V. Money and credit

During 2008, monetary policy faced a highly volatile macroeconomic environment characterized, first, by a strong growth of domestic demand and substantial increases in the international prices of food and fuels –which generated inflationary pressures–, and a strong inflow of short-term capitals –which translated into appreciatory pressures on the local currency. Then, as the global financial crisis deepened since September, the rapid deterioration of external credit conditions initially generated pressures on liquidity in the money market, on interest rates, and on the exchange rate.

Because they were implemented on a timely basis, monetary policy measures have allowed inflation to continue converging to the 2 percent inflation target, while preventing at the same time that the tightening of external credit conditions would affect the domestic ones. In this way, the normal dynamism of the credit chain was preserved, thus preventing that the problems observed in the global financial system would translate into the real sector of our economy. Moreover, extreme volatilities in the exchange rate were also reduced since these measures were aimed at neutralizing negative effects in the balances of businesses and consumers due to the high dollarization of their liabilities.

TABLE 60
SUMMARY OF RECENT MONETARY POLICY ACTIONS
(Percentage)

Monetary policy actions	Jan. 2008	Feb. 2008	Mar. 2008	Apr. 2008	May. 2008	Jun. 2008	Jul. 2008	Aug. 2008	Sep. 2008	Oct. 2008	Nov. 2008	Dec. 2008
Reference interest rate	5.3	5.3	5.3	5.5	5.5	5.8	6.0	6.3	6.5	6.5	6.5	6.5
Legal reserve requirement in S/. and US$	6.0	7.0	7.0	8.0	8.5	8.5	8.5	9.0	9.0	9.0	9.0	7.5
Minimun reserve requirement in current account in S/. and US$ 1/	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Marginal reserve requirement in S/. 2/	6.0	15.0	15.0	20.0	25.0	25.0	25.0	25.0	25.0	9.0	9.0	7.5
Marginal reserve requirement in S/. (non-residents)	6.0	15.0	15.0	40.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0	35.0
Remuneration to marginal reserve requirement in S/.	n.a.	3.50	3.50	3.75	3.75	3.75	3.75	3.75	4.75	n.a.	n.a.	n.a.
Base period for marginal reserve requirement in S/.	n.a.	Dec. 07	Dec. 07	Dec. 07	Apr. 08	Apr. 08	Apr. 08	Apr. 08	Apr. 08	n.a.	n.a.	n.a.
Marginal reserve requirement in US$	30.0	40.0	40.0	40.0	45.0	45.0	45.0	49.0	49.0	35.0	35.0	30.0
Marginal reserve requirement in US$ (external liabilites)	30.0	40.0	40.0	40.0	45.0	45.0	45.0	49.0	49.0	35.0	0.0	0.0
Maximun reserve requirement in US$ (external liabilites)											35.0	35.0
Remuneration to marginal reserve requirement in US$ 3/	3.5	L - 7/8	L - 7/8	L - 7/8	L - 7/8	L - 7/8	L - 7/8	L - 7/8	L - 7/8	L - 7/8	L - 7/8	L /2
Base period for marginal reserve requirement in US$	Sep. 04	Dec. 07	Dec. 07	Dec. 07	Apr. 08	Apr. 08	Apr. 08	Apr. 08	Apr. 08	Sep. 08	Sep. 08	Nov. 08
Investment limit for AFPs investments abroad 4/	17.0	17.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0

1/ Since February 2008, the amount of additional reserve requirement has to be deposited in current accounts at the Central Bank.
2/ Since October 2008, marginal reserve requirement in soles was eliminated.
3/ 1-month Libor in US$.
4/ The limit was raised from 15 to 16 percent in January 2008, and subsequently from 16 to 17 percent.
Source: BCRP.

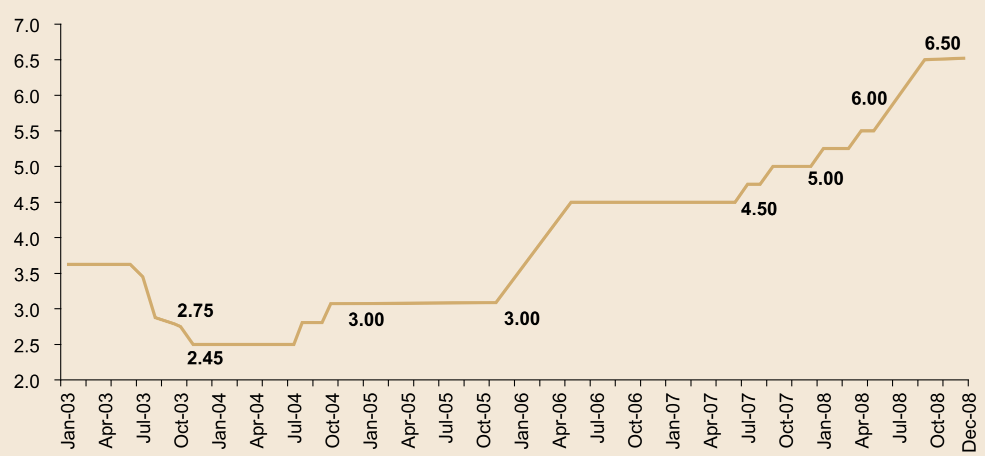
1. Monetary policy actions

Between January and September 2008, amidst significant increases in the international prices of food and fuels, a dynamic growth of domestic demand, and a strong inflow of short-term capitals which translated into important holdings of assets in domestic currency by non-resident investors, monetary policy continued to be oriented to leading inflation and inflation expectations to gradually return to the 2 percent target through gradual adjustments of 25 bps in the reference interest rate, in a context of high uncertainty about the evolution of the world economy.

In this period, the Board of the Central Bank opted for gradually adjusting its monetary policy stance and approved to raise its reference interest rate on six occasions (by 25 basis points each), thus raising it from 5.0 percent to 6.5 percent. Additionally, in order to support sterilization mechanisms for the important inflow of short-term capitals observed early in 2008, the BCRP raised reserve requirements in domestic currency and in foreign currency, and decided to increase purchases of dollars in the foreign exchange market to preventively accumulate international reserves. Marginal reserve requirements in domestic currency were raised to 25 percent, while marginal reserve requirements in foreign currency were raised from 30 percent to 49 percent. Likewise, minimum legal reserve requirements were raised from 6.0 percent to 9.0 percent.

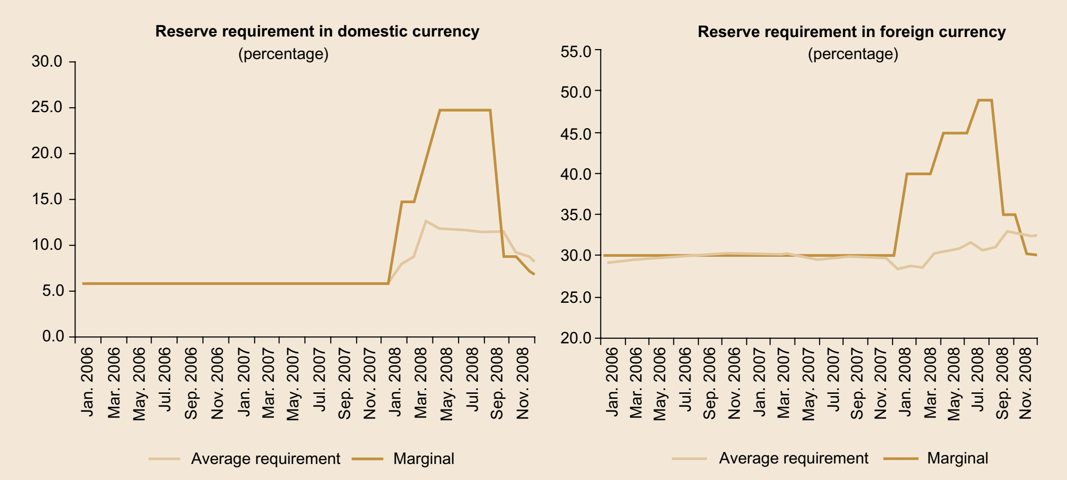
The unprecedented inflow of short-term external capitals to the market of assets in domestic currency (BCRP certificates of deposit -CDBCRP- and Treasury Sovereign Bonds -BTP) seen in Q1 generated strong appreciatory pressures on the nuevo sol and high volatility in banks' short-term liquidity. In this context, the Central Bank increased its pace of interventions in the foreign exchange market, preventing the risks of an excessive volatility of the exchange rate in a polarized economy. As a result of this, the BCRP accumulated US$ 8,449 million between January and August 2008, strengthening through these reserves its international liquidity position and its capacity to deal with unexpected outflows of short-term capitals.

GRAPH 51
REFERENCE INTEREST RATE
(Percentages)



Additionally, other measures adopted were oriented to returning their role of monetary management tools to CDBCRPs and to discouraging holdings of these CDs by non-resident investors (investors had to register and fees were charged for transfers of these CDs). In this sense, the Board established the BCRP Certificates of Deposit with Restricted Negotiation (CDBCRP-NR), initially restricting banks in the domestic financial system for purchasing these securities given that they were meant to serve as a monetary regulation instrument and not as an investment one.

GRAPH 52
RESERVE REQUIREMENTS IN DOMESTIC AND FOREIGN CURRENCY
(Percentages)



Later, since October 2008, the bankruptcy of Lehman Brothers showed the deepening of the international financial crisis and also marked a severe deterioration of money and credit markets. This was mainly reflected in a strong credit constraint, lack of liquidity, and economic agents' generalized mistrust and uncertainty, which caused private spending to drop. Both the collapse of credit and the drop of private spending are key factors explaining today's global recession. In this context, the BCRP suspended the process of adjusting its monetary policy position and prioritized efforts aimed at providing liquidity to the domestic financial system to prevent that a contraction of credit would generate negative impacts on domestic activity. Priority was also given to reducing extreme volatilities in terms of the exchange rate.

In order to provide liquidity to the financial system and restore the interest rate channel, the BCRP timely used a wide range of instruments –such as repos of securities with up to 1-year maturities, swaps in foreign currency, as well as permanent repurchases of CDBCRP and CDBCRP-NR in the secondary market–, and left the liquidity associated with the maturities of CDs in the market.

In October 2008, the participation of the Central Bank in the secondary market of its CDs –a creative monetary policy mechanism– also contributed to reduce the price distortions generated by the exit of non-resident investors and allowed the yield curve of BTPs in November and December to return to the levels they had before the deepening of the financial crisis. Considering only the maturities of BCRP certificates of deposit and repo operations, monetary injections amounted to S/. 25,232 million during the deepening of the financial crisis (between September 2008 and end December 2008). This amount is equivalent to 58 percent of total obligations subject to reserve requirements.

The BCRP also initiated a sequence of reductions of the rates of reserve requirements in both domestic currency and foreign currency to meet banks' higher preference for liquidity and to guarantee the normal operation of the money market. Marginal reserve requirements in domestic currency were reduced from 25 percent to 6.5 percent; marginal reserve requirements in foreign currency were reduced from 49 percent to 30 percent; reserve requirements for the deposits of non-resident financial entities were reduced from 120 percent to 35 percent, and additionally, banks' external loans with 2-year or longer maturities were exempted from reserve requirements.

