

LIQUIDITY AND CREDIT

1. Monetary Policy

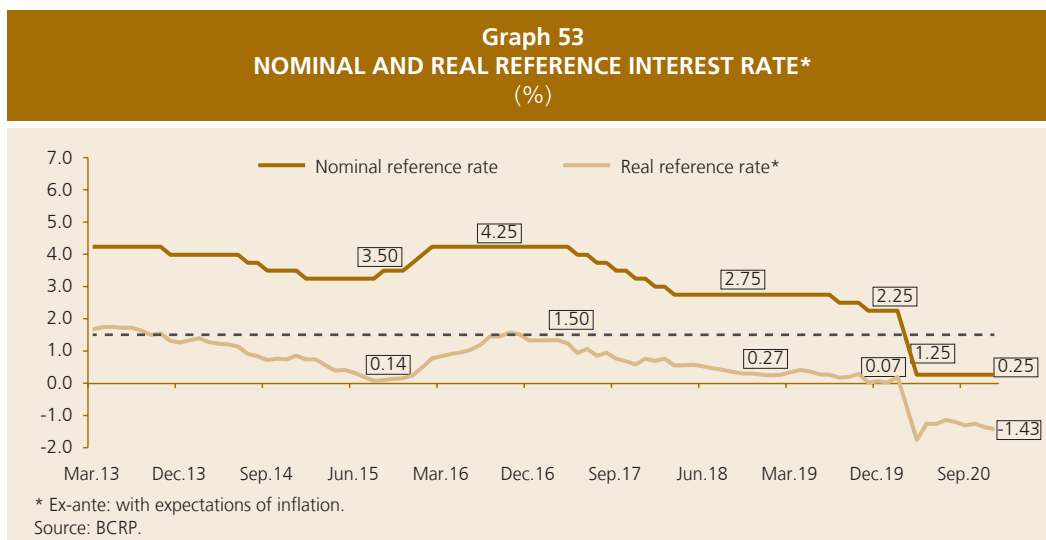
Before the pandemic started, the monetary policy interest rate stood at 2.25 percent. Since the national state of emergency was declared in the country to contain the spread of the virus, BCRP took monetary and financial measures to support the proper functioning of markets, prevent the disruption of the flow of payments in the economy, and support the recovery of economic activity.

The BCRP measures focused on reducing the cost of financing, providing liquidity to the financial system, and reducing volatility in long-term interest rates and in the exchange rate.

In a context of a sharp contraction in domestic demand and an international environment of global recession, BCRP applied an unprecedented expansionary monetary policy and reduced the benchmark rate to its historic low of 0.25 percent. Given the size of the shock and its imminent effects on the economy, it amplified monetary impulse through additional quantitative monetary policy measures.

BCRP Monetary Policy Actions

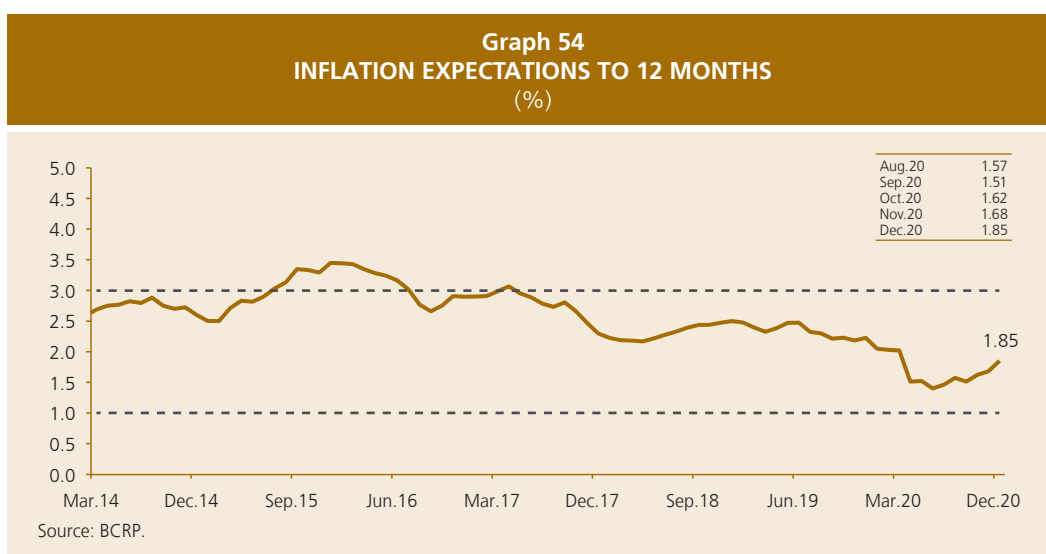
With the beginning of the mandatory confinement period, the BCRP Board of Directors decided to lower the monetary policy interest rate by 200 basis points between March 19 and April 9, reducing it from 2.25 percent to 0.25 percent, its historic minimum level.



The decisions of lowering the benchmark interest rate and maintaining monetary stimulus during 2020 were based on the following indicators:

- i. Annual inflation projections lie within the target range (1 - 3 percent), although with a tendency to be in the lower part of this range over the forecast horizon due to the weakness of domestic demand.
- ii. Inflation expectations and trend indicators are at the lower part of the inflation target range.
- iii. Economic activity was severely affected by simultaneous aggregate supply and demand shocks between March and April 2020. A recovery began thereafter, as reflected by leading indicators of activity and in line with indicators of business expectations.
- iv. Global economic activity, which contracted materially at the onset of the pandemic, showed a recovery in the following months, although without reaching pre-pandemic levels.

Although 12-month inflation expectations continued to be anchored within the target range and remained in the lower part of the target range for most of the year, economic agents' perception of deflationary pressures associated with weak domestic demand persist.



In terms of communication, after lowering the policy rate to 0.25 percent in April where it has remained, the Board of Directors of BCRP emphasized in its policy statements that “It considers it appropriate to maintain a strongly expansionary monetary stance for a prolonged period and while the negative effects of the pandemic on inflation and its determinants persist”. In this way, the BCRP Board gave guidance on the future monetary policy stance, providing more information to the market for the formation of expectations. The Board also said that “the Central Bank is attentive to expanding the monetary stimulus under different modalities”.

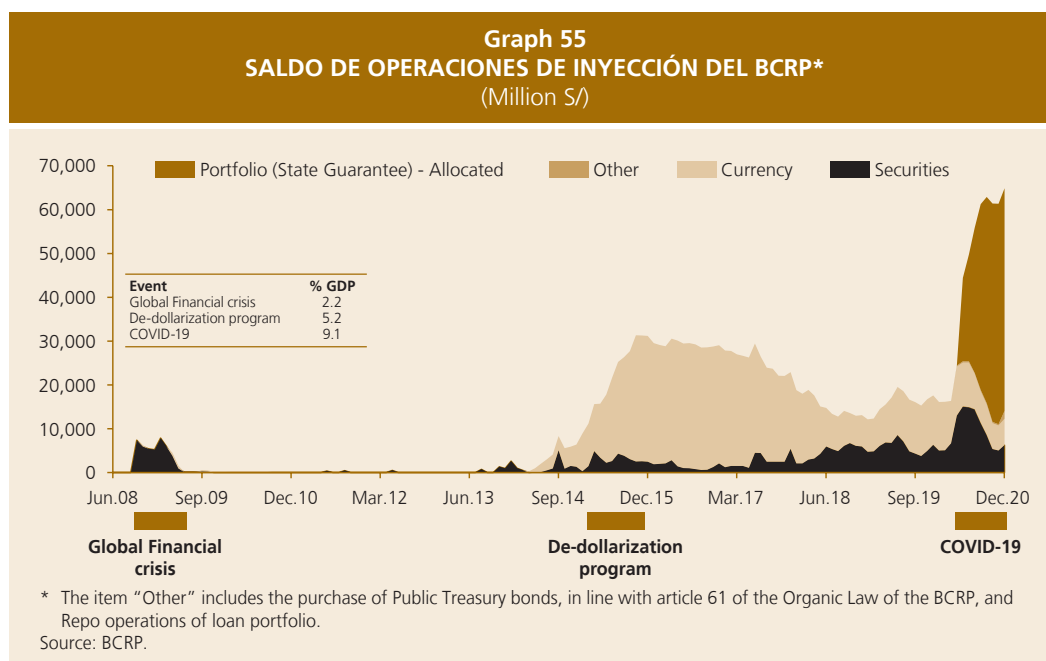
The reduction of the monetary policy interest rate was accompanied by an extension of the amounts and maturities (up to 3 years) of security and currency repos with the aim of reducing interest rates along the yield curve as well.

Between March and December 2020, the BCRP took the actions required to sustain the payments system and the flow of credit in the economy. The balance of liquidity injection operations reached record historic levels, increasing from S/ 14.8 billion at the end of February to S/ 64.8 billion (9.1 percent of GDP) on December 31, 2020. Moreover, S/ 50.7 billion of the latter amount corresponds to Government guaranteed-credit repos operations with banks. It is worth mentioning that the total balance of liquidity injection repo operations (S/ 64.8 billion) is 8 times higher than the maximum balance of these operations during the 2008-2009 international financial crisis (S/ 7.9 billion) and 2 times the balance obtained during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion).

Table 61
BALANCE OF INJECTION OPERATIONS OF BCRP
(Million S/)

Episode	Date	Values	Currency (Regular)	Currency (Expansion)	Currency (Substitution)	Portfolio (General and alternative)	Other*	Total
Financial crisis 2008-2009	Oct-08	7,383	300	0	0	0	0	7,683
	Nov-08	5,959	30	0	0	0	0	5,989
	Dec-08	5,412	0	0	0	0	0	5,412
	Jan-09	5,239	0	0	0	0	0	5,239
	Feb-09	7,877	0	0	0	0	0	7,877
	Mar-09	5,989	735	0	0	0	0	6,724
De-dollarization program	Dec-14	1,300	8,600	0	0	0	0	9,900
	Mar-15	4,900	8,600	2,200	1,500	0	0	17,200
	Jun-15	2,631	11,500	5,100	4,305	0	0	23,536
	Sep-15	3,034	16,050	7,900	4,805	0	0	31,789
	Dec-15	2,500	14,900	7,900	4,805	0	0	30,105
COVID-19 crisis	Feb-20	5,100	9,650	0	0	0	0	14,750
	Mar-20	6,675	11,150	0	0	0	0	17,825
	Apr-20	13,015	10,030	0	0	0	250	23,295
	May-20	15,060	10,145	0	0	19,017	260	44,482
	Jun-20	14,947	8,095	0	0	24,338	260	47,640
	Jul-20	14,452	7,195	0	0	33,090	154	54,891
	Aug-20	11,379	6,895	0	0	42,363	250	60,886
	Sep-20	8,604	5,895	0	0	47,002	304	61,805
	Oct-20	5,359	5,695	0	0	49,798	295	61,146
Nov-20	5,059	5,970	0	0	50,246	269	61,543	
Dec-20	6,309	5,970	0	0	50,729	1,785	64,793	

* The item “Other” includes the purchase of Public Treasury bonds, in line with article 61 of the Organic Law of the BCRP, and Repo operations of loan portfolio.
Source: BCRP.



Moreover, in order to provide additional liquidity facilities, the Board of BCRP eliminated the limit for financial institutions to carry out direct repo transactions at the window rate (a maximum of 10 direct repo transactions in a 12-month interval) on March 19.

The following is a description of all the measures designed and implemented by the BCRP during 2020 in the context of the crisis associated with the COVID-19 pandemic, as described in the circulars.

Ratios of additional reserve requirements in local currency associated with sales of derivative instruments (Circular 008-2020-BCRP dated March 14, 2020)

To limit volatility in the foreign exchange market, BCRP increased the ratios of additional reserve requirement in soles associated with the sales of derivative instruments (forwards and swaps). The reserve requirement rate is increased when:

- (i) Weekly sale transactions of foreign exchange derivatives exceed US\$ 675 million (previously US\$ 575 million).
- (ii) The balance of sales of foreign exchange derivatives exceeds the greatest of the following three figures: 135 percent (previously 115 percent) of the effective net worth at December 31, 2014, the average daily balance of sales of foreign exchange derivatives in December 2014, or US\$ 1,170 million (previously US\$ 1 billion).

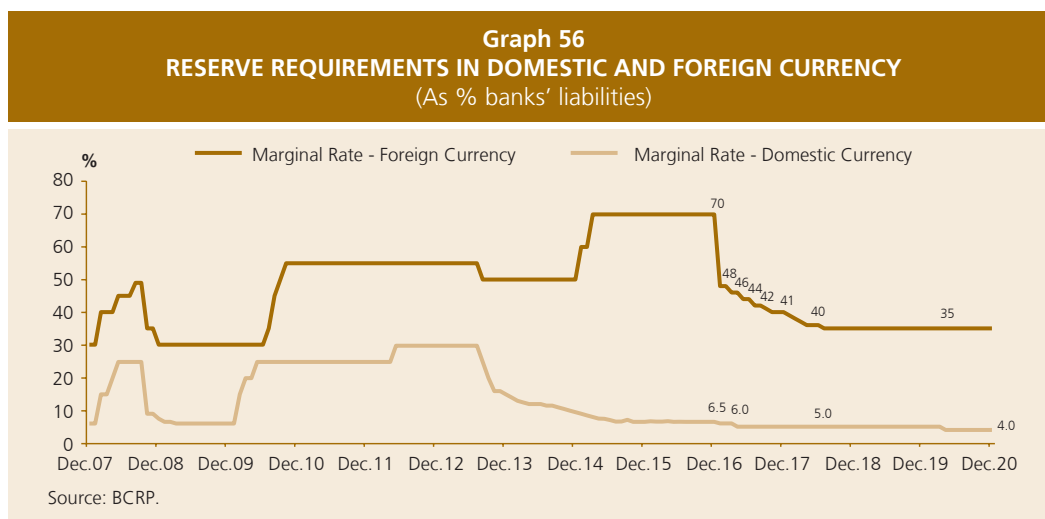
Reserve requirements in domestic currency and in foreign currency (Circulars 010-2020-BCRP and 011-2020-BCRP dated March 31, 2020, and Circular 034-2020-BCRP dated December 19, 2020).

In order to release loanable funds held in the reserve requirement current account of banks and thus contribute to ease financial conditions, BCRP amended the following dispositions, effective as from the April reserve requirement period:

- a. Reduction of the minimum legal reserve in soles from 5 to 4 percent.
- b. Reduction of the minimum current account requirement in soles from 1.0 to 0.75 percent of total obligations or deposits subject to reserve requirements.
- c. Reduction of the reserve requirement rate for obligations in foreign currency with average terms of 2 years or less with foreign financial entities from 50 to 9 percent.

- d. Suspension of the additional reserve requirement for foreign currency loans for the remainder of 2020. This suspension was extended until April 2021 in December 2020.

With these measures, the equivalent of S/ 2 billion was released to all financial institutions, with the reduction of the rate of reserve requirement in local currency accounting for S/ 1,125 million of this total.



Repos of credit portfolio represented by securities (Circular 014-2020-BCRP dated April 3, 2020 and Circular 033-2020-BCRP dated December 19, 2020).

The instrument was created by BCRP in April 2009 in a context of international financial crisis, but did not become operational until 2020. Through this injection mechanism, financial institutions receive liquidity from BCRP using a portion of their loan portfolio as a counterpart. At the end of December, the balance of these operations amounted to S/ 260 million. This instrument was used for the first time in April 2020. At the beginning of that month, the set of guarantees and collateral to carry out these operations was extended:

- Expansion of the collaterals for portfolio repos, including invoices discounted by financial institutions (factoring).
- Modification of the minimum risk rating required for financial entities to be able to participate in the alternative scheme of repo transactions with "A" to "B+" rated securities.
- Reduction of the minimum credit amount that financial entities may use as collateral in portfolio repo operations in the alternative scheme (Circular 014-2020-BCRP) from S/ 500,000 to S/ 300,000.

Security repos in exchange for domestic currency (Circular 016-2020-BCRP dated April 13, 2020)

Sovereign bonds were included as assets that may be used to carry out repo transactions with private pension funds. Previously, repo transactions could only be carried out with CDBCRP (Circular 019-2019-BCRP dated August 28, 2019). This allowed carrying out securities repo transactions with AFPs, which were placed at three-month maturity terms mainly. The purpose of these operations was to avoid upward pressures on interest rates in the bond market and on the exchange rate as a result of possible disorderly sales of these securities to pay withdrawals. In fact, the hasty offering of sovereign bonds would have resulted in a lower bond price, to the detriment of economic recovery (as this

would raise the interest rate) and the value of the members' funds. In this context, repos of pension funds for a total of S/ 4.9 billion were carried out for the first withdrawal (May 2020), while repos for a total of S/ 1.25 billion were carried out for the second withdrawal (November 2020). These operations currently show a zero balance.

Repos of Government-guaranteed loans represented by securities (Circular 017-2020-BCRP dated April 14, 2020).

Amid the sharp contraction of activity following the quarantine and the serious risk of heading towards economic depression –a deep persistent recession–, a scheme of guaranteed-credit repos was implemented under the Reactiva Perú program. The aim of the new liquidity injection instrument created for this was to support the replacement of companies' working capital and ensure in this way the functioning of the credit market while preventing disruptions in the flow of payments in the economy. The program initially placed S/ 30 billion (first phase), increasing the amount to S/ 60 billion thereafter (second phase) because of the extension of the lockdown and confinement period.

