Peru

Type of state	Unitary
State / regional government level (number)	Regional governments (27)[1]
Local general government levels (number)	Municipalities (1,874)
Total subnational liabilities, 2020 (state/regional + local)	PEN 26.6 billion, (USD 7.6 billion eq.)
Local government outstanding liabilities, *% of total subnational, 2020*	48.39%
Total subnational liabilities growth, CPI adjusted, 2016-2020	-17.92%
Local government liabilities growth, CPI adjusted[2], period 2016-2020	-1.52%

Legal & regulatory environment	• Established legal and regulatory environment for sub-national finance[3] • Most local governments cannot issue bonds[4] • Delineation of expenditure responsibilities between subnational government levels is unclear in some areas[5]
Borrowing readiness	• Though in general local debt is low, there are a few heavily indebted municipalities (140) • High dependency on federal fiscal transfers and weak capacity to raise own revenue [6] • High level of indebtedness of some subnational governments[7]
Macro credit conditions	• Relative macroeconomic stability[8] • Relatively low level of financial development for an upper middle-income country[9]

Highlights

- Peru is a decentralized unitary country; local governments are key players in the economic and social development of the country.[10]
- While local governments expenditures are decentralized, taxes are still centralized leaving local governments dependent on transfers from the central government.
- Transfers are mostly earmarked limiting spending autonomy.[11]
- Local government debt is in aggregate very low and highly restricted.[12]
- Local governments can only borrow abroad under the state guarantee and only for capital investment projects (golden rule). The national government will not recognize local governments' debts except those with guarantees.
- The Metropolitan Municipality of Lima is the sole entity currently borrowing from external sources.[13]

Borrowing legal & regulatory environment

Overview: The constitution defines Peru as a unitary and decentralized state with three levels of government: national, regional, and local. In Peru there are currently 26 Regional Governments (RG), in addition to the Constitutional Province of Callao and 1,874 Local Governments (LG) composed of: 1,671 district municipalities and 195 provincial municipalities. These two municipal levels are independent (*Ley Orgánica de Municipalidades*); but provincial municipalities have a coordination role across district municipalities within the province.[14]

The Decentralization Law[15] in 2002 and later the Fiscal Decentralization Law[16] in 2004, defined the decentralization agenda and specified the implementation schedule for transferring administrative and expenditure responsibilities to local and regional governments.

In Peru, expenditures are more decentralized than revenues. While regional and local governments account for close to 40% of all primary spending, taxation remains highly centralized, and the national government collects more than 90% of total tax revenue.[17] Furthermore, local government access to credit markets is limited. As a result, intergovernmental transfers are the dominant financing source for regional and local governments.

Local governments in Peru benefit from exploitation of natural resources (royalties redistributed through centrally administered funds). The national government mainly shares two types of mining revenue with subnational governments: (i) the *Canon Minero*[18] and *Sobrecanon* comprising 50 percent of the corporate income tax collected from mining firms; and (ii) mineral royalties. Furthermore, local governments receive compensation funds such as the Municipal Compensation Fund (*Foncomun*).

Borrowing framework & process: There are several laws that governs subnational borrowing in Peru. [19] In addition, Article 75 of the Constitution of Peru gives subnational governments autonomy to borrow without requiring prior authorization from the national government. This only refers to domestic debt, since borrowing from foreign sources can only be done with the endorsement of the National Government.

Loan guarantees from the central government require compliance with the Annual Debt Law and proof of the capacity to pay, which gives the national government the authority to veto subnational borrowing.[20] While this procedure does not necessitate central government approval for every loan, several development organizations (WB, IMF, IADB) consider it equivalent to prior central government approval.[21]

In 2013, the revised Fiscal Responsibility and Transparency Law (Law 30,099) reformed the previous law[22] and streamlined the rules governing subnational borrowing from 8 down to two:

a) The level of debt can be no higher than the average annual current revenues of last four years.[23]

b) The annual growth of non-financial expenditure can be no higher than the moving average growth of annual revenue over the past four years.

