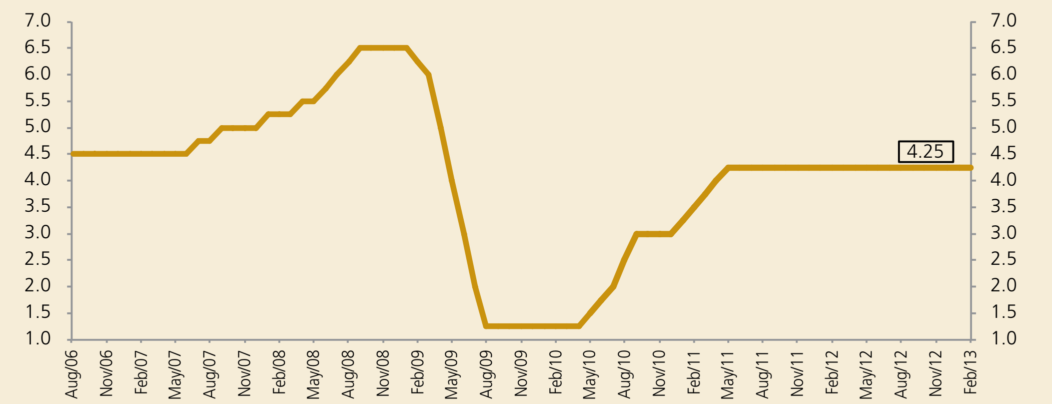
V.

Liquidity and Credit

1. Monetary Policy

During 2012, the BCRP maintained its policy reference rate at 4.25 percent in a context marked by the reversal of supply shocks, an economic growth close to the economy's potential growth, and still weak growth prospects for the global economy. In this scenario of uncertainty, monetary policy was preventive and aimed at maintaining inflation expectations anchored within the inflation target range.

GRAPH 85
BCRP REFERENCE INTEREST RATE
(%)



Source: BCRP.

Reserve requirements induce financial institutions to maintain prudent levels of liquidity in both domestic currency and foreign currency, reducing their vulnerability to possible scenarios of capital outflows. Several reserve requirements adjustments were made during the year with the purpose of moderating the expansion of credit and reducing the vulnerability of the financial system to a potential capital outflow. Moreover, since reserve requirements also increase the cost of financial intermediation, they also lead lending interest rates to rise.

Among the measures implemented in 2012, it is worth pointing out that the rate of marginal reserves in domestic currency was raised from 25 to 30 percent and that new external short term obligations with terms of 3 years or less were also included among the obligations subject to reserve requirements of 60 percent. This rate of reserves was previously applied only to external obligations with terms of 2 years or less.

Additionally, in order to induce a sustainable evolution of banks' leverage, a rate of reserve requirements of 20 percent was established for 3-year external loans and bonds exceeding by 2.5 times the effective net worth of financial entities.

Moreover, the rate of reserve requirements on credit in foreign currency for foreign trade operations was reduced from 60 percent to 25 percent in order to have a better control of reserves on loans for foreign trade purposes.

The rates of mean reserve requirements were raised on 4 occasions (between 0.25 and 0.75 percentage points on each occasion), as a result of which they were raised by a total of 2.25 percentage points. This adjustment was made simultaneously in the rates of required reserves in soles and in dollars.

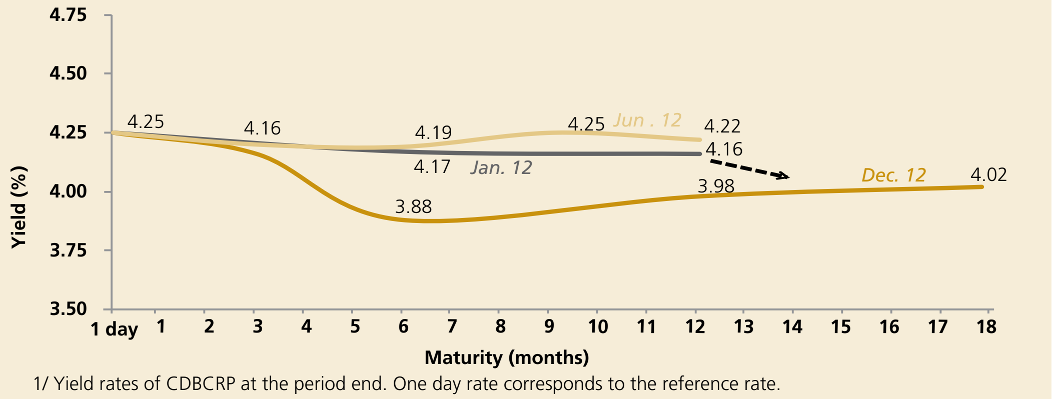
TABLE 64
RESERVE REQUIREMENTS

	Legal minimum reserve requirements	Domestic Currency		Foreign currency		
				General regime		Short-term foreign liabilities
		Marginal reserve requirements on deposits	Increase in the average reserve requirements	Marginal reserve requirements on deposits	Increase in the average reserve requirements	
May.12	9%	30%	0.50%	55%	0.50%	60%
Jul.12	9%	30%		55%		60%
Sep.12	9%	30%	0.50%	55%	0.50%	60%
Oct.12	9%	30%	0.50%	55%	0.50%	60%
Nov.12	9%	30%	0.75%	55%	0.75%	60%

Source: BCRP.

The stability of the reference rate was reflected in the nearly flat yield curve of the BCRP securities observed in the first half of the year. Towards the end of the year, expectations of lower rates in the reference rate were reflected in the six months to 18-months segment of the yield curve.

GRAPH 86
YIELD CURVE OF BCRP SECURITIES1/



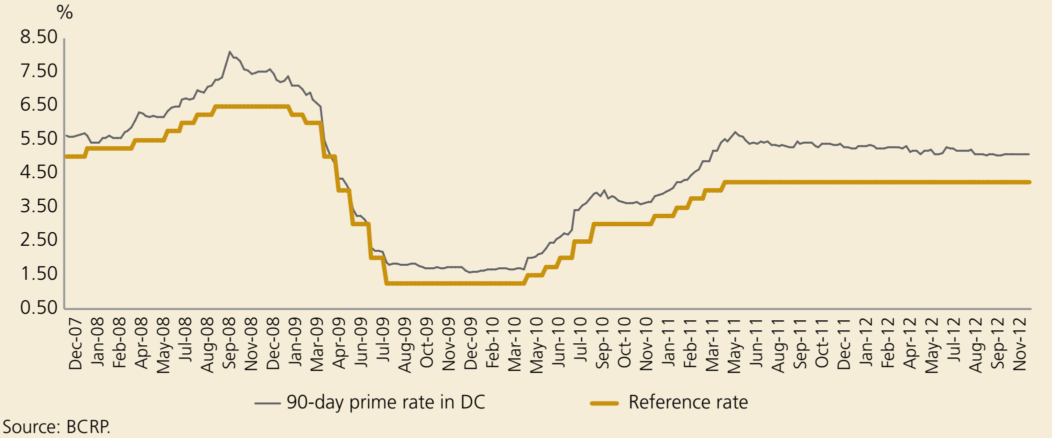
1/ Yield rates of CDBCRP at the period end. One day rate corresponds to the reference rate.

Source: BCRP.

2. Interest Rates

In 2012 the corporate interest rate for credit in nuevos soles remained stable, reflecting the behavior of the policy interest rate.

GRAPH 87
REFERENCE INTEREST RATE AND CORPORATE PRIME RATE IN DOMESTIC CURRENCY



Source: BCRP.

The average rate on loans in domestic currency (FTAMN) declined from 21.3 percent in December 2011 to 19.1 percent in December 2012. Deposit rates, both the interest rate on 30-day deposits and the interest rate on over 180-day deposits, declined during the year: the former fell from 3.9 to 3.5 percent between December 2011 and December 2012 and the latter fell from 4.7 to 4.2 percent in the same period.

TABLE 65
INTEREST RATES ON OPERATIONS IN NUEVOS SOLES
(%)

	2008	2009	2010	2011	Jun.2012	Dec.2012
Interbank rate	6.5	1.2	3.0	4.2	4.2	4.3
Deposits up to 30 days	6.5	1.2	2.2	3.9	3.8	3.5
181-day to 360-day term deposits	6.3	3.6	3.8	4.7	4.3	4.2
Corporate prime rate	7.5	1.7	3.6	5.4	5.1	5.1
FTAMN 1/	22.5	19.3	22.8	21.3	19.7	19.1

1/ Average market lending rate of the operations carried out in the last 30 business days.
Source: BCRP and SBS.

The interest rates on operations in foreign currency increased reflecting the reserve requirement measures implemented by the BCRP, despite the low interest rates observed in international markets. At end-2012, the lending corporate prime rate in dollars rose 180 basis points compared to December 2011 (from 2.4 to 4.2 percent), while the rate on 30-day deposits increased from 0.7 to 1.4 percent.

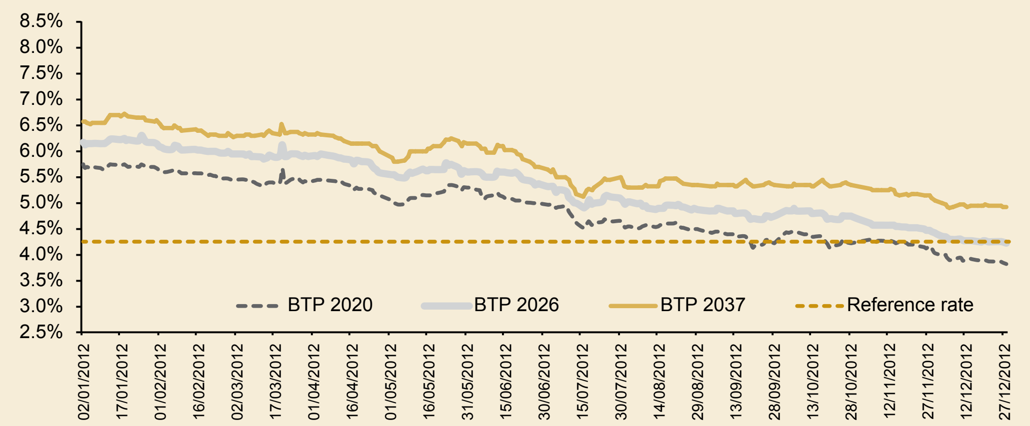
TABLE 66
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

	2008	2009	2010	2011	Jun.2012	Dec.2012
3-month libor rate	1.8	0.3	0.3	0.6	0.5	0.3
Interbank rate	1.0	0.2	1.1	0.3	1.9	1.1
Deposits up to 30 days	0.9	0.4	0.9	0.7	1.4	1.4
181-day to 360-day term deposits	4.5	2.4	1.7	1.6	1.7	1.7
Corporate prime rate	5.2	1.2	2.1	2.4	3.4	4.2
FTAMEX 1/	10.5	8.0	7.9	6.8	8.0	8.2

1/ Average market lending rate of the operation carried out in the last 30 business days.
Source: BCRP and SBS.

