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Peru: Selected Issues

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PERU

Selected Issues

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Peru: Basic Data

Social and demographic indicators 1/					
Area					
Population (1997)					1,285,215 sq. km
Annual rate of population increase					24.3 million
Fertility rate (live births per woman) (1996)					1.7 percent
Life expectancy at birth (1996)					3.1
Infant mortality rate (per thousand) (1996)					68 years
Maternal mortality ratio (per 100,000 live births) (1990-96)					42
Population per physician (1996)					280
Population per hospital bed (1996)					971
Housing with access to safe water (1995)					559
Housing with access to sanitation (1995)					60 percent
Prevalence of child malnutrition (percent of children under five) (1990-96)					44 percent
Adult illiteracy rate (age 15 and older) (1995)					11 percent
Gross enrollment rate in primary education (ages 6-11) (1996)					11 percent
Unemployment rate (Metropolitan Lima-1997)					95 percent
					8.3 percent
GDP (1997)					SDR 43.7 billion
GDP per capita (1997)					SDR 1,793.4
	1993	1994	1995	1996	Prel. 1997
			(In percent)		
Origin of GDP					
Agriculture and fishing	13.3	13.5	13.3	13.6	13.7
Mining and petroleum	12.0	11.2	10.8	10.9	10.8
Manufacturing	21.9	22.4	21.9	21.9	21.9
Construction	7.1	8.5	9.3	8.6	8.9
Government	5.9	5.4	5.2	5.0	4.9
Other	39.7	39.0	39.5	39.9	39.9
Ratios to GDP					
Exports of goods and nonfactor services	10.6	11.3	11.4	11.9	12.8
Imports of goods and nonfactor services	13.5	14.3	16.4	16.4	16.7
Current account of the balance of payments	-5.2	-5.3	-7.3	-5.9	-5.2
Central government current revenue	11.3	12.9	13.3	14.2	14.0
Central government current expenditure (excluding interest)	6.9	7.8	8.4	8.6	8.0
Combined public sector savings	1.7	2.6	2.1	3.5	4.5
Combined public sector primary balance	1.0	0.9	0.4	1.3	1.7
Combined public sector surplus or deficit (-) 2/	-2.6	-2.3	-2.8	-1.0	0.0
External public debt (end of year) 3/	56.2	49.8	45.2	42.9	30.0
Gross national savings	13.4	16.7	17.0	17.5	19.4
Gross domestic investment	18.6	22.0	24.3	23.5	24.6
Money and quasi-money (end-of-period)	14.3	16.0	17.0	20.9	21.5
Annual changes in selected indicators					
Real GDP per capita	4.7	11.2	5.4	0.8	5.6
Real GDP	6.4	13.1	7.2	2.6	7.4
GDP at current prices	55.7	34.9	20.5	12.5	16.4
Domestic expenditure (at current prices)	56.9	34.9	22.9	11.8	15.8
Private sector	56.7	32.9	22.1	12.3	15.4
Consumption	53.1	27.8	18.7	13.2	13.4
Investment 4/	77.7	59.3	36.2	9.2	22.7
Public sector	59.4	53.1	29.5	8.1	19.3
Consumption	55.2	49.7	34.6	9.1	19.5
Fixed investment	68.3	59.7	20.0	6.0	18.8
GDP deflator	46.3	19.2	12.4	9.7	8.4
Consumer prices (period average)	48.6	23.7	11.1	11.5	8.5
Consumer prices (end-of-period)	39.5	15.4	10.2	11.8	6.5
Central administration current revenue	54.7	54.1	24.6	19.7	15.2
Central administration current expenditure	45.3	52.2	28.6	15.8	8.3
Liabilities to the private sector 5/	76.0	49.4	28.9	38.2	19.8
Net domestic assets of the banking system 5/6/	31.6	-18.0	18.0	4.7	23.2
Credit to public sector 5/6/	-6.0	-47.5	-7.5	-24.1	-2.2
Credit to private sector 5/6/	30.0	42.4	29.7	31.4	26.0

	1993	1994	1995	1996	Prel. 1997
	(Percentage change)				
Merchandise exports (f.o.b., in U.S. dollars)	-0.3	29.8	21.9	5.8	14.5
Merchandise imports (f.o.b. in U.S. dollars)	0.8	35.7	38.7	1.8	8.5
Terms of trade	-7.0	12.8	2.8	0.2	5.3
Nominal effective exchange rate (US\$/Soles)	-4.8	10.1	-8.4	-6.6	3.8
Real effective exchange rate (US\$/Soles)	6.0	6.8	-3.3	0.9	7.4
	(Millions of new soles)				
Combined public sector					
Nonfinancial public sector current revenues	12,970	18,951	22,750	26,856	31,013
Nonfinancial public sector current expenditures 7/	11,418	16,100	19,892	21,696	23,305
Central bank balance	-127	-39	-18	40	122
Current account surplus or deficit (-)	1,425	2,812	2,841	5,200	7,830
Overall surplus or deficit (-)	-2,110	-2,586	-3,666	-1,551	14
External financing (net)	2,095	2,396	3,004	1,083	-975
Internal financing (net, including privatization)	15	191	529	-62	724
	(Millions of U.S. dollars)				
Balance of payments					
Merchandise exports	3,523	4,574	5,576	5,897	6,754
Merchandise imports	-4,123	-5,595	-7,761	-7,897	-8,568
Investment income	-1,505	-1,810	-1,933	-1,573	-1,499
Other services and transfers (net)	-40	168	-199	-32	-104
Balance on current account	-2,144	-2,664	-4,318	-3,604	-3,417
Official sector (medium and long term)	-816	-600	-154	-433	-291
Private sector (includes short-term capital)	4,506	2,706	5,162	3,425	2,742
Overall balance	1,546	-559	690	-612	-967
Change in central reserve bank reserves (increase -) 8/	-275	-2,334	-867	-1,534	-993
Change in arrears	-833	728	680	319	-6,138
Debt relief 9/	1,313	840	727	602	6,165
Exceptional financing	1,342	207	150	1	0
	(Millions of U.S. dollars, end of period)				
International reserve position					
Central bank (gross) 10/	3,496	6,556	7,471	9,822	10,823
Central bank (net) 8/	557	2,890	3,757	5,250	5,107
Rest of banking system (net)	-145	308	47	-239	-2,206
IMF data (as of March 31, 1998)					
Article VIII status					
Intervention currency rate					
Quota					0
Fund holdings of new soles					SDR 466.1 million
As percent of quota					SDR 1,162.2 million
Total Fund credit					249.3 percent
From Fund resources					SDR 696.1 million
Credit tranche purchases					SDR 696.1 million
EFF purchases					SDR 696.1 million
CFF purchases					SDR 696.1 million
From supplementary and enlarged access resources					0
Arrears to the Fund					0
Special drawing rights					0
Cumulative SDR allocation					
Net acquisition or utilization (-) of SDRs					SDR 91.3 million
Holdings of SDRs					SDR 90.3 million
Share of profits from gold sales					SDR 1.0 million
					0

1/ National Institute of Statistics and Information (INEI).

2/ Excludes Central Reserve Bank of Peru debt.

3/ Excludes privatization receipts.

4/ Includes inventories.

5/ Foreign currency items are valued at end-of-period exchange rate.

6/ Percent change with respect to the stock of liabilities to the private sector at beginning of period.

7/ Excludes interest payments.

8/ Net of reserve requirements on foreign currency deposits.

9/ Includes disbursements for balance of payment support from the World Bank, the IDB, and the Support Group.

10/ Includes foreign currency valuation adjustment.

I. RECENT ECONOMIC DEVELOPMENTS

1. Following the successful completion of a Fund-monitored rights accumulation program, in early 1993 the Peruvian government adopted a comprehensive economic program covering the three-year period 1993–95 supported by an extended arrangement from the Fund. Over this three-year period, economic growth averaged 8.9 percent a year and inflation was reduced from 57 percent in 1992 to 10 percent in 1995. In the context of large private capital inflows, largely in the form of foreign direct investment and medium- and long-term foreign borrowing, the external current account deficit averaged 5.3 percent of GDP during 1993–94, and widened to 7.3 percent in 1995 reflecting a relaxation of the fiscal stance. The net official international reserves position improved significantly during 1993–95, with gross reserves reaching the equivalent of about six months of imports of goods and services by end-1995.¹

2. In July 1996 the Executive Board of the Fund approved a follow-up extended arrangement in support of Peru's program for 1996–98. This program aims at consolidating the stabilization gains made under the previous arrangement while advancing structural reforms further. The authorities' strategy includes a significant improvement in the primary balance of the combined public sector. Performance during the first two years under this program has been strong. After a slowdown in 1996, economic activity picked up in 1997 while inflation declined significantly. The net official international reserves position strengthened further, and gross reserves reached the equivalent of close to eight months of imports of goods and services at end-1997. During 1996–97 Peru restructured the debt owed to foreign commercial and Paris Club bilateral creditors, as well as most other creditors.

A. Macroeconomic Developments

3. In the context of a significant tightening of the fiscal stance, **real GDP growth** slowed from 7.2 percent in 1995 to 2.6 percent in 1996. The slowdown in economic activity was particularly pronounced in agriculture and the sectors of the economy directly affected by the tightening of the fiscal stance, such as the construction and construction-related sectors. By the last quarter of 1996, however, activity picked up in most sectors, and in 1997 real GDP grew by 7.4 percent. Economic growth in 1997 was broad based, and particularly strong in the construction, manufacturing, and mining sectors. High growth in construction activity and mining contributed to an increase in gross domestic investment from 23.5 percent of GDP in 1996 to 24.6 percent in 1997. Toward the end of the year, however, economic activity slowed down, owing mainly to the impact of *El Niño* weather phenomenon, and output growth in the first quarter of 1998 abated to 1½ percent compared with the same period of 1997.

¹Gross reserves are defined here as net of financial intermediaries' foreign currency deposits with the central reserve bank. Including these deposits, gross reserves rose from the equivalent of 9 months of imports of goods and services at end-1995, to 11 months at end-1996 and 12 months at end-1997.

4. **Labor market developments** have been mixed. In 1997 the economy created an estimated 300,000 new jobs which, however, was not sufficient to absorb the increase in the labor force. The labor force participation rate rose by 3 percentage points, to 63 percent, reflecting in part the entry into the labor market of the "baby boomers" born in the 1970s and the continued migration of workers from rural areas, especially women. Open unemployment reached 8.3 percent in 1997, up from 7.9 percent in 1996, while underemployment decreased slightly, from 42.6 percent to 41.8 percent of the labor force. Labor statistics show that private sector remunerations remained broadly unchanged in real terms during 1997. In 1997 the authorities raised the minimum wage by 60 percent in nominal terms, to S/. 345 a month (about US\$123); data for the third quarter of 1997 showed that 9.2 percent of the labor force was earning the minimum wage.
5. **End-of-period inflation** rose somewhat in 1996, from 10.2 percent in 1995 to 11.8 percent, reflecting both higher world oil and cereal prices and the lagged effect of the relaxation of fiscal policy in 1995. During 1997 inflation dropped to 6.5 percent, with a somewhat less pronounced decline in core inflation (from 9.9 percent to 7.8 percent), which excludes public transportation and volatile food items; the slowdown in volatile food items reflected exceptionally favorable weather conditions before the onset of *El Niño* and lower international cereal prices.
6. The **external current account** deficit narrowed from 7.3 percent of GDP in 1995 to 5.3 percent in 1996-97, reflecting both lower public sector interest obligations and an improvement in the trade deficit due to strong export volume growth, favorable terms of trade, and overall fiscal consolidation. During 1996-97 exports in U.S. dollar terms rose by 10 percent a year on average, while import growth was close to 5 percent. Nontraditional exports rose by 16 percent a year in U.S. dollar terms, with particularly strong growth in textile and chemical goods. The external current account deficit was more than covered by private capital inflows, with over two thirds of inflows accounted for by foreign direct investment (including privatization) and private medium- and long-term borrowing. Following the conclusion of debt-reduction operations with foreign creditors, public sector external debt fell from 45 percent of GDP in 1995 to 30 percent in 1997 (Box 1).
7. In 1996 and 1997 the authorities achieved a substantial strengthening of the **fiscal position**, and the overall balance of the combined public sector shifted from a deficit of 2.8 percent of GDP in 1995 to equilibrium in 1997. In the meantime, the primary surplus rose from 0.4 percent of GDP in 1995 to 1.3 percent in 1996 and further to 1.7 percent in 1997. This improvement reflected the performance of the central government, and was made possible both by an increase in tax revenue and a reduction in expenditure. The improvement in central government current revenue (from 13.3 percent of GDP in 1995 to 14 percent in 1997) was associated mainly with improved income and value-added tax (VAT) collections and the implementation, beginning end-1996, of the tax arrears regularization program. Also, in 1997 the government reduced several tax rates but the ratio of tax revenue to GDP

remained broadly unchanged because of improvements in tax administration (see paragraph 13 below). Noninterest expenditure of the central government declined from 11.8 percent of GDP in 1995 to 11.1 percent in 1997, reflecting for the most part lower purchases of goods and services and capital outlays. The government raised public sector wages by 16 percent in November 1996 and again by 16 percent in August 1997.

Box 1. Peru: Debt-Restructuring Operations, 1996-97

- In 1966-97 Peru finalized **debt-reduction arrangements** with foreign commercial creditors and most non-Paris Club creditors. Altogether, these operations resulted in a reduction of about US\$6 billion in the stock of Peru's external public debt.
- The **debt and debt-service reduction (DDSR) operation with commercial creditors** was closed on March 7, 1997. Under the terms of the agreement, creditors were given the option of either selling their debt to the government through a debt buy-back scheme or exchanging eligible principal for discount bonds, par bonds, or front-loaded interest reduction bonds (FLIRB). Past due interest was exchanged for 20-year graduated repayment bonds with a 5-year grace period.
- The up-front cost of the operation was US\$1.4 billion. Total **cash buy-back** amounted to US\$1.3 billion of principal and US\$1.2 billion of attached interest. Remaining principal was exchanged for bonds. Among the bonds, most creditors choose the FLIRB, which has a 20-year maturity and an 8-year grace period.
- In May 1997, US\$742.3 million of Brady bonds were cancelled. Final figures show that, after all operations were completed, total commercial debt, with an original value of US\$10.6 billion was **reduced by about half**, and exchanged for bonds totaling US\$4.1 billion.
- In July 1996 Peru agreed on a **rescheduling with Paris Club creditors** for maturities falling due during 1996-98. In addition, principal maturities arising from the 1991 Paris Club rescheduling and falling due after 1998 were **reprofiled** through the year 2018.
- During 1997 Peru canceled debt owed to the **Russian Federation**, with a face value of US\$1.1 billion.
- The authorities made significant progress in resolving the **debt arrears situation with other creditors**. At end-1997, principal arrears amounted to about US\$30 million only.

8. In the **monetary** area, base money growth abated to 9.2 percent in 1996 and remained somewhat below nominal GDP growth during most of 1997; in the last quarter of 1997, however, base money growth picked up momentum, and rose to 19 percent by year-end. In the context of significant capital inflows and growing bank reintermediation, the growth of bank credit to the private sector in 1996 remained high in real terms, at 32 percent. To curb credit expansion, in 1996 the authorities reduced the rate of remuneration of the required reserves on foreign currency deposits from LIBOR to LIBOR minus 1 $\frac{3}{8}$ %. In 1997 the growth of credit to the private sector in real terms abated to 24 percent. During the year commercial banks increasingly shifted their resource base away from foreign currency deposits and toward short-term borrowing abroad.

9. In 1996–97 the authorities continued implementing a flexible **exchange rate policy**. In real effective terms, the new sol remained broadly stable during 1996, but it appreciated by 7½ percent in 1997, mainly owing to the strengthening of the dollar vis-à-vis other major currencies. The impact of the real effective appreciation on competitiveness was offset in part by the above-mentioned tax rate reduction measures.

B. Structural Reforms

10. During 1996–97 the authorities continued implementing their structural reform program, including privatization. They initiated a program of concessions for the provision of public services by the private sector, and established *Promcepri* as a specialized agency to coordinate this program. The authorities also established regulatory agencies in the sectors of the economy where the provision of service was privatized; further strengthened tax administration; made progress in the implementation of the Integrated System of Financial Administration (SIAF); introduced new capital market legislation; continued enhancing the regulatory framework; enhanced private sector provision of health and education services; reduced the average external tariff rate; and introduced more flexibility in the labor market. As described below in Chapters II, III, and IV, the authorities also took steps to consolidate the pension reform initiated in 1992, strengthen the banking system, and deepen social policies.

11. **Privatization receipts** amounted to US\$2.5 billion in 1996–97. In the telecommunications sector, in July 1996 the government sold most of its remaining shares in the telephone company *Telefónica* for US\$1.2 billion. In the energy sector, the privatization of the state petroleum company *Petroperú* was initiated in 1996 with the sale of an oil refinery (*La Pampilla*) and two oil fields, and in December 1997 the government transferred *Petroperú*'s oil storage facilities to the private sector through an operating concession agreement. In 1996–97 the government also sold several electricity plants and, in January 1998, granted a 30-year operating concession on the *Mantaro-Socabaya* electricity transmission line. The government also privatized several units of the state mining companies *Centromin* and *Mineroperú*; completed the privatization of the fishing company *Pescaperú*; and sold a steel mill (*Siderperú*) and other assets in the mining and energy sectors. In 1997 the government also began the sale of irrigated public land in the coastal region.

12. In 1997 the authorities established **regulatory agencies** with financial and institutional autonomy in the areas of energy, ports, and highways. In the energy area, they established OSINERG, which is in charge of overseeing firms that have been granted operating concessions or participated in privatizations. OSINERG has authority to: ensure that the companies carry out their investment commitments and follow tariff schedules; impose fines on companies that do not comply with their contractual agreements; and hear consumer complaints. In the area of ports and highways, the authorities established OSITRAN in December 1997, which is scheduled to begin operations by June 1, 1998.

13. The **strengthening of tax administration** has been a central part of reforms in recent years. In 1996–97 the efforts of the tax administration agency SUNAT focused on the following areas:

- Implementation of the program of tax arrears regularization that became effective in late 1996.
- Broadening the coverage of the VAT audit programs based on invoice cross-checking (COA) among medium and large taxpayers and their suppliers to include the expenditure of the public sector and intensifying its application (starting with the tax returns for 1997, the SUNAT is carrying out two half-yearly audits under the COA program).
- Improving the rules in the VAT area for the recording of transactions among related parties to reduce tax avoidance.
- Extension to medium taxpayers of the enhanced monitoring and payments program that previously applied to large taxpayers only.
- Stepping up the fight against tax evasion through in-depth sectoral audits in sectors of the economy where evasion is high.

14. The **SIAF project**, which consolidates the budget management, accounting, and treasury operations of the government, is the core of a strategy aimed at modernizing treasury operations at the Peruvian Ministry of Finance. In 1996–97 the government made important progress in the design and implementation of the SIAF and introduced a new budget methodology. In mid-1997 spending units started registering their payment operations with the SIAF and, by March 1998, 80 percent of all units were reporting to the SIAF in real time.

15. In 1996–97 the government issued legislation and accompanying norms to facilitate Peru's integration into international capital markets. In October 1997 the government published new **capital market legislation**, that: empowered the National Commission for the Supervision of Enterprises and Financial Instruments (CONASEV) to regulate public offerings in Peru and offerings of Peruvian firms abroad; raised minimum capital requirements for mutual funds, brokerage houses, and investment funds; established prudential limits on investments of mutual funds; and authorized the operation of eight derivative markets (including for foreign exchange, interest rates, and several agricultural products).

16. In the area of **land reform**, the government issued in 1997 the regulations for the implementation of the Land Tenure Law and the Agricultural Promotion Law, and continued implementing land titling programs in both urban and agricultural areas. In urban areas, a total of 180,000 land titles were issued in 1996–97 under the supervision of COFOPRI, and

progress was made in the Urban Land Registration system. In rural areas 70,000 land titles were issued in 1997.

17. In the **health insurance market**, a comprehensive general health law regrouping various texts and norms was approved in July 1997, and the government issued legislation allowing the provision of primary health services by private companies. Under this program, employers are allowed to allocate 25 percent of the Peruvian Social Security Institute (IPSS) contribution to contract primary health care from private providers. A superintendency of private health care providers was established in January 1998. The government also issued in 1997 and early 1998 the regulations in implementation of the 1996 **Education Law**, designed to facilitate the provision of educational services by the private sector.

18. In the **trade area**, in April 1997 the authorities implemented a reduction in tariff rates while introducing a temporary 5 percent import surcharge on certain agricultural and agro-industrial products. The net effect was a decline of the average import tariff rate from 15.3 percent to 13.4 percent. Also, in 1997 Peru reached agreement with the other members of the Andean Group on a process of gradual trade liberalization through the year 2005. In 1996 the members of the Asia-Pacific Economic Cooperation (APEC) forum admitted Peru as a member of the group effective in 1998.

19. In October 1996 the government introduced several changes in **labor legislation**. Severance payments for arbitrary layoffs were increased from a month's salary per year of work to 1½ months, with the maximum severance payment remaining unchanged at the equivalent of 12 months' salary. To enhance labor market flexibility, the maximum percentage of employees that a firm can hire under the apprenticeship regime was increased from 30 percent of the workforce to 40 percent, and the maximum proportion of workers allowed under temporary contracts was increased from 20 percent to 50 percent of the workforce. The procedures associated with laying off workers for technological or economic reasons were simplified and greater freedom was given to employers to organize the work schedule.

II. PENSION SYSTEM REFORM

20. In the early 1990s, faced with a financially bankrupt public pension system, the Peruvian authorities embarked on a major reform designed to establish a sustainable old age insurance scheme. While the main objective of the reform was to establish a financially sound social security system, it also aimed at creating the conditions for a broadening of the coverage. The main aspect of the 1992 reform was the establishment of a **defined contribution, fully funded, privately administered pension system, alongside the existing pay-as-you go defined benefit public pension system**. Currently, the public and private pension systems altogether cover some 2.9 million workers, representing about 40 percent of the urban labor force, and pay pension benefits to 590,000 retirees. The private pension system counts with 1.8 million affiliates, or close to two thirds of the total number of workers covered by the pension system.

21. This chapter reviews the situation at the beginning of the 1990s; describes the 1992 reform; and analyzes the causes for the slower-than-anticipated development of the private pension system in its early stages. The chapter then deals with the reforms introduced in 1995-96 to strengthen the system; assesses the fiscal cost of the reform; and presents the main challenges ahead.

A. The Situation in the Early 1990s

22. The public pension system in Peru is composed of two main branches, the **National Pension System** and the *Cédula Viva* regime; both are defined benefit, publicly administered systems, which operate on a pay-as-you-go basis and receive transfers from the public treasury. The *Cédula Viva* regime is a generous system, in which pensions are indexed to public sector salaries; the origins of this regime can be traced back to the retirement programs for civil servants established in the middle of the nineteenth century. At present, the National Pension System covers one million workers and pays pension benefits to some 330,000 retirees, and total affiliation to the *Cédula Viva* regime is estimated at 320,000 people, of which 260,000 are retirees.

23. The National Pension System (SNP) was created in 1973 (Law 19990) through the consolidation of several public pension regimes. **At the beginning of its operation, this pension system generated large surpluses**, a common feature of pay-as-you-go pension schemes. These surpluses encouraged the government to grant generous increases in pension benefits without raising contribution rates. Social pressures and political considerations became the main determinants of contribution rates and pension benefits. The imbalance between contributions and benefits generated a system in which affiliates contributed, on average, less than what they would withdraw over their lifetime.

24. The high rate of evasion in contributions and the prevalence of understatements in earnings, together with rising dependency rates, contributed further to the insolvency of the public pension system. The required number of years of contributions was low, and benefits were computed on the basis of the last contribution to the system, which provided incentives to employees to contribute a minimal number of years and incentives to employers to understate earnings during the early years of employment. The rising dependency rate² within the SNP was due to a demographic transition in the Peruvian population, characterized by a decline in both fertility and mortality rates, which increased the ratio of pensioners to contributors. The pension system thus had to provide for longer retirement periods for its affiliates while the length of the working life tended to decline.

25. **The economic crisis and hyperinflation period of the late 1980s led to the financial collapse of the system.** The contributions on which the system relied shrunk during the crisis years as real wages declined, the already low coverage fell further, and informality in the labor market rose sharply. Between 1985 and 1992, the number of contributors to the SNP declined from 34 percent of the labor force to 21 percent, while the number of workers per retirees declined from 11 to 7. The 1973 law establishing the SNP envisaged that the pension system would be partially funded and mandated that it accumulate an actuarially sound reserve fund.³ However, the **system was not actuarially sound**. Most of the resources of the fund had been used to subsidize the development of a health care network and only a small part was invested in government bonds, usually at nominal interest rates well below inflation. In addition, hyperinflation had eroded the real value of the pension fund reserves.

26. The financial situation in the other public pension system, **the *Cédula Viva* regime, was worse.** In this regime, eligibility for pension benefits is based on years of service, and not age. After 30 years of service for men and 25 years for women, employees were entitled to receive a pension benefit equivalent to between two thirds and the full amount of their last salary. Early retirement was possible after 12 years of service for women and 15 for men, with a pension benefit equivalent to 50 percent of the last salary. This system became increasingly costly and, in 1974 the authorities enacted Law 20530 which closed the system to new entrants. However, during the 1980s this regime was reopened and the qualification criteria relaxed, which led to numerous new affiliations.

²The dependency rate refers to the ratio of the number of retirees to the number of workers participating in the system.

³The administration of this fund was initially delegated to the Peruvian Social Security (*Seguro Social del Peru*), and in 1980 was transferred to the Peruvian Social Security Institute (IPSS), when the latter was established.

