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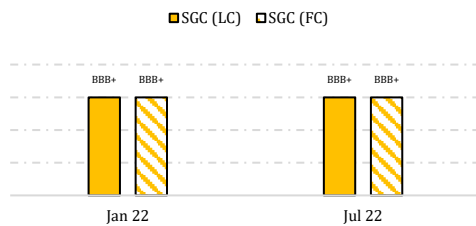
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Ratings

Sovereign Government Credit (LC)	BBB+
Sovereign Government Credit (FC)	BBB+
Outlook (LC)	Stable
Outlook (FC)	Stable

*These ratings are unsolicited

Ratings dynamics



Main Economic Indicators of Peru

Macro indicators	2019	2020	2021
Gross gov. debt, LC bn	209	252	313
Nominal GDP, LC bn	771	717	872
Real GDP growth, %	2,2	-11,0	13,3
Gross gov. debt/GDP, %	27,1	35,1	35,9
Deficit (surplus)/GDP, %	-1,4	-8,3	-2,6
Inflation rate, %	1,9	2,0	6,4
Current Account Balance/GDP, %	-1,0	0,8	-2,3
External debt, USD bn	-	-	102
Development indicators		2021	
Inequality adj. HDI		0,63*	
GDP per capita, USD th		13,9	
Default indicator		27.07.2022	
10Y Gov Bond Yield, %		4,65***	

Source: RAEX-Europe calculations based on data from the IMF, WB, BCRP, Ministry of Economy and Finance of Peru, INEI.

* 2019 ** USD-denominated with maturity in 2032

RAEX-Europe confirmed the credit ratings of Peru at 'BBB+'. The rating outlook is stable.

RAEX-Europe confirmed the sovereign government credit ratings (SGC) of Peru at 'BBB+' (Moderately high level of creditworthiness of the government) in national currency and at 'BBB+' (Moderately high level of creditworthiness of the government) in foreign currency. The rating outlook is stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

Summary

Peru's ratings are supported by solid macroeconomic stance, which helped the country combat the challenges of the COVID-19 pandemic, still relatively low level of public debt and successful track-record of monetary and fiscal policy since the beginning of the century. The ratings are however restrained by limited growth prospects, high dependency on commodity exports and limited government revenue base. Recent deviations from fiscal policy anchors undermine the confidence in previously strong fiscal discipline and create additional risks for the creditworthiness of the government.

Values of institutional indicators, while fairing decent against Latin American peers, still lag behind those of more developed countries. The level of poverty, although having declined in 2021 compared to 2020, remains higher than in pre-pandemic 2019 and poses a significant challenge for the government. Employment levels, albeit having recovered in 2021, remain below the pre-pandemic levels.

Finally, political uncertainty persists and also constraints the ratings. Pedro Castillo, who took the president's office on 28 July 2021, has already faced two impeachment attempts. We observe high instability and fragmentation on the political landscape, which, in our opinion, can disrupt the implementation of macroeconomic policies, which in turn will negatively affect the country's economic stance.

The Peruvian economy has experienced a strong recovery in 2021, but challenges remain in place.

The COVID-19 pandemic has had a severe negative effect on the country's economy. Despite having applied one of the strictest quarantine measures in the world, Peru was among the countries with the highest number of infection cases as well as pandemic-related

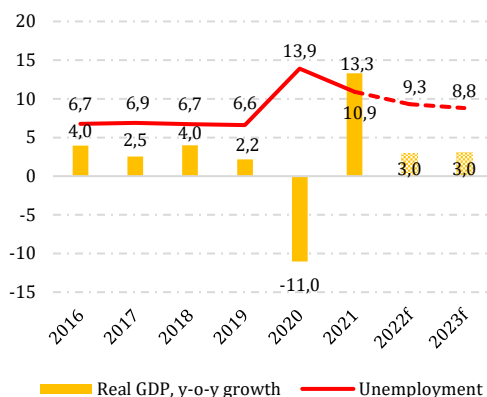
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Graph 1: Macroeconomic indicators, %



Source: RAEX-Europe calculations based on data from IMF, Ministry of Economy and Finance of Peru, BCRP

mortality rates. The pandemic highlighted, among other factors, the weakness of the country’s health system.

