V. MONEY AND CREDIT

The Annual Monetary Program was published for the first time in January 2000. This report includes the inflation target, the intermediate and operating targets, and the projections that would guide monetary policy during the year. In particular, an end-of-year inflation target range of 3,5 to 4,0 percent was set for 2000 (actual inflation was 3,7 percent).

The Monetary Program also established a ceiling for the increase in the monetary base. This ceiling was set as an 8,0-10,0 percent range, considering the following projections: a nominal 9,0 percent increase in GDP, a 1,5 percent reduction in the velocity of circulation, and a 1,5 percent increase in the money multiplier. However, political uncertainty during the year made it necessary to make a revision of the intermediate target, which resulted in a 6,0 percent increase in the monetary base. Additionally, the nominal rate of growth of GDP was 6,9 percent, the velocity of money circulation increased 0,8 percent, and the money multiplier remained at the same level as in 1999.

TABLE 29
MONETARY BASE DETERMINANTS
(Average annual percentage change)

	GDP deflator	GDP		Liquidity in domestic currency	Velocity of circulation	Money supply components	
		Real	Nominal			Monetary base	Multiplier
1998	6,4	-0,5	5,9	15,3	-8,2	12,5	2,5
1999	3,9	0,9	4,9	1,7	3,2	6,7	-4,7
2000	3,6	3,1	6,9	6,0	0,8	6,0	0,0
Annual Monetary Program 2000	3,8	5,0	9,0	10,6	-1,5	9,0	1,5

In 2000, certain measures were taken in order to improve daily liquidity control and to enable the money market to understand the operating target as indicator of the monetary policy stance. Thus, in September 2000 the minimum reserve requirement rate was reduced from 7 to 6 percent (Circular 027-00-EF/90), and a 1 percent minimum reserve requirement —in the form of demand deposits kept at the central bank— was introduced. This policy reduced the substitution effect between vault-cash and demand deposits at the central bank, so that the variability of the latter decreased, as well as the volatility of the domestic-currency interbank interest rate.

Moreover, in September the BCRP established a domestic currency overnight deposit facility for commercial banks (Circular 029-2000-EF/90). This policy also contributed to reducing the volatility of the operational target and of the domestic currency interbank interest rate. It should be mentioned that these deposits are not considered as part of banks' reserves.

Open market operations with the central bank's deposit certificates (CDBCRPs) continued to be used to regulate the financial system liquidity in order to reach a path for demand deposits at the BCRP consistent with the operating target. CDBCRP maturities were chosen with a diversification criterion that took into account the seasonality of monetary aggregates and public finances. Thus, the policy of issuing CDBCRPs with maturities during tax-payment periods was aimed at reducing the variability of commercial banks' liquidity before central bank operations. This also diminished the variability of the operating target and of the domestic currency interbank interest rate, thus improving monetary policy signaling. The diversification criterion used for the issuance of CDBCRPs implied longer maturities (six months and one year). This in turn provided a reference for the make-up of interest rates for six-months and one-year operations. It should be noted that the average maturity of CDBCRPs rose from 9 weeks to 24 weeks between end-1999 and end-2000.

In September, the average reserve requirement rate for domestic-currency commercial banks' liabilities was reduced from 37,1 to 34,1 percent, so that almost US$ 280 million were released. This reduction was established simultaneously with a package aimed at increasing financial intermediation. However, political uncertainty during the second semester hindered the success of these policies, and a decrease in foreign currency deposits at commercial banks also took place (US$ 150 million between end-August and end-October). In this context, the reduction of the average reserve requirement rate had the effect of providing additional foreign currency liquidity to commercial banks to cope with falling deposits.

Finally, during 2000, the stock of foreign-currency-denominated Treasury bonds held by the BCRP fell from US$ 96 million at end-1999 to US$ 45 million at end-2000. This is explained by repo operations with these bonds amounting to US$ 47 million, as well as for the maturity of US$ 4 million. The Central Bank Charter limits the annual increase of Treasury bonds held by the BCRP to 5 percent of the monetary base stock at the end of the previous year. Considering that at end-1999 the monetary base reached a level of S/. 5 876 million, the limit for 2000 was S/. 294 million.

TABLE 30
LIMITS ON THE ANNUAL INCREASE IN TREASURY BONDS HELD BY THE BCRP
(Millions of nuevos soles)

	End-of-year monetary base stock	Limit	Annual increase
1998	5 023	238	162
1999	5 876	251	164
2000	5 642	294	-179

Monetary Base

The monetary base daily average stock was S/. 5 056 million in 2000, a 6,0 percent increase over the previous year (S/. 4 772 million). The end-of-year stock was S/. 5 642 million, 4,0 percent lower than in the previous year. The latter reduction was the result of a decrease in monetary base demand explained by the normalization of economic agents' preferences after the disturbance caused by the Y2K problem.

TABLE 31
MONETARY BASE ANNUAL RATE OF CHANGE

	Average stock 1/	End-of-year 2/
1998	12,5	5,5
1999	6,7	17,0
2000	6,0	-4,0

1/ Rate of change of the daily average monetary base stock relative to the previous year.
2/ Rate of change of end-of-year monetary base stock relative to the previous year

Thus, the monetary base decreased S/. 233 million due to monetary operations (a S/. 450 million reduction). This negative flow was partially offset by foreign exchange operations, which increased the monetary base by S/. 217 million.

Monetary operations resulted in a S/. 450-million decrease in the monetary base. This negative flow is largely explained by the S/. 961 million increase in CDBCRPs, which was partially offset by central bank financial and non-financial net expenditures (S/. 484 million) and by the reduction of public sector deposits at the BCRP (S/. 59 million).

BOX 5

MONETARY POLICY TRANSMISSION MECHANISMS

The Constitution establishes that the Central Bank's only objective is to preserve monetary stability. Monetary policy contributes to sustained economic growth by creating a stable macroeconomic environment.

Monetary instruments are used to affect the banking system's disposable liquidity by controlling the current account held by banks at the Central Bank (operating target). The availability of these funds has an influence on the interbank interest rate and the exchange rate.

Control of the banks' current account (operating target) allows the Central Bank to attain the desired monetary base level (intermediate target). In turn, the monetary base, the interbank interest rate and the exchange rate affect inflation expectations and interest rates in domestic currency, especially prime interest rates. Concerning monetary aggregates, control of the monetary base affects the money supply and credit in domestic currency. These variables have an influence on economic agents' spending decisions, thus affecting aggregate demand. In particular, spending on goods included in the public's consumption basket has an effect on inflation.

