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FEATURED Q&A

Can Peru Return to Previous Levels of Economic Growth?



Peru's Ministry of Economy and Finance, led by Waldo Mendoza Bellido, is forecasting annual growth of 5.1 percent on average through 2026. // File Photo: Peruvian Government.

Q Peru's economy is expected to grow an average of 5.1 percent between this year and 2026, with 2021 registering a growth rate of 10 percent, according to a forecast by the Ministry of Economy and Finance. Peru's economy was among the hardest hit in the region last year, contracting an estimated 12 percent. What are the main factors driving Peru's expected economic recovery this year? What internal and external variables will be the most important for Peru to achieve the forecasted growth over the next five years? How well is the government of interim President Francisco Sagasti handling the country's economy?

A Alfredo Thorne, former Peruvian finance minister and partner at Global Source: "Peru's growth outlook remains uncertain. For one, hospitals have reached their limits with the second wave of infections, and the government will need to quickly reduce mobility once again. In addition, the country is preparing to face perhaps its most challenging presidential election, on April 11, after having experienced one of its worst political crises in history and having had three presidents in less than a week in mid-November. Against this backdrop, forecasters, including ourselves, anticipate an economic rebound this year. This is difficult to reconcile. But after the economy posted the deepest recession among emerging economies in 2020, reaching negative 11.7 percent, and deploying more than 20 percentage points of GDP in fiscal stimulus, the economy is due to rebound. According to our own forecasts, in December the economy had already rebounded more than 10 percentage points from the average of full-2020, and it bodes well

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Brazil's Neighbors Restrict Travel as Coronavirus Variant Spreads

Several South American countries are restricting travel to and from Brazil amid a spike in Covid-19 infections driven by a variant of the coronavirus.

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ECONOMIC

Mexico's Economy Sees 8.5 Percent Contraction

Mexico's economy contracted 8.5 percent last year, the sharpest drop in 88 years and the second consecutive year of decline.

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BUSINESS

Founder of Mexico's Quálitas Dies at 73

Joaquín Brockman Lozano, who founded Mexican auto insurance firm Quálitas, died at the age of 73. Quálitas has Mexico's largest market share in auto insurance and also operates in other Latin American countries and the United States.

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Lozano // File Photo: Quálitas.

POLITICAL NEWS

Brazil's Neighbors Restrict Travel as Virus Variant Spreads

South American countries are restricting travel to and from Brazil amid a new coronavirus variant that experts say is driving a new wave of Covid-19 infections, the Associated Press reported Friday. The variant, which is believed to be more contagious than the previous version of the coronavirus, was cited as the reason that Guyana closed its border with Brazil on Friday, and also as the reason behind Colombia's halt of passenger flights to and from Brazil two days earlier, the wire service reported. Beginning today, Argentina is cutting in half its number of flights to Brazil, Argentine state news agency Telam reported last week. Peru has also banned air traffic from Brazil, while the governor of Peru's Loreto department, which borders Brazil, has called on Peru's government to also close land crossings, the AP reported. The latest wave of infections has hit the Brazilian city of Manaus, the largest city in the Amazon rain forest, particularly hard. Last month, oxygen became depleted at hospitals in the city, leading dozens of patients to die of asphyxiation. Like Manaus, the Brazilian city of Porto Velho has also started airlifting patients to out-of-state hospitals that can accommodate them. In a recent interview with Brazilian newspaper O Globo, former Brazilian Health Minister Luiz Henrique Mandetta said the new variant of the virus could cause a "mega-epidemic" in Brazil within 60 days. The Brazilian variant of the coronavirus was discovered when four travelers who had been in Brazil were tested in Japan. The variant has also appeared in the U.S. state of Minnesota. Variants that have been found in the United Kingdom and South Africa have also raised concern among health authorities. Brazil has the world's third-highest number of reported Covid-19 cases, with more than 9.2 million, after only the United States and India, according to Johns Hopkins University. It also has more than 224,000 deaths, more than any other

country except for the United States. Also on Friday, Canadian Prime Minister Justin Trudeau announced new travel restrictions. Flights from Canada to Mexico and the Caribbean will be suspended through April, and most incoming travelers will have to quarantine at their own expense at government-approved hotels, CNN reported. "As soon as possible in the coming weeks, we will be introducing mandatory PCR testing at the airport for people returning to Canada. Travelers will then have to wait for up to three days at a government-approved hotel for their test results at their own expense," said Trudeau. Canada already has rules including a 14-day quarantine for most travelers.

ECONOMIC NEWS

Mexico's Economy Contracts 8.5%, Worst Since 1932

Mexico's economy contracted 8.5 percent last year, the largest single-year drop since 1932 and the second consecutive year of economic decline, according to preliminary data released Friday by the National Statistics and Geography Institute, the Associated Press reported.