In addition, subnational governments are required to prepare and submit a Multi-Year Report on Fiscal Management a document that contains the macroeconomic and fiscal projections for the next four years. The Fiscal Responsibility and Transparency Law was further modified in 2016 by Legislative Decree no. 1275, which enables subnational governments with BBB+ or higher credit ratings[24] to be exempted for one fiscal year (or for as long as they can keep their ratings) from fiscal rule of the *Saldo de Deuda Total* (total outstanding debt). Still, they remain subject to the prohibition on exceeding the overall public-sector debt ceiling.[25]

Borrowing restrictions:[26]

General restrictions:

- Local governments can only borrow for investments within the National Public Investment System and cannot borrow to finance current expenditure (golden rule).
- Local governments can borrow only with a guarantee from the national government which requires a decree and approval by the Council of Ministers.
- The national government will not recognize debt assumed by local governments, except those with guarantees.

- The annual growth of non-financial expenditure can be no higher than the moving average growth of annual revenue over the past four years.
- Total public sector fiscal deficit, including subnational governments (but excluding the financial sector) cannot exceed 1 percent of GDP.

Debt limits:

- The total outstanding debt fiscal rule (*Saldo de Deuda Total* - SDT) establishes that total debt can be no higher than 100 percent of the yearly average current revenues of last four years.
- Debt service may not exceed 25 percent of the current revenues.[27]

Borrowing incentives / credit enhancements: For most local governments loan agreements, debt service is channeled through the national government (MEF) from pledged resources that regional governments, local governments, and public companies must transfer for the purpose (through a trust).[28] Therefore, there is some counterparty risk for the national government in sub-national debt agreements.[29]

Penalties related to public debt management: There is no history of subnational bailouts and no subnational bankruptcy code in Peru. Any violations of the Fiscal Responsibility and Transparency Law (LRTF) by subnational governments may cause temporary cuts of transfers from participatory funds (such as FONCOR & FONCOMUN) from the central government. Also, the national government may intervene in the operations of a regional government in the case of a breach of the fiscal targets set in the national Multiannual Macroeconomic Framework (MMF) or any fiscal rule of the Fiscal Responsibility and Transparency Law.[30] Subnational governments can miss fiscal targets in the case of negative economic growth and in national emergencies.

Debt management

Aggregate debt levels: As of December 31st, 2020, the reported debt balance of local governments was PEN 12,900 million (close to USD 3.45 billion). Looking at the 5 years from 2016 to 2020, total debt decreased in real terms by 1.5% (Figure 1). The Ministry of Finance (MEF) issues the Total outstanding debt (*Saldo de Deuda Total*) report for both local and regional governments every quarter.[31]

The total outstanding debt (*Saldo de Deuda Total)* is divided in three parts:

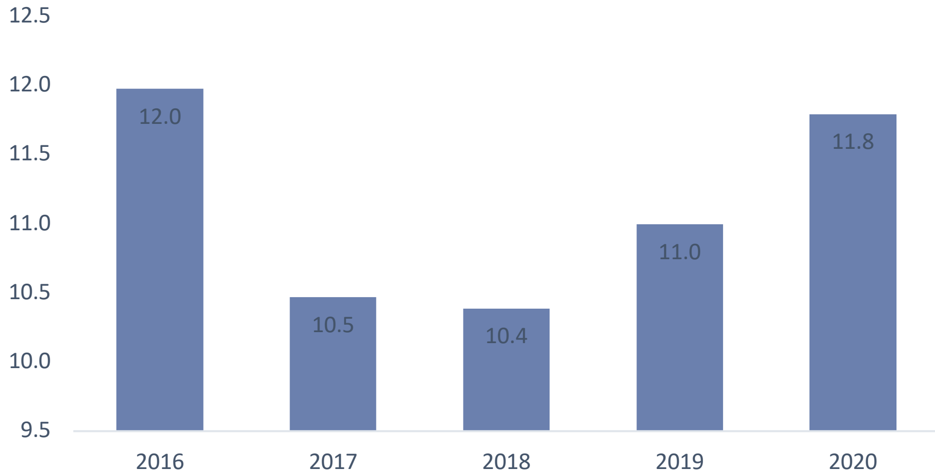
i. *"Saldo de pasivos"* is debt guaranteed by future revenue streams. This account amounts to 9,018 million soles in 2020, or 70% of total outstanding debt. Within the "*saldo de pasivo"* there are *"operaciones de endeudamiento*" which consists of long-and short-term borrowing (loans) guaranteed by the national government. These amounted to 17% of total outstanding debt;

