

1-30-2003

## Nicaragua, IMF Threatens Cutoff

LADB Staff

Follow this and additional works at: <https://digitalrepository.unm.edu/noticen>

---

### Recommended Citation

LADB Staff. "Nicaragua, IMF Threatens Cutoff." (2003). <https://digitalrepository.unm.edu/noticen/9049>

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiCen by an authorized administrator of UNM Digital Repository. For more information, please contact [amywinter@unm.edu](mailto:amywinter@unm.edu).

## Nicaragua, IMF Threatens Cutoff

by LADB Staff

Category/Department: Nicaragua

Published: 2003-01-30

International Monetary Fund (IMF) mission directors threatened the Asamblea Nacional with a withdrawal of financial aid on Jan. 16, declaring that the national budget passed by the legislature failed to comply with an agreement signed by the Nicaraguan Executive in December 2002.

"Nicaragua is not within the program," they said. If Nicaragua does not comply with the signed program, the country will "remain excluded from the benefits of debt cancellation, in accordance with the provisions of the Initiative for Heavily Indebted Poor Countries (See NotiCen, 2001-01-11)."

The legislature passed the US\$936.8 million 2003 national budget last December, a budget to which the IMF demands modifications. Deputies changed the original budget submitted by President Enrique Bolanos, cutting from it an interest payment of US\$24.5 million on the US\$1.69 billion internal debt. There were other changes as well.

IMF mission chief Ken Yagi of Japan told a news conference that the changes were "extremely serious." Nicaragua signed a three-year agreement on Dec. 4, 2002, with the IMF that would have brought US\$ 1.2 billion to the country between 2003 and 2005. Yagi said that the flow of dollars was contingent on Nicaragua following the accord to the letter. The cut that the deputies made, would "increase the indebtedness of Nicaragua, and this has been one of the elements that has most concerned the directors of the IMF, because it weakens even more the fiscal financial position of the country, and simply cannot be accepted," said Yagi.

A review of the agreement will be undertaken in February or March, and if the budget remains as is, the Fund will consider that Nicaragua is not in compliance with the program, and will lose access to funds. Yagi claimed the review gives the government time to introduce a revised budget. "This is not an ultimatum because what's happening is that there's a signed agreement, and the parties have agreed to comply with it. Therefore the option is to correct the budget to stay in the program."

Daniel Ortega, leader of the Frente Sandinista para la Liberacion Nacional (FSLN), reacted sharply to the IMF action; "They spoke as if they were the owners of our country," he said, adding that the delegation behaved "like they come to decide how the country should function, with a lack of respect for national sovereignty, the government, and the people in general." Ortega said his party would reject a presidential veto of the budget, or any budget modifications that the Executive might be pressured to submit.

While Ministro de Hacienda y Credito Publico Eduardo Montealegre predicted dire consequences for the country if the expected package of bilateral and multilateral loans and donations is cut off, FSLN deputy Bayardo Arce blamed the government for not seeking consensus when the IMF agreement was being negotiated. Montealegre agreed. "We have to work with the Asamblea to assure that we are in the program, it is what's best for Nicaragua, that liquid assets come to us;" he

said, "the World Bank has already sent us a letter that said there will be no more disbursements until we clarify the situation of the budget."

For Arce, however, the issue is the lack of consensus among the executive and the legislative branches, and civil society. Speaking to a group of 120 mayors Arce said " I believe that none of you was taken into account [when] they signed. Here went two gentlemen for whom I have much esteem, Eduardo Montealegre and Mario Alonso [president of the Banco Central], to sign something that nobody knew anything about." The legislature, in addition to cutting the interest payment out of the budget, also reallocated funds directly to the local governments, rather than through central government agencies whose disbursement of funds is limited by the terms of their agreements with international lenders.

The legislature did this in order to promote local self-determination and to force the administration to renegotiate those agreements, Arce told the mayors. He recalled that Nicaragua has signed four agreements with the IMF since the presidency of Violeta Chamorro. "Now we have 12 years of programs from the IMF, where what we've attained is more unemployment, more hunger, our girls thrown into prostitution, our boys thrown into gangs and drugs, that is what those programs have left us. We have to renegotiate with the financiers, and say to the World Bank (WB) and the Interamerican Development Bank (IDB), are you willing to let the country go under, just because we took ten million dollars so that the projects that you yourselves said should be done, can be done by the mayors instead of by a central bureaucracy?"

