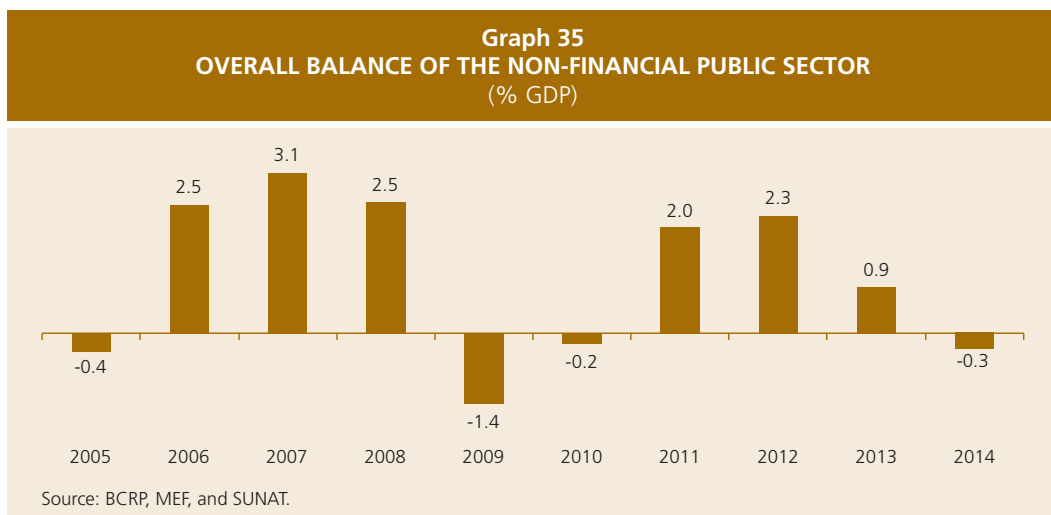


# PUBLIC FINANCES

After showing fiscal surpluses in the last three years –0.9 percent of GDP in 2013–, the operations of the non-financial public sector registered a deficit of 0.3 percent of GDP in 2014. This lower economic balance is mainly explained by the operations of the national government which declined from a surplus of 0.9 percent of GDP in 2013 to a deficit of 0.4 percent of GDP in 2014. This result was in part offset by a slight improvement in the balances of sub-national governments, which went from a negative balance of 0.2 to a surplus of 0.2 percent of GDP in 2014 as a result of a slower implementation of their investment programs. Moreover, the economic balance of State-owned enterprises fell from a surplus of 0.1 percent of GDP in 2013 to a deficit of 0.1 percent in 2014 (due mainly to the performance of Petroperú in the year).

The expansionary fiscal policy implemented by the Government in 2014 was reflected in the higher growth of the general government non-financial spending (21.5 percent of GDP in 2014 vs. 20.5 percent of GDP in 2013). More particularly, this increase is explained by higher current expenditure –15.6 percent of GDP vs. 14.4 percent of GDP in 2013–, while, on the other hand, capital expenditure decreased –from 6.1 percent of GDP in 2013 to 6.0 percent of GDP in 2014– due mainly to the performance of subnational governments. In addition to this, in line with the slowdown of economic growth and the deterioration of terms of trade, the revenue of the general government increased 2.4 percent in real terms –vs. 3.5 percent in 2013– (although in GDP terms, revenue grew slightly to 22.2 percent).

The structural economic balance is the indicator that shows the effect of fiscal policy decisions isolating the effects of the business cycle and the impact of the prices of the minerals Peru exports. In 2014 this indicator showed a negative rate of 1.0 percent of GDP (-0.1 percent of GDP in 2013), in line with the countercyclical fiscal position adopted, which implied a fiscal stimulus of 0.7 percent of GDP by increasing the general government non-financial spending in a context of a weak economic cycle.

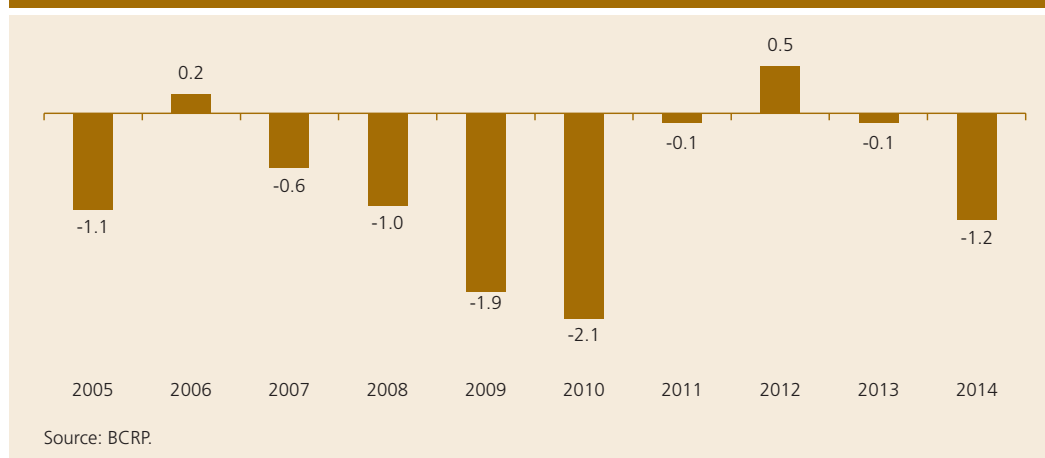


**Table 47**  
**OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR**

	Million nuevos soles			% GDP		
	2012	2013	2014	2012	2013	2014
<b>I. PRIMARY BALANCE</b>	<b>17,024</b>	<b>10,763</b>	<b>4,206</b>	<b>3.3</b>	<b>2.0</b>	<b>0.7</b>
<b>1. Of the General Government</b>	<b>15,895</b>	<b>9,916</b>	<b>4,526</b>	<b>3.1</b>	<b>1.8</b>	<b>0.8</b>
a. Current revenue	113,528	120,785	127,711	22.3	22.1	22.2
i. Tax revenue	86,097	91,617	97,646	16.9	16.8	17.0
ii. Non-tax revenue	27,431	29,168	30,065	5.4	5.3	5.2
b. Non-financial expenditure	97,899	111,770	123,845	19.3	20.5	21.5
i. Current	68,948	78,329	89,461	13.6	14.4	15.6
ii. Capital	28,951	33,440	34,384	5.7	6.1	6.0
c. Capital revenue	267	901	660	0.1	0.2	0.1
<b>2. Of Public Enterprises</b>	<b>1,129</b>	<b>847</b>	<b>-320</b>	<b>0.2</b>	<b>0.2</b>	<b>-0.1</b>
<b>II. INTERESTS</b>	<b>5,568</b>	<b>6,090</b>	<b>6,206</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
1. External debt	2,755	3,065	2,909	0.5	0.6	0.5
2. Domestic debt	2,813	3,025	3,297	0.6	0.6	0.6
<b>III. OVERALL BALANCE (I-II)</b>	<b>11,456</b>	<b>4,673</b>	<b>-2,002</b>	<b>2.3</b>	<b>0.9</b>	<b>-0.3</b>
1. Net external financing (Million US\$)	-1,388	-4,388	-841	-0.3	-0.8	-0.1
a. Disbursements	\$948	\$348	\$1,428	0.5	0.2	0.7
b. Amortization	\$1,175	\$2,367	\$1,456	0.6	1.1	0.7
c. Others	-\$304	\$330	-\$256	-0.2	0.2	-0.1
2. Net domestic financing	-10,094	-1,023	2,809	-2.0	-0.2	0.5
3. Privatization	26	737	34	0.0	0.1	0.0

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

**Graph 36**  
**STRUCTURAL OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR**  
(% GDP)



Financial requirements is a variable that measures the resources needed by the public sector to cover its economic balance and the amortization of the domestic debt and the external debt.

