V.

Liquidity and credit

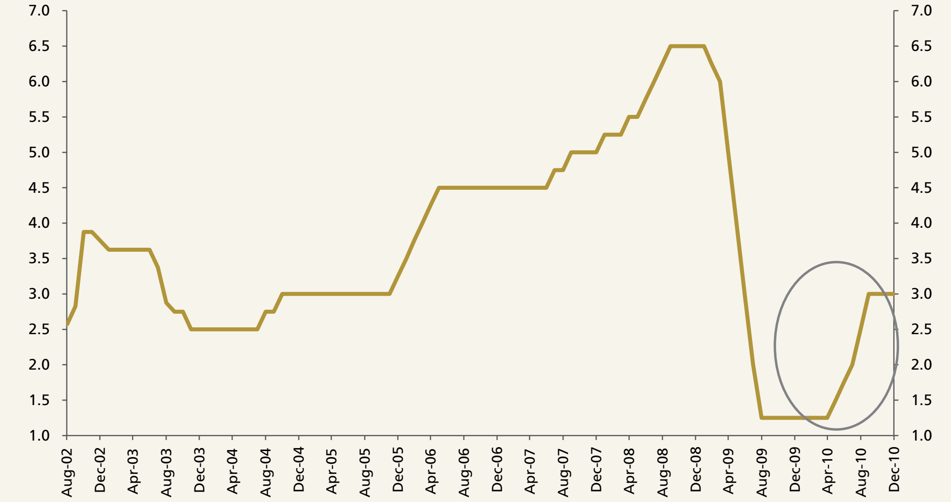
The rise in the reference interest rate was coupled by rises in the rates of reserve requirements in both domestic currency and foreign currency due to the significant portfolio capital inflows observed.

1. Monetary Policy

In a context of rapid recovery of domestic economic activity coupled by a resurgence of capital inflows, monetary policy actions in 2010 were aimed at gradually withdrawing the monetary stimulus implemented in 2009.

In this context, the Central Bank initiated a cycle of adjustments in the reference rate, raising it from a historical minimum rate of 1.25 percent to 3.0 percent in December. These adjustments were mainly preventive since no inflationary pressures were observed and inflation expectations were within the target range.

GRAPH 76
BCRP REFERENCE INTEREST RATE
(%)



Source: BCRP.

The rise in the reference rate was coupled by rises in the rates of reserve requirements in both domestic currency and foreign currency given the significant inflows of portfolio capitals to an economy with high levels of financial dollarization. Thus, the following measures were adopted in terms of reserve requirements during 2010:

a. The rate of minimum legal reserves was raised from 6.0 to 9.0 percent, with an exemption of S/. 50 million or 5.6 percent of total liabilities subject to reserve requirements, the lower amount.

b. Banks' minimum requirement in current account was raised from 1.0 to 3.0 percent.

c. The rate of marginal reserves in domestic currency was set at 12 percent in August and raised to 25 percent in October 2010.

d. The rate of marginal reserves in foreign currency was raised from 30 to 55 percent.

e. The rate of mean reserves in foreign currency was raised by 0.5 percentage points relative to the implicit rate of reserves during July 1-31, 2010.

f. The rate of reserves for non resident financial entities was raised from 35 to 120 percent.

g. The rate of reserves of short term liabilities was raised from 35 to 75 percent.

TABLE 65
RESERVE REQUIREMENTS POLICIES

	Legal minimum reserve requirement	Domestic Currency			Foreign currency			
					General regime		Foreign liabilities	
		Marginal reserve requirement for deposits	Increase in the average reserve requirement	Reserve requirement for non-residents	Marginal reserve requirement on deposits	Increase in the average reserve requirement	Short-term	Long-term
May-06	6%				30%		30%	30%
Sep-07	6%				30%		30%	0%
Mar-08	8%	15%		15%	40%		40%	0%
Apr-08	9%	20%		40%	45%		45%	0%
Jul-08	9%	25%		120%	49%		49%	9%
Oct-08	9%			120%	35%		0%	0%
Dec-08	7.5%			35%	30%		0%	0%
Mar-09	6%			35%	30%		0%	0%
Feb-10	6%			35%	30%		35%	0%
Jul-10	7%			40%	35%		40%	0%
Aug-10	8%	12%		50%	45%	0.1%	50%	0%
Sep-10	8.5%	15%		120%	50%	0.2%	65%	0%
Oct-10	9%	25%		120%	55%	0.2%	75%	0%
Nov-10	9%	25%		120%	55%		75%	0%
Dec-10	9%	25%		120%	55%		75%	0%

Source: BCRP.

The rise in the reference rate passed through to the rest of interest rates, especially to the rates with shorter terms and lower credit risks, contributing in this way to generate appropriate monetary and credit conditions that allowed an evolution of domestic demand compatible with maintaining inflation within the target range.

BOX 6

ASYMMETRY IN THE MONETARY POLICY INTEREST RATE PASS-THROUGH

The pass-through effect measures how changes in the monetary policy rate are transmitted to the rest of interest rates in the financial system, that is, to lending and deposits rates. The pass-through results from the combination of two effects: the first, **the long term pass-through**, refers to the effect that, for example, an increase of 100 bps in the monetary interest rate has on the commercial rate in terms of percentage points. If this effect is equal to 100 bps, then the pass-through is complete. When this effect is lower than the increase in the benchmark rate, the pass-through is incomplete.

The second is the **speed of the pass-through**, which measures how many months the monetary policy shock takes to be transmitted into commercial rates. This indicator refers to factors that affect the pass-through mechanism in the short term. The greater the speed of adjustment, the lower time it will take the long term pass-through to materialize and, in this sense, the greater the impact of the interest rates channel.

In addition to analyzing whether the pass-through is complete, it is relevant to analyze if there is evidence of asymmetry in this mechanism, that is, to analyze if the characteristics of the pass-through are the same if the policy rate is increased or if it is lowered. Findings (see table) suggest that the pass-through in the case of lending rates is faster when the reference rate increases. For example, 50 percent of the long-term effect is passed-through to the 90-day corporate rate in 6 months when the benchmark rate is reduced, while it takes only 2 months when the benchmark rate is increased.

The evidence in the case of deposit rates is mixed. The pass-through to shorter-term rates (savings and deposits up to 30 days) is faster when the policy rate declines or remains the same, and it is slower when the reference rate rises. In contrast, the pass-through to interest rates on longer-term rates (31 to 170 day-deposits and 180 to 360-day deposits) is faster when the policy rate increases than when it declines or remains the same.

ASYMMETRY IN THE INTEREST RATES PASS-THROUGH RATES AFTER CHANGES IN THE REFERENCE RATE

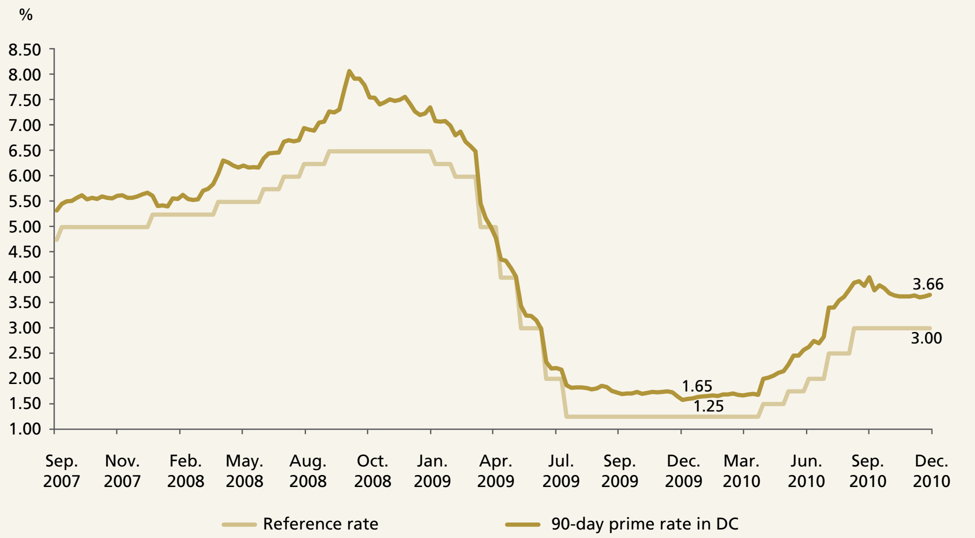
	Decrease or maintenance of the reference rate				Increase of the reference rate			
	Long term pass through	Months for the shock to be transmitted			Long term pass-through	Months for the shock to be transmitted		
		50%	75%	90%		50%	75%	90%
Lending rates								
30-days corporate Prime rate	1.04	6.1	12.2	20.2	1.04	2.4	4.8	8.0
360-days loans	0.68	6.0	11.9	19.8	0.68	5.1	10.2	16.9
Borrowing rates								
Savings	0.46	4.0	7.9	13.2	0.46	8.9	17.8	29.5
30-day deposits	0.86	1.6	3.2	5.4	0.86	1.9	3.8	6.2
180-day deposits	0.81	1.2	7.3	12.1	0.81	2.0	4.0	6.6
360-day deposits	0.70	4.7	9.3	15.5	0.70	4.0	8.1	13.4

Source: BCRP.

2. Interest rates

The interest rates on corporate loans in nuevos soles increased from 2.08 in May to 3.66 percent in December, while the interest rates on corporate loans in dollars increased from 1.61 to 2.14 percent in the same period.

GRAPH 77
REFERENCE INTEREST RATE AND CORPORATE PRIME RATE IN DOMESTIC CURRENCY
(%)



Source: BCRP.

The average rate on loans in domestic currency (FTAMN) increased from 20.1 percent in May to 22.8 percent in December. Deposit rates also increased: the interest rate on 30-day deposits increased by 100 bps, from 1.2 percent to 2.2 percent, while the interest rate on over 180-day deposits increased from 3.6 percent to 3.8 percent[13].

The higher rate of mean reserve requirements in domestic currency, which increased from 5.9 to 11.7 percent between February and December, was another factor that contributed to increase interest rates, particularly in the case of savings and loans in domestic currency.

TABLE 66
INTEREST RATES ON OPERATIONS IN NUEVOS SOLES
(%)

	2008	2009	2010
1. Interbank rate	6.5	1.2	3.0
2. Deposits up to 30 days	6.5	1.2	2.2
3. 181-day to 360-day term deposits	6.3	3.6	3.8
4. Corporate prime rate	7.5	1.7	3.6
5. FTAMN 1/	22.5	19.3	22.8

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

13 The liabilities of local banks' external branches operating in the domestic market were included as part of total liabilities subject to reserve requirements since January 2011 (Circular No. 048 -2010-BCRP).

