



**REPUBLIC OF PERU**

**MINISTRY OF ECONOMY AND FINANCE**

# **Multiannual Macroeconomic Framework 2014-2016**

**ABRIDGED VERSION FROM THE ORIGINAL SPANISH EDITION  
APPROVED BY COUNCIL OF MINISTERS IN  
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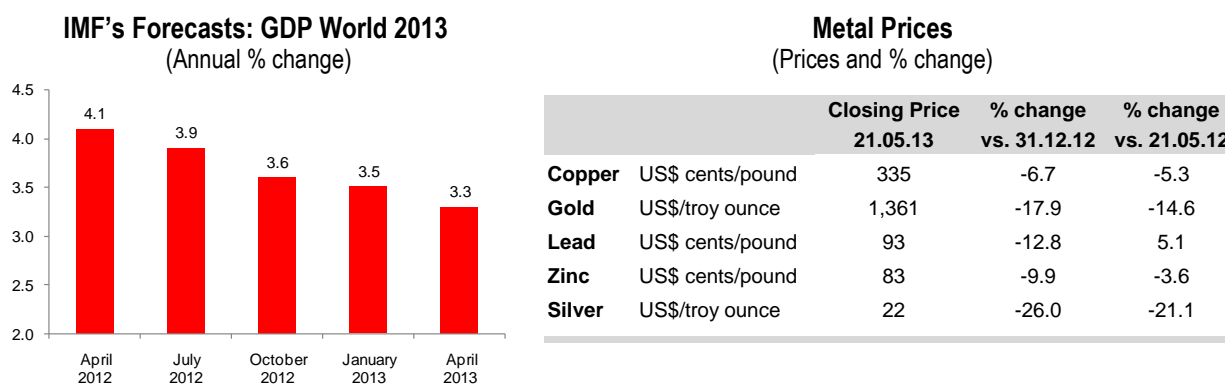
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## 1 EXECUTIVE SUMMARY AND FORECASTS

Peru can grow to its potential level (between 6.0% - 6.5% per year) during 2013-2016 and remain as one of the most dynamic countries in the world, as long as the global economy recovers gradually, important private investment projects materialize, and confidence of economic agents remains high. Maintaining a 6% growth rate, amid a sluggish recovery in advanced economies and falling commodity prices, requires significant efforts to promote and facilitate private investment and increase productivity and competitiveness. Peru's per capita GDP still ranks among the lowest in the region, and without a sustained high growth, it will not be possible to reduce poverty at a significant pace and achieve the desired social inclusion. On the fiscal policy side, after reaching a fiscal surplus in structural terms in 2012, it will be important to increase expenditures in accordance with permanent revenues in the next years, in a context in which export prices remain historically high but with a downward trend. The forecasts of this Multiannual Macroeconomic Framework (MMF) are consistent with a fiscal surplus of around 0.6% of GDP during 2013-2016. On the tax revenue side, to gradually meet the Government's objectives it is important to raise the tax burden, and a major effort from SUNAT will be required. To the extent that this increase in permanent tax revenues is achieved, public spending will expand articulated and focused on the priority areas of the current administration (social spending, infrastructure, security and internal order).

### Global economic outlook

For 2013, the outlook for global economic growth and metal prices has been revised down. In recent months there have been adjustments in the forecasts of global economic growth for 2013. On one side, the Euro zone faces its second year of recession, which will be more severe than anticipated by policymakers a few months ago. In the U.S., despite some positive signs, the labor market is still weak, because the lower unemployment rate is mainly attributed to a fall in the labor force that between January and April 2013 has lost 273,000 people. In April, the unemployment rate fell to 7.5%, the lowest since December 2008, mainly explained by the lowest labor participation rate<sup>1</sup> since May 1979. Meanwhile, China's economic dynamism has also been lower than expected, and for example, JP Morgan has cut its growth forecast for this year from 7.8% to 7.6%. Along with a slowdown in the global economy, there has been a significant drop in commodity prices, and so far this year, the international prices of most of our major export metals has fallen more than 10%.



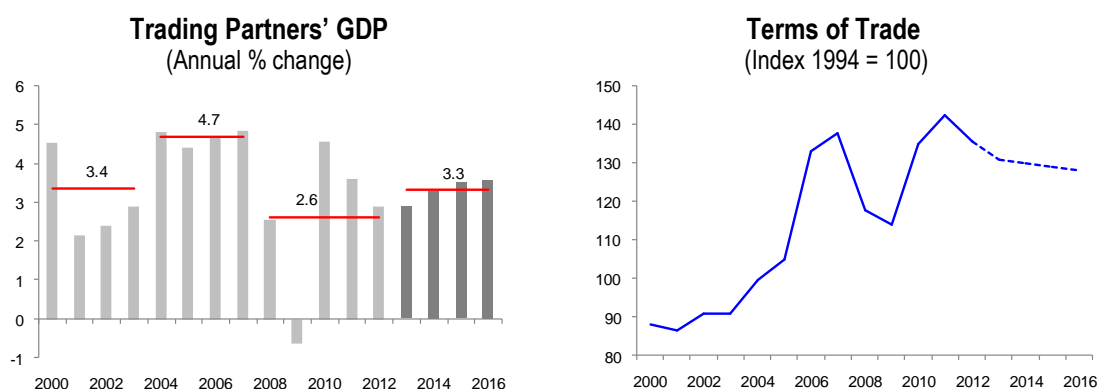
Source: IMF, Bloomberg.

During the years 2014-2016, the global economy is expected to recover gradually, with an average annual growth of 4.0%. Advanced economies will gradually close its negative output gaps and will grow around 2.2% per year (above the 2000-2011 average of 1.8%). Meanwhile, emerging economies are expected to grow at an annual average rate of 5.7%, below the 2000-2011 average (6.3%). In this context, the growth of Peru's trading partners will be around 3.5%, in line with the 2000-2011 average (3.4%) and similar to the expected growth in the previous MMF.

**Export prices will decline faster than expected in the previous MMF although they remain at historically high levels. High commodity price volatility is expected, and there is a risk of larger than anticipated falls.** In 2013 the global copper market will record a supply surplus (after 3 consecutive years of deficit) and the average price will be around cUS\$ 330 per pound. By 2014 the copper's price will be US\$ 320 per pound (less than cUS\$ 340 per pound of the previous MMF), and in the next years the increase in the world supply will cause a drop in

<sup>1</sup> Civilian labor force / Civilian noninstitutional population.

prices, reaching cUS\$ 300 in 2016 or a lower amount. Regarding gold, in 2013 the average price will be US\$ 1,475 per troy ounce and in 2014 it will fall to US\$ 1,450 per troy ounce (less than US\$ 1,650 per troy ounce of the previous MMF). In 2015-2016, in line with the lower uncertainty and the recovery of the global economy, the price of gold could fall up to US\$ 1,400 per ounce in 2016. Given the current prices, there is a risk that prices of metals in the coming years could be even below the levels expected in the baseline scenario.



Source: MEF.

**Even though the baseline scenario assumes a recovery in the global economy, significant risks still prevail.** In the U.S. and Japan, the lack of a fiscal consolidation plan could damage the economic recovery; and in the Euro zone, the recession could extend beyond 2013. Meanwhile, China could grow consistently below 8.0% per year, which would affect metal prices.

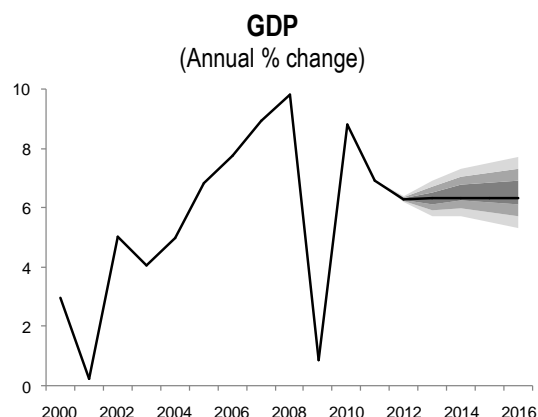
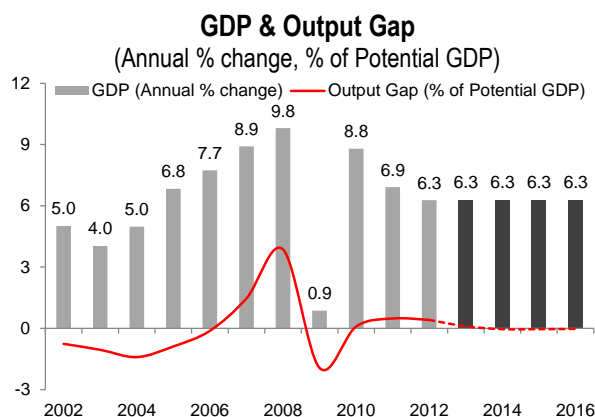
### Peruvian economic outlook

**In the first quarter of 2013, GDP grew 4.8% with respect to the same quarter last year, and 6.0% on a seasonally adjusted annualized rate.** The lower annual growth is mainly explained by a calendar effect, in 2013Q1 there were 4 days less than in the same period of last year (2012 was a leap year and Easter week of 2013 was recorded in March). If this calendar effect had not been recorded, the economic expansion in 2013Q1 would have been around 6.4%<sup>2</sup>.

**In 2013, the Peruvian economy will grow between 6.0% - 6.3% due to buoyant domestic demand that will offset the weakness in the external sector.** Domestic demand could grow more than 7.0% and will continue to expand above GDP rates, thanks to the strong growth in private (10.0%) and public (20.0%) investment, as well as the high increase of private and public consumption. Current and advanced indicators of economic activity show that the growth of the Peruvian economy has now stabilized around its long-run sustainable level.

**For the 2014-2016 annual GDP growth would be between 6.0% - 6.5%.** These forecasts are in line with the potential growth and a closed output gap. This favorable outlook assumes global economic recovery, low financing costs, high expectations, and favorable investment climate that allow a growth rate of 10% in private investment, as well as the commissioning of a number of mining projects that will double copper production by 2016. In the coming years, the expected projects to begin operations are the following: Las Bambas, Cerro Verde expansion, Toromocho and Constancia, plus the Antamina expansion and the new Antapaccay mine, will allow the copper production in 2016 to double (compared to the 2011 levels). These new projects will offset the fall in commodity prices and increase exports to nearly US\$ 60 billion in 2016 (almost 30% compared to 2012), gradually reducing the current account deficit.

<sup>2</sup> To estimate the calendar effect, we performed the analysis of the seasonal component of GDP. If in February and March 2013 is considered the seasonal component of February and March 2012 (months in which there were no fewer working days), the average growth of the months February and March 2013 would have been 6.4% (instead of 4.1% observed).



Source: BCRP, MEF.

In 2016, GDP will reach about US\$ 285 billion (5.3 times more than in 2000) and per capita GDP will reach around US\$ 9 000 at current prices, or US\$ 14 000 in PPP (purchasing power parity). Although Peru will lead the economic growth of the region, its per capita GDP will still rank below other neighboring countries. Just in 2005 Peru regained its 1975 per capita GDP level in constant dollars, and in recent years it has reduced the gap with other countries in the region. To rank among the best places in the region, it is necessary to maintain the growth rate above 6% for the next 15 years at least. Sustaining this growth rate for a long period and amid a context of lower international metal prices will require significant efforts to increase the country's productivity and competitiveness through: i) substantial improvement of human capital, ii) reduction of the infrastructure gap through Public-Private Partnerships; iii) administrative simplification to encourage investment and facilitate business formalization and development, iv) promotion of science, technology and innovation, v) production diversification based on a value-added strategy that promotes quality, new tools for productive development, free competition and internationalization, vi) further financial deepening and capital market development, and vii) the proper design and implementation of actions for environmental sustainability. Without a sustained high growth, it will not be possible to reduce poverty at a significant pace and achieve the desired social inclusion.

**LATAM: GDP per capita**  
(Current US\$)

Country	2000	2012	2016	% change 2016 vs. 2012
Chile	5,065	15,410	19,789	28.4
Uruguay	6,914	14,614	17,534	20.0
Brazil	3,694	12,079	14,631	21.1
Argentina	7,917	11,576	12,626	9.1
Mexico	6,858	10,247	12,393	20.9
Venezuela	4,869	12,956	11,345	-12.4
Colombia	2,480	7,855	9,486	20.8
<b>Peru</b>	<b>2,054</b>	<b>6,626</b>	<b>9,045</b>	<b>36.5</b>

**LATAM: GDP per capita**  
(PPP \$)

Country	2000	2012	2016	% change 2016 vs. 2012
Chile	9,730	18,419	23,091	25.4
Argentina	9,418	18,112	21,088	16.4
Uruguay	8,149	15,911	19,782	24.3
Mexico	10,875	15,312	18,130	18.4
Venezuela	8,584	13,616	14,806	8.7
Brazil	7,077	11,875	14,474	21.9
<b>Peru</b>	<b>4,917</b>	<b>10,840</b>	<b>14,065</b>	<b>29.7</b>
Colombia	5,855	10,792	13,199	22.3

Source: IMF, MEF.

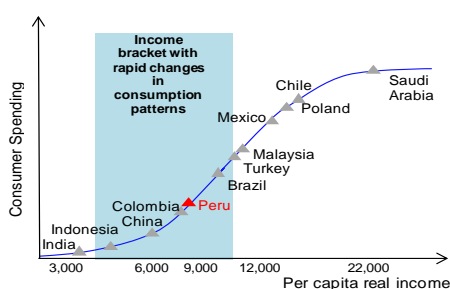
**The MMF contains an analysis of substantial variations in economic assumptions<sup>3</sup>.** In the event of a 20% fall in the terms of trade compared to 2012 (versus a fall of 6% in the baseline scenario) and a substantial increase in international interest rates, it is estimated an slowdown of the GDP growth rate to 4.0% (similar to the average from 1950 to 2012), rather than the 6.3% GDP growth projected for the baseline scenario; however Peru will continue to lead growth in the region. On the other hand, in a scenario where there is not any severe deterioration of the international environment but expectations of private agents decreases and private investment only grows 5% annually (half the base scenario), and considering the indirect effects on employment, income, consumption, the Peruvian economy will grow about 4.0% instead of the 6.0%-6.5% projected in the baseline scenario. Therefore, it is important to maintain a favorable climate and a highly dynamic private investment

<sup>3</sup> We included four alternative scenarios: i) Correction of terms of trade and international interest rate in average levels during 2000-2010, ii) Increased capital flows, iii) Impairment of private sector expectations, and iv) El Niño Phenomenon with similar magnitude to 1997-1998.

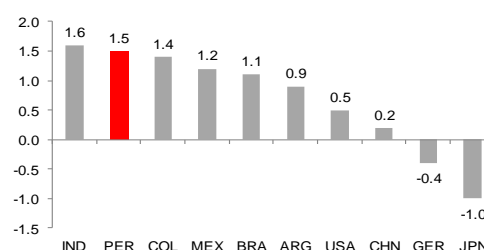
## Consumption

In 2014-2016, private consumption will continue expanding at a growth rate of 5.5% driven by the increase in the middle class, a favorable “demographic window” and the lower underemployment. A HSBC study<sup>4</sup> describes a “threshold effect” as the significant changes in consumption patterns when there are increases in the people’s per capita income (in terms constant US\$ of 2005 at PPP) from a very low income (less than US\$ 3,000 a year) to a middle income (between US\$ 9,000-US \$ 15,000 a year). For 2013, it is expected that Peru will reach a per capita income of US\$ 10,000. On the same wavelength, Morgan Stanley<sup>5</sup> stated that when households have an important increase in their expenditures, moving from Socioeconomic Level E (low income) to Socioeconomic Level C (middle income), they increase their total expenditure 2.2 times and their education expenditures 4 times. Furthermore, economic growth will be also driven by the “demographic window”, when an important number of people will become part of the labor force around 2020. Peru, between 2010-2020 will reach a working-age-population growth rate of 1.5%, above its regional peers.

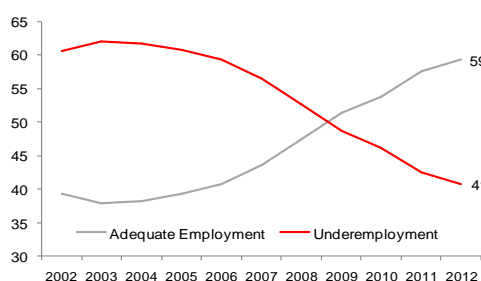
**World: Households Per capita Real Income and Consumption Expenditure, 2011**  
(US\$ constant 2005 PPP)



**World: Increase in Working Age Population**  
(Annual % change, average 2010-2020)



**Metropolitan Lima: Employment**  
(Adequate employment and underemployment as % total employment)



Source: INEI, World Bank, United Nations.

