V.

Liquidity and Credit

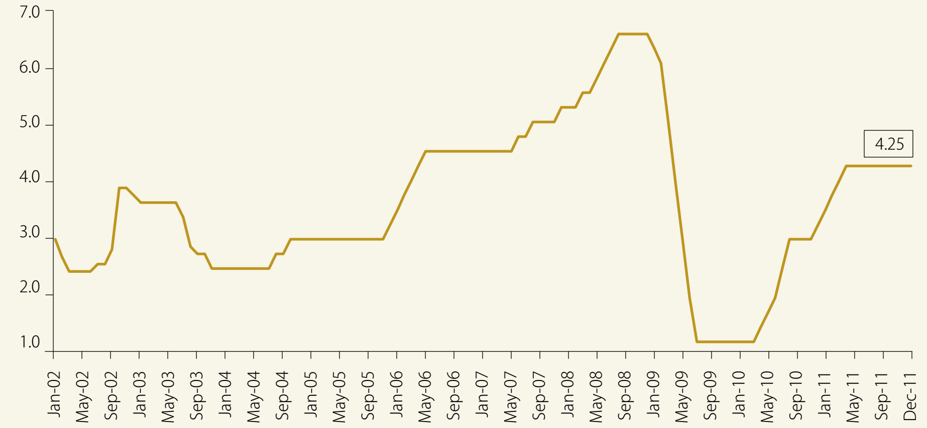
1. Monetary Policy

In the first five months of 2011, the BCRP monetary policy was mainly focused on the withdrawal of monetary stimulus. Thus, the reference interest rate was raised from 3.0 percent in December 2010 to 4.25 percent in May 2011.

This rise in the policy rate took place in a context of rising international prices of food and fuels and a strong growth of domestic demand. The reversal of monetary stimulus sought to prevent that these factors would reflect in economic agents' expectations of inflation and pass through to price formation in this way.

In the following seven months, the BCRP maintained its policy rate at 4.25 percent in a context of moderation of growth in domestic activity, deepening of the crisis in Europe, and lower prospects for global economic growth. In this scenario of high uncertainty, monetary policy actions were mostly of a preventive nature and aimed at maintaining inflation expectations anchored within the inflation target range.

GRAPH 78
BCRP REFERENCE INTEREST RATE
(%)



Source: BCRP.

In this period, GDP growth slowed down from 7.8 percent in the first semester to 6.1 percent in the second semester, while inflation continued to rise due to supply factors. The inflation rate of 4.74 percent recorded at end 2011 was influenced by the higher prices of imported food and fuels, as well as by the impact of climate anomalies that affected the domestic supply of some agricultural foodstuffs and caused inflation to transitorily fall above the target range. Inflation without food and energy, which is an indicator of the trend of inflation isolating these shocks, recorded a rate of 2.4 percent.

The rise in the reference interest rate in the first part of the year was coupled by adjustments in the rates of reserve requirements, including the following:

a. January 2011

The liabilities of local banks' branches abroad were included as part of total liabilities subject to reserve requirements.

The rate of reserve requirements for short term debts was lowered from 75 to 60 percent.

The average rate of reserve requirements in domestic currency and in foreign currency was raised by 0.25 percentage points, effective as from February 2011.

b. March 2011

The average rate of reserve requirements in domestic currency and in foreign currency was raised by 0.25 percentage points.

c. April 2011

The average rate of reserve requirements in domestic currency and in foreign currency was raised by 0.50 percentage points.

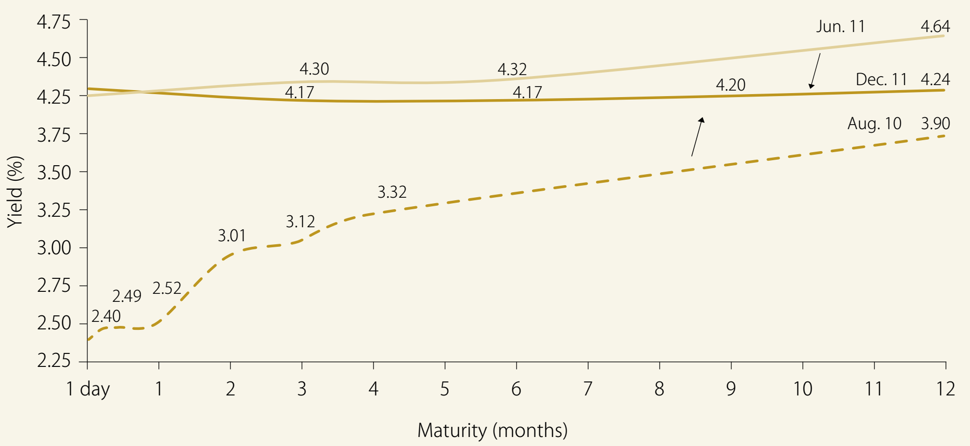
TABLE 66
RESERVE REQUIREMENTS

	Legal minimum reserve requirement	Domestic Currency			Foreign currency		
					General regime		
		Marginal reserve requirement on deposits	Increase in the average reserve requirement	Reserve requirement for nonresidents	Marginal reserve requirement on deposits	Increase in the average reserve requirement	Short-term foreign liabilities
Dec-10	9%	25%		120%	55%		75%
Jan-11	9%	25%		120%	55%		60%
Feb-11	9%	25%	0.25%	120%	55%	0.25%	60%
Mar-11	9%	25%	0.25%	120%	55%	0.25%	60%
Apr-11	9%	25%	0.50%	120%	55%	0.50%	60%

Source: BCRP.

The rise in the policy interest rate in the first semester was passed through to the other interest rates, particularly to the interest rates with lower maturities and lower credit risks, contributing in this way to generate the monetary and credit conditions required to maintain a growth of domestic demand compatible with a rate of inflation within the target range. Then, the pause made in raising the reference rate reflected in a downward correction of the short-term rates due to lower expectations that the policy rate would be raised. These expectations reflected in a reduction of prime interest rates in the financial system in the second semester of 2011.

GRAPH 79
YIELD CURVE OF BCRP SECURITIES [1/]

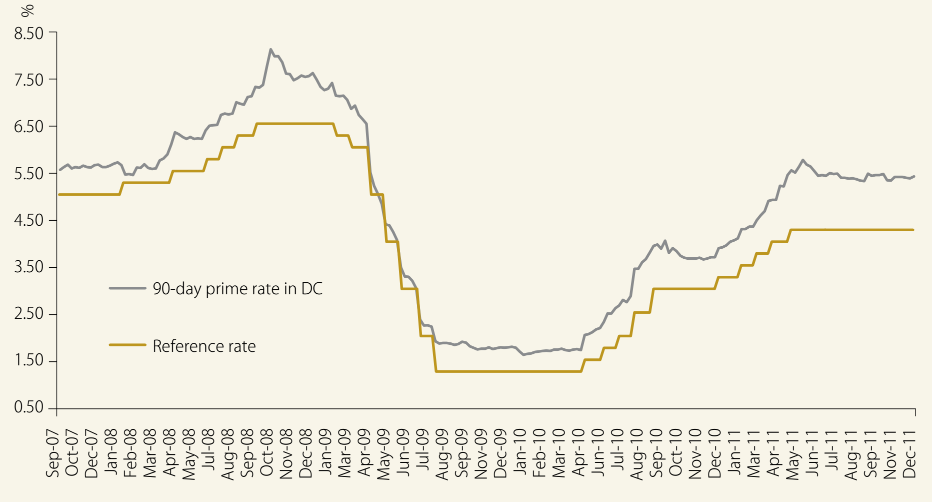


1/ Yield rates of CDBCRP at the period end. One day rate corresponds to the reference rate.
Source: BCRP.

2. Interest Rates

In the first semester, the corporate interest rate in nuevos soles rose from 3.6 percent in December 2010 to 5.6 percent in June 2011, in response to the rise registered in the policy reference rate, and then declined to 5.4 percent in December 2011, in response to the pause made by the BCRP in the withdrawal of monetary stimulus.

GRAPH 80
REFERENCE INTEREST RATE AND CORPORATE PRIME RATE IN DOMESTIC CURRENCY



Source: BCRP.

The average interest rate for loans in domestic currency (FTAMN) fell from 22.8 percent in December 2010 to 21.3 percent in December 2011. In the first semester, the deposit rates on both 30-day deposits and 180-day or longer deposits rose, reversing partially thereafter in the rest of the year. Thus, between June 2010 and December 2011, the interest rate on 30-day deposits declined from 4.3 to 3.9 percent.

TABLE 67
INTEREST RATES ON OPERATIONS IN NUEVOS SOLES
(%)

	2008	2009	2010	Jun.2011	Dec.2011
1. Interbank rate	6.5	1.2	3.0	4.3	4.2
2. Deposits up to 30 days	6.5	1.2	2.2	4.3	3.9
3. 181-day to 360-day term deposits	6.3	3.6	3.8	4.3	4.7
4. Corporate prime rate	7.5	1.7	3.6	5.6	5.4
5. FTAMN 1/	22.5	19.3	22.8	22.7	21.3

1/ Average market lending rate of the operations carried out in the last 30 business days.
Source: BCRP and SBS.

The interest rates on operations in foreign currency remained stable and at low levels reflecting low interest rates in international markets. This was partially offset by the BCRP measures adopted in terms of reserve requirements. At end 2011, the corporate lending rate in dollars rose by 30 basis points compared to December 2010 (from 2.1 to 2.4 percent), while the deposit rate on 30-day deposits fell from 0.9 to 0.7 percent.