Under this mechanism, BCRP charges financial institutions an interest rate of 0.5 percent per annum for principal and interest for the resources granted for 3 years, with a grace period of 1 year. The funds were allocated through auctions to the financial institutions that offered the lowest interest rates to their clients. The auctions in the first phase were held between April 23 and June 11, and were then resumed on June 30 once the start of the second tranche had been approved and the program's operating regulations had been modified⁶. The fifty sessions of auctions of the Reactiva Perú program ended on October 20 with a total of S/ 55.3 billion having been awarded at an average interest rate of 1.40 percent. The number of companies benefited exceeded 500 thousand and credit disbursements continued until December. At the end of 2020, the balance of repos transactions under this program totaled S/ 50.7 billion. It should be pointed out that the maximum balance reached in the liquidation of these repo operations was over S/ 52 billion and that subsequently, the year-end balance (S/ 50.7 billion) included the amortizations made by the companies that received these loans.

Table 62						
REPOS OF PORTFOLIO WITH GOVERNMENT GUARANTEE*						
Guarantee percentage	Auctioned amount (Million S/)	Allocated amount* (Million S/)	Interest rate for clients (%)			Allocated amount* (%)
			Minimum	Maximum	Average	
80	14,400	9,597	0.79	2.15	1.16	17.4
90	37,050	24,275	0.90	2.50	1.21	43.9
95	34,800	14,302	0.54	3.25	1.30	25.9
98	39,079	7,108	0.50	5.25	2.59	12.9
Total	125,329	55,282	0.50	5.25	1.40	100.0

* As of October 20.

Through these operations, BCRP injected liquid resources to financial institutions, allowing credit to the business sector to expand by 22 percent in 2020. This program was carried out under exceptional conditions of abrupt contraction of both supply and aggregate demand due to the pandemic, which required a swift injection of liquidity to prevent the disruption of the flow of payments in the economy.

6 Supreme Decree No. 159-2020-EF, dated June 25, 2020, approved the extension of the guarantee amount by S/ 30 billion, while the Operating Regulations of the Reactiva Perú program were modified through Ministerial Resolution No. 181-2020-EF/15 on June 28, 2020.

Repo operations with rescheduling of loan portfolios (Circular 021-2020-BCRP dated June 7, 2020)

The BCRP's Board of Directors approved the creation of repos that promote loan rescheduling to achieve lower interest rates and longer maturities. Through the use of these operations, financial entities can obtain liquidity in exchange of the sale of first quality securities, foreign currency, or loan portfolio, as long as they refinance their clients' loans for a term between 6 and 48 months and at lower interest rates than those initially agreed. The effects of these operations are reflected in better conditions for debtors, who can recover more quickly from the negative shock in the local economy.

Moreover, the amount refinanced must be equivalent to the amount awarded to the bank in the transaction. Loans purchased from other financial institutions for rescheduling purposes are also included in this category. Repo operations with loan rescheduling are of direct placement and follow the guidelines provided in the circulars about repos of securities, currency, and loan portfolios. As of December 31, the balance of rescheduling repos amounted to S/ 525 million, of which S/ 491 million corresponded to portfolio repos under the alternative scheme and S/ 34 million to security repos.

BCRP Interest Rate Swaps (Circular 035-2020-BCRP dated December 19, 2020)

The interest rate swaps of BCRP –abbreviated “STI BCRP” in Spanish– are derivative instruments denominated in domestic currency, in which the BCRP assumes the commitment to pay a variable interest rate in exchange for the participating entity's commitment to pay a fixed interest rate. The interest accrued is compensated and settled every three months until the maturity date. The variable interest rate will be equal to the capitalization of the Interbank Overnight Index (ION). The fixed interest rate will be the rate offered by the financial entity in the auction or the interest rate established by BCRP in the direct placement.

Given that interest rates are at historic lows, financial institutions do not consider it profitable to grant long-term loans, so BCRP seeks to encourage the granting of long-term loans in a context of ample monetary stimulus and available liquidity in the short run. This instrument would boost the placement of long-term loans, as it would reduce the maturity mismatch in operations. In addition, this instrument is also expected to boost the development of the swap market in soles.

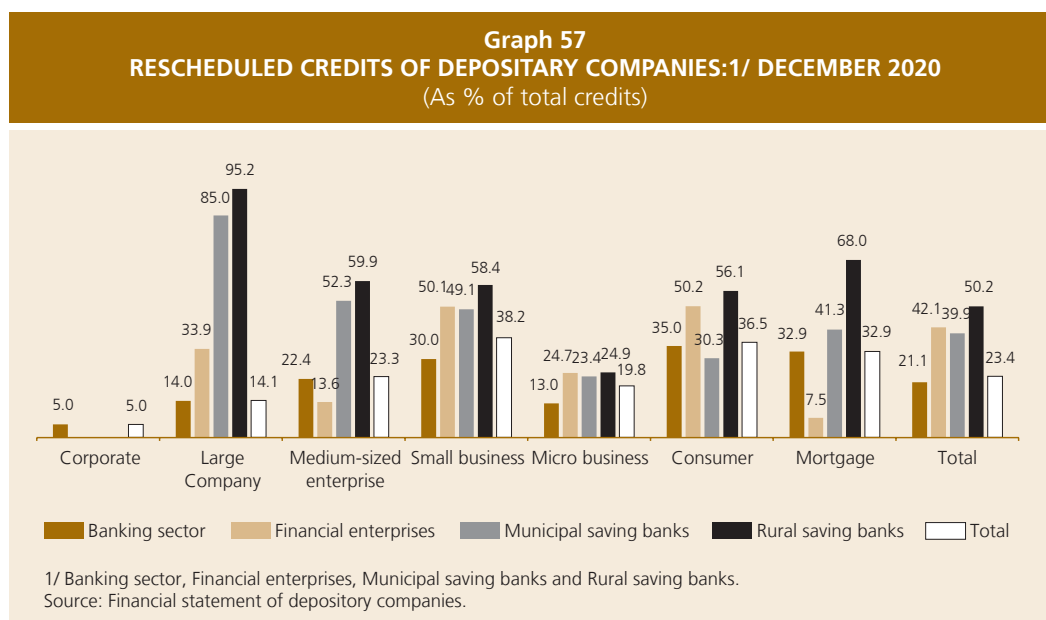
Operations Conditioned to the Expansion of Long-Term Credit (Circular 036-2020-BCRP dated December 21, 2020)

As part of its monetary instruments, BCRP incorporated operations conditioned to the expansion of long-term credit in order to enhance the transmission of its monetary policy to long-term interest rates. Participating entities that comply with the expansion of long-term credit, in accordance with certain criteria, will be able to access interest rate swaps and interest rate swaps. The entity that carries out these operations with the BCRP commits to expand its long-term credits in such a way that the increase of such loans is at least equivalent to the sum of the current amount of the repo operations and the current notional amount of the interest rate swaps agreed by such entity.

This instrument may boost the growth of mortgage lending in particular, considering that the rate of private savings increased significantly during the pandemic.

In addition to the measures adopted by BCRP, since March, the Superintendencia de Banca, Seguros y AFP (SBS) allowed financial entities to adopt exceptional measures so that debtors (individuals and companies) affected by the state of emergency could comply with the payment of their current loans. Financial institutions were allowed to modify the contractual conditions of the various types of loans in a general manner without having to contact each client individually and without this modification implying a refinancing of the loan or a deterioration in the debtors' credit rating, provided that the total term of such loans was not extended by more than six months from the original term (this term was later extended to 12 months) and provided that the debtors' payments were up to date when the state of emergency was declared.

As of December 31, the depository corporations (comprising banks, financial companies, municipal and rural savings banks) rescheduled loans for a balance of approximately S/ 86 billion (23.4 percent of the depository corporations' total portfolio). Moreover, 38 percent of the small business loan portfolio, 20 percent of the microenterprise loan portfolio, and 37 percent of consumer loans have been rescheduled as of the same date, and specialized microfinance institutions have rescheduled at least 40 percent of their portfolios.



Furthermore, the total balance of rescheduled loans by depository companies as of December 2020 was S/ 42 billion lower than that observed in June of that year (S/ 128 billion, equivalent to 35.6 percent of the portfolio), which is explained by the payment of rescheduled loans in line with the reopening of economic activities.

2. Interest Rates

Money market interest rates, as well as credit and deposit interest rates incorporated the effect of the BCRP measures implemented in the wake of the pandemic, such as the reduction of the BCRP benchmark rate by 200 basis points, the liquidity injection operations in local currency to the financial system for up to 3 years, and the measures that reduced reserve requirements in local currency, as a result of which all interest rates decreased between May and December 2020 with respect to their 2019 levels. In addition, the interest rates of several credit segments showed historical minimum levels, influenced by the low interest rates of the Reactiva Peru program.

Table 63
INTEREST RATES ON OPERATIONS IN SOLES
(%)

	2018	2019	2020	Average May.-Dec.2020	Change 2020/2019
Interbank rate	2.8	2.3	0.3	0.2	-2.0
90-day prime rate on deposits	4.0	2.8	0.2	0.3	-2.6
Deposits up to 30 days 1/	2.4	1.6	0.2	0.2	-1.4
31-day to 360-day term deposits 1/	2.9	2.4	0.7	1.1	-1.7
More than 360-day term deposits 1/	3.7	3.5	2.0	2.7	-1.5
Loans to large companies	6.4	6.0	4.6	3.7	-1.4
Loans to medium-sized enterprises	9.8	9.3	6.1	4.2	-3.2
Loan to small businesses	18.5	18.0	17.2	7.5	-0.8
Loan to microbusinesses	32.7	31.3	30.1	13.0	-1.2
Mortgage loans	7.6	7.0	6.4	6.7	-0.6
90-day corporate prime rate	4.5	3.3	0.7	0.9	-2.6
FTAMN 2/	20.4	18.2	17.6	11.6	-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.

On the other hand, in the case of interest rates on operations in dollars, the fall in the interbank rate and the 90-day corporate prime lending rate was associated with the reduction in the Federal Reserve's policy rate by 150 basis points and with high liquidity in global markets. Moreover, interest rates by credit sector also decreased, especially in the segments of small and micro businesses.

Table 64
INTEREST RATES ON OPERATIONS IN DOLLARS
(%)

	2018	2019	2020	Average May.-Dec.2020	Change 2020/2019
3-month Libor rate	2.8	1.9	0.2	0.2	-1.8
Interbank rate	2.3	1.8	0.3	0.2	-1.5
90-day prime rate on deposits	2.5	1.6	0.2	0.2	-1.4
Deposits up to 30 days 1/	1.8	1.2	0.1	0.1	-1.2
31-day to 360-day term deposits 1/	1.5	1.0	0.2	0.4	-0.8
More than 360-day term deposits 1/	1.6	1.3	0.5	0.7	-0.8
Loans to large companies	5.5	5.5	4.5	4.9	-1.0
Loans to medium-sized enterprises	6.9	6.6	5.9	6.5	-0.7
Loan to small businesses	9.9	8.8	5.3	6.0	-3.5
Loan to microbusinesses	7.1	11.0	8.5	10.6	-2.5
Mortgage loans	6.1	5.6	5.4	5.8	-0.2
90-day corporate prime rate	3.6	2.7	1.0	1.1	-1.7
FTAMEX 2/	7.6	7.1	6.3	6.1	-0.8

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

Liquidity and credit to the private sector accelerated their growth rate compared to the previous year. Private sector liquidity recorded an annual expansion of 25.9 percent in 2020 (9.4 percent in 2019).

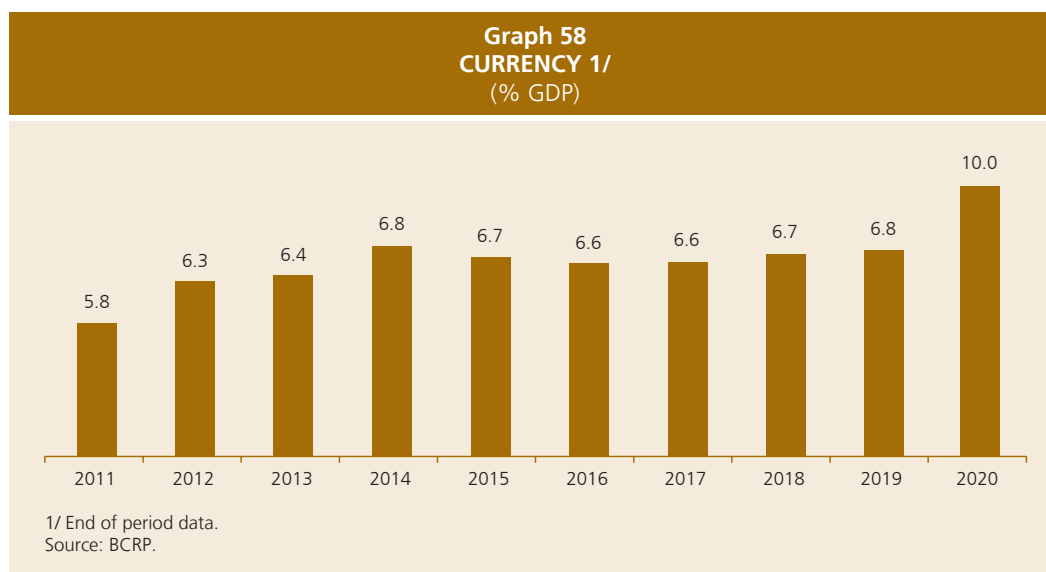
Liquidity in domestic currency grew 32.3 percent while liquidity in foreign currency grew 10.8 percent. Thus, the liquidity dollarization ratio continued to decline as in previous years, falling from 29.9 percent in 2019 to 26.3 percent at the end of 2020.

Total credit to the private sector grew 11.8 percent during the year (6.9 percent in 2019), with credit in domestic currency growing 19.7 percent while credit in foreign currency declined 10.6 percent. The credit dollarization ratio fell from 25.9 percent in 2019 to 20.7 percent in December 2020.

3.1 Currency in Circulation

The balance of currency held by the public in December 2020 was S/ 71,575 million, which represented 10.0 percent of GDP and an increase of S/ 19,458 million (37.3 percent) compared to December 2019. This annual growth rate of currency is one of the highest rates observed among many advanced and emerging economies.

The increase in currency in 2020 was largely related to the stimulus measures taken in response to the COVID-19 pandemic, including the delivery of cash subsidies to support families, the withdrawal of a fraction of the Compensation for Time of Service (CTS) deposits, and the withdrawal of AFP funds (25 percent). These disbursements were then reflected in a greater demand for cash due to precautionary reasons mainly.

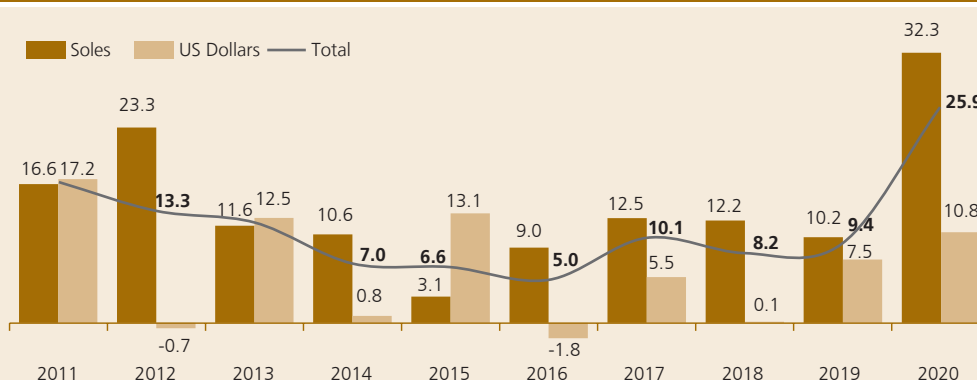


3.2 Liquidity

Total liquidity grew 25.9 percent in 2020, with this growth rate being reflected in higher deposits in both soles (33.1 percent) and in dollars (9.3 percent). It is worth mentioning that the dollarization ratio of deposits fell from 35.8 percent in 2019 to 31.4 percent in 2020.

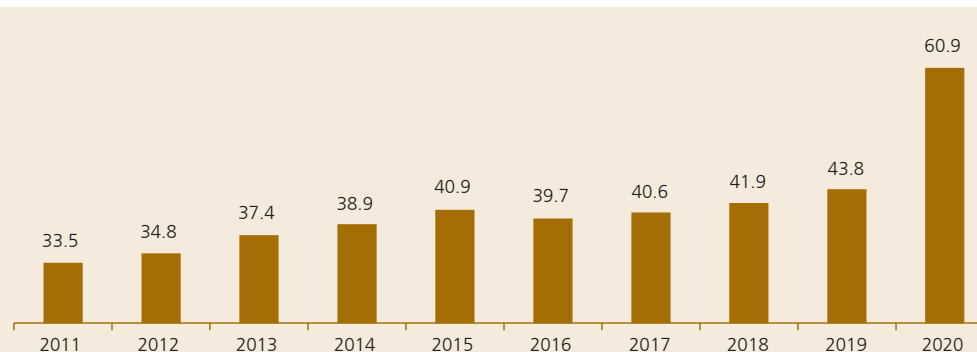
The dynamism of liquidity during the year was reflected in an increase in the ratio of this aggregate to GDP, which is an indicator of the economy's degree of financial deepening. This indicator rose from 43.8 percent in December 2019 to 60.9 percent in December 2020.

Graph 59
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 2019.
Source: BCRP.

