economic activity

Money and Credit

I.

Since 2002, the Central Bank's monetary policy has been conducted following a scheme of Explicit Inflation Targeting which seeks to anchor the public's inflation expectations by announcing an inflation target rate. This target has been set at an annual inflation rate of 2,5 percent, with a range of departure from the target of 1 percentage point up or down.

Under the scheme of Explicit Inflation Targeting, the Central Bank's actions seek to prevent inflationary or deflationary pressures on the economy that may move the inflation rate away from the announced target. Towards this end, if the inflation rate is expected to rise above the announced target, the Central Bank would increase its reference interest rates and reduce bank's liquidity. On the other hand, if the inflation rate were expected to fall below the announced target, the Central Bank would reduce its benchmark interest rates and expand bank's liquidity.

In order to implement these actions in a timely basis, a set of relevant economic indicators is kept under continuous monitoring to anticipate pressures over the inflation rate. These indicators include the level of economic activity, the economic agents' expectations on the evolution of several macroeconomic variables, liquidity and credit growth, among others.

The Explicit Inflation Targeting scheme has further improved transparency by means of communicating the inflation target to the public, the measures to reach it and its rationality. In particular, it was started the publishing three times a year (in January, May and September) of an Inflation Report that analyses the most likely future evolution of the inflation rate and announces measures to be taken to prevent departures from the announced target.

In the first half of 2002, further flexibility was introduced in the monetary policy stance, in line with a tendency started in the third quarter of 2001, aimed at reducing prevailing deflationary pressures and thus reaching the annual announced inflation target. During this period, bank's liquidity was gradually increased while reducing benchmark interest rates for the BCR's monetary operations. These measures led to a fall in the interbank interest rate in soles, which dropped from 3,1 percent in December 2001 to 2,6 percent in June 2002. Given the lag between monetary policy actions and the inflation rate, deflationary pressures started to yield towards the second quarter of the year, coincident with a recovery of the non-primary sector. In fact, during this period, the falling trend of the annual inflation rate came to a halt. The rate fell from -0,1 percent in December 2001 to -1,1 percent in February 2002 to 0,0 percent in June 2002.

In the third quarter of 2002, the investors' higher risk perception of the future evolution in regional markets caused depreciation pressures on regional currencies compared to the US dollar, including Peru's Nuevo Sol. In this context of high exchange rate volatility, the Central Bank tightened its monetary policy and stepped into the exchange market to offset pressures on the local currency, while trying to dampen sudden fluctuations into the exchange rate. Thus, the interbank interest rate rose from 2,6 percent in June to 5,4 percent in September.

In the fourth quarter, when conditions in the financial markets calmed down, monetary policy measures were aimed at reducing the interbank interest rate to prompt inflation in line with the announced target. In this manner, interest rates fell from 5,4 percent in September to 3,8 percent in December, while year-over-year inflation rose from 0,0 percent in June to 1,5 percent in December.

1. Monetary policy actions

The practice launched the previous year to inform the public about the Board's monetary policy decisions on the first Thursday each month continued to be enforced. This announcement includes the bank's liquidity operational target and the benchmark interest rates for the Central Bank's monetary operations.

Dissemination of the monetary policy stance were complemented by the simultaneous announcement of the benchmark interest rates for Central Bank's monetary operations, both the loan rate for repo agreements and monetary regulation credits and the rate for deposit facilities at the Central Bank. It is worthwhile noticing that the effective interest rates for credit operations is the highest between the announced benchmark rate and the daily average interbank interest rate. Thus, during periods of financial turmoil, interbank interest rates may rise above the benchmark level, as in September 2002.

