

V LIQUIDITY AND CREDIT

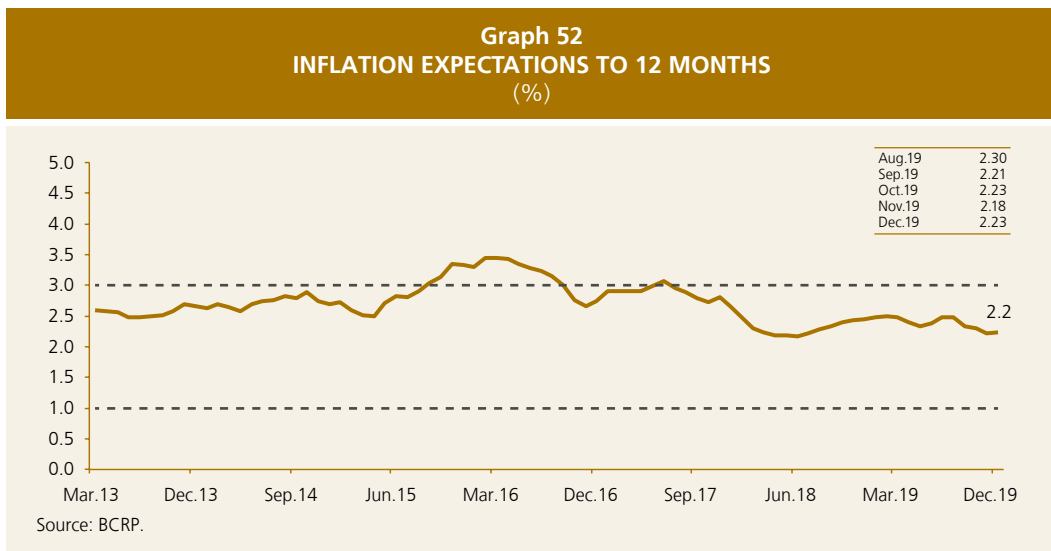
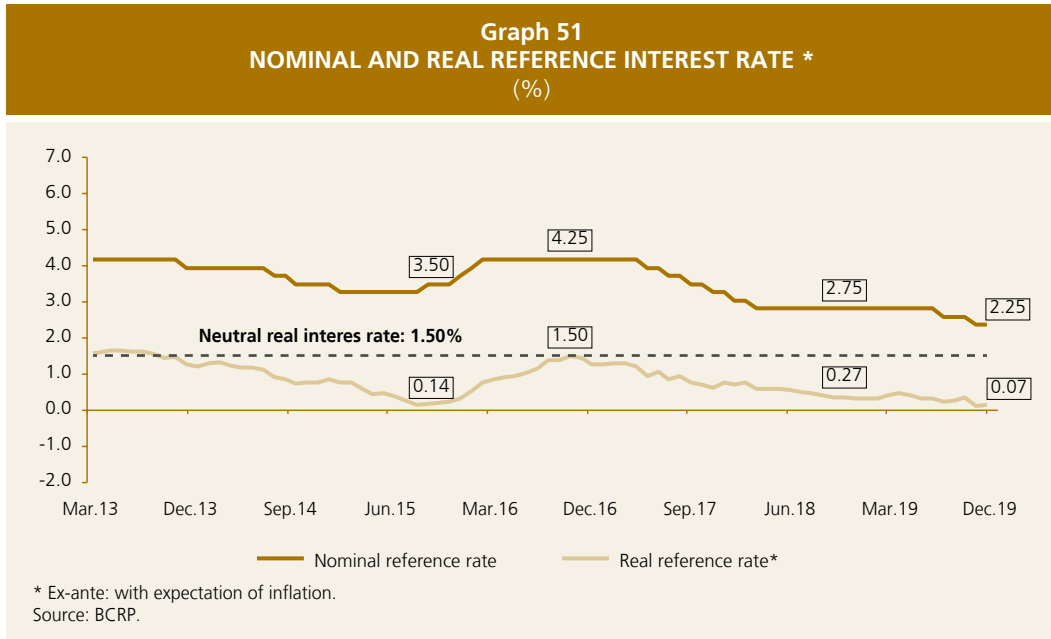
1. Monetary Policy

In 2019, in a context where economic activity continued to be below its potential level and where high uncertainty was observed in international financial markets for several periods, the BCRP's monetary policy actions continued to be oriented towards maintaining an expansionary stance to ensure that inflation and inflation expectations remain within the target range (1 - 3 percent). This expansionary monetary policy stance was reflected in the benchmark interest rate, which remained below the real neutral interest rate (1.50 percent) throughout the year.

This decision of maintaining an expansionary stance was made in light of the following factors:

- i. The **year-on-year inflation rate projection** remained around 2.0 percent over the policy horizon. A downward bias in this projection was included since July in the monetary policy statement due to the possibility of lower-than-expected growth in domestic demand.
- ii. **Year-on-year inflation rate** and inflationary trend indicators were within the target range throughout the year.
- iii. **Inflation expectations** were within the target range and showed levels very close to the 2.0 percent midpoint in the last months of the year.
- iv. The **weak performance** of primary industries and public investment in 2019 was offset by a recovery in non-primary industries. In addition, economic activity indicators in the last months of the year pointed to a gradual closure of the output gap.
- v. The risks on **global economic activity** remained, although their intensity varied according to the escalation of trade tensions between China and the US.

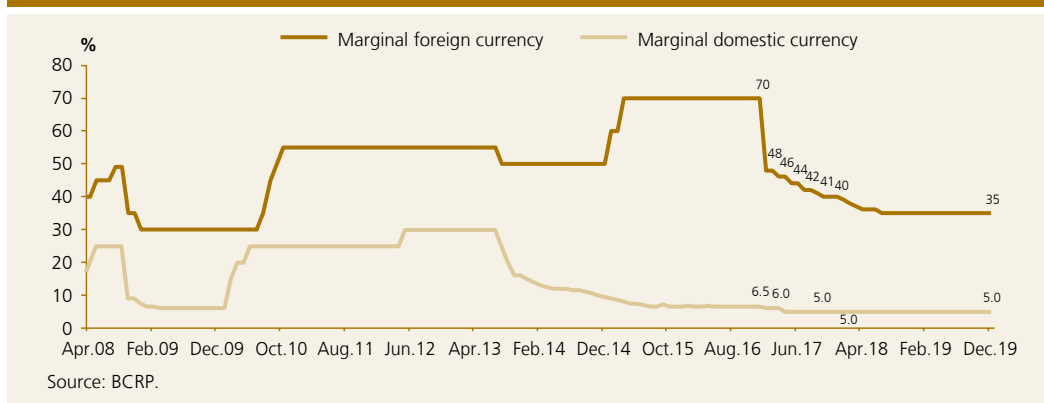
In this context, the BCRP Board of Directors lowered the reference interest rate by 25 basis points on two occasions, in August and November, from 2.75 to 2.25 percent, where it remained until the end of the year. The policy statement emphasized each time that “this decision does not necessarily imply further reductions in the interest rate” and reiterated that “the Board pays close attention to new information on inflation and its determinants in assessing future changes in the monetary policy stance”.



Moreover, in order to ease domestic financial conditions and thus contribute to reinforce the expansionary monetary stance, BCRP maintained the reserve rate in domestic currency at 5.0 percent and both the marginal reserve rate in dollars and the ceiling on the average reserve rate in dollars at 35 percent.



Graph 53
RESERVE REQUIREMENTS IN DOMESTIC AND FOREIGN CURRENCY
(As % banks' liabilities)



Other measures were taken in relation to: (i) additional reserves in foreign currency in relation to total credit to the private sector; and (ii) additional reserves in domestic currency in relation to the excess of the cap for the sales of derivative instruments (forwards and swaps).

In the first case, the BCRP circulars published during the year (005 in February and 031 in December) modified the minimum amount that excludes financial institutions from the additional reserve requirement in terms of credit in foreign currency, seeking to promote greater competition in the supply of this type of credit. According to Circular 031-2019-BCRP, additional reserve requirements are applied when the balance of credit in foreign currency exceeds the maximum between:

- (i) 80 percent of credit in September 2013.
- (ii) Credit in December 2017 plus 40 percent of credit flow in domestic currency.
- (iii) 1.04 times the amount of credit in December 2018.
- (iv) US\$ 100 million.
- (v) Effective equity in December 2014.

In the second case, Circulars 004, 011, and 030, published in February, April, and December, respectively, extended the weekly limits and the balance of the agreed operations of sale of foreign currency through forwards and swaps in order to promote exchange risk coverage operations (additionally, the monthly limit was eliminated in April). Circular 030-2019-BCRP establishes that the legal reserve rate will be raised when:

- (i) Weekly transactions of sales of foreign exchange derivatives exceed US\$ 575 million.
- (ii) The balance of sales of foreign exchange derivatives exceeds the higher amount of the following: 115 percent of equity on December 31, 2014; 115 percent of the average daily balance of sales of foreign exchange derivatives in December 2014, or \$1 billion.

2. Interest Rates

In line with the reduction of 50 basis points in the BCRP benchmark rate during 2019, the interbank interest rate decreased from 2.79 percent in December 2018 to 2.25 percent in December 2019. By credit types, all the interest rates showed lower levels compared to 2018 and three types of credit registered their historical minimum levels since September 2010, the decline of mortgage loans standing out among them. In this context, BCRP met the increased demand for liquidity in domestic currency through currency repos and term security repos.

Table 57
INTEREST RATES ON OPERATIONS IN SOLES
(%)

	2017	2018	2019	Change 2019/2018
Interbank rate	3.3	2.8	2.3	-0.5
90-day prime rate on deposits	3.4	4.0	2.8	-1.2
Deposits up to 30 days 1/	3.1	3.3	2.4	-0.9
31-day to 360-day term deposits 1/	4.0	3.8	3.4	-0.4
More than 360-day term deposits 1/	5.1	4.5	4.5	-0.1
Loans to large companies	6.2	6.4	6.0	-0.4
Loans to medium-sized enterprises	9.7	9.8	9.3	-0.6
Loans to small businesses	19.8	18.5	18.0	-0.5
Loans to microbusinesses	36.3	32.7	31.3	-1.4
Mortgage loans	7.7	7.6	7.0	-0.6
90-day corporate prime rate	3.6	4.5	3.3	-1.2
FTAMN 2/	21.8	21.0	18.7	-2.3

1/ Interest rates on deposits correspond to individuals.
2/ Average market lending rate of the operations carried out in the last 30 business days.
Source: BCRP and SBS.