In 2014 the financial requirements (S/. 11.06 billion) were covered mainly with external disbursements and sovereign bonds. The public sector continued accumulating assets in the form of deposits.

**Table 48**  
**FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR**

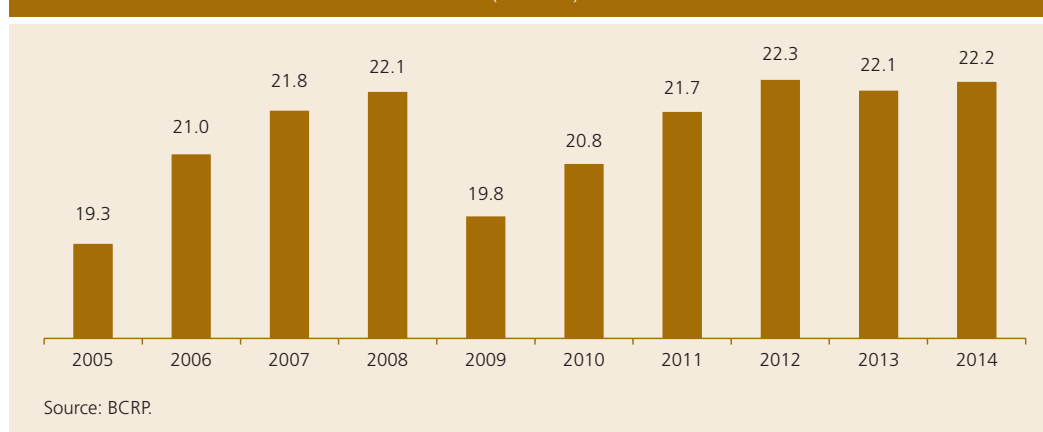
	Million nuevos soles			% GDP		
	2012	2013	2014	2012	2013	2014
<b>1. Overall balance</b>	<b>11,456</b>	<b>4,673</b>	<b>-2,002</b>	<b>2.3</b>	<b>0.9</b>	<b>-0.3</b>
<b>2. Amortization</b>	<b>4,342</b>	<b>7,859</b>	<b>9,059</b>	<b>0.9</b>	<b>1.4</b>	<b>1.6</b>
Redemption of recognition bonds	509	448	692	0.1	0.1	0.1
Domestic debt	729	1,188	4,160	0.1	0.2	0.7
External debt 1/	3,105	6,223	4,207	0.6	1.1	0.7
<b>3. Financial requirements</b>	<b>-7,114</b>	<b>3,186</b>	<b>11,061</b>	<b>-1.4</b>	<b>0.6</b>	<b>1.9</b>
External disbursements	2,520	954	4,119	0.5	0.2	0.7
Freely disposable funds	1,644	348	2,162	0.3	0.1	0.4
Investment projects	875	606	1,957	0.2	0.1	0.3
Domestic bonds 1/	2,940	4,025	11,537	0.6	0.7	2.0
Privatization	26	737	34	0.0	0.1	0.0
Others	-12,599	-2,530	-4,629	-2.5	-0.5	-0.8

1/ Amounts in 2014 include operations of managing of approved debt by D. S. N° 298-2014-EF.  
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state enterprises, and public institutions.

## 1. Revenue of the general government

In 2014 the current revenue of the general government was equivalent to 22.2 percent of GDP, that is, 0.1 percentage points of GDP higher than in the previous year. In real terms, this represents an increase of 2.4 percent in current revenue, with higher revenue from the income tax (6.5 percent) accounting mainly for this increase. The latter is explained mostly by the revenue from extraordinary income tax payments (about S/. 3.44 billion, a figure equivalent to 0.6 percent of GDP) of taxpayers not domiciled in the country and by capital gains generated by the indirect sale of shares in companies incorporated locally by shareholders not domiciled in the country. The tax pressure of the central government was 16.6 percent of GDP, while the fiscal burden of the central government was 19.0 percent of GDP.

**Graph 37**  
**GENERAL GOVERNMENT FISCAL BURDEN**  
(% GDP)



**Table 49**  
**FISCAL REVENUE RATIOS**  
(% GDP)

	2012	2013	2014
Central government tax burden	16.5	16.4	16.6
Central government fiscal burden 1/	19.1	18.9	19.0
Fiscal burden of the general government 2/	22.3	22.1	22.2

1/The difference respect to tax burden is the inclusion of non-tax revenues.

2/The difference between central and general government due to local governments and other institutions as EsSalud, ONP and regulatory agencies of general government.

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

**Table 50**  
**GENERAL GOVERNMENT REVENUES**

	Million nuevos soles			Real % change		% GDP		
	2012	2013	2014	2013	2014	2012	2013	2014
<b>I. Tax revenue</b>	<b>86,097</b>	<b>91,617</b>	<b>97,646</b>	<b>3.5</b>	<b>3.3</b>	<b>16.9</b>	<b>16.8</b>	<b>17.0</b>
1. Income tax	37,278	36,512	40,157	-4.7	6.5	7.3	6.7	7.0
- Individuals	9,070	10,149	10,894	8.9	3.9	1.8	1.9	1.9
- Legal entities	23,429	22,914	25,031	-4.9	5.8	4.6	4.2	4.4
- Tax regularization	4,779	3,450	4,232	-29.7	18.7	0.9	0.6	0.7
2. Import duties	1,526	1,706	1,790	8.7	1.7	0.3	0.3	0.3
3. Value-added tax (VAT)	44,042	47,819	50,352	5.6	2.0	8.7	8.8	8.8
- Domestic VAT	24,543	27,164	28,732	7.6	2.5	4.8	5.0	5.0
- VAT on imports	19,499	20,655	21,620	3.0	1.4	3.8	3.8	3.8
4. Excise tax	4,918	5,480	5,135	8.4	-9.2	1.0	1.0	0.9
- Fuels	2,149	2,501	2,041	13.3	-21.0	0.4	0.5	0.4
- Others	2,769	2,979	3,094	4.6	0.6	0.5	0.5	0.5
5. Other income tax	8,920	11,363	10,921	23.8	-6.8	1.8	2.1	1.9
- National government	6,902	9,069	8,585	27.7	-8.2	1.4	1.7	1.5
- Local government	2,018	2,294	2,336	10.7	1.4	0.4	0.4	0.4
6. Tax returns	-10,587	-11,264	-10,708	3.5	-7.9	-2.1	-2.1	-1.9
<b>II. NON-TAX REVENUES</b>	<b>27,431</b>	<b>29,168</b>	<b>30,065</b>	<b>3.5</b>	<b>-0.2</b>	<b>5.4</b>	<b>5.3</b>	<b>5.2</b>
1. Contributions to Essalud and ONP	10,281	11,493	12,513	8.8	5.4	2.0	2.1	2.2
2. Oil, gas and mining royalty	2,850	2,875	2,649	-4.2	-10.1	0.6	0.5	0.5
3. Oil Canon	2,910	3,005	2,895	0.5	-6.7	0.6	0.6	0.5
4. Others	11,391	11,794	12,008	1.2	-1.9	2.2	2.2	2.1
<b>III. TOTAL (I+II)</b>	<b>113,528</b>	<b>120,785</b>	<b>127,711</b>	<b>3.5</b>	<b>2.4</b>	<b>22.3</b>	<b>22.1</b>	<b>22.2</b>