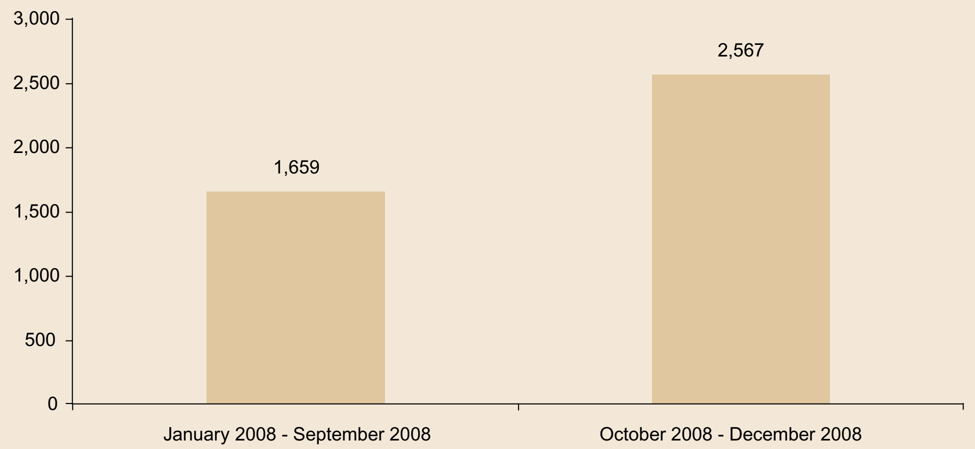
The Central Bank actions were also aimed at reducing extreme volatilities in the exchange rate to neutralize possible negative effects on the balances of businesses and consumers resulting from the high dollarization of their liabilities, given that credit in foreign currency still represents 57 percent of overall credit. The BCRP sold foreign currency for a total of US$ 5,695 million since September 2008 and placed indexed certificates of deposit (CDR) for a total of US$ 1,422 million (equivalent to S/. 4,425 million).

These actions prevented the balances of firms and families –which are dollarized– from deteriorating due to the evolution of the exchange rate. Despite this, the BCRP accumulated international reserves for US$ 3,507 million during 2008, with reserves increasing from US$ 27,689 million at end 2007 to US$ 31,196 million at end 2008. This was the result of a preventive accumulation of international reserves carried out through net purchases of dollars in the foreign exchange market, as a result of which US$ 10,306 million was bought in 2007 and US$ 8,449 million was bought between January and August 2008.

As a result of the timely measures implemented by the Central Bank –which implied activating all of its operational procedures–, inflation in Peru in 2008 not only has been one of the lowest in the region, but also continues converging to its 2 percent target, which should be reached at end 2009. Moreover, these measures have also prevented that the deterioration of external credit conditions should translate into the local credit market contaminating the real sector. Thus, the interbank money market in soles has maintained its volumes of transactions, which have even increased after showing a temporary reduction between September and October 2008. Furthermore, the dynamism of credit has also increased: the average monthly flow of credit has increased from S/. 1,659 million between January and September 2008 to S/. 2,567 million between October and December 2008.

Moreover, combined with the permanent repurchase of CDBCRP in the secondary market, these measures have allowed interest rates for the interbank market, BCRP certificates of deposit and Treasury bonds to gradually return to similar levels than the ones recorded before the deepening of the financial crisis in August 2008, thus preventing other long-term interest rates from being affected. In this way, the Central Bank has prevented that the pressures on interest rates could affect economic agents' credit conditions.

GRAPH 53
AVERAGE MONTHLY FLOW OF CREDIT TO THE PRIVATE SECTOR
(Millions of nuevos soles)



BOX 10

THE MONETARY POLICY FRAMEWORK OF THE BCRP

The mission of the Central Reserve Bank of Peru (BCRP) is to preserve monetary stability and, hence, the key role of monetary policy is to preserve price stability. This is the main contribution of the BCRP to the country's economy since uncertainty declines and greater confidence in the present and future value of the local currency is generated by controlling inflation. Both elements are essential to stimulate saving, attract productive investments, and promote sustained economic growth.

This central role of monetary policy is coupled by the contribution to financial stability that the Central Bank makes through two additional functions associated with conditions in the Peruvian economy, still characterized by having a high level of dollarization and a developing financial market and capital market. Conditioned to compliance with the goal of price stability, the first auxiliary function of the Central Bank's monetary policy is to guarantee the normal flow of liquidity in the financial system. For example, in scenarios of crisis, the BCRP has to guarantee liquidity to financial entities to maintain the normal functioning of the chain of payments and the dynamism of credit flows, in line with sustainable economic growth.

The second auxiliary function of the BCRP is to reduce the vulnerability of the balance of economic agents –whose liabilities are dollarized– through a managed floating regime. The purpose of this policy is to reduce the extreme volatilities of the exchange rate, without predetermining its level or trend, in order to control possible risks of liquidity constraints resulting from a dollarized credit portfolio.

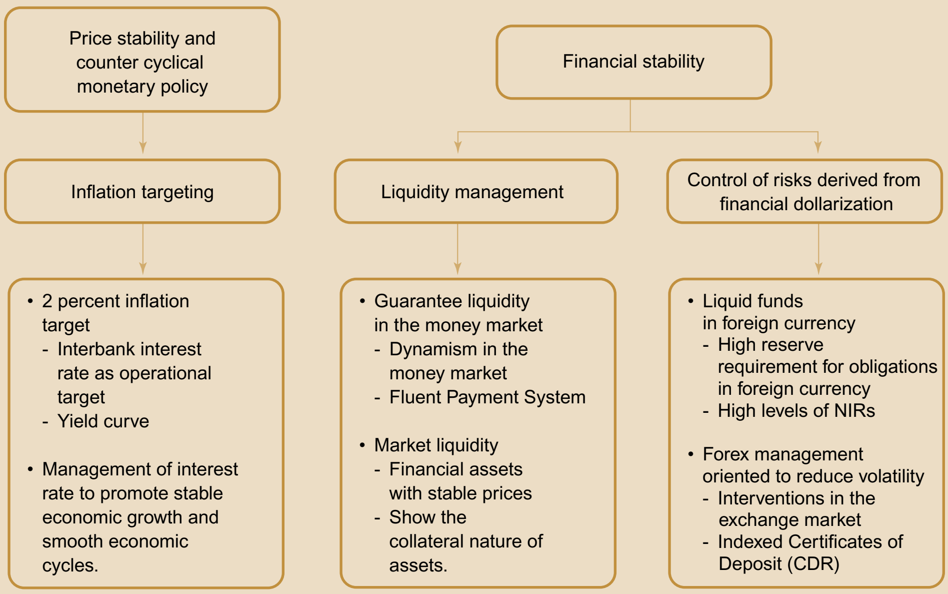
These functions are carried out through the Central Bank's operational procedures. In contingency scenarios like the one observed today with the current global financial crisis, the BCRP expands the monetary policy instruments it uses and does not limit its operations to its usual open market operations. In these extraordinary situations, the Central Bank can activate direct instruments such as modifying reserve requirements and window operations. The Bank also intervenes in the exchange market, purchasing and selling dollars and placing indexed certificates of deposit (BCRP-CDR) to reduce extreme volatilities in the exchange rate.

In scenarios of liquidity constraints in the financial system, the Central Bank can use permanent liquidity injection instruments, such as: changes in the rate of reserve requirements and purchases of dollars; repos and 1-year swaps; permanent repurchases of BCRP Certificates of Deposit, and permanent purchases of Public Treasury bonds (BTP), both in the secondary market. The BCRP can purchase these bonds for the equivalent of up to five percent of the balance of the monetary base at the end of the previous year.

Window operations are available for banks requiring funds or having surplus funds at the close of their operations. These window operations include: a) sterilization, which allow banks to place overnight deposits at interest rates below the market rates; b) injection, whose cost is higher than the one that would be obtained in the interbank market. Injection operations through the window facility are allowed for banks having liquidity and not solvency problems.

Finally, in order to reduce extreme exchange rate volatilities and control liquidity and credit risks due to financial dollarization, the BCRP preventively accumulates international reserves and intervenes in the exchange market. Moreover, in order to prevent the so-called moral hazard, the Central Bank requires commercial banks to maintain higher levels of reserve requirements for their obligations in foreign currency. This management of reserve requirements not only allows the Central Bank to provide liquidity to the financial system when this is required, but also promotes financial dedollarization and fosters economic agents' internalization of the risks associated with dollarization.

THE MONETARY POLICY FRAMEWORK OF THE BCRP



2. Interest rates

Interest rates in soles during 2008 were influenced by the level of economic activity, the monetary policy measures implemented by the Central Bank, and conditions in the international financial markets.

In a context of high growth of domestic demand and upward pressures on domestic prices, the monetary measures implemented until September 2008 consisted of raising the reference interest rate and increasing the rate of reserve requirements for obligations in soles and dollars. These actions had an impact especially on short-term operations, both active and passive. The 3-month corporate prime rate in soles (for businesses with lower risks) increased 1.9 percentage points on average between December 2007 and December 2008 (from 5.6 percent to 7.5 percent). The average rate for commercial loans showed a similar increase (1.8 percentage points).

However, the effect of the expansionary economic cycle, which translated into borrowers' improvement in terms of risk perception and in increased competition between banks, prevailed in the case of medium- and long-term rates in soles. Because of this, the average rate of consumer loans declined 1.2 percentage points between December 2007 and December 2008, while the rate on mortgage loans remained unchanged in the same period.

TABLE 61
INTEREST RATES ON OPERATIONS IN NUEVOS SOLES
(Percentages)

	2006	2007	2008
1. Interbank	4.5	5.0	6.5
2. Deposits (up to 30 days)	4.6	4.8	6.5
3. 181-day to 360-day term deposits	5.7	5.6	6.3
4. Corporate prime	5.2	5.6	7.5
5. Commercial loans	9.5	9.0	10.8
6. Microbusiness loans	39.1	35.6	35.0
7. Consumer loans	34.8	33.5	32.3
8. Mortgages	10.4	9.8	9.8

Source: SBS and BCRP.

The conduct of **interest rates in dollars** was associated with the evolution of international interest rates, with expectations about the exchange rate, and with borrowers' perceptions of credit risk.

Short-term rates, especially those on lending operations, were more strongly influenced by the conditions prevailing in world markets. During the first half of the year, the relative abundance of external financing sources –after the inflow of a significant volume of short-term capitals– caused domestic currency to tend to appreciate and short-terms interest rates in dollars increased. This higher cost of credit in foreign currency was in part associated with the increase of forwards in nuevos soles (future contracts against appreciation risks), which induced the local interest rate in dollars to be higher than the short-term interest rate in soles.

However, since June, when capital inflows started declining, short-term lending interest rates in dollars tended to fall. At end 2008, the interbank interest rate fell nearly five percentage points compared to December 2007 (from 5.9 percent to 1.0 percent), in line with the reduction of interest rates worldwide following the bankruptcy of Lehman Brothers. The interest rates on less than 30-day deposits fell also, and so did the lending interest rates on short-term commercial operations, although to a lower extent.

In the case of longer-term contracts or those for higher risk segments, the reduction of interest rates was lower, although this was mainly due to clients' improved perception of risks. Thus, the average interest rate on consumer loans declined nearly one percentage point compared to December 2007 (from 16.3 percent to 15.4 percent), while the average rate on mortgages declined by 0.2 percentage points.

