

Peruvian Fiscal Framework 20 years from the First Fiscal Rules

Waldo Mendoza Bellido
President of the Fiscal Council of Peru

October 15th, 2019

Contents:

I. Collapse, Stabilization and Consolidation

II. The Peruvian Fiscal Framework

III. Remaining Challenges

Contents:

I. Collapse, Stabilization and Consolidation

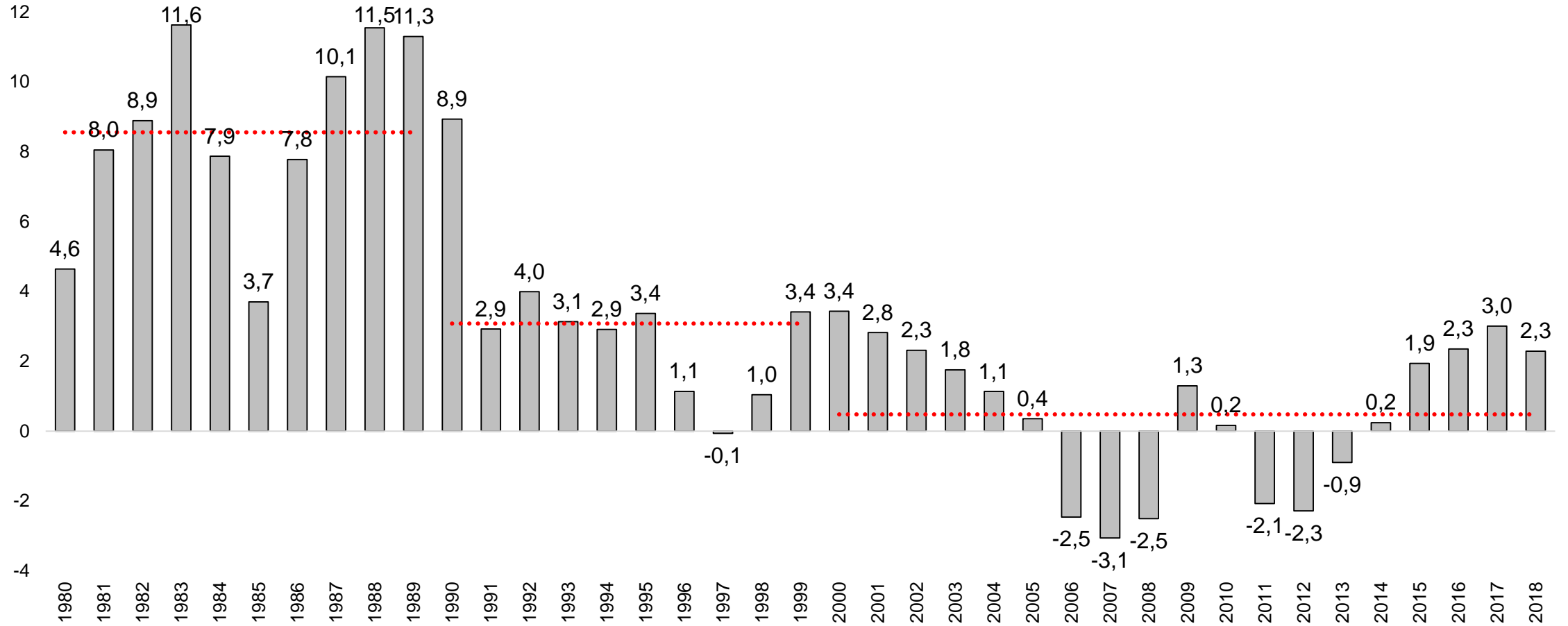