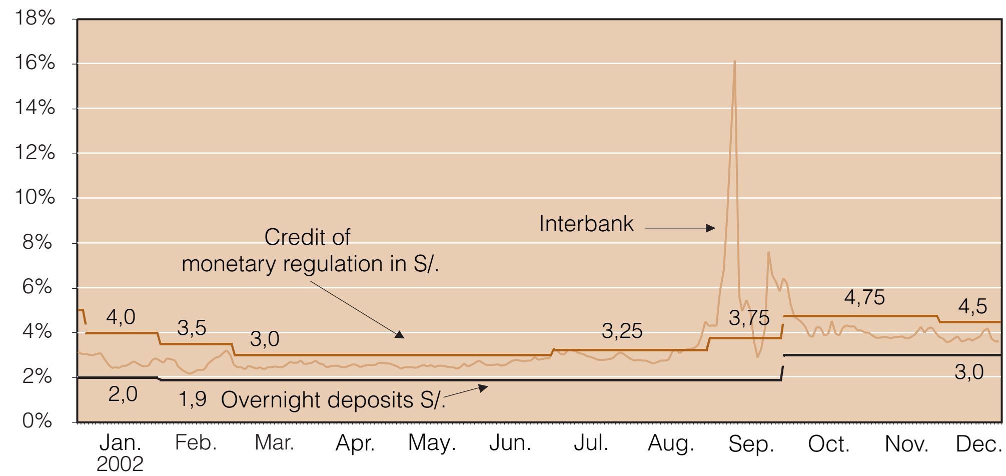
Through these announcements, the Central Bank guided the evolution of the interbank interest rates in order to achieve the announced inflation rate. In 2002, therefore, it was observed that interbank interest rates responded mainly to changes in bank's liquidity led by the Central Bank's monetary operations, remaining within the corridor formed by loan and deposit benchmark interest rates for over-the-counter monetary operations announced by the Central Bank.

The narrowing of this corridor also allowed to reduce variability in the interbank interest rate. Thus, the standard deviation of this variable dropped from 0,9 percentage points in 2001 to 0,5 percentage points in 2002. Its higher predictability increases the relevance of the interbank interest rate in leading other Nuevo sol-denominated interest rates.

In 2002, the average balance of current accounts held by commercial banks at the Central Bank departed in six opportunities from the announced

GRAPH 1

DAILY INTEREST RATES IN DOMESTIC CURRENCY: 2002



operational target, and the Central Bank allowed changes in the bank's current account demand to preserve the stability of interbank interest rates. Changes in current account demand were due to both changes in reserve requirements in soles (because of changes in deposits) as well as changes in the mix of funds used as reserves between vault deposits and current account deposits at the Central Bank. In order to prevent changes in the mix of reserves from pushing the current account away from the announced operational target, since September 2002, the amount of vault funds from the previous month is included in the calculation of reserves for the current month.

TABLE 1

OPERATIONAL TARGET FOR BANK'S CURRENT ACCOUNT AND BENCHMARK INTEREST RATES APPROVED BY THE BCR [1/]

	2001	2002											
	Dec.	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May.**	**Jun.**	**Jul.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**
1. Operational target: current account (in million of S/.)													
Range	150-160	160-170	160-170	185-195	205-215	205-215	195-205	205-215	190-210	175-195	180-200	170-190	180-200
Actual	165	160	189	205	206	196	217	205	186	190	188	165	191
2. Benchmark interest rate in S/. (in percentage)													
a. Rediscounts in S/.	5,0	4,0	3,5	3,0	3,0	3,0	3,0	3,25	3,25	3,75	4,75	4,75	4,5
b. Overnight deposits in S/.	2,0	2,0	1,9	1,9	1,9	1,9	1,9	1,9	1,9	1,9	3,0	3,0	3,0
Note:													
Interbank interest rate in S/.	3,1	2,7	2,6	2,5	2,5	2,5	2,6	2,9	2,9	5,4	4,6	3,9	3,8

1/ Since January 2003, the current account is no longer an operational target but a projection. Changes in monetary policy stance are reflected by announced movements on the benchmark interest rates for the BCR's monetary operations.

Monetary policy actions adopted in the first half of 2002 led to an increased flexibility of the monetary policy stance. This was reflected in a drop of the interbank interest rate from 5,1 percent in the second half of 2001 to 2,6 percent in the first half of 2002. Thus, the decreasing trend in the inflation rate observed until then was reverted.

Since July 2002, the monetary policy stance was tightened to reduce the high exchange rate volatility that had started to put pressure on the Nuevo sol given the increased uncertainty on the future evolution of the main Latin-American markets. Precautionary monetary measures were taken to increase the interbank interest rate up to 2,9 percent in July and 5,4 percent in September.

Regarding monetary instruments, in July the Certificate of Deposit indexed to the exchange rate (CDR) was created to smooth temporary imbalances in the forward dollar market which may lead to sudden fluctuations in the exchange rate. In the second half of 2002, S/. 319 million worth of these papers were placed.