ii. *"Deuda exigible"* is debt owed to regional and local public entities (SUNAT, the Social Health Insurance, the National Housing Fund, and the Social Security Office). This account amounts to 1,338 million Soles in 2020 or 10.5% of total debt;

iii. *"Deuda real"* is contributions in arrears to the public employees' pension fund (*Administradora de Fondos de Pensiones*, AFP). This account amounts to 2,502 million Soles in 2020 or 19.5% of total debt.[32]

Compliance with stock and flow debt sustainability requirements is generally high and has decreased in 2020. At the end of 2020, there were no regional governments and 70 Local Governments that failed to comply with the total debt balance fiscal rule (from 106 in 2019), and only 27 local governments and no regional government breached the financial expenditure rule (from only 31 in 2019).[33]

Figure 1: Local governments debt growth from 2016 to 2020 (billion Soles)

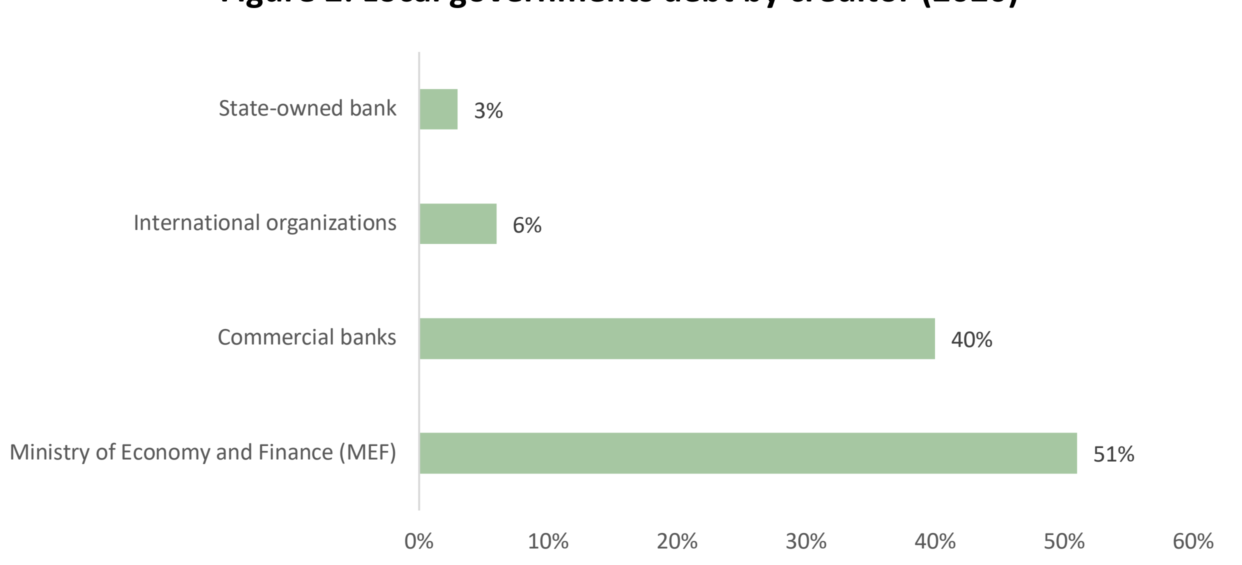


Sources: MEF, 2020. CPI adjusted

Lenders and types of instruments: The Ministry of Finance (MEF) issues a detailed monthly report on debt instruments and lenders, but the data only refers to the "*operaciones de endeudamiento*" and not to the total outstanding debt. As can be seen from Figure 2, in 2020 the main lenders to local governments were the Ministry of the Economy and Finance (51% of debt operations) and the Commercial Banks (BBVA, Scotiabank, BCP, *Banco Internacional del Perú*, *Banco de Comercio*, *Banco Pichincha*) (40% of debt operations). International financial institutions, such as the World Bank and the Inter-American Development Bank, held 6% percent of local government debt operations. The *Banco de la Nación* (State-Owned Bank) held only 3% of local government debt operations.

