

## III. Public finances

In 2008 the non-financial public sector (NFPS) recorded a surplus of 2.1 percent of GDP, a result 1 percentage point lower than that of 2007, mainly due to the growth of public investment, which increased 41.9 percent. It is worth highlighting that in 2008 public investment showed its highest level in the last nine years (4.2 percent of GDP).

Public sector revenues continued showing a very favorable trend, both in terms of tax revenues and non-tax revenues, especially in the first half of the year. The drop of international prices observed since September affected tax revenues in the last two months of the year.

The general government's non-financial expenditure grew 13.4 percent in real terms. This growth was mainly recorded in capital expenditure (40.8 percent), particularly in local governments (96.5 percent).

The Fuel Price Stabilization Fund continued to be used to deal with high volatility in the international prices of oil. Transfers from the Ministry of Energy and Mining to partially repay the debt with this Fund amounted to S/. 2,150 million.

Public debt exchange operations were made during the year to reduce the weight of the external debt. Moreover, the 2008 fiscal surplus allowed reducing the balance of the public debt from 29.6 to 24.0 percent of GDP, while the net debt was reduced from 17.7 to 12.2 percent of GDP.

### 1. Fiscal policy indicators

#### 1.1. Conventional economic result

The central government operations accounted mainly for the economic surplus of the NFPS. This economic result was offset by the deficits of the rest of the general government and state enterprises (each of which was equivalent to 0.1 percent of GDP).

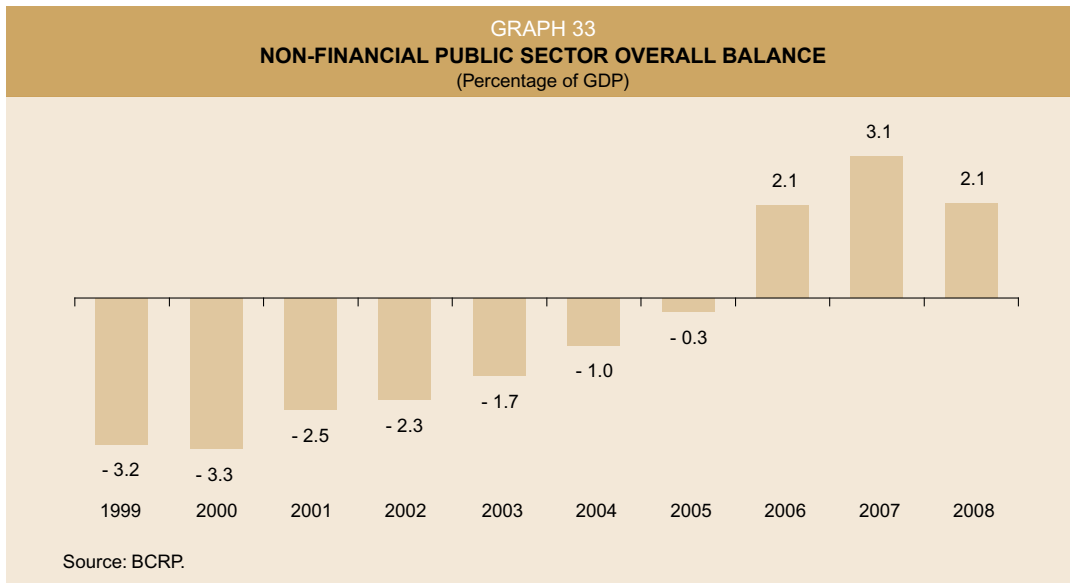
In 2008 local governments increased expenditure, particularly in terms of capital expenditure. This higher spending was financed with the revenues obtained in the period, as well as with funds of their 2007 surplus, which had been equivalent to 1.1 percent of GDP. With this, local governments recorded a balanced result in the period.

During 2008, the current revenue of the general government represented 20.8 percent of GDP (a higher result than the 20.7 percent recorded in 2007). Some increase was also observed in the general government's non-financial expenditure, which grew from 16.0 to 17.2 percent of GDP. The latter was mainly associated with local governments, while state enterprises showed a balanced primary result. As a result of this, the primary surplus of the public sector was equivalent to 3.7 percent of GDP in 2008 (1.2 percentage points of GDP lower than in 2007).

TABLE 41  
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

	Millions of nuevos soles			Percentage of GDP		
	2006	2007	2008	2006	2007	2008
<b>I. Primary Balance</b>	<b>11,956</b>	<b>16,517</b>	<b>13,715</b>	<b>3.9</b>	<b>4.9</b>	<b>3.7</b>
<b>1. of the General Government</b>	<b>11,098</b>	<b>16,238</b>	<b>13,776</b>	<b>3.6</b>	<b>4.8</b>	<b>3.7</b>
a. Current revenue	60,056	69,456	77,710	19.7	20.7	20.8
i. Tax-revenue	46,218	53,359	59,555	15.1	15.9	16.0
ii. Non-tax revenue	13,837	16,097	18,155	4.5	4.8	4.9
b. Non-financial expenditure	49,318	53,604	64,329	<b>16.1</b>	<b>16.0</b>	<b>17.2</b>
i. Current	40,833	43,504	49,264	13.4	13.0	13.2
ii. Capital	8,485	10,100	15,065	2.8	3.0	4.0
c. Capital revenue	361	386	395	0.1	0.1	0.1
<b>2. of Public companies</b>	<b>858</b>	<b>279</b>	<b>- 61</b>	<b>0.3</b>	<b>0.1</b>	<b>0.0</b>
<b>II. Interests</b>	<b>5,693</b>	<b>6,030</b>	<b>5,883</b>	<b>1.9</b>	<b>1.8</b>	<b>1.6</b>
1. External debt	4,337	4,287	3,350	1.4	1.3	0.9
2. Domestic debt	1,357	1,743	2,533	0.4	0.5	0.7
<b>III. Overall Balance (I-II)</b>	<b>6,263</b>	<b>10,487</b>	<b>7,832</b>	<b>2.1</b>	<b>3.1</b>	<b>2.1</b>
1. Net external financing	- 2,175	- 6,398	- 3,472	- 0.7	- 1.9	- 0.9
(Millions of US\$)	- \$ 658	- \$ 2,085	- \$ 1,205	- 0.7	- 1.9	- 0.9
a. Disbursements	\$ 609	\$ 3,384	\$ 1,165	0.6	3.2	0.9
b. Amortization	\$ 1,193	\$ 5,661	\$ 2,604	1.3	5.3	2.0
c. Other flows	-, \$74	\$,193	\$,234	- 0.1	0.2	0.2
2. Net domestic financing	- 4,392	- 4,538	- 4,516	- 1.4	- 1.4	- 1.2
3. Privatization	304	449	156	0.1	0.1	0.0

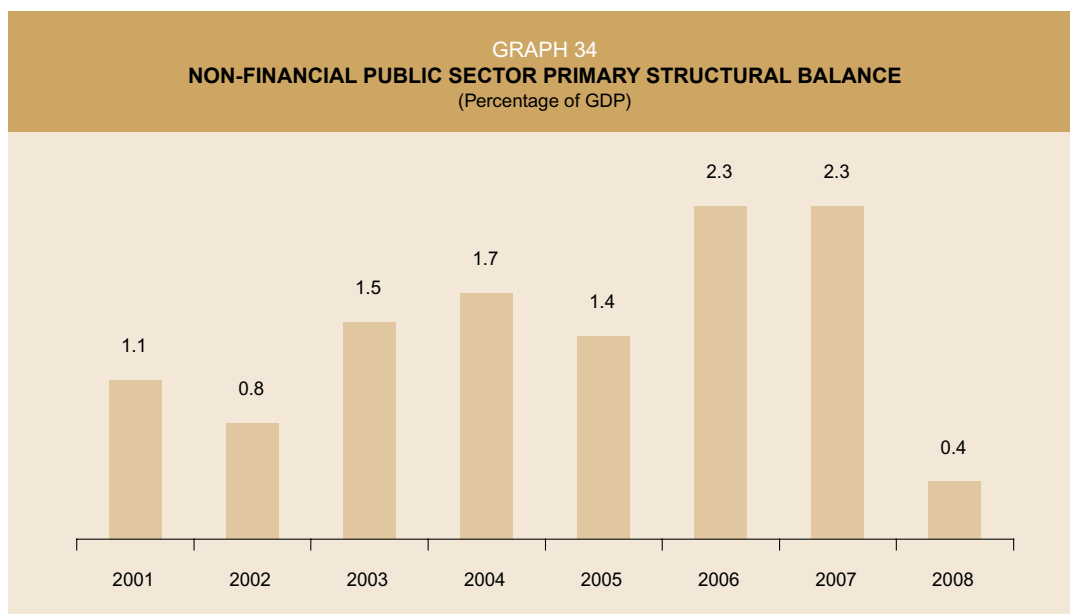
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state enterprises and public institutions.

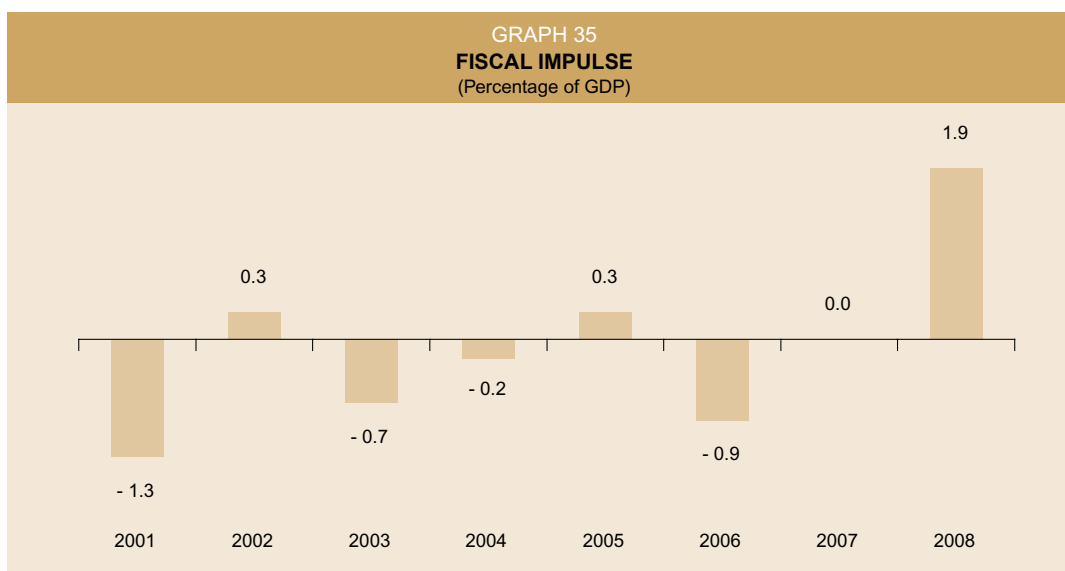


## 1.2. Structural primary result

The structural primary result is an indicator that shows the evolution of fiscal policy decisions, because it deducts the effects of the economic cycle and the impacts of the prices of our main mining exports from the conventional primary result. In 2008 this indicator was equivalent to 0.4 percent of GDP.

A growing structural primary result, which reached its maximum level in 2006 and 2007 (2.3 percent of GDP), was observed in the 2001-2008 period. This result fell to 0.4 percent of GDP in 2008 due to higher public spending, particularly at the subnational level.





### 1.3. Financing requirements of the non-financial public sector

Financing requirements measure the financial resources required by the public sector to cover its economic result and the amortization of the domestic and external debt. Despite the lower surplus obtained in the year, financing requirements in 2008 were lower than in the previous year (US\$ 316 million in 2008 versus US\$ 3,560 million in 2007) due to the amortization of the external public debt. Amortization operations, which amounted to US\$ 2,604 million, concentrated in Q1 (US\$ 1,742 million) and Q4 (US\$ 405 million).

The evolution of the public debt reflected the important debt management operations carried out during 2008, which allowed maintaining the foreign currency component and reprogramming debt maturities:

- Prepayment of Brady Bonds (US\$ 838 million), financed through the issue of Sovereign Bonds and Public Treasury resources, in March 2008.
- Prepayments to Corporación Andina de Fomento (US\$ 317 million) carried out in February (US\$ 167 million) and December (US\$ 150 million), financed through this institution's disbursements.

The balance of deposits of the Non-Financial Public Sector increased by S/. 8,699 million as a result of the fiscal surplus obtained.