In the fourth quarter, after the exchange market returned to normal conditions, a number of initiatives were undertaken to relax the monetary policy. As a consequence, the interbank interest rate closed at 3,8 percent for the year.

The evolution of the interbank interest rate had the expected impact over all other interest rates in domestic currency of the commercial banks.

BOX 1

MEASURES TO IMPROVE MONETARY CONTROL

In 2002, monetary control continued to improve, thus contributing to reduce fluctuations of the interbank interest rate. Listed below are some of the implemented changes:

i. Since September, the level of vault funds from the previous month was included to calculate reserve requirements for the current month. By making more predictable the commercial bank's reserve requirement in the current month, fluctuations of the interbank interest rate are reduced.

ii. Since September, repo auctions were extended to one week, in addition to the one day typical term. This measure reduced the banks' uncertainty during periods of reduced fund availability (e.g. during the tax payment season).

iii. In October, a second liquidity-injection auction of repos was adopted when the interbank interest rate came under upward pressure.

iv. In October, operational limits were introduced for loan facilities in soles from the Central Bank to commercial banks as a function of their deposits. This measure seeks to reduce incentives for banks to cover their operational needs by using these funds, instead of using the interbank loan market. Consequently, financial conditions to access these facilities become more expensive when they exceed 1 percent of deposits or S/.10 million.

The ninety-day corporate prime lending interest rate showed a sligthtly downward trend during the first half, falling from 5,0 percent in December 2001 to 3,7 percent in June 2002. The adjustment in the monetary policy stance occurred simultaneously with the increase in the above mentioned interest rate in the third quarter when by September it increased to 6,8 percent. Lastly, in the last quarter the interest rate went down to 5,1 percent in December 2002.

A similar trend was recorded in interest rates of CDBCRP which dropped from 3,9 percent in December 2001 to 3,0 percent in June 2002, then rose again to 5,4 percent in October and subsequently fell to 4,3 percent at year-end. The term structure prevailing in 2001 was preserved in 2002, with a maximum term of 1 year. CDBCRP issues were complemented in the first half of 2002 with placements of 2 and 3-year Government Treasury bonds in the local market, providing a benchmark for domestic currency securities.

Interest rates for savings deposits showed a downward trend until April (3,0 percent in December 2001 to 1,7 percent in April 2002) to then level off at that rate.

The interbank dollar-denominated interest rate fell from 5,3 percent in 2001 to 2,1 percent in 2002. This pattern was influenced by the lower 3-month LIBOR interest rate that slipped from 3,8 percent in 2001 to 1,8 percent in 2002.

2. Broad money of the banking system

The average balance of the banking system's broad money fell from 25,4 percent of nominal GDP in 2001 to 25,3 percent in 2002. Broad money in domestic currency recorded a substantial increase from 7,6 percent of GDP in 2001 to 8,4 percent in

TABLE 2
INTEREST RATES
(Percent)

	2001				2002			
Local currency	**Mar.**	**Jun.**	**Sep.**	**Dec.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**
1. Interbank	10,3	16,0	5,9	3,1	2,5	2,6	5,4	3,8
2. Savings deposits	6,8	6,6	5,2	3,0	1,8	1,7	1,7	1,7
3. Prime lending	12,4	13,2	9,4	5,0	3,9	3,7	6,8	5,1
4. Average lending rate up to 360 days	21,3	21,2	19,4	17,2	15,5	14,1	14,0	14,8
5. CDBCRP (Balance)	12,6	12,4	10,8	7,5	5,4	4,8	4,1	4,7
	2001				**2002**			
Foreign Currency	**Mar.**	**Jun.**	**Sep.**	**Dec.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**
1. Interbank	8,6	5,0	4,1	2,1	2,1	2,2	1,9	2,2
2. Savings deposits	3,0	2,6	2,2	1,2	0,8	0,8	0,7	0,7
3. Prime lending	6,4	5,5	4,4	3,1	2,9	2,8	2,7	2,4
4. Average lending rate up to 360 days	12,3	11,6	11,1	8,7	8,7	8,3	8,1	8,1
5. Libor	5,0	3,8	3,0	1,9	2,0	1,9	1,8	1,4

TABLE 3
AVERAGE LIQUIDITY IN SOLES OF THE BANKING SYSTEM
(Average annual percent change)

	GDP Deflator	GDP growth		Local currency liquidity	Velocity of money	Money supply components	
		Real	Nominal			Monetary base	Multiplier
2000	3,6	3,1	6,9	6,0	0,9	6,0	0,0
2001	1,1	0,6	1,7	6,9	-4,8	3,2	3,6
2002	0,0	5,3	5,3	17,0	-10,0	15,8	1,1

2002. Consequently, the US dollar continued to lose ground in the financial system given the stable purchasing power of the sol.

