

PUBLICS FINANCES

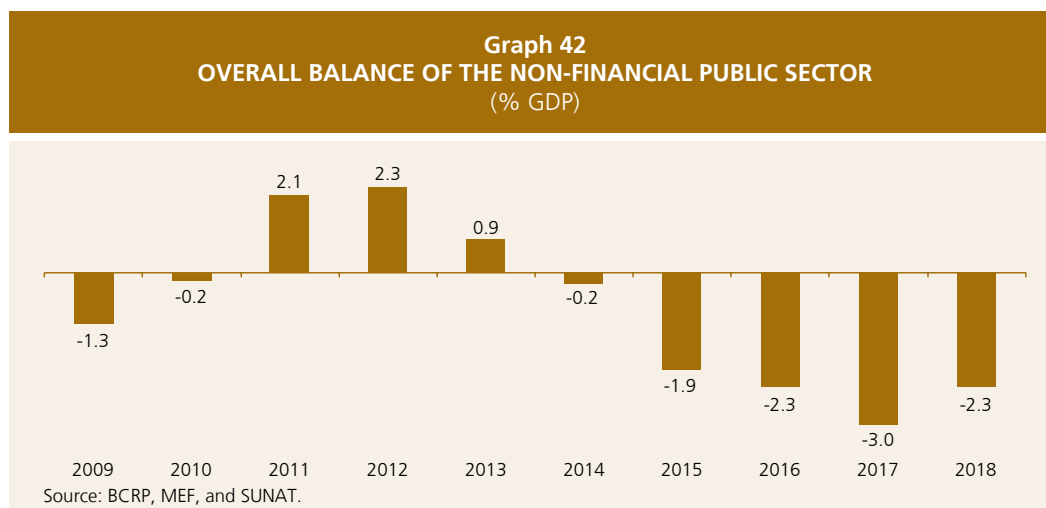
The deficit of 2.3 percent of GDP registered by the non-financial public sector in 2018 was 0.7 percentage points lower than the deficit in 2017. The improvement in public finances is explained by the higher current revenue of the general government (up 1.2 percentage points of GDP) –mainly tax revenues–, which reflects the recovery of economic activity and domestic demand, the favorable prices of minerals, as well as by the measures taken to strengthen the tax base and control.

Table 46
OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR

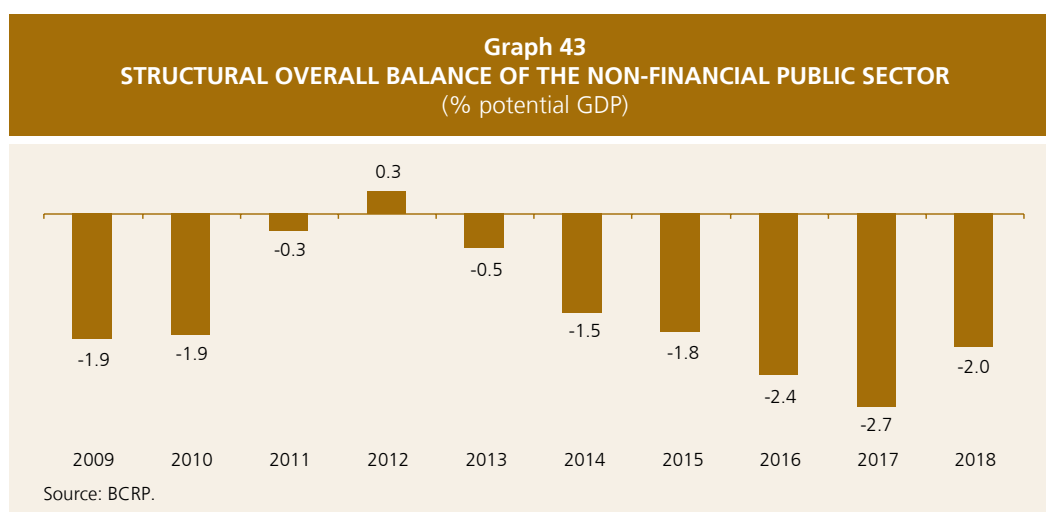
	Million soles			% GDP		
	2016	2017	2018	2016	2017	2018
1. Current revenues of the General Government	122,654	126,583	142,627	18.7	18.1	19.3
a. Tax revenue	92,153	93,400	107,358	14.0	13.4	14.5
b. Non-tax revenue	30,501	33,183	35,268	4.6	4.8	4.8
2. General Government non-financial expenditure	130,755	139,894	149,364	19.9	20.0	20.2
a. Current	100,085	106,847	113,145	15.3	15.3	15.3
b. Capital	30,669	33,047	36,219	4.7	4.7	4.9
- Gross capital formation	27,343	28,439	31,916	4.2	4.1	4.3
- Others	3,326	4,608	4,303	0.5	0.7	0.6
3. Others	-118	682	-186	0.0	0.1	0.0
4. Primary Balance (1-2+3)	-8,218	-12,629	-6,923	-1.3	-1.8	-0.9
5. Interests	7,182	8,340	10,015	1.1	1.2	1.4
a. External debt	3,005	3,181	3,499	0.5	0.5	0.5
b. Domestic debt	4,177	5,158	6,515	0.6	0.7	0.9
6. Overall Balance	-15,400	-20,969	-16,938	-2.3	-3.0	-2.3
7. Net financing	15,400	20,969	16,938	2.3	3.0	2.3
1. External	4,304	-10,363	-598	0.7	-1.5	-0.1
(Million US\$) (a-b+c)	\$1,257	-\$3,194	-\$,169			
a. Disbursements	\$1,999	\$2,434	\$1,756	1.0	1.1	0.8
b. Amortization	\$1,672	\$4,175	\$1,265	0.9	1.9	0.6
c. Others 1/	\$,930	-\$1,453	-\$,660	0.5	-0.7	-0.3
2. Domestic	8,110	31,281	17,481	1.2	4.5	2.4
3. Privatization	2,987	51	54	0.5	0.0	0.0

1/ Includes exceptional financing and short-term financing.

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



The **structural economic balance** is an indicator that shows the effect of fiscal policy decisions isolating the effects of factors that are beyond government control, such as export prices or the economy's position in the business cycle and the effects they may have on tax revenues. In 2018 the structural economic balance showed a deficit of 2.0 percent of GDP, a deficit 0.7 percent lower than the one recorded in 2017.