Other factors that affect inflation through aggregate demand are public sector spending and private sector income expectations. The latter influences aggregate demand directly, as well as indirectly through credit supplied by banks.

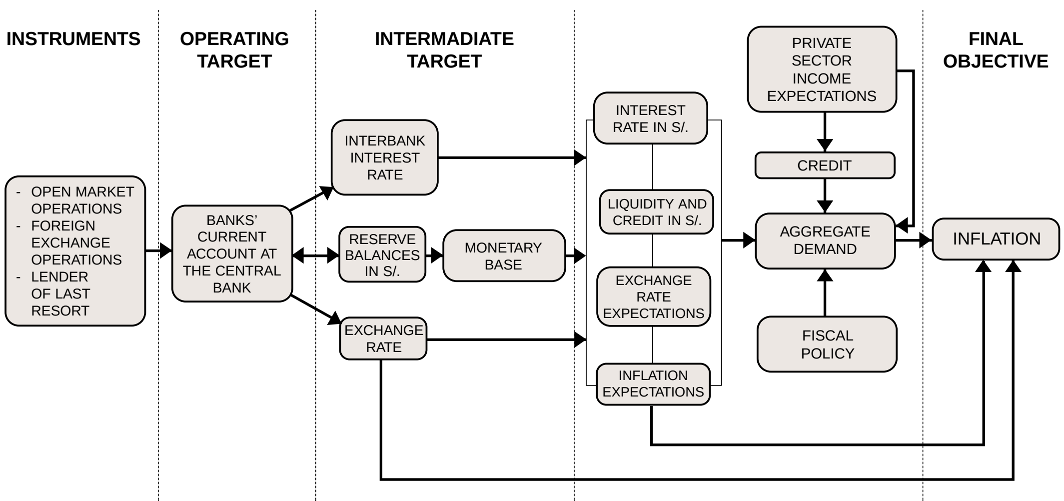


TABLE 32
SOURCES OF VARIATION OF THE MONETARY BASE
(Millions of nuevos soles)

	1998	1999	2000
I. FOREIGN CURRENCY MARKET PURCHASES	**- 980**	**830**	**217**
(Millions of US dollars)	*- 330*	*253*	*63*
1. Over-the-counter net purchases	1 587	641	10
2. Public sector	-2 761	155	186
- External debt	-2 399	- 532	- 140
3. Other net purchases	194	34	21
II. MONETARY OPERATIONS	**1 242**	**24**	**- 450**
1. Non-financial public sector and Banco de la Nación	534	- 153	59
2. Financial system	42	- 42	0
3. Central Bank certificates	365	- 119	- 961
4. Other monetary operations	301	338	484
III. MONETARY BASE TOTAL CHANGE	**262**	**854**	**- 233**
% end-of-period variation	5,5	17,0	-4,0
% average variation	12,5	6,7	6,0
Note			
END-OF-PERIOD STOCKS			
Central Bank certificates	280	399	1 360
Short-term credits	42	0	0
Public sector deposits	225	378	319
Monetary base	5 023	5 876	5 642

On the other hand, foreign exchange operations resulted in a S/. 217-million monetary base expansion, explained by net foreign currency sales by the non-financial public sector (S/. 186 million) intended to finance its domestic currency operations. There were no interventions in the foreign exchange market, except for a sole purchase of foreign currency on March 3, which amounted to US$ 3 million (S/. 10 million).

It should be noted that during the last decade, the BCRP used mainly over-the-counter foreign currency purchases as a permanent monetary base injection mechanism, and to offset sales of foreign currency to the public sector for foreign debt service. Given the outstanding CDBCRP stock (S/. 1 360 million at end-2000), in 2000 it was not necessary to intervene in the foreign exchange market for monetary regulation purposes.

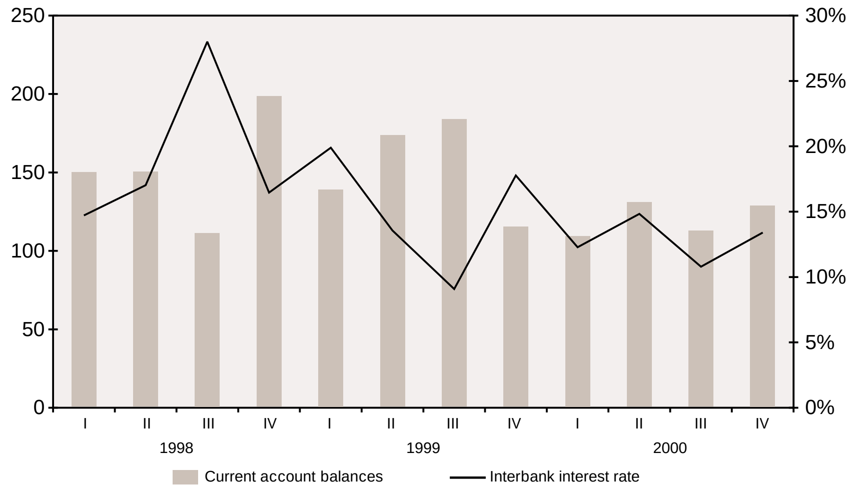
On a daily basis, monetary operations continued to be based on setting limits on the operating target (commercial banks' demand deposits at the central bank). In 2000, the volatility of the operating target diminished relative to 1999. This improved monetary policy signaling and reduced uncertainty. This in turn helped to control the volatility of the domestic currency interbank interest rate (the standard deviation decreased from 4,9 percent in 1999 to 2,5 percent in 2000).

The domestic-currency average interbank interest rate diminished from 14,9 percent in 1999 to 12,7 percent in 2000, due to lower depreciation and inflation expectations. In the second and fourth quarters, this interest rate (14,4 and 13,3 percent, respectively) was higher than the average for the whole year (12,7 percent), due to political uncertainty.

GRAPH 8

COMMERCIAL BANKS' DOMESTIC-CURRENCY CURRENT ACCOUNT BALANCES HELD AT THE CENTRAL BANK AND DOMESTIC-CURRENCY INTERBANK INTEREST RATE

(Daily average, millions of nuevos soles)



Net International Reserves

BCRP net international reserves (NIR) decreased US$ 224 million in 2000. The reduction is mainly explained by the fall in public sector foreign-currency deposits (US$ 269 million), as well as in commercial banks' foreign-currency deposits (US$ 158 million). The latter is due to the reduction of the average reserve requirement rate on commercial banks' liabilities in September, from 37,1 to 34,1 percent.

