

PERU: THE FIRST CONSTITUTIONAL COMPLAINT IN RECENT HISTORY COULD BE THE FINAL STRAW FOR PRESIDENT CASTILLO



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EVENT

Mid-October, Peru's attorney general filed a constitutional complaint against Peru's president, Pedro Castillo. According to the attorney general, Castillo is allegedly involved in a criminal organisation "for the purpose of profiting illegally from the awarding of public contracts". This constitutional complaint could lead to the president's suspension or ouster. Castillo, already facing five criminal investigations, denies all charges and declares that the attorney general's actions constitute a coup attempt. No president in Peru's recent history has been subject to a constitutional complaint, which is why the move raises many legal questions. There is the question if the complaint is unconstitutional, while it is unclear whether a simple majority or a two-thirds majority in Congress would be needed to suspend the president on these charges, as there is no precedent for such a process.

IMPACT

Since entering office in July '21, President Castillo has survived two impeachment attempts and managed to get through 72 ministers with almost monthly cabinet changes. The latest allegations increase the risk that Castillo will not be able to serve his full presidential term to 2026. Nevertheless, Castillo's removal from office is not expected to bring stability to Peruvian politics. For years, Congress has been fragmented, populist and confrontational, which often resulted in political clashes with the president, as currently witnessed. As a consequence, there have been four presidents and two Congresses in the previous five years. Widespread perception of corruption and increasing public distrust in politics are raising the risk that the next president will also face impeachment attempts. Indeed, what is certain in Peru is that government instability and uncertainty is likely to continue in the coming years.

The economy has withstood political uncertainty relatively well in the past year(s), though business sentiment has been weakening. Solid macroeconomic fundamentals and historically elevated copper prices (accounting for half of current account revenues) support Peru's economy. Nevertheless, the bleak global economic outlook – especially the economic slowdown in China – and the ongoing social unrest in the mining sector are hurting Peru's economic expectations. Moreover, historically, Russia provided 40% of fertilisers for the agriculture sector (accounting for a fifth of current account revenues). The conflict in Ukraine has led to worldwide shortages of Russian fertilisers. The Peruvian government has been unable to provide enough fertilisers from other sources, thus increasing the likelihood of protests in the agriculture sector in the coming months. Both severe unrest and more difficult access to the financial markets (for example, due to an increase in risk aversion) could negatively affect the ST political risk rating (currently in the best risk category, 1/7) and business environment risk (category E/G).

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