The yield curve of sovereign bonds showed relative stability in a context of an increased amount of transactions and an increased participation of non-residents. The lower interest rates of the Treasury Bonds (BTP) translated into lower long-term rates of corporate bonds issued in the local market, as well as into a reduction in the premium paid for these bond issuances, which makes it easier for companies to finance their investment projects at a lower cost.

GRAPH 88
SOVEREIGN BOND YIELDS (BTP)
(Annual rate)



Source: BCRP.

3. Foreign Exchange Rate

In 2012 the nuevo sol appreciated 5.4 percent in nominal terms against the US dollar, from S/. 2.697 to S/. 2.552 per US dollar. During the year the foreign exchange rate recorded a differentiated conduct with periods of depreciation concentrated in the months of May, June, and October, associated with increased global risk induced by the problems faced by Greece to remain within the Eurozone and the possible effects that this could have on the rest of the Eurozone countries, on the one hand, and periods of appreciation due to the faster pace of dedollarization of local banks' deposits, on the other hand.

Since September, the BCRP modified its strategy of intervention in the foreign exchange market and started making interventions even in periods of depreciation of the nuevo sol, but with lower daily amounts. This strategy seeks to increase uncertainty about the exchange rate in order to generate a greater volatility in the exchange rate.

On the other hand, as a result of the uncertainty generated by the Eurozone problems which pushed the exchange rate upwards, the nuevo sol depreciated 2.7 percent between April 27 and May 31 (from S/. 2.639 to S/. 2.710 per US dollar). A similar situation was observed in October, when the new intervention strategy of the BCRP and uncertainty regarding the Eurozone debt problem increased risk aversion among investors, which reflected in a depreciation of the nuevo sol of 1.4 percent (the exchange rate fell from S/. 2.578 to S/. 2.613 per dollar between October 18 and November 9). When uncertainty subsided, international financial markets showed again lower volatility and lower risk aversion, after which depreciation pressures declined.

The supply of foreign currency in the exchange market came mainly from local private agents, which supplied a total of US$ 14.47 billion. This amount was higher than the one observed in 2011 due to the faster pace of dedollarization of deposits. Pension funds, on the other hand, generated a net demand of US$ 210 million, a figure reflecting a demand of US$ 2.91 billion in the spot market and a supply of US$ 2.70 billion in the forward market. These flows are consistent with the AFPs' increasing volume of investments overseas, which has generated a higher demand for dollars for these organizations. However, because the AFPs hedge their positions abroad from the foreign exchange risk by selling dollars in the forward market, they also generate a supply of dollars in this market. The opposite situation is observed in the case of non-resident investors. Non-residents offered US$ 1.46 billion in the spot market, mainly for the purpose of increasing their positions in BTP, and also demanded US$ 1.87 billion in the forward market, which reflects their hedge operations.

TABLE 67
FLOWS IN THE FOREIGN EXCHANGE MARKET
(Millions of US$)

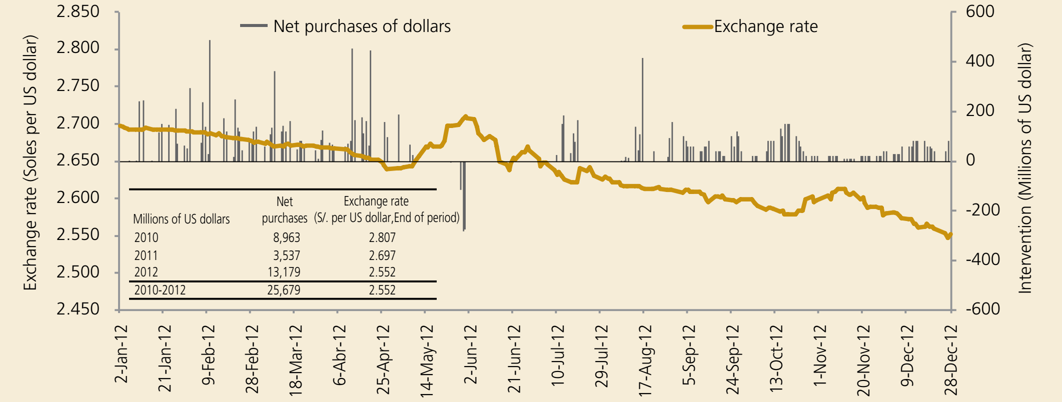
	2010	2011	2012
Pension funds	**-600**	**2 840**	**210**
Spot	868	2 108	2 915
Forward	-1 469	732	-2 705
Non residents	**-1 367**	**1 425**	**410**
Spot	-1 601	-317	-1 465
Forward	235	1 742	1 875
Banco de la Nación and financial companies	**1 092**	**625**	**1 017**
Spot	938	530	693
Forward	154	95	325
Private	**-7 860**	**-8 591**	**-14 471**
Banks international position	**-389**	**326**	**-346**
BCRP intervention	**9 123**	**3 374**	**13 179**

1/ Positive sign indicates demand and negative supply.
Source: BCRP.

The demand for foreign currency of Banco de la Nación and financial entities amounted to US$ 1.02 billion, a figure US$ 392 million higher than in the previous year.

In this context, the BCRP intervened in the foreign exchange market buying US$ 13.18 billion with the purpose of reducing excessive volatility in the exchange rate. As a result of these operations, the BCRP accumulated international reserves for a total of US$ 15.17 billion, increasing the balance of NIRs from US$48.81 billion at December 2011 to US$ 63.99 billion at December 2012.

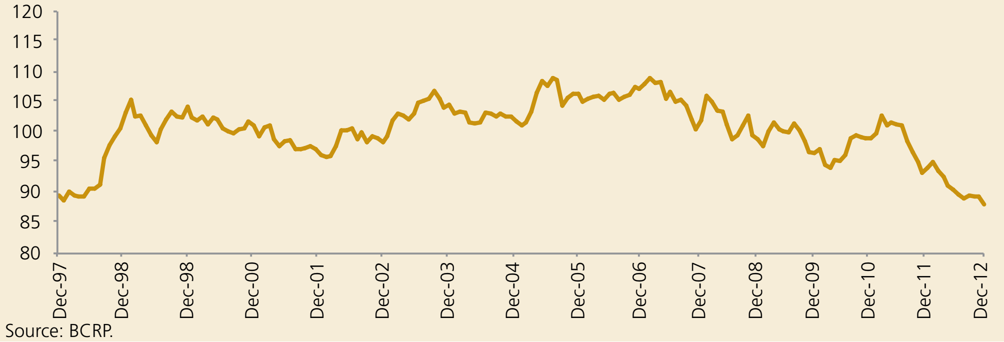
GRAPH 89
EXCHANGE RATE AND INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET



Source: BCRP.

In real terms, the real multilateral exchange rate index appreciated 5.0 percent, from 93.8 at end-2011 to 89.1 at end-2012. This real appreciation results from a nominal multilateral appreciation of 4.7 percent, a rate of external inflation of 2.4 percent, and a rate of domestic inflation of 2.6 percent.

GRAPH 90
REAL MULTILATERAL EXCHANGE RATE
(2009 = 100)



Source: BCRP.

4. Monetary and Credit Aggregates

The slowdown observed in the annual growth rates of liquidity and credit between 2011 and 2012 would be associated with the moderation of the growth of economic activity and the prudential increase of reserve requirements.

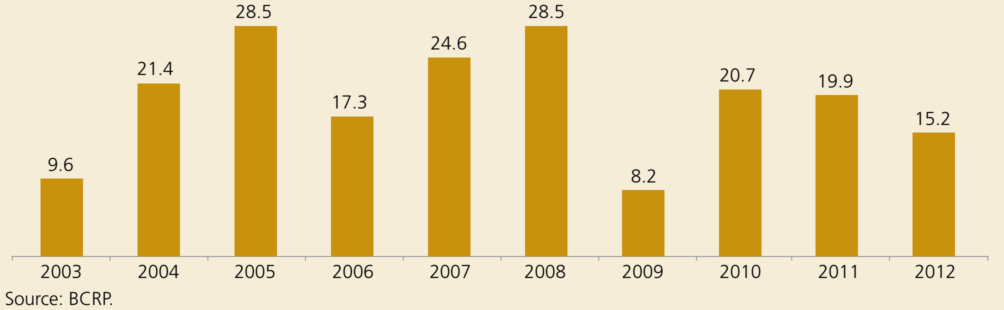
In 2012 total liquidity grew14.4 percent. Liquidity in domestic currency grew 22.8 percent, while liquidity in dollars shrank 0.9 percent. The ratio of dollarization of liquidity dropped from 36.8 percent in December 2011 to 30.7 percent in December 2012.

Total credit to the private sector grew 15.4 percent, with credit in soles growing 16.0 percent, while credit in foreign currency grew 14.7 percent. Moreover, the ratio of dollarization of credit fell from 44.7 percent in Decmber 2011 to 43.0 percent in December 2012

4.1 Currency in Circulation

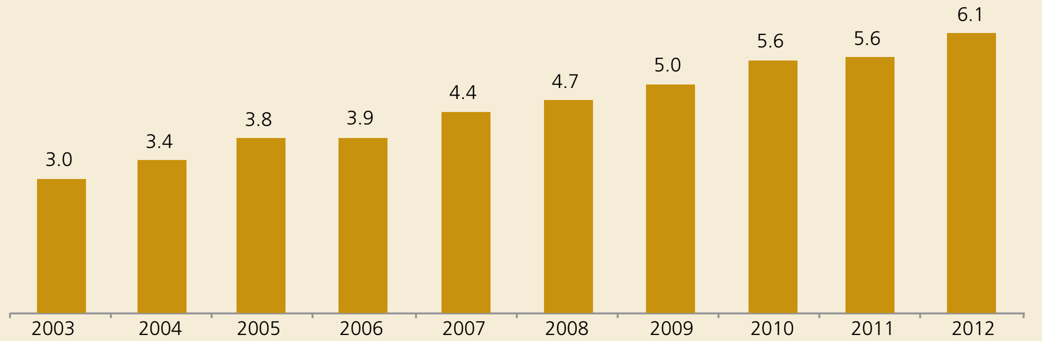
Currency registered a daily average balance of S/. 27.58 billion in 2012, which represents a growth rate of 15.2 percent, lower than in 2011 (19.9 percent). In GDP terms, currency grew 0.5 percentage points relative to 2011 and recorded a rate of 6.1 percent. This rate is consistent with the growth of economic activity and with the gradual reduction of dollarization observed during the year.

GRAPH 91
CURRENCY
(Annual percentage change, average in the period)



Source: BCRP.

GRAPH 92
CURRENCY
(% of GDP)



Source: BCRP.

The balance of currency in circulation at December 2012 was S/. 32.24 billion, higher by S/. 4.98 billion (18.3 percent) than in December 2011. The BCRP operations, which were aimed at meeting the public's increased demand for liquidity and ensuring the flow of transactions in the monetary market, were consistent with the sterilizing effect generated by the increase of public sector deposits in soles at the BCRP and with the expansion of the central bank's foreign exchange operations relative to the previous year.

