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## FEATURED Q&A

# What Does Next Year Hold for Peru's Economy?



Peru's economy is seeing strong growth, including in farming and manufacturing, Finance Minister Pedro Francke said last month. // File Photo: TV Perú.

**Q** Peruvian Finance Minister Pedro Francke announced on Nov. 23 that key sectors, including farming and manufacturing, are demonstrating positive growth trends. Both the Peruvian government and Moody's Investors Service are projecting possible economic growth of 13 percent in Peru for this year, an increase from the country's previous forecast of 10.5 percent. What can be expected for the Peruvian economy in 2022 given these trends, and will economic gains lead to quality job creation in the country? Which sectors are expected to perform best in the coming year, and which will continue to struggle? What must the Peruvian government do to achieve its goal of a 4.2 percent deficit reduction, one of the largest in Latin America?

**A** Alfredo Thorne, principal director at Thorne & Associates and former Peruvian finance minister: "Peru's economy had a superb third quarter performance against all odds. While most had expected the economy would sink on the back of increased political risk, it outperformed and expanded 11.4 percent over-year-ago (OYA) and 13.5 percent quarter-over-quarter, with Q3 being the best quarter since the economic reopening in the second half of 2020. We now forecast the economy to expand 13.3 percent OYA in 2021 but are unsure if this good performance will extend into 2022-23. The most recent rapid growth in the third quarter was explained by three positive shocks: the vaccination rollout reaching 67 percent of the population with at least one shot; the reopening of the service sector accounting for about 65 percent of the economy; and strong self-construction of houses

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## TODAY'S NEWS

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## Haitian Gang Releases Three More Members of Missionary Group

A Haitian gang released three more members of a 17-member missionary group that it had abducted in October. Five members of the group have now been freed.

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### ECONOMIC

## Venezuela Expects Oil to Finance 60% of Budget

Despite U.S. sanctions, Venezuela's government is expecting oil exports to finance more than 60 percent of its national budget next year.

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### POLITICAL

## U.N. Calls for Urgent Action Following Ecuador Prison Deaths

The United Nations demanded that the government of Ecuadorian President Guillermo Lasso take urgent action following a series of deadly riots this year in the country's prisons.

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Lasso // File Photo: Ecuadorean Government.

## POLITICAL NEWS

## Haitian Gang Frees Three More Hostages From U.S. Group

A Haitian gang has released three more hostages from a U.S.-based missionary group, bringing to five the number of people who have been freed since the gang seized the 17-member group in October, the organization said Monday in a statement. "We are thankful to God that three more hostages were released last night," Christian Aid Ministries said in the statement. "Those who were released are safe and seem to be in good spirits." As with the earlier release of two other members of the group on Nov. 21, the Ohio-based organization did not announce the names of the captives who had been freed. "As announced on Friday, we would like to focus the next three days on praying and fasting for the hostages. Please continue to intercede for those who are still being held as well as those who have been released," Christian Aid Ministries added. In an emailed response to questions from The New York Times, the U.S. State Department said it "welcomed reports that three individuals held hostage in Haiti have been released," though it declined further comment, citing "operational and security considerations," the newspaper reported. A gang known as 400 Mawozo abducted the 17-member group—16 U.S. citizens and one Canadian—on Oct. 16 in a neighborhood of Port-au-Prince. Five children, including an infant, were among those taken. Criminal groups have taken control of parts of the capital amid Haiti's political and economic chaos that has followed the assassination of President Jovenel Moïse in July. Gangs in Haiti have increasingly turned to kidnapping and have targeted children going to school and pastors delivering sermons, among others, The New York Times reported. The 400 Mawozo gang initially demanded a ransom of \$1 million each for the members of the missionary group. It is unclear how much, if any, money has been paid so far. [Editor's note: See [Q&A](#) on Haiti in the Oct. 7 issue of the Advisor.]