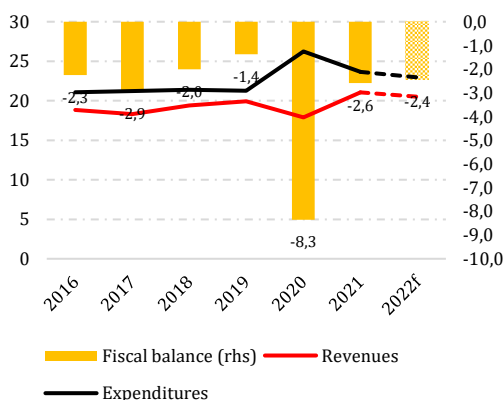
Nationwide confinement measures have resulted in a large supply shock on local activity which has led to a 39,2% y-o-y contraction of real GDP in April 2020, the largest monthly contraction since the start of the pandemic. After the implementation of gradual phases of economic reopening and through the introduction of monetary and fiscal stimuli, the Peruvian economy has gradually recovered throughout 2020: in October the real GDP registered a much smaller decline of 3,8% percent y-o-y and in 4Q 2020 it was 1,7p.p. below the corresponding 2019 levels. In 2020 the Peruvian economy contracted by 11% y-o-y in real terms, the most severe contraction in decades (see graph 1).

In 2021, due to the easing of health restrictions and mass vaccination of the population and supported by significant fiscal stimulus and expansionary monetary policy the economy of Peru continued to recover to pre-pandemic levels and recorded the real GDP growth of 13,3%.

In the first quarter of 2022 the Peruvian economy experienced a y-o-y growth rate of 3,8%. The Peruvian economy, however, has already experienced some new headwinds in 2022: stoppages of operations at Las Bambas and Southern mines have led to a 11,2% copper output drop of the world’s second largest copper producer in May; the agricultural sector has also experienced lower than expected production levels due to higher fertilizer prices. Our base case scenario assumes the preservation of the overall strong macroeconomic stance of Peru in the mid-term; we forecast the real GDP growth of around 3% for 2022-2023.

We also note several negative aspects about Peru’s economy, which constrain the ratings. Values of institutional indicators, namely corruption perception index (CPI), Government Effectiveness Index, Inequality-adjusted HDI, while fairing decent against Latin American peers, still lag behind those of more developed countries. The level of poverty, although having declined in 2021, remains higher than in 2019, before the pandemic began, and poses a significant challenge for the government. Employment levels, albeit having recovered in 2021, remain below the pre-pandemic levels (see graph 1). Additional investments in infrastructure are also required in order to increase productivity and facilitate sustainable economic growth. Moreover, the country’s growth prospects are restrained by limited government revenue base and exports are highly concentrated on the mining industry. Finally, potential negative developments of the pandemic (new waves and / or variants of the virus) might constrain the growth prospects and have a negative impact on public finances.

Graph 2: Fiscal budget dynamics, % of GDP



Source: RAEX-Europe calculations based on data from IMF, BCRP, Ministry of Economy and Finance of Peru

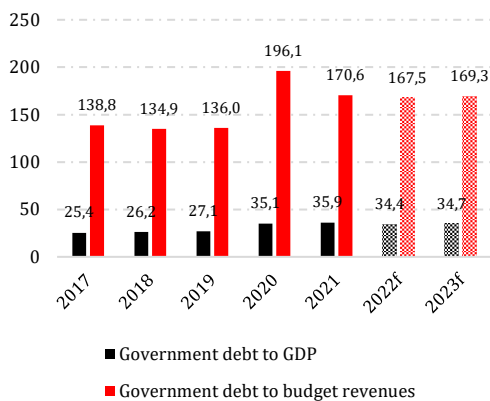
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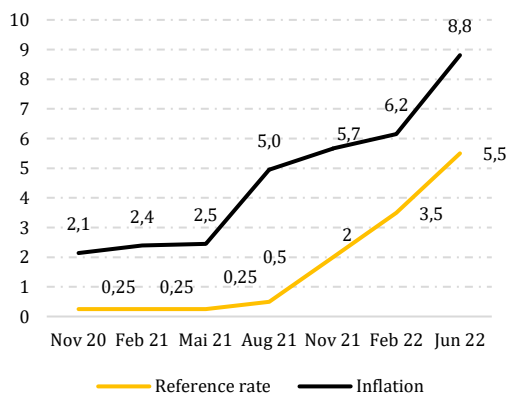
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Graph 3: Government debt dynamics, %