TABLE 67
EVOLUTION OF AVERAGE RESERVE RESERVE REQUIREMENT

	National currency 1/	Foreign currency 2/
May 2006	6.0%	29.2%
September 2007	6.0%	29.1%
March 2008	8.8%	24.8%
April 2008	12.7%	26.2%
July 2008	12.7%	26.7%
October 2008	1.5%	27.8%
December 2008	8.9%	27.3%
March 2009	6.4%	27.3%
February 2010	5.9%	27.0%
July 2010	7.0%	27.2%
August 2010	8.4%	27.5%
September 2010,3/	9.0%	27.4%
October 2010	11.0%	26.1%
November 2010	11.5%	24.7%
December 2010	11.7%	24.6%

1/ Includes obligations under the special regime.
2 / Consider the total bank obligations.
3 / Reserve requirement on short-term external liabilites rose to 75% as from September 12.
Source: BCRP.

As a result of the increase of the rate of reserve requirements, the interest rates in domestic currency have also increased. The lending rate on corporate loans in dollars increased by one percentage point between end 2009 and end 2010 (from 1.2 to 2.1 percent). Likewise, the deposit rate for 30-day deposits rose from 0.4 to 0.9 percent. In the case of the average lending rates, the FTAMEX rose from 7.2 to 7.9 percent between May and December, after having reached a maximum level of 8.6 percent in September.

TABLE 68
INTEREST RATES ON OPERATIONS IN US DOLLARS
(%)

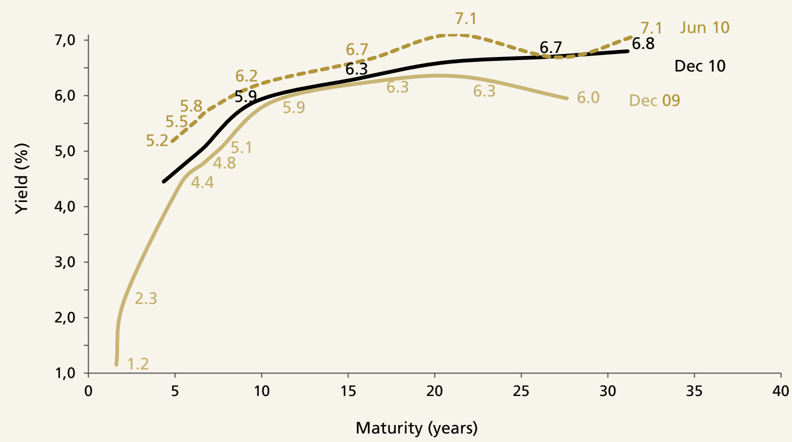
	2008	2009	2010
1. 3-month libor rate	1.8	0.3	0.3
2. Interbank rate	1.0	0.2	1.1
3. Deposits (up to 30 days)	0.9	0.4	0.9
4. 181-day to 360-day term deposits	4.5	2.4	1.7
5. Corporate prime rate	5.2	1.2	2.1
6. FTAMEX 1/	10.5	8.0	7.9

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

The reversal observed in the increase of rates in foreign currency is associated with the higher availability of liquidity in this currency and with banks' actions aimed at replacing their short term liabilities subject to reserve requirements by long term liabilities not subject to reserve requirements as from Q3-2010. In addition to this, some banks obtained financing through their branches abroad, since these branches were not subject to reserve requirements until end 2010.

On the other hand, the evolution of the yield curve on sovereign bonds was influenced both by the evolution of risk aversion in this market in connection with uncertainty in European countries with debt problems and by the Central Bank's monetary policy stance. These two factors generated parallel steep movements in the yield curve, the longer tranche of the curve showing the highest increase. The yield on 28 year bonds reached 6.8 percent at end 2010 (versus 6.0 percent in 2009).

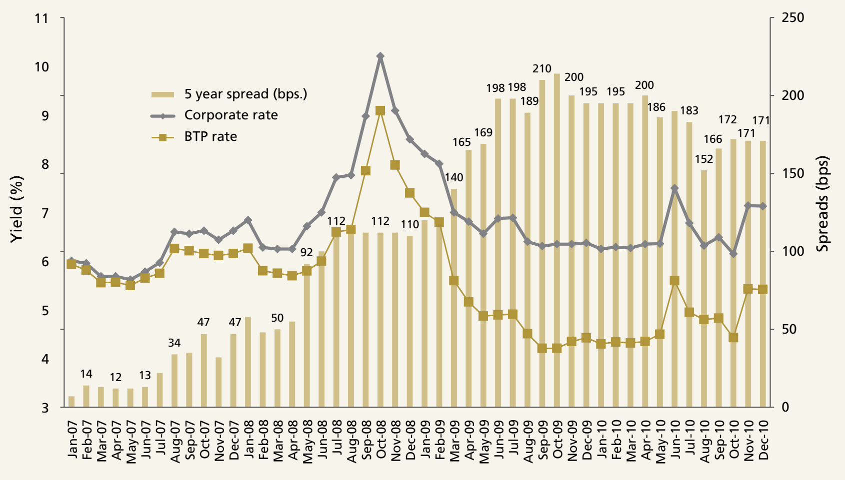
GRAPH 78
SECONDARY MARKET FOR SOVEREIGN BONDS 1/



1 / Yield rates negotiated at the end of each mont.
Source: MEF.

The risk spreads charged for corporate bond issuances showed a downward trend during 2010.

GRAPH 79
RATES AND SPREADS OF 5 YEARS SOVEREIGN CORPORATE BONDS AAA



Source: Conasev and MEF.

3. Exchange rate

In 2010, the sol appreciated 2.8 percent against the dollar in nominal terms (from S/. 2.887 to S/. 2.807) and 2.1 percent in real terms. The evolution of the exchange rate was influenced by the high volatility observed in international financial markets associated with the debt problems in the Eurozone peripheral countries, by capital inflows to emerging economies, and by the Central Bank's interventions in the foreign exchange market aimed at reducing excessive exchange rate volatility.

During 2010, the domestic exchange market went through greater appreciation pressures due to the greater supply of dollars in both the spot and the forward markets. This increased dollar supply came from the AFPs and non resident investors which moved from a position demanding US$ 746 million in 2009 to a net position offering US$ 1,975 million in 2010.

Moreover, local economic agents increased their supply of dollars from US$ 3,116 million in 2009 to US$ 7,841 million in 2010. On their side, banks continued losing their exchange rate position generating an additional supply of dollars, although it was not very different from the one they generated in 2009.

In this context, the BCRP intervened in the exchange rate market purchasing US$ 8,963 million and placing CDLD BCRP for a total of US$ 160 million to reduce the effects of this increased supply of dollars on the volatility of the exchange rate.

TABLE 69
FLOWS IN THE FOREIGN EXCHANGE MARKET
(Millions of US dollars)

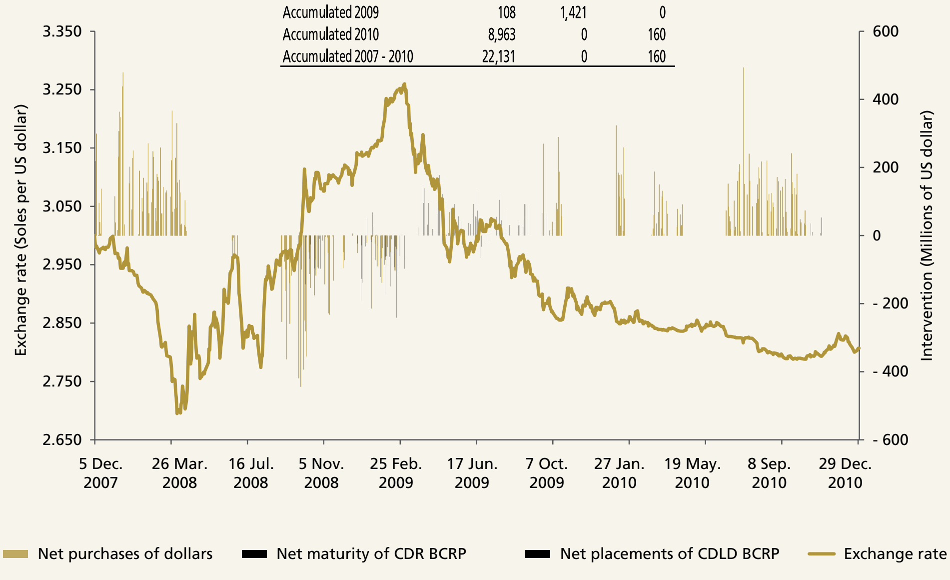
	2008	2009	2010
Non residents	**3,006**	**- 479**	**- 1,374**
Spot	110	1,043	- 1,601
Forward	2,895	- 1,522	227
Pension funds	**- 398**	**1,225**	**- 600**
Spot	355	1,788	868
Forward	- 753	- 563	- 1,469
Private	**- 4,208**	**- 3,116**	**- 7,841**
Banco de la Nación and financial companies	- 29	1,090	1,083
Banks international position	296	- 249	- 391
BCRP intervention	1,333	1,529	9,123

1/ A positive sign indicates demand and a negative sign indicates supply.
Source: BCRP.

As a result of these operations, the Central Bank accumulated international reserves for a total of US$ 10,970 million during 2010, reaching a record high in terms of the flow of international reserves and increasing the balance of NIRs from US$ 33,135 million in December 2009 to US$ 44,105 million at end 2010.

GRAPH 80
EXCHANGE RATE AND INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET

Millions of US dollars	Net purchases	Net maturity of CDR	Net colocations of CDLD
Accumulated 2007	10,306	0	0
Accumulated 2008	2,754	-1,421	0
Accumulated 2009	108	1,421	0
Accumulated 2010	8,963	0	160
Accumulated 2007 - 2010	22,131	0	160



Source: BCRP.

BOX 7

READJUSTMENT IN VALUATION: ARTICLE 89 OF THE BCRP ORGANIC LAW

Financial statements are useful tools for analysis when they reflect the administration's management. A misregistration can distort the assessment of the status of an entity and the fulfillment of its objectives.

The primary objective of the Banco Central de Reserva del Peru (BCRP) in terms of monetary policy is to maintain price stability. To do so, the Central Bank uses a broad set of instruments, such as purchases and sales of foreign currency, placements of CD-BCRP, and auctions of deposits. The BCRP also administers the country's international reserves based on the criteria of safety, liquidity and profitability.