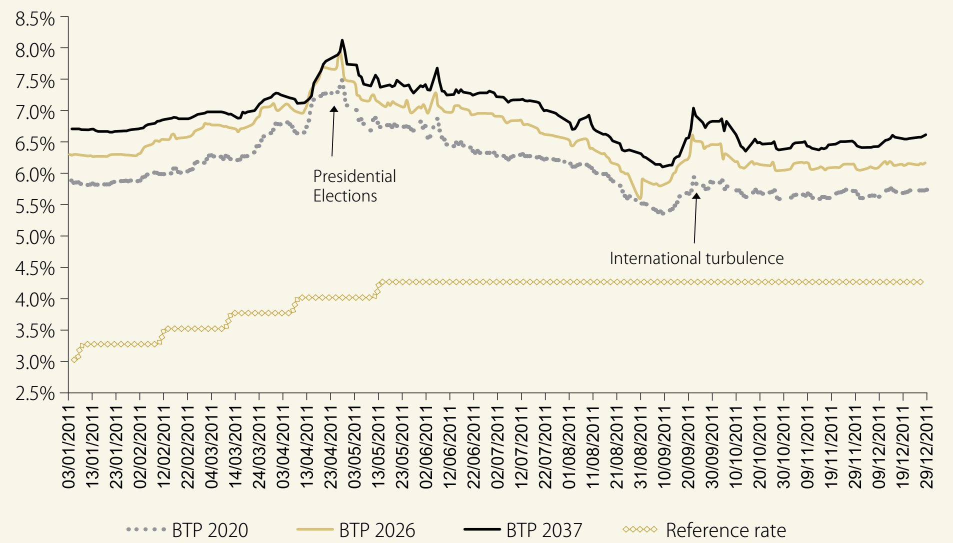
TABLE 68
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

	2008	2009	2010	Jun.2011	Dec.2011
1. 3-month libor rate	1.8	0.3	0.3	0.2	0.6
2. Interbank rate	1.0	0.2	1.1	0.3	0.3
3. Deposits (up to 30 days)	0.9	0.4	0.9	0.5	0.7
4. 181-day to 360-day term deposits	4.5	2.4	1.7	1.7	1.6
5. Corporate prime rate	5.2	1.2	2.1	2.3	2.4
6. FTAMEX 1/	10.5	8.0	7.9	7.3	6.8

1/ Average market lending rate of the operation carried out in the last 30 business days.
Source: BCRP and SBS.

The yield curve of sovereign bonds registered periods of volatility associated with the presidential elections in April and June and with fears that the debt crisis would deepen due to the problems that emerged in September. However, the rates on sovereign bonds were relatively stable since October in a context of higher traded amounts and an increased participation of non-resident investors. The lower interest rates of US Treasury bonds have been translating into lower rates on the long-term corporate bonds issued in the domestic markets, a decline being also observed in the premium paid for these securities, facilitating in this way firms' access to financing their investment projects at a lower cost.

GRAPH 81
SOVEREIGN BOND YIELDS (BTP)
(Annual rate)



Source: MEF.

3. Exchange Rate

In 2011 the nuevo sol appreciated 3.9 percent against the dollar in nominal terms –from S/. 2.807 to S/. 2.697 per dollar– and 5.2 percent in real terms. The sol/dollar exchange rate showed a differentiated conduct over the year, with periods of depreciation concentrating in June and September –associated with the domestic elections process, as well as with difficulties in reaching a solution for Greece's debt problem–, and with periods of appreciation being observed mainly at the end of the year as a result of the approval of the financial rescue programs for the Eurozone as well as of better indicators of economic activity in the United States. During this period, non-resident investors and domestic agents increased their demand for dollars, while non-financial private agents increased their supply of this currency.

The uncertainty generated by the elections generated upward pressures on the exchange rate, as a result of which the sol depreciated up to 2.3 percent between March 14 and April 27 (from S/. 2.767 to S/. 2.831). A similar evolution was observed in September, when risk aversion increased due to Greece's imminent default and to the likelihood that it would no longer be part of the Eurozone. This situation was reflected in a generalized depreciation of the currencies of emerging economies, including the nuevo sol, which depreciated 1.9 percent between September 8 and October 4 (from S/. 2.725 to S/. 2.778). After uncertainty subsided, lower volatility and risk aversion was seen in international financial markets, with depreciatory pressures declining thereafter.

The supply of dollars in the foreign exchange market came mostly from local private agents which supplied US$ 9.23 billion, US$ 1.19 billion more than in 2010. In addition to this, non resident investors offered US$ 317 million (versus a supply of US$ 1.60 billion in 2010).

TABLE 69
FLOWS IN THE FOREIGN EXCHANGE MARKET [1/]
(Millions of US dollars)

	2008	2009	2010	2011
Pension funds	**-398**	**1,225**	**-600**	**2,855**
Spot	355	1,788	868	2,108
Forward	-753	-563	-1,469	747
Non residents	**3,006**	**-479**	**-1,367**	**1,415**
Spot	110	1,043	-1,601	-317
Forward	2,895	-1,522	235	1,732
Banco de la Nación and financial companies	**-29**	**1,090**	**1,092**	**637**
Private	**-4,208**	**-3,108**	**-7,842**	**-8,667**
Banks international position	**296**	**-257**	**-406**	**385**
BCRP intervention	**1,333**	**1,529**	**9,123**	**3,374**

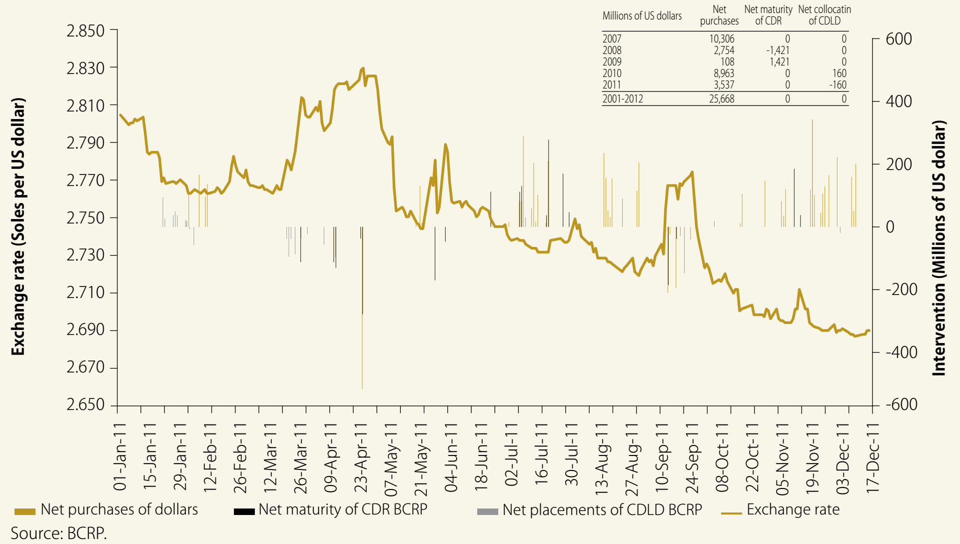
1/ Positive sign indicates demand and negative supply.
Source: BCRP.

On the other hand, the demand for dollars came mainly from the forward market, where the demand of non-resident investors reached US$ 1.73 billion (versus US$ 1.49 billion in 2010). This higher demand reflected these agents' needs to hedge their positions in local assets, mainly government bonds.

Pension funds also increased their demand for foreign currency by US$ 2.88 billion, mainly in the spot market. On their side, banks increased their foreign exchange position, generating an additional demand of US$ 385 million. Moreover, the Banco de la Nación and financial firms demanded US$ 637 million.

In this context, the BCRP intervened in the foreign exchange market with the aim of reducing the excessive volatility in the exchange rate and purchased US$ 3.54 billion. This purchase was in part offset with the not renewed maturity of certificates of deposit payable in dollars (CDLD BCRP) for a total of US$ 162 million.

GRAPH 82
EXCHANGE RATE AND INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET



Source: BCRP.

As a result of these operations, the BCRP accumulated international reserves for a total of US$ 4.71 billion in 2011, increasing the balance of its reserves from US$ 44.10 billion in December 2010 to US$ 48.81 billion at end 2011.

4. Monetary and Credit Aggregates

In 2011 the growth rates of monetary and credit aggregates slowed down compared to the previous year. This slower pace of growth would be associated with the decline of economic activity.

Total liquidity grew 16.4 percent. Liquidity in domestic currency grew 16.0 percent, while liquidity in foreign currency grew 17.2 percent. The dollarization ratio of liquidity fell from 37.6 percent in December 2010 to 36.9 percent in December 2011.

Total credit to the private sector grew 19.6 percent. Credit to the private sector in domestic currency grew 20.7 percent, while credit to the private sector in dollars grew 18.3 percent. The dollarization ratio of credit declined from 46.1 percent in December 2010 to 44.6 percent in December 2011.

4.1 Currency in Circulation

The average daily balance of currency was S/. 23.93 billion in 2011, which represents an increase of 19.9 percent relative to 2010 (an increase slightly lower than the 20.7 percent increase recorded in 2010). In GDP terms, currency maintained a similar level than in 2010, with a rate of 5.6 percent of GDP. This evolution was consistent with the growth of economic activity and with lower dollarization levels, observed especially in Q4-2010.

GRAPH 83
CURRENCY
(Annual percentage change, average in the period)

Source: BCRP.

GRAPH 84
CURRENCY
(% of GDP)

Source: BCRP.

The balance of currency at December was S/. 27.25 billion, which represents an increase of S/. 3.12 billion (12.9 percent) compared to December 2010. The BCRP operations, aimed to meet the public's increased demand for liquidity and to ensure the smooth flow of transactions in the money market, were consistent with the sterilizing effect produced by the public sector's higher deposits in nuevos soles at the BCRP and the Central Bank's lower foreign exchange operations.

The public sector deposits in nuevos soles increased by S/. 5.21 billion, while the net balance of BCRP foreign exchange operations was S/. 669 million (amount equivalent to US$ 329 million in direct net purchases of foreign currency). Moreover, higher deposits of reserve requirements in soles (S/. 2.64 billion) were observed in the year after the average rate of reserve requirements in domestic currency was raised between February and April. In this context, the volume of open market operations allowed the Central Bank to release resources for a total of S/. 7.24 billion through the auctions of certificates of deposit and term deposits.

The flow of foreign exchange operations generated US$ 329 million as a result of net purchases of foreign currency (US$ 3.54 billion). This balance was in part offset by sales of foreign currency to the public sector (US$ 3.04 billion).

In the first semester, direct purchases of foreign currency were mainly made in the months of February (US$ 497 million) and June (US$ 148 million). After the result of the first voting round and with the aim of offsetting the depreciation pressures on the exchange rate, the BCRP sold dollars for a total of US$ 583 million in April.

