finance has been constrained by a history of unfavourable government policies and attitudes toward foreign capital.

1991: The Present Situation

Mining in Peru remains an industry in distress as the second quarter of 1991 begins.

The Peruvian mining industry continues to face serious problems, some apparently intractable, some addressable in the medium term, none simple. A legacy of economic ruin (wrought in good measure by the policies of the previous government), severely restricted access to credit, and guerrilla attacks have in recent times been much more important than simple prices in determining the industry's health.

Two important and related consequences of this situation are the following. First, the industry was unable to draw full advantage from generally strong metals prices which prevailed through 1989 and 1990. Second, the situation has been so bad that progress toward resolution of any of the major problems currently constraining the industry could have significant recuperative influence, even, it might be cautiously suggested, in a context of moderately softening markets.

The Fujimori government, after taking office in mid-1990, moved quickly to reverse some of the worst aspects of previous economic policies. A highly distorted and unfavourable multiple exchange rate system, which had in effect served to siphon wealth out of the mining sector, was eliminated. Market forces now largely determine the official exchange rate, which quite closely approximates street rates.

Strict monetary policy was imposed to arrest hyperinflation which had reached five digits. Recent monthly rates have been below 20 percent, still not ideal but a vast improvement on the previous situation. Nonetheless, tight money policy has meant that credit from the domestic banking sector has been very much restricted. Banco Minero, a state sector institution lending to the mining sector, is effectively bankrupt. The immediate effects of restricted credit have been compounded by the influence of money supply on the exchange rate; insufficient availability of domestic currency has contributed to what many consider an overvalued inti. (The presence on the local market of very large quantities of dollars generated by illegal coca exports also tends to prevent the local currency depreciation for which exporters have been hoping.) In consequence, export earnings fail to be fully insulated from local inflation. Without sufficient offsetting devaluation, local unit mining production costs rise relative to unit export value.