# LATIN AMERICA ADVISOR

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**FEATURED Q&A**

# What Can Be Done to Make Peru More Politically Stable?

President Pedro Castillo on Thursday ordered the armed forces to supervise Peru's highways for the next month in the face of trucking blockades over inflation that have halted travel and commerce. // File Photo: Peruvian Government.

**Q Peruvian President Pedro Castillo, who has been in office just eight months, in late March survived a second impeachment attempt against him. Castillo's opponents have tried to oust him on the grounds of alleged "moral incapacity," the charge that was also leveled against former President Martín Vizcarra, who was removed from office in November 2020, ushering in a period that led Peru to have three presidents in fewer than 10 days. In a speech to Congress in mid-March, Castillo said Peru "is going through an institutional crisis" amid the instability, and analysts now see political turmoil as a major deterrent to investment in the country's once-steady economy. What is at the root of Peru's political instability, and what can be done to break the political paralysis brought on by repeated challenges to the president's mandate? Could constitutional reforms calm the frequent political upheaval and, if so, what should they involve? How are investors dealing with the uncertainty, and how are key sectors, such as mining, performing amid so much volatility?**

**A Pedro Francke, former Peruvian economy and finance minister:** "There are two sources of structural instability in Peru. The first is the constitutional provision that allows Congress to impeach the president for 'moral incapacity' and without adequate judicial processes, and this must be reformed. The second is the permanent mistrust of citizens in their government, Congress, political parties and the media, with a patrimonial state and serious ethnic and regional inequalities. The victory of Pedro Castillo last

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The Washington-based Inter-American Development Bank said Russia's invasion of Ukraine, together with the trend for interest rate hikes, will reduce growth in Latin America and the Caribbean over the next two years by 1.5 percent.

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## Chile Inflation Rises to 30-Year High at 9.4 Percent

Finance Minister Mario Marcel said that proposals to allow Chileans to make new withdrawals from retirement savings are "going to generate higher inflation."

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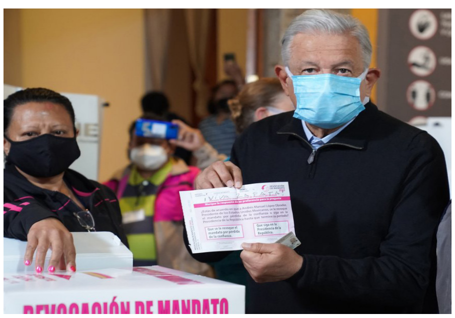
Marcel // File Photo: via Twitter @minhacienda.

POLITICAL NEWS

# Mexico's President Survives Recall Vote Amid Low Turnout

Mexican President Andrés Manuel López Obrador received some 90 percent of votes cast in Sunday's presidential recall referendum, El Universal reported. However, only approximately 18 percent of voters went to the polls, resulting in an outcome that will not be binding, election body INE said, meaning that even if López Obrador had lost, he would not have been required to resign. In a video message, the leftist president noted the low turnout, although he praised the more than 17 million Mexicans that did turn out, and he complained that authorities had only put up a third of the voting booths as had been available for the 2018 election that



**AMLO** // Photo: via Twitter @lopezobrador_

brought him to power. Nevertheless, he said, "I'm staying and we're going to continue with the transformation of the country," he added. It was López Obrador who pushed for the referendum, the first of its kind in Mexico and one that most analysts considered a safe bet, the Associated Press reported. López Obrador has maintained approval ratings around 60 percent since taking office three years ago. Some in the opposition had called for voters to boycott the referendum, citing, among other things, the $80 million price tag for the special election. López Obrador previously ruled out using the result to pursue a constitutional reform allowing him to seek another term, as some critics have accused him of planning to do, Agence France-Presse reported. "I'm going to continue serving until the last day of my term. I'm not going to go past that because I'm a democrat and I'm not in favor of re-election," he said in his video message. [Editor's note: See related **Q&A** in the Jan. 13 issue of the Advisor.]

ECONOMIC NEWS

# Chile Inflation Rises to 30-Year High

Inflation in Chile rose 1.9 percent in March, marking the highest monthly rise in almost 30 years, Reuters reported. The Andean country's state statistics agency, INE, said Friday that consumer prices have risen 3.4 percent so far this year and saw a 12-month increase of 9.4 percent. The data indicated that inflation is rising in Chile faster that both the government and private economists had expected, according to the report. The cost of food and non-alcoholic beverages, as well as education, stood out for their fast pace of increase, while a decrease in communications costs stood out, INE said. In an interview with Channel 13 television, Finance Minister Mario Marcel said this weekend that proposals to allow Chileans to make additional early withdrawals from their retirement savings are "going to generate higher inflation," which will affect those with lower incomes adversely, El Mercurio reported. The pension measure is scheduled to be voted on this week by a committee in Chile's Constitutional Convention.