Also reacting to the perceived threat from the IMF, FSLN deputy Roberto Gonzalez, characterized the IMF attitude as interference, saying, "We are not deputies of the IMF, or of the WB; we serve the people, and that is why, with this budget, we are trying to create initiatives that improve the conditions of the people."

### *Make the banks pay, not the people*

On Jan. 17, Daniel Ortega again spoke against amending the budget, this time promising that he and his party would reject an attempt on the part of the government to roll back a salary increase for some 65,000 workers, including health, police, teachers, and municipal employees, in order to pay the internal debt interest. Instead, insisted the ex-president (1985-1990), follow existing law and start collecting taxes on profits from the private banks. He said the commercial banks have made US\$80 million between 1998 and 2001, which would generate about US\$20 million in back taxes. He said, "If we have political will, we have the source for an answer" to the problem of where the interest payment will come from. The banks objected to the suggestion. They admitted that they haven't been paying the tax, but hedged that they've not paid only because they have paid other taxes.

Economist Rodolfo Delgado of the Coordinadora Civil affirmed that they don't have a leg to stand on, not in law, and not in accounting practice. "The Direccion General de Ingresos does not require any modification [of law] to proceed with collection from the banks." Delgado recalled that a report from the Consejo Monetario Centroamericano in December 2002 identified the Nicaraguan banks as having the greatest rate of profit in the region. Nicaraguan banks showed 26% profit; Guatemala, 6.5%; Panama, 7%; and Costa Rica 15%.

## *An alternative*

Economist Cirilo Otero traces the current situation to inefficiency and incompetence on the part of the government in subscribing to programs with which Nicaragua cannot comply. But he also faulted the IMF for having known that this was the case, and gone forward anyway. This, he said, was a "crass error that practically put a pistol to the country's head." Otero is a development economist with the Grupo Propositivo de Cabildeo. "Therefore, when they [IMF] allow a program with such exaggerated offerings on the part of Nicaragua, they are perpetrating a great technical and methodological lie, as well as one of administration of macroeconomic policies, just as they have done in each of the countries in the region and in the world," said Otero.

The economist also charged that the IMF and WB were complicit in increasing the internal debt generated by issuing Certificados Negociable de Inversion (Cenis), which were issued by the Banco Central to cover bank failures, thus depleting foreign reserves. Before the Banco Central issued the Cenis, they consulted with the IMF, which approved the move. "Therefore one has to point to the IMF and WB as complicit in making the internal debt rise to almost US\$2 billion."

Recounting a litany of disasters around the world and in Central America (see NotiCen, 2002-10-31) at the hands of the IMF, and its insistence on policies that do not comport with the realities within countries live, Otero recommended that Nicaragua seek bilateral aid with countries that in the past have been well disposed toward the country. Those countries include Japan, Sweden, Taiwan, Holland, and Spain. In order to attract aid bilaterally, he argued, the government must offer a reduction in public spending, including mega-salaries and immoral pensions, and put true austerity in practice.

Of the FSLN plan to get back-taxes from the banks, he said it was viable, but a short-term solution. "This charge to the banks has to be made independently of the problem that exists now with the budget, because it is not about letting it fall to the banks to take care of the situation. The problem of Nicaragua is dramatic, and there must be corrections not only in that aspect, but in several, and with a long term strategy," he said.

President Bolanos continued to fight for approval by the Asamblea of a partial veto of the budget, which he submitted on Jan. 21, a veto that would take away needed raises in wages from public employees. He went on television to implore citizens to intercede with their representatives to save the country from the withdrawal of the IMF. He has so far gotten little sympathy. The faction of his ruling Partido Liberal Constitucionalista (PLC) loyal to his nemesis, ex-President Arnaldo Aleman, has sided with the FSLN on this issue. Bolanos stumbled badly in charging publicly that the Asamblea acted outside the law when it amended the original budget. Now deputies are using the budget amendment issue to assert their legislative rights.

-- End --