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FEATURED Q&A

Why Has Peru's Economy Been Slowing Down?



Almost a third of Peru's exports are destined for China, and uncertainty over commodity prices is clouding its economic outlook, Katya Rimkunas says below. The Muelle Sur port terminal in Callao, pictured above, is being expanded. // File Photo: Andina.

Q Peru's economy grew 2.19 percent last year, its weakest performance in a decade, the country's statistics agency said Feb. 14. A day earlier, the country's central bank kept interest rates unchanged at a nine-year low in an effort to encourage growth. Why has economic growth slowed in Peru? Will the country's economy continue to struggle this year, or will it see a sharp rebound? Which industries face the strongest headwinds this year, and which will thrive?

A Alfredo Thorne, principal director at Thorne Associates and former Peruvian economy minister: "Last year's 2.2 percent real GDP growth rate after 4 percent in 2018 may indicate that Peru has joined Latin America's low-growth trend. Close inspection of the GDP report indicates that commodity sectors subtracted about one percentage point from overall growth. This was a collateral effect of the U.S.-China trade war, being that both countries are Peru's main trading partners. Fishing output fell sharply, by 26 percent in 2019, but its weight in overall GDP is small, 0.7 percent. However, the expenditure side indicates that more permanent factors are at work and that the economy is converging to a 2 to 3 percent long-term growth trend. For one, the under-execution of public works may have subtracted between 0.5 and one percentage point from GDP. Some may be related to the government's fight against graft. Yet, most may have resulted from self-imposed restrictions, as the new legislation enacted by the government for undertaking new public works and public and private partnerships (PPP) has proven to

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TODAY'S NEWS

ECONOMIC

Coronavirus Cases Found in Ecuador, Dominican Rep.

Ecuador's health ministry found five additional cases of the new coronavirus, bringing the total number of infected patients in the Andean nation to six, the highest among any country in Latin America to date.

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BUSINESS

Military Forces Contested Tanker to Port: Citgo

Citgo, the U.S.-based refiner of Venezuelan state oil company PDVSA, said that the Venezuelan military had forced a tanker in legal limbo for over a year to port at the country's Jose Terminal.

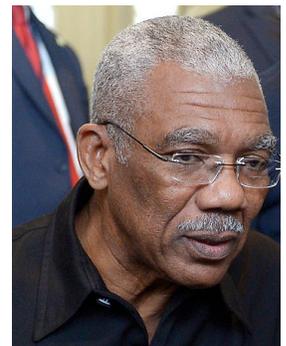
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ECONOMIC

Election Could Alter Guyana's National Course

The citizens of Guyana head to the polls today. Voting is likely to be tight between the ruling AN-PU-AFC alliance, led by incumbent President David Granger, and the PPP party of Irfaan Ali.

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Granger // File Photo: Chilean Government.

ECONOMIC NEWS

Coronavirus Cases Declared in Ecuador, Dominican Republic

Ecuador's health ministry on Sunday confirmed five additional cases of the new coronavirus, bringing the total number of infected patients in the Andean nation to six, *Diario Expreso* reported. That figure is the highest among any country in the region to date. Health Minister Catalina Andramuño said each of the newly infected people had direct contact with the first to be diagnosed in the country, an elderly Ecuadorean woman who lives in Spain. Authorities are also monitoring some 177 people who could have come into contact with the initial patient, including passengers on her flight, other relatives and health care workers, *Reuters* reported. The Dominican Republic also announced a new case of coronavirus Sunday, the first in the Caribbean. Public Health Minister Rafael Sánchez Cárdenas said the man, a 62-year-old Italian, had arrived in the country on Feb. 22 without showing symptoms, the *Associated Press* reported. He is being treated in isolation at a military hospital. The Caribbean Community, or CARICOM, held meet-

ings Sunday to prepare for the consequences of the coronavirus on the region's tourism industry, the *Jamaica Observer* reported. The talks were attended by health ministers, as well as by senior officials of U.S.-based cruise lines and regional airlines. Elsewhere in Latin America, Mexico has confirmed five cases of the disease, while Brazil's count stands at two, *BBC News* reported.

Election Could Alter Guyana's Political, Economic Course

The citizens of Guyana head to the polls today in a national election being watched around the world for not only who will lead one of South America's poorest nations, but what political dynamic will emerge to shape policies for managing a massive windfall from one of the largest oil discoveries globally in years, *Agence France-Press* reported. Voting is likely to be tight between the ruling Partnership for National Unity and Alliance for Change (ANPU-AFC), led by incumbent President David Granger, and the opposition People's Progressive Party (PPP) of Irfaan Ali. A new 65-member National Assembly will be elected for a five-year term, and the leader of the largest coalition or party

NEWS BRIEFS

U.S. Appeals Court Rules Against Trump in Migration Policy

A federal appeals court in San Francisco on Friday ruled against the administration of U.S. President Donald Trump, saying it must halt a policy of returning migrants along the southern U.S. border to Mexico while their requests for asylum in the United States are being considered, *The Wall Street Journal* reported. The court, in its 2-to-1 ruling, said its decision applied to the entire southern U.S. border, citing the need for uniform immigration rules. The administration signaled in court papers late Friday that it will seek a Supreme Court review.

