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Latam Daily: Peru's Eventful Weekend

- **Peru: An event packed weekend included new BCRP forecasts, downgrades, cabinet changes, and protests**

PERU: AN EVENT PACKED WEEKEND INCLUDED NEW BCRP FORECASTS, DOWNGRADES, CABINET CHANGES, AND PROTESTS

On Friday, March 18, the BCRP released its inflation report. The highlight of the central bank's report was the change in inflation forecast for 2022, which is now projected to hit 3.6%. This is the first time that the BCRP has raised its inflation forecast for 2022 above the 3.0% target range ceiling. The BCRP has argued that both core inflation (3.3% in February) and inflation expectations (3.8% in February) are contained, with inflation concentrated in energy and food, which are volatile.

The BCRP seems to be suggesting that this would mean that inflation is not broad-based, and should subside later this year, once the global factors behind it normalize.

There seems to be a level of wishful thinking in this assessment given the uncertainty surrounding the magnitude and duration of the Russia/Ukraine conflict, and considering that inflation was already high prior to Russia's invasion. We recently raised our inflation forecast for 2022 to 6.4%, from 4.2%.

S&P Global Ratings cut Peru's credit rating from BBB+ to BBB on foreign currency debt and from A- to BBB+ on local currency debt on March 18, preserving its investment grade status. S&P also changed Peru's outlook from negative to stable. We do not expect any further changes in the foreseeable future, barring some unusual political events. Politics is, in fact, the key, since S&P cited a persistent political shock on investor confidence as the reason for the downgrade.

By "persistent" S&P went beyond the current Castillo regime and referred to the 2016–2021 period and years of constant acts and threats of changes in governments, cabinets, members of Congress, etc. However, S&P also highlighted Peru's healthy macro, and, especially, fiscal, balances, so it's not all that clear how political turbulence would affect Peru's debt payment capabilities, beyond political turbulence that puts growth at risk. S&P's decision may not roil markets, as it was expected, and there appears to be no threat to debt payment per se.

Peru sovereign debt was not the only Peru asset that was downgraded recently. S&P also downgraded the State oil company Petroperú debt from BBB- to BB+ (Fitch had already downgraded the week before, one notch to BBB-). Perhaps in part because of this, on Sunday, Hugo Chávez, the CEO at the State firm Petroperú, resigned. Chávez, who is close to Vladimir Cerrón, the head of Perú Libre, was appointed to head Petroperú in October, and was yet another controversial designation by President Castillo.

Under Chávez, Petroperú was suffering significant management issues. Chávez and the company came under investigation for corruption almost immediately after his appointment. In February, Price Waterhouse Coopers, which had been hired in December to audit the company, announced that it would not do so, claiming scheduling and management and transparency issues. The final nail in the coffin came after the Minister of Finance, who is on Petroperú's board of directors, denied Chávez his backing and, apparently, lobbied President Castillo for Chávez's removal. Petroperú had become an additional symbol of State mismanagement in the Castillo regime.

Félix Chero was designated the new Minister of Justice on Sunday, March 20, to replace Ángel Yldefonso, who resigned on Saturday. Yldefonso had been severely criticized by opposition parties in Congress almost since he took office, as it quickly came to light that he had failed in exercising control over the Junin regional government when he headed a

March 22, 2022

government oversight office. Presumably, he would have favored Vladimir Cerrón, head of Perú Libre, who was governor of Junín at the time. Allegations and criticisms have already begun to swirl around the new Minister, Chero. Meanwhile, the press reported this weekend that Minister of Labour, Betssy Chávez, graduated with a thesis that plagiarized other works. And so, the game of musical chairs within the cabinet continues.

Dual protests were held over the weekend. On Saturday, a march was organized protesting the decision by the Constitutional Court on Friday to pardon and release former president Alberto Fujimori. On Sunday, meanwhile, protesters took to the street demanding that President Castillo resign. Neither of the events were massive, but are indicative of the degree of polarization in the country.

Update on Southern Peru. The Cuajone mine has remained in shut down since its water supply was cut off by protesters from local communities on February 28. Company sources have stated that the stoppage has meant the loss of 9,700 metric tons of copper output. Cuajone produces 7% of Peru's total copper output.

—Guillermo Arbe

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