

SLOW PROGRESS ON IMPROVING ELECTORAL CONDITIONS

While international pressure for a cleaner presidential run-off between Alberto Fujimori and Alejandro Toledo continued intense, the three weeks following the controversial first round election brought few concrete advances. Full official results have still not been proclaimed and, therefore, no date set for the mandatory second stage election for president.

Delay in finalizing the results of April 9 voting was attributable to a number of unresolved challenges: by law, these must be settled by the special electoral authorities in charge of each voting region. But, with the count 99.97% complete, Fujimori had a tantalising 49.89% (a whisker away from an outright win) against 40.15% for challenger Toledo.

The count for congress, which is complicated by a "preferential voting" system allowing voters to select two favorite candidates from any one party, proceeded particularly slowly and was fraught with suspicions of adulterated tally sheets. In Huanuco department, for example, almost 50,000 more votes were cast than the number of voters registered. First projections had given Peru 2000, the pro-Fujimori alliance, 39 seats. But by late April, that had crept up to 52 of the 120 places in congress, not enough for a majority but not far off it. Toledo's Peru Posible will be the second force with 29 seats.

Smaller parties and movements did better in the parliamentary ballot than in the two-horse presidential race: Fernando Olivera's Frente Independiente Moralizador (FIM) and Andrade's Somos Peru seem to have taken 9 seats each with the Apra party managing 6. Castañeda's Solidaridad Nacional will get 4, and Salas' Avancemos, Union Por el Peru (UPP) and Accion Popular (AP) 3 each. Frepap, the quirky movement led by self-styled Israelite Ezequiel Ataucusi, can expect 2 seats.

The most likely date for the obligatory run-off looked to be May 28. Post-electoral polls carried out in Lima ten days after voting showed Fujimori and Tudela neck-and-neck. Apoyo put Fujimori ahead in Lima by 46% to Toledo's 42% but Datum, the other major pollster, reversed the order in a nationwide survey giving Toledo 46% to Fujimori's 44%.

Perhaps surprisingly, neither candidate was in a hurry to relaunch his campaign. After a politically quiet Holy Week, Toledo was in New York and Washington between April 26 and

29 making contact with the multilateral organizations and the private banking sector. The prime objective was to convince somewhat skeptical investment bankers of his economic program, which some analysts have called populist. Wall Street was reportedly reassured by his pledges to respect fiscal and monetary discipline. Fujimori, meanwhile, resumed his normal head-of-state activities, traveling to the high sierra and to Cusco to inspect agricultural, construction and educational projects.

The United States kept up its earlier pressure for electoral transparency. President Clinton signed the unusual joint congressional resolution which envisages a modification of political, economic and military relations with Peru unless the second round is equitable.

While countries as different as Japan and Panama have echoed the US call, Fujimori has generally skirted the issue, leaving his vice-presidential running-mate Francisco Tudela to speak for him. It fell to Tudela to parry initiatives launched by Peru's ombudsman's office, the Defensoria del Pueblo, for new and improved electoral conditions. These included guarantees of real neutrality by authorities (including a ban on use of state resources during the campaign) the avoidance of harassment and "dirty tricks"; equitable access to the communications media; proper administration of the electoral process by the national authorities; and improved citizen vigilance.

Most controversial was the Defensoria's call for monitoring by an "ethical tribunal." While the OAS backed the idea and Peru Posible attempted to get the Catholic Church on board, Peru 2000 dragged its heels. Opinion within the Episcopal Conference split and the Church eventually ruled out a direct role as mediator between the two chief political parties, to the clear satisfaction of government representatives.

On the technical front, however, some progress has been made. Following recommendations by the OAS and the Defensoria, three working groups were installed at electoral procedures office ONPE on April 26. Comprising representatives from Peru 2000 and Peru Posible, they are charged with suggesting improvements in electoral management of the second round. Fujimori has also indicated he is prepared to participate in a televised debate with Toledo, although precise conditions are still to be established.

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LAW WILL PREVENT INTERFERENCE IN COMPANY RESTRUCTURING

An emergency government decree published on April 24 will prevent minority creditors or shareholders from impeding the restructuring processes of companies so easily. Under the current bankruptcy code restructurings can be halted when legal action is taken, most commonly through the imposition of an injunction. The new law, in practise, gives more power to Indecopi, the entity charged with administering company restructuring. Previously, judicial action could be taken to undermine work already done by Indecopi.

Last year 23 injunctions and 10 embargoes were imposed on companies undergoing restructuring and the processes were paralyzed. The figures strongly suggest that it was too easy for minority parties to initiate legal action.

Under the new law if, for example, minority shareholders disapprove of the restructuring of a company they will first have to make their objection to Indecopi and then the special Indecopi tribunal. Only after both of these institutions have been approached can complaints be taken to the supreme court and possible judicial action taken.

