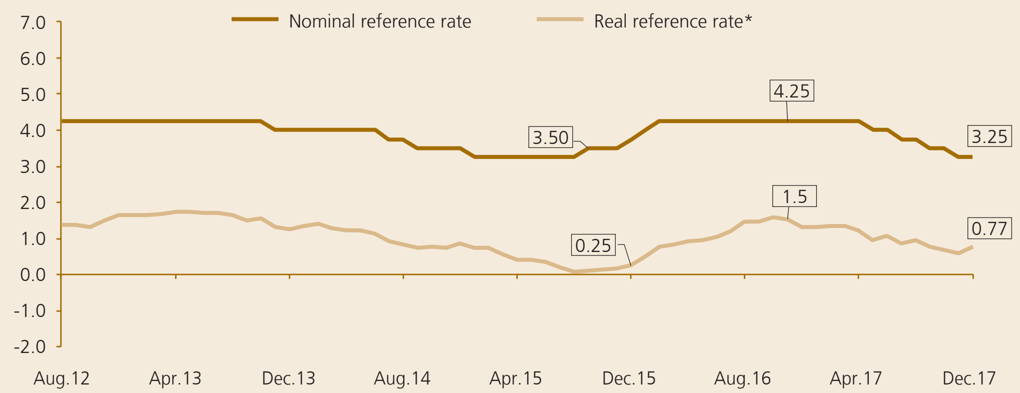
LIQUIDITY AND CREDIT V

1. Monetary Policy

During 2017, the Central Bank increased monetary stimulus in a context of a weak economic cycle aggravated by the effects of El Niño Costero and by the uncertainty generated by the corruption cases linked to construction companies. Thus, BCRP reduced the benchmark rate by 25 basis points in four months (May, July, September, and November), from 4.25 to 3.25 percent, as a result of which the real interest rate remained below 1.0 percent.

These monetary policy actions, in a context of a weak economic cycle and of a reversal of supply shocks, led to the gradual reduction of inflation to the target range. Thus, inflation fell from 3.23 percent to 1.36 percent in 2017, while inflation without food and energy fell from 2.87 to 2.15 percent. On the other hand, inflation expectations remained within the target range and registered 2.3 percent at the end of the year, reflecting the absence of inflationary demand pressures.

Graph 46
NOMINAL AND REAL REFERENCE INTEREST RATE*
(%)



* With expectation of inflation.
Source: BCRP.

This lower benchmark rate was transmitted to the financial system rates during 2017, generating more expansionary monetary and credit conditions that reflected in interest rates for loans to companies and households below their historical average levels. Moreover, BCRP strengthened its expansionary monetary policy position by reducing the rates of reserve requirements in soles and dollars during 2017. The former was lowered from 6.5 to 5.0 percent, while in the case of the latter, the rate of marginal reserves in dollars was lowered from 70 percent to 40 percent and the cap on the average reserve rate was lowered from 60 percent to 40 percent.

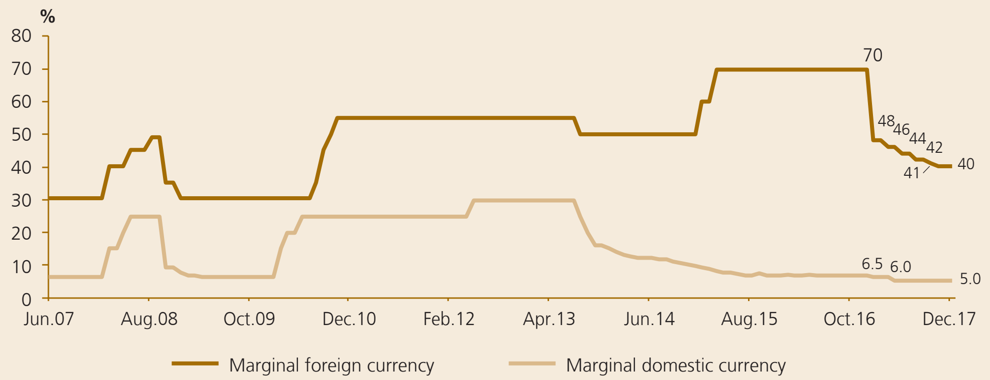
These monetary policy measures favored the recovery of the pace of growth of credit, particularly mortgage loans and corporate loans, which also benefited from the recovery of domestic demand in the second half of the year.

Table 53
RESERVE REQUIREMENTS IN DOMESTIC AND FOREIGN CURRENCY
(%)

	Domestic currency			Foregin currency General regime	
	Reserve requirement	Deposits in current account	Minimum legal reserve requirement	Marginal reserve requirement for deposits	Limit in the means reserve requirement
Jan.15	9.0	2.00	9.0	60	-.-
Feb.15	8.5	1.50	8.5	60	-.-
Mar.15	8.0	1.00	8.0	70	60
Apr.15	7.6	0.75	7.5	70	60
May.15	7.5	0.75	7.0	70	60
Jun.15	7.1	0.75	6.5	70	60
Jul.15	6.6	0.75	6.5	70	60
Aug.15	6.6	0.75	6.5	70	60
Sep.15	7.1	0.75	6.5	70	60
Oct.15	6.5	0.75	6.5	70	60
Nov.15	6.5	0.75	6.5	70	60
Dec.15	6.5	0.75	6.5	70	60
Jan.16	6.7	0.75	6.5	70	60
Feb.16	6.6	0.75	6.5	70	60
Mar.16	6.5	1.00	6.5	70	60
Apr.16	6.7	1.00	6.5	70	60
May.16	6.5	1.00	6.5	70	60
Jun.16	6.6	1.00	6.5	70	60
Jul.16	6.5	1.00	6.5	70	60
Aug.16	6.5	1.00	6.5	70	60
Sep.16	6.5	1.00	6.5	70	60
Oct.16	6.5	1.00	6.5	70	60
Nov.16	6.5	1.00	6.5	70	60
Dec.16	6.6	1.00	6.5	70	60
Jan.17	6.0	1.00	6.0	48	48
Feb.17	6.0	1.00	6.0	48	48
Mar.17	6.0	1.00	6.0	46	46
Apr.17	5.3	1.00	5.0	46	46
May.17	5.2	1.00	5.0	44	44
Jun.17	5.1	1.00	5.0	44	44
Jul.17	5.0	1.00	5.0	42	42
Aug.17	5.0	1.00	5.0	42	42
Sep.17	5.0	1.00	5.0	41	41
Oct.17	5.0	1.00	5.0	40	40
Nov.17	5.0	1.00	5.0	40	40
Dec.17	5.0	1.00	5.0	40	40

Source: BCRP.

Graph 47
RESERVE REQUIREMENTS IN DOMESTIC AND FOREIGN CURRENCY
(As % banks' liabilities)



Source: BCRP.

2. Interest Rates

As a result of the transmission of the reduction of the benchmark rate from 4.25 to 3.25 percent during 2017 to the rest of interest rates in domestic currency, the latter fell by an average of 89 basis points during the year. The interbank rate was close to its benchmark level.

Interest rates in the bank credit market were strongly influenced by the evolution of the benchmark rate and fell by an average of 105 basis points. The segments of loans to small businesses and mortgage loans decreased on average 189 and 87 basis points, respectively, while the interest rates on deposits decreased in all the deposit terms, this being particularly noteworthy in the 30-day term where the interest rate fell the most.

Table 54
INTEREST RATES ON OPERATIONS IN SOLES
(%)

	2015	2016	2017	Change 2017/2016
Interbank rate	3.8	4.4	3.3	-1.1
Deposits up to 30 days 1/	4.0	4.3	3.1	-1.2
31-day to 360-day term deposits	4.7	4.9	4.0	-0.9
More than 360-day term deposits	4.9	5.3	5.1	-0.3
Large companies loans	7.1	7.1	6.2	-0.9
Medium-sized enterprises loans	10.2	10.4	9.7	-0.7
Small businesses loans	20.5	21.7	19.8	-1.9
Microbusinesses loans	34.9	37.2	36.3	-0.9
Mortgage loans	9.0	8.5	7.7	-0.9
Corporate prime rate	4.9	5.4	3.6	-1.7
FTAMN 1/	20.2	21.2	21.8	0.7

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

In the case of interest rates in dollars, the money market rates increased, while the interest rates by credit segments showed mixed behaviors. Easing monetary conditions in dollars through the reduction of reserve requirements allowed the Central Bank to prevent a faster pace of growth in the interbank rate and in the 90-day corporate prime rate, especially considering the higher interest rates observed in international markets. By credit segments, interest rates dropped by an average of 95 basis points, the lower rates for the segment of micro-businesses standing out. On the other hand, deposit rates increased by an average of 45 basis points.

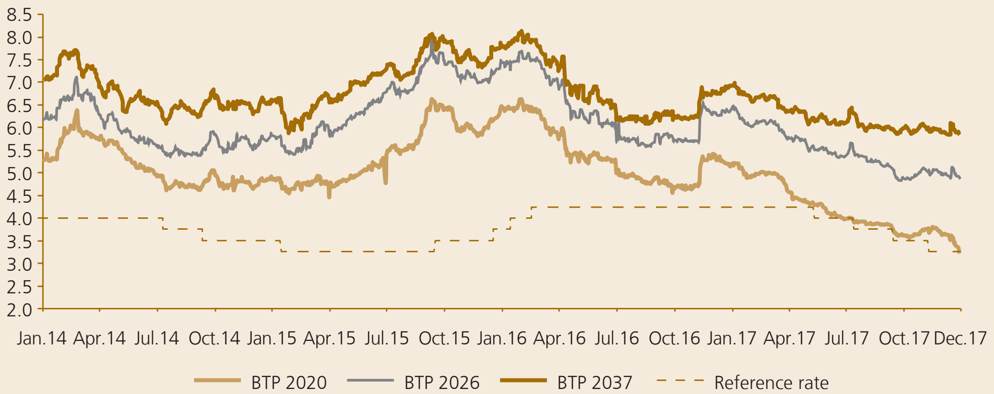
Table 55
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

	2015	2016	2017	Change 2017/2016
3-month libor rate	0.5	1.0	1.6	0.6
Interbank rate	0.2	0.6	1.3	0.8
Deposits up to 30 days 1/	0.2	0.3	1.1	0.8
31-day to 360-day term deposits	0.5	0.6	1.1	0.5
More than 360-day term deposits	1.3	1.1	1.1	0.0
Large companies loans	5.5	5.0	5.3	0.2
Medium-sized enterprises loans	8.1	6.9	6.4	-0.6
Small businesses loans	11.3	10.7	7.3	-3.4
Microbusinesses loans	23.4	15.4	14.6	-0.8
Mortgage loans	6.7	6.1	5.9	-0.2
Corporate prime rate	1.1	1.2	2.3	1.1
FTAMEX 1/	7.0	7.8	7.3	-0.4

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

The interest rates of government bonds decreased during the year due to the greater appetite of non-resident investors that continued showing a high demand for long-term treasury bonds in soles, which also favored the long-term rates in soles, especially the rates on mortgage loans. The normalization of monetary conditions in the United States has not diverted interest rates from their downward trend, in line with the solid fundamentals of the economy and with high liquidity in global markets.

Graph 48
SOVEREIGN BOND YIELDS (BTP)
(%)



Source: MEF and Bloomberg.

3. Exchange Rate

In 2017, the PEN appreciated 3.5 percent against the dollar in nominal terms (from S/ 3.36 to S/ 3.24 per dollar) in a context in which there was a generalized depreciation of the dollar in international markets as well as a sustained recovery of the prices of raw materials. This environment favored the evolution of external accounts, which reflected in a higher surplus in the trade balance in 2017 (US$ 6.27 billion versus US$ 1.89 billion in 2016). On the international side, optimism regarding the recovery of the global economy favored the reduction of risk aversion and the assets of the emerging economies.