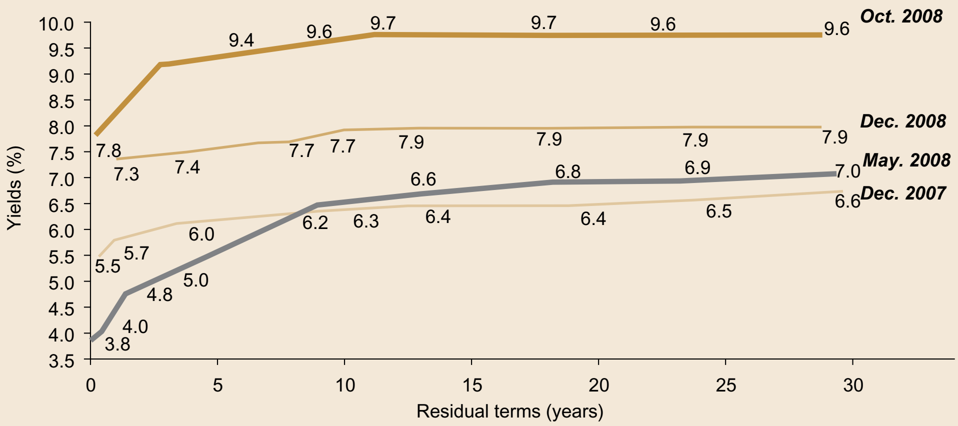
TABLE 62
INTEREST RATES IN US DOLLARS
(Percentages)

		2006	2007	2008
1.	Interbank	5.4	5.9	1.0
2.	Deposits (up to 30 days)	4.3	4.9	0.9
3.	181-day to 360-day term deposits	3.6	3.9	4.5
4.	Corporate prime	6.1	6.4	5.2
5.	Commercial loans	9.9	9.2	9.5
6.	Microbusiness loans	24.7	23.8	23.1
7.	Consumer loans	16.1	16.3	15.4
8.	Mortgages	9.9	9.8	9.6
9.	3-month Libor	5.4	5.0	1.2

Source: SBS and BCRP.

In the local capital market, the evolution of interest rates was much more sensitive to the conditions of external markets. During the first months of 2008, the substantial inflows of external capitals generated a significant reduction in the interest rates of the short trench of the yield curve of sovereign bonds and BCRP certificates (see yield curve of sovereign bonds at May 2008).

GRAPH 54
SOVEREIGN BONDS YIELD CURVE1/



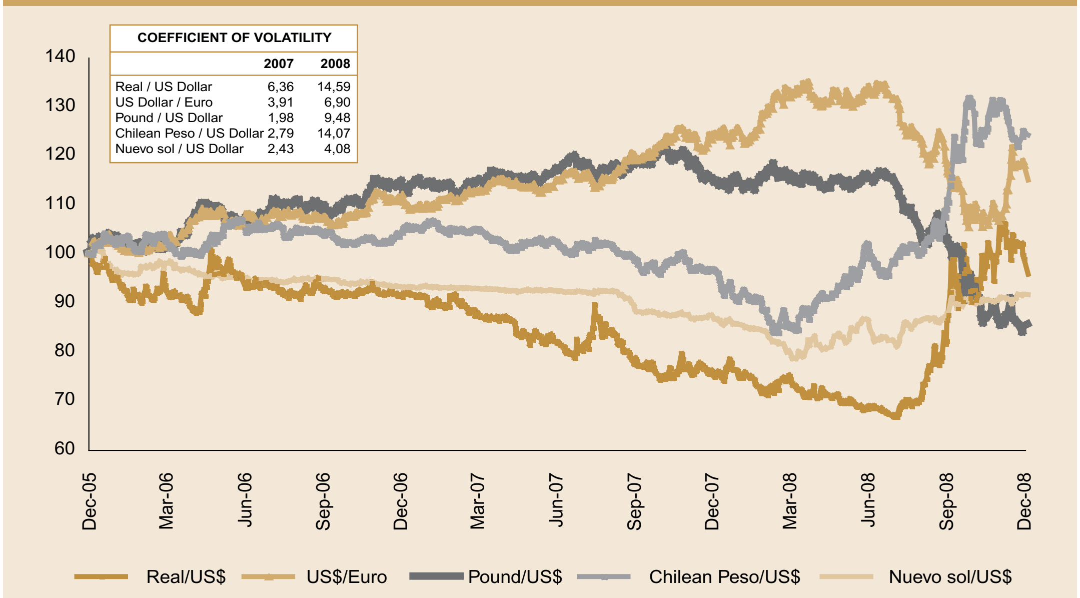
1/ Average yields negotiated in the period.
Source: CONASEV and BCRP.

However, as from September, after the Lehman Brothers declared bankruptcy in the United States and stock markets in the world collapsed, the yield curves raised abruptly, reaching their maximum level in October. Then, as the initial effects of the crisis started offsetting and as a result of the measures implemented by the Central Bank to normalize the access to the capital market, the yield curve returned to similar rates to the ones observed prior to the crisis. Nonetheless, the yield curves of both sovereign bonds and BCRP instruments did not recover the levels they had in December 2007.

3. Exchange rate

The nuevo sol remained relatively stable during 2008 despite high volatility in international financial markets and in contrast with the conduct that other currencies in the region showed. Thus, the nuevo sol depreciated 4.5 percent in nominal terms and 4.8 percent in real terms at December 2008, leading the real exchange index to a value close to its historical average. This evolution of the nuevo sol also reflects the effect of the Central Bank interventions in the exchange market in periods of high volatility. Reducing the volatility of exchange rate is essential for the highly dollarized Peruvian economy since this allows preventing the negative impacts that an abrupt depreciation of the exchange rate could generate on economic activity.

GRAPH 55
EXCHANGE RATE INDEX
(December 2005=100)

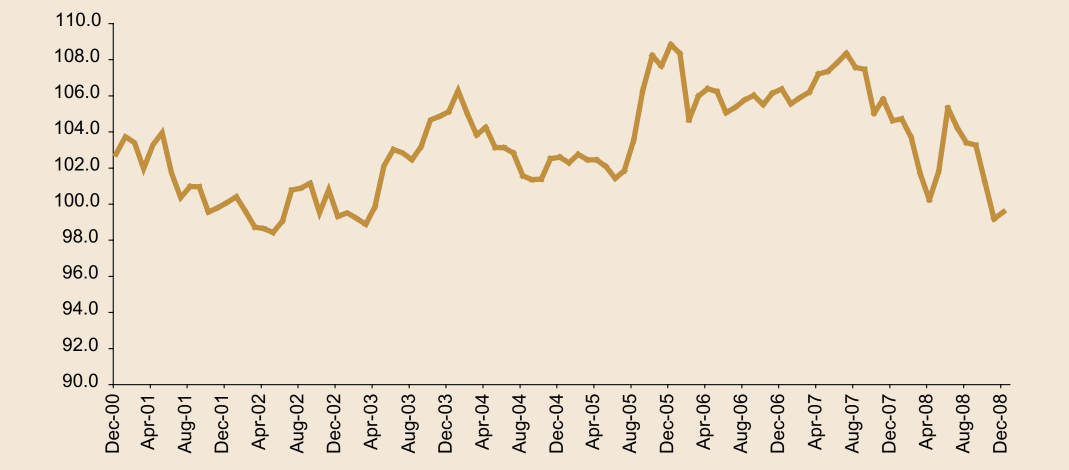


COEFFICIENT OF VOLATILITY

	2007	2008
Real / US Dollar	6,36	14,59
US Dollar / Euro	3,91	6,90
Pound / US Dollar	1,98	9,48
Chilean Peso / US Dollar	2,79	14,07
Nuevo sol / US Dollar	2,43	4,08

Like in previous years, the appreciation trend of the nuevo sol reversed in 2008. This was mainly associated with the decline of terms of trade and with the deterioration of global demand due to the deepening of the international financial crisis. These factors generated a portfolio re-composition, both in the case of foreign investors and in the case of national financial and non-financial entities which generated pressures on the exchange rate.

GRAPH 56
REAL MULTILATERAL EXCHANGE RATE
(Index Dec. 2001=100)

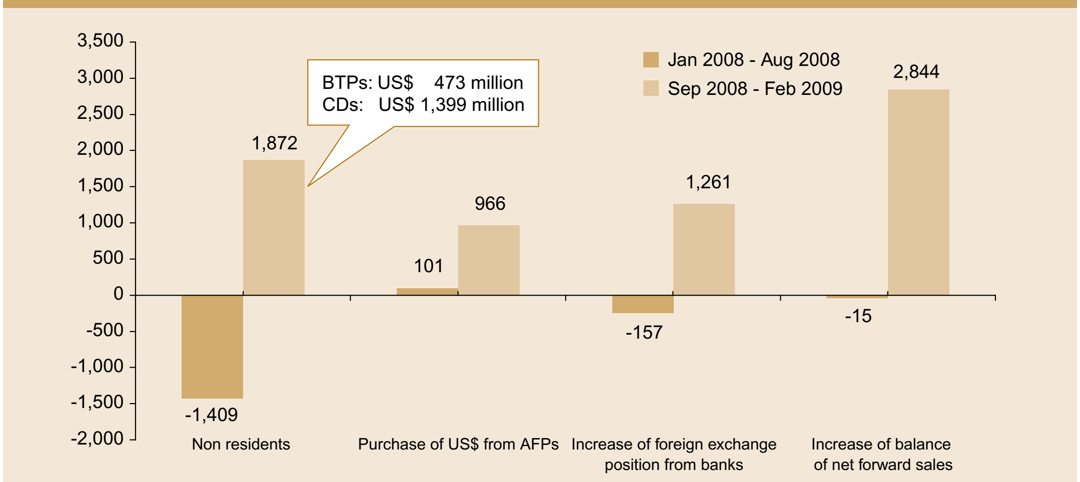


However, the evolution of the exchange rate was not homogeneous over the year. Between January and April 2008, the nominal exchange rate continued showing the appreciatory trend observed in 2007. This conduct was associated with the significant flow of short-term capitals, mainly speculative, as a result of which an accumulated appreciation of 10.1 percent was recorded on April 4.

In this context, the BCRP adopted measures to reduce the speculative capital inflows. One of the first measures implemented by the Central Bank was to eliminate the free negotiation of Certificates of Deposit (CDBCRP). Subsequently, in April, the BCRP raised the rate of marginal reserve requirements on obligations in domestic currency with non-resident financial entities from 40 to 120 percent.

The Central Bank also intensified its participation in the exchange market through net purchases of foreign currency (US$ 8,849 million), which allowed it to accumulate NIRs between January and

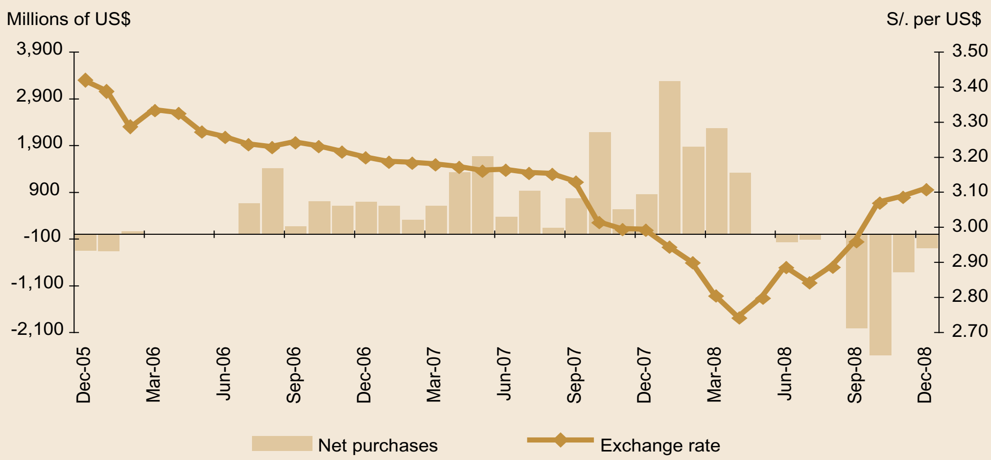
GRAPH 57
FOREX MARKET: PORTFOLIO MOVEMENT



August 2008. As the graph below shows, pressures in the exchange market in this period generated mainly in the spot market, because non-resident agents used their foreign currency resources to obtain low-risk assets in domestic currency, especially Treasury bonds (BTPs) and Certificates of Deposits of the BCRP.

