

CareEdge Global assigns Long Term Foreign Currency Rating of BBB- (Unsolicited) to Republic of Peru

Credit Profile

Peru is an emerging economy facing the considerable challenge of diversification due to its significant reliance on commodity exports. The country's credit profile is bolstered by a moderate debt load, limited fiscal vulnerabilities, and a history of stable regulatory framework. Its external position remains healthy, supported by steady FDI flows and adequate forex reserve levels. However, political instability and governance issues significantly undermine Peru's creditworthiness. Issues such as frequent changes in the presidency, political fragmentation, corruption scandals, and civil unrest have eroded institutional stability.

Strengths

- Peru benefits from moderate government debt levels
- Steady FDI flows and substantial forex reserves bolster Peru's external position

Weaknesses

- Frequent changes in presidency and political fragmentation undermine institutional stability
- Heavy dependence on mineral exports makes Peru vulnerable to global commodity price fluctuations
- Susceptibility to climate-related natural disasters poses significant economic risks

Key Monitorables

- Impact of upcoming elections and potential legislative reforms on political stability

Key Rating Drivers

Economic Structure & Resilience

Peru's economy is characterized by a mix of agriculture and traditional and modern industries. It has significant mining sector with important mineral exports like copper, gold, silver, and zinc. Real GDP growth plunged to -0.6% in 2023 from 2.7% in 2022. Factors such as adverse climatic conditions, increased political instability, civil unrest, and subdued private investment contributed to this contraction. The economy is seeing a recovery with 3.6% growth recorded in Q2 of 2024, boosted by domestic demand and private consumption. Peru's GDP per capita is USD 13082 in 2023 (purchasing power parity basis, constant prices). Peru's economy remains susceptible to copper price volatility and is reliant on its trade relationships, particularly with key partners China and the US.

Its geographical location along the Pacific Ocean particularly exposes it to El Niño events, which disrupt weather patterns. During El Niño years, the Peruvian economy suffers from lost revenues due to lower fish landings and crop yields. The nation also faces long-term demographic challenges, including an aging population, which could strain fiscal resources and social services.

Fiscal Strength

Peru has maintained a robust fiscal framework with rule-based checks to ensure discipline in public finances, with the executive, legislature, and the independent Fiscal Council each playing distinct roles. Recent economic shocks, including the pandemic and social unrest, led to the relaxation of fiscal deficit limits. Peru's fiscal deficit in 2023 was recorded at 2.8% of GDP, exceeding the fiscal rule target of 2.4%. This was due to a decline in tax revenues resulting from an economic slowdown, increased climate-related expenditures, and new stimulus programs. The fiscal deficit target has been revised to 2% for 2024. However, the IMF expects the deficit to exceed this and reach 2.5% in 2024, despite an anticipated economic rebound and strong copper prices. Pension fund withdrawals amounting to 9.4% of GDP from 2020 to 2024 have heightened long-term fiscal risks and increased reliance on foreign investors for debt financing.

Historically, Peru has maintained low debt levels, with general government debt moderating to 32.1% of GDP in 2023 from 33.9% in 2022. The government aims to reach a debt target of 30% of GDP by 2030. The government's commitment to medium-term fiscal goals and its willingness to reallocate or reduce selective expenditures based on revenue performance are likely to support the debt metrics. Debt affordability, as measured by the interest/revenue ratio, remains comfortable, with the average standing at 7.2% from 2019 to 2023. Nevertheless, Peru's dependence on external financing for government debt, which was 46% of general government debt in 2023, necessitates ongoing vigilance.

External Position & Linkages

Peru's external assessment is supported by its strong forex reserve position, stable FDI inflows and moderate external debt levels. In 2023, the current account posted a minor surplus of 0.6% of GDP, recovering from a deficit of 4% in 2022. This surplus was supported by an improved trade balance due to the rise in copper prices, which offset declines in fishing and textile receipts, as well as a significant drop in industrial imports. The current account balance is projected to weaken and slip into a deficit of 1.1% in 2024 (IMF), driven by a recovery in imports and profit remittances by foreign firms. Foreign exchange reserves are comfortable and cover over 14 months of imports as of June 2024. Despite political uncertainties, FDI flows have remained resilient. FDI net inflows averaged 3.1% of GDP from 2021-2023.

Monetary & Financial Stability

Peru's independent Central Bank (BCRP) operates with an inflation-targeting mandate. Proactive measures saw policy rates raised to 7.75% in January 2023 in response to inflation but were subsequently reduced to 5.25% by September 2024 as inflation eased to 2% by August 2024. The financial sector remains sound, characterized by adequate capitalization and liquidity. Peru operates under a floating exchange rate regime. The BCRP intervenes in the foreign exchange market to mitigate exchange rate volatility without targeting a specific rate. Although initial interventions during the pandemic were limited, the BCRP significantly increased its forex market operations in 2021 to address heightened volatility due to political uncertainty. Since then, interventions have been relatively limited.

Despite advancements in the growth of digital wallets and FinTech innovations, the overall level of financial inclusion remains a weakness. Challenges include the risks posed by recurring El Niño events and maintaining stability amid political turbulence.

