

VI. Money and Credit

During the first five months of 2006, el Central Bank raised the monetary policy reference interest rate by 25 basis points each month, from 3.5 percent to 4.5 percent in May 2006. Since June, the BCRP maintained its reference interest rate unchanged due to the stability showed by trend or core inflation. The evolution of inflation in this period was characterized by the absence of inflationary pressures, despite the increase of domestic demand, a situation explained by expectations of low inflation levels, increased productivity in the economy, and the appreciation of the Nuevo Sol.

1. Monetary policy actions

Since the Inflation targeting scheme was implemented, monetary policy has maintained a position of monetary stimulus. This position has been consistent with the objective of meeting the inflation target and with the recovery of economic activity, following the recession period that preceded the implementation of the Inflation targeting scheme.

The rise in the reference interest rate by 150 basis points (25 points each month) between December 2005 and May 2006 reflected a lower need to maintain monetary stimulus, considering the greater dynamism of economic activity, particularly in domestic demand, since the third quarter of 2005. Furthermore, this measure contributed to prevent excessive upward volatility in exchange, associated with electoral uncertainty, which could have generated undesired effects on inflation and economic activity, considering the economy's financial dollarization.

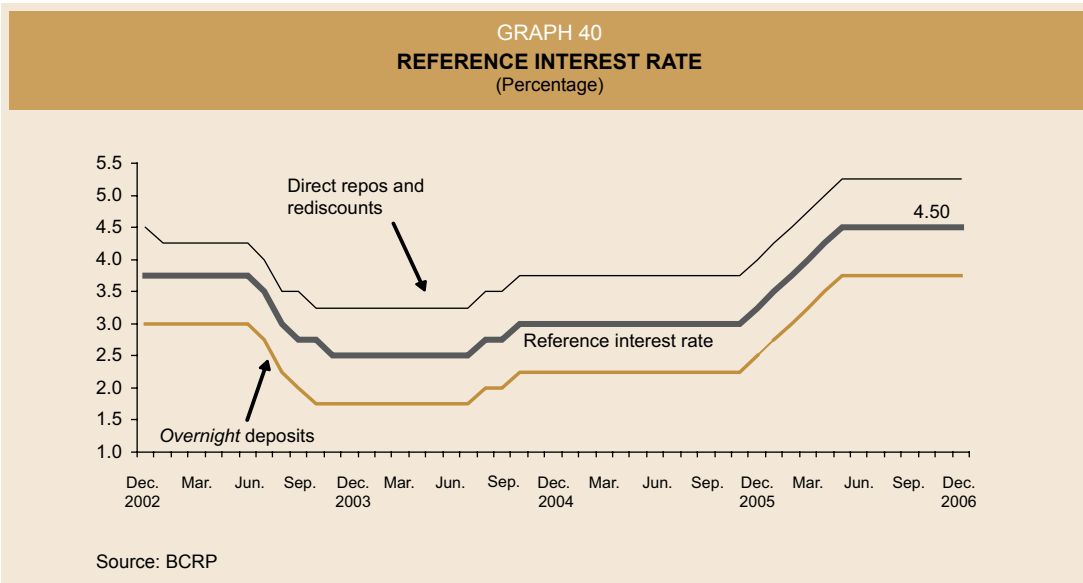
Thereafter, between June and December 2006, the Board of the BCRP decided to

maintain the reference interest rate at 4.5 percent due to the absence of inflationary pressures.

In January 2006 in a context of depreciatory pressures on the Nuevo Sol, which started in September 2005 and which aggravated in early 2006 due to electoral uncertainty, the BCRP sought to moderate the upward volatility seen in the exchange market by selling dollars to banks (US\$ 355 million) and placed a total of US\$ 9 million of Central Bank Adjustable Certificate of Deposits (CDRBCRP) in the month of January. It should be pointed out that this exchange volatility associated with the electoral period was anticipated by the BCRP¹.

When electoral uncertainty declined, as in February and after the first electoral round, the upward pressures on exchange disappeared. In this context, there was no need for the BCRP to continue injecting dollars to the exchange market; on the contrary, the BCRP purchased dollars for a total of US\$ 59 million in the month of February.

^{1/} As expressed in the Inflation Reports published prior to the electoral period.



During the first months of 2006, banks' requirements of liquidity were associated with their purchases of dollars during the period of high exchange volatility (between October 2005 and January 2006), which reduced their availability of domestic currency. Additionally, the regularization of income tax payments in April 2006 showed an unprecedented result, which intensified banks' demand for liquidity.

In this context, in order to lead the interbank interest rate to the reference level, the BCRP made significant repo operations in April. The daily average balance of repos increased considerably between November 2005 and April 2006 (from S/. 121 million to S/. 3,766 million), gradually decreasing thereafter. In addition, in order to meet banks' demand for liquidity, the BCRP allowed its certificates of deposits (CDBCRP) to mature, as a result of which the balance decreased from S/. 7,676 million in December 2005 to S/. 3,224 million in July 2006.

The BCRP also sought to reduce upward pressures on the interbank interest rate (and on the other short-term rates in the market) by using repos with maturities of over one day: between one week and three months. This contributed to reduce banks' uncertainty over the availability of liquid funds.

Furthermore, banks' access to repos was increased when CDRBCRPs were allowed to be used in the auctions of these operations since April. Moreover, the BCRP coordinated with the Banco de la Nación that the latter give interbank loans to banks, operations that were carried out through auctions and mainly with one week-maturities. Thus, the Banco de la Nación re-injected to the banking system part of the funds that the former had received as a result of the regularization of income tax payments.

Once the period of uncertainty in the exchange and financial markets was over, transitory injections of liquidity (repos) were replaced by permanent operations (purchases of dollars). Dollar purchases in the July-December period amounted to US\$ 4,237 million and a net total of US\$ 1,002 million was sold to the public sector in the same period. These purchases of dollars reduced significantly banks' requirements of liquidity, which implied the reduction of repos to zero at end-2006. The monetary impact of dollar purchases was sterilized through the placement of CDBCRPs since August, nine months after having interrupted these placements. The balance of these certificates increased from S/. 3,224 million at end-July to S/. 8,066 million at end-December.

2. Interest rates

Most of the **interest rates in domestic currency** increased in the first half of the year and showed an downward trend in the second half of the year. The former evolution was associated with the series of increases in the BCRP reference interest rate seen until May in the first half of 2006. The latter evolution was associated with more stable short-term interest rates and with a downward trend in the country risk indicator that led to a reduction of interest rates in the second half of 2006, although they did not decrease to the average levels seen in December 2005.

