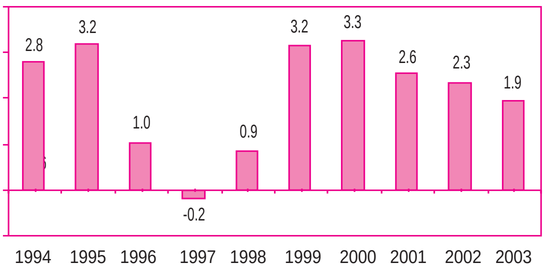
IV.

Public finance

During 2003, fiscal policy aimed at consolidating the sustainability of public finances, through the application of measures oriented to raise tax revenue and to reduce the deficit to medium term sustainable levels.

GRAPH 23

NON-FINANCIAL PUBLIC SECTOR DEFICIT
(Percent of GDP)



The fiscal deficit declined from 2.3% to 1.9% of GDP between 2002 and 2003 reflecting the improvement of central government current revenue from 14.3% to 14.8% of GDP particularly from income tax and value added tax collections.

The primary balance i.e. non-financial public sector operations excluding interest payments operations went from a deficit of 0.3% to a surplus of 0.1% of GDP between 2002 and 2003. This improvement was the result of the application of fiscal actions since the second half of 2002 to raise government revenue. The primary balance of the central government went from -0.2% to 0.2% of GDP.

The US$ 1,179 million fiscal deficit was mainly financed through foreign resources: US$ 837 million, mainly made up by US$ 2,101 million disbursements and US$ 1,188 million amortization. Disbursements included US$ 1,250 million from bond placements abroad while US$ 855 million came from multilateral organizations.

During the year, three sovereign bond placements took place abroad: the first two were done in the first quarter for a total of US$ 750 million and the third one, in November, for US$ 500 million in nominal value to finance the 2004 budget, taking into account favorable international market conditions.

TABLE 13

NON-FINANCIAL PUBLIC SECTOR OVERALL BALANCE

	Millions of nuevos soles			Percent of GDP		
	2001	2002	2003	2001	2002	2003
I. Primary Balance	**- 545**	**- 514**	**247**	**-0.3**	**-0.3**	**0.1**
1. Central Government Primary Balance	**-1,253**	**- 399**	**425**	**-0.7**	**-0.2**	**0.2**
a. Current revenue	26,840	28,319	31,323	14.3	14.3	14.8
i. Tax revenue	23,543	24,060	27,423	12.5	12.1	12.9
ii. Non-tax revenue	3,297	4,258	3,900	1.8	2.1	1.8
b. Non-financial expenditure	28,385	29,030	31,240	15.1	14.6	14.7
i. Current	24,156	25,074	27,115	12.8	12.6	12.8
ii. Capital	4,229	3,956	4,125	2.2	2.0	1.9
c. Capital revenue	291	312	342	0.2	0.2	0.2
2. Primary Balance of other entities	**708**	**- 115**	**- 178**	**0.4**	**-0.1**	**-0.1**
II. Interest Payments	**4,274**	**4,148**	**4,347**	**2.3**	**2.1**	**2.1**
1. External debt	3,663	3,526	3,755	1.9	1.8	1.8
2. Domestic debt	611	623	592	0.3	0.3	0.3
III. Overall Balance (I-II)	**-4,819**	**-4,663**	**-4,100**	**-2.6**	**-2.3**	**-1.9**
1. Net foreign financing	1,755	4,113	2,912	0.9	2.1	1.4
(Millions of US$)	$ 498	$1,174	$ 837	0.9	2.1	1.4
a. Disbursements	$1,318	$2,862	$2,101	2.5	5.1	3.4
b. Amortization	$ 768	$1,838	$1,188	1.4	3.3	1.9
c. Others	-$ 53	$ 150	-$ 75	-0.1	0.3	-0.1
2. Net domestic financing	1,930	- 954	1,007	1.0	-0.5	0.5
3. Privatization	1,134	1,503	181	0.6	0.8	0.1

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

Net domestic financing was S/. 1,007 million of which Treasury bonds placed in the local market accounted for S/. 782 million, (S/. 1,767 million placed and S/. 985 million redeemed), and Treasury bills for S/. 200 million.

