V. MONEY AND CREDIT

In 1999, monetary policy continued to aim at reducing inflation, which decreased from 6,0 per cent in 1998 to 3,7 per cent in 1999, the lowest rate since 1960. In order to achieve this performance, the Central Bank set ceilings to the monetary base growth, according to the demand for money, maintaining a flexible exchange rate and market-determination of interest rates. The daily average stock of the monetary base grew by 6,7 per cent in 1999 (12,5 per cent increase in 1998).

Together with the rest of the financial system, the Central Bank took action to prevent a possible anticipated action from the public against the Y2K effect. Due to this fact, demand for currency increased, being matched by a 17,0 per cent increase of monetary base at the end of 1999. Just in December, the monetary base went up by 18,1 per cent, a higher rate than that for December 1998 (12,8 per cent).

Monetary policy measures aimed at minimizing the negative impact of the reduction of short-term external credit lines between September and December 1998 were successful. Liquidity shortage was overcome at the beginning of 1999 and the interbank interest rates came down back to the level they were before the crises. However, commercial banks maintained a cautious behaviour because of increasing non-performing loans, choosing to lend money only to firms perceived as of low credit risk. There was a normalization of short term external credit lines, the commercial banks used their funds to repay their short-term external liabilities.

The Central Bank raised the rate at which it remunerates the additional foreign-currency reserve requirement, from Libor minus 1 per cent to Libor minus 1/8 per cent. This measure was intended to lower financial intermediation costs, setting an interest rate similar to the rate of return of deposits abroad. Moreover, since July, Central Bank Acts (Circulares) 20 and 21 came into effect, releasing more than two-year-term bonds from reserve requirements. With this, management concern with reserve requirements is equal to all bonds (including mortgage liabilities), encouraging longer-term banking liabilities.

1. Money Supply

In 1999, the average stock of broad money in domestic currency increased by 1,7 per cent over the previous year, when the annual rate of growth was 15,3 per cent. The lower rate of growth of broad money in domestic currency is explained by a lower GDP growth rate than that of 1998 (5,3 per cent in 1999 against 6,3 per cent in 1998), as well as for the increase of the velocity of circulation in domestic currency (3,5 per cent in 1999 against a decrease of 7,8 per cent in 1998). The latter is related to the high volatility of the exchange rate in some periods, which led to a higher preference for deposits in foreign currency with respect to deposits in domestic currency. It is worth mentioning that this trend slowed down along the year, particularly during the third and fourth quarters, when velocity of circulation decreased.

TABLE 29

AVERAGE SOL-DENOMINATED LIQUIDITY OF THE BANKING SYSTEM

(Percentage change)

	GDP deflator	GDP		Domestic currency liquidity	Velocity of circulation	Money supply components	
		Real	Nominal			Base	Multiplier
1997	7,6	6,7	14,9	19,1	-3,6	13,7	4,8
1998	6,8	-0,4	6,3	15,3	-7,8	12,5	2,6
1999	3,8	1,4	5,3	1,7	3,5	6,7	-4,7

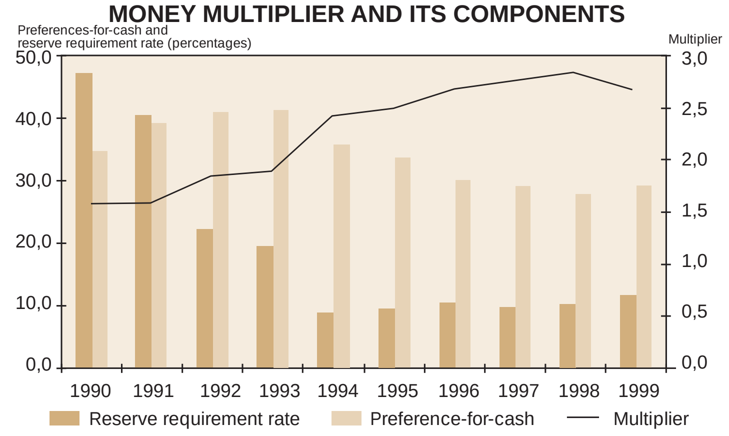
The growth of broad money was explained by the average stock monetary base increase in 6,7 per cent, partially offset by the 4,7 per cent fall in the money multiplier.

The broad money in domestic currency end-of-year stock grew by 11,6 per cent with respect to December 1998. On the money supply side, this corresponds to the end-of-year monetary base stock increase in 17,0 per cent, partially offset by the money multiplier 4,8 per cent fall.

The lower money multiplier relates to an increase in the preference-for-cash rate (from 31,2 per cent to 32,8 per cent between 1998 and 1999), and to a higher reserve requirement rate (from 12,3 to 13,1 per cent in the same period of time). The growth in the preference-for-cash rate and the higher reserve requirement rate follow the measures taken by the public and the banking system against any problem which might have happened because of the Y2K effect.

