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FEATURED Q&A

Can Peru Recover From a Double-Digit Drop in GDP?

Strict lockdown measures designed to curb the spread of Covid-19 have shut down much of Peru's economy. A market in Lima, before the pandemic struck, is pictured above. // File Photo: Municipality of Lima.

Q **Peru's economy could contract by 11 percent this year as a result of the coronavirus pandemic, financial services provider Banco de Crédito del Perú, or BCP, warned this month. If accurate, the forecast decline would be the country's sharpest economic fall in 100 years. What are the most important factors influencing Peru's grim economic outlook, and which sectors of the economy will be most affected? What is the government doing, and what else can it do, to help Peruvians weather the recession? What might recovery look like for Peru, and how long will it take for the economy to pick up again?**

A **Alfredo Thorne, former Peruvian finance minister and partner at Global Source:** "Recent estimates by the World Bank indicate that Peru may underperform the rest of Latin American countries, dropping by 12 percent in 2020 and posting a much deeper recession than the region average of -7.2 percent. However, it also anticipates the economy rebounding more strongly, by 7 percent in 2021 and above the region average of 2.8 percent. There are good reasons for this business cycle profile. On the downturn, Peru has had probably the strictest confinement in the region, according to the University of Oxford Stringency Index that calculates confinement policies in a large number of countries. A greater challenge for the government has been the high proportion of labor informality, reaching 72 percent of the labor force. Studies have documented that informal families primarily use cash and visit markets 200 out of 365 days a year. Also, less than 50 percent have refrigerators to store food. This has turned markets, public transport and

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Colombia May Allow Partial Withdrawals From Pension Plans

Colombia's government may allow account holders to make the partial withdrawals because of the economic crisis brought on by the Covid-19 pandemic, said the finance minister.

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Pemex Reportedly Suspending Some Contracts

Mexican state oil company Pemex is reportedly suspending contracts with service providers and suppliers.

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Stores Reopen in São Paulo, Many Ignore Distancing Rules

São Paulo Mayor Bruno Covas allowed stores in Brazil's largest city to reopen between 11 a.m. and 3 p.m. Many commuters ignored rules to wear masks to curb the spread of Covid-19.

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Covas // File Photo: City of São Paulo.

POLITICAL NEWS

Stores Reopen in São Paulo, Many Ignore Distancing Rules

Retail stores reopened Wednesday in São Paulo, with many residents of Brazil's largest city crowding buses and subways and many commuters ignoring requirements to wear masks to curb the spread of Covid-19, the Associated Press reported. The city's mayor, Bruno Covas, allowed stores to reopen between 11 a.m. and 3 p.m., though stores located in the city's shopping malls were not allowed to reopen until today. Vendors are still forbidden from selling items on the street, but dozens were seen flouting that ban in São Paulo's Brás district, with vendors selling clothing outside. São Paulo's city hall said 92 percent of the nearly 12,000 buses were circulating Wednesday, up from 85 percent on Tuesday, the AP reported. Some experts have expressed concerns about businesses in Brazil reopening too quickly, fearing that the move could lead to another wave of coronavirus cases, CNN reported. "They should wait at least another week to see if there is a consistent drop in cases. You need to tackle the transportation issue. If everyone continues to take crowded buses and metro, which is what is happening, it won't work," said Paulo Lotufo, an epidemiologist at the University of São Paulo. On Wednesday, São Paulo state registered 340 deaths from Covid-19 in the preceding 24 hours, a record daily total. The state accounts for about 20 percent of Brazil's total confirmed infections. Brazil has more than 772,000 confirmed cases of Covid-19, the second-highest in the world after the United States, which has more than two million. With more than 39,000, Brazil has the world's third-highest death toll, after the United States and the United Kingdom. Brazil is also among the countries where the pandemic has led to accusations of corruption. On Wednesday, federal police searched the government palace in Pará state as well as the home of the state's governor, Helder Barbalho, in connection with an investigation of alleged fraud in the purchase of ventilators for Covid-19 patients, the AP reported. In all, the search order authorized raids at 23 addresses in six states as well as in Brasília. The case stems from millions of dollars' worth of ventilators that the state acquired without a call for bids. There are indications that Barbalho has a close relationship with the executive who supplied the equipment and knew they were not adequate. "I am at ease and available for any clarification. I acted in time to avoid damage to the treasury, since the resources were returned to the state," Barbalho said in a tweet. "I am not a friend of the businessman and obviously did not know that the ventilators would not work." Also on Wednesday, Rio de Janeiro state legislators voted almost unanimously to begin impeachment proceedings against Governor Wilson Witzel, whose home was searched on May 26 as part of an investigation into alleged contract irregularities involving the construction of emergency field hospitals. Witzel has denied wrongdoing.