The public sector deposits in soles increased by S/. 7.99 billion, while the BCRP exchange operations gave a net balance of S/. 31.17 billion (equivalent to net direct purchases of a total of US$ 11.84 billion). Higher reserve deposits in soles (S/. 7.78 billion) were also recorded in the year after the rate of mean required reserves in domestic currency was raised between May and November. In this scenario, a total of S/. 12.83 billion was absorbed in open market operations through the auction of certificates of deposit and term deposits.

The flow of foreign exchange operations generated foreign currency (FC) for a total of US$ 11.84 billion as a result of net purchases of FC (US$ 13.18 billion), offset in part by sales of FC to the public sector (US$ 1.35 billion).

During the first semester, the net purchases of FC concentrated in the months of February (US$ 2.38 billion), March (US$ 1.88 billion), and April (US$ 2.24 billion). In May, the BCRP sold FC for a total of US$ 395 million as a way of reducing the depreciatory pressures on the exchange rate and, between July and December the purchases of FC amounted to US$ 5.77 billion.

In response to the depreciation pressures on the nuevo sol in May, the sale of FC was coupled by auctions of 60-day certificates of deposits indexed to the exchange rate (CDR-BCRP). Thus, placements of CDR-BCRP that month amounted to S/. 1.52 billion (a sum equivalent to US$ 561 million). These certificates were not renewed after they matured.

On the other hand, the increased volume of monetary base sterilized during the year using mainly short-term instruments was associated with market expectations of corrections in the BCRP policy rate and with uncertainty in international markets.

Net placements of certificates of deposit (CD-BCRP) increased by S/. 7.22 billion during 2012, while term deposits (DP-BCRP), auctioned mostly as 1-day deposits, increased by S/. 5.61 billion between end-2011 and end-2012. Additionally, government deposits at the BCRP increased by S/. 7.99 billion, which contributed to monetary sterilization.

TABLE 68
OPERATIONS OF THE BCRP
(Millions of nuevos soles)

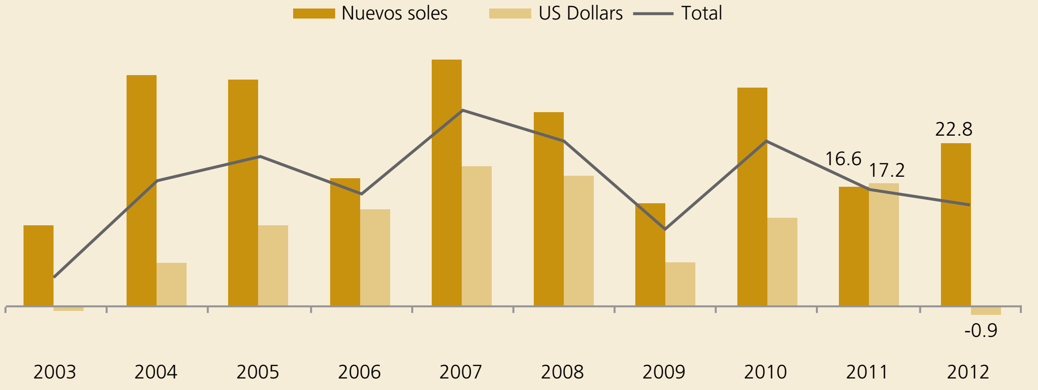
	2010	2011	2012
I. EXCHANGE OPERATIONS	**25,362**	**669**	**31,172**
(Millions of US$)	**9,010**	**329**	**11,837**
1. Over the counter trading	8,963	3,537	13,179
2. Public sector	-50	-3,039	-1,353
3. Others	96	-169	11
II. NET DOMESTIC ASSETS	**-20,472**	**2,461**	**-26,188**
1. Public sector deposits	-5,720	-5,214	-7,999
2. Repos	0	0	0
3. CD BCRP (Certificates of deposit)	14,091	-13,550	-7,225
4. CDR BCRP (Certificates of deposit indexed to the exchange rate)	0	0	0
5. CD BCRP-NR (with restricted negotiation)	0	0	0
6. CDLD BCRP (Certificates of deposit payable in dollars)	-450	450	0
7. CDV BCRP (Certificates of deposit indexed to the reference rate)	-3,196	3,196	0
8. Term deposits (DP BCRP)	-20,788	17,151	-5,611
9. Overnight deposits	163	559	-375
10. Reserve requirements in domestic currency	-5,770	-2,630	-7,784
11. Other assets	1,198	2,499	2,805
III. CURRENCY	**4,890**	**3,130**	**4,984**
Memo: Balance at end of period			
Currency	24,131	27,261	32,244
CD BCRP	30	13,580	20,805
CDR BCRP	0	0	0
CD BCRP-NR	0	0	0
CDLD BCRP	450	0	0
CDV BCRP 1/	3,207	0	0
Term deposits (DP BCRP)	20,788	3,637	9,248
Public sector deposits	26,726	31,940	39,939

1/ Includes adjustment of balance due to changes in the BCRP reference rate.
Memo:
CD BCRP: Certificate of deposit
CDR BCRP: Certificate of deposit indexed to the exchange rate
CDLD BCRP: Certificate of deposit payable in dollars
CDV BCRP: Certificate of deposit indexed to the reference rate
Source: BCRP.

4.2 Liquidity

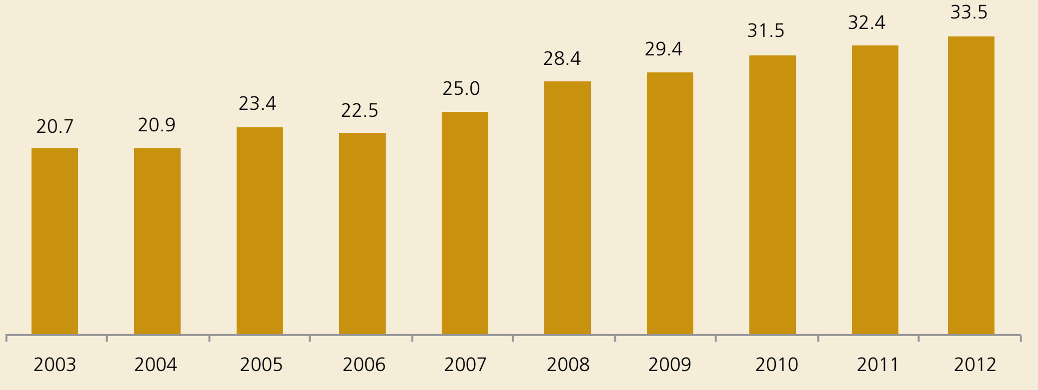
Liquidity in the private sector continued growing although showing a slower pace than in the previous year due to the more moderate growth of economic activity. Liquidity registered a growth rate of 14.4 percent, a rate 2.4 percentage points lower than in 2011 (16.8 percent). On the other hand, deposits, which exclude currency in circulation, registered a growth rate 4.3 percentage lower than in 2011, declining from 17.6 percent in 2011 to 13.3 percent in 2012.

GRAPH 93
LIQUIDITY IN THE PRIVATE SECTOR 1/
(Annual % change, end of period)



1/ The balance in dollars is valued at the constant exchange rate in December 2012.
Source: BCRP.

GRAPH 94
LIQUIDITY
(% of GDP, end of period)



Source: BCRP.

TABLE 69
MAIN MONETARY AGGREGATES

	Balance in millions of nuevos soles			Growth rates (%)	
	2010	2011	2012	2011	2012
Currency	24,131	27,261	32,244	13.0	18.3
Money	42,651	48,766	57,488	14.3	17.9
Total deposits 1/	106,672	125,432	142,157	17.6	13.3
In nuevos soles	60,089	70,778	87,984	17.8	24.3
In dollars (Millions of US$)	18,268	21,433	21,244	17.3	-0.9
Liquidity 1/	132,070	154,240	176,457	16.8	14.4
In nuevos soles	85,366	99,520	122,227	16.6	22.8
In dollars (Millions of US$)	18,316	21,459	21,267	17.2	-0.9

1/ The balance in dollars is valued at the constant exchange rate in December 2012.
Source: BCRP.

By type of depositor, in 2012 the deposits of legal entities grew at a higher rate (17.7 percent) than the deposits of individuals (10.5 percent), whereas in terms of currencies both groups preferred to maintain assets in nuevos soles.

TABLE 70
DEPOSITS BY TYPE OF DEPOSITOR

	Balance in millions of nuevos soles			Growth rates (%)	
	2010	**2011**	**2012**	**2011**	**2012**
Individuals	64,785	76,301	84,326	17.8	10.5
In nuevos soles	38,570	48,260	57,076	25.1	18.3
In US dollars (Millions of US$)	10,280	10,997	10,686	7.0	-2.8
Legal entities	41,888	49,131	57,830	17.3	17.7
In nuevos soles	21,519	22,518	30,907	4.6	37.3
In US dollars (Millions of US$)	7,988	10,437	10,558	30.7	1.2
Total	106,672	125,432	142,157	17.6	13.3
In nuevos soles	60,089	70,778	87,984	17.8	24.3
In US dollars (Millions of US$)	18,268	21,433	21,244	17.3	-0.9

1/ The balance in dollars is valued at the constant exchange rate in December 2012.
Source: SBS and balances of financial institutions.

The slowdown in liquidity, which is consistent with the evolution of the credit to the private sector, affected mostly the segment of liquidity in foreign currency, whose annual growth rate declined from 17.2 percent in 2011 to -0.9 percent in 2012. This slowdown, which occurred mostly in the second semester, was influenced by expectations of a gradual devaluation of the dollar against the sol. Thus, a greater decline was observed in term deposits (-7.9 percent).

TABLE 71
LIQUIDITY IN DOMESTIC CURRENCY IN THE PRIVATE SECTOR

	Balance in millions of nuevos soles			Growth rates (%)	
	2010	**2011**	**2012**	**2011**	**2012**
Currency	24,131	27,261	32,244	13.0	18.3
Deposits	60,089	70,778	87,984	17.8	24.3
Demand deposits	18,519	21,505	25,244	16.1	17.4
Savings deposits	18,084	22,409	26,922	23.9	20.1
Term Deposits	23,485	26,863	35,818	14.4	33.3
Securities and other instruments	1,145	1,481	1,999	29.3	34.9
TOTAL	**85,366**	**99,520**	**122,227**	**16.6**	**22.8**

Source: BCRP.

Liquidity in local currency showed an acceleration compared to 2011, rising from 16.6 percent to 22.8 percent. It should be pointed out that much of this increase took place during the second half of the year, particularly between October and November. The most dynamic growth rates were observed in savings deposits and term deposits in soles, which grew substantially compared to the previous year. The annual growth rate of term increased from 14.4 percent in 2011 to 33.3 percent in 2012.