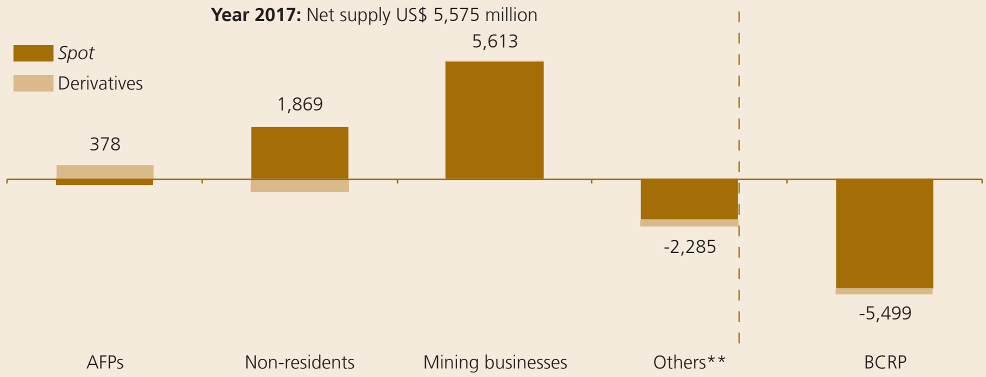
Table 56
EXCHANGE RATE AND PRICE OF COMMODITIES 1/

		Dec.15	Dec.16	Dec.17	% change Dec.17:		
					Dec.16	Dec.15	Dec.14
FED Index	C.U. per US$	122.610	128.024	119.072	-7.0	-2.9	7.1
Eurozone	US$ per Euro	1.086	1.052	1.201	14.1	10.6	-0.8
Japan	Yen	120.1	117.0	112.7	-3.7	-6.1	-5.8
Brazil	Real	3.961	3.255	3.312	1.8	-16.4	25.1
Chile	Peso	709	671	615	-8.2	-13.2	1.4
Colombia	Peso	3,175	3,001	2,984	-0.6	-6.0	25.6
Mexico	Peso	17.20	20.73	19.65	-5.2	14.3	33.1
Peru	Sol	3.414	3.357	3.238	-3.5	-5.2	8.7
Copper	US$/pound	213	250	325	30.1	52.2	12.6
Gold	US$/troy ounce	1,062	1,159	1,297	11.9	22.0	8.1
WTI oil	US$/barrel	37	54	60	12.5	63.2	13.3

1/ End-of-period.
Source: Bloomberg.

In this context, the local foreign exchange market registered a net supply of dollars of US$ 5.58 billion that came mainly from mining companies (US$ 5.61 billion) and non-resident investors (US$ 1.87 billion). On the other hand, the demand came mainly from the BCRP intervention in the foreign exchange market (US$ 5.50 billion).

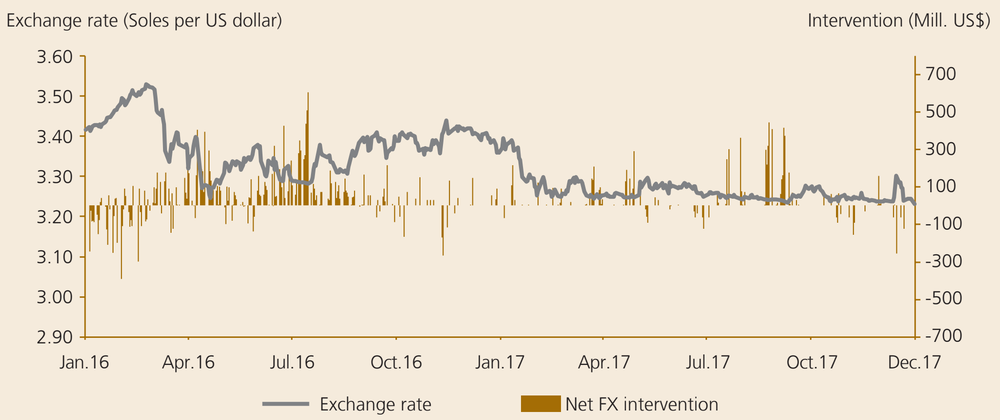
Graph 49
ANNUAL TOTAL FLOW TO THE FOREIGN EXCHANGE MARKET*
(Million US$)



* Positive flows means net demand of US$ in the period.
** Includes Banco de la Nación, financial institutions, mining sector, retail clients, and privates.
Source: BCRP.

Therefore, BCRP intervened in the foreign exchange market in order to reduce the volatility of the exchange rate, interventions being carried out mainly through net purchases of dollars in the interbank market (US$ 5,246 million), and, to a lesser extent, through the placement and/or maturity of other exchange instruments.

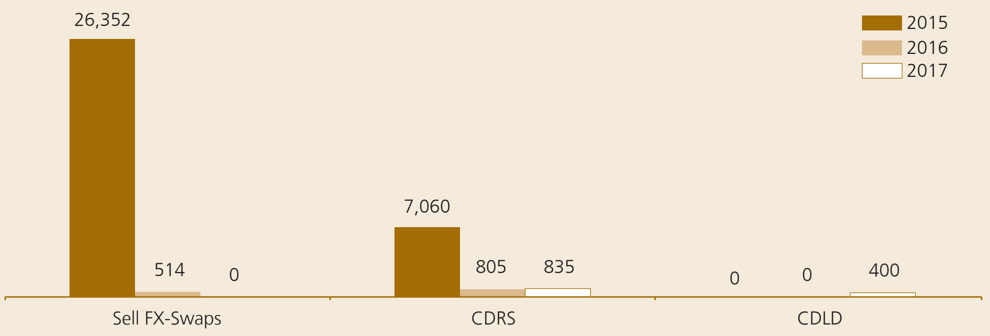
Graph 50
EXCHANGE RATE AND INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET 1/



1/ Includes: net purchases of US$, Net maturities of CDR BCRP and FX-Swaps, and net purchases of REPO of substitution.
Source: BCRP.

As regards the BCRP instruments of exchange intervention, it is worth pointing out that the balances of these instruments have continued to fall and have reached minimum levels.

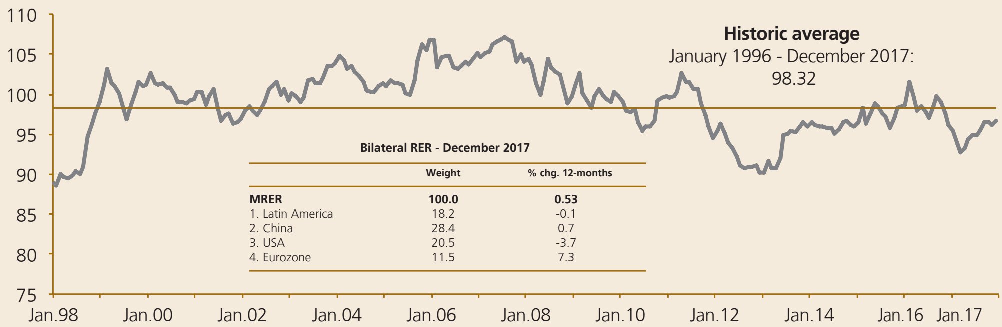
Graph 51
BALANCE OF AND FX INSTRUMENTS OF THE BCRP
(Million soles)



Source: BCRP.

At the end of 2017, the multilateral real exchange rate index registered a level of 96.6 relative to the base period of 2009, a level 0.53 percent higher than in December 2016 and close to its historical average level of 98.3. This increase was mainly due to the increase of real exchange rate with respect to that of the Eurozone (7.3 percent), offset by the decrease with respect to the real exchange rate of the United States (3.7 percent).

Graph 52
MULTILATERAL REAL EXCHANGE RATE
(Index 2009=100)



Bilateral RER - December 2017

	Weight	% chg. 12-months
MRER	**100.0**	**0.53**
1. Latin America	18.2	-0.1
2. China	28.4	0.7
3. USA	20.5	-3.7
4. Eurozone	11.5	7.3

Source: BCRP and Bloomberg.

4. Monetary and Credit Aggregates

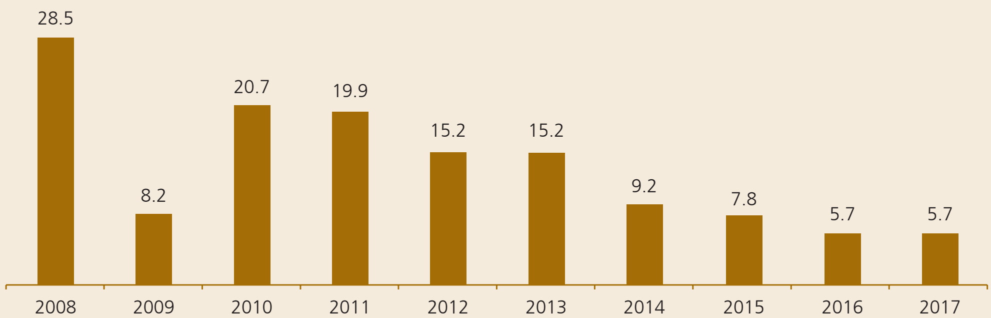
The annual growth rates of liquidity and credit showed a faster pace of growth in 2017. Total liquidity grew 10.1 percent (versus 5.1 percent in 2016), with liquidity in local currency growing at an annual rate of 12.5 percent while the rate of liquidity in foreign currency grew 5.5 percent. Thus, the dollarization ratio of liquidity fell from 34.6 percent in December 2016 to 32.4 percent in December 2017.

Total credit to the private sector grew 6.6 percent (5.6 percent in 2016). Credit in domestic currency grew 5.3 percent while credit in foreign currency grew 9.9 percent. The ratio of dollarization of credit increased from 29.1 percent in December 2016 to 29.3 percent in December 2017.

4.1 Currency in Circulation

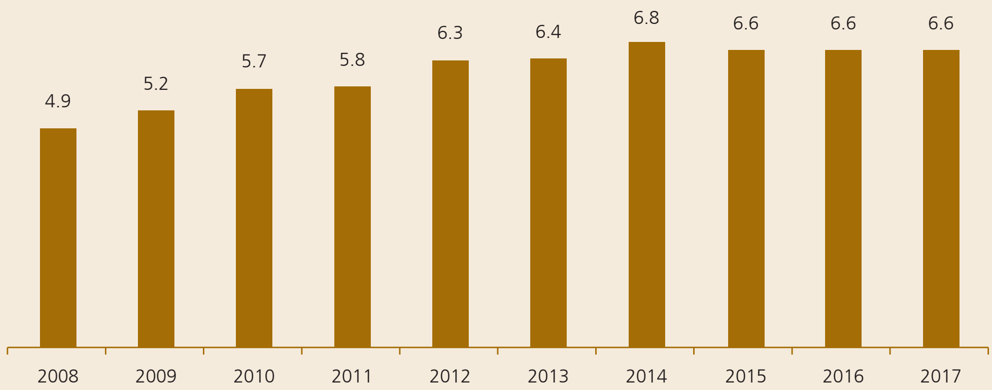
The daily average balance of currency was S/. 41.78 billion in 2017, which represents a growth rate of 5.7 percent compared to the previous year. In GDP terms, the growth of currency has remained constant (6.6 percent) over the past three years.

Graph 53
CURRENCY
(Annual % change, average-of-period)



Source: BCRP.

Graph 54
CURRENCY
(% GDP, end-of-period)



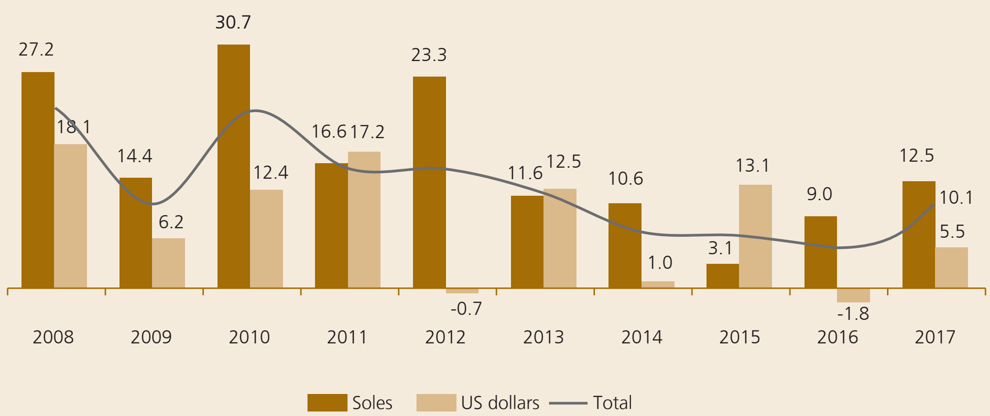
Source: BCRP.