II. The Peruvian Fiscal Framework

III. Remaining Challenges

I.1. The Facts

The Facts

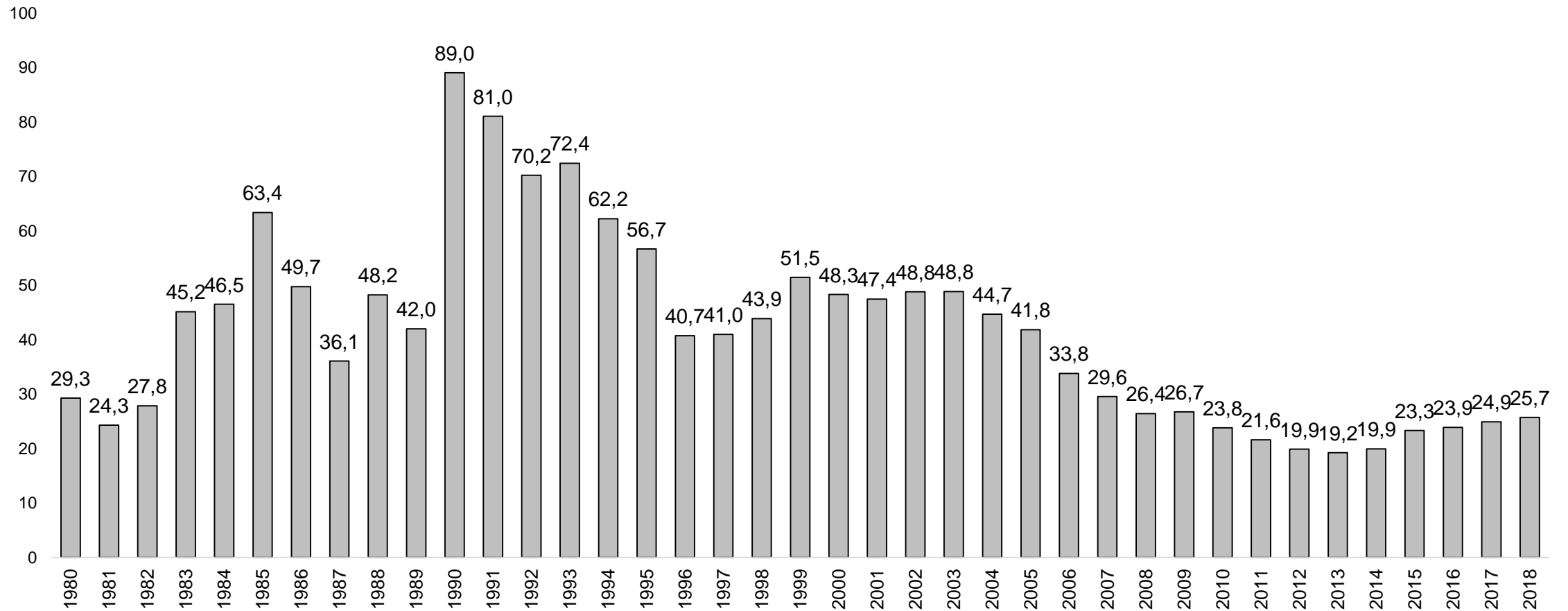
Non Financial Public Sector fiscal deficit (percentage of GDP)



Source: Central Bank.

The Facts

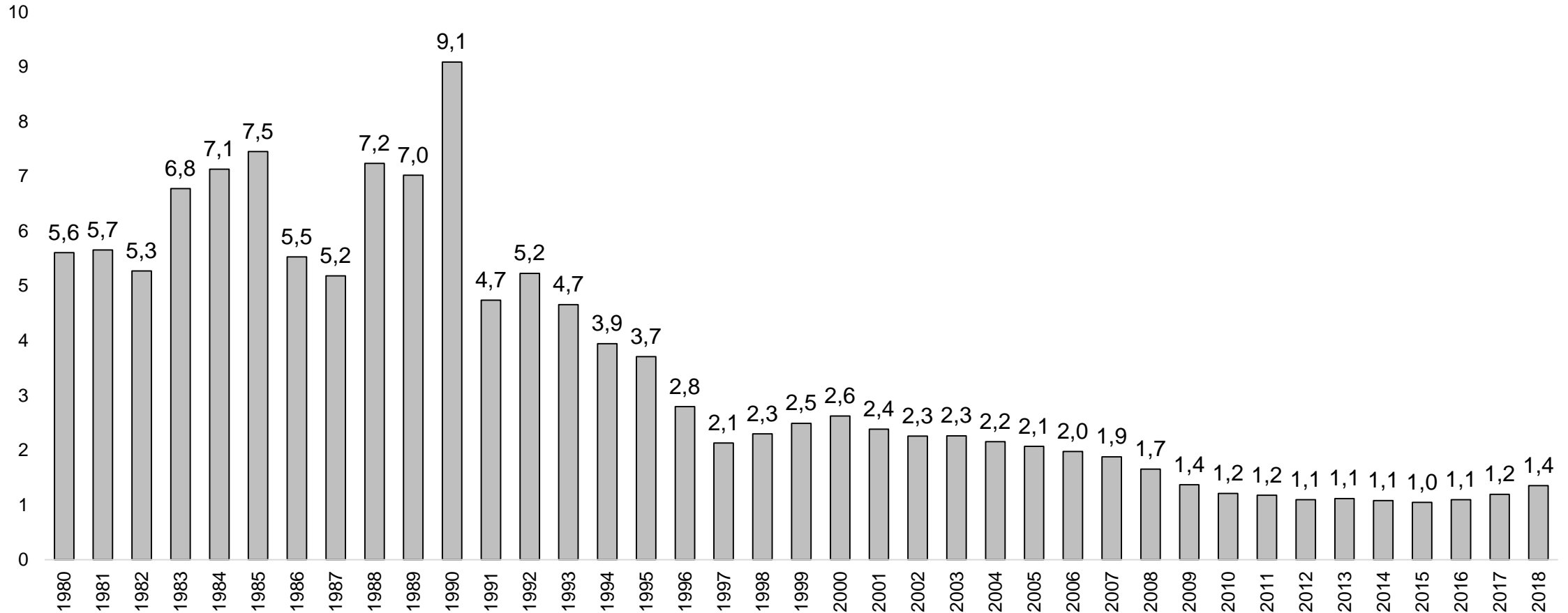
Non Financial Public Sector gross public debt (percentage of GDP)



