

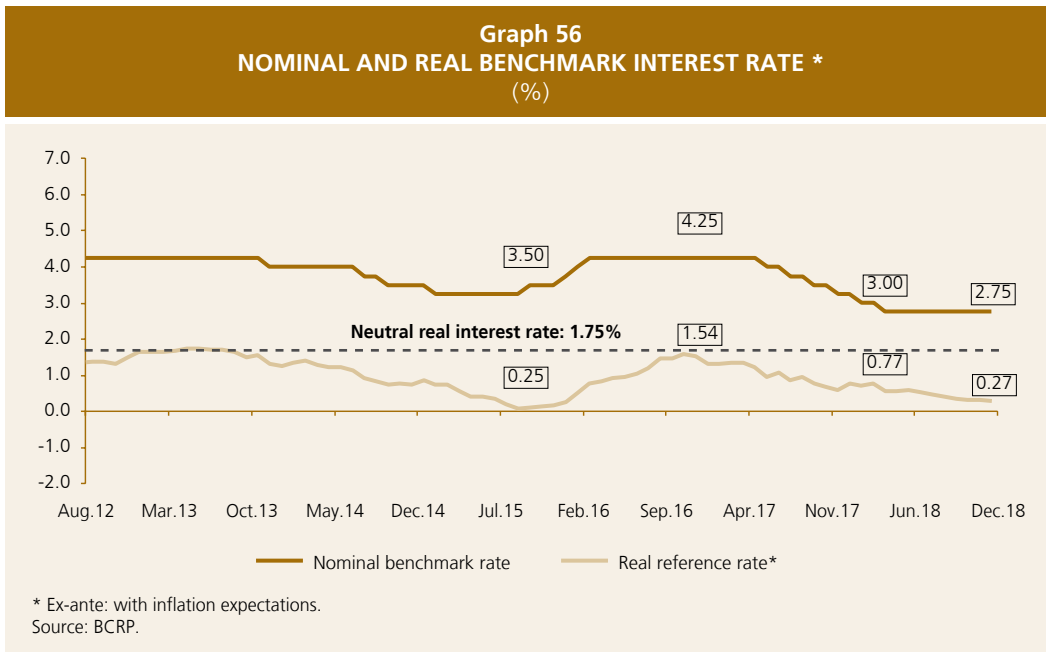
V LIQUIDITY AND CREDIT

1. Monetary Policy

In 2018, BCRP maintained an expansionary monetary policy stance to ensure that inflation and inflation expectations remain within the target range, in a context in which economic activity was below its potential, affected by external uncertainty. This expansionary monetary policy stance was reflected in the benchmark interest rate, which remained below the real neutral interest rate (1.75 percent) throughout the year. The Central Bank's decision of maintaining this monetary policy stance was based on the following factors:

- i. The **YoY inflation** rate and trend inflation indicators showed levels within the inflation target range throughout most of the year, although total inflation was temporarily below the lower band of the target range in the first months of the year as a result of the base effect associated with the 2017 El Niño Costero event. On the other hand, inflation excluding food and energy prices showed levels within the target range.
- ii. **Inflation expectations** were within the target range.
- iii. **Indicators of economic activity** showed signs of recovery in the year, although the level of economic activity remained below its potential. In this context, the output gap estimated for 2018 was still negative, which indicated that no inflationary pressures were foreseen on the side of demand.
- iv. There was higher risk in terms of **global economic activity** and greater financial volatility, associated with the trade tensions observed during the year and uncertainty in international financial markets.

Thus, BCRP reduced the benchmark rate by 25 basis points on two occasions, in January and in March, from 3.25 to 2.75 percent, where it remained for the rest of the year. The Board of the Central Bank reiterated in its policy statements that the Board "*considers appropriate to maintain an expansionary policy stance while inflation expectations remain anchored, in a context in which the level of economic activity is below its potential level*". As a result of these monetary policy actions, inflation and inflation expectation showed levels within the inflation target range (1 – 3 percent) at the end of the year.



A faster pace of growth was observed in credit in soles as a result of the recovery of economic activity. In addition to this, in order to ease domestic financial conditions while maintaining its expansionary monetary position in a context of rising international interest rates associated with the normalization of monetary policy in the advanced economies, the Central Reserve Bank of Peru maintained the rate of reserve requirements in soles at 5.0 percent and lowered both the rate of marginal reserves in dollars and the cap on the average reserve rate from 40 percent to 35 percent in the first half of the year. In line with this, in November the Board of Directors of BCRP approved to modify the rate of remuneration of reserves in foreign currency to the 1-month LIBOR minus 50 basis points since this remuneration rate had been 25 percent of the 1-month LIBOR since February 2013.

These measures contributed to offset the impact of the rise in international interest rates on interest rates in dollars in the local market and to strengthen, at the same time, the transmission of monetary policy.

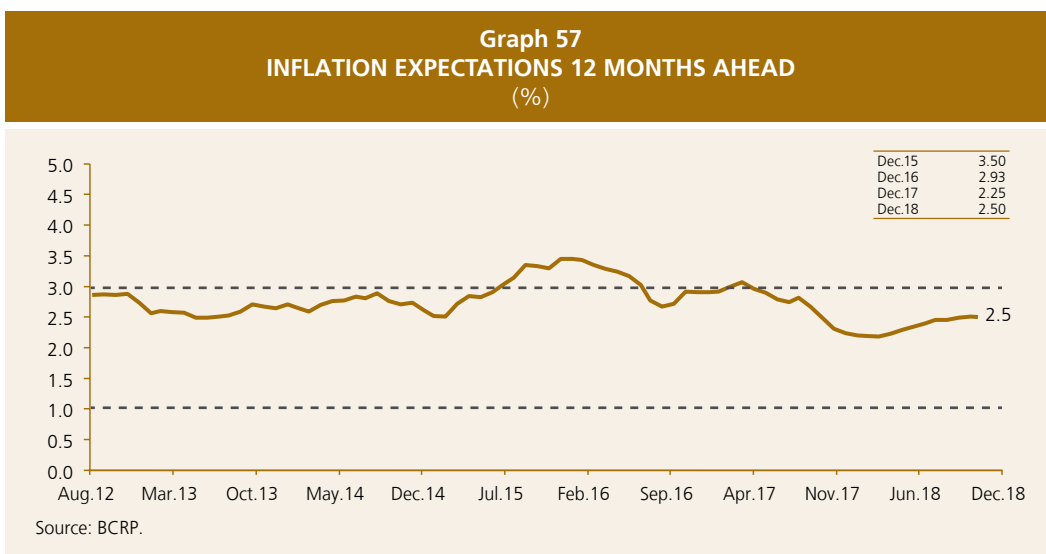
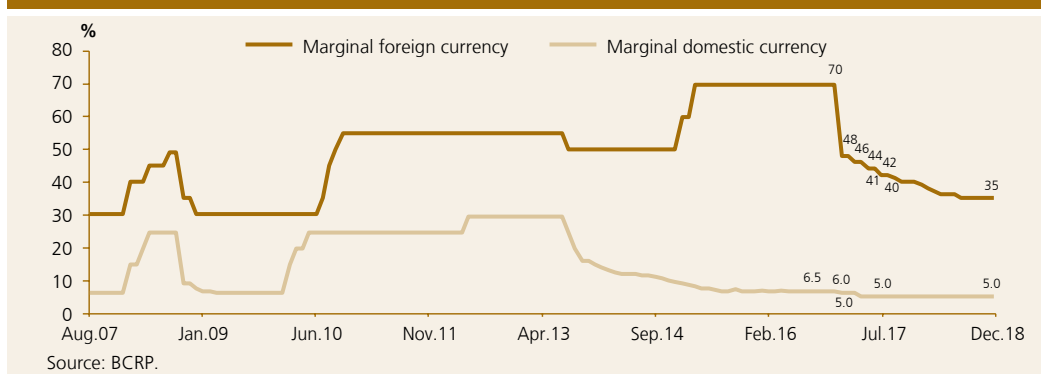


Table 61
RESERVE REQUIREMENTS
(%)

	Domestic currency			Foreign currency General regime	
	Reserve requirements	Deposits in current account	Minimum legal reserve requirement	Marginal reserve requirements for deposits	Limit in mean reserve requirements
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
Jan.18	5.0	1.00	5.0	39	39
Feb.18	5.0	1.00	5.0	38	38
Mar.18	5.0	1.00	5.0	37	37
Apr.18	5.0	1.00	5.0	36	36
May.18	5.0	1.00	5.0	36	36
Jun.18	5.0	1.00	5.0	36	36
Jul.18	5.0	1.00	5.0	35	35
Aug.18	5.0	1.00	5.0	35	35
Sep.18	5.0	1.00	5.0	35	35
Oct.18	5.0	1.00	5.0	35	35
Nov.18	5.0	1.00	5.0	35	35
Dec.18	5.0	1.00	5.0	35	35

Source: BCRP.

Graph 58
RESERVE REQUIREMENTS IN DOMESTIC AND FOREIGN CURRENCY
 (As % of banks' liabilities)



2. Interest Rates

As a result of the reduction of 50 basis points in the BCRP benchmark interest rate during 2018, the interbank rate decreased from 3.26 percent in December 2017 to 2.75 percent in December 2018. Furthermore, the interest rates on credit and deposits also showed a downward trend in the first half of the year, after which they registered an upward trend in the rest of the year. The latter trend was associated with banks' greater liquidity needs to meet the demand for loans in soles, which encouraged greater competition to raise funds. In this context, BCRP met the greater demand for liquidity in domestic currency carrying out currency and security repos.

Table 62
INTEREST RATES ON OPERATIONS IN SOLES
 (%)

	2016	2017	2018	Change 2018/2017
Interbank rate	4.4	3.3	2.8	-0.5
90-day prime rate on deposits	4.9	3.4	4.0	0.6
Deposits up to 30 days 1/	4.3	3.1	3.3	0.2
31-day to 360-day term deposits 1/	4.9	4.0	3.8	-0.3
More than 360-day term deposits 1/	5.3	5.1	4.5	-0.6
Loans to large companies	7.1	6.2	6.4	0.2
Loans to medium-sized enterprises	10.4	9.7	9.8	0.2
Loans to small businesses	21.7	19.8	18.5	-1.3
Loans to microbusinesses	37.2	36.3	32.7	-3.6
Mortgage loans	8.5	7.7	7.6	-0.1
90-day corporate prime rate	5.4	3.6	4.5	0.9
FTAMN 2/	21.2	21.8	21.0	-0.9

1/ Interest rates on deposits correspond to personal loans.

