



Financial Observatory

June 8, 2009

Bank loans targeted at the commercial sector are on upward trend

- In April, the local currency credit flow from banks to the private sector was S/. 918 million¹, the highest level since December 2008, boosted by a recovery in commercial loans. Furthermore, the dollar credit flow was negative by S/.123 million, mainly hit by the decline in foreign trade transactions.
- In May, local currency lending rates to companies (corporate and commercial) continued to fall, in accordance with the BCR's policy rate performance. Meanwhile, dollar interest rates for all kinds of loans dropped, in keeping with lower spreads.
- Bank default rates rose in April, especially in the microcredit and consumption sectors, in accordance with expectations against a slowing economy. However, on the whole increases in default rates are minimal. Furthermore, yield and management indicators continue to record positive trends and the lower percentage of short-term foreign liabilities in the credit lending rate reduces the system's vulnerability.
- The drop in the country's risk levels have allowed the debt issuance market to reactivate and demanded returns to be lowered.

Differentiated credit performance in accordance with currency

According to data that the Superintendency for Banks, Insurance and AFP (SBS) has published, in April the differentiated performance in credit flows in accordance with currency remained the same.

The **nuevo sol credit** flow from banks remained high in April, 918 million¹, driven by commercial loans in a climate where the slowing economy shows signs of easing. Sectors related to services and internal demand (such as transport, communications, financial brokerage, real estate activities, among others) recorded the highest growth levels. In addition, local currency flows targeted at the personal loans sector remained positive which is partly explained by the process of converting products such as mortgage loans and vehicle loans into local currency. As regards mortgage loans, it is worth noting that 98% of credit flows paid out over the past three months have been in soles, partly encouraged by state programs such as Mivivienda.

¹ Includes the credit flow that the SBS published, to which we must add S/. 660 millions in consumption loans, that, according to the central bank (Liquidity and Credit Report, April 2009), Scotiabank transferred to Crediscotia Financiera. This inclusion makes the data comparable.

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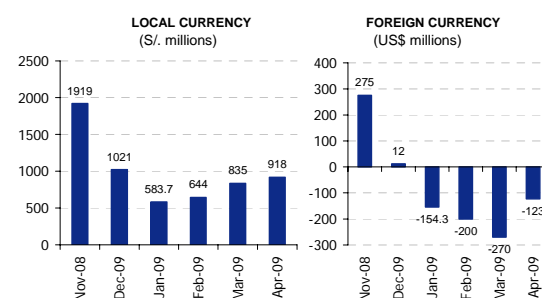
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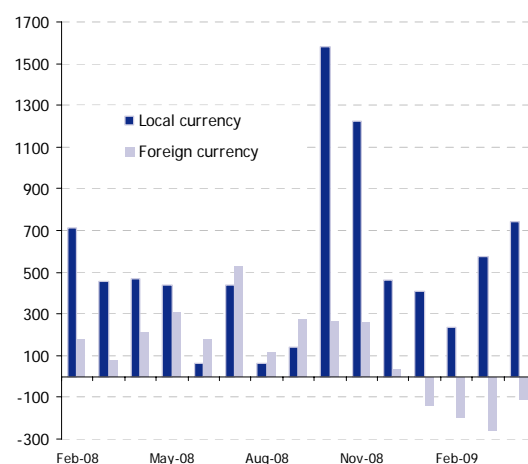
Chart 1: Total credit flows ^{1/}



Source: SBS, BCR

Prepared by: BBVA Banco Continental ERD

Chart 2: Commercial credit flows



Source: SBS, BCR

Prepared by: BBVA Banco Continental ERD

Moreover, the **dollar credit** flow continued to record negative figures in April (USD 123 million), largely explained by fewer foreign trade transactions (negative flow of US\$ 186 million), in keeping with the lower trading volume (both exports and imports) in a climate of a weak international economy. It should be pointed out, however, that the decline in dollar credit flow is lower than recorded in previous months, and some products such as leasing or general loans (working capital) continue to post positive flows and their downward trend seems to have curbed.

Default rate records an upward trend, but is still at moderate levels

In April the default rate rose, from 1.41% (in March) to 1.52%. This increase has been more prominent in sectors such as micro-companies and consumption sectors, in accordance with expectations in a climate of a slowing economy. In spite of the increase, the system's default levels are still very low and bank provisions represent 231% of overdue accounts.

Bank system financial indicators (%)

	Apr-09	Mar-09
Leverage (times)	7.9	8.2
Delinquency (NPL/total)	1.52	1.41
Commercial	1.07	0.98
Small business	4.08	3.61
Consumer	2.87	2.73
Mortgage	0.78	0.77
Provisions (% NPL)	231.0	243.5
Efficiency 1/	44.1	43.9
ROE	28.5	30.5
Liquidity in local currency	23.1	23.4
Liquidity in foreign currency	58.0	58.1

1/ Operative expenses as a percentage of financial margin.

Source: SBS

Prepared by: BBVA Banco Continental Economic Research Department

It is worth remembering that bank yield is relatively comfortable (ROE at 28.5%) and that the system's efficiency (calculated as operating expenses divided by financial margin) is still at positive levels. These results show that the system is strong in the current international financial crisis.