GRAPH 8

MONEY MULTIPLIER AND ITS COMPONENTS



2. Monetary Base

The monetary base daily average stock was S/. 4 772 million in 1999, a 6,7 percent increase over the previous year. On the other hand, the end-of-year stock was S/. 5 876 million, 17,0 percent higher than the previous year. In this way, the monetary base flow was S/. 854 million explained by foreign exchange operations (S/. 830 million or US$ 253 million). The higher monetary base end-of-year stock growth (17,0 per cent) with respect to that in the monetary base average stock (6,7 per cent) is related to the increase in monetary base demand in December, from economic agents in order to deal with the Y2K effect.

The monetary base expansion was due to foreign exchange operations. These operations accounted for a US$ 253 million increase in the monetary base, unlike the US$ 330 million negative contribution in 1998. Central Bank net purchases of foreign currency from the rest of the financial system reached US$ 196 million, while the net purchases of foreign currency from the public sector reached US$ 46 million (net sales US$ 955 million in 1998).

In 1999 there were periods of high foreign exchange rate volatility, which developed into a sudden foreign exchange rate increase that might have been larger had not the Central Bank promptly intervened to guarantee normal market operation. These foreign exchange operations were for small amounts, reaching a total of US$ 120 million in January-February and September-November, periods of high foreign exchange rate volatility.

During the last decade, the Central Bank has been a net seller of foreign currency to the public sector, mainly

TABLE 30
SOURCES OF VARIATION OF THE MONETARY BASE
(Millions of nuevos soles)

	1997	1998	1999
I. FOREIGN CURRENCY MARKET PURCHASES	**1 438**	**- 980**	**830**
(Millions of US$)	*543*	*- 330*	*253*
1. Over-the-counter net purchases	3 739	1 587	641
2. Public sector	-2 330	-2 761	155
– External debt	-1 930	-2 399	-532
3. Other net purchases	29	194	34
II. MONETARY OPERATIONS	**-673**	**1 242**	**24**
1. Non-financial public sector and Banco de la Nación	-218	534	- 153
2. Financial system	-107	42	- 42
3. Central Bank certificates	-564	365	- 119
4. Other monetary operations	216	301	338
III. MONETARY BASE TOTAL CHANGE	**765**	**262**	**854**
% end-of-period variation	19,1	5,5	17,0
% average variation	13,7	12,5	6,7
END-OF-PERIOD STOCKS			
Central Bank certificates	645	280	399
Short-term credits	0	42	0
Public sector deposits	759	225	378
Monetary base	4 761	5 023	5 876

for foreign debt service. However, in 1999 there were net purchases of foreign currency, due to fiscal funds requirements.

The monetary operations resulted in a monetary base expansion of S/. 24 million, amount that includes S/. 338 million in financial and non-financial expenditures, partially offset by the S/. 153 million increase in public sector deposits, the growth of Central Bank certificates (CDBCRP) by S/. 119 million, and the refund of short-term credits to the financial system by S/. 42 million. The stock of CDBCRP reached S/. 399 million at the end of 1999, with a higher average interest rate than that at the end of 1998 (17,4 per cent against 16,9 per cent) and a longer average term (9 weeks against 4 weeks).

On a daily basis, monetary operations continued based on setting limits to the banks' current account balances held at the Central Bank, as the daily operating target. During high foreign exchange volatility periods, the Central Bank lowered the level of the operating target in order to reduce domestic currency depreciation expectations. This in turn prevented any rise in inflation expectations, which did not correspond with macroeconomic fundamentals. For that, the current account daily average was relatively lower in the first and fourth quarters

(S/. 139 million and S/. 114 million, respectively) against a daily average of S/. 152 million for the whole year.

On the other hand, the average interbank interest rate in domestic currency decreased from 18,8 per cent in 1998 to 15,0 per cent in 1999, due to a reduction of inflation and depreciation expectations. This interest rate was affected at the beginning of the year by an increase of domestic currency depreciation expectations because of the Brazilian crisis, reaching an average of 21,9 per cent in February and 23,1 per cent in March. After that, in the last quarter, uncertainty developed because of the worsened fiscal balance. For this reason, the interbank interest rate went from 9,2 to 17,7 per cent between the third and fourth quarters.

3. Net International Reserves

Net international reserves (NIR) decreased by US$ 780 million during 1999. This reduction is mainly explained by the fall in the foreign currency deposits of the public sector (US$ 1 034 million), as well as by the decrease in the foreign currency deposits of Banco de la Nación (US$ 82 million) and by repurchase operations with Treasury bonds (US$ 24 million).

These operations were partially offset by an increase in the foreign position of the Central Bank (US$ 387 million). This increase is explained for

TABLE 31
SOURCES OF VARIATION OF THE NET INTERNATIONAL RESERVES
(Millions of US dollars)

	1997	1998	1999
I. Foreign exchange operations	**543**	**- 330**	**253**
1. Over-the-counter	1 410	560	196
– Purchases	1 410	643	316
– Sales	0	-83	-120
2. Public sector	-878	-955	46
3. Other foreign exchange operations	11	64	11
II. Financial system and privase sector deposits	**141**	**- 649**	**- 99**
1. Commercial banks	464	- 682	- 13
2. Banco de la Nación	- 306	35	- 82
3. Other financial institutions	- 17	- 2	- 4
III. Public sector	**926**	**- 121**	**-1 034**
IV. Net interests	**118**	**155**	**132**
V. Other NIR sources of variation	**- 100**	**- 41**	**- 32**
VI. TOTAL NIR CHANGE	**1 628**	**- 986**	**- 780**