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 rise of 100 basis points in the policy rate of the U.S. Federal Reserve caused the interbank rate and the 90-day corporate prime rate to increase, although they increased to a lesser extent than the rates of the international money market given that monetary conditions in dollars in the domestic market were eased when BCRP reduced the rate of marginal reserves from 40 to 35 percent. Moreover, the interest rates for the credit sector increased moderately in the segments of credit for large companies, medium-sized companies, small businesses, and mortgages. On the other hand, the rates on deposits increased by 65 basis points on average.

Table 63
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

	2016	2017	2018	Change 2018/2017
3-month libor rate	1.0	1.7	2.8	1.1
Interbank rate	0.6	1.3	2.3	0.9
90-day prime rate on deposits	0.7	1.4	2.5	1.0
Deposits up to 30 days 1/	0.3	1.1	1.9	0.8
31-day to 360-day term deposits 1/	0.6	1.1	1.6	0.5
More than 360-day term deposits 1/	1.1	1.1	1.7	0.6
Loans to large companies	5.0	5.3	5.5	0.3
Loans to medium-sized enterprises	6.9	6.4	6.9	0.5
Loans to small businesses	10.7	7.3	9.9	2.6
Loans to microbusinesses	15.4	14.6	7.1	-7.5
Mortgage loans	6.1	5.9	6.1	0.2
90-day corporate prime rate	1.2	2.3	3.6	1.3
FTAMEX 2/	7.8	7.3	8.0	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.

3. Monetary and Credit Aggregates

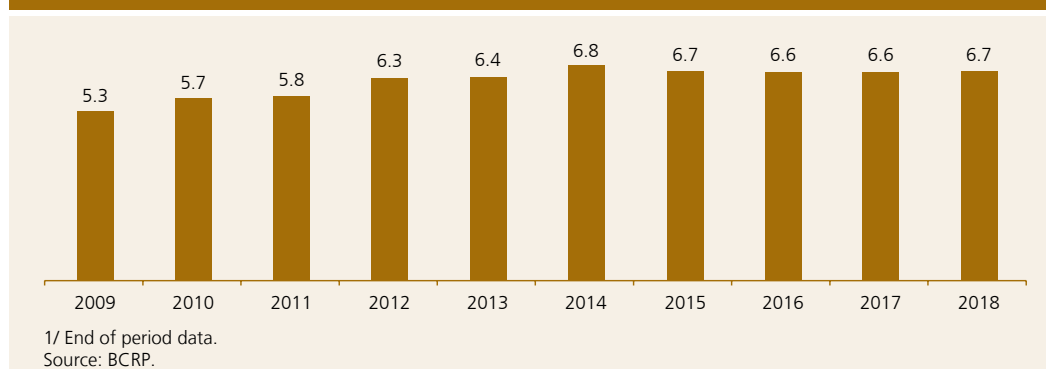
The annual growth rates of liquidity and credit in domestic currency showed a faster pace in 2018. Liquidity in domestic currency grew at an annual rate of 12.1 percent while liquidity in foreign currency grew at a rate of 0.1 percent. Thus, the dollarization ratio of liquidity fell from 33.2 percent in December 2017 to 30.8 percent in December 2018.

Total credit to the private sector grew 8.7 percent (versus 6.7 percent in 2017). Credit in domestic currency grew 11.6 percent while credit in foreign currency grew 1.9 percent. The ratio of dollarization of credit decreased from 30.1 percent in December 2017 to 28.2 percent in December 2018.

3.1 Currency in Circulation

The balance of currency held by the public in December 2018 was S/. 49.83 billion, which represented 6.7 percent of GDP and an increase of S/ 3.65 billion (7.9 percent) compared to December 2017.

Graph 59
CURRENCY 1/
(% GDP)



Moreover, the participation of banknotes in the denomination of S/ 100 stands out both in terms of value and in terms of units, while the participation of 10 cent and 1 sol coins registers the highest volume of circulation, reflecting the public's use of these coins to pay public transport fares and retail business transactions.

Table 64
STRUCTURE OF CURRENCY IN CIRCULATION BY DENOMINATION:
DECEMBER 2018

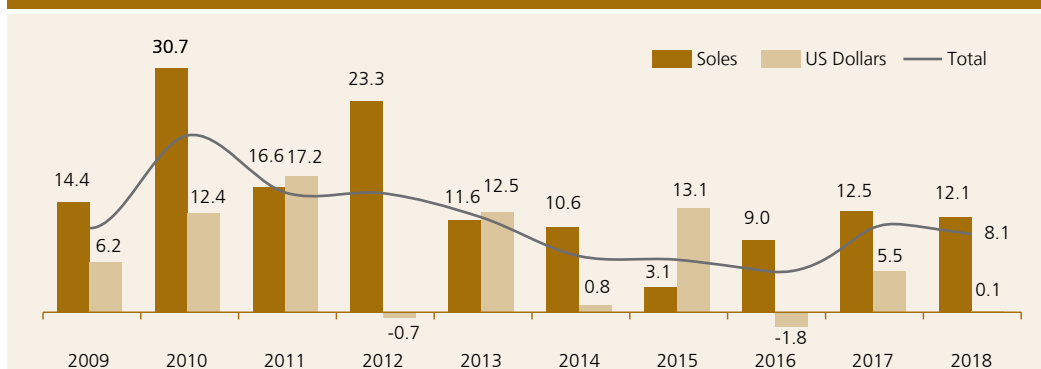
Banknotes	Million units	Unit (% distrib.)	Value (Million S/)	Value (% distrib.)
10	122	14.2	1,220	2.2
20	156	18.2	3,122	5.5
50	155	18.0	7,726	13.7
100	405	47.2	40,498	71.6
200	20	2.3	4,022	7.1
TOTAL	858	100.0	56,588	100.0
Coins	Million units	Unit (% distrib.)	Value (Million S/)	Value (% distrib.)
0.05	505	11.7	25	1.0
0.10	1,577	36.5	158	6.0
0.20	451	10.4	90	3.4
0.50	499	11.6	250	9.4
1.00	941	21.8	941	35.5
2.00	181	4.2	363	13.7
5.00	165	3.8	824	31.1
TOTAL	4,319	100.0	2,651	100.0

Source: BCRP.

3.2 Liquidity

During 2018, liquidity grew 8.1 percent, which reflected the greater increase observed in deposits in soles (13.8 percent in 2018), while deposits in dollars fell 0.2 percent. As a result, the dollarization ratio of deposits was 37.3 percent, lower than in 2017 (40.4 percent).

Graph 60
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 2018.
Source: BCRP.

The dynamism of liquidity was reflected in an increase in the ratio of this aggregate to GDP, which is an indicator of the degree of financial deepening of the economy. This indicator increased from 40.5 percent in 2017 to 41.9 percent in 2018.

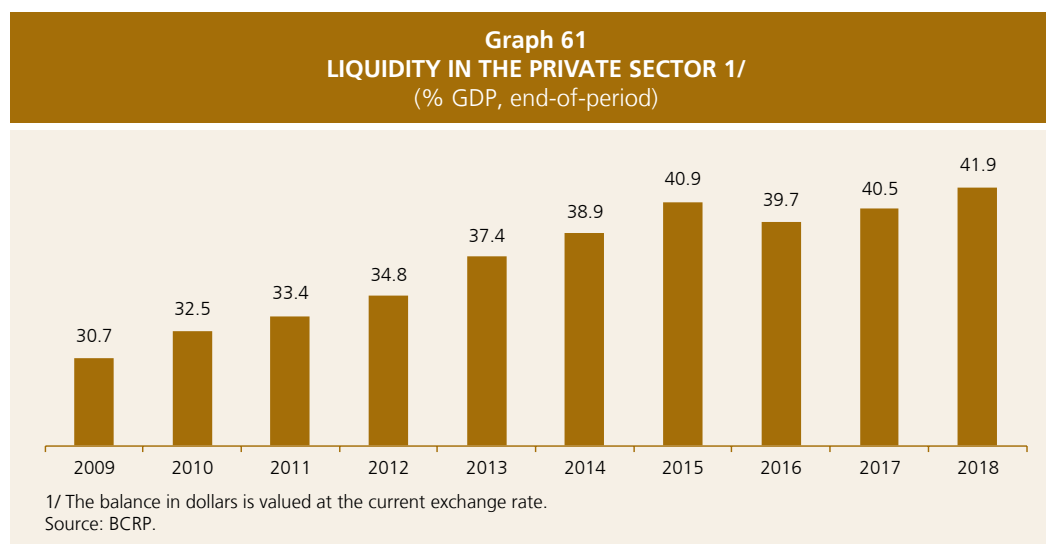


Table 65
MAIN MONETARY AGGREGATES 1/

	Balance in million soles			Growth rates (%)	
	2016	2017	2018	2017	2018
Currency	43,295	46,178	49,827	6.7	7.9
Money	73,805	81,713	92,248	10.7	12.9
Deposits	212,515	235,693	254,929	10.9	8.2
In soles	<u>122,284</u>	<u>140,362</u>	<u>159,748</u>	<u>14.8</u>	<u>13.8</u>
Demand deposits	30,509	35,535	42,422	16.5	19.4
Savings deposits	40,696	45,692	53,725	12.3	17.6
Term deposits	51,078	59,135	63,601	15.8	7.6
In dollars (Million US\$)	<u>26,775</u>	<u>28,288</u>	<u>28,244</u>	<u>5.7</u>	<u>-0.2</u>
Demand deposits	9,922	9,752	10,024	-1.7	2.8
Savings deposits	8,344	9,142	8,953	9.6	-2.1
Term deposits	8,509	9,394	9,267	10.4	-1.3
Liquidity	260,654	286,878	310,061	10.1	8.1
In soles	170,211	191,498	214,598	12.5	12.1
In dollars (Million US\$)	26,838	28,302	28,327	5.5	0.1

1/ The balance in dollars is valued at the constant exchange rate in December 2018.
Source: BCRP.

