Debt management: Fiscal rules, rights and human development in Peru
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Findings

- The application of fiscal rules in Peru, particularly those related to the control of the fiscal deficit, has been important to reduce the weight of the debt in the Peruvian economy, reducing its external debt/exports ratio at a faster rate than the rest of the region, going from 631% in 1993 to 47% in 2019.

- The accelerated deficit reduction and the control in its indebtedness level have not translated into the guarantee of rights, and the results in terms of health, education, and human development have not been the best.

- In 2000, after the approval of the first out of four laws that regulated fiscal rules, Peru ranked second lowest in terms of public spending as a percentage of GDP in South America, and 20 years later, the country still ranks second with the least spending.

- The dynamics between public spending on health and household spending are not isolated from macroeconomic management through fiscal rules. During the years of greatest surpluses, after the entry into force of the Fiscal Responsibility and Transparency Law, families spent more on health in relation to the size of the Peruvian economy, while the government saved.

- Maintaining fiscal surpluses for several years did not guarantee an improvement in the educational levels of the Peruvian population. The results of the UN education index show that the trend regarding the positive difference of Peru, compared to Latin America and the Caribbean, is reduced during the years in which the fiscal rules began to be implemented.

- The accelerated transition experienced by Peru, going from a deficit reduction to a surplus, stalled the progress of the country’s levels of human development compared to the rest of the region. The countries of the Andean Community have suffered a worsening regarding their position in the world ranking between 1990 and 2019, with the exception of Chile. In 1990 Peru held the 77th position and it currently occupies the 79th, which implies that it fell two positions.

- The accelerated deficit reduction as of 1999 in Peru coincided with the slowdown in its relative progress regarding the Human Development Index (HDI), with respect to its neighboring countries, while the moments of surplus allowed the country to advance more quickly.

- There are indications regarding the negative effect of deficit reduction on human development levels when there is a spending decline on health and education in Peru.
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The 1976 Nobel laureate in economics, Milton Friedman, said that “Cutting public spending and government intrusion into the economy will almost certainly involve immediate gain for the many, short-term pain for the few, and long-term gain for everyone.” When we read this sentence and compare it with the results regarding human rights and development as a consequence of Peru’s fiscal macroeconomic policies, we ask ourselves two questions: How long does the short-term pain for a few last? and, When will the long term come for everyone?

Since the early 1990s, the western world and Latin America have been implementing policies that minimize the role of the State in the economy. These policies are fiscal rules that condition the actions of the State in economic policy through rigid legal frameworks. Certainly, in the long term they have been successful in managing debt since their inception. However, these policies have not been the recipe for a broad guarantee of rights and better human development.

Peru is the Latin American country that currently maintains the broadest and most detailed fiscal rules, legally and institutionally, compared to the other 14 countries that have them to some extent. For 30 years, the Peruvian deficit has been clearly controlled, but it also has been tied to austere fiscal rules. The rights of the population and the human development of the country have felt the effects of a limited fiscal policy.

With the document: “Debt management in Peru: fiscal rules, rights and human rights”, at LATINDADD we seek to open the doors to a different understanding about macroeconomic, fiscal and debt sustainability, maintaining as a central element the guarantee of rights of people.
Since the 1990s, debt management in many Latin American countries has been accompanied by the implementation of fiscal rules. As of 2019, 14 Latin American countries have some kind of fiscal rule in place to manage the deficit, spending, income, and debt.

Peru is one of those countries where fiscal rules have been implemented for the management of its macroeconomy, and with the greatest extent or scope in terms of design and key features. The process of establishing these began in the early 1990s with Peru’s Political Constitution and, from then until 2021, a total of 4 legal instruments have amended these fiscal rules under the label of transparency and fiscal prudence. As a result of the implementation of fiscal rules in Peru, the country’s debt stock has been falling at a remarkable speed, making it increasingly sustainable. While in 1993 its external debt stock compared to its exports was 631%, in 2019 it was just 47%.