The 90-day corporate prime rate in Nuevos Soles showed a differentiated conduct throughout the year, also associated with banks' perception of availability of liquidity in Nuevos Soles. During the first months of 2006, this rate showed an upward trend increasing from 4.4 percent in December 2005 to 6.8 percent in April 2006. This increase was even higher than the one seen in the interbank overnight rate in the same period, as a result of which the difference between both rates reached 1.4 percentage points in April (the difference between these rates is usually about one percentage point).

The measures implemented by the BCRP to offset the sensation of illiquidity in the banking system contributed to reduce even further the difference between the corporate prime rate and

the interbank interest rate, and this difference maintained a downward trend that reached 0.7 percentage points by end-December 2006.

La average active interest rate with a structure of constant placements increased from 17.0 percent in December 2005 to 17.3 percent in April 2006, stabilizing thereafter again around 17.0 percent by the last months of the year.

The **active and passive interest rates in foreign currency** also showed a differentiated conduct in the first and second halves of the year. In line with the four rises observed in the FED's interest rate until June, an upward trend was seen in the interest rates in foreign currency in the first half of the year. Then, in a context of greater stability of international rates, interest rates in dollars also showed more stability in the following months. For example, the average active corporate prime rate increased from 5.5 percent in December 2005 to 6.1 percent in April 2006, stabilizing around this level until the close of the year.

The spread between interest rates in Nuevos Soles and in dollars showed a mixed conduct, depending on whether these rates were active or passive rates. Interest rates on passive operations showed an increase in this differential between December 2005 and December 2006, mainly in the case of deposits to up to 360 days. On the other hand, the spread in the case of interest

TABLE 40
INTEREST RATES IN DOMESTIC CURRENCY ^{1/}
(Percentage)

	2004	2005	2006
1 Interbank	3.0	3.3	4.5
2 Term deposits between 31 to 180 days	3.2	3.6	4.8
3 Term deposits between 181 to 360 days	4.4	4.6	5.7
4 Prime lending	3.8	4.4	5.2
5 Average lending rate up to 360 days	14.7	13.9	13.8
6 Fix-weighted average lending rate	18.2	17.0	17.1
7 CDBCRP (Balance)	4.5	4.7	5.1

^{1/} Corresponds to the average rate of the last month of the year.
Source: SBS and BCRP.



TABLE 41
INTEREST RATES IN FOREIGN CURRENCY ^{1/}
 (Percentage)

	2004	2005	2006
1 Interbank	2.2	4.2	5.4
2 Term deposits between 31 to 180 days	1.7	2.9	3.4
3 Term deposits between 181 to 360 days	1.8	2.9	3.6
4 Prime lending	2.6	5.5	6.1
5 Average lending rate up to 360 days	7.7	9.4	10.1
6 Fix-weighted average lending rate	9.4	10.3	10.6
7 3-month Libor	2.5	4.5	5.4
8 Reserve requirement remuneration	2.3	2.3	2.8

^{1/} Corresponds to the average rate of the last month of the year.
 Source: SBS and BCRP.

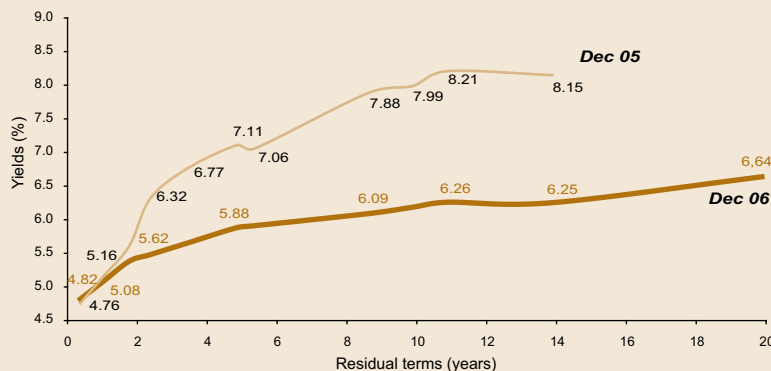
rates on passive operations decreased in the same period.

As regards **interest rates by modality**, the cost of **credit for micro-enterprises** decreased both in domestic currency –from 44.2 to 39.1 percent– and in foreign currency –from 27.0 to 24.7 percent–, mainly due to borrowers increased capacity of payment. A similar pattern was seen in the case of **consumer and mortgage credit**, reflecting an improvement in banks’ perception of the credit risk associated with these market segments. **Commercial credit** showed an increase in the interest rates in domestic currency (from 8.2 to 9.5 percent) and in interest rates in foreign currency (from

9.2 to 9.9 percent), explained by the fact that commercial loans are usually shorter-terms loans and therefore are more sensitive to the conditions of the money market.

In the **bond market**, the yield curve of sovereign bonds continued to flatten reflecting the higher liquidity in the market, the improvement in the country risk and the lower expectations of devaluation. The rates with longer terms decreased to up to 195 basis points. Thus, the rate on the 14-year bond (maturing in 2020) decreased by 190 points (to 6.25 percent), and the 9-year bond (maturing in 2015) decreased by 179 points (to 6.09 percent).

GRAPH 41
PUBLIC TREASURY SOVEREIGN BONDS IN THE SECONDARY MARKET ^{1/}



^{1/} Yields of sovereign bonds recorded in the secondary market during the period.
 Source: BCRP.

Short-term rates, represented by CDBCRPs, increased as a result of the BCRP's monetary stance. Thus, the 1-year rate rose from 4.3 percent in November 2005 to 5.1 percent in December 2006. However, this increase was lower than the one of the BCRP reference rate (125 points), which reflects the flattening of the curve even in the short-term segment.

3. Monetary aggregates

The Central Bank uses a reference interest rate for the interbank market as an operational target. Under this scheme, the evolution of monetary aggregates is determined on the basis of the demand for money that the public

wants to maintain, but the Central Bank has the commitment of maintaining inflation within the inflation target range in the medium term. A strong dynamism was observed in the demand for domestic currency in the years before 2006 due to the greater preference for Nuevos Soles. In 2006 the evolution of monetary aggregates continued to be in line with the growth of nominal GDP, a conduct consistent with the trajectory of monetary aggregates in the medium- and long-terms.

a. Monetary base and currency

As a result of the increase in the reference interest rate from 3.0 percent in November

TABLE 42
AVERAGE BROAD MONEY IN NUEVOS SOLES OF THE PRIVATE SECTOR
(Annual average percent change)

	GDP Deflator	GDP Growth		Local currency broad money	Velocity of money	Money supplies components	
		Real	Nominal			Monetary base	Multiplier
2004	5.6	5.2	11.1	20.0	-7.4	18.8	1.0
2005	3.4	6.4	10.0	34.1	-18.2	28.3	4.8
2006	8.0	8.0	16.7	18.6	-1.6	17.2	1.2

Source: BCRP.

