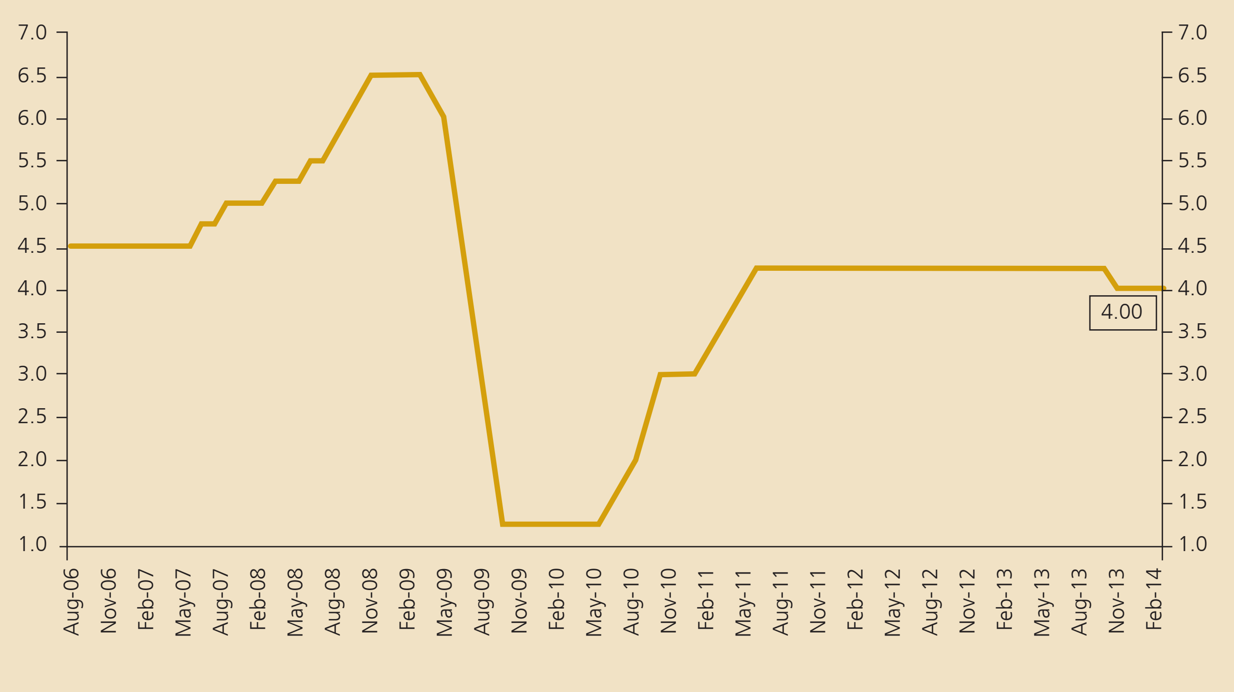
V.

Liquidity and Credit

1. Monetary Policy

In 2013, the BCRP maintained its monetary policy rate at 4.25 percent until October and lowered it to 4.0 percent in November in order to ensure inflation's convergence to the tolerance range in a context of slowing economic activity, affected by the slower growth of our trading partners and lower export prices. The BCRP monetary policy continued to be preventive, especially vis-à-vis the possible impact of the international environment, and was aimed at ensuring that inflation expectations remain anchored within the inflation target range.

GRAPH 77
BCRP REFERENCE INTEREST RATE
(%)



The evolution of the reference rate during the year was accompanied by changes in the regime of reserve requirements, which contributed to moderate the credit cycle and promote a rapid process of de-dollarization of credit. Reserve requirements induce financial institutions to maintain prudential liquidity positions, both in national currency and in foreign currency, reducing their vulnerability face potential scenarios of capital outflows. Reserve requirements can also be used to promote the de-dollarization of credit, because they make financial intermediation in foreign currency more expensive than financial intermediation in national currency.

Until April the BCRP increased successively the rate of mean reserve requirements on obligations in foreign currency to prevent that the inflows of capital would result in extremely loose monetary conditions and in a disorderly expansion of credit in foreign currency. The BCRP also established additional reserve requirements associated to the evolution of credit in foreign currency, which makes credit in this currency more expensive and contributes to the de-dollarization process.

After the FED announced that it would cut its asset purchase program, economic agents' expectations of appreciation –which characterized expectations before May– reversed quickly, generating a strong acceleration of credit in domestic currency and a greater preference for deposits in dollars. As a result of this, banks experienced a reduced availability of funding sources for credit in domestic currency. In May, the BCRP responded quickly to this change in the funding sources of credit by cutting the rate of marginal reserve requirements in domestic currency and imposing a ceiling on the mean required reserves in this currency. The latter was subsequently reduced to 15 percent in December in order to provide the financial system with the necessary liquidity to meet the demand for credit in domestic currency. About S/. 5.2 billion was injected into the financial system with these operations.

In the case of required reserves in foreign currency, the rate of marginal reserve requirements was lowered from 55 to 50 percent and a ceiling of 45 percent was imposed on the rate of mean required reserves in August 2013. Moreover, the rate of reserve requirements on short term external obligations was also lowered from 60 to 50 percent and the rate of reserve requirements on foreign credit lines for financing foreign trade operations was lowered from 25 to 20 percent in that month.

Additionally, in order to strengthen the process of de-dollarization of credit, in March 2013 the BCRP established an increase of 75 (150) bps to required reserves in dollars if a bank's balance of mortgage or car loans in this currency was 1.1 (1.2) times higher than such balance in February 2013 or an increase of 20 (25) percent to the regulatory capital at end-2012, the higher amount. In October it established an increase of 1.5, 3, or 5 percentage points to financial institutions whose average daily balance of total credits in foreign currency, excluding credit for foreign trade operations, exceeded 1.05 times, 1.1 times, or 1.15 times, respectively, the balance of such credits at the end of September 2013. This additional reserve requirement applies whenever the average daily balance of total credit in foreign currency, excluding loans for foreign trade operations, exceeds the bank's regulatory capital at December 2012.

TABLE 64
RESERVE REQUIREMENTS

	Legal minimum reserve requirements	Domestic Currency			Foreign currency			
					General regime			Foreign liabilities
		Marginal reserve requirements on deposits	Increase in the mean reserve requirements	Maximum of mean reserve requirement	Marginal reserve requirements on deposits	Increase in the mean reserve requirements	Maximum of mean reserve requirement	Short-term
Dec.10	9%	25%			55%			75%
Jan.11	9%	25%			55%			60%
Feb.11	9%	25%	0.25%		55%	0.25%		60%
Mar.11	9%	25%	0.25%		55%	0.25%		60%
Apr.11	9%	25%	0.50%		55%	0.50%		60%
May.12	9%	30%	0.50%		55%	0.50%		60%
Jul.12	9%	30%	-.-		55%	-.-		60%
Sep.12	9%	30%	0.50%		55%	0.50%		60%
Oct.12	9%	30%	0.50%		55%	0.50%		60%
Nov.12	9%	30%	0.75%		55%	0.75%		60%
Jan.13	9%	30%	0.25%		55%	0.75%		60%
Feb.13	9%	30%	-.-		55%	1.00%		60%
Mar.13	9%	30%	-.-		55%	0.50%		60%
Apr.13	9%	30%	-.-		55%	0.25%		60%
Jun.13	9%	30%	-.-	20%	55%	-.-		60%
Aug.13	9%	25%	-.-	19%	50%	-.-	45%	50%
Sep.13	9%	20%	-.-	17%	50%	-.-	45%	50%
Oct.13	9%	16%	-.-	16%	50%	-.-	45%	50%
Dec.13	9%	15%	-.-	15%	50%	-.-	45%	50%

Source: BCRP.

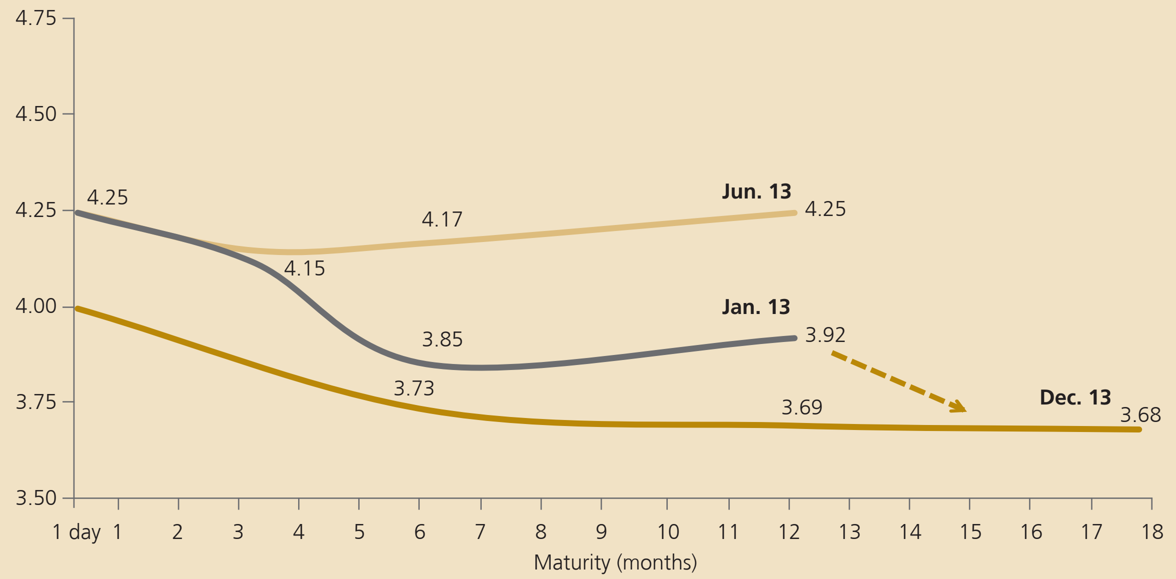
2. Interest Rates

The stability of the reference rate was reflected in the almost flat yield curve of the BCRP securities in the first half of the year. Towards the end of the year, the reduction of the reference rate in November as well as expectations of lower future reference rates reflected in the six-to-eighteen-month segment of the yield curve.

The interest rate on corporate loans in nuevos soles showed a slight decreasing trend in 2013, in line with the behavior of the monetary policy rate.

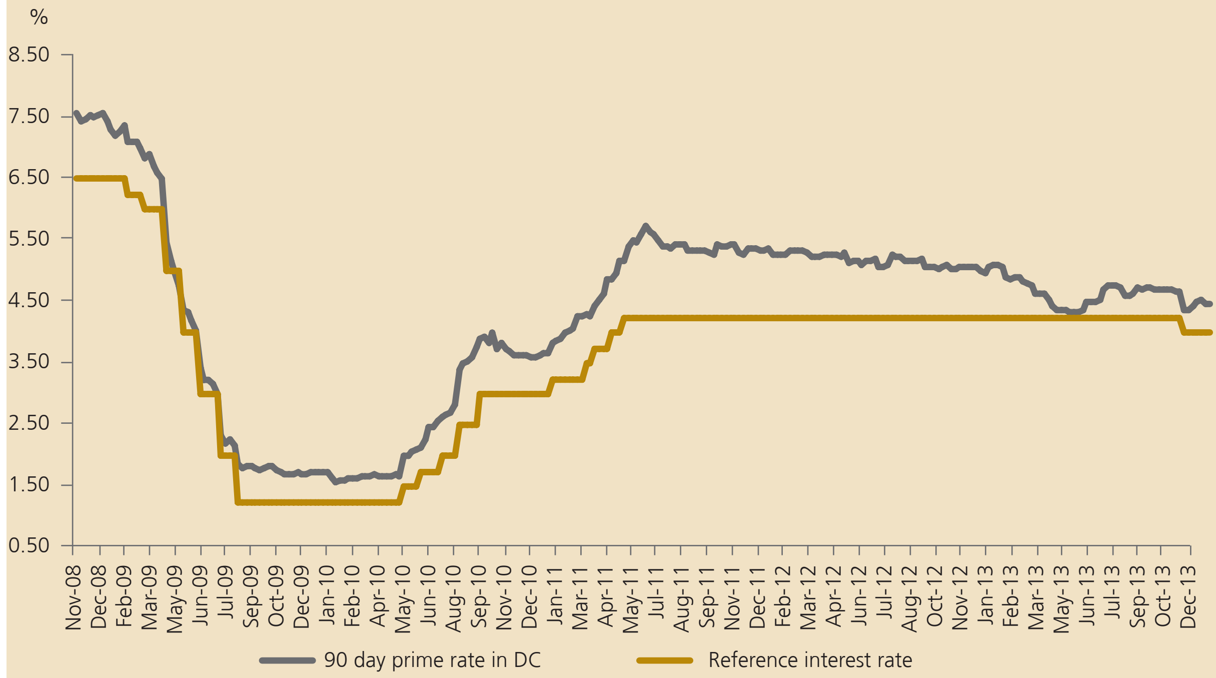
On the other hand, the average rate for loans in domestic currency (FTAMN) rose from 19.1 percent in December 2012 to 20.1 percent in December 2013 as a result of the increased demand for credit in this currency. Moreover, the interest rates on deposits showed a mixed conduct. Thus, while the interest rate on up to 30-day-deposits increased from 3.5 to 3.7 percent, the interest rate on more than 180-day deposits dropped from 4.2 to 3.5 percent.

GRAPH 78
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.

GRAPH 79
REFERENCE INTEREST RATE AND CORPORATE PRIME RATE IN DOMESTIC CURRENCY



Source: BCRP.