In contrast to the accelerated reduction of the deficit and the control its debt, Peru’s performance in terms of guaranteeing human and social rights such as access to health, education and human development have not been as good. In 2000, after the approval of the first of the 4 laws that regulated the fiscal rules, Peru ranked second lowest in terms of public spending as a share of GDP in South America. Twenty years later, Peru is still in second place with the lowest spending, only above Venezuela.

Faced with these divergences between debt and human rights, civil society and organizations such as LATINDADD have been proposing for years that debt should only be considered sustainable when repayments do not compromise the debtor’s ability to meet priority spending on human development or an acceptable level of human rights obligations. In line with this approach and the United Nations Basic Principles on Sovereign Debt Restructuring, this document explores debt management in Peru since the 1990s, analyzing its fiscal rules focused on the deficit and the debt ratio vis-a-vis the levels of investment in health, education and the overall progress in its human development index as a proxy to the role of the government in terms of improving human rights in the country.

Fiscal rules began to be implemented worldwide since the 1990s. While in Europe
1. Fiscal rules

In Latin America, only El Salvador has a tax revenue rule, which specifies that it must be at least 18.5% of GDP (Ardanaz, Barreix, & Corrales, 2019). In Latin America, they were part of monetary and fiscal policy agreements of the European Union under the Maastricht treaty of 1992 (Ardanaz, Barreix, & Corrales, 2019), in Latin America they developed as a result of the debt crisis of the 80s and have been promoted as a guarantee of discipline and fiscal responsibility by international financial institutions from then until today (Arreaza, 2021; BID, 2021; Gibohoui & Medas, 2020; Perry, 2003).

In essence, fiscal rules are norms that countries assume for the management and control of their key fiscal variables. Due to their type, rules can be established on public spending, fiscal deficit, debt, and/or revenues. Initially, the rules were focused on managing the long- and medium-term sustainability of debt -called first generation rules- but, after the financial crisis of 2008, they would be made more flexible by providing short-term escape clauses, called second generation rules (Ardanaz, Barreix, Corrales, et al., 2019), in times these had to be relaxed.

As of 2019, a total of 14 Latin American countries had some type of fiscal rule in force (Ardanaz, Barreix, & Corrales, 2019). Peru is the country that has implemented them to a greater extent and with the broadest design characteristics, leaving aside only those rules on revenues.\(^1\) The introduction, modification and implementation of fiscal rules in Peru has been taking place over the last three decades, starting with the early-1990s Constitution.

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1. In Latin America, only El Salvador has a tax revenue rule, which specifies that it must be at least 18.5% of GDP (Ardanaz, Barreix, & Corrales, 2019).
a. Fiscal rules in Peru

The introduction of the first Peruvian fiscal rule occurred in the 1993 Constitution. The Magna Carta imposed for the first time a certain control over the fiscal deficit by eliminating the possibility of financing by the Central Bank. This rule, still in force, was consistent with the institutional reforms for independent Central Banks promoted by the International Monetary Fund (IMF) and the World Bank (WB) during the 1990s (Huerta, 2006). However, 10 years later, financing instruments were developed through debt markets in local and foreign currency by the Central Bank of Peru that do not break the constitutional framework (Mendoza, 2019). In this way, the restriction imposed by the Constitution of the Republic on public financing from the Central Bank was relaxed.

Figure 1
General fiscal rules by year and legal framework in Peru 1993-2016

1993
Peru’s Political Constitution

Art. 84: The Bank will not provide lending to the Treasury, except through the purchase of Treasury securities in the secondary market.

1999
Fiscal Prudence and Transparency Law

Fiscal Balance Rule: The deficit cannot be higher than 1% of GDP.
Expenditure Rule: The real expenditure growth rate cannot exceed 2%.

2003
Fiscal Responsibility and Transparency Law

Fiscal rules for Peruvian regional and local governments are created.
The traditional fiscal rules on the deficit and public spending were introduced at the end of the 1990s and are also still in force. The 1999 deficit rule established an annual ceiling of 1% of GDP, while the spending rule limited its growth to 2% in real terms (Mendoza, 2019). At first, it was only the institutions of the Central Government that followed such rules. However, four years later these were also extended to local governments through a set of regulations regarding the stock of debt and the repayments of capital and interests that not even the Central Government had implemented by then.