As for interest rates in dollars, the Federal Reserve's reduction of its policy rate by 75 basis points led to a reduction in the interbank rate and the interest rate on 90-day corporate prime loans. Interest rates by credit sector also declined, this being particularly noteworthy in the segments of credit to small businesses and mortgages. On the other hand, deposit rates decreased by 9 basis points on average.

Table 58
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

	2017	2018	2019	Change 2019/2018
Tasa Libor a,3 months	1.7	2.8	1.9	-0.9
Interbank rate	1.3	2.3	1.8	-0.5
90-day prime rate on deposits	1.4	2.5	1.6	-0.9
Deposits up to 30 days 1/	1.1	1.9	1.5	-0.4
31-day to 360-day term deposits 1/	1.1	1.6	1.6	0.0
More than 360-day term deposits 1/	1.1	1.7	1.9	0.1
Loans to large companies	5.3	5.5	5.2	-0.3
Loans to medium-sized enterprises	6.4	6.9	6.8	0.0
Loans to small businesses	7.3	9.9	9.2	-0.7
Loans to microbusinesses	14.6	7.1	10.1	2.9
Mortgage loans	5.9	6.1	5.5	-0.6
90-day corporate prime rate	2.3	3.6	2.7	-0.9
FTAMEX 2/	7.3	8.0	7.5	-0.5

1/ Interest rates on deposits correspond to individuals.
2/ Average market lending rate of the operations carried out in the last 30 business days.
Source: BCRP and SBS.

3. Monetary and Credit Aggregates

Private sector liquidity accelerated its growth rate compared to the previous year, while credit to the private sector showed a more moderate pace of growth.

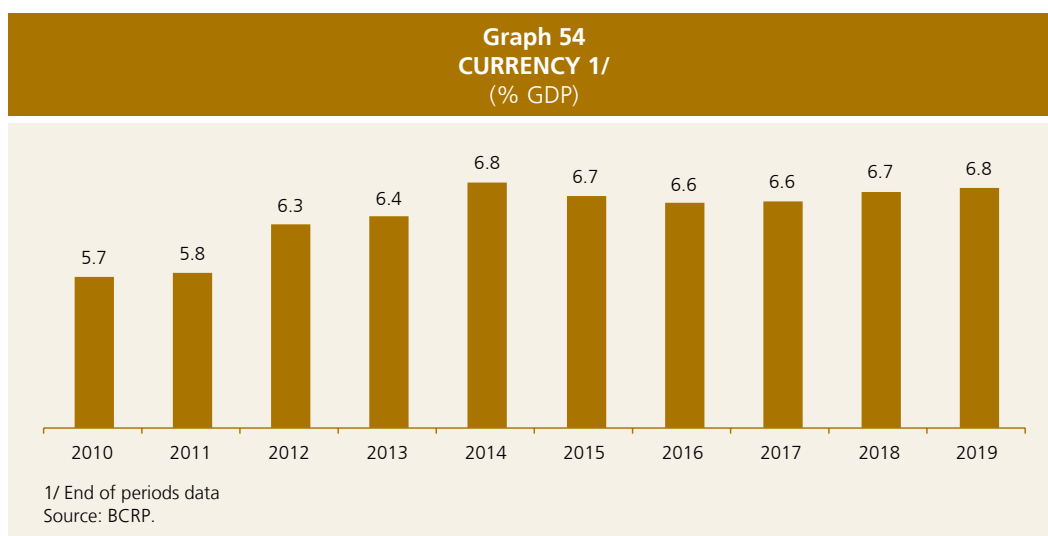
Liquidity in the private sector grew at an annual rate of 9.4 percent in 2019 (8.2 percent in 2018). Moreover, liquidity in domestic currency grew 10.2 percent while liquidity in foreign currency grew

7.5 percent. Thus, as in previous years, the dollarization ratio of liquidity continued to decline, falling from 30.4 percent to 29.9 percent at the end of 2019.

Total credit to the private sector grew 6.9 percent (versus 8.7 percent in 2018). Credit in domestic currency grew 9.8 percent while credit in foreign currency decreased 0.4 percent. The ratio of dollarization of credit decreased from 27.8 percent in December 2018 to 25.9 percent in December 2019.

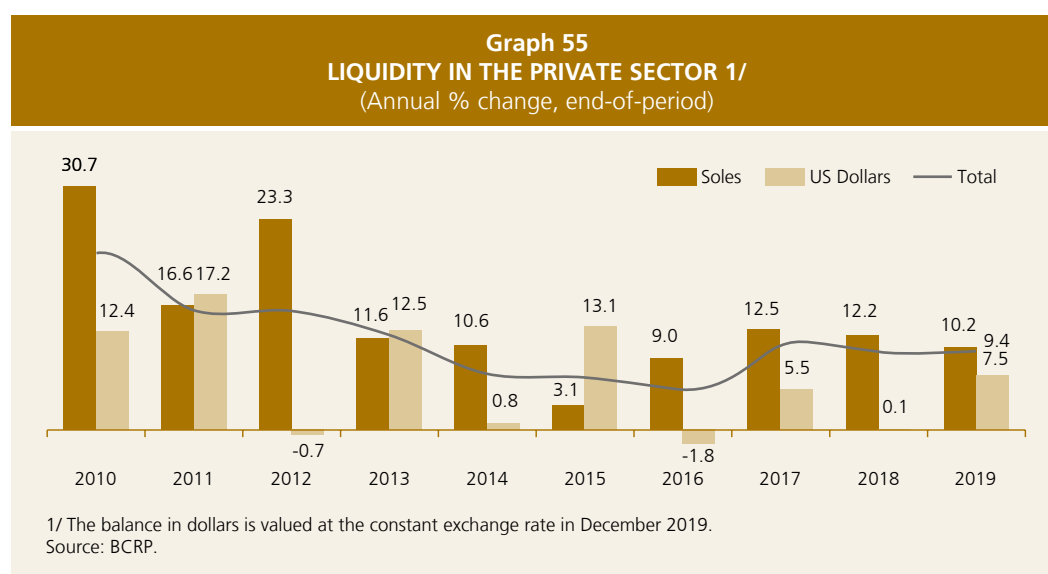
3.1 Currency in Circulation

The balance of currency held by the public in December 2019 was S/. 52.12 billion, which represented 6.8 percent of GDP and an increase of S/ 2.34 billion (4.7 percent) compared to December 2018.

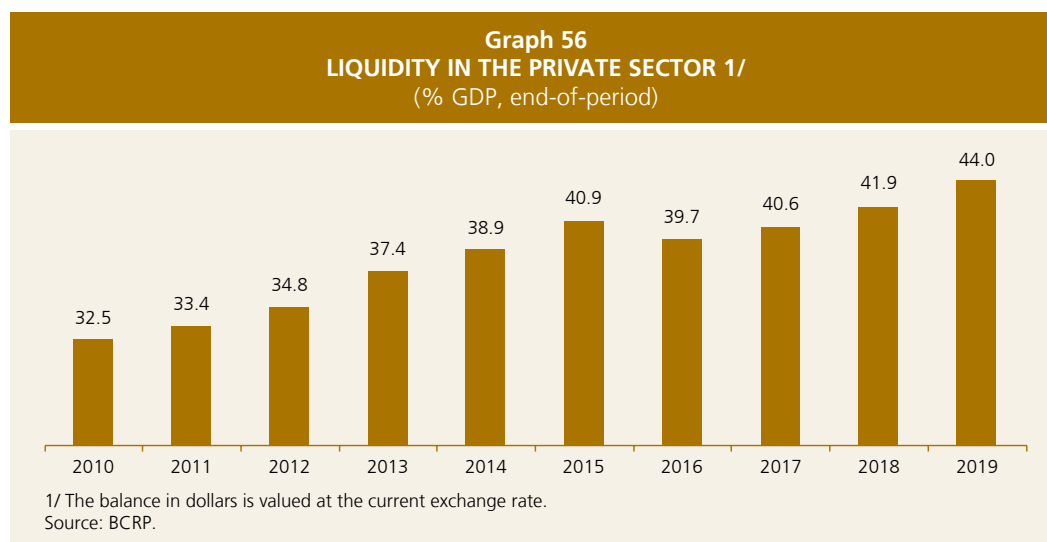


3.2 Liquidity

Liquidity grew 9.4 percent in 2019. This rate reflected the greater increase observed in deposits in soles (11.9 percent in 2019) and in dollars (6.6 percent. percent). The dollarization ratio of deposits fell to 35.8 percent, a lower rate than in 2018 (36.9 percent).



The dynamism of liquidity during the year was reflected in an increase in the ratio of this aggregate to GDP, which is an indicator of the degree of financial deepening of the economy. This indicator increased from 41.9 percent in 2018 to 44.0 percent in December 2019.



The growth of liquidity in soles was mainly associated with the growth of time deposits, which showed an annual rate of 13.1 percent (8.1 percent in the previous year). The other modalities of deposits showed annual growth rates close to 10 percent, but recorded a slower pace of growth than in the previous year.

Liquidity in foreign currency also showed a recovery during the year with a growth rate of 7.5 percent, higher than the 0.1 percent rate registered in 2018. Demand deposits in dollars recorded the greatest growth, with a 10.6 percent rate over the year (3.0 percent in 2018).

