

## Latam Daily: Peru Q2-2021 GDP and Political Events; Chile Presidential Candidates

- **Chile:** Presidential race takes shape as nine candidates vie for November first-round
- **Peru:** Q2 results point to strong private investment at the same time as short-term capital outflows; Congress awaits the new cabinet

### CHILE: PRESIDENTIAL RACE TAKES SHAPE AS NINE CANDIDATES VIE FOR NOVEMBER FIRST-ROUND

On Monday, August 23, the presidential candidate registrations officially closed and the main political forces registered nine candidates for the November 21 election. As we discussed in yesterday's *Latam Daily*, the centre-left bloc chose Yasna Provoste as its candidate for the November election, who will seek Chile's presidency alongside the representative of Social Convergence (left), Gabriel Boric, and the independent (centre right) Sebastian Sichel. Also, the Electoral Service (Servel) confirmed the candidacy of José Antonio Kast (far-right), Marco Enríquez-Ominami (Progressive Party), Franco Parisi (People's Party), Diego Ancalao (The People's List), Eduardo Artés (far-left) and Gino Lorenzini (independent). The Servel will now proceed to vet the nominations before considering candidates as officially registered by September 2.

—Anibal Alarcón

### PERU: Q2 RESULTS POINT TO STRONG PRIVATE INVESTMENT AT THE SAME TIME AS SHORT-TERM CAPITAL OUTFLOWS; CONGRESS AWAITS THE NEW CABINET

#### I. Q2 results point to strong private investment

Peru's central bank (BCRP) released the official GDP and domestic demand growth figures for Q2-2021 on August 20. As for GDP growth, the strength of private investment was the greatest surprise, especially considering signs of domestic outflow of short-term capital (more below).

GDP growth of 41.9% y/y in Q2 (table 1) was not all that surprising, as monthly results had already been released and given the low base of Q2-2020—a time of COVID-19 lockdowns. What is particularly encouraging, in comparing with 2019, is that, exports aside, all demand components of GDP were up. Domestic demand was 3.4% greater than in pre-COVID-19 Q2-2019.

As mentioned above, private investment was the greatest surprise: a huge 12.6% increase over the same quarter in 2019. Even though 2019 was not a great year for private investment, such a large increase amidst the current political turbulence is surprising. Especially considering that investment in mining was 9.8% lower than in 2019, and, thus, the underlying driver was non-mining investment, which was up 16%.

Consumption has also been holding up well, up a mild 0% to 0.2% in the first half of 2021 over 2019. This belies a weakish labour market, and reflects the tremendous amount of resources that have reached households through public transfers and withdrawals from pension and labour funds.

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## II. External accounts weakened in Q2, on short-term capital outflows

The BCRP also released balance of payments results for Q2. Perhaps the most notable data had to do with the reported outflow of short-term capital from non-financial institutions (that is, businesses and households, and excluding banks and offshore funds) of USD 7.4 bn for Q2, and USD 10.8 bn for the first half of 2021 (table 2). These are huge amounts. The previous record for a net outflow from businesses and households dwarfs in comparison, at USD 3.0 bn, and this was for the full year 2018. Data shows that the outflow of short-term capital was mostly from domestic sources. In comparison, outflows attributed to offshore funds disinvesting out of local PEN instruments—mostly sovereign bonds—was tame, only USD 987 mn for Q2 and USD 1.9 bn for the first semester. Together, the two sources of outflow amount to USD 11.8 bn, which goes a long way in explaining the strong depreciation of the PEN in this period.

**Other balance of payments accounts were much more favourable.** The trade balance is on its way to meet our forecast of USD 12 bn for the year, and a new record, thanks to metal prices. High metal prices are also behind the increase in investment income, which accounts for earnings of offshore companies, especially mining. This factor, plus higher service costs, led by a sharp increase in freight costs, caused the current account deficit to slide into a deficit so far this year.

## III. Defining political events ahead as Congress awaits the new cabinet

**This is a week of definitions.** Maybe. In principle, three things should occur in the next seven days until the end of August, although only one is actually scheduled. First, this coming Thursday, August 26, the cabinet is scheduled to formally present itself before Congress, outline its government plan, and request a vote of confidence. Second, by August 31, the Ministry of Finance should submit the 2022 fiscal budget to Congress. Third, the designation of the BCRP's Board of directors is still pending.

