

Fitch Revisa Perspectiva de Perú a Estable desde Negativa

22 de octubre de 2003

Fitch Ratings-New York-October 22, 2003: Fitch Ratings, the international rating agency, today revised the Rating Outlook on the Republic of Peru's sovereign ratings to Stable from Negative. The revision is supported by the sovereign's capacity to meet its annual government financing requirement under stressful social and political conditions obtaining in 2002 and 2003. The outlook change also reflects increased flexibility in public financing sources generated by improved access to the domestic debt market. Peru's long-term foreign currency rating was affirmed at 'BB-' and local currency rating at 'BB+'. Despite social and political turmoil in the last two years that have resulted in major cabinet reshuffles, a curtailment of privatization, and public wage concessions, the government has readily met its annual financing needs by accessing international and domestic capital markets. In 2002, riots in Arequipa province followed privatization initiatives. In 2003, the government declared a four-week state of emergency following national strikes and transport disruptions, which were later peacefully ended. Yet international issuance has met 40% and 27%, respectively, of 2002 and 2003 estimated public financing needs. Furthermore, after domestic Treasury issuance was cut short in the third quarter of last year, the government in early 2003 successfully resolved prior concerns regarding the transparency and liquidity of domestic issuance. As a result, domestic government bonds will meet 19% of 2003 financing needs. Public debt remains heavy at 46.7% of GDP and 275% of revenues, yet public financing needs will remain low at 4.3% of GDP in 2003-2005. Fitch believes that the executive's success in securing temporary expedited powers to pass tax reform is a positive political signal and may provide the government greater flexibility in meeting near-term fiscal demands. Public finances are constrained by a low tax take (12% of GDP in 2002), reflecting a low per capita income, large informal sector, and a narrow base. Recent measures increasing collection efficiency could yield an added 0.8% of GDP in 2003, yet pressures on expenditures remain high. Pending tax reforms could yield an additional 0.6%-0.7% in annual revenues beginning 2004, providing some breathing room to meet additional social demands. Further increases in tax revenue from the elimination of regional exemptions will be needed if the sovereign is to increase public investment, which reached a low of 2.8% of GDP in 2002. That the executive obtained legislative approval is the first major success of the new cabinet and may signal improved governing relations. Yet relations between the executive and legislature, and within the governing party and coalition could again come under strain. Upcoming tests will be obtaining approval of the 2004 budget and law governing regional tax exemptions. Fitch cautions that these recent enhancements to creditworthiness do not imply smooth sailing. The inability of political institutions to adequately mediate social tensions is responsible for past periods of social turmoil and threatens to slow, if not derail the reform process going forward. Fitch will continue to monitor the government's performance in eliminating tax exemptions, achieving a fiscally-neutral decentralization, and advancing economic reforms. Contact: Therese Feng +1-212-908-0230 or Theresa Paiz-Fredel +1-212-908-0534, New York. Media Relations: Matt Burkhard +1-212-908-0540, New York.