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Honduras will not sign an agreement with the International Monetary Fund (IMF) this month as scheduled, postponing the accord for a third time. The government announced a delay on May 25 owing to the failure of the Congreso Nacional (CN) to pass a civil-service law, according to Finance Minister Arturo Alvarado. The IMF has conditioned fresh money on action by the government to reduce its deficit, reduce the state apparatus, and freeze salaries, among other things. The new civil-service law will trigger massive public-sector layoffs.

An agreement encompassing these measures was to have been signed in June 2002, but this bullet was too hard to bite, and postponements followed. In the meantime, the already impoverished government was forced to assume the costs of failures in the banking system, and the IMF does not factor that into its analysis of what the government must do to satisfy its requirements. The CN will also have to privatize water service, against the popular will.

President Ricardo Maduro has suffered the ire of the populace for his actions in trying to comply with IMF demands (see NotiCen, 2002-10-31). His approval ratings have plummeted. He called a news conference on May 27 to explain the need for the layoffs of hundreds of workers. The president said that he had been unable to make the changes demanded by the Fund because of opposition from popular organizations. Now he had no choice but to try to persuade the IMF to pursue other measures in the hope of signing an agreement in August.

He said he would not sign a new accord "at whatever cost," but "we have a very complex situation with the Monetary Fund," and "right now we are bogged down" in the negotiations. "I admit that the agreement with the IMF is fundamental for Honduras, extremely important," he said. "I believe that we will get it, but I want to be clear about this: not at any cost." The last IMF agreement expired last December. Maduro is stuck not only because of popular opposition, but also because the pending civil-service legislation, to conform to IMF demands, will regulate wages, in addition to mandating reductions in the work force. This is in conflict with other statutes regulating the salaries of teachers, doctors, and other special cases (see NotiCen, 1997-02-20). "To say that I'm going to reduce public employment when I need more in all categories to deliver basic services of health, education, and security to Hondurans, I'm not prepared to do that," said the president.

Looking for a way around the clash of existing laws, the government started talks with the Colegio Medico and with teacher organizations in the hope of extracting wage concessions from the groups. So far, the tactic has met with no success. There is not universal agreement that the salary issue is the major economic problem.

Marvin Ponce, director of the Consejo Coordinador de Organizaciones Campesinas de Honduras (COCOCH), said that the government is trying to throw the blame on workers' salary increases, but the reality is, the administration "has demonstrated incompetence in managing the country

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macroeconomically." Instead of focusing on the wages of a teacher, Ponce said, they should be honest and recognize that part of the fiscal problem "is the result of the pinata they made with the people's money when they spent millions to pay landowners, bankers, and those masquerading as producers." Summing up the opposition position, Ponce recommended, "President Maduro needs a mental change and needs to turn his eyes back to the people who elected him and not be giving away the people's money to these economic groups who have nothing to do with development, and who, when the country goes under, will just leave the country."

Maduro has found some support for his stance in the business community. Benjamin Bogran, executive director of the Consejo Hondureno de la Empresa Privada (COHEP), said his organization supports Maduro because government policies ought to be directed toward eradicating poverty and reactivating the economy, and not just at macroeconomic adjustments to satisfy fiscal requirements. COHEP president Jacobo Regalado added that there is no room left for more fiscal measures and that another tax adjustment at this time would "explode the country's situation." But Regalado said he likes the idea of changing the professional statutes, reducing the bureaucracy, and reorienting funds toward poverty reduction.

Businessman and former President Rafael Leonardo Callejas (1990-1994) expressed dismay over the growth of government since his term. Callejas (see NotiCen, 1997-04-24) is experienced in matters related to the present controversy. He is known for having reduced the government deficit and for stimulating the export economy by devaluing the currency. Noting that government spending has increased more than a 1,000% in fewer than ten years, Callejas told a meeting of business leaders, "President Maduro has a great challenge to reverse the recent past; he must reduce public spending and reorient toward productivity." Participants at the meeting at which Callejas made his remarks lauded his handling of the IMF during his tenure in office.

Speaking of Callejas' economic strategies, Adolfo Facusse of the Asociacion Nacional de Industriales said, "After these measures, in less than two years the results could be seen. The country, with difficulty, set itself on the road to economic growth." Callejas' recommendation for the current situation was to reduce the size of government to 50% of GDP from its present 70%, and to define specific national projects, like flood control in the Valle de Sula and water for Tegucigalpa and the central corridor of the country. "The figures scare me," he said. "In the last ten years, we have increased the national budget 1,000% while the economy has hardly grown 20%. The government spends a lot, and what it spends does not generate productivity." He warned that, if investment is not made in infrastructure, telecommunications, technical training, and education, the country will not be able to compete, not even with its smaller neighbor, El Salvador.

Finance Minister Alvarado acknowledged a disconnect among government objectives of growth, poverty reduction, and satisfying IMF requirements. "There has been a coincidence as regards the medium and long term. There we need to have a solid and stable macroeconomic framework with a balanced budget so that the deficit can be financed with outside resources at reduced interest rates," he said. The government has made efforts, he added, to clear the road that would permit the signing of a letter of intention with the IMF in September by reducing the fiscal deficit by 2%. The current deficit stands at 6% of GDP.

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The stalemate has attracted the possibility of help from the US Agency for International Development (USAID). Adolfo Franco, a USAID official, is reported to have said that the US is playing a constructive, though unspecified, role in bringing together the Honduran and IMF positions, acknowledging that the social issues linked to fiscal austerity could lead to greater problems if they are not taken into consideration

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