3. Monetary base

The projected growth in the average balance of monetary base in the Monetary Program for 2002 was 7,0 percent, based on a 4,5 percent nominal GDP growth (3,5 percent in real terms), slower velocity of money of 6,3 percent and a 4,2 percent growth in the bank multiplier. In fact, the monetary base average balance grew at a higher rate (15,8 percent) due to a greater expansion of both the real and nominal GDP (5,3 percent in both instances) strengthened by a sharper decline in velocity of money (10,0 percent). This latter evolution may point to an increased preference for the local currency.

Until August, the average monetary base balance tended to grow (8,8 percent in December 2001 and 20,6 percent in August 2002), against a backdrop of lower interest rate that reduced the opportunity cost of holding paper bills and coins. Since September, this growth slowed down to reach 12,6 percent at year-end, thus partially reflecting the temporary increase of interest rate in the third quarter.

The end-of-year monetary base balance was S/. 6 759 million, S/. 672 million (11 percent) higher than the 2001 closing balance of S/. 6 087 million.

The main sources of monetary base growth were foreign exchange operations (S/. 436 million or US$ 128 million) for net dollar purchases to Government (S/. 558 million or US$ 157 million), in particular during the last quarter (S/. 543 million or US$ 152 million).

TABLE 4
ANNUAL GROWTH RATE FOR MONETARY BASE

	Average balance 1/	End-of-period balance 2/
2000	6,0	-4,0
2001	3,2	7,9
2002	15,8	11,0

1/ Compares the percentage change of the monetary base daily average balance for the year with respect to a similar balance a year before.
2/ Compares the percentage change of the monetary base balance on the last day of the year with respect to the balance on the last day of the previous year.

TABLE 5
SOURCES OF VARIATIONS OF THE MONETARY BASE
(Millions of nuevos soles)

	2000	2001	2002
I. FOREIGN EXCHANGE OPERATIONS	**217**	**450**	**436**
(Millions of US$)	63	135	128
1. Over-the-counter net purchases	10	487	- 133
2. Public sector	186	- 35	558
- External Public Debt	- 140	- 107	0
3. Other net purchases	21	- 2	11
II. MONETARY OPERATIONS	**- 450**	**- 5**	**236**
1. Non-financial public sector and Banco de la Nación	59	125	- 81
2. Financial system	0	0	170
3. Central Bank Certificates (CDBCRP)	- 961	- 480	- 114
4. Other monetary operations	452	350	261
III. TOTAL	**- 233**	**445**	**672**
End-of-period percentage change	-4,0	7,9	11,0
Average percentage change	6,0	3,2	15,8
Note:			
END-OF-YEAR BALANCES			
Central Bank Certificates	1 360	1 840	1 944
Credits of monetary regulation	0	0	0
Deposits of the Public Sector and Banco de la Nación	319	194	275
Monetary base	5 642	6 087	6 759

Central Bank interventions in the exchange market through OTC purchases and sales of US dollars aimed at smoothing sudden changes in the exchange rate without fixing maximum or minimum levels. In 2002, the BCR sold a net S/. 133 million (US$ 32 million). Interventions in the exchange rate market took place in April, September and December.

In April, it was recorded a decrease in the demand for dollar forwards that affected the spot exchange rate. Consequently, the exchange rate slipped in a background of high volatility that prompted the Central Bank to intervene through dollar purchases for a total US$ 90 million (S/. 309 million). In December, over-the-counter dollar purchases in one single day worth US$ 5 million (S/. 17 million) allowed to dampen the high volatility of the exchange rate. On the contrary, in the third quarter, falling confidence among economic agents on the economic evolution of the main regional markets negatively affected the Peruvian Sol, increasing both country risk and demand for dollar forwards, and putting pressure on the spot exchange rate. High volatility of the exchange rate prompted the Central Bank to intervene during September by selling foreign currency for a total US$ 127 million (S/. 460 million).

