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FEATURED Q&A

What Factors Are Driving Economic Recovery in Peru?



Peru's economy is experiencing a strong rebound this year after a deep contraction last year amid the Covid-19 pandemic. Lima is pictured above. // File Photo: Peruvian Government.

Q Peru's economy suffered a contraction of 11.6 percent last year, among the worst performances in Latin America amid the Covid-19 crisis and political instability. However, the country is experiencing a strong rebound this year, with the economy growing 21 percent in the first half of 2021. What factors are driving economic growth this year in Peru, and how strong will the country's economic rebound be in the coming months? What will early actions by the country's Economy Ministry, including its ceilings on public spending and debt, mean for Peru's economy? To what extent will political risk hamper the country's growth this year, and what other major headwinds is the economy facing?

A Alfredo Thorne, principal director at Thorne & Associates and former Peruvian finance minister: "Real GDP advancing 23 percent year-over-year in the first half of this year surprised most people and confirmed this year's rapid rebound from last year's deep recession. But closer inspection at the data indicates that most of the rebound has been cyclical, and the economy has recently been losing momentum. The quarter-on-quarter seasonally adjusted at annual rates comparison indicates that most of the growth was attained late last year when the economy advanced 43 percent in the fourth quarter and early in 2021, posting 4.5 percent growth in the first quarter. However, when political uncertainty resumed in this year's second quarter with the presidential election, real GDP dropped 3.6 percent. With a narrow victory (by only 0.2 percent of the valid votes), one would have expected President Pedro Castillo to reach out to the other 50 percent

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TODAY'S NEWS

POLITICAL

White House Must Comply With 'Remain in Mexico' Policy: High Court

The U.S. Supreme Court ruled that the Biden administration must comply with a Trump-era policy that requires many asylum seekers to wait outside the United States for their cases to be heard.

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ECONOMIC

Remittances Costs May Spur Bitcoin Use: CABI Head

El Salvador's use of Bitcoin may spur other countries to embrace the digital currency in order to lower remittances costs, said the head of the Central American Bank for Economic Integration.

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POLITICAL

Nicaragua Accuses Journalist of Laundering

Without presenting evidence, Nicaragua's attorney general has accused journalist Carlos Fernando Chamorro of money laundering.

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Chamorro // File Photo: @cefeche via Twitter.

POLITICAL NEWS

Biden Must Comply With 'Remain in Mexico' Policy: Court

The U.S. Supreme Court on Tuesday said the administration of President Joe Biden must comply with a ruling by a lower court to reinstate former President Donald Trump's "Remain in Mexico" policy, which required many people seeking asylum to remain outside of the United States while they waited for their cases to be heard, The Washington Post reported. The Biden administration "failed to show a likelihood of success on the claim that the memorandum rescinding the Migrant Protection Protocols was not arbitrary and capricious," the Supreme Court said in a brief unsigned order. The order added that Justices Stephen Breyer, Sonia Sotomayor and Elena Kagan had sided with the administration on the matter. The White House had requested that the high court block a ruling by a Texas-based federal judge who had ruled that the Biden administration must reinstate the Trump-era program. In rejecting the White House's request, the Supreme Court cited a decision it made last year that blocked the Trump administration from rescinding an program implemented during the administration of former President Barack Obama that protected from deportation young immigrants known as "dreamers," who had been brought to the United States illegally as children, The New York Times reported. Immigrant rights groups criticized Tuesday's Supreme Court ruling and urged the White House to continue its attempts to rescind the program. "We are committed to doing everything we can to prevent this egregious policy from harming one more person and will use every tool at our disposal to oppose the Remain in Mexico policy, or any like it," said Marielena Hincapié, the executive director of the National Immigration Law Center, The Washington Post reported. "We urge the Biden administration to do the same." The U.S. Department of Homeland Security said it would respect the high court's ruling, but added

that it would continue to seek to challenge the program. "As the appeal process continues, however, DHS will comply with the order in good faith," the department said in a statement. "Alongside interagency partners, DHS has begun to engage with the Government of Mexico in diplomatic discussions surrounding the Migrant Protection Protocols (MPP). DHS remains committed to building a safe, orderly, and humane immigration system that upholds our laws and values."