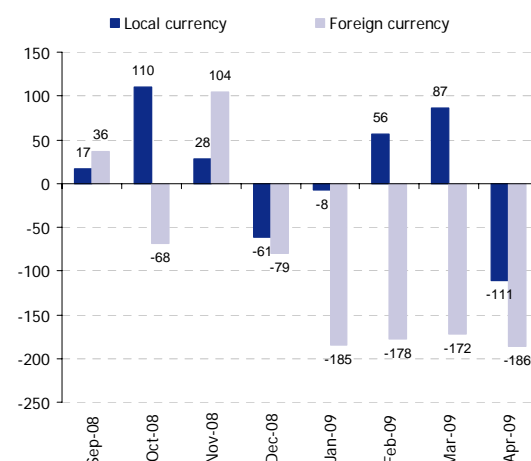
Banks reduce exposure to short-term foreign liabilities

Regarding bank credit funding sources in dollars, there appears to be a restructuring, with an increase in the percentage of deposits (in April this represented 76% of the total liabilities, 1.7pp more than in March) and a decrease in foreign liabilities (representing 7% of liabilities in April, a monthly fall of 0.7pp). This was probably partly brought about by lower credit demand for foreign trade transactions (between 90 and 180 days, mainly), which has lowered short-term foreign debt requirements. The lower level of exposure of banks to foreign short-term liabilities reduces their vulnerability in the event that the foreign situation becomes more complicated.

Corporate interest rates continue to fall

In May, interest rates for shorter-term transactions and with lower risk agents (such as corporate and commercial) recorded a downward trend that is in keeping with the central bank's rate cuts. Furthermore, mortgage rate have also come down, following the downward trend recorded by long-term rates such as sovereign bonds (used as a

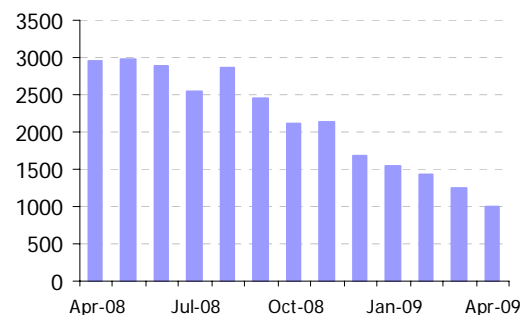
Chart 3: Credit flows for foreign trade transactions



Source: SBS, BCR

Prepared by: BBVA Banco Continental ERD

Chart 4: Bank short-term foreign liabilities (US\$ million)



Source: SBS

Prepared by: BBVA Banco Continental ERD

benchmark in this sector) and in line with lower financing costs under state mortgage programs (Mivivienda).

Interest rates (%)

	Local currency			Var.pp May-april
	May-09	Apr-09	Mar-09	
Commercial	9.0	9.9	10.8	↓ -0.9
Small business	34.5	34.4	32.1	↑ 0.1
Consumer	42.8	42.7	42.2	↑ 0.1
Mortgage	10.9	11.4	11.5	↓ -0.5
	Foreign currency			Var.pp May-april
	May-09	Apr-09	Mar-09	
Commercial	8.2	8.7	8.6	↓ -0.5
Small business	23.4	23.6	23.1	↓ -0.1
Consumer	21.6	22.2	22.4	↓ -0.6
Mortgage	10.6	10.8	10.7	↓ -0.2

Source: SBS

Prepared by: BBVA Banco Continental ERD

Dollar interest rates in every credit sector have posted falls, in accordance with the performance of international rates and in line with lower foreign currency credit demand.

Debt issuances on capitals market are reviving

So far in 2009, and in keeping with market easing and lower risk levels, debt issuances on the capitals market have revived. In this sense, between April and May securities amounting to around S/. 402 million and USD 130 million were placed, which are above the averages for 1Q09 (S/.125 million and USD 44.5 million). A downward trend in demanded return on those issuances has also been recorded, which has dropped by around 100 bp (on average) in relation to that demanded in the December-January period.

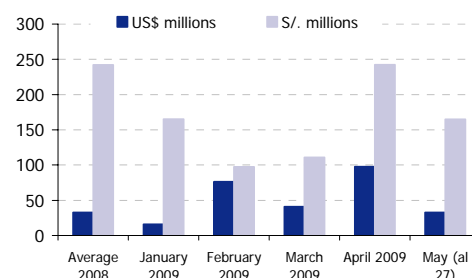
Appraisal

In April the differentiated performance in credit flow in accordance with currency remained the same. Nuevo sol flows are still positive (buoyed by more placements in the commercial sector) and dollar flows are negative (affected by lower financing for foreign trade transactions). However, in the second case, excluding loans for foreign trade transactions dollar flows would have been positive, which shows a certain improvement that could suggest a curb in slowing business activity.

In April and May, security issuances recorded on the capitals market were higher than in 1Q2009. This could be an indicator that needs to be taken into account when assessing the possibility that the economy could be starting to show signs of recovery as regards its growth rate.

In the coming months, this positive performance in commercial credit flows could continue, and even spread to other sectors, insofar as the impacts of monetary and fiscal stimulus packages become more appreciable and the inventory downward adjustment process tends to become more moderate. This situation would provide support for credit demand and a stronger capitals market.

Chart 5: Debt issuances



Source: BVL

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