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FEATURED Q&A

Will a New Stimulus Plan Spur Peru's Economic Growth?



Peru's Congress (pictured) last month approved a \$408 million fiscal stimulus package. // File Photo: Peruvian Government.

Q Peru's Congress on Oct. 20 approved a fiscal stimulus package of approximately 1.5 billion soles (\$408 million) in an effort to boost the country's economy and mitigate the impact of the El Niño weather phenomenon. Just days earlier, Finance Minister Alex Contreras publicly acknowledged, for the first time, that the country is in a recession. What are the most important parts of the stimulus package, and what effects will they have on the economy? What is weighing down Peru's economy, and what is needed for it to rebound? Which sectors of Peru's economy are struggling the most, and which are doing better?

A Pedro Francke, former Peruvian finance minister: "Peruvian non-primary manufacturing and construction show 9 percent lower production (from January through August) and agriculture is 4 percent lower, while mining has grown due to the new Quellaveco mine. The immediate cause of the recession is the sharp drop in domestic demand, especially private consumption, as nominal salaries have not risen at all in the last year while inflation has been 5 percent. Private investment has also fallen due to the rise of domestic interest rates and the political instability generated by a regime that undermines democracy, has violated human rights causing 60 civilian deaths and has a disapproval rating of 90 percent. Public investment and spending have been falling, worsening the recession, while at the same time the public deficit has risen to 2.8 percent of GDP due to a sharp drop in tax revenues caused by new tax exemptions and incentives for evasion. Finally accepting that we are in a recession, the executive branch

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TODAY'S NEWS

ECONOMIC

Panama Canal Again Reduces Crossings Amid Severe Drought

The Panama Canal Authority is further cutting its number of allowed daily crossings due to a severe drought. Slots will be reduced to 25 per day, starting Friday.

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BUSINESS

Mexico's Banorte Reports 15% Rise in Profit for Q3

Mexico's Banorte on Tuesday posted a 15 percent increase in profit for the third quarter, year-on-year, fueled by double-digit growth in nearly all of the group's loan segments.

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POLITICAL

Bolivia Cuts Ties With Israel Over Attacks in Gaza

Bolivia on Tuesday cut ties with Israel over what Deputy Foreign Minister Freddy Mamani called its "aggressive and disproportionate" offensive in the Gaza Strip.

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Mamani // File Photo: Bolivian Government.

POLITICAL NEWS

Bolivia Cuts Ties With Israel Over Attacks in Gaza

Bolivia cut diplomatic relations with Israel on Tuesday, accusing it of “crimes against humanity” in Gaza, while Colombia and Chile recalled their ambassadors to Israel for consultations, the Associated Press reported. “Bolivia decided to break diplomatic relations with the state of Israel in repudiation and condemnation of the aggressive and disproportionate Israeli military offensive taking place in the Gaza Strip,” Bolivian Deputy Foreign Minister Freddy Mamani told reporters, the AP reported. Bolivia’s government pointed to the number of Palestinian casualties in Gaza amid the war between Israel and Hamas, but La Paz did not mention the Hamas attack on Israel at the beginning of the conflict. At the same time, Colombian President Gustavo Petro said he was recalling his ambassador to Israel. In a posting on X, formerly known as Twitter, Petro called Israel’s attacks a “massacre of the Palestinian people.” Chile’s foreign ministry also said it was recalling its ambassador to Israel “in the face of the unacceptable violations of international humanitarian law committed by Israel in the Gaza Strip,” the AP reported. Bolivia, Colombia and Chile have all called for a cease-fire, Reuters reported. Israel’s foreign ministry did not immediately respond for a request for comment by Reuters. [Editor’s note: See related [Q&A](#) in Monday’s Advisor.]

ECONOMIC NEWS

Panama Canal Again Cuts Crossings Amid Severe Drought

The Panama Canal will further cut its number of allowed ship crossings because of a severe drought, authorities managing the canal said

late on Monday, Reuters reported. Starting Friday, booking slots will be reduced to 25 per day and will be gradually reduced until they reach 18 slots per day beginning Feb. 1, the Panama Canal Authority (ACP) said in a client advisory. Authorities had already slashed the number of crossings—which normally average 36 per day—from 32 to 31 in August, the Associated Press reported on Sept. 30. The ACP has also cut vessel draft and daily passage authorizations in an attempt to conserve water in Panama, which is seeing the worst drought on record since 1950 due to the El Niño climate phenomenon, the ACP said, Reuters reported. “At the Panama Canal, we will continue to implement measures to save water during the rainy season to recuperate water levels and guarantee the hydro resources for human consumption without affecting, to the extent possible, inter-ocean travel,” Octavio Colindres, director of international communications for Panama Canal Authority, told the Advisor in a [Q&A](#) on July 5.