In 2018, the growth of liquidity in soles was mainly associated with the growth of demand deposits (19.4 percent) and savings deposits (17.6 percent). Term deposits grew at a lower rate (7.6 percent), while liquidity in foreign currency showed a growth rate of 0.1 percent in 2018 after having grown 5.5 percent in the previous year. The only segment that showed a positive growth rate demand deposits in dollars, which grew 2.8 percent.

It is worth mentioning that while non-financial private sector agents increased their deposits in soles and reduced their deposits in dollars, the main institutional investors, such as AFPs and mutual funds, reduced both types of deposits.

By type of depositors, the deposits of individuals (natural persons) and non-profit organizations grew 8.6 percent during the year, while the deposits of businesses grew 7.3 percent. Growth in both segments was led by deposits in domestic currency (13.8 percent in the case of natural persons and 13.9 percent in the case of businesses). Moreover, the deposits of companies in foreign currency grew marginally (0.7 percent), but decreased 0.8 percent in the case of the deposits of natural persons.

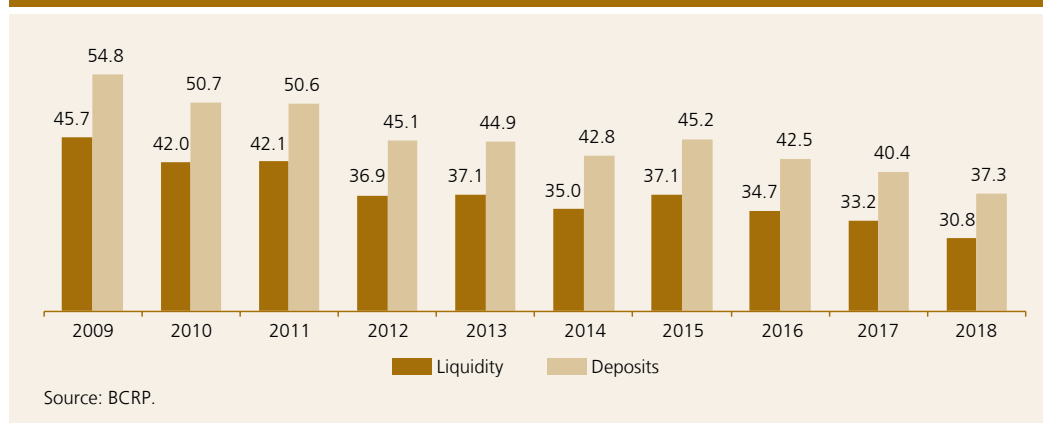
Table 66
DEPOSITS BY TYPE OF DEPOSITOR 1/

	Balance in million soles			Growth rates (%)	
	2016	2017	2018	2017	2018
Individuals 1/	141,064	157,352	170,906	11.5	8.6
In soles	89,700	101,577	115,564	13.2	13.8
In US dollars (Million US\$)	15,242	16,551	16,422	8.6	-0.8
Legal entities	71,451	78,341	84,023	9.6	7.3
In soles	32,584	38,785	44,184	19.0	13.9
In US dollars (Million US\$)	11,533	11,738	11,822	1.8	0.7
Total	212,515	235,693	254,929	10.9	8.2
In soles	122,284	140,362	159,748	14.8	13.8
In US dollars (Million US\$)	26,775	28,288	28,244	5.7	-0.2

1/ The balance in dollars is valued at the constant exchange rate in December 2018.
Source: BCRP.

The dollarization ratio of liquidity fell by 2.4 percentage points over the year (from 33.2 to 30.8 percent). Moreover, the dollarization ratio of deposits fell from 40.4 percent in December 2017 to 37.3 percent in December 2018.

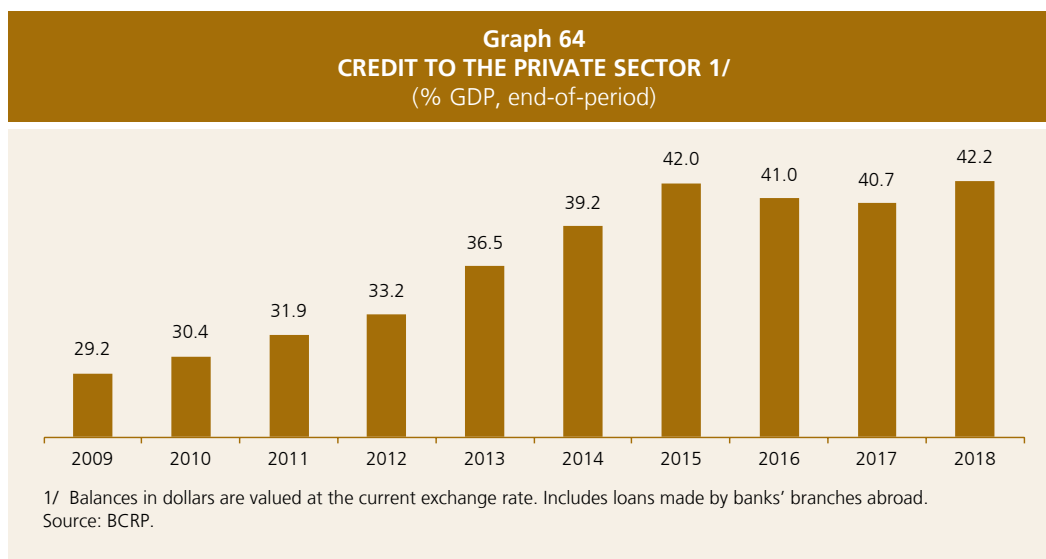
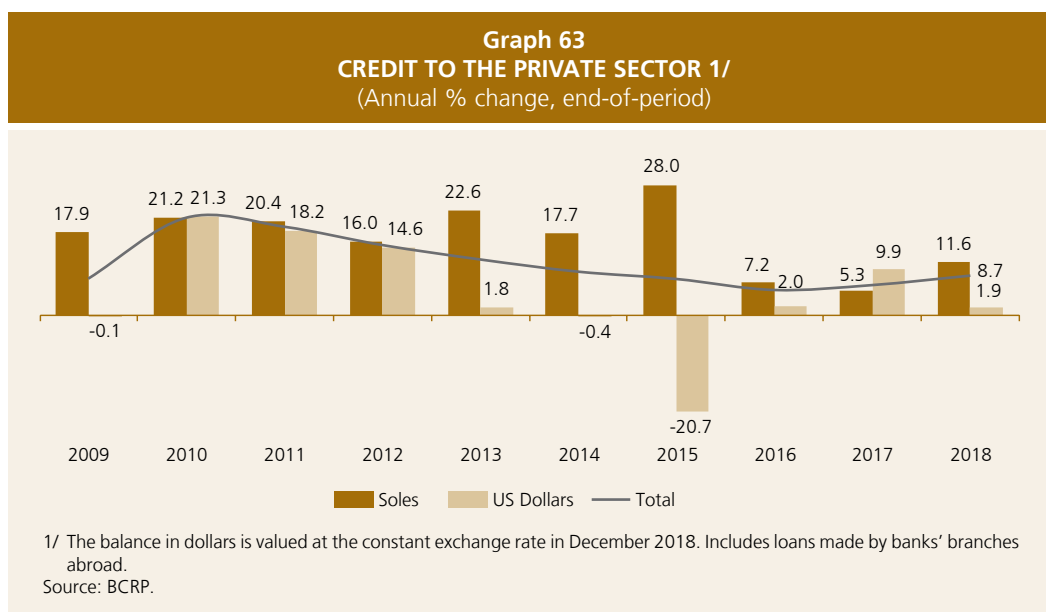
Graph 62
DOLLARIZATION OF LIQUIDITY AND DEPOSITS
(%)



3.3 Credit to the Private Sector

The growth rate of total credit to the private sector increased from 6.7 percent in 2017 to 8.7 percent in 2018. In GDP terms, the balance of credit to the private sector represented 42.2 percent, a higher level than that observed in the previous year (40.7 percent).

Influenced by the context of uncertainty in international financial markets and by the strengthening of the dollar, the pace of growth of credit in foreign currency slowed down from 9.9 percent in 2017 to 1.9 percent in 2018, while the pace of growth of credit in domestic currency accelerated from 5.3 percent in 2017 to 11.6 percent in 2018. As a result, the ratio of dollarization of credit to the private sector, measured at a constant exchange rate, decreased from 30.1 percent to 28.2 percent in the same period.



By type of segments, credit to the corporate segment increased its rate from 5.5 percent in 2017 to 7.1 percent in 2018, this increase reflecting the greater expansion of corporate loans and loans to large businesses, whose growth rate increased from 6.2 to 9.1 percent. Similarly, credit in the segment of medium-sized enterprises showed a faster pace, rising from 0.6 percent in 2017 to 3.8 percent in 2018. Finally, credit in the segment of small and micro businesses grew 5.8 percent (versus 9.5 percent in 2017).

In the case of households, credit showed an expansion of 11.4 percent during 2018, showing a significant recovery in consumer loans whose growth rate increased from 8.8 percent in 2017 to

13.1 percent in 2018. Mortgage loans, on the other hand, grew from a rate of 8.5 percent in 2017 to 9.0 percent in 2018.

Table 67					
TOTAL CREDIT TO THE PRIVATE SECTOR 1/					
	Balance in million soles			Growth rates (%)	
	2016	2017	2018	2017	2018
Businesses	170 608	180 006	192 740	5.5	7.1
Corporate and large companies	89 721	95 275	103 952	6.2	9.1
Medium-sized enterprises	43 301	43 561	45 213	0.6	3.8
Small businesses and microbusinesses	37 586	41 170	43 574	9.5	5.8
Individuals	98 750	107 286	119 544	8.6	11.4
Consumer loans	58 084	63 173	71 473	8.8	13.1
Car loans	2 292	2 191	2 111	-4.4	-3.7
Credit cards	20 674	21 291	23 821	3.0	11.9
Rest	35 118	39 691	45 541	13.0	14.7
Mortgage loans	40 666	44 113	48 071	8.5	9.0
TOTAL	269 358	287 292	312 283	6.7	8.7

1/ The balance in dollars is valued at the exchange rate in December 2018. Includes loans made by banks' branches abroad.
Source: BCRP.