Source: Reinhart and Rogoff (2011), and Central Bank.

The Facts

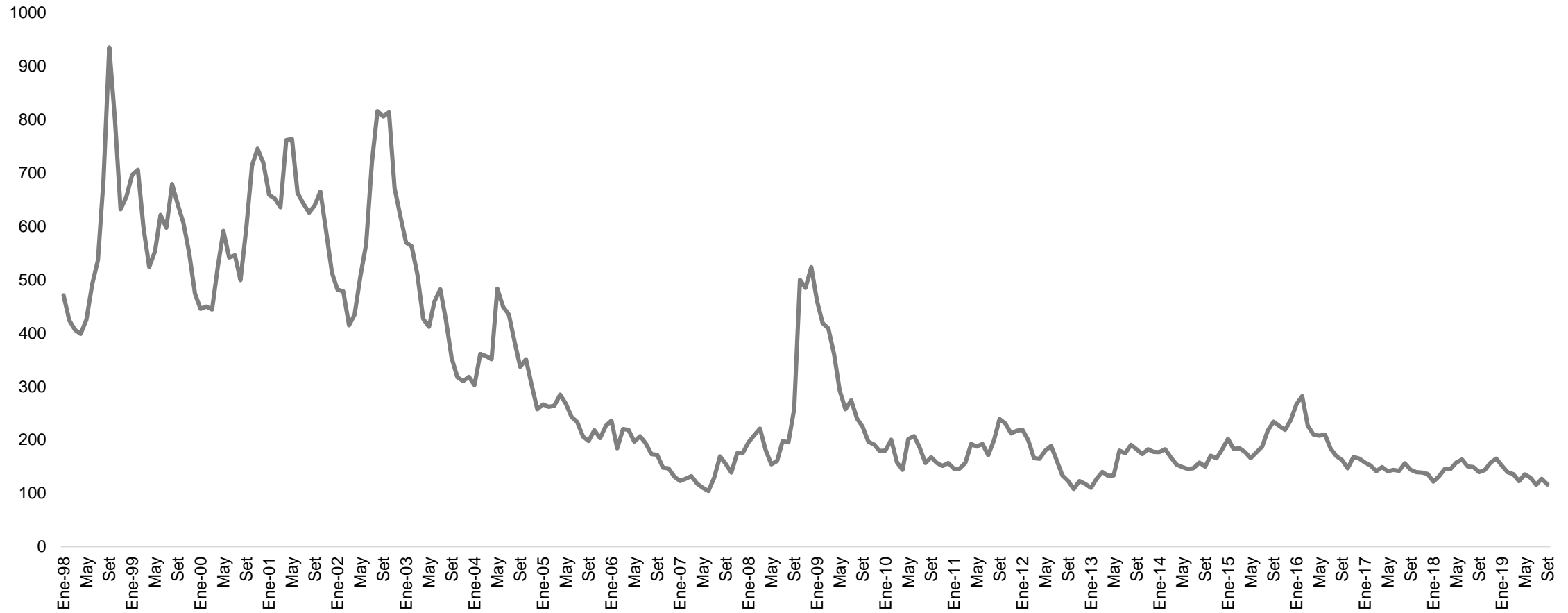
Non Financial Public Sector interest expenditure (percentage of GDP)



Source: Central Bank.