TABLE 65
INTEREST RATES ON OPERATIONS IN NUEVOS SOLES
(%)

	2010	2011	2012	Jun.2013	Dec.2013
1. Interbank rate	3.0	4.2	4.3	4.3	4.2
2. Deposits up to 30 days	2.2	3.9	3.5	3.4	3.7
3. 181-day to 360-day term deposits	3.8	4.7	4.2	3.5	3.5
4. Corporate prime rate	3.6	5.4	5.1	4.5	4.5
5. FTAMN 1/	22.8	21.3	19.1	22.6	20.1

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 showed a declining trend, reflecting the low interest rates seen in the international market and banks' excess liquidity in foreign currency. This trend intensified since May 2013 with the faster pace of growth of deposits in dollars in the domestic financial system which was associated with increased expectations of a depreciation of the nuevo sol. Because of this greater preference for saving in dollars, particularly in the case of companies, and because of the rapid slowdown in the demand for credit, banks increased their overnight deposits at the BCRP and reduced their short-term external liabilities. As a result, the corporate prime lending rate in dollars fell 330 basis points in 2013 (from 4.2 to 0.9 percent), while the rate for up to 30-day deposits fell from 1.4 to 0.1 percent.

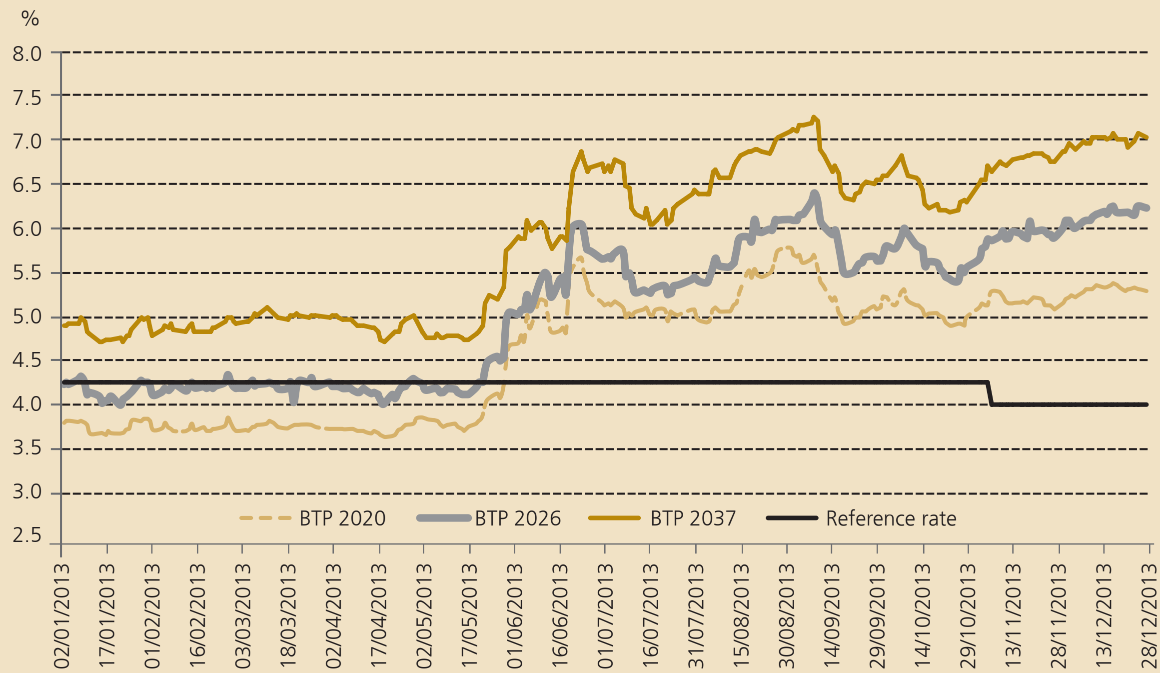
TABLE 66
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

	2010	2011	2012	Jun.2013	Dec.2013
1. 3-month libor rate	0.3	0.6	0.3	0.3	0.2
2. Interbank rate	1.1	0.3	1.1	0.3	0.3
3. Deposits up to 30 days	0.9	0.7	1.4	0.3	0.1
4. 181-day to 360-day term deposits	1.7	1.6	1.7	1.6	0.9
5. Corporate prime rate	2.1	2.4	4.2	2.5	0.9
6. FTAMEX 1/	7.9	6.8	8.2	8.1	7.3

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

The long-term interest rates showed high volatility in 2013. Until April, the strong inflow of capital and the high preference of non-resident investors for low-risk fixed income securities led the interest rates of Peru's Treasury Bonds (BTPs) to drop strongly, even below the monetary policy rate. Then, a significant correction in the prices of these securities was observed in May with the U.S. Federal Reserve announcement of the likely beginning of the withdrawal of its asset purchase program, which was reflected in an upward shift in the yield curve of PTPs in domestic currency of 200 bps on average for the entire curve. These higher interest rates were also reflected in the market of corporate bonds in domestic currency, which uses the yield curve of the BTPs as benchmark.

GRAPH 80
SOVEREIGN BOND YIELDS (BTP)
(Annual rate)



Source: MEF.

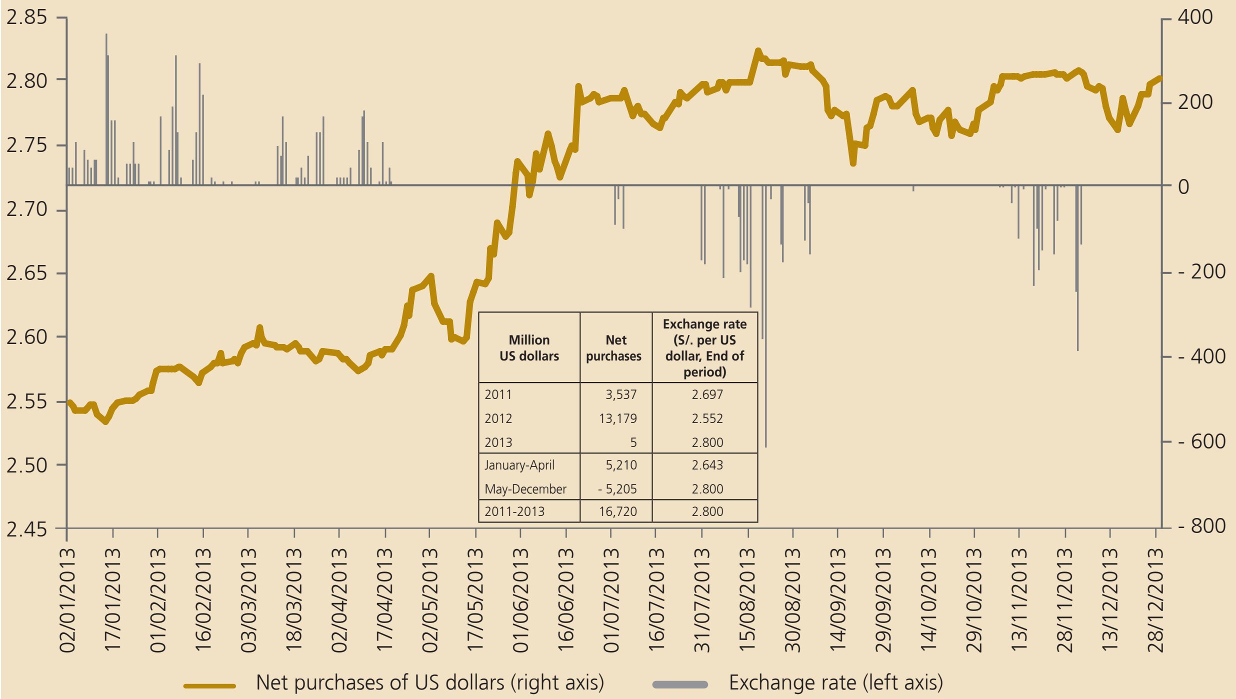
3. Foreign Exchange Rate

Like the market of long-term bonds, the nuevo sol showed high volatility during the year. The latter was strongly marked by changes in the international environment associated both with the beginning of the FED's withdrawal of its asset purchase program and with the evolution of China's economy and the recovery of the world economy. Thus, in 2013 the nuevo sol depreciated 9.6 percent against the dollar in nominal terms (from S/. 2.55 to S/. 2.80 per dollar). The exchange rate showed a differentiated conduct over the year, with a period of lower volatility between January and April during which the nuevo sol depreciated 3.7 percent, influenced mainly by monetary policy actions. Thus, the BCRP raised the average rate of reserve requirements in dollars by up to 250 bps and reduced the limit of AFPs' investment abroad. Moreover, the government announced the purchase of foreign currency for up to US$ 4 billion for the purpose of making a prepayment of the external debt during the second quarter of the year, among other operations.

In May, the depreciation of the nuevo sol exceeded 3 percent. This level of depreciation was influenced by both resident and non-resident economic agents' greater demand for dollars associated with increased expectations of a depreciation of the nuevo sol as a result of the FED's announcement that it would start reducing the amount of its purchases of assets, which increased risk aversion and led investors to restructure their portfolios and increase their investment in assets of developed economies like the United States.

It should be pointed out that the magnitude of the depreciation of the local currency during the year has been similar to the one affecting the currencies of other economies in the region, like Colombia, Chile, and Mexico. In addition to this, in the case of Peru, the turbulence in the international market has not produced significant capital outflows, but rather a restructuring of agents' portfolio mainly.

GRAPH 81
EXCHANGE RATE AND INTERVENTION IN THE FOREIGN EXCHANGE MARKET



Million US dollars	Net purchases	Exchange rate (S/. per US dollar, End of period)
2011	3,537	2.697
2012	13,179	2.552
2013	5	2.800
January-April	5,210	2.643
May-December	- 5,205	2.800
2011-2013	16,720	2.800

Source: BCRP.

The BCRP intervention in the foreign exchange market was aimed at reducing the volatility of the exchange rate, which allowed the real exchange rate to return to levels of equilibrium towards the end of the year. Thus, in the first four months of the year the BCRP bought dollars in the foreign exchange market for a total of US$ 5.2 billion, in a context of currency appreciation in the region as a result of monetary stimulus policies in the world. In the second half of the year, the BCRP sold a similar amount of dollars in the exchange market.

The supply of foreign currency in the exchange market came mainly from local private agents and non-residents, who provided US$ 3.34 billion and US$ 1.53 billion, respectively. On the other hand, pension funds generated a net demand for US$ 4.25 billion, which reflected mainly the demand for US$ 3.57 billion in the spot market. Moreover, Banco de la Nación and financial companies recorded a demand for a total of US$ 878 million while local banks showed a demand for a total of US$ 850 million to increase their foreign exchange position. In this context, the BCRP offered US$ 1.11 billion in the foreign exchange market mainly through the net placement of CDR-BCRP, which amounted to US$ 1.11 billion.

TABLE 67
FLOWS IN THE FOREIGN EXCHANGE MARKET 1/
(Million US$)

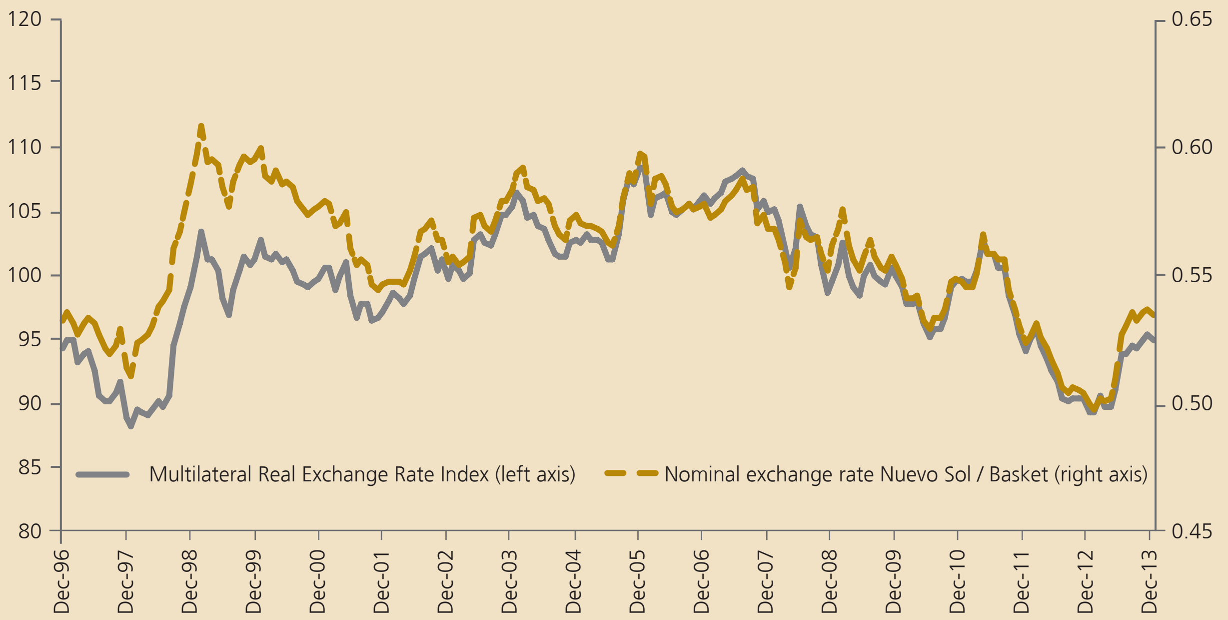
	2011	2012	2013
Pension funds	**2,840**	**201**	**4,254**
Spot	2,108	2,915	3,565
Forward	732	- 2,714	688
Non-residents	**1,425**	**361**	**- 1,534**
Spot	- 317	- 1,465	- 562
Forward	1,742	1,826	- 972
Banco de la Nación and financial companies	**614**	**1,017**	**878**
Spot	519	693	756
Forward	95	325	121
Private	**- 8,565**	**- 14,431**	**- 3,340**
Bank's international position	**311**	**- 328**	**850**
BCRP intervention	**3,374**	**13,179**	**- 1,108**

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

In 2013, the BCRP accumulated international reserves for a total of US$ 1.67 billion, thus increasing the balance of reserves from US$ 63.99 billion in December 2012 to US$ 65.66 billion at end-2013. This level of international reserves is equivalent to 32 percent of GDP and to 8 times the total of the country's short-term external liabilities, which makes the Peruvian economy one of the least vulnerable economies face sudden capital outflows.