The Metropolitan Municipality of Lima is the sole local entity borrowing abroad.[34,35] The debt operations are only comprised of loans, as bond issuance is forbidden for most local governments.[36] Finally, 98% of the debt is of medium- and long-term while only 2% is short term debt.[37]

Figure 2: Local governments debt by creditor (2020)



Source: MEF, 2020

Use of Special Purpose Entities and Public-Private Partnerships: In Peru the same laws apply to both municipal and state level entities. Before the recent privatization process, there were over 300 State-Owned Enterprises (SOEs) in Peru and their expenditures were equivalent to around one-third of GDP. Today the SOE sector[38] in Peru is smaller than in most other large Latin American countries, in terms of number of enterprises and contribution to GDP.[39] According to the Ministry of Finance (MEF), in Peru there are 102 municipal public companies. Several of the municipal entities created are linked to the public water and sewage service. According to the Organic Law of Municipalities, municipal enterprises are created at the initiative of local governments with agreement of the municipal council.

The Law of the National System of Indebtedness (*Ley General del Sistema Nacional de Endeudamiento* - Law 28563) dictates that borrowing by SOEs are governed by the same principles that apply to the rest of the public sector. The MEF, through its Public Debt Directorate, establishes the norms that regulate public sector borrowing, registers all debt operations, including those of SOEs, and approves all government guarantees to SOEs' debt. All long-term borrowing by nonfinancial SOEs is subject to prior authorization by the MEF.[40] Nonfinancial SOE are also prohibited by law from borrowing abroad.[41] All debt contracted with the government's authorization is viewed as being explicitly or implicitly guaranteed by the latter.[42]

While Peru's PPP market is small and only accounts for 6.4% of total PPPs in the region,[43] in 2017 it accounted for 1.6% of GDP (second highest share in the region). Since 2008, Peru has embarked on reforms to attract private financing for its PPPs while reducing the need for government guarantees to cover projects' commercial risk.[44] Increased investors' interest in PPPs in Peru has been attributed to the implementation of reforms to increase clarity in contracting and operating processes.

The 2008 regulations established the National Public Investment System (*Sistema Nacional de Inversión Pública*, SNIP), an overarching body that incorporates the Ministry of Economy and Finance, regional and local government representatives, and the Agency of Private Investment Promotion (*ProInversión*). These changes have allowed private investors to engage directly with regional and local governments. According to the World Bank PPI database, there were 4 PPPs projects at the local level in Peru up until 2020.[45] One example of a successful municipal PPP is an urban highway concession in Lima. The *Vías Nuevas de Lima* in Peru is a 30-year urban highway concession granted in 2013 at a cost of $590 million. *Consorcio Líneas Viales de Lima* (*Odebrecht Investimentos and Constructora Norberto Odebrecht S.A.*) is the project sponsor. Brookfield Asset Management, a Canadian alternative asset manager, bought 70% of the project's shares in 2015.[46]

Transparency & open data: According to Article 19 of Law № 30,099, since 2014 subnational governments have been required to prepare and submit a Multi-Year Report on Fiscal Management and each subnational government must include a report on liabilities and debt. The Ministry of the Economy and Finance (MEF) must report, on a quarterly basis, changes in local debt, including other liabilities and total current revenue of local governments, as well as (aggregate) compliance with the fiscal rule on debt and with convergence targets. These reports, with information on the financial situation, have improved monitoring of subnational governments' fiscal management and the setting of convergence targets for compliance with the fiscal rules.[47] The data is available on the MEF website. [48]

Official, publicly available statistics on liabilities and borrowing				
Item	***Total liabilities***	***Total liabilities breakdown by level of government***	***Sources of borrowing breakdown***	***Borrowing instruments breakdown***
Official source(s)	MEF	MEF	MEF (only for *operaciones de endeudamiento*)	MEF (only for *operaciones de endeudamiento*)
Latest update; (periodicity)	2021 (quarterly)	2021 (quarterly)	2021 (monthly)	2021 (monthly)

