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FEATURED Q&A

What Path Lies Ahead for Peru's Latest President?



Lawmaker Francisco Sagasti was selected Monday as Peru's new interim president. His predecessor lasted just five days in office. // Photo: Agencia Andina.

Q Peru's Congress on Monday selected centrist lawmaker Francisco Sagasti as Peru's new interim president—the country's third in a week. Legislators selected Sagasti, an engineer from the centrist Purple Party, following Sunday's resignation of interim President Manuel Merino, who stepped down amid violent protests after just five days in office. Merino had replaced President Martín Vizcarra, whom Congress removed from office on Nov. 9. Legislators had declared Vizcarra "morally unfit" for office over his handling of the Covid-19 pandemic and allegations of corruption, which he has denied. Newspapers and analysts have called Vizcarra's ouster a "coup," and the protests it sparked left at least two dead and were the largest in Peru in two decades. What is at the root of Peru's political instability, and to what extent are protests likely to continue and intensify? What will the next five months hold for Peru ahead of the scheduled April 2021 elections? What implications will the crisis have for the country's already hard-hit economy and investment climate?

A Cynthia McClintock, professor of political science and international affairs at The George Washington University: "The root cause of the impeachment was elites' pushback against Vizcarra's anti-corruption reforms. Vizcarra championed the prosecution of under-the-table payments by companies to politicians—a practice, entrenched for centuries, that had catalyzed the prosecution of all four presidents elected since 2001 and scores of additional authorities. Many legislators feared an end to their own immunity from prosecution. Other legislators have personal stakes in for-profit univer-

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TODAY'S NEWS

POLITICAL

Peru's Congress Selects Sagasti as Interim President

Peru's Congress selected centrist lawmaker Francisco Sagasti as the country's new president, Peru's third in a week. Sagasti is to serve until next July.

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BUSINESS

WhatsApp to 'Soon' Launch Payments Service in Brazil

WhatsApp will "soon" be able to launch its payments service in Brazil, said central bank chief Roberto Campos Neto. WhatsApp originally rolled out the service in Brazil last June, but the central bank and antitrust regulator shut it down, pending a review.

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POLITICAL

Hurricane Iota Slams Nicaragua

Hurricane Iota pummeled the coast of Nicaragua Monday night as a strong Category 4 storm. The hurricane is hitting the same area that was devastated by Hurricane Eta less than two weeks ago.

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Iota made landfall Monday night. // Image: U.S. Nat'l Hurricane Center.

POLITICAL NEWS

Hurricane Iota Slams Nicaragua as Category 4 Storm

Hurricane Iota has made landfall in Nicaragua, just miles away from where Hurricane Eta hit less than two weeks ago, with possible “life-threatening” flooding, catastrophic winds and mudslides, CNN reported. The hurricane is expected to be felt throughout Central America and Mexico’s Yucatán Peninsula, as well as Jamaica and as far south as Colombia. The storm hit in the town of Haulover in Nicaragua at 10:40 p.m. Eastern Time as a Category 4 hurricane with maximum sustained winds near 155 miles per hour, according to the National Hurricane Center. Haulover is just 15 miles south of where Eta had struck, potentially leaving some of the country’s most vulnerable areas devastated for years to come, according to the report. [Editor’s note: See [Q&A](#) in Monday’s issue of the Advisor.]

Peru’s Congress Selects Sagasti as Interim President

Peru’s Congress on Monday chose Francisco Sagasti, a centrist lawmaker and technocrat, as the country’s new interim president. A 76-year-old former World Bank official, Sagasti is the country’s third president in a week, following Sunday’s resignation of Manuel Merino, whose presidency lasted just five days

CORRECTION

A news article in Monday’s Advisor incorrectly said Reina Mejía, who was approved as executive vice president of the Inter-American Development Bank, is the highest-ranking woman ever to serve the institution. In fact, other women have served in that role, but Mejía is the highest-ranking woman from Latin America to serve in that position.

before he resigned amid deadly protests. The protests, in which at least two people have been killed, erupted after lawmakers swiftly removed President Martín Vizcarra from office on Nov. 9. Sagasti was sworn in as the president of Congress and shortly afterwards, he reached the required majority vote in order to become president, leading to applause in the chamber, the Associated Press reported. Sagasti won the votes of 97 lawmakers, with just 26 voting against him, CNN reported. “We will do everything possible to return hope to the people and show them they can trust in us,” Sagasti said, the AP reported. Sagasti and members of his Purple Party bloc were among only 19 of 130 legislators who voted against removing Vizcarra from office last week. And unlike Vizcarra, Sagasti has a party in Congress to represent him. A year ago, when Sagasti was a candidate for a seat in Congress, he [told](#) the Advisor that the “main contribution” of members of Congress “is to behave decently and begin the process of restoring public trust in politics.” Sagasti is to serve as interim president until next July when a new president, elected in April, takes office. Peru has been hard-hit by the Covid-19 pandemic, with among the world’s highest per-capita death tolls from the disease, Bloomberg News reported. Its economy contracted 30 percent in the second quarter, the Financial Times reported. The International Monetary Fund expects the economy to contract 13.9 percent this year.