In real terms, the multilateral real exchange rate index depreciated 6.0 percent, from a level of 89.5 in December 2012 to 94.9 in December 2013. The real depreciation was lower than the nominal depreciation given that local inflation was higher than external inflation.

GRAPH 82
NOMINAL AND MULTILATERAL REAL EXCHANGE RATE



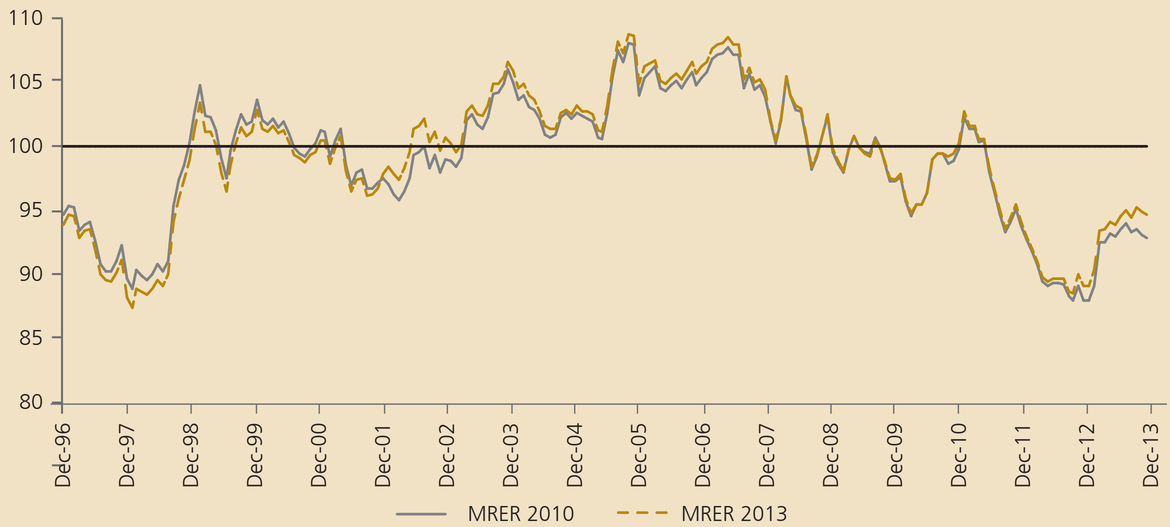
Source: BCRP.

Box 3
UPDATING THE WEIGHT STRUCTURE OF THE MULTILATERAL REAL EXCHANGE RATE

In order to estimate the multilateral real exchange rate index (MREER), we build an external price index using the price indices of Peru's major trading partners. The new MREER series includes the update of the former weights used. Until our previous Annual Report, the participation of 20 of Peru's major trade partners in 2010 (exports plus imports) were used as weights. As from this Annual Report, the weights are updated based on the trade structure of 2013 and the MRER includes the following countries: United States, China, Brazil, Japan, Canada, Switzerland, South Korea, Chile, Ecuador, Germany, Mexico, Spain, Colombia, Italy, India, Netherlands, Belgium, United Kingdom, Thailand, and Taiwan.

The new series considers the use of the updated weight structure for the whole period and 2009 is set as the base year in order to be consistent with the consumer price index.

MULTILATERAL REAL EXCHANGE RATE



Source: BCRP.

4. Monetary and Credit Aggregates

The annual growth rates of liquidity and credit have continued to slow down between 2012 and 2013, which would be associated with the decline observed in the growth of economic activity.

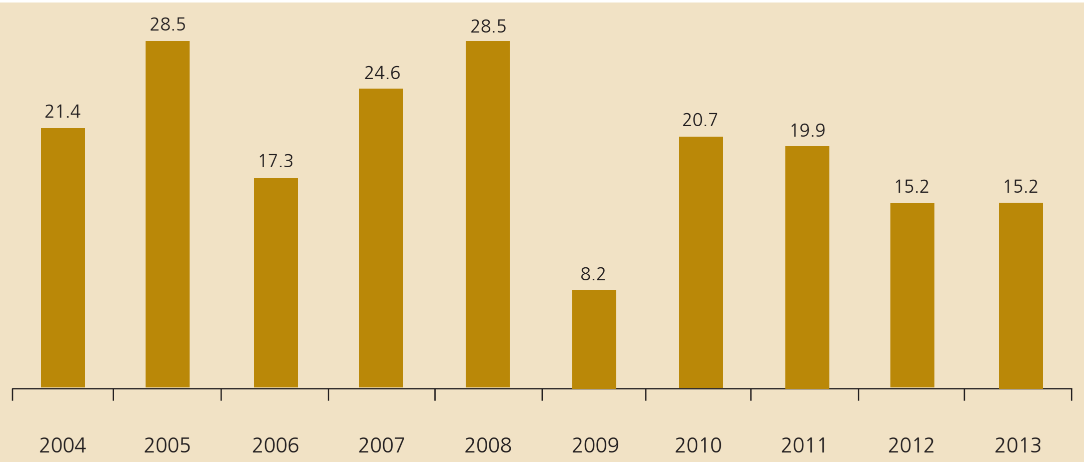
Total liquidity grew 11.3 percent. Liquidity in domestic currency grew 10.8 percent, while liquidity in foreign currency grew 12.4 percent. Thus, the ratio of dollarization of liquidity increased from 30.7 percent in December 2012 to 33.0 percent in December 2013.

Total credit to the private sector grew 13.2 percent. Credit in domestic currency grew 22.5 percent while credit in foreign currency grew 2.0 percent. The ratio of dollarization of credit decreased from 43.0 percent in December 2012 to 40.8 percent in December 2013.

4.1. Currency in Circulation

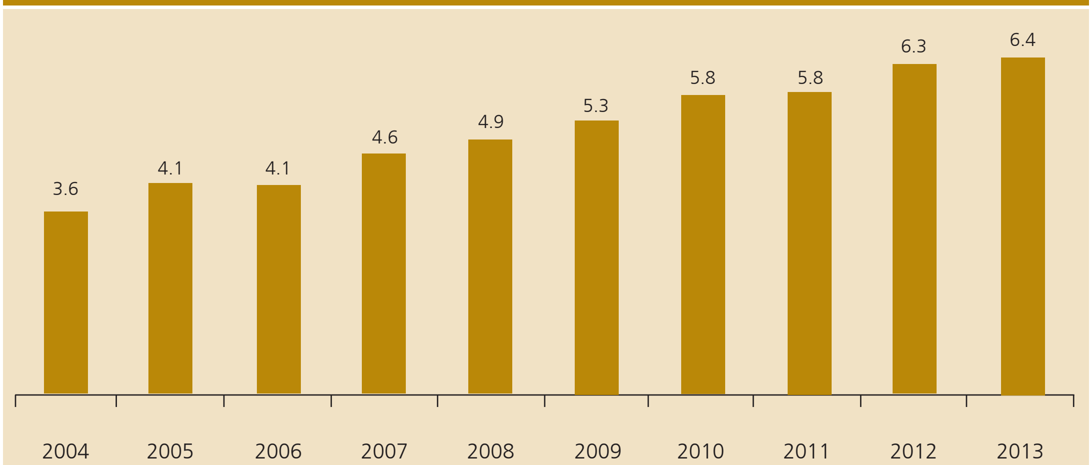
In 2013 the daily average balance of currency was S/. 31.77 billion, which represents a growth rate of 15.2 percent in annual terms, a similar rate to the one recorded in 2012. In GDP terms, currency grew 0.2 percentage points relative to 2012 and recorded a rate of 6.4 percent. This rate is consistent with the growth of economic activity.

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



Source: BCRP.

GRAPH 84
CURRENCY
(% GDP)



Source: BCRP.

The balance of currency in circulation at December 2013 was S/. 35.24 billion, an amount S/. 2.99 billion (9.3 percent) higher than in December 2012. The BCRP operations, which were aimed at meeting the public's increased demand for liquidity and ensuring the flow of transactions in the monetary market, were consistent with the sterilizing effect generated by the the central bank's greater sales of dollars in the foreign exchange market compared with the previous year, offset in part by a lower balance of public sector deposits in soles at the BCRP.

The public sector deposits in nuevos soles declined by S/. 3.29 billion –which reduced the need for injecting liquidity through open market operations–, while the net balance of the BCRP foreign exchange operations showed a negative value of S/. 12.68 billion (which is equivalent to net sales amounting to US$ 4.27 billion). A reduction of required reserves deposits in nuevos soles of S/. 3.79 billion was also recorded in the year after the rate of reserve requirements in domestic currency was reduced since June. In this scenario, the temporary purchases of securities made in this period amounted to a total of S/. 950 million.

A reduction of dollars of US$ 4.27 billion was generated as a result of the flow of foreign exchange operations, including net purchases of foreign currency (US$ 5 million), sales of dollars to the public sector (US$ 4.30 billion), and other purchases of foreign currency (US$ 24 million).

Direct purchases of foreign currency in the first four months of the year amounted to US$ 5.21 billion. Since July 2013, the BCRP sold dollars for a total of US$ 5.21 billion in the foreign exchange market.

In response to the depreciatory pressures on the nuevo sol during the second half of the year, the sale of foreign currency was accompanied by auctions of certificates of deposit indexed to the exchange rate (CDR-BCRP), the balance of which increased to S/. 3.11 billion at the end of 2013.

On the other hand, the lower volume of monetary sterilization during the year was mainly aimed at maintaining adequate levels of liquidity and guaranteeing the flow of operations in the money market, in a context of banks' lower availability of liquidity in domestic currency as a result of their higher purchases of dollars during the second half of the year.

The flow of net placements of certificates of deposit (CD-BCRP) dropped by S/. 1.81 billion in 2013 and a null balance of term deposits (DP-BCRP) was recorded at year-end.

TABLE 68
OPERATIONS OF THE BCRP
(Million nuevos soles)

	2011	2012	2013
I. EXCHANGE OPERATIONS	**669**	**31,172**	**- 12,681**
(Million US$)	329	11,837	- 4,270
1. Over the counter trading	3,537	13,179	5
2. Public sector	- 3,039	- 1,353	- 4,298
3. Others	- 169	11	24
II. NET DOMESTIC ASSETS	**2,461**	**- 26,188**	**15,675**
1. Public sector deposits	- 5,214	- 7,999	3,293
2. Repos	0	0	950
3. CD BCRP (Certificates of deposit)	- 13,550	- 7,225	1 812
4. CDR BCRP (Certificates of deposit indexed to the exchange rate)	0	0	- 3 111
5. CDLD BCRP (Certificates of deposit payable in dollars)	450	0	0
6. CDV BCRP (Certificates of deposit indexed to the reference rate)	3,196	0	0
7. Term deposits (DP BCRP)	17,151	- 5,611	9 248
8. Overnight deposits	559	- 375	- 2 602
9. Reserve requirements in domestic currency	- 2,630	- 7,784	3,793
10. Rest	2,499	2,805	2 292
III. CURRENCY	**3,130**	**4,984**	**2,994**
Memo: Balance at end of period			
- Currency	27,261	32,244	35,239
- CD BCRP	13,580	20,805	18,992
- CDR BCRP	0	0	3,111
- CDLD BCRP	0	0	0
- Term deposits (DP BCRP)	3,637	9,248	0
- Public sector deposits	31,940	39,939	36,646

Memo:
CD BCRP: Certificate of deposit.
CDR BCRP: Certificate of deposit indexed to the exchange rate.
CDLD BCRP: Certificate of deposit payable in dollars.
Source: BCRP.

Box 4
EQUITY POSITION OF CENTRAL BANKS

Central banks require an adequate level of capital to achieve their objectives because this gives them more flexibility to modify the composition and structure of their balance sheet and, therefore, they can implement monetary policy actions more effectively. Several reasons explain why it is important that central banks have a good equity position, including the following:

a. A good equity position provides a central bank with sufficient backup to take policy actions that are justified from the point of view of its macroeconomic objectives.
b. It generates confidence and credibility on the central bank's institutional capacity to mitigate risks that could affect the economy.
c. It serves as a backup to absorb losses associated with all kinds of operations and risks inherent to central banking activities.

d. It allows a central bank to absorb various shocks that represent losses without having to resort immediately to the government in order to replenish the lost capital.
e. A good equity position strengthens the central bank's financial independence and management vis-à-vis the government and third parties.