## 2. Public debt

The balance of the public debt declined from 29.6 to 24.0 percent of GDP between 2007 and 2008. This was reflected in the lower component of the external debt, whose ratio fell from 18.7 to 15.1 percent of GDP. Moreover, this was reinforced by the decline of the domestic debt ratio (from 11.0 to 8.9 percent of GDP).

TABLE 42  
FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	2006	2007	2008
<b>1. Overall balance (Millions of nuevos soles)</b>	<b>6,263</b>	<b>10,487</b>	<b>7,832</b>
(% of GDP)	2.1	3.1	2.1
<b>Millions of US\$</b>	<b>1,883</b>	<b>3,264</b>	<b>2,811</b>
<b>2. Amortization (Millions of US\$)</b>	<b>- 2,557</b>	<b>- 6,823</b>	<b>- 3,126</b>
Redemption of recognition bonds	- 145	- 134	- 94
Internal	- 1,220	- 1,028	- 428
External	- 1,193	- 5,661	- 2,604
<b>3. Financial requirements (Millions of US\$)</b>	<b>674</b>	<b>3,560</b>	<b>316</b>
External disbursements	609	3,384	1,165
Freely available	315	3,090	883
Investment projects	294	294	282
Domestic bonds	1,741	3,305	473
Privatization	94	143	51
Others requirements	- 1,770	- 3,272	- 1,374

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

At end 2008, the nominal total public debt expressed in US dollars amounted to US\$ 30,648 million, a sum US\$ 1,222 million lower than that of the earlier year. In nominal terms, the external debt was US\$ 19,237 million (US\$ 844 million lower) and the domestic debt was US\$ 11,411 million (US\$ 378 million lower, due to the effect of exchange depreciation in 2008), which evidenced the above-mentioned debt management operations carried out to reduce the weight of the external debt in terms of the total debt.

The reduction of the external public debt resulted from increased amortizations (US\$ 2,635 million) relative to received disbursements (US\$ 1,166 million) and from the effect of the appreciation of other currencies –the yen and the euro mainly– against the dollar (US\$ 625 million). These strong amortizations and disbursements include the prepayment operations with the Corporación Andina de Fomento and Brady Bonds.

The balance of the domestic debt increased by S/. 510 million through an increase of S/. 625 million in Public Treasury Bonds (S/. 525 million in Sovereign Bonds and S/. 361 million in Recognition Bonds). However, this increase was offset by a reduction in the balance of bonds as a result of debt exchange operations between the Banco de la Nación and the Ministry of Economy and Finances (S/. 230 million). Sovereign Bonds for a total of S/. 1,227 million were placed during 2008.

It should be pointed out that a similar external debt-to-overall debt ratio (about 63 percent) to that of 2007 was maintained in 2008.



TABLE 43  
PUBLIC DEBT  
(Millions of US\$)

	2006 Dec.	2007 Dec.	2008 Dec.	Difference 2008-2007
<b>PUBLIC DEBT</b>	<b>30,490</b>	<b>31,870</b>	<b>30,648</b>	<b>- 1,222</b>
<i>(% of GDP)</i>	<b>33.0</b>	<b>29.6</b>	<b>24.0</b>	<b>- 5.7</b>
<b>I. FOREIGN PUBLIC DEBT</b>	<b>21,972</b>	<b>20,081</b>	<b>19,237</b>	<b>- 844</b>
CREDITS	13,580	11,820	12,357	537
Multilateral Organizations	7,843	7,851	7,926	75
Paris Club	5,629	3,883	4,170	287
Other organizations	107	86	260	175
BONDS 1/	8,392	8,262	6,880	- 1,381
<b>II. DOMESTIC PUBLIC DEBT</b>	<b>8,518</b>	<b>11,789</b>	<b>11,411</b>	<b>- 378</b>
<b>1. LONG TERM</b>	<b>7,603</b>	<b>10,440</b>	<b>10,183</b>	<b>- 257</b>
BANK LOANS	780	52	68	16
TREASURY BONDS	6,809	10,343	10,068	- 275
1. Debt swap bonds	91	883	769	- 114
2. Sovereign bonds	3,699	6,318	6,196	- 122
3. Recognition bonds	2,795	2,986	2,964	- 22
4. Other bonds	224	157	139	- 17
LIMA MUNICIPALITY BONDS	14	45	48	3
<b>2. SHORT TERM</b>	<b>915</b>	<b>1,349</b>	<b>1,227</b>	<b>- 121</b>
FLOATING DEBT	915	1,349	1,227	- 121
Memo:				
Liabilities of public-private partnerships (PPP) 2/	73	726	1,132	406

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

2/ Preliminary data. Updated value of the principal for the issue of Certificates of Recognition of Rights for the Annual Payment of works carried out (PAO).

Source: MEF, Banco de la Nación, Ministry of Transport and Communication, ONP and COFIDE.

## 2.1 Net debt

The net public debt –measured as the difference between public sector’s assets and liabilities– continued declining in 2008, especially due to the surpluses recorded over the past years. The net debt fell from US\$ 19,013 million at end 2007 to US\$ 15,578 million at end 2008, thus declining from 17.7 to 12.2 percent of GDP. This evolution is mainly explained by the higher deposits of the Non-Financial Public Sector in 2008, which increased by US\$ 2,213 million compared to 2007.



TABLE 44  
NET PUBLIC DEBT  
(Millions of US\$)

	Millions of US\$			% GDP		
	Assets	Liabilities	Net Debt	Assets	Liabilities	Net Debt
At December 2004	5,857	30,905	25,048	8.4	44.3	35.9
At December 2005	6,172	29,968	23,796	7.8	37.7	30.0
At December 2006	8,065	30,490	22,424	8.7	33.0	24.3
At December 2007	12,857	31,870	19,013	12.0	29.6	17.7
At December 2008	15,070	30,648	15,578	11.8	24.0	12.2

Source: BCRP and MEF.

TABLE 45  
BALANCE OF PUBLIC DEBT 1/ 2/

	Millions of US\$			Percentage of GDP		
	2006	2007	2008	2006	2007	2008
<b>PUBLIC DEBT (I+II)</b>	<b>30,490</b>	<b>31,870</b>	<b>30,648</b>	<b>33.0</b>	<b>29.6</b>	<b>24.0</b>
<b>I. FOREIGN PUBLIC DEBT 3/</b>	<b>21,972</b>	<b>20,081</b>	<b>19,237</b>	<b>23.8</b>	<b>18.7</b>	<b>15.1</b>
CREDITS	13,580	11,820	12,357	14.7	11.0	9.7
Multilateral organizations	7,843	7,851	7,926	8.5	7.3	6.2
Paris Club	5,629	3,883	4,170	6.1	3.6	3.3
Suppliers	73	60	56	0.1	0.1	0.0
Commercial banks	1	1	186	0.0	0.0	0.1
Latin America	25	20	15	0.0	0.0	0.0
Other bilateral organizations 4/	9	5	3	0.0	0.0	0.0
BONDS	8,392	8,262	6,880	9.1	7.7	5.4
<b>II. DOMESTIC PUBLIC DEBT</b>	<b>8,518</b>	<b>11,789</b>	<b>11,411</b>	<b>9.2</b>	<b>11.0</b>	<b>8.9</b>
<b>1. LONG TERM</b>	<b>7,603</b>	<b>10,440</b>	<b>10,183</b>	<b>8.2</b>	<b>9.7</b>	<b>8.0</b>
CREDITS FROM BANKS	780	52	68	0.8	0.0	0.1
Credits from Banco de la Nación	774	19	39	0.8	0.0	0.0
Other banks	6	33	29	0.0	0.0	0.0
TREASURY BONDS	6,809	10,343	10,068	7.4	9.6	7.9
1. BCRP capitalization bonds	0	0	0	0.0	0.0	0.0
2. Financial system support bonds	224	157	139	0.2	0.1	0.1
3. Debt swap bonds 5/	91	883	769	0.1	0.8	0.6
4. Sovereign bonds	3,699	6,318	6,196	4.0	5.9	4.8
5. Caja de Pensiones Militar-Policial bonds	0	0	0	0.0	0.0	0.0
6. Recognition bonds	2,795	2,986	2,964	3.0	2.8	2.3
LIMA MUNICIPALITY BONDS	14	45	48	0.0	0.0	0.0
<b>2. SHORT TERM</b>	<b>915</b>	<b>1,349</b>	<b>1,227</b>	<b>1.0</b>	<b>1.3</b>	<b>1.0</b>
CREDITS FROM BANCO DE LA NACIÓN 6/	0	0	0	0.0	0.0	0.0
FLOATING DEBT	915	1,349	1,227	1.0	1.3	1.0
Memo:						
Liabilities of public-private partnerships 7/	73	726	1,132	0.1	0.7	0.9

1/ Preliminary data.

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

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

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

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

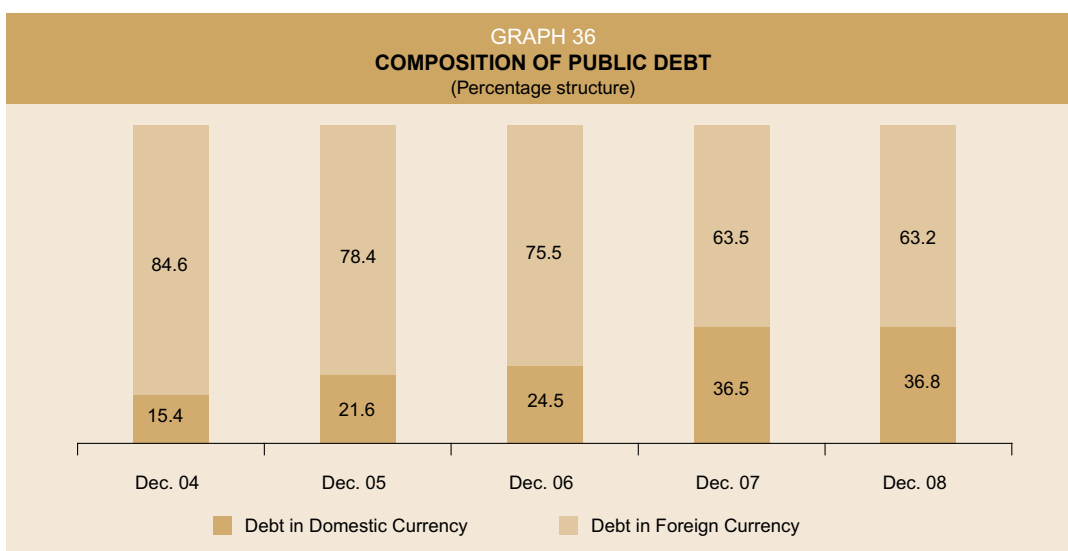
6/ Includes Public Treasury overdrafts in the Banco de la Nación and credit to the Instituto Nacional de Defensa Civil.

7/ Updated value of the principal for the issue of Certificates of Recognition of Rights for the Annual Payment of works carried out (PAO).

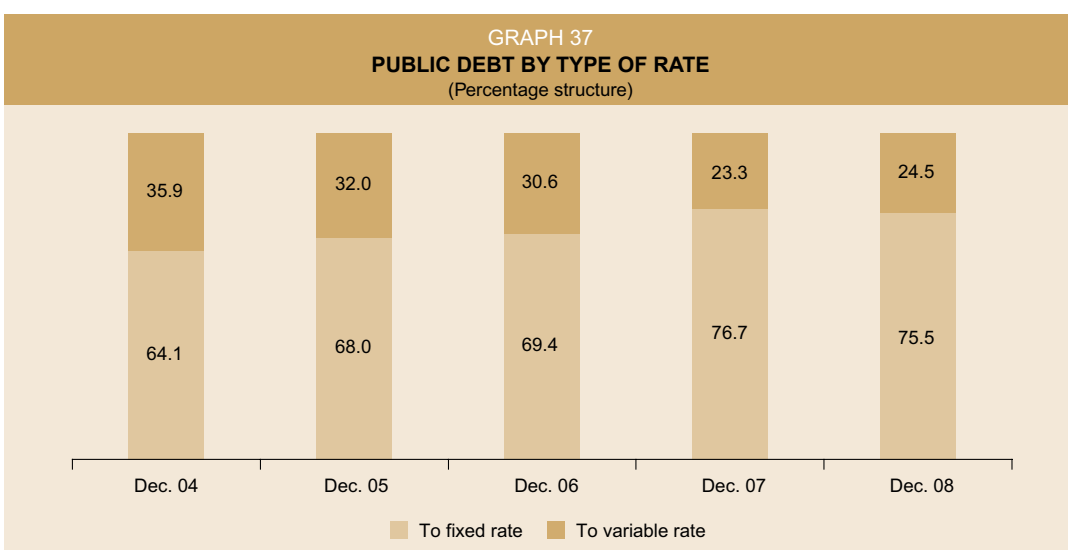
Source: MEF, Banco de la Nación, ONP, and COFIDE.



