## Andean Report by Javier Almario

# Peru: IMF's well-behaved child

*For the small favors of the Club of Paris, Peru has bailed out of the emerging debtors' club head first.*

Fawning unabashedly on handouts of the Club of Paris, Peruvian President Fernando Belaunde Terry told reporters in Lima on June 5 that refinancing of $1.046 billion of Peru's public foreign debt that week was "a major victory. Our success should emerge as a model case for the region. Peru is conquering hardships suffered by the entire Third World, putting its finances in order and meeting obligations to its creditors."

Peruvian Prime Minister Sandro Mariategui, who together with Finance Minister Benavides Muñoz headed up the Paris negotiating team, declared, "We are very satisfied by this exceptional result," while the finance minister burbled that the accord was "unprecedented in Latin America."

Completing the mutual admiration society, the Paris Club answered that it "welcomed the recovery efforts" of the Belaunde government and hoped the refinancing would "improve the country's external payments prospects and facilitate the economy's recovery."

The "major victory" and "exceptional results" that Belaunde, Prime Minister Mariategui and the Paris Club were acclaiming refer to the agreement by the major Western creditor nations who make up the Club of Paris to roll over Peru's government-to-government debt for nine years, with five years' grace on principal payments. That debt would otherwise have been due by July of 1985.

The "victory," however, is not Peru's but the international banking community's, whose old "divide and conquer" strategem is being applied yet again to kill the newly-born Ibero-American debtors' club. A closer look at Peru's great victory tells the story.

First, Peru had sought a 10-year stretch-out from the Paris Club in the hope that it could then convince its foreign private bank creditors to extend to 10 years a $1.5 billion 9-year refinancing package negotiated in February. The Paris Club, unwilling to establish a precedent which could prompt other debtor nations to demand renegotiation of their terms, insisted on a maximum nine-year refinancing.

The $1.046 billion rollover, miniscule compared to a total foreign debt of $13 billion, offers little relief to the suffocating Peruvian economy. Before the Club of Paris negotiations even began, *Caretas* magazine on June 4 estimated that a hoped-for 10-year rollover of some $2.5 billion of Peru's short-term debt would only reduce the country's outrageous debt/export ratio from 64.4% to 35.9% on its 1984 debt, and from 54.5% to 43.5% on its 1985 debt.

Most of Ibero-America's debtor nations have established 25% as the maximum tolerable ratio of debt-service payments to export revenues.

By granting the refinancing, the Paris Club made a minimal investment for major returns. Even before the Belaunde goverment sent its negotiating team to Paris, it had already begun to implement the International Monetary Fund's unspoken demands that have the rest of the continent up in arms.

In particular, the government had begun to auction off its state sector companies. In mid-May, an executive "Supreme Decree 194-84" was issued establishing the legal basis for state divestiture. COFIDE, the state's investment agency, was authorized to reduce its stock holdings in such major state enterprises as PescaPeru, PetroPeru, SiderPeru, and so forth through public auctions or stockmarket sales. According to the magazine *Oiga*, an unidentified group of businessmen have already offered to buy PescaPeru for $120 million.

Equally significant is the effect that import cutbacks, currency devaluations and price decontrol are having on the population. Asked to comment on the social costs of the "strong devaluation" he is pushing, central banker Richard Webb answered, "I wouldn't say social cost . . . some products like bread would be substantially more expensive, but not potatoes and rice. Oil and meat prices would also be considerably increased, but in the case of the latter I would say that it is luxury consumption."

Less inclined to see meat as a "luxury" are the Peruvian trade unions, who have been registering their protests against Belaunde's capitulation to the IMF and Paris Club with one major strike after another. In recent weeks, nearly every sector of the economy has been battered by strikes or "job actions": petrochemicals, textiles, health, metal-working, even the prisons.

This week, 170,000 members of the nation's largest teachers' union SUTEP walked off the job, and the 500,000-member state sector labor confederation CITE has just declared itself on an indefinite nationwide strike.