TABLE 43
MONETARY BASE
(Millions of nuevos soles)

	2002	2003	2004	2005	2006
1. Flow of the Monetary Base	672	682	1,886	2,397	2,140
(Percentage change)	11.0	10.1	25.3	25.7	18.3
2. Foreign Exchange Operations	436	3,465	6,239	2,360	9,140
(Millions of US\$)	128	998	1,854	767	2,861
3. Monetary Operations	236	-2,783	-4,353	37	-7,000
a. BCRP Certificate of Deposits (CDBCRP)	205	-2,462	-4,158	579	-390
b. REPOS	170	-170	0	2,850	-2,850
c. Public Sector Deposits	-81	-921	-721	-2,821	-5,434
d. BCRP Indexed Certificate of Deposits (CDRBCRP)	-319	319	0	-1,201	1,201
e. Other	261	450	526	631	473
Nota: Balance at the end of period					
- CDBCRP	1,635	4,097	8,255	7,676	8,066
- Public Sector deposits	275	1,196	1,918	4,738	10,172

Source: BCRP.



2005 to 4.50 percent in May 2006, the monetary base and currency grew at a slower pace. The monetary base increased at an average rate of 17.2 percent –a lower rate than in 2005 (28,3 percent)–, while currency grew at 17.3 percent (28.5 percent in 2005). This lower pace of growth indicates a shift in the trend relative to the two previous years, when the expansion of these aggregates had accelerated.

The 17.2 percent average growth of the monetary base was consistent with a 16.7 percent average growth of nominal GDP, a 16.7 slow down in the circulation of money and a 1.2 percent increase in the bank multiplier.

The flow of the monetary base was S/. 2,140 million in 2006. The main source contributing to this expansion was the BCRP exchange operations

(S/. 9,140 million or US\$ 2,861 million), while the main factors that contracted the monetary base included higher public sector deposits at the BCRP (S/. 5,434 million), the reversal of repo operations with banks (S/. 2,850 million), and placements of CDBCRPs (S/. 390 million).

b. Private sector liquidity

The slower pace of growth of the monetary base implied a lower expansion of broader monetary aggregates. The expansion of liquidity in the private sector declined from 33.7 percent in 2005 to 18.6 percent in 2006. On the other hand, liquidity in dollars increased at a rate of 14.6 percent (10.5 percent in 2005). Considering the depreciation of the dollar in 2006 (6.4 percent), total liquidity increased by 12.0 percent.

TABLE 44
MONETARY AGGREGATES
Data at the end of period
(Millions of Nuevos Soles)

	2004	2005	2006	Percentage change	
				2005	2006
Money	12,420	15,489	18,918	24.7	22.1
Currency	7,982	10,036	11,687	25.7	16.5
Total Liquidity	55,839	68,527	76,729	22.7	12.0
In Nuevos Soles	22,077	29,524	35,024	33.7	18.6
In US dollars (millions of US\$)	10,293	11,371	13,033	10.5	14.6

Source: BCRP.

TABLE 45
LIQUIDITY AND SAVINGS OF THE DEPOSIT SOCIETIES IN DOMESTIC CURRENCY

	Balance in millions of Nuevos Soles			Growth rate	
	Dec-04	Dec-05	Dec-06	Dec.05 / Dec.04	Dec.06 / Dec.05
Currency	7,982	10,036	11,687	25.7	16.5
Demand deposits	4,438	5,453	7,231	22.9	32.6
savings deposits	4,201	5,767	6,658	37.3	15.5
Time deposits	4,575	6,630	7,318	44.9	10.4
Mutual Funds	537	1,057	1,451	96.9	37.3
Rest ^{1/}	344	581	678	68.9	16.8
TOTAL	22,077	29,524	35,024	33.7	18.6

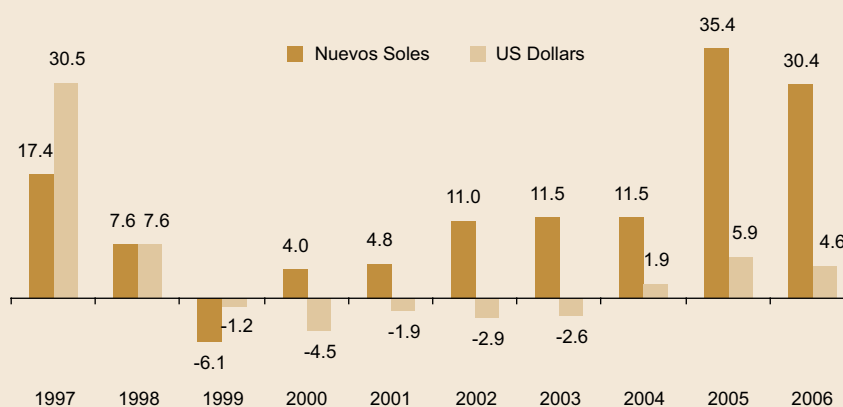
1/ Includes mainly assets in circulation and contributions of cooperative capitals.

TABLE 46
LIQUIDITY AND SAVINGS OF THE DEPOSIT SOCIETIES IN FOREIGN CURRENCY

	Balance in millions of US dollars			Growth rate	
	Dec-04	Dec-05	Dec-06	Dec.05 / Dec.04	Dec.06 / Dec.05
Demand deposits	1,891	2,235	2,668	18.1	19.4
Savings deposits	2,169	2,331	2,654	7.4	13.9
Time deposits	4,598	5,102	5,607	11.0	9.9
Mutual Funds	1,466	1,567	1,983	6.8	26.6
Rest ^{1/}	169	137	120	-18.7	-12.1
TOTAL	10,293	11,371	13,033	10.5	14.6

1/ Includes mainly assets in circulation and contributions of cooperative capitals.

GRAPH 42
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC AND FOREIGN CURRENCY
(Annual end of period rates of growth)



Source: BCRP.

c. Credit to the private sector

In 2006, total credit to the private sector grew 8.3 percent in nominal terms, boosted mainly by the expansion of credit in Nuevos Soles which was higher than the expansion of credit in dollars for the seventh consecutive year. Credit in Nuevos Soles increased 30.4 percent, while credit in dollars increased 4.6 percent. In this way, the ratio of dollarization of credit to the private sector decreased from 67 to 61 percent.

The higher expansion of **credit in Nuevos Soles** was mainly associated with banks'

loans, which represented 34.8 percent (a flow of S/. 4,564 million). In terms of microfinance institutions, it is worth highlighting the contribution of municipal savings banks, which accounted for an increase of 29.9 percent (S/. 552 million) and financial entities, which accounted for an increase of 24.3 percent (S/. 281 million).

Credit to the private sector in foreign currency grew at an annual rate of 4.6 percent (with an annual flow of US\$ 520 million), most of which is explained by the expansion of credit in banks (annual flow of US\$ 329 million).