In 2008, the percentage of public debt in foreign currency did not decline like in the last years given that the Public Treasury received disbursements in foreign currency<sup>5</sup> in 2007 and especially during Q4. Therefore, the share of public debt in foreign currency relative to the overall debt declined only from 63.5 to 63.2 percent between December 2007 and December 2008.



It is worth highlighting the increase observed in terms of the share of fixed-rate public debt, whose ratio has increased by 11.5 percentage points in the last four years. This improvement has been reached as a result of debt management policies and of a favorable economic context, which allowed borrowing at better rates and placing securities in domestic currency and at fixed rates, both characteristics of Sovereign Bonds. Furthermore, it is also worth pointing out that generating debt at fixed rates and in domestic currency also allows reducing the debt-related exchange risks, as well as implementing a better programming of the debt service.



5 Moreover, contingency financing was obtained from the World Bank to face eventual occurrences of natural and/or technological disasters, as well as to mitigate risks of emergencies and situations of economic and financial crises in the country.





### 3. Central government

The economic surplus of the central government was equivalent to 2.2 percent of GDP –0.4 of a percentage point of GDP higher than in 2007–, as a result of increased saving in terms of interest expenditure (0.2 of a percentage point). The primary result improved by 0.1 of a percentage point, due mainly to higher revenue associated with increased economic activity, considering that non-financial expenditure remained stable at 14.7 percent of GDP.

#### 3.1. Central government revenue

The current revenue of the central government was equivalent to 18.2 percent of GDP, 0.1 of a percentage point of GDP higher than in 2007. The growth of revenue is mainly explained by higher value added tax (which increased by 1 percentage point of GDP), associated with the dynamism of economic activity (9.8 percent in 2008), especially in terms of imports of capital goods (57.6 percent in 2008). In contrast, lower revenue was observed in terms of the excise tax, income tax, and import duties, which declined by 0.4 of a percentage point; 0.3 of a percentage point, and 0.2 of a percentage point, respectively.

TABLE 46  
CENTRAL GOVERNMENT REVENUES

	Percentage of GDP			Real % change		Percentage structure		
	2006	2007	2008	2007	2008	2006	2007	2008
<b>I. TAX REVENUE</b>	<b>14.9</b>	<b>15.6</b>	<b>15.6</b>	<b>13.3</b>	<b>5.0</b>	<b>86.3</b>	<b>86.2</b>	<b>85.7</b>
1. Income tax	6.0	6.8	6.5	21.9	- 0.1	34.9	37.6	35.5
- Individuals	1.3	1.3	1.4	12.0	13.0	7.4	7.4	7.9
- Legal entities	3.7	4.3	4.4	26.0	7.3	21.3	23.6	24.0
- Tax regularization 1/	1.1	1.2	0.7	19.6	- 41.4	6.2	6.6	3.6
2. Import duties	0.9	0.7	0.5	- 24.1	- 17.8	5.4	3.6	2.8
3. Value-added tax	7.0	7.5	8.5	15.3	18.2	40.8	41.5	46.5
- Domestic	3.9	4.0	4.2	11.4	9.6	22.7	22.3	23.2
- Imports	3.1	3.5	4.2	20.3	28.2	18.1	19.2	23.3
4. Excise tax on	1.3	1.3	0.9	4.3	- 23.8	7.7	7.1	5.1
- Fuels	0.8	0.7	0.4	- 0.9	- 43.1	4.6	4.0	2.1
- Other goods	0.5	0.6	0.5	11.9	1.2	3.1	3.1	2.9
5. Other tax revenues	1.1	1.1	1.2	12.2	7.4	6.4	6.3	6.4
- ITF	0.3	0.3	0.3	20.1	4.4	1.6	1.7	1.7
- ITAN	0.4	0.4	0.5	17.2	12.5	2.4	2.4	2.6
- IAE	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	0.0
- IES	0.0	0.0	0.0	- 11.4	- 28.5	0.0	0.0	0.0
- Tax payment installment	0.2	0.2	0.1	- 2.6	- 5.0	1.0	0.8	0.8
- Other	0.2	0.2	0.3	5.8	9.9	1.4	1.3	1.4
6. Tax refunds 2/	- 1.5	- 1.8	- 1.9	25.1	14.1	- 8.9	- 9.8	- 10.6
<b>II. NON-TAX REVENUES 3/</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>13.7</b>	<b>9.8</b>	<b>13.7</b>	<b>13.8</b>	<b>14.3</b>
<b>III. TOTAL</b>	<b>17.3</b>	<b>18.1</b>	<b>18.2</b>	<b>13.4</b>	<b>5.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1/ Represents the income tax generated the previous year.

2/ Includes drawbacks.

3/ Includes current transfers from public enterprises.

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



TABLE 47  
FISCAL REVENUE RATIOS  
(Percentage of GDP)

	Percentage of GDP		
	2006	2007	2008
Central government tax burden 1/	14.9	15.6	15.6
Central government fiscal burden 2/	17.3	18.1	18.2
Fiscal burden of the consolidated central government 3/	18.8	19.9	20.0
Fiscal burden of the general government 4/	19.7	20.7	20.8

1/ Central government tax revenues.  
2/ Central government current revenues.  
3/ Includes central government current revenues; contributions to the social security and pension system; and own resources of the Consolidated Previsional Reserve Fund (FCR), Fonahpu, regulating, and registration entities.  
4/ Fiscal burden of the consolidated central government and own resources of local governments.  
Source: MEF, Banco de la Nacion, BCRP and Sunat.

The collection of **income taxes** declined from 6.8 to 6.5 percent in GDP terms due to lower revenue for the regularization of income tax. The positive result recorded in terms of the income tax of legal entities is explained by higher revenue in the first half of the year when economic activity showed a dynamic performance and the prices of minerals were favored by a positive international context.

In the second half of the year, firms' incomes –especially in the mining sector– and their income tax dropped due to the decline of the international prices of metals and due to lower external demand, affected by the international financial crisis. Some mining companies reduced their ratios of advanced monthly payments. In summary, revenue on account of income tax from legal entities increased by an average monthly rate of 23.6 percent in the first half of the year, dropping thereafter to a monthly average rate of 4.7 percent in the second half of the year.

TABLE 48  
COLLECTION OF CORPORATE TAX BY SECTORS 1/  
(Millions of Nuevos Soles)

	2006	2007	2008	Real % Chg.	
				2007	2008
Mining	5,767	8,703	6,743	48.7	- 26.5
Manufacturing	3,195	3,541	4,454	9.2	18.8
Commerce	1,597	1,729	2,235	6.6	22.3
Hydrocarbons	1,213	1,602	2,235	29.9	31.9
Other services 2/	970	969	996	- 1.6	- 2.9
Construction	241	343	395	40.0	8.8
Fishing	63	114	59	77.9	- 51.5
Agriculture and livestock	52	86	54	64.5	- 41.0
<b>TOTAL</b>	<b>13,100</b>	<b>17,087</b>	<b>17,169</b>	<b>28.5</b>	<b>- 4.9</b>

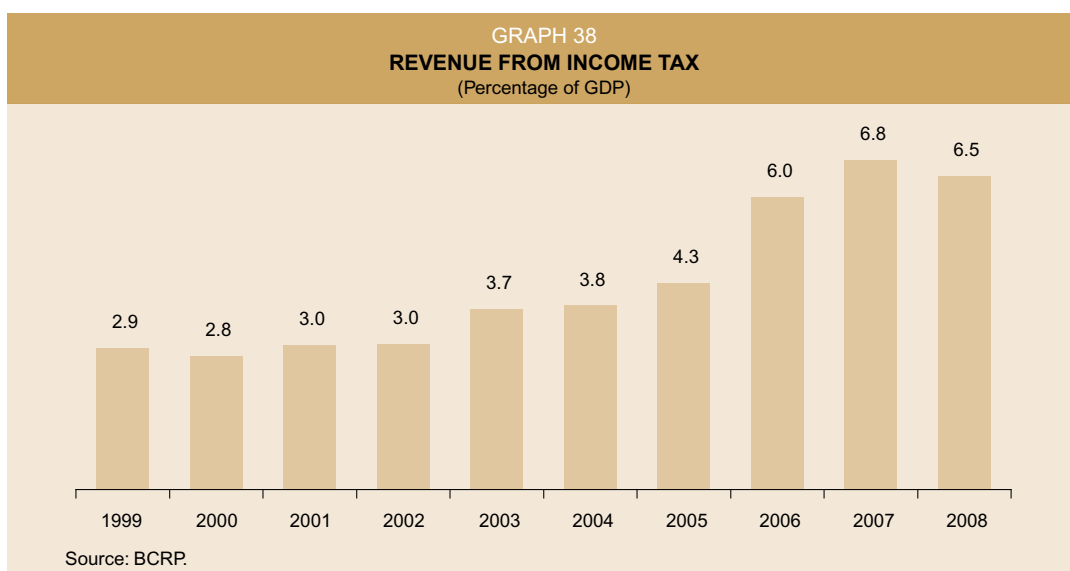
1/ Does not include regularization of income tax.

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

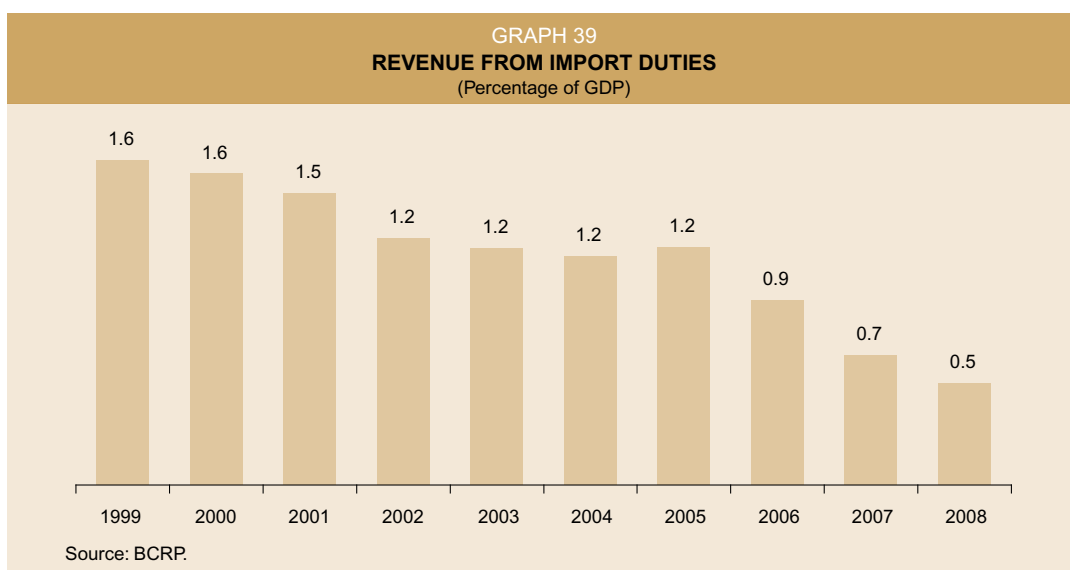
Source: SUNAT.



Revenue from individuals' income tax grew 13 percent in real terms due to the improvement recorded in terms of disposable income, to higher employment levels, and to the distribution of dividends to workers, especially in the mining sector.