The balance of currency in circulation in December 2017 was S/ 46.18 billion, which represented an increase of S/ 2.88 billion (6.7 percent) compared to December 2016.

4.2 Liquidity

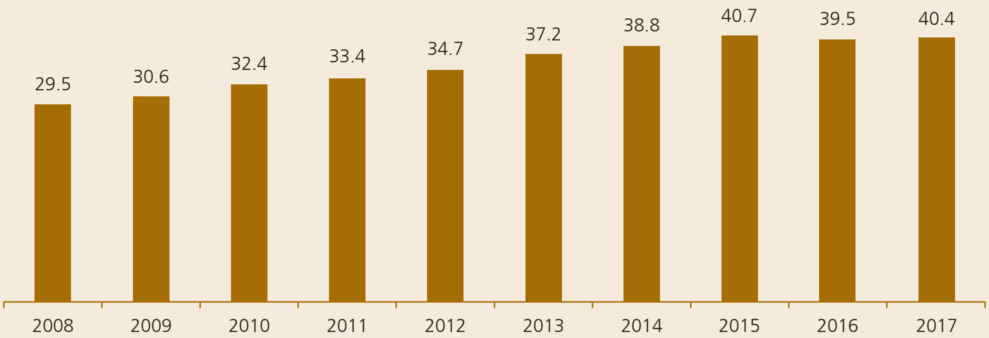
Liquidity grew at a rate of 10.1 percent in 2017 –versus 5.1 percent in 2016–, which reflected mainly the faster pace of growth of term deposits (whose growth rate increased from 0.6 percent in 2016 to 16.0 percent in 2017) and demand deposits (3.6 percent in 2016 and 7.1 percent in 2017). This pace of growth of liquidity in the private sector was accompanied by a slight decline in the dollarization ratio, which went from 34.6 percent in 2016 to 32.4 percent in 2017, in line with the increased stability of the PEN observed during the year.

Graph 55
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 2017.
Source: BCRP.

Graph 56
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 57
MAIN MONETARY AGGREGATES

	Balance in million soles			Growth rates (%)	
	2015	2016	2017	2016	2017
Currency	40,643	43,295	46,178	6.5	6.7
Money	71,324	73,805	81,713	3.5	10.7
Total deposits 1/	**199,725**	**209,034**	**232,015**	**4.7**	**11.0**
In soles	111,323	122,284	140,362	9.8	14.8
In dollars (Million US$)	27,285	26,775	28,288	-1.9	5.7
Liquidity 1/	**244,753**	**257,165**	**283,198**	**5.1**	**10.1**
In soles	156,170	170,211	191,498	9.0	12.5
In dollars (Million US$)	27,340	26,838	28,302	-1.8	5.5

1/ The balance in dollars is valued at the constant exchange rate in December 2017.
Source: BCRP.

By type of depositors, the deposits of individuals (natural persons) grew 11.6 percent (versus 6.0 percent in 2016), while the deposits of businesses increased from an annual growth rate of 2.1 percent in 2016 to a rate of 9.8 percent in 2017.

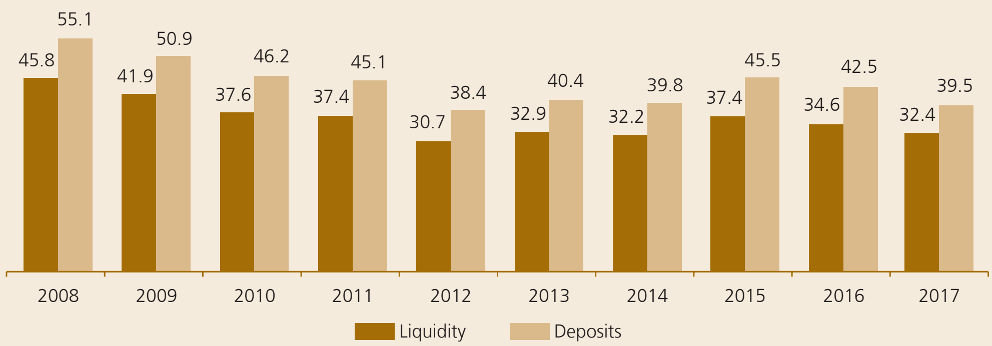
Table 58
DEPOSITS BY TYPE OF DEPOSITOR

	Balance in million soles			Growth rates (%)	
	2015	2016	2017	2016	2017
Individuals 1/	**131,227**	**139,083**	**155,211**	**6.0**	**11.6**
In soles	79,988	89,700	101,584	12.1	13.2
In US dollars (Million US$)	15,814	15,242	16,552	-3.6	8.6
Legal entities 1/	**68,498**	**69,951**	**76,804**	**2.1**	**9.8**
In soles	31,334	32,584	38,778	4.0	19.0
In US dollars (Million US$)	11,470	11,533	11,736	0.5	1.8
Total 1/	**199,725**	**209,034**	**232,015**	**4.7**	**11.0**
In soles	111,323	122,284	140,362	9.8	14.8
In US dollars (Million US$)	27,285	26,775	28,288	-1.9	5.7

1/ The balance in dollars is valued at the constant exchange rate in December 2017.
Source: BCRP.

The dollarization ratio of liquidity fell by 2.2 percentage points over the year (from 34.6 to 32.4 percent). Moreover, the dollarization ratio of deposits fell from 42.4 percent in December 2016 to 39.5 percent in December 2017. This increased preference for soles in 2017 was observed in a context of appreciation of the PEN.

Graph 57
DOLLARIZATION OF LIQUIDITY AND DEPOSITS
(%)



Source: BCRP.

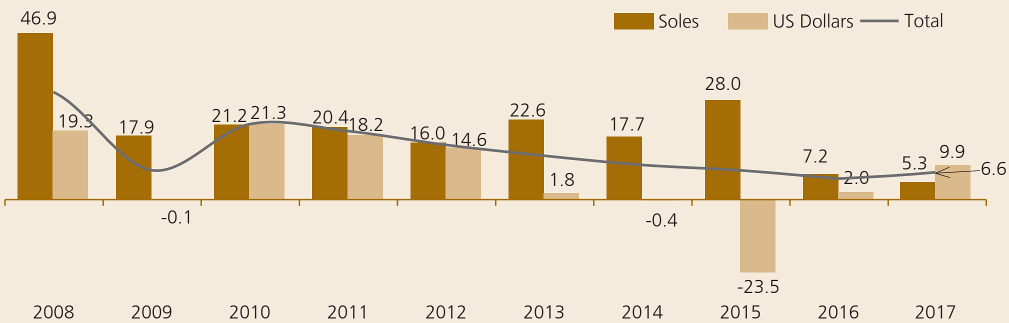
4.3 Credit to the Private Sector

The growth rate of total credit to the private sector increased from 5.6 percent in 2016 to 6.6 percent in 2017. In GDP terms, the balance of credit to the private sector represented 40.5 percent, a slightly lower level that that observed in the previous year.

Credit in domestic currency slowed down from a growth rate of 7.2 percent in 2016 to a rate of 5.3 percent in 2017, while credit to the private sector in foreign currency continued to show a recovery and registered an annual growth rate of 9.9 percent (versus 2.0 percent in 2016), in line with the appreciation of the sol against the dollar.

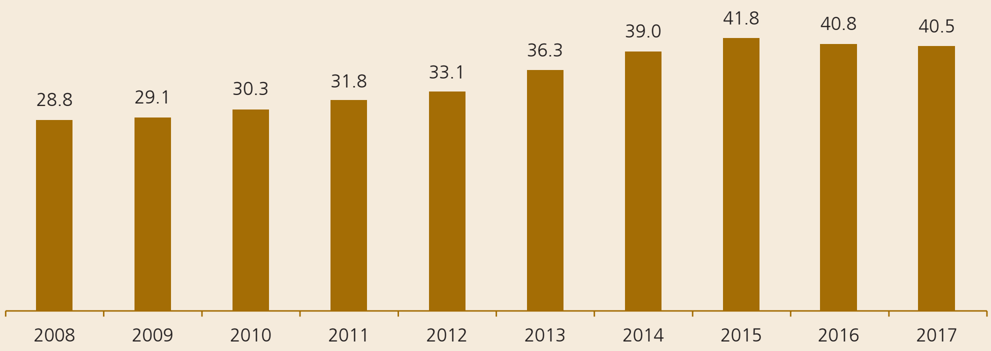
As a result, the ratio of dollarization of credit to the private sector increased slightly, from 29.1 percent in 2016 to 29.3 percent in 2017.

Graph 58
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 2017. Includes loans made by banks' branches abroad.
Source: BCRP.

Graph 59
CREDIT TO THE PRIVATE SECTOR 1/
(% GDP, end-of-period)



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

By type of segments, credit to the corporate segment increased from 4.8 percent in 2016 to 5.4 percent in 2017, this increase being explained by the greater expansion of corporate loans and loans to large businesses (from 4.5 to 6.0 percent) and by increased loans in the segment of small and micro businesses (the annual growth rate of the latter increased from 7.8 percent in 2016 to 9.5 percent). In contrast, credit in the segment of medium-sized enterprises slowed down from 2.7 percent in 2016 to 0.6 percent in 2017.

In the case of households, credit grew at a rate of 8.7 percent during the year, showing a significant recovery in mortgage loans whose growth rate increased from 5.0 percent in 2016 to 8.6 percent in 2017. Consumer loans, on the other hand, showed a similar growth rate than in 2016 (8.8 percent).

Table 59
TOTAL CREDIT TO THE PRIVATE SECTOR 1/

	Balance in million soles			Growth rates (%)	
	2015	**2016**	**2017**	**2016**	**2017**
Businesses	**160,458**	**168,082**	**177,187**	**4.8**	**5.4**
Corporate and large companies	84,222	88,015	93,268	4.5	6.0
Medium-sized enterprises	41,449	42,583	42,858	2.7	0.6
Small businesses and microbusinesses	34,788	37,484	41,063	7.8	9.5
Individuals	**91,658**	**98,243**	**106,772**	**7.2**	**8.7**
Consumer	**53,276**	**57,929**	**63,003**	**8.7**	**8.8**
Car loans	2,435	2,268	2,173	-6.9	-4.2
Credit cards	19,056	20,623	21,232	8.2	3.0
Rest	31,785	35,038	39,597	10.2	13.0
Mortgage	**38,382**	**40,314**	**43,769**	**5.0**	**8.6**
TOTAL	**252,116**	**266,326**	**283,959**	**5.6**	**6.6**

1/ The balance in dollars is valued at the constant exchange rate in December 2017. Includes loans made by banks' branches abroad.
Source: BCRP.

The growth of credit to the private sector in domestic currency (5.3 percent) was driven mainly by personal credit, which grew 9.9 percent. On the other hand, credit to companies grew 1.6 percent, the growth of credit to small and micro businesses standing out with almost the same rate as that recorded in the previous year (9.6 percent). On the other hand, credit to the corporate segment and to large enterprises showed a decline for the second consecutive year (-5.5 percent).

Table 60
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY 1/

	Balance in million soles			Growth rates (%)	
	2015	2016	2017	2016	2017
Businesses	**100,260**	**105,150**	**106,798**	**4.9**	**1.6**
Corporate and large companies	46,136	45,506	42,982	-1.4	-5.5
Medium-sized enterprises	22,250	24,691	25,498	11.0	3.3
Small businesses and microbusinesses	31,874	34,952	38,318	9.7	9.6
Individuals	**77,728**	**85,600**	**94,079**	**10.1**	**9.9**
Consumer	**49,239**	**54,065**	**58,744**	**9.8**	**8.7**
Car loans	1,380	1,675	1,735	21.4	3.6
Credit cards	17,893	19,346	19,775	8.1	2.2
Rest	29,966	33,044	37,233	10.3	12.7
Mortgage	**28,489**	**31,536**	**35,335**	**10.7**	**12.0**
TOTAL	**177,988**	**190,750**	**200,877**	**7.2**	**5.3**

Source: BCRP.