B. The 1992 Reform

27. The reform of 1992 aimed at creating a system with broad coverage, capable of providing adequate retirement benefits to the labor force while being sustainable in the long term. The reform established (by Law 25897) a **fully funded privately administered pension system** and introduced changes in the existing public pension system, including increasing the minimum number of years of contribution to qualify for a pension. In 1995 the administration of the public pension system was transferred to the newly created *Oficina de Normalización Previsional* (ONP), an autonomous agency in charge of coordinating the transition between the old and the new social security arrangements.
28. The law envisaged the coexistence of the public and private pension systems, and **new entrants to the labor market were given the option of affiliating to either of the two systems**. Workers already contributing to the public pension system who chose to transfer to the private system would receive a compensation in the form of a pension bond (*bono de reconocimiento*), which is a nontransferable zero coupon bond indexed to the CPI and redeemable at retirement. Before issuing pension bonds, the ONP would need to verify all relevant qualifications, a process which can take up to three years. The law did not establish a deadline for workers to switch to the private system or to claim the pension bond.
29. In the private pension system, **several private pension fund administrators (AFPs)** compete for the management of the workers' individual retirement accounts. Each AFP pools its affiliates' funds and invests them in equity, bonds, and money market instruments. At retirement, workers can use the funds accumulated in their individual accounts to purchase an annuity from an insurance company, start a series of phased withdrawals, or a combination of both. The legal age of retirement was set at 65, but early retirement was allowed for workers with an accumulated balance sufficient to obtain a pension benefit greater than or equal to 50 percent of their average wage during the last ten years of activity.
30. **Contributions to private pension funds** have two main components: (a) the contribution to the worker's individual retirement account; and (b) other fees, including insurance premiums and the commission of the private pension fund for the administration of the account. Originally, this commission could take the form of a fixed charge per affiliate, a variable charge on contributions, or a variable charge on the balance of the account. Although competition between AFPs was thought to be a major factor in fostering low commissions and insurance premiums, the law initially mandated each AFP to levy the same charges to all its affiliates. In effect, this limited competition on the system's fee structure.
31. Regarding the **investments of the funds**, the law established individual and combined maximum investment limits by instrument and by issuer. These limits are expressed as a percentage of the total fund. Currently, the combined limit for treasury and central reserve bank instruments is 40 percent; for equity and mutual funds, 30 percent; and for time deposits

and financial sector bonds, 40 percent. A limit of 15 percent per issuer applies to financial institutions. At end-April 1998, the five AFPs managed an aggregate pension fund of S/. 4.8 billion (US\$1.7 billion) for some 1.8 million affiliates. Investment in financial institutions' instruments represented close to half of the total, with most of the remainder being invested in instruments issued by nonfinancial institutions, including public utilities and mining firms.

C. The Slow Initial Development of the Private Pension System

32. In the early years, the number of persons switching to the private pension system was lower than expected, and a sizable proportion of new entrants were joining the public system. For the most part, the main cause for the slow development of the private system was the attractiveness of the public system. In particular, the contribution rate and retirement ages in the public system initially were significantly lower than in the private system. These problems were compounded by the decision not to allow affiliates of the *Cédula Viva* regime to join the private pension system and a lengthy process for the issuance of pension bonds, which introduced additional uncertainty.

33. Initially, the total contribution in the private pension system was equivalent to 15 percent of wage earnings, compared with only 3 percent in the public pension system. The total contribution rate of 15 percent corresponded to a contribution rate of 10 percent to the individual retirement account, a solidarity tax of one percent to finance health care provision in the public pension system, and insurance premiums and AFP administration fees averaging 4 percent. As noted, the legal retirement age in the private pension system was set at 65 years for both men and women, while in the national pension system it was kept at 55 for women and 60 for men.

34. The slower than expected development of the private pension system also reflected lower real wage growth than initially envisaged, particularly among blue collar workers. Between 1993 and 1997, the wages of blue collar workers rose by only 0.2 percent in real terms, and the salaries of white collar workers by about 18 percent. In addition, the proportion of workers in the informal sector remained high, and is still estimated at about half of the total labor force currently. Another factor in the slow pace of growth of the private pension system was the decision not to allow the AFPs to defer start-up costs, which resulted in losses for the AFPs in the initial years and, in turn, to high fees charged to the affiliates.

35. Compared with Chile, Argentina, and other countries that have undertaken similar reforms in their pension systems, the financial markets in Peru were initially thin and underdeveloped. As a consequence of the period of hyperinflation, domestic public debt had virtually disappeared, and there was no government paper in which the AFPs could invest. In recent years a stable macroeconomic environment, new capital markets legislation, the privatization of public enterprises, and the development of the private pension system have all

contributed to the development of the domestic financial market. Currently, market capitalization in the Lima stock exchange is about US\$11 billion (16 percent of GDP).

D. The Corrective Measures of 1995-96

36. In view of the sluggish start of the private pension system, in 1995-96 the authorities adopted several measures aimed at increasing the incentives to join the private pension system. To a very large extent, these measures have been successful, and the number of new workers joining the private pension system has been growing steadily since the reform, from 5,000 a month in early 1995 to about 25,000 a month during 1996-97. Currently, the total number of affiliates in Peru is about one third of the affiliation in Chile, despite the fact that the Peruvian private pension system is significantly younger—5 years compared with 17 (Box 2).

Box 2. Private Pension Systems in Peru and Chile		
	Peru	Chile
Beginning of operations	June 1993	May 1981
Number of affiliates (end-1997)	1.7 million	5.8 million
Number of private pension funds (end-1997)	5	13
Accumulated fund (end-1997)	US\$1.5 billion	US\$30.9 billion
<i>Of which: investments in foreign assets (end-1997)</i>	0	US\$0.4 billion
Average total contribution rate	11.7 percent	12.9 percent
Contribution to the individual capitalization account	8.0 percent 1/	10.0 percent
Average insurance fees	1.4 percent	0.6 percent
Average pension funds commission	2.4 percent	2.3 percent

1/ The 8 percent contribution rate to the individual capitalization account is scheduled to be raised in January 1999 to the legal rate of 10 percent specified in the law.

37. The measures adopted in 1995-96 included equalizing contribution rates and retirement ages in both systems, and allowing affiliates to switch between AFPs. The equalization of contribution rates and retirement ages was introduced in July 1995, by Law 26504, which raised the contribution rate in the public pension system from 3 percent to

11 percent while temporarily reducing the contribution rate to individual retirement accounts in the private pension system from 10 percent to 8 percent; eliminating the 1 percent solidarity tax of the private pension system; and exempting AFP commissions from the value-added tax. The law also established that, to maintain equality between systems (taking into account the administrative fees of the private pension system), in January 1997 the contribution rate in the private system would be raised to 10 percent and the contribution rate in the public system to 13 percent.⁴ **The retirement age for women and men was equalized at 65 in both systems.**

38. Further measures were adopted in 1996, aimed at **promoting transfers from the public pension system to the private system and increasing competition and efficiency in the private pension system.**⁵ Measures to increase competition and efficiency in the private pension system focused on increasing the diversity of funds in which the AFPs are allowed to invest and lowering commissions in the system. To introduce diversity in pension fund investments, the criterion used to evaluate the performance of the AFPs was changed from one based on deviations from the average performance in the system to one defined in terms of the absolute performance of each fund. The previous system had the disadvantage of generating a herding behavior, by which all AFPs tended to invest in similar portfolios. A second measure to promote portfolio diversification was to adapt the pension law to the capital markets law of October 1996 by expanding investment possibilities.

39. **In order to foster competition among AFPs,** the 1995 law established that contributors to the private system would be free to move from one pension fund to another. However, in order to prevent an excessive number of transfers between AFPs, the law stated that the request for the transfer had to be done in person and that a small fee had to be paid. To address the problem of the rising marketing costs of the AFPs, which were translating into high fees to the affiliates, two changes were introduced to the regulation on fees charged by the AFPs: loyalty discounts were authorized with a view to lowering the number of transfers between AFPs, and the number of commissions that the AFPs could charge was reduced from three to one.

40. **Incentives to promote transfers from the public to the private pension system** also took the form of caps on public pension benefits and expanded eligibility for pension bonds. The new measures created two new types of pension bonds: *Bono 96* and *Bono 20530*. The former was created to recognize contributions to the SNP made after December 1992. The latter opened the possibility of transferring from the *Cédula Viva* regime to the private pension system, and provided special incentives for such transfers. While the *Bono 96* has achieved its objective, the generous benefits of the *Cédula Viva* regime have precluded its

⁴The increase in contribution rates to both systems has been postponed twice, and is now scheduled for January 1999.

⁵Legislative Decrees 817 and 874 issued in June and December 1996, respectively.

affiliates from moving to the private pension system. In addition, new regulations established that new entrants to the labor force are to be **automatically enrolled in the private pension system** unless they specifically request to be affiliated to the public pension system within ten days of starting employment.

41. In order to strengthen further the credibility of the reform process, in February 1997 the government transferred US\$1 billion of treasury assets to the **Consolidated Pension Fund**, an actuarial fund designed to cover future liabilities of the public pension system. This fund is being supplemented by the interests earned on the deposits and by the deposits of several pension funds of privatized companies. Currently, the fund amounts to US\$1.3 billion, most of which deposited at the central bank.

E. Fiscal Costs of the Reform

42. One of the main determinants of the cost of the reform is **the amount of the entitlement recognized to those who switch to the private pension system**. Specifically, the authorities had to choose between compensating for past contributions to the system, or recognizing the pension rights accumulated under the public pension system. Compensating for past contributions presented two important problems: (a) there were no accurate records on each affiliate's past contributions; and (b) an implicit rate of return on past contributions needed to be determined, which was particularly difficult in Peru, where interest rates had been negative in real terms for long periods of time. On the other hand, recognizing the accumulated pension rights would have been very costly for the government. The authorities chose an intermediate option, in which **the face value of the bond depends on the amount and number of past contributions to the system.**⁶

43. The **net present value of the cost of the reform** had been estimated initially at US\$10-12 billion. Although no comprehensive estimates have been made more recently, there are indications that the actual cost may be somewhat lower than envisaged earlier. Such estimates, however, are highly sensitive to the assumptions made, including, regarding the number of workers projected to switch to the private pension system, the value of the pension bonds issued, and the discount rate. Since it started operations, the ONP has issued 99,500 bonds with a face value of S/. 1.9 billion (equivalent to S/. 4.1 billion, or US\$1.5 billion at current prices) and has paid 2,200 pension bonds (with a redemption value of about S/. 127 million) to workers retiring and survivors.

44. In the short run, the reform introduced in 1992 entails **significant costs to the fiscal accounts**. General government revenue tends to decline, as new entrants to the labor force and part of the public pension affiliates join the private system, while expenditure remains

⁶The face value of the bonds in new soles of December 1992 is computed by multiplying the number of monthly contributions by the average of the last 12 monthly remunerations and the coefficient of 0.1813. The maximum face value of a pension bond was set at S/. 60,000.

unchanged. In 1997 central government transfers to the ONP to finance the deficit of the national pension system amounted to S/. 388 million (0.2 percent of GDP) while central government pension payments, mostly under the *Cédula Viva* regime, amounted to S/. 2.6 billion (1.5 percent of GDP).

45. In other countries, such as Chile, the reforms aimed at a gradual phasing out of the public pension systems by closing them to new entrants. By contrast, **the Peruvian reform left the national public pension system open to new entrants** and did not allow initially affiliates to the *Cédula Viva* regime to transfer to the private pension system. As noted, subsequent reforms were adopted to discourage affiliation in the public pension systems, which included raising the contribution rate and retirement ages in the public system. Also, in 1991 (Legislative Decree 763) the authorities virtually closed the *Cédula Viva* regime to new entrants, and restricted acceptance of new members to a few categories of workers (mostly judges and magistrates with more than ten years of service). In 1996 the authorities introduced a cap on *Cédula Viva* pensions equal to the salary of a congressman.

F. Conclusion

46. The Peruvian authorities have shown their **commitment to the 1992 pension system reform** by implementing corrective measures when deemed necessary. In view of the slower than anticipated initial development of the private system, in 1995–96 they undertook reforms to enhance competition within the private system and to create the conditions for a more steady growth of the private pension system. As noted, these measures had a positive impact, and the number of contributors to the private pension system grew steadily during 1996–97. In the years ahead, the Peruvian social security system will be faced with several challenges.

47. First, generating **broader participation of the labor force in the pension system**. Increased coverage would help achieve the objectives of providing old-age security to a larger proportion of the population, and strengthening the benefits of the private pension system in terms of increased savings and financial market deepening. Developments will be closely linked to other efforts aimed at reducing informality in the Peruvian labor market.

48. Second, strengthening further the confidence in the new social security arrangement by continuing to proceed steadfastly with the **issuance of the pension bonds** and funding the ONP's future pension liabilities.

49. Third, lowering the risk of pension funds' investments through supervision and **diversification of the set of instruments in which the AFPs can invest**. Especially important would be to allow pension funds to invest under proper guidelines in foreign assets with a view to diversifying the country risk, and to make the pension bonds tradable.

50. Fourth, ensuring competition **among the AFPs** while promoting efficiency in the system. Many advantages of private pension systems over public ones have been pointed out; however, the operational costs of the AFPs remain high and the authorities should be ready to take additional steps if needed to ensure a progressive reduction in costs.

51. Fifth, monitoring the private pension system to **detect and correct any deviation from the expected long-term development path**. International experience with private pension systems is limited, and unexpected developments are bound to happen. It is worth noticing that the successful Chilean experience, the longest one available, as well as more recent reforms in other Latin American countries, have taken place in the context of high economic growth, declining inflation, strong stock markets, and high real interest rates. The real test for private pension systems will be their performance over the long run, including their ability to weather economic downturns.

52. Finally, an option that could possibly be considered in the future could be to develop a **unified social security system, in which the private and public systems act as complements rather than substitutes**. In this respect, the public pension system could provide basic old-age insurance to low income workers and the private pension would operate as a complement.

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III. THE BANKING SECTOR

A. Background

53. The Peruvian banking system that emerged in 1990 from the period of hyperinflation and financial crisis was weak, and bank intermediation was at very low levels. Since then, the **banking system has experienced a comprehensive restructuring**, within a framework where the objectives of the central bank have been redefined, in an environment of market-determined interest rates. Meanwhile, the regulatory framework and the oversight capacity of the Superintendency of Banks and Insurance (SBS) have been significantly stepped up. Competition has been fostered as foreign participation restrictions were lifted, all state-owned commercial banks privatized, the development banks closed, and the state financial corporation for development *COFIDE* downsized and converted into a second-tier financial institution.

54. The new **central bank charter of 1992** and the **banking laws of 1993 and 1996** have been central components to the overhauling of the banking sector. The December 1992 charter of the Central Reserve Bank of Peru establishes that the objective of the central bank is to preserve the value of the currency, in contrast with the previous central bank law, which stipulated that the central bank had to manage credit conditions and promote output and employment growth while fostering the development of the banking sector. Moreover, the new charter prohibits the central reserve bank from financing directly or indirectly the public sector⁷ or any special fund. Also, the central bank can no longer direct credit allocation to economic sectors or set multiple exchange rate systems, and it must promote market-determined interest rates. In October 1993 a new banking law was enacted extending the supervisory and regulatory framework to nonbank financial intermediaries, improving capitalization requirements to Basle levels, and establishing a system of deposit insurance. The banking law of December 1996 improved and broadened the previous one.

55. These changes gave the Peruvian financial system the direction and appropriate incentives for a stronger foundation and a solid growth. **During the 1990s bank intermediation has grown rapidly**, with the ratio of broad money to GDP increasing from 12 percent at end-1991 to 21½ percent at end-1997, in a context of disinflation, macroeconomic adjustment, and structural reforms. This development occurred jointly with a radical change in the structure of the banking sector, from a system with large state-owned banks to one privately owned. In addition, foreign participation in the Peruvian banking system has grown from 29 percent of the banks' capital in 1995 to 40 percent by end-1997. At the same time, the increased competition in the financial sector prompted a reduction of interest rate spreads, particularly in the sol-denominated segment, while the profitability of the

⁷ The central reserve bank can purchase treasury bonds in the secondary market for monetary policy purposes only, with a limit of up to 5 percent of the outstanding stock of base money.

banking sector increased from less than 8 percent of equity in 1993 to close to 16 percent in 1996-97.

B. Recent Changes and Current Status of the Regulatory and Supervisory Framework

56. The prudential framework of the Peruvian banking system has been significantly strengthened in recent years. Since 1996 several changes have been introduced to the regulatory and supervisory framework, including the issuance of the 1996 banking law which redefined the general regulatory framework and increased capital requirements; the establishment of new provisioning regulations including the introduction of new procedures to assess and classify loans; and the continued strengthening of the role and oversight capabilities of the **Superintendency of Banks and Insurance (SBS)**.

57. The 1996 **banking law** updated the regulatory and supervisory framework for the banking and insurance sectors and the charter of the SBS. Its adoption constituted an important element in the authorities' efforts of strengthening the soundness of the financial sector through new prudential regulations while reinforcing the powers of the SBS. The 1996 banking law establishes, among other things:

- revised entry requirements, SBS intervention clauses, and bankruptcy procedures;
- revised prudential regulations, including capital requirements for credit and market risks, mismatch limits between asset and liability maturities and currencies, and loan concentration and connected lending restrictions;
- the requirement of independent evaluation of banks by private rating agencies;
- the establishment of consolidated supervision of financial institutions;
- updated requirements for the funding and operation of the deposit insurance program and for the development of a credit-risk bureau at the SBS.

58. More specifically, **capital requirements** have been raised from 8 percent of risk-weighted assets to 8.7 percent in June 1997, a level which is above the Basle-recommended 8 percent capital-to-assets ratio.⁸ The 1996 banking law also specifies that capital requirements will be raised further to 9.1 percent of risk-weighted assets by December 31, 1999.

59. **An important characteristic of the Peruvian banking system is that it is highly dollarized.** In December 1997, 77 percent of commercial bank loans to the private sector and 73 percent of their deposits were denominated in foreign currency. Highly dollarized banking

⁸At the same time, risk weights were lowered to Basle levels (previously, risk weights were somewhat higher than Basle requirements), thus broadly offsetting the effect of the increase in capital requirements on bank capitalization.

systems are faced with the risk that, in the event of a sharp depreciation of the currency, borrowers might not be able to service their loans in foreign currency. This is particularly true for economic agents operating in the nontradable sector, with little or no steady flow of income in foreign currency.

60. Given the high degree of dollarization of the banking system and the risks of external shocks and weather disturbances that Peru is subject to, banks need to have strong capital bases. In an effort to strengthen capital requirements and in implementation of the 1996 banking law, the SBS is expected to issue shortly **prudential requirements for market risks**, which will be effective in early 1999. The issuance of subordinated bonds for that purpose cannot exceed 20 percent of banks' capital used to cover market risks. The assessment of market risks will be done with a standardized scheme rather than by allowing the use of individual banks' own internal models.

61. New **provisioning regulations** were issued in August 1997 as required by the 1996 banking law, which establish a calendar for a stepwise increase in provisioning requirements between March 1998 and June 2000 (Box 3). In Peru risk classification for loans to business corporations is different from that for small firms and consumers. While loans to consumers are classified on the basis of historically available information, including the length of arrears, loans to business corporations also incorporate forward looking information, including financial cash flows.

62. In connection with the objective of broadening the dissemination of information, the SBS has broadened the coverage of the **credit-risk bureau** (*central de riesgo*), as stipulated in the banking law. Coverage now includes consumer loans in addition to business loans. In the case of consumer loans (less than S/. 13,000) the database collects information about outstanding loans, available credit lines, and, whenever applicable, the length of nonperformance. The reporting on business loans also includes information on guarantees. In the near future, the SBS database is expected to be linked to that of the tax collection agency (SUNAT) to improve available information. Furthermore, banks also use credit-analysis services of private credit bureaus and the information that they collect on the debt of individuals with retail stores.

Box 3. Provisioning Requirements

- The **generic provision** on good loans (category 1), set by the 1996 banking law, was raised from 0.2 percent in 1997 to 0.3 percent in March 1998 and will be progressively increased to 1 percent by June 2000.
- The **provisioning** for the second category of loans (potential loss) will rise from 2 percent in March 1998 to 5 percent in June 2000. Provisions for deficient loans (category 3) will remain at a rate of 25 percent; this rate is also the minimum provisioning rate applicable to refinanced loans for a full year (banks can refinance loan principals but not unpaid interests). Loans classified as doubtful (category 4) will increase their provisioning from 57 percent to 60 percent, and bad loans (category 5) will continue to be fully provisioned.
- Whenever a **loan is collateralized**, the provisioning rates for categories 2 to 4 are half the rates in the above-mentioned structure, but only for the covered portion of the loan; if the value of the guarantee is less than the value of the loan, the uncovered segment is provisioned at the fully uncollateralized rate. The generic provision will remain the same even for collateralized loans, and the provisioning rate for bad loans will be 60 percent instead of half of the regular provision of 100 percent.
- Provisions for **consumer loans** have a separate structure and calendar from those of other loans and in their case the collaterals cannot be used to reduce the provisioning requirements rates. Provisions on deficient, doubtful, and bad consumer loans have a flat calendar, by which the rate that will be in effect for the other loans in 2000 applies immediately beginning March 1998. By June 2000 all categories of loans will have the same provisioning rate except that deficient consumer loans will have to be provisioned at 30 percent instead of the normal rate of 25 percent. The calendar for loans classified as potential loss (category 2) is stricter, beginning in March 1998 at 3 percent instead of 2 percent.

63. In recent years, the **SBS has been reinforced** to better control and enforce banks' compliance with prudential regulations. The SBS has increased the frequency and quality of inspections, while devising two types of surveillance mechanisms: ordinary inspections (preannounced to banks), and special inspections (without notification). A new unit for market risk has been created within the SBS to assist inspections in this specific area because of the different nature of market and credit risks. Furthermore, in an effort to increase information and transparency in the financial sector, since March 1998 banks have to be rated twice a year by private rating agencies, and the grading must be publicly disclosed.

64. Since March 1998, financial holdings are subject to **consolidated supervision**, as specified in the 1996 banking law. The purpose of consolidated supervision is to determine to what extent the risks in the rest of the group can affect the bank. The natural difficulties in assessing such interrelations are compounded when conglomerates have international exposure. To this effect, local regulatory authorities need to coordinate with their foreign counterparts to obtain information on the global position of the conglomerate. In Peru both financial and mixed holdings are overseen by the SBS. The SBS is establishing arrangements with other superintendencies abroad for the supervision of financial holdings.

C. Current Standing of the Banking Sector

65. As noted, the banking sector in Peru experienced a strong improvement in its prudential stance during the 1990s, and the capital-to-assets ratio rose from 9.5 percent to 10.2 between 1993 and 1997 (Table 1). In addition to the significant stepping up of prudential regulations and enforcement capacity undertaken in recent years, the Peruvian banking system exhibits other characteristics that contribute importantly to its **resilience and strength**. These include a high degree of foreign participation; very low lending to public sector entities; flexible banking practices; and a well-designed, albeit small, deposit insurance scheme.

Ratios	1993	1994	1995	1996	1997
Capital-to-assets ratio	9.5	9.3	9.5	10.0	10.2
Provisions to nonperforming loans 1/	55.2	75.6	77.6	79.0	79.7
Nonperforming loans to total loans 1/ 2/	9.3	7.0	6.1	5.4	5.8
Profit (net) to equity	7.6	12.6	19.6	17.6	14.3
Operating costs to total assets	12.5	8.9	7.5	7.0	6.7

Source: Superintendency of Banks and Insurance.

1/ End-of-period data for 1993-94, and annual average data for subsequent years.
 2/ Under Peruvian regulations, a commercial loan is registered as nonperforming fifteen days after a non-payment occurs.

66. In recent years, the **actual ratio of capital to risk-weighted assets has been above the minimum requirement**, and averaged 10.1 percent in 1996-97. In addition, although under the banking law banks can comply with the requirement by issuing subordinated bonds for up to 30 percent of total capital, most of the banks' capital (about 85 percent) is tier one. (The banking law rules that subordinated bonds with a *residual* maturity of at least five years qualify for this category.) Furthermore, in Peru the fixed assets of banks have to be valued at historical prices and adjusted by inflation (using the wholesale price index) to prevent an overvaluation of capital.

67. The ratio of **nonperforming to total loans** decreased markedly in recent years, from 9.3 percent at end-1993 to less than 6 percent in 1997 on average while the ratio of provisions to nonperforming loans rose from 55 percent to almost 80 percent over the same period. During 1997 developments have been more contrasted, in spite of the good economic performance, and the ratio of nonperforming loans to total loans deteriorated somewhat; however, the ratio of refinanced loans to total loans declined, so that the composite measure of nonperforming plus refinanced loans expressed as a percentage of total lending remained roughly similar from its level in 1996.

68. In recent years, credit has been growing rapidly, particularly **consumer and mortgage loans**, which account for about 13 percent of total loans. Mortgage lending has a relatively low nonperforming rate (about 1.5 percent), which has induced banks to seek a larger exposure on these operations. Banks' exposure to real estate is actually larger than measured by the ratio of mortgage loans to total loans since other lending operations are collateralized with these types of assets. In the Peruvian system, mortgage guarantees amount to 35 percent of total loans.⁹ Currently, the risk of asset inflation and overvaluation of guarantees does not seem to be a leading concern.

69. As noted, **foreign participation** in the banking system currently represents 40 percent of banks' capital. Foreign participation presents various advantages, in terms of bringing local technology and managerial practices to international standards, and ensuring the backing of foreign banks to local branches or connected institutions.

70. Experience in other countries has shown that both public ownership of the banking system and lending to public sector entities can be a source of weakness of the banking system, as they can lead to political interference and disregard for project evaluation based on cost-benefit analysis and risk assessment. In Peru there is virtually no bank lending to the public sector, as commercial banks' **credit to the public sector amounts to about 1 percent only of total lending**. In addition, the public sector is a net depositor with the commercial banking system, with total net deposits of more than US\$2 billion at end-1997. Furthermore, **the entire banking sector is privately owned**. In the financial sector as a whole, the only two public sector entities, alongside the central reserve bank, are the *Banco de la Nación*, which operates as the financial agent of the state, and the financial agency for development *COFIDE*, which operates as a second tier financial institution through commercial banks.