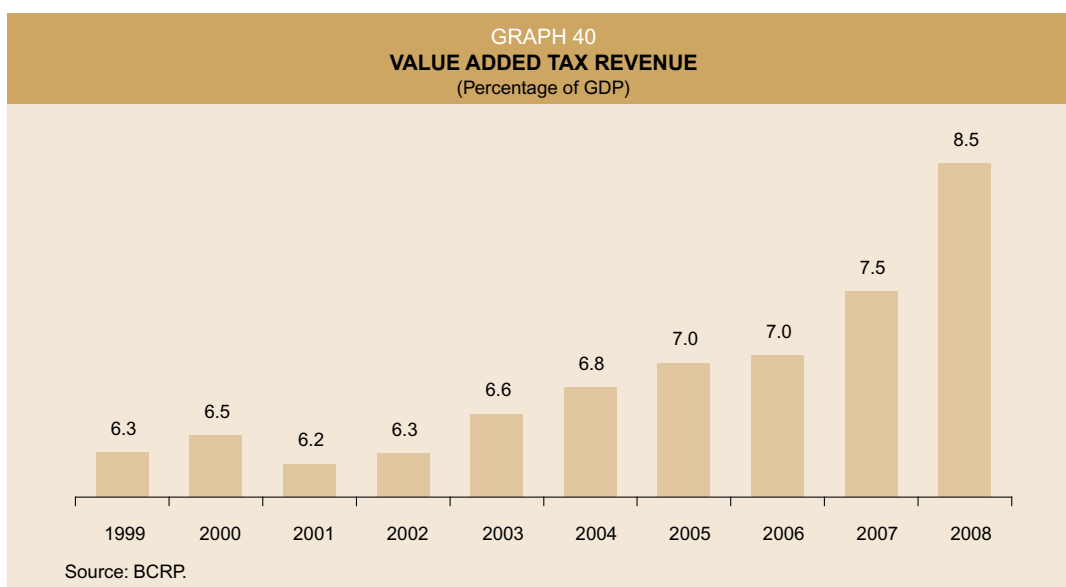


Revenue from **import duties** contracted by 17.8 percent in real terms (from 0.7 to 0.5 percent of GDP between 2007 and 2008), mainly as a result of the reduction of tariff rates implemented in 2008, which caused average tariffs to fall to 5.0 percent from the average 5.7 percent of the earlier year. These tariff reductions were partially offset by the higher imports observed in the period (45.1 percent), especially capital goods and construction materials (57.6 percent), followed by consumer goods (41.8 percent), and raw materials and intermediate products (39.5 percent).



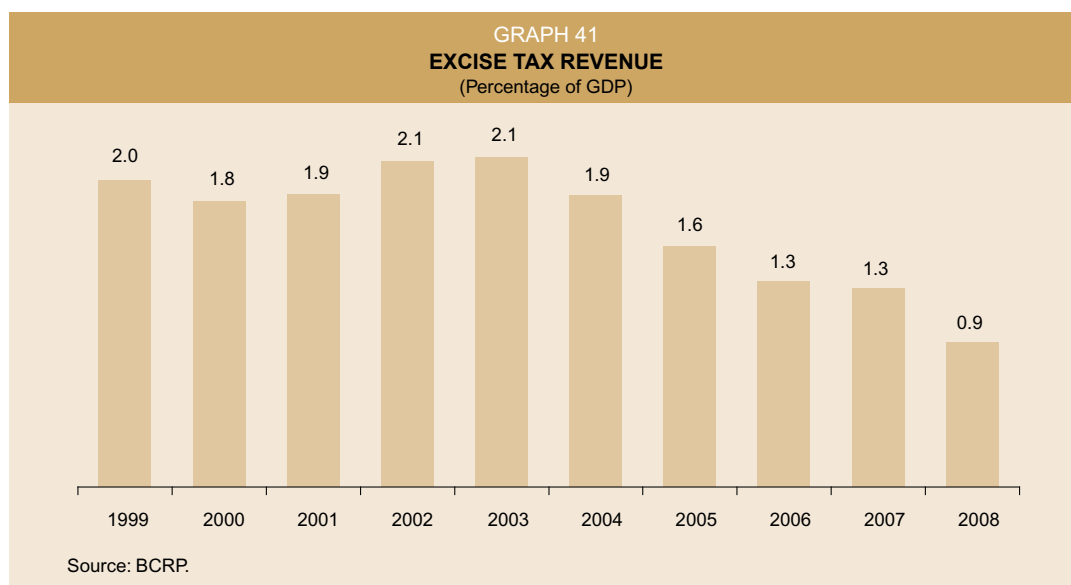
One of the main tariff reductions implemented during 2008 was the one approved in March (Supreme Decree 038-2008-EF), which reduced tariffs on 500 food items to control the impact of international prices on domestic ones. As a result of this, the structure of tariff rates declined from 6 to 3 tax scales (0, 9, and 17 percent).

In 2008 the growth of the revenue of the central government was led by the **value added tax (VAT)**, which recorded an increase of 18.2 percent in real terms, reaching a level equivalent to 8.5 percent of GDP. The increase observed in terms of internal value added tax is explained by the higher dynamism of domestic demand, the control actions developed by the tax agency, and the reinforcement of tax collection systems.



The application of these tax collection regimes generated revenue for a total of S/. 8,629 million, a result 11.5 percent higher in real terms than the one recorded in 2007. As regards external VAT, the increase observed was associated with the strong growth of imports during most of the year.

In 2008, the **excise tax (ISC)** declined from 1.3 to 0.9 percent of GDP, due to the lower contribution of the excise tax on fuels. Revenue from excise tax on items not associated with fuels also showed a slight decline –from 0.6 to 0.5 percent of GDP– and grew 1.2 percent in real terms, with the higher sales of products considered in terms of this tax (i.e. sodas, mineral water, beer, and vehicles) accounting for this. The evolution of the rate of excise tax on fuels was associated with an efficient management of the Fuel Price Stabilization Fund. During the first semester of 2008, the government reduced the rate to partially offset the effect of the higher international price of crude on the end price to consumers. This rate was increased thereafter in Q4 with the purpose of compensating the reduction of the international prices of fuels.

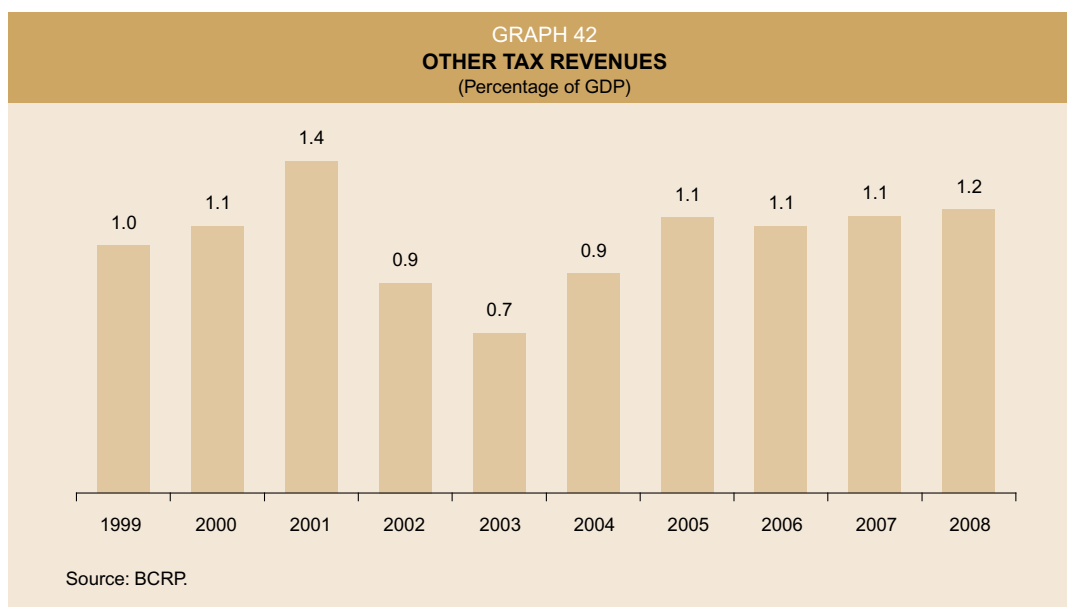


**TABLE 49**  
**EVOLUTION OF THE EXCISE TAX ON FUELS**  
(Nuevos soles per gallon)

	2006			2007		2008			
	01 Jan.	13 Apr.	25 Apr.	15 Aug.	24 Dec.	07 Mar.	02 Jun.	30 Oct.	17 Nov.
84-octane gasoline	2.60	2.35	2.25	2.05	1.85	1.30	0.40	0.40	1.36
90-octane gasoline	3.31	3.06	2.96	2.66	2.46	1.86	0.66	0.66	1.78
95-octane gasoline	3.62	3.32	3.22	2.92	2.92	2.07	2.07	2.07	2.07
97-octane gasoline	3.85	3.55	3.45	3.15	3.15	2.30	2.30	2.30	2.30
Kerosene	2.21	2.21	2.11	2.11	1.94	1.41	0.78	1.42	1.94
Diesel 2	1.84	1.84	1.74	1.54	1.39	0.99	0.39	1.04	1.47
Residual 6	--	--	--	--	--	--	--	0.52	0.52
Residual 500	--	--	--	--	--	--	--	0.50	0.50
<b>Average 1/</b>	<b>1.37</b>	<b>1.33</b>	<b>1.27</b>	<b>1.13</b>	<b>1.03</b>	<b>0.74</b>	<b>0.30</b>	<b>0.69</b>	<b>1.05</b>

1/ Weighted average based on the domestic sales of fuels in 2008.  
Source: Official daily "El Peruano" (Legislation).

Revenue from **other tax revenue** increased from 1.1 to 1.2 percent of GDP, and recorded an increase of 7.4 percent in real terms. It is worth pointing out the higher collection (12.5 percent) obtained in terms of the Temporary Tax on Net Assets (equivalent to 0.5 of a percentage point of GDP), as well as the higher collection (4.4 percent) of the Tax on Financial Transactions relative to 2007. This result reflected the dynamism of the financial sector during 2008, which allowed offsetting the negative impact expected as a result of the lower tax rate (0.08 percent in 2007 and 0.07 percent in 2008).

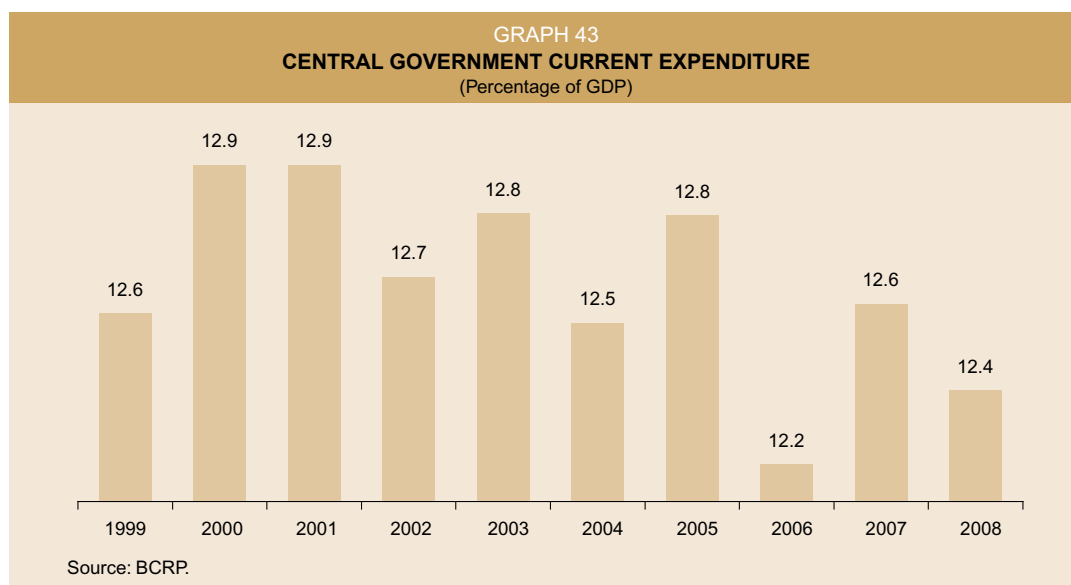


**Tax refunds** were mainly associated with refunds for exports and represented 1.9 percent of GDP. Refunds for exports amounted to S/. 4,413 million, while refunds for VAT amounted to S/. 1,079 million. Tax refunds grew by a real 14.1 percent due to our higher sales abroad and to the higher investments made by firms included in the advanced recovery of VAT regime. This system applies mainly for firms that have engaged in contracts with the State for the exploitation of natural resources or to develop infrastructure works.