These operations were partially offset by an US$ 86-million increase in the foreign position of the central bank, explained by foreign exchange operations amounting to US$ 63 million (mainly net purchases of foreign currency to the public sector, equal to US$ 54 million). Thus, the foreign position at end-2000 reached US$ 2 624 million.

In this way, the NIR stock closed at US$ 8 180 million in 2000, equivalent to 13 months of imports of goods, more than 5 times the monetary base and 60 percent of total banking system liquidity. These figures show that, although there was a decrease in NIR, Peru maintained an adequate level of reserves, which enabled the economy to face possible negative domestic and foreign shocks.

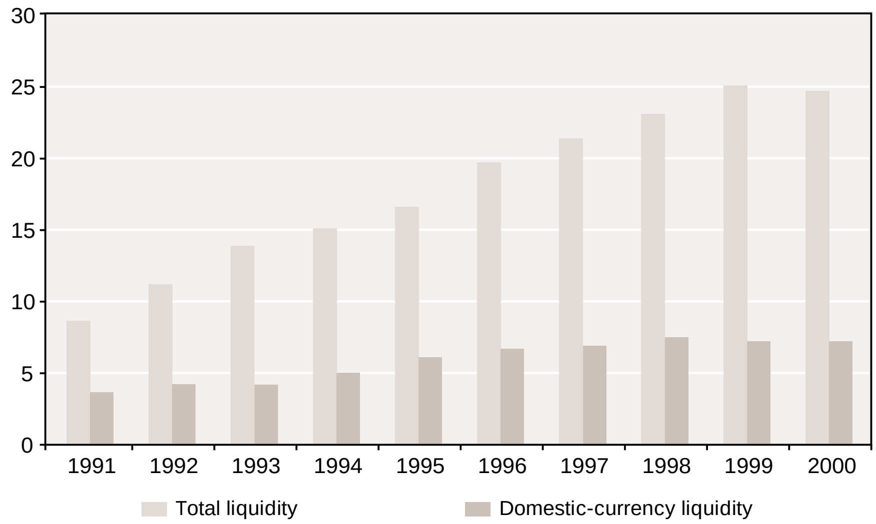
TABLE 33
NET INTERNATIONAL RESERVES SOURCES OF VARIATION
(Millions of US dollars)

	1998	1999	2000
I. Foreign exchange operations	**- 330**	**253**	**63**
1. Over-the-counter	560	196	3
- Purchases	643	316	3
- Sales	- 83	- 120	0
2. Public sector	- 955	46	54
- Purchases	3	277	102
- Sales	- 958	- 231	- 47
3. Other foreign exchange operations	64	11	6
II. Financial system and private sector deposits	**- 649**	**- 99**	**- 12**
1. Commercial banks	- 682	- 13	- 158
2. Banco de la Nación	35	- 82	145
3. Other financial institutions	- 2	- 4	1
III. Public sector	**- 121**	**-1 034**	**- 269**
IV. Net interests	**155**	**132**	**135**
V. Other NIR sources of variation	**- 41**	**- 32**	**- 141**
VI. TOTAL NIR CHANGE	**- 986**	**- 780**	**- 224**

Banking System Liquidity

The average stock of total bank liquidity as a percentage of GDP decreased from 25,2 percent in 1999 to 24,9 percent in 2000.

GRAPH 9
BANKING SYSTEM MONETIZATION RATIO
(Percentage of GDP)



In real terms, end-of-year banking system total liquidity decreased 0,4 percent relative to end-1999, due to a fall in foreign currency liquidity (0,5 percent) and of domestic currency liquidity (0,2 percent). The latter resulted from a decrease in real money (4,5 percent), while real quasi-money rose (4,6 percent) relative to its end-1999 level.

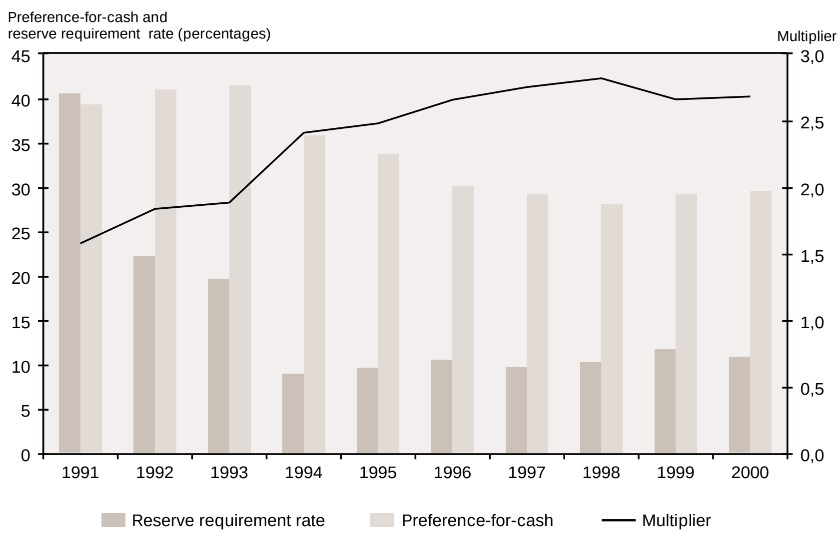
TABLE 34
THE BANKING SYSTEM LIQUIDITY IN REAL TERMS
(Percentage changes)

	Domestic-currency broad money					Foreign-currency broad money	Total broad money
	Narrow money			Quasi-money	Total		
	Currency	Demand deposits	Total				
1998	-2,7	-8,9	-5,3	-11,3	-8,2	10,7	3,9
1999	13,0	2,3	8,7	6,3	7,6	10,1	9,3
2000	-5,6	-2,8	-4,5	4,6	-0,2	-0,5	-0,4

In nominal terms, domestic currency liquidity at the end of 2000 rose 3,5 percent, due mainly to a 14,5-percent increase in time deposits. On the other hand, foreign-currency deposits increased by 2,6 percent.

Concerning money supply components, the money multiplier maintained its 1999 level —the rate of growth initially projected was 1,5 percent— due to the fact that the effect of a higher-than-expected preference for cash money in financial intermediation was offset by the reduction of the reserve requirement rate from 7 to 6 percent of commercial banks' domestic currency liabilities since September.