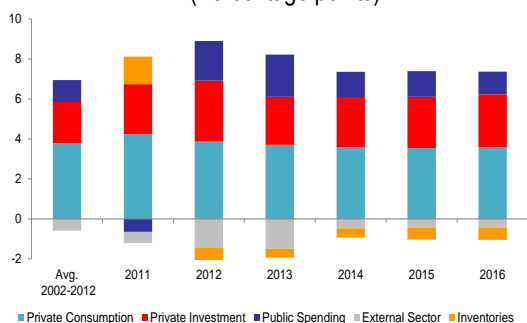
## Investment

Private investment could grow around 10% between 2013 to 2016, as long as expectations remain high and major investment announcements are executed. This growth rate will be more moderate than the observed in the last decade (12.8%) and will explain about 40% of GDP growth. Furthermore, the total investment will reach around 31% of GDP by 2016.

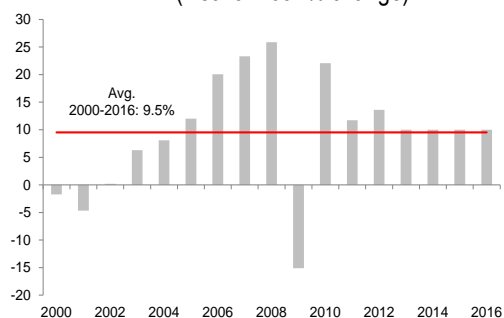
<sup>4</sup> HSBC Global Research, “Consumer in 2050: The rise of the EM Middle Class”. Octubre 2012. El estudio de HSBC utiliza US\$ reales constantes 2000 para el ingreso per cápita, en este documento se utiliza US\$ constantes 2005 PPP del Banco Mundial.

<sup>5</sup> Morgan Stanley Research Latin America, “Equity Strategy: The Consumer still rules”. Marzo 2013.

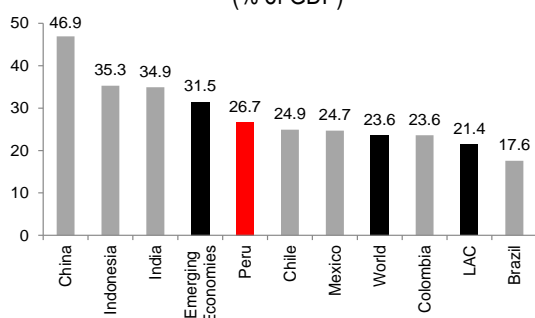
**Contribution to GDP by the expenditure side**  
(Percentage points)



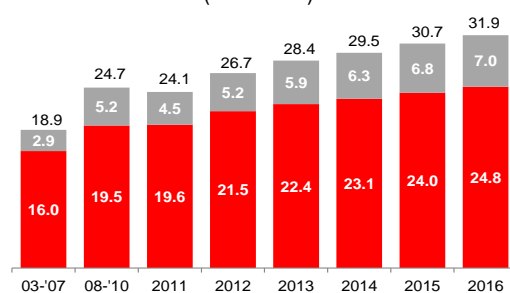
**Private Investment**  
(Real annual % change)



**Total Investment 2012**  
(% of GDP)



**Peru: Private & Public Investment**  
(% of GDP)



Source: IMF, BCRP, MEF.

**The dynamics of private investment for 2013-2016 will be driven by the mining sector and infrastructure projects with Public Private Partnerships.** Mining investments include Las Bambas, Cerro Verde expansion, Toromocho, Constancia and Marcona expansion. The investments, mainly involved in the copper sector, will allow to double the production by 2016. Also, decentralized investment in transport will relieve "bottlenecks" and improve competitiveness. On ports, it is important to mention the upgrade of the North Pier and the mineral piers in Lima, the expansion of Paita's port and Matarani Port, the General San Martin Port Terminal and the Yurimaguas Port. On highways, Road Network No 4 (Pativilca-Puerto Salaverry), Del Sol Highway (Trujillo-Sullana), Longitudinal de la Sierra Highway, and IIRSA Centro Tranche 2; also, the second line, for the Lima Metro, will be constructed. On airports, the construction of Chinchero International Airport in Cusco is expected. The investments in the power sector include power generation (hydroelectric plants of Quitaracsa, Cheves, Cerro del Aguila, and power plants Chilca, Ilo, Eten) and transmission lines (Machu Picchu - Tintaya, Cajamarca Norte - Caclic, among others).

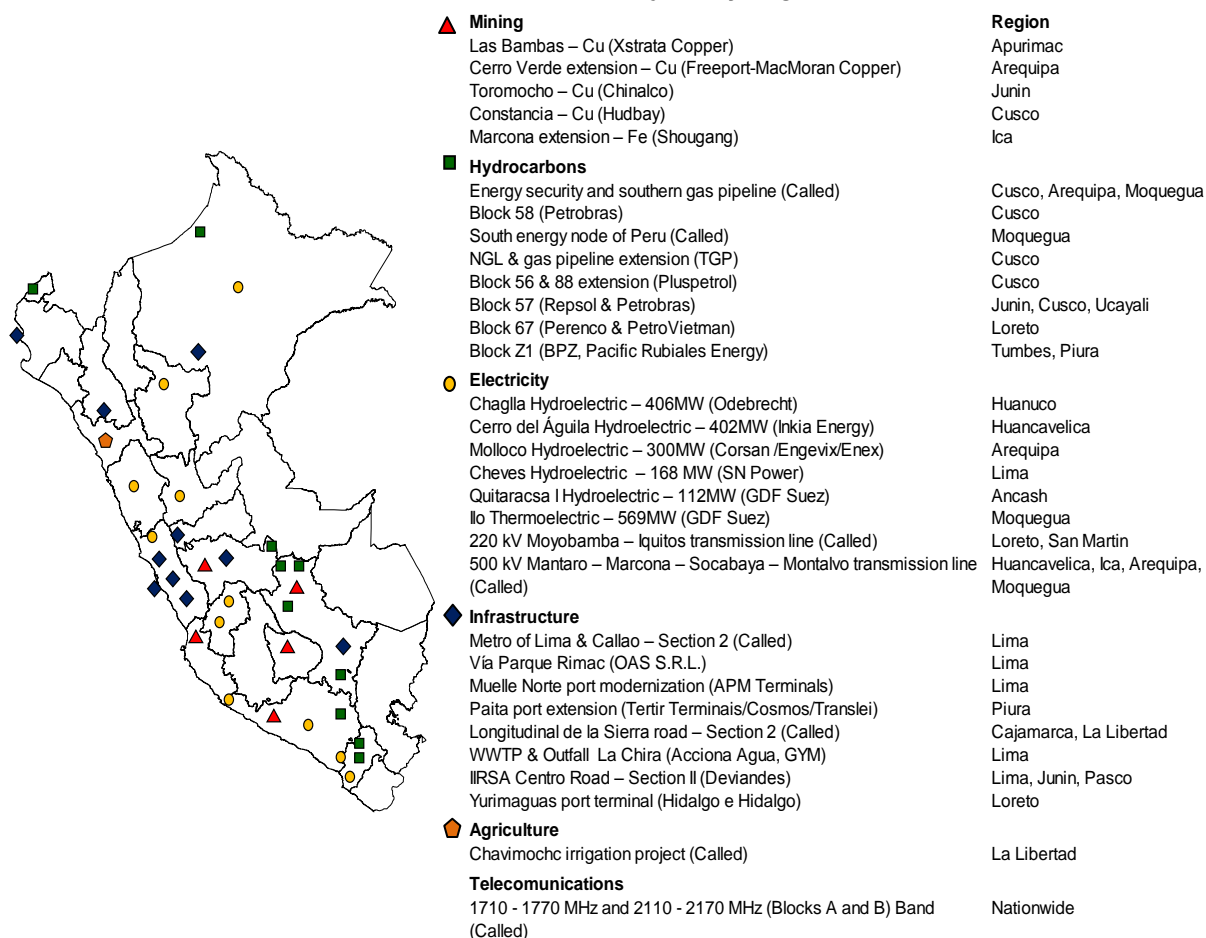
**Domestic Demand and GDP**  
(Annual percentage change)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
1. Domestic Demand	7,0	7,1	7,4	7,4	6,4	6,4	6,4	6,4
a. Private Consumption	5,5	6,4	5,8	5,6	5,5	5,5	5,5	5,5
b. Public Consumption	6,6	4,8	10,6	10,5	4,0	4,0	4,2	4,0
c. Private Investment	11,6	11,7	13,6	10,0	10,0	10,0	10,0	10,0
d. Public Investment	13,1	-17,8	20,9	20,1	13,5	13,5	10,5	12,5
2. Exports <sup>1</sup>	6,5	8,8	4,8	2,0	9,0	9,5	9,4	9,3
3. Imports <sup>1</sup>	9,7	9,8	10,4	8,1	8,6	8,7	8,7	8,7
<b>1. GDP</b>	<b>6,4</b>	<b>6,9</b>	<b>6,3</b>	<b>6,3</b>	<b>6,3</b>	<b>6,3</b>	<b>6,3</b>	<b>6,3</b>
Memo:								
Public Spending	8,4	-4,2	14,1	14,0	7,6	7,8	6,8	7,4

1/ Goods and non-financial services

Source: Central Reserve Bank of Peru, Bureau of National Statistics. Forecast MEF

## Main Investment Projects by Region



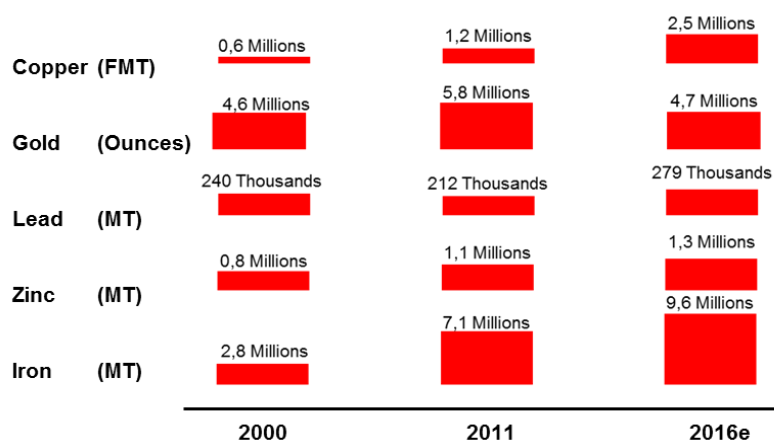
Source: BCRP, MINEM, MTC, PROINVERSION, OSINERGMIN, Apoyo Consultoría.

## GDP by Sectors

For 2014-2016, it is expected that the primary sector will grow around 6.0% due to an average growth rate of 10% of the mining sector. This forecast is based on the start-up of major investments, especially in the copper sector. In the coming years, as mentioned before the expected projects coming into operation are the following: Las Bambas, Cerro Verde expansion, Toromocho, and Constancia, plus the Antamina expansion and the new Antapaccay mine, will increase copper production to about 2.5 million metric tonnes by the end of 2016 and it will double the levels produced in 2011. Also, it is expected a significant increase in iron production due to a higher production by Marcona extension. However, gold production in 2016 will fall around 17% compared to 2011 mainly due to natural depletion of deposits such as Yanacocha. On the other hand, for 2014-2016, the **agricultural sector** is expected to grow an average of 4.2% sustained by the expansion of the agricultural frontier due to Chavimochic-3rd stage and Olmos. The **fishing sector** will grow at an average rate of 4.0%, due to the gradual recovery of the anchovy capture levels. In the **hydrocarbon sector**, it is projected an increased in the natural gas and liquid hydrocarbons production. And the primary manufacturing sector is expected to grow at an average rate of 3.5%.



### Mining Production (By metal)



Source: MEM, MEF Forecast.

### Estimated Copper Production to 2016<sup>1</sup> (Thousands of MT)

Projects	Start Date (e)	2011	2012	2013	2014	2015	2016
<b>A. Extension</b>							
Antamina	12Q4			120	175	175	175
Cerro Verde	16Q2						175
<b>B. New</b>							
Antapaccay	12Q4			100	160	160	160
Toromocho	14Q3				180	275	275
Constancia	15Q2					50	80
Las Bambas	15Q1					245	310
Extensions and New Projects Production				220	515	905	1 175
<b>Total Production</b>		<b>1 235</b>	<b>1 299</b>	<b>1 519</b>	<b>1 814</b>	<b>2 204</b>	<b>2 474</b>
<b>Acum. % change</b>			<b>5,2</b>	<b>23,0</b>	<b>46,9</b>	<b>78,5</b>	<b>100,3</b>

Source: BCRP, MINEM, MEF Forecast.

**For 2014-2016, the non-primary sector is expected to grow 6.4% on average, driven by a strong domestic market and a better global economic outlook.** The construction sector will grow 9.1% on average, driven by the opening of new shopping centers (which will total 100), housing and infrastructure construction, and hotel investment. The service sector will grow driven by the strength of private consumption, the increase in tourism (reaching 3.6 million international tourists), the bigger investment in construction and mining, and the entry of new participants in the financial market. One of the most important items would be the business services for mining and construction, standing out the rental of machinery and equipment, engineering services, among others. The commercial sector will continue growing supported by the higher purchasing power of the population, the dynamic credit with better conditions (given the increased competition) and the expansion of the retail sector in all regions of the country. Similarly, the nonprimary manufacturing sector will regain dynamism due to a better situation in the advanced economies, the strength of the domestic market, and the opening of new markets. The dynamism of the domestic market would be sustained by the growth of consumer goods such as food and beverages, cleaning products and toiletries, while the more robust external demand will drive the production of chemicals, agriculture, textile-clothing and plastics. The signed free trade agreements will provide growth opportunities in new markets, highlighting the Asian market, for our agribusiness, chemical and metalworking products.

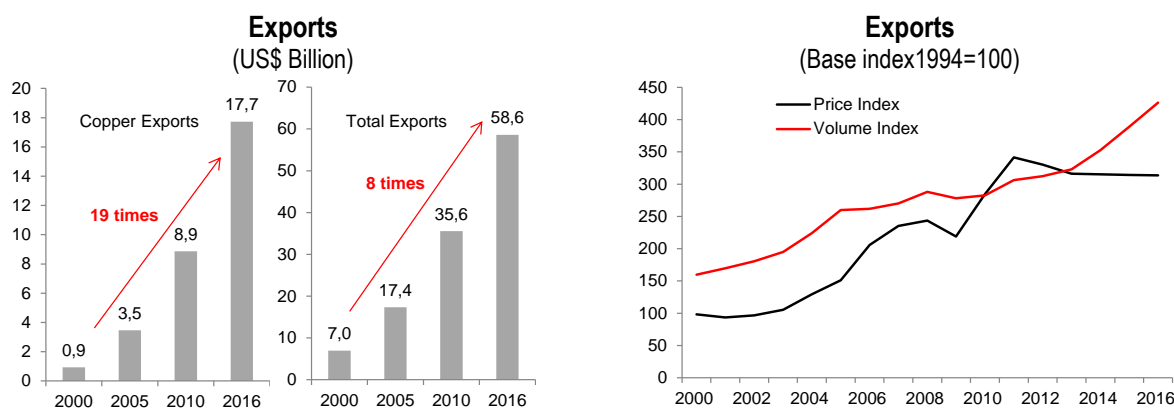
## GDP by Sectors (Annual percentage change)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
Agriculture and Livestock	4,3	3,8	5,1	5,0	4,1	4,2	4,2	4,2
Fishing	3,5	29,7	-11,0	-1,7	5,0	3,5	4,0	4,2
Mining and Fuel	4,1	-0,2	2,2	4,7	9,0	11,7	9,1	9,9
Metals	3,1	-3,6	2,1	3,5	9,2	12,7	9,5	10,4
Fuel	10,5	18,1	2,3	10,6	8,3	7,7	7,8	7,9
Manufacturing	5,9	5,6	1,3	3,4	5,2	5,4	5,4	5,4
Based on raw materials	2,9	12,3	-6,5	2,5	3,5	3,5	3,5	3,5
Non-primary	6,6	4,4	2,8	3,5	5,5	5,8	5,8	5,7
Electricity and Water	5,8	7,4	5,2	6,5	6,4	6,4	6,4	6,4
Construction	10,5	3,4	15,2	11,0	9,2	9,0	9,0	9,1
Commerce	7,0	8,8	6,7	6,3	6,0	6,0	6,0	6,0
Services	6,6	8,6	7,4	6,7	6,3	6,2	6,2	6,2
<b>GROSS VALUE ADDED</b>	<b>6,4</b>	<b>6,9</b>	<b>6,2</b>	<b>6,2</b>	<b>6,3</b>	<b>6,4</b>	<b>6,3</b>	6,3
Taxes on Products and Import Duties	6,5	7,2	6,6	6,8	6,2	6,0	6,0	6,1
<b>GROSS DOMESTIC PRODUCT</b>	<b>6,4</b>	<b>6,9</b>	<b>6,3</b>	<b>6,3</b>	<b>6,3</b>	<b>6,3</b>	<b>6,3</b>	6,3
<b>Primary sectors</b>	<b>3,9</b>	<b>4,4</b>	<b>1,7</b>	<b>4,4</b>	<b>5,6</b>	<b>6,5</b>	<b>5,9</b>	<b>6,0</b>
<b>Non - primary sectors</b>	<b>6,9</b>	<b>7,4</b>	<b>7,1</b>	<b>6,5</b>	<b>6,4</b>	<b>6,3</b>	<b>6,4</b>	<b>6,4</b>

Source: Central Reserve Bank of Peru, Bureau of National Statistics. Forecast MEF.

