the longer payment term for purchases of crude oil. For its part, the drop in sales revenue is explained by lower volumes (-19 percent) and average sales prices (-14 percent), observing a reduction in the company's participation in the domestic market (from 29 percent in 2022 to 26 percent in 2023). Meanwhile, the lower level

of capital inflows (-S/ 4 billion) is explained by the fact that in October-November In November 2022, a capital contribution from the Public Treasury was recorded for such amount.

The new Talara refinery started operating gradually in the first quarter of 2023 and from the first quarter of According to the company, it is in the process of optimizing its operations.

Sedapal recorded an economic deficit of S/ 296 million, higher than in 2022 (-S/ 180 million).

This is explained by higher capital expenditures (S/. 455 million), which more than offset the higher level of savings in the current account (S/ 259 million), as a result of an increase in revenues greater than that of expenditures. Projects included the Nueva Rinconada drinking water and sewerage system, the Cerro Las Ánimas scheme and annexes, and improvements to the treatment plant and wastewater treatment plant in San Bartolo.

The increase in current income is mainly explained by higher income from sales of potable water and sewage service, and groundwater monitoring service, due to the increase in tariffs in May and August 2022. Expenses for current expenses increased mainly due to a higher payment of taxes on its own account, while expenses for goods and services decreased due to a lower installation of meters and the contracting of miscellaneous services.

Electroperú recorded an economic loss of S/. 277 million, slightly higher than the previous year (-S/. 219 million).

This development is explained by the higher level of expenses for goods and services (S/. 542 million), particularly in energy purchases for its own operations, higher volumes -due to the lower production of the Mantaro hydroelectric complex- and prices, and more energy and power purchases to meet Proinversión's commercialization order. This was counterbalanced by an improvement in sales revenues (S/. 149 million), particularly to end customers and for the marketing order, as well as by a lower level of profit transfer to the Consolidated Reserves Fund - FCR (-S/ 178 million) and a decrease in tax payments (-S/ 141 million), mainly.

The regional electricity companies recorded an economic result of S/. 810 million, lower than in 2022 (S/. 870 million).

This is explained by higher capital expenditures (S/ 97 million), particularly in gross capital formation, which more than offset the increase in the level of savings in the current account, as a result of an increase in revenues higher than that of expenditures.

The increase in current income is explained both by a higher level of sales revenues, due to higher volumes, prices and improved collection management, as well as other current income, including an arbitration award in favor of Empresa de Generación Eléctrica Machupicchu (EGEMSA), financial income from deposits and financial investments, and tax refunds to Empresa Regional de Servicio Público de Electricidad del Centro (Electrocentro), among others. The increase in expenditures for current expenses is related to the expansion of energy purchases and the payment of toll services, and the higher payment of taxes on its own account.

The **rest of the SOEs** recorded a surplus economic result of S/. 1,259 million in 2023, which contrasts with the deficit recorded in 2022 (-S/ 192 million). This is mainly explained by the operations of the company Sima Perú, which reported a higher level of income from the strengthening of the naval industry (S/ 1,507 million, having executed S/ 72 million in the year for this item). For its part, the group made up of municipal companies and decentralized public agencies recorded an economic surplus of S/ 239 million, higher than in 2022 (S/ 106 million), due to the increase in current income of municipal companies and, to a lesser extent, decentralized public agencies, and the decrease in the level of capital expenditures of the latter entities.

4. PUBLIC SECTOR DEBT NOT FINANCIAL

The **gross debt** of the Non-Financial Public Sector amounted to S/ 329,234 million at the end of 2023, an amount equivalent to 32.9 percent of GDP. This ratio is 1.0 percentage points of GDP lower than recorded at the end of 2022, which is explained by the higher level of nominal GDP.

In nominal terms, the gross debt balance increased by S/ 11,928 million between 2022 and 2023, due to the increase in the fiscal deficit, which was also financed with the use of deposits of the Non-Financial Public Sector. According to components, higher domestic debt was recorded, mainly due to sovereign bond placements in the OAD, and for deficit financing. On the contrary, external debt decreased due to the partial withdrawal of global bonds within the framework of the OAD and the effect of the appreciation of the Sol against the US dollar.

Table 55

BALANCE OF NONFINANCIAL PUBLIC SECTOR DEBT 1/						
	Millions of soles			Percentage of GDP		
	2021	2022	2023	2021	2022	2023
PUBLIC DEBT (I + II)	314,890	317,305	329,234	35.8	33.9	32.9
I. EXTERNAL PUBLIC DEBT	170,438	164,527	158,335	19.4	17.6	15.8
Credits	43,221	44,106	46,567	4.9	4.7	4.7
International organizations	34,378	35,292	38,236	3.9	3.8	3.8
Paris Club	3,656	4,411	4,580	0.4	0.5	0.5
International banking	5,187	4,403	3,751	0.6	0.5	0.4
Bonds	127,217	120,421	111,769	14.5	12.9	11.2
Global bonds	115,247	108,991	100,639	13.1	11.6	10.1
Non-financial public company bonds	11,970	11,430	11,130	1.4	1.2	1.1
II. DOMESTIC PUBLIC DEBT	144,452	152,778	170,898	16.4	16.3	17.1
1. LONG TERM 2/	134,632	142,453	158,237	15.3	15.2	15.8
Bank loans	1,295	1,132	1,429	0.1	0.1	0.1
Treasury Bonds	133,337	141,321	155,603	15.2	15.1	15.6
Public debt swap with the Banco de la Nación	295	295	38	0.0	0.0	0.0
Sovereigns	129,611	137,878	152,915	14.8	14.7	15.3
Recognition	3,432	3,148	2,650	0.4	0.3	0.3
Bonds of the Municipality of Lima	0	0	1,205	0.0	0.0	0.1
2. SHORT-TERM	9,819	10,325	12,661	1.1	1.1	1.3
Note:						
Public-Private Partnerships Obligations 3/	2,088	1,292	724	0.2	0.1	0.1
Fuel Price Stabilization Fund	-138	2,319	903	0.0	0.2	0.1
Cofide and Fondo Mivivienda's External Debt	11,240	11,471	12,422	1.3	1.2	1.2
Global and Sovereign Bond Holdings	244,858	246,869	253,554	27.9	26.4	25.4
Residents	69,760	84,843	100,408	7.9	9.1	10.0
No Residents	175,098	162,026	153,146	19.9	17.3	15.3
Sovereign Bonds	129,611	137,878	152,915	14.8	14.7	15.3
Residents	66,242	81,753	97,888	7.5	8.7	9.8
No Residents	63,368	56,125	55,027	7.2	6.0	5.5
Global Bonds	115,247	108,991	100,639	13.1	11.6	10.1
Residents	3,518	3,090	2,520	0.4	0.3	0.3
No Residents	111,729	105,902	98,118	12.7	11.3	9.8