The Facts

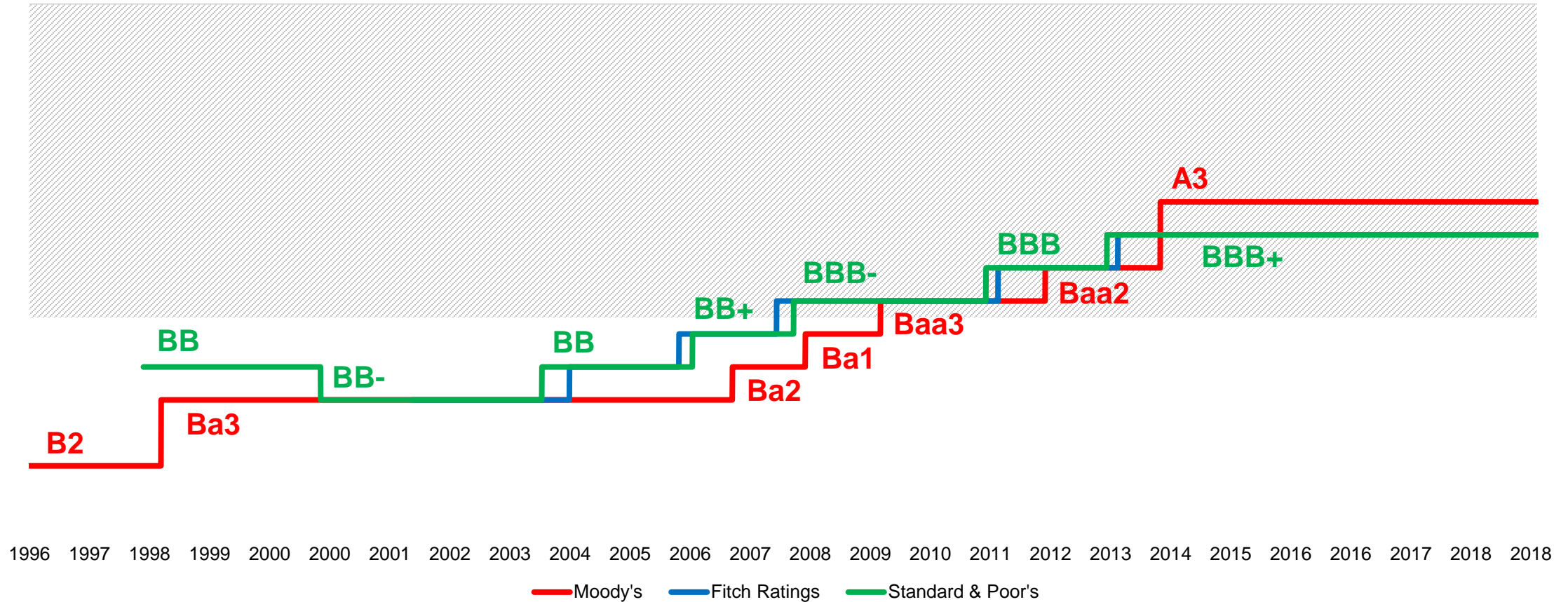
Sovereign risk
(EMBIG^{1/} spread in basis points)



1/ Sovereign risk is calculated as the differential between the yield bond index between Peru and the United States.
Source: Central Bank.