Credit to the private sector in foreign currency recovered and grew at a rate of 9.9 percent in 2017 after having recorded a growth rate of 2.0 percent in the previous year. By type of borrower, the segment of corporate credit in dollars grew 11.8 percent, while personal credit grew 0.4 percent, mainly as a result of higher consumer loans in dollars since mortgage loans dropped 3.9 percent. This slowdown of mortgage and consumer loans is in line with the BCRP actions established to reduce dollarization in the segments that are vulnerable to higher exchange volatility.

Table 61
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY 1/

	Balance in million soles			Growth rates (%)	
	2015	2016	2017	2016	2017
Businesses	**18,580**	**19,424**	**21,725**	**4.5**	**11.8**
Corporate and large companies	11,755	13,120	15,521	11.6	18.3
Medium-sized enterprises	5,926	5,522	5,358	-6.8	-3.0
Small businesses and microbusinesses	899	782	847	-13.1	8.4
Individuals	**4,299**	**3,902**	**3,918**	**-9.2**	**0.4**
Consumer	**1,246**	**1,193**	**1,315**	**-4.3**	**10.2**
Car loans	326	183	135	-43.8	-26.1
Credit cards	359	394	450	9.8	14.1
Rest	561	616	730	9.7	18.5
Mortgage	**3,053**	**2,709**	**2,603**	**-11.3**	**-3.9**
TOTAL	**22,879**	**23,326**	**25,643**	**2.0**	**9.9**

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

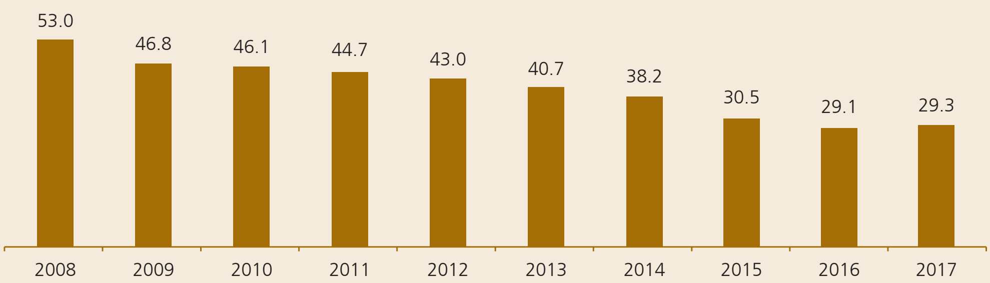
Thus, at the end of 2017, personal loans continued showing lower levels of dollarization while the dollarization ratio of corporate loans increased to 39.7 percent. At the aggregate level, the dollarization ratio of credit remained stable at around 29 percent. It is worth pointing out that the de-dollarization of mortgage loans registered its lowest level in the last 20 years (the statistics of depository companies began to be recorded 20 years ago).

Table 62
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/

	2015	2016	2017
Businesses	**38.7**	**38.3**	**39.7**
Corporate and large companies	46.5	49.2	53.9
Medium-sized enterprises	47.6	42.9	40.5
Small businesses and microbusinesses	8.8	7.0	6.7
Individuals	**15.9**	**13.3**	**11.9**
Consumer	**7.9**	**6.9**	**6.8**
Vehicular	44.6	26.8	20.2
Credit cards	6.4	6.4	6.9
Rest	6.0	5.9	5.8
Mortgage	**26.8**	**22.4**	**19.3**
TOTAL	**30.5**	**29.1**	**29.3**
Memo:			
Dollarization of credit at constant exchange rate	29.4	28.4	29.3

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

Graph 60
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/
(%)



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

5. Total Funding to the Private Sector

Total funding to the private sector grew 4.4 percent in 2017 (versus 3.9 percent in 2016). The concept of total funding to the private sector includes not only the credit provided by depository institutions, but also the resources provided by other financial institutions such as mutual funds, insurance companies and private pension funds, as well as direct external loans to businesses.

This rate of total funding reflected the higher growth of credit to the private sector as well as the growth of credit in other financial companies, which accelerated from 1.9 percent in 2016 to 10.5 percent in

2017 due to the increased investment of these financial companies in bonds issued by local enterprises, mainly in soles. In addition to this, the reclassification of the loans of COFIDE to the companies of the Graña y Montero group increased the amount of credit in foreign currency by approximately US$ 670 million.

External direct financing obtained by Peruvian companies decreased by 3.8 percent.

Table 63
FINANCING TO THE PRIVATE SECTOR 1/

	Balance in million soles			Growth rates (%)	
	2015	**2016**	**2017**	**2016**	**2017**
I. CREDIT OF DEPOSITORY CORPORATIONS	**252,116**	**266,326**	**283,959**	**5.6**	**6.6**
Domestic currency (Million S/)	177,988	190,750	200,877	7.2	5.3
Foreign currency (Million US$)	22,879	23,326	25,643	2.0	9.9
Dolarization (%)	*30.5*	*29.1*	*29.3*		
II. CREDIT OF OTHER FINANCIAL CORPORATIONS 2/	**34,469**	**35,124**	**38,801**	**1.9**	**10.5**
Domestic currency (Million S/)	17,031	18,653	21,691	9.5	16.3
Foreign currency (Million US$)	5,382	5,083	5,281	-5.5	3.9
Dolarization (%)	*51.9*	*47.8*	*44.1*		
Of which:					
AFP's loans	17,523	19,188	19,515	9.5	1.7
Loans of mutual funds	979	861	805	-12.0	-6.5
Loans of insurances	10,989	10,282	10,305	-6.4	0.2
III. EXTERNAL PRIVATE INDEBTNESS	**99,333**	**99,624**	**95,835**	**0.3**	**-3.8**
(Million US$)	30,658	30,748	29,579	0.3	-3.8
Short-term (Million US$)	3,600	3,753	3,797	4.2	1.2
Medium- and long-term (Million US$)	27,058	26,996	25,782	-0.2	-4.5
IV. TOTAL	**385,918**	**401,073**	**418,595**	**3.9**	**4.4**
Domestic currency (Million S/)	195,019	209,404	222,568	7.4	6.3
Foreign currency (Million US$)	58,919	59,157	60,502	0.4	2.3
Dolarization (%)	*50.7*	*48.7*	*46.8*		

1/ The balance in dollars is valued at the constant exchange rate in December 2017.
2/ Includes loans and investment in fixed income from institutional investors.
Source: BCRP.

6. Financial Indicators

In 2017, banks maintained a stable position. They strengthened their solvency levels and made adjustments in their financial and operating expenses to offset the effects of greater delinquency on profitability. The improvement in solvency levels is explained by the capitalization of profits and by the issuance of subordinated bonds. Thus, the effective equity grew by 5.3 percent in the year, as a result of which the global capital ratio rose from 15.0 percent to 15.2 percent.

On the other hand, a slight deterioration was observed in the indicators of the quality of assets. The ratio of non-performing loans increased from 2.8 percent to 3.0 percent, while the level of provision coverage of the high risk portfolio fell from 111.6 percent to 105.7 percent. However, the indicator

Return on assets (ROA) increased slightly (from 2.0 percent to 2.1 percent)[3] because increased profits from security transactions and the decline of financial and operating expenses compensated the increase in provision expenses.

Table 64
FINANCIAL INDICATORS ON COMMERCIAL BANKS
(%)

	2015	2016	2017
Ratio global capital	14.2	15.0	15.2
Overdue loans / gross placements 1/	2.5	2.8	3.0
High risk portfolio / gross placements 2/	3.6	4.0	4.4
Allowance for loans / high-risk portfolio	117.5	111.6	105.7
Return on equity (ROE)	22.1	19.9	18.3
Return on assets (ROA)	2.1	2.0	2.1

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.

Moreover, the ratio of non-performing loans increased mainly in loans to medium-sized companies (from 6.1 to 7.1 percent) and mortgages loans (from 2.3 to 2.8 percent). In the other debtor categories, the ratio remained practically stable.

The deterioration in loans to medium-sized companies was associated mainly with arrears in the debt payment obligations of companies operating in the sectors of construction, commerce, services, manufacturing, and agriculture, which showed a slowdown in their production levels during 2017. On the other hand, in the case of mortgage loans, the highest delinquency was observed in loans financed with borrowers' own resources or with resources from Fondo Mivivienda.

Table 65
BANKS: DELINQUENCY RATE S BY TYPE AND SIZE OF DEBTOR
(%)

	2015	2016	2017
Corporate loans	0.0	0.0	0.0
Loans to large companies	1.0	0.9	1.0
Loans to medium-sized companies	5.2	6.1	7.1
Loans to small companies	8.6	9.0	9.0
Loans to microbusinesses	2.9	3.1	3.2
Consumer loans	3.3	3.6	3.6
Mortgage loans	1.8	2.3	2.8
TOTAL	**2.5**	**2.8**	**3.0**

Source: SBS.

Moreover, the ratio of overdue loans in the case of non-banking entities remained practically stable in most entities due to the portfolio penalties established and the corrective measures implemented in their credit policies to have a better selection of clients. The coverage of the high-risk portfolio decreased in

3 The decrease in the return on equity (ROE) is explained by a higher growth in equity than in assets, in a context of lower-than-expected dynamism of economic activity.

the financial, municipal and rural savings banks. On the other hand, the return on equity (ROE) increased in the rural banks and in the edpymes due to the control of their operating expenses, but it decreased in the municipal savings banks and financial funds due to the arrears of the repayment obligations of a group of debtors that were affected by El Niño Costero.

Table 66
FINANCIAL INDICATORS OF NON-BANK COMPANIES
(%)

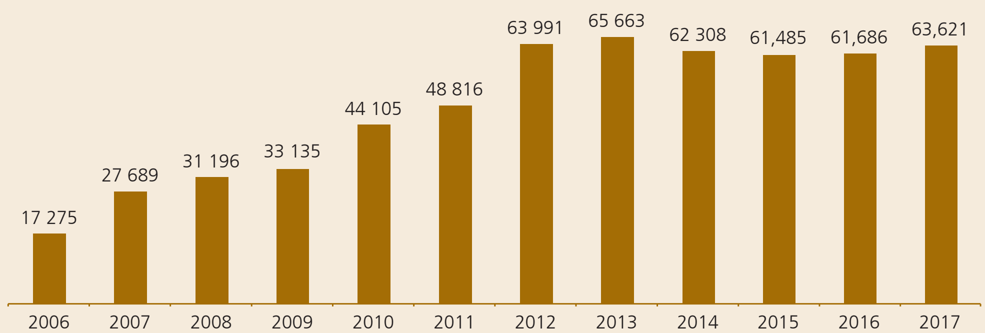
	2015	2016	2017
Overdue loans / gross placements 1/			
Financial Firms	5.7	5.5	5.5
Municipal savings banks	6.0	5.5	5.4
Rural savings banks	9.2	5.1	4.3
Edpymes	4.2	3.9	4.0
Provisión para colocaciones/cartera de alto riesgo,2/			
Financial Firms	124.1	116.2	109.2
Municipal savings banks	106.1	104.9	98.1
Rural savings banks	92.3	97.1	86.9
Edpymes	132.7	137.9	140.9
Ratio de rentabilidad del patrimonio (ROE)			
Financial Firms	14.8	14.9	14.4
Municipal savings banks	14.5	14.4	13.0
Rural savings banks	-9.7	-3.2	-2.0
Edpymes	-0.4	0.3	2.7

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. International Reserves

Peru's net international reserves (NIRs) increased by US$ 1.94 billion in 2017 and showed a balance of US$ 63.62 billion at the end of the year. This increase in the NIRs reflected mainly the BCRP foreign exchange operations (US$ 9.60 billion) and earned interests (US$ 543 million). However, this was offset in part by lower deposits of the public sector (US$ -5.72 billion) and banks (US$ -2.59 billion).

