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Latam Daily: Chile's Constitution Talks, Strong Public Spending in Peru

- **Chile: Political roadmap—less space for extreme proposals**
- **Peru: Strength in Peru public investment continues; Congress Presidency remains with opposition**

CHILE: POLITICAL ROADMAP—LESS SPACE FOR EXTREME PROPOSALS

After the plebiscite on September 4, where the option of rejecting the new Constitution won with 62% of the votes, the government is leading meetings with all the political parties that have representation in Congress to design a roadmap that will give continuity to the constitutional process. To date, two meetings have been held where some basic agreements have been reached to continue the process. For now, there is a cross-sectional agreement that the exit plebiscite to approve or reject the new proposal must be with a mandatory vote, just like the plebiscite on September 4. As for the mechanism, the option of forming a new constituent assembly elected entirely by popular vote has gained strength. A technical committee of experts would support this body. The main points of discussion are the participation of independent and indigenous representatives in the constituent assembly, as well as the number of assembly members. The position of the right-wing parties is selecting a limited number of independent assembly members -within the political party lists- and a limited number of indigenous representatives. **All of the above would give greater certainty that extreme proposals can be avoided, such as those present in the recently rejected constitutional proposal.** See more details about the political roadmap in our [Latam Insights: Chile—A Preliminary Post-Plebiscite Political Roadmap](#).

On Thursday, September 15, the political parties will hold a new meeting, where it is hoped that a broad consensus to design the new constituent process will be reached. **We believe that given the result of the plebiscite on September 4, it is possible to rule out that the political parties accept extreme proposals as part of the new process. In this sense, it can be guaranteed that the drafting mechanism of the new Constitution will be the product of a broad political agreement, where moderation of the proposals will be necessary to reach consensus.**

—Anibal Alarcón

PERU: STRENGTH IN PERU PUBLIC INVESTMENT CONTINUES; CONGRESS PRESIDENCY REMAINS WITH OPPOSITION

I. August was another strong month for public sector investment growth

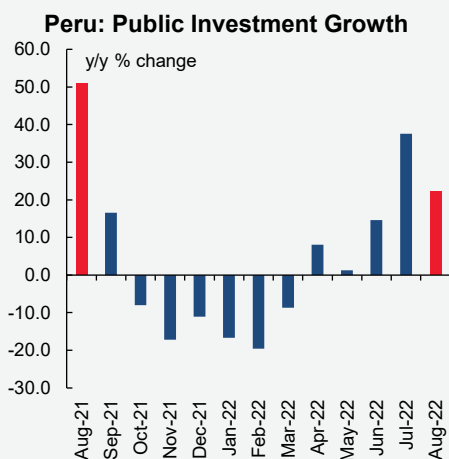
Public sector investment rose 22% y/y in August. This was, notably, the fifth consecutive monthly increase (chart 1). The figures provided by the Ministry of Finance do not include the breakdown by type of government, but August was most likely a repeat of the pattern of past months with strong regional and local government investment ahead of the October elections while national government investment remained weak.

Whatever the reason, public investment is becoming a moderate driver of demand growth in Q3, and may be part of the reason that employment is holding up so well.

Public sector investment is likely to remain high, perhaps even accelerate, from September to December, as the government has only spent under 40% of the resources that had been budgeted for the year.

This pattern of high regional and local government spending is only likely to hold until the change in regional and local government authorities takes place in January 2023, after which investment is likely to decline, if precedent holds true, unless national government investment rises significantly.

Chart 1



Sources: Scotiabank Economics, Peru Ministry of Economy and Finance.

September 13, 2022

II. Congressional leadership to remain in the hands of the opposition

José Williams was elected to preside Congress, with a 67 to 41 second-round vote. Williams belongs to the centre-right Avanza País party. He is replacing Lady Camones in the Presidency of Congress, after Congresswoman Camones was removed due to accusations of gerrymandering to benefit her party. Under the leadership of Williams, Congress will continue in the hands of the opposition. What is not clear, for now, is how moderate or virulent this opposition will turn out to be. It will also be interesting to see if President Castillo seeks to reach out to Williams. Note that, in the current turbulent world of Peruvian politics, Congressman Williams has an outside chance of becoming president of the country, if President Castillo were to be impeached—as many members of Congress would like—and Vice-President Dina Boluarte declined to vie for the presidency, or were also removed.

—Guillermo Arbe

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