As from September, after the bankruptcy of Lehman Brothers and with the deepening of the global financial crisis, money flows in the exchange market reversed rapidly. Thus, in the spot market, purchases of foreign currency from the public and from banks amounted to US$ 1,872 million and to US$ 1,261 million, respectively. In the forward market, on the other hand, foreign demand increased to US$ 2,844 million. This rapid portfolio re-composition generated strong pressures for the appreciation of the dollar in the exchange market, although this trend was buffered by the intervention of the BCRP, which sold foreign currency for US$ 5,695 million and placed CDR-BCRP for the equivalent of US$ 1,421.5 million between June and December 2008. In spite of this, the BCRP accumulated international reserves for a total of US$ 3,507 million during 2008, thus increasing the balance of reserves from US$ 27,689 million at end 2007 to US$ 31,196 million at end 2008.

GRAPH 58
FOREIGN EXCHANGE INTERVENTIONS AND EXCHANGE RATE



3.1 Country risk

Increased risk aversion brought about a higher demand for US Treasury bonds and a drop in their yield. The spread of emerging bonds –measured by the Global EMBI– also increased, particularly during the period of higher uncertainty in financial markets (September - November 2008), stabilizing thereafter around 700 bps. However, a differentiated evolution is observed in terms of countries; the increase in the spread of bonds in Argentina being noteworthy.

Country risk, measured through Credit Default Swap (CDS), also increased in the economies of the region. Peru's country risk is below the country risk ratings of most Latin American countries, and is even lower than that of Brazil, which has a similar risk rating. Only Mexico and Chile, both economies which have been assigned investment grades for many years now, have better positions than Peru in terms of

CDS. Peru's risk indicators are favored by the sound fundamentals that led the country to become a net international lender.

TABLE 63
YIELDS ON US TREASURY BONDS AND SPREADS OF THE EMERGING MARKETS*

	2003	2004	2005	2006	2007	2008	Change 2008-2007
				%			
US Treasury yields							
3-month	0.922	2.217	4.079	5.011	3.242	0.081	-3.16
2-year	1.823	3.069	4.404	4.812	3.051	0.776	-2.28
10-year	4.248	4.220	4.393	4.704	4.025	2.229	-1.80
				BPS.			
EMBIG	**403**	**347**	**237**	**171**	**255**	**724**	**470**
Latin America	**518**	**415**	**272**	**180**	**275**	**746**	**471**
Brazil	459	376	308	190	220	429	209
Colombia	427	332	244	161	195	498	303
Chile	90	64	80	84	151	343	192
Mexico	201	174	143	115	172	434	262
Argentina	5 485	4 527	504	216	410	1 704	1 294
Peru	325	239	257	118	178	509	331
5-year CDS (Credit Default Swap)							
Brazil	404	305	225	100	103	338	235
Colombia	441	341	167	114	130	485	355
Mexico	122	80	63	41	69	285	215
Argentina	n.a.	n.a.	367	203	462	4 550	4 088
Peru	292	204	221	91	116	335	219

* Data at end of period.
Source: Bloomberg and Reuters.

4. Monetary and credit aggregates

The evolution of the country's monetary and credit aggregates early in 2008 was influenced by the continuity of high levels of economic growth, by higher levels of financial intermediation in the economy, and by the dedollarization of financial assets. A scenario of a strong inflow of short-term capitals oriented to buying liquid assets in soles added to this.

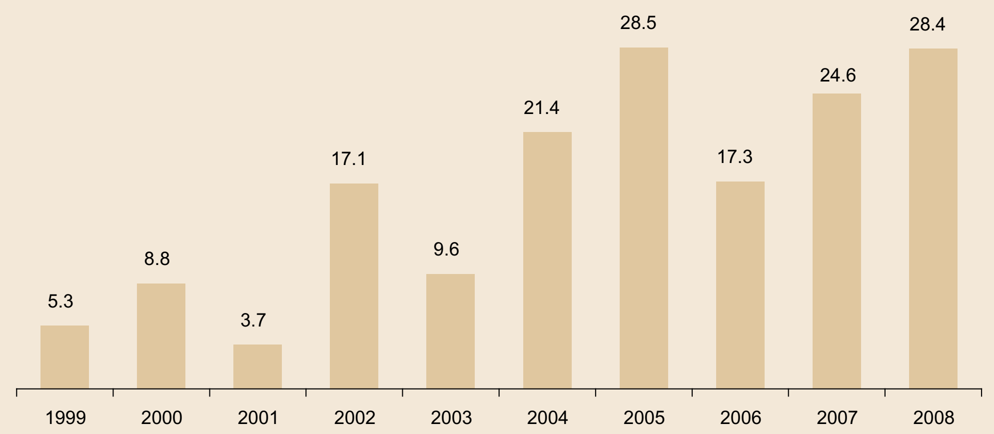
In April, total broad money in the private sector grew 26.0 percent (last 12-month variation), mainly due to the increase of broad money in soles which recorded its highest annual expansion (55.1 percent). The monetary measures implemented thereafter –the reference rate and reserve requirements in soles and dollars were raised– moderated the growth of broad money and credit in the following months.

The deepening of the international crisis observed since September affected the levels of monetary and credit aggregates, which showed lower growth rates at end 2008 than at end 2007. In terms of monetary aggregates in soles, broad money showed a higher slowdown than credit, while in the case of these indicators in dollars, credit showed a higher slowdown than broad money. This indicated the public's desire to increase their long-term positions in dollars (deposits) and to borrow in soles.

4.1 Currency

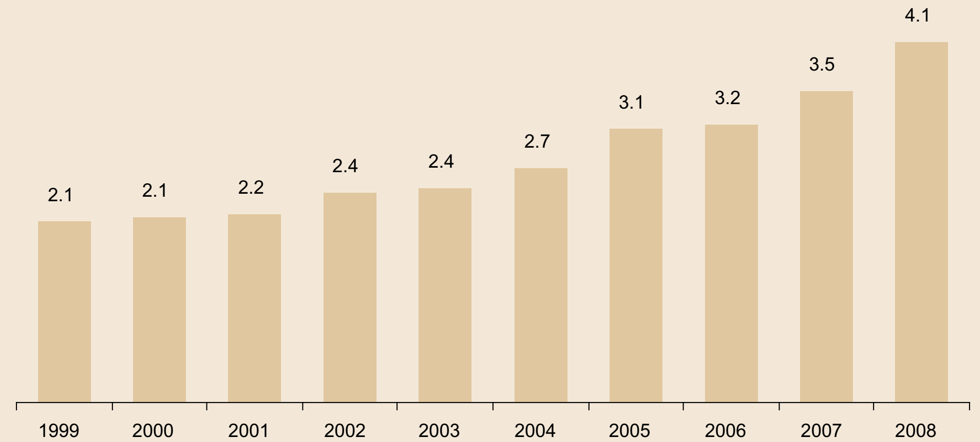
The average balance of currency grew 28.4 percent in 2008 (24.6 percent in 2007), a level equivalent to 4.1 percent of GDP. This growth was consistent with increased economic activity and with lower dollarization levels observed mainly during the first nine months of the year.

GRAPH 59
CURRENCY
(Annual percentage change, period average)



Source: BCRP.

GRAPH 60
CURRENCY
(Percentage of GDP)



Source: BCRP.

Considering the balances at year-end, the flow of currency increased by S/. 2,478 million in 2008. The BCRP preventively increased its international position by US$ 7,678 million during the first half of the year as a result of the sterilization purchases of dollars carried out in a context of strong short-term capital inflows. Between January and June 2008, net purchases of foreign currency amounted to US$ 8,564 million.

During the second half of the year, when capitals started exiting, the Central Bank began to sell dollars, compensating its contractive effect on broad money in soles through repos. At end 2008, the increase observed in the bank's international position was US$ 1,743 million. Therefore, the flow of currency during 2008 was mainly explained by repo operations (S/. 5,412 million) and by net maturities of BCRP Certificates of Deposit (S/. 2,829 million), whose effect was offset by higher public sector deposits (S/. 6,644 million).

TABLE 64
OPERATIONS OF THE BCRP
(Thousands of nuevos soles)

	2006	2007	2008
I. INTERNATIONAL POSITION	**11,696**	**26,464**	**4,114**
(Millions of US$)	**3,636**	**8,536**	**1,743**
1. Foreign exchange operations	2,861	7,070	488
A. Over the counter trading	3,944	10,306	2,754
B. Public sector purchases	- 1,084	- 3,275	- 2,316
C. Other	1	39	50
2. Other operations	775	1,466	1,256
II. NET DOMESTIC ASSETS	**- 10,044**	**- 23,294**	**- 1,636**
1. Public sector deposits	- 5,434	- 6,751	- 6,644
2. Repos	- 2,850	0	5,412
3. CD-BCRP	- 389	- 13,393	13,737
4. CDR-BCRP	1 202	0	- 4,425
5. CD-BCRP with Restricted Negotiation	0	0	- 6,483
6. Overnight deposits	- 188	227	- 3
7. Reserve requirements in domestic currency	- 488	- 746	- 2,053
8. Other assets	- 1897	- 2,631	- 1,177
III. CURRENCY	**1,652**	**3,170**	**2,478**
Memo: Balance at end of period			
- CDBCRP	8,066	21,458	7,721
- CDR-BCRP	0	0	4,465
- CDBCRP with Restricted Negotiation	0	0	6,483
- Public sector deposits	10,172	16,924	23,568

Source: BCRP.

4.2 Broad money in the private sector

The public's increased demand for currency implied a faster pace of growth of monetary aggregates in domestic currency. Average broad money in nuevos soles increased from 31.5 percent in 2007 to 42.4 percent in 2008, which was also reflected in its importance in GDP terms: from 11.0 percent of GDP in 2007 to 14.2 percent of GDP in 2008.

This increase of broad money in soles in average terms (42.4 percent in 2008) –as well as the increase of currency (28.4 percent)– was consistent with an 11.1 percent average growth of nominal GDP, with a 22.0 percent decline in the velocity of circulation, and with a 4.1 percent reduction of the multiplier.

The decline of the average multiplier (4.1 percent) was mainly associated with the increase of the average rate of reserve requirements due to the higher rate of reserve requirements in soles –16.4 percent in 2008 versus 10.0 percent in 2007–, which predominated over the lower preference for currency (32.1 percent and 29.0 percent in 2007 and 2008, respectively).

TABLE 65
AVERAGE BROAD MONEY IN DOMESTIC CURRENCY
(Average percentage change)

	GDP Deflator	GDP Growth		Velocity of money	Broad money in local currency	Monetary base components			
						Monetary Base			Multiplier
		Real	Nominal			Currency	Reserve requirement	Total	
2006	7,2	7,7	15,5	- 2,0	17,9	17,3	16,9	17,2	0,6
2007	2,0	8,9	11,1	- 15,5	31,5	24,6	24,4	24,6	5,6
2008	1,1	9,8	11,1	-22,0	42,4	28,4	143,2	48,5	- 4,1

Source: BCRP.