Graph 60
LIQUIDITY IN THE PRIVATE SECTOR 1/
(% GDP, end-of-period)



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

Table 65
MAIN MONETARY AGGREGATES 1/

	Balance in million soles			Growth rates (%)	
	2018	2019	2020	2019	2020
Currency	49,778	52,117	71,575	4.7	37.3
Money	92,198	99,448	143,022	7.9	43.8
Deposits 1/	253,614	278,865	347,415	10.0	24.6
In Soles	160,096	179,128	238,435	11.9	33.1
Demand deposits	42,420	47,332	71,446	11.6	50.9
Savings deposits	53,723	59,454	95,495	10.7	60.6
Terms deposits	63,952	72,342	71,494	13.1	-1.2
In dollars (Million US\$)	28,253	30,132	32,924	6.6	9.3
Demand deposits	10,025	11,087	13,079	10.6	18.0
Savings deposits	8,950	9,223	10,794	3.1	17.0
Terms deposits	9,278	9,822	9,052	5.9	-7.8
Liquidity 1/	308,706	337,747	425,123	9.4	25.9
In soles	214,901	236,862	313,325	10.2	32.3
In dollars (Million US\$)	28,340	30,479	33,776	7.5	10.8

1/ The balance in dollars is valued at the constant exchange rate in December 2019.
Source: BCRP.

This higher liquidity in soles resulted mainly from the increase in private sector savings deposits, which rose 60.6 percent annually, faster than in the previous year (10.7 percent). Demand deposits recorded an expansion rate of 50.9 percent, while time deposits fell by 1.2 percent.

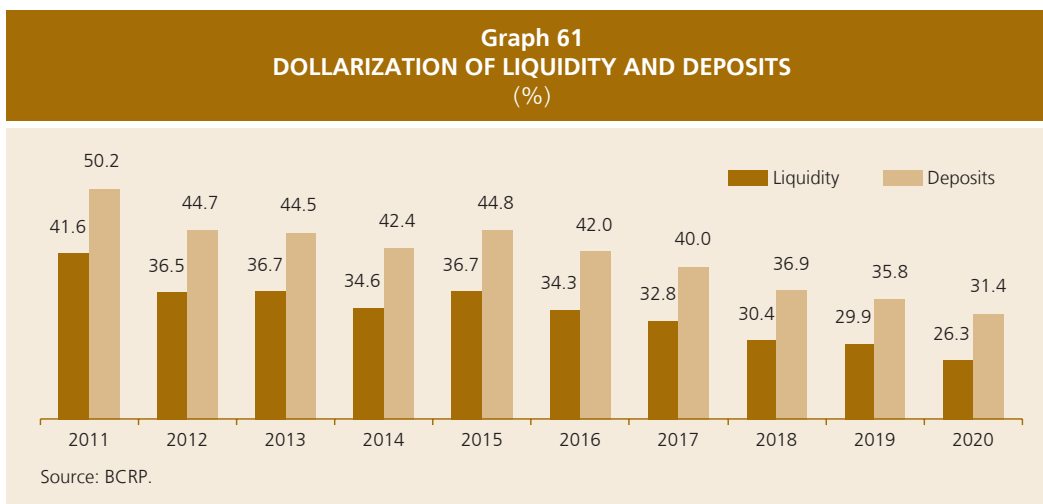
Liquidity in foreign currency also recovered during the year, showing a growth rate of 10.8 percent, higher than the 7.5 percent increase observed in the previous year. Demand deposits and savings deposits in dollars registered the highest growth rates, with an increase of 18.0 and 17.0 percent, respectively, over the course of the year (10.6 and 3.1 percent in 2019, respectively).

By type of depositor, corporate deposits increased by 34.0 percent, while household deposits grew by 19.3 percent. Deposits in local currency topped the list (51.6 percent) in the corporate segment, while growth in household deposits was mainly concentrated in deposits in local currency (25.1 percent per year).

Table 66 DEPOSITS BY TYPE OF DEPOSITOR					
	Balance in million soles			Growth rates (%)	
	2018	2019	2020	2019	2020
Individuals 1/ 2/	165,482	179,089	213,671	8.2	19.3
In soles	111,273	125,183	156,640	12.5	25.1
In dollars (Million US\$)	16,377	16,286	17,230	-0.6	5.8
Legal entities 2/	88,132	99,776	133,743	13.2	34.0
In soles	48,822	53,944	81,796	10.5	51.6
In dollars (Million US\$)	11,876	13,846	15,694	16.6	13.3
Total 2/	<u>253,614</u>	<u>278,865</u>	<u>347,415</u>	<u>10.0</u>	<u>24.6</u>
In soles	160,096	179,128	238,435	11.9	33.1
In dollars (Million US\$)	28,253	30,132	32,924	6.6	9.3

1/ Includes non-profit legal persons.
2/ The balance in dollars is valued at the constant exchange rate in December 2019.
Source: BCRP.

The dollarization ratio of liquidity fell by 3.6 percentage points over the year, from 29.9 to 26.3 percent). Similarly, the dollarization ratio of deposits fell from 35.8 percent in December 2019 to 31.4 percent in December 2020. By segment, the dollarization ratio of household deposits fell from 30.1 percent to 26.7 percent, whereas the dollarization ratio of companies' deposits fell from 45.9 percent to 38.8 percent.

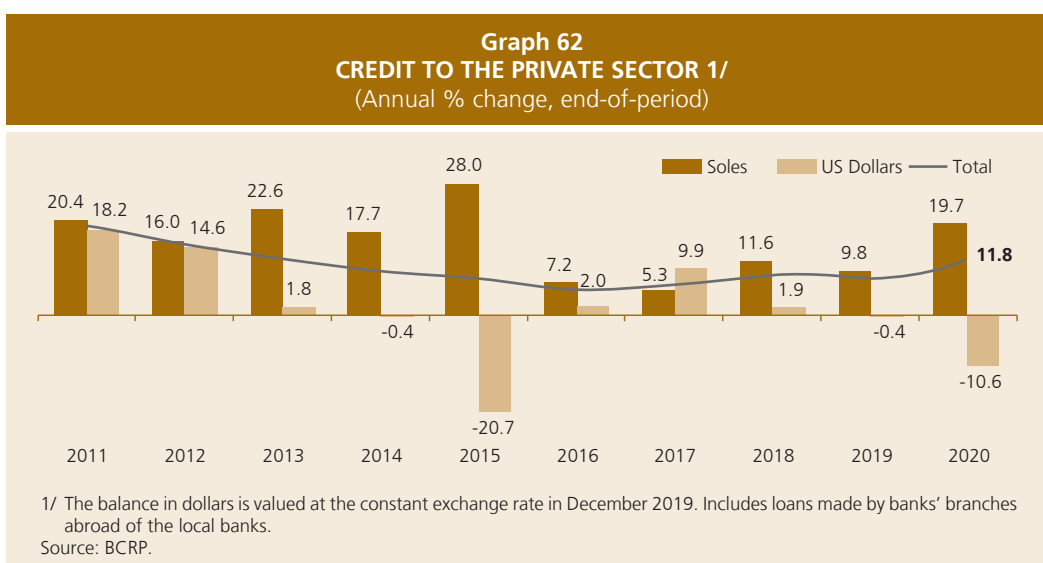


3.3 Credit to the Private Sector

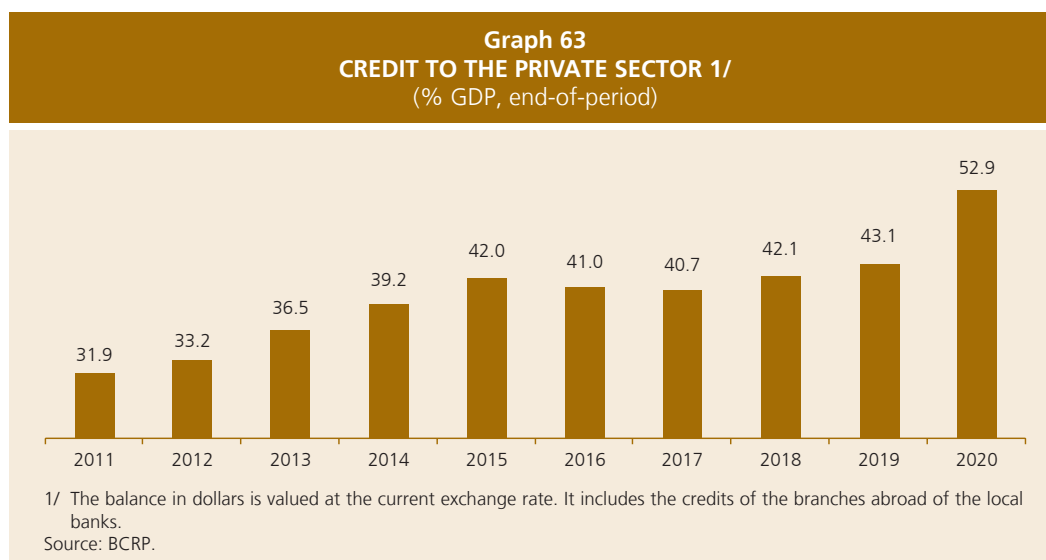
Despite a context of domestic political uncertainty, the effects of the COVID-19 pandemic and the international context, the growth rate of lending accelerated from 6.9 percent in 2019 to 11.8 percent in 2020 due to the impact of credit disbursements to businesses under the Reactiva Peru Program. As a percentage of GDP, the balance of credit to the private sector rose to 52.9 percent from 43.1 percent in the previous year.

The expansion of credit was higher in local currency due to loans granted through the Reactiva Peru program. Thus, credit in domestic currency grew from 9.8 percent in 2019 to 19.7 percent in 2020, whereas credit in foreign currency went from showing a 0.4 percent drop in 2019 to showing a 10.6 percent contraction in 2020. As a result, the credit dollarization ratio fell from 25.9 to 20.7 percent.

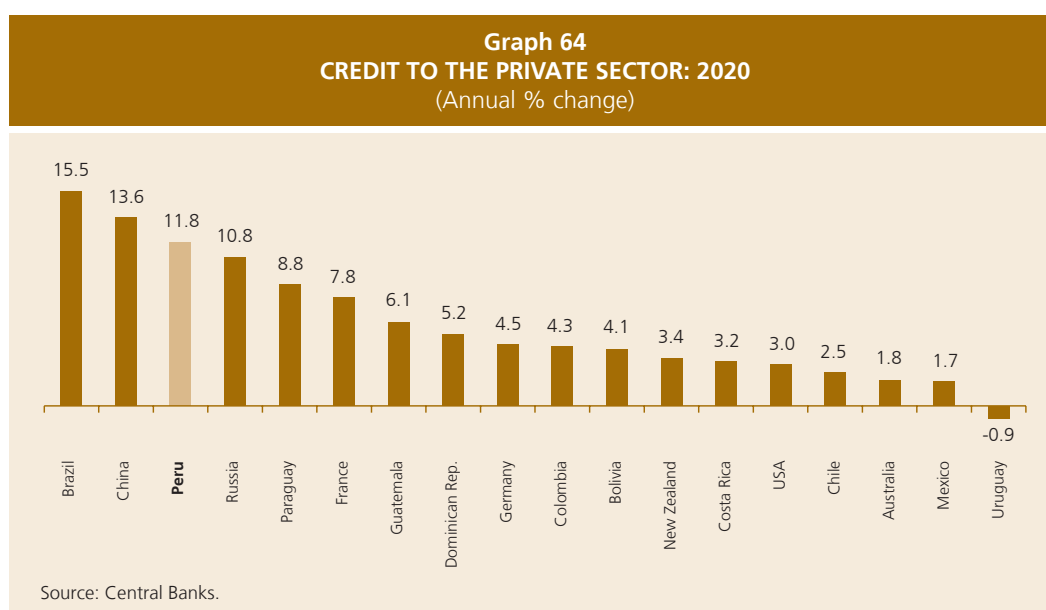
It is also worth mentioning that the annual growth rate of credit to the private sector in Peru was one of the highest observed in 2020, following the rates recorded in Brazil and China. Furthermore, the growth of credit to businesses in Peru was one of the highest worldwide (21.7 percent in 2020).

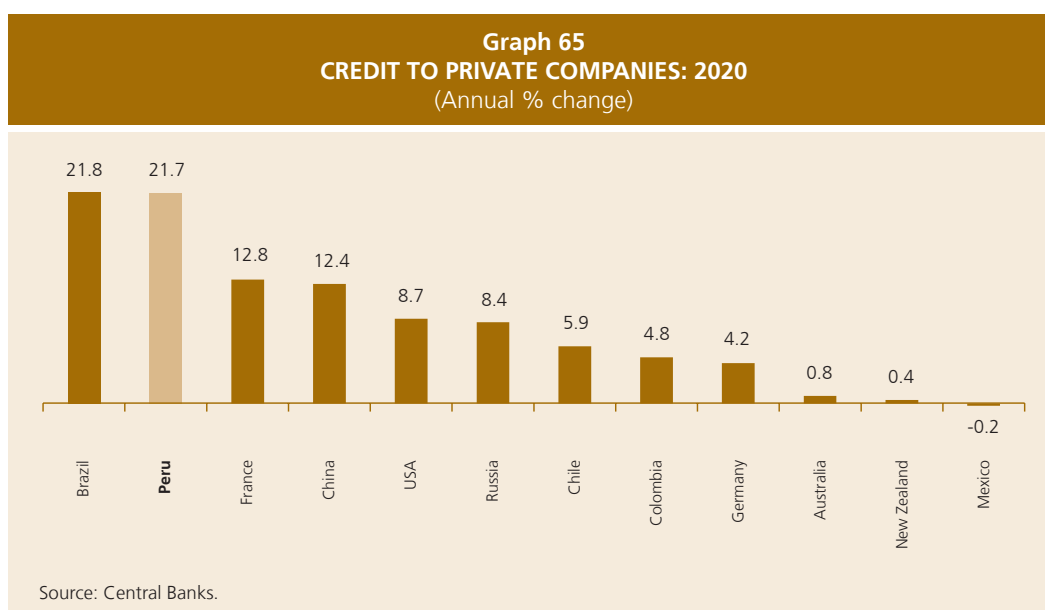


By type of segment, credit to businesses increased from 4.2 percent in 2019 to 21.7 percent in 2020. This significant increase was the result of the loans granted through the Reactiva Perú program, the largest credit expansion rates being observed in loans to medium, small, and micro businesses. Credit to medium-sized firms increased 51.0 percent, while credit to MSEs grew 24.4 percent. Moreover, credit to corporations and large companies grew 8.3 percent.



The growth rates of total credit and corporate credit in Peru are among the highest at the global level. In comparison to developed countries, the growth rate of credit to the private sector in Peru is higher than the growth rates registered in Russia (10.8 percent), France (7.8 percent), Germany (4.5 percent), New Zealand (3.4 percent), the United States (3.0 percent), and Australia (1.8 percent). In addition, it is also higher than the growth rates observed in other countries in the region, such as Paraguay (8.8 percent), Colombia (4.3 percent), Bolivia (4.1 percent), Chile (2.5 percent), and Mexico (1.7 percent). A similar pattern is observed in the case of corporate loans.





On the other hand, credit to households went from a rate of 11.3 percent in 2019 to a contraction of 3.1 percent in 2020, associated with a lower dynamism of consumer loans, which registered a drop of 7.1 percent in 2020 after having risen 12.8 percent in 2019. Mortgage lending also slowed its pace of expansion, going from a 9.0 percent increase in 2019 to a 3.2 percent increase in 2020.

Table 67
TOTAL CREDIT TO THE PRIVATE SECTOR 1/

	Balance in million soles			Growth rates (%)	
	2018	2019	2020	2019	2020
Businesses	191,297	199,404	242,721	4.2	21.7
Corporate and large companies	102,893	107,411	116,310	4.4	8.3
Medium-sized enterprises	44,874	45,112	68,103	0.5	51.0
Small businesses and microbusinesses	43,530	46,881	58,307	7.7	24.4
Individuals	119,318	132,791	128,708	11.3	-3.1
Consumer	71,387	80,545	74,802	12.8	-7.1
Car loans	2,105	2,356	2,298	11.9	-2.5
Credit cards	23,790	26,979	21,532	13.4	-20.2
Rest	45,491	51,210	50,972	12.6	-0.5
Mortgage	47,931	52,246	53,906	9.0	3.2
TOTAL	310,616	332,195	371,429	6.9	11.8

1/ The balance in dollars is valued at the exchange rate in December 2019. Includes loans made by banks' branches abroad.
Source: BCRP.

By currency, credit to the private sector in soles grew 19.7 percent during 2020. Credit in soles to the corporate sector grew 40.8 percent, with credit to the segments of medium-sized companies and small and micro enterprises being the most dynamic (with growth rates of 91.5 and 26.6 percent, respectively). Lending to larger companies increased by 26.2 percent.

Credit to households in soles fell 2.2 percent, mainly due to lower consumer loans, whereas, in contrast, credit in the mortgage segment grew by 5.3 percent.

Table 68					
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY					
	Balance in million soles			Growth rates (%)	
	2018	2019	2020	2019	2020
Businesses	117,201	125,069	176,104	6.7	40.8
Corporate and large companies	49,492	53,132	67,035	7.4	26.2
Medium-sized enterprises	26,866	27,734	53,120	3.2	91.5
Small businesses and microbusinesses	40,843	44,203	55,949	8.2	26.6
Individuals	106,962	121,020	118,384	13.1	-2.2
Consumer	66,852	75,736	70,717	13.3	-6.6
Car loans	1,812	2,008	1,913	10.8	-4.7
Credit cards	22,090	25,073	20,297	13.5	-19.1
Rest	42,951	48,655	48,507	13.3	-0.3
Mortgage	40,110	45,284	47,667	12.9	5.3
TOTAL	224,163	246,090	294,488	9.8	19.7

Source: BCRP.