Credit to the private sector in domestic currency grew 11.6 percent during 2018. Credit to the corporate sector grew 9.8 percent, with lending to corporations and large companies being the most dynamic segment with an annual growth rate of 15.4 percent. Similarly, credit to small and micro enterprises increased 6.6 percent while credit to medium-sized businesses grew 5.3 percent. Finally, credit in domestic currency to households grew 13.7 percent, with both the segments of consumer loans and mortgages showing increases (13.8 percent and 13.5 percent, respectively).

Table 68					
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY					
	Balance in million soles			Growth rates (%)	
	2016	2017	2018	2017	2018
Businesses	105,150	106,793	117,295	1.6	9.8
Corporate and large companies	45,506	42,973	49,595	-5.6	15.4
Medium-sized enterprises	24,691	25,505	26,859	3.3	5.3
Small businesses and microbusinesses	34,952	38,314	40,841	9.6	6.6
Individuals	85,600	94,084	106,964	9.9	13.7
Consumer loans	54,065	58,743	66,856	8.7	13.8
Car loans	1,675	1,735	1,812	3.6	4.4
Credit cards	19,346	19,775	22,090	2.2	11.7
Rest	33,044	37,233	42,954	12.7	15.4
Mortgage loans	31,536	35,341	40,108	12.1	13.5
TOTAL	190,750	200,877	224,258	5.3	11.6

Source: BCRP.

On the other hand, credit to the private sector in foreign currency grew 1.9 percent during 2018. Lending to businesses grew 3.0 percent, with lending to corporations and large companies being the



most dynamic segment with a growth rate of 3.9 percent. In contrast, credit in dollars to small and micro enterprises decreased by 4.3 percent.

Furthermore, credit to households in dollars fell by 4.7 percent due to lower loans in the segment of mortgage loans (-9.2 percent), offset in part by higher consumer loans (4.2 percent).

Table 69 CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY 1/					
	Balance in million US\$			Growth rates (%)	
	2016	2017	2018	2017	2018
Businesses	19,424	21,725	22,387	11.8	3.0
Corporate and large companies	13,120	15,520	16,130	18.3	3.9
Medium-sized enterprises	5,522	5,358	5,446	-3.0	1.7
Small businesses and microbusinesses	782	847	811	8.4	-4.3
Individuals	3,902	3,918	3,733	0.4	-4.7
Consumer loans	1,193	1,315	1,370	10.2	4.2
Car loans	183	135	89	-26.1	-34.4
Credit cards	394	450	514	14.1	14.2
Rest	616	730	768	18.5	5.2
Mortgage loans	2,709	2,603	2,363	-3.9	-9.2
TOTAL	23,326	25,643	26,120	9.9	1.9

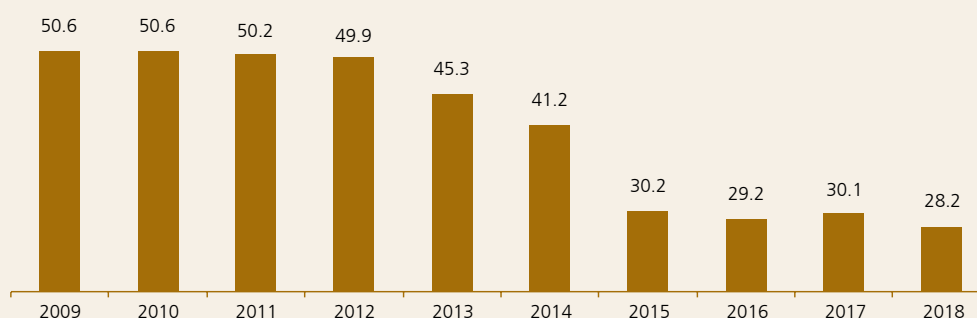
1/ Includes loans made by banks' branches abroad.
Source: BCRP.

In 2018, the dollarization ratio of credit to business, measured at the current exchange rate, was 39.1 percent, lower than in 2017 (40.7 percent). This reduction reflects both the lower dollarization of credit to large companies and corporations, which declined from 54.9 to 52.3 percent, as well as the lower dollarization ratio of credit to small and micro businesses, which fell from 6.9 to 6.3 percent. Likewise, the dollarization ratio of personal loans fell from 12.3 to 10.5 percent. The ratio of dollarization in this group continued to decline in the segments of mortgage and car loans, where it fell to 16.6 and 14.2 percent, respectively, in the year.

Table 70 DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/			
	2016	2017	2018
Businesses	38.4	40.7	39.1
Corporate and large companies	49.3	54.9	52.3
Medium-sized enterprises	43.0	41.4	40.6
Small businesses and microbusinesses	7.0	6.9	6.3
Individuals	13.3	12.3	10.5
Consumer loans	6.9	7.0	6.5
Vehicular	26.9	20.8	14.2
Credit cards	6.4	7.1	7.3
Rest	5.9	6.2	5.7
Mortgage loans	22.5	19.9	16.6
TOTAL	29.2	30.1	28.2
Memo:			
Dollarization of credit at current exchange rate	29.1	29.3	28.2

1/ The balance in dollars is valued at the exchange rate in December 2018. Includes loans made by banks' branches abroad.
Source: BCRP.

Graph 65
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/
(%)



1/ The balances in dollars are valued at the exchange rate of December 2018. Includes loans made by banks' branches abroad.
Source: BCRP.

4. Total Funding to the Private Sector

Total funding to the private sector grew 4.7 percent in 2018 (versus 4.0 percent in 2017). 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.

Table 71
FINANCING TO THE PRIVATE SECTOR 1/

	Balance in million soles			Growth rates (%)	
	2016	2017	2018	2017	2018
I. CREDIT OF DEPOSITORY CORPORATIONS	269 358	287 292	312 283	6.7	8.7
Domestic currency	190 750	200 877	224 258	5.3	11.6
Foreign currency (Million US\$)	23 326	25 643	26 120	9.9	1.9
Dollarization (%)	29.2	30.1	28.2		
II. CREDIT OF OTHER FINANCIAL CORPORATIONS 2/	35 784	39 488	39 588	10.3	0.3
Domestic currency	18 653	21 691	23 169	16.3	6.8
Foreign currency (Million US\$)	5 083	5 281	4 872	3.9	-7.7
Dollarization (%)	47.9	45.1	41.5		
Of which:					
AFP's loans	19 609	19 895	18 412	1.5	-7.4
Loans of mutual funds	882	818	1 859	-7.3	127.3
Loans of insurance companies	10 434	10 440	12 263	0.1	17.5
III. EXTERNAL PRIVATE INDEBTEDNESS (Million US\$)	103 374	98 248	93 133	-5.0	-5.2
Short-term (Million US\$)	4 264	4 213	4 079	-1.2	-3.2
Medium- and long-term (Million US\$)	26 411	24 941	23 557	-5.6	-5.5
Domestic currency	770	770	1 469	-	90.8
Foreign currency (Million US\$)	26 181	24 712	23 120	-5.6	-6.4
IV. TOTAL	408 516	425 028	445 004	4.0	4.7
Domestic currency	209 404	222 568	247 427	6.3	11.2
Foreign currency (Million US\$)	59 084	60 077	58 628	1.7	-2.4
Dollarization (%)	48.7	47.6	44.4		

1/ The balance in dollars is valued at the exchange rate in December 2018.

2/ Includes the loans and investment in fixed income securities of institutional investors.
Source: BCRP.

The major component of this global financing was the credit granted by depository institutions, whose balance was S/ 312.28 billion in December 2018. The second largest component was the direct funding obtained abroad by companies, whose balance in December was US\$ 27.64 billion (S/93.13 billion), which is equivalent to approximately 20.9 percent of total extended financing.

The third component was the direct financing obtained by companies through the issuance of bonds in the domestic capital market. The bonds were acquired mostly by institutional investors, such as AFPs, mutual funds, and local insurance companies.

The evolution of these last two modalities contributed to the fact that the growth rate of the total extended financing was lower than that of credit in depository institutions.

5. Financial Indicators

In 2018, banks maintained a stable position. They increased their profitability indicators due to the recovery of their loan placements, which had a favorable affected on its indicators of return on equity (ROE) and return on assets (ROA). Although the banking companies increased their equity base through the capitalization of profits and the issuance of subordinated bonds, their ratio of global capital decreased during the year.

Moreover, the indicators of the quality of assets remained relatively stable. The ratio of past-due loans remained at 3.0 percent, while the coverage level of the high-risk portfolio with provisions decreased from 105.7 percent to 102.0 percent.

Table 72 FINANCIAL INDICATORS OF COMMERCIAL BANKS (%)			
	2016	2017	2018
Global capital ratio	15.0	15.2	14.7
Delinquency ratio 1/	2.8	3.0	3.0
High risk portfolio ratio 2/	4.0	4.4	4.4
Allowance for loans / high-risk portfolio	111.6	105.7	102.0
Return on equity (ROE)	19.9	18.3	18.4
Return on assets (ROA)	2.0	2.1	2.2

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.

It should be pointed out that the ratio of corporate and consumer non-performing loans showed a favorable trend in the year, whereas a deterioration was observed in the quality of the portfolio of loans to large companies (from 1.0 to 1.3 percent), medium-sized companies (from 7.1 to 7.4 percent), and micro enterprises (from 3.2 to 3.5 percent), as well as in mortgage loans (from 2.8 to 3.0 percent).

The deterioration observed in loans to large and medium-sized companies was due to arrears from companies operating in the construction and manufacturing sectors. As for mortgage loans, the highest delinquency was observed mainly in the loans financed by Fondo Mivivienda.

Table 73
BANKS: DELINQUENCY RATES BY TYPE AND SIZE OF DEBTOR
 (%)

	2016	2017	2018
Loans to corporate	0.0	0.0	0.0
Loans to large companies	0.9	1.0	1.3
Loans to medium-sized enterprises	6.1	7.1	7.4
Loans to small businesses	9.0	9.0	8.8
Loans to microbusinesses	3.1	3.2	3.5
Consumer loans	3.6	3.6	2.9
Mortgage loans	2.3	2.8	3.0
Total	2.8	3.0	3.0

Source: SBS.

In the case of non-banking entities, the increase of overdue loans in municipal and rural savings banks concentrated in a group of entities that operated with a poor credit model in previous years, but that are currently implementing corrective measures in their credit policies. Greater delinquency affected the generation of profits in municipal savings banks, whereas the return on equity (ROE) increased in the other entities due to a better control of operating expenses, lower financial expenses, and the growth of loans.