ECONOMIC NEWS

Colombia May Allow Partial Withdrawals From Pension Plans

Colombia may allow people to make partial withdrawals from their pension funds during the economic crisis brought on by the coronavirus pandemic, Finance Minister Alberto Carrasquilla said Wednesday, Reuters reported. As of the end of March, Colombia's pension funds held approximately 281 trillion pesos ($77.13 billion) in compulsory and voluntary pensions, according to industry association Asofondos, which has opposed the withdrawal plan, El Tiempo reported. "We have made great strides regarding the subject of partial pension withdrawals, we haven't made a decision yet, but there have been meetings within the finance ministry, and we have spoken with pension and severance funds," Carrasquilla said in a virtual appearance before a lower house congressional committee. He did not

NEWS BRIEFS

Bolivian Lawmakers Set Sept. 6 as Date for Vote

Bolivia's Legislative Assembly on Wednesday approved Sept. 6 as the new date for the country's delayed general election, although interim President Jeanine Áñez still has to ratify the decision, the Buenos Aires Times reported. Both chambers of Bolivia's Congress approved the new date for the vote, which was originally scheduled for May but delayed due to the coronavirus pandemic. The election is a re-run of last year's vote, which was tainted by allegations of fraud and resulted in the self-exile of former President Evo Morales.

Mexico City to Begin Mass Covid-19 Testing: Mayor

Mexico City on Wednesday will begin mass testing for Covid-19, aiming to reach 100,000 tests per month by July, said Mayor Claudia Sheinbaum, the Associated Press reported. Sheinbaum said the effort will be deployed as quickly as possible and as the centerpiece of the capital city's plan to reopen its economy. Mexico City has registered more than 32,200 confirmed cases of Covid-19 and more than 3,200 confirmed deaths, but real numbers are likely to be higher due to a lack of sufficient testing.

IMF Approves $594 Million in Funding for Guatemala

The executive board of the International Monetary Fund has approved Guatemala's request for $594 million in emergency funding to help the country address the economic fallout of the Covid-19 pandemic, the IMF said Wednesday in a statement. Guatemala has "urgent balance of payments needs" stemming from the pandemic, the IMF said. "The funds will provide timely resources to counter the economic and social impact of the pandemic and catalyze additional support from other development partners," it added.

provide further details about the plan. Colombia is facing rising unemployment amid the economic crisis, with unemployment reaching a historic 23.5 percent in urban areas in April, representing more than four million people without work. Additionally, the finance ministry expects the economy to contract 5.5 percent this year. Similar measures regarding pension withdrawals were proposed in other countries in the region, including Peru and Chile. In Peru, Congress approved partial withdrawals of 25 percent, El Tiempo reported. A similar proposal failed in Chile.

BUSINESS NEWS

Pemex Suspending Contracts With Providers: Report

Mexican state oil company Pemex is suspending contracts with service providers and suppliers, prompting thousands of job losses, Bloomberg News reported, citing sources with direct knowledge of the matter. Over the past few weeks, the firm has suspended contracts with at least eight local and international oil service providers and suppliers in a bid to cut expenditures, said the sources, who asked not to be named because they weren't authorized to speak publicly on the situation. Most cancellations are for offshore maintenance work in shallow-water hubs, including in Ciudad del Carmen in the state of Campeche, two of the people said. A Pemex spokeswoman declined Bloomberg News' request for comment, noting that the information did not come from the company. Given the economic fallout brought on by the Covid-19 pandemic and oil price volatility, Pemex has had to backtrack on an ambitious plan to increase capital expenditure and expand drilling in a bid to reverse 15 years of oil output decline. Pemex saw losses of $23 billion in the first quarter of the year, 16 times greater than the loss it registered in the same period last year and likely the company's biggest quarterly loss ever, Reuters reported.

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deliveries of government cash transfers into a source of infection. Finally, there have been delays in distributing government transfers to the population. Although the government had announced a 17 percent of GDP fiscal contention program, about 6.6 percentage points have been distributed, and of this, 4 percentage points are loans to firms. In fact, cash transfers to families have made up less than 1 percentage point. However, the government has already announced the reopening of the economy, dividing it into four phases. Two have already been implemented. The government anticipates resuming 82 percent of GDP by the end of June after reaching 44 percent at the end of April. While these estimates may prove overly optimistic, the first reports offering a reading on the economy through May already indicate a rebound. Among these are the reading on electricity production and the central bank PMI reports. Both confirmed that the worst of the downcycle was reached in April, and the economy rebounded on the month-on-month comparison in May."