Because of the BCRP' macroeconomic objectives, the criterion of recording the fluctuations in the value its assets in the income statement could distort the proper assessment of the bank's performance. To avoid such distortions in the financial statements, the BCRP accounting isolates the impact of temporary fluctuations in the value of currencies on the main financial statements.

Article 89 of the BCRP's Organic Law establishes that readjustments in the value in local currency of the Bank's assets and liabilities must be recorded in a special account and that these adjustments must not be considered as gains or losses. In accordance with the recommendations of accounting principles, the Central Bank has decided to record these adjustments in valuation in a special account in "equity".

The following simple example illustrates the accounting procedure used to record fluctuations in the value of the currencies of reserves in the "Organic Law Article 89" account. Let's suppose that the BCRP has assets and liabilities in soles and US dollars, and that the balance is valued at an exchange rate of S/. 1.0 per US dollar. Let's also suppose that the Central Bank has assets for a total of US$ 100, liabilities for a total of S/. 80, and an equity of S/. 20 (S/. 10 in capital and S/. 10 in profits).

Exchange rate: S/. 1.0

Assets:	S/. 100	Liabilities:	S/. 80
In US Dollar	US$ 100		
		Equity:	S/. 20
		- Capital	S/. 10
		- Earnings	S/. 10
		- L.O. Art. 89	S/. 0

If the exchange rate rose to S/.1.5 per US dollar, the assets denominated in soles would increase their value by S/. 50, ceteris paribus, even though their value in the original currency has not changed because it is still US$ 100. According to the rule, this difference in the value of the bank's assets should be recorded in a special account in "equity", because in this way the increase recorded in assets is matched by the same increase in equity. The profits of the BCRP are not increased by an increase in the value of assets.

If we do the same exercise with an exchange that declines to S/. 0.5 per US dollar, ceteris paribus, the difference in the value of assets is now negative by S/. 50, and the special account becomes negative. In this case, profits are not affected by the reduction in the exchange rate.

Despite its simplicity, the example above illustrates two points: a) the logic of isolating the income statement from differences resulting from temporary fluctuations in the value of currencies of reserve assets and the logic of recording them in the special account (Organic Law – Article 89), and b) how volatile this account can be, since it can go from a positive balance of S/. 50 to a negative balance of S/. 50 when the exchange rate fluctuates between S/. 0.5 and S/.1.5, respectively.

It is worth pointing out that although the effect of fluctuations in the value of currencies does not affect the balance of the BCRP, the gains or losses of these reserve assets associated with their definitive sale are recorded in the balance and, therefore, affect the BCRP's profit and loss account.

In sum, the Organic Law - Article 89 account allows isolating the profit and loss statement of the Central Bank from temporary fluctuations in the value of currencies. This accounting recording procedure is compatible with the objectives of monetary policy management.

4. Monetary and credit aggregates

After showing a slight slowdown in 2009 due to the impact of the international crisis, monetary and credit aggregates continued growing in 2010 as a result of the recovery of economic activity.

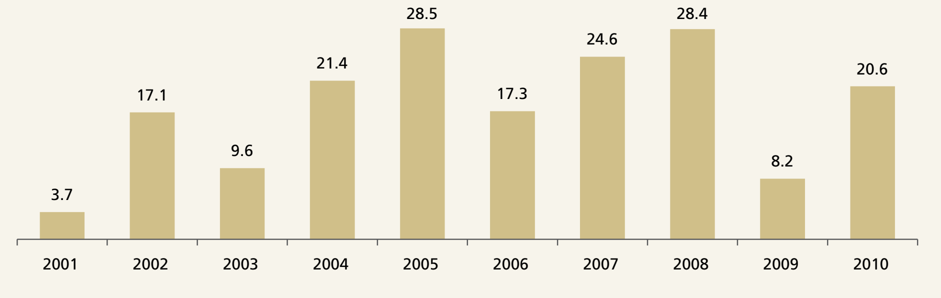
Total liquidity grew at a rate of 22.7 percent. Liquidity in domestic currency grew at a higher rate (30.5 percent) than liquidity in dollars (11.8 percent), as a result of which the dollarization ratio of this aggregate decreased from 42.1 percent in December 2009 to 37.8 percent in December 2010.

Credit to the private sector increased by 21.0 percent in the same period, showing a similar growth in both currencies: 21.2 percent in soles and 20.8 percent in dollars. The dollarization ratio of credit to the private sector fell from 47.6 percent at end 2009 to 46.8 percent at end 2010.

4.1 Currency in circulation

Currency recorded an average daily balance of S/. 19,956 million, which represents a growth of 20.6 percent compared with the average balance in the previous year, recovering the dynamism this aggregate showed before 2009. In GDP terms, currency increased from 5.0 percent in 2009 to 5.6 percent of GDP. In a context of growth of economic activity without significant inflationary pressures and with a lower degree of dedollarization in terms of deposits and credit, the demand for currency continued growing more rapidly than the product.

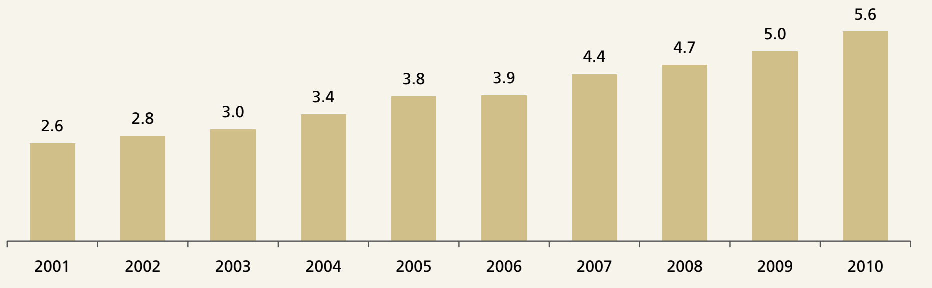
GRAPH 81
CURRENCY
(Annual percentage change, average in the period)



Source: BCRP.

According to data at year end, currency grew by S/. 4,890 million in 2010. The main sources of expansion were the Central Bank operations in the foreign exchange market (S/. 25,362 million or US$ 9,010 million), which were partially sterilized by open market operations (S/. 10,343 million) and higher public sector deposits (S/. 5,720 million). In addition to this, there were higher reserve requirements deposits (S/. 5,770 million) after the rate of reserve requirements was increased as part of the measures oriented to gradually withdrawing monetary stimulus.

GRAPH 82
CURRENCY
(% of GDP)



Source: BCRP.

Total operations in the foreign exchange market allowed the Central Bank to record a net increase of US$ 9,010 million in US currency, mainly as a result of BCRP purchases of foreign currency (US$ 8,963 million) in a context of exchange rate volatility due to persistent short term capital inflows.

TABLE 70
OPERATIONS OF THE BCRP
(Millions of nuevos soles)

	2008	2009	2010
I. Foreign exchange operation	**311**	**- 562**	**25,362**
(Millions of US$)	488	- 48	9,010
1. Over the counter trading	2,754	108	8,963
2. Public sector	- 2,316	- 261	- 50
3. Others	50	105	96
II. NET DOMESTIC ASSETS	**2,167**	**2,467**	**- 20,472**
1. Public sector deposits	- 6,644	2,561	- 5,720
2. Repos	5,412	- 5,412	0
3. CD-BCRP	13,737	- 6,399	14,091
4. CDR-BCRP	- 4,425	4,425	0
5. CDBCRP-NR	- 6,483	6,483	0
6. CDLD-BCRP	0	0	- 450
7. CDV-BCRP	0	0	- 3,196
8. Term deposits	0	0	- 20,788
9. Overnight deposits	- 3	- 819	163
10. Reserve requirements in domestic currency	- 2,053	668	- 5,770
11. Other assets	2,626	961	1,198
III. CURRENCY	**2,478**	**1,905**	**4,890**
Memo: Balance at end of period			
- CD BCRP	7,721	14,121	30
- CDR BCRP	4,465	0	0
- CD BCRP with restricted negotiation	6,483	0	0
- CDLD BCRP	0	0	450
- CDV BCRP 1/	0	0	3,207
- Term deposits (DP BCRP)	0	0	20,788
- Public sector deposits	23,568	21,006	26,726

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

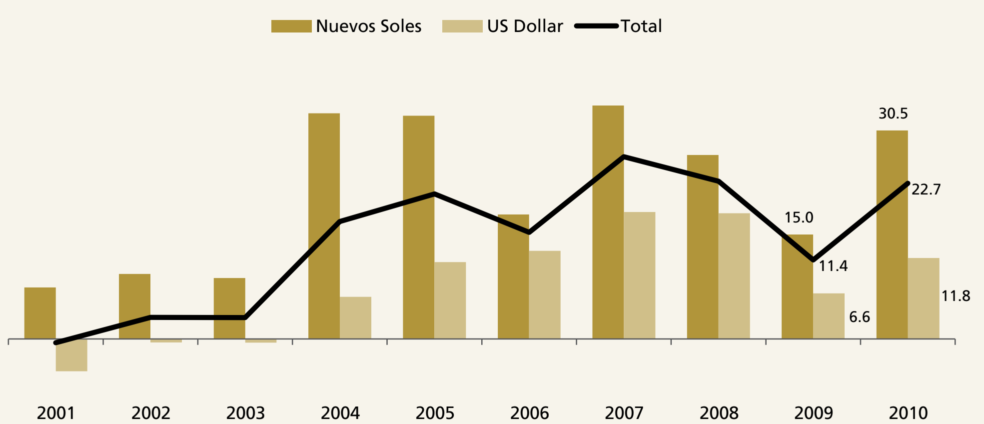
The largest BCRP interventions in the foreign exchange market were carried out in Q1 and Q3 when the Central Bank purchased dollars for a total of US$ 2,340 million and US$ 5,556 million, respectively. The balance of BCRP certificates of deposit (CD BCRP) doubled during the first nine months of 2010 due to the need to sterilize banks' excess liquidity after the Central Bank's purchases of foreign currency increased from S/. 14,121 million at end 2009 to S/. 29,768 million at end September. Moreover, since October, the Central Bank started using its new sterilization mechanisms: first, the placements of CD BCRP were replaced by auctions of term deposits (DP BCRP), with placements of these deposits reaching a total of S/. 20,788 million in Q4.

