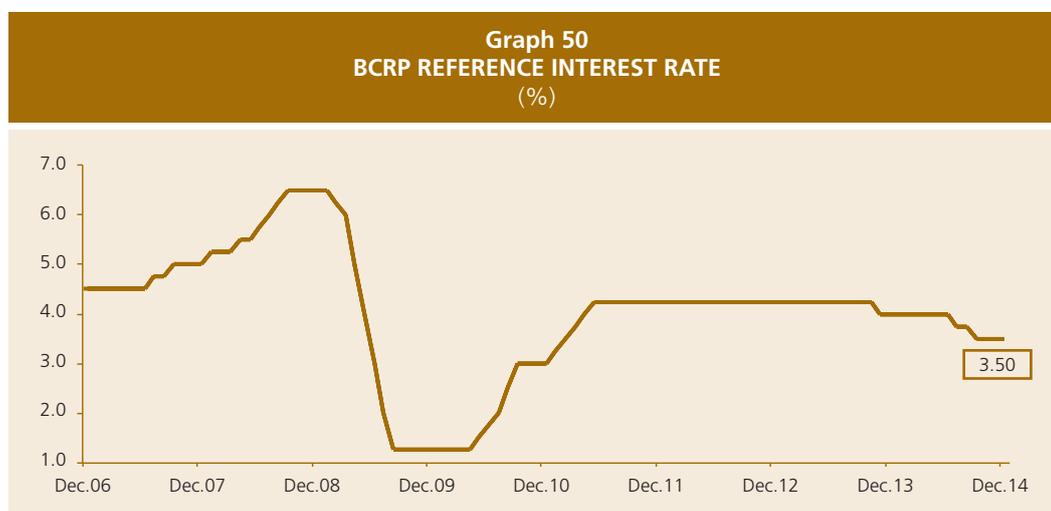


LIQUIDITY AND CREDIT V

1. Monetary policy

In line with inflation forecasts, the BCRP conducted an expansionary monetary policy in 2014. In a context of economic slowdown influenced by lower business confidence, less favorable external conditions, and slower public investment, the BCRP lowered its monetary policy rate on 2 occasions during the year –the policy rate reached a level of 3.50 percent–, contributing in this way to ensure that inflation expectations remained within the inflation target range.



The decisions regarding the policy rate were coupled during the year by cuts in the rates of reserve requirements in domestic currency, which allowed supporting the credit cycle in soles while contributing at the same time to reinforce the de-dollarization of credit.

Credit to the private sector grew 10.4 percent in 2014. As in previous years, a process of substitution of credit in foreign currency for credit in soles was observed: while credit in domestic currency grew 18.2 percent, credit in foreign currency shrank 0.1 percent. Moreover, given that the preference for dollar deposits increased, banks registered a lower availability of funding sources for credit in soles. In this context, the BCRP lowered the rate of reserve requirements in domestic currency from 15.0 percent to



9.5 percent during 2014 in order to provide the necessary liquidity to meet the demand for credit in domestic currency. As a result of this measure, liquidity for approximately S/. 5.82 billion was injected into the financial system. On the other hand, the rate of marginal reserve requirements in foreign currency remained at 50 percent.

Table 62
RESERVE REQUIREMENTS
(%)

	Legal minimum reserve requirements	Marginal reserve requirements on deposits in soles	Marginal reserve requirements on deposits in US\$ dollars
Dec.11	9.0	25.0	55
Dec.12	9.0	30.0	55
Mar.13	9.0	30.0	55
Jun.13	9.0	30.0	55
Sep.13	9.0	20.0	50
Dec.13	9.0	15.0	50
Jan.14	9.0	14.0	50
Feb.14	9.0	13.0	50
Mar.14	9.0	12.5	50
Apr.14	9.0	12.0	50
Jul.14	9.0	11.5	50
Sep.14	9.0	11.0	50
Oct.14	9.0	10.5	50
Nov.14	9.0	10.0	50
Dec.14	9.0	9.5	50

In addition, the BCRP introduced other measures to accelerate the de-dollarization of credit, replacing the former system of reserve requirements that was based on limits to the expansion of credit by another system in which the rate of reserve requirements is determined on the basis of the evolution of credit in foreign currency. According to this new scheme, the banks that fail to reduce their total balance of credit in dollars by at least 5 percent at June 2015 relative to this balance at September 2013 (excluding loans for foreign trade operations) will be subject to additional reserve requirements and this requirement will rise to 10 percent in December 2015. Moreover, additional reserve requirements will also apply to banks that fail to reduce their balance of car loans and mortgage loans in dollars by 10 percent relative to their balance of these loans at February 2013, and this reduction requirement will rise to 15 percent in December 2015.

Box 1
**ADDITIONAL RESERVE REQUIREMENTS ACCORDING TO THE REDUCTION OF THE
 BALANCE OF CREDIT IN FOREIGN CURRENCY**

In December 2014, the Central Bank modified the measures concerning the application of additional reserve requirements that depend on the evolution of loans in foreign currency, in force since 2013, so as to encourage the reduction of banks' balances of these operations.

The first measure established that the application of additional reserve requirements would depend on the reduction of banks' balances of total credit in foreign currency (excluding loans for foreign trade operations and loans with terms of over 4 years and loans over US\$ 10 million). As from June 2015, banks that fail to reduce their balance of these loans by at least 5 percent relative to the balance they had on September 30, 2013, will be subject to additional reserve requirements. Thus, additional reserve requirements will apply to total liabilities in foreign currency (including accounts payable, bonds, and total liabilities subject to reserve requirements).

Two formulas are used for the application of additional reserve requirements on loans in FC:

- (i) First, if a bank's balance of credit in FC at December 2014 is higher than the effective capital of the bank, the following formula is applied:

$$\text{Additional reserve requirements} = 0.3 \times \left(\frac{C_t}{C_{se13}} - 0.95 \right) \times \text{PT} \quad (\text{a})$$

Where: C_t is the mean total credit in FC excluding loans for foreign trade operations in the period and C_{se13} is the balance of loans in FC at September 30, 2013.

- (ii) Second, if a bank's balance of credit in FC at December 2014 is lower than the effective networth of the bank (EN) on the same date, the following formula is applied:

$$\text{Additional reserve requirements} = 0.3 \times \left(\frac{C_t}{\text{PE}} - 1 \right) \times \text{PT} \quad (\text{b})$$

The other measure concerning additional reserve requirements is linked to the reduction of car loans and mortgage loans. In this case, the limit defining which formula is to be used is not the bank's total effective networth, but 20 percent of the EN. Moreover, the required reduction of the balance of these loans by June is 10 percent of the balance of February 2013. Thus,

- (i) If a bank's balance of these loans in FC at December 2014 is higher than 20 percent of the bank's effective networth on the same date, the following formula is applied:

$$\text{Additional reserve requirements} = 0.15 \times \left(\frac{\text{CHV}_t}{\text{CHV}_{fe13}} - 0.90 \right) \times \text{PT} \quad (\text{c})$$

Where: CHV_t is the average of car loans and mortgage loans in FC in the period and CHV_{fe13} is the balance of this type of credit on February 28, 2013.

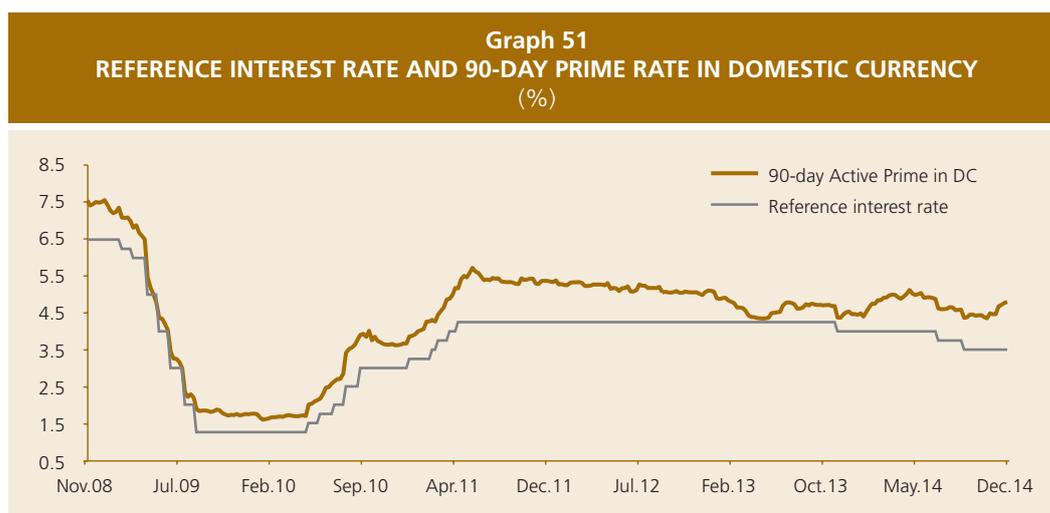
- (ii) If on the other hand, the balance of these loans at December 2014 is equal or lower than the bank's effective networth (EN) in the same period, the rate of additional requirements will be estimated using the following formula:

$$\text{Additional reserve requirements} = 0.15 \times \left(\frac{\text{CHV}_t}{\text{PE}} - 0.2 \right) \times \text{PT} \quad (\text{d})$$

These measures will be stricter as from December 2015. The required reduction of the balance of total credit in foreign currency will no longer be 5 percent of the balance at September 2013, but 10 percent. Similarly, the required reduction of the balance of car loans and mortgage loans will increase from 10 percent to 15 percent of the balance of these loans in FC at February 2013.

2. Interest rates

In line with the reduction of the BCRP benchmark rate, the interbank rate decreased from 4.1 percent in December 2013 to 3.8 percent in December 2014. On the other hand, the interest rate on corporate loans in nuevos soles showed a slight upward trend in the first half of 2014 (rising from 4.46 percent in December 2013 to 4.92 percent in June 2014). Greater volatility was observed in the interest rate in the second half of the year in a context marked by banks' lower availability of liquidity. In response to this, the BCRP provided liquidity in domestic currency to the banking system carrying out currency repos and security repos (for a total of S/. 6.10 billion and S/. 1.20 billion, respectively).



Banks' lending interest rates declined 38 basis points on average in the segments of loans for large, medium-sized, small, and micro businesses (although the corporate prime rate increased 18 basis points). On the other hand, the interest rates on personal deposits showed a stable behavior in almost all the deposit terms: the interest rate on 31-day to 360-day deposits remained at 2.6 percent, while the interest rate on deposits of over 360 days decreased slightly (from 4.5 to 4.4 percent).

The FTAMN –the average rate for loans in domestic currency of the last 30 days– increased 52 basis points due mainly to the increase observed in delinquency and credit risk in the SME segment.

Table 63
INTEREST RATES ON OPERATIONS IN NUEVOS SOLES
(%)

	2010	2011	2012	2013	Jun.2014	Dec.2014
1. Interbank rate	3.0	4.2	4.2	4.1	4.0	3.8
2. Deposits up to 30 days	2.2	3.2	3.0	3.0	2.9	3.1
3. 31-day to 360-day term deposits	2.5	2.8	2.9	2.6	2.8	2.6
4. More than 360-day term deposits	5.2	5.0	5.2	4.5	4.4	4.4
5. Large companies loans	6.1	7.4	7.4	7.1	7.5	6.8
6. Medium-sized enterprises loans	10.1	11.2	11.0	10.1	10.8	9.5
7. Small businesses loans	23.7	23.2	22.5	21.0	21.1	20.6
8. Microbusinesses loans	31.5	33.0	33.2	33.1	32.1	33.0
9. Mortgage loans	9.5	9.4	8.8	9.0	9.4	9.0
10. Corporate prime rate	3.6	5.4	5.0	4.5	5.0	4.7
11. FTAMN 1/	22.8	21.3	22.9	20.1	22.9	20.6

1/ Average market lending rate of the operations carried out in the last 30 business days. Rates on deposits corresponds to individuals.
Source: BCRP and SBS.