The increase observed in terms of **non-tax revenue** (9.8 percent in real terms) was also in part associated with higher international prices, which favored a higher collection of royalties and mining royalties (canon) related to oil, gas, and mining activities. Extraordinary transfers (S/. 608 million) were also observed in this context in compliance with regulations establishing workers' rights in terms of profit distribution. These transfers were received by the regional governments with remainders higher than 2,200 tax units/year (2,200 UIT). The difference between the 2,200 UIT and total remainders must be used exclusively to finance road infrastructure projects in the region that generated these resources.

### 3.2. Central government expenditure

The **expenditure of the central government** amounted to 16.1 percent of GDP, which represented an increase of 3.2 percent in real terms compared with 2007, a result explained mainly by increased capital spending (0.3 of a percentage point). Excluding these transfers, the non-financial expenditure of the central government increased 7.0 percent in real terms. The increase observed in terms of capital spending (12.0 percent) is worth pointing out.



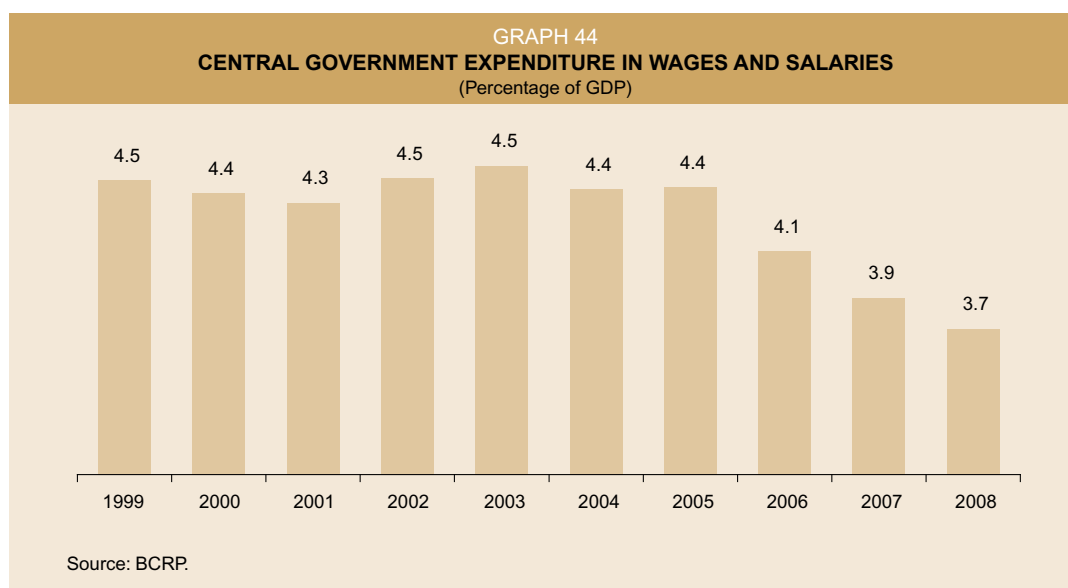
**TABLE 50**  
**CENTRAL GOVERNMENT EXPENDITURES**

	Percentage of GDP			Real % change		Percentage structure		
	2006	2007	2008	2007	2008	2006	2007	2008
<b>I. NON-FINANCIAL EXPENDITURE</b>	<b>14.2</b>	<b>14.7</b>	<b>14.7</b>	<b>12.4</b>	<b>4.9</b>	<b>88.9</b>	<b>90.0</b>	<b>91.5</b>
<b>1. CURRENT EXPENDITURE</b>	<b>12.2</b>	<b>12.6</b>	<b>12.4</b>	<b>11.5</b>	<b>3.2</b>	<b>76.5</b>	<b>76.9</b>	<b>76.8</b>
a. Wages and salaries	4.1	3.9	3.7	1.9	0.7	25.8	23.7	23.1
b. Goods and services	3.3	3.0	2.9	-2.3	2.1	20.9	18.4	18.2
c. Transfers	4.7	5.7	5.7	29.7	5.4	29.8	34.8	35.5
- Pensions	1.3	1.2	1.1	-0.5	-5.1	8.3	7.4	6.8
- ONP-Fonahpu	0.8	0.8	0.6	1.5	-18.4	5.3	4.8	3.8
- Foncomun	0.8	0.8	0.9	14.4	9.9	5.0	5.1	5.4
- Royalties	0.7	1.5	1.2	126.8	-10.5	4.3	8.9	7.7
- Other	1.1	1.4	1.9	37.2	41.4	7.0	8.6	11.8
<b>2. CAPITAL EXPENDITURE</b>	<b>2.0</b>	<b>2.1</b>	<b>2.4</b>	<b>17.8</b>	<b>15.2</b>	<b>12.3</b>	<b>13.1</b>	<b>14.6</b>
a. Gross capital formation	1.6	1.8	1.8	20.8	10.5	9.8	10.7	11.4
b. Other	0.4	0.4	0.5	6.2	36.5	2.5	2.4	3.2
<b>II. FINANCIAL EXPENDITURE</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>0.3</b>	<b>-12.3</b>	<b>11.1</b>	<b>10.0</b>	<b>8.5</b>
1. Domestic	0.4	0.4	0.5	12.5	34.1	2.3	2.3	3.0
2. External	1.4	1.3	0.9	-2.9	-26.2	8.8	7.7	5.5
<b>III. TOTAL (I+II)</b>	<b>15.9</b>	<b>16.4</b>	<b>16.1</b>	<b>11.1</b>	<b>3.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Memo:								
<b>Non-financial expenditures excluding transfers 1/</b>	<b>10.8</b>	<b>10.4</b>	<b>10.5</b>	<b>3.6</b>	<b>7.0</b>	<b>67.7</b>	<b>63.2</b>	<b>65.5</b>

1/ Does not include Central government transfers to the rest of public entities.  
Source: MEF, Banco de la Nación and BCRP.



**Expenditure in salaries and wages** increased 0.7 percent in real terms, mainly due to the increase of salaries of faculty members of public universities implemented according to the Programa de Homologación de la Docencia Universitaria (decree 033-2005). However, salaries and wages reduced their share from 3.9 to 3.7 percent of GDP due to measures adopted to reduce current expenditure.

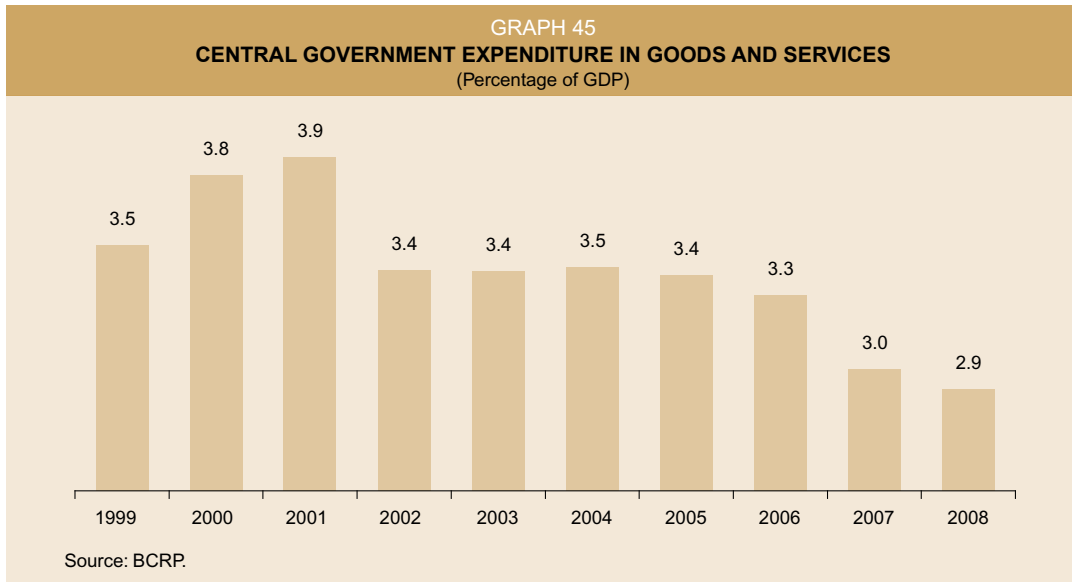


**Expenditure in goods and services** increased by 2.0 percent in real terms, as reflected in the higher allocations of funds to the following:

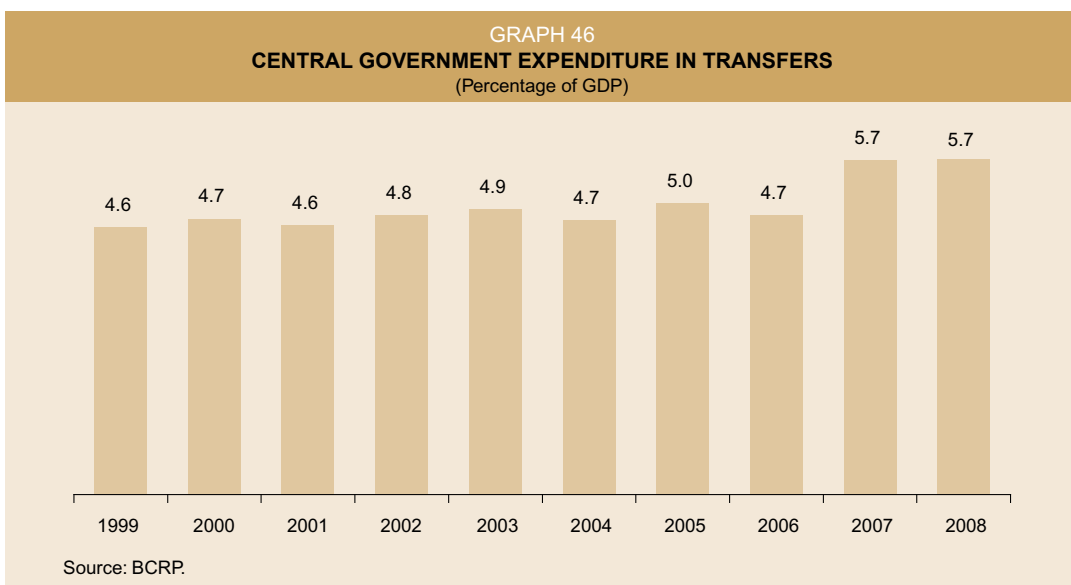
- Ministries of Defense and Interior, for equipment replacement and official operations;
- Regional governments, for administrative management purposes (i.e. acquisition of consumer goods, contracting services, maintenance of infrastructure);
- National Civil Defense -INDECI-, mainly to buy goods and materials that were distributed to the people affected by the earthquakes that affected southern provinces;
- Ministry of Transport and Communications, for road conservation and maintenance;
- Ministry of Education, to improve the quality of education and for teachers' training;
- Ministry of Foreign Affairs, for diplomatic missions, trade offices, and to develop bilateral policy actions;
- Ministry of Agriculture, to support the promotion of production chains and to promote the formalization of the commercialization of farming products, among other actions.



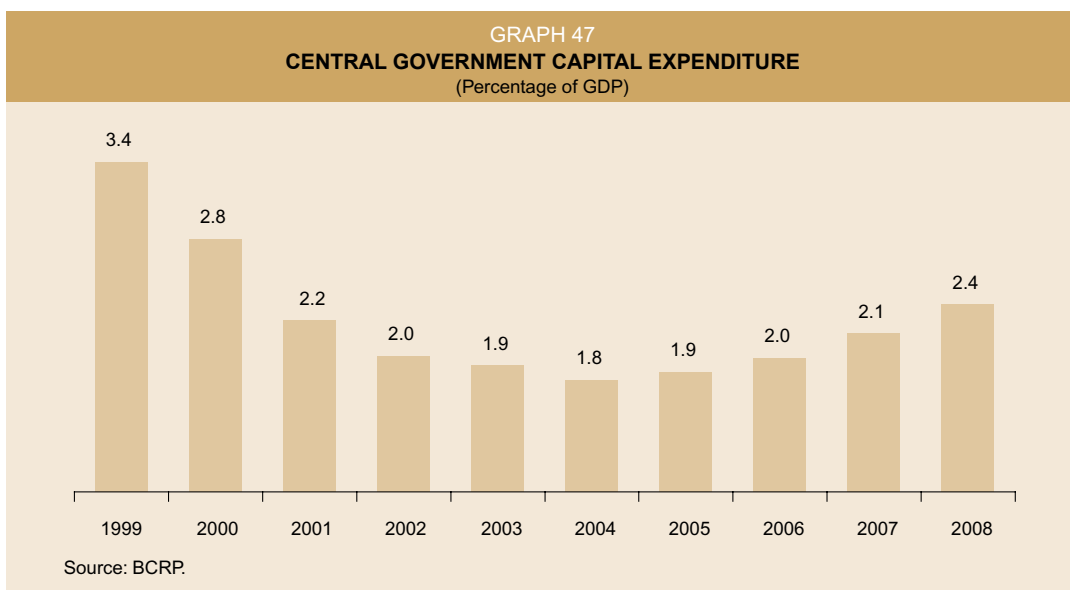
Despite this, spending in goods and services declined from 3.0 to 2.9 percent of GDP between 2007 and 2008.