TABLE 47
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance in millions of Nuevos Soles			Growth rate	
	Dec-04	Dec-05	Dec-06	Dec.05 / Dec.04	Dec.06 / Dec.05
Commercial banks	9,584	13,105	17,669	36.7	34.8
Banco de la Nación	1,051	1,277	1,330	21.5	4.1
Development Banking System	185	202	130	9.5	-35.8
Microfinance institutions	2,979	3,985	5,058	33.8	26.9
Local government S&Ls	1,376	1,848	2,400	34.3	29.9
Rural S&Ls	253	348	462	37.5	33.0
Saving and credit cooperatives	511	634	758	24.1	19.6
Financial companies	840	1,156	1,437	37.7	24.3
Mutual funds	176	356	491	102.3	38.0
TOTAL	13,976	18,926	24,678	35.4	30.4

Source: BCRP.

TABLE 48
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY

	Balance in millions of US Dollars			Growth rate	
	Dec-04	Dec-05	Dec-06	Dec.05 / Dec.04	Dec.06 / Dec.05
Commercial banks	9,591	10,041	10,370	4.7	3.3
Banco de la Nación	22	22	14	-1.0	-37.4
Development Banking System	160	160	159	0.3	-0.7
Microfinance institutions	491	573	673	16.8	17.4
Local government S&Ls	250	292	349	16.9	19.4
Rural S&Ls	55	56	55	0.7	-1.5
Saving and credit cooperatives	154	188	224	22.5	19.0
Financial companies	32	37	46	16.0	22.5
Mutual funds	515	614	715	19.2	16.3
TOTAL	10,779	11,410	11,930	5.9	4.6

Source: BCRP.

TABLE 49
COMMERCIAL BANKS INDICATORS
(Percentage)

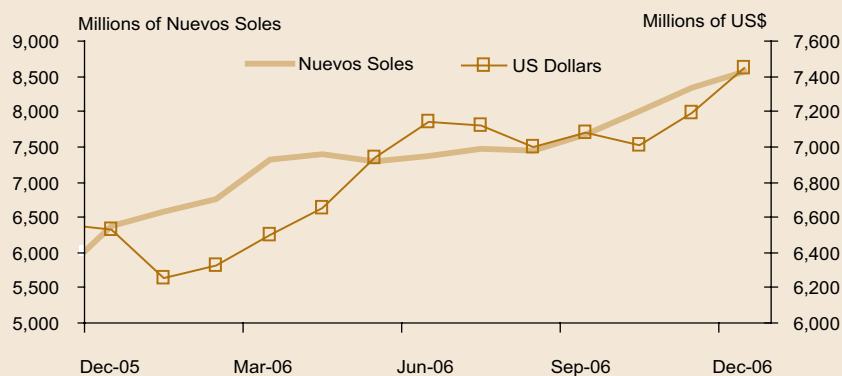
	2004	2005	2006
Non-performing loans / Gross assets ^{1/}	3.7	2.1	1.6
Provisions / Non-performing, Restructured, Refinanced loans ^{2/}	68.6	80.2	99.0
Return of equity over Average patrimony	11.3	22.2	23.9

1/ Include those late in payment and those in judicial actions.

2/ Non-performing loans plus refinanced and structured credits.

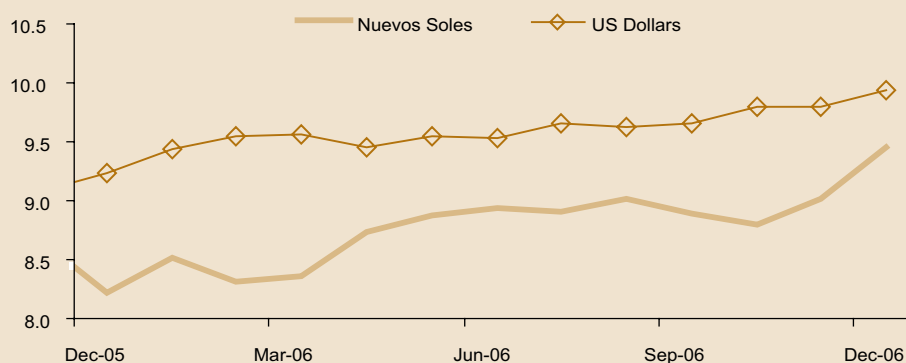
Source: SBS.

GRAPH 43
COMMERCIAL LOANS



Source: BCRP.

GRAPH 44
COMMERCIAL LOANS INTEREST RATES



Source: BCRP.

4. Banks

Banks in 2006 continued to show improved financial indicators, particularly due to the lower exposure of their equity to credit risks lower and to the “solarization” of credit and deposits. The improvement in terms of exposure to credit risks was reflected in the reduction of the portfolio of non-performing loans from 2.1 percent in 2005 to 1.6 percent in 2006, as well as in the increased hedging against non-performing loans, which grew from 80. percent in 2005 to 99.0 percent in 2006.

Despite the reduction in the margins of active and passive operations, return over equity (ROE) increased to 23.9 percent –one point more than in 2005 (22.2 percent)– due to firms’ greater efficiency and to investment of surplus liquidity in CDBCRPs.

Total commercial credit continued to show important growth rates, increasing by S/. 2,185 million in domestic currency and by US\$ 909 million in foreign currency. Consumer loans in domestic currency also accounted for an important part of total growth of credit to the private sector (S/. 1,806 million).



TABLE 50
COMMERCIAL BANKS DIRECT CREDITS

	DOMESTIC CURRENCY (Millions of Nuevos Soles)						
	End-of-period balances			Flows		Percentage change	
	2004	2005	2006	2005	2006	2005	2006
Commercial	4,229	6,372	8,557	2,143	2,185	50.7	34.3
Small business	1,120	1,548	1,959	428	411	38.2	26.6
Consumer	3,217	4,269	6,075	1,052	1,806	32.7	42.3
Mortgage	211	275	793	64	518	30.2	188.6
TOTAL	8,777	12,464	17,384	3,687	4,920	42.0	39.5
	FOREIGN CURRENCY (Millions of US\$)						
	End-of-period balances			Flows		Percentage change	
	2004	2005	2006	2005	2006	2005	2006
Commercial	6,214	6,525	7,435	311	909	5.0	13.9
Small business	128	182	223	55	41	42.9	22.4
Consumer	499	586	691	86	106	17.3	18.0
Mortgage	1,498	1,807	1,962	308	156	20.6	8.6
TOTAL	8,339	9,100	10,311	761	1,211	9.1	13.3

Source: SBS.