Table 59
MAIN MONETARY AGGREGATES 1/

	Balance in million soles			Growth rates (%)	
	2017	2018	2019	2018	2019
Currency	46,178	49,778	52,117	7.8	4.7
Money	81,713	92,198	99,448	12.8	7.9
Deposits 1/	233,995	253,614	278,865	8.4	10.0
<u>In soles</u>	<u>140,362</u>	<u>160,096</u>	<u>179,128</u>	<u>14.1</u>	<u>11.9</u>
Demand deposits	35,535	42,420	47,332	19.4	11.6
Savings deposits	45,692	53,723	59,454	17.6	10.7
Term deposits	59,135	63,952	72,342	8.1	13.1
<u>In dollars (Million US\$)</u>	<u>28,288</u>	<u>28,253</u>	<u>30,132</u>	<u>-0.1</u>	<u>6.6</u>
Demand deposits	9,734	10,025	11,087	3.0	10.6
Savings deposits	9,142	8,950	9,223	-2.1	3.1
Term deposits	9,392	9,278	9,822	-1.2	5.9
Liquidity 1/	285,179	308,706	337,547	8.2	9.4
In soles	191,498	214,901	236,662	12.2	10.2
In dollars (Million US\$)	28,302	28,340	30,479	0.1	7.5

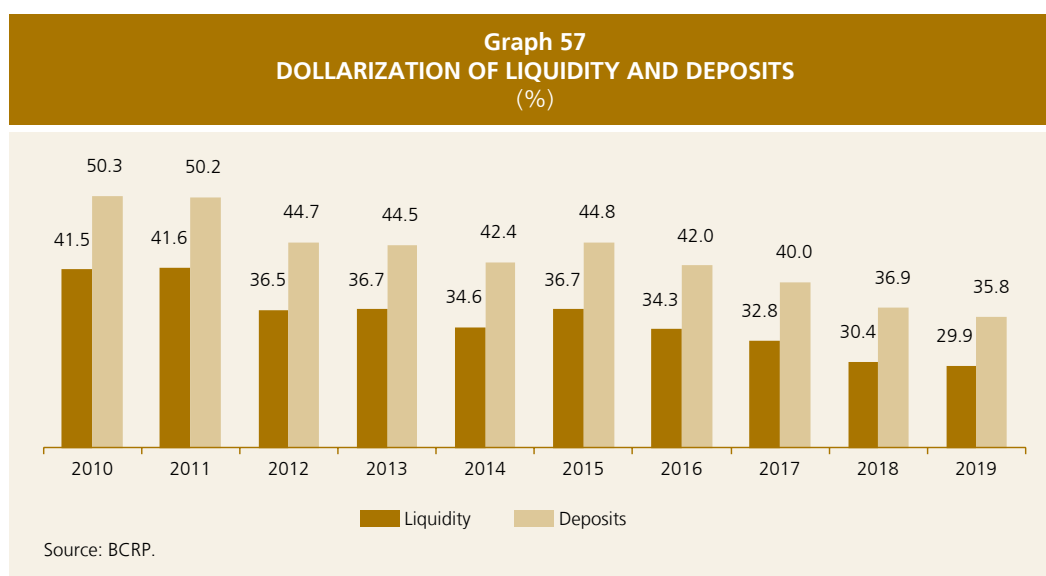
1/ The balance in dollars is valued at the constant exchange rate in December 2019.
Source: BCRP.

By type of depositors, the deposits of businesses grew 13.2 percent during the year, while the deposits of households grew 8.2 percent. Growth in the former was led by deposits in foreign currency (16.6 percent), while growth in the latter was mostly concentrated in deposits in domestic currency (12.5 percent per year).

Table 60 DEPOSITS BY TYPE OF DEPOSITOR 1/					
	Balance in million soles			Growth rates (%)	
	2017	2018	2019	2018	2019
Individuals 1/ 2/	156,359	165,482	179,089	5.8	8.2
In soles	101,577	111,273	125,183	9.5	12.5
In dollars (Million US\$)	16,551	16,377	16,286	-1.0	-0.6
Legal entities 2/	77,637	88,132	99,776	13.5	13.2
In soles	38,785	48,822	53,944	25.9	10.5
In dollars (Million US\$)	11,738	11,876	13,846	1.2	16.6
Total 2/	233,995	253,614	278,865	8.4	10.0
In soles	140,362	160,096	179,128	14.1	11.9
In dollars (Million US\$)	28,288	28,253	30,132	-0.1	6.6

1/ Includes non-profit legal persons. The balance in dollars is valued at the constant exchange rate in December 2019.
2/ The balance in dollars is valued at the constant exchange rate in December 2019.
Source: BCRP.

The dollarization ratio of liquidity fell by 0.5 percentage points over the year (from 30.4 to 29.9 percent). Moreover, the dollarization ratio of deposits fell from 36.9 percent in December 2018 to 35.8 percent in December 2019. By segments, the dollarization ratio of household deposits fell from 32.8 percent to 30.1 percent, whereas the dollarization ratio of companies' deposits increased from 44.6 percent to 45.9 percent.

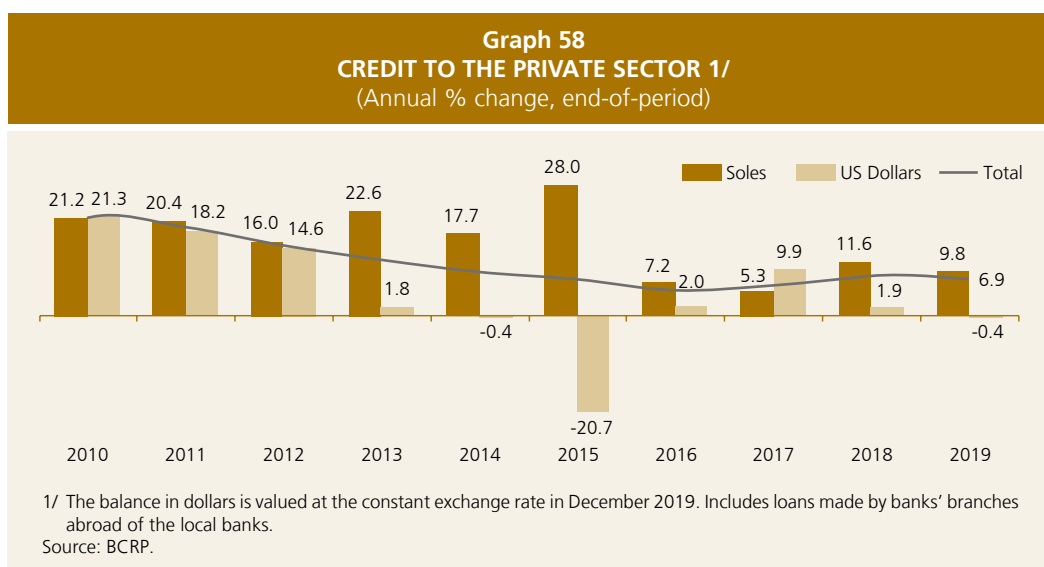


3.3 Credit to the Private Sector

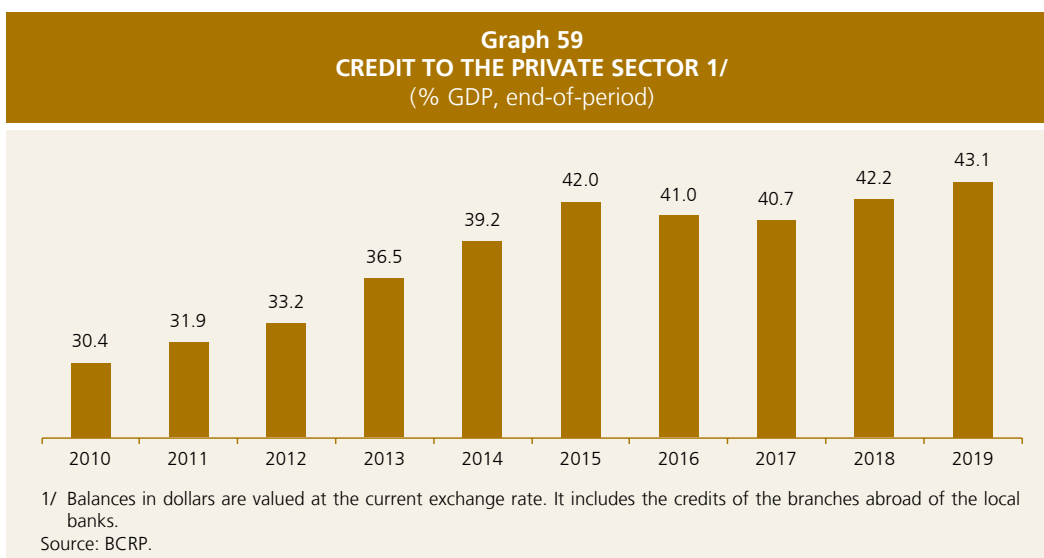
Affected by the context of domestic political uncertainty and by the international context, the growth rate of credit slowed down from 8.7 percent in 2018 to 6.9 percent in 2019. However, as

a percentage of GDP, the balance of credit to the private sector rose to 43.1 percent from 42.2 percent in 2018.

The slowdown affected credit in both currencies. The growth rate of credit in domestic currency declined from 11.6 percent in 2018 to 9.8 percent in 2019, while the rate of credit in foreign currency fell from 1.9 percent in 2018 to 0.4 percent in 2019. As a result, the dollarization ratio of credit fell from 27.8 percent to 25.9 percent.



By type of segment, credit to businesses moderated its growth from 7.0 percent in 2018 to 4.2 percent in 2019 due to the slower pace of growth of credit in the segment of loans to corporations and large companies, where the growth rate declined from 9.1 percent in 2018 to 4.4 percent in 2019. Credit to medium-sized enterprises also slowed down from 3.8 percent in 2018 to 0.5 percent in 2019. On the other hand, the rate of credit to small and micro businesses accelerated from 5.9 percent in 2018 to 7.7 percent in 2019.



On the other hand, credit to households showed a less pronounced slowdown associated mostly with slower growth in consumer credit and declined from 11.5 percent in 2018 to 11.3 percent in 2019. The growth rate of consumer loans went from 13.1 percent in 2018 to 12.8 percent in 2019, while mortgage loans maintained the same growth rate as in the previous year (9.0 percent).

Table 61
TOTAL CREDIT TO THE PRIVATE SECTOR 1/

	Balance in million soles			Growth rates (%)	
	2017	2018	2019	2018	2019
Businesses	178,702	191,297	199,404	7.0	4.2
Corporate and large companies	94,344	102,893	107,411	9.1	4.4
Medium-sized enterprises	43,240	44,874	45,112	3.8	0.5
Small businesses and microbusinesses	41,119	43,530	46,881	5.9	7.7
Individuals	107,051	119,318	132,791	11.5	11.3
Consumer	63,094	71,387	80,545	13.1	12.8
Car loans	1,735	1,812	2,008	4.4	10.8
Credit cards	21,264	23,790	26,979	11.9	13.4
Others	40,095	45,785	51,558	14.2	12.6
Mortgage	43,957	47,931	52,246	9.0	9.0
TOTAL	285,754	310,616	332,195	8.7	6.9

1/ The balance in dollars is valued at the exchange rate in December 2019. Includes loans made by banks' branches abroad.
Source: BCRP.

By currency, credit to the private sector in soles grew 9.8 percent during 2019. Credit in soles to the business sector grew 6.7 percent, with credit to the small and micro business segment being the most dynamic, with a growth rate of 8.2 percent. Credit to larger businesses grew by 7.4 percent (down from 15.2 percent in the previous year), while credit to medium-sized businesses showed a more moderate growth rate declining from 5.3 percent in 2018 to 3.2 percent in 2019.