Considering the information at year end, broad money in domestic currency in the private sector showed a lower pace of growth (26.5 percent in 2008 versus 33.6 percent in 2007). Moreover, value assets (saving deposits and term deposits) grew more than transactional assets (currency and demand deposits). Term deposits continued being the most dynamic ones, although they recorded a lower growth rate (41.3 percent) than in the previous year (49.9 percent).

On the other hand, broad money in dollars recorded a growth rate of 18.1 percent –similar to the rate recorded in 2007. All the modalities of deposit in foreign currency showed a positive variation: term deposits grew 16.6 percent (20.9 percent in 2007), while saving deposits grew 18.6 percent (6.9 percent in 2007).

TABLE 66
MAIN MONETARY AGGREGATES
(End of period data)

	Balance in millions of nuevos soles			% Change	
	2006	2007	2008	2007	2008
Currency	11,687	14,857	17,336	27.1	16.7
Money	18,918	24,753	28,852	30.8	16.6
Broad money	68,931	84,067	105,211	22.0	25.2
In nuevos soles	33,573	44,862	56,742	33.6	26.5
In dolares (millions of US$)	11,049	13,068	15,436	18.3	18.1

Source: BCRP.

TABLE 67
BROAD MONEY IN DOMESTIC CURRENCY

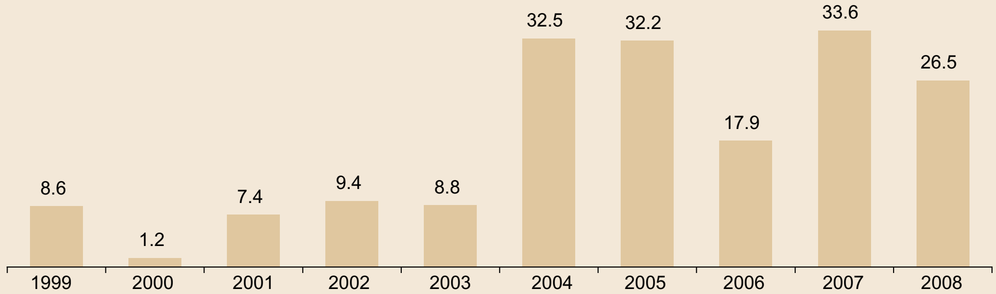
	Balance in millions of nuevos soles			Growth rates	
	2006	2007	2008	2007	2008
Currency	11,687	14,857	17,336	27.1	16.7
Demand deposits	7,231	9,895	11,516	36.8	16.4
Savings deposits	6,658	8,543	11,667	28.3	36.6
Term Deposits	7,318	10,972	15,506	49.9	41.3
Securities and other instruments	678	594	717	- 12.4	20.6
TOTAL	**33,573**	**44,862**	**56,742**	**33.6**	**26.5**

BROAD MONEY IN FOREIGN CURRENCY

	Balance in millions of US$			Growth rates	
	2006	2007	2008	2007	2008
Demand deposits	2,668	3,368	4,042	26.2	20.0
Savings deposits	2,654	2,837	3,365	6.9	18.6
Term Deposits	5,607	6,777	7,899	20.9	16.6
Securities and other instruments	120	86	130	- 28.2	50.0
TOTAL	**11,049**	**13,068**	**15,436**	**18.3**	**18.1**

Source: BCRP.

GRAPH 61
PRIVATE SECTOR BROAD MONEY IN NUEVOS SOLES
(Annual percentage change, end of period)

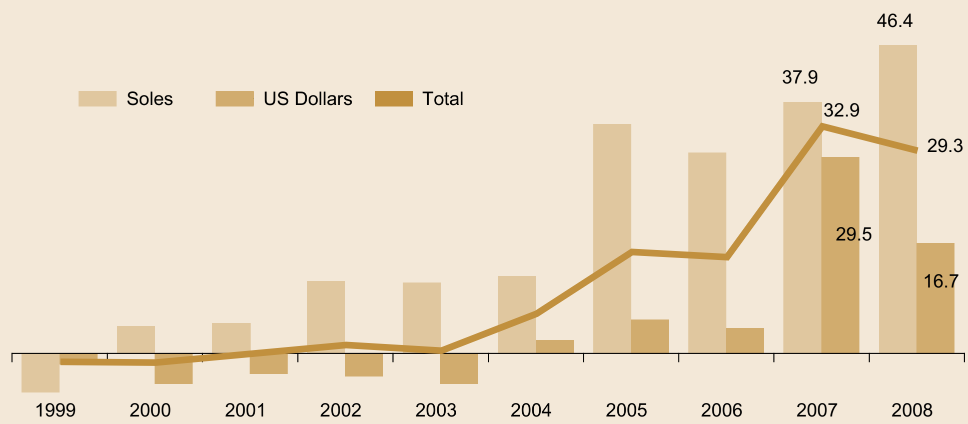


Source: BCRP.

4.3 Credit to the private sector

During 2008, total credit to the private sector grew at a rate of 32.7 percent –the highest annual growth rate recorded since 1996. Isolating the effect of exchange rate variations, total credit grew 29.3 percent, a rate slightly lower than that of 2007 (32.9 percent). Credit in soles grew at a rate of 46.4 percent –higher than the one observed in 2007 (37.9 percent)–, while credit in dollars grew at a rate of 16.7 percent –lower than the one recorded in 2007 (29.5 percent). Therefore, the dollarization ratio of credit to the private sector declined from 57 to 52 percent.

GRAPH 62
CREDIT TO THE PRIVATE SECTOR 1/
(Annual percentage change, end of period)



1/ The balance in dollars is calculated at the constant exchange rate of December 2008.
Source: BCRP.

The higher dynamism of credit to the private sector in domestic currency was associated with the faster pace of growth of loans to production sectors, corporate loans, and credit to micro businesses.[8] On the other hand, credit to individuals (consumer and mortgage loans) grew at a lower pace than in 2007, reflecting banks' greater caution in granting personal loans in a context of increased uncertainty due to global recession. Nonetheless, mortgage loans, which grew at an annual rate of 83.2 percent, were the most dynamic loans in soles.

The statistical series about consumer and mortgage loans in December 2008 have been corrected for comparison purposes, given that banks reclassified part of their portfolio of consumer loans as mortgage loans, in compliance with new regulations on the classification of loans (Framework of Evaluation and Classification of Loans and Provisions – Resolución SBS N° 808-2003)[9].

8 Corporate loans comprise commercial loans plus investments in securities issued by private sector firms.
9 Some mortgage-backed consumer loans, considered as consumer loans until November 2008, were reclassified as mortgage loans in December 2008.

TABLE 68
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY BY TYPE OF LOAN

	Balance in millions of nuevos soles			% Change	
	2006	2007	2008	2007	2008
Corporate loans	9,452	12,142	18,259	28.5	50.4
Microbusiness loans	3,689	5,175	8,739	40.3	68.9
Consumer loans	10,157	14,246	18,562	40.3	30.3
Mortgages	889	1,786	3,272	100.9	83.2
TOTAL	**24,186**	**33,348**	**48,832**	**37.9**	**46.4**

Source: SBS and BCRP.

By type of financial institution, credit in municipal deposit banks showed the highest growth rate (56.5 percent), followed by credit in banks (53.4 percent). In both cases, these growth rates were higher than the ones recorded in the previous year. Credit in financial entities, on the other hand, declined 19.8 percent as a result of the conversion of former Financiera Cordillera into Banco Ripley in January 2008. Credit in soles in the segment of micro finances increased from 13.8 percent in 2007 to 38.9 percent in 2008, reflecting the higher demand for credits in domestic currency in a context of exchange rate volatility.

TABLE 69
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY BY INSTITUTION

	Balance in millions of nuevos soles			% Change	
	2006	2007	2008	2007	2008
Banks	17,669	25,195	38,648	42.6	53.4
Banco de la Nación	1,330	2,237	1,993	68.2	- 10.9
Development banking	130	158	193	21.6	22.5
Micro-finance Institutions	5,058	5,758	7,997	13.8	38.9
Municipal deposit banks	2,400	3,192	4,996	33.0	56.5
Rural deposit banks	462	669	927	44.8	38.4
Saving and credit cooperatives	758	952	1,317	25.6	38.3
Financial companies	1,437	945	758	- 34.3	- 19.8
TOTAL	**24,186**	**33,348**	**48,832**	**37.9**	**46.4**

Source: BCRP.

Credit to the private sector in foreign currency showed a slowdown, affecting both credit to production sectors (corporate loans and credit to micro businesses) and credit to individuals (consumer and mortgage loans). By type of financial institutions, banks' loans grew at a rate of 18.1 percent (31.7 percent in 2007), but credit in micro-finance institutions declined 6.4 percent. The latter is explained exclusively by the evolution of credit in dollars in municipal deposit banks (23.5 percent), whose policy was to grant credits mostly in soles to reduce the possible impact of the financial crisis on borrowers.

TABLE 70
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY BY TYPE OF LOAN

	Balance in millions of US$			% Change	
	2006	2007	2008	2007	2008
Corporate loans	7,933	10,721	12,891	35.2	20.2
Microbusiness loans	396	463	423	17.0	- 8.7
Consumer loans	830	1,051	1,180	26.6	12.3
Mortgages	2,057	2,290	2,456	11.3	7.3
TOTAL	**11,216**	**14,525**	**16,950**	**29.5**	**16.7**

Source: SBS and BCRP.

TABLE 71
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY BY INSTITUTION

	Balance in millions US$			% Change	
	2006	2007	2008	2007	2008
Banks	10,370	13,657	16,125	31.7	18.1
Banco de la Nación	14	12	11	- 15.3	- 2.2
Development banking	2	2	2	-.-	-.-
Micro-finance Institutions	673	696	651	3.5	- 6.4
Municipal deposit banks	349	370	283	6.2	- 23.5
Rural deposit banks	55	48	48	- 12.5	0.6
Saving and credit cooperatives	224	250	285	11.6	13.9
Financial companies	46	28	35	- 38.1	24.5
TOTAL	**11,059**	**14,367**	**16,789**	**29.5**	**16.7**

Source: BCRP.

5. Quality of Banks' Portfolio

Despite the international financial crisis, the financial indicators of banks in the country continued improving during 2008, reflecting clients' higher payment capacity in a context of economic expansion. Thus, banks' ratio of non-performing loans (NPL) remained at historical lows of 1.3 percent during 2008, while the level of coverage of NPL reached levels of 151.4 percent. Furthermore, return on equity (ROE) increased from 27.9 to 31.1 percent, despite the reduction of operational margins. This positive evolution was associated with banks' improvements in terms of organization and efficiency, as well as with the higher return they obtained from their investments in BCRP Certificates of Deposit.