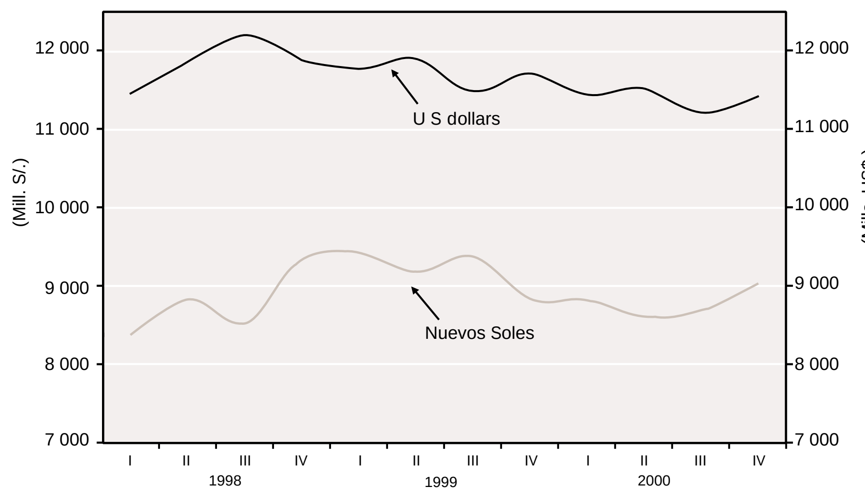
GRAPH 10
MONEY MULTIPLIER AND ITS COMPONENTS



Credit to the Private Sector

As in the previous year, during the year 2000 commercial banks maintained a cautious credit policy. This behavior could be explained by the delay in the recovery of economic activity and the banks' perception of greater credit risk. In particular, banks were careful in granting dollar-denominated credits. However, domestic-currency-denominated credit showed only a moderate increase.

GRAPH 11
BANKING CREDIT TO THE PRIVATE SECTOR



In nominal terms, during 2000 total banking system credit to the private sector decreased 1,0 percent. Dollar-denominated credit diminished 2,3 percent, whereas domestic-currency-denominated credit increased 2,3 percent.

In terms of flows, banking sector financing to the private sector in domestic currency grew from a negative S/. 492-million variation in 1999 to a positive S/. 206-million variation in 2000. Likewise, financing in foreign currency dropped from a negative variation of US$ 188 million in 1999 to a negative variation of US$ 269 million in the year 2000.

TABLE 35

SOURCES OF EXPANSION OF COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR

(Millions of nuevos soles)

	Stocks 1/ 3/			Flows 2/ 3/		
	1998	**1999**	**2000**	**1998**	**1999**	**2000**
CREDIT TO THE PRIVATE SECTOR	**49 590**	**48 635**	**47 903**	**3 186**	**-955**	**-732**
A. Domestic Currency	9 025	8 696	8 899	579	-329	203
B. Foreign Currency	40 565	39 939	39 004	2 611	-626	-935
(Millions of U S dollars)	**11 636**	**11 450**	**11 182**	**893**	**-185**	**-268**
1. Private sector deposits	38 866	40 640	41 633	-454	1 774	993
A. Domestic Currency	8 140	8 785	8 977	-472	645	192
B. Foreign Currency	30 726	31 855	32 656	18	1 129	801
(Millions of U S dollars)	**8 799**	**9 133**	**9 362**	**6**	**334**	**230**
2. Non-financial public sector deposits	5 746	6 132	5 403	874	386	-729
A. Domestic Currency	3 826	4 185	3 779	1 199	359	-407
B. Foreign Currency	1 919	1 946	1 624	-325	27	-322
(Millions of U S dollars)	**550**	**558**	**466**	**-111**	**8**	**-92**
3. Net external assets 4/	8 363	3 607	2 763	-771	-4 756	-844
A. Domestic Currency	0	0	0	0	0	0
B. Foreign Currency	8 363	3 607	2 763	-771	-4 756	-844
(Millions of U S dollars)	**2 441**	**1 034**	**792**	**-263**	**-1 407**	**-242**
4. COFIDE´s net financing	2 967	3 010	2 196	671	43	-814
A. Domestic Currency	381	150	188	533	-231	38
B. Foreign Currency	2 586	2 860	2 008	138	274	-852
(Millions of U S dollars)	**739**	**820**	**576**	**47**	**81**	**-244**
5. Reserve funds	-11 087	-11 099	-10 406	1 866	-12	693
A. Domestic Currency	-859	-915	-773	-132	-56	143
B. Foreign Currency	-10 228	-10 184	-9 634	1 998	44	550
(Millions of U S dollars)	**-2 933**	**-2 920**	**-2 762**	**682**	**13**	**158**
6. BCRP´s monetary operations 5/	-49	39	-811	558	88	-850
A. Domestic Currency	-229	-222	-907	408	7	-685
B. Foreign Currency	180	261	96	149	81	-165
(Millions of U S dollars)	**51**	**75**	**28**	**51**	**24**	**-47**
7. Rest 6/	4 784	6 306	7 125	442	1521	819
A. Domestic Currency	-2 235	-3 288	-2 366	-961	-1 053	922
B. Foreign Currency	7 019	9 593	9 490	1 403	2 574	-103
(Millions of U S dollars)	**1 989**	**2 750**	**2 721**	**479**	**762**	**-30**

1/ Negative stocks correspond to net active accounts.
2/ A positive sign indicates a source.
3/ Year 2000 information is preliminary.
4/ Short- and long-run assets.
5/ Expressed in terms of net obligations with the BCRP. In the case of domestic-currency operations, CDBCRP holdings and overnight deposits are considered assets, and liabilities such as monetary regulation credits and repos involving CDBCRPs are discounted. Foreign-currency operations include repos involving Public Tresury Bonds and monetay regulation credits.
6/ Includes the increase in bank capitalization.

The main sources of banking system credit expansion in domestic currency were banking capitalization (S/. 1 260 million), higher private sector deposits (S/. 192 million), the decrease in reserve funds held at the Central Bank (S/. 143 million) and the rise in COFIDE's net financing (S/. 38 million). These components were offset by higher purchases of CDBCRPs (S/. 685 million), a decrease in non-financial public sector deposits (S/. 407 million), higher receivable accounts (S/. 148 million) and an increase in net fixed assets (S/. 53 million).

On the other hand, the main counterpart operations of the drop in foreign-currency bank credit to the private sector were a lower bank demand for COFIDE net financing (US$ 244 million), a lower demand for external credit lines (US$ 242 million), a decrease in non-financial public sector deposits (US$ 92 million) and lower repo operations with Public Treasury Bonds (US$ 38 million). These components were offset by a rise in private sector deposits (US$ 230 million) and a decline in reserve funds (US$ 158 million).

