Peru faces Wall Street downgrade

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The Peruvian government and financial markets are scrambling to avoid a change in Wall Street's rating of the Lima Stock Exchange (BVL) that, according to worst case scenarios, could see some $5 billion in investments flowing out of the country.

Government and BVL officials are flying to New York this week in an attempt convince Morgan Stanley Capital International (MSCI) not to go through with a proposal to reclassify Peru from an "emerging market" to a "frontier market." The MSCI Emerging Markets Index is used by both institutional and individual investors, and its downgrading of the Lima stock exchange would lead to a dramatic drop in capital flows into the country.

The move by the rating agency has been driven by signs that the attempts of the government of President Ollanta Humala and the Peruvian bourgeoisie to market Peru as a haven for foreign capital are failing under the impact of deepening crisis. The sol, Peru's national currency, has devaluated sharply against the dollar, while export earnings are collapsing under the impact of metal prices falling to historic lows.

Morgan Stanley's announcement triggered a sharp fall in the Peruvian Lima Stock Exchange (BVL). Statistics show that in the present year, the stock market drop of 34.10 percent is worse than countries which are considered epicenters of global crisis —Ukraine dropped 32.58 percent and Greece 25.50 percent.

The business daily *Gestión* led its August 19 edition with the headline: "Dollar unstoppable, it reached 3.25 soles per dollar and the month is not over." The intervention by the Central Reserve Bank's selling of US$6.09 billion did nothing to stop the plummeting of the currency.

The sol began to devalue against the dollar during the second half of 2014. But the sudden acceleration in recent weeks has created considerable concern among national and foreign investors. The sol went from a historic high of 2.49 soles per dollar in January 2013 to 3.25 this week, a 30.5 percent devaluation in approximately two and one half years.

Behind the sharp sol devaluation stands China's economic troubles. The collapse of Shanghai's stock market and the devaluation of its currency—the yuan —have shocked the world economy. The slowdown of the Asian giant, which has displaced the US as the major commercial partner of Peru and other Latin American countries, is having repercussions throughout the continent.

At the heart of Peru's economic decline is the fall of the price of copper to a historic low over the past six years, a result of world economic stagnation. Other metals Peru exports have also seen their international prices plummet. Zinc dropped 2.9 percent and Nickel dropped 2.5 percent this week.

More damaging news came from the credit rating agency Moody's Investor Services. Speaking at the Reuters Global Market Forum, Marie Dillon, senior vice-president of Moody's, said Peru's new troubles could last for years. She added that countries like Brazil, Turkey and South Africa are also at risk.

Moody's expressed particular concern over the corruption scandal in Brazil. Peru has its own pack of corrupt politicians, many of whom aspire to be presidential candidates in next year's elections.

Corruption has come hand in hand with economic deceleration in Latin America as a whole. At the center of Peruvian corruption are high-profile politicians involved in the Petrobras mega-corruption scandal.

Sergio Tejada, the president of a parliamentary commission that investigated corruption under former president Alan Garcia Perez, said that probes into the bribes by lobbyists for Brazilian companies with contracts in previous governments pointed to Garcia, who maintained close relationships with the Brazilian

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government and with Marcelo Odebrecht, the CEO of one of Brazil's largest conglomerates, who was recently arrested in connection with the Petrobras scandal . Another former president and aspiring presidential candidate is Alejandro Toledo, who stands accused of money laundering and conspiracy.

The two frontrunners in next year's presidential elections are Pedro Pablo Kucsynski (PPK) and Keiko Fujimori.

PPK refused to renounce his US citizenship during the previous presidential election campaign. He made his fortune as an investment banker running a private equity fund and was minister of finance and economics (MEF) under Toledo. He is Wall Street's man.

The father of Keiko, Alberto Fujimori was president between 1990 and 2000. In 1993, he dissolved Congress and rewrote the constitution, opening the door to the free market model which favored foreign investors over Peruvian workers. It is the economic model based on the 1993 Constitution that is now in a state of collapse.

The current president, Humala, who won the votes of the poor, the peasants and the working class with promises of reforms and greater equality, quickly revealed himself as an agent of foreign capital.

His government has faced persistent and growing opposition from miners and peasants. The urban working class, including construction and industrial workers, are now also faced with the loss of jobs and incomes, creating the conditions for an explosive growth of class struggle in Peru.

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