U.S. Slaps Sanctions on Alleged Paraguay Laundering Network

The U.S. Treasury announced Tuesday it had slapped sanctions on three individuals and five entities allegedly involved in a money-laundering network in Paraguay. According to the statement, the Treasury's Office of Foreign Assets Control, or OFAC, sanctioned three

The individuals are accused of scheming to launder hundreds of millions of dollars.

Paraguayans, Kassem Mohamad Hijazi, Khalil Ahmad Hijazi and Liz Paola Doldán González. The individuals are accused of participating in a scheme to launder hundreds of millions of dollars obtained through illicit means in the tri-border area of Argentina, Brazil and Paraguay, United Press International reported. The Treasury identified Kassem, 48, as the alleged leader of the money-laundering network based in Ciudad del Este, Paraguay, accusing him of working with Paraguayan politicians, police officers, district attorneys and money exchange brokers in exchange for them allowing his business to operate in the region, UPI reported. "These designations under the Global Magnitsky sanctions program show that we are committed to combatting corruption and promoting accountability for officials who undermine government institutions," Andrea

NEWS BRIEFS

At Least 15 Killed in Landslides in Western Venezuela

At least 15 people have been killed in landslides in Venezuela's Mérida state following heavy rain in the Andes area, BBC News reported today. Most of the deaths happened in the town of Tovar, where the Mocotíes river overflowed. Video footage shows vehicles being swept away and mud and boulders covering the entry road into Tovar, according to a video posted to Twitter by a local journalist, BBC News reported. Officials said the town's electricity plant was down and that residents had neither power nor telephone service.

Nicaragua's Attorney General Accuses Journalist of Money Laundering

The Nicaraguan attorney general's office on Tuesday accused well-known journalist Carlos Fernando Chamorro of money laundering, without providing evidence, Reuters reported. Chamorro, an avid critic of President Daniel Ortega, went into exile in Costa Rica in June. Ortega's government has cracked down on opponents ahead of the November election, including Chamorro's siblings, opposition leader and presidential hopeful Cristiana Chamorro and politician Pedro Joaquín Chamorro, both of whom were detained by police. Reuters could not immediately reach Carlos Fernando Chamorro for comment.

Brazilian Fintech Cora Raises \$116 Mn in Funding

Brazil-based digital lender Cora has raised \$116 million in a Series B funding round, TechCrunch reported Tuesday. Greenoaks Capital led the round, the website reported, adding that the fintech raised \$26.7 million in its Series A round, which Silicon Valley venture-capital firm Ribbit Capital led. Cora focuses on lending to small and medium-sized businesses.

M. Gacki, the control director at OFAC, said in the statement. “The Treasury Department will continue to use our authorities to prevent illicit actors and their front companies from abusing the international financial system which hurts people around the world who play by the rules,” Gacki added.

ECONOMIC NEWS

Remittances Costs May Spur Bitcoin Use: CABEL Chief

Central American nations have an eye on whether El Salvador’s adoption of Bitcoin as legal tender will significantly lower the cost of remittances, a key source of income for millions of people in the region, according to the executive president of the Central American Bank for Economic Integration, or CABEL, Reuters reported Tuesday. “Everyone is watching if it goes well for El Salvador and if, for example, the cost of remittances drops substantially ... other countries will probably seek that advantage and adopt it,” Dante Mossi told the wire service, referring to President Nayib Bukele’s plan as “an out of this world experiment” with the aim of improving financial inclusion. A great number of people in the region do not have access to bank accounts or credit cards and instead rely heavily on money sent home from relatives living abroad, most of them in the United States, according to the report. CABEL is providing El Salvador assistance on implementing the rollout of the digital currency, which is set to become one of El Salvador’s official currencies alongside the U.S. dollar on Sept. 7. Some analysts are skeptical of how far the plan will go in terms of financial inclusion. “It’s unlikely that Bitcoin, which is complex and volatile, will be a financial inclusion pathway for average Salvadorans who find existing options with banking, community credit unions or mobile money too complicated or costly,” Julia Yansura, program manager at Global Financial Integrity, told the Advisor in a [Q&A](#) published June 15.

