

IMF Agreement Will Leave Peru A Basket Case

"In the Peruvian case, going on a diet means starvation!"
—An officer of Manufacturers Hanover Trust

The Peruvian Government announced Oct. 10 that it will devalue its currency to free market levels and institute other extreme austerity measures. In return for abandoning previous nationalist resistance to the conditions set by the International Monetary Fund, Peru will reportedly receive the meagre sum of \$4 million per month, while promising not to seek new loans on the private Eurodollar market.

PERU

This "stabilization" — worked out between Peru and the IMF after seven months of abortive negotiations, and cabinet upheavals cannot possibly provide a viable solution to the problem of Peru's bankruptcy. Although initial reports of the as-yet-unannounced agreement evoked calls for "celebration" from New York banks, it has not yet been determined if the package can be made to stick.

The terms of the IMF package are similar to those agreed to by Economics Minister Walter Piazza in July, only days before he was forced to resign by a military cabinet conscious of the "unacceptable social cost" of these measures as strikes and riots were rocking the nation.

The IMF had persistently demanded that Peru end seven years of centrally controlled currency exchange and on Oct. 10 the government announced that it would replace controls with a "free exchange market, on the grounds that the controls "made it more difficult to reestablish financial stability and created obstacles to normal access to foreign sources of credit." The devaluation (which is expected to amount to 20 percent) will be accompanied by another \$35 million cut in 1977 government spending followed by a larger reduction in 1978. Gasoline and basic food subsidies will be entirely phased out during 1978. Tax pressure on the private sector is being radically increased.

The budget cuts reportedly include layoffs in the government bureaucracy and the abandonment of all major agricultural projects and other projects not yielding short-term payoffs in exports. In his nationally televised austerity speech Oct. 10, Economy Minister General Alcibiades Saenz Barsallo conceded that public

investment cuts *already* in effect would reduce the Gross Internal Investment to 17 percent below the austere levels of 1976.

IMF demands that the Peruvians stop widely publicized purchases of arms from the Soviet Union (despite the fact that the arms were given on easy long terms having little effect on Peru's balance of payments) had been a sticking point in earlier negotiations with the military government. Now, however, a U.S. government spokesman reports that the U.S. has "received assurances from the Peruvian government that it will make no further purchases of foreign military equipment except for spare parts."

The population's resistance to the IMF was at the root of a conflict which surged between the U.S. commercial banks during the last heated round of negotiations with Peru in August. At that time, Citibank Vice President Irving Friedman led a faction including Bank of America which favored working out a long-term solution to Peru's debt problem, while providing Morales with a sufficient inflow of new capital to keep the economy going and alleviate social and political chaos.

Chase Manhattan and the IMF, however, favored relentlessly driving Morales to the brink of total bankruptcy until he would be forced to dismember any surviving elements of the Peruvian Revolution, break off arms purchase deals with the Soviet Union, ship all Peruvian precious and semi-precious metal reserves as collateral for debt, and severely repress civilian resistance. Since Morales and the moderate Army officers backing him were reluctant to follow such prescriptions, these banking circles sought to overthrow his government with fascist Navy officers in collaboration with Army rightists such as Interior Minister General Luis Cisneros and Chief of Staff Pedro Richter.

IMF Withholds Needed Approval

Nearly all bankers expected the IMF to get Peru's financial rehabilitation off to a good start by immediately disbursing at least half of the \$100 million standby credit which Peru is to receive. "Oh, Oh, that's *quite* a surprise," was the reaction of one New York banker to reports from the State Department and the *Journal of Commerce* that the IMF will hand over only \$4 million per month in quarterly payments stretched out over the next two years. That level of cash flow should be enough for Peru to pay the Lima Sheraton bills of the IMF "lady with the whip" Linda Koenig and the World Bank missions checking out Peru's "tourist potential." But it

will make little dent in \$1 billion which Peru needs to complete its 1977 payment obligations. Regional bankers already hesitant to "send good money after bad" into Peru interpret the IMF's niggardly aid as a signal that Peru "is not a safe place to invest."

This is frustrating to the Citibank group, which had been counting on being able to work out a viable debt restructuring plan involving all Peru's creditors, once Peru was stamped with the IMF's approval. The IMF, however, has laid the Peruvian basket case back on Citibank's doorstep.