In 2016, a ceiling on debt stock for the Central Government was introduced for the first time. This fiscal rule established that the stock of external debt may not exceed 30% of GDP. Like the ceiling on the deficit, this rule remains in force.

According to the latest Quarterly Fiscal Report on Follow-up of the Macroeconomic Rules of the Ministry of Economy and Finance of Peru, there are four main rules in force. Mendoza (2019) highlights that the fiscal rules in Peru, by design, lead public spending to maintain a procyclical
behavior during a recession and a acyclical one during an economic boom.² That is, when the Peruvian economy goes into crisis, public spending and investment tend to contract along with GDP as these are defined as a percentage of output, while in times of boom they tend to remain stable in relative terms.

Chart 1
Fiscal rules on macroeconomic aggregates in force in Peru, 2021

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<table>
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<tbody>
<tr>
<td>1.</td>
<td>Public debt cannot exceed 30% of GDP.</td>
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<tr>
<td>2.</td>
<td>The fiscal deficit must not be greater than 1% of GDP.</td>
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<tr>
<td>3.</td>
<td>The annual growth of the Financial Expenditure of the General Government is limited within the range +/-1% of the long-term real annual growth of the economy.</td>
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<td>4.</td>
<td>The growth of the Current Expenditure of the General Government may not exceed the long-term real annual growth rate of the economy, which is reduced by 1%.</td>
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Source: own, based on Ministry of Economy and Finance of Peru (2021).

The relationship between fiscal rules and human rights lies in the restrictions on public spending and the fiscal deficit vis-a-vis the need to fund essential public services that guarantee human rights, such as health and education. Public spending determines fiscal deficit, the latter being a clear determinant of the stock of debt. Hence, in the long term, debt sustainability can be in conflict with the provision of human rights as the role of the public sector becomes restricted.

Civil society organizations such as LATINDADD have stated for years that debt should only be considered sustainable when repayments do not compromise the debtor’s ability to meet priority human development spending or an acceptable level of human rights obligations. This notion is based on the United Nations Basic Principles on Sovereign Debt Restructuring, which state that “Sustainability implies that sovereign debt restructuring processes are completed in a timely and efficient manner and lead to a stable debt situation in the debtor country, preserving the rights of the creditors while promoting continued and inclusive economic growth and sustainable development, minimizing economic and social costs, ensuring the stability of the international financial system and respecting human rights” (United Nations, 2015). Based upon this principle, the following sections of this document explore the relationship between debt management and spending on health, education and the human development index in Peru since the 1990s.

² The only exception was between 2013 and 2016, after the Fiscal Responsibility and Transparency Strengthening Law was passed, when public spending became completely acyclical as it did not depend on current GDP but on a guide (Mendoza, 2019).
Before the 1990s, Peru had been accumulating high deficits. In the years that followed the Latin American debt crisis in 1982\(^3\), Peru accumulated deficits that reached up to 11% of GDP (See Graph 1). As a result, the country accumulated external debt at a rate three times higher than that of Latin America (Larrain & Sachs, 1991), while maintaining capitalized debt arrears, facing financial disintermediation and defaulted loans (Ocampo et al., 2014).

3. The debt crisis in Latin America began in August 1982, when Mexico defaulted on its foreign debt. Peru suspended repayments in May 1983 (Ocampo et al., 2014)
From 1989, Peru’s deficit began to reduce and stabilize for most of the 1990s. Levels of around 3% of GDP were seen between 1991 and 1996. During this period, several political and economic milestones occurred in Peru that would affect its economic performance. The most important political milestone took place in 1993 with the introduction of a new Political Constitution that, for Abad (2017), served to legitimize the coup of April 1992. The Constitution introduced a first fiscal rule in relation to the financing of the Public Sector, prohibiting the Central Bank from buying Treasury debt (Figure 1).