Between July and December, the flow of purchases of foreign currency totaled US$ 4.09 billion. However, foreign currency (US$ 613 million) was sold for a short period of time, between September and early October, to reduce the depreciation pressures on the nuevo sol due to the uncertainty generated by the Eurozone debt crisis.

In these periods of depreciation pressures on the foreign exchange rates, the Central Bank sales of foreign currency were coupled by auctions of 60-day and 90-day certificates of deposit indexed to the exchange rate (CDR-BCRP). Thus, the placements of CDR-BCRP between the end of March and April amounted to S/. 1.8 billion (US$ 637 million) and the placements in June amounted to S/. 575 million (US$ 206 million), as a result of which the balance of issued CDR-BCRP, at their indexed value, was S/. 2 026 million at June 30.

Later on, CDR-BCRP for a total of S/. 590 million (US$ 212 million) were placed in September. These CDR-BCRP were not renewed and expired at the end of November after the depreciation pressures reversed.

The increased volume of sterilization operations carried out in the first semester was based mainly on the supply of short-term instruments, due to market expectations that the Central Bank would correct the reference rate as well as due to uncertainty in international markets.

Net placements of variable rate certificates of deposit (CDV-BCRP) between January and June 2011 amounted to S/. 5.61 billion, while the balance of certificates of deposit (CD-BCRP) in the same period grew at a lower rate (S/. 2.47 billion). Term deposits (DP-BCRP), auctioned mainly with overnight maturities, declined by S/. 17.48 billion between December 2010 and June 2011.

Since June, as market expectations regarding the evolution of the yields on financial assets stabilized, the supply of sterilization instruments combined both instruments with short-term and medium-term maturities.

In the second semester, the balance of CD BCRP increased by S/. 11.08 billion, from S/. 2.50 billion at the end of June to S/. 13.58 billion at end 2011, which in part offset the lower sterilization made through CDV-BCRP not renewed at the end of the year, releasing in this ways resources for a total of S/. 8.95 billion over the second semester. Likewise, the balances of instruments payable in dollars (CDLD-BCRP) were not renewed.

TABLE 70
OPERATIONS OF THE BCRP
(Millions of nuevos soles)

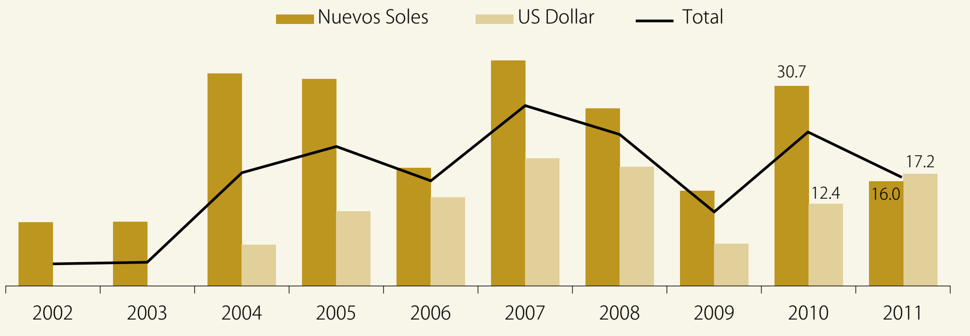
	2009	2010	2011
I. FOREIGN EXCHANGE OPERATIONS	**-562**	**25,362**	**669**
(Millions of US$)	**-48**	**9,010**	**329**
1. Over the counter trading	108	8,963	3,537
2. Public sector	-261	-50	-3,039
3. Others	105	96	-169
II. NET DOMESTIC ASSETS	**2,468**	**-20,472**	**2,447**
1. Public sector deposits	2,561	-5,720	-5,214
2. Repos	-5,412	0	0
3. CD BCRP (Certificates of deposit)	-6,399	14,091	-13,550
4. CDR BCRP (Certificates of deposit indexed to the exchange rate)	4,425	0	0
5. CD BCRP-NR (with restricted negotiation)	6,483	0	0
6. CDLD BCRP (Certificates of deposit payable in dollars)	0	-450	450
7. CDV BCRP (Certificates of deposit indexed to the reference rate)	0	-3,196	3,196
8. Term deposits (DP BCRP)	0	-20,788	17,151
9. Overnight deposits	-819	163	559
10. Reserve requirements in domestic currency	668	-5,770	-2,643
11. Other assets	961	1,198	2,499
III. CURRENCY	**1,906**	**4,890**	**3,116**
Memo: Balance at end of period			
- Currency	19,241	24,131	27,247
- CD BCRP	14,121	30	13,580
- CDR BCRP	0	0	0
- CD BCRP-NR	0	0	0
- CDLD BCRP	0	450	0
- CDV BCRP [1/]	0	3,207	0
- Term deposits (DP BCRP)	0	20,788	3,637
- Public sector deposits	21,006	26,726	31,940

[1/] Includes adjustment of balance due to changes in the BCRP reference rate.
Source: BCRP.

4.2 Liquidity

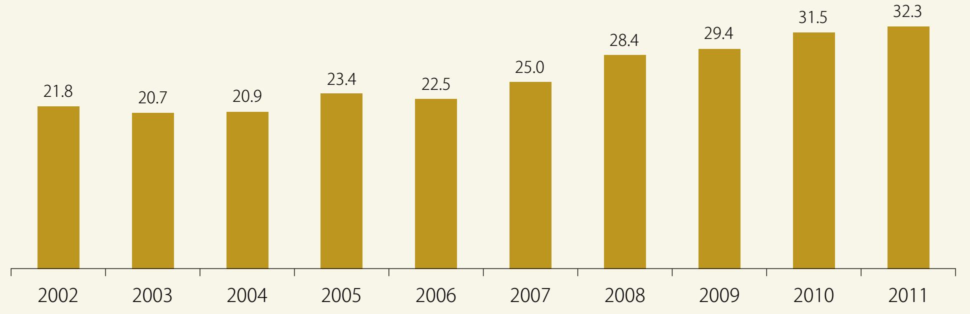
Liquidity in the private sector continued to grow in 2011 although showing a lower pace of growth due to the slowdown of economic activity compared to the previous year. Liquidity recorded a growth rate of 16.4 percent, lower by 6.9 percentage points than the one registered in 2010 (23.3 percent). In the case of deposits, a concept that excludes currency in circulation, the growth rate was 6.1 percentage points lower since this rate declined from 23.0 percent in 2010 to 16.9 percent in 2011.

GRAPH 85
LIQUIDITY IN THE PRIVATE SECTOR
(Annual % change, end of period)



Source: BCRP.

GRAPH 86
LIQUIDITY
(% of GDP, end of period)



Source: BCRP.

TABLE 71
MAIN MONETARY AGGREGATES

	Balance in millions of nuevos soles			% Change	
	2009	**2010**	**2011**	**2010**	**2011**
Currency	19,241	24,131	27,247	25.4	12.9
Money	33,147	42,651	48,817	28.7	14.5
Term deposits 1/	89,321	109,835	128,342	23.0	16.9
In nuevos soles	45,380	60,511	70,469	33.3	16.5
In dollars (Millions of US$)	16,274	18,268	21,435	12.3	17.3
Liquidity 1/	109,325	134,818	156,962	23.3	16.4
In nuevos soles	65,324	85,366	99,019	30.7	16.0
In dollars (Millions of US$)	16,297	18,316	21,461	12.4	17.2

1/ The balance in dollars is valued at the constant exchange rate in December 2011.
Source: BCRP.

By type of deposit holder, the deposits of individuals showed a higher growth rate (17.3 percent) than the deposits of legal entities (16.1 percent). Moreover, by currencies, individuals showed greater preference for assets in soles, while companies, especially mining companies and other companies engaged in industrial activities, preferred deposits in dollars.

TABLE 72
DEPOSITS BY TYPE OF DEPOSITOR

	Balance in millions of nuevos soles [1/]			Growth rates (%)	
	2009	**2010**	**2011**	**2010**	**2011**
Individuals	59,033	66,650	78,204	12.9	17.3
In nuevos soles	30,387	38,569	48,071	26.9	24.6
In US dollars (Millions of US$)	10,610	10,400	11,160	-2.0	7.3
Legal entities	30,288	43,185	50,139	42.6	16.1
In nuevos soles	14,993	21,943	22,398	46.4	2.1
In US dollars (Millions of US$)	5,665	7,867	10,274	38.9	30.6
Total	89,321	109,835	128,342	23.0	16.9
In nuevos soles	45,380	60,511	70,469	33.3	16.5
In US dollars (Millions of US$)	16,274	18,268	21,435	12.3	17.3

[1/] The balance in dollars is valued at the constant exchange rate in December 2011.
Source: SBS and balances of financial institutions.

The slowdown observed in liquidity, which is consistent with the evolution of credit to the private sector, affected mostly the segment of liquidity in domestic currency, whose annual growth rate dropped from 30.7 percent in 2010 to 16.0 percent in 2011. This slowdown in explained both by the lower demand for liquid money –currency held by the public and demand deposits– and for term deposits. The growth rate of the latter fell from 32.9 percent in 2010 to 13.3 percent in 2011.

TABLE 73
LIQUIDITY IN DOMESTIC CURRENCY IN THE PRIVATE SECTOR

	Balance in millions of nuevos soles			Growth rates (%)	
	2009	**2010**	**2011**	**2010**	**2011**
Currency	19,241	24,131	27,247	25.4	12.9
Deposits	45,380	60,511	70,469	33.3	16.5
Demand deposits	13,905	18,519	21,569	33.2	16.5
Savings deposits	13,808	18,084	22,277	31.0	23.2
Term Deposits	17,668	23,485	26,622	32.9	13.3
Securities and other instruments	703	723	1,303	2.9	80.2
TOTAL	**65,324**	**85,366**	**99,019**	**30.7**	**16.0**

Source: BCRP.

Liquidity in foreign currency, on the other hand, grew from 12.4 percent in 2010 to 17.2 percent in 2011. A great deal of this growth of liquidity in dollars took place in the first semester of 2011, particularly between April and May, as a result of uncertainty associated with the elections. The increased dynamism reflected in the growth rates stems from the value assets –saving and term deposits in dollars– which increased substantially compared to the previous year (the annual growth rate of term deposits rose from 5.2 percent in 2010 to 13.1 percent in 2011).