A **Jaime Reusche, vice president and senior credit officer of the sovereign risk group at Moody's Investors Service:** "The very forceful quarantine measures to slow the spread of the coronavirus have had a strong negative effect on economic activity in Peru. The country's quarantine has been in place longer than others in the region, and the phased reopening of various sectors will lead to a gradual recovery through the end of the year. Construction and services will be especially hard-hit. The fiscal and economic measures adopted to alleviate the economic effects of the pandemic have so far been textbook, but the implementation of these measures is running into challenges owing to the large informal sector in the economy. The lack of major macroeconomic imbalances and healthy fundamentals will support the recovery in 2021, but legacy structural limitations such as an inflexible labor market will inhibit a stronger recovery. Nevertheless, Peru's macrofiscal profile prior to the crisis was strong, which suggests that, along with Chile, Peru is one of the countries in the region best placed to absorb and recover from the shock. Output is unlikely to recover to pre-crisis levels until at least 2022, but the deterioration in public finances will still be relatively mild compared to the rest of the region. This crisis has shown the importance of maintaining healthy public finances in order to confront large shocks, which is something Peruvian policymakers know very well. A key consideration will be whether the next government is able to reinvigorate the reform agenda in order to enhance growth prospects and make up for lost ground during the pandemic and rebuild the fiscal space that has been given up."

A **Francisco Durand, professor of political science at the Catholic University of Peru:** "A major contraction of the Peruvian economy is underway as a result of the very intense effect of the pandemic. The 'flattening of the curve' has not occurred, and the government has extended lockdowns once more. This global, unexpected recession is hitting urban areas more intensely, but it is not hitting as strongly the country's highly diversified export sector (mining, gas, agriculture, fishing)—one of the engines of the economy—and the Andes. Yet, it serves as a small consolation: most employment and the majority of the population are concentrated in cities and the coast (much less in the Andes), where the virus is yet to be controlled and the health system is reaching the point of collapse. In addition to the health and economic crises, another problem is looming in the horizon: hunger and forms of social discontent in the making, mostly an urban crime wave. Although Vizcarra reacted quickly with social-distancing measures and provided public funding for both bonuses and credit for reactivation, it is now clear that those policies are not reaching the poor-

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est segments of society and the majority of small and medium-sized businesses. About 70 percent of labor and unregistered small businesses operate in the invisible informal sector. The government does not have the information or the means to reach them. Major income losses in terms of salaries and wages, an accumulation of unpaid debts and high unemployment continue despite a partial reopening in urban areas and the re-activation of the extractive sector. Recovery may eventually happen in 2021."

A **Gianfranco Castagnola, executive president of APOYO Consultoría in Lima:** "Peru's GDP will contract by more than 14 percent this year. The main reason for this is the prolonged and drastic lockdown of our economy. Between March and the end of April, only 40 percent to 50 percent of the production apparatus was operating after the application of stricter restrictions than in other countries. This decision was made because the precarious Peruvian health care system wasn't ready to deal with a pandemic such as Covid-19. The second reason was a very deficient process of reopening the economy, which started in May. It has been very slow and bureaucratic: in order to reopen, companies had to apply by filling out long forms committing to compliance with protocols, which had to be authorized by the ministry of their sector. Only at the beginning of June did it change to a system of affidavits for compliance with protocols. Unfortunately, the dialogue between the public and the private sector didn't work properly. During the lockdown, the government implemented relief cash transfer programs directly to the vulnerable population, which were partially effective due to problems with the focalization and effectiveness in getting to these families; and relief programs for businesses, the most important being Reactiva: $8 billion of credit facilities for businesses, through the banking system, with government guarantees from 80 percent to 98 percent. The Peruvian economy will probably recover its pre-Covid-19 level by the second half of 2021. However, on the road to get there, it must overcome two obstacles: the growing populism of the Congress that was elected in January, which generates regulatory risks, and the April 2021 general election, which will probably cause uncertainty and thus affect private investment."

A **Carlos Arata, partner at Rubio Leguía Normand in Lima:** "The government declared the state of emergency due to Covid-19 on March 16. Now, we are almost 90 days into a quarantine with most of our economic activities shut down. Only a few sectors have been working, and even those are not at 100 percent. We recently entered Phase One of the reactivation, where some economic activities can be performed. Even for those, the protocols for the restart were not clear, so only a minor percentage of companies were able to resume operations. Thus, the economic impact of the—necessary—emergency measures has been huge, with sectors such as tourism, aviation, retail and construction being the most affected. The government passed different economic programs to help companies with their liquidity issues, adding up almost $20 billion. These programs intend to help companies with their immediate working capital expenses. However, it has proven to be insufficient. This situation has evidenced the huge part of our economy that is informal and cannot access these relief programs (despite some bonds paid to people below the poverty line), so the great task of the government is to shift those in the informal sector to formality and, meanwhile, to make the relief programs available to this sector. One thing that can have immediate impact on the recovery is the acceleration of big infrastructure projects. This will reactivate different sectors, and with them the whole production chain. Most pessimistic estimates calculate that full recovery will come in 2022; however, trying to be on the optimistic side, we expect 2021 to be a much better year."

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