Peru hit with credit rating downgrade over deepening political and economic crises

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With the government of Peru's pseudo-left populist President Pedro Castillo confronting an escalating crisis of rule,the credit rating agency Fitch—whose ratings measure the probability of default on a government's foreign currency debt payments—has lowered its outlook on Peru to negative from stable.

The reason Fitch Ratings gave for the negative rating, issued on October 20, was that a "deterioration in political stability and government effectiveness has increased downside risks to Peru's ratings."

The agency said high turnover in the cabinet as well as a pair of failed impeachment attempts against Castillo "have sustained political tumult." According to Fitch, corruption investigations directly involving the president or close affiliates, along with frequent rotation of ministerial positions, have undermined government effectiveness. "Private investment has fallen, a fiscal liability has materialized, and policy implementation has slowed as a result of the political volatility," Fitch said.

Peru's media has documented that Castillo is engaged in the same corruption schemes as his predecessors, involving bribes for government contracts and the appointment of family members to high positions.

Castillo's election in 2021 was a distorted expression of a general rejection of the right-wing free-market policies that have dominated the South American country for more than three decades. He based his election campaign on the slogan, "No more poor people in a rich country."

However, in less than a year, all these promises have been revealed to be empty demagogic gestures. Castillo has proven to be an obedient servant of the Peruvian bourgeoisie and imperialism, as he has left intact the basic structure of the economic system he criticized so much.

Nonetheless, right-wing forces centered around Keiko Fujimori, the three-time candidate whom Castillo defeated at the polls and daughter of Peru's authoritarian (and jailed) former president Alberto Fujimori, have pursued a non-stop campaign to bring his government down.

This has led to an almost permanent state of ungovernability, as Congress has become the de facto headquarters for political representatives of big business and far-right forces to plot against and undermine Castillo's executive power. Two impeachment attempts failed because the necessary 87 votes were not obtained in Congress to start the process.

While mounting a third attempt, Castillo's right-wing opposition in Congress is seeking his suspension from office on the ultra-reactionary nationalist charge of "treason against the fatherland," based upon a remark by Castillo that his government could help land-locked Bolivia secure access to the Pacific Ocean. Approved by a congressional subcommittee on November 11, the indictment, if supported by a majority of Congress, would result in Castillo being barred from holding office for five years.

Such is the depth of the crisis in this undeclared intra-state warfare that, in his first 13 months in office, Castillo appointed 68 ministers to the 19 ministries that make up the executive cabinet. That is 3.6 incumbents per ministry, with an average tenure of three months and ten days.

Underscoring his government's subordination to US imperialism, Castillo appealed to the Organization of American States to intervene in Peru to protect "democracy" against a congressional coup. An OAS delegation is expected to arrive in Lima soon. This is the same OAS which, under Washington's direction, orchestrated the 2019 coup that ousted Bolivia's Evo Morales.

Fitch has maintained Peru's "Long-Term Foreign Currency Issuer Default Rating" at BBB, the lowest investment grade rating. However, Fitch's rating of the country's outlook as "negative" will have direct consequences for Peru's foreign currency financing capacity, at a time when its economy is stagnant.

Another factor cited by Fitch for changing the rating to negative is its revision of the "real GDP growth forecast for 2022 downward from 2.5 percent to 2.3 percent."

Here Fitch disagrees with the figures published by Peru's Economics and Finance Ministry (MEF), which reported in the business daily *Gestión* that "the Peruvian economy has continued with its recovery process, and the economic growth of 3.0 percent between January and August 2022 marks an important floor for the end of the year."

Fitch's function is to protect the interests of foreign capital, particularly US capital, while the MEF wants to promote investment by publishing more attractive figures. However, the

MEF has a history of revising its forecasts downwards after making an encouraging announcement.

Eight years ago, Fitch had upgraded Peru's rating to BBB+, giving the go-ahead for foreign capital to invest in Peru based on the strong macroeconomic factors operative at the time: between 2003 and 2013, the country had the highest GDP growth in South America. This meant the unbridled enrichment of the Peruvian bourgeoisie and high profits for the transnationals, who benefited mainly from China's demand for minerals.

Beginning in 2014, the slowdown in the world economy had repercussions for Peruvian mineral exports. Then came the pandemic and the sudden paralysis of the economy, combined with high unemployment, falling purchasing power of Peruvians and the return of millions to extreme poverty.

This led, in 2021, as reported by *La República* newspaper at the time, to a depletion of "liquid fiscal buffers, eroding the soundness of Peru's government balance sheet relative to its peers," that is, compared to other similarly rated economies.

By October 15, 2021 Fitch had revised Peru's credit rating again, this time downward, from BBB+ to BBB, but stable. "Stable' means that the country's macroeconomic factors are consistent with the rating assigned.

The other two main rating agencies have likewise downgraded Peru. In September 2021, Moody's Investor Services lowered it from A3 (low end of upper-medium grade/low credit risk) to Baa1 (upper end of medium credit grade/moderate credit risk). Then, in March of this year, S&P downgraded Peru's credit rating from BBB+ to BBB (the equivalent of Baa2 on Moody's scale, involving more risk than Baa1).

In its October report Fitch said it expects Peru's weak economy and uncertain political situation to continue through 2024. It wrote, "[m]ining investment has moderated and business confidence is muted. Tighter monetary and fiscal policies have dampened domestic demand. Commercial credit growth remained subdued in June-August."

Apart from concerns over governability, the rating agencies' concerns no doubt also reflect the demand of international capital for the Peruvian government to resolve the ongoing social conflicts, especially in the mining sector, where the largest foreign capital investment is concentrated.

In response to Fitch's decision to put Peru on negative watch, Peru's Finance Minister Kurt Burneo said that "the negative perspectives require urgent measures and the search for consensus to avoid the deterioration of our country's credit rating." His ministry quickly tried to calm investment markets.

It announced a new program called Impulso Perú, aimed at "strengthening the management and quality of investments, improving the participation of the private sector and generating better environments to reactivate paralyzed works." Measures and actions aimed at reactivating the economy and boosting GDP growth to above three percent would focus on: 1) improvement of conditions for private spending; 2) acceleration of public investment; and 3) recovery of confidence.

Fulfillment of Impulso Perú's dubious projections would require the continued participation of large mining companies such as Antamina, Southern Copper, MMG Las Bambas, Zafranal and Panoro Minerals, virtually all of them owned by foreign capital (Mexico, China and Canada.).

Although the mining companies in the main have indicated an intention to continue with their investment commitments in Peru, it is clear that the "negative" outlook published by Fitch will pressure Castillo to resolve the multiple ongoing conflicts between the mines and the indigenous communities whose livelihood is endangered by their operations, resorting to the use of force if necessary.

Impulso Perú also includes some token measures designed to calm the rising anger of the working class, and especially of the youth, who are suffering greatly from both unemployment and higher prices of food and public transportation. In fact, there is little new in the announced measures that will help the most vulnerable sectors of the population, unspecified reduction of electricity bills and subsidizing urban transportation being among the modest reforms mentioned.

While the new program purports to emphasize creating jobs for the youth, the proposed hires amount to a drop in the bucket, and, in fact, would institutionalize starvation-wage exploitation. As *La Republica* reports: "[the program] aims to hire more than 164,000 young people by 45,000 companies in the private sector." The daily continues, "This rule would reach people between 18 and 29 years old who have a remuneration of up to 1,700 soles." This amounts to $425 per month or $5,100 per year. Assuming 40 hours of work per week, the proposed wage amounts to $2.47 per hour.