The Facts

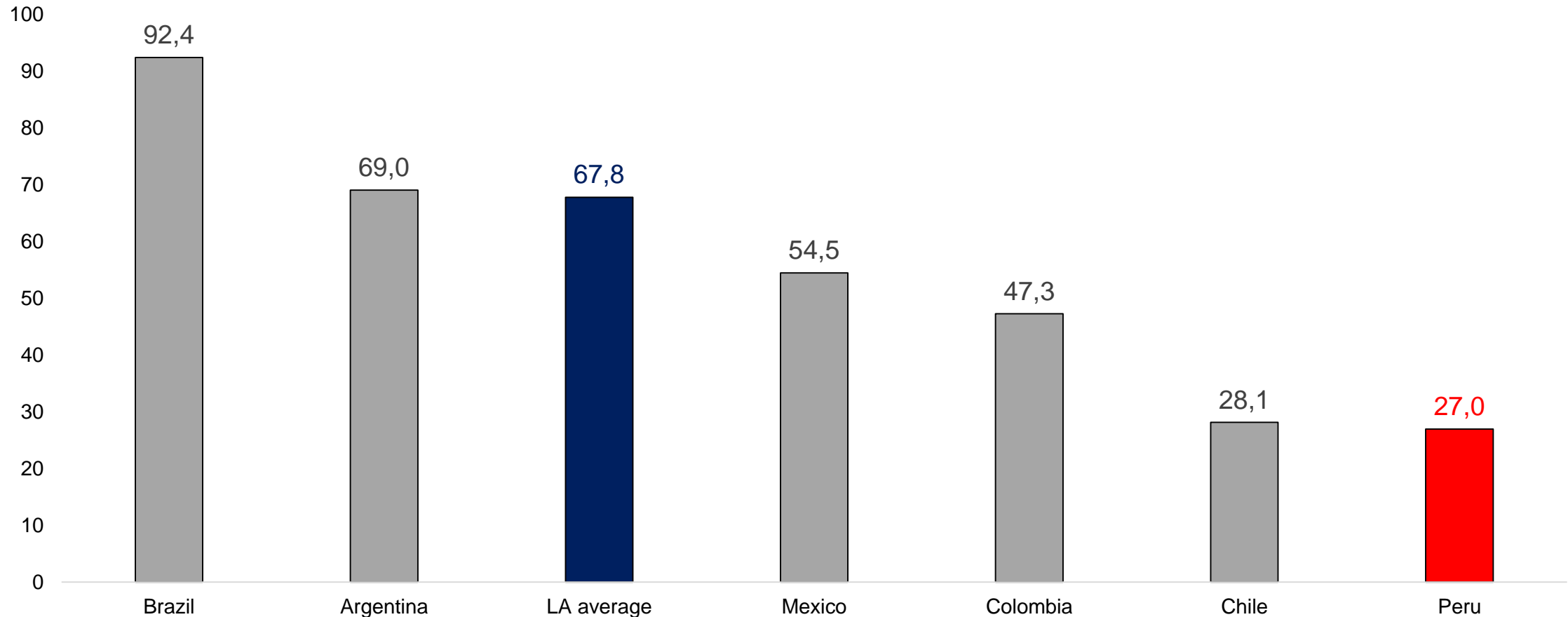
Credit rating



Note: The shaded area refers to obtaining the investment grade.
Source: Moody's, Fitch Ratings, Standard & Poor's.

The Facts

General Government gross public debt, 2020
(percentage of GDP)



Note: Latin America average consists in a weighted average of 19 countries.
Source: Database of World Economic Outlook, April 2019, IMF.