Net Credit to the Public Sector

During 2000, banking system net credit to the public sector rose S/. 2 221 million, reflecting fiscal financing requirements. Credits diminished S/. 171 million and deposits decreased S/. 2 392 million (deposits in foreign currency at the Central Bank fell by S/. 890 million, equivalent to US$ 269 million).

Commercial Banks

During 2000, the irregular evolution of economic activity and the uncertainty associated with political events led to a deterioration, for the second consecutive year, of commercial banks' indicators regarding non-performing loans, management and profitability. In this context, the government established rules to develop refinancing programs in order to facilitate corporate financial recovery.

Two financial rescue programs were introduced in 2000: the Agricultural Financial Rescue Program (AFR) and the Patrimonial Strengthening Program (PSCE), geared to promote refinancing of credits contracted by agricultural and commercial companies, respectively, with commercial banks. The implementation of these programs involved the issuance of Public Treasury Bonds amounting to US$ 500 million, of which US$ 100 million would be allocated to the former program and US$ 400 millions to the latter. This refinancing scheme would be implemented with the joint participation of banks, stockholders and the government.

As a result of the progressive adaptation of commercial banks to provision requirements, the ratio of loan provisions to gross loans improved from 8,3 to 9,8 percent during the year to December 2000. It should be emphasized that the level of loan provisions as a percentage of non-performing loans rose from 99,4 to 100,2 percent. In spite of the

TABLE 36
NET BANKING SYSTEM CREDIT TO THE PUBLIC SECTOR 1/ 2/
(Millions of nuevos soles)

	Stocks			Flows		
	1998	1999	2000	1998	1999	2000
I. Credits	**5 440**	**6 272**	**6 101**	**1 675**	**832**	**-171**
A. Domestic Currency	**2 717**	**1 575**	**1 200**	**1 245**	**-1 142**	**-375**
B. Foreign Currency	**2 723**	**4 697**	**4 901**	**430**	**1 974**	**204**
(Millions of U.S. dollars)	**864**	**1 339**	**1 388**	**21**	**475**	**49**
1. Banco de la Nación	4 261	5 230	5 161	1 730	969	-69
A. Domestic Currency	1 864	866	605	1 274	-998	-261
B. Foreign Currency	2 397	4 364	4 556	456	1 967	192
(Millions of U.S. dollars)	761	1 244	1 291	47	483	47
2. Commercial Banks	565	504	515	38	-61	11
A. Domestic Currency	239	231	217	-27	-8	-14
B. Foreign Currency	326	273	298	65	-53	25
(Millions of U.S. dollars)	103	78	84	7	-25	6
3. BCRP 3/	614	538	425	0	-76	-113
A. Domestic Currency	614	478	378	0	-136	-100
B. Foreign Currency	0	60	47	0	60	-13
(Millions of U.S. dollars)	0	17	13	0	17	-4
II. Deposits 4/	**23 969**	**22 623**	**20 231**	**3 669**	**-1 346**	**-2 392**
A. Domestic Currency	**5 549**	**5 805**	**5 396**	**1 104**	**256**	**-409**
B. Foreign Currency	**18 420**	**16 818**	**14 835**	**2 565**	**-1 602**	**-1 983**
(Millions of U.S. dollars)	**5 848**	**4 792**	**4 202**	**19**	**-1 056**	**-590**
1. Banco de la Nación	2 840	2 611	2 422	453	-229	-189
A. Domestic Currency	1 247	1 081	968	-215	-166	-113
B. Foreign Currency	1 593	1 530	1 454	668	-63	-76
(Millions of U.S. dollars)	506	436	412	165	-70	-24
2. Commercial Banks	8 538	9 317	7 944	2 012	779	-1 373
A. Domestic Currency	4 301	4 427	4 071	1 497	126	-356
B. Foreign Currency	4 237	4 890	3 873	515	653	-1 017
(Millions of U.S. dollars)	1 345	1 394	1 097	-24	49	-297
3. BCRP	12 591	10 695	9 865	1 214	-1 896	-830
A. Domestic Currency	1	297	357	-176	296	60
B. Foreign Currency	12 590	10 398	9 508	1 390	-2 192	-890
(Millions of U.S. dollars)	3 997	2 962	2 693	-120	-1 035	-269
III. Net Credit	**-18 529**	**-16 351**	**-14 130**	**-1 994**	**2 178**	**2 221**
A. Domestic Currency	**-2 832**	**-4 230**	**-4 196**	**141**	**-1 398**	**34**
B. Foreign Currency	**-15 697**	**-12 121**	**-9 934**	**-2 135**	**3 576**	**2 187**
(Millions of U.S. dollars)	**-4 984**	**-3 453**	**-2 814**	**2**	**1 531**	**639**

1/ The public sector includes COFIDE.
2/ Year 2000 information is preliminary.
3/ Includes bonds issued by the Public Treasury as stated by D.S. 66-94-EF (BCRP capitalization), and bonds acquired through the article 61 of the Charter of the BCRP.
4/ Includes BCRP Certificates of Deposit acquired by state-owned enterprises.

deterioration in the ratio of non-performing loans to gross loans —which increased from 8,3 to 9,8 percent—, wealth exposure to non-provisioned non-performing loans decreased from 0,3 percent to zero.

During the year, the Superintendence of Banks and Insurance (SBI) issued a set of regulations intended to ease the provisioning requirements regime. The minimum provisioning requirement was reduced for credits and leasing with quick-recovery preferred collaterals, which do not have to be rated under the normal risk category. On the other hand, the SBI introduced the pro-cyclical provisioning regime. This regulation modified the methodology for the assessment of provisioning requirements applicable to credits and contingencies included in the "normal" and "potential problems" categories. As a result, provisions on these credits will consist of a fixed and a variable component. The fixed one is estimated according to credit type and category, and the variable one is a function of the evolution of the net-provisioning finance margin of commercial banks. Thus, banks will be able to build provisions in periods of economic expansion and use them in recession periods.