"Judges can no longer obstruct restructuring processes," says Francisco Echeandia, a former member of the restructuring commission at Indecopi. Although he does not think that a law was strictly necessary, "it does help clarify the situation." Freddy Freitas, technical secretary to the restructuring commission at Indecopi, commented that the decree gives judicial security which the sys-

tem had lost due to continuous legal action brought about either to paralyze restructuring processes or protect assets.

BAYOVAR CONCESSION ON THE HORIZON

The long-awaited Bayovar phosphates mining project is being revived under somewhat different conditions. Minister of energy and mines, Jorge Chamot, outlined prospects for the mine concession before meeting with a group of representatives from the World Bank and International Finance Corporation to discuss the commerce and regulation of natural gas. Chamot stated that it was now a "good moment" to advance the Bayovar project and signalled that the concession could go ahead in six months time.

Chamot is keen that not only are the phosphates from the mine exploited, but that value can also be added. Conditions will therefore also require that the winning bidder (or bidders) install a fertilizer plant in the fourth year of the project in addition to paying royalties to the state.

Seven companies are interested in the Bayovar phosphate mining project, according to Chamot. The seven potential investors are: Oswal (India), IMC Global (US), Foskor (South Africa), Juan Paulo Quay (Spain) and the Brazilian companies Serrana, Ipiridanga and Hermasa e Interocea. The project will require a total investment of US\$600mn and the period of concession is expected to be 40 years. Chamot expects the export of phosphates to bring in revenues of around US\$100mn a year. Later, when production of fer-

tilizers is a reality, export incomes should rise to US\$300mn. This would revert the trade balance in fertilizers which currently shows a deficit of US\$60mn.

The minister of energy and mines also emphasised the importance of the Camisea gas project to Bayovar. Ammonia, a by-product produced in the petrochemical process, is needed to make fertilizer.

Despite the new enthusiasm for Bayovar, Jaime Quijandria — a former president of Petroperu — warned that a study should first be carried out to ensure that Peru will be able to compete with traditional fertilizer producers like Mexico, Morocco and other African countries. He pointed out that the critical element for the mine's success will be the transport cost.

ECONOMIC GROWTH EXCEEDS EXPECTATIONS

Economic growth results for the first quarter are better than expected. According to President Alberto Fujimori, March GDP was over 10 percent higher than in the same month in 1999 and over the first quarter of the year the economy is likely to have grown an average of 8.5 percent. Fujimori claimed the figures are a clear signal that the Peruvian economy is recovering. He explained that the improvement witnessed in March was mainly due to the extraordinary performance of the fishing sector which grew 240 percent.

On the basis of these results Fujimori predicted that the economy would grow 6 or 7 percent this year, a couple of points higher than the tar-



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get agreed with the IMF.

Investment banks were surprised by these first quarter figures although Pablo Secada, chief economist at Santander Investment, noted that the increase is relative: in the same period last year the Peruvian economy was affected by the Russian crisis so output figures were particularly low. He does not expect the second quarter result to be quite so impressive. A report from Banco Wiese Sudameris points out that while cement production has grown this year, other indicators don't seem to confirm widespread economic recovery. Analysts continue to question the methodology of GDP calculations in Peru because of the use of 1979 as the base year.

Peter West, chief economist for Latin America at BBVA Securities, Peter West, reported that the investment bank has now readjusted its GDP projection for Peru for 2000 from 4 percent to 5 or 6 percent. A more skeptical Pablo Secada calculates that Peru would have to attract foreign investment of around US\$3bn if the economy was to grow more than 6 percent Fujimori hopes for.

TRADE FIGURES SUGGEST RECOVERY

Exports and imports have both picked up this year, indicating that economic recovery is underway in Peru. According to Adex, the exporters association, during the first quarter of the year exports rose 14 percent compared with a similar period last year. Total exports for the first quarter were US\$1.59bn. Non traditional exports rose 17 percent and traditional exports nearly 14 percent.

Domestic demand has also started to recover and imports are thought to have grown by 16 percent in the first quarter to US\$41.8bn. According to Adex the January to March trade balance was still negative to the tune of US\$213mn. Patricia Teullet, managing director of exporters' association Comex-Peru, anticipates a trade deficit for the year 2000 similar to last year's at around US\$700mn.

There has been a significant recovery in the terms of trade this year. While Peruvian export prices have recovered, import prices have fallen and the balance for the year so far is positive, compared to a similar period last year. According to figures released by the Central Reserve Bank last week, in January the terms of trade were 9.5 percent better than in January 1999 while in February they were 0.4 percent higher.

Throughout most of last year terms of trade were negative although a recovery started around September, bringing the average figure for the year to -5.3 percent compared with 1998. In 1998 the result was even lower: Peru was 13.4 percent less competitive on average throughout the year than in 1997.

Carlos Adrianzen, dean of the economics faculty at San Ignacio de Loyola university, expects this trend to continue. He explains that while analysts expect instability in global commodity prices over the next two years, associated with stock market corrections, mineral prices should stay strong as these investments are longer term and are less affected by market sentiment. Adrianzen, however, expects import prices to continue falling. All this is good for Peruvian terms of trade.