From an economic perspective, there were two crucial milestones related to public finance. The first took place in November 1996, when Peru became the last country of the 10 in Latin America to join the Brady Plan. With the Brady Plan agreements, Peru managed to reduce 45% of its debt with international banks (Ocampo et al., 2014). The second milestone took place in 1999, when the first set of fiscal rules under the so-called Transparency and Fiscal Prudence Law is enacted and implemented. This law introduced regulations on the creation and use of a Stabilization Fund, the creation of transparency tools such as the Multiannual Macroeconomic Framework – a technical document approved by the Congress of the Republic –, and the creation of rules that controlled the growth of Public Expenditure, Debt, and ceilings on the deficit of the public sector (Pereyra, 2000). On the latter, it was stipulated that it could not be greater than 1% of GDP.

**Graph 2**

**Peru’s Non-Financial Public Sector Deficit 1999-2020**

Source: own, based on the Multiannual Macroeconomic Framework of the Ministry of Economy and Finance of Peru (several years).

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4. The Brady Plan was a program that allowed highly indebted countries to reach agreements with commercial banks to alleviate the weight of their debts, mainly through the securitization of their debts to be traded in international markets (Ocampo et al., 2014).
Despite being introduced in 1999, the fiscal deficit rule was not enforced until 2005 and, within the first 20 years of the 21st century, only nine times. Coincidentally, on eight of these nine occasions the rule was complied with during the 10 years after the introduction of the second major law framework that established additional fiscal rules for the general government as well as for regional and local governments. This law, called the Fiscal Responsibility and Transparency Law and introduced in 2003, proposed that the stock of debt as a ratio of current revenues should not exceed 100% in regional governments, and also that their repayment of interests and capital should not exceed 25% (Arnao, 2010). Among the new obligations of the State, it was established that it must ensure a fiscal surplus in the medium term, which would be fulfilled almost completely between 2005 and 2014 (See Graph 3).

With a new path of deficit due to the fiscal rules and after having joined the Brady Plan, Peru began to reduce its debt level as well as its previous rate of debt accumulation. In 1989, the external debt to exports ratio in Peru was slightly lower than that of Nicaragua, Argentina, and Bolivia (Larrain & Sachs, 1991), which were the most indebted countries in the region in that year. The debt to exports ratio fell from 427% in 1996 to 77% in 2009. The most significant decrease in the ratio took place in a context of almost 10 consecutive years with a fiscal surplus in Peru, after the approval of the Fiscal Responsibility and Transparency Law.

**Graph 3**

External Debt Stock as a share of Peru’s exports 1984 - 2019

![Graph 3](image)

Source: own, based on data provided by the Ministry of Economy and Finance of Peru and the National Institute of Statistics and Computing of Peru.

It should be mentioned that the phenomenon of reduction in the coefficient was not particular or specific to Peru. Starting in the 1990s, most South American countries saw their debt levels stabilize or decrease with respect to their exports, with the exception of Argentina, Bolivia and Uruguay, which still had increases in their coefficients until the end of the 1990s and the beginning of the 2000s (Frenkel, 2014). The difference of the Peruvian case is that, despite having been the country with the highest debt to exports ratio in 1996 – the year of the Brady Plan – and with an average debt growth rate of 6.8% in the last years of the 1980s compared to just 2% in Latin
America (Larrain & Sachs, 1991), Peru’s debt reduced faster than most countries in the region. Even in 2009, when it returned to a deficit of 1.3% in the midst of the global financial crisis of the subprime, its coefficient did not vary drastically like in other countries.

In addition to the reduction in debt levels in the 1990s, the structure of creditors also began to change in Peru. During the 1980s, Peru’s debt structure was largely dominated by two creditors: international commercial banks and the Paris Club. The former were replaced after the purchase of Brady Bonds in 1997, the year after which commercial banking practically disappeared as a source of financing for Peru. As of that year, bondholders took the place of banking and began to gain importance in financing accompanied by the Paris Club and International Financial Institutions such as the IMF, the World Bank and the IDB. At the beginning of the 2000s, and after the Fiscal Responsibility and Transparency Law was approved, international organizations began to replace the Paris Club in 2004. By 2009, Peru’s debt bondholders, together with International Financial Institutions, concentrated the largest share of the debt, of around 83.6%. As of December 2020, Peru’s debt bondholders hold 72% of its total foreign public debt.