The BCRP also started placing variable rate certificates of deposit (CDV BCRP), whose yield varies according to the Central Bank's reference rate. The placements of CDV BCRP with 3 to 6 month maturity terms amounted to S/. 3,196 million in Q4. Finally, another sterilization mechanism used was the auction of certificates of deposit payable in dollars (CDLD BCRP), which is a mechanism that can in part reduce the need for purchases of dollars in situations of exchange volatility. The BCRP placed CDLD BCRP for a total of S/. 450 million between October and December 2010.

4.2 Liquidity

As a result of the recovery of economic activity and the higher levels of external financing, liquidity in 2010 recorded a growth rate of 22.7 percent (11.4 percent in 2009). As a percentage of GDP, liquidity grew 31.5 percent, nearly two percentage points higher than in 2009 (29.5 percent).

GRAPH 83
LIQUIDITY IN THE PRIVATE SECTOR
(Annual % change, end of period)

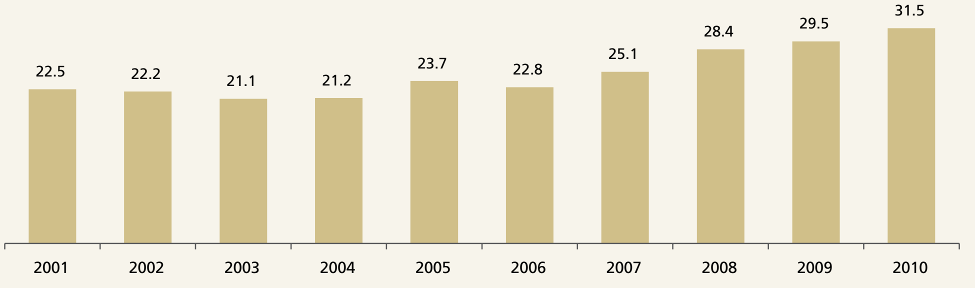


1/ The amounts in dollars are valued using the constant exchange rate in December 2010.
Source: BCRP.

The average balance of liquidity in soles grew 26.0 percent. This was associated with the 13.7 percent growth of GDP in nominal terms, the 9.8 percent drop in the speed of circulation, and a 0.4 percent reduction in the multiplier.

The preference for domestic currency is reflected in the continuous reduction observed in the circulation velocity, following the trend that began in 2001. The 0.4 percent reduction in the average multiplier was mainly the result of the increase in the average rate of reserve requirements –from 9.9 percent in 2009 to 11.6 percent in 2010– after reserve requirements measures were implemented. This effect was partially offset by the decline in the preference for currency (down from 28.8 percent in 2009 to 27.6 percent in 2010).

GRAPH 84
LIQUIDITY
(% of GD, at period end)



Source: BCRP.

TABLE 71
MAIN MONETARY AGGREGATES
(Data at period end)

	Balance in millions of nuevos soles			**% Change**	
	2008	**2009**	**2010**	**2009**	**2010**
Currency	17,336	19,241	24,131	11.0	25.4
Money	28,852	33,048	42,583	14.5	28.8
Total deposits 1/	81,700	91,164	111,851	11.6	22.7
In nuevos soles	38,690	45,297	60,313	17.1	33.2
In dollars (Millions of US$)	15,306	16,322	18,341	6.6	12.4
Liquidity 1/	100,117	111,509	136,843	11.4	22.7
In nuevos soles	56,742	65,282	85,171	15.0	30.5
In dollars (Millions of US$)	15,436	16,451	18,388	6.6	11.8

1/ The balance of broad money in dollars is valued at the constant exchange rate in December 2010.
Source: BCRP.

By type of depositor, the deposits of legal entities grew more than the deposits of natural persons (30.8 percent vs. 13.1 percent), as in the previous year.

TABLE 72
DEPOSITS BY TYPE OF DEPOSITOR

	Balance in Millions of nuevos soles			**Growth rates (%)**	
	2008	**2009**	**2010**	**2009**	**2010**
Individuals	52,036	51,612	58,398	- 0.8	13.1
Legal entities	34,715	40,857	53,453	17.7	30.8
TOTAL	**86,751**	**92,469**	**111,851**	**6.6**	**21.0**

1/ Balances valued at current exchange rate.
Source: SBS and corporate balances.

Liquidity in nuevos soles increased in all its forms. Currency in circulation grew 25.4 percent and deposits grew 33.2 percent. As regards the three types of deposits, term deposits in soles grew the most (34.7 percent), followed closely by demand deposits (33.6 percent).

TABLE 73
LIQUIDITY IN DOMESTIC CURRENCY IN THE PRIVATE SECTOR

	Balance in millions of nuevos soles			Growth rates (%)	
	2008	2009	2010	2009	2010
Currency	17,336	19,241	24,131	11.0	25.4
Deposits	**38,690**	**45,297**	**60,313**	**17.1**	**33.2**
Demand deposits	11,516	13,807	18,452	19.9	33.6
Savings deposits	11,667	13,824	18,069	18.5	30.7
Term Deposits	15,506	17,666	23,792	13.9	34.7
Securities and other instruments	717	744	727	3.8	- 2.2
TOTAL	**56,742**	**65,282**	**85,171**	**15.0**	**30.5**

Source: BCRP.

Liquidity in dollars, on the other hand, grew mainly due to the growth of demand deposits used by individuals and companies for transaction purposes (24.0 percent), while term deposits –assets in dollars– grew at much lower rate (5.3 percent).

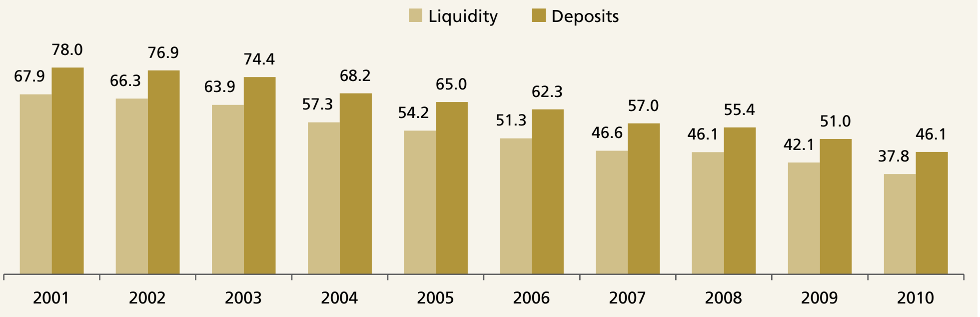
TABLE 74
LIQUIDITY IN FOREIGN CURRENCY IN THE PRIVATE SECTOR

	Balance in Millions of US dollars			Growth rates (%)	
	2008	2009	2010	2009	2010
Deposits	15,306	16,322	18,341	6.6	12.4
Demand deposits	4,042	4,589	5,691	13.5	24.0
Savings deposits	3,365	4,052	4,559	20.4	12.5
Term Deposits	7,899	7,681	8,091	- 2.8	5.3
Securities and other instruments	130	128	47	- 1.0	- 63.3
TOTAL	**15,436**	**16,451**	**18,388**	**6.6**	**11.8**

Source: BCRP.

Following the trend observed during the last decade, the dollarization ratio of liquidity declined from a level of 42.1 percent in December 2009 to 37.8 percent in December 2010. Moreover, the dollarization ratio of deposits –a concept that excludes currency in circulation– declined from 51.0 percent in 2009 to 46.1 percent in 2010.

GRAPH 85
DOLLARIZATION OF LIQUIDITY AND DEPOSITS
(%)



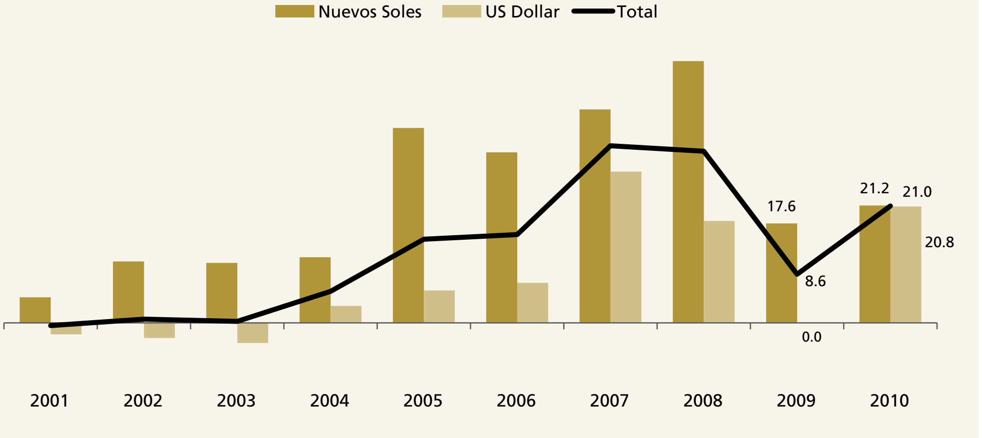
Source: BCRP.

4.3 Credit to the private sector

Total credit to the private grew 21.0 percent, showing a higher rate than the one observed in 2009 (8.6 percent). These figures include the loans transferred by local banks to their branches abroad, which are registered as credits to branches in banks' accounts.

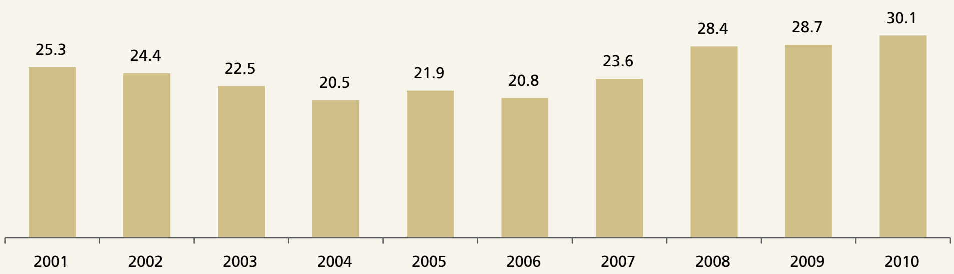
Most of the growth of credit to the private sector during the year was associated with increased domestic economic activity and with the improvement of international financial conditions, which allowed banks to obtain a greater flow of external credits. The growth rate of credit to the private sector in soles was 21.2 percent (17.6 percent in 2009), a rate quite similar to the one recorded by credit to the private sector in dollars (20.8 percent). The dollarization ratio of credit to the private sector fell from 47.6 to 46.8 percent between December 2009 and December 2010 due to the appreciation of the sol.

