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## Peru: Notes On Economic & Political Situation

*by John Neagle*

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In the midst of Peru's severe economic crisis, the major target of anger and frustration is President Alan Garcia. Critics are found in both the rightist and leftwing opposition, as well as among leaders of his American Popular Revolutionary Alliance (APRA). According to novelist Mario Vargas Llosa, who is seeking the presidential nomination of the rightist Democratic Front: "The crisis is essentially political because the government has lost all credibility. This government is not capable of bringing a solution, so the challenge is to keep alive the democratic system until the next elections." Despite conflicting signals in September, Garcia now appears committed to pursuing his policy of refusing to seek the assistance of the International Monetary Fund. He continues to argue that IMF "adjustment" programs are traditionally recessionary. Speaking to reporters on Oct. 13, just hours after a 24-hour general strike apparently failed, Garcia said that Peru suspended most payments on its \$125.4 billion foreign debt in 1985 to stimulate domestic growth and emphasized that the country's "nationalist economic model" would be maintained. Garcia's decision to limit foreign debt payments to 10% of export earnings resulted in the country's isolation by international bankers to the point that all but short-term trade credits were cut off. Garcia reportedly alienated the private sector in July 1987 when he announced the nationalization of the country's private banks. The move was intended to slow down or halt capital flight resulting from a policy of maintaining a fixed exchange rate at a time of rising inflation. On Sept. 6, days after Abel Salinas became Peru's 4th Economy Minister in three years, the government decided on a new economic "shock" intended to reduce the fiscal deficit. The government increased the price of gasoline by 400% and of most foodstuffs by 100 to 200%, devalued the currency by around 100% and authorized a minimum wage hike of 150%. It then gave the private sector 10 days in which to adjust prices, after which there was to be a 120-day across-the-board price freeze. Many businesses raised their prices to anticipate inflation through January. Consequently, the economy was abruptly thrown into a recession. The government then cancelled a price freeze for all but 39 basic goods. Meanwhile, only a few prices were reduced. September inflation established a record in Peruvian history. Only four automobiles were sold throughout the country last month, and beer sales dropped more than 90% compared to August. Many companies shut down, and most Peruvians cut back on food purchases. In response to the public's fury, Garcia reportedly suggested to his ministers that he resign, but he was dissuaded. The dismissal of Gen. Victor Raul Silva Tuesta as head of the First Military Region in Piura earlier this month was interpreted as an additional blow to Garcia. Silva had served as the president's military chief for two years, and was considered one of Garcia's most loyal allies in the armed forces. Government sources said the 4-star general believed a coup was underway on Oct. 8 and began mobilizing senior army officers to prevent it. Silva was ousted for questioning the loyalty of the army high command. An aide to the president cited by the New York Times said, "It may seem odd but what is sustaining Alan at the moment is the army. Despite all the coup rumors, the army favors the Constitution. It also recognizes the consistency and dignity of Alan's nationalist positions." (Basic data from New York Times, 10/19/88)

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