5. Payment system

The total value of payments carried out through the different systemically important interbank payment systems (RTGS and CCE) increased 31.6 percent relative to 2005. This increase resulted from the expansion of payments in both domestic currency and foreign currency, particularly the former which increased 35.5 percent while the latter increased 29.2 percent. Therefore, payments in domestic currency in 2006 accounted for 61.1 percent of interbank payments (62.2 percent in 2005). Furthermore, the **rotation of payments** in GDP terms rose from 2.5 times in 2005 to 2.9 times in 2006.

The amount of transfers made through the **RTGS system** grew by 33.6 percent in 2006, an evolution associated with the continuous economic expansion and with the volatility seen in the exchange market due to speculative factors generated by electoral uncertainty in the first months of the year. The number of operations rose by 15.2 percent, due to the increase seen in domestic currency and foreign

currency transactions (15.9 and 14.1 percent respectively).

As regards executed operations by the System of Multibank Stock Execution, the volume of these is consistent with the dynamism of the stock exchange market since only variable income securities are paid through these systems so far. The monthly average of transactions in 2006 was S/. 162.2 million (S/. 1,946 million annually) and US\$ 15.9 million (US\$ 191. million annually) in domestic and foreign currency respectively.

The value of the operations administered by the Cámara de Compensación Electrónica (CCE) showed a great dynamism during 2006, increasing by 21.4 percent. It is worth pointing out the 58.6 percent increase seen in credit transfers via the CCE, although they still represent a low proportion of low-value payments (4.4 percent).

Given that low-value payments are massive and that each individual payment is for a reduced amount, it is worth highlighting that the total volume processed increased by 6.1 percent

TABLE 51
INTERBANK PAYMENT SYSTEM
(Millions of Nuevos Soles)

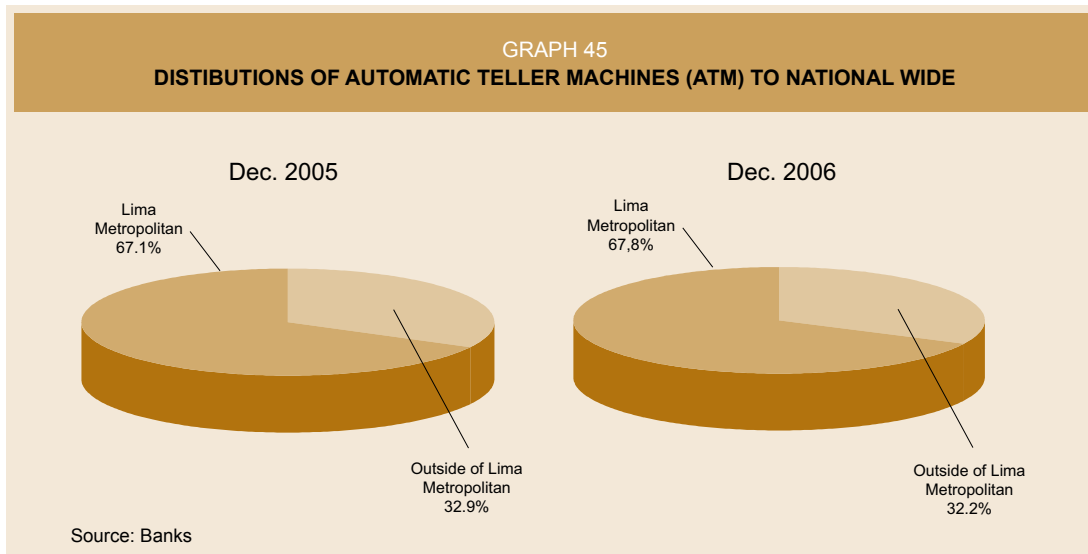
	Millions of Nuevos Soles				
	2005	Structure (%)	2006	Structure (%)	% change 06/05
I. RTGS System	556,792	83.5	743,764	84.8	33.6
1. Domestic Currency	342,516	51.4	449,654	51.3	31.3
2. Foreign Currency	214,276	32.1	294,110	33.5	37.3
(In millions of US\$)	64,824		89,612		38.2
II. Electronic Clearing House System	109,919	16.5	133,434	15.2	21.4
a. Checks	106,202	15.9	127,539	14.5	20.1
1. Domestic Currency	69,539	10.4	81,766	9.3	17.6
2. Foreign Currency	36,663	5.5	45,773	5.2	24.8
(In millions of US\$)	11,109		14,000		26.0
b. Transfers of Credit	3,717	0.6	5,895	0.7	58.6
1. Domestic Currency	2,549	0.4	4,159	0.5	63.2
2. Foreign Currency	1,168	0.2	1,736	0.2	48.6
(In millions of US\$)	354		531		50.0
III. Total (I+II)	666,711	100.0	877,198	100.0	31.6
1. Domestic Currency	414,604	62.2	535,579	61.1	29.2
2. Foreign Currency	252,107	37.8	341,619	38.9	35.5
(In millions of US\$)	76,287		104,143		36.5
	Thousands of units				
	2005	Structure (%)	2006	Structure (%)	% change 06/05
I. RTGS System	331	3.8	381	4.1	15.2
1. Domestic Currency	195	2.2	226	2.4	15.9
2. Foreign Currency	136	1.6	155	1.7	14.1
II. Electronic Clearing House System	8,405	96.2	8,914	95.9	6.1
a. Checks	7,917	90.6	8,111	87.3	2.5
1. Domestic Currency	4,974	56.9	5,033	54.1	1.2
2. Foreign Currency	2,943	33.7	3,078	33.1	4.6
b. Transfers of Credit	488	5.6	803	8.6	64.5
1. Domestic Currency	406	4.6	679	7.3	67.2
2. Foreign Currency	82	0.9	124	1.3	51.2
III. Total (I+II)	8,736	100.0	9,295	100.0	6.4
1. Domestic Currency	5,575	63.8	5,938	63.9	6.5
2. Foreign Currency	3,161	36.2	3,357	36.1	6.2

Source: BCRP and Electronic Clearing House.

TABLE 52
PAYMENT CARD STATISTICS ^{1/}
(Millions)

	Debit Cards		%	Credit Cards		%
	2005	2006		change	2005	
Numer of cards	6.4	7.9	23.4	3.7	4.7	24.7
Number of transactions	21.2	23.6	11.3	48.8	57.6	17.8
Domestic Currency	19.6	22.0	12.2	45.7	54.1	18.3
Foreign currency	1.6	1.6	0.8	3.1	3.5	11.1
Volume of transactions	1.7	2.6	50.1	5.7	7.7	35.2
Domestic Currency	1.3	2.1	62.6	4.6	6.2	36.1
Foreign currency (In S/.)	0.4	0.5	11.2	1.1	1.5	31.6
Foreign currency (In US\$)	0.1	0.1	12.2	0.3	0.5	32.9

^{1/} It does not include card statistics on cash withdraw.
Source: Financial banks



in 2006 due to the greater acceptance of loan transfers (64.5 percent) and, to a lesser extent, to the expansion in the use of checks (2.5 percent), which currently accounts for 87.3 percent of total payments as a result of their wider use.