The downward trend registered by interest rates in foreign currency rates reflected low international rates and banks' ample availability of liquidity in foreign currency. The corporate prime lending rate in dollars fell by 19 basis points in 2014 (from 0.93 to 0.74 percent), while the deposit rate for up to 30-day deposits fell from 0.6 to 0.2 percent and the lending rates fell by 90 basis point on average between 2013 and 2014.

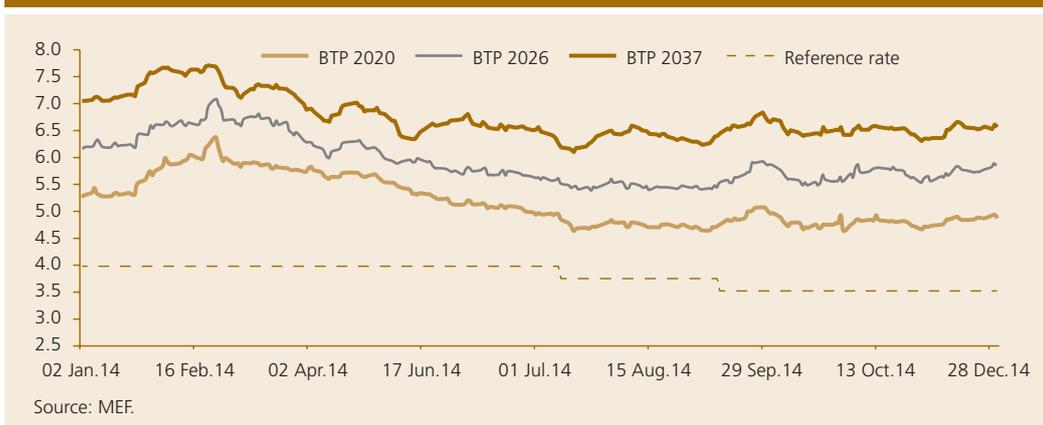
Table 64
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

	2010	2011	2012	2013	Jun.2014	Dec.2014
1. 3-month libor rate	0.3	0.6	0.3	0.2	0.2	0.2
2. Interbank rate	1.1	0.3	1.2	0.2	0.1	0.2
3. Deposits up to 30 days	0.5	0.4	0.8	0.6	0.2	0.2
4. 31-day to 360-day term deposits	0.9	1.0	1.0	0.8	0.5	0.5
5. More than 360-day term deposits	1.4	1.6	1.9	1.5	1.2	1.1
6. Large companies loans	5.5	5.4	6.4	5.5	6.2	5.1
7. Medium-sized enterprises loans	8.5	8.9	9.0	8.3	9.2	8.3
8. Small businesses loans	14.2	16.0	15.5	13.2	14.0	12.3
9. Microbusinesses loans	14.2	19.2	19.3	19.2	17.5	16.9
10. Mortgage loans	8.1	8.2	8.0	8.5	8.6	7.6
11. Corporate prime rate	2.1	2.4	4.0	0.9	0.6	0.7
12. FTAMEX 1/	7.9	6.8	8.1	7.3	7.3	7.3

1/ Average market lending rate of the operation carried out in the last 30 business days. Rates on deposits corresponds to individuals. Source: BCRP and SBS.

The long-term interest rates showed a downward trend, in line with the evolution of the rates on U.S. Treasury bonds and Peruvian global bonds (BTP). The rate of the BTP maturing in 2037 decreased from 7.0 to 6.55 percent, while the rate of the BTP maturing in 2026 and 2020 declined from 6.2 to 5.8 percent and from 5.3 percent to 4.9 percent, respectively.

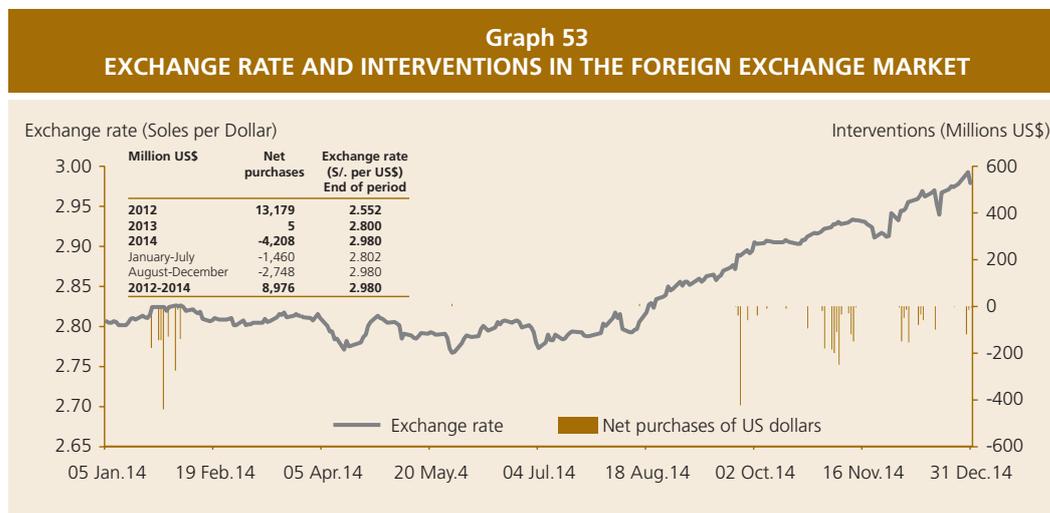
Graph 52
SOVEREIGN BOND YIELDS (BTP)
(Annual rate)



3. Foreign exchange rate

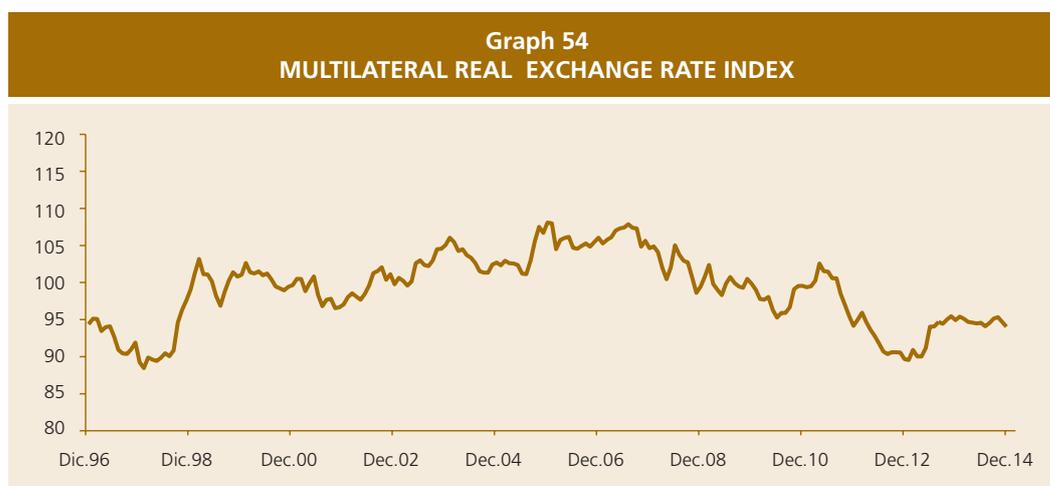
In a context of high volatility, the nuevo sol depreciated 6.4 percent in nominal terms (from S/. 2.80 to S/. 2.98 per dollar) in 2014. This high volatility was mainly associated with signs of economic recovery in the United States, with the gradual withdrawal of the Fed asset purchase program, and with uncertainty about when the Fed would start raising its interest rates.

After being relatively stable until July, the nuevo sol depreciated 6 percent between August and December. The increased demand for dollars of both resident and non-resident agents in this period is explained by the external factors mentioned previously. It is worth pointing out that the magnitude of the depreciation of the local currency during the year has been similar to the depreciation of the currencies of other countries in the region.



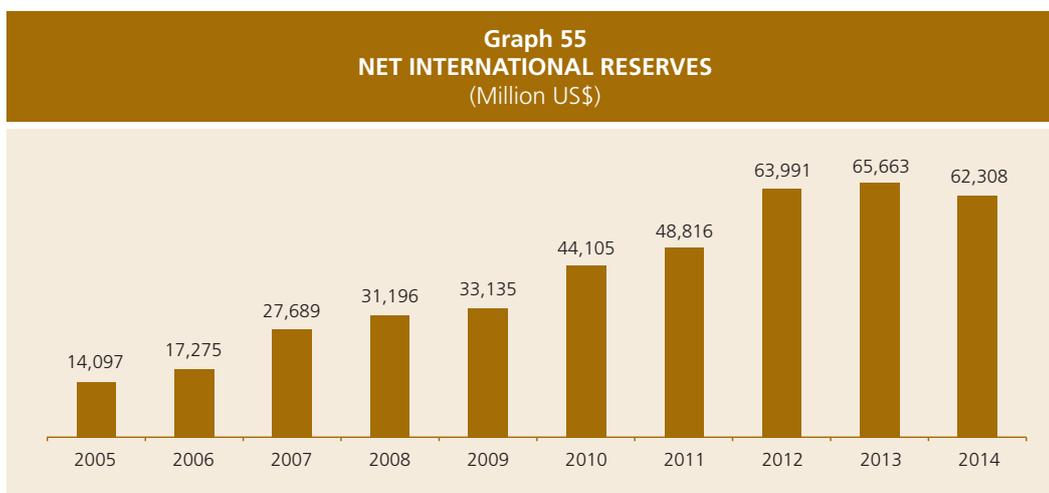
The BCRP intervention in the foreign exchange market was aimed at reducing the exchange rate volatility. The Central Bank sold foreign currency (FC) for a total of US\$ 4.21 billion, most of these sales of FC (US\$ 2.23 billion) being concentrated in Q4, and complemented the sales of FC in the spot market with currency swaps. This new intervention mechanism allows banks to cover their forward positions without affecting the spot market (and, therefore, without affecting liquidity in domestic currency in the financial system). Because of this, the BCRP has been using this new instrument to replace the CDR-BCRP –certificates in soles indexed to the dollar– given that the latter do have an impact on liquidity. Thus, since October 2014 the BCRP has placed currency swaps for US\$ 5.59 billion, reducing in this way the balance of CDR-BCRP by S/. 521 million.

In real terms, the multilateral real exchange rate index appreciated 0.6 percent –from 94.7 in December 2013 to 94.1 in December 2014). However, in annual average terms, the nuevo sol depreciated 2.1 percent.



In 2014, the BCRP reduced its international reserves by US\$ 3.35 billion, thus decreasing its balance of reserves from US\$ 65.66 billion in December 2013 to US\$ 62.31 billion at the end of 2014. This level of international reserves is equivalent to 31 percent of GDP and to 5.9 times the total of short-term external

liabilities, which makes the Peruvian economy one of the least vulnerable economies to the risk of an abrupt capital outflow.