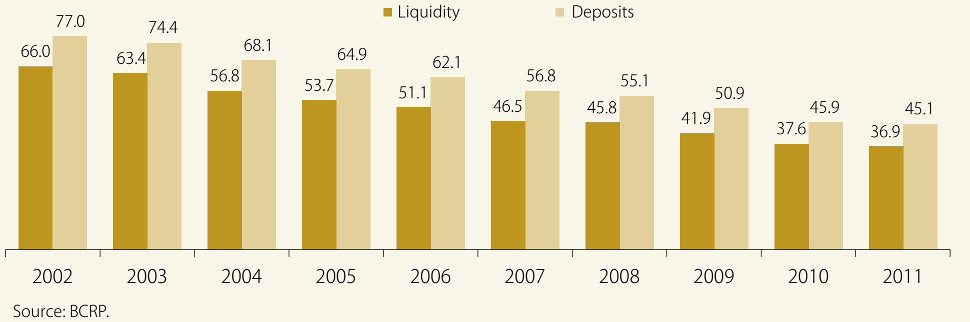
TABLE 74
LIQUIDITY IN FOREIGN CURRENCY IN THE PRIVATE SECTOR

	Balance in millions of US dollars			Growth rates (%)	
	2009	**2010**	**2011**	**2010**	**2011**
Deposits	16,274	18,268	21,435	12.3	17.3
Demand deposits	4,606	5,702	6,975	23.8	22.3
Savings deposits	4,063	4,563	5,412	12.3	18.6
Term Deposits	7,605	8,003	9,048	5.2	13.1
Securities and other instruments	22	48	26	112.2	-45.8
TOTAL	**16,297**	**18,316**	**21,461**	**12.4**	**17.2**

Source: BCRP.

The dollarization ratio of liquidity declined by 0.7 percentage points, from 37.6 percent in December 2010 to 36.9 percent in December 2011. Likewise, the dollarization of deposits declined from 45.9 percent in December 2010 to 45.1 percent in December 2011. In both cases, the effect of the appreciation of the nuevo sol prevailed over the higher growth of the dollar components of these elements.

GRAPH 87
DOLLARIZATION OF LIQUIDITY AND DEPOSITS
(%)



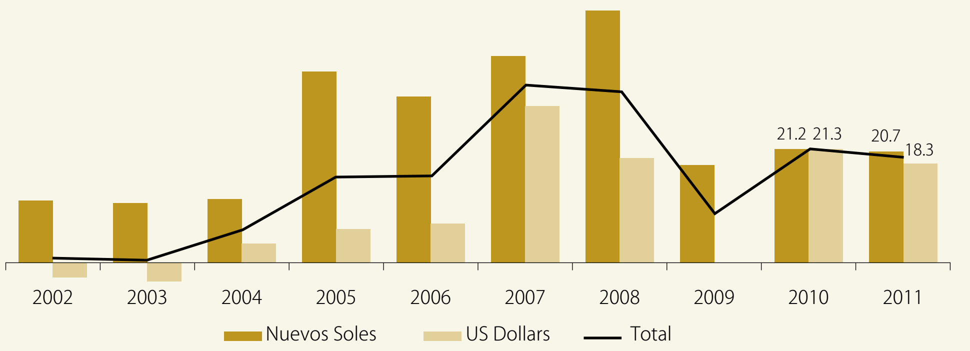
Source: BCRP.

4.3 Credit to the Private Sector

Total credit to the private sector recorded a growth rate of 19.6 percent in 2011, lower than in the previous year (21.2 percent). Total credit balances include the credits that local banks transfer to their branches abroad, which appear as credits granted by these branches in accounting books.

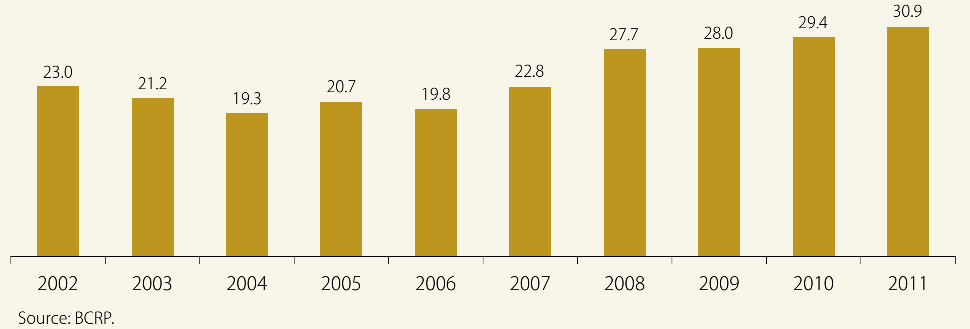
The growth rate of credit to the private sector reflected a progressive slowdown over the year and especially in the second semester. Credit to the private sector in domestic currency was the most dynamic component with a growth rate of 20.7 percent (21.2 percent in 2010), while credit in foreign currency recorded a growth rate of 18.3 percent (21.3 percent in 2010). The dollarization ratio of credit to the private sector fell from 46.1 percent in December 2010 to 44.6 percent in December 2011.

GRAPH 88
CREDIT TO THE PRIVATE SECTOR 1/
(Annual % change, end of period)



1/ The balance in dollars is valued at the constant exchange rate in December 2011. Includes the credits of local bank branches abroad.
Source: BCRP.

GRAPH 89
CREDIT TO THE PRIVATE SECTOR
(% of GDP, end of period)



Source: BCRP.

By type of borrower, credit to individuals showed a faster pace of growth while credit to businesses slowed down with a rate of 17.9 percent (22.1 percent in 2010). This is in part explained by the lower growth of credit for foreign trade activities (which account for nearly 9 percent of credit to business) due to the slowdown observed in the global economy. This type of credit, which had grown 40.9 percent in 2010, grew only 3.8 percent in 2011. Isolating the effect of credit for foreign trade activity, credit to business would have declined in a lesser proportion, from 20.3 percent in 2010 to 19.4 percent in 2011.

TABLE 75
TOTAL CREDIT TO THE PRIVATE SECTOR [1/]

	Balance in millions of nuevos soles			Growth rates (%)	
	2009	**2010**	**2011**	**2010**	**2011**
Corporate loans	68,365	83,444	98,354	22.1	17.9
Of which:					
Foreign trade	5,947	8,382	8,703	40.9	3.8
Others	62,418	75,062	89,652	20.3	19.4
Consumer loans	35,332	42,253	51,960	19.6	23.0
Consumption	22,564	26,416	31,779	17.1	20.3
Mortgage	12,768	15,836	20,181	24.0	27.4
TOTAL	**103,697**	**125,697**	**150,314**	**21.2**	**19.6**

[1/] The balance in dollars is valued at the constant exchange rate in December 2011. Includes the credits of local bank branches abroad.
Source: BCRP.

Considering only credit to business, in terms of economic sectors, the highest demand for credit came from the sectors of commerce (S/. 4.69 billion) and manufacturing (S/. 2.63 billion), as well as from real estate, entrepreneurial, and rent activities (S/. 1.12 billion). These three sectors concentrated 57 percent of the demand for business credits during the year.

TABLE 76
DEPOSITORY INSTITUTIONS: TOTAL CREDIT BY ECONOMIC SECTOR [1/]
(Millions of nuevos soles)

	Balance			Flows		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
Agriculture and livestock	3,088	3,633	4,470	501	545	837
Fishing	1,302	1,346	1,587	157	44	241
Mining	3,636	4,026	4,911	-210	390	885
Manufacturing Industry	16,432	19,883	22,514	-143	3,451	2,632
Electricity, Gas and Water	3,757	4,433	5,334	841	676	901
Construction	1,766	2,240	2,939	-136	474	699
Commerce	16,080	20,076	24,770	486	3,996	4,694
Hotels and Restaurants	1,545	1,789	2,375	422	245	586
Transportation, Storage and Communications	6,235	8,335	8,407	498	2,100	72
Real Estate, Business and Rental Activities	5,166	9,106	10,226	287	3,940	1,120
Rest	9,359	8,577	10,821	2,215	-782	2,244
TOTAL	**68,365**	**83,444**	**98,354**	**4,916**	**15,079**	**14,910**

[1/] The balance of broad money in dollars is valued at the constant exchange rate in December 2011. Includes the credits of local bank branches abroad.
Source: SBS.

The growth of credit to the private sector in domestic currency (20.7 percent, annual flow of S/. 14.25 billion) was mainly associated with increased credit to individuals as this credit grew 23.9 percent (S/. 7.51 billion), which represented 53 percent of the growth of credit in nuevos soles. Consumer loans in nuevos soles, with a rate of 21.0 percent (S/. 4.98 million) and mortgage loans, with a rate of 32.8 percent (S/. 2.53 billion) stand out among the latter. On the other hand, business credits grew 17.9 percent (S/. 6.74 billion).

TABLE 77
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance in Millions of nuevos soles			Growth rates (%)	
	2009	2010	2011	2010	2011
Corporate loans	31,383	37,584	44,327	19.8	17.9
Consumer loans	25,543	31,397	38,908	22.9	23.9
Consumption	19,968	23,677	28,654	18.6	21.0
Mortgages	5,575	7,720	10,254	38.5	32.8
TOTAL	**56,925**	**68,981**	**83,235**	**21.2**	**20.7**

Source: BCRP.

Credit to the private sector in foreign currency grew 18.3 percent (annual flow of US$ 3.84 billion). This growth was supported by increased sources of external liabilities in dollars, interest rates in foreign currency that remained low and stable reflecting the levels of international interest rates, and expectations of appreciation of the nuevo sol.

By type of borrower, the segment of business loans in dollars grew 17.8 percent (US$ 3.02 billion), concentrating 79 percent of the growth of credit in foreign currency. Credit to individuals grew 20.2 percent (US$ 813 million), mainly in the segment of mortgages which showed a growth rate of 22.3 percent (US$ 671 million). The growth of the latter compared to the previous year did not reflect in a higher level of dollarization in this segment, since mortgages in nuevos soles grew at higher rates than mortgages in dollars.