### External Sector

For 2014-2016, the exports growth rate projection remains robust (mainly due to higher copper sales volumes) totaling US\$ 59 billion for 2016 (almost 30% more than in 2012). By 2016 exports will grow 28% compared to 2012, supported by higher mining sales. Copper sales will increase in 69% mainly due to higher export volumes (100%), offsetting the 17%<sup>6</sup> decline of the price of copper.



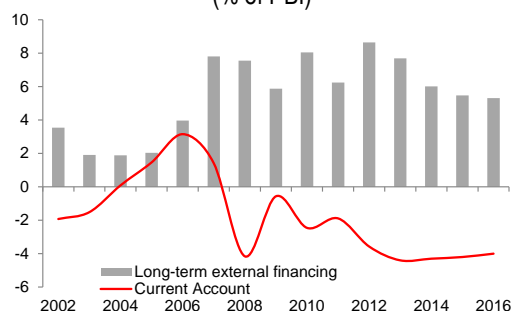
Source: BCRP, MEF.

For the period 2014-2016, imports growth rate projection has been revised down, mainly because of lower prices. Imports are expected to grow 9.0% on average (previous MMF: 12.0%) due to higher volumes that will grow 8.5% on average. This estimated volume growth rate has remained from the previous MMF, while the price growth rate fell to 0.4% (previous MMF: 3.2%). During this period, capital and consumer goods imports will be the most dynamic, 13.5% and 11.8%. By 2016, imports will reach US\$ 57 billion, 39% higher than 2012 and 8 times bigger than 2000.

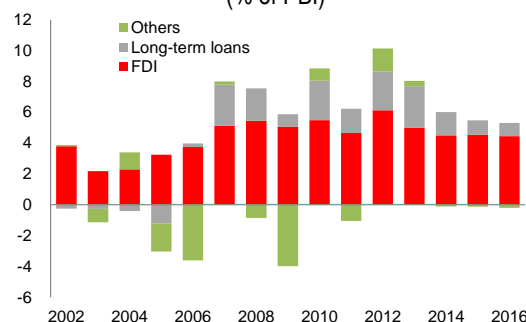
<sup>6</sup>(1+Value % Change) = (1+ Price % Change)\*(1+Quantity % Change).

**For 2014-2016, the current account will record an average deficit of 4.2% of GDP that will go down gradually and will be fully financed by long-term capital.** the current account deficit will be financed by the surplus in the financial account, in particular due to the higher inflows of long-term capital in the form of Foreign Direct Investment (FDI) that will account 4.5% of GDP. For 2014-2016, it is expected a moderation of the local companies debt issuing abroad, which would also moderate the growth of the financial account to an average of 5.4% of GDP compared to 10.1 % of GDP in 2012. However, if an international environment of low interest rates persists, the risk of financial account will increase because local firms will have incentives to continue their debt issuing abroad. Finally, the fall in export prices does not deteriorate all components of the current account. On one side, the trade balance surplus will be lower, generating a higher current account deficit, but on the other side, the profits of mining companies will be also lower so that there will be lower investment income, mitigating the previous effect of a further deterioration of the current account.

**Current Account and Long-term External Financing<sup>1</sup>**  
(% of PBI)



**Financial Account**  
(% of PBI)



1/ Long-term External Financing is the sum of Foreign Direct Investment (FDI) and long-term loans.  
Source: BCRP, MEF.

## Public Finances

As mentioned in the Fiscal Policy Statement and Fiscal Commitment of this MMF, the main fiscal policy guidelines of the Ministry of Economy and Finance are:

1. After achieving a structural fiscal surplus in 2012, the goal is to maintaining a sustainable path of expenditures consistent with structural or permanent revenues, in a context of commodity exports prices still historically high but with a declining trend. Beginning in 2014, the goal is to gradually reduce the structural fiscal deficit over the medium term<sup>7</sup>.
2. A fiscal surplus of around 0.6% of GDP during the 2013-2016 period
3. Avoiding an excessive procyclical fiscal stance.
4. Keeping a sustainable level of public debt.
5. Increasing permanent fiscal revenues.
6. Enhancing absorption capacity of the public sector to efficiently invest the public resources.

### Why is it important to maintain a small fiscal surplus?

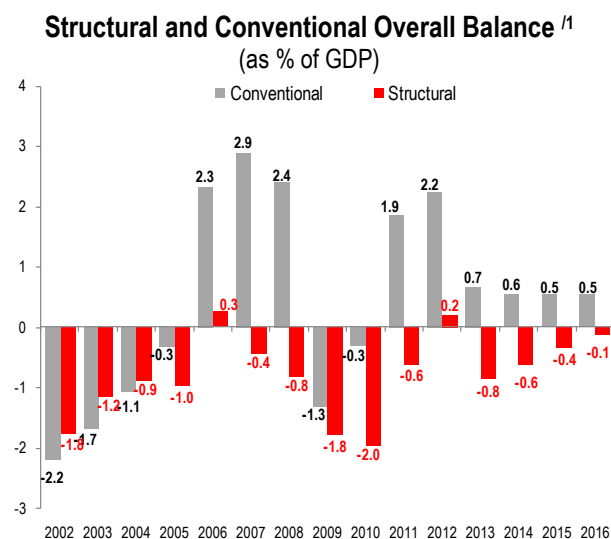
- A lower level of public savings would increase the external savings dependence or current account deficit above the expected levels on this MMF (4.2% percent of GDP on average for the 2013-2016 period). This could be a potential source of vulnerability in a scenario of sharp reversal of capital inflows (sudden stops).
- With a global scenario as uncertain and volatile as the one is expected, it is essential to have enough fiscal space to face the effects of a temporary or permanent decline on commodity exports prices scenario.
- While the appreciation of the local currency responds to improvements in economic fundamentals, lower fiscal surpluses could accelerate the pace of appreciation, affecting the competitiveness of labor-intensive tradable sectors and non-tradable sectors.
- The ability to face the consequences of possible natural disasters (earthquakes, tsunamis, etc.) and other contingencies must be preserved.

<sup>7</sup> If permanent revenues do not increase through broadening the tax base and reducing high levels of evasion and avoidance, projected structural deficit could be greater.

**Summary of Fiscal Accounts – Non Financial Public Sector**  
(Millions of Nuevos Soles, Percentage of GDP and real percent change)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. GENERAL GOVERNMENT REVENUES</b>	68 108	102 490	114 155	121 048	131 815	145 243	160 386	145 815
Percentage of GDP	19,6	21,1	21,7	21,4	21,4	21,8	22,2	21,8
Real percent change	9,6	12,8	7,5	3,7	6,8	8,0	8,3	7,7
<b>TAX BURDEN</b>								
Million of Nuevos Soles	50 146	75 591	84 147	88 649	97 259	109 134	121 474	109 289
Percentage of GDP	14,4	15,5	16,0	15,7	15,8	16,3	16,8	16,3
<b>II. GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE</b>	60 535	87 864	97 983	110 894	121 685	134 250	148 925	134 953
Percentage of GDP	17,5	18,1	18,6	19,6	19,7	20,1	20,6	20,2
Real percent change	7,5	2,0	7,6	10,7	7,6	8,2	8,8	8,2
<b>2.1. CURRENT EXPENDITURE</b>	45 817	63 369	68 841	77 684	82 847	88 912	96 310	89 356
Percentage of GDP	13,6	13,0	13,1	13,7	13,4	13,3	13,3	13,4
<b>2.2. CAPITAL EXPENDITURE</b>	14 717	24 495	29 142	33 210	38 839	45 338	52 615	45 597
Percentage of GDP	4,0	5,0	5,5	5,9	6,3	6,8	7,3	6,8
<b>III. NON FINANCIAL PUBLIC ENTERPRISES PRIMARY BALAN</b>	337	146	1 127	-960	-1 047	-1 542	-1 549	-1 379
Percentage of GDP	0,1	0,0	0,2	-0,2	-0,2	-0,2	-0,2	-0,2
<b>IV. PRIMARY BALANCE (I - II + III)</b>	7 910	14 773	17 299	9 194	9 083	9 451	9 912	9 482
Percentage of GDP	2,1	3,0	3,3	1,6	1,5	1,4	1,4	1,4
<b>V. INTEREST PAYMENTS</b>	5 245	5 696	5 547	5 394	5 688	5 810	5 946	5 815
Percentage of GDP	1,7	1,2	1,1	1,0	0,9	0,9	0,8	0,9
<b>VI. OVERALL BALANCE (IV-V)</b>	2 665	9 077	11 752	3 800	3 395	3 641	3 966	3 668
Percentage of GDP	0,5	1,9	2,2	0,7	0,6	0,5	0,5	0,5

Source: BCRP, MEF, MEF calculations.



<sup>1/</sup> The structural overall balance is calculated using a moving average of the last 15 years as the medium term price filter for mining and hydrocarbon commodity exports prices  
Source: MEF.

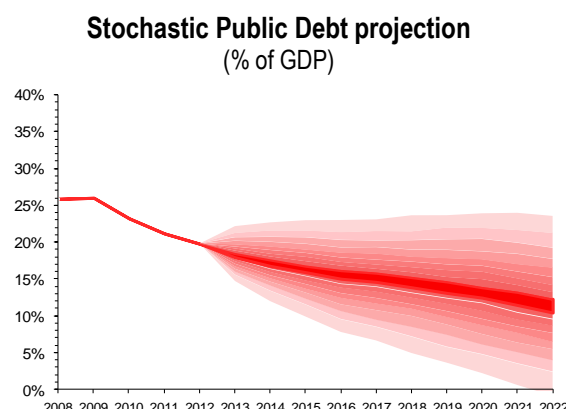
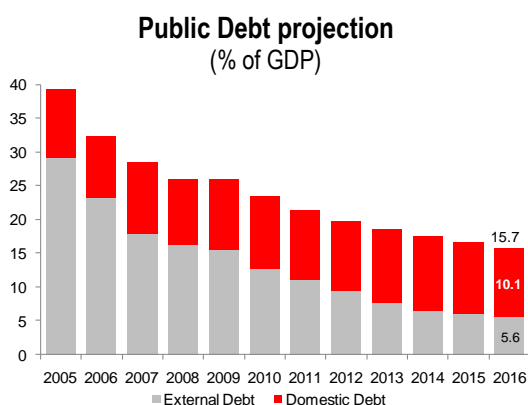
**The projected fiscal surplus for 2013 was revised down from 1.1% of GDP to 0.7% of GDP.** The lower projected fiscal surplus for 2013 is mainly due to lower tax revenues caused by the decline of international metal prices. However, the nominal level of the non-financial expenditures of the General Government for 2013 remains unchanged with respect to the previous MMF, in order to avoid erratic patterns and dissociate it from the high volatility of resource revenue.

**Between 2014-2016, General Government revenue will grow 7.7% annually on average in real terms and will reach 22.2% of GDP on 2016.** By 2016, the goal is to achieve a tax burden of 18% of GDP. However, with a global scenario with lower commodity prices than those previously considered, this will require an important effort from SUNAT to broaden the tax base and reduce the high levels of tax evasion and avoidance. It is important to

mention that the measures, taken in 2012, to improve management, supervision and control by SUNAT, along with other tax measures, have had an impact of approximately 0.3% of GDP on tax revenues. The 2013 and 2014 projections assume that the current management, supervision and control improvements of SUNAT mitigate the decline in export prices and generate additional resources for at least half a point of GDP annually in the next years.

**Between 2014-2016, the General Government's non-financial expenditure will grow 8.2% annually on average in real terms, above the 2002-2012 historical average (7.5%)** This scenario is consistent with current fiscal rules<sup>8</sup>. Regarding the new wage policy, Central Government's expenditures on wages and salaries will grow 7.3% on average over the 2014-2016 period, and will represent 4.2% of GDP (similar to the level of 2006). By 2016, expenditures ceilings have been slightly reduced, consistent with the projected path of structural revenues. Thus, in 2016 non-financial expenditure of the General Government can reach S/.149 billion (cumulative real growth of 50% since 2011) or 20.6% of GDP (2.5 percentage points of GDP higher than 2011). The predictable expansion of public spending requires an increase of the tax burden, to achieve this goal SUNAT must undertake a significant effort to broaden the tax base and to reduce tax evasion and avoidance levels. If this increase in permanent revenue does not materialize, the projected spending levels will not be feasible. Also, this effort from SUNAT to increase the tax burden will imply that fiscal accounts will become less dependent on commodity price fluctuations, because the tax base expansion would focus mainly on the non-tradable sector of the economy. There is a risk of higher spending at subnational level if fiscal rules are not met, especially in 2014 when regional and municipal election year is programmed.

**Downward trend of public debt to GDP ratio will continue, reaching around 15.7% of GDP by 2016.** Public debt policy is consistent with the objective to continue deepening and developing the foreign and domestic debt markets across the maturity spectrum of the yield curve. Also, by 2016, the share of Government debt denominated in local currency will increase, continuing with the de-dollarization trend of public debt.



Source: MEF-BCRP, MEF calculations.

**Significant efforts in different sectors and government levels are required to ensure higher quality of public spending, so greater fiscal resources effectively translate into substantial improvements of equal opportunities for the poor and excluded.** In a context of economic growth and higher fiscal revenues, non-financial expenditure of the General Government will have more than tripled, increasing from S/. 34 billion in 2000 to S/. 111 billion at the end of 2013. Although certain aggregate indicators have improved, significant gaps still remain in the poorest and excluded areas of the country, particularly in the provision of high quality public goods and services. The weak link and association between public budget allocation decisions and achieving results, evidences the need for a general public administration reform and, particularly, to the public budget system. In this regard, the Ministry of Economy and Finance aims to nearly 100% of the programmable budget (excluding pension, financial and administrative expenses) to be formulated based under a Performance Budgeting strategy before the end of this government, and that the National Budget System contributes to the efficiency and effectiveness of public spending through the link between budget program funding and the results to be achieved, using performance information systematically.

<sup>8</sup> a) Rule on Central Government's consumption expenditure: Legal cap of 4% for the real annual growth rate of expenditures on wages & salaries, pensions and goods & services.  
 b) The last three years average primary balance of each Regional and Local Government must not be negative.