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

Revenue from the **income tax** increased from 6.7 percent to 7.0 percent in GDP terms, showing an increase of 6.5 percent in real terms. This reflected mainly the higher revenue received from the income tax of non-domiciled taxpayers associated with their sales of assets during the year, as a result of which revenue from the income tax of non-domiciled taxpayers increased two-fold compared to 2013. If this tax payments were excluded, the revenue from the income tax in 2014 would have fallen by 1.8 percent in real terms reflecting lower tax payments from income tax- third category.

**Table 51**  
**INCOME TAX BY CATEGORY**  
(Million nuevos soles)

	2012	2013	2014	Real % change	
				2013	2014
First category	253	310	374	19.2	16.7
Second category	1,136	1,275	1,214	9.3	-7.8
Third category	20,744	19,633	18,536	-7.9	-8.5
Fourth category	637	744	834	13.6	8.5
Fifth category	7,054	7,820	8,473	7.9	4.9
Non-residents	2,244	2,848	6,027	23.3	104.7
Regularization	4,779	3,450	4,232	-29.7	18.7
Others	431	432	468	-2.4	4.7
<b>Total</b>	<b>37,278</b>	<b>36,512</b>	<b>40,157</b>	<b>-4.7</b>	<b>6.5</b>

Source: SUNAT.

The decline of 8.5 percent in payments on account of **income tax-third category** is associated mainly with the decrease of tax revenue from the mining sector, which shrank by 37.6 percent in real terms over the year due to the lower prices of some of our major mining exports, such as gold and copper.

**Table 52**  
**INCOME TAX THIRD CATEGORY BY SECTORS: PAYMENTS ON ACCOUNT**  
(Million nuevos soles)

	2012	2013	2014	Real % change	
				2013	2014
Services,1/	6,967	7,507	7,612	4.9	-1.8
Commerce	2,952	3,431	3,220	13.1	-9.1
Manufacturing	2,683	2,706	2,517	-1.9	-9.8
Hydrocarbons	1,779	1,908	1,903	4.3	-3.3
Mining	5,393	2,922	1,881	-47.3	-37.6
Construction	854	1,047	1,283	19.2	18.7
Agriculture and livestock	81	64	72	-23.6	8.2
Fishing	35	48	47	33.2	-4.5
<b>Total</b>	<b>20,744</b>	<b>19,633</b>	<b>18,536</b>	<b>-7.9</b>	<b>-8.5</b>

1/ 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 **import duties** grew 1.7 percent in real terms and maintained a ratio of 0.3 percent in GDP terms. It is worth mentioning that Supreme Decree 314-2014-EF, dated November 18, 2014), eliminated tariffs on 1,085 tariff items (mainly inputs which had tariff rates of 6 and 11 percent).

Revenue from the **value added tax (VAT)** remained for the second consecutive year at 8.8 percent, but grew 2.0 percent in real terms as a result of the positive path that revenue from this tax showed mainly in the first two quarters of the year.



The growth of the domestic VAT slowed down (2.5 percent in real terms) and recorded its lowest level in the past 5 years reflecting the lower dynamism of economic activity. However, this effect was in part offset by the measures implemented to broaden the tax base. Moreover, the external VAT also showed a lower growth rate (1.4 percent in real terms) associated with the slowdown of imports. By sectors, the sector of services still leads VAT payments, followed by the sector of trade.

Revenue from the **excise tax** fell 9.2 percent in real terms and from 1.0 percent to 0.9 percent as a percentage of GDP. This fall is explained by the reduction of the excise tax on fuels (21.0 percent), offset in part by the increase of the excise tax on other goods (0.6 percent in real terms). Moreover, the decline in revenue from the excise tax on fuels is explained mainly by the domestic excise tax, which recorded a reduction of 32.9 percent. It should be pointed out that the excise tax on gasoline and gasohol fuels was lowered from S/. 1.31 per gallon to S/. 0.95 per gallon on average in November (Supreme Decree 316-2014-EF, dated November 21, 2014).

Revenue from **other taxes** dropped by a real 6.8 percent, from 2.1 to 1.9 percent of GDP. This decline is explained mainly by lower transfers of tax withholdings (detracciones) –which fell 41.6 percent–, offset in part by higher revenue from the temporary tax on net assets (ITAN), which increased by 22.6 percent. Lower revenue from transfers of withheld taxes (detracciones) was associated in part with Sunat Resolution 375-2013-Sunat (effective since February 2014) which made the withholding system more flexible, as well as with Sunat Resolution 203-2014-Sunat which lowered the tax withholding rate for services from 12 percent to 10 percent as from July.

Tax refunds, which fell by a real 7.9 percent, were equivalent to 1.9 percent of GDP. This result is explained mainly by lower **VAT refunds** for exports (15.6 percent in real terms) as well as by lower early recovery of the VAT (23.5 percent in real terms).

**Non-tax revenues** declined by 0.1 percentage points of GDP due to the decrease in real terms of revenue from oil and gas royalties and the Special Levy on Mining (down by 17.8 and 35.9 percent, respectively). However, this decline was in part offset by increased contributions to EsSalud and ONP (5.4 percent) as a result of the growth of formal employment and the increase registered in average salaries. In addition, own resources and transfers grew 12.0 percent in real terms.