Concerning the Central Bank's monetary operations, the main source of injection was found in repos worth S/. 170 million, while other monetary operations amounted for S/. 287 million, mainly BCR's operational and financial cost. These operations were offset by net issuance of BCR's certificates (CDBCRP and CDR) worth S/. 114 million, larger public deposits (S/. 81 million) and overnight bank's deposits at the Central Bank (S/. 26 million).

4. Net international reserves

Net international reserves (NIR) of the Central Bank increased US$ 985 million in 2002 for the second consecutive year. The US$ 9 598 million balance is equivalent to 15 months' worth of imports, five times the monetary base balance and 65 percent of total banking system's broad money.

This increment is mainly due to larger deposits from the public sector (US$ 364 million) explained by sovereign bond issuances in international markets. This increase is also due to net interests earned (US$ 195 million), as well as increased deposits from financial intermediaries (US$ 185 million) and foreign exchange operations (US$ 128 million). The latter are explained by dollar purchases from the public sector (US$ 157 million) that allowed the Treasury to fund its domestic currency operations. Also worth mentioning is that the other US$ 125 million increase in NIR was explained by the higher gold prices in international market (from US$ 276 per troy ounce at the end of 2001 to US$ 347 per troy ounce at the end of 2002), as well as changes in

TABLE 6
NET INTERNATIONAL RESERVES SOURCES OF VARIATION
(Millions of US dollars)

	2000	2001	2002
I. Foreign exchange operations	**63**	**135**	**128**
1. Over-the-counter net purchases	3	145	- 32
- Purchases	3	203	95
- Sales	0	-59	-127
2. Public sector	54	- 9	157
- Purchases	102	21	157
- Sales	- 47	- 30	0
3. Other foreign exchange operations	6	- 1	3
II. Financial system and private sector deposits	**- 12**	**245**	**185**
1. Commercial banks	- 158	183	103
2. Banco de la Nación	145	50	73
3. Other financial institutions	1	11	10
III. Public sector	**- 269**	**- 158**	**364**
IV. Net interest	**135**	**216**	**195**
V. Other NIR sources of variation	**- 141**	**- 3**	**113**
VI. TOTAL NIR CHANGE	**- 224**	**433**	**985**

accounting practices for gold valuation which now take into account 100 percent of the value of gold in international markets instead of the previous 85 percent.

5. Credit to the private sector

In 2002, credit of the financial system to the private sector, defined as loans to households and private companies, plus the purchase of bonds and commercial paper issued by private companies, grew 2,3 percent. By type of currency, credit in soles grew at a faster pace for the third consecutive year, while credit in dollars diminished.

The financial system's credit in soles grew by S/. 1 233 million, which is equivalent to a growth rate of 10,3 percent. This growth was propelled by the higher credit to the private sector from specialized micro finance institutions for the amount of S/. 775 million (growth rate of 33 percent), approximately 63 percent of the total flow in soles. The largest percentage growth came from Banco de la Nacion's loans to the private sector (96 percent) and from mutual funds (68 percent).

Credit in dollars dropped by US$ 248 million (2 percent) due to lower dollar-denominated loans made by commercial banks for US$ 402 million, which was partially offset by higher investments by AFPs and mutual funds (US$ 115 million and US$ 28 million, respectively).

Regarding the banking system, total credit to the private sector increased 0,1 percent in 2002 in nominal terms. This result stems from larger financing by banks in domestic currency and the effect of the Nuevo sol depreciation (2 percent) which offset a less dynamic banking intermediation in foreign currency. Loans in domestic currency grew 7,1 percent while credit in foreign currency diminished by 3,6 percent.