# IDB Lowers Growth Forecast on War, Rate Hike Outlook

Russia's invasion of Ukraine, together with the trend for interest rate hikes globally to control inflation, is likely to reduce growth in Latin America and the Caribbean over the next two years by 1.5 percent, the Washington-based Inter-American Development Bank said in a research report released Friday. The report analyzes the consequences of the war and describes a policy framework to improve the

NEWS BRIEFS

## Argentine Ambassador to Israel Sentenced to 8 Years

Argentina's ambassador to Israel resigned last week following a corruption conviction and being sentenced to 8 years in jail for misusing $8 million in funds while he was governor of Entre Ríos province, the Times of Israel reported. President Alberto Fernández accepted the resignation on Friday. Sergio Uribarri has called the ruling an "injustice" and remains in Israel, according to the report. He can remain free pending a series of possible appeals.

## Honduran Judge Orders Extradition of Former Top Police Official

A judge in Honduras on Friday ordered the extradition to the United States of Juan Carlos Bonilla Valladares, who served as the Central American country's top police official in 2012 and 2013, on drug trafficking and weapons charges, the Associated Press reported. Bonilla Valladares faced charges of human rights abuses during his time in command. He served under President Porfirio Lobo, who also underwent numerous accusations of corruption and scandals, and whose son plead guilty of conspiring to import cocaine into the United States, and was sentenced to 24 years.

## Petrobras Shares Rise 5 Percent on CEO News

Shares of Brazilian state oil company Petrobras rose 5 percent on Friday after the announcement of a new chief executive, Folha de S.Paulo reported. José Mauro Ferreira Coelho, considered an industry expert and technocrat, will succeed Joaquim Silva e Luna as CEO after a previous candidate backed out earlier last week. The government also named Márcio Andrade Weber as the company's new chairman. Both men would have to be approved by the company's board in a vote scheduled for April 13, Reuters reported.

region's labor and fiscal architecture. Most of the declines in economic activity will be most severely felt in 2023, with the regional growth outlook falling from 2.4 percent before the war to 1.7 percent as a result of it. Within the region, growth scenarios for individual countries depend on a variety of factors, from trade links to Russia to debt levels. Although some economists have forecast a more promising outlook for commodity-exporting countries of the region that will benefit from higher prices for metals and food this year, the IDB's study found that the combined effect of aggregating global growth, commodity and financial shocks is to reduce growth in Latin America and the Caribbean compared to a pre-war scenario. "Many countries will experience a commodity windfall that should not go to waste," said IDB chief economist Eric Parrado in a statement. The report forecasts the region recovering in 2024 to 1.3 percent and thereafter converging back to longer-term growth of around 2.5 percent.

## BUSINESS NEWS

# Ritmo Receives $200 Million in New Funding

Spain-based Ritmo Capital has closed on a $200 million debt financing round led by i80 Group and Avellinia Capital, Bloomberg News reported Friday. In a statement, the companies said it is one of the largest funding rounds of any e-commerce finance business in Europe and Latin America. Ritmo was founded in late 2020 with a vision to provide digital entrepreneurs with the capital they need to scale their investment in online marketing campaigns. The new capital will be used to fund more than 2,000 e-commerce clients over the next 18 months in European and Latin American countries. Ritmo's platform provides working capital financing and an automated Buy Now, Pay Later (BNPL) payment system. [Editor's note: See related **Q&A** on Latin America's start-ups in the Jan. 27-Feb. 9 issue of the biweekly Financial Services Advisor.]

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year was the manifestation of the dissatisfaction of discriminated groups, who were hoping for profound change from a Castillo government. The institutional instability was aggravated by the 2021 electoral results that gave Castillo the narrowest of victories, with a scattered Congress and the refusal of powerful economic groups to accept the results—followed by Castillo's own wavering and his difficulties in forming an effective government. Popular demand today is a mix of the need for solutions to urgent issues, like food and fuel prices, with the feeling that deeper and more profound changes are needed—and that historical injustices and mistreatment must be addressed. In my opinion, the demand for a response to the economic pain caused by inflation is at the forefront, which has been exacerbated by the pandemic that impoverished many families. The late, clumsy and erratic response of the Castillo government to the recent wave of protests has greatly weakened its legitimacy. Among investors, doubts about possible changes in the economic model have dissipated, but external shocks and the rise in interest rates by the central bank, coupled with the general ungovernability and social disorder in the country, have resulted in a decline in investment."

