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Guatemala's Mystery Bonds

by LADB Staff

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A plan to offer US\$700 million worth of government bonds on European markets has become shrouded in mystery as several sectors of Guatemalan society have begun to ask exactly where the proceeds will go. Strangely, there seems to be no coherent answer. Notification that the bonds were to be issued first emerged following demonstrations by former members of the notorious Patrullas Autodefensas Civiles (PAC) demanding compensation for their service during the country's internal war, which ended in December 1996 (see NotiCen 2002-09-05).

The bonds were advertised by the government as a solution to the problem of how to pay the demand, after President Alfonso Portillo committed himself to doing so. But now, opposition political parties, the business community, administration officials, and even legislators in the ruling party, who will have to approve the initiative, do not know how or where the proceeds will be invested. The administration has already sent the legislature a bill for approval of the sale with no mention of where the money will go. The bill simply states in the most general terms that the funds will be used to finance programs of "attention to the population in a state of poverty or extreme poverty affected by the armed conflict, and programs of agricultural productivity," among others, with no specificity.

The gossamer document prompted Jorge Arevalo, third vice president of the legislature and member of the ruling Frente Republicano Guatemalteco (FRG), to comment, "The destination of the resources cannot be specified, but first the placing of the bonds has to be approved, in order later to detail the expenditures." He added, "I understand that most of the money will go to combat poverty."

When reporters went to the executive branch for an explanation, the response from private secretary of the presidency Luis Mijangos approached the surreal. "Its not a matter for secretaries, or for the Cabinet," he said, adding that he was out of town when the Ministry of Finance proposed the bonds, and "I'm not up-to-date on the details of the initiative because I didn't attend the latest meetings of the Cabinet, where I believe they have discussed the subject."

Opposition legislators question purpose of bonds

Less sanguine about the nonspecificity was the opposition in the legislature. "They haven't given us an explanation of what they want the money for," complained party chief Alfredo Cojti of the Partido de Avanzada Nacional, (PAN), who gave assurance that his bloc would abstain from voting on the approval. Otoniel Fernandez of the Unidad Nacional de la Esperanza (UNE) seconded his comments. "The way they want to spend this money is very confusing, so we're not going to support it," he said. Outside the chambers of government, resistance to the bond was also building.

Chamber of Commerce president Jorge Briz said, "The citizens who in the end are going to pay the bill don't know anything. Nobody knows where the money is going. Only they know. Everything seems to indicate that the US\$700 million will be invested with political motives in order to favor the FRG." Briz recently quit the Junta Monetaria (JM), which sets monetary policy, over the bond issue. He said that the paperwork presented to the JM did not clarify the disposition of the proceeds.

Equally hostile to the smoke-and-mirrors approach to government finance, Enrique Neutze of the powerful private sector organization *Comite Coordinador de Asociaciones Agricolas, Comerciales, Industriales, y Financieras (CACIF)* echoed the comments of the others and added, "It's a joke to say that this is how they're going to pay the ex-patrulleros, when it hasn't been clarified where this multimillion-dollar debt is going."

The only person who could offer anything close to an explanation was president of Banco de Guatemala Lizardo Sosa, who ultimately would distribute the funds and who has said he is the author of the eurobond idea. "US\$50 million for the Ministry of Communications, Infrastructure, and Housing to pay its debts to contractors; US\$180 million to indemnify retired military, and the rest must be used for shielding resources," he said. It was Sosa's original intention, he said in an interview, to use the US\$700 million as a cushion for the government against the kind of problems recently experienced by Uruguay and Brazil, through a fund that would allow a rapid response to fiscal emergencies.

Hence the hazy explanations on the exact use of the money. "I recognize that perhaps the wording of the decree and what it said might not be totally clear, but that's the job of the Congress," said Sosa. "If they approve the proposal, they will have to decide [how it is assigned and apportioned]."

Sosa's sketch was not good enough for legislative deputy Mariano Rayo, who noted, "At no time do they say that it will be to pay the ex-PAC, nor do they specify how the money will be used." Rayo's observation, together with the apparently universal rejection of the proposal, will almost certainly send administration officials back to the drawing board in an effort to avoid a fiscal crisis (see *NotiCen*, 2002-01-24) compounded by an uprising of the PAC, who still await their promised payoff.

Sosa contended that the PAC demands were never even contemplated in the bond proposal. "The bill presented to the Congress can be read, and the [issue of] the ex-patrulleros isn't in it. I don't know when the subject of the ex-patrulleros came into it."

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