Brazil Plans to Pull Envoys Out of Venezuela: Report

Brazil plans to withdraw its diplomatic personnel from Venezuela in the latest attempt to increase the isolation of the government of Nicolás Maduro, *Bloomberg News* reported Saturday, citing an unnamed senior official said. The move is expected to come within two months, according to the report. Caracas would likely reciprocate by removing its own envoys from Brazil. There are currently around 15 Brazilian foreign ministry employees and attachés in the Caracas embassy, *Bloomberg News* reported.

Lacalle Pou Sworn in as Uruguay's President, Women Take Key Posts

Luis Alberto Lacalle Pou was sworn in as Uruguay's president on Sunday, *El País* reported. The country's first center-right politician since 2005, Lacalle Pou pledged to boost the economy and reduce crime. The son of a former president, Lacalle Pou, 46, brings with him the first woman to serve as vice president of the country, Beatriz Argimón. He has also named the first woman to run the nation's Economy Ministry, Azucena Arbeleche.

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be extremely cumbersome. On the positive side, private expenditure grew above overall real GDP in 2019. According to the central bank's estimates, private consumption grew at 3 percent and investment at 4 percent. This has sustained overall real GDP growth in positive territory. Key to the outlook is how well the private sector performs in a more politically volatile environment. President Vizcarra shut down Congress on Sept. 30, a new Congress was elected in late January, and presidential and congressional elections are scheduled for early 2021. In this environment, our outlook anticipates real GDP expanding 2.8 percent in 2020 (and 2.5 percent if the COVID-19 extends beyond the first quarter), with government expendi-

ture taking the lead and the private sector feeling less robust."

A **Katya Rimkunas, deputy director for Latin America and the Caribbean at the International Republican Institute:** "The

Odebrecht scandal had significant political and economic reverberations in Peru. The criminal investigations that ensued toppled a sitting president and incriminated the previous three. Odebrecht investigations have also implicated private companies, journalists and CONFIEP, Peru's largest business association. The governance crisis that ensued has persisted and been characterized by the volatile and contentious relationship

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becomes the country's president, BBC News reported. The parties shared a 33-32 split in the outgoing legislature, after the APNU-AFC coalition won office by only 4,506 votes in the nation of 778,000 people. However, with seven new parties running in the election, including the Liberty and Justice Party, formed by Lenox Shuman to target the indigenous vote, it remains to be seen whether any party will gain enough support to obtain a majority of seats in parliament, Stabroek News reported. Some development experts worry that the country, which has virtually no experience managing an oil sector, is unprepared for the task and could fall victim to the so-called "oil curse." [Editor's note: See related [Q&A](#) in the Feb. 21 issue of the weekly Energy Advisor.]

BUSINESS NEWS

Venezuelan Military Forces Contested Tanker to Port: Citgo

Citgo, the U.S.-based refiner of Venezuelan state oil company PDVSA, said Friday that the Venezuelan military had forced a tanker to port at the country's Jose Terminal, unveiling details of an oil cargo carrying \$57 million worth of crude that had been in limbo for more than a year, Reuters reported. The Gerd Knutsen oil tanker last week finished discharging 960,000 barrels of crude oil that both Citgo and PDVSA claim as theirs. The refiner said the ship departed Venezuela's Jose Terminal on Feb. 27 and entered international waters early the next day, adding that the tanker was "forcibly escorted by a military vessel" into port so the oil cargo could be transferred to PDVSA. The captain was reportedly ordered to make the transfer under threat of criminal penalties, including jail, Reuters reported. Neither the Venezuelan Armed Forces nor the Information Ministry responded to the wire service's requests for comment. Citgo vowed to continue efforts to collect losses from Venezuela and "any entities that may have assisted," Reuters reported. Opposition leader Juan Guaidó's backers control Citgo. Dozens of countries

ADVISOR Q&A

What Would You Prioritize If Elected Secretary General of the OAS?