Transfers, which amounted to S/. 21,348 million (5.7 percent of GDP), showed an increase equivalent to 5.4 percent in real terms. Increased current transfers to the Fuel Price Stabilization Fund (S/. 1,960 million) and to local governments for the Municipal Compensation Fund -FONCOMUN- (S/. 457 million), for Casinos and Customs (S/. 54 million), and for mining rights (S/. 20 million), accounted mainly for this result.



**Capital expenditure** grew 15.2 percent in real terms, from 2.1 percent of GDP in 2007 to 2.4 percent in 2008, mainly due to the actual growth of gross capital formation (10.5 percent). The sectors that executed higher spending were: Transports (S/. 1,450 million), in road rehabilitation and improvement; Agriculture (S/. 537 million), in improvement of irrigation infrastructure and preservation of natural resources; Education (S/. 343 million), in infrastructure improvement and educational quality; Electricity (S/. 195 million), in the installation of small power systems in several towns; Housing (S/. 163 million), in improvement and rehabilitation of sidewalks, avenues, and parks, as well as in water and sanitation systems, and in the Proyecto Nacional de Agua Potable y Saneamiento Rural.



**Financial expenditure**, which represented 1.4 percent of GDP, was 0.2 of a percentage point of GDP lower than in 2007, mainly due to the lower service of interests of the external debt (from 1.3 to 0.9 percent of GDP). This was slightly offset by the higher service of interests of the domestic debt, which increased from 0.4 to 0.5 percent of GDP.



TABLE 51  
**MAIN INVESTMENT PROJECTS OF THE CENTRAL GOVERNMENT**  
(Millions of nuevos soles)

SECTORS	2007	2008	Nominal percentage change
Transport	1,099	1,450	31.9
Agriculture and livestock	495	537	8.4
Education	356	343	- 3.8
Electricity	147	195	33.1
Housing	314	163	- 48.0
Other sectors	3,468	4,181	20.6
<b>TOTAL</b>	<b>5,878</b>	<b>6,869</b>	<b>16.8</b>
<b><u>ECONOMIC SECTORS</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>Flow</u></b>
<b>TRANSPORT</b>	<b>1,099</b>	<b>1,450</b>	<b>351</b>
Rehabilitation and improvement of the Huarmey-Aija-Recuay highway	122	129	7
Roads concessions	92	295	203
Rehabilitation and improvement of Tingo Maria - Aguaytia - Pucallpa highway	130	138	9
Rehabilitation of Tarapoto Juanjui highway	79	124	45
Rehabilitation and improvement of the Tocache-Tocache highway	16	119	103
Project management	37	57	20
Improvement and construction of Saramiriza Eje Vial 4 highway	100	49	- 51
Rehabilitation and improvement of Trujillo-Shiran-Huamachuco highway	43	43	0
Rehabilitation of local and rural roads	34	41	7
Rehabilitation and improvement of Ingenio-Chachapoyas highway	66	26	- 41
Rehabilitation, improvement and construction of Eje Vial 01 Piura Guayaquil	49	44	- 5
Full rehabilitation of the Huancayo Huancavelica railroad	20	25	5
Rehabilitation and improvement of Patahuasi Yauri Sicuani highway	45	18	- 27
Bridge construction and reinforcement	51	23	- 28
Rehabilitation of Casma Huaraz highway	23	23	1
Port concessions	3	137	134
Rehabilitation of highways	17	6	- 11
Improvement and Rehabilitation of the Huari Pomabamba highway	9	6	- 3
Construction of the Ollantaytambo Abra Malaga Alfamayo highway	25	1	- 24
Rehabilitation and improvement of the Izcuchaca - Huancavelica highway	31	3	- 27
Other projects	108	144	36
<b>AGRICULTURE AND LIVESTOCK</b>	<b>495</b>	<b>537</b>	<b>42</b>
Support to agriculture and livestock production, and rural production	238	268	30
Preservation of natural resources	67	88	22
Erradication <i>ceratitis capitata</i> (fruit fly) from the Peruvian coast	30	38	8
Irrigation infrastructure	54	36	- 19
Land titles and records	1	0	- 1
Other projects	106	107	1
<b>EDUCATION</b>	<b>356</b>	<b>343</b>	<b>- 13</b>
Improvement of educational infrastructure	252	265	13
Education in rural areas	43	12	- 31
Other projects	60	65	5
<b>ELECTRICITY</b>	<b>147</b>	<b>195</b>	<b>49</b>
Installation of small electrical systems in several towns	106	168	62
Improvement of transmission lines	35	23	- 12
Other projects	5	4	- 1
<b>HOUSING</b>	<b>314</b>	<b>163</b>	<b>- 151</b>
Extension and improvement of drinking water and sanitation	51	41	- 10
Support to housing sector	44	38	- 6
National Water and Sanitation Program for Rural Areas	30	33	3
Property rights and real estate	1	25	23
Land titles and registration	29	5	- 24
Improvement of water and sanitation system in Chimbote	7	0	- 7
Urban development	133	4	- 130
Other projects	18	17	- 1
<b>OTHER SECTORS</b>	<b>3,468</b>	<b>4,181</b>	<b>713</b>
<b>TOTAL</b>	<b>5,878</b>	<b>6,869</b>	<b>990</b>

Source: SIAF - MEF.



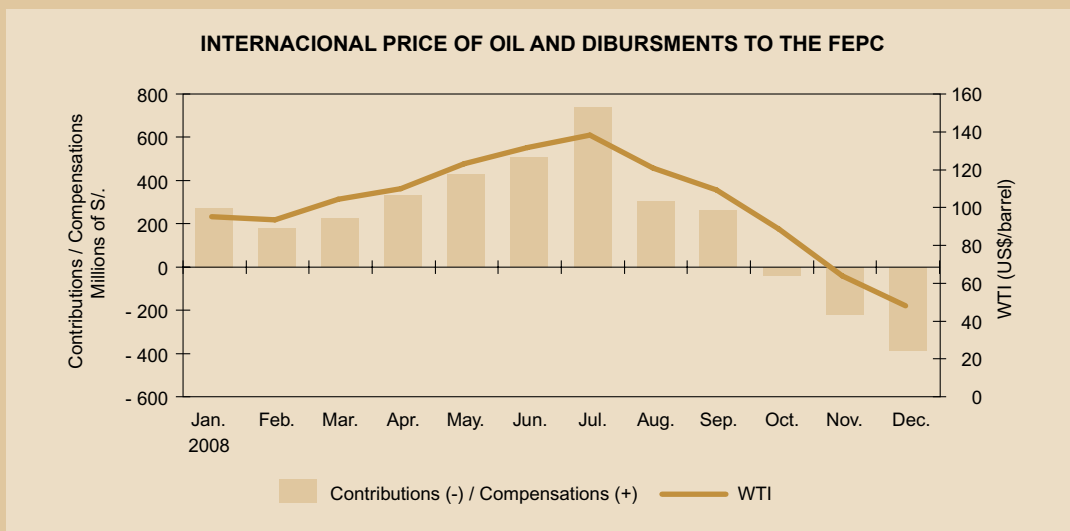
BOX 8

**FUEL PRICE STABILIZATION FUND**

Volatility and an upward trend –which reversed since August– characterized the international prices of fuels during the first seven months of 2008. The monthly average price of West Texas Intermediate (WTI) oil started at US\$ 91 the barrel and closed at US\$ 47 the barrel in December, but reached a historical peak of over US\$ 140 the barrel in July.

In 2008 the Fuel Price Stabilization Price (FPSF) continued to be used as a mechanism to prevent that high volatility in the prices of oil and derivatives would translate into prices to end users. This price stabilization mechanism is based on a price band –within which domestic prices can fluctuate– that is discretionally determined, but which is compared against an international reference price. When the reference price is higher than the upper level of the price band, oil producers and/or importers receive a compensation. Conversely, when said price is lower than the band's lower level, they pay a contribution to the Fund.

In line with the evolution of WTI oil, producers and/or importers received compensations from the FPSF until the month of September, but with the drop of the international price of crude, they had to pay contributions to the Fund in the last three months of the year. Overall net compensations (excluding contributions) in the year are estimated to amount to approximately S/. 2,600 million.

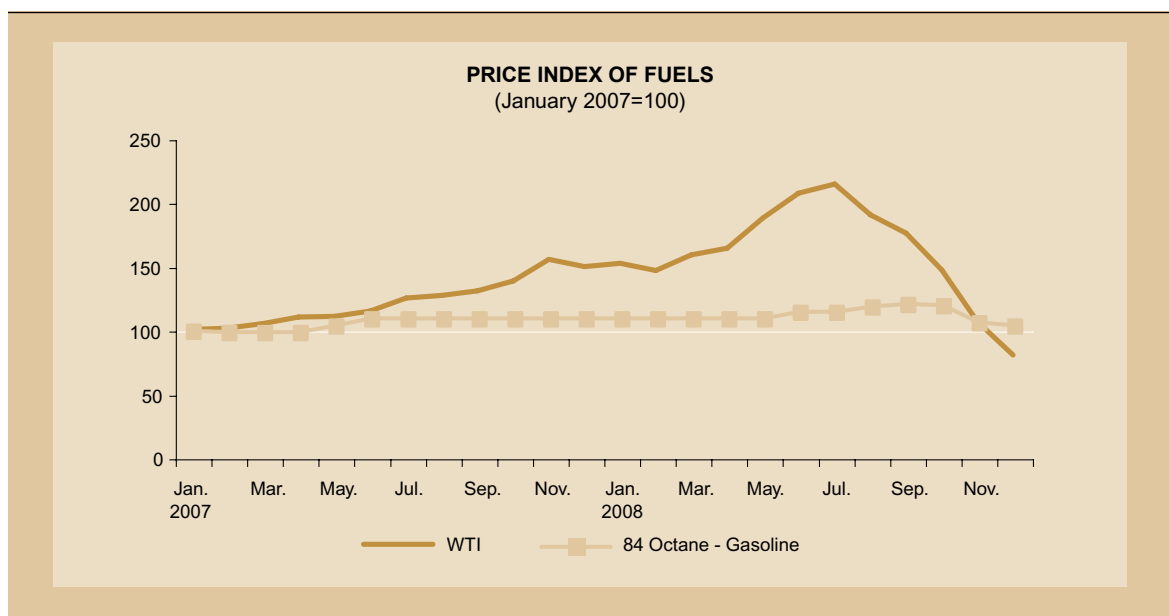


Given that the FPSF has no liquid resources to pay compensations net of contributions, a debt with producers and importers has been generated. According to the Ministry of Energy and Mining, the debt of the FPSF at end 2007 amounted to S/. 821 million. This debt is estimated to have increased to S/. 1,260 million at end 2008 as a result of net compensations in the year and of the amount transferred (S/. 2,150 million) by the Ministry of Energy to the FPSF for the partial repayment of the debt.

In addition to periodically modifying the price band according to the evolution of the international price of oil, the government has been modifying the excise tax on fuels to reduce the impact of band variations on the domestic price of fuels. Thus, when the international price of crude and the FPSF price bands increased, the government reduced the excise tax (March and June), and vice versa. The increases registered in the excise tax in October and November were not only aimed at generating a higher tax collection, but also at adjusting the structure of this tax to the program approved in December 2007 whereby the tax on each type of fuel will also be established according to its harmfulness degree.

The FPSF has been effective in reducing the pass-through of the volatility of international prices to domestic prices. In 2008, the standard deviation of WTI oil, measured in nuevos soles, was S/. 1.7 per gallon, while this was only S/. 0.6 per gallon in the case the 84 octane-gasoline.