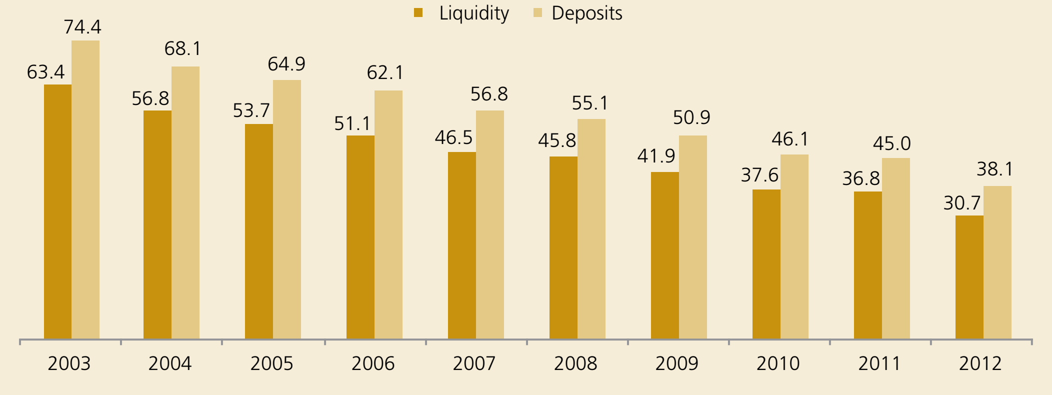
TABLE 72
LIQUIDITY IN FOREIGN CURRENCY IN THE PRIVATE SECTOR

	Balance in millions of US dollars			Growth rates (%)	
	2010	2011	2012	2011	2012
Deposits	18,268	21,433	21,244	17.3	-0.9
Demand deposits	5,704	6,981	7,552	22.4	8.2
Savings deposits	4,563	5,411	5,367	18.6	-0.8
Term Deposits	8,001	9,042	8,325	13.0	-7.9
Securities and other instruments	48	26	22	-45.8	-13.8
TOTAL	**18,316**	**21,459**	**21,267**	**17.2**	**-0.9**

Source: BCRP.

The ratio of dollarization of liquidity decreased by 6.1 percentage points during the year (from 36.8 percent in December 2011 to 30.7 percent in December 2012), registering its greatest decline since 2004. Moreover, the ratio of dollarization of deposits decreased from 45.0 percent in December 2011 to 38.1 percent in December 2012.

GRAPH 95
DOLLARIZATION OF LIQUIDITY AND DEPOSITS
(%)



Source: BCRP.

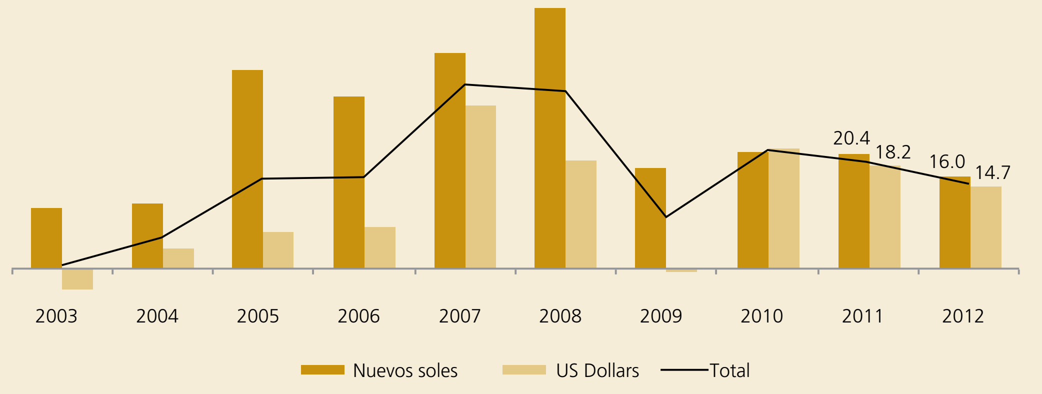
4.3 Credit to the Private Sector

The growth rate of total credit to the private sector shrank for the third consecurive year, falling from 19.4 percent in 2011 to 15.4 percent in 2012. It is worth pointing out that the balance of total credit includes the loans that local banks transfer to their branches abroad, which are accounted for as loans granted by these branches.

Credit to the private sector showed a gradual deceleration over the year, especially in the first semester. Credit to the private sector in domestic currency was the most dynamic component with a growth rate of 16.0 percent (20.4 percent in 2011). Credit in domestic currency, on the other hand, grew 14.7 percent (18.2 percent in 2011).

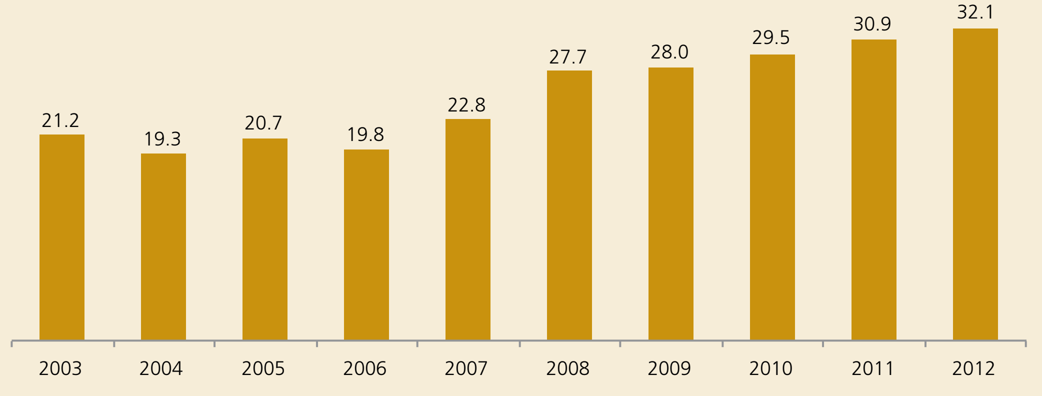
The ratio of dollarization of credit to the private sector continued showing a decreasing trend falling from 44.7 percent in December 2011 to 43.0 percent in December 2012.

GRAPH 96
CREDIT TO THE PRIVATE SECTOR 1/
(Annual % change, end of period)



1/ The balance in dollars is valued at the constant exchange rate in December 2012. Includes the credits of local bank branches abroad.
Source: BCRP.

GRAPH 97
CREDIT TO THE PRIVATE SECTOR
(% of GDP, end of period)



Source: BCRP.

By type of borrower, credit decelerated in the segment of enterprises, where it declined from 17.5 percent in 2011 to 13.3 percent in 2012, as well as in the segment of loans to individuals, where it fell from 23.1 percent to 19.4 percent.

TABLE 73
TOTAL CREDIT TO THE PRIVATE SECTOR

	Balance in millions of nuevos soless 1/			Growth rates (%)	
	2010	**2011**	**2012**	**2011**	**2012**
Corporate loans	80,918	95,099	107,787	17.5	13.3
Foreign trade	7,938	8,239	9,257	3.8	12.4
Others	72,980	86,860	98,530	19.0	13.4
Individual loans	41,628	51,244	61,163	23.1	19.4
Consumer	26,233	31,607	36,416	20.5	15.2
Mortgage	15,395	19,636	24,747	27.5	26.0
TOTAL	**122,546**	**146,343**	**168,950**	**19.4**	**15.4**

1/ The balance in dollars is valued at the constant exchange rate in December 2012. Includes the credits of local bank branches abroad.
Source: BCRP.

By economic sector, considering only the credit to business, the highest increase in the demand for credit was observed in commerce (S/. 4.15 billion), real estate, entrepreneurial activities, and rentals (S/. 2.12 billion), and manufacturing industry (S/. 1.09 billion). These three sectors concentrated 56 percent of the demand for business credit during the year.

TABLE 74
DEPOSITORY INSTITUTIONS: TOTAL CREDIT BY ECONOMIC SECTOR 1/

	Balance			Flows		
	2010	**2011**	**2012**	**2011**	**2012**	**2012**
Agriculture and livestock	3,521	4,335	5,134	531	814	799
Fishing	1,282	1,512	1,396	43	230	-116
Mining	3,812	4,649	4,301	368	837	-348
Manufacturing Industry	19,153	21,676	22,770	3,298	2,523	1,093
Electricity, Gas and Water	4,224	5,077	6,132	644	853	1,055
Construction	2,157	2,835	3,629	455	679	794
Commerce	19,584	24,185	28,338	3,855	4,601	4,153
Hotels and Restaurants	1,747	2,320	2,804	247	573	484
Transportation, Storage and Communications	8,159	8,194	8,938	2,055	35	744
Real Estate, Business and Rental Activities	8,811	9,912	12,036	3,797	1,101	2,124
Rest	8,467	10,403	12,309	-686	1,936	1,906
TOTAL	**80,918**	**95,099**	**107,787**	**14,607**	**14,182**	**12,688**

1/ The balance of broad money in dollars is valued at the constant exchange rate in December 2012. Includes the credits of local bank branches abroad.
Source: BCRP.

Credit to the private sector in domestic currency grew 16.0 percent (annual flow of S/. 13.31 billion). This rate is explained mainly by the increase registered in credit to individuals, which grew 19.6 percent (S/. 7.63 billion) and accounted for 57 percent of the increase observed in credit in soles. Consumer loans, which grew 14.8 percent (S/. 4.23 billion), and mortgage loans, which grew 33.2 percent (S/. 3.40 billion), stand out among the different types of credit to individuals.

TABLE 75
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance in millions of nuevos soles			Growth rates (%)	
	2010	**2011**	**2012**	**2011**	**2012**
Corporate loans	37,579	44,116	49,801	17.4	12.9
Personal loans	31,402	38,917	46,549	23.9	19.6
Consumer	23,672	28,656	32,886	21.1	14.8
Motor vehicle	470	456	422	-2.9	-7.5
Credit cards	8,076	10,087	11,382	24.9	12.8
Others	15,126	18,113	21,082	19.7	16.4
Mortgages	7,730	10,261	13,662	32.7	33.2
TOTAL	**68,981**	**83,034**	**96,350**	**20.4**	**16.0**

Source: BCRP.

Credit to the private sector in foreign currency expanded 14.7 percent (annual flow of US$ 3.64 billion). This growth was favored by increased external sources of credit in dollars, as well as by stable and low interest rates in foreign currency that reflected both the levels of international interest rates and expectations of an appreciation of the nuevo sol.

By type of borrower, the segment of corporate loans in dollars, which accounted for 75 percent of the growth of credit in foreign currency, grew 13.7 percent (US$ 2.74 billion). Credit to individuals grew 18,6 percent (US$ 897 million) due mainly to the growth of credit in the segments of mortgages and consumer loans, which grew 18.2 and 19.6 percent, respectively. The growth of new mortgage loans was not reflected in a higher ratio of dollarization in this segment given that mortgage loans in soles registered a higher growth than mortgage loans in dollars.