Graph 61
NET INTERNATIONAL RESERVES
(Million US$)



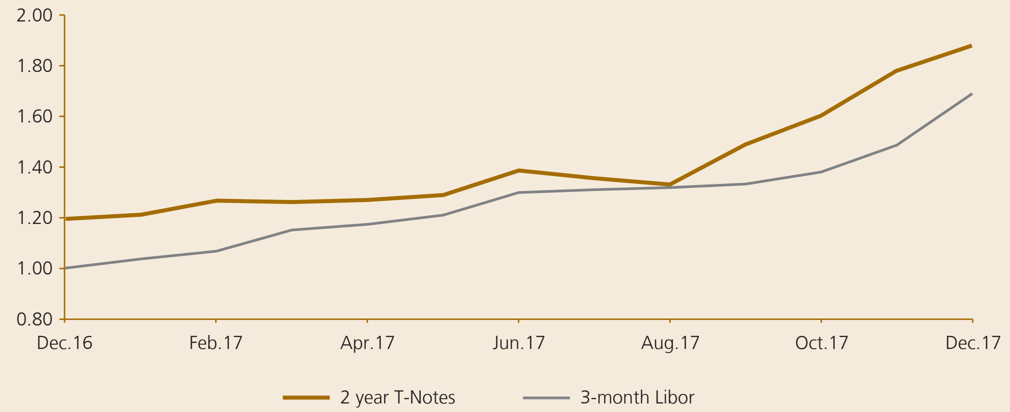
Source: BCRP.

7.1 Management of International Reserves

At end 2017, Peru's gross international reserves –or international reserve assets– showed a balance of US$ 63.73 billion. This balance is US$ 1.99 billion higher than the balance recorded in 2016.

In 2017, the yield curve of the US Treasury bonds flattened with higher rates until the section of 10 years. The yield of the 2-year T-Note 2 years increased from 1.19 percent at end December 2016 to 1.89 percent at end 2017. Moreover, the 3-month Libor rate in dollars rose from 1.00 to 1.69 percent in the same period.

Graph 62
3-MONTH LIBOR AND 2-YEAR US TREASURY BONDS
(%)



Source: Bloomberg.

It is worth pointing out that a priority in BCRP investment policy of the country's international reserves is to preserve capital and ensure the liquidity of these reserves. Once these conditions are met, BCRP seeks to maximize the yield of these international assets. 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, 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 2017, 59 percent of the IRA was invested in liquid securities of high credit quality, 36 percent in fist-class banks overseas, and the remaining 5 percent was invested in gold and other assets. The security portfolio consists of debt securities issued by sovereign issuers, supranational organizations, and foreign government entities with credit ratings of A+ or higher.

In 2017, Peru's international reserve assets generated a yield of S/ 2.06 billion, a significantly higher yield than the one obtained in the previous year.

Table 67
INTERNATIONAL RESERVE ASSETS
(Million US$)

Item	December 2016		December 2017	
	Amount	%	Amount	%
Deposits abroad	21,674	35.1	22,775	35.7
Securities	37,341	60.5	37,869	59.4
Gold	1,283	2.1	1,452	2.3
Others 1/	1,448	2.3	1,635	2.6
TOTAL	61,746	100.0	63,731	100.0

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

Table 68
COMPOSITION OF LIQUID INTERNATIONAL ASSETS
(% structure)

	December 2016	December 2017
By maturity term	**100**	**100**
0-3 months	55	56
3-12 months	18	12
>1 year	27	32
By long-term rating	**100**	**100**
AAA	42	50
AA+/AA/AA-	38	23
A+/A/A-	20	27

Source: BCRP.

The balance of liquid international reserve assets[4] at the end of the year was US$ 62.13 billion. As for the quality of the portfolio, 50 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 A. Moreover, the mean duration of the investment portfolio was 0.60 years.

Table 69
INTERNATIONAL POSITION: EFFECTIVE EXPOSURE
(% structure)

	December 2016	December 2017
US$	89	91
Other currencies	6	5
Gold	5	4
Total	**100**	**100**

Source: BCRP.

4 Easily tradable assets in international financial markets. Therefore, the IRA excludes capital contributions to international organizations –such as the FLAR and BIS–, contributions and funds to the IMF –except holdings of SDRs–, the active balances associated with international conventions, and the gold held in the BCRP vaults.

The effective exposure of the BCRP foreign exchange position to the U.S. dollar was 91 percent, higher than at end 2016 (89 percent).

8. Financial Savings and Capital Markets

Financial savings include the total amount of assets that businesses and households have in the financial system in the form of savings deposits, term deposits, securities, and holdings of mutual funds, life insurance policies, and contributions to private pension funds. During 2017, the average balance of financial savings increased 12.8 percent and was equivalent to 51.7 percent of GDP.

Table 70
FINANCIAL SAVINGS
(Average balance in the period, as % GDP)

	Domestic currency	Foreign currency	Total
2008	24.8	13.5	38.3
2009	24.9	15.2	40.2
2010	27.4	13.7	41.1
2011	28.3	13.7	42.0
2012	30.4	12.7	43.0
2013	32.6	12.6	45.2
2014	33.6	13.7	47.3
2015	34.3	15.5	49.8
2016	34.8	16.3	51.0
2017	36.7	15.0	51.7

Source: BCRP.

By currencies, financial savings in soles grew 12.3 percent in 2017 (versus 9.1 percent in 2016), this rate reflecting both the increased growth of private sector deposits in soles and the inclusion of the pension funds of AFP members in the accounts. Financial savings in dollars (valued in soles) decreased 2.2 percent (versus 13.0 percent in 2016). The ratio of financial savings in soles in GDP terms increased from 34.8 to 36.7 percent, while the ratio of savings in dollars declined from 16.3 to 15.0 percent.

8.1 Fixed-Income Market

At end 2017, the balance of fixed-income securities issued through public offering in the local market amounted to S/ 29.77 billion, this balance being 10.5 percent higher than the balance in 2016. It should be pointed out that this figure does not include the sovereign bonds issued regularly by the Treasury.

The flow of fixed-income securities placed through public offering in the domestic market during the year amounted to S/ 7.21 billion, a higher flow than that placed in the previous year (S/ 6.38 billion). In addition to this, Peruvian companies placed securities in the international market for a total of US$ 3.92 billion, this amount being significantly higher than in 2016.

Table 71
FIXED-INCOME SECURITIES ISSUED BY PRIVATE COMPANIES

	Amounts			Growth rates (%)	
	2015	2016	2017	2016	2017
Balance at the end of period					
(Million soles)	**22,768**	**26,251**	**29,010**	**15.3**	**10.5**
Non-financial sector	14,171	15,892	17,251	12.1	8.6
Financial sector 1/	8,597	10,359	11,759	20.5	13.5
Composition by currency (%)	**100.0**	**100.0**	**100.0**		
Soles	61.3	70.8	75.2		
Fixed rate	52.2	62.7	68.4		
VAC	9.1	8.2	6.8		
US Dollars	38.4	29.0	24.8		
Structured	0.3	0.2	0.0		
Balance as % GDP	*3.7*	*4.0*	*4.1*		

1/ Securities issued or originated by a financial organization. Including Banco de la Nación, COFIDE, and MiVivienda.
Source: SMV.

By type of issuers, private non-financial companies issued public offering bonds for a total equivalent to S/ 3.23 billion (S/ 2.86 billion in 2016) and the balance of current bonds increased 8.6 percent compared to the previous year (12.1 percent in 2016). On the other hand, financial entities[5] placed bonds for a total of S/ 3.98 billion (S/ 3.51 billion in 2016) and their balance grew 13.5 percent (20.5 percent in 2016). The largest bond issuer in the year was Fondo Mivivienda, which issued bonds for a total of S/ 1.5 billion in February 2017. Other important issuers included Telefónica del Perú (S/ 605 million), Banco Continental (S/ 708 million), and Financiera Oh (S/ 569 million).

The average maturity term of domestic bonds issued in soles, weighed by the amount placed, was 7.1 years (8.3 years in 2016), while the average maturity term of bond issued in dollars was 4.1 years (4.3 years in 2016). The longer maturity terms for bond issuances in soles was 30 years, in the bonds issued by Conelsur (S/ 113 million issued in June), and 28 years, in the the bonds issued by Hermes Transportes Blindados (S/ 81 million issued in March).

By currencies, bonds in soles represented 75.2 percent of the balance of existing public offering (71.0 percent at end 2016), while bonds in dollars represented 24.8 percent (29.0 percent in 2016). Moreover, bonds in soles at a fixed-rate represented 68.4 percent of the balance (62.7 percent in 2016), while inflation-indexed bonds (VAC) represented 6.8 percent (8.2 percent in 2016).

8.2 Stock Exchange

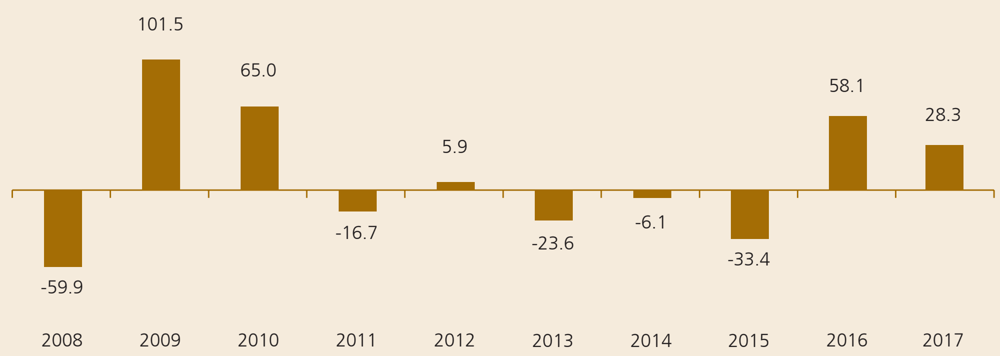
During the year, the Lima Stock Exchange –Bolsa de Valores de Lima (BVL)– had a positive performance and accumulated a positive return of 28.3 percent, as measured by the SP/BVL PERU GENERAL index. The BVL also recorded a significant increase in terms of the volumes traded in comparison with 2016.

It is worth highlighting that the indices of the BVL showed differentiated trends during the year. In the first half of 2017 the Lima Stock Exchange had fluctuating results, influenced by movements in commodity prices and by uncertainty about the US economy and US monetary policy. In the second half

5 Including the bonds issued by public financial organizations such as Banco de la Nación, Banco Agropecuario, COFIDE, and Fondo Mivienda.

of the year, on the other hand, BVL initiated a period of steady earnings due to the rise in the prices of metals and the better outlook for growth in the US economy, which propelled other indices such as the Dow Jones (25.1 percent in the year) and the indices of stock markets in Brazil (26.9 percent in the year) and Argentina (77.7 percent in the year).

Graph 63
GENERAL INDEX OF THE LIMA STOCK EXCHANGE
(Annual %change, end-of-period)



Source: LSE.

At the sector level, mining stocks registered the best performances, the highest returns being observed in the indices of junior mining companies (56.2 percent) and mining shares (43.1 percent). Other indices with substantial returns included the indices in the segments of consumption (32.4 percent) and financial companies (31.0 percent). In contrast, the indices in the sectors of services, electricity, and construction showed negative returns (13.9 percent, 13.9 percent, and 10.3 percent, respectively).

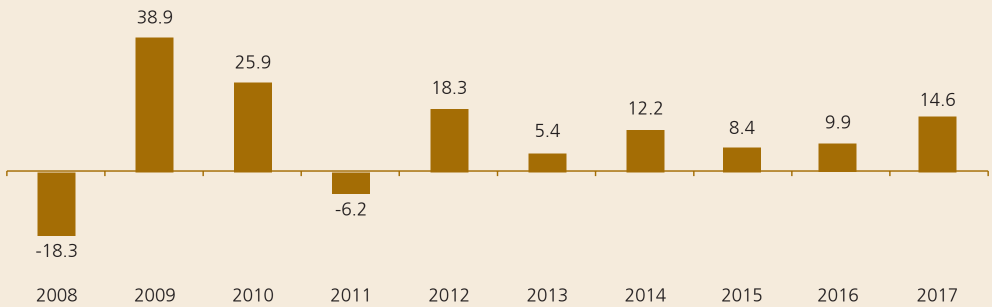
The volumes traded increased by 90.1 percent compared to 2016. By segments, the volume of shares traded increased by 123.6 percent, favored by very specific share transactions in January (Banco de Crédito), October (Grupo Enel), and November (associated with Glencore's acquisition of Volcan shares). The volume of debt instruments traded increased by 34.2 percent, while the volume of repos transactions with shares was 46.2 percent higher than in 2016, but the volume of fixed-income instruments was 44.7 percent lower.