## 2. General government spending

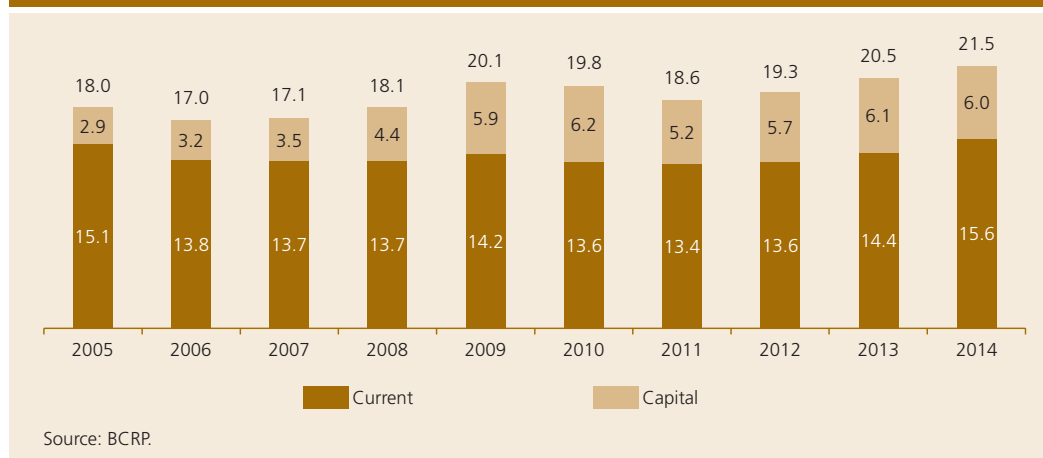
The non-financial expenditure of the general government was equivalent to 21.5 percent of GDP, a ratio 1.0 percentage points higher than in 2013 and the highest registered since 1981. The growth of the general government's non-financial expenditure in the year is explained by higher current expenditure (up from 14.4 to 15.6 percent of GDP), offset in part by lower capital spending (down 0.1 percentage points) in this period. By government levels, current expenditure in the national government rose from 9.7 percent to 10.7 percent of GDP, while capital expenditure rose from 2.2 percent to 2.4 percent. On the other hand, capital spending decreased by 0.4 percentage points at the level of subnational governments.

**Table 53**  
**GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE 1/**

	Million nuevos soles			Real % change		% GDP		
	2012	2013	2014	2013	2014	2012	2013	2014
<b>I. CURRENT EXPENDITURE</b>	<b>68,948</b>	<b>78,329</b>	<b>89,461</b>	<b>10.5</b>	<b>10.6</b>	<b>13.6</b>	<b>14.4</b>	<b>15.6</b>
<b>Wages and salaries</b>	<b>25,254</b>	<b>29,361</b>	<b>34,032</b>	<b>13.1</b>	<b>12.2</b>	<b>5.0</b>	<b>5.4</b>	<b>5.9</b>
National government	15,215	17,988	20,897	15.0	12.5	3.0	3.3	3.6
Regional governments	8,248	9,452	11,048	11.5	13.2	1.6	1.7	1.9
Local governments	1,791	1,921	2,086	4.3	5.2	0.4	0.4	0.4
<b>Goods and services</b>	<b>28,433</b>	<b>31,424</b>	<b>35,065</b>	<b>7.5</b>	<b>8.1</b>	<b>5.6</b>	<b>5.8</b>	<b>6.1</b>
National government	18,542	20,907	24,081	9.6	11.6	3.6	3.8	4.2
Regional governments	3,306	3,567	3,721	5.0	1.1	0.7	0.7	0.6
Local governments	6,585	6,950	7,264	2.7	1.3	1.3	1.3	1.3
<b>Transfers</b>	<b>15,261</b>	<b>17,545</b>	<b>20,364</b>	<b>11.7</b>	<b>12.4</b>	<b>3.0</b>	<b>3.2</b>	<b>3.5</b>
National government	11,940	14,097	16,695	14.7	14.7	2.3	2.6	2.9
Regional governments	2,107	2,260	2,559	4.3	9.6	0.4	0.4	0.4
Local governments	1,214	1,187	1,110	-4.7	-9.5	0.2	0.2	0.2
<b>II. CAPITAL EXPENDITURE</b>	<b>28,951</b>	<b>33,440</b>	<b>34,384</b>	<b>12.4</b>	<b>-0.4</b>	<b>5.7</b>	<b>6.1</b>	<b>6.0</b>
<b>Gross Capital Formation</b>	<b>27,253</b>	<b>30,739</b>	<b>31,660</b>	<b>9.7</b>	<b>-0.2</b>	<b>5.4</b>	<b>5.6</b>	<b>5.5</b>
National government	8,370	9,532	11,465	10.8	16.4	1.6	1.7	2.0
Regional governments	6,653	7,120	6,276	4.2	-14.5	1.3	1.3	1.1
Local governments	12,230	14,087	13,919	12.0	-4.3	2.4	2.6	2.4
<b>Other capital expenditure</b>	<b>1,698</b>	<b>2,701</b>	<b>2,723</b>	<b>54.5</b>	<b>-2.2</b>	<b>0.3</b>	<b>0.5</b>	<b>0.5</b>
<b>III. NON-FINANCIAL EXPENDITURE</b>								
<b>TOTAL (I+II)</b>	<b>97,899</b>	<b>111,770</b>	<b>123,845</b>	<b>11.0</b>	<b>7.3</b>	<b>19.3</b>	<b>20.5</b>	<b>21.5</b>
National government	55,525	64,916	75,665	13.7	12.9	10.9	11.9	13.2
Regional governments	20,376	22,492	23,647	7.4	1.9	4.0	4.1	4.1
Local governments	21,998	24,362	24,533	7.7	-2.4	4.3	4.5	4.3

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

**Graph 38**  
**GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE**  
(% GDP)





## National government

The **non-financial expenditure of the national government** was equivalent to 13.2 percent of GDP, which represents an increase of 12.9 percent in real terms compared to 2013. This is explained mainly by increased spending in goods and services (11.6 percent), in wages and salaries (12.5 percent), and transfers (14.7 percent).

Expenditure in **wages** and salaries grew by a real 12.5 percent compared with 2013, which is explained mainly by the higher salary levels approved for the Armed Forces and Policía Nacional del Perú, as well as for public servants of the Ministries of Education and Health. Additionally, an extraordinary bonus was given to public servants in the months of July (S/. 200) and December (S/. 300) in addition to the bonuses they receive these months.

Spending in **goods and services** amounted to 4.2 percent of GDP, which represents an increase of 11.6 percent in real terms. Higher spending was observed especially in the sectors of Education (maintenance of education facilities, teacher training programs, and literacy programs); Health, acquisition of medical supplies (vaccines and medicines) and greater outpatient health care attention and hospitalization; Transport and Communications (road maintenance and repair); Economy and Finance (costs associated with reinforcing SUNAT programs and greater service contracts (CAS), and Interior, police operations aimed at reducing victimization in urban areas of the country.

Expenditure for current **transfers** rose from 2.6 percent of GDP in 2013 to 2.9 percent of GDP in 2014 (14.7 percent in real terms) due mainly to increased transfers for the extraordinary bonuses given in July and December as well as for higher pensions –especially for pensioners of regimes covered by D.L. 20530 and D.L. 18846–; payment of accrued salaries and legal interests established by judicial mandates of the ONP, as well as increased allocations to programs Juntos (783 thousand households benefited), Pensión 65 (450 thousand senior adults were given monetary grants), Cuna Más (day care and family accompaniment services provided to 109 thousand children), and Qaliwarma (breakfast was provided to 3.2 million children under this food program), among others.