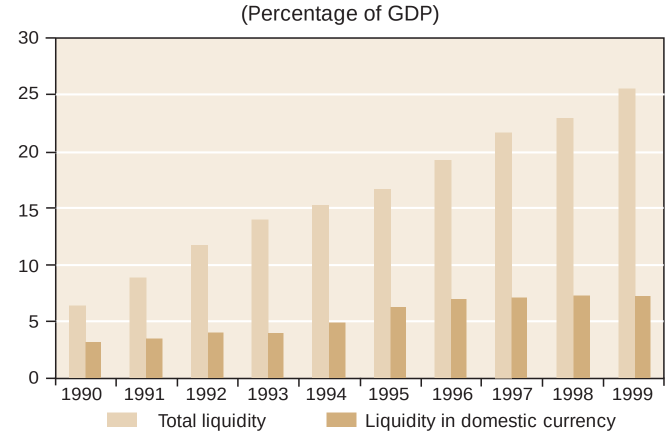
foreign exchange operations (US$ 253 million) and by net interest earned (US$ 132 million). In this way, the foreign position stock, at the end of 1999, reached US$ 2 538 million.

The NIR stock closed at US$ 8 404 million in 1999, level equivalent to five times the monetary base.

4. Banking System Liquidity

The process of remonetization continued in 1999. Thus, broad money, as a percentage of GDP, increased from 23,1 per cent in 1998 to 25,1 per cent in 1999.

GRAPH 9
BANKING SYSTEM MONETIZATION RATIO
(Percentage of GDP)



In real terms, broad money grew 9,3 per cent, explained by the expansion of both broad money in foreign and domestic currency by 10,1 and 7,5 per cent, respectively. This increase in domestic currency broad money was a result of the growth of narrow money (8,5 per cent) and quasi-money (6,2 per cent). Amid the narrow money components, the rise in currency was the most significant (12,8 per cent), while among the domestic quasi-money components, the most important increase was that of time deposits (17,6 percent).

Domestic currency deposits grew in nominal terms by 9,0 percent, especially time deposits (21,8 per cent). On the other hand, in foreign currency, deposits rose by 14,2 per cent, mainly explained by the domestic currency depreciation of 11,4 per cent.

With respect to interest rates, the rise in non-performing loans caused the perceived credit risk to increase, bringing about higher interest rates. In this way, the average interest rate for loans in domestic currency (TAMN) increased from 32,6 per cent in 1998 to 35,0 per cent in 1999. The average interest rate for loans in foreign currency (TAMEX) also rose, from 16,0

TABLE 32
LIQUIDITY OF THE BANKING SYSTEM IN REAL TERMS
(Percentage change)

	Domestic currency broad money					Foreign currency broad money	Total broad money
	Narrow money			Quasi money	Total		
	Currency	Demand deposit	Total				
1997	10,9	14,4	12,3	26,1	18,8	7,6	11,2
1998	-2,7	-8,9	-5,3	-11,3	-8,2	10,7	3,9
1999	12,8	2,1	8,5	6,2	7,5	10,1	9,3

per cent in 1998 to 16,5 per cent in 1999. In regard to average prime interest rates, the one in domestic currency went from 21,5 to 22,5 per cent between 1998 and 1999, while the one in foreign currency increased from 12,5 to 12,9 per cent in the same period of time.

On the other hand, the average deposits interest rate in domestic currency (TIPMN) rose from 10,9 per cent in 1998 to 11,8 per cent in 1999. Whilst, the average deposits interest rate in foreign currency (TIPMEX) remained at the 1998 level (5,1 per cent).

TABLE 33
INTEREST RATES OF COMMERCIAL BANKS
(Annual rates)

		DOMESTIC CURRENCY						FOREIGN CURRENCY					
			LOANS		DEPOSITS				LOANS		DEPOSITS		
		Interbank market	Prime	Average	Savings	Time 1/	Average	Interbank market	Prime	Average	Savings	Time 1/	Average
1997	IQ	15,3	20,9	31,2	10,9	15,2	10,4	5,9	14,6	16,5	4,7	7,4	5,6
	IIQ	13,2	19,3	31,3	10,9	15,4	10,4	5,8	12,8	16,2	4,7	7,3	5,6
	IIIQ	10,2	17,2	30,7	10,8	15,2	10,5	6,2	11,9	15,8	4,7	7,1	5,6
	IVQ	12,7	16,8	30,4	10,1	14,3	10,0	7,3	11,8	15,6	4,4	6,9	5,3
	Average	**12,9**	**18,6**	**30,9**	**10,7**	**15,0**	**10,3**	**6,3**	**12,8**	**16,0**	**4,6**	**7,2**	**5,5**
1998	IQ	14,9	17,9	30,8	9,9	13,9	9,9	7,3	11,6	15,7	4,3	6,5	5,1
	IIQ	16,6	18,0	31,5	9,8	13,9	10,1	8,0	11,7	15,8	4,3	6,5	5,0
	IIIQ	27,8	24,3	31,6	10,1	15,3	11,2	9,2	12,2	15,8	4,3	6,4	5,0
	IVQ	15,9	26,0	36,5	10,8	17,4	12,4	12,5	14,3	16,6	4,4	6,9	5,3
	Average	**18,8**	**21,5**	**32,6**	**10,1**	**15,1**	**10,9**	**9,3**	**12,5**	**16,0**	**4,3**	**6,6**	**5,1**
1999	IQ	19,8	25,1	36,2	10,7	18,3	12,9	9,4	14,0	17,0	4,5	7,0	5,3
	IIQ	13,1	24,2	36,9	10,4	19,0	13,2	7,3	13,2	16,9	4,3	6,6	5,2
	IIIQ	9,0	20,1	35,0	8,8	14,5	10,9	6,9	12,6	16,8	4,1	6,2	5,0
	IVQ	17,7	20,8	32,1	8,2	13,3	10,3	6,4	11,9	15,2	3,8	5,9	4,9
	Average	**14,9**	**22,5**	**35,0**	**9,5**	**16,2**	**11,8**	**7,5**	**12,9**	**16,5**	**4,1**	**6,4**	**5,1**