The amount of dematerialized shares at year end –that is, the amount of shares recorded electronically at CAVALI– was S/ 223.04 billion, which is equivalent to 42.3 percent of the value of market capitalization (S/ 526.35 billion). The ratio of dematerialized stocks held by non-resident investors in terms of total dematerialized stocks increased from 35.2 percent in December 2016 to 37.4 percent in December 2017.

8.3 Private Pension System

The net worth of private pension funds increased 14.6 percent during the year, with the investments of these funds at December amounting to S/ 156.25 billion, which represents 22.3 percent of GDP. The number of participants in the private pension system grew 5.4 percent to over 6.6 million members.

Graph 64
VALUE OF PRIVATE PENSION FUNDS
(Annual % change, end-of-period)



Source: SBS.

After recording a real profitability of 6.5 percent in 2016, private pension funds showed a profitability of 10.4 percent in real terms (for fund type 2) in 2017.

The composition of the investment portfolio reflected the more favorable international environment and the increase in the limit established for the investment of pension funds abroad, which was raised from 42 to 46 percent. Thus, the ratio of investments abroad increased from 38.1 percent to 43.3 percent during the year. As for domestic investments, the greater dynamism of the local stock market stood out, the ratio of stocks rising from 10.3 to 10.5 percent, while the ratio of deposits fell from 5.9 percent to 5.7 percent. It is worth mentioning that the lower ratio of deposits reflected the lower participation of deposits in dollars (down from 3.5 to 2.5 percent) given that the participation of deposits in soles was higher (up from 2.4 to 3.3 percent). Furthermore, the ratio of holdings of bonds and fixed income securities declined from 35.5 percent to 33.8 percent, although the share of sovereign bonds grew slightly, from 21.5 to 21.6 percent.

Table 72
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO
(%)

	2015	2016 1/	2017 1/
I. DOMESTIC INVESTMENTS	**59.8**	**60.9**	**56.9**
Deposits	11.4	5.9	5.7
In soles	0.8	2.4	3.3
In US Dollars	10.6	3.5	2.5
Bonds and fixed income	31.1	35.5	33.8
Central Bank securities	-	0.4	0.1
Sovereign bonds	17.8	21.5	21.6
Values issued by the private sector	13.4	13.6	12.0
Stocks and variable income	17.3	19.5	17.5
Shares	7.4	10.3	10.5
Investment funds	9.9	9.2	7.0
II. FOREIGN INVESTMENTS	**40.2**	**38.1**	**43.3**
III. TOTAL	**100.0**	**100.0**	**100.0**
Million soles	124,093	136,353	156,247
As % GDP	*20.3*	*20.7*	*22.3*

1/ Operations in transit investment were registered in 2016 and 2017.
Source: SBS.

By type of funds, Fund type 2 or mixed fund (which has a maximum investment of 45 percent in variable-income securities) represented 73.1 percent of the total value of pension funds and had a real annual return of 10.4 percent. Fund type 3 (or capital appreciation fund, which has a maximum investment of 80 percent in variable-income securities) represented 15.1 percent of the value of the funds and had a real return of 10.9 percent annually, while Fund type 1 (or capital preservation fund, whose maximum investment in variable-income securities is 10 percent) represented 10.7 percent and had a real profitability of 7.8 percent. Finally, Fund type zero, which invests only in fixed-income securities, had a participation of 1.1 percent and a real profitability of 3.3 percent.

Voluntary contributions, which amounted to S/ 1.76 billion (S/ 939 million in 2016), represented 1.1 percent of the total value of pension funds. Most of these contributions were for non-pension purposes (S/ 1.53 billion).

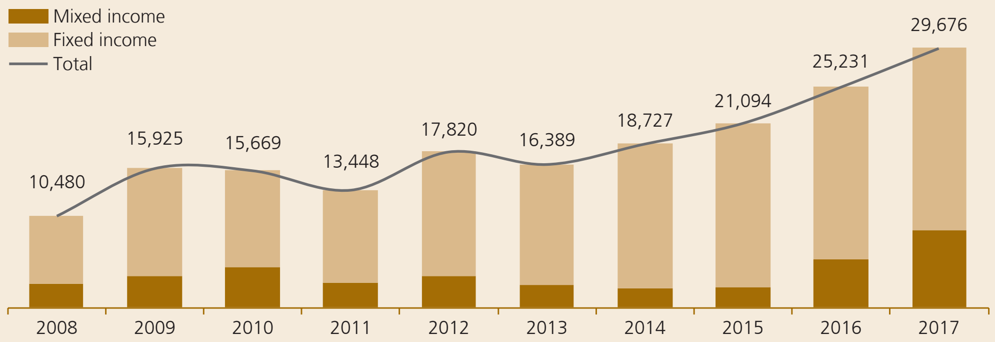
8.4 Mutual Funds

Mutual funds' joint net worth increased 17.6 percent compared to 2016 with a balance of S/ 29.68 billion (4.2 percent of GDP) at year-end. The number of participants increased by 5.8 percent to 443 thousand people at the end of the year (419 thousand in 2016) while the number of operating funds increased from 114 to 155.

By type of fund, the positive evolution of stock market indices favored the growth of mixed-income mutual funds, which invest both in fixed income and variable income securities. The participation of these funds relative to the total number of mutual funds increased from 22.0 percent to 29.5 percent in the year, while the participation of exclusively fixed-income funds fell from 78.0 percent in 2016 to 70.5 percent in 2017.

By currencies, the participation of mutual funds in soles increased from 38.5 percent to 43.5 percent, whereas the participation of mutual funds in dollars fell from 61.1 percent to 56.5 percent.

Graph 65
STRUCTURE OF MUTUAL FUNDS
(Balance in million S/, end-of-period)



Source: SMV.

As in the case of pension funds, the ratio of the investments of mutual funds abroad rose from 35.9 percent to 39.1 percent in the year. As regards domestic investments, both the ratio of deposits and the ratio of bonds and fixed-income debt instruments fell (from 53.1 to 49.5 percent in the case of the former and from 7.1 to 6.4 percent in the case of the latter). On the other hand, the ratio of domestic shares remained at 1.8 percent.

Table 73
COMPOSITION OF MUTUAL FUNDS' INVESTMENT
(%)

	2015	2016	2017
I. DOMESTIC INVESTMENTS	**66.7**	**64.1**	**60.9**
Deposits	54.4	53.1	49.5
In soles	27.0	30.7	33.2
In US Dollars	27.3	22.4	16.2
Bonds and fixed income	8.5	7.1	6.4
Central Bank securities	0.5	1.4	1.5
Sovereign bonds	0.9	0.7	0.9
Values issued by the private sector	7.0	5.0	4.0
Stocks and variable income	1.4	1.8	1.8
Others	2.4	2.0	3.2
II. FOREIGN INVESTMENTS	**33.3**	**35.9**	**39.1**
III. TOTAL	**100.0**	**100.0**	**100.0**
In Million soles	21,094	25,231	29,676
As % GDP	*3.4*	*3.8*	*4.2*

Source: SMV.

8.5 Payment Systems

During 2017, BCRP continued strengthening the operations of the payment systems in terms of safety and efficiency while carrying out its roles of oversight and regulation at the same time. It also continued reinforcing the provision of services in the RTGS system as well as promoting increased access and a greater use of the payment system.

In addition to this, BCRP also continued consolidating the innovations implemented in the payment system in 2016 (immediate transfers and the Agreement on Pago de Dinero Electrónico) and monitoring the new services developed in the market of payments (i.e. Págalo.pe at Banco de la Nación, *cash-in* y *cash-out* at BIM, the *Contactless* technology for credit cards, and Fintech services, among other innovations).

Furthermore, payment systems registered an increase of 5.6 percent in the average daily value of fund transfers, the highest increase observed since 2015. In spite of this, because its growth was lower than that recorded in terms of nominal GDP, the value of the funds transferred through the payment systems declined from 5.2 times to 5.1 times the value of annual GDP between 2016 and 2017.

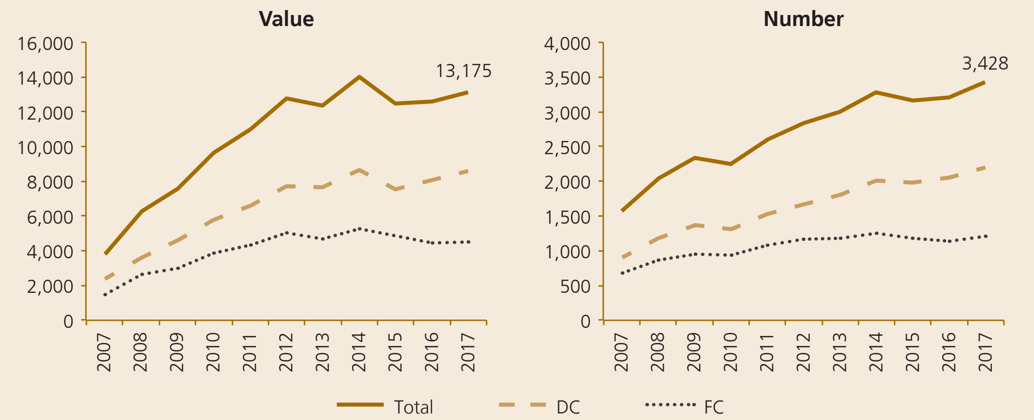
Real Time Gross Settlement System (RTGS System)

This is the main payment system used in Peru to make high-value transfers among the entities of the financial system and to make transfers on behalf of their clients. It represents 91 percent of the total value transferred through payment systems.

In 2017, the average daily value of transfers handled through this system increased by 4.5 percent due mainly to the increase in the operations carried out by banks' clients. However, because the average value of transfers has decreased, the growth of the daily average of transactions is explained by the increase in the number of transfers (6.9 percent).

It is worth highlighting that transfers in domestic currency grew at a faster pace than transfers in foreign currency, the ratio of the former rising to 65.7 percent of total operations handled by the RTGS system.

Graph 66
TRANSFERS HANDLED THROUGH THE RTGS SYSTEM
(Daily average in million soles and number in units)



Source: BCRP.

The RTGS system is also used to settle the monetary policy operations carried out by the Central Bank with the financial system through its Securities Settlement System, which has been modernized by the Central Bank. Transfers from other systems, such as the result of the Electronic Clearing House and the Electronic Money Payment Agreement (APDE), are also settled through the RTGS System.

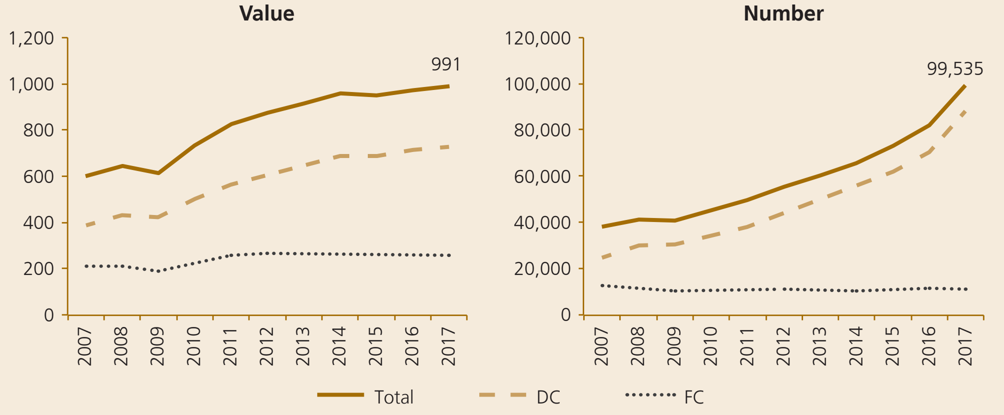
The Central Bank continued promoting the electronic access of micro finance entities (i.e. municipal and rural savings banks and non-bank financial entities) to the RTGS system. The entities that established electronic connections with this system in 2017 included Caja Municipal de Ahorro y Crédito de Maynas and Financiera Credinka, which has implied greater efficiency and safety in the transfers of these entities. In addition, JP Morgan was also connected to the RTGS system through *Cliente Web* in June 2017.