Fukui (2003)[9] says that a negative equity position can compromise the independence of the central bank and credibility in the currency. Vaez-Zadeh (1991)[10] maintains that a central bank can be perceived as weak in general if it shows a negative net worth, whereas a central bank with a good level of capital and reserves is seen as an entity capable of mitigating the risks the central bank may be exposed to. Moreover, a negative equity position would have expansionary effects on the money supply, which may affect the bank's effectiveness. Based on empirical estimates, Adler, Castro and Tovar (2012)[11] have recently argued that central banks with low levels of capital tend to implement more-than-recommended expansionary monetary policies – interest rates below optimal levels– than central banks with greater financial strength. Klüh and Stella (2008)[12] also found a negative relationship between the financial strength of a country's central bank and inflation.

Moreover, Stella (2005)[13] argues that it is hard to believe that a central bank will maintain its institutional independence when it depends on the goodwill of the Treasury to generate new capital that will enable it to continue its activities. In this regard, and according to Jácome and Vázquez (2005)[14], the existence of a mechanism whereby the State automatically compensates the central bank for the losses in which it may incur in the performance of its duties is one of the key indicators of the component of financial autonomy that defines the degree of independence of a central bank.

In the case of the Central Reserve Bank of Peru (BCRP), the mechanisms whereby the BCRP maintains an adequate equity position are established in article 93 of its Organic Law. When it occurs, within thirty days after its balance sheet has been approved, the Treasury issues and delivers negotiable debt securities to the Bank which earn interest for the amount not covered by the Bank' capital reserves. In the region, the rule governing the Central Bank of Brazil establishes that losses will be covered by the federal government the year following the approval of the financial balance. In Colombia, the losses for the year are covered by the State in cash in the first quarter of each year, provided that they have not been covered using the reserves accumulated in previous years.

The BCRP has been transferring profits to the Treasury until 2010. However, in a context of low international interest rates, this year the Public Treasury will give the Central Reserve Bank of Peru bonds for a total of S/. 205 million in order that the Bank will maintain a sound equity position, as provided for in article 93 of the BCRP Organic Law.

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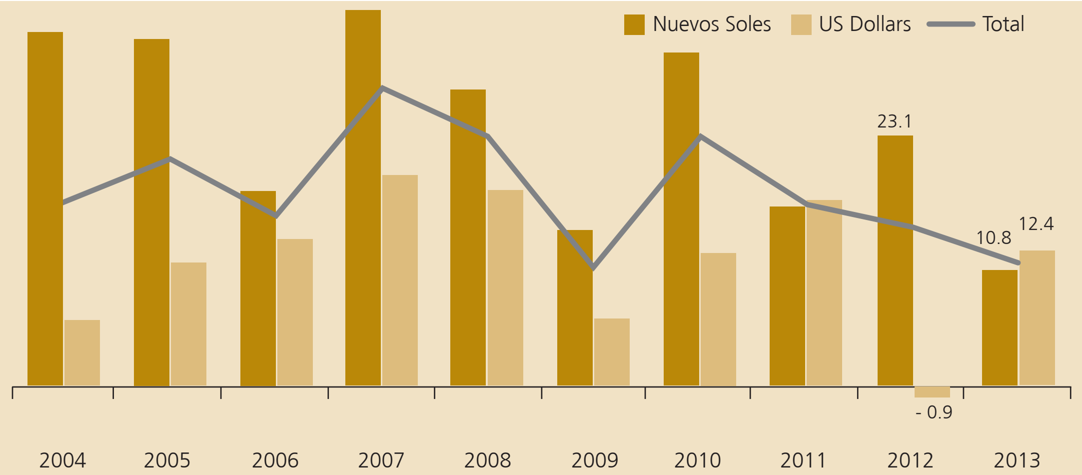
9 Fukui, Toshihiko; "Challenges for Monetary Policy in Japan"; speech by Mr Toshihiko Fukui, Governor of the Bank of Japan, at the Spring Meeting of the Japanese Society of Monetary Economics; June 2003.
10 Vaez-Zadeh, Reza; "Implications and Remedies of Central Bank Losses"; IMF, Central Banking Department; November 1991.
11 Adler, Castro, and Tovar; "Does Central Bank Capital Matter for Monetary Policy?"; IMF Working Paper, WP/12/60; February 2012.
12 Kluh and Stella; "Central Bank Financial Strength and Policy Performance: An Econometric Evaluation"; IMF Working Paper; WP/08/176; July 2008.
13 Stella, Peter; "Central Bank Financial Strength, Transparency, and Policy Credibility"; IMF Staff Papers; 2005.
14 Jácome, Luis y Vásquez, Francisco; "Any Link Between Legal Central Bank Independence and Inflation? Evidence from Latin America and the Caribbean"; IMF Working Paper; April 2005.

4.2. Liquidity

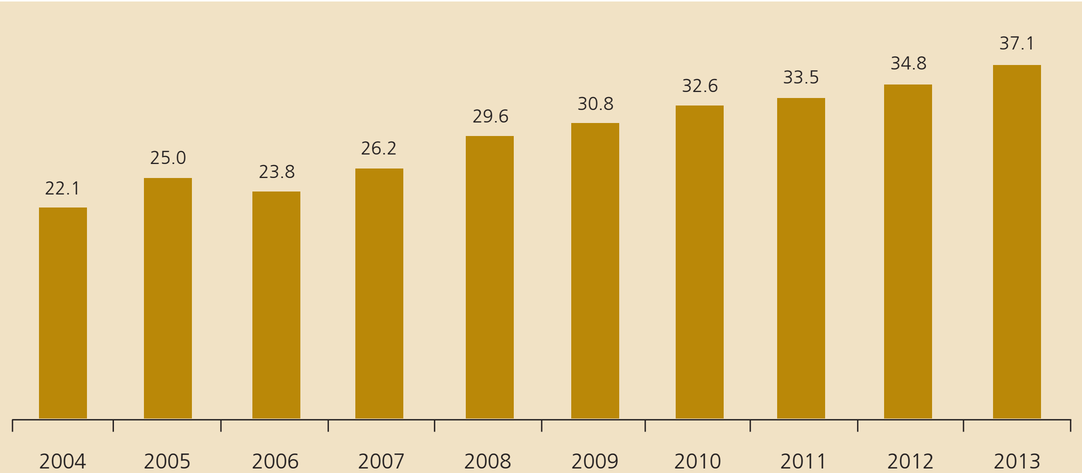
Liquidity in the private sector continued to grow, but at a lower rate than in the previous year due to the moderation in the growth of economic activity. Liquidity showed a growth rate of 11.3 percent, 2.8 percentage points lower than in 2012 (14.1 percent). On the other hand, the decline in the growth rate of deposits –which excludes currency in circulation– was 1.6 percentage points, from 13.0 percent in 2012 to 11.4 percent in 2013.

GRAPH 85
LIQUIDITY IN THE PRIVATE SECTOR 1/
(Annual % change, end of period)



1/ The balance in dollars is valued at the constant exchange rate in December 2013.
Source: BCRP.

GRAPH 86
LIQUIDITY 1/
(% GDP, end of period)



1/ The balance in dollars is valued at the bid-ask exchange rate at the end of period.
Source: BCRP.

TABLE 69
MAIN MONETARY AGGREGATES

	Balance in million nuevos soles			Grow rates (%)	
	2011	2012	2013	2012	2013
Currency	27,261	32,244	35,239	18.3	9.3
Money	48,766	57,488	61,822	17.9	7.5
Total deposits 1/	130,791	147,760	164,566	13.0	11.4
In nuevos soles	70,778	88,252	97,797	24.7	10.8
In dollars (Million US$)	21,433	21,253	23,846	- 0.8	12.2
Liquidity 1/	159,605	182,044	202,595	14.1	11.3
In nuevos soles	99,520	122,476	135,644	23.1	10.8
In dollars (Million US$)	21,459	21,274	23,911	- 0.9	12.4

1/ The balance in dollars is valued at the constant exchange rate in December 2013.
Source: BCRP.

By type of depositor, the deposits of natural persons grew at a higher rate (16.9 percent) than the deposits of legal entities (2.3 percent) in 2013. In terms of currencies, natural persons showed a greater preference for assets in nuevos soles while legal persons showed a greater preference for assets in dollars.

TABLE 70
DEPOSITS BY TYPE OF DEPOSITOR

	Balance in million nuevos soles			Growth rates (%)	
	2011	2012	2013	2012	2013
Individuals 1/	**79,751**	**91,868**	**107,384**	**15.2**	**16.9**
In nuevos soles	48,908	60,517	71,246	23.7	17.7
In US dollars (Million US$)	11,015	11,197	12,906	1.6	15.3
Businesses 1/	**51,039**	**55,892**	**57,182**	**9.5**	**2.3**
In nuevos soles	21,870	27,735	26,550	26.8	- 4.3
In US dollars (Million US$)	10,418	10,056	10,940	- 3.5	8.8
Total 1/	**130,791**	**147,760**	**164,566**	**13.0**	**11.4**
In nuevos soles	70,778	88,252	97,797	24.7	10.8
In US dollars (Million US$)	21,433	21,253	23,846	- 0.8	12.2

1/ The balance in dollars is valued at the constant exchange rate in December 2013.
Source: BCRP.

The slowdown 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 23.1 percent in 2012 to 10.8 percent in 2013. This slowdown was influenced by expectations of a depreciation of the nuevo sol against the dollar, which generated a re-composition of currencies in private sector deposits. Moreover, a greater decline was observed in the segment of term deposits (down from 34.3 percent in 2012 to 11.6 percent in 2013).

TABLE 71
LIQUIDITY IN DOMESTIC CURRENCY IN THE PRIVATE SECTOR

	Balance in million nuevos soles			Growth rates (%)	
	2011	2012	2013	2012	2013
Currency	27,261	32,244	35,239	18.3	9.3
Deposits	70,778	88,252	97,797	24.7	10.8
Demand deposits	21,505	25,244	26,584	17.4	5.3
Savings deposits	22,409	26,935	30,958	20.2	14.9
Term Deposits	26,863	36,073	40,255	34.3	11.6
Securities and other instruments	1,481	1,979	2,609	33.6	31.8
TOTAL	**99,520**	**122,476**	**135,644**	**23.1**	**10.8**

Source: BCRP.

On the other hand, liquidity in foreign currency showed a faster pace of growth than in the previous year, rising from -0.9 percent to 12.4 percent. Much of this increase took place during the second half of the year as a result of the expectations about a depreciation of the sol against the dollar. The most dynamic growth rates were observed in value assets (savings and term deposits), which grew substantially compared to the previous year. It is worth pointing out that the annual rate of term deposits grew from -7.9 percent in 2012 to 13.9 percent in 2013.

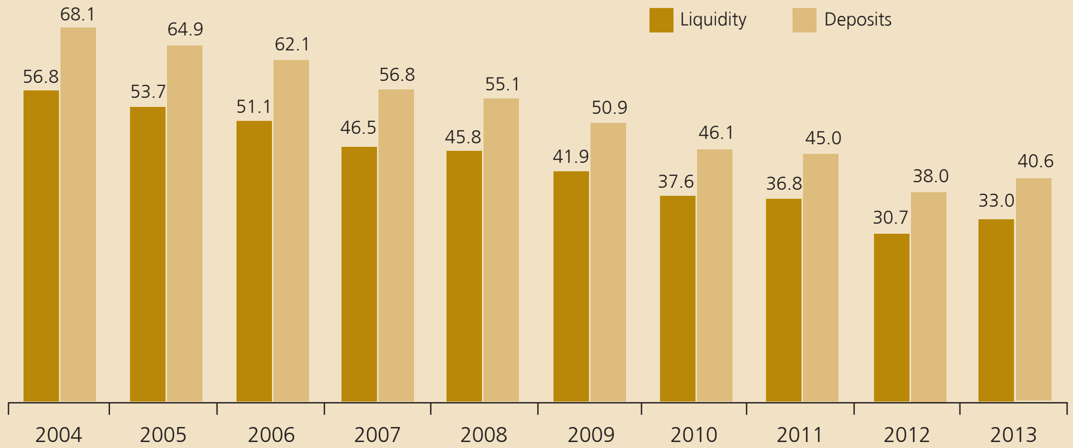
TABLE 72
LIQUIDITY IN FOREIGN CURRENCY IN THE PRIVATE SECTOR

	Balance in million US$			Growth rates (%)	
	2011	2012	2013	2012	2013
Deposits	21,433	21,253	23,846	- 0.8	12.2
Demand deposits	6,981	7,552	8,483	8.2	12.3
Savings deposits	5,411	5,369	5,873	- 0.8	9.4
Term Deposits	9,042	8,331	9,491	- 7.9	13.9
Securities and other instruments	26	21	65	- 17.4	202.8
TOTAL	**21,459**	**21,274**	**23,911**	**- 0.9**	**12.4**

Source: BCRP.

In this scenario, the ratio of dollarization of liquidity increased 2.3 percentage points over the year (from 30.7 percent in December 2012 to 33.0 percent in December 2013), after having shown a de-dollarization trend over the last decade. Furthermore, the ratio of dollarization of deposits increased from 38.0 percent in December 2012 to 40.6 percent in December 2013.