GRAPH 86
CREDIT TO THE PRIVATE SECTOR 1/
(Annual % change, end of period)



1/ The balance of broad money in dollars is valued at the constant exchange rate in December 2010.
Source: BCRP.

GRAPH 87
CREDIT TO THE PRIVATE SECTOR
(% of GDP, end of period)



Source: BCRP.

By type of borrower, credit to firms grew 21.9 percent during the year (vs. 7.3 percent in 2009). Credit to individuals grew 19.2 percent (11.5 percent in 2009), with mortgage loans being the segment that showed the highest expansion (23.3 percent).

TABLE 75
TOTAL CREDIT TO THE PRIVATE SECTOR 1/

	Balance in Millions of nuevos soles			Growth rates (%)	
	2008	**2009**	**2010**	**2009**	**2010**
Corporate loans	67,520	72,436	88,317	7.3	21.9
Consumer loans	32,051	35,731	42,584	11.5	19.2
Consumption	20,780	22,670	26,486	9.1	16.8
Mortgage	11,271	13,061	16,098	15.9	23.3
TOTAL	**99,572**	**108,167**	**130,901**	**8.6**	**21.0**

1/ The balance of broad money in dollars is valued at the constant exchange rate in December 2010.
Source: BCRP.

By economic sector, the highest growth of business credit was observed in three sectors: commerce (annual growth of S/. 4,099 million), real estate activities (annual growth of S/. 4,043 million), and manufacturing (annual growth of S/. 3,564 million). These three sectors, which concentrated 74 percent of the demand for business credits during 2010.

TABLE 76
DEPOSITORY INSTITUTIONS: TOTAL CREDIT BY ECONOMIC SECTOR 1/
(Millions of nuevos soles)

	Balance			Flows		
	2008	**2009**	**2010**	**2008**	**2009**	**2010**
Agriculture and Livestock	2,645	3,159	3,715	916	514	556
Fishing	1,186	1,348	1,392	- 93	162	44
Mining	3,996	3,776	4,183	1,195	- 220	407
Manufacturing Industry	17,016	16,854	20,418	2,655	- 162	3,564
Electricity, Gas and Water	3,016	3,886	4,586	749	870	700
Construction	1,954	1,813	2,301	594	- 141	488
Commerce	15,891	16,338	20,437	5,094	447	4,099
Hotels and Restaurants	1,150	1,577	1,821	320	427	244
Transportation, Storage and Communications	5,844	6,331	8,463	2,324	487	2,132
Real Estate, Business and rental	4,995	5,279	9,322	1,300	284	4,043
Rest	9,827	12,074	11,679	1,563	2,247	- 395
TOTAL	**67,520**	**72,436**	**88,317**	**16,617**	**4,916**	**15,881**

1/ The balance of broad money in dollars is valued at the constant exchange rate in December 2010.
Source : SBS.

The growth of credit to the private sector in domestic currency (21.2 percent) was mainly associated with household needs. Thus, credit in soles to individuals grew 22.7 percent (vs. 17.0 percent in 2009), while credit to businesses grew 19.8 percent (18.2 percent in 2009). The growth of mortgage loans in soles (37.9 percent) was noteworthy among the types of credits to individuals.

TABLE 77
CREDIT TO THE PRIVATE SECTOR IN DOMESTIC CURRENCY

	Balance in Millions of nuevos soles			Growth rates	
	2008	**2009**	**2010**	**2009**	**2010**
Corporate loans	26,998	31,902	38,214	18.2	19.8
Consumer loans	21,834	25,543	31,351	17.0	22.7
Consumption	17,935	19,968	23,664	11.3	18.5
Mortgages	3,899	5,575	7,687	43.0	37.9
TOTAL	**48,832**	**57,445**	**69,565**	**17.6**	**21.2**

Source: BCRP.

TABLE 78
DOLLARIZATION OF MORTGAGES
(%)

2001	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
94.0	94.0	94.2	94.8	95.1	95.1	88.1	79.4	67.9	58.0	52.3

Source: BCRP.

Credit to the private sector in foreign currency, which remained stagnant in 2009, grew 20.8 percent in 2010, driven by low international interest rates and expectations of appreciation of the sol. This recovery of credit in dollars was much more pronounced in the business segment, where credit in foreign currency grew 23.5 percent (including the loans of local banks' branches abroad). On the other hand, credit in dollars to individuals grew 10.2 percent, mainly due to the growth of credit in the segment of mortgage loans (12.3 percent), which had shown a very moderate growth in previous years.

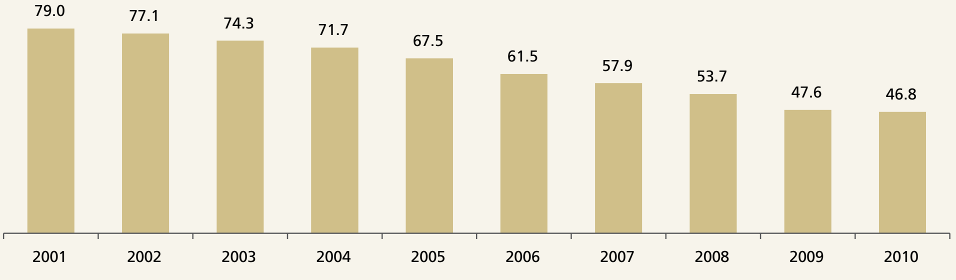
TABLE 79
CREDIT TO THE PRIVATE SECTOR IN FOREIGN CURRENCY

	Balance in Millions of US dollars			Growth rate	
	2008	**2009**	**2010**	**2009**	**2010**
Corporate loans	14,421	14,425	17,808	0.0	23.5
Consumer loans	3,636	3,626	3,997	-0.3	10.2
Consumption	1,013	961	1,004	-5.1	4.5
Mortgage	2,624	2,664	2,993	1.5	12.3
TOTAL	**18,057**	**18,051**	**21,806**	**0.0**	**20.8**

Source: BCRP.

Like in the case of liquidity, the levels of dollarization of credit to the private sector continued declining in 2010. Compared to December 2009, the dollarization ratio of credit to the private sector fell from 47.6 percent to 46.8 percent (0.8 percentage points). Credit to businesses (including the placements of local banks' branches abroad) maintained its level of dollarization at 56.8 percent (56.6 percent in 2009), while credit to individuals showed a lower level of dollarization (the dollarization ratio fell from 29.1 percent in 2009 to 26.5 percent in December 2010).

GRAPH 88
DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR
(%)



Source: BCRP.

5. Financial indicators

Once the main effects of the 2008 international crisis had been overcome, commercial banks' financial indicators showed a slight improvement in 2010. The ratio of non performing loans declined from 1.6 percent in December 2009 to 1.5 percent in December 2010 and the level of coverage of non-performing loans rose from 139.4 to 141.9 percent in the same period. Return on equity (ROE) fell from 24.5 percent in 2009 to 24.2 percent in 2010, while return on assets (ROA) increased from 2.3 to 2.4 percent.

TABLE 80
INDICATORS ON COMMERCIAL BANKS
(%)

	2008	2009	2010
Due loans / gross placements	1.3	1.6	1.5
High risk portfolio / gross placements	2.2	2.7	2.6
Provision for loan / portfolio of high-risk	151.4	139.4	141.9
Ratio on equity (ROE)	31.1	24.5	24.2

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

Moreover, the ratio of delinquency in non-bank financial entities registered a slight increase, although the ratios of provisions remained above 100 percent. The ratio of non performing loans in municipal credit banks rose from 5.0 to 5.1 percent, while in country credit banks it increased from 4.0 to 4.6 percent and in edpymes from 4.5 to 5.1 percent. In contrast, this ratio declined from 4.5 percent to 3.8 percent in financial entities.

TABLE 81
FINANCIAL INDICATORS OF NON-BANK COMPANIES 1/
(%)

	2008	2009	2010
Due loans / gross placements			
Financial Firms	2.3	4.5	3.8
Municipal savings banks	3.9	5.0	5.1
Rural savings banks	3.8	4.0	4.6
Edpymes	3.6	4.5	5.1
Provision for loans / high-risk portfolio			
Financial Firms	151.1	124.9	132.8
Municipal savings banks	119.2	105.1	108.2
Rural savings banks	104.0	91.3	96.7
Edpymes	129.6	106.7	105.7

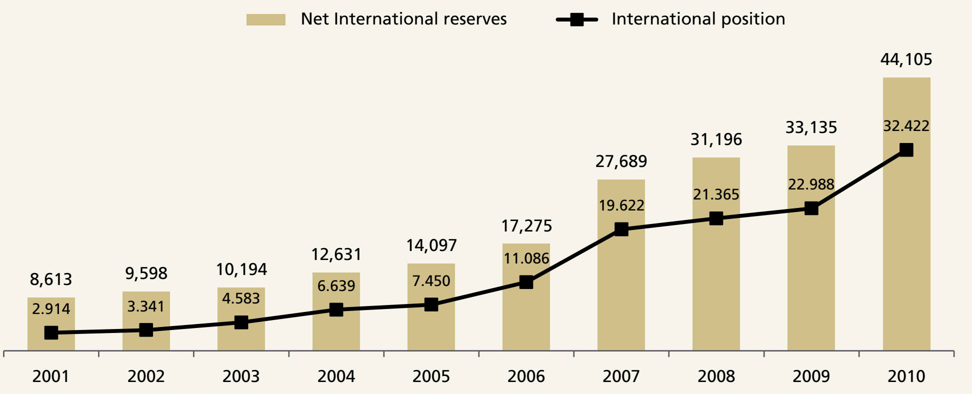
1 / Overdue loans and loans under judicial collection.
2 / The high-risk portfolio is equal to the non performing loans plus the refinanced and restructured portfolio.
Source: SBS.

6. International reserves

The Central Bank's net international reserves (NIRs) increased by US$ 10,970 million during 2010 and reached a balance of US$ 44,105 million at year end. This accumulation of reserves resulted mainly from exchange rate operations (US$ 9,010 million), the net yield on international reserves investment portfolio (US$ 670 million), and banks' higher deposits at the BCRP (US$ 1,473 million) in a context of the higher rates of reserve requirements in dollars that were established.

The flow of exchange rate operations in 2010 (US$ 9,010 million) is explained by net purchases of dollars at the Central Bank's front office (US$ 8,963 million) and by the purchases of dollars associated with placements of certificates of deposits payable in dollars or CDLD BCRP (US$ 161 million). These flows were higher than the maturities of temporary purchases of foreign currency or swaps effective at end 2009 (US$ 102 million) and sales of foreign currency to the public sector (US$ 50 million).