Credit to the private sector in foreign currency fell 10.6 percent during 2020. By component, credit to companies declined 10.4 percent: credit to corporations and large companies fell 9.2 percent; credit to medium-sized companies fell 13.8 percent, and credit to small and micro-businesses fell 11.9 percent. On the other hand, loans to individuals fell 12.3 percent, with declines being observed in both consumer loans (-15.0 percent) and mortgages (-10.4 percent).

Table 69					
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY 1/					
	Balances in million US dollars			Growth rates (%)	
	2018	2019	2020	2019	2020
Businesses	22,386	22,458	20,126	0.3	-10.4
Corporate and large companies	16,133	16,399	14,887	1.6	-9.2
Medium-sized enterprises	5,440	5,250	4,527	-3.5	-13.8
Small businesses and microbusinesses	812	809	712	-0.3	-11.9
Individuals	3,733	3,556	3,119	-4.7	-12.3
Consumer	1,370	1,453	1,234	6.1	-15.0
Car loans	89	105	116	18.6	10.5
Credit cards	514	576	373	12.1	-35.2
Rest	768	772	745	0.6	-3.5
Mortgage	2,363	2,103	1,885	-11.0	-10.4
TOTAL	26,119	26,014	23,245	-0.4	-10.6

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

The dollarization ratio of credit to business, measured at constant exchange rates, was 20.7 percent in 2020, lower than in 2019 (37.3 percent). This reduction reflects the lower dollarization of large

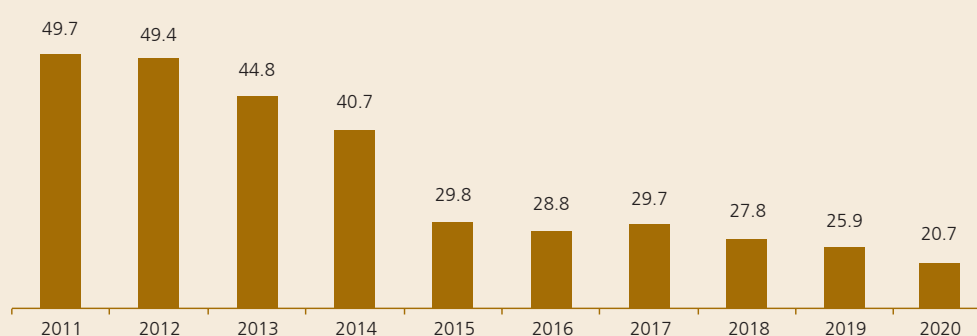
companies and corporations' credit obligations, which fell from 50.5 to 42.4 percent, as well as the lower dollarization of the debt contracted by medium-sized companies, which fell from 38.5 to 22.0 percent. Similarly, the dollarization ratio of credit to individuals fell from 8.9 to 8.0 percent. The ratio of dollarization in this group continued to decline in the segments of consumer loans and mortgage loans, where the respective ratios fell to 5.5 and 11.6 percent during the year. This drop of almost 5 percentage points in dollarization is largely associated with the loans granted through the Reactiva Perú program.

Table 70
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR (%) 1/
(%)

	2018	2019	2020
Businesses	38.7	37.3	20.7
Corporate and large companies	51.9	50.5	42.4
Medium-sized enterprises	40.1	38.5	22.0
Small businesses and microbusinesses	6.2	5.7	4.0
Individuals	10.4	8.9	8.0
Consumer	6.4	6.0	5.5
Vehicular	13.9	14.8	16.7
Credit cards	7.1	7.1	5.7
Rest	5.6	5.0	4.8
Mortgage	16.3	13.3	11.6
TOTAL	27.8	25.9	20.7

1/ The balance in dollars is valued at the exchange rate in December 2019. Includes loans made by banks' branches abroad.
Source: BCRP.

Graph 66
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/
(%)



1/ It includes the credits of the branches abroad the local banks.
Source: BCRP.

3.4 Rescheduled Loans

Another measure taken to mitigate the effect of the COVID-19 pandemic in 2020 was the rescheduling of loans. The balance of rescheduled loans as of December 2020 decreased in comparison to the first half of 2020 and with respect to November.

By segment, the biggest drop compared to June was observed in consumer loans, loans to MSEs, and loans to segment of corporations and large companies. On the other hand, compared to November, the largest contractions were observed in mortgage loans, consumer loans, and loans to MSEs.

Table 71									
BALANCE OF RESCHEDULED CREDITS 1/									
(Million S/)									
	Balance in million soles							Flow	
	Jun.20	Jul.20	Ago.20	Sep.20	Oct.20	Nov.20	Dec.20	Dec.20/ Jun.20	Dec.20/ Nov.20
Corporate and large companies	21,322	18,964	17,212	15,004	13,285	12,270	11,181	-10,141	-1,088
Medium-sized enterprises	21,104	20,364	19,669	19,190	18,668	18,212	16,178	-4,926	-2,033
Small businesses and microbusinesses	27,789	28,475	26,414	24,627	23,555	21,288	17,708	-10,081	-3,580
Consumer	35,665	34,643	32,691	31,199	30,134	28,337	23,573	-12,092	-4,764
Mortgage	22,181	22,302	22,122	21,961	21,807	21,482	17,555	-4,626	-3,927
Total	128,062	124,748	118,108	111,982	107,448	101,588	86,196	-41,866	-15,392

1/ Banking sector, Financial enterprises, Municipal saving banks and Rural saving banks are taken into consideration.
Source: Financial statement.

By type of financial institution, banks and municipal savings banks showed the largest contractions both in comparison to June and to November 2020.

Table 72									
BALANCE OF RESCHEDULED CREDITS									
(Balance in million soles)									
	Million S/							Flow	
	Jun.20	Jul.20	Ago.20	Sep.20	Oct.20	Nov.20	Dec.20	Dec.20/ Jun.20	Dec.20/ Nov.20
Bancos	100,974	98,888	94,166	90,046	86,172	82,107	68,623	-32,351	-13,484
Cajas Municipales	16,157	15,494	14,145	12,757	12,744	11,573	10,426	-5,731	-1,147
Cajas Rurales	1,544	1,491	1,425	1,392	1,301	1,262	1,184	-360	-78
Financieras	9,387	8,874	8,373	7,787	7,231	6,646	5,963	-3,424	-684
Total	128,062	124,748	118,108	111,982	107,448	101,588	86,196	-41,866	-15,392

Source: Financial statement.

4. Global Financing to the Private Sector

During 2020, overall financing to the private sector grew by 8.7 percent, a higher rate than that recorded in the previous year. It is worth pointing out that the concept of total funding to the private sector includes not only the credit provided by deposit-makers to the private sector, but also the financing resources obtained through the capital market via mutual funds, insurance companies, and private pension funds, as well as direct foreign loans obtained by companies.

Table 73
EXPANDED FINANCING TO THE PRIVATE SECTOR 1/

	Balance in million soles			Growth rates (%)	
	2018	2019	2020	2019	2020
I. CREDIT OF DEPOSITORY CORPORATIONS	310,616	332,195	371,429	6.9	11.8
Domestic currency	224,163	246,090	294,488	9.8	19.7
Foreign currency (Million US\$)	26,119	26,014	23,245	-0.4	-10.6
<i>Dolarization (%)</i>	28.2	25.9	22.2		
II. CREDIT OF OTHER FINANCIAL CORPORATIONS 2/	39,295	43,079	42,556	9.6	-1.2
Domestic currency	23,169	27,206	26,510	17.4	-2.6
Foreign currency (Million US\$)	4,872	4,795	4,848	-1.6	1.1
<i>Dolarization (%)</i>	41.5	36.8	39.8		
<i>Of which:</i>					
AFP's loans	18,262	20,215	17,804	10.7	-11.9
Loans of mutual funds	1,839	2,358	3,492	28.3	48.1
Loans of insurances	12,197	13,623	14,174	11.7	4.0
III. EXTERNAL PRIVATE INDEBTNESS (Million US\$)	91,501	86,194	87,498	-5.8	1.5
(Million US\$)	27,644	26,041	26,434	-5.8	1.5
Short-term (Million US\$)	4,079	3,585	4,507	-12.1	25.7
Medium- and long-term (Million US\$)	23,565	22,456	21,927	-4.7	-2.4
Domestic currency	1,469	5,109	5,109	247.7	-
Foreign currency (Million US\$)	23,121	20,912	20,384	-9.6	-2.5
IV. TOTAL	441,412	461,468	501,483	4.5	8.7
Domestic currency	247,332	273,296	320,998	10.5	17.5
Foreign currency (Million US\$)	58,634	56,850	54,527	-3.0	-4.1
<i>Dolarization (%)</i>	44.4	40.8	38.1		

1/ The balance in dollars is valued at the exchange rate in December 2019.
2/ Includes loans and investment in fixed income from institutional investors.
Source: BCRP.

The largest component of this overall financing was the credit granted by deposit-makers, the balance of which was S/ 371,429 million in December 2020. The second largest component was direct financing obtained by companies abroad, whose balance in December was US\$ 26,434 million (S/ 87,498 million), equivalent to 17.4 percent of total extended financing.

The third component was the direct financing obtained by companies through the domestic capital market (bond issuances) via institutional investors such as AFPs, mutual funds, and local insurance companies. This type of financing showed a contraction of 1.2 percent after recording an increase of 9.6 percent in 2019.

5. Financial Indicators

In 2020 banking companies were able to maintain a stable financial position despite the challenging conditions they had to face due to the COVID-19 crisis. The deteriorating economic environment increased banks' credit risk and provisioning expenses, which, together with a reduction in intermediation margins, had a negative impact on profitability indicators. Faced with a greater risk



of default, banks set up provisions, mainly voluntary, to cover possible increases in delinquency. They also strengthened their equity base through the capitalization of profits, cash contributions, and the issuance of subordinated bonds, which was reflected in an increase in their overall capital ratio.

In the adverse economic environment of 2020, some indicators of asset quality deteriorated slightly. The high-risk portfolio increased from 4.5 to 5.5 percent of the total portfolio, whereas the level of coverage of the high-risk portfolio with provisions increased from 103.0 to 122.3 percent.

Table 74				
FINANCIAL INDICATORS ON COMMERCIAL BANKS				
(%)				
	2018	2019	2020	Average 2011-2020
Ratio global capital	14.7	14.6	15.5	14.4
Overdue loans / gross placements 1/	3.0	3.0	3.8	2.6
High risk portfolio / gross placements 2/	4.4	4.5	5.5	3.8
Allowance for loans / high-risk portfolio	102.0	103.0	122.3	120.2
Return on equity (ROE)	18.4	18.3	4.0	18.9
Return on assets (ROA)	2.2	2.2	0.4	2.0

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

At the beginning of the state of emergency, the SBS granted facilities for loan rescheduling operations. These operations prevented a rapid deterioration of the loan portfolio and gave financial entities room for maneuver to absorb the impact of the health crisis. In addition, the broad set of early measures and actions designed by BCRP to ensure liquidity, together with the Government's relief and support programs, allowed banks to record slack liquidity levels.

The Reactiva Perú program stands out among these measures as it not only ensured the normal functioning of the flow of payments in the economy, but also sustained credit growth in 2020. Moreover, the resources obtained through this program enabled the beneficiary companies to meet their commercial and financial obligations, thus contributing to reducing the financial system's delinquency rate.

As a result of the COVID-19 crisis, there was an accelerated growth in delinquent loans in 2020. Consumer loans of people who rescheduled their debts accounted mostly for this higher delinquency –the ratio of the overdue portfolio of consumer loans increased from 3.0 to 6.4 percent– given that this type of credit deteriorated materially due to the strict lockdown and containment measures that led the economy to a near-total standstill, bringing about a significant reduction in household income and an increase in the unemployment rate.

On the other hand, although non-performing loans to medium, small and micro enterprises also increased, credit in these segments showed a higher expansion in 2020 due to the boost given by programs such as Reactiva Perú. Because of this, the percentages of overdue portfolio decreased with respect to those observed in 2019, except in the case of the obligations of microbusinesses.

Table 75
BANKS: DELINQUENCY RATES BY TYPE AND SIZE OF DEBTOR
(%)

	2018	2019	2020	Average 2011-2020
Corporate loans	0.0	0.0	0.7	0.1
Loans to large companies	1.3	1.3	1.2	0.8
Loans to medium-sized companies	7.4	8.0	6.1	5.4
Loans to small companies	8.8	8.2	7.8	7.8
Loans to microbusinesses	3.5	3.4	3.6	3.2
Consumer loans	2.9	3.0	6.4	3.5
Mortgage loans	3.0	3.0	3.6	2.1
TOTAL	3.0	3.0	3.8	2.6

Source: SBS.

The financial indicators of non-bank institutions registered a greater deterioration due to these entities' exposure to economic sectors more vulnerable to the COVID-19 crisis. Higher provisioning expenses generated by the deterioration of consumer loans and loans to small businesses affected the income generation of most non-banks. Like banks, these entities took measures to offset the impact of the pandemic on their solvency, with the strengthening of their capital base and improvements in the control of operating and financial expenses standing out among these measures.

Table 76
FINANCIAL INDICATORS OF NON-BANK COMPANIES
(%)

	2018	2019	2020	Average 2011-2020
Overdue loans / gross placements 1/				
Financial Firms	5.4	4.6	10.8	5.6
Municipal savings banks	6.5	6.9	5.1	5.7
Rural savings banks 2/	6.9	7.8	8.5	7.1
Edpymes	4.3	4.1	5.7	4.5
Provision for loans / high-risk portfolio 3/				
Financial Firms	112.6	116.4	125.8	123.2
Municipal savings banks	95.8	98.6	128.5	106.2
Rural savings banks 2/	76.7	100.1	156.2	94.6
Edpymes	136.5	103.7	106.8	122.9
Ratio on equity (ROE)				
Financial Firms	18.1	19.4	-8.2	13.7
Municipal savings banks	11.2	12.2	2.1	12.6
Rural savings banks 2/	2.5	-0.2	-10.1	-1.2
Edpymes	15.6	13.9	2.2	5.0

1/ Overdue loans and loans in judicial collection processes.

2/ As of 2019, it includes CRAC Cencosud Scotia that previously operated as Banco Cencosud.

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

Source: SBS.

6. Exchange Rate

In 2020, the PEN depreciated 9.2 percent in nominal terms (from S/ 3.31 to S/ 3.62 per dollar). The currencies of the emerging economies were greatly affected by the COVID-19 pandemic, with these

currencies showing an average depreciation of 5 percent in 2020, in contrast to the 0.1 percent appreciation they recorded in 2019. The U.S. dollar weakened by 6.7 percent, while the euro and the pound strengthened. The U.S. dollar/PEN exchange rate reached a new all-time high (S/ 3.667) since 2002, associated with uncertainty due to the presidential impeachment process. In terms of volatility, the PEN continues to register one of the lowest levels globally, even below the euro, the pound, the yen, and those of other currencies in the region. However, even though commodities (copper and gold) showed a positive performance, the sol's annual volatility in 2020 was the highest since 2008. Copper reached its highest historical high since 2012, while gold showed a 25 percent appreciation as a store of value.

Table 77
EXCHANGE RATE AND PRICE OF COMMODITIES 1/

		Dec.17	Dec.18	Dec.19	Dec.20	% change Dec.20 respect to:		
						Dec.19	Dec.18	Dec.17
Dollar Index	C.U. per US\$	92	96	96	90	-6.7	-6.5	-2.4
Eurozone	US\$ per Euro*	1.201	1.147	1.121	1.222	8.9	6.5	1.8
Japan	Yen	112.7	109.7	108.6	103.3	-4.9	-5.9	-8.4
Brazil	Real	3.31	3.88	4.02	5.19	29.0	33.8	56.8
Chile	Peso	615	694	753	711	-5.6	2.4	15.5
Colombia	Peso	2,984	3,248	3,287	3,428	4.3	5.5	14.9
Mexico	Peso	19.65	19.65	18.93	19.91	5.2	1.3	1.3
Peru	Sol	3.24	3.37	3.31	3.62	9.2	7.4	11.8
Copper	US\$/pound	330	263	280	352	25.8	33.8	6.6
Gold	US\$/troy ounce	1,303	1,282	1,517	1,898	25.1	48.0	45.7
Oil	US\$/barrel	60.4	45.4	61.1	48.5	-20.5	6.8	-19.7

1/ End of period.
* In all cases, a positive percentage change implies appreciation of the dollar, except for the euro.

The local foreign exchange market recorded a net demand for dollars of US\$ 4,058 million, while BCRP showed a net supply of dollars of US\$ 3,694 million, mainly through placements of FX swaps and CDR BCRP. It is worth mentioning that the net dollar demand in 2020 was broken down as follows: (i) net supply in the derivatives market (US\$ 9,914 million) that came mainly from AFPs and non-resident investors and (ii) net demand for dollars in the spot market (US\$ 13,973 million), mainly from retail companies and the non-financial sector. Moreover, AFPs sold a total of US\$ 2,862 million in the second and third quarters after the liquidation of their investments abroad in order to pay members.

On the other hand, in 2020 non-resident investors did not massively liquidate their assets in soles despite the episode of financial volatility. On the contrary, there was a US\$ 1,578 million dollar supply in the spot market during the year. Only in the second and fourth quarters were settlements observed. In the derivatives market, foreign investors provided a net supply of US\$ 2,595 million. Thus, in the bond market, non-resident investors increased their BTP holdings by S/ 5,359 million during 2020.