1. **The vote of confidence:** Guido Bellido, the Head of the Cabinet, is not seen favourably by much of Congress, therefore a vote of confidence is not a given. A lot may depend on how moderate he is in his speech and proposals. Bellido has been sending mixed messages of late, but overall appears to have softened his tone. There is a good chance that he will seek to appease Congress, rather than confront it, but this cannot be assured until the actual delivery is made.

The government did, however, take one important step towards appeasing Congress last week when it replaced the Minister of Foreign Affairs, Héctor Béjar, with Oscar Maúrtua de Romaña. Béjar was a far-left figure which seemed intent on renegeing on Peru's recent history of regional alignments, and realigning the country with more leftist countries, such as Cuba and Venezuela. Replacing him with Maúrtua, a long-term diplomat who had held the position of Minister of Foreign Affairs in 2005–2006, is a strong statement on several levels: the government is replacing someone who is inexperienced in foreign affairs, and identified with the far left, with someone well experienced and is a moderate centrist; the switch also reduces the presence of people closely allied with Vladimir Cerrón and Peru Libre's leadership, inside the cabinet, thereby modifying the

Table 1  
Peru: GDP Growth—Demand Components

(% change)	2020/2019		2021/2020		2021/2019	
	Q1	Q2	Q1	Q2	Q1	Q2
<b>Aggregate GDP</b>	-3.9	-29.9	4.5	41.9	0.4	-0.6
Domestic demand	-2.5	-26.6	6.1	40.9	3.4	3.4
Consumption	-1.7	-22.1	2	28.3	0.2	0
Private investment	-14.4	-57	36.8	162	17.2	12.6
Public investment	15.1	-70.7	23.9	251.2	42.7	2.8
Exports	-10.6	-42.4	-2.8	48.8	-13.1	-14.4
Imports	-5.9	-30.3	3.1	44.1	-3	0.4

Sources: Scotiabank Economics, BCRP.

Table 2  
Peru: Balance of Payments

(USD, mn)	2020		2021		
	Full-year	Q1	Q2	H1	
<b>Current account balance</b>	1583	-1772	-2104	-3876	
Trade balance	8228	2769	2469	5238	
Exports	42941	13469	14345	27814	
Imports	-34713	-10700	-11876	-22576	
Service	-4170	-1244	-1552	-2796	
Investment income	-6546	-4249	-3971	-8220	
Remittances	4071	952	940	1892	
<b>Capital account balance</b>	7745	8347	-4454	3893	
Private sector	-1096	5429	3359	8788	
Public sector	9818	5547	-516	5031	
Short-term capital	-977	-2629	-7296	-9925	
Financial	-839	808	75	883	
Non-financial	-138	-3437	-7372	-10809	
Errors and omissions	-4027	-1011	-1499	-2510	
<b>Total balance of payments</b>	5301	5564	-8056	-2492	

Sources: Scotiabank Economics, BCRP.

balance of power. Furthermore, the appointment of Maúrtua de Romaña, a technocrat, brings into question what his designation means with regard to putting governability above the party's ideology and preferences.

However this may be, the move should, at least, help mollify Congress, and increases the likelihood that the Bellido Cabinet will receive a vote of confidence.

2. **The 2022 budget:** The budget will shed light on how the government intends to stimulate the economy and implement social programs, while maintaining the goal, already stated by Finance Minister Francke, to bring the fiscal deficit down to 3.7% of GDP. We shall also learn how the government intends to finance its spending programs, and the deficit. This is becoming a bit more of an issue, as conditions to issue debt have deteriorated.

Finally, the budget may tell us if the government is contemplating new taxes, or raising current levies, especially on mining. For any tax change to be in force in 2022, it must be established by law in 2021.

3. **The BCRP Board of Directors:** Expectations remain high that the current President, Julio Velarde, will be ratified. However, the government's decision-making process is still uncertain and this is not entirely assured. Given the state of investor confidence, rising inflation and PEN volatility, one would assume that time is of the essence in deciding on this issue, yet it is not perceived as an immediate priority for the administration. In the past, the BCRP Board designations were typically made in August, but this is not set in stone. In 2011 Velarde was not reappointed until October 3.

—Guillermo Arbe

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