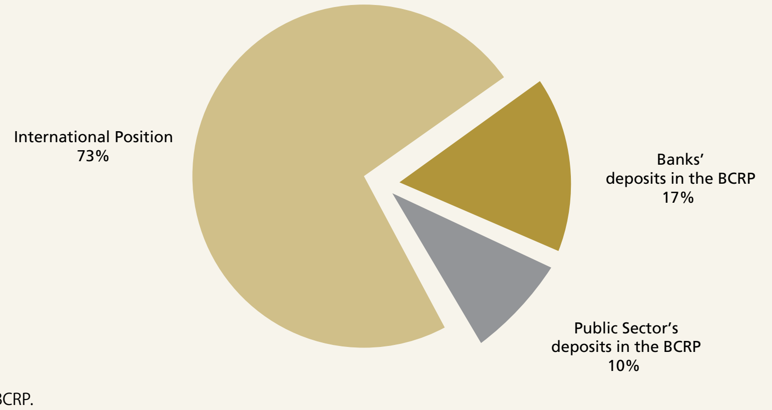
GRAPH 89
NET INTERNATIONAL RESERVES AND THE INTERNATIONAL POSITION OF THE BCRP
(Millions of US$)



Source: BCRP.

The Central Bank's foreign exchange position increased by US$ 9,434 million during the year and reached a balance of US$ 32,422 million at end 2010. The share of the foreign exchange position relative to NIRs increased by five percentage points –from 69 percent to 74 percent– between 2009 and 2010. Other funding sources that explain the composition of NIRs were banks' deposits in dollars at the BCRP (17 percent) and public sector's deposits in dollars at the BCRP (13 percent).

GRAPH 90
NIRs AND THE BCRP INTERNATIONAL POSITION
(US$ 44,105 Millions)



Source: BCRP.

6.1. Management of International Reserves

Gross international reserves –also called international reserve assets– amounted to US$ 44,150 million in 2010 (a sum higher by US$ 10,975 million than the one recorded in 2009).

This growth of international reserves allowed indicators of international liquidity to maintain similar levels to the ones observed in the previous year. Thus, at end 2010, NIRs were equivalent to 18.4 months of imports, 5.6 times short term external liabilities, and 3.7 times the balance of the monetary base.

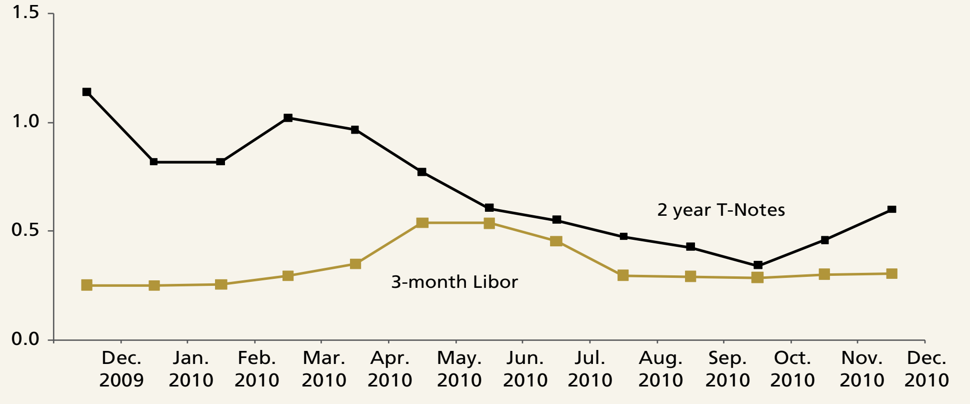
TABLE 82
HIGH LEVEL OF INTERNATIONAL RESERVES STRENGTHENS PERU'S INTERNATIONAL LIQUIDITY POSITION

NIRs in US$ 44.1 billion	- 5.6 times one-year debt liabilities (short term external liabilities plus amortization of long-term debt) - 3.7 times the monetary base - 18.4 months of importss

Economic activity recovered in the United States and in the Eurozone in 2010, although without reaching the levels observed prior to the crisis. A relative recovery and improvement was observed in credit conditions in the United States, even though labor and housing markets remained depressed.

The US Federal Reserve deemed prudent to maintain its benchmark rate between 0 percent and 0.25 percent and to complement this monetary expansion policy with a second stage of purchases of financial assets –Quantitative Easing or QE2–, which contributed to maintain the Libor rate at low levels. On the other hand, the yields on US Treasury bonds declined since the beginning of the year due mainly to the increased demand for these bonds as hedge assets.

GRAPH 91
3-MONTH LIBOR AND 2-YEAR US TREASURY BONDS
Annual yield (%)



Source: Bloomberg.

In the Eurozone, the debt crisis of European peripheral countries intensified, which generated doubts about their capacity to meet their credit obligations. The European Central Bank decided to maintain its policy rate unchanged at 1 percent.

In this context, the BCRP considered that it was necessary to continue implementing a conservative management policy, characterized by strict criteria for placements of deposits in foreign banks, diversified investments in securities with the highest credit ratings, and a neutral position regarding the terms of the benchmark portfolio, although some tactical deviations were adopted when conditions were propitious to improve the portfolio's yield.

It should be pointed out that two priorities of the BCRP reserve management policy are to preserve the capital and guarantee the liquidity of international reserves. After these conditions have been met, the Central Bank seeks to maximize the yield of its international assets. In general, the BCRP's management of international assets is closely associated with the characteristics of the sources of these resources in terms of value, currency, maturity, and volatility. In this way, the Central Bank minimizes the market risks that could affect the value and availability of the resources it manages.

6.2 Composition of International Reserve Assets

At end 2010, 69 percent of Peru's international reserve assets were invested in highly credit rated liquid securities, 24 percent in first-class international banks and 7 percent in gold and other assets. The securities portfolio includes debt bonds issued by sovereign issuers, supranational organizations or foreign government agencies with long term credit ratings of AA- or higher ratings.

In 2010, Peru's international reserve assets generated a yield of S/. 1,976 million. This yield was lower than the one obtained in the previous year due to the lower interest rates registered for investments as a result of the evolution of financial markets.

TABLE 83
INTERNATIONAL RESERVE ASSETS
(Millions of US$)

ITEM	December of 2009		December of 2010	
	Amount	%	Amount	%
Deposits abroad	5,795	17.5	10,777	24.4
Securities	24,750	74.6	30,392	68.8
Gold	1,218	3.7	1,565	3.5
Others assets 1 /	1,412	4.3	1,417	3.2
TOTAL	**33,175**	**100.0**	**44,150**	**100.0**

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

Liquid international reserves[14] at end 2010 amounted to US$ 42,766 million. As regards their composition in terms of currencies, the share of currencies other than the US dollar declined. Moreover, 76 percent of these assets are deposited in entities with a long term credit rating of **AAA** and the rest in entities with credit ratings of **AA+** and **AA-**. The average maturity of the investment portfolio in 2010 was 1.19 years.

14 Readily marketable securities. This does not include capital contributions to international organizations such as FLAR, contributions and trust funds with the IMF, credit balances associated with international conventions, and gold holdings at the BCRP vaults.

TABLE 84
COMPOSITION OF LIQUID INTERNATIONAL ASSETS
(% structure)

	December of 2009	December of 2010
1) By currencies and gold	**100**	**100**
US$	80	82
Other currencies	18	16
Gold	2	2
2) By maturity term	**100**	**100**
0-3 months	37	43
3-12 months	19	9
> 1 year	44	48
3) By long-term rating	**100**	**100**
AAA	86	76
AA+/AA/AA-	11	17
A+	3	7

Source: BCRP.

7. Financial savings and capital market

Financial savings are the total assets of companies and households that are held in the financial system in the form of savings deposits, time deposits, securities, mutual funds, life insurances, and contributions to private pension funds.

Recording a higher growth rate than the one registered in 2009 (8.2 percent), financial savings in 2010 increased 17.4 percent on average. As a percentage of GDP, financial savings increased to 40.0 percent. This higher growth in financial savings was associated with the recovery of economic activity after the 2008 crisis, during which the levels of deposits and the value of the assets of private pension funds were affected. However, both recovered the levels observed in 2008 after the effects of the crisis subsided.

By currencies, financial savings in soles grew 26.4 percent (vs. 3.5 percent in 2009) and recorded a rate of 26.6 percent in GDP terms, while financial savings in dollars (which consist mostly of deposits in this currency) grew 2.9 percent (vs. 16.8 percent in 2009) and registered a rate of 13.3 percent in GDP terms.

TABLE 85
FINANCIAL SAVINGS
(Average balance, in the period, as % of GDP)

	Domestic currency	Foreign currency	Total
2001	9.1	17.5	26.6
2002	10.6	16.8	27.4
2003	12.1	16.3	28.4
2004	13.4	14.7	28.1
2005	15.4	13.6	29.0
2006	17.2	13.4	30.5
2007	23.1	13.6	36.7
2008	23.8	13.0	36.8
2009	23.9	14.7	38.7
2010	26.6	13.3	40.0

Source: BCRP.

7.1 Fixed Income market

The balance of securities issued by companies in the private sector at end 2010 increased 0.2 percent.[15] Excluding financial companies, the number of private sector issuers with existing securities increased from 46 to 48.[16] The amount of placements valued at the constant exchange rate was S/. 2,145 million. This amount was lower than in 2009 (S/. 3,351 million) because two companies issued securities for over US$ 372 million in November 2009, increasing the annual flow by over S/.1 billion as a result of these specific issuances.

As regards the economic sector of the issuer, the annual flow of issuances of non-financial firms was S/. 456 million (vs. S/. 1,830 million in 2009), which represented an increase of 3.1 percent in the balance compared to the previous year.[17] On the other hand, the annual flow of issuances of financial entities was negative by S/. 135 million (vs. a positive flow of S/. 591 million in 2009), which reduced their balance by 2.3 percent. The share of non financial firms in terms of total issued securities increased from 70.8 percent to 71.9 percent.

By currencies, 51.2 percent of outstanding balances at December 2010 were instruments in soles (vs. 52.0 percent in December, 2009). The share of fixed rate instruments in soles was 42.1 percent (42.9 percent in December 2009), while the share of bonds in indexed soles (VAC) was 9.1 percent (9.2 percent in December 2009).

