

## PERU

### Country snapshot

- Sovereign rating/outlook: Moody's: A3/Stable; S&P: BBB+/Stable
- Budget coverage: General Government
- OBI score: In 2015: 75 out of 100, rank: 10 out of 102 countries surveyed (Rank 31/100 in 2012)
- TI Corruption Index: 2015 Rank 88 out of 168 (score 36/100)
- Availability of Year-End Report: Yes
- Fiscal rule/ Fiscal responsibility law: Yes
- Accounting methodology: Cash
- Budget oversight by the Legislature as well as by the Supreme Audit Institution is adequate.

### Key areas for improvement

- Improve reporting of liabilities.
- Increase adherence to fiscal rules and compliance of subnational governments.
- Report flow of funds on an accrual rather than cash basis.
- Enhance macro-fiscal forecasts and reconciliation, and prepare and publish a fiscal risk statement.
- Strengthen public participation in the budget process.
- Implement the already legislated independent fiscal council.
- Establish a specialized budget research office for the legislature.
- Ensure the Supreme Audit Institution has adequate funding to perform its duties.

### Budget Reporting

#### Timing and coverage

Peru provides an extensive set of fiscal information with financial statements covering the entire public sector. The budget covers the general government, with the exception of some social security institutions and PeruPetro. Medium-term macroeconomic and fiscal projections are detailed and comprehensive.

Peruvian budget data is comprehensive and available in GFS in terms of operating balance, net balance and it's financing. Financial statements cover both financial and non-financial public sectors and are audited by an independent institution. Fiscal reports are prepared frequently and in a timely manner.

However, internal consistency checks of reported fiscal data are limited and the quality of data at the sub-national government level is not high. Fiscal reports differ in the definitions of institutional subsectors, making it difficult to compare information across reports.

***Encourage the authorities to record all revenues, expenditure, and savings of***

***PeruPetro, FCR<sup>1</sup>, and off-budget accounts and clarify the mechanisms for transferring appropriations between spending entities. Improve the link between budget plans and use of resource revenue.***

***Encourage Peru's Ministry of Finance to improve its liabilities reporting by recording accounts payable, revising the value of pensions by actuarial valuation and recording their full liability, and recording liabilities related to PPPs by international standards.***

***Encourage the authorities to enhance the comparability of fiscal reports, by harmonizing the institutional coverage and the definition of subsectors across fiscal reports; and to strengthen internal controls and external audit functions.***

#### Revenue and expenditure classification

While revenues and expenditures are classified in line with the IMF's GFS (although by 1986 not 2014 standards), there are gaps in the government's reporting of liabilities, especially in the areas of accounts payable, pension and PPP liabilities.

<sup>1</sup> Consolidated Reserve Fund

***Encourage the authorities to increase the comprehensiveness of the Executive's Budget Proposal by presenting more information on administrative and functional classification of expenditures and forecasts, and improve reporting at subnational level.***

#### Accounting

The Government reports flows of funds on a cash basis.

***Encourage the authorities to report flow of funds on an accrual rather than cash basis,***

## **Budgeting and the Budget Process**

#### Availability of key budget information

In terms of the 8 key budget documents<sup>2</sup> covered by the IBP's Open Budget Survey as reflected in country OBI scores (see below), Peru produces and makes public all the documents as reported by the 2015 OBS.<sup>3</sup> Furthermore, since 2012, the government has increased the availability of budget information by publishing the Pre-Budget Statement and the Citizens Budget while improving the comprehensiveness of the Executive's Budget Proposal and the Mid-Year Review.

In terms of the usefulness of the information<sup>4</sup> in the reports, three are deemed to be of extensive use; the Pre-Budget Statement, the Enacted Budget and the In-Year Reports, three documents are viewed as substantially useful; the Executive's Budget Proposal, the Citizens' Budget, and the Mid-Year Review. The two remaining documents; the Year-End

Report and the Audit Report are viewed to be of limited use.

***Encourage the authorities improve budget transparency by increasing the comprehensiveness of the Executive's Budget Proposal as well as of the Year-End Report. Ensure the Mid-Year review continues to be produced and published within a timeframe consistent with international standards.***

#### Budget Process and Policy Orientation

Peru is politically and administratively a highly centralized system. However, this began to change with the 2002 Regionalization Law, which divided Peru into 25 regions and the province of Lima (which further are subdivided into provinces and districts). Over 40% of spending occurs at the subnational level, much of it earmarked for infrastructure. The distribution of revenues for sub-national governments depends largely on the location of the natural resource activity.

The Constitution requires the government to submit the annual budget to Congress by end-August. Congressional regulations grant 3 months to approve the budget. Beyond this term, the initial proposal of the Government is automatically adopted.