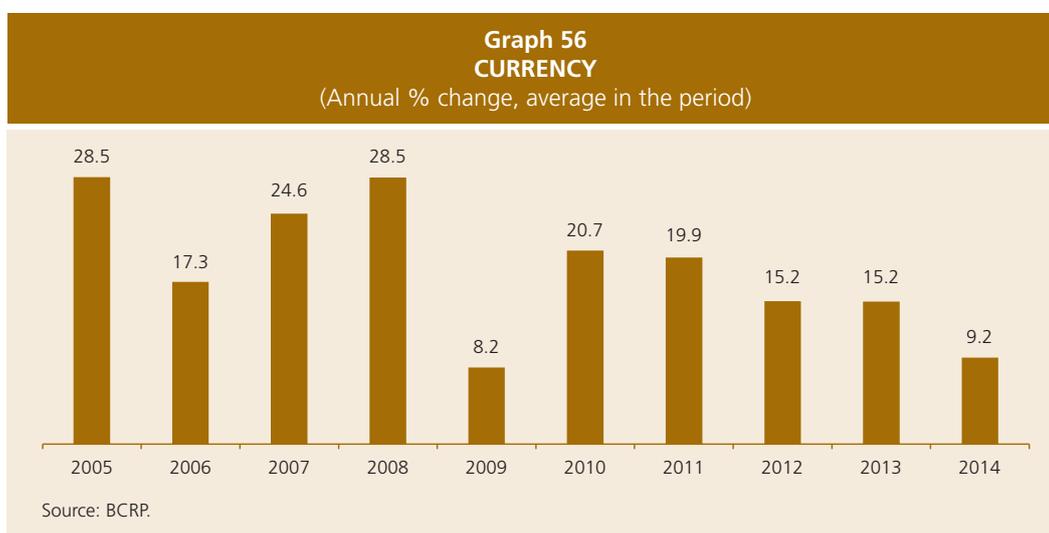
4. Monetary and credit aggregates

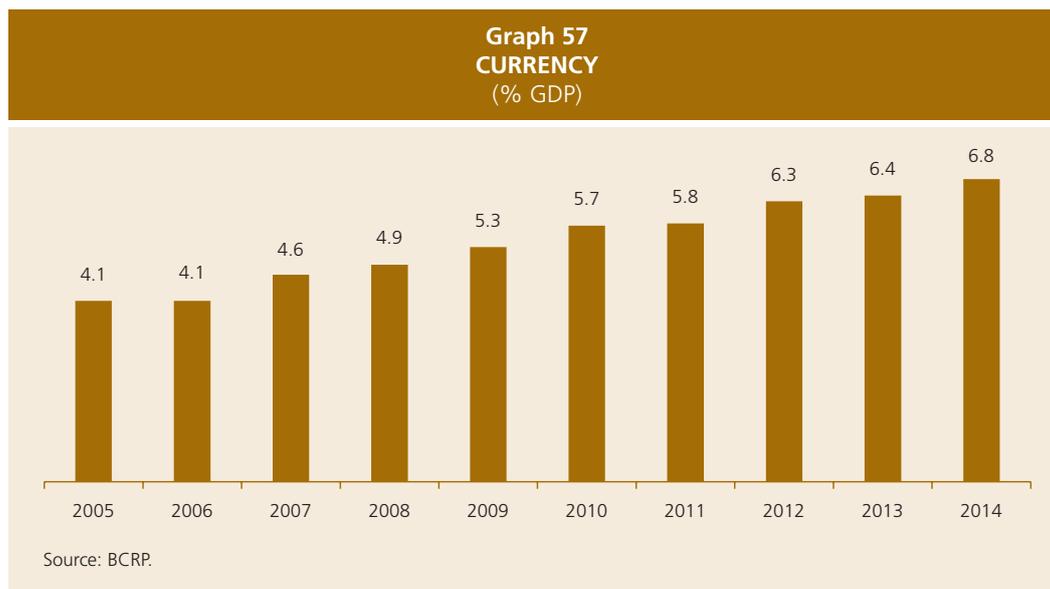
In line with the slowdown of economic activity, the annual growth rates of liquidity and credit showed a slower pace of growth in 2014. Total liquidity grew 6.5 percent (vs. 11.5 percent in 2013), while liquidity in foreign currency decreased by 0.3 percent. Thus, the ratio of dollarization of liquidity declined from 33.0 percent in December 2013 to 32.2 percent in December 2014.

Total credit to the private sector grew 10.4 percent (12.9 percent in 2013). Credit in domestic currency grew 18.2 percent while credit in foreign currency dropped 0.1 percent. The ratio of dollarization of credit decreased from 40.8 percent in December 2013 to 38.3 percent in December 2014.

4.1 Currency in circulation

In 2014 the daily average balance of currency was S/. 34.70 billion, which represents a growth rate of 9.2 percent compared to the previous year. In GDP terms, currency grew 0.4 percentage points relative to 2013.





The balance of currency in circulation at December 2014 was S/. 39.17 billion, a figure higher by S/. 4.03 billion (11.5 percent) than in December 2013. The BCRP operations, which were aimed at meeting the public's increased demand for liquidity and at ensuring the flow of transactions in the monetary market, were consistent with the sterilizing effect generated by the central bank's greater sales of dollars in the foreign exchange market compared with the previous year.

Public sector deposits in nuevos soles declined by S/. 158 million, while the net balance of the BCRP foreign exchange operations showed a negative value of S/. 14.82 billion (equivalent to net sales amounting to US\$ 5.13 billion). Moreover, deposits of reserve requirements in nuevos soles declined by S/. 2.1 billion during the year after the cuts of the mean rate of reserve requirements in domestic currency implemented over the year. In this scenario, temporary purchases of securities amounted to a total of S/. 350 million.

The flow of foreign exchange operations generated a reduction of dollars of US\$ 5.13 billion as a result of net sales of foreign currency in the spot market (US\$ 4.21 billion), sales of dollars to the public sector (US\$ 955 million), and other purchases of foreign currency (US\$ 35 million).

The BCRP intervened more in the foreign exchange market during the first two months of the year as well as during the last two months of 2014. In these two periods, the net sales of foreign currency amounted to US\$ 1.47 billion and US\$ 1.88 billion, respectively.

In response to the depreciatory pressures on the nuevo sol, the sales of foreign currency were accompanied by auctions of certificates of deposit indexed to the exchange rate (CDR-BCRP) and by swaps. As a result of these operations, the balance of CDR-BCRP at the end of 2014 decreased to S/. 2.63 billion given that there were fewer placements of these certificates and an increased use of swaps.

The flow of net placements of certificates of deposits (CD-BCRP) decreased by S/. 3.42 billion in 2014. In addition, public sector deposits at the BCRP declined by S/. 158 million, which reduced the need to inject liquidity through open market operations.

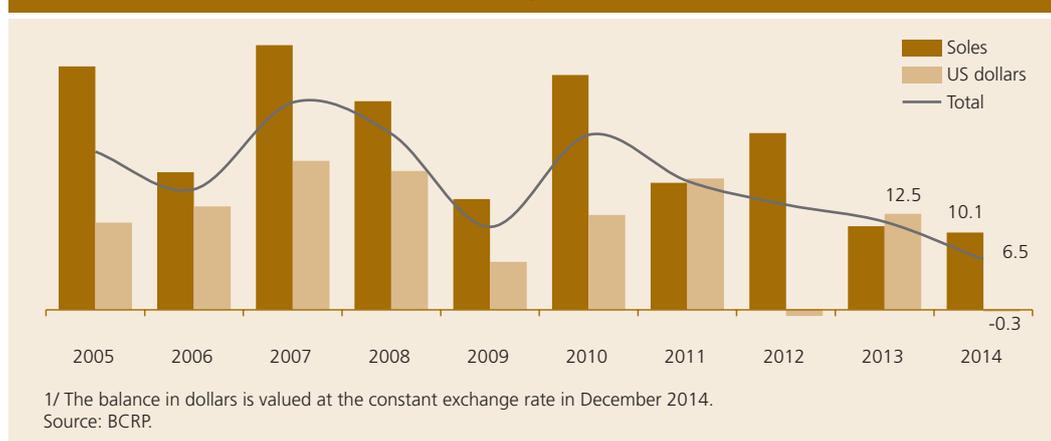
Table 65
OPERATIONS OF THE BCRP
(Million nuevos soles)

	2012	2013	2014
I. EXCHANGE OPERATIONS	31,172	-12,681	-14,822
(Million US\$)	11,837	-4,270	-5,128
1. Over the counter trading	13,179	5	-4,208
2. Public sector	-1,353	-4,298	-955
3. Others	11	24	35
II. NET DOMESTIC ASSETS	-26,188	15,581	18,850
1. Public sector deposits	-7,999	3,293	158
2. Temporary purchase of assets	0	950	350
3. Repos	0	0	8,600
4. CD BCRP (Certificates of deposit)	-7,225	1,812	3,417
5. CDR BCRP (Certificates of deposit indexed to the exchange rate)	0	-3,111	521
6. Term deposits (DP BCRP)	-5,611	9,248	0
7. Overnight deposits	-375	-2,602	2,080
8. Reserve requirements in domestic currency	-7,784	3,698	2,100
9. Rest	2,805	2,292	1,623
III. CURRENCY	4,984	2,900	4,028
Memo: Balance at end of period			
- Currency	32,244	35,144	39,173
- CD BCRP	20,805	18,992	15,575
- CDR BCRP	0	3,111	2,627
- Term deposits (DP BCRP)	9,248	0	0
- Public sector deposits	39,939	36,646	36,488
Memo:			
CD BCRP: Certificate of deposit.			
CDR BCRP: Certificate of deposit indexed to the exchange rate.			
Source: BCRP.			

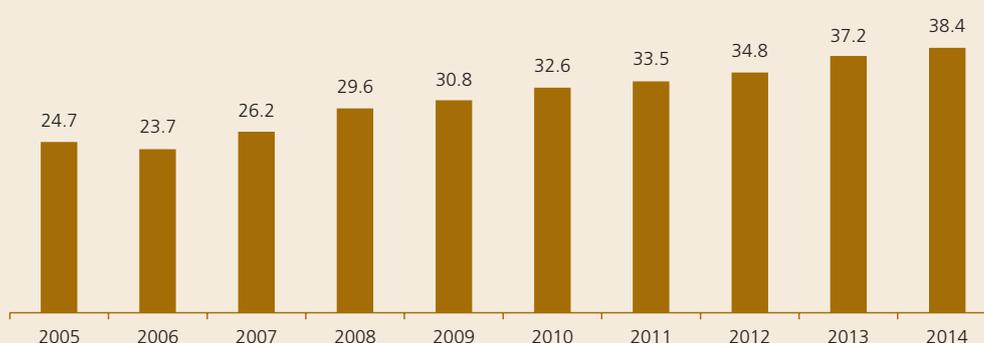
4.2 Liquidity

Liquidity in the private sector grew at a slower pace than in the previous year due to the slowdown of economic activity. Liquidity showed a growth rate of 6.5 percent, a rate 5.0 percentage points lower than in 2013 (11.5 percent). On the other hand, the growth rate of deposits—which exclude currency in circulation—showed a decline of 6.3 percentage points, falling from 11.7 percent in 2013 to 5.4 percent in 2014.

Graph 58
LIQUIDITY IN THE PRIVATE SECTOR 1/
(Annual % change, end of period)



Graph 59
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 66
MAIN MONETARY AGGREGATES

	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Currency	32,244	35,144	39,173	9.0	11.5
Money	57,488	61,792	68,080	7.5	10.2
Deposits 1/	151,286	169,052	178,144	11.7	5.4
In nuevos soles	87,952	97,899	107,214	11.3	9.5
In US dollars (Million US\$)	21,253	23,877	23,802	12.3	-0.3
Liquidity 1/	185,873	207,158	220,656	11.5	6.5
In nuevos soles	122,476	135,817	149,498	10.9	10.1
In US dollars (Million US\$)	21,274	23,940	23,879	12.5	-0.3

1/ The balance in dollars is valued at the constant exchange rate in December 2014.
Source: BCRP.

By type of depositor, the deposits of natural persons grew 8.7 percent, which contrasted with the slight decline observed in the deposits of legal entities (0.8 percent). In terms of currencies, both natural persons and legal entities showed a greater preference for assets in nuevos soles.