GRAPH 87
DOLLARIZATION OF LIQUIDITY AND DEPOSITS
(%)

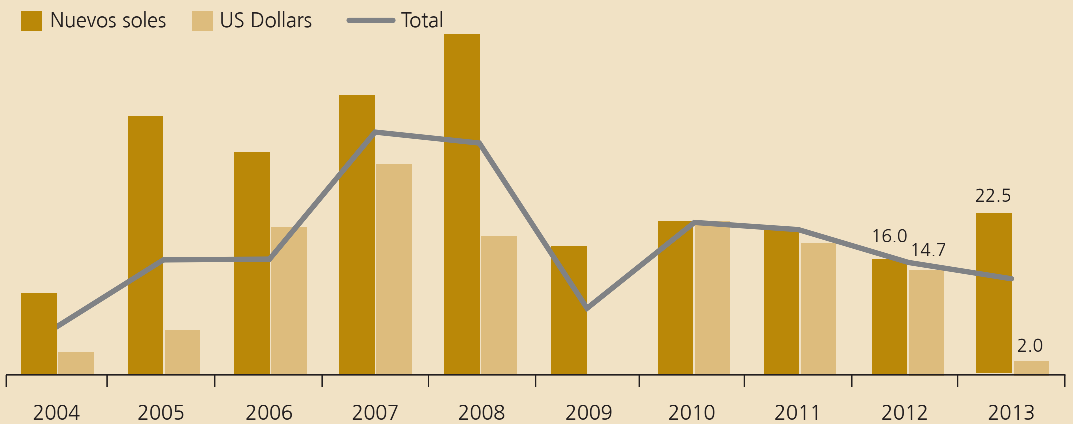


Source: BCRP.

4.3. Credit to the Private Sector

The growth rate of total credit to the private sector shrank for the third consecutive year, declining from 15.4 percent in 2012 to 13.2 percent in 2013. It should be pointed out that the balance of total credit includes the loans that local banks transfer to their branches abroad, which are accounted for as loans granted by these branches.

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

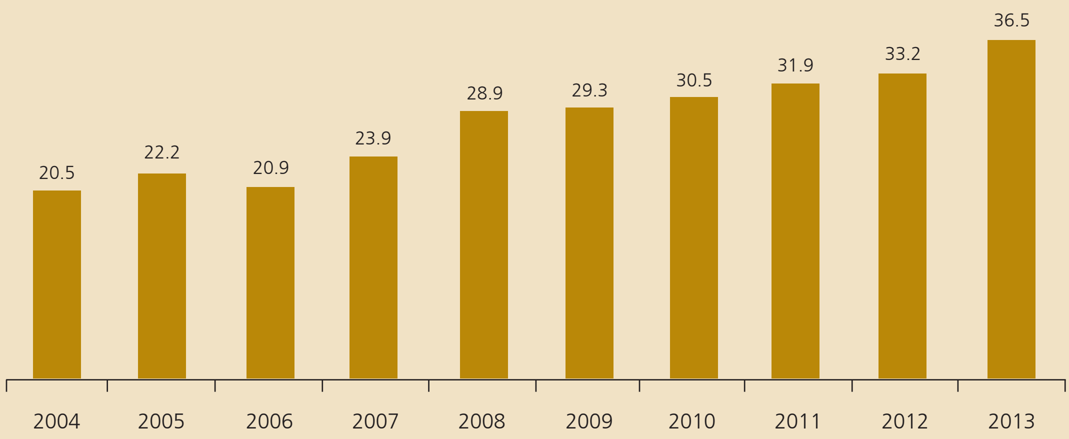


1/ The balance in dollars is valued at the constant exchange rate in December 2013. Includes loans made by banks' branches abroad.
Source: BCRP.

Credit to the private sector showed a gradual slowdown over the year. Credit to the private sector in domestic currency was the most dynamic component of credit with a growth rate of 22.5 percent (16.0 percent in 2012), while credit in foreign currency grew only 2.0 percent (14.7 percent in 2012) given the strengthening of the dollar against the nuevo sol.

Thus, the ratio of dollarization of credit to the private sector continued showing a downward trend (down from 43.0 percent in December 2012 to 40.8 percent in December 2013).

GRAPH 89
CREDIT TO PRIVATE SECTOR 1/
(% GDP, end of period)



1/ The balance in dollars is valued at the bid-ask exchange rate at the end of period. Includes loans made by banks' branches abroad.
Source: BCRP.

TABLE 73
TOTAL CREDIT TO THE PRIVATE SECTOR 1/

	Balance in million nuevos soles			Growth rates (%)	
	2011	2012	2013	2012	2013
Businesses	**100,098**	**113,451**	**128,374**	**13.3**	**13.2**
Corporate and large companies	46,811	50,811	61,798	8.5	21.6
Medium-sized enterprises	26,004	30,792	33,982	18.4	10.4
Small businesses	27,283	31,847	32,594	16.7	2.3
Individuals	**52,452**	**62,620**	**71,004**	**19.4**	**13.4**
Consumer	**31,897**	**36,786**	**40,983**	**15.3**	**11.4**
Car loans	1,543	1,931	2,211	25.2	14.5
Credit cards	10,793	12,237	13,243	13.4	8.2
Others	19,561	22,618	25,529	15.6	12.9
Mortgage	**20,555**	**25,834**	**30,021**	**25.7**	**16.2**
TOTAL	**152,550**	**176,070**	**199,378**	**15.4**	**13.2**

1/ The balance in dollars is valued at the constant exchange rate in December 2013. Includes loans made by banks' branches abroad.
Source: BCRP.

By type of borrower, both segments registered a slowdown. In the segment of corporate credit, credit slowed down from 13.3 percent in 2012 to 13.2 percent in 2013. In the segment of personal loans, credit slowed from 19.4 percent to 13.4 percent, mainly as a result of the lower dynamism of mortgage loans.

By economic sector and considering credit to businesses only, the highest increase in the demand for loans was observed in the sectors of trade (S/. 3.70 billion), manufacturing (S/. 3.12 billion), and mining (S/. 2.03 billion). These three sectors concentrated 59 percent of the demand for business loans during the year.

TABLE 74
TOTAL CREDIT BY ECONOMIC SECTOR 1/

	Balance in million nuevos soles			Growth rates (%)	
	2011	2012	2013	2012	2013
Agriculture and livestock	4,560	5,388	5,904	18.2	9.6
Fishing	1,636	1,512	1,625	-7.6	7.5
Mining	5,086	4,700	6,731	-7.6	43.2
Manufacturing Industry	23,073	24,269	27,387	5.2	12.8
Electricity, Gas and Water	5,505	6,683	6,085	21.4	- 9.0
Construction	3,008	3,847	4,194	27.9	9.0
Commerce	25,160	29,498	33,187	17.2	12.5
Hotels and Restaurants	2,412	2,914	2,977	20.8	2.2
Transportation and Communications	8,548	9,374	10,375	9.7	10.7
Real Estate and Business	10,435	12,713	13,635	21.8	7.3
Rest	10,673	12,551	16,273	17.6	29.7
TOTAL	**100,098**	**113,451**	**128,374**	**13.3**	**13.2**

1/ The balance in dollars is valued at the constant exchange rate in December 2013. Includes loans made by banks' branches abroad.
Source: SBS.

In terms of credit in domestic currency, the increase of 22.5 percent recorded in credit to the private sector (annual flow of S/. 21.68 billion) is explained mainly by increased credit to businesses, since the latter grew 25.8 percent (S/. 12.84 billion) and accounted for 59 percent of the increase observed in credit in nuevos soles. On the other hand, credit to individuals grew 19.0 percent (S/. 8.84 billion), with consumer loans with a growth rate of 12.3 percent (S/. 4.04 billion) and mortgage loans with a rate of 35.1 percent (S/. 4.8 billion) standing out.

Influenced mainly by expectations of a depreciation of the nuevo sol against the dollar due to expectations that international interest rates would rise, credit to the private sector in foreign currency expanded 2.0 percent (annual flow of US$ 583 million).

By type of borrower, the segment of corporate loans in dollars grew 3.3 percent (US$ 745 million), while the segment of credit to individuals dropped 2.8 percent (negative flow of US$ 162 million), due mainly to the decline of mortgage loans which fell 5.0 percent.

TABLE 75
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance in million nuevos soles			Growth rates (%)	
	2011	2012	2013	2012	2013
Businesses	**44,116**	**49,774**	**62,610**	**12.8**	**25.8**
Corporate and large companies	13,390	13,089	21,206	- 2.3	62.0
Medium-sized enterprises	8,115	9,861	12,795	21.5	29.8
Small businesses	22,611	26,824	28,609	18.6	6.7
Individuals	**38,917**	**46,572**	**55,412**	**19.7**	**19.0**
Consumer	**28,656**	**32,910**	**36,950**	**14.8**	**12.3**
Car loans	456	422	558	- 7.4	32.0
Credit cards	10,087	11,382	12,337	12.8	8.4
Others	18,113	21,106	24,056	16.5	14.0
Mortgage	**10,261**	**13,662**	**18,462**	**33.2**	**35.1**
TOTAL	**83,034**	**96,346**	**118,022**	**16.0**	**22.5**

Source: BCRP.

TABLE 76
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY 1/

	Balance in million US$			Growth rates (%)	
	2011	2012	2013	2012	2013
Businesses	**19,993**	**22,742**	**23,487**	**13.7**	**3.3**
Corporate and large companies	11,936	13,472	14,497	12.9	7.6
Medium-sized enterprises	6,389	7,476	7,567	17.0	1.2
Small businesses	1,669	1,794	1,423	7.5	- 20.7
Individuals	**4,834**	**5,731**	**5,569**	**18.6**	**- 2.8**
Consumer	**1,157**	**1,384**	**1,440**	**19.6**	**4.0**
Car loans	388	539	591	38.9	9.6
Credit cards	252	305	324	21.1	6.0
Others	517	540	526	4.4	- 2.6
Mortgage	**3,677**	**4,347**	**4,128**	**18.2**	**- 5.0**
TOTAL	**24,827**	**28,473**	**29,056**	**14.7**	**2.0**

1/ Includes loans made by banks' branches abroad.
Source: BCRP.

Credit to the private sector continued to show lower levels of dollarization in all its types in 2013. The ratio of dollarization of credit to the private sector declined 2.2 percentage points, from 43.0 percent in December 2012 to 40.8 percent in December 2013.

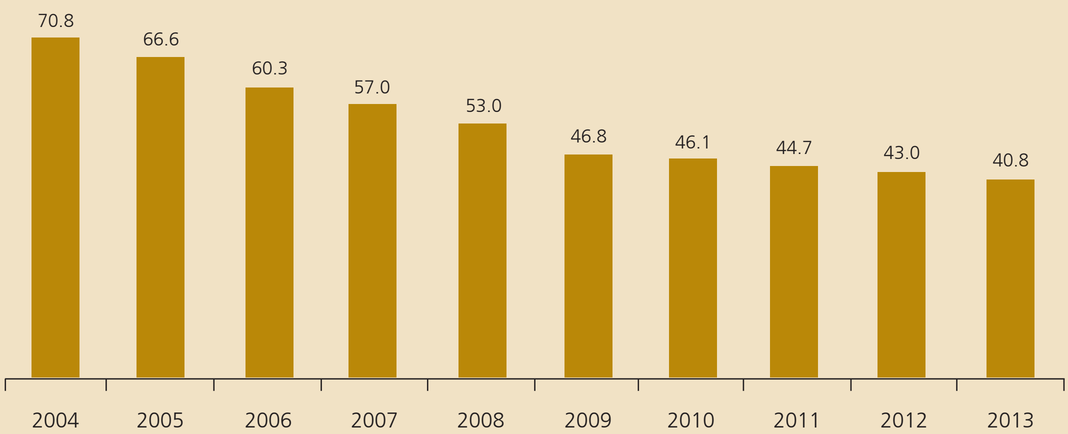
Credit to businesses registered a dollarization ratio of 51.2 percent, 2.6 percentage points lower than in the previous year (53.8 percent), while the ratio of dollarization of credit to individuals showed a lower decrease as it fell from 23.9 percent in 2012 to 22.0 percent in 2013. On the other hand, however, the de-dollarization of mortgage loans stand out since its ratio of dollarization decreased from 44.8 percent in 2012 to 38.5 percent in 2013.

TABLE 77
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/

	2011	2012	2013
Businesses	**55.0**	**53.8**	**51.2**
Corporate and large companies	70.6	72.4	65.7
Medium-sized enterprises	68.0	65.9	62.3
Small businesses	16.6	14.6	12.2
Individuals	**25.1**	**23.9**	**22.0**
Consumer	**9.8**	**9.7**	**9.8**
Car loans	69.7	76.5	74.8
Credit cards	6.3	6.4	6.8
Others	7.2	6.1	5.8
Mortgage	**49.2**	**44.8**	**38.5**
TOTAL	**44.7**	**43.0**	**40.8**
Memo:			
Dollarization of credit at constant exchange rate	45.6	45.3	40.8

1/ Includes loans made by banks' branches abroad.
Source: BCRP.

GRAPH 90
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/
(%)



1/ Includes loans made by banks' branches abroad.
Source: BCRP.

5. Funding to the Private Sector

Total funding to the private sector grew 14.6 percent in 2013, 4.2 percentage points less than in 2012. This concept provides a wider overview of the funding sources obtained by private non-financial companies besides the credit obtained through the credit channel of depository institutions, because it includes funding through other financial institutions such as mutual funds, insurance companies, and private pension funds, as well as direct loans obtained by companies abroad.

As previously mentioned, during 2013 the annual growth of credit to the private sector through depository institutions showed a slower pace declining from 15.4 percent in 2012 to 13.2 percent in 2013. A reduction was also observed in the funding obtained from institutional investors, whose holdings of securities of private enterprises decreased 1.7 percent in 2013.