López Obrador // File Photo: Mexican Government.

Growth in the second half of the year helped Mexico surpass projections earlier in the year of a double-digit contraction. The lack of economic activity because of coronavirus-related lockdowns brought a decline of 18.7 percent in the second quarter, as compared to the same period the previous year. Mexico's government also did little to bolster businesses or subsidize consumers, with President Andrés

NEWS BRIEFS

At Least Two Guatemalans Confirmed to Be Among Mexico Massacre Victims

At least two of 19 people found shot to death and burned near the U.S. border in northern Mexico were Guatemalan migrants, Mexican prosecutors said Saturday, the Associated Press reported. The bodies were found on Jan. 22 in a burned-out truck in the northern border state of Tamaulipas. The truck had 113 bullet impacts, the AP reported. Guatemalan families in a rural Indigenous farming community have said they lost contact last week with 13 migrants who were on their way to the United States.

Founder of Mexico's Quálitas Dies at 73

Joaquín Brockman Lozano, founder of Mexican auto insurance firm Quálitas, has died at the age of 73, Explica reported Saturday, citing a company statement. "The members of the Board of Directors, the management team and employees of Quálitas deeply appreciate the invaluable guidance of Don Joaquín," the statement said. Quálitas is the company with the largest market share in auto insurance in Mexico, with additional presence in El Salvador, Costa Rica, the United States and Peru.

Enel Begins Installation of Smart Meters in São Paulo

Rome-based Enel said last week it had begun a pilot project to install 300,000 smart meters in Brazil. The project aims to bring improvements such as monitoring of interval energy consumption, accurate remote meter reading, customizable tariff structures and other advanced functionalities that help improve the quality of service, the company said in a statement. Brazil's electricity regulatory agency, Aneel, is financing the project with 121 million reais (\$22 million) via its R&D unit, with additional financial support from Enel.

Manuel López Obrador refusing to build up the country's debt to alleviate the economic woes brought by the pandemic, the AP reported. "The 2020 economic plunge is the reflection of not only the devastating effects of the virus pandemic but also the lack of preparedness and insufficient policy response of the current administration," Alfredo Coutiño, director of Moody's Analytics, said in a note.

BUSINESS NEWS

Brazil to Require a 5G Network Strictly for Government's Use

Winners of an upcoming 5G spectrum auction in Brazil will have to build a high security wireless network exclusively for the federal government's use, according to an order published late Friday, Bloomberg News reported. The requirement, which calls for a 5G network limited to the Federal District, where Brasília is located, is part of a set of guidelines for the auction scheduled for later this year. The guideline does not mention Huawei Technologies Co. by name, but it discards the possibility of banning any company from the auction, a person familiar with the communication ministry's decision making told Bloomberg News. There had been some speculation about prohibiting the participation of the Chinese company amid diplomatic pressure from the administration of former U.S. President Donald Trump and warnings of alleged security threats linked to Huawei. Brazilian President Jair Bolsonaro had taken the position that Huawei should be banned, but the government reportedly struggled to find technical grounds for such a move, Reuters reported, citing government sources. The people added that companies interested in participating in the 5G tender will be expected to comply with governance rules compatible with those of publicly listed companies and may even have to be listed themselves. This could reportedly make it difficult for Huawei to compete with other companies, although it does not explicitly exclude it from the auction.

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with our 9.7 percent forecast for full-2021. In fact, to reach our forecast the economy needs to generate little new growth, and our forecast anticipates real GDP to average a contraction of 2.8 percent on the quarter-on-quarter comparison in the first half of the year. It may be deeper if the government imposes a new lockdown. But this growth illusion cannot last forever, and at some point, the economy will be hit by the negative effects of the populist policies pursued over the last three years, the economic consequences of the pandemic and the excessive fiscal laxity. In our forecasts, we anticipate an economy that over the next five years converges to a much lower potential growth rate of 2 percent, much lower than the 3.7 percent calculated by the IMF in 2017, or the 5.7 percent for the 2001-08 period."

A **Magali Silva, former minister of foreign trade and tourism of Peru:** "Since May 2020, the Peruvian economy has been recovering at a higher rate than expected after the implementation of monetary and fiscal policy actions that included cash transfers to vulnerable families, tax payment deferrals and credit guarantees for the private sector. Leading indicators for December, such as the use of electricity, cement sales and e-commerce transactions, show a gradual recovery toward pre-Covid levels. If the economy stays at the same level of the fourth quarter, it will recover this year by around 9 percent, given the low base of comparison. Additionally, the external environment will contribute to our economy in 2021, not only because capital flows are progressively returning to emerging markets, but also because the outlook for terms of trade remains largely positive amid a weak U.S. dollar, a rebounding global economy due to massive support programs and a green energy revolution. Moreover, copper prices climbed to their highest level in more than seven years. Nonetheless, the projected growth recovery path will take place in the absence of higher

risks concerning the vaccine availability and rising infections. In that sense, following a substantial spike of Covid-19 cases in our country, the government announced a total lockdown of Lima and nine other regions from Jan. 31 to Feb. 14. Depending on the length of these new measures, and when the vaccine arrives in Peru, growth could resume between the first and the second quarter. In the medium term, in order to reach a growth rate close to 5 percent, we must embrace important structural reforms that promote a less rigid labor market and more friendly investment environment."

