

# Fitch Upgrades Peru to 'BBB-'; Outlook Stable

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Fitch Ratings-New York: Fitch Ratings today upgraded Peru's long-term foreign currency Issuer Default Rating (IDR) to 'BBB-' from 'BB+' and its long-term local currency rating to 'BBB' from 'BBB-'. The Outlook on these ratings is Stable. Fitch also upgraded Peru's short-term IDR to 'F3' from 'B' and its Country Ceiling to 'BBB' from 'BBB-'. The upgrades recognize the strong improvement in Peru's fiscal and external solvency ratios, which now demonstrate a sufficient counterbalance to the country's key credit weaknesses, including a concentrated export base as well as political and social risks. 'Peru's public finance and external account performance once again exceeded expectations, contributing to a better than anticipated improvement in the sovereign's financial ratios,' said Theresa Paiz Fredel, Senior Director for Latin American Sovereign Ratings. As a result, most of Peru's financial indicators are now stronger than the median for low investment-grade credits. Furthermore, it is important to highlight an incipient structural shift in the drivers of Peru's economic growth, as the most dynamic growth rates now stem from the non-primary sectors. Positive trends in public finances, underpinned by high commodity prices and the strength of the economy, have led to an improvement in Peru's government debt burden relative to peers, which at 28% of GDP is in line with the 'BBB' median. 'The Garcia Administration has resisted current spending pressures and has used the commodity windfall to invest in infrastructure, pay down public debt and increase assets,' says Theresa Paiz Fredel. Fiscal restraint, liability management operations, and sizable reserve accumulation in recent years have allowed net repayments of public external debt. As a result, the public sector became a net external creditor in 2007, sooner than initially anticipated. Peru's net public external debt (NPXD) to current account receipts (CXR) ratio, a key rating weakness in the past, reached an estimated -22% by the end 2007, approaching the 'BBB' median of -26%. If current trends continue, Peru's net public external creditor position will exceed the 'BBB' median by the end of this year. The government's external debt burden is also mitigated by astute debt re-profiling operations and prepayments, which have reduced the public sector's external amortizations to less than 1% of GDP per year over the medium term. Other external solvency ratios such as liquidity and external financing needs as a proportion of foreign exchange reserves, also exceed the median of investment grade sovereigns. Peru's key credit weaknesses relative to low investment-grade sovereigns continue to include its poor governance and social indicators. Nevertheless, the continuation of high, broad-based economic growth and a solid fiscal position will sustain the declining trend in both public and external debt burdens over Fitch's rating horizon, as well as provide the flexibility necessary to target social expenditures toward addressing human development shortcomings. Maintenance of these positive trends should alleviate Peru's vulnerability to a commodity price shock and entrench the growing consensus for Peru's macroeconomic framework. Further strengthening of Peru's external creditor position as well as a sustained progress toward closing the gap between the country's per capita income at market exchange rates and the 'BBB' median would bode well for the sovereign's ratings. Finally, substantive progress on structural reforms related to public finances or the labor market could also support an improvement in Peru's creditworthiness over Fitch's rating horizon. Fitch will hold a teleconference tomorrow, April 3, at 10AM ET to discuss the rationale behind the upgrade. Call information to follow. Contact: Theresa Paiz Fredel +212-908-0534 or Casey Reckman +212-908-9155, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.