Credit to households in domestic currency grew 13.1 percent, driven by both consumer loans (13.3 percent) and mortgage loans (12.9 percent).

Table 62
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance in million soles			Growth rates (%)	
	2017	2018	2019	2018	2019
Businesses	106,793	117,201	125,069	9.7	6.7
Corporate and large companies	42,973	49,492	53,132	15.2	7.4
Medium-sized enterprises	25,505	26,866	27,734	5.3	3.2
Small businesses and microbusinesses	38,314	40,843	44,203	6.6	8.2
Individuals	94,084	106,962	121,020	13.7	13.1
Consumer	58,743	66,852	75,736	13.8	13.3
Car loans	1,735	1,812	2,008	4.4	10.8
Credit cards	19,775	22,090	25,073	11.7	13.5
Others	37,233	42,951	48,655	15.4	13.3
Mortgage	35,341	40,110	45,284	13.5	12.9
TOTAL	200,877	224,163	246,090	11.6	9.8

Source: BCRP.

Credit to the private sector in foreign currency declined by 0.4 percent during 2019. By components, credit to companies increased by 0.3 percent, with credit to corporations and large companies supporting this trend (1.6 percent). With the exception of consumer loans, the other segments reduced their borrowing in dollars by substituting them with loans in soles as part of the credit de-dollarization process.

	Balance in million soles			Growth rates (%)	
	2017	2018	2019	2018	2019
Businesses	21,725	22,386	22,458	3.0	0.3
Corporate and large companies	15,520	16,133	16,399	4.0	1.6
Medium-sized enterprises	5,358	5,440	5,250	1.5	-3.5
Small businesses and microbusinesses	847	812	809	-4.2	-0.3
Individuals	3,918	3,733	3,556	-4.7	-4.7
Consumer	1,315	1,370	1,453	4.2	6.1
Car loans	135	89	105	-34.4	18.6
Credit cards	450	514	576	14.2	12.1
Others	730	768	772	5.2	0.6
Mortgage	2,603	2,363	2,103	-9.2	-11.0
TOTAL	25,643	26,119	26,014	1.9	-0.4

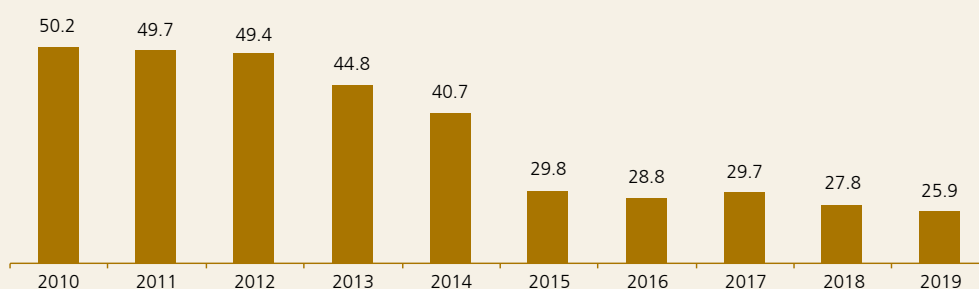
1/ Includes loans made by banks' branches abroad.
Source: BCRP.

The dollarization ratio of credit to business in 2019, measured at the constant exchange rate, was 37.3 percent, lower than in 2018 (38.7 percent). This reduction reflects both the lower dollarization of credit to large companies and corporations, which declined from 51.9 to 50.5 percent, as well as the lower dollarization ratio of credit to small and micro businesses, which fell from 6.2 to 5.7 percent. Likewise, the dollarization ratio of personal loans fell from 10.4 to 8.9 percent. The ratio of dollarization in this group continued to decline in the segments of consumer loans and mortgage loans, where it fell to 6.0 and 13.3 percent, respectively, in the year.

	2017	2018	2019
Businesses	40.2	38.7	37.3
Corporate and large companies	54.5	51.9	50.5
Medium-sized enterprises	41.0	40.1	38.5
Small businesses and microbusinesses	6.8	6.2	5.7
Individuals	12.1	10.4	8.9
Consumer	6.9	6.4	6.0
Vehicular	20.5	13.9	14.8
Credit cards	7.0	7.1	7.1
Others	6.1	5.6	5.0
Mortgage	19.6	16.3	13.3
TOTAL	29.7	27.8	25.9

1/ The balance in dollars is valued at the exchange rate in December 2019. Includes loans made by banks' branches abroad.
Source: BCRP.

Graph 60
DOLLARIZATION RATIO OF CREDIT TO THE PRIVATE SECTOR 1/
(%)



1 / It includes the credits of the branches abroad the local banks.
Source: BCRP.

4. Global Funding to the Private Sector

During the year, overall financing to the private sector grew by 5.8 percent, a higher rate than in 2018 (4.7 percent). It is worth pointing out that the concept of total funding to the private sector includes not only the credit provided by depository institutions to the private sector, but also the resources obtained through the capital market via mutual funds, insurance companies, and private pension funds, as well as direct external loans to businesses.

Table 65
FINANCING TO THE PRIVATE SECTOR 1/

	Balance in million soles			Growth rates (%)	
	2017	2018	2019	2018	2019
I. CREDIT OF DEPOSITORY CORPORATIONS	285,754	310,616	332,195	8.7	6.9
Domestic currency	200,877	224,163	246,090	11.6	9.8
Foreign currency (Million US\$)	25,643	26,119	26,014	1.9	-0.4
Dolarization (%)	29.3	28.2	25.9		
II. CREDIT OF OTHER FINANCIAL CORPORATIONS 2/	39,171	39,295	43,079	0.3	9.6
Domestic currency	21,691	23,169	27,206	6.8	17.4
Foreign currency (Million US\$)	5,281	4,872	4,795	-7.7	-1.6
Dolarization (%)	44.1	41.5	36.8		
Of which:					
AFP's loans	19,719	18,262	20,215	-7.4	10.7
Loans of mutual funds	812	1,839	2,358	126.5	28.3
Loans of insurances	10,378	12,197	13,623	17.5	11.7
III. EXTERNAL PRIVATE INDEBTNESS (Million US\$)	96,499	91,501	91,750	-5.2	0.3
Short-term (Million US\$)	4,213	4,079	3,948	-3.2	-3.2
Medium- and long-term (Million US\$)	24,941	23,565	23,771	-5.5	0.9
Domestic currency	-	1,469	5,109	-	247.7
Foreign currency (Million US\$)	24,941	23,121	22,228	-7.3	-3.9
IV. TOTAL	421,423	441,412	467,024	4.7	5.8
Domestic currency	222,568	247,332	273,296	11.1	10.5
Foreign currency (Million US\$)	60,077	58,634	58,528	-2.4	-0.2
Dolarization (%)	46.7	44.4	41.5		

1/ The balance in dollars is valued at the exchange rate in December 2019.

2/ Includes loans and investment in fixed income from institutional investors.

Source: BCRP.

The largest component of this overall financing was the credit granted by deposit-makers, the balance of which was S/ 332.20 billion in December 2019. The second largest component was direct financing from companies abroad, whose balance in December was US\$ 27.72 billion (S/ 91.75 billion), equivalent to 20.9 percent of total extended financing.

The third component was the direct financing obtained by companies through the domestic capital market (bond issuances) via institutional investors such as AFPs, mutual funds, and local insurance companies. This type of financing showed a recovery after growing almost zero in the previous year.

5. Financial Indicators

In 2019, banks maintained a stable position. They increased their profitability indicators due to the growth of their loan placements. As a result, their ratio of global capital decreased slightly during the year. Financial entities continued increasing their equity base through the capitalization of profits and the issuance of subordinated bonds,.

Moreover, some indicators of the quality of assets increased slightly. The high-risk portfolio increased from 4.4 to 4.5 percent of the overall portfolio, while the coverage level of the high-risk portfolio with provisions increased from 102.0 percent to 103.0 percent.

Table 66 FINANCIAL INDICATORS ON COMMERCIAL BANKS (%)			
	2017	2018	2019
Ratio global capital 1/	15.2	14.7	14.6
Overdue loans / gross placements 2/	3.0	3.0	3.0
High risk portfolio / gross placements 3/	4.4	4.4	4.5
Allowance for loans / high-risk portfolio	105.7	102.0	103.0
Return on equity (ROE)	18.3	18.4	18.3
Return on assets (ROA)	2.1	2.2	2.2

1/ Data as of November 2019.
2/ Credits due and in judicial collection processes.
3/ The high-risk portfolio is equal to the most backward refinanced and restructured portfolio.
Source: SBS.

The higher delinquency rate observed in 2019 came from medium-sized companies (the ratio of delinquent loans for these companies increased from 7.4 percent to 8.0 percent), and to a lesser extent, from consumer loans (the delinquency ratio increased from 2.9 percent to 3.0 percent). On the other hand, the deterioration observed in the segment of medium-sized enterprises was due to arrears from companies operating in the sectors of construction and real estate, as well as in the sectors of transport and agriculture.

It should be pointed out that the ratio of arrears for loans to micro and small enterprises had a positive evolution during the year, while delinquency rates remained stable in mortgage loans and loans to corporations and large enterprises,.

Table 67
BANKS: DELINQUENCY RATES BY TYPE AND SIZE OF DEBTOR
(%)

	2017	2018	2019
Corporate loans	0.0	0.0	0.0
Loans to large companies	1.0	1.3	1.3
Loans to medium-sized companies	7.1	7.4	8.0
Loans to small companies	9.0	8.8	8.2
Loans to microbusinesses	3.2	3.5	3.4
Consumer loans	3.6	2.9	3.0
Mortgage loans	2.8	3.0	3.0
TOTAL	3.0	3.0	3.0

Source: SBS.

In the case of non-banking entities, the increase of overdue loans in municipal and rural savings banks was concentrated in a group of entities that operated with a poor credit model in previous years, but that are currently implementing corrective measures in their credit policies. Greater delinquency affected the generation of profits in rural savings banks, whereas the return on equity (ROE) in municipal savings banks and other financial entities increased due to a better control of operating expenses and lower financial expenses associated with the reduction of interest rates on time deposits.