TABLE 76
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY 1/

	Balance in millions of nuevos soles			Growth rates (%)	
	2010	**2011**	**2012**	**2011**	**2012**
Corporate loans	16,996	19,993	22,740	17.6	13.7
Personal loans	4,010	4,834	5,731	20.5	18.6
Consumer	1,004	1,157	1,384	15.2	19.6
Motor vehicle	297	388	539	30.5	38.9
Credit cards	224	252	305	12.6	21.1
Others	483	517	540	7.1	4.4
Mortgages	3,006	3,677	4,347	22.3	18.2
TOTAL	**21,006**	**24,827**	**28,471**	**18.2**	**14.7**

1/ Includes the credits of local bank branches abroad.
Source: BCRP.

Credit to the private sector at end-2012 continued showing lower levels of dollarization in all the different types of credit. The ratio of dollarization of credit to the private sector fell 1.7 percentage points, from 44.7 percent in December 2011 to 43.0 percent in December 2012.

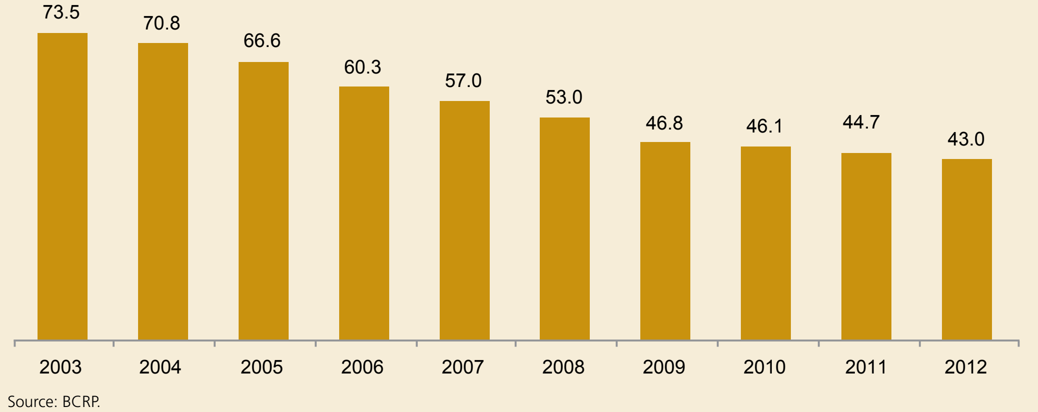
Credit to businesses registered a dollarization ratio of 53.8 percent, a level a little more than one percentage point lower than in the previous year (55.0 percent). The dollarization of credit to individuals also decreased, falling from 25.1 percent in 2011 to 23.9 percent in 2012.

TABLE 77
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR

	2010	2011	2012
Corporate loans	56.0	55.0	53.8
Personal loans	26.4	25.1	23.9
Consumer	10.7	9.8	9.7
Mortgage	52.2	49.2	44.8
TOTAL	**46.1**	**44.7**	**43.0**
Memo:			
Dollarization of credit at constant exchange rate	43.7	43.3	43.0

1/ Includes the credits of local bank branches abroad.
Source: BCRP.

GRAPH 98
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR
(%)



Source: BCRP.

4.4 Financing to the Private Sector

Total financing to the private sector grew 18.4 percent in 2012, a rate 0.4 percentage points higher than in 2011 (18.0 percent). This indicator provides information on the funding obtained by non-financial private enterprises through a larger set of funding sources as well as through depository financial institutions.

As previously mentioned, during 2012 the growth of credit to the private sector through depository corporations declined in annual terms from 19.4 percent in 2011 to 15.4 percent in 2012. Part of this slowdown is explained by the increased direct funding obtained by private companies through the issuance of securities in the domestic and the international markets.

The increased funding obtained by issuing bonds in the domestic market was reflected in the higher holdings of these instruments in the portfolios of domestic institutional investors, mainly AFPs and insurance companies, the balance of which rose 22.0 percent in 2012 (9.7 percent in 2011). In terms of flows, the funding obtained by companies' placements of bonds in the country in 2012 was equivalent to S/. 3.50 billion (S/. 1.32 billion in 2011 and S/. 2.61 billion in 2010).

The financing channel that grew the most during the year was direct external loans. The balance of Peruvian companies' debt with external financing sources grew 29.8 percent in 2012, a rate that outweighs the rate of 16.8 percent recorded in 2011. In terms of flows, the external financing obtained by private firms amounted to US$ 3.76 billion (US$ 1.81 billion in 2011). Most of this financing was medium- and long-term debt (US$ 3.68 billion).

TABLE 78
PRIVATE SECTOR FINANCING 1/

	Balance in millions of nuevos soles			Growth rate (%)	
	2010	2011	2012	2011	2012
I. CREDIT OF DEPOSITORY CORPORATIONS	**122,546**	**146,343**	**168,950**	**19.4**	**15.4**
Domestic currency	68,981	83,034	96,350	20.4	16.0
Foreign currency (Millions of US$)	21,006	24,827	28,471	18.2	14.7
Dolarization (%)	46.1	44.7	43.0		
II. CREDIT OF OTHER FINANCIAL CORPORATIONS 2/	**16,516**	**18,118**	**20,098**	**9.7**	**22.0**
Domestic currency	8,957	9,402	10,888	5.0	15.8
Foreign currency (Millions of US$)	2,964	3,418	4,396	15.3	28.6
Dolarization (%)	48.2	49.5	50.7	2.8	2.4
Of which:					
AFP's loans	9,833	10,943	13,751	11.3	25.7
Loans of mutual funds	1,935	1,633	1,528	-15.6	-6.4
Loans of insurances	3,090	3,602	4,402	16.6	22.2
III. EXTERNAL PRIVATE INDEBTNESS	**27,499**	**32,117**	**41,700**	**16.8**	**29.8**
(Millions of US$)	**10,784**	**12,595**	**16,353**	**16.8**	**29.8**
Short-term (Millions of US$)	3,756	4,381	4,456	16.6	1.7
Medium and long-term (Millions of US$)	7,027	8,214	11,897	16.9	44.8
IV. TOTAL (I + II + III)	**166,560**	**196,578**	**232,747**	**18.0**	**18.4**
Domestic currency	77,938	92,436	107,237	18.6	16.0
Foreign currency (Millions of US$)	34,754	40,840	49,220	17.5	20.5
Dolarization (%)	55.6	54.4	53.9		

1/ The balance of broad money in dollars is valued at the constant exchange rate in December 2012.
2/ Includes loans and investments in fixed-income bonds of institutional investors.

Furthermore, it is worth pointing out that 44 percent of the flow of foreign loans were bond placements in the international market, which amounted to US$ 1.66 billion in 2012 (vs. US$ 320 million in 2011).

This increased placement of external debt was associated with the abundance of liquidity in international markets as a result of the counter-cyclical monetary policies of the Fed and the ECB, as well as with the greater access of Peruvian companies to these markets, which allows them to place higher amounts of debt and reduce significantly the fixed costs for this type of financial operations.

5. Financial Indicators

The financial indicators of commercial banks showed a slight deterioration in 2012. The ratio of past-due loan portfolio increased by 0.3 percent to 1.8 percent, while the level of coverage of high-risk portfolio dropped from 149.8 percent to 142.5 percent. Moreover, the return on equity (ROE) and the return on assets (ROA) fell from 24.5 percent in 2011 to 22.4 percent in 2012 and from 2.3 to 2.2 percent, respectively.

TABLE 79
FINANCIAL INDICATORS ON COMMERCIAL BANKS
(%)

	2010	2011	2012
Overdue loans / gross placements 1/	1.5	1.5	1.8
High risk portfolio / gross placements 2/	2.6	2.5	2.8
Allowance for loans / high-risk portfolio	141.9	149.8	142.5
Return on equity (ROE)	24.2	24.5	22.4
Return on assets (ROA)	2.4	2.3	2.2

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

By size of debtor, corporate loans and loans for large businesses registered lower delinquency rates than the average rates: zero percent and 0.4 percent, respectively. The loans to medium-sized enterprises showed a delinquency rate of 2.5 percent, while loans to small and micro enterprises showed delinquency rates of 5.3 and 2.7 percent, respectively. Furthermore, the delinquency rate In the case of consumer loans was 3.0 percent, higher than the average rate, whereas this rate in the case of mortgage loans was quite lower (0.8 percent).

TABLE 80
BANKS: DELINQUENCY RATE S BY TYPE AND SIZE OF DEBTOR
(%)

	2010	2011	2012
Corporate loans	0.0	0.0	0.0
Loans to big companies	0.2	0.2	0.4
Loans to medium-sized companies	2.3	2.1	2.5
Loans to small companies	4.6	4.7	5.3
Loans to microbusiness	2.9	2.4	2.7
Consumer loans	2.7	2.6	3.0
Mortgage loans	0.9	0.9	0.8
TOTAL	**1.5**	**1.5**	**1.8**

Source: SBS.

The indicators of non-banking financial companies also showed some deterioration, with an increase in delinquency rates and a reduction in the ratios of coverage (provisions) of the high risk portfolio being observed. The rural savings banks showed the highest delinquency rates (5.3 percent at December 2012) and the lowest rates of coverage of high-risk portfolio (84.2 percent at December 2012). As regards the profitability indices, the return on equity (ROE) declined in municipal and rural savings banks while they increased in financial entities and the edpymes.

TABLE 81
FINANCIAL INDICATORS OF NON-BANK COMPANIES
(%)

	2010	2011	2012
Overdue loans / gross placements 1/			
Financial Firms	3.8	3.5	4.5
Municipal savings banks	5.1	4.9	5.2
Rural savings banks	4.6	4.3	5.3
Edpymes	5.1	5.0	4.8
Provision for loans / high-risk portfolioo 2/			
Financial Firms	132.8	149.2	132.2
Municipal savings banks	108.2	111.2	107.9
Rural savings banks	96.7	105.0	84.2
Edpymes	105.7	114.4	120.0
Ratio on equity (ROE)			
Financial Firms	19.3	20.0	21.6
Municipal savings banks	13.4	17.8	14.6
Rural savings banks	4.6	8.1	7.1
Edpymes	4.8	3.3	5.7

1/ Overdue loans and loans in judicial collection processes.
2/ The high-risk portfolio is equal to the non performing loans plus the refinanced and restructured portfolio.
Source: SBS.

6. International Reserves

The net international reserves (NIRs) of the BCRP increased by US$ 15.17 billion to US$ 63.99 billion at year-end. This increase in NIRs resulted mainly from net purchases of foreign currency (US$ 11.84 billion), higher deposits in foreign currency of both the public sector (US$ 1.47 billion) and commercial banks at the BCRP (US$ 1.27 billion), and the net yield of the investment of reserve assets (US$ 573 million).

GRAPH 99
NET INTERNATIONAL RESERVES AND THE INTERNATIONAL POSITION OF THE BCRP
(Millions of US$)

Source: BCRP.

The foreign exchange position of the BCRP increased by US$ 12.76 billion and registered a balance of US$ 46.06 billion at the end of 2012. Between 2011 and 2012, the ratio of the BCRP foreign exchange position to total NIRs increased by 4 percentage points, from 68 percent to 72 percent. The other funding sources that explain the composition of NIRs are banks' deposits in dollars (16 percent) and public sector deposits in dollars (13 percent) held at the BCRP.