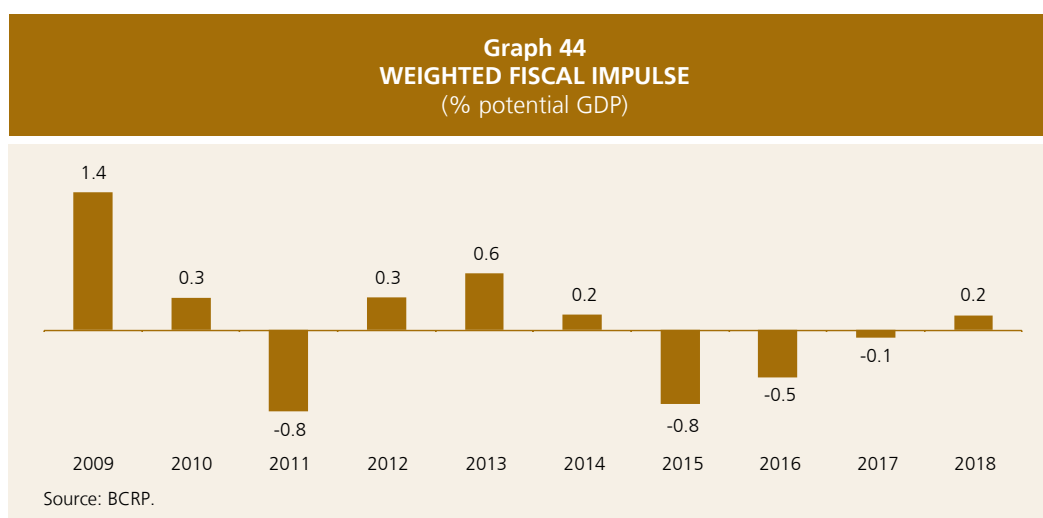


The **weighted fiscal impulse**, indicator that reflects more accurately the fiscal position, considers the differentiated multiplier effect of the changes observed in government income and expenditure. In contrast with the previous years, in 2018 the weighted fiscal impulse was expansionary and registered a value of 0.2 percent.

Table 47
WEIGHTED FISCAL IMPULSE
(% potential GDP)

	2016	2017	2018
1. Structural overall balance	-2.4	-2.7	-2.0
2. Fiscal impulse (flow 1)	1.0	0.1	-0.7
3. Weighted effects	-1.5	-0.2	0.9
4. Weighted impulse (2+3)	-0.5	-0.1	0.2

Source: BCRP.



Furthermore, **financial requirements**, an indicator that quantifies the resources needed by the non-financial public sector to cover the economic balance and meet the amortization of the domestic and the external debts, amounted to S/ 28.43 billion, a figure equivalent to 3.8 percent of GDP. This ratio is 1.7 percentage points of GDP lower than in 2017.

Factors contributing to this decline in financial requirements included the lower debt amortization (0.9 percentage points of GDP), due to the lower volume of debt management operations in comparison with 2017, and the reduction of the fiscal deficit. As in 2017, the financial requirements were mainly covered by external loans and placements of domestic bonds.

Table 48
FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	Million soles			% GDP		
	2016	2017	2018	2016	2017	2018
1. Overall Balance	-15,400	-20,969	-16,938	-2.3	-3.0	-2.3
2. Amortization	14,831	17,695	11,488	2.3	2.5	1.6
Redemption of recognition bonds	629	818	1,171	0.1	0.1	0.2
Domestic debt	8,566	3,312	6,095	1.3	0.5	0.8
External debt 1/	5,637	13,566	4,222	0.9	1.9	0.6
3. Financial requirements (= -1+2)	30,232	38,664	28,425	4.6	5.5	3.8
External disbursements	6,804	7,952	5,896	1.0	1.1	0.8
Freely disposable funds	3,922	0	0	0.6	0.0	0.0
Investment projects	2,882	7,952	5,896	0.4	1.1	0.8
Domestic bonds 1/	22,431	23,951	19,734	3.4	3.4	2.7
Privatization 2/	2,987	51	54	0.5	0.0	0.0
Others 3/	-1,990	6,710	2,741	-0.3	1.0	0.4

1/ Amounts include operations of managing of approved debt.
2/ Includes concessions in three blocks on Nationwide 698-806 MHz band in 2016.
3/ Includes change on deposits and floating, among other concepts.
Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state enterprises, and public institutions.

1. Revenue of the General Government

Reversing the reduction observed for three consecutive years, in 2018 **the current revenue of the general government** was equivalent to 19.3 percent of GDP, 1.2 percentage points of GDP higher



than in 2017. The two major sources of the increase seen in tax revenues were the VAT and the income tax. Revenue from the VAT grew due to the recovery of domestic demand and to increased imports, especially of fuel, as well as due to the measures adopted to strengthen the tax base (tax withholding rates were raised) and control measures.

On the other hand, revenue from the income tax grew due to the higher corporate profits obtained in FY 2017, which resulted in an increase in the amount of tax regularization payments in the months of March and April of 2018, as well as in higher ratios of payments to the account of this tax during the course of the year. It should be pointed out that the rise of mineral prices and the greater dynamism of the economy during 2018 contributed to this.