71. One aspect of the Peruvian banking sector inherited from the hyperinflation period is that it makes extensive use of the practices of fully **flexible interest rates**. A highly dollarized system is vulnerable to changes in interest rates, and this practice constitutes a **powerful protective mechanism for commercial banks**, which can avoid interest losses through prompt adjustment of their lending rates. With regard to currency risk, banks' policies aim at protecting them from a depreciation of the currency, and to that effect, they generally keep a **long foreign currency position**. At present, there is no limit on the net long open position of banks (defined as assets minus liabilities in foreign currency) but their short net open position

⁹ In some cases the value of the collateral exceeds the size of loans, in which cases it would add an additional degree of protection.

cannot exceed 2.5 percent of their capital.¹⁰ As noted, the fact that banks keep a long foreign currency position does not isolate them from the credit risks associated with lending in foreign currency to the nontradable sector.

72. The **deposit insurance fund** established in 1993 provides a limited coverage and is privately funded. It covers deposits of individuals and nonprofit organizations up to a maximum amount equivalent to, approximately, US\$5,000. The scheme is funded by banks with quarterly individual premiums depending on the risk rating of each institution¹¹. The fund is held and managed by the central bank according to specific risk and liquidity guidance. However, the size of the deposit insurance fund is relatively small, at about US\$80 million in December 1997 (0.7 percent of total deposits).

73. An important aspect of the banking sector in Peru is its **relative concentration**. Three institutions, out of a total of 25, collect 64 percent of deposits, and seven banks collect 82 percent of deposits. To limit the danger of systemic risks, in recent years the authorities have shown a clear determination to press banks with unsatisfactory compliance with respect to prudential regulations to promptly streamline their situation. This policy is important in the process of the progressive consolidation of the soundness of the financial system. Finally, **banks' reporting of information** is comprehensive, although further improvements would still be desirable.

D. Conclusion

74. Since 1990 the banking sector in Peru has shown strong growth in a liberalized environment. At the same time, its standing and prudential framework have also been significantly strengthened and the authorities continue to undertake efforts to fortify the system. These important improvements should be assessed in light of the country's risks, and the continued strengthening of capital requirements would seem the most appropriate way to ensure the protection of the highly dollarized Peruvian banking system.

¹⁰This definition does not incorporate the net forward position of banks in foreign currency. When these operations are accounted for, the overall net foreign position of banks was positive by about US\$0.6 billion in March 1998.

¹¹ The law also allows the deposit insurance fund to have access to lending from the treasury, but not from the central bank.

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IV. SOCIAL EXPENDITURE AND INCOME DISTRIBUTION

75. Social expenditure can have a significant impact on the pattern of income distribution. In the short run, social expenditure can reduce income inequality by targeting resources to the poorer members of society. In the long run, social expenditure can alter the pattern of income distribution in a more fundamental manner by affecting the distribution of productive assets in a society. This chapter tries to gauge the impact of social expenditure on income distribution in Peru. It describes recent trends in, and the broad determinants of, income distribution, analyzes the impact of social expenditure on income distribution, and presents recent initiatives for reform in the social sectors.

A. Recent Trends in Income Distribution

76. Income distribution is increasingly recognized to be central to the sustainability of structural adjustment efforts as well as to long-term economic growth. In several studies, Latin America has been identified as the region of the world with the highest level of income inequality, a condition which has persisted from the 1960s to the present (Table 2). Inequality in Latin America declined throughout the 1970s, but increased slightly in the 1980s. Recent evidence suggests that the return to growth during the 1990s has contributed to reducing poverty rates. However, empirical findings on the impact of growth on income distribution in the 1990s are inconclusive, varying from country to country, and the degree of income inequality in the region has remained broadly stable.¹² Although there is no firm consensus on the determinants of income distribution, recent evidence suggests that the high levels of income inequality prevalent in Latin America are due to inequality in the distribution of productive assets—land, capital, and education, particularly the latter.¹³

77. Various indicators of income distribution point to a high level of income inequality in Peru. In 1994 the top 20 percent of the population received 50 percent of the national income, whereas the bottom 20 percent received only 5 percent. The distribution of income in Peru in the 1990s as measured by the Gini coefficient,¹⁴ presented in Table 2, points to a somewhat lower degree of income inequality in Peru than in Latin America on average. However, these data do not take into account differences in methodology in the measurement of income distribution. Since 1994, income distribution in Peru is measured on the basis of expenditure-based surveys, which tend to show a lower degree of income inequality than income-based

¹²Londoño and Szekely (1997a), and Lustig and Deutsch (1998).

¹³Londoño and Szekely (1997b), and Birdsall and Londoño (1997).

¹⁴The “Gini coefficient” is a measure of income inequality derived from the Lorenz curve. The lower the Gini coefficient, the more equal income distribution and vice versa. Data for Peru in the 1990s are based on the 1994 household expenditure-based survey.

data. After adjusting for differences in methodology across countries, Peru's Gini coefficient is broadly in line with the Latin American average.

	1960s	1970s	1980s	1990s
Eastern Europe	25.1	24.6	25.0	28.9
OECD and high income	35.0	34.8	33.2	33.8
East Asia/Pacific	37.4	39.9	38.7	38.1
South Asia	36.2	34.0	35.0	31.9
Middle East/North Africa	41.4	41.9	40.5	38.0
Sub-Saharan Africa	49.9	48.2	43.5	47.0
Latin America	53.2	49.1	49.8	49.3
Peru	n/a	55.0	46.0	44.9

Sources: Deininger and Squire (1996); and Clements (1997).

1/ Gini coefficients multiplied by 100.

78. Income distribution in Peru has significant rural/urban, regional, and ethnic components. The prosperous areas tend to be urban and concentrated in the capital city, Lima, and the coastal areas, whereas the jungle and mountain regions are the poorest. In 1994 the average annual per capita income in urban areas was estimated at 4.4 times the average level in rural areas.¹⁵ Although only about 30 percent of the Peruvian population lives in rural areas, 55 percent of the extreme poor are concentrated in these areas. Indigenous groups also have poverty rates far above the national average.

79. The pattern of income distribution in Peru can be traced to several factors, particularly land ownership and education. **Land ownership** in Peru is disperse, especially in the mountain areas. The diminutive size of the average Andean plot sets strict limits to its income-generating capacity, a problem which has been compounded by the absence of well-defined property rights and access to credit. According to a recent study, access to land is not a significant determinant of income per capita in rural areas; this finding reflects the fact that

¹⁵López and della Maggiora (1997).

nonagricultural activities are more lucrative, and usually supplement agricultural income.¹⁶ This finding also implies that land redistribution programs can only have a modest impact on the income of agricultural workers.

80. **In urban areas and, more generally, among nonagricultural workers, education appears to be the single most important factor in determining income distribution.** A recent study found that 40 percent of income inequality among rural nonfarm workers could be explained by differences in educational levels. Similarly, in urban areas, education-generated income differentials between skilled and unskilled workers seem to account for much of income inequality. Moreover, the rising ratio of white-collar to blue-collar wages during the 1990s (from 2 in 1990 to 2.7 in 1997) indicates a demand-driven increase in the skill premium which accentuates the impact of education differentials on income distribution.¹⁷

B. Social Expenditure and Income Distribution

81. The economic crisis of the 1980s and the process of fiscal consolidation of the early 1990s led to a decline in central government expenditure (including transfers and interest payments) from 24.6 percent of GDP in 1983 to 18.1 percent in 1990 and 14 percent in 1992.¹⁸ As a result, in real terms public health expenditure per capita declined by 50 percent between 1985 and 1990 while current education expenditure per student declined by 23 percent between 1980 and 1985, and by a further 50 percent between 1985 and 1992.

82. **Social expenditure** as a percentage of GDP has recovered significantly since 1992, rising from 5.2 percent of GDP in 1992 to 8.2 percent in 1997, and expenditure on poverty alleviation programs and housing programs as a percentage of GDP more than doubled between 1992 and 1997 (Table 3).¹⁹ Nevertheless, public education and health expenditure in Peru as a percentage of GDP are below the Latin American average and Peru's relatively low tax-to-GDP ratio compared with other countries limits the extent to which social expenditure

¹⁶The average size of farming plots in Peru was recently estimated at 5.9 hectares, ranging from 3.6 hectares in the lowest expenditure quintile to 11.5 hectares in the highest. In the mountain region, however, the average size is far smaller. According to the same study, only 15 percent of households headed by farmers have access to credit (López and della Maggiora, 1997).

¹⁷Saavedra (1997).

¹⁸Ministry of Health (1995a), and Saavedra et al., (1997).

¹⁹Peru is in the process of reviewing its national accounts, and GDP series are expected to be revised downward. As a result, the ratio of expenditure to GDP is thought to be higher than currently estimated.

Table 3. Peru: General Government Social Expenditure 1/

	1992	1995	1996	Prel. 1997
(In millions of new soles)				
Total social expenditure	2,713	10,094	11,195	14,187
Social sectors	1,900	6,282	6,727	8,414
Education	1,432	4,831	4,929	6,161
Health	468	1,451	1,798	2,253
Social security 2/	332	1,379	1,441	1,735
Poverty alleviation programs 3/	288	1,247	1,546	2,257
Social investment programs (Foncodes)	121	410	368	626
Agriculture emergency aid and land titling programs	0	112	148	299
Nutrition programs	111	420	388	474
Rural roads	0	19	70	206
Water and sanitation	0	45	119	174
Electrification projects	21	94	282	275
Other 4/	35	147	171	203
Other social programs 5/	64	250	420	608
Housing Development Fund (FONAVI) 6/	129	936	1,061	1,173
(In percent of general government expenditure)				
Total social expenditure	29.5	39.0	40.0	46.5
Social sectors	20.7	24.3	24.1	27.6
Education	15.6	18.7	17.6	20.2
Health	5.1	5.6	6.4	7.4
Social security	3.6	5.3	5.2	5.7
Poverty alleviation programs	3.1	4.8	5.5	7.4
Other social programs	0.7	1.0	1.5	2.0
Housing Development Fund (FONAVI)	1.4	3.6	3.8	3.8
(In percent of GDP)				
Total social expenditure	5.2	7.6	7.5	8.2
Social sectors	3.7	4.7	4.5	4.8
Education	2.8	3.6	3.3	3.5
Health	0.9	1.1	1.2	1.3
Social security	0.6	1.0	1.0	1.0
Poverty alleviation programs	0.6	0.9	1.0	1.3
Other social programs	0.1	0.2	0.3	0.3
Housing Development Fund (FONAVI)	0.0	0.7	0.7	0.7
Memorandum items: (in millions of new soles)				
Total poverty alleviation programs	321	1,914	1,905	2,953
Total general government expenditure	9,194	25,856	27,968	30,499
Gross domestic product	51,888	132,899	149,481	173,974

Source: Ministry of Economy and Finance.

1/ Includes social security expenditure; includes wages, salaries, and administrative expenditures.

2/ Health expenditure incurred by the Peruvian Institute for Social Security (IPSS); figures for 1992 are estimates.

3/ Excluding health and education and including electrification projects.

4/ Includes community reallocation programs, multisectoral projects, private property titling, and other social safety nets (Apoyo Social PL-480).

5/ Includes expenditures in justice and rural development projects.

6/ FONAVI provides credit for housing and small business development.

can be further expanded.²⁰ As a percentage of general government outlays, health expenditure is also below the average level in Latin America.

Education expenditure

83. The Peruvian authorities have made **great strides in improving the education of the population since the 1970s**. Total enrollment in public education increased by 142 percent between 1970 and 1996 and by 80 percent between 1980 and 1996. In 1995 gross enrollment rates reached 94 percent in primary education (children aged 6 to 11), 87 percent in secondary education (children aged 12 to 16), and 32 percent in tertiary education.²¹ Illiteracy rates have also declined, from 15 percent of the adult population in 1990 to 11 percent in 1995.

84. **Public expenditure on education** in Peru is currently below the average level for Latin American countries as a percentage of GDP; as a percentage of total government expenditure, however, it is well above average (Table 4a). Education expenditure as a percentage of GDP was on a downward trend from the mid-1970s to 1991 and has been increasing since then, reaching 3.5 percent of GDP in 1997.

85. The **composition of public education expenditure** has changed slightly between 1992 and 1995, with current expenditure on pre-primary, primary, and secondary education declining as a share of the total, and current expenditure on tertiary education and infrastructure increasing (Table 4b). On a per-student basis, education expenditure is also biased toward tertiary education, although less than in other Latin American countries.²²

86. **Real wages** in the public sector declined by 28 percent in real terms between 1989 and 1993. This decline was compensated in some sectors by salary supplements, but these did not apply to workers in the education and health sectors. As teachers' salaries fell and terrorism spread in rural areas, qualified teachers left the public school system and some left the profession altogether. As a result, currently only 50 percent of primary school teachers have a

²⁰Over the 1990–95 period, the tax revenue-to-GDP ratio was 12.0 percent of GDP in Peru, compared with 16.3 percent in Latin America, 15.3 percent in Asia, and 17.5 percent in Africa.

²¹Net school enrollment rates were 91 percent in primary education and 53 percent in secondary education (World Development Indicators, 1998). Net enrollment rates measure the percentage of the relevant age group that is enrolled at every level of education; gross enrollment rates measure the ratio of total students enrolled in every educational level to the total population comprised in that age group. Therefore, gross enrollment rates can be above 100 percent.

²²In 1994 expenditure per university student was 4.6 times the amount spent on primary school students. (Saavedra et al. 1997).

teaching degree, and they are concentrated in the Lima-Callao area. Public sector salaries have started to recover during the second half of the 1990s; in 1996-97 they rose by 15 percent in real terms.

Table 4a. Government Education Spending
(By region—latest available year) 1/

	In Percent of GDP	In Percent of Total Government Spending
Sub-Saharan Africa	4.3	14.3
Asia	3.8	14.6
Transition countries	4.1	12.8
Western Hemisphere 2/	4.0	16.3
Peru 3/	3.5	20.2

Source: IMF staff estimates.

1/ Latest year available; most data are for 1996.

2/ Excludes OECD countries.

3/ Peru data are for 1997.

Table 4b. Composition of Public Expenditure on Education

	1992	1993	1994	1995
Total	100.0	100.0	100.0	100.0
Pre-primary	5.6	5.3	5.1	5.2
Primary	28.3	27.5	25.4	25.0
Secondary	20.1	18.8	17.7	17.7
Tertiary	16.1	18.1	15.7	16.4
Administration	24.9	22.5	22.1	21.9
Infrastructure	0.6	3.6	7.6	9.1
Other	4.4	4.2	6.4	4.7

Source: Alfageme and Guabloche, Central Reserve Bank of Peru (1997).

87. Virtual **universal coverage has been achieved in primary education**, with high enrollment levels across income quintiles. Differences across genders persist among the adult population, however, with a male illiteracy rate of only 6 percent and a female rate of

17 percent. In secondary education, there are still important differences across gender, rural/urban, income and ethnic lines. In 1996 net enrollment in secondary education for children in the richest 3 quintiles was 76 percent in urban areas and 51 percent in rural areas, compared with 54 percent and 35 percent, respectively, among children in the lowest quintile.

88. **Educational attainment levels**, particularly among indigenous groups, are still a major problem as revealed by high repetition rates and the results of the first national standardized test carried out in 1996.²³ The results of this test, which covered mathematics and Spanish and was taken by a sample of primary school children, show low attainment levels with wide standard deviations. Children in private schools achieved consistently higher scores than children in public schools, and children in urban public schools fared better than children in rural public schools, despite the fact that rural schools with only one teacher were excluded from the sample.

89. Several **benefit-incidence** studies of public education in Peru show that, while primary school education is pro-poor, the benefits of secondary education and, especially, tertiary education, go mostly to the higher-income quintiles.²⁴ An ongoing study on school enrollment in Peru shows that children from families in the higher income quintiles have significantly lower drop-out rates than children in lower-income quintiles. As a result, while 93 percent of the children in the higher-income quintiles reach sixth grade, only 72 percent of the children in the lower-income quintiles reach that level.²⁵ Several studies have also found education expenditure to be progressive at the primary school level and regressive at the secondary and tertiary levels in other Latin American countries.²⁶

90. Several reforms are being implemented in the education sector which should improve overall access, quality, and equity of education. The 1993 Constitution extended compulsory education to secondary school (bringing the total number of years of education to 11). Reforms to ensure **universal access to public and free secondary education** are also under way. A key problem in this regard is the cost and difficult logistics of extending secondary school access to remote rural areas with disperse population centers. The Ministry of Education is elaborating a plan to allow children in remote rural areas to follow secondary

²³Around 63 percent of Quechua-speaking children are older than average when they reach fourth grade, compared with 50 percent of all children.

²⁴Selden and Wasylenko (1997).

²⁵Waiser and Winkler (ongoing).

²⁶See Clements (1997) on Brazil, and Schwartz (draft) on Mexico.

education classes from their homes through lessons aired by radio.²⁷ The ongoing reform of the education system also includes the establishment of two further years of secondary education which, although not compulsory, will be provided free of charge in public schools.

91. The new decentralization law, which was approved in February 1998, should **improve cohesion in the decision-making process** in the education sector by entrusting the Ministry of Education with the task of coordinating the overall sectoral budget with the regions.²⁸ Coordination with the Ministry of the Presidency has also improved, with a recent agreement establishing that the Ministry of Education will be in charge of elaborating the investment plan for the education sector, while INFES, an agency part of the Ministry of the Presidency, will be the only one in charge of building education infrastructure.

92. The Ministry of Education is also focusing on **enhancing the participation of the private sector** in the provision of education, particularly at the university level. Private institutions provide a significant share of overall educational services. In 1996 private enrollment accounted for 22 percent of total non-adult enrollment in pre-primary education; 12 percent in primary; 16 percent in secondary; 34 percent in university; and 43 percent in nonuniversity tertiary education.²⁹ In November 1996 a law was passed to facilitate the provision of educational services by the private sector. This legislation simplified the administrative procedures for the establishment of private schools, reduced state intervention to the provision of the overall regulatory framework and minimum curricula requirements, and granted tax exemptions to private centers. Currently, the Ministry of Education is studying the possibility of establishing a scholarship system to subsidize students wishing to attend private schools, especially in rural areas where public schools are scarce.

Health expenditure

93. Peru's **health indicators have improved significantly** since the 1970s, but are still below the Latin American average (Table 5). Life expectancy at birth stood at 54 years in 1970, 58 years in 1980 and 68 years in 1996. Meanwhile, infant mortality rates declined from 108 per 1,000 live births in 1970, to 81 in 1980, and 42 in 1996.³⁰ These improvements in national average levels, however, mask a **deep gap between urban and rural areas**. Life

²⁷Bolivia, Nicaragua, and Nepal have successfully used similar means to extend education access to remote rural areas.

²⁸ The 1991 Decentralization Law introduced a decentralized decision-making process in education and health, with direct transfer of resources from the treasury, which resulted in planning difficulties and duplication of services.

²⁹Wu, Kin Bing (ongoing).

³⁰World Development Indicators, the World Bank database.

expectancy is 54 percent higher in the most urban areas than in the most rural ones, while infant mortality rates in the former areas are one fourth of the level prevalent in the latter.³¹

Table 5. Social Indicators in IMF Program Countries by Region 1/

	Adult Illiteracy	Life Expectancy	Infant Mortality
Sub-Saharan Africa	50	51	100
Asia	29	63	56
Western Hemisphere	15	70	33
Peru 2/	11	66	42

Source: IMF database.

1/ Data are for last year available.
2/ Peru data are for 1995-96.

94. **The Peruvian health system** features four main providers: the Peruvian Social Security Institute (IPSS), the insurance system for the armed forces, the Ministry of Health, and private providers. Social security enrollment is compulsory for workers in the formal economy and covers 22 percent of the population, mainly belonging to the middle and upper income groups.³² Roughly 2 percent have insurance from the police and armed forces system, and 2.4 percent have private insurance coverage, mainly in the highest income group. The Ministry of Health is in charge of providing basic universal health coverage and its services reach about 54 percent of the population, mainly the poor. The remaining 20 percent, the poor in isolated rural areas, have no access to health care.³³ The percentage of the population not covered by a public or private health insurance system in the total population varies from 63 percent in the most urban areas to 85 percent in the most rural ones. Among the sick, it is estimated that 29 percent do not have access to pharmaceuticals, a national average which varies widely among regions.

95. **Public health expenditure in Peru has traditionally been quite low** compared with the average levels prevalent in Latin America (Table 6). Real health expenditure per capita increased slightly during the 1970s, but declined dramatically during the 1980s. Since then, public health expenditure has progressively risen, increasing from 0.9 percent of GDP in 1992

³¹In a study of the health situation in Peru, the Ministry of Health classified Peruvian regions in quintiles according to the degree of ruralness, which was also found to be a good indicator of poverty rates and overall marginality. Ministry of Health (1995a).

³²Social security contributions equal 9 percent of gross salaries.

³³Ministry of Health (1995b).

to 1.3 percent in 1997 (see Table 3). In spite of this increase, public health expenditure in Peru is among the lowest in the Western Hemisphere, where it averaged roughly 2.5 percent of GDP in 1996.

	In Percent of GDP	In Percent of Total Government Spending
Sub-Saharan Africa	2.1	6.5
Asia	1.7	6.1
Transition Countries	3.1	10.4
Western Hemisphere ^{2/}	2.5	10.1
Peru ^{3/}	1.3	7.4

Source: IMF staff estimates.

^{1/} Latest year available; most data are for 1996.
^{2/} Excludes OECD countries.
^{3/} Peru data are for 1997.

96. Although data on the **composition of health expenditure** by levels are not available, indications are that expenditure has been biased toward tertiary, and hospital-based care at the expense of primary health care. This trend rose during the 1980s and early 1990s when the deterioration of the health care system became very serious, particularly in primary health care. As a result of the scarcity of primary health care centers, hospitals often have to undertake this role, with adverse implications for the efficient use of health resources.

97. Indications are that **health expenditure is heavily biased toward the more urban and richer areas**, which prompted the Ministry of Health to recognize in 1995 that there was no correlation between the provision of health services and the needs of the population.³⁴ Data for 1992 show that the most rural provinces had one doctor for every 12,000 persons, while the most urban ones had one doctor for every 800 persons. Health centers are also concentrated in urban areas, especially private health centers and the centers run by the IPSS. As a result, access to a hospital is twice as high in the most urban areas than in the most rural ones. The likelihood of consulting a physician in case of illness in rural areas is only half as high as in urban areas. Access to pharmaceuticals is also biased in favor of urban areas. The share of sick people without access to pharmaceuticals in the most rural areas is twice as high

³⁴Ministry of Health (1995a).

as in the most urban areas, while the sick in urban areas are almost four times as likely to receive free pharmaceuticals than the sick in rural areas.

98. Since the most rural areas are also the poorest, the incidence of health care expenditure is currently regressive. A feature of the current health system which reinforces its regressive character is the **net cross-subsidization** from the Ministry of Health to the social security system. Since the Ministry of Health provides universal coverage whereas IPSS rarely provides services to the uninsured, for every uninsured patient receiving services from IPSS, three insured patients use the services of the Ministry of Health. As a result, there is a net transfer of resources to the less poor (those enrolled in IPSS) from the resources available to the poor (uninsured) through the Ministry of Health.³⁵

99. The Peruvian authorities are well aware of the shortcomings of the current system and are in the process of designing and implementing a process of **health care reform**. This reform is based on the two-pronged strategy of improving the efficiency and equity of the public health care system and enhancing private sector participation in the provision of health services. Important efficiency gains should result from the ongoing reform of health care financing, which will abandon historical budgeting for output-oriented budgets elaborated and managed by autonomous public health centers and monitored by the Ministry of Health. Equity should also improve as public health resources are focused on providing basic health care for the poor. A program aimed at providing **universal access to basic health care services** has achieved remarkable progress over the past five years. The number of primary health care centers increased by 60 percent between 1992 and 1996 while a system of wage incentives encouraging contractual health personnel to accept postings in poor rural areas has yielded very positive results.

100. **The Social Security Institute was reformed in 1995.** The management of the pension system was transferred to the National Pension Organization, while IPSS was left in charge of running the public health insurance system. Since then, IPSS has increased its coverage and operating efficiency. The number of personnel has been reduced by half and the ratio of administrators to other personnel has declined significantly. Despite the increased coverage and efficiency of the social security system, there still is unsatisfied demand for its services, expressed through waiting periods as well as suppressed demand. In order to improve this situation, the government has decided to encourage the role of the private sector in health care provision.

101. To **encourage private sector participation** in the provision of health services, workers are allowed to make a company-level decision to use 25 percent of social security contributions (i.e., 2.25 percent of payroll) to contract health care from a private provider. Workers from a participating firm will obtain primary health care from the private provider, but will continue to have access to tertiary health care through the Peruvian Institute for

³⁵Ministry of Health (1995a).

Social Security. In early 1998 the Peruvian government established the superintendency of health care providers, the regulatory body for private health care providers, and issued the necessary regulations for its operation.

Other social expenditure—poverty alleviation and housing programs

Poverty alleviation programs

102. **Poverty rates in the 1990s have declined**, mainly as a consequence of economic growth. Between 1991 and 1996, the percentage of the population living in poverty and extreme poverty declined from 55 percent to 44 percent and from 24 percent to 19 percent, respectively (Table 7).³⁶ The standard of living of the poor has also improved owing to poverty alleviation programs, particularly those focused on the provision of basic infrastructure. The access to basic services has increased significantly since the beginning of the decade, with availability of drinking water and electricity in rural households having increased by 26 percent and 24 percent, respectively, between 1994 and 1996.

Table 7. Peru: Social Indicators		
	1990-91	1994-96
Poverty rate (percent)	55	44
Extreme poverty rate (percent)	24	19
Human Development Index	0.60	0.72
Life expectancy at birth (years) ¹	63	68
Infant mortality rate (per thousand)	69	42
Child malnutrition (children under five years old) (percent)	16	11
Adult illiteracy rate (percent)	15	11
Sources: United Nations Development Programme (1992 and 1997); World Development Indicators (various years); INEI (1997).		
1/ The Human Development Index is a composite index constructed by the United Nations Development Programme. It is based on life expectancy, gross school enrollment ratios and purchasing-power-adjusted real GDP per capita. A higher index indicates a higher level of human development.		

³⁶Cuánto Household Surveys (1992), and INEI (1997).