6.1 Management of International Reserves

Increasing by US$ 15.19 billion compared to 2011, gross international reserves –also called international reserve assets– recorded a balance of US$ 64.05 billion at the end of 2012. This increase in international reserves has allowed the Peruvian economy to maintain adequate international liquidity indicators: at end 2012, net international reserves were equivalent to 19 months of imports, to 5.6 times the country's short term external liabilities, and to 3.1 times the monetary base.

TABLE 82
"HIGH LEVEL OF INTERNATIONAL RESERVES STRENGTHENS PERU'S INTERNATIONAL LIQUIDITY POSITION"

US$ 64 billion in NIRs	• 5.8 times one-year debt liabilities (short term external liabilities plus amortization of long-term debt) • 3.1 times the monetary base • 18.7 months of imports

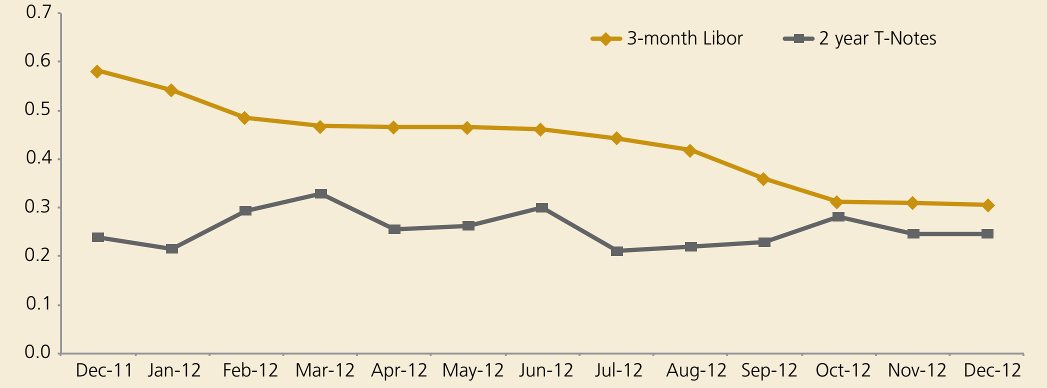
Source: BCRP.

In 2012, the U.S. GDP recorded a growth rate of 2.2 percent. On the other hand, contrasting with this rate, the Eurozone GDP showed a contraction of -0.6 percent, affected by the crisis of the peripheral countries, especially Italy and Spain, whose GDP dropped 2.4 and 1.4 percent, respectively. In the United States, the Fed maintained its benchmark rate within the range of 0 and 0.25 percent over the year, supporting economic growth with non-conventional monetary measures, such as the extension of the maturities of the Treasury bonds of its asset purchase programs and the implementation of its third quantitative easing program (QE3) since the unfolding of the 2008 crisis.

The ECB lowered its benchmark interest rate from 1.00 percent to 0.75 percent in July and also implemented programs to support the financial system, such as the second program of 3-year unlimited loans with collateral (known as long-term refinancing operations - LTRO) at an interest rate of 1 percent. In addition to this, the ECB announced its program of Outright Monetary Transactions (OMT) for the Eurozone governments that request assistance from the European Stability Mechanism (ESM)[16].

During the year, the yield curve of the U.S. Treasury bonds flattened given that the rates of the short segment of the curve (between 1 month and 1 year) increased slightly and the rates of the medium-term segment declined. In Europe, on the other hand, the yield curve moved down, except for the rates on up to 1-year securities, which rose slightly. The 3-month Libor in dollars fell 28 basis points, reflecting better market liquidity conditions and a moderation in the bank risk perceived over the year as a result of the measures taken by the United States and the Eurozone monetary authorities. Moreover, the rate on the 2-year T-Notes remained within a range of 0.20 percent to 0.39 percent[17], reflecting that expectations about inflation in the United States would have remained contained in 2012.

GRAPH 100
3-MONTH LIBOR AND 2-YEAR US TREASURY BONDS
(%)



Source: Bloomberg.

In this context, the BCRP investment of reserves was carried out with a conservative approach, using strict criteria to determine the placement of deposits in banks abroad and diversifying investments in securities with the highest credit quality. As regards the portfolio duration, a primarily neutral positioning was held relative to the benchmark given existing market uncertainty. Some tactical deviations were also implemented when circumstances allowed improving the portfolio performance.

16 LTRO (long-term refinancing operations), OMT (outright monetary transactions), and ESM (European Stability Mechanism).
17 Measured using daily data.

It is worth mentioning that a priority in the policy of investment of international reserves is to preserve capital and ensure the liquidity of the reserves. Once these conditions are met, the BCRP seeks to maximize the yield of international assets. In general, the management of these assets is closely related to the characteristics of the sources of such resources in terms of value, currency, maturity, and volatility. In this way, the BCRP seeks to minimize the market risks that could affect the value and availability of these assets.

6.2 Composition of International Reserve Assets (IRA)

At end-2012, 77 percent of the IRA was invested in liquid securities of high credit quality, 17 percent in fist-class banks overseas, and the remaining 6 percent in gold and other assets. The portfolio consists of debt securities issued by sovereign issuers, supranational organizations and foreign government entities with credit ratings of A+ or higher.

It should be pointed out that in July 2012 the Board of the BCRP authorized Treasury bond operations in the secondary market for up to a limit of 5 percent of the monetary base balance of the previous year, in accordance with article 61 of its Organic Law. Through these operations the BCRP expects to temporarily accumulate a balance of government bonds which could be used to face abrupt changes in the liquidity of these securities that could affect the yield curve and, through this channel, the long-term interest rates and the evolution of liquidity and credit. In 2012 the BCRP bought 2025 and 2033 global bonds for a nominal value of US$ 205.3 million, amount equivalent to 42.2 percent of the limit established in its Organic Law.

In 2012 the BCRP international reserve assets generated a yield of S/. 1.60 billion, less than in the previous year due mainly to the low international interest rates observed during the year.

TABLE 83
INTERNATIONAL RESERVE ASSETS
(Millions of US$)

	December 2011		December 2012	
	Amount	**%**	**Amount**	**%**
Deposits abroad	11,263	23.1	11,011	17.2
Securities	34,190	70.0	49,118	76.7
Gold	1,722	3.5	1,867	2.9
Other 1/	1,683	3.4	2,054	3.2
TOTAL	**48,859**	**100.0**	**64,049**	**100.0**

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

The balance of liquid IRA[18] at end-year was US$ 61.88 billion. As regards the quality of the portfolio, 68 percent of IRA was held in entities with a long-term credit rating of AAA and most of the rest in entities with credit ratings between AA+ and AA-. The average duration of the investment portfolio was 1.12 years.

18 Easily tradable assets in international financial markets. Therefore, the capital contributions to international organizations, such as the FLAR and BIS, the contributions and funds to the IMF, the active balances associated with international conventions, and the gold held in the vaults of the BCRP are excluded from the international reserve assets.

TABLE 84
COMPOSITION OF LIQUID INTERNATIONAL ASSETS
(% structure)

	December 2011	December 2012
By maturity term	**100**	**100**
0-3 months	41	39
3-12 months	19	16
> 1 year	39	45
By long-term rating	**100**	**100**
AAA	78	68
AA+/AA/AA-	14	25
A+/A/A-	8	7

Source: BCRP.

The effective exposure of the BCRP foreign exchange position to the US dollar rose to 67 percent.

TABLE 85
INTERNATIONAL POSITION: EFFECTIVE EXPOSURE
(% structure)

	December 2011	December 2012
US dollars	57	67
Other currencies	38	29
Gold	5	4
Total	**100**	**100**

Source: BCRP.

7. Financial Savings and Capital Market

Financial savings includes all of the assets that the enterprises and households in the financial system hold in the form of savings deposits, term deposits, securities, holdings of life insurance, mutual funds and contributions to private pension funds.

In 2012, the average balance of financial savings increased 10.7 percent relative to 2011 (a figure equivalent to 41.6 percent of GDP). The growth of financial savings slowed down compared to 2011 due to the lower pace of growth of government deposits. On the other hand, however, the balance of contributions to private pension funds and mutual funds recovered its pace of growth due to the increase registered in the stock indices.

By currencies, the financial savings in soles grew 16.0 percent (15.1 percent in 2011) while the financial savings in dollars grew 4.1 percent (14.8 percent in 2011). The higher growth of the aggregate in soles was associated with the increase of deposits in soles and of the value of private pension funds, which are recorded in soles. The share of the financial savings in nuevos soles in GDP terms rose from 27.4 to 29.3 percent between 2011 and 2012, while the share of savings in dollars declined from 13.3 percent to 12.2 percent in the same period.

TABLE 86
FINANCIAL SAVINGS
(Average balance in the period, as % of GDP)

	Domestic currency	Foreign currency	Total
2003	12.0	15.9	27.9
2004	13.4	14.4	27.7
2005	15.4	13.3	28.7
2006	17.1	13.1	30.2
2007	23.1	13.4	36.5
2008	23.9	13.0	36.9
2009	24.0	14.6	38.6
2010	26.6	13.3	39.9
2011	27.4	13.3	40.7
2012	29.3	12.2	41.6

7.1 Fixed-Income Market

The balance of securities issued by private companies through public offering at end-2012 amounted to S/. 22.09 billion, a figure 8.2 percent higher than the balance recorded in December 2011[19].

Valued at the constant exchange rate at December 2012, the flow of securities placed during the year amounted to S/. 4.67 billion (vs. S/. 3.36 billion in 2011). In addition to this, the securities placed by Peruvian companies in the international market amounted to US$ 4.12 billion, of which US$ 1.66 billion was bonds issued by non-financial companies. In 2011 these placements amounted to US$ 1.94 billion and US$ 320 million, respectively.

In terms of bonds issued in the domestic market, it is worth pointing out that non-financial companies placed a volume equivalent to S/. 1.78 billion (S/. 1.73 billion in 2011), while financial entities placed securities for a total of S/. 2.86 billion (S/. 2.40 billion in 2011).

The largest issuers were COFIDE (with a volume equivalent to S/. 457 million), Banco de Crédito del Perú (with an amount equivalent to S/. 400 billion), and BBVA Banco Continental (with an amount equivalent to S/. 396 million). Among the non-financial companies, the largest issuers were H2Olmos (S/. 330 million), Luz del Sur (S/. 302 million), and Red de Energía del Perú (S/. 244 million).

By maturity terms, the average term of domestic issuances in soles was 9.1 years (4.8 years in 2011) while the average term of issuances in dollars was 8.6 years (9.1 years in 2011). The longer maturities in soles were 30 and 25 years (the securities issued by COFIDE), while the longest maturity term in the securities issued by private companies was 20 years (Edelnor placed securities for a total of S/. 50 million in May and H2Olmos placed securities for a total of S/. 253 million in October).