The number of debit cards grew by 23.4 percent in 2006, increasing from 6.4 million cards in 2005 to 7.9 million in 2006. Likewise, credit cards increased by 24.7 percent, reaching a total of 4.7 million cards. The operations carried out through this payment mediums increased by 11.3 percent in the case of debit cards and by 17.8 percent in the case of credit cards.

The **distribution of automated tellers (ATMs)** nationwide is an important factor affecting the decision of using cards. This medium allows authorized users to withdraw cash from their accounts and to have access to other services, such as fund transfers, acceptance of deposits, etc. In December 2006, there were 2,614 ATMs in the country, 32.2 percent of which are located outside Metropolitan Lima.

The evolution of payments via electronic money is closely associated with the implementation of the Internet in the country. In 2006 the number of users of the Internet services reached one million, a figure 23.4 percent higher than the one recorded in 2005.

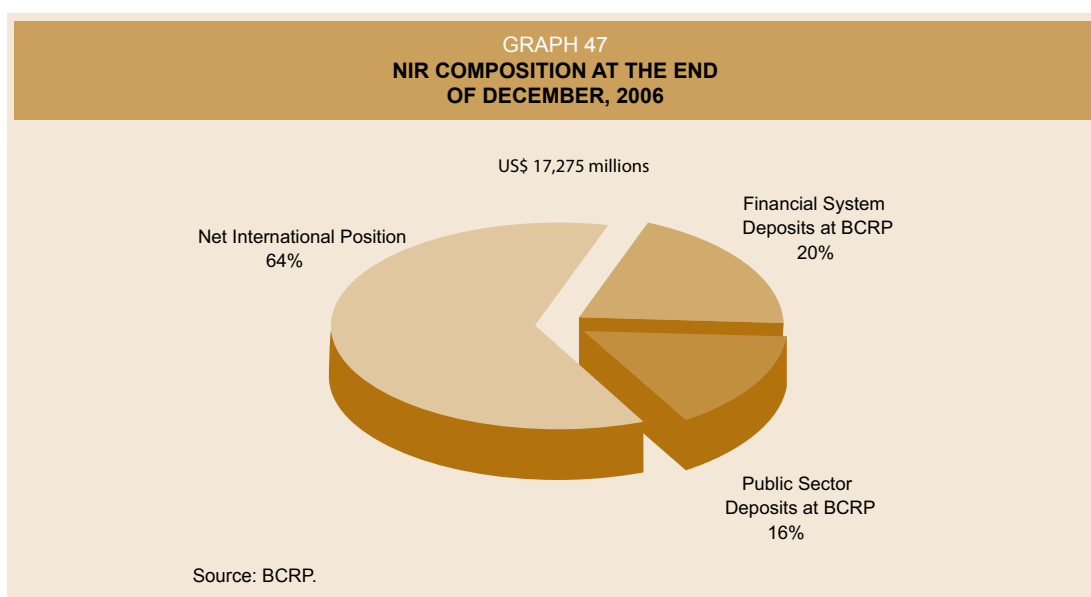
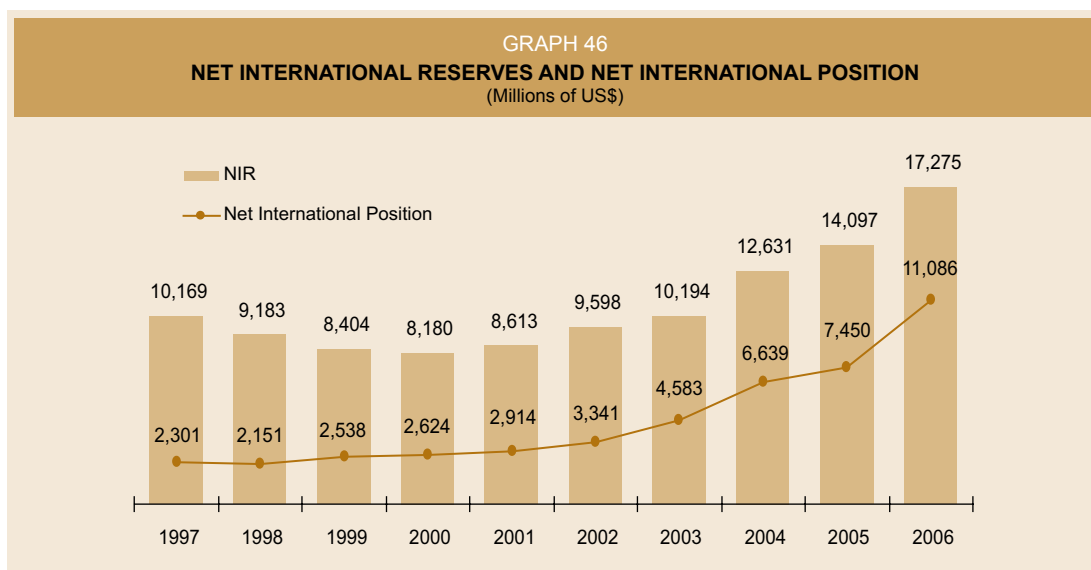
Total operations carried out through electronic money grew 16.9 percent in 2006, in line with the expansion of the Internet. However, in terms of total payments carried out with low-value instruments, this represents only 0.1 percent.

6. Net international reserves (NIRs)

The country's international liquidity position continued to improve in 2006, as reflected in an increase of BCRP NIRs equivalent to US\$ 3,178 million, as a result of which NIRs amounted to US\$ 17,275 million,

BCRP NIRs grew mainly as a result of net purchases of foreign currency (US\$ 3,944 million), a positive effect in the valuation of the BCRP financial position (US\$ 425 million), net interests gained (US\$ 329 million) and of higher public sector and Banco de la Nación deposits (US\$ 304 million). This was partially offset by sales of foreign currency to the public sector for the repayment of the external debt (US\$ 1,100 million) and by banks' withdrawal of deposits (US\$ 763 million).

In connection to this, the BCRP exchange position also increased by US\$ 3,636 million, reaching a balance of US\$ 11,086 million, mainly as a result of the diverse monetary operations carried out by



the Central Bank. As a result of this, the BCRP exchange position in terms of NIRs increased to 64 percent (53 percent in 2005).

7. Financial savings and capital market

Financial savings includes all the obligations of the financial system with the private sector, except for cash (banknotes and coins held by the public and demand deposits). In 2006, financial savings represented 30.3 percent of GDP, a level one percentage point higher than in 2005 and 11 percentage points higher than in 1997. This

increase was mainly associated with higher deposits and with increased institutional savings through mutual funds, private pension funds and life insurance systems.