**Capital expenditure** increased by 13.7 percent in real terms, from 2.2 percent of GDP in 2013 to 2.4 percent in 2014, due mainly to higher gross capital formation (increase of 16.4 percent in real terms).

The national government expenditure in **gross capital formation** was concentrated mainly in the sector of Transport (S/. 6.78 billion), which represented 51 percent of the investment of the national government. It is worth pointing out that increased spending was made in road concession projects and works associated with the construction of Line 2 and section Avenida Faucett–Gambetta of Lima’s Metro project, the construction and improvement of Camaná–Quilca–Matarani–Ilo–Tacna highway, the repair and improvement of Huaura–Sayán–Churin highway, and improving Avenida Néstor Gambetta in Callao.



**Table 54**  
**MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT: 2014**  
(Million nuevos soles)

PROJECTS	Amount
Road Concessions	1,510
Line 2 and Faucett Ave. - Gambetta Ave. of the Basic Network of the Metro of Lima and Callao	1,047
Construction and improvement of the Camaná-Quilca-Matarani-Ilo-Tacna highway	434
Rehabilitation and improvement of the Huaura - Sayán - Churín highway	288
Improvement Néstor Gambetta Ave. - Callao highway	265
Project Electric System Transport of Lima and Callao	232
Rehabilitation and improvement of the Ayacucho - Abancay highway	206
Airport concessions	186
Rehabilitation and improvement of the Chongoyape-Cochabamba-Cajamarca highway	174
Rehabilitation and improvement of the Lima-Canta-La Viuda-Unish highway	157
Improvement of the San Marcos-Cajabamba-Sausacocha highway	153
Rehabilitation of the Panamericana Norte Tranche km. 557+000 to km. 886+600	151
Rehabilitation and improvement of the Chamaya-Jaén-San Ignacio-Río Canchis highway	129
Railways concessions	124
Rehabilitation and improvement of the Tingo Maria-Aguaytía-Pucallpa highway	111
Rehabilitation and improvement of the Quinua-San Francisco highway	92
Improvement of the Satipo-Mazamari-Dv. Pangoa-Puerto Ocopa highway	92
Improvement of the National Sports Village - Videna, San Luis, Lima	90
Rehabilitation and improvement of the Juanjuí - Tocache highway	88
Improvement of the attention of emergency services – Nuevo Hospital de Emergencias - Villa El Salvador	88
Rehabilitation and improvement of the Huancavelica - Lircay highway	85
Rehabilitation and improvement of the Imperial-Mayocc-Ayacucho highway Tranche Mayocc-Huanta	84
Rehabilitation and improvement of the Yauri-Negromayo-Oscollo-Imata highway, Tranche Dv. Imata-Oscollo-Negromayo	72
Rest	5,606
<b>TOTAL</b>	<b>11,645</b>

Source: MEF.

### Regional governments

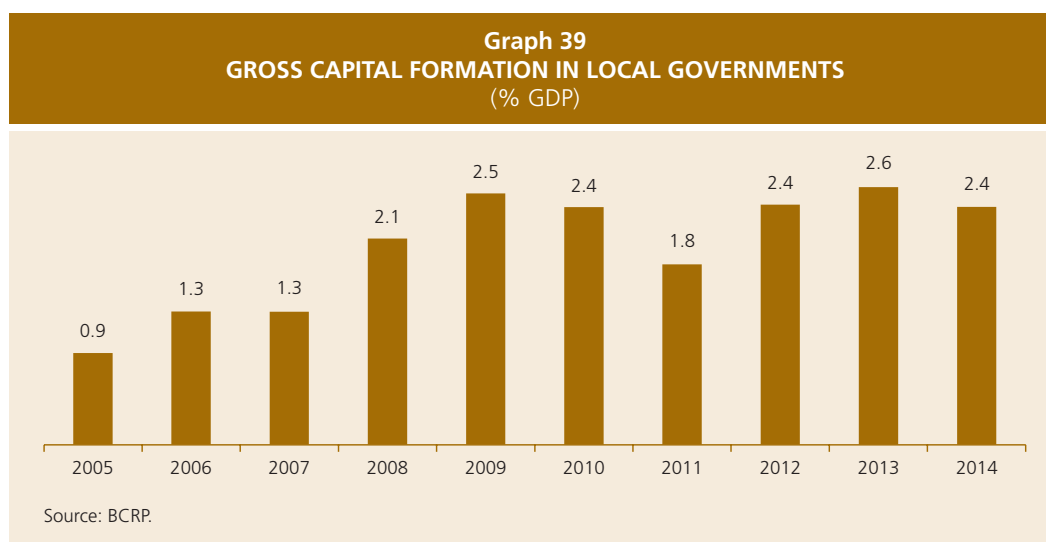
The non-financial expenditure of the regional governments increased by 1.9 percent in real terms and maintained the ratio of 4.1 percent in GDP terms recorded in 2013. This increase is explained mainly by higher current expenditure in salaries (up 13.2 percent in real terms), offset in part by lower spending in gross capital formation (down by a real 14.5 percent). The increase in the former is explained by the higher salaries in the Health sector (Law 29682 and 30126); the implementation of the second stage of Ley de Reforma Magisterial (Law 29944); the payment of DU 037-94 and the extraordinary bonuses of July and December.

As for investment, the regional governments with the higher investment amounts included the regional governments of Cusco, San Martín, and Arequipa. The project Mejoramiento de la Transitabilidad Peatonal y Vehicular de la Avenida Evitamiento de la Ciudad del Cusco stands out among the projects implemented by the regional governments in 2014.

### Local governments

The non-financial expenditure of the local governments declined by a real 2.4 percent compared to 2013, reflecting a lower dynamism in investment expenditure, which fell 4.3 percent.

By departments, the investment of local governments was led by the departments of Cusco, Lima, Ancash, and Cajamarca, while in terms of municipalities, the greater amounts of investment were observed in the Province Municipality of Lima, the District Municipality of Echarate in Cusco, the District Municipality of San Marcos, in Ancash, and the Province Municipality of Paita. The most significant project developed by local governments due to the amount involved was the installation, expansion, improvement of water and sanitation services in the villages and settlements located in the areas near watersheds 1, 2, and 3 of the upper area of the city of Paita, in Piura.



### 3. State enterprises

The State-owned enterprises showed a negative balance of S/. 478 million, which contrasts with the positive economic balance of S/. 715 million recorded in 2013. This negative balance is explained mainly by Petroperú's deficit, offset in part by the positive balances obtained by Sedapal, Electroperu, and the regional electricity companies.

In 2014 **Petroperu** recorded a deficit of S/. 1.45 billion, explained mainly by higher investment costs associated with the modernization of the Talara refinery and by lower current revenue associated with the drop of oil prices which affected the company's sales of crude, especially in the last quarter of the year.

