

PROJECT ABSTRACT

Background

The Peruvian economy has shown steady and significant growth expanding at an average rate of 5.5% per year over the last 5 years. Main macroeconomic fundamentals have strengthened; inflation rate has been within the range of 1.5%-3.5% while the fiscal deficit was reduced from 2.3% to 0.4% of GDP and the current account balance also improved from -1.9% of GDP to 1.3% of GDP. Peru's creditworthiness benefited from these trends, with the improvement of key sovereign financial ratios that ultimately determined an upgrade of the long-term foreign currency rating to BB+.

However, economic growth has not been fully matched by the improvement of social indicators. Social indicators in the housing sector also lag behind. The Peruvian housing deficit is estimated between 1.7 million units (Peruvian Construction Chamber, Capeco) and 2.7 million units (Mi Vivienda) consisting of around 70% quantitative deficit while the remaining 30% represents a qualitative deficit as housing units fall below the minimum living standards.

The mortgage portfolio as percentage of GDP has been steadily growing since 1999, with an average annual growth of 22% since 2001, led by per capita GDP growth coupled with wider availability of mortgage facilities provided by the financial system and the Government. However, despite government efforts through the Mi Vivienda program, as of year-end 2005, the mortgage market in Peru represented only 12.1 percent of total loans in the financial system and 2.4% of GDP, compared to Colombia with 21.2% and 4.5% and Chile with 20% and 14.4% respectively.

Project Description

The project under consideration envisions IDB providing one or more partial credit guarantees (the "Guarantee Facility") to enhance Residential Mortgage Backed Securities ("RMBS") for an aggregate amount of approximately one hundred million United States dollars (US\$100,000,000) for Banco Continental S.A. ("Continental"). The Guarantee Facility is one of two financial components the Bank is participating in, the first one, approved on December 2006, being a financing facility (the "Financing Facility") of up to one hundred and twenty million United States dollars (US\$120,000,000) to provide long-term on-balance sheet funding to Continental.

IDB's participation in the project is consistent with the strategy to enhance competitiveness and the efficient development of the private sector. The project provides a comprehensive support to primary and secondary mortgage markets. The design of this transaction include important features that can make the Bank's guarantee product more attractive to any corporate and/or financial institution that is pursuing access to the capital markets regularly. With the Guarantee Facility, the Bank hopes to offer its clients an agile and efficient product to be available for steadily accessing the capital markets.

Environmental and Social Management Report

Given the nature of this transaction, and the fact the Project involves guaranteeing securities backed with the actual assets (residential mortgages), there are no significant direct environmental or social impacts and the potential environmental and social financial and reputation risks are minimal

The Bank will require as part of the Guaranty Agreement that Continental complies with all applicable environmental, social, health and safety, and labor regulatory requirements of Peru. The Bank will monitor the environmental, social, health and safety, and labor aspects of the operation via internal Bank supervision actions (e.g. site visits, review of documentation, etc.) and may use an external independent environmental consultant when needed. For further detail please see project abstract and environmental and social management report (ESMR) of PE-L1018 at:

<http://www.iadb.org/projects/Project.cfm?project=PE-L1018&Language=English>