

## Peru: Back From the Brink!

- **Francisco Sagasti is the new President of Peru, replacing Manuel Merino.** After over 26 hours of Hitchcockian suspense, Congress finally voted—97 to 26—in favour of designating Francisco Sagasti as new interim President. Sagasti belongs to Partido Morado, the center-right party that is led by Julio Guzmán.
- **Sagasti's designation may well have been the best choice that existed within Congress.** Perhaps no other member of Congress would have been able to generate the same level of confidence in honouring the upcoming elections and upholding democratic institutions and, at the same time, be perceived as capable of working with other political forces in Congress. His designation has the potential to allow the country to drift back to normal relatively quickly.

### WHO IS FRANCISCO SAGASTI?

**Sagasti is a 76-year-old engineer with a distinguished career linked to scientific institutions in Peru and abroad.** He studied industrial engineering at Universidad Nacional de Ingeniería (Lima), and has a Master's degree in the subject from Penn State. He also has a PhD from Wharton.

**Sagasti has held advisory positions in research and development at the Ministry of Industry, the National Research Council, the Ministry of Foreign Affairs, and National Planning Institute.** He was advisor to the government cabinet from 2007 to 2009, and from 2011 to 2013. He has also held positions at Canada's International Development Research Center (Bogota), the United Nations Commission on Science and Technology for Development, and the World Bank.

**Sagasti is very knowledgeable and known for expressing himself with care and behaving with equanimity,** all of which bodes in favour of a more measured approach in defining his role as interim president.

### WHAT SHOULD WE EXPECT?

#### Some highlights:

- Sagasti is a figure acceptable to public opinion, and, therefore, protests are likely to dissipate with his designation.
- A Sagasti government significantly lowers the risk that the elections schedule will be tampered with.
- His government—and the political context—makes it more difficult for segments of Congress to tamper with State institutions such as the Constitutional Court, the Attorney General's office and the ongoing educational reform.

### CONTACTS

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- In Congress, Sagasti largely voted against populist measures, which suggests his government may try to block questionable initiatives emanating from Congress. This will depend on the make-up of the cabinet.
- Overall, the balance of risks and concerns has improved with Sagasti, vis-à-vis the Merino regime. Certainly, there is a greater sensation of relief and confidence that his government will not be as disruptive as a Merino government may have been.

**Sagasti appears to have the vision and ability to put together a capable cabinet.** This cabinet will need to reinforce the confidence that democratic institutions and ideals will be upheld. It would be helpful if the cabinet is also relatively broad-based, but this may be asking for too much.

**One thing that will be key will be to see what relationship Sagasti will have seek with Congress.** The fact that he was selected suggests that Sagasti has not garnered many strong enemies in Congress. However, it is also not clear that Partido Morado will have many allies. What Sagasti's party does have, unlike the Vizcarra government, is a small but cohesive group of nine members of Congress that will help buffer the relationship between the Executive and the parliament.

**The Sagasti government would probably do well to avoid too partisan an agenda in its role as a caretaker government.** Mirtha Vásquez, from the leftist Frente Amplio party, will preside over Congress. Thus, Congress could very well continue to promote populist economic measures. Its behaviour regarding democratic, judicial and oversight institutions is another matter. An intriguing question is to what extent members of Congress feel chastised by public opinion and will, therefore, adopt a more sensible behaviour going forward, rather than pursue group interests as they frequently appear to have been doing. The likely scenario is something in between. However, it is clearly much harder now for Congress to seek to alter the elections schedule or to tamper with the country's institutional framework.

## IMPLICATIONS FOR THE ECONOMY

**A Sagasti government is likely to be broadly pro-market and orthodox on economic issues.** This may be a source of contention with Congress. The designation of the head of the cabinet and of the Minister of Finance are the next steps in providing confidence and stability. There is no reason to believe that either designation will be negative for confidence. However, the government may not consider it wise to be too market friendly, as this might antagonize Congress. What the new government is likely to do is provide continuity in the broad outlines of fiscal policy and investment programs. In order to avoid the usual lapse in fiscal spending that occurs during regime transitions, someone with significant public office experience would need to be put at the helm of the Ministry of Finance.

**Economic policy, including debt management, will be dependent on who is designated as Minister of Finance.** Congress has generally not focused on debt policy and strategy in the past, and there is no reason to believe this will change. It seems clear that issues such as the independence of the Central Bank or other important financial institutions will not be threatened by the Sagasti regime.

**Now that the political crisis is over, a reasonable government is in place, and the path to elections apparently no longer at risk, perhaps the most important message is that business, household consumption and, indeed, daily life can get back to normal, and the one-week political crisis and protests will have had not more than a mild, short-term impact on the economy.**

—Guillermo Arbe

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