



# Observatorio Financiero

February 3<sup>rd</sup>, 2010

## Bank lending continued to grow in December<sup>1</sup>

- Total bank credit flows in December amounted to PEN 1,342 million, the second highest of the year (PEN 1,938 million in November). Particularly notable were the flows in soles to credit cards and the increased finance in dollars for foreign trade transactions.
- Including the December results, the balance of bank lending increased by 5% in 2009<sup>1</sup> (0.6% taking into account the appreciation of the sol during the year). Against a background of recovery in economic activity, greater business confidence and interest rates at relatively low levels, the prospects for an expansion in credit in 2010 are relatively favorable.
- Despite the difficult situation in 2009, local banks managed to end the year with a low default rate (1.56% of the total portfolio) and achieve a significant earnings (24.5% ROE).

In December, bank credit flows in soles were positive, at PEN 351 million. A significant contribution to this result was made by credit for the segment of private individuals (mainly products such as credit cards) at a time of higher seasonal spending by families related to the end-of-year festivities. The credit flow in soles was, however, lower than in November (PEN 948 million), due to the low rate of lending in this currency in the business segment, in particular for financial leasing operations.

**Credit flows in dollars** amounted to US\$343 million in December, the highest level in the year. This result reflects the increased financing for foreign trade operations (US\$251 million). This is in line with the improved performance registered in recent months in local and international economic activity.

Including the December results, lending in the banking system increased by 5% in 2009<sup>1</sup> (0.6% taking into account the appreciation of the sol during the year), +12.6% in soles and -0.4% in dollars. The increased preference for financing in soles was reflected in a reduction in the dollar-denominated credit in the banking system in 2009 from 58% to 52% over the year (segments such as commerce and mortgages reduced their dollarization levels by 6 and 9 percentage points respectively in this period).

<sup>1</sup> With information from the Superintendency of Banks, Insurance and Pension Fund Administrators. Credit balance at the end of December 2009).

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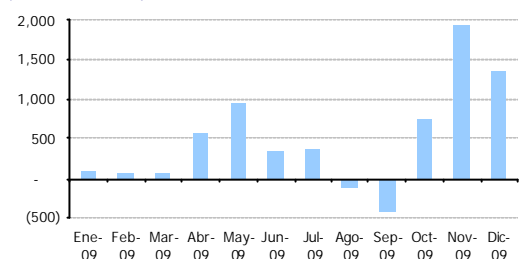
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Chart 1: bank credit flows<sup>1/ 2/</sup>

(million soles)



1/ Valued at a constant exchange rate of PEN 2.89 per USD

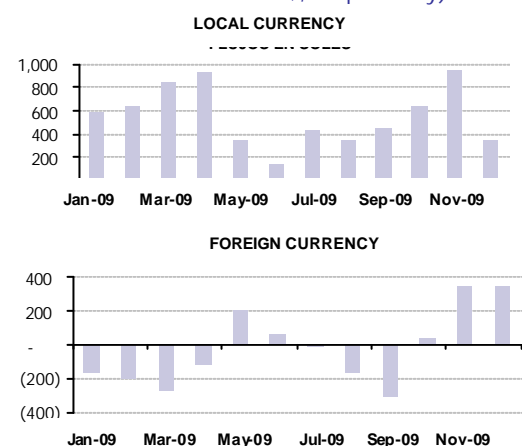
2/ Correcting for the effects of (i) the exit of Banco del Trabajo (January 09), (ii) Scotiabank's transfer of its consumer credit portfolio to Crediscotia (April) and (iii) the transfer of Credileasing's portfolio to Banco de Crédito.

Source: SBS

Prepared by: BBVA Banco Continental ERD

Chart 2: bank credit flows by currency

(million soles and million US\$, respectively)



Source: SBS

Prepared by: BBVA Banco Continental ERD

## Interest rates in soles remain relatively stable in January

In January 2010 interest rates in soles in the banking system reflected their main references. Thus with the Central Bank maintaining its policy interest rate at 1.25% and long-term sovereign bond yields registering very limited variations, bank interest rates in the domestic currency did not show significant changes.

## Favorable results in banking management in 2009

Despite the difficult international environment and the slowdown in local economic activity, the results obtained by banks showed a fairly positive management at aggregate level in 2009. The default portfolio increased only slightly, from 1.3% to 1.6% of the total portfolio. This helped maintain earnings (measured as return on equity) at significant levels (24.5%).

The banking sector continued to expand in 2009. There was a significant increase in customer service points, through more branches (+4%), ATMs (+12%) and banking correspondents (+34%). Credit and deposits increased as a proportion of GDP by more than 3 percentage points, clearly indicating that the processes of intermediation and banking use continued to develop in 2009.

## Appraisal

In recent months credit flows have improved. Prospects for an expansion in credit are favorable for 2010. Positive factors include the good position of the banking sector after its successful handling of the impact of the negative shock in 2009, the upturn in local and international economic activity, increased business confidence and relatively low interest rates over the year. Buoyant credit growth is expected in the coming months as the economic recovery consolidates.

Table 1: bank interest rates (%)

	Local currency				Jan10-Dec09	
	Dec-08	Nov-09	Dec-09	Jan-10		
Corporate 90 d.	7.5	1.7	1.7	1.7		
Commercial	11.0	6.8	6.2	6.1	↓	-
Small business	35.3	32.4	32.7	32.7	↓	-
Consumer	37.8	42.7	44.8	45.0	↑	
Mortgage	11.4	9.8	9.9	9.8		
	Foreign currency				Jan10-Dec09	
	Dec-08	Nov-09	Dec-09	Jan-10		
Corporate 90 d.	5.2	1.2	1.2	1.1	↓	-
Commercial	9.3	6.7	7.0	6.3	↓	-
Small business	23.9	22.4	22.6	22.4	↓	-
Consumer	20.8	21.4	21.3	22.3	↑	
Mortgage	10.8	9.2	9.2	9.1	↓	-

Source: SBS, BCR  
Prepared by: BBVA Banco Continental ERD