103. **Important differences in poverty levels however remain across regions**, with the share of households with at least one unmet basic need ranging from 92 percent (Huancavelica) to 35 percent (Lima). Overall, the percentage of households with electricity, drinking water, and running water in rural areas is roughly one-third of the average level prevalent in urban areas.³⁷
104. **Expenditure on poverty-alleviation programs** as a percentage of GDP more than doubled between 1992 and 1997 (from 0.6 percent to 1.3 percent) (see Table 3). The fastest-growing projects include electrification projects, nutrition programs, water and sanitation, and rural roads. The government's strategy for poverty alleviation is centered around the Ministry of the Presidency, in cooperation with the Ministries of Health and Education. The Ministry of the Presidency finances over half of all social expenditure and is in charge of coordinating the overall strategy for poverty alleviation. In this capacity, it has taken over many functions which are normally performed by the line ministries. As noted, it is an institution under the Ministry of the Presidency that is in charge of building education infrastructure rather than the Ministry of Education, and 25 percent of health expenditure is in the hands of the Ministry of the Presidency rather than the Ministry of Health.
105. **The involvement of a large number of public agencies** with overlapping mandates and insufficient coordination, especially between the Ministry of the Presidency and line ministries, has been a key obstacle toward improving efficiency in poverty alleviation programs. For instance, until recently, education infrastructure was provided by the Ministry of Education as well as three other institutions part of the Ministry of the Presidency; health infrastructure is provided by these same three agencies as well as the Ministry of Health; three different public institutions run school lunch programs; and four are involved in developing water and sanitation facilities.
106. The Peruvian government is making an effort to **improve coordination among agencies** by encouraging written agreements between agencies which clearly establish the respective sub-areas of responsibility. Although this is not an optimal strategy to ensure efficient expenditure, it should contribute to reduce duplication. A secretariat of social affairs was established in 1994 also with the goal of enhancing coordination among agencies in the social arena.
107. According to a recent World Bank study, **the social programs of the Ministry of the Presidency had some difficulty in reaching the poor**.³⁸ The study found that only 17 percent of the program benefits went to the extreme poor, while 48 percent went to the

³⁷Ministry of Health (1995b).

³⁸Jesko Hentschel et al., *Did the Ministry of the Presidency Reach the Poor in 1995?* (The World Bank, 1996).

poor and 35 percent leaked to the nonpoor. The study also found the programs to have an urban bias as well as a bias against the regions with the highest numbers of indigenous population.³⁹ The key reasons for this tilt against the poorest and more rural areas were found to be the weakness of targeting mechanisms, the restrictions on participation by the poor in housing credit programs, and the urban nature of many of these programs.

108. The benefit incidence of social expenditure, however, was found to vary widely across programs. **Poverty-alleviation programs** run by FONCODES, an agency whose goal is the alleviation of extreme poverty, were found to be most **effectively targeted to the poor**, followed by nutrition and basic infrastructure programs. FONCODES and nutrition programs systematically used poverty maps and other mechanisms to target their resources geographically, as well as to ensure that beneficiaries within selected districts were indeed needy. FONCODES, moreover, encourages the participation of beneficiary communities in the design, development and implementation of projects and uses several mechanisms of ex post project evaluation. Poverty maps and ex post evaluation were not used as systematically by other agencies in the Ministry of the Presidency, which contributes to explaining their poor targeting.

Housing and basic infrastructure programs (FONAVI)

109. Housing programs are financed by the Housing Development Fund (FONAVI), which operates under the Ministry of the Presidency and obtains its resources from a 5 percent payroll tax. Since 1992 FONAVI has been operating as a lending institution to other public organizations for urban projects. In percent to GDP, expenditure on housing programs tripled between 1992 and 1997, increasing from 0.2 percent to 0.7 percent. FONAVI accounts for roughly two-thirds of total central government earmarked resources and it is the only earmarked fund that is also **extrabudgetary**.

110. A further problem regarding housing credit programs is their **regressive** nature. The above-mentioned World Bank study found housing expenditure to have been devoted to the richest areas in the country and benefit almost exclusively the nonpoor.⁴⁰ Housing expenditure benefiting the two highest income quintiles was higher than the expenditure devoted to the second and third quintiles, officially the target group of these programs. The regressive nature of housing programs is linked to the fact that they are credit operations almost exclusively concentrated in urban areas. Housing loans are also biased against the poor because they are

³⁹Although according to the FONCODES poverty map, 21 percent of resources from the Ministry of the Presidency should go to areas with a high concentration of indigenous population, only 13 percent of actual 1995 expenditures reached those areas.

⁴⁰Cross-country evidence from Latin America suggests that publicly-supported housing credits are almost always regressive, benefiting the upper-middle class rather than the poor. See Hentschel (1996) and Persaud (1992).

allocated through means testing to assess the repayment capacity (and not the poverty level) of beneficiaries. They include requirements such as that beneficiaries be FONAVI contributors,⁴¹ legal owners of land, and meet minimum income thresholds. FONAVI expenditure devoted to the **provision of basic infrastructure** (water, sanitation, and electrification) seems to be **better targeted** than housing expenditure. Household survey data for expenditure on basic infrastructure projects is not available and, therefore, its benefit incidence cannot be assessed. However, its geographical distribution shows a concentration in lower-middle income areas, the target group of FONAVI.

C. Conclusion

111. As noted initially, income distribution in Peru seems to be determined by a disperse pattern of land ownership and unequal distribution of educational assets. The ongoing government program of land titling and other **structural reforms**, such as the reform of the judiciary and a well-defined regulatory framework for property rights, should help improve access of farmers to credit and enhance the income-generating capacity of land, thereby diminishing income inequality. More important, a well-functioning land market coupled with rising educational levels and employment opportunities in nonagricultural sectors could ease the transition of the rural poor from employment in low productivity subsistence agriculture to growing modern sectors of the economy.

112. The recent increase in demand for skilled labor, reflected by the rising ratio of white-to blue-collar wages, constitutes a favorable context for the expansion of the average education of Peru's population. After a full decade of steep decline, education expenditure has been increasing since 1992 both as a percentage of GDP and as a percentage of government expenditure. By international standards, public education spending in Peru is currently high as a percentage of government expenditure, but low as a percentage of GDP and on a per student basis. Therefore, given the relatively low level of Peru's tax-to-GDP ratio, there is little room left for further expansion.

113. The current trend toward **focusing public expenditure on the areas with the highest social returns**—primary and secondary education and basic health care—is encouraging and should be further stepped up. It will contribute to improving the benefit incidence of social expenditure in the short run, as well as the distribution of educational assets, and therefore of income distribution in the long run. The current plan to ensure universal access to secondary education should significantly improve the productivity of the Peruvian labor force, the equity of public education expenditure, and the pattern of income distribution. Also, enhanced provision of educational services by private sector institutions, especially at the tertiary level, should result in increased availability of resources for public

⁴¹Only workers in the formal sector pay payroll taxes and are FONAVI members, which excludes the poorest sections of the population.

primary and secondary schooling, thereby decreasing education inequalities and, in time, lowering income inequality.

114. Although **poverty-alleviation programs** are currently well-targeted to the poor, there is room to **improve their efficiency** through consolidation and reorganization of agencies and ministries involved. Finally, regarding FONAVI programs, significant changes may be needed in their design, including refocusing expenditure from housing credit programs to the provision of basic infrastructure, to help reach its target group.

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Tax	Rate (%)	Taxable Base	Exemptions	Remarks
I. Income tax				
A. Corporate income tax				
Resident businesses	30	Worldwide income of resident legal persons and Peruvian-source income of nonresident businesses.	The following are exempt (until 12/31/2000): <ul style="list-style-type: none"> - Religious institutions; nonprofit institutions of social assistance; and other charities. - Interest on international institution loans or foreign government loans. - Interest on loans to the public sector. - Interest on savings in the domestic financial system. - Royalties for technical assistance provided from abroad by state or international agencies. - Interest on nominative securities issued by corporations. - Capital gains from the domestic stock market. - Private universities. 	The following are not subject to the tax: <ul style="list-style-type: none"> - The Peruvian public sector, except public enterprises. - Public and nonprofit schools, Universities, and educational institutions; nonprofit foundations in the areas of education, social assistance, and health and hospitals. - Mutual aid cooperatives and associations. - Communal associations of farmers. - Native communities.
Nonresident businesses		Legal persons comprise: <ul style="list-style-type: none"> - Corporations. - Partnerships. - Cooperatives. - Labor-owned companies. - State enterprises. - Foreign sole proprietorships. - Branches of foreign enterprises. - Mutual funds, investment funds, and trust funds. - Limited liability enterprises and undertakings. 	Dividends and other remittances of foreign subsidiaries have been free of taxation since 1994.	Advance payments: <ul style="list-style-type: none"> - On the basis of a coefficient applied to monthly receipts. The coefficient is computed yearly (or twice yearly on an optional basis) as the quotient between the tax liability and gross receipts in the previous year. - Two percent of gross receipts for new businesses and businesses that had losses in the previous year.
	30			
	1			
	10			
	30			
B. Individual income tax				
Resident individuals:				
a. Global nonbusiness income (categories 1, 2, 4, and 5):		The taxable base is net income, calculated as the difference between gross taxable income and the deductions allowed by the law.	Exempt items include all of those mentioned under the corporate income tax and income of nonresident artists, and labor income of nonresident employees of international organizations.	Advance payments: <ul style="list-style-type: none"> - Income of categories 1 and 2: 15 percent monthly. - Income of category 3: same as corporations. - Income of category 4: 10 percent monthly. - Income of category 5: on the basis of 1/12 of projected annual income.
- from 0 UITs to 54 UITs 2/	15	Income is classified in 5 categories with specific deductions:		
- above 54 UITs	30	- Category 1: land and real estate. Deductions: 20 percent of gross income.		
b. Business income (category 3)		- Category 2: capital income and renis. Deductions: 10 percent of gross income.		

Peru: Summary of the Tax System (March 1997) 1/

Tax	Rate (%)	Taxable Base	Exemptions	Remarks
Nonresident individuals:				
- Pensions and earnings	30	<ul style="list-style-type: none"> - Category 3: business income. Deductions: All necessary costs of maintaining the source of income (same as corporations). - Category 4: self-employment income and professionals. Deductions: 20 percent of gross income up to a maximum of 24 UITs or a flat deduction of 7 UITs. - Category 5: labor income, wages and salaries. Deductions: flat deduction of 7 UITs. 		
Dividends are not taxable income since 1994 to avoid double taxation.				
C. Minimum income tax				
Tax on business assets. It operates as a minimum income tax.	0.5 3/	All individuals and legal persons that generate income of category 3 (business income) are subject to this tax.	In addition to the exemptions applicable to income of category 3 (businesses) under the income tax, the following are specifically exempt from this tax:	<p>The tax operates as a minimum income tax. Thus, the joint tax liability from income and assets taxes is the maximum of 1.5 percent of assets and the tax liability from the income tax.</p> <p>As in the corporate income tax, the following are not subject to the tax:</p> <ul style="list-style-type: none"> - The Peruvian public sector, except public enterprises. - Public and nonprofit schools, universities, and educational institutions; nonprofit foundations in the areas of education, social assistance, and health and hospitals. - Mutual aid cooperatives and associations. - Communal associations of farmers. - Native communities.
The taxable base are the assets of the business (or those devoted to the business activity in the case of individuals) as of December 31 of the previous year.			<ul style="list-style-type: none"> - 50% of assets of banks and financial institutions. - Public utilities (electricity, potable water, and sewerage). - The public development bank COFIDE. - Agricultural businesses except agro-industry, poultry, and pig husbandry. - Enterprises in the process of liquidation. - Universities and other educational institutions. - Native communities. 	
Assets are net of depreciation and amortization allowances and adjusted by inflation, in accordance with the income tax law.				
Taxable assets do not include new machinery and equipment purchased during the previous two years.				

Peru: Summary of the Tax System (March 1997) 1/

Tax	Rate (%)	Taxable Base	Exemptions	Remarks
<p>2. Value-added tax</p> <p>Rate: Total of which: National Treasury Municipal budgets (IPM)</p>	<p>18 16 2</p>	<p>Banks and financial institutions may deduct liquidity reserves, and bad and doubtful debt provisions. State-owned banks may also deduct their capital participation in the Andean development bank (CAF). Export businesses may deduct inventories and accounts receivable related to export activities.</p>	<p>The following exemptions were renewed until December 31, 1997.</p> <p>a. Goods: - Fish - Bull semen - Whole raw milk - Vegetables and fruits - Cereal seeds - Raw coffee, tea, cocoa, and tobacco - Oregano, achiote, and tara - Wools and pelts, not carded or combed</p>	<p>Tax credit Tax credit is accorded for IGV paid on purchases. The tax credit is limited to purchases that constitute business costs and investment related with taxable activities.</p>
<p>The tax is levied on: - Domestic sales of movable goods at each stage of the production and distribution chains. The taxable base is the sale price. - Domestic provision of services that originate income of category 3 (business income) with the exception of professional services. The taxable base is the total compensation for the services rendered. - Construction contracts. The taxable base is the total value of the construction.</p>		<p>- The first sale of buildings, houses, and other constructions. The taxable base is the price of the building net of the value of the land. - The importation of goods. The tax base is the c.i.f. price of imports plus import duties and excise taxes (ISC).</p>	<p>b. Services: - Financial services - Interest on nominal bonds issued by enterprises - Public passenger transportation (except air transport) - Freight transport - Provision of meals in social and university cafeterias - Live shows declared of cultural value by the National Institute of Culture (INC), cinema, and bullfights. - Production and repairs of foreign ships</p>	<p>Treatment of exports Exporters may apply the balance of tax credit against the income tax or other liabilities to the treasury. Any remaining credit balance may be refunded through marketable tax certificates (<i>Notas de Crédito Negociables</i>) or cash.</p> <p>The following exports of services are also treated as exporters. - Consulting and leasing - Advertisement and data processing - Personnel services - Commissions on the provision of credit - Financing, insurance, and reinsurance - Tourism operators - Telecommunications</p>
<p>The tax is collected in full by the National Superintendency of Tax Administration (SUNAT) and the corresponding part is subsequently transferred to the municipalities.</p>				

Peru: Summary of the Tax System (March 1997) 1/

Tax	Rate (%)	Taxable Base	Exemptions	Remarks
Value-added tax: special regime for the <i>Selva</i> and <i>Frontera</i> regions (jungle and border regions)				
The special regime covers businesses located in the departments of Loreto, Ucayali, San Martín, Amazonas, and Madre de Dios.				
To be eligible for this regime, taxpayers must reside and carry out at least 75 percent of their operations in the aforementioned regions.				
General exemption from the value-added tax under this regime is available for the following:				
- Imports and sales of goods for consumption in these regions specified in the Peru-Colombia agreement and customs cooperation agreement. Additionally, imports and sales of inputs used in the production of the specified goods are also exempt.				
- Sales within the regions, for consumption therein, of goods produced in the regions and inputs used for the production of such goods and raw materials specific to the regions.				
- Services provided within the regions.				
These goods and services are subject to the 2 percent tax earmarked for municipal budgets (IPM). To be eligible for these exemptions, it is necessary that the goods or inputs enter Peru directly through land, river, or air terminals of the <i>Selva</i> region and that import operations be carried out through authorized customs houses.				
Special regime for the <i>Selva</i> and <i>Frontera</i> regions under the Industry Law.				
This regime covers industrial enterprises located in the departments of Tumbes, Tacna, Loreto, Ucayali, and Madre de Dios; and in the provinces of Sullana, Ayabaca, and Huancabamba in the Piura department, San Ignacio and Jaen in the Cajamarca department, Bagua and Chachapoyas in the Amazonas department, Chucuito, Huancané, San Román, Puno, and Sandía in the Puno department; and other districts and areas specified by law.				
Enterprises under this regime are exempt from the general value-added tax (IGV) and excises (ISC). They are subject, however, to the municipal part of the value-added tax (IPM) at a rate of 18 percent. This regime expires on December 31, 1998.				
3. Excise tax (ISC)				
The excise is levied on the following products:				
Ad valorem rates:	(%)	The tax levied ex factory or at customs.	Subject to annual renewal, the following are exempt:	
Cigarettes	25	When ad valorem rates apply, the base excludes the value-added tax.	- Export processing (duty free) zones (currently there are two of them).	
Mineral water	10	For imports subject to ad valorem rates, the base is the c.i.f. value and import duties.	- Industrial enterprises located in the <i>Selva</i> and <i>Frontera</i> regions (see section on special regimes for these regions).	
Wine	10	In the case of soft drinks, beer, and cigarettes, the tax base is 84 percent of the retail price as determined by the National Institute of Statistics and the SUNAT and published by the Ministry of Finance.	- The sale of fuel to subsidiaries of Electoperú and other companies providing electricity under public concession.	
Beer	30			
<i>Aguardiente</i> liquor	10			
Other liquor	10			
Soft drinks	12			
Vehicles (new)	20			
Vehicles (used)	45			

Peru: Summary of the Tax System (March 1997) 1/

Tax	Rate (%)	Taxable Base	Exemptions	Remarks
Specific rates: 4/				
Gasoline	(S/. per gallon 5/)			
up to 84 octanes	1.69			
85-90 octanes	2.22			
91-95 octanes	2.44			
more than 95 octanes	2.69			
Kerosene	0.47			
Gas oils	1.12			
Fuel oils				
Residual 6	0.13			
other residuals	0.13			
LPG	0.47			
4. Import tariff				
Import duties are determined according to ad valorem rates by customs heading.		The base is the c.i.f. value of imports.	The following are exempt or not subject to duty: - Imports by universities and by cultural and educational institutions. - Those covered by international agreements. - Grants to the public sector and private nonprofit charities. - Passengers' personal baggage. - Imports by diplomatic personnel and officials of international organizations. - Imports of arms for the Armed Forces and national defense. - Samples without commercial value	
The tariff rate structure was reformed in April 1997. Since then, it encompasses the regular import tariff and a surcharge (with a rate of 5 percent) on imports of some agricultural and agro-industrial products.	12 or 20 percent			

5. Simplified consolidated regime for small businesses (RUS)

The regime consolidates the value-added and income taxes into a single tax. Tax liability is set as fixed monthly installments less 20 percent of: (a) the value of purchases subject to value-added tax and substantiated by invoices; and (b) expenses in professional services (which need to be reported to the tax administration). Taxpayers subject to this regime cannot issue value-added tax invoices that could be used to claim tax credit by other taxpayers. This regime applies to resident taxpayers with income of category 3 (business income) below S/. 12,000 per month. Additionally, the taxpayer cannot have more than 4 employees nor more than one establishment.

Peru: Summary of the Tax System (March 1997) 1/

Tax	Rate (%)	Taxable Base	Exemptions	Remarks
RUS Rates (in S/):				
Monthly sales (1997)		Gross tax liability		
0	2,000	0		10
2,001	2,200	80	Taxpayers can reduce their liability by up to 20 percent of their purchases subject to IGV and by 100 percent of expenses in professional services.	35
2,201	4,600	270		80
4,601	7,000	590		150
7,001	8,600	960		220
8,601	9,700	1,250		300
9,701	12,000	1,650		

6. Special income tax regime

This regime is intended as an alternative to the RUS for those small businesses that want to be registered as regular value-added taxpayers in order to be able to issue invoices and receive tax credit for the IGV paid on purchases.

A. Scope of application:

This regime is open to individuals and legal entities engaging in activities which produce income of category 3 (business income), from mining, manufacturing, and commercialization activities and meet the following two criteria: (a) their gross income for the preceding year did not exceed twelve times the monthly ceiling set for the RUS (currently, S/ 12,000) and (b) their assets do not exceed 100 UITs. Individuals and legal entities starting activities can opt for this regime if they anticipate that their gross income during the remaining of the tax year will not exceed the proportion of the threshold corresponding to the period between the startup date and the remaining of the tax year.

Regular VAT regime applies to taxpayers subject to this regime. The taxable base is gross business income.

B. Payments

Taxpayers under this regime make a final monthly payment equivalent to 3 percent of their gross receipts in lieu of income and assets taxes. Their liabilities under the value-added tax are assessed under the general regime. If the taxpayer has additional income, other than income of category 3, it will be taxed under the regular regimes in relation with that additional income.

Sources: Central Reserve Bank of Peru; and Ministry of Finance.

1/ UIT refers to the indexed tax unit. These are accounting units regularly updated (once a year) for inflation by the Ministry of Finance. In January 1998 the value of the UIT was updated to S/ 2,600 (about US\$906 at the program exchange rate for 1998); previous values of the UIT were S/ 2,400 for 1997, S/ 2,200 (from February 1996 to January 1997), S/ 2,000 (during 1995), and S/ 1,700 (during 1994).

2/ UIT refers to the indexed tax unit. These are accounting units regularly updated (once a year) for inflation by the Ministry of Finance. In January 1998, the value of the UIT was updated to S/ 2,600 (about US\$906 at the program exchange rate for 1998); previous values of the UIT were S/ 2,400 for 1997, S/ 2,200 (from February 1996 to January 1997), S/ 2,000 (during 1995), and S/ 1,700 (during 1994).

3/ The rate was 2 percent in 1996. It was reduced to 1.5 percent effective January 1997 and to 0.5 percent in April 1997.

4/ Decree 062-98 enacted on March 24, 1998.

5/ U.S. gallons, equivalent to 3,785 cubic centimeters.

Table 8. Peru: Aggregate Supply and Demand

	1992	1993	1994	1995	1996	1997
I. Annual Percentage Changes						
(At constant 1979 prices)						
Aggregate supply	-0.3	5.5	15.3	10.8	2.2	8.2
Gross domestic product	-1.8	6.4	13.1	7.2	2.6	7.4
Imports 1/	7.4	0.8	26.2	26.5	0.6	11.5
Domestic expenditure	-1.0	6.4	15.0	11.9	0.0	7.0
Public sector	6.2	5.3	15.0	10.5	-2.2	6.8
Consumption	2.8	1.5	9.5	11.9	1.6	4.1
Fixed investment 2/	13.9	12.9	25.0	8.2	-8.5	11.8
Private sector	2.1	8.2	30.6	22.1	-1.9	17.0
Consumption	-0.3	4.5	9.9	8.1	1.4	4.3
Fixed investment	1.8	11.3	39.7	25.5	-2.9	21.0
Change in stocks 3/	-1.8	0.7	-0.8	-0.3	0.1	-1.7
Exports 1/	2.5	1.8	16.6	6.1	11.4	13.2
(At current prices)						
Aggregate supply	62.2	56.4	35.7	22.8	12.4	16.8
Gross domestic product	60.4	55.7	34.9	20.5	12.5	16.4
Imports 1/	76.9	62.3	42.1	38.7	12.1	19.1
Domestic expenditure	61.0	56.9	34.9	22.9	11.8	15.8
Public sector	84.8	59.4	53.1	29.5	8.1	19.3
Consumption	83.9	55.2	49.7	34.6	9.1	19.5
Fixed investment 2/	86.8	68.3	59.7	20.0	6.0	18.8
Private sector	70.7	67.2	63.4	37.6	9.0	26.2
Consumption	59.9	53.1	27.8	18.7	13.2	13.4
Fixed investment	64.2	73.8	70.2	38.9	9.0	29.1
Change in stocks 3/	-0.2	1.4	-0.4	-0.1	0.1	-1.0
Exports 1/	74.2	51.9	43.7	21.9	17.9	24.9
II. In Percent of Nominal GDP						
Aggregate supply	113.0	113.5	114.3	116.4	116.4	116.7
Domestic expenditure	102.2	103.0	103.0	105.0	104.4	103.9
Public sector	9.8	10.0	11.4	12.2	11.7	12.0
Consumption	6.6	6.6	7.4	8.2	8.0	8.2
Fixed investment 2/	3.1	3.4	4.0	4.0	3.8	3.9
Private sector	91.1	91.2	90.6	92.0	91.9	92.1
Consumption	79.0	77.7	73.7	72.5	73.0	71.1
Fixed investment	12.0	13.4	16.9	19.5	18.9	21.0
Change in stocks	1.3	1.8	1.0	0.8	0.8	-0.2
Exports 1/	10.8	-10.6	11.3	11.4	11.9	12.8
Imports 1/	13.0	13.5	14.3	16.4	16.4	16.7

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Goods and nonfactor services.

2/ Includes investment expenditure by nonfinancial public enterprises, and excludes other net public sector capital expenditure.

3/ Computed as a percent of domestic expenditure.

Table 9. Peru: Savings and Investment
(In percent of GDP, unless otherwise indicated)

	1992	1993	1994	1995	1996	1997
I. Balance of Payments						
Current account balance	-4.8	-5.2	-5.3	-7.3	-5.9	-5.2
Net exports of goods and services	-2.7	-2.8	-2.9	-5.0	-4.4	-3.9
Net factor payments	-3.2	-3.7	-3.6	-3.3	-2.6	-2.3
Net transfers	1.1	1.2	1.2	1.0	1.1	1.0
Financial and capital account	4.8	5.9	10.0	8.8	8.4	6.8
Nonfinancial public sector 1/	2.2	2.5	2.3	2.4	0.8	-0.4
Private capital 2/	2.6	3.4	7.7	6.4	7.6	7.2
Change in central bank net international reserves (increase -) 3/	0.0	-0.7	-4.6	-1.5	-2.5	-1.5
II. Nonfinancial Public Sector						
Nonfinancial public sector savings	1.3	1.9	2.6	2.2	3.5	4.4
Central administration current balance (including interest)	-1.8	-1.6	-1.5	-1.5	0.3	1.3
Revenue 4/	11.4	11.3	12.9	13.3	14.2	14.0
Expenditure (including interest)	13.1	12.8	14.4	14.8	13.9	12.7
Rest of nonfinancial public sector current balance (including interest)	3.0	3.5	4.1	3.6	3.2	3.1
Public sector capital expenditure	4.2	4.5	5.0	5.1	4.8	4.6
Fixed investment	3.3	3.7	4.0	4.2	3.9	3.9
Other	0.9	0.7	1.0	0.9	0.9	0.8
Capital revenue	0.3	0.2	0.1	0.2	0.3	0.1
Overall surplus or deficit (-)	-2.7	-2.4	-2.3	-2.7	-1.1	-0.1
Financing	2.7	2.4	2.3	2.7	1.1	0.1
Net foreign financing	2.1	2.6	2.2	2.3	0.7	-0.6
Net domestic financing	0.5	-0.2	0.1	0.5	0.3	0.6
III. Savings and Investment						
Gross domestic investment	16.5	18.6	22.0	24.3	23.5	24.6
Nonfinancial public sector 5/	3.1	3.4	4.0	4.0	3.8	3.9
Private sector investment	13.3	15.2	17.9	20.3	19.7	20.7
Savings	16.5	18.6	22.0	24.3	23.5	24.6
External	4.8	5.2	5.3	7.3	5.9	5.2
National	11.6	13.4	16.7	17.0	17.5	19.4
Nonfinancial public sector	1.3	1.9	2.6	2.2	3.5	4.4
Financial public sector	-0.2	-0.2	0.0	0.0	0.0	0.1
Private sector	10.5	11.6	14.1	14.8	14.1	14.9
Memorandum items:						
Nominal GDP						
(In billions of new soles)	52.5	81.8	110.3	132.9	149.5	174.0
(In billions of U.S. dollars)	42.4	41.0	50.2	58.9	60.9	65.3

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Includes exceptional financing.