1/ For 31 to 179 days deposits.

5. Credit to the Private Sector

Banking system credit to the private sector during 1999 was driven by a cautious behavior of the commercial banks when providing loans. This was due to the banks' greater perception of credit risk in the presence of domestic demand weakening and portfolio quality deterioration. Considering these facts the response of commercial banks was to minimize credit lines, to raise deposits and to strengthen their capital position. As a consequence, foreign liabilities of the commercial banks decreased even though there was greater availability of foreign credit lines.

In nominal terms, during 1999, total banking system credit to the private sector rose by 7 percent. However, this increase shows a depreciation effect (11,4 percent) rather than larger bank lending operations. Performance was lower both in foreign and domestic currency credits. In the first case, the stocks of credit increased by US$ 891 millions in 1998 while that stock fell by US$ 188 millions in 1999. In the second case, credit flows to the private sector in domestic currency passed from S/. 575 million to a negative variation of S/. 492 millions in the same periods.

The reduction of the banking system credit to the private sector in foreign currency (US$ 188 million) caused a lower demand for foreign lending equivalent to US$ 1 407 million. Among other sources that allowed banks to reduce their external liabilities were banking capitalization in US$ 521 million (provisions, mainly), private sector deposits (US$ 334 million), use of banking deposits in soles (US$ 175 million), and COFIDE net financing (US$ 81 million).

The reduction of local currency credit (S/. 492 million) was explained by the use of resources in soles to take positions in dollars (S/. 596 million), the acquisition of fixed assets (S/. 612 million) and COFIDE's negative net financing (S/. 231 million). These components were partially offset by the increase in private sector deposits (S/. 645 million) and non-financial public sector deposits (S/. 359 million).

In order to support financial restructuring of indebted enterprises, COFIDE granted credit lines to financial entities. The credit lines that were granted along the year summed up to US$ 369 million and included the following programs:

Mid-term Work Capital Program. Addressed to refinance work capital from 3 to 5 years, with a one-year grace period. The interest rate is Libor + 4,5 percent for 3-year debts, and Libor + 5,0 percent for 5-year debts.

Financial Strength Program. Addressed to refinance credits classified as "normal" or "in potential problems", considering terms from 3 to 7 years, with a one- or two-year grace period. Depending on the maturity, the interest rates are within a range of Libor + 9,5 percent (3 years) and Libor + 5,5 percent (7 years).

TABLE 34

SOURCES OF EXPANSION OF COMMERCIAL BANKS CREDIT TO THE PRIVATE SECTOR

(Flows in millions of nuevos soles)