Devaluation Will Exacerbate Crisis

The 20 to 25 percent devaluation expected by December as a result of the currency float and the slew of new export incentives and import restrictions will have a negative effect on the "reactivation" of the Peruvian economy. All Peru's export sectors (with the exception of iron ore) are currently producing and exporting at full capacity — and could not be stimulated by the devaluation. Even if the incentives result in the dumping onto foreign markets of some manufactured goods and fish products previously consumed in Peru, such "non-traditional exports" cannot have a significant impact on Peru's payments crisis. Improvement in dollar earnings on minerals is dependent solely on a radical increase in industrial production in the advanced countries.

Fishmeal (which once yielded 40 percent of Peru's export earnings) will not provide any income after May of this year due to climate changes and overfishing in vain attempts to meet previous debt deadlines.

Meanwhile, Peru's internal economy will be rapidly depleted. Capital goods and consumer goods imports were cut by 30 and 20 percent, respectively, during the first four months of this year. (see chart). There are vir-

Provisional Peruvian foreign trade data, January-April 1976 and 1977, in millions of US dollars

Item	1976	1977
Exports		
Minerals	181 0	311 0
Agricultural products	77 2	92 0
Fishmeal	15 9	80 8
Petroleum products	10 0	20 0
Non-traditional exports	35 0	65 0
Total	318 1	568 8
Imports		
Consumer goods	75 0	60 0
Raw materials	330 0	344 0
Capital goods	324 0	239 0
Other		4 0
Total	729 0	647 0
Trade balance	410 9	78 2

Source: *Latin American Economic Report*

tually no "non-essential" imports. Nor can the goods presently imported be produced locally without the large investments which Peru is prohibited from making.

The impact of the devaluation will be felt in higher prices for imports of food, fuel, and inputs to industry. The Peruvian inflation rate can be expected to skyrocket above its present official 40 percent, industries will lay off workers, and the poorer sectors of the population will starve. There are already reports of peasants eating

cattle feed and slum babies having average weights 25 percent below those during the 1968 to 1975 administration of President Juan Velasco. Drought at the end of last year destroyed at least a third of the potato crop and much of the meat supply. Another drought in the north cut cotton and cottonseed oil production to 25 percent of official expectations.

Can It Stick?

In the past three months, President Morales has wrested control back from the violently fascist elements in his government. Interior Minister Cisneros, who directed a reign of terror in the early part of this year, remained silent when Morales clipped his wings by ending the 13-month State of Siege. Another important sign that the moderates are hegemonic was the announcement in early October that former Velasco advisor, General Oscar Molina, would become Prime Minister in February. Morales's depriving ultra-rightist General Pedro Richter of the number two post he had been expecting is widely considered a sign that the President intends to pursue democratization.

Some bankers and the State Department claim that the institution of the IMF package will not result in the strikes and riots that similar measures invoked during the past year. They argue that the opposition political parties, including the Peruvian Communist Party, will refrain from agitating, so as not to prejudice the transition to civilian rule Morales has promised by 1980, which is dependent upon social peace. They are also counting on the intimidating effects of the firing of over 2,000 labor leaders in reprisal for the successful July 19 general strike.

The IMF's dribbling out \$4 million per month is intended to keep President Morales — who has repeatedly shown signs of dissatisfaction with the IMF conditions — on a very short leash with the constant threat that if he doesn't follow orders, he will be subjected to an import embargo and quickly suffer the fate of Chile's Allende. Economics Minister Saenz Barsallo pointed out Peru's vulnerability, with an estimation October 4 that Peru's trade deficit for 1977 will be \$327 million. The City of London's *Euromoney* magazine gloats, "The only card the banks hold is the Peruvian requirement to finance its trade deficit without reserves."

Although this card has presently forced Morales to his knees, the President may be readying a trump. South American neighbors including Venezuela, Colombia, Brazil, and Argentina have reportedly made swap deposits in the Peruvian Central Bank amounting to about \$200 million over the past two months. A larger and longer-term inflow of funds would be needed, however, for Peru to break the IMF credit stranglehold.

Associated Press report rumors that Libyan sources behind the Arab Latin American Bank (ARLA Bank), which is opening its doors in Lima this month, might be willing to pour up to half a billion dollars in long-term investments into Peru.

Mexico and Italy, after all, have recently forced renegotiations of their blood contracts with the IMF. And the Peruvian Army is still full of officers who can compare the better times of President Velasco with the nightmare which has followed.

— Mark Sonnenblick