Electronic Clearing House (Cámara de Compensación Electrónica - CCE)

This system has a "retail" nature because it handles low value transfers and a high number of transactions. The CCE administers services such as the settlement of checks, credit transfers, and immediate transfers between the different financial system entities. Moreover, transfers in this system represent 96.1 percent of the total number of transactions in the Payment Systems.

In 2017, the average number of transfers handled through by the CCE continued to show a rising trend (21.4 percent) due mainly to the growth of credit transfers (28.4 percent). This reflects people's greater preference for using electronic payment systems and that the use of checks is being left behind. The ratio of credit transfers in terms of the total number of daily average transactions processed through the CCE increased from 70.7 percent in 2016 to 74.8 percent in 2017.

Graph 67
PAYMENTS SETTLED THROUGH THE CCE
(Daily average in million soles and number in units)

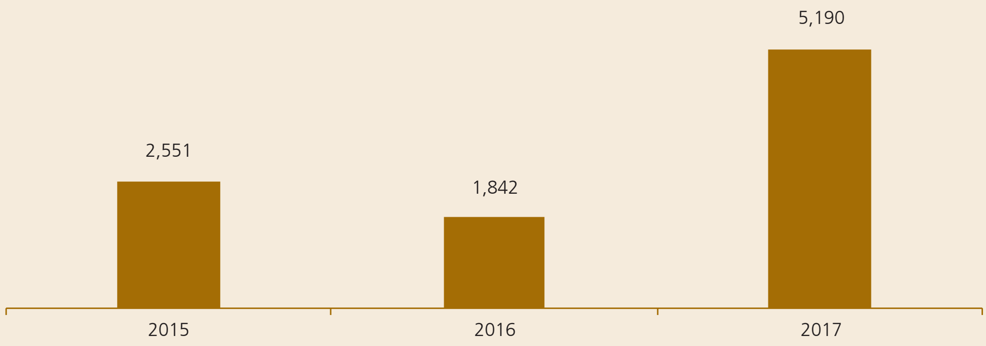


Source: BCRP.

In terms of value, credit transfers showed an increase of 10.4 percent, while checks decreased by 8.6 percent. It should be pointed out that the value of credit transfers reached a ratio of 52.9 percent of the total transactions of CCE.

In addition, some banks continued with the promotion of Social TIN (fund transfers involving no cost for the clients, provided that the transfers do not exceed S/ 350 or US$ 135). TIN Social is a commercial campaign that has already been going for 4 years. In 2017, the daily average of funds transferred through this system was 750 thousand soles and 5 thousand transactions were carried out.

Graph 68
TIN SOCIAL
(Daily average in number of transfers)



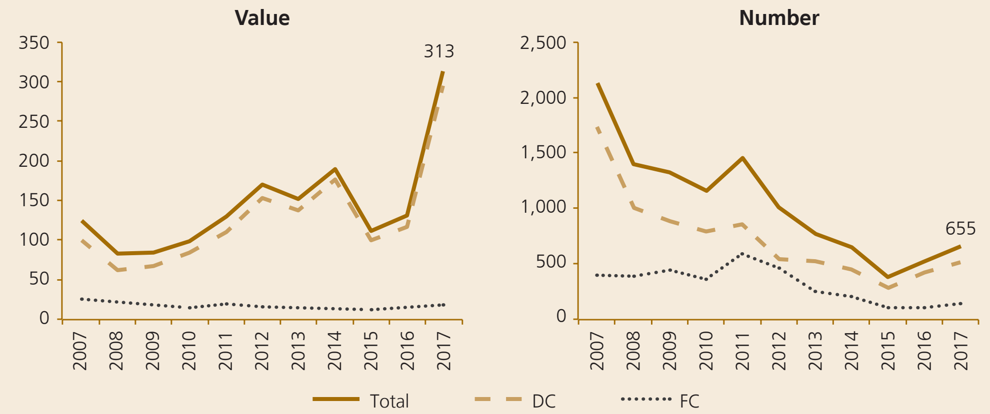
Source: BCRP.

CCE began to provide the service of Immediate Transfers in July 2016. In 2017, the daily average number reached 5 thousand operations (86.9 percent of which are operations in soles). Although the use of this payment instrument is gradually growing, it still represents a very low percentage of the operations carried out in the CCE: 1.2 percent in terms of value and 5 percent in terms of number.

Multibank Securities Settlement System (MSSS)

The MSS System, which is managed by CAVALI, handles payments for transfers of stock exchange securities and Treasury bonds. In 2017, the daily average value of payments in this system increased by 139.5 percent and the daily average number of transactions increased by 25.9 percent, reflecting both the higher volume of transactions with Treasyry bonds in the stock exchange market.

Graph 69
PAYMENTS SETTLED THROUGH THE SLMV
(Daily average in million soles and number in units)



Source: BCRP.

Non-Cash Payment Instruments

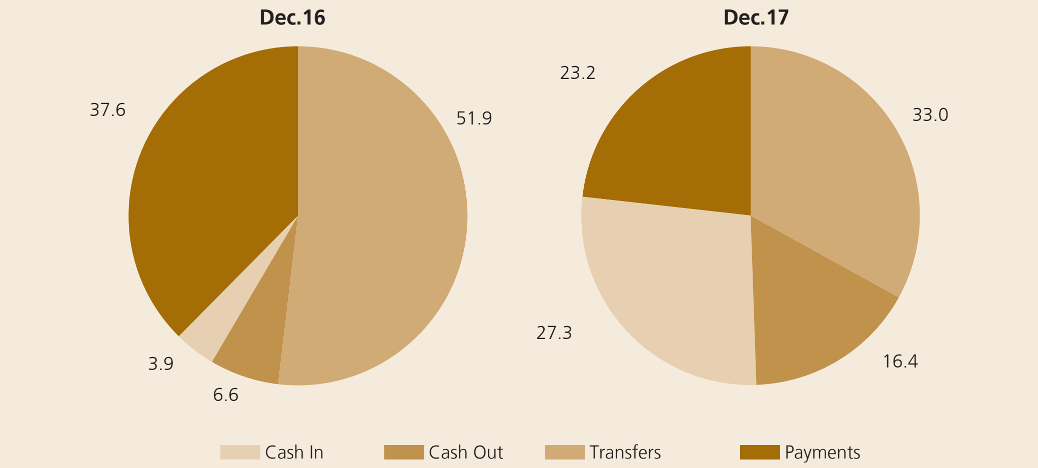
Payment instruments other than cash have continued to grow steadily, reflecting people's greater acceptance for these instruments to make retail payments. Credit Transfers through the CCE are the retail payment instrument that has grown more in terms of both value and number of transactions, followed by payment cards, whereas checks continue to show a downward trend.

Electronic Money Payment Agreement

In 2017, the use of electronic money as a payment instrument continued to be promoted through the actions carried out as part of the Electronic Money Payment Agreement called Modelo Peru (or BIM, for *billetera móvil*), which is managed by the company Pagos Digitales Peruanos (PDP). As of December 2017, there were a total of 25 active electronic money issuers with more than 400 thousand accounts (65 percent more than in 2016), the number of daily operations totaled 8.6 thousand operations, and the average daily value of these operations was S/ 168 thousand (versus 1.3 thousand daily operations with an average value of S/ 14 thousand in December 2016).

Although *cash-in* is still the main function in terms of the value of transactions (33 percent of total), it is worth mentioning that fund transfers (e.i. sending money) have increased from 3.9 to 27.3 percent. On the other hand, payments –to recharge cell phones mainly– accounted for around 90 percent of the total number of transactions.

Graph 70
TYPE OF OPERATIONS OF BIM
(% participación del valor)



Payments include and other pays for RUS, Tecsup, etc.
Source: PDP.

During 2017, PDP innovated its *cash-out* and *cash-in* services and now people can withdraw funds from ATMs and put cash in electronic wallets in all the correspondent ATMs located in different points of sale (POS). Both actions, which were first implemented by Banco BBVA Continental and BCP, have contributed substantially to increase access to electronic money.

Oversight

The Central Bank continued carrying out its oversight role by analyzing the self-evaluations of Payment Systems and the information about their operations and incidents, as well as through inspection visits to the Electronic Clearing House and CAVALI. The Payment Systems comply with the regulations and current standards of safety, efficiency, and adequate risk management.

In addition, BCRP brought together the central banks of Latin America and the Caribbean in an event denominated The Payments Week to share experiences in the areas of regulation of payment systems and innovations in the payment market (Fintech and virtual currencies).

8.6 Financial Inclusion

As a member of the Multi-Sector Committee on Financial Inclusion, BCRP coordinated actions in the Payments Group with the aim of improving the regulatory framework payment systems (particularly, the use of E-Money and correspondent ATMs) and articulating public and private efforts to expand the use of electronic payments. One of the actions that stands out is Banco de la Nación's implementation of the Payment Button "Págalo.pe", with which different payments to government entities can be made using credit cards and debit cards. In addition, several articles discussing the barriers to access to deposit accounts were published, and meetings were held with Fintech companies to have greater knowledge of their services, which can provide greater access to payment services to the population that does not have these services.

Box 2
MANAGEMENT OF INTERNATIONAL RESERVES

A. Legal Framework

The role and functions of the Central Reserve Bank of Peru (BCRP) are established by the Political Constitution of Peru and by the Organic Law of BCRP. Article 84 of the Constitution states that one of the functions of BCRP is to administer the country's international reserves that are under its responsibility.

Likewise, Article 71 of the Bank's Organic Law says that the management of international reserves is carried out based on the criteria of safety, liquidity and profitability, following usual sound banking practices, and that these criteria are assessed taking into account the situation of the economy and its outlook for growth as well as the international context,. Finally, article 72 says that the the following assets constitute the international reserves managed by the Bank:

- Holdings of gold and silver.
- Foreign banknotes and coins of general acceptance as means of international payment.
- Currency deposits in accredited foreign banks, which can be either demand deposits or term deposits, with terms no longer than 90 days, in accordance with the decision of the Board of Directors.
- Certificates of deposit in foreign currency in accredited foreign banks, with terms no longer than 90 days, in accordance with the decision of the Board of Directors.
- Liquid first-class securities or bonds issued by international organizations or foreign public entities, in accordance with the decision of the Board of Directors.
- Bank acceptances with terms no longer than 90 days.
- Special Drawing Rights.
- The debit balance of the accounts originated in the reciprocal credit agreements with similar entities.
- Contributions in gold, currencies, and Special Drawing Rights to international monetary organizations.

B. Reserve Management

The management of international reserves is subject to the Bank's role of preserving monetary stability. According to the Bank's reserve management policy, priority is given to preserving the capital and guaranteeing the liquidity of reserves. Once these conditions are met, the Bank seeks to maximize the return on the country's international assets.

The investment of international assets depends strongly on the sources of resources in terms of amount, currency, term, and volatility. In this way, BCRP seeks to minimize the financial risks that could affect the value and availability of the resources entrusted to the Bank.

Moreover, the management of international reserves is based on a clear allocation and separation of duties, responsibilities, and accountability with appropriate hierarchical levels for decision making, management, and control.

The Board approves the strategic allocation of assets and the investment guidelines proposed by Management, while the International Investment Committee makes decisions regarding the tactical allocation of assets and strategies that will be implemented by the Department of International Operations.