TABLE 72
INDICATORS ON COMMERCIAL BANKS
(Percentages)

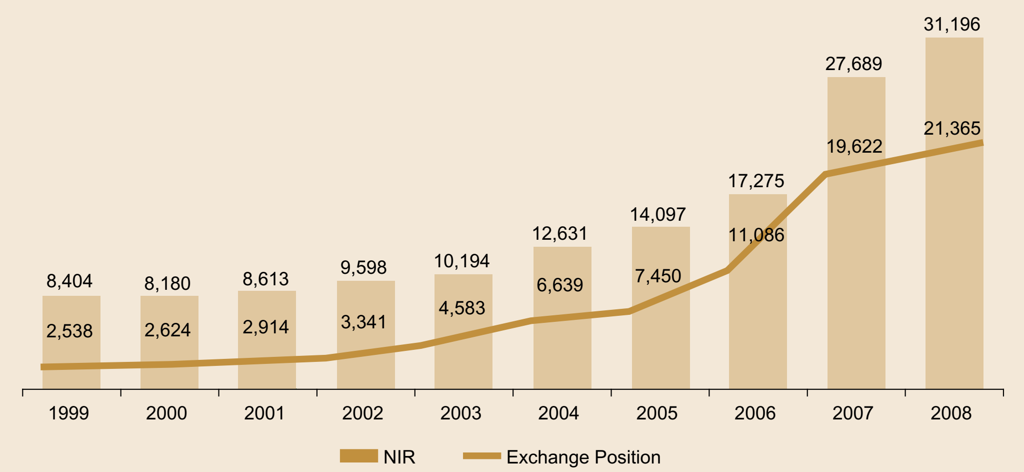
	2006	2007	2008
Non-performing loans / Gross assets 1/	1.6	1.3	1.3
Provisions / Non-performing 2/	100.3	124.4	151.4
Return on equity ratio (ROE)	23.9	27.9	31.1

1/ Overdue loans.
2/ Non-performing loans plus refinanced and restructured credits
Source: SBS.

6. Net international reserves (NIRs)

The country's international position continued to improve in 2008, as reflected in the evolution of NIRs, which increased by US$ 3,507 million, thus amounting to US$ 31,196 million at end 2008.

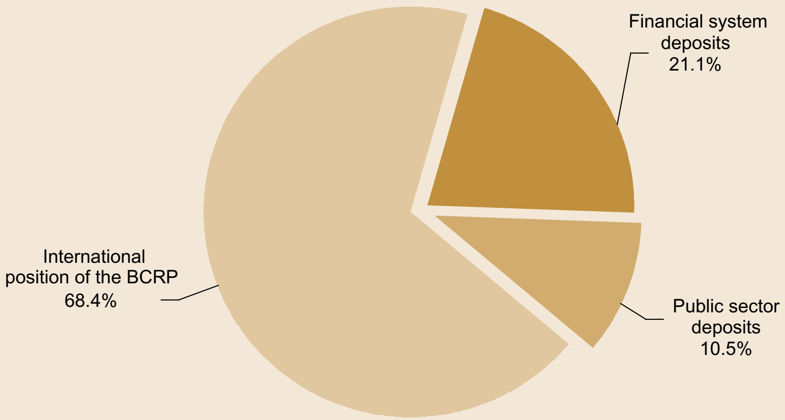
GRAPH 63
NET INTERNATIONAL RESERVES AND INTERNATIONAL POSITION OF THE BCRP
(Millions of US$)



Source: BCRP.

Factors contributing to this result in 2008 included net purchases of dollars (US$ 2,754 million), higher banks' deposits at the Central Bank (US$ 1,946 million), and the net yield on the investment portfolio (US$ 1,048 million). However, these operations were in part offset by sales of dollars (US$ 2,192 million) to the Treasury for the repayment of the external debt. Like NIRs, the international position of the BCRP increased by US$ 1,743 million –at a lower pace than in 2007–, reaching a balance of US$ 21,365 million at end 2008.

GRAPH 64
NIR COMPOSITION
December of 2008 = US$ 31,196 Millions



Source: BCRP.

The share of the international position relative to NIRs declined slightly from 71 percent to 68 percent at end 2008. Other NIR components included reserve requirements and financial system's deposits at the BCRP (21 percent), and public sector deposits in dollars (10 percent).

6.1 Management of international reserves

At end 2008, gross international reserves (GIR) amounted to US$ 31,233 million, a sum higher by US$ 3,513 million than the one recorded at end 2007. Net international reserves (NIRs) and the BCRP's international position increased by US$ 3,507 million and by US$ 1,743 million, respectively.

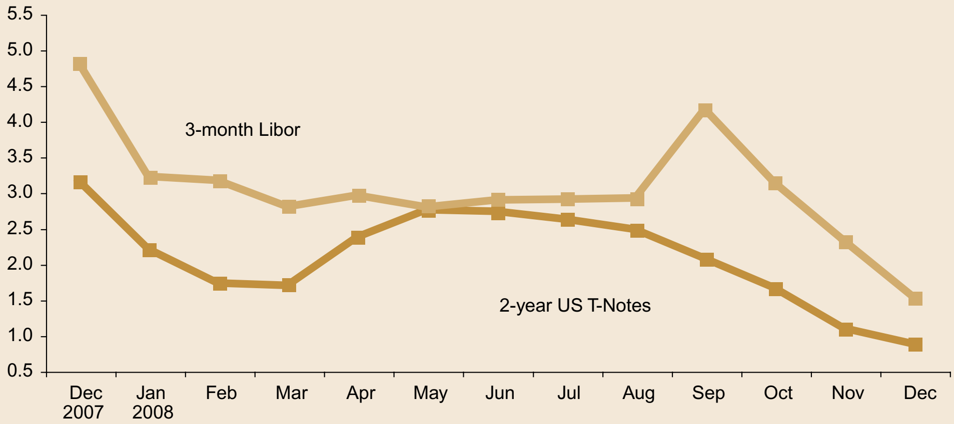
Thus, NIRs at end 2008 were equivalent to 13 months of imports, to 3.5 times short-term liabilities, and to 4.4 times the balance of the monetary base.

TABLE 73
HIGH LEVEL OF INTERNATIONAL RESERVES STRENGTHENS PERU'S INTERNATIONAL LIQUIDITY POSITION

NIRs in US$ 31.2 billion	• 3.5 times one-year debt liabilities (short term external liabilities plus amortization of long-term debt) • 4.4 times the monetary base • 13 months of imports

The Federal Reserve (FED) gradually reduced its benchmark rate from 4.25 percent in 2007 to a range of between 0 and 0.25 percent at end 2008[10]. This monetary policy influenced the sharp downward trend of the Libor rate, while the yields on the US Treasury Bonds were also affected by the increased demand for these bonds as hedge assets.

GRAPH 65
3-MONTH LIBOR AND 2-YEAR US TREASURIES
(Annual yield (%))



Source: Bloomberg.

One of the first sectors affected by the global financial crisis was the banking sector, because the crisis generated a confidence crisis in this sector and a significant increase in terms of credit risk, especially in September when the Libor rate rose substantially.

In this scenario of higher risk, the management of portfolio investments shifted to a more conservative position, reducing significantly the exposure to banking risks, and increasing the diversification of investments in high-quality credit securities. Moreover, some tactical shifts were also temporarily implemented when conditions were propitious to improve the yield on the portfolio. Furthermore, the duration of the portfolio was lengthened in the second half of the year, in a context of marked expectations of interest rate reductions worldwide.

6.2 Composition of international reserve assets

At end 2008, 87 percent of our international reserve assets (IRAs) were invested in high-quality credit liquid assets, 9 percent in first-class banks abroad, and the remaining 4 percent in gold and other assets. The portfolio consisted of debt bonds issued by sovereign issuers, supranational organizations or foreign public entities with AA- or higher long-term credit ratings, as well as by bond issues of the Bank for International Settlements.

10 The federal fund rate was lowered to 3.5% and 3.0% on January 22 and 30, respectively; to 2.25% on March 18; to 2.0% on April 30; and to 1.5% and 1.0% on October 8 and 29, respectively. Finally, it was reduced to between 0% and 0.25% on December 16.

Liquid international reserve assets[11] at end 2008 amounted to US$ 30,330 million. The yield[12] on these assets is estimated at US$ 1,199 million –higher than in the previous year (US$ 987 million in 2007)–, which is mainly explained by an international context of lower interest rates.

TABLE 74
INTERNATIONAL RESERVE ASSETS
(Millions of US$)

Heading	12.31.2007		12.31.2008	
	Amount	%	Amount	%
Foreign deposits	9,568	34.5	2,656	8.5
Securities	16,834	60.7	27,178	87.0
Gold	928	3.3	983	3.1
Other assets 1/	390	1.4	416	1.3
TOTAL	**27,720**	**100.0**	**31,233**	**100.0**

1/ Includes contribution to the FLAR and balance of assets associated with international agreements.

As regards of the portfolio structure by currencies, the share of currencies other than the US dollar has increased. Investments with less than 3-month maturities (mainly term deposits) have declined, while investments with 3 to 12-month or longer maturities have increased. In terms of the portfolio's quality, 86 percent is in entities that have a long-term credit rating of **AAA**, and the rest in institutions with ratings of **AA-** or higher. The average duration of the investment portfolio in 2008 was 1.23 years.

TABLE 75
COMPOSITION OF LIQUID INTERNATIONAL ASSETS
(Percentage structure)

Heading	12.31.2007	12.31.2008
1. By currencies and gold	**100.0**	**100.0**
US$	85.6	83.2
Other currencies	12.7	15.2
Gold	1.7	1.6
2. By maturity-term	**100.0**	**100.0**
0-3 months	43.0	27.8
3-12 months	12.3	22.4
more than 1 year	44.7	49.8
3. By long-term rating	**100.0**	**100.0**
AAA	63.8	85.6
AA+ / AA / AA-	36.2	13.3
A+	0.0	1.1

Source: BCRP.

11 International Reserve Assets (IRA) minus capital subscription with FLAR, balance of international agreements (ALADI), and gold holdings at the Central Bank mainly.

12 Comprises accrued interests, accounting gains due to sale of securities, and amortization of premium or discount for holding of securities. Does not include exchange-related gains/losses.

7. Financial saving and capital market

Financial saving includes firms' and families total assets in the financial system in the form of saving deposits, term deposits, securities, participations in mutual funds, life insurances, and contributions to private pension funds.

During 2008, financial saving increased 11.0 percent on average compared to 2007. This lower increase than the one observed in the previous year (33.4 percent) was basically due to the loss of value of private pension funds as a result of their investments in shares that were affected by the decline of stock market indices. As a percentage of GDP, financial saving remained at levels around 36.6 percent.

TABLE 76
FINANCIAL SAVINGS
(Average period balance, in percentage of GDP)

	National currency	Foreign currency	Total
1999	7.1	17.7	24.8
2000	7.9	17.5	25.5
2001	9.1	17.5	26.6
2002	10.6	16.8	27.4
2003	12.1	16.3	28.4
2004	13.4	14.7	28.1
2005	15.4	13.6	29.0
2006	17.2	13.4	30.5
2007	23.1	13.6	36.7
2008	23.7	12.9	36.6

Source: BCRP.

By currencies, financial saving in soles, which includes workers' contributions to the private pension system, recorded a growth rate of 13.9 percent, significantly lower than that of 2007 (49.4 percent). However, its share in GDP terms increased slightly, from 23.1 percent to 23.7 percent. Financial saving in dollars, which consists mostly of deposits in this currency, grew 12.8 percent, although its share in GDP terms declined from 13.6 percent in 2007 to 12.9 percent.

7.1 Fixed-income bond market

At end 2008 the balance of fixed-income instruments issued by private sector enterprises increased 9.3 percent compared with 2007.[13] The number of issuers, excluding banks, declined from 55 to 51.[14]

By type of issuer, the balance of instruments issued by non-financial organizations declined 0.2 percent, isolating the effect of exchange rate variations. The balance of instruments issued by financial entities, on the other hand, increased 33.6 percent, as a result of which its share in terms of total instruments increased from 28.2 to 34.5 percent.