*Graph 4*

Debt stock by creditor, Peru 1970 – 2020

Source: own, based on figures provided by the Ministry of Economy and Finance of Peru.
In Peru, fiscal rules on debt would be introduced for the first time in 2016 with the Framework Law of Fiscal Responsibility and Transparency. This law establishes that Peru’s debt stock must not exceed 30% of GDP, a condition that would not be a problem to fulfill until the pandemic in 2020, when total debt as a share of GDP reached 34.7%, due to higher debt contracts with private creditors (Graphs 4 and 5). The last time that the debt to GDP ratio had been higher than 30% was in 2006, in the midst of a decreasing path of the debt stock due to fiscal surpluses achieved in previous years. And the last time that the external debt was greater than the threshold established by law was in 2004, just after the Fiscal Responsibility and Transparency Law was approved.

Two aspects related to the debt structure by type of creditor stand out in Peru’s debt management in recent decades. The first is related to the current importance of bondholders in external debt. It is clear that bond issuance has now become Peru’s largest source of external debt financing. In fact, according to data from the World Bank, during the year of the pandemic the country acquired USD 9.42 billion of new debt, of which 76% corresponded to a debt purchase by private creditors (World Bank, 2021a). This explains the visible surge of the external debt/GDP ratio in 2020. The second aspect, related to the domestic debt, shows that not even the growing role of private creditors in recent years has become as important as the country’s domestic creditors. Peru’s domestic debt has been increasing at higher rates than the Peruvian economy itself. This has led to the domestic debt/GDP ratio being higher than the external debt/GDP ratio in recent years.

5. In Domestic Debt: as of the fourth quarter of 2011, Regional Governments and Local Governments are included. As of the second quarter of 2012, Non-Financial Public Companies are included. As of the first quarter of 2013, the Public Financial Companies are included (Ministry of Economy and Finance of Peru, n.d.)
Unlike the rule on fiscal deficit, which has not been fully complied with since its introduction in 1999, the debt rule has – with the exception of the year in which the pandemic began, as it was completely atypical-: Although the amount of external debt has increased 1.1 times between 2010 and 2019, and the domestic debt by 2.78 times (Ministry of Economy and Finance of Peru, n.d.), the rule has been fulfilled, before and after its introduction. One of the key aspects that made it possible has been the increase in the size of the Peruvian economy over the same period. Peru’s nominal GDP multiplied by 1.8 times between 2010 and 2019 (National Institute of Statistics and Computing of Peru, n.d.).
Despite the increase of the Peruvian economy’s size, the accelerated reduction of its deficit and the control of its debt levels, the country’s results in health and education have not been the best. Peru’s transition from one of the countries with the highest debt/export ratio in South America at the end of the 1990s to one of the lowest in the 2000s, along with its efforts to maintain fiscal surpluses of up to 3% between 2003 and 2014, has not translated into the guarantee of human and social rights.

For example, Peru ranked second lowest in terms of public spending as a percentage of GDP in 2000, just one year after the first law with fiscal rules was approved. That year, the only country with lower levels of spending on health was Ecuador, a country that had gone through one of the worst crises in its history a year earlier with a GDP fall of -7.3% (Correa, 2009). The crisis in Ecuador occurred due to factors such as the fall of oil prices in 1998, a financial crisis due to the liberalization of the banking sector in the early 1990s and the El Niño disasters of 1997 and 1998 (see Acosta, 2006). While Ecuador spent 1% of its GDP on health in 2000, the Peruvian government spent 2.5%. After 20 years, Peru still registers the second lowest spending in South America, this time only above Venezuela, which has been going through political, economic and geopolitical problems for several years.
Graph 6

Health Expenditure of the General Government as a share of GDP 2000-2021 (selected countries)

Source: own, based on figures provided by the World Health Organization WHO (n.d.).