## BOX 9

**FISCAL DECENTRALIZATION**

Supported by a legal framework, a decentralization<sup>6</sup> process is currently being implemented in Peru through regional governments (26 regional governments, including Callao and Metropolitan Lima) and local governments (1,638 district and 195 province municipalities).

Four areas are given priority today:

- Transferring powers to sub-national governments.
- Transferring resources.
- Establishing the vertical connections between the three government levels (national, regional and local).
- Establishing the horizontal connections between these government levels.

**Transfer of Powers**

Powers continued to be transferred to regional governments in 2008, in accordance with the Plan Anual de Transferencia de Competencias Sectoriales 2007, which regulated the culmination of the process whereby 185 sector responsibilities—including those whose transfer was pending since 2004, 2005, and 2006—had to be transferred to regional governments. Because five sectors had not programmed these transfers, a total of 4,500 sector responsibilities were passed on to subnational government in the frame of this plan. At end 2008, about 93 percent of said transfers were completed. The Organic Law of Regional Governments (Law 27867) establishes that the specific functions of the regions are grouped in eight sectors, with Education, Labor, Tourism, Agriculture, and Health being in charge of the greater number of responsibilities.

<sup>6</sup> The current decentralization process started in March 2002 when the 1993 Constitution's chapter on decentralization was modified. Since then, several regulations on the process have been approved, two electoral processes have been carried out to elect regional authorities (in November 2002 and in November 2006), and a referendum was developed to establish the regions (October 2005). The President of Peru announced the implementation of a "decentralization shock" consisting of 20 measures aimed at accelerating the decentralization process, including the culmination of the process of transferring sector responsibilities to regional governments and the implementation of pilot plans for the municipalization of education and primary health care.

### SECTORIAL COMPETENCIES OF REGIONAL GOVERNMENTS

Sector	Number of Competencies
Education, culture, science, technology, sports and entertainment	21
Labor, promotion of employment, and small and micro businesses	18
Tourism	18
Agriculture	17
Health	16
Handcrafts	12
Fishing	10
Environment and territorial ordering	10
Transport	8
Housing and sanitation	8
Energy, mines and hydrocarbons	8
Social development and equal opportunities	8
Industry	7
Population	6
Commerce	5
Telecommunications	5
Civil Defense	5
Administration and adjudication of State property	3
<b>TOTAL</b>	<b>185</b>

The Plan Anual de Transferencia de Competencias Sectoriales 2008 (D.S. 049-2008-PCM) is currently being implemented. Aspects worth highlighting include the following:

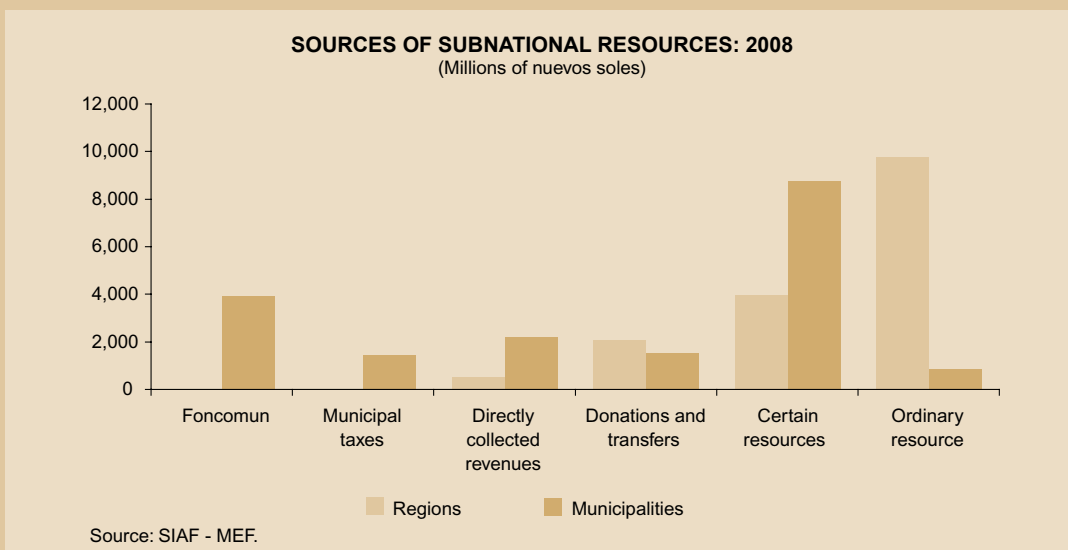
- 185 sector responsibilities will be transferred to the Municipality of Metropolitan Lima.
- Five sector responsibilities not included in the 2007 Plan will be transferred to subnational governments (one Civil Defense function; two corresponding to Fisheries; one to Housing and Sanitation; and one to Agriculture).
- In addition to being responsible for the implementation of the education and health pilot projects, the municipalities will also be responsible for rural transport as this responsibility will be transferred to them through the Programa de Transporte Rural Descentralizado. In this way, province municipalities will be in charge of the maintenance, rehabilitation, and improvement of rural roads and bridle roads.

#### Transfer of resources

The allocation of responsibilities has to be coupled by a transfer of the resources required to implement them. Given that no region has been established yet, the allocation of resources is currently in the first stage considered in the Fiscal Decentralization Law<sup>7</sup>. In this sense, regional governments' main source of income in 2008 were the transfers of the Public Treasury (about 60 percent), followed by revenue from the mining royalty or canon minero (24 percent).

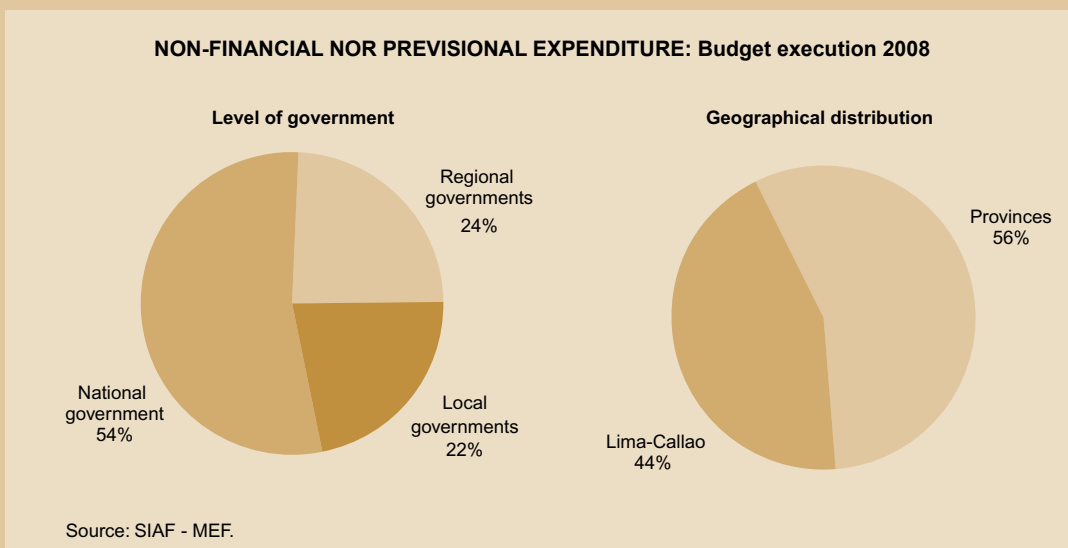
On the other hand, local governments main source of income included some specific resources (47 percent), particularly mining royalties, followed by transfers from Foncomun (21 percent), and by directly collected revenue and municipal taxes (20 percent).

7 The Fiscal Decentralization Law establishes two stages for the allocation of resources:  
 – Budgetary transfers from the National Government and FONCOR will be executed in the first stage.  
 – The second stage comprises the allocation of effectively collected resources in each region due to some national taxes (VAT, excise tax, and individuals' income tax). In addition, compensatory transfers may also be approved for some regions to reduce horizontal inequalities between regions.



**Expenditure execution**

The national government was responsible for executing 54 percent of total non-financial expenditure and non-social security-related expenditure, while regional governments executed 24 percent and the municipalities 22 percent. However, the deconcentration of expenditure has been higher since about 56 percent of expenditure was executed in the provinces.



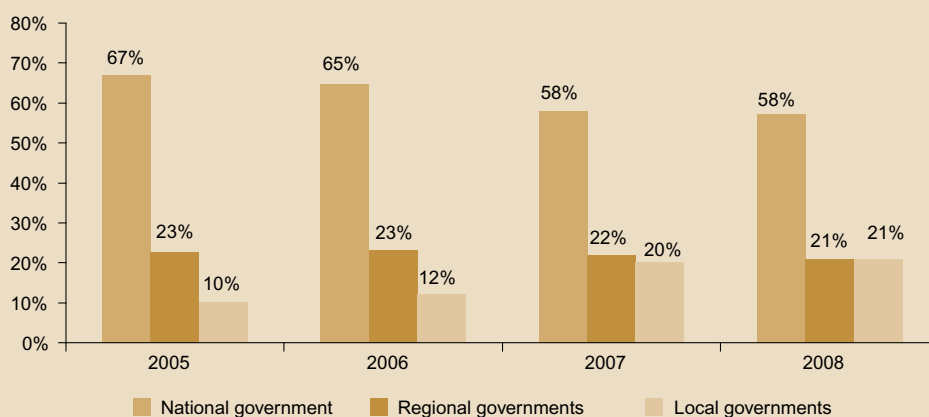
Excluding contingency reserves, the non-financial expenditure and non-social security-related expenditure of the opening budget of subnational governments has increased from 33 percent to 44 percent of the total in the last five years.

**Municipalization of Education and Primary Health Care**

The Plan for the Municipalization of Education 2007 is currently being implemented in 56 municipalities. This includes over 3,000 schools and 460 thousand students, representing about five percent of the country's school population. The 2008 Plan considers developing other 88 new pilot projects.



**DISTRIBUTION OF NON-FINANCIAL NOR PREVISIONAL EXPENDITURE OF THE BUDGET**



Source: SIAF - MEF.

**PILOT PLANS FOR THE MUNICIPALIZATION OF EDUCATION: 2007**

Education Level	Schools	Teachers	Students
Pre-school	1,365	3,073	67,597
Primary	1,447	10,902	258,966
Highschool	317	7,011	134,020
<b>TOTAL</b>	<b>3,129</b>	<b>20,986</b>	<b>460,583</b>

Likewise, 30 pilot projects of municipalization of primary health care are being implemented in 12 departments (in 9 provinces, 15 districts, and 6 local communities).

**PILOT PLANS FOR THE MUNICIPALIZATION OF HEALTH**

Department	Local Government	Number of Plans
Cajamarca	Sucre and Cajabamba	2
Amazonas	Rodriguez de Mendoza, Cajaruro and Aramango	3
La Libertad	Huamachuco	1
Piura	Bajo Piura, Bajo Morropon and Sullana	3
Ayacucho	Morochucos, Río Pampas and Jesus Nazareno	3
Huánuco	Ambo and Aucayacu	2
Pasco	Paucartambo, Pozuzo and Villa Rica	3
Huancavelica	Acobamba, Yauli, Huando, Tayacaja and Huancavelica	5
San Martín	Bajo Huallaga	1
Apurímac	Aymaraes, Curahuasi and San Jerónimo	3
Madre de Dios	Colorado and Planchón	2
Ica	Palpa and Nazca	2
<b>TOTAL</b>		<b>30</b>





**Foniprel**

In 2008, a total of S/. 650 million was budgeted for the Promotion Fund for Regional and Local Public investment (Foniprel). In March 2008, the first project contest allocated S/. 377 million, which was distributed among 372 projects (of which 270 were projects to be implemented and 102 were projects to elaborate pre-investment studies).

<b>FONIPREL CALL FOR PROJECTS 2008</b> (Millions of nuevos soles)			
	<b>First Call</b>	<b>Second Call</b>	<b>Total 2008</b>
<b>TOTAL</b>	<b>377</b>	<b>273</b>	<b>650</b>
Execution	368	257	625
Studies	9	16	25

In line with the aim of reducing poverty, the projects awarded with funds in the frame of this first contest concentrated in the local governments with higher needs and lower resources.

#### 4. Rest of central government

In contrast with the S/. 524 million surplus recorded in 2007, entities in the rest of the central government showed a deficit of S/. 255 million in 2008. This result, which was mainly explained by the operations of the Reserves Consolidated Fund (RCF), was offset by the operations of the National Pension Agency (Oficina de Normalización Previsional - ONP).

