

LATAM Market Update

- **Peru: Recent political events favour President Vizcarra's hold on power**

On Tuesday, Mercedes Aráoz declined to continue as acting President of the country, an office she had been sworn into following the government's decision to close Congress on Tuesday. Aráoz also resigned as Vice-President, which she had been elected to in 2016. As a result, President Vizcarra now has sole claim on the presidency. Had the opposition in Congress wished to contest Vizcarra's claim, it would have had to replace Aráoz with the President of Congress, Pedro Olaechea. However, Olaechea declined, and instead called the Congressional Permanent Committee to session on Tuesday. The 27 member Permanent Committee replaces Congress, albeit with limited powers, following the dissolution of the 130 member Congress. Olaechea, in representation of the opposition of Congress, appears to have accepted this. At the same time, the Elections Board began the process to prepare for Congressional elections on January 26th. All these events strengthen the view that President Vizcarra's decision to close Congress and call for new elections is becoming a "fait accompli". There is a caveat. Members of the Permanent Committee have stated that they would submit a demand to the Constitutional Tribunal to declare Vizcarra's actions as unconstitutional. Thus, as much as the political dust appears to be settling in favour of the Vizcarra government, there continues to be a quota of political risk.

Moody's announced that it was considering downgrading Peru's sovereign debt outlook from "stable" to "negative", due to political turbulence. This is a real risk. However, whether Moody's, or any other rating agency actually downgrades Peru's debt will depend largely on how quickly political turbulence dies down, how determined the progress towards new Congressional elections in January is, and whether these elections are seen to help improve the political environment or not.

Initial August GDP growth figures have begun to come out. Agriculture GDP rose 2.2%, y/y, in August, reversing two consecutive monthly decreases. Mining and oil & gas rose 4.2%, although there was a base comparison effect, as the Camisea gas refinery was down for maintenance in August 2018. Cement consumption also rose fairly strongly, up 7.5%. All in all, these figures suggest GDP growth of over 3% in August.

CONTACTS

Eduardo Suárez, VP, Latin America Economics

52.55.9179.5174 (Mexico)

Scotiabank Economics

eduardo.suarez@scotiabank.com**Guillermo Arbe**

511.211.6052 (Peru)

Scotiabank Peru

guillermo.arbe@scotiabank.com.pe**Mario Correa**

52.55.5123.2683 (Mexico)

Scotiabank Mexico

mcorrea@scotiabank.com.mx**Sergio Olarte**

57.1.745.6300 (Colombia)

Scotiabank Colombia

sergio.olarte@co.scotiabank.com**Jorge Selaive**

56.2.2939.1092 (Chile)

Scotiabank Chile

jorge.selaive@scotiabank.cl

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