IMF declares banking 'red alert' in Peru

by Luis Vásquez Medina

The latest report on the Peruvian economy, put together by an International Monetary Fund technical team and presented by IMF Secretary General Leo Von Houtven in mid-October, fell like a bath of ice water on Peruvian businessmen, financiers, and the government.

The financial weekly *Sólo Negocios,* linked to the banking system and stock exchange, published a front-page warning that the IMF has issued a "red alert." The ultra-liberal daily *Expreso,* on its main page, declared, "IMF Warns Government of Danger in Peruvian Financial System." The subtitle read, "Leveraging, loss of control, and risk: a cocktail that could prove dangerous."

The sudden alarm being heard by all those who had bet on the IMF model, is more than justified. According to the conclusions of the IMF report, "Peru is going through a difficult moment, reflected in a certain worsening of the economic and financial indicators of the banking system." This, says the report, is due to the fact that the fragile national banking system has only been able to support its "heavy portfolio" through two forms of coverup: first, by issuing "subordinate bonds" tied to its more precarious holdings, in a "leverage" that will prove suicidal in very little time, and second, through multimillion-dollar remittances to its Cayman Islands branches, representing some $1.2 billion a year that has both evaded taxes and the reserve requirements of the Peruvian central bank.

Roots of the problem

What everyone knows, but few have dared to publicly admit, is that the Cayman Islands remittances are laundered narco-dollars. In other words, the only thing keeping the bubble of the Peruvian banking system inflated, is drug money. In this sense, Peru is a microcosm of the international financial system.

There are other aspects of the Peruvian banking crisis which the IMF has not dared to raise, even as it continues to pressure the Alberto Fujimori government to apply credit and monetary restrictions, and reforms of the banks and public sector, as recommended in the letter of intent signed with the IMF last May. For example, the imminent banking crisis will drag the entire Peruvian financial system down, including the private pension funds system. The Peruvian Pension Funds Administrations, which are owned by the banks, have nearly 80% of their money either directly or indirectly financing these troubled banks. Their bankruptcy would mean that the pensions of more than 1.5 million Peruvian workers would go up in smoke. At that point, the problems of the Fujimori government would begin for real.

Given these revelations, the astute newspaper commentator knew what he was talking about when he said: "The ineffable Minister [Jorge] Camet must have been under the influence of tequila, when he said at the recent IMF meeting that there was no 'tequila effect' in Peru." While in New York, the Peruvian economics minister had stated that thanks to the "freezing" of the economy over the past 11 months, "the dangers of the tequila effect have dissipated for Peru." However, the latest forecasts of the trade and current accounts deficits by year's end, significantly surpass those of last year, possibly reaching the unmanageable figure of $4 billion.

For all these reasons, it comes as no surprise that Camet's job security is a bit shaky. Indeed, the signs of confrontation with President Fujimori are growing increasingly more visible. Camet, of whom one could say that he is an IMF employee who serves as Peru's economics minister, has been demanding that the terms of the IMF's letter of intent be applied with maximum rigor. But, he was recently slapped down by the President himself, in two economic matters which he has ardently promoted.

The first confrontation took place in mid-October, when Camet blithely announced that the government was preparing to fire 200,000 employees, in order to meet its goals of "fiscal cutbacks and restructuring," as agreed with the IMF. The labor protests that followed were only calmed when President Fujimori, through his prime minister, disallowed the plan—and Camet.

Although it was announced at the time that Camet would not lose his post over the matter, a week later the President called him on the carpet again. What occurred is that Camet had sabotaged the government's planned rescue of the more than 75% of Peruvian businesses that are facing insolvency, with tax arrears surpassing $5 billion.

In enabling legislation for a law to recover taxes owed by businesses, Camet had included a demand that all businesses present mortgages or letters of credit 200% higher than what they owed to the government. As expected, the protests from businesses, and especially from the National Business Society (SIN), were massive. SIN President Eduardo Farah took the lead in attacking Camet for blocking the President's plan, and charged that there were foreign interests trying to buy up the few Peruvian industries still remaining, at extremely low prices. The Presidential response was virtually immediate, and once again Camet had egg on his face.

Thus far, however, nothing has been resolved. The banking system is on "red alert." The IMF continues to insist on mass layoffs and other "structural adjustments." And Fujimori continues to walk a tightrope between the neo-liberal policies his government is applying, albeit with some reluctance, and the recent protests of business, labor, and others, in the face of the growing crisis.