Privatization receipts for US$ 52 million came from US$ 33 million of payments from previous years' quotas, US$ 10 million from credit transfers and US$ 9 million from Jorbelec payments in compensation for the concession of power distribution companies in the northern and central region of the country.

Revenue increases in 8% because of tax measures

During 2003, real Central Government current revenue increased by 8.2%, reaching 14.8% of GDP. This improvement was seen in tax revenue (which accounts for 90% of current revenue) from 12.1% to 12.9% of GDP.

TABLE 14

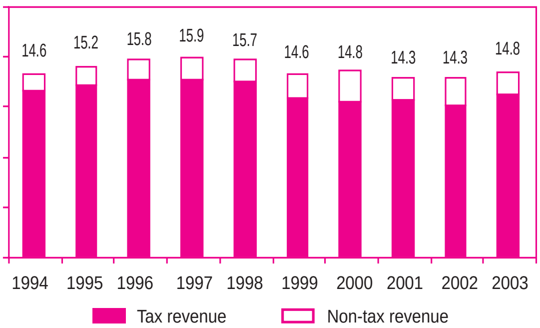
TAX REVENUE COEFFICIENTS
(Percent of GDP)

	2001	2002	2003
Fiscal burden of the General Government 1/	17.2	17.1	17.4
Fiscal burden of the Consolidated Central Government 2/	16.3	16.2	16.5
Fiscal burden of the Central Government	14.3	14.3	14.8
Tax burden of the Central Government 3/	12.5	12.1	12.9

1/ Fiscal burden of the Consolidated Central Government and own resources of local governments. Preliminary.
2/ Includes Central Government current revenue, contributions to the Social Security System and Pension System, and own resources from the Consolidated Previsional Reserve Fund (FCR), the National Pension Savings Fund (Fonahpu), regulatory institutions and register offices.
3/ Central Government tax revenues.
Source: MEF, SUNAT and Banco de la Nación.

GRAPH 24

CENTRAL GOVERNMENT CURRENT REVENUE
(Percent of GDP)



Over the year tax revenue collection continued to improve as it begun during the second half of 2002, mainly from increases in income and value added taxes, which in turn respond to measures taken, plus the effect of higher economic activity. Income tax rose from 3.0% to 3.8% of GDP because of higher profits reported by enterprises in their 2002 balances and a new mechanism of advance payments for all business. The increase in the value added tax, from 6.4% to 6.7% of GDP was owed to administrative actions since mid-2002 that improved tax collection among all stages in the productive chain and the rise in the rate from 18% to 19% since August 2003.

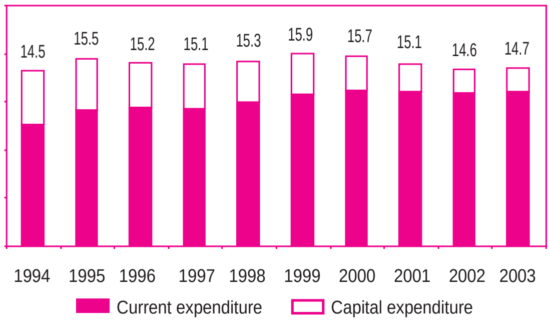
Central Government non-financial expenditure increases 5%

Central Government non-financial expenditure totaled 14.7% of GDP, an increase of 5.2% in real terms. Real current expenditure rose by 5.8% while real capital expenditure grew by 2.0%, thus reversing the falling trend observed since 1999.

Payroll expenditure was similar to the previous year, amounting to 4.5% of GDP but increased 5.9% in real terms. This was explained by the raises granted to teachers in public schools, public universities staff and to auxiliar and administrative personnel in the Judiciary.

GRAPH 25

CENTRAL GOVERNMENT NON-FINANCIAL EXPENDITURE
(Percent of GDP)



Expenditure on goods and services was equivalent to 3.5% of GDP, similar to 2002 figures, a real increment of 4.9%.

Current transfers went up from 4.7% to 4.8% of GDP, a real growth of 6.3%, explained by larger transfers to local governments and the ONP (National Pension Office).

Central government capital expenditure was 1.9% of GDP, a real increase of 2.0%. Investment financed by foreign disbursements totaled US$ 258 million, US$ 16 million more than in 2002.

Interest payments on central government debt were similar to 2002 at 2.0% of GDP, a real increment of 3.3%, basically caused by more maturities of sovereign bonds (US$ 132 million).