

## Latam Daily: Peru Cabinet Previews Uncertainty; Chile BCCh Minutes

- **Peru: President Castillo's pick to head the cabinet is a nod to Perú Libre leadership, and previews challenges ahead**
- **Chile: Minutes from July 14 Monetary Policy Meeting show caution and sources of uncertainty; reaffirm our view of an October hike**

### PERU: PRESIDENT CASTILLO'S PICK TO HEAD THE CABINET IS A NOD TO PERÚ LIBRE LEADERSHIP, AND PREVIEWS CHALLENGES AHEAD

**What a difference a day makes.** Just as it seemed that President Castillo was attempting to define his government as a moderate leftist one in his acceptance speech on Wednesday, his designation of Mr Guido Bellido as head of the cabinet reignites uncertainty over the type of profile his government will have. Castillo's choice of Bellido to head the new government cabinet is disconcerting as Bellido is linked to the more radically left wing of the Perú Libre political party and has close ties to Vladimir Cerrón, the party leader. His designation appears to already be having political impact, as it may have limited President Castillo's ability to announce a full cabinet line-up on Thursday. The heads of the Ministries of Finance and Justice were left unfilled.

**Bellido (41) is an engineer, and a member of the recently installed Congress for Perú Libre, with no significant experience in public office.** He is a controversial figure, currently under investigation for publicly denying Sendero Luminoso (guerrilla group prominent in the 1980's) was a terrorist organization, an act punishable under the country's "Ley de apología del terrorismo."

**It is not easy to gauge the meaning of Castillo's decision to appoint Bellido.** Castillo had given signs in the past of his intention to include members of Perú Libre in his cabinet but appointing someone so close to Cerrón in such a high-level position is a very strong statement. There are also other controversial figures in the cabinet, with many of the cabinet designations having little experience in their respective areas of responsibility.

**Bellido is unlikely to generate confidence in the business community, or to improve political relations within the country.** His designation raises concerns over the government's vision and intentions, but also regarding its State management capabilities, as he lacks experience in public office. It will not be easy for such a controversial figure to generate a positive working relationship with Congress. To this one might add the possibility of tensions within the new cabinet itself. The cabinet announcement, at first rescheduled and then delayed by two hours late on Thursday evening, combined with the still absent appointments to Finance and Justice, suggests that many of the original candidates were not only surprised, but also alienated, by Bellido's designation. Noticeable among them, is Pedro Francke, a prominent figure during the transition who is not—or at least not yet—a member of this first cabinet. Note, however, that Mr Francke's participation in the cabinet is not entirely ruled out, as the press reports of early Friday morning meetings between Francke and Castillo.

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**Although Mr Bellido's designation empowers Perú Libre within the government, this is not a cabinet with a clear dominance of that party.** The cabinet members that were designated reflected what was likely Castillo's original intention of mixing independent experts with moderate leftists linked to centre-left leader Veronika Mendoza, and Perú Libre members that identify with party leader Vladimir Cerrón. However, the balance is farther from the centre than expected, and one that does not seem to promote stability. Furthermore, this is a more political cabinet rather than one comprised of experts, with very few of its members having a track record in State management capabilities.

**As a result, Peru is once again in a position of enhanced uncertainty regarding governability and the cabinet's relationship with Congress.** Mr Bellido's leadership, and the make-up of the cabinet also generates uncertainty regarding the cabinet's internal coherence and stability, and as a result, on the type of policies that may result, and its ability to implement them. Castillo ended his inauguration speech calling on all men and women in the country to "reconstruct national unity". One wonders how the cabinet he has appointed contributes to this.

—Guillermo Arbe

### **CHILE: MINUTES FROM JULY 14 MONETARY POLICY MEETING SHOW CAUTION AND SOURCES OF UNCERTAINTY; REAFFIRM OUR VIEW OF AN OCTOBER HIKE**

The central bank's [minutes](#) of the monetary policy meeting held on July 14 were released earlier today (July 30), again showing a positive reading on economic activity driven by consumption and the ample liquidity of families boosted by fiscal aid and the approved pension fund withdrawals. However, the central bank underscored that sources of uncertainty persist, including Chile's upcoming presidential election in November and the ongoing Constitutional Assembly process to re-write the country's charter.

**The labour market continued to show mixed signals.** On the one hand, the statistical agency's (INE) data showed an unemployment rate that remained around 10%, with high inactivity which increased in May. In contrast, the record of contributors to pension funds reflected a formal salaried occupation already fully recovered. Other measures, such as the Internet Employment Notices Index hit record-high levels of the last five years; the annual variation in real remuneration was close to its 2019 values; and employment expectations were positioned optimistically.

**In this context, the minutes show the Board evaluated two options: keeping the rate at 0.5% or increase it by 25 bps to 0.75%.** In the end, the Board voted unanimously to increase the rate to 0.75%, which we discussed in our [Latam Daily](#) of July 15. The details included in the minutes are an important basis to gauge the Board's conviction to continue an accelerated normalization process.

**In assessing the option of holding the rate while taking into account the persistent sources of uncertainty, we are led to reaffirm our expectation that the next increase of 25 bps will likely occur at the BCCh's October meeting and that would be the last increase in 2021.** This scenario is conditional on having no additional fiscal aid or approving a fourth withdrawal of pension funds which are currently being negotiated in congress, in which case the central bank would have to reassess its baseline scenario and most likely adjust its rate view upwards in the monetary policy horizon.

—Anibal Alarcón

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