TABLE 78
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY 1/

	Balance in Millions of US dollars			Growth rate (%)	
	2009	2010	2011	2010	2011
Corporate loans	13,697	16,985	20,010	24.0	17.8
Consumer loans	3,626	4,021	4,834	10.9	20.2
Consumption	961	1,015	1,157	5.6	14.0
Mortgage	2,664	3,006	3,677	12.8	22.3
TOTAL	**17,323**	**21,006**	**24,844**	**21.3**	**18.3**

1/ Includes the credits of local bank branches abroad
Source: BCRP.

Credit to the private sector continued showing lower levels of dollarization in all the types of credit at end 2011. The dollarization ratio of credit to the private sector fell 1.5 percentage points, from 46.1 percent in December 2010 to 44.6 percent in December 2011. About one percentage point of this decline resulted from the appreciation of the nuevo sol, since this ratio decreases 0.5 percentage points (from 45.1 percent in December 2010 to 44.6 percent in December 2011) when this effect is isolated.

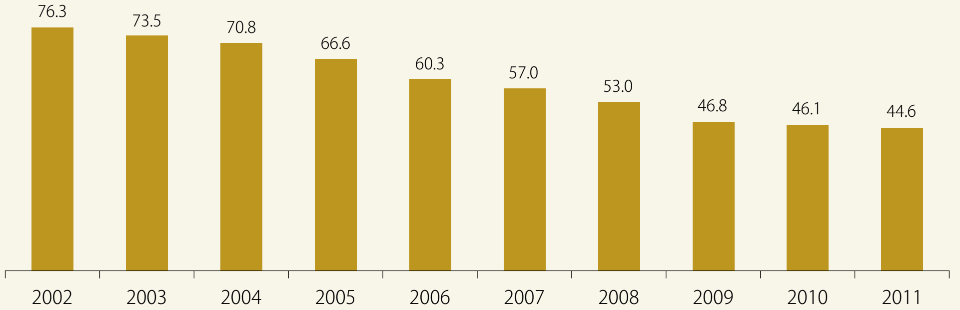
Credit to business registered a dollarization level of 54.9 percent, nearly one percentage point less than in 2010 (55.9 percent), while the decline of the dollarization level in credit to individuals was even greater as this ratio fell from 26.5 percent in 2010 to 25.1 percent in 2011.

TABLE 79
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR [1/]

	2009	2010	2011
Corporate loans	55.8	55.9	54.9
Consumer loans	29.1	26.5	25.1
Consumption	12.2	10.7	9.8
Mortgage	58.0	52.2	49.2
TOTAL	**46.8**	**46.1**	**44.6**
Memo:			
Dollarization of credit at constant exchange rate	45.1	45.1	44.6

[1/] Includes the credits of local bank branches abroad.
Source: BCRP.

GRAPH 90
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR
(%)



Source: BCRP.

5. Financial Indicators

The financial indicators of commercial banks remained stable during 2011. The ratio of non-performing loans remained at 1.5 percent, like in the previous year. The level of coverage of high-risk portfolio increased from 141.9 percent to 149.8 percent. Return on equity (ROE) increased from 24.2 percent in 2010 to 24.5 percent in 2011, but the return on assets (ROA) declined from 2.4 to 2.3 percent in the same period.

TABLE 80 **INDICATORS ON COMMERCIAL BANKS** (%)			
	2009	**2010**	**2011**
Due loans / gross placements [1/]	1.6	1.5	1.5
High risk portfolio / gross placements [2/]	2.7	2.6	2.5
Provision for loans / high-risk portfolio	139.3	141.9	149.8
Ratio on equity (ROE)	24.5	24.2	24.5
Ratio on assets (ROA)	2.3	2.4	2.3

[1/] Credits due and in judicial collection processes.
[2/] The high-risk portfolio is equal to the most backward refinanced and restructured portfolio.
Source: SBS.

By size of debtor, corporate credits and credits to large companies recorded lower delinquency rates than the average rate: zero percent and 0.2 percent, respectively. Loans to medium-sized enterprises showed a delinquency rate of 2.1 percent, while loans to small and micro-enterprises registered delinquency rates of 4.7 and 2.4 percent, respectively. The delinquency rate for consumer loans was 2.6 percent, higher than the average rate, while the rate for mortgage loans was quite lower (0.9 percent).

TABLE 81 **BANKS: DELINQUENCY RATES BY TYPE AND SIZE OF DEBTOR** (%)			
	2009 [1/]	**2010**	**2011**
Corporate loans	n.d.	0.0	0.0
Loans to big companies	n.d.	0.2	0.2
Loans to medium-sized companies	n.d.	2.3	2.1
Loans to small companies	n.d.	4.6	4.7
Loans to microbusiness	n.d.	2.9	2.4
Consumer loans	2.9	2.7	2.6
Mortgage loans	0.9	0.9	0.9
TOTAL	**1.6**	**1.5**	**1.5**

[1/] Delinquency rates by size of companies are available since 2010.
Source: SBS.

The financial indicators of non-bank financial firms showed an improvement given that delinquency rates were lower and the ratios of coverage of the high-risk portfolio were higher. Financial firms showed lower delinquency rates (3.5 percent at December 2011) and higher ratios of coverage for the high-risk portfolio (149.2 percent at December 2011). As for the rates of return, municipal banks, rural banks and financial firms recorded higher rates of return on equity (ROE), whereas the edpymes showed lower rates.

TABLE 82
FINANCIAL INDICATORS OF NON -BANK COMPANIES
(%)

	2009	2010	2011
Due loans / gross placements [1/]			
Financial Firms	4.5	3.8	3.5
Municipal savings banks	5.0	5.1	4.9
Rural savings banks	4.0	4.6	4.3
Edpymes	4.5	5.1	5.0
Provision for loans / high-risk portfolio [2/]			
Financial Firms	124.9	132.8	149.2
Municipal savings banks	105.1	108.2	111.2
Rural savings banks	91.3	96.7	105.0
Edpymes	106.7	105.7	114.4
Ratio on equity (ROE)			
Financial Firms	10.2	19.3	20.0
Municipal savings banks	20.6	13.4	17.8
Rural savings banks	13.9	4.6	8.1
Edpymes	9.7	4.8	3.3

[1/] Overdue loans and loans in judicial collection processes.
[2/] The high-risk portfolio is equal to the non performing loans plus the refinanced and restructured portfolio
Source: SBS

6. International Reserves

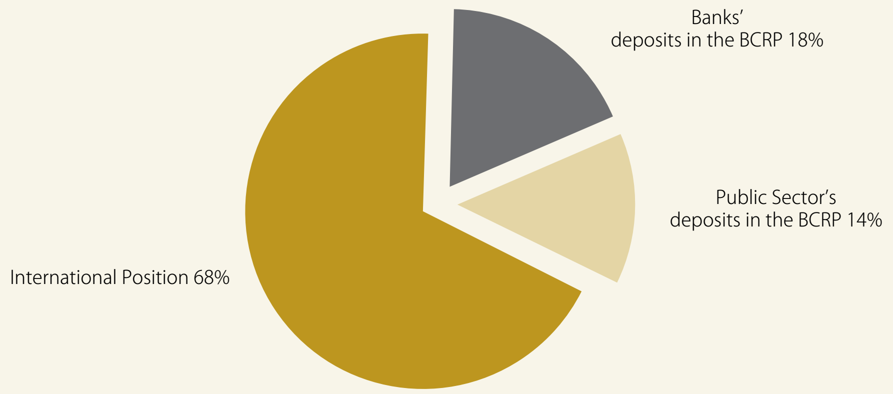
The BCRP net international reserves (NIRs) increased by US$ 4.71 billion in 2011, reaching a balance of US$ 48.82 billion at year end. This growth of NIRs resulted mainly from public sector increased deposits in dollars (US$ 2.39 billion) and banks' higher deposits (US$ 1 473 million) at the Central Bank, as well as from the net yield of the investment portfolio (US$ 579 million), and net purchases of dollars (US$ 329 million).

GRAPH 91
NET INTERNATIONAL RESERVES AND THE INTERNATIONAL POSITION OF THE BCRP
(Millions of US$)

Source: BCRP.

The BCRP foreign exchange position rose by US$ 878 million to US$ 33.30 billion at end 2011. The share of the foreign exchange position relative to NIRs declined 6 percentage points between 2010 and 2011 (from 74 percent to 68 percent). The other funding sources that explain the composition of NIRs were banks' deposits in dollars at the BCRP (18 percent) and public sector's deposits in dollars at the BCRP (14 percent).

GRAPH 92
NIRs AND THE BCRP INTERNATIONAL POSITION
(US$ 48,816 million)



Source: BCRP.

6.1. Management of International Reserves

In 2011 gross international reserves –also called international reserve assets– amounted to US$ 48.86 billion, a sum US$ 4.71 billion higher than the one recorded in 2010.

The increase in international reserves contributed to maintain adequate international liquidity indicators. Thus, at end 2011 net international reserves were equivalent to 16 months of imports, 5.6 times the short-term external liabilities, and 3.3 times the balance of the monetary base.

TABLE 83
HIGH LEVEL OF INTERNATIONAL RESERVES STRENGTHENS PERU'S INTERNATIONAL LIQUIDITY POSITION

NIR by US$ 48.8 billion	• 5.6 times one-year debt liabilities (short term external liabilities plus amortization of long-term debt) • 3.3 times the monetary base • 16 months of imports

Source: BCRP.