Following the trend observed over the past years, financial savings in Nuevos Soles grew at a higher rate than financial savings in dollars (27 percent and 11.5 percent respectively), thus increasing its participation in GDP terms from 15.4 percent to 17 percent, mainly as a result of the growth seen in terms of pension banks and banking entities.



TABLE 53
FINANCIAL SAVINGS
(Average balance, in percentage of GDP)

	Domestic Currency	Total
1997	5.2	19.8
1998	6.3	22.2
1999	7.1	24.8
2000	7.9	25.5
2001	9.1	26.6
2002	10.5	27.3
2003	12.1	28.3
2004	13.4	28.1
2005	15.4	29.0
2006	17.0	30.3

Source: BCRP.

On the other hand, financial savings in dollars grew 11.5 percent in real terms, a result explained mainly by higher deposits in banks due to electoral uncertainty.

a. Primary bond market

In 2006 the balance of bonds issued by private companies grew 6 percent relative to 2005 (11

percent considering a constant exchange rate), while the number of issuers, excluding financial entities, increased from 43 to 50.

As in previous years, more bonds were issued by non-financial private companies than by financial entities. Thus, the balance of instruments issued by non-financial companies increased 8.4 percent relative to 2005, while the increase in the case of financial companies grew only 0.9 percent. Non-financial companies contributing most heavily to this evolution included Pluspetrol Camisea, Telefónica Móviles, Telefónica del Perú, Minera Yanacocha and Sociedad Minera Cerro Verde, which together accounted for a total of S/. 1,977 million, that is, 33 percent of total placements in the domestic market in 2006.

By currencies, the ratio of bond issues in Nuevos Soles increased from 20 to 27 percent due to the substitution of inflation-indexed instruments, which fell from 14 to 10 percent, and of dollar-denominated bonds, which fell from 66 to 64 percent. Longer maturities were also seen in Nuevos Soles-denominated bonds: 32 percent

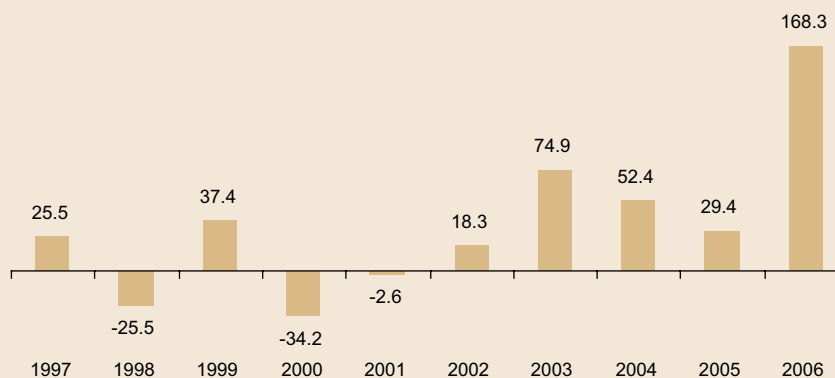
TABLE 54
STOCK EXCHANGE

	2004	2005	2006	Percentage change	
				2005	2006
INDICES (end of period) (December 1991=100)					
General Stock Index	3,710	4,802	12,884	29.4	168.3
Blue Chip Index	6,160	7,681	22,159	24.7	188.5
Index Peru-15	6,699	8,440	24,959	26.0	195.7
Index ID1-BVL ^{1/}	2,072	2,482	3,329	19.8	34.2
TRADING VOLUME (Millions of nuevos soles)	8,415	12,023	20,625	42.9	71.5
Equities	5,316	8,754	17,916	64.7	104.7
Fixed-income instruments	3,099	3,268	2,708	5.5	-17.1
LSE MARKET CAPITALIZATION					
Millions of nuevos soles by December 2006	68,083	125,473	192,364	84.3	53.3
Millions of US\$	20,108	36,196	60,020	80.0	65.8
(Percentage of GDP)	26.5	34.5	50.7		

^{1/} Index ID1-BVL is an indicator elaborated and calculated by LSE to measure the stock portfolio yield of equities that represents the average positioning of Pension funds.

Source : Lima Stock Exchange.

GRAPH 48
LIMA STOCK EXCHANGE
Annual Profitability



Source: Lima Stock Exchange.

of bonds issued in Nuevos Soles had maturity terms of 5 years or more in 2006, while in 2005 this percentage was only 7 percent.

b. Stock market

The General Index at the Lima Stock Exchange (LSE) grew significantly for the fifth consecutive year and showed an annual growth of 168.3 percent –the highest growth since 1992–, while the Blue Chip Index grew at an annual rate of 188.5 percent. It should be pointed out that both indices have increased by more than 16-

fold between 2002 and April 2007, exhibiting the highest growth in the region (followed by Colombia which grew nearly half as much in the same period).

The most profitable stocks included mining stocks (which grew 263.4 percent annually), agricultural stocks (241.3 percent), and bank and industry stocks (82.5 percent and 71.0 percent respectively).

The volume of transactions during the year amounted to S/. 20,625 million, of which S/.

TABLE 55
VALUE OF HOLDING IN CAVALI: EQUITIES AND FIXED INCOME
(Millions of US\$)

	Dec-04	%	Dec-05	%	Dec-06	%
Residents	12,082	75	14,790	66	20,655	69
Pension Funds	3,849	24	6,107	27	8,831	30
Mutual funds	22	0	35	0	59	0
Investment funds	262	2	493	2	768	3
Insurance companies	554	3	722	3	805	3
Banks and Financial companies	960	6	1,178	5	950	3
Other	6,435	40	6,255	28	9,242	31
Non residents	4,008	25	7,681	34	9,242	31
Total CAVALI ^{1/}	16,090	100	22,471	100	29,897	100

^{1/} Assets suscript an not valued in Stock Exchange at the market prices.
Source: CAVALI.



17,916 million were variable income securities (87 percent of total) and S/. 2,708 million were fixed income securities.

In real terms, the amount of transactions was 68.3 percent higher than in 2005. The segment showing the greatest dynamism was the segment of variable income instruments, where the volume of transactions grew 101 percent, while the volume of transactions in the fixed income segment decreased by 19 percent. The number of operations with variable income securities also increased by 102 percent relative to 2005.

The value of market capitalization grew 55 percent, reaching a level equivalent to 50.9 percent of GDP (34.5 percent in 2005).

As regards the composition of participants in the stock market, the participation of non-residents decreased by 3 percentage points, while the participation of Private Pension Funds (AFPs) increased in a similar proportion. Approximately 31 percent of the stocks listed at CAVALI (US\$ 9,242 million) are held by non-residents, 30 percent are held by AFPs and nearly 40 percent are held by others investors such as mutual funds, investment funds, individuals and non-financial companies.

c. Private pension system

By December 2006, the value of private pension funds had reached S/. 46,050 million, a level 42.9 percent higher than in 2005. As a result of this, in GDP terms, the value of these funds increased from 12.3 percent in 2005 to 15.1 percent in 2006. Moreover, the number of affiliates increased 6.7 percent to a total of 3.9 million.