Moreover, in 2020 BCRP intervened in the foreign exchange market mainly through the placement of foreign exchange swaps-sale, with total intervention being broken down as follows: (i) net dollar sales (US\$ 159 million), mainly in the fourth quarter of the year and (ii) placement of instruments for a total amount of US\$ 11,705 million (US\$ 7,529 million of FX swaps and US\$ 4,176 million of CDR

BCRP). A total of US\$ 5,458 million of FX swaps and US\$ 2,407 million of CDR BCRP matured during the year. As of December 31, the balance of FX swaps and CDR BCRP amounts to S/ 14,527 million (2.0 percent of GDP). The number of intervention days in 2020 was the highest since 2016. Moreover, the 5 percent ratio of interventions in the spot market represents the highest percentage since 2017, as well as the highest percentage through derivative instruments since 2016.

Graph 67
EXCHANGE RATE AND INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET^{1/}

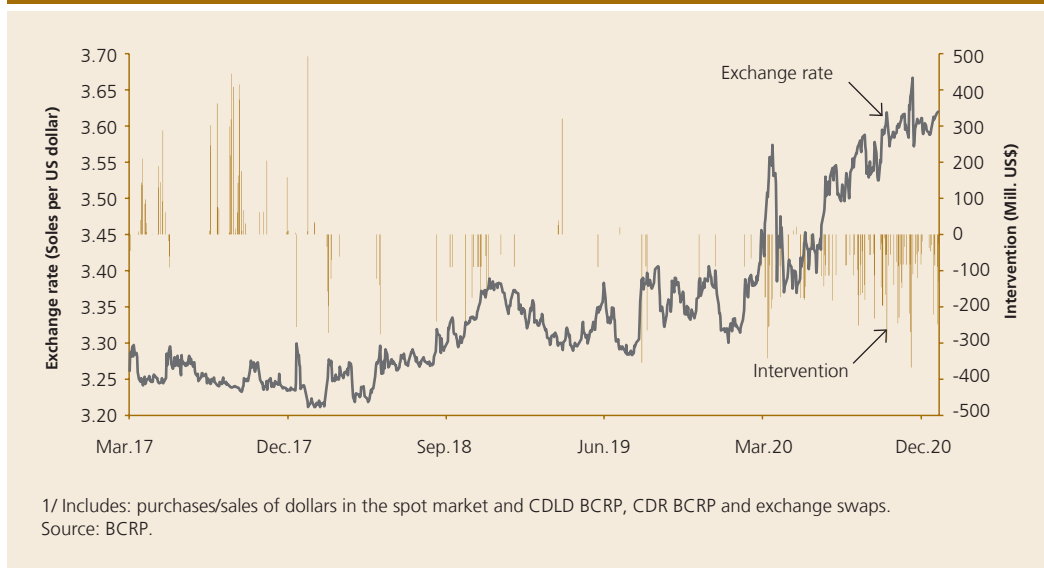


Table 78
FOREIGN EXCHANGE INTERVENTION

	Trading days	Spot Market	Number of intervention days			% of days with intervention		SD of the Exchange Rate (Annual % chg.)
			Placements of derivatives and indexed instruments	Total (spot and/or placement)	Spot	Instruments		
2017	249	55	26	64	22%	10%	4.5%	
2018	245	4	27	30	2%	11%	3.4%	
2019	249	4	6	10	2%	2%	4.4%	
2020	254	13	97	100	5%	38%	7.4%	

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, time deposits, securities, and holdings of mutual funds, life insurance policies, and contributions to private pension funds. In 2020, the balance of financial savings increased by 12.4 percent (12.1 percent in 2019) and totaled S/ 509,857 million.

Table 79
FINANCIAL SAVINGS
(Balances at the end of period)

	Domestic currency (Mill. S/)	Foreign currency (Mill. US\$)	Total 1/ (Mill. S/)
2011	137,337	24,683	203,982
2012	171,331	25,041	235,187
2013	184,630	27,210	260,817
2014	206,279	27,556	288,396
2015	217,189	31,281	323,857
2016	242,734	31,851	349,751
2017	278,771	34,119	389,318
2018	289,852	34,117	404,825
2019	327,637	38,089	453,710
2020	356,943	42,241	509,857
Growth rates			
2019	13.0	11.6	12.1
2020	8.9	10.9	12.4

1/ Balances in dollars are valued at the current exchange rate.
Source: BCRP.

By currency, financial savings in soles increased 8.9 percent in 2020 (13.0 percent in 2019), mainly as a result of the higher growth of private sector deposits in soles. Financial savings in dollars grew 10.9 percent (11.6 percent in 2019).

7.1 Fixed-Income Market

At the end of 2020, the balance of fixed-income securities issued through public offering in the local market amounted to S/ 25,891 million, a balance 10.1 percent lower than the balance at the end of 2019. 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 2020 amounted to S/ 1,745 million, a lower amount than in the previous year (S/ 5,793 million). In addition, Peruvian companies placed securities in the international market for a total of S/ 12,911 million (US\$ 3,679 million), this amount being quite close to that recorded in 2019 (S/ 12,570 million or US\$ 3,757 million).

Table 80
FIXED-INCOME SECURITIES ISSUED BY PRIVATE COMPANIES

	Amounts			Growth rates (%)	
	2018	2019	2020	2019	2020
Balances at the end of period (Million soles)	29,494	28,799	25,891	-2.4	-10.1
Non-financial sector	17,817	16,023	15,265	-10.1	-4.7
Financial sector 1/	11,676	12,776	10,627	9.4	-16.8
Composition by currency (%)	100.0	100.0	100.0		
Soles	80.2	86.7	86.1		
Fixed rate	73.7	82.2	80.7		
VAC	6.5	4.5	5.4		
US dollars	20.1	13.3	15.2		
Structured	-0.4	-	-1.3		
Balance as % GDP	4.0	3.7	3.6		

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

By type of issuer, non-financial private companies placed public offering securities for an equivalent of S/ 545 million (S/ 1,572 million in 2019), with which their balance decreased by 4.7 percent compared to the previous year (-10.1 percent in 2019). Likewise, financial entities placed securities for S/ 1,292 million (S/ 4,221 million in 2019), and their balance decreased by 16.8 percent (9.4 percent in 2019). The largest single issuance of securities (S/ 240 million) was made by Fondo Mivivienda in January, followed by the issuance of ElectroDunas (S/ 230.5 million) in December.

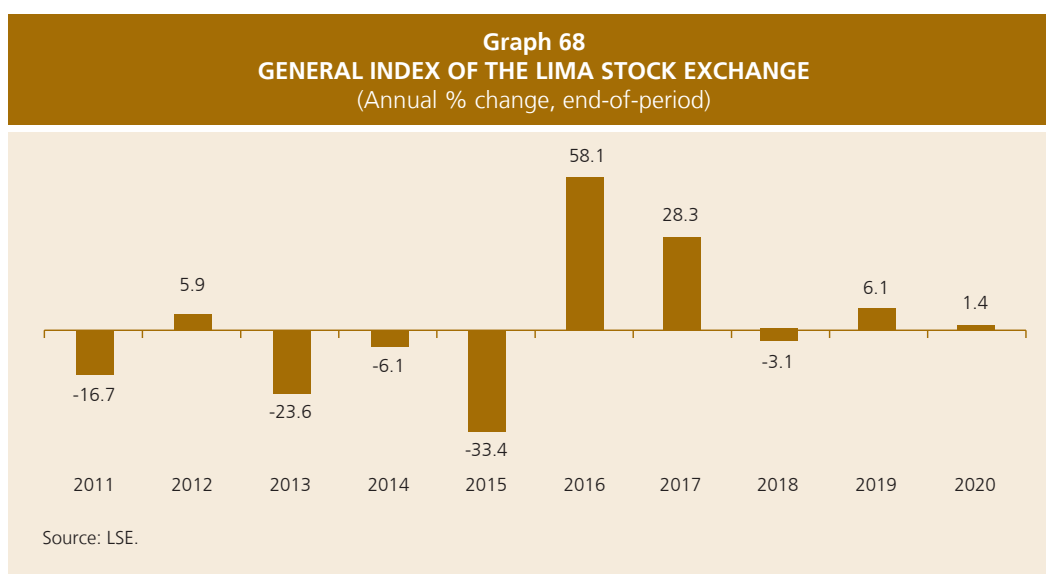
By currency, bonds issued in soles represented 86.1 percent of the outstanding balance of securities (86.7 percent at the end of 2019), while bonds issued in dollars represented 15.2 percent (13.3 percent in 2019). Furthermore, bonds in soles at a fixed-rate represented 80.7 percent of the balance (82.2 percent in 2019), while inflation-indexed bonds (VAC) represented 5.4 percent (4.5 percent in 2019).

The average term of the bonds placed, weighted by the amount placed, was 4.4 years in soles and 7.2 years in dollars. The longest maturity term in both currencies was 10 years, which in the case of placements in soles corresponded to ElectroDunas and, in the case of placements in dollars, corresponded to two different issuances: Interseguro (US\$ 25 million) and Pacifico Peruano Suiza (US\$ 50 million).

7.2 Stock Exchange

During the year, the Lima Stock Exchange (LSE) had mixed results: a positive return of 1.4 percent measured through its General Index (SP/BVL PERU GENERAL) and a negative return of 2.2 percent in its Selective Index (SP/BVL LIMA 25). The LSE also recorded an increase in the volume traded in both bonds and shares in comparison with 2019.

The COVID-19 pandemic was the main factor affecting the performance of the LSE in 2020, as reflected in the volatility observed. The stock market basically recorded four characteristic periods throughout the year. During the first three months, results were significantly negative due to the uncertainty generated by the rapid spread of the coronavirus across the world and by the anticipated effects of the strict measures that countries would take to contain its spread. A second period began in April as markets gradually returned to calm, taking advantage of the economic impulses promoted by governments, particularly the governments of China and the United States. A third period of declines began between September and October due to the sudden appearance of a second wave of Covid infections in the old continent. In addition, the political uncertainty generated by the tensions between the Legislative and Executive Branches in Peru contributed to amplify these falls, particularly during the first half of November. Subsequently, calm returned to the market with the consequent recovery of the indexes.



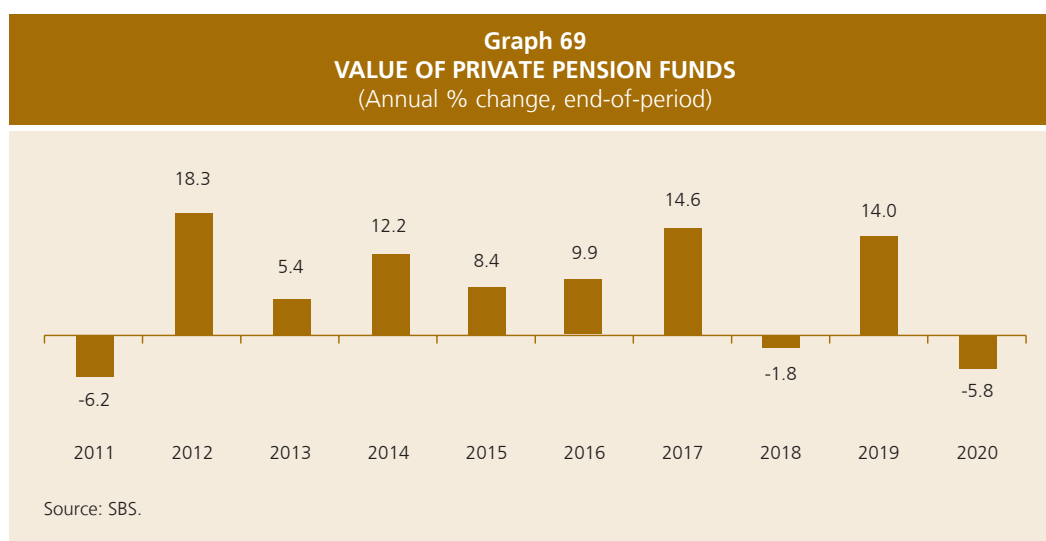
Significant differences were observed at the sector level, the mining index being the only one to record a positive performance of 28.0 percent as the rest had negative results. The banking and financial sector index registered the largest loss (-12.4 percent), followed by the manufacturing sector index (-9.7 percent) and the construction index (-7.7 percent).

The total volume traded in stocks, which increased 6.1 percent compared to 2019, amounted to S/ 14,688 million, while bond trading grew 23.4 percent to S/ 5,420 million. Market capitalization at the end of the year was S/ 599,007 million, 11.5 percent higher than at the end of 2019 (S/ 537,308 million).

Until June, the amount of dematerialized shares –i.e., the amount of shares electronically registered in CAVALI– totaled S/ 376,192 million, equivalent to 46.7 percent of the market capitalization value (42.4 percent in 2019). The share of non-resident investors with respect to total dematerialized shares decreased from 34.2 percent in December 2019 to 34.0 percent in June 2020.

7.3 Private Pension System

The net worth of private pension fund assets decreased 5.8 percent during 2020 and amounted to S/ 163,329 million in December, which was equivalent to 22.8 percent of GDP. The number of members of the system increased 4.8 percent and reached 7.8 million people. However, the percentage of contributors in relation to the total number of participants decreased from 44 percent in December 2019 to 39.7 percent in September 2020 (latest available data), reflecting the loss of jobs due to the pandemic.



It should be pointed out that the variation of the pension fund portfolio was particularly affected in 2020 by Emergency Decrees N° 034 and N° 038 and Law N° 31017 issued during the year, which allowed AFP members to withdraw S/ 24,350 million of pension funds. Despite the particularly unfavorable context, Fund Type 2 –the most representative type of fund given its strong participation in the total private pension fund (72.2 percent)– had a real positive return of 8.4 percent annually, after recording a return of 10.8 percent in 2019.

The percentage of investments abroad increased from 44.9 percent to 49.7 percent in 2020, only 0.3 points below the maximum authorized limit of 50 percent. On the other hand, deposits in soles in local banks increased their share from 1.6 to 4.4 percent (mostly as a result of the sale of securities), while

deposits in dollars reduced their share to 0.2 percent. It is also worth mentioning that the equities of the non-financial private sector –the component with the highest relative risk– increased their share from 8.2 to 9.3 percent.

Table 81			
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO			
(% structural)			
	2018	2019	2020
I. DOMESTIC INVESTMENTS	54.8	54.3	50.6
<u>Deposits</u>	<u>2.5</u>	<u>2.2</u>	<u>4.6</u>
In soles	2.4	1.6	4.4
In dollars	0.2	0.6	0.2
<u>Bonds and fixed income</u>	<u>35.2</u>	<u>35.4</u>	<u>28.1</u>
Central Bank securities	-	-	0.1
Sovereign bonds	23.2	23.1	16.9
Values issued by the private sector	11.9	12.2	11.1
<u>Stocks and variable income</u>	<u>17.1</u>	<u>16.7</u>	<u>17.9</u>
Shares	11.1	11.4	12.5
Investment funds	6.0	5.3	5.3
II. FOREIGN INVESTMENTS	44.6	44.9	49.7
III. OPERATIONS IN TRANSIT	0.6	0.8	-0.2
IV. TOTAL	100.0	100.0	100.0
Million S/	153,414	174,823	164,875
As % GDP	20.7	22.7	23.0

Source: SBS.

By fund type, Fund Type 2 or mixed fund (which has a maximum investment of 45 percent in variable-income securities) accounted for 72.2 percent of the total value of the funds, and had a real return of 8.4 percent per year. Fund Type 3 (or capital appreciation fund, which has a maximum investment of 80 percent in equities) accounted for 10.5 percent and had a real return of 6.3 percent per year. Fund Type 1 (or capital preservation fund, which has a maximum investment of 10 percent in equities) totaled 14.8 percent and had a real return of 7.2 percent. Finally, Fund Type zero, which invests only in fixed income, had a share of 2.5 percent and a real positive return of 1.0 percent. Uncertainty and the demand for liquidity due to the pandemic caused many members to transfer their funds from Fund Type 2 and Fund Type 3 to funds Type 1 and Type 0. As a result, the share of Fund Type 3 decreased from 11.9 to 10.5 while the share of Fund Type 2 decreased from 74.9 to 72.2 percent between 2019 and 2020. In contrast, the shares of Fund Type 1 and Fund Type 0 increased, with the former rising from 1.6 to 2.5 percent and the latter, from 11.6 to 14.8 percent during the same time period.

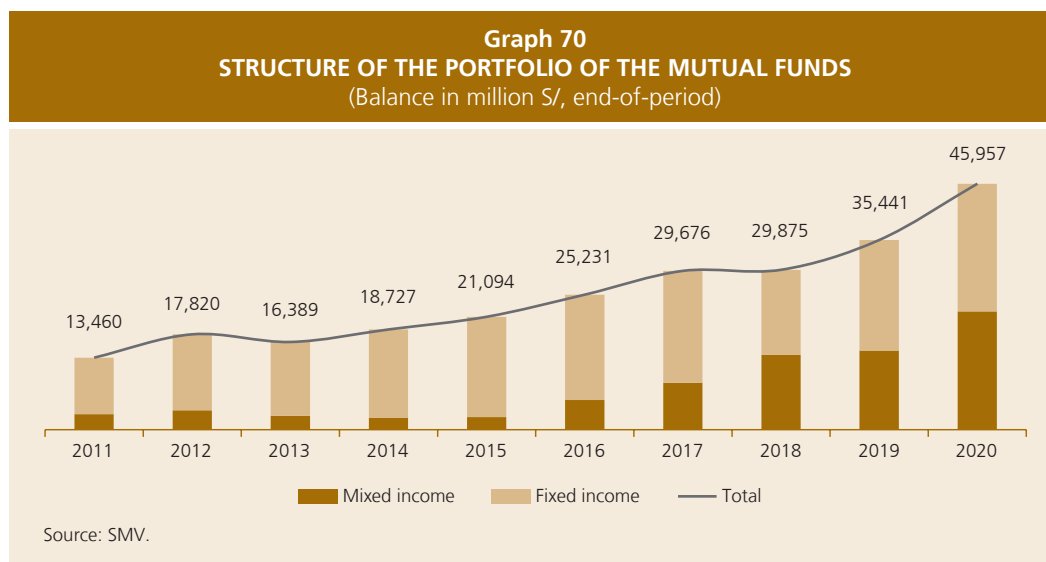
The balance of voluntary contributions, which amounted to S/ 2,670 million (S/ 2,295 million in 2019), represented 1.6 percent of the total accumulated funds. Most of these contributions were used for non-pension purposes (S/ 2,438 million).

