



## PERU

### **Political Outlook:**

Much of the political agenda is now on hold due to the spread of the coronavirus disease. The government declared a State of Emergency on 03/15/2020. International borders were closed on Monday, March 16, and all citizens are still in quarantine. Additionally, there are restrictions on free mobilization, and a curfew from 9 PM to 5 AM was implemented, among other measures. Peruvian President Martin Vizcarra is giving updates -usually three to four times a week- on the evolution of COVID-19's impact and the new measures that have been implemented to stem the contagion. As for the mandatory quarantine, the period will last (for now) until June 30 –currently more than 183,000 cases and no signs of flattening the curve–. Some economic activities are already operating, and the country is about to enter to the Second Phase of the Economic Recovery Plan.

### **Economic Outlook:**

The Peruvian economy is going to suffer one of the largest recessions in years due to the spread of COVID-19. Most activities have been paralyzed for almost three months (until now), key sectors (Ex: mining) have been operating at a minimum, consumption of energy and oil has reduced, and, most importantly, private consumption and investment have also been put on hold. In order to reduce consequences in the short term, the Central Bank of Peru has cut the interest rate twice: from 2.25% to 1.25%, and from 1.25% to 0.25%. The process of recovery will begin by the end of the second quarter, however, no economic growth is expected in 2020. A contraction between 15% to 20% of the GDP is now estimated, according to the main consulting firms in the nation, due to the prolonged quarantine, the size of the informal labor market (70% of the population employed) and delays in public and private investments.

All of the current scenarios will depend on the role of the Ministry of Finance. The institution has announced important measures in order to reactivate the economy. According to the Ministry, the country will spend US\$30 billion (around 17% of GDP) to achieve three objectives: containing the disease, ensuring companies' payment chains by granting credit guarantees, and to reactivate the production of many paralyzed sectors.



Fortunately for Peru, its macroeconomic stability allows the country to take these measures. Current Peruvian international reserves sum up to US\$68.3 billion (30% of GDP). The public debt (26.8% of GDP), even though it has grown, is still below target. Also, the government has announced monetary subsidies for lower-income families, the withdrawal of up to S/2000 (around US\$580) from the pension funds for the unemployed, and subsidies for companies, among other measures. In order to not compromise its international reserves, the Peruvian government has issued bonds for US\$3 billion (total demand added up to US\$25 billion).

### **Investment Trends:**

Investments will be on hold as long as the COVID-19 pandemic is not controlled, and many businesspersons are recurring to 'safer' commodities in times of uncertainty. Besides the pandemic, the construction sector is still the most attractive for investment due to the needs and new plans announced by the government, including better connection among cities (roads and highways), health infrastructure, saturated airports, etc. Before the burst of COVID-19, one of the main drivers of growth throughout 2020 was going to be public investment, specifically in construction and infrastructure. Last year the government –in alliance with the private sector, regional governments and think tanks– presented a report on how to boost competitiveness and productivity (Plan Nacional de Competitividad y Productividad). One of the key factors was the boost in infrastructure, and it was estimated that the basic infrastructure 'gap' in Peru is around US\$110 billion.