Q **Western Hemisphere nations on March 20 will decide whether to re-elect Luis Almagro as secretary general of the Organization of American States or choose one of the two other candidates for the position—Peruvian Ambassador to the United States Hugo de Zela or former U.N. General Assembly President María Fernanda Espinosa. The Advisor asked the candidates: What would you prioritize if elected to lead the OAS, and what is your vision for the organization? What are the OAS' main weaknesses, and how would you seek to address them? What are the biggest problems that the Western Hemisphere faces today, and how would you approach them as OAS secretary general?**

A **Hugo de Zela, a candidate running to become secretary general of the Organization of American States and Peru's ambassador to the United States:** "My candidacy proposes to strengthen the OAS as a forum for dialogue and consensus to address the region's main challenges, and to help member states solve the conflicts we face. If elected, I would define with member states a specific short- and mid-term agenda and rearrange the General Secretariat's tasks to carry out that agenda. The General Secretariat's work should focus on the organization's four pillars—democracy, human rights, security and development—manage its resources with efficiency and transparency, and attend with equilibrium the priorities of all geographic areas that belong to the OAS.

including the United States recognize Guaidó as Venezuela's legitimate interim president. Citgo has sought a U.S. court order to block the tanker from returning the oil loadings to PDVSA. According to Refinitiv Eikon data, as of

The OAS has to recover its fundamental role as the regional organization that facilitates peaceful resolution of political conflicts, on the basis of consensus-building through dialogue. The OAS cannot impose solutions, but it can furnish means to allow conflicting parties to find concrete settlements to political crises. The General Secretariat must guarantee impartiality and must have credibility as a broker capable of mediating and negotiating with effectiveness. Also, it needs to work closely with member states. The OAS is effective when there is strong collaboration among member states and the General Secretariat. Political polarization is the first problem we should address. Our aim is to construct a balanced alternative before polarizing perspectives, which are weakening the effectiveness and relevance of the OAS. Only through a constructive approach can our organization be more effective in the defense of common principles and values, in the promotion of regional development and prosperity, and in attending to the member states' priorities. As part of the Inter-American System, the OAS should work closely with regional financial organizations, such as the Inter-American Development Bank and the CAF-Development Bank of Latin America, to design, finance and implement projects of common interest."

EDITOR'S NOTE: The Advisor has also requested statements from Luis Almagro and María Fernanda Espinosa.

late last week, the Gerd Knutsen was sailing toward the Caribbean island of Aruba. [Editor's note: See [Q&A](#) on Citgo's ongoing battle with PDVSA in the Oct. 11 issue of the weekly Energy Advisor.]

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between the executive power and Congress. This crisis, in addition to cabinet shifts and endemic corruption, has also affected the government's ability to govern, partly seen in its inability to quickly bounce back from the 2017 mudslides that affected infrastructure. While Peru's economy has largely remained stable despite these challenges, it is not surprising that political volatility has had an impact on growth, including the stalling of large investment projects. Economic rebound will partially be possible if the executive power and Congress can agree on a path forward for the various institutional reforms, key among which will be judicial and campaign finance reforms. Should President Vizcarra be able to pass these reforms through the newly-elected Congress, there should be a boost in investor confidence and increased trust in Peru's institutional soundness. A potential unforeseen factor in Peru's 2020 economic outlook is China's coronavirus outbreak. How big or small of a factor it is will depend on the long-lasting effect in China's commodity prices. Almost a third of Peru's exports are directed to China, and central among these is its copper."

A **Carlos Vargas Alencastre, CEO of Vargas Alencastre, García & Asociados in Lima:** "I consider that the economic situation of our country, at the present, is directly related to the elected president. In the last decade, Peru has been characterized by having the most sustained economic growth in relation to its neighboring countries. During the government of President Toledo (2001-2006), the economy grew 4.8 percent on average annually. In the García period (2006-2011), that annual average growth increased to 6.9 percent. During the Humala presidency (2011- 2016), there was an annual growth rate of 4.2 percent. Why in the last year has that growth reduced to 2.4 percent? Today, we know that these aforementioned leaders had one thing in common: all of them are linked in some way with acts of corruption. As a consequence, the Peruvian population

began to see its officials in a negative way, generating distrust and leading to political parties being chosen for revenge in elections, and not for seeking the prosperity of the state. This uncertainty is what causes economic growth to fall, since, for the private sector, it is impossible to predict what elected legislators will do in the future. This reduces private investment and consequently damages the country's economy."

A **Carlos Arata, partner at Rubio Leguía Normand in Lima:** "Many factors contributed to Peru's economic slowdown. Firstly, political turmoil has certainly affected investors' decisions, who have preferred a 'wait-and-see' stance. Pedro Pablo Kuczynski resigned as president on March 2018, and since Martín Vizcarra took office, confrontation with Congress reached a peak. This, together with a weak support from PPK's party, has made it very difficult for Vizcarra to govern, focusing on institutional changes that will have effects on the long term and very few for short-term statistics. Secondly, corruption scandals have created a very harsh environment for public officials, as they do not feel comfortable making decisions and using their discretionary powers, due to fear of being accused of corruption only for the fact that their decisions recognized any right to private parties and not the government. This is a pre-electoral year, and an economy in these kinds of years is normally slow. However, Vizcarra is not running for president, and neither is anyone from the government, so he and his team can focus on promoting private and public investment. Even the new Congress—whose members cannot be re-elected in 2021—should focus on approving laws that will reactivate the economy. I think the mining industry will continue to struggle. Big long-term investment decisions in mining will wait for the results of the elections, to see where the winners stand on private investment. The agroindustry will continue to be a growing industry in the country."

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