Table 67
DEPOSITS BY TYPE OF DEPOSITOR

	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Individuals 1/	93,884	109,870	119,449	17.0	8.7
In nuevos soles	60,517	71,399	79,778	18.0	11.7
In US dollars (Million US\$)	11,197	12,910	13,312	15.3	3.1
Legal entities 1/	57,402	59,183	58,694	3.1	-0.8
In nuevos soles	27,435	26,500	27,436	-3.4	3.5
In US dollars (Million US\$)	10,056	10,967	10,489	9.1	-4.4
Total 1/	151,286	169,052	178,144	11.7	5.4
In nuevos soles	87,952	97,899	107,214	11.3	9.5
In US dollars (Million US\$)	21,253	23,877	23,802	12.3	-0.3

1/ The balance in dollars is valued at the constant exchange rate in December 2014.
Source: BCRP.

In 2014, liquidity in domestic currency recorded a growth rate of 10.1 percent, a rate slightly lower than the one recorded in 2013 (10.9 percent). A re-composition of private sector deposits in terms of currencies was observed during the year: demand deposits showed a faster pace of growth (up from 5.6 percent in 2013 to 8.5 percent in 2014), while savings deposits and time deposits slowed down (the growth rate of the former fell from 15.2 percent in 2013 to 14.7 percent in 2014, while the growth rate of the latter dropped from 12.5 percent to 6.2 percent in the same period).

Table 68 LIQUIDITY IN DOMESTIC CURRENCY IN THE PRIVATE SECTOR					
	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Currency	32,244	35,144	39,173	9.0	11.5
Deposits	87,952	97,899	107,214	11.3	9.5
Demand deposits	25,244	26,647	28,908	5.6	8.5
Savings deposits	26,935	31,016	35,571	15.2	14.7
Term Deposits	35,773	40,236	42,735	12.5	6.2
Securities and other instruments	2,279	2,774	3,112	21.7	12.2
TOTAL	122,476	135,817	149,498	10.9	10.1

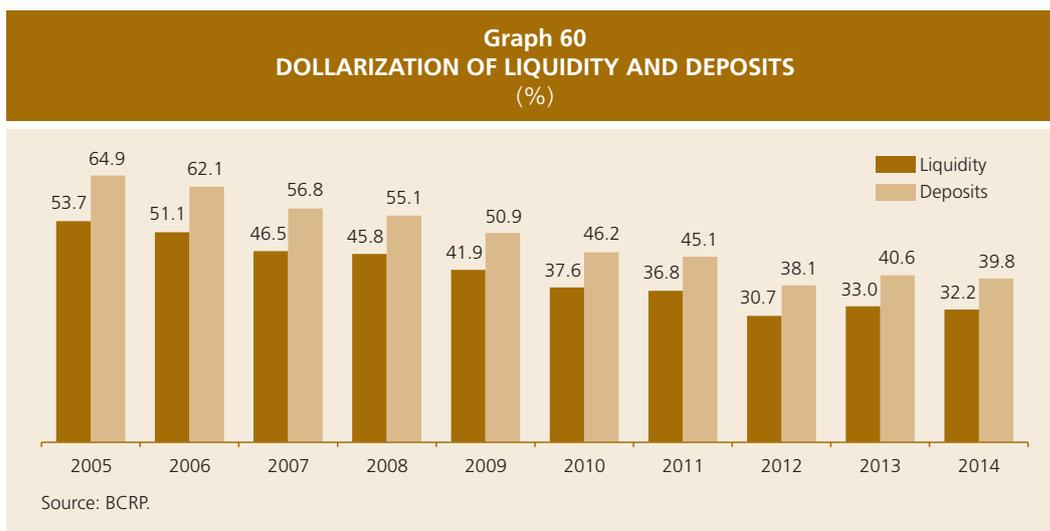
Source: BCRP.

The slowdown in liquidity was more clearly observed in the segment of liquidity in foreign currency, whose growth rate dropped 0.3 percent in 2014 due basically to the decline of term deposits in the year (down 18.1 percent, after having grown 14.4 percent in 2013). Moreover, demand deposits grew at a lower rate than in 2013, while saving deposits recorded a greater dynamism with a growth rate that was twice the one recorded in the previous year (18.7 percent in 2014 vs. 9.4 percent in 2013).

Table 69 LIQUIDITY IN FOREIGN CURRENCY IN THE PRIVATE SECTOR					
	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Deposits	21,253	23,877	23,802	12.3	-0.3
Demand deposits	7,552	8,472	9,027	12.2	6.5
Savings deposits	5,369	5,875	6,974	9.4	18.7
Term Deposits	8,331	9,529	7,801	14.4	-18.1
Securities and other instruments	21	63	77	194.3	22.0
TOTAL	21,274	23,940	23,879	12.5	-0.3

Source: BCRP.

In this scenario, the ratio of dollarization of liquidity fell 0.8 percentage points during the year (from 33.0 percent in December 2013 to 32.2 percent in December 2014), reversing in part the increase recorded in 2013. Moreover, the ratio of dollarization of deposits decreased from 40.6 percent in December 2013 to 39.8 percent in December 2014.

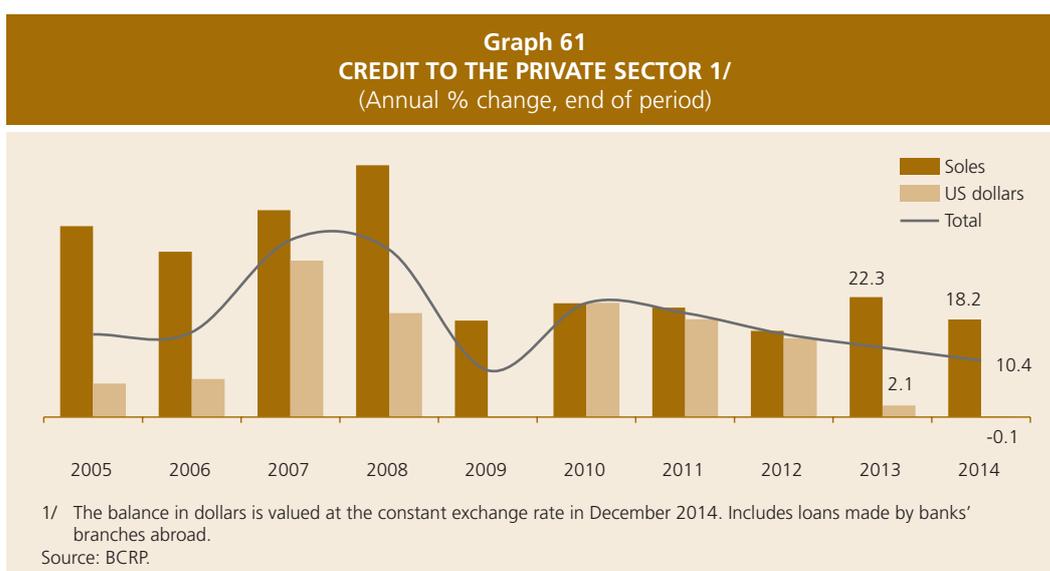


4.3 Credit to the private sector

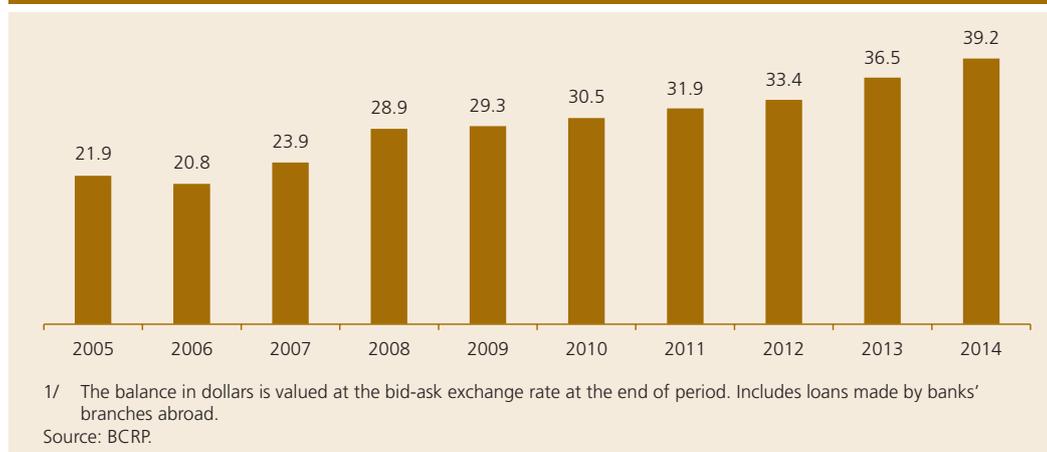
The growth rate of total credit to the private sector shrank for the fourth consecutive year, declining from 12.9 percent in 2013 to 10.4 percent in 2014. It is worth pointing out that the balance of total credit includes the loans that local banks transfer to their branches abroad, which are accounted for as loans granted by these branches.

Credit in foreign currency declined by 0.1 percent (in contrast with 2013, when it increased 2.1 percent) given the strengthening of the dollar against the nuevo sol. On the other hand, credit to the private sector in domestic currency was the most dynamic component of credit with a growth rate of 18.2 percent (22.3 percent in 2013).

As a result, the ratio of dollarization of credit to the private sector continued showing a downward trend, declining from 40.8 percent in December 2013 to 38.3 percent in December 2014.



Graph 62
CREDIT TO THE PRIVATE SECTOR
(% GDP)



By type of borrower, both corporate loans and personal loans registered a slowdown. In the segment of corporate loans, credit slowed down from 12.6 percent in 2013 to 9.7 percent in 2014, while in the segment of personal loans, credit slowed from 13.4 percent to 11.8 percent, mainly as a result of the lower dynamism of mortgage loans.

Table 70
TOTAL CREDIT TO THE PRIVATE SECTOR 1/

	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Businesses	117,544	132,304	145,096	12.6	9.7
Corporate and large companies	53,236	63,987	71,399	20.2	11.6
Medium-sized enterprises	32,138	35,373	40,211	10.1	13.7
Small businesses and microbusinesses	32,170	32,944	33,486	2.4	1.6
Individuals	63,651	72,180	80,716	13.4	11.8
Consumer	37,035	41,395	46,114	11.8	11.4
Car loans	2,028	2,318	2,473	14.3	6.7
Credit cards	12,292	13,312	15,308	8.3	15.0
Rest	22,715	25,765	28,333	13.4	10.0
Mortgage	26,616	30,785	34,602	15.7	12.4
TOTAL	181,196	204,483	225,811	12.9	10.4

1/ The balance in dollars is valued at the constant exchange rate in December 2014. Includes loans made by banks' branches abroad.
Source: BCRP.

By production sectors and considering only credit to businesses, the highest increase in the demand for loans was observed in the sectors of manufacturing (S/. 3.49 billion), trade (S/. 3.19 billion), and business

real estate (S/. 2.26 billion). These three sectors concentrated 59 percent of the demand for business loans during the year.

Table 71					
TOTAL CREDIT BY ECONOMIC SECTOR 1/					
	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Agriculture and livestock	5,571	6,091	6,475	9.3	6.3
Fishing	1,596	1,717	1,343	7.6	-21.8
Mining	4,988	7,088	6,464	42.1	-8.8
Manufacturing Industry	25,349	28,477	31,967	12.3	12.3
Electricity, Gas and Water	7,080	6,419	7,227	-9.3	12.6
Construction	4,004	4,335	5,445	8.3	25.6
Commerce	30,333	34,013	37,200	12.1	9.4
Hotels and Restaurants	2,993	3,044	3,499	1.7	14.9
Transportation and Communications	9,687	10,690	11,611	10.3	8.6
Real Estate and Business	13,201	14,120	16,379	7.0	16.0
Rest	12,741	16,310	17,487	28.0	7.2
TOTAL	117,544	132,304	145,096	12.6	9.7

1/ The balance in dollars is valued at the constant exchange rate in December 2014. Includes loans made by banks' branches abroad.
Source: SBS.