Financial & debt management: While fiscal discipline in Peru has been a key pillar of the decentralization process, several gaps remain that continue to pose financial risks. First, the horizontal fiscal imbalance is reflected in the uneven coverage and quality of basic public goods and services across regions. The concentration of economic activity in Lima, Callao, and a few resource-rich provinces has resulted in a highly uneven distribution of local revenue. Fiscal transfers are insufficient to reduce regional imbalances in revenue capacity. Resource-revenue transfers (*Canon, Sobrecanon,* and royalties) also exacerbate horizontal fiscal imbalances.[49]

In 2021, the Peruvian Fiscal Council recognized three potential fiscal risks for Peru's subnational governments. A first source of fiscal risk is the high level of indebtedness of a subset of subnational governments. While most local governments are compliant with the debt limit rule,[50] a few governments are highly indebted.[51] Examples include the Municipalities of *Progreso (Apurímac)* and *La Victoria (Lima*), which have the highest level of debt to current revenues surpassing 700%.[52]

A second source of fiscal risk is the insulation of subnational governments that have a high credit rating (BBB+ or higher) from compliance with the fiscal rules set by the Ministry of Finance. This provision has been critiqued as resulting in an overreliance on credit ratings as a tool in systemic fiscal control, as credit ratings examine only some targeted areas of financial sustainability and may overlook other long-term systemic risks.

The third source of fiscal risk is the dependence of subnational governments on financing sources that are not stable or under their control, such as transfers derived from natural resources (canon and royalties) and compensation funds. For example, 88% of subnational governments have more than 80% of income that comes from sources that are not under their control. This high degree of fiscal dependence reflects both the limited capacity of subnational governments to raise own revenues as well as their vulnerability to external shocks such as falling commodity prices.[53]

In 2016, the new fiscal framework (MRTF-SN)[54] established some fiscal risk mitigation measures such as:

- Technical support by the Ministry of Economy and Finance (MEF) to those subnational governments that are subject to sanctions for non-compliance with fiscal regulations.
- A program for restructuring the debt of subnational governments that has the potential to reduce liabilities with pension fund administrators, with Social Health Insurance of Peru (*Seguro Social de Salud del Peru*, EsSalud) and the Pension Standardization Office (*Oficina de Normalización Previsional*, ONP). [55]

Subnational government finances: key ratios (2020)				
Level of government	***Total liabilities, % of total revenue***	***Borrowing (loans & bonds), % of total reported liabilities***	***Debt service, % of total expenditures***	***Operating surplus, % of total revenue***
Local (Municipalities)	44.6%	Not reported	0.1%	7%
All sub-national governments (Regions + Municipalities)	42.2%	Not reported	2.5%	-1.5%

Source: WB CCI-LGBD

Recent initiatives related to subnational government access to debt finance

***Covid-19*: Emergency Decree No. 079-202.** In August 2021, through Emergency Decree No. 079-2021, extraordinary measures were enacted to aid in the economic recovery process. New fiscal rules were established for 2022, which provided the following:

- The annual fiscal deficit of the Non -Financial Public Sector for fiscal year 2022 must not be greater than 3.7 percent of the Gross Domestic Product (GDP).
- Debt rule: the total gross debt of the Non-Financial Public Sector must not exceed 38 percent of the Gross Domestic Product.

***Reduced own source revenues of sub-national governments*:** Within the framework of the National State of Emergency due to COVID-19, subnational governments registered an increase in their total revenue of 24.5% as of Q3 2020, compared to the same period of 2019, due to increased transfers (50.9%). However, in terms of own-source revenues, there were reductions in tax revenues (-31.6%), highlighting the fall in property taxes, non-income tax, fines, fees, and others. There was also a drop in transfers from mining royalties (-17.0%) and from *Foncomun* (-12.9%). The lower collection of municipal taxes and transfers has affected the financing of essential operating expenses and the provision of municipal services. For this reason, the National Government has authorized LG in 2020 the use of up to 25% of the canon, surcharge, mining royalty and *Camisea* Socioeconomic Development Fund (FOCAM) resources to provide services associated with the COVID-19 pandemic.

