



# Financial Observatory

September 14, 2009

## Bank credit continues to grow in July<sup>1/</sup>

- In July, the totals flow of bank credit amounted to S/. 399 million, more than in the previous month. This is because of increased domestic-currency issues, particularly in the corporate sector. There was a slight contraction in dollars (US\$10 million).
- The cut in monetary policy interest rates continued to be transferred to lending rates, above all in corporate and commercial loans.
- Defaults in the banking system increased from 1.62% in June to 1.64% in July, though they remained at low levels in historical terms.

Growth of credit in soles (S/. 426 million) is mainly due to the commercial segment (S/.269 million), above all issues financing loans in general and financial leasing, which are particularly linked to private investment. Another important feature is the growth in mortgage issues in soles, which in July registered their highest level so far this year (S/. 144 million). It is worth adding that of the 1,758 new mortgage loans issued in July, 63% were in soles. However, consumer credit fell as a result of less use of credit cards, despite the number of cards growing. This could reflect greater caution by consumers when using this method of payment.

The volume of credit in dollars fell slightly by US\$10 million as a result of reduced finance for foreign trade transactions.

### Lower proportion of external short-term liabilities in the structure of the bank funds

External short-term liabilities continued to fall in the last month from US\$973 million to US\$858 million (66% less than the figure for July last year), against a background of fewer foreign currency loans to finance foreign trade transactions (due to the fall in world trade).

### The Central Bank implements measures to help reduce interest rates for micro-companies

<sup>1</sup> To calculate the total credit, the credit in dollars has been valued using a fixed exchange rate of S/.2.98 to the dollar. The whole analysis also corrects for the effects of (i) the exit of Banco del Trabajo in January, (ii) the transfer of Scotiabank's consumer portfolio to Crediscotia in April and (iii) the acquisition of the Credileasing portfolio by Banco de Crédito

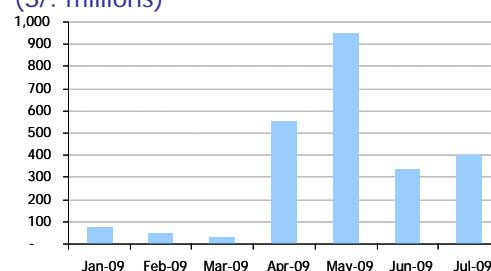
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Chart1: bank credit flow<sup>1/ 2/</sup>  
(S/. millions)



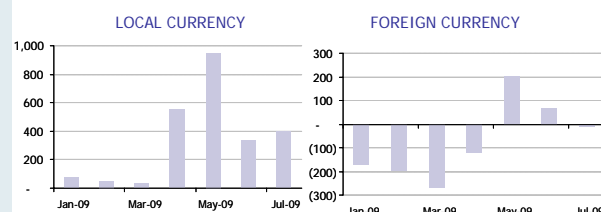
1/ Valued at a constant exchange rate of S/.2.98 per US\$.

2/ Correcting for the effects of (i) the exit of Banco del Trabajo (January), (ii) Scotiabank's transfer of its consumer credit portfolio to Crediscotia (April) and (iii) the transfer of Credileasing's portfolio to Banco de Crédito.

Source: SBS

Prepared by: BBVA Banco Continental ERD

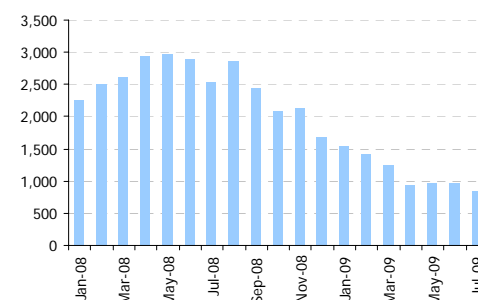
Chart2: credit flow by currency<sup>1/ 2/</sup>  
(S/. millions and US\$ millions)



Source: SBS

Prepared by: BBVA Banco Continental ERD

Chart3: short-term foreign liabilities  
(US\$ millions)



Source: SBS

Prepared by: BBVA Banco Continental ERD

Interest rates for business loans have continued to fall, in line with the cuts in the monetary policy rate. Thus corporate and commercial rates fell 0.6 percentage points in August, giving an accumulated fall of 5.5 pp and 3.6 pp respectively for the year.

However, the rates for the micro-credit segment have only fallen slightly (1.2 percentage points so far this year). As a way of helping to reduce these micro-credit rates, the Central Bank has waived the reserve requirement for long-term mutual funds from abroad that are specialized in providing funds for micro-finance institutions, thus lowering funding costs for institutions specializing in this segment. This measure is in addition to the longer-term swap transactions (providing soles in exchange for a dollar guarantee) carried out by the Central Bank.

**Slight increase in default rates**

Default rates in the banking system (measured as the default portfolio as a proportion of the total portfolio) increased slightly in July from 1.62% in the previous month to 1.64%. The default rate has now grown by an accumulated 0.37 percentage points so far this year. The segment with the biggest increases in July was micro-credits, while commercial loans and credit cards showed slight decreases.

**Appraisal**

Bank credit continued to grow in July, mainly in the national currency, due to the performance of the corporate segment. It is worth adding that demand for these credits has been boosted by the interest rate cuts induced by an expansive monetary policy. But the consolidation of greater buoyancy in bank credit will depend on the performance of economic activity in the coming months.

**Table1: bank interest rates (%)**

	Domestic currency				Aug-Jul	Aug-Dic
	Dec-08	Jun-09	Jul-09	Aug-09		
Corporate 90 d.	7.5	3.6	2.6	2.0	-0.6	-5.5
Commercial	11.0	8.5	8.1	7.4	-0.6	-3.6
Small business	35.3	34.3	34.2	34.0	-0.2	-1.2
Consumer	37.8	42.9	44.6	44.1	-0.6	6.3
Mortgage	11.4	10.4	10.2	10.1	-0.1	-1.3
	Foreign currency				Aug-Jul	Aug-Dic
	Dec-08	Jun-09	Jul-09	Aug-09		
Corporate 90 d.	5.2	2.1	1.6	1.5	-0.1	-3.7
Commercial	9.3	7.8	7.5	7.4	-0.1	-1.9
Small business	23.9	23.4	23.1	23.2	0.1	-0.8
Consumer	20.8	21.4	22.2	21.9	-0.3	1.1
Mortgage	10.8	10.3	10.1	9.9	-0.2	-0.9

Source: SBS  
Prepared by: BBVA Banco Continental ERD

**Table2: banking sector financial indicators (%)**

	Aver. IT	Aver. IIT	Jun-09	Jul-09
Leverage (times)	8.3	7.9	7.9	7.6
Delinquency (NPL/total)	1.4	1.6	1.6	1.6
Commercial	1.0	1.1	1.2	1.1
Small business	3.4	4.3	4.5	4.9
Consumer	2.8	2.9	3.0	3.0
Mortgage	0.7	0.8	0.8	0.9
Provisions (% NPL)	244.5	226.2	222.3	223.7
Efficiency 1/	41.6	43.7	43.4	43.3
ROE	31.3	27.8	27.2	27.5
Liquidity in local currency	23.8	24.6	25.9	26.7
Liquidity in foreign currency	57.3	55.8	53.1	50.7

1/ Operative expenses as a percentage of financial margin.

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