UNDER-EMPLOYMENT FIGURES MINIMIZE PERU'S PROBLEMS

The official level of under-employment in Peru last year, according to recent figures from the employment ministry, is 43.5 percent of the economically active population. That is one percent less than it was in 1998. Of this total workforce, 38.8 percent of men are considered under-employed and 49.1 percent of women. The economically active population of Peru at the moment is 11.7mn.

But social economics experts estimate that if different criteria are used to calculate under-employment, the figure is much higher: it could even be 90 percent of the economically active population, they say. The official figures are calculated using only the level of income and number of hours worked as criteria for under-employment: according to the ministry of employment, a person is under-employed if he earns less than S/. 557 a month and works less than 35 hours a week. The problem, according to Jorge Bernedo, a specialist in social statistics, is that a person can also be considered under-employed if he is qualified to do better paid work. For example, an engineer or lawyer is underemployed if, unable to get work in his profession, decides to work as a taxi driver. While he might well be earning more than S/. 600, he is still under-employed because as an engineer he would be earning even more. The official figures do not take account of a person's abilities.

For Bernedo adequate employment means sufficient hours and pay which correspond to the type of work that the person is qualified to do. Thus the criteria for sub-employment should be qualitative as well as quantitative.



If you want to know the real President Fujimori read

"The Fujimori File"

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Inflation

March 2000: 0.5% • Year 1999: 3.73%

Lima stock market % (weekly change)

General: -0.40 • Selective: 0.39

Change since 1/1/2000

General: -11.42 • Selective: -2.40

Exchange rate (end of week)

Buy: S/. 3.45 • Sell: S/. 3.48

Average in March 2000 : S/. 3.44

Interest rates

TIPMN: 10.06% • TIPMEX: 4.92%

TAMN: 32.91% • TAMEX: 14.74%

This week PERU

Remaining oil refineries belonging to Petroperu will not be privatized for the time being, according to Jorge Kawamura, president of the state-owned company. There are no plans, either, to tender the North Peruvian oil pipeline: the final decision is pending a study on interconnection with Ecuador.

Conasev, the stock market regulator, decided on April 25 to suspend the public sale of 41mn shares in Cervecera del Sur worth US\$0.58 each. The sale might now be carried out privately. Backus and Johnston had already acquired 97 percent of the voting shares in Cervesur.

Mining giant Southern Peru Copper Corporation announced net profits for the first quarter of the year of US\$16.5mn, an increase of more than 300 percent over the same period last year. Southern raised its output of refined copper by 6.9 percent in first quarter 2000.

Cement production for the first quarter of the year was 3 percent higher than last year at 943,825mt, according to the cement producers association Asocem. But March registered a downturn in output after four consecutive months' growth.

Aero Continente has suspended its direct flights to Miami for one month

as from May 1 because the "wet lease" contract for the Boeing 757-200 aeroplane used for this route expired. The route will be covered by daily flights via Panama. Aero Continente has also announced its intention to commence operating internal flights in Chile at competitive rates starting at US\$39.

Inflation in March was no higher than 0.6 percent for 22 cities in Peru, according to INEI, the national statistics institute. The lowest monthly figure was 0.1 percent recorded in Abancay, Cuzco, Huaraz and Tacna.

Food manufacturer Alicorp reported a net profit of S/. 5.3mn (US\$1.6mn) for the first quarter of 2000, a marked improvement on the net loss of S/. 23mn (US\$6.8mn) recorded for the same period last year.

An Apoyo survey in Lima between April 14 and 16 revealed that 79 percent of people consider unemployment is the main problem facing Peru. While 45 percent think Alberto Fujimori has the capacity to generate employment, 39 percent say Alejandro Toledo would do better.

Total agricultural production rose 5 percent in March compared with the same month last year, according to the ministry of agriculture.

For the record

- ▶ There are 320,000 abortions a year in Peru, according to the Peruvian branch of Celsam, the Centro Latinoamericano de Salud y Mujer. Each year, 115,000 Peruvian adolescents become pregnant.
- ▶ Congressman and director of national newspaper La República, Gustavo Mohme Llona, died following a sudden heart attack on Sunday April 23. Mohme founded La República in 1981.
- ▶ In the first four months of the year, 666 people died in road accidents, a rate of 56 people each day.
- ▶ International net reserves were US\$8.9bn on April 17, an increase of US\$58mn since the end of March, according to the central bank, BCRP.
- ▶ Privatization of the electricity sector has generated revenues of over US\$2bn, US\$1.9bn corresponding to the sale of assets and US\$160mn to the capitalization of Etevensa and Empresa Eléctrica de Piura, according to a "post privatization" report from Copri.
- ▶ Investment bank Salomon Smith Barney has increased its Peruvian debt and national currency recommendation to international investors from neutral to positive.
- ▶ Foreign relations minister Fernando de Trazegnies is to make an official visit to Mexico on May 2 and will be received by President Zedillo.

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