GRAPH 12
PORTFOLIO INDICATORS OF COMMERCIAL BANKS
(Percentage)

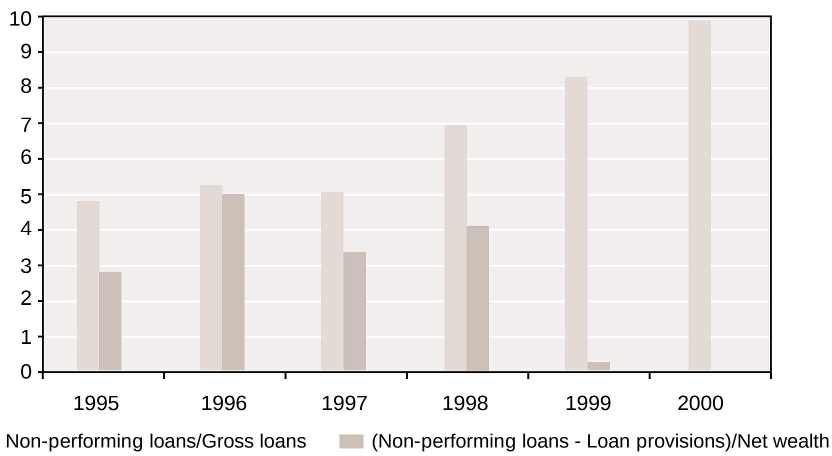


TABLE 37
FINANCIAL INDICATORS OF COMMERCIAL BANKS 1/
(In percentages)

	1998	1999	2000			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
Non-performing loans / Gross loans	7,0	8,3	9,8	10,0	10,3	9,8
(Non-performing loans-loan provisions)/ Net wealth	4,1	0,3	5,9	6,3	7,3	0,0
Loan provisions / Non-performing loans	92,1	99,4	90,4	90,1	88,3	100,2

1/ Non-perfoming loans include past-due loans and loans in process of judicial collection.

During 2000, the SBI intervened four commercial banks: Orion, Serbanco, Nuevo Mundo and NBK. Orion was intervened in June and liquidated because its equity had decreased more than the 50 percent benchmark (168 percent). In September, Serbanco was intervened and liquidated due to its S/. 20-million equity deficit, which reduced its effective equity below the legal minimum. In December, Nuevo Mundo and NBK were intervened due to problems in fulfilling their liabilities, which were reflected in negative compensation positions in the Clearing House. In this way, the banking system continued the consolidation process started in 1998 and strengthened during the second semester of 1999, with the exit of two commercial banks from the market and the merger of eight commercial banks. From 26 banks at the beginning of 1998, 16 were operating at the end of 2000.

Finally, the Banking System Consolidation Program was created in November. This program was designed to ease the reorganization of multiple-operation financial companies, and involved the issuance of Public Treasury Bonds up to US$ 200 million. These funds would be channeled to the Deposit Insurance Fund to ease the acquisition of financial companies by other entities. Financial companies can participate in this program until 31 March 2001.

Interest rates

Domestic- and foreign-currency interest rates in the year 2000 showed a declining trend. This reflected a cautious behavior of banks, which granted credit only to lower-risk companies. Additionally, in the case of domestic-currency operations, this trend reflected lower inflation expectations associated with the gradual convergence of inflation rates to international levels.

The average lending interest rate in domestic currency (TAMN) decreased from 35 percent in 1999 to 30 percent in 2000. The average lending interest rate in foreign currency (TAMEX) also decreased, from 16,5 percent in 1999 to 13,7 percent in 2000. Prime interest rates in domestic currency declined from 22,5 percent in 1999 to 19,5 percent in 2000. The decline in foreign-currency interest rates was less significant, from 12,9 percent in 1999 to 11,3 percent in 2000.

The average deposit interest rate in domestic currency (TIPMN) diminished from 11,8 percent in 1999 to 9,8 percent in 2000. The average deposit interest rate in foreign currency (TIPMEX) decreased from 5,1 percent in 1999 to 4,7 percent in 2000.

The spread between banking system lending and deposit interest rates in domestic currency (TAMN and TIPMN) declined from 23 percent points in 1999 to 20 percent points in 2000. The spread for foreign-currency rates (TAMEX and TIPMEX) decreased from 11 percent points in 1999 to 9 percent points in 2000.

It should be noted that prime interest rates in domestic and foreign currency, as well as TAMN and TAMEX, declined consistently during the year 2000. TAMN decreased from 32 percent in December 1999 to 26,5 percent in December 2000, and TAMEX decreased from 14,8 to 12,6 percent over the same period.

TABLE 38
INTEREST RATES OF COMMERCIAL BANKS
(Annual rates)

		DOMESTIC CURRENCY						FOREIGN CURRENCY					
		Interbank market	LOANS		DEPOSITS			Interbank market	LOANS		DEPOSITS		
			Prime	Average	Savings	Time 1/	Average		Prime	Average	Savings	Time 1/	Average
1998	March	12,6	19,3	31,7	9,9	13,8	10,0	7,3	11,6	15,7	4,3	6,5	5,1
	June	19,9	18,3	31,1	9,8	13,9	10,2	8,8	11,8	15,9	4,3	6,5	5,0
	September	39,0	28,6	33,3	10,4	16,2	11,6	10,4	13,2	15,9	4,3	6,3	5,0
	December	12,9	24,3	37,1	10,6	18,4	12,6	11,2	14,4	16,8	4,5	7,1	5,4
	Average	**18,7**	**21,5**	**32,6**	**10,1**	**15,1**	**10,9**	**9,3**	**12,5**	**16,0**	**4,4**	**6,6**	**5,1**
1999	March	22,3	27,4	36,1	11,0	18,8	13,4	7,5	13,6	17,1	4,4	6,9	5,3
	June	11,6	22,0	36,5	10,0	17,9	12,7	7,4	13,2	16,7	4,2	6,4	5,1
	September	14,7	18,9	34,2	8,1	13,1	10,0	6,9	12,3	16,8	4,0	6,0	4,9
	December	16,9	21,2	32,0	8,1	14,1	10,6	6,6	11,8	14,8	3,8	5,8	4,9
	Average	**14,9**	**22,5**	**35,0**	**9,5**	**16,2**	**11,8**	**7,5**	**12,9**	**16,5**	**4,1**	**6,4**	**5,1**
2000	March	10,9	20,7	32,2	8,0	13,8	10,2	7,0	12,2	14,3	3,6	5,6	4,8
	June	13,6	19,7	31,2	7,8	13,6	9,9	7,3	11,0	14,0	3,4	5,7	4,6
	September	13,3	17,9	27,9	7,5	12,3	9,3	7,3	10,7	12,9	3,4	5,7	4,7
	December	11,4	18,2	26,5	7,5	12,5	9,4	8,4	10,7	12,6	3,3	5,6	4,6
	Average	**12,7**	**19,5**	**30,0**	**7,7**	**13,3**	**9,8**	**7,5**	**11,3**	**13,7**	**3,5**	**5,7**	**4,7**

1/ For 31 to 179 days deposits.