Nothstanding the slower pace of financing provided by banks to the private sector in 2002, bank's loans showed a different

GRAPH 2

CREDIT OF THE FINANCIAL SYSTEM TO THE PRIVATE SECTOR

(Millions of nuevos soles and millions of US dollars)

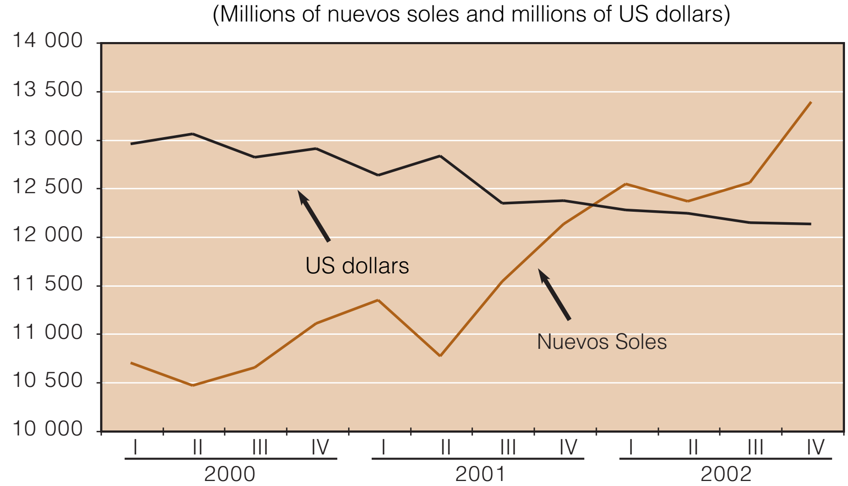


TABLE 7
FINANCIAL SYSTEM'S CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Millions of nuevos soles			Percentage change	
	2000	2001	2002	2001	2002
Commercial banks [1/]	**7 801**	**7 525**	**7 660**	**-3,5**	**1,8**
Banco de la Nación	**46**	**222**	**434**	**387,1**	**95,6**
Micro finance institutions	**1 761**	**2 332**	**3 107**	**32,4**	**33,2**
Banks (Trabajo and MiBanco)	404	548	774	35,6	41,2
Local government S&Ls	452	600	848	32,9	41,2
Rural S&Ls	70	83	135	17,7	62,6
Saving and credit cooperatives	301	329	381	9,3	15,7
Edpymes	74	105	130	41,9	24,1
Financial companies	461	667	840	44,8	25,9
Institutional investors [2/]	**1 147**	**1 688**	**1 653**	**47,1**	**-2,1**
AFPs	758	1 157	1 102	52,6	-4,7
Insurance companies	381	497	493	30,4	-0,7
Mutual funds	8	34	58	313,8	68,4
Leasing companies and others	**220**	**248**	**393**	**12,4**	**58,6**
Total financial system	**10 976**	**12 014**	**13 247**	**9,5**	**10,3**

1/ Excludes Banco del Trabajo and MiBanco.
2/ Mainly securities issued by the private sector.

evolution by market segment. In fact, consumer and mortgage credit grew at 13,0 and 13,7 percent rates, respectively, while loans to micro businesses fell 6,6 percent.

In terms of flows, bank's credit to the private sector in domestic currency passed from S/. 251 million in 2001 to S/. 639 million in 2002. This growth is accounted for larger credit to the private sector from commercial banks by S/. 425 million and from the Banco de la Nacion by S/. 212 million, mainly due to loans to public sector's workers and retirees. Bank's loans in foreign currency went from a negative flow of US$ 411 million in 2001 to a negative flow of US$ 384 million in 2002.

Increased bank's loans to the private sector in domestic currency (S/. 425 million) came from larger private sector deposits in local currency (S/. 1 011 million) following the same trend as in 2001. Larger resources in soles were also used in purchasing government Treasury bonds (S/. 352 million) and BCR's Certificates (S/. 261 million), as well as in reducing debt and deposits with Cofide (S/. 101 million).

On the other hand, the main operations that led to a decrease in bank's credit to the private sector in foreign currency (US$ 384 million) were lower net foreign debt funding (US$ 420 million), larger deposits at the Central Bank (US$ 103 million), reduced liabilities with Cofide (US$ 90 million), and Government Treasury bond purchases (US$ 36 million). These components were counterbalanced by larger private sector's deposits (US$ 111 million) and, to a lesser extent, by increased non-financial public sector deposits (US$ 10 million). It is worthwhile mentioning that a substantial portion of the reduced foreign liabilities stem from the decision of a major commercial bank to increase its capital with resources previously provided by its headquarter office through credit lines (for about US$ 483 million).

6. Commercial banks

In line with a trend observed in 2001, 2002 was characterized by the improvement in financial indicators of the commercial banks. In particular, this improvement was reflected both in the quality of bank loans' portfolio (the non-performing loans to gross loans ratio dropped from 9 percent in December 2001 to 7,6 percent in December 2002) as well as in bank's earnings indicators (the return on equity indicator almost doubled last year's figure from 4,5 percent in December 2001 to 8,4 percent in December 2002).