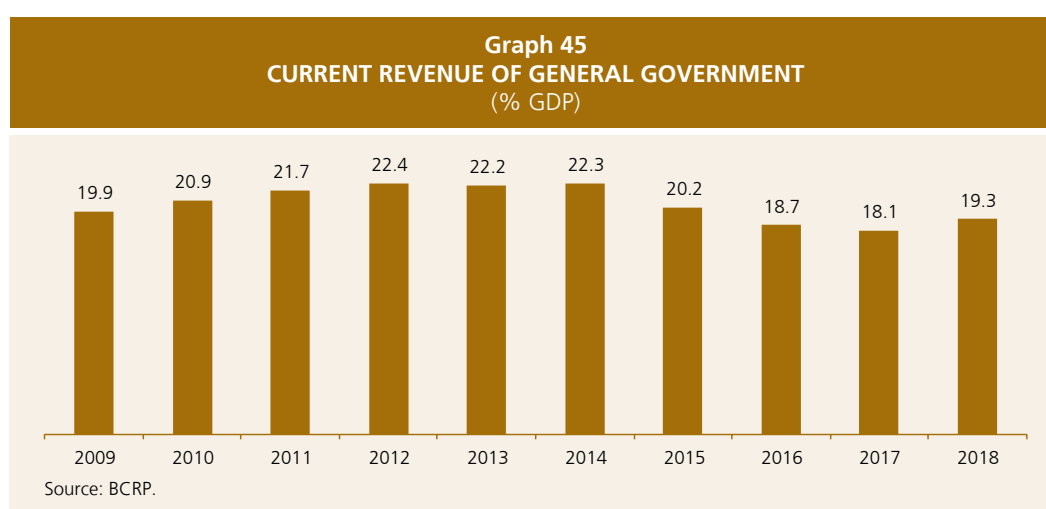


Table 49
GENERAL GOVERNMENT REVENUES

	Million soles			Real % change		% GDP		
	2016	2017	2018	2017	2018	2016	2017	2018
I. TAX REVENUE	92,153	93,400	107,358	-1.4	13.5	14.0	13.4	14.5
1. Income tax	37,214	36,755	41,598	-4.0	11.8	5.7	5.3	5.6
- Individuals	11,159	11,450	12,474	-0.3	7.6	1.7	1.6	1.7
- Legal entities	22,250	20,421	22,756	-10.7	10.0	3.4	2.9	3.1
- Tax regularization	3,805	4,884	6,368	24.0	29.5	0.6	0.7	0.9
2. Import duties	1,606	1,448	1,455	-12.3	-0.9	0.2	0.2	0.2
3. Value-added tax (VAT)	52,692	54,643	60,666	0.9	9.6	8.0	7.8	8.2
- Domestic VAT	31,040	32,114	35,125	0.6	7.9	4.7	4.6	4.7
- VAT on imports	21,652	22,529	25,541	1.2	11.9	3.3	3.2	3.4
4. Excise tax	5,902	6,315	6,860	4.1	7.2	0.9	0.9	0.9
- Fuels	2,423	2,604	2,565	4.5	-2.8	0.4	0.4	0.3
- Others	3,479	3,711	4,295	3.8	14.2	0.5	0.5	0.6
5. Other income tax	11,096	11,448	13,363	0.4	15.2	1.7	1.6	1.8
- National government	8,240	8,686	10,522	2.6	19.5	1.3	1.2	1.4
- Local government	2,855	2,762	2,841	-5.9	1.6	0.4	0.4	0.4
6. Tax returns	-16,356	-17,209	-16,583	2.3	-4.9	-2.5	-2.5	-2.2
II. NON-TAX REVENUE	30,501	33,183	35,268	5.9	4.9	4.6	4.8	4.8
1. Contributions to Essalud and ONP	14,487	14,737	16,247	-1.0	8.8	2.2	2.1	2.2
2. Oil, gas and mining royalty	1,737	2,486	3,035	39.5	20.5	0.3	0.4	0.4
3. Oil and gas canon	1,291	1,533	2,090	15.6	34.5	0.2	0.2	0.3
4. Others 1/	12,986	14,428	13,896	8.1	-4.9	2.0	2.1	1.9
III. TOTAL (I+II)	122,654	126,583	142,627	0.4	11.2	18.7	18.1	19.3

1/ Includes own resources, transfers from public entities, interests, income from regulatory entities, supervisors and registers, among others.
Source: MEF, Banco de la Nación, BCRP, INEI, SUNAT, EsSalud, ONP, charity societies, regulatory agencies and registry offices.

Revenue from the **income tax** grew 11.8 percent in real terms and thus went from representing 5.3 percent of GDP in 2017 to 5.6 percent of GDP in 2018. This increase is explained mainly by higher payments for regularization of legal entities' annual income tax (56.6 percent) as a result of the higher profits obtained in 2017, as well as by legal entities' higher payments on account of this tax (10.0 percent).

Table 50
INCOME TAX BY CATEGORY
(Million soles)

	2016	2017	2018	Real % change	
				2017	2018
First category	504	532	580	2.7	7.6
Second category	1,536	1,581	1,772	0.0	10.8
Third category	16,496	15,499	17,268	-8.6	9.9
Fourth category	871	894	960	-0.2	6.0
Fifth category	8,248	8,444	9,162	-0.5	7.2
Non-domiciled	5,205	3,462	3,560	-35.1	1.4
Regularization	3,805	4,884	6,368	24.0	29.5
<i>Individuals</i>	601	1,558	1,125	150.5	-28.3
<i>Legal entities</i>	3,204	3,327	5,244	0.3	56.6
Others	550	1,460	1,928	158.1	30.5
<i>Of which:</i>					
<i>regime for micro and small businesses (MYPE)</i>	-	904	1,334	-	45.7
Total	37,214	36,755	41,598	-4.0	11.8

Source: SUNAT.

The effect of the higher prices of our export products was mainly observed in mining companies' tax payments on account of the income tax, whose ratio in terms of the income tax of legal entities rose from 11 percent in 2017 to 15 percent in 2018. In addition to this, revenue from the income tax of financial intermediation and hydrocarbon companies increased as well, in line with the higher profits they also obtained in 2017 –which generated an increase in the payment ratios of 2018– and with the recovery of economic activity.

Furthermore, higher revenues were recorded as a result of the Tax regime for micro- and small enterprises (45.7 percent), due to the increase in the number of taxpayers included in this regime (22 percent in the year), part of which were previously in the general tax regime.

Table 51
REVENUES FROM CORPORATE TAX BY SECTORS: PAYMENTS ON ACCOUNT
(Million soles)

	2016	2017	2018	Real % change	
				2017	2018
Commerce	3,316	3,065	3,058	-10.1	-1.5
Mining	770	1,727	2,585	117.9	47.9
Other services 1/	3,277	2,493	2,562	-26.0	1.3
Manufacturing	2,388	2,559	2,504	4.2	-3.4
Financial intermediation	2,308	1,717	2,184	-27.7	25.4
Electricity and water	1,339	1,191	1,247	-13.5	3.4
Transport	1,268	987	1,042	-24.3	4.1
Hydrocarbons	394	723	1,022	78.5	39.5
Construction	1,334	949	987	-30.8	2.6
Fishing	53	56	40	2.3	-30.6
Agriculture and livestock	48	32	37	-35.4	13.1
Total	16,496	15,499	17,268	-8.6	9.9

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

Source: SUNAT.

Finally, the increase in revenue from individuals' fifth category income tax (7.2 percent) was associated with the growth of formal employment (3.9 percent).

It is worth mentioning that the increase in these revenues more than compensated the fact that the Temporary and Substitute Income Tax Regime for the Declaration, Repatriation and Investment of Unrecognized Revenues was in force in 2017. A total of S/ 996 million was collected through this regime in 2017, while S/ 141 million was collected in January 2018.

Revenue from the **value added tax** (VAT) increased by 9.6 percent in real terms and went from representing 7.8 percent of GDP in 2017 to 8.2 percent of GDP in 2018. This improvement is associated with the growth of domestic demand, which also translated into an increase in imports, and with the increase in tax withholding rates (*detracción*) in April 2018. The recovery of the VAT also reflected the reversal of the transitory effects on tax revenue of the impact of El Niño Costero in the first months of 2017 and the implementation of the Fair VAT in the same year.

At the sector level, the sectors of commerce and other services were the main contributors to the growth of revenue from the domestic VAT, in line with the greater dynamism of economic activity, followed by the hydrocarbons sector, in line with the higher fuel prices observed.