Table 74
FINANCIAL INDICATORS OF NON-BANK COMPANIES
 (%)

	2016	2017	2018
Delinquency ratio / gross placements 1/			
Financial firms	5.5	5.5	5.4
Municipal savings banks	5.5	5.4	6.5
Rural savings banks	5.1	4.3	6.9
Edpymes	3.9	4.0	4.3
Provision for loans / high-risk portfolio 2/			
Financial firms	116.2	109.2	112.6
Municipal savings banks	104.9	98.1	95.8
Rural savings banks	97.1	86.9	76.7
Edpymes	137.9	140.9	136.5
Ratio on equity (ROE)			
Financial firms	14.9	14.4	18.1
Municipal savings banks	14.4	13.0	11.2
Rural savings banks	-3.2	-2.0	2.5
Edpymes	0.3	2.4	15.6

1/ Overdue loans and loans in judicial collection processes.

2/ The high-risk portfolio is equal to the non performing loans plus the refinanced and restructured portfolio.

Source: SBS.

6. Exchange Rate

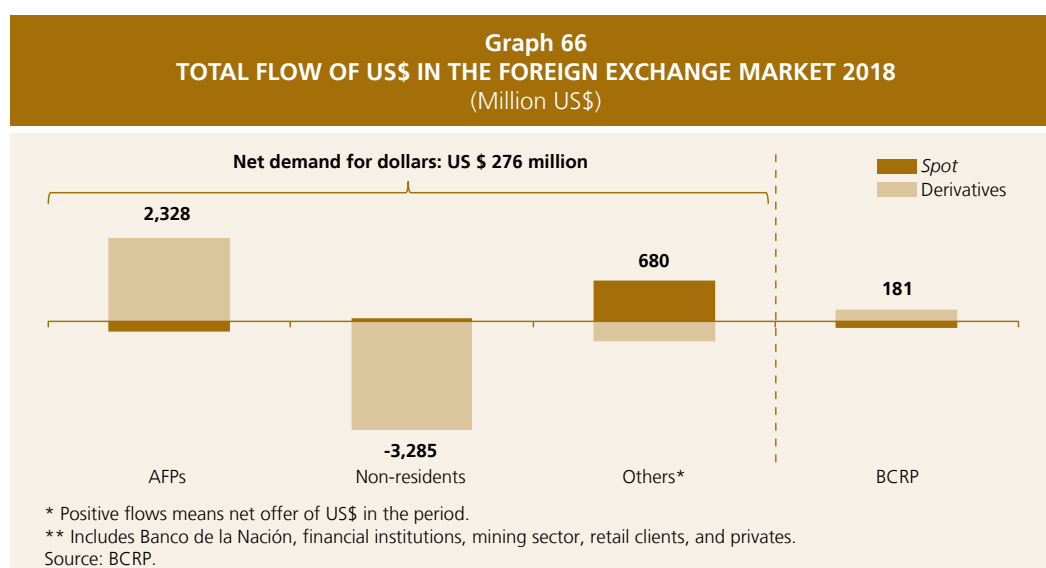
In 2018, the PEN depreciated 4.0 percent against the dollar in nominal terms (from S/ 3.24 to S/ 3.37 per dollar). The second half of the year was characterized by high volatility in international financial markets, associated mainly with two factors: (i) the process of hikes in the Federal Reserve's interest rates; and (ii) commercial tensions between the United States and China. The resulting negative global environment affected to a greater extent the assets and currencies of the emerging economies. In

this context, it is worth highlighting that the PEN showed one of the lower depreciations among the emerging market currencies.

		Dec.15	Dec.16	Dec.17	Dec.18	% change Dec.18 respect to:		
						Dec.17	Dec.16	Dec.15
FED Index	C.U. per US\$	122.58	128.00	119.05	127.95	7.5	0.0	4.4
Euro	US\$ per Euro	1.086	1.052	1.201	1.147	-4.5	9.0	5.6
Japan	Yen	120.06	117.00	112.69	109.70	-2.7	-6.2	-8.6
Brazil	Real	3.961	3.255	3.312	3.881	17.2	19.2	-2.0
Chile	Peso	709	671	615	694	12.8	3.5	-2.1
Colombia	Peso	3,175	3,001	2,984	3,248	8.9	8.2	2.3
Mexico	Peso	17.20	20.73	19.65	19.65	0.0	-5.2	14.3
Peru	Sol	3.414	3.357	3.238	3.369	4.0	0.4	-1.3
Copper	US\$/pound	213.5	250.6	330.1	263.1	-20.3	5.0	23.2
Gold	US\$/troy ounce	1,061	1,148	1,303	1,282	-1.6	11.8	20.9
Oil	US\$/barrel	51.7	56.1	56.5	46.5	-17.7	-17.1	-10.1

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

In this context, in 2018 the local foreign exchange market showed a slight net demand for dollars (US\$ 276 million), mainly from non-resident investors (US\$ 3.29 billion) due to a greater search for foreign exchange hedge. The supply, on the other hand, came mainly from the AFPs (US\$ 2.33 billion) and, to a lesser extent, from the non-financial private sector. BCRP's net intervention in the foreign exchange market accounted for an offer of US\$ 181 million.



It is worth mentioning that the intervention of BCRP in the foreign exchange market decreased in comparison to previous years given the lower volatility of the exchange rate and the reduction of the dollarization ratio in the financial system.

Graph 67
EXCHANGE RATE AND BCRP INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET 1/

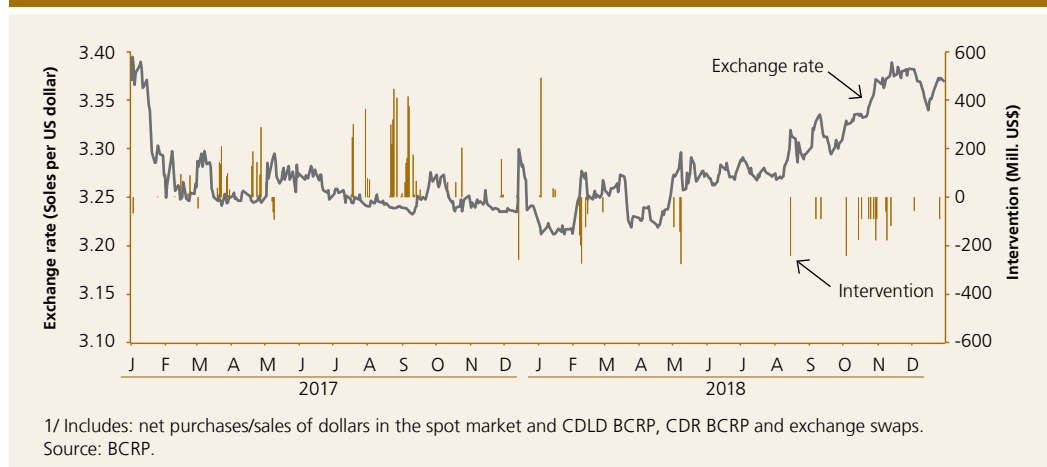


Table 76

	Number of trading days in the market	Number of FX intervention days				Standard deviation of the Exchange Rate (Annualized by % chg.)	
		Spot Market	Placement of derivatives and indexed instruments	Total (spot and/or placement)	Percentage of days with intervention	Spot	Instruments
2016	250	50	119	134	20%	48%	7.3%
2017	249	55	23	63	22%	10%	4.5%
2018	245	4	27	30	2%	11%	3.4%

Source: BCRP.

7. 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 2018, the balance of financial savings increased 12.6 percent and was equivalent to 53.2 percent of GDP.

Table 77
FINANCIAL SAVINGS
(Average balance in the period, as % GDP)

	Domestic currency	Foreign currency	Total
2009	22.0	14.8	36.8
2010	25.2	13.3	38.5
2011	28.8	13.0	41.8
2012	27.1	13.0	40.1
2013	31.5	11.5	43.1
2014	32.3	13.1	45.4
2015	33.9	13.4	47.3
2016	33.2	16.2	49.4
2017	34.9	15.2	50.1
2018	37.8	15.4	53.2

Source: BCRP.

By currencies, financial savings in soles grew 14.8 percent in 2018 (versus 11.8 percent in 2017), both as a result of the higher 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) grew 3.5 percent (versus 0.2 percent in 2017). The ratio of financial savings in soles in GDP terms increased from 34.9 to 37.8 percent, while the ratio of savings in dollars increased from 15.2 to 15.4 percent.

7.1 Fixed-Income Market

At the end of 2018, the balance of fixed-income securities issued through public offering in the local market amounted to S/ 30.10 billion, this balance being 3.7 percent higher than the balance in the previous year. 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 offerings in the domestic market during the year amounted to S/ 4.80 billion, a lower flow than the one placed in the previous year (S/ 7.21 billion). In addition to this, Peruvian companies placed securities in the international market for a total of US\$ 2.27 billion, this amount being lower than that observed in 2017 (US\$ 3.89 billion).

Table 78					
FIXED-INCOME SECURITIES ISSUED BY PRIVATE COMPANIES					
	Amounts			Growth rates (%)	
	2016	2017	2018	2017	2018
Balance at the end of period (Million soles)					
	26,251	29,010	30,096	10.5	3.7
Non-financial sector	15,892	17,251	18,340	8.6	6.3
Financial sector 1/	10,359	11,759	11,755	13.5	0.0
Composition by currency (%)	100.0	100.0	100.0		
Soles	71.0	75.2	79.9		
Fixed rate	62.7	68.4	73.2		
VAC	8.2	6.8	6.6		
US dollars	29.0	24.8	20.1		
Structured	0.2	0.0	0.0		
Balance as % GDP	4.0	4.2	4.1		
<small>1/ Securities issued or originated by a financial organization. Including Banco de la Nación, COFIDE, and MiVivienda. Source: SMV.</small>					

By type of issuers, private non-financial companies placed bonds for a total equivalent to S/ 1.09 billion (S/ 1.36 billion in 2017) through public offerings and the balance of current bonds increased 6.3 percent compared to the previous year (8.6 percent in 2017). On the other hand, financial entities¹⁴ withdrew securities for a total of S/ 3 million –in 2017 they placed bonds for a total of S/ 1.40 billion– and their balance decreased by 0.02 percent (after increasing 13.5 percent in 2017). The largest bond issuer in the year was Banco Continental, which recorded four bond issuances that totaled S/ 445 million. Other important bond issuers were Alicorp (S/ 370 million), Patrimonio de Titulización Plaza Norte (S/ 350 million), Corporación Primax (S/ 348 million), Financiera Oh! (S/ 325 million), Telefónica del Perú (S/ 315 million), and Yura (S/ 300 million).