1/ Includes the debt of the National Government, sub-national governments (regional and local) and non-financial public enterprises.

2/ Includes debt recognized with FONAVI, Law 29625.

3/ Estimated. Nominal value of CRPAOs issued between May 2006 and March 2012, net of redemptions made.

Source: MEF, BCRP, Banco de la Nación, ONP, PetroPerú, Ministry of Transportation and Communications, Cofide and FMV.

It is worth mentioning that the OAD involved the issuance of a new Sovereign Bond 2033 and the redemption of part of the Sovereign Bonds 2023, 2024, 2026 and 2028, and of the Global Bonds 2025, 2026, 2027, 2030 and 2031, through repurchase and exchange operations. In this operation, the repurchase of global bonds for USD 1,628 million and sovereign bonds, including Global Depositary Notes (GDN), for S/ 6,913 million, and

the exchange of sovereign bonds for S/ 7,099 million were accepted. For this purpose, the Sovereign Bond 2033 was issued for a total of S/ 16,358 million and domestic currency deposits were withdrawn in the BCRP for S/ 3,988 million and in foreign currency for USD 78 million, including interest payments.

4.1 PUBLIC DEBT EXTERNAL

At the end of 2023, the Non-Financial Public Sector **external debt** amounted to S/ 158,335 million, an amount that represents 15.8 percent of GDP, a ratio 1.8 percentage points lower than recorded at the end of 2022. This drop is explained by the effect of the appreciation of the Sol against the US dollar (estimated at -S/ 4,270 million) and by the partial retirement of global bonds 2026, 2027, 2030 and 2031 under the OAD (USD 1,628 million).

During the year, contingent and unrestricted credits were disbursed for USD 1,555 million, of which USD 1,420 million were granted by international organizations (USD 750 million by the World Bank-WB, USD 300 million by the Inter-American Development Bank-IDB and USD 370 million by the Andean Development Corporation-CAF). In addition, the State Development Bank of the Federal Republic of Germany-KfW, a member of the Paris Club, disbursed USD 135 million.

4.2 DEBT INTERNAL

At the end of 2023, the **domestic debt** of the Non-Financial Public Sector amounted to S/ 170,898 million, equivalent to 17.1 percent of GDP, 0.8 percentage points higher than in December 2022.

In nominal terms, this component increased by S/ 18,120 million between the end of 2022 and 2023, mainly explained by the placement of sovereign bonds net of amortizations (S/ 15,038 million). This amount includes placements under the Market Makers program (S/ 12,917 million) and under the May-June 2023 OAD (S/ 16,358 million), counterbalanced by the partial withdrawal of sovereign bonds under this OAD (-S/ 14,012 million) and the amortization of the bond maturing in September 2023 (S/ 384 million). Likewise, by the increase in the expenditure float (S/ 2,488 million) and the placement of a bond maturing in 2043 by the Metropolitan Municipality of Lima (S/ 1,205 million).

4.3 DEBT NET

The **net debt** of the Non-Financial Public Sector, defined as the difference between financial liabilities or total public debt and financial assets (total deposits in the financial system and other financial assets) increased from S/ 197 166 million in 2022 to S/ 225 270 million in 2023. This level represents 22.5 percent of GDP, which is 1.4 percentage points higher than in 2022.

Table 56

NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR						
Years (Balance as of December)	Millions of soles			Percentage of GDP		
	Assets	Liabilities	Net Debt	Assets	Liabilities	Net Debt
2014	96,994	114,432	17,438	16.8	19.8	3.0
2015	109,033	142,241	33,208	17.8	23.2	5.4
2016	111,649	156,663	45,014	16.8	23.6	6.8
2017	107,407	173,976	66,569	15.2	24.6	9.4
2018	107,091	190,789	83,698	14.3	25.5	11.2
2019	105,998	206,301	100,303	13.6	26.5	12.9
2020	89,019	249,197	160,177	12.3	34.5	22.2
2021	124,168	314,890	190,722	14.1	35.8	21.7
2022	120,140	317,305	197,166	12.8	33.9	21.1
2023	103,964	329,234	225,270	10.4	32.9	22.5