19 Including short term bonds and instruments placed through public offering in the domestic market. The effect of exchange rate variations is isolated for comparison purposes.

TABLE 87
FIXED-INCOME SECURITIES ISSUED BY PRIVATE COMPANIES

	Annual amounts			Growth rate (%)	
	2010	2011	2012	2011	2012
Balance at the end of period (Millions of nuevos soles)	**19,892**	**20,416**	**22,095**	**2.6**	**8.2**
Non-financial sector	14,125	13,795	13,841	-2.3	0.3
Financial sector 1/	5,767	6,621	8,255	14.8	24.7
Composition by currency (%)	**100.0**	**100.0**	**100.0**		
Soles	43.1	45.8	51.0		
VAC	9.0	9.3	10.3		
US dollars	43.4	42.4	38.7		
Balance as % of GDP	**4.6**	**4.2**	**4.2**		

1/ Securities issued or originated by a financial organization.
Source: SMV.

By currencies, the ratio of participation of financial instruments in soles continued to rise. At the end of 2012, bonds in soles accounted for 61.3 percent of the balance of existing public offering (55.1 percent in 2011). Moreover, fixed-rate bonds in soles represented 51 percent (45.8 percent in 2011), while inflation-indexed bonds (VAC) represented 10.3 percent (9.3 percent in 2011).

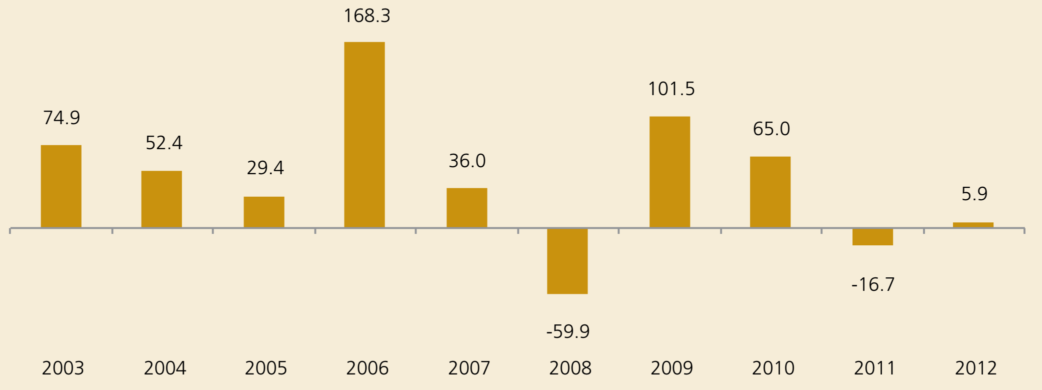
The lower country risk and the stability of the nuevo sol favored lower interest rates on bonds issuances in soles in the domestic market, especially in the longer segments of the yield curve. The average interest rate of AA 1-year bonds declined from 4.9 percent in December 2011 to 4.2 percent in December 2012 (down 0.7 percentage points). Furthermore, the average rate of a 10-year bonds with a AAA risk rating dropped from 7.2 percent in December 2011 to 5.3 percent in November 2012 (down 1.9 percentage points).

7.2 Stock Exchange

In 2012 the indices of the Lima Stock Exchange (LSE) recovered from part of the losses registered in 2011. However, worries about Europe, particularly about Greece and Spain, had a negative impact on the market, especially during Q2. In Q3 the LSE showed a recovery associated, among other factors, with the decision of the ECB to buy back the debt of countries with debt problems, as well as with the Fed's decision to continue carrying out its monetary easing program.

The general index of the LSE recorded a positive annual yield of 5.9 percent and the selective index registered an annual yield of 13.4 percent (in 2011 these indices had dropped 16.7 and 14.7 percent, respectively). By sectors, a positive performance and yield was registered by the shares of banks (38.9 percent), services (22.5 percent), and industry (3.9 percent). Conversely, mining and agriculture shares had negative profitability rates (3.5 percent and 1.4 percent, respectively).

GRAPH 101
GENERAL INDEX OF THE LIMA STOCK EXCHANGE
(Annual percentage change, end of period)



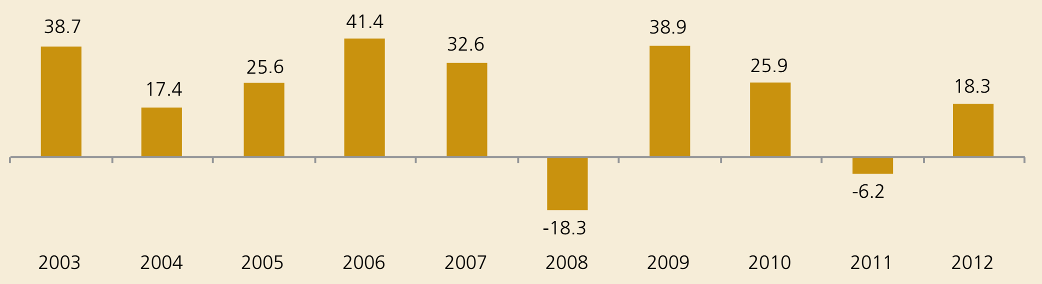
Source: Lima Stock Exchange.

The traded volumes of stocks fell 2.5 percent compared to 2011. The trade of shares fell 7.3 percent while the trade of debt securities shrank 23.1 percent. At the end of the year, the market capitalization –the total value of companies listed at the stock exchange– was S/. 391.18 billion, equivalent to 74.3 of GDP, and higher than in 2011 (67.4 percent of GDP). Moreover, dematerialized shares (the amount of shares recorded electronically in CAVALI) at year-end amounted to S/. 144 .3 billion, which is equivalent to 36.9 percent of the value of market capitalization (46.8 percent in 2011).

7.3 Private Pensions System

The net worth of private pension funds increased 18.3 percent during the year due to the recovery of stock markets. In December, the assets of these funds amounted to S/. 95.91 billion. The number of members increased 6.9 percent to a total of over 5.2 million people.

GRAPH 102
VALUE OF PRIVATE PENSION FUNDS
(Annual percentage change, at end of period)



Source: SBS.

Recovering from the losses recorded in 2011, pension funds showed a positive profitability which was slightly higher in the more conservative funds. Pension Fund type 1, which does not invest in shares, had a nominal return of 12.4 percent (3.0 percent in 2011) and a real return of 9.5 percent (-1.6 percent in 2011), while Pension Fund type 2, which represents 69 percent of the total value of the funds, had a nominal profitability of 11.8 percent (-7.1 percent in 2011) and a real return of 8.9 percent (-11.3 percent in 2011). Finally, Pension Fund type 3, which invests a higher proportion in stocks, had a nominal profitability of 10.6 percent (-17.3 percent in 2011) and a real return of 7.8 percent (-21.1 percent in 2011).

The composition of the investment portfolio showed few changes with regard to its composition at December 2011. The ratio of domestic securities decreased from 71.5 percent in December 2011 to 70.6 percent in December 2012 (1.1 percentage points). Moreover, the participation of deposits in the country dropped from 4.5 percent to 4.1 percent in the same period (0.4 percentage points).

With almost the same participation as in the previous year (31.4 percent), the participation of domestic fixed-income securities registered a level of 31.5 percent. The participation of variable-income securities fell from 35.6 percent to 35.0 percent, in part due to the higher growth of pension fund type 1 (33.2 percent during the year) than that of pension fund type 3 (16.5 percent during the year).

The participation of investments abroad increased from 28.6 percent in December 2011 to 29.4 percent in December 2012 (0.8 percentage points), variable income securities accounting mostly for this increase. The legal limit for investments abroad remained at 30 percent during the year.

TABLE 88
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO

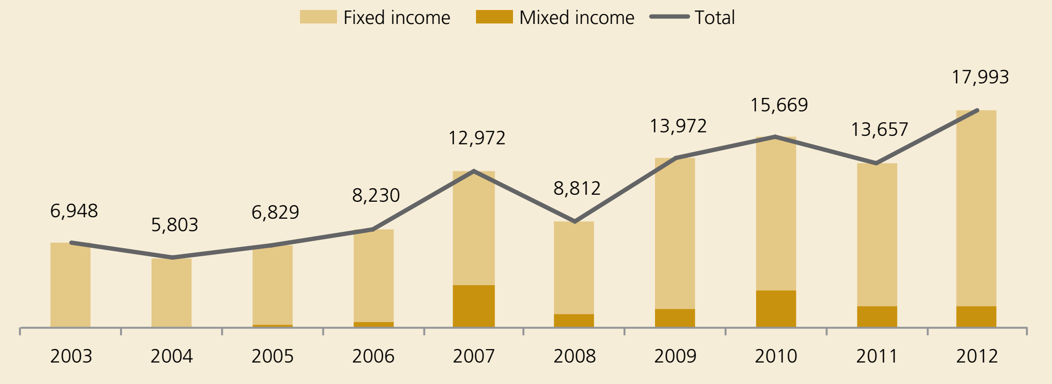
	(%)		
	2010	**2011**	**2012**
I. DOMESTIC INVESTMENTS	**73.7**	**71.5**	**70.6**
Deposits	6.2	4.5	4.1
In nuevos soles	5.0	3.8	2.2
In US dollars	1.2	0.7	1.9
Bonds and fixed income	29.2	31.4	31.5
Central Bank securities	0.0	1.1	2.9
Sovereign bonds	16.1	15.9	14.6
Values issued by the private sector	13.1	14.4	14.0
Stocks and variable income	38.2	35.6	35.0
Shares	31.7	27.4	25.9
Investment funds	6.5	8.2	9.0
II. FOREIGN INVESTMENTS	**26.3**	**28.5**	**29.4**
III. TOTAL (I+II)	**100.0**	**100.0**	**100.0**
Millions of nuevos soles	86,391	81,052	95,907
% of GDP	19.9	16.9	18.2

Source: SBS.

7.4 Mutual Funds

Mutual funds' joint net worth grew 32.0 percent relative to 2011 with a balance of S/. 17.99 billion (3.4 percent of GDP) at year-end. The fixed income assets of mutual funds increased by 37.5 percent compared to 2011, whereas the mixed-income and variable income assets decreased 6.0 percent.

GRAPH 103
EVOLUTION OF MUTUAL FUNDS
(Annual % change, at end of period)



Source: SMV.

As regards the investment portfolio of mutual funds, the participation of investments in the domestic market decreased from 94.8 percent to 91.5 percent and the participation of investments abroad increased from 5.1 percent to 7.7 percent. Moreover, the participation of fixed-income securities in domestic investments declined from 37.6 percent to 33.6 percent (4 percentage points) and the participation of variable income securities declined from 7.0 percent to 4.7 percent (2.3 percentage points).