	Flows			Share 5/		
	1997	1998	1999	1997	1998	1999
FLOWS OF TOTAL CREDIT TO PRIVATE SECTOR	**8 176**	**3 186**	**-955**	**100,0**	**100,0**	**100,0**
A. Domestic currency	1 178	579	-329	14,4	18,0	34,4
B. Foreign currency	6 998	2 611	-626	85,6	82,0	65,6
(Millions of US dollars)	2 631	893	-185	100,0	100,0	100,0
1. Public and private sector deposits	**5 596**	**419**	**2 160**	**68,4**	**13,2**	**-226,1**
A. Domestic currency	3 125	727	1 004	38,2	22,8	-105,1
B. Foreign currency	2 471	-308	1 156	30,2	-9,7	-121,0
(Millions of US dollars)	929	-105	342	35,3	-11,8	-184,6
1.1. Nonfinancial public sector deposits	**1 614**	**874**	**386**	**19,7**	**27,4**	**-40,4**
A. Domestic currency	1 234	1 199	359	15,1	37,6	-37,6
B. Foreign currency	380	-325	27	4,7	-10,2	-2,8
(Millions of US dollars)	143	-111	8	5,4	-12,5	-4,3
1.2. Private sector deposits	**3 982**	**-454**	**1 774**	**48,7**	**-14,3**	**-185,7**
A. Domestic currency	1 891	-472	645	23,1	-14,8	-67,5
B. Foreign currency	2 091	18	1 129	25,6	0,6	-118,2
(Millions of US dollars)	786	6	334	29,9	0,7	-180,2
2. Reserves 4/	**-1 343**	**1 866**	**-12**	**-16,4**	**58,6**	**1,3**
A. Domestic currency	-106	-132	-56	-1,3	-4,1	5,9
B. Foreign currency	-1 237	1 998	44	-15,1	62,7	-4,6
(Millions of US dollars)	-465	682	13	-17,7	76,5	-7,0
3. BCRP's monetary operations 1/ 4/	**-652**	**558**	**88**	**-8,0**	**17,5**	**-9,2**
A. Domestic currency	-652	408	7	-8,0	12,8	-0,7
B. Foreign currency	0	149	81	0,0	4,7	-8,5
(Millions of US dollars)	0	51	24	0,0	5,7	-13,0
4. Net external assets 2/ 4/	**4 017**	**-771**	**-4 756**	**49,1**	**-24,2**	**497,7**
A. Domestic currency	0	0	0	0,0	0,0	0,0
B. Foreign currency	4 017	-771	-4 756	49,1	-24,2	497,7
(Millions of US dollars)	1 510	-263	-1 407	57,4	-29,5	759,3
5. COFIDE's net financing	**755**	**671**	**43**	**9,2**	**21,1**	**-4,5**
A. Domestic currency	-52	533	-231	-0,6	16,7	24,2
B. Foreign currency	806	138	274	9,9	4,3	-28,7
(Millions of US dollars)	303	47	81	11,5	5,3	-43,7
6. Other 3/ 4/	**-196**	**442**	**1 521**	**-2,4**	**13,9**	**-159,2**
A. Domestic currency	-1 138	-961	-1 053	-13,9	-30,2	110,2
B. Foreign currency	941	1 403	2 574	11,5	44,0	-269,5
(Millions of US dollars)	354	479	762	13,5	53,7	-411,0

1/ Includes auctions of CDBCRP's repors and Banco de la Nacion funds, liquidity credits and net redemption of CDBCRP.
2/ Both short and long.
3/ Includes bank capitalization.
4/ Negative flows indicate an increase in the balance.
5/ The negative sign indicates that the participation of the account constitutes a "source" of expansion of credit, while a positive sign means a "user".

Mid-term Work Capital Program. Addressed to convert debts denominated in dollars, in a term of 5 years, with a two-year grace period. The real interest rate is 8 percent.

6. Net Credit to the Public Sector

Banking system net credit (credit minus deposits) to the public sector during 1999 rose, for the first time since 1991, by S/. 2 177 million due to fiscal accounts deterioration. In the case of the central government, it registered a net withdrawal of deposits by S/. 4 747 million, mainly explained by foreign currency withdrawals of deposits in the Central Bank by US$ 1 264 million.

In addition, the Central Bank acquired, in the secondary market, Public Treasury Bonds to the amount of US$ 17 million. Likewise, the Public Treasury amortized Central Bank's capitalization bonds (Type B) by S/. 136 million with the distribution of former period profits.

The rest of the public sector increased their funds in the banking system by S/. 2 570 million. These greater deposits were in the Central Bank (S/. 1 606 million), in commercial banks (S/. 575 million) and in the Banco de la Nacion (S/. 388 million).

In order to guarantee public institutions' deposits kept in the financial system, a Guarantee Trust was created with the public sector entities' contributions.

7. Commercial banks

The "El Niño" Phenomenon and the external crises strongly disturbed domestic economic activity. As a result, the level of non-performing loans rose in the banking system and profitability and solvency indicators came down.

In December 1998 the following programs were launched to strengthen banking system solvency:

(a) Liquidity Support Program. Addressed to supply liquidity to financial entities, through temporal exchange of loans for negotiable Public Treasury Bonds.

(b) Program of Non-performing Loans Exchange for Non Negotiable Bonds. This program allows financial entities to reprogram provisions for non-performing loans, without reverting existing ones. The program includes a temporal loan exchange, but with the possibility of transferring loans with higher risk level (doubtful level).

(c) Equity Consolidation Program. Addressed to those entities that are going through a society reorganization process, whose shareholders would commit themselves to make capital contributions in cash, issuing new stocks. The government would commit itself to subscribe temporarily a part of that issue and to guarantee part of its assets.

(d) Program of Cancelling Debt to Public Sector Entities. Exclusively addressed to financial entities in which the government had majority participation. The government assumed the financial entities' debts to public sector entities, receiving in exchange credit assets for the same amount.

TABLE 35
PROGRAM OF TREASURY BONDS
BOND FEATURES

Program	Legal Basis	Amount (millions)	Redemption Date	Interest Rate	Amortization
Negociable Bonds for Loans	D.S. 114-98-EF	US$ 128	31/12/03	TIPMEX	20% annually beginning in 1999
Non Negociable Bonds for Loans	D.S. 099-99-EF	US$ 285	31/12/04	Zero coupon	25% annually beginning in 2001
Negociable Bonds for Equities	D.U. 034-99 and D.S. 126-98-EF	US$ 52	31/12/07	Libor 6 months + 3%	Upon expiration
Negociable Bonds for Credits of Public Agencies	D.U. 041-99-M	US$ 174	31/12/09	TIPMEX + 2% or TIPMN	10% annually beginning in 2000

Source: Superintendency of Banks and Insurance (SBS) and Ministry of Economy and Finance (MEF).