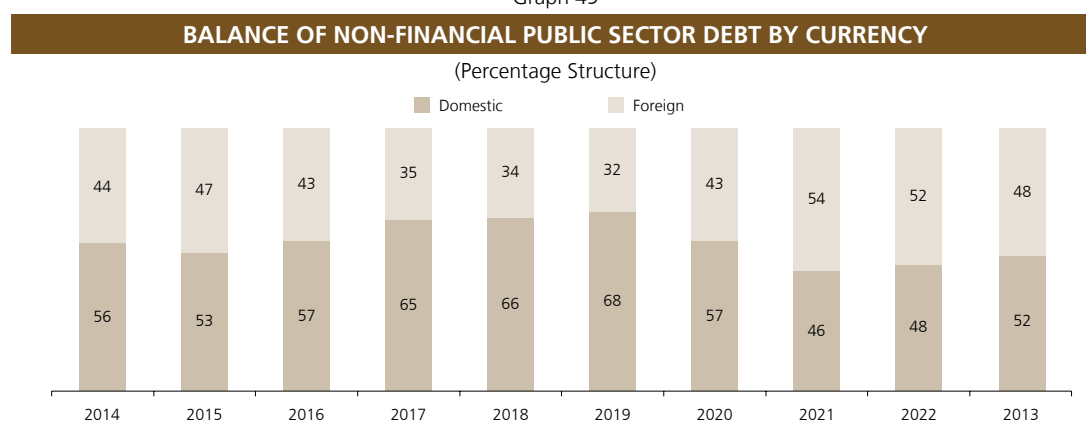
Source: MEF, BCRP, Banco de la Nación, Petroperú, ONP, EsHealth, Electroperú and FONAFE.

In nominal terms, the increase in net debt (S/ 28,104 million) is mainly explained by the increase in the fiscal deficit, which was financed by a greater use of deposits from the Non-Financial Public Sector deposits and by the year's indebtedness.

4.4 DEBT BY CURRENCIES

The share of Non-Financial Public Sector debt in foreign currency decreased from 52.1 to 48.3 percent of total debt between 2022 and 2023, mainly due to the effect of the appreciation of the Sol against the U.S. dollar on the debt balance and the partial retirement of global bonds under the OAD. This reduction occurred despite disbursements recorded during the year for loans from international organizations and the Paris Club.

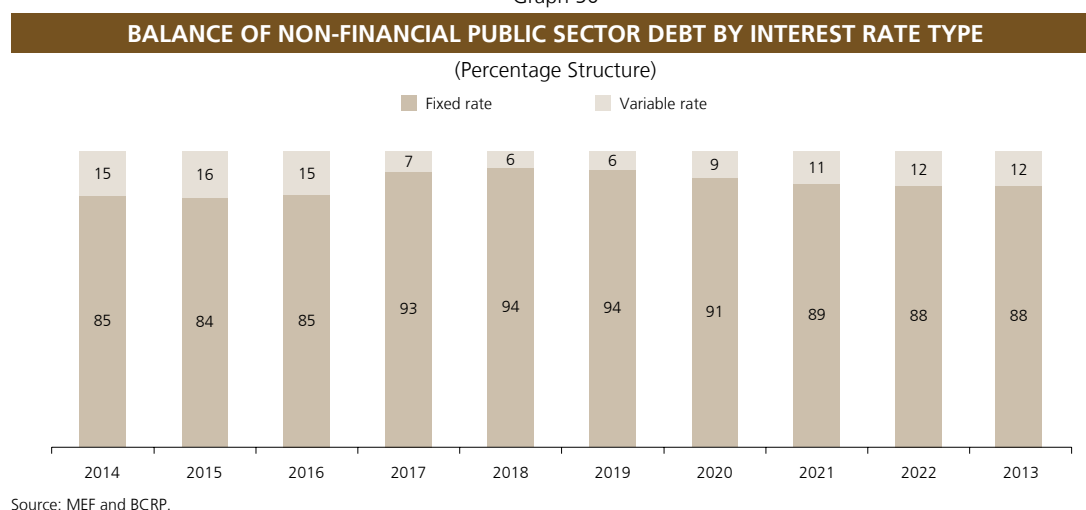
Graph 49



4.5 DEBT BY TYPE OF INTEREST RATE

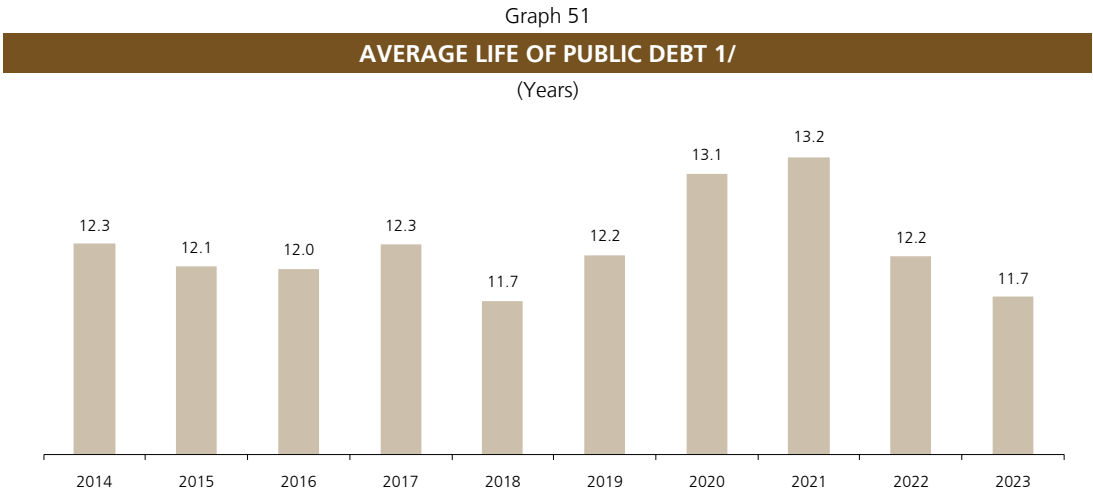
At the end of 2023, fixed-rate Non-Financial Public Sector debt represented 88 percent of total debt, a ratio similar to that of the previous year. This is due to the fact that fixed-rate placements, mainly of sovereign bonds, were offset by higher debt with international organizations and the Paris Club.

Graph 50



4.6 AVERAGE LIFE OF THE DEBT

At the end of 2023, the average life of total medium- and long-term public debt was 11.7 years, which represents a decrease compared to the end of 2022 (12.2 years). The average life of domestic public debt was 9.6 years (9.5 years in 2022), while the average life of external public debt was 13.7 years (14.2 years in 2022).



