



Financial Observatory

March 11, 2009

High rates of credit growth continue, although trends point towards a slowdown

- Interest rates displayed mixed behavior in February. While company credit rates decreased in line with BCR monetary policy, consumer credit rates tended to stabilize.
- Credit grew 34.6% in January, at a growth rate below the 35.8% of the prior month. Moderation in the rate of credit growth is expected to continue in the coming months, in line with the adjustment of economic activity.
- Indicators for banking profitability, efficiency, liquidity and provisions remained at levels on the whole. Evolution of these indicators together with credit dynamism is proof of the robustness of Peruvian banks in the face of a new international environment.

Mixed behavior for interest rates

The **corporate rate in soles** fell by 20 basis points in February, in line with the reduction of the reference rate of the Banco Central de Reserva (BCR).¹ Our main scenario points to increasing flexibility of the Central Bank's monetary policy position, and we anticipate a larger reduction in the corporate rate in soles in the remainder of the year.

Furthermore, **corporate rates in dollars** decreased in line with the Federal Reserve's reference rate. We can highlight that this reduction occurred following a gradual standardization of external funding costs following a period of frictions for the availability of liquidity in foreign currency in the period from September to November, in the context of aggravation of the international financial crisis.

Meanwhile, **consumer credit interest rates**, both in soles and dollars, started to stabilize after an upward adjustment in January.

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Table 1: Interest rates by credit type*
(%)

	Rates in soles				Monthly	
	Feb-09	Jan-09	Dec-08	Dec-07	Accrued	
Corporate at 90 d.	7.2	7.4	7.5	5.6	↓	-0.2
Commercial	11.2	11.1	11.0	8.8	↑	0.1
Microenterprises	33.7	35.1	35.3	34.3	↓	-1.4
Consumer	41.6	41.1	37.8	34.7	↑	0.5
Mortgage	11.8	11.7	11.4	9.3	↑	0.1
	Rates in dollars					
	Feb-09	Jan-09	Dec-08	Dec-07		
Corporate at 90 d.	3.3	4.0	5.2	6.0	↓	-0.7
Commercial	9.0	9.0	9.3	9.0	=	0.0
Microenterprises	23.6	23.5	23.9	20.3	↑	0.2
Consumer	22.4	22.0	20.8	15.8	↑	0.4
Mortgage	10.6	10.6	10.8	9.6	=	0.0

*Operativos average for the last 30 business days
 Source: SBS
 Prepared by: ERD BBVA Banco Continental

¹ The Banco Central de Reserva reduced its monetary policy rate from 6.50% in January to 6.25% in February and to 6.0% in March. We can highlight that the corporate rate in soles at 90 days is closely tracking BCR's policy rate.

Credit growth is beginning to slow down

In January, private sector bank credits grew at a rate of 34.6% year-on-year. **Credits in soles** registered an annual variation of 46.1%, two percentage points below the rate registered in December, although this was greater than 2008's average. Commercial credits in soles registered the greatest levels of growth (54.7%), while consumer credits witnessed the largest slowdown (from 32.8% in December to 26.8% in January). In the case of **credits in dollars**, growth deceleration was greater (in January, the annual variation was 17.7% while December's figure was 22.0% and November's was 26.0%).

Some measures agreed by the government and SBS such as Debt Reprogramming (without restructuring or refinancing credits and, therefore, without greater requirements for provisions or greater costs for clients) and cheaper funding costs for mortgage loans in the Mivivienda program (waiving the requirement for procyclic provisions for mortgage loans and with the reduction of rates charged by program funds from 8.5% to 6%, year-on-year) may reduce credit deceleration in some sectors mitigating the effect of the cyclic adjustment registered so far.

Elsewhere, the main source of **bank credit funding** in January were consumer deposits, which saw a growth of 27% compared with January 2008. Bank dependence on short-term external liabilities continued to decrease (31% over the last year), to 30% of total foreign assets.

Financial Indicators

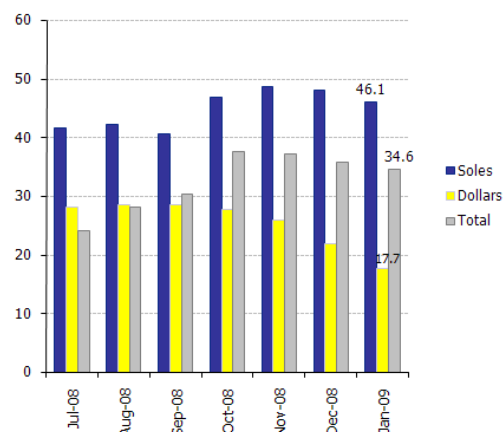
The banking system continues to display robust financial and management indicators. In January, system profitability measured against assets was 31.58% while liquidity levels both in soles (26.2%) and dollars (55.1%) continued to be significantly above legal requirements. In addition, efficiency (measured as operating expenses divided by total financial margin) improved, rising from 40.4% to 46.7% over the past year. Meanwhile, although the delinquency rate and past due portfolio increased, they still remained at historically low levels which banks could deal with (current levels of provisions are at 250% of the past due portfolio).

Appraisal

Bank credit growth in January continued at a significant rate, growing at levels over 30%, although there was also a trend towards gradual slowdown given the lower growth of economic activities. This trend is expected to continue the rest of the year.

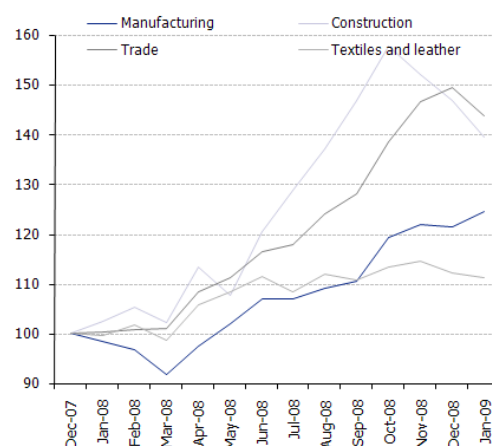
Meanwhile, bank profitability, efficiency, liquidity and provisions ratios remained at highly positive levels, and this would seem to indicate a good response of the Peruvian banking system in the face of an increasingly complicated international environment.

Table 2: Credit Growth (y/y. % var.)



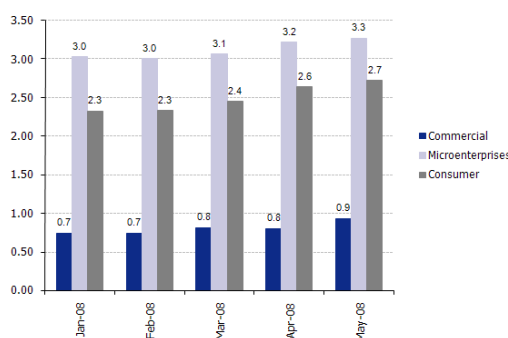
Source: SBS
Prepared by: ERD BBVA Banco Continental

Table 3: Credit by sector (Index: december 2007=100)



Source: Asbanc
Prepared by: ERD BBVA Banco Continental

Table 4: Banking system delinquency by credit type (%)



Source: SBS
Prepared by: ERD BBVA Banco Continental