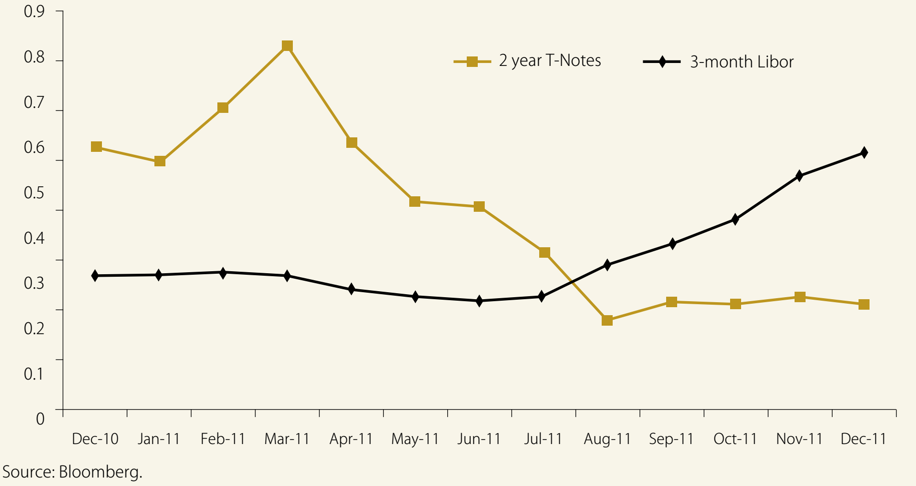
Despite initial optimism, economic activity in the United States and the Eurozone slowed down in 2011 due mainly to the deepening of the Eurozone sovereign debt problems, which led several countries and banks to be downgraded in their credit ratings. This also generated a contraction in global growth, which intensified as a result of unexpected events such as the earthquake that hit Japan and the events in the Middle East. Furthermore, the

United States had to deal with a high rate of unemployment, a weakened situation in the real estate sector, and the downgrading of its credit rating to AA+.

In 2011, the US Federal Reserve (FED) maintained its policy rate between 0 and 0.25 percent and also implemented its policy action known as "Operation Twist" to extend the maturities of its portfolio of government securities by exchanging US$ 400 billion in short-term bonds for longer term securities (up to 30-year securities). On its side, the European Central Bank raised its refinancing rate by 25 basis points in April and in July, lowering it thereafter by 25 basis points in November and December in view of the signals of lower economic activity and due to the likely spread of Greece's debt crisis to other European countries. .

Both the yield curve of the US Treasury bonds and the yield curve of German bonds moved downwards, the former reflecting increased risk aversion and low expectations of inflation and the latter reflecting the negative outlook for economic growth in the Eurozone. The Libor rate in dollars showed no significant variations in the first semester, rising 34 basis points thereafter in the second semester due to increased risk aversion since no sustainable solution was reached for the sovereign debt crisis in Europe.

GRAPH 93
3-MONTH LIBOR AND 2-YEAR US TREASURY BONDS
Annual yield (%)



Source: Bloomberg.

In this context, the BCRP investment policy for its reserves was rather conservative and followed strict criteria for the placement of deposits in banks abroad and for the diversification of investments in securities with the highest credit quality. The portfolio duration was shortened in the first semester, while a neutral position was maintained in the second semester with respect to the benchmark portfolio. Some tactical deviations were also implemented when circumstances contributed to benefit the investment yield.

It should be pointed out that the BCRP reserve management policy is based on two priority criteria: to preserve the capital and to guarantee the liquidity of the country's international reserves. After these conditions have been met, the Central Bank seeks to maximize the yield of its international assets. In general, the BCRP management of international assets is closely associated with the characteristics of the sources of these resources in terms of value, currency, maturity, and volatility. In this way, the Central Bank minimizes the market risks that could affect the value and availability of these resources.

6.2. Composition of International Reserve Assets (IRA)

At end 2011, 70 percent of Peru's international reserve assets were invested in highly credit rated liquid securities, 23 percent in first-class international banks, and 7 percent in gold and other assets. The securities portfolio comprises debt bonds issued by sovereign issuers, supranational organizations or foreign government agencies with long term credit ratings of AA- or higher ratings.

Peru's international reserve assets generated a yield of S/. 1.94 billion in 2011. This yield was slightly lower than the one obtained in 2010 due to the lower net yield of securities associated with the international context where interest rates remained at low levels.

TABLE 84
INTERNATIONAL RESERVE ASSETS
(Millions of US$)

ITEM	December 2010		December 2011	
	Amount	%	Amount	%
Deposits abroad	10,777	24.4	11,263	23.1
Securities	30,392	68.8	34,190	70.0
Gold	1,565	3.5	1,722	3.5
Other [1/]	1,417	3.2	1,683	3.4
TOTAL	**44,150**	**100.0**	**48,859**	**100.0**

[1/] Includes contribution to the FLAR and balance of assets associated with international agreements.
Source: BCRP.

Liquid international reserves[20] amounted to US$ 47.12 billion at the close of 2011. As regards the quality of the portfolio, 78 percent of these assets are deposited in entities with a long term credit rating of **AAA** and the rest is deposited in entities with credit ratings of **AA+** and **AA-**. The average maturity of the investment portfolio in 2011 was 1.09 years.

TABLE 85
COMPOSITION OF LIQUID INTERNATIONAL ASSETS
(% structure)

	December 2010	December 2011
By maturity term	**100**	**100**
0-3 months	43	41
3-12 months	9	19
> 1 year	48	39
By long-term rating	**100**	**100**
AAA	76	78
AA+/AA/AA-	17	14
A+	7	8

Source: BCRP.

20 These are easily tradable assets. Because of this, the contributions to international organizations such as the FLAR and the BIS, the contributions to the IMF and contributions to the IMF trust funds, the balances under international conventions, and gold holdings in the Bank vaults are excluded from international reserve assets.

The effective exposure of the BCRP foreign exchange position to the US dollar has declined as a result of a currency diversification strategy, whereby other currencies –especially the Australian dollar– have been included in the portfolio.

TABLE 86
INTERNATIONAL POSITION: EFFECTIVE EXPOSURE
(% structure)

	December 2010	December 2011
US dollars	64	57
Other currencies	31	38
Gold	5	5
Total	**100**	**100**

Source: BCRP.

7. Financial Savings and Capital Market

Financial savings are the total assets of companies and households held in the financial system in the form of savings deposits, time deposits, securities, mutual funds, life insurances, and contributions to private pension funds.

In 2011 the average balance of financial savings increased 14.0 percent compared to 2010 and was equivalent to 40.8 percent of GDP. This increase was mainly due to the increase of deposits, both savings deposits and term deposits. On the other hand, the balances of contributions to private pension funds and mutual funds decreased due to the decline of the stock exchange indices.

By currencies, financial savings in soles and in dollars grew in similar proportions (15.0 percent and 14.8 percent, respectively). The growth of deposits in nuevos soles was higher than the growth of deposits in dollars, but this higher growth was offset by the drop in the value of contributions to private pension funds in nuevos soles. In GDP terms, the share of financial savings in nuevos soles rose from 26.6 to 27.5 percent, while the share of financial savings in dollars remained at 13.3 percent.

TABLE 87
FINANCIAL SAVINGS
(Average balance, in the period, as % of GDP)

	Domestic currency	Foreign currency	Total
2002	10.5	16.5	27.0
2003	12.0	15.9	27.9
2004	13.4	14.4	27.7
2005	15.4	13.3	28.7
2006	17.1	13.1	30.2
2007	23.1	13.4	36.5
2008	23.9	13.0	36.9
2009	24.0	14.6	38.6
2010	26.6	13.3	39.9
2011	27.5	13.3	40.8

Source: BCRP.

7.1 Fixed-Income Market

The balance of securities issued by private companies increased 0.9 percent compared to 2010[21]. The net balance of placements –at a constant exchange rate value– was S/. 4.04 billion, higher than in 2010 (S/. 2.09 billion). The major issuers included Hunt Oil (securitization bonds for a total equivalent to S/. 540 million), Banco de Crédito del Perú (issuance equivalent of S/. 524 million), and BBVA Banco Continental (issuance equivalent to S/. 300 million).

By maturity terms, 48 percent of bond issuances in soles had maturities of 3 years or less, 32 percent had maturities of 3 to 7 years, and the remaining 19 percent had maturities of over 7 years. On the other hand, 51 percent of the bonds issued in dollars had 10-year or longer maturities.

As regards the issuer's economic sector, the annual flow of issuances of non-financial firms was S/. 2.09 billion (S/. 3.48 billion in 2010), a balance 2.3 percent lower than in the previous year[22], whereas the annual flow of issuances of financial entities was S/. 2.43 billion (S/. 955 million in 2010), 15.1 percent higher than in 2010. Excluding financial entities, the number of private issuers with publicly traded securities fell from 48 to 46[23].

TABLE 88
OUTSTANDING PRIVATE SECTOR FIXED INCOME SECURITIES AT THE END OF PERIOD
(Millions of nuevos soles)

	Balance			% Change		Flows	
	2009	2010	2011	2010	2011	2010	2011
Amounts by type of issuer	**20,100**	**20,607**	**21,185**	**2.5**	**2.8**	**507**	**578**
Financial 1/	5,885	6,065	6,979	3.1	15.1	180	914
Non financial	14,215	14,542	14,206	2.3	-2.3	327	-336
Composition by currency (%)	**100.0**	**100.0**	**100.0**				
Soles	44.3	44.3	46.3				
VAC	21.3	20.8	20.0				
US dollars	34.4	34.9	33.6				
Balance as % of GDP	**5.4**	**4.8**	**4.8**				

1/ Securities issued or originated by a financial organization.
Source: SMV.

By currencies, the share of financial instruments in soles continued to grow in 2011. At year end, 55.6 percent of the balances were instruments in soles (52.6 percent at end 2010). Furthermore, the share of fixed-rate instruments in soles was 46.3 percent (vs. 44.3 percent at end 2010).

The interest rates in nuevos soles, in the section of short-term interest rates (less than a year), were influenced by the evolution of the monetary policy interest rate. One year-bonds with a risk rating of AA which in December 2010 were placed at an average rate of 4.1 percent were placed at a rate of 4.9 percent in December (at a rate 0.9 percentage points higher).

The medium-term and long-term rates declined because investors took long positions in these instruments to hedge their investments from uncertainty in stock markets. An issuance of three-year bonds with an AA rating was placed in December 2011 at a rate 6.1 percent, a much lower rate than the one observed in December 2010 (6.9 percent). Moreover, the rate of an issuance of 7-year bonds rated AAA fell from 7.4 percent in March 2011 to

21 Including short-terms bonds and instruments placed in the domestic market through auctions. For comparison purposes, the effect of changes in the foreign exchange rate is isolated.

