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Peru's Debt Outlook Cut to Negative by S&P on Political Risk (1)

- **S&P cites uncertainty about nation's institutional stability**
- **Peru's BBB credit rating was affirmed by S&P on Monday**

By Maria Elena Vizcaino

(Bloomberg) -- Peru's credit outlook was cut to negative from stable by S&P Global Ratings as a tumultuous period for the government and changes in leadership highlight the risk of political deadlock.

The move indicates one-in-three odds that the credit assessor downgrades Peru's rating, depending on its political trajectory and risks to economic policy and growth, analysts S&P analysts Constanza Perez Aquino, Joydeep Mukherji and Sebastian Briozzo wrote in a Monday statement. S&P affirmed Peru at BBB, two notches above junk territory, in line with Panama and Uruguay.

"We could lower the ratings by one notch if prolonged political impasse or further adverse developments reduce the predictability of policymaking or worsen institutional stability, auguring badly for economic policy outcomes," they wrote. "Prolonged political impasse between Peru's executive and legislative powers has, in our view, limited the government's capacity to implement economic policies on a timely basis."

The negative outlook marks a clear increase in risk for Peru's bondholders, who have grown accustomed to overlooking political chaos due to the nation's fiscal strength. The dollar debt ended last week higher, even as Dina Boluarte was sworn in as the country's sixth president in four years after Pedro Castillo's impeachment.

Still, protesters have gathered in the streets since Castillo's ousting, calling for his release from the police base where he's being held, the dissolution of congress, early elections and a rewrite of the constitution.

S&P warned that, regardless of new leadership, friction between the governing institutions continues to threaten Peru's growth and fundamentals.

Fitch Ratings said earlier on Monday that political upheaval increases economic and fiscal risks, affirming its BBB score and negative outlook. Moody's Investors Service scores the nation as Baa1, three levels above junk with a stable outlook.

"Unless Peru eliminates the deep-rooted sources of political instability, I think that the country is headed for a de-rating," said Ramiro Blazquez, the head of research and strategy at BancTrust & Co. said before S&P's outlook changed.

(Updates with context throughout)

--With assistance from Leda Alvim.

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News Story

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