	2016	2017	2018	Real % change	
				2017	2018
Other services 1/	9,586	9,498	10,643	-3.6	10.6
Commerce	6,442	6,334	6,879	-4.4	7.2
Manufacturing	4,771	4,954	4,870	1.1	-3.0
Transport	2,348	2,667	2,922	10.5	8.1
Construction	2,729	2,428	2,486	-13.5	1.0
Financial intermediation	1,495	2,005	2,176	30.5	7.2
Electricity and water	1,274	1,421	1,752	8.6	21.7
Mining	1,050	1,302	1,368	20.7	3.8
Hydrocarbons	727	851	1,291	14.0	49.5
Agriculture and livestock	511	519	616	-1.2	17.0
Fishing	108	133	122	20.3	-10.2
Total	31,040	32,114	35,125	0.6	7.9

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 the **excise tax** increased by 7.2 percent in real terms, maintaining its ratio of 0.9 percent in GDP terms. Revenue from the excise tax on products other than fuels increased by 0.1 percentage points of GDP, which is explained by the fact that the rates of this tax were raised in May 2018. This increase was offset by lower revenue on the excise tax on fuel given that the main fuel production and distribution companies used credit covered by guarantees to import fuel.

On the other hand, revenue from **import duties** decreased by 0.9 percent in real terms, as a result of which their ratio in GDP terms remained at 0.2 percent of GDP. This is explained by a lower effective tariff as a result of the trade agreements signed by Peru in previous years, on the one hand, and also by the fact that a higher income was observed due to the price band mechanism applied to rice, on the other hand.

Revenue from **other tax revenues** grew by 15.2 percent in real terms, with which its ratio rose from 1.6 percent to 1.8 percent of GDP between 2017 and 2018. This result is mainly explained by

higher revenues for fines (100.2 percent), associated with the control actions of SUNAT, by increased revenues from the Temporary Tax on Net Assets - ITAN (6.6 percent), and by tax withholdings (64.8 percent).

Tax refunds went from representing 2.5 percent of GDP in 2017 to 2.2 percent of GDP in 2018, which is mainly explained by the lower refunds for exports (18.2 percent). This was in part offset by the higher refunds for excess and undue payments (26.3 percent), drawbacks (15.7 percent), and other regimes (34.7 percent), such as the early refund of the VAT and refunds of VAT withholdings.

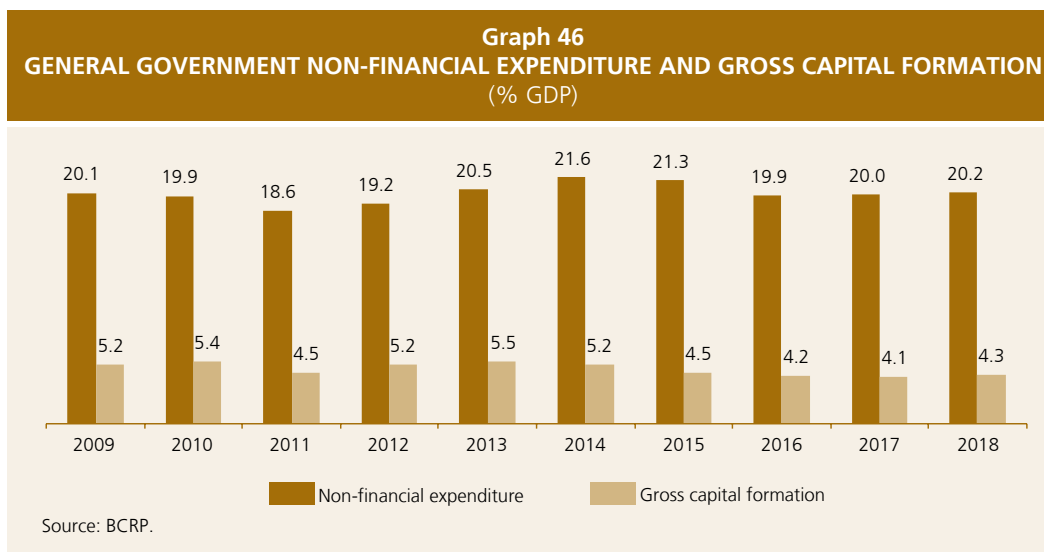
Non-tax revenues increased by 4.9 percent in real terms, and their relative share in GDP remained at 4.8 percent in 2018. This result reflects higher payments of social contributions (8.8 percent) associated with the increase in formal and incomes, and, to a lesser extent, the improvement in revenues from oil and gas *canon* (34.5 percent), and from mining, oil, and gas royalties (20.5 percent).

2. General Government Expenditure

The non-financial expenditure of the general government, which represented 20.2 percent of GDP in 2018, was higher by 0.2 percentage points of GDP than in 2017. By government levels, this increase is explained mostly by the subnational governments, especially the local governments. On the other hand, by expenditure categories, the increase is explained mainly by gross capital formation.

Table 53									
GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE 1/									
	Million soles			Real % change		% GDP			
	2016	2017	2018	2017	2018	2016	2017	2018	
I. CURRENT EXPENDITURE	100,085	106,847	113,145	3.9	4.5	15.3	15.3	15.3	
a. Wages and salaries	39,051	42,667	46,186	6.3	6.8	6.0	6.1	6.2	
National government	23,967	25,578	26,935	3.9	3.9	3.7	3.7	3.6	
Regional governments	12,935	14,924	16,887	12.3	11.7	2.0	2.1	2.3	
Local government	2,150	2,166	2,365	-2.0	7.7	0.3	0.3	0.3	
b. Goods and services	40,341	41,664	42,297	0.6	0.1	6.1	6.0	5.7	
National government	27,752	28,275	28,502	-0.8	-0.6	4.2	4.0	3.8	
Regional governments	4,883	5,266	5,220	5.1	-2.3	0.7	0.8	0.7	
Local government	7,706	8,124	8,574	2.6	4.1	1.2	1.2	1.2	
c. Transfers	20,692	22,515	24,662	5.9	8.1	3.2	3.2	3.3	
National government	17,089	18,880	20,919	7.5	9.3	2.6	2.7	2.8	
Regional governments	2,458	2,672	2,849	5.8	5.2	0.4	0.4	0.4	
Local government	1,145	963	894	-18.1	-8.3	0.2	0.1	0.1	
II. CAPITAL EXPENDITURE	30,669	33,047	36,219	5.0	8.0	4.7	4.7	4.9	
a. Gross capital formation	27,343	28,439	31,916	1.4	10.6	4.2	4.1	4.3	
National government	9,993	10,132	11,445	-1.2	11.3	1.5	1.5	1.5	
Regional governments	5,669	5,827	6,375	0.2	7.8	0.9	0.8	0.9	
Local government	11,681	12,480	14,095	4.2	11.3	1.8	1.8	1.9	
b. Other capital expenditure	3,326	4,608	4,303	34.9	-8.1	0.5	0.7	0.6	
National government	3,189	4,407	3,416	34.5	-23.9	0.5	0.6	0.5	
Regional governments	18	11	21	-40.9	90.2	0.0	0.0	0.0	
Local government	119	191	866	56.1	349.9	0.0	0.0	0.1	
III. NON FINANCIAL EXPENDITURE (I + II)	130,755	139,894	149,364	4.2	5.3	19.9	20.0	20.2	
National government	81,990	87,271	91,218	3.6	3.1	12.5	12.5	12.3	
Regional governments	25,964	28,699	31,352	7.7	7.7	4.0	4.1	4.2	
Local government	22,800	23,923	26,793	2.2	10.5	3.5	3.4	3.6	