TABLE 86
OUTSTANDING PRIVATE SECTOR FIXED INCOME SECURITIES AT THE END OF PERIOD
(Millions of nuevos soles)

	Saldos			**Variación (%)**		**Flujos**	
	2008	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Amounts by type of issuer	**18,057**	**20,479**	**20,800**	**13.4**	**1.6**	**2,421**	**321**
Financial 1/	5,385	5,976	5,842	11.0	- 2.3	591	- 135
Non financial	12,673	14,502	14,958	14.4	3.1	1,830	456
Composition by currency (%)	**100.0**	**100.0**	**100.0**				
Soles	40.3	42.9	42.1				
VAC	10.0	9.2	9.1				
Dollars	49.7	48.0	48.8				
Balance as % of GDP	**4.9**	**5.4**	**4.8**				

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

Interest rates were influenced by monetary policy and by the international financial situation. Short term rates (1 year-bonds in soles) increased slightly since May when the Central Bank began raising the monetary policy interest rate. A bond issuance with a AA risk rating which showed an average rate of 3.1 percent in Q1 was placed at 4.0 percent in December. In contrast, the long-term rates declined in the second half of the year after the initial effects of the Greek crisis subsided. The rate of a AAA bond, which stood at 7.1 percent in the first semester, fell to 6.5 percent in Q3.

The largest bond issuances were placed by Transportadora de Gas del Perú (S/. 422 million), Pluspetrol (S/. 350 million) and Telefónica Móviles (S/. 255 million).

15 This includes short term bonds and instruments placed in the domestic market through public offers. The effect of exchange rate changes is isolated for comparison purposes.
16 Securitized bonds originated by a financial entity are not included.
17 The economic sector in which the originator operates is considered in the case of securitized bonds.

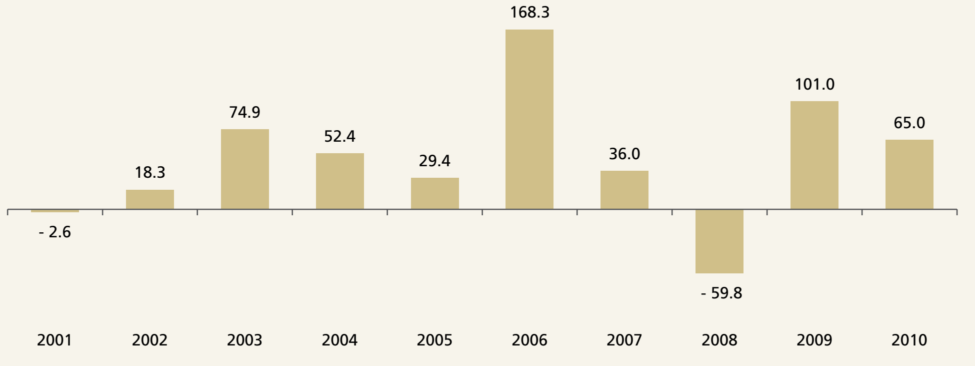
7.2 Stock market

After the steep drop they recorded in 2008 due to the international crisis that unfolded in September of that year, the stock market indices had positive returns for the second consecutive year in 2010: the general index of the Lima Stock Exchange (LSE) recorded a return of 65.0 percent in 2010 and a return of 101.0 percent in 2009.

The indices of the LSE declined slightly in the first half of the year, affected by the impact of the financial crisis in Greece that started in February. This impact intensified significantly in April and May as a result of fears about the possibility that the crisis could spread to countries like Spain and Portugal. However, the indices of the LSE showed a strong recovery in the second half of the year due to Peru's sound economic fundamentals and to the favorable evolution of commodity prices in international markets.

By economic sector, the highest growth was observed in agriculture stocks (78.6 percent) and mining stocks (69.5 percent), both of which benefited from the rising prices of commodities in international markets. The volume traded increased by 12.2 percent compared to 2009, but the increase was greater in the segment of shares (23.1 percent). The capitalization value (total value of companies listed at the LSE) at year end was S/. 451,796 million, a sum equivalent to 104 of GDP (81.1 percent of GDP in 2009).

GRAPH 92
GENERAL INDEX OF THE LIMA STOCK EXCHANGE
(Annual percentage change, end of period)



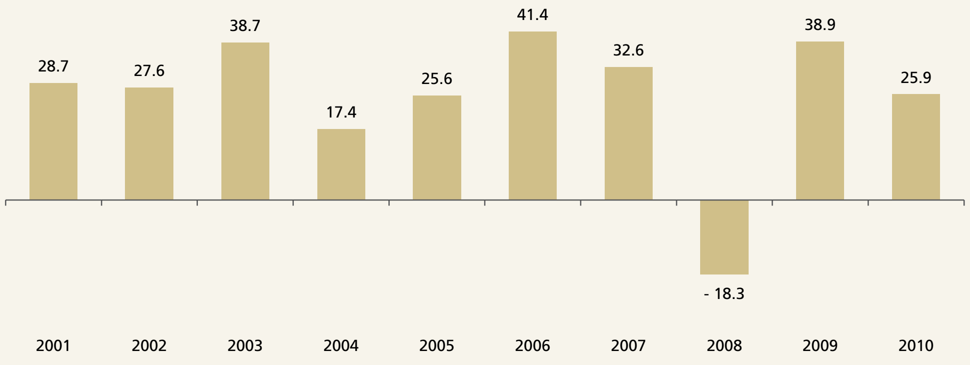
Source: Lima Stock Exchange.

7.3 Private pension system

The assets of private pension funds increased 25.9 percent in 2010, recovering for the second consecutive year of the losses registered during the 2008 crisis. At December, the assets of private pension funds amounted to S/. 86,391 million (20.0 percent of GDP). The number of affiliates increased 4.3 percent to a total of over 4.6 million.

Following the trend of stock market indices, the return of private pension funds was positive, although lower than the one observed in 2009. Type 2 pension funds, which represent 70 percent of these funds total value, recorded a real profitability of 16.0 percent at year end (32.9 percent in the previous year), while type 3 pension funds, which has higher investments in shares, registered a real annual profitability of 31.2 percent (52.1 percent in 2009). The real annual profitability of type 1 pension funds, which does not make investments in shares, was 5.7 percent, lower than in 2009 (16.1 percent). However, this fund represents only 8 percent of the funds total value.

GRAPH 93
VALUE OF PRIVATE PENSION FUNDS
(Annual percentage change, at period end)



Source: SBS.

AFPs investments abroad, which increased their share in terms of total assets from 21.0 percent in December 2009 to 26.4 percent in December 2010, stand out in terms of the portfolio instruments. The legal limit for such investments increased from 22 to 30 percent in this period. As regards domestic assets, the share of investments in bonds and fixed income instruments declined from 37.9 to 29.3 percent, while the share of deposits increased from 2.6 to 6.3 percent.

AFPs' portfolio investments abroad, which increased from S/.14,528 million to S/. 23,001 million, concentrated mainly on variable income securities (S/. 9,508 million), participation quotas in mutual funds (S/. 6,478 million), debt bonds issued by firms (S/. 3,923 million), and debt bonds of other governments (S/. 2,157 million).

This growth was associated with a process of AFPs' increased diversification of investments and with the Central Bank's increase of the operational limit of these investments which today represents 30 percent of the value of pension funds.

TABLE 87
COMPOSITION OF THE PRIVATE PENSION SYSTEM PORTFOLIO 1/
(%)

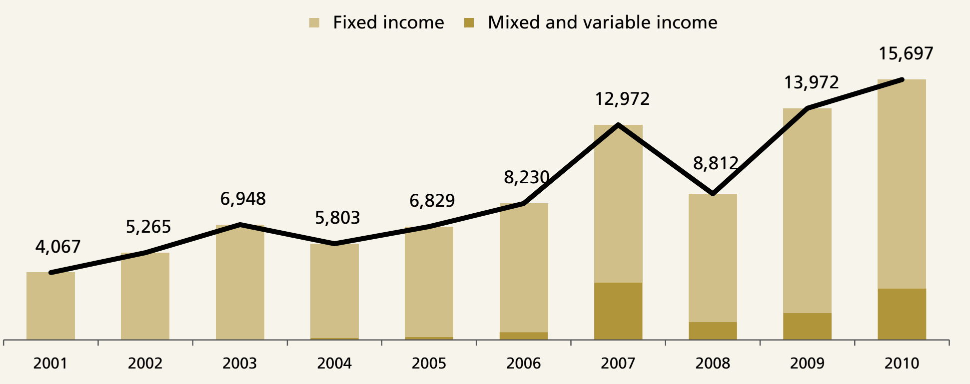
	Dec. 2008	Dec. 2009	Dec. 2010
I. DOMESTIC INVESTMENTS	**88.4**	**78.2**	**73.5**
Deposits	**8.0**	**2.6**	**6.3**
In nuevo soles	4.3	1.9	5.1
In US dollars	3.7	0.8	1.2
Bonds and fixed income	**48.1**	**37.9**	**29.3**
Central Bank securities	0.9	0.5	-
Sovereign bonds	24.3	19.5	16.2
Values issued by the private sector	22.9	17.9	13.1
Stocks and variable income	**32.2**	**37.6**	**37.9**
Shares	25.3	31.2	31.8
Investment funds	6.9	6.4	6.1
II. FOREIGN INVESTMENTS	**12.4**	**21.0**	**26.4**
III. IN TRANSIT	**- 0.8**	**0.9**	**0.1**
IV. TOTAL (I+II+III)	**100.0**	**100.0**	**100.0**
Millions of nuevos soles	49,924	69,329	87,097
% of GDP	13.5	18.1	20.0

1/ Includes the legal reserves established by the administrators of pension funds own resources.
Source: SBS.

7.4 Investment mutual funds

After being affected by the 2008 international crisis, investment mutual funds grew 12.3 percent in 2010 and closed the year with assets amounting to S/. 15,697 million (3.5 percent of GDP). The number of transactors increased 13.4 percent to 279 thousand, a figure close to the historical maximum number of participants recorded in July 2009 (292 thousand transactors), prior to the crisis. The mutual funds that showed the highest growth were mixed income and variable income mutual funds (90.8 percent compared to 2009).

GRAPH 94
EVOLUTION OF MUTUAL FUNDS
(Annual % change, at period end)



Source: CONASEV.

As regards the investment portfolio of these funds, the share of bonds and fixed income securities declined (from 44.5 percent to 32.9 percent), while the share of deposits increased (from 45.5 to 52.7 percent). Moreover, the participation of shares increased slightly, from 5.3 to 6.3 percent.