Institutions & Quality of Governance

Peru's political environment is marked by frequent leadership changes, corruption allegations, and executive-legislature conflicts, leading to significant institutional instability. These conditions are reflected in poor World Bank Governance Indicators, particularly in political stability and control of corruption compared to regional peers. Continued leadership instability and widespread civil unrest, detract from Peru's creditworthiness. Upcoming elections in 2026 may influence the political landscape, with close monitoring required of potential positive reforms aimed at restoring stability and improving governance quality.

| Peru – Select Indicators | | | | | | | | | |
|---|-------------|-------|-------|-------|-------|-------|-------|--------|--------|
| | Unit | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 F | 2025 F |
| Economic Indicators | | | | | | | | | |
| Nominal GDP | USD Billion | 227 | 232 | 206 | 226 | 245 | 268 | 282 | 295 |
| GDP Per Capita (Constant-PPP) | USD | 13247 | 13304 | 11678 | 13080 | 13286 | 13082 | 13281 | 13502 |
| Real GDP Growth | % | 4.0 | 2.2 | -10.9 | 13.4 | 2.7 | -0.6 | 2.5 | 2.7 |
| GFCF/GDP | % | 22.2 | 22.5 | 21.0 | 25.1 | 25.2 | 22.9 | - | - |
| Gross Domestic Savings/GDP | % | 23.1 | 22.0 | 20.0 | 25.3 | 22.8 | 22.1 | - | - |
| Exports (G&S)/GDP | % | 25.2 | 24.0 | 23.0 | 29.1 | 28.9 | 27.1 | - | - |
| Working-Age (15-64) Population (% Share in Total) | % | 64.5 | 64.8 | 65.1 | 65.3 | 65.6 | 65.7 | 65.9 | 66.0 |
| Old-Age (65+) Population (% Share in Total) | % | 8.1 | 8.2 | 8.3 | 8.3 | 8.4 | 8.6 | 8.8 | 9.0 |
| Fiscal Indicators – General Government | | | | | | | | | |
| Fiscal Balance/GDP | % | -2.0 | -1.4 | -9.0 | -2.5 | -1.4 | -2.8 | -2.5 | -1.8 |
| Revenue/GDP | % | 19.3 | 19.8 | 17.8 | 21.0 | 22.0 | 19.7 | 20.0 | 20.1 |
| Expenditure/GDP | % | 21.2 | 21.2 | 26.8 | 23.5 | 23.4 | 22.4 | 22.5 | 21.9 |
| GG Gross Debt/GDP | % | 26.0 | 27.0 | 34.9 | 36.1 | 33.9 | 32.1 | 33.0 | 33.3 |
| GG External Debt (by Creditor)/GG Gross Debt | % | 31.2 | 28.7 | 40.8 | 51.8 | 49.7 | 46.0 | - | - |
| Interest/Revenue | % | 6.4 | 6.4 | 8.4 | 6.7 | 6.6 | 7.9 | - | - |
| External Indicators | | | | | | | | | |
| Current Account Balance/GDP | % | -1.2 | -0.6 | 1.1 | -2.2 | -4.0 | 0.6 | -1.1 | -1.4 |
| FDI, Net Inflows/GDP | % | 2.6 | 2.1 | 0.3 | 3.2 | 4.6 | 1.5 | - | - |
| Outstanding FII Liabilities/GDP | % | 27.5 | 29.6 | 35.3 | 37.0 | 33.1 | 29.9 | - | - |
| NIIP/GDP | % | -37.0 | -35.5 | -37.2 | -38.2 | -42.7 | -39.6 | - | - |
| Foreign Exchange Reserves | USD Billion | 60.3 | 68.4 | 74.9 | 78.5 | 72.2 | 71.3 | - | - |
| Import Cover | Months | 14.0 | 15.9 | 21.2 | 16.11 | 12.5 | 13.6 | - | - |
| External Debt/GDP | % | 29.4 | 27.6 | 35.6 | 39.6 | 37.2 | 35.1 | - | - |
| Monetary and Financial Indicators | | | | | | | | | |
| CPI Inflation | % | 1.3 | 2.1 | 1.8 | 4.0 | 7.9 | 6.3 | 2.3 | 2.0 |
| Exchange Rate (Average) | LC per USD | 3.3 | 3.3 | 3.5 | 3.9 | 3.8 | 3.7 | - | - |
| Non-Performing Loans/Total Gross Loans | % | 3.3 | 3.4 | 4.1 | 3.9 | 4.1 | 4.5 | - | - |
| Private debt, loans and debt securities/GDP | % | 58.1 | 58.1 | 71.5 | 62.6 | 58.1 | - | - | - |

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

| Instrument | Type | Rating | Date |
|---------------|---|--------|-----------------|
| Issuer Rating | Long Term Foreign Currency (Unsolicited) | BBB- | October 3, 2024 |

Analytical Contacts

Priyanka Pradhan

c-priyanka.pradhan@careedge.in

Kiran Kavala

kiran.kavala@careedgeglobal.com

Media Contact

Mradul Mishra

mradul.mishra@careedge.in

Criteria Applied

CareEdge Sovereign Rating Methodology

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Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
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