Finally, the direct funding obtained by Peruvian companies abroad in 2013 showed a lower dynamism than in the previous year. Private companies' external debt grew 27.8 percent (US$ 4.67 billion), a rate lower than in 2012 (30.9 percent). Most of this funding was medium- and long-term debts, which grew 42.7 percent in the year (US$ 5.08 billion). Direct short-term loans, on the other hand, decreased 8.5 percent affected by the international context.

TABLE 78
FINANCING TO THE PRIVATE SECTOR 1/

	Balance in million nuevos soles			Growth rates (%)	
	2011	2012	2013	2012	2013
I. CREDIT OF DEPOSITORY CORPORATIONS 2/	**152,550**	**176,070**	**199,378**	**15.4**	**13.2**
Domestic currency	83,034	96,346	118,022	16.0	22.5
Foreign currency (Million US$)	24,827	28,473	29,056	14.7	2.0
Dollarization (%)	*44,7*	*43,0*	*40,8*		
II. CREDIT OF OTHER FINANCIAL CORPORATIONS 3/	**18,972**	**23,358**	**22,968**	**23.1**	**- 1.7**
Domestic currency	9,402	11,078	11,568	17.8	4.4
Foreign currency (Million US$)	3,418	4,386	4,071	28.3	- 7.2
Dollarization (%)	*49,5*	*50,2*	*49,6*		
Of which:					
AFP's loans	7,615	8,991	8,765	18.1	- 2.5
Loans of mutual funds	952	956	622	0.4	- 35.0
Loans of insurances	2,589	3,405	3,719	31.5	9.2
III. EXTERNAL PRIVATE INDEBTNESS	**35,898**	**46,991**	**60,061**	**30.9**	**27.8**
(Million US$)	**12,821**	**16,782**	**21,450**	**30.9**	**27.8**
Short-term (Million US$)	4,523	4,881	4,468	7.9	- 8.5
Medium- and long-term (Million US$)	8,298	11,902	16,982	43.4	42.7
IV. TOTAL	**207,420**	**246,419**	**282,407**	**18.8**	**14.6**
Domestic currency	92,436	107,424	129,590	16.2	20.6
Foreign currency (Million US$)	41,066	49,641	54,578	20.9	9.9
Dollarization (%)	*54,5*	*54,1*	*54,1*		

1/ The balance in dollars is valued at the constant exchange rate in December 2013.
2/ Includes loans made by banks' branches abroad.
3/ Includes loans and investments in fixed-income bonds of institutional investors.
Source: BCRP.

A decline was observed in mid-2013 in the placements of private non-financial companies abroad, which sprang up in 2011 in a context of favorable conditions of access to funds to repay bank debts or invest in future projects, due to market expectations that international interest rates would rise and due to the strengthening of the dollar. The flow of bonds placed by private non-financial companies abroad amounted to US$ 3.87 billion in 2013 (vs. US$ 1.66 billion in 2012). Thus, 83 percent of the flow of Peruvian companies' borrowing from abroad in 2013 was bond placements in the international market.

6. Financial Indicators

Banks' financial indicators deteriorated in 2013 compared to the previous year. The ratio of non-performing loans increased to 2.1 percent, a rate 0.3 percent higher than in the previous year, and the ratio of high-risk loans in the total portfolio rose from 2.8 to 3.1 percent in the same period. The coverage level in the high-risk portfolio dropped from 142.5 percent to 131.6 percent. Moreover, the return on equity (ROE) and the return on assets (ROA) declined from 22.4 percent to 21.2 percent and from 2.2 to 2.0 percent, respectively.

TABLE 79
FINANCIAL INDICATORS ON COMMERCIAL BANKS
(%)

	2011	2012	2013
Overdue loans / gross placements 1/	1.5	1.8	2.1
High risk portfolio / gross placements 2/	2.5	2.8	3.1
Allowance for loans / high-risk portfolio	149.8	142.5	131.6
Return on equity (ROE)	24.5	22.4	21.2
Return on assets (ROA)	2.3	2.2	2.0

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, the rates of non performing corporate loans and non performing loans to large companies remained stable and at low levels (zero percent and 0.4 percent, respectively). But in the segments of medium-, small- and micro-enterprises arrears increased considerably, reaching an average level of 7.3 percent (2 percentage points more than in December 2012) in the case of small enterprises. There was a slight increase of arrears in the segments of loans to households, especially in consumer loans, whose ratio increased from 3.0 to 3.4 percent between 2012 and 2013, while in the segment of mortgages the ratio increased from 0.8 to 1.0 percent.

TABLE 80
BANKS: DELINQUENCY RATES BY TYPE AND SIZE OF DEBTOR 1/
(%)

	2011	2012	2013
Corporate loans	0.0	0.0	0.0
Loans to large companies	0.2	0.4	0.4
Loans to medium-sized companies	2.1	2.5	3.7
Loans to small companies	4.7	5.3	7.3
Loans to microbusiness	2.4	2.7	3.6
Consumer loans	2.6	3.0	3.4
Mortgage loans	0.9	0.8	1.0
TOTAL	**1.5**	**1.8**	**2.1**

1/ Overdue loans / gross placements.
Source: SBS.

The indicators of non-banking financial companies also showed some deterioration, an increase in delinquency rates and a reduction in the coverage ratios of the high risk portfolio being observed. Rural savings banks showed the highest rates of delinquency (7.0 percent at December 2013) and the lowest ratios of coverage of high-risk portfolio (84.7 percent at December 2013). As for the profitability indices, measured through the return on equity ratio (ROE), all of these institutions reduced their profitability in 2013, especially rural deposit banks whose ratio fell from 7.1 percent at the end of 2012 to 1.2 percent.

TABLE 81
FINANCIAL INDICATORS OF NON-BANK COMPANIES
(%)

	2011	2012	2013
Overdue loans / gross placements 1/			
Financial Firms	3.5	4.5	5.0
Municipal savings banks	4.9	5.2	5.8
Rural savings banks	4.3	5.4	7.0
Edpymes	5.0	4.8	4.8
Provision for loans / high-risk portfolio 2/			
Financial Firms	149.2	132.2	122.5
Municipal savings banks	111.2	108.0	105.5
Rural savings banks	105.0	84.4	84.7
Edpymes	114.4	120.0	115.2
Ratio or equity (ROE)			
Financial Firms	20.0	21.6	13.5
Municipal savings banks	17.8	14.6	12.8
Rural savings banks	8.1	7.1	1.2
Edpymes	3.3	5.7	5.0

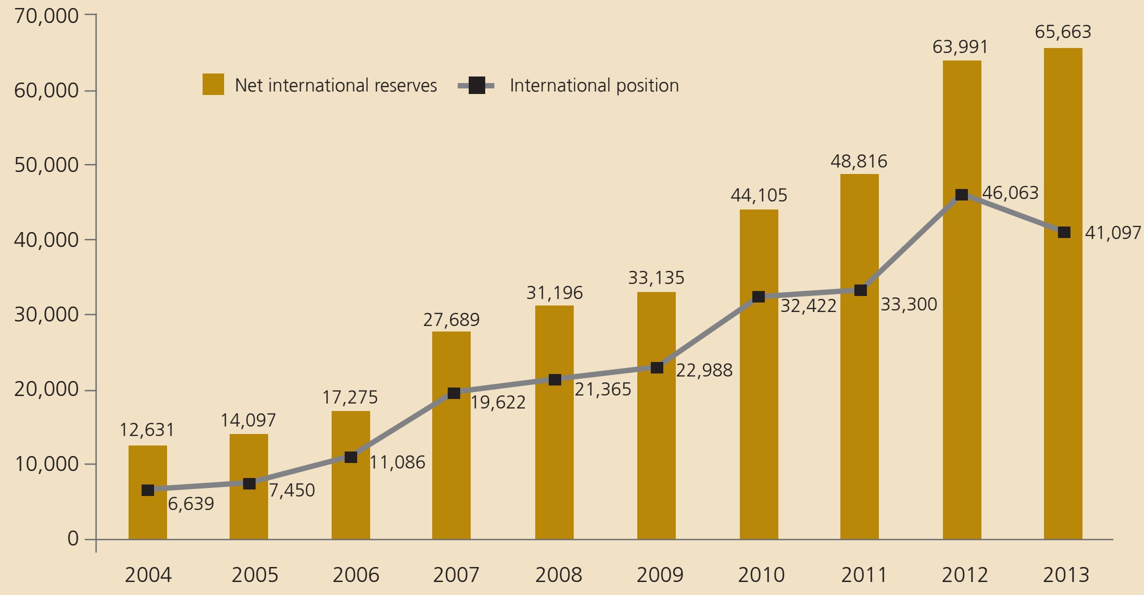
1/ Overdue loans and loans in judicial collection processes.
2/ The high-risk portfolio is equal to the non performing loans plus the refinanced and restructured portfolio.
Source: SBS.

7. Net International Reserves

The international reserves (NIRs) of the BCRP increased by US$ 1.67 billion during 2013, reaching a balance of US$ 65.66 billion at the end of the year. This accumulation of reserves was mainly due to both banks' higher deposits in foreign currency (US$ 4.32 billion) and public sector deposits (US$ 2.56 billion) at the BCRP, offset in part by net sales of foreign currency (US$ 4.27 billion).

On the other hand, the foreign exchange position of the BCRP which decreased by US$ 4.97 billion, showed a balance of US$ 41.10 billion at the end of 2013. The ratio of the foreign exchange position-to-NIRs decreased by 9 percentage points, from 72 to 63 percent between 2012 and 2013. The other funding sources that explain the composition of NIRs are banks' deposits in foreign currency at the BCRP (22 percent) and public sector deposits at the BCRP (16 percent).

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



Source: BCRP.

7.1. Management of International Reserves

Gross international reserves –also called international reserve assets– showed a balance of US$ 65.71 billion at the end of 2012. This level of reserves is higher by US$ 1.66 billion than the balance recorded last year.

This increase in international reserves has allowed the Peruvian economy to maintain adequate international liquidity indicators: at end 2013, net international reserves were equivalent to 18.7 months of imports, to 7.9 times the country's short term external liabilities, and to 3.5 times the monetary base.

TABLE 82
HIGH LEVEL OF INTERNATIONAL RESERVES STRENGTHENS PERU'S INTERNATIONAL LIQUIDITY POSITION

US$ 65.7 billion in NIRs	• 7.9 times one-year debt liabilities (short-term external liabilities plus amortization of long-term debt) • 3.5 times the monetary base • 18.7 months of imports

Source: BCRP.

In 2013, the GDP growth rate of the United States was 1.9 percent, while the GDP growth rate in the Eurozone registered a contraction of 0.4 percent, showing different rates in the countries of the union. Thus, for example, GDP in Italy and Spain dropped 1.8 and 1.2 percent, respectively, while in Germany it grew 0.5 percent[15]. In the United States, the Federal Reserve kept its reference rate within the range of

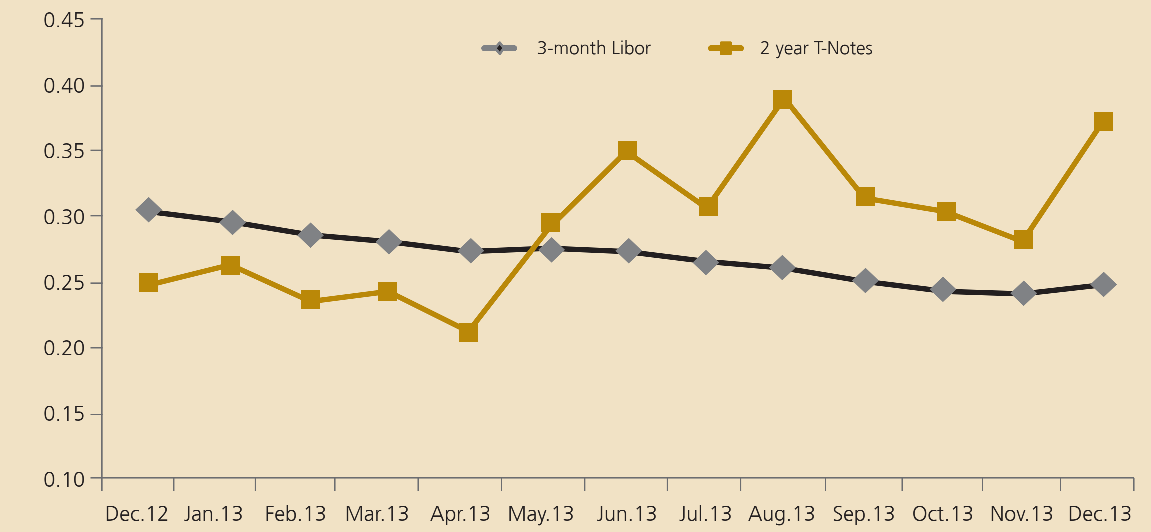
15 World Economic Outlook (WEO), January 21, 2014.

0 to 0.25 percent during the year and continued implementing its Quantitative Easing (QE) program. At its meeting of December 18, the Fed announced that it would gradually reduce the level of its QE asset purchase program as from January 2014.

On the other hand, the European Central Bank (ECB) cut its benchmark interest rate on two occasions during 2013: on May 2, from 0.75 to 0.50 percent, and on November 7, from 0.50 to 0.25 percent. Like the American monetary authorities did, the ECB gave signals to market expectations announcing that it would maintain low interest rates for a relatively long period of time. In November the ECB announced that it would continue with its operations to refinance the banking system and that it would provide fixed rate loans for the total of the amounts required at least until July 2015.