2/ Includes net borrowing by the financial public sector, and errors and omissions.

3/ Includes reserve requirements on foreign currency deposits. Excludes price effect on international assets and liabilities.

4/ Excludes grants.

5/ Fixed investment of the nonfinancial public sector.

Table 10. Peru: National Accounts at Current Prices

(In millions of new soles)

	1992	1993	1994	1995	1996	1997
Consumption expenditure	45,003	68,978	89,339	107,303	121,028	138,008
General government	3,490	5,415	8,106	10,913	11,908	14,230
Private sector	41,513	63,563	81,234	96,389	109,120	123,779
Gross domestic investment	8,645	15,207	24,229	32,279	35,067	42,807
Fixed capital formation	7,965	13,754	23,113	31,264	33,914	43,195
Public sector 1/	1,653	2,781	4,441	5,330	5,652	6,714
Private sector	6,312	10,973	18,672	25,934	28,262	36,480
Change in stocks	680	1,453	1,116	1,015	1,153	-388
Domestic expenditure	53,647	84,184	113,568	139,581	156,095	180,815
External sector	-1,132	-2,428	-3,316	-6,683	-6,614	-6,841
Exports	5,688	8,642	12,416	15,130	17,833	22,282
Imports	6,820	11,070	15,732	21,813	24,447	29,123
Gross domestic product at market prices	52,516	81,757	110,252	132,899	149,481	173,974
Net factor payments from abroad	-1,693	-3,002	-3,977	-4,362	-3,861	-3,996
Gross national product at market prices	54,208	84,758	114,229	137,261	153,342	177,970

Source: Central Reserve Bank of Peru.

1/ Includes investment expenditure by nonfinancial public enterprises, and excludes other net public sector capital expenditure.

Table 11. Peru: National Accounts at Constant Prices

(In 1979 new soles)

	1992	1993	1994	1995	1996	1997
Consumption expenditure	2,502	2,606	2,863	3,107	3,152	3,286
General government	276	280	307	344	349	363
Private sector	2,226	2,326	2,556	2,764	2,803	2,922
Gross domestic investment	793	899	1,168	1,404	1,359	1,539
Fixed capital formation	722	805	1,103	1,351	1,300	1,556
Public sector 1/	136	154	192	208	190	213
Private sector	586	652	911	1,143	1,110	1,343
Change in stocks	71	93	65	53	59	-17
Domestic expenditure	3,295	3,505	4,031	4,511	4,511	4,825
External sector	114	123	73	-112	1	21
Exports	842	858	1,000	1,061	1,181	1,337
Imports	729	735	927	1,173	1,180	1,316
Gross domestic product at market prices	3,409	3,628	4,104	4,399	4,512	4,846
Net factor payments from abroad	-16	-19	-22	-22	-17	-16
Gross national product at market prices	3,424	3,647	4,125	4,421	4,529	4,862

Source: Central Reserve Bank of Peru.

1/ Includes investment expenditure by nonfinancial public enterprises, and excludes other net public sector capital expenditure.

Table 12. Peru: Sectoral Origin of Gross Domestic Product at Constant 1979 Prices

	1992	1993	1994	1995	1996	1997
(In 1979 new soles)						
Gross domestic product	3,408.6	3,628.2	4,103.7	4,399.0	4,511.6	4,845.7
Agriculture and livestock	401.8	436.7	497.5	535.5	566.2	593.9
Fishing	39.1	47.3	61.0	49.3	49.1	44.4
Mining and petroleum	399.1	436.5	456.0	468.1	481.2	509.1
Manufacturing	758.5	794.8	923.2	962.2	988.3	1,053.0
Construction	225.8	257.6	346.6	407.3	388.5	471.2
Retail	460.9	477.2	559.7	629.0	647.6	695.9
Other	1,123.5	1,178.1	1,259.7	1,347.6	1,390.8	1,478.2
(Percentage change)						
Gross domestic product	-1.7	6.4	13.1	7.2	2.6	7.4
Agriculture and livestock	-7.4	8.7	13.9	7.6	5.8	4.9
Fishing	12.7	21.0	28.9	-19.1	-0.5	-9.7
Mining and petroleum	-2.3	9.4	4.5	2.6	2.8	5.8
Manufacturing	-2.9	4.8	16.2	4.2	2.7	6.6
Construction	4.0	14.1	34.6	17.5	-4.6	21.3
Government	-4.0	3.6	17.3	12.4	3.0	7.5
Other	0.8	4.9	6.9	7.0	3.2	6.3
(As percent of total)						
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture and livestock	11.8	12.0	12.1	12.2	12.6	12.3
Fishing	1.1	1.3	1.5	1.1	1.1	0.9
Mining and petroleum	11.7	12.0	11.1	10.6	10.7	10.5
Manufacturing	22.3	21.9	22.5	21.9	21.9	21.7
Construction	6.6	7.1	8.4	9.3	8.6	9.7
Government	13.5	13.2	13.6	14.3	14.4	14.4
Other	33.0	32.5	30.7	30.6	30.8	30.5

Source: Central Reserve Bank of Peru.

Table 13. Peru: Manufacturing Production

	1992	1993	1994	1995	1996	1997
(Index 1979 = 100)						
Total	92.5	97.0	112.6	117.4	120.6	128.4
Fishmeal	209.6	257.1	351.4	260.1	274.1	223.6
Food, beverages, and tobacco	108.1	108.0	124.3	129.7	127.5	136.7
Food	96.7	96.6	112.3	117.5	115.9	123.4
Beverages	145.4	145.2	165.2	170.9	163.9	182.7
Tobacco	72.9	73.2	80.8	87.2	97.6	85.8
Textiles, clothing, and leather	87.7	83.8	99.1	104.1	110.4	116.7
Textiles	93.4	88.7	106.7	111.8	119.3	126.2
Leather and furs	55.6	53.4	51.4	51.7	53.4	49.4
Leather shoes	49.1	52.9	52.5	59.8	55.9	64.2
Paper	26.6	28.0	54.5	72.2	71.2	68.0
Petroleum derivatives and other chemical products	89.1	99.1	108.3	118.4	122.6	136.8
Industrial chemical products	78.1	88.4	94.9	99.3	112.8	126.9
Other chemical products	98.2	105.4	113.1	134.5	130.1	147.7
Petroleum refining	108.4	112.5	116.5	114.7	114.1	123.2
Rubber products	68.0	74.1	75.9	80.8	77.5	92.1
Plastic products	74.8	102.4	133.2	145.2	162.3	174.5
Nonmetallic mineral products	78.0	92.7	115.1	138.3	145.7	162.4
Glass and glass products	54.5	50.7	62.1	91.9	122.0	142.6
Other	86.0	106.9	133.2	154.1	153.7	169.1
Basic metallic industry	89.3	94.0	103.0	106.0	118.2	126.9
Iron and steel	80.7	90.0	122.9	127.0	140.4	156.2
Nonferrous metals	91.6	95.0	97.8	100.6	112.4	119.2
Metallic product and machinery	53.5	52.4	62.1	77.1	69.4	75.7
Metallic products	48.9	66.0	78.0	80.7	85.2	100.8
Nonelectrical machinery	55.7	46.5	64.7	82.4	54.1	65.3
Electrical machinery and equipment	73.1	65.5	64.2	93.8	87.2	86.6
Vehicles	21.8	12.5	32.1	36.1	24.7	25.9
Other	93.7	97.2	112.5	125.7	126.1	145.6
(Percentage change)						
Total	-2.9	4.8	16.2	4.2	2.7	6.5
Fishmeal	9.9	22.7	36.7	-26.0	5.4	-18.4
Food, beverages, and tobacco	-1.5	-0.1	15.1	4.3	-1.7	7.2
Textiles, clothing, and leather	-7.3	-4.5	18.4	5.0	6.1	5.7
Paper	-38.5	5.0	95.0	32.3	-1.3	-4.5
Petroleum derivatives and other chemical products	-2.0	11.3	9.2	9.3	3.5	11.6
Nonmetallic mineral products	-6.0	18.8	24.3	20.1	5.3	11.4
Basic metallic industry	0.3	5.2	9.6	2.9	11.5	7.4
Metallic product and machinery	-20.5	-2.0	18.3	24.3	-10.0	9.0
Other	2.0	3.8	15.7	11.7	0.2	15.5

Sources: Ministry of Industry, Tourism, Integration and International Commercial Negotiations; and Central Reserve Bank of Peru.

Table 14. Peru: Sources and Uses of Petroleum and Petroleum Derivatives

	1992	1993	1994	1995	1996	1997
	(Millions of barrels)					
Sources	61.0	61.4	64.3	74.6	74.7	79.9
Crude petroleum production	42.3	46.1	46.4	44.4	43.9	43.2
Petroperú 1/	13.6	15.7	16.2	15.0	10.4	0.0
Petrotech	5.6	7.1	7.0	7.1	6.7	6.3
Occidental	21.0	20.9	20.0	19.1	19.1	18.1
Oxy-Bridas	1.9	1.9	1.7	1.6	0.8	0.0
Pluspetrol	0.0	0.0	0.0	0.0	4.3	9.7
Others	0.2	0.6	1.4	1.7	2.6	9.1
Petroleum imports	18.7	15.3	17.9	30.2	30.8	36.7
Imports of crude	11.0	8.5	7.9	17.9	19.6	25.9
Imports of derivatives	7.7	6.8	10.0	12.3	11.2	10.8
Uses	61.0	61.4	64.3	74.6	74.7	79.9
Petroleum exports	17.6	16.0	14.0	17.4	20.6	24.9
Exports of crude	0.1	0.0	0.0	10.3	13.6	16.6
Exports of derivatives	17.5	16.0	14.0	7.2	7.0	8.3
Domestic consumption of derivatives	45.3	45.2	48.9	53.9	56.3	55.7
Gasoline	9.4	9.2	9.5	10.0	10.1	9.4
Jet fuel	2.1	2.2	2.4	3.2	3.4	4.2
Kerosene	2.5	5.2	5.1	5.1	5.1	4.9
Diesel	16.9	14.1	16.3	19.2	18.2	21.0
Residual	7.4	9.1	9.0	10.4	11.7	11.9
Other	7.0	5.4	6.6	6.0	7.8	4.3
Change in stocks	-1.8	0.1	1.4	3.3	-2.2	-0.7
Crude	-1.1	-0.1	0.4	0.6	-3.5	-3.8
Derivatives 2/	-0.7	0.2	1.0	2.7	1.3	3.1
	(In thousands of 1987 new soles)					
Memorandum items:						
Investment by Petroperú	0.9	1.0	0.1	0.2	0.6	...
Proven reserves 3/	362.6	358.6	366.0	390.0	...	...

Sources: Ministry of Energy and Mines; and Central Reserve Bank of Peru.

1/ Since the sale on concession of oil fields, Petroperú's production has been undertaken by private operators.

2/ Includes own consumption by refineries and sales of bunker fuel.

3/ Millions of barrels.

Table 15. Peru: Population and Labor Force Statistics

	1992	1993	1994	1995	1996	1997
(In thousands of persons)						
Population 1/	22,354.4	22,740.2	23,130.3	23,531.7	23,932.0	24,338.8
Labor force (age 14 and older)	...	...	...	...	6,592.1	...
Lima metropolitan area						
Population	...	6,434.3	...	...	...	...
Labor force (age 14 and older) 2/	...	...	...	...	2,998.1	...
(In percent of the labor force) 2/						
Unemployed	9.6	10.3	9.1	7.9	7.1	8.4
Fully employed	41.0	38.0	45.0	51.7	51.0	52.6
Underemployed 3/	49.4	51.7	46.9	40.4	41.9	39.0
(Index 1990 = 100)						
Employment 4/						
Manufacturing	85.8	78.8	77.8	75.9	74.0	75.0
Commerce	75.9	63.8	58.6	64.5	74.2	76.1
Service	83.4	80.0	83.3	82.4	88.1	93.3

Sources: Ministry of Labor and Public Welfare; and National Institute of Statistics and Information.

1/ Estimates based on 1993 census data.

2/ Data based on household surveys conducted in June of each year in the Lima metropolitan area.

3/ Workers earning less than a minimum referential income, which was equivalent to about US\$170 a month for workers in Lima.

4/ Based on a survey of firms with at least 100 employees in the Lima metropolitan area. Since 1995 the survey includes employees hired by worker cooperatives or services companies.

Table 16. Peru: Private Sector Wages and Salaries in the Lima Metropolitan Area 1/2/

	In Nominal Terms			In Real Terms 3/		
	Minimum	Average		Minimum	Average	
	Wage 4/	Salaries	Wages	Wage 4/	Salaries	Wages
	(In new soles per month)			(Index 1990=100)		
1992	72.0	608.6	312.1	72.7	109.5	110.6
1993	72.0	1,054.9	461.7	48.8	127.9	109.7
1994	122.0	1,552.9	655.5	66.6	153.8	126.9
1995	132.0	1,643.8	665.5	65.2	146.8	116.3
1996	152.8	1,860.0	710.5	67.1	148.2	110.7
1997	313.8	2,043.2	763.7	127.5	150.3	109.9
1994						
February	72.0	1,407.1	605.1	42.0	148.4	124.8
April	132.0	1,513.0	631.5	74.1	153.6	125.3
June	132.0	1,556.7	656.4	72.8	155.2	127.9
August	132.0	1,563.4	678.0	71.0	152.1	129.0
October	132.0	1,591.6	653.4	70.5	153.6	123.3
December	132.0	1,685.4	708.6	69.2	159.8	131.3
1995						
February	132.0	1,597.1	660.9	68.2	149.1	120.6
April	132.0	1,618.2	657.6	66.6	147.6	117.3
June	132.0	1,619.9	696.3	65.5	145.4	122.1
August	132.0	1,675.9	664.5	64.5	148.0	114.7
October	132.0	1,677.8	652.5	63.9	146.9	111.6
December	132.0	1,674.1	660.9	62.8	144.0	111.1
1996 5/						
March	132.0	1,777.7	714.3	60.3	146.7	115.2
June	132.0	1,832.7	690.0	59.0	148.2	109.0
September	132.0	1,885.1	705.6	57.5	148.5	108.7
December	215.0	1,944.5	732.0	91.4	149.5	110.0
1997						
March	215.0	1,986.5	756.6	110.7	150.0	111.7
June	300.0	2,027.3	757.8	122.5	149.7	109.4
September	345.0	2,048.5	766.8	139.0	149.3	109.2
December	345.0	2,110.4	773.4	137.8	152.4	109.2

Sources: Ministry of Labor and Public Welfare; and Central Reserve Bank of Peru.

1/ The annual data are period averages.

2/ Wages and salaries correspond to labor earnings of blue-collar and white-collar workers, respectively.

3/ Deflated by the consumer price index in the Lima metropolitan area.

4/ Corresponds to the minimum legal income, i.e., the minimum vital salary plus supplementary bonuses.

5/ Starting in 1996, the surveys are conducted in March, June, September, and December.

Table 17. Peru: Consumer Prices in the Lima Metropolitan Area 1/
(Percentage change) 4/

	Total	Food	Clothing	Housing, Fuel, and Electricity	Furniture	Medical Expenses	Transport and Communication	Leisure Activities	Other	Tradables 2/	Nontradables 3/
1992											
March	100.7	98.7	67.6	119.0	80.6	114.7	139.8	102.4	70.3	77.9	115.3
June	78.3	75.6	45.1	76.3	73.1	86.6	135.8	81.3	61.6	57.5	90.6
September	57.7	57.1	39.2	60.5	61.7	64.2	58.9	72.1	51.8	54.9	59.1
December	56.7	58.6	36.7	50.5	63.4	62.6	93.8	66.8	48.8	56.5	56.9
Average	73.5	71.8	49.3	77.8	71.0	80.9		84.0	59.6	61.5	80.5
1993											
March	51.3	51.0	36.1	57.7	61.7	58.8	51.4	50.9	46.3	54.1	49.9
June	50.0	53.5	38.3	54.6	51.7	52.3	30.0	54.1	47.6	59.5	45.2
September	47.0	48.3	38.9	41.4	42.6	52.4	50.3	52.7	43.3	50.8	45.1
December	39.5	35.8	37.5	43.0	30.2	43.7	7.0	24.8	36.0	34.1	42.5
Average	48.6	49.4	37.6	49.3	47.9	53.4	47.2	53.4	43.8	51.4	47.2
1994											
March	31.6	25.4	32.5	44.8	21.1	38.6	44.9	38.4	30.7	24.0	35.6
June	24.2	17.2	26.4	35.8	15.3	32.7	43.9	30.7	24.1	16.3	28.5
September	19.5	14.8	22.2	32.4	14.2	25.7	20.5	26.6	19.1	14.2	22.2
December	15.4	12.1	18.7	27.8	11.4	23.7	7.0	24.8	16.1	11.9	17.2
Average	23.7	18.0	26.3	36.5	16.4	31.3	31.3	31.9	23.8	17.1	27.2
1995											
March	11.9	9.7	16.5	17.7	14.0	20.7	3.4	20.9	13.8	11.2	12.3
June	11.1	8.8	14.4	17.8	13.3	18.5	3.5	20.0	12.4	11.2	11.0
September	10.0	8.1	13.8	15.6	12.3	17.1	3.0	19.7	10.5	10.8	9.7
December	10.2	9.6	11.8	14.1	11.3	14.8	2.6	18.1	8.9	9.7	10.6
Average	11.1	9.3	14.5	16.9	12.9	18.3	3.2	20.0	12.0	9.6	12.9
1996											
March	11.6	12.6	10.4	14.3	9.5	13.2	2.6	15.8	8.1	10.2	12.6
June	11.0	10.7	9.1	12.9	9.5	13.7	15.0	12.1	6.5	10.2	11.6
September	11.7	12.6	7.8	10.6	8.0	13.7	15.8	10.3	6.7	8.8	13.8
December	11.8	11.3	7.3	13.5	7.7	13.8	24.8	10.2	6.6	8.9	13.9
Average	11.5	12.2	9.0	12.7	8.9	13.5	11.2	12.5	7.0	11.4	11.1
1997											
March	9.3	6.5	7.6	12.6	8.9	14.5	27.1	12.2	5.9	7.1	10.8
June	9.5	9.3	7.3	7.7	8.8	12.5	13.9	12.2	6.7	6.0	11.9
September	8.1	7.2	7.3	6.4	9.3	11.9	13.6	11.7	7.1	6.2	9.4
December	6.5	6.0	7.2	2.1	9.4	11.5	7.5	11.0	8.1	5.7	7.0
Average	8.5	7.1	7.4	8.3	9.0	12.8	17.8	11.9	6.9	6.4	10.0

Source: National Institute of Statistics and Information.

1/ Quarterly inflation values are end-of-period data.

2/ Foodstuffs, textiles, electric and home appliances, and other tradables.

3/ Fuels, public services and other foodstuffs and services.

4/ With respect to the same period of the previous year.

Table 18. Peru: Monetary Survey

S/. per US\$1	1993	1994	1995	1996	1997
	2.00	2.41	2.30	2.45	2.70
(End-of-period stocks, in millions of new soles)					
I. Central Reserve Bank					
Net international reserves 1/	1,114	6,953	8,640	10,078	13,789
Net domestic assets	477	-4,569	-5,598	-7,132	-9,967
Net credit to the public sector 2/	-531	-4,144	-5,028	-6,453	-8,293
Banking system (net)	54	-461	-674	-528	-1,320
Other	953	37	104	-151	-354
Currency in circulation	1,591	2,385	3,043	2,944	3,822
II. Banking System					
Net international reserves	4,636	13,849	14,765	21,047	21,041
Net medium- and long-term foreign liabilities	-408	-515	-104	-225	-153
Net domestic assets	6,139	4,342	7,695	7,834	16,090
Net credit to the nonfinancial public sector	-752	-7,356	-7,783	-10,992	-12,814
Credit to the private sector	8,222	14,863	19,773	27,359	38,505
Other	-1,330	-3,165	-4,295	-8,533	-9,600
Liabilities to the private sector	11,183	18,706	22,564	29,107	37,284
(Percentage change with respect to liabilities to the private sector at the beginning of the period) 3/					
I. Central Reserve Bank					
Net domestic assets	-5.4	-303.2	-55.9	-117.9	-64.9
Net credit to the public sector 2/	-17.4	-220.5	-45.5	-124.7	-36.4
Banking system (net)	5.5	-34.2	-8.9	3.0	-22.8
Other	6.4	-48.4	-1.5	3.7	-5.8
Currency in circulation	44.5	49.9	27.6	6.6	17.8
II. Banking System					
Net domestic assets	31.6	-18.0	18.0	4.7	23.2
Net credit to the nonfinancial public sector	-6.0	-47.5	-7.5	-24.1	-2.2
Credit to the private sector	30.0	42.4	29.7	31.4	26.0
Other	7.7	-12.9	-4.3	-2.6	-0.6
Liabilities to the private sector	41.8	47.3	24.2	28.0	16.2
(End-period stocks in percent of annual GDP) 4/					
Base money	2.2	2.4	2.8	2.7	2.7
Broad money	14.3	16.0	17.0	20.9	21.5
Domestic currency	4.5	5.8	6.4	6.9	7.4
Foreign currency deposits	9.8	10.2	10.7	14.0	14.1
Credit to the private sector	10.6	12.6	14.9	19.6	22.3
Of which: Foreign currency	8.1	9.2	10.6	14.5	17.2
(12-month rate of growth) 4/					
Base money	33.6	48.2	36.9	9.2	19.1
Broad money	76.0	49.4	28.9	38.2	19.8
Domestic currency	50.0	72.2	33.0	21.9	25.3
Foreign currency deposits	91.3	38.9	26.6	47.9	17.1
Credit to the private sector	72.3	59.0	43.6	47.8	32.1
Of which: Foreign currency	95.4	52.1	38.5	54.3	37.4

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Program definition, in which foreign reserve liabilities include the reserve requirements on foreign currency deposits and, beginning in 1996, the foreign currency deposits of the Consolidated Pension Reserve Fund (FCRP).

2/ Includes net credit to *Banco de la Nación*.

3/ Flows denominated in foreign currency are valued at the average program exchange rate during the corresponding period.

4/ Valued at the end-of-period exchange rate.

Table 19. Peru: Money and Quasi-Money

	1993	1994	1995	1996	1997
(In millions of new soles, end-of-period stocks) 1/					
Money and quasi-money	11,744.5	17,551.4	22,625.2	31,271.0	37,668.9
Money	2,399.0	3,784.2	4,677.8	5,522.7	6,599.4
Currency	1,590.9	2,384.6	3,042.7	3,244.8	3,822.4
Demand deposits	808.1	1,399.6	1,635.1	2,277.9	2,777.0
Quasi-money	9,345.5	13,767.2	17,947.4	25,748.3	31,069.5
In domestic currency	1,297.0	2,580.6	3,785.1	4,793.5	6,481.6
In foreign currency 1/	8,048.5	11,186.6	14,162.3	20,954.8	24,587.9
In millions of U.S. dollars	3,743.5	5,131.5	6,130.9	8,059.5	9,039.7
(In percent of GDP) 2/					
Money and quasi-money	8.1	13.5	15.1	18.0	19.3
Money	2.2	2.6	3.1	3.0	3.1
Currency	1.5	1.6	1.9	1.8	1.8
Demand deposits	0.7	1.0	1.2	1.2	1.3
Quasi-money	5.9	10.9	12.0	15.0	16.2
In domestic currency	1.3	1.9	2.5	3.1	3.1
In foreign currency	4.6	9.0	9.5	11.9	13.1

Source: Central Reserve Bank of Peru.

1/ Foreign currency stocks converted to domestic currency using end-of-period exchange rates.

2/ Average stocks as percent of GDP.

