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Honduras Will Negotiate IMF Treaty

by LADB Staff

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The Honduran government will try to dodge another structural-adjustment bullet and enter into negotiations with the International Monetary Fund (IMF) in November, despite formidable internal opposition to the Fund's urgings (see NotiCen, 2003-06-12).

The chief of the IMF's technical mission, Adrienne Cheasty, told the press that, before an accord could be signed, "an adjustment is necessary. The government must find a way; if not, we cannot come to a conclusion." The mission has been evaluating the performance of the Honduran economy and has determined that the government spends too much. Cheasty also said that the government must improve its income, which has fallen by more than US\$140 million in the first trimester of this year compared with the same period last year. The government has been looking for a way to do that for at least two years.

For President Ricardo Maduro, finding a way would add US\$1 billion to the country's vacant coffers, plus an additional US\$950 million in forgiven existing external debt. This last figure would come to Honduras by virtue of its being one of the Heavily Indebted Poor Countries (HIPC). In an attempt to meet the IMF demand, the government has sent the Congreso Nacional (CN) two fiscal-adjustment programs that would bring in more than US\$400 million. But overspending, especially on public salaries, which account for 10% of GDP, has impeded progress.

International donors concerned

There is some worry among G-15 donors that Honduras will not get its fiscal house in order in time to cash in. The G-15 is a group of countries and international organizations that came together after Hurricane Mitch in 1998 to aid in the reconstruction of the country and in its subsequent recovery. Jose Javier Nagore, the group's president pro tem, said that time is very limited for the government to respond satisfactorily, and that failure to do so would result in the loss of a US\$400 million payout in 2004.

Looking toward the November date, he said, "The G-15 considers that the time frame to achieve this accord is limited, therefore the measures that would facilitate the accord must be realized in the next few weeks. It is a job that involves the government, the Congreso Nacional (CN), the Corte Suprema de Justicia (CSJ), unions, and the rest of Honduran civil society in this effort to achieve sustainable economic development that ensures a better future for Honduras."

Nagore, speaking for all the members of the group, cautioned the government not to miss the narrow window of opportunity and to make sure that all national and international funds are used in the most needy sectors. To do that, he said, political and institutional reforms must be put in place that would guarantee transparency in public spending and constitute a frontal attack on corruption in all its forms. Nagore was clear that the G-15 supports the findings of the IMF and that millions of

dollars in other, nonreimbursable donations and credit were riding on the government's meeting the IMF demands.

But while the G-15 hailed an IMF agreement as the key to the eradication of poverty, the Catholic Church took the opposite view of the Fund's demands. "I believe that our people cannot stand more adjustments," Cardinal Oscar Andres Rodriguez said on a recent radio broadcast. Responding to a statement from the IMF mission saying that "another adjustment is inevitable," the Cardinal said, "The structural adjustments that have been realized since the 1990s promised that afterwards would come a period of prosperity; this has not been true." The Catholic weekly *Fides* ran an editorial last Sunday saying that poverty has increased in Honduras in the last few years and that, if the situation persists, democracy cannot last.

Official figures show that 80% of the country's 6.5 million people live in poverty. Similar sentiments were heard in the CN, where deputies said on Oct. 24 that they were not persuaded to approve the adjustment suggested by the IMF mission the day before. They cited two adjustment programs already applied by the Maduro government that have increased the costs of some goods and services.

A third such measure, which Hondurans are calling a "paquetazo," could bring the country to ungovernability, according to several deputies. CN president Porfirio Lobo said that he sees no possibility that new structural-adjustment legislation will be passed. He specifically mentioned teacher and physician salary legislation, which has been under pressure because the terms of employment of these two groups appear to some to be excessively favorable.

Deputy Olban Valladares of the Partido Inovacion y Unidad-Social Democrata (PINU-SD) said that, in the meetings he has attended with technical mission personnel, the IMF people were told that raising taxes could lead to violent reaction within the populace. Roberto Micheletti, chief of the Partido Liberal (PL) delegation, the largest of the minority parties and leading opposition force, said that the people would not support a new paquetazo.

Partido Unificacion Democratica (PUD) deputies agreed, saying new legislation of this kind would exhaust the patience of the people. Before the arrival of the IMF technical mission, even President Maduro had said that the country, with its external debt of US\$4.5 billion, needs the money, but the means to that end had to be within the country's possibilities.

Intolerable adjustment

One of the organizations dedicated to keeping its interests high on the list of impossible adjustments is the Colegio Medico de Honduras (CMH). The group came out strongly against a salary freeze for its physician members that would last until 2006, which the IMF recommended. After making an announcement to that effect, CMH President Odessa Henriquez told the press the organization was planning protests to make the point.

Scarcely a week after deputies spoke against the IMF's conditions, secretary of the Congreso Nacional Juan Orlando Hernandez said that, if no accord were signed in December when a new

IMF negotiation team arrives, the CN would not sign a budget for the coming year into law. "Upon signing an accord in the Letter of Intent, Honduras would have the opportunity of gaining access to other finances, and the sources of support for the budget change dramatically," said Hernandez. "In consequence, we cannot pass [the budget] without knowing that we are going to come to an agreement." Hernandez emphasized that without the agreement, Honduras would have to use scarce funds for external-debt service, rather than spend on education and health, as anti-poverty statutes require (see NotiCen, 2001-10-25). Infrastructure investment would also be reduced.

Minister of Finance Arturo Alvarado said that the country can survive without the IMF money but that it stands to lose as much as US\$1 billion in forgiven debt. On the matter of the salaries, Alvarado said the country has been under mounting financial pressure since 1997 when teacher salaries started to rise, as did the doctor's pay, and the situation is now practically unsustainable.

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