

Peru: What's at Stake in the 2021 Elections

- **On April 11 Peru will hold one of the most consequential elections in its history... yet again. This vote will be the first step in the overhaul, by August, of the entire national political and policy-making apparatus.**
- **By August–September Peru will have new versions of its President, Congress, Cabinet, Finance Minister, and the Board of Directors of the BCRP.**

A CONSEQUENTIAL YEAR FOR POLITICS IN PERU

Peru's Presidential and Congressional elections scheduled for April 11 are set to be amongst the most consequential votes in the country's history.

This electoral season follows closely on the heels of last year's political turmoil and will mark a first step in the overhaul of the nation's entire political and policy-making apparatus by the end of Q3-2021. This report lays out key considerations for the remainder of Peru's 2021 political calendar.

THE STATE OF THE PRESIDENTIAL RACE

Peru is one of those countries that draw out the anguish of electing a new President by holding two dramatic rounds of voting. For the initial April 11 vote there are 18 contenders vying to get through to the second round. Two of them will be on the ballot for the final vote on June 6.

There is little clarity on who will become the next President, or even who will make it to the second stage of voting. Of the 18 current candidates, no more than six or seven are really competitive. Still, this is a big number considering that the elections are less than two weeks away. Recent polls have Yonhy Lescano leading the pack, but not by very much. Depending on the poll, he has a one to four point margin over his nearest group of rivals, which includes Rafael López Aliaga, George Forsyth, Keiko Fujimori, Hernando de Soto, and Verónica Mendoza. A third group, which includes Julio Guzmán, César Acuña, and Pedro Castillo, follows at a greater distance and represents a collection of long-shot candidacies. Nevertheless, there is some risk of last-minute surges as has occurred in past elections: Alberto Fujimori in 1990, Ollanta Humala in 2011, and Jorge Muñoz's election as Mayor of Lima in 2018 all come to mind. Something similar is possible this time as well considering that around 20% of voters are decidedly undecided, and another perhaps 10% to 20% of voting intentions are soft and changeable.

Voter turnout could also have a significant bearing on the results of the elections. Voting is mandatory in Peru, but with the elections being held in the midst of a strong COVID-19 second wave, many Peruvians may prefer to avoid voting and pay the fine—or may simply find it difficult to travel to their polling stations.

THE BACKDROP: CONTEXT FOR THE VOTES

The run-up to the April elections is taking place against the following backdrop:

- **A lack of political party structures.** The slate of people seeking office is largely the result of a process in which political leaders without parties and

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parties in search of standard-bearers have come together with little regard for good matches of ideologies and doctrines. It is not easy for voters to see a clear link between some of the candidates and the name of his/her party. This adds to the high share of undecided voters.

- **An ongoing credibility crisis encompasses all three branches of the Peruvian State.** The Executive, Congress, and the judicial system, as well as political parties, many private businesses, and even the press, have all experienced a decline in public confidence.
- **These are the first elections in which social media channels are playing a major role.** This has changed the electoral landscape in unpredictable ways.
- **Income disparities have worsened with COVID-19 and the ensuing lockdowns.** This may be changing social sentiment in the country, which could affect the elections and future developments.
- **COVID-19's resurgence.** The current wave is very strong and the vaccination process is slow. In addition, there has been controversy over government officials vaccinating themselves ahead of the general populace (i.e., *Vacunagate*).
- **Corruption and legal issues.** The Odebrecht and Construction Club corruption cases are still being considered in the courts. A number of prominent politicians and candidates are involved in these processes.

WHO'S WHO IN THE PRESIDENTIAL ELECTIONS

Since many of the candidates have rather vague ideological backgrounds and are only very loosely linked to the party that is backing them, they are not always easy to define. Here is our best effort to do so for the leading contenders, in alphabetical order by surname.

George Forsyth (age 38)—**Victoria Nacional**; centre-right; popular former football (soccer) player.

- **Government experience.** Mayor of La Victoria, a populous district in Lima, since 2018, and councillor since 2010; no party background.
- **Viewed as pro-market and pro-business.** Seen as a moderate on economic issues, but also as unproven on financial management.

Keiko Fujimori (age 45)—**Fuerza Popular**; centrist on economic issues; conservative on social and gender issues.

- **Government experience.** Acting First Lady (1994–2000) during part of her father's government (Alberto Fujimori); former member of Congress (2006–11). Has ample leadership experience, but this has not yet been put to the test in public office.
- **Pro-market, but not as readily defined as pro-business.** Her proposed policies tend to be a mix of prudence and populism. In the past, she has relied on credible economists to design her platform, but her party has frequently voted for populist measures in Congress.
- **Wishes to build on her father's (controversial) legacy, but is also seen by many as having led her party's actions in weakening government institutions since 2016.** She is a polarizing figure who generates strong feelings in public opinion: she has the highest rejection rate in polls.

Yonhy Lescano (age 62)—**Acción Popular**; centre-conservative.

- **Government experience.** No executive experience, but ample party experience; member of Congress from 2001 to 2019.
- **Lescano favours proper fiscal management, but many of his initiatives in Congress have been anti-business and have not always been easy to reconcile with financial prudence.** He has called for a more equitable distribution of Peru's mining revenues, as well as lower bank lending rates and an overhaul of the pension funds.
- **Conservative on social issues.**

Rafael López Aliaga (age 60)—Renovación Popular; right-conservative.

- **Government experience.** No government or party background; this is his first time running for office.
- **Pro-market, and basically pro-business.** Still, he is seeking new anti-monopoly legislation.
- **Mainly known for his conservative ideas on abortion, same sex marriage and capital punishment.** Has been frequently critical of the press.

Verónica Mendoza (age 40)—Juntos por el Perú; leftist.

