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Latam Daily: Weak Investment and More Cabinet Changes in Peru

- Peru: Q1 national accounts reveal weak investment; surprise Cabinet changes

PERU: Q1 NATIONAL ACCOUNTS REVEAL WEAK INVESTMENT; SURPRISE CABINET CHANGES

I. First quarter growth at a robust 3.8% y/y, but investment disappoints

The BCRP [published](#) the official breakdown for first quarter GDP growth. The aggregate growth figure, 3.8% y/y, was already known, but the breakdown by demand component is informative on a number of counts (table 1).

First, domestic demand, at 2.5% y/y, underperformed GDP growth significantly (chart 1). Thus, 6.2% y/y export growth gave support to GDP growth. Metals contributed a bit to this, but other drivers of growth were more important, including agro-industry, and the recent return of textile exports as an important component in exports.

Second, domestic demand would have been much lower if not for consumption, which surged 6.9% y/y. This was in line with consumer loans growth of over 16% y/y at the end of the quarter, which was possible because households had used their pension fund and CTS withdrawals in 2020–2021 to reduce debt, giving room for the current expansion in debt.

Third, robust consumption was in sharp contrast with investment. Private investment rose a paltry 0.8% y/y, and is likely to continue decelerating gradually, crossing into negative territory, in line with our expectations of -2% growth in full-year 2022 (chart 2). Public sector investment was even more dismal, falling 13.7% y/y, the second consecutive quarterly decline (chart 3). It is our contention that this reflects the government’s low investment capability.

Fourth, inventories also declined, down 3.0% y/y. It’s difficult to gauge to what extent this reflects greater demand than expected, as consumption growth would suggest, or caution on the part of companies in replacing inventories or ramping up production, given low business confidence.

%	2021		2022
	Q3	Q4	Q1
GDP	11.6	3.4	3.8
Domestic demand	14.3	3.7	2.5
Private consumption	11.8	5.5	6.9
Private investment	22.5	2.5	0.8
Public consumption	15.0	-2.7	11.3
Public investment	40.4	-16.9	-13.7
Inventories	-1.2	1.5	-3.0
Exports volume	12.5	5.8	8.2
Imports volume	24.6	7.0	2.6

Sources: Scotiabank Economics, BCRP.

Chart 1

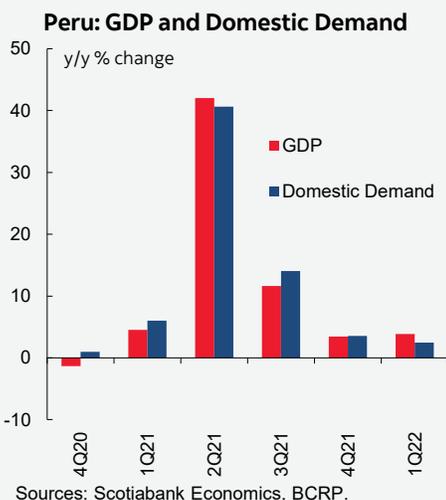


Chart 2

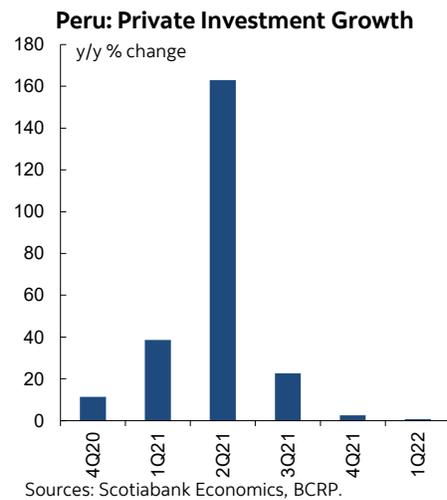
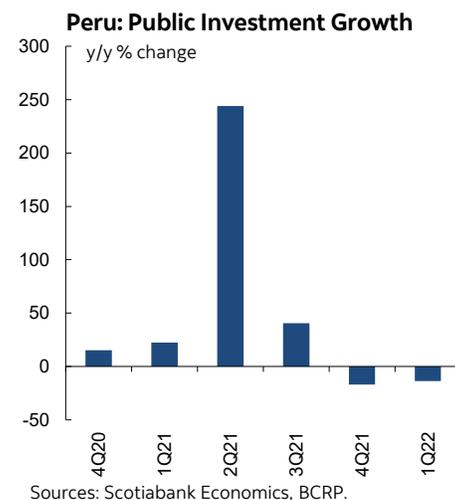