22 The economic sector of the originator is considered in the case of securitizations bonds.

23 Securitization bonds originated in a financial entity are also excluded.

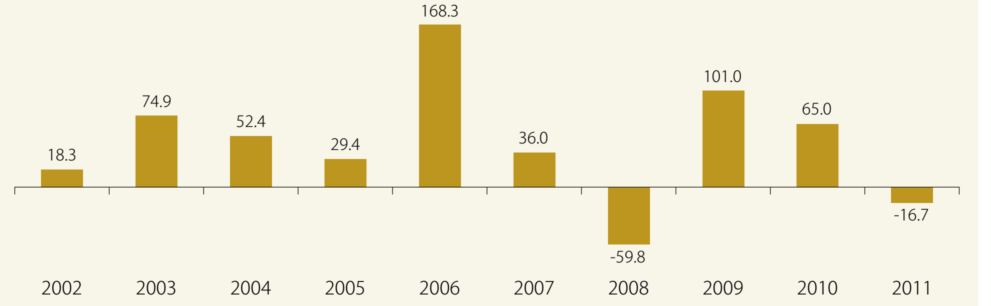
6.7 percent in December (down 0.7 percentage points). In summary, the hypothetical yield curve of these bond issuances flattened.

7.2 Stock Exchange

The indices of the Lima Stock Exchange (LSE) were affected both by external and domestic factors. The former included uncertainty due to the international crisis and to Greece's possible exit from the Eurozone, as it was thought that Greece could drag along other countries such as Italy, Spain, or Portugal. The domestic arena was mainly influenced by the electoral process. While domestic uncertainty mostly dissipated in the second half of the year, the effect of the external crisis had a negative impact on the variations in the stock market indices.

The annual yield of the general index of the LSE recorded a negative level of 16.7 percent and the selective index recorded a negative level of 14.7 percent (in 2010 both indices rose, recording positive levels of 65.0 and 42.9 percent, respectively). No great dispersion was observed by economic sectors. With losses of 21.9 and 20.3 percent, respectively, industrial and mining shares were the most affected ones. The services sector was the least affected sector, with an annual loss of 8.7 percent.

GRAPH 94
GENERAL INDEX OF THE LIMA STOCK EXCHANGE
(Annual percentage change, end of period)



Source: Lima Stock Exchange.

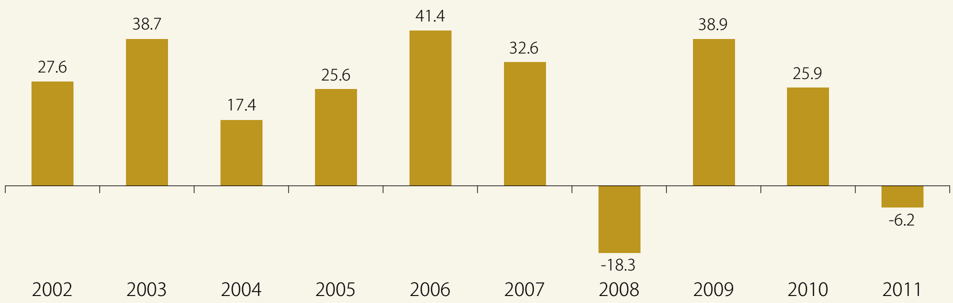
The volumes traded grew 13.5 percent. Share trading grew 21.8 percent (19.3 percent in 2010) while the trading of debt instruments declined 2.3 percent (43 percent in 2010). The capitalization value –the total value of companies listed at the LSE– was S/. 327.82 billion, a sum equivalent to 67.6 percent of GDP (lower than in 2010: 104.0 percent of GDP). The value of dematerialized shares, that is, the amount of shares registered electronically in CAVALI, amounted to S/. 153.32 billion, a sum equivalent to 46.8 percent of the market capitalization value.

7.3 Private Pension System

The assets of private pension funds decreased 6.2 percent during the year due to losses in stock markets. At December 2011, the assets of these funds was S/. 81.05 billion. On the other hand, the number of affiliates increased 6.2 percent to a total of over 4.9 million people.

The evolution of private pension funds was influenced by stock market losses. Pension fund type 2 (which accounts for 70 percent of the total value of these funds) had a negative nominal return of 7.1 percent (vs. a positive return of 18.4 percent in 2010). The loss was greater in pension fund type 3 (which invests more in stocks), with a negative nominal return of 17.3 percent (vs. a positive return of 34.5 percent in 2010). However, pension fund type 1, which does not invest in stocks, had a return of 3.0 percent in 2011. Even though the profitability of this fund was lower than in the previous year (7.9 percent), it was positive. This fund represents only 10 percent of the total value of private pension funds.

GRAPH 95
VALUE OF PRIVATE PENSION FUNDS
(Annual percentage change, at end of period)



Source: SBS.

Given the situation in stock markets, portfolio losses concentrated in the domestic market. Thus, domestic investments in variable income instruments reduced their share from 27.4 to 31.7 percent in terms of total investments between 2010 and 2011.

On the other hand, the share of international investments increased from 26.3 percent in December 2010 to 28.5 percent in December 2011. Notwithstanding, this percentage is still lower than the legal limit applicable to such investments (30 percent). The share of the deposits held by private pension funds (AFP) in the financial system also declined (from 6.2 to 4.5 percent of the fund value), but the share of government and BCRP securities increased (from 16.1 to 17.0 percent of the fund value) as did the debt instruments of the private sector as well (from 19.6 to 22.6 percent of the fund value).

TABLE 89
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO 1/
(%)

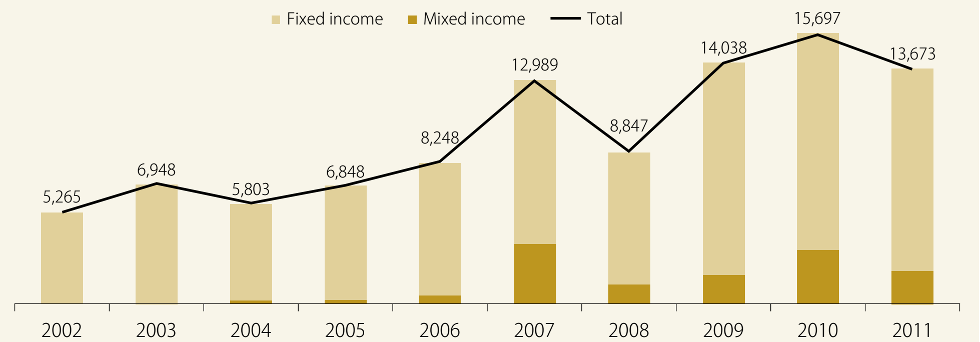
	2009	2010	2011
I. DOMESTIC INVESTMENTS	**79.0**	**73.7**	**71.5**
Deposits	2.6	6.2	4.5
In nuevo soles	1.8	5.0	3.8
In US dollars	0.7	1.2	0.7
Bonds and fixed income	44.4	35.8	39.6
Central Bank securities	0.5	-	1.1
Sovereign bonds	19.6	16.1	15.9
Values issued by the private sector	24.5	19.6	22.6
Stocks and variable income	32.0	31.7	27.4
Shares	25.5	25.1	19.1
Investment funds	6.5	6.6	8.3
II. FOREIGN INVESTMENTS	**21.0**	**26.3**	**28.5**
TOTAL (I+II)	**100.0**	**100.0**	**100.0**
Millions of nuevos soles	**68,595**	**86,391**	**81,052**
% of GDP	**17.9**	**19.9**	**16.7**

Source: SBS.

7.4 Mutual Funds

Although mutual funds invest less in stocks on average, they were also affected by the international crisis. Most people got rid of part of their stocks and moved to deposits to face uncertainty. Thus, the number of participants in these funds dropped from 137 to 120 thousand people during 2011. Most of these withdrawals (10 thousand people) came from mixed and variable-income funds, which have a greater proportion of investments in stocks. Therefore, the overall equity of mutual funds decreased 12.9 percent compared to the previous year and showed a balance of S/. 13.67 billion (2.8 percent of GDP). For obvious reasons, mixed-income and variable-income mutual funds were the funds that recorded the greatest contraction (down 40.4 percent compared to 2010).

GRAPH 96
EVOLUTION OF MUTUAL FUNDS
(Annual % change, at end of period)



Source: SMV.

As regards the investment portfolio of mutual funds, the participation of deposits declined (from 57.2 percent to 50.2 percent), while the participation of debt instruments increased (from 32.9 to 37.6 percent). The participation of stocks rose slightly (from 6.3 to 7.0 percent).

TABLE 90
COMPOSITION OF MUTUAL FUND INVESTMENT
(%)

	2009	2010	2011
I. DOMESTIC INVESTMENT	**95.3**	**96.5**	**94.8**
Deposits	45.5	57.2	50.2
In nuevos soles	14.1	29.6	25.7
In US dollars	31.4	27.6	24.5
Bonds and fixed income	44.5	32.9	37.6
Central Bank securities	8.4	2.7	6.3
Sovereign bonds	12.9	9.9	11.4
Securities issued by the private sector	23.3	20.4	19.9
Stocks and variable income	5.3	6.3	7.0
II. INVESTMENT ABROAD	**4.5**	**3.1**	**5.1**
III. OTHERS	**0.2**	**0.4**	**0.1**
IV. TOTAL (I+II+III)	**100.0**	**100.0**	**100.0**
Millions of nuevos soles	13,939	13,939	15,301
% of GDP	2.8	3.4	2.9

Source: SMV.