Table 68
FINANCIAL INDICATORS OF NON-BANK COMPANIES
(%)

	2017	2018	2019
Overdue loans / gross placements 1/			
Financial Firms	5.5	5.4	4.6
Municipal savings banks	5.4	6.5	6.9
Rural savings banks 2/	4.3	6.9	7.8
Edpymes	4.0	4.3	4.1
Provision for loans / high-risk portfolio 3/			
Financial Firms	109.2	112.6	116.4
Municipal savings banks	98.1	95.8	98.7
Rural savings banks 2/	86.9	76.7	100.1
Edpymes	140.9	136.5	103.8
Ratio on equity (ROE)			
Financial Firms	14.4	18.1	19.4
Municipal savings banks	13.0	11.2	12.2
Rural savings banks 2/	-2.0	2.5	-0.2
Edpymes	2.7	15.6	13.9

1/ Overdue loans and loans in judicial collection processes.

2/ As of 2019, it includes CAT Peru that previously operated as Banco Cencosud.

3/ The high-risk portfolio is equal to the non performing loans plus the refinanced and restructured portfolio.

Source: SBS.

6. Exchange Rate

In 2019 the PEN appreciated 1.6 percent in nominal terms (from S/ 3.37 to S/ 3.31 per dollar), showing one of the best performances of currencies in the region. Moreover, the sol registered higher annual volatility than in 2018 as a result of greater uncertainty in external financial markets due to the trade tensions between the United States and China, while uncertainty in the local market generated an increase in very short-term volatility.

Table 69
EXCHANGE RATE AND PRICE OF COMMODITIES 1/

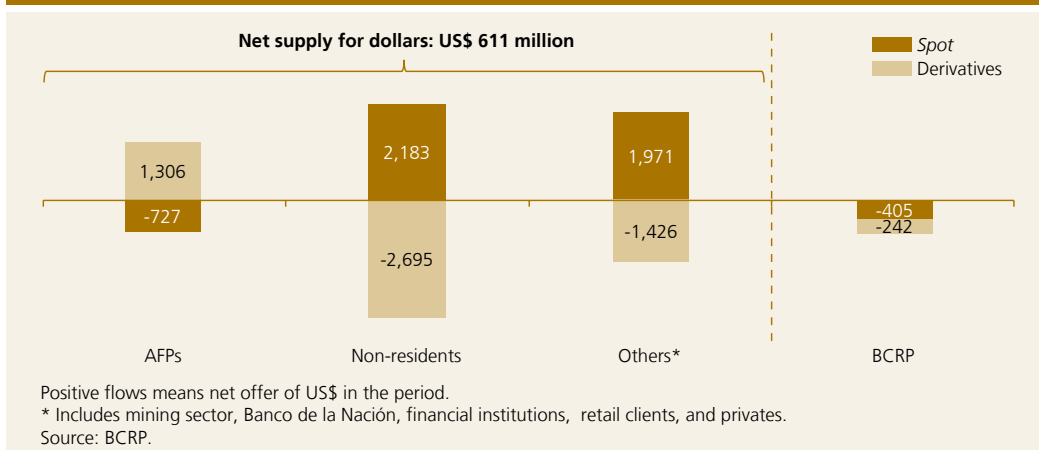
		Dec.16	Dec.17	Dec.18	Dec.19	% change Dec.19 respect to:		
						Dec.18	Dec.17	Dec.16
FED Index	C.U. per US\$	128	119	128	128	0.0	7.5	0.0
Eurozone	US\$ per Euro *	1.052	1.201	1.147	1.121	-2.2	-6.6	6.6
Japan	Yen	117.0	112.7	109.7	108.6	-1.0	-3.6	-7.2
Brazil	Real	3.26	3.31	3.88	4.02	3.7	21.5	23.7
Chile	Peso	671	615	694	753	8.5	22.3	12.3
Colombia	Peso	3,001	2,984	3,248	3,287	1.2	10.2	9.5
Mexico	Peso	20.73	19.65	19.65	18.93	-3.7	-3.7	-8.7
Peru	Sol	3.36	3.24	3.37	3.31	-1.6	2.3	-1.3
Copper	US\$/pound	251	330	263	280	6.3	-15.3	11.6
Gold	US\$/troy ounce	1,152	1,303	1,282	1,517	18.3	16.4	31.7
Oil	US\$/barrel	53.7	60.4	45.4	61.1	34.5	1.1	13.7

1/ End-of-period.

* In all cases, a positive percentage change implies appreciation of the dollar, except for the euro and the pound.

In this context, the local foreign exchange market showed a net supply of dollars (US\$ 611 million) provided mainly from non-resident investors and mining companies in the spot market. The demand, on the other hand, came mainly from non-resident investors in the derivatives market (US\$ 2.66 billion). BCRP's net intervention in the foreign exchange market was a net purchase of dollars (US\$ 647 million), carried out mainly through transactions at the trading desk in the first quarter of 2019.

Graph 61
TOTAL FLOWS OF THE FOREIGN EXCHANGE MARKET 2019
(Million US\$)



Despite episodes of increased risk aversion in 2019, non-resident investors did not massively liquidate their assets in soles. On the contrary, a dollar supply of US\$ 2.18 billion was seen on the spot market, while on the other hand, they demanded contracts in the derivatives market to hedge their investments. Thus, they increased their holdings of BTPs by S/ 13.37 billion (US\$ 3.99 billion) and their holdings of securities in domestic currency by S/ 43 million (US\$ 13 million), and reduced their holdings of securities in foreign currency by US\$ 11 million.

The BCRP intervention in the foreign exchange market was lower than in previous years both in terms of frequency and amounts, while the volatility of the exchange rate was higher in 2019. A total of US\$ 1.06 billion in FX swaps-sell matured during the year. As of December 31, there are only FX swaps-sell as foreign exchange instruments and the balance amounts to S/ 900 million (0.1 percent of GDP). Moreover, the number of intervention days in 2019 was the lowest since 1992. It is worth mentioning that the 2 percent ratio of interventions in the spot market represents the minimum percentage since 2005 and that this percentage is also the lowest through derivative instruments since 2012.

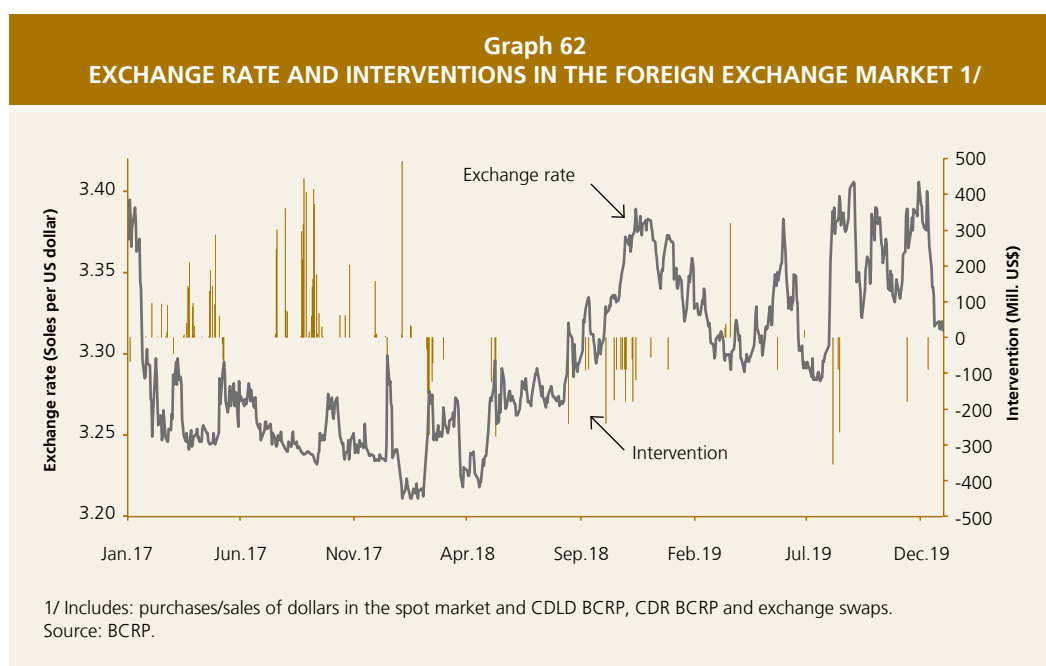


Table 70
FOREIGN EXCHANGE INTERVENTION

	Trading days	Number of intervention days				% of days with intervention		SD of the Exchange rate (Annual % chg.)
		Spot Market	Placement of derivatives and indexed instruments	Total (spot and/or placement)	Spot	Instruments		
2017	249	55	23	63	22%	10%	4.5%	
2018	245	4	27	30	2%	11%	3.4%	
2019	249	4	6	10	2%	2%	4.4%	

Source: BCRP.

7. Financial Savings and Capital Markets

Financial savings include the total amount of assets that businesses and households have in the financial system in the form of savings deposits, term deposits, securities, and holdings of mutual funds, life insurance policies, and contributions to private pension funds. During 2019, the average balance of financial savings increased by 6.2 percent and was equivalent to 55.4 percent of GDP.

Table 71
FINANCIAL SAVINGS
(Average balance in the period, as % GDP)

	Domestic currency	Foreign currency	Total
2010	27.5	13.7	43.6
2011	28.3	13.7	44.8
2012	30.5	12.7	46.4
2013	32.8	12.7	48.2
2014	33.7	13.7	49.7
2015	34.5	15.6	50.7
2016	34.9	16.4	51.0
2017	36.9	15.1	52.2
2018	38.6	15.2	54.0
2019	39.9	15.7	55.4

Source: BCRP.

By currencies, financial savings in soles grew 7.4 percent in 2019 (versus 11.0 percent in 2018), both as a result of the higher growth of private sector deposits in soles and the inclusion of the pension funds of AFP members in the accounts. Financial savings in dollars (valued in soles) grew 3.2 percent (versus 10.6 percent in 2018). The ratio of financial savings in soles in GDP terms increased from 38.6 to 39.9 percent, while the ratio of savings in dollars increased from 15.2 to 15.7 percent.

7.1 Fixed-Income Market

At the end of 2019, the balance of fixed-income securities issued through public offering in the local market amounted to S/ 28.80 billion, this balance being 2.4 percent lower than the balance in the previous year. It should be pointed out that this figure does not include the sovereign bonds issued regularly by the Treasury.

The flow of fixed-income securities placed through public offerings in the domestic market during the year amounted to S/ 4.80 billion, a lower flow than the one placed in 2018 (S/ 7.21 billion). In addition to this, Peruvian companies placed securities in the international market for a total equivalent to US\$ 12.49 billion, this amount being higher than that recorded in 2018 (US\$ 7.54 billion).