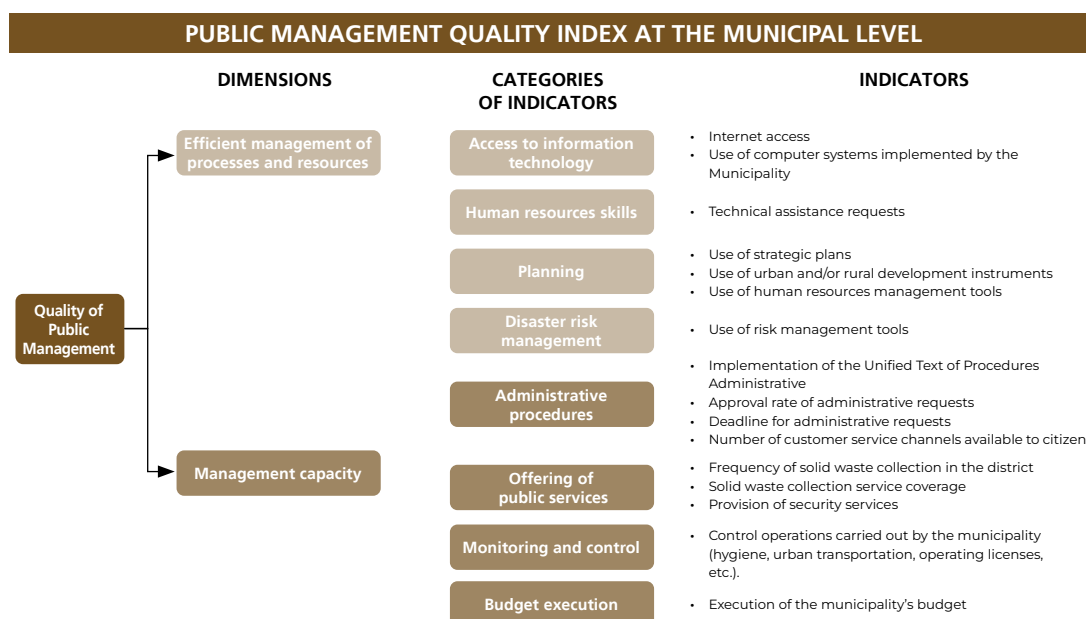
1/ Calculated by MEF and refers to medium and long-term financial and non-financial public sector debt.
Source: MEF.

Box 3

QUALITY OF MUNICIPAL PUBLIC MANAGEMENT AT THE DISTRICT AND PROVINCIAL LEVELS

The **Public Management Quality Index (ICGP)** is a synthetic indicator constructed by the BCRP's Department of Social and Regional Policies, which approximates the concept of municipal management quality based on two dimensions: efficiency in the administration of resources and processes; and capacity to execute public policies and provide public services. To measure these two dimensions, a set of indicators were used for each of them, which are mainly taken from the survey of the National Registry of Municipalities (RENAMU).

1. To measure efficiency in resource management, four sets of indicators are used: access to information technologies (2 indicators), human resource skills (1 indicator), planning (3 indicators), and disaster risk management (1 indicator).
2. Four sets of indicators are also used to measure government capacity: performance of administrative procedures (4 indicators), provision of public services (3 indicators), performance of monitoring and oversight activities (1 indicator), and budget execution (1 indicator).



3. A methodology similar to that used by the World Bank in the calculation of the *Doing Business* indicator is used to construct the GPCI. The process is carried out in two stages.

First, an individual score normalized to a common unit is calculated for each indicator. This is achieved by the following linear transformation:

$$\hat{y} = \frac{y - y_{\min}}{y_{\max} - y_{\min}} * 100,$$

where, y_{\min} represents the lowest value of the indicator among subnational governments in a base year, and y_{\max} ²⁹, the highest.³⁰ If it happens that a variable is measured in such a way that a lower

29 2015 was chosen as the base year for this exercise for both y_{\min} and y_{\max} .

30 In the case of budget execution, it is assigned as y_{\max} at 100 percent execution, and y_{\min} as 0 percent, so that the normalized variable measures the gap with respect to the ideal situation. Therefore, it is possible that the best government in terms of public management does not obtain an indicator of 100.

value expresses a better management (e.g., days needed to carry out a procedure), the formula for normalization is:

$$\hat{y} = \left(1 - \frac{y - y_{\min}}{y_{\max} - y_{\min}}\right) * 100$$

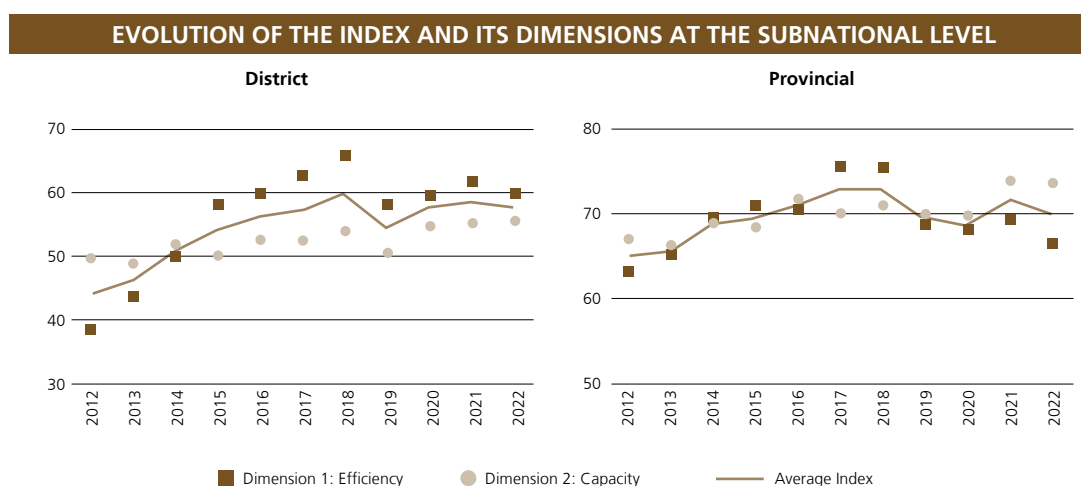
In this way, a higher score is assigned to the values close to the maximum in the distribution. In the event that in any specific year occur that $y < y_{\min}$ or $y > y_{\max}$, scores of 0 and 100, respectively, are assigned.