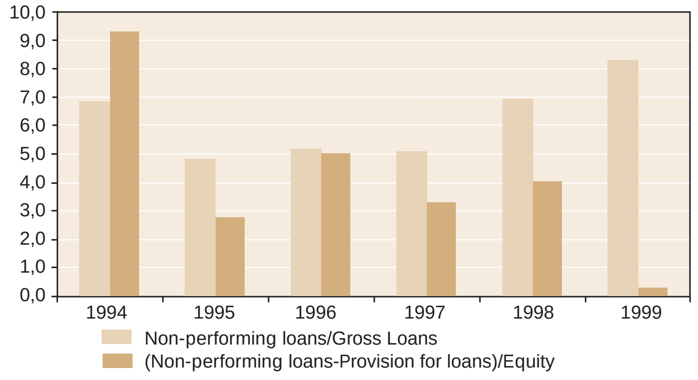
As a result of the progressive bank adaptation to provision regulations, there was an improvement in the ratio of loan provisions to gross loans, from 6,4 percent in December 1998 to 8,3 percent in December 1999. The level of provisions as a percentage of non-performing loans increased from 92,1 to 99,4 percent. In spite of the deterioration in the ratio of non-performing loans to gross loans, which increased from 7,0 to 8,3 percent, the exposure to non-performing loans not subject to provisioning decreased from 4,1 to 0,3 percent.

TABLE 36
FINANCIAL INDICATORS OF COMMERCIAL BANKS 1/
(In percentages)

	1997	1998	1999			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
Nonperforming Loans / Gross Loans	5,1	7,0	9,3	10,3	8,7	8,3
(Nonperforming Loans-Provision for loans) / Equity	3,4	4,1	17,4	20,7	7,1	0,3
Provisions for Loans / Gross Loans	4,6	6,4	7,1	7,3	7,5	8,3
Provisions for Loans / Nonperforming Loans	90,6	92,1	75,8	71,0	86,7	99,4

1/ Nonperforming Loans include past-due loans and in process of judicial collection.
Source: Superintendency of Banks and Insurance (SBS).

GRAPH 10
PORTAFOLIO INDICATORS OF COMMERCIAL BANKS
(Percentages)



In 1999 a new banking company started operations, Banque Nationale de Paris-Andes. Likewise, Solventa bank became Financiera Cordillera and there were four merger processes during the second half of the year: Wiese-Lima (Wiese Sudameris), del Nuevo Mundo-del País (Nuevo Mundo), Santander-Bancosur (Santander Central Hispano) and Norbank-Progreso (NBK-bank). In addition, Comercio bank absorbed Financiera del Sur (FINSUR) while Continental bank absorbed Financiera San Pedro.

At the end of November, the Superintendency of Banking and Insurance (SBS) intervened the Banex bank because its losses were more than 50 percent of its effective equity. Immediately, the SBS gave instructions to begin the bank's liquidation process.

8. Financial Savings and the Capital Market

Financial savings refers to the financial system's liabilities with the private sector, including pension funds and mutual funds, but excluding holdings of cash and sight deposits. During 1999, total financial savings increased as a percentage of GDP from 22,2 to 24,7 percent; and financial savings in domestic currency increased from 6,3 to 7,0 percent.

TABLE 37
FINANCIAL SAVINGS
(Percentage of GDP)

	Domestic currency	Total
1990	1,4	3,4
1991	2,0	7,3
1992	2,5	9,9
1993	2,0	12,0
1994	2,5	12,6
1995	3,3	13,9
1996	4,4	17,6
1997	5,3	20,0
1998	6,3	22,2
1999	7,0	24,7

TABLE 38
REAL FINANCIAL SAVINGS BY INSTITUTIONS
(Year end balances in millions of nuevos soles of December 1999)

	1997	1998	1999	Percentage change 1998	Percentage change 1999
I. DOMESTIC CURRENCY	**10 793**	**11 246**	**13 958**	**4,2**	**24,1**
1. Banking system	5 552	4 788	4 817	-13,8	0,6
2. Non-Banking system	5 241	6 458	9 141	23,2	41,5
Finance companies	*82*	*111*	*6*	*34,9*	*-94,2*
Saving an loans cooperatives	*246*	*254*	*267*	*3,4*	*5,1*
Pension funds	*4 517*	*5 597*	*8 344*	*23,9*	*49,1*
Financial leasing associations	*121*	*159*	*108*	*30,8*	*-32,2*
Local government savings and loans associations	*96*	*99*	*142*	*2,8*	*43,9*
Mutual funds	*122*	*146*	*89*	*19,8*	*-39,4*
Insurance companies 2/	*25*	*58*	*148*	*134,2*	*154,0*
Rurals savings and loans associations	*30*	*33*	*38*	*9,5*	*14,0*
II. FOREING CURRENCY 1/	**27 065**	**29 529**	**32 041**	**9,1**	**8,5**
1. Banking system	24 749	27 557	29 616	11,3	7,5
2. Non-Banking system	2 317	1 973	2 425	-14,8	22,9
Finance companies	*200*	*177*	*31*	*-11,4*	*-82,6*
Saving and loans cooperatives	*321*	*369*	*391*	*14,9*	*5,9*
Financial leasing associations	*27*	*175*	*76*	*538,7*	*-56,7*
Local government savings and loans associations	*74*	*117*	*195*	*57,4*	*66,4*
Mutual funds	*1 629*	*1 040*	*1 485*	*-36,1*	*42,7*
Insurance companies 2/	*39*	*58*	*201*	*49,4*	*245,0*
Rurals savings and loans associations	*26*	*34*	*45*	*33,3*	*30,7*
III. TOTAL	**37 858**	**40 776**	**45 999**	**7,7**	**12,8**