BUSINESS NEWS

Mexico’s Banorte Posts 15% Increase in Profit for Q3

Mexico’s Banorte on Tuesday posted a 15 percent increase in profit for the third quarter, fueled by double-digit growth in nearly all of its loan segments, Reuters reported. In the third quarter, the financial group’s profits increase to 13.3 billion pesos (\$761.4 million), slightly below analysts’ expectations, the wire service reported. Banorte’s net interest income rose 8 percent in the third quarter as compared to the same period last year amid loan portfolio growth as well as higher interest rates and a normalization of some pension accounts. Banorte also said its performing loans grew 15 percent year-on-year in the quarter. Banorte said corporate and consumer loans grew amid “initial opportunities related to nearshoring,” the trend in which businesses bring operations closer to their physical locations.

NEWS BRIEFS

Brazil’s Top Electoral Court Affirms Bolsonaro’s Eight-Year Ban From Office

Five of the seven judges presiding over Brazil’s top electoral court ruled for a second time on Tuesday that former President Jair Bolsonaro cannot seek or hold public office for eight years after abusing his power last year, Bloomberg News reported. The same court in June barred Bolsonaro from seeking office, ruling that he broke election laws by spreading false claims about the country’s electronic voting system during a meeting with foreign ambassadors.

Tropical Storm Kills at Least One in El Salvador

At least one person was killed in El Salvador as a result of heavy rains linked to Tropical Storm Pilar, The New York Times reported today, citing the country’s civil defense office. El Salvador’s National Police called the storm a “national emergency” on social media late Tuesday, and officials posted photos showing crews working to clear downed trees. The storm had maximum sustained winds of 60 miles an hour and was nearly stationary off the Pacific Coast, the U.S. National Hurricane Center said in an advisory at 7 a.m. Central Time.

Police in Puerto Rico Arrest 380 People in Crackdown

Police in Puerto Rico on Tuesday arrested at least 380 people, seizing 78 firearms, more than 50 vehicles, close to \$100,000 in cash and a variety of unspecified drugs in a major crackdown, the Associated Press reported. Twelve gangs involved in drug trafficking were targeted in the operation, with the help of the FBI and other federal agencies, said Police Commissioner Antonio López. The police received tips from residents who complained about violence in their neighborhoods.

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requested and obtained from Congress an additional budget proposal of 0.5 percent of GDP. However, without proposals to recover tax receipts or modify the legal ceiling of 2.4 percent for the annual public deficit, that surely will be breached. It is unlikely that this policy will recover growth, particularly as the country is unprepared to confront the coming El Niño, and structural problems are not being addressed. Resuming growth requires accelerating public investment and lowering interest rates, approving a progressive and anti-avoidance tax reform and an industrial policy that promotes new productive sectors taking advantage of our biodiversity. A renewed democratic government is crucially needed."

A **Constanza Perez Aquino, associate director of sovereign and public finance ratings at S&P Global Ratings:** "We estimate that Peru's GDP growth this year will be 0.9 percent or lower, partly because the economy will be hit by the transitory impact from weather events and social protests in January. The El Niño phenomenon will also likely extend to early 2024, with extreme weather affecting economic outcomes mainly through agriculture, fishing and potential damage to infrastructure. Higher food prices could in turn put pressure on inflation, while public health could be affected by new outbreaks of diseases like dengue. In response to this, the ministry of finance has been assigning resources for containment measures ahead of El Niño and for economic reactivation. The latest package is equal to 0.15 percent of GDP, although previous packages total just over 1 percent of GDP in budgeted resources. We consider that Peru's moderate debt levels provide some fiscal space to face temporary emergencies. However, going forward, the recovery of economic growth through more robust private investment will be key for fiscal consolidation as well as to

improve socioeconomic indicators in Peru, which currently has a BBB rating with negative outlook, as economic growth prospects in a vulnerable political situation remain as a question mark for S&P Global Ratings."

A **Carlos Vargas Alencastre, chief executive officer of TPC Group:** "The fiscal stimulus measure package that Peru's Congress recently approved aims to reactivate an economy affected by internal structural factors and exogenous and exceptional circumstances, such as the global El Niño phenomenon. The most relevant parties of the package include investments in infrastructure, incentives for SMEs and social protection measures. These actions aim to generate employment and increase market liquidity. The Peruvian economy has entered a recession due to several factors, such as political instability and low investment in key sectors. Corruption and the lack of structural reforms have aggravated the stagnation, being the long-term investments and policies fostering innovation and competitiveness necessary for a sustainable recovery. Currently, the mining and construction sectors face difficulties due to lower demand and mineral prices while the agro-export sector and tourism sectors are resiliently increasing but are still far from their full capacity. The stimulus package is a step in the right direction but is not a comprehensive solution to the problem Peru is facing. For a solid and sustainable economic recovery, a more comprehensive strategy is required that addresses both the immediate challenges and the long-term structural problems. That is, there is a lack of political leadership with a global vision."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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