7.4 Mutual Funds

The combined assets of mutual funds increased 29.7 percent compared to the previous year, reaching a balance of S/ 45,957 million (6.4 percent of GDP) at the end of 2020. The number of participants increased 0.3 percent to 437 thousand at the end of the year (436 thousand participants in 2019). On

the other hand, the number of operating mutual funds decreased from 179 to a final number of 162, of which 122 were mutual funds in foreign currency and 40 were mutual funds in domestic currency.

In terms of assets under management, by currency, the share of mutual funds in soles increased from 37.2 to 40.9 percent, while the percentage share of mutual funds in dollars fell from 62.8 to 59.1 percent.



In contrast to what happened with pension funds, the share of mutual funds' investments abroad decreased from 43.8 to 43.2 percent over 2020. In the case of domestic investments, the share of deposits decreased from 40.8 to 36.3 percent, while the share of bonds and fixed income instruments –which includes both bonds of private issuers and BCRP securities– increased from 8.7 to 13.9 percent,.

Table 82
COMPOSITION OF MUTUAL FUNDS' INVESTMENT
(% structural)

	2018	2019	2020
I. DOMESTIC INVESTMENTS	56.0	56.2	57.8
<u>Deposits</u>	<u>41.0</u>	<u>40.8</u>	<u>36.3</u>
In soles	28.9	24.1	20.9
In dollars	12.2	16.7	15.4
<u>Bonds and fixed income</u>	<u>10.7</u>	<u>8.7</u>	<u>13.9</u>
Central Bank securities	0.5	0.1	2.6
Sovereign bonds	0.9	0.7	0.8
Values issued by the private sector	9.3	8.0	10.4
Stocks and variable income	2.7	3.4	3.6
Other	1.6	3.3	4.1
II. FOREIGN INVESTMENTS	44.0	43.8	42.2
III. TOTAL	100	100	100
Million S/	29,875	35,441	45,957
As % GDP	4.0	4.6	6.4

Source: SMV.

7.5 Payments System

The state of emergency originated by COVID-19 led to an economic lockdown and to the adoption of several isolation measures that restricted mobility and activity in the country. Despite this, the payment systems and particularly the Real Time Gross Settlement System (RTGS), managed by the Central Bank, continued to operate. BCRP also carried out its oversight actions, promoting security in the payment systems, and fostering the development and implementation of innovations in retail payments that facilitated fund transfers in a context marked by restricted mobility.

Table 83 PAYMENT SYSTEMS (Monthly average, value in million soles, number of operations in thousands)								
	2018		2019		2020		% chg.	
	Value	Number	Value	Number	Value	Number	Value	Number
Real Time Gross Settlement System (RTGS System)	362,235	80	373,434	82	292,051	72	-22	-12
Electronic Clearing House (Cámara de Compensación Electrónica - CCE)	22,146	2,519	25,059	3,220	22,528	5,192	-10	61
- Checks	8,866	355	9,886	310	5,512	150	-44	-52
- Credit transfers	12,802	1,943	14,400	2,489	15,575	3,963	8	59
- Instant transfers	479	221	773	421	1,442	1,080	86	157
Multibank Securities Settlement System (MSSS)	6,486	10	7,537	8	8,209	10	9	24
- Stock Exchange	1,820	9	1,381	7	1,178	9	-15	33
- Government securities	4,666	1	6,156	1	7,031	1	14	-17
TOTAL	390,867	2,609	406,031	3,310	322,788	5,275	-23	73

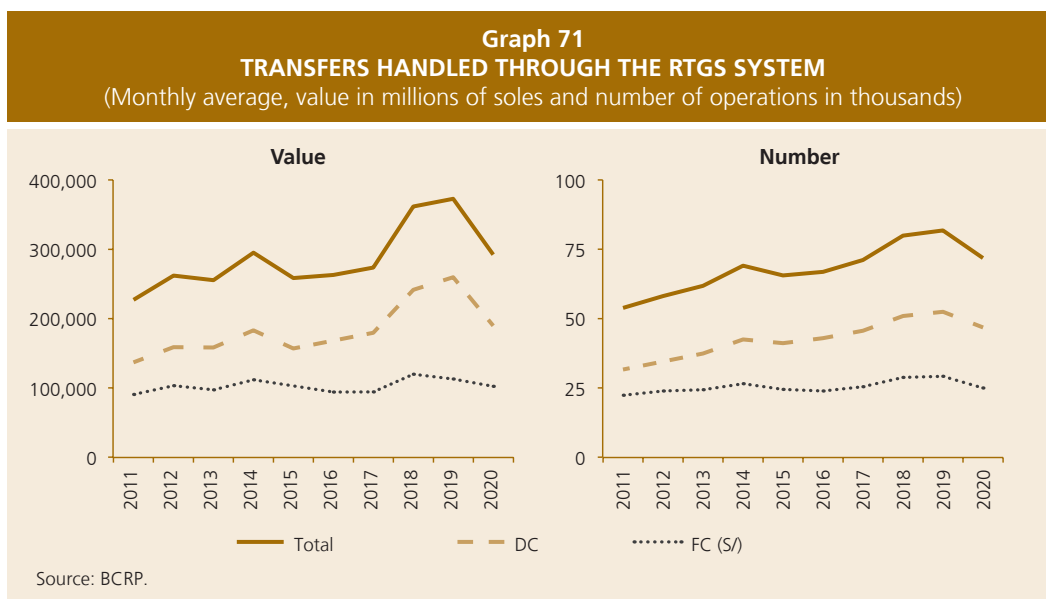
Source: BCRP.

In 2020, the value of transactions settled in payment systems decreased by around 23 percent due to banks' lower transactions, among other reasons. In contrast, people made greater use of digital payment instruments, including transfers through the Electronic Clearing House (ECC), which resulted in a 73 percent increase in the number of transactions carried out in payment systems in 2020.

Real Time Gross Settlement System (RTGS System)

The RTGS system is the main payment system in Peru since it is used to make high value transfers among the institutions of the financial system, either for their own operations or for the operations of their clients. It represents 90 percent of the total value transferred in the payment systems. The RTGS system also settles the operations of the CCE and the Multibank Securities Settlement System, as well as the operations of the Electronic Money Payment Agreement (Acuerdo de Pago de Dinero Electrónico - APDE). Furthermore, it is also used to settle the Central Bank's monetary policy operations with the financial system entities (FSEs).

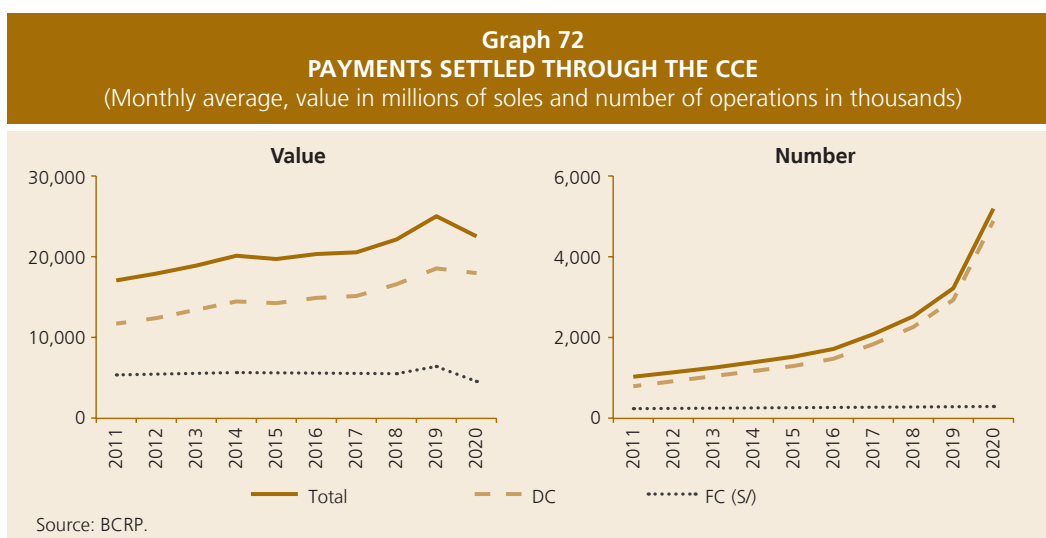
In 2020, the value of fund transfers between FSEs decreased by 22 percent, mainly due to the lower volume of FSEs' own operations (loans and foreign exchange). The value of transfers in domestic currency declined faster than the value of transfers in foreign currency, so their participation in this system fell to 65 percent (69.7 percent in 2019).



The Central Bank continued to promote the electronic access of micro finance entities (i.e. municipal and rural savings banks and non-bank financial entities) to the RTGS system. In 2020, CRAC Raíz and CRAC Prymera were electronically connected with this system, which has implied greater efficiency and security in the transfers carried out by these entities. In addition, the Bank of China was also interconnected.

Electronic Clearing House (ECC)

The CCE manages services such as check clearing, credit transfers, and immediate transfers between customers of the different FSEs. Because of the retail nature of the transactions (large number of low-value operations), transfers in this system represent 98.4 percent of the total number of transactions in the payment systems,

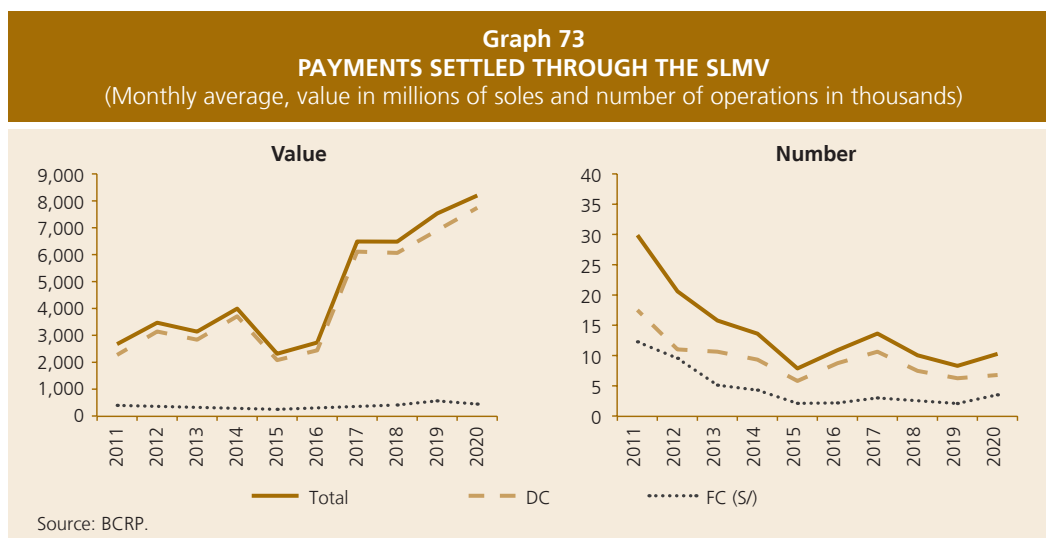


Although the value of transactions decreased by 10 percent in the year due to the health emergency, the number of transactions increased by 61 percent, reflecting the need of FSE clients to carry out transfers and payments in a non-face-to-face manner. In line with people's greater acceptance of digital payments in the context of the pandemic, credit transfers and immediate transfers grew

rapidly, the latter accounting for 20.8 percent of the number of transactions in the ECC. In contrast, the downward trend observed in check transactions intensified, falling by 52 percent to represent only 2.9 percent of total ECC transactions (9.6 percent in 2019).

Multibank Securities Settlement System (MSSS)

The MSSS, which managed by CAVALI, processes payments related to transfers of stock exchange securities and Treasury bonds.



The average monthly value of payments in the MSSS System increased by 9 percent in 2020 as a result of the greater number of Government Securities transactions (14 percent)⁷. Likewise, the average monthly number of transactions increased by 24 percent, driven by a larger volume of transactions in the stock exchange market (33 percent)⁸.

Oversight

The Central Bank's oversight activities in 2020 allowed it to verify that current security and efficiency regulations and standards are complied with by payment systems in general terms. The BCRP oversight was also combined with the efforts made by the administrators of payment systems to strengthen risk management and improve the efficiency of their services.

7.6 Other Digital Retail Payments

In addition to the digital payments processed at the ECC, there are other digital payments carried out under payment agreements such as cards and the APDE Bim (BIM Electronic Money Payment Agreement), as well as payment instruments such as (intrabank) transfers and direct debits between clients of the same financial entity. In the context of mobility restrictions associated with the pandemic, people made more intensive use of transfers, both internal and those processed at the ECC, as a result

⁷ Operations with Government Securities showed significant growth, both in terms of value and in terms of number, mainly due to increased trading of Sovereign Bonds by non-residents.

⁸ Two important transactions were carried out in the first half of 2020: the transfer of 98.6% of class B shares representing the capital stock of Telefónica del Perú S.A. to Telefónica Latinoamérica Holding (March 30), and the transfer of shares between Sempra Energy and Yangtze Andes Holding Co. Limited for the sale of Luz del Sur's shareholding (April 24).

of which the number of transactions showed high growth rates. In this regard, the importance that electronic wallets have gained in retail payments is worth mentioning.

Moreover, the increased use of digital channels to instruct payment orders (through mobile banking and internet banking, for example) given the difficulties and risks of making payments in person (POS and teller window) is also worth pointing out.

Table 84								
DIGITAL RETAIL PAYMENTS (PAYMENT AGREEMENTS AND SERVICES)								
<i>(Monthly average*)</i>								
Instruments/ Channels	2018		2019		2020		% chg. 2020-2019	
	Value	Number	Value	Number	Value	Number	Value	Number
Intra-bank transfers	116,588	23,276	149,957	31,986	181,557	53,195	21.1	66.3
Offline channel	95,658	18,306	133,998	29,162	167,043	50,314	24.7	72.5
In-person channel	20,930	4,969	15,959	2,824	14,514	2,881	-9.1	2.0
Debit cards	1,839	21,084	2,181	26,360	2,491	25,624	14.2	-2.8
Offline channel	147	2,450	253	4,235	682	6,934	169.6	63.7
In-person channel	1,692	18,633	1,927	22,125	1,808	18,690	-6.2	-15.5
Credit cards	4,556	16,338	5,164	18,685	3,555	12,217	-31.2	-34.6
Offline channel	694	2,364	860	3,289	811	2,454	-5.7	-25.4
In-person channel	3,862	13,974	4,304	15,397	2,744	9,764	-36.2	-36.6
Bim	11	364	75	577	74	649	-1.8	12.4
Offline channel	11	364	75	577	74	649	-1.8	12.4
Total	122,994	61,062	157,377	77,609	187,676	91,686	19.3	18.1
Offline channel	96,510	23,485	135,186	37,263	168,610	60,351	24.7	62.0
In-person channel	26,484	37,577	22,191	40,346	19,066	31,335	-14.1	-22.3

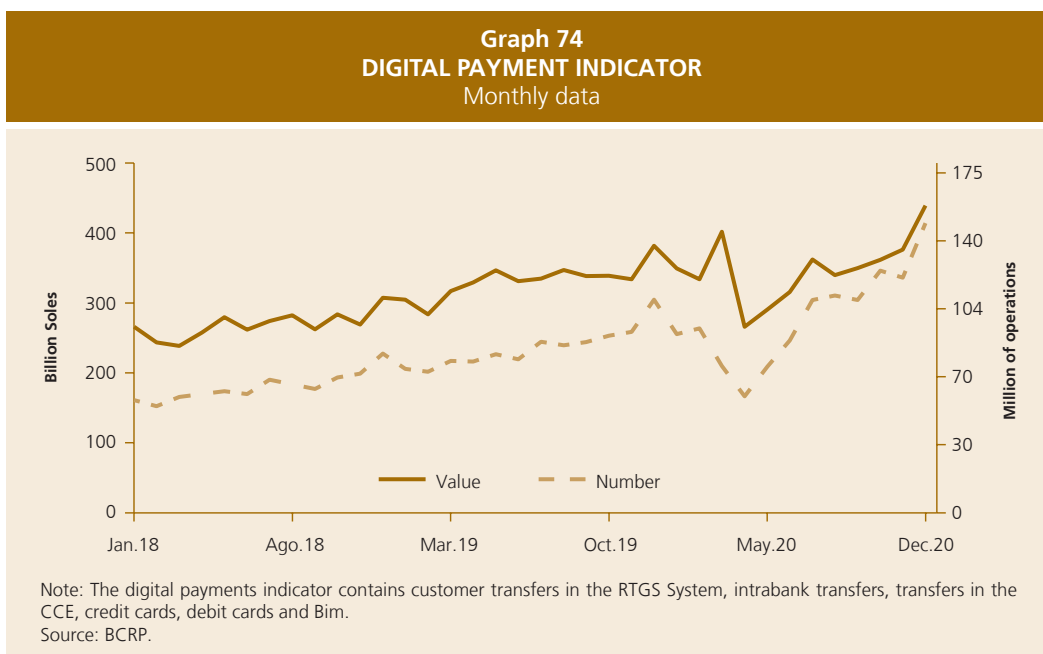
Note: In-person channels are: Window, ATM and Point of Sale (POS).
* Value in million soles, and number of operations in thousands.
Source: BCRP.

