Economic slowdown in Peru ignites social tensions

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Two years of mounting economic deceleration of Peru's economy, historically driven by raw material exports and relying increasingly on domestic consumption, have begun to take their toll on the Peruvian working class, creating the conditions for renewed class struggle.

Two out of three Peruvians report that they cannot live off of their salaries, with fully 45 percent reporting that yearly bonuses paid out in July will go to pay down their debt burdens.

According to recent figures, 81 percent of Peruvian households survive on a monthly income of US$755 or less and 64 percent subsist on less than US$375.

While the jobless rate for 2013 stood at 6.1 percent, the real situation is masked by the fact that fully 60 percent of the population are employed in the so-called informal sector without social security, vacations and other benefits. In the past three months, unemployment in the capital, Lima, increased by 62,000. Other sources report that in May, 75,000 jobs were lost to declining exports. Construction, among the most important sectors, contracted 13.56 percent in May, its fifth consecutive month of negative growth.

This "new reality" stands in sharp contrast to previous years in which Peru boasted the largest economic expansion in Latin America. Peru's GDP per capita went from US$7,500 in January 2006 to an estimated US$11,500 in January 2015; the minimum wage rose from 410 soles in 2001 to 750 soles since 2011; consumer spending from 23,240 million soles in 2000 to 66,000 million soles in 2013; consumer credit, from 5,000 million soles in 2001 to 26,650 million soles in 2014.

Despite this growth, however, the economy remained extremely vulnerable to a downturn driven by a fall in the demand for and price of minerals.

BBVA Research says its "unlikely" that the increase in the country's GDP will come near 4 percent for 2015. This is below the IMF estimates of 4.3 percent growth for developed countries, the lowest since 2009. These figures are very volatile. According to INEI (National Institute of Statistics and Informatics) GDP grew at an annual rate of only 1.2 percent in May. BBVA experts added that private investments in May had contracted by 8 percent.

Statistics on imports and exports for 2015 are even bleaker. The Peruvian business daily *Gestion* reports: "By 2015… exports will fall 10 percent, while shipments of traditional fishing, oil and oil products, and traditional agricultural products plummeted 74 percent, 45 percent and 20 percent respectively."

Another significant set of figures, underscoring a global trend, shows that the boom years, propelled by increasing exports to China and high prices for raw materials, led to an unprecedented growth in social inequality.

The HayGroup consulting firm reported that top Peruvian executives saw a 5 percent increase in income for 2015, in spite of the economic deceleration and a negative outlook for the majority of Peruvians. Peru has 14 families with a financial wealth above US$ 100 million and 316 families holding more than US$ 20 million. Just 113 families monopolize 46 percent of the wealth, of which 24 percent is deposited outside Peru.

In contrast, according to INEI figures, eight of Peru's 24 regions saw the poverty rate rise.

Two of the three poorest regions are where the country's historically richest mines for export were located—Cerro de Pasco (exploited by the US Cerro de Pasco Corp. for most of the 20th Century), and Cajamarca, with its Yanacocha and Buenaventura gold mines and where the failed US$5 billion Conga project is located. This year it became the poorest region with 52.2 percent of its population classified as living in poverty.

Economic decline combined with growing social inequality is driving to new eruptions of social struggle.

The most recent confrontation with international repercussions is taking place over the Tia Maria mining project, where workers and the local population oppose a US$1.6 billion investment by Southern Peru, a conglomerate owned mainly by the Grupo Mexicano. The ruling class is seriously concerned with what could happen when the state of siege imposed by the government almost 60 days ago is lifted. The population of Islay, located in the Tambo River valley where Tia Maria is, has pledged to renew road blocks and marches in the main Peruvian southern city of Arequipa.

Struggles of this character have deepened the political crisis of President Ollanta Humala’s lame duck government. Having been elected on the basis of populist promises of “social inclusion,” Humala’s policies have been dedicated to creating the most profitable conditions for the foreign mining conglomerates and other sections of international as well as Peruvian capital.

Humala’s administration is desperately attempting to maintain what is now a false façade of Peru as a haven for foreign capitalist investment. But a combination of tax cuts, environmental deregulation and other measures has failed to reactivate the economy.

While the government hailed the growth rate in April as the strongest in a year, the figures were artificially pumped up by “The advancement of the first seasonal catch of anchovies and a 15-day extension of fishing ...” As result, “the extraction of anchovies increased by over 300 percent yearly,” reports *Gestion* .

With no such boost for May, the annual economic growth rate is forecast to drop to around 2.5 percent—compared to 4 percent in April.

The director of the master’s program at Universidad del Pacifico, Juan Mendoza, questions economic measures taken by the government: “The Ministry of Economy and Finance (MEF) is implementing supply-side procedures that will do nothing to serve as countercyclical measures.” He expects a further devaluation of the Peruvian currency, the sol.

For months now the US Federal Reserve has been talking about raising US interest rates, which will spell a further fall in the value of the sol and a corresponding drop in the real wages of Peruvian workers. Three years ago, the Peruvian sol was at its strongest level relative to the US dollar, 2.67 soles/dollar. But one year ago the value of the sol had dropped to 2.79 soles/dollar and today stands at 3.18 soles/dollar—a devaluation of the Peruvian currency of 12.3 per cent in the last 12 months. Estimations for year-end are 3.30 soles/dollar.

Facing a political crisis which involves his wife’s alleged involvement in illegal business deals since 2007, Humala’s approval rating has plummeted to just 18 per cent, the lowest of his presidency.

For the fourth time during his tenure, Humala has assumed semi-dictatorial powers, freeing the executive branch to rule by decree in a number of key areas, without congressional scrutiny. The law passed in June empowers the executive to legislate in administrative, economic and financial matters for a period of 90 days. The passivity of Congress in passing the measure can be interpreted as “washing their hands” of the last year of the Humala presidency, preparing for the next election while allowing him to implement the unpopular dictates of the IMF and the capitalist class.