In 2013, the yield curve of the U.S. Treasury bonds steepened given that medium- and long-term yields increased by over 100 basis points for bonds with 5 year- or longer maturities. The yield of the 2-year T-Note remained within the range of 0.21 and 0.40 percent[16], indicating that expectations of inflation in the USA would have been contained in 2013. On the other hand, the 3-month Libor in dollars fell by 6 basis points, reflecting greater liquidity in the market. Moreover, in Europe, the yield curve also steepened, with higher yields being observed along the entire curve.

GRAPH 92
3-MONTH LIBOR AND 2-YEAR US TREASURY BONDS
(%)



Source: Bloomberg.

In this context, the BCRP investment of reserves was carried out with a conservative approach, using strict criteria to determine the placement of deposits in low-risk banks abroad and diversifying investments in securities with the highest credit quality. As regards the portfolio duration, a primarily neutral positioning

16 Measured on the basis of monthly data.

was held in terms of the benchmark given the considerable degree of volatility observed in the market. Some operations were also carried out as part of a strategy of tactical deviations designed to take advantage of the opportunities offered by the market and thus achieve a greater portfolio yield.

It is worth mentioning that a priority in the BCRP policy of investment of international reserves is to preserve capital and ensure the liquidity of these reserves. In general, the management of these assets is closely related to the characteristics of the sources of such resources in terms of value, currency, maturity, and volatility. In this way, the BCRP seeks to minimize the market risks that could affect the value and availability of these assets.

7.2. Composition of International Reserve Assets (IRA)

At end-2013, 80 percent of the international reserve assets was invested in liquid securities of high credit quality, 15 percent in fist-class banks overseas, and the remaining 5 percent in gold and other assets. The portfolio consists of debt securities issued by sovereign issuers, supranational organizations and foreign government entities with credit ratings of A+ or higher.

In fiscal year 2013, international reserve assets generated a yield of S/. 1.73 billion. This yield was lower than in the previous year because of the low international interest rates observed during the year.

TABLE 83
INTERNATIONAL RESERVE ASSETS
(Million US$)

Item	December 2012		December 2013	
	Amount	%	Amount	%
Deposits abroad	11,011	17.2	10,046	15.3
Securities	49,118	76.7	52,215	79.5
Gold	1,867	2.9	1,339	2.0
Others 1/	2,054	3.2	2,111	3.2
TOTAL	**64,049**	**100.0**	**65,710**	**100.0**

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

The balance of liquid IRA[17] at the end of 2013 was US$ 63.75 billion. As regards the quality of the portfolio, 60 percent of IRA was held in entities with a long-term credit rating of AAA and the rest mostly in entities with credit ratings between AA+ and AA-. On the other hand, in 2013 the mean duration of the investment portfolio was 1.20 years.

17 Easily tradable assets in international financial markets. Therefore, the capital contributions to international organizations, such as the FLAR and BIS, the contributions and funds to the IMF, the active balances associated with international conventions, and the gold held in the vaults of the BCRP are excluded from the international reserve assets.

TABLE 84
COMPOSITION OF LIQUID INTERNATIONAL ASSETS
(% structure)

	December 2012	December 2013
By maturity term	**100**	**100**
0-3 months	39	33
3-12 months	16	21
> 1 year	45	46
By long-term rating	**100**	**100**
AAA	68	60
AA+/AA/AA-	25	26
A+/A/A-	7	14

Source: BCRP.

The effective exposure of the BCRP foreign exchange position to the U.S. dollar remained at 67 percent, and the Bank continued developing its policy of diversification of currencies.

TABLE 85
INTERNATIONAL POSITION: EFFECTIVE EXPOSURE
(% structure)

	December 2012	December 2013
US$	67	67
Other currencies	29	30
Gold	4	3
Total	**100**	**100**

Source: BCRP.

8. Financial Savings and Capital Market

Financial savings includes all of the assets that the enterprises and households in the financial system hold in the form of savings deposits, term deposits, securities, holdings of life insurance, mutual funds and contributions to private pension funds.

During 2013, the average balance of financial savings increased 10.1 percent compared to 2012 (44.3 percent of GDP). Growth slowed down relative to 2012 (15.0 percent) due to the slower pace registered in attracting both deposits from the public and the contributions to private pensions and mutual funds.

By currencies, financial savings in nuevos soles grew 6.9 percent (24.4 percent in 2012) while financial savings in dollars grew 8.2 percent (1.3 percent in 2012). The higher growth of the aggregate in dollars was due to the growth of deposits in this currency, influenced by expectations of a depreciation of the nuevo sol. In GDP terms, the share of financial savings in nuevos soles increased from 29.4 to 31.9 percent while the share of savings in dollars rose from 12.2 to 12.3 percent.

TABLE 86 FINANCIAL SAVINGS (Average balance in the period, as % GDP)			
	Domestic currency	Foreign currency	Total
2004	13.4	14.3	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	27.4	13.3	40.7
2012	29.4	12.2	41.6
2013	31.9	12.3	44.3

Source: BCRP.

8.1. Fixed-Income Market

At the end of 2013 the balance of securities issued by companies in the private sector through public offering was S/. 17.78 billion, a figure 1.4 percent lower than the balance in December 2012 (S/. 18.04 billion).[18]

The flow of securities placed during the year (valued at a constant exchange rate) amounted to S/. 3.49 billion (vs. S/. 3.06 billion in 2012). In addition to this, Peruvian companies placed securities in the international market for a total of US$ 6.06 billion, of which US$ 3.90 billion was bonds issued by non-financial companies. In 2012 these placements amounted to US$ 4.28 billion and US$ 1.81 billion, respectively.

TABLE 87 FIXED-INCOME SECURITIES ISSUED BY PRIVATE COMPANIES					
	Amounts			Growth rate (%)	
	2011	2012	2013	2012	2013
Balance at the end of period					
(Million nuevos soles) 1/	**17,652**	**18,044**	**17,783**	**2.2**	**- 1.4**
Non-financial sector	11,483	10,881	10,216	- 5.2	- 6.1
Financial sector 2/	6,169	7,163	7,567	16.1	5.6
Composition by currency (%)	**100.0**	**100.0**	**100.0**		
Soles	45.6	52.3	49.9		
VAC	9.9	11.4	11.6		
US dollars	44.5	36.3	37.4		
Others	-	-	1.1		
Balance as % GDP	**3.7**	**3.4**	**3.3**		

1/ The balance in dollars is valued at the constant exchange rate in December 2013.
2/ Securities issued or originated by a financial organization.
Source: SMV.

18 Including short-term bonds and instruments placed through public offering in the domestic market. The effect of exchange rate variations is isolated for comparison purposes.

By type of issuer, bonds issued in the domestic market included the bond issuances of non-financial companies which amounted to a total equivalent to S/. 2.25 billion (vs. S/. 1.12 billion in 2012). Even though the amount of bonds issued by non-financial companies in 2013 was higher, the balance of current bonds dropped 6.1 percent compared to the previous year. On the other hand, financial entities placed bonds for a total of S/. 1.24 billion (vs. S/. 1.94 billion in 2012), but their balance increased by 5.6 percent because their amount of amortizations was lower.

The largest bond issuers in the domestic market during the year were oil company Hunt Oil del Peru (with bonds worth US$ 328 million, or S/. 918 million), Banco de Crédito del Perú (issuance equivalent to S/. 500 million), the concessionaire Abengoa Transmisión Norte ATN (US$ 110 million, or S/. 308 million), and Interbank (issuance equivalent to S/. 290 million). On the other hand, the largest bond issuers in the international market were Transportadora de Gas del Peru (TGP) with bonds worth US$ 850 million, Fondo MiVivienda with bonds worth US$ 500 million, and Consorcio Transmantaro and Alicorp, with bonds issuances for a total US$ 450 million each.

By maturity terms, the average term of domestic bond issuances in soles was 10.3 years (8.7 years in 2012) while the average term of issuances in dollars was 6.4 years (9.1 years in 2012). The longer maturity term of bonds was 30 years and corresponded to the securities issued by COFIDE (bonds worth S/. 100 million were placed in April); 26 years, the bonds issued by Abengoa Transmisión Norte ATN (US$ 45 million placed in November), and 25 years (Edelnor placed securities for a total of S/. 60 million in November) and Banco de Comercio (S/. 35 million placed in August).

By currencies, the same structure of 2012 was in general observed in 2013. At the end of the year, bonds in nuevos soles accounted for 61.5 percent of the balance of existing public offering –the same rate as in the previous year–, while bonds in dollars accounted for 13.4 percent (13.7 percent in 2012). Bonds at fixed-rates in nuevos soles represented 49.9 percent of the balance (50.5 percent in 2012), while inflation-indexed bonds (VAC) represented 11.6 percent (11.0 percent in 2012).

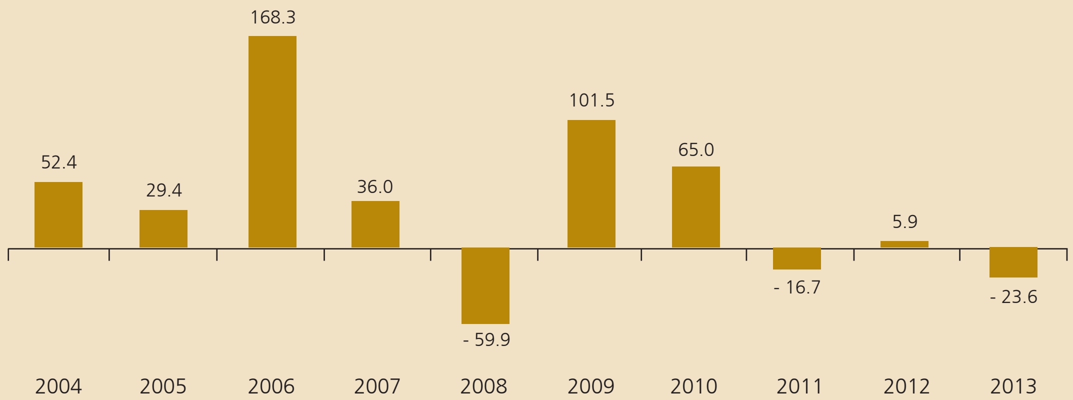
8.2. Stock Exchange

During the year the Lima Stock Exchange (LSE) was influenced by the slow recovery of industrialized countries, the slowdown of China's economy, and expectations that the Federal Reserve would reduce its monetary stimulus by reducing its asset-purchase program. The latter factor generated a restructuring of investors' portfolio that implied a shift towards positions in dollars. Thus, between December 2012 and December 2013 the General Index and the Selective index of the LSE fell 23.6 and 26.2 percent, respectively, while the value of market capitalization fell 13.8 percent.

By economic sectors, agriculture and mining stocks registered the biggest losses. The former dropped 44.1 percent, while the latter fell 42.2 percent as a result of the decline observed in the prices of gold and silver. On their side, industrial shares fell 9.8 percent. On the other hand, the profitability of the shares of service companies increased by 21.8 percent in the year.

The traded volumes decreased 19.2 percent compared to 2012. By segments, the volume of shares traded fell 31.7 percent relative to 2012, while the volume of debt instruments traded increased 84.4 percent and repos transactions grew 3.1 percent. It should be pointed out, however, that the latter segments represent only 32 percent of the total securities traded.

GRAPH 93
GENERAL INDEX OF LIMA STOCK EXCHANGE
(Annual % change, end of period)



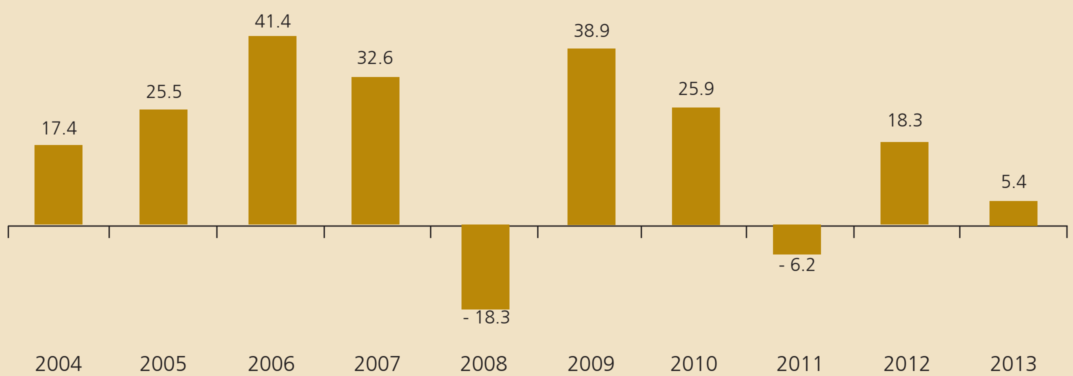
Source: LSE.

Moreover, dematerialized shares –that is, the amount of shares recorded electronically in CAVALI– amounted to S/. 155.74 billion, which is equivalent to 46.2 percent of the value of market capitalization (S/. 337.23 billion). The share of non-resident investors in terms of the total of dematerialized shares increased from 25.9 percent in December 2012 to 42.8 percent in December 2013.

8.3 Private Pension System

Affected by the decline of the LSE indices, the net worth of private pension funds increased 5.4 percent during the year. At December, the assets of these funds amounted to S/. 101.11 billion. The number of members of the private pension system grew 4.0 percent to over 5.4 million people.

GRAPH 94
VALUE OF PRIVATE PENSION FUNDS
(Annual % change, at end of period)



Source: SBS.