I.2. The Main Explanations

The Main Explanations



The Main Explanations

Fiscal dominance regime

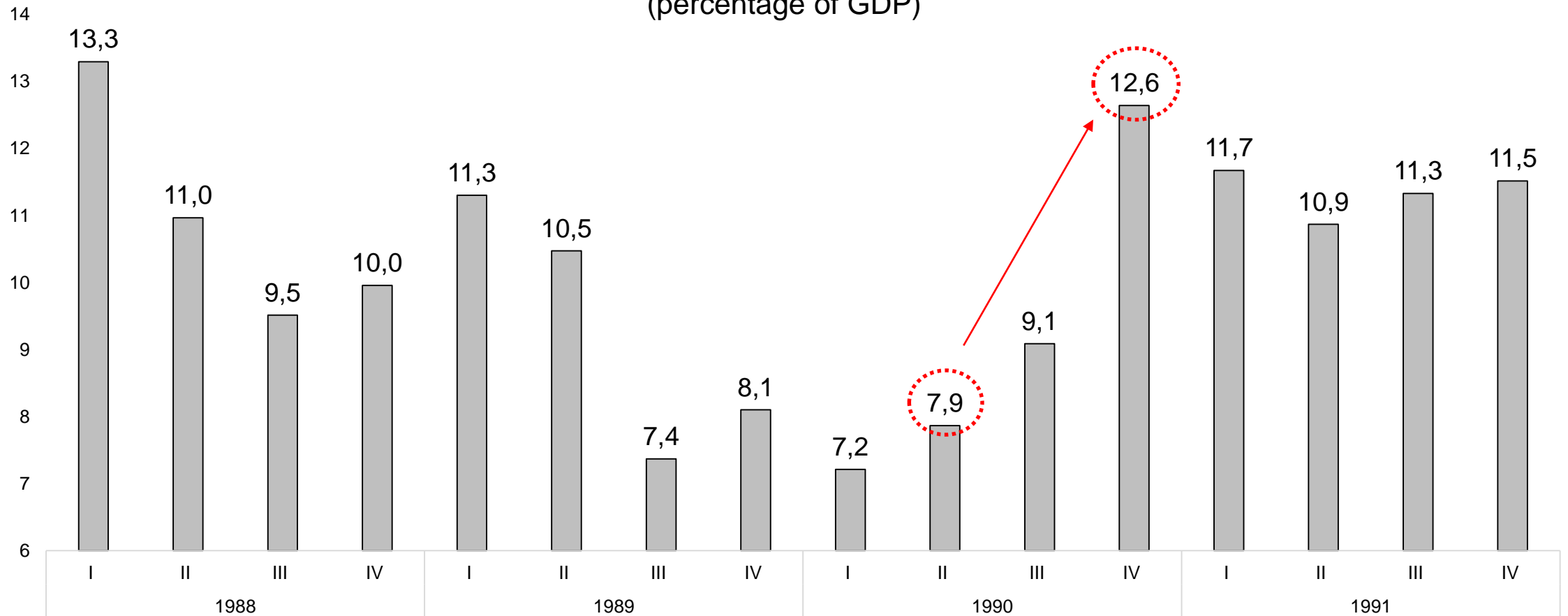
Political Constitution of 1979

It did not have an explicit prohibition that the Central Bank could finance the Treasury.

The Main Explanations

Fiscal adjustment in August 1990

Central Government tax revenues
(percentage of GDP)



Source: Central Bank.

The Main Explanations

Political Constitution of Peru (1993)

Article 84°.-

“ ... The Central Bank is prohibited to finance the Treasury, except for the purchase, in the secondary market, of securities issued by the Treasury, within the limit established by its Organic Law (5%).”

The Main Explanations

Fiscal rules

Fiscal Prudence and Transparency Law (Law N° 27245) - 1999

- ✓ Fiscal deficit of Non Financial Public Sector (NFPS): non greater than 1% of GDP.
- ✓ Limits on growth of nonfinancial expenditures of General Government (GG).

Fiscal Responsibility and Transparency Law (Law N° 27958) - 2003

- ✓ Fiscal deficit of NFPS: non greater than 1% of GDP.
- ✓ Limits on growth of nonfinancial expenditures of GG (2006 the coverage change to Central Government)

The Main Explanations

Fiscal rules

Law to Strengthening Fiscal Responsibility and Transparency (Law N° 30099) - 2013

- ✓ Limit on nonfinancial expenditures of National Government (NG) based on a structural fiscal deficit of NFPS of 1% of GDP. The nominal limit is established every year by Supreme Decree.
- ✓ Limit on pensions and personal expenditures of NG based on potential GDP growth (in nominal terms).

Fiscal Responsibility and Transparency Framework (Legislative Decree N° 1276) - 2016

- ✓ Public debt of NFPS: non greater than 30% of GDP (+4% in case of financial volatility).
- ✓ Fiscal deficit of NFPS: non greater than 1% of GDP.
- ✓ Nonfinancial expenditures of the General Government: limit on growth of non financial expenditures (average of GDP growth in the last 20 years plus 1 percentage point).
- ✓ Current expenditures of the General Government: limit on growth of current expenditures, excluding maintenance expenditures (average of GDP growth in the last 20 years minus 1 percentage point).

