

Peru Says No To IMF

PERU

Peru's military government last week rejected the "emergency" national austerity program proposed by Peruvian Finance Minister Walter Piazza as the basis for securing a \$105 million loan from the International Monetary Fund (IMF). As a result, Piazza was forced to resign July 6, leaving the negotiations with the IMF completely "up in the air," in the words of an IMF official.

Piazza's national austerity program, including sharp import and government spending cutbacks, the elimination of food subsidies, and a 50 percent jump in gasoline prices, would have put the Peruvian economy through "shock treatment" in order to pay off the country's \$51 billion foreign debt. Despite the Peruvian cabinet's history of vacillation on the austerity question, the ruling military were not about to commit political suicide. Their decision to junk Piazza could put debt moratorium once again on the country's agenda for 1977.

Insufficient information is available concerning the policies of Piazza's replacement, General Saenz Bar-

sallo. However, as a military man who is probably close to Peruvian President Morales Bermudez (having served as advisor to the Ministry of Economy and Finance when it was a Morales stronghold), Saenz is likely to avoid measures which would provoke popular upheaval. The country has been wracked by strikes and riots since Piazza announced his austerity program on June 10. Further, as the Peruvian journal *Caretas* revealed two months ago, sections of the military favor an "anti-austerity" program of reflationary paper-printing to keep the Peruvian economy running. General Saenz' appointment could reflect the winning out of the latter perspective.

Meanwhile, Peru's major creditors — the New York-based international banks — have frantically passed funds "under the table" to Peru so as to avoid default on at least \$200 million due at the beginning of July. This debt roll-over is in direct contradiction to the banks' public stand that they would not lend a single penny to Peru until an agreement with the IMF is reached. As one banker admitted, the banks were forced to back away from a major confrontation for fear of provoking a full-scale social "revolution." The banks' worries have just begun, however, since Peru's ability to win this particular skirmish with the IMF and banks will likely encourage other debt-laden Third World nations.

'The IMF May Cause A Revolution'

The following is an interview with a Peruvian desk officer at a regional bank in the New York area:

Q: Why did the Peruvian Finance Minister Piazza resign?

A: I haven't found that out yet but any Minister of Finance in Peru can't stay on for too long. It's a thankless job. As long as the government won't go all the way, the Finance Minister will be caught in the middle; no one can stay for too long... (nevertheless), as long as moderate generals are in power in Peru, you can feel safe.

Q: But aren't sections of the military opposed to the IMF's conditions?

A: Yes, the military is reluctant to go along with the IMF, and for good reason — they may cause a revolution! So they keep to the middle of the road. They try to get the IMF to compromise. I think the IMF will have to be more lenient with Peru.

Q: What about the \$200 million which Peru needed by July in order to avoid default? Won't this have to be rescheduled by the private banks?

A: Oh, they got that money. U.S. banks gave them

a loan. It wasn't us. I don't know who it was, but a group of banks gave them the money. It wasn't a rescheduling — well, it really was, but it wasn't called a rescheduling.

Q: But the banks' public line was that Peru could get no money until it went to the IMF.

A: Yes, I know. That was our position, but they gave them the money anyway without announcing it.

Q: You say, you weren't in on it. I guess it was the bigger banks, like Chase, Citibank, and Morgan, who are in too deep. They feel they have to put in the money.

A: It was more than that. The big banks now agree that the IMF was not realistic; the conditions were too harsh. Peru can't handle a forced depression without risking revolution. The banks had to support the Peruvian government. I think part of the reason they kept insisting on the negotiations with the IMF is that, for a while, the Peruvians were so upset, they wouldn't even talk to the IMF. The banks had to keep them talking. Look, the government is moderate, they are realistic; they want to end the subsidies but they need time.