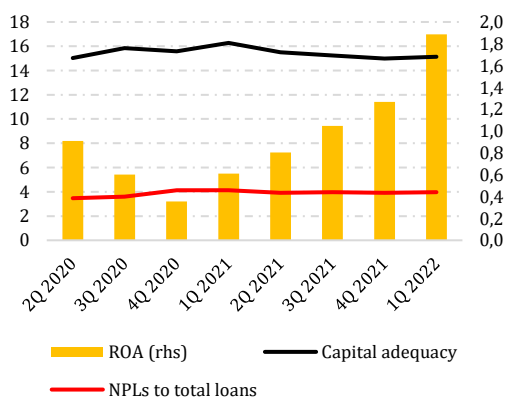
Source: RAEX-Europe calculations based on data from IMF, Ministry of Economy and Finance of Peru, BCRP

Graph 4: Refinance rate vs inflation rate, %



Source: RAEX-Europe calculations based on data from BCRP

Graph 5: Financial soundness indicators, %



Source: RAEX-Europe calculations based on data from IMF, BCRP

Fiscal balance returns to pre-pandemic levels. Fiscal measures implemented to mitigate the effects of the pandemic included additional health expenditures, postponement of tax payments for businesses, affected by lockdowns, support of households in the form of transfers and tax postponements. Increase in government expenditures combined with lower revenues led to a fiscal deficit of 8,3% of GDP in 2020 (see graph 2);

In 2021, increase in Government revenues due to the recovery of economic activity and favorable commodity prices combined with the withdrawal of COVID-19 related spending, has led to the reduction of fiscal deficit to 2,6%. We expect the figure to stand at around 2% in 2022-2023. Although we assess the fiscal position as solid, recent deviations from fiscal policy anchors undermine the confidence in previously strong fiscal discipline and create additional risks for the creditworthiness of the government.

The level of public debt is sustainable. Despite the rapid increase of the level of public debt between 2019 and 2020 (see graph 3), we assess the debt position of Peru as sustainable. The ratio of Government debt to GDP stood at 35,9% in 2021 (27,1% in 2019) and we forecast the figure to be at around 35% level in 2022-2023. We highlight the low level of public debt relative to Latin American peers, where the ratio of public debt to GDP on average exceeded 80% as of 2020. We also emphasize the favorable term structure of Peru’s debt position, with short-term debt comprising less than 4% of the total debt burden as of 4Q 2021. As of March 2022 public debt is mostly comprised of liabilities in PEN – 44,8% and USD – 48,2%; as of the same date, 85,7% of public debt had a fixed-rate. In addition, we consider that the government is in a favorable position to attract additional funds if required. Peru has a good track-record of cooperation with international financial institutions; recent issues of Peruvian sovereign debt have attracted solid demand from investors and the country was able to issue debt at favorable terms.

Central Reserve Bank of Peru continues with the normalization of the monetary policy stance. In the first half of 2022 the Central Reserve Bank of Peru (BCRP) continued with the normalization of the monetary policy stance, started in August 2021. After maintaining the reference rate at the lowest level in history, 0,25%, from April 2020 to July 2021, in August 2021 the BCRP initiated the normalization of the monetary policy stance, amid the increase of the inflation rate: the reference rate was raised to 0,5% (graph 4). 2021 has seen a total of 5 rate hikes, which has brought the reference rate to the level of 2,5% in December 2021. Amid further inflation growth due to the surge of international food and fuel prices in the first half of 2022 the BCRP continued with the normalization of the

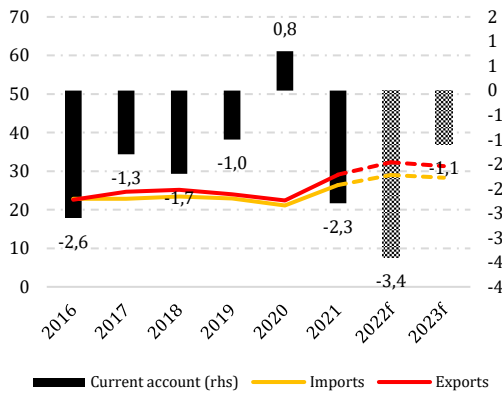
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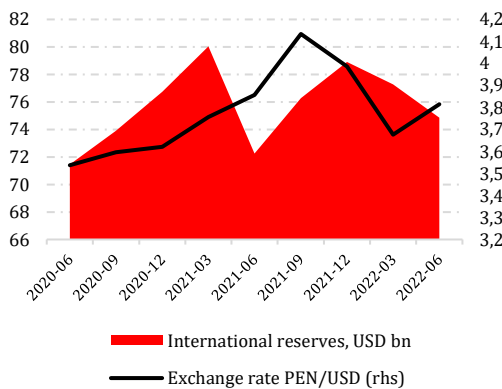
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Graph 6: External sector indicators, % of GDP



Source: RAEX-Europe calculations based on data from IMF, Ministry of Economy and Finance of Peru, BCRP

Graph 7: International reserves and exchange rate



Source: RAEX-Europe calculations based on data from BCRP

monetary policy stance: we have witnessed 7 consecutive rate hikes. As of July 2022 the reference rate stood at 6,0%.