¹⁴ Including the bonds issued by public financial organizations such as Banco de la Nación, Banco Agropecuario, COFIDE, and Fondo Mivienda.

The average maturity term of domestic bonds issued in soles, weighed by the amount placed, was 7.1 years, while the average maturity term of bonds issued in dollars was 2.2 years. The longer maturity term for bonds issuances in soles was 20 years in the bonds issued by Patrimonio de Titulización Plaza Norte.

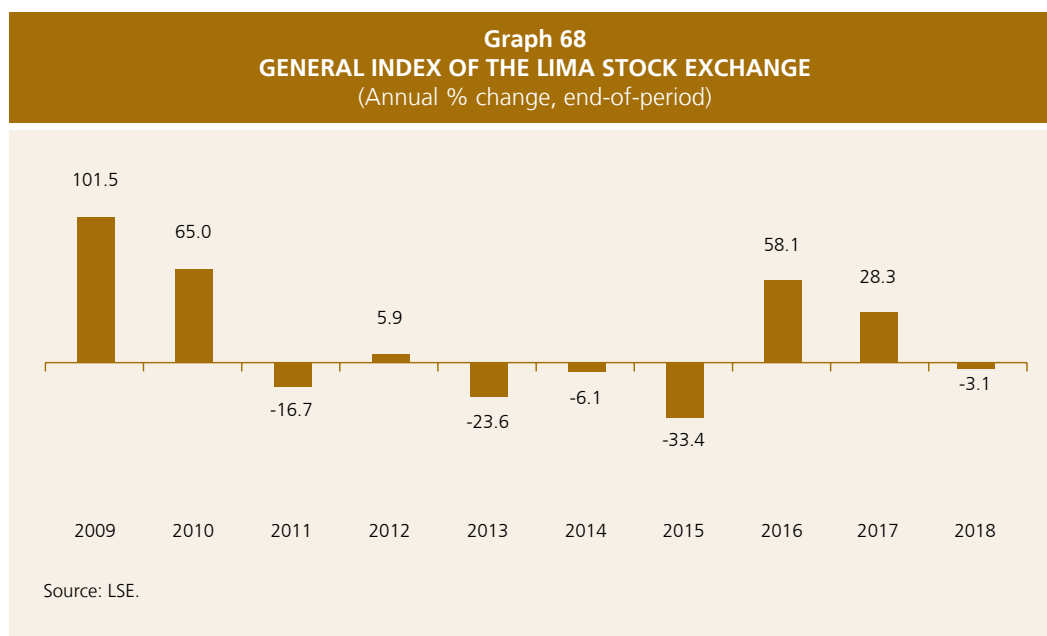
By currencies, bonds issued in soles represented 79.9 percent of the balance of current securities (75.2 percent at end 2017), while bonds issued in dollars represented 20.1 percent (24.8 percent in 2017). Moreover, bonds in soles at a fixed-rate represented 73.2 percent of the balance (versus 68.4 percent in 2017), while inflation-indexed bonds (VAC) represented 6.6 percent (versus 6.8 percent in 2017).

7.2 Stock Exchange

During the year, the Lima Stock Exchange –Bolsa de Valores de Lima (BVL)– showed a negative return of 3.1 percent in its General Index (SP/BVL PERU GENERAL index) and a negative return of 13.8 percent in its Selective Index (SP/BVL LIMA 25). The BVL also recorded a decrease in terms of the volume traded in comparison with 2017.

The main factor that affected the performance of the LSE was the unfavorable evolution of metal prices due to the possible slowdown in the world economy and particularly in China.

The LSE showed mostly positive returns between February and April due to the good performance of some companies and the relative stability of the prices of metals. However, from April to November the evolution was negative, in line with the fall in the international prices of the main metals (i.e. copper, lead, and zinc).



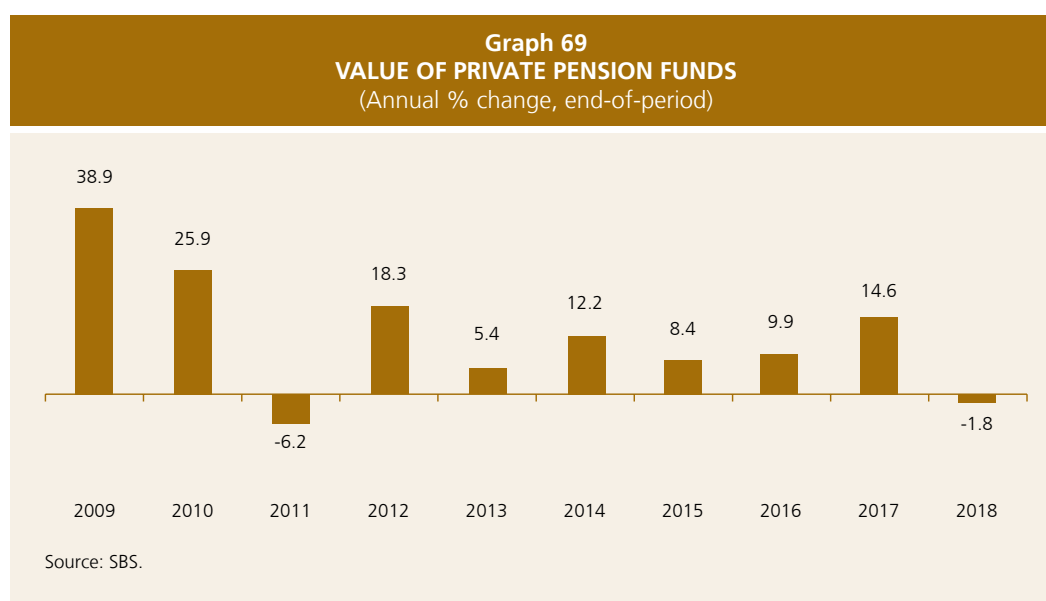
Significant differences were observed at the sector level. The indices in the segments of consumption and financial companies showed positive returns (11.5 percent and 12.2 percent, respectively), whereas the indices of mining, utilities, and industrial shares dropped by 19.9 percent, 4.6 percent, and 3.8 percent, respectively. The index of junior shares showed the strongest decline (down 32.8 percent).

The total volume of shares traded, which dropped 41.5 percent compared to 2017, amounted to S/ 13.32 billion. On the other hand, the volume of bonds traded increased by 8.8 percent. The market capitalization amount at the end of the year was S/ 479.30 billion, 8.9 percent lower than at the end of 2017 (S/ 526.35 billion).

Moreover, the amount of dematerialized shares at year end –i.e. the amount of shares recorded electronically at CAVALI– was S/ 223.74 billion, which was equivalent to 46.7 percent of the value of market capitalization (42.4 percent in 2017). The ratio of dematerialized stocks held by non-resident investors in terms of the total dematerialized stocks decreased from 37.4 percent in December 2017 to 34.6 percent in December 2018.

7.3 Private Pension System

The net worth of private pension funds fell 1.8 percent during 2018 and amounted to S/ 152.07 billion in December, which represents 20.5 percent of GDP. The number of participants in the private pension system grew 6.3 percent and for the first time exceeded 7 million members.



After recording a positive profitability of 10.4 percent in 2017, private pension funds showed a negative annual profitability of 3.4 percent in real terms (for fund type 2) in 2018. It is worth mentioning that the last time when private pension funds showed a real negative profitability was in 2013 (-2.8 percent)

The ratio of investments abroad increased from 43.4 percent to 44.5 percent during 2018 and thus remained only 5.5 points below the maximum limit authorized for investments abroad at the end of the year (50 percent). As for domestic investments, the weight of fixed-income financial instruments rose from 33.8 to 35.2 percent, while the weight of deposits fell from 5.7 percent to 2.5 percent. Moreover, the ratio of deposits in dollars declined from 3.3 to 2.4 percent and the ratio of deposits in dollars dropped from 2.5 to 0.2 percent, while the ratio of shares and variable-income assets decreased from 17.5 to 17.1 percent.

Table 79
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO
 (%)

	2016 1/	2017 1/	2018 1/
I. DOMESTIC INVESTMENTS	61.9	56.7	55.5
<u>Deposits</u>	<u>5.9</u>	<u>5.7</u>	<u>2.5</u>
In soles	2.4	3.3	2.4
In US dollars	3.5	2.5	0.2
<u>Bonds and fixed income securities</u>	<u>35.5</u>	<u>33.8</u>	<u>35.2</u>
Central Bank securities	0.4	0.1	0.0
Sovereign bonds	21.5	21.6	23.3
Securities issued by the private sector	13.6	12.0	11.9
<u>Stocks and variable income securities</u>	<u>19.5</u>	<u>17.5</u>	<u>17.1</u>
Shares	10.3	10.5	11.1
Investment funds	9.2	7.0	6.0
<u>Others</u>	<u>1.0</u>	<u>-0.3</u>	<u>0.6</u>
II. FOREIGN INVESTMENTS	38.1	43.4	44.5
III. TOTAL	100.0	100.0	100.0
Million soles	135,158	154,887	152,071
As % GDP	20.6	22.2	20.5

1/ Operations in transit investment were registered in these years.
 Source: SBS.