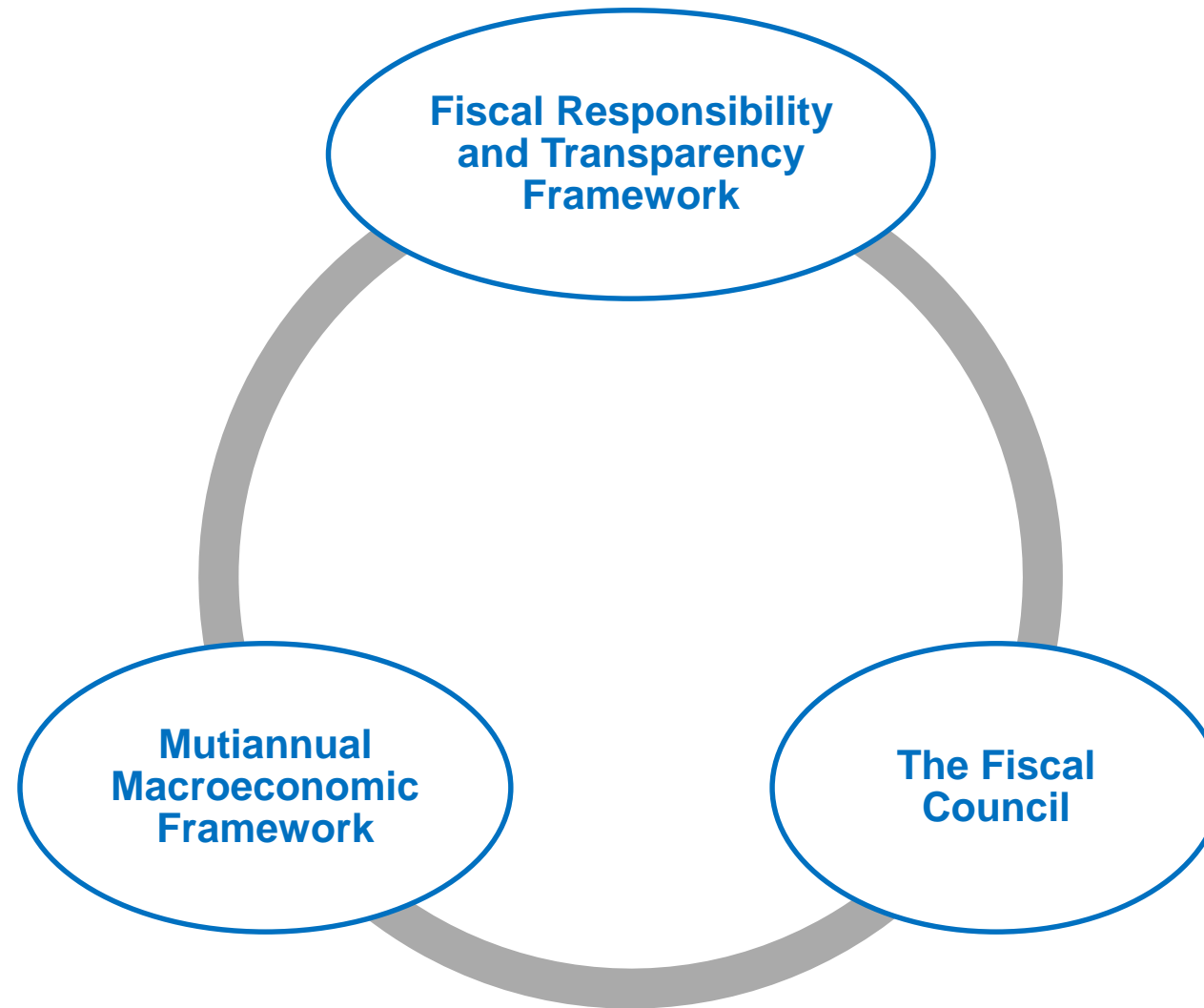
Contents:

I. Collapse, Stabilization and Consolidation

II. The Peruvian Fiscal Framework

III. Remaining Challenges

The Peruvian Fiscal Framework



The Peruvian Fiscal Framework

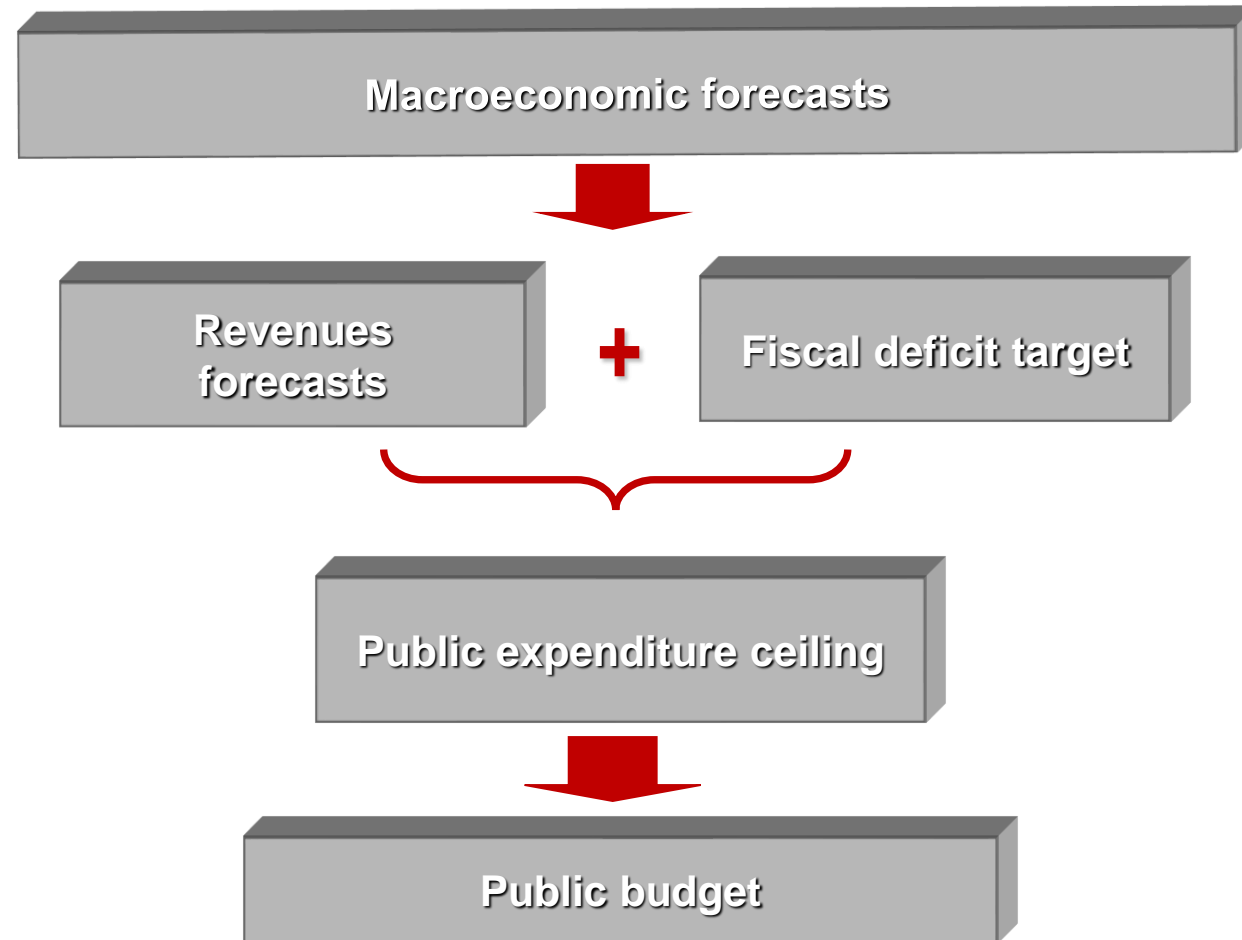
Multiannual Macroeconomic Framework

It is the most relevant report on economic policy from the Government of Peru. It must contain:

- ✓ Statement of Fiscal Policy Principles.
- ✓ Macroeconomic projections for the next 5 years, including the current year.
- ✓ Fiscal revenues forecasts.
- ✓ The current level of public debt and long-term projections.
- ✓ Fiscal sustainability indicators.
- ✓ An analysis of fiscal risks.

The Peruvian Fiscal Framework

Multiannual Macroeconomic Framework and Public Budget process



The Peruvian Fiscal Framework

The Peruvian Fiscal Council

- The Fiscal Council of Peru was created in 2013 with the law N° 30099. Its objective is to contribute to the independent technical analysis of the macro-fiscal policy and to guarantee fiscal transparency.
- It began its activities in January 2016.
- The Fiscal Council issues non-binding assessments on the following matters:

Fiscal rules compliance

Official macroeconomic forecasts

Evolution of public finances

*Methodology of structural fiscal
balance calculation*

Contents:

I. Collapse, Stabilization and Consolidation

II. The Peruvian Fiscal Framework

III. Remaining Challenges

Remaining Challenges

- ❑ Peru's public finances have experienced different processes from a collapse to consolidation in the last 30 years.
- ❑ Nowadays, Peru's fiscal framework is the strongest of the region.
- ❑ The Fiscal Council was not created in a crisis context.
- ❑ What are the remaining challenges at this stage of consolidation?
 - ✓ A low tax burden implies low public expenditure.
 - ✓ Tax revenues are commodity price dependent.
 - ✓ Evidence of independent dynamic of the subnational public investment.
 - ✓ Difference between planned and executed expenditures.