Main legal provisions	
Approved lenders:	Government/public banks, private financial institutions, international financial institutions
Instruments:	Accounts payable and pension liabilities, currency and deposits, loans.
Central govt guarantee:	Yes, in some cases. At the end of 2018, only the Metropolitan Municipality of Lima (MML) had the guarantee of the national government, granted by Supreme Decree No. 194-2003-EF, for two loans of US$ 45 million each, contracted by this local government with the IADB and the International Bank for Reconstruction and Development (IBRD) to finance the Urban Transportation Program of Metropolitan Lima North-South Subsystem.
Revenue intercept(pledge) of government transfers:	Allowed. MEF repays SNG debt service from SNG transfers. Also, liabilities (*saldo de pasivos*) from various operations are guaranteed by future revenue streams, whether with or without a guarantee by the national government.
Insolvency framework:	Peru lacks a subnational insolvency/bankruptcy code.
Accounting basis:	Accrual - IFRS (International Financial Reporting Standards)
Credit rating requirements for borrowing:	Yes. If SNGs have a high credit rating (BBB+ or higher) are exonerated from compliance with the fiscal rules of subnational governments.
Debt capacity limit:	The ratio of total debt to average revenue of the past 4 years cannot be higher than 100 percent.
Debt service limit:	Debt service may not exceed 25% of the current revenues.
Reporting of contingent liabilities:	Quantifiable contingent liabilities are published in the Multi-year Macroeconomic Framework (*Marco Macroeconómico Multianual*). The measurement and disclosure of contingent liabilities are carried out in accordance with the criteria defined in the following regulations: The Ministerial Resolution 496-2007 regulates the quantification and recording of quantifiable contingent liabilities, as well as the income derived from the contracts signed in the framework of the processes for promoting private investment and concessions. The Directorial Resolution 004-2007 approves the methodology for the valuation of quantifiable contingent liabilities and the flow of income derived from the exploitation of the projects generated by the signing of concession contracts under the Public - Private Partnership (PPP) modality.
Reporting of Joint Ventures & Public Private Partnerships:	The Peruvian Government includes liabilities from PPPs in their debt stock. The Ministry of Economy and Finance disseminates through the Fiscal Transparency Bulletin the fiscal statistics of the liabilities assumed in the contracts signed byPPP. There has been gradual implementation of IPSAS in all levels of government.

Significant legal and regulatory instruments	
Primary legislation	
Fiscal Responsibility and Transparency Law - LRTF (Law No. 27245) (*Ley de Responsabilidad y Transparencia Fiscal*) (1999)	The LRTF established the guidelines for prudent and transparent public financial management. *Major Features of the Fiscal Responsibility and Transparency Law (27245)*: Measures on budget transparency Fiscal Targets Sanctions for violations of the LRTF
Constitutional Reform on Decentralization (Law No. 27680) (*Reforma Constitucional sobre Descentralización*) (2002)	Law 27680 defines the basis for the decentralization process, including the election of new regional government officials. The fiscal decentralization process had already begun with the adoption of new legislation in July 2001, mandating that local governments and departments receive 80 and 20 percent, respectively, of public revenues generated by extractive industries.
Decentralization Law (*Ley de Bases de la Descentralización - Ley Nº 27783*) (2002)	Law Nº 27783 establishes the purpose, principles, objectives, and general criteria of the decentralization process; regulates the conformation of the regions and municipalities; sets the competencies of the three levels of government and determines the assets and resources of regional and local governments; and regulates government relations at its different levels.
Organic Law of Regional Governments (*Ley Orgánica de Gobiernos Regionales – Ley N° 27867*)	The Organic Law of Regional Governments establishes and regulates the structure, organization, competencies, and functions of regional governments.
Organic Law of Local Governments (*Ley Orgánica de Municipalidades – Ley N° 27972*)	The Organic Law of Local Governments establishes and regulates the structure, organization, competencies, and functions of local governments.
The revised Fiscal Responsibility and Transparency Law (*Ley Nº 30,099. Ley de Fortalecimiento de la Responsabilidad y Transparencia Fiscal*) (2013)	The revised *Fiscal Responsibility and Transparency Law* (*Law 30099*) reformed the previous *Fiscal Responsibility and Transparency Law 27245* and the associated *Decree No. 955* which were too complex (eight fiscal rules). The new law streamlines the rules into two rule and aligns them with those for the national macro-fiscal framework.
Legislative Decree (*Decreto Legislativo Nº 1275*) (2016)	Decree N° 1275 establishes the following fiscal rules: Fiscal rule of total debt (*la Regla Fiscal del Saldo de Deuda Total*, RF SDT) and Fiscal rule on non-financial expenditures (*Regla Fiscal de Ahorro en Cuenta Corriente*, RF ACC).