As for credit in domestic currency, the increase of 18.2 percent recorded in credit to the private sector (annual flow of S/. 21.40 billion) is explained mainly by increased credit to businesses, since corporate loans grew 19.8 percent (S/. 12.38 billion) and accounted for 58 percent of the increase observed in credit in nuevos soles. On the other hand, credit to individuals grew 16.3 percent (S/. 9.07 billion), with consumer loans standing out with a growth rate of 12.6 percent (S/. 4.67 billion) and mortgage loans standing out with a rate of 23.8 percent (S/. 4.40 billion).

Table 72					
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY					
	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Businesses	49,774	62,335	74,672	25.2	19.8
Corporate and large companies	13,089	20,833	28,653	59.2	37.5
Medium-sized enterprises	9,861	12,837	16,377	30.2	27.6
Small businesses and microbusinesses	26,824	28,665	29,642	6.9	3.4
Individuals	46,572	55,522	64,589	19.2	16.3
Consumer	32,910	37,047	41,718	12.6	12.6
Car loans	422	558	770	32.0	38.1
Credit cards	11,382	12,348	14,299	8.5	15.8
Rest	21,106	24,141	26,648	14.4	10.4
Mortgage	13,662	18,476	22,871	35.2	23.8
TOTAL	96,346	117,858	139,260	22.3	18.2

Source: BCRP.

Credit to the private sector in foreign currency contracted by 0.1 percent –negative annual flow of US\$ 25 million–, influenced by expectations of a depreciation of the nuevo sol as a result of expectations that international interest rates will increase.

By type of borrower, the segment of corporate loans in dollars grew 0.7 percent (US\$ 153 million), while the segment of credit to individuals declined 3.2 percent (negative flow of US\$ 178 million), due mainly to the segments of mortgage loans and car loans, which decreased by 4.7 percent and 3.2 percent, respectively.

Table 73					
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY 1/					
	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
Businesses	22,742	23,479	23,632	3.2	0.7
Corporate and large companies	13,472	14,481	14,345	7.5	-0.9
Medium-sized enterprises	7,476	7,562	7,998	1.2	5.8
Small businesses and microbusinesses	1,794	1,436	1,290	-20.0	-10.2
Individuals	5,731	5,590	5,412	-2.5	-3.2
Consumer	1,384	1,459	1,475	5.4	1.1
Car loans	539	591	571	9.6	-3.2
Credit cards	305	324	339	6.0	4.6
Rest	540	545	565	0.9	3.8
Mortgage	4,347	4,131	3,937	-5.0	-4.7
TOTAL	28,473	29,069	29,044	2.1	-0.1

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

Credit to the private sector continued to show lower levels of dollarization in all its types in 2014. The ratio of dollarization of credit to the private sector declined 2.5 percentage points, from 40.8 percent in December 2013 to 38.3 percent in December 2014.

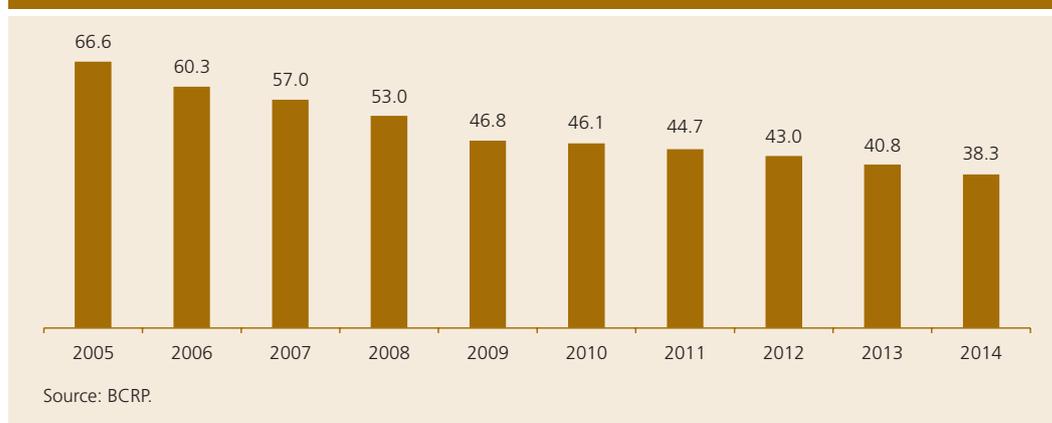
Credit to businesses registered a dollarization ratio of 48.5 percent –a ratio 2.8 percentage points lower than in 2013 (51.3 percent)–, while the ratio of dollarization of credit to individuals showed a lower decrease as it fell from 22.0 percent in 2013 to 20.0 percent in 2014. Furthermore, it is worth highlighting that the ratio of dollarization of mortgage loans decreased from 38.5 percent in 2013 to 33.9 percent in 2014.

Table 74
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/
(%)

	2012	2013	2014
Businesses	53.8	51.3	48.5
Corporate and large companies	72.4	66.1	59.9
Medium-sized enterprises	65.9	62.3	59.3
Small businesses and microbusinesses	14.6	12.3	11.5
Individuals	23.9	22.0	20.0
Consumer	9.7	9.9	9.5
Car loans	76.5	74.8	68.9
Credit cards	6.4	6.8	6.6
Rest	6.1	5.9	5.9
Mortgage	44.8	38.5	33.9
TOTAL	43.0	40.8	38.3
Memo: Dollarization of credit at constant exchange rate	46.8	42.4	38.3

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

Graph 63
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR
(%)



Box 2 NEW MEASURES ADOPTED BY THE BCRP TO ENCOURAGE THE DEDOLLARIZATION OF CREDIT

In December 2014 the BCRP established measures to accelerate the process of de-dollarization of credit, including the application of additional reserve requirements according to the reduction of loans in FC as from June 2015. However, in a context in which a decline is observed in deposits in domestic currency, a lower availability of financing sources in local currency could generate pressures on interest rates. Because of this, the BCRP has implemented new ways to inject liquidity in nuevos soles: credit-expansion repos and credit substitution repos.

1. Actions aimed at encouraging the dedollarization of credit:

The dollarization of credit has declined significantly in recent years, decreasing from a ratio of 47.6 percent in December 2010 to a ratio of 38.3 percent in December 2014. Despite this, the level of dollarization is still a risk and a potential vulnerability for the economy in a context of depreciation of the nuevo sol, especially in some segments in which the degree of de-dollarization has not been significant.

DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR		
(%)		
	Dec.10	Dec.14
Total	47.6	38.3
A. Businesses	57.4	48.5
Corporate	68.1	58.5
Large companies	73.5	61.1
Medium-sized enterprises	68.6	59.3
Small businesses	25.4	13.7
Microbusinesses	10.2	5.8
B. Households	27.6	20.0
Consumer	11.3	9.5
Car loans	65.3	68.9
Mortgage	53.7	33.9

In terms of credit to business, the level of dollarization of credit is greater in the segments of credit to the corporate sector, to large and medium-sized enterprises (with ratios of 58.5, 61.1, and 59.3 percent, respectively). Despite the reduction observed, the still high ratio of dollarization implies risks that could weaken the balance of companies in the event of an abrupt depreciation. In addition to this, the ratio of dollarization of car loans increased from 65.3 percent in December 2010 to 68.9 percent in December 2014, while mortgage loans still show high rates of dollarization. All of this has generated substantial risks for most households since most families receive income in soles and are therefore more exposed to risks derived from exchange rate volatility.

With the aim of encouraging a faster process of de-dollarization of credit and thereby reducing the vulnerability of the economy to a volatile international context, the BCRP has established additional reserve requirements in foreign currency for banks that fail to meet certain credit de-dollarization targets, standardizing in this way the incentives that private banks have to reduce the dollarization of credit.

As from June 2015, financial entities that fail to reduce their balance of total loans in foreign currency (excluding loans for foreign trade operations and loans with terms of over 4 years and loans over US\$ 10 million) by at least 5 percent relative to the balance they had on September 30, 2013, will be subject to additional reserve requirements. The latter will apply to total liabilities in foreign currency (including accounts payable, bonds, and total liabilities subject to reserve requirements).

Additional reserve requirements will also be applied according to the reduction of car loans and mortgage loans in FC. By June 2015 banks must reduce the balance of these loans by 10 percent relative to their balance of these loans at February 2013.

Moreover, these measures will be stricter as from December 2015. The required reduction of the balance of total credit in foreign currency will no longer be 5 percent of the balance at September 2013, but 10 percent. Similarly, the required reduction of the balance of car loans and mortgage loans will increase from 10 percent to 15 percent of the balance of these loans in FC at February 2013.

As a reference, by December 2014, the balance of total credit in FC –excluding foreign trade operations– must be equal to 100.6 percent of the balance at September 2013, while the balance of car loans and mortgage loans equals to 91.1 percent of the balance at February 2013.

2. New instruments used to inject liquidity in soles:

With the aim of providing appropriate funding sources in soles to support the de-dollarization policy, the BCRP has created the following schemes of currency repos to inject liquidity in Nuevos soles as of 2015:

- a. Credit-Expansión Repos:** Financial institutions may use part of their reserve requirements in foreign currency as the collateral to carry out currency repos with the BCRP, obtaining in this way the necessary liquidity in soles to expand their credit in this currency. The maximum amount that banks may release from their reserve requirements is 10 percent of their obligations subject to reserve requirements in foreign currency.



This instrument could generate up to S/. 9 billion as financing source for the expansion of credit in soles.

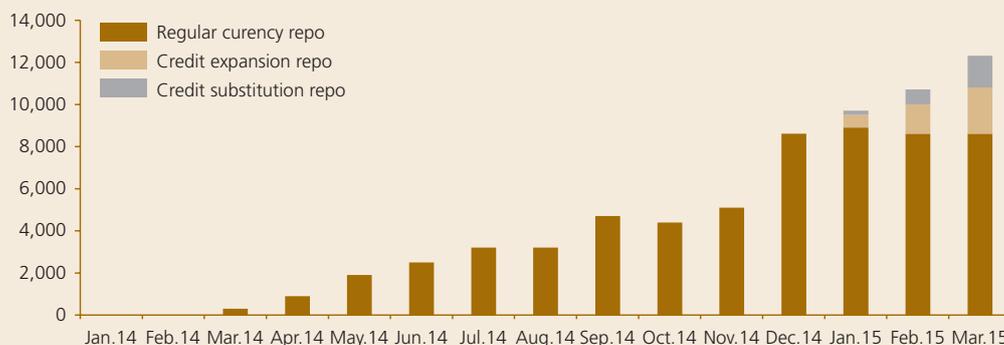
Placements of these repos at March 2015 amount to S/. 2.60 billion.

- b. Credit-Substitution Repos:** Financial institutions may carry out currency repos to replace credit in foreign currency by credit in domestic through an operation whereby the BCRP simultaneously sells dollars to the financial institution. As a result, the commercial bank may provide credit in soles while maintaining the same amount of assets in dollars (this time, as a restricted deposit in the BCRP, which replaces the credit in dollars originally agreed), while the BCRP reduces its foreign exchange position, but not the amount of international reserves.



Credit substitution repos carried out at March 2015 amount to S/. 1. 50 billion.

BALANCE OF CURRENCY REPO



5. Funding to the private sector

Total funding to the private sector grew 11.7 percent in 2014, 2.4 percentage points less than in 2013. The concept of total funding provides a wider overview of the funding sources obtained by private non-financial companies, because it includes the funding that private non-financial firms may obtain through other financial institutions –i.e. mutual funds, insurance companies, and private pension funds– in addition to the funds obtained from depository institutions, as well as the funding obtained from direct loans abroad.

As previously mentioned, during 2014 the annual growth of credit to the private sector through depository institutions showed a slower pace of annual growth declining from 12.9 percent in 2013 to 10.4 percent in 2014. On the other hand, the funding obtained from other financial entities, which in 2013 had declined by 1.9 percent, grew 14.8 percent in 2014, driven mainly by the loans and fixed-income investments of institutional investors.