- **Government experience.** Member of Congress 2011–16; initially closely linked to the leftist Partido Nacionalista and the Ollanta Humala government, but had a falling out; ran for President in 2016.
- **Mendoza is perhaps the most left-leaning of the leading candidates.** She favours expanding the role of the State in the economy, to the point of calling for a new Constitution that would allow greater room for this.
- **Appears distrustful of private business, and mining in particular.** She has not always been clear on her views regarding free markets and economic institutions.

Hernando de Soto (age 79)—Avanza País; rightist-liberal; heads advisory group Instituto Libertad y Democracia; international expert on the informal economy.

- **Government experience.** Advisor to a number of local and global governments.
- **Pro-business; pro-market.**
- **Has international prestige, but less local standing.** His reputation abroad may not have filtered through entirely to the population at large.

ELECTIONS FOR CONGRESS

On April 11, Peruvians will also vote on all of the seats in Congress. The law prohibits the re-election of members of Congress so this vote will result in a complete turnover of the assembly. There are 19 parties seeking to overcome the 5% minimum vote threshold to be able to gain a seat in Congress. Pundits say as many as six to eight parties may be able to do so. With so many parties holding seats, the new Congress, once elected, is likely to be fragmented. Furthermore, given the 2019 law that prevents re-elections, the new members of Congress will have little political experience. Both factors increase the risk that the next Congress may be unpredictable and challenging for collaboration with the government.

NEW APPOINTMENTS

Between June 6, the date of the second-round of Presidential voting, and August, we will gradually learn the names of the following new key authorities.

- **President of the Cabinet and overall Cabinet profile.** This will be critical to establishing a working relationship with Congress and defining government priorities.
- **Minister of Finance.** This appointment will be crucial for policy continuity and investor confidence.
- **Minister of Health.** This has become a key position due to COVID-19.
- **BCRP Board of Directors.** The new seven-member Board (i.e., three chosen by Congress and four by the Executive) will play central roles in ensuring monetary-policy continuity and confidence in Peru's economy.

In the past, these key roles have been decisive in enhancing confidence in new governments beyond the election of the President.

ISSUES UP FOR DEBATE

- **The Constitution.** Most candidates favour some sort of modifications to the Constitution. Among the leading candidates, only Verónica Mendoza advocates a wholesale revision of the Constitution. Most others prefer more moderate changes to the current document on, for instance, Peru's political structure and corruption. Peru's politicians are likely to look very closely at what is happening in Chile in terms of modifying the Constitution.
- **The pension-fund system.** Many candidates are critical of the current pension system, although there is little clarity on possible alternatives.
- **Central bank mandate and autonomy.** For the first time in recent memory, the policies and mandate of the central bank, the BCRP, have been put in question. Some candidates seem to wish to maintain central bank independence *and* influence it at the same time.
- **Mining.** The debate regarding the importance and role of mining has been non-stop for decades. This has affected the environment for mining activities and investment. Risks of policy changes that may impact the sector continue to persist.
- **Other issues that have become part of the political debate include:**
 - ◇ COVID-19 and health;
 - ◇ Diversity, inclusion, and women's rights;
 - ◇ Corruption;
 - ◇ The role of the press;
 - ◇ Jobs;
 - ◇ The informal economy; and
 - ◇ Crime and order.

WHAT'S AT STAKE

- **Governability and governance.** Factors that affect governability include: (1) political parties that are not conducive to the development of professional politicians with the stature of statesmen and stateswomen; (2) few of the current candidates have public-sector management experience; (3) whoever wins the Presidential elections is likely to have done so with less than 25% of total votes cast, which could make for a weak mandate; and (4) the new President will not be able to rely on a large representation of his or her party in Congress for political stability.
- **A functional working government.** This will depend crucially on the quality of the members of the Cabinet and on their ability to establish an adequate working relationship with Congress.
- **Continuity in economic policy.** This has been one of Peru's strengths over the past two decades. Most parties and candidates seem aware of the need to maintain proper economic management, but this is not a given and will depend crucially on who will be appointed to key fiscal and monetary positions.
- **The role of the State.** This has become more of an issue in the current political environment than in the past, both with regard to the current Congress and to the candidates' proposals.
- **State management capabilities.** Less-than-adequate State management capabilities have hampered growth over the past decade. The risk is that the new government may seek to expand the role of the State, without improving its management capabilities first.
- **Institutional strength.** Many public institutions are viewed as unreliable. This is something that is not necessarily on the agenda of all of the leading candidates, nor is there clarity on how to improve these institutions.
- **Fiscal sustainability and enduring stability.** Most candidates accept the need for fiscal sustainability in principle. However, the interpretation of what this means varies significantly. Many of the proposals put forth by candidates are at odds with good fiscal management. It is not always clear to what extent these proposals are limited to political campaigns or if they reflect more serious intentions. One possible difference with the past is that Congress has recently actively tried to affect fiscal management. It is hard to predict how the new Congress will behave on this front.

- **Most growth initiatives revolve around the promotion of investment in infrastructure projects.** Some candidates have large spending proposals, but they largely concern COVID-19 social safety-net and health initiatives. On a positive note, most candidates recognize that infrastructure investment has an important role to play in driving growth in the years ahead. There should be greater clarity on this once the new Finance Minister is appointed.
- **Business interests versus populism.** Balancing these perspectives will be crucial for growth and development.

CONVERGING TO THE CENTRE

Presidential candidates are moving toward the political centre and away from anti-establishment postures in their recent announcements and campaigning. This is likely to continue in the run-up to the second-round of voting when bestriding the centre will be crucial to winning the final contest between the last two candidates. Precedent implies that newly-elected Presidents tend to moderate substantially their stances as the gravity of their office begins to weigh on them.

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