Table 20. Peru: Selected Interest Rates on Domestic Currency Operations

	Effective Interest Rates 1/				Maximum Interest Rate 4/ Bank deposits	Central Bank Rates	
	Lending 2/		Deposit 3/			Rediscounts	Remuneration on Reserves in Local Local Currency
	Nominal	Real 5/	Nominal	Real 5/			
(In percent per month)							
1992							
March	7.7	0.2	4.0	-3.2	43.0	2.0	2.0
June	7.8	4.1	3.8	0.2	43.0	2.5	1.7
September	7.2	4.5	3.7	1.1	43.0	1.8	1.5
December	7.1	3.1	3.6	-0.2	43.0	3.4	1.4
1993							
March	6.5	2.2	3.3	-0.9	43.0	2.5	1.4
June	5.7	3.8	3.1	1.3	43.0	2.3	1.3
September	5.3	3.6	2.9	1.3	43.0	1.5	1.2
December	4.9	2.3	2.5	0.0	43.0	2.1	n.a.
1994							
March	4.4	2.1	2.2	-0.2	43.0	1.2	0.0
June	3.7	2.5	1.8	0.6	...	1.2	0.0
September	3.0	2.5	1.2	0.7	...	1.4	0.0
December	2.8	2.2	1.2	0.6	...	1.3	0.0
(In percent per year)							
1995							
March	25.7	12.3	14.3	2.2	...	16.2	0.0
June	27.7	15.0	16.2	4.7	...	20.9	0.0
September	28.0	16.4	17.0	6.3	...	17.6	0.0
December	26.5	14.7	15.9	5.1	...	18.5	0.0
1996							
January	26.4	13.7	15.6	4.0	....	16.2	0.0
February	26.0	12.9	15.2	3.2	...	14.5	0.0
March	25.6	12.5	15.0	3.0	...	15.7	0.0
April	25.4	12.5	15.0	3.1	...	16.1	0.0
May	25.4	12.5	14.7	3.0	...	15.8	0.0
June	25.6	13.1	14.7	3.4	...	16.8	0.0
July	25.7	12.4	14.7	2.5	...	15.8	0.0
August	25.9	12.6	14.7	2.7	...	15.9	0.0
September	26.0	12.8	14.7	2.7	...	16.0	0.0
October	26.6	13.1	14.7	2.4	...	16.5	0.0
November	26.7	14.1	14.7	3.3	....	18.0	0.0
December	27.4	13.9	15.0	2.8	...	18.2	0.0
1997							
January	27.7	15.0	15.1	3.7	...	16.7	0.0
February	28.8	17.7	15.2	5.3	...	17.4	0.0
March	28.0	17.1	15.3	5.4	...	18.0	0.0
April	29.2	18.7	15.3	6.0	...	17.0	0.0
May	29.9	19.4	15.3	6.0	...	17.0	0.0
June	30.2	18.9	15.6	5.6	...	15.3	0.0
July	30.8	20.1	15.5	6.1	...	15.3	0.0
August	31.2	21.3	15.2	6.5	...	15.5	0.0
September	31.1	21.3	14.8	6.2	...	16.0	0.0
October	31.0	21.9	14.5	6.5	...	16.0	0.0
November	30.6	22.0	14.2	6.7	...	16.0	0.0
December	31.1	23.1	14.2	7.3	...	16.0	0.0

Source: Central Reserve Bank of Peru.

1/ Weighted average rates, considering the relative participation of each commercial bank with respect to the total.

2/ Average rate on commercial bank loans of up to 360 days.

3/ Average rate on deposits of 31-179 days.

4/ Commercial bank lending and deposit rates in domestic currency were subject to ceilings established by the Central Reserve Bank. Starting in August 1990, these ceilings were kept at nonbinding levels and actual lending and deposit rates were freely determined. These limits were eliminated formally as of June 1, 1994.

5/ Real rates are calculated by deflating nominal interest rates indicated by the increase in the consumer price index, of the same period.

Table 21. Peru: Selected Interest Rates on Foreign Currency Operations
(In percent per year)

	Effective Interest Rates 1/		Central Bank Remuneration Rate on Reserves in Foreign Currency
	Lending 2/	Deposit 3/	
1992			
March	21.4	9.5	4.4
June	20.0	9.0	4.0
September	17.6	8.0	6.0
December	17.4	7.9	5.8
1993			
March	17.2	7.8	5.7
June	16.8	8.0	5.6
September	16.6	7.5	5.3
December	16.3	7.0	3.3
1994			
March	16.1	6.7	3.8
June	16.3	6.7	4.5
September	15.7	6.9	5.0
December	15.6	7.0	6.3
1995			
March	15.1	7.7	6.1
June	15.5	8.8	5.9
September	15.8	9.4	5.8
December	16.3	9.3	5.6
1996			
January	16.4	9.4	5.4
February	16.4	9.3	5.2
March	16.1	9.2	5.3
April	15.9	9.0	5.4
May	15.9	8.6	5.4
June	15.9	8.5	5.4
July	15.9	8.5	5.5
August	15.8	8.4	5.4
September	15.8	8.2	5.0
October	16.0	8.0	4.4
November	15.9	7.8	4.4
December	15.8	7.6	4.5
1997			
January	15.7	7.5	4.4
February	15.6	7.4	4.3
March	15.5	7.3	4.5
April	15.4	7.3	4.5
May	15.1	7.3	4.4
June	15.5	7.3	4.4
July	15.3	7.2	4.4
August	15.2	7.1	4.4
September	15.1	7.0	4.4
October	15.1	7.0	4.4
November	15.2	6.9	4.5
December	15.1	6.8	4.5

Source: Central Reserve Bank of Peru.

1/ Weighted average rates, considering the relative participation of each commercial bank with respect to the total.
2/ Average rate on commercial bank loans of up to 360 days.
3/ Average rate on deposits of 31-179 days.

Table 22. Peru: Summary Accounts of the Banking System

(In millions of new soles; foreign denominated accounts converted at end-of-period exchange rate)

Sl. per US\$1	1993			1994			1995			1996			1997		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	Currency	Currency		Currency	Currency		Currency	Currency		Currency	Currency		Currency	Currency	
	2.15	2.18	2.31	2.18	2.31	2.60	2.72								
I. Central Reserve Bank															
Net international reserves	0.0	1,198.3	1,198.3	0.0	6,302.1	6,302.1	0.0	8,677.8	8,677.8	0.0	13,650.6	13,650.6	0.0	13,891.3	13,891.3
Foreign assets	0.0	7,560.7	7,560.7	0.0	14,293.4	14,293.4	0.0	17,230.7	17,230.7	0.0	25,657.7	25,657.7	0.0	29,671.0	29,671.0
Foreign liabilities 1/	0.0	6,362.4	6,362.4	0.0	7,991.3	7,991.3	0.0	8,552.9	8,552.9	0.0	12,007.1	12,007.1	0.0	15,779.7	15,779.7
Medium- and long-term foreign assets	-0.1	308.6	308.5	-0.6	354.1	353.5	-0.2	409.3	409.1	-0.3	509.2	508.9	-0.2	579.1	578.9
Net domestic assets	1,608.6	-1,502.2	106.4	2,386.5	-6,652.6	-4,154.2	3,329.9	-9,077.7	-5,747.8	3,267.1	-14,145.5	-10,878.4	3,869.8	-14,469.3	-10,599.5
Nonfinancial public sector	42.9	-692.3	-649.4	613.6	-4,248.6	-3,635.0	613.6	-5,460.5	-4,846.9	336.4	-9,680.7	-9,344.3	436.5	-7,990.2	-7,553.7
Central government	42.9	-640.1	-597.2	613.8	-4,248.1	-3,634.3	613.8	-5,383.5	-4,769.7	340.6	-9,680.4	-9,339.8	457.5	-7,989.4	-7,531.9
Rest of the nonfinancial public sector	0.0	-52.2	-52.2	-0.2	-0.5	-0.7	-0.2	-77.0	-77.2	-4.2	-0.3	-4.5	-21.0	-0.8	-21.8
Private sector	0.0	7.8	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking system	-140.3	292.7	152.4	-603.2	64.1	-539.1	-878.7	0.0	-878.7	-967.7	0.0	-967.7	-2,118.0	0.0	-2,118.0
Banco de la Nación	-52.9	132.2	79.3	-142.1	64.1	-78.0	-204.7	0.0	-204.7	-406.6	0.0	-406.6	-798.2	0.0	-798.2
Commercial banks	-143.4	7.7	-135.7	-460.9	0.0	-460.9	-673.8	0.0	-673.8	-560.9	0.0	-560.9	-1,319.6	0.0	-1,319.6
Development banks	56.0	152.8	208.8	-0.2	0.0	-0.2	-0.2	0.0	-0.2	-0.2	0.0	-0.2	-0.2	0.0	-0.2
Net unclassified assets	1,706.0	-1,110.4	595.6	2,488.0	-2,468.1	19.9	3,595.0	-3,617.2	-22.2	3,898.4	-4,464.8	-566.4	5,551.3	-6,479.1	-927.8
Liabilities to private sector	1,608.5	4.7	1,613.2	2,497.8	3.6	2,501.4	3,329.7	9.4	3,339.1	3,266.8	14.3	3,281.1	3,869.6	1.1	3,870.7
Money	1,596.8	0.0	1,596.8	2,385.9	0.0	2,385.9	3,053.9	0.0	3,053.9	3,259.0	0.0	3,259.0	3,832.6	0.0	3,832.6
Currency	1,590.9	0.0	1,590.9	2,384.6	0.0	2,384.6	3,042.7	0.0	3,042.7	3,244.8	0.0	3,244.8	3,822.4	0.0	3,822.4
Demand deposits	5.9	0.0	5.9	1.3	0.0	1.3	11.2	0.0	11.2	14.2	0.0	14.2	10.2	0.0	10.2
Quasi-money	11.7	4.7	16.4	111.9	3.6	115.5	275.8	9.4	285.2	7.8	14.3	22.1	37.0	1.1	38.1

Table 22. Peru: Summary Accounts of the Banking System

(In millions of new soles; foreign denominated accounts converted at end-of-period exchange rate)

S/. per US\$1	1993			1994			1995			1996			1997		
	Domestic Currency	Foreign Currency	Total	Domestic Currency	Foreign Currency	Total	Domestic Currency	Foreign Currency	Total	Domestic Currency	Foreign Currency	Total	Domestic Currency	Foreign Currency	Total
	0.0	-475.3	-475.0	0.0	1,220.8	1,220.8	0.0	1,735.8	1,735.8	0.0	2,206.5	2,206.5	0.0	673.0	673.0
Foreign assets	0.0	187	187.0	0.0	1,244.6	1,244.6	0.0	2,044.1	2,044.1	0.0	2,294.0	2,294.0	0.0	747.9	747.9
Foreign liabilities	0.0	662.3	662.3	0.0	23.8	23.8	0.0	308.3	308.3	0.0	87.5	87.5	0.0	74.9	74.9
Medium- and long-term foreign assets															
	61.9		61.9	0.0	80.2	80.2	0.0	83.8	83.8	0.0	106.6	106.6	0.0	591.1	591.1
Net domestic assets	134.5	491.8	626.3	174.0	-1,202.3	-1,028.3	200.9	-1,756.6	-1,555.7	294.2	-2,214.3	-1,920.1	373.0	-1,166.5	-793.5
Nonfinancial public sector	-284.1	1,140.6	856.5	-537.8	-350.3	-888.1	-662.7	259.6	-403.1	-765.2	-985.2	-1,750.4	-922.6	1,207.0	284.4
Central government	-259.7	1,250.9	991.2	-459.5	-381.7	-841.2	-469.1	242.3	-226.8	-742.7	-1,006.7	-1,749.4	-954.7	1,207.8	253.1
Rest of the nonfinancial public sector	-24.4	-110.3	-134.7	-78.3	31.4	-46.9	-193.6	17.3	-176.3	-22.5	21.5	-1.0	32.1	-0.8	31.3
Private sector	166.8	124.0	290.8	33.7	127.1	160.8	39.2	123.7	162.9	23.9	128.7	152.6	34.9	109.6	144.5
Banking system	241.7	621.8	863.5	215.4	779.5	994.9	319.8	4.2	324.0	559.2	975.0	1,534.2	954.9	189.9	1,144.8
Central reserve bank	52.9	616.1	669.0	141.9	780.5	922.4	204.7	4.3	209.0	406.6	974.8	1,381.4	798.2	187.7	985.9
Commercial banks	188.7	3.2	191.9	73.5	-3.6	69.9	115.0	-2.8	112.2	152.5	-2.9	149.6	156.8	2.2	159.0
Development banks	0.1	2.5	2.6	0.0	2.6	2.6	0.1	2.7	2.8	0.1	3.1	3.2	-0.1	0.0	-0.1
Capital and reserves	-657.5	-497.1	-1,154.6	-948.6	-628.8	-1,577.4	-1,680.3	-328.5	-2,008.8	-1,844.2	-436.4	-2,280.6	-2,382.8	-382.7	-2,765.5
Net unclassified assets	667.6	-897.5	-229.9	1,411.3	-1,129.8	281.5	2,184.9	-1,815.6	369.3	2,320.5	-1,896.4	424.1	2,688.6	-2,290.3	398.3
Liabilities to private sector	134.5	78.4	212.9	174.0	98.7	272.7	200.9	63.0	263.9	294.2	98.8	393.0	373.0	97.6	470.6
Money	65.1	0.0	65.1	96.7	0.0	96.7	113.9	0.0	113.9	186.1	0.0	186.1	178.2	0.0	178.2
Quasi-money	69.4	78.4	147.8	77.3	98.7	176.0	87.0	63.0	150.0	108.1	98.8	206.9	194.8	97.6	292.4

Table 22. Peru: Summary Accounts of the Banking System

(In millions of new soles; foreign denominated accounts converted at end-of-period exchange rate)

S/ per US\$	1993			1994			1995			1996			1997			
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	
	Currency	Currency		Currency	Currency		Currency	Currency		Currency	Currency		Currency	Currency		
	2.15	2.18	2.31	2.60	2.72											
III. Commercial Banks																
Net international reserves	0.0	331.9	331.9	0.0	-490.1	-490.1	0.0	-1,551.3	-1,551.3	0.0	-2,755.8	-2,755.8	0.0	-6,599.8	-6,599.8	
Foreign assets	0.0	1,393.7	1,393.7	0.0	948.0	948.0	0.0	1,267.8	1,267.8	0.0	1,179.3	1,179.3	0.0	1,516.0	1,516.0	
Foreign liabilities	0.0	1,061.8	1,061.8	0.0	1,438.1	1,438.1	0.0	2,819.1	2,819.1	0.0	3,935.1	3,935.1	0.0	8,115.8	8,115.8	
Medium- and long-term foreign assets	-0.1	134.7	134.6	0.0	100.2	100.2	0.0	-316.8	-316.8	-55.1	-347.6	-402.7	-16.0	-916.0	-932.0	
Net domestic assets	1,911.3	7,478.7	9,390.0	3,658.5	11,453.8	15,112.3	4,897.8	15,936.5	20,834.3	6,775.8	23,920.8	30,696.6	8,819.9	31,979.7	40,799.6	
Nonfinancial public sector	-278.5	-765.4	-1,043.9	-433.0	-1,217.6	-1,650.6	-891.5	-1,743.3	-2,634.8	-1,428.5	-2,183.2	-3,611.7	-2,407.3	-3,019.3	-5,426.6	
Central government	-118.4	-98.3	-216.7	-158.4	-100.6	-259.0	-286.9	-19.2	-306.1	-499.8	-178.6	-678.4	-1,091.0	-142.9	-1,233.9	
Rest of the nonfinancial public sector	-160.1	-667.1	-827.2	-274.6	-1,117.0	-1,391.6	-604.6	-1,724.1	-2,328.7	-928.7	-2,004.6	-2,933.3	-1,316.3	-2,876.4	-4,192.7	
Private sector	1,527.7	6,106.7	7,634.4	3,327.7	9,606.2	12,933.9	5,425.6	13,501.9	18,927.5	7,267.7	21,083.4	28,351.1	8,537.1	29,145.5	37,682.6	
Banking system	-17.3	3,218.2	3,200.9	385.4	4,545.8	4,931.2	558.7	5,961.7	6,520.4	408.4	8,193.7	8,602.1	1,162.8	9,831.8	10,994.6	
Central reserve bank	143.4	3,213.0	3,356.4	460.9	4,543.2	5,004.1	673.8	5,958.9	6,632.7	560.9	8,190.8	8,751.7	1,319.6	9,834.0	11,153.6	
Banco de la Nación	-160.1	6.2	-153.9	-73.5	3.6	-69.9	-115.1	2.8	-112.3	-152.5	2.9	-149.6	-156.8	-2.2	-159.0	
Development banks	-0.6	-1.0	-1.6	-2.0	-1.0	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Capital and reserves	-1,393.5	-633.0	-2,026.5	-2,485.1	-729.3	-3,214.4	-3,388.5	863.9	-2,524.6	-4,970.8	-1,262.5	-6,233.3	-6,574.8	-1,723.8	-8,298.6	
Net unclassified assets	2,072.9	-447.8	1,625.1	2,863.5	-751.3	2,112.2	3,193.5	-2,647.7	545.8	5,499.0	-1,910.6	3,588.4	8,102.1	-2,254.5	5,847.6	
Liabilities to private sector	1,911.2	7,945.3	9,856.5	3,658.5	11,063.9	14,722.4	4,897.8	14,068.4	18,966.2	6,720.7	20,817.4	27,538.1	8,803.9	24,463.9	33,267.8	
Money	729.8	0.0	729.8	1,294.9	0.0	1,294.9	1,503.3	0.0	1,503.3	2,070.9	0.0	2,070.9	2,581.9	0.0	2,581.9	
Quasi-money	1,181.4	7,945.3	9,126.7	2,363.6	11,063.9	13,427.5	3,394.5	14,068.4	17,462.9	4,649.8	20,817.4	25,467.2	6,222.0	24,463.9	30,685.9	

Table 22. Peru: Summary Accounts of the Banking System
(In millions of new soles; foreign denominated accounts converted at end-of-period exchange rate)

S/ per US\$1	1993				1994				1995				1996				1997			
	Domestic		Foreign		Domestic		Foreign		Domestic		Foreign		Domestic		Foreign		Domestic		Foreign	
	Currency	Total	Currency	Total	Currency	Total	Currency	Total	Currency	Total	Currency	Total	Currency	Total	Currency	Total	Currency	Total	Currency	Total
	2.15		2.18		2.31		2.60		2.72											
Net international reserves	0.0	886.4	886.4	0.0	6,973.0	6,973.0	8,799.0	8,799.0	13,030.0	13,030.0	13,030.0	13,030.0	0.0	7,889.9	7,889.9	0.0	7,889.9	7,889.9	170.0	153.8
Medium- and long-term foreign assets	-0.2	438.6	438.4	-0.6	467.0	466.4	104.7	104.5	-55.4	187.8	132.4	-16.2	170.0	153.8						
Net domestic assets	3,696.2	6,723.5	10,419.7	6,365.4	3,746.6	10,112.0	8,463.1	13,721.7	10,371.6	7,737.0	18,108.6	13,097.2	16,528.0	29,625.2						
Nonfinancial public sector	-519.3	-250.8	-770.1	-356.8	-5,749.3	-6,106.1	-940.2	-7,813.2	-1,856.9	-12,768.9	-14,625.8	-2,893.0	-9,718.8	-12,611.8						
Central government	-336.2	562.4	226.2	-5.1	-4,679.8	-4,684.9	-143.2	-5,249.9	-902.9	-10,805.3	-11,708.2	-1,589.2	-6,861.4	-8,450.6						
Rest of the nonfinancial public sector	-183.1	-813.2	-996.3	-351.7	-1,069.5	-1,421.2	-797.0	-2,563.3	-954.0	-1,963.6	-2,917.6	-1,303.8	-2,857.4	-4,161.2						
Private sector	2,000.3	6,687.9	8,688.2	3,637.7	10,174.6	13,812.3	5,741.1	19,834.4	7,567.9	21,738.5	29,306.4	8,848.3	29,805.7	38,654.0						
Interfinancial claims	26.9	3,973.2	4,000.1	-1.8	5,386.2	5,384.4	0.4	5,962.6	5,963.0	8,318.6	8,319.1	0.3	10,017.8	10,018.1						
Capital and reserves	-2,311.5	-1,561.3	-3,872.8	-3,745.8	-1,803.1	-5,548.9	-5,438.1	-7,102.1	-7,291.7	-2,229.7	-9,521.4	-9,581.8	-2,661.8	-12,243.6						
Net unclassified assets	4,499.8	-2,125.5	2,374.3	6,832.1	-4,261.8	2,570.3	9,099.9	2,839.6	11,951.8	-7,321.5	4,630.3	16,723.4	-10,914.9	-5,808.5						
Liabilities to private sector	3,696.0	8,048.5	11,744.5	6,364.8	11,186.6	17,551.4	8,462.9	22,625.2	10,316.2	20,954.8	31,271.0	13,081.0	24,587.9	37,668.9						
Money	2,399.0	...	2,399.0	3,784.2	...	3,784.2	4,677.8	4,677.8	5,522.7	...	5,522.7	6,599.4	...	6,599.4						
Currency	1,590.9	...	1,590.9	2,384.6	...	2,384.6	3,042.7	3,042.7	3,244.8	...	3,244.8	3,822.4	...	3,822.4						
Demand deposits	808.1	...	808.1	1,399.6	...	1,399.6	1,635.1	1,635.1	2,277.9	...	2,277.9	2,777.0	...	2,777.0						
Quasi-money	1,297.0	8,048.5	9,345.5	2,580.6	11,186.6	13,767.2	3,785.1	17,947.4	4,793.5	20,954.8	25,748.3	6,481.6	24,587.9	31,069.5						
Time deposits	353.5	...	353.5	860.1	...	860.1	1,182.5	1,182.5	1,859.6	...	1,859.6	2,718.1	...	2,718.1						
Savings deposits	904.9	...	904.9	1,500.4	...	1,500.4	2,070.0	2,070.0	2,381.5	...	2,381.5	2,875.3	...	2,875.3						
Other 3/	38.6	8,048.5	8,087.1	220.1	11,186.6	11,406.7	532.6	14,694.9	552.4	20,954.8	21,507.2	888.2	24,587.9	25,476.1						

V. Consolidated Banking System 1/

Source: Central Reserve Bank of Peru.

1/ Reserve requirements are treated as liabilities of the central reserve bank to the domestic banking system

2/ In liquidation from the second and third quarters of 1992.

3/ No breakdown is available for foreign currency demand, time, and savings deposits.

Table 23. Peru: Banking System Credit by Type of Bank and Currency of Denomination
(End-of-period stocks in millions of new soles, and percent of total)

	1993		1994		1995		1996		1997	
	S/.	In percent	S/.	In percent	S/.	In percent	S/.	In percent	S/.	In percent
Total credit outstanding	7,918.1	100.0	7,706.2	100.0	12,021.2	100.0	14,680.6	100.0	26,042.2	100.0
Public sector (net)	-770.1	-9.8	-6,106.1	-79.2	-7,813.2	-65.0	-14,625.8	-99.6	-12,611.8	-48.4
In domestic currency	-519.3	-6.6	-356.8	-4.6	-940.2	-7.8	-1,856.9	-12.6	-2,893.0	-11.1
In foreign currency 1/	-250.8	-3.2	-5,749.3	-74.6	-6,873.0	-57.2	-12,768.9	-87.0	-9,718.8	-37.3
Private sector	8,688.2	109.8	13,812.3	179.2	19,834.4	165.0	29,306.4	199.6	38,654.0	148.4
In domestic currency	2,000.3	25.3	3,637.7	47.2	5,741.1	47.8	7,567.9	51.6	8,848.3	34.0
In foreign currency 1/	6,687.9	84.5	10,174.6	132.0	14,093.3	117.2	21,738.5	148.1	29,805.7	114.5
By type of bank										
Central reserve bank	8,688.2	100.0	13,812.3	100.0	19,834.4	100.0	29,306.4	100.0	38,654.0	100.0
Banco de la Nación	7.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	290.8	3.3	160.8	1.2	162.9	0.8	152.6	0.5	144.5	0.4
Development banks	7,634.4	88.9	12,933.9	93.6	18,927.5	95.4	28,351.1	96.7	37,682.6	97.5
	755.2	8.7	717.6	5.2	744.0	3.8	802.7	2.7	826.9	2.1
Memorandum items:										
Liabilities to private sector	11,744.5		17,551.4		22,625.2		31,271.0		37,668.9	
Money	2,399.0		3,784.2		4,677.8		5,522.7		6,599.4	
Quasi-money	9,345.5		13,767.2		17,947.4		25,748.3		31,069.5	
Total credit of the private banking system, in real terms 2/ (millions of Aug. 1990 new soles)	8.5		9.9		10.4		10.4		10.4	
	1,016.4		1,400.7		1,824.3		2,410.1		2,986.0	

Source: Central Reserve Bank of Peru.

1/ Converted into domestic currency using end-of-period exchange rates.

2/ Deflated by the consumer price index.

Table 24. Peru: International Reserves of the Central Reserve Bank

(End-of-period stock in millions of U.S. dollars)

	1993	1994	1995	1996	1997
Net international reserves	2,476.0	5,450.5	6,372.7	8,244.8	10,000.0
Foreign assets	3,508.9	6,556.6	7,459.2	9,268.2	10,908.4
Gold 1/	430.3	368.2	367.9	367.7	367.6
Foreign banks	2,716.7	5,803.9	5,877.3	7,482.5	7,854.5
Investments in Eurobonds	...	...	1,076.0	1,341.0	2,543.0
Reciprocal credit agreements	99.8	139.4	124.6	69.5	57.4
Other assets 2/	262.1	245.1	13.4	7.5	85.9
Foreign liabilities	1,032.9	1,106.1	1,086.5	1,023.4	908.4
Reciprocal credit agreements	133.1	170.5	150.9	68.0	61.3
Liabilities to IMF	899.8	935.6	935.6	955.4	847.1
Use of Fund credit	899.8	935.6	935.6	955.4	847.1
Charges arrears	0.0	0.0	0.0	0.0	0.0
Interest due to foreign institutions	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Foreign currency reserve requirements	1,918.5	2,559.5	2,616.0	3,196.0	3,713.3
Foreign currency deposits of the Public Pension Fund	...	...	...	1,149.0	1,179.6

Source: Central Reserve Bank of Peru.

1/ Valued at US\$329.8 per ounce.

2/ Include operations related to capital valuation of the Central Reserve Bank of Peru.