**Sedapal** showed a surplus of S/. 413 million, a balance S/. 39 million higher than the one recorded in 2013 (S/. 374 million). Sedapal recorded revenue for transfers from Ministerio de Vivienda, Construcción y Saneamiento for a total of S/. 551 million, which was used to finance public investment in urban sanitation projects such as the Planta Huachipa; the rehabilitation of secondary sewage grids; the expansion of water supply coverage, and Rehabilitación y Reposición de Redes Primarias y Secundarias de Agua Potable y Alcantarillado.

**Electroperu** recorded a surplus of S/. 135 million. This balance, which is lower by S/. 162 million than the one registered in 2013, is explained mainly by higher operation costs and by lower revenues from sales of goods and services. It is worth mentioning that Electroperu sells energy to electricity distribution companies and free clients that supply energy in different areas of the country.

The **regional electricity companies** recorded an overall surplus of S/. 213 million, a balance higher by S/. 103 million than in 2013, explained by increased revenue as a result of the sale of energy in a year during which there was more capital spending in rural electrification investment projects. Egasa, Electro Centro, and San Gabán stand out among the regional energy companies that contributed to this surplus.

**Table 55**  
**OVERALL BALANCE OF STATE ENTERPRISES**

	Million nuevos soles			% GDP		
	2012	2013	2014	2012	2013	2014
Petroperu	96	-615	-1,450	0.0	-0.1	-0.3
ElectroPeru	186	297	135	0.0	0.1	0.0
Regional Electricity Companies	288	110	213	0.1	0.0	0.0
Sedapal	349	374	413	0.1	0.1	0.1
Others	100	550	210	0.0	0.1	0.0
<b>TOTAL</b>	<b>1,018</b>	<b>715</b>	<b>-478</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.1</b>

Source: State enterprises and FONAFE.

#### 4. Promotion of private investment

Projects in the sectors of transportation, electricity, tourism, and hydrocarbons given in concession to private operators during 2014 involved investment commitments for a total of US\$ 9.98 billion. Among others, these concessions include Line 2 and section Av. Faucett - Av. Gambetta of the basic network of the Metro of Lima and Callao, awarded to Consorcio Nuevo Metro de Lima, which has committed investment for a total of US\$ 5.08 billion. The project consists of the construction and implementation of a 27 km-long underground railway line that will connect Ate - Lima – Callao (denominated Línea 2 de la Red Básica del Metro de Lima) as well as the construction of a 8 km-long branch section in the Av. Elmer Faucett area that will go from the Av. Oscar Benavides (Colonial) until Av. Néstor Gambetta.

Another project that will be implemented by the private sector is Concesión de Mejoras a la Seguridad Energética del País y Desarrollo del Gasoducto Sur Peruano, which was awarded to Consorcio Gasoducto Sur Peruano, integrated by Odebrecht Latinvest and Enagás International SLU (Brazilian and Spanish capitals). Through this concession, the US\$ 3.64 billion project will strengthen the system used to transport natural gas and natural gas liquids and also carry out the construction of the Gasoducto Sur Peruano from the province of Anta (Cusco) to the southern coastal area of Peru.

Finally, another project to be developed also in the sector of transport is the construction and operation of the new international airport of Chinchero in Cusco, which involves an investment commitment of US\$ 537 million. The contract was awarded to Consorcio KunturWasi, integrated by Corporación América S.A. and Andino Investment Holding S.A. (Argentine and Peruvian capitals). The concession period for the operation of the new airport that will be located in the districts of Chinchero and Huayllabamba, in the province of Urubamba, in Cusco, is 40 years.

**Table 56**  
**PRIVATIZATIONS AND CONCESSIONS: 2014**  
(Million US\$)

SALE OF STOCKS, ASSETS AND CONCESSIONS	DATE	AWARDED TO	TRANSACTION OR INVESTMENT
Line 2 and Faucett Ave. - Gambetta Ave. of the Basic Network of the Metro of Lima and Callao	March 28	Various	5,075.2
International Airport of Chinchero - Cusco (AICC)	April 25	Consorcio Kuntur Wasi (Corporación América S.A. y Andino Investment Holding S.A)	537.0
General San Martín (Pisco) Port Terminal	April 30	Consorcio Paracas (Servinoga S.L., Pattac Empreendimentos e Participacoes S.A., Tucuman – Engenharia e Empreendimentos Ltda. and Fortesolo Servicios Integrados Ltda.)	128.8
220 kV La Planicie - Industriales Transmission Line and associated substations	May 29	Interconexión Eléctrica S.A. E.S.P.	35.4
Cable cars to Kuelap	May 30	Consorcio Telecabinas Kuélap (POMAGALSKI S.A.S. e Ingenieros Civiles and Contratistas Generales S.A.)	17.6
220 Kv Moyobamba - Iquitos Transmission Line and associated substations	June 5	Consorcio Isolux Transmisora Peruana (Isolux Ingeniería S.A. - Isolux de México S.A. de C.V.)	499.2
Improvements of the National Energy Security and development of the South Peruvian Pipeline	June 30	Consorcio Gasoducto Sur Peruano (Odebrecht Latinvest and Enagás Internacional SLU)	3,643.0
220 kV Friaspata - Mollepata Transmission Line and Orcotuna Substation 220/60 kV	August 7	Interconexión Eléctrica S.A. E.S.P	38.8
<b>TOTAL</b>			<b>9,974.9</b>

Source: Proinversión.

## 5. Public debt

In 2014 the public debt amounted to S/. 115.39 billion. This debt amount, which is equivalent to 20.1 percent of GDP, is S/. 8.34 billion higher than the debt amount recorded in 2013. The main debt indicators continued showing a favorable trend during the year: a greater part of the debt is domestic debt, a greater part is in domestic currency, and a greater part has been established at a fixed rate, all of which has contributed to reduce market risks.