Finally, direct funding obtained abroad slowed down in 2014. Private companies' external debt grew 14.7 percent (US\$ 3.12 billion), less than in 2013 (27.0 percent). Most of this funding was medium- and long-term debts, which grew 18.7 percent in the year (US\$ 3.17 billion). Direct short-term loans, on the other hand, declined 1.0 percent.

Table 75
FINANCING TO THE PRIVATE SECTOR 1/

	Balance in million nuevos soles			Growth rate (%)	
	2012	2013	2014	2013	2014
I. CREDIT OF DEPOSITORY					
CORPORATIONS	181,196	204,483	225,811	12.9	10.4
Domestic currency	96,346	117,858	139,260	22.3	18.2
Foreign currency (Million US\$)	28,473	29,069	29,044	2.1	-0.1
<i>Dolarización (%)</i>	<i>43.0</i>	<i>40.8</i>	<i>38.3</i>		
II. CREDIT OF OTHER FINANCIAL					
CORPORATIONS 2/	25,741	25,244	28,973	-1.9	14.8
Domestic currency	11,078	11,804	14,264	6.6	20.8
Foreign currency (Million US\$)	4,921	4,510	4,936	-8.3	9.4
<i>Dolarización (%)</i>	<i>53.1</i>	<i>51.7</i>	<i>50.8</i>		
<i>Of which:</i>					
AFP's loans	8,991	8,765	10,342	-2.5	18.0
Loans of mutual funds	956	622	602	-35.0	-3.2
Loans of insurances	3,405	4,074	4,940	19.6	21.3
III. EXTERNAL PRIVATE INDEBTNESS	50,012	63,514	72,824	27.0	14.7
(Million US\$)	16,782	21,313	24,437	27.0	14.7
Short-term (Million US\$)	4,881	4,376	4,333	-10.3	-1.0
Medium- and long-term (Million US\$)	11,902	16,937	20,105	42.3	18.7
IV. TOTAL	256,949	293,241	327,608	14.1	11.7
Domestic currency	107,424	129,662	153,524	20.7	18.4
Foreign currency (Million US\$)	50,176	54,892	58,418	9.4	6.4
<i>Dolarización (%)</i>	<i>54.4</i>	<i>54.2</i>	<i>53.1</i>		

1/ The balance in dollars is valued at the constant exchange rate in December 2014.

2/ Includes loans and investments in fixed-income bonds of institutional investors.

Source: BCRP.

Private non-financial companies' placements of bonds 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, continued declining in 2014 influenced by market expectations about rises in international interest rates in the near future as well as by the strengthening of the dollar. The flow of bonds placed abroad by private non-financial companies amounted to US\$ 3.31 billion in 2014 (vs. US\$ 4.15 billion in 2013).

6. Financial indicators

Banks' financial indicators showed a slight deterioration during 2014. The ratio of non-performing loans increased to 2.5 percent, up 0.4 percent compared to the previous year, and the coverage level in the high-risk portfolio dropped from 131.6 percent to 116.5 percent. Moreover, the return on equity (ROE) declined from 21.2 percent in 2013 to 19.7 percent in 2014 while the return on assets (ROA) declined from 2.0 to 1.9 percent in the same period.

Table 76			
FINANCIAL INDICATORS ON COMMERCIAL BANKS			
(%)			
	2012	2013	2014
Overdue loans / gross placements 1/	1.8	2.1	2.5
High risk portfolio / gross placements 2/	2.8	3.1	3.5
Allowance for loans / high-risk portfolio	142.4	131.5	116.4
Return on equity (ROE)	22.4	21.2	19.7
Return on assets (ROA)	2.2	2.0	1.9

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 debtor size, corporate loans and loans to large companies recorded lower rates of non-performing loans than the average rates (zero percent and 0.7 percent, respectively); loans to medium-sized companies showed a rate of non-performing loans of 4.7 percent, and loans to small- and micro-enterprises recorded rates of 8.8 and 3.9 percent, respectively. As for consumer loans, the rate of loans in arrears was 3.3 percent, while the segment of mortgages recorded a rate of 1.4 percent.

Table 77			
BANKS: DELINQUENCY RATES BY TYPE AND SIZE OF DEBTOR			
(%)			
	2012	2013	2014
Corporate loans	0.0	0.0	0.0
Loans to large companies	0.4	0.4	0.7
Loans to medium-sized companies	2.5	3.7	4.7
Loans to small companies	5.3	7.3	8.8
Loans to microbusinesses	2.7	3.6	3.9
Consumer loans	3.0	3.4	3.3
Mortgage loans	0.8	1.0	1.4
TOTAL	1.8	2.1	2.5

Source: SBS.

The indicators of non-banking financial companies also showed some deterioration. The delinquency rates increased and the coverage ratios of the high risk portfolio declined.

Rural saving banks showed the highest rates of delinquency (13.1 percent at December 2014) and the lowest ratios of coverage of high-risk portfolio (63.6 percent). As for profitability indices, the return on equity ratio (ROE) of all of these institutions decreased, except for municipal deposit banks whose ROE ratio increased from 12.8 percent to 13.2 percent.

Table 78
FINANCIAL INDICATORS OF NON-BANK COMPANIES
(%)

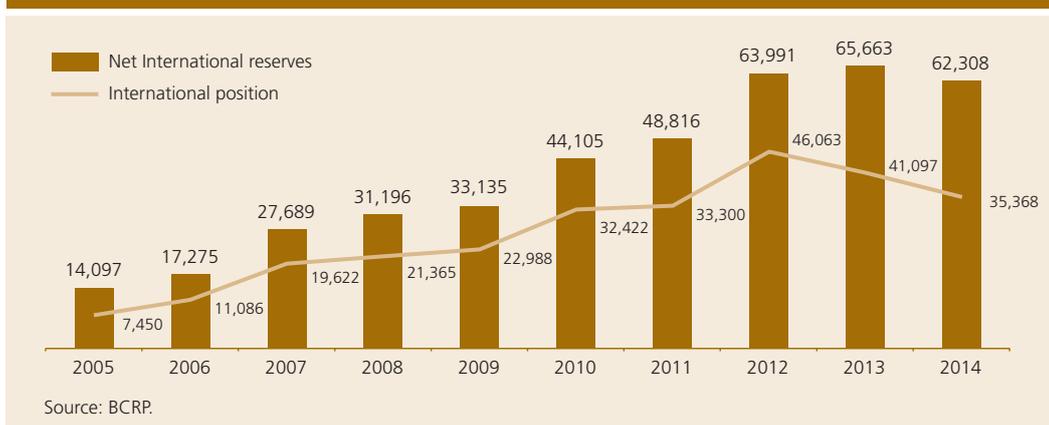
	2012	2013	2014
Overdue loans / gross placements 1/			
Financial Firms	4.5	5.2	5.7
Municipal savings banks	5.2	5.8	6.6
Rural savings banks	5.3	6.7	13.1
Edpymes	4.8	4.8	4.1
Provision for loans / high-risk portfolio 2/			
Financial Firms	132.2	123.4	124.4
Municipal savings banks	108.0	105.4	108.4
Rural savings banks	84.2	84.0	63.6
Edpymes	120.0	115.2	120.5
Ratio on equity (ROE)			
Financial Firms	21.6	13.5	9.0
Municipal savings banks	14.6	12.8	13.2
Rural savings banks	7.1	1.2	-6.2
Edpymes	5.7	5.0	4.2

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

Peru's international reserves (NIRs) decreased by US\$ 3.35 billion during 2014 and showed a balance of US\$ 62.31 billion at year-end. This decline in reserves resulted mainly from net sales of foreign currency (US\$ 5.13 billion), offset by higher deposits of banks (US\$ 1.27 billion) and public sector deposits (US\$ 1.16 billion).

Graph 64
NET INTERNATIONAL RESERVES AND THE INTERNATIONAL POSITION OF THE BCRP
(Million US\$)

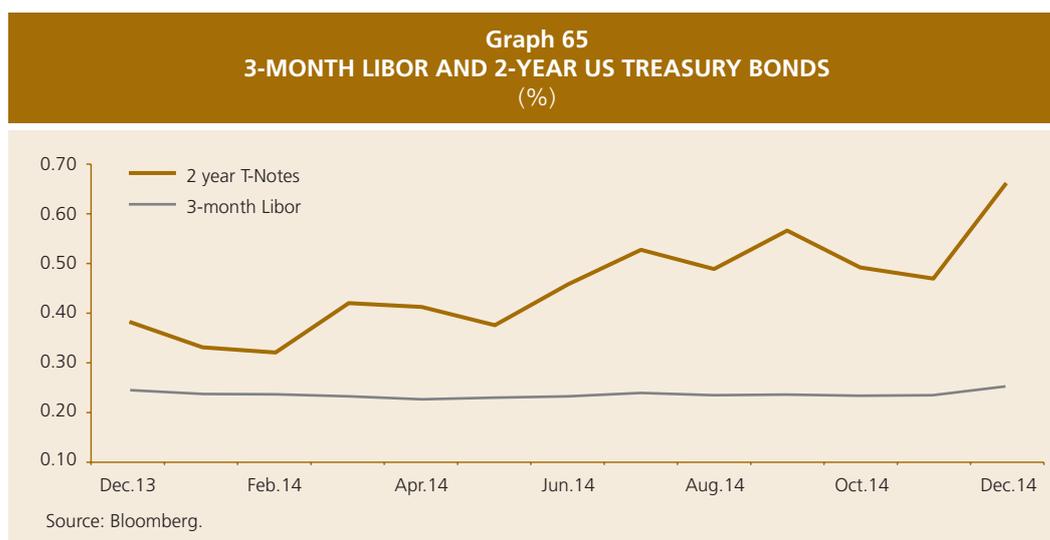


Moreover, the foreign exchange position of the BCRP decreased by US\$ 5.73 billion and showed a balance of US\$ 35.37 billion at end-2014. The ratio of the foreign exchange position-to-NIRs decreased by 6 percentage points, from 63 to 57 percent between 2013 and 2014. The other funding sources that explain the composition of NIRs are banks' deposits in foreign currency at the BCRP (24 percent) and public sector deposits at the BCRP (19 percent).

7.1 Management of international reserves

Gross international reserves, also called international reserve assets, showed a balance of US\$ 62.35 billion at end-2014. This level of reserves is US\$ 3.36 billion lower than the balance recorded in 2013.

In 2014 the yields of the U.S. Treasury bonds with maturities between 6 months and 3 years increased whereas the yields of bonds with longer maturities decreased considerably. The yield of the 2-year T-Note rose from 0.38 percent at end 2013 to 0.67 percent at end 2014. Moreover, the 3-month Libor in dollars showed no significant variation in this period, recording a level of 0.26 percent in December 2014, while in Europe the yield curve moved downwards and flattened, with negative yields being observed in the short term section of the curve.



In this context, the BCRP investment of reserves was carried out with a conservative approach, following specific criteria for 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 neutral positioning was held in terms of the benchmark given the considerable degree of market volatility observed. 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 concerning the investment of its 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-2014, 73 percent of the international reserve assets was invested in liquid securities of high credit quality, 22 percent in first-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 A+ or higher credit ratings.

In fiscal year 2014, international reserve assets generated a yield of S/. 999 million. This yield was lower than in the previous year due mainly to international financial conditions because international interest rates remained low during the year.

Table 79 INTERNATIONAL RESERVE ASSETS (Million US\$)				
Item	December 2013		December 2014	
	Amount	%	Amount	%
Deposits abroad	10,046	15.3	13,611	21.8
Securities	52,215	79.5	45,411	72.8
Gold	1,339	2.0	1,320	2.1
Others 1/	2,111	3.2	2,011	3.2
TOTAL	65,710	100.0	62,353	100.0

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

Liquid IRA⁹ recorded a balance of US\$ 60.46 billion at the end of 2014. As regards the quality of the portfolio, 53 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-. Furthermore, the mean duration of the investment portfolio was 0.87 years.

