

Peru Long-Term Foreign Currency Upgraded To Investment-Grade 'BBB-'; Outlook Stable

BUENOS AIRES (Standard & Poor's) July 14, 2008--Standard & Poor's Ratings Services said today that it raised its foreign currency long-term credit rating on the Republic of Peru to 'BBB-' from 'BB+' and raised its local currency long-term credit rating on the republic to 'BBB+' from 'BBB-'. Standard & Poor's also raised its short-term foreign currency sovereign credit rating on Peru to 'A-3' from 'B' and its short-term local currency sovereign credit rating to 'A-2' from 'A-3'. The outlook on the long-term ratings is stable.

In addition, Standard & Poor's raised its transfer and convertibility assessment for Peru to 'BBB+' from 'BBB'. Standard & Poor's withdrew its recovery rating of '3' on the republic; such ratings are only assigned to speculative-grade foreign currency ratings.

"The upgrade is supported by the significant decline in Peru's fiscal and external vulnerabilities within a context of high and diversifying sources of growth with low inflation and strengthening macroeconomic fundamentals," said Standard & Poor's credit analyst Sebastian Briozzo. "It also reflects Standard & Poor's expectation that these trends will remain in place over the medium term despite an increasingly riskier international environment and the continuation of challenging local politics." Standard & Poor's believes Peru's credit strengths are sufficient to face these medium-term challenges at a level of risk consistent with the 'BBB-' credit rating.

Sound economic prospects, with GDP growth rates estimated at 6.5% over the medium term, are a key-supporting factor for the upgrade. Peru's robust growth prospects are supported by rapidly growing investment levels that are expected to reach 25% of GDP in 2008 and to grow further over the medium term.

"More importantly, economic growth has diversified over the last three years evolving from a path mostly driven by external demand into a more complex structure with more reliance on dynamic domestic demand, in particular investment, but also private consumption" Mr. Briozzo added. "This new pattern is critical to achieving progress in terms of distributing more evenly the benefits of economic growth to greater sectors of the population, as reflected by improvements in employment and decreases in poverty, therefore contributing to alleviate a still complex social situation in Peru." The latter declined to a still high 39.3% in 2007 from 48.7% in 2005. Such advances contribute to alleviating the tensions inherent in Peru's complex social issues. Despite the upgrade to investment grade, Peru's political and social stability will continue to constitute a credit weakness compared with peers. Peru's social structure remains fragmented among social, economic, and ethnic lines,

contributing to a still a fragile political system, in which political parties and institutions do not enjoy high levels of popular support. For this reason, the strong support from the political class for sound macroeconomic policies, as seen in the current administration of President Garcia and expected to continue under the new minister of finance, remains a precondition for Peru to maintain its recently obtained investment-grade rating.

Standard & Poor's believes the increasing level of consensus of the Peruvian political class on the importance of a sound macroeconomic framework, characterized by strong fiscal results leading to declining debt levels, operational independence of the central bank and economic growth based on private investment, makes Peru's political structure consistent with the 'BBB-' foreign currency rating.

The stable outlook on Peru balances the macroeconomic strengths of high-growth prospects and declining vulnerabilities with the weaknesses derived from a still developing political institutional framework and an economy that continues to depend

heavily on commodities. "Additional improvements in the debt trajectory within a stable political context as well as material progress in Peru's social conditions supporting greater political stability could lead to upward movements on the rating over the medium term," noted Mr. Briozzo. "Conversely, increasing levels of political polarization that erodes support for sound macroeconomic policies would add pressure to the rating and could lead to a downgrade to the speculative-grade rating category."