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Humala Backers Cry Foul as Former Peru Rebel Tilts to Investors
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By Helen Murphy and John Quigley

July 28 (Bloomberg) -- Peruvian President-elect Ollanta Humala spent the last two months convincing investors he won't stifle economic growth with an anti-business agenda. He now faces the anger of backers who say he pandered to the markets.

Humala, a one-time ally of Venezuelan President Hugo Chavez, takes office today vowing to reconcile pledges to boost spending on the poor while attracting foreign investment. After stocks and bonds plunged when he was elected June 5, on fears he would increase state control of the economy and raise mining royalties, Humala named a cabinet mostly composed of businessmen and officials from the previous two administrations.

"We're worried," said Mario Huaman, head of the General Workers' Confederation, Peru's largest labor group, which endorsed Humala in the election. "We'll listen very carefully to what he says in the coming days and see if he shares our views. Then we'll decide our plan of action, our plan to fight. He promised change."

Humala, 49, has already seen support taper off in polls. If the decline continues, he may attempt to rally the Andean nation's mostly-indigenous poor who celebrated his victory and abandon the restraint that's surprised investors, according to the Eurasia Group, a New York-based research company.

Tougher Stance

Humala's cabinet picks reflect plans announced during his campaign to toughen negotiations with mining companies without taking Peru down the path of Venezuela, where Chavez has nationalized foreign companies and billions of dollars in investments were lost.

In a cabinet of 18 officials, five are businessmen and seven served in former government positions. The key post of finance minister went to Miguel Castilla, an economist educated at Johns Hopkins University in Baltimore and Harvard University in Cambridge, Massachusetts, who was deputy finance minister under outgoing President Alan Garcia. Humala also retained Julio Velarde as central bank president.

Since Velarde was reappointed to a second, five-year term on July 17, the yield on the nation's benchmark sol-denominated bond due 2020 has fallen seven basis points to 6.23 percent yesterday, a four month high, according to prices compiled by Bloomberg. The Lima General Index of Stocks has gained 7.9 percent since the announcement, after falling a record 12 percent the day following Humala's election victory.

'Very Positive'

Retaining Velarde and Castilla is "very positive," said Roque Benavides, chief executive officer of Cia. de Minas Buenaventura SA, Peru's biggest precious metals producer.

"There are very, very good ministers who have been called to contribute," Benavides said yesterday in a conference call with analysts. "What we have now is better than what we expected."

While investors are pleased, Humalas's support in a July 13-15 poll declined to 41 percent from 70 percent a month earlier according to Lima-based polling firm Ipsos Apoyo. The nationwide poll of 1,200 people had a margin of error of 4.38 percentage points.

Should the new president's support continue to slip, or should the economy falter, he "could be tempted later on in his mandate" to adopt less market-friendly policies, Erasto Almeida, a political analyst at Eurasia Group, said July 25 in an e-mailed report.

Humala pledged to better distribute Peru's mining wealth to defeat Congresswoman Keiko Fujimori, daughter of jailed former President Alberto Fujimori. While economic growth averaging 5.6 percent the last decade, the fastest in Latin America, has spurred employment and doubled per capita income to \$5,224, a third of Peruvians still live in slums and survive on less than a dollar a day without basic services such as running water.

Humala during the campaign vowed to raise the monthly minimum wage to 750 soles (\$274) from 600 soles starting in 2012, create pensions for the indigent, and boost spending on health and education through a windfall tax on gold and copper producers such as London-based Anglo American Plc and Southern Copper Corp. of Phoenix, Arizona.

'Great Hopes'

"The new government has built up such great hopes that if it doesn't follow through there'll be a big divorce," said Renee Ramirez, general secretary of Peru's Education Workers Union. "We're not going to keep quiet. We threw our weight behind Humala but we didn't write him a blank check."

Investors are also being cautious. Peru's \$153 billion economy expanded 7.1 percent in May from the year before, the slowest pace in 15 months, as businesses cut spending while waiting for Humala to detail his economic plans.

Mining companies including Southern Copper and Buenaventura have said a tax on sales may make the industry less competitive and derail as much as \$42 billion in planned mining investment.

Unpopular Leaders

Peruvians have a history of rapidly growing disillusioned with their leaders. Garcia, even after delivering 8.8 economic growth last year, leaves office with a 42 percent approval rating. Former President Alejandro Toledo, who lent his support to Humala after losing to him in the first round of voting, saw support for his presidency fall to a low of 8 percent a year before leaving office in 2006.

Humala needs popular support to overcome a divided Congress, where his Gana Peru coalition has 47 of 130 seats.

"He has to find a way to keep the base close while not letting it dictate economic policy," Alvaro Vargas Llosa, a senior fellow at the Independent Institute research organization in Washington and the son of novelist Mario Vargas Llosa, said in response to e-mailed questions.

Some Humala supporters aren't optimistic.

"He is Peru's only hope," said Milagros Canseco, 36, who sells candies and washes car windows at a busy intersection in downtown Lima. "But we have heard all this before. They all promise to help the poor, and I'm still here on the streets."

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