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



National Government

The **non-financial expenditures of the national government** represented 12.3 percent of GDP, a ratio 0.2 percentage points of GDP lower than in 2017. Lower expenditure as a percentage of GDP was observed in the categories of wages and salaries, goods and services, and other capital expenditure, offset in part by higher spending in current transfers and gross capital formation.

Expenditure in **wages and salaries** increased by 3.9 percent in real terms, mainly due to wage increases in the sectors of education and health.

In 2018, spending in **goods and services** fell by 0.6 percent in real terms due to the lower resources allocated to the acquisition of teaching materials, vaccines, vehicles, equipment, and furniture for the defense sector. In addition, a reduction was also observed in spending associated with the Program *Reducción de Vulnerabilidad y Atención de Emergencias por Desastres*, a category that showed a high level of expenditure in 2017 due to the damage caused by El Niño Costero.

Another factor that also contributed to lower expenditure on goods and services in 2018 was Emergency Decree **N° 005-2018**, enacted in May, which established austerity standards on government expenditure. Thus, at the level of the national government, spending on goods and services was reduced in all the financing source lines and a cap was established for specific items. As a result, lower expenditure was observed, for example, in terms of advertising, printing, information and institutional image services, as well as in travel and celebration services.

In 2018, spending on **current transfers** increased by 9.3 percent in real terms, reflecting larger transfers to international organizations for the development of the XVIIIth PanAmerican Games and the Lima 2019 VIth ParapanAmerican Games, as well as transfers to the Fuel Price Stabilization Fund, to the court system to meet the payment of court rulings, to the payment of pensions, and to social programs such as *Qali Warma* and *Apoyo al Hábitat Rural*, among other programs.

The national government expenditure in **gross capital formation** increased by 11.3 percent in real terms, with the main sports infrastructure projects being developed for the Pan American Games standing out. Moreover, projects such as the construction of the National Sports Village (Videna), the Pan American Village, the Andrés A. Cáceres sports complex, and the Yahuar Huaca zonal park registered a budget execution of 94 percent of the allocated budget.

Table 54
MAIN INVESTMENT PROJECTS OF THE NATIONAL GOVERNMENT: 2018
(Million soles)

PROJECTS	Amount
ROAD INFRASTRUCTURE 1/	5,161
Line 2, Metropolitan Lima and Callao	370
Juanjui - Tocache highway, San Martín	190
Bellavista - El Estrecho highway, Loreto	180
Puerto Bermúdez - San Alejandro, Huánuco - Pasco - Ucayali highway	171
Mazamari - Pangoa - Cubantía highway, Junín	128
Patahuasi - Yauri - Sicuani highway, Cusco	118
Oyón - Ambo, Huánuco - Lima - Pasco highway	111
Line 1, Metropolitan Lima and Callao	103
Huánuco - Conococha highway, Huánuco	102
Rest	3,689
EDUCATION	1,570
Improvement and maintenance of schools with adequate operating conditions	151
Improvement and maintenance of schools with infrastructure and equipment	89
Rest	1,329
PAN-AMERICAN GAMES	927
National Sports Village, San Luis	369
Pan American Village, Villa El Salvador	158
Andrés Avelino Cáceres Sports Complex, Villa María del Triunfo	157
Park Yahuar Huaca, Callao	141
Gymnastics sports center, Villa El Salvador	77
Rest	25
SANITATION 1/	871
Water and sanitation systems in Nueva Ciudad de Olmos, Lambayeque	73
Wastewater Treatment Plant for the city of, Piura	61
Water and sanitation systems in Bayóvar, San Juan de Lurigancho	51
Water and sanitation systems in Chorrillos, Lima	43
Water and sanitation systems in Rímac, Lima	42
Wastewater Treatment Plant for the city of Calana, Tacna	35
Rest	565
1/ Excluding deferred expenses of culminated works and other expenses that do not increase the production capacity (e.g. expropriation of lands).	
Source: MEF and BCRP.	

The increase registered in gross capital formation in the year is explained by higher accrued expenditure in road, hospital, and rural electricity infrastructure; in the improvement and expansion of drinking water and sewerage systems; in the improvement and expansion of sports complexes, and in the improvement and expansion of prison facilities in different regions of the country. On the other hand, the expenditure accrued in the sectors of education and agriculture decreased.

Moreover, the budget allocated in 2018 to the implementation of the projects included in the Reconstruction with Changes program carried out by the national government was S/ 637 million, of which 35 percent was executed. Between 2017 and 2018, the budgetary framework for national government projects amounted to S/ 734 million, of which 31 percent has been accrued.

Other capital expenditures of the national government decreased by 23.9 percent in real terms. This reduction, explained mainly by lower transfers to the Urban Sanitation Program and to rural electrification projects, was in part offset by larger transfers to the housing program *Bono Familiar Habitacional*.

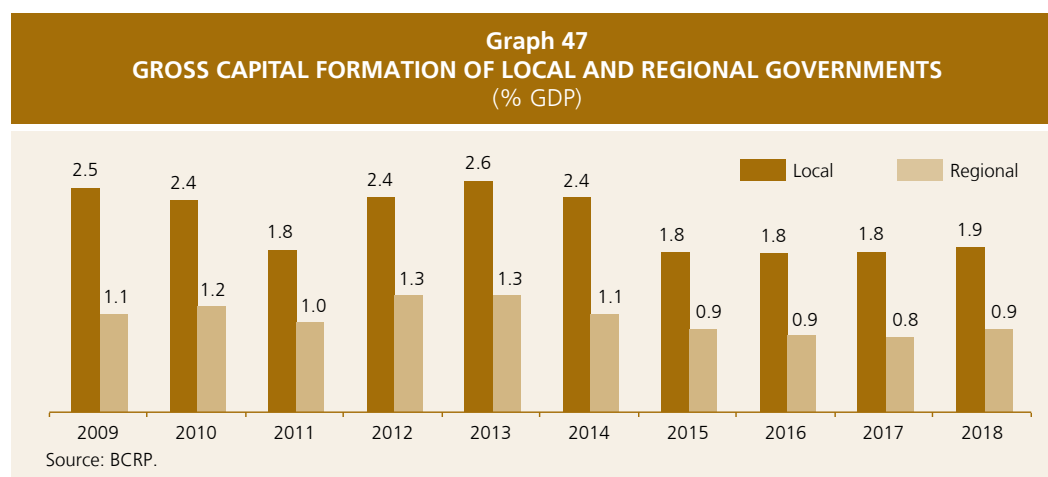
Regional Governments

In 2018, the non-financial expenditure of regional governments increased by 7.7 percent in real terms. This result is basically explained by higher expenditure in wages and salaries (11.7 percent in real terms), essentially in the education and health sectors, as well as in current transfers (5.2 percent)