**A** **Mercedes Aráoz, former second vice president of Peru and a professor of economics at Universidad del Pacífico:** "Pedro Castillo's management style as president is a mixture of improvisation, inefficiency, deep irresponsibility and a lack of integrity. In a short time, he has squandered his political capital and lost his legitimacy. Today almost eight out of 10 Peruvians disapprove of his presidency. The country has seen inflation in food and fuel, which is the product of external factors, but Castillo has no contingency plan to deal with it, other than to impose a curfew in Lima after widespread protests. But the current crisis predates Castillo—it began in the Fujimori era with the weakening of political parties that operate without ideology or doctrine, the triumph of outsider candidates and the appearance of regional movements led by 'caudillos' (populist strongmen). The second factor that has contributed to today's crisis is a failed decentralization process, where regional governors have too much power and manage important economic resources without accountability. Furthermore, the rise in informal political groups linked to illicit activities such as drug trafficking, illegal mining, informal transportation, etc. has not helped matters. There are people in Congress who represent those interests, which lead to under-the-table deals being made. Added to this is the institutional weakness of the justice system and its politicization. We have a perfect storm that is impacting the economy and increasing uncertainty for investors, especially in sectors such as mining. Regardless of how the crisis is resolved in the short term, deep reforms must be made in the political and judicial systems, introducing a better balance of power in government by strengthening political parties, as well as fixing the issues surrounding decentralization."

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> **— Mercedes Aráoz**

**A** **Cynthia McClintock, professor of political science and international affairs at George Washington University:** "Although political instability is very problematic, misgovernment can be even more so. The vague charge of 'moral incapacity' provides an exit possibility for a government that has become untenable, as Castillo's government appears to be today. Impeachment requires

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a two-thirds vote of Peru's Congress—a larger percentage than would be necessary to oust the executive under most parliamentary rules. The 'moral incapacity' provision in the Constitution led to the resignation of Alberto Fujimori in 2000; he was guilty of egregious corruption and human-rights abuses. Although the 'moral incapacity' provision also enabled the questionable oustings of Martín Vizcarra in 2020 and Pedro Pablo Kuczynski in 2018, evidence of Vizcarra's corruption was compelling and Kuczynski was struggling with conflict-of-interest allegations. In the case of Castillo, the charges of corruption by his former friend, lobbyist Karelim López, are also persuasive. Further, Castillo consistently makes high-level appointments

> **Castillo consistently makes high-level appointments on the criterion of political allegiance, not competence."**
>
> **— Cynthia McClintock**

on the criterion of political allegiance, not competence. A broad-based cabinet with well-qualified ministers is especially important because of Castillo's limited support from the start; running for a far-left party in the 2021 election, Castillo tallied only 19 percent of the first-round vote and would not have won the runoff if his rival had been almost any of the other candidates except Keiko Fujimori. Among the ministers without sufficient experience is the Energy and Mines Minister Carlos Palacios; he has been unable to resolve the continuing intense conflicts between numerous mines and nearby communities—a top priority for Peru's investors. Peru's oil company, Petroperú, also struggled with incompetent leadership. Previously, impeachments were followed by effective governments by Congress speakers—in 2000, Valentín Paniagua, and in 2020, Francisco Sagasti. One necessary reform is to allow immediate re-elections of legislators. The ban on re-election seriously shortens legislators' time perspectives."

A **Claudia Navas, senior analyst at Control Risks:** "The ongoing instability in Peru confirms the overall dysfunctionality of the political system, regardless of who is in power. In large part, the dysfunctionality is strongly rooted in the weakness of the party system. Political parties have become bureaucracies that work to further their own political and economic interests rather than representing the interests of the population. Peru needs a comprehensive political reform that, among other things, promotes citizen participation in the party system and strengthens internal rules for selecting candidates within political parties. Measures to ensure the suitability of those holding political power are also required. A reform is also needed to introduce clear criteria for Congress to impeach a president on the grounds of 'moral incapacity.' Peru's pro-business fundamentals and a strong economy have mitigated the damage of long-standing political instability on the country's business environment. However, in 2021, Peru experienced its highest level of capital flight of the past 50 years. Funds equivalent to 7.4 percent of GDP left the country, according to the Central Reserve Bank of Peru. This capital flight was driven by the polarization and uncertainty surrounding Castillo's 2021 election victory due in large part to his promises to nationalize key industries, such as mining. Ultimately, this instability will keep holding the country back as risk-averse investors seek more politically stable destinations."

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

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