Peru's new fiscal responsibility and transparency law became effective in January 2015. The law sets spending rules for each level of government based on a structural balance target to help mitigate the impact of macroeconomic fluctuations on the budget, including those from revenues from the mining and natural gas sectors. The law mandates the creation of an independent

<sup>2</sup> Pre-budget Statement, Executive's Budget Proposal, Enacted Budget, Citizens' Budget, In-Year Reports, Mid-Year Review, Year-End Report, Audit Report.

<sup>3</sup> However, as of April 2016, only 7 out of the 8 key budget documents were made available to the public within a timeframe consistent with international standards. Since the

assessment for the 2015 OBI, Peru has failed to produce and publish a Mid-Year Review.

<sup>4</sup> The following categories are used to report the usefulness of each document: Not produced, Published Late, Internal Use, Scant, Minimal, Limited, Substantial, or Extensive.

fiscal council and requires detailed reporting of contingent liabilities. Additionally, the authorities have been rolling out a performance-based budget and, in 2012, began a medium-term expenditure framework.

***Encourage the authorities to preserve the stability of the fiscal rules and adopt enforcement mechanisms, improve macro-fiscal forecasts and reconciliation, and establish the already legislated independent fiscal council.***

### Credibility

The institutional practice of incremental changes to the initial budget weakens the connection between macro-fiscal policy objectives and budget planning. Medium-term budget planning and budget controls on multi-year investment spending are in the early stages of development.

***Encourage the authorities to adopt regulations and tools for monitoring and controlling the size of multiannual commitments and disclose their size in budget reports, revise the budget framework to reduce automatic supplementary appropriations and facilitate compliance with fiscal rules.***

### **Fiscal risk analysis and management**

Peru is exposed to substantial macroeconomic volatility (much based on commodity prices), which poses sizeable budget risks. The government does not yet produce a comprehensive report that summarizes the various fiscal risks and the possible correlation between these risks. This makes it difficult to assess the relative importance of the various risks and their possible joint realizations. There is no systemic focus on the evolution of public finances over the long term, despite the significant role played by exhaustible resource revenue. Fiscal forecasts do not

include detailed analysis of the fiscal impact of alternative macroeconomic scenarios and the uncertainty surrounding resource revenue.

***Encourage the authorities to disclose risks surrounding fiscal forecasts and the evolution of public finances by performing scenario and long-term sustainability analysis and preparing and publishing a fiscal risk statement covering risks such as court litigations, PPPs exposure, environmental disasters, and financial sector exposure.***

### **Open Budget Survey**

The International Budget Partnership prepares the Open Budget Survey, which is an independent comparable measure of budget transparency, participation, and oversight. Peru's Open Budget Index improved remarkably to 75 out of 100 in the 2015 survey from 57/100 in 2012. Peru's score is substantially higher than the global average of 45/100 as well as the regional average of 50. Peru now ranks 10<sup>th</sup> among the 102 countries surveyed, a considerable improvement from its position as 31 of 100 in 2012.

Public participation in the budget process has improved in recent years. Nevertheless, the score of 40 out of 100 for opportunities for the public to engage in the budget process is still low. Legislative oversight over the budget process is limited during the planning stage of the budget cycle but better during the implementation stage. Overall, Peru's score of 67 out of 100 reflects adequate legislative oversight over the budget process. The supreme audit institution has full discretion to perform audits as it sees fit. Indeed, Peru scores 83 out of 100 for budget oversight by the supreme audit institution.

***Encourage the authorities to improve budget transparency by (i) increasing the***

***comprehensiveness of the Executive's Budget Proposal through providing more information on the administrative and functional classification of expenditures, as well as for all programs for future years; and (ii) by increasing the comprehensiveness of the Year-End Report by presenting more information on planned versus actual expenditures and on planned versus actual debt and interest.***

***Encourage the authorities to improve public participation in the budget process by (i) establishing credible and effective mechanisms for capturing a range of public perspectives on budget matters; (ii) publishing reports on public budget hearings; and establishing formal mechanisms for the public participation in the audit process.***

***Encourage the authorities to strengthen budget oversight by (i) establishing a specialized budget research office for the legislature; (ii) ensuring the supreme audit institution has adequate funding to perform its duties.***

Contact information:

<http://eminvestorsalliance.org/about>

[Fiscaltransparency.net](http://Fiscaltransparency.net)

#### **Key sources and web sites:**

Central Bank: <http://www.bcrp.gob.pe> ;  
Ministry of Finance: <http://www.mef.gob.pe> ;

Open Budget Survey:  
<http://survey.internationalbudget.org/#profile/PE>;

IMF Fiscal Transparency Evaluation on Peru:  
<http://www.imf.org/external/pubs/ft/scr/2015/cr15294.pdf> ; Open Budget Survey  
<http://www.internationalbudget.org/wp-content/uploads/OBS2015-CS-Peru-English.pdf>