

# Fitch Affirms Peru's Ratings; Outlook Stable

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Fitch Ratings-New York-13 May 2009: Fitch Ratings today has affirmed Peru's long-term foreign currency Issuer Default Rating (IDR) at 'BBB-' and its long-term local currency IDR at 'BBB'. The Outlook on these ratings is Stable. Fitch also has affirmed Peru's short-term IDR at 'F3' and Country Ceiling at 'BBB'.

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 a concentrated export base, weaker social and governance indicators relative to similarly rated peers and still high dollarization.

'Peru's solid macroeconomic fundamentals have increased the economy's capacity to withstand a commodity price collapse, a recession in the world's advanced economies, as well as reduced capital and financial flows,' said Theresa Paiz Fredel, Senior Director for Latin American Sovereign Ratings.

Of the challenges facing all emerging markets, the collapse in commodity prices will affect Peru the most, contributing to lower exports and private capital inflows, as well as reduced fiscal revenues. As is the case with other sovereigns, the global recession will feed into lower growth in Peru through reduced external demand for its key exports. In addition, decelerating credit growth and weaker labor market conditions will also hit domestic demand. Even though Fitch expects Peru's growth to decelerate sharply to around 3% in 2009 from an estimated 9.8% in 2008, it will still be among the highest rates of growth in Latin America.

Positive trends in public finances, underpinned by high commodity prices, the strength of the economy as well as prudent fiscal management, have led to an improvement in Peru's government debt burden relative to peers. Both gross and net government debt/GDP ratios, at 24% and 15% are notably below the 10-year 'BBB' medians of 35% and 25%, respectively. 'Even with the anti-crisis measures announced by the government late last year, which include a 2% of GDP economic stimulus package, and marked growth deceleration, Peru's debt indicators will deteriorate only marginally and continue to compare favorably to 'BBB' peers, while the downward trajectory of these ratios is expected to resume as the economy recovers in 2010,' says Paiz Fredel. In addition, the average maturity of the government's debt is longer than rating peers, minimizing roll-over risk.

Fiscal restraint, liability management operations and sizable reserve accumulation in recent years allowed net repayments of public external debt through 2008. As Fitch anticipated, Peru's sovereign net foreign asset position, which reached 8.2% of GDP, surpassed the 10-year 'BBB' median of 4.7% by year-end 2008. 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.

According to Fitch, maintenance of Peru's solid macroeconomic policy framework during the current global downturn, further strengthening of the country's external finances and progress on structural reforms that maintain Peru's strong growth trajectory could be positive for creditworthiness. Conversely, policy choices that result in a sustained deterioration of medium-term public and external debt dynamics could negatively affect Peru's credit profile.

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