and in gross capital formation (7.8 percent). This was partially offset by lower spending on goods and services (-2.3 percent).

Local Governments

The non-financial expenditure of local governments increased by 10.5 percent in real terms in 2018. This outcome reflects the increase in gross capital formation (11.3 percent in real terms), mainly due to the greater execution of transport, sanitation, and agriculture projects, as well as the improvement of cultural and sport services (sports complexes).



3. State-Owned Enterprises

In 2018, the State-owned enterprises showed a deficit of S/ 2.16 billion, a higher deficit than in the previous year (S/ 1.14 billion), with Petroperú's increased deficit accounting mainly for this result.

Table 55
OVERALL BALANCE OF STATE-OWNED ENTERPRISES

	Million soles			% GDP		
	2016	2017	2018	2016	2017	2018
Petroperú	-2,399	-1,465	-3,083	-0.4	-0.2	-0.4
Electroperú	-3	131	168	0.0	0.0	0.0
Regional Electricity Companies	716	597	624	0.1	0.1	0.1
Sedapal	-45	25	77	0.0	0.0	0.0
Others	399	-426	55	0.1	-0.1	0.0
TOTAL	-1,331	-1,137	-2,160	-0.2	-0.2	-0.3

Source: State enterprises, FONAFE, and MEF.

Petroperú's deficit in 2018 (S/ 3.08 billion) was higher than in 2017 mainly as a result of its higher current expenditures (S/ 4.97 billion), especially in goods and services. Another factor that contributed to this higher deficit was that, in contrast with 2017 when capital transfers from the Treasury to Petroperú amounted to S/ 1.06 billion, this public enterprise did not register any capital transfers from the Treasury in 2018. However, these factors were partially offset by increased income from sales (S/ 3.74 billion), lower gross capital formation in the modernization of the Talara refinery, and the increase observed in other revenues. The latter included higher tax refunds (S/ 936 million) for balances in favor of the exporter, the early recovery of the VAT due to the investment made in the Talara refinery, and the refund of undue payments for the VAT and the excise tax applied to the Turbo A1.

Electroperú showed a surplus of S/ 168 million, higher than in 2017, due to the higher revenues (S/ 150 million) resulting mainly from the higher volumes of energy sold in both the free market and the spot market. This was in part offset by higher current expenses (S/ 133 million), particularly in goods and services, as well as in taxes and other expenses (transfers to Fondo de Inclusión Social Energético - FISE and Oficina de Normalización Previsional - ONP).

The **regional electricity companies** showed a joint surplus of S/ 624 million, a higher balance than in the previous year. This higher surplus is explained by higher revenues from energy sales (S/ 206 million), especially among the distribution companies due to the increase in rates, the higher demand, and the increase in the number of clients and other income. This was offset by the increase in current expenses (S/ 166 million), mainly in goods and services and tax payments, as well as by the reduction in capital revenues due to lower transfers from the Public Treasury.

Sedapal's surplus of S/ 77 million was higher than that recorded in the previous year. The company showed higher revenues (S/ 292 million) due to the increase in its volume of sales and to the rate increase implemented in August 2017, as well as due to the higher revenues it obtained from monitoring groundwater and from the collection of collateral services. This was offset by higher current expenses (S/ 152 million), associated mainly with the regularization of the income tax of FY 2017, as well as by greater gross capital formation spending in the expansion and improvement of the drinking water and sewerage systems.

The **other State-owned companies**¹² showed a surplus of S/ 55 million. This result is mainly due to the lower transfer of profits of Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado – FONAFE to the Public Treasury (S/ 700 million in 2017 versus S/ 300 million in 2018) and to the decrease recorded in “other capital expenses” (S/ 129 million) due to FONAFE’s lower capital contributions to financial companies (COFIDE and Agrobanco). On the other hand, there was a lower capital income (S/ 84 million) due to the Public Treasury’s lower transfers to the municipal companies, which was partially offset by higher capital contributions to Enapu, Corpac and Activos Mineros.

4. Promotion of Private Investment

Investment projects amounting to a total of US\$ 2.74 billion were awarded in concession during 2018. The two most important were the Michiquillay copper project, with an investment of US\$ 1.95 billion, which was granted in concession to Southern Peru Copper Corporation in February, and the Salaverry Port Terminal, involving an investment of US\$ 229 million, which was awarded in concession to Consorcio Transportadora Salaverry –integrated by companies Tramarsa and Naviera Tramarsa– in May.

Table 56
PRIVATIZATIONS AND CONCESSIONS: 2018
(Million US\$)

Concessions and projects	Date	Awarded to	Investment
Michiquillay Copper Mining Project	February 20	Southern Perú Copper Corporation	1,950
Upgrading and Development of Salaverry Multipurpose Port Terminal	May 31	Consorcio Transportadora Salaverry (Tramarsa; Naviera Tramarsa)	229
Broadband for Comprehensive Connectivity and Social Development for: La Libertad	December 27	Consorcio YOFC NETWORK (Yangtze Optical Fibre and Cable Company (Hong Kong) Limited; Yachay Telecomunicaciones S.A.C.).	129
Ancash			122
Arequipa			93
San Martín			68
Broadband for Comprehensive Connectivity and Social Development for Huánuco	December 27	Consorcio BANDTEL (Telkom S.R.LTDA; Consorcio DHMONT & CG & M S.A.C.; DHMONT S.A.C. Contratistas Generales; Bandel S.A.C.).	83
Pasco			65
Total			2,739

Source: Proinversión.

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



Moreover, concession contracts were granted to six Broadband projects involving investments for a total of US\$ 560 million in December. Four concession contracts for the installation of wideband services in the regions of La Libertad, Ancash, Arequipa and San Martín, were awarded to Consorcio YOFC Network (with a total investment of US\$ 412 million) and the other two projects, for the installation of wide band services in the regions of Huánuco and Pasco, were awarded to Consorcio BANDTEL (for a total of US\$ 148 million).