Private pension funds had a negative profitability in real terms due to the performance of local stocks and the increase of the discount rates applicable to the valuation of fixed-income securities. The three types of pension funds had negative returns: Fund type 1, which does not invest in shares, had a return of -6.7 percent, while Fund type 2 registered a return of -2.8 percent and Fund type 3 a return of -2.5 percent.

The composition of the investment portfolio reflected investors' adjustment to market conditions. Investments in dollars and particularly, investments abroad, increased from 29.4 to 35.2 percent during the year. Moreover, the BCRP raised the legal limit for these investments abroad from 30 percent –the limit in force in December 2012– to 36 percent in December 2013. The dollarization ratio of the AFP investment portfolio increased from 51.7 percent in December 2012 to 62.8 percent in December 2013.

In the domestic market, the ratio of investments in more liquid assets, and particularly in deposits in dollars, increased, while the ratio of investments in shares decreased. The participation of deposits increased from 3.9 percent to 12.9 percent of the fund value and the participation of deposits in dollars increased from 1.9 to 10.7 percent. Moreover, the participation of shares fell from 25.9 percent in 2012 to 16.3 percent in 2013, while the participation of fixed-income securities declined from 31.6 percent to 26.1 percent.

TABLE 88
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO

	2011	2012	2013
I. DOMESTIC INVESTMENTS	71.4	70.6	64.8
Deposits	4.5	3.9	12.9
In nuevos soles	3.8	2.0	2.2
In US dollars	0.7	1.9	10.7
Bonds and fixed income	31.3	31.6	26.1
Central Bank securities	1.1	2.9	2.1
Sovereign bonds	15.9	14.6	11.3
Values issued by the private sector	14.3	14.1	12.6
Stocks and variable income	35.6	35.0	25.9
Shares	27.4	25.9	16.3
Investment funds	8.2	9.0	9.6
II. FOREIGN INVESTMENTS	**28.6**	**29.4**	**35.2**
III. TOTAL (I + II)	**100.0**	**100.0**	**100.0**
Million nuevos soles	81,881	96,853	102,077
% GDP	*17.4*	*19.1*	*18.7*

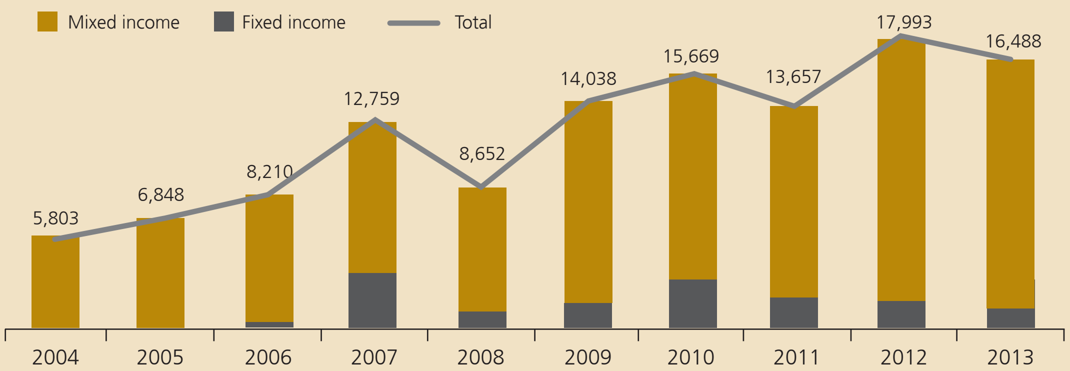
Source: SBS.

8.4 Mutual Funds

Mutual funds' joint net worth declined 8.4 percent relative to the previous year recording a balance of S/. 16.49 billion (3.0 percent of GDP) at year-end. The fixed income assets of mutual funds decreased by 6.8 percent compared to 2012 while the mixed-income assets and variable income assets decreased 23.5 percent.

Like pension funds, mutual funds responded to the market conditions increasing their liquid assets and especially their assets in dollars. Investment abroad increased from 7.7 to 9.0 percent. In the domestic market, investments in deposits increased from 53.2 percent to 63.3 percent. This was particularly noteworthy in deposits in dollars where the participation ratio increased from 22.9 to 34.1 percent. The participation of bonds and fixed-income securities fell from 33.6 to 23.6 percent while the participation of shares decreased from 4.7 to 3.7 percent.

GRAPH 95
EVOLUTION OF MUTUAL FUNDS
(Annual % change, at end of period)



Source: SMV.

TABLE 89
COMPOSITION OF MUTUAL FUND'S INVESTMENT

	%		
	2011	**2012**	**2013**
I. DOMESTIC INVESTMENTS	94.9	92.3	91.2
Deposits	49.9	53.0	62.2
In nuevos soles	25.5	30.1	28.7
In US dollars	24.4	22.8	33.4
Bonds and fixed income	37.4	33.4	23.1
Central Bank securities	6.3	11.4	6.3
Sovereign bonds	11.3	7.3	5.4
Values issued by the private sector	19.7	14.7	11.4
Stocks and variable income	6.9	4.7	3.6
II. FOREIGN INVESTMENTS	**5.1**	**7.7**	**8.8**
III. TOTAL (I + II)	**100.0**	**100.0**	**100.0**
Million nuevos soles	13,657	17,993	16,488
% GDP	*2.9*	*3.5*	*3.0*

Source: SMV.

9. Payment Systems

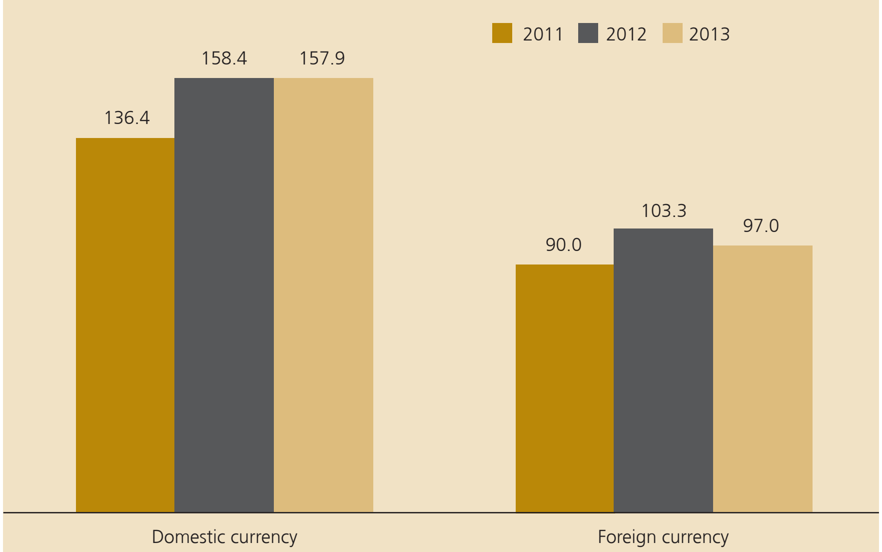
The value of the transactions made through payment systems declined 2 percent in 2013 whereas the number of operations made through these systems increased by 9 percent. The total value of funds transferred through the payment systems was equivalent to 6 times the value of annual GDP, lower than the one recorded in 2011 (6.5 times the value of annual GDP).

Real Time Gross Settlement System (RTGS)

The RTGS system is mainly used to make high-value transfers among the entities integrating the financial system as well as to make transfers on behalf of their clients. The transfers made through the RTGS system account for 92.1 percent of the total value transferred through the payment systems.

In 2013, the value of transfers channeled through the RTGS system fell 2.6 percent, whereas the number of transactions increased 6.4 percent. By currencies, the value of payments in dollars decreased 6.0 percent due to the decline of foreign exchange operations and interbank loans in this currency, while the value of payments in domestic currency decreased 0.3 percent.

GRAPH 96
TRANSFERS HANDLED THROUGH THE RTGS SYSTEM
(Monthly average in billion nuevos soles)



Source: BCRP.

During the year, non-banking financial entities were encouraged to make their transfers in real time and participate in the RTGS system via the *Web Client* interconnection. In 2013, Caja Municipal de Ahorro y Crédito de Trujillo and Financiera Edyficar established an inteconnection with this system.

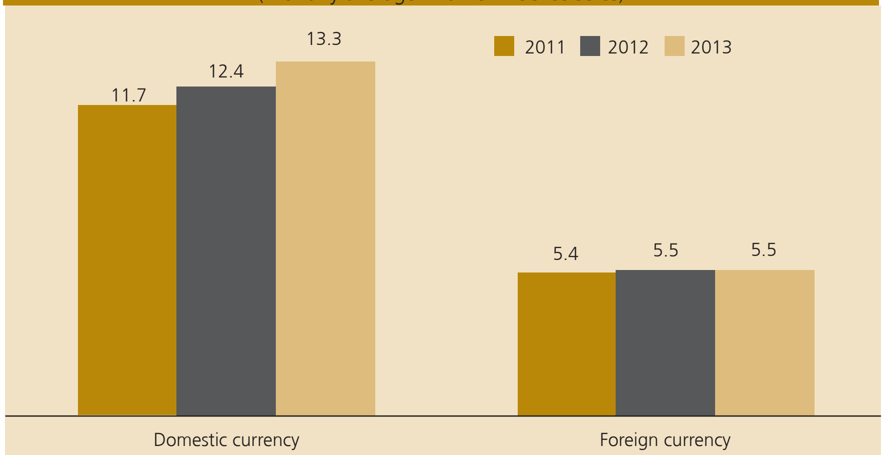
9.2. Electronic Clearing House (Cámara de Compensación Electrónica - CCE)

The CCE is a payment system used to settle checks and credit transfers among the clients of the various financial entities that participate in this system. The value of such transactions is low, but the number of operations represents 94.1 percent of total transactions carried out through payment systems.

In 2013, the number of transactions handled by the CCE grew 10.1 percent, with credit transfers increasing by 31.4 percent as a result of the greater use of electronic payments. On the other hand, the volume of checks processed through the CEE decreased by 4.1 percent, reflecting the downward trend of the participation of checks in the total of instruments processed by the CCE (down from 60 percent to 52.2 percent in the last 12 months).

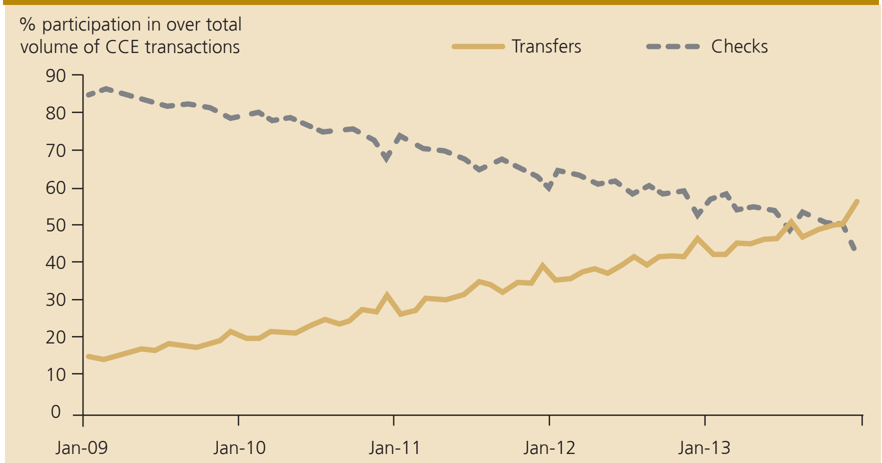
Furthermore, the value of the transactions processed in the CCE grew 5.7 percent in the year. The value of credit transfers increased 32.3 percent while the value of checks decreased by 2.3 percent.

GRAPH 97
PAYMENTS SETTLED THROUGH THE CÁMARA DE COMPENSACIÓN ELECTRÓNICA
(Monthly average in billion nuevos soles)



Source: CCE.

GRAPH 98
EVOLUTION OF CREDIT AND CHECK TRANSFERS IN THE CCE



Source: CCE.

9.3 Multibank Securities Settlement System (MSSS)

The payments for transfers of stock exchange securities and Treasury bonds are processed through the MSSS. In 2013, the value of payments in this system fell 9.6 percent, while the volume of payments declined by 23.6 percent. Moreover, the payments for stock exchange operations declined 32 percent in value and 24.7 percent in volume, while fund transfers for government securities traded in the secondary market fell 1.2 percent in terms of value and 9.1 percent in terms of volume.

In July, the Ministry of Economy started its program of issuance of short-term treasury bills. As part of this program, 90-day and 360-day bills for a total of S/. 322.6 million have been issued in 2013. These securities are settled through Cavali, which is the organization that manages the MSSS.

9.4 Regulations

The regulations of Law 29985 establishing the basic characteristics of electronic money as an instrument for financial inclusion were published in May 2013. Supreme Decree 090-2013-EF specifies the concept of electronic money, the scope of electronic money accounts, and the terms and restrictions on operations with electronic money.

The Superintendency of Banks, Insurance Companies and AFPs published complementary regulations that define the legal framework for the use of electronic money: Regulations for operations with electronic money (SBS Resolution 6283), Regulations for issuers of electronic money (SBS Resolution 6284), and Regulations for establising, transferring or closing branch offices, ATMs and agent tellers (SBS Resolution 6285).

Furthermore, OSIPTEL (Organismo Supervisor de Inversión Privada en Telecomunicaciones) published Resolution 126-2013-CD –"Aprobación de las Normas Relativas al Acceso de los Emisores de Dinero Electrónico a los Servicios de Telecomunicaciones"– establishing the technical, economic, and procedure standards governing the contracts between issuers of electronic money and the companies that have the concession of public telecommunication services to have access to these services.