

Fitch Affirms Peru's FC IDR at 'BBB-'; Outlook Revised to Positive Ratings  
02 Jun 2010 2:42 PM (EDT)

Fitch Ratings-New York-02 June 2010: Fitch Ratings today affirmed Peru's long-term foreign currency Issuer Default Rating (IDR) at 'BBB-' and its long-term local currency IDR at 'BBB'. The Rating Outlook on these ratings has been revised to Positive from Stable. Fitch also affirmed Peru's short-term IDR at 'F3' and Country Ceiling at 'BBB'.

The Outlook revision to Positive reflects a resumption of Peru's healthy growth trajectory, which is underpinned by the sovereign's disciplined macroeconomic policies. This should contribute to further improvement of the sovereign's fiscal and external indicators, its traditional credit strengths relative to 'BBB' range peers (sovereigns rated 'BBB+', 'BBB' or 'BBB-').

An entrenched record of macroeconomic stability, robust fiscal and external solvency ratios, as well as high external liquidity, support Peru's sovereign ratings. These strengths sufficiently counterbalance the country's key credit weaknesses, including commodity dependence, weaker social and governance indicators relative to similarly rated peers and still high dollarization.

'Considering the severity of the global economic and financial crisis, Peru has performed well among its 'BBB' range peers and is on track to achieve a solid economic recovery,' said Theresa Paiz Fredel, Senior Director in Fitch's sovereign group.

Fitch expects Peru's growth to reach at least 6% in 2010 due to the global recovery and the residual effects of accommodative policies. This compares with Fitch's 'BBB' median growth forecast of 3.7% during the same period.

'Based on the strength of the recovery thus far, it appears Peru's greatest challenge in 2010 will be managing the withdrawal of policy stimulus to maintain a sustainable level of growth,' said Paiz Fredel.

As such, Fitch positively views the central bank's pre-emptive decision to begin raising its policy rate and the government's action to rein in expenditures and suspend new borrowing in 2010. By contrast, in the event that key tail risks such as a sustained increase in global risk aversion or a setback to the global recovery materialise, Peru's ability to reactivate accommodative policies appears strong relative to most 'BBB' range peers, given its comparatively robust fiscal and external position, access to multilateral and domestic market financing, and its history of maintaining price stability.

According to Fitch, a sustained strengthening of the sovereign's fiscal and external balance sheets could be positive for Peru's creditworthiness. A smooth transition in the next presidential elections and sustained job creation beyond Lima and the coastal areas could deepen consensus around Peru's economic policy framework and support creditworthiness. The continuation of structural reform momentum related to enhancing productivity and competitiveness to maintain a higher growth trajectory would also support an improvement in Peru's creditworthiness. Conversely, policy choices that result in a sustained deterioration of medium-term public and external debt dynamics would be credit negative.

Applicable criteria, 'Sovereign Rating Methodology', dated Oct. 6, 2009, are available at [www.fitchratings.com](http://www.fitchratings.com).

Contact: Theresa Paiz Fredel +1-212-908-0534 or Erich Arispe +1-212-908-9165.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: [brian.bertsch@fitchratings.com](mailto:brian.bertsch@fitchratings.com).

Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).