Chart 3



The bottom line is: consumption remains surprisingly robust, even as investment decelerates quickly, in line with expectations. This in an environment in which exports are holding their own. Given this scenario, we are comfortable with our forecast of 2.6% GDP growth for the full year. The initial, and still weak, signs of a slowdown seen in Q1 are likely to become mildly more evident in Q2, with GDP falling below 3%.

II. President Castillo changes four of 18 Cabinet positions on Sunday, May 22.

Highlights

- Four new Cabinet members out of 18 total does not imply a major change in the agenda or performance of the Anibal Torres Cabinet (table 2).
- The timing of the Cabinet changes came as a surprise, and the reasons for it were not clear.
- One motivation may have been to preclude the removal of Ministers Carlos Palacios and Alfonso Chavarry, who were likely to face a Congressional procedure (interpelación) to that effect.
- Three of the new Cabinet appointments are, hopefully, neutral to positive in terms of improving policy quality and consistency:
 1. Alessandra Herrera at the Ministry of Energy and Mines replaces Carlos Palacios, who was widely seen as not being capable, or willing, to resolve the conflicts at mining operation, such as Las Bambas (copper).
 2. Dimitri Senmache at the Ministry of the Interior replaces Alfonso Chavarry, who was being criticized for his role in implementing a curfew in Lima which led to marches and protests.
 3. Juan Barranzuela at the Ministry of Transportation, who replaces Nicolás Bustamante, a person linked to the former Minister Juan Silva, who is under investigation for malfeasance.
- The most hopeful change, perhaps, is Minister Herrera at Energy & Mining, as she appears to be both more experienced and more capable than her predecessor. Minister Herrera is a lawyer with experience in mining and environmental legislation as well as community administration. Given her experience she is likely to be focused on resolving social conflicts surrounding mining operations in a way that former Minister Palacios never was.
- Note, however, that this is the fourth change at the Head of the Ministry of Energy & Mines during the Castillo Regime, which is an additional source of uncertainty.
- The appointment which has raised eyebrows is that of Juan Arce at the Ministry of Agriculture, as he has no experience relevant to his new Cabinet position. The designation of Minister Arce, who is currently a member of the Andean Parliament in representation of Perú Libre, appears to be a concession to the Perú Libre party.

Table 2: Peru—New Cabinet Members, May 2022

Cabinet Position (Ministry)	New Minister	Profile and Past Experience	Past Minister
Energy & Mining	Alessandra Herrera	Law - USMP. Minister of Energy & Mining: 7 days (Feb. 1–7, 2022). Director of Formalization of Mining Activities (2015–2017). Director of Legal Advisory Team - Min. Agriculture. Director of Public Order Min. Interior.	Carlos Palacios
Transportation & Communications	Juan Barranzuela	Bachelor's degree in Accounting - U. San Pedro. General Manager - Regional Gov't of Tumbes (2018–2019).	Nicolás Bustamante Coronado
Agriculture	Javier Arce Alvarado	Business Administration - Instituto Tecnológico Santiago de Surco. Member of Perú Libre until Feb. 22. Elected to Parlamentario Andino for Perú Libre (2021–2026). Lieutenant Mayor of Santa Rosa (1996–1999).	Oscar Zea
Interior	Dimitri Senmache	Law - Specialist in security. Advisor to the National Council of Penitentiaries (2018–19). Advisor to the President of EsSalud (2019–21). Head Advisor to the Minister of the Interior Avelino Guillén (Nov. 21–Jan. 22).	Alfonso Chavarry

Sources: Scotiabank Economics, Local Press.

May 24, 2022

- With these new designations, President Castillo has changed Cabinet members 36 times in the ten months he has been in office. This continues to affect policy continuity and stability.
- The change of Cabinet members at risk of removal by Congress seems to have become part of the government's modus operandi, possibly in order to avoid the government from being put "on trial" by proxy, or perhaps to avoid giving the opposition in Congress what could be viewed as a victory.

—Guillermo Arbe

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