

Peru elections: Extreme contest

Blog

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Peru is days away from one of the most important elections in its history. Pedro Castillo, an extreme-left candidate with socially conservative views, will face right-of-center Keiko Fujimori in the presidential runoff on 6 June. Against this backdrop, we recently held a webinar with Alonso Segura, former minister of economy during the Humala administration, to hear his views about the runoff and the possible scenarios depending on the outcome.

To recap, Castillo has promised a radical shift away from Peru's long-standing orthodox policy path. He has campaigned on rewriting the constitution; increasing the state's role in the economy by nationalizing industries such as mining and fishing; raising tax rates on international corporations to as high as 70%; and replacing the private pension system with a government-run one. By contrast, Fujimori essentially offers policy continuity. The way things are, in our view, Peru is heading into a contest of extremes. According to polls, Castillo continues to enjoy a small lead against Fujimori.

Taking into account the composition of the Peruvian Congress, former Minister Segura believes that Castillo would have a reduced margin of maneuver for an extreme agenda. That said, he also believes Castillo may resort to using public pressure and confidence votes to try to impose his program. We note that to date, Castillo has not moderated his rhetoric.

As to the constitutional reform Castillo is advocating, Segura believes the process has to go through Congress, as a referendum does not seem to be a viable option. According to Segura, a constitutional reform requires a qualified majority of 87 votes in two consecutive legislatures, or a minimum of 66 votes and one referendum, which should take time.

Castillo is contemplating a constitutional assembly, but according to Segura this option is unconstitutional unless Congress approves a constitutional amendment to allow for it, based on the procedures described above, and only then could Castillo push for a full-fledged reform by such an assembly. He could also try to put any subject to a vote of confidence, hoping that Congress would turn it down twice; in such a case, the president has the option to dissolve Congress and call for new congressional elections with an eye for a friendlier legislature.

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In the meantime, Segura said that any attempt by Castillo to expropriate private companies, change the role of the central bank, limit imports, or remove Peru from international treaties—all of which Castillo has said in his campaign trail—would require the approval of Congress. Although Castillo cannot unilaterally restrict imports, he could de facto do so by promoting sizably higher import taxes. He could also nominate half of the members of the board of the central bank. While he may not be able to modify contracts, Castillo could look for ways to hinder efforts via regulatory bodies, where the president has the prerogative to appoint members.

In the event Fujimori wins, Segura highlighted she would still face governing issues, as her party has a smaller bench than Castillo's. She could also be the subject of legal processes for alleged misdeeds committed before she took office. Finally, Segura believes that in the event Fujimori wins, Castillo could turn to the streets to trigger political pressure via public demonstrations.

All in all, irrespective of the outcome, political noise is likely to remain elevated in the country. In our view, Peruvian assets have by now largely, but not fully, priced in a Castillo victory where he moderates his stance once in office. A scenario in which he attempts to stick to his campaign promises—a successful attempt to reform Peru's constitution, for example—does not seem reflected in current valuations, however.

Appendix

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