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A New Political Cycle in Peru: Economic Priorities and Governance Challenges Under Fujimori

On July 28th, Keiko Fujimori was sworn in as President of Peru, becoming the first woman elected to the office through popular vote. Fujimori, leader of Fuerza Popular and daughter of former President Alberto Fujimori, won the election by a narrow margin of approximately 50,000 votes in her fourth attempt to reach the presidency. During her inaugural address, she emphasized that the immediate priorities of her administration will be addressing the El Niño event and improving public security.

Regarding the first challenge, Fujimori pledged to immediately begin river dredging operations, strengthen flood defenses, and deploy heavy machinery to critical areas along Peru's northern coast, the region that traditionally experiences the greatest damage during severe El Niño events. On public security, she announced plans to strengthen the National Police through a technological modernization process that will include artificial intelligence tools to anticipate and map criminal activity. To facilitate these initiatives, the Government will seek delegated legislative powers from Congress in both areas.

The President appointed Luis Galarreta as Chief of Cabinet Ministerial. Galarreta is an experienced politician and currently serves as First Vice President of the Republic. Elmer Cuba, a well-known economist with extensive professional experience, was named Minister of Economy and Finance, increasing the likelihood of prudent fiscal management and policies aimed at promoting private investment. Carlos Espá, a former presidential candidate who endorsed Fujimori in the runoff election, was appointed Minister of Foreign Affairs.

Among the key sector ministries, the Ministry of Transport and Communications, which oversees major public investment programs, will be headed by Rafael Rey, a politician with experience in public administration but limited background in the transport sector. Meanwhile, the Ministry of Energy and Mines will be led by Guillermo Shinno, who previously served as Vice Minister of Mines. Overall, the cabinet to be largely technocratic and experienced in public administration, representing an improvement in technical expertise compared with recent ministerial teams.

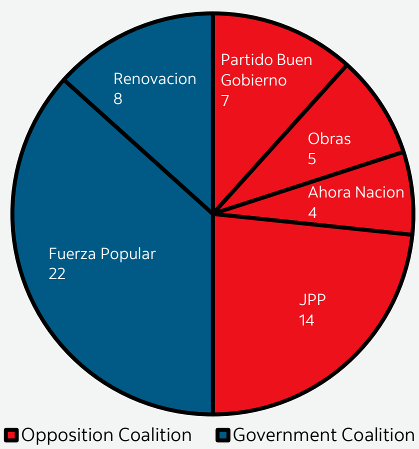
Regarding the new bicameral Congress (charts 1 and 2), Miguel Torres of Fuerza Popular, who also serves as Second Vice President of the Republic, was elected President of the Senate after narrowly defeating the opposition coalition's candidate by a 30–29 vote. The Senate holds important responsibilities, including appointing three members of the Central Reserve Bank's board and ratifying the appointment of the institution's president. Fujimori has confirmed that Julio Velarde will remain as Governor of the Central Reserve Bank until 2031, a decision that should help preserve monetary policy continuity and macroeconomic stability.

On the other hand, Oscar Reto, a member of the opposition coalition, was elected President of the House of Representatives (Chamber of Deputies). Its main responsibilities include drafting legislation and exercising political oversight over the Government, including ministerial interrogations and censure motions. It is worth noting that preventing the removal of the President requires 21 votes in the Senate. Given that Fuerza Popular controls 22 seats for the 2026–2031 legislative term, the probability of a presidential vacancy appears low, reducing a source of political instability that characterized much of the past decade.

In her inaugural address, President Fujimori announced several economic measures. Among the most notable were: (i) a proposed 15% increase in the minimum wage, from S/1,130 to S/1,300 per month, accompanied by a one-time compensatory subsidy for micro and small enterprises (SMEs) to help them formalize workers; (ii) an increase in the

Chart 1

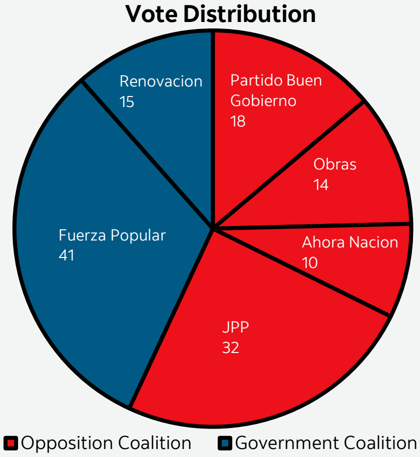
Peru: Senate Vote Distribution



Source: Scotiabank Economics.

Chart 2

Peru: House of Representatives Vote Distribution



Source: Scotiabank Economics.

Pensión 65 social assistance benefit from S/350 to S/700 every two months for elderly citizens living in extreme poverty; and (iii) the completion of Lima and Callao Metro Line 2 and the New Central Highway linking Lima and Huancayo, as well as the development of Metro Lines 3, 4, 5, and 6, urban rail systems in Arequipa, Trujillo, and Piura, the Lima-Barranca and Lima-Ica commuter rail projects, the Carretera Longitudinal de la Sierra, the Autopista del Sol, among other major infrastructure initiatives.

Particularly noteworthy was the proposal to double the Pensión 65 benefit, which would entail a permanent fiscal cost estimated at approximately 0.1% of GDP, as well as the temporary subsidy for SMEs aimed at mitigating the impact of the announced minimum wage increase. These measures are notable given expectations that the new administration would place greater emphasis on fiscal sustainability.

Nevertheless, the President's speech strongly emphasized the provision of legal certainty, macroeconomic stability, and clear rules for both domestic and foreign investors. She also pledged to reduce bureaucratic obstacles that hinder private investment expansion. Furthermore, the ambitious infrastructure investment portfolio will require careful budget management. Most of these projects will likely be implemented through Public-Private Partnerships (PPPs), as financing all of them simultaneously through public resources would be unfeasible. Individually, each major project could require investments ranging from US$5 billion to US$7 billion. Finally, while the administration presented broad policy priorities, would have been useful detail would have been welcome regarding strategies to combat illegal economic activities such as illegal mining, drug trafficking, and extortion, all of which have expanded significantly over the past five years.

CONCLUSION

The new administration has sent broadly positive signals for markets and investors through the appointment of a technocratic economic team, the ratification of Central Bank Governor Julio Velarde, and its commitment to legal certainty and private investment. While the announced increases in social spending and the minimum wage will entail additional fiscal costs, the government's emphasis on fiscal responsibility suggests these measures will likely be implemented cautiously. At the same time, the ambitious infrastructure agenda could support long-term growth, although its execution will depend heavily on attracting private capital through Public-Private Partnerships. Overall, stronger political stability and greater policy predictability improve the outlook for investment, but challenges remain in addressing illegal economic activities.