Table 72
FIXED-INCOME SECURITIES ISSUED BY PRIVATE COMPANIES

	Amounts			Growth rate (%)	
	2017	2018	2019	2018	2019
Balance at the end of period (Million soles)	29,165	29,494	28,799	1.1	-2.4
Non-financial sector	17,371	17,817	16,023	2.6	-10.1
Financial sector 1/	11,794	11,676	12,776	-1.0	9.4
Composition by currency (%)	100.0	100.0	100.0		
Soles	74.8	80.2	86.7		
Fixed rate	68.1	73.7	82.2		
VAC	6.7	6.5	4.5		
US dollars	24.6	20.1	13.3		
Structured	0.6	-0.4	-		
Balance as % GDP	4.2	4.0	3.7		

1/ Securities issued or originated by a financial organization. Including Banco de la Nación, COFIDE, and MiVivienda.
Source: SMV.



By type of issuers, private non-financial companies placed bonds for a total equivalent to S/ 1.57 billion (S/ 2.76 billion in 2018) through public offerings, which represents a decrease of 10.1 percent compared to the previous year. The largest bond issuer was Banco BBVA, which made five bond issuances for a total of S/ 582 million during the year. Other important issuers were Cementos Pacasmayo (S/ 570 million), COFIDE (S/ 478 million), Banco Ripley (S/ 448 million), Banbif (S/ 415 million), Gas Natural de Lima y Callao (S/ 342 million), and Financiera Oh! (S/ 327 million).

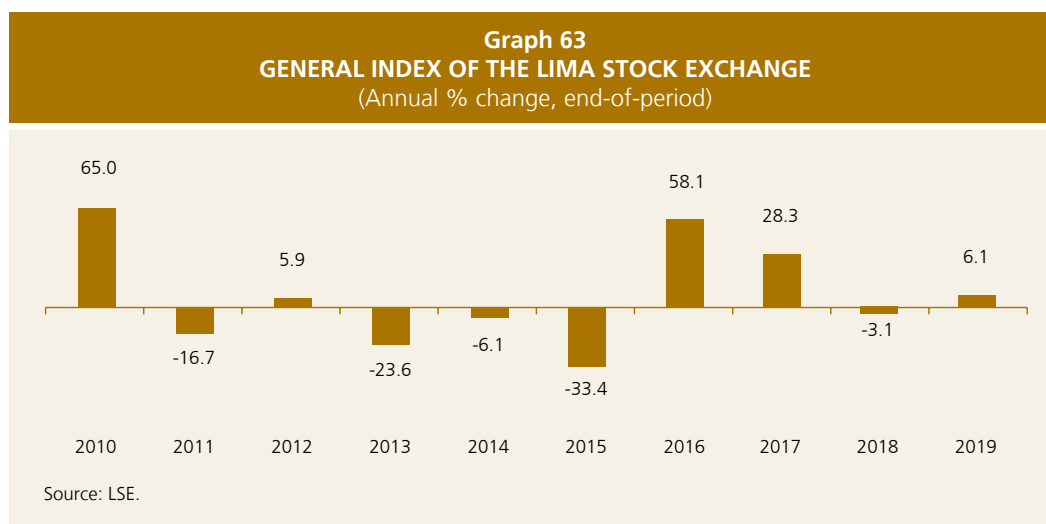
The average maturity term of domestic bonds in soles, weighted by the amount placed, was 5.9 years, while the average maturity term of the bonds issued in dollars was 7.9 years. The domestic placements in soles with the longer maturity terms were the bonds issued by Cementos Pacasmayo (S/ 310 million), Luz del Sur (S/ 168 million), and Colegios Peruanos (S/ 230 million), all of which had maturity terms of 15 years.

By currencies, bonds issued in soles represented 86.7 percent of the balance of current securities (80.2 percent at end 2018), while bonds issued in dollars represented 13.3 percent (20.1 percent in 2018). Moreover, bonds in soles at a fixed-rate represented 82.2 percent of the balance (versus 73.7 percent in 2018), while inflation-indexed bonds (VAC) represented 4.5 percent (versus 6.5 percent in 2018).

7.2 Stock Exchange

During the year, the Lima Stock Exchange (LSE) –Bolsa de Valores de Lima (BVL)– showed a positive return of 6.1 percent in its General Index (SP/BVL PERU GENERAL index) and a positive return of 13.8 percent in its Selective Index (SP/BVL LIMA 25). The BVL also recorded a decrease in terms of the volume traded in comparison with 2017. On the other hand, at the international level, the Dow Jones rose 22.3 percent, the Bovespa index of Sao Paulo rose 31.6 percent, and the Merval index of Buenos Aires rose 37.6 percent.

The main factor that affected the performance of the LSE was fear of a global slowdown due to lower economic growth in China and due to the effects of trade tensions with the United States. Expectations during the first quarter of the year were mostly positive, both in the developed countries and in the emerging countries. However, there was a strong period of uncertainty between April and August, with ups and downs according to the evolution of trade negotiations between China and USA. The domestic arena was also influenced by political confrontations between the Executive and the Congress, which became a factor that disconnected the results accumulated in the BVL from the ones observed in the rest of developed countries. However, in the last quarter of the year, the indices of BVL registered a moderately upward period associated with the two rate cuts in the benchmark interest rate of the Federal Reserve and with the progress obtained in the US-China trade negotiations.



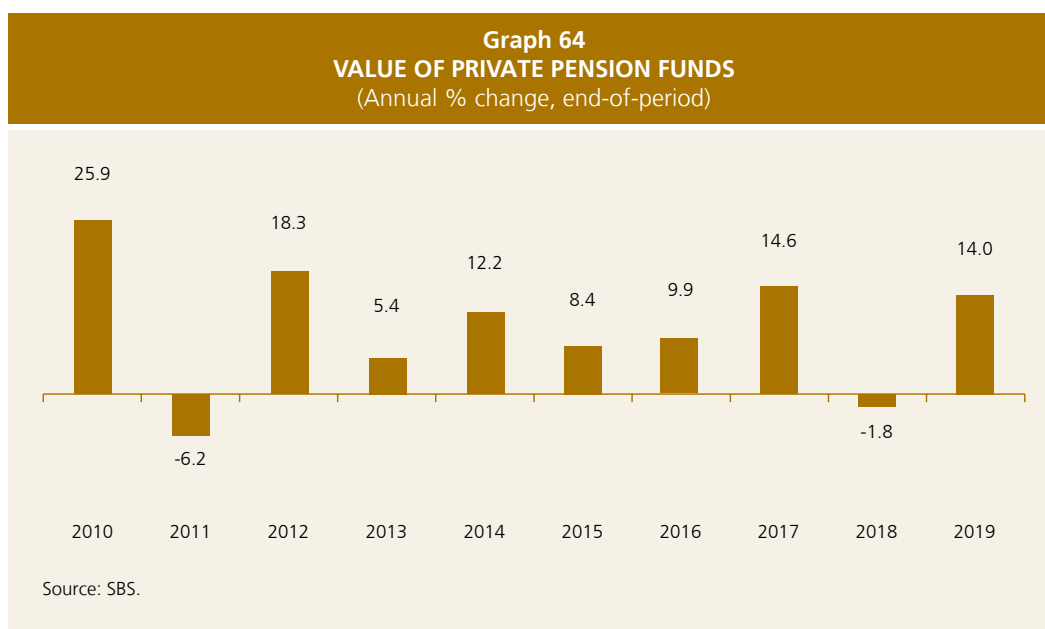
The LSE results were positive, although differences were observed at the sector level. The indices in the segments of consumption and services showed positive returns (13.4 percent and 12.2 percent, respectively), followed by the indices of the mining sector which had an annual return of 7.0 percent. On the other hand, however, influenced by domestic conditions, the indices of construction, manufacturing, and finances showed negative results (19.9 percent, 4.6 percent, and 3.8 percent, respectively). The index of junior shares (of mining exploration companies) showed the strongest decline as a result of greater uncertainty and registered a loss of 32.8 percent.

The total volume of stocks traded, which increased by 4.0 percent compared to 2018, amounted to S/ 13.85 billion. On the other hand, the volume of bonds traded dropped 37.7 percent to S/ 4.39 billion. The market capitalization amount at the end of the year was S/ 537.31 billion, 12.1 percent lower than at the end of 2018 (S/ 479.30 billion).

Moreover, the amount of dematerialized shares at year end –i.e. the amount of shares recorded electronically at CAVAL– was S/ 228.72 billion, which was equivalent to 42.6 percent of the value of market capitalization (46.7 percent in 2018). The ratio of dematerialized stocks held by non-resident investors in terms of the total dematerialized stocks decreased from 34.6 percent in December 2018 to 34.2 percent in December 2019.

7.3 Private Pension System

The net worth of private pension funds increased by 14.0 percent compared to 2018 and amounted to S/ 173.33 billion in December 2019, which is equivalent to 22.5 percent of GDP. The number of participants in the private pension system grew 5.8 percent, exceeding 7,4 million members.



The AFPs' investment portfolio amounted to S/ 174.82 billion, which includes the workers' pension funds plus the legal reserve provided by the administrators themselves. The percentage of these funds that AFPs can invest abroad increased from 44.6 percent to 44.9 percent during 2019, 5.1 points below the maximum authorized limit of 50 percent. Among their domestic investments, the

weight of fixed income financial instruments (bonds and securities) increased from 35.2 to 35.4 percent, while the weight of deposits decreased from 2.5 to 2.2 percent. On the other hand, the share of their deposits in dollars decreased from 2.4 to 1.6 percent while the share of their deposits in dollars increased from 0.2 to 0.6 percent. Finally, the share of their investment in variable income stocks and assets decreased slightly, from 17.1 to 16.9 percent, despite positive returns.

By type of funds, Fund Type 2 or mixed fund (which has a maximum investment of 45 percent in variable-income securities) accounted for 74.0 percent of the total fund value and had an actual return of 10.8 percent per year. Fund Type 3 (or capital appreciation fund, which has a maximum investment in 80 percent in equity securities) represented 14.0 percent and had a real return of 5.8 percent per year, while Fund Type 1 (or capital preservation fund, whose maximum investment in variable income securities is 10 percent) represented 10.6 percent and had a real return of 11.7 percent. Finally, Fund Type zero, which invests only in fixed income, had a participation of 1.5 percent and a return of 1.5 percent as well.