Table 80 COMPOSITION OF LIQUID INTERNATIONAL ASSETS (% structure)		
	December 2013	December 2014
By maturity term	100	100
0-3 months	33	39
3-12 months	21	26
> 1 Year	46	35
By long-term rating	100	100
AAA	60	53
AA+/AA/AA-	26	32
A+/A/A-	14	15

Source: BCRP.

The effective exposure of the BCRP foreign exchange position to the U.S. dollar was 70 percent. The Central Bank continued carrying out its currency diversification policy.

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

Table 81
INTERNATIONAL POSITION: EFFECTIVE EXPOSURE
(% structure)

	December 2013	December 2014
US\$	67	70
Other currencies	30	26
Gold	3	4
Total	100	100

Source: BCRP.

8. Financial savings and capital market

Financial savings include the total amount of assets that enterprises and households have in the financial system in the form of savings deposits, term deposits, securities, holdings of life insurance, mutual funds, and contributions to private pension funds.

During 2014, the average balance of financial savings increased by 0.5 percent compared to 2013 (49.7 percent of GDP). The growth rate of financial savings was lower than in 2013 due to the slowdown registered in deposits from the public and contributions to mutual funds.

Table 82
FINANCIAL SAVINGS
(Average balance in the period, as % GDP)

	Domestic currency	Foreign currency	Total
2005	18.7	15.7	34.4
2006	21.4	14.5	35.9
2007	26.5	15.1	41.6
2008	22.6	15.3	37.9
2009	28.9	15.5	44.4
2010	32.2	14.8	46.9
2011	29.2	14.2	43.4
2012	33.6	12.5	46.1
2013	33.7	13.9	47.7
2014	35.6	14.2	49.7

Source: BCRP.

By currencies, financial savings in nuevos soles decreased 0.8 percent (15.5 percent in 2013) while financial savings in dollars grew 3.8 percent (6.9 percent in 2013). The ratio of financial savings in nuevos soles in GDP terms declined from 32.6 to 30.7 percent, while the ratio of savings in dollars declined from 12.6 to 12.4 percent.

8.1 Fixed-income market

The balance of securities issued by companies in the private sector through public offering at end-2014 was S/. 19.16 billion, 2.8 percent lower than in December 2013 (S/. 18.65 billion)¹⁰.

The flow of fixed-income securities placed during the year (valued at a constant exchange rate) amounted to S/. 3.33 billion (vs. S/. 4.86 billion in 2013). In addition to this, Peruvian companies placed securities in the international market for a total of US\$ 4.76 billion, of which US\$ 2.58 billion was bonds issued by non-financial companies. In 2013 these placements amounted to US\$ 6.06 billion and US\$ 3.87 billion, respectively.

¹⁰ 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.

Table 83
FIXED-INCOME SECURITIES ISSUED BY PRIVATE COMPANIES

	Amounts			Growth rate (%)	
	2012	2013	2014	2013	2014
Balance at the end of period					
(Million nuevos soles)	17,877	18,647	19,162	4.3	2.8
Non-financial sector	10,491	10,683	11,076	1.8	3.7
Financial sector 1/	7,386	7,964	8,086	7.8	1.5
Composition by currency	100.0	100.0	100.0		
Soles	54.1	49.8	51.7		
VAC	11.1	11.1	10.6		
US dollars	34.8	38.1	36.7		
Others	-	1.0	1.0		
Balance as % GDP	3.5	3.4	3.3		

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

Classifying the bonds issuances in the domestic market by type of issuer, non-financial companies issued bonds for a total equivalent to S/. 1.47 billion (vs. S/. 2.45 billion in 2013) and the balance of current bonds increased 3.7 percent compared to the previous year. On the other hand, financial entities placed bonds for a total of S/. 1.86 billion (vs. S/. 2.41 billion in 2013), but their balance increased by 1.5 percent.

The largest bond issuers in 2014 were Edelnor (S/. 389 million), Luz del Sur (S/. 367 million), Banco de Crédito del Perú (S/. 303 million), Banco Continental BBVA (S/. 200 million), and Banco Interamericano de Finanzas (S/. 200 million).

Furthermore, the largest bond issuers in the international market included Unión Andina de Cementos (UNACEM) with bonds worth US\$ 625, COFIDE with bonds worth of US\$ 600 million, Minera Ares with bonds worth of US\$ 350 million and Patrimonio Fideicometido InRetail and Shopping Malls of Grupo Intercorp with bonds worth US\$ 350 million. In addition to this, Rutas de Lima of the Odebrecht Group, issued bonds for a total of S/. 1.46 billion, of which over 50 percent was acquired by local administrators of pension funds (S/. 737 million).

By maturity terms, the average term of domestic bond issuances in soles was 10.3 years (8.7 years in 2013) while the average term of bond issuances in dollars was 6.4 years (9.1 years in 2013). The longer maturity terms for bonds in soles (15 years) was observed in the bonds issued by Luz del Sur (S/. 143 million placed in September) and Banco Financiero (S/. 8 million placed in September).

By currencies, bonds in nuevos soles represented 62.3 percent of the balance of existing public offering (60.9 percent in 2013), while bonds in dollars represented 36.7 percent (38.1 percent in 2013). Moreover, bonds at fixed-rates in nuevos soles represented 51.7 percent of the balance (49.8 percent in 2013), while inflation-indexed bonds (VAC) represented 10.6 percent (11.1 percent in 2013).

8.2 Stock exchange

The Lima Stock Exchange (LSE) was influenced by the international environment during the year. Higher-than-expected yields were observed in international markets due to the improvement observed in indicators of economic activity in the United States, which led investors to restructure their portfolios. Thus, between December 2013 and December 2014 the General Index and the Selective index of the LSE fell 6.1 and 11.4 percent, respectively, while the value of market capitalization increased 7.0 percent.



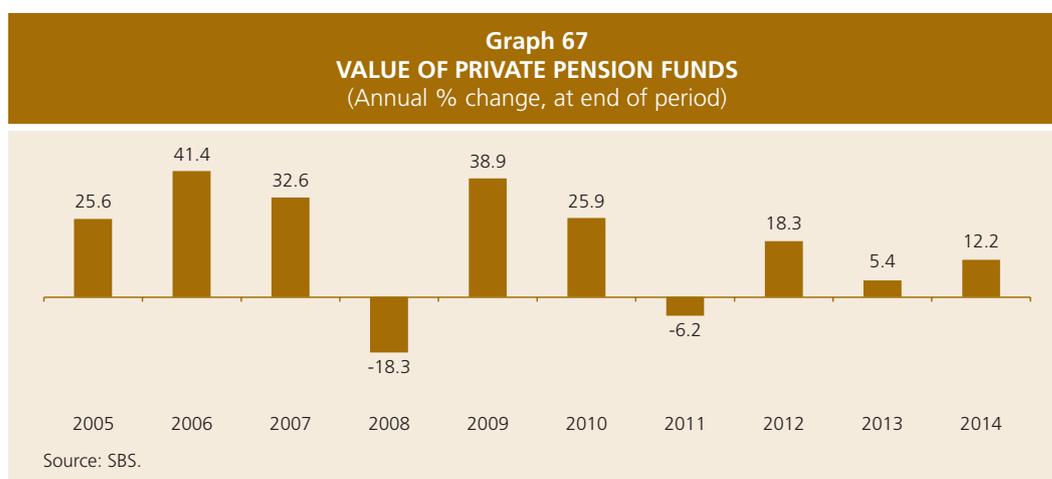
By economic sectors, agriculture and industrial stocks registered the biggest losses. The former dropped 8.1 percent, while the latter fell 38.6 percent, in line with the decline observed in the manufacturing output. The profitability of mining stocks increased by 8.8 percent, while the profitability of service companies' shares increased by 23.0 percent in the year.

The volumes traded increased 22.6 percent compared to 2013. By segments, the volume of shares traded increased by 18.2 percent relative to 2013, while the volume of debt instruments traded increased by 45.1 percent.

The amount of dematerialized shares at year end –that is, the amount of shares recorded electronically in CAVALI– was S/. 157.19 billion, which is equivalent to 43.6 percent of the value of market capitalization (S/. 360.84 billion). The share of non-resident investors in terms of total dematerialized stocks declined from 42.8 percent in December 2013 to 39.9 percent in December 2014.

8.3 Private pension system

Affected in part by the decline of the LSE indices, the net worth of private pension funds increased 12.2 percent during the year. At December, the networth of these funds amounted to S/. 114.53 billion. The number of participants in the private pension system grew 4.5 percent to over 5.7 million members.



After recording a negative profitability of 2.8 percent in 2013, the profitability of private pension funds rose to 5.5 percent in real terms in 2014.

The composition of the investment portfolio reflected investors' adjustment to international conditions, investments abroad increasing from 35.2 to 40.6 percent during the year. The BCRP raised the legal limit for investments abroad from 36 percent –the limit in force in December 2013– to 41.5 percent in December 2014.

In the domestic market, the ratio of investments in sovereign bonds increased from 11.3 percent to 17.3 percent of the fund value, while the ratio of deposits fell from 12.9 percent to 6.5 percent and the ratio of shares fell from 16.2 to 12.6 percent.

Table 84			
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO			
(%)			
	2012	2013	2014
I. DOMESTIC INVESTMENTS	70.6	64.8	59.3
<u>Deposits</u>	<u>3.9</u>	<u>12.9</u>	<u>6.5</u>
In nuevos soles	2.0	2.2	0.7
In US dollars	1.9	10.7	5.8
<u>Bonds and fixed income</u>	<u>31.6</u>	<u>26.0</u>	<u>30.3</u>
Central Bank securities	2.9	2.1	0.4
Sovereign bonds	14.6	11.3	17.3
Values issued by the private sector	14.1	12.6	12.6
<u>Stocks and variable income</u>	<u>35.0</u>	<u>25.9</u>	<u>22.5</u>
Shares	25.9	16.2	12.6
Investment funds	9.0	9.6	9.8
II. FOREIGN INVESTMENTS	29.4	35.2	40.6
III. TOTAL	100.0	100.0	100.0
Million nuevos soles	96,833	102,192	114,527
% GDP	19.0	18.7	19.9

Source: SBS.

8.4 Mutual funds

Mutual funds' joint net worth increased 13.4 percent relative to 2013 with a balance of S/. 18.74 billion (3.3 percent of GDP) at year-end. Given expectations of higher yields in international markets, mutual funds reacted increasing their participation in investments abroad from 8.8 percent to 22.2 percent. As regards domestic investments, they increased their participation in deposits from 62.1 percent to 62.7 percent. This was especially noteworthy in deposits in soles where the ratio increased from 28.7 to 30.2 percent. Moreover, the participation of bonds and fixed-income securities fell from 23.1 to 11.8 percent while the participation of shares fell from 3.6 to 2.4 percent.