By currencies, the share of instruments in soles relative to total instruments increased from 35.5 percent at end 2007 to 40 percent at end 2008, which implies a reduction in the share of bonds in dollars (from 54.6 percent to 50 percent).

The interest rates on bond issues showed an increase compared with the previous year, especially since Q4. Thus, the rate on a 3-year triple A bond issue, which was 6.4 percent on average at end 2007, increased up to 8.2 percent at end 2008. Likewise, the rate on a 10-year triple A bond issue increased from 6.8 percent at end 2007 to 8.7 percent in August 2008, which is the last time when these bonds were placed.

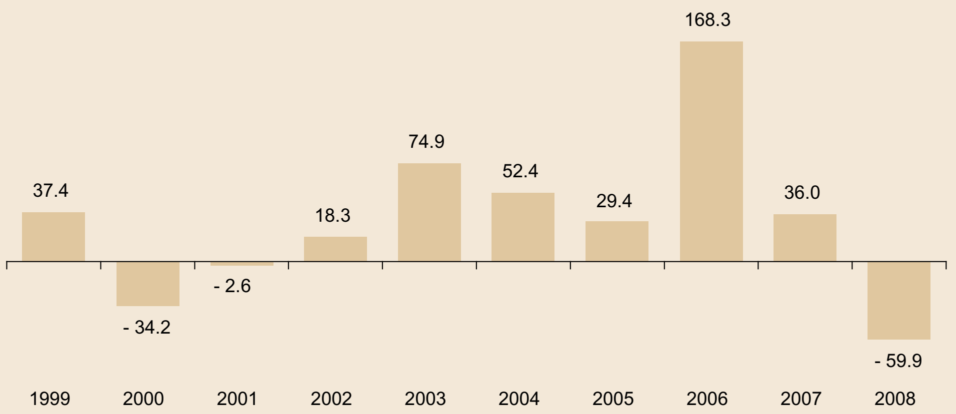
The corporations that issued higher amounts in soles were Banco de Crédito (S/. 510 million), Telefónica del Perú (S/. 316 million), and Interbank (S/. 246 million).

7.2 Stock market

The General Index of the Lima Stock Exchange (IGBVL) showed an annual fall of 59.9 percent, while the Blue Chip Index (ISBVL) –which registers the 15 most representative shares– fell 60.0 percent. This evolution was associated with the impacts of the international financial crisis, which affected the prices of raw materials, especially minerals, whose incidence on the local stock exchange is greater.

13 Refers only to issues of short-term bonds and instruments placed in the domestic market through public bids.
14 Issuers of short-term bonds and instruments.

GRAPH 66
GENERAL INDEX OF THE LIMA STOCK EXCHANGE
(Annual percentage change, end of period)

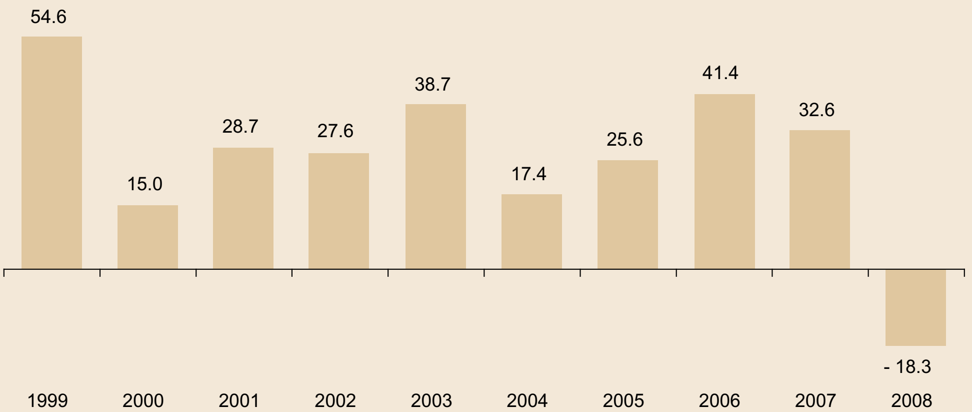


Source: Lima Stock Exchange.

7.3 Private pension system

The drop of stock exchange indices affected the growth of private pension funds, whose value decreased 18.3 percent compared with the previous year. Despite this, the average yield in the last 15 years remained at 7.5 percent in real terms. The number of members of private pension funds continued to grow (4.8 percent) and is now over 4.2 million.

GRAPH 67
PRIVATE PENSION FUNDS
(Annual percentage change, end of period)



Source: SBS.

The portfolio composition was strongly oriented to local fixed-income investments, such as government securities, deposits, and private company bonds. At the same time, the participation of shares in the investment portfolio declined by over 15 percentage points, from 39.5 to 23.6 percent. The share of investments abroad declined slightly, from 13.3 to 12.4 percent, due to the lower participation of international mutual funds.

TABLE 77
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO
(Percentages)

	2006	2007	2008
a. Government securities	**19.1**	**21.9**	**25.2**
Central government	17.0	20.6	24.3
Central Bank securities	1.3	1.3	0.9
Brady bonds	0.8	0.0	0.0
b. Financial institutions	**11.8**	**8.0**	**17.4**
Deposits in domestic currency 1/	4.9	2.1	4.3
Deposits in foreign currency 1/	0.6	0.3	3.7
Financial system shares	0.8	1.6	1.6
Bank bonds	2.4	2.4	4.2
Others 2/	3.0	1.7	3.6
c. Non-financial private institutions	**60.4**	**56.7**	**45.7**
Common and investment shares 3/	41.2	39.5	23.6
Corporate bonds and commercial papers	12.0	13.0	18.2
Others 4/	7.1	4.1	3.9
d. Foreign Investments	**8.5**	**13.3**	**12.4**
International bonds	2.2	0.3	2.4
Deposits in foreign banks	0.0	0.6	0.8
Foreign Mutual funds	6.3	10.4	6.4
International shares and ADS	0.0	0.5	1.5
Others securities	0.0	1.5	1.3
e. Other securities 5/	**0.3**	**0.1**	**- 0.8**
TOTAL	**100.0**	**100.0**	**100.0**
In millions of US$	*14,402*	*20,358*	*15,899*
% of GDP	*15.1*	*18.0*	*13.2*

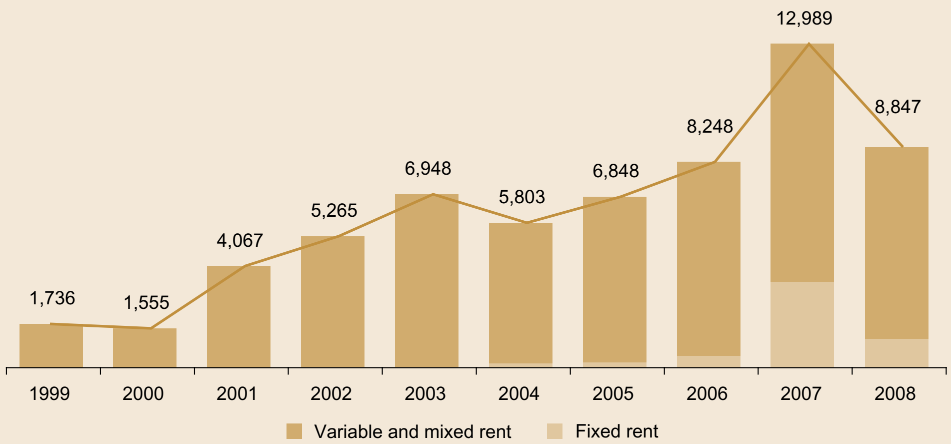
1/ Includes current account and certificates in foreign currency.
2/ Includes investment fund quotas.
3/ Includes American Depository Reviews (ADR) and American Depository Shares (ADS) acquired locally.
4/ Includes commercial papers, repos, and promisory notes.
5/ Includes Stand-by deposits.
Source: SBS.

7.4 Investment mutual funds

During 2008, the total amount of funds administered by investment mutual funds declined 31.9 percent due to the withdrawal of investors given the international crisis. The number of participants also declined 27.6 percent, amounting to less than 200 thousand at year-end. However, the total number of operational funds increased from 39 to 49 due to the entry of 5 new fixed-income funds and 5 mixed- or variable income funds.

The investments of mutual funds were mostly centered in deposits, given the higher requirements of liquidity associated with increased rescue plans. The share of deposits in the aggregate portfolio grew from 14.9 percent at end 2007 to 29.0 percent at end 2008. In contrast, the weight of shares in the

GRAPH 68
EVOLUTION OF MUTUAL FUNDS
(Balance in millions of nuevos soles)



Source: CONASEV and BCRP.

aggregate portfolio declined from 11.3 percent to 4.5 percent as a result of the fall of indices and of investors' withdrawal from this type of funds. Both government securities and investments abroad showed losses in terms of their share in the overall portfolio.

TABLE 78
COMPOSITION OF MUTUAL FUND INVESTMENT

	2006	2007	2008
a. Government securities	**25.3**	**29.8**	**15.7**
Central government	7.1	5.0	1.3
Global and Brady bonds	9.3	7.3	3.7
Central Bank securities	9.0	17.6	10.7
b. Financial institutions	**33.5**	**24.3**	**52.3**
Deposits in domestic currency	7.6	5.7	13.5
Deposits in foreign currency	15.3	9.2	25.5
Financial system bonds	10.5	8.9	13.1
Shares and other papers	0.1	0.5	0.3
c. Non-financial institutions	**35.0**	**34.7**	**29.3**
Bonds and commecial papers	34.3	23.4	24.9
Common and investment shares	0.7	11.3	4.5
d. Foreign investments	**5.2**	**6.5**	**1.9**
e. Other 1/	**1.0**	**4.7**	**0.7**
TOTAL	**100.0**	**100.0**	**100.0**
In millions of US$	*2,484*	*4,283*	*2,823*
% of GDP	*2.7*	*3.9*	*2.4*

1/ Includes repos and agreements.
Source: CONASEV.

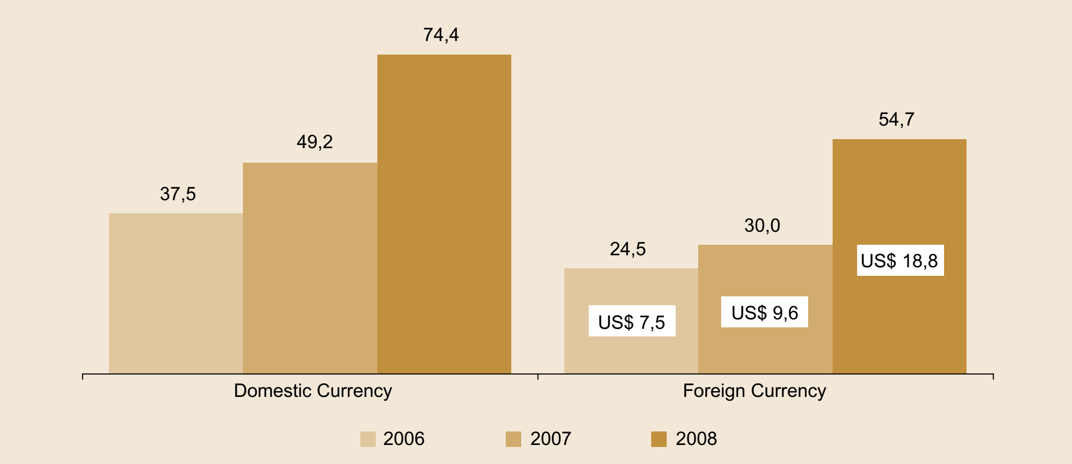
8. Expansion of the use of electronic payment systems

In 2008, the total value of payments made through systemically important payment systems (Real Time Gross Settlement System -RTGS-, Electronic Clearing House -CCE-, and Multibank Security Settlement System) increased 52.6 percent relative to 2007. This increase resulted from the expansion of payments in both domestic currency and foreign currency, which increased 42.5 percent and 81.5 percent, respectively. The rotation of payments in GDP terms increased from 3.4 times in 2007 to 4.6 times in 2008, which indicates that payments increased at a higher pace than economic activity. In a context of international instability, payments in domestic currency in terms of interbank payments declined from 62.9 percent in 2007 to 58.7 percent in 2008.

