Peru Poised to Win More Rating Increases, Credit Suisse Says

By Andrea Jaramillo and Tal Barak Harif

Dec. 17 (Bloomberg) -- Peru is poised to receive more credit-rating increases after Moody's Investors Service moved it to investment grade because the country is posting above- average growth while keeping its budget deficit under control, said Credit Suisse Group AG and Societe Generale SA.

Moody's raised Peru's foreign debt rating one level to Baa3, the lowest investment-grade level, from Ba1 late yesterday, more than a year after Standard & Poor's and Fitch Ratings made identical moves. Moody's said Peru was able to prevent the global recession from sending the local economy into a "hard landing" by bolstering government spending.

"It sets up a trajectory for more upgrades," **Igor Arsenin**, an emerging-market strategist at Credit Suisse in New York, said in a telephone interview. "The fundamentals look clean when compared with other investment-grade countries. It reminds everybody of the positive momentum in Peru."

The Andean nation's credit-default swaps trade almost on a par with Israel and Poland, countries that are rated at least four levels higher by Moody's. It costs 1.21 percentage points to protect Peru's debt against default for five years, compared with 1.20 points for Israel and Poland, according to CMA Datavision. Peru's cost was 1.92 points six months ago.

Credit-default swaps pay the buyer face value in exchange for the underlying securities or the cash equivalent should a country or company fail to adhere to its debt agreements. A basis point on a contract protecting $10 million of debt from default for five years is equivalent to $1,000 a year.

Commodity Savings

Peru's "economic fundamentals are very good," said **Greg Anderson**, a currency strategist at Societe Generale in New York. This "may bring another rating upgrade within a year's time."

President **Alan Garcia** this year tapped savings built up from surging commodity export revenue between 2006 and 2008 to implement a $3 billion stimulus plan. The spending program, along with record low **interest rates**, helped the economy expand in August for the first time in three months.

Peru, the world's third-biggest exporter of copper, zinc and tin, and the largest silver exporter, will post expansions of 1.5 percent this year and 5.8 percent in 2010, the International Monetary Fund forecasts.

By comparison, the IMF predicts a contraction of 2.5 percent in 2009 and an expansion of 2.9 percent next year for Latin America. The 5.8 percent growth forecast for Peru is the IMF's highest for any major economy in the region next year.

Falling Debt

Finance Minister **Luis Carranza** said yesterday that the government's efforts to cut debt helped free up the cash it needed this year to fund the stimulus program. Government debt has dropped to the equivalent of 25 percent of gross domestic product from 50 percent of GDP at the start of the decade, according to Carranza.

"This gave us greater room to implement the economic stimulus plan without difficulty," Carranza told reporters in Lima.

The government forecasts its deficit will narrow to 1.6 percent of GDP in 2010 from 2 percent this year as tax revenue increases, Carranza said last month. Moody's said the government's ability to tap savings to fund its stimulus program was a "positive development." It said the country's vulnerabilities include its low income per capita and the "high share" of its debt that's denominated in dollars.

The **extra yield** investors demand to own Peru's dollar bonds instead of U.S. Treasuries has narrowed to

1.85 percentage points from 5.09 percentage points at the end of last year, according to JPMorgan Chase & Co.

Sol Rally

“The upgrade will allow Peru to keep its debt costs low and on a downward trend, while increasing financial and real investment flows,” Carranza said. He predicted foreign direct investment will jump almost 50 percent next year. “Moody’s upgrade will accentuate this trend.”

The benchmark **Lima General Index** of stocks has surged 102 percent this year while the sol has gained 9.1 percent to 2.8745 per dollar this year.

Societe Generale’s Anderson said the economic rebound and “responsible fiscal policy” may drive the sol to 2.7 per dollar within six months.

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