In a second stage, the normalized indicators are aggregated. To do this, a simple average is calculated within each dimension, due to the lack of *a priori* knowledge of the relative importance of each indicator. Under a similar logic, once the indices per dimension have been calculated, a simple average is again applied between the dimensions to obtain the public management quality index.

Results

The results show that there was an increasing trend in municipal quality until 2018 and then a drop in 2019. Subsequently, district-level quality has been recovering, while provincial quality has had an oscillating behavior. Likewise, it should be noted that provincial public management quality was higher than district quality throughout the period.

It is observed that, for both district and provincial levels, there was a slight reduction in the indicator in 2022 with respect to 2021. As shown in the graph below, the reduction in the municipal public management quality index in 2022 was mainly driven by a deterioration in the efficiency dimension, both for the case of districts and provinces. On the other hand, the management capacity dimension remained stable in the last year.

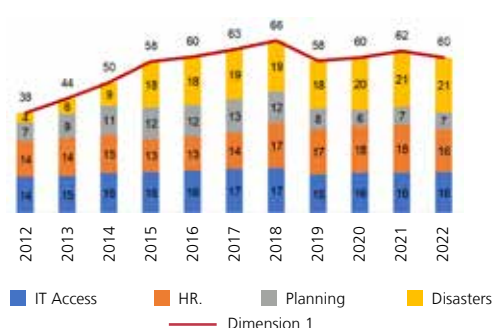


A breakdown of the average scores for each dimension shows that the decline in efficiency in 2022 was due to a deterioration in human resource capacity at both the district and provincial levels. It should be noted that disaster risk management has improved considerably over the last decade. Regarding the management capacity dimension, no considerable changes are observed in any of the specific categories that compose it in 2022 with respect to 2021.

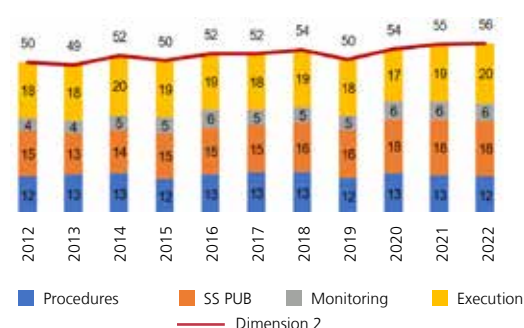
EVOLUTION OF DIMENSIONS DISAGGREGATED BY CATEGORY AT THE SUBNATIONAL LEVEL

AT THE LEVEL OF DISTRICT MUNICIPALITIES

Dimension 1: Efficiency of administration

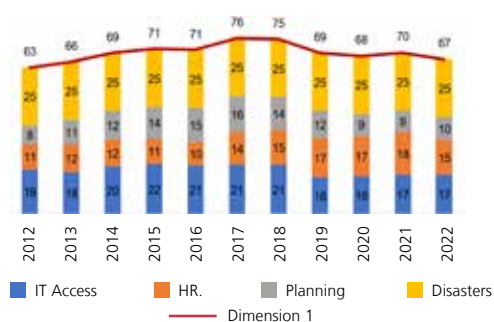


Dimension 2: Management capacity

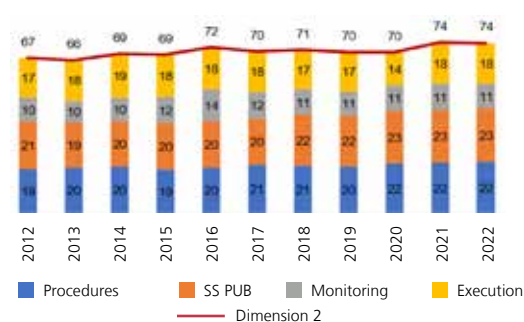


AT THE LEVEL OF PROVINCIAL MUNICIPALITIES

Dimension 1: Efficiency of administration



Dimension 2: Management capacity



Note: Each category has a weight of 0.25 within each dimension. After this transformation, the score per category goes from a range of 0 to 100 to a range of 0 to 100.

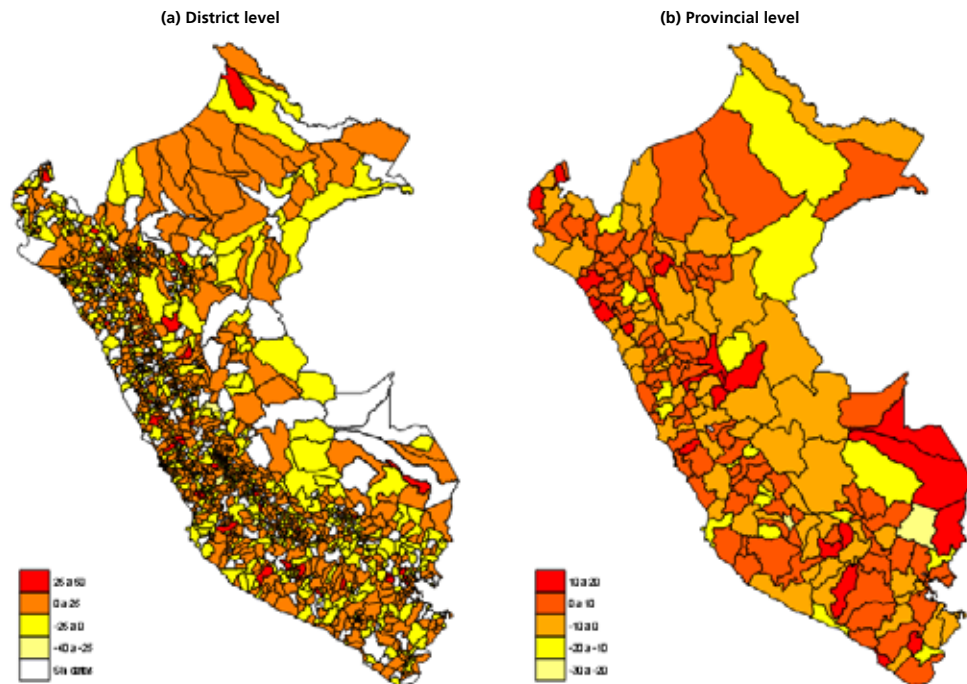
To deepen the analysis, the following table shows the results of the ICGP by natural region for 2022. As can be seen, the provincial and district municipalities of the coast are the ones that obtained the highest quality of public management in 2022. In contrast, municipalities in the highlands are the ones that obtain the lowest results.