7. Financial savings and capital market

In 2002, financial savings, including total financial system's liabilities with the private sector excluding money, increased from 27 to 28 percent of GDP.

In line with the trend of previous years, financial savings in soles showed a higher real rate of growth than savings in dollars (18,4 percent compared to 3,4 percent). As a percentage of GDP, financial savings in soles grew from 9,0 to 10,6 percent. Its most significant component was found in private pension funds, which rose 25,7 percent in real terms and amount to 8,0 percent of GDP. These funds accounted for 27,5 percent of total financial savings and 68,4 percent of financial savings in soles.

Meanwhile, financial savings in dollars grew US$ 292 million (S/. 1 194 million in real terms) with mutual funds growing by US$ 285 million (S/. 1 017 million in real terms) and local government savings and loans growing by US$ 44 million (S/. 156 million in real terms). In contrast, banking system's deposits shrank by US$ 100 million (S/. 205 million in real terms).

TABLE 8

FINANCIAL SAVINGS

(Percentage of GDP)

	Domestic currency	TOTAL
1993	2,0	12,2
1994	2,5	12,7
1995	3,3	13,9
1996	4,4	17,5
1997	5,2	19,8
1998	6,3	22,2
1999	7,1	24,7
2000	7,9	25,4
2001	9,0	26,6
2002	10,6	27,6

8. Primary market

In 2002, the average balance of bonds issued by public offering grew 6,1 percent in real terms to reach the equivalent of 5,4 percent of GDP. This growth is explained by issues of Government Treasury sovereign

BOX 2

DEPOSITARY CORPORATIONS

In this Annual Report, the Central Bank of Peru starts publishing the monetary survey of the depositary corporations. This definition includes banking system institutions (Central Bank, Commercial banks and Banco de la Nación) as well as some non-banking institutions, including financial companies, local government savings and loans, rural saving and loans, savings and loans cooperatives and mutual investment funds.

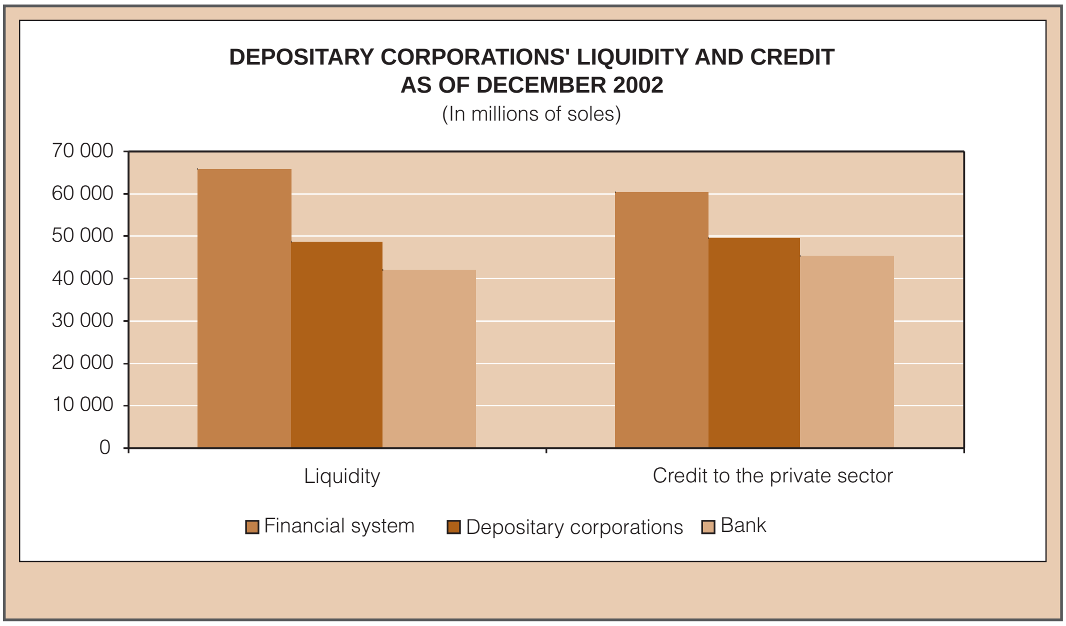
NEW CLASSIFICATION OF FINANCIAL INTERMEDIARIES

