

Drastic increases in commodity prices pummel Peruvian working class

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The sharp increases in the prices of food, fertilizers, fuel, and public transportation, combined with the uncertainty of the exchange rate and unemployment remaining high, are having a devastating effect on Peru's urban and rural working class, on students, and on the poor more generally.

The higher cost of urea fertilizer, a result of the war in Ukraine, increases the cost of food from farms, and a resulting fall in production drives up prices in retail markets. It is estimated that, if the war in Ukraine continues, the price of fertilizer could increase by 40 percent by the end of 2023.

The Ukraine war is also affecting the price of energy. In Repsol gas stations, the main fuel supplier in Peru, the pre-pandemic price of 90 octane gasoline on December 31, 2018, was 4.85 nuevo (new) soles per gallon. On September 4 this year, it was quoted at 19.95, an increase of 307 percent, equivalent to an astonishing 45.4 percent annually.

As a result of gasoline price hikes, public transportation fares in Lima, the capital, rose on July 16 from 2.50 to 3.50 nuevo soles, a 40 percent increase.

Last month the private public transportation companies in Arequipa, the second most populous city in Peru, which transport 800,000 passengers, announced that they would raise the base fare from one sol to 1.40 soles, an increase of 40 percent from one day to the next.

The daily Peru21 reported that in Arequipa an average family of four spends a minimum of 168 soles per month on public transportation. With the new increase it would rise to 235 soles, 22 percent of the minimum monthly living wage (SMV) of 1,025 soles (US\$265.27).

To get an idea of the true dimensions of the precarious economic situation Peruvian workers face,

for every dollar that a worker in New York state earning minimum wage receives, his Peruvian counterpart is paid only 11.5 cents.

Though in August there was a small decrease from July, the inflation rate as to consumer prices remained high. The monthly report in August of the Central Reserve Bank of Peru (BCRP) placed inflation in the previous 12 months at 8.41 percent, well above the bank's 1 percent to 3 percent target. This was slightly lower than the 8.5 percent rate in the U.S., and the 10.07 percent rate in Brazil, the Latin American country with the highest rate.

The week before last the BCRP raised its inflation forecast for 2022 and 2023. Speaking at a news conference in Lima, bank chief Julio Velarde said the bank had raised its inflation estimate for 2022 to 7.8 percent from a previous 6.4 percent and for 2023 to 3 percent from 2.5 percent.

To cope with inflation, on July 7 the BCRP had fixed the policy interest rate at 6.00 percent. A year ago, on August 8, 2021, it was just 0.50 percent.

At that time, the bank was trying to reactivate an economy hit by shutdowns and a high unemployment rate resulting from the pandemic. Since then, the BCR has raised the rate numerous times. Today it is not about stimulating the economy, but curbing inflation, and above all, keeping wages from rising.

On Friday, the bank raised the key rate to a 20-year high of 6.75 percent. This was slightly less than expected, because September's inflation rate compared to August's showed a second monthly slight decrease. The 6.75 percent rate was nonetheless the 14th straight increase in a cycle that has pushed up borrowing costs 650 basis points. And the bank emphasized that it was not ruling out additional interest rate increases depending upon incoming data.

On top of attempting to tame inflation, constrain wages and protect the national currency, political instability—i.e., country risk—also looms large in the rate calculations. The possibility of a mass uprising, following on half a year of incessant strikes and demonstrations, has led the national bourgeoisie to excessive purchases of dollars.

On last Friday, the currency closed at 3.877 nuevo soles per US dollar, equivalent to a devaluation of over 19 percent since the start of the pandemic, which was quoted at 3.1268 on March 12, 2019. The exchange rate peaked at 4.1198 nuevo soles per U.S. dollar on October 13 of last year. Throughout the last nine months it has oscillated between a floor of 3.62 and a ceiling of 4.10, swinging according to the bourgeoisie's perception of Peru's risk.

The BCRP's growth projections reveal the precariousness of the political-economic situation. It revised its economic growth estimates for the current year downward from 3.8 to 3.0 percent for 2022 and from 3.2 to 3.0 percent for 2023.

The slowdown hits hard the production of basic foods for the urban and rural working class. For example, newspapers report that rice production decreased 7.5 percent and potato production 11.73 percent in July.

Likewise, oil and liquid gas production has slowed. Exploration contracts for hydrocarbons were reduced to half the figure of 2019, the last pre-pandemic year.

According to the National Institute of Statistics and Informatics (INEI), “In the December 2021-January-February 2022 quarter, the official unemployment rate in Metropolitan Lima—where one third of the national population resides and economic activity is concentrated—was 8.9 per cent, lower by 5.6 percentage points compared to the same quarter of 2021 (14.5 per cent).” However, when compared to the same quarter of 2020 (7.1 per cent) it was higher by 1.8 percentage points.

And these figures do not capture the fact that the share of the working population trapped in informal jobs exceeds 70 percent.

But it is the fall in production, partially due to the economic contraction in the pandemic years, and the increase in the price of basic necessities, that has hit the working class the hardest. The main factor now is the slowdown of the capitalist economy worldwide, which has pushed Peru into a technical recession.

Finally, adding to the gloomy economic outlook is the fourth wave of Covid-19, with the Omicron strain, which arrived in June, now lashing the population.

According to data published by the Ministry of Health (Minsa), the monthly number of deaths in June was 334. It increased to 854 in July, and then reached 1,428 in August. That is, in the space of three months, the mortality rate jumped 260 percent.

Since the beginning of the pandemic, the number of positive cases has risen to 4,131,966. and the number of dead to 216,287, representing a mortality rate of 5.23 percent as of September 18.

These interlocking crises are intersecting with charges of corruption on the part of President Pedro Castillo, his family and government officials, creating a crisis of governability and laying the basis for a social and political explosion.



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