Real profitability of the pension funds was 26.8 percent, the highest rate observed since the system was initiated in 1993. This higher profitability was associated to the yield on the stock portfolio which had a profitability of 34.2 percent (19.8 percent in 2005) according to the LSE Derivative Index. The system's real profitability (excluding the commissions charged by pension funds to their affiliates) was nearly 6.2 percent.

Due to the high increase seen in the value of stocks, the share of variable income securities in terms of the total portfolio increased from 35.6 percent to 41.6 percent. The share of corporate bonds in the portfolio also increased from 10.7 to 12.0 percent. On the other hand, investment abroad declined from 10.1 to 8.5 percent of the

TABLE 56
PRIVATE PENSION SYSTEM

	2004	2005	2006
Number of affiliates			
In thousand	3,397	3,637	3,882
Percentage change, end-of-period	6.4	7.1	6.7
Fund Value			
In millions of Nuevos Soles	25,651	32,223	46,050
Percentage change, end-of-period	17.4	25.6	42.9
As a percentage of GDP	10.8	12.3	15.1
Year on Year Yields (in percentages)			
Nominal	9.3	20.2	28.3
Real	5.6	18.4	26.8
Real net of fees ^{1/}	4.8	6.2	6.2

1/ Since 2006 corresponds to the Fund type 2.

2/ Annualized historic yield. Since 2004 corresponds to the SBS publication.

Source: SBS.

TABLE 57
PORTFOLIO COMPOSITION OF THE PRIVATE PENSION SYSTEM
 (Percentage)

	2004	2005	2006
TOTAL	100.0	100.0	100.0
a. Government securities	24.2	20.3	19.1
Central government	11.9	14.6	17.0
Central Bank securities	10.4	4.7	1.3
Brady bonds	1.9	1.0	0.8
b. Financial institutions	13.4	14.0	11.7
Deposits in domestic currency	5.9	4.5	4.9
Deposits in foreign currency	1.9	3.0	0.6
Shares	0.6	0.8	0.8
Bonds	3.6	2.9	2.4
Other instruments	1.4	2.8	3.0
c. Non-financial institutions	52.2	55.6	60.7
Common and investment shares	37.0	35.6	41.6
Corporate bonds	11.3	10.7	12.0
Other instruments 2/	3.9	9.3	7.1
d. Foreign Investments	10.2	10.1	8.5
Foreign States debt securities	1.2	0.6	2.2
Foreigns Mutual funds	8.9	9.5	6.3
Foreign shares	0.1	0.0	0.0
American Depository Shares (ADS)	--	--	--

1/ Includes mortgage bills and Investment Funds share.
 2/ Includes commercial bills and securitisation assets.
 Source: SBS.

portfolio, and the instruments of the financial system fell from 14.0 percent to 11.7 percent. During 2006, the BCRP raised the limit for AFP's investments abroad from 10.5 percent to 12 percent.

It is also worth mentioning that the new type of mutual funds, called structured funds or multi-fund system, which initiated operations in December 2005 and which allow affiliates to choose between three types of funds depending on their tolerance to risk, had the following composition in December 2006: the type 1-fund (conservative) represented 6 percent; the type 2-fund (average risk) represented 89 percent; and the type 3-fund (higher risk) represented 5 percent of this portfolio.

d. Mutual funds

During 2006, total investments managed by mutual funds grew 20 percent, while the number of participants in these funds increased by 45 percent, outnumbering 167 thousand by year end. The total number of operating funds increased from 34 to 35.

By type of fund, mixed income funds increased the most (from 2.9 to 5.6 percent), followed by fixed income funds in Nuevos Soles, which increased from 15.5 to 17.7 percent. This evolution was associated with the higher yield on these funds (4.7 percent on average) which, in a context of appreciation of the Nuevo Sol, implied a negative profitability of funds in dollars (-2.5 percent on average,



considering the impact of the depreciation of the dollar).

As regards the composition of mutual funds, the main changes seen included the reduction of banks' deposits and instruments

from 40.1 to 32.3 percent, the reduction of holdings of corporate bonds from 36.9 to 32.5 percent, and the increase of government securities and investments abroad from 14.7 to 25.5 percent and from 1.9 to 5.1 percent respectively.

TABLE 58
MUTUAL FUNDS

	2004	2005	2006
Number of participants			
(In units)	82,568	115,447	167,492
Percentage change, end-of-period	23.9	39.8	45.1
Funds value ^{1/}			
In millions of Nuevos Soles	5,347	6,431	7,798
Percentage change, end-of-period	-7.0	20.3	21.3
As a percentage of GDP	2.2	2.5	2.6
Composition (percentage)			
Mixed-income funds	2.2	2.9	5.6
Fixed-income funds	97.8	96.8	94.4
In Nuevos Soles	10.7	15.4	17.7
In US\$	87.1	81.4	76.7
Structured	-	0.3	0.2
Yields (In percentages)			
Mixed-income funds (nominal)	6.5	6.2	19.6
Mixed-income funds (real)	2.9	4.6	18.3
Fixed-Income funds(nominal)	-2.4	3.4	3.4
In Nuevos Soles	2.1	4.3	4.7
In US\$ ^{2/}	-3.0	3.2	-2.5
Structured	-	-	6.5
Fixed-income funds (real)	-5.7	1.9	2.2
In Nuevos Soles	-1.3	2.8	3.5
In US\$	-6.3	1.7	-3.6

1/ Numbers represent the shares of mutual funds held by households and corporations.

2/ In interest rate in US dollar plus change of exchange rate of period.

Source: CONASEV and BCRP.

TABLE 59
MUTUAL FUND INVESTMENT COMPOSITION

	2004	2005	2006
TOTAL	100.0	100.0	100.0
a. Government securities	20.4	14.7	25.5
Central government	17.8	7.9	6.8
Central Bank securities	2.6	3.3	9.7
Global bonds	--	3.5	9.0
b. Financial institutions	45.1	40.1	32.3
Deposits in domestic currency	4.1	6.6	7.3
Deposits in foreign currency	25.6	21.0	10.3
Shares and bonds	14.1	9.1	12.0
c. Non-financial institutions	32.9	41.1	36.2
Corporate and Securitization bonds	30.8	36.9	32.5
Short term instruments	1.7	3.6	2.6
Common and investment shares	0.4	0.5	1.1
d. Foreign Investments	1.1	1.9	5.1
e. Other ^{1/}	0.5	2.2	0.9

1/ Includes Repos operations and pact operations.
Source: CONASEV.