In the case of Bim, although its number of operations increased, its levels are still relatively low. Measures were adopted during the year to facilitate the process of protecting resources and extending the VAT exemption period.

Moreover, after recording a fall due to the pandemic, the number of transactions using payment cards showed a recovery, especially in debit card payments, whose value exceeded the level recorded in 2019. On the other hand, the recovery of credit cards was slower since their use had fallen significantly both in terms of value and number compared to the previous year. In the context of a study carried out by Indecopi, structural changes were made by market agents so the following measures were taken:

- a. Replace the linkage of an acquirer to a single card brand by multi-brand acquiring. The latter has allowed for greater competition at the acquirer level since the same card network (VISA and/ or MasterCard) is now offered to merchants, so competition is focused on important variables for the merchant such as commissions, security, efficiency, speed in the availability of funds, etc.
- b. Change the methodology for determining interchange fees. The rule of 80 percent of the discount rate (commission paid by the merchant to the acquirer on each card transaction) was changed so that it would be determined by the card brands, as is the case in other countries.

A drastic drop was observed in economic activity and in digital payments as a result of the pandemic in March and April 2020, as reflected in the Digital Payments Indicator (DPI) that measures digital payments (e.g. client transfers through the RTGS, intrabank transfers, ECC transfers, payment cards, automatic debits, and Bim). A progressive recovery in value and a rapid increase in the number of transactions was observed thereafter.



Innovations

On February 2, 2020, the Central Bank issued Circular No. 003-2020-BCRP, approving the Regulation of Payment Services with Quick Response (QR) codes. The purpose of this regulation is to establish the standard applicable for QR codes to make payments in the country, as well as the regulatory requirements applicable to the agents participating in this service. One of such requirements is that QR Code Providers, Wallet Providers and Payment Networks must comply with the requirements established by BCRP to register in the registry created by this entity and send statistical information on their operations. This regulatory framework promotes interoperability, as well as security and efficiency in the payments or fund transfers carried out using such code. This also encourages access to digital payments for smaller merchants, for whom the cost of POS can be onerous.

In December 2020, the ECC implemented Immediate Transfers under a 24-hour service scheme every day of the week (24/7) with a significant number of its participants. Like the previous one, this service is based on prefunded accounts that ensure the settlement of funds, allowing for the transfer of resources to the beneficiary's account to be carried out in almost real time.

This innovation provides flexibility to users to adapt their payment needs to a continuous schedule of service, reducing the concentration of payments thanks to an extended schedule that reduce, in turn, operational risks in the systems that support these transactions. This new service promotes people's access to digital payments not only because a payment is made in almost real time, but also because it can be made from the homes of ESF customers.

The Central Bank accompanied this innovation by making the corresponding modifications to its RTGS system, and published Circular No. 030-2020-BCRP approving the Regulation of the Immediate Transfers Clearing Service under the 24/7 scheme on November 20, 2020.

Box 4
RECLASSIFICATION OF CORPORATE LOANS⁹

Statistics associated with corporate loans in Peru are based on the classification of the Superintendency of Banks, Insurance Companies, and Pension Fund Administrators (SBS), where corporate loans are classified by credit segment according to criteria based on annual sales, debt issuances and total indebtedness.

SBS BUSINESS SEGMENTATION CRITERIA

Segment	Annual Sales	Total Indebtedness
Corporate	Higher than S/ 200 million	--
Large companies 1/	Between S/ 20 and S/ 200 million	--
Medium-sized enterprises	Lower than S/ 20 million	Higher than S/ 300 thousand
Small businesses	--	Between S/ 20 and S/ 300 thousand
Microbusinesses	--	Lower than S/ 20 thousand

1/In addition to the sales and indebtedness criteria, this segment also considers companies that maintain issues in the capital market in the last year.

However, given that few companies report their sales, especially in the smaller segments, this classification is usually based on each company's total credit balance in the financial system. Consequently, if the company increases its level of indebtedness, the classification of its loans could eventually exceed one of these limits and move to a higher category or segment. Of course, this effect can also occur in the opposite direction.

Therefore, the indicator of credit balance growth rates by company size not only takes into account the effect of higher (lower) lending activity linked to higher (lower) productive activity in each of the categories, but also reflects the effect of changes in the base associated with eventual reclassifications.

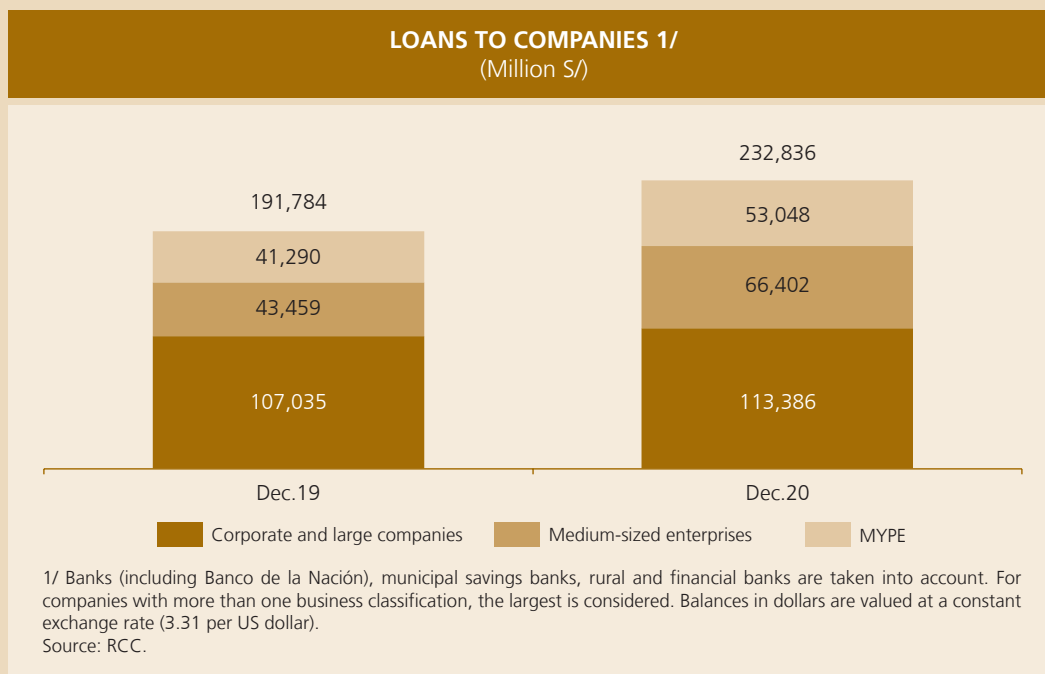
The Reactiva Peru Program, implemented in 2020, was a massive lending scheme to support business and oriented mostly to MSEs¹⁰. As a result of the greater flow of loans, an acceleration of credit has been observed in all segments together with a reclassification effect. On the other hand, however, confinement measures, which greatly affected companies' sales, have contributed to the reclassification effect as well.

There are several reasons why a company can move from one segment to another. For example, a company can move to a higher (lower) segment due to an increase (drop) in its level of indebtedness or level of sales. If it moved to a higher segment, this would force the financial system entities to request more information from the companies, especially information about their level of sales. If it moved to a lower segment, this would be due to a reduction in sales. The effect of this reclassification on the composition of credit, using data from the Consolidated Credit Report (CCR) for December 2019 and 2020, is estimated in this box.

⁹ A company is considered to be reclassified if its classification in December 2020 is different from the one it had in December 2019. Moreover, the amount reclassified is that observed in December 2020.

¹⁰ Based on information on the guarantee certificates issued by COFIDE as of January 5, 2021, and according to the SBS classification, 93.5 percent of the beneficiary companies were MSEs, 5.9 percent were medium-sized companies, and 0.6 percent were large companies and corporations.

During 2020, the balance of total loans increased in all of the segments. The increase in loans to medium, small and micro-enterprises stands out, reflecting the effect of the Reactiva Peru Program.



However, when we take as reference the debtors and the classification of their loans as of December 2019, we find that the balance of loans that maintained their classification in December 2020 amounted to S/ 198,078 million, while the balance of loans that changed their classification was S/ 15,338 million. In addition, there was a group of loans to new debtors¹¹ totaling S/ 19,420 million.

The effect of the reclassification was not equal among segments. The leading segment was the segment of micro and small enterprises, with a total debt balance of S/ 9,761 million. Of this amount, S/ 9,430 million became part of the balance of medium-sized companies, while S/ 331 million changed to be considered part of the debt balance of large companies. It is worth pointing out that the 94 companies that qualified to be in the segment of large enterprises included companies developing real estate projects, and companies managing engineering, education, construction and manufacturing projects. As of December 2019, these companies had a debt balance of less than S/ 300 thousand; however, as of December 2020 they increased their level of indebtedness by an average of S/ 3.2 million, which would have led them to provide more information on their sales to the financial system, and to be reclassified within the segment of corporations and large companies. It should also be pointed out that this group of companies belong to the sectors that showed the highest growth rates during 2020.

On the other hand, the medium-sized companies that were reclassified registered loans amounting to S/ 4,570 million. The loans of medium-sized companies that were reclassified as MSEs amounted to S/ 812 million, while loans for a total of S/ 3,758 million were reclassified as loans of corporations and large companies. Finally, the segment affected the least by the reclassification was the segment of corporations and large enterprises, which reduced its debt balance by S/ 1,007 million (S/ 1,006 million were classified as loans to medium-sized companies).

¹¹ New debtors are defined as those not included in the December 2019 RCC that were then included as debtors in the December 2020 RCC.

BALANCE OF LOANS TO COMPANIES 1/
 (Million S/)

	Balance		Share
	Dec.19	Dec.20	Dec.20
Corporate and large companies	107,035	113,386	100.0
Former debtors	107,035	106,681	94.1
New debtors	--	2,615	2.3
Reclassified debtors	--	4,089	3.6
Medium-sized enterprises (Dec-19)	--	3,758	3.3
MYPE (Dec-19)	--	331	0.3
Medium-sized enterprises	43,459	66,402	100.0
Former debtors	43,459	48,272	72.7
New debtors	--	7,695	11.6
Reclassified debtors	--	10,435	15.7
Corporate and large companies (Dec-19)	--	1,006	1.5
MYPE (Dec-19)	--	9,430	14.2
Small businesses and microbusinesses	41,290	53,048	100.0
Former debtors	41,290	43,125	81.3
New debtors	--	9,110	17.2
Reclassified debtors	--	813	1.5
Corporate and large companies (Dec-19)	--	1	0.0
Medium-sized enterprises (Dec-19)	--	812	1.5
TOTAL	191,784	232,836	100.0
Memo:			
Net Reclassification Effect 2/	--	0	--
Corporate and large companies	--	-3,082	--
Medium-sized enterprises	--	-5,866	--
Mype	--	8,948	--

1/ Banks (including Banco de la Nación), municipal savings banks, rural and financial banks are taken into account. For companies with more than one business classification, the largest is considered. Balances in dollars are valued at a constant exchange rate (3.31 per US dollar).

2/ Result of maintaining the classification as of December 2019.

Source: RCC.

As stated above, reclassification affected the composition of credit and therefore the year-on-year growth rates for each of the segments. If this reclassification effect is not taken into account, the annual growth for the segment of corporations and large companies in December 2020 would have been 5.4 percent (versus 8.3 percent with the reclassification effect), 38.0 percent in the segment of medium-sized companies (versus 51.0 percent with the reclassification effect), and 43.5 percent in the segment of micro and small companies (versus 24.4 percent with the reclassification effect).

The conclusion arising from this analysis is that credit to MSEs was the segment most affected by the reclassification, due to the fact that a large number of companies increased their total debt in the financial system as a result of the measures taken to mitigate the effect of the COVID-19 pandemic.

TOTAL CREDIT TO THE PRIVATE SECTOR, BY TYPE OF PLACEMENT 1/ 2/

	Dec.19	Million S/				Growth rates (%)					
		Dec.20		Dec.20		Dec.19/Dec.20					
		With reclassification effect		Without reclassification effect		With reclassification effect		Without reclassification effect			
		With Reactiva	Without Reactiva	With Reactiva	Without Reactiva	With FAE and Reactiva	Without Reactiva	Without FAE and Reactiva	With FAE and Reactiva	Without Reactiva	Without FAE and Reactiva
Credit to companies	199,404	242,721	186,668	242,721	186,668	21.7	-6.4	-7.0	21.7	-6.4	-7.0
Corporate and large companies	107,411	116,310	99,239	113,228	97,738	8.3	-7.6	-7.6	5.4	-9.0	-9.0
Medium-sized enterprises	45,112	68,103	42,492	62,237	40,266	51.0	-5.8	-5.8	38.0	-10.7	-10.7
Small businesses and microbusinesses	46,881	58,307	44,937	67,255	48,663	24.4	-4.1	-6.8	43.5	3.8	1.1

1/ Includes loans and investments. Banks (including Banco de la Nación), municipal savings banks, rural savings banks, cooperatives and finance companies are taken into account. Balances in dollars are valued at a constant exchange rate (3.31).

2/ Includes FAE Mype y Turismo.

Source: RCC, Financial Statement and Guarantee Certificates issued by COFIDE as of January 5, 2021.

Box 5 THE REACTIVA PERU PROGRAM

The effects of the COVID-19 pandemic on supply and demand generated a significant drop in household income and in corporate cash flows, which constrained the ability of families and businesses to meet obligations already contracted. To address this constraint, the government established the Reactiva Perú program, a mechanism aimed to provide liquidity, support credit, and prevent the disruption of the flow of payments in the economy, mitigating in this way the negative effects of the crisis, which could have led to an economic depression –a prolonged and deep recession– and undermined the stability of the financial system.

Reactiva Peru is a S/ 60 billion government guarantee scheme –initially formulated as a S/ 30 billion program– to support businesses through financing and where the value of the loans required by companies to continue with their activities is related to their working capital needs. The latter was first determined according to the firms' contributions to EsSalud (3 months) or to the sales declared to SUNAT (1 month) in 2019. Subsequently, with the extension of the quarantine, in a second stage of the program, the cap was extended to 3 months of declared sales or, in the case of micro-enterprises, to 2 times the average debt balance of 2019. In both cases, the maximum credit amount was set at S/ 10 million, so larger companies have relatively lower access. Therefore, the changes made in the loan amount favored mainly smaller companies, which were able to have access to larger loan amounts, depending on their credit history.

In addition, the Government guarantee is granted according to a percentage (between 80 and 98 percent) that varies in a decreasing manner according to the amount of money loaned. Thus, the guarantee percentage is higher for smaller loans, which are also associated with smaller companies. In these exceptional conditions of economic recession and high uncertainty, this guarantee acts as a risk absorption mechanism. When the funds allocated to the program's guarantees were extended on June 1, the guarantee coverage was extended as well.

Guarantee percentage	Credits by company (in soles)	
	Reactiva 1 1/	Reactiva 2 2/
98%	Up to 30,000	Up to 90,000
95%	From 30,001 to 300,000	From 90,001 to 750,000
90%	From 300,001 to 5.000,000	From 750,001 to 7.500,000
80%	From 5.000,001 to 10.000,000	From 7.500,001 to 10.000,000

1/ Guaranteed credits before June 1, 2020.
2/ Guaranteed credits after June 1, 2020.

The program is aimed at companies that showed sound financial conditions before the COVID-19 crisis, including records as good taxpayers and debtors. Other verifiable requirements also included for firms to be eligible were, for example, not being linked to the financial institution granting the credit, not carrying out any of the activities listed in an Exclusion List, and not being included in corruption cases under the scope of Law 30737, nor being subject to proceedings for corruption and related crimes.

On the other hand, BCRP carries out 3-year repos at a rate of 0.50 percent per annum with the portfolio guaranteed by the program, using an auction mechanism through which these repos are awarded to the financial institutions that offer loans to their corporate clients at the lowest interest rates.

