BBVA Research

Peru

Promoting financial development in the context of the Middle-Income Trap

Overview

Between **2011 and 2017,** the **economy has grown** on average **4.8%** annually, while the **LAC** average is **1.7%**

Banking sector is solid and accounts for 90% of total assets:

- High concentration: top **4 banks** account for **80% of the market**
- Peru is a financially **dollarized economy**
- Banks are required to hold **reserve requirements**
- Regulation in progress towards **converging to Basel III**

ROE: **18.5%** | Tier 1: **11.4%** | NPL ratio: **2.7%**

Financial Access

Very low number of commercial bank branches:
8 per **100,000** adults
(26.4 is the average for HI)

Financial inclusion has improved with the introduction of correspondents **MIFI:**
5th (out of 137 countries)
(when accounting for correspondents)

Plenty of room to improve in digitalization
DIGIX:
81st position
(out of 100 countries)

Peru performs relatively well in the case of access to capital markets when compared to its peers, but it is still low:
7 listed companies per **1,000,000** people

Financial Depth

Credit and deposit levels have increased in recent years, but still low: credit to GDP: **40.5%** deposits to GDP: **30%**

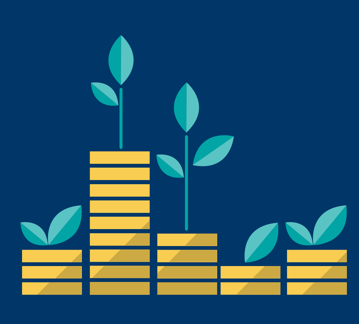
Capital market liquidity could improve: stock market turnover ratio of **2%**

Inflows of foreign investment in debt securities issued are higher than in other LAC economies. Financial firms: **7.4%** of GDP and non-financial corporates: **5.9%** of GDP

Efficiency and Stability of the Financial System

Profitability remains high

ROA of **2.2%**



Lower operating costs than other LAC economies: **3.4%**

Institutional factors

There is room for improvement when it comes to certain indicators

Ease of doing business (Average HI: 33 out of 190)	58th
Registering property (Average HI: 66 out of 190)	44th
Getting credit (Average HI: 67 out of 190)	20th
Enforcing contracts (Average HI: 47 out of 190)	63th
Resolving insolvency (Average HI: 22 out of 190)	84th

Recommendations

- **Minimising entry barriers, improving infrastructure and promoting better use of ICT**(by both individuals and firms)
- **Extending simplified accounts** to small businesses as currently only individuals can use them
- **Firms could potentially benefit from a larger exposure to capital markets and debt markets** as alternative sources of financing
- The existence of a **debt tax is a preventer of financial depth**
- **Reducing timing and cost of enforcing a contract and resolving insolvency** will mitigate uncertainty and risks

For further details:
Policy priorities to promote financial development in the context of the Middle-Income Trap: The cases of Argentina, Colombia, Mexico and Peru.