1/ Valued at the average buying and selling exchange rate for the end of period.
2/ Starting in 1999, the figures includes the legal reserves for retirement insurances.

Pension funds were the most dynamic elements of financial savings. In 1999, their share of the total rose from 13,7 to 18,1 percent. The banking system's share in domestic financial savings, however, dropped from 79,3 to 74,9 percent. It should be noted that two of the finance companies, Financiera del Sur and Financiera San Pedro, were absorbed by banks (Comercio bank and Continental bank, respectively), which accounts for the reduced financial savings of finance companies.

Primary Market

The amount of outstanding bonds rose 12,2 percent in real terms during 1999, to reach the equivalent of 3,8 percent of GDP. The share of dollar-denominated bonds rose from 69,8 to 74,5 percent. More financial leasing and corporate bonds were placed than subordinate bonds. The amount of subordinate bonds fell 4,9 percent in real terms. The amount of securitization bonds grew 173 percent in real terms, although their relative share was still very small (2,1 percent of the total).

TABLE 39
PRIVATE SECTOR BOND MARKET
(Year end balances in millions of nuevos soles of December 1999)

				Percentage change	
	1997	1998	1999	1998	1999
By type	**4 303**	**5 896**	**6 614**	**37,0**	**12,2**
Financial leasing	1 349	2 272	2 655	68,4	16,9
Subordinated	861	1 019	970	18,4	-4,9
Securization	-.-	50	136	-.-	173,3
Corporate	2 093	2 555	2 852	22,0	11,7
By term	**4 306**	**5 896**	**6 614**	**36,9**	**12,2**
Up to 3 years	1 255	1 456	1 769	16,1	21,5
More than 3 years, up to 5 years	2 768	3 889	3 791	40,5	-2,5
More than 5 years	284	551	1 054	94,2	91,3
Percentage share by currency	**100,0**	**100,0**	**100,0**		
In foreign currency	57,3	69,8	74,5		
In domestic currency	42,7	30,2	25,5		
- Nominal	3,1	1,0	0,9		
- Indexed	39,6	29,1	24,6		
Note:					
Total of bonds as percentage of GDP	2,5	3,4	3,8		

There was a significant increase in bonds issued for more than 5 years, and their share rose from 9,3 to 15,9 percent of the total. Bonds for 3 years or less increased their share from 24,7 to 26,7 percent. Four to five year bonds, on the other hand, dropped from 66 to 57,3 percent of the total.

GRAPH 11
PRIVATE BONDS
(Year end balances as a percentage of GDP)

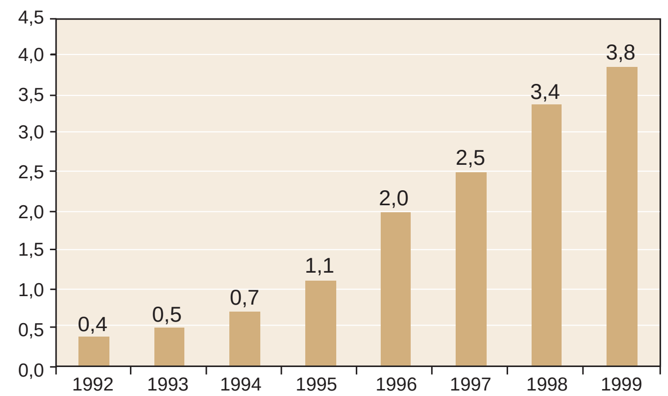


TABLE 40
EVOLUTION OF INTEREST RATES FOR BONDS 1/
(Effective annual interest rates)

	1997	1998	1999
Bonds in domestic currency (VAC) 2/	**5,5**	**6,7**	**6,9**
Financial leasing	5,0	6,0	-.-
Subordinated	5,5	6,6	6,9
Securization	-.-	-.-	-.-
Corporate	5,5	8,0	7,0
Dollar- Denominated bonds	**8,3**	**8,2**	**9,3**
Financial leasing	8,0	8,0	9,0
Subordinated	8,6	8,5	10,2
Securization	-.-	-.-	10,0
Corporate	8,5	8,2	9,6

1/ Figures show the average rate of cupons for bonds issued within the period.
2/ Unit of indexed to inflation account.

The interest rates for bonds rose significantly during the first half of the year owing to the greater uncertainty generated by the Brazilian crisis.