BUSINESS NEWS

WhatsApp Will ‘Soon’ Launch Payments in Brazil: Campos Neto

Facebook’s WhatsApp messaging platform will “soon” be able to offer peer-to-peer electronic payments in Brazil, the country’s central bank chief, Roberto Campos Neto, said Monday, Reuters reported. “WhatsApp will start doing P2P soon. I have talked a lot with their CEO, we are making good progress. He has told me that the process [with us] was faster than in

NEWS BRIEFS

At Least 13 Killed in Tanker Truck Explosion in Mexico’s Nayarit State

A double-tanker truck transporting liquefied cooking gas on Monday flipped on a highway in the state of Nayarit in western Mexico, caught fire and exploded, killing at least 13 people, authorities said, the Associated Press reported. The victims were found still in their vehicles, burned beyond recognition. The truck driver appears to be among those killed. Similar incidents involving double-trailer freight trucks have occurred in Mexico in recent years.

Leftist Argentine Senators Demand Concessions From Int’l Monetary Fund

A group of leftist Argentine senators loyal to Cristina Fernández de Kirchner, a former president and current vice president, sent a letter to the International Monetary Fund, demanding that the lender refrain from attaching conditions to a new loan program and also publicly acknowledge its part of the responsibility for the country’s ongoing economic problems, the Financial Times reported. The senators also pushed for the country to receive a five-year grace period before repaying a \$44 billion loan, as well as lower interest rates and a repayment schedule spread over decades.

Suriname Asks Creditors for Bond Payment Deferral

Suriname’s government has asked creditors to allow a payment deferral on its two bonds, which amount to \$675 million, in what analysts say could be a preview of a broader debt restructuring, Reuters reported Monday. In a statement on Saturday, the government of new President Chan Santokhi, who took office in July, announced the launch of a consent solicitation for its 2023 and 2026 bonds. The consent solicitation expires on Nov. 23. [Editor’s note: See related [Q&A](#) in the Aug. 5 Advisor.]

other countries,” said Campos Neto. “Our only concern is that we must go through all the approval criteria and that we have a system that fosters competition.” The central bank chief made the remarks at the launch of the bank’s new “PIX” instant payments system. WhatsApp launched a payments service in Brazil on June 15, but the Brazilian central bank and the country’s antitrust regulator shut the service down, saying the system needed to be reviewed for concerns over data privacy and also competition. The central bank has also

Brazil’s central bank has also been discussing the payments market with Google and other firms.

been in discussions with Google and other “big tech” firms about entering the South American country’s payments market, Campos Neto added. When asked whether WhatsApp’s payments system would operate within the central bank’s PIX payments system, Campos Neto said there would be room for platforms other than PIX. Approximately 72 million registrations have been opened for PIX, which was made fully operational on Monday, the central bank said. That total includes 30 million individuals and 1.8 million businesses, according to a central bank official. The platform will allow individuals and businesses to execute bank transfers 24 hours a day. PIX will boost the speed, easy and efficiency of small and large financial transactions and will also lower costs and encourage competition among financial service providers, said Campos Neto. The PIX system is an upgrade over the existing system, known as SITRAF, which is similar to the wire-transfer system in the United States, according to Pymnts.com. In order to execute transactions through the system, users will need to register “keys,” with their bank or other financial services provider. The keys can be information such as the user’s email address or phone number. [Editor’s note: See related [Q&A](#) in the July 2-15 issue of the Financial Services Advisor.]

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sities, which are threatened by new, higher standards. Another cause of the impeachment was legislators’ political ambitions. One political party was seeking amnesty for its imprisoned leader. Others hoped to tilt the 2021 electoral playing field in their favor. Many wanted to overturn the new prohibition against legislators’ re-election. An additional cause was that, given the brevity of this legislative term (January 2020-July 2021), some strong candidates chose not to run in 2020, and many legislators are rookies. They reacted intemperately to criticism by Vizcarra. They wrongly assumed that allegations of corruption against Vizcarra would significantly decrease his support; his approval remains above 50 percent. When what matters to Peruvians is that Vizcarra was weakening the ‘traditional corrupt political class,’ Merino was bringing it back. Worse yet, Merino enabled repression against largely peaceful protesters who hailed from all social classes and all regions. Soon, the Constitutional Tribunal is to rule on the ‘permanent moral incapacity’ clause and might catalyze the restoration of Vizcarra. (This clause is vague, but it is the same clause that enabled the impeachment of Alberto Fujimori and the impeachment threat against Pedro Pablo Kuczynski.) More likely, legislators will elevate a more respected member of their ranks. Meanwhile, the instability is worsening Peru’s economic crisis and investment climate and turning attention away from the pandemic, which has hit Peru exceptionally hard. The country is both fighting and crying.”