## ECONOMIC NEWS

## Venezuela Expects Oil to Finance More Than 60% of Budget

Despite U.S. sanctions, Venezuela's government expects that income from crude oil exports will finance more than 60 percent of its national budget next year, Reuters reported Monday. Official documents seen by the news service did not specify production targets or price-per-barrel estimates. Allies such as Iran have helped Venezuela increase output this year, and it sells an average of 500,000 barrels per day despite Washington's oil sector sanctions in place since 2019. "The government is developing a series of negotiations that point toward the loosening and then elimination of sanctions," the budget proposal states, according to Reuters. Oil income will be equivalent to \$8.2 billion by government calculations, with a total budget next year of more than \$13 billion in spending. This year oil income financed about 29 percent of the budget, bringing in only around \$1.3 billion through August, according to the report. State oil company PDVSA's crude production rose to a daily peak of 904,000 barrels in November and averaged some 830,000 bpd for the month, a level not seen since early 2020, In Freight News reported Saturday. More than two thirds of cargoes last month departed for China and other Asian countries, while an average of 77,000 barrels per day of crude, jet fuel and gasoline were shipped to longtime ally Cuba, according to the report.

## BUSINESS NEWS

## Constellation Eyes New Brewery in Mexico: Report

U.S.-based Constellation Brands is planning to build a new brewery in southeastern Mexico, The Wall Street Journal reported today, citing

## NEWS BRIEFS

## U.N. Calls for Urgent Action Following Prison Riot Deaths in Ecuador

The United Nations on Monday called on Ecuador's government to take "urgent action" following a series of riots which have left more than 280 inmates dead and hundreds injured in the country's prisons this year. The statement calls on the administration of President Guillermo Lasso to investigate unlawful deaths using international standards, and to address concerns such as severe overcrowding, budget cuts, lack of trained staff, the availability of weapons and violence between rival criminal gangs.

## Colombia Deploys 100 Police Officers to Fight Environmental Crimes

Colombia's national police force on Monday said it has deployed 100 officers to address environmental crimes, Reuters reported. The strategy aims to target illegal mining and animal trafficking specifically, with 50 officers assigned to investigate environmental crimes, 40 to work on intelligence gathering, and 10 to monitor online trafficking and selling of wildlife. Watchdog group Global Witness documented at least 65 killings of environmentalists in Colombia in 2020, ranking it as one of the world's deadliest places for activists.

## Chile Sees 35% Rise in Copper Exports in November

Chile's copper exports totaled \$4.92 billion in November, a 35 percent rise as compared to last year, the country's central bank announced Monday, Reuters reported. High prices for the metal drove the increase and helped Chile to post a trade surplus of \$834 million for last month, despite a rise in imports. Overall, the country's exports rose 30 percent year-on-year in November to \$8.4 billion, while imports increased 57 percent to \$7.58 billion.

an unnamed person familiar with the matter. The plan for the new brewery comes nearly two years after President Andrés Manuel López Obrador's government ordered the closure of a nearly completed \$1.4 billion Constellation plant in the northern border city of Mexicali after local residents voted against the project, citing concerns that it would use too much water and hurt farmers, a claim that Constellation denied. The new plant could be announced this week, and the company is expected to invest \$1.3 billion, The Wall Street Journal reported.

## Brazilian Fintech Dock Acquires Cacao Paycard

Brazilian financial technology company Dock has acquired Cacao Paycard Solutions, a Mexico-based card-processing company, Bloomberg News reported today. Dock, which is headquartered in São Paulo, did not disclose the terms of the transaction. Through the deal, Dock, which provides infrastructure for fintech companies in Latin America, will gain 50 clients of Cacao, including Mexican fintech Albo and Clip, a unicorn payment company, Bloomberg News reported. There are significant possibilities for expansion in Mexico, according to experts, as only half of the country's population has a bank account, the news service reported. The digital banking infrastructure market is expected to grow 34 percent over the next five years, according to Americas Market Intelligence. However, few companies offer payments and digital-banking infrastructure, Dock's chief executive officer, Antonio Soares, told Bloomberg News in an interview about the acquisition of Cacao. "The two companies share significant values and a core mission to enable their clients to democratize, through technology, access to the financial system for the millions of unbanked and underbanked people in Latin America," said Soares. Cacao is Dock's third acquisition and its first outside of Brazil. [Editor's note: See [Q&A](#) on Brazilian financial technology companies in the June 17-30 issue of the Dialogue's biweekly Financial Services Advisor.]