Table 25. Peru: Fiscal Operations of the Combined Public Sector 1/

	1992	1993	1994	1995	1996	1997
(In millions of new soles)						
Nonfinancial public sector						
Total revenue	8,555	13,098	19,062	23,045	27,232	31,267
Current revenue	8,392	12,970	18,951	22,750	26,856	31,013
General government	7,788	11,880	17,780	21,551	25,603	29,337
Central administration	5,966	9,228	14,222	17,725	21,210	24,430
Tax revenue	5,111	8,167	13,363	16,772	19,942	22,956
Nontax revenue	855	1,061	859	953	1,268	1,474
Other	1,822	2,652	3,558	3,826	4,393	4,907
Current balance of public enterprises	604	1,090	1,171	1,200	1,253	1,676
Capital revenue	163	128	111	295	376	254
Total expenditure 2/	7,993	12,142	17,984	22,484	25,349	28,402
General government current expenditure	5,768	8,479	12,475	15,683	18,222	20,332
Capital expenditure	2,225	3,663	5,509	6,801	7,127	8,070
General government	1,766	2,979	4,906	6,161	6,424	7,289
Public enterprises	459	684	603	640	703	781
Nonfinancial public sector primary balance	562	956	1,078	561	1,883	2,865
Central bank operating balance	-86	-127	-39	-18	40	122
Combined public sector primary balance	476	829	1,039	543	1,923	2,987
Interest payments	1,954	2,939	3,625	4,209	3,474	2,973
Combined public sector overall balance	-1,479	-2,110	-2,586	-3,666	-1,551	14
Statistical discrepancy	0	0	0	-133	-530	-237
Financing	1,479	2,110	2,586	3,532	1,021	-251
External financing	1,108	2,095	2,396	3,004	1,083	-975
Disbursements	408	2,915	1,089	1,413	933	4,226
Amortization	-977	-1,855	-2,070	-1,872	-2,067	-1,982
Rescheduling/arrears (net)	1,666	1,075	3,146	3,339	2,114	-2,255
Other 3/	11	-40	231	124	103	-965
Domestic financing	371	15	191	529	-62	724
Privatization	69	236	4,911	1,960	4,824	1,408
Other	302	-221	-4,720	-1,431	-4,886	-684
Memorandum items:						
Combined public sector overall balance including privatization revenue	-1,410	-1,874	2,325	-1,706	3,273	1,422
Nonfinancial public sector current balance	2,624	4,491	6,476	7,067	8,634	10,681
Central government	2,058	3,551	5,579	6,606	8,339	10,485
Other general government	-38	-150	-274	-738	-958	-1,480
Public enterprises	604	1,090	1,171	1,200	1,253	1,676
Nonfinancial public sector capital balance	-2,062	-3,535	-5,398	-6,506	-6,751	-7,816
General government	-1,732	-2,951	-4,870	-5,885	-6,073	-7,035
Public enterprises	-330	-584	-528	-621	-678	-781
General government overall balance	-1,372	-2,238	-3,055	-4,029	-2,014	-908
Public enterprises overall balance	-21	255	508	382	408	800
GDP (S/. million)	52,516	82,013	110,135	132,915	149,481	173,974

Table 25. Peru: Fiscal Operations of the Combined Public Sector 1/

	1992	1993	1994	1995	1996	1997
(In percent of GDP)						
Nonfinancial public sector						
Total revenue	16.3	16.0	17.3	17.3	18.2	18.0
Current revenue	16.0	15.8	17.2	17.1	18.0	17.8
General government	14.8	14.5	16.1	16.2	17.1	16.9
Central administration	11.4	11.3	12.9	13.3	14.2	14.0
Tax revenue	9.7	10.0	12.1	12.6	13.3	13.2
Nontax revenue	1.6	1.3	0.8	0.7	0.8	0.8
Other	3.5	3.2	3.2	2.9	2.9	2.8
Current balance of public enterprises	1.2	1.3	1.1	0.9	0.8	1.0
Capital revenue	0.3	0.2	0.1	0.2	0.3	0.1
Total expenditure 2/	15.2	14.8	16.3	16.9	17.0	16.3
General government current expenditure	11.0	10.3	11.3	11.8	12.2	11.7
Capital expenditure	4.2	4.5	5.0	5.1	4.8	4.6
General government	3.4	3.6	4.5	4.6	4.3	4.2
Public enterprises	0.9	0.8	0.5	0.5	0.5	0.4
Nonfinancial public sector primary balance	1.1	1.2	1.0	0.4	1.3	1.6
Central bank operating balance	-0.2	-0.2	0.0	0.0	0.0	0.1
Combined public sector primary balance	0.9	1.0	0.9	0.4	1.3	1.7
Interest payments	3.7	3.6	3.3	3.2	2.3	1.7
Combined public sector overall balance	-2.8	-2.6	-2.3	-2.8	-1.0	0.0
Statistical discrepancy	0.0	0.0	0.0	-0.1	-0.4	-0.1
Financing	2.8	2.6	2.3	2.7	0.7	-0.1
External financing	2.1	2.6	2.2	2.3	0.7	-0.6
Disbursements	0.8	3.6	1.0	1.1	0.6	2.4
Amortization	-1.9	-2.3	-1.9	-1.4	-1.4	-1.1
Rescheduling/arrears (net)	3.2	1.3	2.9	2.5	1.4	-1.3
Other 3/	0.0	0.0	0.2	0.1	0.1	-0.6
Domestic financing	0.7	0.0	0.2	0.4	0.0	0.4
Privatization	0.1	0.3	4.5	1.5	3.2	0.8
Other	0.6	-0.3	-4.3	-1.1	-3.3	-0.4
Memorandum items:						
Combined public sector overall balance including privatization revenue	-2.7	-2.3	2.1	-1.3	2.2	0.8
Nonfinancial public sector current balance	5.0	5.5	5.9	5.3	5.8	6.1
General government	3.9	4.3	5.1	5.0	5.6	6.0
Other general government	-0.1	-0.2	-0.2	-0.6	-0.6	-0.9
Public enterprises	1.2	1.3	1.1	0.9	0.8	1.0
Nonfinancial public sector capital balance	-3.9	-4.3	-4.9	-4.9	-4.5	-4.5
General government	-3.3	-3.6	-4.4	-4.4	-4.1	-4.0
Public enterprises	-0.6	-0.7	-0.5	-0.5	-0.5	-0.4
General government overall balance	-2.6	-2.7	-2.8	-3.0	-1.3	-0.5
Public enterprises overall balance	0.0	0.3	0.5	0.3	0.3	0.5
GDP (S/. million)	52,516	82,013	110,135	132,915	149,481	173,974

Sources: Central Reserve Bank of Peru; Ministry of Economy and Finance; and Fund staff estimates.

1/ Includes the operations of the general government, nonfinancial public enterprises, and the operating balance of the central bank.

2/ Excluding interest payments.

3/ Includes net short-term financing of public enterprises; debt condonation; and collateral purchases related to the Brady operation.

Table 26. Peru: Fiscal Operations of the Central Government

	1992	1993	1994	1995	1996	1997
(In millions of new soles)						
Current balance 1/	2,058	3,551	5,579	6,606	8,339	10,485
Current revenue	5,966	9,228	14,222	17,725	21,210	24,430
Tax revenue	5,111	8,167	13,363	16,772	19,942	22,956
Other current revenue	855	1,061	859	953	1,268	1,474
Current expenditure	3,908	5,677	8,643	11,119	12,871	13,945
Labor services	2,561	3,850	5,714	7,372	7,867	9,249
Goods and services	753	1,078	1,905	2,708	3,721	3,711
Other	594	749	1,024	1,039	1,283	985
Capital balance	-1,330	-2,192	-3,723	-4,429	-4,309	-5,261
Capital revenue	0	0	0	144	310	102
Capital expenditure	1,330	2,192	3,723	4,573	4,619	5,363
Gross capital formation 2/	846	1,377	2,288	2,892	2,906	3,366
Other	484	815	1,435	1,681	1,713	1,997
Primary balance	728	1,359	1,856	2,177	4,030	5,224
Interest payments	1,649	2,666	3,466	3,981	3,278	2,818
External	1,558	2,608	3,359	3,898	3,202	2,703
Domestic	91	58	107	83	76	115
Overall balance before transfers	-922	-1,307	-1,610	-1,804	752	2,406
Net transfers received	-517	-967	-1,265	-2,329	-2,545	-3,671
Overall balance after transfers	-1,439	-2,274	-2,875	-4,133	-1,793	-1,265
Statistical discrepancy	0	0	0	-133	-552	-237
Financing	1,439	2,274	2,875	4,000	1,242	1,028
Foreign	1,101	2,152	2,505	2,846	1,072	-374
Domestic	338	122	371	1,154	170	1,402
Privatization	69	236	4,911	1,960	4,824	1,408
Payment arrears	0	0	0	-260	543	-624
Other	269	-114	-4,540	-546	-5,197	618
Memorandum item:						
Labor services, including related transfers	2,666	4,004	5,953	7,868	8,387	9,834

Table 26. Peru: Fiscal Operations of the Central Government

	1992	1993	1994	1995	1996	1997
(In percent of GDP)						
Current balance 1/	3.9	4.3	5.1	5.0	5.6	6.0
Current revenue	11.4	11.3	12.9	13.3	14.2	14.0
Tax revenue	9.7	10.0	12.1	12.6	13.3	13.2
Other current revenue	1.6	1.3	0.8	0.7	0.8	0.8
Current expenditure	7.4	6.9	7.8	8.4	8.6	8.0
Labor services	4.9	4.7	5.2	5.5	5.3	5.3
Goods and services	1.4	1.3	1.7	2.0	2.5	2.1
Other	1.1	0.9	0.9	0.8	0.9	0.6
Capital balance	-2.5	-2.7	-3.4	-3.3	-2.9	-3.0
Capital revenue	0.0	0.0	0.0	0.1	0.2	0.1
Capital expenditure	2.5	2.7	3.4	3.4	3.1	3.1
Gross capital formation 2/	1.6	1.7	2.1	2.2	1.9	1.9
Other	0.9	1.0	1.3	1.3	1.1	1.1
Primary balance	1.4	1.7	1.7	1.6	2.7	3.0
Interest payments	3.1	3.3	3.1	3.0	2.2	1.6
External	3.0	3.2	3.1	2.9	2.1	1.6
Domestic	0.2	0.1	0.1	0.1	0.1	0.1
Overall balance before transfers	-1.8	-1.6	-1.5	-1.4	0.5	1.4
Net transfers received	-1.0	-1.2	-1.1	-1.8	-1.7	-2.1
Overall balance after transfers	-2.7	-2.8	-2.6	-3.1	-1.2	-0.7
Statistical discrepancy	0.0	0.0	0.0	-0.1	-0.4	-0.1
Financing	2.7	2.8	2.6	3.0	0.8	0.6
Foreign	2.1	2.6	2.3	2.1	0.7	-0.2
Domestic	0.6	0.1	0.3	0.9	0.1	0.8
Privatization	0.1	0.3	4.5	1.5	3.2	0.8
Payment arrears	0.0	0.0	0.0	-0.2	0.4	-0.4
Other	0.5	-0.1	-4.1	-0.4	-3.5	0.4
Memorandum items:						
Labor services, including related transfers	5.1	4.9	5.4	5.9	5.6	5.7
GDP (millions of soles)	52,516	82,013	110,135	132,915	149,481	173,974

1/ Before transfers and interest payments.

2/ Includes gross capital formation undertaken by FONAVI.

Table 27. Peru: Central Government Revenue

	1992	1993	1994	1995	1996	1997
	(In millions of new soles)					
Total revenue and grants	5,966	9,228	14,222	17,869	21,520	24,532
Current revenue	5,966	9,228	14,222	17,725	21,210	24,430
Tax revenue 1/	5,111	8,167	13,363	16,772	19,942	22,956
Income tax	749	1,406	2,526	3,462	4,981	5,710
Advance payments	687	1,250	2,291	3,015	4,181	5,154
Annual filing	62	156	235	447	800	556
Payroll tax (FONAVI)	274	521	849	1,082	1,367	1,429
Net worth tax	201	254	0	0	0	0
Oil production tax (Petroperu)	0	0	173	202	159	68
Import duties	549	998	1,517	2,033	2,195	2,272
Domestic consumption taxes	3,409	5,072	8,137	9,934	11,106	13,421
Value-added tax (IGV) 2/	1,669	3,464	5,841	7,443	8,346	10,066
Domestic	...	...	3,543	4,225	4,722	5,929
Imports	...	...	2,298	3,218	3,624	4,137
Excises (ISC)	1,740	1,608	2,260	2,464	2,737	3,329
Petroleum derivatives	995	991	1,284	1,478	1,581	1,911
Other	745	617	976	986	1,156	1,418
Other indirect taxes	0	0	36	27	23	26
Other tax revenue	0	0	655	746	929	1,427
Tax refunds	-71	-84	-494	-687	-795	-1,371
Other revenue	855	1,061	859	953	1,268	1,474
Resources of ministries and other transfers	166	49	95	41	91	193
Interest on privatization funds 3/	0	0	94	244	318	386
Other	689	1,012	670	668	859	895
Current transfers from nonfinancial public sector	0	0	0	0	0	0
Capital revenue	0	0	0	144	310	102
Capital transfers from private sector	0	0	0	0	0	0
Foreign grants	0	0	0	143	310	99
Other	0	0	0	1	0	3
Capital transfers from nonfinancial public sector	0	0	301	325	444	150
From other general government	0	0	0	0	0	0
From public enterprises	0	0	301	325	444	150
Other	0	0	0	0	0	0
Memorandum items:						
Total revenue and grants after transfers	5,966	9,228	14,523	18,194	21,964	24,682
Tax revenue earmarked for municipalities (IPM)	211	398	640	850	978	1,177

Table 27. Peru: Central Government Revenue

	1992	1993	1994	1995	1996	1997
	(In percent of GDP)					
Total revenue and grants	11.4	11.3	12.9	13.4	14.4	14.1
Current revenue	11.4	11.3	12.9	13.3	14.2	14.0
Tax revenue 1/	9.7	10.0	12.1	12.6	13.3	13.2
Income tax	1.4	1.7	2.3	2.6	3.3	3.3
Advance payments	1.3	1.5	2.1	2.3	2.8	3.0
Annual filing	0.1	0.2	0.2	0.3	0.5	0.3
Payroll tax (FONAVI)	0.5	0.6	0.8	0.8	0.9	0.8
Net worth tax	0.4	0.3	0.0	0.0	0.0	0.0
Oil production tax (Petroperu)	0.0	0.0	0.2	0.2	0.1	0.0
Import duties	1.0	1.2	1.4	1.5	1.5	1.3
Domestic consumption taxes	6.5	6.2	7.4	7.5	7.4	7.7
Value-added tax (IGV) 2/	3.2	4.2	5.3	5.6	5.6	5.8
Domestic	...	...	3.2	3.2	3.2	3.4
Imports	...	...	2.1	2.4	2.4	2.4
Excises (ISC)	3.3	2.0	2.1	1.9	1.8	1.9
Petroleum derivatives	1.9	1.2	1.2	1.1	1.1	1.1
Other	1.4	0.8	0.9	0.7	0.8	0.8
Other indirect taxes	0.0	0.0	0.0	0.0	0.0	0.0
Other tax revenue	0.0	0.0	0.6	0.6	0.6	0.8
Tax refunds	-0.1	-0.1	-0.4	-0.5	-0.5	-0.8
Other revenue	1.6	1.3	0.8	0.7	0.8	0.8
Resources of ministries and other transfers	0.3	0.1	0.1	0.0	0.1	0.1
Interest on privatization funds 3/	0.0	0.0	0.1	0.2	0.2	0.2
Other	1.3	1.2	0.6	0.5	0.6	0.5
Current transfers from nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	0.0	0.0	0.0	0.1	0.2	0.1
Capital transfers from private sector	...	...	...	0.0	0.0	0.0
Foreign grants	...	...	...	0.1	0.2	0.1
Other	...	...	...	0.0	0.0	0.0
Capital transfers from nonfinancial public sector	0.0	0.0	0.3	0.2	0.3	0.1
From other general government	0.0	0.0	0.0	0.0	0.0	0.0
From public enterprises	0.0	0.0	0.3	0.2	0.3	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Total revenue and grants after transfers	11.4	11.3	13.2	13.7	14.7	14.2
Tax revenue earmarked for municipalities (IPM)	0.4	0.5	0.6	0.6	0.7	0.7

Sources: Central Reserve Bank of Peru; Ministry of Economy and Finance; SUNAT; and Fund staff estimates.

1/ Revenue collected by SUNAT and SUNAD.

2/ Includes the part earmarked for municipal governments (IPM) equal to 2 percentage points of the rate.

3/ Net of commissions paid to the BCR.

Table 28. Peru: Central Government Expenditure

	1992	1993	1994	1995	1996	1997
(In millions of new soles)						
Total expenditure (with transfers)	7,405	11,502	17,398	22,327	23,757	25,947
Current expenditure (excluding interest)	3,908	5,677	8,643	11,119	12,871	13,945
Labor services	2,561	3,850	5,714	7,372	7,867	9,249
Wages and salaries	1,655	2,502	3,622	4,700	5,021	5,925
Regular payroll	...	...	...	...	4,181	5,145
Additional pays	...	...	...	...	840	780
Pensions	733	1,085	1,613	2,014	2,116	2,483
Social benefits	173	263	479	658	730	841
Goods and services	753	1,078	1,905	2,708	3,721	3,711
Poverty programs (PLP)	160	245	398	632	594	525
Emergency (Defense-Interior)	193	203	320	336	285	273
Transfers to private sector	241	301	306	71	404	187
Pension bonds	0	47	8	0	74	42
Other	241	254	298	71	330	145
Current transfers to the rest of the nonfinancial public sector	469	806	1,283	2,385	2,752	3,661
To the rest of the general government	469	806	1,283	2,385	2,752	3,661
ONP	0	0	0	168	239	388
Local governments	204	411	586	1,055	1,231	1,616
IPM	204	411	586	822	972	1,226
PLP	0	0	0	230	243	265
Other	0	0	0	3	16	125
Other public institutions (IIPPs)	265	395	697	1,162	1,282	1,657
Wages and salaries	105	154	239	381	397	434
Goods and services	45	101	169	184	230	362
Pensions	0	0	0	115	123	151
SUNAT and SUNAD (earmarked)	115	140	289	439	510	610
Other	0	0	0	43	22	100
To public enterprises	0	0	0	0	0	0
Capital expenditure	1,330	2,192	3,723	4,573	4,619	5,363
Gross capital formation (excluding FONAVI)	806	1,324	2,265	2,880	2,900	3,366
Other capital expenditure	524	868	1,458	1,693	1,719	1,997
Poverty programs (PLP)	99	319	380	560	478	662
FONAVI	129	397	969	937	1,062	1,179
Gross capital formation	40	53	23	12	6	0
Other	89	344	946	925	1,056	1,179
Other	296	152	109	196	179	156
Capital transfers to nonfinancial public sector	48	161	283	269	237	160
To the rest of the general government	48	161	283	269	237	160
ONP	...	...	...	0	0	0
Local governments	...	...	...	33	16	0
Other public institutions (IIPPs)	...	...	...	236	221	160
Other	...	...	...	0	0	0
To public enterprises	0	0	0	0	0	0
Interest payments	1,649	2,666	3,466	3,981	3,278	2,818
External	1,558	2,608	3,359	3,898	3,202	2,703
Domestic	91	58	107	83	76	115
Memorandum items:						
Total expenditure without transfers	6,888	10,535	15,832	19,673	20,768	22,126
Total noninterest expenditure with transfers	5,755	8,836	13,932	18,346	20,479	23,129
Total noninterest expenditure without transfers	5,238	7,869	12,366	15,692	17,490	19,308
Labor costs and related transfers	2,666	4,004	5,953	7,868	8,387	9,834
Wages and salaries	1,760	2,656	3,861	5,081	5,418	6,359
Social benefits and related transfers	906	1,348	2,092	2,787	2,969	3,475
Goods, nonlabor services, and related transfers	798	1,179	2,074	2,892	3,951	4,073

Table 28. Peru: Central Government Expenditure

	1992	1993	1994	1995	1996	1997
(In percent of GDP)						
Total expenditure (with transfers)	14.1	14.0	15.8	16.8	15.9	14.9
Current expenditure (excluding interest)	7.4	6.9	7.8	8.4	8.6	8.0
Labor services	4.9	4.7	5.2	5.5	5.3	5.3
Wages and salaries	3.2	3.1	3.3	3.5	3.4	3.4
Regular payroll	...	...	...	...	2.8	3.0
Additional pays	...	...	...	...	0.6	0.4
Pensions	1.4	1.3	1.5	1.5	1.4	1.4
Social benefits	0.3	0.3	0.4	0.5	0.5	0.5
Goods and services	1.4	1.3	1.7	2.0	2.5	2.1
Poverty programs (PLP)	0.3	0.3	0.4	0.5	0.4	0.3
Emergency (Defense-Interior)	0.4	0.2	0.3	0.3	0.2	0.2
Transfers to private sector	0.5	0.4	0.3	0.1	0.3	0.1
Pension bonds	0.0	0.1	0.0	0.0	0.0	0.0
Other	0.5	0.3	0.3	0.1	0.2	0.1
Current transfers to the rest of the nonfinancial public sector	0.9	1.0	1.2	1.8	1.8	2.1
To the rest of the general government	0.9	1.0	1.2	1.8	1.8	2.1
ONP	0.0	0.0	0.0	0.1	0.2	0.2
Local governments	0.4	0.5	0.5	0.8	0.8	0.9
IPM	0.4	0.5	0.5	0.6	0.7	0.7
PLP	0.0	0.0	0.0	0.2	0.2	0.2
Other	0.0	0.0	0.0	0.0	0.0	0.1
Other public institutions (IIPPs)	0.5	0.5	0.6	0.9	0.9	1.0
Wages and salaries	0.2	0.2	0.2	0.3	0.3	0.2
Goods and services	0.1	0.1	0.2	0.1	0.2	0.2
Pensions	0.0	0.0	0.0	0.1	0.1	0.1
SUNAT and SUNAD (earmarked)	0.2	0.2	0.3	0.3	0.3	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
To public enterprises	0.0	0.0	0.0	0.0	0.0	0.1
Capital expenditure	2.5	2.7	3.4	3.4	3.1	3.1
Gross capital formation (excluding FONAVI)	1.5	1.6	2.1	2.2	1.9	1.9
Other capital expenditure	1.0	1.1	1.3	1.3	1.1	1.1
Poverty programs (PLP)	0.2	0.4	0.3	0.4	0.3	0.4
FONAVI	0.2	0.5	0.9	0.7	0.7	0.7
Gross capital formation	0.1	0.1	0.0	0.0	0.0	0.0
Other	0.2	0.4	0.9	0.7	0.7	0.7
Other	0.0	0.0	0.0	0.1	0.1	0.1
Capital transfers to nonfinancial public sector	0.1	0.2	0.3	0.2	0.2	0.1
To the rest of the general government	0.1	0.2	0.3	0.2	0.2	0.1
ONP	...	...	...	0.0	0.0	0.0
Local governments	...	...	...	0.0	0.0	0.0
Other public institutions (IIPPs)	...	...	...	0.2	0.1	0.1
Other	...	...	...	0.0	0.0	0.0
To public enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	3.1	3.3	3.1	3.0	2.2	1.6
External	3.0	3.2	3.1	2.9	2.1	1.6
Domestic	0.2	0.1	0.1	0.1	0.1	0.1
Memorandum items:						
Total expenditure without transfers	13.1	12.8	14.4	14.8	13.9	12.7
Total noninterest expenditure with transfers	11.0	10.8	12.6	13.8	13.7	13.3
Total noninterest expenditure without transfers	10.0	9.6	11.2	11.8	11.7	11.1
Labor costs and related transfers	5.1	4.9	5.4	5.9	5.6	5.7
Wages and salaries	3.4	3.2	3.5	3.8	3.6	3.7
Social benefits and related transfers	1.7	1.6	1.9	2.1	2.0	2.0
Goods, nonlabor services, and related transfers	1.5	1.4	1.9	2.2	2.6	2.3
GDP (\$/ million)	52,516	82,013	110,135	132,915	149,481	173,974

Sources: Central Reserve Bank of Peru; Ministry of Economy and Finance; and Fund staff estimates.

Table 29. Peru: Accounts of the Rest of the General Government
(In millions of new soles)

	1992	1993	1994	1995	1996	1997
Current revenue	1,822	2,652	3,558	3,826	4,393	4,907
Tax revenue	211	335	366	313	369	407
Contributions	933	1,335	1,778	2,194	2,377	2,804
Nontax revenue	488	741	1,026	1,236	1,435	1,703
Current transfers from private sector	190	241	388	83	212	-7
Current transfers from nonfinancial public sector	469	806	1,283	2,385	2,752	3,661
From central government	469	806	1,283	2,385	2,752	3,661
From public enterprises	0	0	0	0	0	0
Current expenditure	1,860	2,802	3,832	4,564	5,351	6,387
Labor costs	446	679	987	1,419	1,435	1,840
Goods and services	605	1,050	1,477	1,728	2,054	2,273
Transfers to households	809	1,073	1,368	1,417	1,862	2,274
Current balance before transfers	-38	-150	-274	-738	-958	-1,480
Capital revenue	34	28	36	132	41	152
Capital transfers from private sector	34	28	36	121	30	138
Foreign grants	0	0	0	0	0	0
Other	0	0	0	11	11	14
Capital transfers from nonfinancial public sector	48	161	283	269	237	160
From central government	48	161	283	269	237	160
From public enterprises	0	0	0	0	0	0
Capital expenditure	436	787	1,183	1,588	1,805	1,926
Gross capital formation	379	714	1,108	1,552	1,743	1,907
Other investment	0	0	0	1	10	14
Capital transfers to private sector	0	0	0	34	52	5
Other	57	73	75	1	0	0
Capital transfers to nonfinancial public sector	0	0	0	0	6	0
Capital balance before transfers	-402	-759	-1,147	-1,456	-1,764	-1,774
Primary balance before transfers	-440	-909	-1,421	-2,194	-2,722	-3,254
Interest payments	10	22	24	31	44	60
External	0	0	0	0	0	0
Domestic	10	22	24	31	44	60
Overall balance before transfers	-450	-931	-1,445	-2,225	-2,766	-3,314
Net transfers received	517	967	1,566	2,654	2,983	3,821
Overall balance after transfers	67	36	121	429	217	507
Financing	-67	-36	-121	-429	-217	-507
Foreign	0	0	0	0	0	0
Domestic	-67	-36	-121	-429	-217	-507

1/ Includes extraordinary pays, Christmas bonuses, etc.