**Table 57**  
**DEBT BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR 1/**

	Million nuevos soles			% GDP		
	2012	2013	2014	2012	2013	2014
<b>PUBLIC DEBT (I + II)</b>	<b>103,810</b>	<b>107,044</b>	<b>115,386</b>	<b>20.4</b>	<b>19.6</b>	<b>20.1</b>
<b>I. EXTERNAL PUBLIC DEBT</b>	<b>49,888</b>	<b>48,084</b>	<b>50,373</b>	<b>9.8</b>	<b>8.8</b>	<b>8.8</b>
Loans	25,637	21,463	23,188	5.0	3.9	4.0
International organizations	19,369	15,912	16,789	3.8	2.9	2.9
Paris Club	6,189	5,478	4,848	1.2	1.0	0.8
Suppliers	67	63	56	0.0	0.0	0.0
International banks	0	0	1,490	0.0	0.0	0.3
Latin America	12	10	6	0.0	0.0	0.0
Other bilateral organizations	0	0	0	0.0	0.0	0.0
Global Bonds	24,251	26,621	27,184	4.8	4.9	4.7
<b>II. DOMESTIC PUBLIC DEBT</b>	<b>53,922</b>	<b>58,961</b>	<b>65,014</b>	<b>10.6</b>	<b>10.8</b>	<b>11.3</b>
<b>1. LONG TERM</b>	<b>45,113</b>	<b>49,626</b>	<b>57,711</b>	<b>8.9</b>	<b>9.1</b>	<b>10.0</b>
Bank loans	3,402	4,587	5,068	0.7	0.8	0.9
Treasury bonds	41,705	45,039	52,643	8.2	8.3	9.2
1. Bonds to support the financial system	311	341	363	0.1	0.1	0.1
2. Public debt swap bonds	1,746	1,543	1,371	0.3	0.3	0.2
3. Sovereign bonds	32,244	35,866	43,749	6.3	6.6	7.6
4. Recognition bonds	7,405	7,290	6,955	1.5	1.3	1.2
Municipality of Lima Bonds	5	0	0	0.0	0.0	0.0
<b>2. SHORT TERM</b>	<b>8,809</b>	<b>9,335</b>	<b>7,303</b>	<b>1.7</b>	<b>1.7</b>	<b>1.3</b>
Memo:						
Liabilities of Private-Public						
Partnerships	3,968	4,117	4,166	0.8	0.8	0.7
FEPCs	214	295	190	0.0	0.1	0.0
External debt from COFIDE and Mivivienda Fund	2,135	4,294	7,698	0.4	0.8	1.3
<b>Bond holdings</b>	<b>56,495</b>	<b>62,487</b>	<b>70,934</b>	<b>11.1</b>	<b>11.5</b>	<b>12.3</b>
Residents	16,759	21,154	31,459	3.3	3.9	5.5
Non-residents	39,736	41,333	39,475	7.8	7.6	6.9
<b>Sovereign bonds</b>	<b>32,244</b>	<b>35,866</b>	<b>43,749</b>	<b>6.3</b>	<b>6.6</b>	<b>7.6</b>
Residents	14,371	17,546	27,225	2.8	3.2	4.7
Non-residents	17,873	18,320	16,524	3.5	3.4	2.9
<b>Global bonds</b>	<b>24,251</b>	<b>26,621</b>	<b>27,184</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>
Residents	2,388	3,608	4,234	0.5	0.7	0.7
Non-residents	21,863	23,013	22,951	4.3	4.2	4.0
1/ Includes national government debt, regional and locals, and public enterprises. Excludes debt from COFIDE, Banco de la Nación, BCRP, and MiVivienda Fund.						
Source: MEF, Banco de la Nación, MTC, ONP, and COFIDE.						



## 5.1 External debt

In 2014 the external debt, which represents 44 percent of the total debt of the non-financial public sector (NFPS), amounted to US\$ 16.91 billion (or S/. 50.37 billion). This amount represents a decrease of US\$ 287 million in the debt amount compared to 2013 and includes the effect of the debt management operation approved by Supreme Decree 298-2014-EF on October 30, 2014. The operation involved the repurchase and/or swap of Global Bonds 2015, 2016 and 2019 (with a nominal value of US\$ 485 million) and Sovereign Bonds maturing in 2015 and 2020 (with a nominal value of S/. 3.558 billion). This operation was funded with the issuance of a new bond, Sovereign Bond 2024 –S/. 7.13 billion in nominal value–, which in addition to covering the repurchase of the bonds mentioned above, allowed obtaining S/. 1.44 billion which was allocated to pre-finance the financial requirements of 2015. In addition to this, on the same date the government also issued Global Bond 2050, with a nominal value of US\$ 500 million, which will also be used to pre-finance the requirements of 2015. In short, this operation contributed to improve the country's debt profile since the ratio of debt in domestic currency rose from 55.5 percent to 56.8 percent as a result of this operation in 2014.

Thus, external disbursements for the non-financial public sector amounted to US\$ 1.43 billion in 2014, with placements of global bonds (US\$ 500 million), funding for several investment projects of the general government (US\$ 133 million) and non-financial government enterprises (US\$ 551 million), as well as funds for the payment of external debt obligations (US\$ 244 million) standing out.

Disbursements to finance investment projects included mainly funding for the Ministry of Housing, Construction and Sanitation (US\$ 58 million), the Ministry of Transport and Communications (US\$ 36 million), and Ministry of Agriculture (US\$ 20 million). Moreover, unrestricted disbursement funds were obtained from the placement of global bonds (US\$ 500 million) and from the International Bank for Reconstruction and Development-IBRD (US\$ 150 million).

The NFPS amortization of the external debt amounted to US\$ 1.46 billion, which included the prepayment of debt to international agencies.

## 5.2 Domestic debt

The domestic public debt showed a balance of S/. 65.01 billion at end-2014, which represents an increase of S/. 6.05 billion compared to the debt amount at end-2013. This increase is mostly explained by the issuance of sovereign bonds –whose balance increased to S/. 43.75 billion–, of which 38 percent is held by non-residents.

Sovereign bonds maturing in 2015 and 2020, with a nominal value of S/. 3.56 billion, were repurchased as part of the debt management operation mentioned above through the placement of a new bond, Sovereign Bond 2024, with a nominal value of S/. 7.13 billion. The latter amount not only covered the repurchase mentioned above and the repos of the Global Bonds that were also part of this operation, but also allowed obtaining S/. 1.44 billion to prefinance the requirements of 2015. The government also approved the periodic issuance of 90-day to 360-day Treasury Bills and placed bills for a total of S/. 766 million during the year.

## 5.3 Net debt<sup>8</sup>

In 2014 the net debt amounted to S/. 22.27 billion, a sum equivalent to 3.9 percent of GDP. This debt balance, which is S/. 2.25 billion higher than the one recorded at end 2013, is mainly explained by the increase in the public debt (up by S/. 8.34 billion), offset by the growth of public financial assets (up by S/. 6.09 billion).

<sup>8</sup> The net public debt is defined as the difference between the public sector liabilities (total public debt) and the public sector financial assets (total deposits in the domestic and external financial systems).