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by middle- and low-income households that translated into a big push on the expansion of private investment. There were also two other factors: the commodity price boom and fiscal stimulus. It is unlikely that these drivers will extend into 2022-23. We forecast that real GDP will stall in the final quarter of 2021 and grow 2.7 percent and 2.6 percent OYA in 2022 and 2023, respectively. Political brinkmanship has turned more severe and hit the economy, as demonstrated by the drop in business confidence and the tightening of credit conditions. Also, inflation has accelerated. Last year, Congress distributed about 10 percent of GDP in forced savings to consumers, and the government handed out cash transfers to about half of the population. Global headwinds are also significant: the external pull effect from commodity prices is losing steam; China, Peru's main trading partner, is decelerating; and new Covid-19 infections may hit the global economy. Finally, the government has used up its fiscal buffers and has little room to undertake countercyclical policies."

**A** **Aníbal Nicolás Saldías, analyst on Latin America and the Caribbean at The Economist Intelligence Unit:** "Peru's economy will be one of the few in the region to surpass pre-pandemic levels in 2021. This is despite Peru having experienced a second wave of Covid-19 cases in the first half of the year that led to lockdowns in heavily affected areas. This speaks to the economy's increased resilience and adaptability to Covid-19 that we believe will continue to support economic growth in 2022; however, the novel Omicron variant poses risks to growth. Peru's supportive monetary and fiscal policies allowed firms to access state-guaranteed credit to bridge the crisis; cash transfers supported the incomes of those most affected by the lockdowns; and record high public investment boosted employment. As the economy gradually reopens and vaccine rollout quickens, the government's supportive

measures have helped to drive a robust recovery in economic activity. The momentum from the normalization of economic activity will continue into 2022, bolstering growth and employment, although the impulse will fade as sectors return to pre-pandemic

**“** **Peru's economy will be one of the few in the region to surpass pre-pandemic levels in 2021.”**

– Aníbal Nicolás Saldías

levels. Peru's economy also benefited from high external demand and prices for its exports—especially copper—that we believe will continue to drive growth in 2022. Headwinds for growth in 2022 include chronic political instability and social unrest. The inability of the Castillo administration to cement a working relationship with Congress puts the government's plans to introduce tax reform at risk and could even lead to the president's impeachment. Social unrest in mining areas poses risks to the economic recovery by weighing on investment and exports."

**A** **Constanza Perez Aquino, associate director of sovereign and public finance ratings at S&P Global Ratings:** "S&P Global Ratings' negative outlook on Peru reflects the risks of political challenges contributing to poor economic performance in the medium term that worsen the sovereign's financial profile. S&P forecasts a GDP growth of 13.5 percent for 2021, in line with strong rebound performance. Our projection for 2022 of 3.0 percent incorporates expected drag from the tightening of monetary policy and the removal of stimulus measures, as well as the likely caution from private investors—amid political tensions between Peru's executive and Congress and limited clarity on some of the administrations' policies. Underwhelming

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economic growth prospects in a weakened business environment would make fiscal consolidation following the pandemic harder to tackle. The government's mandate to improve public services, as well as a weaker socio-economic profile compared to the region, highlights the importance of sustained growth in Peru."

**A** **Armando Mendoza, economist and research officer at Oxfam in Peru:** "The quick recovery of the Peruvian economy in 2021 is undoubtedly something to be glad—but by no means to be satisfied—about. The expectation is to build on this foundation with the objective that in 2022 Peru will continue to lead the region in economic growth. We face several challenges in this regard. First, this rapid rebound needs to be translated into a steady and sustained process of economic expansion. We must aim to get closer to the potential growth of GDP, and this will be a top priority for the economy in the coming years. But it is also essential to ensure that this recovery is not limited to macroeconomic figures. During 2020, almost half of formal employment was lost, and more than three million Peruvians fell into poverty. The recovery of formal jobs is essential and, for-

unately, during the third quarter of 2021 adequate employment finally began to recover. This trend is expected to strengthen in the coming months. Finally, the Covid-19 crisis and its economic and social consequences revealed the serious limitations and failures

“During 2020, almost half of formal employment was lost, and more than three million Peruvians fell into poverty.”

— Armando Mendoza

of the Peruvian economic model, which may have fueled some periods of growth in the past but has failed to ensure inclusion and sustainability. It is clear the Peruvian economy requires structural reforms to sustain growth, reduce gaps and socioeconomic barriers and ensure fiscal equilibrium and solvency."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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# Q&A

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