

## LATAM Market Update

- **Peru: New fiscal measures to counter impact of lockdown**

### NEW FISCAL MEASURES TO COUNTER IMPACT OF LOCKDOWN

The government will award a S/ 380 stipend to 3 million low-income families to compensate lost income during the two-week lockdown. This will come to about S/ 1.1b (about US\$320 million) or 0.6% of the 2020 budget. This is a moderate outlay, and adds to S/ 780m (US\$220m) that have been earmarked to confront the coronavirus episode, mainly in bolstering health services. The increase in fiscal spending, so far at least (the Minister of Finance has promised more) represents about 1.1% of the 2020 budget, and 0.24% of GDP. It is likely to be partially compensated, however, by lower fiscal spending for the duration of the State of Emergency.

The government also postponed mandatory tax payments during March, which is the beginning of the country's two-month tax season. The increase in spending and lower tax revenue will have a temporary, but significant, impact on the fiscal account, which should take the fiscal deficit to over 2% of GDP, well above our forecast of 1.6%. Much of the funding will come from the S/ 5.7b (US\$1.6b) Fiscal Stabilization Fund. The country's finances are strong enough to support a fiscal situation of this magnitude, as long as it is temporary. If the lockdown were to be prolonged past the current two-week State of Emergency, things could get complicated.

Meanwhile, a normally important political event has been completely eclipsed by the COVID-19 news. Namely, Peru finally has a fully functional Congress again. Manuel Merino, from the moderate and centrist Acción Popular, will head Congress. The new Congress immediately voted to extend the April 7 deadline to vote on political reform measures. This is important in that it signals a willingness to work in line with the new government, unlike the previous Congress.

—Guillermo Arbe

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