ICGP DISAGGREGATED BY NATURAL REGIONS - 2022

	Costa	Sierra	Jungle	Peru
ICGP at district level				
Average	64	56	59	58
Median	64	57	60	59
Minimum	34	23	29	23
Maximum	87	84	82	87
ICGP at provincial level				
Average	74	69	72	70
Median	73	69	72	71
Minimum	58	43	40	40
Maximum	88	87	82	88

In order to compare the quality of management between 2019 and 2022, the following graph shows heat maps of the variation of the ICGP at the district and provincial levels. At the district level, the municipalities with the highest increase in the indicator value were La Morada (Marañón, Huánuco), Upahuacho (Parinacochas, Ayacucho), San Luis (Lima, Lima), Agua Blanca (El Dorado, San Martín) and Saucepampa (Santa Cruz, Cajamarca). For its part, the provincial municipalities with the greatest progress were Ilo (Moquegua), Dos de Mayo (Huánuco), Tumbes (Tumbes), Antabamba (Apurímac) and Julcán (La Libertad).

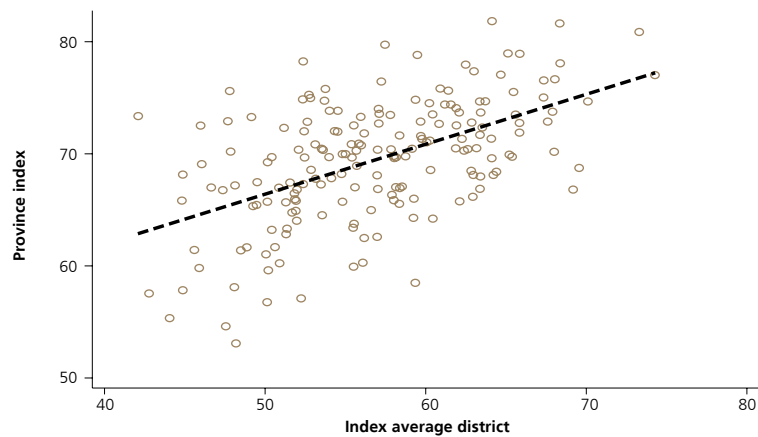
HEAT MAPS OF THE IGCP VARIATION BETWEEN 2019 AND 2022



Note: The index variation measures the simple difference between the 2022 score and the 2019 score. Thus, it indicates by how much the gap was reduced with respect to the best possible management in 2015 (base year).

Finally, an exercise relevant to public policy is to assess the relationship of the quality of governance between different levels of government within the same politically binding area. The following graph shows that there is a positive relationship between the average quality of governance of districts within a province and the quality of governance of the respective provincial municipality.

AVERAGE SCORE OF DISTRICT MUNICIPALITIES WITHIN TO PROVINCE AND AVERAGE SCORE OF THE RESPECTIVE PROVINCIAL MUNICIPALITY, 2012-2022



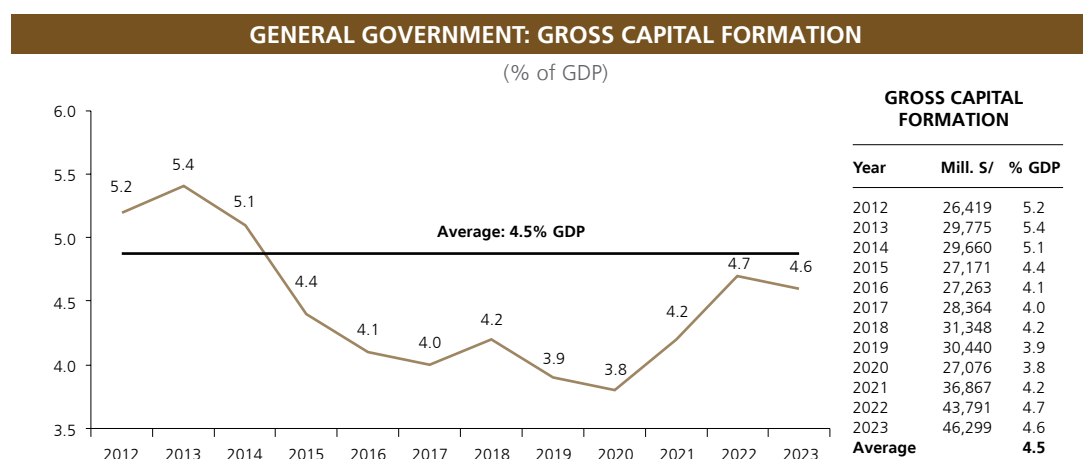
Note: The correlation coefficient is 0.53.

In summary, in 2022 the quality of public management of subnational governments declined, although it is significantly above 2012 levels. There is a disparity in quality between provincial and district municipalities, as well as between natural region categories. Likewise, district municipal quality is correlated with provincial quality within a geographic region. In prospective terms, it is advisable to promote the strengthening of the qualities of subnational governments in order to ensure the provision of quality public services and to save state resources.