Table 30. Peru: Accounts of Public Enterprises
(In millions of new soles)

	1992	1993	1994	1995	1996	1997
Current receipts	6,106	8,916	10,819	12,473	12,209	11,360
Gross sales	5,628	8,622	10,373	11,920	11,427	10,738
Other current receipts	478	294	446	553	782	622
Current expenditure	5,502	7,826	9,648	11,274	10,956	9,684
Labor costs	1,031	1,225	1,343	1,416	1,291	979
Goods and services	2,403	3,700	4,692	5,717	5,680	5,469
Taxes	1,762	2,519	3,141	3,685	3,200	2,627
Other	306	382	472	456	785	609
Current balance before transfers	604	1,090	1,171	1,200	1,253	1,676
Capital revenue	129	100	75	19	25	0
Capital expenditure	459	684	603	640	703	781
Gross capital formation	408	642	582	616	681	779
Other investment	0	0	0	0	0	0
Capital transfers to private sector	0	0	0	0	0	0
Other	51	42	21	24	22	2
Capital transfers to nonfinancial public sector	0	0	301	325	444	150
To central government	0	0	301	325	444	150
To other general government	0	0	0	0	0	0
Other	0	0	0	0	0	0
Capital balance (before transfers)	-330	-584	-528	-621	-678	-781
Primary balance (before transfers)	274	506	643	579	575	895
Interest payments	295	251	135	197	167	95
External	11	17	33	13	7	24
Domestic	284	234	102	184	160	71
Overall balance before transfers	-21	255	508	382	408	800
Net transfers received	0	0	-301	-325	-444	-150
Overall balance after transfers	-21	255	207	57	-36	650
Statistical discrepancy	0	0	0	0	0	0
Financing	21	-255	-207	-57	36	-650
Foreign	7	-57	-109	158	11	-601
Domestic	14	-198	-98	-215	25	-49

Table 31. Peru: Balance of Payments, External Debt, and Debt Service
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997
Current account	-2,054	-2,144	-2,664	-4,318	-3,604	-3,417
Merchandise trade	-556	-600	-1,022	-2,186	-2,000	-1,815
Exports	3,534	3,523	4,574	5,576	5,897	6,754
Imports	-4,090	-4,123	-5,595	-7,761	-7,897	-8,568
Services, transfers, and factor income (net)	-1,498	-1,545	-1,643	-2,133	-1,604	-1,602
Services (net)	-598	-535	-447	-764	-679	-739
Factor income (net)	-1,367	-1,505	-1,810	-1,933	-1,573	-1,499
Current transfers (net)	467	495	615	565	647	635
Financial and capital account	640	648	3,223	3,628	4,217	4,384
Public sector	-545	-820	-600	-154	-433	-291
Disbursements	244	170	418	567	463	777
Amortization	-791	-963	-962	-859	-878	-837
Bonds (net)	0	0	0	0	0	0
Short-term borrowing	2	-27	-56	139	-18	-231
Capital transfers (net)	-30	-78	-93	19	3	-6
Private sector	1,215	1,546	3,916	3,763	4,646	4,681
Privatization	...	168	2,241	547	1,688	143
Foreign direct investment	...	502	842	1,536	1,882	1,862
Other private inflows	...	876	833	1,680	1,076	2,676
Medium- and long-term loans	...	306	206	415	219	401
Portfolio investment	...	228	572	145	342	348
Banking system	...	141	-1,093	204	-661	1,790
Other short term (incl. errors and omissions)	...	201	1,148	916	1,176	136
Financing	1,414	1,497	-559	690	-612	-967
Change in central bank reserves 1/	-3	-275	-2,334	-867	-1,534	-993
Exceptional financing 2/	1,417	1,772	1,775	1,557	922	26
Total external debt	25,320	27,396	30,218	33,434	33,466	28,206
Medium and long term	22,177	23,828	26,012	28,034	27,766	21,629
Nonfinancial public sector	20,789	22,162	24,063	25,652	25,197	18,788
Central reserve bank 3/	870	882	938	955	924	795
Private sector	518	784	1,011	1,426	1,645	2,047
Short term	3,143	3,568	4,206	5,400	5,700	6,577
Total outstanding arrears 4/	9,712	8,794	9,461	10,231	10,541	30

Sources: Central Reserve Bank of Peru; Ministry of Economy and Finance; and Fund staff estimates.

1/ Includes reserve requirements on foreign currency deposits as a reserve liability, in accordance with program definition.

2/ Includes accumulation of arrears to private and bilateral creditors pending the conclusion of debt negotiations, and payments and rescheduling of arrears.

3/ Excludes the reserve tranche with the IMF.

4/ Includes imputed interest on arrears; in 1997 principal arrears only.

Table 32. Peru: Trade Indices

(1993 = 100)

	1992	1993	1994	1995	1996	1997
Exports						
Value	100	100	130	158	167	192
Volume	88	100	114	120	126	144
Unit value	114	100	114	132	133	133
Imports						
Value	100	100	136	188	192	208
Volume	94	100	134	166	168	192
Unit value	106	100	101	113	114	108
Terms of trade						
Percentage change	108	100	113	116	116	122
	-2.6	-7.0	12.8	2.8	0.2	5.3

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Value of exports (or imports) at current year prices minus value of exports (or imports) at previous year prices.

Table 33. Peru: Exports f.o.b. by Group of Products

	1992	1993	1994	1995	1996	1997
(In millions of U.S. dollars)						
Total exports, f.o.b.	3,535	3,523	4,574	5,576	5,897	6,754
Traditional products	2,471	2,334	3,153	3,981	4,213	4,640
Minerals	1,649	1,432	1,859	2,454	2,510	2,546
Petroleum and derivatives	196	182	165	241	353	373
Agricultural products	115	77	242	341	291	463
Fishing	440	542	710	711	835	1,030
Other	72	102	177	234	225	229
Nontraditional products	1,064	1,189	1,420	1,595	1,684	2,114
Agriculture and livestock	151	187	222	274	323	339
Textiles	324	325	392	438	454	569
Fishing products	96	133	199	223	212	277
Metal products	38	40	39	39	49	56
Chemicals	77	75	98	132	167	205
Steel and metallurgical products	156	121	119	145	141	234
Nonmetal minerals	50	25	29	30	37	51
Fishing concessions	83	132	173	97	21	7
Other	88	152	149	217	279	376
(In percent of total)						
Total exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0
Traditional products	69.9	66.2	68.9	71.4	71.4	68.7
Minerals	46.6	40.6	40.6	44.0	42.6	37.7
Petroleum and derivatives	5.6	5.2	3.6	4.3	6.0	5.5
Agricultural products	3.2	2.2	5.3	6.1	4.9	6.9
Fishing	12.4	15.4	15.5	12.7	14.2	15.2
Other	2.0	2.9	3.9	4.2	3.8	3.4
Nontraditional products	30.1	33.8	31.1	28.6	28.6	31.3
Agriculture and livestock	4.3	5.3	4.9	4.9	5.5	5.0
Textiles	9.2	9.2	8.6	7.9	7.7	8.4
Fishing products	2.7	3.8	4.4	4.0	3.6	4.1
Metal products	1.1	1.1	0.9	0.7	0.8	0.8
Chemicals	2.2	2.1	2.1	2.4	2.8	3.0
Steel and metallurgical products	4.4	3.4	2.6	2.6	2.4	3.5
Nonmetal minerals	1.4	0.7	0.6	0.5	0.6	0.8
Fishing concessions	2.3	3.7	3.8	1.7	0.3	0.1
Other	2.5	4.3	3.3	3.9	4.7	5.6

Source: Central Reserve Bank of Peru.

Table 34. Peru: Traditional Exports f.o.b. by Commodity
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997
Traditional products	2,471.1	2,334.0	3,153.3	3,980.7	4,213.3	4,639.9
Petroleum, gas, and derivatives	196.2	181.5	164.9	241.1	353.0	372.6
Oil value	196.2	181.5	164.9	241.1	353.0	372.6
Volume (mn bbl)	17.6	16.0	14.0	17.4	20.5	24.7
Unit value (US\$/bbl)	11.1	11.3	11.8	13.9	17.2	15.1
Fishmeal						
Value	440.0	541.5	709.8	710.7	834.9	1,029.5
Volume	1,020.8	1,723.0	2,210.5	1,816.2	1,609.8	1,923.7
Unit value (US\$/mt)	431.0	314.3	321.1	391.3	518.6	535.2
Coffee						
Value	69.0	60.3	206.6	286.3	223.1	396.3
Volume	61.1	48.7	68.2	105.2	100.4	97.7
Unit value (US\$/qq)	51.2	56.1	137.2	123.3	100.7	183.8
Cotton						
Value	23.1	4.3	4.9	24.1	30.2	32.1
Volume (Thous. of qq)	208.9	41.3	48.0	168.0	251.5	296.4
Unit value (US\$/qq)	110.6	104.3	101.4	143.3	120.2	108.3
Sugar						
Value	22.5	12.5	30.9	30.2	37.2	34.4
Volume	53.0	29.1	69.6	64.6	82.5	79.3
Unit value (US\$/qq)	19.2	19.5	20.1	21.2	20.4	19.7
Mineral products	1,648.8	1,432.1	1,859.0	2,454.4	2,510.1	2,545.7
Copper						
Value	806.1	658.5	824.1	1,199.8	1,052.2	1,090.5
Volume	374.3	358.8	387.3	418.1	475.4	500.5
Unit value (US\$/lb)	97.6	83.1	96.4	130.0	100.3	98.7
Zinc						
Value	335.3	258.2	301.8	324.8	400.9	539.2
Volume	463.4	522.8	536.3	506.2	599.2	648.7
Unit value (US\$/lb)	32.8	22.4	25.5	29.1	30.3	37.7
Lead						
Value	160.8	130.9	192.6	258.2	274.3	235.5
Volume	181.7	175.2	178.3	196.7	200.7	208.9
Unit value (US\$/lb)	40.1	33.8	48.9	59.5	61.9	51.1
Silver (refined)						
Value	78.0	76.3	97.8	108.7	119.5	104.1
Volume (mn troy oz.)	20.1	18.5	18.8	21.2	22.9	21.6
Unit value (US\$/oz.)	3.9	4.1	5.2	5.1	5.2	4.8
Gold 1/						
Value	214.5	224.5	337.7	462.9	579.3	499.9
Volume (thous. troy oz.)	629.7	636.0	885.4	1,196.7	1,478.2	1,487.6
Unit value (US\$/oz.)	340.6	353.0	381.4	386.8	391.9	336.0
Iron and iron ore						
Value	54.1	83.7	105.0	100.0	83.9	76.5
Volume (mn net tons)	3.0	4.7	6.3	6.0	4.0	3.7
Unit value (US\$/net t.)	18.0	17.8	16.7	16.7	21.0	20.7
Other traditional products	71.5	101.7	177.2	233.9	224.7	229.3

Source: Central Reserve Bank of Peru.

Table 35. Peru: Imports f.o.b. by Economic Category

	1993	1994	1995	1996	1997
(In millions of U.S. dollars)					
Total imports, f.o.b.	4,123	5,595	7,761	7,897	8,568
Consumer goods	934	1,365	1,786	1,847	1,910
Nondurable	555	717	925	1,072	1,105
Durable	379	648	860	775	805
Raw material and intermediate goods	1,859	2,302	3,237	3,237	3,433
Fuels	322	325	594	734	780
To agriculture	116	135	162	188	202
To industry	1,422	1,842	2,481	2,316	2,452
Capital goods	1,143	1,698	2,396	2,417	2,814
Construction materials	68	115	207	189	244
Capital goods agriculture	37	32	36	21	28
Capital goods for industry	704	1,004	1,493	1,727	2,032
Transportation equipment	334	549	660	480	509
Other goods 1/	187	230	343	397	412
(In percent of total)					
Total imports, f.o.b.	100.0	100.0	100.0	100.0	100.0
Consumer goods	22.7	24.4	23.0	23.4	22.3
Nondurable	13.5	12.8	11.9	13.6	12.9
Durable	9.2	11.6	11.1	9.8	9.4
Raw material and intermediate goods	45.1	41.1	41.7	41.0	40.1
Fuels	7.8	5.8	7.7	9.3	9.1
To agriculture	2.8	2.4	2.1	2.4	2.4
To industry	34.5	32.9	32.0	29.3	28.6
Capital goods	27.7	30.4	30.9	30.6	32.8
Construction materials	1.6	2.0	2.7	2.4	2.8
Capital goods agriculture	0.9	0.6	0.5	0.3	0.3
Capital goods for industry	17.1	17.9	19.2	21.9	23.7
Transportation equipment	8.1	9.8	8.5	6.1	5.9
Other goods	4.5	4.1	4.4	5.0	4.8
Memorandum item:					
Foodstuff	477	523	633	821	698

Source: Central Reserve Bank of Peru.

Table 36. Peru: Services
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997
Transport 1/						
Credits	-334	-333	-425	-567	-503	-538
Debits	316	293	307	337	342	378
	650	626	732	904	845	916
Communications						
Credits	92	88	97	95	86	100
Debits	134	145	164	174	174	200
	42	57	67	79	88	100
Insurance						
Credits	-46	-74	-30	-54	-57	-65
Debits	125	67	117	75	104	107
	171	141	147	129	161	172
Travel						
Credits	-67	-4	147	230	280	320
Debits	188	265	413	527	632	805
	255	269	266	297	352	485
Other services 2/						
Credits	-243	-212	-237	-468	-485	-556
Debits	105	131	155	132	119	127
	348	343	392	600	604	683
Total						
Credits	-598	-535	-447	-764	-679	-739
Debits	868	901	1,156	1,245	1,371	1,617
	1,466	1,436	1,604	2,009	2,050	2,356
Current transfers 3/	482	495	615	565	647	635
Capital transfers (net) 4/	-30	-78	-93	19	3	-6

Source: Central Reserve Bank of Peru.

1/ Includes freight, passengers, expenditures in ports by ships and planes, and transportation fees.

2/ Includes government, information, financial services, royalties, leasing of equipment, etc.

3/ Excludes cash grants and condonation.

4/ Includes capital grants and transfers of emigrants.

Table 37. Peru: Factor Income

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997
Credits	204	209	332	574	611	728
Public sector	115	139	243	427	489	590
Private sector	89	70	89	147	122	138
Debits	1,571	1,714	2,142	2,507	2,184	2,227
Public sector interest	1,360	1,404	1,688	1,829	1,385	1,088
Medium- and long-term public debt	1,255	1,278	1,553	1,658	1,325	1,037
Bonds				0	0	0
BCRP 1/	70	68	57	62	51	45
Short term 2/	35	58	78	109	9	6
Private sector	211	310	454	678	799	1,139
Profits and dividends	41	126	133	162	235	429
Retained earnings	15	20	52	100	97	143
Interest obligations	155	164	269	416	467	567
Long term	30	32	76	103	105	150
Short term 3/	125	132	187	308	353	399
Bonds	...	...	6	6	9	19

1/ Includes interest on short- and long-term debt.

2/ Includes interest owed by *Banco de la Nación*, development banks, and debt taken over by the government.

3/ Includes interest owed by nonfinancial public sector enterprises; US\$16 million in 1995, and projected at US\$18 million in 1996.

Table 38. Peru: Direction of Trade

(In percent)

	1992	1993	1994	1995	1996	1997
Exports	100.0	100.0	100.0	100.0	100.0	100.0
United States	20.0	21.2	16.6	17.3	19.9	23.4
People's Republic of China	6.9	3.6	6.3	6.4	7.2	7.3
Japan	8.3	10.1	10.3	9.1	6.7	7.1
Switzerland	6.8	1.3	1.2	3.3	5.0	6.2
Germany	4.1	5.8	6.2	6.0	5.2	5.8
United Kingdom	6.2	8.6	8.9	7.4	7.3	4.4
Brazil	4.5	3.7	4.1	3.6	4.1	3.8
Italy	5.5	4.7	4.4	4.5	3.4	3.4
Colombia	2.5	2.5	2.2	2.2	2.1	2.3
Spain	1.6	1.6	1.7	2.2	2.4	2.3
Venezuela	2.8	2.2	1.9	2.9	2.2	2.1
Chile	2.0	1.9	1.9	2.8	2.1	2.0
Canada	3.2	2.5	2.7	2.5	2.7	1.8
Mexico	2.8	2.7	3.4	1.7	1.6	1.7
South Korea	1.7	3.6	3.1	2.9	2.8	1.4
Rest of World	21.0	24.0	25.0	25.0	25.0	25.0
Imports	100.0	100.0	100.0	100.0	100.0	100.0
United States	28.3	28.7	28.3	27.2	30.7	32.1
Spain	1.0	1.1	1.3	4.2	5.7	8.5
Chile	4.8	5.3	7.7	7.6	5.7	5.5
Venezuela	3.4	2.8	2.6	4.5	5.8	4.4
Colombia	8.1	5.7	4.4	7.8	7.3	4.2
Japan	7.2	6.4	6.7	5.1	3.7	4.2
Brazil	5.4	6.1	6.4	5.4	4.2	4.0
Germany	4.6	4.1	4.6	3.8	3.9	3.6
Mexico	2.4	2.7	2.6	2.8	2.8	3.1
Canada	1.9	1.5	1.3	1.7	2.4	2.8
South Korea	1.5	1.9	2.5	2.4	2.5	2.6
Italy	2.4	1.9	2.8	2.3	2.2	2.4
People's Republic of China	0.4	1.7	1.2	2.0	1.1	1.4
United Kingdom	1.5	1.2	1.2	1.3	1.3	1.2
Switzerland	1.2	1.2	1.2	0.8	0.8	1.1
Rest of World	26.0	28.0	25.0	21.0	20.0	18.9

Source: Central Reserve Bank of Peru.

Table 39. Peru: Scheduled Debt Service Payments on Medium- and Long-Term Debt 1/
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997
Total debt service due	2,046	2,242	2,515	2,517	2,203	1,874
Multilateral creditors	372	392	414	463	459	595
Bilateral creditors	1,124	1,349	1,406	1,317	1,346	1,060
Paris Club creditors	766	979	1,093	1,012	1,105	946
Latin American creditors	144	156	133	119	103	91
Other bilateral creditors	214	214	180	186	138	23
Private creditors	550	501	695	737	398	219
Commercial banks	401	377	565	616	324	144
Unguaranteed suppliers	149	124	130	121	74	75
Scheduled interest payments	1,255	1,279	1,553	1,658	1,325	1,037
Multilateral creditors	191	196	225	256	259	287
Bilateral creditors	645	678	678	697	694	559
Paris Club creditors	549	572	591	610	638	536
Latin American creditors	50	52	40	35	26	19
Other bilateral creditors	46	54	47	52	30	4
Private creditors	419	405	650	705	372	191
Commercial banks	356	357	551	609	320	142
Unguaranteed suppliers	63	48	99	96	52	49
Scheduled principal payments	791	963	962	859	878	837
Multilateral creditors	181	196	189	207	200	308
Bilateral creditors	479	671	728	620	652	501
Paris Club creditors	217	407	502	402	467	410
Latin American creditors	94	104	93	84	77	72
Other bilateral creditors	168	160	133	134	108	19
Private creditors	131	96	45	32	26	28
Commercial banks	45	20	14	7	4	2
Unguaranteed suppliers	86	76	31	25	22	26

Source: Central Reserve Bank of Peru.

1/ Excluding Central Reserve Bank of Peru.

Table 40. Peru: Nonfinancial Public Sector External Borrowing

	1992	1993	1994	1995	1996	1997
(In millions of U.S. dollars)						
Total disbursements	387	1,454	625	567	464	1,765
Multilateral creditors	176	1,293	515	463	286	1,377
Bilateral creditors	203	161	110	100	168	281
Paris Club creditors	86	152	79	39	148	263
Latin American creditors	96	8	8	0	0	0
Other bilateral creditors	21	1	23	61	20	18
Private creditors	8	0	0	4	10	107
Commercial banks	0	0	0	0	10	107
Unguaranteed suppliers	8	0	0	4	0	0
Project loans	244	170	418	567	463	777
Multilateral creditors	113	132	340	463	285	489
Bilateral creditors	123	38	78	100	168	181
Paris Club creditors	86	29	47	39	148	163
Latin American creditors	96	8	8	0	0	0
Other bilateral creditors	21	1	23	61	20	18
Private creditors	8	0	0	4	10	107
Commercial banks	0	0	0	0	10	107
Unguaranteed suppliers	8	0	0	4	0	0
Balance of payments/DDSR support loans	78	1,284	207	0	1	988
Multilateral creditors	63	1,161	175	0	1	888
Bilateral creditors	15	123	32	0	0	100
Paris Club creditors	15	123	32	0	0	100
Latin American creditors	0	0	0	0	0	0
Other bilateral creditors	0	0	0	0	0	0
Private creditors	0	0	0	0	0	0
(In percent of total)						
By type of lender	100.0	100.0	100.0	100.0	100.0	100.0
Multilateral creditors	45.5	88.9	82.4	81.6	61.6	78.0
Bilateral creditors	52.5	11.1	17.6	17.7	36.2	15.9
Private creditors	2.1	0.0	0.0	0.7	2.2	6.1

Source: Central Reserve Bank of Peru.

Table 41. Peru: Medium- and Long-Term External Debt of the Nonfinancial Public Sector

(In millions of U.S. dollars, end-of-period)

	1992	1993	1994	1995	1996	1997
Total external debt outstanding (including arrears)	20,789	22,162	24,063	25,652	25,197	18,788
Multilateral creditors	2,518	2,840	3,318	3,840	3,670	4,530
Bilateral creditors	10,349	10,362	11,042	11,462	11,237	9,043
Paris Club creditors	8,316	8,237	8,965	9,424	9,152	8,677
Latin American creditors	703	635	608	481	375	214
Other bilateral creditors	1,330	1,490	1,469	1,557	1,710	152
Private creditors	7,922	8,959	9,702	10,350	10,290	5,214
Commercial banks	6,375	7,275	7,844	8,422	8,520	4,225
Unguaranteed suppliers	1,547	1,685	1,859	1,928	1,770	989
	(In percent of total)					
By lender						
Multilateral creditors	12.1	12.8	13.8	15.0	14.6	24.1
Bilateral creditors	49.8	46.8	45.9	44.7	44.6	48.1
Private creditors	38.1	40.4	40.3	40.3	40.8	27.8

Source: Central Reserve Bank of Peru.

Table 42. Peru: Private Sector Long-Term Capital Flows

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	Est. 1997
Total	257	1,204	3,861	2,643	4,131	2,755
Net foreign investment	151	898	3,655	2,228	3,912	2,353
Privatization	6	168	2,241	547	1,688	143
Direct investment	145	502	842	1,536	1,882	1,862
Petroleum	39	-20	-25	-19	228	0
Mining and other	106	522	867	1,555	1,654	1,862
Portfolio investment	...	228	572	145	342	348
Stock market and ADRs (net)	...	222	465	171	317	156
Bonds (net)	...	6	107	-26	25	192
Medium- and long-term loans	107	306	206	415	219	401
Disbursements	279	492	599	905	999	1,293
Amortization	172	186	392	490	780	892
Memorandum item:						
Stock of foreign direct investment	...	1,663	4,462	5,916	6,734	7,456

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

Table 43. Peru: Import Restrictions and Tariffs

	1992	1993	1994	1995	1996	1997
(In numbers of eight-digit customs categories) 1/						
Quantitative import restrictions						
Total imports	6,483	6,483	6,483	6,483	6,483	6,526
Without quantitative restriction	6,483	6,483	6,483	6,483	6,483	6,526
With quantitative restriction	0	0	0	0	0	0
Subject to prior licensing	0	0	0	0	0	0
Prohibited	0	0	0	0	0	0
(In percent)						
Customs tariffs						
Average tariff (unweighted)	18	16	16	16	16	13
Standard deviation (unweighted)	4	3	3	3	3	3
Maximum tariff	25	25	25	25	25	20
(In numbers of eight-digit customs categories) 1/						
Structure of customs tariff						
Number of categories with tariff rates of: 2/						
Zero percent						
More than zero and up to 10 percent						
10-20 percent	4,779	5,629	5,629	5,629	5,629	6,526
20-30 percent	1,704	854	854	854	854	0
30-40 percent	0	0	0	0	0	0
40-50 percent	0	0	0	0	0	0
50-60 percent	0	0	0	0	0	0
60-70 percent	0	0	0	0	0	0
70-80 percent	0	0	0	0	0	0
Greater than 80 percent	0	0	0	0	0	0
Total	6,483	6,483	6,483	6,483	6,483	6,526
Memorandum item:						
Actual average import duty (in percent) 3/	12	14	13	12	11	10

Source: Central Reserve Bank of Peru.

1/ According to the Andean Pact customs nomenclature (NABANDINA), 1987-91; since 1992, according to the New Andean Customs Nomenclature (NANDINA) in number of ten-digit customs categories.

2/ Calculated on the basis of tariff rates excluding surcharge.

3/ Calculated on the basis of total import duty collections (including surcharges) divided by the c.i.f. import value.

Table 44. Peru: Real Effective and Nominal Exchange Rates

	Peruvian new soles per U.S. dollar		Real effective exchange rate	
	End of period	Period average	Index 1990=100	Percentage change
1992	1.63	1.26	113.12	-4.47
1993	2.15	2.01	119.76	5.87
1994	2.18	2.19	127.85	6.76
1995	2.31	2.25	123.70	-3.25
1996				
January	2.35	2.35	124.57	-0.23
February	2.36	2.35	125.83	1.95
March	2.35	2.36	127.40	5.79
April	2.37	2.36	128.40	7.85
May	2.42	2.41	127.49	5.79
June	2.44	2.44	126.35	4.62
July	2.46	2.44	127.18	4.63
August	2.46	2.47	125.95	0.86
September	2.51	2.49	125.26	-0.80
October	2.57	2.55	123.48	-1.04
November	2.58	2.58	121.78	-1.14
December	2.60	2.58	124.76	0.86
1997				
January	2.64	2.63	124.53	-0.04
February	2.65	2.64	126.76	0.73
March	2.65	2.63	129.22	1.42
April	2.66	2.66	128.73	0.26
May	2.67	2.66	128.69	0.95
June	2.65	2.66	130.27	3.10
July	2.66	2.65	132.90	4.49
August	2.65	2.65	134.98	7.17
September	2.65	2.64	134.29	7.21
October	2.71	2.66	132.83	7.57
November	2.72	2.72	130.35	7.04
December	2.72	2.72	133.76	7.21
1998				
January	2.77	2.74	135.20	8.57

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Trade-weighted exchange rate index, adjusted by relative movements in consumer prices. Period averages. A decline in the index represents an effective depreciation of the Peruvian new sol.

2/ Percentage change with respect to the same period of the previous year.