5. Debt of the Non-Financial Public Sector

At end 2018 the **debt of the Non-Financial Public Sector** totaled S/ 190.7 billion. This debt amount, equivalent to 25.8 percent of GDP, represents an increase of 0.9 percentage points of GDP in the debt ratio in comparison to 2017 due to the higher domestic debt resulting from increased placements of sovereign bonds, both in the modality of market makers and within the framework of two debt management operations carried out in November.

Table 57						
DEBT BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR 1/						
	Million soles			% GDP		
	2016	2017	2018	2016	2017	2018
PUBLIC DEBT (I+II)	156,663	173,976	190,741	23.9	24.9	25.8
I. EXTERNAL PUBLIC DEBT	68,057	61,163	65,505	10.4	8.8	8.8
Loans	28,944	15,987	19,260	4.4	2.3	2.6
International organizations	22,591	12,510	11,525	3.4	1.8	1.6
Paris Club	4,914	3,451	3,550	0.7	0.5	0.5
Suppliers	39	26	16	0.0	0.0	0.0
International banks	1,400	0	4,168	0.2	0.0	0.6
Bonds	39,113	45,176	46,246	6.0	6.5	6.2
Global bonds	39,113	38,696	39,506	6.0	5.5	5.3
Non financial public enterprise bonds	0	6,480	6,740	0.0	0.9	0.9
II. DOMESTIC PUBLIC DEBT	88,606	112,813	125,236	13.5	16.2	16.9
1. LONG TERM DEBT	77,743	98,530	112,209	11.8	14.1	15.2
Bank loans	5,379	3,640	3,902	0.8	0.5	0.5
Treasury bonds	72,365	94,890	108,307	11.0	13.6	14.6
1. Bonds (BCRP)	704	645	645	0.1	0.1	0.1
2. Debt swap bonds	1,020	770	543	0.2	0.1	0.1
3. Sovereign bonds	64,116	87,506	102,009	9.8	12.5	13.8
4. Recognition bonds	6,525	5,970	5,109	1.0	0.9	0.7
2. SHORT TERM DEBT	10,862	14,283	13,027	1.7	2.0	1.8
Memo:						
Liabilities of Private-Public Partnerships 2/	4,049	3,549	3,278	0.6	0.5	0.4
FEPs	93	441	270	0.0	0.1	0.0
External debt from COFIDE and Mivivienda Fund	11,782	12,419	11,927	1.8	1.8	1.6
Bond holdings	103 228	126 201	141 515	15.7	18.1	19.1
Residents	44 471	54 315	61 789	6.8	7.8	8.3
Non-residents	58 758	71 886	79 726	9.0	10.3	10.8
Sovereign bonds	64 116	87 506	102 009	9.8	12.5	13.8
Residents	40 363	48 910	57 229	6.2	7.0	7.7
Non-residents	23 753	38 596	44 780	3.6	5.5	6.0
Global bonds	39 113	38 696	39 506	6.0	5.5	5.3
Residents	4 108	5 406	4 560	0.6	0.8	0.6
Non-residents	35 005	33 290	34 946	5.3	4.8	4.7

1/ Includes the debt of the national government, the regional and locals governments, and public enterprises. Excludes the debt of COFIDE, Banco de la Nación, BCRP, and MiVivienda Fund.

2/ Estimation. Nominal value of the CRPAO issued between May 2006 and March 2012, net of the amortizations made.

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

The purpose of the first debt management operation was to repurchase Global Bond 30MAR2019, financed with the issuance of sovereign bonds under the form of market makers, while the second operation was an operation aimed to repurchase the balance of Global Bond 30MAR2019, which was not repurchased in the first operation, and Sovereign Bonds 12AUG2020 and 12FEB2029, financed with the new issuance of Sovereign Bond 12FEB2029E. The balance of bonds issued in the latter was used both to prepay loans from international organizations in December and to pre-finance public sector operations in 2019.

5.1 External Public Debt

At the end of 2018, the external debt of the non-financial public sector –defined as external loans and net placements abroad– amounted to S/ 65.5 billion, which represents 34.3 percent of the total debt.

A debt management operation aimed to repurchase global bond BG30MAR2019 (US\$ 265 million) was carried out in November. In addition to this, a loan guaranteed by the Spanish Export Credit Insurance Company –*Compañía Española de Seguros de Crédito a la Exportación*, CESCE– (US\$ 1.27 billion) was made to Petroperú in the same month.

Additionally, a credit prepayment operation was carried out in December to prepay the debt with some international organizations (US\$ 543 million): the World Bank (US\$ 213 million), the Inter-American Development Bank (US\$ 80 million), and the Andean Development Corporation (US\$ 250 million).

5.2 Domestic Debt

At the end of 2018, the balance of the domestic debt of the non-financial public sector was S/ 125.2 billion, which implied an increase of S/ 12.4 billion with respect to the balance at the end of 2017. This increase is explained mostly by greater placements of sovereign bonds, the balance of which reached S/ 102 billion. Moreover, 43.9 percent of this balance is debt with non-residents.

The first debt management operation aimed at repurchasing global bond BG30MAR2019 was financed through the placement of sovereign bonds in the form of market makers (S/ 822 million), while the second one, carried out with the aim of repurchasing the balances of global bond BG30MAR2019 and sovereign bonds BS12AGO2020 and BS12FEB2029, was financed through the issuance of a new sovereign bond BS12FEB2029E on the Euroclear platform (S/ 10.35 billion).

5.3 Net Debt¹³

The net debt of the non-financial public sector increased from S/ 66.6 billion in 2017 to S/ 83.6 billion in 2018, representing 11.3 percent of GDP at the end of the year. This result is explained by an increase of 0.9 percentage points of GDP in the gross debt and by a reduction of 0.9 percentage points of GDP in the non-financial public sector assets.