Box 4

DIFFICULTIES IN THE EXECUTION OF PUBLIC INVESTMENT IN PERU

Public investment, measured by the financial execution at the General Government level of the gross capital formation item, is an important component of GDP on the expenditure side. In the 2012-2023 period, this variable represented, on average, 4.5 percent of GDP.



Source: BCRP and MEF.

Compared to the Pacific Alliance countries, according to figures from the IMF's Government Finance Statistics Database, Peru recorded the highest General Government public investment expressed as a percentage of GDP (4.2 percent) in 2021³¹.

GENERAL GOVERNMENT INVESTMENT	
	(% GDP)
	2021
Peru	4.2
Chile	2.0
Colombia	2.2
Mexico	1.6
Simple Average	2.5

Source: GFS-IMF.

Although this indicator shows Peru above the Pacific Alliance average, public investment in our country faces a set of problems that occur throughout the different phases of a project. In this regard, some of the problems associated with the low quality of public investment are the following:

- 1. Planning stage:** Absence of development plans, in addition to the incompatibility between objectives of different levels of government.
- 2. Pre-investment phase:** Deficiencies in the project profiles or project fiches. Arbitrary decisions of the authorities (Videnza (2023)³²).
- 3. Contracting phase:** Weaknesses in the preparation of bidding documents and inappropriate use of the direct administration mechanism.

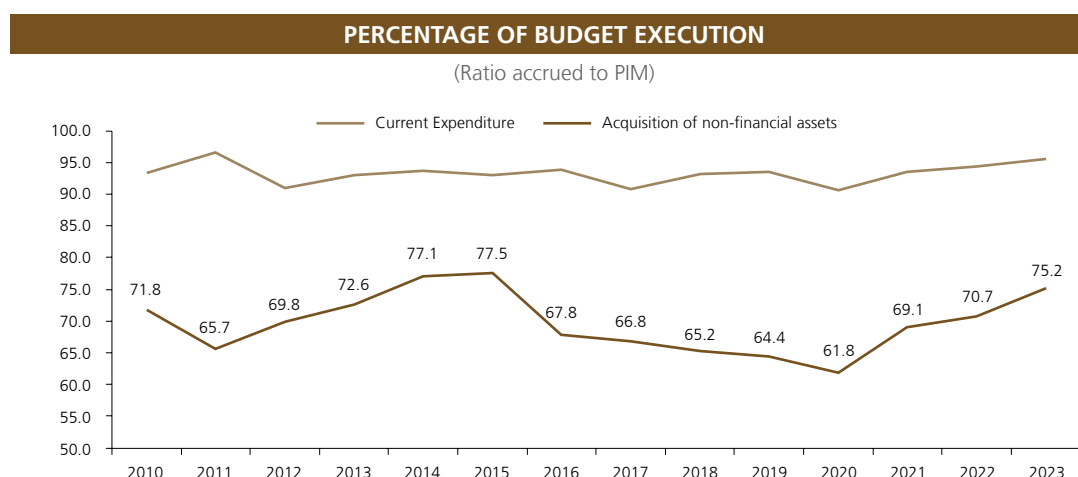
³¹ Latest year with information for all Pacific Alliance countries in the IMF database.

³² Videnza (2023): Public infrastructure in Peru: Current situation and opportunities.

4. **Execution Phase:** Inadequate technical or financial capacity of the contractor and standstills of works.
5. **Operation phase (operation):** Absence of monitoring of the quality of investments delivered.

A recurrent problem that affects the quality of spending in each of the phases is the insufficient number of trained officials to conduct the different processes. With regard to **the planning and preinvestment phases**, it is necessary to strengthen the mechanisms for prioritizing projects given the restrictions on the availability of resources, incorporating the obligation to link the preparation of the budget to the prioritized investments. This will restrict the possibility of allocating resources to projects that have not been selected based on technical criteria.

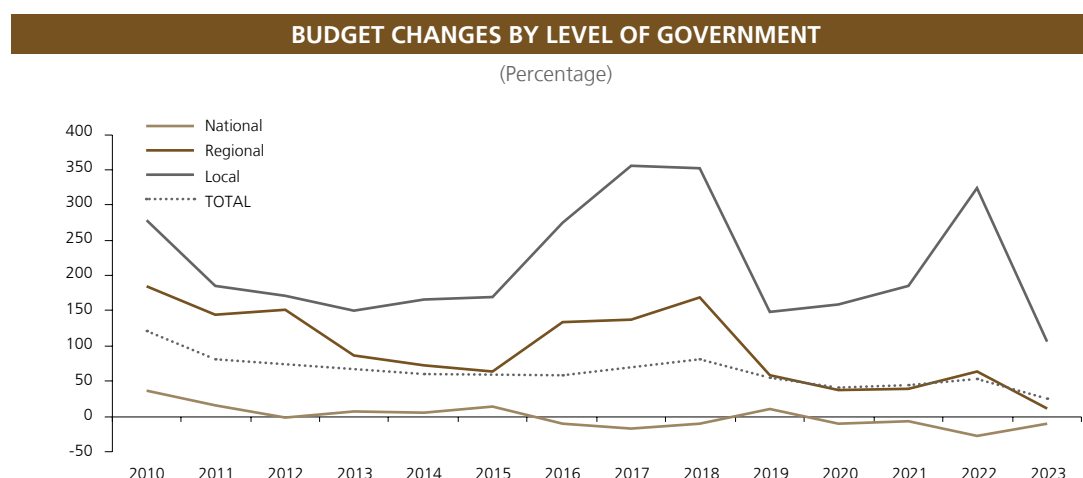
In addition, the high volatility in available resources at the budget level can lead to low execution levels, because it makes it difficult to plan spending. From the budgetary point of view, investment is a component with the lowest execution performance, measured as the ratio of accrued expenditure to the modified institutional budget (MIP). This level of execution is not only low, but also more volatile than that observed in current (non-financial) spending. The average execution rate for investment in 2010-2023 was 69.7 percent, while that of current spending was 93.3 percent.