Voluntary contributions, which amounted to S/ 2.29 billion (S/ 2.06 billion in 2018), represented 1.4 percent of the total value of pension funds. Most of these contributions were destined to non-pension purposes (S/ 2.08 billion).

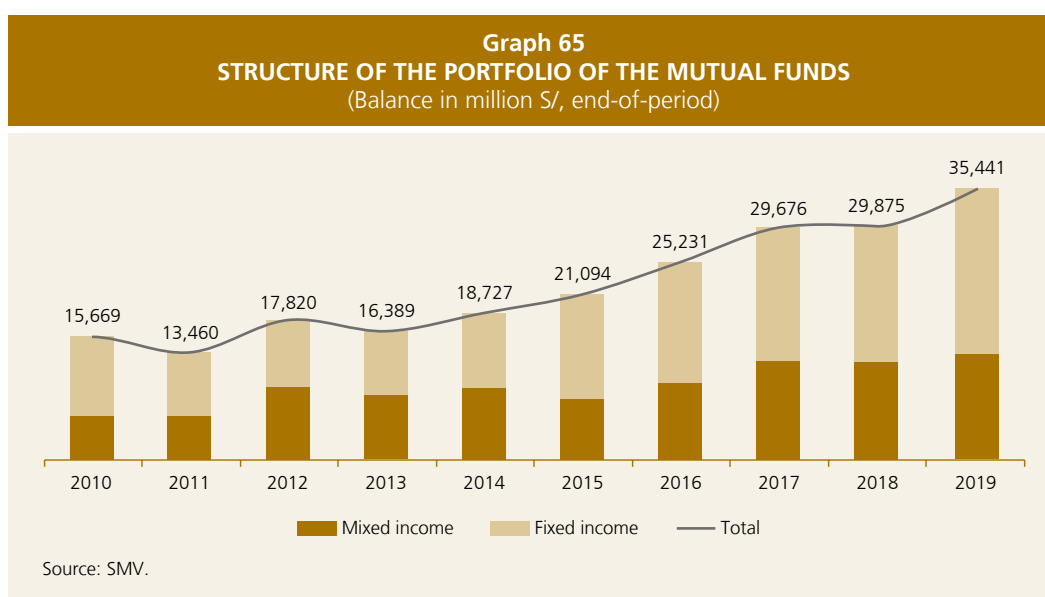
Table 73
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO
(% structural)

	2017	2018	2019
I. DOMESTIC INVESTMENTS	57.0	54.8	54.5
<u>Deposits</u>	<u>5.7</u>	<u>2.5</u>	<u>2.2</u>
In soles	3.3	2.4	1.6
In dollars	2.5	0.2	0.6
<u>Bonds and fixed income</u>	<u>33.8</u>	<u>35.2</u>	<u>35.4</u>
Central Bank securities	0.1	-	-
Sovereign bonds	21.6	23.2	23.1
Values issued by the private sector	12.0	11.9	12.3
<u>Stocks and variable income</u>	<u>17.5</u>	<u>17.1</u>	<u>16.9</u>
Shares	10.5	11.1	11.5
Investment funds	7.0	6.0	5.4
II. FOREIGN INVESTMENTS	43.3	44.6	44.9
III. OPERATIONS IN TRANSIT	-0.3	0.6	0.6
IV. TOTAL	100.0	100.0	100.0
Million soles	156,247	153,414	174,823
As % GDP	22.4	20.7	22.7

Source: SBS.

7.4 Mutual Funds

Mutual funds' joint net worth increased by 18.6 percent compared to the previous year, reaching a balance of S/ 35.44 billion (4.6 percent of GDP) at the end of 2019. The number of participants decreased by 0.7 percent to 435,847 people at the end of the year (438,817 participants in 2018) while the number of operating funds increased from 167 to 179.



By currencies, the participation of mutual funds in soles decreased from 41.8 percent to 37.2 percent, while the participation of mutual funds in dollars rose from 58.1 percent to 62.8 percent.

The ratio of mutual funds' investments abroad declined from 44.0 percent to 43.8 percent over the year. As regards domestic investments, the ratio of deposits decreased (from 41.0 percent to 40.8 percent) together with the ratio of fixed-income instruments (from 10.7 to 8.7 percent), whereas the ratio of domestic variable-income securities increased from 2.7 percent to 3.4 percent.

Table 74
COMPOSITION OF MUTUAL FUNDS' INVESTMENT
(% structural)

	2017	2018	2019
I. DOMESTIC INVESTMENTS	60.4	56.0	56.2
<u>Deposits</u>	<u>50.0</u>	<u>41.0</u>	<u>40.8</u>
In soles	33.6	28.9	24.1
In dollars	16.4	12.2	16.7
<u>Bonds and fixed income</u>	<u>6.5</u>	<u>10.7</u>	<u>8.7</u>
Central Bank securities	1.5	0.5	0.1
Sovereign bonds	0.9	0.9	0.7
Values issued by the private sector	4.1	9.3	8.0
<u>Stocks and variable income</u>	<u>1.8</u>	<u>2.7</u>	<u>3.4</u>
<u>Others</u>	<u>2.1</u>	<u>1.6</u>	<u>3.3</u>
II. FOREIGN INVESTMENTS	39.6	44.0	43.8
III. TOTAL	100.0	100.0	100.0
Million soles	29,676	29,875	35,441
As % GDP	4.2	4.0	4.6

Source: SMV.

7.5 Payments System

In 2019, fund transfers handled through the payments system in Peru grew significantly supported by the Central Bank's oversight and regulation to ensure safety and efficiency in its operations. BCRP has also continued promoting the use of transfers and digital payments in the Peruvian economy, as well as the implementation of innovating payment services.

During this year, payment systems registered an increase of 3.9 percent in the average monthly value of fund transfers, which came to represent 6.4 times the value of GDP.

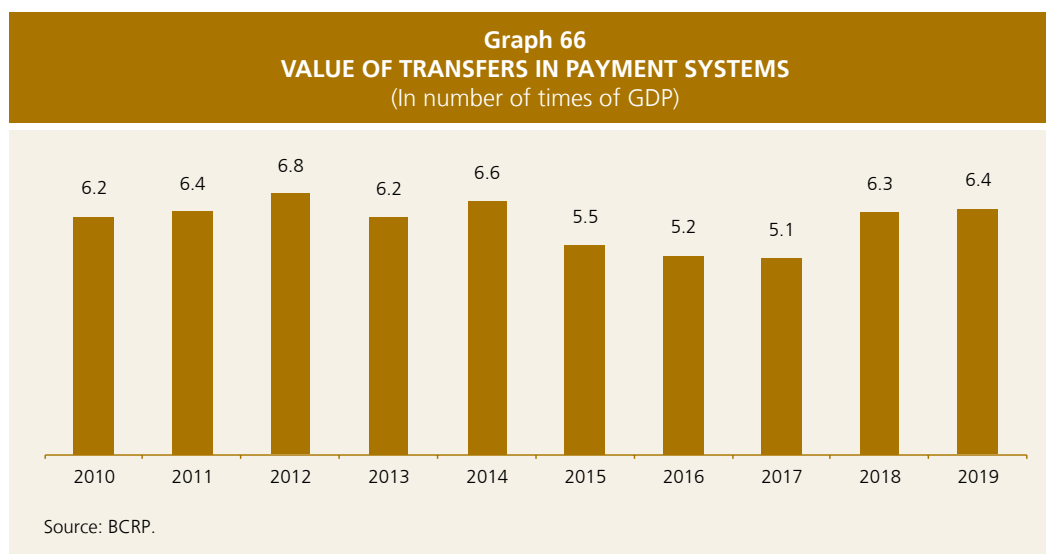


Table 75
PAYMENT SYSTEMS
(Monthly average, value in million soles, number of operations in thousands)

	2018		2019		% chg.	
	Value	Number	Value	Number	Value	Number
Real Time Gross Settlement System (RTGS System)	362,235	80	373,434	82	3.1	2.4
Multibank Securities Settlement System (MSSS)	6,486	10	7,537	8	16.2	-17.6
- Stock Exchange	1,820	9	1,381	7	-24.1	-23.1
- Government securities	4,666	1	6,156	1	31.9	24.6
Electronic Clearing House (Cámara de Compensación Electrónica - CCE)	22,146	2,519	25,059	3,220	13.2	27.8
- Checks	8,866	355	9,886	310	11.5	-12.5
- Credit transfers	12,802	1,943	14,400	2,489	12.5	28.1
- Instant transfers	479	221	773	421	61.5	89.9
TOTAL	390,866	2,609	406,031	3,310	3.9	26.8

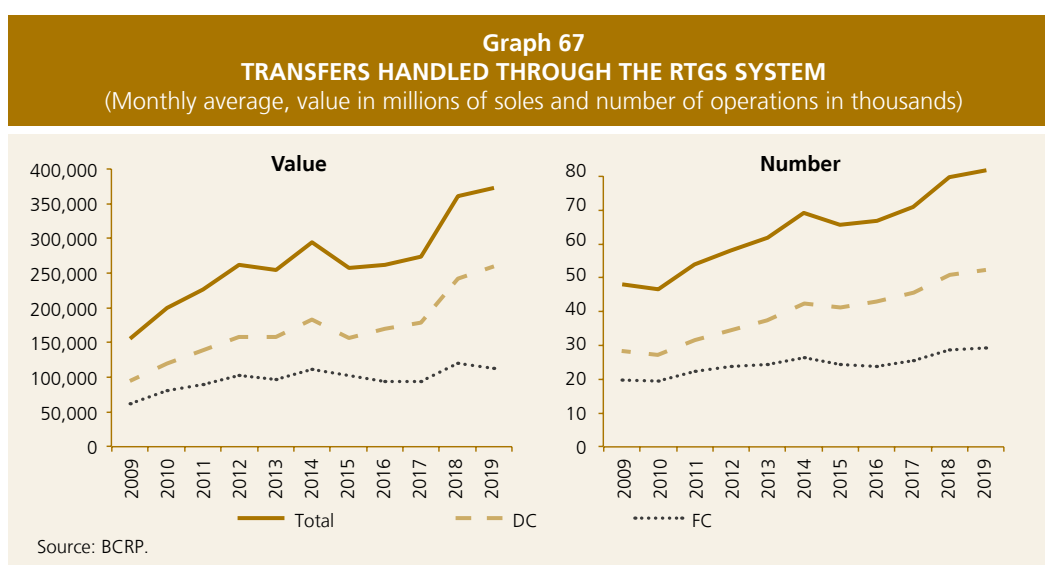
Source: BCRP.