## Main Macroeconomic Indicators

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>TRADING PARTNERS GDP</b>								
World (Real percentage change)	3.7	4.0	3.2	3.2	3.8	4.0	4.2	4.0
United States (Real percentage change)	1.7	1.8	2.2	1.7	2.6	3.0	3.0	2.9
Euro Zone (Real percentage change)	1.0	1.4	-0.6	-0.5	0.8	1.2	1.4	1.1
Japan (Real percentage change)	0.8	-0.6	2.0	1.2	1.2	1.2	1.2	1.2
China (Real percentage change)	10.3	9.3	7.8	8.0	8.0	8.0	8.0	8.0
Trading Partners (Real percentage change)	3.4	3.6	2.9	2.9	3.3	3.5	3.6	3.5
<b>COMMODITIES PRICES</b>								
Gold (\$/oz.tr.)	831	1,570	1,669	1,475	1,450	1,425	1,400	1,425
Copper (¢\$/lb.)	248	400	361	330	320	310	300	310
Lead (¢\$/lb.)	71	109	94	95	95	95	95	95
Zinc (¢\$/lb.)	84	100	89	86	86	86	86	86
Oil (\$/bar.)	66	95	94	95	95	98	100	98
<b>PRICES</b>								
Prices (Cumulative percentage change) <sup>1</sup>	2.8	4.7	2.6	2.0	2.0	2.0	2.0	2.0
Exchange Rate end of period (Nuevos Soles per dollar) <sup>2</sup>	3.10	2.75	2.63	2.53	2.50	2.50	2.50	2.50
Terms of Trade (Percentage change)	4.7	5.4	-4.9	-3.3	-0.7	-0.9	-0.7	-0.8
Export Price Index (Percentage change)	12.9	20.0	-3.3	-4.0	-0.4	-0.3	-0.3	-0.3
Import Price Index (Percentage change)	7.9	13.8	1.7	-0.7	0.3	0.6	0.4	0.4
<b>GROSS DOMESTIC PRODUCT</b>								
Gross Domestic Product (Billion of nuevos soles)	341	487	526	566	616	668	723	669
Gross Domestic Product (Real percentage change)	6.4	6.9	6.3	6.0 - 6.3	6.0 - 6.5	6.0 - 6.5	6.0 - 6.5	6.0 - 6.5
Domestic Demand (Real percentage change)	7.0	7.1	7.4	7.4	6.4	6.4	6.4	6.4
Private Consumption (Real percentage change)	5.5	6.4	5.8	5.6	5.5	5.5	5.5	5.5
Public Consumption (Real percentage change)	6.6	4.8	10.6	10.5	4.0	4.0	4.2	4.0
Private Investment (Real percentage change)	11.6	11.7	13.6	10.0	10.0	10.0	10.0	10.0
Public Investment (Real percentage change)	13.1	-17.8	20.9	20.1	13.5	13.5	10.5	12.5
Private Investment (Percentage of GDP)	17.7	19.6	21.5	22.4	23.1	24.0	24.8	24.0
Public Investment (Percentage of GDP)	3.9	4.5	5.2	5.9	6.3	6.8	7.0	6.7
<b>EXTERNAL SECTOR</b>								
Current Account Balance (Percentage of GDP)	-0.9	-1.9	-3.6	-4.4	-4.3	-4.2	-4.0	-4.2
Trade Balance (US\$ Million)	5,099	9,302	4,527	644	708	1,179	1,492	1,126
Exports (US\$ Million)	25,851	46,268	45,639	44,720	48,630	53,533	58,581	53,581
Imports (US\$ Million)	20,752	36,967	41,113	44,076	47,922	52,355	57,089	52,455
Long-term External Financing (Percentage of GDP)	5.2	6.2	8.6	8.3	7.7	6.0	5.5	5.3
<b>NON-FINANCIAL PUBLIC SECTOR</b>								
Tax burden (Percentage of GDP)	14.4	15.5	16.0	15.7	15.8	16.3	16.8	16.3
Current Revenue of GG (Percentage of GDP)	19.4	21.0	21.6	21.3	21.3	21.7	22.1	21.7
Primary Balance (Percentage of GDP)	2.1	3.0	3.3	1.6	1.5	1.4	1.4	1.4
Overall Balance (Percentage of GDP)	0.5	1.9	2.2	0.7	0.6	0.5	0.5	0.5
Structural Overall Balance (Percentage of GDP) <sup>3</sup>	-0.9	-0.6	0.2	-0.8	-0.6	-0.4	-0.1	-0.4
<b>PUBLIC DEBT STOCK</b>								
Foreign (Percentage of GDP)	22.0	11.0	9.5	7.7	6.6	6.1	5.6	6.1
Domestic (Percentage of GDP)	10.0	10.3	10.2	10.7	10.9	10.6	10.1	10.5
Total (Percentage of GDP)	32.1	21.3	19.7	18.5	17.5	16.7	15.7	16.7

1/ Consistent with CRBP's target range.

2/ 2013-2015, taken from the Monthly Survey on Macroeconomic Expectations: April 2013. BCRP. For 2016 we assume the same value of 2015.

3/ The structural overall balance is calculated using a moving average of the last 15 years as the medium term price filter for mining and hydrocarbon commodity exports prices.

Source: INEI, BCRP, MEF.

## 2 ECONOMIC POLICY GUIDELINES

**1. Greater social inclusion: poverty reduction, inequality decrease, access to equal opportunities, greater presence and effectiveness of the state in rural areas of the country.** In a context of macroeconomic stability, sustained economic growth of recent years has been the main driver of poverty reduction (a fall from 58.7% in 2004 to 25.8% in 2012), mainly from areas and sectors articulated to the dynamics of the economy, but staying behind important segments of the population. In this context, the National Strategy for Development and Social Inclusion "Include to Grow" (Supreme Decree 008-2013-MIDIS) was approved, which is a management tool that seeks to regulate and guide the coordinated interventions of the three levels of government about development and social inclusion to priority outcomes, recognizing the current skills and processes. The main challenges of inclusive growth are as follows: i) to reduce rural poverty, which is twice the national average, ii) to reduce chronic malnutrition, which amounts to one-third of rural children, iii) to promote early childhood development and kindergarten attendance in rural areas, iv) to promote the integral development of children and adolescents, reducing gaps in access and quality of the education system, anemia, child labor and teenage pregnancy rates, v) to improve the quality of public education, increasing coverage in early childhood education and articulate it with the following levels of education to improve educational performance and close gaps in rural and intercultural bilingual education; vii) reduce gaps in access to drinkable water, sanitation, roads and electricity in the country's poorest districts, viii) articulate development and social inclusion policies and programs to promoting productive development and employability policies and programs, and ix) promote the protection and welfare of the elderly. Consequently, growth with social inclusion implies using the bigger permanent fiscal revenues that come from the sustained economic growth, into an expansion of social spending on cost-effective interventions more articulated and better focalized in favor of the poorest. The greater social inclusion and the reduction of social conflicts will result in a better investment climate and sustainable growth.

**2. Growth with Stability.** The major economic policy guidelines remain the same, guaranteeing a prudent and responsible management of macroeconomic accounts. To ensure macroeconomic stability is a priority goal because it allows: i) to achieve higher sustainable growth rates, a central element to continue generating employment and to reduce poverty, ii) to create the necessary spaces to implement fiscal policies that mitigate adverse conjunctural events; iii) to attract substantial private investment flows, and iv) to hold the investment grade and improve our credit rating so that new debt issues (public and private) have a lower cost. The objective of ensuring macroeconomic stability is a prerequisite for achieving sustainably the objectives already mentioned above.

**3. Improving the productivity and competitiveness of the economy.** Although Peru will lead the economic growth in the region, its per capita GDP will rank below other neighboring countries. Just in 2005, Peru regained its 1975 per capita GDP level in constant dollars, and in recent years it has reduced the gap with other countries in the region. By 2016, it is expected that per capita GDP amounts about US\$ 14,000 in PPP (purchasing power parity), below the levels of most countries in the region. To rank among the best places in the region, it is necessary to maintain the growth rate above 6% for the next 15 years at least. Sustaining this growth rate for a long period and amid a context of lower international metal prices will require significant efforts to increase the country's productivity and competitiveness through: i) substantial improvement of human capital, ii) reduction of the infrastructure gap through Public-Private Partnerships; iii) administrative simplification to encourage investment and facilitate business formalization and development, iv) promotion of science, technology and innovation, v) production diversification based on a value-added strategy that promotes quality, new tools for productive development, free competition and internationalization, vi) further financial deepening and capital market development, and vii) the proper design and implementation of actions for environmental sustainability.

**4. Increasing permanent fiscal revenues.** The Government is implementing measures to broaden permanently the tax base through: i) attacking high tax evasion (about 35% in the VAT and more than 50% in Income Tax), ii) reducing smuggling (about 3% of imports), iii) promoting formalization, supervision and control (especially freelancers), iv) putting emphasis on electronic transactions, which not only facilitate tax compliance, but also generate more and better timely information, v) increasing efforts to recover tax debts, vi) boosting the implementation of monitoring and control systems based on risk analysis, vii) rationalizing tax exemptions and benefits, and viii) seeking the optimization of Municipal Taxes (as property tax, alcabala tax<sup>9</sup> and vehicle property tax) in order to strengthen the management of local governments without affecting the fairness of the tax system.

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<sup>9</sup> Tax levied on real state transfers.

**5. Improving the quality of public expenditure through the Performance Budgeting strategy.** In a context of economic growth and higher fiscal revenues, non-financial expenditure of the General Government will have more than tripled, increasing from S/. 34 billion in 2000 to S/. 111 billion at the end of 2013.

Although certain aggregate indicators have improved, significant gaps still remain in the poorest and excluded areas of the country, particularly in the provision of high quality public goods and services. Among the main factors behind the disparity between public spending increases and results, it can be highlighted: i) absence of a focus on results, ii) lack of clarity in public entities about which is the product that must be delivered to the citizens in order to achieve their priority objectives in the framework of public policies and functions, iii) there are many actors with heterogeneous capabilities and points of views, iv) control activities are prioritized over guidance and counseling activities, v) limited information and low analysis on the performance of public interventions, vi) predominance of inertial criteria in budget allocation, and vii) weak planning and clarity on priorities.

The weak link and association between public budget allocation decisions and achieving results, evidences the need for a general public administration reform and, particularly, to the public budget system. In this regard, the Ministry of Economy and Finance aims to nearly 100% of the programmable budget (excluding pension, financial and administrative expenses) to be formulated based under a Performance Budgeting strategy before the end of this government, and that the National Budget System contributes to the efficiency and effectiveness of public spending through the link between budget program funding and the results to be achieved, using performance information systematically. To implement this objective, it is necessary to advance in the following aspects: i) deepening the methodology of Performance Budgeting , through the mechanism of Budget Programs, ii) gradual extension of the public budget programmatic coverage, iii) generation and use of performance information for a more effective and efficient allocation of public resources, iv) developing a culture of accountability that gives feedback to the current management, v) introduction of multi-year expenditure programming view, and vi) improving coordination between current and capital spending, and vii) strengthening the territorial articulation.

Finally, it is important to mention the current administration aims to: i) the modernization of the management of public enterprises through the improvement of corporate governance and a probable participation of private capital, ii) greater transparency in public procurement processes, and iii) the generation of a unique set of forms in the public sector, which includes not only the remunerative aspect but also the pension for a better management of Treasury resources, taking into consideration that almost 40% of the budget goes to these two items.

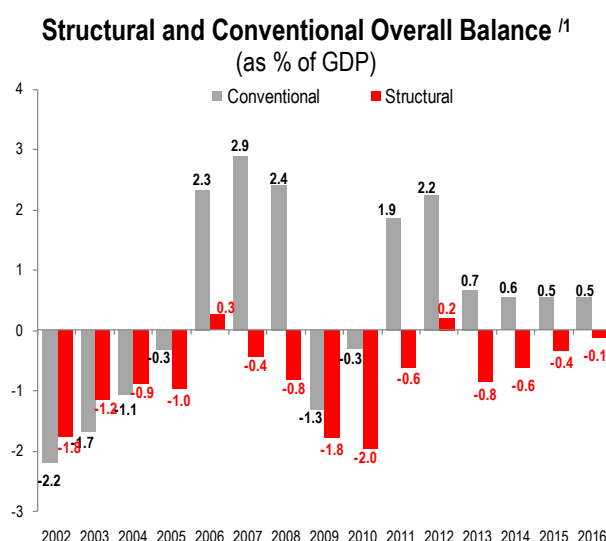


### 3 FISCAL POLICY STATEMENT

The main guidelines of Fiscal Policy of the Ministry of Economy and Finances are:

**1. After achieving a structural fiscal surplus in 2012, the Government seeks to maintain a sustainable path of public expenditures consistent with the levels of structural or permanent income, in a context of high export prices but with a downward trend.** The distinction between structural and transitory components that explain the evolution of public finances is an important tool for the analysis of fiscal policy. The Structural Balance Indicator is used to compute the Public Sector Overall Balance excluding the effects of commodities prices fluctuations or the economic cycle. Commodities prices are highly volatile and are subject to sudden fluctuations, for example they can drop by 50% (from maximum to minimum level) with even sharper declines in metal prices. Between April 10th and April 16th, the international price of gold fell 12.4%, and between April 10th and April 23th the price of copper fell 9.8%, their lowest level since 2011. Public expenditure must not be volatile because it is costly in terms of efficiency and management capacity at the sector policy level; therefore, public finances must be isolated from the high degree of revenue volatility that comes from our main commodities exports. A group of commodity-exporting countries such as Chile and Norway use some kind of structural fiscal rule, while countries like Canada and Australia use a structural balance indicator as an analytical tool.

According to the baseline scenario of this Multiannual Macroeconomic Framework, the average copper price will gradually decrease to cUS\$ 300 per pound; nevertheless that level will be almost 50% higher than the 2000-2011 average price. In summary, it is an important tool for the design of fiscal policy analyzing the fiscal position in structural terms.



<sup>1/</sup> The structural overall balance is calculated using a moving average of the last 15 years as the medium term price filter for mining and hydrocarbon commodity exports prices  
Source: MEF.

**2. The projections of this Multiannual Macroeconomic Framework are consistent with an average fiscal surplus of around 0.6% of GDP for the 2013-2016 period.**

- A lower level of public savings would increase the external savings dependence or current account deficit above the expected levels on this MMF (4.2% percent of GDP on average for the 2013-2016 period). This could be a potential source of vulnerability in a scenario of a sharp reversal of capital inflows (sudden stops).
- With a global scenario as uncertain and volatile as the one is expected, it is essential to have enough fiscal space to face the effects of a temporary or permanent decline on commodity exports prices scenario.
- While the appreciation of the local currency responds to improvements in economic fundamentals, lower fiscal surpluses could accelerate the pace of appreciation, affecting the competitiveness of labor-intensive tradable sectors and non-tradable sectors.
- The ability to face the consequences of possible natural disasters (earthquakes, tsunamis, etc.) and other contingencies must be preserved.

**3. Avoiding a strong procyclical fiscal stance.** The economy will grow around its potential level so the Government seeks to avoid a too procyclical fiscal stance. In that sense discretionary fiscal policy as a countercyclical tool will be reserved only for cases when significant deviations of the GDP from its long term potential level were anticipated, as a consequence of a sharp deterioration in the global economy or a severe natural disaster. A prerequisite to implement countercyclical fiscal policy is saving transitory income during periods of high prices for commodities exports.

**4. Keeping a sustainable level of public debt.** While the public debt to GDP ratio declined from 46.0% in 2000 to 19.7% in 2012, it still ranks above other commodity-exporting countries such as Chile (11.2%) and Russia (10.9%).

**5. Increasing permanent fiscal revenues.** Even though the tax burden has increased from 12.3% in 2000 to 16.0% of GDP in 2012, it still remains below other countries levels such as Chile (17.6%) or Uruguay (19.4%). Thereby the Government is implementing measures to broaden permanently the tax base through: i) attacking high tax evasion (about 35% in the VAT and more than 50% in Income Tax ), ii) reducing smuggling (about 3% of imports), iii) promoting formalization, supervision and control (especially freelancers), iv) putting emphasis on electronic transactions, which not only facilitate tax compliance, but also generate more and better timely information, v) increasing efforts to recover tax debts, vi) boosting the implementation of monitoring and control systems based on risk analysis, vii) rationalizing tax exemptions and benefits, and viii) seeking the optimization of Municipal Taxes (as property tax, property transfer tax “alcabala”, and vehicle property tax) in order to strengthen the management of local governments without affecting the fairness of the tax system.

**6. Enhancing the absorption capacity of the public sector to invest public resources efficiently.** The authorities must continue improving the current public investment system in all phases (planning and prioritization, operation and maintenance, and monitoring and evaluation). It requires an extensive public investment strategy that identifies infrastructure needs and capacity constraints by sectors and territories, establishing priorities, quantifying financing needs for construction and operation, and creating opportunities for Public-Private Partnerships in the medium term. In this way, it will be avoided having a fragmented public investment, with little connection with sectors and territories and low economic and social returns

#### **4 TAX POLICY STATEMENT**

The main goal for the coming years is to continue strengthening the national tax system, based on the principles of adequacy, neutrality, efficiency, equity and simplicity, in order to obtain the fiscal resources needed to mainly finance social inclusion programs.

For that purpose the Government will be permanently evaluating the effect of the changes made to the taxes that are part of the national tax system and their contribution to public revenues. Such taxes are mainly the Income Tax, the Value Added Tax and the Excise Tax.

Also the policy of rationalization of existing tax exemptions and benefits will continue, not only because they generate distortions to the economy, but also represent a source of tax expenditure of 1.91% of GDP in 2013. Therefore, a new strategy to ration tax exemptions and other preferential treatments will be implemented, seeking not only to remove the existing ones, but mainly to prevent the proliferation of new ones.

##### **Perspectives for 2014-2016**

- In the case of Income Tax, the Government will continue evaluating new regulations to reduce tax benefits, especially those that affect the subscribed contracts with the State, and other measures to strengthen the tax basis, provide greater neutrality and fairness, and combat avoidance schemes.
- On the side of the Value Added Tax (VAT), the legislation will be revised to identify legal gaps or lack of clarity that prevent the proper application of the tax. The Government will seek to make the VAT more neutral, eliminating distortions caused by the exemptions that have no impact on welfare or removing those exemptions that encourage tax evasion or tax offenses. Also, rationing and improving the payment system will continue in order to ensure tax compliance
- In the Excise Tax case, the Government will seek to link the burden of the tax to the negative externality generated by the consumption of goods levied, without affecting the tax burden objectives and macroeconomic stability.
- With regard to municipal taxation, some legal changes will be proposed aiming to optimize the property tax, the property transfer tax (alcabala) and the vehicle property tax, to allow the strengthening of the local government management without affecting the fairness of the tax system. It will also seek to give more revenues to municipalities to improve their management capacities and make the tax burdens more equitably.