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of voters who didn’t support him. Instead, he appointed a radical cabinet with some members being accused of terrorism, kept his radical stance on economic policy and the promised change in the Constitution, aligning with the radical president of the Perú Libre political party, Vladimir Cerrón. The result has been greater uncertainty, and our forecast anticipates that the economy will keep falling in the last two quarters of 2021 and grow only 1.8 percent year-on-year in 2022. But recently, some fissures in the cabinet have become apparent, signaling some moderation led by Finance Minister Pedro Francke and Justice Minister Aníbal Torres. Castillo let his very leftist foreign minister, Héctor Béjar, go and appointed a moderate one, Óscar Maúrtua. Moreover, Francke set ambitious fiscal deficit targets for 2021 and 2022. Although the fiscal rule that the new finance minister published may not please rating agencies and market jitters may remain, signs of moderation are positive.”

A Constanza Pérez Aquino, associate director of sovereign and public finance ratings at S&P Global Ratings: “Peru enjoyed impressive economic growth in the last decade, which significantly reduced poverty, until the pandemic struck last year. Still, Peru’s per-capita income is lower than those of its regional peers, highlighting the need to return to sustained GDP growth after the pandemic to raise living standards. Growth depends on continuous investment, better productivity and more physical infrastructure. A key element that has sustained Peru’s rating has been continuity in macroeconomic and pro-investment policies across different administrations over the last two decades. That has given Peru a relatively strong balance sheet, despite recent erosion in political stability. The new administration faces challenges in addressing recent social problems—satisfying the desire of many Peruvians for better social services while

maintaining GDP growth and moderate public finances. With fragmentation in Congress, there are potential governability risks. It remains to be seen if the new administration can generate consensus to implement its plans. At the same time, the human and economic costs of the pandemic, which is

“Growth depends on continuous investment, better productivity and more physical infrastructure.”

— Constanza Pérez Aquino

likely to have long-term effects, are a serious challenge for the new leadership. S&P’s economic growth projection for Peru is 11 percent in 2021, with a large base effect after the strong contraction in 2020 explaining most of the rebound. We are projecting relatively slow growth of 3.5 percent in 2022, as investors are likely to show caution until they have more visibility on the new government’s plan. They, like rating agencies, are awaiting policy signals from the new administration.”

A Carlos Vargas Alencastre, CEO of Vargas Alencastre, García & Asociados: “It is important to highlight that the economic growth of 20 percent in the first half of 2021 was mainly due to the increase in the international price of copper, as Peru is among the world’s largest producers of the metal. However, there is still no clear evidence to ensure that such growth will remain stable. The country’s political situation generates some uncertainty, which is a very important factor when evaluating the possibility of investment. However, by the end of the year, a 10 percent growth is expected due to the development of the construction, mining and commerce sectors. The economic outlook is not as chaotic as expected as long as the government shows signs of responsible

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management of the public treasury and facilitates foreign investment. However, there may be an impact on the external variables of economic growth, such as country risk or the exchange rate. Finance Minister Pedro Francke has announced that three economic measures will be established as soon as possible. The first is the creation of a credit program with low-interest rates for farmers, medium-sized enterprises and small businesses. Second, the government will seek to establish a public investment program to generate direct and indirect employment. Finally, local production will be incentivized through bonds over foreign production."

A **Carlos Arata, partner at Rubio Leguía Normand in Lima:**
"We have seen an important economic rebound, which is mostly because our economy has been on hold for almost a year. Activities needed to restart, especially considering that Covid finally seems to be receding in Peru. Unfortunately, despite recent growth, the country's economic conditions are not at their best moment, which is holding back future growth. On the one hand, prices of different basic products have increased around 30 percent to 50 percent (mainly because of

the corresponding increase in international prices of certain raw materials) which has had an effect on inflation. Also, the devaluation of the sol against the U.S. dollar (mainly a result of the uncertainty generated by the new government) is affecting prices. Everything is affecting people's economic capacity. On the other hand, the newly elected government is sending very different and confusing signals to economic actors. It is true that the Economy Ministry has tried to calm fears by reassuring that measures such as price controls, limitations on the use and exchange of foreign currency and expropriations will not be adopted. The government has also reinstated the ceiling on public debt and spending. However, other members of the government and the president's political party have done the opposite. This situation will affect the performance of the country's economy at least until the government sets a position on how our economy will be handled. This should be clearer once the central bank's board is elected and the cabinet receives (or doesn't receive) a vote of confidence from Congress."

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

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Q&A

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LATIN AMERICA ADVISOR

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