**Table 58**  
**NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR**

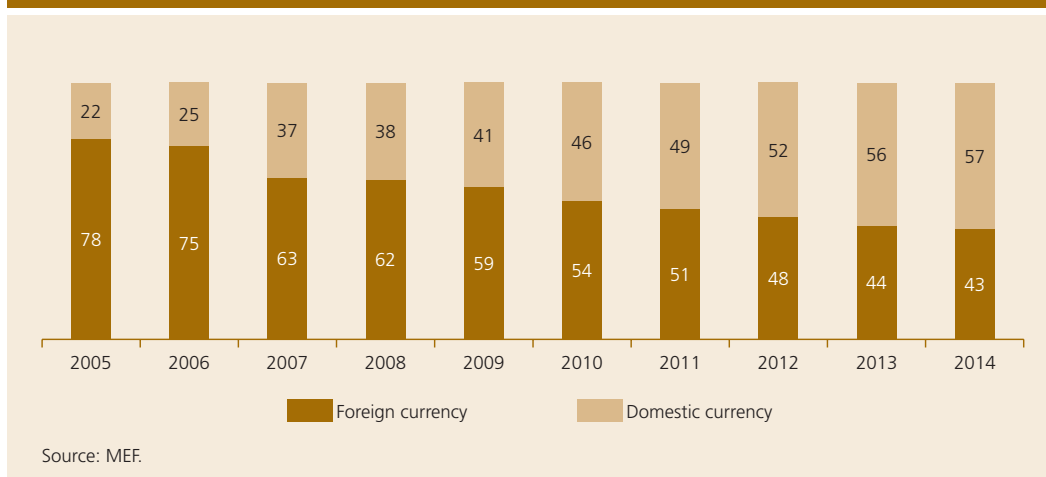
Years (December)	Million nuevos soles			% GDP		
	Assets	Liabilities	Net debt	Assets	Liabilities	Net debt
2005	20,792	102,938	82,146	8.4	41.7	33.2
2006	25,435	97,586	72,151	8.8	33.9	25.1
2007	38,061	95,604	57,543	11.9	29.9	18.0
2008	45,649	95,674	50,025	12.8	26.9	14.1
2009	47,003	99,215	52,212	12.9	27.2	14.3
2010	50,852	102,150	51,298	12.1	24.3	12.2
2011	63,531	103,856	40,325	13.5	22.1	8.6
2012, 1/	78,612	103,810	25,198	15.5	20.4	5.0
2013, 1/	87,023	107,044	20,021	16.0	19.6	3.7
2014, 1/	92,852	115,386	22,534	16.1	20.1	3.9

1/ Preliminary data.  
Source: BCRP and MEF.

#### 5.4 Debt by currencies

The ratio of the debt in nuevos soles to the total public debt has been increased to reduce the debt's exposure to foreign exchange risks. Thus, between 2005 and 2014 the ratio of the debt in domestic currency has increased from 22 percent to 57 percent of the gross public debt. The increase in 2014 is explained mainly by the debt management operation carried out in the last months of the year, through which part of the external debt was prepaid with the placement of sovereign bonds in domestic currency.

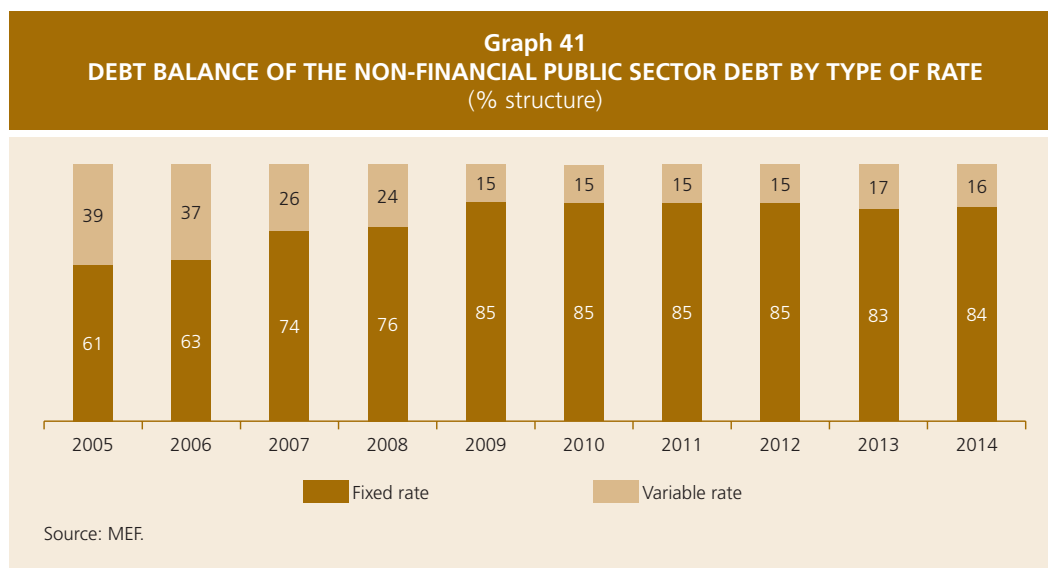
**Graph 40**  
**PUBLIC DEBT BALANCE BY CURRENCY**  
(% structure)



#### 5.5 Debt by type of interest rates

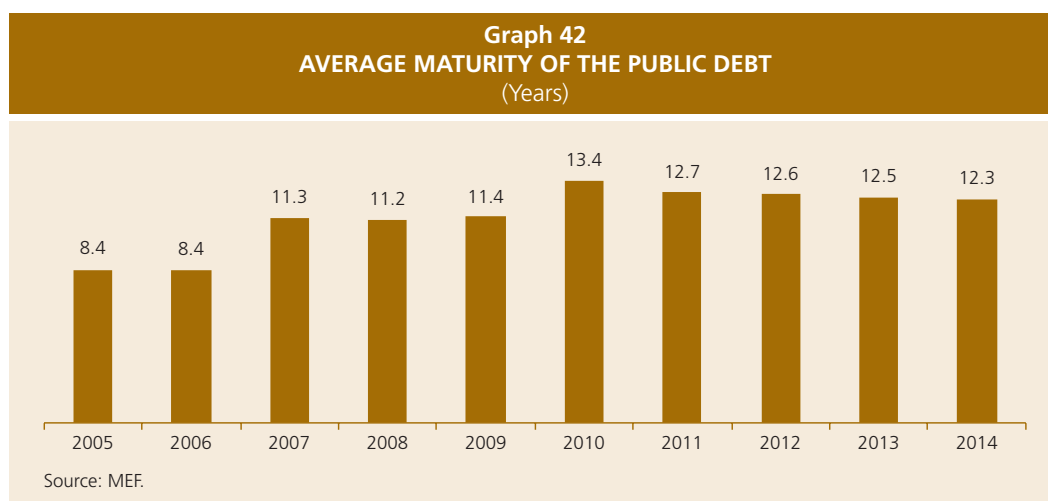
The ratio of fixed-rate debt increased from 83 to 84 percent in 2014. However, when we look at the debt from a longer-term perspective, we see that the ratio of debt at fixed rates has increased from 61 percent in 2005 to 84 percent in 2014. This has been done with the purpose of increasing the predictability

about the debt service and minimizing the risks that a rise in international interest rates would entail.



## 5.6 Average life of the debt

The average life of the debt is an indicator of the time available until the debt has to be repaid and reflects how fast we have to obtain resources and pay maturities. Because the average life of the debt has increased in recent years, we now have a greater margin to pay maturities and we can prevent periods in which a large volume of debt payments concentrate. Between 2005 and 2014, the average life of the debt rose from 8 years to 12 years. The slight decrease observed in recent years is explained by the increase in short-term floating debt (unpaid accrued expenses).



The average life of the **domestic public debt** (12.8 years) is slightly longer than the average life of the **external public debt** (11.9 years). It is worth pointing out that a re-distribution of the debt has been achieved in terms of the debt with multilateral and bilateral sources and the debt in the capital market. Thus, at end-2014 the obligations generated by the latter represented 61 percent of the debt and a rising trend is being observed in recent years.