

Latam Economic Update

- **Argentina:** June trade data stabilize, but still reflect three years of recession
- **Peru:** In a promising speech, President Vizcarra outlines his government's plans for his last year in office

ARGENTINA: JUNE TRADE DATA STABILIZE, BUT STILL REFLECT THREE YEARS OF RECESSION

June trade data showed another strong surplus that again reflected weak import demand, but the numbers showed some stabilization from beginning of the global response to COVID-19. The June trade balance came in at USD 1.5 bn, up 39% y/y from the USD 1.1 bn recorded in June 2019; the 12-month rolling balance continued to tick up from USD 18.0 bn in May to USD 18.5 bn in June, a by-product of the collapse in import demand during three years of recession (chart 1). The 12-month rolling sum of the total value of Argentina's trade flows (i.e., imports and exports combined) continued to fall, but did so in June slightly less quickly than in the last few months.

In the details, June import values were down -21% y/y at USD 3.3 bn (versus USD 3.2 bn in May), with ongoing declines in capital-goods imports (-27% y/y) boding poorly for the economy's potential over the next few years. At USD 4.8 bn, exports were off by "only" -8.6% y/y as a 46% y/y rise in the value of primary goods exports partially offset declines in manufactured goods (-46% y/y) and energy (-27% y/y).

—Brett House

PERU: IN A PROMISING SPEECH, PRESIDENT VIZCARRA OUTLINES HIS GOVERNMENT'S PLANS FOR HIS LAST YEAR IN OFFICE

President Vizcarra gave his annual Independence Day Address to the Nation on Tuesday, July 28. This is typically an opportunity for the government to outline its agenda for the coming twelve months. In this case, this period will be Pres. Vizcarra's last year in office. As we expected, Pres. Vizcarra focused his Address on COVID-19 and health issues, on the government's strategy for economic recovery, and on his search for a new relationship with the political opposition in Congress.

On this last point, Vizcarra actually went beyond relations with Congress, and offered a five-point plan, Pacto Perú, that would encompass work with all political parties. The five points of the Pact include:

1. Building a unified health system;
2. Providing quality education for all;
3. Promoting sustainable economic growth;
4. Reforming the political and judicial system; and
5. Fighting poverty.

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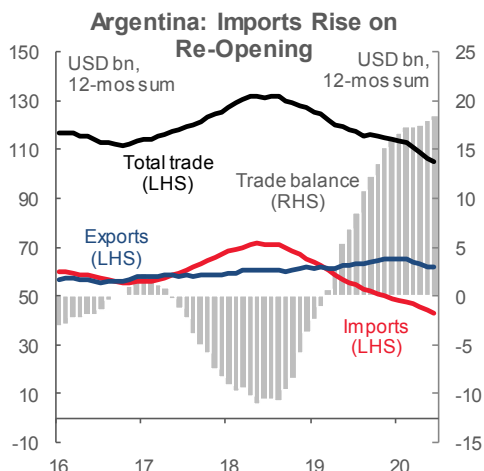
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Chart 1



Sources: Scotiabank Economics, INDEC.

Pres. Vizcarra stated that he proposes to invite representatives from all political parties to craft agreements on each of these five points. It's interesting that Pres. Vizcarra would prefer a discussion with the political parties, rather than with Congress *per se*. This probably reflects two observations: (1) political parties can be seen as more representative than members of Congress; and (2) members of Congress are more likely to have a personal agenda and the individual relationships that many of them have with the government are difficult. The next step is to see how the political parties respond and what venue is constructed for talks.

Some of Pres. Vizcarra's most interesting announcements concerned the economy. What could turn out to be the most significant was the announcement of an expansion of the use of government-to-government project management for the operation of infrastructure projects (PMO). This format was used successfully to build the infrastructure for the 2019 Pan-American Games. Recently, a similar format was tendered for the reconstruction of damaged (post-Niño) infrastructure in northern Perú. Pres. Vizcarra announced that the government would apply the PMO format to the following projects:

1. Line 3 and Line 4 of the Lima Metro project. This is a PEN 30 bn (USD 9 bn) investment;
2. The improvement of the Central Highway that is the lifeline that feeds Lima; and
3. Packages of schools, of hospitals and of water projects, for a total of PEN 11 bn.

A number of other economic measures were announced, mainly enhancements to safety nets and fiscal stimulus efforts, including:

- A new PEN 760 relief payment to be delivered to 8.5 mn households, for a total cost of PEN 6.4 bn;
- Children orphaned due to COVID-19 will receive PEN 200 per month until they are 18 years old;
- PEN 736 mn was earmarked for government purchases of small business goods;
- PEN 532 mn in housing subsidies was committed; and
- PEN 20 bn was budgeted in 2021 for improvements in health and infrastructure.

In addition, Pres. Vizcarra announced that the third stage of the Chavimochic irrigation project had been freed of its legal issues and was one of 2,000 projects, for a total of PEN 328 mn, where issues have been resolved and are ready to proceed.

All in all, the economic part of the Address gave the impression that the government has been working to get prepared to spend heavily over the next 12 months. The most interesting announcement, given precedents, is the greater use of PMOs, although the implementation of this format may still take some time.

The final point in the Address concerned health and COVID-19. The PEN 20 bn announcement for 2021 is a record budget for the health sector, and comes after an already high PEN 10 bn allocation in 2020. The spending plan goes beyond COVID-19. Hospital and ICU units are being expanded and the public health insurance system (Seguro Integral de Salud) is being enhanced. Pres. Vizcarra also committed to ensuring that the country has access to a COVID-19 vaccine as soon as one is available.

—Guillermo Arbe

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