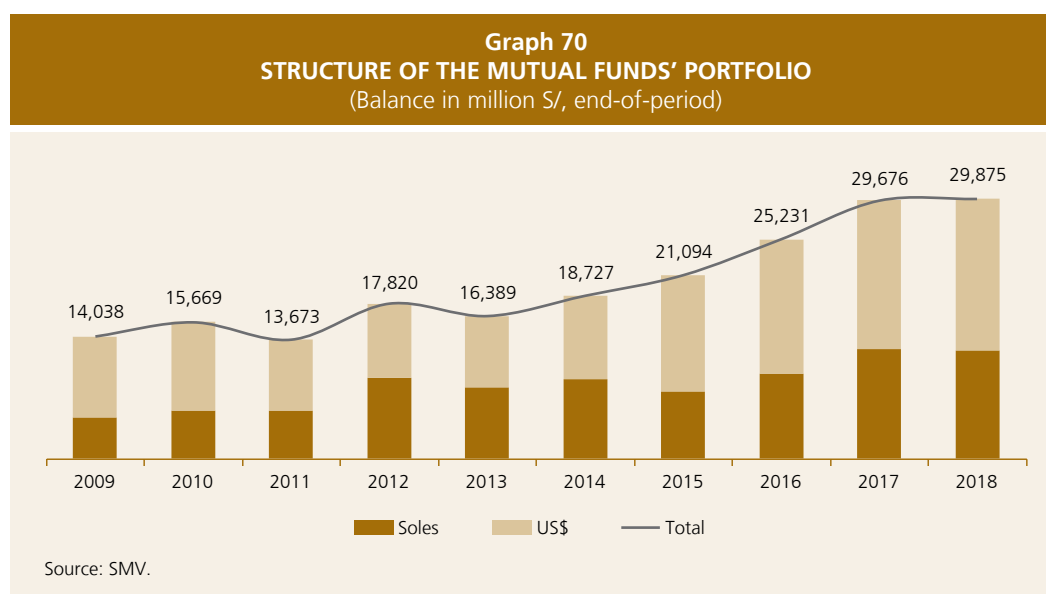
By type of funds, Fund type 2 or mixed fund (which has a maximum investment of 45 percent in variable-income securities) represented 74.0 percent of the total value of pension funds and had a real annual return of -1.6 percent. Fund type 3 (or capital appreciation fund, which has a maximum investment of 80 percent in variable-income securities) represented 14.0 percent of the value of the funds and had a real profitability of - 5.9 percent annually, while Fund type 1 (or capital preservation fund, whose maximum investment in variable-income securities is 10 percent) represented 10.6 percent and had a real profitability of -1.6 percent. Finally, Fund type zero, which invests only in fixed-income securities, had a participation of 1.5 percent and was the only fund that had a real positive profitability: 1.5 percent.

Voluntary contributions, which amounted to S/ 2.06 billion (S/ 1.76 billion in 2017), represented 1.4 percent of the total value of pension funds. Most of these contributions were for non-pension purposes (S/ 1.81 billion).

7.4 Mutual Funds

Mutual funds' joint net worth increased 0.7 percent compared to the previous year, with a balance of S/ 29.88 billion (4.0 percent of GDP) at the end of 2018. The number of participants decreased by 1 percent to 439 thousand people at the end of the year (443 thousand in 2017) while the number of operating funds increased from 154 to 167.

By currencies, the participation of mutual funds in soles decreased from 42.6 percent to 41.8 percent, whereas the participation of mutual funds in dollars rose from 57.4 percent to 58.2 percent.



As in the case of pension funds, the ratio of mutual funds' investments abroad rose from 39.1 percent to 43.9 percent during 2018. As regards domestic investments, the ratio of deposits decreased (from 49.5 percent to 40.9 percent), while the ratio of bonds and fixed-income debt instruments increased (from 6.4 to 10.7 percent) and the ratio of domestic shares increased from 1.8 percent to 2.7 percent.

Table 80
COMPOSITION OF MUTUAL FUNDS' INVESTMENT
(%)

	2016	2017	2018
I. DOMESTIC INVESTMENTS	64.1	60.9	56.1
<u>Deposits</u>	<u>53.1</u>	<u>49.5</u>	<u>40.9</u>
In soles	30.7	33.2	28.8
In US dollars	22.4	16.2	12.1
<u>Bonds and fixed income</u>	<u>7.1</u>	<u>6.4</u>	<u>10.7</u>
Central Bank securities	1.4	1.5	0.5
Sovereign bonds	0.7	0.9	0.9
Securities issued by the private sector	5.0	4.0	9.3
<u>Stocks and variable income</u>	<u>1.8</u>	<u>1.8</u>	<u>2.7</u>
Shares	1.7	1.7	0.7
Investment funds	0.1	0.1	2.0
<u>Others</u>	<u>2.0</u>	<u>3.2</u>	<u>1.8</u>
II. FOREIGN INVESTMENTS	35.9	39.1	43.9
III. TOTAL	100.0	100.0	100.0
Million soles	25,231	29,676	29,875
As % GDP	3.8	4.2	4.0

Source: SMV.

7.5 Payment Systems

In 2018, fund transfers handled through the payment systems in Peru grew significantly in a context of safety and efficiency supported by the Central Bank's oversight and regulation roles. Furthermore, BCRP has also continued promoting the use of transfers and digital payments in the Peruvian economy, while assessing at the same time the implementation of innovating services.

During this year, payment systems registered an increase of 30.1 percent in the average monthly value of fund transfers, the highest increase observed since 2008, and now represents 6.3 times the value of GDP.

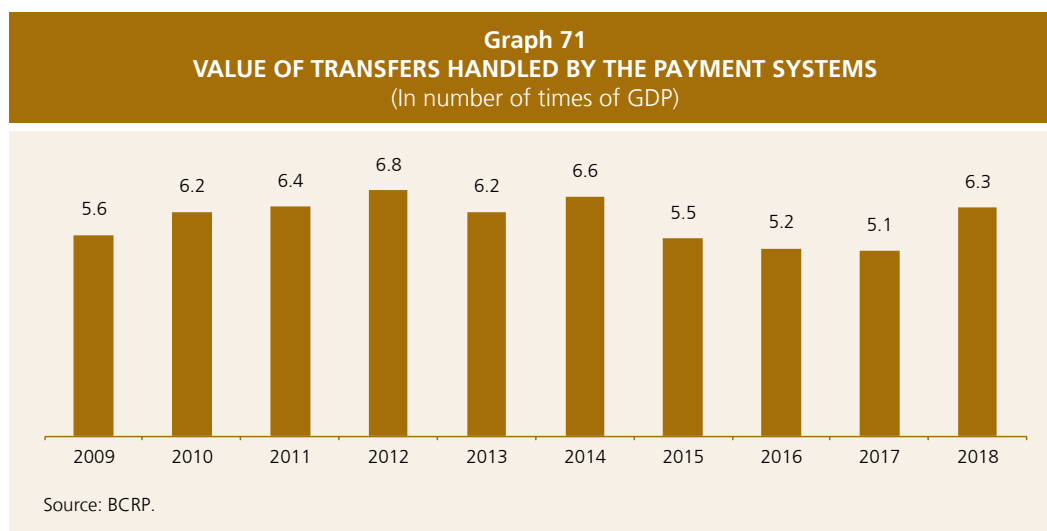


Table 81
PAYMENT SYSTEMS
Monthly average, value in million soles, number of operations (in thousands)

	2017		2018		% chg.	
	Value	Number	Value	Number	Value	Number
Real Time Gross Settlement System (RTGS System)	273,391	71	362,235	80	32.5	12.5
Multibank Securities Settlement System (MSSS)	6,490	14	6,486	10	-0.1	-26.6
- Stock Exchange	2,252	13	1,820	9	-19.2	-29.3
- Government securities	4,238	1	4,666	1	10.1	4.9
Electronic Clearing House (Cámara de Compensación Electrónica - CCE)	20,537	2,075	22,146	2,519	7.8	21.4
- Checks	9,427	418	8,866	355	-6.0	-15.0
- Credit transfers	10,863	1,554	12,802	1,943	17.8	25.0
- Instant transfers	247	103	479	221	93.6	114.9
TOTAL	300,418	2,159	390,867	2,609	30.1	20.8

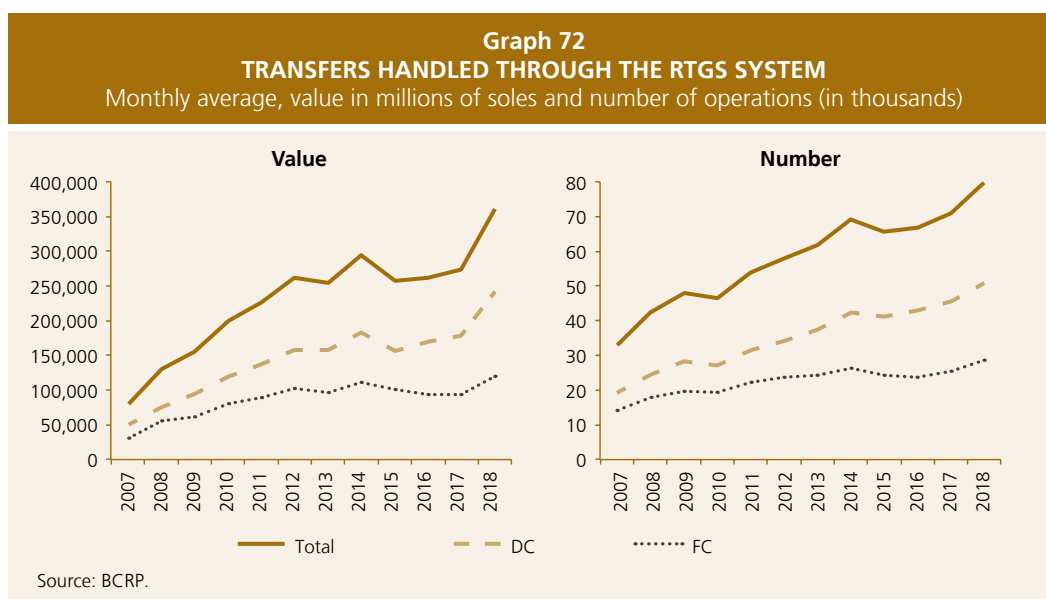
Source: BCRP.

Real Time Gross Settlement System (RTGS System)

The RTGS system 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 93

percent of the total value transferred through payment systems. Managed by BCRP, it is also used to settle the Central Bank's monetary policy operations with entities in the financial system, as well as the operations handled by the other systems (the Electronic Clearing House and the Multibank Securities Settlement System) and the Electronic Money Payment Agreement.

In 2018, the average monthly value of transfers handled through this system increased 32.5 percent, mainly as a result of the increase seen in the operations of financial entities due to the greater dynamism observed in their operations of purchase and sale of foreign currency. It is worth highlighting that the value of transfers in domestic currency grew at a faster pace than that of transfers in foreign currency, the ratio of the former rising to 66.8 percent of total operations handled through this system (versus 65.6 percent in 2017).