Graph 7

Public and private health expenditure and fiscal deficit in Peru 2000-2021

Source: own, based on figures provided by the World Health Organization, WHO (n.d.), and the Ministry of Economy and Finance of Peru (n.d.).
Even though the Peruvian government’s health spending has not had a remarkable performance in recent years compared to the rest of the countries in the region, its allocation has undoubtedly improved, particularly since 2012, when two opposing facts are evident. On the one hand, the government expenditure increased significantly, from 2.5% of GDP to 3.3%. On the other hand, both Private Domestic Expenditure and Out-of-Pocket Expenditure of Households on Health decreased (Graph 7). These last two move parallel to each other and -usually- in the opposite direction to government spending. That is, when the government spends more on health, families and the private sector do so to a lesser extent, thus benefiting household finances. On the contrary, if the state spends less on health, families and the private sector tend to increase their spending to offset this deficiency.

The dynamics between public spending and household spending are not isolated from macroeconomic management through fiscal rules. This correspondence is shown when comparing, for example, the fiscal deficit/surplus with household out-of-pocket spending or private spending on health. If we consider the years with the largest surpluses, after the 2003 law was in force, we see that private spending increased those years. In other words, while the central government had positive results, families spent more in relation to the size of the Peruvian economy, implying an expense for them while the government was saving. It is important to mention that these aspects do not necessarily imply causality, but rather describe the dynamics between the variables analyzed. However, fiscal deficits and expenditures are not independent of economic activity or tax revenues (Guzman, 2018) and, as such, have effects at the macro and household levels. While public sector spending on health depends on the government’s finances, families’ out-of-pocket spending depends both on the country’s economic activity and their economic conditions which, when public spending provides fewer health services and goods, can deteriorate. But the provision of health services depends not only on the central government, but also on other strategies, programs and means of providing health services. For example, Montañez (2018) shows that a large part of the reduction in out-of-pocket health expenses of Peruvian families until before 2018 is due to programs for access to social and health insurance promoted by the Peruvian government, such as the Comprehensive Health Insurance (SIS) and EsSalud.

Education has also had adverse effects during times of deficit reduction and even more pronounced during times of fiscal surplus. Looking at the Education Index\(^6\) (EI) of the United Nations, we see that during the period of fiscal deficit reduction, between 1999 and 2005, the distance between Peru and Latin American and Caribbean shortened, implying that Peru advanced more slowly. During fiscal surplus years this distance reduced even more and trend that reversed when the surpluses ended. In recent years, Peru, with a fiscal deficit of 2%, has kept its index trend and distance from the Latin American average unchanged.

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\(^6\) The Education Index is a mean of the average years of schooling (for adults) and the expected years of schooling (for children), both expressed as an index obtained by applying a scale with the corresponding maximum levels, defined by the Human Development Reports of the United Nations Development Program.
Both health and education are important human rights, and one way to group them into a measurable figure is through the Human Development Index (HDI). The HDI is an indicator that summarizes the average achievements in key dimensions of human development: a long and healthy life, being educated and having a dignifying living standard (United Nations, n.d.-b).

Globally, this indicator has been gradually improving with a similar trend in all world regions since 1990. East Asia and South Asia countries have made the greatest efforts to shorten the distance with other regions, especially since 2000. Despite the significant progress of the Asian countries, Latin America and the Caribbean continues to have higher levels and ranks second compared to other regions worldwide, excluding Organization for Economic Cooperation and Development (OECD) countries.
The HDI trends at the regional level are quite similar, so it is difficult to show which countries achieved a better performance in terms of human development over time. A way of comparatively approximating which countries achieved the best results is shown in Figure 2. It shows global ranking changes of the Andean Community countries (Peru, Colombia, Ecuador, Bolivia, Chile) from 1990 to 2019.

The Andean Community countries have seen their global rankings getting worse between 1990 and 2019, with the exception of Chile, which improved seven positions. The worst performance was for Ecuador, which lost 20 positions, Bolivia 13 positions, and Peru and Colombia two positions. In 1990 Ecuador was in position 66 and now in 86; Bolivia went from 94 to 107; Peru from 77 to 79; and, Colombia from 81 to 83.

During the nineties and until 1999, there was a period of relative stability in terms of index ranking of these countries. This is the period prior to the introduction of the first fiscal rules in Peru in 1999. In this period, Peru stood out from the rest by improving its ranking in 10 places. Colombia improved eight places, Ecuador one, Bolivia four, and Chile five. Since then, however, the region started to fall in the rankings worldwide, with the fall of Peru being the most significant.

