

**JANUARY 23, 2023**

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Pedro Castillo's failed coup d'état plunges Peru into political turmoil

On December 7, 2022, the Peruvian Congress was scheduled to call an impeachment vote against President Pedro Castillo on corruption charges. Hours before, the Peruvian President addressed the country in a surprise televised speech and announced the dissolution of Congress and the adoption of an emergency government to rule by decree, while also imposing an immediate national curfew. Two hours after Mr. Castillo's announcement, Congress convened and removed him from power following an impeachment vote. Hours later, Mr. Castillo was arrested on criminal charges of "rebellion and conspiracy" as he went to the Mexican embassy in Lima to request asylum.

Shortly after the congressional vote, Dina Boluarte, Mr. Castillo's Vice President, was sworn in as President and became the first woman to lead Peru. She has announced elections that will be moved up to April 2024 from 2026.

This tumultuous conclusion puts an end to Mr. Castillo's 16 months in power. During his mandate, he went through five cabinets and more than 80 ministers, survived two impeachment attempts, and is already the subject of eight criminal investigations. This political instability is not unknown to Peru, having seen a succession of six presidents in six years.

Since the failed coup d'état, protesters have taken to the streets, calling for new elections. The demonstrations that broke out across the country on December 11 have claimed the lives of around 50 people and injured 600 more. This escalation of violence prompted the Peruvian government to declare a nationwide 30-day state of emergency on December 14, suspending some civil rights, including the rights of assembly and freedom of transit. The protests that rocked the country subsided during the Christmas and New Year holidays as a result of a "truce," but resumed on January 4, 2023, with new clashes between the demonstrators and security forces.

The effects of Mr. Castillo's tenure are still rippling. In addition to Mr. Castillo's criminal probes, Peruvian prosecutors are investigating Juan



Silva, former Transport and Communications minister; Xavier Vera, former Energy and Mines minister; Jorge López, former minister of Health; José Gavidia, former Defense minister; Salatiel Marrufo, former Chief of Staff at the Ministry of Housing; among others, for alleged acts of corruption. These ministries are responsible for supervising most foreign direct investment that flows into the country, primarily concentrated in the mining, communications, industry, finances, and energy sectors.

This latest political upheaval raises risks and prolongs uncertainties that companies – with both existing or planned investments in Peru – will have to navigate. For example, several strategic industries have been and continue to be impacted by the protests. Mining companies have halted operations amid violent attacks on their facilities and employees; blockades and disruption of their supply routes; protesters have stormed airports across the country and blocked runways, forcing airlines to suspend flights and operations; highways have been blocked and toll plazas set on fire, disrupting the operations of toll road operators. In many instances, protesters and violent attackers seek to force companies to take a stance and help their cause to push the current President Boluarte to resign.

In addition to upholding the law and protecting human life, Peru is also under an international obligation to ensure the normal operation of companies, protect their investments, provide protection and security, and compensate if they are harmed. In the face of these protests and disruptions, investors should understand their contractual and treaty rights *vis à vis* Peru, a country that has entered into bilateral investment treaties and free trade agreements with over 30 countries and has faced a growing number of claims from investors from several sectors.

Despite its endemic political instability, Peru has been marked by macroeconomic stability, a strong mining sector, an open economy, and growing agro-industry and services sectors, making it one of the fastest-growing economies in the region. Its economy, which boasts one of the lowest inflation rates in the region, considerable international reserves, and a credible independent central bank, remains solid. At the same time, free-market policies and a favorable business climate continue to attract foreign investment. We are hopeful that these trends are going to continue in the country, even in the midst of the latest continued political uncertainty.

The following weeks will shed some light on the political and policy decisions that can be expected during President Boluarte’s term and the impact they will have on business and some industries in particular, which might experience some changes in the coming years, and thus might affect the investors’ playing field in the country.

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