TABLE 52  
OPERATIONS OF OTHER CENTRAL GOVERNMENT ENTITIES

	Millions of nuevos soles			Percentage of GDP		
	2006	2007	2008	2006	2007	2008
<b>I. Current revenue</b>	<b>10,191</b>	<b>10,511</b>	<b>10,824</b>	<b>3.3</b>	<b>3.1</b>	<b>2.9</b>
1. Contributions to EsSalud and ONP	4,629	5,191	6,193	1.5	1.5	1.7
2. Other	5,563	5,320	4,631	1.8	1.6	1.2
<b>II. Non-financial expenditure</b>	<b>9,511</b>	<b>9,628</b>	<b>10,489</b>	<b>3.1</b>	<b>2.9</b>	<b>2.8</b>
1. Current	9,406	9,380	9,896	3.1	2.8	2.7
2. Capital	105	248	593	0.0	0.1	0.2
<b>III. Capital revenue</b>	<b>324</b>	<b>1</b>	<b>1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>
<b>IV. Primary Result (I-II+III)</b>	<b>1,004</b>	<b>884</b>	<b>336</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>
<b>V. Interests</b>	<b>91</b>	<b>360</b>	<b>590</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
<b>VI. Overall balance</b>	<b>913</b>	<b>524</b>	<b>- 255</b>	<b>0.3</b>	<b>0.2</b>	<b>-0.1</b>
1. EsSalud	162	240	- 15	0.1	0.1	0.0
2. ONP	40	309	387	0.0	0.1	0.1
3. FCR 1/	356	- 286	- 729	0.1	-0.1	-0.2
4. Other	356	261	102	0.1	0.1	0.0

1/ As established by law N° 27617 (01-01-02), all Fonahpu funds are included in the FCR.  
Source: MEF, SUNAT, EsSalud and regulating organizations.



The RCF showed a deficit of S/. 729 million, a result higher by S/. 443 million than the one posted in 2007, explained by the lower return of its placements and by the higher interest rates on the balance of Recognition Bonds.

The economic surplus recorded by the ONP (S/. 387 million) was S/. 78 million higher than in 2007 as a result of lower non-financial current expenditure (S/. 177 million) due to lower payments of accruals.

EsSalud showed a deficit of S/. 15 million, in contrast with the surplus of S/. 240 million recorded in 2007. This result is mainly associated with higher non-financial expenditure (S/. 720 million), both due to current expenditure (S/. 367 million) as a result of increased requirements of personnel, medicines, and inputs, and to capital expenditure (S/. 353 million) mainly as a result of higher gross capital formation (acquisition of health care and computer equipments, and hospital construction and modernization to improve the health services provided to EsSalud users).

## 5. Local governments

Local governments recorded an economic surplus of S/. 3 million, a result S/. 3,592 million lower than the one observed in 2007. This lower result is mainly explained by higher gross capital formation, as the latter increased from 1.0 to 1.9 percent of GDP (98.5 percent in real terms). Lower transfers (0.2 of a percentage point of GDP) also contributed to this.

TABLE 53  
OPERATIONS OF LOCAL GOVERNMENTS

	Millions of nuevos soles			Percentage of GDP		
	2006	2007	2008	2006	2007	2008
I. Current revenue	7,863	11,672	12,365	2.6	3.5	3.3
II. Non-financial expenditure	7,978	8,796	13,745	2.6	2.6	3.7
1. Current	4,888	5,380	6,644	1.6	1.6	1.8
2. Capital	3,090	3,416	7,101	1.0	1.0	1.9
III. Capital revenue	394	769	1,414	0.1	0.2	0.4
IV. Primary Result (I-II+III)	279	3,645	34	0.1	1.1	0.0
V. Interests	89	50	31	0.0	0.0	0.0
<b>VI. Overall balance</b>	<b>190</b>	<b>3,595</b>	<b>3</b>	<b>0.1</b>	<b>1.1</b>	<b>0.0</b>

Source: Local governments, SIAF/GL, Contaduría Pública de la Nación.



## 6. State enterprises

In contrast with the S/. 183 million surplus obtained in 2007, public enterprises showed a deficit of S/. 195 million (equivalent to 0.1 percent of GDP) in 2008. This result associated with the deterioration of Petroperú's balance was partially offset by the relative improvement recorded in the balances of Electroperú, the regional electricity enterprises, and Sedapal.

Petroperú showed a deficit of S/. 784 million (S/. 421 million higher than in the previous year) due to increased expenditure in goods and services, to the distribution of 2007 dividends to workers, and to investment expenditure in restocking and maintenance.

**TABLE 54**  
**OVERALL BALANCE OF STATE ENTERPRISES**

	Millions of nuevos soles			Percentage of GDP		
	2006	2007	2008	2006	2007	2008
<b>I. CURRENT REVENUE</b>	<b>16,408</b>	<b>16,476</b>	<b>20,808</b>	<b>5.4</b>	<b>4.9</b>	<b>5.6</b>
1. PetroPerú	10,320	9,725	13,231	3.4	2.9	3.5
2. ElectroPerú	1,701	1,406	1,498	0.6	0.4	0.4
3. Regional Electricity Companies	1,975	2,310	2,467	0.6	0.7	0.7
4. Sedapal	805	892	986	0.3	0.3	0.3
5. Centromin	33	24	0	0.0	0.0	0.0
6. Other	1,574	2,118	2,625	0.5	0.6	0.7
<b>II. NON-FINANCIAL CURRENT EXPENDITURE</b>	<b>14,966</b>	<b>15,502</b>	<b>19,748</b>	<b>4.9</b>	<b>4.6</b>	<b>5.3</b>
1. PetroPerú	10,074	9,994	13,858	3.3	3.0	3.7
2. ElectroPerú	1,379	1,498	1,202	0.5	0.4	0.3
3. Regional Electricity Companies	1,666	1,804	2,002	0.5	0.5	0.5
4. Sedapal	476	547	616	0.2	0.2	0.2
5. Centromin	30	27	0	0.0	0.0	0.0
6. Other	1,342	1,632	2,070	0.4	0.5	0.6
<b>III. CAPITAL EXPENSE</b>	<b>829</b>	<b>1,252</b>	<b>1,465</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>
1. PetroPerú	70	78	99	0.0	0.0	0.0
2. ElectroPerú	134	138	116	0.0	0.0	0.0
3. Regional Electricity Companies	255	435	438	0.1	0.1	0.1
4. Sedapal	257	352	530	0.1	0.1	0.1
5. Centromin	19	0	0	0.0	0.0	0.0
6. Other	94	248	282	0.0	0.1	0.1
<b>IV. CAPITAL REVENUE</b>	<b>244</b>	<b>558</b>	<b>344</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>
<b>V. PRIMARY RESULT (I-II-III+IV)</b>	<b>858</b>	<b>279</b>	<b>- 61</b>	<b>0.3</b>	<b>0.1</b>	<b>0.0</b>
<b>VI. INTERESTS</b>	<b>101</b>	<b>96</b>	<b>134</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>VII. OVERALL BALANCE</b>	<b>757</b>	<b>183</b>	<b>- 195</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.1</b>
1. PetroPerú	158	- 363	- 784	0.1	-0.1	-0.2
2. ElectroPerú	188	- 230	180	0.1	-0.1	0.0
3. Regional Electricity Companies	166	300	119	0.1	0.1	0.0
4. Sedapal	111	30	97	0.0	0.0	0.0
5. Centromin	- 16	- 3	0	0.0	0.0	0.0
6. Other	151	451	193	0.0	0.1	0.1

Source: State enterprises and FONAFE.



Petroperu's operations were affected by the reduction of its operational margin (from S/. 27.5 / barrel to S/. 3.0 / barrel). In 2008, this enterprise received a total of S/. 992 million from the Fuel Price Stabilization Fund, with a remaining balance of S/. 461 million at December 2008.

Electroperú recorded a surplus of S/. 180 million in 2008, a result contrasting with the S/. 230 million-deficit recorded in 2007. Lower current and capital expenditure, as well as increased incomes for sales, accounted for this positive result. Transfers to Fonahpu –for 2008 dividends– were lower by S/. 85 million, while capital transfers to the Economy Ministry for the debt with the government were S/. 14 million lower than in the previous year.

Electroperú's higher current income was mainly explained by the increase of energy rates (7.3 percent on average), while the volume of sales declined slightly due to lower sales to electricity distributors, including deliveries to the Comité de Operación Económica del Sistema (COES).

The **regional electricity enterprises** showed an overall surplus of S/. 119 million (S/. 181 million lower than in 2007) due to higher expenditure and lower capital income, offset in part by higher income for sales given increased demand for energy.

Investment expenditure, which amounted to S/. 434 million (S/. 167 million higher than in 2007), was oriented to increasing the supply of electricity (expansion and renewal or rehabilitation of transmission and distribution grids; construction, expansion or conversion of thermal energy plants).

## 7. Promotion of private investment

The amount obtained from privatization processes implemented in 2008 was US\$ 46.5 million. In this sense, it is worth highlighting that state-owned EDEGEL shares sold at the Lima Stock Exchange in October amounted to US\$ 43 million. At December 2008, the State's shareholding is still 31.6 million.

On the other hand, investment commitments estimated to amount to US\$ 882 million have been signed with different concessionair firms. It is worth pointing out the concession of Red Vial 4 (with an expected investment of US\$ 350 million) and the concessions of 4 electricity transmission lines to different companies (with an overall investment of US\$ 339 million). Other projects include water supply for Lima, the Gaseoducto Regional de Ica, and road rehabilitation and improvement (Programa Costa – Sierra), with investments amounting to US\$ 77 million, US\$ 60 million, and US\$ 33 million, respectively.

TABLE 55  
**PRIVATIZATION AND CONCESSIONS 2008**  
(Millions of US\$)

Sale of Shares, Assets and Concessions	Date	Buyer	Transactions	Projected Investment
<b>SALE OF STOCKS - ASSETS</b>			<b>46</b>	<b>2</b>
1. Land	Feb.- Sep	Several	0	
2. Buildings	Feb.- Dec.	Several	1	
3. Toromocho project1/	Apr 26.	Minera Peru Copper Syndicate Ltd.	2	2
4. Edegel 2/	Oct 28.	Sale in the Stock Market	43	
<b>CONCESSIONS</b>				<b>880</b>
1. Telecommunications public service in 450 MHZ band, fixed wireless telephony in Lima and Callao 3/	Jan. 09	Telefónica Mviles S.A.		9
2. Carhuamayo -Paragsha -Conococha-Huallanca-Cajamarca -Cerro Corona - Carhuaquero electric transmission line 4/	Feb. 26	Abengoa Perú S.A.		106
3. Regional Pipeline Ica 5/	Apr. 25	Consorcio EEB-TGI		60
4. Mantaro -Caraveli -Montalvo and Machu Picchu Cotaruse electric transmission line 5/	Apr. 29	Isonor Transmisión S.A.C.		181
5. Chilca - La Planicie - Zapallal electric transmission line 6/	Jun. 17	Interconexión Eléctrica S.A.		52
6. Rural internet program 7/	Aug. 12	Consorcio Ameritel-Cime-Valtron		12
7. Supply of potable water for Lima (Huascacocha -Rimac) 8/	Oct. 24	Constructora OAS Ltda.		77
8. Costa-Sierra program: Óvalo Chancay -Desvío Variante Pasamayo-Huaral-Acos 9/	Nov. 07	Consorcio "Concesión Chancay - Acos"		33
9. Red vial 4: Pativilca - Trujillo stretch10/	Dec. 18	Consorcio OHL Concesiones SL		350
<b>TOTAL</b>			<b>46</b>	<b>882</b>

1/ Royalties equivalent to an average of 1.75% of net sales will be transferred to the State each semester.

2/ 82 million shares were sold (at S/. 1.64 each).

3/ A new telephone rate was established.

4/ 30-year concession.

5/ 30-year concession for the design construction, operation and maintenance of the system.

6/ To be built in 2 stages: 250 and 500 kw, respectively.

7/ Installation, operation, and maintenance of last-generation equipments in 1,050 rural towns.

8/ 20-year concession.

9/ Rehabilitation and improvement of 76.5 kms of highways.

10/ This projects includes the construction of 113,42 kms in addition to the 170 kms established in the contract.

Source: Proinvestment.

