Peru Central Bank Finds IMF Terms 'Unacceptable'

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The Peruvian Central Reserve Bank (BCR) has rejected as "unacceptable" IMF "recommendations" that it apply shock therapy to the Peruvian economy. Peru is required to comply with International Monetary Fund demands if it is to receive IMF approval for a contingency loan. The New York commercial banks which last year worked out a $440 million refinancing scheme by which they took over "policing" of Peru from bailouts until the IMF applies its "stabilizing" remedies.

At this time Peru stands no chance of obtaining the programmed $1 billion loan inflow (down from $1.472 reportedly received last year). Peru will find it impossible to maintain payments on the $700 million in debt service scheduled for 1977 without the political measures taken in Chile, which the IMF is demanding — or even with them.

What the IMF Wants

Linda Koenig, the head of the IMF mission which visited Peru for 10 days in March presented the following conditions to the Peruvian Government:

* Peru must pay the entire $700 million debt service due in 1977 without the $234 million in refinancing which the BCR had earlier been promised to cover Peru's balance of payments deficit. To do this, Peru would have to cut import volume to about 40 percent below 1975 levels.

* To bring down inflation from last year's 45 percent to 15 percent, Peru must repress wage levels, cut government spending, eliminate remaining capital goods imports, conclude the denationalization of public-sector industry, and raise tax levels.

* The budget deficit must be trimmed to 20 billion soles ($280 million) by forcing public-sector enterprises to break even through reducing services and raising charges. Remaining food price subsides are to be eliminated. PetroPeru must make a profit, even if oil product prices have to be increased by 300-400 percent.

* Peru must abandon all vestiges of the "revolutionary model" of state-promoted industrial development and shift to the Milton Friedman ideal of a "free market economy." Specific IMF orders include an immediate 30 percent devaluation shock (to 90 soles to the dollar) and the slimination of protective tarriffs, import priority systems, and tax rebates for non-traditional exports.

* Wage increases are to be kept to 10-15 percent, despite the present 45 percent inflation.

Reserve Bank Says "No"

On March 21, the directors of the Central Reserve Bank sent a letter to Finance Minister Barúa collectively threatening to resign if Barua followed his inclinations to accept the IMF demands. The BCR counterposed its more "realistic" proposal for only reducing inflation to 25 percent through continued tight money and "a greater austerity in public spending... including whatever further cuts can be made in the already approved budget."

Economic Gouging

In July 1976, President Morales Bermúdez surrendered the Peruvian Revolution to the IMF in a coup that established strict New York bank surveillance over the Peruvian economy. Since then, the real incomes of workers have fallen by 30 percent, according to studies made by the Organization of American States. (see Graph). Money supply has been cut by over 22 percent, causing many businesses to default on their debts. The Lima Chamber of Commerce has reportedly refused to publish its monthly list of bounced checks, since "it would be the size of a small phone book." The banks have managed to hold the lid on Peru during the last nine months only through a continuous state of emergency, the effective banning of strikes, and selective repression against the fishermen's union and leaders of working class resistance.

The overall impact of the reversal of former President General Velasco's Revolution, however, has been detrimental to foreign and locally-owned businesses. The Chrysler plant is on a two-day week, which Labor Minister Galindo recommends as the method for avoiding mass lay-offs or total shutdowns. The National Merchants Federation (CONACO) is calling for reflating the economy and rejecting the IMF nostrums on the grounds that "the cure would kill the patient."

The IMF's cure would kill what remains of the nation's industrial and agricultural economy, leaving the skeleton of a few mines and a few ports for unrestricted looting. In rejecting the IMF's conditions, the BCR stated that they were "inflexible and unmanageable, without an extremely heavy political and social repression." It is likely that the bulk of the Peruvian Army — after looking at the results of IMF policies in Chile — would not carry out such a campaign. The centrist weekly *Caretas* suggests that "Perhaps Miss Koenig should have a chat with Patricia Derian. She's the State Department Human Rights Coordinator. Or perhaps the government should take preventive action in Washington to denounce the IMF for insisting on a policy which leads to the violation of human rights. Why not?... We're a patient people. For some time we've put up with belt tightening until our tongues are hanging out, but we surely won't put up with being killed by hunger."

There is widespread argreement in political and economic circles that Peru will require some form of debt relief by June. There is virtually insurmountable resistance from U.S. regional and foreign banks to throwing more money into Peru to roll over the debts of the big Eurodollar banks; some of these banks are only now coughing up their 1976 rollover money.

If a moratorium, such as the two-year one now under serious consideration by Japanese banking circles, is not granted, Peru is likely to default during the next few months. Moratorium on LDC debt was proposed by former Foreign Minister Miguel Angel de la Flor in Manila, Feb. 2, 1976. Ex-President Juan Velasco Alvarado's collaborators, now regrouped in the Revolutionary Socialist Party, have taken debt moratorium as their program and a political debt moratorium is possible if Europe and the Soviets guarantee Peru would not be cut off from needed imports.