TABLE 88
COMPOSITION OF MUTUAL FUND INVESTMENT
(%)

	Dec. 2008	Dec. 2009	Dec. 2010
I. DOMESTIC INVESTMENT	**97.3**	**95.3**	**96.5**
Deposits	**39.0**	**45.5**	**57.2**
In nuevo soles	13.5	14.1	29.6
In US dollars	25.5	31.4	27.6
Bonds and fixed income	**53.6**	**44.5**	**32.9**
Central Bank securities	10.7	8.4	2.7
Sovereign bonds	5.0	12.9	9.9
Securities issued by the private sector	37.9	23.3	20.4
Stocks and variable income	**4.8**	**5.3**	**6.3**
II. INVESTMENT ABROAD	**1.9**	**4.5**	**3.1**
III. OTHERS	**0.7**	**0.2**	**0.4**
IV. TOTAL (I+II+III)	**100.0**	**100.0**	**100.0**
Millions of nuevos soles	8,865	13,939	15,301
% of GDP	2.4	3.6	3.5

Source: CONASEV.

8. Payments systems

According to Law No. 29440, Law of Payment and Securities Settlement Systems, systemically important payments systems include the Real Time Gross Settlement System (RTGS), the clearing and settlement systems used for checks and other payment instruments administered by the Automated Clearing House (Cámara de Compensación Electrónica - CEC) and the Multi-bank Securities Settlement System.

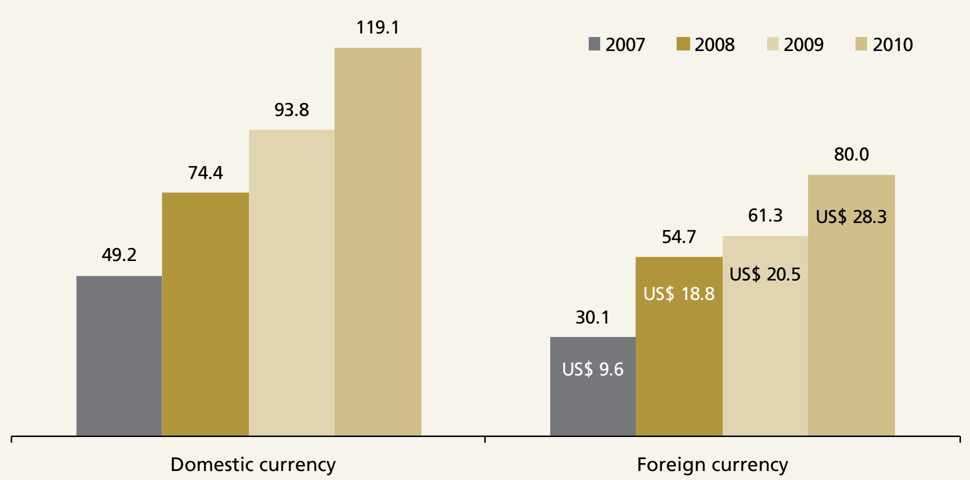
In 2010, the growth of payment systems paralleled the growth of economic activity. The value of transactions grew by 28 percent in annual terms, and the rotation of payments in GDP terms rose from 5 times in 2009 to 6 times.

8.1 Real Time Gross Settlement System (RTGS)

In 2010, the amount of transfers channeled through the RTGS system grew 28 percent, while the number of transactions dropped 3 percent due to the lower number of interbank transactions carried out through this system. The value of payments in local currency and in foreign currency increased 27 percent and 38 percent, respectively, as a result of which the RTGS system accounted for 92 percent of the total value transferred through payment systems. Its share in terms of volume was low (5 percent), as is appropriate in the case of high value systems.

The first stage of technological modernization of the RTGS system, aimed at strengthening the system's continuous operation and efficiency, was completed in July 2010 when the RTGS's new core system started operating.

GRAPH 95
TRANSFERS THROUGH THE RTGS SYSTEM
(Monthly average in billions of nuevos soles)

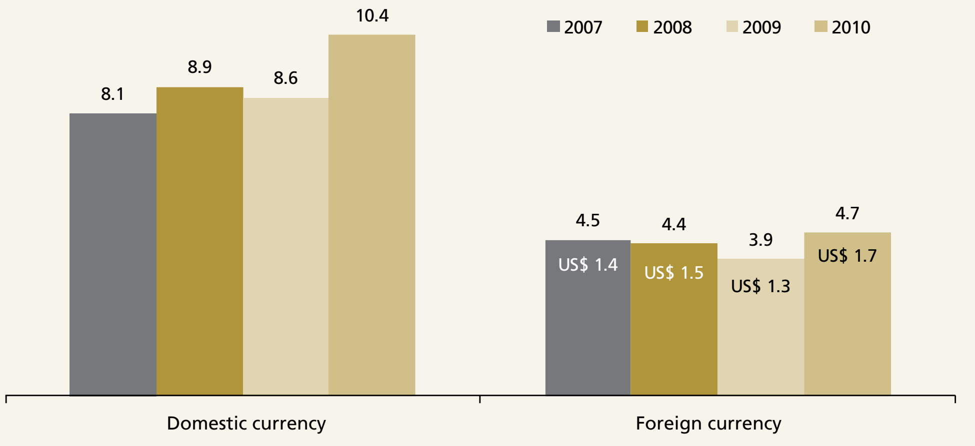


Source: BCRP.

8.2 Electronic Clearing House

The value of transactions processed in the Cámara de Compensación Electrónica (CCE) increased 20 percent in the year. The value of credit transfers increased by 77 percent and the value of check transfers increased by 14 percent. Furthermore, the number of transactions processed through the CEE grew 11 percent, with credit transfers accounting for 53 percent of this growth. As a result of this, credit transfers increased their share in terms of total transactions carried out through the CEE to 24 percent, which reflects the growing trend observed in terms of the use of electronic payment instruments.

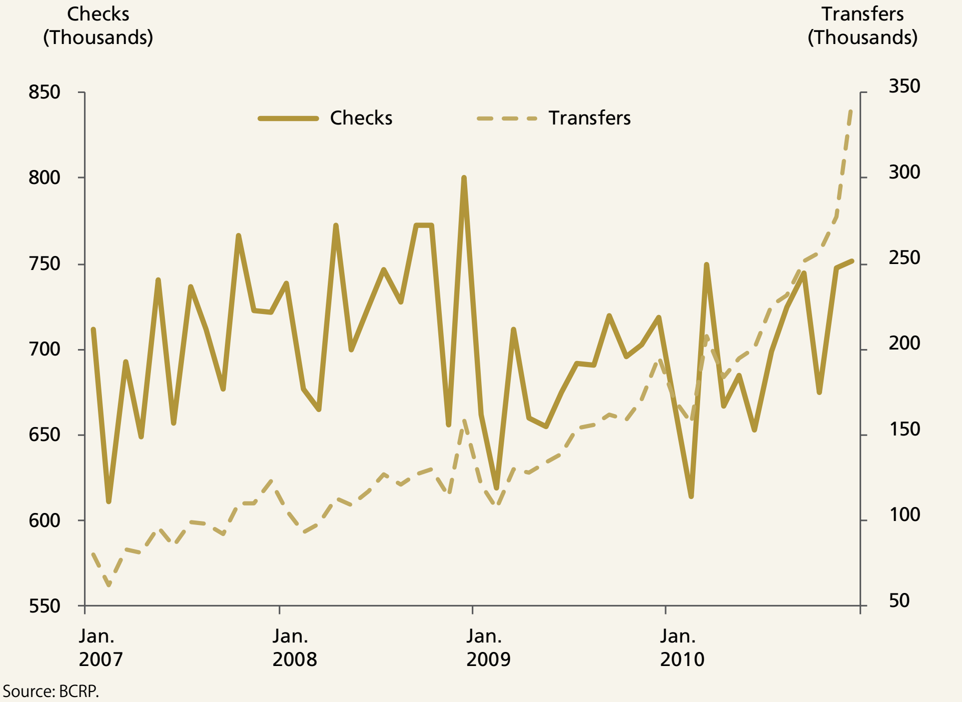
GRAPH 96
PAYMENTS THROUGH THE CÁMARA DE COMPENSACIÓN ELECTRÓNICA
(Monthly average in billions of nuevos soles)



Source: BCRP.

This favorable evolution of credit transfers is closely associated with the increased use of this mechanism to make transfers and payments to regular suppliers, which account for 43 percent and 31 percent of total transactions, respectively. It is worth pointing out that several savings banks started participating in the CEE in 2010: Trujillo Savings Bank (March), Sullana Savings Bank (March), Arequipa Savings Bank (April) and Caja Metropolitana (November), increasing in this way users' access to interbank transaction services.

GRAPH 97
EVOLUTION OF CREDIT AND CHECK TRANSFERS
(Monthly Volume in thousands of units)



Source: BCRP.

The maximum amount of credit transfers in domestic currency was increased to S/. 310 thousand and the maximum amount of credit transfers in foreign currency was increased to US$ 60 thousand in September 2010 (Circular No. 028-2010-BCRP).

8.3 Multibank Securities Settlement System (MSSS)

The value of payments in the MSS system grew 17 percent, while the volume of payments declined 13 percent. Payments for stock exchange operations grew 14 percent in value and fell 13 percent in volume, while settlements of transactions of government securities grew 23 percent in value and in 17 percent in volume.

8.4 Integrated Latin American Stock Exchange – integration process

Actions were taken in 2010 to begin Stage I[18] of the process of integration of Peru, Chile and Colombia's stock exchanges, which will benefit participants with a broader and more diversified stock market.

8.5 Regulations

In 2010, the Central Bank issued the General Regulation of Payment Systems (Circular No. 012-2010-BCRP) and the Regulations for Securities Clearing and Settlement Operators (Circular No. 013-2010-BCRP), which complement the legal framework established by the Law of Payment Systems and Securities Settlement Systems (Law No. 29440). The Central Bank's oversight role of Payment Systems and Securities Settlement Systems is an important element established in the law.

The Central Bank revised in October 2010 (Circular No.038-2010-BCRP) the regulations relating to ALADI's Reciprocal Payments and Credits Agreement applicable to Peru to include operating specifications and facilities that will contribute to a more efficient implementation of these Agreement.

18 The aim of this Stage is to facilitate foreign intermediaries' technological access to the local stock market through a local intermediary, which will be responsible for stock trading, clearing and settlement.