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

Table 58
NET DEBT OF THE NON-FINANCIAL PUBLIC SECTOR

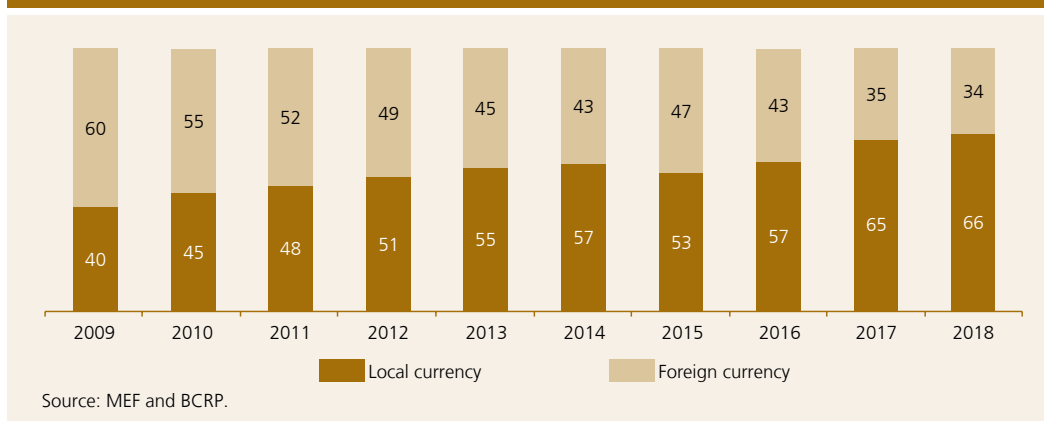
Years	Million soles			% GDP		
	Assets	Liabilities	Net debt	Assets	Liabilities	Net debt
2009	49 189	97 813	48 624	13.4	26.7	13.3
2010	52 734	100 157	47 422	12.5	23.8	11.3
2011	65 824	101 737	35 914	14.0	21.6	7.6
2012	81 130	101 225	20 094	15.9	19.9	4.0
2013	90 041	105 087	15 046	16.5	19.2	2.8
2014	96 994	114 432	17 438	16.9	19.9	3.0
2015	109 033	142 241	33 208	17.9	23.3	5.4
2016	111 649	156 663	45 014	17.0	23.9	6.9
2017	107 414	173 976	66 561	15.4	24.9	9.5
2018	107 185	190 741	83 556	14.5	25.8	11.3

Source: BCRP and MEF.

5.4 Debt by Currencies

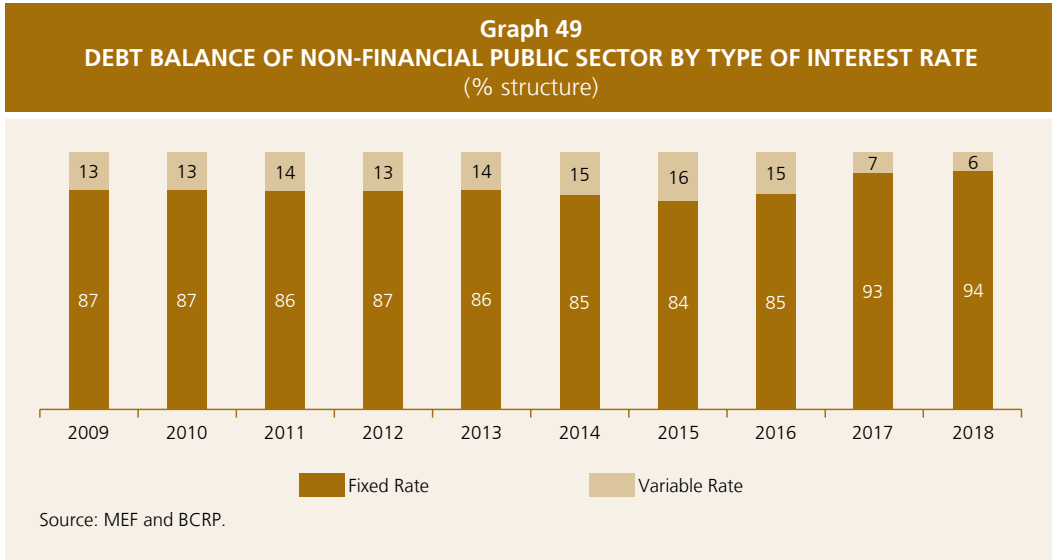
In comparison to 2017, the ratio of the debt in foreign currency has decreased by 1 percentage point, from 35 to 34 percent, as a result of the debt management operations carried out to repurchase part of a global bond and to prepay loans with international agencies. However, the effect of these operations was offset by a loan made to Petroperú and guaranteed by CESCE and also by the effect of the depreciation of the sol on the value of the debt in foreign currency.

Graph 48
DEBT BALANCE OF NON-FINANCIAL PUBLIC SECTOR BY CURRENCY
(% structure)



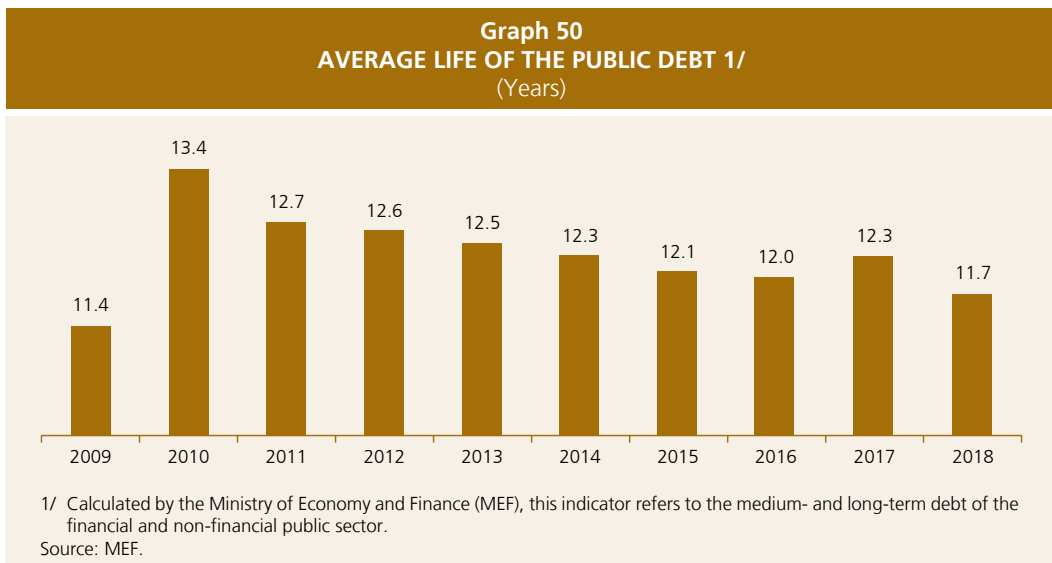
5.5 Debt by Type of Interest Rates

The percentage of fixed-rate debt rose from 93 percent in 2017 to 94 percent in 2018. Moreover, the ratio of fixed-rate debt has increased by 7 percentage points over the past ten years.



5.6 Average Life of the Debt

At the end of 2018, the average life of the medium- and long-term total public debt was 11.7 years, lower than at the end of 2017 (12.3 years). At a disaggregate level, the external public debt has a slightly longer average life (11.9 years) than the domestic public debt (11.5 years).





Pancho Fierro (1809-1879)
Militar de espaldas. S. XIX
Watercolor, 0.33 x 0.26 m.