### BOX 5.1: PROMOTION AND STREAMLINING OF INVESTMENT

In recent weeks, in order to prioritize and expedite the implementation of public and private investment, a series of measures have been adopted including reducing time limits for the issuance of certificates, authorizations and procedures. The main measures are detailed below:

i) Supreme Decree No. 054-2013-PCM, published on May 16, 2013 which approves special provisions for implementing administrative procedures for authorization and / or certification for investment projects, mainly related to the issuance of the Certificate of Absence of Archaeological Remains (CIRA), the water use authorizations and rights over public properties. These include: a) in the case of CIRA, the accuracy regarding the requirements to apply for it, setting a deadline of 10 working days for the approval of an Archaeological Monitoring Plan by the Directorate of Archaeology or Regional Directorates of Culture and in case of existing infrastructure, not having to deal with CIRA (only submission of the Archeological Monitoring Plan); b) on water use authorizations, 15 working days for the corresponding water authority to pronounce itself, and c) on rights over public properties, 15 working days for the National Superintendence of Public Properties to deliver the property.

ii) Law No. 30025 issued on May 22, 2013, law that facilitates the acquisition, expropriation and possession of real state for infrastructure and declares the acquisition or expropriation of real estate affected for the execution of various works of infrastructures as public necessity. This law streamlines direct negotiation procedures and expropriation for infrastructure, stating:

- Appraised value: recognizes concepts such as damage and loss of earnings, in order to reduce conflicts and lawsuits.
- Coercive Executor: its function is to make the owner vacate the property, after the fair price compensation has been canceled and the deadline for vacation has been met.
- Authorizes the private investor to manage and complete the acquisition in concession or public-private partnerships. Then, the government will reimburse the investor.

Furthermore, the Law declares the execution of 69 large infrastructure projects of national interest as public necessity.

iii) The promotion and streamlining of investment is declared as national interest. Because of this, the Ministry of Economy and Finance together with PROINVERSION will create a specialized team in order to track investments. Their functions will be:

- To track the investment execution plans, in order to facilitate and streamline the execution of these projects.
- To identify problems and impediments that affect the execution of such programs, and propose solutions.
- To propose measures in order to strengthen the institutional capacities that would affect the timely and efficient execution of these projects.

iv) Special provisions have been elaborated in order to execute administrative procedures in environmental topics, standing out: i) the approval of reference terms for projects with common characteristics (20 working days), ii) less “red tape” and less time for the approval of environmental impact studies by the Ministry of Energy and Mines and other competent authorities, iii) prohibit entities to pronounce themselves on issues that are not within their competence, and iv) prevent non-binding opinions to delay such approvals.

## Declaration of Public Priority Infrastructure by law N° 30025

### Road

- 1) Highway of Sol (Trujillo - Chiclayo - Piura - Sullana).
- 2) Road sections multimodal axis Northern Amazon of "Plan de acción para la integración de infraestructura regional sudamericana - IIRSA".
- 3) Section N° 1 South Interoceanic Highway Corridor, Peru Brasil (San Juan de Marcona - Urcos).
- 4) Section N° 2 South Interoceanic Highway Corridor, Peru Brasil (Urcos - Inambari).
- 5) Section N° 4 South Interoceanic Highway Corridor, Peru Brasil (Inambari - Azangaro).
- 6) Section N° 5 South Interoceanic Highway Corridor, Peru Brasil (Ilo - Puno - Juliaca, Matarani - Juliaca - Azangaro).
- 7) IIRSA Centro Section N° 2 (Bridge Ricardo Palma - La Oroya - Huancayo y La Oroya - Cerro de Pasco).
- 8) Road section Nuevo Mocupe - Cayalti - Oyotun - Puente Las Delicias.
- 9) Road section Chancay / Variante Pasamayo - Hualar - Acos.
- 10) Red Vial N° 4: Section Pativilca - Santa - Trujillo & Puerto Salaverry - Empalme PN1N.
- 11) Red Vial N° 5: Section Ancon - Huacho - Pativilca, North Pan-American Highway.
- 12) Red Vial N° 6: Section: Puente Pucusana - Cerro Azul - Ica, South Pan-American Highway
- 13) Longitudinal highway of the Highlands: Chiple - Cutervo - Cochabamba - Chota - Bambamarca - Hualgayoc - Yanacocha, Cajabamba - Sausacocha, Huamachuco - Shorey - Santiago de Chuco - Pallasca - Cabana - Tauca, Huallanca - Caraz, Huallanca - La Union - Huanuco, Izcuchaca - Mayoc - Huanta Ayacucho - Andahuaylas - Abancay.
- 14) Road Huancavelica - Santa Inés - Castrovirreyna - Pampano & Santa Inés - Rumichaca.
- 15) Road Imperial - Pampas - Mayoc.
- 16) Road Huancavelica - Lircay.
- 17) Longitudinal road of the Jungle "Puente Integración - San Ignacio - Perico, Juanjui - Campanilla - Pizana - Tocache - Von Humboldt - Puerto Bermudez - Villa Rica - Puente Reither - Satipo - Mazamari - Puerto Ocopa".
- 18) Road Cusco - Quillabamba.
- 19) Road Trujillo - Shiran - Shorey.
- 20) Road Quinua - San Francisco.
- 21) Road Cajamarca - Celendin - Balzas, Soritor - La Calzada.
- 22) Road Pimentel - Chiclayo.
- 23) Road Lima - Canta - Huayllay - Vicco - Emp. PE-3N (Shelby).
- 24) Evitamiento Highway - Chimbote.
- 25) Road Chongoyape - Cochabamba.
- 26) Road La Tina - La Tina - Cachaquito.
- 27) Road Quilca - Matarani - Ilo.
- 28) Road Cañete - Lunahuana, Roncha - Chupaca - Puente Pilcomayo.
- 29) Road Tarata - Mazocruz - Ilave.
- 30) Road Huamachuco - Bridge Pallar - Abra Naranjillo.
- 31) Evitamiento Highway of Urcos.
- 32) Road Imata - Oscollo - Negromayo - San Genaro - Descanso - Sicuani y Negro Mayo - Ocoruro - Pallpata - Yauri.
- 33) Road Las Vegas - Tarma.
- 34) Road Rio Seco - El Ahorcado - Sayan.
- 35) Road Mala - Calango - La Capilla.
- 36) Linea Amarilla.
- 37) Southern Highway Project.
- 38) Project Vías Nuevas of the city of Lima.
- 39) Regional Road Arequipa La Joya - Region Arequipa.
- 40) Construction of Via Trunk Interconectora between district of Miraflores, Alto Selva Alegre, Yanahuara, Cayma & Cerro Colorado of province of Arequipa.
- 41) Integrated Transport System SIT - Arequipa.
- 42) Rehabilitation and paving of Highway National Route N° PE-18 Section Oyon - Yanahuanca - Ambo.

### Airport

- 43) Airport "Capitan FAP Pedro Canga Rodriguez", located in Zarumilla, Tumbes.
- 44) Airport "Capitan FAP Guillermo Concha Iberico", located in Castilla, Piura.
- 45) International Airport "Capitan FAP Victor Montes", located in Pariñas, province of Talara, Piura.
- 46) Airport "Capitan FAP José Abelardo Quiñones Gonzalez", located in Chiclayo, Lambayeque.
- 47) Airport "Capitan FAP Carlos Martinez Pinillos", located in Huanchaco, province of Trujillo, La Libertad.
- 48) Airport "Mayor General FAP Armando Revoredo Iglesias", located in Baños del Inca, Cajamarca.
- 49) Airport "Comandante FAP German Arias Graziani", located in Anta, province of Carhuaz, Ancash.
- 50) International Airport "Coronel FAP Francisco Secada Vignetta", located in Iquitos, district of San Juan, province of Maynas, Loreto.
- 51) Airport "Cadete FAP Guillermo del Castillo Paredes", located in Tarapoto, San Martin.
- 52) Airport "Capitan FAP David Abensur Rengifo", located in Pucallpa, district of Yarinacocha, province of Coronel Portillo, Ucayali.
- 53) International Airport of Pisco, located in district of San Andrés, province of Pisco, Ica.
- 54) International Airport "Inca Manco Capac", located in district of Juliaca, province of San Roman, Puno.
- 55) International Airport "Alfredo Rodriguez Ballon" de Arequipa, located in district of Cerro Colorado, province of Arequipa, Arequipa.
- 56) Airport "Coronel FAP Alfredo Mendivil Duarte", located in district of Ayacucho, province of Huamanga, Ayacucho.
- 57) International Airport "Padre Aldamiz" de Puerto Maldonado, province of Tambopata, Madre de Dios.
- 58) International Airport "Coronel FAP Carlos Ciriani Santa Rosa", located in district of Tacna, province of Tacna, Tacna.
- 59) Aerodrome of Puerto Mayo - Pichari.

### Railway

- 60) Electric public transport of Lima and Callao, Line 1 & 2.

### Port

- 61) Port Terminals of Paita.
- 62) Port Terminals of San Martin.

### Tourism

- 63) Gondolas System of Kuélap.

### Border

- 64) Relocation, construction and equipping of border crossing in Iñapari (Peru-Brasil), located in district of Iñapari, province of Tahuamanu, Madre de Dios.
- 65) Border Crossing Desaguadero (Peru-Bolivia).
- 66) Construction and equipment of border complex in Tilali - Puerto Acosta.
- 67) Construction and equipment of border complex in El Alamor.
- 68) Construction and equipment of border complex in Saramiriza-Loja.

### Others

- 69) Fishing complex La Puntilla.

Source: Newspaper "El Peruano", on May 22, 2013

## **Box 5.2: PUBLIC-PRIVATE PARTNERSHIPS: ALTERNATIVE TO REDUCE INFRASTRUCTURE GAPS**

Over the last decade, Peru has been one of the fastest growing economies in the world. In the last 10 years, the average growth of our economy reached 6.5%, the highest average in 60 years, and per capita income doubled to US\$ 10,719 per year (PPP).

In order to sustain the dynamism of the economic growth, to improve the quality of life of population and to reach social inclusion amongst all Peruvians, the development of infrastructure and quality public services is mandatory. According to the World Economic Forum Global Competitiveness Report 2012-2013, Peru ranks 111 (out of 144 countries) on infrastructure quality, which shows that the progress made so far is not enough, and there is a huge effort to undertake.

Private-Public Partnerships (PPPs) are an excellent tool that can help to reduce such gaps, allowing the private sector to work together with the Government in order to create, improve, operate and maintain the public infrastructure and public services. In this sense, PPPs are an alternative to the traditional infrastructure provision, because these allow incorporating skills, resources and swiftness of the private sector activities to the provision of public services. This will mean more and better provision of public services to the population in less time and through more efficient management models.

In order to take advantage of these benefits, the Peruvian Government encourages PPPs by providing a favorable environment for their development, and promoting efficient, transparent and competitive processes that attract the more qualified companies in order to guarantee high quality service provision.

As a result of this consistent policy, Peru has been recognized by several international institutions as one of the countries with better environment for PPP sustainable development in Latin America and the Caribbean. According to a study by The Economist Intelligence Unit, in 2012, Peru occupies the 3rd place in the region, excelling due to the suitability of its institutional and regulatory frameworks, as well as for its climate of macroeconomic stability.

### **Measures to boost PPPs**

Despite the fact that since the late nineties to date, the Peruvian Government has given in concession infrastructure projects for an amount of US\$15 billion, mainly in transport, energy and telecommunications sectors, the authorities have identified the need to implement measures to enable the streamlining of processes and encouraging the participation of private investment in new sectors that allow a faster reduction of the infrastructure gap in the country.

In that sense, in order to expedite the process of developing pre-investment studies of prioritized PPP projects to reduce the infrastructure gap, the creation of a Special Committee on Public Investment Projects has been ordered. This committee aims: i) to develop priority Public Investment Projects (PIP), and coordinate with the DGPI-MEF assessment and declaration on the viability of these projects, ii) to propose to the Board of PROINVERSION the PIPs that can be incorporated into the process of promotion under PPPs and iii) to declare prioritized cofinanced private initiatives as matter of public interest, previously managing their viability with the DGPI-MEF.

Also, in order for the private sector to help identify relevant and priority infrastructure projects that will reduce the infrastructure gap, the Regulations on Priority Co-financed Private Initiatives was issued, which will allow private investors to submit proposals for projects co-financed by State. If the project was relevant to the State, the investor shall be allowed to develop studies using a simplified methodology by SNIP (single level of studies and project-specific minimum content). Once the project is viable, it is declared of interest for the State. In case third parties are interested in the development of this project, a contest is held to decide who runs it. Otherwise, it is given to the project proposer.

## Project Portfolio and strengthening PROINVERSION

PROINVERSION is responsible for the structuring and development of a project portfolio with high economic and social impact. Proof of this is that between 2013 and 2014 this agency estimates a portfolio of 28 infrastructure projects and priority public services (two have already been awarded in the first quarter), representing an investment of US\$ 13.6 billions approximately, the most ambitious package in the history of Public-Private Partnerships in the country. The composition of this portfolio by sector is as follows:

- 10 projects in electricity and hydrocarbons. Investment: US\$6.1 billion.
- 7 projects on air, land and river transport. Investment: US\$5.6 billion.
- 3 projects in sanitation. Investment: US\$ 545 million.
- 2 projects in telecommunications. Investment: US\$715 million.
- 1 project in agriculture. Investment US\$597 million.
- 5 projects in other sectors.

To successfully develop this project package, PROINVERSION has been making intense promotional activities in major markets, having generated a strong interest among investors from different countries.

### PROINVERSION Project Portfolio 2013-2014<sup>1/</sup>

N°	Project	Estimated Investment (US\$ Million)	Sector
1	Line 2 and branch line of the Basic Network of the Metro of Lima and Callao	4,500	Railroad
2	Energy security and southern gas pipeline	2,431	Hydrocarbons
3	South energy node of Peru	1,200	Hydrocarbons
4	Molloco Hydroelectric	700	Electricity
5	Chavimochic irrigation project	597	Agriculture
6	220 kV Moyobamba -Iquitos Transmission Line and associated sub stations	434	Electricity
7	1710 – 1770 MHz and 2110 – 2170 MHz (Blocks A and B) Band Nationwide	400	Telecommunication
8	Main works and conduction of drinkable water supply for Lima	400	Sanitation
9	Mantaro-Marcona- Socabaya-Montalvo 500 Kv Transmission Line and associated sub stations	380	Electricity
10	New international airport of Chinchero - Cusco	356	Airport
11	National optical fiber backbone network	315	Telecommunication
12	Supply System of LPG for Lima and Callao	260	Hydrocarbons
13	Supply system of LNG for domestic market	250	Hydrocarbons
14	Longitudinal de la Sierra (Section 4)	250	Land Transport
15	Mass use of natural gas nationwide	205	Hydrocarbons
16	Machupicchu - Quencora - Onocora - Tintaya 220 Kv Transmission Line and associated sub stations	181	Electricity
17	Longitudinal de la Sierra (Section 2)	175	Land Transport
18	Longitudinal de la Sierra (Section 5)	127	Land Transport
19	General San Martin port terminal	101	Port
20	Energy supply to Iquitos city	100	Electricity
21	Water sanitation works for southern beach districts of Lima	100	Sanitation
22	Amazon waterways	74	Port
23	Chillon River water supply	45	Sanitation
24	Kuelap Cable car	11	Turismo
25	Huayday Ambara Mining Prospect	---	Mining
26	Concession of Remaining Michiquillay Project	---	Mining
27	Management of the Instituto Nacional de Salud del Niño – San Borja	---	Health
28	Management of the Great National Theater	---	Culture
<b>TOTAL</b>		<b>13,592</b>	

Source: PROINVERSIÓN.

1/ The estimated investment does not include VAT.