Financial saving and capital markets

During the year 2000, financial saving —which includes total financial system liabilities with the private sector, excluding currency and demand deposits— amounted to 25,5 percent of GDP, up from the previous year's 24,8 percent. Financial saving in soles increased from 7,1 to 7,9 percent of GDP.

TABLE 39
FINANCIAL SAVINGS RATIOS 1/
(As percentage of GDP)

	Domestic Currency	Total
1991	2,0	7,2
1992	2,6	9,9
1993	2,0	11,9
1994	2,5	12,6
1995	3,3	13,9
1996	4,4	17,6
1997	5,3	20,0
1998	6,3	22,2
1999	7,1	24,8
2000 1/	7,9	25,5

1/ Year 2000 information is preliminary.

As in recent years, private pension funds —which increased 10,9 percent from last year— provided most of the savings. Savings in financial companies rose even more, owing largely to the entrance of a new firm into the business. Other intermediaries also increased their savings: rural savings and loan associations (44,1 percent), local government savings and loan associations (41,8 percent) and insurance companies (18,7 percent).

However, savings in financial leasing associations decreased 42,9 percent, following the absorption of a financial leasing firm by a banking institution. Additionally, mutual funds' liabilities decreased 13,6 percent.

TABLE 40
FINANCIAL SAVINGS BY INSTITUTION 1/

	End-of-year balances in millions of nuevos soles of December 2000			Percent change	
	1998	1999	2000	1999	2000
I DOMESTIC CURRENCY	**11 666**	**14 479**	**15 649**	**24,1**	**8,1**
1. Banking system	4 967	4 997	5 121	0,6	2,5
2. Non-banking system	6 699	9 482	10 528	41,5	11,0
Local government savings and loan associations	102	147	202	44,5	37,6
Rural savings and loan associations	34	39	53	15,3	36,0
Savings and loans cooperatives	266	277	272	4,3	-1,8
Financial leasing associations	164	112	79	-32,1	-29,1
Financial companies	115	7	100	-94,2	1 413,6
Pension funds	5 806	8 655	9 599	49,1	10,9
Mutual funds	152	92	99	-39,3	7,3
Insurance companies 2/	60	153	119	153,8	-22,2
Rest	-.-	-.-	5	-.-	-.-
II FOREIGN CURRENCY 3/	**30 631**	**33 236**	**33 241**	**8,5**	**0,0**
1. Banking system	28 584	30 721	30 813	7,5	0,3
2. Non-banking system	2 047	2 515	2 428	22,9	-3,4
Local government savings and loan associations	122	202	293	66,0	44,8
Rural savings and loan associations	36	47	71	30,4	51,0
Savings and loan cooperatives	383	406	397	5,8	-2,3
Financial leasing associations	182	79	30	-56,3	-62,3
Financial companies	184	32	17	-82,7	-47,6
Mutual funds	1 080	1 541	1 312	42,7	-14,9
Insurance companies 2/	60	208	310	245,1	48,8
III TOTAL	**42 297**	**47 715**	**48 890**	**12,8**	**2,5**

1/ Year 2000 information is preliminary.
2/ Starting from 1999, technical reserves for previsional purposes are included.
3/ Valued at the average of the end-of-period ask and bid exchange rates.

Primary Market

The outstanding amount placed through public offers grew 21,3 percent in real terms, to 4,0 percent of GDP. Most of the new bonds were dollar-denominated, because of the political uncertainty prevailing in that period. However, after three years of low domestic inflation, soles-denominated bonds were issued for the first time since 1997 (S/. 80 million by COFIDE and S/. 70 million by Telefónica del Perú).

TABLE 41
NOMINAL SOLES-DENOMINATED BONDS PLACED IN 2000
(2-year maturity)

Company	Date	Par Value	Effective rate
COFIDE	07/10/00	S/. 30 million	14,14%
COFIDE	08/10/00	S/. 30 million	13,81%
COFIDE	09/13/00	S/. 20 million	12,84%
Telefónica del Perú	12/12/00	S/. 70 million	14,29%

The stock of five-year bonds —the most dynamic ones according to maturity— increased 147,6 percent. Among types of bonds, those backed by securities —including a US$ 100 million bond transaction backed by Peruvian Brady bonds— grew 298 percent. Public sector bonds —issued by Cofide— increased 96,6 percent, and corporate bonds —of which the most important are those issued by Telefónica del Perú, Edegel and UCP Backus & Johnson— rose 22,7 percent.

TABLE 42
BOND MARKET 1/
(Year-end balances in millions of nuevos soles of December 2000)

				Percent change	
	1998	1999	2000	1999	2000
By Type	**6 116**	**7 028**	**8 393**	**14,9**	**19,4**
Public sector 2/	-,-	167	329	-,-	96,6
Financial leasing	2 357	2 754	2 907	16,9	5,5
Subordinated	1 058	1 006	962	-4,9	-4,4
Securitization	52	142	564	173,4	-298,0
Corporate	2 650	2 959	3 631	11,7	22,7
By Term	**6 116**	**7 028**	**8 393**	**14,9**	**19,4**
Up to 3 years	1 501	1 826	1 832	21,6	0,3
More than 3, up to 5 years	4 043	4 110	3 854	1,6	-6,2
More than 5 years	571	1 093	2 707	91,3	147,6
Percent share by currency	**100,0**	**100,0**	**100,0**		
In foreign currency	69,8	72,7	74,6		
In domestic currency	30,2	27,3	25,4		
- Nominal	1,1	0,9	1,9		
- Indexed	29,1	26,4	23,5		
Note:					
Bonds outstanding as percentage of GDP	3,0	3,6	4,0		

1/ Includes only public auctions registered with the Comisión Nacional de Supervisión de Empresas y Valores (CONASEV).
2/ Bonds placed by COFIDE

Bond interest rates showed a mixed behavior throughout the period. Interest rates for dollar-denominated bonds decreased mainly due to the reduction of international rates. In contrast, the rates for soles-denominated bonds (indexed to inflation) were higher owing to higher devaluation expectations caused by political uncertainty.

TABLE 43
BOND INTEREST RATES 1/
(Effective annual rates)

	1998	1999	2000
Bonds in domestic currency (nominal)	**-.-**	**-.-**	**14,3**
Public sector 2/	-.-	-.-	14,9
Corporate	-.-	-.-	13,8
Bonds in domestic currency (indexed)	**6,7**	**6,9**	**8,0**
Public sector 2/	-.-	6,9	7,7
Financial leasing	6,0	6,9	7,7
Subordinated	6,6	-.-	-.-
Securitization	-.-	6,9	-.-
Corporate	8,0	7,0	8,2
Dollar-denominated bonds	**8,2**	**9,3**	**8,9**
Financial leasing	8,0	9,0	8,1
Subordinated	8,5	10,2	9,2
Securitization	-.-	10,0	9,9
Corporate	8,2	9,6	8,8

1/ Average coupon rates.
2/ Bonds issued by COFIDE.