A **Julio Carrión, associate chair of the Department of Political Science and International Relations at the University of Delaware:**

“Peru’s crisis of governability has three causes. The first concerns the flaws in constitutional design. The unicameral system created by the 1993 Constitution encourages rushed decisions that cannot be checked by a second chamber. Unicameralism gives

unrestrained power to congressional majorities, which is problematic when checks and balances are fragile, as in Peru. This is compounded when political parties, in the proper sense of term, do not exist—which is the second cause. With very few exceptions, the parties that control most seats in the legislature are nothing more than the extension of business or particularistic interests. A few are family fronts for for-profit universities; one party is the expression of a messianic, syncretic cult whose commitment to democracy is questionable. Another party is allied to a military officer, who is in prison for killing members of the police during his attempted coup against democracy in 2005. The third cause is the ambiguity of an old constitutional norm that allows Congress to remove the president if s/he is found to be ‘morally unfit.’ Before 1993, this article was rarely invoked. With the unicameral system, and an aggressive majority, it has been used four times in the last three years. The institutional dysfunction which led to former President Vizcarra lacking a vice president—when the Constitution requires two—has temporarily turned Peru into a parliamentary regime. Any representative who can muster a congressional majority will become Peru’s next president. All of this speaks poorly to Peru’s prospects. The protests in the street have also become a significant factor, and they will be influential in what will happen next. Indeed, it will be the protesters who issue the ultimate vote, accepting or rejecting, the president appointed by Congress. Meanwhile, managing the economy and fighting the pandemic have been put on hold.”

A **César Gutiérrez, director of utilitiesperu.com in Lima:** “The current crisis is a combination of events that the country has experienced in the last 30 years, mainly acts of corruption by the political class that have been denounced, prosecuted and have occupied the media with which the millennial generation has grown up. To a lesser extent, the

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unresolved exclusions of the reforms of the 1990s have also been influential. Outrage has increased over the last four years, with Congress carrying the stigma of subordinate interest, privilege and the low qualifications of members of Congress. Last week's vacancy's legality has been biasedly questioned, a doubt that has been installed in the collective mind by a persistent campaign by the media. Private investment has been elusive in the past four years, and it is natural for investment to stall amid an electoral period such as the one Peru is undergoing. To this has been added the crisis, which still has no way out. No decisions will be made until this transition period has passed and there is a new government whose stability is guaranteed and whose positions are known, which is expected to come in the third quarter of next year. The international perception of Peru and its economic management has not yet deteriorated. The EMBIG has not exceeded 144 basis points, a fairly good figure. However, if the uncertainty continues, not only will this index grow, but there will also be a declassification of the country risk for global and sovereign bonds."

A **Kelli Bissett-Tom, director for Americas Sovereign Ratings at Fitch Ratings:** "The interim president will face legitimacy challenges lacking a popular mandate until the new president and Congress are inaugurated on July 28, 2021. Governability challenges are likely to persist from congressional fragmentation, particularly if the next president lacks party representation in Congress. Many of the issues that contributed to Peru's several political crises since 2016 remain unresolved and could reignite tensions between the president and legislature. Political and institutional reforms strongly supported by a popular referendum have only been par-

tially enacted. Several constitutional tribunal judges have overextended their terms amid discord on how to replace them. Government checks and balances have been stretched. Peru will experience one of the steepest economic contractions in Latin America and rating peers, near 12.5 percent in 2020, exac-

“**Governability challenges are likely to persist from congressional fragmentation.**”

— Kelli Bissett-Tom

erated by Peru's stringent early lockdown but also a weak social insurance system amid high business informality. The current political crisis will curb private nonmining investment at least through the presidential and congressional elections on April 11, 2021, dampening economic expectations for 2021 below what was otherwise expected to be a relatively speedy recovery, near 8 percent-9 percent growth, according to the central bank's macro expectations survey. Some congressional initiatives, such as pension withdrawals, will temporarily support household consumption but accelerate comprehensive discussions about Peru's pension system. Other initiatives pose more risk to infrastructure investors or the financial system. Greater capacity for political dialogue will be required for the next administration and Congress to tackle core economic challenges and to chart a reliable course of fiscal consolidation."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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