**Table 1**  
**MAIN MACROECONOMIC INDICATORS**

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>EXCHANGE RATE AND PRICES</b>								
Inflation <sup>1</sup>								
Cumulative (Percentage change)	2,8	4,7	2,6	2,0	2,0	2,0	2,0	2,0
Average (Percentage change)	2,6	3,4	3,7	2,2	2,0	2,0	2,0	2,0
Exchange rate								
End of Period (Nuevos Soles per dollar) <sup>2</sup>	3,10	2,75	2,63	2,53	2,48	2,50	2,50	2,5
<b>PRODUCTION</b>								
Gross Domestic Product (Billion of Nuevos Soles)	341	487	526	566	616	668	723	669
Gross Domestic Product (Real percentage change)	6,4	6,9	6,3	6,0 - 6,3	6,0 - 6,5	6,0 - 6,5	6,0 - 6,5	6,0 - 6,5
Domestic Demand (Real percentage change)	7,0	7,1	7,4	7,4	6,4	6,4	6,4	6,4
Gross Fixed Investment (Percentage of GDP)	21,6	24,1	26,7	28,4	29,5	30,7	31,9	30,7
Private Investment (Percentage of GDP)	17,7	19,6	21,5	22,4	23,1	24,0	24,8	24,0
<b>EXTERNAL SECTOR</b>								
Current Account Balance (Percentage of GDP)	-0,9	-1,9	-3,6	-4,4	-4,3	-4,2	-4,0	-4,2
Trade Balance (\$ Million)	5 099	9 302	4 527	644	708	1 179	1 492	1 126
Exports (\$ Million)	25 851	46 268	45 639	44 720	48 630	53 533	58 581	53 581
Imports (\$ Million)	20 752	36 967	41 113	44 076	47 922	52 355	57 089	52 455
<b>NON-FINANCIAL PUBLIC SECTOR</b>								
Tax burden (Percentage of GDP)	14,4	15,5	16,0	15,7	15,8	16,3	16,8	16,3
Current Revenue of GG (Percentage of GDP)	19,4	21,0	21,6	21,3	21,3	21,7	22,1	21,7
Primary Balance (Percentage of GDP)	2,1	3,0	3,3	1,6	1,5	1,4	1,4	1,4
Overall Balance (Percentage of GDP)	0,5	1,9	2,2	0,7	0,6	0,5	0,5	0,5
Structural Overall Balance (Percentage of GDP) <sup>3</sup>	-0,9	-0,6	0,2	-0,8	-0,6	-0,4	-0,1	-0,4
<b>PUBLIC DEBT STOCK</b>								
Foreign (Percentage of GDP)	22,0	11,0	9,5	7,7	6,6	6,1	5,6	6,1
Domestic (Percentage of GDP)	10,0	10,3	10,2	10,7	10,9	10,6	10,1	10,5
Total (Percentage of GDP)	32,1	21,3	19,7	18,5	17,5	16,7	15,7	16,7

1/ Consistent with CRBP's target range.

2/ 2013-2015, taken from the Monthly Survey on Macroeconomic Expectations: April 2013. BCRP. For 2016 we assume the same value of 2015

3/ Structural MA 15, which uses the moving average of the last fifteen years as estimated long-term level of real export prices of metals and fuel.

Source: INEI, BCRP, MEF.



**Table 2**  
**SAVINGS-INVESTMENT**  
(Percentage of GDP)

	<b>Avg. 2002-2012</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Avg. 2014-2016</b>
<b>Domestic savings</b>	<b>20.9</b>	<b>23.6</b>	<b>23.3</b>	<b>23.8</b>	<b>24.5</b>	<b>25.4</b>	<b>26.2</b>	<b>25.4</b>
Public sector	4.6	7.2	7.8	6.8	7.3	7.9	8.3	7.8
Private sector	16.4	16.4	15.6	17.0	17.3	17.6	17.9	17.6
<b>External savings</b>	<b>0.9</b>	<b>1.9</b>	<b>3.6</b>	<b>4.4</b>	<b>4.3</b>	<b>4.2</b>	<b>4.0</b>	<b>4.2</b>
<b>Investment</b>	<b>21.9</b>	<b>25.5</b>	<b>26.9</b>	<b>28.2</b>	<b>28.9</b>	<b>29.6</b>	<b>30.2</b>	<b>29.6</b>
Public sector	3.9	4.5	5.2	5.9	6.3	6.8	7.0	6.7
Private sector <sup>1</sup>	18.0	20.9	21.7	22.3	22.6	22.9	23.2	22.9

1/ Includes change of inventories. Source: BCRP, MEF.

**Table 3**  
**GROSS DOMESTIC PRODUCT**  
(Annual percentage change)

	<b>Avg. 2002-2012</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Avg. 2014-2016</b>
Agriculture and Livestock	4.3	3.8	5.1	5.0	4.1	4.2	4.2	4.2
Fishing	3.5	29.7	-11.0	-1.7	5.0	3.5	4.0	4.2
Mining and Fuel	4.1	-0.2	2.2	4.7	9.0	11.7	9.1	9.9
Metals	3.1	-3.6	2.1	3.5	9.2	12.7	9.5	10.4
Fuel	10.5	18.1	2.3	10.6	8.3	7.7	7.8	7.9
Manufacturing	5.9	5.6	1.3	3.4	5.2	5.4	5.4	5.4
Based on raw materials	2.9	12.3	-6.5	2.5	3.5	3.5	3.5	3.5
Non-primary	6.6	4.4	2.8	3.5	5.5	5.8	5.8	5.7
Electricity and Water	5.8	7.4	5.2	6.5	6.4	6.4	6.4	6.4
Construction	10.5	3.4	15.2	11.0	9.2	9.0	9.0	9.1
Commerce	7.0	8.8	6.7	6.3	6.0	6.0	6.0	6.0
Services	6.6	8.6	7.4	6.7	6.3	6.2	6.2	6.2
<b>GROSS VALUE ADDED</b>	<b>6.4</b>	<b>6.9</b>	<b>6.2</b>	<b>6.2</b>	<b>6.3</b>	<b>6.4</b>	<b>6.3</b>	<b>6.3</b>
Taxes on Products and Import Duties	6.5	7.2	6.6	6.8	6.2	6.0	6.0	6.1
<b>GROSS DOMESTIC PRODUCT</b>	<b>6.4</b>	<b>6.9</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>
<b>Primary sectors</b>	<b>3.9</b>	<b>4.4</b>	<b>1.7</b>	<b>4.4</b>	<b>5.6</b>	<b>6.5</b>	<b>5.9</b>	<b>6.0</b>
<b>Non - primary sectors</b>	<b>6.9</b>	<b>7.4</b>	<b>7.1</b>	<b>6.5</b>	<b>6.4</b>	<b>6.3</b>	<b>6.4</b>	<b>6.4</b>

Source: INEI, BCRP, MEF.

**Table 4**  
**GLOBAL DEMAND AND SUPPLY**  
(Annual percentage change)

	<b>Avg. 2002-2012</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Avg. 2014-2016</b>
<b>I. Global Demand</b>	<b>6.9</b>	<b>7.4</b>	<b>7.0</b>	<b>6.6</b>	<b>6.8</b>	<b>6.8</b>	<b>6.8</b>	<b>6.8</b>
1. Domestic Demand	7.0	7.1	7.4	7.4	6.4	6.4	6.4	6.4
a. Private Consumption	5.5	6.4	5.8	5.6	5.5	5.5	5.5	5.5
b. Public Consumption	6.6	4.8	10.6	10.5	4.0	4.0	4.2	4.0
c. Gross Domestic Investr	12.3	10.0	10.0	10.3	9.3	9.0	8.6	9.0
Gross Fixed Investment	11.8	5.1	14.9	11.9	10.7	10.7	10.1	10.5
i. Private	11.6	11.7	13.6	10.0	10.0	10.0	10.0	10.0
ii. Public	13.1	-17.8	20.9	20.1	13.5	13.5	10.5	12.5
2. Exports <sup>1</sup>	6.5	8.8	4.8	2.0	9.0	9.5	9.4	9.3
<b>II. Global Supply</b>	<b>6.9</b>	<b>7.4</b>	<b>7.0</b>	<b>6.6</b>	<b>6.8</b>	<b>6.8</b>	<b>6.8</b>	<b>6.8</b>
<b>1. GDP</b>	<b>6.4</b>	<b>6.9</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>
2. Imports <sup>1</sup>	9.7	9.8	10.4	8.1	8.6	8.7	8.7	8.7
Memo:								
Public Spending	8.4	-4.2	14.1	14.0	7.6	7.8	6.8	7.4

<sup>1/</sup> Goods and non-financial services  
Source: INEI, BCRP, MEF.

**Table 5**  
**GLOBAL DEMAND AND SUPPLY**  
(Percentage of GDP)

	<b>Prom. 2002-2012</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Prom. 2014-2016</b>
<b>I. Global Demand</b>	<b>121.2</b>	<b>124.8</b>	<b>124.5</b>	<b>123.5</b>	<b>123.4</b>	<b>123.9</b>	<b>124.2</b>	<b>123.8</b>
1. Domestic Demand	96.7	96.1	99.0	101.0	100.7	100.7	100.8	100.7
a. Private Consumption	65.0	60.8	61.7	61.9	61.1	60.7	60.3	60.7
b. Public Consumption	9.9	9.8	10.4	10.9	10.6	10.4	10.2	10.4
c. Gross Domestic Investment	21.9	25.5	26.9	28.2	28.9	29.6	30.2	29.6
Gross Fixed Investment	21.6	24.1	26.7	28.4	29.5	30.7	31.9	30.7
i. Private	17.7	19.6	21.5	22.4	23.1	24.0	24.8	24.0
ii. Public	3.9	4.5	5.2	5.9	6.3	6.8	7.0	6.7
2. Exports <sup>1</sup>	24.5	28.7	25.9	22.9	22.7	23.1	23.4	23.1
<b>II. Global Supply</b>	<b>121.2</b>	<b>124.8</b>	<b>124.5</b>	<b>123.5</b>	<b>123.4</b>	<b>123.9</b>	<b>124.2</b>	<b>123.8</b>
<b>1. GDP</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
2. Imports <sup>1</sup>	21.2	24.8	24.5	23.5	23.4	23.9	24.2	23.8

<sup>1/</sup> Goods and non-financial services  
Source: INEI, BCRP, MEF.

**Table 6**  
**BALANCE OF PAYMENTS**  
(US\$ Million)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. CURRENT ACCOUNT BALANCE</b>	<b>-1,513</b>	<b>-3,341</b>	<b>-7,136</b>	<b>-9,850</b>	<b>-10,604</b>	<b>-10,958</b>	<b>-11,440</b>	<b>-11,001</b>
<b>1. Trade balance</b>	<b>5,099</b>	<b>9,302</b>	<b>4,527</b>	<b>644</b>	<b>708</b>	<b>1,179</b>	<b>1,492</b>	<b>1,126</b>
a. Exports	25,851	46,268	45,639	44,720	48,630	53,533	58,581	53,581
b. Imports	-20,752	-36,967	-41,113	-44,076	-47,922	-52,355	-57,089	-52,455
<b>2. Services</b>	<b>-1,396</b>	<b>-2,132</b>	<b>-2,258</b>	<b>-2,070</b>	<b>-2,207</b>	<b>-2,395</b>	<b>-2,565</b>	<b>-2,389</b>
<b>3. Investment income</b>	<b>-7,531</b>	<b>-13,710</b>	<b>-12,701</b>	<b>-12,000</b>	<b>-12,985</b>	<b>-13,971</b>	<b>-14,978</b>	<b>-13,978</b>
<b>4. Current transfers</b>	<b>2,316</b>	<b>3,200</b>	<b>3,296</b>	<b>3,576</b>	<b>3,880</b>	<b>4,230</b>	<b>4,610</b>	<b>4,240</b>
<b>II. FINANCIAL ACCOUNT</b>	<b>6,164</b>	<b>9,161</b>	<b>20,244</b>	<b>17,972</b>	<b>14,424</b>	<b>14,032</b>	<b>14,534</b>	<b>14,330</b>
1. Private Sector	6,030	9,620	16,349	18,811	14,340	13,748	14,217	14,101
2. Public Sector	195	848	1,667	-839	84	284	318	229
3. Short-term capital	-61	-1,307	2,228	0	0	0	0	0
<b>III. EXCEPTIONAL FINANCING</b>	<b>42</b>	<b>33</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IV. FLOW NET RESERVES OF CRBP</b>	<b>4,786</b>	<b>4,724</b>	<b>14,827</b>	<b>11,400</b>	<b>5,000</b>	<b>4,500</b>	<b>4,500</b>	<b>4,667</b>
<b>V. NET ERRORS AND OMISSIONS</b>	<b>93</b>	<b>-1,129</b>	<b>1,700</b>	<b>3,278</b>	<b>1,181</b>	<b>1,426</b>	<b>1,406</b>	<b>1,338</b>

Source: INEI, BCRP, MEF.

**Table 7**  
**BALANCE OF PAYMENTS**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. CURRENT ACCOUNT BALANCE</b>	<b>-0.9</b>	<b>-1.9</b>	<b>-3.6</b>	<b>-4.4</b>	<b>-4.3</b>	<b>-4.2</b>	<b>-4.0</b>	<b>-4.2</b>
<b>1. Trade balance</b>	<b>4.5</b>	<b>5.3</b>	<b>2.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>
a. Exports	21.7	26.2	22.9	20.1	19.9	20.4	20.6	20.3
b. Imports	-17.2	-20.9	-20.6	-19.8	-19.6	-19.9	-20.1	-19.9
<b>2. Services</b>	<b>-1.2</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.9</b>
<b>3. Investment income</b>	<b>-6.2</b>	<b>-7.8</b>	<b>-6.4</b>	<b>-5.4</b>	<b>-5.3</b>	<b>-5.3</b>	<b>-5.3</b>	<b>-5.3</b>
<b>4. Current transfers</b>	<b>2.1</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
<b>II. FINANCIAL ACCOUNT</b>	<b>4.5</b>	<b>5.2</b>	<b>10.1</b>	<b>8.1</b>	<b>5.9</b>	<b>5.3</b>	<b>5.1</b>	<b>5.4</b>
1. Private Sector	4.5	5.4	8.2	8.4	5.9	5.2	5.0	5.4
2. Public Sector	0.1	0.5	0.8	-0.4	0.0	0.1	0.1	0.1
3. Short-term capital	-0.1	-0.7	1.1	0.0	0.0	0.0	0.0	0.0
<b>III. EXCEPTIONAL FINANCING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>IV. FLOW NET RESERVES OF CRBP</b>	<b>3.7</b>	<b>2.7</b>	<b>7.4</b>	<b>5.1</b>	<b>2.0</b>	<b>1.7</b>	<b>1.6</b>	<b>1.8</b>
<b>V. NET ERRORS AND OMISSIONS</b>	<b>0.1</b>	<b>-0.6</b>	<b>0.9</b>	<b>1.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

Source: INEI, BCRP, MEF.

**Table 8**  
**SUMMARY OF FISCAL ACCOUNTS – NON FINANCIAL PUBLIC SECTOR**  
(Million of Nuevos Soles, Percentage of GDP and real percent change)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. GENERAL GOVERNMENT REVENUES</b>	68 108	102 490	114 155	121 048	131 815	145 243	160 386	145 815
Percentage of GDP	<b>19,6</b>	<b>21,1</b>	<b>21,7</b>	<b>21,4</b>	<b>21,4</b>	<b>21,8</b>	<b>22,2</b>	<b>21,8</b>
Real percent change	9,6	12,8	7,5	3,7	6,8	8,0	8,3	7,7
<b>TAX BURDEN</b>								
Million of Nuevos Soles	50 146	75 591	84 147	88 649	97 259	109 134	121 474	109 289
Percentage of GDP	<b>14,4</b>	<b>15,5</b>	<b>16,0</b>	<b>15,7</b>	<b>15,8</b>	<b>16,3</b>	<b>16,8</b>	<b>16,3</b>
<b>II. GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE</b>	60 535	87 864	97 983	110 894	121 685	134 250	148 925	134 953
Percentage of GDP	<b>17,5</b>	<b>18,1</b>	<b>18,6</b>	<b>19,6</b>	<b>19,7</b>	<b>20,1</b>	<b>20,6</b>	<b>20,2</b>
Real percent change	7,5	2,0	7,6	10,7	7,6	8,2	8,8	8,2
<b>2.1. CURRENT EXPENDITURE</b>	45 817	63 369	68 841	77 684	82 847	88 912	96 310	89 356
Percentage of GDP	<b>13,6</b>	<b>13,0</b>	<b>13,1</b>	<b>13,7</b>	<b>13,4</b>	<b>13,3</b>	<b>13,3</b>	<b>13,4</b>
<b>2.2. CAPITAL EXPENDITURE</b>	14 717	24 495	29 142	33 210	38 839	45 338	52 615	45 597
Percentage of GDP	<b>4,0</b>	<b>5,0</b>	<b>5,5</b>	<b>5,9</b>	<b>6,3</b>	<b>6,8</b>	<b>7,3</b>	<b>6,8</b>
<b>III. NON FINANCIAL PUBLIC ENTERPRISES PRIMARY BALAN</b>	337	146	1 127	-960	-1 047	-1 542	-1 549	-1 379
Percentage of GDP	<b>0,1</b>	<b>0,0</b>	<b>0,2</b>	<b>-0,2</b>	<b>-0,2</b>	<b>-0,2</b>	<b>-0,2</b>	<b>-0,2</b>
<b>IV. PRIMARY BALANCE (I - II + III )</b>	7 910	14 773	17 299	9 194	9 083	9 451	9 912	9 482
Percentage of GDP	<b>2,1</b>	<b>3,0</b>	<b>3,3</b>	<b>1,6</b>	<b>1,5</b>	<b>1,4</b>	<b>1,4</b>	<b>1,4</b>
<b>V. INTEREST PAYMENTS</b>	5 245	5 696	5 547	5 394	5 688	5 810	5 946	5 815
Percentage of GDP	<b>1,7</b>	<b>1,2</b>	<b>1,1</b>	<b>1,0</b>	<b>0,9</b>	<b>0,9</b>	<b>0,8</b>	<b>0,9</b>
<b>VI. OVERALL BALANCE (IV-V)</b>	2 665	9 077	11 752	3 800	3 395	3 641	3 966	3 668
Percentage of GDP	<b>0,5</b>	<b>1,9</b>	<b>2,2</b>	<b>0,7</b>	<b>0,6</b>	<b>0,5</b>	<b>0,5</b>	<b>0,5</b>

Source: MEF, BCRP.