CATEGORY	SUBCATEGORY	ENTITIES
DEPOSITARY CORPORATIONS	Central Reserve Bank	
	Other depositary corporations	Commercial banks Banco de la Nación Financial companies Local government savings and loans Rural savings and loans Savings and loans cooperatives Mutual investment funds
OTHER FINANCIAL INTERMEDIARIES		Private pension funds Insurance companies Leasing companies Edpymes Cofide

The concept of depositary corporations becomes important because of the development experienced by non-banking institutions devoted to raise deposits, including mutual funds whose shares are close substitutes of term deposits. Thus, in the last 3 years the non-banking depositary companies' liabilities with the private sector grew at a rate of 35,4 percent per annum, while banking companies (Banks and Banco de la Nación) liabilities with the private sector have contracted at an annual rate of 0,9 percent, thus increasing the share of non-banking entities within depositary corporations from 6,2 percent to 13,8 percent.

By including mutual funds -which keep most of their liabilities in dollars- the liquidity dollarization ratio of depositary institutions (68,6 percent) is above the one of the banking system (67,1 percent) and the financial system (52,3 percent). On the contrary, the dollarization ratio of depositary corporations' loans to the private sector (77,2 percent) lies between the banking system's rate (80,0 percent) and the rate of the financial system (71,5 percent).

With the publication of the monetary survey of depositary corporations, the Central Bank adopts the International Monetary Fund's view as expressed in the Monetary and Financial Statistics Manual (2000) of providing an aggregate view that includes the monetary accounts of all financial entities that issue liabilities considered as broad money.



bonds in the first half of the year (S/. 733 million) which offset the slight drop in private bond balances (0,4 percent). Nevertheless, corporate bonds (mainly private non-financial companies) increased by 14,9 percent, while subordinated and leasing bonds (issued by financial companies) contracted by 8,9 and 17,9 percent, respectively.

By issuance term, issues of up to three-years increased, principally sovereign bonds in soles, as well as issues at five years or longer, principally in dollars. Nominal bonds in soles increased their share on the total from 17,4 percent to 21,9 percent, as a result of placements of the above mentioned sovereign bonds. Dollar-denominated Bonds saw their share drop from 63,3 to 58,0 percent.

Macroeconomic stability and a reduced country risk favored lower average interest rates than last year. However, interest rates in soles for terms longer than 1 year increased since the second quarter, as a consequence of an increased regional risk perception due to the Argentinean crisis. 2-year sovereign bond rates in soles rose from 6 percent in February to 7,5 percent in June.

Government Treasury bond issues were suspended in August, a fact that may account for the absence of new private sol-denominated bond issues. However, the government announced its willingness to resume the bond issuance program in 2003 for which it will introduce a new placement system.

TABLE 9

BOND MARKET [1/]

	Year-end balances in millions of nuevos soles as of December 2002			Percentage changes	
	2000	**2001**	**2002**	**2001**	**2002**
By type	**8 536**	**9 964**	**10 576**	**16,7**	**6,1**
Public sector [2/]	325	1 625	2 274	400,1	39,9
Financial leasing	2 957	2 803	2 302	-5,2	-17,9
Subordinated	1 009	968	882	-4,1	-8,9
Mortgage-backed	-.-	87	105	-.-	20,6
Securitization	583	872	865	49,7	-0,9
Corporate	3 662	3 609	4 148	-1,5	14,9
By term	**8 536**	**9 964**	**10 576**	**16,7**	**6,1**
Up to 3 years	1 832	3 020	3 359	64,9	11,2
More than 3, up to 5 years	4 088	3 473	3 044	-15,0	-12,4
More than 5 years	2 617	3 470	4 173	32,6	20,2
Percentage share by currency	**100,0**	**100,0**	**100,0**		
In foreign	75,0	63,3	58,0		
In domestic currency	25,0	36,7	42,0		
- Nominal	1,8	17,4	21,9		
- Indexed	23,2	19,3	20,2		
Note:					
Bonds outstanding as a percentage of GDP	**4,0**	**4,7**	**5,4**		

1/ Includes only public auctions registered with the Comisión Nacional de Supervisión de Empresas y Valores (CONASEV).
2/ Bonds placed by Cofide.