Stock market

During 2000, the general and selective indices of the Lima Stock Exchange (LSE) had negatives yields of 34,2 and 27,3 percent, respectively. This result was originated by the fall of share prices in international stock exchanges —reflecting a slowdown in the pace of growth in the American economy— and the uncertainty caused by domestic political events.

TABLE 44
STOCK MARKET

				Percent change	
	1998	1999	2000	1999	2000
INDICES (end of period)					
(December 1991=100)					
General Stock Index	1 335,9	1 835,6	1 208,4	37,4	-34,2
Blue Chip Index	2 030,9	2 815,1	2 046,6	38,6	-27,3
TRADING VOLUME	**24 197**	**16 474**	**12 540**	**-31,9**	**-23,9**
(Millions of nuevos soles, December 2000=100)					
Trading floor	12 735	11 185	9 725	-12,2	-13,1
Over-the-counter operations	11 463	5 289	2 815	-53,9	-46,8
STOCK-MARKET CAPITALIZATION					
(Millions of nuevos soles, December 2000=100)	37 541	48 899	37 251	30,3	-23,8
(Millions of US dollars)	11 035	13 407	10 511	21,5	-21,6
(As percentage of GDP)	25,2	23,5	23,0		

Source: Lima Stock Exchange

By economic sector, agricultural shares showed the most significant decline (48,6 percent), and services sector shares the lowest (19,5 percent).

Given lower-profitability expectations, the LSE's trading volume was lower than in the previous year (-13,1 percent for variable income instruments and –46,8 percent for fixed income instruments). In the latter case, trading in certificates of deposit dropped once CONASEV, in the interest of transparency, ordered the listing of certificates of deposit in the Public Registry of Securities as a condition for trading at the LSE.

The fall of LSE indices reduced market capitalization by 23,8 percent in real terms. Throughout the year, the average capitalization was 23,0 percent of GDP. Holdings of non-resident investors decreased slightly as a percentage of market capitalization, from its 1999 level (23,4 percent) to 21,3 percent.

An important event during the year was an operation in July by Telefónica S.A. involving the swap of shares and ADRs of its Peru, Chile and Argentina affiliates for shares from the home company. At the LSE, the operation amounted to S/. 2 392 million.

Private Pension System

On 31 December 2000, the value of the private pension fund system reached S/. 9 599 million, a 15-percent increase in nominal terms from the previous year. Affiliates totaled 2 472 thousand, 11,2 percent higher than in 1999.

The fund's year-on-year yield was minus 6,7 percent, mainly as a result of declining Stock Exchange indices, which affected about 40 percent of the fund's portfolio. In contrast, in 1999 the fund's yield rate reached a historical high (18,7 percent). Since 1993, when the fund was created, the average annual real yield has been 5,3 percent.

In June 2000, a new regulation authorized investment of up to 7,5 percent of the fund abroad. By the end of the year, the fund had been invested exclusively in Telefónica S.A. ADSs, which represented about 6,7 percent of its portfolio.

TABLE 45
PRIVATE PENSION SYSTEM

				Percent change	
	1998	1999	2000	1999	2000
Number of affiliates					
(In thousands)	1 980	2 223	2 472	12,2	11,2
Fund value					
(In millions of nuevos soles)	5 396	8 344	9 599	54,6	15,0
(In millions of US dollars)	1 713	2 377	2 719	38,8	14,4
(As percentage of GDP)	3,2	4,8	5,1		
Yield					
(Nominal)	1,0	23,1	-3,3		
(Real)	-4,8	18,7	-6,7		

Source: Superintendency of Banks and Insurance (SBS)

The fund's investment in soles-denominated deposits rather than in dollar deposits raised the former from 63 to 77 percent of total deposits. However, fixed income investment in soles decreased slightly, from 43,9 to 42,4 percent, given that most bond issues during the year were denominated in dollars. Fixed income investments amounted to 71 percent of total investments, up from 63 percent the previous year. The fund invested more in public sector liabilities —mainly BCRP certificates—, raising its share from 1,0 to 2,7 percent of the fund's value.

In terms of economic sectors, the fund diminished its investments in the financial system from 36 to 28 percent. On the other hand, investment in the public services sector increased from 14 to 21 percent. Investment in the industrial and mining sectors amounted to 13 percent.

In January, AFP Nueva Vida absorbed AFP Unión to create AFP Unión Vida. Of the original seven AFPs, four remain. In July, in order to reduce operating costs, the SBS started to supervise the private pension fund system, which implied the elimination of the AFPs Superintendency. Finally, in order to ease investment decisions, the penalty for AFPs obtaining negative yields in real terms was eliminated.

Mutual Funds

As of December 2000, the 23 mutual funds in the Peruvian system amounted to S/ 1 411 million, a 10,4 percent fall from the previous year. Nonetheless, the number of investors grew 29,9 percent, from 13 043 to 16 949 affiliates. Most investors chose fixed income mutual funds (99,1 percent).

In 2000, fixed income mutual funds exhibited a positive yield, 3,9 percent in real terms. On the contrary, funds with investments in the stock market had a negative real return of 25,6 percent.

TABLE 46
MUTUAL FUNDS

				Percent change	
	1998	**1999**	**2000**	**1999**	**2000**
Number of investors	**15 615**	**13 043**	**16 949**	**-16,5**	**29,9**
Value of funds 1/					
(In millions of nuevos soles)	1 144	1 574	1 411	37,6	-10,4
(In millions of US dollars)	363	448	400	23,5	-10,9
(As percentage of GDP)	0,7	0,9	0,8		
Sharing					
Variable-income funds	1,7	1,3	0,9		
Fixed-income funds	98,3	98,7	99,1		
Yield					
Variable-income funds (nominal)	- 27,7	20,9	- 22,8		
Variable-income funds (real)	- 31,8	16,5	- 25,6		
Fixed-income funds (nominal)	14,7	20,8	7,7		
Fixed-income funds (real)	8,2	16,5	3,9		

1/ Households and non-financial private corporations.

During the year, two new funds appeared: Super Renta US$, administered by Continental SAF, and Promoinvest RF Dólares, administered by Promoinvest SAF. Altogether, 8 Administration Societies (SAFs) managed the 23 existing mutual funds.