**Table 9**  
**NON-FINANCIAL PUBLIC SECTOR OPERATIONS**  
(Million of Nuevos Soles)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. CURRENT ACCOUNT SAVINGS WITHOUT INTERESTS</b>	<b>23,194</b>	<b>40,176</b>	<b>46,986</b>	<b>43,877</b>	<b>50,561</b>	<b>58,380</b>	<b>66,132</b>	<b>58,358</b>
1. Central Government	15,849	28,670	33,403	31,858	36,642	43,460	49,404	43,169
a. Current Revenue	58,178	88,315	97,424	102,748	112,149	125,180	138,525	125,285
b. Current Expenditure	42,329	59,644	64,021	70,890	75,506	81,720	89,121	82,116
2. Rest of the NFPS	7,345	11,506	13,584	12,020	13,918	14,920	16,728	15,189
a. Public Enterprises	1,314	1,289	2,034	1,208	1,977	2,446	2,465	2,296
b. Rest of the General Government	6,031	10,217	11,549	10,812	11,941	12,474	14,262	12,893
<b>II. CAPITAL BALANCE</b>	<b>-15,284</b>	<b>-25,403</b>	<b>-29,687</b>	<b>-34,684</b>	<b>-41,478</b>	<b>-48,929</b>	<b>-56,219</b>	<b>-48,875</b>
1. General Government	-14,307	-24,261	-28,780	-32,516	-38,454	-44,941	-52,205	-45,200
a. Capital Revenue	410	235	362	695	385	397	409	397
b. Capital Expenditure	14,717	24,495	29,142	33,210	38,839	45,338	52,615	45,597
2. Public Enterprises	-977	-1,143	-908	-2,168	-3,024	-3,988	-4,014	-3,676
<b>III. PRIMARY BALANCE (I+II)</b>	<b>7,910</b>	<b>14,773</b>	<b>17,299</b>	<b>9,194</b>	<b>9,083</b>	<b>9,451</b>	<b>9,912</b>	<b>9,482</b>
<b>IV. INTEREST PAYMENTS</b>	<b>5,245</b>	<b>5,696</b>	<b>5,547</b>	<b>5,394</b>	<b>5,688</b>	<b>5,810</b>	<b>5,946</b>	<b>5,815</b>
1. Foreign Debt	1,700	2,859	2,794	3,058	3,630	3,931	4,089	3,883
2. Domestic Debt	3,545	2,837	2,753	2,335	2,058	1,879	1,858	1,932
<i>(US\$ Millions)</i>	\$1,135	\$1,030	\$1,044	\$919	\$816	\$739	\$731	\$762
<b>V. OVERALL BALANCE (III-IV)</b>	<b>2,665</b>	<b>9,077</b>	<b>11,752</b>	<b>3,800</b>	<b>3,395</b>	<b>3,641</b>	<b>3,966</b>	<b>3,668</b>
1. Foreign financing	-667	765	-1,274	-8,163	-3,053	122	-389	-1,107
<i>(US\$ Millions)</i>	-246	278	-483	-3,213	-1,211	48	-153	-439
Disbursement <sup>1</sup>	\$2,201	\$990	\$948	\$1,085	\$1,630	\$1,462	\$1,480	\$1,524
Amortization	\$2,460	\$832	\$1,175	\$4,302	\$2,845	\$1,415	\$1,633	\$1,964
Others <sup>2</sup>	\$ 13	\$ 120	-\$ 257	\$ 5	\$ 5	\$ 1	\$ 0	\$ 2
2. Domestic financing	-2,349	-9,979	-10,505	4,100	-609	-3,873	-3,598	-2,693
Domestic Amortization	2,503	1,297	1,301	1,766	1,325	3,229	2,521	2,358
Others	154	-8,682	-9,204	5,866	716	-644	-1,076	-335
3. Private Investment Promotion Process	352	137	27	263	266	110	20	132
<i>(US\$ Millions)</i>	\$ 108	\$ 50	\$ 10	\$ 104	\$ 106	\$ 43	\$ 8	\$ 52
<b>Note:</b>								
<b>Current account savings (I-IV)</b>	<b>17,949</b>	<b>34,480</b>	<b>41,439</b>	<b>38,484</b>	<b>44,873</b>	<b>52,571</b>	<b>60,185</b>	<b>52,543</b>

1/ Includes extraordinary financing.

2/ Includes short term financing and deposits variation of the National Pension Bureau.

Source: MEF, BCRP.

**Table 10**  
**NON-FINANCIAL PUBLIC SECTOR OPERATIONS**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. CURRENT ACCOUNT SAVINGS WITHOUT INTERESTS</b>	<b>6.2</b>	<b>8.3</b>	<b>8.9</b>	<b>7.7</b>	<b>8.2</b>	<b>8.7</b>	<b>9.1</b>	<b>8.7</b>
1. Central Government	4.2	5.9	6.3	5.6	5.9	6.5	6.8	6.4
a. Current Revenue	16.7	18.2	18.5	18.1	18.2	18.8	19.2	18.7
b. Current Expenditure	12.5	12.3	12.2	12.5	12.3	12.2	12.3	12.3
2. Rest of the NFPS non-financial	<b>2.0</b>	<b>2.4</b>	<b>2.6</b>	<b>2.1</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>
a. Public Enterprises	0.4	0.3	0.4	0.2	0.3	0.4	0.3	0.3
b. Rest of the General Government	1.6	2.1	2.2	1.9	1.9	1.9	2.0	1.9
<b>II. CAPITAL BALANCE</b>	<b>-4.1</b>	<b>-5.2</b>	<b>-5.6</b>	<b>-6.1</b>	<b>-6.7</b>	<b>-7.3</b>	<b>-7.8</b>	<b>-7.3</b>
1. General Government	-3.8	-5.0	-5.5	-5.7	-6.2	-6.7	-7.2	-6.7
a. Capital Revenue	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
b. Capital Expenditure	4.0	5.0	5.5	5.9	6.3	6.8	7.3	6.8
2. Public Enterprises	<b>-0.3</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.5</b>
<b>III. PRIMARY BALANCE (I+II)</b>	<b>2.1</b>	<b>3.0</b>	<b>3.3</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>
<b>IV. INTEREST PAYMENTS</b>	<b>1.7</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>
1. Foreign Debt	0.5	0.6	0.5	0.5	0.6	0.6	0.6	0.6
2. Domestic Debt	1.2	0.6	0.5	0.4	0.3	0.3	0.3	0.3
<b>V. OVERALL BALANCE (III-IV)</b>	<b>0.5</b>	<b>1.9</b>	<b>2.2</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
1. Foreign financing	-0.1	0.2	-0.2	-1.4	-0.5	0.0	-0.1	-0.2
Disbursement <sup>1</sup>	2.4	0.6	0.5	0.5	0.7	0.6	0.5	0.6
Amortization	2.5	0.5	0.6	1.9	1.2	0.5	0.6	0.8
Others <sup>2</sup>	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
2. Domestic financing	-0.5	-2.1	-2.0	0.7	-0.1	-0.6	-0.5	-0.4
Domestic Amortization	0.8	0.3	0.2	0.3	0.2	0.5	0.3	0.3
Others	0.3	-1.8	-1.7	1.0	0.1	-0.1	-0.1	0.0
3. Private Investment Promotion Process	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Note:</b>								
<b>Current account savings (I-IV)</b>	<b>4.6</b>	<b>7.1</b>	<b>7.9</b>	<b>6.8</b>	<b>7.3</b>	<b>7.9</b>	<b>8.3</b>	<b>7.8</b>

1/ Includes extraordinary financing.

2/ Includes short term financing and deposits variation of the National Pension Bureau.

Source: MEF, BCRP.

**Table 11**  
**CENTRAL GOVERNMENT CURRENT REVENUES**  
(Million of Nuevos Soles)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. TAX REVENUE</b>	<b>50,146</b>	<b>75,591</b>	<b>84,147</b>	<b>88,649</b>	<b>97,259</b>	<b>109,134</b>	<b>121,474</b>	<b>109,289</b>
1. Income tax	19,696	33,628	37,278	38,554	42,786	49,556	55,529	49,290
a. Advanced payments	17,051	29,363	32,499	35,757	39,782	46,308	52,018	46,036
- Personal Income Tax	4,862	7,931	9,070	9,899	11,134	13,156	14,672	12,987
- Corporate Income Tax	12,190	21,432	23,429	25,859	28,649	33,152	37,346	33,049
b. Clearing	2,645	4,265	4,779	2,797	3,003	3,247	3,511	3,254
2. Import tax	2,189	1,380	1,529	1,617	1,732	1,885	2,051	1,889
3. Value - added tax	26,284	40,424	44,042	47,192	51,087	55,772	61,759	56,206
a. Domestic	14,627	22,029	24,543	26,746	29,094	32,047	36,118	32,420
b. Imports	11,656	18,395	19,499	20,446	21,993	23,725	25,641	23,786
4. Excise tax	4,317	4,718	4,918	5,452	5,853	6,289	6,755	6,299
a. Fuels	2,490	2,231	2,149	2,483	2,642	2,817	3,002	2,820
b. Others	1,827	2,487	2,769	2,969	3,211	3,472	3,753	3,479
5. Other tax revenue	3,733	5,148	6,967	7,404	8,294	9,256	10,115	9,221
6. Tax refund	-6,074	-9,708	-10,586	-11,570	-12,492	-13,623	-14,735	-13,617
<b>II. NON-TAX REVENUE</b>	<b>8,032</b>	<b>12,724</b>	<b>13,276</b>	<b>14,100</b>	<b>14,889</b>	<b>16,047</b>	<b>17,052</b>	<b>15,996</b>
<b>III. TOTAL (I + II)</b>	<b>58,178</b>	<b>88,315</b>	<b>97,424</b>	<b>102,748</b>	<b>112,149</b>	<b>125,180</b>	<b>138,525</b>	<b>125,285</b>

Source: BCRP, MEF.

**Table 12**  
**CENTRAL GOVERNMENT CURRENT REVENUES**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. TAX REVENUE</b>	<b>14.4</b>	<b>15.5</b>	<b>16.0</b>	<b>15.7</b>	<b>15.8</b>	<b>16.3</b>	<b>16.8</b>	<b>16.3</b>
1. Income tax	5.4	6.9	7.1	6.8	6.9	7.4	7.7	7.3
a. Advanced payments	4.7	6.0	6.2	6.3	6.5	6.9	7.2	6.9
- Personal Income Tax	1.4	1.6	1.7	1.7	1.8	2.0	2.0	1.9
- Corporate Income Tax	3.3	4.4	4.5	4.6	4.6	5.0	5.2	4.9
b. Clearing	0.7	0.9	0.9	0.5	0.5	0.5	0.5	0.5
2. Import tax	0.8	0.3	0.3	0.3	0.3	0.3	0.3	0.3
3. Value - added tax	7.5	8.3	8.4	8.3	8.3	8.4	8.5	8.4
a. Domestic	4.2	4.5	4.7	4.7	4.7	4.8	5.0	4.8
b. Imports	3.3	3.8	3.7	3.6	3.6	3.6	3.5	3.6
4. Excise tax	1.4	1.0	0.9	1.0	0.9	0.9	0.9	0.9
a. Fuels	0.8	0.5	0.4	0.4	0.4	0.4	0.4	0.4
b. Others	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
5. Other tax revenue	1.1	1.1	1.3	1.3	1.3	1.4	1.4	1.4
6. Tax refund	-1.7	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
<b>II. NON-TAX REVENUE</b>	<b>2.3</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>
<b>III. TOTAL (I + II)</b>	<b>16.7</b>	<b>18.2</b>	<b>18.5</b>	<b>18.1</b>	<b>18.2</b>	<b>18.8</b>	<b>19.2</b>	<b>18.7</b>

Source: BCRP, MEF.

**Table 13**  
**CENTRAL GOVERNMENT CURRENT REVENUE**  
(Million of Nuevos Soles)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>NON-FINANCIAL EXPENDITURE</b>	<b>52,645</b>	<b>78,866</b>	<b>85,531</b>	<b>95,060</b>	<b>103,792</b>	<b>116,587</b>	<b>130,120</b>	<b>116,833</b>
<b>I. CURRENT EXPENDITURE</b>	<b>42,329</b>	<b>59,644</b>	<b>64,021</b>	<b>70,890</b>	<b>75,506</b>	<b>81,720</b>	<b>89,121</b>	<b>82,116</b>
1. Wages and salaries	13,514	17,644	19,898	23,367	25,562	27,973	30,619	28,051
2. Goods and services	11,643	17,051	19,800	21,911	22,605	23,355	24,095	23,352
3. Transfers	17,172	24,949	24,323	25,612	27,339	30,393	34,407	30,713
<b>II. CAPITAL EXPENDITURE</b>	<b>10,316</b>	<b>19,222</b>	<b>21,510</b>	<b>24,170</b>	<b>28,286</b>	<b>34,867</b>	<b>40,998</b>	<b>34,717</b>
1. Gross capital formation	7,700	13,918	14,759	16,980	20,678	26,369	31,910	26,319
2. Others	2,616	5,304	6,751	7,189	7,608	8,498	9,088	8,398

Source: BCRP, MEF.

**Table 14**  
**CENTRAL GOVERNMENT CURRENT REVENUE**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>NON-FINANCIAL EXPENDITURE</b>	<b>15.2</b>	<b>16.2</b>	<b>16.3</b>	<b>16.8</b>	<b>16.8</b>	<b>17.5</b>	<b>18.0</b>	<b>17.4</b>
<b>I. CURRENT EXPENDITURE</b>	<b>12.5</b>	<b>12.3</b>	<b>12.2</b>	<b>12.5</b>	<b>12.3</b>	<b>12.2</b>	<b>12.3</b>	<b>12.3</b>
1. Wages and salaries	4.1	3.6	3.8	4.1	4.1	4.2	4.2	4.2
2. Goods and services	3.4	3.5	3.8	3.9	3.7	3.5	3.3	3.5
3. Transfers	5.0	5.1	4.6	4.5	4.4	4.6	4.8	4.6
<b>II. CAPITAL EXPENDITURE</b>	<b>2.8</b>	<b>4.0</b>	<b>4.1</b>	<b>4.3</b>	<b>4.6</b>	<b>5.2</b>	<b>5.7</b>	<b>5.2</b>
1. Gross capital formation	2.1	2.9	2.8	3.0	3.4	3.9	4.4	3.9
2. Others	0.6	1.1	1.3	1.3	1.2	1.3	1.3	1.3

Source: BCRP, MEF.



**Table 15**  
**GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE**  
(Million of Nuevos Soles)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>NON-FINANCIAL EXPENDITURE</b>	<b>60,535</b>	<b>87,864</b>	<b>97,983</b>	<b>110,894</b>	<b>121,685</b>	<b>134,250</b>	<b>148,925</b>	<b>134,953</b>
<b>I. CURRENT EXPENDITURE</b>	<b>45,817</b>	<b>63,369</b>	<b>68,841</b>	<b>77,684</b>	<b>82,847</b>	<b>88,912</b>	<b>96,310</b>	<b>89,356</b>
1. Wages and salaries	17,373	22,858	25,276	29,741	32,162	34,876	37,995	35,011
2. Goods and services	16,350	23,950	28,491	31,274	32,535	33,754	34,913	33,734
3. Transfers	12,095	16,561	15,074	16,669	18,149	20,282	23,402	20,611
<b>II. CAPITAL EXPENDITURE</b>	<b>14,717</b>	<b>24,495</b>	<b>29,142</b>	<b>33,210</b>	<b>38,839</b>	<b>45,338</b>	<b>52,615</b>	<b>45,597</b>
1. Gross capital formation	13,702	22,925	27,430	30,643	35,107	41,315	48,316	41,579
2. Others	1,016	1,571	1,712	2,567	3,731	4,023	4,298	4,018

Source: BCRP, MEF.

