Click here for Full Issue of EIR Volume 25, Number 27, July 3, 1998

Peru cabinet shuffle makes IMF nervous

by Luis Vásquez Medina

During the first week of June, Peruvian President Alberto Fujimori fired Jorge Camet, the man who had served him as Finance Minister for seven years, during which time he faithfully enforced International Monetary Fund policy in the country. The cabinet reshuffling also included the sacking of the ultra-liberal Prime Minister, Alberto Pandolfi. At the same time, Fujimori announced that his government would invest more than $600 million to help rebuild in those areas of the country hit hardest by harsh weather because of El Niño. In a further confirmation of this shift to heterodoxy, on June 22, Labor Minister González Izquierdo stated that "from now on, the government won't intensify the privatization process."

Predictably, these decisions have made the IMF extremely nervous. In a June 22 statement from Washington, the Fund warned, in diplomatic but nonetheless very clear language, that Peru should not by any means consider abandoning the neo-liberal, free-trade policies it has imposed since 1991.

EIR has learned, from reliable sources, that the Peruvian President has been very much affected by the collapse of the Japanese economy, and by what is happening to his close friend, Malaysian Prime Minister Dr. Mahathir bin Mohamad. Nor is there any escaping the harsh reality of Peru's economic crisis, revealed in macroeconomic figures for the first few months of this year. In the first quarter of 1998, Peru's Gross Domestic Product dropped by 0.5%; there was runaway inflation, and the national currency, the sol, had been devalued to the point of breaking the psychological barrier of 3 sols to the dollar. Outgoing Minister Camet had promised that this exchange rate would only be reached in mid-1999. Between January and March, the trade deficit reached the historically high level of $906 million. The current account deficit of $1.1 billion for the first quarter has already exceeded that for all of 1997.

IMF program on the ropes

As much as the radical monetarists deny it, these figures signify the unravelling of the IMF's economic program. Barring some miracle, such as the unlikely possibility of a reversal in the Asian crisis, or the recovery of the world metals market on which Peru depends, the next few months will see the country plunged into extreme crisis.

Not even foreign reserves, officially at $10 billion, can alleviate the pressure against the sol, for the simple reason that this figure is a fictitious one. Forty percent is made up of bank reserve ratios and other obligations in foreign currencies, including funds from privatizations which entered the country on a one-time basis. What is actually available is no more than $2.5 billion.

Some economists are predicting that a coming devaluation will be no less than 40%. As things are going now, by year's end, the current account deficit will have reached the unprecedented level of $3.5 billion, or 8% of GDP.

This crisis was not provoked by El Niño, as some allege. It is the result of the IMF's economic model, based on the stupid theory of comparative advantage. Its application has transformed Peru into a net exporter of raw materials, while destroying production for the internal market in both urban and rural areas. As a result, Peru is now totally dependent on imports, including food. Moreover, deflation in the world commodities market has caused the cancellation of more than 75% of all the country's mining projects, valued at $7 billion. The agreements signed with the big international mining cartels were supposedly going to solve all of Peru's economic problems.

On the financial side, the IMF model has created a $6 billion internal speculative bubble which could blow up at any time. The rate of default and arrears in bank loans is approaching 30%. In the so-called "consumer" banks, largely Chilean-owned, the situation is even worse. These, for example, lent money to parents to purchase school supplies for their children, at interest rates of more than 150%!

A significant portion of this domestic speculative bubble is the private banks' foreign debt. In the last two years, this has grown at rates of 200%, and is now at the astronomical figure of $3.5 billion. Moreover, 70% of these supposedly "Peruvian" private banks are in fact owned by the British Commonwealth, through its Chilean and Spanish front-men. In the event of a sol devaluation, they would automatically go into bankruptcy. Given the rate of dollarization of the Peruvian economy (70% of the money supply), these banks would have no means of preventing a devaluation from affecting domestic prices. So, what has already occurred in several Asian countries would also be repeated in Peru: Everything gained through years of sacrifice to stabilize the economy, would evaporate in a matter of hours.

The stark reality portrayed by recent financial statistics appears to have had a sobering effect on President Fujimori, who is seeking reelection. But there is also pressure from the other side. Individuals such as Mont Pelerin Society ideologue Carlos Boloña, the fascist who also has his eyes on a run for the Presidency in the year 2000, says that President Fujimori must deal with the crisis by letting the laws of the market operate freely, and allowing an enormous devaluation of the sol.

© 1998 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.