C. Management of the Investment Portfolio

Net international reserves are the result of the difference between gross international reserves or international reserve assets and international liabilities. Most of the international assets make up the Investment Portfolio[6].

The Benchmark Portfolios used to evaluate the management of international reserves are defined on the basis of a strategic allocation of assets. These Portfolios are neutral to short-term market expectations and must be replicable, which is particularly relevant in circumstances of extreme market volatility.

The Bank builds its Reference Portfolios based on market indices, the composition of the benchmarks being estimated considering the long-term risk-return perspectives in a three year-investment horizon.

In line with usual practice and standards in central banks, the Investment Portfolio is divided into sections with the purpose of managing liquidity and guiding investments according to the characteristics of the sources of resources. Each section has a particular benchmark.

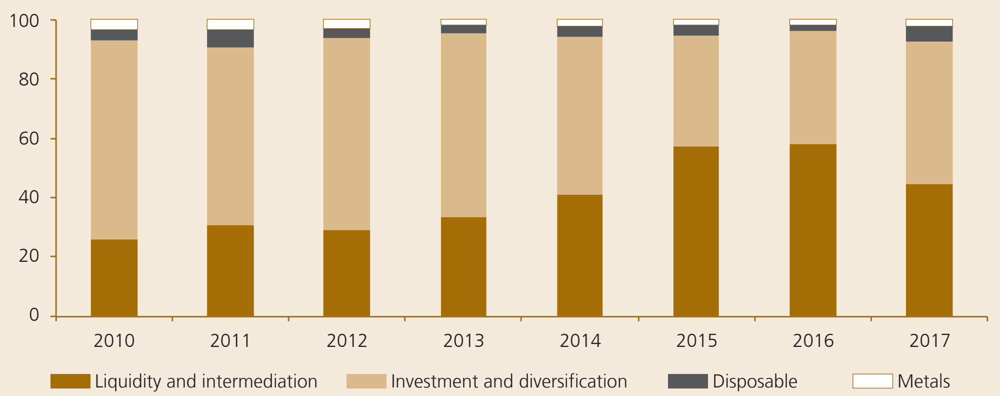
- Immediate Availability Section: Investments in this tranche includes very short-term investments used mainly for domestic banking obligations and unforeseen obligations.

- Liquidity and Intermediation Sections: Investments with banks' and public sector deposits in foreign currency that are held at BCRP (mainly due to reserve requirements). These investments consist mainly of deposits in foreign banks and highly liquid fixed-income instruments in international money markets.

- Investment and Diversification Sections: Investments with the Bank's own resources (Foreign Exchange Position) including securities with terms generally exceeding one year (mainly bonds), which can generate higher returns and contribute to diversify risks.

- Metals Section: BCRP has a fixed stock of gold in deposits and with physical custody.

STRUCTURE BY TRANCHES (%)



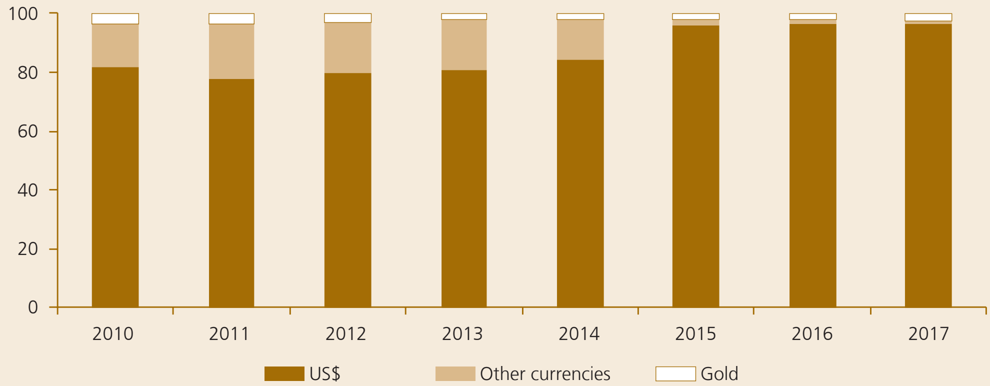
Source: BCRP.

The composition of the Investment Portfolio by currencies is the result of various structural risk and investment criteria, taking also into account that the investment portfolio is in US dollars. A high participation of this

6 At the end of 2017, the Investment Portfolio represented 97% of international assets. The latter also include capital contributions to international organizations such as the International Monetary Fund (IMF), Fondo Latinoamericano de Reservas (FLAR), and the Bank for International Settlements (BIS).

currency allows maintaining a low level of foreign exchange risk not only because this is the currency used by the Bank for its intervention in the local foreign exchange market, but also because the liabilities (reserve requirements and public sector deposits) are denominated in this currency.

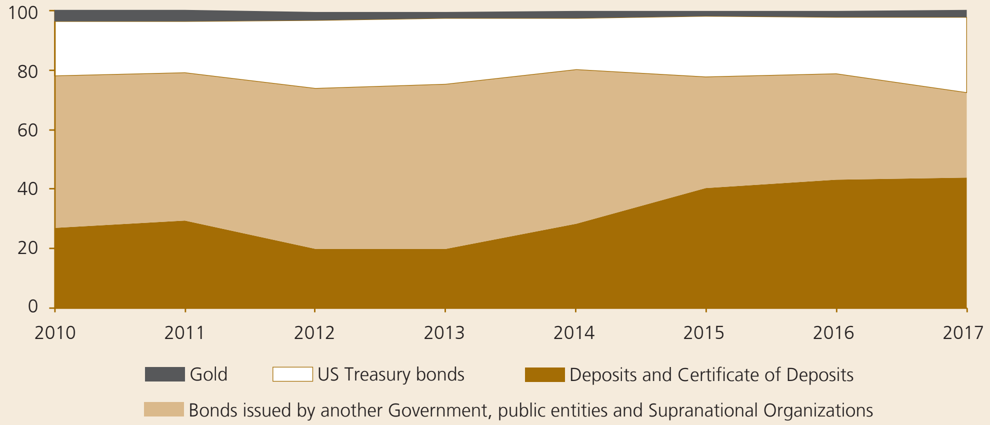
STRUCTURE BY CURRENCIES AND GOLD (%)



Source: BCRP.

According to the Organic Law of the Bank, the investment portfolio includes mainly investments in fixed-income securities issued by governments, other public entities, and supranational organizations, as well as in deposits and certificates of deposit in foreign banks, and in gold.

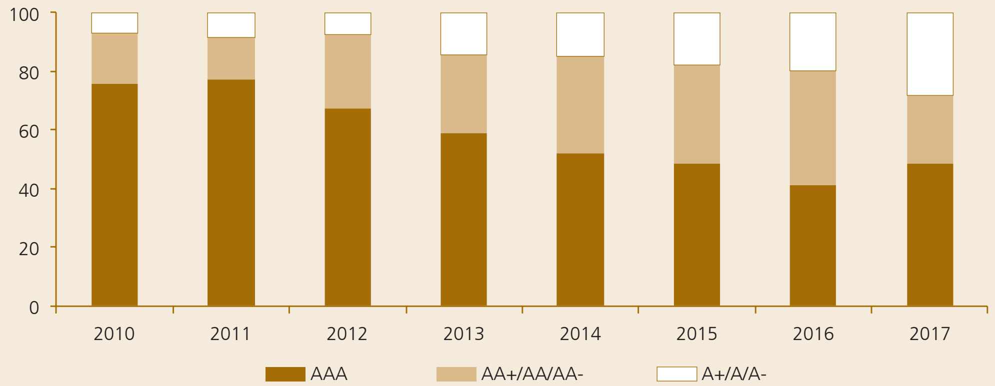
STRUCTURE BY INSTRUMENTS (%)



Source: BCRP.

The portfolio maintains assets of a high credit quality. The foreign banks in which deposits are made and certificates of deposit bought must have at least a short-term rating of A-1 and a long-term rating of A. Moreover, the entities from which fixed-income securities are bought must have at least a long-term credit rating of A+. The lower percentage invested in AAA instruments in the last years is explained to a great extent by a progressive increase in investments in deposits in foreign banks whose ratings were affected by the international financial crisis, but which have been recovering in recent years.

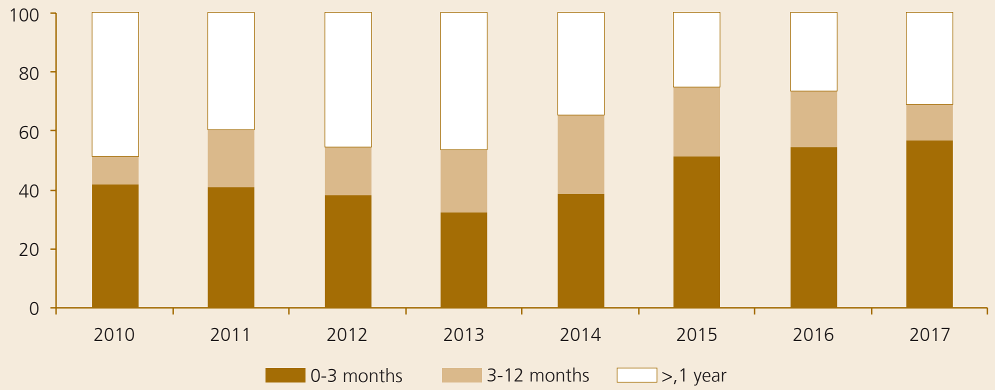
STRUCTURE BY LONG-TERM RATINGS (%)



Source: BCRP.

Furthermore, the composition of the investments by the structure of maturities reflects mainly liquidity needs and investment decisions, in line with the expected developments in the markets, with most of the assets remaining in the shortest segment in recent years.

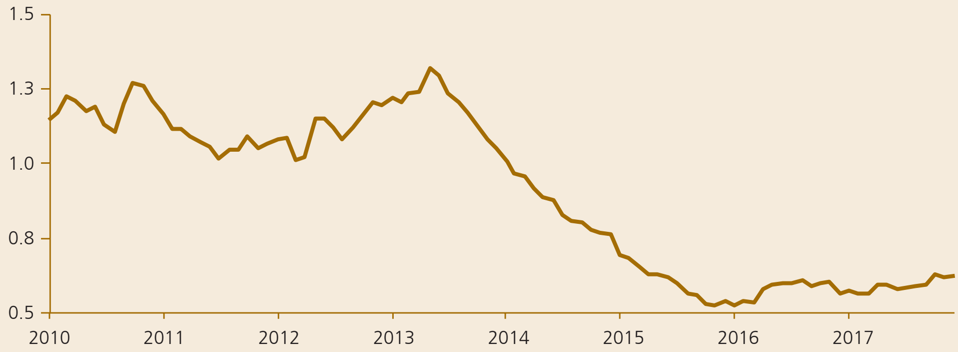
STRUCTURE BY TERMS (%)



Source: BCRP.

The duration of the Investment Portfolio is determined considering the expected trend of interest rates, liquidity needs, and the investment horizon. As illustrated in the graph below, the duration of the portfolio has decreased in recent years, taking into account the cycle of rate hikes observed in the Unites States.

LENGTH OF PORTFOLIO
(Years)



Source: BCRP.

D. Risk Management

The financial risks associated with investments are monitored on a daily basis using a set of market and credit risk indicators, as well as by setting limits by issuer and by financial institution.

Because of the levels of credit ratings required for investments, the risk of default is low. In addition to this, a thorough assessment of each counterpart entity is carried out prior to the approval of operations or investments.

Market risk is controlled by verifying the levels of value at risk[7], replication error, duration and partial durations.

E. Securities Lending Program

The loan of securities consists of a temporary transfer of securities between a lender (the holder of the securities) and a borrower, with the condition that the latter delivers a cash collateral or other securities (securities collateral) with a market value slightly higher than the borrowed bond (margin) as collateral. BCRP acts as a lender, so with this program it obtains an additional income for its medium and long term securities.

The securities lending program began in July 2011 and is carried out by the custodian bank. During 2017, BCRP lent securities for a monthly average of US$ 12.62 billion.

7 The VaR measures the market value of the maximum potential loss of the portfolio in an extreme scenario with a probability of 1%.