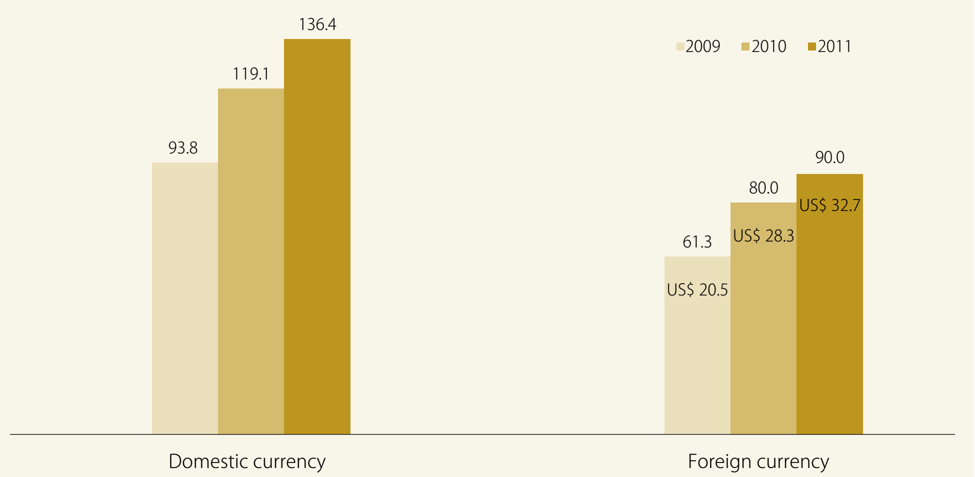
8. Payments Systems

In a context of global economic uncertainty, the value of the transactions made through payment systems of systemic importance grew 13.9 percent in 2011, as a result of which the amount of funds transferred through such systems was equivalent to 6.1 times Peru's GDP in the year. The evolution of payments systems in 2011 is discussed below:

8.1 Real Time Gross Settlement System (RTGS)

The amount of transfers channeled through the RTGS system grew 13.7 percent, while the number of transactions increased 16 percent. By currencies, the value of payments in local currency grew 14.6 percent and the value of payments in foreign currency grew 15.2 percent. The importance of the RTGS system is reflected in that it accounted for 92 percent of the total value transferred through payment systems. Its share in terms of volume was low (only 5 percent), as is usually the case of high value systems.

GRAPH 97
TRANSFERS THROUGH THE RTGS SYSTEM
(Monthly average mensual in billions of nuevos soles)



Source: BCRP.

The second stage of technological modernization of the RTGS system was implemented in September 2011. This technological modernization allows banks to integrate their applications, including customer service channels, to the system, providing greater efficiency and security to transactions as manual processes are replaced by automated processes which will also reduce the costs of transactions. The new RTGS system also facilitates the interconnection of non-banking financial entities so that they can order transfer funds electronically.

BOX 9

MACRO FINANCIAL INDICATORS OF THE PERUVIAN ECONOMY

The evolution of a number of macro financial indicators, i.e., those that measure the capacity of the economy and the financial system to deal with real and financial shocks, shows that Peru's economy remains sound and is capable of facing situations of stress like the ones observed during the global financial crisis, which deepened in September 2008 Lehman Brothers went bankrupt, or like the ones recently observed due to the debt crisis in the Eurozone.

These indicators show that Peru's availability of international reserves, equivalent to 27.6 percent of GDP in 2011, reflect the country's appropriate capacity to respond to sudden disruptions in capital flows and possible banking runs in an economy that still shows significant levels of financial dollarization. Peru has a sound fiscal position, with an economic balance of 1.9 percent of GDP in 2011, which reduces the risks that could affect its economy. It also has appropriate liquidity levels –the ratio of liquidity in local currency is 39.2 percent and 45 percent in foreign currency– and a solvent financial system –with a global capital ratio of 13.4 percent–, both of which are essential factors that maintain economic agents' confidence and also reflect the economy's strength to face future external shocks.

MACRO FINANCIAL INDICATORS

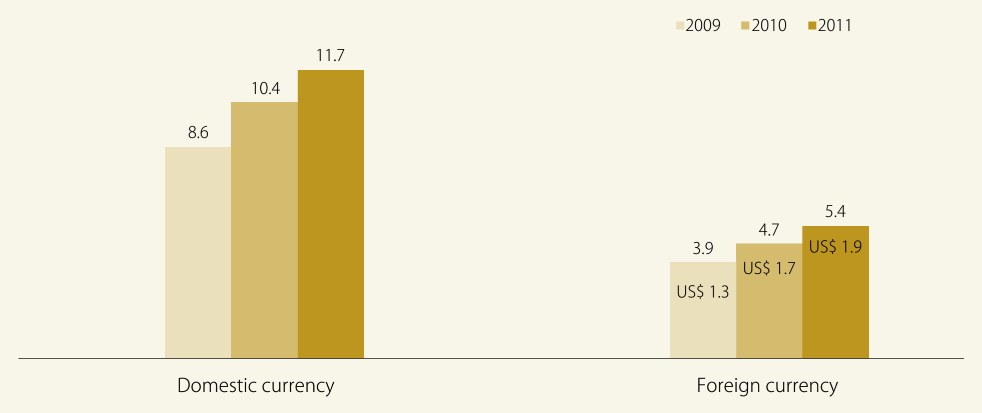
	2009	2010	2011
Indicators of international solvency			
NIR / STEL [1/] (Times)	2.9	5.7	5.5
NIR / (STEL+LQFC) [2/] (times)	1.1	1.6	1.9
NIR / GDP (%)	26.0	28.7	27.6
Indicators of public solvency			
Total public debt / GDP (%)	26.1	23.3	21.2
Net total public debt / GDP (%)	13.6	11.5	8.1
Overall balance / GDP (%)	-1.6	-0.5	1.9
Indicators of banks			
- Solvency indicators			
Global Capital Ratio (%)	13.5	13.6	13.4
Total liabilities / Social capital and reserves (Times)	12.8	13.3	12.4
- Liquidity indicators			
Liquidity ratio in DC. (%)	38.8	54.6	39.2
Liquidity ratio in FC. (%)	41.7	41.1	45.0
Average reserve requirement in DC. (%)	6.0	11.8	14.0
Average reserve requirement in FC. (%)	32.9	35.7	38.0
- Asset quality indicators			
Non performing loans in DC / Direct credits in DC.	1.56	1.49	1.47
Non performing loans in FC / Direct credits in FC.	1.99	1.88	1.98
Provisions / Non performing loans (%)	242	246	251
Financial intermediation and foreign exchange exposure			
Dollarization of credit of the depository corporations (%)	46	44	44
Credit to the private sector of the depository corporations (% of GDP)	28.0	29.8	31.6

1/ STEL: Short term external loans.
2/ LQFC: Liquidity in foreign currency of the banking system.

8.2 Electronic Clearing House (Cámara de Compensación Electrónica)

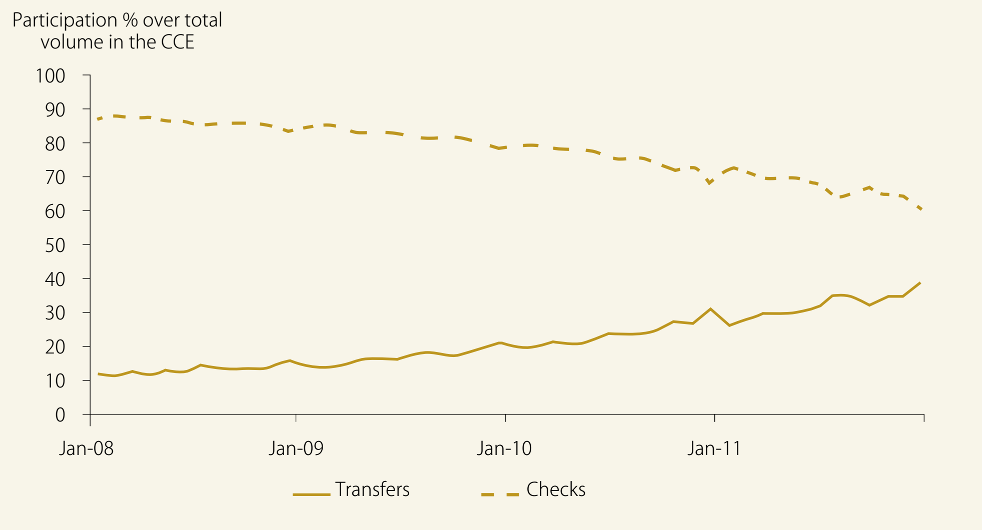
The value of transactions processed through the Cámara de Compensación Electrónica (CCE) increased 13.1 percent in the year. The value of credit transfers[24] increased 46.6 percent and the value of check transfers increased 7.4 percent.

GRAPH 98
PAYMENTS THROUGH THE CÁMARA DE COMPENSACIÓN ELECTRÓNICA
(Monthly average in billions of nuevos soles)



The number of transactions processed through the CEE grew 10 percent, with credit transfers accounting for 48 percent of this growth. As a result of this, credit transfers increased their share in terms of total transactions carried out through the CEE from 24.4 percent in 2010 to 32.7 percent in 2011. This increased dynamism of credit transfers reflects the growing trend observed in the public's use of electronic payment instruments.

GRAPH 99
EVOLUTION OF CREDIT AND CHECKS TRANSFERS IN THE CCE



24 Interbank transfers settled through the CCE. The maximum amounts that can be transferred are S/. 310 thousand and US$ 60 thousand.

The latter trend is closely connected with the use of these instruments to make ordinary transfers and payments to suppliers, which represented 55.8 and 35.4 percent of total transfers, respectively, in 2011.

The participation of CMAC Cusco in the CCE was approved in 2011. Thus, there are currently six municipal saving banks which have been authorized to operate through this system.

8.3 Multibank Securities Settlement System (MSSS)

The value of payments in the MSS system grew 32.4 percent in 2011, while the volume of payments grew 26 percent. Payments for stock exchange operations at the LSE grew 19 percent in value and 25.5 percent in volume, while settlements of transactions of government securities in the secondary market grew 55.3 percent in value and 96.1 percent in volume.

As a result of the coordination made with the Ministry of Economy and Finance to make transactions with sovereign bonds more secure, Supreme Decree No. 061-2011-EF establishes that the settlements for placements of these securities on the primary market and transfers of these securities on the secondary market are to be carried out through the delivery-against-payment modality, which eliminates the counterparty risk.

8.4 Regulations

The Regulations of the RTGS system were amended in April to include the Public Treasury as a Participant in the RTGS system (Circular N° 010-2011-BCRP). The System’s new Regulations, which include the adjustments made as a result of the system’s modernization and adjustments associated with the regulations governing Payments Systems, were issued in August (Circular N° 026-2011-BCRP).

The Regulation of Credit Transfer Clearing Houses were amended in April (Circular N° 011-2011-BCRP) to include, as from November, a new payment session settled on the same day and to regulate the maximum time of settlement for clients. These two measures will contribute to improve efficiency in the use of this payment system.

Finally, Circular N° 014-2011-BCRP issued in May provides for the implementation of a delivery-against-payment mechanism for the settlement of BCRP security transactions in the secondary market between entities other than the Central Bank, to make these transactions more secure.