However, interest rates began to decline at the beginning of the third quarter.

Stock Market

During 1999, yields of the General and Blue Chip Indices were positive in 37 and 39 percent, respectively, due to the gradual reduction of country risk.

TABLE 41
STOCK MARKET

				Percentage change	
	1997	1998	1999	1998	1999
INDICES (end of period)					
(December 1991=100)					
General Stock Index Index	1 792,7	1 335,9	1 835,6	-25,5	37,4
Blue Chip Index	2 662,7	2 030,9	2 815,1	-23,7	38,6
TRADING VOLUME	**35 527**	**23 343**	**15 906**	**-34,3**	**-31,9**
(Millions of nuevos soles by December 1999)					
Stock_Exchange Session	19 853	12 345	10 789	-37,8	-12,6
Over-the-Counter	15 674	10 998	5 117	-29,8	-53,5
STOCK_MARKET CAPITALIZATION					
(Millions of nuevos soles by December 1999)	52 373	36 191	47 140	-30,9	30,3
(Millions of dollars)	17 383	11 035	13 407	-36,5	21,5
(as a percentage of GDP)	30,0	25,1	23,3		

Source: Lima Stock Exchange.

Mining shares registered the largest gains (78 percent) due to the increase in metal prices.

Market capitalization rose 30 percent in real terms, and the average value was equal to 23 percent of GDP. Non-resident investors held 24 percent of the market capitalization, compared with 22 percent in 1998.

The total amount traded dropped by 32 percent in real terms compared to the previous year. The amounts traded in variable income and fixed income securities both fell, by 13 percent and 54 percent, respectively.

National Securities Commission (Conasev) closed the Lima Stock Market's trading table on September 1st in order to make information more transparent. The closure was effected with Resolution No. 021-99-EF-94.10.0 of Conasev. Consequently, securities traded there can be traded on the exchange as long as they are previously listed in the Stock Market's Public Registry.

The Private Pension Fund System

The private pension funds reached S/. 8 344 million by the end of 1999, an amount representing a nominal increase of 55 percent with respect to the previous year. On December 31, 1999, 2 222 thousands people were enrolled in the private pension fund system, 12 percent more than in 1998.

Real profit was 19 percent, the highest level since the pension fund began in 1993, and was mainly due to revaluing stock in the fund portfolio which occurred as a result of the Lima Stock Exchange's recovery amounting to 32 percent in real terms.

As to currencies, dollar-denominated instruments in the Private Pension Administrators' (AFP's) portfolios increased from 37 percent in 1998 to 42 percent in 1999. The share of fixed income instruments declined from 67 to 62 percent. As to origin, banking system instruments diminished from 45 to 43 percent of the total, their lowest share since the system began, whereas public sector securities increased their share from 4,9 to 7,1 percent, owing to more holdings of Central Bank Certificates and Treasury Bonds.

The Central Bank, via Circular No. 16-99-EF/90, set a one percent limit for investments in foreign securities. The circular was regulated by Resolution No. 386-99-EF/SAFP in December.

TABLE 42
PRIVATE PENSION SYSTEM

	1997	1998	1999
Number of affiliates			
(in thousands)	1 736	1 980	2 222
(percentage change		14,1	12,2
Value of fund			
(in millions of nuevos soles)	4 108	5 396	8 344
(as a percentage of GDP)	2,6	3,2	4,7
(percentage change)		31,4	54,6
Yield			
(Nominal)	18,2	1,0	23,1
(real)	11,1	- 4,8	18,7

Source: Superintendency of Private Pension Administrators.

Mutual Funds

The amount managed by the 21 mutual funds in 1999 reached S/. 1 574 million, which was a nominal increase of 37,6 percent compared with the year end amount in 1998. The number of investors was 13 043, a decline of 16,5 percent. The mutual fund system generated a yield of 17 percent in real terms, higher than that of the previous year (8 percent). Profitability was the same for mixed income and fixed income funds. Mixed income funds benefited from the increase in the General Stock Index and fixed income funds from the high concentration of dollar-denominated instruments.

Two new fixed income funds appeared during the year: one in dollars, the Santander Tesorería (Treasury); and the other in soles, Credifondo Corto Plazo (Short Term). This brought the number of operating mutual funds by year end to 21, managed by 8 administrators.

TABLE 43
MUTUAL FUNDS

	1997	1998	1999	Percentage change 1998	Percentage change 1999
Number of investors	**17 650**	**15 615**	**13 043**	**-11,5**	**-16,5**
Value of Fund 1/					
(in millions of nuevos soles)	1 593	1 144	1 574	-28,2	37,6
(as a percentage of GDP)	1,0	0,7	0,9		
Sharing					
Variable income funds	2,2	1,7	1,3		
Fixed Income funds	97,8	98,3	98,7		
Yield					
Variable income funds (nominal)	7,2	- 27,7	20,9		
Variable income funds (real)	0,7	- 31,8	16,5		
Fixed income funds (nominal)	14,1	14,7	20,8		
Fixed income funds (real)	7,1	8,2	16,5		

1/ Figures show the value of mutual funds quota held by households and non financial private corporations.