8.1 RTGS System

The amount of transfers made through the RTGS system grew 63.0 percent in 2008. Transactions in foreign currency showed a higher dynamism (94.7 percent) than transactions in domestic currency, which grew at a lower pace (51.4 percent).

GRAPH 69
TRANSFERS THROUGH THE RTGS SYSTEM
(Monthly average in thousands of millions of nuevos soles)

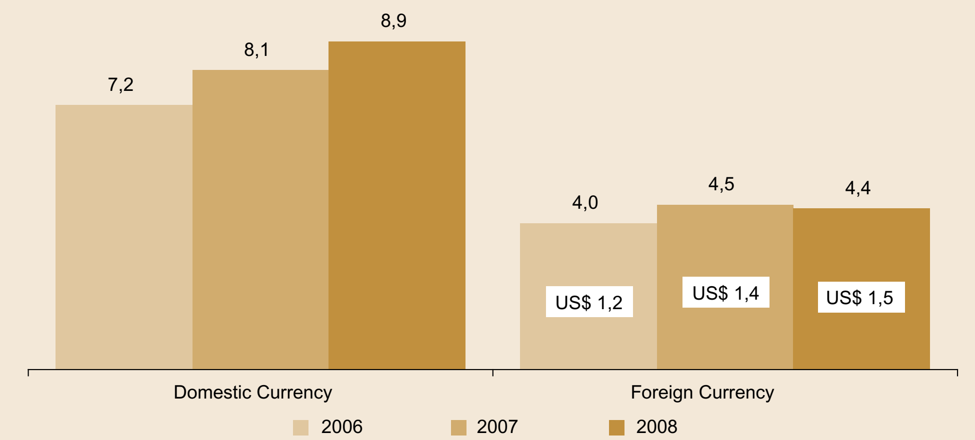


8.2 Electronic Clearing House (CCE)

The value of the operations processed through the Electronic Clearing House (CCE) in 2008 showed a lower dynamism than in 2007 (5.3 percent and 13.1 percent, respectively), due to the lower growth of checks. It should be pointed out that credit transfers[15] in both domestic currency and in foreign currency increased in terms of amounts (40.8 percent and 37.0 percent, respectively).

15 Payment instrument whereby the Originating Participating Entity is asked to transfer an amount of money to the Recipient Participating Entity on behalf of a third party.

GRAPH 70
PAYMENTS THROUGH THE ELECTRONIC CLEARING HOUSE*
(Monthly average in thousands of millions of nuevos soles)



* Includes checks and credit transfers.

The volume of operations processed through the CCE increased 6.8 percent due to increased acceptance of credit transfers (26.0 percent) and, to a lower extent, to the expansion of checks (4.2 percent), although the latter still represents 86.1 percent of the transactions processed through the CCE.

8.3 Multibank Security Settlement System (MSS System)

Transactions processed through the MSS System include the payments for securities traded at the Lima Stock Exchange (LSE) and payments for government securities listed at CAVALI ICLV, with the amount traded at the LSE representing 85.6 percent of the total in 2008. Payments processed through this system declined 35.4 percent due to the lower amount negotiated at the LSE given the international economic context.

8.4 Means of payment other than cash

Payments with cards are mostly made in domestic currency, with credit cards being the most used medium. Credit cards in domestic currency recorded a growth of 22.5 percent.

Checks are the main instrument used for intrabanking payments and represented over 50 percent of the total value of these payments in 2008. It is worth pointing out that transactions in foreign currency carried out through intrabanking instruments declined from 39.6 percent to 34.6 percent.

8.5 Innovations in the payment system

Several activities were developed in 2008 with the purpose of improving the safety and efficiency of payment systems and promoting the use of electronic payments.

8.6 Modernization of the RTGS System

The Central Bank is constantly modernizing the RTGS system, reinforcing its operational efficiency and safety. In June 2008, the BCRP announced the onset of the project of modernization of the RTGS system at the meeting of the Interbank Committee on Payment and Settlement Systems. The purpose of this project is to modernize the system in order to have a more modern and flexible system that allows providing better services to users.

For example, the use of Web Service will allow entities to connect RTGS services directly to the channels employed by users (the Internet, ATM, etc.), without centralizing orders that have to be submitted subsequently. Likewise, entities not automatically connected to the system will be able to send financial messages through a safe network, thus contributing to increase automatic operations.

8.7 Promotion of electronic payments

Dissemination campaigns are carried out through informational talks and publications to inform the public on relevant features of these instruments and the advantages of their use. Likewise, given the need of greater information regarding credit transfers, the CCE developed an informational campaign in the media. This campaign was preceded by training provided to bank personnel in order that they may answer the public's questions on these topics.

Simultaneously, the Central Bank continued promoting the access of non-bank financial entities to the services provided by the CCE. In this sense, the CCE modified its rates in July 2008, reducing the minimum payment from US$ 3,000 to US$ 2,000 (66.7 percent).

The first municipal deposit bank started operating in the CEE in December 2008. The participation of a new municipal deposit bank in the CEE was also authorized.

BOX 11

SUMMARY OF THE BCRP COMMUNIQUÉS ON THE MONETARY PROGRAM 2008

January 10: The Board of the Central Bank approved to raise the monetary policy reference interest rate from 5.0 to 5.25 percent. This measure has been adopted to maintain inflation expectations within the inflation target range, given the increase seen in the international prices of food products in a context of strong growth of domestic demand.

As pointed out in previous communiqués, inflation's temporary rate above the target is mainly explained by imported inflation, which posted 10.5 percent in 2007. The supply and demand imbalances in the international markets of grains and fuel have implied a generalized increase of inflation worldwide.

February 7: The Board of the Central Bank approved to maintain the monetary policy reference interest rate at 5.25 percent. However, the recent increase in the rates of reserve requirements in domestic currency (February 1) implies a more restrictive monetary stance as this translates into higher lending interest rates and, therefore, favors a more moderate growth of credit in the financial system.

The impact of this increase in the rate of reserve requirements is estimated to be equivalent in the short-term to an increase of 25 basis points. It is worth noting that in addition to the reference interest rate, the Central Bank may resort occasionally to other instruments of monetary control, such as the rate of reserve requirements.

The Board continues to oversee the evolution of inflation and its determinants, both domestic and external, and stands ready to take any necessary measures required to ensure that inflation converges to the target range.

March 13: The Board of Directors of the Central Reserve Bank of Peru approved to raise legal reserve requirements from 7 to 8 percent and to increase marginal reserve requirements from 15 to 20 percent as of April 2008. The Board also approved to increase the rate of marginal reserve requirements for non-resident financial entities' short-term deposits and liabilities in any currency to 40 percent. The Board decided to maintain the monetary policy reference interest rate at 5.25 percent considering that the impact of the increase of the rate of reserve requirements, effective as of April, would be equivalent to raising this rate by 50 basis points.

These additional raises of the reserve requirement ratio add onto the measures being implemented by the BCRP since July 2007 in order to lead inflation to converge to the target range as soon as possible. Between July 2007 and January 2008 the reference interest rate was raised on three occasions, as a result of which this rate increased from 4.5 to 5.25 percent.

April 10: The Board of the Central Reserve Bank of Peru approved to raise the monetary policy reference interest rate from 5.25 to 5.50 percent. Moreover, the Board also approved to raise the requirements of reserves for financial entities in both domestic and foreign currencies as of May. These measures are in line with the increases of reserve requirements approved in January and March, as well as with having raised the reference interest rate from 4.5 to 5.25 percent between July 2007 and January 2008.

May 8: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 5.5 percent.

The Board continues to oversee the effects of both the previous increases of the reference rate and the reserve requirement measures approved in January, March, and April on the evolution of inflation. The Board reiterates that the necessary adjustments will be implemented to ensure inflation's gradual convergence to the target range in a context in which price rises are mainly explained by food supply shocks.

June 12: The Board of the Central Reserve Bank of Peru approved to raise the monetary policy reference interest rate from 5.5 to 5.75 percent. Together with the series of monetary adjustments implemented so far this year, this increase in the reference interest rate is aimed at preventing that the rises observed in the international prices of food and fuels will translate into higher inflation expectations in a context of a high pace of growth of both public and private expenditure.

July 10: The Board of the Central Reserve Bank of Peru approved to raise the monetary policy reference interest rate from 5.75 to 6.0 percent. Together with the series of monetary adjustments implemented so far this year, this increase in the reference interest rate is aimed at preventing that the rises observed in the international prices of food and fuels will translate into higher inflation expectations in a context of a high pace of growth of both public and private expenditure.

The Board also approved to raise banks' reserve requirements in domestic currency and in foreign currency as from August. These measures are in line with the rises of reserve requirements implemented as from February, April, and May, as well as with having raised the reference interest rate from 4.5 to 6.0 percent between July 2007 and July 2008.

August 7: The Board of the Central Reserve Bank of Peru approved to raise the monetary policy interest rate from 6.0 to 6.25 percent, thus accumulating an increase of 175 basis points in this rate since July 2007. Together with the other monetary adjustments implemented since the beginning of this year, these measures are aimed at steering inflation to gradually return to the target range and at preventing that the rises in the international prices of food and fuels may translate into inflation expectations in a context of a higher growth of domestic demand than that of the potential output.

September 11: The Board of the Central Reserve Bank of Peru approved to raise the monetary policy interest rate from 6.25 to 6.50 percent, thus accumulating an increase of 200 basis points in this rate since July 2007. Together with the other monetary adjustments implemented since the beginning of this year, these measures are aimed at steering inflation to gradually return to the target range and at preventing that the rises in the international prices of food and fuels may translate into inflation expectations in a context of a higher growth of domestic demand than that of the potential output.

October 9: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 6.50 percent.

This decision has been made considering high uncertainty regarding the evolution of global economy and its impact on global economic activity, the international prices of our exports and imports, and international financial flows.

November 13: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 6.50 percent.

In October, the rate of inflation reflected the rise in the prices of some foodstuffs (potato) and public utilities (electricity and water). However, in the next months inflation should resume the downward path foreseen in the evolution of inflation, which includes the effects of the recent drops observed in the international prices of food inputs and fuels.

December 10: The Board of the Central Reserve Bank of Peru approved to maintain the monetary policy reference interest rate at 6.50 percent.

Monthly inflation in November was lower than in previous months despite the price rises observed in residential electricity and potable water rates. Inflation in the next months should continue showing the expected downward trend, which includes the effects of the recent drops observed in the international prices of food inputs and fuels.