Program Results

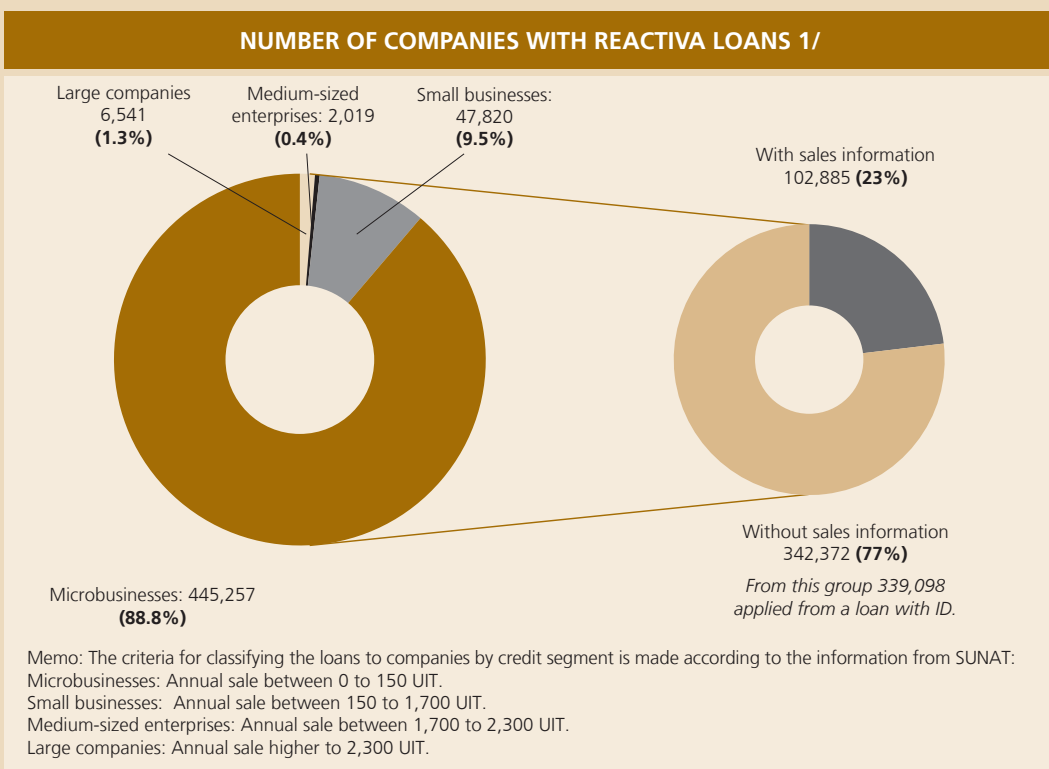
After having awarded a total of S/ 55.3 billion in fifty sessions at an average interest rate of 1.40 percent since April 23, the auctions of the Reactiva Perú program ended on October 20, 2020.

OPERATIONS AUCTION OF PORTFOLIO REPO WITH NATIONAL GOVERNMENT GUARANTEE*						
Guarantee percentage	Settled (Million S/)	Placed amounts* (Million S/)	Placement interest rate (%)			Placed amounts* (%)
			Minimum	Maximum	Average	
80	14,400	9,597	0.79	2.15	1.16	17.4
90	37,050	24,275.1	0.90	2.50	1.21	43.9
95	34,800	14,302.1	0.54	3.25	1.30	25.9
98	39,078.8	7,107.5	0.50	5.25	2.59	12.9
Total	125,328.8	55,282.1	0.50	5.25	1.40	100

* As of October 20.

With these operations, resources were allocated to 28 financial institutions (9 banks, 7 finance companies, 10 Municipal Savings Banks, and 2 Rural Savings and Credit Banks), which represent 98 percent of the credit granted by the financial system to businesses.

According to COFIDE information, total guaranteed loans, which amount to S/ 58,010 million, have benefited 501,637 companies, 98.3 percent of which are micro and small enterprises (MSEs). Moreover, of the total number of microenterprises (445,257 companies), 23 percent (102,885 businesses) are companies that register sales information (formal sector), while 77 percent (342,372 businesses) do not register sales information. Furthermore, most of the latter (339,098 businesses) requested their loans using their ID number.



The participation of companies in total Reactiva Peru loans by company size is proportional to their contribution to total sales. Thus, for example, large companies, which contribute with 64.1 percent of total sales, have

received 48.9 percent of the amount of loans, while SMEs, which have contributed with 32.9 percent of sales, have received 46.2 percent of loans.

REACTIVA LOANS BY COMPANY SIZE 1/				
	Credit Amount		Average Sales 2/	
	(Million S/)	Participation (%)	(Million S/)	Participation (%)
Corporate and large companies	28,348	48.9	28,855	64.1
Medium-sized enterprises	2,839	4.9	1,393	3.1
Small businesses and Microbusinesses	26,822	46.2	14,800	32.9
Total	58,010	100.0	45,048	100.0

1/ With information from the guarantee certificates issued by COFIDE as of January 5, 2021. For the classification of the company size, the amount of annual sales is used according to the information from SUNAT. For companies that do not register a number of sales, it was estimated according to the median of the segment to which it belongs.

2/ Sales amounts are consolidated in the case of companies with more than one Reactiva credit, that is, the sales amounts are considered only once registered to those companies with more than one Reactiva credit.

Memo: The criteria for classifying the loans to companies by credit segment is made according to the information from SUNAT:

Microbusinesses: Annual sale between 0 to 150 UIT.

Small businesses: Annual sale between 150 to 1,700 UIT.

Medium-sized enterprises: Annual sale between 1,700 to 2,300 UIT.

Large companies: Annual sale higher to 2,300 UIT.

The program has had a significant impact on direct employment. The group of companies that have accessed the Reactiva Peru program so far has generated 2.8 million jobs, of which 2 million are jobs included in SUNAT's electronic payroll (52.4 percent of formal private employment). In addition, it is estimated that 401 thousand businesses generate 823 thousand jobs not registered in the electronic payroll.

COMPANIES AND EMPLOYMENT IN REACTIVA PERU 1/				
	Companies in Reactiva		Electronic payroll	
	Number	Participation (%)	Number	Participation (%)
Total	501,637	100	2,785	100
With information in payroll	100,794	20.1	1,961	70.4
Without information in payroll 2/	400,843	79.9	823	29.6
With Ruc	57,493	11.5	135	4.9
Without Ruc	343,350	68.4	688	24.7

1/ Elaborated with the information from the Electronic Payroll as of December 2020 and the guarantee issued by COFIDE as of January 5, 2021.

2/ Mainly microbusiness and small companies that do not declare workers in the payroll. For these, the number of jobs has been estimated according to the median of those microbusiness and small companies that do register information on the payroll (2 and 5 positions, respectively).

Source: Sunat, SBS and MEF.

It is estimated that companies with up to 10 workers have been the ones that participated the most in the Reactiva Peru program (96.2 percent of the total number of companies and 40.9 percent of the total amount of loans) and that they have generated 1 million jobs (39.1 percent of the total). On the other hand, companies with more than 500 workers, which have generated 837 thousand jobs, register the lowest participation in the Reactiva Peru program (0.1 percent of the total number of companies and 6.8 percent of the total amount of loans).

REACTIVA CREDITS BY COMPANY SIZE 1/

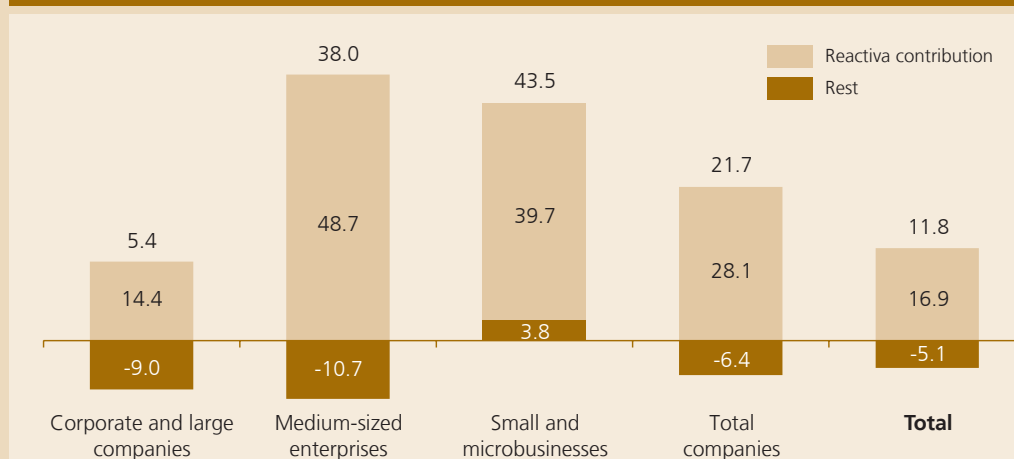
	Amount of loans		Number of companies		Jobs	
	Million de S/	Participation (%)	Units	Participation (%)	Thousand	Participation (%)
Total	58,010	100.0	501,637	100.0	2,785	100.0
Up to 10 workers	23,705	40.9	482,372	96.2	1,088	39.1
Between 11 and 50 workers	14,860	25.6	14,567	2.9	294	10.6
Between 51 and 100 workers	5,591	9.6	2,121	0.4	150	5.4
Between 101 and 500 workers	9,916	17.1	2,087	0.4	414	14.9
More than 500 workers	3,937	6.8	490	0.1	837	30.1

1/ Elaborated with information from the guarantee issued by COFIDE as of January 5, 2021. Information from the Electronic Payroll corresponding to December 2020 is used for the number of workers. Includes 401 thousand companies without information in the Electronic Payroll. For these companies, 823 thousand workers have been estimated based on the median employment according to company size.

Source: Sunat, SBS and MEF.

Impact on the cost of credit and credit amount

The Reactiva Perú program has allowed for a greater expansion of credit in all business segments. However, as described in Box 4, the reclassification of the business segments registered during the year has to be taken into account. Therefore, without the reclassification effect, loans to the segment of SMEs would have grown 43.5 percent (versus 3.8 percent without the Reactiva program), while loans to medium-sized enterprises would have grown 38.0 percent (-10.7 percent if the effect of Reactiva Peru is excluded), and loans to large enterprises and corporations would have grown 5.4 percent (-9.0 percent if the effect of Reactiva Peru is excluded).

CREDIT GROWTH IN DECEMBER 2020 1/
 (Annual % change)


1/ It shows the growth rates as a result of maintaining the classification of the companies as of December 2019.

Note: It also takes into account the reclassification within Reactiva Peru credits. Therefore, the criteria for classifying business loans by credit segment is carried out according to the SBS:

Corporate: Annual sales over S/ 200 million.

Large companies: Annual sales between S/ 20 million and S/ 200 million; or maintain issues in the capital market for the last year.

Medium-sized companies: Total debt higher than S/ 300 thousand or annual sales not higher than S/ 20 million.

Small business: Total debt between S/ 20 thousand and S/ 300 thousand.

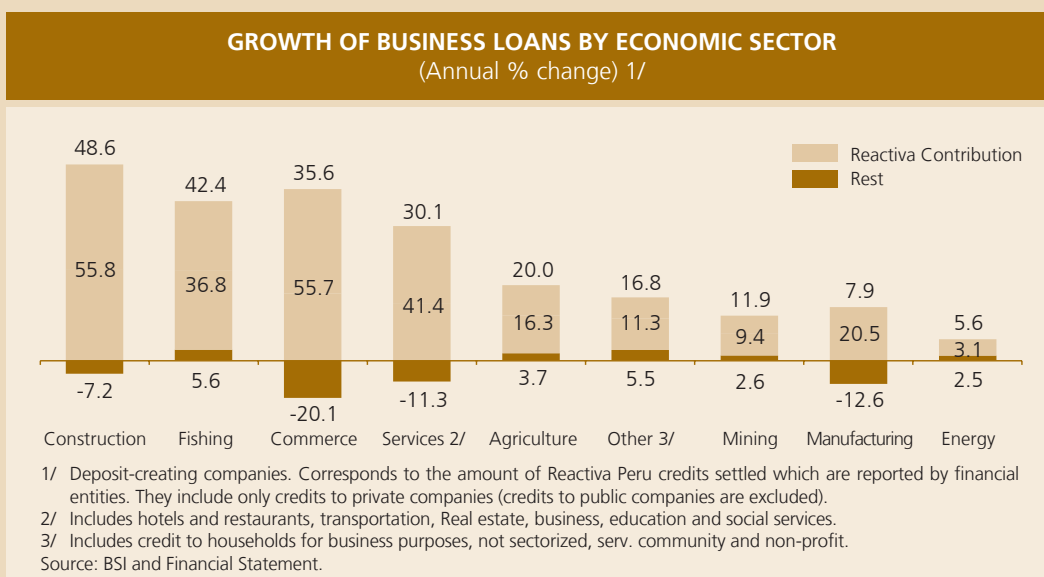
Microenterprises: Total debt not higher than S/ 20 thousand.

Source: RCC and Financial Statement.

It should be pointed out that the evolution of loans by company size takes into account statistical effects of such reclassification. Without this reclassification effect, the growth of credit to microenterprises (group of companies that moved to the medium-sized category) would be 43.5 percent instead of 24.4 percent. In

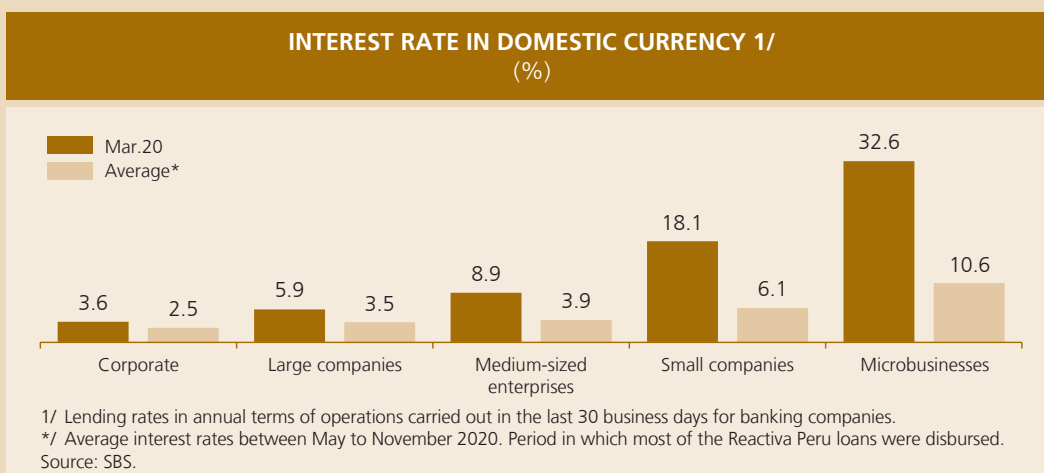
other words, the effect of Reactiva Perú and, to a lesser extent, of other programs such as FAE-MYPE would have been greater. Making a similar calculation for the other categories, the expansion of their loans would have been somewhat lower: 38 percent in the case of medium-sized companies, instead of 51 percent, and 5.4 percent in the category of corporations and large companies, instead of 8.3 percent.

At December 2020, among the sectors that show the highest rates of credit expansion are the ones that were most affected by the social confinement measures due to COVID-19. Thus, the highest year-on-year credit growth is observed in the sectors of construction (48.6 percent), fishing (42.4 percent), trade (35.6 percent), and services (30.1 percent). Had these loans not been granted under the Reactiva Peru program, these sectors would have registered significantly lower growth rates.



Growth in business loans, by economic sector

The auction mechanism has helped accelerate the pass-through of the reduction in the benchmark rate (currently at its historic low of 0.25 percent) to the rest of interest rates in the Peruvian economy. This is reflected in the average interest rates, which between May and November 2020 –the period in which most of the Reactiva Peru loans were disbursed– show lower levels in all types of corporate loans compared to previous months. Moreover, interest rates for loans to the smaller companies showed the largest reductions, recording rates well below their historical averages.



Box 6
THE GROWTH OF CASH DURING THE PANDEMIC

The growth of cash in Peru in 2020 –one of the highest observed internationally– contributed to increase its ratio as a percentage of GDP from 6.8 percent in 2019 to 10.0 percent in 2020, its highest historic level. This behavior of currency in circulation in 2020 is also observed in most countries in the region as well as in industrialized nations. Ashworth and Goodhart (2020)¹², for example, document that the increase in the use of cash has been a cross-cutting phenomenon across economies during the COVID-19 pandemic. This phenomenon might be counterintuitive when we consider the context characterized by global quarantines, restrictions on people’s access and participation in economic activities, and increased promotion of the use of digital payments. However, the authors point out that the pandemic has boosted the demand for banknotes for precautionary reasons, outweighing the effect of the decline in the traditional use of cash as a means of payment¹³. They note that the increase in the use of cash has been particularly high in economies such as the United States, Canada, Italy, Spain, Germany, France, Australia, Russia, and Brazil, among other countries.



In the specific case of Peru, some determinants of the unprecedented demand for banknotes and coins would be associated with the laws that authorized workers to have extraordinary access during the pandemic to their Compensation for Time of Service (CTS) accounts, the Individual Capitalization Accounts (ICA) of the Private Pension System, as well as with the cash subsidies provided by the government (“universal bonus”). Another factor that contributed to amplify this higher demand demand for currency, especially for high denomination banknotes, was the fact of having a high level of informality in our economy, which adds to the low degree of banking penetration observed in the country.

On the other hand, a survey carried out by the Reserve Bank of Australia (*RBA Online Banknotes Survey of October 2020*) reflected that there was a strong increase in the demand for high denomination banknotes in some developed economies, in line with the precautionary motives hypothesis. In addition, the results of the *July 2020 Consumer Pulse Survey*, conducted by the Bank of Canada, showed that most Canadians

¹² Ashworth, Jonathan and Charles Goodhart (2020). Coronavirus panic fuels a surge in cash demand. Discussion paper DP 14910. Centre for Economic Policy Research.

¹³ For example, Peru’s indicator of digital payments, while falling in March and April 2020 due to confinement, recovered progressively both in terms of value and number of transactions by December 2020.

had increased their holdings of banknotes and coins considerably during March and April, as a temporary response to the pandemic.

In conclusion, the unprecedented increase in demand for banknotes and coins is another of the phenomena associated with the COVID-19 pandemic, in addition to the expansion of other monetary aggregates, such as credit and deposits, as a result of the stimulus programs and more flexible monetary policies implemented globally. Although the use of digital payments has been on the rise in recent years, along with the growth of digital wallets and even cryptocurrencies, plus the advances observed in the introduction of digital currencies in central banking, the preference for circulating money is still a highly relevant factor in the implementation of monetary policy. In fact, estimating the demand for banknotes and coins of different denominations, and their subsequent distribution at the national level, continues to be part of the challenges that central banks have to address. Because of the reasons explained above, this contributes significantly to boosting monetary transmission and ensuring that liquidity reaches end users.