Real Time Gross Settlement System (RTGS System)

Managed by BCRP, the RTGS system is the main payment system used in Peru to make high-value transfers among the entities of the financial system and to make transfers on behalf of their clients.

It represents 92 percent of the total value transferred through payment systems. It is also used to settle the Central Bank's monetary policy operations with entities in the financial system, as well as the operations handled by the other systems (the Electronic Clearing House and the Multibank Securities Settlement System) and the Electronic Money Payment Agreement.

In 2019, the average monthly value of fund transfers handled through this system increased by 3.1 percent, mainly as a result of the increase seen in the operations of financial entities' customers. It is worth highlighting that the value of transfers in domestic currency grew at a faster pace than that of transfers in foreign currency, the ratio of the former rising to 69.7 percent of total operations handled through this system (versus 66.9 percent in 2018).



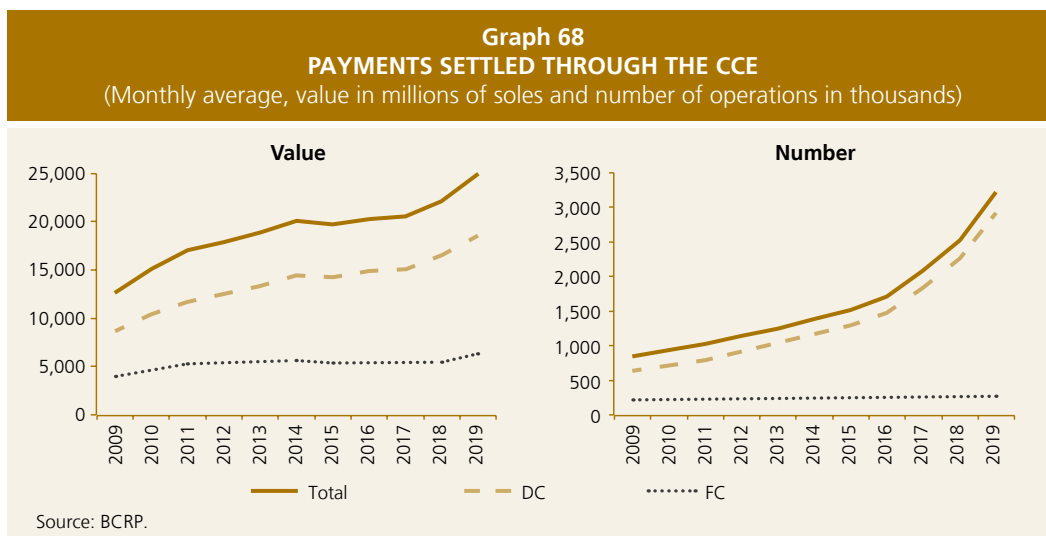
The Central Bank continued to promote the electronic access of micro finance entities (i.e. municipal and rural savings banks and non-bank financial entities) to the RTGS system. In 2019, Financiera Compartamos and Financiera OH were electronically connected with this system, which has implied greater efficiency and safety in the transfers carried out by these entities.

Electronic Clearing House (Cámara de Compensación Electrónica - CCE)

The CCE administers services such as the settlement of checks, credit transfers, and immediate transfers between the customers of the different financial system entities. Moreover, because of the great number of low value operations it handles, transfers in this system represent 97.3 percent of the total number of transactions in the Payments System.

During 2019, the number of operations handled through the CCE continued to show a rising trend. The value of these transactions increased by 13.2 percent and the number of transactions increased by 27.8 percent. It is worth mentioning that both the number of credit transfers and the number of immediate transfers increased, in line with people's greater acceptance of electronic payments. In contrast, the use of checks continued to show a declining trend (down by 12.5 percent) and now represents only 9.6 percent of the number of operations processed through the CCE (14.1 percent in 2018).

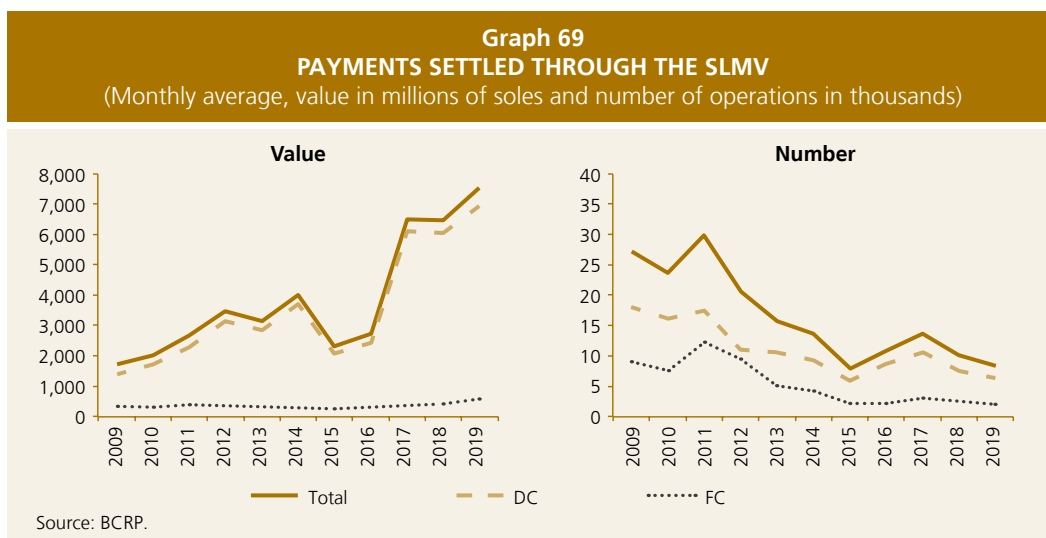
In 2019, the number of immediate transfers continued to increase and reached a monthly average number of 421 thousand operations, which represented 13.1 percent of the total number of operations handled by the CCE.



On the other hand, in December 2019, the Central Bank issued a new General Regulation for Exchange and Clearing Services (Circular N° 029-2019-BCRP) that regulates the organization and operation of an Exchange and Clearing Services Company and establishes the general rules applicable to the services it provides. The regulation establishes that non-banking financial companies, authorized to issue cashier's checks, have access to the services of check exchange and settlement provided that they comply with the conditions established by the Central Bank.

Multibank Securities Settlement System (MSSS)

The MSS System, which is managed by CAVALI, handles payments for transfers of stock exchange securities and Treasury bonds. In 2019, the monthly average value of payments in this system increased by 16.2 percent as a result of the greater number of operations with Government Securities¹⁴. On the other hand, the daily average number of transactions decreased by 17.6 percent reflecting the lower volume of transactions in the stock exchange market¹⁵.



¹⁴ Operations with Government Securities showed significant growth, both in terms of value and in terms of number, mainly due to increased trading of Sovereign Bonds by non-residents.

¹⁵ The operations traded at the LSE fell in 2019 in terms of value and in terms of the number of operations mainly due to the lower number of transactions in the secondary market of shares.

Other Transfers and Retail Payments

Electronic transfers and retail payments continued to show their growing trend in 2019. This increase has been accompanied by a greater use of online channels, such as internet banking and mobile banking.

Instruments / Channels	2018		2019		% chg.	
	Value	Number	Value	Number	Value	Number
Intra-bank transfers	116,588	23,276	149,957	31,986	29	37
Offline channel	95,658	18,306	133,998	29,162	40	59
In-person channel	20,930	4,969	15,959	2,824	-24	-43
Debit cards	1,839	21,084	2,181	26,360	19	25
Offline channel	147	2,450	253	4,235	72	73
In-person channel	1,692	18,633	1,927	22,125	14	19
Credit cards	4,556	16,338	5,164	18,685	13	14
Offline channel	694	2,364	860	3,289	24	39
In-person channel	3,862	13,974	4,304	15,397	11	10
Bim	11	364	75	577	585	59
Offline channel	11	364	75	577	585	59
Total	122,994	61,062	157,377	77,609	28	27
Offline channel	96,510	23,485	135,186	37,263	40	59
In-person channel	26,484	37,577	22,191	40,346	-16	7

Note: In-person channels are: Window, ATM and Point of Sale (POS)
* Value in million soles, and number of operations in thousands.
Source: BCRP.

The importance of intrabank transfers stands out in terms of value and number of operations as they represent more than 41% of the number of transfers and payments outside Payment Systems as well as 95% of the value of these operations. Intrabank transfers are mainly made through non-presential channels that concentrate 91% of the number of transfers, the most important channels being mobile banking (39%) and internet banking (25%).

Debit and credit card payments represent 34% and 24% of the total number of transactions carried out with digital payment instruments outside Payment Systems. However, the face-to-face or physical channel, mainly point-of-sale (POS) terminals located in shops, concentrate 84% of debit card payments and 82% of credit card payments.

The value and number of intrabank transfers largely exceeds the transfer orders made via the ECH as they represent 91% of the value and 92% of the total number of transfers.

Changes in the Market of Payment Cards

Changes in the structure of the market of payment cards based on the provision of value-added services offered to affiliate business members involve greater competition between the card companies that affiliate businesses and process their card transactions. The table below shows the main changes in the card market between 2016 and 2019/2020.

Table 77
MAIN CHANGES IN THE CARD MARKET

2016	2019/2020
There was no POS inter-operability.	Inter-operable POS is offered to merchants.
Exclusive acquirers (Visanet-VISA and PMP-MasterCard)	Multi-brand acquirers (Visanet and PMP are acquirers of VISA and MasterCard). Visanet started the process of changing its name to Niubiz and PMP changed its name to Izipay.
Delay in settlement of funds to merchants (two working days)	In the small business segment, a Facilitator settles the funds within 24 hours.
Inter-exchange rate as a percentage of the discount rate applied to the business by the acquirers.	Inter-exchange rate determined by card brands.

Innovations

After conducting an evaluation and consultation process with market agents in 2019, the Central Bank published Circular No. 003-2020-BCRP approving the Regulation of the Payment Service with Quick Response Codes (QR) on February 2, 2020. The regulation sets the legal framework for the service, applicable to QR code providers, wallet providers, and payment networks.

Oversight

In 2019 BCRP verified the compliance of payment systems with the regulations and current standards of safety, efficiency, and adequate risk management. In this line, the following supervisory activities were carried out during the year: monitoring of information on operations and incidents; a satisfaction survey was conducted with the participants of the payment systems, and annual self-evaluations and inspection visits to the CCE and CAVALI.