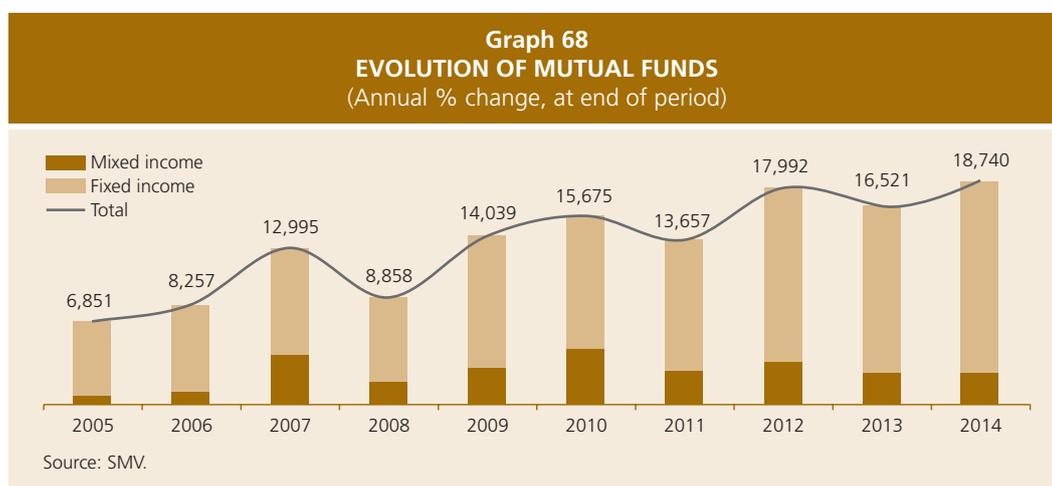


Table 85
COMPOSITION OF MUTUAL FUNDS' INVESTMENT
(%)

	2012	2013	2014
I. DOMESTIC INVESTMENTS	92.3	91.2	77.8
Deposits	53.0	62.1	62.7
In nuevos soles	30.1	28.7	30.2
In US dollars	22.8	33.4	32.6
Bonds and fixed income	33.4	23.1	11.8
Central Bank securities	11.4	6.3	1.1
Sovereign bonds	7.3	5.4	2.6
Values issued by the private sector	14.7	11.4	8.1
Stocks and variable income	4.7	3.6	2.4
Others	1.1	2.4	0.9
II. FOREIGN INVESTMENTS	7.7	8.8	22.2
III. TOTAL	100.0	100.0	100.0
Million nuevos soles	17,992	16,521	18,740
% GDP	3.5	3.0	3.3

Source: SMV.

8.5 Payment systems

During 2014, the BCRP made continued efforts to achieve higher levels of safety and efficiency in payment systems, support innovation, and expand access to payments services.

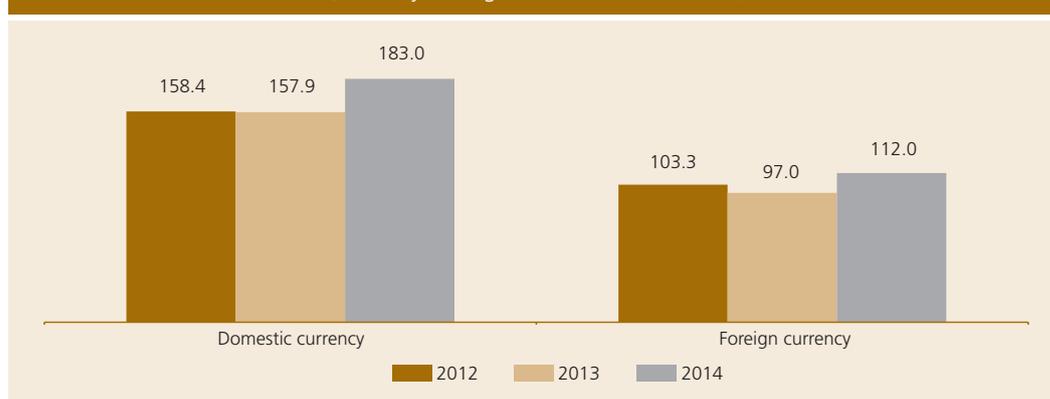
The value of the transactions made through payment systems increased 15 percent after having registered a decline of 2 percent in 2013. Thus, the total value of funds transferred through the payment systems was equivalent to 6.6 times the value of annual GDP (vs. 6.1 times the value of annual GDP in 2013).

Real Time Gross Settlement System (RTGS System)

This 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 represent 92.4 percent of the total value transferred through payment systems.

In 2014, the value of transfers handled through the RTGS system increased by 15.7 percent, due mainly to fund transfers between banks, while the number of transactions increased 12 percent, due mainly to transfers made on behalf of banks' clients. By currencies, the value of payments in nuevos soles increased 15.9 percent and the value of payments in foreign currency increased 15.4 percent.

Graph 69
TRANSFERS HANDLED THROUGH THE RTGS SYSTEM
(Monthly average in billion nuevos soles)



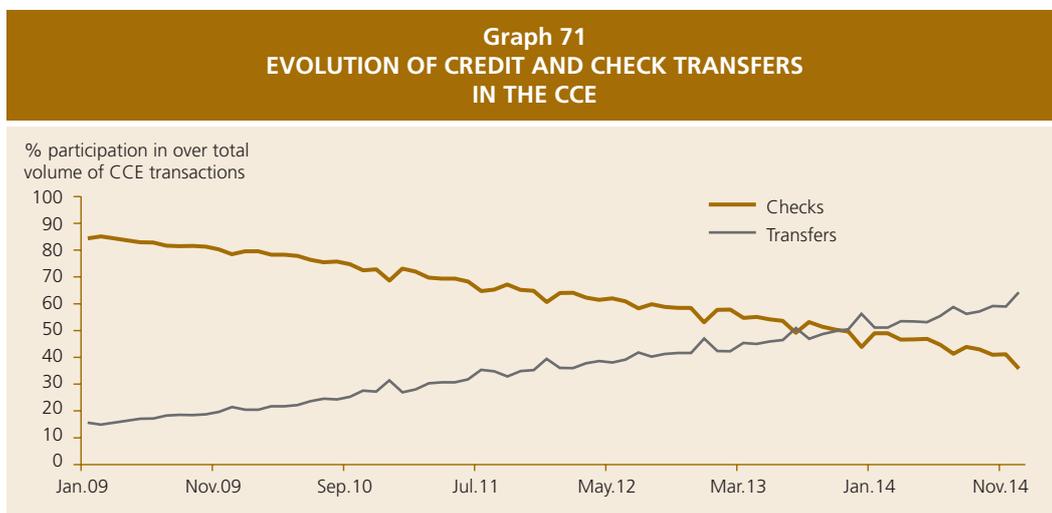
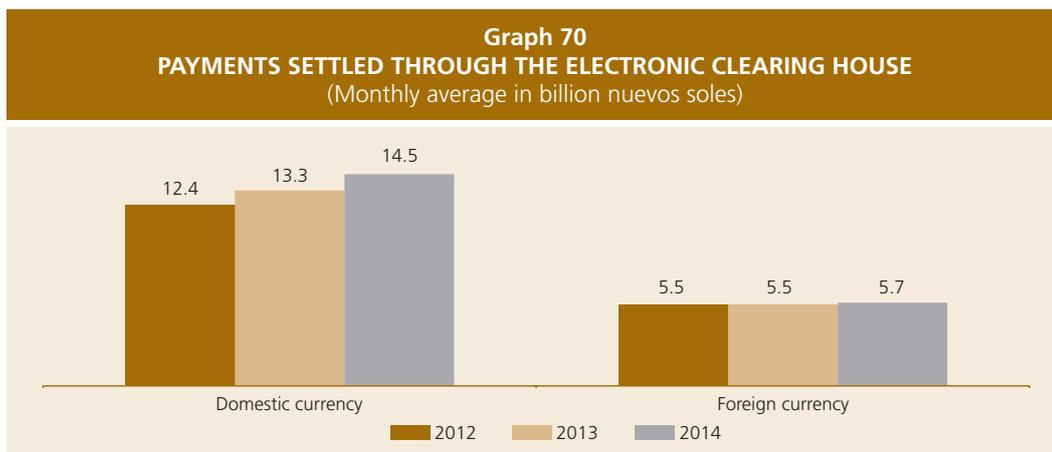
Entities that began to participate in this system during the year included Banco ICBC, which started operations in the first half of 2014, and Caja Rural de Ahorro y Crédito del Centro, which started operations in this system in the second half of the year. In addition, four municipal saving banks – Cajas Municipales de Sullana, Piura, Tacna, and Lima–, a financial company (TFC), and one rural saving bank (Señor de Luren) established electronic connections with the RTGS system, reducing in this way operational risks and increasing the efficiency of the system.

Moreover, the Central Bank developed actions to obtain an international information security certification of the process of interbank transfers handled through the RTGS system, which should culminate in 2015.

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 94.3 percent of total transactions handled through payment systems.

In 2014, the number of transactions handled by the CCE grew 11.0 percent since credit transfers increased 31.0 percent. This dynamism reflects the rising trend observed in the use of electronic payment systems. Thus, the ratio of credit transfers in terms of total of instruments processed through the CCE increased from 47.8 percent in 2013 to 56.4 percent in 2014, while the ratio of payments using checks dropped from 52.2 percent to 43.6 percent.





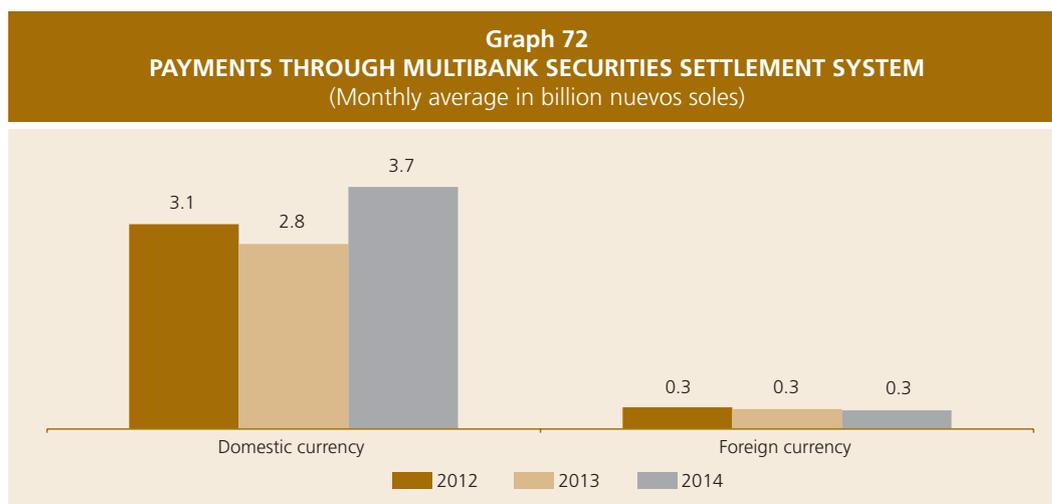
The value of the transactions processed through the CCE grew 6.5 percent in the year, with the value of credit transfers showing an increase of 28.9 percent. On the other hand, the value of checks decreased by 2.6 percent.

Under the supervision of the Central Bank, the CCE continued implementing its project of online transfers and continued carrying out the so-called Social TIN, that is, fund transfers of less than S/. 350 or US\$ 135, which imply a very low cost or no cost to end users. It is worth pointing out that Ripley Bank started operations in the CCE in 2014.

In December, the Board of BCRP approved to authorize non-bank financial companies with a risk rating of "C+" or higher to participate in the CEE system, which will allow these companies to process checks and settle credit transfers. Prior to this, non-bank financial companies were required to have a risk rating of "B" or higher.

Multibank Securities Settlement System (MSSS)

The MSSS handles payments for transfers of stock exchange securities and Treasury bonds. In 2014, the value of payments in this system increased 27.4 percent, while the volume of payments declined by 13.9 percent. Moreover, the payments for stock exchange operations increased 5.8 percent in terms of value and declined 16.4 percent in terms of volume. Furthermore, fund transfers for government securities traded in the secondary market increased 39.0 percent in terms of value and 40.5 percent in terms of volume.



8.6 Other developments

The ASBANC –association of private banks– continued with the implementation of an e-money platform, a payment infrastructure project promoted and developed by several financial entities. In addition, several non-financial companies are also making the necessary adjustments to meet the standards and regulations established to be issuers of electronic money.

Finally, it should be pointed out that the BCRP participated in the Multi-Sector Committee on Financial Inclusion in the process of elaborating the National Strategy for Financial Inclusion, aimed at promoting people's access to and use of quality financial services.