TABLE 89
COMPOSITION OF MUTUAL FUNDS' INVESTMENT

	(% structure)		
	2010	**2011**	**2012**
I. DOMESTIC INVESTMENT	**96.5**	**94.8**	**91.5**
Deposits	57.2	50.2	53.2
In nuevos soles	29.6	25.7	30.3
In US dollars	27.6	24.5	22.9
Bonds and fixed income	32.9	37.6	33.6
Central Bank securities	2.7	6.3	11.4
Sovereign bonds	9.9	11.4	7.4
Securities issued by the private sector	20.4	19.9	14.8
Stocks and variable income	6.3	7.0	4.7
II. INVESTMENT ABROAD	**3.1**	**5.1**	**7.7**
III. TOTAL (I+II)	**100.0**	**100.0**	**100.0**
Millions of nuevos soles	15,669	13,657	17,993
% of GDP	3.6	2.8	3.4

Source: SMV.

8. Payments Systems

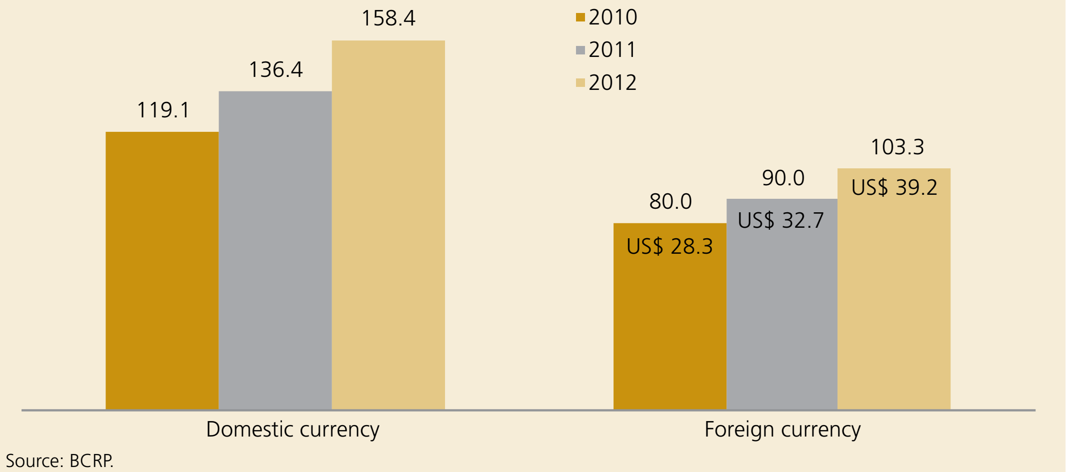
A rising trend in terms of the value of the transactions made through payment systems continued to be observed in 2012 as these increased by 15 percent in a context marked both by higher local economic activity and the weak performance of the global economy. Thus, total funds transferred through these systems were equivalent to 6.5 times the value of annual GDP, a level of funds 6.1 times higher than the one recorded in 2011.

8.1 Real Time Gross Settlement System (RTGS)

This system is mainly used to channel high-value transfers among the entities integrating the financial system as well as to make transfers on behalf of their clients. Even though the number of these transactions is not particularly big, they account for 92.5 percent of the total value transferred through the payments systems. In 2012, the value of transfers carried out through the RTGS system grew 15.6 percent, while the number of transactions grew 7.8 percent. By currencies, the value of payments in domestic currency increased 16.1 percent and the value of payments in foreign currency (dollars) increased 20 percent.

Agreements with non-banking companies of the financial system were signed during the year to promote their interconnection and access to the RTGS system in order that their participation in this system will be more efficient and safer.

GRAPH 104
TRANSFERS HANDLED THROUGH THE RTGS SYSTEM
(Monthly average in billions of nuevos soles)



Source: BCRP.

8.2 Electronic Clearing House (Cámara de Compensación Electrónica - CCE)

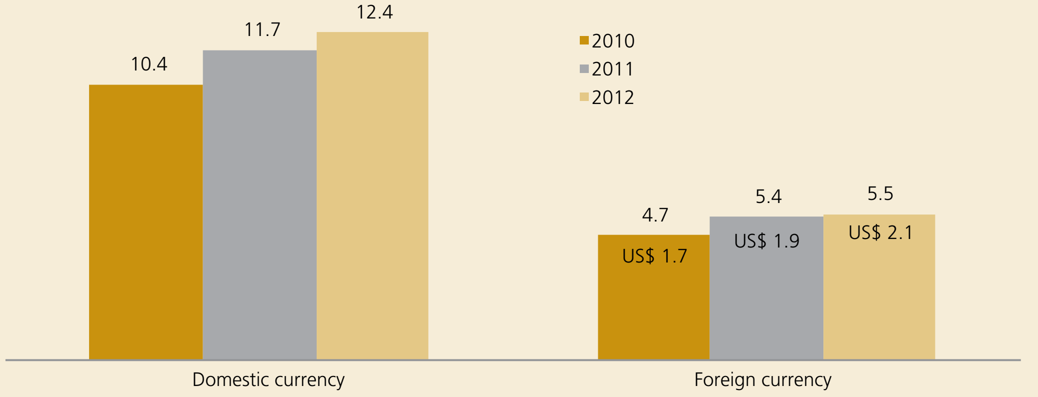
The CCE is a payment system used to settle checks and credit transfers among the clients of the various financial entities that participate in this system. The value of such transactions is low, but their number represents 93.5 percent of total transactions carried out through payment systems.

In 2012, the number of transactions processed by the CCE grew 10.8 percent, with credit transfers increasing by 35.5 percent. The greater dynamism of this instrument reflects the growing trend in people's use of electronic payments systems. The participation of electronic payment instruments in the total settlements processed through the CCE increased from 32.7 percent in 2011 to 40.0 percent in 2012.

Furthermore, the value of the transactions processed in the CCE increased 5 percent in the year, with the value of credit transfers increasing 29.3 percent while the value of checks decreased by 0.6 percent.

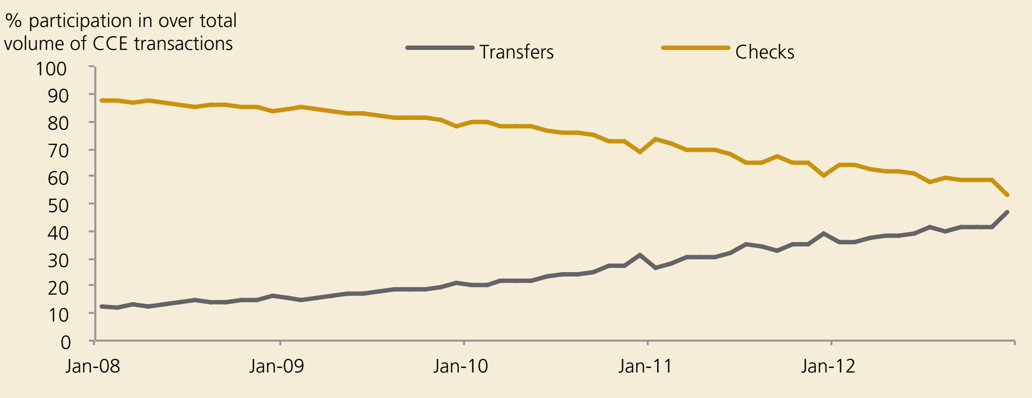
It is worth mentioning that Caja Municipal de Cusco began operations in the CCE in 2012 and that the participation of Caja Municipal de Huancayo in this system was approved as well.

GRAPH 105
PAYMENTS SETTLED THROUGH THE CÁMARA DE COMPENSACIÓN ELECTRÓNICA
(Monthly average in billions of nuevos soles)



Source: CCE.

GRAPH 106
EVOLUTION OF CREDIT AND CHECK TRANSFERS IN THE CCE



Source: CCE.

8.3 Multibank Securities Settlement System (MSSS)

The payments for transfers of stock exchange securities and Treasury bonds are processed through this mechanism. In 2012, the value of payments in the MSS system grew 30.1 percent, while the volume decreased 31.2 percent. Payments for stock exchange operations declined 6.7 percent in value and 32.8 percent in volume, while fund transfers for operations of government securities in the secondary market increased 77.9 percent in terms of value and 88.5 percent in terms of volume.

8.4 Regulations

The bill regulating the basic characteristics of electronic money as an instrument for financial inclusion was approved by the Congress of the Republic in December 2012.

BOX 3

LAW ON ELECTRONIC MONEY

In December 2012, the Congress of the Republic approved by majority the bill that regulates the basic characteristics of electronic money as a tool of financial inclusion. This new instrument will facilitate the access to financial services for people who currently have no access to bank services. The main aspects of the law are discussed below:

Purpose: the purpose of the law is to regulate the issuance of electronic money, establish which entities are authorized to issue money, and set the regulatory and supervision framework governing issuers of electronic money –or Empresas Emisoras de Dinero Electrónico (EEDE)– that are not financial institutions.

Definition and characteristics of electronic money: Electronic money is a monetary value represented by a credit payable to their issuer which has the following characteristics: it is stored on an electronic device; it is accepted as a means of payment by entities or persons other than the issuer; it is issued by an amount equal to the funds received; it is convertible to cash; it does not constitute a deposit and it does not generate interest. A similar definition and similar characteristics of electronic money are found in the legislation of other countries[16].

Reserve, characteristics of the EEDE, and measures against money laundering and financing of terrorism: Only the companies under the supervision of the SBS, including the EEDE, are authorized to issue electronic money. The law establishes that the main role of these entities is to issue electronic money and that they may not grant credit using the funds received and that the only operations they can carry out are operations related to their main role. In addition to this, the EEDE are required to comply with the provisions governing the prevention of money laundering and financing terrorism.

User protection: The law also regulates aspects associated with the protection of the users of electronic money, such as the guarantee of the funds received from the public via trust funds, the protection of information on the user, and the types of contracts with users.

Tax treatment: The issuance of electronic money by the EEDE is exempted from the payment of the VAT for a period of 3 years.

16 Directive 2009/110/CE of the European Parliament, which applies to the countries of the European Union, among others.

Competition and interoperability: The telecommunications services used to provide financial services must be provided on equal terms to avoid discriminatory treatment in the use of such services.

IMPLICATIONS FOR THE BCRP

The BCRP involvement in drafting the law reflects the interest of the Central Bank in promoting electronic payments as a means of achieving greater financial inclusion while seeking, at the same time, to strengthen the safety and efficiency of payment services in a context of frequent innovations, increasing interrelationships and interdependencies between the different participants of the systems, the payment arrangements, and the providers of payment services.

The law establishes that the opinion of the BCRP must be taken into account by the SBS in order to authorize the organization and operation of the EEDE as well as to authorize non-bank financial firms to issue electronic money.

It also establishes among the duties and powers of the BCRP the responsibility of establishing rules, regulations, principles and standards for the payment agreements and the providers of payment services when deemed necessary, as well as to oversee the compliance with these regulations and standards to contribute to reinforce the safe and efficient operation of these services.

The law also says that the BCRP can also establish reserve requirements on electronic money as a measure to prevent potential effects on monetary policy if the size of this means of payment should grow significantly.

Finally, the law establishes that the BCRP and the SBS are responsible for establishing in their respective fields of action the conditions for interoperability of the payment services so that customers can make transactions between them regardless of which provider of payment services they work with.