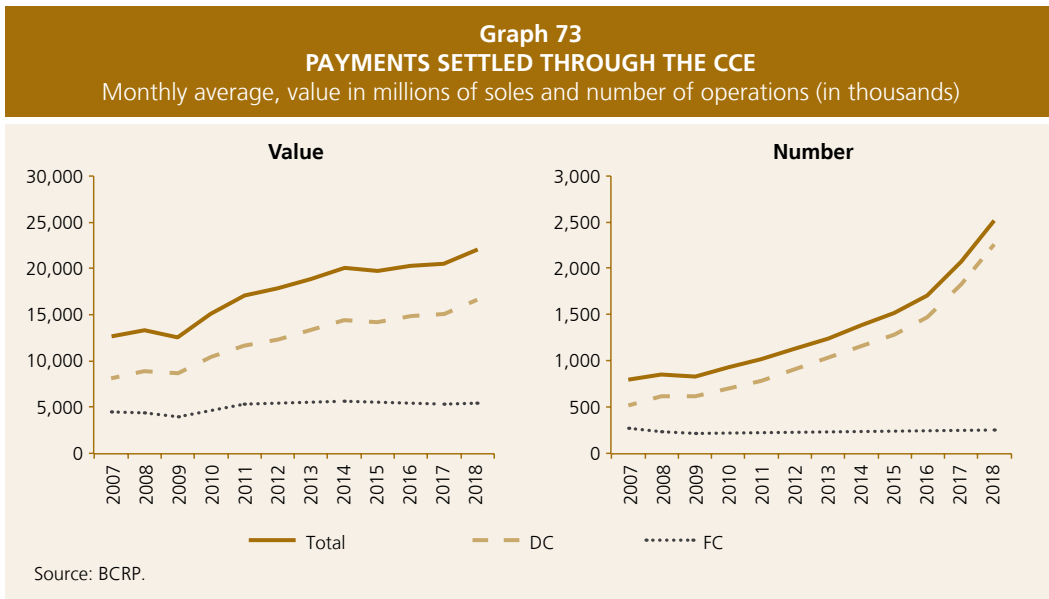


The Central Bank continued promoting the electronic access of micro finance entities (i.e. municipal and rural savings banks and non-bank financial entities) to the RTGS system. In 2018, Caja Municipal de Ahorro y Crédito de Huancayo was electronically connected with this system, which has implied greater efficiency and safety in the transfers carried out by this entity.

Electronic Clearing House (Cámara de Compensación Electrónica - CCE)

The CCE administers services such as the settlement of checks, credit transfers, and immediate transfers between the customers of the different financial system entities. Moreover, because of the great number of low value operations it handles, transfers in this system represent 96.6 percent of the total number of transactions in the Payment Systems.

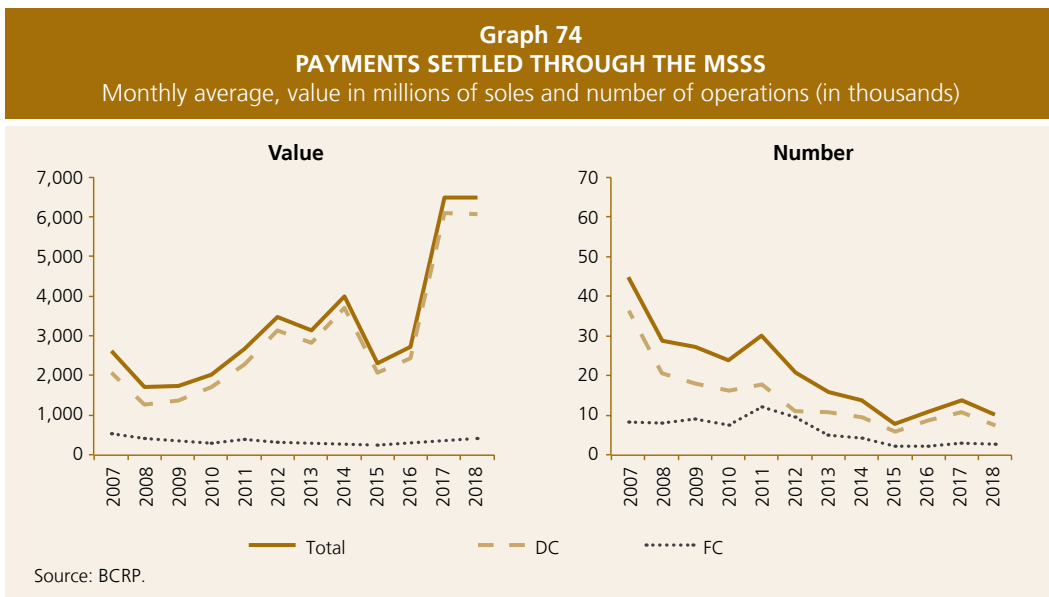
During 2018, the number of operations handled through the CCE continued to show a rising trend, the value of these transactions increasing by 7.8 percent and the number of transactions increasing by 21.4 percent. It is worth mentioning that both the number of credit transfers and the number of immediate transfers increased, in line with people's greater acceptance of electronic payments. In contrast, the use of checks continued to show a declining trend (down 6 percent in terms of value and 15 percent in terms of the number of operations) and now represent only 14 percent of the number of operations processed through the CCE (versus 20 percent in 2017).



In addition to this, immediate transfers continued to grow and reached a monthly average number of 221 thousand operations in 2018, which represents 9 percent of the total number of operations handled by the CCE.

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 2018, the monthly average value of payments in this system fell by 0.1 percent and the daily average number of transactions decreased by 26.6 percent, reflecting the lower volume of transactions in the stock exchange market¹⁵.



¹⁵ In the last quarter of 2017, the value and number of transactions at the Lima Stock Exchange (LSE) increased significantly as a result of the purchase of Enel Perú SAC shares and a public offer to acquire the capital stock of Volcan Compañía Minera SAA.

Other Transfers and Non-Cash Instruments

Transfers and retail electronic payments carried outside the payment systems have grown significantly in 2018. The growth of intra-bank transfers –i.e. electronic movement of funds between accounts in a same bank– stands out both in terms of value and in terms of the number of operations carried out, followed by the growth of the use of credit cards in terms of value and by the growth of debit cards in terms of the number of operations.

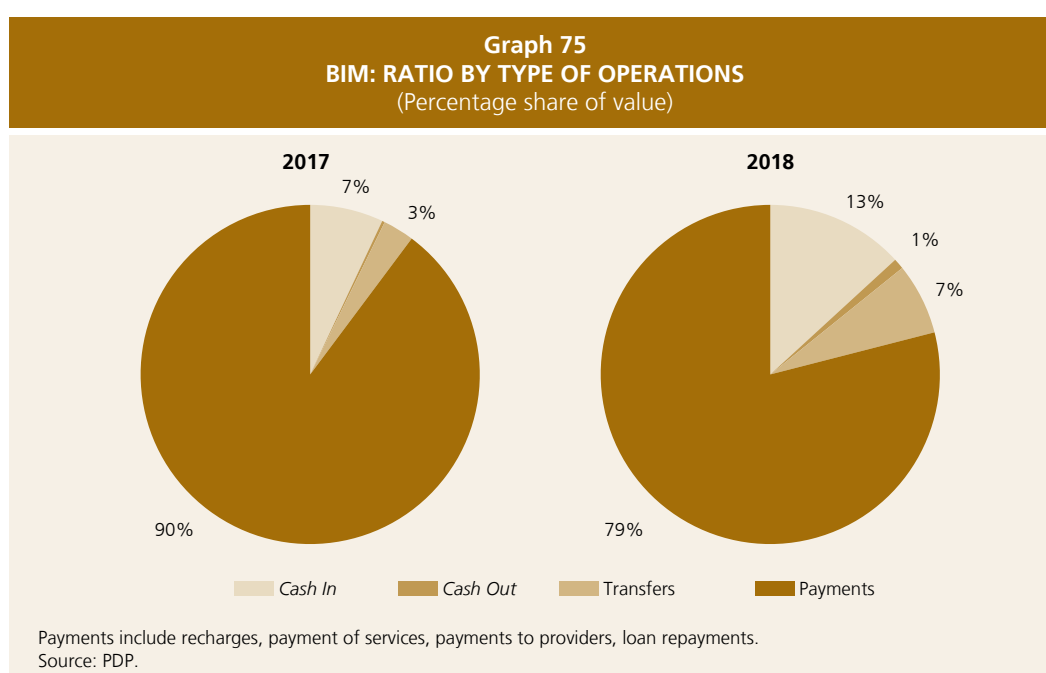
Table 82
OTHER TRANSFERS AND RETAIL PAYMENTS
Monthly average, value in million soles, and number of operations (in thousands)

	2017		2018		% change	
	Value	Number	Value	Number	Value	Number
Bim	1	183	11	364	733	99
Credit transfers	80,358	18,670	116,588	23,276	45	25
Credit cards	3,961	13,992	4,546	16,277	15	16
Debit cards	1,501	16,565	1,839	21,084	22	27
TOTAL	85,821	49,410	122,984	61,001	43	23

Source: BCRP.

Moreover, the operations carried out within the framework of the Electronic Money Payment Agreement denominated BIM (for *billettera móvil*, or *e-wallet*), which is managed by the company Pagos Digitales Peruanos (PDP), continued to grow, but still at a very low scale. As of December 2018, the 600 thousand active BIM accounts showed a total balance of one million soles. Compared to 2017, the value and number of operations grew on average 733 and 99 percent, respectively.

This pace of growth reflects the expansion of its *cash-in* and/or *cash-out* services provided through the network of agents and ATMs, the connection of deposit accounts with the electronic money accounts of some banks that allows users to carry out *cash-in* operations, as well as its use for the recovery of collective credits granted by microfinance institutions and the incorporation of Facebook Messenger as a registration, activation, and payment channel.



Transfers between individuals were the most important transactions in terms of value, while payments (recharge of mobile phones, payments of utilities, taxes, and purchases) were the most important transactions in terms of number.

Oversight

In 2018 BCRP verified the compliance of payment systems with the regulations and current standards of safety, efficiency, and adequate risk management. In this line, the following supervisory activities were carried out during the year: monitoring of information on operations and incidents, and in addition to annual self-evaluations and inspection visits to the CCE and CAVALI, a satisfaction survey was carried out with the participants of the payment systems. Furthermore, the RTGS system is certified each year under the technical standard of Information Security.