We continue to assess the quality of the monetary policy as credible. The inflation-targeting scheme, implemented by the BCRP since the beginning of the century, has successfully kept inflation rate at low single-digit figures. Despite the recent growth of the inflation rate, we believe that the BCRP has enough capacity to maintain monetary stability in the long-term. We continue highlighting the transparency and consistency of the BCRP's policy.

Banking system has demonstrated resilience during the pandemic.

After a sharp decline of the profitability of banks, indicated by the ROA, throughout 2020, 2021 saw the gradual improvement of the indicator's reading. The tendency continued in the beginning of 2022, with the ROA standing at 1,9% as of 1Q 2022; the figure stood at around 2,2 in 2018-2019. We also point out that capital adequacy ratio remained solid throughout the pandemic and as of 1Q 2022 stood at 15,1% (graph 5). Finally, we note high concentration of the banking sector in Peru with 3 largest banks accounting for more than 70% of the system's loan portfolio as of November 2021.

Solid external stance. After registering a current account surplus of 0,8% of GDP in 2020, the figure returned to a negative territory in 2021 registering a 2,3 % deficit. We forecast the figure to remain in the negative territory in 2022-2023 (see graph 6). Net international reserves have been stable throughout last several years and as of March 2022 amounted to 77 bn USD covering 95% of the gross government debt (see graph 7).

Political uncertainty remains in place. In 2017 Peru entered currently ongoing political crisis, which has involved executive, legislative and judicial powers. Although the peak of the unrest seems to be behind, political stability in the country is still far from being robust: we observe high fragmentation in the newly-elected Congress as the recently elected congress chief, Martha Moyano, is part of the opposition party. Pedro Castillo, who took president's office on 28 July 2021 after a very close win against Keiko Fujimori, has already faced two impeachment attempts. In our opinion, existing political instability can disrupt the implementation of macroeconomic policies, which in turn will negatively affect the country's economic stance.

Support-factor:

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- Participation in the Pacific Alliance. The initiative is comprised of Chile, Colombia, Mexico and Peru. The Alliance's key objectives are integration of the members, further growth and development of the economies of the members (very weak support-factor);

Stress-factor:

- High probability of significant political changes in the short run. In 2017 Peru entered currently ongoing political crisis. We observe high fragmentation in the newly-elected Congress; Pedro Castillo, who took president's office on 28 July 2021 after a very close win against Keiko Fujimori, has already faced two impeachment attempts (very weak stress-factor)

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Higher than projected rate of economic growth;
- Decline of political instability in the country;

The following developments could lead to a downgrade:

- Economic growth below the forecast levels;
- Deterioration of political environment which would cause economic turmoil and would hurt public finances;

ESG Disclosure:**Inherent factors**

- Quality of fiscal policy; quality of monetary policy; natural resources; natural and climatic threats; environmental threats; level of corruption, CPI; Government Effectiveness Index; quality of the business environment; position in Doing Business Ranking; level of investment in human capital, adjusted for inequality; Rule of Law Index; transparency of government policymaking Index; level of information transparency of the government; Political Stability and Absence of Violence/Terrorism Index; natural disasters, constant exposure to difficult natural conditions.

Drivers of change factors

- None.

Next scheduled rating publication: TBD December 2022. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2022](#)

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
28.01.2022	First assignment of both types of ratings for the country	BBB+	BBB+	Stable	Stable

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Minute's summary

The rating committee for Peru was held on 27 July 2022. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: [Methodology for Assigning Sovereign Government Credit Ratings – Full Public Version \(from April 2022\)](#). Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

These ratings are unsolicited. The rated entity did not participate in the rating process.

Main sources of information: International Monetary Fund, World Bank, Central Reserve Bank of Peru, Ministry of Economy and Finance of Peru, National Institute of Statistics and Informatics of Peru (INEI), World Federation of Exchanges.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Regulatory use

SGC ratings can be used for regulatory purposes according to the ESMA definition.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies of the RAEX group.

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Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.

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