Organizational roles and responsibilities: debt	
National govt. regulatory & process	
Ministry of Economy and Finance (MEF)	The MEF publishes the Multiannual Macroeconomic Framework (MMF). Based on the MMF projections, the MEF drafts the Projects of Budget Law of Public Sector, of Financial Equilibrium of Public Sector Budget and of Public Sector Indebtedness, for the corresponding fiscal years. In addition, the MEF periodically issues fiscal rule compliance reports, Report of Fiscal Expenditure Rules, as well as its Monitoring Report of Public Finances and Fiscal Rules of Regional and Local Governments. In accordance with Article 10 of Legislative Decree 1275, MEF presents an Annual Report on Compliance with Fiscal Rules, which shows the evolution of public finances and the evaluation of the annual compliance of the fiscal rules of the regional and local governments.
Fiscal Council (FC).	The FC (created in 2013 by Law 30,099) is an independent institution attached to the MEF with the aim of contributing to the independent technical analysis of the macro-fiscal policy by issuing a non-binding opinion on the modification and compliance with fiscal rules, the MULTIANNUAL MACROECONOMIC FRAMEWORK fiscal projections and the short- and medium-term evolution of public finances.
National Superintendence of Tax Administration (NSTA)	The National Superintendence of Tax Administration (NSTA) is an agency attached to the MEF, and whose purpose is to manage, apply, control, sanction and collect government tariffs and taxes both at the National and Subnational levels.
Main lenders	
Ministerio de Economia y Finanzas (MEF)	In 2020, MEF was local governments' main lender with 51% of total subnational government debt. MEF accounted for 100% of Regional Governments' debt and 51% of Local Governments' debt.
Commercial Banks (BBVA, Scotiabank, BCP, *Banco Internacional del Perú*, *Banco de Comercio*, *Banco Pichincha)*	In 2020, commercial Banks accounted for 40% of local governments' debt operations.

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Notes

[1] Including the constitutional province of Callao. CCI-LGBD examines borrowing at the local government level. In most countries, this can be broken up into regional governments and local governments. In Peru's case, "local governments" includes all *gobiernos locales,* including 1,671 district municipalities and 195 provincial municipalities.
[2] CPI adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[3] USAID, 2009
[4] USAID, 2015
[5] OECD, 2016
[6] *Consejo Fiscal*, 2021
[7] *Consejo Fiscal*, 2021
[8] MEF, 2020
[9] IMF 2019, Financial Development Index Database
[10] SNG-WOFI, 2019
[11] OECD, 2016
[12] World Bank, 2017
[13] Werner and Santos, 2015
[14] SNG-WOFI, 2019
[15] Law 27783 (June 2002).
[16] Legislative Decree 955 (February 2004).
[17] World Bank, 2017
[18] According to Law 27506, the canon is the share of local and regional governments in the rents and revenues obtained by the State from natural resources. The sobrecanon has the same basis as the canon and consists of additional sharing of oil revenues that are specific to the regions of Loreto, Ucayali, Piura, and Tumbes. The main source of royalties is the mining sector. Law 28258 defines mining royalties as a payment to the State for the right to exploit mining resources and describes the computation procedure and the distribution criterion.
[19] Subnational borrowing is regulated by the following laws among others: Law No. 28563, the General Law on the National Borrowing System; the revised Fiscal Responsibility and Transparency Law (FRTL) No. 30099, the Law on the Strengthening of Fiscal Responsibility and Transparency; and the organic laws on regional governments and municipalities.
[20] From Liu and Webb (2011) "SNGs are not prohibited from getting domestic credit without the guarantee, but this must come within the overall public sector deficit constraint. Thus, the national government could use the requirements for getting credit with the guarantee and other means to force SNGs to report their non- guaranteed borrowing and to keep it within the total deficit constraint. With multiple channels of control at their disposal, the national Ministry of Economics and Finance has kept SNG borrowing under tight control."
[21] Hooghe, et al., 2016
[22] Fiscal Responsibility and Transparency Law 27,245 (1999) and the Legislative Decree No. 955
[23] For local governments with created less than 4 years prior, debt levels cannot be higher than current revenues.
[24] Credit ratings must be issued by two risk rating companies registered in the Public Registry of the Securities Market of the Superintendency of the Securities Market (SMV).
25 Hooghe et al., 2016
[26] In August 2021, through Emergency Decree No. 079-2021, fiscal rules were established for 2022, which provided that the fiscal deficit should not exceed 3.7% of GDP and that the public debt should not exceed 38 % of GDP this year
[27] These rules were changed during the pandemic and current levels are well above 30%.
28 About 95% of the resource transfer agreements have a trust which supports the payment of the obligations contracted (MEF, 2019).
[29] MEF-MMF, 2019
[30] MEF, 2019
[31] *Reporte de Seguimiento Trimestral de las Finanzas Públicas y del Cumplimiento de Reglas Fiscales de los Gobiernos Regionales y Gobiernos Locales*
[32] MEF, 2016; Cheasty and Pichihua, 2015
[33] MEF, 2021
[34] The legal framework allows Peruvian local governments to tap the domestic capital markets. Up to this date only the "Municipalidad Metropolitana de Lima" has issued bonds and it has done so seven times, always paying one-digit interest rates and selling the entirety of the bonds offered. The proceeds from these issuances are invested in public works, mainly in the improvement of urban transportation infrastructure. The Municipality of Lima signed two significant financings: a $70 million commercial bank