**Table 16**  
**GENERAL GOVERNMENT NON-FINANCIAL EXPENDITURE**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>NON-FINANCIAL EXPENDITURE</b>	<b>17.5</b>	<b>18.1</b>	<b>18.6</b>	<b>19.6</b>	<b>19.7</b>	<b>20.1</b>	<b>20.6</b>	<b>20.2</b>
<b>I. CURRENT EXPENDITURE</b>	<b>13.6</b>	<b>13.0</b>	<b>13.1</b>	<b>13.7</b>	<b>13.4</b>	<b>13.3</b>	<b>13.3</b>	<b>13.4</b>
1. Wages and salaries	5.2	4.7	4.8	5.3	5.2	5.2	5.3	5.2
2. Goods and services	4.7	4.9	5.4	5.5	5.3	5.1	4.8	5.1
3. Transfers	3.7	3.4	2.9	2.9	2.9	3.0	3.2	3.1
<b>II. CAPITAL EXPENDITURE</b>	<b>4.0</b>	<b>5.0</b>	<b>5.5</b>	<b>5.9</b>	<b>6.3</b>	<b>6.8</b>	<b>7.3</b>	<b>6.8</b>
1. Gross capital formation	3.7	4.7	5.2	5.4	5.7	6.2	6.7	6.2
2. Others	0.3	0.3	0.3	0.5	0.6	0.6	0.6	0.6

Source: BCRP, MEF.

**Table 17**  
**GENERAL GOVERNMENT OPERATIONS**  
(Million of Nuevos Soles)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>1. CURRENT REVENUE</b>	<b>67,697</b>	<b>102,256</b>	<b>113,793</b>	<b>120,353</b>	<b>131,430</b>	<b>144,846</b>	<b>159,977</b>	<b>145,418</b>
a. Tax Revenue	51,274	77,308	86,174	90,867	99,717	111,689	124,341	111,916
b. Contributions and others <sup>1</sup>	16,424	24,947	27,618	29,487	31,713	33,157	35,636	33,502
<b>2. NON-FINANCIAL EXPENDITURE</b>	<b>60,535</b>	<b>87,864</b>	<b>97,983</b>	<b>110,894</b>	<b>121,685</b>	<b>134,250</b>	<b>148,925</b>	<b>134,953</b>
a. Current expenditure	45,817	63,369	68,841	77,684	82,847	88,912	96,310	89,356
b. Capital expenditure	14,717	24,495	29,142	33,210	38,839	45,338	52,615	45,597
<b>3. CAPITAL REVENUE</b>	<b>410</b>	<b>235</b>	<b>362</b>	<b>695</b>	<b>385</b>	<b>397</b>	<b>409</b>	<b>397</b>
<b>4. PRIMARY BALANCE (1-2+3)</b>	<b>7,573</b>	<b>14,626</b>	<b>16,172</b>	<b>10,154</b>	<b>10,130</b>	<b>10,993</b>	<b>11,461</b>	<b>10,861</b>
<b>5. INTEREST PAYMENTS</b>	<b>5,145</b>	<b>5,588</b>	<b>5,441</b>	<b>5,253</b>	<b>5,518</b>	<b>5,560</b>	<b>5,625</b>	<b>5,568</b>
<b>6. OVERALL BALANCE (4-5)</b>	<b>2,428</b>	<b>9,039</b>	<b>10,731</b>	<b>4,901</b>	<b>4,612</b>	<b>5,434</b>	<b>5,836</b>	<b>5,294</b>
<b>7. NET FINANCING</b>	<b>-2,428</b>	<b>-9,039</b>	<b>-10,731</b>	<b>-4,901</b>	<b>-4,612</b>	<b>-5,434</b>	<b>-5,836</b>	<b>-5,294</b>
a. Foreign	-439	509	-397	-8,746	-6,807	-3,216	-3,540	-4,521
b. Domestic <sup>2</sup>	-1,987	-9,524	-10,331	3,845	2,195	-2,217	-2,296	-773

1/ Others includes non-tax revenue of the Central Government, non-tax revenue of the Rest of the General Government.

2/ Includes privatization resources

Source: BCRP, MEF.

**Table 18**  
**GENERAL GOVERNMENT OPERATIONS**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>1. CURRENT REVENUE</b>	<b>19.4</b>	<b>21.0</b>	<b>21.6</b>	<b>21.3</b>	<b>21.3</b>	<b>21.7</b>	<b>22.1</b>	<b>21.7</b>
a. Tax Revenue	14.7	15.9	16.4	16.0	16.2	16.7	17.2	16.7
b. Contributions and others <sup>1</sup>	4.7	5.1	5.2	5.2	5.1	5.0	4.9	5.0
<b>2. NON-FINANCIAL EXPENDITURE</b>	<b>17.5</b>	<b>18.1</b>	<b>18.6</b>	<b>19.6</b>	<b>19.7</b>	<b>20.1</b>	<b>20.6</b>	<b>20.2</b>
a. Current expenditure	13.6	13.0	13.1	13.7	13.4	13.3	13.3	13.4
b. Capital expenditure	4.0	5.0	5.5	5.9	6.3	6.8	7.3	6.8
<b>3. CAPITAL REVENUE</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>4. PRIMARY BALANCE (1-2+3)</b>	<b>2.0</b>	<b>3.0</b>	<b>3.1</b>	<b>1.8</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
<b>5. INTEREST PAYMENTS</b>	<b>1.6</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
<b>6. OVERALL BALANCE (4-5)</b>	<b>0.4</b>	<b>1.9</b>	<b>2.0</b>	<b>0.9</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
<b>7. NET FINANCING</b>	<b>-0.4</b>	<b>-1.9</b>	<b>-2.0</b>	<b>-0.9</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>
a. Foreign	0.0	0.1	-0.1	-1.5	-1.1	-0.5	-0.5	-0.7
b. Domestic <sup>2</sup>	-0.4	-2.0	-2.0	0.7	0.4	-0.3	-0.3	-0.1

1/ Others includes non-tax revenue of the Central Government, non-tax revenue of the Rest of the General Government.

2/ Includes privatization resources.

Source: BCRP, MEF.

**Table 19**  
**FINANCIAL REQUIREMENTS OF THE NON-FINANCIAL PUBLIC SECTOR**  
(US\$ Million)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. USES</b>	<b>2,292</b>	<b>-1,993</b>	<b>-2,788</b>	<b>3,501</b>	<b>2,024</b>	<b>1,252</b>	<b>1,065</b>	<b>1,447</b>
1. Amortization	3,257	1,302	1,668	4,997	3,370	2,685	2,625	2,894
2. Overall balance	-965	-3,296	-4,456	-1,496	-1,347	-1,433	-1,561	-1,447
<b>II. SOURCES</b>	<b>2,292</b>	<b>-1,993</b>	<b>-2,788</b>	<b>3,501</b>	<b>2,024</b>	<b>1,252</b>	<b>1,065</b>	<b>1,447</b>
1. External	2,243	1,024	967	1,089	1,634	1,463	1,481	1,526
2. Domestic <sup>1/</sup>	49	-3,017	-3,755	2,412	390	-210	-416	-79

<sup>1/</sup> Includes savings or dissavings of the Treasury.  
Source: BCRP, MEF, National Pension Bureau (ONP).

**Table 20**  
**FINANCIAL REQUIREMENTS OF THE NON-FINANCIAL PUBLIC SECTOR**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. USES</b>	<b>2.9</b>	<b>-1.1</b>	<b>-1.4</b>	<b>1.6</b>	<b>0.8</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>
1. Amortization	3.3	0.7	0.8	2.2	1.4	1.0	0.9	1.1
2. Overall balance	-0.4	-1.9	-2.2	-0.7	-0.6	-0.5	-0.5	-0.5
<b>II. SOURCES</b>	<b>2.9</b>	<b>-1.1</b>	<b>-1.4</b>	<b>1.6</b>	<b>0.8</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>
1. External	2.4	0.6	0.5	0.5	0.7	0.6	0.5	0.6
2. Domestic <sup>1/</sup>	0.4	-1.7	-1.9	1.1	0.2	-0.1	-0.1	0.0

<sup>1/</sup> Includes savings or dissavings of the Treasury.  
Source: BCRP, MEF, National Pension Bureau (ONP).

**Table 21**  
**PUBLIC DEBT STOCK**  
(Million of Nuevos Soles)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. EXTERNAL PUBLIC DEBT</b>	<b>65,135</b>	<b>53,514</b>	<b>49,900</b>	<b>43,782</b>	<b>40,529</b>	<b>41,051</b>	<b>40,561</b>	<b>40,714</b>
1. International Organizations	23,937	21,227	19,369	14,722	12,695	11,760	10,521	12,424
2. Paris Club	16,202	7,119	6,189	4,883	5,071	5,540	5,913	5,352
3. International Banks and Bonds	23,787	25,071	24,263	24,101	22,712	23,712	24,099	23,656
4. Others	1,209	97	79	76	52	40	29	49
<b>II. DOMESTIC PUBLIC DEBT</b>	<b>34,503</b>	<b>50,341</b>	<b>53,925</b>	<b>60,794</b>	<b>67,475</b>	<b>70,542</b>	<b>73,084</b>	<b>67,974</b>
1. Bank Loans and Treasury Bonds <sup>1/</sup>	30,104	42,469	45,116	52,794	60,035	63,042	66,084	60,489
2. Short Term	4,399	7,872	8,809	8,000	7,440	7,500	7,000	7,485
<b>III. PUBLIC DEBT</b>	<b>99,638</b>	<b>103,856</b>	<b>103,825</b>	<b>104,576</b>	<b>108,005</b>	<b>111,594</b>	<b>113,645</b>	<b>109,455</b>

1/. Includes bonds issued by Lima Metropolitan Municipality.  
Source: BCRP, MEF.

**Table 22**  
**PUBLIC DEBT STOCK**  
(Percentage of GDP)

	Avg. 2002-2012	2011	2012	2013	2014	2015	2016	Avg. 2014-2016
<b>I. EXTERNAL PUBLIC DEBT</b>	<b>22.0</b>	<b>11.0</b>	<b>9.5</b>	<b>7.7</b>	<b>6.6</b>	<b>6.1</b>	<b>5.6</b>	<b>6.1</b>
1. International Organizations	7.9	4.4	3.7	2.6	2.1	1.8	1.5	1.8
2. Paris Club	6.1	1.5	1.2	0.9	0.8	0.8	0.8	0.8
3. International Banks and Bonds	7.5	5.2	4.6	4.3	3.7	3.6	3.3	3.5
4. Others	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>II. DOMESTIC PUBLIC DEBT</b>	<b>10.0</b>	<b>10.3</b>	<b>10.2</b>	<b>10.7</b>	<b>10.9</b>	<b>10.6</b>	<b>10.1</b>	<b>10.5</b>
1. Bank Loans and Treasury Bonds <sup>1/</sup>	8.8	8.7	8.6	9.3	9.7	9.4	9.1	9.4
2. Short Term	1.2	1.6	1.7	1.4	1.2	1.1	1.0	1.1
<b>III. PUBLIC DEBT</b>	<b>32.1</b>	<b>21.3</b>	<b>19.7</b>	<b>18.5</b>	<b>17.5</b>	<b>16.7</b>	<b>15.7</b>	<b>16.7</b>

1/. Includes bonds issued by Lima Metropolitan Municipality.  
Source: BCRP, MEF.

**Table 23**  
**PUBLIC DEBT SERVICE FORECASTS**  
(US\$ Million, Percentage of GDP)

	Service (US\$ Millions)		Servicio (% of GDP)	
	Amortization	Interest	Amortization	Interest
<b>2012</b>	1,668	2,103	0.8	1.1
<b>2013</b>	4,997	2,123	2.2	1.0
<b>2014</b>	3,370	2,256	1.4	0.9
<b>2015</b>	2,685	2,286	1.0	0.9
<b>2016</b>	2,625	2,340	0.9	0.8
<b>2017</b>	2,069	2,386	0.7	0.8
<b>2018</b>	1,321	2,272	0.4	0.7
<b>2019</b>	2,173	2,259	0.6	0.6
<b>2020</b>	4,779	2,184	1.2	0.6
<b>2021</b>	1,397	1,853	0.3	0.4
<b>2022</b>	1,076	1,816	0.2	0.4
<b>2023</b>	2,498	1,787	0.5	0.4

Source: BCRP, MEF

## CENTRAL RESERVE BANK OF PERU

PRESIDENCY

### OFICIO No. 048-2013-BCRP

Lima, May 9, 2013

Mr.  
Luis Miguel Castilla Rubio  
Minister of Economy and Finance  
City

Dear Mr. Castilla:

I am pleased to address you to convey the technical opinion of the Central Bank on the 2014-2016 Multiannual Macroeconomic Framework (MMF) and its compatibility with our projections of balance of payments, international reserves, as well as monetary policy, in compliance with the Law on Fiscal Responsibility and Transparency (LRTF).

Recent developments in the international economy point to a scenario in which we expect a slow recovery of global growth. The latest data show a slowdown in the Chinese economy, a gradual recovery in the U.S. and still a recession in the Euro zone. In this environment, the central banks of the developed economies have intensified their monetary policies, which favor capital flows to emerging economies.

In this context, it has also been observed a decreasing trend in the prices of metals, due in part to lower global growth prospects. Therefore, we expect a reduction of the terms of trade for 2013-2016 of about 5 percent, similar to that contained in the Framework, which still involve high export prices when compared with historical averages.

This environment of uncertainty concerning the international scenario requires prudent management of macroeconomic instruments, in particular fiscal policy which, we agree, must generate sufficient spaces to articulate appropriate responses to address adverse contingencies.

The economic growth forecast for 2013-2016 of the MMF (6.3 percent annually) is similar to Central Bank's forecast, which assumes that a friendly business climate for private investment will remain constant, encouraging an adequate investment rate. In this sense, in order to maintain high economic growth, it is required economic reforms to help increase the competitiveness of the economy.

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## Fiscal Policy

The Multiannual Macroeconomic Framework envisages a fiscal surplus reduction from a level of 2.2 percent of Gross Domestic Product (GDP) recorded in 2012, to 0.7 percent of GDP in 2013, that level would be reduced to 0.6 percent of GDP in 2014 and 0.5 percent of GDP in 2015 and 2016. This level of public savings is lower than the projected overall surplus of 1.3 percent of GDP on average for the 2013-2015 in the last Multiannual Macroeconomic Framework 2013-2015 (May 2012).

The reduction in the anticipated public savings is due to primarily a downward adjustment in expected tax revenues as a result of lower export prices. In this MMF the Central Government's tax burden reaches 16.3 percent of GDP in 2015 and 16.8 percent in 2016.

Regarding taxation, the tax policy statement included in the MMF contains measures such as the redesign of the Excise Tax to link it more to externalities caused by the levied products, the modification of property tax and property transfer tax (*alcabala*) to increase the collection capacity at the local level, and the possibility of reducing some tax benefits. In this regard, we agree on the need to strengthen tax enforcement activities and fight tax evasion and smuggling by SUNAT.

With respect to public spending, the MMF projects to maintain for 2013, the nominal level foreseen in last year's document, equivalent to 19.6 percent of GDP, which implies a real growth rate of 10.7 percent, after having grown 7.6 percent in 2012. For the 2014-2016 period, the MMF projects an average annual real growth rate of 8.2, therefore by 2016 public spending would increase to 20.6 percent of GDP, 0.4 percent of GDP higher than the expected in the 2013-2015 MMF.

In structural terms the projections of the MMF implies the targeting of structural overall balance in the medium term. This is consistent with the general principle of the Fiscal and Responsibility Law and with a downward trend in the public debt to GDP ratio. Organizing fiscal policy around structural indicators has the advantage of allowing the current automatic stabilizers to operate in the fiscal system, resulting in the lower volatility of economic activity.

## Balance of payments and international reserves

The MMF projects a current account deficit of the balance of payments of 4.4 percent for 2013 which is stabilized at 4 percent of GDP by the end of the projection horizon. This deficit is a consequence of the fall in terms of trade and the expansion of domestic demand, which is growing faster than GDP, explained in part by the growth of public spending outlined before. Our forecast of the current account of the balance of payments also contemplates a gradual reduction of the current account deficit in the coming years. The expected improvement in the external position reflects the beginning of operations of new mining projects.

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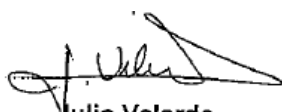
These current account deficits would be largely financed with medium and long term capital flows, which would maintain a high level of international reserves during the forecast, ensuring an appropriate level of international liquidity that could be used to address any adverse contingency that could affect the international environment.

### **Monetary Policy**

It is expected that in the 2013-2015 horizon, inflation remains within the central bank's target range. In the forecast horizon, our baseline scenario foresees no major inflationary pressures associated with increases in commodity prices, while inflation expectations of economic agents are anchored within the target range.

In this context of low inflation and economic growth similar to its potential, the effective combination of monetary and fiscal policy should help to maintain growth, avoid pressures on inflation and discourage capital inflows, which may have negative effects on the allocation of resources and financial system stability

Kind regards,



**Julio Velarde**  
**Presidente**