Source: own, based on United Nations (n.d.-c).
Figure 2
Changes in Human Development Index world rankings, Andean Community countries 1990 - 2019

Source: own, based on figures provided by Country Economy (n.d.).
It coincides that, from the year the first fiscal rules were approved in Peru, the region started losing places in the HDI world ranking, mainly due to the progress made by Asian countries. Since 1999, Peru's fiscal deficit begins to close until 2005, when it recorded its last deficit and a period of fiscal surpluses began which lasted until 2013, after the approval of the second law with new fiscal rules. Between 1999 to 2005, Peru was the country with the worst HDI performance compared to the neighboring countries of the Andean Community, losing a total of 28 positions in the world ranking.

From 2005 to 2013, when Peru registered sustained fiscal surpluses, the country also began to recover positions, faster than the rest, but insufficient to reach the levels prior to 1999. In this period, Peru recovered 16 positions out of the 28 it had lost. Colombia recovered seven, Ecuador six, and Bolivia and Chile four. As of 2005, Peru again incurs fiscal deficits, but its position in the ranking did not suffer major changes.

From the behavior of the variables, it can be inferred that the accelerated reduction of the fiscal deficit in Peru since 1999 coincided with the slowdown in its relative progress in terms of the HDI when compared with its neighboring countries, while periods of surplus allowed it to progress more rapidly. Therefore, having surpluses can be very positive in order to better manage actions on human development in the dimensions measured by the HDI. However, the demanding transition from reducing the fiscal deficit to achieving surpluses stalled progress in the country's levels of human development compared to its peers.

The relationship between the budget deficits that contemplate increases in health and education spending have a direct effect on human development. This relationship has been studied and is consistent with the results of Dang (2016), as well as Lee (1997), Ranis et al. (2000) and Gupta & Verhoeven (2001). Although the results shown in this section do not necessarily imply causality between the variables, there are indications that show us the negative effect of reducing the deficit on the HDI in Peru when spending in sectors such as health and education is reduced. As such, this phenomenon needs to be studied in greater depth to obtain more robust results.
The implementation of fiscal rules in Peru, particularly those related to the control of the fiscal deficit, has been important to reduce burden of debt upon its economy. Being standards that countries assume for the management and control of their fiscal accounts and initially focused on managing the long- and medium-term sustainability of the debt, they have fulfilled their objective. Peru reduced its external debt/exports ratio at a much faster rate than the rest of the countries in the region since its fiscal deficit rule was implemented, despite not having fully complied with it. In terms of debt management and sustainability from a traditional approach focused on its macroeconomic results, Peru maintains low levels of debt and a prudent management of its finances.

However, civil society organizations propose and demand that debt is only considered sustainable when it does not compromise the debtor’s ability to meet priority spending on human development or an acceptable level of human rights obligations. Faced with this, and when observing the dynamics between public and household spending on health, we see that they are not isolated from macroeconomic management through fiscal rules. During the years in which the largest surpluses took place, once the Fiscal Responsibility and Transparency Law came into force, private spending on health increased. In other words, while the central government had positive results, families spent more in relation to the size of the Peruvian economy, implying higher expenses for them while the government was saving.

Likewise, the results in terms of the UN Education Index show that the positive gap between Peru and the Latin America and the Caribbean average was reduced in the years the fiscal rules were implemented. This effect is even more evident when looking at the years with fiscal surpluses, where the gap narrows even more. Clearly, having maintained fiscal surpluses for several years was not a guarantee of an improvement in education for the Peruvian population.

In light of the above, we show that having surpluses can be positive in terms of being able to better manage Peru’s levels of human development. However, the
challenging transition from reducing the fiscal deficit to achieving surpluses stalled the country’s progress in human development compared to the rest. It is important to mention that the results of the document do not imply strict causality between the fiscal surplus/deficit and the levels of Human Development. However, there are indications of the negative effect of deficit reduction on HDI levels in Peru when they occur with a decrease in spending on health and education. As such, this phenomenon needs to be studied in greater depth to obtain more statistically robust results.