A **Maria Amparo Cruz Saco, Joanne Toor Cummings '50 professor of economics at Connecticut College and researcher at Universidad del Pacifico's Research Center (CIUP) in Lima:**

"According to the Ministry of Economy and Finance, a resumption of 'normality' across economic activities will support a 10 percent growth rate in 2021. The expected recovery will also benefit from a 35 percent increase in public investment in hundreds of large projects—both local and regional—which will additionally receive governmental technical assistance and administrative backing. During the severe 2020 lockdowns, a large proportion of these projects were stopped. In 2022-2026, the anticipated annual growth rate (5 percent) will be driven by domestic demand shifts—consumption and public/private investment—and stronger exports. This outlook, however, assumes a substantial recovery across the board. Peru's central bank reported that GDP decreased by only 2.8 percent in November 2020, a much better rate than the disastrous 27.8 percent decline in April, the largest regional GDP drop. The positive growth rates in construction (17.3 percent) and agriculture (1.3 percent) contributed to this result (construction and agriculture amount to 5.8 percent and 5.6 percent of GDP, respectively). But services and mining (61 percent and 11 percent of GDP, respectively) continue

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to experience negative growth relative to the previous year. Challenges remain: 1.) the resurgence of Covid-19 contagion is overwhelming communities and the weak sanitary infrastructure, 2.) uncertainty about leadership following the April 11 national elections is likely to increase, 3.) new social mobilizations can jeopardize the stability of the recovery and 4.) overcoming logistical hurdles to vaccinate the population in sufficient numbers is likely to be difficult. Hence, exogenous factors, weak institutions and the scale of the epidemic can cloud expected economic growth."

A Nicolás Saldías, analyst for Latin America and the Caribbean at The Economist Intelligence Unit: "Over the next five years, Peru will be among the region's fastest-growing economies, but the government's forecast of 5.1 percent average growth is ambitious. In 2021, the country will see a robust, if partial, recovery, driven by solid export growth for commodities such as copper, though the high headline number will be due to a low base of comparison in 2020. Peru's ample fiscal space (low debt-to-GDP ratio and large foreign reserves) has allowed interim President Francisco Sagasti to continue the previous government's expansionary fiscal and monetary policies that will boost both public and private investment. Despite this, private consumption will lag as employment will take many years to reach pre-pandemic levels. The recent spike in Covid-19 cases and the imposition of staggered restrictions will temporarily weaken the recovery. On the upside, the economy will benefit from Sagasti's announcement of the purchase of 52 million vaccines from China's Sinopharm and the United Kingdom's AstraZeneca/Oxford, which adds onto the 13.2 million doses to be received via the WHO's COVAX facility. Medium-term challenges to achieve higher growth include the pace of the vaccine rollout, as well as the potential for higher levels of social unrest due to the lingering

socioeconomic effects of the pandemic. The next government, which will take office in July, will have to deal with these protests deftly to avoid spooking investors. Another risk is an uncertain electoral outcome. If a populist wins, and/or an activist Congress remains uncooperative, investor confidence will falter."

A Armando Mendoza, economist and research officer at Oxfam in Peru: "Evidently, right now the key internal factor for Peru's economic recovery is how the health situation evolves under the Covid pandemic. After the dramatic economic drop during the first half of 2020, the second half brought hopes of a quick V-shaped recovery. However, with the feared second wave of infection already here, forecasts for 2021 will have to be adjusted. On the external front, the evolution of international commodity prices, particularly copper and gold prices, will be critical to ensure resources. Similarly, a scenario of low interest rates will greatly aid to access to credits and keep fiscal accounts balanced. Sagasti's government is trying to address the crisis with a wide package of social and economic relief measures, but the government lacks resources, time and, admittedly, political support. For the upcoming years, a critical factor will be the expansion of public programs to stimulate the economy and increase social protection. However, significant resources will be required, as the fiscal balance achieved in the past meant a chronic underfunding of critical areas such as the health system, and decades of neglect are now coming back with a vengeance. Extensive structural reforms will have to be undertaken, including a tax reform. Thus, some sort of political consensus will need to be achieved around a national agenda of reforms. Unfortunately, the Peruvian political system is deeply dysfunctional and fragmented, and it will be a major challenge to get the main parties and political platforms aligned."

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