loan with BBVA Banco Continental in April 2010 and a subsequent $120 million local currency loan with BBVA and Scotiabank, signed in November 2013 (USAID, 2015).

[35] Werner and Santos, 2015

[36] USAID, 2015

[37] MEF, 2020

[38] Including several municipally owned enterprises

[39] IADB, 2018

[40] Borrowing by financial SOEs is not subject to prior MEF authorization, unless guaranteed by the government

[41] Except through the Central Government (creditos traspasados).

[42] IADB, 2018

[43] IADB, 2017

[44] Legislative Decree 1224/15, regulated by Supreme Decree 410/15: establishment of investment committees, emphasizing assessment reports, with the possibility of submitting unsolicited proposals and a fast-track process. Legislative Decree 1012/08 (legal framework on PPPs and regulations for the Accelerated Process of Promotion of Private Investment) and Decree 127/14 ("Regulation in PPPs"). Supreme Decree 059-96 (Law on Concessions) and Supreme Decree 060-96 (Concessions Regulations) for awarding PPPs. Law 27293/00 (National Public Investment Law). Resolution 3656/12: parameters for measuring the PPP mechanism as a method of project execution. Supreme Decree 054/13: special provisions for execution of administrative procedures - PPP. Directive 004/09 (*Proinversión*): process and evaluation of private initiatives in investment projects. Awarding Authority: all public sector non-financial entities

[45] World Bank, 2021

[46] IADB, 2018

[47] Cheasty and Pichihua, 2015

[48] Accesed at https://www.mef.gob.pe/index.php?option=com_content&view=article&id=2031&Itemid=101432&lang=es

[49] USAID, 2015; World Bank, 2017

[5050] According to the Ministry of the Economy and Finance quarterly report on subnational debt, in 2020, 90.2% of local governments (1,780 out of 1,874) complied with the total debt limit rule.

[51] Article 6 of Decree N° 1275 establishes the following fiscal rules: Fiscal Rule of Total Debt (la Regla Fiscal del Saldo de Deuda Total, RF SDT) and Fiscal Rule on non-financial expenditures (Regla Fiscal de Ahorro en Cuenta Corriente, RF ACC)

52 The annual growth of non-financial expenditure can be no higher than the moving average growth of annual revenue over the past four years.

[53] *Consejo Fiscal*, 2021

[54] Marco de la Responsabilidad y Transparencia Fiscal de los Gobiernos Regionales y Gobiernos Locales (MRTF-SN), approved by Legislative Decree N° 1275 (2016)

[55] Consejo Fiscal, 2021