Although the execution percentage is usually linked to the capacity of the entities to organize their processes and meet their investment goals, the magnitude of the variations in the investment budget (the percentage variation between the MIP and the IPA of each level of government) during each budget year is usually very high. At the aggregate investment level the investment budget undergoes changes in the order of 64 percent on average in 2010-2023.

The enormous gap between the modified budget (MIP) and the initial budget (IPA) is observed especially at the subnational level³³. From the point of view of the design of budgetary processes, this is problematic, as it first limits the usefulness of the budget approved each year in Congress as an instrument to establish ceilings for each type of expenditure at all levels of government, while the ability to substantially increase the MIP may induce subnational entities to inappropriately spend their resources, if the set of projects under execution is changed without a clear technical criteria.

³³ This reflects the autonomy of municipalities and regions to modify their budgets, mainly with sources of funding other than Regular Resources



In the **contracting phase**, there is evidence of a high degree of discretion in determining the competition factors in the bidding process. In this regard, Castro and Villavicencio (2021)³⁴ document that price is usually the most important factor considered in tenders, leaving aside other factors associated with sustainability. Likewise, the officials who prepare the bidding conditions may design procedures that limit free competition by benefiting single bidders. The proposal of these authors is to rethink the competition factor so that all costs incurred during the execution and useful life of the project are evaluated as a whole.

Likewise, in the contracting phase, the reduction and simplification of excessively strict and cumbersome regulatory processes could be evaluated in order to provide greater flexibility, but accompanied by monitoring. According to Huamán Ordoñez (2023)³⁵, procurement rules are already well defined, but more monitoring and supervision is required by the State Contracting Supervisory Body (OSCE). Likewise, this author stresses the need for a database to identify certified professionals who accredit their competencies in public procurement. These certifications would contribute to improve the predictability and coherence of procurement policies. Likewise, it is suggested that other contracting modalities such as NEC (*New Engineering Contract*) contracts be more actively incorporated.

In the **execution phase** there are multiple inconveniences that may have originated in previous stages, one of the most important of which is the standstill of a work. According to the Report on Stalled Works in the National Territory as of December 2023 of the Comptroller General's Office, 2,298 stalled works were identified at the end of 2023, representing an updated cost of S/. 26,992 million and a balance of S/. 13,772 million (51 percent of the updated cost). By level of government, it can be seen that the proportion (in updated cost) of standstill works is mainly concentrated in the national and regional governments.

The causes of the standstills may be due to several factors, such as a deficient selection process that resulted in the signing of contracts with companies without technical or financial solvency, or poor planning of the availability of resources, but also the inadequate use of a contracting modality.

34 Castro Barriga, C. D. A., & Villavicencio Benites, L. F. (2021). Good Governance in Government Procurement: The Total Cost of Ownership methodology as a proposal to improve the determination and application of bid evaluation factors. Research Group on Law and Public Governance of the Pontificia Universidad Católica del Perú. IUS ET VERITAS, (62), 60-81. <https://revistas.pucp.edu.pe/index.php/iusetveritas/article/download/23895/22733/>

35 Huamán Ordoñez, L. A. (2023). The tiered certification versus the fight against corruption. The case of the Organismo Supervisor de las Contrataciones del Estado (OSCE). Official Journal of the Judiciary, 15(19), 185-210. <https://revistas.pj.gob.pe/revista/index.php/ropj/article/view/721/999/>

As can be seen in the following table, the highest number of standstills of works (1,270 of 2,298) corresponds to the direct administration modality, particularly in subnational governments.

NUMBER OF STANDSTILLSTILLS, BY EXECUTION MODE AND LEVEL OF GOVERNMENT										
	National Government		Regional Government		Local Government		Total			
	Nº	Updated cost*	Nº	Updated cost*	Nº	Updated cost*	Nº	%	Updated cost*	%
Direct Administration	27	151	59	604	1,184	2,037	1,270	55.3%	2,793	10.3%
Contract	260	9,448	162	3,935	527	5,100	949	41.3%	18,483	68.5%
Executing Nuclei	73	73	-	-	1	1	74	3.2%	75	0.3%
Works by tax	1	12	-	-	2	26	3	0.1%	39	0.1%
APP/Concessions	-	-	2	5,604	-	0	2	0.1%	5,604	20.8%
Total	361	9,685	223	10,142	1,714	7,165	2,298	100%	26,992	100%

* In Millions of soles.

With the role of restricting the use of this modality, the Comptroller's Office presented a bill that was approved in September 2023 (Law 31876) prohibiting the use of direct administration for investments over 50 UIT (S/ 247,500 in 2023). This law was later repealed due to the rejection of mayors and regional governors.

Although measures of this type are advisable to prevent future standstills of works, it would be important to include a gradual implementation schedule that contributes to the adaptation of the executing units (the limit set forth in the repealed regulation was to be applicable to 74.3 percent of the projects under direct administration³⁶).

In addition, it is important to take into consideration that the follow-up of execution should be refocused on the physical progress of the works, in contrast to the monitoring of budget progress, which is currently the most commonly used, since both indicators are not always in line with each other, due to advances or delays in construction.

Finally, in the **operation phase**, the adoption of methodologies for the evaluation of service levels of works in operation would be useful to measure the quality of the operational works, considering an evaluation horizon that corresponds to the useful life of the project and not only at the time of delivery of the work.

36 At the date of the entry into force of this law, the number of investments under direct administration in the MEF's Project Bank, which had a modified institutional budget, was 13,330; of which 9,907 investments had an updated cost of more than 50 UIT.